PetroSA

Strategic Plan 2013 – 2017

Presented to the
Portfolio Committee for Energy
18 April 2013

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We are aware of the immense challenges facing South Africa, e.g.

- Low Growth rate <3% p.a.
- Extreme Poverty
- Unemployment >25%
- Inequality
- Need for a greener, economy
- The need to improve energy security
- Health
- Need for infrastructure

We are aware that the Government's adoption of the National Development Plan is driven by the need to address these challenges and to build a Capable State.

As SA's NOC, we have developed a Corporate Plan that supports Government policy, including the NDP

The National Development Plan states

Short term:
- Do exploratory drilling for economically recoverable shale gas reserves
- Develop offshore gas
- Promote investment in LNG landing infrastructure
- Introduction of clean fuels

Medium term:
- LNG infrastructure will be in place to power first CCGT's
- A decision will be made on whether RSA should continue with imports or invest in new refinery
But, before going into the Plan, a few words on progress since our last presentation to the Committee

General:
- We have continued to operate safely and profitably, in spite of challenging conditions, with declining indigenous feedstock and rising feedstock costs.

Mossel Bay refinery sustenance has remained a key focus area.
- The Ikhwezi offshore gas project is progressing well
- Drilling has started and first gas is expected in 2nd half of 2013
- The weak rand increases rand capital costs and the cost of imported items

Further changes since last presentation to the Portfolio

Mthombo refinery project continues to gather momentum
- Now recognised among the SIP3 projects
- Framework Agreement with Sinopec was signed on 27 March 2013

LNG Project is progressing
- The EIA process has started, with the Department of Environmental Affairs having formally accepted the EIA application

Sabre acquisition, Ghana
- This acquisition has now been finalised
- This adds oil reserves and creates a new revenue stream
- We need more projects like these, but we have funding limitations

Transformation
- We have handed over our first Integrated Energy Centre, built at Moizana, Eastern Cape.
PetroSA’s first IEC was well received at Mbizana

Rural access to petrol
Job creation +
Community ownership
All add up to 10 years of excellence

Of the many initiatives taken, two places us more than these new petrol stations. The indigenous energy company, PetroSA, owns 80% of the seven petrol stations in the Eastern Cape. Owned by the local community, these stations provide employment, a source of income, a convenient service, and a financial boost to the local economy. In addition to jobs, petrol stations also contribute to community development, providing services that are essential to the local community.
However, PetroSA faces increasing challenges going into the future.

- Declining feedstock
- Increased competition for hydrocarbon assets
- Weak rand increased capital costs
- Funding limitations, cash depleting fast
- Competitors have deeper pockets
- The NNC needs to be empowered
- Cash holdings will now be depleted
- Oil markets remain volatile

However, as the company gets into full project execution mode, this year’s good results will not be replicated in FY 2013/14.

STRATEGIC PLAN
2013 – 2017
The plan is aligned with the Shareholder

**NDR:**
Drive for strong growth, job creation, greener economy, infrastructure development, Building A Capable State.

**CEF strategic intent:**
"To provide energy resources for national energy security, minimising environmental impact...in pursuit of government policies"

**DOE Mandate:**
To ensure secure and sustainable provision of energy for socio-economic development.

**Vision 2020C focuses on:**
sustainability, security of supply as well as transformation.

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**In brief, the Proposed Plan...**

- Advances the Shareholder's Security of Supply objectives
- Strengthens PetroSA's role as a sustainable NOC
- A tough, capital-intensive plan that is subject to significant internal and external risks
- Will reduce PetroSA's profitability for the next few years
- PetroSA will need:
  - strong partnerships, access to funding, Shareholder support, an enabling regulatory environment, good governance & a resourced and capacitated organisation.
- The plan will need support from all arms of the Government, including this Venerable Committee.
**SUSTAINABILITY: Upstream**

**Domestic Upstream:**
- Further exploration next to existing infrastructure, e.g.: close to Nkoroel.
- West Coast: influence JV partners to expedite work programmes.

**Shale Gas:**
- PetroSA will continue building internal capacity to explore and exploit shale gas.
- There is a need for cost-effective, safe and environmentally sustainable ways of exploiting shale gas.

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**GROWTH: Upstream**

**Ghana (Sable):**
- PetroSA will consolidate the recent acquisition.
- Jubilee is currently producing 110,000 bbl/day.
- Further development opportunities exist to increase production.
- The asset is profitable.

**Equatorial Guinea (Block O):**
- Finalise farming out of a 55% equity stake in block to minimise risk.

**Venezuela Project:**
- Funding options are being explored.
- This could lead to an asset acquisition by 2016.
**Project Mthombo is making progress**

**Business case development**
- Joint Concept Study with Sinopec completed
- Fuel specifications finalized
- Technical work initiated
- Expected outcome: Refinery capacity and configuration is 300kbbl/d

**"Equity Partner"**
- PetroSA, IDC and Sinopec are finalising amendment of JSA for Feasibility Study
- Framework Agreement signed, which allows joint exploration of opportunities across value chain

**Infrastructure Development**
- Participation in PICC SP-3 to align infrastructure requirements with stakeholders (VDL/Transnet/ESKOM).
- Participation in CDC-led IDZ infrastructure development network
- Working-level meetings with Transnet held to discuss Mthombo co-operation agreement

**Funding**
- IDC to participate in Feasibility Study
- Further development of funding concept during Feasibility Study

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**Mthombo is getting support from the PICC for alignment and coordination of the multiple stakeholders**

**SIP 3: South Eastern node & corridor development**
- Promote rural development through a new road at Uniondale with irrigation systems and the N2-Wilderness Highway which improves access into IZM and national supply chains; strengthens economic development in PE through a manganese rail capacity from N Cape, a manganese sinter (SIC) and smaller ERC possible Mthombo refinery (Coega) and transhipment hub at Ngqura and port and rail upgrades to improve industrial capacity and performance of the automative sector.

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- Critical Infrastructure Development Stakeholders
  - Transnet (Rail, Port & Pipelines)
  - Coega Development Corporation
  - Eskom
  - Province & Municipality

- Ongoing engagement and reporting to the SIP coordinators and PICC on Project Status & Challenges

- Business Case was presented to PICC Management Committee 18 March 2013

Source: PICC Presentation 13/4/2012
**TRANSFORMATION**

**Enterprise and Supplier Development (ESD):**
- The plan increases focus on the development of small, BEE businesses
- Will build on the Mossel Bay supplier development experiences
- The Vision 2020 initiatives, such as Project Mthombela, create new opportunities

**Employment Equity:**
- Promoting equal opportunity in all occupational categories and levels of the workplace through EE
- Partnerships with universities help develop talent pipelines

**Socio-economic Development:**
- Social upliftment through targeted investment programmes

**Preferential Procurement:**
- Creating meaningful economic empowerment benefits through Preferential Procurement

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**Synthetic Fuels Innovation Centre at University of Western Cape**

Clean fuels from our Gas-to-Liquids (GTL) refinery +
R15.6bn spent with BBBEE companies
All add up to 10 years of excellence

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*Note: This text is extracted from a presentation and may include visual elements.*
SHEQ & TECHNOLOGY

SHEQ

- Special attention to SHEQ aspects of scheduled Shutdown, due to take in October 2013
- Closure of all outstanding environmental audit findings
- Implementation of a Group HSE-MS
- Efforts to retain ISO 9001 Quality Management System certification
  - scope increased to include TS&L Depots

TECHNOLOGY

- Reposition Technology and R&D as enablers during 2013, through growing capacity
- Develop internal capacity for Shale Gas
  - strategic partnerships & secondments
- Licensing & commercialisation opportunities for PetroSA’s technology assets
- Continued clean fuels research at the University of the Western Cape
- Develop Greenhouse Gas Reduction strategy

"The problems of tomorrow, will not be solved by the solutions of today..."
Measures in place for Effective Project Management

We use:
- The Project Execution Model which uses a gated approval process to ensure good Project Governance.
- We use expert international project reviewers – Independent Project Analysis (IPA) Organisation that deals with project readiness benchmarking.
- A strong PetroSA Owner's Team with Engineers, Project Managers, Contract Managers, Project Controls all with relevant experience to execute Mega-Projects (e.g., Itikweri).
- Strong Project Controls per Levels of Authority meeting Governance.
- Procurement and Legal Services – Strong governance around procurement and contract management using different contract types.
- Policies and Procedures that are aligned to PetroSA Governance.

Measures in place for Improving Governance

Risk Management is now Integral to our Corporate Strategy.

The current PetroSA Governance Structures/practices are:
- Regular company-wide awareness sessions;
- Regular Management Group Assurance Committee meetings;
- Business Unit Compliance Champions for every Division;
- Management Representation Letters – Divisionally by Vice Presidents to the Group CEO and at Company Level by Group CEO to the Board Audit and Compliance Committee.
- Executive Management Assurance Committee chaired by the Group CEO, with representation from all Vice Presidents and CCO.