TRANSNET

pipelines

TRANSNET PIPELINES 2024

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TRANSNET

delivering freight reliably pipelines

HIGHLIGHTS

Revenue improved by **15%** to **R6,7 billion**, from **R5,8 billion** in the 2023/24FY.

Avtur (jet fuel) volumes grew by **17%** to **1.1 billion** litres, as the travel market made a full recovery from the impacts of the COVID-19 pandemic.

Pipelines achieved a **52%** reduction in fuel theft incidents.

BUSINESS OVERVIEW

Transnet Pipelines (Pipelines) is Southern Africa's largest multi-product pipeline operator, managing a 3 114 km high-pressure petroleum and gas network for over 55 years. Its core mandate is to ensure petroleum security of supply for the inland market and gas security of supply for KwaZulu-Natal using environmentally responsible methods, while maximising efficiency. Strategically positioned, Pipelines facilitates regional integration with other transportation modes. Pipelines is regulated by the National Energy Regulator of South Africa (Nersa).

Pipelines provides customers with a world-class, fully integrated, cost-efficient multi-product hydrocarbon pipeline supply chain management service from source to destination. It transports crude oil, refined petroleum products (two grades of unleaded petrol: ULP 93 and ULP 95, and two grades of diesel: D50 and D10), aviation turbine fuel (avtur/jet fuel), and methane-rich gas through an underground network of high-pressure petroleum and gas pipelines. This network connects the Port of Durban and inland refineries to our customers' distribution depots throughout South Africa's industrial heartland and KwaZulu-Natal.

The network traverses five provinces (KwaZulu-Natal, Free State, Mpumalanga, Gauteng and North West) and includes a strategic inland accumulation facility in Jameson Park, Gauteng (TM2) with a capacity of 180 million litres, ensuring security of supply to the inland economic hub and surrounding areas. It also features a 29 million litre tank farm in Tarlton for storage and distribution via rail and road. Pipelines is set to begin work on the construction of the Coastal Terminal development at Island View in the Port of Durban in 2024. An integrated rail and pipeline service currently supplies jet fuel to OR Tambo International Airport, ensuring a consistent supply from coastal and inland storage points.

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

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;
- More than 500 million cubic metres per annum of methane-rich gas to KwaZulu-Natal from Secunda; and
- 100% of Tarlton Storage and Handling Terminal volumes, of which 60% is distributed over-border.

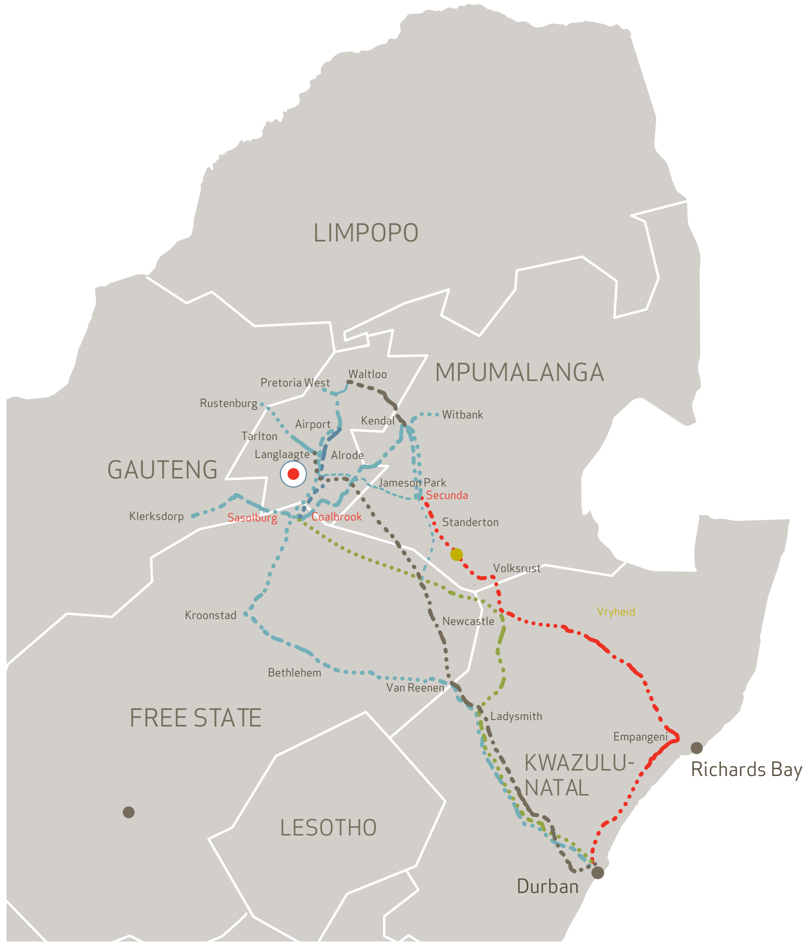
Pipelines' key strategic objectives align with the Transnet Liquid Fuels Master Plan to enable:

- The expected increase in fuel imports, as per recent developments regarding the future of local refineries, which will be enabled and facilitated by the construction of the coastal terminal development, which consists of an accumulation facility and fuel import terminal, as well as existing capacity on the 24" Multi-product pipeline (MPP);
- New market participants, in line with the Liquid Fuels Charter, which promotes Broad-Based Black Economic Empowerment and transformation in the sector; and
- 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

Pipelines is well-positioned to facilitate the Transnet Natural Gas Network Strategy, which aligns with the country's energy needs in partnership with relevant state-owned entities and stakeholders. The plan leverages existing infrastructure to expand the natural gas supply chain logistics network through collaboration with the private sector and other state-owned companies. The key objective is to develop, finance, construct, operate and maintain midstream liquefied natural gas (LNG) infrastructure to enable the import of LNG. Pipelines has partnered with Vopak Proprietary Limited to successfully bid for the National Ports Authority's Request for Proposal to build and operate an LNG terminal in the port of Richards Bay.

WHERE WE OPERATE

Figure 1: Pipelines' geographic locations



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 approval through licensing. Maintaining these licences is crucial for its ongoing operations, making regulatory certainty and sustainability central to Pipelines' mandate.

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

- 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 matters are critical from a regulatory perspective, evidenced by the numerous legislative requirements in these areas. Compliance with enforcement directives from Government departments and regulatory agencies, such as the Departments of Labour, Mineral Resources and Energy, Forestry, Fisheries and the Environment, Health, the Competition Commission, and the Railway Safety Regulator, is essential. 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

In the 2024 financial year, Pipelines achieved positive revenue which is up 15% year-on-year, surpassing the budget by 9%. Operating expenses were above budget due to a litigious claim which resulted in EBITDA being 100% below budget in the 2024 financial year. Despite a 2% decline in total petroleum volumes due to decreased demand in the third and fourth quarters of 2024FY, storage and gas volumes increased by 70% and 6%, respectively.

Pipelines also made significant strides in reducing fuel theft incidents, achieving a 52% reduction from 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 for the year. Furthermore, product loss due to theft decreased by 48% compared to the previous year.

TRANSNET PIPELINES

CORE INITIATIVES

Pipelines' core initiatives for the 2024 financial year were as follows:

- Increase revenue by 5.8% to R6.1 billion;
- Volume targets for the 2024 financial year were as follows:
  - Total Petroleum volume: 16 680 million litres
  - Gas volume: 543 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; and
- Focus on improving capacity utilisation and service delivery.

OVERVIEW OF KEY PERFORMANCE INDICATORS

To keep Pipelines on track with its objectives, specific Key Performance Indicators (KPIs) have been identified. The following table represents these KPIs, along with their targets and actual performance in each area.

Key performance area and indicator	Unit of measure	2021 Actual	2022 Actual	2023 Actual	2024 Target	2024 Actual	2025 Target
Financial sustainability							
Revenue	R million	4 892	5 283	5 800	6 138	**6 698**	6 793
EBITDA	R million	(2 052)	3 719	4 859	4 204	**(1)**	4 532
Return on invested capital	%	(8,5)	7,6	11,6	9,1	**(4,3)**	10
EBITDA margin	%	(41,9)	70,3	83,8	68,5	**(0,0)**	66,7
Operating profit margin	%	(68,4	49,1	65,4	49,0	**(18,7)**	49,4
Capacity creation and maintenance							
Capital investment	R million	499	330	26	830	**119**	973
Actual vs planned maintenance	%	n/a	88	83	85	**94**	90
Production interruptions	hours	290	293	231	385	**551**	380
Operational performance							
Volume and revenue growth							
Total petroleum	Ml	13 067	15 350	15 500	16 680	**15 191**	16 000
Refined	Ml	9 003	9 792	9 677	10 626	**9 505**	10 350
Crude	Ml	3 679	4 864	4 863	4 910	**4 567**	4 510
Avtur	Ml	385	694	960	1 144	**1 118**	1 140
Gas	million m³	493	527	516	543	**546**	552
Storage	Ml	321	185	97	650	**165**	294
Capacity utilisation (actual usage:capacity)							
MPP	Ml/week	81:148	91:148	87:148	95:148	**97:148**	104:148
Crude	Ml/week	71:134	93:134	97:134	81:134	**88:134**	86:134
Avtur	Ml/week	8:24	13:24	18:24	19:24	**18:24**	17:24
Gas (actual usage: capacity)	million m³/month	41:57	44:57	43:57	45:57	**45:57**	46:57
Operating cosr per Ml.m (a)	R/Ml.km	1 233	236	136	283	**282**	300
Electricity efficiency	Ml.km/MWh (year or year percentage improvement)	n/a	n/a	8,9	0,3	**(2,8)**	0,3
Service delivery							
Ordered vs delivered volume	%	99	99	99	95	**95**	95
Planned vs actual delivery time	%	83	88	87	91	**88**	91
Sustainable developmental outcomes							
Employment (human capital)							
Training spend	% of personnel cost	1,5	2,2	2,2	3,9	**2,7**	2,5
Employee turnover	%	5,25	15,5	5,4	5,0	**9,07**	5
Employment equity	% of black employees	91,75	92,2	93,62	90,0	**94,06**	n/a
Absenteeism index	%	1,18	1,4	1,91	2,5	**1,99**	2,5
Employee headcount	number	679	612	648	751	**690**	709
Female employees	% of headcount	36,67	37,6	38,43	34,5	**40,31**	n/a
People with disabilities	% of headcount	2,2	2,1	2,62	3,0	**2,5**	3
Risk, safety and health							
LTIFR	rate	0	0,18	0,43	0,75	**1,39**	0,75

FINANCIAL PERFORMANCE REVIEW

Salient features		Year ended 31 March 2024 R million	Year ended 31 March 2023 R million	% change
Revenue		**6 698**	5 800	15%
– Refined		**3 739**	3 547	5%
– Aviation fuel		**191**	82	132%
– Crude		**2 575**	2 514	2%
– Gas		**157**	139	13%
– Handling		**25**	9	173%
– Other		**(42)**	(544)	(92%)
– Clawback and Levy		**53**	53	0%
Operating expenses		**6 699**	941	612%
– Energy costs		**383**	332	15%
– Maintenance		**125**	126	0%
– Materials		**14**	2	608%
– Personnel costs		**536**	487	10%
– Other costs		**5 640**	(6)	(89 079%)
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)		**(1)**	4 859	(100%)
Depreciation, derecognition and amortisation		**1 252**	1 070	17%
Profit from operations before items listed below		**(1 253)**	3 789	(133%)
Impairments and fair value adjustments		**51**	14	277%
Net finance costs		**26**	242	(89%)
Profit before taxation		**(1 330)**	3 533	(138%)
Total assets (excluding CWIP)		**37 420**	38 242	(2%)
Profitability measures				
EBITDA margin *	%	**(0,0)**	83,8	(100%)
Operating margin **	%	**(18,7)**	65,3	(129%)
Return on average total assets (excluding CWIP) ***	%	**(3,3)**	9,9	(133%)
Asset turnover (excluding CWIP) ****	times	**0,18**	0,15	17%
Capital investments^		**119,09**	26,00	358%
Employees				
Number of employees (permanent)	number	**640**	648	(1%)
Revenue per employee		**10,47**	8,95	17%

* *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 increased by 15% to R6.7 billion in 2024 (from R5.8 billion in 2023), which was positively impacted by the higher volumes transported from the coast and the increase in the allowable revenue granted by Nersa.
- Net operating expenses increased by 612% to R6.7 billion in 2024 (up from R0.9 billion in 2023). The increase in cost is mainly attributable to the litigious claim emanating from a court judgement received on 18 June 2024. This was partially offset by a reduction in the environmental provision based on an assessment of the remediation activities to be undertaken on sites impacted by product theft.
- Consequently, EBITDA declined by 100% to a loss of R1 million 2024 (from R4.9 billion in 2023).
- Revenue per employee increased by 17% to R10 million (up from R9 million in 2023).

Looking ahead

- Pipelines anticipates Revenue to increase by 1.4% to R6.8 billion in 2025.
- Pipelines will continue with the Total and Sasol litigation resolution.

CAPACITY CREATION AND MAINTENANCE

- Capital expenditure for the division rose to R116 million (up from R26 million in 2023), though it remained significantly below the R830 million budget.
- The lower spending is primarily due to delays in scheduled project activities, leading to underspending across multiple projects.
- In 2024, the New Multi-Product Pipeline (NMPP) Phase 1A project was completed and closed, while Phase 1B entered its execution phase. This phase includes constructing a product accumulation facility in the Port of Durban.

Looking ahead

- Pipelines has planned capital expenditure of R973 million in 2025.
- The focus for the 2025 financial year is to ensure schedules are managed and project execution risks mitigated in order to achieve capital spend timeously.
- The key projects planned to sustain and create capacity include:
  - 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 decreased by 2% to 15.1 billion litres (from 15.5 billion litres in 2023).
- Refined volumes reduced by 2% to 9.5 billion litres in 2024, due to lower demand and quality challenges experienced during the year.
- Crude volumes declined by 6% to 4.6 billion litres in 2024 mainly as a result of the Natref maintenance shutdown in May/June 2023.
- Avtur volumes rebounded to pre-pandemic levels, rising 17% to 1.1 billion litres in 2024. Volumes were positively impacted by a new flow for the import of jet fuel from Durban to ORTIA. Jet fuel imported through the Port of Durban was injected into the 24"MPP trunkline and delivered to ORTIA via the Jameson Park and Alrode depots.
- Storage volume improved by 70% to 165 million litres, due to the resumption of exports from the Tarlton Storage and Handling facility.
- Gas volumes increased by 6% to 546 million m^3 in 2024 (from 516 million m^3 in 2023).

CAPACITY UTILISATION

- The MPP capacity utilisation of 97 million litres per week was 12% above the prior year and 3% above budget.
- The crude line capacity utilisation of 88:134 and the avtur line capacity utilisation of 18:24 exceeded their respective 2024 targets.

SERVICE DELIVERY

- Pipelines ordered versus delivered volumes achieved the budget of 95% although this was slightly lower than the prior year's performance.
- The planned versus actual delivery times improved marginally to 88% (from 87% in 2023), although this is below the budget of 91%, mainly due to quality challenges and production interruptions that affected the planned delivery times.
- Pipelines' operational cost per megalitre kilometre (Ml.km) of R282 per Ml.km is within the target of R283 per Ml.km.

Looking ahead

Pipelines' focus for 2025 will be:

- Achieve the 2025 volume targets by focusing on volume growth initiatives, as well as improving capacity utilisation and service delivery.
- Continue to implement the Pipeline Security Strategy, including preventative security initiatives, 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 an employee headcount of **690** against a target of 751.
- Black employees represented **94%** of the total employee base against a target of 90%.
- Female employees represented **40%** of the total employee base against a target of 34.5%.
- People with disabilities represented **2.5%** of the total employee base against a target of 3%.
- The employee turnover rate is **9%** compared to a target of 5%.
- The absenteeism rate of **2%** is lower than the target of 2.5%.

SKILLS DEVELOPMENT

- Pipelines achieved a training spend of **2.7%** compared to the prior year actual of 2.2%.

HEALTH AND SAFETY

- A LTIFR of 1.40 was achieved for the year compared to a target of 0.75, due to an increase in the number of injuries sustained in 2024FY.
- Several initiatives have been put in place to enhance and improve the safety culture, such as:
  - Engagements with safety representatives to empower them in identifying potential hazards;
  - Implementation of awareness campaigns; and
  - Execution of visible leadership across the division.

ENVIRONMENTAL STEWARDSHIP

- Pipelines' prioritised closing and rehabilitating high-risk environmental sites this year.
- Although incidents from the 2023 financial year persist, these occur at a much lower rate. According to section 30 of the National Environmental Management Act, No 107 of 1998, Pipelines is legally obligated 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 227 environmental incidents that have occurred since 2019, only 26 sites require rehabilitation and only three require full rehabilitation.

KEY RISKS AND MITIGATING ACTIVITIES

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

Top Risks	Mitigating Activities
1 Deteriorated and aged fire equipment leading to an inability to adequately respond to fire emergencies.	• A business case was approved to upgrade Pipelines' fire systems, to replace the existing deteriorated and aged equipment at critical sites. • Fire equipment was restored to full working order at Twini, Hilltop and Mnambithi booster stations by resolving intercooler issues. • Emergency response fire equipment is being procured to ensure Pipelines can effectively respond to fire emergencies.
2 Theft of product from Pipelines' infrastructure, resulting in loss of volume and environmental pollution due to product spillages.	• Robust, predictive security deployment strategies have been implemented, using tactical ground teams and air support (helicopters and drones) teams to prevent pipeline breaches and reduce product theft. • Supplier performance is being managed in line with the strategy to ensure Pipelines' security service providers are protecting the pipeline effectively.
3 Environmental pollution to the air, ground, and water, leading to reputational damage and possible penalties/claims.	• Implemented pipeline security initiatives to reduce product theft and resultant environmental spillages. • Specialist environmental officers were appointed to manage Pipelines' response to incidents effectively.
4 Non-execution of statutory and outcome-based modular learning training requirements, which impacts compliance with legislation and affects employee morale.	• Service level agreements were implemented to support the monitoring of training execution against training requests. • A statutory training roadmap was developed to ensure full compliance.
5 The adverse impact on Pipelines' reputation and brand, due to unsatisfied stakeholders and negative media coverage.	• A fuel theft and encroachment awareness campaign was rolled-out to mitigate against reputational damage from production interruptions due to incidents on the pipeline. • Strategic account management protocols were entrenched with customers to proactively manage customer concerns, expectations, and communication.

OPPORTUNITIES

- Playing a key role in providing strategic stock solutions for Southern Africa's domestic and import markets.
- Providing subject matter expertise in pipeline operations and maintenance across Africa.
- Optimising existing assets, including finding alternative uses for the DJP and other redundant assets.
- 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 the security of pipeline infrastructure.
- Providing advanced innovative digital solutions to customers to improve efficiencies.
- Being a major role player in the South African natural gas network.
- Providing enabling infrastructure for the transition to LNG and greener fuels.

ACRONYMS

DJP	Durban to Johannesburg Pipeline
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
LNG	Liquefied Natural Gas
MPP	Multi-product Pipeline
NMPP	New Multi-Product Pipeline
ORTIA	OR Tambo International Airport

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