TRANSNET

PIPELINES REPORT **2022**

Contents

Highlights

Revenue increased by **8%** to **R5,283 billion**.

EBITDA increased by **281%** to **R3,719 billion**.

Achieved an **LTIFR** of **0,18** against a target of **0,75**.

Business overview

Transnet Pipelines (Pipelines) is the largest multi-product pipeline operator in southern Africa, with more than 55 years' experience in operating and maintaining a high-pressure petroleum and gas pipeline network in South Africa totalling 3 114 km. 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 optimal efficiencies. Pipelines is regulated by the National Energy Regulator of South Africa (Nersa) and is strategically positioned to enable regional integration from pipelines to other modes of transport.

Pipelines currently transports:

- More than 80% (up from 70% in 2021) of all refined products to 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 (Natref);
- 500 million cubic metres per annum of methane-rich gas requirements to KwaZulu-Natal from Secunda; and
- 100% of Tarlton Distribution Terminal volumes, of which 60% (up from 35% in 2021) is distributed over-border.

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 emphasise 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).

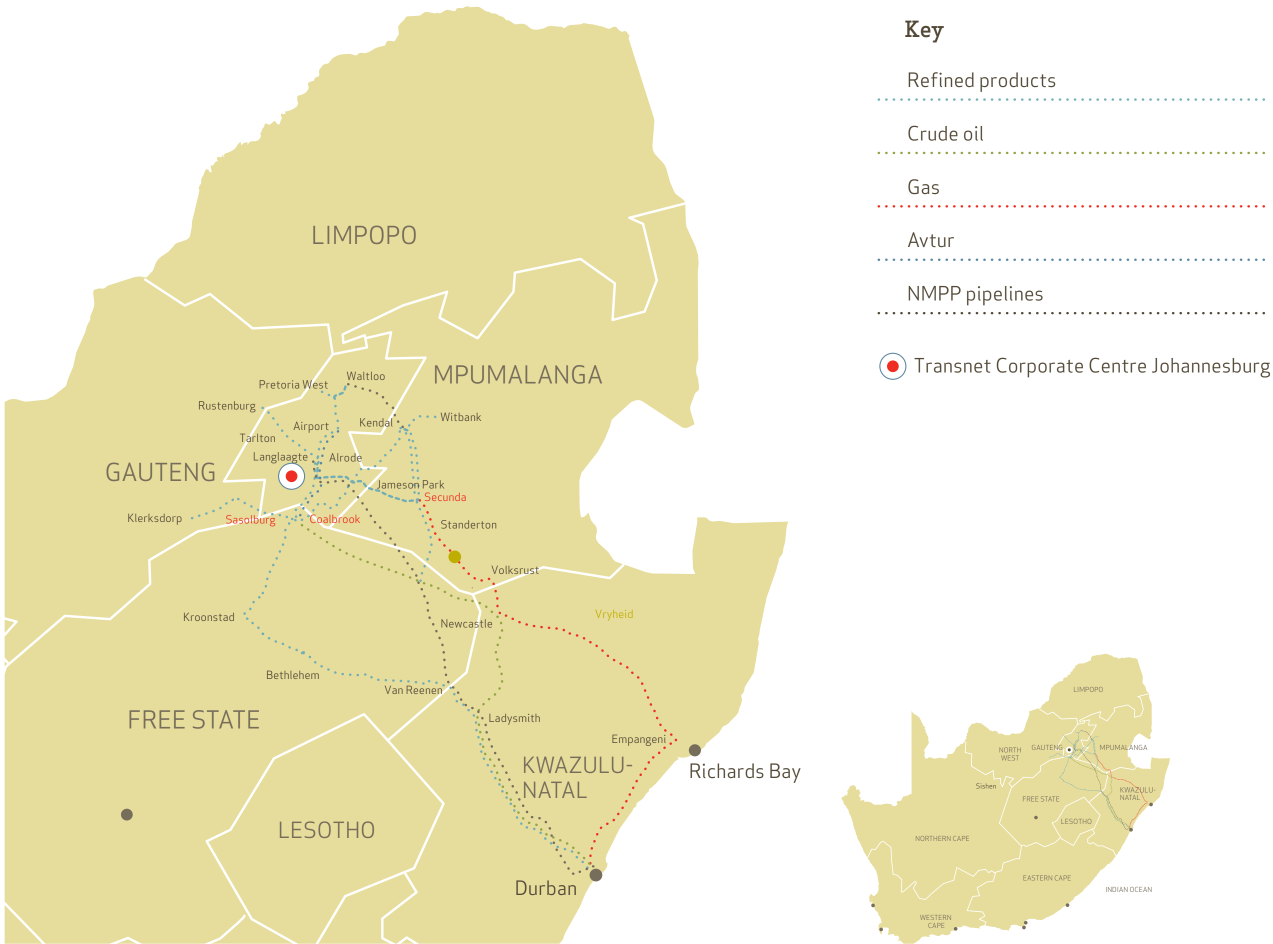
The decommissioning of the Durban to Johannesburg Pipeline (DJP) is in progress and the displacement and cleaning of the main line is estimated to be completed by May 2022. The latest approved completion date for the remaining activities of the project is 2029. Based on the outcomes of the current studies, the DJP servitude from Durban to Kroonstad will be retained for potential future use. The MPP trunk line has a current capacity of 148 million litres (Ml) per week and 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 with a capacity of 180 Ml is in the strategic node of Jameson Park, Gauteng (TM2) and facilitates security of supply to the inland economic hub and surrounding areas.

A seamless integrated rail and pipeline service offering is currently in operation to OR Tambo International Airport to ensure jet fuel security of supply.

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 by utilising the existing infrastructure as a base to grow the natural gas supply chain logistics network in collaboration with the private sector and other state-owned companies. The key objective is to develop, finance, construct, operate and maintain a liquified natural gas (LNG) midstream infrastructure to enable the import of LNG into the ports of Richards Bay and Ngqura.

Where we operate

Figure 1: Pipelines' geographic locations



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.

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

- Licence to operate a petroleum pipeline system
- Storage
- Gas transmission
- 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 numerous 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 (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

Core initiatives

- Fast-track and monitor identified back-to-basic initiatives
- Optimise maintenance in collaboration with Transnet Engineering
- Transition into an LNG energy company

Overview of key performance indicators

Key performance area and indicator	Unit of measure	2020 Actual	2021 Actual	2022 Target	**2022 Actual**	2023 Target
Financial sustainability						
Revenue	R million	5 731	4 892	4 986	**5 283**	5 440
EBITDA	R million	3 811	(2 052)	3 576	**3 719**	3 826
Return on invested capital	%	5,7	(8,5	5,6	**7,6**	7,9
EBITDA margin	%	66,5	(41,9)	71,7	**70,3**	70,3
Operating profit margin	%	44,1	(68,4)	45,5	**49,1**	49,7
Gearing	%	23,1	21,2	7,4	**9,1**	7,7
Net debt to EBITDA	times	1,9	(2,6)	0,60	**0,60**	0,50
Return on average total assets	%	6,5	(8,6)	6	**6,8**	7
Asset turnover – excluding CWIP	times	0,1	0,1	0,13	**0,14**	0,14
Cash interest cover	times	5,3	6,3	9,8	**12,7**	21,2
Capacity creation and maintenance						
Capital investment	R million	412	499	891	**330**	1 305
Actual vs planned maintenance	%	n/a	n/a	90	**88**	90
Production interruptions	hours	312	290	438	**293**	438
Operational performance						
Volume and revenue growth						
Total petroleum	Mℓ	17 764	13 067	15850	**15 350**	15 432
Refined	Mℓ	11 196	9 003	10302	**9 792**	10 162
Crude	Mℓ	5 440	3 679	4510	**4 864**	4 610
Avtur	Mℓ	1 128	385	1038	**694**	660
Gas	million m³	511	493	520	**527**	533
Storage	Mℓ	634	321	583	**185**	362
Capacity utilisation (actual usage: capacity)						
DJP and NMPP	Mℓ/week	106:148	81:148	95:148	**91:148**	94:148
Crude	Mℓ/week	104:134	71:134	87:134	**93:134**	80:134
Avtur	Mℓ/week	22:24	08:24	20:24	**13:24**	08:24
Electricity and fuel efficiency	Mℓ.km/MWh (year-on-year percentage improvement)	n/a	n/a	n/a	**n/a**	07:12
Operating cost per Mℓ.m (a)	R/Mℓ.km	227	1233	215	**236**	259
Gas (actual usage: capacity)	million m³/month	43:57:00	41:57:00			
Service delivery						
‘Off spec’ volumes	litres per billion delivered	n/a	n/a	206 105	**1 024**	195 799
Number ‘off spec’ delivery events per thousand dockets	number	n/a	n/a	0,3	**0,5**	0,3
Ordered vs delivered volume	%	98	99	95	**99**	95
Planned vs actual delivery time	%	89	83	91	**88**	91
Sustainable developmental outcomes						
Employment (human capital)						
Training spend	% of personnel cost	2,7	1,5	3,8	**2,2**	3,9
Employee turnover	%	5,15	5,25	5,0	**15,49**	5
Employment equity	% of black employees	90,96	91,75	90,0	**92,2**	90
Absenteeism index	%	2,1	1,18	2,5	**1,41**	2,5
Employee headcount	number	675	679	713	**612**	677
Female employees	% of headcount	34,37	36,67	35,0	**37,6**	35
People with disabilities	% of headcount	2,07	2,2	3,0	**2,12**	3
Risk, safety and health						
DIFR/Lost time injury frequency rate	rate/index	0,7	0	0,75	**0,18**	0,75

Financial performance review

Salient features		Year ended 31 March 2022 R million	Year ended 31 March 2021 R million	% change
Revenue		**5 283**	4 892	8
– Refined		**3 208**	2 898	10,7
– Aviation fuel		**46**	26	76,3
– Crude		**2 330**	1 757	32,6
– Gas		**135**	121	11,5
– Handling		**24**	31	(23,1)
– Other		**(513)**	7	(7 424,5)
– Clawback and levy		**53**	53	(0,2)
Operating expenses		**1 564**	6 944	(77,4)
– Energy costs		**279**	237	17,9
– Maintenance		**124**	161	(23,2)
– Materials		**3**	43	(92,3)
– Personnel costs		**498**	468	6,2
– Other		**660**	6 035	(89)
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)		**3 719**	(2 052)	(281,1)
Depreciation, derecognition and amortisation		**1 127**	1 294	(13,1)
Profit from operations before items listed below		**2 592**	(3 346)	177,5
Impairments and fair value adjustments		**15**	93	(83,8)
Net finance costs		**413**	527	(21,6)
Profit before taxation		**2 163**	(3 966)	154,6
Total assets (excluding CWIP)		**38 280**	38 120	0,4
Profitability measures				
EBITDA margin[1]	%	**70,34**	(41,95)	267,7
Operating margin[2]	%	**49,05**	(68,39)	171,7
Return on total average assets (excluding CWIP)[3]	%	**6,78**	(8,65)	178,4
Asset turnover (excluding CWIP)[4]	times	**0,14**	0,13	6,4
Capital investments[5]	R million	**330**	499	(33,8)
Employees				
Permanent employees	number	**612**	679	(9,9)
Revenue per employee	R million	**9**	7,2	19,9

1 *EBITDA expressed as a percentage of revenue.*

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

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

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

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

Performance commentary

Financial sustainability

- Revenue increased by 8% to R5,3 billion (2021: R4,9 billion).
- Net operating expenses decreased by 77,4% to R1,6 billion (2021: R6,9 billion). It should be noted that the prior year expenditure was negatively impacted by the recognition of litigious claims and environmental provisions relating to product spillage as a result of product theft incidents. In the current year, the environmental provision was reassessed based on the approved risk-based methodology which resulted in a decrease of approximately R400 million in the provision.
- Consequently, EBITDA is 281,1% higher at R3,7 billion (2021: R2,1 billion loss).

Looking ahead

- Pipelines will continue with the Total and Sasol litigation resolution.
- Pipelines intends to continue with the reassessment of environmental provisions based on the approved risk-based methodology.

Capacity creation and maintenance

- Pipelines' capital expenditure spend of R330 million is below the budget of R891 million.
- The deviation in spend was due to resource challenges within the department

Looking ahead

- The focus for the 2023 year will be the establishment of a Project Management Office to facilitate execution of projects.
- Develop TM1 Coastal Terminal (Durban) to address security of fuel supply imperatives.

Operational performance

Volumes

- The petroleum volumes of 15,35 billion litres for the year were 17,8% higher than prior year and 3,2% below budget.
- The higher volumes against prior year can be attributed to the relaxation of the strict lockdown levels which led to the staggered opening of the various economic sectors, however, there is still a negative impact on the economy due the pandemic.
- The product theft incidents caused interruptions on the pipeline operations, but Pipelines continued to ensure security of fuel supply to the inland market.

Capacity utilisation

- The MPP capacity utilisation of 91,148 Ml per week was 12% above prior year and 4,4% below budget due to the combination of the negative impact of the COVID-19 lockdown on the economy that resulted in low demand and the interruptions caused by the product theft incidents on the MPP.
- Gas volumes were 6,9% higher than prior year and 1,3% higher than budget.

Service delivery

- The ordered versus delivered volumes were above budget at 98,9% versus 95% and on par with prior year performance.
- The planned versus the actual delivery times was above prior year at 88,3% (2021: 83,2%) but 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 R270 Mℓ.km was achieved, which is higher than the target of R215 Mℓ.km, but better than the prior year achievement of R1 233 Mℓ.km. The improved megalitre kilometre is due to the reduction in fuel theft incidents and the associated environmental provisions.

Looking ahead

- The focus will be to implement the Pipeline Security Strategy to ensure safe operations and minimise the impact of fuel theft on the operational and financial performances.
- Pipelines will 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' permanent employee headcount was 612 (target: 713).
- Training spend for Pipelines of 2,2%.
- Black employees represented 92,28% of the total employee base against a target of 90%.
- Female employees represented 37,58% of the total employee base against a target of 35%.
- People with disabilities represented 2,12% of the total employee base against a target of 3%.
- The employee turnover rate is 15,49% compared to a target of 5%.
- The absenteeism index of 1,41% is lower than the target of 2,5%.

Health and safety

- LTIFR of 0,18 was achieved for the year compared to a target of 0,75.

Quality assurance

- An integrated TIMS audit process has been implemented and 50% of the plan was achieved despite the lockdown regulations and challenges.

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 during the 2020 financial year resulted in environmental contamination as a result of spillage of product in the area where the thefts occurred. 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.

Social accountability

- N/A

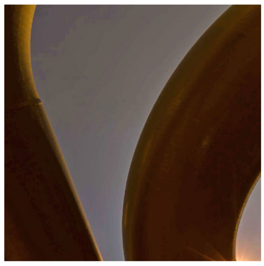
Risks and mitigating activities

The top four risks listed in the table below were identified during the year under review with appropriate mitigating plans.

Key risks	Mitigating activities
Loss of volumes	• Leadership support in developing a coastal terminal for TFIT • Joint investment framework to roll out the PSP • Obtain a SARS SOS licence to prevent further loss of export volumes at Tarlton
Failure to deliver capex projects	• Management of contractors • Capacitating the Project Management Office and CI department
Reputational and brand risk due to product theft	• Improved tactical teams on the ground and air support (i.e. drones) • Install concrete lids on the NMPP line BVs and intrusion detection (Proof of Concept) • Product Theft Task Team committee has been established to propose solutions to resolve product theft
Fire due to ageing equipment and an unreliable external emergency response	• Established Joint Planning Committee (JPC) forums and disaster management forums to address the challenge of local authorities not being sufficiently capacitated to handle petro chemical incidents, resulting in delayed response times (i.e. unreliable and no response) • Identity resource requirements to capacitate Pipelines' internal firefighting teams to respond effectively to emergencies

Opportunities

- Develop, finance, construct, operate and maintain LNG midstream infrastructure to enable the import of LNGs into the ports of Richards Bay and Ngqura.
- Offer seamless integrated rail and pipeline services to customers at OR Tambo International Airport to ensure jet fuel security of supply.
- Provide import infrastructure to enable historically disadvantaged South Africans or new entrants to meaningfully participate in the petroleum and gas sector supply chain.
- Forge closer working relationships and partner with stakeholders, customers, communities and relevant law enforcement agencies on security of pipeline infrastructure.
- Provide solutions to the SADEC on strategic stock storage and handling.



Abbreviations and acronyms

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
ROTA	Return on total average assets
SADC	Southern Africa Development Community
SMMEs	Small, medium and micro enterprises