20 August 2018

Transnet delivers a sterling set of financial results

- Revenue increased by 11,3% to R72,9 billion for the year ending in March 2018, driven by:
  - a 4,3% increase in railed export coal volumes;
  - a 6,5% increase in railed automotive and container volumes; and
  - a 6,1% increase in port container volumes.
- Operating costs rose by 6,5% to R40,4 billion, notwithstanding an average 13,6% increase in energy costs.
- Savings against planned costs totalling R3,1 billion were achieved.
- Earnings before interest, taxation, depreciation and amortisation (EBITDA) up 18,0% to R32,5 billion.
- Net profit improved by 75% from R2,8 billion to R4,9 billion
- Capital investment of R21,8 billion brought expenditure over the past six years to R165,6 billion.
- Gearing at 43,4% reflecting the available capacity to continue with the capital investment strategy.
- B-BBEE spend amounted to R25,8 billion or 86,9% of total measured procurement spend.

Transnet SOC Ltd has largely achieved its objectives to provide capacity to meet validated demand as per the organisation's migration from the Market Demand Strategy (MDS) to the new Transnet 4.0 strategy. The MDS has undertaken some of the country's largest capital projects. Under the new Transnet 4.0 strategy, which plans to take the organisation to new heights of digitization and innovation, Transnet plans to invest a further R163,7 billion over the next five years. The 1 064 locomotives programme, phase 1 of the manganese expansion rail network, Phase 1 of the Waterberg rail expansion, development of Maydon Wharf berths in the Port of Durban, a new port administration building in the Port of Ngqura and the multi-product pipeline were some of the projects, among others, completed under the MDS strategy.

Transnet today delivered a sterling set of financial results for the year ended 31 March 2018, demonstrating resilience in the logistics company's operating model. The increase in revenue by 11,3% to R72,9 billion (2017: R65,5 billion) driven by a 4,3% rise in railed export coal volumes, a 6,5% increase in railed automotive and container volumes and a 6,1% increase in port container volumes. Improvements from the two businesses benefited from improved operational efficiency attributable to the deployment of new-generation locomotives on the network and continuing progress towards the road-to-rail strategy.

The general freight business grew by 3,1% to a record 90,8 million tons despite the subdued economy. A number of commodities achieved remarkable growth: chrome improved volumes by 17,5% to 6,7 million tons, while grain and manganese volumes also achieved double digit growth at 16,7% and 13.2%, respectively. Port container volumes were up to 4 663 888 TEUs (twenty-foot equivalent units).

The Company's key measure of profitability- EBITDA improved by 18% to R32,5 billion compared to R27,6 billion achieved in the prior year.

Net profit for the year increased significantly to R4,9 billion compared to R2,8 billion achieved in the prior year, a 75% improvement over the previous year.

Transnet Freight Rail increased revenue by 11,7% to R43,7 billion and was able to move a record of 77,0 million tons of export coal, a 4,3% increase, including a monthly record throughput of 7,2 million tons in the month of September 2017. Wagon cycle-time also improved to 62,6 hours from 63,7 hours.

Despite disruptions from adverse weather conditions, a moderate increase in the export iron ore volumes was achieved at 2,3% to 58,5 million tons. A few abnormal safety incidents, particularly mainline derailments resulted in volume losses.

Transnet Engineering achieved a fair amount of market share growth across key sectors resulting in a 19,9% jump to R11,3 billion in revenue. The division, which is responsible for manufacturing of rolling stock and other equipment, delivered 174 new locomotives on the 1 064 locomotive programme. TE has partnered with international original equipment manufacturers (OEMs) to build modern locomotives to support Transnet's fleet renewal programme.

The National Ports Authority's revenue increased by 12,7% to R11,7 billion, a steady growth from R10,4 billion in the prior year. Volumes handled by Transnet Port Terminals showed a sign of recovery across all sectors and resulted in an 11,1% increase in revenue to R 12,4 billion.

The petroleum volumes transported through Transnet Pipelines decreased by 3,7% to 16 345 million litres mainly due to the unplanned Natref refinery shutdown, which had an impact on crude volumes and compounded by lower demand for refined products in the current economic environment. Revenue in this operating division increased by 3,1% to R4,5 billion due mainly to the 1,43% rise in petroleum allowable revenue granted by the National Energy Regulator of South Africa.

The total cash generated from Transnet's overall operations grew to R34,9 billion from R31,0 billion, an increase of 12,6% from the prior year. The cash interest cover ratio at 3,0 times reflects the Company's strong cash-generating capability.

A well-defined funding strategy enabled Transnet to raise R9,9 billion of long-term loans for the year without government guarantees.

The funds were raised from the following sources:

- R3,5 billion from development finance institutions;
- R2,8 billion from export credit agencies;
- R2,5 billion other bank loans; and
- R1,1 billion in domestic bonds.

In addition, Transnet also accessed net short-term facilities of R3,4 billion, in the form of call loans and commercial paper.

Despite a number of varying credit rating reports experienced by the country, Transnet managed to maintain a stand-alone investment grade credit rating, endorsing its solid financial credit profile.

The gearing ratio improved to 43,4% (2017: 44,2%) and is still within the Group's target range of less than 50% and within the triggers in loan covenants. This also reflects well on Transnet's available capacity to continue to invest in line with validated market demand.

Transnet continued to execute its infrastructure investment programme, spending R21,8 billion, a 1,6% increase from the previous year. This takes total investment under the Market Demand Strategy (MDS) to R165,6 billion in the past six years. The Company expects to invest a further R163,7 billion over the next five years with the aim of aggressively growing volumes and also seeking new markets to compensate for lower growth expected within Transnet's traditional markets.

Among the Company's most significant investments is the acquisition of locomotives to modernise its fleet in anticipation of a rise in general freight volumes and the solidifying of the 'road to rail' strategy.

As at 31 March 2018, the cumulative expenditure incurred on the 1 064 locomotive contract amounts to R30,1 billion, with R7,3 billion spent in the year under review.

A total of 402 locomotives have been accepted into operations while 16 have been delivered and are currently undergoing acceptance testing.

In the year under review, Transnet Freight Rail and Transnet Engineering embarked on a programme to build the following wagons:

- 2 500 coal containers to service Eskom power stations;
- 300 new CR-13/14 wagons for the iron ore business;
- 86 new SCL wagons for the automotive business; and
- 364 CR wagons to be used within the mining sector.

Other infrastructure investment highlights for the financial year include:

- R2,3 billion invested in rail infrastructure;
- R4,5 billion invested to maintain the condition of rolling stock;
- R212 million invested in expanding capacity for manganese beyond 5,5 million tons, taking the total investment to R2,1 billion so far;
- R55 million invested towards the upgrade of yards, lines and electrical equipment under the coal line investment programmes;
- R2,8 billion has been spent at 31 March 2018 in expanding capacity on the export coal line to 81mtpa;
- R98 million invested in the Waterberg upgrade stage 2 which aims to grow capacity to 6,3 million tons per annum through incremental upgrades of the existing rail networks and yards using additional loops among other projects. The Waterberg regions remains a strategic growth node in the country, with 40% of South Africa’s remaining coal reserves found there;
- R1,3 billion investment in the multi-product pipeline. The 24” main pipeline and 16” inland pipelines have been fully commissioned and from November 2017 the NMPP became fully operational and are operational, having transported more than 199,48 billion litres of diesel from Durban to the inland region since commissioning; and
- R2 billion was spent in the maintenance and acquisition of cranes, tipplers, dredgers, tugs, straddle carriers and other port equipment.

The Company’s procurement activities contribute directly to the growth and economic transformation of South Africa and can result in the increase of the number of previously disadvantaged individuals who manage, own and control businesses.

Transnet’s recognised B-BBEE spend was R25,8 billion or 86,9% of total measured procurement spend of R29,7 billion (2017: 37,0 billion or 103,1% of R35,8 billion).

Under the banner of the ‘zero harm’ slogan adopted by the Company, employees’ safety remains the highest operational priority. Regrettably, despite the commitment by the leadership, labour and over 50 000 employees, five Transnet employees were fatally injured during this financial year. Transnet’s leadership team will continue with is efforts to be more visible through site visits in all operational areas.

Regarding corporate social investment, R219 million was committed to sustainable community development programme across South Africa. Contributions were made towards health, education, rural sports development and through grants and donations. Transnet's health train which traversed majority of the rural communities benefitted 157 418 patients and was visited by 435 332 individuals across the country.

2,9% of the Company's labour cost was spent on training during the year. Overall, 100 full-time engineering bursaries were awarded, with 201 engineering technician trainees given workplace experience opportunities. Sector-specific skills development continued to focus on maritime, rail and port terminal operations, with 1 516 learners participating in these programmes.

The year under review though, has been characterised by a number of serious procurement related governance challenges which has impacted on the Company's reputation and the ability to attract investment. This has resulted in the external auditors issuing a qualified audit opinion relating to the completeness of the identification and reporting of irregular expenditure.

It is apparent from the expenditure that is classified as irregular, although not necessarily giving rise to fruitless and wasteful expenditure, that the detection and prevention controls in this area are not achieving the desired level of compliance. The Board, together with management, is developing a comprehensive corrective action plan to prevent the recurrence of such instances. The corrective actions will focus on developing additional controls to prevent irregular expenditure while a mechanism to ensure the completeness of reported irregular expenditure is developed and implemented.

These corrective actions will cover both financial and business controls as well as enhancements to the Transnet Integrated Assurance Model.

As a State-Owned Company, Transnet has consistently delivered significant gains in operations and financial performance. The solid platform laid by the implementation of the MDS has enabled Transnet to adopt the Transnet 4.0 strategy which requires the organisation to become a digital organisation with strong focus on maximising the use of technology to drive efficiency, effectiveness and innovation.

Issued on behalf of Transnet SOC Ltd

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About Transnet

Transnet is wholly owned by the Government of the Republic of South Africa. The Company is uniquely positioned to provide integrated, seamless transport solutions for its customers in the bulk and manufacturing sectors. This is part of its drive to improve the efficiency and competitiveness of the South African economy.

Transnet has five operating divisions:

Transnet Freight Rail transports bulk, break-bulk and containerised freight along 30 400 kilometres of rail track.

Transnet Engineering manufactures and maintains rolling stock. It consists of eight product-focused business units which provide services ranging from rolling stock refurbishment, conversion and upgrades, to the manufacturing of locomotives, coaches and wagons.

Transnet National Ports Authority is responsible for the safe, efficient and effective functioning of the national ports system, which it manages in a landlord capacity. The National Ports Authority is also a provider of port infrastructure and marine services at all commercial ports in South Africa.

Transnet Port Terminals owns and operates 16 cargo terminal operations situated at seven South African ports. It provides cargo-handling services for the container, bulk, automotive and break-bulk sectors.

Transnet Pipelines transports a range of petroleum products and gas through 3 800 kilometres of underground pipelines, which traverse five provinces, thereby ensuring the security of supply of petroleum products to the inland market, especially Gauteng.

Specialist units:

Transnet Group Capital manages the Company’s largest capital projects.

Transnet Property manages the Company’s property portfolio.