Transnet Market Demand Strategy
10 April 2012
Market Demand Strategy overview

Capital investment programme

Operational efficiencies

Financial impact

Socio-economic impact

Risks and implementation plan

Conclusion
Market Demand Strategy

- **R300bn** capital investment programme
- Expanding *rail, port and pipeline infrastructure*
- **Increase** in capacity to meet market demand
- Continued *financial stability* and strength
- Significant *productivity and operational efficiency* improvements
- **Shift from road to rail** – reducing the cost of doing business and carbon emissions
- Enabling *economic growth*
- **Job creation**, skills development, *localisation*, empowerment and transformation opportunities
Based on Transnet's solid foundations, it aims to capture identified growth opportunities over the next 7 years.

**Enablers**
- **Capital investment (Rbn)**
  - Last 7 years: 118
  - Next 7 years: 300
  - Increase: +154%
- **Personnel ('000 FTEs)**
  - Last 7 years: 59
  - Next 7 years: 74
  - Increase: +25%

**Volume Highlights**
- **TFR Export coal (mt)**
  - Last 7 years: 68
  - Next 7 years: 98
  - Increase: +44%
- **TFR Export iron ore (mt)**
  - Last 7 years: 53
  - Next 7 years: 83
  - Increase: +57%
- **TFR GFB (mt)**
  - Last 7 years: 80
  - Next 7 years: 170
  - Increase: +113%
- **Maritime Containers ('000 TEUs)**
  - Last 7 years: 4,344
  - Next 7 years: 7,646
  - Increase: +76%

**Financial Highlights**
- **Revenue (Rbn)**
  - 2011/12 LE: 46
  - 2018/19: 128
  - Increase: +178%
- **EBITDA (Rbn)**
  - 2011/12 LE: 19
  - 2018/19: 68
  - Increase: +258%
- **Cashflows from operating activities (Rbn)**
  - 2011/12 LE: 16
  - 2018/19: 51
  - Increase: +219%
MDS will enable growth in key commodities and will position South Africa globally as...

...a key thermal **coal exporter**

...an increasingly important 4th **largest supplier of iron ore to China**

...the **leading manganese exporter** globally

...the **leading logistics hub** for sub-Saharan Africa

...a **globally recognised benchmark** for container and heavy haul operations
Transnet's capital investment over the next 7 years will be a significant step up...

### Capital investment

**Rbn**

<table>
<thead>
<tr>
<th>Year</th>
<th>Maintenance</th>
<th>Expansion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/12 LE</td>
<td>25</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>12/13</td>
<td>31</td>
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<tr>
<td>13/14</td>
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<td>15/16</td>
<td>48</td>
<td>37</td>
<td>85</td>
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<tr>
<td>16/17</td>
<td>56</td>
<td>42</td>
<td>98</td>
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<tr>
<td>17/18</td>
<td>47</td>
<td>58</td>
<td>105</td>
</tr>
<tr>
<td>18/19</td>
<td>41</td>
<td>37</td>
<td>78</td>
</tr>
</tbody>
</table>

**Total** = 300

1 Includes PSP initiatives of ~R5bn
The majority of the investments will be in General Freight and Freight Rail

Commodity split (Rbn)

- GFB: 151
- Export Coal: 26
- Export Iron Ore: 24
- Containers (Ports): 25
- Piped Products: 32
- Break Bulk: 9
- Bulk: 3
- Other: 2

Major programmes

- GFB rail capacity growth to meet market demand volumes from 79.7mt to 170.2mt
- Increase export coal to 97.5mt – including Waterberg
- Increase export iron ore to 82.5mt
- Increase export manganese to 12mt
- Completion of the New Multi-Product Pipeline (NMPP)

Divisional split (Rbn)

- TFR: 201
- TPT: 4
- TRE: 47
- TPL: 33
- TNPA: 11
- Other: 4

Increase in fleet and improvement to the infrastructure.
This will result in additional capacity across all commodities

- **Export coal (mt)**
  - Capacity expansion between 2015 – 2017
  - Rail capacity from 2018 in line with market demand
  - Capacity expansion between 95 and 98+44%
  - 2015 – 2017: Rail capacity from 2018 in line with market demand

- **Export iron ore (mt)**
  - Port capacity expansion between 2014 – 2016
  - Capacity from 2019 in line with market demand
  - Capacity expansion between 53 and 83+57%
  - 2014 – 2016: Capacity from 2019 in line with market demand

- **GFB (mt)**
  - Progressive increase YoY to meet market demand
  - Market demand met in 2017
  - Capacity expansion between 80 and 170+113%

- **Maritime containers (’000 TEUs)**
  - Container growth of 76% expected as capacity at ports exceeds demand
  - Container growth of 76% expected as capacity at ports exceeds demand
  - 2011 – 2019: Container growth of 76% expected as capacity at ports exceeds demand

### comparative table

<table>
<thead>
<tr>
<th>Year</th>
<th>LE</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
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<tbody>
<tr>
<td>Coal</td>
<td>68</td>
<td>75</td>
<td>79</td>
<td>84</td>
<td>84</td>
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<td>95</td>
<td>98</td>
</tr>
<tr>
<td>Iron ore</td>
<td>53</td>
<td>60</td>
<td>62</td>
<td>62</td>
<td>62</td>
<td>70</td>
<td>78</td>
<td>83</td>
</tr>
<tr>
<td>GFB</td>
<td>80</td>
<td>90</td>
<td>97</td>
<td>115</td>
<td>137</td>
<td>151</td>
<td>161</td>
<td>170</td>
</tr>
<tr>
<td>Containers</td>
<td>4,344</td>
<td>4,821</td>
<td>5,250</td>
<td>5,576</td>
<td>6,087</td>
<td>6,530</td>
<td>7,094</td>
<td>7,646</td>
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</tbody>
</table>
There will be strong growth in General Freight

**Containers on rail ('000 TEUs)**

- 2011/12: 712
- 2012/13: 833
- 2013/14: 924
- 2014/15: 1,026
- 2015/16: 1,139
- 2016/17: 1,264
- 2017/18: 1,465
- 2018/19: 1,558

Growth: +119%

**Domestic iron ore (mt)**

- 2011/12: 7.7
- 2012/13: 8.8
- 2013/14: 8.9
- 2014/15: 10.9
- 2015/16: 14.5
- 2016/17: 16.6
- 2017/18: 17.5
- 2018/19: 18.0

Growth: +134%

**Eskom coal (mt)**

- 2011/12: 7.3
- 2012/13: 12.0
- 2013/14: 13.5
- 2014/15: 17.2
- 2015/16: 23.0
- 2016/17: 25.7
- 2017/18: 27.3
- 2018/19: 29.6

Growth: +305%

**Liquid bulk (mKt)**

- 2011/12: 2.4
- 2012/13: 2.8
- 2013/14: 2.8
- 2014/15: 2.9
- 2015/16: 3.0
- 2016/17: 3.4
- 2017/18: 3.5
- 2018/19: 3.5

Growth: +46%

**Manganese (mt)**

- 2011/12: 4.8
- 2012/13: 4.8
- 2013/14: 5.5
- 2014/15: 5.5
- 2015/16: 7.7
- 2016/17: 8.0
- 2017/18: 9.7
- 2018/19: 11.7

Growth: +144%

**Automotives ('000 units)**

- 2011/12: 148
- 2012/13: 240
- 2013/14: 366
- 2014/15: 446
- 2015/16: 534
- 2016/17: 591
- 2017/18: 631
- 2018/19: 648

Growth: +338%
Significant improvement in rail operational performance will be achieved

**General Freight – Loco efficiency** ('000 GTK/loco/month)

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<thead>
<tr>
<th></th>
<th>11/12 LE</th>
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<th>13/14</th>
<th>14/15</th>
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<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,246</td>
<td>5,500</td>
<td>5,543</td>
<td>5,752</td>
<td>6,115</td>
<td>6,316</td>
<td>6,586</td>
<td>7,106</td>
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</table>

+35%

**General Freight – Wagon turnaround time** (days)

<table>
<thead>
<tr>
<th></th>
<th>11/12 LE</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
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<td>11,6</td>
<td>9,2</td>
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<td>8,2</td>
<td>8,0</td>
<td>7,7</td>
<td>7,4</td>
<td>7,2</td>
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</table>

-38%

**Export coal – Loco efficiency** ('000 GTK/loco/month)

<table>
<thead>
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<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
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<tr>
<td></td>
<td>24,376</td>
<td>24,700</td>
<td>26,810</td>
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<td>27,201</td>
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</table>

+12%

**Export coal – Wagon cycle time** (hours)

<table>
<thead>
<tr>
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<th>12/13</th>
<th>13/14</th>
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<td>56</td>
<td>56</td>
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</tbody>
</table>

-10%

**Export iron ore – Loco efficiency** ('000 GTK/loco/month)

<table>
<thead>
<tr>
<th></th>
<th>11/12 LE</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
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<tbody>
<tr>
<td></td>
<td>43,000</td>
<td>44,000</td>
<td>55,000</td>
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<td>55,000</td>
<td>55,000</td>
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+28%

**Export iron ore – Wagon cycle time** (hours)

<table>
<thead>
<tr>
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<th>11/12 LE</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
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<tbody>
<tr>
<td></td>
<td>90</td>
<td>78</td>
<td>76</td>
<td>76</td>
<td>76</td>
<td>76</td>
<td>76</td>
<td>76</td>
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</tbody>
</table>

-16%
Productivity improvements and improved asset utilisation is expected at the Ports

**Moves per gross crane hour (GCH) – DCT Pier 1**

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>LE</td>
<td>28</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>32</td>
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</tbody>
</table>

+14%

**Moves per gross crane hour (GCH) – DCT Pier 2**

<table>
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</thead>
<tbody>
<tr>
<td>LE</td>
<td>23</td>
<td>28</td>
<td>30</td>
<td>32</td>
<td>33</td>
<td>35</td>
<td>35</td>
<td>35</td>
</tr>
</tbody>
</table>

+52%
The Market Demand Strategy will build on Transnet’s strong financial performance...

**Revenue** (Rbn)

<table>
<thead>
<tr>
<th>Year</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>LE</td>
<td>46</td>
<td>54</td>
<td>64</td>
<td>76</td>
<td>89</td>
<td>102</td>
<td>115</td>
<td>128</td>
</tr>
</tbody>
</table>

+178%

**EBITDA** (Rbn)

<table>
<thead>
<tr>
<th>Year</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>LE</td>
<td>19</td>
<td>23</td>
<td>31</td>
<td>39</td>
<td>49</td>
<td>56</td>
<td>61</td>
<td>68</td>
</tr>
</tbody>
</table>

+258%

**Cashflows from operating activities** (Rbn)

<table>
<thead>
<tr>
<th>Year</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
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</thead>
<tbody>
<tr>
<td>LE</td>
<td>16</td>
<td>18</td>
<td>23</td>
<td>28</td>
<td>37</td>
<td>43</td>
<td>47</td>
<td>51</td>
</tr>
</tbody>
</table>

+219%

* Tariff increases on average are limited to CPI +2%
Transnet will maintain a solid financial position and credit rating

**EBITDA margin (%)**

- 2011/12 LE: 41.2%
- 2012/13: 41.8%
- 2013/14: 48.2%
- 2014/15: 50.9%
- 2015/16: 54.9%
- 2016/17: 53.3%
- 2017/18: 53.6%
- 2018/19: >40%

**ROTA (%)**

- 2011/12 LE: 7.3%
- 2012/13: 8.5%
- 2013/14: 9.9%
- 2014/15: 11.5%
- 2015/16: 13.4%
- 2016/17: 13.3%
- 2017/18: 13.0%
- 2018/19: ≥12.2%

**Gearing (%)**

- 2011/12 LE: 43.2%
- 2012/13: 45.5%
- 2013/14: 47.3%
- 2014/15: 47.0%
- 2015/16: 46.1%
- 2016/17: 45.3%
- 2017/18: 42.2%
- 2018/19: 37.0%

**Cash interest cover (times)**

- 2011/12 LE: 3.4
- 2012/13: 3.6
- 2013/14: 3.5
- 2014/15: 3.8
- 2015/16: 4.2
- 2016/17: 4.3
- 2017/18: 4.3
- 2018/19: >3.0x

* Excludes Ports Regulator Clawback
~70% of capital investment will be funded from operating cashflows – Transnet is confident it can raise the balance externally

### Probable sources of funding (Rbn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Commercial paper</th>
<th>DFIs/ECAs/GMTN</th>
<th>Domestic bonds</th>
<th>Bank loans/other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>16%</td>
<td>28%</td>
<td>41%</td>
<td>15%</td>
</tr>
<tr>
<td>2013/14</td>
<td>16%</td>
<td>32%</td>
<td>33%</td>
<td>19%</td>
</tr>
<tr>
<td>2014/15</td>
<td>21%</td>
<td>33%</td>
<td>33%</td>
<td>14%</td>
</tr>
<tr>
<td>2015/16</td>
<td>20%</td>
<td>34%</td>
<td>29%</td>
<td>17%</td>
</tr>
</tbody>
</table>

### Potential further sources of funding

- Second issuance – GMTN
- Private placements
- Further funding with ECAs
- Syndicated loan market
- Asset-backed financing
- Bonds in other markets (e.g. Yen, USD, Sukuk)
MDS is expected to create 588,000 job opportunities at its peak with a large focus on skills and capacity building.

R7,6bn to be spent on training over the next 7 years

- Additional **15,000 direct jobs**
- Increased intake in schools of excellence
  - **R4,6bn** spent on bursaries and grants
  - **317 technicians in training** by 2018/19
- Step up recruitment in critical skills and expand annual intake
  - **2,000 apprentices** at all times
  - Increase engineering bursar intake to **543 students** in 2018/19

*Job creation impact of MDS on South Africa ‘000 people*

<table>
<thead>
<tr>
<th>Year</th>
<th>Economy wide impact</th>
<th>Indirect jobs</th>
<th>Transnet incl. contractors</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/12 LE</td>
<td>59</td>
<td>64</td>
<td>66</td>
</tr>
<tr>
<td>12/13</td>
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<td>17/18</td>
<td>588</td>
<td>588</td>
<td>255</td>
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<tr>
<td>18/19</td>
<td>570</td>
<td>570</td>
<td>249</td>
</tr>
</tbody>
</table>
The impact of infrastructure development will be felt nation-wide

**7 year capital investment by region**

**Provisional contribution to direct and indirect jobs ('000)**

<table>
<thead>
<tr>
<th>Region</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
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<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
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</thead>
<tbody>
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<td>Free State</td>
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<tr>
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<td>North West</td>
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<td>Limpopo</td>
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<td>Western Cape</td>
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<tr>
<td>Eastern Cape</td>
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<td>Northern Cape</td>
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<td>Mpumalanga</td>
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<tr>
<td>KwaZulu-Natal</td>
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</tr>
</tbody>
</table>

1 National – countrywide investments – R153,3bn
MDS will promote localisation, transformation and empowerment

Potential local content commitment for locomotives (%)

Localisation initiatives:
- R2.9bn already spent on local content by international suppliers
- International suppliers to transfer knowledge and expertise to up-skill local suppliers
- On-the-job training and apprenticeships will be built into international supplier contracts
- Provision of jobs and procurement opportunities to rural areas where facilities are located
- Assistance will be provided to small business to foster innovation and create jobs
- ~R4.2bn expected to be spent over the next 7 years on small business promotion

Transformation initiatives:
- Collaboration with suppliers to meet Government’s transformation and empowerment objectives
MDS will reduce the cost of doing business by promoting a shift from road to rail

A shift from road to rail...

<table>
<thead>
<tr>
<th>Total supply chain cost(^1)</th>
<th>Road</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZAR/TEU</td>
<td>57,000</td>
<td>44,000</td>
</tr>
</tbody>
</table>

-23%

...will lower the cost of doing business

- **Reduction in logistics costs** due to the lower factor costs of rail (0.5% of GDP)
- Additional reduction from **efficiency improvements** and coastal transshipments
- Preliminary **achievements** to lowering the cost of business:
  - Eskom road to rail migration
  - New Multi-Product Pipeline (NMPP)
  - Moving containers on rail

\(^1\) Container with vehicle engines imported from Shanghai to Gauteng
MDS will position South Africa as the integrated hub into sub-Saharan Africa

South Africa’s commitment

“As regional leaders, we carry a particular responsibility to serve as champions in driving industrial and infrastructure development both at the regional and continental levels.”

— President Jacob Zuma, June 13, 2011

Regional integration potential

Africa’s intra-regional trade is low

% intra-regional trade of total trade

<table>
<thead>
<tr>
<th>Region</th>
<th>Africa</th>
<th>America</th>
<th>Europe</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra-regional</td>
<td>12</td>
<td>67</td>
<td>79</td>
<td>87</td>
</tr>
</tbody>
</table>

Transnet’s Africa strategy initiatives in progress

Rail
- Export of wagons, locomotives and rail maintenance services
- Develop the North-South corridor
- Growth of the Maputo Corridor
- Increase collaboration: Swaziland rail link

Ports
- Promote SA as a regional trans-shipment hub (Port of Ngqura)

Pipelines
- Provision of advisory services Group
- Position SA as a skills development hub for the rest of Africa
MDS execution risks have been identified and mitigating actions have been developed

MDS faces both internal and external risks

- **Internal risks**
- **External risks**

### Mitigating Actions

**Step-up capital execution capabilities**
- Improved capital allocation
- Portfolio optimisation
- Improved capital execution
- Improve procurement process

**Increase operational efficiencies**
- Build operations **centre of excellence** at Rail and Ports
- Scheduled rail; revised fleet plan and improved network
- Develop **continuous improvement** teams to capture operational efficiencies
- Freight Rail restructured into customer focused business units that will drive accountability

**Secure volumes and customer satisfaction**
- Enhance key account management capabilities
- Develop **robust tariff methodology** and align with regulators
- **Secure volumes** through concluding **Take-or-Pay** contracts with key customers
Success ultimately depends on a broader South African partnership and support – SA citizens will reap benefits.

**Government departments**
Greater collaboration thereby creating and enabling environment for successful execution of MDS.

**Investors**
Continued support and access to cost effective funding to meet requirements.

**Transnet**
**Performance**

**Regulators**
Alignment on tariff methodology and regulatory policy to create regulatory certainty.

**Suppliers**
Partner with Transnet to deliver capital spend and achieve localisation and empowerment objectives.

**Key customers**
Alignment and collaboration on growth and expansion plans and conversion to Take-or-Pay contracts.

**Labour unions**
Labour stability to support execution and competitiveness of SA freight logistics system.

**Employees**
Increase in labour productivity to deliver on volume growth and MDS targets.
In conclusion, MDS is not only Transnet’s, but also key to South Africa’s growth strategy

The potential for South Africa is massive...
- Contribute to New Growth Path aspirations: expected to create up to **588,000 job opportunities** across the economy
- **Reduce the cost of doing business** (0.5% of GDP)
- Drive **regional integration**
- Localisation programme **supports local products and skills development**

It is financially sound
- Majority of the growth will be **funded internally** from operations
- **Gearing and cash interest cover** will maintain **investment grade credit rating**

We can execute...
- Execution risks will be **mitigated** through robust implementation plans
- **In partnership with its stakeholders, Transnet** can successfully realise the growth that MDS will bring to the country

It will improve Transnet's position...
- ...as a **top-tier logistics provider** and SA’s employer of choice
- Infrastructure development plans will create **world class freight infrastructure**
Thank You

Questions?