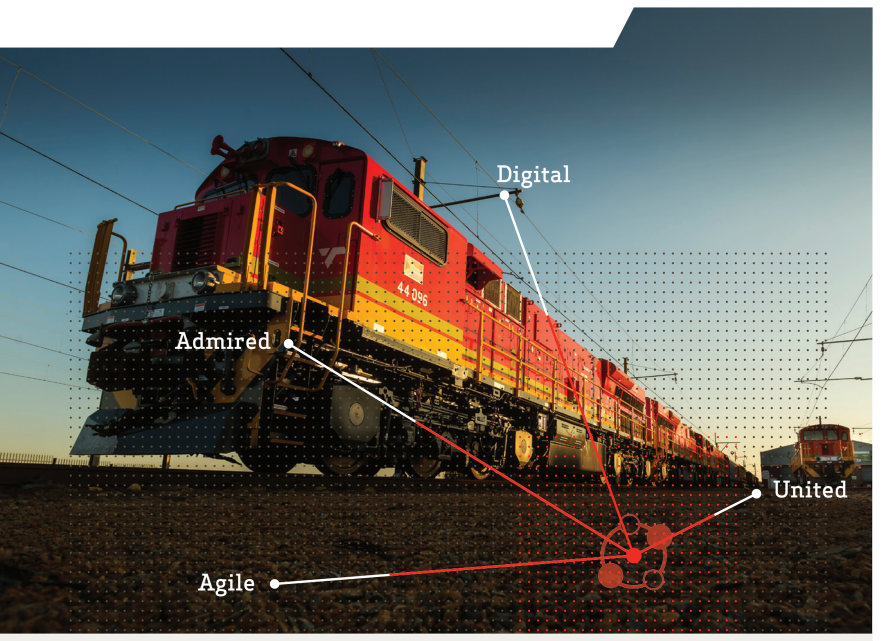
REVIEWED CONDENSED CONSOLIDATED FINANCIAL RESULTS

for the six months ended 30 September 2017

TRANSNET

delivering freight reliably



Highlights

- **Revenue** increased by **13,8%** to **R37,1 billion** for the period, driven by an **11,4%** increase in container and automotive railed volumes, a **7,9%** increase in general freight, a record **6,5%** increase in export coal railed volumes and a **6,1%** increase in port container volumes.
- **Operating expenses** increased by **10,9%** to **R20,8 billion**, mainly due to an increase in variable costs in line with higher volumes, with resultant increases in personnel, fuel and electricity costs. This, however, represented a **R2,2 billion saving** against planned costs through efficiency based cost-reduction initiatives.
- **EBITDA** increased by **17,7%** to **R16,3 billion**, with the **EBITDA margin** increasing by **1,5%** to **44,0%**.
- **Net profit** for the period increased by more than **230%** to **R3,4 billion**.
- **Gearing** is **44,0%** and cash interest cover at **3,0 times** are significantly within loan covenant requirements. Borrowings raised of **9,9 billion** during the period, reflecting the strength of Transnet's financial position.
- **Cash generated** from operations increased by **17,6%** to **R17,2 billion** reflecting the Company's strong cash generating ability.
- **Capital investment** of **R8,9 billion,** bringing expenditure during the MDS period to **R153 billion**.
- **B-BBEE** spend amounted to **R15,8 billion** – or **87,8%** of **total measured procurement spend**.
- The Company spent **2,8%** of its labour costs on **training**, focusing on artisans, engineers, and engineering technicians.
- The Company recorded a **DIFR ratio** of **0,72** – on track to celebrate the seventh consecutive year of outperforming its target. However, with one fatality reported during the period, the Company continues to analyse and review its current safety approaches and efficiency, while proactively striving 'towards zero harm'.
- An estimated **R104,3 million** was committed to sustainable community development programmes across South Africa, with **132 033** patients treated on board the Phelophepa trains and **334 734** individuals benefitting from community outreach services.

Market Demand Strategy

Our areas of focus are:

- Optimising capital investments and growing the asset base;
- Growing volumes and market share;
- Improving productivity and operational efficiencies;
- Prioritising safety, health and environment;
- Enabling regional integration;
- Creating regulatory certainty; and
- Meeting complementary National Development Plan objectives of skills development and job creation.

Income statement

for the six months ended

(in R million)	REVIEWED 30 Sept 2017	REVIEWED 30 Sept 2016	AUDITED 31 March 2017
Revenue	37 096	32 604	65 478
Net operating expenses excluding depreciation, derecognition and amortisation	(20 778)	(18 739)	(37 921)
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)	16 318	13 865	27 557
Depreciation, derecognition and amortisation	(6 428)	(8 015)	(13 471)
Profit from operations before items listed below	9 890	5 850	14086
Impairment of assets	(590)	(914)	(2 538)
Post-retirement benefit obligation expense	(67)	(74)	(243)
Fair value adjustments	18	862	1 576
Income from associates and joint ventures	–	–	20
Profit from operations before net finance costs	9 251	5 724	12901
Finance costs	(4 707)	(4 452)	(9 045)
Finance income	171	224	409
Profit before taxation	4 715	1 496	4 265
Taxation	(1 364)	(486)	(1 500)
Net profit for the period	3 351	1 010	2 765

Statement of comprehensive income

for the six months ended

(in R million)	REVIEWED 30 Sept 2017	REVIEWED 30 Sept 2016	AUDITED 31 March 2017
Net profit for the period	3 351	1 010	2 765
Other comprehensive income/(loss)	5 851	(2 381)	(3 522)
Gains/(losses) on revaluations	6 337	(347)	(742)
Cash flow hedges	(476)	(2 003)	(2 887)
Actuarial (losses)/gains on post-retirement benefit obligations	(10)	(31)	107
Taxation relating to components of other comprehensive (income)/loss	(1 641)	667	1 030
Other comprehensive income/(loss) for the period, net of taxation	4 210	(1 714)	(2 492)
Total comprehensive income for the period	7 561	(704)	273

Headline earnings summarised reconciliation

for the six months ended

(in R million)	REVIEWED 30 Sept 2017	REVIEWED 30 Sept 2016	AUDITED 31 March 2017
Net profit for the period attributable to the equity holder	3 351	1 010	2765
Profit on the disposal of property, plant and equipment	(19)	(22)	(34)
Total remeasurements	(299)	695	1 653
Investment property fair value adjustments	(214)	(187)	(182)
(Reversal of impairment)/impairment of property, plant and equipment	(85)	882	1 835
Total taxation effects of adjustments	77	(199)	(471)
Headline earnings	3 110	1 484	3 913

Statement of financial position

as at

(in R million)	REVIEWED 30 Sept 2017	REVIEWED 30 Sept 2016	AUDITED 31 March 2017
ASSETS			
Non-current assets	344 269	328 742	333 646
Property, plant and equipment	322 773	304 647	311 927
Investment properties	10 549	10 294	10 333
Intangible assets	1 307	1 478	1 404
Investments in associates and joint ventures	156	137	155
Derivative financial assets	7 932	10 669	8 206
Long-term loans and advances	20	21	20
Other investments and long-term financial assets	1 532	1 496	1 601
Current assets	18 094	22 985	17 989
Inventories	4 020	3 764	3 354
Trade and other receivables	9 159	8 390	7 768
Derivative financial assets	12	137	3
Other short-term investments	150	941	332
Cash and cash equivalents	4 639	9 636	6 422
Assets classified as held-for-sale	114	117	110
Total assets	362 363	351 727	351 635
EQUITY AND LIABILITIES			
Capital and reserves	151 124	142 586	143 563
Issued capital	12 661	12 661	12 661
Reserves	138 463	129 925	130 902
Non-current liabilities	172 639	175 247	168 533
Employee benefits	2 727	2 644	2 624
Long-term borrowings	112 024	119 194	111 026
Derivative financial liabilities	2 444	2 175	1 938
Long-term provisions	1 980	1 964	1 944
Deferred taxation liabilities	47 860	44 208	44 853
Other non-current liabilities	5 604	5 062	6 148
Current liabilities	38 600	33 894	39 539
Trade payables and accruals	19 835	21 020	21 673
Short-term borrowings	14 205	8 491	13 754
Current taxation liability	28	29	14
Derivative financial liabilities	–	94	46
Short-term provisions	1 411	1 187	914
Other current liabilities	3 121	3 073	3 138
Total equity and liabilities	362 363	351 727	351 635

Statement of cash flows

for the six months ended

(in R million)	REVIEWED 30 Sept 2017	REVIEWED 30 Sept 2016	AUDITED 31 March 2017
Cash flows from operating activities	8 246	11 547	25 104
Cash generated from operations	17 230	14 650	31 018
Changes in working capital	(4 566)	738	1 747
Cash generated from operations after changes in working capital	12 664	15 388	32 765
Finance costs	(4 066)	(3 959)	(7 622)
Finance income	171	224	357
Taxation paid	–	–	(3)
Settlement of post-retirement benefit obligations	(89)	(93)	(192)
Derivatives settled and raised	(434)	(13)	(201)
Cash flows utilised in investing activities	(10 522)	(10 498)	(24 689)
Investment to maintain operations	(6 926)	(7 249)	(16 486)
Investment to expand operations	(3 848)	(3 950)	(8 867)
Changes in investments, loans, advances and other investing activities	252	701	664
Cash flows from/(utilised in) financing activities	493	(5 356)	(7 936)
Borrowings raised	9 943	11 794	17 009
Borrowings repaid	(9 450)	(17 150)	(24 945)
Net decrease in cash and cash equivalents	(1 783)	(4 307)	(7 521)
Cash and cash equivalents at the beginning of the period	6 422	13 943	13 943
Total cash and cash equivalents at the end of the period	4 639	9 636	6 422

Statement of changes in equity

for the six months ended

(in R million)	Issued capital	Revaluation reserve	Actuarial gains and losses	Cash flow hedging reserve	Other	Retained earnings	Total
Opening balance as at 1 April 2016	12 661	76 815	2 275	2 211	249	49 079	143 290
Total comprehensive (loss)/income for the period (net of taxation)	–	(247)	(24)	(1 443)	–	1 010	(704)
Transfer to retained earnings (net of taxation)	–	(9)	–	–	–	9	–
Balances as at 30 September 2016	12 661	76 559	2 251	768	249	50 098	142 586
Total comprehensive (loss)/income for the period (net of taxation)	–	(245)	102	(635)	–	1 755	977
Transfer to retained earnings (net of taxation)	–	(171)	–	–	–	171	–
Balances as at 31 March 2017	12 661	76 143	2 353	133	249	52 024	143 563
Total comprehensive income/(loss) for the period (net of taxation)	–	4 560	(7)	(343)	–	3 351	7 561
Transfer to retained earnings (net of taxation)	–	(22)	–	–	–	22	–
Balances as at 30 September 2017	12 661	80 681	2 346	(210)	249	55 397	151 124

Segment information

for the six months ended

	Transnet Freight Rail Reviewed 30 September		Transnet Engineering Reviewed 30 September		Transnet National Ports Authority Reviewed 30 September		Transnet Port Terminals Reviewed 30 September		Transnet Pipelines Reviewed 30 September		Total reportable segments Reviewed 30 September		Other[1] Reviewed 30 September		Total Transnet Reviewed 30 September	
(in R million)	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
External revenue	21 490	18 806	1 010	688	5 688	4 858	6 241	5 541	2 289	2 377	36 718	32 270	378	334	37 096	32 604
Internal revenue	467	217	3 788	3 020	811	739	4	4	2	2	5 072	3 982	(5 072)	(3 982)	–	–
Total revenue	21 957	19 023	4 798	3 708	6 499	5 597	6 245	5 545	2 291	2 379	41 790	36 252	(4 694)	(3 648)	37 096	32 604
Earnings before interest, taxation, depreciation, derecognition and amortisation (EBITDA)	10 102	7 916	(193)	(765)	4 161	3 696	2 193	1 933	1 794	1 899	18 057	1 4679	(1 739)	(814)	16 318	13 865
Total assets[2]	182 830	175 181	17 529	12 993	90 411	84 817	18 366	18 916	43 215	40 070	352 351	33 1977	9 898	19 633	362 249	351 610
Total liabilities	116 451	114 014	15 959	9 687	43 681	44 296	7 527	9 199	23 396	22 570	207 014	199 766	4 225	9 375	211 239	209 141
Capital expenditure[3]	6 640	6 614	172	312	507	952	508	463	679	638	8 506	8 979	442	443	8 948	9 422
Cash generated from operations after changes in working capital	7 922	8 142	192	(109)	3 972	3 521	1 932	2 074	1 559	1 929	15 577	15 557	(2 913)	(169)	12 664	15 388

[1] Other includes other segments, inter-unit eliminations and consolidation adjustments.
[2] Excludes assets held-for-sale.
[3] Capital expenditure excludes the effects of borrowing costs, includes capitalised finance leases and capitalised decommissioning liabilities.

Commentary

Introduction

Transnet's results for the six-month period is exceptional in the context of a sluggish economy, with EBITDA growth of 17,7% underpinning this achievement. Volume growth can be attributed to the continued implementation of the Company's dynamic operational philosophy that resulted in a significant road to rail shift, as well as operational and productivity improvements. This, together with cost management initiatives, and the re-phasing and optimisation of capital investment, enabled the continued execution of the Market Demand Strategy (MDS).

Performance overview

Revenue for the period increased by 13,8% to R37,1 billion (2016: R32,6 billion), driven by a 7,9% increase in general freight volumes and a 6,5% increase in export coal railed volumes. The respective increases were due to growth in market share arising from a shift in rail-friendly cargo from road to rail, and improved operational efficiency attributable to the deployment of new-generation locomotives on the network. Port container volumes also increased by 6,1%.

Operating costs increased by 10,9% to R20,8 billion, (2016: R18,7 billion) mainly due to an increase in fuel and personnel costs. Numerous cost-reduction initiatives implemented throughout the Company reduced operating costs, resulting in a R2,2 billion saving in planned costs. These initiatives included limiting overtime, reducing professional and consulting fees, condition assessment versus time based maintenance execution programmes, and limiting discretionary costs relating to travel, accommodation, printing, stationery and telecommunications.

Consequently, earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 17,7% to R16,3 billion (2016: R13,9 billion) with a resultant increase in the EBITDA margin to 44,0% (2016: 42,5%).

Depreciation, derecognition and amortisation of assets decreased by 19,8% to R6,4 billion (2016: R8,0 billion), mainly due to the annual useful life adjustments to rolling stock and the optimisation of capital investments to align with lower market demand.

Accordingly, profit from operations after depreciation and amortisation increased by 69,1% to R9,9 billion (2016: R5,9 billion).

Impairment of assets, amounting to R590 million (2016: R914 million), was primarily due to impairments of trade and other receivables as well as the index valuation impairments on port operating assets.

Post-retirement benefit obligations are actuarially assessed in accordance with IAS 19: Employee Benefits, and adjusted accordingly. A cost of R67 million (2016: R74 million) was recognised during the period.

Fair value adjustments amounted to an R18 million gain (2016: R862 million gain). These adjustments are mainly due to investment property fair value gains, recognised in terms of IAS 40: Investment Property, partially offset by losses on credit valuation adjustments and credit contingent default swaps, in terms of IFRS13: Fair Value Measurement and IAS 39: Financial Instruments: Recognition and Measurement.

Accordingly, net profit from operations before net finance costs increased by 61,6% to R9,3 billion (2016: R5,7 billion).

Net finance costs increased by 7,3% to R4,5 billion (2016: R4,2 billion) in line with expectations, due to the increased cost of borrowings. Capitalised borrowing costs amounted to R1,8 billion (2016: R1,8 billion).

The taxation charge of R1,4 billion (2016: R486 million) is only a deferred taxation charge. The increase in the deferred taxation charge arose mainly due to an increase in wear and tear allowances as well as capitalised borrowing costs that are deductible for tax purposes, partially offset by the impact of the Company's calculated taxation loss. The effective taxation rate for the Group is 28,9% (2016: 32,5%), which is above the standard taxation rate due to expenses incurred that are not deductible for tax purposes.

Net profit for the period is R3,4 billion (2016: R1,0 billion), a significant increase compared to the prior period.

Commentary on operating divisions

Transnet Freight Rail (Freight Rail)

Freight Rail's revenue for the period increased by 15,4% to R22,0 billion (2016: R19,0 billion), mainly due to a 5,8% rail volume increase to 113,6mt (2016: 107,4mt) and a 7,6% average increase in rand per ton from R173,69 to R186,82. This was the highest interim volume performance achieved to date by Freight Rail. The combination of volumes availability, operational discipline across the Freight Rail channels and Transnet operating divisions, the deployment of new locomotives, and improved cycle times, enabled the more efficient execution of volumes. The rand per ton increase is due to the negotiated tariff increases as well as the traffic mix.

General freight business

The general freight business grew volumes by 7,9% to 46,5mt (2016: 43,1mt) despite the current subdued economic climate. Chrome and manganese volumes performed particularly well, increasing by 19,2% to 3,1mt (2016: 2,6mt) and by 25,9% to 6,8mt (2016: 5,4mt), respectively. The container and automotive business grew by 11,4% to 4,9mt (2016: 4,4mt), evidencing continued market-share growth from the road-to-rail modal shift; with agriculture and fertiliser increasing by 19,0% and 13,0% respectively and mineral mining and domestic coal increasing by 9,0% and 6,0% respectively. This steady growth was offset by poorer performance in other sectors such as granite, which decreased by 13,0% and cement and lime, which decreased by 8,0%, mainly due to a mix of product unavailability, plant breakdowns and 'force majeure'. The average wagon turnaround time for the general freight business improved by 12,1% to 10,2 days (2016: 11,6 days).

Export coal line

Following a monthly throughput record of 7,2mt in September 2017, Freight Rail achieved a record high of 37,8mt of export coal (2016: 35,5mt), a 6,5% improvement on the prior period. Notwithstanding total export coal volumes being higher than the prior period, performance was below expectations. Various factors impacted the export coal line's performance, including:

- The unprecedented community unrest directed at Transnet in Indondotha, KwaZulu-Natal, which resulted in the closure of the coal export line on three occasions.
- Locomotive challenges and failures.
- Significant customer-related challenges, especially product unavailability in the early part of the financial year.
- Operational constraints at Richards Bay Coal Terminal (RBCT) resulting in tons lost, with severe weather conditions impacting off-loading capabilities.

As a measure of efficiency, 'trains per operating day' increased from 26 to 27,6 trains daily compared to the prior period. 'Tons per train delivered' increased from 7 801 tons to 7 843 tons compared to the prior period, aided by the 'continuous improvement projects' initiative.

Export iron ore line

Export iron ore volumes increased marginally by 1,7% to 29,3mt (2016: 28,8mt). Extreme weather conditions impacted Rail operations in the Cape region during the first part of the financial year. This was further exacerbated by volatile market conditions and resultant lower demand from customers. Further, a number of safety incidents, particularly shunting derailments, resulted in volume losses due to delays in the placement of wagons for exports.

Although the export iron ore cycle time improved by 10% on average, from 93 hours in the prior period to 84 hours, efforts are ongoing to reduce this cycle time to 68 hours, with September 2017 averaging 73 hours.

In response to lower-than-expected volumes and revenue performance relative to plans, Freight Rail continues to implement various cost-control initiatives to mitigate the impact of lost revenue on overall financial results.

Despite higher-than-inflation increases in certain cost elements, such as personnel and energy costs, operating costs increased by 6,7% to R11,9 billion (2016: R11,1 billion).

It is noteworthy that Freight Rail's general cost containment mind-set and consequent actions resulted in significant savings in discretionary costs, such as consultancy costs, telecommunication costs, advertising and promotion costs, periodicals and printing costs, travel, accommodation and refreshments.

Freight Rail achieved an EBITDA of R10,1 billion (2016: R7,9 billion), which represents a 27,6% improvement from the prior period.

Transnet Engineering (Engineering)

Engineering's revenue increased by 29,4% to R4,8 billion (2016: R3,7 billion). Strong growth has been achieved across the key market segments, with revenue generated from Freight Rail increasing by 25% to R3,8 billion (2016: R3,0 billion). Revenue growth was largely due to increased delivery of newly-built and refurbished rolling stock to support improved volumes moved by Freight Rail. The strong external revenue growth of 46,8% to R1,0 billion (2016: R688 million), was largely due to increased new locomotives delivered on the 1 064 locomotive programme, as well as timely delivery of coaches to the Passenger Rail Agency of South Africa (PRASA).

Engineering continues to optimise its operating expenditure. Interventions to achieve procurement savings have resulted in over R100 million worth of cost savings.

The significant increase in revenue performance, aided by cost-containment interventions, enabled Engineering to improve its EBITDA to a R193 million loss (2016: R765 million loss).

Transnet National Ports Authority (National Ports Authority)

Revenue increased by 16,1% to R6,5 billion (2016: R5,6 billion), mainly attributable to increases in cargo dues revenue and the release of claw back provisions informed by Regulatory decisions. Cargo dues revenue benefited from higher volumes of containers, liquid bulk and automotives being handled.

Net operating expenses increased by 23,0% to R2,3 billion (2016: R1,9 billion) mainly due to increased personnel costs, energy costs, legal fees and rehabilitation provisions.

Accordingly, EBITDA increased by 12,6% to R4,2 billion (2016: R3,7 billion).

Transnet Port Terminals (Port Terminals)

Revenue increased by 12,6% to R6,2 billion (2016: R5,5 billion). Volume performance was strong across all sectors. Container volumes increased by 6,1% to 2 370 415 TEUs (2016: 2 233 571 TEUs) while bulk and break-bulk volumes increased by 3,5% to 50,4mt (2016: 48,7mt) largely on the back of mineral exports. Volumes in the automotive sector increased by 7,1% to 377 949 units (2016: 353 019 units). Robust container and automotive performance was largely due to higher local and international consumer demand.

Port Terminals' primary measure of operational efficiency, 'average moves per ship working hour' (SWH), declined across most container terminals compared to the prior period. Pier 1 Container Terminal in Durban, however, recorded an improvement in their SWH performance from 45 to 47 moves. Durban's Pier 2 Container Terminal's SWH declined from 55 in the prior period to 53 moves in 2017. This was primarily due to low availability and reliability of key equipment, as well as congestion due to the bumper reefer season. The Ngqura Container Terminal SWH decreased from 63 to 52 moves due to limitations in personnel resources. The operating division has subsequently addressed most of the equipment issues and personnel shortages. The Cape Town Container Terminal SWH declined from 56 to 47 moves in 2017, primarily due to poor weather conditions.

The Richards Bay Dry Bulk Terminal's loading rate reflected an improvement of 2,5% from 772 tons per hour to 792 tons per hour. The discharge (offloading) rate also increased by 7,8%, from 400 tons per hour to 431 tons per hour. The efficiency measure of 'average tons dual loaded per hour' at the Saldanha Iron Ore Terminal remained above the target of 8 094 tons per hour.

Net operating expenses increased by 12,2% to R4,1 billion (2016: R3,6 billion) as a result of higher variable costs associated with higher volumes, increased energy costs, as well as increased spending on repairs and maintenance and materials to improve equipment reliability.

Port Terminals improved its EBITDA by 13,5% to R2,2 billion (2016: R1,9 billion) primarily due to strong volume and revenue performance across all sectors.

Transnet Pipelines (Pipelines)

Revenue – including clawback and levy for the period – decreased by 3,7% to R2,3 billion (2016: R2,4 billion), mainly due to the lower volume performance in petroleum, gas and storage. The reduced revenue performance was partially offset by the 1,43% increase in allowable revenue granted by the National Energy Regulator of South Africa (NERSA) in its 2017/18 Tariff Determination, and the favourable distribution pattern from the coast.

The petroleum volumes transported for the period decreased by 2,9% to 8,324 billion litres (2016: 8,575 billion litres). The negative deviation relates predominantly to the lower market demand for refined volumes and production challenges at an inland refinery.

Net operating expenses increased by 3,5% to R497 million (2016: R480 million), mainly attributable to labour increases and higher electricity costs.

Consequently, EBITDA including clawback and a levy of R1,8 billion (2016: R1,9 billion) was 5,5% lower than the prior period.

Group financial position

Revaluation of property, plant and equipment

The Group assesses the revaluation of its rail infrastructure, port infrastructure and pipeline networks in line with its accounting policy, which requires an independent valuation every three years, as well as index valuations in the intervening periods. During the period, rail infrastructure assets were revalued based on the depreciated optimised replacement cost method, limited to the discounted cash flows generated by the assets to ensure they are not carried at amounts in excess of their recoverable amount. Index valuations were performed on port infrastructure, as well as port operating and pipeline assets.

Accordingly, the carrying value of port facilities required a revaluation adjustment of R1,2 billion (March 2017: R5,7 billion). The carrying value of pipeline networks did not require a revaluation adjustment (March 2017: R347 million). The carrying value of rail infrastructure required a revaluation of R5,1 billion (March 2017: R6,8 billion devaluation). These revaluation adjustments are performed in accordance with IAS 16: Property, plant and equipment.

Deferred taxation

The deferred taxation liability increased to R47,9 billion (March 2017: R44,9 billion), mainly as a result of the deferred taxation impact on the revaluation of property, plant and equipment and cash flow hedges, which have been recorded directly in equity, together with the charge of R1,4 billion for the period, offset partially by the impact of the Company's calculated taxation loss.

Cash flows

Cash generated from operations amounted to R17,2 billion (2016: R14,7 billion), an increase of 17,6% from the prior period. The cash interest cover ratio (excluding working capital changes) at 3,0 times (2016: 2,6 times) is in line with the internal target of 3,0 times, reflecting Transnet's strong cash-generating capability. This is also significantly higher than the triggers in loan covenants.

Borrowings

A well-defined funding strategy has enabled Transnet to raise R9,9 billion for the period without Government guarantees, comprised mainly of the following funding sources:

- R 1,5 billion from development finance institutions;
- R 5,8 billion of commercial paper and call loans;
- R 1,4 billion from export credit agencies; and
- R 1,0 billion in domestic bonds.

Transnet repaid borrowings amounting to R9,5 billion, which related predominantly to loans, bonds and commercial paper that matured during the period.

The Company borrows on the strength of its financial position, and has maintained an investment-grade credit rating, confirming its solid stand-alone credit profile.

The gearing ratio decreased to 44,0% (March 2017: 44,4%). This level is below the Group's target range of 50,0%, and is well below the triggers in loan covenants, reflecting the available capacity to continue with its investment strategy, aligned to validated market demand. The gearing ratio is not expected to exceed the target ratio over the medium term.

Derivative financial assets and liabilities

Derivative financial instruments are held by the Group to hedge financial risks associated with its capital investment and borrowing programmes. The 'mark to market' of these derivative financial instruments resulted in a net derivative financial asset of R5,5 billion (March 2017: R6,2 billion). The decrease from March 2017 is mainly due to three factors: the stronger rand, with the recent volatility in foreign exchange rates giving rise to this net asset position; the settlement of foreign borrowings that were hedged; and the execution of interest rate swap liabilities during the period. Cross-currency interest rate hedges and forward-exchange contracts were executed to eliminate foreign currency and interest rate risk on borrowings. These hedges have been hedge-accounted for in terms of IAS 39: Financial Instruments; Recognition and Measurement.

Pension and post-retirement benefit obligations

The Group provides various post-retirement benefits to its active and retired employees, including pension, post-retirement medical support and other benefits. The two defined benefit funds, namely the Transnet sub-fund of the Transport Pension Fund (TTPF) and the Transnet Second Defined Benefit Fund (TSDBF) are fully funded with actuarial surpluses of R4,5 billion (March 2017: R4,3 billion) and R3,5 billion (March 2017: R3,6 billion) respectively. Transnet has not recognised any portion of the surplus on these funds, as the fund rules at present do not allow for the distribution of a surplus.

The total value of ad hoc bonuses paid to beneficiaries by the TTPF (since December 2011) and TSDBF (since November 2007) amounts to R240 million and R2,9 billion respectively. These payments continue to supplement the current statutory increase of the beneficiaries of the TTPF and TSDBF to provide pensioners with increases above CPI.

Following the certification of the pensioners' class action proceedings on 31 July 2015, Transnet was served with a summons on 11 June 2015 issued out of the Pretoria High Court. According to the summons, the pensioners seek an order directing Transnet and the pension funds to increase the pensions of all the members of the funds by an annual rate of not less than 70% of the rate of inflation with effect from 2002; as well as an order that Transnet pays to the funds a legacy debt of R17,5 billion, plus interest from 1 April 1990. Lastly, an order is also sought that Transnet pays a sum of R309,1 million to the TTPF as repayment of an amount allegedly donated by the TTPF to Transnet from a members' surplus in 2001.

Transnet and the pension funds filed 'exceptions' to the summons (technical legal arguments demonstrating that the particulars of claim are defective and should be dismissed). The exceptions were heard in April 2016. On 18 May 2016, judgment was delivered on the exceptions, wherein the court upheld three of Transnet's exceptions and gave the plaintiffs 14 days within which to amend their Particulars of Claim, to enable Transnet and the two pension funds to file their respective pleas.

On 6 June 2016, the plaintiffs filed an application for leave to appeal the order upholding the three exceptions. Transnet opposed the application and filed an application for leave to appeal in respect of four of the grounds of exception that were dismissed. The application was conditional upon the granting of the plaintiffs' application for leave to appeal. The TTPF and TSDBF also filed similar applications. The applications were heard on 21 June 2016. Judgment was delivered on 5 August 2016, dismissing the plaintiffs' application for leave to appeal, with costs. On 5 September 2016, the plaintiffs petitioned the Supreme Court of Appeal (SCA) for special leave to appeal. On 6 September 2016 Transnet filed a conditional petition for leave to appeal the High Court's findings against it in respect of the exceptions. The TTPF and the TSDBF also filed similar applications. On 14 November 2016, the SCA dismissed both the plaintiff's application for special leave to appeal and the defendants' conditional applications with costs. On 12 December 2016, the plaintiffs filed an application in terms of section 17(2)(f) of the Superior Courts Act No. 10 of 1913 for the President of the SCA to refer their application for special leave to appeal to the SCA for reconsideration and possible variation. This application was dismissed by the President of the SCA on 23 March 2017, with costs.

On 12 April 2017, the plaintiffs filed an application in the Constitutional Court for leave to appeal on the exceptions. The application will be heard by the Constitutional Court on 16 November 2017.

Transnet remains confident, based on legal advice, that it will successfully defend the class action.

Transnet is continuing to prepare a plea to be filed upon exhaustion of the exceptions process.

The post-retirement medical benefit obligation is approximately R668 million (March 2017: R672 million).

Contingencies and commitments

There were no material movements in contingencies and commitments since 31 March 2017, apart from a further claim regarding the 'neutrality principle' from another party.

Guarantees

The sole Shareholder in Transnet SOC Ltd, namely the South African Government, has guaranteed certain borrowings of the Group amounting to R3,5 billion (2016: R3,5 billion), representing 2,8% of total borrowings of R126,2 billion. No further guarantees have been issued since 1999.

Capital investment

The Company continued to execute its infrastructure investment programme, spending R8,9 billion in the period under review, representing a 5,0% decrease from the prior period (2016: R9,4 billion). The decrease is attributable to the Company's value-engineering and optimisation efforts. The capital investment for the period represents R2,1 billion invested in the expansion of infrastructure and equipment acquisitions, while R6,8 billion was invested to sustain capacity in the rail and ports divisions.

Total investment relating to the Market Demand Strategy (MDS) amounts to R153 billion for the past five years. Transnet expects to invest a further R229,2 billion, including R20 billion earmarked for mergers and acquisitions to diversify revenue streams through geographic expansion over the next seven years to 2023/24. The 10-year view, conditional on validated demand, forecasts capital expenditure of between R340 billion and R380 billion.

Progress on major projects

Rail infrastructure projects

General freight volumes are expected to rise steadily in the coming years, driven by new business development initiatives and an increase in the tractive effort through the acquisition of new rolling stock (locomotives and wagons). Interventions to maintain, upgrade and renew the rolling stock fleet and infrastructure will add further impetus to future volume growth.

Locomotives

Transnet concluded locomotive acquisition contracts in 2014, which resulted in the acquisition of approximately 1 319 new locomotives for the general freight business and coal business over a seven-year period. Overall, 541 locomotives have been accepted and contracts have been concluded as follows:

- 95 class 20E electric locomotives;
- 60 class 43 diesel locomotives;
- 100 21E electric locomotives; and
- 286 locomotives from the 1 064 locomotive programme have been accepted into operations, while 37 have been delivered and are currently undergoing acceptance testing.

Wagons

Freight Rail and Engineering have embarked on a programme to build the following wagons:

- 2 500 coal containers for servicing Eskom power stations;
- 150 new wagons for the iron ore business – to be utilised in servicing the shortfall caused by longer turn-around times on the junior miners' train service on the ore line due to the current manual-loading methodology of using front-end loaders;
- 86 new wagons for the automotive business; and
- 364 wagons, which will be used within the mining sectors for the transportation of ore from shafts to processing plants, and for the automotive market.

For the period, 544 coal containers and 101 wagons have been built and received by Freight Rail.

Capitalised maintenance

The total capitalised maintenance for the period ended 30 September 2017 amounted to R2,6 billion, of which R0,7 billion was invested in interventions to sustain the Company's rail infrastructure, with R1,9 billion invested to maintain the condition of the rolling stock at a sustainable level.

Coal line investment programmes

The coal line is a heavy haul line that is the main channel for export coal and it commences from Ermelo servicing the mines in Mpumalanga, through the Overvaal tunnel to the Port of Richards Bay Coal Terminal (RBCT).

The coal programme consists of the following key projects:

- Export coal expansion to 81mtpa
  To date R1,9 billion has been invested to expand capacity on the export coal line to 81mtpa. For the period ending 30 September 2017, R31 million has been invested in the coal line expansion for upgrading yards, lines and electrical equipment.
- Waterberg upgrade
  The Waterberg region has 40% of South Africa's remaining coal reserves and is regarded as the next strategic growth node of the coal sector. The availability of infrastructure is critical to unlocking the region's potential and is a pre-requisite for current and future mining developments. The investment will secure rail transport capacity from Waterberg for the export market and domestic consumption (Eskom).
  This project will be rolled out in a phased approach to align to validated demand. The funded projects at this stage include:
  - 'Stage 2', which refers to capital investment to grow capacity to 6,3mtpa through incremental upgrades of the existing rail networks and yards. Upgrades include creating additional loops, maintaining the existing 20-axle loads and level crossings, strengthening steel bridges, upgrading electrical systems and improving train control systems.
  - The 'Stage 3 to 5' feasibility study aims to develop engineering solutions to meet validated demand and to achieve capacity of 24mtpa.

  Since inception, R181 million has been invested in the project and R23 million has been invested for the six months ended 30 September 2017.

Overvaal capacity solution

The condition of the current Overvaal tunnel is deteriorating and is a capacity bottleneck on the coal line as it only accommodates a single rail line. A new Overvaal capacity solution of providing a new double track tunnel or a rail line deviation is being finalised to reduce the current risk. The main motive for this investment is to protect the revenue generated on the coal line and to enable Freight Rail to maintain the current throughput.

New Multi-Product Pipeline (NMPP)

The NMPP is a strategic multi-phased investment programme to secure the supply of petroleum products to the inland (predominantly Gauteng) market over the long-term. It is one of the largest and most complex multi-product pipelines in the world. Transnet has invested R560 million in the NMPP project in the reporting period. The coastal terminal in Durban (excluding tanks), 24-inch main pipeline and 16-inch inland pipelines have been fully commissioned and are operational, having transported more than 18 billion litres of diesel from Durban to the inland region since commissioning. Following the coastal terminal tightlining commissioning in August 2017, the pipeline has been operating at full phase-1 flow rates as a multi-product pipeline, ensuring the security of fuel supply for the South African economy over the medium to long term. The inland terminal is expected to be operational by the end of November 2017.

Port infrastructure, equipment and floating crafts

As part of the MDS, Port Terminals and National Ports Authority continues to invest in infrastructure and equipment to unlock market demand, as well as to contribute to the economic development of South Africa. For the six months ended 30 September 2017, Transnet has invested approximately R0,9 billion for the maintenance and acquisition of cranes, tipplers, dredgers, tugs, straddle carriers and other port equipment.

Economic, social and environmental impact

Broad-based black economic empowerment (B-BBEE) enterprise and supplier development

Transnet acknowledges the importance of B-BBEE as a critical component of achieving sustainable and inclusive economic growth. Transnet, therefore, aims to optimise its contribution to B-BBEE in the execution of its mandate as a State-owned Company (SOC).

As a SOC, Transnet's B-BBEE verification covers six of the seven elements of the Generic Transport Public Sector Scorecard, excluding the ownership element. The Rail Charter, Maritime Charter and Property Charter are also applied. Transnet was rated a Level 2 B-BBEE contributor in 2016.

The Company remains committed to empowering Black women-owned small, medium and large enterprises as well as giving effect to Government's policy on B-BBEE.

Transnet's procurement activities contribute directly to the economic growth and transformation of South Africa. As such, the Company decreases income inequalities while increasing jobs, thereby significantly increasing the number of previously disadvantaged individuals who contribute to the South African economy.

Transnet's recognised B-BBEE spend is 87,8% of its Total Measured Procurement Spend (TMPS) of R15,8 billion as at 30 September 2017. Spend on black-owned enterprises accounts for R6,4 billion (40,5% of TMPS), while spending on black women-owned enterprises accounts for R2,5 billion (15,8% of TMPS). Spending on exempted micro-enterprises accounts for R1,0 billion (6,3% of TMPS) and spending on qualifying small enterprises accounts for R1,4 billion (8,9% of TMPS).

Transnet's Supplier Development (SD) Programme focuses on skills development, as well as job creation and preservation, technology transfer, the localisation of supply, and ultimately industrialisation through contractually-obligated supplier development plans. SD obligations concluded with suppliers amounted to R62,8 billion or 46,3% of contract value during the period (2016: R58,5 billion or 46,7% of contract value). To date, R39,7 billion or 63,3% (2016: R27,6 billion or 47,1%) of these supplier development obligations have been met.

In addition, Transnet approved – and is implementing – various enterprises and supplier-development (ESD) initiatives to provide both financial and non-financial support to qualifying black-owned enterprises, black women-owned enterprises, black youth-owned enterprises, qualifying small enterprises and exempted micro-enterprises as well as enterprises owned by black people living with disabilities. Transnet has committed more than R442 million towards ESD over the past five years, with the aim of strengthening their current suppliers and growing enterprises to a point at which they become sustainable job-creating enterprises and eventually form part of Transnet's supply chain.

For the current financial period, an amount of R26,8 million has been spent on Enterprise and Supplier Development, with R15,3 million spent on SD, and R11,5 million on ED. Transnet has committed to spend over R98 million for the current financial year on different Enterprise and Supplier Development initiatives.

Safety

Transnet measures safety performance against the industry-recognised rolling 12-month 'disabling injury frequency rate' (DIFR). The Company recorded a DIFR performance of 0,72 against a target of 0,75. Transnet is on track to celebrate the seventh consecutive year that the Company has recorded a DIFR ratio below 0,75.

While Transnet's DIFR performance continues to be exceptional by international standards, the Company regrets to report one employee fatality during the reporting period (compared to nine in the prior period). The employee fatality was as a result of a road vehicle accident. The Company continues to monitor and mitigate, as best as is possible, both operational and behavioural risks that are inherent in a Transnet work environment. Further, Transnet's leadership has heightened its oversight role of operational performance - and safety performance in particular – in more visible ways through site-visits, and by instituting an integrated systems management approach to ensure the various levels of safety performance are clearly understood and adhered to within the organisation. The Company continues to analyse and review its current safety approaches and efficiency, while proactively striving 'towards zero harm'. Numerous vehicle safety, driver awareness and other safety campaigns have been introduced to further embed a safety culture within Transnet's operations.

The Company further regrets to report 46 public fatalities during the first six months of the financial year (compared to 51 in the prior period). These fatalities were due mainly to people trespassing onto operating railway lines. Transnet continues to collaborate with local municipalities, schools, the South African Police Services and other relevant stakeholders to extend its Level Crossing Awareness Campaign to educate communities, the public - and children in particular - about the dangers of living near railway lines.

The Board conveys its deepest condolences to the families, colleagues and friends of the employee and members of the public who lost their lives. The Board further reiterates its continued commitment to the safety of employees and the public as a vital component of the Company's operations.

Corporate social investment (CSI)

Transnet acknowledges the responsibility that comes from being a leading corporate citizen, and through its specialist division, the Transnet Foundation, the Company is constantly striving to be a force for good within society by actively addressing the social capital deficit in poor communities. By empowering communities, Transnet contributes to securing a sustainable future for the country. For the reporting period, an estimated R104,3 million was committed to sustainable community development programmes across South Africa.

Transnet-Phelophepa I&II

During the reporting period, on-board Phelophepa clinics reached 132 033 patients. 334 734 individuals were reached through community outreach services, which included screening, education and counselling workshops. Various public cancer and diabetes campaigns were implemented in Mtubatuba, Ficksburg, Komatipoort, Ermelo, Welkom, Mafikeng, Pudimoe and Postmasburg. Joint operations between Freight Rail and Phelophepa commenced with health services being offered to rail, maintenance and emergency workers (RME), benefitting RME workers from Kimberley and Hopetown. Experiential training on board Phelophepa was extended to 1 095 youth participants between April and September 2017, of which 39 were from Glasgow Caledonian University in Scotland.

Sports portfolio

Athletics apparel, netball, and football kits have been procured and delivered to 100 South African schools.

School of excellence

The first-term grade 12 pass percentage was 100%. Based on the first-term assessment, all learners in need of academic intervention are receiving the requisite tutoring. The school dining hall is completely refurbished. The under-15 soccer team qualified for the provincial play offs of the Copa Coca Cola Tournament. Football trials for the 2018 intake have been completed in eight provinces.

Social infrastructure investment (SEID)

The contractor for the construction of Idondotha Centre has been appointed, with land approval pending from the Ingonyama Trust.

The four community centres reached a cumulative total of 12 482 clients.

A total of 1 300 motorists and pedestrians have been reached through rail safety programmes.

Overall, 1 926 learners benefited from career guidance outreach interventions conduced in Ireagh, Khuma, Springs, Thokoza and Kwamthethwa communities.

Employee volunteerism

The 'whole school development' (WSD) programme has been successfully integrated with the education portfolio and the business model developed. Transnet Group Capital's (TGC's) employee volunteers from Saldanha Bay are being trained to mentor young people and to implement various development plans with them. Eight high schools from Port Elizabeth and five high schools from Kimberley were identified for the programme.

Education

Overall, 39 youth participants benefited from life-skills camps. Ongoing academic interventions are provided to 39 orphaned youth based on their individual development plans; and support is given to students to cope with challenges at tertiary institutions. The education managers maintain regular contact with students and ICAS is on standby to provide counselling when needed. The National Department of Basic Education has pledged to support the national roll out of the WSD, and the initial engagement has been completed. Stakeholder engagement in the Eastern Cape has been initiated.

Heritage

Implementation of the Heritage Policy and National Heritage Resources Act, Act 25 of 1999 has been communicated to all operating divisions in Transnet. A list of heritage objects (locomotives and coaches) is now available on the Transnet Foundation website.

Energy efficiency and carbon emissions reduction

Transnet recorded a 4,2% increase in energy consumption, while energy efficiency increased by 1,4% compared to the prior period. In Freight Rail traction (which constitutes more than 70% of total Company power consumption), electrical traction energy efficiency increased by 0,4% and diesel traction achieved a 7,5% energy-efficiency gain compared to the prior period. The new 15E, 19E, 20E, 21E and 22E locomotives together regenerated 97 878MWh for the period.

The Company's carbon emission intensity decreased by 2,0%, compared to the prior period.

Freight Rail's top ten general freight commodities' market share gains from road hauliers resulted in carbon emissions savings for the South African transport sector of 357 077 tCO_2e.

Human capital

Transnet's permanent employee headcount as at 30 September 2017 was 52 294. The Company spent 2,8% of its labour cost on training during the period, focusing on artisans, engineers, and engineering technicians. Overall, four full-time engineering bursaries were awarded in various disciplines and 17 engineering technician trainees were given workplace experience opportunities. 187 new apprentices joined the Company's apprenticeship scheme and 148 new young professionals-in-training were contracted. Sector-specific skills development continued to focus on maritime, rail and port terminal operations, with 888 learners participating in these programmes. Currently, the Company has access to 1 411 apprentices and 518 engineering bursars in its talent pool.

Transnet has performed well in relation to its employment equity targets across all job grades. The employee race profile for the period was 72,2% black, 9,9% coloured, 3,6% Indian and 14,2% white. Female representation now exceeds 28,1% in executive, senior, professional and skilled technical levels, including a 41,7% representation in the Group Leadership Team. Representation of people with disabilities remains a challenge at 2,3% of the total headcount (2016: 2,3%).

Legislative compliance

To the best knowledge of Transnet's directors, the Company has complied, in all material respects, with all legislation and regulations applicable to it during the period. This includes, without limitation, the Companies Act, 2008, the Public Finance Management Act, 1999 (PFMA) (as amended), the Treasury Regulations and the Income Tax Act, No 58 of 1962 (as amended). The status quo remains since March 2012 as it relates to the National Environmental Management Act, 1998: Integrated Coastal Management Act, 2008 and the National Ports Act, 2005.

Economic regulation

The tariffs for Pipelines are regulated by NERSA, while the National Ports Authority's tariffs are regulated by the Ports Regulator of South Africa. The Rail Safety Regulator charges railway safety permit fees to the Company. The Company also operates within a policy context which is determined by the Department of Public Enterprises and the Department of Transport respectively.

Pipelines

On 14 June 2017, Pipelines requested a postponement for its 2018/19 tariff application submission to NERSA. This request for an extension of the filing date to 1 November 2017 is due to the early commissioning of the tightlining solution at the coastal terminal (TM1). The proposed extension in filing date will prevent the re-filing of the 2018/19 tariff application.

Pipelines received Nersa's decision to postpone the filing date to 1 November 2017.

National Ports Authority

On 1 August 2017, National Ports Authority submitted a tariff application to the Ports Regulator of South Africa based on the approved multi-year tariff methodology for the 2019 to 2021 tariff periods, requesting a tariff increase of 3,9% in allowable revenue for the 2019 financial year.

In alignment with the objectives of the approved tariff strategy, the National Ports Authority further proposed that the weighted average tariff adjustment of 8,45% be differentiated as follows:

- An average of 10,00% increase for marine services tariffs applicable to shipping lines, to be further differentiated as follows:
  - Port dues tariff to increase by 14,05%;
  - Berthing services to increase by 11,15%; and
  - Other including pilotage, towage, VTS to increase by 7,04%.
- An average of 7,88% increase for cargo dues tariffs with:
  - Full containers import and export tariffs to increase by 7,50%;
  - Automotives converted to unitary-based tariff structure and increasing by 5,00%;
  - Bulk tariffs increasing by 9,00% except:
    - Coal to increase by 10,00%;
    - Ores and minerals: Magnetite to increase by 10,00%; and
  - Other cargo dues to increase by 8,45%.

The Ports Regulator of South Africa is expected to publish the 2019 financial year tariff application record of decision on 1 December 2017.

Group accounting policies

The condensed financial information has been prepared in compliance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS); and contains the information required by International Accounting Standard (IAS) 34: Interim Financial Reporting, and the requirements of the Companies Act, No 71, 2008 of South Africa.

Financial information presented has been prepared using accounting policies that comply with International Financial Reporting Standards. The accounting policies are consistent with those applied in the annual financial statements for the year ended 31 March 2017.

New standards and interpretations issued by the International Accounting Standards Board, effective for the period under review, did not have a significant impact on the Group's financial results.

Events after reporting date

No events have occurred after the reporting date that would have a material impact on reported results.

External auditor's review opinion

The Group's independent auditors, SizweNtsalubaGobodo, reviewed condensed financial information for the six months ended 30 September 2017. The review was conducted in accordance with ISRE 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. A copy of their unmodified review report is available for inspection at the Company's registered office. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Group's external auditors.

Prospects

Notwithstanding market conditions continuing to restrain Transnet's commercial prospects, the Company has demonstrated sound resolve in the continued implementation of the MDS. Looking forward, the Company has adopted a Transnet 4.0 vision accelerating MDS growth into the 4th Industrial Revolution, by implementing real-time customer solutions and new product offerings, establishing infrastructure networks for the transmission of natural gas and accelerating growth in property, spatial development and maritime connectivity. This will enable Transnet to continue to strive to achieve growth in difficult conditions, while utilising available resources effectively and efficiently.

Approved by the Board of Directors

Signed on behalf of the Board of Directors.

LC Mabaso	SI Gama
Chairperson	Group Chief Executive
26 October 2017	26 October 2017

Corporate information

Transnet SOC Ltd

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

Directors

Executive directors
SI Gama (Group Chief Executive), GJ Pita (Chief Financial Officer)

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

SD Shane resigned from the Board effective 29 June 2017

Group Company Secretary

NE Khumalo
47th Floor, Carlton Centre, 150 Commissioner Street, Johannesburg, 2001
PO Box 72501, Parkview, 2122, South Africa

Auditors

SizweNtsalubaGobodo
20 Morris Street East
Woodmead, Johannesburg

www.transnet.net