

30 April 2021

Attention: Community Leaders

RE: ENGEN REFINERY STRATEGIC REVIEW – MOVING FORWARD TOGETHER

Dear Leaders,

Engen is a proud South African brand and a progressive energy and solutions partner committed to enriching lives for a sustainable future. Being a Level 1 B-BBEE contributor, we are dedicated to achieving meaningful and sustainable transformation in the liquid fuels sector.

Engen recently embarked on a rigorous strategic review of our business model. This review has led us to revise our operating model - a considered decision that was not taken lightly. Consequently, in response to external market forces and business challenges, **the Engen Limited Board has approved the conversion of the Engen refinery into a world-class import terminal, and other repurposing initiatives, with a target completion by Quarter 3 of 2023.**

As a proud South Durban business and an invested corporate citizen, we care deeply about the communities in which we operate. Therefore, Engen values and prioritises constructive engagement with residents and NGO's based in the area. As part of our commitment to open and transparent engagement, I wanted to personally share with you some of the background that contributed to our carefully deliberated reassessment of our refinery business model. This is what informed the Refinery to Terminal (RTT) decision as our most responsible and sustainable course of action.

Global Operating Environment

The global refinery landscape has changed significantly in the past decade with the emergence of mega sized, integrated and complex refineries, many of which operate in countries that are primary suppliers of crude. This has resulted in a prolonged period of ultra-low refinery margins that are forecasted to persist well into the future. As you can imagine, this negative environment was further exacerbated by the onset of the Covid-19 pandemic, which resulted in further contraction of demand.

Against this backdrop, refinery competitiveness and viability is increasingly dependent on bigger capacity (>300,000 barrel per day), full integration with petrochemical industries, high efficiency and automation, lower operating cost, and a level of import and tariff protection, as well as an unconstrained and efficient supply of electricity and water. None of these elements were in our favour.

Strategic Review

The Engen refinery, located in the south of Durban and commissioned in 1954, is the oldest refinery in the country and is responsible for approximately 17% of the country's fuel production. With a nameplate capacity of 120,000 barrels per day, it ranks as a low capacity, medium complexity facility with limited upgrading potential. An added consideration for any upgrades is that it sits on a restrictive plot size and is located within a residential area. Both these factors render a potential capacity modification unfeasible.

As a responsible business and a committed corporate citizen, Engen engaged extensively with Government, particularly with the Department of Mineral Resources and Energy (DMRE) and the KwaZulu-Natal Provincial Government, on the future of the refinery in its strategic review process. These engagements and the feedback received from Government have proven highly valuable and helped inform our terminal conversion proposal.

At the behest of the DMRE, and as part of Engen's commitment to thorough due diligence, we also commissioned an independent refinery viability study and an independent socio-economic impact assessment. The reports confirmed that the refinery is not commercially viable.

After modelling multiple scenarios in consultation with external international sector specialists, the conclusion of the strategic assessment is that the Engen refinery is unsustainable in the longer-term. As mentioned previously, this is primarily due to the challenging global refining environment. In addition, unaffordable capital costs to meet future Cleaner Fuels 2 regulations compliance create a complexity that makes the refinery unsustainable over the long-term.

Further compounding these severe challenges was the unfortunate refinery fire incident of 4 December 2020. The fire damage repair cost estimate is unaffordable and compelled the company to accelerate the RTT decision.

Collaborative Engagements

Throughout this review process, Engen has prioritised regular communication with our key stakeholders keeping them abreast of all relevant developments. We have engaged extensively with the DG, DDG and Minister in the DMRE, as well as other key government departments as part of our strategic review process.

Engen has also prioritised regular communication with employees, keeping them abreast of all relevant developments. The company engaged with union representatives too, ensuring they were able to contribute inputs to the development of a well-informed, collaborative decision for the refinery's future.

Our people are a priority during the RTT transition, and it is our firm intention to preserve as many roles as possible. We are initiating a re-skilling and retooling programme, as well as evaluating the potential for some employees to be redeployed to other parts of the Engen organisation. We also expect that the repurposing of the refinery site will see us develop new business opportunities (e.g. a training centre, renewable energy initiatives, shared services, industrial hub etc) that will ensure we can mitigate, as much as possible, the impact on existing roles.

Economic and Environmental Benefits

The investment in new infrastructure to create a world-class import terminal, as well as repurposing of the refinery site, will generate much needed economic activity in KwaZulu-Natal. In the current economic climate, this should contribute not just in terms of capital, but also in terms of job creation and skills transfer, something that will support South Africa's post Covid-19 economic recovery. The RTT will also strengthen South Africa's long-term security of fuel supply, deliver trade balance improvements and contribute to lower road transport emissions, with resultant health benefits, assisting the country meet its 2027 Green House Gas (GHG) targets.

Moving Forward Together

Our decision to pursue the RTT is one to which we have given much consideration. While we acknowledge the possible short-term impact of the refinery repurposing, and assure South Durban residents that we will make a concerted effort to minimise any disruption to them, we know that in the longer term, it is the most viable path forward for the sustainability of the broader Engen business. We believe that this is the best way to ensure that we remain a member of the community, and an employer of its people, for many decades to come.

Engen is committed to playing a leading role in growing South Africa's future economic prosperity and supporting socio-economic development in the communities that host our operations. Securing a sustainable Engen business provides the platform for the future development of new investment opportunities in South Africa (including in South Durban). Repurposing the Engen refinery will serve as a catalyst for economic growth in KwaZulu-Natal by supporting job creation and socio-economic growth. In this way we can ensure Engen continues to be a positive contributor to both the province and the nation.

Thank you for your support. "With us you are Number One".

Yours sincerely



Sykry Hassim
GM Refinery