"We are poised to become one of the world’s largest freight logistics groups. The Market Demand Strategy will see Transnet’s revenue grow from R46bn in 2011/12 to R128bn in 2018/19.”

BRIAN MOLEFE, Group Chief Executive: Transnet
“History will judge whether Transnet produces lasting dividends for the South African economy, society and the environment.”

- BRIAN MOLEFE, Group Chief Executive: Transnet
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ABOUT US

Being responsible for enabling the growth and development of the South African economy through reliable freight transport is no easy feat but Transnet, through its vision, mission and mandate policies, forge ahead – ensuring all its strategic objectives line up.

As a state-owned company (SOC), Transnet is wholly owned by the government of the Republic of South Africa (RSA) and is structured to provide transport and handling services through its five operating divisions, namely, Transnet Freight Rail (TFR), Transnet Rail Engineering (TRE), Transnet National Ports Authority (TNPA), Transnet Port Terminals (TPT) and Transnet Pipelines (TPL). Special units include Transnet Property, Transnet Foundation and Transnet Capital Projects.

The company is the custodian of freight rail, ports and pipelines and is responsible for enabling the competitiveness, growth and development of the South African economy through the delivery of reliable freight transport and the handling of services that satisfy customer demand. Overall, Transnet’s mandate is to lower the cost of doing business in South Africa – efficiently – and within acceptable benchmarks. The company recently embarked on its biggest project to date – the R300 billion Market Demand Strategy (MDS), which will significantly boost infrastructure development, job creation and investment in South Africa, and expose the country to a host of international trading possibilities.

The nature and scope of Transnet’s operations necessitates a proactive and concerted effort in maintaining the highest standard of safety, health, environmental and quality (SHEQ) governance. SHEQ performance targets are included in the company’s strategy to promote a safe and healthy working environment for its employees, who are striving towards excellence in service delivery. The environmental-related obligations arise from the National Environmental Management Act of 1998, the National Water Act of 1998 and the National Environmental Management Act: Waste Act of 2008, requiring the company to remove all its waste material and remediate the land. In accordance with these acts, an environmental provision of R1.8 billion was allocated in the current financial year for the remediation of soil-contaminated areas. With regard to quality, the ISO 9001:2008 Quality Management System plays a crucial role in improving business processes and performance within Transnet, and the current system will be updated to meet the challenges of the MDS.

Moving forward, Transnet has embedded sustainability into its strategy and business practices by adopting a well-defined Sustainability Framework as part of the MDS. Through this framework, the company’s economic, social and environmental dividends are constantly tracked, placing Transnet at the forefront of change in South Africa.
While many global economies continue to face uncertainty, the longer-term outlook remains positive for South Africa and the region, with continued growth in emerging economies driving increased commodity demand - and Transnet is at the frontline of this growth with its new Market Demand Strategy.

Changing global and regional trade patterns benefit South Africa as increased trade volumes and connectivity make it easier for local companies to participate in global manufacturing supply chains. South Africa is highly integrated with the world economy, which plays a central role in shaping Transnet’s economic prospects.

Despite the deterioration of the country’s annual real growth rate as calculated by the South African Reserve Bank, the outlook for Transnet’s key commodities remains positive. The aggressive investment that underpins the Market Demand Strategy (MDS) is targeted primarily at satisfying demand that has been validated with customers. This includes additional capacity for export coal, iron ore, cement, agricultural commodities and containers. Transnet’s record-breaking capital investment programme, a key element in its drive to boast efficiency and create capacity, was R22.3 billion for 2012.

**IT’S ALL IN THE NUMBERS**

Transnet's revenue during the 2012 financial year increased by 20.9% to R45.9 billion – a big jump from 2011’s figure of R38 billion. Significant productivity and efficiency improvements of 18%, not to mention volume growth, were realised across all five operating divisions. This statement demonstrates that the company has achieved yet another year of robust performance and is well on its way to delivering on its commitment to various stakeholders. General freight volumes during 2012 increased by 8.8% to 67.7 million tons (mt), another improvement on 2011 figures. This
increase was due to on-time departures, which set a new weekly record of 1.7mt.

Export iron ore volumes increased by 13.2% to 52.3mt as compared with the 2011 figure of 46.2mt. This achievement was also mainly as a result of increased departure and arrival efficiencies. Container volumes increased by 6.6% due to an increase in transshipments while dry bulk increased by 7.7% and automotive volumes by 9.3%.

**CUSTOMER SATISFACTION**

Following several stakeholder engagements, it is clear that service delivery, innovation, reliability, safety and communication are among the important concerns raised by Transnet’s customers. The customer engagements proved invaluable with Transnet’s strategic responses leading to the achievement of significant volume increases and operational efficiency improvements. The outcomes include:

- Developing the Transnet pricing / tariff guidelines, best practice methodology and models to sustain capital investment and support volume growth;
- Designing a transparent capacity allocation framework and processes to ensure fair allocation of capacity;
- Implementing expanded and enhanced integrated customer planning;
- Developing enhanced key account management capabilities;
- Driving continuous improvement to enhance operational efficiency and productivity, and to ensure security of fuel supply;
- Lowering the cost of doing business through modal shifts, efficiency improvements and transshipments;
- Growing transshipment volumes, establishing South Africa as a transshipment hub and increasing over-border rail volumes.

Transnet is also working closely with customers to conclude long-term contracts in order to reduce the risks associated with the execution of the MD5.

**MONEY WISE**

Cash generated from operations amounted to R20.6 billion, an increase of 27.6% from the previous year – evidence of Transnet’s ability to generate strong sustainable cash flows. Significant focus and improved working capital management, not forgetting improved collections relating to the Passenger Rail Association of South Africa (PRASA), resulted in a working capital inflow of R781 million. The cash interest cover ratio remains strong at 4.2 times (2011: 3.9 times). This is impressively above the target of 3.0 times despite an increase in net finance costs resulting from increased borrowings to fund the capital investment programme. It is expected that the cash interest cover ratio will not fall below the target going forward.

Despite the uncertain global financial markets and economic growth outlook (both locally and abroad), Transnet successfully raised the funding required for its capital investment programme. At the beginning of the 2012 financial year, funding required was estimated at R20.8 billion. As a result of pre-funding activities in the previous year, funding was reduced to R12.9 billion.

Transnet repaid borrowings amounting to R14 billion, which related predominantly to domestic bonds, commercial paper and domestic and foreign loans that matured during the year. The gearing ratio deteriorated marginally to 42.1% compared to 41.1% as at 31 March 2011, despite the capital expenditure of R22.3 billion. This level is still well below Transnet’s target range of 50.0%, reflecting the significant capacity available to fund future capital expenditure. The gearing ratio is not expected to exceed the target ratio going forward.

Transnet will continue to enhance financial risk management throughout the capital investment programme and will seek to establish greater public policy and regulatory certainty with the South African government and regulators. Mitigating actions include managing cash and working capital, diversifying funding sources, and seeking innovative means for Private Sector Participation (PSP) opportunities.

Holistically, Transnet’s financial fundamentals are strong and the company has shown significant operational improvement during the year – and more is expected!
As Transnet’s biggest operating division, Transnet Freight Rail is a driving force for South Africa’s economic growth.

In an export-driven economy like the one we have in South Africa, freight commodities have to be delivered safely and reliably – and that’s where Transnet Freight Rail (TFR) comes into the picture. As the biggest division within Transnet, TFR employs approximately 28 000 people and boasts revenues higher than the company’s other divisions. It also bears the responsibility for maintaining and operating a rail network that covers the entire country, including the lucrative coal export line running between the mineral-rich Waterberg and the KwaZulu-Natal coast.

“Transnet Freight Rail has positioned itself to become a profitable and sustainable freight railway business, assisting in driving the competitiveness of the South African economy,” says Mike Asefovitz, Communications Manager: TFR. “Now that we have the Market Demand Strategy in place, TFR will not only grow the economy but will assist with developing South Africa’s youth by imparting skills and creating employment.”

FUTURE GROWTH
The future is looking very bright indeed for TFR. Transnet’s seven-year Market Demand Strategy (MDS) is expected to catapult TFR to being one of the top five rail freight companies in the world. This, of course, will dramatically boost the division’s regional and international profile. At the same time, TFR is anticipating major increases in outputs. “Rail volumes are expected to increase from the 201 million tons we moved this past financial year to 350 million tons in 2019,” Asefovitz explains. “By then, TFR will have increased its market share of container traffic to 92% from the current level of 79%. This strategy aims to deliver a lasting economic, social and environmental value to society.” Under the MDS, TFR aims to shift rail-friendly traffic from road to rail, transporting 225 million tons of freight in 2012/13 while growing its market share from about 24% to about 36% in 2018/19.

PROVEN TRACK RECORD
That bright future comes on the back of some remarkable successes in recent years. “In the 2011/12 financial year, we moved 201 million tons of freight. This represents a 10.4% increase on the previous year and the highest tonnage transported in the company’s history.”
In November 2011 TFR introduced a scheduled railway concept to ensure the delivery of a reliable, on-time and predictable train service for all its valued customers. This simple but profound shift in focus has already brought increased efficiencies – and it required a hands-on engagement with customers.

Then in March 2012 TFR changed its business structure by moving from regions to Business Units. Those six Business Units are: Agriculture and Bulk Liquids; Steel and Cement; Mineral Mining and Chrome; Coal; Iron Ore and Manganese; and Container and Automotive Business. “Business Units are operations managed in smaller chunks and this approach will help the company to pay more attention to customer needs,” says Asefovitz, once again pointing to TFR’s customer-centred focus.

**CORE FOCUS**

TFR is uniquely placed to dramatically alter South Africa’s rail industry and to transform the country’s society and economy. The division’s strategic plan aligns with Transnet’s overall intent and vision. Its focus is on driving future growth, enhancing accountability, improving governance and operational efficiency, and servicing customers. TFR’s goal is to develop skills, increase South Africa’s competitiveness and reduce the cost of doing business by transferring freight traffic from road to rail – all while building a culture focused on customer-service excellence.
ON TRACK

Transnet Rail Engineering plays a key role in supporting the important Freight Rail business – and also serves other rail operators in Southern Africa and around the world.
It’s no easy task to describe adequately what Transnet Rail Engineering (TRE) contributes to Transnet’s business efficiency and its bottom line. Mduduzi Nxasana, General Manager: Communications, TRE, sums it up in this way: “TRE provides maintenance, repair, upgrade, manufacturing and support services to Transnet Freight Rail (TFR) in South Africa and to other rail and terminal operators both regionally and internationally.”

TRE’s internal structure comprises nine product-focused operational businesses. These businesses are Locomotive, Wagon, Coach, Rolling Stock Equipment, Rotating Machines, Wheels, Auxiliary, Foundation and Port Equipment Maintenance.

“The Locomotive, Wagon and Coach businesses are the primary customer-facing entities and revenue generators,” explains Nxasana. “The other operational businesses provide a supportive role within the organisation, with the exception of the Auxiliary business, which has a substantial portion of its activity focused directly on serving TFR. Port Equipment Maintenance is a newly established business that serves South Africa’s national ports.”

GROWING BUSINESS INTERNALLY AND EXTERNALLY

As a support division, TRE places great emphasis on internal growth, while also seeking opportunities to expand its external operations. “Internally, TRE continues to focus on improving operational efficiencies and a safe working environment through the implementation of Lean Six Sigma principles, safety and environmental initiatives,” Nxasana explains. “It also forges and strengthens partnerships with original equipment manufacturers (OEMs) with the aim of enhancing existing skills and know-how, and creating new market opportunities.”

Meanwhile, TRE continues to grow its external revenue by focusing on major clients such as the Passenger Rail Agency of South Africa (PRASA).

“TRE is preparing itself to play a major role in the PRASA recapitalisation programme. It also continues to grow its revenue from external customers, particularly those in Southern Africa,” Nxasana says, adding that TRE intends to expand this regional market to include narrow-gauge rail operators around the world.

A PROUD HERITAGE

As Transnet’s engineering division, TRE boasts a history that dates back to the first railways built in Southern Africa. In May 2012, TRE celebrated this rich heritage by marking the 150th anniversary of its Salt River Engineering Works plant in Cape Town. This plant – one of six TRE factories around South Africa – has grown from the original workshops, built in 1862, to maintain the rolling stock on the Cape’s first railway line. It now maintains the seven-kilometre-long trains (the longest in the world) that operate on Transnet’s Sishen-to-Saldanha heavy haul iron ore export corridor.

TRE’s other factories are based in Uitenhage, near Port Elizabeth in the Eastern Cape; Bloemfontein in the Free State; Durban in KwaZulu-Natal; and Germiston and Koedoespoort in Gauteng. These factories are supported by 132 depots that employ more than 13 000 people across South Africa.

A BIG DEAL... AND A BRIGHT FUTURE

The Koedoespoort manufacturing centre is the focal point of a deal struck between Transnet and GE South Africa Transportation (GESAT) in 2009, and later expanded in January 2012. The deal – which sees TRE contracted to GESAT and GESAT contracted to TFR – involves supplying TFR with 143 heavy haul diesel locomotives to haul freight and coal across South Africa. In line with Transnet’s commitment to meet Competitive Supplier Development Programme objectives, the agreement has a significant localisation and skills-development element, with a substantial portion of the manufacturing – including assembly, testing and commissioning – being done by TRE. Ten of the locomotives were manufactured in the USA and the balance of 133 are being assembled locally at Koedoespoort with kits provided by GESAT.

“These locomotives represent great opportunities for Transnet and South Africa as well as for GESAT,” says Nxasana. “We can deploy three C30ACi models to haul a load that would require four older locomotives, reducing annual diesel fuel consumption by 600 000 litres under typical operating conditions. It can reduce emissions by 1 500 metric tons of CO2 annually, equivalent to eliminating the emissions from 310 cars on South African roads.”
Keeping South Africa’s eight commercial ports running safely and efficiently is the core concern of their landlord, the Transnet National Ports Authority.

The three most crucial performance measures at any port are time at anchor, time at berth and crane movements per hour, which determines how fast cargo is loaded and unloaded. Any significant delays translate into significant losses for a shipping company. As landlord of South Africa’s eight commercial ports – Richards Bay, Durban, East London, Ngqura, Port Elizabeth, Mossel Bay, Cape Town and Saldanha Bay – Transnet National Ports Authority (TNPA) is responsible for ensuring that the national port system functions smoothly, efficiently and safely. It facilitates optimum

PORT PERFECTION
The new cranes have a lifting capacity of 140 tons and will enable us to be faster, safer and more space-efficient in the transportation of containers.

performance in port by planning, providing and maintaining port infrastructure, port services, and navigation and manoeuvring assistance to vessels within port limits and along the coast.

STRIVING FOR BETTER PERFORMANCE
Over the past two years TNPA has worked tirelessly to ensure optimal productivity at all South Africa’s ports. Its performance results show that:

• A favourable shipping delay performance was achieved. This was attributed to improved efficiencies in berthing services, towage and pilotage.
• All vehicle productivity targets were exceeded due to the primarily uniform cargo, as well as container ports being able to perform pre-stacking/parking.
• Loading rate targets were exceeded for dry bulk cargo (iron ore at Saldanha Bay and coal at Richards Bay) thanks to improved joint operational planning and the prevention of loader breakdowns.

A significant recent highlight for the division was the official opening of the Port of Ngqura in March 2012. This new port has added an annual capacity of 800 000 TEUs (twenty foot equivalent units) to the national port system. The development of Phase 2, which has already started, will see Ngqura’s capacity increase to 1.5 million TEUs. Ultimately capacity will be increased to 2 million TEUs.

Another important milestone in South Africa’s maritime history was achieved when the first three black female marine pilots graduated from The School of Ports.

FACING THE CHALLENGES
In the past year, ship turnaround times were above target, sitting at an actual of 54 hours compared to a target of 48 hours. This was primarily due to larger parcel sizes of cargo on container vessels, inclement weather conditions as well as crane breakdowns, particularly at Durban Container Terminal.

“We have resolved this problem by commissioning six new Liebherr mobile cranes,” says Thembenkosi Gumede, Communications Manager: TNPA, Port of Durban. “These cranes have a lifting capacity of 140 tons and will enable us to be faster, safer and more space-efficient in the transportation of containers, as well as to improve productivity and container throughput at the terminal.”

TNPA is fully aware of the challenges it faces in improving efficiencies and is determined to achieve world-class standards in all aspects of its operational performance.

THE PORTS OF RICHARDS BAY, DURBAN, EAST LONDON, NGQURA, PORT ELIZABETH, MOSSEL BAY, CAPE TOWN AND SALDANHA BAY BETWEEN THEM HAVE:

8 ENTRANCE CHANNELS WITH SUPPORTING BREAKWATERS, TURNING BASINS, NETWORKS AND UTILITIES.

13 LIQUID-BULK BERTHS

19 CONTAINER BERTHS

29 BREAK-BULK BERTHS

36 DRY-BULK BERTHS

Together, these harbours are equipped with: 9 pilot boats, 2 pilot helicopters, 26 tugs, 4 dredgers, 3 survey boats and 7 work boats.

WORDS: TONY STONE
Transnet Port Terminals is responsible for moving the vast amounts of cargo that flow through South Africa's ports on a daily basis – as quickly and efficiently as possible.
Time is money and, once a ship berths, the clock is ticking. Loading and offloading cargo in the shortest time frame possible is crucial — and that’s where Transnet Port Terminals (TPT) comes in. It plans and implements logistics management solutions for the cargo that flows through the country’s eight commercial ports. This cargo is classified into four segments — dry bulk, break-bulk (multipurpose), automotive and container — and of these the container and dry bulk segments are by far the largest, accounting for approximately 85% of volume revenue.

Despite the current challenging global economic conditions that have affected international trade, in the past two years TPT has continued to grow volumes across all four segments.

The large container segment serves a multitude of clients and sees almost all of the world’s major container shipping lines calling at the container terminals at the ports of Durban, Ngqura, Port Elizabeth and Cape Town.

TPT also operates three RORO (ride on/ride off) car terminals at the ports of Durban, East London and Port Elizabeth. These provide import/export handling services to both local and international automotive manufacturers.

Break-bulk cargo is handled at all the multipurpose terminals. Customers vary from emerging entrepreneurial businesses to established large corporations.

**MEASURING PERFORMANCE**

Over the past year, container volumes increased by 7.2% to 4.3 million TEUs (twenty-foot equivalent units). Dry bulk and break-bulk volumes increased by 6.6% to 82.9 million tons (mt) and automotive volumes increased by 8.9% to 672 536 units. Moreover, a concerted focus by management resulted in significant operational efficiency improvements at the Durban Container Terminal, at the Port of Saldanha Bay and in dry bulk handling at the Port of Richards Bay.

TPT’s primary measure of container efficiency is average moves per gross crane hour (GCH) and this increased by 8.1% from 24.6 GCH to 26.6 GCH in the current year.

In addition, the average tons loaded per hour at the Saldanha Bay iron ore terminal has increased by 4.1% from 6 959 tons per hour to 7 242 tons per hour. The Richards Bay dry bulk terminal’s loading rate has increased by 2.7% from 660 tons per hour to 678 tons per hour.

**EBITDA increased by 1.1% to R2.2 billion. This demonstrates how productivity improvements positively impact the bottom line.**

Net operating expenses increased by 16.4% to R4.8 billion (from R4.2 billion in 2011). This was mainly due to a 23% increase in personnel costs, a 38.8% increase in energy costs, and a 23% increase in material costs as a result of increased maintenance activity levels.

“As a consequence of these improvements, EBITDA increased by 1.1% to R2.2 billion. This clearly demonstrates how productivity improvements positively impact the bottom line,” says Karl Socikwa, Chief Executive: TPT.
PUMPED UP

The daily challenge for Transnet Pipelines is to keep Gauteng – South Africa’s financial, industrial and mining heartland – fuelled and running.

Transnet Pipelines (TPL) provides South Africa with a low-cost solution. This Transnet operating division is responsible for bulk fuel and gas storage and long-distance pump and pipeline operations – mainly from Durban and Mozambique to Gauteng and the North West Province. It is the custodian of South Africa’s strategic gas and fuel pipelines – 3 000 kilometres of high-pressure pipes that range from 150mm to 508mm in diameter and are constructed in accordance with the American Code ASME B31.4 standard.

The liquid products pumped through these underground pipelines include gas, crude oil, diesel, leaded and unleaded petrol and aviation turbine fuels. TPL’s client list includes all major international oil companies operating in South Africa, such as BP, Chevron, Engen, Sasol Oil, Sasol Gas, Shell and Total, as well as local oil companies, such as Vuyo Petroleum, and the South African government.

Given that Johannesburg is 1 753m above sea level, and it’s an uphill climb all the way from the coast, keeping the fuel and gas pumping is a challenge. Proper maintenance of pumps, pipes and valves is vital. “Our greatest success in the past three years has been keeping Gauteng in fuel without any noticeable interruption of supply. This was particularly relevant over the two-month period of the 2010 FIFA World Cup, when demand was at an absolute peak,” says Saret Knoetze, Public Relations Manager: TPL.

“Regular inspection of the pipelines is also paramount to ensure the safety of both communities and the environment. The clearly marked pipeline route is inspected by helicopter once a month to check that no soil erosion, flood or other damage has affected either the pipeline covering or the servitude. Inspectors also ensure that human settlements don’t encroach on to the servitude. Happily, we won NOSA awards for safety in 2009, 2010, 2011 and are expecting to win another award in the 2012 safety audit,” says Ellen Machanick, Executive Safety Officer: TPL.

A major new development at TPL was the commissioning of a New Multi-Product Pipeline (NMPP) in January of 2012. As Brian Molefe, Group Chief Executive: Transnet, said at the launch, “We have completed one of the most cutting-edge and innovative infrastructure investments in the world, thereby fulfilling two major commitments.”
market demand for fuel is met, and secondly, easing road congestion by reducing the number of fuel tankers on our roads."

The R23.4 billion, 555km, 600mm diameter NMPP is to work in conjunction with the original pipeline, built in 1965, until Terminal 1 at Island View in Durban and Terminal 2 at Jameson Park near Heidelberg are fully completed in 2013, at which point the old pipeline will be decommissioned.

While a combination of supply and demand challenges resulted in volume performance (as reported in Transnet’s Annual Report for 2012) being 7.1% below the previous year’s figures, TPL did deliver 98% of all orders placed on the pipeline system.
SUSTAINABLE COMMUNITIES
Transnet’s Corporate Social Investment projects are building South Africa’s future – and boosting the company’s triple bottom line.

Responsible companies will sometimes talk about their 3BL, or triple bottom line, meaning an investment in people, planet and profits. At Transnet, those values are taken as a real measure of the company’s success – especially given Transnet’s role in developing South Africa’s society and economy. The company recognises that as a state-owned company, it has to lead by example. The company’s Corporate Social Investment (CSI) unit is the Transnet Foundation and its responsibility is to implement socioeconomic developments on behalf of the company.

Of course, CSI must be aligned with the company’s ethos and strategic imperatives – and that’s why the Transnet Foundation has a core focus on delivering development, being transparent and incorporating various stakeholders in the communities in which the company operates.

Five Key Portfolios

The company’s vision for business success is linked to a healthier, skilled and safer society. To support and drive this vision, the Transnet Foundation invests in five crucial portfolios: Education, Health, Sport, Arts and Culture, and Container Assistance.

Education is a particularly important focus area, given the well-documented skills shortage that exists in South Africa. In response to this, Transnet launched its Sharp Minds! Get Ahead In Life programme, which offers 450 learners from Grades 10 to 12 (senior high school), spread across five provinces, special curriculum-based tutoring in Maths, Science, Technology and English. The vision here is to prepare these learners to become productive members of their communities – and, where possible, to become potential Transnet employees further down the line.

The Sport portfolio saw Transnet initiating the Rural and Farm Schools Programme in 100 schools in five provinces, along with the launch of the Transnet / South African Football Association Soccer School of Excellence in Johannesburg. Here, 120 promising young soccer players join a football academy that develops their sporting ability while providing a solid, disciplined education.

The Containerised Infrastructure Assistance Programme allows Transnet to put its retired freight stock to good use. Out-of-use freight containers – which are large, secure and watertight – are converted into community buildings and small offices in outlying rural areas. You’ll find these repurposed containers in remote villages all over the underdeveloped parts of provinces such as Limpopo.

The Phelophepa Health Train is a shining example of healthcare delivery, empowerment and technology in a developing country.
ALL ABOARD THE HEALTH TRAIN!

When it comes to Health, the Transnet Foundation makes a massive impact in the lives of rural South Africans by bringing much-needed healthcare to communities. The Phelophepa Health Train, which runs for 36 weeks of every year and reaches up to 280,000 rural patients, carries a crew of 19 full-time staff and 37 volunteer students. The train visits rural and underdeveloped communities, bringing mobile healthcare to areas that don’t have adequate healthcare infrastructure.

The custom-built Health Train has been running since 1994, earning great admiration along the way. Nobel Peace Prize winner Archbishop Emeritus Desmond Tutu has described it as "a shining example of healthcare delivery, empowerment and technology in a developing country". In 2012, the Phelophepa fleet was doubled when a second Health Train was put onto South Africa’s rails.

INvolving employees

At Transnet, CSI doesn’t start and end with a signature in the company chequebook. The company recently launched a visionary Employee Volunteer Programme (EVP), which allows its employees to lend a much-needed hand in the Transnet Foundation’s various community projects. It’s a strategic plan that takes the abundance of skills – life skills, professional skills and personal skills – in the Transnet workforce and provides opportunities for employees to share those skills with people in the communities in which the company operates. Projects range from painting or cleaning up a local school, to providing practical workshops and skills transfer with adult learners.

- NUMBER OF PATIENTS WHO REGISTERED FOR THE PHELOPHEPA HEALTH TRAIN’S EYE CLINIC IN 2009: 20,869
- AMOUNT SPENT BY THE TRANSNET FOUNDATION ON CSI PROJECTS IN 2009/10: R89.4 MILLION
- 92% THE PASS RATE OF THE 367 Grade 12 LEARNERS WHO SAT FOR THEIR NATIONAL FINAL EXAMINATIONS AFTER JOINING THE FOUNDATION’S SHARP MINDS! GET AHEAD IN LIFE PROGRAMME
- 15,000 NUMBER OF LEARNERS REACHED BY THE FOUNDATION’S RURAL FARMS AND SCHOOLS PROGRAMME IN 2009
STRATEGIC
APPROACH

The Market Demand Strategy is Transnet’s R300 billion capital investment programme, which will see the expansion of its rail, port and pipeline infrastructure. Here’s how it’s transforming South Africa’s economy in terms of increased growth, job creation, productivity and empowerment.

Transnet’s complex mandate balances commercial and developmental objectives and requires prudent planning and bold action in an increasingly volatile economic environment. The announcement of Transnet’s Market Demand Strategy (MDS) by South African President, Jacob Zuma, in his State of the Nation address on 9 February 2012, placed the company at the centre of government’s drive to boost future economic growth and job creation through infrastructure development.

Through the MDS, Transnet will spend R300 billion over a seven-year period and will create up to 220 000 new job opportunities. The MDS will see Transnet meet market demand through a strong investment focus and accelerated economic transformation, ultimately poising Transnet and the country for sustainable growth. “Over the next seven years, we will invest R300 billion in expanding South Africa’s railways, ports and pipelines,” says Brian Molefe, Group Chief Executive: Transnet. “We will position South Africa as a transshipment hub for sub-Saharan Africa, cementing the country’s position as a gateway to the African continent, which is one of the world’s fastest growing economic regions.” The economic stimulus will be further amplified by a more developmental approach to procurement, skills development and energy efficiency.

Transnet will satisfy validated demand by accelerating investment in freight logistics.
capacity and support the reliable, efficient and cost-effective movement of bulk and manufactured goods. This, in turn, will stimulate a significant increase in freight volumes and encourage a considerable modal shift from road to rail, thereby reducing costs and carbon emissions. This will increase Transnet’s energy demand, providing an incentive to improve efficiency and explore innovation.

**MDS OUTCOMES**

The successful implementation of the MDS will radically alter Transnet’s organisational make-up. With its headcount set to increase by 25% over the next seven years, the company will become one of the largest employers in South Africa. Transnet will also become one of the top five global freight railways and one of the top five companies in South Africa in terms of revenue. “In helping to shape and restructure our economy, the MDS will also significantly change Transnet,” Molefe explains. “Transnet will have a strengthened financial position: the MDS will see the company’s revenue grow from R46 billion in 2011/12 to R128 billion in 2018/19, enabled by strong volume growth.”

The MDS will see Transnet spending R205 billion on rail projects, with R151 billion invested in general freight business by 2019. As a result, rail volumes are anticipated to increase from 200 to 350 million tons during the seven-year period. Globally, the investment will position the country as a key investment hub on the continent. In practical terms, the investments made will lead to unparalleled freight efficiency, and so reduce the transport costs of companies operating in South Africa.
**KEEPING IT LOCAL**

The MDS promotes localisation, transformation and empowerment. Transnet has developed localisation initiatives when dealing with future international suppliers. These will include on-the-job training and apprenticeships in international supply contracts, provision of jobs and procurement opportunities to rural areas where facilities are located, and providing assistance to small business to nurture innovation and create jobs. Approximately R4.2 billion is expected to be spent over the seven-year period on small business promotion. Transformation initiatives include collaborating with suppliers to meet the South African government’s transformation and empowerment objectives.

Underpinning the MDS is a commitment to sustainability in everything Transnet does – to ensure the company creates lasting economic, social and environmental value for present and future generations.

**SEVEN-YEAR FORECAST**

**CAPITAL INVESTMENT PROGRAMME**

- **R300.1bn**
- **R205.2bn** will be allocated to rail projects and **R151.1bn** to general freight.

**EXPANSION**

- **Expansion of export coal** from 68.0mt to 97.5mt.
- **Expansion of iron ore export** from 52.8mt to 82.5mt.
- **Growth of containers handled at Transnet ports** from 4.3 million TEUs to 7.6 million TEUs.

**16%**

Anticipated revenue growth per annum over the seven-year period.

R213.6bn of the required funding will be generated from operating cash flows.
GROWTH PATH

The positive effects of Transnet’s MDS infrastructure growth will be felt throughout South Africa and will position the country as a world-class logistics hub.

A 2004 report by the World Bank shows that a country’s economy improves—and income inequality declines—as infrastructure grows. Transnet is well aware of the positive effects of infrastructure development and is mindful of its key role not only in South Africa but in the greater Southern African region. As Stanlib economist Kevin Lings noted in April: “[This] infrastructure … has the potential to help expand exports as well as improve the efficiency of domestic business activity.” Accordingly, investment in growth-supporting infrastructure is key to Transnet’s far-sighted and innovative MDS.

WHAT’S IN THE PROJECT LINE-UP?
The areas targeted for infrastructural development are, broadly, rail freight, ports and the New Multi-Product Pipeline (NMPP). The goal is to create a complementary, integrated system of regional ports and rail corridors to create a transshipment hub linking southern Africa with the rest of the world.

WHERE IT’S HAPPENING: RAIL FREIGHT
Transnet’s operations reflect a significant shift from road to rail. As such, the company has made a huge investment (R150.8 billion) in general freight business (GFB) to ensure rail capacity growth meets market demand volumes, which are estimated to grow from 79.7 million tons per annum (mtpa) to 170.2mtpa by 2019. This move makes good economic and environmental sense: rail transport is less damaging to the country’s roads; it produces lower carbon emissions; and it reduces the costs of doing business. Consequently, most of the capital investment—about R205 billion—will be allocated to general freight and freight rail, including developing the Waterberg line in northern Limpopo. This will enable the Waterberg to become the country’s next coal hub once the Witbank reserves have been exhausted.

An increase in capacity will result in greater volumes of export coal, export iron ore and export manganese. South Africa aims to be the world’s largest manganese exporter and the fourth largest exporter of iron ore to China. Coal exports will increase to 97.5mtpa, iron ore exports to 82.5mtpa, and manganese exports will grow to 16mtpa in the next seven years. An increase in fleet (wagons) and improvement to infrastructure is essential in facilitating the upsurge of these supplies.
PORTS
Transnet will spend R151 billion upgrading South Africa’s old ports and creating new ones. Capacity will be expanded to cover a total landside area of 9 218 hectares, reflecting growth of 70%. The total quayside length will become 92 kilometres – up by a massive 170%.

Richards Bay and Maputo: A proposed link to the Swaziland rail network will provide additional capacity for general freight exports to Richards Bay and Maputo. The ‘Maputo corridor’ will connect Gauteng, Limpopo and Mpumalanga with the Mozambican capital.

Durban: This busy port, which connects demand-heavy Gauteng with the coast, handles two-thirds of all South African port traffic. Berths at the existing port will be deepened and widened, while a brand-new “dig-out” port will be created at the former Durban airport site in order to meet an anticipated six-fold increase in container traffic.

Port Elizabeth and Ngqura: The ports at Port Elizabeth and Ngqura service the Eastern Cape hinterland and act as a secondary gateway to Gauteng. Ngqura is also well located to optimise maritime transshipment traffic between the east and west coasts of the continent. Two new berths and a proposed new outer basin will help meet increased demand at Ngqura.

Cape Town: Cape Town container demand is expected to quadruple over the next 30 years, with current expansion projects sufficient to meet demand until approximately 2026.

Saldanha Bay: A Multi Purpose Terminal will be developed to facilitate exports of globally sought-after commodities from the Northern Cape interior.

NMMP
A 712km New Multi-Product Pipeline (NMMP) between Gauteng and Durban, doubling carrying capacity of refined petroleum products, at a cost of R11 billion, will boost the efficacy of the vital North-South corridor. Increasing demand for fuel in Gauteng necessitated a new pipeline between Durban and South Africa’s economic hub. Transnet has invested 7.5 billion in the pipeline, which, when complete, will be able to transport petrol, diesel, jet fuel and gas from the Port of Durban to a terminal in Heidelberg at a phenomenal speed. “We are now able to concurrently run the Durban to Johannesburg pipeline and the NMPP with petroleum products at some three million litres per hour,” says Brian Molefe, Group Chief Executive: Transnet.

THE FUTURE LOOKS BRIGHT!
Growth in infrastructure – and its efficiency and productivity benefits – will continue well beyond 2019. Informal projections currently being made extend as far as 2041.

<table>
<thead>
<tr>
<th>General Freight</th>
<th>Iron Ore Freight</th>
<th>Maritime Containers</th>
<th>Coal Freight</th>
</tr>
</thead>
<tbody>
<tr>
<td>UP BY 90mt</td>
<td>UP BY 30mt</td>
<td>UP BY 3 300 TEUs</td>
<td>UP BY 30mt</td>
</tr>
<tr>
<td>113%</td>
<td>57%</td>
<td>76%</td>
<td>44%</td>
</tr>
</tbody>
</table>
SOUND INVESTMENT

Transnet will continue to invest significant resources in recruitment, development, deployment and retention of key operational, technical and managerial skills to facilitate growth.

Based on Transnet’s commercial needs and South Africa’s broad macroeconomic and development objectives, the MDS has been subdivided into eight focus areas:

- Optimising capital investments and growing the asset base.
- Growing volumes and market share.
- Improving operational efficiencies.
- Securing funding and ensuring continued financial strength.
- Prioritising SHEQ, sustainability and risk.
- Meeting complementary objectives through job creation and skills development.
- Creating regulatory certainty.
- Promoting strategic enablers, governance and creating a high performance culture.

The company will grow rail volumes in key general freight business and export lines, ensure security of fuel supply, increase market share by addressing the demand of domestic producers for rail services, allocate capacity to emerging miners and focus on integrating commercial services across the operating divisions to offer a seamless customer service.

### MDS: MAJOR AREAS OF CAPITAL INVESTMENT AND CAPACITY CREATION

<table>
<thead>
<tr>
<th>Area of investment</th>
<th>Existing capacity</th>
<th>Capacity created over 7 years</th>
<th>Future capacity</th>
<th>Utilisation 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>TFR Coal Line R31.6bn</td>
<td>68.0 mtpa</td>
<td>29.5 mtpa</td>
<td>97.5 mtpa</td>
<td>100%</td>
</tr>
<tr>
<td>TFR Ore Line R18.6bn</td>
<td>52.8 mtpa</td>
<td>29.7 mtpa</td>
<td>82.5 mtpa</td>
<td>100%</td>
</tr>
<tr>
<td>TFR General Freight R150.8bn</td>
<td>79.7 mtpa</td>
<td>90.5 mtpa</td>
<td>170.2 mtpa</td>
<td>100%</td>
</tr>
<tr>
<td>Maritime Containers* R24.1bn</td>
<td>Terminals: 5.0m TEUs</td>
<td>Terminals: 4.3m TEUs</td>
<td>Terminals: 9.3m TEUs</td>
<td>Terminals: 79%</td>
</tr>
<tr>
<td></td>
<td>Ports: 5.5m TEUs</td>
<td>Ports: 4.0m TEUs</td>
<td>Ports: 9.4m TEUs</td>
<td>Ports: 79%</td>
</tr>
<tr>
<td>Bulk R31.6bn</td>
<td>Terminals: 79.5 mtpa</td>
<td>Terminals: 44.3 mtpa</td>
<td>Terminals: 123.8 mtpa</td>
<td>Terminals: 99%</td>
</tr>
<tr>
<td></td>
<td>Ports: 196.0 mtpa</td>
<td>Ports: 36.0 mtpa</td>
<td>Ports: 232.0 mtpa</td>
<td>Ports: 95%</td>
</tr>
<tr>
<td>Break-bulk R4.0bn</td>
<td>Terminals: 15 mtpa</td>
<td>Mainly sustaining</td>
<td>Terminals: 15 mtpa</td>
<td>Terminals: 80%</td>
</tr>
<tr>
<td></td>
<td>Ports: 29 mtpa</td>
<td></td>
<td>Ports: 29 mtpa</td>
<td>Ports: 52%</td>
</tr>
<tr>
<td>NMPP R7.5bn</td>
<td>4.0 billion litres pa</td>
<td>4.4 billion litres pa</td>
<td>8.4 billion litres pa</td>
<td>92%</td>
</tr>
</tbody>
</table>

* TNPAs container capacity emanating from Multi-purpose Terminal and Maydon Wharf is shown under break-bulk
WINNING TEAM

Transnet aims to partner a strong base of suppliers to boost economic transformation while meeting its customers’ needs.
The optimal management of suppliers of goods and services is of great importance within the MDS. The plan aims to widen and strengthen Transnet’s supplier base to achieve efficient, cost-effective procurement that accords with the government’s economic development objectives – which include skills development, job creation and Broad-Based Black Economic Empowerment (B-BBEE).

In line with its Competitive Supplier Development Programme (CSDP), Transnet also aims to encourage localisation of the supply chain by encouraging direct investment from international suppliers into local businesses, and assisting their efficiency so that they can reliably provide quality goods and services – both to Transnet and to export markets.

BUILDING SUPPLIER RELATIONSHIPS
Transnet began implementing local supplier development programmes in 2008. The purpose of the current programme, the CSDP, is to localise “the manufacturing of equipment, focusing on skills development, job creation and preservation,” says Mboniso Sigonyela, General Manager: Corporate and Public Affairs, Transnet.

The CSDP will boost suppliers either directly, through procurement, or indirectly, by supporting downstream suppliers. The scope for suppliers will vary depending on the level of commodity type. Transnet will look for key outcomes and targets in evaluating tenders from the various categories of potential suppliers, and will measure winning bidders’ delivery to targets.

KEEPING THE CUSTOMER SATISFIED
Transnet’s major domestic customers represent a broad spectrum of the economy, including shipping, mining, vehicle manufacturers, agriculture, timber and forest products, fuel companies and exporters of commodities. Through the CSDP and wider MDS, Transnet plans to boost growth and improve productivity – thus satisfying its customers’ needs and positioning South Africa as a destination of choice for global investors.

R2.9bn has already been spent by international suppliers on local content

52% of content for locomotives will be local by 2019

R4.2bn is earmarked to promote small business

MAKING A CONTRIBUTION
Under the CSDP, suppliers will be expected to:
- Ensure uninterrupted supply.
- Help reduce operating costs.
- Reduce reliance on imported products.
- Create and preserve jobs.
- Promote small business development.
- Enhance local skills and intellectual property.
- Help Transnet become competitive in the international market.

GOING LOCAL
- Almost R3 billion has already been spent on local content by international suppliers.
- International suppliers will transfer knowledge and expertise to local suppliers.
- International suppliers will provide apprenticeships and on-the-job training.
- Jobs and procurement opportunities will be created in rural areas.
- Collaboration with suppliers will help meet the government’s transformation and empowerment objectives.
The MDS promises a jobs and skills bonanza in the all-important realm of human capital.

A reliable indicator of the effectiveness of any economic strategy is its effect on the workforce. Employment in South Africa has long been recognised as a key political and economic consideration, and, like elsewhere in the world, its successful management and growth can help transform the economy from competent to outstanding. One of the key focus areas of the MDS is employment and the plan aims not only to create more jobs, but also to build skills in order to meet the government’s transformation and empowerment objectives.

CREATING JOBS

“State-owned companies and major businesses have a responsibility to step forward, invest and create jobs,” says Brian Molefe, Group Chief Executive: Transnet. By 2018/19, the MDS is expected to have added 588 000 jobs to the South African economy, including 15 000 direct jobs within Transnet. All nine provinces will benefit from the job-creation drive, but most of the new employment opportunities will be in KwaZulu-Natal, the Western Cape and the Eastern Cape.

TEACHING SKILLS

Core to the MDS will be an ongoing skills training programme to harness and maximise South Africa’s talent, improve efficiency and enhance productivity. “In order for the economy and businesses to grow, we need to address the skills required both for current and future operations,” says Dr Matthews Phale, Senior Manager: Group Capacity Building, Transnet. Adds Karl Socikwa, Chief Executive: Transnet Port Terminals, “We have to ensure that, as we create sustainable jobs through this level of investment… we develop our people to be able to operate the infrastructure.”

Resources will be allocated to the training of artisans, engineers and engineering technicians. “Our commitment is to train more people than we need through our specialised schools of rail, ports and pipelines,” says Mboniso Sigonyela, General Manager: Corporate and Public Affairs, Transnet. The company’s significant investment in human capital “means we’ll train people beyond our skills requirements.”
R7.6bn TO BE SPENT ON TRAINING

15,000 ADDITIONAL DIRECT JOBS CREATED

MORE ENTRANTS TO SCHOOLS OF EXCELLENCE

R4.6bn FOR BURSARIES AND GRANTS

317 TECHNICIANS IN TRAINING

2,000 APPRENTICES IN TRAINING AT ALL TIMES

ENGINEERING BURSARIES INCREASED TO 543 students

requirement [and] will be releasing the rest into the economy,” adds Molefe.

BUILDING A BETTER CULTURE
The MDS also addresses other significant employment-related considerations; for example, it aims to promote core human values such as the dignity of the individual and respect towards others. It has a strong emphasis on a safety culture that embraces employee health and wellbeing. Aware of its corporate responsibility, Transnet will ensure that critical vacancies are filled and employment equity targets met. It is also committed to a “union-engagement mode” to offering employee rewards and incentives over and above wages.

AN IMPRESSIVE TRACK RECORD
Transnet already has a long and proud history of job creation, training and skills transfer. Through its Transnet Foundation it has been responsible for socioeconomic development projects in various spheres, including health, education, sport and employee volunteer programmes – all directed towards the ongoing upliftment and economic participation of South Africans.
A new future requires new thinking, a new strategy, a new revitalised company. Transnet is in the process of reinventing itself to take on the challenges of the next decade, and beyond.

South Africa is Africa’s commercial and industrial giant. Its GDP is double that of oil-rich Nigeria, the continent’s second-largest economy, and larger than that of Egypt and Algeria, the third and fourth largest economies on the continent, combined. Now South Africa is gearing up to take first steps into a new future, a future built on the foundation of a well-developed multimodal transport network and intra-regional trade. At the forefront of this initiative is Transnet, the largest and most strategic link in South Africa’s freight logistics chain.

GROWTH STRATEGY
With a philosophy of “deliver now, build for the future”, Transnet is focussed on building and strengthening its role as a strategic business partner to its clients and will undoubtedly play a significant role in South Africa’s economic growth and development. Through this progressive, building-block approach, the company’s sustainability and future are assured. It also bolsters its operations with a number of strategically placed specialist divisions, such as Transnet Capital Projects, which works to deliver projects on time and within budget.

WHY DO BUSINESS WITH US
Transnet Freight Rail (TFR): The MDS will catapult TFR, which has the lion’s share of the investment programme, into the world’s fifth biggest rail freight company. Rail volumes will increase from approximately 200 million tons to 350 million tons over the next seven years. By 2019, TFR will have increased its market share of container traffic to 92% from the current 79%. This increase will have a major impact on reducing the transport costs of doing business in South Africa.
Transnet Rail Engineering (TRE): Recognised as a Centre of Excellence by original equipment manufacturers (OEMs), TRE, through its seven well-equipped ISO-certified factories and a workforce of 14 500 qualified personnel, extends its services beyond South Africa to Africa and other international customers.

Investor confidence in Transnet was confirmed by the company’s announced results for the financial year ending 31 March 2012.

Transnet National Ports Authority (TNPA): As the landlord of South Africa’s eight commercial ports, TNPA is responsible for the safe and efficient functioning of the national port system. TNPA plans, provides and maintains port infrastructure, port services, navigation and manoeuvring assistance to vessels within port limits and along the coast.

Transnet Port Terminals (TPT): Achieving fast and efficient cargo movement on and off, to and from ships on a day-to-day basis is the responsibility of TPT. In excess of 250 million tons of cargo, 4.5 million TEUs, 450 000 motor vehicles, 60 million tons of coal and 50 million tons of ore move through South African ports annually.

Transnet Pipelines (TPL): As the custodian of the country’s strategic pipeline assets, TPL handles an annual average throughput of some 16 billion litres of liquid fuel and more than 450 million cubic metres of gas. The liquid products include crude oil as well as diesel, leaded and unleaded petrol and aviation turbine fuels.

BLACK ECONOMIC EMPOWERMENT
In the process of implementing the MDS, Transnet will create an estimated 588 000 job opportunities across the economy. These jobs and contracts will be allocated in line with Transnet’s Black Economic Empowerment policy, which is based on the Broad-Based Black Economic Empowerment Act of 2003 (B-BBEE Act). This policy, established within a framework of promoting black economic empowerment within the company, and outside the company, includes an appropriate focus on women, youth, people with disabilities and people living in rural areas.

INVESTOR CONFIDENCE
In July this year, Transnet successfully raised a US$1 billion (R8.3 billion), 10-year bond at a coupon (interest) rate of 4.00%. The bond issuance was significantly oversubscribed, confirming the confidence international financial markets have in Transnet’s
SOLID FINANCIAL RESULTS
Investor confidence in Transnet was confirmed by the company’s announced results for the financial year ending 31 March 2012. Transnet moved more freight in the past financial year than ever before. With a more than 10% growth in rail volumes, it carried an unprecedented 201 million tons. Brian Molefe, Group Chief Executive: Transnet, also reported an 18% improvement in operational efficiencies and that revenue was up by 20.9% to almost R46 billion. Earnings before tax grew by 19.8% to R18.9 billion. Impressive figures to say the least!

The success of the MDS will be due in part to the continuance of Transnet’s prudent financial management policies. This will carry forward the company’s financial stability and strength, and promote further productivity and operational efficiency gains.

ROUNDING UP
The MDS is a bold plan. However, in looking at the company, its leaders and its employees, as well as taking into account its recent and very impressive achievements, it is likely to succeed.

The pragmatism and financial sensibility of funding most of the growth strategy internally from operations over seven years builds confidence, as does using the company’s gearing and cash interest cover to maintain its investment grade credit rating. In addition, mitigating risk through robust implementation plans and by partnering with key stakeholders also builds confidence – confidence that Transnet will succeed with its MDS.

In so doing, it will position Transnet as Africa’s top-tier supply chain logistics provider. More importantly, it will give South Africa a world-class rail-freight infrastructure that will carry this country well into the future and realise the economic growth that South Africa needs to uplift its people and create a better life for all.
“Over the next seven years, Transnet’s R300-billion infrastructure spending will significantly reduce the cost of doing business in South Africa and the rest of Africa.”

- BRIAN MOLEFE, Group Chief Executive: Transnet
“We need to take charge of our destinies, to put our dreams into practical purpose to ensure that they come to fruition. This means making sure that programmes like our MDS work.”

- BRIAN MOLEFE, Group Chief Executive: Transnet