Navigating this report

**Icons key**

**Market Demand Strategy (MDS)**

- Financial sustainability
- Capacity creation and maintenance
- Market segment competitiveness
- Operational excellence
- Human capital management

**Sustainable Developmental Outcomes (SDOs)**

- Employment
- Skills development
- Industrial capability building
- Investment leveraged
- Regional integration

**The Capitals**

- Financial capital
- Manufactured capital
- Social and relationship capital
- Intellectual capital
- Natural capital

**Performance Key**

- Improvement on prior year performance
- Decline on prior year performance
- Equivalent performance to prior year

**Material clusters**

- Agile
- Admired
- Digital
- United

**MDS strategic thrusts**

- Build social trust through ethical leadership and corporate citizenship
- Unlock organisational value by attracting talent, fostering innovation and building unity
- Ensure long-term financial stability in a tough economy
- Ensure customer-centricity and build partnerships for sustainable growth
- Promote transformation and growth in the wider South African economy
PIPPINES

Highlights

- Gas volumes transported exceeded target by 6.6%, reaching 595 million m³ against a target of 558 million m³.
- Revenue, excluding clawback and levy at R4.36 billion, is 9.5% above the target of R3.98 billion.
- The EBITDA margin of 77.5% exceeded the target of 71.6%.
- EBITDA exceeded the target of

Operating costs of R119 per Mℓ/ km were achieved against a target of R148 per Mℓ/km.

Revenue at R4.36 billion.

Pipelines achieved a DIFR of 0.37 against a target of 0.70.

Pipelines achieved Top Employer certification.

Transnet Pipelines achieved Top Employer certification in the 2017 financial year.
Business overview

Transnet Pipelines (TPL) is a major transporter of multi-product hydrocarbon and methane-rich gas through a network of 3,800km of pipelines. TPL transports refined products from coastal refineries and crude oil imports to the inland market, as well as gas from Secunda to industrial users in KwaZulu-Natal. Additionally, cross-border deliveries are facilitated by a storage and handling facility at Tarlton.

The Division offers a fully integrated, cost-efficient supply chain management service, from source to destination while ensuring that safety, reliability, and consistency are upheld. To this effect, Pipelines currently transports:

- More than 65% of all refined products required for the inland market.
- More than 70% of all jet fuel required at OR Tambo International Airport (ORTIA).
- 100% of the crude requirements for the Natref Refinery.
- 100% of the methane-rich gas requirements to KwaZulu-Natal for Sasol Energy and its gas clients.
Petroleum and gas pipeline network

Key
- Refined products
- Crude oil
- Gas
- Avtur
- NMPP pipelines
On 30 November 2016, Pipelines filed its 2017/18 petroleum tariff application requesting a R3,85 billion allowable revenue requirement, which translated to a 6.83% decrease in allowable revenue compared to the preceding tariff period.

On 23 February 2017, NERSA granted Pipelines a 1.43% increase in allowable revenue compared to the prior tariff period.

TPL is currently awaiting the gas tariff determination from NERSA.

To address challenges on the New Multi-Product Pipeline (NMPP) project, an amendment to the construction license has been granted by NERSA to reflect the following Ability to Operate Dates:
- Inland Terminal (TM2): 30 November 2017;
- Coastal Terminal (TM1), excluding tanks: 30 November 2017 for a multi-product solution; and
- Coastal Terminal including accumulation tanks: 1 June 2019.

TPL is regulated by the National Energy Regulator of South Africa (NERSA), and governed by the Petroleum Pipelines Act (No. 60 of 2003), and the Gas Act (No. 48 of 2001).
This role will be carefully managed during the next year with existing infrastructure, while the inland accumulation facility and coastal tight-lining projects are completed. However, delays in bringing these facilities into operation trigger challenges in keeping the market supplied during the planned maintenance shutdown of the inland crude refinery, with an expected reduction in the inland market supply.

In light of the current challenging local and global economic environment, Pipelines has achieved favourable operational results for the year.

TPL creates value by fulfilling a strategic role in the South African logistical fuel supply chain, by making pipeline capacity available ahead of demand, thereby facilitating the supply of product to the inland market.
Core initiatives for 2017

**Achieve target**
- Achieve the petroleum volume target of 17.3 billion litres.

**Performance**
- Ensure that financial performance targets are achieved in a challenging economic environment.

**Implementation**
- Achieve the multi-product operation of the NMPP trunkline by implementing tightlining and completing the inland accumulation facility.

**Ongoing use**
- The ongoing use of the Durban to Johannesburg Pipeline (DJP) until the NMPP is in multi-product operation.

**Maintain**
- Maintain and improve on key operational efficiency measures.

**Increase gas**
- Increase gas volume throughput.

**Execute capital**
- Execute capital expenditure of R2.4 billion inclusive of NMPP.
## Overview of key performance indicators

<table>
<thead>
<tr>
<th>Key performance area and indicator</th>
<th>Unit of measure</th>
<th>2016 Actual</th>
<th>2017 Target</th>
<th>2017 Actual</th>
<th>2018 Target</th>
</tr>
</thead>
</table>

### Financial sustainability

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA margin %</td>
<td></td>
<td>71.6</td>
<td>71.6</td>
<td>77.5</td>
<td>71.5</td>
</tr>
<tr>
<td>Operating profit margin %</td>
<td></td>
<td>51.1</td>
<td>49.2</td>
<td>57.3</td>
<td>20.9</td>
</tr>
<tr>
<td>Gearing %</td>
<td></td>
<td>44.71</td>
<td>44.34</td>
<td>40.99</td>
<td>41.13</td>
</tr>
<tr>
<td>Net debt to EBITDA times</td>
<td></td>
<td>5.08</td>
<td>4.96</td>
<td>3.84</td>
<td>4.94</td>
</tr>
<tr>
<td>Return on average total assets - excluding CWIP %</td>
<td></td>
<td>8.58</td>
<td>6.32</td>
<td>10.7</td>
<td>6.28</td>
</tr>
<tr>
<td>Asset turnover - excluding CWIP times</td>
<td></td>
<td>0.17</td>
<td>0.13</td>
<td>0.19</td>
<td>0.12</td>
</tr>
<tr>
<td>Cash interest cover times</td>
<td></td>
<td>1.69</td>
<td>1.97</td>
<td>2.61</td>
<td>1.93</td>
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</table>

### Capacity creation and maintenance

#### Infrastructure and maintenance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditure R million</td>
<td></td>
<td>1 550</td>
<td>2 412</td>
<td>1 706</td>
<td>2 216</td>
</tr>
<tr>
<td>Actual vs planned maintenance %</td>
<td></td>
<td>98</td>
<td>90</td>
<td>95</td>
<td>90</td>
</tr>
<tr>
<td>Production interruptions hours</td>
<td></td>
<td>270</td>
<td>438</td>
<td>249</td>
<td>438</td>
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</table>

### Operational excellence

#### Capacity utilisation (actual usage: capacity)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>DJP and NMPP M/week</td>
<td></td>
<td>110.152</td>
<td>119.152</td>
<td>116.152</td>
<td>118.148</td>
</tr>
<tr>
<td>Crude M/week</td>
<td></td>
<td>101.134</td>
<td>87.134</td>
<td>98.134</td>
<td>94.134</td>
</tr>
<tr>
<td>Gas (actual usage: capacity) million m3/month</td>
<td></td>
<td>49.57</td>
<td>50.57</td>
<td>50.57</td>
<td>51.57</td>
</tr>
<tr>
<td>Tank turns times</td>
<td></td>
<td>17.6</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Operating cost per M/km [a] R/M/km</td>
<td></td>
<td>133</td>
<td>148</td>
<td>119</td>
<td>151</td>
</tr>
<tr>
<td>Electricity efficiency M/km/MWh (YTD % improvement)</td>
<td></td>
<td>n/a</td>
<td>0.5</td>
<td>(0.38)</td>
<td>0.5</td>
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</table>

### Service delivery

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Off spec” volumes litres per billion litres delivered</td>
<td></td>
<td>201 611</td>
<td>111 420</td>
<td>253 022</td>
<td>97 330</td>
</tr>
<tr>
<td>Number “off spec” delivery events per thousand dockets number</td>
<td></td>
<td>0.14</td>
<td>0.30</td>
<td>0.30</td>
<td>0.30</td>
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<tr>
<td>Ordered vs delivered volume %</td>
<td></td>
<td>98</td>
<td>95</td>
<td>96</td>
<td>95</td>
</tr>
<tr>
<td>Planned vs actual delivery time %</td>
<td></td>
<td>86</td>
<td>88</td>
<td>86</td>
<td>88</td>
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</tbody>
</table>
Overview of key performance indicators (continued)

<table>
<thead>
<tr>
<th>Key performance area and indicator</th>
<th>Unit of measure</th>
<th>2016 Actual</th>
<th>2017 Target</th>
<th>2017 Actual</th>
<th>2018 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market segment competitiveness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Volume and revenue growth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total petroleum products</td>
<td>Mℓ</td>
<td>17 426</td>
<td>17 312</td>
<td>16 978</td>
<td>17 564</td>
</tr>
<tr>
<td>Refined</td>
<td>Mℓ</td>
<td>10 831</td>
<td>11 765</td>
<td>10 563</td>
<td>11 617</td>
</tr>
<tr>
<td>Crude</td>
<td>Mℓ</td>
<td>5 316</td>
<td>4 510</td>
<td>5 254</td>
<td>4 910</td>
</tr>
<tr>
<td>Avtur</td>
<td>Mℓ</td>
<td>1 79</td>
<td>1 037</td>
<td>1 161</td>
<td>1 037</td>
</tr>
<tr>
<td>Gas</td>
<td>million m³</td>
<td>581</td>
<td>558</td>
<td>595</td>
<td>574</td>
</tr>
<tr>
<td>Storage</td>
<td>Mℓ</td>
<td>497</td>
<td>703</td>
<td>415</td>
<td>511</td>
</tr>
<tr>
<td><strong>Sustainable developmental outcomes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Human capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training spend</td>
<td>% of personnel cost</td>
<td>4.70</td>
<td>3.20</td>
<td>3.30</td>
<td>3.5</td>
</tr>
<tr>
<td>Employee headcount</td>
<td>number</td>
<td>635</td>
<td>701</td>
<td>642</td>
<td>701</td>
</tr>
<tr>
<td>Employment equity</td>
<td>% of black employees</td>
<td>87</td>
<td>80</td>
<td>88</td>
<td>80</td>
</tr>
<tr>
<td>Female employees</td>
<td>% of headcount</td>
<td>33</td>
<td>40</td>
<td>33</td>
<td>40</td>
</tr>
<tr>
<td>People with disabilities</td>
<td>% of headcount</td>
<td>3.15</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Employee turnover</td>
<td>%</td>
<td>6.70</td>
<td>5.0</td>
<td>4.84</td>
<td>5.0</td>
</tr>
<tr>
<td>Absenteeism index</td>
<td>%</td>
<td>1.68</td>
<td>1.90</td>
<td>1.71</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Risk, safety and health</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of risk</td>
<td>% of revenue</td>
<td>5.45</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Number of petroleum spillages per 1 609 km of pipeline</td>
<td>number</td>
<td>8.30</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Number of storage spillages per billion litres of storage capacity</td>
<td>number</td>
<td>426,86</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Number of gas leaks</td>
<td>number</td>
<td>Zero</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>DIFR</td>
<td>rate</td>
<td>0.18</td>
<td>0.70</td>
<td>0.37</td>
<td>0.68</td>
</tr>
<tr>
<td>Number of level 1 non-compliance incidents to operating license per year</td>
<td>number</td>
<td>Zero</td>
<td>Zero</td>
<td>Zero</td>
<td>Zero</td>
</tr>
</tbody>
</table>
## Financial performance review for the 2017 financial year

<table>
<thead>
<tr>
<th>Salient features</th>
<th>Year ended 31 March 2017 R million</th>
<th>Year ended 31 March 2016 R million</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Refined</td>
<td>2 411</td>
<td>2 059</td>
<td>17.1</td>
</tr>
<tr>
<td>- Aviation fuel</td>
<td>50</td>
<td>46</td>
<td>8.7</td>
</tr>
<tr>
<td>- Crude</td>
<td>1 660</td>
<td>1 422</td>
<td>16.7</td>
</tr>
<tr>
<td>- Gas</td>
<td>120</td>
<td>182</td>
<td>(34.1)</td>
</tr>
<tr>
<td>- Handling</td>
<td>27</td>
<td>60</td>
<td>(55.0)</td>
</tr>
<tr>
<td>- Other</td>
<td>16</td>
<td>45</td>
<td>(64.4)</td>
</tr>
<tr>
<td>- Clawback and levy</td>
<td>71</td>
<td>(146)</td>
<td>148.6</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td><strong>(978)</strong></td>
<td><strong>(1 041)</strong></td>
<td><strong>6.1</strong></td>
</tr>
<tr>
<td>- Energy costs</td>
<td>(255)</td>
<td>(240)</td>
<td>6.3</td>
</tr>
<tr>
<td>- Maintenance</td>
<td>(100)</td>
<td>(94)</td>
<td>6.4</td>
</tr>
<tr>
<td>- Materials</td>
<td>(8)</td>
<td>(15)</td>
<td>(46.7)</td>
</tr>
<tr>
<td>- Personnel costs</td>
<td>(394)</td>
<td>(366)</td>
<td>7.7</td>
</tr>
<tr>
<td>- Other costs</td>
<td>(221)</td>
<td>(327)</td>
<td>(32.4)</td>
</tr>
<tr>
<td><strong>Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)</strong></td>
<td>3 377</td>
<td>2 626</td>
<td>28.6</td>
</tr>
<tr>
<td>Depreciation, derecognition and amortisation</td>
<td>(883)</td>
<td>(751)</td>
<td>17.6</td>
</tr>
<tr>
<td><strong>Profit from operations before items listed below</strong></td>
<td>2 494</td>
<td>1 875</td>
<td>33.0</td>
</tr>
<tr>
<td>Impairments and fair value adjustments</td>
<td>(63)</td>
<td>(747)</td>
<td>(91.6)</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>373</td>
<td>105</td>
<td>255.2</td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td>2 804</td>
<td>1 233</td>
<td>127.4</td>
</tr>
<tr>
<td><strong>Total assets (excluding CWIP)</strong></td>
<td><strong>R million 23 174</strong></td>
<td><strong>23 787</strong></td>
<td><strong>(2.6)</strong></td>
</tr>
</tbody>
</table>

### Profitability measures

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA margin(^1)</td>
<td>77.5</td>
<td>71.6</td>
<td>5.9</td>
</tr>
<tr>
<td>Operating margin(^2)</td>
<td>57.3</td>
<td>51.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Return on average total assets (excluding CWIP)(^3)</td>
<td>10.6</td>
<td>8.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Asset turnover (excluding CWIP)(^4)</td>
<td>0.19</td>
<td>0.17</td>
<td>11.8</td>
</tr>
<tr>
<td>Capital investments(^5)</td>
<td>1 706</td>
<td>1 550</td>
<td>10.1</td>
</tr>
</tbody>
</table>

### Employees

<table>
<thead>
<tr>
<th></th>
<th>number</th>
<th>R million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees (permanent)</td>
<td>642</td>
<td>6.78</td>
</tr>
<tr>
<td>Revenue per employee (including clawback)</td>
<td>635</td>
<td>5.78</td>
</tr>
</tbody>
</table>

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 average total assets excluding capital work in progress.
4. Revenue divided by average total 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 for the year, including clawback and levy, has increased by 18.7% to R4,355 billion (2016: R3,668 billion), mainly due to a 23% increase in petroleum allowable revenue granted by the National Energy Regulator of South Africa (NERSA) in its 2017 Tariff Determination, a favourable distribution pattern from the coast, and the unwinding of clawback raised in the prior financial year.
- Net operating expenses decreased by 6.1% to R978 million (2016: R1,041 billion), mainly due lower market demand for refined products as a result of the economic slowdown.
- EBITDA, including clawback and levy of R3,377 billion (2016: R2,626 billion), is 28.6% higher than the preceding year.
- ROTA increased to 10.6% (2016: 8.6%), predominantly due to a higher operating profit.
- Revenue per employee increased by 17.3% to R6,78 million (2016: R5,78 million), mainly due to the higher allowable revenue granted by NERSA.

**Looking ahead**

- TPL intends to achieve 2018 financial year targets relating to EBITDA and other key financial ratios.
- Planned engagement with NERSA relating to NMPP prudency.
- Persist with the TOTAL litigation resolution.
- New business focus relating to gas and terminal operations.
Market segment competitiveness

• The petroleum volumes transported for the period have decreased by 2.6% to 16,978 billion litres (2016: 17,426 billion litres). This relates predominantly to the lower market demand for refined volumes, due to depressed commodity prices and the economic slowdown.
• Gas volumes compared to the preceding year increased by 2.4% due to higher gas utilisation by clients, and new clients.
• TPL experienced lower storage volumes at Tarlton as a result of the economic downturn and an unfavourable product mix.

Looking ahead 2018

Achieve the set petroleum volume target of 17.6 billion litres.
Implement initiatives to increase volumes at Tarlton, including influencing Botswana supply mix.
Continue with Transnet Value Chain Coordinator TVCC initiative.
Review compatibility of other gases with methane-rich gas (MRG) to facilitate new entrants into the pipeline.
Implement demand-planning for future NMPP expansion phases.
Terminal operations strategy.

Capacity creation and maintenance

• A persistently challenging macroeconomic environment required TPL to optimise capital expenditure in the 2016 year. The Division’s spend on capital for the year was R1.7 billion compared to a target of R2.4 billion.

Looking ahead

• Due to project challenges relating to the delivery of valves, the revised schedule for multi-product operation of the NMPP is 30 November 2017, as approved by NERSA and the Board.
• Ongoing initiatives are in place to ensure the continued operation of the DIP until the NMPP can transport multi-products.
• Construction on the Fire System Upgrade Project at Tarlton has commenced.

Achieve multi-product operation of the NMPP trunkline via the implementation of tightlining and the completion of the Inland Accumulation Facility by 30 November 2017.
Commence the FEL1 to replace the Sasolburg to Kroonstad pipeline, and the Jameson Park to OR Tambo Airport (ORTIA) pipeline.
Commence construction of the remaining 4 priority sites relating to the Fire Upgrade Project.
Complete the site hardening scope of the security project.
Complete the FEL3 for the crude oil pipeline automation.
Maintenance of Island View assets.
Operational excellence

Capacity utilisation

- Combined capacity utilisation for the NMPP and DJP (actual usage: capacity) of 116:152 Mt per week (2016: 110:152 Mt per week) is lower than target, as a result of lower volume performance. The measure has improved compared to the prior year due to higher volumes transported from the coast.
- Capacity utilisation of the crude, avtur and gas pipelines performed above target due to higher volumes transported.

Human capital

- Pipelines achieved a permanent employee headcount of 642 (target: 701). The filling of vacancies during the year was curtailed due to the current economic environment.
- Black employees represented 88% of the total employee base against a target of 80%.
- Female employees represented 34% of the total employee base against a target of 40%.
- People with disabilities represented 2.9% of the total employee base, which is in line with the target.
- Employee turnover rate improved by 28% compared to the previous year.
- The absenteeism index of 1.71 is lower than the target of 1.90.

Looking ahead

- Successful conversion of the NMPP to handle multi-products and management of intermixture generation, on completion of the tightlining solution and the Inland Accumulation Facility.
- Manage inland supply during planned National Petroleum Refiners of South Africa (NATREF) refinery shut down, by early operation of tightlining excluding tanks at the Inland Accumulation Facility.
- Manage market demand when the Inland Accumulation Facility is commissioned.

Service delivery

- Service delivery measures relating to ordered versus delivered volumes, and planned versus actual delivery times, were 96% and 86% respectively.
- Pipelines operational cost per megalitre kilometre (Ml.km) of R119 per Ml.km is lower than the target of R148 per Ml.km due to cost management initiatives implemented during the year.

Combined capacity utilisation for the NMPP and DJP (actual usage: capacity) Mt per week

<table>
<thead>
<tr>
<th>Year</th>
<th>Capacity Utilisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>110:152 Mt per week</td>
</tr>
<tr>
<td>2017</td>
<td>116:152 Mt per week</td>
</tr>
</tbody>
</table>

Key

- Improvement on prior year performance
- Decline on prior year performance
- Equivalent performance to prior year
- Target achieved
- Target partially achieved
- Target not achieved

The variance is 5.5% downwards.
Organisational readiness

Skills development

• TPL achieved a training spend of 3.3% of personnel cost compared to a target of 3.2%.
• The Division has continued with the National Qualifications Framework (NFQ) accredited Women in Pipeline (WIP) Development Programme that empowers future women leaders at TPL. 29 women graduated from the programme in the 2017 financial year.

Health and safety

• A DIFR of 0.37 was achieved for the year against a target of 0.70. This is reflective of the prominent safety culture embedded in TPL.
• The Division obtained an overall National Occupational Safety Association (NOSA) rating of 4 stars.

Stakeholder engagement

• TPL maintained its relationships with key stakeholders during the year.

Governance and ethics

Environmental stewardship

• Transnet Pipelines is currently conducting a gap analysis with a view to implementing the latest version of the Environmental Management System ISO14001:2015.
• Data on water usage, water discharge, and waste disposal has improved significantly for all TPL facilities. This will assist when setting targets for the reduction of resource usage.
• Rainwater capture tanks have been installed at several sites to reduce the amount of municipal water usage for cleaning.
• Air emissions monitoring is ongoing at different depots, to help planning of emission reduction initiatives where necessary.
• A number of remediation sites were closed, with the Department of Environmental Affairs giving close out letters to TPL. A number of spill sites are still under remediation; the number has however greatly reduced.
• Environmental newsletters are produced regularly, to educate employees on different environmental matters and to raise awareness around environmental initiatives by TPL and the government.
Enterprise Development initiatives amounted to R37,62 million for the year and includes the following highlights:

<table>
<thead>
<tr>
<th>Name of initiative</th>
<th>Description</th>
<th>Number of beneficiaries</th>
<th>Rand spend (R’m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tender Readiness Program</td>
<td>TPL has executed 4 – 5 workshops over the course of the year to designated groups who have previously been unsuccessful within TPL’s tender process. Workshops focused on specific areas of improvement to help small and medium black-owned suppliers meet tender requirements.</td>
<td>15 QSE and EMES</td>
<td>R3.04</td>
</tr>
<tr>
<td>2. ED Staff</td>
<td>ESD resources continued to focus on the needs of SMMEs within Transnet’s supply chain and provide them with support.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Early Payment Terms</td>
<td>TPL offered early payment terms to qualifying beneficiaries to assist with cash flow constraints.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Project Support</td>
<td>Where TPL has awarded work to developing suppliers that are black-owned, black youth owned, black women owned or black disabled owned, TPL has assisted these suppliers and offered them a range of support services at no cost, to ensure successful execution of the procured contracts. This assistance has reduced or eliminated project complications as well as reducing the incidence of contractors incurring penalties and delay damages, and becoming blacklisted.</td>
<td>10 QSEs that have been awarded contracts with TPL</td>
<td>R18.04</td>
</tr>
<tr>
<td>5. Business break through Initiative (Phase 2)</td>
<td>Phase 1 of the project completed in the 2016 financial year. Phase 2 of the Bosch Ulwazi initiative further trained and skilled suppliers who successfully executed part 1 of the initiative with accredited SETA MERSETA courses in their specific areas of business.</td>
<td>10 SMMEs (black youth owned, black owned and black women owned)</td>
<td>R2.35</td>
</tr>
<tr>
<td>6. Supplier Incubation Program (Phase 2)</td>
<td>TPL partnered with Durban Chamber of Commerce for a “tender readiness” program aimed at empowering 50 SMMEs in highly specialised sectors such as Engineering, Health &amp; Safety, Construction, Waste Management and Professional Services. The beneficiaries must have more than 51% black ownership and must be black owned, black youth owned or black women owned. Phase 1 of the initiative was completed in the 2016 financial year. Phase 1 comprised the selection of candidates and a business needs analysis for candidates, with the purpose of designing a unique ED assistance package. During the 2017 financial year. Phase 2 of the project was executed and provided operational and financial support to candidates who had progressed from phase 1.</td>
<td>50 SMMEs (All 100% black owned)</td>
<td>R2.7</td>
</tr>
<tr>
<td>7. Women in Engineering</td>
<td>The ESD team executed an initiative aimed at empowering start-up businesses owned by black women and black youth in the engineering sector. (Mechanical, Electrical, Hydraulics and supply of engineering spares and tools).</td>
<td>30 black women owned QSEs and EMES</td>
<td>R5.04</td>
</tr>
<tr>
<td>8. SMME Sustainability</td>
<td>TPL set up a rigorous SMME sustainability program whereby qualifying beneficiaries were awarded the required assets to sustain their operations. Candidates underwent a comprehensive evaluation to ensure that only sustainable SMMEs were successful in this program.</td>
<td>13 black youth owned SMMEs and 4 SMMEs owned by PWD</td>
<td>R2.25</td>
</tr>
<tr>
<td>9. Group Initiatives and Other Initiatives</td>
<td>TPL invested in a Transnet Corporate ED program for the design of an SMME toolkit, for the benefit of 400 black owned start-up entities. Transnet partnered with SAGE.</td>
<td>400 black owned start-ups</td>
<td>R4.2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>R37.62</td>
</tr>
</tbody>
</table>
## Pipeline's top risks and key mitigating activities

<table>
<thead>
<tr>
<th>Key risks</th>
<th>Mitigation activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Impact of litigation relating to the NATREF neutrality principle</td>
<td>• Quantification of the Rand value impact of the litigation outcome&lt;br&gt;• Review of arguments against the validity of the letter agreement</td>
</tr>
<tr>
<td>2. Delay in the achievement of ATO date of November 2017 for Phase 1a of the NMPP</td>
<td>• Valve replacement programme&lt;br&gt;• Proactive monitoring of schedule and critical milestones&lt;br&gt;• Tightening RFC earlier than November 2017 (excluding TM2)</td>
</tr>
<tr>
<td>3. NMPP Prudency Review</td>
<td>• Established an engagement model to facilitate close-out of the Prudency findings with NERSA</td>
</tr>
<tr>
<td>4. DJP Pipeline Integrity/ DJP Pipeline Failure</td>
<td>• Proactively monitor critical milestones and activities to expedite the completion of phase 1a of the NMPP, so that the DJP may be decommissioned&lt;br&gt;• Change in operating conditions of the DJP&lt;br&gt;• Inclusion of Drag Reducing Agents&lt;br&gt;• Regular inline inspections and restorations where required</td>
</tr>
<tr>
<td>5. Affordability of NMPP line-fill (for Petrol) and tank bottoms</td>
<td>• Engage with DOE, CEF, and SAPA to ascertain a funding mechanism.</td>
</tr>
</tbody>
</table>
Opportunities

- TPL is exploring opportunities to diversify into the Liquefied Natural Gas (LNG) market.
- Alternative uses of the DJP are being investigated, after its decommissioning from petroleum product use.
- Opportunities relating to terminal operations to be identified.

- TPT will focus on the success of the Africa strategy. The Division intends to grow the non-regulated business by sharing skills, knowledge, pipeline training, and operational services to other African pipeline companies in the Southern Africa Development Community, including Kenya.
ABBREVIATIONS AND ACRONYMS

ATO Authority to operate
CEF Central Energy Fund
CWIP Capital work in progress
DIFR Disabling injury frequency rate
DJP Durban to Johannesburg pipeline
DOE Department of Energy
EBITDA Earnings before interest, taxation, depreciation and amortisation
ED Enterprise Development
EME Exempted Micro Enterprise
EMES Emerging Market Economies
ESD Enterprise and Supplier Development
FEL1 Front-end loading Stage 1
FEL3 Front-end loading Stage 3
ISO International Organisation for Standardisation
LNG Liquefied natural gas
м³ Million cubic meters of gas
Mℓ Million litres
Mℓ/km Million litres per km
MERSETA Manufacturing, Engineering and Related Services Sector Education and Training Authority
MRG Methane-rich gas
NATREF National Petroleum Refiners of South Africa

NERSA National Energy Regulator of South Africa
NMPP New Multi-Product Pipeline
NOSA National Occupational Safety Association
NQF National Qualifications Framework
ORTIA OR Tambo International Airport
PWD People with disabilities
QSE Qualifying Small Enterprise
RFC Ready for commissioning
ROTA Return on total average assets
SAGE Accounting, HR and business management software
SAPIA South African Petroleum Industry Association
SMME Small, medium and micro-enterprises
SETA Sector Education and Training Authority
TM1 Coastal Terminal
TM2 Inland Terminal
TOTAL Technology open to approved lenders
TPL Pipelines
TPT Transnet Port Terminals
TVCC Transnet Value Chain Coordinator
WIP Women in Pipeline
CORPORATE INFORMATION

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Incorporated in the Republic of South Africa. Registration number 1990/000900/30

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GJ Pita (Chief Financial Officer)

Independent non-executive directors
LC Mabaso (Chairperson), Y Forbes, GJ Mahlalela, PEB Mathokga,
ZA Nagdee, VM Nkonyane, SD Shane, BG Stagman

Group Company Secretary
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Forward-looking information
All references to forward-looking information and targets in the 2017 reports are extracted from the 2018 Transnet Corporate Plan approved by the Board of Directors.


Feedback on this report
We welcome feedback on our Pipelines Operating Division Report to ensure that we continue to disclose information that is pertinent to all our stakeholders.