

PetrosA

Annual Report 2012

**Presented to
The Portfolio Committee on Energy
Parliament of the RSA**

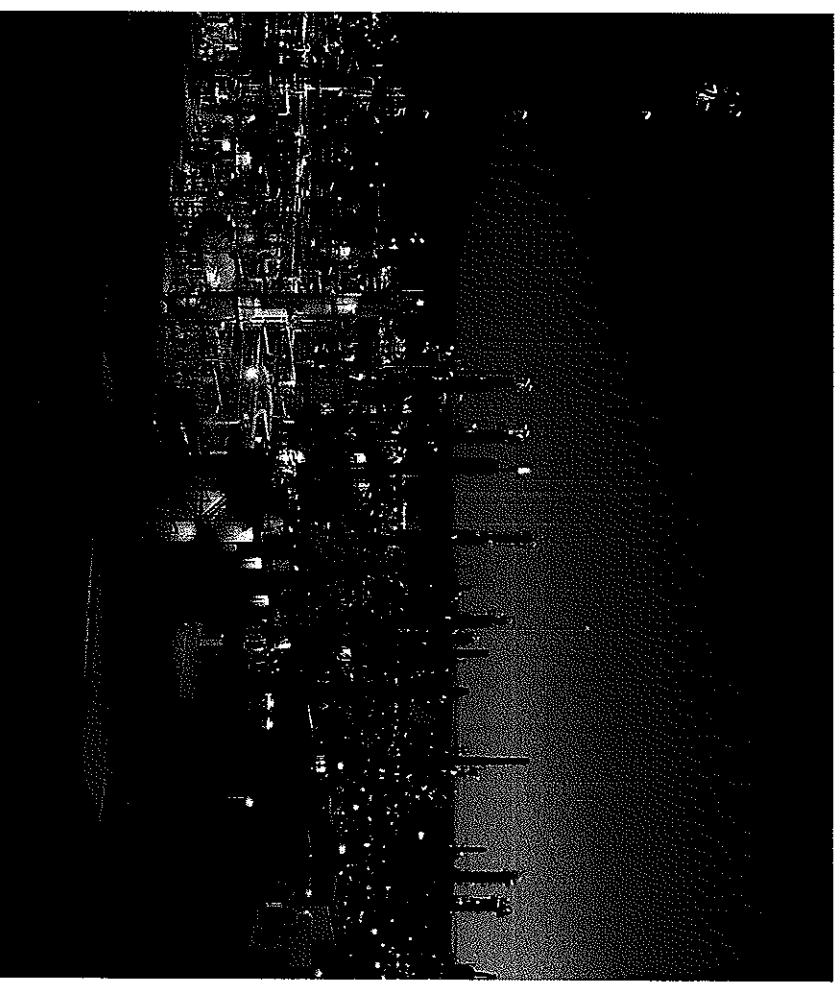
17 October 2012



PetroSA

Company Overview

- PetroSA was established in 2002*
- Employs 1861 staff members
- Pioneered the world's first GTL refinery
- Business spans petroleum value chain
- Produces ~ 5% of RSA fuel needs
- Produces diesel, gasoline, kerosene and specialty products
- Has produced ~70 MMbbl crude and used 1 Tcf of natural gas to date
- Has acreage in Ghana, Equatorial Guinea and Namibia
- Has a trading office in Rotterdam
- Net Asset Value ~ R18 billion (31/03/12)



* Following the merger of Soekor E & P and Mossagas Pty Ltd



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Key Messages

The organisation continues on its NOC Mandate to operate commercially and support security of supply

Financial Performance and Sustainability

- Once again, we received an unqualified audit opinion
- Group profits rose 54% year on year to ~R1.3 billion in 2011/12
- Progress was made on Project Ikhwezi, which is intended to extend Mossel Bay operations to 2020 and sustain jobs at the single largest employer in the Southern Cape

SHEQ:

- Safety record is within acceptable range, but more focus on leading indicators (e.g. near misses) is needed
- Environment: 15 incidents occurred, with appropriate remedial action taken to avert a recurrence
- Increased awareness and education should help



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Key Messages - continued

Growth:

- Mthombo: Together with Sinopet, with which we signed a Joint Study Agreement, we are currently reviewing the business case in view of new clean fuels requirements and demand/supply projections
- We have bought Sabre Oil and Gas Holdings Ltd in Ghana, which gives us access to Jubilee field and provides a strategic entry into the prolific Gulf of Guinea

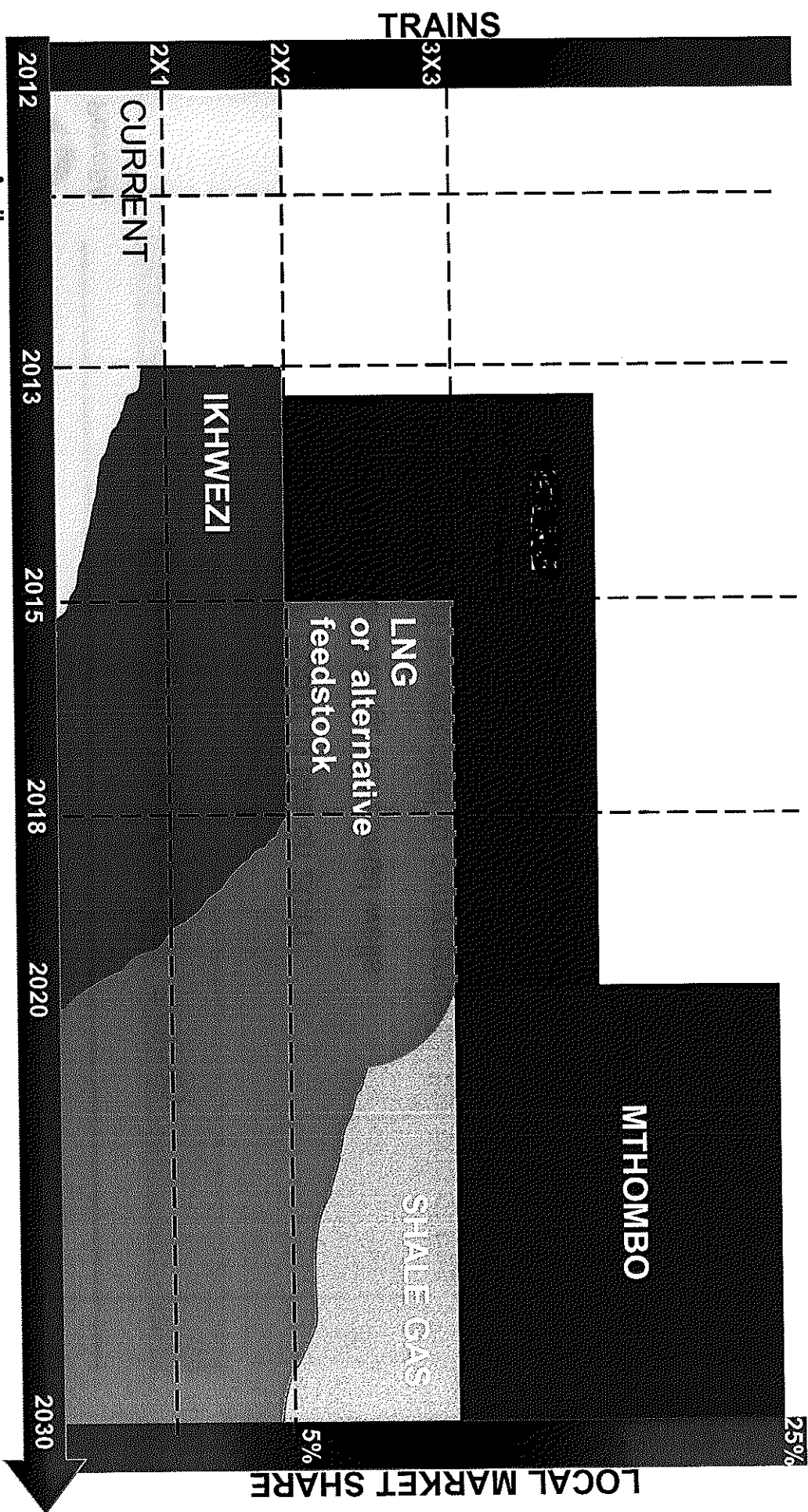
Transformation:

- Progress is being made on women recruitment, but more is still needed
- Difficulties remain in recruiting people with disabilities, but we have offered bursaries to selected students with disabilities
- We built a specialised fuels research centre at the University of the Western Cape
- 71% of commercial business sales went to BEE customers
- 67% of discretionary procurement spend went to BEE suppliers

Vision 2020: Building Blocks to 25%



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Project Ikhwezi

Extending the Life of our GTL Refinery

- Approved by PetroSA Board in March 2011
- It entails the drilling of 5 long, horizontal wells
- Drilling of the first well is expected to commence by the end of this year
- First gas is expected to flow in the second half of 2013
- Project Ikhwezi is expected to extend the life of the GTL plant to 2020
- Provides opportunity for further development of other gas prospects near the F-O field, which should extend the life of the GTL plant



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Shale Gas - Potential Impact to RSA

Key Observations

- According to the US EIA, SA has the 5th largest shale gas resources in the world
- Econometric estimates that 10% of this (38.5tcf) could add R200bn/year to RSA's GDP and create 704,000 jobs over 25 years*
- The SA Ministerial Task team on Shale Gas concurs, and is of the view that 30tcf of this amount would make a huge impact to the RSA economy
- It is vital that there is a balance between developing Shale Gas and addressing environmental concerns, hence the importance of policies and regulations

Shale Gas Strategy

Potential Benefits

- Would advance SA's drive for cleaner energy sources (IRP 2010 targets: 48% coal, 14% nuclear, 16% renewables, 9% gas by 2030)
- Would advance job creation, infrastructure and skills development, as well as B-BBEE.
- Commercial-scale development in RSA may take 10 years (this allows sufficient time to enhance legislation, fiscal regime and regulation)
- PetroSA supports the quest to ascertain the viability of Shale Gas resource in the Karoo






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




Features of the 2011/12 Annual Report



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Performance Against Objectives

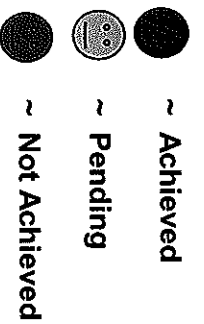
-  ~ Achieved
-  ~ Pending
-  ~ Not Achieved

| KFA | KPI | Target | Results | Comments |
|----------------|---|----------------------------|---|---|
| TRANSFORMATION | EE - Recruitment of Women | 15% of appointments |  | ➤ 37% of all appointments were women |
| | EE - Recruitment of People living with disabilities | 3% of appointments |  | ➤ Achieved 1.2% of appointments |
| | Preferential Procurement | 50% of discretionary spend |  | ➤ 67% of discretionary procurement spend went to BEE suppliers (>25.1%) |
| | BB-BEE Sales | 214 Million litres |  | ➤ Achieved 232 Million litres, which is 8% above target and 9% above last year |
| FINANCE | Gross Margin Percentage | 17%-18% |  | ➤ Gross Margin percentage slightly below target (Actual: 16%), mainly due to declining production |



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Key Performance Milestones






| KPA | KPI | Target | Results | Comments |
|-------------------------------|--------------------------------|---------------------------------------|---------|---|
| INTERNAL BUSINESS PROCESSES - | Crude Production | 0.8 Million barrels | | <ul style="list-style-type: none"> Crude production was low (50% of target) due to some challenges at the production facility (now resolved) |
| | Indigenous Refinery Production | 6.5 Million barrels | | <ul style="list-style-type: none"> Achieved 84% of the targeted GTL gas production <i>duringly real stock into plant</i> |
| | E-O Development | Key Milestone as per project schedule | | <ul style="list-style-type: none"> 81% of contracts awarded Project costs were within budget (93% of budget) Rig contract signed in May 2011 |










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Key Performance Milestones

*Projects to off road
action in fuel stock*

-  ~ Achieved
-  ~ Pending
-  ~ Not Achieved

| KPI | Target | Results | Comments |
|---|-------------------------------|--|--|
| Enter downstream market <i>process</i> | Enter downstream |  | <ul style="list-style-type: none"> ➤ Valuation in progress |
| | Addition of refining capacity |  | <ul style="list-style-type: none"> ➤ Technical reviews progressing as planned |
| Reserve Addition | 15 Million barrels |  | <ul style="list-style-type: none"> ➤ Acquisition approved in September 2012 by Ghanaian Authorities |
| Fatalities | 0 |  | <ul style="list-style-type: none"> ➤ No fatalities |
| Disabling Injury Frequency Rate (DIFR) | <0.4 |  | <ul style="list-style-type: none"> ➤ Achieved 0.39 |
| Environmental Incidents | 7 |  | <ul style="list-style-type: none"> ➤ 15 environmental incidents |
| GOVERNANCE | Zero Repeat Audit Findings |  | <ul style="list-style-type: none"> ➤ Not achieved, but controls are being tightened |

disabling injury frequency rate

improve safety awareness

fairly well



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**GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012**



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Financial Performance - Highlights

Financial performance improved year on year

We remained profitable!

| Indicator | Results | Increase |
|---------------------|---------|----------|
| Revenue | | 37% |
| Profit for the year | | 72% |
| Total Assets | | 6% |
| Cash balance | | 8% |

| Ratios | 2012 | 2011 |
|------------------------|------|------|
| Return on Equity | 8% | 5% |
| Return on Total Assets | 5% | 3% |
| Current Ratio | 7.4 | 7.9 |



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PetroSA Group Results 2011/12

Consolidated Income Statement – Year on Year

| Continuing Operations | Actual | Actual | Variance |
|-------------------------------------|----------------------|----------------------|-----------|
| | 2011/12 R'Million | 2010/11 R'Million | R'Million |
| Revenue | 14,444 | 10,565 | 3,879 |
| Cost of Sales | -11,941 | -8,855 | -3,087 |
| Gross Profit | 2,503 | 1,711 | 792 |
| Gross Profit% | 17% | 16% | 1% |
| Other Operating Income | 80 | 257 | -176 |
| Other Operating Expenses | -1,675 | -1,904 | 229 |
| Operating Profit | 908 | 64 | 845 |
| Investment Income | 840 | 860 | -19 |
| Finance Costs | -462 | -423 | -40 |
| Profit before Taxation | 1,287 | 501 | 785 |
| Taxation | -5 | 309 | -313 |
| Profit After Taxation | 1,282 | 810 | 472 |
| Profit from discontinued operations | - | 22 | -22 |
| Profit for the year | 1,282 | 831 | 450 |

| % change 2011 vs. 2012 |
|---------------------------|
| 37% |
| 35% |
| 46% |
| -69% |
| 12% |
| >100% |
| -2% |
| 9% |
| 157% |
| -102% |
| 58% |
| -100% |
| 54% |

Revenue increase due to:

- 2% increase in sales volumes
- rand weaker against dollar, 30%.

Cost of sales increase as a result of:

- increased sales of purchased product

- rand weaker against dollar, 30%.

Other opex decline

- freezing of posts and other cost-saving initiatives

Investment income decrease due to

- decline in interest rates, despite higher cash reserves

Tax 2010/11

- Refund of 2008/9 provisional tax



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PetroSA Group Results 2011-2012

Consolidated Balance Sheet – Budget vs. Actual

| | Actual March 2011/2012 | Actual March 2010/2011 | Budget 2011/2012 | % change 2012 vs. 2011 |
|-------------------------------------|---------------------------|---------------------------|---------------------|---------------------------|
| ASSETS | | | | |
| Non-current assets | 7,640 | 7,927 | | -4% |
| Property, Plant & Equipment | 6,721 | 7,321 | | |
| Other financial assets | 186 | 117 | | |
| Prepayments | 244 | - | | |
| Amounts held by holding company | 489 | 489 | | |
| Current assets | 18,847 | 17,080 | | 10% |
| Inventories | 2,573 | 1,576 | | |
| Current tax receivable | 27 | 413 | | |
| Trade & other receivables | 3,399 | 2,070 | | |
| Non-current assets held for sale | | 1,168 | | |
| Cash and cash equivalents | 12,848 | 11,852 | | 8% |
| TOTAL ASSETS | 26,487 | 25,006 | 26,517 | 6% |
| EQUITY AND LIABILITIES | | | | |
| Capital and reserves | 18,018 | 16,645 | | 8% |
| Non-current liabilities | 5,928 | 5,650 | | -5% |
| Current liabilities | 2,541 | 1,992 | | -28% |
| Trade and other payables | 2,273 | 1,626 | | |
| Other | 268 | 366 | | |
| Liabilities of disposal groups | - | 719 | | |
| TOTAL EQUITY AND LIABILITIES | 26,487 | 25,006 | 26,517 | 6% |

- **Property, plant and equipment** less than budget due to delays in the Ikhwazi drilling project
- **Other financial assets** under-spent mainly due to delays in downstream entry
- **Increase in inventory and trade receivables** due to increased sales of purchased product
- **Cash balance** higher than budget due to delay in acquisitions



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PetroSA Group Results 2011-2012

Cash Flow Statement

| | Actual March 2011/2012 | Actual March 2010/2011 | Change |
|--|---------------------------|---------------------------|-------------|
| | R'million | R'million | R'million |
| Cash from operations | | | |
| Interest Received | -103 | 863 | -966 |
| Interest Paid | 840 | 860 | -19 |
| Taxation | -2 | -3 | 1 |
| | 383 | 258 | 125 |
| Cash flows of discontinued operation | 448 | 34 | 414 |
| Cash from before investing activities | 1,566 | 2,011 | -445 |
| Investing Activities | | | |
| PPE Acquired | -610 | -197 | -413 |
| Other Investing Activities | - | 2 | -2 |
| Repayment of amounts held by holding Co. | - | 49 | -49 |
| Purchase of financial assets | -69 | 18 | -87 |
| Cash before financing activities | 887 | 1,883 | -996 |
| Financing Activities | | | |
| Loans received | - | - | - |
| Dividends paid | - | - | - |
| Shareholders loan repaid | - | -18 | 18 |
| Increase / (decrease) in cash | 887 | 1,865 | -978 |
| Effects of exchange rate changes | 109 | 80 | 29 |
| Opening balance | 11,852 | 9,908 | 1,944 |
| Closing balance | 12,848 | 11,853 | 995 |

Cash before investing activities

- decreased by R445 million mostly due to R1.9 billion increase in working capital

Investing activities

- higher spending on PPE as Ikhwezi development continues



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PetroSA Group Results

Audit Opinion

The PetroSA group was issued with an unqualified audit opinion.

An emphasis of matter, which does not modify the audit opinion, was raised for the following items:

Significant Uncertainties

The sale of Brass Exploration Unlimited and PetroSA Nigeria (SOC) Ltd was recognised during the financial year. The disposals are still subject to litigation in the Nigerian judicial system.

Material Impairments

Impairments of loans to PetroSA Egypt (SOC) Ltd, R197m (2011: R945m), and PetroSA Equatorial Guinea (SOC) Ltd, R1,412m (2011: R nil), were incurred.



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PetroSA Group Results

Audit Opinion

Report on Other Legal and Regulatory Requirements

~~X~~ Predetermined Objectives

- There were no material findings on predetermined objectives

~~X~~ Achievement of Planned Targets

- 38% of total targets not achieved

~~X~~ Annual Financial Statements

- Annual financial statements submitted for auditing were not prepared in all material aspects in accordance with the prescribed reporting framework and as required by the PFMA and the Companies Act

- **Material mis-statements of non-current and current assets identified by the auditors were subsequently corrected**

~~X~~ National Environmental Management Act

- Timely corrective action was not implemented with regards to contamination at the operating facilities.



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PetroSA Group Results

Audit Opinion

Report on Other Legal and Regulatory Requirements

X Expenditure Management

- Steps were not taken to prevent fruitless and wasteful and irregular expenditure effectively
- Fruitless and wasteful expenditure of R36m and irregular expenditure of R27m were incurred

X Procurement and Contract Management

- The procurement process did not comply with the requirements of a fair supply chain management system as required by the PFMA
- Certain goods and services of a transaction value above R15k for quotations and R1m for tenders were procured without inviting competitive bids



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PetroSA Group Results

Audit Opinion

| | 2012 R'000 | 2011 R'000 |
|---|---------------|---------------|
| Fruitless and wasteful expenditure | | |
| Incurred | 35,837 | 21,619 |
| Recovered | (16,395) | (12,977) |
| Expensed | 19,442 | 8,642 |
| Irregular transactions | | |
| Contravention of company policy | 25,868 | 13,602 |
| Contravention of legislation | 1,519 | 3,350 |
| Total | 27,387 | 16,952 |



PetroSA Group Results

Audit Opinion

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| | 2012 R'000 | 2011 R'000 |
|---|----------------------|----------------------|
| Fruitless and Wasteful Expenditure (R'000) | | |
| Penalties and interest paid to tax authorities | 9 | 20,718 |
| Penalties and interest for late payment of cargo dues | 1,213 | 114 |
| Contract cancellation fee | 19 025 | - |
| Damage to Outboard motors | - | 228 |
| Interest on late payment of investment | - | 122 |
| Additional registration fees | - | 114 |
| Legal and consulting fees | 15,414 | - |
| Other expenditure | <u>176</u> | <u>323</u> |
| Total | <u>35,837</u> | <u>21,619</u> |



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TRANSFORMATION



PetroSA's BEE Current STATUS

- ~ Achieved
- ~ Pending
- ~ Not Achieved

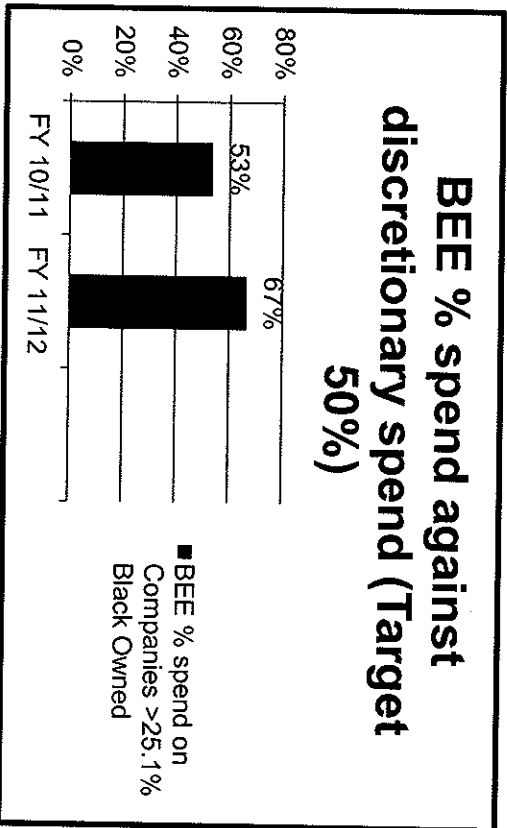
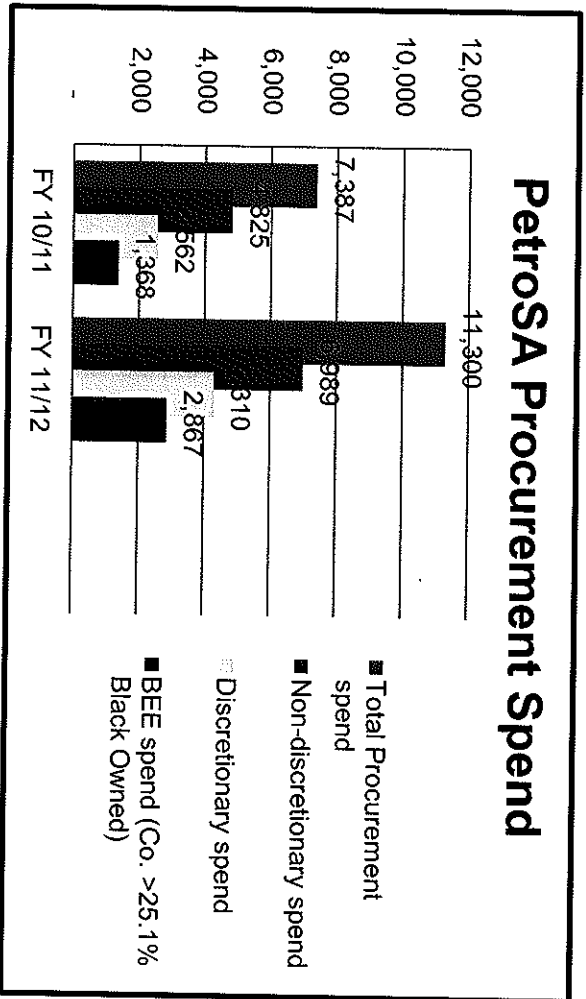
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| BBBEE Elements | Results 2012 | Target | Status | Remarks |
|-----------------------------------|--------------|--------|--------|---|
| Equity Ownership | N/A | N/A | N/A | N/A |
| Management & Control | 15 | 15 | | |
| Employment Equity | 8.48 | 15 | | 30% women for every recruitment cycle and employment of people living with disabilities |
| Skills Development | 17.13 | 20 | | COE, Bursaries, Leadership development |
| Preferential Procurement | 19.27 | 20 | | |
| Enterprise Development | 2.85 | 15 | | Improve enterprise development |
| Socio-Economic Development (CSII) | 14.14 | 15 | | |

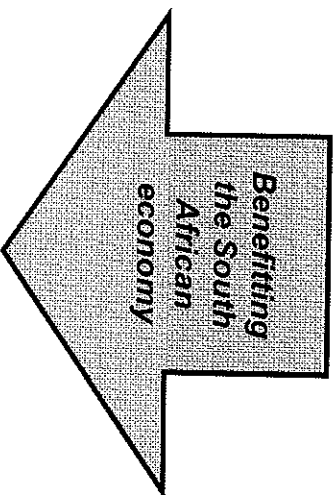


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PetroSA has progressed significantly in transforming its supplier base towards a B-BBEE supplier base



B-BBEE % Spend against discretionary spend has been above the target of ~ 50% per annum over the past 3 years





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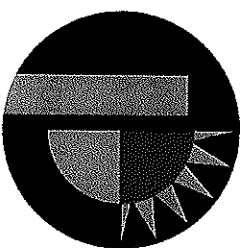
Conclusions

The organisation continues on its NOC Mandate to operate commercially and support security of supply.

- The focus is on sustaining our GTL Refinery in Mossel Bay and creating new opportunities for growth.
- We are tightening financial and operational performance and controls.
- We need support on key projects like Mthombo. The country faces a real risk of fuel supply shortage in the medium to short term.
- Our Vision 2020 Growth Strategy will advance job creation, enterprise development and other key transformation initiatives.
- Together we can do more!

Thank You!





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**Board Audit and Compliance Committee presentation to the
Parliament Portfolio Committee**

17 October 2012



Introduction

PetroSA

- ✓ BACC is a committee of the Board
- ✓ Chairman appointed by the Board
- ✓ All BACC members are directors of the Board
- ✓ BACC consists of at least three independent, non executive directors

| BACC Member | Qualification |
|------------------------|--|
| Ms N Jiyane (Chairman) | ND (Chem), BCom, MA Acc (Taxation), CA (SA) |
| Ms N Medupe | BCom, CA (SA) |
| Dr Z Rustonjee | BSc (Chem Eng), MPhil (Development), PHD (Economics) |
| Adv. L Makatini | BA (Law), LLM |
| Mr Y Tenza* | BCom (Acc), BCompt (Hons), MBA, CPA |

* Appointed as Acting CEO from 21 July 2011 until 29 February 2012. Appointed as advisor (Fixed Term Contractor) from 1 March 2012 to 31 May 2012.



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BACC Terms of Reference

- ✓ Approved annually by the Board
- ✓ Terms of Reference drives BACC agenda and activities
- ✓ Describes the BACC
 - roles and responsibilities
 - Composition
 - Operating guidelines
- ✓ As at 31 March 2012 the BACC complies with
 - Companies Act no. 71 of 2008
 - PFMA Act 1 of 1999
 - King III (except Integrated reporting)



BACC Duties and Responsibilities

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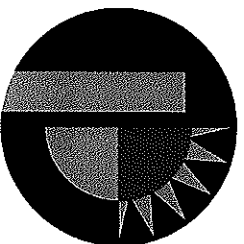
- ✓ BACC members elected by shareholder at each AGM
- ✓ BACC has an independent role with accountability to the Board and the Shareholder
- ✓ Collective skills of the BACC are appropriate to fulfil its oversight role
- ✓ BACC has oversight responsibilities in respect of:
 - Finance
 - Combined Assurance
 - Internal Audit
 - Risk Management
 - External Audit
 - Compliance
- ✓ Oversight responsibilities include the review of:
 - Effectiveness of the internal control system
 - Effectiveness of the internal audit department
 - External Audit process (appointment, terms of engagement, remuneration)
 - Risk areas of the company's operations
 - Integrity and quality of financial information (quarterly and annual)
 - Accounting and auditing concerns identified during audits
 - Compliance with applicable laws, regulations, policies, procedures and contracts
 - Expertise, resources and experience of the Finance function
 - Co-ordination of external and internal assurance providers
 - Corrective action taken by management to address internal and external audit findings



BACC Meetings and Activities

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- ✓ A compliance plan drives the nature of the agenda and frequency of BACC meetings
- ✓ Four meetings were held during 2011/12
- ✓ All meetings were Quorate
- ✓ Examples of matters discussed and resolved by the BACC include:
 - Approval of strategic and annual internal audit and compliance plans
 - Review and approval of Annual Financial statements to the Board
 - Meeting privately with the Office of the Auditor General and Chief Internal Auditor
 - Reviewing reports issued by assurance providers and tracking corrective measures taken by management
 - Approval of Group Combined Assurance Plan (2012/13)
 - Review and recommendation of Quarterly financial reports to the Board
 - Summoning respective executive managers to the meeting to discuss weaknesses identified by assurance providers
 - Performing special investigations as requested by the Board
 - Approval of Internal Audit Charter

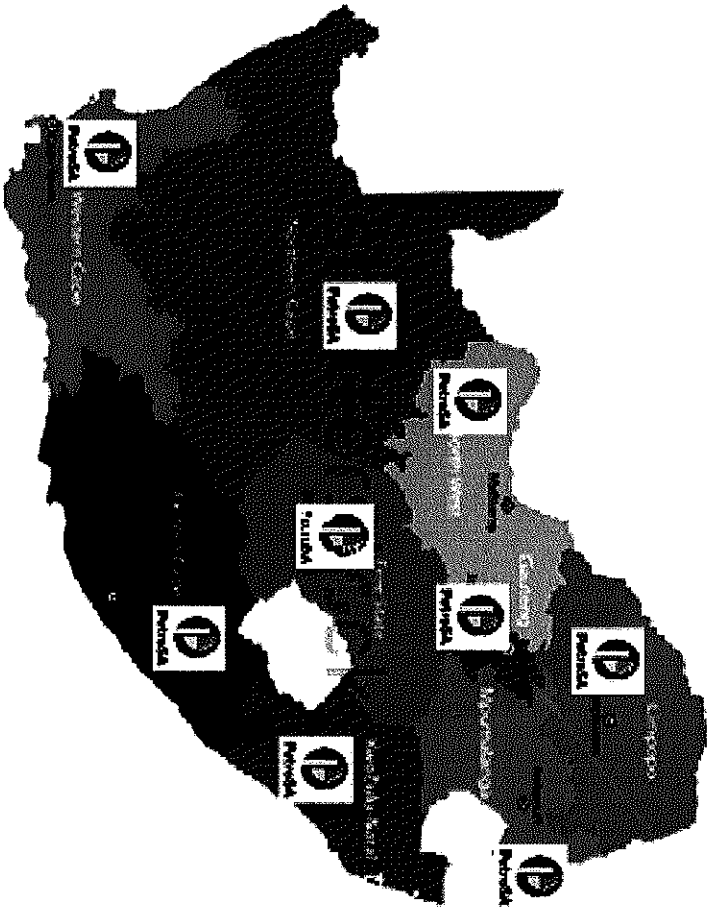


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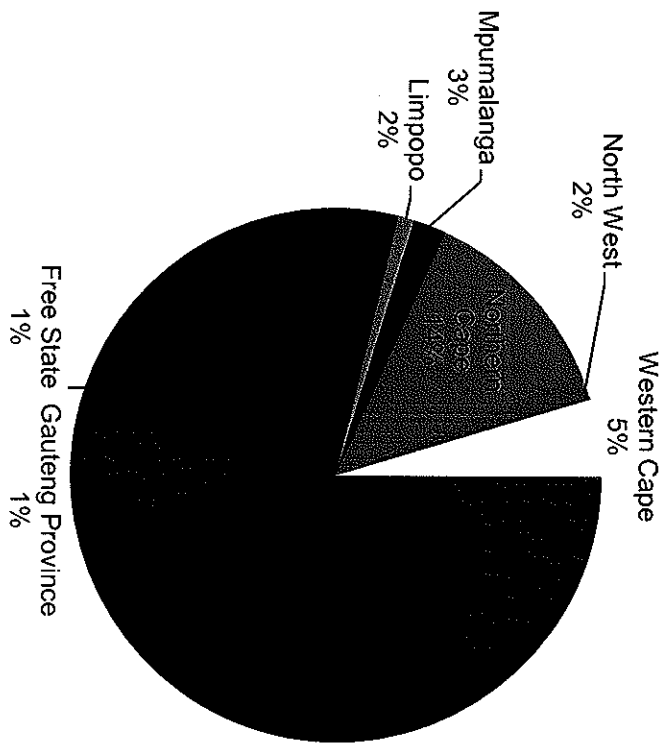
Back-Up Slides



PetroSA



Budget Spent Per Province





able Energy Access







