TRANSNET

pipelines

REINVENT
FOR GROWTH

TRANSNET PIPELINES 2023

CONTENTS

REINVENT
FOR GROWTH

HIGHLIGHTS

Revenue increased by 10% to R5,8 billion

EBITDA increased by 31% to R4,9 billion

Avtur (jet fuel) volumes grew by 38% to 960 million litres due to increased demand as the travel market recovered from the impacts of the COVID-19 pandemic.

BUSINESS OVERVIEW

Transnet Pipelines (Pipelines) is the largest multi-product pipeline operator in Southern Africa with more than 55 years' experience of operating and maintaining a 3 114km high-pressure petroleum and gas pipeline network in South Africa. The core strategic mandate of Pipelines is to ensure petroleum security of supply for the inland market and gas security of supply for the KwaZulu-Natal market using environmentally responsible methods while ensuring optimum efficiencies. Pipelines is strategically positioned to enable regional integration from pipelines to other modes of transport. Pipelines is regulated by the National Energy Regulator of South Africa (Nersa).

Pipelines currently transports:

- More than 80% of all refined products required for the inland market.
- More than 70% of all jet fuel required at OR Tambo International Airport.
- 100% of crude requirements for the National Petroleum Refiners of South Africa refinery.
- 500 million cubic metres per annum of methane-rich gas to KwaZulu-Natal from Secunda.

The initiative to secure a direct import terminal at the port of Durban and a terminal operating licence has become one of the key strategic objectives for Pipelines in alignment with the Transnet Liquid Fuels Master Plan to enable:

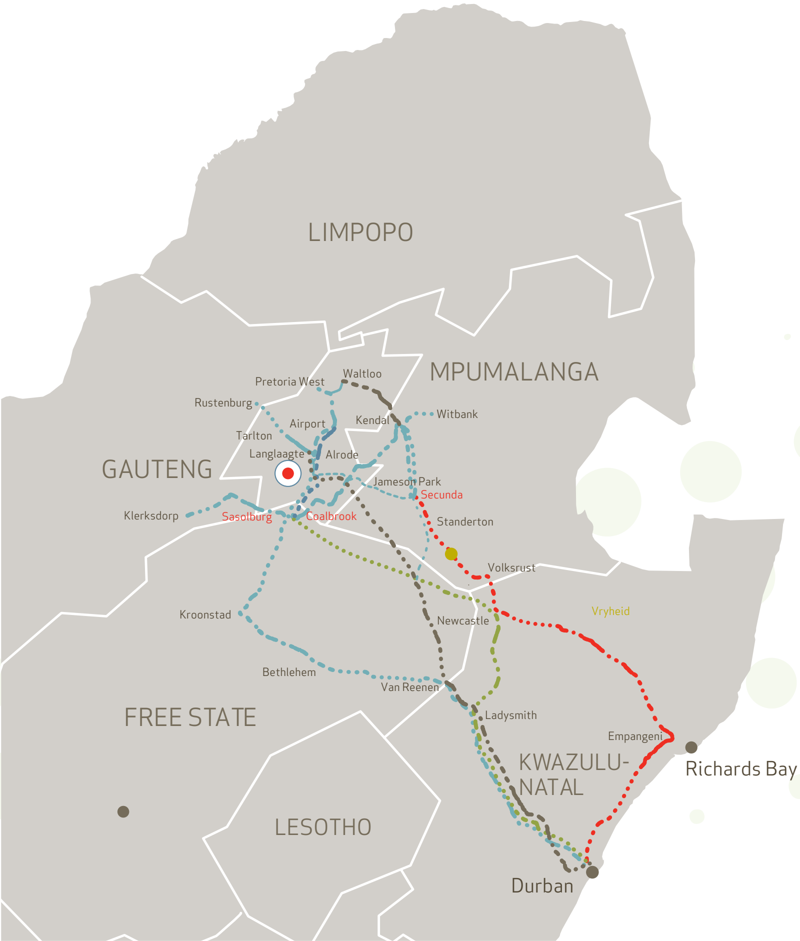
- New market participants in line with the Liquid Fuels Charter expectations which place emphasis on the promotion of broad-based Black economic empowerment and overall sector transformation;
- Clean fuels as envisaged by the Department of Mineral Resources and Energy which necessitates increased import terminal capacity due to the inability of local refineries to produce clean fuels in the medium to long term; and
- The expected increase of fuel imports as per recent developments regarding the future of local refineries which will be enabled and facilitated by the existing capacity on the 24" Multi-product Pipeline (MPP).

The decommissioning of the Durban to Johannesburg Pipeline (DJP) is currently in execution and the displacement and cleaning of the main line has been completed. The latest approved completion date for the remaining activities of the project is 2029.

The MPP trunk line with a current capacity of 148 million litres (Ml) per week is capable of transporting two diesel grades (D10 and D50) and two unleaded petrol grades (93 and 95) as well as jet fuel. The inland accumulation facility, located in the strategic node of Jameson Park, Gauteng (TM2) with a capacity of 180ml, facilitates security of supply to the inland economic hub and surrounding areas. Pipelines is set to begin work on the construction of the Coastal Terminal Development at Island View in the Port of Durban in 2024. A seamless integrated rail and pipeline service offering to customers is currently in operation to OR Tambo International Airport to ensure jet fuel security of supply from the coast and inland storage points.

Pipelines is ideally positioned as an enabler in delivering the Transnet Natural Gas Network Strategy, which is aligned to the country's energy demand, in conjunction with other relevant state-owned entities and stakeholders. This will be achieved through utilising the existing infrastructure (in the Lilly pipeline) as a base to grow the natural gas supply chain logistics network by collaborating with the private sector and other state-owned companies. The key objective is to develop, finance, construct, operate and maintain liquefied natural gas (LNG) midstream infrastructure to enable the import of LNG. Pipelines has selected Vopak Terminal Durban (Pty) Ltd as its preferred partner to jointly bid for the National Ports Authority's Request for Proposals to appoint a terminal operator for the LNG terminal in the port of Richards Bay.

WHERE WE OPERATE



Key

Refined products

Crude oil

Gas

Avtur

NMPP pipelines

Transnet Corporate Centre Johannesburg

REGULATORY ENVIRONMENT

Pipelines is a licensed gas, liquid petroleum and petroleum storage business regulated by Nersa. Almost all critical areas of Pipelines' business require regulatory sanctions through the issuing of licences. The maintenance of the licensing *status quo* is core to Pipelines continuing as a going concern. Regulatory certainty and sustainability factors are therefore of primary significance to the mandate of Pipelines.

As the custodian of South Africa's strategic pipeline assets, Pipelines is governed by the Petroleum Pipelines Act, No 60 of 2003.
To ensure continued business operations, Pipelines has a duty to comply with the conditions of the following licences as issued by Nersa:

- Licence to operate a petroleum pipeline system;
- Storage;
- Gas transmission; and
- MPP construction and related infrastructure.

Principle 13 of the King IV Report on Corporate Governance for South Africa, 2016™ states that the governing body of Pipelines should govern compliance with applicable laws and adopt rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

Safety, health, and environmental issues remain critical from a regulatory perspective. This is evident from the myriad of legislative requirements that can be enforced from a safety, health, and environmental perspective. Compliance with enforcement directives from various Government departments and other regulatory agencies is also vital. These departments and agencies include, among others, the Department of Labour, the Department of Mineral Resources and Energy, the Department of Forestry, Fisheries and the Environment, the Department of Health, the Competition Commission, and the Railway Safety Regulator, which is responsible for overseeing safety in the railway transport industry. Transnet, which manages the single Railway Safety Regulator permit, annually renews the Company's permit to operate the rail siding in Tarlton for over-border deliveries.

OPERATIONAL PERFORMANCE

The 2023 financial year yielded positive performance for Pipelines. The division performed well exceeding the budget for total petroleum volume despite a challenging start to the year following the KZN floods in April 2022. Pipelines' revenue was 7% above budget and operating expenditure was maintained well below the budget, resulting in EBITDA being 27% above budget in the 2023 financial year.

Pipelines made significant progress in reducing fuel theft incidents in 2023. Pipelines achieved an 8.6% reduction in product loss due to theft incidents in 2023, when compared to the prior year, despite the number of fuel theft incidents increasing in 2023. The implementation of long-term holistic, sustainable solutions as well as ongoing engagements with all stakeholders to curb the number of incidents yielded positive results as fuel theft incidents reduced by 63% in the second half of the year when compared to the first six months.

CORE INITIATIVES

Pipelines' core initiatives for the 2023 financial year were as follows:

- Increase both revenue and EBITDA by 3%.
- Volume targets for the 2023 financial year were as follows:
  - Total Petroleum volume: 15 432 million litres
  - Gas volume: 533 million m^3
- Implementation of the Pipeline Security Strategy to ensure safe operations and minimise the impact of fuel theft on the operational and financial performances.
- Fast-track of the environmental remediation backlog to comply with relevant and applicable environmental legislation while maintaining organisational sustainability.
- Focus on improving capacity utilisation and service delivery.

OVERVIEW OF KEY PERFORMANCE INDICATORS

Key performance area and indicator	Unit of measure	2020 Actual	2021 Actual	2022 Actual	2023 Target	2023 Actual	2024 Target
Financial sustainability							
Revenue	R million	5 731	4 892	5 283	5 440	**5 800**	6 138
EBITDA	R million	3 811	(2 052)	3 719	3 826	**4 863**	4 204
Return on invested capital	%	5,7	(8,5)	7,6	7,9	**11,6**	9,1
EBITDA margin	%	66,5	(41,9)	70,3	70,3	**83,8**	68,5
Operating profit margin	%	44,1	(68,4)	49,1	49,7	**65,4**	49,0
Gearing	%	23,1	21,2	9,1	7,7	**(3,4)**	27,1
Net debt to EBITDA	times	1,9	(2,6)	0,6	0,5	**(0,2)**	1,5
Return on average total assets	%	6,5	(8,6)	6,8	7,0	**9,9**	7,8
Asset turnover – excluding CWIP	times	0,1	0,1	0,1	0,1	**0,2**	0,2
Cash interest cover	times	5,3	6,3	12,7	21,2	**50,6**	5,5
Capacity creation and maintenance							
Capital investment	R million	412	499	330	1 305	**26**	830
Actual vs planned maintenance	%	n/a	n/a	88	90	**83**	85
Production interruptions	hours	312	290	293	438	**231**	385
Operational performance							
Volume and revenue growth							
Total petroleum	Ml	17 764	13 067	15 350	15 432	**15 500**	16 680
Refined	Ml	11 196	9 003	9 792	10 162	**9 677**	10 626
Crude	Ml	5 440	3 679	4 864	4 610	**4 863**	4 910
Avtur	Ml	1 128	385	694	660	**960**	1 144
Gas	million m^3	511	493	527	533	**516**	543
Storage	Ml	634	321	185	362	**97**	650
Capacity utilisation (actual usage:capacity)							
MPP	Ml/week	106:148	81:148	91:148	94:148	**87:148**	95:148
Crude	Ml/week	104:134	71:134	93:134	80:134	**97:134**	81:134
Avtur	Ml/week	22:24	08:24	13:24	08:24	**18:24**	19:24
Electricity efficiency	Ml.km/MWh (year or year percentage improvement)	n/a	n/a	n/a	0,3	**8,9**	0,3
Operating cosr per Ml.m (a)	R/Ml.km	227	1 233	236	259	**136**	283
Gas (actual usage: capacity)	million m^3/month	43:57	41:57	44:57	44:57	**43:57**	45:57
Service delivery							
"Off spec" volumes	litres per billion litres delivered	n/a	n/a	1 024	195 799	**4 622**	186 009
Number "off spec" delivery events per thousand dockets	number	n/a	n/a	0,5	0,3	**0,3**	0,3
Ordered vs delivered volume	%	98	99	99	95	**99**	95
Planned vs actual delivery time	%	89	83	88	91	**87**	91
Sustainable developmental outcomes							
Employment (human capital)							
Training spend	% of personnel cost	2,7	1,5	2,2	3,9	**2,2**	2,5
Employee turnover	%	5,15	5,25	15,5	5,0	**5,4**	5,0
Employment equity	% of black employees	90,96	91,75	92,2	90,0	**93,82**	90,0
Absenteeism index	%	2,1	1,18	1,4	2,5	**1,91**	2,5
Employee headcount	number	675	679	612	677	**648**	751
Female employees	% of headcount	34,37	36,67	37,6	35,0	**38,43**	35,0
People with disabilities	% of headcount	2,07	2,2	2,1	3,0	**2,62**	3,0
Risk, safety and health							
DIFR	rate	0,7	0	0,18	0,75	**0,69**	0,75

FINANCIAL PERFORMANCE REVIEW

Salient features		Year ended 31 march 2023 R million	Year ended 31 march 2022 R million	% change
Revenue	R million	**5 800**	5 283	10%
– Refined		**3 547**	3 208	11%
– Aviation fuel		**82**	46	79%
– Crude		**2 514**	2 330	8%
– Gas		**139**	135	3%
– Handling		**9**	24	(62%)
– Other		**(544)**	(513)	6%
– Clawback and Levy		**53**	53	0%
Operating expenses	R million	**937**	1 564	(40%)
– Energy costs		**332**	279	19%
– Maintenance		**126**	124	2%
– Materials		**2**	3	(40%)
– Personnel costs		**486**	498	(2%)
– Other costs		**(9)**	660	(101%)
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)		**4 863**	3 716	31%
Depreciation, derecognition and amortisation		**1 070**	1 127	(5%)
Profit from operations before items listed below		**3 792**	2 592	46%
Impairments and fair value adjustments		**14**	15	(9%)
Net finance costs		**242**	413	(41%)
Profit before taxation		**3 537**	2 163	63%
Total assets (excluding CWIP)	R million	**38 242**	38 280	0%
Profitability measures				
EBITDA margin *	%	**83,84**	70,34	19%
Operating margin **	%	**60,22**	49,05	23%
Return on average total assets (excluding CWIP)***	%	**9,91**	6,78	46%
Asset turnover (excluding CWIP)****	times	**0,15**	0,14	8%
Capital investments ^	R million	**26,00**	330,29	(92%)
Employees				
Number of employees (permanent)	number	**648**	612	6%
Revenue per employee	R million	**8,95**	8,63	4%

* *EBITDA expressed as a percentage of revenue.*

** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of revenue.*

*** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of average total assets, excluding capital work-in-progress .*

**** *Revenue divided by average total assets excluding capital work in progress.*

^ *Actual capital expenditure (replacement + expansion) excluding borrowing costs and including capitalised finance leases.*

PERFORMANCE COMMENTARY

Financial Sustainability

- Revenue for the year under review increased by 10% to R5,8 billion (2022: R5,3 billion).
- Net operating expenses decreased by 40% to R0,9 billion (2022: R1,6 billion). It should be noted that R882 million relates to a reduction of the environmental provision as a result of its reassessment as per the approved risk-based methodology.
- Consequently, EBITDA increased by 31% to R4,9 billion (2022: R3,7 billion).
- Revenue per employee has also increased by 4% to R9 million (2022: R8,6 million).

Looking ahead

- Pipelines anticipates Revenue to increase by 5,8% to R6,1 billion.
- Pipelines will continue with the Total and Sasol litigation resolution.

Capacity creation and maintenance

- The Division's capital expenditure of R26 million is well below the budget of R1 305 million.
- The deviation in spend was primarily due to resource challenges within the Programme Management Office.
- A key success was the completion of the construction of R-Tanks at Island View in the Port of Durban in December 2022 which was completed within budget. The project was completed as part of the NMPP Phase 1a project.

Looking ahead

- Pipelines has planned capital expenditure of R830 million in 2024.
- The focus for the 2024 year will be the establishment of a Project Management Office to facilitate execution of projects. Furthermore, a detailed plan has been developed to ensure that capital spend is executed as planned and slippages are mitigated.
- The following projects are planned to sustain and create capacity
  - Development of the Coastal Terminal (TM1) in Durban for product accumulation and an import terminal to enable security of fuel supply for existing and new entrants in the petroleum sector.
  - Ensure security of jet fuel supply to OR Tambo International Airport (ORTIA) through the construction of a pipeline from Jameson Park to ORTIA.

Operational performance

Volumes

- The petroleum volumes transported for the period increased by 1% to 15,5 billion litres (2022: 15,35 billion litres).
- Refined volumes were 4,9% below budget. The KZN floods in April 2022 negatively impacted the volumes for that month that Pipelines was unable to fully recover from.
- The product theft incidents caused interruptions on the pipeline operations, however, Pipelines continued to ensure security of fuel supply to the inland market.
- Crude volumes for the year were 5,2% above budget due to higher production at Natref as a result of higher demand.
- Avtur volumes ended the year 45,5% above budget due to the significant recovery in the travel market as COVID-19 restrictions were lifted.
- Pipelines has enabled a new flow for the import of jet fuel from Durban Island View to ORTIA. Jet fuel that is imported via the Port of Durban will be injected into the 24"MPP trunkline and delivered to ORTIA via Jameson Park and Alrode depots.
- Gas volumes were 2% lower than prior year and 2,7% below budget as the pipeline was severely impacted by washaways due to the KZN floods in April 2022.

Capacity utilisation

- The MPP capacity utilisation of 87:148 Ml per week was 4,4% below prior year and 7,4% below budget due to the combination of the floods in April 2022 and the interruptions caused by the product theft incidents on the MPP.
- The crude line capacity utilisation of 97:134 and the avtur line capacity utilisation of 18:24 exceeded both the 2023 targets and the prior year actuals.

Service delivery

- The ordered versus delivered volumes were above budget at 99% versus 95% and on par with prior year performance
- The planned versus the actual delivery times was 87% (2022: 88%) which is below the budget of 91%, mainly due to the product theft incidents that affected the planned delivery times.
- Pipelines' operational cost per megalitre kilometre (Ml.km) of R136 per Ml.km was below the target of R259 per Ml.km and better than the prior year achievement of R236 per Ml.km. The improved performance is due to the reduction in the environmental provision.

Looking ahead

Pipelines' focus for 2024 will be:

- Achieve the 2024 volume targets by improving capacity utilisation and service delivery
- Continue to implement the Pipeline Security Strategy to ensure safe operations and minimise the impact of fuel theft on the operational and financial performances.
- Fast-track the environmental remediation backlog to comply with relevant and applicable environmental legislation while maintaining organisational sustainability.

Sustainable developmental outcomes

Human capital (employment and transformation)

- Pipelines achieved a permanent employee headcount of 648 (Target: 677).
- Black employees represented 94% of the total employee base against a target of 90%.
- Female employees represented 38% of the total employee base against a target of 35%.
- People with disabilities represented 2,6% of the total employee base against a target of 3%.
- The employee turnover rate is 5,4% compared to a target of 5%.
- The Absenteeism Index of 1,9% is lower than the target of 2,5%.

Skills development

- Pipelines achieved a training spend of 2,2% compared to a target of 3,9%.

Health and Safety

- A LTIFR of 0,69 was achieved for the year compared to a target of 0,75.
- Several initiatives that have been put in place to enhance and improve the safety culture, such as the safety culture survey and Visible Leadership. In addition, formal structures have been set up to address critical safety non-conformances.

Quality assurance

- An integrated TIMS audit process has been embedded and 84% of the plan was achieved to ensure compliance to our processes.

Environmental stewardship

- Pipelines' focus for the year was the remediation of the fuel theft sites based on the approved risk-based approach.
- The unprecedented number of incidents from the 2020 financial year continue; however, at a significantly reduced rate. Pipelines has a legal obligation in terms of section 30 of the National Environmental Management Act, No 107 of 1998 to take all reasonable measures to contain and minimise the effects of the incident to reduce the risk to human health and the environment and to remedy the immediate and long-term effects of the incident on the environment and public health.
- Of the 197 sites that required environmental rehabilitation, Pipelines have closed 57 sites in the 2023 financial year.
- A remediation contract has been finalised to ensure that all compliance matters are addressed.

Social accountability

- N/A

RISKS AND MITIGATING ACTIVITIES

The top five risks below were identified during the year under review with appropriate mitigating plans:

Top Risks	Mitigating Activities
Loss of volumes as a result of product theft and the declining economy which are negatively impacting volume and revenue objectives	• Implemented the integrated security strategy to reduce incidents of pipeline theft and ensure uninterrupted fuel supply to the inland market • Developed and implemented volume initiatives to sustain and increase volumes and consequently revenue • Developed and implemented initiatives to introduce new entrants into the market to maximise the infrastructure capacity utilisation and grow revenue
Material payout in terms of the Natref refinery neutrality principle as a result of the court ruling against Pipelines	• Successfully appealed the court ruling against Pipelines on the variation agreement at the Constitutional Court
Increase in irregular expenditure in terms of the Public Finance Management Act (PFMA) due to potential non-compliance with legislation	• Conducted PFMA awareness and training sessions to reduce non-compliance • Monitored compliance to policies and procedures in place to prevent irregular expenditure • Executed procurement governance and internal control assurance to limit irregular expenditure
Adverse impact on Pipelines' reputation and brand due to negative media coverage associated with the theft of product incidents	• Implemented proactive stakeholder engagement sessions to build effective relationships • Implemented integrated security initiatives to reduce fuel theft incidents • Conducted a reputation and brand survey and implemented initiatives to address any gaps identified
Failure of certain parts of the DJP (Sasolburg to Kroonstad and Alrode to OR Tambo International Airport) due to inherent defects in the line	• Conducted regular risk assessments to assess the integrity of the pipelines • Maintained revised operating practices to mitigate the risk of pipeline failure

OPPORTUNITIES

- Being a key player in providing strategic stock solutions for Southern Africa (domestic and import markets)
- Providing subject matter expertise in pipeline operations and maintenance across Africa
- Optimising existing assets – alternative uses for the DJP i.e., redundant assets, etc.
- Being a major role player in the South African natural gas network
- Empowering historically disadvantaged individuals through strategic private sector participation initiatives
- Establishing strategic terminal import connectivity and capability
- Participating as an enabler in the Island View Strategy driven by the National Ports Authority to capture volumes to increase MPP utilisation
- Enabling road and rail distribution from Jameson Park
- Collaborating with pipeline operators on the continent to develop and disseminate best practices
- Providing import infrastructure to enable historically disadvantaged South Africans or new entrants to meaningfully participate in the petroleum and gas sector supply chain
- Developing a Centre of Excellence for training of other pipeline operators
- Forging closer working relationships and partnering with stakeholders, customers, communities, and relevant law enforcement agencies on security of pipeline infrastructure
- Providing advanced innovative digital solutions to customers to improve efficiencies

ABBREVIATIONS

CWIP	capital work in progress
DIFR	Disabling injury frequency rate
DJP	Durban to Johannesburg Pipeline
ED	Enterprise development
EMS	Environmental Management System
LNG	Liquefied natural gas
MPP	Multi Product Pipeline
Nersa	National Energy Regulator of South Africa
ORTIA	OR Tambo International Airport
ROTA	Return on total average assets
SADC	Southern Africa Development Community
SMMEs	Small, medium and micro enterprises