Group of Companies

CEF Group Annual Financial Results

Presentation to the Portfolio Committee on Energy

4th October 2017

Towards a diversified & sustainable energy future

Presentation Overview & Purpose

- Provide the Portfolio Committee on Energy with an synopsis of the CEF Group of Companies Annual Performance for the 2016/17. This overview will cover :
  - Financial & Non Financial Performance &
  - Summary of ***individual subsidiary*** performance
- Contextualise the Group performance during the year under review.
- Reflect on performance of the Group against ***predetermined objectives***
- Share insights on the steady progress being made in relation to Group Strategy
- Articulate the core ***Key Five Focus*** areas that will guide our Group strategic and operational activities over the planning horizon

AGENDA

01 Introductions

02 CEF Group of Companies overview

03 Summary of Group Performance

04 Group consolidated performance

05 Subsidiary Performance Overview

06 Group Risks & Future Outlook

Key matters attended to during the 2016/17 Period

Critical strategic engagements & Initiatives with a myriad stakeholders

During the 2016/17 there were a number of activities that occupied the boards' and managements' time in relation to the overall management of the CEF Group. These related to both internal and external elements critical for the long term sustainability of the Group. These can be summarized as follows:

- Group Sustainability Issues
- Labour Relations & Leadership
- Group Governance
- Future Outlook

The underlying objective for these engagements was to find lasting solutions to our strategic challenges.

Summary of Group Performance 2016/17

CASH
R15.7 Billion

OPEX
R1.8 Billion

REVENUE
R11.6 Billion

CAPEX
R856 Million

SHEQ

AEMFC and SFF reported zero disabling injuries and environmental incidents;

PetroSA had two fatalities; plus a total of 17 disabling injuries and five environmental incidents.

BEE Spend

Improved BEE spend through better focus and coordination

Capital Projects

- PGL saw the TEN project developed to its first oil delivered in August 2016;
- AEMFC reached Final Investment Decision (FID) stage for the T Project;
- Our 29% equity interest in EnerG Joburg delivered an operational 5 MW Landfill gas power plant;
- Our 25% equity interest in Rompco delivered Loop-line 2

CSI

CEF Group CSI amounted to R18.5 million.

Volume & Capacity Utilised

- Indigenous GTL production refinery – 2.766 Mbbls;
- Coal Mining – 1.43 Mt;
- Gas infrastructure enabled 157 MGJ/pa is now flowing to South Africa; and
- Liquid Fuels 42 Mbbls capacity utilised for the year.

All the subsidiaries of the Group received unqualified Audit Opinions

Employment and skills development

- CEF Group had 1976 employees with 29% being women;
- R44 million invested in youth development including sponsorships

Group BEE & CSI and Transformation Initiatives

Township road upgrade and adoption projects (R950k by AEMFC

Support the Creation of Black Industrialist in the Oil and Gas Sector PetroSA through the DTI (Ongoing Work);

Flagship CSI project - R10m. To relocate 24 farm households to the nearby Phola township – serviced sites

PetroSA upgraded 21 Early Childhood Development centres in Mossel bay and surrounding areas. The total investment was R1,5 million. The programme included purchasing of educational material, playground, security upgrade and infrastructure of the Centres. More than 600 pupils have benefited.

Sponsorship for Soccer and Netball Jersey Kits

PetroSA completed and handed over Great Brak Youth Café (R6,5 million), Great Brak, Mossel bay. Centre will benefit more than 560 youth of Great Brak and surrounding communities through offering; free accredited computer literacy, free accredited training on

Annual Green Youth Indaba is aimed at not only exposing opportunities for youth within the green economy, but effectively unpacking the strategies necessary to create easy access to support and funding for green innovations and the skills

Support for BEE initiatives, skills development and knowledge transfer in Phased Gas Pipeline Network – Strategic Environmental Assessment (SEA (R4000 000)

Bursaries and learnerships

SFF investment in the NMPP line fill has protected the consumers from possible fuel price inflation as the oil industry would have recovered such from the consumer if SFF did not invest the R1.2 billion

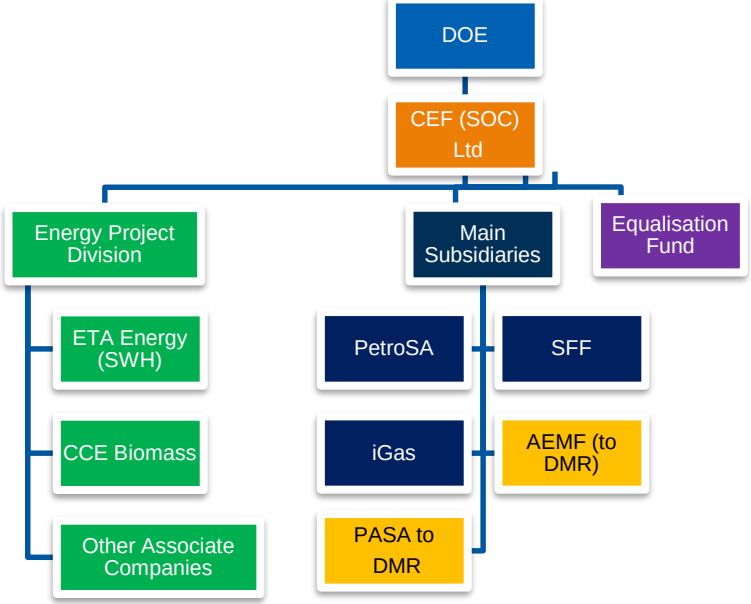
Group CSI Initiatives

Before

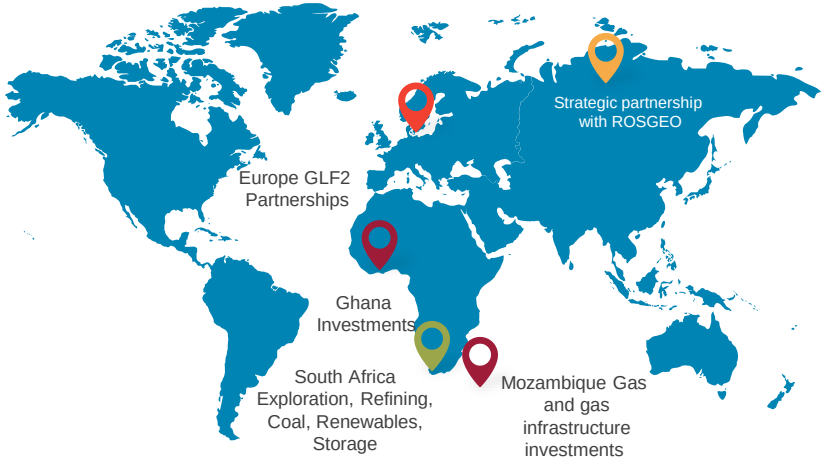
After

Overview of the CEF Group

In pursuit of a sustainable energy future across the value chain



- The **Mandate** of CEF is derived from the CEF Act (No 38 of 1977). The mandate is in essence to contribute to the security of energy supply for the country as the implementing arm of the DOE in support of energy sector goals and government's broad strategic objectives (NDP).



Upstream
- PetroSA
- PASA
- AEMFC

Midstream
- PetroSA
- iGas
- SFF
- Energy Projects

Downstream
- PetroSA
- AEMFC

- **Key Drivers:** (1) Developmental Objectives (2) Commercial Viability (3) Governance and (4) Collaborative Operating Environment

- **Role of CEF**: Search for appropriate energy solutions to meet the ***future energy needs*** of South Africa, the Southern African Development Community and the sub-Saharan African region, including oil, gas, electrical power, solar energy, low-smoke fuels, biomass, wind and renewable energy sources

Group Strategy Vision 2025: Stabilize + Grow+ Lead

Overview of our operating environment 2016/17

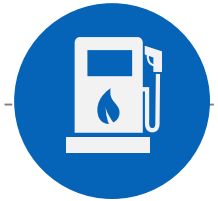
Our operating environment was characterized by a number of key dynamics from a global, local, internal, external, strategic and operational perspective which all influenced our business activities and best elucidated through the energy sector value chain. The CEF Group operates in a dynamic, capital intensive, competitive, dollar based and price sensitive industry that is dominated by multinationals. During the 2016/17 period we witnessed the following trends.

Upstream

- Continued downscaling of key upstream projects & job cuts.
- Minimal M&A activity/rig count
- Market consensus of the prevailing lower for longer oil price scenario.
- Market consolidation and rise in strategic partnerships
- Volatile commodity prices & struggle by commodity depended countries
- OPEC production cuts to stabilize price

Midstream

- Increased trader activity in search of opportunities and value chain participation.
- New players in the storage space
- Diversification strategies



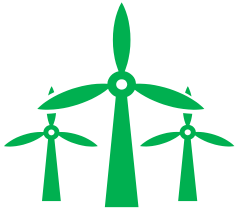
Downstream

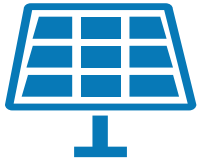
- Active pursuit to improve refinery margins
- Operational efficiency is seen as a key competitive advantage
- Traders showing interest to play in the downstream market as part of long term product placement strategy
- Multinationals refocusing on profitable business units.

These industry dynamics continue to necessitate a review of our Operating Model to maintain competitiveness and agility

Overview of our operating environment 2016/17 (continued)

- For renewable electricity, utility scale RE has been implemented through the Renewable Energy Independent Power Producer ("REIPP") Procurement Programme which started in 2010.
- The impact of the REIPPP is being reviewed by a DoE / DPE team and there is consensus that the structure of the Programme needs to modified to better deliver on the national socio-economic imperatives.
- The increase in electricity grid tariffs while RE technology costs continue to decrease, has led to a proliferation of small embedded generation projects (for residential and commercial properties) while more energy intensive customers (e.g. industries and manufacturing) are moving towards private PPAs from IPPs.
- Environmental concerns on the impact of landfilling of waste are growing – there is a shift towards "circular economy" which includes waste beneficiation to energy.
- Electricity demand has significantly reduced due to the slow economic growth. Development of a new build electricity infrastructure (including RE projects) will be slow in the short term probably only picking up post 2019.
- Transport fuel is likely to be replaced by electricity and gas – biofuels has the potential to play a meaningful role in the transportation fuel market, however its implementation in South Africa has been slower than anticipated.





Progress in delivering on our Group Strategy -Vision 2025

Vision 2025 which is the Group Strategy articulates the strategic framework for strategy execution and returning the Group to commercial viability through three distinct phases of (1) Stabilse (2) Grow and (3) Lead as depicted below. .

Stabilise

-Immediate and short-term strategic objectives that include cost containment across the Group;

Grow

–Medium term strategic objectives are to grow and diversify the Group investments to ensure financial sustainability of CEF.

Lead

–The long term objective is for CEF to be a market leader and at the forefront of thought leadership and policy development on security of energy supply on behalf of and to the DOE.

Over the past year, the Group has been working tirelessly to deliver on the key strategic imperatives as guided by the Group strategy some of the noticeable steady progress is as follows:.

1 Group Sustainability

2 Operational Efficiency

3 Dividend Payments

4 Growth Initiatives

5 Board Capacitation

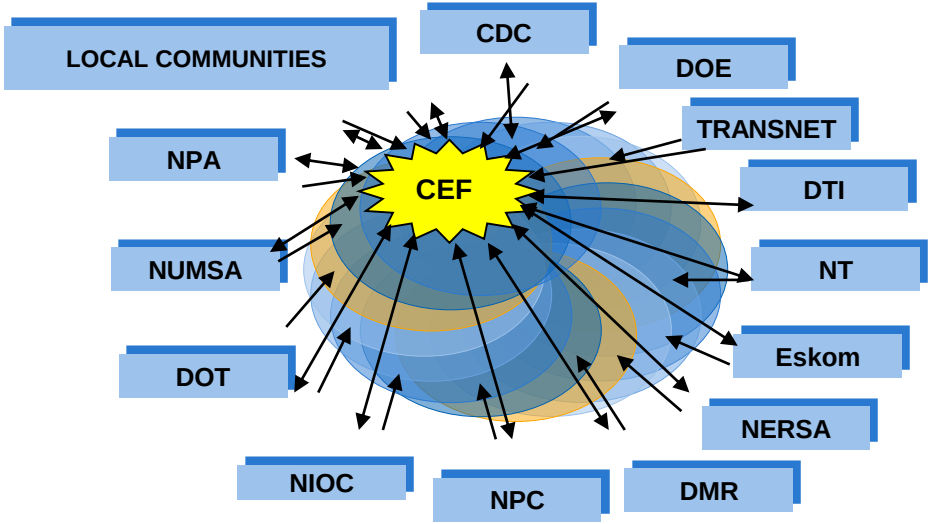
6 Group Cost Containment

Managing Stakeholder expectations

- As CEF, we believe that the sustainability of our business is dependent on stakeholder relationships and that sound, structured stakeholder relationships serve to strengthen the resilience of our Company and our ability to adapt to the increasing demands placed on us amid the uncertainty of the current business environment. Central to our corporate and social capital

  - During 2016/17, CEF made best endeavour to contact as many people and organisations as possible mainly those that affect and are affected by our decisions.

  - The entities were consulted on a number of issues and projects ranging from strategic, operational and governance related matters.



Performance against predetermined objectives

Creating value through sustainable business performance

Performance against objectives

Key Performance Area	Indicator	Score
Financial Sustainability	Return on Capital Employed	1
	Solvency (Improve it year on year)	1
	Liquidity (Maintain)	3
Security of Energy Supply	Total Indigenous GTL Refinery Production at PetroSA	3
	Strategic stock volumes held by SFF	1
	Coal sales by African Exploration	2
New business Development	As per subsidiary target	2
Corporate Governance	Audit Score	3
Innovation	Implement Video Conferencing Technology	2
	Implement a MI System to consolidate financial reporting	2
	Implementation of a comprehensive HR Information System	2
Stakeholder Management	Stakeholder management process, scorecard established and operationalise	3
	Discretionary spend on BEE Companies	3
Excellence in implementation of relevant SHEQS practices	Disabling injury frequency rate & Number of fatalities caused by operations	1
	Number of reportable environmental incidents	3
Human Capital Management	HR Sustainability Index	3

Achieved	3	**Partially Achieved**	2	**Not Achieved**	1

Key Drivers of Business Performance

Indicator	2016/17	2015/16
Macro-economic factors		
Rand/Dollar-average for the year	13.22	15.86
Rand/Dollar-spot rate at 31 March	13.43	14.71
Average interest rate on money market investment	7.95%	6.79%
Crude oil price ($/bbl)-spot rate at 31 March	51.97	39.07
Crude oil price ($/bbl)-average for the year	50.90	37.34
Operational stats		
Petroleum products (MMbbls)-Sales	10	16
Leased out space for crude oil tanks	93%	71%
Coal Sales(Volume in tons)	1,4 million	1,5 million
Tank rental/bbl/Month(US cent)	10.7	10
Salary increase (%)	7	8.7
Head count	1976	1967
GP Margin	4.83%	21.57%
Cost to income ratio	14%	24%

Statement of Comprehensive Income 2016/17

Description	31March 2017	31March 2016
	R'000	R'000
Revenue	11,598,017	20,716,464
Cost of sales	(11,037,915)	(16,248,005)
Gross profit/(loss)	**560,102**	**4,468,459**
Other income	342,084	662,998
Operating expenses	(1,841,115)	(5,418,173)
Operating (loss)/Profit	**(938,929)**	**(286,716)**
Investment income	943,062	709,132
Income from equity accounted investments	300,280	305,212
Finance costs	(572,878)	(553,256)
(Loss)/Profit before taxation	**(268,465)**	**174,372**
Taxation	(331,010)	(368,329)
Profit/(Loss) for the year	**(599,475)**	**(193,957)**
Comprehensive (loss)/profit	**(231,014)**	**426,982**
Total Comprehensive income/(loss)	**(830,489)**	**233,025**

Net Loss after tax

The Group made a net loss for the year of R599.5 million (2016: Profit of R193.9 million).

Gross profit

The performance has been adversely affected by the collapse in the gross profit margin, which decreased from 22% to 5%. For the first time in the history of the Group, PetroSA has reported a gross loss of R475 million. The decrease in gross profit by 77% is due to the changes in the operating model for the refinery, which was necessitated by the declining gas reserves. The new model has partially converted a gas to liquid refinery into condensate processing refinery. This change has had a negative impact on the gross profit margins because the cost of the new feedstock is higher than the cost of the indigenous gas. The new operating model requires the refinery to operate at its maximum operating capacity in order for the operations to generate adequate margins

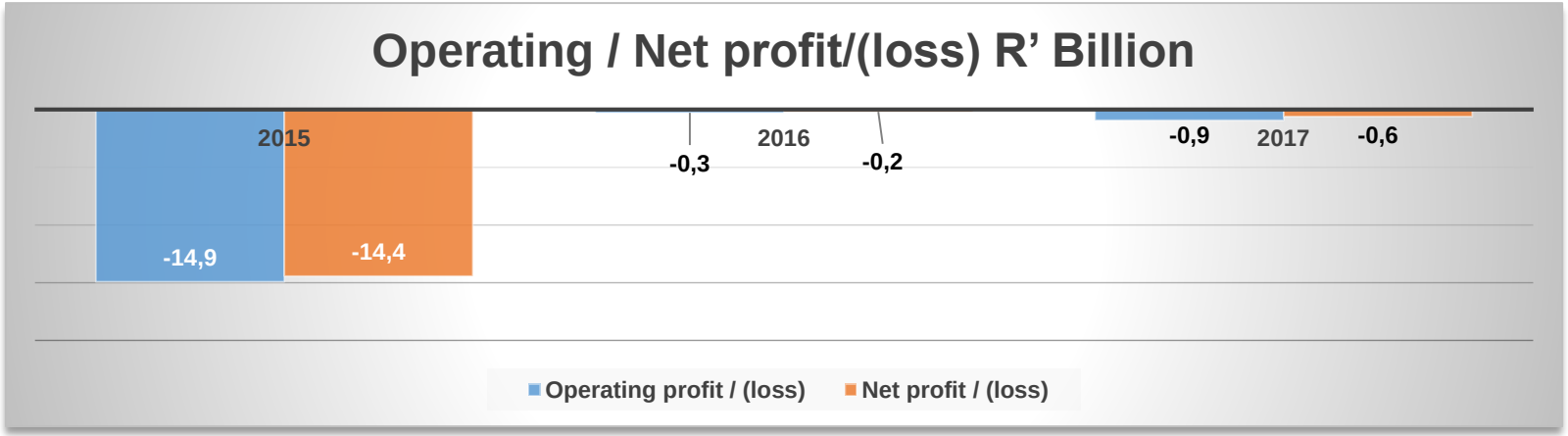
Operating expenses

The Operating expenses decreased from R5.4 billion to R1.8 billion. The decrease in costs is due to once off transfer of R2.1 billion to the state, which was recorded in 2015/16 financial year; net reversal of the impairment of R590 million; which is made up of the gross reversal of impairment of R2.4 billion and the gross impairment of R1.8 billion and the decrease in operating costs of R274 million.

Statement of Comprehensive Income 2016/17

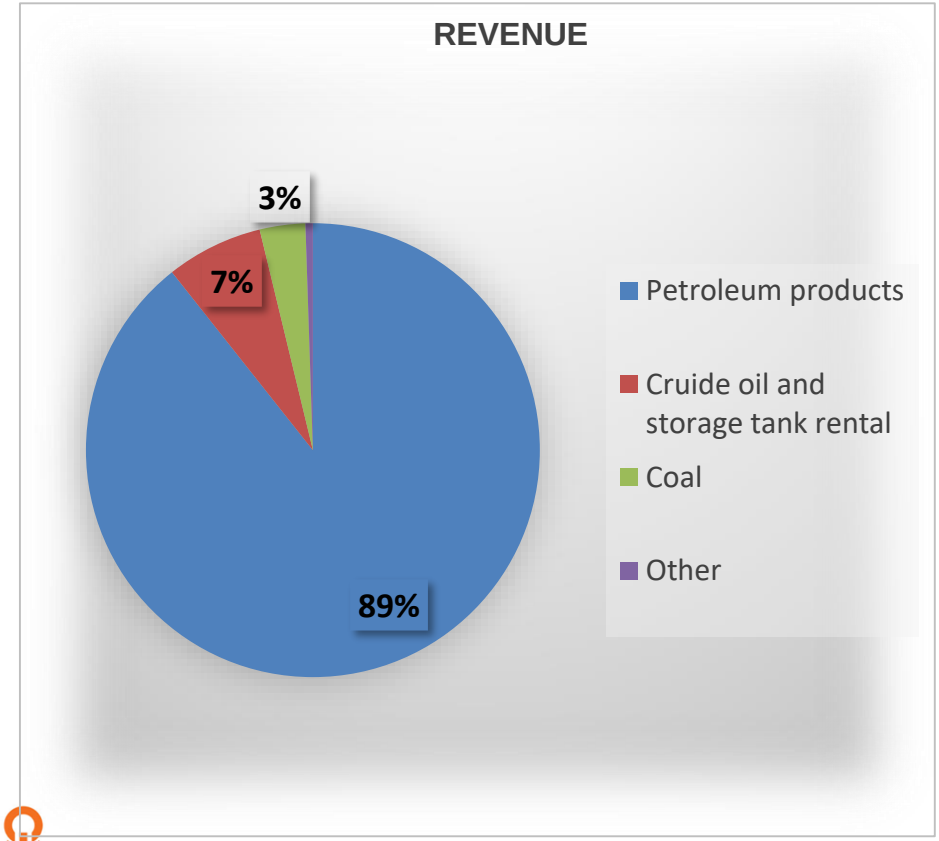
	31March 2017(Audited)									
Description	CEF Group	Intra Group transactions	CEF SOC Ltd	Renewable Energy	PetroSA Group	SFF NPC	AEMFC SOC Ltd	PASA SOC Ltd	Igas SOC Ltd	OPC NPC
	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million
Revenue	11,598.02	(10.67)	14.67	0.09	10,357.08	798.54	376.17	62.14	-	-
Cost of sales	(11,037.92)	1.26	-	-	(10,832.35)	-	(206.83)	-	-	-
Gross profit/(loss)	**560.10**	**(9.41)**	**14.67**	**0.09**	**(475.27)**	**798.54**	**169.34**	**62.14**	**-**	**-**
Other income	342.08	(23.80)	16.22	7.34	245.36	6.91	89.86	0.20	-	-
Operating expenses	(1,841.12)	276.00	(346.26)	(15.73)	(792.48)	(647.76)	(182.86)	(112.36)	(18.36)	(1.30)
Operating loss	**(938.93)**	**242.79**	**(315.37)**	**(8.30)**	**(1,022.39)**	**157.69**	**76.34**	**(50.02)**	**(18.36)**	**(1.30)**
Investment income	943.06	(219.78)	360.16	1.54	390.32	230.74	12.77	15.31	150.01	1.99
Income from equity accounted investments	300.28	300.28	-	-	-	-	-	-	-	-
Finance costs	(572.88)	103.84	(92.93)	-	(533.24)	(34.71)	(1.81)	-	(14.03)	-
(Loss)/Profit before taxation	**(268.47)**	**427.13**	**(48.14)**	**(6.76)**	**(1,165.30)**	**353.71**	**87.29**	**(34.71)**	**117.62**	**0.69**
Taxation	(331.01)	-	(54.16)	-	(234.27)	-	(33.14)	-	(9.44)	-
Loss for the year	**(599.48)**	**427.13**	**(102.30)**	**(6.76)**	**(1,399.57)**	**353.71**	**54.16**	**(34.71)**	**108.18**	**0.69**
Comprehensive (loss)/profit	(231.01)	(383.97)	**-**	**-**	**(208.50)**	**(22.52)**	**-**	**-**	**383.97**	**-**
Total Comprehensive income/(loss)	**(830.49)**	**43.16**	**(102.30)**	**(6.76)**	**(1,608.07)**	**331.19**	**54.16**	**(34.71)**	**492.15**	**0.69**

Financial Analysis Profitability



Despite the adverse macro-economic environment, which emanate from the volatility of rand/dollar and Brent crude oil, the CEF Group still managed to report a loss of tax of R599 million.

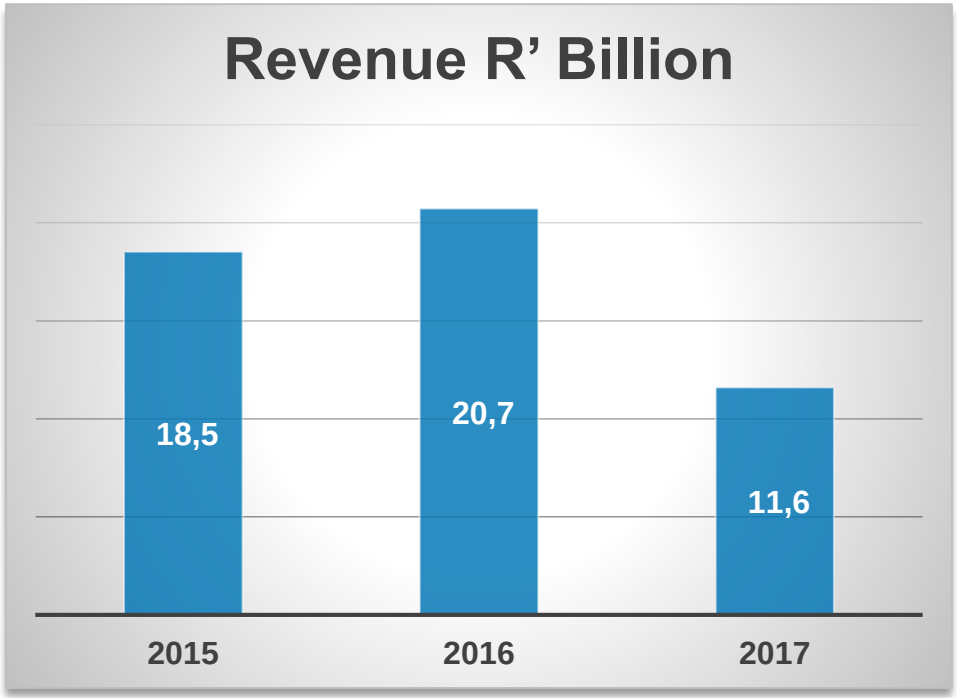
Financial Analysis -Profitability (continued



Comments:

Our revenue is mainly derived from the sale of petroleum products which constitutes 89% of total revenue for the Group, rental of crude oil storage tanks which constitutes 7% of the total revenue from the Group and sale of coal which constitutes 3% of the total Group revenue. Majority of our revenue comes from the sale of petroleum products and the revenue from petroleum products is under strain due to the declining gas reserves.

Financial Analysis-Profitability (continued)



Revenue (continued)

The Group revenue has been declining since 2015; however, during 2016 the revenue was high due to the rotation of strategic stock. The decrease in revenue is due to the lower production of petroleum products as result of declining gas reserves. The revenue should stabilise when the conversion of the refinery has been completed. The revenue from the rental of crude oil tanks and sale of coal continues to increase at marginal rate. However, the Group revenue continues to decrease because the other entities in the Group are relatively small compared to PetroSA.

Statement of Financial Position 2016/17

Description	31March 2017	31March 2016
	R'000	R'000
Non-current assets	13,280,164	15,106,389
Current assets	19,791,916	20,658,632
Disposal Group	88,639	50,000
Total assets	**33,160,719**	**35,815,021**
Equity and liabilities		
Equity	14,258,377	15,021,282
Non-current liabilities	13,129,537	14,711,971
Current liabilities	5,753,889	6,081,768
Disposal Group	18,915	-
Total liabilities	**18,902,341**	**20,793,739**
Total equity and liabilities	**33,160,719**	**35,815,021**

Assets

- The Group assets decreased by R3 billion, from R36 billion to R33 billion. The decrease in assets is due to the decrease in property, plant and equipment and the decrease in current assets.
- The decrease in Property, property is due to the reinvestment rate being lower than the depreciation rate.

Equity

- The equity decreased marginally from R15 billion to R14.3 billion. The decrease in equity is due the strengthening of the rand when it is compared to the US dollar, which resulted in a foreign currency translation loss, and the net loss, which was reported during the year.

Liabilities

- The Group liabilities decreased from R21 billion to R19 billion. The decrease in liabilities is mainly due to the decrease of the rehabilitation provision and repayment of the reserve based lending.

Financial Analysis: Statement of Financial Position (continued

Liquidity requirements

- The Group has adequate cash to service its short-terms debts

Solvency

- The Group's target solvency ratio is 60:40 (Total Assets: Total liabilities), the actual ratio at 31 March 2017 was 63.7:36.3.

Gearing

- The cap for the CEF Group gearing ratio is set at ***40:60*** (Interest bearing debt / Equity and Reserves). The actual ratio at 31 March 2017 was 6.1:93.9.
- The ratio is within the target that was set by National treasury as a condition for the approval of the Reserve Based Lending and the Trade Finance Facility

Statement of Cash Flows 2016/17

Description	31March 2017	31March 2016
	R'000	R'000
Cash flow from operating activities	1,237,581	7,549,757
Cash flow from investing activities	(623,613)	(2,174,618)
Cash flow from financing activities	(238,014)	374,992
Net cash movement	**375,954**	**5,750,131**
Opening cash balance	**15,736,342**	**10,077,245**
Effects of foreign exchange	(417,460)	(91,031)
Closing cash balance	**15,694,839**	**15,736,345**

Cash flows from operating activities

The Group generated R1.2 billion cash flow from operating activities, compared to prior year R7.5 billion. The decrease in cash from operating activities is due to the deteriorating gross profit. Furthermore, in the prior year, the Group cash flow from operating activities was at elevated level due to the proceeds from the rotation of the strategic stock.

Cash flows from investing activities

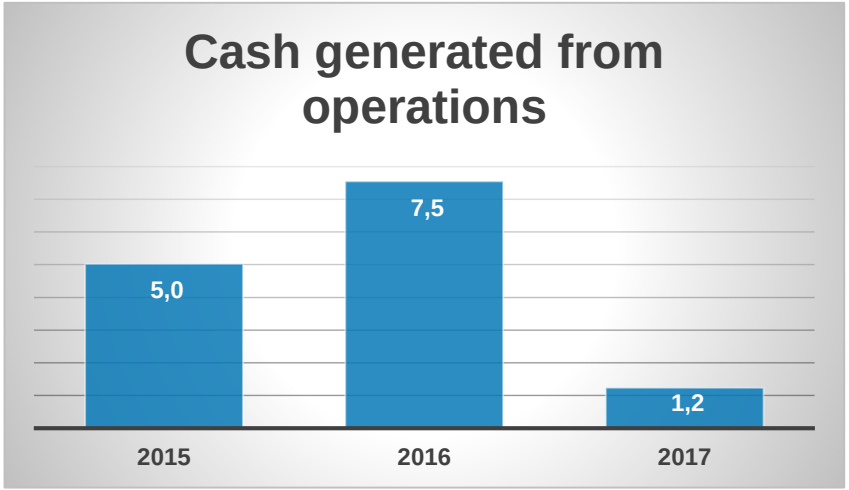
The Group has invested R856 million into the oil and gas business. The investment is lower than 2015/16 investment which was at R2.3 billion. The lower investment rate is due to the delays in the procurement of the renewable energy projects and the deferral of risky exploration projects.

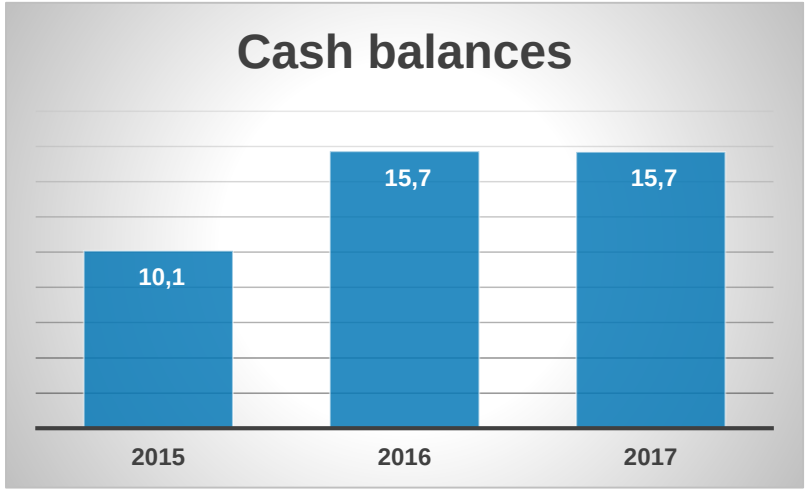
Cash flows from financing activities

The Group has paid R302 million relating mainly to the Reserve Based Lending that was used to acquire PetroSA Ghana. The balance of the facility is R867 million and it will be repaid over a seven-year period.

Financial Analysis: Cash Flows

Rbn





Comment:
The Group's cash balances remained more or less constant compared to prior year.

Group Risks & Future Outlook and Way forward

Towards a brighter and sustainable future

Key Group Risks

Risk Category 1. Financial Sustainability

Risk Description:

The financial sustainability of the CEF Group is under threat.

Root causes:

The CEF Group derives more than ***70%*** of its revenue from PetroSA whose gas feedstock is depleting. At the same time PetroSA has an abandonment liability which needs to be funded by 2019. These 2 factors constrain the CEF Group balance sheet.

Risk Category 2. Security of Supply

Risk Description:

The risk that the CEF Group of Companies may not be able to effectively fulfil its mandate of supporting the DoE in ensuring security of energy supply for the country..

Root causes:

PetroSA does not have affordable feedstock to produce a significant portion of the market share of national liquid fuels demand. Non availability of strategic stock before replenishment is finalised.

Risk Category 3. Human Capital

Risk Description:

There is a risk that the CEF Group may not have the adequate skills and experience to implement strategic projects required for the financial sustainability of the Group.

Root causes:

The bad publicity that the Group is receiving may create the perception that the CEF Group is not the “employer of choice”.

Risk Category 4. Governance & Operating Model

Risk Description:

The CEF Group governance and operating model is cumbersome and impacts on effective and efficient decision making...

Root causes:

Delay in effective decision making and non-optimisation of resources due autonomous governance structures”.

Future Initiatives to address Group Risks & to Growth the business

Current State

- GTL refinery operating on a 1X1 mode on natural gas and condensate
- Partially funded abandonment liability
- Constrained balance sheet for funding upstream projects
- Contango market structure showing weakening signs.
- One coal mining operation – Vlakfontein Mine
- Contractor Mining in FY2017
- Single source through ROMPCO investment and passive investment business model
- Challenges with PPA pricing structure and its delays on Group renewables projects
- Most Group projects are in feasibility phases
- Cost optimization
- Group Governance Challenges

Future Outlook

- LNG to be considered as possible feedstock to the refinery
- Deferral
- Upstream Partnership
- Partnership with oil producing countries
- Increase mining operation to three (3) by 2021
- Owner operated mines
- Diversify into other Gas projects and be operational
- Diversify away priced challenged projects
- Group Cost containment & refinery optimization
- Group Operating Model review
- Targeted leadership development and brand reputational management initiatives

CEF Group Strategic key focus Areas

As part of our broader long term and short term objectives for turning the Group around during the 2017/18 to 2021/22 planning horizon, the ***following key focus areas*** have been identified as core in galvanising all Group resources. This is to create a portfolio of activities and key initiatives that the Group will pursue

01 GROWTH & SUSTAINABILITY

- Group Sustainability
- Strategic relevance
- Market share Growth
- New Market Segments
- Profitability Drivers

02 STRATEGIC PARTNERSHIPS & STAKEHOLDER MANAGEMENT

- De-Risking the Group
- New Markets
- Scale
- Reputational Management
- SOE Partnership

03 GOVERNANCE & RISK MANAGEMENT

- Revised Group Operating Model
- Risk Embedding
- Risk Maturity
- Improved decision making
- Oversight & M&E

04 INNOVATION & BUSINESS EXCELLENCE

- Project execution
- Idea generation
- Improved SHEQ record
- Group synergies
- Core Capabilities

05 PEOPLE & LEADERSHIP AGENDA

- Leadership capacitation
- Key role development
- Engaged workforce
- People development
- Employer of choice

In conclusion

- Despite the various strategic challenges that the Group faces, the CEF Group ***remains a going concern***, meaning that the Group will continue to operate in the foreseeable future.
- The assertion of going concern is premised on the fact that the ***Group gearing ratio*** is low and the Group assets exceed liabilities by R14 billion.
- The bulk of our assets are ***comprised of cash*** of R15 billion, which is available for use in furthering our mandate.
- Further to our cash balances, the Group has capacity to borrow money because its gearing ratio is 4% debt and 96% equity, which is below the self-imposed ceiling of 40% debt and 60% equity.
- We believe that the cash can be deployed in funding the ***sustenance projects*** for the oil and gas business and it will also be deployed to fund our participation in the gas to power and renewable programmes.
- As we move forward with the delivery of our Group strategy, our key priorities still remain the ***sustainability of PetroSA***, ***leadership***, ***governance*** and ***sustainable growth*** for the Group and all efforts will continue to be focus on theses areas.
- We are also confident the planned review of the ***Group Operating Model*** will yield positive outcomes and take the CEF Group to new heights.

THANK YOU!