30 October 2017

Transnet's performance on an upward trajectory

- Revenue up 13,8% to R37,1 billion, underlined by:
  - a 7,9% increase in general freight volumes;
  - a 6,5% increase in export coal railed volumes; and
  - a 11,4% increase in railed automotive and container volumes.
- Freight Rail achieved a record high 37,8mt of export coal.
- Operating cost contained at R20,8 billion, with R2,2 billion in savings.
- Earnings before interest, taxation, depreciation and amortisation (EBITDA) up 17,7% to R16,3 billion.
- Net profit for the period increased by to 3,4 billion, more than 230% higher than the prior year.
- Cash generated from operations increased by 17,6% to R17,2 billion, reflecting our strong cash generating capability.
- R8,9 billion spent on capital investment, R153 billion invested since MDS inception.
- Gearing at 44,0% and cash interest cover at 3,0 times.
- Broad-Based Black Economic Empowerment (B-BBEE) spend of R15,8 billion or 87,8% of total measured procurement spend.

State-owned freight and logistics company Transnet SOC Ltd, today delivered a remarkable increase in revenue for the six-months ending 30 September 2017, driven by improved operational performance and a slight rise in consumer demand and mineral production output in the country.

Although the economic environment largely remains under pressure, Transnet's strategy to move 'rail-friendly' cargo from road to rail is starting to pay dividends with the company gaining market share in general freight cargo and coal volumes.

Revenue for the six months of the financial year rose 13,8% to R37,1 billion (2016: R32,6 billion) driven by a 7,9% increase in general freight volumes, a 6,5% increase in export coal railed volumes and a 11,4% increase in railed container and automotive volumes. Chrome and manganese volumes performed particularly well, increasing by 19,2% to 3,1mt and by 25,9% to 6,8mt respectively.

The company's key measure of profitability – EBITDA improved by 17,7% to R16,3 billion. An exceptional improvement was noted in profit from operations after depreciation and amortisation which rose by 69,1% to R9,9 billion compared to R5,9 billion in the prior period.

Profit for the period is R3,4 billion (2016: R1,0 billion), a significant increase compared to the previous reporting period.

General freight business grew volumes by 7,9% to 46,5mt (2016: 43,1mt) with the container and automotive business performing particularly well and gaining market share by contributing a 11,4% increase in volumes to 4,9mt (2016: 4,4mt).

Transnet railed a record 37,8mt of export coal volumes compared to 35,5mt in the prior period, a 6,5% increase, despite various operational challenges, including equipment failures, unprecedented community unrest and security challenges.

Poor volumes were experienced in sectors such as granite which registered a decline of 13%, as well as cement and lime recording an 8% decline in volumes due to an unavailability of mix product and plant breakdowns.

Export iron ore volumes were impacted by volatile market conditions, accompanied by lower demand from customers and a number of safety incidents reported during the six month period, resulting in a modest volume increase of 1,7% to 29,3mt.

Transnet continues to focus on cost-containment initiatives that have resulted in a R1,2 billion saving in planned costs. These initiatives include limiting overtime, reducing professional and consulting fees and limiting discretionary costs.

Operating costs increased by 10,9% to R20,8 billion due to the increase in the variable costs in line with higher volumes with resultant increases in personnel, fuel and electricity costs.

The timely delivery of newly-built and refurbished rolling stock to Freight Rail, coupled with the delivery of locomotives for the 1 064 locomotive programme, and the delivery of coaches to the Passenger Rail Agency of South Africa by Transnet Engineering has led to an increase in revenue by 29,4% to R4,8 billion in this operating division.

Revenue increased by 16,1% to R6,5 billion at Transnet National Ports Authority, mainly as a result of increases in cargo dues revenue and the release of claw back provisions informed by Regulatory decisions.

Considerable growth in local and international consumer demand has resulted in a 6,1% increase in container volumes to 2,4 million TEUs (twenty-foot equivalent units). Average moves per ship working hours (SWH) declined across most terminals, with the exception of Durban Pier 1 Container Terminal, which recorded some progress in their SWH performance from 45 to 47 moves.

A decline in market demand, for refined petroleum products, as well as production challenges at an inland refinery continue to hamper the performance in the pipeline operating division. Petroleum volumes transported decreased by 2,9% to 8,3 billion litres compared to 8,6 billion litres in the prior period.

Transnet's fundraising and borrowing strength continues to mature and remain solid. A well-defined and diversified funding strategy has enabled the group to raise R9,9 billion for the period without government guarantees.

The funds were raised mainly from the following sources:

- Development finance institutions - R1,5 billion;

- Commercial paper and call loans - R5,8 billion;
- Export credit agencies - R1,4 billion; and
- Domestic bonds - R1,0 billion.

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

A total of R9,5 billion of debt was repaid during this period.

The gearing ratio decreased to 44,0% (2016: 44,4%), a level well below the group's target range of 50%, and it is significantly below the triggers in loan covenants. This gearing ratio level also presents an opportunity for Transnet to continue with its capital investment strategy, aligned to validated market demand.

The company's Market Demand Strategy (MDS), which has long gained traction, has had a total of R153 billion invested in various programmes over the past five years. Transnet plans to invest a further R229,2 billion over the next seven years to 2023/24.

Transnet spent R8,9 billion on its infrastructure investment programme, a decrease of 5% when compared to the previous reporting period. The decrease is attributable to the company's value-engineering and optimisation efforts.

The capital investment for the period represents R2,1 billion invested in the expansion of infrastructure and equipment acquisitions, while R6,8 billion was invested to sustain capacity in the rail and ports operating divisions.

Key to the Company's investment programme is the acquisition of locomotives to modernise its fleet in anticipation of a rise in general freight volumes in the coming years. Transnet concluded the locomotive acquisition contracts in 2014, resulting in the purchase of approximately 1 319 new locomotives for the general freight and coal businesses over the MDS period.

Highlights of the locomotive programme, includes the following:

- ➢ A total of 541 locomotives have been accepted into operations and contracts have been concluded as follows:
  - 95 class 20E electric locomotives;
  - 60 class 43 diesel locomotives;
  - 100 21E electric locomotives; and
  - 286 locomotives of the 1 064 locomotive programme have been accepted into operations, while 37 have been delivered and are currently undergoing acceptance testing.

- ➢ 544 coal containers and 101 wagons have been built and received by Transnet Freight Rail.

Other infrastructure investment highlights for the six-months include the following:

- ➢ To date R1,9 billion has been invested to expand capacity on the export coal line to 81mtpa.
- ➢ Investment in the Waterberg region, which holds 40% of the country's coal reserves, has reached R181 million since the inception of the programme. A total of R23 million was spent during the reporting period.

- Transnet is proud to share that it has invested R560 million in the New Multi-Product Pipeline during the reporting period. The coastal terminal in Durban (excluding tanks), the 24-inch main pipeline and 16-inch inland pipelines have been fully commissioned and are operational, with four different petroleum products now being transported from Durban to the Gauteng region.
- R0,9 billion invested for the maintenance and acquisition of cranes, tipplers, dredgers, tugs and straddle carriers.

The company remained consistent in its contribution towards B-BBEE and supplier, enterprise and skills development, which aim to achieve inclusive growth in all economic sectors. As at 30 September 2017, Transnet's recognised B-BBEE spend amounting to R15,8 billion or 87,8% of its Total Measured Procurement Spend.

Regarding corporate social investment, R104,3 million was committed to sustainable community development programmes across the rural and needy communities of South Africa, in areas such as health, education, rural sports development and through grants and donations. More than 334 734 individuals benefited from the health programme.

It is with great sadness that we report that the group lost one colleague due to a vehicle accident during the reporting period. Transnet's leadership team will continue with its efforts to be more visible through site visits in all operational areas. The company continues to analyse and review its current safety approaches and efficiency, while proactively striving for 'zero harm'.

Sadly, 46 public fatalities were reported during the first six months of the financial year. These fatalities were due mainly to people trespassing onto operating railway lines.

On behalf of the Board, members of the Group Leadership Team and all Transnet colleagues, management wishes to convey its deepest condolences to all families who have lost their loved ones during this time.

Issued on behalf of Transnet SOC Ltd
By: Molatwane Likhethe, Spokesperson.
011 308 2458/083 300 9586
Molatwane.likhethe@transnet.net

About Transnet

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

Transnet has five operating divisions:

Transnet Freight Rail transports bulk and containerised freight along 30 400 kilometres of which 1 500 kilometres comprises rail networks heavy haul lines for export coal and export iron ore.
Transnet Engineering manufactures and maintains rolling stock. It consists of eight product-focused business units which provide services ranging from rolling stock

refurbishment, conversion and upgrades, to the manufacturing of locomotives, coaches and wagons.

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

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

Transnet Pipelines transports a range of petroleum products and gas through 3 800 kilometres of underground pipelines, which traverse five provinces, thereby ensuring the security of supply of petroleum products to the inland market, especially Gauteng. Transnet Pipelines is gearing itself for full commissioning of the New Multi-Product Pipeline.

Specialist units:

Transnet Group Capital manages Transnet's largest capital projects;

Transnet Foundation is responsible for executing our corporate social investment initiatives.

Transnet Property manages our property portfolio.