Investment
Environmental
Target not achieved
Human capital
Equivalent performance to
Social and relationship
Target partially achieved
Natural capital
Intellectual capital

The Capitals
Sustainable Developmental Outcomes (SDOs)
Strategic fundamentals
Navigating this report

Material aspects impacting our strategy
Addressing key stakeholder concerns
The Multi-stakeholder Perception Survey
From MDS to Transnet 4.0

Organisational overview
Creating value through the capitals
Financial capital
Manufactured capital
Human capital
Intellectual capital
Social and relationship capital
Natural capital

Strategy and resource allocation
Strategic planning
Fossil MIDS to Transnet 4.0
Managing our stakeholder relationships

Performance Key
Improvement over prior year performance
Electro-mechanical performance
Target partially achieved
Target not achieved

Dedication
We are deeply saddened by the loss of Msexelwa Nkosi, former Transnet Chairperson, and our late colleagues: Mr Gideon Mahlalela and Mr Gideon J Mahlalela who passed away on 29 March 2018. We are profoundly grateful for his dedicated service on the Transnet Board, and will forever remember him for his patient leadership and guidance.

Feedback on this report
We welcome feedback on our 2018 Integrated Report.

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Available in print
Available online in PDF format
Available online in IFR format

The 2018 Integrated Report is the Company’s primary report to all stakeholders.

The 2018 Annual Financial Statements include reports of the directors and independent auditors.

Sustainable Developmental Outcomes (SDOs)
Sustainable Developmental Outcomes (SDOs)
Sustainable Developmental Outcomes (SDOs)
Sustainable Developmental Outcomes (SDOs)
Sustainable Developmental Outcomes (SDOs)
About this report

Reporting philosophy and approach

Transnet SOC Ltd (“Transnet” or “the Company”) has been an active participant in the International Integrated Reporting Council (IRC) Pilot Programme since its inception and has followed the developments and application of the Integrated Reporting Framework. Our reporting is evolving as the Company’s strategic focus, operational priorities and organisational thinking become more integrated, thereby enabling us to remain strategically aligned with and responsive to stakeholders’ concerns.

Reporting boundary

The 2018 Integrated Report covers the financial reporting period from 1 April 2017 to 31 March 2018. The boundary of this report (Figure 1) encompasses the Transnet Group, its Operating Divisions and Specialist Units. The boundary further extends to include factors that impact Transnet’s ability to create value.

Factors impacting Transnet’s ability to create value

There were no significant changes in scope or aspect boundaries, save for the progress made during the year. Where relevant, restatements or changes in measurement methods are disclosed in the annual financial statements.

The Transnet Integrated Report is published annually and approved by the Board of Directors (Board). The previous Integrated Report was approved by the Transnet Board on 1 June 2017.

Reporting frameworks and guidelines

Primary framework

This report was prepared according to the guidance of the International Integrated Reporting, B-I Framework, as adopted by the Transnet Board.

Secondary frameworks, guidelines and standards

This report – read together with the accompanying detailed Annual Financial Statements and Sustainability Outcomes Report – was further informed by:

- The King IV Report on Corporate Governance for South Africa (2016) (King IV);
- The Global Reporting Initiative (GRI-G4) – (General Standard Disclosure);

Statement of stakeholder commitment

We strive to communicate with our stakeholders regularly. Our core values – expressed in our Culture Charter – guide us in our interactions with stakeholders.

To meet stakeholder commitments, we continue to strive for:

- An organisational culture that views change as an opportunity to improve quality in all we do;
- A safe working environment, and an I BELONG culture;
- Customer-centric business innovations, and reliable service offerings presented to customers as ‘One Transnet’;
- Fair, equitable and transparent supply chain tender processes;
- Collaborative relationships with policymakers and regulators;
- Demonstrable sensitivity and care for the environment; and
- Superior returns to our investors as a reliable and credible borrower which, albeit state-owned, issues debt on the strength of its financial position without any Government guarantees.

Integrated approach to assurance

The Board and management have applied Transnet’s Integrated Assurance Plan to the integrated reporting process to enhance the value creation narrative and to provide an independent perspective on the transparency and accountability of our disclosures. Our Integrated Assurance Plan encompasses the assurance provided by management, external specialists, internal audit, external audit, external advisers and service providers. The Board serves as the last line of defence.

- International Financial Reporting Standards (IFRS);
- The Companies Act, No 71 of 2008 (Companies Act);
- The Public Finance Management Act, No 1 of 1999 (PFMA);
- United Nations 2015 Sustainable Developmental Goals;
- The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard prescribed by the Carbon Disclosure Project;
- AA1000 Stakeholder Engagement Standard, and
- Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice.
Materiality in our reporting

The 2018 Integrated Report provides information that we consider to be of material significance in creating short-, medium- and long-term value. We have identified 24 material aspects for the 2018 reporting year, and have organised these into six clusters. We are confident that the report provides information that is material to investors, to all stakeholders to which Transnet is directly accountable, to any potential role takers, and to the public. We believe that the report has informed the assessments of our performance and our ability to create and sustain long-term value.

Read more on the impact and relevance of material issues:

Process for identifying, validating and approving material aspects

Qualified opinion

The external auditors issued a qualified opinion relating to the completeness of the identification and reporting of irregular expenditure, including a material uncertainty relating to the Company’s going concern status in the year under review.

Goin-concern status

The Board reviewed the Group’s performance for the year and considered the robustness of budgets and business results, cash flow projections for the 15 months ending 30 June 2019, cost-saving opportunities, the cost of capital projects and related optimisation opportunities, the funding plan and loan covenants, the prevailing difficult economic conditions. Transnet will continue to aggressively pursue specific available project funding areas that are within the parameters of its funding strategy and continue to optimise capital expenditure spend.

Further, the Board does not expect the actions by both rating agencies, against Transnet and the sovereign to negatively impact the ability of the Company to access the debt capital markets as both rating agencies have assigned a stable outlook for the Company. Transnet has managed to maintain an investment grade stand-alone credit profile amidst a series of rating downgrades.

Integrating sustainability reporting

The 2018 Integrated Report aims to communicate the full value of the Group and dovetails on the interdependencies between financial and non-financial information. We have integrated performance information relating to Transnet’s commercial outcomes with that of the nine Sustainable Development Outcomes (SDOs) in our discussion on value creation (p18) and our performance disclosures (p51).

The Board has reviewed Transnet’s sustainability performance disclosures in the 2018 Integrated Report for the year ended 31 March 2018, and the external auditor’s assurance statement issued to the directors on the subject matters contained in the online Sustainability Outcomes Report 2018 available at www.transnet.net.

Read more Transnet Sustainability Outcomes Report online at www.transnet.net.

Statement of precautionary approach

Our operating context is industrial- and infrastructure-driven, and necessitates accountable occupational training, as well as comprehensive policies and procedures to safeguard our employees, communities within and around our operations, and the public.

Balancing stakeholder interests

We recognise that our key expansion projects – such as our large-scale port infrastructure improvement project at the Port of Durban – need to balance the economic benefits for the Shareholder Minister and the country with the social and environmental concerns raised by surrounding communities. Adverse impacts on local communities include the possibility of social and small business displacement and negative waste generation during the construction phase. We continue to engage project stakeholders to support the most responsible, reasonable and beneficial balance of outcomes for all concerned.

Environmental health

Water

Seafood: our operations are in water-stressed catchments with resultant risks, including water contamination and water supply shortfalls. We continue to ensure that water use licences are obtained timely and are adequate for the scale and nature of water use. Where water is restricted, we will reduce the environmental impact of dust from our Saldanha iron ore terminal, a reverse osmosis plant has been constructed to limit the demand on municipal water by desalinating seawater for use in the terminal.

Waste

Our operations generate a variety of waste materials as by-products and we strive to implement the principles of responsible waste management, i.e. avoidance, reduction, recovery, recycling, and disposal. With no other use can be found in accordance with what the treaty of section 16 of the National Environmental Management: Waste Act No. 59 of 2008, we continue to identify, classified, in our operations using scientific methods and visual site assessments. Management plans are developed for areas contaminated by asbestos and hydrocarbon waste.

Pipeline spills present a challenge for the Company and surrounding communities, and we continue to educate property owners and contractors on safe and responsible work procedures. Remedial activities include revegetation of sites, excavation of contaminated soil, monitoring of groundwater and backfilling of soil.

Goverance and ethics

As a logistics state-owned company, our large infrastructure development projects pose a risk in terms of ethical and transparent procurement practices and their actual practice. Our mandate relies on domestic and foreign investment and perceptions of anti-competitive behaviour and corruption negatively impact our reputation, brand and investment sentiment. Given the challenges during the reporting period, we will continue to work towards greater transparency and accountability, enhancing our procurement practices and stakeholder relationships, and ensuring our Code of Ethics to ensure the protection of all stakeholders’ rights. Refining our governance framework to accurately track and address ethical transgressions remains a priority for Transnet.

Directors’ approval

The Board has applied its collective mind to ensure the integrity of the 2018 Integrated Report and approved the final version. The Board has considered the completeness of the material aspects addressed in the report, and the reliability of reported performance information presented, based on the integrated assurance process followed.

The Board is satisfied that the 2018 Integrated Report provides a fair representation of the integrated performance of the Company during the year. Further, it has concluded that the report is presented in accordance with the International Integrated Reporting <IR> Framework and aligns with the King IV guidelines. The report also contains Standard Disclosures from the GRI Sustainability Reporting Guidelines.

The 2018 Integrated Report was approved by the Board and signed on its behalf by:

Chairperson

PS Molefe

10 August 2018
Johannesburg
Chairperson’s foreword

The current Board of Directors (Board) of Transnet SOC Ltd was appointed on 24 May 2018, approximately two months after the end of the year under review. Its appointment coincided with the new epoch defined by the President of the Republic of South Africa as the “New Dawn”.

The New Dawn is characterised by a resolute determination to rid public institutions of all malfeasance, which set in over the past nine years of our democracy, accompanied by their systemic destruction or weakening. Our task now is to rebuild our public institutions, restore the loss of their integrity and to refocus them on their mandates. For the Board of Transnet, the strategic challenge flowing from the aforegoing vision relates directly to the biggest logistics, transport and infrastructure company of the State of which the strategic mandate is to drive socio-economic development. The outcomes of its successful discharge of this task must be the stimulation of economic growth, growth of other businesses, especially small and medium-sized ones, increased jobs and the reduction of poverty and inequalities.

The Board considers itself privileged to have been appointed to the stewardship of the largest logistics, transport and infrastructure company of the people of South Africa. The Directors, without exception, appreciate the depth of dedication required of them, together with the management collective and the more than 50 000 Transnet employees.

We also acknowledge the consistent collaboration with our customers and service providers that is necessary to drive the economic growth and sustainable development of Transnet’s human capital, and that of society at large.

Our first days in office coincided with sustained negative media coverage of the Company’s business dealings. At the same time, the preparation of Transnet’s 2018 Integrated Report and Financial Statements were near completion. According to King IV, the annual Integrated Report represents the voice of the governing body. As Directors, we owe our duties to the legal entity that is Transnet SOC Ltd. In acknowledging the diverse interests representing the Company, which include the interests of our Shareholder, our employees, customers and communities, we are duty-bound to act in good faith, not only in signing off on the year’s performance but also in setting the direction and tone for Transnet’s strategic aspirations going forward.

Given the brief period available to us to examine, approve and sign off the Transnet 2018 integrated reporting suite, we have relied heavily on the work done by Management and attempted to interrogate and provide our own observations where we could.

From the work of the various Board committees, it has become apparent that certain irregularities derive from lapses in financial discipline. While these irregularities do not necessarily result in fraudulent and wasteful expenditure, it is evident that the corporate governance of the Company is inadequate and requires improvement, which enforces the dire need for strengthened controls, particularly in the procurement environment. Since the appointment of the new Board we have undertaken the following steps:

• Engaged certain forensic specialists to review the reports prepared relating to the much-talked about 1 064 locomotives contract, where Transnet has been accused of mismanaging the supply chain management process resulting in associated costs increasing from approximately R38 billion to R54 billion.
• Formulated the key governance sub-committees of the Board.
• Abolished the ‘Acquisitions and Disposals’ (ADC) sub-committee, as we do not believe the Board should be directly involved in procurement processes.
• Commenced interactions with key state institutions charged with investigating “state capture”.
• Reviewed the progress of the investigations instituted by management, relating to payments made to companies identified in various media reports.

The reporting period was further marked by a credit downgrade of Transnet’s foreign and local currency ratings, due to the rating action on the sovereign, as Transnet is viewed to be closely linked to the Government. The downgrade precipitated an increase in financing costs, and a forced slowdown in capital expenditure, necessitating a need to supplement investments with capital raised through private-sector partnerships.

The rating agencies have, however, noted significant growth potential for the country, even though they acknowledge that the new political administration will require time to improve economic growth, accelerate employment and stabilise the fiscal position, given the country’s structural weaknesses.

https://www.youtube.com/watch?v=63Qo8mWvQ4

We have set out what we believe to be an ambitious but entirely achievable goal of restoring Transnet, and its previously sound reputation, to its position as an integral asset of the people of South Africa.

Mr Popo Molefe
Chairperson

Together with management, we have set what we believe to be an ambitious but entirely achievable goal of restoring the integrity and reputation of Transnet. As a Board, we are committed to exercising oversight and supporting the Auditor-General to strengthen external audit processes. In this way, we hope to help restore public trust in Transnet as a SOC, a national infrastructure provider, a progressive business partner, and an employer of choice.

We will also improve our engagement and interactions with various stakeholders, customers, service providers and emerging businesses. Notwithstanding the various governance challenges experienced in recent years, we are convinced that Transnet can be an extraordinary company that, given the opportunity, will grow and impact positively on the economy of our country. A valuable point of departure is to restate Transnet's core mandate, particularly as it facilitates the broader economic and developmental goals of the country, as articulated by President Cyril Ramaphosa in his 2018 State of the Nation Address (SONA) and to express our own understanding of and commitment to the mandate bestowment status as the new Board of Directors.

At the heart of the business is our obligation to assist in lowering the cost of doing business in South Africa, while ensuring security of supply by providing appropriate port, rail and pipeline infrastructure. As a SOC, Transnet must deliver on national developmental goals, as they pertain to the transport and logistics sector, ensuring that the country remains competitive on the continent and globally. In many respects, our country is a driving force for the growth and expansion of the African continent, with infrastructure to match any first-world country. This said, the World Bank and International Finance Corporation (IFC) rank South Africa in 93th place in the world for ease of doing business. Cost is of concern, particularly when trading across borders. The Company's Transnet 4.0 strategy, formally set in motion during the 2018 Financial year, is geared to accelerate efforts to extend the business to adapt to global industry 4.0 trends, particularly in the fast-growing regions of Africa, the Middle East and Asia (AMEA), by offering affordable rail, port and pipeline infrastructure support to our cross-border neighbours. This vision is clearly aligned with the Government's vision to facilitate economic transformation of the continent over the next 50 years into a uniquely African trade environment, which fosters growth and sustainable development for Africans, by Africans.

The founding principles of the Transnet 4.0 strategy further echo the tenet of the President's 2018 Address, in that our prosperity depends on our ability to take full advantage of rapid technological change. The new Board is committed to transitioning the business to adapt to global industry 4.0 trends, particularly in the ambitious goal of transitioning from our current second-party logistics provider (2PL) status to becoming a third-party logistics provider (3PL) status in the long term. We also wish to thank the leadership of organised labour for their guidance, leadership and willingness to share in the Company's long-term vision.

Regrettably, during the year five employees passed away in our operations. On behalf of the Board of Directors, we wish to express our heartfelt condolences to their families and all who were touched by their passing. The Company also lost a friend and mentor in Gideon Mahlalela, whose passing two days before year-end was sudden and unexpected.

We further wish to convey our sympathies to the families of the 102 members of the public who lost their lives during the year in and around our operational activities. As the Board, we undertake to review the nature and causality of all fatalities and do our best to entrench Group-wide safety awareness.
Executive summary

Revenue growth and profits have been erratic for many transport and logistics companies over the last 10 years, with revenue increasing but profits not matching up to the rate of revenue increases on average. Return on capital employed (ROCE) and profits are relatively low for many companies in this sector compared to other industries, such as technology, consumer non-durables and retail.

Despite the challenges faced during the year, the Company has achieved unparalleled financial results for the year ended 31 March 2018. Revenue for the year increased by 11,1% to R22,9 billion. Stringent cost-containment measures and working capital management contained operating costs at R16,8 billion (2017: R17,9 billion), a 6,5% increase, resulting in a R1,1 billion saving against planned costs. As a result, earnings before interest, taxation, depreciation and amortisation (EBITDA) – Transnet’s key measure of profitability – increased by 18,9% to R22,5 billion (2017: R18,9 billion). Transnet’s EBITDA margin increased by 2,4% to 44,6%. Gearing at 43,4% and cash interest cover at 3,0 times were well within the approved financial parameters.

Revenue performance was underpinned by solid growth in strategic rail sectors:
- 6,1% increase in port containers
- Record general freight volumes of 90,8 mt, an increase of 3,1% from the prior year
- 6,5% growth in railed containers and automotive volumes
- 17,3% growth in chrome
- 13,2% increase in manganese
- Record of 71,0 mt export coal volumes ( Richards Bay Container Terminal)

Progress on major projects is also largely on track with 402 locomotives from the 1,064 locomotive programme having been accepted into operations during the year, with 164 more delivered and currently undergoing acceptance testing. Further, Transnet has commenced its manganese expansion project, which aims to expand the capacity for transporting manganese volumes beyond 5,5 million tonnes (mt). South Africa accounts for 75% of globally identified manganese reserves and 31% of manganese exports by value, making it a sustainable, lucrative supply market to Europe and China. During the year, demand for manganese exceeded budget by a substantial 46,6%.

R2,3 billion was invested in the NMMP project during the year. The coastal terminal (right-line solution), inland terminal, 244 km main pipeline and 160 km inland pipelines have been fully commissioned and are operational, having transported more than 190,48 billion litres of diesel from Durban to the inland region once commissioned. Following the coastal terminal commissioning in August 2017, the pipeline is now operating as a multi-product pipeline (various grades of diesel and petrol) functioning at full phase 3 flow rates, thereby securing fuel supply for the South African economy over the medium to long term. The inland terminal was commissioned in December 2017.

Transnet has initiated various geographic expansionary projects under a new subsidiary, Transnet International Holdings (TIH) SOC Ltd, such as the Nigerian railway concession project worth approximately $2 billion, the approval of a private-sector participation investment proposal to operate three berths in the Port of Lamu, as per the LAPSSET Corridor Memorandum of Understanding (MOU) signed between South Africa and Kenya in 2016, and a tender awarded to the Transnet-Siparia Infrastrutura Development Group (BDO) Consortium to raise finance for the rehabilitation and renewal of key equipment, systems and infrastructure for the National Railways of Zimbabwe.

Other important developments relating to our advanced manufacturing sector include the launch of the TransAfrica locomotive manufacturing facility during April 2017, and the prototyping of a fully autonomous (self-drive) Special Inspection Device (SID) in collaboration with the Council for Scientific and Industrial Research (CSIR) to detect obstacles on rail ahead of travelling trains. We are hopeful that the SID’s capabilities will revolutionise rail safety.

We are actively leveraging technological advancements to improve operational efficiencies. Technologies such as the Internet of Things, Machine Learning, and Artificial Intelligence (AI) will provide valuable insights into improving operational reliability and service delivery to customers; whereas blockchain technology will modernise legacy systems and offer new customer service platforms. The ACTES system – serving as an industry-wide service platform – will help to generate relevant transportation and logistics data from multiple sources across the entire transport eco-system, thereby radically enhancing our customers’ experiences across the logistics value chain.

Going forward, Transnet’s growth will rely on our ability to diversify value-added services, and to harness some of the megatrends shaping the global transport and logistics sector. This implies diversifying revenue streams to tap into logistics opportunities presented by rapidly developing economies, such as logistics advisory services, infrastructure development and freight forwarding over large distances. Consolidation of the logistics sector, where larger players acquire smaller or niche players, is also a growing trend in the transport and logistics sector, in part due to companies’ reduced payloads, low profitability levels and evolving customer preferences. In terms of the latter, our own customer surveys reflect that we are still slow to respond to their fast-changing requirements, which is a combined factor of our systems, customer support structures and our organisational culture, all of which need to undergo a fundamental transformation.

Our point of departure draws from our view of long-term sustainability. As a SOC, we cannot defer our developmental mandate. Hence, our sustainable developmental outcomes form part of the essential blueprint for our new strategic direction. This means we need to consider our local suppliers in our expansion aspirations, acknowledge the new ways in which many of our key customers and stakeholders expect us to operate, and consider developing the technologies and skills we will need 10 years from now.

“We are committed to improving coordination, oversight and sustainability of the business, by enhancing internal governance oversight”

SI Gama
Group Chief Executive

Mr Mohammed Mahomedy
Acting Chief Financial Officer
Organisational overview

Our mandate

Enable economic growth
Ensure security of supply by providing appropriate port, rail and pipeline infrastructure in a cost-effective and efficient manner, within acceptable benchmarks

Governance context

Transnet SOC Ltd is a public company (constituted in terms of the Legal Succession to the South African Transport Services Act, No 9 of 1989), with the South African Government as the sole Shareholder.

Transnet is the owner of South Africa’s railway, ports and pipelines infrastructure.

The Company’s Memorandum of Incorporation – approved by the Shareholder Minister on 25 June 2013 – aligns with the provisions of the Public Finance Management Act (PFMA), the Companies Act and the National Ports Act, No 12 of 2005, as amended (the National Ports Act).

As a state-owned company (SOC), the PFMA serves as Transnet’s primary legislation.

Transnet signs an annual Shareholder’s Compact with the Government of South Africa, represented by the Minister of Public Enterprises. The Shareholder’s Compact mandates the Company to deliver on numerous strategic deliverables, including sustainable economic, social and environmental outcomes.

The Board directs the Company’s strategy in response to the Statement of Strategic Intent.

Broad-Based Black Economic Empowerment (B-BBEE)

Transnet’s B-BBEE verification covers six of the seven elements of the Generic Public Sector Scorecard (excluding the ownership element). The Maritime, Property and Rail Charters are also applied.

Transnet achieved the full points for enterprise development and socio-economic development for the 2018 financial year. The post-MDS Transnet 4.0 strategic blueprint will address and maximise the scores for employment equity, preferential procurement and skills development.

Transnet Group’s B-BBEE performance per pillar for the 2018 review period

<table>
<thead>
<tr>
<th>Element</th>
<th>Actual score</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity ownership</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Management control</td>
<td>8.99</td>
<td>11</td>
</tr>
<tr>
<td>Employment equity</td>
<td>14.17</td>
<td>16</td>
</tr>
<tr>
<td>Skills development</td>
<td>19.56</td>
<td>25</td>
</tr>
<tr>
<td>Preferential procurement</td>
<td>28.51</td>
<td>33</td>
</tr>
<tr>
<td>Enterprise development</td>
<td>15.00</td>
<td>15.00</td>
</tr>
<tr>
<td>Socio-economic development</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Total</td>
<td>90.83</td>
<td>107</td>
</tr>
</tbody>
</table>

Employee profile

Total employees 55 666

Black 73.9% Indian 3.4% Coloured 9.7% White 13%

Total employees represented by collective bargaining as a % of total headcount 89.0%

People with disabilities 2.4%

Permanent employees 51 324

Male 36 683  Female 14 641

Non-permanent employees 4 342

Integrated Supply-Chain Management function

Optimises inbound supply-chain activities
Enables efficient and reliable outbound services to the end-customer

As we enter the 4th Industrial Revolution, opportunities for suppliers include:
- Internet-based service provider platform for suppliers working in the “Gig-economy”
- Mentoring network of industry leaders to guide small, medium and micro-enterprises (SMME) in sector changes due to digital trends
- “Transnet Mega Hubs” to support SMME suppliers
- Market access to SMME’s through revenue-sharing model
- Common purpose/technology platforms for SMME collaboration (tools and templates)

Enterprise and supplier development (ESD)

- Guided by Government’s Competitive Supplier Development Programme
- Informed by the B-BBEE Codes of Good Practice
- Aims to increase the competitiveness, capability and capacity of black-owned suppliers through financial and non-financial support
- Targeted ESD initiatives support localisation and industrialisation, and provide opportunities for black people, youth, women, small businesses, people with disabilities and people living in rural communities

Our integrated Enterprise and Supplier Development Strategy supports the rise of young black entrepreneurs through the various developmental levels from high-school innovation programmes through business case development and business incubation to our Black Industrialist Programme and our regional and global exporting and trade programmes.
Organisational overview

Operating context

Operating context refers to Operating Divisions. Figure 2

Freight Rail
- Transports bulk
- Operates 30 400 km of rail

Engineering
- Provides advanced manufacturing, maintenance, refurbishment of rolling stock and specialized equipment to Freight Rail, the National Ports Authority, Port Terminals and external clients
- Houses Transnet’s Research and Development (R&D) unit
- Delivers customer-centric products and services as a growing hub and systems integrator of rail, lands and ports in the AMEA region

National Ports Authority
- Houses Transnet’s Maritime and Energy Services
- Provides berthing and mooring, port services and navigation aids to assist the navigation of vessels with port limits and along the coast

Port Terminals
- Provides cargo handling services to a wide spectrum of customers, including shipping lines, freight forwarders and cargo owners
- Operates 16 terminals in seaports spread along the South African coastline
- Operations are divided into four major business segments: containers, bulk, break bulk and automotive

Pipelines
- Transports fuel from coastal refineries and crude oil imports to the inland market
- Transports gas from Cotecna to industrial users in Durban and Richards Bay
- The New Multi-Product Pipeline (NMP) enables the increase in liquid bulk volume throughput to steel (or east) demand

Customer profile

Large mining, shipping, manufacturing, agricultural, industrial, retail and energy contributors to the South African economy

Services provided

Outbound services (South African businesses moving products to international markets) and inbound services (bringing products to South African markets)

Commodities transported: mining exports, general freight and petroleum products
- General freight: containerised cargo, local manganese, minerals, local coal, local iron ore, chrome and ferrochrome, agricultural products, iron and steel, fertilisers, cement, fast-moving consumer goods, bulk liquids, wood and wood products, industrial chemicals, intermediate products and automotive products
- Sub-saharan Africa’s estimated regional growth is 3.4%
- Petroleum products: crude oil, refined petroleum products, aviation turbine fuel and methane-rich gas products

Strategic context

Transnet is transitioning from the Market Demand Strategy (MDS) – first implemented in 2012 – to a new blueprint for growth and diversification, the Transnet 4.0 Strategy (Transnet 4.0)

The MDS has largely achieved its objective of closing the market demand capacity gap for freight logistics infrastructure, with approximately R165,6 billion invested in the previous six years. Transnet 4.0 provides a framework for Transnet’s growth and diversification within the context of the 4th Industrial Revolution

Main growth thrusts of Transnet 4.0 include:
- Extending Transnet’s footprint in Africa; the Middle East and South Asia
- Product and service innovation
- Expanding Transnet’s advanced manufacturing business, with leading technologies to enhance new and existing products, and improve business processes
## Summary performance

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>R72,9 billion</td>
<td>R65,5 billion</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>R40,4 billion</td>
<td>R37,9 billion</td>
</tr>
<tr>
<td><strong>Savings against planned costs</strong></td>
<td>R3,1 billion</td>
<td>R2,4 billion</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>R32,5 billion</td>
<td>R27,6 billion</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>R4,9 billion</td>
<td>R2,8 billion</td>
</tr>
<tr>
<td><strong>Gearing</strong></td>
<td>43,4%</td>
<td>44,2%</td>
</tr>
<tr>
<td><strong>Cash interest cover</strong></td>
<td>3,0 times (within loan covenant requirements)</td>
<td>2,9 times (within loan covenant requirements)</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td>R34,9 billion</td>
<td>R31,0 billion</td>
</tr>
<tr>
<td><strong>Borrowings raised</strong></td>
<td>R40,9 billion</td>
<td>R170,0 billion</td>
</tr>
<tr>
<td><strong>Borrowings repaid</strong></td>
<td>R41,0 billion</td>
<td>R24,9 billion</td>
</tr>
<tr>
<td><strong>Capital investment (CAPEX for the MD period 2018/19)</strong></td>
<td>R21,8 billion</td>
<td>R214,1 billion</td>
</tr>
<tr>
<td><strong>Locomotives accepted into operations</strong></td>
<td>402</td>
<td>452</td>
</tr>
<tr>
<td><strong>% of personal costs invested in training</strong></td>
<td>2,9%</td>
<td>3,1%</td>
</tr>
<tr>
<td><strong>Disabling injury frequency rate (DIFR)</strong></td>
<td>0,73</td>
<td>0,69</td>
</tr>
<tr>
<td><strong>B-BBEE spend</strong> (as % of total measured procurement spend)</td>
<td>86,9%</td>
<td>103,1%</td>
</tr>
<tr>
<td><strong>Spend with black owned enterprises</strong></td>
<td>R12,47 billion (42,0% of total measured procurement spend)</td>
<td>R12,2 billion (34,0% of total measured procurement spend)</td>
</tr>
<tr>
<td><strong>Spend with black women owned enterprises</strong></td>
<td>R35,34 billion (31,4% of total measured procurement spend)</td>
<td>R46,6 billion (12,8% of total measured procurement spend)</td>
</tr>
<tr>
<td><strong>Transnet’s B-BBEE level</strong></td>
<td>Level 2</td>
<td>Level 2</td>
</tr>
<tr>
<td><strong>Corporate social investment</strong></td>
<td>R219 million</td>
<td>R234 million</td>
</tr>
<tr>
<td><strong>Number of patients treated in hospital and daybed at Phelophepa trains</strong></td>
<td>157 418</td>
<td>173 016</td>
</tr>
<tr>
<td><strong>Number of individuals benefiting from community outreach services</strong></td>
<td>435 332</td>
<td>438 807</td>
</tr>
</tbody>
</table>

## Operating strategy

### Office of the Group Chief Executive

**Group Company Secretariat – Governance**

- **Group Strategy**
  - Strategic
  - Corporate and Public Affairs
  - Transnet International Holdings
  - Shareholder’s Compact
  - In House Consulting

### Group Finance

- **Management of critical financial parameters, including capital structure**
  - Financial and capital planning
  - Treasury, funding and capital structure management
  - Procurement
  - Reporting
  - Taxation
  - Income statement and statement of financial position
  - Capital assurance

### Group Capital

- **Lead the execution of Transnet’s capital expenditure programmes, project support and engineering procurement and constructions management**
  - Long-term planning
  - Capital business case support
  - Capital mega project execution
  - Engineering and technical
  - Capital project support

### Corporate Governance and Regulatory

- **Risk and compliance aligned to legislative and regulatory requirements**
  - Stakeholder relations
  - Risk
  - Compliance
  - Legal
  - Security

### Group Operations

- **Drive Group-wide integrated safety strategies, align with the Group Chief Executive of the Changing Transnet’s risk report to the world and**
  - Rail operations
  - Port Terminal operations
  - Port Authority operations
  - Pipeline operations
  - Property management
  - TVLC and BMO

### Business Development

- **Support Transnet’s strategy by developing a strategic business plan, ensuring that Transnet’s business portfolio reflects the growth aspirations of the group and new markets**
  - Customer long-term contracts
  - Product and service innovation
  - Commercial capability
  - Strategic partnerships
  - Venture funding
  - Procurement

### Advanced Manufacturing

- **Manufacturing**
  - Light freight wagons
  - Locomotive design, manufacturing and sales
  - Maintenance of locomotives and wagons
  - Research and development
  - FMIS partnerships
  - Services development and sales

### Information and Communications Technology (ICT)

- **Information and Communications Technology**
  - Architectural services
  - IS build application
  - IS infrastructure
  - Digital capability and solution delivery

### Group Human Resources

- **Lead Group-wide performance management, talent management and corporate social investment**
  - Reward
  - Performance management
  - Talent management
  - EVP
  - Labour relations

## Endorsement of external charters and frameworks (not limited to)

- **Generic Transport Public Sector Charter**
- **Rail Charter**
- **Maritime Charter**
- **Property Charter**
- **United Nations Global Compact (since 2012)**
  - International Integrated Reporting Framework

## Membership of associations (not limited to)

- **New Partnership for Africa’s Development (Nepad)**
- **South African Railways Association**
- **International Union of Railways**
- **Association of American Railroads**
- **Railway Association**
- **Union of African Railways**
- **Maputo Corridor Logistics Initiative**
- **International Association of Marine Aids to Navigation and Lighthouse Authorities**
Our business model

Figure 3

Our value proposition

As a state-owned company, our overarching value proposition is founded in our Shareholder Mandate:

- The modernisation and renewal of South Africa's transport and logistics infrastructure through strategic investment in rail, ports and oil and gas pipeline infrastructure;
- Cost-effective logistics value chains;
- Value-added services; and
- Advanced engineering solutions.

Key freight system challenges

- Slow rates of global and local economic growth and volatility commodity prices impact freight volumes and revenue;
- Fewer small/niche players in SA's logistics sector;
- An imbalance in road-rail market share leads to high costs, high carbon intensity and vulnerability to the international oil price;
- Global and regional maritime connectivity is poor;
- The regional freight system is not well integrated and displays poor performance;
- Demand for transport infrastructure across all modes will rise significantly based on forecast freight demand;
- Shortage of specialist skills across most areas of the freight system, particularly in new digital platforms;
- Cybersecurity threats;
- Variability of digital infrastructure and uptake in new markets;
- Supplier industries for all transport modes are underdeveloped;
- Fusion of technologies poised to disrupt industries and transform systems of production, management and governance;
- Climate change adaptation and energy and water supply challenges.

Opportunities for long-term competitiveness

- New value-added services (e.g. customs clearing, warehousing, financing);
- Africa and international growth opportunities;
- Transnet can acquire small/niche players;
- A large-scale modal shift from road to rail to address costs, congestion and carbon emissions;
- A low-carbon, energy efficient freight system that will reduce vulnerability to volatile oil prices;
- A robust infrastructure funding model able to ensure capacity ahead of demand;
- Targeted skills development strategies, particularly in digital programming, engineering and project management fields;
- Commercialisation digital opportunities;
- Commercialisation of logistics value chain;
- Unitary end-to-end control of the integrated network.

Revenue streams

Commodity-based revenue from commodities transported:

- Coal
- Iron ore
- Manganese
- Chrome
- Steel
- Cement
- Agricultural products
- Forestry products
- Automotive
- Fast-moving consumer goods
- Containerised cargo and crude oil
- Refined petroleum products
- Aviation turbine fuel
- Methane-rich gas

Non-commodity revenue from:

- Engineering
- Transnet Property
- Other revenue at Freight Rail, National Ports Authority, Port Terminals and Pipelines

Funding sources

International and domestic capital markets

- Loan markets (public and private)
- Development finance institutions (domestic and international)
- Export credit markets
- Structured financing
- Particular funding by customers and/ or interested parties that are part of Transnet's investment plan
- Project-specific funding

Cost considerations

- Fuel and electricity costs
- Asset depreciation
- Personnel costs
- Investment in infrastructure projects and equipment
- Regulatory and compliance costs
- Supplier and support services
- Borrowing costs
- Inflation
- Materials and maintenance costs

Top 10 risks

1. Capital execution risk
2. Macro-economic environment risk
3. Volume growth risk
4. Operational readiness risk
5. People management risk
6. Productivity and efficiency risk
7. Regulatory risk
8. ICT risk
9. Environmental risk
10. Capital and operational risk
Creating value through the capitals

Financial capital

Our financial management is underpinned by the availability and management of our non-earning assets and by our earnings capacity, of which dividends paid to shareholders are a significant component. We engage with shareholders, creditors, customers and other stakeholders on a continuous basis to ensure that they are satisfied with our performance and are able to benefit from our continuing growth and contribute to our success.

Manufactured capital

Through our manufactured capital – rail and port facilities, engineered and technology-driven solutions – we create value for our stakeholders. Through the recovery and optimal utilisation of our manufactured capital, we are able to reduce the capital required to support the growth and performance of our business, thus enhancing the stability of our business and improving the quality of life for our employees and the communities in which we operate.

Intelectual capital

Through our intellectual capital – patents, intellectual property, knowledge and know-how – we create value through innovation and the development of new products and services. Our intellectual capital is the outcome of our R&D initiatives, such as the Engineering R&D unit.

Human capital

Our human capital is the key driver of value creation and we strive to continuously retain, develop and engage our people – particularly our employees – so as to ensure a safe and credible workforce that is committed to the Group’s strategy, values and long-term sustainability.

Social and relationship capital

Through our social and relationship capital – our people, reputations, communities, associations, customer and supplier relations, networks and other stakeholders – we create value for our stakeholders. We engage with our stakeholders on a continuous basis to ensure that they are satisfied with our performance and are able to benefit from our continuing growth and contribute to our success.

Natural capital

Our business is conducted in such a manner as to ensure the sustainability of the environment in which we operate and to ensure that our actions reflect our shared commitment to creating value for all stakeholders. Our strategy is underpinned by our commitment to responsible business practices, including sustainability, health and safety, corporate social responsibility, and community development.

Creating value through activities

We deploy assets and capabilities in order to create economic value for our shareholders. We achieve this by deploying our assets and capabilities in a manner that enhances the performance of our activities, such as transportation, logistics, and infrastructure development.

Creating value through key outputs

Our business creates value through our outputs, such as the provision of transportation, logistics, and infrastructure development services. We achieve this by deploying our assets and capabilities in a manner that enhances the performance of our activities, such as transportation, logistics, and infrastructure development.
Creating value through the capitals

1. Inputs
Cash and cash equivalents: R2.4 billion
■ Share capital and reserves: R2.4 billion
■ Long-term deposits and borrowings: R16.6 billion
■ Shares and share equivalents: R13.5 billion
■ Revenue from commodity volumes (tonnage)
■ Non-commodity revenue: R3.9 billion
■ Freight Rail, National Ports Authority, National Treasury, National Treasury
■ Yields from tariffs: R3.9 billion
■ Negative regulatory changes: R2.9 billion

2. Structuring our capital
Mountain acceptable capital levels in debt structure parameters.
The amount of total capital, including external debt, must not be lower than desired capital levels for the 2017/18 financial year, and not lower than the 2017/18 budgeted level.
■ Total capital: R909 million
■ Medium-term finance (long and short-term)
■ Net fixed assets: R91.1 billion

3. Approaches to managing financial capital outcomes
Diversity revenue sources
■ Aggressive working capital management
■ Financial risk
■ National Ports Authority granted an average tariff increase of 4.4% in 2019.
■ R144.6 billion
■ EBITDA
■ Cash and cash equivalents
■ Capital investment
■ Stand-alone credit rating
■ EBITDA margin
■ Non-commodity revenue
■ Long- and short-term borrowings
■ Non-commodity revenue: R3.9 billion
■ Cash interest cover
■ Yields from tariffs
■ Negative regulatory changes
■ Negative regulatory changes
■ R21,8 billion
■ Capital investment
■ Stand-alone credit rating

4. Influences/risks
■ Economic climate
■ Macroeconomic risks
■ Economic climate
■ Macroeconomic risks
■ Economic climate
■ Macroeconomic risks
■ Economic climate
■ Macroeconomic risks
■ Economic climate
■ Macroeconomic risks

5. Mitigation strategies
■ Management of working capital
■ Risk of commodity price
■ Economic climate
■ Economic climate
■ Economic climate
■ Economic climate
■ Economic climate
■ Economic climate

6. Financial value created
■ Business value
■ Competitive advantage
■ Market growth
■ Business value
■ Competitive advantage
■ Market growth
■ Business value
■ Competitive advantage
■ Market growth
■ Business value
■ Competitive advantage
■ Market growth

"Innovation doesn't mean much if it doesn't matter to our customers. Disruptive innovation is about doing more for customers than anyone else will!" – Mr. Markku Rutkay, Chief Operating Officer,

Organisational overview
Creating value to reimagine our business – and, along with it, the value we create for Transnet and our stakeholders. A measure of the maturity of our objectives.

We aim to share how we connect to and use these capitals. Through our integrated reporting, we will share how we use these capitals to support the local economy. In so doing our freight logistics infrastructure and solutions.

The value we create can be measured by the increase or decrease in the average tariff.

We create value, broadly speaking, by lowering the average tariff.

Suppliers and services and Slow-down of the biosphere used

The value we create can be measured by the increase or decrease in the average tariff.

We create value, broadly speaking, by lowering the average tariff.
Manufactured capital

1. Inputs
- Property, plant and equipment: R313.4 billion
- Rail track: 30,400 km
- Petroleum and gas pipelines infrastructure: 5,600 km
- Port, rail and pipelines infrastructure
- ICT systems, digital platforms and cloud services
- Information and communications technology (ICT)

2. Key factors impacting manufactured capital
- Capital projects: Deterioration in the macroeconomic environment
- Market challenges
- Freight Rail to review delivery of rolling stock in line with validated demand
- The current aged fleet is being retired
- Rearsure business capital
- ICT infrastructure: Adapt to rapid advancements in digitalisation
- Future security models

3. Approaches to managing manufactured capital outcomes
- ‘Cradle-to-grave’ solutions Specialist Unit (Group Capital)
- Integrated Capital Projects/Programme
- TVCC: transparency of projects in the capital pipeline
- Robust business case validation
- The Assurance Framework (ICPAF)
- Programme prioritisation

4. Manufactured value created
- Critical logistics: infrastructure to meet national economic growth demands
- Freight Rail: world-class heavy-haul ore export lines transporting a range of general bulk and containerised freight commodities
- Engineering: original equipment manufacturer (OEM) for wagons and becoming a locomotive OEM (in-service maintenance, repair, upgrade, conversion, design and manufacture of various types of wagons, coaches, locomotives as well as equipment, machines and services)
- Port Terminals: operates major port container terminals as critical facilitator of international cargo trade
- Pipelines: strategic in the petroleum products supply chain, ensuring capacity anticipates demand, thus securing inland product supply
- ICT: Electronic enclosures and certain mechanical sub-components
- Track and trace technology to track port assets, (e.g. tugs and dredgers)

5. Trade-offs – Manufactured capital impacts on other capitals
- Value
  - R89.4 million
  - Total value of revenue generated through waste management initiatives
  - Total value of revenue generated through ICT

6. Key outputs
- Transnet concluded a locomotive acquisition contract in 2014 which resulted in the acquisition of 1,064 new locomotives for General Freight and Coal businesses
- 402 locomotives accepted into operations
- 402 locomotives accepted into operations
- 16 locomotives delivered
- 16 locomotives delivered

7. Trade-offs – Manufactured capital impacts on other capitals
- Value
  - R89.4 million
  - Total value of revenue generated through waste management initiatives
  - Total value of revenue generated through ICT

80 Running line derailments
- Damage to infrastructure (e.g. trains)
- Loss of fauna on rail path
- Cost of infrastructure repairs and maintenance

140 Shunting derailments
- Damage to infrastructure (e.g. trains)
- Cost of infrastructure repairs and maintenance

61 Safety incidents in operations
- Safety incidents and possible public fatalities
- Safety incidents and possible public fatalities + reputational damage

12 Significant environmental incidents in 2018
- Damage caused to infrastructure
- Environmental damage caused by spills or waste
- Costs of environmental rehabilitation
- Loss of trust/reputation
Two recognised trade unions represent 81.4% of bargaining unit employees: United National Transport Union (UNTU) and the South African Transport and Allied Workers Union (Satawu).

Due to recent high retirement rates*, Transnet has improved its race and gender profile: black, coloured and Indian employees represent 86.1% of the Transnet workforce as compared to the NEAP average of 87.7%.

Transnet has a disproportionately high representation of male employees (71.6%) relative to female co-workers (28.4%).

Female employees have more than doubled in the past 10 years.

Our remuneration philosophy and framework underpins the human resources strategy.

1. Inputs
   - Skilled and motivated employees as at 1 April 2017 year-end: 58,828
   - Responsible leadership structure (Governance and Ethics) – Leadership structure

2. Approaches to managing human capital outcomes
   - Training and development: improve capability and capacity
   - Policies and procedures: improve HR service delivery
   - Establish solid labour relationships
   - Performance and talent management within Transnet: reward excellent performance
   - Embed desired culture and safety behaviours (policies, systems, roadshows, procedures): safety-conscious and responsive workforce
   - Develop critical skills and succession planning: achieve long-term strategic objectives

3. Key factors impacting human capital
   - Two recognised trade unions represent 81.4% of bargaining unit employees: United National Transport Union (UNTU) and the South African Transport and Allied Workers Union (Satawu)
   - Due to recent high retirement rates*, Transnet has improved its race and gender profile: black, coloured and Indian employees represent 86.1% of the Transnet workforce as compared to the NEAP average of 87.7%.
   - Transnet has a disproportionately high representation of male employees (71.6%) relative to female co-workers (28.4%).
   - Female employees have more than doubled in the past 10 years.
   - Our remuneration philosophy and framework underpins the human resources strategy.

4. Human capital value created
   - Direct employer
   - Facilitator of indirect and induced employment opportunities nationally
   - Talent management and development programme: ensures succession plans for critical positions
   - Leadership programmes: target all management levels to build strong leaders
   - Reshape the operational core: support long-term strategic objectives
   - Implement Lean Six Sigma principles in operations: improve operational efficiencies and a safe working environment

“Transnet 4.0 offers exciting opportunities to reskill our people, to give them the skills that the future requires of them.

Ms Nonkululeko Sishi  Chief Human Resources Officer

6. Key outputs
   - Total headcount: 55,666 (2017: 58,828)
   - Permanent employees: 51,324 (2017: 53,661)
   - Non-permanent employees: 4,342 (2017: 5,167)
   - Labour cost on skills development: R741 million (2017: R746 million)

5. Trade-offs – Human capital impacts on other capitals
   - Training and development: build competencies and collective values around safety, operational excellence and innovation
   - More professional people: new employment opportunities opening up
   - Improved productivity and innovation
   - More savings through productivity
   - Performance-driven culture

---

*Due to recent high retirement rates, Transnet has improved its race and gender profile.
Rapid decline in revenue from traditional markets
Invest heavily in achieving OEM status in passenger trains (Engineering)
Large investments remain critical in research and business intelligence development
Increase revenue in niche markets

1. Inputs
- Research and development (Engineering) – Research
- Standard operating procedures – Procedures
- Policies, frameworks and processes – Frameworks
- Responsible leadership principles and practices – Leadership

2. Approaches to managing intellectual capital outcomes
- Research and development – emerging digital technologies as a key enabler of innovation – Digital Transnet
- Attract and retain key skills – enable our strategy and add value through innovation
- Create customer-centric business solutions – enhance customer relationship management and business intelligence
- Partner with academic institutions – empower growth-oriented entrepreneurs (business education and mentorship)
- Ensure protection of intellectual capital – copyrights and patents

3. Key factors impacting intellectual capital
- Transnet’s first in-house designed traction motor
- Transnet’s first in-house designed CMS using satellite, 3G, WiFi and GPS for real-time condition monitoring of stationary and mobile assets
- Transnet’s first in-house designed IRIS
- Transnet’s first standard gauge wagon bogie – currently undergoing manufacturing
- Transnet’s own port hauler, which is a truck-like vehicle for the ports
- Deployed an in-house developed commissioning tool for locomotives (TransAfrica Locomotive) – an application to connect to Transnet’s in-house designed control system for advanced diagnostics and monitoring

4. Intellectual value created
- Engineering (internationally acclaimed OEM of freight wagons) – our research and innovation hub – expanding its offerings to narrow-gauge operators worldwide
- Some existing skills may be replaced by technological innovations – balance our requirement for specialist technical advancements, and our mandate to create and sustain broad-based employment for the Company and the wider economy – maintain this balance by investing in upskilling of people and appropriate redeployment of skills

5. Key outputs
- Transnet’s first in-house designed traction motor
- Transnet’s first in-house designed CMS using satellite, 3G, WiFi and GPS for real-time condition monitoring of stationary and mobile assets
- Transnet’s first in-house designed IRIS
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- Transnet’s own port hauler, which is a truck-like vehicle for the ports
- Deployed an in-house developed commissioning tool for locomotives (TransAfrica Locomotive) – an application to connect to Transnet’s in-house designed control system for advanced diagnostics and monitoring

6. Approaches to managing intellectual capital outcomes
- Learning from the traction motor prototype used to manufacture full-scale prototypes
- New infrastructure equipment
- Building and selling new product lines
- Developing learning and innovation
- Employ more skills as production grows

7. Trade-offs – Intellectual capital impacts on other capitals
- New infrastructure equipment
- Building and selling new product lines
- Developing learning and innovation
- Employing more skills as production grows

8. Intellectural value created
- Operate as a multi-faceted, manufacture-driven, service-led Company in the 4th Industrial Revolution – some current technical skills may become obsolete, while other yet unknown competencies will be required
- Some existing skills may be replaced by technological innovations – balance our requirement for specialist technical advancements, and our mandate to create and sustain broad-based employment for the Company and the wider economy – maintain this balance by investing in upskilling of people and appropriate redeployment of skills

“Even with the best infrastructure, if our people and our thinking are not aligned, the customer will not reap the benefits.”
Mr Gert de Beer, Chief Business Development Officer
## Social and relationship capital

### 1. Inputs
- Transaction relationships with customers and suppliers
- Constructive and equitable engagements with Government and regulators
- Positive relationship with employees and organised labour
- Proactive interaction with communities, citizens, institutions, media and pensioners
- Collaborative relationships with the Shareholder and funders

### 2. Approaches to managing social and relationship capital outcomes
- Reputational value and market visibility
  > Attract vital competencies at all levels of operations
- CSI programmes
  > Provide support for communities within and around operations
- Transnet’s supply chain
  > Support manufacturing and services sectors of South Africa
  > Quality of supplier relationships impact customer service
- Overall responsibility for stakeholder engagement rests with the Board
  > Delegates authority to the Group Chief Executive
- Consistent and transparent investor engagements
  > Align collective understanding of value creation and expectations around long-term targets

### 3. Key factors impacting social and relationship capital
- Our large infrastructure development projects pose a risk in terms of ethical and transparent procurement practices and rent-seeking behaviour
- Transnet relies heavily on foreign investment, and perceptions of anti-competitive behaviour and corruption negatively impact international foreign direct investment
- Sound and ethical corporate governance can attract local and foreign investment and deter unethical business practices that hamper the image of SOCs

### 4. Social and relationship value created
- Community investment
  > Ongoing academic support was provided for 52 vulnerable youth (2017: 52 enrolled in our programmes)
  > Health and hygiene workshops implemented in seven provinces (2017: nine provinces)
  > Individuals who benefitted from community outreach services 435 332 (2017: 438 807)
  > Patients treated at the health, dental, eye, psychology and pharmacy clinics 157 418 (2017: 173 016)
  > 50 black-owned SMMEs incubated and provided with entrepreneurial skills over a three-year period
- Partner with private-sector logistics partners
  > Create end-to-end solutions for customers and new revenue streams
- Supplier and enterprise development
  > Develop new private-sector partnerships
  > Shared skills and competencies
  > New shared commercial opportunities + new revenue streams
- Private-sector participation
  > Provide investment into South Africa’s freight logistics system beyond levels already committed by Transnet
- Integrated Supply Chain Management (iSCM)
  > Support much-needed national ED
- Transnet Foundation’s+ socio-economic programmes
  > Empower South Africa's rural communities
- CSI initiatives from Operating Divisions
  > Respond proactively to the needs of vulnerable communities surrounding our operations
- Transparent and ethical reporting
  > Good corporate citizenship + sound reputation management

### 5. Trade-offs – Social and relationship capital impacts on other capitals
- Partner with private-sector logistics partners
  > Create end-to-end infrastructure logistics solutions for customers and new revenue streams
- Supplier and enterprise development
  > Develop new private-sector partnerships
  > Shared skills and competencies
  > New shared commercial opportunities + new revenue streams
- Development of new private-sector partnerships
  > Support SMMEs
  > Forge and strengthen partnerships with OEMs + enhance skills and create new market opportunities
- Private-sector participation
  > Provide investment into South Africa’s freight logistics system beyond levels already committed by Transnet

### 6. Key outputs
- Total CSI spend R219 million (2017: R234 million)
- Committed Supplier Development R63,4 billion (2017: R62,6 billion)
- Enterprise Development spend R41 million (2017: R38,6 million)
- 50 black-owned SMMEs incubated and provided with entrepreneurial skills over a three-year period
- Ongoing academic support was provided for 52 vulnerable youth (2017: 52 enrolled in our programmes)
- Patients treated at the health, dental, eye, psychology and pharmacy clinics 157 418 (2017: 173 016)
- Individuals who benefitted from community outreach services 435 332 (2017: 438 807)
- Health and hygiene workshops implemented in seven provinces (2017: nine provinces)

*Due to changes in the operating model in 2018, part of Transnet Foundation resources have been incorporated into Transnet Corporate Centre.*
Biodiversity: Mitigate, as far as possible, the adverse impacts of operations on surrounding biodiversity. Where viable, we seek to restore the environment and natural habitats.

Extreme weather conditions: Flash floods lead to washaways and mudslides on major routes can increase the severity of rail safety-related incidents (resulting in derailments, asset losses and even employee fatalities).

Some of our operations have already achieved certification in terms of the EMS ISO 14001:2015 and ISO 14001:2004.

Energy and carbon management is Transnet’s primary focus in its environmental stewardship - the Company has realised significant gains in energy efficiency and reduced carbon emissions in recent years.

Accelerating the modal shift from road to rail is a flagship carbon mitigation programme for South Africa - as owner and operator of the country’s rail freight network, Transnet commits to increasing rail market share to 35% by 2019, and to demonstrate the carbon emissions savings achieved annually through its growing market share.

Transnet seeks to mitigate impacts on biodiversity arising from operations - where possible, restore the environment and natural habitats.

Transnet’s water stewardship initiatives form part of project planning in water-sensitive biospheres.

Transnet reduces energy costs through more efficient energy consumption - positively impacts financial sustainability.

“We need early-warning systems to monitor emerging risks, particularly ecosystem health and, by extension, impacts on human health. We owe this to our staff, communities and future generations.”

Ms Nonkululeko Sishi Chief Human Resources Officer.
Strategy and resource allocation

Strategic planning

Transnet’s strategic planning framework drives capacity planning at five levels, each with its unique context and planning requirements. Overall, planning is aligned across the different levels and geared towards the same outcomes.

While each level addresses capacity planning differently, efforts are fundamentally aligned and geared towards the same objectives.

The Company’s Long-term Planning Framework is a critical link between national and provincial masterplans and policy, and the Transnet 4.0 Strategy.

The frameworks informing Transnet’s strategic planning and goal setting are outlined in Figure 4. At each level, the Company ensures appropriate resourcing that is both aligned with targets, and able to adapt to changing market conditions and other external impacts.

Read more

Transnet’s short- to medium-term planning perspective in the section on Outlook.

"We see ourselves as a critical player in enabling the bold infrastructure goals that have been set for the African continent."

Mr Thamsanga Jiyanе
Chief Officer: Advanced Manufacturing
Transnet long-term planning principles

* Provide capacity in line with validated demand to enable and promote economic growth in South Africa and in the region.

* Adopt sustainability principles as part of development plans, including improved energy efficiency and reducing carbon emissions.

* Integrate rail, port and pipeline planning within Transnet.

* Pursue alignment with national road and electricity supply planning.

* Assume that operational efficiency is optimised first, then consider infrastructure-based capacity solutions.

* Target rail-suitable freight to shift from road to rail.

* Benchmark internationally against world-class handling services, new technologies and best practices.

* Plan to improve South Africa's global competitiveness by reducing the total cost of freight transport and logistics.

* Identify opportunities in Africa and leverage the economies of scale in global trade.

* Provide responsive infrastructure that meets South Africa's economic needs in line with the New Growth Path and the National Development Plan.

**United Nations Sustainable Developmental Goals**

1. **Provide**
   - capacity in line with validated demand to enable and promote economic growth in South Africa and in the region.

2. **Adopt** sustainability principles as part of development plans, including improved energy efficiency and reducing carbon emissions.

3. **Integrate** rail, port and pipeline planning within Transnet.

4. **Pursue** alignment with national road and electricity supply planning.

5. **Assume** that operational efficiency is optimised first, then consider infrastructure-based capacity solutions.

6. **Target** rail-suitable freight to shift from road to rail.

7. **Benchmark** internationally against world-class handling services, new technologies and best practices.

8. **Plan** to improve South Africa's global competitiveness by reducing the total cost of freight transport and logistics.

9. **Identify** opportunities in Africa and leverage the economies of scale in global trade.

10. **Provide** responsive infrastructure that meets South Africa's economic needs in line with the New Growth Path and the National Development Plan.

**Transnet strategic fundamentals**

1. **Expand the scope of the manufacturing business**

2. **Geographic expansion**
   - Transnet International Holdings (TIH)

3. **Product and service innovation**

**Strategic fundamentals**
## Interconnected elements of the strategy

<table>
<thead>
<tr>
<th>Strategic thrusts</th>
<th>Financial sustainability</th>
<th>Capacity creation and maintenance</th>
<th>Operational excellence</th>
<th>Market segment competitiveness</th>
<th>Sustainable Developmental Outcomes</th>
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<td><strong>Agile</strong></td>
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<tr>
<td>Diversity revenue sources to reduce the risk exposure on commodity demand and associated volatility.</td>
<td>Manage liquidity and raise cost-effective funding.</td>
<td>Stringent cost-management and cost optimisation.</td>
<td>Reshaping the core of Transnet’s operations.</td>
<td>Resilient management of working capital.</td>
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<td><strong>Admired</strong></td>
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<td>Build a strong profile by networking with rating agencies, regulators, investors and other key stakeholders.</td>
<td>Develop highly competent finance personnel and well-rounded business leaders.</td>
<td>Deliver cost-effective solutions – benchmarked against the market – to deliver a return on investment.</td>
<td>Meet and exceed customer expectations by delivering projects within agreed commitments.</td>
<td>Create customer value through specialised advisory services, and capital and non-capital solutions.</td>
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<td><strong>Digital</strong></td>
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<td>Place digital innovation on the Finance Executive Committee’s agenda.</td>
<td>Use leading data analytics to optimise financial decision-making.</td>
<td>Digital project portfolio dashboards based on key performance indicators to improve project visibility and project governance oversight.</td>
<td>Provide integrated customer and operational perspectives by aligning reporting systems, measurements and dashboards with business processes.</td>
<td>Align use data analytics to create ‘one version of the truth’ for performance.</td>
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<td><strong>United</strong></td>
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<td>Align financial and performance information at Operating Divisional levels for efficient decision making.</td>
<td>Collaborate with stakeholders and promote customer-centric delivery to co-create optimal solutions.</td>
<td>Succeed together by living the Transnet culture, promoting shared practices.</td>
<td>Align measures and scorecards to build common standards to meet customer expectations.</td>
<td>Unite Transnet employees around a common purpose of serving our customers with pride.</td>
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<td><strong>Commercial outcomes</strong></td>
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<td><strong>Transnet 4.0-specific growth imperatives</strong></td>
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<td>New products and services.</td>
<td>New revenue streams.</td>
<td>Expand Transnet’s advanced manufacturing capability.</td>
<td>Become a regional OEM for rail, ports and transport infrastructure.</td>
<td>A competent workforce to address industry 4.0 skills challenges.</td>
<td>Become a fully integrated logistics service provider, offering end-to-end solutions to key partners.</td>
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### Operational excellence
- Build operational readiness and infrastructure reliability – by ensuring right skills at the right time, appropriate digital innovation and strong governance capability.
- Provide Project Factory’s support for large and complex programmes.
- Promote an integrated regional infrastructure network that optimises the value chain at infrastructure network and industry levels.
- Pursue new business opportunities in existing and new markets by developing new product and logistics solutions.
- Reduce the total cost of logistics as a percentage of transportable GDP.
- Promote end-to-end logistics solutions by partnering with private-sector logistics providers.

### Market segment competitiveness
- Grow Transnet’s brand reputation and credentials in existing and new markets.
- Develop market/segment-specific brand positioning strategies.
- Improve and integrate branding, marketing and sales capacity.
- Promote Transnet’s commercial contribution to economic growth and job creation.
- Become a sustainable contributor to domestic and regional growth.
- Increase our levels of responsiveness to the needs of customers.

### Sustainable Developmental Outcomes
- Employment
  - Measurable direct, indirect or induced employment.
- Skills development
  - Enhanced or improved human capital.
  - Productive capacity of people within and outside the Company.
- Industrial capability building
  - Industrial development for South Africa.
  - Improved competitiveness.
- Investment
  - Leveraged private-sector investment in the country’s freight logistics system.
- Regional integration
  - Improved freight logistics connectivity on the continent.
- Transformation
  - Employment equity within the Company.
  - Black economic empowerment within supplier entities.
- Health and safety
  - Improved physical and mental health and safety of employees.
  - Improved physical and mental health and safety of communities.
- Community development
  - Measurably improved economic, social, cultural and environmental well-being of communities.
- Environmental stewardship
  - Enhanced capacity of the natural environment to meet the resource needs of future generations.
From MDS to Transnet 4.0

As a state-owned company (SOC), Transnet must deliver on national developmental goals, as they pertain to the transport and logistics sector, ensuring that the country remains competitive on the continent and globally. During the mid-2000s, global commodity super cycles became apparent, that South Africa's historical underinvestment in infrastructure inhibited the country from benefiting to the fullest from this upward swing in commodity markets, constraining our overall market competitiveness. The Market Demand Strategy (MDS) was Transnet's response to this challenge of infrastructure underinvestment, with the MDS poised to create the required long-term capacity ahead of demand by investing through short-term economic cycles.

The MDS was always intended to cater for future demand, anticipating the required capacity we would need as a country, and as a business, to take advantage of future commodity booms, or even just to cater adequately for future economic growth. Transnet also intended that the ramp-up in capacity should happen in the shortest possible window to address the country's immediate-term capacity constraints. At the core of MDS was South Africa's own aspirations: becoming a key thermal coal exporter, as well as an increasingly important fourth largest supplier of iron ore to China; a leading global manganese exporter, the leading logistics hub for sub-Saharan Africa, and a globally recognised benchmark for container and heavy-haul operations.

The majority share of investment was allocated to General Freight Rail, by increasing GFR rail capacity growth to meet market demand volumes from 79.7 mt to 170.2 mt, increasing and Freight Rail, by increasing GFB rail capacity growth to meet anticipated growth in market demand volumes from 79.7 mt to 170.2 mt, increasing. The MDS is positively characterised by:

- Steady gains in rail market share and growth in cross-border freight volumes (2017: R2.1 billion);
- An increase in capacity ahead of market demand through a counter-cyclical investment strategy.
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- Market share gains in container, bulk and wagons (% of actual capital investments) to ensure an affordable and realistic funding plan within approved financial parameters;
- Capital investments for the environment by curtailing carbon emissions, with emissions from road freight contributing up to 90% of overall freight emissions.

However, it would be shortsighted to lock the MDS's guiding principles into a time-based seven-year strategic cycle, given that there was no guarantee that another global commodity boom would transpire during the seven-year MDS period from 2012 to 2019. While our investment aspirations to create capacity ahead of demand materialised during the seven-year period, the anticipated commodity growth and associated volumes did not materialise. This does not mean that it never will. However, the business must be agile enough to respond to what's as much as what could be that is, take the current low-growth path in the short term to remain financially stable, while preparing for possible future high-growth paths to remain economically sustainable.

As a SOC it is irresponsible to continue to invest in national infrastructure when anticipated economic growth - both domestically and globally - does not materialise. This does not mean that it never will. However, the business must be agile enough to respond to what's as much as what could be - that is, take the current low-growth path in the short term to remain financially stable, while preparing for possible future high-growth paths to remain economically sustainable.

Transnet is in a transitional stage, as we look forward to the 4th Industrial Revolution. The 4th Industrial Revolution is a concept that was first introduced by President Xi Jinping in 2015 and since then has been adopted by many other countries and organisations. The 4th Industrial Revolution is about the fusion of physical, digital, and biological worlds to create a new form of production, and it is expected to bring significant changes to the way we produce and consume goods and services.

The principal objective of the MDS is to close the gap between the market demand for cargo transport and handling services and the capacity to satisfy this demand.

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On the downside, the economic growth ultimately anticipated for the MDS period did not materialise as expected, with investment requirements exceeding available funds for investment, as demonstrated in the graph below.

The period was also tainted by a credit rating downgrade of Transnet’s foreign and local currency ratings, both due to the rating action on the sovereign. As Transnet is viewed to be closely linked to the Government, the downgrades precipitated increased financing costs and a forced slowdown in capital expenditure.

Adapting to the Transnet 4.0 strategic paradigm
A changing logistics landscape

Transnet has seen volatile commodity prices severely impact freight volumes and revenue in recent years. Despite demonstrating resilience to commodity market volatility, we recognise the need to pursue alternative opportunities to ensure financial sustainability. Indeed, revenue growth and profits have been erratic for many transport and logistics companies over the last 10 years, with revenue increasing but profits not matching up to the rate of revenue increases on average. Return on capital employed (ROCE) and profits are relatively low for many companies in this sector even when compared to other sectors, such as technology, consumer and retail. Revenue growth and profits have been erratic for many companies in this sector even when compared to other sectors, such as technology, consumer and retail.

Financially constrained environment
Investment needs far exceed available funds for investment

Innovative, ‘uber-like’ last-mile solutions are already part of the logistics product and service environment. In 2013, DHL Freight in Sweden piloted a mobile app called MyWays to connect shoppers with individuals willing to deliver packages along their daily routes in return for a small fee. Furthermore, a take-up of the container market could be imminent through the potential ‘ubilitation’ of this sector. The use of mobile technology to connect truck drivers to loads has been shown to reduce congestion and reduce distances travelled without cargo on return trips. These advances will result in lower operating costs for trucking. For Transnet, this may present an opportunity for new revenue streams through the implementation of a new business line, built on offering ‘‘asian light’’ products and services, such as volumes to agglomerators using third-party assets for shipments.

Consolidation of the logistics sector, where larger players acquire smaller or niche players, is a growing trend in the transport and logistics sector. Indeed, revenue growth and profits have been erratic for many transport and logistics companies over the last 10 years, with revenue increasing but profits not matching up to the rate of revenue increases on average.

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Our point of departure: long-term sustainability

Our point of departure draws from our view of long-term sustainability. As a SOC, we cannot defer on our developmental mandate. Hence, our sustainable developmental outcomes form part of the essential blueprint for our new strategic direction. This means we need to consider our local suppliers’ innovation aspirations, acknowledge the new ways in which many new economy enterprises and youth entrepreneurs work so they can benefit from our enterprise development programmes, involve our communities in our move to ‘digitalisation’ and consider developing the technologies and skills we will need 30 years from now.

The skills, experience and investment support that private-sector partnerships will bring to our geographic expansion strategy will also be invaluable, particularly as this is related to port concession opportunities in the region with approximately 65% of all containers shipped outside South Africa being routed through terminals operated by the private sector.

We also need to consider Transnet’s relationship with resources and energy. A key force for innovation in Transnet 4.0 will be to explore new revenue opportunities in the energy sector and ensure our commitment to the modal shift of freight from road to rail.

Resourcing for the long term: Transnet of Tomorrow

**Rail infrastructure**

Our vision for improved rail services includes new elements of service repositioning, while rolling stock models will be upgraded and refurbished to provide a better representation of journey times, dwell times and terminal times. Corridor services will offer end-to-end solutions, thus aligning mainline upgrades with training requirements at the endpoints.

| 30-year rail infrastructure investment: | R167 billion |
| 30-year rolling stock infrastructure investment: | R283 billion |

**Port infrastructure**

We envisage new port sites along South Africa’s coast with sustainable opportunities for future port development. Ports will harness the value of leading-edge, emerging digital technologies. Durban’s container capacity planning will be reviewed and a more comprehensive set of port options will be devised for natural gas through the port system. This development will also consider the potential port and pipeline infrastructure required to import and distribute gas in South Africa, including Floating Storage and Regasification Units power targets and land-based power generation.

| 30-year port infrastructure investment: | R226 billion |

**Pipeline and gas infrastructure**

Transnet identifies new pipeline, terminal and storage investment opportunities in South Africa. We have adopted an improved planning process for the liquid fuel system as a result of better understanding the end-user and the move towards an integrated national oil supply system.

| 30-year pipeline and gas infrastructure investment: | R38 billion |

**Resource fundamentals**

| Align infrastructure with freight type | Improve operational characteristics |
| Ensure network connectivity | Standardise infrastructure |
| Align with Prasa/Non-Transnet operator requirements | Match capacity to demand |
| Develop regional integration | |

**Rail**

The sector’s primary aim is to grow cross-border volumes and enable regional integration, focusing on the:

- Maputo Corridor (South Africa, Zimbabwe, Mozambique)
- East/West Corridor (South Africa, Namibia, Botswana, Lesotho and)
- North/South Corridor (South Africa, Zimbabwe, Zambia, Democratic Republic of Congo, Tanzania)

It is anticipated that rail operators will execute unified system per corridor as no boundaries exist between the countries involved. The increase in cross-border volumes is the largest countries involved. The increase in cross-border volumes is the largest

**Engineering**

As economic growth in Africa unfolds, the need for a rail-to-road modal shift in transportation becomes more urgent, and the demand for rolling stock and associated maintenance will increase. Engineering already operates in this space and is well positioned to meet increased demand. The capacity of the Transnet’s rail manufacturing facilities is easily increased by initiating additional facilities. The development of the TransAfrica Locomotive is expected to satisfy a market need at a competitive price.

**Ports**

The basis of Transnet’s geographic expansion for the ports sector lies in port concessions, which remain pivotal in the region. The low incidence of distressed or cancelled contracts demonstrates that this route has achieved the desired outcome. Focusing on South Africa, approximately 65% of all container ships are shipped through terminals operated by the private sector. While port concession opportunities are limited, Transnet is well positioned to compete in this area.

**Pipelines**

The discovery of new oil and gas reserves in Africa has resulted in a significant demand for new pipeline infrastructure capacity and new-build project opportunities. Oil and gas commodity prices remain low and, in some instances, below project payback, according to a range of built-pipe models. Numerous new-build opportunities are transliterated by the private sector. While port concession opportunities are limited, Transnet is well positioned to compete in this area.

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**Resource fundamentals**

| Align with the planning initiatives of local, provincial and national Government, and other key stakeholders | Maintain flexibility to respond to changing technological and economic conditions |
| Align with the planning initiatives of local, provincial and national Government, and other key stakeholders | Respond to environmental opportunities and constraints |
| Port system-wide capital investment | |
| Align with planning initiatives of key stakeholders | |

**Resourcing for the long term: Transnet of Tomorrow**

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The Transnet of tomorrow

**Electrons**

The 4th Industrial Revolution is driving Smart Grid technology globally, accelerating the trend to embed it into existing energy systems and enabling the convergence of the energy and mobility system. Hence, there is a shift from late 2040s to mid-2020s for Smart Grids. EV recharging stations have become viable sooner, shifting from mid-2040s to mid-2020s.

Electric vehicles are gaining momentum in some markets, with major automotive players indicating structural changes in the automotive industries.

**Data**

Internet of Things is rapidly embedding across industries. Inflection points in Artificial Intelligence (AI) during 2017 (advancements in AlphaGo) and subsequently AlphaZero)

There is a step change in the deep-learning ability of current AI, seading the potential eruption of Narrow AI application across industries. Hence, the shift of AI from the 2040s to the immediate future.

**Molecules**

The current South African water crisis has increased the velocity of need and opportunities for desalination facilities. Investigations into water pipelines has moved from mid-2020s to the immediate future.

The increased velocity of the petroleum demand risk has accelerated structural changes in the automotive sector due to electric vehicles gaining momentum. This has resulted in the plausible decline in petroleum demand shifting from late 2040s to the mid-2020s.

**Freight**

There are no major positioning shifts on the freight pathway. There is a step change in the convergence of disruptive technology with mobility and energy systems introduces three emerging solutions: i.e. E-highways by mid-2030s; Hyperloop mobility by 2030s; and Synchromodality by later 2040s.

The potential of industrial-scale 3D printing will be monitored as technology breakthroughs could have potential impacts on delivery systems.

**Manufacturing**

There are no major positioning shifts on the freight pathway. The potential impacts of job opportunities remains unchanged.

The potential of industrial-scale 3D printing will be monitored as technology breakthroughs could have potential impacts on delivery systems.

**Services**

The acceleration of AI has shifted the competencies risk forward from mid-2000s to close 2020.

Biodiversity Ecosystem Services has shifted due to the difficulty in identifying potential opportunities to leverage present resource.

A more focused effort is under way to understand the embedded value in our natural capital and leverage this to enhance biodiversity.

**Risk mitigation**

The following represents trends and events that require continuous assessment and have the potential to pose risks and/or opportunities.

- 'Uberisation' of mobility systems
- Structural changes in commodity demand
- Autonomous freight systems
- Social activism
- Automation impacts job opportunities
- Rapidly advancing environmental regime
- Changing demand for petroleum
- Energy system transformation
- New competencies required to navigate the 4th Industrial Revolution
Transnet’s Stakeholder Engagement Policy and Process Control Framework outline the norms and values that guide our internal relations. These frameworks are based on a methodical, Company-wide approach to managing stakeholder engagements. These engagements range from formal, daily communication with stakeholders to responding to crises.

Managing our stakeholder relationships
Managing our stakeholder relationships

Transnet’s Stakeholder Engagement Policy and Process Control Framework

Core principles of stakeholder engagement

- Materiality
- Responsiveness
- Industry

Stakeholders

- Employees
- Organised trade unions
- Management
- Board of Directors
- Shareholder Minister
- Customers
- Investors
- Suppliers and service providers
- Communities
- Regulators
- Government (national, provincial and local)
- Rating agencies and financial institutions
- Non-government organisations
- Media
- Academia and research institutions
- International bodies (e.g., United Nations)
- Other (e.g., citizens and pensioners)

Vehicles for communication

- Newsletters
- Notice board
- Emails
- Meetings
- ‘Toolbox talks’
- Digital signboard
- Social media
- Teleconference
- Suggestion box
- Intercom system
- Events
- Reports
- Phone calls
- Internal magazine
- Management review meetings
- Meetings
- Emails
- Telephone
- Formal letters
- Working sessions
- Seminars/conferences
- Media correspondence
- Integrated reporting
- Public speaking engagements
- Roadshows (e.g., investor roadshows)
- Integrated reporting
- Public speaking engagements
- Roadshows (e.g., investor roadshows)
- Events categorised as ‘Crises’
- Media communications
- Media Relations and Spokesperson Policy
- Events categorised as ‘Crises’
- Transnet Corporate Crisis Communication Policy

Procedural guidelines for priority response handling

- Non-conformances, incidents and emergencies
  - Occurrence and Non-Conformance Procedure
  - Business Continuity Management Procedures
- Communication on continual improvement
  - Continuous improvement Procedure tabled at management review meetings
- Feedback as per Leadership Procedure
- Audit findings
  - Integrated assurance procedure tabled at the management review meetings as per Leadership Procedure
- High risks escalated to the Risk Management team
- Events categorised as ‘Crises’
  - Communication as per Transnet Corporate Crisis Communication Policy
- Emergency and incident communications
  - Occurrence and Non-conformance Procedure
  - Business Continuity Procedure
- Formal day-to-day external communication with external parties
  - Received and responded to by relevant designated personnel as appointed
The Multi-stakeholder Perception Survey

Results of the 2017 Multi-stakeholder Perception Survey

Results from the 2017 Multi-stakeholder Perception Survey indicated that Transnet’s brand and reputation had been severely compromised during the reporting year due to a lack of proactive stakeholder engagement and a perceived lack of transparency and accountability relating to material stakeholder issues. Allegations of corruption, together with community demonstrations, fatalities, and customer concerns around capacity and delivery, have contributed to negative perceptions with some stakeholders.

Key issues/concerns impacting stakeholders during the reporting period

Based on the combined perspective of ‘relevance’ and ‘importance’ of material stakeholder issues, the top 24 material issues have been identified for discussion in the 2018 Integrated Report. These issues are further represented in this report as part of the top 20 material issues arising from Transnet’s mandate, business context, and the SDOs.

Addressing key stakeholder concerns

Key issues arising from our Multi-stakeholder Perception Survey

Salient issues: 2018 financial year

<table>
<thead>
<tr>
<th>Key issues</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving stakeholder engagement</td>
<td>86%</td>
</tr>
<tr>
<td>Improving transparency and accountability</td>
<td>50%</td>
</tr>
<tr>
<td>Improving operational performance</td>
<td>57%</td>
</tr>
<tr>
<td>Improving overall compliance with legal and other requirements</td>
<td>50%</td>
</tr>
<tr>
<td>Improving access to information</td>
<td>36%</td>
</tr>
<tr>
<td>Environmental stewardship</td>
<td>36%</td>
</tr>
<tr>
<td>Skill development</td>
<td>36%</td>
</tr>
<tr>
<td>moving forward</td>
<td>36%</td>
</tr>
</tbody>
</table>

Transnet’s response:

- We are communicating our strategic position through the Draft White Paper on National Rail Policy.
- We have support from the Department of Public Enterprises (DPE) for an appropriate Railway Safety Permit Fee Methodology that is equitable and non-prejudicial.
- We are in the Nersa discussion document on prudency assessment criteria.
- We are engaging with the DPE to highlight the regulatory risks to Transnet and the petroleum industry.
- We have support from the DPE for an appropriate methodology for the valuation of the National Port Authority’s Regulatory Asset Base that will ensure regulatory certainty and a stable tariff path.
- We have bilateral agreements with relevant authorities to streamline our processes with regulatory requirements.
- We continuously monitor and report on compliance with PFMA controls.
Managing our stakeholder relationships continued

Improving health and safety performance

- We are running a ‘Zero Harm’ campaign across the Company.
- Monthly themes issued by our Health and Safety departments feed into the Visible Felt Leadership (VFL) campaigns highlighting issues of concern.
- VFL training was rolled out throughout the parts system and Headquarters from March 2017 to January 2018.
- Health and safety incident recall audits are held at hot spots where disabling injuries have occurred.
- The GLT undertakes visits to operational areas across Transnet to encourage employee engagements with a view to increasing safety awareness.
- Work stoppages occur across Transnet when investigated outcomes of fatal incidents are presented.
- We conduct regular safety and awareness campaigns for the public at level-crossing areas.

Improving CSI

- Our Phelophepa project provides primary healthcare services that complement existing community clinics.
- Our Teenage Health Programme implements youth-friendly development services incorporating physical health and emotional wellbeing, lifestyle choices, future planning, etc.
- Our Employee Volunteer Programme will initiate a range of education and skills development, SMME incubation and renovation, developing a social and economic hub, education and skills development (SME) incubation and promote agriculture and food security.

Improving collaborations and integration

- The TVCC approach streamlines the end-to-end business value chain, optimising processes, improving turnaround times and enhancing customer satisfaction.
- The Transnet Integrated Management Approach provides a common platform to manage safety, health, environment, quality, risk, security, compliance and other business processes. All business risks are consolidated into one framework, enabling Transnet to identify objectives and standardise processes.
- The CIP provides a coordinated governance structure to enable proactive and collaborative investment responses to community issues.

Improving customer service

- Our robust tariff methodologies for both regulated and non-regulated businesses provide transparent pricing aligned with legal, economic and reputational requirements. The models are updated annually.
- We conduct regular benchmarks on prices to align with best practice through:
  - Regular pricing studies for road versus rail; and
  - Commodity benchmark studies on major commodities to benchmark rail tariffs.
- Our centralised customer relationship management solution optimises customer experiences, customer satisfaction and our engagement with customers.
- We are engaging in round-table discussions to address customers’ complaints and concerns.

Transnet’s response:

- 2019 will be the year of transitioning from the MDS to Transnet 4.0 Strategy. The MDS is largely a capital-intensive strategy to create capacity to meet validated demand and improve operational efficiencies while remaining financially sustainable.
- Transnet 4.0 will build on the foundation created by the MDS. Transnet 4.0 will report on Transnet for completeness in the fast-changing, technology-driven context of the 4th Industrial Revolution. Transnet 4.0 is aligned with the Shareholder’s priorities and has three main growth thrusts: (i) geographic expansion; (ii) product and service innovation; and (iii) expanding the scope of Transnet’s manufacturing business.

Communication of the strategy

- At an Indaba in 2018 we communicated the strategic transition from the MDS to Transnet 4.0 to our internal and external stakeholders.
- We have established a strategic communications team comprising representatives from Corporate Affairs, Human Resources and Business Development to create awareness about the new Transnet 4.0 Strategy.
- The 2018 Integrated Report provides clarity on the transition to Transnet 4.0, including emerging risks, the contextual environment, medium- to long-term capital investment strategies and the Company’s long-term planning horizon – Transnet of tomorrow.

Skills development

- The CIP prioritises the intake of learners in communities that are near our operations.

Transnet’s overall strategy: Clarity in terms of the transition from the MDS to Transnet 4.0

- 2019 will be the year of transitioning from the MDS to Transnet 4.0 Strategy. The MDS is largely a capital-intensive strategy to create capacity to meet validated demand and improve operational efficiencies while remaining financially sustainable.
- Transnet 4.0 will build on the foundation created by the MDS. Transnet 4.0 will report on Transnet for completeness in the fast-changing, technology-driven context of the 4th Industrial Revolution. Transnet 4.0 is aligned with the Shareholder’s priorities and has three main growth thrusts: (i) geographic expansion; (ii) product and service innovation; and (iii) expanding the scope of Transnet’s manufacturing business.

Transnet’s response:

- We are very conscious of the link between reputation and the organisation’s capacity to execute its strategy.”

Mr Mohammed Mahomedy
Acting Chief Financial Officer

Key issues/concerns impacting stakeholders

Improving environmental stewardship

- The Sustainability and Environmental Forum – represented by each Operating Division, Specialist Unit and environmental stewardship personnel – provide platforms to discuss and monitor environmental performance.
- Our environmental risk strategy provides guidelines for implementing sound environmental stewardship.
- We monitor environmental performance through regular audits and inspections.
- Bilateral agreements with the Department of Environmental Affairs and Tourism and with the Department of Water and Sanitation help us to streamline the environmental permitting, authorisation and licensing processes.

Improving access to information

- Community development personnel will be appointed at district municipality level through the CIP to oversee community development services, including information on jobs and business opportunities.
- Transnet publishes its information on the intraweb available at www.transnet.net.
- Our Integrated Report is our primary communication vehicle to all stakeholders, published online at www.transnet.net.

Improving Enterprise Development (ED) and Supplier Development (SD)

- The CIP provides a cohesive and integrated approach to the implementation of ED and SD initiatives.
- Supplier hubs provide community development services and business incubation support.
- Community centres help to facilitate entrepreneurship programmes.

"We are very conscious of the link between reputation and the organisation’s capacity to execute its strategy.”

Mr Mohammed Mahomedy
Acting Chief Financial Officer
Material aspects impacting our strategy

Levels of accountability for determining material aspects

Transnet determined material aspects through a structured process of identifying relevant issues and prioritizing those that are most material to the Company’s commercial, social and environmental contexts. Figure 10 summarises the levels of accountability for identifying, validating and approving Transnet’s material issues, as well as the criteria used during each stage of the process.

Validating material issues

In validating material aspects, we considered the severity of impact on the Company. Figure 10 shows the areas of the business considered during the process of deriving and validating material aspects. Aspects were measured quantitatively in potential ZAR impact (e.g. top risks), and qualitatively in terms of value impacted (e.g. the impact on reputation, natural capital, relationship capital and strategy).

Changes in reporting on material aspects

With Transnet’s transition from the MDS to Transnet 4.0, we identified a sixth materiality cluster and associated aspects. Anticipating the future and developing methods of measuring the effects of shocks and stresses of future events, material aspects include:

- Business continuity;
- Extreme weather events;
- Disruptive technologies;
- Restructuring of value chains and value networks; and
- Investing in emerging technologies and ensuring digital readiness.

Further, results from the 2017 Multi-stakeholder Perception Survey reflected that Transnet’s brand and reputation were severely compromised during the year by inadequate stakeholder engagement and poor levels of transparency and accountability. Accordingly, we identified the material issue of Transparency and accountability as an addition to the materiality cluster. Build social trust through ethical leadership and corporate citizenship.

The Company does not yet have firm measures for tracking performance for these aspects. Where appropriate, they are addressed qualitatively in this Integrated Report.

Directors’ approval of material aspects

The Board signed off on the Company’s material aspects. During the materiality determination process, material issues derived from the business context were validated, prioritized and approved by the relevant oversight Board committees.
The impact and relevance of material aspects

Following an extensive ‘materiality determination’ process, Transnet identified 24 material aspects impacting strategy and performance during the 2018 reporting year. The 24 material aspects were clustered into six overarching clusters to simplify reporting. The infographic demonstrates the following:

- How each of the 24 material aspects impact critical organisational areas, and
- To what extent each of the material aspects – and hence each individual cluster – is relevant to different stakeholder groups.

To read: Follow each material aspect across the page to see how it impacts organisational areas and to what extent it matters to each stakeholder group. For a more holistic perspective, follow each cluster path across the page to see its overall impact on organisational areas and ultimately its overall relevance to stakeholder groups. The more prolific the higher-spectrum red graph ‘spikes’, the higher the relevance. The more prolific the lower-spectrum green graph ‘spikes’, the lower the relevance.
Transnet’s top risks for 2018

Transnet assesses strategic risks on an annual basis. Risks are evaluated on an inherent risk basis before considering current controls. Both internal and external factors are considered to understand the interconnectedness of risks and to appreciate potential impacts. Risk sponsors are assigned to each strategic risk to ensure mitigation strategies are aligned across all operations. The Group Leadership Team rates the effectiveness of the current basket of controls, which is expressed as a percentage, resulting in a residual risk rating for each risk.

Figure 11 shows Transnet’s overall material risk universe for the 2018 financial year.

Transnet’s material risk universe

Figure 11

Top 10 material risks
1. Pricing risk
2. Capital execution risk
3. Macroeconomic environment risk
4. Volume growth risk
5. Operational readiness risk
6. People management risk
7. Productivity and efficiency risk
8. Regulatory risk
9. Information and communications technology (ICT) risk
10. Environmental risk

Approximately R2 billion for the maintenance and acquisition of cranes, tipplers, dredgers, tug, straddle carriers and other port equipment.

Unique technology such as the optimised undercarriage concept or the crane control system makes the mobile harbour crane among the most powerful material handling equipment in the world. The flexibility of the mobile harbour crane makes it effective for all areas of application in the harbour and thereby guarantees the highest level of effectiveness.
Risks and opportunities arising from material matters

Cluster: Build social trust through strong leadership and corporate citizenship

<table>
<thead>
<tr>
<th>Material aspects</th>
<th>Why it matters: Risks and opportunities</th>
<th>Management approach</th>
<th>Time frame</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical management within Transnet</td>
<td>Practice that leads Government intervention to balance infrastructural development with ethical transformation. Perceptions of anti-competitive behaviour and corruption negatively impact stakeholders and investment sentiment. Sound corporate governance and a track record of ethical leadership can attract local and foreign investment and promote our reputation.</td>
<td>The Governance Framework guides management of governance and ethics. The Board delegates leadership for ethics and sustainability to the Remuneration, Social and Ethics Committee. Transnet is subject to sections 51 and 55 of the PFMA regulations.</td>
<td>Short to medium term</td>
</tr>
<tr>
<td>Responding to stakeholder issues</td>
<td>Risks include stakeholder sentiments adversely impacting the Company and affecting global investor confidence. Proactively engaging stakeholders with customers, operators, communities, investors, and others is critical to maintaining public trust and confidence.</td>
<td>Establish protocols and processes for engaging stakeholders and handling stakeholder concerns – from everyday interactions through to crisis communication (read more page 49).</td>
<td>Short to medium term</td>
</tr>
<tr>
<td>Managing our environmental impact</td>
<td>Risks include adverse impacts of energy supply, pollution, water shortages and extreme weather patterns. We can set precedents and engage with stakeholders to improve our environmental performance and partake in global best practice.</td>
<td>Transnet’s Energy Policy outlines our commitments to energy efficiency and security. The ISO 50001 energy management system is implemented across the Company. Transnet is investigating alternative energy technologies.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Partnering communities to build social value</td>
<td>Risks include adverse impacts on communities caused by operational activities and challenges we face as we pursue our social objective. We can improve the lives of communities through sharing our knowledge, resources, and fostering unity.</td>
<td>Transnet’s local content strategy invests in projects with a strong community impact. Integrated CSR approach between the Foundation* and operating divisions.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Transparency and accountability</td>
<td>Risks associated with stakeholders’ perception of Transnet as unfair play in the game of social responsibility and reputational risk. Transparency minimises the risks and builds trust.</td>
<td>Establish protocols and processes for engaging stakeholders and handling stakeholder concerns – from everyday interactions through to crisis communication (read more page 49).</td>
<td>Short to medium term</td>
</tr>
</tbody>
</table>

Key measures for tracking our performance

- Adherence to PFMA provisions and maintaining PFMA compliance.
- Stakeholder surveys and customer satisfaction rating.
- Percentage improvement in our Group Weighted Energy Efficiency (electricity and heat).
- Our ability to reduce our carbon emission intensity (kgCO2/ton).
- Our spend on research and development.
- Key performance indicators.
- Our ÉSуст spend.

Unlock organisational value by attracting talent, fostering innovation and building unity

<table>
<thead>
<tr>
<th>Material aspects</th>
<th>Why it matters: Risks and opportunities</th>
<th>Management approach</th>
<th>Time frame</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoting health and safety</td>
<td>Adherence to safety management procedures in a highly industrial operating environment and public safety at all locations. Adherence to SOCs, our staff became increasingly accountable for operational impacts on colleagues, the environment and communities while reducing business interruptions.</td>
<td>Recognition agreements with trade unions ensure a safe workplace environment. Various policies improve safety across the business. A Health and Safety Management Policy, Integrated Emergency Management Service, etc.</td>
<td>Short to medium term</td>
</tr>
<tr>
<td>Having the right skills at the right time</td>
<td>Transnet has to compete for scarce skills with other engineering firms and SOCs. As an employer of choice, Transnet attracts scarce technical skills and strengthens staff retention and sustained productivity.</td>
<td>Transnet’s talent management and development programmes for priority and critical positions. Leadership programmes and coaching target specific management levels. People training supports critical skills categories.</td>
<td>Short to medium term</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td>Lack of productivity due to absenteeism, strike action or operational inefficiencies lead to unsold services, reduced asset performance and adverse impacts on service delivery. Efficiency gains improve operational efficiency of the entire freight logistics system – shaping our ability to compete globally.</td>
<td>The TVCC coordinates oversight of operational activities with the value chain and determines key KPIs. Automation and digitisation within the operations enhance efficiencies.</td>
<td>Short to medium term</td>
</tr>
</tbody>
</table>

Key measures for tracking our performance

- Backing our training spend and the number of doctors, engineers and technicians trained.
- Maintaining a DRF below 0.75 to maintain global leading standards.
- Tracking our performance in terms of volume growth, net efficiency, container moves, train turnaround times, average exchange waiting time and trip turnaround times.
- Our investment in new technologies.
- Our spend on research and development.

Residual risk profile 2017

1. Pricing risk
2. Capital execution risk
3. Macro-economic environment risk
4. Volume growth risk
5. Operational readiness risk
6. People management risk
7. Productivity and efficiency risk
8. Regulatory risk
9. ICT risk
10. Environmental risk

Residual risk profile 2018

1. Pricing risk
2. Capital execution risk
3. Macro-economic environment risk
4. Volume growth risk
5. Operational readiness risk
6. People management risk
7. Productivity and efficiency risk
8. Regulatory risk
9. ICT risk
10. Environmental risk

Residual risk rating key

3-20
25-55
50-80
75-100

Opportunities and risks continued
## Ensure long-term financial stability in a tough economy

**Material aspects**

<table>
<thead>
<tr>
<th>Why it matters: Risks and opportunities</th>
<th>Management approach</th>
<th>Time Frame</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital investment on major projects</td>
<td>Transnet not reaping benefits from its capital investments. As a SOJ, Transnet facilitates broad-scale industrial opportunites by delivering major infrastructure to the country and promoting the localization of supply on major projects.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Funding and liquidity</td>
<td>Insufficient liquidity can negatively impact the Company’s going-concern status and impact our credit rating, cost of funding and investment plans. Private-sector partnerships enable Transnet to obtain the available finance in a paid and expeditious infrastructure development and capacity creation.</td>
<td>Short to medium term</td>
</tr>
<tr>
<td>Pricing and tariffs</td>
<td>Profit drives cost depreciation on investment decisions, investor confidence and strategic execution. To justify tariff increase, we must provide infrastructure service reliability and technical innovation commensurate with tariff increases. Through operational efficiency and R&amp;D activities, we ensure infrastructure reliability, as well as our technical expertise.</td>
<td>Short to medium term</td>
</tr>
</tbody>
</table>

## Ensure customer centricity and build partnerships for sustainable growth

**Material aspects**

<table>
<thead>
<tr>
<th>Why it matters: Risks and opportunities</th>
<th>Management approach</th>
<th>Time Frame</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume and revenue growth</td>
<td>Not attracting and sustaining additional volumes as new entrants. Opportunity to capture larger domestic market share through the roll-out of new operational regions, services and destinations.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Expanding Transnet’s business on the continent</td>
<td>Socio-economic and political instability in operating countries and operational risks in planning and staffing of the regional business.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Facilitating private sector investment in logistics</td>
<td>Collaborative partnerships with customers and private sector companies can support end-to-end logistics service solutions. Strategic commercial partnerships play a crucial role in enabling our regional integration strategy.</td>
<td>Medium to long term</td>
</tr>
</tbody>
</table>

## Promote transformation and growth in the wider South African economy

**Material aspects**

<table>
<thead>
<tr>
<th>Why it matters: Risks and opportunities</th>
<th>Management approach</th>
<th>Time Frame</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business continuity</td>
<td>The risk that essential business functions are interrupted during or after a disaster operational incident or challenge, such as load-shedding or inadequate Information and Communications Technology (ICT) infrastructure, which extends to cybersecurity failures.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Extreme weather events</td>
<td>Changes in the frequency, intensity, spatial extent, duration and stringency of extreme weather events, resulting in business disruption, infrastructure vulnerability, safety incidents and socio-economic losses.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Disruptive technologies</td>
<td>New disruptive technologies can disrupt Transnet’s established technologies or alter its way of doing business, resulting in value chain disruptions, infrastructure vulnerability, safety incidents and socio-economic losses.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Restructuring value chains and value networks</td>
<td>Long-standing value chain models are being transformed by new entrants who re-structure the way value is delivered to the consumer. We can use cyber-technologies, products and value chain partnerships to innovate whole stages of complex logistics value chains.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Investing in emerging technologies and ensuring digital readiness</td>
<td>The risk of Transnet not being ready to embrace or adapt to disruptive technologies and our current ICT solutions not being integrated. We can create new and innovative technologies to adapt to the 4th Industrial Revolution.</td>
<td>Medium to long term</td>
</tr>
</tbody>
</table>

## Anticipating the future and developing methods of minimising the effects of shocks and stresses of future events

**Material aspects**

<table>
<thead>
<tr>
<th>Why it matters: Risks and opportunities</th>
<th>Management approach</th>
<th>Time Frame</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business continuity</td>
<td>Business continuity intervention plans.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Extreme weather events</td>
<td>Business continuity measures to prevent and mitigate the effects of extreme weather and climate events.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Disruptive technologies</td>
<td>Transnet 4.0 Strategy – strategy for growth in the context of a disruptive and innovative 4th Industrial Revolution.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Restructuring value chains and value networks</td>
<td>The Framework and Capacity Planning Unit is developing future scenarios within the Transnet 4.0 context.</td>
<td>Medium to long term</td>
</tr>
<tr>
<td>Investing in emerging technologies and ensuring digital readiness</td>
<td>The future of our core business is digital transformation. The digital growth aims to develop commercialisation strategies and determine value propositions for growth opportunities.</td>
<td>Medium to long term</td>
</tr>
</tbody>
</table>

## Key measures for tracking our performance

<table>
<thead>
<tr>
<th>Key measures for tracking our performance</th>
<th>Management approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business performance</td>
<td>Business case exit management plans.</td>
</tr>
<tr>
<td>Procurement of local content through local suppliers</td>
<td>Two-way ICT Disaster Recovery Plan.</td>
</tr>
<tr>
<td>Committed security and monitoring for all critical systems</td>
<td>Comprehensive security and monitoring for all critical systems.</td>
</tr>
<tr>
<td>Industrial disruption, infrastructure vulnerability, safety incidents and socio-economic losses</td>
<td>The digital growth aims to develop commercialisation strategies and determine value propositions for growth opportunities.</td>
</tr>
<tr>
<td>Logistics and supply chain disruption</td>
<td>The framework and capacity planning unit is developing future scenarios within the Transnet 4.0 context.</td>
</tr>
</tbody>
</table>

## Key measures for tracking our performance

<table>
<thead>
<tr>
<th>Why it matters: Risks and opportunities</th>
<th>Management approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure service reliability and technical innovation</td>
<td>Committed security and monitoring for all critical systems.</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Five-year performance improvement objective</td>
</tr>
<tr>
<td>Procurement of local content through local suppliers</td>
<td>Two-way ICT Disaster Recovery Plan.</td>
</tr>
<tr>
<td>Comprehensive security and monitoring for all critical systems</td>
<td>Comprehensive security and monitoring for all critical systems.</td>
</tr>
</tbody>
</table>
Opportunities and risks continued

Internal sources of risks (aspects of business activities):
- Product planning, design and manufacture
- Specialised skills and knowhow development
- Quality compliance, cost control and business methods
- Processes, training, relationship management
- Product specifications
- Business model

Risk profile

<table>
<thead>
<tr>
<th>Priority Risk</th>
<th>- Transnet GCE and Board level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority 2:</td>
<td>- Operating Divisions' CEO level</td>
</tr>
<tr>
<td>Priority 3:</td>
<td>- General Managers' level</td>
</tr>
<tr>
<td>Priority 4:</td>
<td>- Employees' level</td>
</tr>
</tbody>
</table>

Risk description

<table>
<thead>
<tr>
<th>Risk</th>
<th>Root causes of risks</th>
<th>Impact(s) on value</th>
<th>Key control strategies</th>
</tr>
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External sources of risks (aspects of legal, commercial, social, environmental and political contexts) - direct or indirect impacts of risks:
- Needs and interests of stakeholders
- Macroeconomic conditions
- Financial stability of the entity
- Key account management
- Project management

Risk description

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Inherent risk
Transnet has an established, principles-based Integrated Assurance Model that provides a clearly defined, documented approach for integrating and aligning Transnet’s assurance processes and control systems, thereby enabling appropriate risk and governance oversight.

The governance of risk
Accountability is key in the management of risks. Named individuals are associated with specific risks, controls or tasks. The primary risk roles are:
- Risk owners: Ensure that the risk assessments are up to date and properly recorded in risk registers.
- Control owners: Provide policy and assurance that controls are adequate, effective and efficient.
- Task owners: Take appropriate risk treatment actions.

Risks taken outside tolerance levels
Risk sponsors assess the desired control effectiveness of all risks, assuming that all additional mitigation has become effective. The level of desired control effectiveness considers risks, assuming that all additional mitigation has become effective. The level of desired control effectiveness considers risks, assuming that all additional mitigation has become effective.

Management of risk
Transnet’s enterprise risk management (ERM) process aims to achieve an appropriate balance between opportunities realised for gain, while minimising adverse impacts. General activities include risk identification, evaluation, prioritisation, treatment, monitoring, recording and integration in decision-making and business processes. Rather than striving only for inherent efficiencies and operational performance, the ERM process helps to shape the business’ strategic direction. The risk management approach is evolving from being process- and compliance-focused to one of datacentricity. The strategic risk profiles consider King IV principles and the ISO 31000:2009 Risk Management Standard.

Integrated Assurance Model for capital projects and programmes

Integrated Assurance Framework (ICPAF)

Third line of defence
Independent assurance providers
- Act independently to provide assurance and feedback. Management has no influence over outcomes, opinions and regulators and other professionally qualified specialists.

Fourth line of defence
Oversight committees
- Independent oversight committees have specific roles and responsibilities pertaining to risk, controls and assurance activities.

Second line of defence
Corporate functions and specialist units
- Integrate risk into internal functions, the company, but not directly comparable to managing risk. Includes Transnet Group risk teams operating across the business.

First line of defence
Management-based assurance
Direct functional management accountability for risk management to control or mitigate risk exposures to an acceptable level.

Key themes of the Fraud and Corruption Risk Management Strategy

Figure 13

Fraud and Corruption Risk Management Strategy
Transnet’s Fraud Risk Management Strategy is contained in the Fraud Risk Management Programme (FRMP) and provides mechanisms for the prevention, early detection and investigation of irregularities. The FRMP provides corrective measures to address control breakdowns and related root causes.

Emerging risks
In 2016, Transnet undertook a Sustainability Risk and Opportunities Assessment to assess emerging risks that have the potential to impact our business in the medium to long term. Accordingly, we developed a pathway to leverage opportunities. This was done across seven themes:
- Biodiversity
- Circular economy
- Climate change
- Disruptive technology
- Energy security
- Social inequality
- Water

Risk event proximity
Since reporting on these risks in our 2017 Integrated Report, we have observed movements in these risks, with some having already materialised in the current reporting year. Accordingly, we assessed how these risks have evolved over the past two-year period and reviewed their relative impacts.

Transnet used an Event Proximity Matrix (EPM) to track the status of emerging risks. The EPM defines the time proximity for the risk assessment in terms of short (one-year: Financial year), medium (Five-year: Corporate Plan) and long term (30-year: Long-term Planning Framework) time horizons, and positions emerging risks in terms of the following parameters:
- Value network: Provides a global view of emerging risks
- Value chain: Provides a localised (South African) view of emerging risks
- Business operations: Provides a view of emerging risks in terms of Transnet’s business operations

Accordingly, Transnet can interpret the interconnectedness and dependencies of operations with greater accuracy. It is particularly useful as an analytical tool to assess the speed and intensity with which these emerging risks are likely to impact our operations as they filter through from a global to local context, compelling the Company to transform at an accelerated pace.

We encourage the reader to read our EPM findings below together with our section on ‘Strategy and Resources’ (page 47), which looks ahead to our long-term planning horizon, as well as our ‘Outlook’ section (page 100), which considers our short to medium-term planning horizon.

Fraud Risk Management Programme
- Forensic data analytics
- Capital programmes
- Anti-corruption
- Compliance Programme
- Time at the top
- Asset management
- Time and attendance
- Fraud and corruption risk assessments
- Recruitment
- Fraud and corruption awareness
- Whistleblowing mechanism
- Ethics compliance programme
- Legislative compliance
- Tender management
- Contract management
- Three-quote process

Sustainability Developmental Outcomes
- Energy security
- Compliance Programme
- Anti-corruption
- Forensic data analytics
- Capital programmes
- Time at the top
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Opportunities and risks
- Revenue generation
- Capital programmes
- Anti-corruption
- Compliance Programme
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Opportunities and risks continued

Circular economy emerging risks and opportunities

- Global view
  a. The global shift to a circular economy, coupled with cheaper renewable energy sources and climate change agreements, is expected to scale up adoption of renewable energy sources resulting in a decline of fossil fuel production.
  b. Increased steel recycling is expected to pose a threat to iron ore demand.
  c. Increased alliance in a circular economy and its unique requirements are expected to feed a circular economy across Africa through collaboration.
  d. Adoption of digital factors and use of 3D printing adopted in Western Europe is expected to spread to other areas.

- South African view
  a. The increased use of alternative energy will impact negatively on coal mining and its transportation.
  b. Iron ore mining will be impacted due to increased efficiency gains in coal mining and its transportation.
  c. Increased steel recycling is expected to pose a threat to iron ore demand.
  d. Manufacturing is expected to be impacted negatively due to increased efficiency gains in recycling and transportation of recycled materials.

- Transnet view
  a. Coal volumes are expected to decline due to transition to cleaner energy.
  b. Iron ore volumes are expected to slow down or decline due to increase in recycling of steel and a decline in demand due to material substitution related to disruptive technology.
  c. Manufacturing waste requirements are expected to be incorporated for producers.
  d. Manufacturing at point of use and 3D technologies and digitisation is expected to increase efficiency.

Water security emerging risks and opportunities

- Global view
  a. Water stress amplifying, thus increasing volatility to catchments and subsequently water supply.
  b. Review of international water supply agreements.
  c. Scaling up of adaptation requirements to build resilience to the environment, society and economic systems.
  d. Amplifying response to mitigate with high price placed on carbon.
  e. High price placed on carbon to drive adaptation at scale including geo-engineering.

- South African view
  a. Water security in the Western Cape, thus no water supply to Port Elizabeth.
  b. Volume increase at ports from possible increased food imports and exports, thus requiring timely capacity to be in place.
  c. Coal production impacted, resulting in stranded rail capacity and negative impact on revenue.
  d. Water scarcity in the Western Cape and other regions expected to scale up adoption of renewable energy sources and climate change agreements.

- Transnet view
  a. Limited progress on global consensus on implementing measures to constrain climate change.
  b. Increasing likelihood of large-scale weather events shifting global action towards stronger mitigation and adaptation measures.
  c. Coal production impacted, resulting in stranded rail capacity and negative impact on revenue.
  d. Coal production impacted, resulting in stranded rail capacity and negative impact on revenue.
  e. Water in the Western Cape, thus no water supply to Port Elizabeth.

Biodiversity enhancement emerging risks and opportunities

- Global view
  a. Habitat loss caused by land-use change will lead, with high certainty, to continuing decline in the local and global diversity of some taxa.
  b. The continuing increase in illegal fishing is contributing to a decline in fish around the world, thus impacting food security.
  c. Emergence of Monitoring, Valuation and Accounting System (payment for loss of biodiversity institutionalised).
  d. Land-use change due to increased demand for bio-energy.
  e. Decline in fish population also impacting food production, ultimately causing a rise in food prices.
  f. Increase in bio-energy demand impacting the demand of fossil fuel hydrocarbons.

- South African view
  a. Forests and woodlands are converted to cropland and pastures at a rate quick enough to endanger ecosystems.
  b. Legacy spatial distribution errors largely have an impact on urban areas due to land use and land cover, thus impacting biodiversity.
  c. Declines in fish population also impacting food production, ultimately causing a rise in food prices.
  d. Increase in bio-energy demand impacting the demand of fossil fuel hydrocarbons.

- Transnet view
  a. All increased difficulty in obtaining Environmental Authorisations and licences (WILDA and tree-cutting permits).
  b. Future corridors at risk due to population growth and human settlements (encroachments) along those corridors.
  c. Diminishing fisheries industry, thus impacting the fishery stock volumes decreasing export volumes.
  d. Removal of ground cover impacting surface water channelling, accelerated erosion and ultimately damage to infrastructure, increasing the cost of maintenance and possible environmental liability due to pipeline spillages and derelictions.
  e. Increase in bio-energy demand possibly creating an export opportunity.

Climate change emerging risks and opportunities

- Global view
  a. Limited progress on global consensus on implementing measures to constrain climate change.
  b. Increasing likelihood of large-scale weather events shifting global action towards stronger mitigation and adaptation measures.
  c. Coal production impacted, resulting in stranded rail capacity and negative impact on revenue.
  d. Coal production impacted, resulting in stranded rail capacity and negative impact on revenue.
  e. Water security in the Western Cape, thus no water supply to Port Elizabeth.

- South African view
  a. Water scarcity affecting across South Africa.
  b. Extreme weather events begin to directly impact South African economy.
  c. Increasing intensity of weather events requiring increased resilience and adaptability for society and business.
  d. Thermal coal mining declines due to reduced demand driven by high carbon price.

- Transnet view
  a. Impact of water scarcity and weather events on business continuity.
  b. Damage to infrastructure and safety risk to employees under extreme weather events.
  c. Increasing volatility of weather systems amplifying impacts to business.
  d. High coal price impacts thermal coal demand on a global scale, stranding rail capacity and future revenue streams.

Risk

Opportunity
**Energy emerging risks and opportunities**

**Global view**
- a. Acceleration of a circular economy means less energy requirements for the same amount of output.
- b. Global emissions reduction agreements lead to global carbon price and subsequently reduce demand for fossil fuel based energy.
- c. Cap placed on carbon emissions drives disinvestment in fossil fuels and thus more focus on renewables.

**South African view**
- a. Renewable energy beginning to reach price parity with fossil fuel.
- b. Fuel switching behaviour observed across value chains, especially for primary energy usage and energy intensive industries.
- c. Increased confidence in electric vehicles increases renewable energy and smart grid technology, displacing petroleum as dominant energy source for mobility system.
- d. Thermal coal mining declines due to reduced demand driven by high carbon price.

**Transnet view**
- a. Price volatility for thermal coal due to competitiveness created by renewable energy, smart grid technology driven by 4th Industrial Revolution, and agreement on global carbon price.
- b. Thermal coal and iron ore demand impacted due to fuel switching and reduced demand driven by high carbon price.
- c. Petroleum demand decreases as electric vehicles dominate mobility energy mix.

**Disruptive technology emerging risks and opportunities**

**Global view**
- a. Narrow Artificial Intelligence (AI) and Big Data Analytics are accelerating disruption across multiple sectors of the global economy.
- b. Embedding Narrow AI into existing business processes accelerates automation, having an impact on jobs. Broad AI begins disrupting established business models and reducing embedded waste (time and resources) in the economy.
- c. AI addresses some level challenges such as social inequality, economic progress and environmental challenges, however, creates risks in respect of human agency.

**South African view**
- a. Incremental embedding of Machine Learning and Big Data Analytics in blockchain technology increases efficiency in upstream and downstream markets, creating new risks and displacing traditional jobs. Need for reskilling.
- b. Convergence of AI-driven technology platforms disrupting existing logistics business models, displacing existing jobs.
- d. AI-driven predictive analytics provide new avenues of revenue generation and adaptive capacity for industries that are forward looking, thus increasing business resilience, but having a negative impact on organisations utilizing legacy systems.

**Transnet view**
- a. Disruptive technology in the mobility system starts to impact road to rail market share. Transnet has the ability to harness such technology as a third- or fourth-party logistics provider.
- b. 3D Printing technology at industrial scale reduces quantum of goods to be transported. Opportunity for Transnet to adapt through new products and logistics services.
- c. Advancements in electric vehicle technology begin to reduce demand for petroleum products.

**Social inequality emerging risks and opportunities**

**Global view**
- a. Deepening income inequality eroding social contracts within and between countries.
- b. Increased unemployment due to disruptive technologies has a negative impact on individuals.
- c. Increased volatility in global commodity prices fuelled by resource optimisation and circular economy impacts economies reliant on fossil fuels.
- d. Extreme income inequality leads to economic collapse and kleptocracy.
- e. Increasing political instability and social unrest result in increased large-scale involuntary migration across countries.

**South African view**
- a. Slow redress of historical inequality leading to service delivery demonstrations.
- b. Social unrest emerging as a result of persistent job losses due to automation, lack of accessibility and efficient service delivery.
- c. Extreme income inequality leads to instabilities in communities, businesses and government.
- d. Strain on social services and infrastructure due to inability to cater for increased population due to migration. Regional rail integration and infrastructure reliability become more critical.

**Transnet view**
- a. Community unrest emanating as a result of Transnet’s inability to meet immediate community expectations on employment, inequalities, etc.
- b. Threat to employment due to Transnet not responding to the requirements of the 4th Industrial Revolution.
- c. Increase in VAT may result in price increases, thus requiring deeper engagement with customers.
- d. Future corridors at risk due to population growth and human settlements encroaching along those corridors, causing safety concerns.

"Governance and compliance are becoming more embedded throughout the transaction lifecycle to partner with the organisation in providing advisory services and to provide assurance that risks are identified and mitigated."

Mr Ndiphiwe Silinga
Acting Chief Corporate and Regulatory Officer
Our performance

Financial sustainability

Transnet continues to perform well in the current economy, confirmed by a 18.0% increase in our key profitability measure, EBITDA. Despite the impact associated with current market conditions, Transnet has continued to execute the Market Demand Strategy (MDS) through a dynamic management approach, holding steadfast to the key principles of its strategy. Improved operational efficiency and productivity lead to increased volumes in the rail and port businesses, supplemented by management’s continued cost management mindset, optimisation and the rephasing of capital spend, all of which has resulted in Transnet achieving the current year’s impressive results.

Five-year review: Key profitability ratios and statistics

<table>
<thead>
<tr>
<th></th>
<th>Performance 2018</th>
<th>Target 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA margin %</td>
<td>41.5</td>
<td>43.4</td>
</tr>
<tr>
<td>Gearing %</td>
<td>50.0</td>
<td>&lt;50.0</td>
</tr>
<tr>
<td>Cash interest cover times</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>ROTA Rail operations %</td>
<td>7.6</td>
<td>7.5</td>
</tr>
<tr>
<td>ROTA Port operations %</td>
<td>15.3</td>
<td>14.0</td>
</tr>
</tbody>
</table>

Commentary on key ratios

The gearing ratio decreased to 43.4% (2017: 44.2%). 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 with validated market demand. The gearing ratio is not expected to exceed the target ratio over the medium term.

The cash interest cover ratio (excluding working capital changes) at 3.0 times (2017: 2.9 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.

Key

- Improvement on prior year performance
- Decline on prior year performance
- Equivalent performance to prior year
- Target achieved
- Target partially achieved
- Target not achieved

Mr Khaya Ngema
(Group Executive Strategy)

Total external revenue by core Operating Divisions

Net operating expenses

Net operating expenses per major category (%)
## Statement of comprehensive income
for the year ended 31 March 2018

<table>
<thead>
<tr>
<th>(in R million)</th>
<th>Audited 2018</th>
<th>Restated 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit for the year</strong></td>
<td>4 851</td>
<td>2 765</td>
</tr>
<tr>
<td><strong>Other comprehensive income/(loss)</strong></td>
<td>10 236</td>
<td>(2 018)</td>
</tr>
<tr>
<td><strong>Gains on revaluations</strong></td>
<td>11 678</td>
<td>762</td>
</tr>
<tr>
<td><strong>Cash flow hedges</strong></td>
<td>(1 471)</td>
<td>(2 887)</td>
</tr>
<tr>
<td><strong>Actuarial gain on post-retirement benefit obligations</strong></td>
<td>29</td>
<td>107</td>
</tr>
<tr>
<td><strong>Tax relating to components of other comprehensive income</strong></td>
<td>(2 859)</td>
<td>609</td>
</tr>
<tr>
<td><strong>Other comprehensive income/(loss) for the year, net of tax</strong></td>
<td>7 377</td>
<td>(1 409)</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year</strong></td>
<td>12 228</td>
<td>1 356</td>
</tr>
</tbody>
</table>

## Headline earnings
for the year ended 31 March 2018

<table>
<thead>
<tr>
<th>(in R million)</th>
<th>Audited 2018</th>
<th>Audited 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit for the year attributable to the equity holder</strong></td>
<td>4 851</td>
<td>2 765</td>
</tr>
<tr>
<td><strong>Profit on the disposal of property, plant and equipment</strong></td>
<td>(1)</td>
<td>(34)</td>
</tr>
<tr>
<td><strong>Loss on the disposal of intangible assets</strong></td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td><strong>Loss on the disposal of investment property</strong></td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total remeasurements</strong></td>
<td>64</td>
<td>1 653</td>
</tr>
<tr>
<td><strong>Investment property fair value adjustments</strong></td>
<td>(697)</td>
<td>(182)</td>
</tr>
<tr>
<td><strong>Impairment of property, plant and equipment</strong></td>
<td>760</td>
<td>1 835</td>
</tr>
<tr>
<td><strong>Impairment of intangible assets</strong></td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total tax effects of adjustments</strong></td>
<td>(59)</td>
<td>(471)</td>
</tr>
<tr>
<td><strong>Headline earnings</strong></td>
<td>4 862</td>
<td>3 915</td>
</tr>
</tbody>
</table>

## Segment information
For the year ended 31 March 2018

<table>
<thead>
<tr>
<th></th>
<th>Transnet Freight Rail</th>
<th>Transnet Engineering</th>
<th>Transnet National Ports Authority</th>
<th>Transnet Pipelines</th>
<th>Total reportable segments</th>
<th>Other</th>
<th>Total Transnet</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External revenue</strong></td>
<td>42 709</td>
<td>38 696</td>
<td>2 467</td>
<td>1 622</td>
<td>10 113</td>
<td>8 943</td>
<td>12 386</td>
</tr>
<tr>
<td><strong>Internal revenue</strong></td>
<td>1 000</td>
<td>418</td>
<td>8 783</td>
<td>7 758</td>
<td>1 586</td>
<td>1 446</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>4 3709</td>
<td>39 114</td>
<td>11 250</td>
<td>9 380</td>
<td>11 699</td>
<td>10 397</td>
<td>12 393</td>
</tr>
<tr>
<td><strong>Earnings before interest, tax, depreciation, derecognition and amortisation (EBITDA)</strong></td>
<td>43 709</td>
<td>39 114</td>
<td>11 250</td>
<td>9 380</td>
<td>11 699</td>
<td>10 397</td>
<td>12 393</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>17 598</td>
<td>15 746</td>
<td>275</td>
<td>945</td>
<td>1 054</td>
<td>2 020</td>
<td>1 365</td>
</tr>
<tr>
<td><strong>Cash generated from operations after changes in working capital</strong></td>
<td>20 703</td>
<td>19 252</td>
<td>(3 978)</td>
<td>(758)</td>
<td>8 308</td>
<td>7 277</td>
<td>4 463</td>
</tr>
</tbody>
</table>

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, excludes capitalised finance leases and capitalised decommissioning liabilities.
4. Revised.

---

**Note:**
- See page 74 for more details on the financial statements and segment information.
- See page 74 for other notes and disclosures.
Statement of cash flows
for the year ended 31 March 2018

Audited

<table>
<thead>
<tr>
<th>Description</th>
<th>2018 (in R million)</th>
<th>2017 (in R million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>34 915</td>
<td>31 018</td>
</tr>
<tr>
<td>Changes in working capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance costs</td>
<td>32 754</td>
<td>32 765</td>
</tr>
<tr>
<td>Finance income</td>
<td>(8 930)</td>
<td>(7 622)</td>
</tr>
<tr>
<td>Tax paid</td>
<td>261</td>
<td>357</td>
</tr>
<tr>
<td>Settlement of post-retirement benefit obligations</td>
<td>(180)</td>
<td>(192)</td>
</tr>
<tr>
<td>Derivatives settled</td>
<td>(947)</td>
<td>(209)</td>
</tr>
<tr>
<td><strong>Cash generated from operations after changes in working capital</strong></td>
<td>32 754</td>
<td>32 765</td>
</tr>
<tr>
<td><strong>Finance costs</strong></td>
<td>(8 930)</td>
<td>(7 622)</td>
</tr>
<tr>
<td><strong>Finance income</strong></td>
<td>261</td>
<td>357</td>
</tr>
<tr>
<td><strong>Tax paid</strong></td>
<td>(180)</td>
<td>(192)</td>
</tr>
<tr>
<td><strong>Settlement of post-retirement benefit obligations</strong></td>
<td>(947)</td>
<td>(209)</td>
</tr>
<tr>
<td><strong>Cash flows utilised in investing activities</strong></td>
<td>(24 891)</td>
<td>(24 689)</td>
</tr>
<tr>
<td>Investment to maintain operations</td>
<td>(16 726)</td>
<td>(16 485)</td>
</tr>
<tr>
<td>Investment to expand operations</td>
<td>(8 096)</td>
<td>(8 867)</td>
</tr>
<tr>
<td><strong>Changes in investments, loans, advances and other investing activities</strong></td>
<td>(69)</td>
<td>663</td>
</tr>
<tr>
<td><strong>Cash flows utilised in investing activities</strong></td>
<td>(24 891)</td>
<td>(24 689)</td>
</tr>
<tr>
<td><strong>Finance costs</strong></td>
<td>(8 930)</td>
<td>(7 622)</td>
</tr>
<tr>
<td><strong>Finance income</strong></td>
<td>261</td>
<td>357</td>
</tr>
<tr>
<td><strong>Tax paid</strong></td>
<td>(180)</td>
<td>(192)</td>
</tr>
<tr>
<td><strong>Settlement of post-retirement benefit obligations</strong></td>
<td>(947)</td>
<td>(209)</td>
</tr>
<tr>
<td><strong>Cash flows utilised in financing activities</strong></td>
<td>(109)</td>
<td>(7 930)</td>
</tr>
<tr>
<td>Borrowings raised*</td>
<td>40 920</td>
<td>17 009</td>
</tr>
<tr>
<td>Borrowings repaid</td>
<td>(41 029)</td>
<td>(24 945)</td>
</tr>
<tr>
<td>Net decrease in cash and cash equivalents</td>
<td>(2 042)</td>
<td>(7 521)</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>6 422</td>
<td>13 943</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents at the end of the year</strong></td>
<td>4 380</td>
<td>6 422</td>
</tr>
</tbody>
</table>


Cash generated from operations amounted to R34.9 billion (2016: R31.0 billion), an increase of 12.6% from the prior year.

A well-defined funding strategy enabled Transnet to raise R40.9 billion for the year without Government guarantees, comprised mainly of the following funding sources:
- R3.5 billion from development finance institutions
- R31.0 billion of commercial paper and call loans
- R2.8 billion from export credit agencies
- R1.1 billion in domestic bonds
- R2.5 billion other bank loans

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.

Transnet repaid borrowings amounting to R41.0 billion, which related predominantly to loans, bonds and commercial paper that matured during the year.

Read more:
The Group Company Secretary certificate, as well as the approval of the Annual Financial Statements can be found on www.transnet.net
Our performance

Transnet Freight Rail

Freight Rail achieved remarkable operational and financial results, posting R22.3 billion in 2018 volumes compared to 219.1 mt in the prior year (3.1% increase). This performance is despite the subdued economic climate characterised by low GDP growth and lower-thann-expected commodity prices negatively impacting demand.

Freight Rail’s revenue for the year increased by 11.7% to R43.7 billion (R19.1 billion), mainly due to a 3.3% increase in volumes, complemented by an increase in the average R/ton at R136.7 in 2018 (2017: R134.0 R/ton). The 6.7% average increase in R/ton was mainly attributable to the prioritisation of high-yield commodity mix.

General Freight Business

Volumes in the general freight business grew 3.1% to 99.8 mt (2017: 96.1 mt) despite the subdued economic climate. Some commodities performed exceptionally well:

- Iron, steel and scrap metal increased by 11.2% to 9.9 mt
- Manganese volumes increased by 13.2% to 15.7 mt
- Granite, steel and scrap metal decreased by 11.2% to 9.9 mt (2017: 9.9 mt)

The container and automotive businesses grew by 8.4% to 9.6 mt (2017: 8.9 mt), suggesting continued success in market-share growth arising from the road-to-rail modal shift.

Product unavailability, plant breakdowns, extreme weather conditions, community unrest blocking train operations, and the impact of infrastructure-related crimes on the Freight Rail network resulted in lower performance in other sectors: granite, iron ore, chrome, and cement volumes were boosted by high-performing manganese and iron ore volumes, but adversely impacted by declining magnetite volumes. The increase in the automotive sector was due to favourable market conditions, however, the market is showing signs of decline.

Freight Rail recorded a record 77.0 mt of export coal (2017: 73.8 mt), 4.3% higher than the prior year.

Commentary on revenue and volume performance of Transnet’s Operating Divisions

Rail

2018 rail volume performance

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Performance 2017</th>
<th>Performance 2018</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>General freight volumes</td>
<td>99.8 mt</td>
<td>102.2 mt</td>
<td>3.4%</td>
</tr>
<tr>
<td>Export coal volumes</td>
<td>12.1 mt</td>
<td>12.4 mt</td>
<td>2.5%</td>
</tr>
<tr>
<td>Manganese volumes</td>
<td>15.7 mt</td>
<td>19.2 mt</td>
<td>22.2%</td>
</tr>
<tr>
<td>Container volumes (TEUs)</td>
<td>2018</td>
<td>2068</td>
<td>2.4%</td>
</tr>
<tr>
<td>Chinese volumes</td>
<td>18.0 mt</td>
<td>20.4 mt</td>
<td>13.3%</td>
</tr>
<tr>
<td>Iron ore export volumes</td>
<td>2056</td>
<td>2072</td>
<td>0.9%</td>
</tr>
<tr>
<td>Iron, steel and scrap</td>
<td>207.2</td>
<td>283.5</td>
<td>36.4%</td>
</tr>
<tr>
<td>Grain volumes</td>
<td>19.9 mt</td>
<td>21.1 mt</td>
<td>6.1%</td>
</tr>
<tr>
<td>Total automotive volumes</td>
<td>2092</td>
<td>2154</td>
<td>2.9%</td>
</tr>
<tr>
<td>Total liquid bulk volumes</td>
<td>294.02</td>
<td>305.52</td>
<td>3.9%</td>
</tr>
<tr>
<td>Dry bulk volumes</td>
<td>179.00</td>
<td>184.00</td>
<td>2.8%</td>
</tr>
<tr>
<td>Total volumes</td>
<td>4 663 888</td>
<td>4 704 052</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

**General Freight Performance**

- Volumes increased by 3.1% to 99.8 mt (2017: 96.1 mt)
- On a monthly record throughput of 7.2 mt in the month of September 2018. The wagon cycle time on the export coal line improved by 5.6% to 86.8 hours (2017: 90.3 hours)

**Pipelines**

- Transported petroleum volumes 1.6 billion (2017: 1.5 billion)
- Gas volumes million3 585 (2017: 560)

**Containers**

- Performance 2018: 2068
- Performance 2017: 2018

**Liquid bulk volume millions**

- Performance 2018: 294.02
- Performance 2017: 283.5

**Dry bulk volume**

- Performance 2018: 179.00
- Performance 2017: 160.00

**Key**

- Improvement on prior year performance
- Decline on prior year performance
- Equivalent performance to prior year
- Target achieved
- Target partially achieved
- Target not achieved

Mr Mohammed Mahomedy
Acting Chief Financial Officer

"Transnet 4.0 is a response to transformations and megatrends in the market; it is, however, largely based on servicing changing customer needs and demands."
Our performance  

Operational excellence

Regulatory matters

Pipelines
On 31 October 2017, Pipelines filed its Petroleum Pipelines System Multi-year Tariff Application for the 2019 and 2020 tariff years. Pipelines filed for a tariff increase of 35.6% for 2019 and a tariff increase of 10.0% for the 2020 financial year. Contrary to the multi-year tariff application, Nersa will set tariffs for one year only.

On 15 March 2018, Nersa informed Transnet that it has set the Petroleum Pipelines System tariffs that will allow Pipelines an effective tariff increase of 19%, resulting in an increase of approximately 6.57 cents per litre (c/l) in the petroleum transportation levy for the Durban to Aftrode destination. Pipelines awaits the publication of the reason for Nersa’s decision.

National Ports Authority
On 1 August 2017, National Ports Authority submitted its tariff application for the 2019 financial year to the Ports Regulator of South Africa, seeking an average tariff increase of 8.5%. The Ports Regulator published its Record of Decision on 1 March 2018 granting National Ports Authority an average tariff increase of 2.5%. The Ports Regulator conducted research in which it raised significant concerns regarding anomalies relating to tariff imbalances evident in the tariff book, as well as the costs facing other users. It further raised concerns regarding the impact of the recent depreciation of the Rand on costs. The Ports Regulator subsequently approved the following specific changes, applicable to the tariff book in its 2018/2019 tariff:

- Marine services and related tariffs to increase by 8.5%
- Coal export cargo dues to increase by 8.5%.
- No increase on all roll-on/roll-off tariffs
- No increase on all break-bulk cargoes
- Coal export cargo dues to increase by 8.5%
- All break-bulk cargoes to be capped at R100/ton
- All other cargo dues to increase by 5.4%
- No increase on container cargo dues
- No increase on all roll-on/roll-off tariffs
- No increase on all break-bulk cargoes
- Coal export cargo dues to increase by 8.5%
- All break-bulk cargoes to be capped at R100/ton

In line with the multi-year tariff manual of March 2017, the Ports Regulator projects that the indicative overall average tariff adjustment for the 2020 and 2021 tariff years will be within the 6% inflation target band.

On 29 March 2018, the Ports Regulator published the Methodology for the Valuation of the National Ports Authority Regulatory Asset Base (Asset Methodology). The main issue in the Asset Methodology is that the Ports Regulator has determined not to recognise the Transnet Regulatory Asset Base, which was informed by the depreciated optimised replacement cost valuation methodology. Instead, the Ports Regulator will treat assets as follows: travelled original costs will be applied to new assets [post-1990] and those with capitalisation dates (pre-1990) will be treated on a historical cost basis.

Rail performance and productivity

Rail - Export coal

<table>
<thead>
<tr>
<th>Performance 2017</th>
<th>Target 2018</th>
<th>Target 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>mt</td>
<td>54 544*</td>
<td>62 171*</td>
</tr>
<tr>
<td>mt</td>
<td>4 664</td>
<td>5 500</td>
</tr>
</tbody>
</table>

Rail - Export coal cycle time (in hours)

<table>
<thead>
<tr>
<th>Performance 2017</th>
<th>Target 2018</th>
<th>Target 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>hrs achieved</td>
<td>60.0</td>
<td>59.0</td>
</tr>
<tr>
<td>hrs achieved</td>
<td>132</td>
<td>127</td>
</tr>
</tbody>
</table>

Rail - Export coal cycle time (in hours)

<table>
<thead>
<tr>
<th>Performance 2017</th>
<th>Target 2018</th>
<th>Target 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>hrs achieved</td>
<td>10.4</td>
<td>10.3</td>
</tr>
<tr>
<td>hrs achieved</td>
<td>10.4</td>
<td>10.3</td>
</tr>
</tbody>
</table>

Operational efficiency: Density

Density is a function of volumes transported over the network. General Freight volumes, although reflecting 3% growth on prior year, were below target due to economic, customer and operational factors. General freight volume performance hindered the achievement of the overall general freight density target.

Density performance on the key corridors was favourably impacted by the growth in numbers of containers transported on these corridors. Container growth was recorded as follows:

- NatCor – Additional 49 000 TEUs or 13%
- CapeCor – Additional 18 000 TEUs or 39%
- SouthCor – Additional 6 000 TEUs or 7% (includes TEUs through terminals at Port Elizabeth and Ngqura)

Operational efficiency: Locomotive utilisation

The General Freight locomotive utilisation performance was due to both lower than projected volumes being loaded due to customer train cancellations and to operational factors such as the poor reliability and failure of older locomotives. New locomotives were commissioned into operation and were simultaneously operated along with older locomotives. The operation of both old and new locomotives is a necessary practice to keep the system stable, while the process of commissioning new rolling stock into service is under way, before retiring the older locomotives. This does however result in a negative impact on locomotive utilisation performance results.

Freight Rail envisages an improvement in the targeted performance of locomotives in the future due to the gradual retirement of old locomotives from the system. Significant improvement of efficiencies will be realised over the next two to three years, following the full deployment of new 1 065 locomotives and as the old locomotives are retired.

Export coal achieved a historical record of 77 mt, exceeding volume projections. The 2018 actual cannot be compared to prior year actuals because the mass and distance calculations have been rebased. It is projected that similar coal tonnages will be railed in 2019. Additional and new locomotives are scheduled to be deployed resulting in a 2019 target being lower than 2018 actual. The locomotive efficiency will be improved in subsequent years as old locomotives are expected to be phased out.

The export ore is one locomotive utilisation parameter, impacted by lower than projected tonnages recorded due to unforeseen customer cancellations, tippler off-loading challenges, and derailments in the network. The 2018 actual cannot be compared to prior year actuals due to the mass and distance calculations being rebased. A greater target had been set for 2019 to accommodate the new manganese service on the ore line which will further improve locomotive utilisation on this corridor.

Port volumes and operational efficiency

Port – container volumes

The overall target for containers was achieved mainly due to increased transshipments resulting from an invoice agreement reached with Mediterranean Shipping Company (MSC). Freight rates for the North/South trade recovered slowly, and volume growth from regions like China, North and South Asia increased by 4.9%, 6.8% and 9%, respectively, sequentially from the prior year. The strengthening Rand also assisted in increasing export volumes. There was some commodity recovery, along with demand, while commodities such as manganese have started moving in containers again.

Break-bulk volumes exceeded the budget mainly due to the high rise in demand, as well as the increased cement imports from Pakistan due to its cheaper price.

Liquid bulk volumes improved due to the increase in exports on the back of the strong Rand.

Bulk containers achieved target mainly due to the high demand for manganese, which exceeded budget by a substantial 40.6%. This offset liquid tonnages that could not meet target due to low production in the mines. Coal reallocated target marginally due to the efficient infrastructure provided by rail and improving service.

The target for vehicles was achieved due to increased transshipment within the Port of Durban. Further, transshipment of agricultural commodities increased, as well as an increased cement transshipment.

Operational efficiency: Density

Density is a function of volumes transported over the network. General Freight volumes, although reflecting 3% growth on prior year, were below target due to economic, customer and operational factors. General freight volume performance hindered the achievement of the overall general freight density target.

Density performance on the key corridors was favourably impacted by the growth in numbers of containers transported on these corridors. Container growth was recorded as follows:

- NatCor – Additional 49 000 TEUs or 13%
- CapeCor – Additional 18 000 TEUs or 39%
- SouthCor – Additional 6 000 TEUs or 7% (includes TEUs through terminals at Port Elizabeth and Ngqura)

Operational efficiency: Locomotive utilisation

The General Freight locomotive utilisation performance was due to both lower than projected volumes being loaded due to customer train cancellations and to operational factors such as the poor reliability and failure of older locomotives. New locomotives were commissioned into operation and were simultaneously operated along with older locomotives. The operation of both old and new locomotives is a necessary practice to keep the system stable, while the process of commissioning new rolling stock into service is under way, before retiring the older locomotives. This does however result in a negative impact on locomotive utilisation performance results.

Freight Rail envisages an improvement in the targeted performance of locomotives in the future due to the gradual retirement of old locomotives from the system. Significant improvement of efficiencies will be realised over the next two to three years, following the full deployment of new 1 065 locomotives and as the old locomotives are retired.

Export coal achieved a historical record of 77 mt, exceeding volume projections. The 2018 actual cannot be compared to prior year actuals because the mass and distance measurements have been rebased. It is projected that similar coal tonnages will be railed in 2019. Additional and new locomotives are scheduled to be deployed resulting in a 2019 target being lower than 2018 actual. The locomotive efficiency will be improved in subsequent years as old locomotives are expected to be phased out.

The export ore is one locomotive utilisation parameter, impacted by lower than projected tonnages recorded due to unforeseen customer cancellations, tippler off-loading challenges, and derailments in the network. The 2018 actual cannot be compared to prior year actuals due to the mass and distance calculations being rebased. A greater target had been set for 2019 to accommodate the new manganese service on the ore line which will further improve locomotive utilisation on this corridor.

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Port Terminals’ primary measure of operational efficiency is average moves per ship working hour (SWH), declined across most container terminals. Pier 1 Container Terminal in Durban, however, improved SWH performance marginally from 45 to 46 moves per ship working hour, despite the impact of the October storm on equipment and operations. DCT Pier 2 SWH declined primarily due to low availability and reliability of key equipment as well as congestion during the bumper carrier season in the first half of the year. In the latter half of the year, operations were impacted by a severe storm, which damaged equipment and reduced the terminal’s operational capacity. The terminal recovered from this incident, with performance in the last quarter reflecting significant improvement.

The Ngqura Container Terminal’s SWH decreased due to severe weather conditions and shortage of human resources, while the Cape Town Container Terminal SWH declined primarily due to poor weather conditions and challenges in equipment reliability. Port Terminals will work to improve and sustain operating performance in Ngqura and Cape Town in 2019 through weather mitigation strategies as well as improved human resourcing and planned maintenance.

Port – average moves per ship working hour (SWH)

Port – moves per gross crane hour

The average moves per gross crane hour (GCH) declined by 12% to 35 (2017: 39) and did not achieve the 2018 targets across the container terminals. Reasons for this include the poor reliability and availability of key operating equipment, the impact of the October storm in the DCT’s operations, and a significant deterioration in weather conditions.

Port – anchorage waiting time

The average ship turnaround time was 40 minutes against a target of 25 minutes. This adverse variance was attributable to the severe storm on the DCT’s operations and a significant increase in vessels waiting for service; and vessels arriving ahead of the scheduled time.

Port – average ship turnaround times

Port – truck turnaround time

The average truck turnaround time was 90 minutes against a target of 75 minutes. This adverse variance was attributable to truck turnaround time at Durban Container Terminal’s (DCT) Pier 2, which was slowed by equipment challenges. Poor weather conditions have impacted the Cape Town and Ngqura terminals.

Port – train turnaround time

The container terminals have maintained their train turnaround times below the targeted four hours in 2018, while the bulk terminals have also maintained their train turnaround times below the targeted 100 minutes at Saldanha, 11 hours at Richards Bay and 12 hours at Port Elizabeth.

Port – anchor age waiting time

Main factors affecting performance included a major storm in the Port of Durban, adverse weather conditions during the year, operational delays leading to a build-up at anchorage, resulting in vessels waiting longer for service, and vessels arriving ahead of schedule.

Port – average moves per gross crane hour

Port – moves per gross crane hour

Port – truck turnaround time

Port – train turnaround time

Port – anchorage waiting time

Performance 2018

Performance 2017

Target 2018

Target 2017

Target 2019

Our performance

continued

Port – average moves per ship working hour (SWH)

Port – average moves per ship working hour (SWH)
Our infrastructure projects not only create capacity 70 to 80 years into the future, but many jobs are created where we build our infrastructure, with people from those communities gaining new skills and opportunities. 

Mr Krishna Reddy
Chief Capital Officer

Manganese expansion rail phase 1

South Africa accounts for 75% of globally identified manganese reserves and 31% of manganese exports by value, making it a sustainable, lucrative supply market to Europe and China. The purpose of this project was to expand the capacity beyond 5.5 Mt by constructing various loops, including the Spytfontein loop extension; Kraanskop loop; Beaconfontein – Spytfontein; Heuningneskloof, Poulpan, Potfontein – Hoekraal, Kor – Kranskop and Roomad rearing completion with level crossings; it is to be completed.

To date, Transnet has invested R2.1 billion in the project, with R212 million invested during the year.

Coal line investment programmes

The coal line is the main channel for export coal, commencing from the mines in Mpumalanga and stretching through the Olifants River Tunnel all the way to the Port of Richards Bay Coal Terminal (RBCT). The coal programme comprises the following key projects:

- Entry to the Olifants Valley (OV) by constructing various new loop tracks in the OV
- Replacement of the existing mainline from Krushe to Soutpansberg with a fleet of 62 locomotives
- Further development of the existing mainline from Soutpansberg to the existing EBCT to support the required market growth
- Further development of the existing mainline from Soutpansberg to EBCT with new or extended mainline

In terms of major capital projects, Transnet expects to invest R163.7 billion over the next five years in expanding and maintaining infrastructure. While the core focus remains on growing volumes, Transnet is also seeking new growth paths to compensate for lower growth expectations in its traditional markets. During the year, Transnet executed the following major projects:

- Locomotives
  - Transnet acquired 219 new locomotives (215 deployed to operations in the financial year for the general freight business).
  - R7.3 billion was spent on locomotives for the period under review.
  - In total, R1.8 billion was spent during the financial year to maintain a fleet of 620 locomotives.
  - Minor overhaul programmes had been performed on 169 locomotives (154, 113, 116) at R20.5 million.
  - 59 detailed locomotives had been repaired at a cost of R228.5 million.
  - General overhaul maintenance programmes were performed on 34 diesel locomotives (30GM and 3GE. 30GM and 3GE class locomotives) at R121 million.
  - R53.3 million was spent on maintenance of coaches (Shrill 1 and 2 and The Blue Train).
  - Planned and unplanned maintenance cost R662 million was spent on locomotives.
  - The remaining R95.7 million was spent on maintenance and repairs required due to such incidents as pantograph hook-ups, minor vandalism (cable theft), third party claims, minor modifications, and minor component change-outs on various locomotives.

- Wagons
  - Transnet Freight Rail and Transnet Engineering embarked on a programme to build the following:
    - 2,500 coal containers to service Eskom power stations;
    - 100 new CR-13/14 wagons for the iron ore business to service the shortfall caused by longer turnaround times on trains servicing junior miners that load ore using front-end loaders;
    - 30 new SCL wagons for the automotive business;
    - 300 new CR-13/14 wagons for the iron ore business to service the need for faster and more efficient movement of goods; and
    - 2,500 coal containers to service Eskom power stations;

- Major capital deliveries

Commentary on progress of major capital projects
Export coal expansion to 81 mtpa

To date, Transnet has invested R8.8 billion in expanding capacity on the export coal line to 81 mtpa. For the year ending 31 March 2018, the Company invested R55 million in the upgrade of yards, lines and electrical equipment.

Waterberg upgrade stage 2

The Waterberg region has some of South Africa’s remaining coal reserves and is regarded as the next strategic growth point of the coal sector. The availability of infrastructure is critical to unlocking the region’s potential and it is a prerequisite for current and future mining developments.

This project will be rolled out in a phased approach to align with validated demand. The funded projects at this stage include:

- Stage 2, which refers to capital investment to grow capacity to 6.3 mtpa through incremental upgrades of the existing rail networks and yards by using additional loops, maintaining the existing 20 axle loads and adding crossings, strengthening steel bridges, doing electrical upgrades and improving train control systems.
- Stage 3 to 5 feasibility study aims to develop an engineering solution to meet validated demand and to increase capacity to 24 mtpa.

Since inception, Transnet has invested R1.64 million in the project, with R8.8 million invested for the year.

Overval solution

The long-term sustainability of the Overval Tunnel is a challenge due to its age and it also only provides for a single rail line. Transnet is currently finalising an optimal solution to replace the single line tunnel by either providing a new double-track tunnel adjacent to the existing tunnel or a double line deviation bypassing the tunnel. The key motivations for this project is to protect 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 investment to secure the supply of petroleum products from the coastal terminal in Durban 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.

R1.3 billion was invested in the NMPP project during the year. The coastal terminal (light-line solution), inland terminal, 24 main pipeline and 162.7 km of pipelines have been fully commissioned and are operational having transported more than 193.48 million litres of diesel from Durban to the inland region since commissioning.

Transnet has also connected the NMPP project to the overval solution. The funded projects at this stage include:

- Terminal options: Dedicated onshore storage and regasification unit, Floating Storage Regasification Unit (FSRU) and Floating Storage Unit (FSU).
- Capitalised maintenance

The total capitalised maintenance for the year ended 31 March 2018 was R4.5 billion, of which R2.3 billion was invested in interventions to sustain the Company’s rail infrastructure, with R4.5 billion invested to maintain the condition of the rolling stock at a sustainable level.

Expanding the scope of Transnet’s manufacturing business

TransAfrica Locomotive

The launch of the TransAfrica Locomotive during April 2017 marked a crucial step in our strategy of becoming a leading manufacturer and supplier of rolling stock in Africa. The locomotive, designed, engineered and manufactured in Africa, is suitable for use on branch lines and in the yard for shunting, while also being able to travel on old rail tracks originally designed to carry light axle loads.

In addition, the diesel-powered TransAfrica Locomotive is appropriate for aged railway lines that operate in the Cape Gauge system, offering a cost-effective solution for the majority of the continent’s railway lines that are currently unused.

Special inspection device (SID)

The prototype of this fully autonomous inspection device is being used and tested by Transnet to detect:

- Obstacles such as livestock or humans;
- Defects on the track in front of trains; and
- Cable theft or overhead traction issues.

The device has a ‘cow-catcher’ at the front to remove small obstacles on the track, like stones. Six engineers spent 38 months developing the concept and working on the prototype in collaboration with the Council for Scientific and Industrial Research. There is nothing, like SID in the world. What makes it unique is that there is no driver; it is fully autonomous. Plans are under way to introduce SID to other railway operators and to industrialise it.

Infrastructure spatial solutions: Ngqura waste treatment

Transnet is due to invest approximately R1.31 billion in a new Ngqura waste treatment infrastructure project, which aims to establish South Africa as a regional and global environmental leader.

Transnet is due to acquire 26% in the project, with an option for an additional 4%, which will be used to allocate to a BEE component. A joint venture will be established to pay National Ports Authority R1.8400 million per year, escalating at 3% per year for 20 years. Property, plant and equipment is estimated at R520 million, while the separator, vessels and trucks are estimated at R900 million.

Market segment competitiveness

Rail

Rail freight demand forecasting takes into consideration that:

- Not all freight on the surface of South Africa is suitable for rail, and
- Rail competes with other modes such as road and pipelines.

Market competitiveness for rail is measured in terms of Rail Addressable Market Share (RAMS) based on tons per calendar year. The National Freight Group market share is calculated in terms of RAMS percentage per net ton kilometre (RAMS % NTK) reflected an estimated improvement from 21.4% in 2017 to 31.4% in 2018. This was due to the year-on-year General Freight volume growth of 9% in a challenging business environment. Specific initiatives implemented to attract rail-friendly volumes back to rail contributed to this positive performance. These efforts will be strengthened as the business strives to achieve a Transnet target of 31% in 2019.

Gains from progress on road to rail and enabling key customer expansion

We have calculated that Transnet’s road-to-rail efforts have yielded a total of 147,661 off-road trips, amounting to approximately 1 million kilometres. This amounts to approximately 1,335 trucks being permanently removed from South Africa’s roads.
Our performance

The unemployment rate in South Africa is currently at 26.7%, which shows a negligible improvement from the 27.1% reported in 2017. A total of 36.5% of Transnet’s workforce is between the ages of 26 to 35, which is the productive range, followed by ages 36 to 45 by 32.4%, while 2.9% are between ages of 61 and 63 towards retirement. Transnet has made a concerted effort in recent years to increase the percentage of younger employees by focusing on lower and middle management through leadership development.

In 2018, the total headcount decreased from 58,828 in 2017 to 55,666 in 2018. This is attributable to the employee optimisation process which includes the elimination of non-core activities such as the offloading of non-cohesive units and non-core businesses. The optimisation process involves the placement of employees in suitable alternative roles within the Company or to the extent that suitable roles are not available, the employees may be required to participate in staff reduction initiatives. The reduction process includes training to prepare employees to enter the mainstream economy as well as the provision of alternative employment options. The learning and development process in support of the SDOs continues.

Transnet presents the youth with development opportunities through skills training to enable them to enter the mainstream economy by becoming employed or starting their own businesses.

The following DIFR figures were recorded per Operating Division/Specialist Units

<table>
<thead>
<tr>
<th>Operating Divisions</th>
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Transnet’s safety performance is measured against industry-recognised indicators, such as the disabling injury frequency rate (DIFR), which includes fatalities, loss incidents and derailsments. During the year, Transnet recorded 309 disabling injuries compared to 516 reported in 2017. While our overall DIFR performance continues to be exceptional by international standards at 0.73 (2017: 0.85), we want to support five employees on a stipend from Transnet.

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The Board conveys its deepest condolences to the families, colleagues and friends of the employees and members of the public who lost their lives. We wish to reiterate our continued commitment to the safety of employees and the public as a vital component of the Company’s operations.

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Transnet was rated a Level 2 B-BBEE contributor in 2018 and seeks to achieve sustainable and inclusive economic growth by investing in emerging technologies and manufacturing capabilities, as well as procuring locally produced goods and services.

### B-BBEE spend
Transnet's total recognised B-BBEE spend for the year, as per the Department of Trade and Industry Codes (the dti Codes), was R25,81 billion accounting for 86.9% of Total Measured Procurement Spend (TMPS) of R29,71 billion. Transnet spent R2,47 billion (8.3% of TMPS) on exempted micro-enterprises; R2,47 billion (8.3% of TMPS) on exempted small enterprises; R12,47 billion (42.0% of TMPS) on black-owned enterprises; R9,34 billion (31.4% of TMPS) on black women-owned enterprises; R2,69 billion (9.1% of TMPS spend) on qualifying small enterprises; R25,81 billion accounting for 86.9% of Total Measured Procurement Spend (TMPS), was Transnet’s total recognised B-BBEE spend for the year, as per the Department of Trade and Industry Codes (the dti Codes), was Transnet’s total recognised B-BBEE spend for the year, as per the Department of Trade and Industry Codes (the dti Codes), was Transnet’s total recognised B-BBEE spend for the year, as per the Department of Trade and Industry Codes (the dti Codes), was Transnet’s total recognised B-BBEE spend for the year, as per the Department of Trade and Industry Codes (the dti Codes), was.

### Transforming our workforce
While we continue with efforts to ensure we reach racial balance in our workforce, our performance in respect of employing black employees in 2018 (73.9%) was poor compared to the prior year (2017: 83.3%). The proportion of people with disabilities was at 2.4%, which shows an increase from the 2.3% in the past two consecutive years.

Transnet also seeks to achieve gender equality and empower all women as exposed in the United Nations Sustainable Development Goals. Our strategic plans will continue to focus on increasing the representation of black employees, female employees and people with disabilities. Transnet’s gross value-added increased from R60.4 billion in 2017 to R65.7 billion in 2018.

### Black employees within different employment cadres

<table>
<thead>
<tr>
<th>Year</th>
<th>Black Females</th>
<th>Black Males</th>
<th>Total Black Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>50</td>
<td>228</td>
<td>278</td>
</tr>
<tr>
<td>2018</td>
<td>71</td>
<td>440</td>
<td>511</td>
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### Supplier development
Transnet’s Supplier Development (SD) programme promotes skills development and the creation and preservation of jobs. It further encourages the transfer of intellectual property and the localisation of supply, and ultimately promotes industrialisation through contractually obligated SD plans. Since inception of the programme, total contract value to date amounts to R37.6 billion (2017: R31.4 billion). SD obligations concluded with suppliers amounted to R3.4 billion or 46.1% (2017: R2.8 billion or 46.6%) of contract value. To date R14.5 billion or 37.0% of these SD obligations have been met (2017: R5.2 billion or 51.5%). The SD numbers include the locomotive awards and related SD obligations.

### Major partnerships in support of Transnet’s ED initiatives

#### Junior Achievement South Africa (JASA)
**R4.5 million**
A school programme that provides entrepreneurship skills to high school students, with five performed in Eastern Cape, Northern Cape, Free State and North West.

#### Be Bold Entrepreneurial Youth Programme
**R1.5 million**
The aim of this programme is to develop youth on entrepreneurship and innovation for the bright and creative minds of South Africa.

#### South African Bureau of Standards (SABS)
**R30 million**
A partnership with the South African Bureau of Standards and the Department of Trade and Industry to develop localised and internationally recognised standards.

#### Shanduka Black Umbrellas
**R31 million**
A business incubation and mentorship programme aimed at assisting black-owned SMMEs with business skills in Port Elizabeth and Richards Bay.

#### Godisa Fund
**R55 million**
A partnership with the Godisa Fund to support the training of small enterprises.

#### Transnet Matlafatšo Centre (TMC)
**R10 million**
A partnership with Wits Business School to provide access to research and development facilities.

#### GIBS Programme
**R3.5 million**
A mini MBA to equip black-owned SMMEs with entrepreneurial skills.

#### Furnitech Furniture Incubator
**R18 million**
A partnership with Wits University and the Sustainable Development Skills Organisation (SDSO) to transfer skills in systems engineering and provide access to research and development facilities.

#### Operation Phakisa projects
National Ports Authority invested approximately R17 million in Expressions of Interest and the market feasibility for Operation Phakisa projects. National Ports Authority further invested R152 million at the Port of Saldanha in the off-shore supply base (OSSB) Berth 205. The appointment of the private OSSB Facility Operator is in the final stages. The private sector is expected to spend approximately R1,200 million once the Facility Operator has been appointed. Additionally, R1.8 million has been invested to date towards the engineering feasibility studies for the Richards Bay Floating Dock. This project is under way.

#### Building and transforming our economy through private-sector partnerships
Private-sector partnerships (PSPs) have been included in the broader delivery of Transnet’s strategy as a large-scale investment in economic infrastructure designed to support the country’s socio-economic imperatives as mandated by the DPE. To accelerate Transnet’s commercial impact on economic growth and the development of downstream and upstream businesses - we aim to create supply chains that could link service providers from across the country and cross-border regions, while fuelling rural development and job creation.

---

"Creating resonance with your people, in an organisation of just under 60,000, is key. We can achieve a lot if we have good alignment and integration across the organisation."

Ms Nonkululeko Sishi
Chief Human Resources Officer

---

[Read more](https://www.transnet.net)
Section 56 projects: PSPs

<table>
<thead>
<tr>
<th>Project</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Tanking Grindrod Calilo Liquid Bulk Terminal</td>
<td>R2 billion</td>
</tr>
<tr>
<td>Off-shore supply base</td>
<td>R1.8 billion</td>
</tr>
<tr>
<td>Sunrise Energy</td>
<td>R1.1 billion</td>
</tr>
<tr>
<td>Burgan Cape</td>
<td>R650 million</td>
</tr>
<tr>
<td>Durban Cruise Terminal</td>
<td>R215 million</td>
</tr>
<tr>
<td>Cape Town Cruise Terminal</td>
<td>R179 million</td>
</tr>
</tbody>
</table>

Read more: Sustainability Outcomes Report 2018 at www.transnet.net

Regional integration

During the year, Transnet progressed various regional projects through Transnet International Holdings (THI), laying a firm foundation for its geographic expansion drive under the Transnet 4.0 Strategy.

Nigerian railway project

The Nigerian government plans to overhaul its ageing railway system through Transnet International Holdings (THI), by laying a firm foundation for its geographic expansion drive under the Transnet 4.0 Strategy.

Transnet Rail Link

The Transnet Rail Link is a 1,500-km greenfield rail development project aiming to strengthen the rail network of South Africa at Lohatla and that of Swaziland in Svitodowe. The project is being jointly developed by Transnet and Swaziland railway at an estimated cost of R19 billion. Each company is responsible for upgrading its existing rail networks. Transnet’s contribution to the special-purpose vehicle (SPV) that will develop the Transnet Rail Link has been identified. Swaziland Railway is also assessing its contribution to the SPV. The next step pending approval of both sponsors is to engage investors to finalise the funding of the project.

Kenya LAPSET Corridor – Lamu Port

The Government of South Africa and Kenya signed the LAPSET Corridor memorandum of understanding in October 2016. The LAPSET Corridor has the following seven components: Lamu Port and a 300-km special economic zone, highways, oil pipelines, railway, port-related sites, and rail. The beneficially owned by a consortium of pulp and paper companies, is to be a deep-sea port with transhipment capabilities on the East Coast of Africa and a gateway with seamless and reliable connectivity of transport systems in Kenya and to the neighbouring landlocked nations.

Transnet has received a letter approving the privately initiated investment proposal on Lamu Port. The letter paves the way to commence negotiations in terms of the provisions of the Public Private Partnership Act, No 15 of 1993, for the operation of three berths in the Port of Lamu. The first berth is envisaged to be completed by July 2019, which is being constructed by a Chinese company. Transnet’s role, if successful, will be to operate the three berths through a 25-year concession. Initial investment by Transnet to operate the first berth amounts to circa US$25 – US$30 million.

Social-economic infrastructure development (SEID)

Through our human resources and corporate social investment portfolios, we are committed to measurably improving the quality of life of the communities where we operate. During the year, there were numerous instances of community discontent led by industry bodies, community members, and business forums. Transnet’s inability to provide job and business opportunities was cited as a contributing factor. While Transnet acknowledges its role as a SOC to support and improve communities’ economic and social wellbeing, many of these incidents could also be attributed to the inequality risk prevalent in South Africa, which is an aggravating factor to social and economic instability.

Transnet recognises that we are unable to address these issues in isolation. Accordingly, we have developed a Community Investment Plan (CIP) as a vehicle to address current unfavourable relations, and to foster more positive relations in the long term. The CIP, approved in August 2017, provides a structured and integrated approach towards collaboration and sustained shared value, and aims to develop a self-sustainable plan to respond to community issues as they arise, thereby maintaining our social licence to operate.

During the year, Transnet invested R219 million in sustainable community development programmes across South Africa

<table>
<thead>
<tr>
<th>Programme</th>
<th>Beneficiaries</th>
<th>People reached</th>
<th>SMMEs established</th>
<th>Members trained</th>
<th>Adult Basic Education and Training (ABET) beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee volunteer programmes (EVP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>135.2 million invested to ensure 52% vulnerable youth have access to quality education and social upliftment</td>
</tr>
<tr>
<td>Safari schools’ sports</td>
<td></td>
<td>50 000</td>
<td>169</td>
<td>75</td>
<td>144</td>
</tr>
<tr>
<td>Rural farms’ skills (RFS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural farms’ skills (RFS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total cross-border rail volumes

- Africa sales revenue for Group (in Rm)
  - Performance 2017: 2.56 billion
  - Target: 2.56 billion
  - Key: Key
  - Target achieved: Objective achieved
  - Target partially achieved: Objective not achieved

Read more: Sustainability Outcomes Report 2018 at www.transnet.net

Community development

Social-economic infrastructure development

Converts old infrastructural assets into community centres, police stations, schools and clinics

Education

JA South Africa Entrepreneur Academy Programme

- 20 youth-owned businesses formed

- King Zwelithini Primary School’s library completed

National teachers’ skills audit programme

- Teachers’ skills are being audited in Mponalanga, Northern Cape and Eastern Cape

Transnet/South African Football Association Sports School of Excellence

- 120 learners enrolled in 2018

- Four graduates participating in international football teams

- 62 graduates participating in national football teams

Socio-economic infrastructure development

- Adult Basic Education and Training (ABET) beneficiaries

- Basic Education and Training (ABET) beneficiaries

- Food distribution programmes

<table>
<thead>
<tr>
<th>Programme</th>
<th>SMMEs established</th>
<th>People reached</th>
<th>Members trained</th>
<th>Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>JA South Africa Entrepreneur Academy Programme</td>
<td>45 989</td>
<td>8 091</td>
<td>6 919</td>
<td>179</td>
</tr>
<tr>
<td>Safari schools’ sports</td>
<td></td>
<td></td>
<td></td>
<td>477</td>
</tr>
</tbody>
</table>

Sustainability Outcomes Report 2018 at www.transnet.net

Transnet launched the Project Interim Solution, a precursor to the 25-year concession envisaged to commence at the end of June 2018. The interim solution entails leasing rolling stock to NRZ while we are finalising the concession suite of documents.

<table>
<thead>
<tr>
<th>Programme</th>
<th>Non-financial beneficiaries (SMMIE development, safety and education)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JA South Africa Entrepreneur Academy Programme</td>
<td>45 989</td>
</tr>
<tr>
<td>Safari schools’ sports</td>
<td>477</td>
</tr>
</tbody>
</table>
Our performance continued

Environmental stewardship
Energy-efficiency and carbon emissions reduction
Transnet recorded a 2.9% increase in energy consumption while energy efficiency improved by 0.9% in 2018. In Freight Rail traction, which constitutes more than 92% of total Company power consumption, electrical traction energy efficiency decreased by 1.4%, and diesel traction achieved a 2.6% energy-efficiency gain. The new 1DE, 1DE-2DE and 21E locomotives together regenerated 262,016 MWh for the year.

The Company’s year-to-date carbon emission intensity decreased by 2.6%, compared to the prior year, while energy efficiency improved by 0.9% in 2018 compared to 2017, measured as tons/GJ.

Market share gains from road hauliers in Freight Rail’s top 10 general freight commodities resulted in carbon emissions savings of 1,5% in 2018 compared to 2017, measured as tons/GJ.

2.6%, compared to the prior year, while energy efficiency improved by 0.9% in 2018 compared to 2017, measured as tons/GJ.

Fuel efficiency performance per Operating Division

Transnet recorded an increase of 1.1% in carbon emissions in 2018 from 3,9 MtCO₂e in 2017 to 4.0 MtCO₂e. Freight Rail accounts for 80% of the total GHS emissions.

Natural gas has been identified as a key energy source for South Africa’s growth and transition to a lower-carbon economy. Enabling infrastructure is being developed to support the transition to renewable energy technologies. Freight Rail is preparing for partnerships with the private sector to establish common-user midstream natural gas networks (NGN) of integrated port facilities and pipelines for import, storage and regasification of liquefied natural gas (LNG) and the transmission of natural gas to multi-sectoral customers in the industrial, power and transport sectors. The initial NGN project will facilitate the import of LNG at Richards Bay and access to natural gas using Transnet’s pipeline assets.

Through our research and development unit within Transnet Engineering, we continue to investigate alternative energy technologies.

Modal shift from road to rail
The transport sector accounts for approximately 9% of South African GHG emissions. The modal shift of cargo from road to rail offers an immediate opportunity to lower carbon emissions in the transport sector. In 2018, Freight Rail continued to make a meaningful annual contribution to the reduction in carbon emissions in the transport sector. In 2018, Freight Rail gained market share in numerous commodity groups where there is strong competition with road hauliers. This rail tonnage gain amounts to ‘volumes off road’. The carbon emissions savings in road-to-rail volume gains during the year amounted to 389,228 tCO₂e. The emissions savings are dependent on volumes gained and distance travelled.

Water stewardship
The current water crisis experienced across our footprint, amid drought conditions, has directed the Company to investigate and explore alternative water sources, including desalination and underappreciated water resources as well as other innovative technology solutions. We continue to implement water stewardship initiatives, such as installation of boreholes, low-flow shower heads with timers, waterless pressure testing, rainwater harvesting and water recycling, to achieve water saving and reduce consumption.

Carbon mitigation results from road-to-rail gains up to March 2018

<table>
<thead>
<tr>
<th>Commodity groups</th>
<th>Volume gains (ton)</th>
<th>Carbon emissions savings (tCO₂e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and bulk liquids</td>
<td>138,426</td>
<td>9,570</td>
</tr>
<tr>
<td>Coal</td>
<td>676,403</td>
<td>286,731</td>
</tr>
<tr>
<td>Containers and automotive</td>
<td>1,732,090</td>
<td>134,005</td>
</tr>
<tr>
<td>Iron ore and manganese</td>
<td>2,621,74</td>
<td>303,103</td>
</tr>
<tr>
<td>Mineral mixing and chrome</td>
<td>1,440,785</td>
<td>83,695</td>
</tr>
<tr>
<td>Steel and cement</td>
<td>701,396</td>
<td>42,126</td>
</tr>
<tr>
<td>Total</td>
<td>13,395,274</td>
<td>859,228</td>
</tr>
</tbody>
</table>

Fuel efficiency savings in road-to-rail volume gains during the year amounted to 389,228 tCO₂e. The emissions savings are dependent on volumes gained and distance travelled.

We also continue to engage with public and private stakeholders in key water stressed catchments to collaboratively develop solutions. We continue to participate in the Carbon Disclosure Project’s Water and achieved a B score in 2018.

Waste optimisation
Transnet recognises that issues of waste management and water quality have cross-linkages and continues to manage the quality and quantity of effluent discharge integrating effluent monitoring programmes at all effluent discharge points and treatment plants across our operations. Wastewater presents opportunities to enhance sustainable development through effective wastewater treatment and reuse. We have invested R1,5 million at the Transnet Engineering Durban centre to install a new test area, which reuses water in locomotives in a water test facility where 60% of water is feedback into the system.

Transnet also continues to address historic asbestos and hydrocarbon contamination by adopting a more integrated, cohesive and collaborative approach. Our engagements with the Department of Mineral Resources for possible collaboration in respect of asbestos remediation and rehabilitation are at advanced stages. The Company further continued with its adhoc clean-up efforts in contaminated areas, where the asbestos exposure risk interferes with employees and the public. In 2018, 50,448 tons of asbestos waste was removed at adhoc clean-up initiatives compared to 37,9 tons in 2017. We also invested R2,1 million to clean seven historic hydrocarbon contaminated sites across our railway network.

During the year, Transnet generated R89,4 million revenue through the recovery of scrap metals and electronic waste. This is an improvement from the two previous years (2016: R67,8 million and 2017: R7,9 million). We continued to ensure the recovery of waste generated by our operations to reduce total waste going to landfill.

Read more
Sustainability Outcomes Report 2018 at www.transnet.net

“Not all business success requires disruption. Sometimes more efficient ways to do things is all that is required. Digitalisation can enable simple efficiencies as well as change entire landscapes.”

Ms Makono Mosidi
Chief Information Officer
The expenditure identified as irregular is due to non-compliance with the procurement procedure manual (PFM, PFPPA or Construction Industry Development Board (CIDB) regulations)

- Contract value exceeded
- PFPM tender/bid process not followed
- Procurement and capital expenditure procedures not adhered to
- Non-compliance with PFMP tender/bid process
- Incorrect use of procurement emergency procedure
- PFPM reinforcement process not followed

While goods and services were received, it is clear that the preventative and detective controls in the bid are not achieving the desired level of compliance. The Board, together with management, has implemented corrective action.

The Shareholder Representative has determined that the materiality lower for reporting in terms of sections 502(b)(1), (2) and (3) of the PFMA is R25 million per transaction. In terms of this materiality framework, there are 269 reportable items exceeding R25 million which have been reported as irregular expenditure for the financial year.

More detailed disclosure relating to these items together with corrective actions is set out in Annexure B to the annual financial statements.

State-capture allegations

During the year, substantive stakeholder concerns were reported across various public media, with specific reference to allegations relating to the so-called Gupta Gupta: the loss estimates related to the ongoing litigation and corruption investigations will only be finalised when all investigations are completed. The process has been facilitated in a phased approach. Transnet’s Forensic team reviewed and analysed media reports pertaining to Transnet contracts. Latters were written to suppliers informing them about the investigation into allegations of supplier kickbacks on SOE contracts. Suppliers were requested to provide details of the supplier or individuals that assisted to acquire business from Transnet, as well as the dates of payments made to suppliers or individuals, and the dates of payments. Responses were received from three companies. Overall, 33 companies were identified in media searches, of which nine may have Transnet contracts, four may be fronting, 18 may have received funds from Transnet contracts, and the remaining were identified through certain ex gratia payments. Relationships were established with the SAPS to establish the flow of funds between linked companies, directors and Transnet employees identified during the forensic investigation. At the time of publishing this Integrated Report, the investigation is still ongoing, with external service providers contracted to facilitate further forensic assessments and criminal investigations.

The new Transnet Board has done away with the Acquisitions and Disposals Committee. This is to ensure that Transnet directors are not involved in acquisition processes further. The Board has established a special sub-committee comprising the chairpersons of the various Board sub-committees to advise the Board on the implementation of recommendations from externally sourced investigative reports. The Board will also seek legal advice on the uncoupling and implementation of civil, criminal and disciplinary matters. Processes underway include the investigations of the Special Investigating Unit, the Hawks, and the Zondo Commission into state-capture.

To the best knowledge of Transnet’s directors, the Company has complied, in all material respects, with all regulations applicable to it during the period, except as noted below.

### PFM Reporting

**Category of reportable items**

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruitless and wasteful expenditure</td>
<td>23.5</td>
<td>21.9</td>
</tr>
<tr>
<td>Losses through criminal misconduct</td>
<td>59.1</td>
<td>43.1</td>
</tr>
<tr>
<td>Irregular expenditure – spent in current year</td>
<td>342.7</td>
<td>434.3</td>
</tr>
<tr>
<td>Irregular expenditure – spent in prior year</td>
<td>4657.6</td>
<td>5563</td>
</tr>
<tr>
<td>Total irregular expenditure</td>
<td>5123.1</td>
<td>5895.2</td>
</tr>
</tbody>
</table>

**Less:**

- Irregular expenditure condoned                  | (2.0)  | (393.3) |
- Amounts recoverable (not condoned)             | (158.6) |
- Amounts not recoverable (not condoned)         | (240.8) |

**Remaining irregular expenditure awaiting condonation**

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irregular expenditure under investigation</td>
<td>8122.9</td>
<td>5073</td>
</tr>
<tr>
<td></td>
<td>32.8</td>
<td></td>
</tr>
</tbody>
</table>

**Contracts for purchase of 1 064 locomotives**

It has been widely reported in media that the contracts to purchase 1 064 locomotives are the subject of certain corrupt activity. This led the previous Board to initiate a forensic investigation by SHK Attorneys, followed by a further investigation conducted by the Hawks. The Hawks and the Zondo Commission (all investigations are at various stages of completion).

As at the reporting date, there is still further work being undertaken by the Hawks, and the matter is ongoing. Any conclusion about whether there has been corruption or other acts of misconduct will only be reached in due course.

The outcome of the forensic investigations will be considered by the new Board in relation to the outcomes of the various other investigations and will determine the actions to be taken, both in terms of the appropriate remedial and disciplinary measures.

To the extent that any of this expenditure is found to be in contravention of the provisions of the PPFMA, it will be reported and appropriately classified in the annual financial statements for the year ended 31 March 2019.

Incidents of non-compliance with internal policies and/or provisions of the PFMA have resulted in 44 finalised disciplinary cases and the lodging of 12 criminal cases with SAPS. The bulk of these are criminal cases relating to the theft of cable and other assets from the rail infrastructure network.

The expenditure identified as irregular is due to non-compliance with the procurement procedure manual (PFM, PFPPA or Construction Industry Development Board (CIDB) regulations)

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- PFPM tender/bid process not followed
- Procurement and capital expenditure procedures not adhered to
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The dispute on the IT service contract involving Transnet on the one hand and T-Sytems and Gijima on the other is receiving the Board’s attention. The focus is to get Transnet to transition from its current sourced data centre service environment in a manner that will enable the Company to assume internal control of these services. Coupled to the transitioning process, Transnet will continue to enhance its internal ICT capacity. The T-Sytems/Gijima matter is now before the court. All issues relating to this matter will, therefore, be handled through this process unless an alternative resolution is agreed upon by all parties involved in the matter.
Revenue for the period under review increased by 11.1% to R11.3 billion compared to prior year results (R9.9 billion). This is mainly attributable to the 3.3% increase in volumes, complemented by an increase in the average freight rate (to R186.75 in 2018 compared to R174.95 in 2017). The average increase in volume of 6.2% was mainly attributable to the prioritisation of high-yield commodity flows.

Operating expenses increased marginally by 6.3%. Costs increased to R23.2 billion (2017: R23.0 billion), mainly due to increases in personnel costs, energy costs and legal fees.

Revenue increased by 12.7% to R11.7 billion (2017: R10.4 billion), largely as a result of increased demand/traffic from Freight Rail.

Operating expenses increased by 15.8% to R21.4 billion (2017: R18.5 billion). Cost savings were recorded as Engineering continued to improve and streamline operations during the year.

Revenue increased by 12.2% to R19.5 billion (2017: R17.5 billion), mainly due to increased volumes across all countries.

External revenue increased by 7.6% to R11.1 billion (2017: R10.4 billion). Net operating expenses increased by 12.2% to R14.5 billion (2017: R12.8 billion), mainly due to increases in personnel costs, energy costs and legal fees

Revenue increased by 11.1% to R12.4 billion (2017: R11.2 billion) due to good volume performance across all sectors.

Despite tightly managing costs, net operating expenses increased by 11.8% to R8.2 billion (2017: R7.4 billion). Key drivers of net operating expenses include staff inflation, energy cost increases and volume growth across all sectors.

The Port of Ngqura will embark on the Multi-Purpose Terminal Planning phase.

The Port of Ngqura will be the second busiest port in South Africa. Opportunities to expand Port Terminals’ service offerings across the transport value chain, build on prior year achievements and explore additional value-added services in the container, mineral bulk and automotive segments.

Transnet will continue to support the South African rail network by building new capacity at the Cape Town Container Terminal.

Measurements will be implemented to mitigate the impact of a lower allowable revenue granted by Nersa for the 2019 financial year.

Port Terminals will continue to support Transnet’s international strategy by applying strengths and capabilities to regional opportunities in Africa.

Opportunities exist to increase volumes at the Port Terminals, influenced by the multi-modal initiatives. Pipelines will look to achieve the petroleum volume target of 17.5 billion litres.

The revenue increase mainly due to a 1.4% increase in transportable allowance revenue generated by the Open access Determination, a reasonable distribution pattern from the coast and the unwinding of a clawback raised in the prior financial year.

Revenue excluding standard and tax increased by 3.1% to R4.5 billion (2017: R4.4 billion)

Net operating expenses increased by 32.5% to R8.2 billion (2017: R6.2 billion). This was mainly attributable to a write-off of inventory of R356.5 million. The increase in net operating expenses, excluding the inventory write-off, is 33.3%.

Pipelines will look to achieve the petroleum volume target of 17.5 billion litres.

Measures will be implemented to mitigate the impact of a lower allowable revenue granted by Nersa for the 2019 financial year.

Opportunities exist to increase volumes at the Port Terminals, influenced by the multi-modal initiatives. Pipelines will look to achieve the petroleum volume target of 17.5 billion litres.

The revenue increase mainly due to a 1.4% increase in transportable allowance revenue generated by the Open access Determination, a reasonable distribution pattern from the coast and the unwinding of a clawback raised in the prior financial year.
With 2017 observing the fastest rate of global growth recorded since 2011, large parts of the emerging world and resource-rich regions have stabilised due to a continued recovery of commodity prices. Coal prices improved by almost 30.0% and, similarly, metals prices recovered by more than 20.0%. Stabilisation of commodity prices bodes well for Transnet as the transportation and handling of key commodities, such as coal, iron ore and manganese, contribute significantly to our bottom line.

However, these improvements must be viewed within the context of a series of global economic crises, negative shocks and falling commodity prices between 2008 and 2016. Transnet was not immune to these headwinds, which influenced our projections as they relate to profit and capital expenditure. Nonetheless, these challenges, the global economy appears to have entered a cyclical upswing with the International Monetary Fund (IMF) forecasting global growth of 3.9% and developing and emerging market growth of 4.9% in 2018.

Contributing factors to the positive outlook is the expectation that advanced economies will grow faster in 2018 and 2019. Accommodative monetary policy in the Euro area and expansionary fiscal policy in the US are driving favourable projections for those regions. Emerging and developing economies should benefit from continued strong growth in emerging Asia and Europe, and from a modest upswing in commodity exporters after three years of weak performance.

Significantly, global growth is not expected to continue at the same pace beyond the next couple of years. The IMF notes that “while upside and downside risks to the short-term outlook are broadly balanced, risks beyond the next several quarters clearly lean to the downside”.

Strategic considerations

The world, including South Africa, is facing a 4th Industrial Revolution. According to the World Economic Forum (2017) this evolution follows on the digital technologies of the 3rd Industrial Revolution powered by a wide range of new breakthroughs not only in the digital realm (such as artificial intelligence) but also in the physical realm. These new automated technologies bring advanced robotics, new forms of automated vehicles, quantum computing, etc.

“Transnet 4.0 brings with it opportunity, challenge and change. If we don’t jump in, we will be left behind.”

Mr Gert de Beer
Chief Business Development Officer
Outlook continued

Megatrends affecting the logistics sector

Figure 15

Opportunities we are pursuing in the logistics sector

| Diversification into logistics value-added services | Roll-out new value-added services to customers |
| Industry consolidation | Transnet to partner/acquire small/niche South African logistics players |
| Digitisation of operations | Digitised value-added services to customers and lowering operating costs |
| The ‘ubiquisation’ of freight | New Transnet business offering ‘asset light’ products and services |

Global Industry 4.0 megatrends

Figure 16

| Connecting and computing power | Enabled real-time asset and service quality monitoring |
| Analytics and intelligence | Optimised resource planning and predictive maintenance |
| Human-machine interfaces | Improved safety, accountability and capability building |
| Digital-physical transformation | Improved manufacturing productivity and inventory management |

Five growth clusters will drive Transnet 4.0, with the potential for significantly increasing revenue over the next five years: Figure 17

<table>
<thead>
<tr>
<th>Freight solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>World-class, customer-centric end-to-end freight solutions</td>
</tr>
<tr>
<td>Added capabilities and partnerships to enhance general freight positions (GFPs)</td>
</tr>
<tr>
<td>Africa dimension – port and rail concessions</td>
</tr>
<tr>
<td>Foster regional trade</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Advanced manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa’s own rail, ports and transport OEM</td>
</tr>
<tr>
<td>Customer-focused packaged, asset lifecycle solutions (design, finance, building, maintain, replace)</td>
</tr>
</tbody>
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<tr>
<th>Liquids and gas</th>
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<tbody>
<tr>
<td>Access and distribution of liquid and gas energy resources</td>
</tr>
<tr>
<td>Liquefied natural gas (LNG) opportunity</td>
</tr>
<tr>
<td>Energy opportunities</td>
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</tbody>
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<tr>
<th>Transnet 4.0 growth clusters</th>
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<tbody>
<tr>
<td>Logistics ecosystems to enable and accelerate economic growth</td>
</tr>
<tr>
<td>Port and inland hubs</td>
</tr>
<tr>
<td>Optimise local, national and regional freight logistics networks</td>
</tr>
<tr>
<td>Split core and leveraged</td>
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<tr>
<th>Infrastructure and spatial solutions</th>
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<tbody>
<tr>
<td>Digital</td>
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<tr>
<td>Leveraging and monetising freight and infrastructure-related digital capabilities</td>
</tr>
<tr>
<td>Examples: fibre and telecoms, data solutions, information-driven businesses</td>
</tr>
</tbody>
</table>

As we embark on Transnet 4.0, we will need to balance our investment in traditional infrastructure, such as rail, pipeline and ports, with our investment in new revenue diversification opportunities, as well as technological innovation and digital enablement within our operations. Figure 17 outlines this perspective as we transition from the current functional portfolios of the remaining MDs horizon in the short term, towards greater focus on our advanced manufacturing business, as well as our growth aspirations through geographic expansion, new markets and digital innovation within the logistics value chain.

“Transnet 4.0 is essentially about growth and diversification, so even if a person is hardly touched by technology in their job, any efficiency and improvement that facilitates our growth and diversification is part of 4.0.”

Mr Khaya Ngema
Group Executive Strategy

With the expected global recovery not materialising, as anticipated during the MD5 period, the Company was compelled to recalibrate and reduce its capital expenditure as per the changing market conditions, changing from investing ahead of demand to investing based on validated demand.

The 2019 financial year marks not only the conclusion of the original MD5 planning horizon, but also the introduction of our new Transnet 4.0 Strategy which, at its core, is Transnet’s response to the emerging 4th Industrial Revolution. This evolving paradigm is characterised by a fusion of technologies and digital applications poised to disrupt almost all industries, while transforming systems of production, governance and management at all levels of the value chain. Transnet 4.0 will use the MD5 as a base to repurpose Transnet for new growth and competitiveness in the fast-evolving technology-driven context of the 4th Industrial Revolution as we continue to provide capacity ahead of demand.

Transnet expects to invest a further R110 billion in capital over the next five years to 2023. In 2019 we will see a shift in the balance of ‘sustaining’ and ‘expansion’ capital expenditure - with the pendulum swinging towards sustaining investment. At the inception of the MD5 in 2008, this split was ‘expansion’ at 58.0%, versus ‘sustaining’ at 42.0%. The capital expenditure split has now reversed to 42.0% and 58.0% respectively in the coming financial year, which will result in more effort being placed in maintaining and enhancing current operations.

While our primary focus remains volume growth of the core business in the long term, Transnet is also seeking new growth pathways to compensate for low-growth expectations and instability in its traditional market segments. Accordingly, organic growth of the current freight transport and handling divisions will still account for a bulk of this growth as we target improved connectivity, density and capacity of an increasingly integrated rail and pipeline network. The accelerated development of logistics and industrial zones, centred on intermodal terminals, will be a key component of this, providing critical infrastructure to complement and feed the network.

In tandem, we will improve operational efficiency and reliability, and innovate around new revenue streams to grow market share in both domestic and regional markets, particularly in integrated logistics, the development of logistics hubs and clusters, natural gas and LNG infrastructure, manufactured products and digital businesses. Private-sector partnerships will be a key enabler and driver of these new ventures.

Going forward, the success of Transnet 4.0 will, in large part, depend on our ability to create new revenue streams that leverage Transnet’s digital capability, expertise and platforms to deliver technology and business solutions for the African market, firstly for the regions of East Africa and the South African Development Community (SADC) region, and later extending to the greater sub-Saharan African region. Again, strategic partnerships and collaborations with sector specialists in the freight logistics environment will accelerate new business ventures as new revenue growth.

We have considered several megatrends in the transport and logistics industry sector, together with risks and opportunities.

Read more:
Transnet’s business model
Five-year investment portfolio R163.7 billion

Operations and Specialist Units
R145.4 billion

Expansion: R49.1 billion
Sustaining: R96.3 billion

- Freight Rail
  - National Ports Authority: R88.9 billion
  - Port Terminals: R72.4 billion
- Pipelines
  - Gas: R8.4 billion
- Property
  - Group Capital: R929 million
- Corporate Centre: R1.3 billion

Five-year capital investment by commodity %

- General freight: 34.0%
- Maritime containers: 66.0%

Five key functional portfolios

1. Coal and mineral system
   - Unlock Waterberg and Manganese coal reserves for Eskom power stations, domestic industrial users and export markets.
   - Over the next 18 years, demonstrating the Durban-Kwazulu corridor is encompassing growth and potential for a sustainable high-grade manganese market.
   - South Africa holds more than 75% of the world’s medium to high-grade manganese reserves, allowing for the creation of a sustainable manganese export market to Europe and China.

2. General freight business and rolling stock
   - Potential freight volumes increasing by 137.1 mtpa by 2025.
   - Over the next 10 years, demand along the Durban-Gauteng corridor is expected to grow from 2.7 million to 3.7 million TEUs.

3. Manganese
   - Over the next 18 years, demonstrating the Durban-Kwazulu corridor is encompassing growth and potential for a sustainable high-grade manganese market to Europe and China.

4. Pipelines
   - Construction of 11 accumulator tanks and associated facilities and a sustainable beneficiation plant from the NMMR mining operations.
   - Systems and automation.

5. Advanced manufacturing
   - R3.4 billion
   - New programmes that will drive the next wave of commercialised products.
   - 1. Prototyping, testing and commercialisation of rolling stock and equipment.
   - 2. New programmes that will drive the next wave of commercialised products.
   - 3. Integrating information and maintenance services.
   - 4. Passenger coaches.
   - 5. Locomotive Condition Monitoring System (LCMS).

End-to-end logistics

1. Centralised management
2. Service-level management with integrated events, notification workflow and ticketing
3. Customer self-service portals
4. Automated provisioning
5. Bandwidth reports and billing calculation

Outlook continued

International Holdings

1. Seek new markets through geographic expansion
2. Increase the share of logistics spend with existing customers
3. Diversify business opportunities in existing and new markets through product development and service innovation
4. Transforming into a digital enterprise to stay relevant in the 4th Industrial Revolution
Conclusion and medium-term planning horizon

Overall, the short-term global economic outlook is positive. We are cautiously optimistic that the South African economy is in steady recovery and that our domestic business environment is improving, thereby supporting the general level of liquidity in the debt markets. Transnet has identified several measures that could be implemented to mitigate a potentially constrained funding scenario. By way of example, this may include redirecting capital investments in the short-term by prioritising and optimising capital projects, cost containment initiatives, operational efficiency improvements and securing diversified and new revenue streams.

Capacity creation remains a strategic fundamental for Transnet, both in terms of our own competitiveness and in contributing to wider economic growth. As a State-owned Company, Transnet will continue to play its role in creating transport infrastructure capacity as well as maintaining and improving the reliability of existing services to contribute positively towards a growing and inclusive economy.

Going forward, Transnet 4.0 aims to mitigate our exposure to ‘boom and bust’ cycles in commodity markets through diversification and product innovation and also chart new growth paths that are sensitive to the realities of an operational landscape that is modernising at an accelerated rate.
Abridged governance

Ethical and effective leadership and corporate citizenship

The Board is principally responsible for directing and controlling the business of the Company and ensuring its long-term economic, social and environmental sustainability.

This responsibility includes: ensuring that the deemed Board of the Transnet National Ports Authority is in terms of the National Ports Act.

The Board leads the Company in its achievement of strategic objectives by directing and approving the Company’s overall strategy and associated operational objectives. It monitors the Company’s performance against the targets outlined in the Shareholder’s Compact and ensures that adequate processes are in place for budget planning and allocation to advance the Company’s mandate. This includes oversight of the Company’s socio-economic programmes.

The Board is accountable for leading the Company ethically and effectively. The qualities of integrity, competence, responsibility, fairness and transparency are cultivated and exhibited throughout the Company, compliance with legislation, rules and standards, and the fundamentals of human nature.

As we move into the new 4.0 paradigm, we need to ensure that our existing governance structures remain fit for purpose. In light of emerging global trends, the Board has focused on corporate and institutional integrity, and the fundamentals of human nature.

As we move into the new 4.0 paradigm, we need to ensure that our existing governance structures remain fit for purpose. In light of emerging global trends, the Board has focused on corporate and institutional integrity, and the fundamentals of human nature.

Good corporate governance

In an engaging process, which requires deep understanding of the environment, the organisation’s values, ethics, professional environment, and the fundamentals of human nature.

Companies Act

The Company reports on the extent of its compliance with the Companies Act in the Directors’ Report.

King IV

The Board is committed to the application of King IV governance principles in conjunction with regulatory provisions to achieve the overarching principles of sound governance, namely ethical culture, good performance, effective control and operational and social legitimacy. It intends to do so substantively and not simply in form, so that its decisions and actions impact positively on the Company and all its stakeholders. The Governance Assessment Instrument is utilised to monitor the level of achievement of the King IV principles.

Compliance with laws, codes, rules and standards

The Board governs and directs compliance with applicable laws, and sets ethical, corporate, social, rules, codes and standards. The Board delegates the responsibility for implementing the compliance function to management. To this end, the Company has an established Compliance function.

The Board is accountable for leading the Company ethically and effectively. The qualities of integrity, competence, responsibility, fairness and transparency are cultivated and exhibited throughout the Company, compliance with legislation, rules and standards, and the fundamentals of human nature.

Public Finance Management Act (PFMA)

The PFMA requires the Board to ensure that the Company and its employees comply with the provisions applicable to Schedule 2 Companies, as well as any other legislation applicable to the Company. Accordingly, the Board – in its capacity as the Company’s accounting authority – ensures that the Company adheres to the requirements for the assessment of risk and annual budget submissions, and the annual conclusion of a Shareholder’s Compact. The Board also further ensures that the Company adheres to all procedures for quarterly reporting to the Executive Authority through submission of quarterly PFMA reports.

The Board has noted the ineffectiveness of supply chain related controls, which resulted in significant irregular expenditure in terms of the PFMA, as highlighted within the annual financial statements on pages 15 and 16 of the Report of the Directors, as well as Annexure E, from pages 116 to 120.

“A strong theme for us in the Capital space is going back to basics; we are focusing our attention on compliance, governance and internal controls.”

Mr Krishna Reddy

Chief Capital Officer
During the reporting year, Transnet adhered to some of the King IV principles and recommendations, as evidenced in the Integrated Report, Remuneration Report and the Sustainability Outcome Report. At the time of publishing this report, the Company was attending to gaps identified through a King IV gap analysis performed during the 2018 financial year. Once complete, the outcomes – and appropriate steps taken to address the gaps – will be reported on the Company’s website [www.transnet.net/GL], as part of the 2019 Integrated Reporting Suite.

Governing instruments

The Company’s governing instruments include:

- Memorandum of Incorporation (MOI), as lodged with the Companies and Intellectual Property Commission (CIPC);
- Delegation of Authority Framework, approved by the Board on 31 August 2015, with effect from 1 September 2016, and cascaded company-wide; and
- Matters reserved for decision by the Board encompass: Approvals and recommendations of financial, statutory and administrative matters; and Matters relating to regulatory, human resources and policies.

The Board has a Delegation of Authority Framework (DAF) to guide its strategic role and to provide a framework for the Board to make decisions on specific matters and delegations.

The Board evaluates its performance and that of its committees, Chairperson and individual directors through an annual independent evaluation and provides ongoing support for continued improvement. The process is facilitated by an independent service provider.

2018 Board evaluation

PricewaterhouseCoopers, an external service provider, conducted the 2018 Board evaluation in February 2018. Identified areas of improvement included:

- Requirements for logistics, freight and rail;
- Capital projects and programmes expertise;
- Investment and economics expertise;
- Information and communication technology expertise; and
- Technical engineering expertise and cost.

Further areas for consideration included the following:

- In terms of the appointment, induction, training and succession planning of directors, King IV recommends that a programme be implemented by the Board to ensure a staggered rotation of non-executive directors to the extent that this is not already regulated by the Company’s MOI or other relevant legislation.
- In terms of strategy, compliance and Group performance emphasis is placed on the Board focusing on the achievement of value creation as set out by King IV and aligned with leading practice trends. The Board should ensure that the Company strategy is expressed in terms of performance that creates value in a sustainable manner within the economic, social and environmental context in which the Company operates.

Action plans are being developed to address the gaps. The appointment of the new Board in May 2018 addressed areas of improvement which included balancing the skills and filling of vacancies.

Directors’ induction and continuous development

The Group Company Secretary develops an Annual Board Training Plan to support the enhancement of skills of members of the Board and its committees. Individual directors are encouraged to identify any training events they may wish to attend through recognised training institutes as provided by the Group Company Secretary.

A full list of training activities conducted during the year by the Board is externally provided in the Governance Report available online at [www.transnet.net]. It is submitted to the Shareholder for information purposes.

Board independence

The Board comprises an appropriate balance of knowledge, skills, experience, diversity and independence, enabling the objective and effective discharge of its duties. In accordance with the King IV Code, the Board is satisfied that the non-executive directors of the Company are independent.

Core responsibilities of the Board

The Board of Directors serves as the focal point and custodian of corporate governance in the Company. The protocol for exercising its leadership role is outlined in the approved Board and committees mandates. The mandates clearly define the procedures for the Board and committees to obtain professional advice and the procedures for management to submit documentation for the Board to make informed decisions.

The Board has interrogated the reports relating to the year under review in line with its mandate, and to date is satisfied that it has discharged its responsibilities.

Board and committee meetings

Status of meetings convened in the 2018 financial year

<table>
<thead>
<tr>
<th>Board Meetings</th>
<th>Workshops</th>
<th>Special meetings</th>
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<td>0</td>
<td>0</td>
<td>0</td>
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On 28 May 2018, the Board discharged the Acquisitions and Disposals Committee.
Creating value through Transnet's governance structure

Characteristics of an enabling governance environment

Figure 20

Value created by Transnet's governance function

- Aligns operational performance with strategic objectives
- Ensures effective Board composition and skills
- Promotes financial sustainability
- Supports performance monitoring
- Safeguards resources and limits undesirable outcomes
- Promotes an integrated mindset regarding the Company's inseparable elements
- Promotes ethical leadership and an ethical organisational culture by enforcing sound ethical principles at decision-making levels
- Provides a framework for ethical, inclusive stakeholder relations to build credibility, promote social trust and to enable material stakeholders to make informed decisions
- Fosters a work environment that attracts and retains the right skills
- Promotes and supports a culture of innovation
- Highlights and enables sound management of Transnet's impact on its various stakeholders and the environment
- Supports the ethical management of trade-offs between the six capitals (financial, manufactured, intellectual, human, social and relationship, and natural)
- Promotes fairness and inclusivity within Transnet's employee base
- Promotes fairness and inclusivity within Transnet's supplier relationships

Principles of Transnet's governance structure

- Strong leadership, culture and communication
- Flexibility and evolving principles-based systems
- Strategic planning, performance and evaluation
- Comprehensive risk management, compliance and assurance systems
- Sound business case management across project lifecycle
- Clear accountability mechanisms
- Working effectively across organisational boundaries

- Ensure integrity of accounting and financial control system
- Inform the overall ‘control consciousness’ of employees without restricting performance or innovation
- Manage legal and moral obligations for economic, social and natural environments, and set standards for ethical conduct
- As custodians of governance, set an ethical tone and enforce sound ethical principles
- Monitor reward practices and promote competitive reward strategies to recruit and retain high-performing people
- Ensure the Board’s composition and structure enable it to fulfil its mandate and obligations, aligned with strategy
- Ensure appropriate skills represented by the Board and appoint competent executive management
- End-to-end visibility of key financial control
- Ensure the Company’s strategy, risk compliance, performance and sustainability are inseparable
- Balance financial accountabilities, organisational performance and strategic priorities
- Monitor trends in supplier development spend and progress against targets
- Assess private-sector participation models to support project funding and economic growth
- Ensure that intellectual property created (e.g. ICT and advanced manufacturing innovations) is protected
- Provide assurance on governance-related processes and controls applied by the Board to support strategy
- Meet Transnet’s strategic objectives while mitigating risks
- Safeguard manufactured assets
- Manage ICT architecture and mitigate digital risks
- Integrate and align assurance processes and control systems to enable risk and governance oversight
- Adhere to legal, compliance and accounting requirements, and contribute to climate of discipline to reduce fraud and losses

- Appropriate governance committee structures
- Assurance systems
- Compliance and management, risk

- Monitor the implementation of strategic acquisitions and disposals against approved plans
- Develop key performance indicators to monitor sustainability performance
- Set the tone for Transnet’s value system (filtered into corporate culture)
- Maintain highest standards in the social and ethics environment (policies, legal requirements and codes of best practice)
The Chairperson of the Board engages continuously with the Shareholder Minister, on a three-year term, renewable annually. Non-executive directors are appointed to the Board by the deemed Authority under the National Ports Act. The new Board discharge all duties, obligations and powers imposed upon them. The authority to delegate the Board's powers, and specified governance structures and, in turn, by the Shareholder Minister has been transferred to the Company's employees, external auditors, professional advisers and external auditors. The non-executive directors continue to act in the best interest of the Company at all times.

Group Company Secretariat function

The Board adheres to the requirement of the Companies Act and has appointed a competent and qualified Group Company Secretary. The Group Company Secretary is responsible for developing systems and processes to enable the Board to discharge its functions efficiently and effectively. The Group Company Secretary prepares Annual Work Plans for the Board, as informed by the strategic direction of the Company. The Annual Work Plans are approved for implementation by the respective governance structures and are continually tracked to assess progress. The Group Company Secretary advises the Board on corporate governance issues, the requirements of the Companies Act and other relevant legislation.

The Board has unfettered access to the service and advice of the Group Company Secretary. The Group Company Secretary is qualified to perform duties in accordance with applicable legislation and is considered by the Board to be fit and proper for the position. The Group Company Secretary does not fulfill an executive management function and is not a director. Therefore, the Board is satisfied that the Group Company Secretary maintains an arm's-length relationship with the Executive Management Team, the Board and the individual non-executive directors.

Benchmarking

The Group Company Secretariat has shared and learned from other organisations and industries. The Office has gained valuable insights and best practices, including benchmarking against other SOCs.

Chairperson and Group Chief Executive

The roles of the Chairperson and the Group Chief Executive are separate, with their individual responsibilities clearly defined. The Chairperson is an independent non-executive director and is responsible for leading the Board and ensuring its effectiveness. The Group Chief Executive is responsible for the execution of the Company's strategy and the day-to-day business of the Company.

The Chairperson is appointed by the Shareholder Minister. The Chairperson maintains an arm's-length relationship with the Executive Management Team, the Board and the individual non-executive directors. Therefore, the Board is satisfied that the Group Company Secretary maintains an arm's-length relationship with the Executive Management Team, the Board and the individual non-executive directors.

Non-executive directors are appointed by the Board. The Shareholder Minister, on a three-year term, renewable annually. The Chairperson of the Board engages continuously with the shareholder, and the Board's succession plans and approval of transaction applications in accordance with the provisions of section 94 of the Companies Act.

Management of potential conflicts of interest

The Companies Act codified the fiduciary duties of directors, and prohibits the use of position, privileges and confidential information for personal gain or to improperly benefit another person. The Board adheres to the prescribed standards of ethical and professional conduct.

Where a director or a prescribed officer has any direct or indirect personal or private business interest in a particular matter, that director or prescribed officer must be removed from the proceedings. When the matter is considered, unless the Board, committee or the GLT, as the case may be, decides that the member's interest in the matter is trivial or irrelevant, the declaration of interest and related party disclosure registers are signed by the members and attendees at all formal meetings of the Board and the GLT, and their committees. These registers are maintained by the Group Company Secretary. In addition, non-executive directors, the GLT, Extended Leadership Team members, line management (levels C to F) and any employees who have an interest, either direct or indirect, are required to file an annual declaration of interest form with the Group Company Secretary at the beginning of each year or within 30 days from date of appointment. Any changes in interests during the course of the year necessitate the filing of revised declarations of interest forms, which are formally noted by the relevant governance structures.

The Board and the GLT note their respective Annual Declarations of Interests Registers. The Corporate Governance and Remuneration Committee, and the Remuneration and Ethics Committee, conduct an annual review of the filed declaration of interest forms of the Board and GLT members for adequacy and oversight. The Delegation of Authority Framework records the nature and extent of authority delegated by the Board to the Group Company Secretary, the Executive and specified governance structures and, in turn, by the Shareholder Minister has been transferred to the Company's employees, external auditors, professional advisers and external auditors. The non-executive directors continue to act in the best interest of the Company at all times.

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## Our Board members

### Mr Siyabonga Gama
**Group Chief Executive**
- **Date of birth:** May 1967
- **Year of appointment to the Board:** October 2015
- **Qualifications:** MBA (Jointly awarded by New York University Leonard N Stern School of Business, the London School of Economics and Political Science and IE) Paris, BComm (University of Swaziland), Banking Diploma (Institute of Bankers CARA-SA), Post-graduate Diploma in Company Direction, Advanced Executive Development Program (City University of New York), Certificate in Port Management (Netherlands HBO), Advanced Port Management and Operations Program (National University of Singapore), Global Leadership Program (IBIS), Executive Development Program (University of Pennsylvania)

### Mr Mohammed Mahamedy
**Acting Chief Financial Officer**
- **Date of birth:** September 1965
- **Year of appointment to the Board:** May 2018
- **Qualifications:** CA(SA), Poly Acc (University of Natal/UNISA), BCom (University of Swaziland), Advanced Strategic Management ( IMD Switzerland), Global Executive Leadership Development Programme (IBIS)

### Ms Ramasela Ganda
**Date of birth:** September 1964
- **Year of appointment:** May 2018
- **Qualifications:** CA(SA), BCom (University of Pretoria), CIMA (University of Pretoria), CA(SA) (Visa University), Associate – SACA and PAAP

### Ms Ursula Fikelepi
**Date of birth:** January 1973
- **Year of appointment:** May 2018
- **Qualifications:** MBA (IBIS), LLM (University of New Hampshire, USA), LLB (University of Cape Town), BA (Wits University)

### Ms Mohammed Mahomedy
**Date of birth:** May 1969
- **Year of appointment:** May 2018
- **Qualifications:** MBA (GIBS), CTA (University of Pretoria), CA(SA), CTA (University of Pretoria), BCompt (Unisa), Advanced Banking Diploma (Institute of Bankers-SA), CAI (University of Pretoria), CIMA (University of Pretoria), BComm(Vista University), BA (Wits University)

### Ms Ramaledi
**Date of birth:** September 1971
- **Year of appointment:** May 2018
- **Qualifications:** BEd (Hons) (North-West University), MBA (International Tax Law (cum laude) (North-West University), MBA (Strategy and Transformation) (Harvard Business School), Leading Change (Harvard Business School), Management Advanced Programme (Harvard Business School), Strategy Perspective in NPO Management (Harvard Business School), Orchestrating Winning Performance (IMD) (Harvard Business School), Strategic Human Resources (Harvard Business School)
Directors’ active memberships on other boards

1. Dr Pogo Molefe
   Chairperson
   Membership/Directorship
   Lereko Investments (Pty) Ltd
   Lereko Mobility
   Telzor (Pty) Ltd
   Lereko Eco
   Global Aviation Operations (Pty) Ltd
   Aberdeen Offshore Engineering (Pty) Ltd
   Lereko Broad-based Consortium 212
   Golden Gung Investments
   Lereko Meter Investors (Pty) Ltd
   Lereko Meter Trusts
   Lereko Fleet Management
   Bigbit Tracking
   Lereko Broad-based Consortium 222
   Friedholf 1516
   Lereko Motors
   Shuman Industrial Equipment
   Sunshine Street Investments 72 (Pty) Ltd
   UMC Gold
   Marble Gold
   Popo Molefe Trust
   Mabola Trust
   Mesi Trust

2. Mr Siyabonga Gama
   Group Chief Executive
   Membership/Trusteeship/Shareholding
   Mofumbuka Investment Holdings (Pty) Ltd
   Pony Lane Homeowners Association
   Transnet International Holdings SOC Ltd
   Maputo Corridor Logistics Initiatives
   Sisayi Free to Air TV (Pty) Ltd
   Sibhulisi Resources (Pty) Ltd (25%)
   Four Arrows Investment 256 (Pty) Ltd
   Tswelope Benevolence Operations (Pty) Ltd (51%)
   Phethane Gold (property-owning family trust)
   The Miseso Trust
   Salesian Past Pupils Association
   The Sipela Thema Foundation (NPO)

3. Mr Mohammed Mahomed
   Acting Chief Financial Officer
   Membership/Trusteeship
   Cutting Edge Finance (Pty) Ltd (100%)
   Macquay Family Trust
   YMM Family Trust

4. Ms Ursula Pikelepi
   Chairperson/Shareholding
   Ennosi Holdings (100% holding)
   Mzimba Africa (Pty) Ltd (16.1% holding)
   Directorship
   Mzimba Properties (Pty) Ltd (16.1% holding)
   Mzimba Capital (Pty) Ltd (16.1% holding)
   CloudAtlas (Pty) Ltd (9% holding)

5. Ms Ramasele Ganda
   Chairperson/Shareholding
   BPC Chameleon Accountant (100% holding)
   Myatra (Pty) Ltd (25% holding)

6. Prof Edward Kieswetter
   Chairperson/Shareholding
   Shoprite
   African Unity (100% holding)
   Da Vinci Institute of Management Leadership (65% holding)
   GEMS Education Africa
   DST Technology Innovation Agency

7. Ms Mpho Letlape
   Chairperson/Trusteeship/Shareholding
   Standard Bank Tsunana Community Foundation NPC
   Luthushane (Pty) Ltd
   Tower Group
   Africa-Harm Reduction Alliance
   Sapphire Logistics
   National Research Foundation
   South African Women in Dialogue
   Food Forward South Africa
   Luthushane Advisory Services
   T-Systems South Africa (designated)
   T-Systems Community Trust (resigned)

8. Ms Dimakatso Mathoga
   Chairperson/Shareholding
   Atarafisa Foundation (non-profit company) [33.1% holding]
   Atarafisa Consulting (100% holding)
   Ica-Stri Tech Solutions (primary cooperative) (20% holding)

9. Ms Vivien McMenamin
   Chairperson/Shareholding
   Durban Girls College
   Forestry SA
   Siyabubaka Forests
   Forestry Charter
   Mondi Zmala
   South African Association for Marine Biological Research

10. Adv Oupa Motau
    Chairperson/Shareholding
    VascoCare Investment (100% holding)
    Kuza Construction Projects (100% holding)
    Thulis Trusts (100% holding)
    Twende Investments (10% holding)
    Norspan (100% holding)
    Orthoiva (100% holding)
    Condicill (100% holding)

11. Dr Phohlei Mufamadi
    Chairperson/Shareholding
    Barclays Bank Mozambique
    National Bank of Commerce (Tanzania)
    Actcorp Holdings Limited
    Implant Holdings Limited
    Zimplats (Chairman of the Board)
    Debshan (Pty) Ltd
    Nakabaha Da Vicco Albert Luftliff Peiza and Development Institute
    Muntari. Consulting (dominant)

12. Mr Alwazi Ramabulana
    Chairperson/Trusteeship/Shareholding
    NBC
    MD2 Fleet Solutions (100% holding)
    DataQuip Rentals (60% holding)
    Mulilo Parfiling (61.1% holding)
    MD2 Logistics (100% holding)
    MD2 Capital (100% holding)
    Bono Life Fund Investment Holdings (Pty) Ltd (5% holding)
    Lanspace (49% holding)

13. Ms Gratitude Ramphaka
    Chairperson/Shareholding/Trusteeship
    South African Council for the Project and Construction
    Management Finance Committee
    Advisory Board of the National Intellectual Property Management Office – Full Costing Sub-committee

Summary of the main undertakings and considerations during the year

Audit Committee
  • Total number of meetings held during the year: Four scheduled meetings and two special meetings
  • Executive director +
  • Independent non-executive director ++

Chairperson
  • Ms SM Radebe ++ (1 scheduled) (2 unscheduled)
  • Ms AC Kinley 3 ++ (1 scheduled) (2 unscheduled)

Members:
  • Mr SM Radebe ++ (1 scheduled) (2 unscheduled)
  • Ms AC Kinley *** (3 scheduled)
  • Ms PSB Mathekga *** (1 scheduled) (2 unscheduled)
  • No external advisers attended committee meetings during the year.

Most material matters arising during the year

Main undertakings and considerations

• PFMA reportable items – Annual Financial Statement Disclosure
  • The Company has reinstated assurance committees at Operating Division level to address PFMA transgressions as they arise.
  • The Company also made an undertaking to SCOPA to reduce contract extensions and deviances.

• Fraud allegations
  • A Board Steering Committee comprising the Audit Committee members and the Board chairperson was established. This Board Steering Committee commissioned a forensic investigation.

1. A more detailed table of key activities and outputs for the 2018 financial year appears in the full Governance Report at www.transnet.net
2. Mr Rodrigues was appointed as a director and the Chairperson of the Audit Committee with effect from 21 December 2017.
3. Ms Radebe resigned in the capacity of director and the Chairperson of the Audit Committee with effect from 21 December 2017.
4. Ms Radebe resigned in the capacity of director and the Chairperson of the Audit Committee with effect from 21 December 2017.
5. Ms Kinley was appointed as a director and member of the Audit Committee with effect from 21 December 2017 and the Chairperson of the Acquisitions and Disposals Committee with effect from 30 January 2018.
6. Ms Mahloki was appointed as a director and a member of the Remuneration, Social and Ethics Committee and served as a member of Corporate Governance with effect from 30 January 2018.
7. Mr Rodrigues was appointed as a director and member of the Remuneration, Social and Ethics Committee and served as a member of Corporate Governance with effect from 30 January 2018.
The Acquisitions and Disposals Committee

The Acquisitions and Disposals Committee provides the following support activities to the Board:
- Advances and maintains the Company’s acquisition and disposals policies.
- Approves procurement transactions within the committee’s delegated authority.
- Monitors trends in supplier development spend and progress on plan.
- Considers strategic acquisitions and disposals and makes recommendations to the Board.
- Considers, for recommendation to the Board, potential private-sector participation models.
- Reviews quarterly capital expenditure reports, and monitors the execution of approved projects.
- Monitors the implementation of strategic acquisitions against the approved plans.
- Approves procurement strategies for proposed acquisitions and disposals to the Board in line with the Delegation of Authority Framework.

In line with the Shareholder’s view and impending direction, to remove the involvement of non-executive directors in procurement-related activities, the Board dissolved the Acquisitions and Disposals Committee in May 2018. The Board further constituted a Finance and Investment Committee.

Summary of the main undertakings and considerations during the year*

<table>
<thead>
<tr>
<th>The Acquisitions and Disposals Committee</th>
<th>Committee composition and requisite skills balance</th>
</tr>
</thead>
</table>
| Chairperson: 
  Ms AC Kinley 1 ++ (1) 
  Mr SD Shazo ++ (1) | The Company has introduced B-BBEE improvement plans as a requirement in the procurement assessment criteria. |
| Members: 
  MLC Mabaso ++ (6) 
  Mr ZA Ngalawe ++ (6) 
  Mr SI Gama ++ (6) | The Enterprise Development hubs that were established in various provinces to strengthen the Supplier Development component are yielding positive results. |
| Additional director attendees during the year: 
  Mr BG Stagman ++ (1) | Committee composition and skills balance was partially addressed by the secondment of Mr Stagman to the committee. |

No external advisers attended committee meetings during the year.

Corporate Governance and Nominations Committee

The Corporate Governance and Nominations Committee provides the following support activities to the Board:
- Ensures that the Board’s composition and structure enable it to fulfil the obligations of the Board mandate and advance and maintain the Company’s corporate governance policies and the Corporate Governance Framework.
- Sets criteria for the nomination of directors to be recommended to the Board for appointment to the committees of the Board, other than the Audit Committee.
- Nominates potential Audit Committee members for appointment by the Shareholder Minister.
- Nominates potential Remuneration, Social and Ethics Committee members for approval by the Board and confirmation by the Shareholder Minister at the annual general meeting or through a written resolution.
- Ensures that best practice succession planning policies are implemented in respect of executive directors and independent non-executive directors.
- Administers and manages the selection process of the Company Chief Executive on behalf of the Board, and makes recommendations on the top three candidates – in order of priority – to the Board by complying with the ‘Guidelines for the appointment of a Group Chief Executive for a State-Owned Enterprise’.
- Training, Development and Appraisal of Board members to ensure good governance best practice.

Summary of the main undertakings and considerations during the year*

<table>
<thead>
<tr>
<th>Corporate Governance and Nominations Committee</th>
<th>Committee composition and requisite skills balance</th>
</tr>
</thead>
</table>
| Chairperson: 
  Ms LC Mabaso ++ (4) 
  Ms Y Forbes ++ (4) | The Company further reviewed its MOI and lodged it with the CIPC on 19 December 2017. The revised MOI was subsequently accepted and placed on file with the CIPC. The amendment to the MOI reduced the minimum number of directors to six of which not less than four shall be non-executive directors. |
| Members: 
  Mr BG Stagman ++ (4) 
  Mr SI Gama ++ (6) 
  Mr VM Nkonyane ++ (4) | The Enterprise Development hubs that were established in various provinces to strengthen the Supplier Development component are yielding positive results. |
| Additional director attendees during the year: 
  Mr SI Gama ++ (4) 
  Mr VM Nkonyane ++ (4) | Committee composition and skills balance was partially addressed by the secondment of Mr Stagman to the committee. |

No external advisers attended committee meetings during the year.

Most material matters arising during the year

<table>
<thead>
<tr>
<th>Most material matters arising during the year</th>
<th>Main undertakings and considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuously striving to attain and exceed the set targets for spend on businesses owned by black youth and people living with disabilities.</td>
<td>The Company has introduced B-BBEE improvement plans as a requirement in the procurement assessment criteria.</td>
</tr>
<tr>
<td>PFMA reportable matters in relation to contract deviations and/or exemptions.</td>
<td>The Enterprise Development hubs that were established in various provinces to strengthen the Supplier Development component are yielding positive results.</td>
</tr>
<tr>
<td>Committee composition and requisite skills balance.</td>
<td>Considered and agreed on the reduction of applications for contract deviations and extensions, thus ensuring compliance with the PFMA.</td>
</tr>
<tr>
<td>The Company has introduced B-BBEE improvement plans as a requirement in the procurement assessment criteria.</td>
<td>Effective project and contract management, which the Company is continuously addressing through Transnet Group Capital and related strategies.</td>
</tr>
<tr>
<td>Continuous striving to attain and exceed the set targets for spend on businesses owned by black youth and people living with disabilities.</td>
<td>Committee composition and requisite skills balance was partially addressed by the secondment of Mr Stagman to the committee.</td>
</tr>
</tbody>
</table>

* A more detailed table of key activities and outputs for the 2018 financial year appears in the full Governance Report at www.transnet.net

1 Mr Kinley was appointed as the Chairperson of the Acquisitions and Disposals Committee with effect from 30 January 2018.
2 Mr Stagman resigned as a director of the Company with effect from 10 December 2017.
3 No external advisers attended committee meetings during the year.

1 A more detailed table of key activities and outputs for the 2018 financial year appears in the full Governance Report at www.transnet.net
2 Mr Mathekga was appointed as a member of the Remuneration, Social and Ethics Committee and ceased to be a member of Corporate Governance with effect from 30 January 2018.
### Risk Committee

The Risk Committee provides the following support activities to the Board:

- Reviews and assesses the integrity of the risk control processes
- Ensures that the risk policies are managed effectively and in accordance with the Enterprise Risk Management Framework approved by the Board from time to time
- Ensures effective communication with the internal and external auditors, the Audit Committee, the Board, management and regulators on risk management
- Contributes to a climate of discipline and control which will reduce the opportunity for fraud and other operational losses
- Assesses any significant risk control failings or weaknesses identified and their potential impact, and confirms that appropriate action has been or is being taken

#### Chairperson:
- Mr GJ Mahlalela 1: Acting ++ (5)

#### Members:
- Mr BG Stagman 2: ++ (4)
- Mr Y Forbes: ++ (3)
- Ms Y Forbes: ++ (3)
- Ms Y Forbes: ++ (3)
- Ms S Nkonyane: ++ (5)

#### Most material matters arising during the year

<table>
<thead>
<tr>
<th>Matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing trend in employee fatalities and derailing</td>
</tr>
<tr>
<td>Mitigation plans to manage cyber risks and related policies and procedures</td>
</tr>
<tr>
<td>Credit rating agencies assessments, and their impact on the Company’s funding requirements</td>
</tr>
<tr>
<td>Reputational risk based on media allegations and PFMA transgressions</td>
</tr>
<tr>
<td>Group Leadership Team roadshows across the Company and visible leadership strategies implemented, which include individual GLT members being allocated specific work areas to visit regularly to engage employees on different matters, including safety</td>
</tr>
<tr>
<td>Management is finalising policies and a framework for effective management of cyber risks</td>
</tr>
<tr>
<td>Mitigation plans to improve the Company’s rating while considering the link with the sovereign, included reduction and deferral of capital spend, and consideration of alternative funding models and institutions</td>
</tr>
<tr>
<td>Matters of reputational risk were elevated to Board level for comprehensive oversight. Mechanisms for improved stakeholder engagement and the ‘rebuilding of trust’ actioned. The Integrated Report considered a key vehicle for communicating strategic insights, opportunities and change objectives. The Board emphasised the need for improved transparency and stakeholder inclusivity</td>
</tr>
</tbody>
</table>

#### Main undertakings and considerations

- Group Leadership Team roadshows across the Company and visible leadership strategies implemented, which include individual GLT members being allocated specific work areas to visit regularly to engage employees on different matters, including safety |
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- Mitigation plans to improve the Company’s rating while considering the link with the sovereign, included reduction and deferral of capital spend, and consideration of alternative funding models and institutions |
- Matters of reputational risk were elevated to Board level for comprehensive oversight. Mechanisms for improved stakeholder engagement and the ‘rebuilding of trust’ actioned. The Integrated Report considered a key vehicle for communicating strategic insights, opportunities and change objectives. The Board emphasised the need for improved transparency and stakeholder inclusivity |

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### Remuneration, Social and Ethics Committee

In accordance with Regulation 48(4) of the Companies Act, which requires state-owned companies to establish social and ethics committees, the Company has established the Remuneration, Social and Ethics Committee to assist in discharging its responsibilities, consistent with King III and general corporate governance best practice. The mandate outlining the authority delegated to it by the Board includes the purpose of the Remuneration Committee, composition, reporting responsibilities, terms of reference and the right of any member to seek and be provided with independent advice at the Company’s expense, if such member considers that necessary for the effective execution of his/her fiduciary duties to the Company.

The committee has an independent role, operating as an overseer and a maker of recommendations to the Board for its consideration and final approval. The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

#### Chairperson:
- Mr VM Nkonyane: ++ (5)

#### Members:
- Mr BM Zungu: ++ (1)
- Ms ZA Nagdee: ++ (5)
- Ms Y Forbes: ++ (3)
- Ms S Nkonyane: ++ (5)
- Ms T Shey: ++ (1)

#### Most material matters arising during the year

<table>
<thead>
<tr>
<th>Matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>The need for continuous improvement in addressing employee and public fatalities remains a challenge, although improved safety measures are bearing positive results</td>
</tr>
<tr>
<td>Improve employment equity (EE) targets at all levels of the Company</td>
</tr>
<tr>
<td>Countering negative publicity to safeguard the Company’s positive narrative, while addressing the related issues</td>
</tr>
<tr>
<td>Management is considering initiatives to improve EE targets, especially at GLT levels</td>
</tr>
<tr>
<td>In addition to addressing internal challenges of ethical violations through appropriate policy and procedural means, we are publicising the Company’s good news stories, including those of a social nature, to counter the negative publicity stemming from media allegations. Management is using multiple media platforms, including social media, to target divergent stakeholders to amplify the Company’s positive narrative, while addressing the related issues</td>
</tr>
<tr>
<td>Management of fraud and corruption is being enhanced through more stringent measures for instituting consequence management and the suspension of employees to avoid lengthy disciplinary processes and excessive costs</td>
</tr>
</tbody>
</table>

#### Main undertakings and considerations

- The need for continuous improvement in addressing employee and public fatalities remains a challenge, although improved safety measures are bearing positive results |
- Improve employment equity (EE) targets at all levels of the Company |
- Countering negative publicity to safeguard the Company’s positive narrative, while addressing the related issues |
- Management is considering initiatives to improve EE targets, especially at GLT levels |
- In addition to addressing internal challenges of ethical violations through appropriate policy and procedural means, we are publicising the Company’s good news stories, including those of a social nature, to counter the negative publicity stemming from media allegations. Management is using multiple media platforms, including social media, to target divergent stakeholders to amplify the Company’s positive narrative, while addressing the related issues |
- Management of fraud and corruption is being enhanced through more stringent measures for instituting consequence management and the suspension of employees to avoid lengthy disciplinary processes and excessive costs |

---

1 A more detailed table of key activities and outputs for the 2018 financial year appears in the full Governance Report available at www.transnet.net
2 Ms Mahlalela passed away on 29 March 2018
3 Mr Stagman resigned as a director of the Company with effect from 10 December 2017.
4 Ms Forbes was appointed as a member of the Audit Committee with effect from 21 December 2017.
5 Mr Shane resigned as a director of the Company with effect from 29 June 2017.
6 Ms Ludzidziki was appointed as a member of the Remuneration, Social and Ethics Committee and ceased to be a member of Corporate Governance with effect from 30 January 2018.
7 Ms Ngobeni was appointed as a member of the Remuneration, Social and Ethics Committee with effect from 29 June 2017.
Mr Ndiphiwe Silinga  
Acting Chief Corporate and Regulatory Officer  
Date of Birth: March 1963  
Year of appointment: January 2012  
Qualifications: BJuris (University of Transkei), LLB (University of Natal), Executive Development Management (GIBS), Advanced Management Program (Harvard University)

Mr Mohammed Mahomedy  
Acting Chief Financial Officer  
Date of birth: March 1971  
Year of appointment: May 2009  
Qualifications: Refer to Board member’s profile

Ms Nonkululeko Sishi  
Chief Human Resources Officer  
Date of birth: October 1964  
Year of appointment: January 2012  
Qualifications: BAdmin (University of Zululand), Certificate in Labour Law (University of Natal), post-graduate Diploma in Business Management (University of Natal), Specialist Certificate in Human Resources Management (Institute of Personnel Management – IPM), Advanced Management Program (Harvard University)

Mr Gert de Beer  
Chief Business Development Officer  
Date of birth: October 1964  
Year of appointment: August 2010  
Qualifications: BCompt (University of Pretoria), BCompt (Honours) (University of Pretoria), CA(SA), Master’s Degree in Commerce (University of Pretoria)

Mr Mlamuli Buthelezi  
Chief Operating Officer  
Date of birth: June 1965  
Year of appointment: July 2011  
Qualifications: BSc (Mechanical Engineering) (Tulane University), Higher Diploma Mechanical Engineering (Durban University of Technology), MBL (Unisa)

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Qualifications: BSc (Mechanical Engineering) (Tulane University), Higher Diploma Mechanical Engineering (Durban University of Technology), MBL (Unisa)
Remuneration

Remuneration philosophy
Transnet’s human resources strategy, including the reward strategy, is designed to facilitate and support the achievement of strategic objectives, as well as help align organisational behaviour with the strategic thrusts of being “agile” (adapted), “digital” and “trusted”. Further, the reward strategies aim to enrich a performance-driven culture. Reward-related concerns raised by the Shareholder are attended to by the Board of Directors, which considers the issue and endeavours to mitigate any emerging risk.

Transnet’s remuneration philosophy is designed to achieve the following:
- Align the remuneration strategy and practices with Transnet’s mandate, vision and business strategy.
- Ensure an integrated approach for remuneration management across Transnet that attracts, motivates, engages and retains the talent required to achieve Transnet’s business objectives, and specifically to:
  - Contain remuneration-related cost.
  - Support a high-performing organisation through the recognition and reward of superior performance.
  - Accommodate flexibility and responsiveness to changing business requirements.
  - Achieve optimal return on expenditure.
  - Align to legal, statutory, ethical and best-practice standards.
- Ensure the long-term sustainability of the business;
- Comply with corporate governance and citizenship;
- Comply with employment and tax legislation.

Guaranteed pay
Transnet strives to align guaranteed remuneration with the market median. Annual salary increases are approved by the Remuneration, Social and Ethics Committee of the Board. Annual increases for management levels are informed by individual performance ratings.

In determining the annual mandate for guaranteed pay increases, the following factors are considered:
- The national economic and business outlook.
- External market predictions and history of market movements and increases granted.
- National and internal staff turnover rates.
- External parity (market benchmarks) based on market median.
- Internal parity.
- Affordability.

Transnet concluded a three-year wage agreement with the recognised labour unions, which expires at the end of the 2018 reporting period.

Benefits
It is compulsory for all permanent employees to join the Transnet Retirement Fund, which provides for retirement funding, risk cover and a death benefit.

The total contribution to the Transnet Retirement Fund is 19.5% of the total earnings of employees. Of this, Transnet contributes 13.5% and employees contribute 6%.

Variable pay
Transnet has implemented both a short-term and a long-term incentive scheme.

The short-term incentive scheme was redesigned during the reporting year to drive the achievement of stretch business targets and to reward employees for this effort. It is applicable to all employees and is governed by detailed ground rules approved by the Remuneration, Social and Ethics Committee of the Board.

The long-term incentive scheme is applicable to executive and selected senior managers.

Annual incentive payments must clearly relate to performance achieved against annual objectives consistent with long-term value for the Shareholder. Individual and corporate performance targets, both financial and sustainability-related, are tailored to the needs of the business and reviewed regularly to ensure they remain appropriate.

The detail of the short- and long-term incentive schemes are described in more detail in Annexure B.

Individual performance management
Transnet has an overall performance framework, which is aligned with the Statement of Strategic Intent and the Shareholder’s Compact. The framework is translated into an annual Transnet scorecard, as well as the scorecard of the Group Chief Executive, and is then cascaded to all managers.

The performance management system provides for the achievement of objectives, as well as clear and concise communication of performance expectations at all levels within the organisation.

Performance management for the Group Leadership Team (GLT)
Each GLT member has an individual scorecard with objectives and measures, which are derived from the overall Transnet performance scorecard, as translated from the Transnet Performance Framework. Performance objectives are aligned with the business strategy, and GLT members are rewarded for their contribution to Transnet.

Performance ratings for GLT

Remuneration for the GLT

Seven principles underpin Transnet’s approach to remunerating senior and executive management:

- Utilisation of talent management as a strategic business driver to build individual capability in response to organisational capacity requirements.
- A differentiated approach to attract and retain key talent to ensure high-quality people in high-leverage/mission-critical positions.
- Developing leadership competency.
- Redeployment opportunities in line with succession plans.
- Supporting individual growth and career path development.
- Ensuring equitable remuneration.
- Rewarding people for superior performance.

Transnet uses Deloitte’s ‘SA Guide to Executive Remuneration and Reward’ to benchmark executive remuneration with the external market.

The graph below depicts the actual guaranteed remuneration of the GLT against 75% of the market median. According to the graph, GLT remuneration is lagging the market median. Transnet is following a phased approach to ensure that the guaranteed remuneration is gradually aligned with the market median over time.

Guaranteed pay of the Transnet GLT for the 2018 financial period is contained on page 139 of the full remuneration report attached as Annexure B.

Market median vs actual guaranteed remuneration

Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

Annual guaranteed pay increases for GLT members are informed by market movement. Transnet uses Deloitte’s ‘SA Guide to Executive Remuneration and Reward’ to benchmark executive remuneration with the external market.

The graph below depicts the actual guaranteed remuneration of the GLT against 75% of the market median. According to the graph, GLT remuneration is lagging the market median. Transnet is following a phased approach to ensure that the guaranteed remuneration is gradually aligned with the market median over time.

Guaranteed pay of the Transnet GLT for the 2018 financial period is contained on page 139 of the full remuneration report attached as Annexure B.

Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

A national remuneration survey published annually by Deloitte Consulting.

Performance management for the Group Leadership Team (GLT)
Each GLT member has an individual scorecard with objectives and measures, which are derived from the overall Transnet performance scorecard, as translated from the Transnet Performance Framework. Performance objectives are aligned with the business strategy, and GLT members are rewarded for their contribution to Transnet.

Performance ratings for GLT

Remuneration for the GLT

Seven principles underpin Transnet’s approach to remunerating senior and executive management:

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Guaranteed pay of the Transnet GLT for the 2018 financial period is contained on page 139 of the full remuneration report attached as Annexure B.

Market median vs actual guaranteed remuneration

Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

Annual guaranteed pay increases for GLT members are informed by market movement. Transnet uses Deloitte’s ‘SA Guide to Executive Remuneration and Reward’ to benchmark executive remuneration with the external market.

The graph below depicts the actual guaranteed remuneration of the GLT against 75% of the market median. According to the graph, GLT remuneration is lagging the market median. Transnet is following a phased approach to ensure that the guaranteed remuneration is gradually aligned with the market median over time.

Guaranteed pay of the Transnet GLT for the 2018 financial period is contained on page 139 of the full remuneration report attached as Annexure B.

Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

A national remuneration survey published annually by Deloitte Consulting.

Performance management for the Group Leadership Team (GLT)
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Performance ratings for GLT

Remuneration for the GLT

Seven principles underpin Transnet’s approach to remunerating senior and executive management:

- Utilisation of talent management as a strategic business driver to build individual capability in response to organisational capacity requirements.
- A differentiated approach to attract and retain key talent to ensure high-quality people in high-leverage/mission-critical positions.
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Transnet uses Deloitte’s ‘SA Guide to Executive Remuneration and Reward’ to benchmark executive remuneration with the external market.

The graph below depicts the actual guaranteed remuneration of the GLT against 75% of the market median. According to the graph, GLT remuneration is lagging the market median. Transnet is following a phased approach to ensure that the guaranteed remuneration is gradually aligned with the market median over time.

Guaranteed pay of the Transnet GLT for the 2018 financial period is contained on page 139 of the full remuneration report attached as Annexure B.

Market median vs actual guaranteed remuneration

Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

Annual guaranteed pay increases for GLT members are informed by market movement. Transnet uses Deloitte’s ‘SA Guide to Executive Remuneration and Reward’ to benchmark executive remuneration with the external market.

The graph below depicts the actual guaranteed remuneration of the GLT against 75% of the market median. According to the graph, GLT remuneration is lagging the market median. Transnet is following a phased approach to ensure that the guaranteed remuneration is gradually aligned with the market median over time.

Guaranteed pay of the Transnet GLT for the 2018 financial period is contained on page 139 of the full remuneration report attached as Annexure B.
Executive remuneration - variable
GLT members are eligible for payments in respect of the short-term incentive (STI) scheme. The quantum of the STI payment is based on the bonus pool generated by the achievement of EBITDA and the impact of the primary and secondary modifiers. Individual bonus percentages are further modified according to individual performance assessment ratings.

The eligibility percentages linked to specific business performance achievement are indicated in the table below:

<table>
<thead>
<tr>
<th>Employment category</th>
<th>Grade level</th>
<th>On-target eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership committee</td>
<td>A</td>
<td>60%</td>
</tr>
<tr>
<td>Group executives, chief executives</td>
<td>A</td>
<td>50%</td>
</tr>
<tr>
<td>Members of extended leadership teams</td>
<td>B</td>
<td>40%</td>
</tr>
</tbody>
</table>

Short- and long-term incentive payments
The STI payment for the 2018 financial year was based on the achievement of the annual EBITDA as well as the impact of the primary and secondary modifiers at Group and Operating Division levels. The 2014/15 conditional award in respect of the Transnet GLT was eligible for payment in respect of the LTi scheme based on the ground rules of the scheme and took place at the end of April 2018.

STI and LT1 payments for the Transnet executives are contained on page 145 of the Full Remuneration report attached as Annexure B.

Remuneration structure for non-executive directors
Non-executive directors are appointed by the Shareholder Representative for a three-year term. Transnet’s Memorandum of Incorporation, however, requires that the non-executive directors be submitted for re-election for each of the three years at the Company’s annual general meeting.

The Shareholder Representative approves the fees payable to non-executive directors in advance. The non-executive directors are paid an annual retainer as well as an additional retainer fee for committee membership. They are not paid for attendance of meetings. Fees paid to non-executive directors are differentiated based on their appointments to the various committees of the Board.

Remuneration for the Transnet non-executive directors for the financial period are contained on page 145 of the Full Remuneration report attached as Annexure B.

Our control environment

<table>
<thead>
<tr>
<th>Integrated procurement management</th>
<th>Internal Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition Council Terms of Reference</td>
<td>Accords with section 51 of the PFMA</td>
</tr>
<tr>
<td>Optimally regulated infrastructure-related procurement and delivery management with Acquisitions and Disposals Committee Terms of Reference</td>
<td>Governed by the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (SA standard)</td>
</tr>
<tr>
<td>Infrastructure Procurement and Delivery Management Framework with procurement rules, procedures and processes</td>
<td>An independent assurance function that is functionally accountable to the Transnet Audit Committee</td>
</tr>
<tr>
<td>Procurement Ombudsmen</td>
<td>The mandate and terms of reference are included in the Internal Audit Charter – approved annually by the Transnet Audit Committee</td>
</tr>
<tr>
<td>Up-to-date compliance assurance for high-value tender processes</td>
<td>Transnet Internal Audit is a fully outsourced function operating under strategic leadership of the Chief Audit Executive – a Transnet permanent employee and a Group Leadership Team member</td>
</tr>
<tr>
<td>Transnet Delegation of Authority</td>
<td>The internal audit consortium of firms assists with the implementation of the approved Strategic Audit Plan, and the panel of forensic firms assists with forensic investigations</td>
</tr>
<tr>
<td>SCM Policy and robust, independent complaint handling</td>
<td>Zero tolerance for fraud, theft, corruption and other economic crimes</td>
</tr>
<tr>
<td>Adherence to strict set of laws, codes, rules and standards, including (but not limited to):</td>
<td></td>
</tr>
<tr>
<td>• Section 217(1) of the Constitution and section 51(3)(b) of the PFMA</td>
<td></td>
</tr>
<tr>
<td>• Preferential Procurement Policy Act, No 2 of 2000, which was repealed in terms of section 33 of the Constitution</td>
<td></td>
</tr>
<tr>
<td>• The Construction Industry Development Board Act No 7 of 2000 (CIDB Act), and the regulations (CIDB regulations) thereof</td>
<td></td>
</tr>
<tr>
<td>• The Promotion of Access to Information Act No 2 of 2000 (PAIA)</td>
<td></td>
</tr>
<tr>
<td>• The Preferential Procurement Policy Framework Act, No 5 of 2000 (PPPFA), and the regulations thereto (PPPFA regulations) and</td>
<td></td>
</tr>
<tr>
<td>• Instructs systems are also issued by National Treasury, which regulate Transnet’s procurement processes.</td>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Enterprise risk management (ERM) and integrated assurance

The Board delegates the Group’s Risk Management function to the Risk Committee.


Transnet’s Integrated Assurance Model manages risks and controls, and encompasses the assurance provided by management, internal specialists, internal audit, external audit, and external advisors and service providers.

The Integrated Assurance Model is based on three perspectives:

- Confidence through:
  - Combination of multiple assurance providers
  - Various types of assurance activities performed
  - Frequency of assurance activities performed
  - Lines of defence
  - Nature of assurance activities performed
  - Frequency of assurance activities performed

- Cost-effective assurance by balancing:
  - Spreading of assurance activities through the year to ensure a manageable distribution of assurance tasks
  - Minimised burden through:
    - Spreading of assurance activities through the year to ensure a manageable distribution of assurance tasks
    - The first line of defence is based on the assurance provided by direct line management, which is blanket assurance across the full scope of risks and controls
    - The second line of defence encompasses assurance providers that are internal to the Company, yet not directly responsible for the direct management of the process under review
    - The third line of defence relates to assurance providers that act independently from management and the Company’s operations. This implies that management has no influence over the outcome; opinions and conclusions emanating from the assurance activities performed by the third-line assurance providers
    - The fourth line of defence relates to independent oversight committees with specific roles and responsibilities pertaining to the risk, control and assurance of Transnet’s activities and their impact on other stakeholders.

Continues →
Our control environment

### Strategic execution and performance management

Transnet's performance targets are confirmed in the annually negotiated Shareholder's Compact. Transnet manages the execution of its strategic imperatives through the Company's Strategic Execution Framework, which is designed to achieve:

- Visibility of strategic execution to identify and close execution gaps
- Group-wide integration and alignment of the MD's initiatives and tactical processes
- Problem-solving and analytical tools, and follow through with backlog reduction initiatives
- A risk-based execution process to monitor the MDS; and
- A platform for collaboration and problem-solving and analytical tools, and follow through with backlog reduction initiatives

The Company's service providers, suppliers and trade partners are also subject to the Code.

The Code is revised every five years or as required.

The Group Company Secretary is responsible for policy development, review, and Human Resources is responsible for the implementation of the Code.

Aspects of the Code are included in fraud and corruption awareness training, and are accessible to all employees on the Company's intranet.

### Ethics and fraud management

The Fraud and Corruption Risk Management Strategy provides mechanisms for the prevention, early detection and investigation of irregularities.

The Code of Ethics (the Code) enables a culture of entrenched values, principles, standards and norms.

Integrity packs are concluded with all bidders and suppliers.

Fraud and corruption awareness training is conducted annually with all employees - bargaining and non-bargaining council employees.

The Company's service providers, suppliers and trade partners are also subject to the Code.

The Code is revised every five years or as required.

The Group Company Secretary is responsible for policy development, review, and Human Resources is responsible for the implementation of the Code.

Aspects of the Code are included in fraud and corruption awareness training, and are accessible to all employees on the Company's intranet.

### Governance of stakeholder engagement and management

Transnet has adopted guidelines from the AA1000 standards (Accountability Principles Standard 2008) and the AA1000 Stakeholder Engagement Standard 2011.

Transnet's performance targets are confirmed in the annually negotiated Shareholder's Compact. Transnet manages the execution of its strategic imperatives through the Company's Strategic Execution Framework, which is designed to achieve:

- Visibility of strategic execution to identify and close execution gaps
- Group-wide integration and alignment of the MD's initiatives and tactical processes
- Problem-solving and analytical tools, and follow through with backlog reduction initiatives
- A risk-based execution process to monitor the MDS; and
- A platform for collaboration and problem-solving and analytical tools, and follow through with backlog reduction initiatives

The Company's service providers, suppliers and trade partners are also subject to the Code.

The Code is revised every five years or as required.

The Group Company Secretary is responsible for policy development, review, and Human Resources is responsible for the implementation of the Code.

Aspects of the Code are included in fraud and corruption awareness training, and are accessible to all employees on the Company's intranet.

### IT management and ICT governance

The Board, supported by the Audit Committee and Risk Committee, is responsible for IT governance and oversight, and sets and approves the approach and policies for technology and information systems risks, including the adoption of appropriate frameworks and standards.

The Board has delegated the responsibility for the implementation of the IT governance framework to management and mandates progress reports annually (Projects). There is integration of people, technology, information and issues across the organisation, with a focus on ethical and responsible use of technology and information, as well as strict compliance with relevant laws.

The CIO Council is constituted as a sub-committee of the Group Leadership Team (GL T) and is responsible for directing, controlling and measuring ICT activities and processes within Transnet. The CIO Council is responsible for the following:

- Monitoring and evaluation of stakeholder engagement is reported to the Remuneration, Social and Ethics Committee and to the Board.

Transnet has adopted guidelines from the AA1000 standards (Accountability Principles Standard 2008) and the AA1000 Stakeholder Engagement Standard 2011.

The Minimum Control Framework for ICT risks includes the following critical resources:

- Appropriately skilled staff
- Enterprise architecture management
- Effective education programmes
- Measures to minimise business impact through systems recovery
- Information security
- IT vendor relationship management

Transnet has implemented a King IV-aligned governance framework to achieve continuous improvements and to achieve the following:

- Position to improve delivery on Transnet's strategic outcomes
- Improved achievement of Transnet's strategic goals
- Improved ICT enablement of business
- Improved stakeholder communication
- Improved effective service delivery through ICT-enabled services
- Lower costs
- Increased alignment of investment towards strategic goals
- Improved return on ICT-enabled investment
- ICT risks managed in line with the prioritises and risk appetite of Transnet

### Regulatory compliance

Group Regulatory and Compliance ensures that the outcome of its plan is aligned with the mandates of the Audit Committee and Risk Committee, and executes its areas of focus from an annual Board-approved Compliance Plan.

The Compliance function is independently monitors and reports on compliance controls relating to high priority regulatory requirements.

The Compliance function assists and supports the Board and management to discharge their compliance responsibilities.

### Governance of sustainability

A Company-wide Sustainability Forum comprises representatives from the Corporate Centre functions, Operating Divisions and Specialist Units.

The Sustainability Forum meets quarterly and is tasked with developing key performance indicators in relation to analysing sustainability performance.

Sustainability committees in the Operating Divisions add imputes to sustainability initiatives.
**Risk management plan**

**Figure 21**

- Responding to stakeholder issues
- Managing our environmental impact
- Ethics management within Transnet
- Investing in emerging technologies
- Having the right skills at the right time
- Promoting transformation
- Promoting health and safety
- Business resilience
- Operational efficiency
- Fostering lasting customer relationships
- Creating and sustaining jobs in the wider community
- Localisation of supply
- Capital investment and progress on major projects
- Funding and liquidity
- Volume and revenue growth
- Facilitating private-sector investment in logistics
- Pricing and tariffs

**Material aspects**

- Sustainable developmental outcomes
  - Environmental stewardship
  - Skills development
  - Employment
  - Transformation
  - Innovative products
  - Operations management
  - Institutional transformation
  - Customer management
  - Geographic expansion
  - Social impact

**Core regulatory universe**

**Regulatory items**
- 1. Broad-Based Black Economic Participation
- 2. Enterprise Act, 2004
- 5. Capital Investment and Progress in Major Projects Act, 2014
- 6. Building Regulations and Building Standards Act, 1977
- 7. Electronic Communications Act, 2005
- 17. National Key Points Act, 1980
- 18. National Ports Act, 2005
- 22. National Road Safety Regulator Act, 2002
- 23. NEM: Biodiversity Act, 2004
- 24. NEM: Air Quality Act, 2004
- 25. NEM: Biodiversity Act, 2004
- 29. Public Finance Management Act, 1999
- 31. Prevention and Combating of Corrupt Activities Act, 2004
- 32. Protection of Constitutional Democracy Against Terrorism and Related Activities Act, 2004
- 33. South Africa (Security of Information) Act, 2010
- 34. South Africa (Security of Information) Act, 2010
- 35. King Edward of Corporate Governance for South Africa

**Strategic imperatives**
- Financial sustainability
- Capacity creation and maintenance
- Market segment competitiveness
- Operational excellence

**Business outcomes**
- Organisational readiness
- Sound governance and ethics
- Constructive stakeholder relations
- Human capital management

**Key stakeholders**
- Customers
- Advocates
- Investors
Annexure A: Governance terms of reference for the Integrated Report

The table below provides an overview of the terms of reference for our 2018 Integrated Report, as provided by various governance oversight bodies within Transnet:

<table>
<thead>
<tr>
<th>Integrated reporting element</th>
<th>Mandate/Terms of reference</th>
<th>Sub-committees of the Group Executive Committee</th>
<th>Committee of the Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder engagement and relationships</td>
<td>• Effective stakeholder engagement and responsiveness</td>
<td>• Human Resources Subcommittee</td>
<td>• Remuneration and Social Ethics Committee</td>
</tr>
<tr>
<td></td>
<td>• Effective identification and assessment of material issues</td>
<td>• Broad-based Black Economic Empowerment Subcommittee</td>
<td></td>
</tr>
<tr>
<td>Risks and opportunities</td>
<td>• Identification of material risks and associated mitigation actions</td>
<td>• Risk Management Subcommittee</td>
<td>• Risk Committee</td>
</tr>
<tr>
<td></td>
<td>• Identification of meaningful opportunities for sustainable commercial outcomes</td>
<td>• Business Information Management Subcommittee</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Identification of potential adverse impacts of operations on the environment and stakeholders</td>
<td>• Operations Subcommittee</td>
<td></td>
</tr>
<tr>
<td>Strategy and resource allocation</td>
<td>• Appropriate strategic response including</td>
<td>• Capital Investment Subcommittee</td>
<td>• Audit Committee</td>
</tr>
<tr>
<td></td>
<td>– Accurate communication of MDS objectives and outcomes</td>
<td>• Human Resources Subcommittee</td>
<td>• Acquisitions and Disposals Committee</td>
</tr>
<tr>
<td></td>
<td>– Processes and controls</td>
<td>• Operations Subcommittee</td>
<td>• Remuneration and Social Ethics Committee</td>
</tr>
<tr>
<td></td>
<td>– Initiatives and activities</td>
<td>• Finance Subcommittee</td>
<td></td>
</tr>
<tr>
<td></td>
<td>– Resource allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance and outlook</td>
<td>• Appropriate performance measurement and management including</td>
<td>• Risk Management Subcommittee</td>
<td>• Corporate Governance and Nominations Committee</td>
</tr>
<tr>
<td></td>
<td>– Appropriate lead and lag indicators</td>
<td>• Finance Subcommittee</td>
<td>• Remuneration, Social and Ethics Committee</td>
</tr>
<tr>
<td></td>
<td>– Setting of targets, accountability and incentivisation</td>
<td>• Human Resources Subcommittee</td>
<td>• Acquisitions and Disposals Committee</td>
</tr>
<tr>
<td>Remuneration</td>
<td>• Appropriate remuneration structure to align performance against strategy objectives: short-, medium- and long-term incentives</td>
<td>• Capital Investment Subcommittee</td>
<td>• Corporate Governance and Nominations Committee</td>
</tr>
<tr>
<td></td>
<td>• Human Resources Subcommittee</td>
<td>• Remuneration, Social and Ethics Committee</td>
<td></td>
</tr>
<tr>
<td>Governance</td>
<td>• Governance and assurance processes to oversee execution of strategy and structures in accordance with policy and regulation</td>
<td>• Risk Management Subcommittee</td>
<td>• Corporate Governance and Nominations Committee</td>
</tr>
<tr>
<td></td>
<td>• Risk Management Subcommittee</td>
<td>• Remuneration and Social Ethics Committee</td>
<td>• Audit Committee</td>
</tr>
</tbody>
</table>

Annexure B: Remuneration report

Introduction

The remuneration report provides an overview of the Transnet remuneration philosophy and strategy. It also aims to provide detail of specific reward interventions that occurred during the 2018 reporting period.

Terminology

For the purposes of this report:

- The term ‘executive’ refers to members of the Transnet Group Leadership Team (GLT) and the Operating Divisions’ leadership teams (grade levels A and B).
- Management refers to the rest of the management employees (grade levels C to F).
- Bargaining unit employees refer to all employees whose conditions of employment are negotiated. This term includes first-line managers, specialists and technicians (grade level G), refers to first-line managers, specialists and technicians and grade levels H to L, to the rest of the bargaining unit employees).
- Junior employees refer specifically to bargaining unit employees on the grade levels below the first-line managers, specialists and technicians.

Remuneration philosophy

Transnet is on the brink of a technological revolution that will fundamentally alter the way we live, work and relate to one another. The 4th Industrial Revolution is characterized by a fusion of technologies that are poised to disrupt almost all industries and transform systems of production, management and governance. The 4th Industrial Revolution is focused on repositioning Transnet for competitiveness in the fast-changing, technology-driven context of the 4th Industrial Revolution.

The human resources strategy, inclusive of the reward strategy, is designed to facilitate and support the achievement of the strategic objectives of the 4th Industrial Revolution. The strategic thrusts of being agile, admired, digital and united.

The different reward elements are discussed in detail in the following paragraphs:

Guaranteed pay

The objective of the Transnet remuneration philosophy is to:

- Align remuneration strategy and practices with Transnet’s mandate, vision and business strategy;
- Ensure an integrated approach for remuneration management across Transnet that effectively attracts, motivates, engages and retains the talent required to achieve Transnet’s business objectives, and specifically to:
  - Contain remuneration related costs;
  - Support a high-performing organisation through the recognition and reward of superior performance;
  - Accommodate flexibility and responsiveness to changing business requirements;
  - Achieve optimal return on expenditure;
  - Adhere to legal, statutory, ethical and best practice standards;
  - Comply with corporate governance and citizenship;
  - Comply with employment and tax legislation; and
  - Endavour to ensure that remuneration and incentive policies and practices are concise, void of complexity and easily understandable.

The remuneration philosophy for Transnet is approved by the Remuneration, Social and Ethics Committee of the Board and will be available on the Transnet intranet. The Transnet Delegation of Authority Framework governs all approvals in terms of remuneration across Transnet.

The remuneration philosophy for Transnet takes into account the different hierarchical levels informed by complexity, decision-making, and judgement.

The 4th Industrial Revolution has created a different landscape in three respective categories of employees, summarised as follows:

- Executive and management levels.
- First-line managers, specialists and technicians (grade level G).
- Bargaining unit employees on the grade levels below the first-line managers, specialists and technicians.

The different reward elements are discussed in detail in the following paragraphs:
Annual increases for management levels are informed by individual performance ratings.

Increases occur once annually or in the event of a promotion. Transnet does not support interim/one-off salary increases.

Transnet concluded three-year wage agreements with the recognised labour unions, which expired at the end of the 2017/18 reporting period. The three-year wage agreement provided for labour stability during the period and allows the opportunity for employees to focus on the achievement of the Transnet strategic objectives.

The graph below depicts the differences between the performance ratings of the members of the GLT over the past two financial periods compared to the overall performance rating of the Company.

Performance ratings for GLT

Remuneration for the GLT

Leadership plays a critical part in achieving the Company’s mission of delivering outstanding sustainable value to stakeholders. The goal for every employee at Transnet is to develop a challenging career with opportunities for growth, competitive rewards and a balance between work and home life.

The successful execution of the Transnet strategy requires sustained effort and energy of the executive leadership to ensure high performance, as well as a sustainable and profitable long-term growth path. As part of the Transnet strategy, the Company designed a reward philosophy for executive management to drive the implementation of the strategy while ensuring that key role players are retained in the Company.

The main principles underpinning Transnet’s approach to executive and executive management are as follows:

- Utilisation of talent management as a strategic business driver to build individual capability in response to organisational capability needs.
- A differentiated approach for key talent to ensure high-quality people in high leverage/mission critical positions.
- Leadership development.
- Redeployment opportunities in line with succession plans are critical for developing core capabilities.
- Individual growth and career path development.
- Equitable remuneration.
- Reward for superior performance.

Transnet is committed to encouraging diversity in the workplace and in society and practises equal opportunity in all hiring and promotions, and will help to expand employment opportunities within South Africa. Transnet is further committed to the creation, facilitation and development of an organisation that supports the equality of all South Africans.

The issue of the wage gap is not unique to SADCs or even South Africa, but is an international discussion point. Transnet is concerned about the wage gap. However, the bigger challenge is to scale. Transnet faces is to expand skills, organise work more productively and increase volumes. If Transnet is able to address this challenge, it will have a direct impact on the growth of the economy to ensure employment opportunities across the country.

Transnet continuously strives to become an employer of choice and regards its employees as the most valued asset of the business. The aim is to pay fairly for responsibility exercised and results achieved.

Annual guaranteed pay increases for the members of the Transnet executive teams are informed by market movement. Transnet annually conducts an executive remuneration benchmark exercise to compare the remuneration of the executive teams with the external market.

Transnet utilises the Deloitte ‘SA Guide to Executive Remuneration and Reward’ national remuneration survey published annually by Deloitte Consulting.

Up to the current reporting period, it was the intent to reach the 75th percentile within the market. However, the bigger challenge is to scale. Transnet, however, strives to pay its members of the GLT at the 75th percentile of the market. To achieve this objective, special interventions by the Remuneration, Social and Ethics Committee will have to be applied in order to reach the 75th percentile within the next two years.
Variable pay

Variable pay is informed by Transnet’s financial performance. The incentive pool funds all incentive payments, i.e., the short-term incentive payments as well as long-term incentive conditional awards.

The following conditions regulate incentive provisions:

- Year-on-year improvement in actual EBITDA achievement.
- The Group not breaching key debt covenant ratios.
- The Group not being placed in financial distress.
- The payment of the incentive bonus does not result in a net loss after tax for the reporting period.

Transnet’s financial results for the period ended 31 March 2018 reflect exceptional performance despite the challenges faced during the year, such as the South Coast storms experienced during October 2017, and the local and foreign currency ratings downgrade to sub-investment levels by the credit rating agencies. EBITDA generated at the end of the reporting period increased from R28.6 billion to R35.0 billion, an increase of 22.4% (excluding incentive provision).

Based on the ground rules of the scheme, the calculated value of the bonus pool for the reporting period equates to R3.58 billion.

An incentive provision exceeding R2.512 million will result in a breach of the cash intercept cover requirement of 4,150 times, which is a condition of the foreign borrowing, limit approved by the National Treasury during February 2018. Management has, therefore, limited the incentive provision to R2.512 million (70% of the calculated pool) in order not to breach any of the requirements.

EBITDA increased by 18.0% to R32.5 billion (after providing for the proposed incentive bonus), with a resultant increase in the EBITDA margin by 4.0% compared to 42.1% in the previous year.

All conditions for the payment of the incentive bonus have been met at the end of the reporting period. The incentive pool funds both the short- and long-term incentive schemes.

Short-term incentive scheme

The Transnet short-term incentive scheme is well entrenched and reflects exceptional performance despite the challenges faced during the year, such as the South Coast storms experienced during October 2017, and the local and foreign currency ratings downgrade to sub-investment levels by the credit rating agencies. EBITDA increased by 18.0% to R32.5 billion (after providing for the proposed incentive bonus), with a resultant increase in the EBITDA margin by 4.0% compared to 42.1% in the previous year.

All conditions for the payment of the incentive bonus have been met at the end of the reporting period. The incentive pool funds both the short- and long-term incentive schemes.

Short-term incentive scheme

The Transnet short-term incentive scheme is well entrenched and designed with the specific objective to drive the achievement of stretch business targets and to reward employees for this effort. In addition, the design of the scheme focuses on integration of the total business and increased customer service.

Annual incentive payments relate to performance achieved against annual objectives consistent with long-term value for the ‘Shareholder’. Individual and corporate performance targets, both financial and sustainability related, are tailored to the needs of the business and reviewed regularly to ensure they remain appropriate.

Transnet shares the Company performance with labour at the strategic leadership forum, as well as the Transnet employees at large, who have a legitimate expectation for a bonus payment based on the approved rules of the scheme and the Company achievements for the reporting period.

The bonus pool is distributed based on the results related to the Operating Division productivity and safety achievements as derived from the Shareholder’s Compact and Corporate Plan, as well as the employee’s individual performance score.

Transnet has a robust individual performance management system and the balanced scorecard methodology is well established for the management cadre. Transnet also has a calibration process to ensure that individual performance scores are aligned with the overall Operating Division and Transnet performance.

The performance system is based on a five-point rating scale. Employees with an individual performance score of below 2 are not eligible to receive an incentive payment.

Long-term incentive scheme

Transnet has implemented a long-term incentive scheme to sustain the achievement of the Transnet strategy, to retain key talent who ensure the success of the strategy, to continuously encourage stretch performance and reward performance above target.

The long-term incentive conditional award to eligible participants is banked over a three-year period to ensure sustained business performance and retention of key talent over the banking period. Participation in the scheme is informed by level of seniority, i.e., grade level in the organisation, individual performance as well as results from the talent management framework. Following the completion of the three-year banking period, the vesting payment is also subject to individual performance- and talent-rater criteria. The banked long-term incentive amounts accrue interest over the three-year banking period.

The long-term incentive scheme has specific clauses dealing with Company performance over the banking period and to this effect a Group modifier has been introduced. The measure of total average assets (ROTA) (excluding capital work in progress) is used as the Group long-term incentive modifier.

The 2015 conditional award in respect of the Transnet long-term incentive scheme vested at the end of the reporting period. The value of the long-term incentive payment is impacted by the level of achievement of specific Company and individual performance objectives.

The members of the Transnet GLT were eligible for payment in respect of the long-term incentive scheme based on the ground rules of the scheme.

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**Market median vs actual guaranteed remuneration**

The table below depicts the guaranteed pay of the Transnet GLT for the reporting period:

- **Guaranteed pay of Transnet GLT**
  - **GLT member**
  - **Salary R’000**
  - **Post-retirement benefit fund contributions R’000**
  - **Other contributions R’000**
  - **Other payments R’000**
  - **Total 2018 R’000**
  - **Total 2017 R’000**

<table>
<thead>
<tr>
<th>GLT member</th>
<th>Salary R’000</th>
<th>Post-retirement benefit fund contributions R’000</th>
<th>Other contributions R’000</th>
<th>Other payments R’000</th>
<th>Total 2018 R’000</th>
<th>Total 2017 R’000</th>
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<tbody>
<tr>
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<tr>
<td>MA Sukari</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>367</td>
</tr>
<tr>
<td>ZE Lelaba</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>380</td>
</tr>
<tr>
<td>LEM-Magaga</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>527</td>
</tr>
<tr>
<td>R Nair</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>527</td>
</tr>
<tr>
<td>MMA Mosidi</td>
<td>3,212</td>
<td>229</td>
<td></td>
<td></td>
<td>3,443</td>
<td>2,653</td>
</tr>
<tr>
<td>T Jiyane</td>
<td>4,125</td>
<td>421</td>
<td></td>
<td></td>
<td>4,748</td>
<td>4,424</td>
</tr>
<tr>
<td>N Siringa</td>
<td>1,250</td>
<td>108</td>
<td></td>
<td></td>
<td>1,399</td>
<td>392</td>
</tr>
<tr>
<td>M Gregg-Macdonald</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>451</td>
</tr>
<tr>
<td>KC Phuthela</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>492</td>
</tr>
<tr>
<td>KIT Sokola</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>527</td>
</tr>
<tr>
<td>B Salah</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>368</td>
</tr>
<tr>
<td>S Cheery</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>451</td>
</tr>
<tr>
<td>RE Lipolile</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>423</td>
</tr>
<tr>
<td>MA Sukari</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>367</td>
</tr>
<tr>
<td>ZE Lelaba</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>380</td>
</tr>
<tr>
<td>LEM-Magaga</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>527</td>
</tr>
<tr>
<td>R Nair</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
<td>—</td>
<td>527</td>
</tr>
<tr>
<td>Total</td>
<td>40,168</td>
<td>3,904</td>
<td>14</td>
<td>170</td>
<td>45,050</td>
<td>43,509</td>
</tr>
</tbody>
</table>

Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

The table below depicts the guaranteed pay of the Transnet GLT for the reporting period:

- **Guaranteed pay of Transnet GLT**

---

**Transnet Integrated Report 2018**
The table below reflects the short- and long-term incentive payments for the Transnet GLT for the reporting period:

<table>
<thead>
<tr>
<th>GLT member</th>
<th>LTI 2018 R'000</th>
<th>LTI 2017 R'000</th>
<th>STI 2018 R'000</th>
<th>STI 2017 R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>LC Mabaso</td>
<td>1 948</td>
<td>2</td>
<td>1 350</td>
<td>1 293</td>
</tr>
<tr>
<td>Y Fortuin</td>
<td>656</td>
<td>—</td>
<td>656</td>
<td>624</td>
</tr>
<tr>
<td>PEB Mathoga</td>
<td>550</td>
<td>—</td>
<td>550</td>
<td>518</td>
</tr>
<tr>
<td>GJ Makwana</td>
<td>642</td>
<td>—</td>
<td>642</td>
<td>518</td>
</tr>
<tr>
<td>ZA Ngcobo</td>
<td>581</td>
<td>—</td>
<td>581</td>
<td>518</td>
</tr>
<tr>
<td>SM Mphango</td>
<td>642</td>
<td>—</td>
<td>642</td>
<td>605</td>
</tr>
<tr>
<td>S’Shane 1, 4</td>
<td>197</td>
<td>—</td>
<td>197</td>
<td>732</td>
</tr>
<tr>
<td>B G Stagman</td>
<td>625</td>
<td>—</td>
<td>625</td>
<td>605</td>
</tr>
<tr>
<td>PG Williams 2</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>605</td>
</tr>
<tr>
<td>AC Kirveny</td>
<td>160</td>
<td>—</td>
<td>160</td>
<td>—</td>
</tr>
<tr>
<td>SM Radaba</td>
<td>192</td>
<td>—</td>
<td>192</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5 593</td>
<td>2</td>
<td>5 595</td>
<td>6 005</td>
</tr>
</tbody>
</table>

1. Resigned during the year.
2. Resigned after the end of the reporting period.
3. Director’s fees paid to Integrated Capital Management (Pty) Ltd (ICM).
4. TRUSTEE’s fees included.
5. Removed.
6. Removed from the Board in May 2018.

The following non-executive directors were appointed after the end of the reporting period: PF Molefe (Chairperson), UN Fikelepi, RJ Ganda, Prof EC Kieswetter, DC Matshoga, LL von Zeuner, ME Letlape, Adv O Motaung, G Ramphaka, AP Ramabulana, V McMienie and Dr PS Mofamadi.

Remuneration structure for non-executive directors

Non-executive directors are appointed by the Shareholder Representative for a three-year term. Transnet’s Memorandum of Incorporation, however, requires that the non-executive directors be submitted for re-election for each of the three years at the Company’s annual general meeting.

Among the issues considered by the Shareholder Representative prior to re-election is the individual non-executive director’s performance.

The Shareholder Representative approves, in advance, the fees payable to non-executive directors. The non-executive directors are paid an annual retainer as well as an additional retainer fee for committee membership. They are not paid for attendance of meetings.

Fees paid to non-executive directors are different and based on their appointments to the various committees of the Board.
Annexure C: Subsidiaries, associates and joint ventures
for the year ended 31 March 2018

Subsidiaries

<table>
<thead>
<tr>
<th>Effective holding</th>
<th>Voting power held</th>
<th>Shares at cost</th>
<th>Interest of holding company net profit/(loss)</th>
<th>Interest of holding company indebtedness</th>
<th>Accumulated impairment and losses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subsidiaries held by Transnet</strong></td>
<td><strong>Subsidiaries held by Transnet</strong></td>
<td><strong>Subsidiaries held by Transnet</strong></td>
<td><strong>Subsidiaries held by Transnet</strong></td>
<td><strong>Subsidiaries held by Transnet</strong></td>
<td><strong>Subsidiaries held by Transnet</strong></td>
</tr>
<tr>
<td>Local subsidiaries</td>
<td>Local subsidiaries</td>
<td>Local subsidiaries</td>
<td>Local subsidiaries</td>
<td>Local subsidiaries</td>
<td>Local subsidiaries</td>
</tr>
<tr>
<td>Environmental responsibility</td>
<td>Environmental responsibility</td>
<td>Environmental responsibility</td>
<td>Environmental responsibility</td>
<td>Environmental responsibility</td>
<td>Environmental responsibility</td>
</tr>
<tr>
<td>Transnet Pipelines Rehabilitation Trust</td>
<td>100</td>
<td>—</td>
<td>100</td>
<td>—</td>
<td>7</td>
</tr>
<tr>
<td>Social responsibility</td>
<td>Social responsibility</td>
<td>Social responsibility</td>
<td>Social responsibility</td>
<td>Social responsibility</td>
<td>Social responsibility</td>
</tr>
<tr>
<td>Transnet Foundation Trust</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>International business activities</td>
<td>International business activities</td>
<td>International business activities</td>
<td>International business activities</td>
<td>International business activities</td>
<td>International business activities</td>
</tr>
<tr>
<td>Transnet International Holdings SOC Ltd</td>
<td>100</td>
<td>—</td>
<td>100</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Foreign subsidiaries</td>
<td>Foreign subsidiaries</td>
<td>Foreign subsidiaries</td>
<td>Foreign subsidiaries</td>
<td>Foreign subsidiaries</td>
<td>Foreign subsidiaries</td>
</tr>
<tr>
<td>Transport logistics</td>
<td>Transport logistics</td>
<td>Transport logistics</td>
<td>Transport logistics</td>
<td>Transport logistics</td>
<td>Transport logistics</td>
</tr>
<tr>
<td>African Joint Air Services Ltd (Uganda)</td>
<td>57</td>
<td>57</td>
<td>57</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

1. In dissolution.  
2. Not trading.  
3. Dormant.

Equity-accounted investees

<table>
<thead>
<tr>
<th>Effective holding</th>
<th>Shares at cost</th>
<th>Interest of holding company indebtedness</th>
<th>Accumulated impairment and losses</th>
<th>Share of post-acquisition reserves</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Associates</strong></td>
<td><strong>Associates</strong></td>
<td><strong>Associates</strong></td>
<td><strong>Associates</strong></td>
<td><strong>Associates</strong></td>
<td><strong>Associates</strong></td>
</tr>
<tr>
<td>Commercial Cold Storage (Pty) Ltd</td>
<td>Storage and bondage</td>
<td>30</td>
<td>30</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Comair (Pty) Ltd</td>
<td>Transport logistics</td>
<td>32</td>
<td>32</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Experience Delivery Company (Pty) Ltd</td>
<td>Managing agent</td>
<td>11</td>
<td>11</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>RainProp (Pty) Ltd</td>
<td>Property development and management</td>
<td>20</td>
<td>20</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Joint ventures</strong></td>
<td><strong>Joint ventures</strong></td>
<td><strong>Joint ventures</strong></td>
<td><strong>Joint ventures</strong></td>
<td><strong>Joint ventures</strong></td>
<td><strong>Joint ventures</strong></td>
</tr>
<tr>
<td>Gabarone Container Terminal</td>
<td>Container terminal</td>
<td>36</td>
<td>36</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

1. Incorporated in the Republic of South Africa, unless stated otherwise.  
2. Dormant.

Summarised financial information of equity-accounted investees

<table>
<thead>
<tr>
<th>Principal activity</th>
<th>Commercial Cold Storage (Pty) Ltd (R million)</th>
<th>RainProp (Pty) Ltd (R million)</th>
<th>Gabarone Container Terminal (R million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial position</td>
<td>Total assets</td>
<td>74</td>
<td>1 189</td>
</tr>
<tr>
<td></td>
<td>Total liabilities</td>
<td>9</td>
<td>527</td>
</tr>
<tr>
<td>Results of operations</td>
<td>Revenue</td>
<td>27</td>
<td>52</td>
</tr>
<tr>
<td></td>
<td>Net profit</td>
<td>7</td>
<td>14</td>
</tr>
</tbody>
</table>

---
<table>
<thead>
<tr>
<th>Risk classification</th>
<th>Risk description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset management</td>
<td>Risk of ineffective management of Transnet’s infrastructure and heritage assets.</td>
</tr>
<tr>
<td>Business continuity</td>
<td>The risk that essential business functions are interrupted during or after a disaster or operational incident.</td>
</tr>
<tr>
<td>Capital execution</td>
<td>Inability to deliver on the Capex Plan.</td>
</tr>
<tr>
<td>Cash flow</td>
<td>The risk of insufficient cash reserves.</td>
</tr>
<tr>
<td>Competition</td>
<td>The risk that Transnet’s competitive advantage may decline within competitive environments.</td>
</tr>
<tr>
<td>Compliance</td>
<td>The risk of non-compliance with regulatory or statutory frameworks or laws (including sustainability-related laws and regulations).</td>
</tr>
<tr>
<td>Contract management</td>
<td>The risk that Transnet not adequately structures and/or manages contractual agreements with third party service providers.</td>
</tr>
<tr>
<td>Counterparty</td>
<td>The risk that third-party firms break their contractual obligations with Transnet.</td>
</tr>
<tr>
<td>Currency volatility</td>
<td>The risk of changes in exchange rates impacting costs or revenue.</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>The risk that poor client service delivery results in damaged relationships with customers.</td>
</tr>
<tr>
<td>Energy supply</td>
<td>Uncertainty regarding the supply of energy by Eskom.</td>
</tr>
<tr>
<td>Environmental</td>
<td>The risk of adverse environmental impacts or missing environmental sustainability targets.</td>
</tr>
<tr>
<td>Foreign investment</td>
<td>The risk associated with investing in foreign country environments relating to market dynamics, foreign political or other business contexts.</td>
</tr>
<tr>
<td>Fraud</td>
<td>The risk of individuals or parties practising a form of deceit to achieve an unfair or unjust advantage or gain over another, either through transaction fraud, financial fraud (misappropriation of funds), identity fraud or system fraud.</td>
</tr>
<tr>
<td>Health, safety and security</td>
<td>The risk that health and safety incidents impact the physical and mental well-being of staff and the public, and the risk of the theft of Transnet’s assets.</td>
</tr>
<tr>
<td>ICT risk</td>
<td>Inadequacy of ICT infrastructure and technology to enable business processes. ICT risk also includes the risk of cyber security (including hacking, phishing, unauthorized data access, corruption or deletion of data, and interception of data).</td>
</tr>
<tr>
<td>Insurance</td>
<td>The likelihood that an insured event will occur – either as a result of Transnet’s activities or as a result of third parties causing damages to Transnet property or assets. This includes the risk of insurers not settling claims within anticipated time frames or according to insured terms and conditions.</td>
</tr>
<tr>
<td>Intellectual property</td>
<td>The risk of intellectual property loss or liability.</td>
</tr>
<tr>
<td>Interest rate</td>
<td>Changes in interest rates negatively impact funding/investment decisions.</td>
</tr>
<tr>
<td>Legal</td>
<td>Risk of litigation/financial loss resulting from legal proceedings.</td>
</tr>
<tr>
<td>Macroeconomic</td>
<td>Deterioration in the macroeconomic environment due to the global economic slowdown and slow recovery, leading to capital projects becoming non-viable.</td>
</tr>
<tr>
<td>Operational readiness</td>
<td>Misalignment between operational readiness and rolling stock acquisition.</td>
</tr>
<tr>
<td>People management</td>
<td>Ineffective people management and inability to attract and retain the talent to operate the newly acquired assets.</td>
</tr>
<tr>
<td>Pricing</td>
<td>Pricing/tariff guidelines, methodologies and models are not supportive of volume growth.</td>
</tr>
<tr>
<td>Procurement management risk</td>
<td>The risk of adhering to the strict set of laws, rules and standards governing the procurement process.</td>
</tr>
<tr>
<td>Productivity</td>
<td>Low productivity levels as a result of absenteeism, strike action or operational inefficiencies.</td>
</tr>
<tr>
<td>Project delivery</td>
<td>The risk of project failures or non-delivery within time and budget thresholds.</td>
</tr>
<tr>
<td>Regulatory</td>
<td>Changes in the regulatory environment (i.e. economic, technical and compliance) may negatively impact spending on projects based on existing regulatory assumptions.</td>
</tr>
<tr>
<td>Reputation</td>
<td>The risk of losing key players or key relationships with employees, customers, partners, counterparties and regulators.</td>
</tr>
<tr>
<td>Skills attraction and retention</td>
<td>Shortage of the critical skills required for the execution of Transnet’s strategy.</td>
</tr>
<tr>
<td>Social-political instability</td>
<td>The risk of social or political instability hampering business activities or damaging Transnet’s reputation.</td>
</tr>
<tr>
<td>Sovereign credit rating</td>
<td>The risk of obtaining a negative sovereign credit rating impacts Transnet’s investment appeal.</td>
</tr>
<tr>
<td>Stakeholder management</td>
<td>Internal and external stakeholders are resistant to change, thereby negatively impacting business/commercial aspirations.</td>
</tr>
<tr>
<td>Supply chain exposure</td>
<td>Exposure could occur through the supply chain and the nature of customers’ operations could impact Transnet’s capital projects, as well as operational systems, volumes, revenue and the Company’s reputation.</td>
</tr>
<tr>
<td>Systems and policies</td>
<td>Inadequate systems and policies to enable business processes and practices/lack of integrated business processes and supporting systems leading to inefficient business operations.</td>
</tr>
<tr>
<td>Volume growth</td>
<td>An inability to attract and sustain additional volumes as new capacity is created, as well as the inability to protect current volumes.</td>
</tr>
</tbody>
</table>
Abbreviations and acronyms

AGM Annual General Meeting
B-BEE Broad-BasedBlack Economic Empowerment
Capex Capital expenditure
CEO Chief Executive Officer
CIDB Construction Industry Development Board
CIIP Companies and Intellectual Property Commission
CMS Condition Monitoring System
CPI Consumer price index
CSI Corporate social investment
CSIR Council for Scientific and Industrial Research
DCCT Durban Container Terminal
DDFR Disability frequency rate
DPE Department of Public Enterprises
Earnings before interest, taxation, depreciation and amortisation
ED Enterprise Development
ERM Enterprise risk management
ESD Enterprise and supplier development
EVP Employee Value Proposition
FEL Front-end loading
FRMP Fraud Risk Management Programme
GDP Gross domestic product
GFB General Freight Business
GLT Group Leadership Team
GRI Global Reporting Initiative
ICPAP Integrated Capital Projects/Programme Assurance Framework
ICT Information and communications technology
IFRS International Financial Reporting Standards
IJA Institute of Internal Auditors
IR Integrated Report
IRIS Intelligent Real-time Information Services (Advanced Data Analytics and Machine Learning platform)
ISCM Integrated Supply Chain Management
ISO International Standards Organisation
IT Information technology
King III King Report on Corporate Governance for South Africa, 2009
King IV King Report on Corporate Governance for South Africa, 2016
KPI Key performance indicator
LNG Liquefied natural gas
LTI Long-term incentive
MCLI Maputo Corridor Logistics Initiatives
MDS Market Demand Strategy
M/km Million (km per kilometre)
MOi Memorandum of Incorporation
MOU Memorandum of Understanding
int Million tce
intpa Million tons per annum
NEAP National Economically Active Population
Nersa National Energy Regulator of South Africa
NGO Non-governmental organisation
NMPP New Multi-Product Pipeline
NTK Net ton kilometres
OEM Original equipment manufacturer
PAIA Prevention of Access to Information Act
PPMA Public Finance Management Act
PPPFA Preferential Procurement Policy Framework Act
PRAA Passenger Rail Agency of South Africa
PSP Private-sector partnerships
R&D Research and Development
RAMS Rail Asset Management System
RBC Richards Bay Coal Terminal
RFF Request for Proposal
RMD Results Management Office
ROE Return on capital employed
ROTA Return on total average assets
S&P Standard & Poor's
Satwu South African Transport and Allied Workers Union
SCM Supply Chain Management
SD Supplier Development
SDO Sustainable Developmental Outcomes
SOC State-owned company
STI Short-term incentive
TAL TransAfrica Locomotive
TEU Twenty-foot equivalent unit
TIA Transport Internal Audit
TIH Transport International Holdings
TIMPS Total Measured Procurement Spend
TSDBF Transport Second-Defined Benefit Fund
TTPF Transport Sub-fund of the Transport Pension Fund
TVCC Transnet Value Chain Co-ordinator
UNTU United National Transport Union

Glossary of terms

Asset turnover (times)
Revenue divided by total assets (total assets excluding capital work-in-progress)

Cash interest cover (times)
Cash generated from operations after working capital changes, divided by net finance costs (net finance costs include finance costs, finance income and capitalised borrowing costs from the cash flow statement)

Debt (for gearing calculation)
Long-term borrowings, short-term borrowings, employee benefit expenses, derivative financial liabilities plus overdraft less other short-term investments, less derivative financial assets and less cash and cash equivalents

EBITDA
Profit/(loss) from operations before depreciation, derecognition and amortisation, impairment of assets, dividend received, post-retirement benefit obligation (expenses)/income, fair value adjustments, income/(loss) from associates and net finance costs

EBITDA margin
EBITDA expressed as a percentage of revenue

Equity
Issued capital and reserves

Gearing
Debt expressed as a percentage of the sum of debt and Shareholder’s equity

Headline earnings
As defined in Circular 2/2013, issued by the South African Institute of Chartered Accountants, all items of a capital nature are separated from earnings (by headline earnings)

Operating profit
Profit/(loss) from operations after depreciation, derecognition and amortisation but before impairment of assets, dividends received, post-retirement benefit obligation (expenses)/income, fair value adjustments, income/(loss) from associates and net finance costs

Operating profit margin
Operating profit expressed as a percentage of revenue

Return on total average assets
Operating profit expressed as a percentage of total average assets (total average assets exclude capital work-in-progress)

Total assets
Non-current and current assets

Total average assets
Total assets, where ‘average’ is equal to the total assets at the beginning of the reporting year plus total assets at the end of the reporting year, divided by two

Total debt
Non-current and current liabilities
Corporate information

Transnet SOC Ltd
Incorporated in the Republic of South Africa.
Registration number 1990/000900/30.
47th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
2001

Executive directors
Mr SI Gama (Group Chief Executive)
Mr MS Mahomedy (Acting Chief Financial Officer)
Mr GJ Pita resigned in April 2018.
Mr MS Mahomedy was appointed in May 2018.

Independent non-executive directors
Dr PS Molefe (Chairperson), Ms UN Fikelepi, Mr RI Ganda,
Prof EC Kieswetter, Mr DC Marahupa, Mr LL von Zeuner,
Ms ME Letlape, Adv OM Motaung, Ms G Ramphaka,
Mr AP Ramabulana, Ms VM McMenamin, Dr FS Mufamadi were appointed in May 2018.
Mr SD Shane resigned in June 2017 and Mr BG Stagman resigned in December 2017.
Ms AC Kinley and Mr SM Radebe were appointed to the Board in December 2017.
Mr GI Mahalela passed away in March 2018.
Ms LC Mabaso, Ms Y Forbes, Mr VM Nkonyane and Ms AC Kinley resigned in May 2018.
Mr PEB Mathekga, Mr ZA Nadjde and Mr SM Radebe were removed in May 2018.

Group Company Secretary
NE Khumalo
47th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
2001
PO Box 72901
Parkview
2122
South Africa

Auditors
SizweNtsalubaGobodo Inc.
20 Morris Street East
Woodmead
Johannesburg
2191

The internal audit function has been outsourced to
SekelaXabiso (Pty)Ltd.
SekelaXabiso (Pty)Ltd
1st Floor (Building 22B)
The Woodlands Office Park
20 Woodlands Drive
Woodmead
Johannesburg

KPMG Services (Pty) Ltd left the internal audit function during the reporting period.
Nkonki Inc. left the internal audit function after the reporting period.