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# TRANSNET RECOVERY PLAN

2X October 2023



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- 01 Overview of the 'burning platform' – need for change**
- 02 Recovery Plan - overview of approach & forecasted impact
- 03 Funding and financial forecast
- 04 Operations Excellence Centers (OECs) to drive recovery
- 05 Conclusion



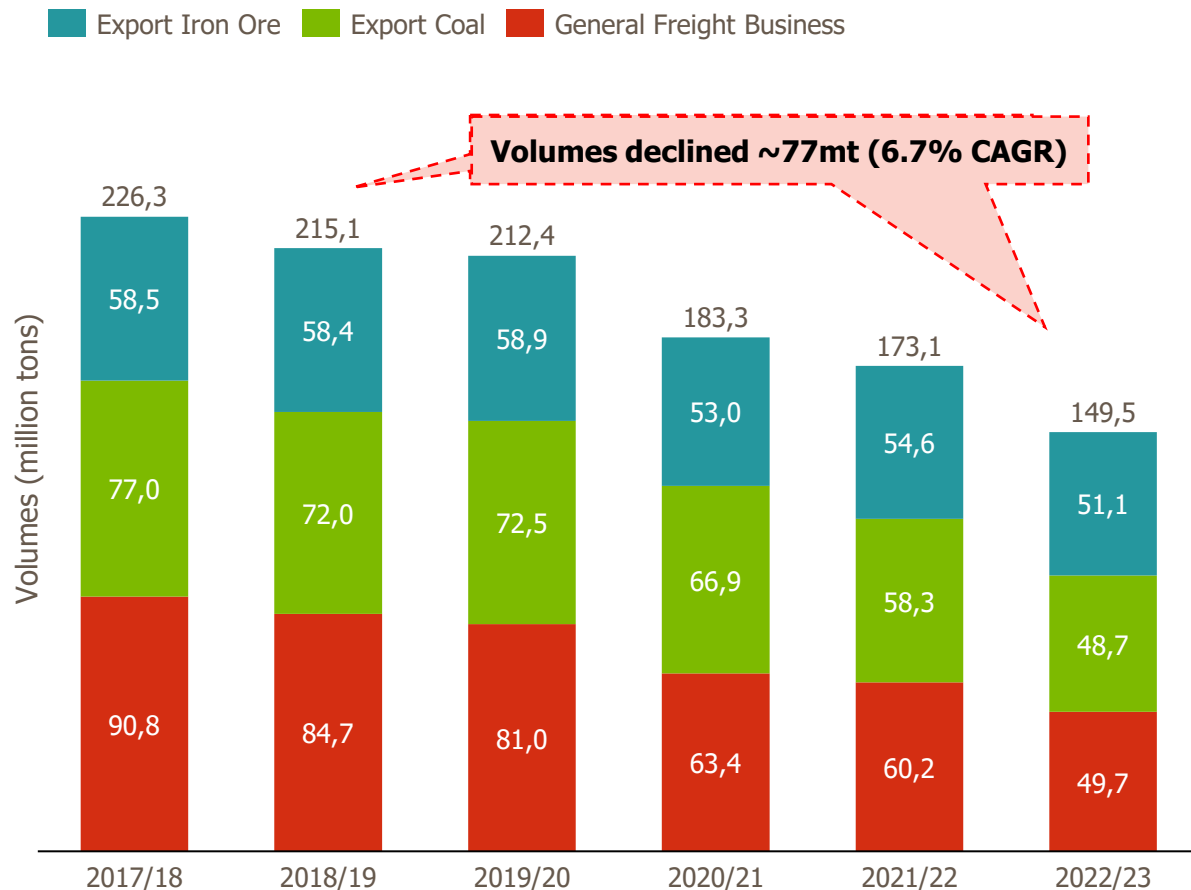
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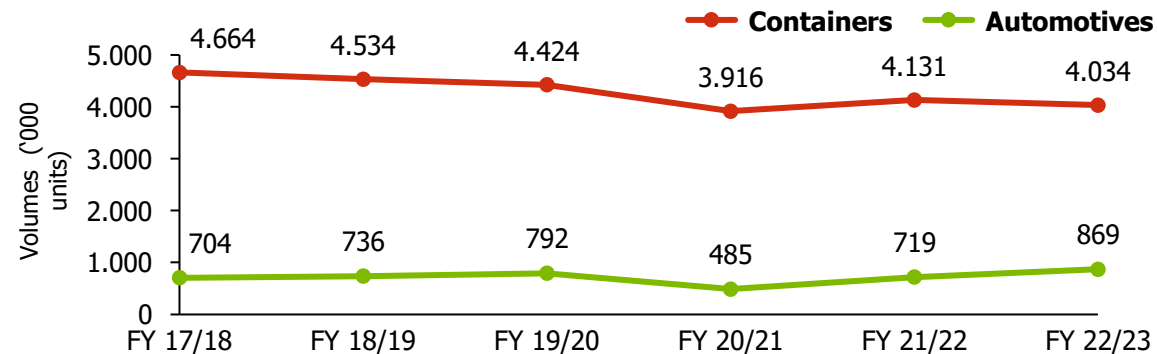
# OPERATIONS UNDERPERFORMANCE HAS LED TO A DECLINE IN VOLUMES WITH THE MOST SIGNIFICANT DECLINE BEING IN THE RAIL OPERATING DIVISION



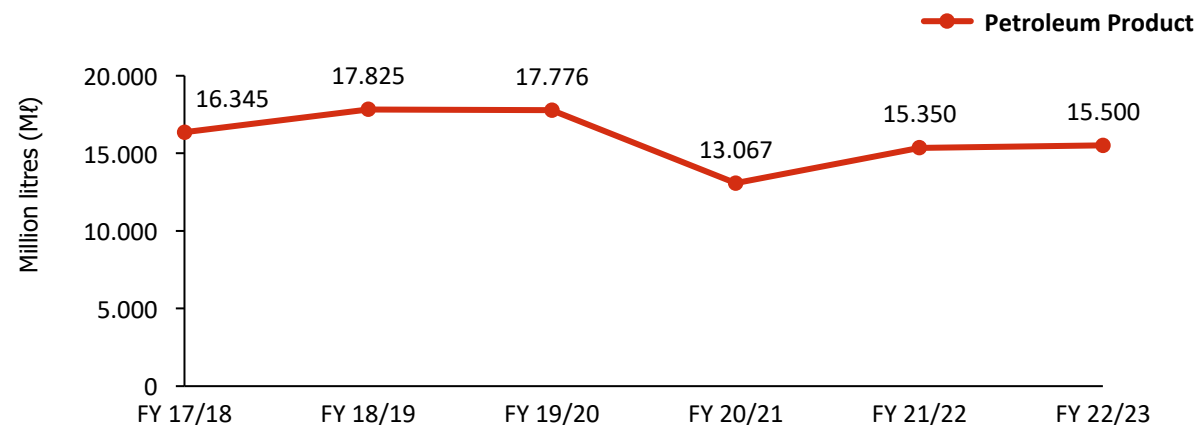
## Rail volumes: 2017/18 – 2022/23 (mt)



## Port volumes: 2017/18 – 2022/23



## Pipeline volumes: 2017/18 – 2022/23

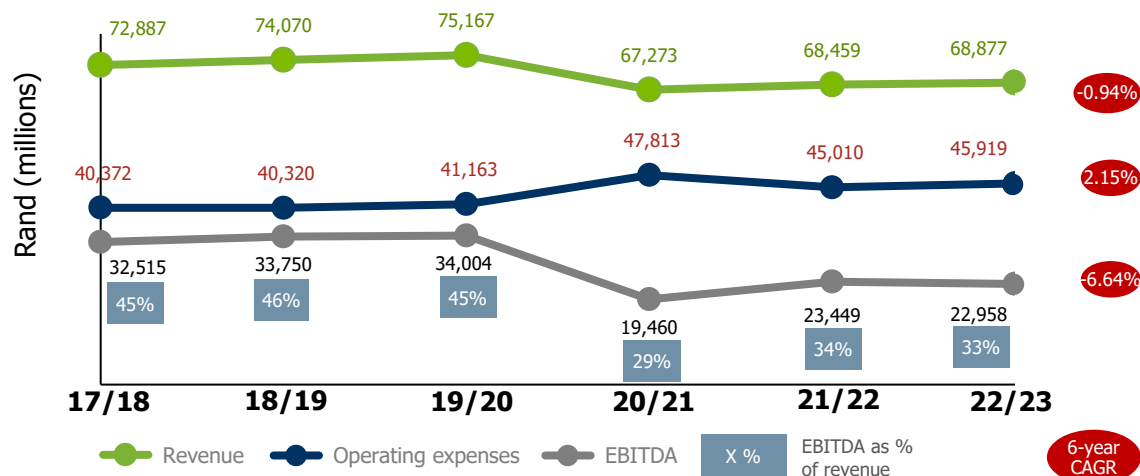




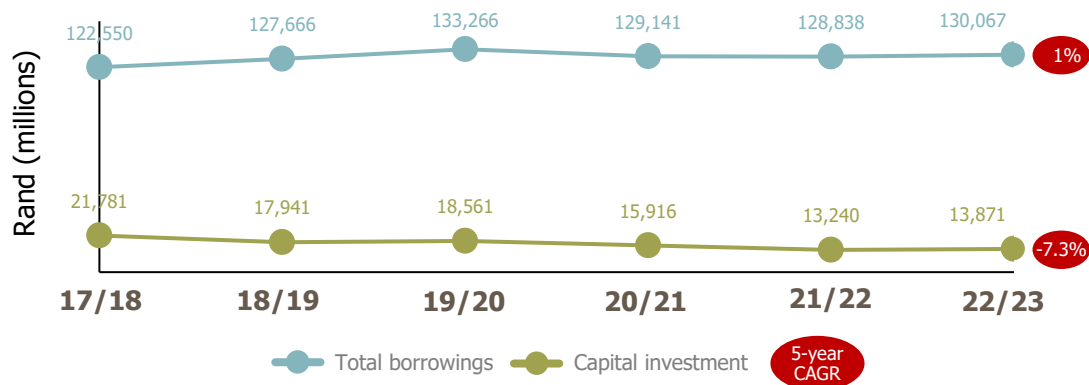
# CONSEQUENTLY, THE FINANCIAL POSITION OF THE ORGANISATION HAS DETERIORATED OVER THE PERIOD AND SUSTAINABILITY IS THREATENED



Transnet revenue, cost and EBITDA performance: 2017/18 to 2022/23 (R'm)



Transnet total borrowings and capital investment: 2017/18 to 2022/23 (R'm)



Comments

- Transnet Group's financial position has weakened over time with the organisation generating lower **revenue** which has declined from **~R72.9bn** to **R68.9bn** (-0.94% CAGR) between FY2017/18 and FY2022/23,
- Whilst over the same period **operating expenses** have increased from **~R40.4bn** to **~R45.9bn** (2.15% CAGR)
- The combined impact of the decline in group revenue and increase in operating expenses has resulted in lower operating profits as reflected by the decline in EBITDA from approximately **R32.5bn** to **~R23bn** (~-6.64% CAGR)
- The inability to improve profitability has resulted in Transnet increasing its borrowing between FY2017/18 and FY2022/23 which grew from approximately **R123bn** to **R130** a 1% (CAGR) increase





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STRATEGIC INITIATIVES HAVE BEEN DEVELOPED THAT WILL EITHER OPTIMIZE THE BUSINESS TO DRIVE EFFICIENCIES OR TRANSFORM THE BUSINESS



## Overview of Transnet's Approach to the Recovery Plan

Transnet Recovery will have to balance the unique characteristics of its operating environment:

- Need to meet existing customer requirements for quality services
- Continued socioeconomic contribution to the broader SA Inc. economy
- Alignment to changing policy environment that is liberalising the rail industry (National Rail Policy of March 2022 and Economic Regulation of Transport Bill 2022)
- Limited availability of shareholder capital to support repositioning of organisation

**Two-pronged approach**

**I**

### **Optimisation and enhancement**

- Deep focus on the recovery of volumes from key operations and ODs across organisation

Improved execution of the segment strategy approach to drive commercial returns across operations

**II.A**

### **Transform of organisation**

- Review and reinvention/transformation of part of the organisation to meet the requirements for sustainable growth in the future

**II.B**

### **Alignment to Freight Roadmap**

- Transnet will seek alignment to Roadmap for the Freight Logistics System, as well as the reforms instituted by the Shareholder and Policy Departments



# THIS IS SUPPORTED BY FOCUSED RECOVERY OBJECTIVES WHICH HAVE BEEN DEVELOPED TO IMPROVE PERFORMANCE AND SUSTAINABILITY ACROSS GROUP



## Rail Recovery Objectives



**Transnet  
Freight Rail Operating  
Company (TFROC)**

- > Recovery of volumes,
- > More effective allocation of existing equipment
- > Focus on highest margin traffic
- > Focus on low hanging fruit
- > Optimisation of rolling stock asset portfolio



**Transnet  
Engineering**

- > Get behind TFROC to deliver more effective maintenance
- > Drive focus on rolling stock which has greatest impact on delivery of volumes
- > Contract for maintenance effectiveness



**Transnet  
Rail Infrastructure  
Manager (TRIM)**

- > Focus on protecting rail network
- > Restoration of lost rail capacity (slots) on commercially viable Tier A network through effective maintenance program
- > IM established Oct 2023
- > Rollout 3rd party access April 2024

## Port Recovery Objectives



**Transnet  
National Ports Authority**

- > Enhanced commercial performance resulting from improved operational efficiencies across:
  - > operations,
  - > finance, and
  - > customers management



**Transnet  
Port Terminals**

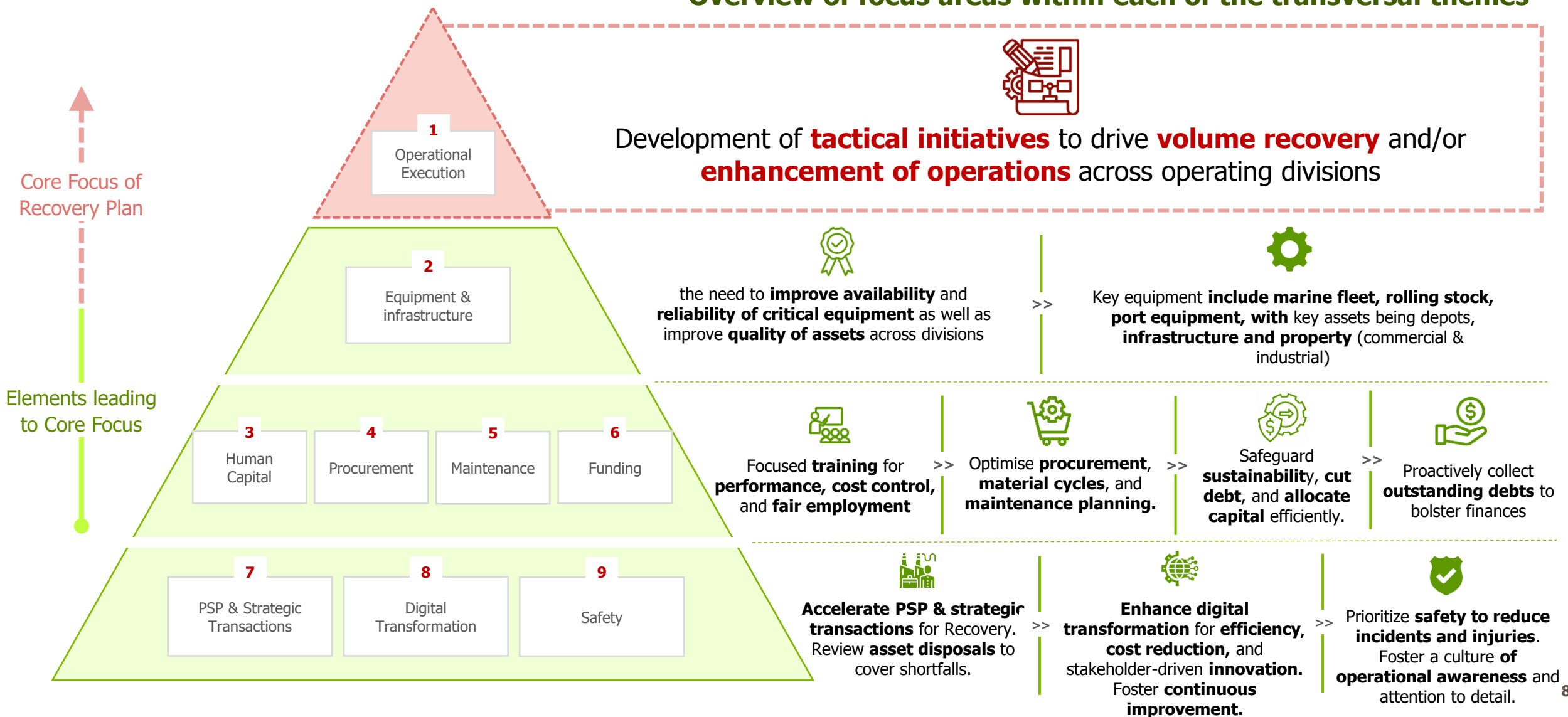
- > Improvement of operating efficiency to increase volumes by implementing
  - > continuous improvement, and
  - > enhanced reliability and availability of key operating equipment effectiveness



# SEVERAL KEY TRANSVERSAL THEMES WHICH ARE CORE TO IMPROVING PERFORMANCE IN CRITICAL AREAS OF THE BUSINESS, ALL DRIVING TO OPERATIONAL EXECUTION



## Overview of focus areas within each of the transversal themes





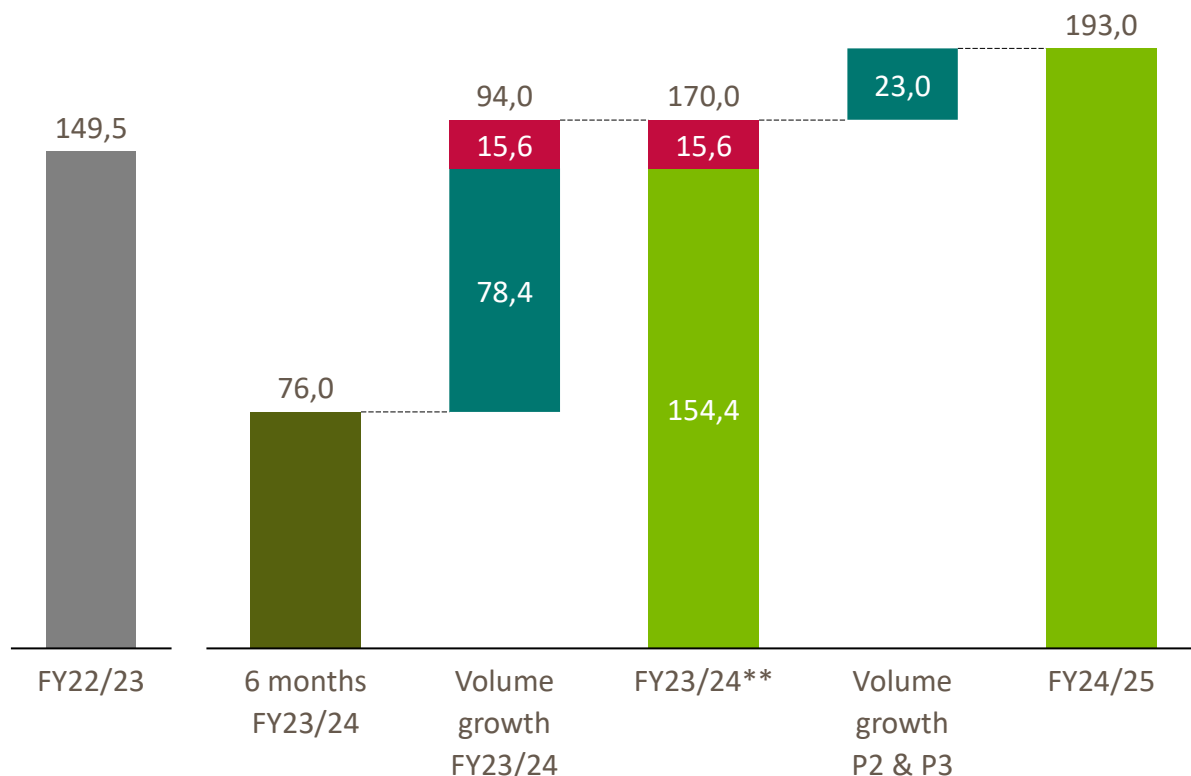


# THIS RECOVERY PLAN WILL RESULT IN VOLUMES INCREASING BY ~8.7% (CAGR) AND ~3.1%\* (CAGR) FOR THE RAIL AND PORTS FUNCTIONS ...



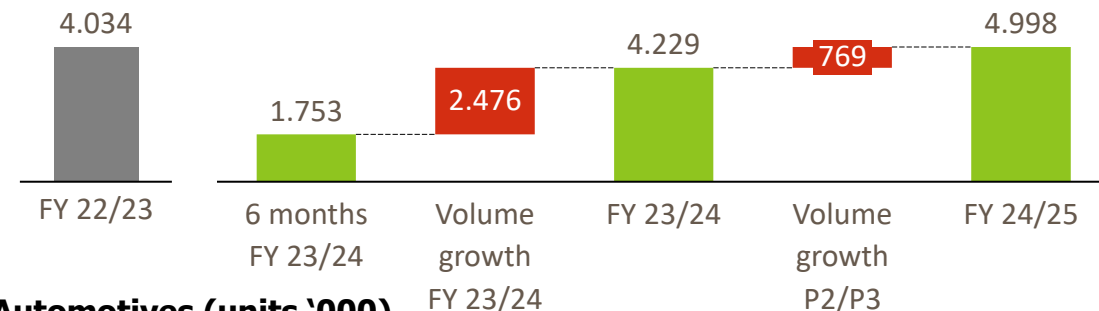
## Envisaged impact of turnaround plan on rail volumes (18 months)\*\*

■ Year-end volume (mt) 
 ■ Volume growth due to strategic recovery enablers (mt)
   
■ Recovery base case volume growth (mt) 
 ■ Half year FY23/24 (mt)

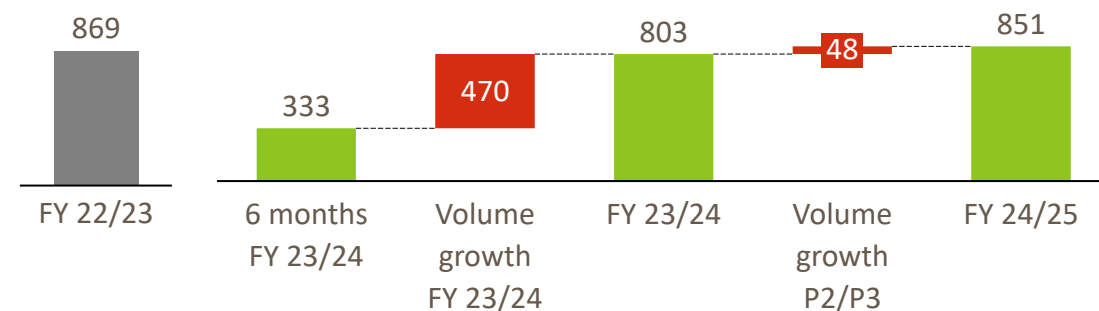


## Envisaged impact of turnaround plan on port volumes (18 months)

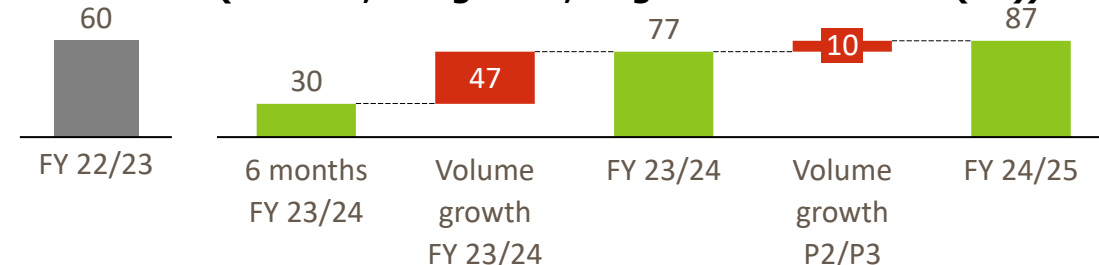
### Containers (TEU 000)<sup>1</sup>



### Automotives (units '000)



### Bulk Minerals (Iron ore, Manganese, Magnetite and chrome (mt))



Footnote: <sup>1</sup> Container volumes forecast include TPT controlled terminals and TPT JV terminal volumes for the next 18 months

Footnote: \*\* Transnet commits to delivering 154,4 mt, but focused growth measures will improve the forecast for the volume to 170 mt in FY23/24. A 141mt volume delivery situation will occur if nothing is done.

#### Key Focus areas to achieve improved volume output:

- Stabilise operations
- Developing a degree of confidence back into the organisation
- Stronger management alignment and collaboration with labour



# AND WILL BE ENABLED BY A SERIES OF FOCUSED INTERVENTIONS DEVELOPED TO IMPROVE PERFORMANCE (1/3)



**A**



**Operations optimisation initiatives**

- Deployment of additional rolling stock (wagons and locomotives) on focused flows (e.g., ore corridor)
- Improved port terminal operations through increased container moves per ship working hour across all terminals
- Establishment of operations excellence centres to enable improved collaboration and volume delivery

## Envisaged impact

- Improved volume throughput across all operating divisions including rail and ports
- Improved operating efficiency
- Enhanced customer service and quality of services rendered

## ODs impacted

- Transnet Freight Rail
- Transnet Engineering
- Transnet Port Terminals
- Transnet National Port Authority

**B**



**Improved Maintenance**

- Establish partnerships with OEMs for access to IP and technical support
- Ensure availability of spares and maintenance to support turnaround time (linked to item E)




- Improved turnaround time for maintenance of operating assets incl. port equipment, marine fleet and rolling stock
- Access to OEM IP and technical support to improve availability and reliability of equipment

- Transnet Engineering
- Transnet Freight Rail
- Transnet Port Terminals
- Transnet National Port Authority



# AND WILL BE ENABLED BY A SERIES OF FOCUSED INTERVENTIONS DEVELOPED TO IMPROVE PERFORMANCE (2/3)





	<b>Overview of key initiatives</b>	<b>Envisaged impact</b>	<b>ODs impacted</b>
<b>C</b>	 <p><b>Reform of rail business unit</b></p> <ul style="list-style-type: none"> <li>&gt; Establishment of Transnet Rail Infrastructure Manager (TRIM) function to oversee rail network quality and reliability</li> <li>&gt; Clearing of rail network maintenance backlogs (e.g., perway reliability)</li> <li>Improve security deployments and effectiveness on vulnerable corridors</li> </ul>	<ul style="list-style-type: none"> <li>Improved focus on rail operations from TFR operating company (TFROC)</li> <li>Improved management and oversight of the rail network function</li> <li>Enablement of the 3<sup>rd</sup> party access programme to provide access to private sector train operating companies (TOCs)</li> </ul>	<ul style="list-style-type: none"> <li>Transnet Freight Rail</li> <li>Transnet Rail Engineering</li> </ul>
<b>D</b>	 <p><b>Improved commercial discipline</b></p> <ul style="list-style-type: none"> <li>&gt; Align allocation of rail and port assets to service highest-margin traffic as priority (will also continue other flows)</li> <li>&gt; Rebasing of tariffs for flows marginal or loss-making positions (TFR)</li> <li>Reduce cost of operations including the optimisation the operating model and organisational design</li> <li>Establishment of the Lease Co. for rolling stock</li> </ul>	<ul style="list-style-type: none"> <li>Improve the returns from deployment of assets and human capital</li> <li>Improve the cost to income ratio and financial position of Transnet</li> <li>Improved management of fixed term and professional service provider costs</li> </ul>	<ul style="list-style-type: none"> <li>All operating divisions</li> </ul>
<b>E</b>	 <p><b>Optimisation of procurement function</b></p> <ul style="list-style-type: none"> <li>&gt; Operational efficiency enhancements driven by automation of process elements</li> <li>&gt; Adoption of digital technologies to reduce human touch points and improve visibility</li> <li>External support for clearing backlogs and 'bottlenecks' for key items (e.g., spares)</li> <li>Exemption from constraining policy and regulation (e.g., NIPP, PPPFA &amp; NT instruction notes)</li> </ul>	<ul style="list-style-type: none"> <li>Streamlining request processing and faster turnaround times</li> <li>Increased process visibility, document security, and reduced corruption risk</li> <li>Direct engagement with OEMs, cost reduction, and local manufacturer development</li> <li>Effective execution of the capital plans</li> </ul>	<ul style="list-style-type: none"> <li>All operating divisions</li> </ul>



# AND WILL BE ENABLED BY A SERIES OF FOCUSED INTERVENTIONS DEVELOPED TO IMPROVE PERFORMANCE (3/3)



	<b>Overview of key initiatives</b>	<b>Envisaged impact</b>	<b>ODs impacted</b>
<b>F</b>  <b>Private sector participation</b>	<ul style="list-style-type: none"> <li>• Undertake focused transactions to 'crowd-in' private sector partners into sectors Transnet serves to 'unlock' growth</li> <li>• Establishment of key partnerships to gain access to global best practice</li> </ul>	<ul style="list-style-type: none"> <li>• Access to skills, industry knowledge and capital to augment Transnet limitations and improve operating capacity and enhance operational performance</li> <li>• Improve financial position of Transnet</li> <li>• Improved efficiency of key supply chains</li> </ul>	<ul style="list-style-type: none"> <li>• All operating divisions</li> </ul>
<b>G</b>  <b>Digital enablement</b>	<ul style="list-style-type: none"> <li>• Implementation of the 'single source of the truth' project to improve data management within the organisation</li> <li>• Adoption of bespoke digital solution to support OD operations (e.g., train planning tool)</li> </ul>	<ul style="list-style-type: none"> <li>• Improved data integrity and accuracy to support improved management decision making (i.e., unified decision-making)</li> <li>• Enhanced planning and deviation management in operations</li> <li>• Improved customer interaction and interface (e.g., better enabled website and customer portal)</li> <li>• Better management of staff performance</li> </ul>	<ul style="list-style-type: none"> <li>• All operations</li> </ul>



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# TRANSNET HAS THE POTENTIAL OF RECOVERING TO A PROFITABLE POSITION BY FY24/25 HOWEVER IT WILL STILL FACE A SUBSTANTIAL DEBT SERVICE OBLIGATION



## Overview of Transnet Group financial estimates R'm (FY2023/24 – FY2024/25)

	2023/24		2023/24	
	154 mt March 2024	170 mt March 2024	170 mt March 2025	193 mt March 2025
Revenue	78,312	82,692	85,233	91,538
Operating Expenses (R'm)	(52,055)	(52,605)	(52,974)	(53,759)
EBITDA (R'm)	26,257	30,087	32,259	37,779
Finance cost and depreciation (R'm)	(32,059)	(32,049)	(34,979)	(34,045)
Net Profit After Tax (R'm)	(4,345)	(1,544)	724	5,160

## Overview of Transnet Group Capital Requirements R'm (FY2023/24 – FY2024/25)

	2023/24		2023/24	
	154 mt March 2024	170 mt March 2024	170 mt March 2025	193 mt March 2025
Capital investment (R'm)*	17,900	20,067	26,669	28,219

## Overview of Transnet Group key financial ratios (FY2023/24 – FY2024/25)

	2023/24		2023/24	
	154 mt March 2024	170 mt March 2024	170 mt March 2025	193 mt March 2025
Gearing (%)	45.50	44.8	47.00	44.70
Net Debt / EBITDA (times)	4.59	3.97	4.01	3.27

## Comments

- Two scenarios have been developed for each financial year based on the variability in rail volume, these are:
  - FY 23/24 Doable 154mt and Stretched 170mt
  - FY 24/25 Doable 170mt and Stretch 193mt
- In FY23/24 revenue ranges from **~R78.3 billion** (doable) to **~R82.7 billion** (stretched).
- Based on that Transnet will experience an estimated net loss of **R4.3 billion** on 154mt and a net lost of **~R1.5 billion** on 170mt.
- In FY24/25 revenue ranges from **~R85.2 billion** (doable) to **~R91.5 billion** (stretched)
- Based on the forecast Transnet will experience an estimated net profit of **R0.7 billion** on 170mt rail volumes and a profit of **~R5.2 billion** on 193mt.
- Capital requirements in FY 23/24 range between **~R17.9 billion** and **~R20 billion** and increase to between **~R26.7 billion** and **~R28.2 billion** in FY 24/25, which is required for the maintenance and/or renewal of operating equipment and assets (e.g., rail network, rolling stock and port equipment).
- Finance and depreciation costs range between **~40%** of revenue (FY 23/24 154mt) and **~35%** of revenue (FY 24/25 193mt), and **significantly erode** the financial performance of Transnet.
- Consequently, Transnet has requested that National Treasury provide an **equity injection** to support the recovery plan implementation needed to reduce debt and meet required financial ratios for debt capital market participation.



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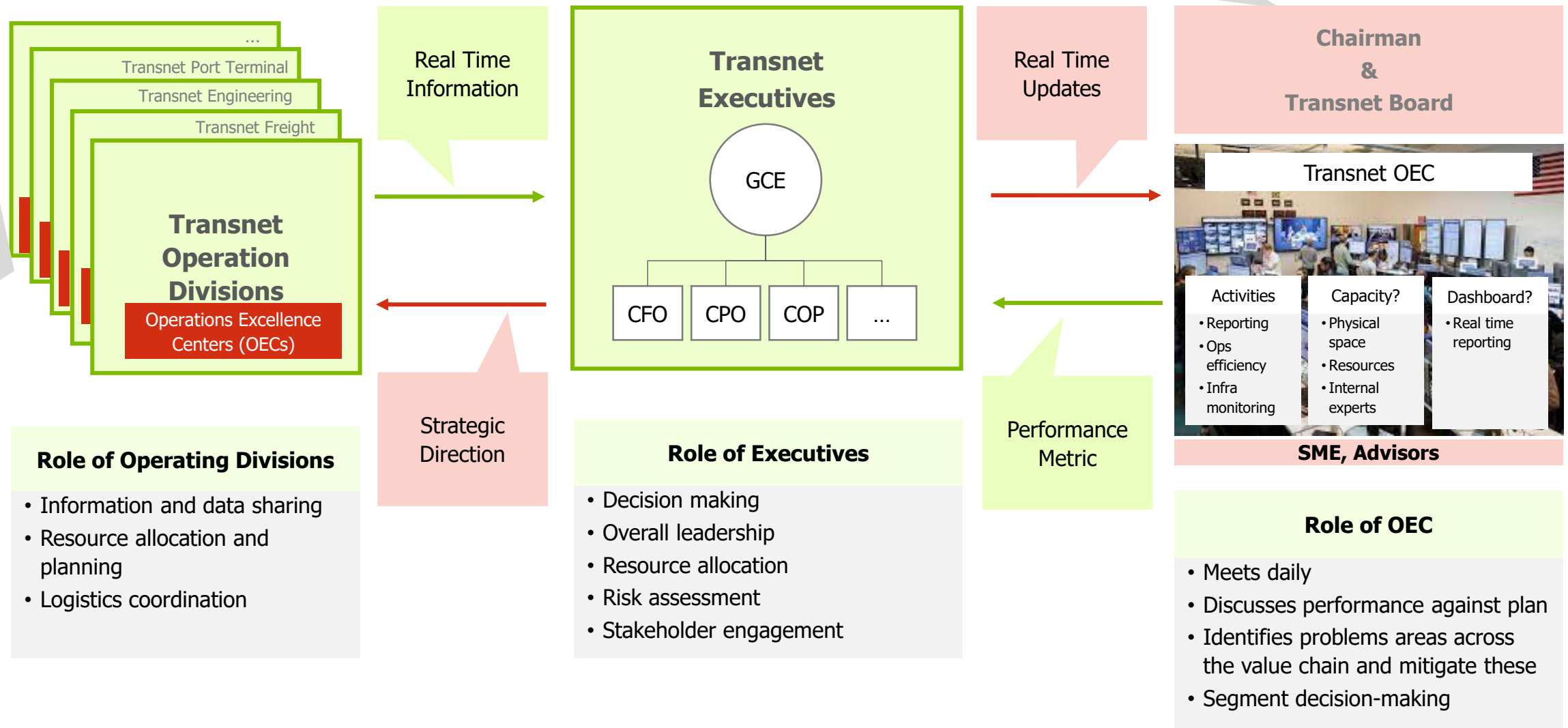


# OPERATIONAL EXCELLENCE CENTERS (OEC) HAVE BEEN ESTABLISHED TO ENHANCE OPERATIONAL EFFICIENCY THROUGH COLLABORATION IN A STRUCTURED MANNER TO DRIVE VOLUMES



The **Transnet Recovery Plan** represents the Board and Management commitment to improve performance in the short to medium term. The turnaround plan is aligned to the Ministers directives to Transnet.

**Performance Compacts** (with KPI's) for each Operating Division provide for an integrated approach that allows for management accountability within a corridor or part of the business, such as a port terminal.







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## TRANSNET'S RECOVERY PLAN OUTLINE A POTENTIAL ROUTE TO SUSTAINABILITY BUT REQUIRES CONSIDERABLE ASSISTANCE FROM GOVERNMENT



### To be able to deliver a successful recovery and the following three measures will to be in place to assist the repositioning of Transnet:

1. Allow Transnet time to deliver key transactions to create 'cash' back to the Transnet business.
2. Government support is required to alleviate the theft and vandalism being experienced across the railway network. A special workstream has been setup in the NLCC for this purpose. The critical areas of support required are; more direct involvement in policing the rail network, an enhanced focus on organised crime as it relates to the trade of scrap goods, but particularly of scrap copper, support in prosecution and more rapid adjudication through the court system of those apprehended for theft of infrastructure and assistance in intelligence support to assist to prevent organised theft across the railway network.
3. A reduction in the onerous requirements of the PFMA and NIPP as it relates to procurement, particularly for spares from OEM's for locomotives and port equipment, but also in respect of the complex regulatory provisions set out by National Treasury which limit the speed to which procurement can be executed

Transnet will also be required to deliver on its operational effectiveness objectives and collaborate with freight industry stakeholders (e.g., NLCC) to leverage resources to drive the Recovery



End,  
Thank you

