

Audited condensed consolidated financial results

for the year ended 31 March 2021



Overview

Transnet's performance for the financial year ended 31 March 2021 was against the backdrop of the compounded impact of subdued economic growth (due mainly to the COVID-19 lockdowns) and challenges in the operational environment (including port operating system issues, vandalism of locomotives, derailments, cable theft and pipeline spills due to theft incidents). The impact of these external and internal challenges resulted in Transnet's revenue decreasing by 10,5% to R67,3 billion (2020: R75,2 billion), in line with volumes decreasing across the business.

Salient features

- Revenue** decreased by 10,5% to R67,3 billion, due mainly to the impact of the COVID-19 lockdown restrictions on rail, port and pipeline volumes.
- Net operating expenses** increased by 16,2% to R47,8 billion, due mainly to third party claims and environmental provisions.
- EBITDA** decreased by 42,8% to R19,5 billion, with the EBITDA margin decreasing to 28,9%.
- Net loss** for the period of R8,4 billion (2020: R2,9 billion profit).
- Capital investment** decreased 14,3% to R15,9 billion.
- Cash generated** from operations after working capital changes decreased by 26,8% to R24,4 billion.
- Gearing** of 48,7% and **cash interest cover*** at 2,0 times.
- 1,6% of personnel costs** invested in training artisans, engineers and technicians.
- B-BBEE** spend of R23,39 billion or 98,1% of total measured procurement spend, as defined by DTIC codes.
- LTIFR** performance of 0,61, which is below that of the tolerance of 0,75%.

* Including working capital changes.

Short form announcement

This short-form announcement is the responsibility of the Transnet Board of Directors. It is only a summary of the information contained in the integrated report and annual financial statements and does not contain full or complete details. Any investment decision should be based on the integrated report and annual financial statements available on the Transnet website at www.transnet.net. The integrated report and annual financial statements are also available for inspection at the registered office of Transnet.

Governance and compliance

The Public Finance Management Act (PFMA) imposes certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; losses through criminal conduct; and the collection of all revenue.

The Company's focus in increasing its efforts in complying with the PFMA yielded some notable achievements. Condonations were submitted to the National Treasury, and approval was granted relating to supplier development. Numerous consequence management cases were finalised and closed by 31 March 2021. PFMA reportable items are now a standing agenda point at monthly executive committee meetings.

Notwithstanding progress made in the implementation of the remedial plan, the supply chain management transformation process, improving the PFMA environment and compliance thereof, Transnet unfortunately received another audit qualification. This was due to occurrence, accuracy and completeness misstatements identified in the irregular expenditure.

The qualification does not relate to any IFRS matters but has resulted in a breach of loan covenants. Accordingly, Transnet will have to receive waivers from affected lenders to waive their right to accelerating debt repayment consistent with the prior year, as the qualification is as a result of the occurrence, accuracy and completeness of irregular expenditure. Management is confident that it will receive the required waivers from affected lenders, as in prior years.

The manual procurement processes remain a major challenge in the recording, identifying and processing of accurate and complete irregular expenditure. Transnet is prioritising the process of automating its procurement practices.

The enhancement of the PFMA remediation plan remains a key priority for the Company. The lessons learned and challenges that prevented it from achieving an unqualified audit outcome have been clearly defined and places the organisation in a much better position to speedily implement these initiatives.

Prospects

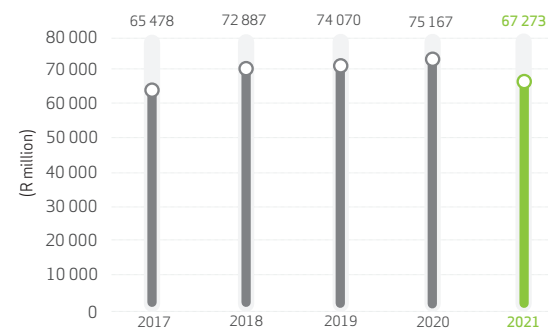
A very difficult and challenging year is now in the past, with lessons learnt and the dust ultimately settling. The Group Chief Executive along with the Minister of Public Enterprises, has announced plans to secure private sector partners and investment into Transnet ports for the next five to ten years. This is in line with the government's broader economic reforms aimed at bolstering economic growth by enhancing Transnet's operational capacity and efficiency to strengthen its competitive advantage.

Requests for information are being issued to gauge the private sector's investment appetite for the Port of Durban's terminal operations as well as the Port of Ngqura. The Minister of Public Enterprises has set a target of R100 billion for the investments. A large portion of the investment will be allocated to the Port of Durban which currently handles 60% of South Africa's import and export container traffic. The proposed infrastructure upgrade will ensure that the port continues to handle container traffic at that level with improved efficiency.

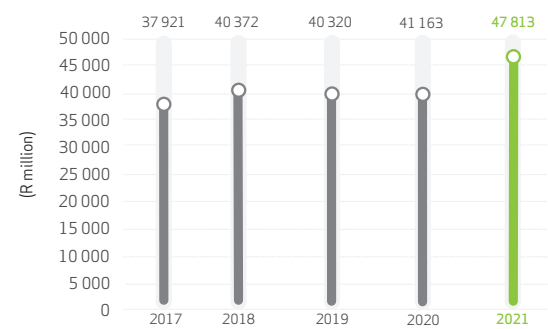
As a result of the changes in leadership at a board level, Transnet has embarked on a corporate restructuring of all functions across the Group. The restructuring will lead to a more effective utilisation of human capital while decreasing the overall fixed labour cost by means of a voluntary severance package offering.

The performance management system has been updated to include revised key performance indicators relating to prime revenue-generating commodities in line with efforts to increase revenue over the next five years. This drive to increase revenue, while simultaneously reducing fixed costs should improve Transnet's profitability over the short term.

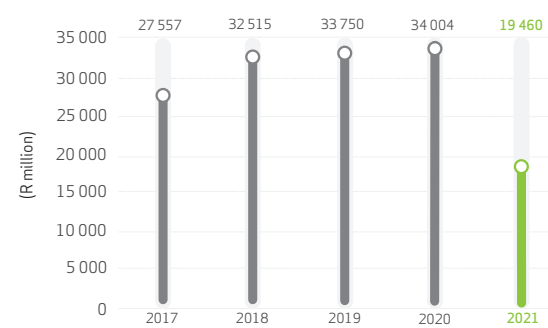
Revenue 0,7%*



Operating expenses 6,0%*



EBITDA (8,3%)*

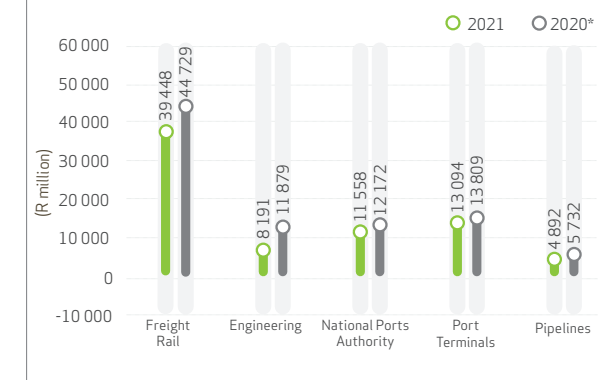


* Compound annual growth rate.

Condensed statement of financial position

	Audited	
(in R million)	31 March 2021	31 March 2020
Non-current assets	321 296	319 926
Current assets	14 530	18 369
Total assets	335 826	338 295
Capital and reserves	129 323	131 627
Non-current liabilities	135 850	167 549
Current liabilities	70 653	39 119
Total equity and liabilities	335 826	338 295

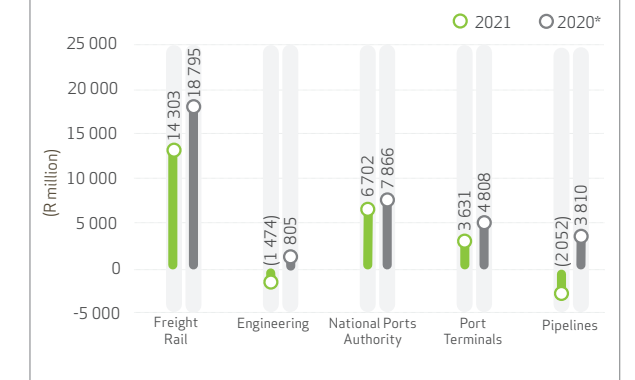
Segment revenue



Condensed statement of cash flows

	Audited	
(in R million)	31 March 2021	31 March 2020
Cash flows from operating activities	12 103	21 939
Cash flows utilised in investing activities	(16 350)	(20 122)
Cash flows from/(utilised in) financing activities	1 159	(1 717)
Net (decrease)/increase in cash and cash equivalents	(3 088)	100
Cash and cash equivalents at the beginning of the year	4 256	4 156
Total cash and cash equivalents at the end of the year	1 168	4 256

Segment EBITDA



Corporate information

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

Directors

Executive directors
 Ms PPJ Derby (*Group Chief Executive*)
 Ms NS Dlamini (*Group Chief Financial Officer*)

Non-executive directors

Dr PS Molefe (*Chairperson*), Ms UN Fikelepi, Ms DC Matshoga
 Mr LL von Zeuner, Ms ME Letlape, Ms GT Ramphaka
 Mr AP Ramabulana, Dr FS Mufamadi

Interim Group Company Secretary

S Bopape
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 Johannesburg, 2000

Auditors

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