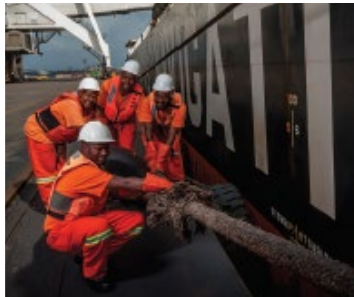


# MEDIA BRIEFING ON TRANSNET'S RESULTS

For year ended  
31 March 2020



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**Group Chief Financial Officer**

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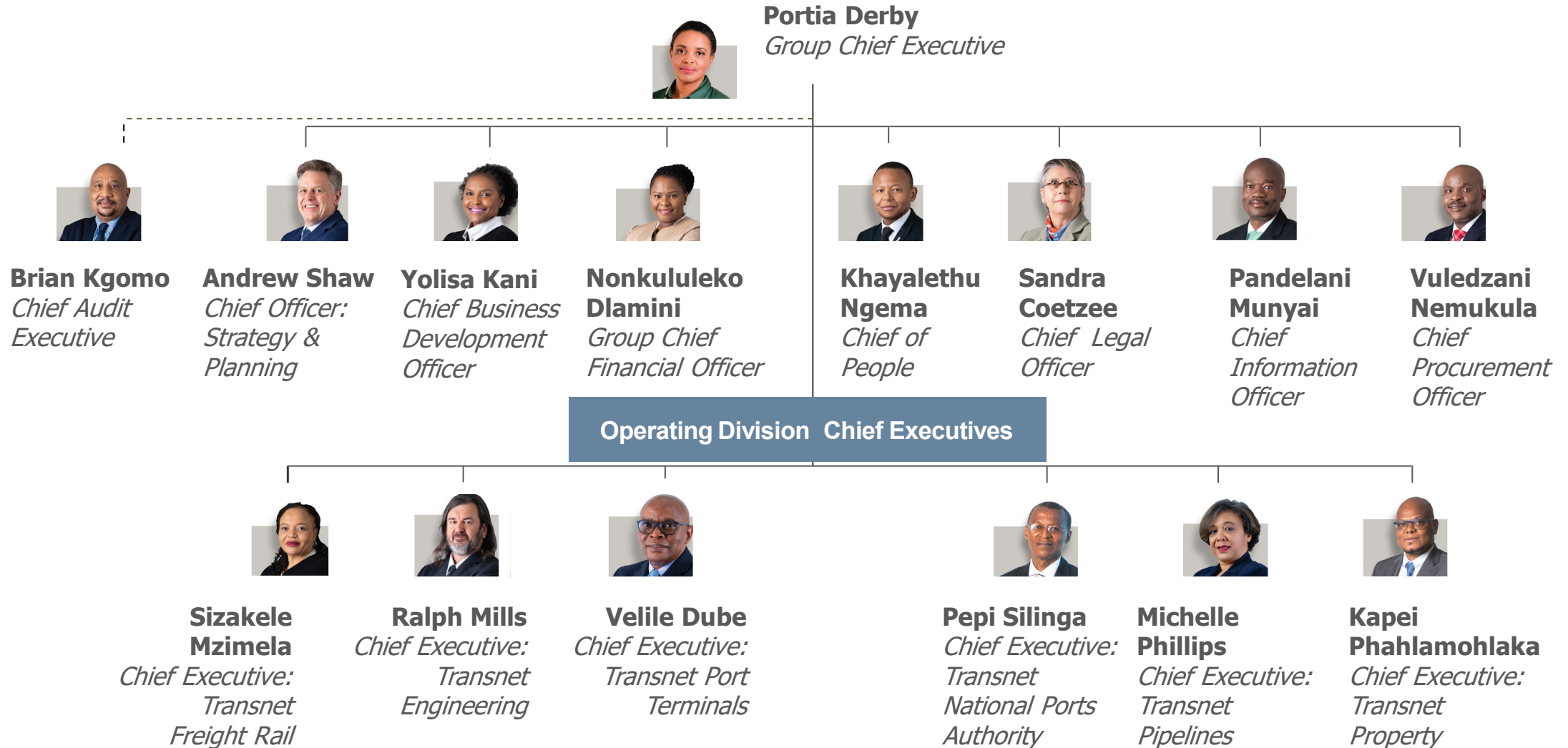
..... COVID-19 FINANCIAL IMPACT

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Portia Derby  
**Group Chief Executive**



# Transnet Group Executive Leadership












- Transnet at a glance
- Developmental mandate

Portia Derby

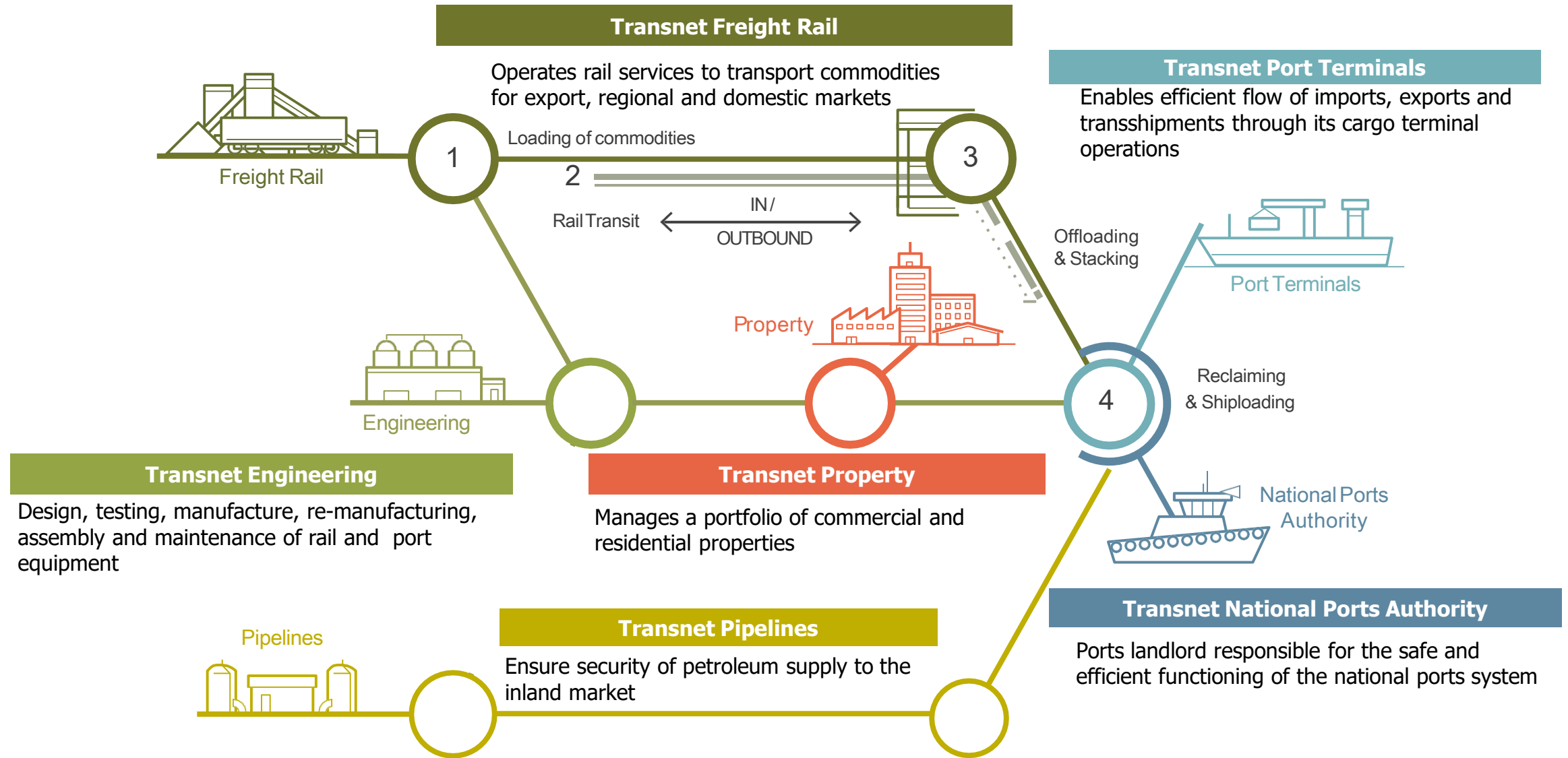
Group Chief Executive

# Our value propositions are founded in our Shareholder mandate

<p><b>Value for the economy</b> </p> <ul style="list-style-type: none"> <li>• Reduce <b>total cost of logistics</b></li> <li>• Leverage <b>private sector</b> for infrastructure, rolling stock and operations</li> <li>• <b>Integrate</b> the <b>SA economy</b> – regionally and globally</li> <li>• Support <b>market competitiveness</b></li> <li>• <b>Modernisation</b> and <b>renewal</b> of SA’s transport and logistics infrastructure</li> <li>• <b>Road-to-rail migration</b> – preserving road infrastructure</li> </ul>	<p><b>Customer value</b> </p> <ul style="list-style-type: none"> <li>• <b>Predictable, reliable</b> customer volumes</li> <li>• <b>Customer-centric</b> business innovations</li> <li>• <b>Integrated value chain</b> service propositions</li> <li>• <b>Distinctive</b> product and service <b>designs</b></li> </ul>	<p><b>Socio-economic value</b> </p> <ul style="list-style-type: none"> <li>• Optimise <b>social and economic impacts</b> of all our interventions</li> <li>• CSI initiatives that contribute to the socio-economic <b>well-being of communities</b> in the vicinity of our operations</li> <li>• Activities that <b>enhance</b> rather than deplete the <b>natural environment</b></li> </ul>	
<p><b>Value for suppliers</b> </p> <ul style="list-style-type: none"> <li>• An <b>ethical, fair, transparent</b> and <b>effective</b> procurement process</li> <li>• <b>Fair</b> and <b>equitable</b> tender processes</li> <li>• A <b>proactive and collaborative</b> approach to local <b>supplier development</b></li> </ul>	<p><b>Value for employees</b> </p> <ul style="list-style-type: none"> <li>• <b>Employer of choice</b></li> <li>• A work ethos of ‘<b>safety and integrity</b> in all we do’</li> <li>• <b>Opportunities to grow</b> personally, professionally and academically</li> <li>• <b>Exposure and connectivity</b> to broader national and regional <b>opportunities</b></li> </ul>	<p><b>Value for financial partners</b> </p> <ul style="list-style-type: none"> <li>• A <b>funding strategy</b> based on <b>strategic priorities</b> and sound environmental, social and <b>corporate governance</b> principles</li> <li>• Capital investments likely to yield <b>superior financial</b> and social <b>returns</b></li> <li>• A <b>reliable and credible borrower</b>, which secures debt on the strength of its financial position <b>without government guarantees</b></li> </ul>	<p><b>Value for our Shareholder</b> </p> <ul style="list-style-type: none"> <li>• <b>Sustained financial returns</b> and broad <b>socio-economic value</b></li> <li>• <b>Regulatory compliance</b>, accountable business practices, ethical leadership and responsible corporate citizenship</li> <li>• <b>Investment priorities</b> closely aligned with <b>Government’s infrastructure programme</b></li> </ul>



# Transnet is the custodian of rail, ports and pipelines

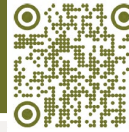


1 – 4: Pit-to-port flow of commodities

# Salient features: Freight Rail and Engineering

## Transnet Freight Rail

[Read online Report](#)



### Upside performance

- **Marginal increase in export coal and export iron ore volumes**
- Partially **removed restrictions** on Natcor, Capecor and Southcor
- **Improved cycle times** on the export iron ore line

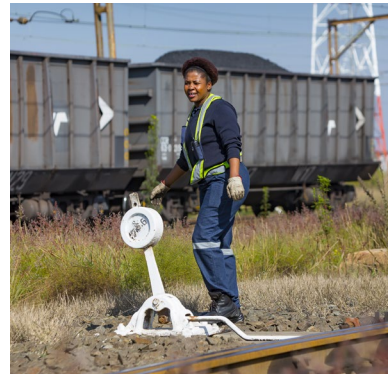
**Total headcount: 29 714\***



*\*Including contract employees*

### Performance constraints

- **Security incidents**
- Rail infrastructure, equipment and maintenance **backlogs**
- **Demand constraints** in certain commodities
- **Locomotive undersupply** and **reliability**
- **Operations disruptions** due to **community unrest/protests**
- **Weather-related disruptions**

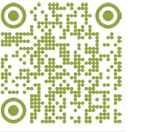


### Market opportunities

- **Private sector partnerships** to provide **rolling stock** and **branch-lines**
- Development of multi-user **freight terminals** and **back-of-port facilities**

## Transnet Engineering

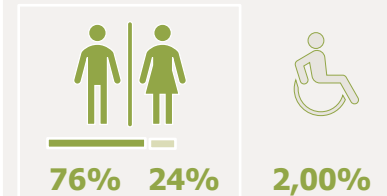
[Read online Report](#)



### Upside performance

- **400 wagons** manufactured and delivered
- **Improving rolling stock availability**
- **Backlog** maintenance **successfully addressed**
- **Cost-optimisation** efforts

**Total headcount: 10 328\***



*\*Including contract employees*

### Performance constraints

- **Above inflationary increases** in products and service costs

### Market opportunities

- Improve **cross-border sales**
- **Commercialisation of already-developed innovative products** (e.g. port equipment, locomotive condition monitoring and energy-saving systems)
- Further **diversification** of maintenance services



# Salient features: National Ports Authority and Port Terminals

**Transnet National Ports Authority**

[Read online Report](#)

**Transnet Port Terminals**

[Read online Report](#)

**Upside performance**

- Marine Fleet **Asset Maintenance improvements** resulting in **higher tugboat availability**
- Delivery of **new Helicopters** for Pilotage at the ports of **Durban and Richards Bay**

**Total headcount: 4 165\***

63% 37% 2,16%

**Upside performance**

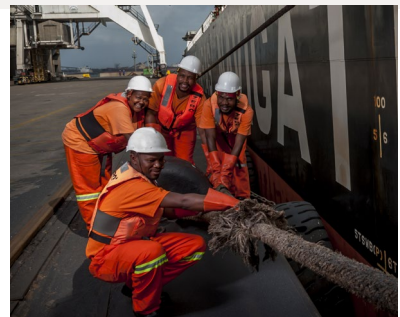
- Pilot project** to address frequent **strong winds** on waterside port operations in CT
- Lean initiatives to reduce port congestion - truck appointment system and truck staging
- Multi-fold initiatives to address **productivity and morale**

**Total headcount: 9 596\***

70% 30% 1,18%

**Performance constraints**

- 2% lower** revenue attributable to 0,32% weighted tariff adjustment together with lower container and breakbulk volumes.
- Weather conditions** affecting port productivity
- Delayed **capital investment** delivery
- Covid-19** onset caused **vessel delays** in quarter 4



*\*Including contract employees*

**Performance constraints**

- Capital **investment** and **maintenance backlogs**
- Weather conditions** affecting port productivity
- Critical **skills shortages**
- Covid-19** onset caused **vessel delays** in quarter 4
- Industrial action** at certain **container terminals**

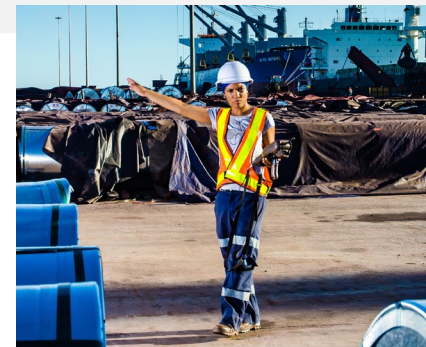
*\*Including contract employees*

**Market opportunities**

- Gas energy hub** to **secure supply**, support **industrial development** and establish **gas** as an **alternate energy source**
- Develop Durban** to be a **hub port** for **containers**
- Promote **Port of Ngqura** as regional **transshipment hub** in sub-Saharan Africa
- Promote **SA port system** globally to **attract investments** and optimise **industrial development**

**Market opportunities**

- Back-of-port** opportunities for inland terminals and warehousing
- Value-add services** - containers, mineral bulk and automotive
- Private sector** participation to reduce funding needs





# Salient features: Pipelines

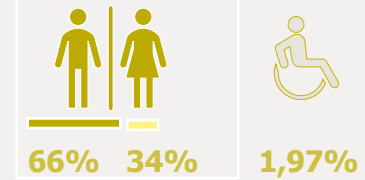
**Transnet Pipelines**

Read online Report 

## Upside performance

- **Maximum** execution on **available volumes**
- **Security incidents** receiving **priority focus**
- Appropriate **operational improvements** to **address volume losses** and **customer delivery targets**

**Total headcount: 711\***



## Performance constraints

- Marginal **decrease** in **transported crude volumes** given the partial shutdown of the Natref refinery from October to November 2019
- Increase in **environmental remediation** and **rehabilitation costs** due to unprecedented increase in **pipeline theft**
- **Vessel delays** caused **product injection challenges** from the coast

*\*Including contract employees*



## Market opportunities

- Initiative to **secure a direct import terminal** at the Port of Durban to enable **new market participants**
- Enable **road and rail distribution** from Jameson Park Terminal
- Alternative use of **Durban-Johannesburg Pipeline** assets



# Covid-19 – Bringing Transnet’s developmental mandate into sharp focus

## At the onset of the Covid-19 pandemic

Protecting employees and stabilising operations

- January 2020, **response team established** to conduct preliminary **risk assessments**
- Formal **communication protocols**, educating employees and **distributing specialised PPE**
- Established **business continuity** strategies and plans
- Protection and **duty of care** to **people** and **assets**
- Engaged **labour** on **challenges** and **appropriate practices**
- **Financial impact assessments**
- Strategic **risk assessments** and set up **Command Centre**
- **Shutdown of businesses** for lockdown and defining **essential service** requirements

## Addressing commercial challenges

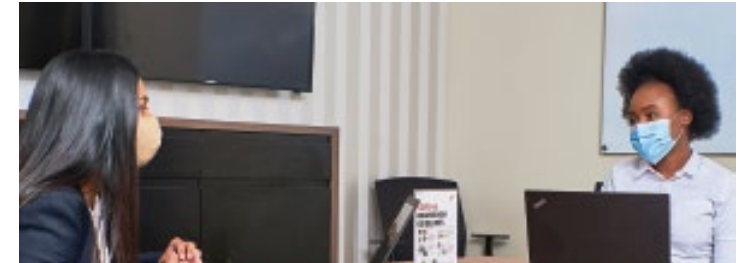
Comply with legislation while operationalising essential services

- Initially focused operations on **compliance** with essential **cargo regulations**, operationalising **container terminals** and **ports** as well as **essential rail corridors**
- Movement of **essential containerised cargo** threatened to **clog ports and terminals**, requiring amendments to allow **non-essential containers** to be relocated
- **Maintain movement** of coal, chrome and magnetite by operationalising **additional commodity flows**
- Dedicated focus on **employees’ health and safety**
- Engaged with **regulators** and **government agencies** to ensure legislative compliance throughout the lockdown

## Contributing to Government initiatives

Mobilising to support Government’s efforts

- **Financial donations** and **non-monetary** contributions
- **Food parcels**
- **Alternative housing** for displaced citizens
- Helping rural schools connect to **distance-learning facilities** using spare **fibre optic network** capacity
- Distributing **medical grade PPE**
- Mobilising the **two Phelophepa Health Trains** to provide **Covid-19 testing** and general **medical support** to remote communities.





# Transnet's sustainable developmental outcomes (SDOs) overview

Employment 	Skills development 	Transformation 	Community development 
--	--	--	---

- Total headcount: **56 414\*** across various age groups

*\*Including contract employees (permanent headcount of 50 560)*

- 238** Young Professionals-in-Training appointed to operations
- 60** full-time engineering bursaries awarded

- African employee representation up **10%** to **76,35%**
- Black female representation at **28%**

- 105 565** patients aided by Phelophepa healthcare trains
- 357 323** individuals benefited from community healthcare programmes

Regional integration 	Environmental stewardship 	Health and safety 	Industrial capability building 
--	---	---	--

- Cross-border revenue from Engineering: **R166 million**

- Total energy efficiency at **19,88 ton/GJ**
- Carbon emissions at **3,85 mtCO2e**

- DIFR** performance of **0,73** against a target of **0,75**
- Regrettably six employee fatalities, and 109 public fatalities**

- Supplier development** spend: **R840,4 million**
- R49,2 million** spent on supplier incubator hubs

- Tested **2 799** employees for Covid-19, of which **2 740** tested positive, **41** Covid-related deaths as at 29 Sep'20



## Investment leveraged

- R4,7 billion** committed by TNPA for ship repair facilities and floating docks - **5 000** jobs to be created

# People – employment, transformation and skills development

## Employment and transformation

Designated categories	Target %	Actual %
	2020	2020
Black	90,0	89,5
Females at Exco	50,0	43,8
Females at extended Exco	50,0	42,5
Females below extended Exco	34,0	29,5
People with disability (PWD)'s	3,3	2,2



56 414

Transnet employees\*

*\*Including contract employees (permanent headcount of 50 560)*

## Skills development

Key performance indicator	Unit of measure	Annual target	Actual 2020
Training spend	% of personnel costs	≥ 2,5	2,7
Engineering trainees	Number of learners	≥ 60	60
Technician trainees	Number of learners	≥ 70	79
Artisan trainees	Number of learners	≥ 200	238
Sector specific trainees	Number of learners	≥ 1 052	2 088

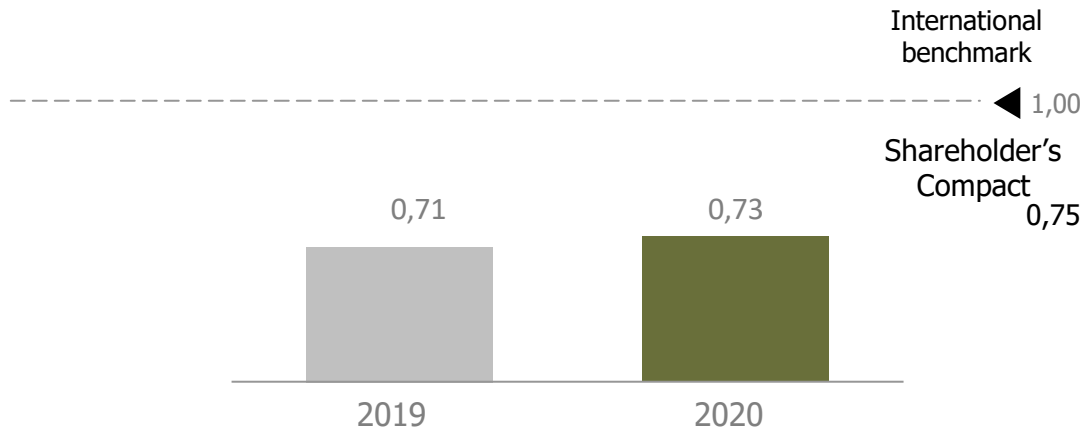


Skills development, capacity building and job creation

- Significant effort needed on **Employment Equity**: particularly **women** and **people with disabilities**.
- An **Employment Equity, Diversity, Inclusion** and **Transformation strategy** aims to address this.
- Continue to **build depth** in the **core operational capabilities**.
- Past **investments** in learning and development **did not adequately** focus on **operational skills**.
- Henceforth, the **talent pipeline** and **training budget** will be **focused** on this.
- Transnet is **managing the balance** between its **internal capabilities** and the **overall cost** base of the Company, to maintain an **optimal operating ratio**.
- Continue to **invest** in **young talent** for the **logistics industry** and maintain various **programmes**.
- Transnet has implemented **various changes** to its **organisational structure** and to improve **agility** and **speed** of decision-making and ensure **dedicated focus** on the **core business**.

# Safety – recording a DIFR ratio below 0,75

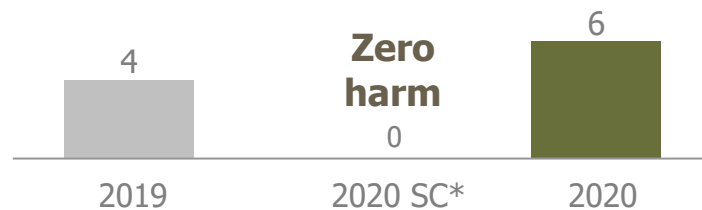
## Disabling injury frequency rate (DIFR)



## DIFR performance

- The Company recorded a **DIFR performance** of **0,73** against a **target of 0,75**
- Going forward, **new targets** to focus on **near-misses** and **lost-time injury frequency rate (LTIFR)** will be introduced
- The Safety Function continues to be the **highest priority** at all levels of the organisation – particularly given Transnet's **highly-industrialised working** context

## Employee fatalities (Number)

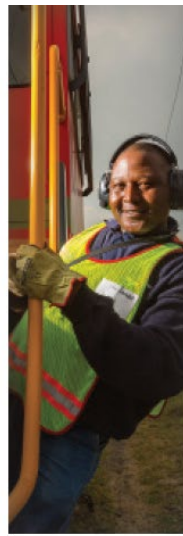
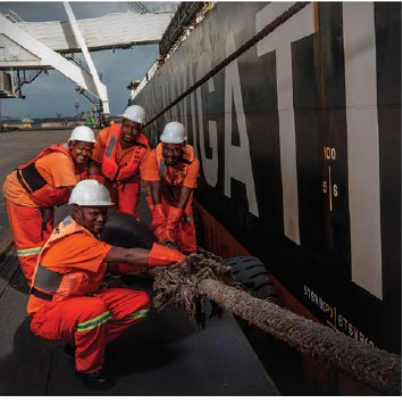


## Employee fatalities

- Notwithstanding a range of initiatives, regrettably, six Transnet employees were fatally injured during the financial year, indicating that greater efforts are still required to ensure that the Company improves its safety performance.
- The employee fatalities resulted from a combination of causal factors, such as train derailments and non-adherence to standard operating procedures (human behaviour).
- Developing a strategy for hard-wiring safe operations and establishing a specialised safety investigations unit.
- Monitoring of the implementation of remedial actions by the Chief of Safety across the Group.

\*SC = Shareholder's Compact



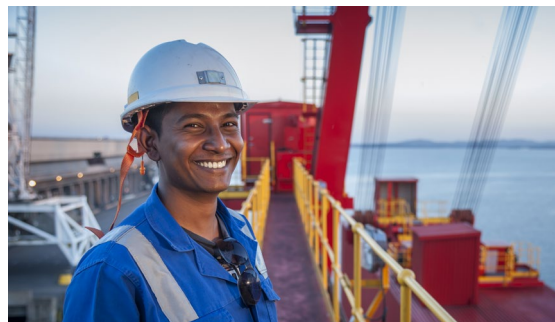


- Financial performance
- PFMA and Audit outcome
- Covid-19 financial impact

Nonkululeko Dlamini  
Group Chief Financial Officer

# Group financial performance overview

<b>Revenue</b> ▲	<b>Net operating expenses</b> ▲	<b>EBITDA</b> ▲	<b>Net profit</b> ▼
<p>Up <b>1,3%</b> to <b>R75,1 billion</b>, mainly due to a weighted tariff increase of <b>2,9%</b>, partially offset by a <b>1,3%</b> decline in rail freight volumes and a <b>2,4%</b> decline in port container throughput</p>	<p>Up <b>1,9%</b> to <b>R41,1 billion</b> – positive, considering FY2019 cost level reflected zero growth compared to FY2018</p>	<p>Up <b>0,7%</b> to <b>R34,0 billion</b>, with EBITDA margin <b>down</b> from <b>45,6%</b> to <b>45,3%</b></p> <p>Performance is <b>below its potential</b> as a result of <b>insufficient maintenance of ageing infrastructure</b> and <b>sluggish global economic growth</b></p>	<p><b>Down 34,9%</b> to <b>R3,9 billion</b>, primarily due to prior year’s fair value adjustments being <b>R2,5 billion</b> higher than the current year</p>
<b>Capital investments</b> ▲	<b>Cash generated</b> ▲	<b>Ratios</b> ▲	<b>Personnel costs</b> ▲
<p>Up <b>3,5%</b> to <b>R18,6 billion</b></p>	<p>Up <b>2,1%</b> to <b>R35,9 billion</b></p>	<p>Gearing of <b>47,6%</b> and <b>cash interest cover</b> at <b>2,9 times</b> both within loan covenant requirements</p>	<p><b>2,7%</b> of <b>personnel costs</b> invested in training artisans, engineers, and technicians</p>

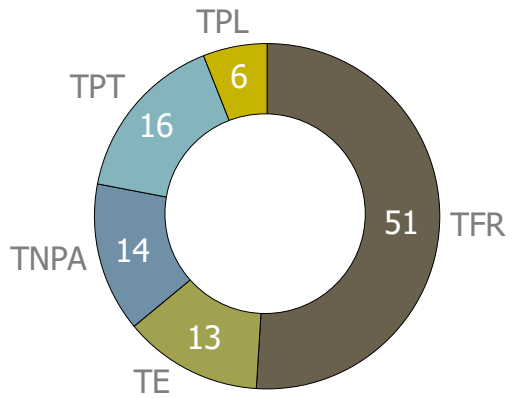
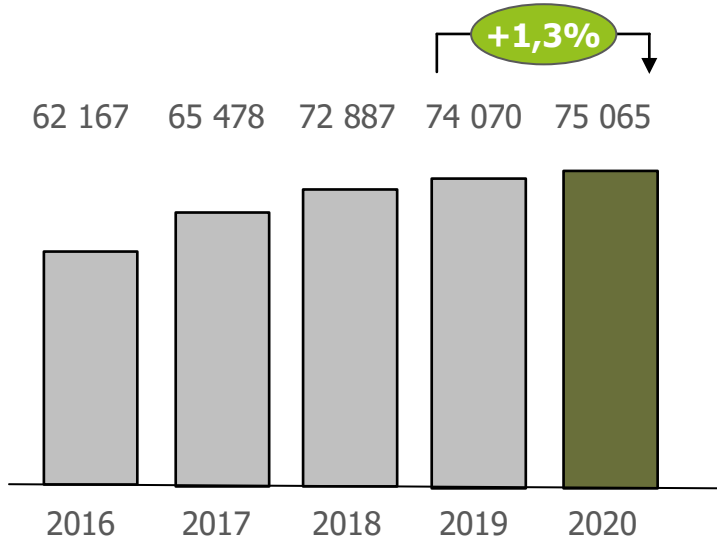


## B-BBEE ▲

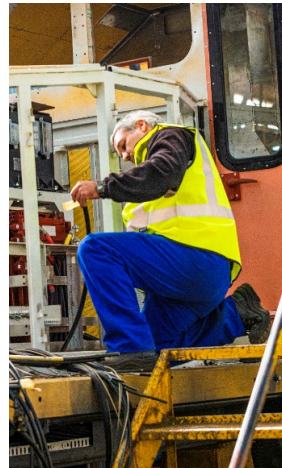
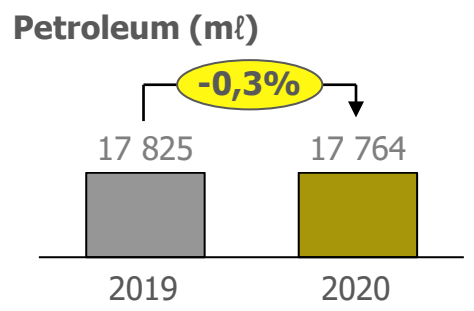
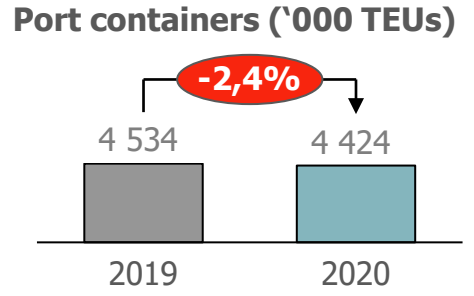
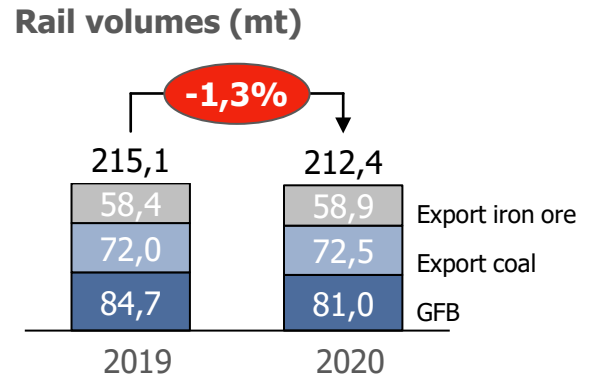
**Maintained at Level 2** – with **R31,31 billion spend** or **111,82%** of total measured procurement spend as defined by DTIC codes

# Revenue remained consistent amid subdued economic activity

Revenue (R million)	Revenue contribution by core Operating Division** (%)	Volumes at a glance
---------------------	---	---------------------



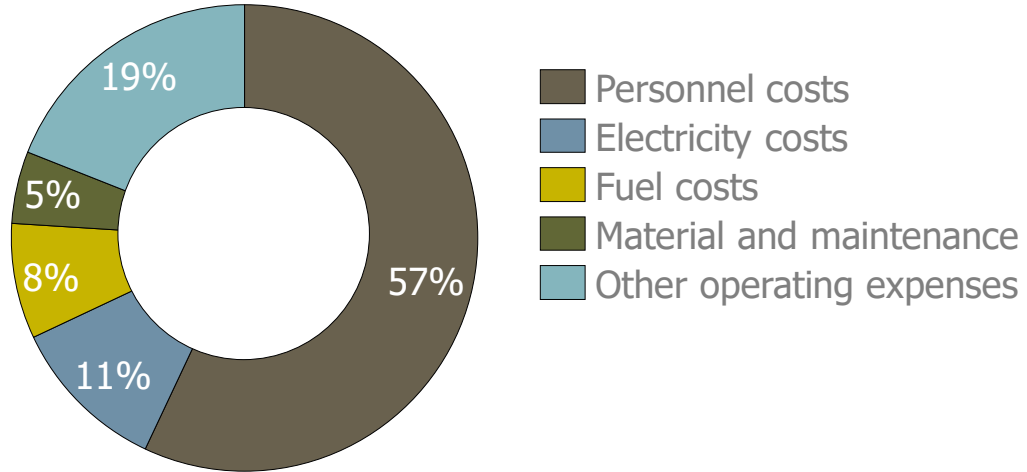
\*\* Excludes specialist units and inter-company eliminations





# Cost increases contained at levels below inflation

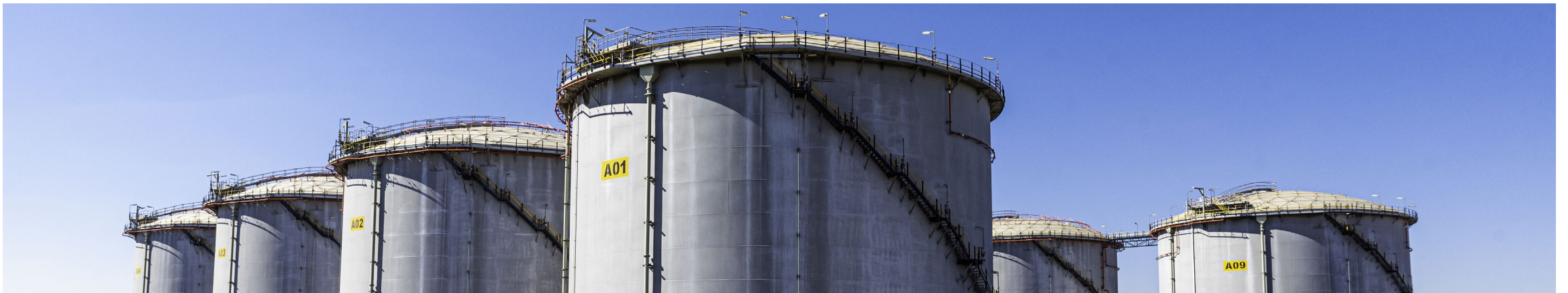
## Net operating expenses contribution by cost element



### Cost-optimisation initiatives

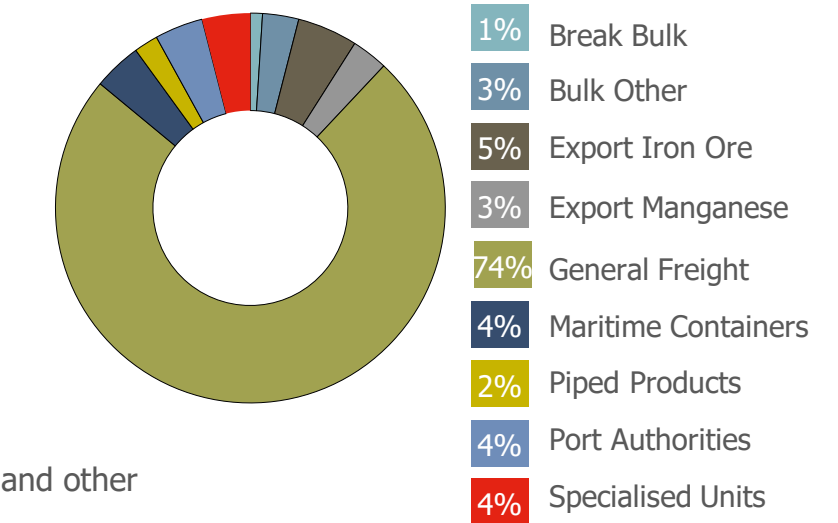
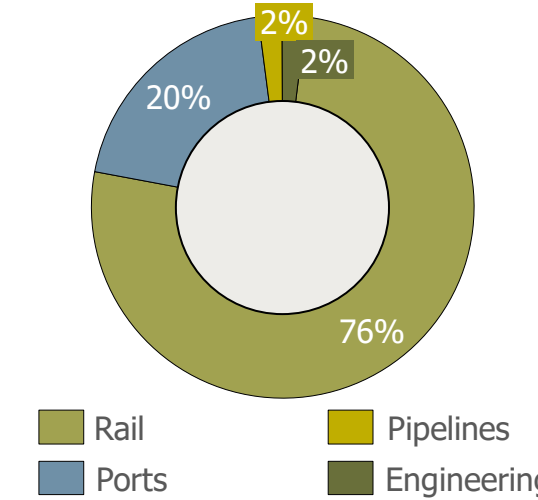
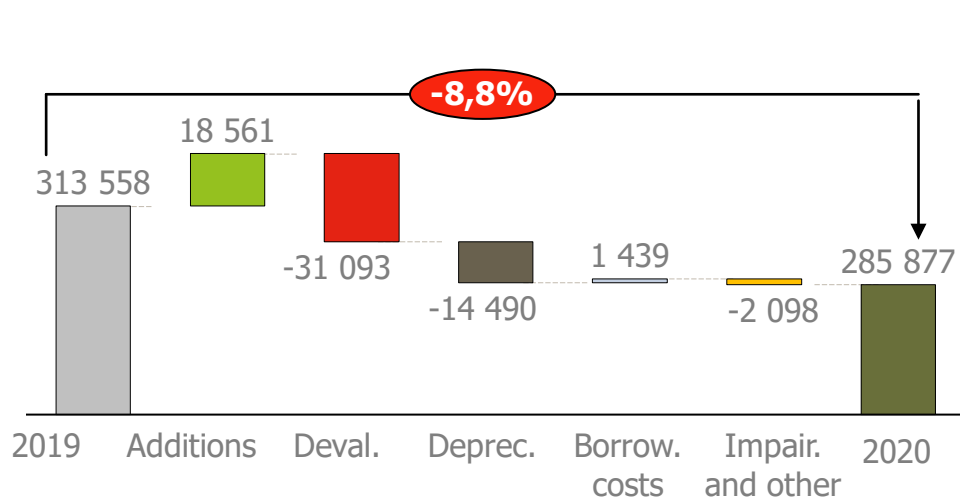
- **Overtime management**
- Reduction of **professional and consulting fees**
- Programmes to **measure condition-assessment vs time-based maintenance** execution
- **Limit discretionary costs** (travel, printing, stationery telecommunications.)

**R4,7 billion** saving against planned costs



# Investments to maintain and expand capacity

Property, plant and equipment (R million)	Capital investment by operating segment	Capital investment by commodity
---	---	---------------------------------



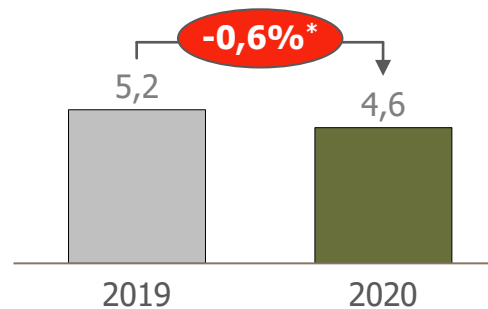
PPE decreased by **8,8%** to **R285,9 billion** mainly as a result of the net devaluation of R31,1 billion:

- **Rail infrastructure** devaluation of **R14,9 billion**
- **Port infrastructure** devaluation of **R16,6 billion**
- **Pipeline networks** revaluation of **R427 million**

Offset by **capital investment** of **R18,6 billion**

- **Expansion:** R3,5 billion
- **Sustaining:** R15,1 billion

Return on invested capital	Investment principles
----------------------------	-----------------------



\* Absolute variance.

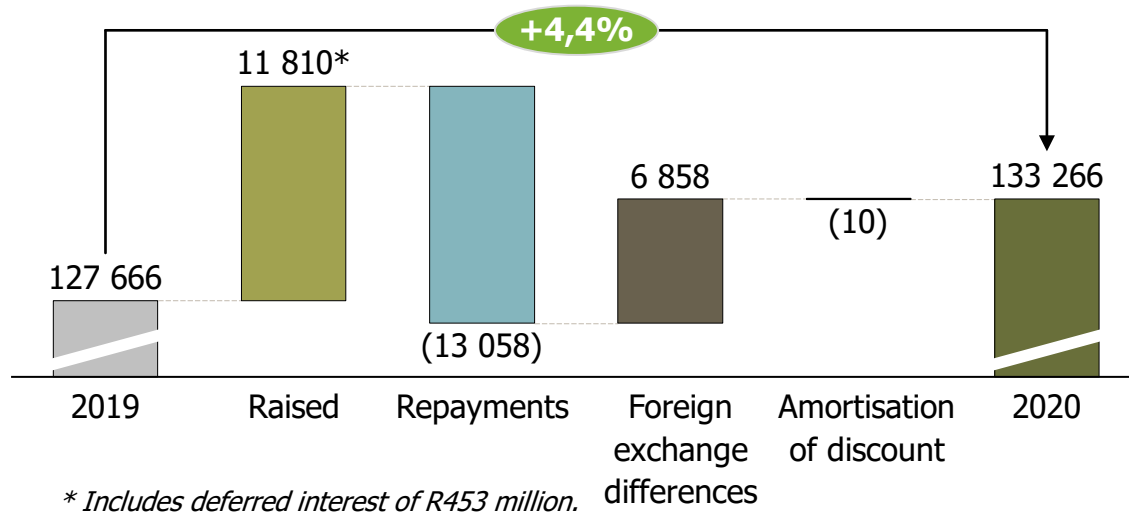
- **Asset care:** adhere to maintenance regimes, ensuring safe operations
- **Prioritising maintenance:** prioritise capital investments linked directly to operational capacity and volumes
- **Closer collaboration with customers and logistics community** to develop sector/commodity strategies to determine future capital investments
- **Enhance localisation**
- **Agility of execution:** Transnet's capacity to execute has to be agile and swiftly mobilised



# Funding raised on the strength of Transnet's financial position

## Total borrowings (R million)

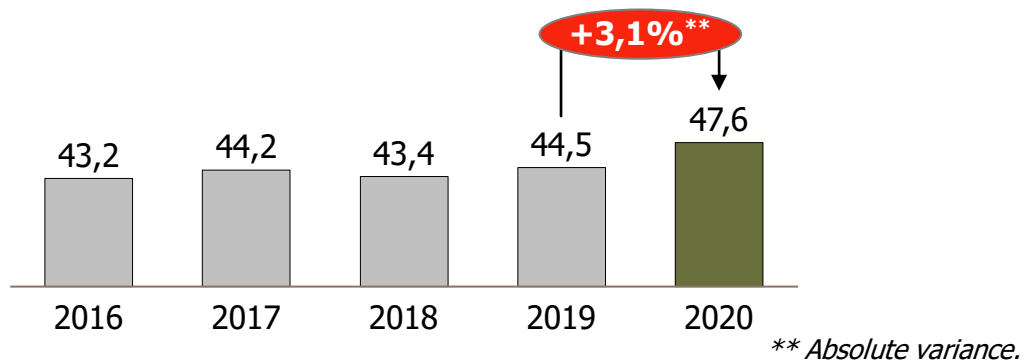
Total borrowings increased by 4,4%.



- **Funding raised** through the issuance of **Transnet bonds** and **commercial paper** and the execution of **bilateral loans**
- All **foreign debt** is **fully hedged** against **foreign exchange rate fluctuations**
- Transnet continues to **borrow on the strength of its financial position**
- Only **R3,5 billion** of **total debt** is supported by **government guarantees** and these guarantees **date back to the 1999** financial year
- The **funding needs**, until the end of calendar year 2021, are **largely catered for**

## Gearing (%)

The gearing ratio is higher than the prior year by 3,1%.



- Within the **target range of <50,0%** and within the **triggers in loan covenants**
- The **gearing ratio** is **not expected** to **exceed loan covenant triggers** over the **medium-term**

# Strong operating cash flows and stable funding outlook

## Abridged cash flow analysis



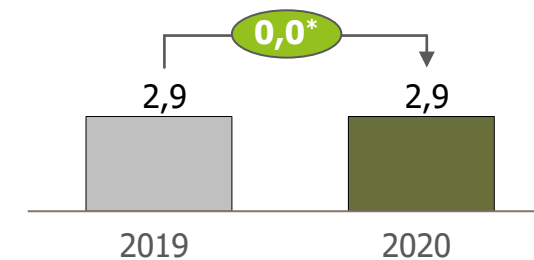
	2020 R million	2019 R million	% var
Cash flows from operating activities	21 946	21 930	0,1
Cash generated from operations	35 911	35 165	2,1
Changes in working capital	(2 493)	(1 633)	52,7
Other operating activities	(11 472)	(11 602)	(1,1)
Cash flows utilised in investing activities	(20 145)	(20 124)	0,1
Cash flows utilised in financing activities	(1 701)	(2 030)	(16,2)
Net increase/(decrease) in cash and cash equivalents	100	(224)	>100
Cash and cash equivalents at the beginning of the year	4 156	4 380	(5,1)
<b>Cash and cash equivalents at the end of the year</b>	<b>4 256</b>	<b>4 156</b>	<b>2,4</b>

## Credit rating



	Moody's	S&P Global Ratings
Foreign currency	Ba1/negative outlook	BB-/stable outlook
Local currency	Ba1/negative outlook	BB-/stable outlook
SACP/BCA	ba2/negative outlook	bb-/stable outlook

## Cash interest cover (times)\*\*



\* Absolute variance.

\*\* Excludes working capital changes.

# Public Finance Management Act (PFMA)

## Information Required by the Public Finance Management Act

Sections 51 and 55 of the PFMA impose certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure, irregular expenditure losses through criminal conduct and the collection of all revenue

### Reporting responsibilities in terms of section 55 (2) (b)

Classification	Definition	Examples of transgressions
<b>Criminal Conduct</b>	Losses incurred as a result of criminal conduct or action	Theft ,malicious damage, fraud or embezzlement
<b>Fruitless and Wasteful</b>	Expenditure that was made in vain; and would have been avoided had reasonable care been taken. No value nor benefit received.	Interest, penalties, contract cancellation or withdrawal fees
<b>Irregular Expenditure</b>	Irregular expenditure is when expenditure is incurred in contravention/ not in accordance with the requirements of the applicable legislation	Unapproved procurement, non-compliance to PPPFA, CIDB, PPM, incorrect DOA applied

## PFMA reporting process

# Irregular expenditure challenges date back to 2011/12

Historical context	Prior year challenges	Current year
<ul style="list-style-type: none"> <li>In FY2018, Transnet reported a <b>significant increase</b> in incidents of <b>irregular expenditure</b> dating back to <b>2011/12</b></li> <li>The <b>bulk</b> of <b>irregular expenditure</b> was reported for the <b>first time</b> as part of the <b>annual compliance audit</b> conducted by Transnet’s <b>external auditors</b>, which resulted in a <b>qualified audit</b> report</li> </ul>	<ul style="list-style-type: none"> <li>In the <b>FY2019 audit</b>, <b>irregular expenditure</b> related to the use of <b>Supplier Development (SD)</b> as a <b>tender pre-qualification</b> was raised</li> <li>This was in relation to the <b>Preferential Procurement Regulations (PPR)</b> of 2017</li> <li>Transnet had <b>discontinued this practice</b> but had <b>not reported</b> the related contracts and expenditure as <b>irregular</b></li> <li>Due to the <b>significance</b> of the <b>impact</b>, the <b>AFS of FY2019</b> were again <b>qualified</b></li> </ul>	<ul style="list-style-type: none"> <li>It was further determined that the <b>use of SD</b> as a <b>tender pre-qualification</b> from <b>2011/12</b> was <b>irregular after the release PPR 2011</b></li> <li>Following the <b>FY2018 qualified audit outcome</b>, the Board and Management embarked on a <b>remedial plan</b></li> <li>Although a <b>remedial plan</b> was <b>implemented</b> and <b>tracked</b>, challenges in <b>supply management</b> have <b>not been fully arrested</b></li> <li>The <b>improvements</b> achieved through the <b>remedial plan</b> have resulted in <b>reduced irregular expenditure</b> from <b>contracts placed post FY2018</b></li> <li>However, <b>expenditure</b> from <b>active contracts</b> placed <b>prior to 2018</b> continues to result in <b>irregular expenditure</b></li> </ul>



# Audit outcome and remedial plan

## Qualified audit opinion



- Due to **the understatement of reported irregular expenditure.**
- The **financial statements**, have **not been qualified** from the perspective of **compliance** with **IFRS**

## Quantum of irregular expenditure



- **Total** for FY2020 is **R9 965 million**
- **Efforts to improve compliance** led to a **significant reduction** in irregular expenditure arising from **new contracts** entered into in the current year.

## Legacy of procurement events



- Prior **non-compliant procurement** events and **procurement practices** not in accordance with the Preferential Procurement Framework
- **Manual process to identify** and accurately report **all irregular expenditure** continues to result in **reporting inaccuracies**
- Based on the payments made, approximately **12 800 contracts** have to be assessed for compliance.

## Remedial plan



- The **remedial plan of 2018** is being **reviewed to close gaps and** address the backlog
- Continue to identify **sustainable solutions** to address these challenges, including:
  - IT solutions
  - Enhanced governance
  - New supply-chain operating model
  - Setting up a loss-control function to drive the implementation
  - Improve internal controls and reporting capability
- The progress of the implementation will be reported and tracked at various governance structures



## Independent assurance



- **Transnet Internal Audit** will provide **independent assurance** on the **progress and implementation** of the plan
- Enhance **PFMA integrated** assurance



## Irregular expenditure reporting

Completeness and accuracy remains a concern, resulting in the FY2020 qualification

Category	2020 (R bn)	%	Cumulative (R bn)	%	Comments
Use of tender pre-qualification criteria after release of the PPPFA 2011 regulations	3,6	37%	51,1	45%	<ul style="list-style-type: none"> <li>The use of the supplier development as a pre-qualification criteria in tenders prior to 2017 has contributed significantly to the increase in reported irregular expenditure.</li> </ul>
Continued use of tender pre-qualification criteria after release of the PPPFA 2017 regulations	1,9	19%	3,8	3%	<ul style="list-style-type: none"> <li>Transnet implemented the necessary controls not to use the supplier development criteria as a tender pre-qualification, hence the minimal impact from this regulation.</li> </ul>
Spend in respect of the 1 064, 95 and 100 locomotive transactions	2,1	21%	43,6	38%	<ul style="list-style-type: none"> <li>The expenditure in respect of "1 064" locomotives is reported as irregular expenditure and is under legal review.</li> </ul>
Other	2,3	23%	15,8	14%	<ul style="list-style-type: none"> <li>Although reporting of irregular expenditure has significantly improved over the last three years, completeness and accuracy remains a concern, resulting in the FY2020 qualification.</li> </ul>
<b>Total</b>	<b>9,9</b>		<b>114,3</b>		

# Steady improvement in the current year performance confirms financial resilience

Revenue impact	Operating expenditure impact	Capital expenditure impact	Funding and liquidity
<ul style="list-style-type: none"> <li>Transnet's <b>revenue was reduced to almost half</b> as a result of Level-5 <b>lockdown restrictions</b></li> <li>However, we have seen <b>recovery close to budget levels</b> as lockdown restrictions eased</li> <li><b>Revenue improved</b> from average of <b>60%</b> in April to <b>over 90%</b> by August 2020</li> </ul> <p><b>Key sector performance</b></p> <ul style="list-style-type: none"> <li><b>Export iron ore, Export coal and Export manganese</b> contributions expected to track <b>close to budget</b> as restrictions continue to ease</li> <li><b>Containers:</b> Port terminals operating at 'close to normal' – volumes improving with reduced lockdown restrictions</li> <li><b>Automotive:</b> resumed manufacturing on 2 May 2020 (at 50% production) – Auto export processing resumed</li> <li><b>Fuel:</b> Petroleum volumes heavily impacted due to airport shutdown and general lockdown</li> </ul>	<ul style="list-style-type: none"> <li><b>Reduced operational levels</b> led to <b>lower variable and overhead costs</b></li> <li>We are pursuing <b>cost containment initiatives</b> to mitigate impact on FY2021 performance</li> <li><b>Good progress</b> on numerous <b>commercial issues</b> which will release <b>unplanned cash</b> into the system</li> </ul>	<ul style="list-style-type: none"> <li>Expect FY2021 Capital expenditure to be <b>26% below plan</b> due to <b>Covid-19 lockdown</b> restrictions on project execution</li> <li><b>No impact on maintenance capital</b></li> </ul> <p><b>Key activities</b></p> <ul style="list-style-type: none"> <li>Continue to <b>assess commercial viability</b> and <b>benefits</b> of current projects</li> <li><b>Sector/commodity-specific strategies</b> to determine future <b>capital investments</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Funding on strength of financial position without Government guarantees</b></li> <li>We will look for <b>partnerships</b> to further support <b>investment opportunities</b></li> <li>The <b>providers</b> of the <b>facilities</b> have expressed their <b>support</b>,</li> <li>We have met <b>all maturity requirements</b></li> <li><b>Sufficient short-term facilities</b></li> </ul>
<p>The lockdown restrictions imposed by Government in late March 2020 did <b>not have a significant impact on the Group's operations for FY2020</b></p> <p>The <b>full extent</b> of <b>Covid-19</b> on the business performance is <b>yet to be determined for FY2021</b></p>			



# Strategy and outlook

Portia Derby

Group Chief Executive

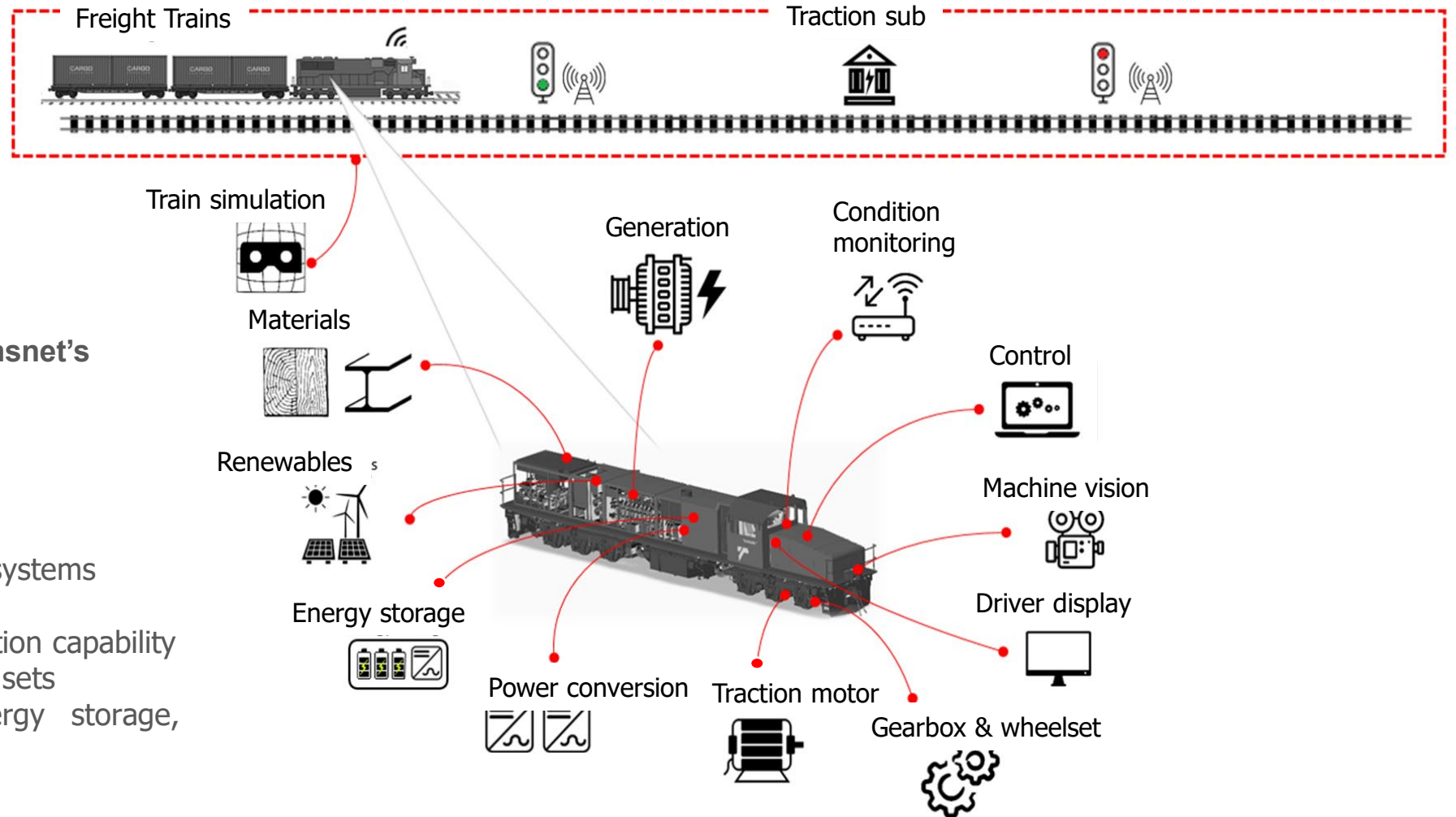
# Research & Development – investing in the future

## Focus Areas:

- Reducing cost of doing business
- Reducing imports where economically viable
- Moving Transnet towards being a smart system

## Research areas to support Transnet's operations and grow domestic manufacturing capability

- Exhaust power generator
- Condition monitoring
- Obstacle detection
- Train control and monitoring systems
- Instrumentation
- Improved drive train and traction capability
- Improved gearbox and wheel sets
- Power conversion and energy storage, including renewables
- Optimised diesel consumption



Total number of Engineers: **104**

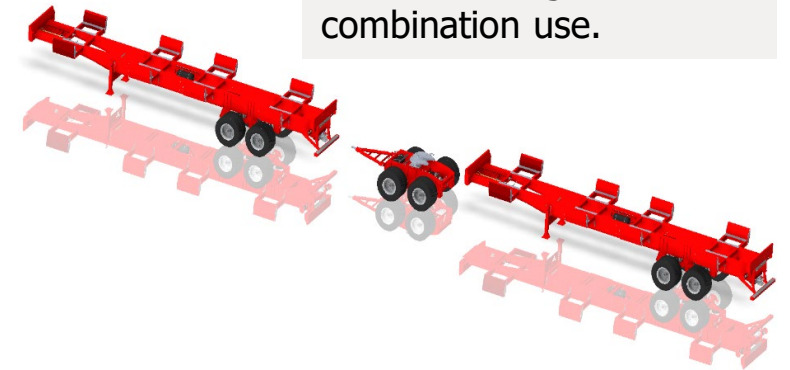


# Engineering – enabling port handling





## Transnet’s Port Hauler (TPH)

- A vehicle **specially designed** to **haul** bulk and **container commodities** across handling facilities.
- The hauler features a **customer digital driver interface**; latest technological advancements and **local engineering excellence**.
- The **first in-house designed** and built **Port Hauler, TPH1**, is in its **final stages of system testing**.
- The **next generation** (commercial) **Port Hauler (TPH2)** is in the **final stage** of its design phase.

Semi-trailers have been deployed at Port Terminals and testing is currently in progress to determine single or combination use.



# Moving in the right direction

<b>Past</b> 	<b>Present</b> 	<b>Future</b> 	<b>Building resilience in a post-Covid-19 world</b> 	
<ul style="list-style-type: none"> <li>• High <b>level of investment</b> in <b>locomotives</b> and <b>wagons</b> not matched by <b>investment</b> in <b>rail network, terminals</b> and <b>maintenance</b></li> <li>• Large <b>cost overruns</b> on major <b>capital projects</b></li> <li>• <b>Expected efficiencies</b> and capacity expansions from <b>accelerated capital programme</b> not realised</li> <li>• <b>Volumes below</b> anticipated levels</li> <li>• Historical <b>growth projections</b> overly optimistic</li> </ul>	<ul style="list-style-type: none"> <li>• SA has become <b>default global gateway</b> to landlocked countries in the <b>region</b></li> <li>• <b>Capital investment</b> focused on <b>maintenance</b> and <b>improving</b> existing <b>asset capacity</b> vs expansion capital</li> <li>• More <b>rigorous evaluation</b> of future <b>demand projections</b></li> <li>• Review and refine <b>Group-wide capital allocation</b> process</li> <li>• Improve <b>validation</b> of <b>business cases</b></li> <li>• <b>Incentivise capital efficiency</b></li> <li>• <b>Incentivise market share growth</b></li> </ul>	<ul style="list-style-type: none"> <li>• Deliver <b>more effectively</b></li> <li>• <b>Align to the customer</b></li> <li>• Crowd in <b>private sector investment</b></li> <li>• <b>Contribute</b> more effectively to SA's <b>development goals</b>:                             <ul style="list-style-type: none"> <li>• <b>Industrialisation</b></li> <li>• <b>Regional integration</b></li> <li>• <b>Economic transformation</b></li> <li>• <b>Energy efficiency</b></li> <li>• <b>Socio-economic development</b></li> </ul> </li> </ul>	<p><b>Fix the Core</b></p>	<ul style="list-style-type: none"> <li>• A <b>sharper focus</b> on <b>supply chain performance</b> and <b>appropriate positioning</b> in the <b>supply chain</b></li> <li>• Focus on <b>customers, people, safety, assets</b> and <b>costs</b></li> <li>• <b>Technology</b> and <b>data driven optimization</b></li> </ul>
			<p><b>Partnerships for Growth</b></p>	<ul style="list-style-type: none"> <li>• Target <b>investment</b> in <b>infrastructure</b></li> <li>• <b>Investment</b> in <b>SPVs</b> and <b>JV's</b> to:                             <ul style="list-style-type: none"> <li>• Better <b>align</b> to <b>customers</b></li> <li>• Build <b>volumes</b></li> <li>• Enhance <b>operational efficiency</b></li> <li>• Attract <b>new investment</b></li> </ul> </li> </ul>
			<p><b>Operational Efficiency</b></p>	<ul style="list-style-type: none"> <li>• Targeted <b>corridor alignment</b></li> <li>• <b>Build volumes</b> and <b>generate revenue</b></li> <li>• Build <b>customers</b> into <b>solution profile</b></li> <li>• <b>Cost containment</b> and effective <b>allocation</b> of <b>resources</b></li> </ul>



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**THANK YOU**

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# Disclaimer

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## Disclaimer

Certain statements in this document do not comprise reported financial results or historical information, but forward-looking statements. These statements are predictions of or indicate anticipated future events, trends, future prospects, objectives, earnings, savings or plans and include, but are not limited to, statements regarding volume growth, increases in market share, exchange rate fluctuations, and cost reductions. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as “believe”, “continue”, “anticipate”, “ongoing”, “expect”, “will”, “could”, “may”, “intend”, “plan”, “could”, “may”, and “endeavour”.

By their nature, forward-looking statements are inherently predictive, speculative and involve inherent risks and uncertainties, because they relate to events and depend on circumstances that may or may not occur in the future. If one or more of these risks materialise, or should underlying assumptions prove incorrect, our actual results may differ either marginally or materially from those anticipated.

A number of factors could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including, but not limited to: changes in economic or political conditions and changes to the associated legal, regulatory and tax environments; lower than expected performance of existing or new services or products, and the impact thereof on the Company’s future revenue, cost structure and capital expenditure; the Company’s ability to expand its portfolio; skills shortage; changes in foreign exchange rates and a lack of market liquidity which could, in turn, impact expected customer growth and customer retention; acquisitions and divestments of businesses and assets and the pursuit of new, unexpected strategic opportunities; the extent of any future write-downs or impairment charges on the Company’s assets; the impact of legal or other proceedings against the Company; uncontrollable increases to legacy defined benefit liabilities and higher than expected costs or capital expenditures.

Forward-looking statements apply only as of the date on which they are made, and we do not undertake any obligation to update or revise them, whether as a result of new information, future events or otherwise.



# Building globally-competitive value chains

Containers sector	Fuel sector	Iron ore
<ul style="list-style-type: none"> <li>Establish SA as <b>shipping and industrial hub</b></li> <li>Improve container <b>terminal efficiency, reliability</b> and <b>predictability</b></li> <li>Developing <b>stronger logistics clusters</b> at critical nodes of the networks</li> <li>Involve private sector to enhance containers on rail and container throughput in ports</li> <li>Investment in rail to <b>restore design capacity</b></li> <li>Increase <b>port</b> and <b>rail</b> equipment <b>maintenance</b></li> </ul>	<ul style="list-style-type: none"> <li>SA produces <b>5%</b> of fuel from gas, <b>35%</b> from coal and <b>50%</b> from local crude oil refineries</li> <li>Need for <b>new refineries</b> or significant investment to <b>maintain</b> existing refineries</li> <li>Storage infrastructure may be the next constraint</li> <li><b>Changes</b> to current <b>fuel distribution infrastructure</b> holds potential for new connections to the <b>NMPP</b></li> <li>Solutions incl. <b>SPVs in storage</b></li> </ul>	<ul style="list-style-type: none"> <li>SA remains <b>highly competitive</b> with high-quality <b>ore-grade</b></li> <li>Transnet's export iron ore line a <b>global benchmark</b> for efficient and effective heavy haul rail</li> <li><b>Invest in maintenance</b> on the <b>rail track</b> and <b>port handling</b> equipment to reduce operational disruptions</li> <li>Increase throughput at the Port of Saldanha increase channel capacity</li> </ul>
Automotive sector	Coal sector	Manganese
<ul style="list-style-type: none"> <li><b>Challenges:</b> inbound and outbound logistics costs long-standing concern</li> <li>Harness current <b>automotive clusters</b> in KZN, E. Cape and Gauteng</li> <li>Leverage <b>economies of scale</b> through OEM cooperation</li> <li>Better <b>asset utilisation:</b> transport fully built-up vehicles, <b>cooperate with OEMs</b> and promote shared use of inland and port terminals</li> </ul>	<ul style="list-style-type: none"> <li>Transnet <b>capping export coal line capacity</b> from Ermelo to Richards Bay to 81mt</li> <li>Expand <b>access to Waterberg</b></li> <li><b>Strengthen Channel</b> access to <b>Mozambique</b></li> <li><b>Growth opportunities</b> for coal supply to Eskom</li> <li>Transnet's <b>strategy</b> aligns with SA Gov's 2019 <b>Integrated Resource Plan</b></li> </ul>	<ul style="list-style-type: none"> <li>SA remains <b>highly competitive</b> with high-quality <b>ore-grade</b></li> <li>Transnet adopting <b>multi-channel strategy</b> to increase <b>manganese export capacity</b></li> <li><b>Supply chain</b> solutions for manganese exports include bulk and containerised <b>exports</b> for <b>maximum flexibility</b></li> <li>Solutions incl. <b>PPP/SPVs in terminals</b></li> </ul>