TRANSNET

delivering freight reliably


# Briefing by Transnet SOC Limited

Presentation to the Portfolio Committee

10 September 2014

20 YEARS OF FREEDOM
south africa 1994 - 2014

# Executive summary 31 March 2014

**Revenue** increased by **12,8%** to **R56,6 billion.**

**Capital investment** increased by **15,6%** to **R31,8 billion.**

**EBITDA** increased by **12,3%** to **R23,6 billion.**

**Cash generated from operations after working capital changes** increase by **11,6%** to **R25,3 billion.**

**Profit for the year** increased by **24,9%** to **R5,2 billion.**

Strong **volume growth** in automotive and containers on rail of **25,2%.**

**Gearing** at **45,9%** and **cash interest cover** at **3,7 times.**

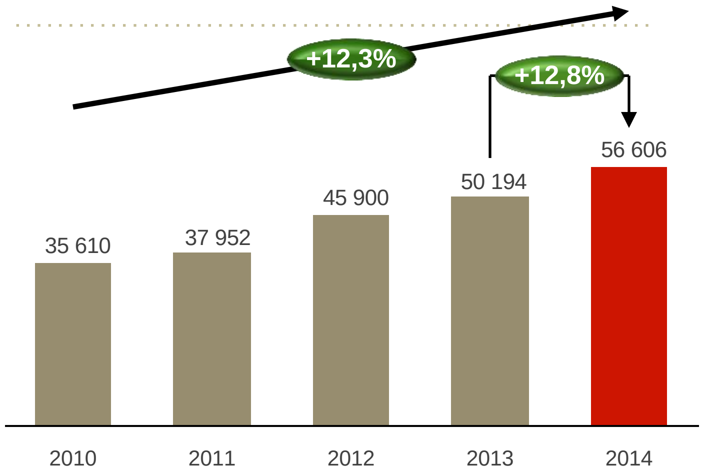
**B-BBEE** spend of **R38,8 billion** or **94,4%** of total measured procurement spend for the year per DTI codes.

# Abridged income statement

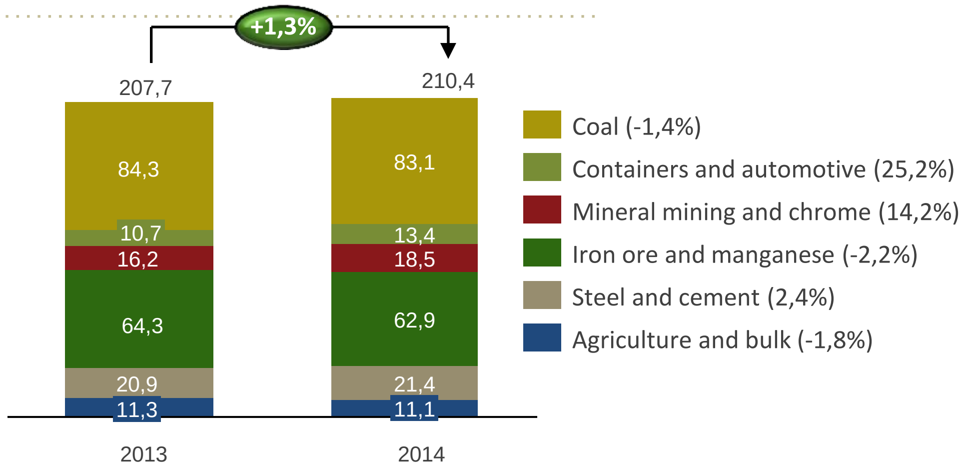
| | 2014<br>R million | 2013<br>R million | %<br>change |
|---|---|---|---|
| Revenue | **56 606** | 50 194 | 12,8 |
| Net operating expenses excluding depreciation, derecognition and amortisation | **(32 967)** | (29 143) | 13,1 |
| EBITDA | **23 639** | 21 051 | 12,3 |
| Depreciation, derecognition and amortisation | **(10 736)** | (9 277) | 15,7 |
| Profit from operations before items listed below | **12 903** | 11 774 | 9,6 |
| Impairment of assets, fair value adjustments and other items | **(217)** | (593) | (63,4) |
| Net finance costs | **(5 551)** | (5 140) | 8,0 |
| Profit before taxation | **7 135** | 6 041 | 18,1 |
| Taxation | **(1 964)** | (1 902) | 3,3 |
| Profit for the year | **5 171** | 4 139 | 24,9 |

# Revenue and volumes

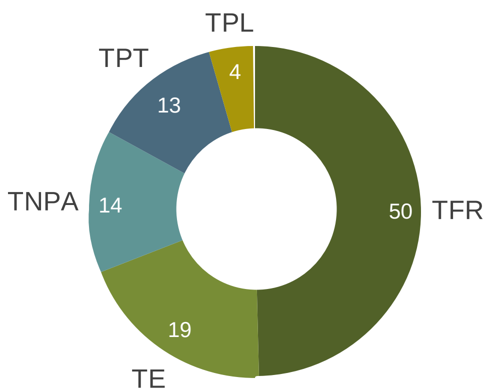
## Revenue (R million)




## Rail volumes (mt)

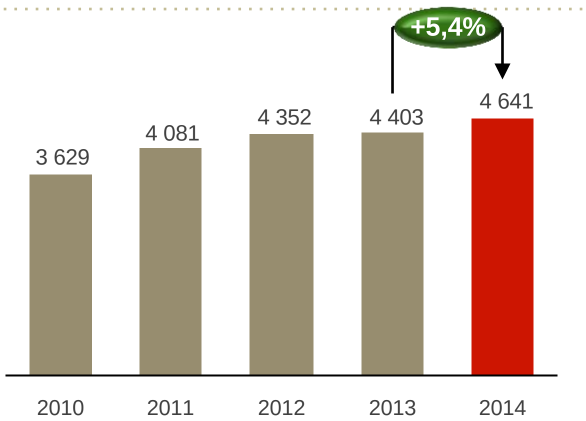



## Revenue contribution by Operating Division* (%)



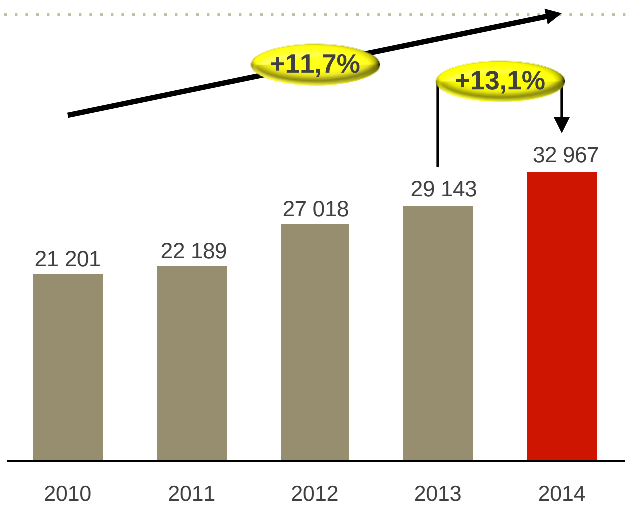

** Excludes specialist units and intercompany eliminations.*

## Port containers ('000 TEUs)

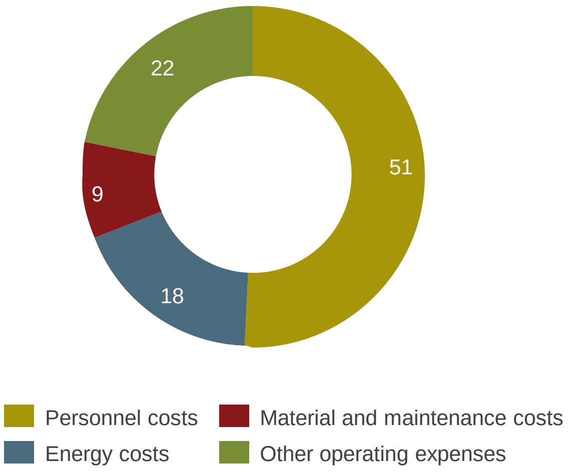


# Operating expenses

Operating expenses (R million)




Operating expenses contribution by cost element (%)

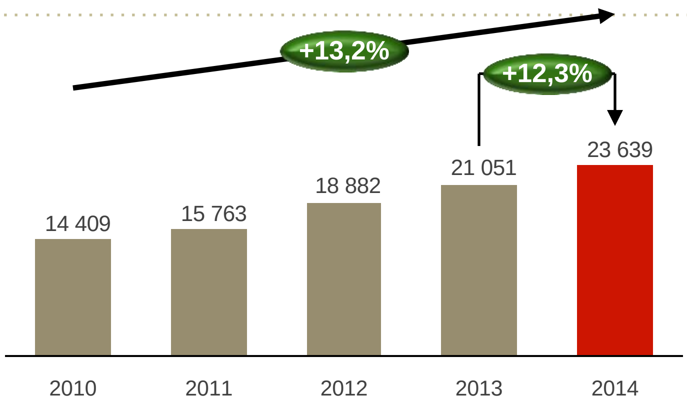



Cost-reduction initiatives were implemented by the Company during the year in response to the uncertain economic environment, which resulted in a saving of R2,1 billion, against planned costs. Expenses increased by 13,1% to R33,0 billion mainly due to:

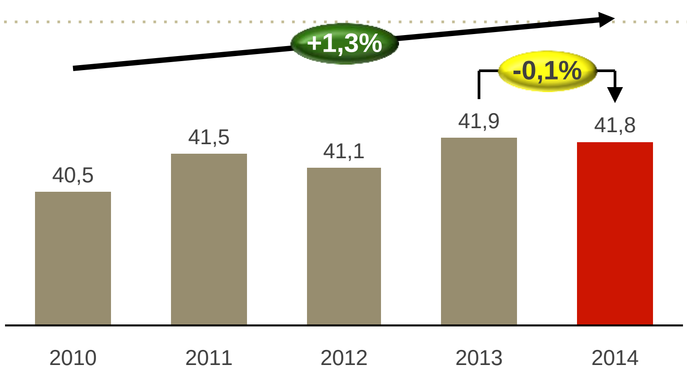
- Increase in energy costs of 10,3%, due to the higher electricity tariffs as well as fuel price increases impacted by foreign exchange volatility.
- Increase in personnel costs of 14,6% to R16,6 billion (2013: R14,5 billion), due to an average wage increase across the Company relating to the two-year wage agreement concluded with the recognised labour unions of 8,5%, as well as the filling of MDS critical vacancies.

# EBITDA

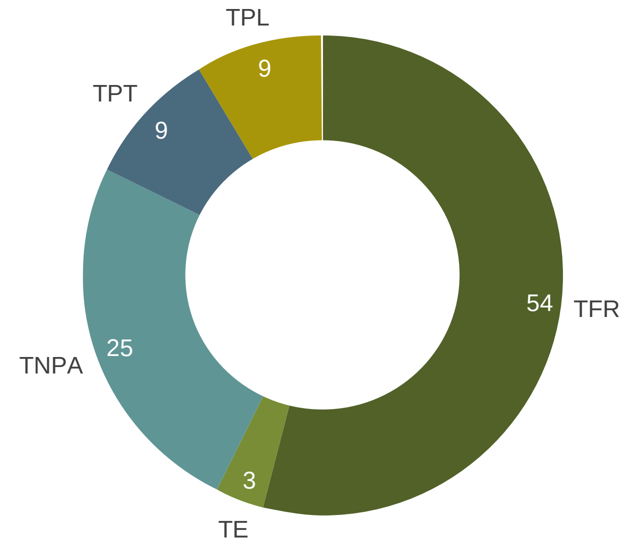
EBITDA (R million)




EBITDA margin (%)



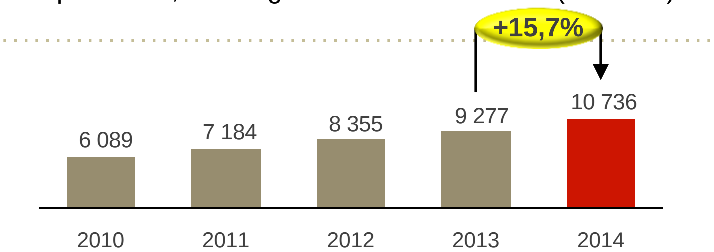

EBITDA contribution by Operating Division* (%)




* *Excludes specialist units and intercompany adjustments.*

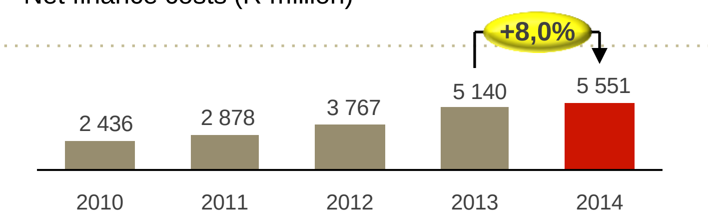
# Depreciation, derecognition and amortisation, net finance costs, taxation and profit for the year

Depreciation, derecognition and amortisation (R million)



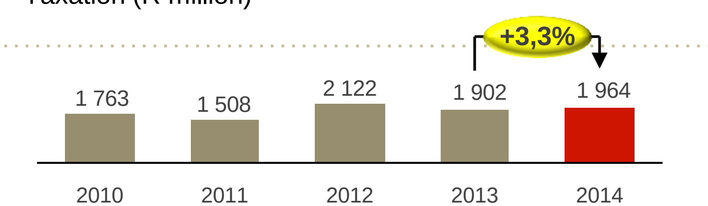

Depreciation, derecognition and amortisation of assets for the year increased by 15,7%, mainly as a result of capital investments as well as the depreciation of revalued port facilities and pipelines. This trend is expected to continue in line with the execution of the capital investment programme.

Net finance costs (R million)



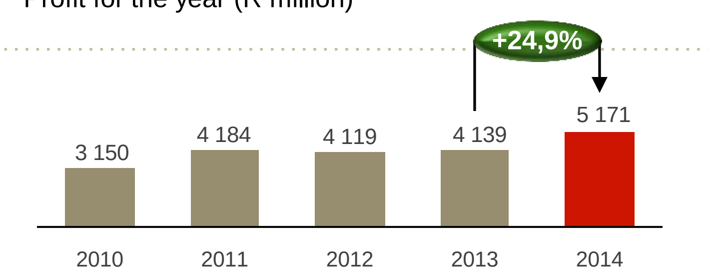

Net finance costs increased by 8,0%, in line with expectations, due to increased borrowings to fund the capital investment programme.

Taxation (R million)




The taxation charge for the year amounted to R2,0 billion.

Profit for the year (R million)



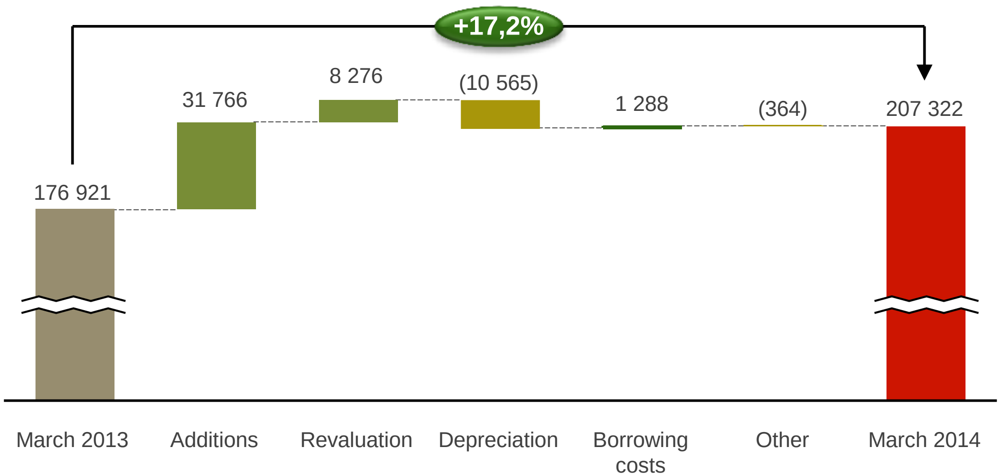

The resulting increase in profit for the year was 24,9%.

# Abridged statement of financial position

| | 2014<br>R million | 2013<br>R million |
|---|---|---|
| ASSETS | | |
| Property, plant and equipment | **207 322** | 176 921 |
| Investment properties | **8 572** | 7 938 |
| Other non-current assets | **9 168** | 5 123 |
| Non-current assets | **225 062** | 189 982 |
| Current assets | **15 011** | 13 914 |
| Total assets | **240 073** | 203 896 |
| EQUITY AND LIABILITIES | | |
| Capital and reserves | **97 113** | 84 954 |
| Non-current liabilities | **117 723** | 98 543 |
| Current liabilities | **25 237** | 20 399 |
| Total equity and liabilities | **240 073** | 203 896 |

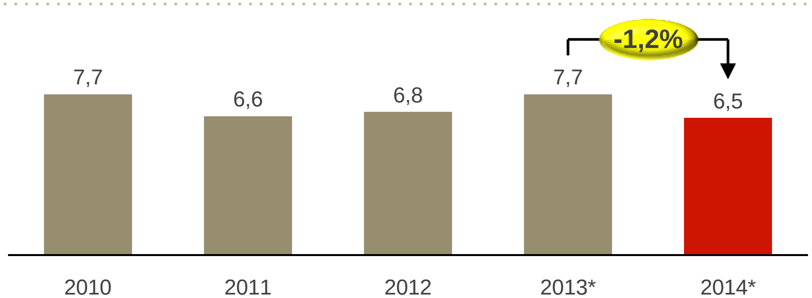
# Property, plant and equipment (PPE)

Property, plant and equipment (R million)




PPE increased to R207,3 billion. Capital investment for the year increased by 15,6%, with R13,3 billion being invested in the expansion of infrastructure and equipment, while R18,5 billion was invested in maintaining existing capacity.

Return on average total assets (excluding CWIP) (%)*

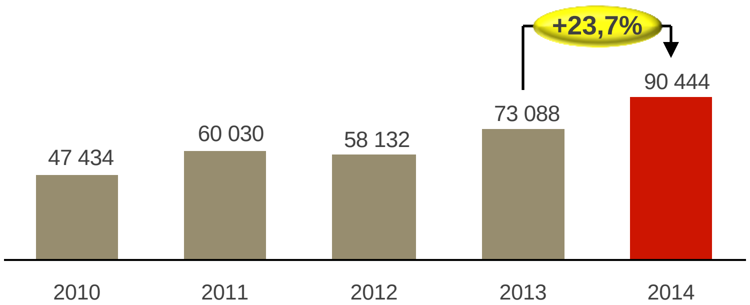



Return on average total assets decreased to 6,5% at 31 March 2014. This is as a result of the significant increase in the asset base.

** Excludes Regulator claw backs.*

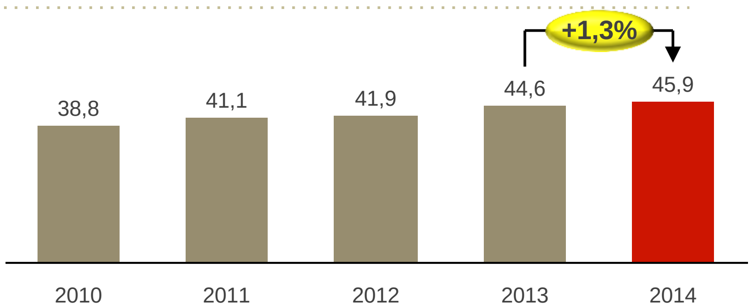
# Total borrowings

Total borrowings (R million)




Transnet raised R22,4 billion for the year and repaid borrowings amounting to R8,0 billion. The 23,7% increase is in line with the funding plan.

Gearing (%)

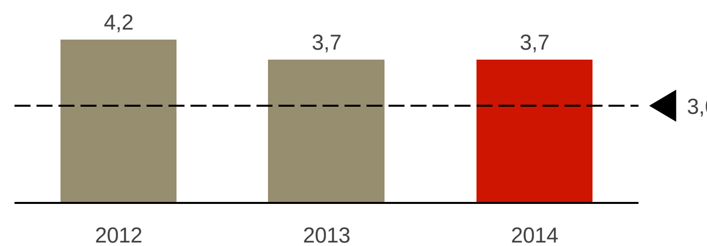



The gearing ratio increased to 45,9%. The ratio remains below the Group's target of 50,0%, reflecting significant capacity available to pursue the counter cyclical investment strategy.

# Abridged cash flow statement and funding

| | 2014 R million | 2013 R million | % change |
|---|---|---|---|
| Cash and cash equivalents at the beginning of the year | **2 598** | 1 189 | 118,5 |
| Cash flows from operating activities | **18 709** | 16 776 | 11,5 |
| • Cash generated from operations | **24 043** | 22 599 | 6,4 |
| • Security of supply petroleum levy | **–** | 1 315 | (100,0) |
| • Changes in working capital | **1 228** | (1 273) | (196,5) |
| • Other operating activities | **(6 562)** | (5 865) | 11,9 |
| Cash flows utilised in investing activities | **(32 067)** | (27 241) | 17,7 |
| Cash flows from financing activities | **14 393** | 11 874 | 21,2 |
| Net increase in cash and cash equivalents | **1 035** | 1 409 | (26,5) |
| Total cash and cash equivalents at the end of the year | **3 633** | 2 598 | 39,8 |

Cash interest cover (times)




| Sources of funding | 2014 R billion | 2013 R billion |
|---|---|---|
| GMTN/DFIs/ECAs | **9,9** | 10,8 |
| Domestic bonds and Commercial paper | **8,5** | 3,2 |
| Call loans | **4,0** | 0,6 |
| Total | **22,4** | 14,6 |

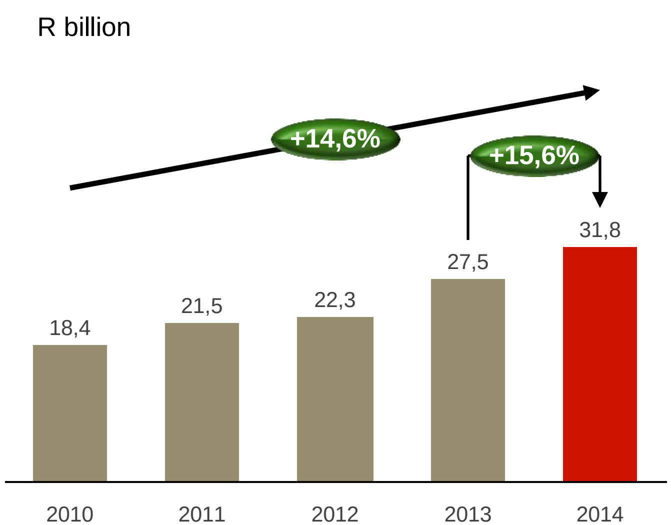
## Credit rating: Long-term foreign currency

A3
Negative outlook

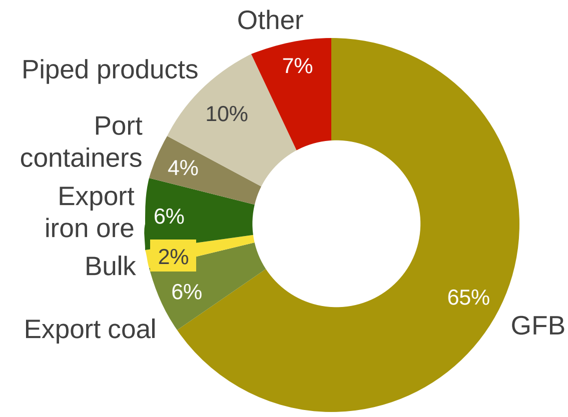
STANDARD & POOR'S

BBB-
Stable outlook

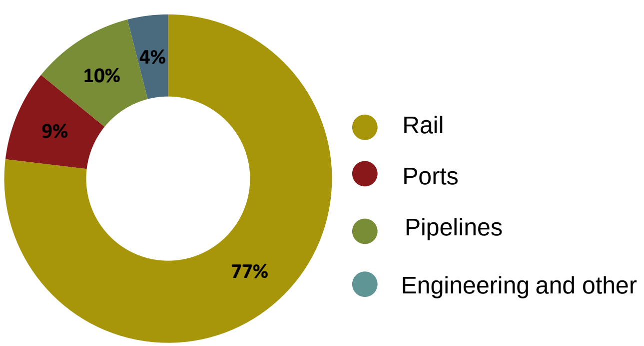
# Capital investment analysis – spend for last five years R121,5 billion



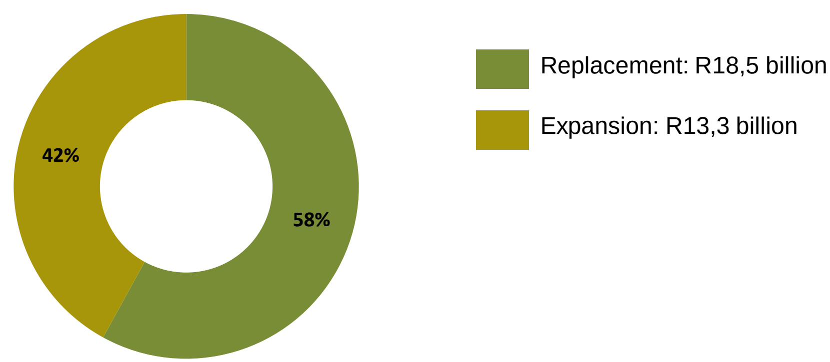

## Capital investment by commodity




## Capital investment by operating segment




## Expansion vs replacement



# Major capital deliveries during the year

| Asset type | Quantity March 2014 | Quantity Cumulative |
|---|---|---|
| **Locomotives** | | |
| 43 Class 43 diesel | 43 | 43 |
| 32 Class 15E electric | 32 | 32 |
| 95 electric locomotives | 9 | 9 |
| **Wagons** | | |
| General freight | 3 281 | 5 762 |
| Export coal | – | 696 |

| Asset type | Quantity |
|---|---|
| Rail refurbishment: Infrastructure | |
| Turnouts | 133 |
| Universal sleepers | 220 |
| Screening | 576km |
| Sleepers | 314 593 |

| Asset type | Quantity |
|---|---|
| Port infrastructure | |
| Mobile harbour cranes for Dbn MPT, EL and CPT | 9 |
| Straddle carriers for DCT and CPT | 13 |
| Haulers and trailers – all terminals | 160 |
| Tandem lift ship-to-shore cranes for DCT | 7 |
| Empty container handler for NCT and CTCT | 9 |
| Reach stackers for NCT | 10 |
| Twin-lift STS cranes for CPT and NCT | 4 |
| Ship loader and un-loader (Richards Bay) | 2 |
| Forklifts (Richards Bay) | 30 |

| Asset type | Stage of completion |
|---|---|
| Pipeline infrastructure | |
| Coastal terminal | 83% |
| Inland terminal | 79% |

NMPP Trunkline is 100% complete and fully operational with single product (diesel).

# Locomotive acquisition programme – estimated delivery schedule

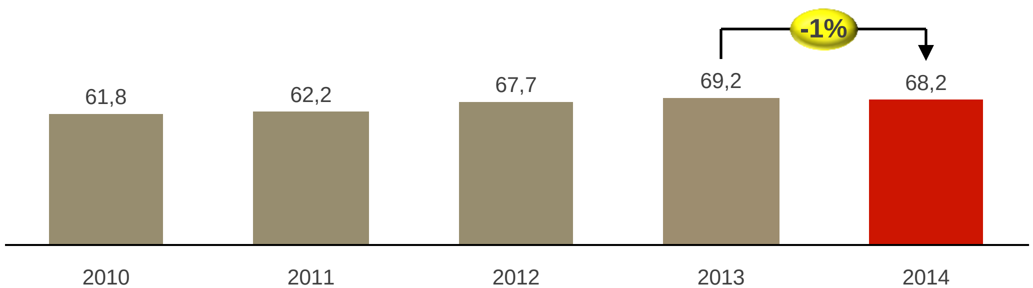
| | General freight business | | | Export coal | | General freight business |
|---|---|---|---|---|---|---|
| Year | 95 electric locomotives | 1 064 locomotives | 60 diesel locomotives | 100 electric locomotives | **Total locomotives** | Wagons for MDS |
| 2015 | 86 (6) | – | 19 | 17 | 122 | 2 704 |
| 2016 | – | 148 | 41 | 83 | 272 | 3 803 |
| 2017 | – | 492 | – | – | 492 | 3 203 |
| 2018 | – | 424 | – | – | 424 | 4 065 |
| 2019 | – | – | – | – | – | 5 575 |
| 2020 | – | – | – | – | – | 2 314 |
| 2021 | – | – | – | – | – | 1 294 |

* *Of the 86 locomotives expected to be delivered in the 2015 financial year, 6 locomotives were accepted by Freight Rail as at 26 June 2014.*

# Volumes and operations

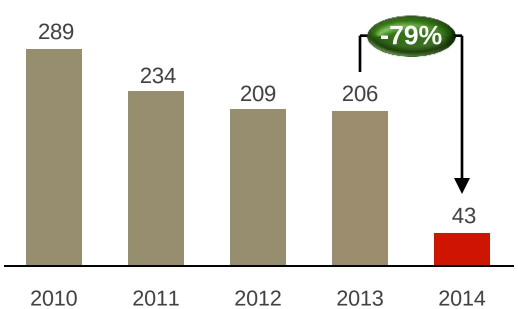
Rail – export coal

## Volumes (mt)

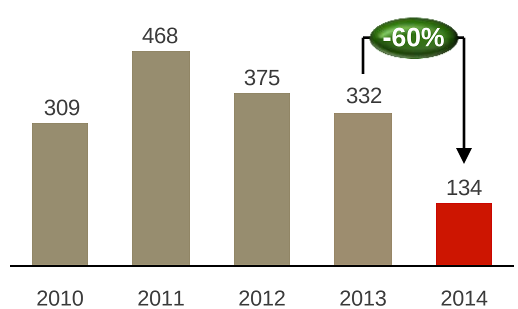



## Productivity and efficiency

On-time departure (minutes)




On-time arrivals (minutes)

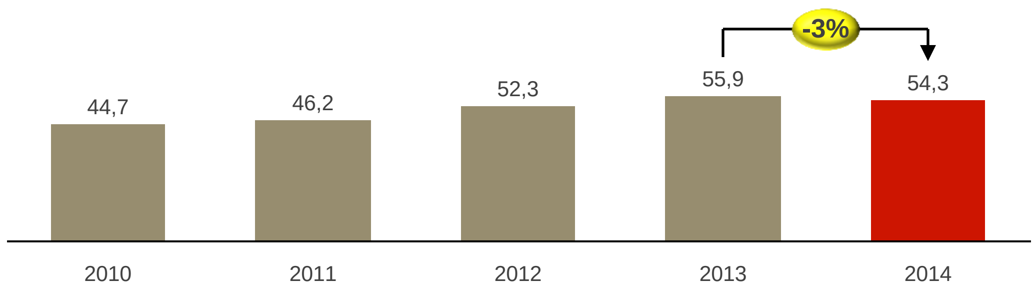



- Export coal volumes decreased by 1% compared to prior year, due mainly to:
  - The global economic decline impacting price;
  - Power disruptions at Richards Bay Coal Terminal; and
  - Industrial strikes.
- On-time departures and arrivals improved substantially due mainly to process adherence improvements, including lean project plans.
- The introduction of the Shongololo train contributed to these efficiency improvements.

# Volumes and operations

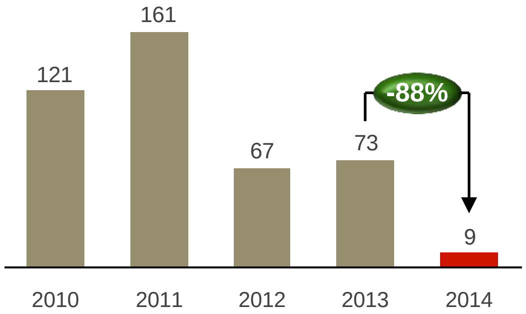
**Rail – export iron ore**

## Volumes (mt)

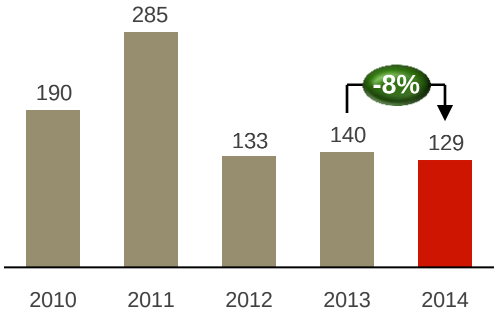



## Productivity and efficiency

On-time departure (minutes)




On-time arrivals (minutes)

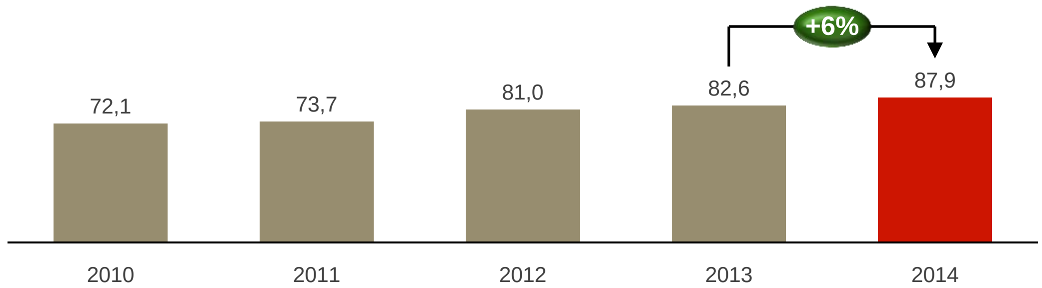



- Export iron ore volumes decreased by 3% compared to prior year, mainly due to:
  - Global economic impact on key customers volumes; and
  - Kumba Iron Ore production problems resulting in customer cancellations.
- On-time departures and arrivals improved, mainly due to process adherence improvements, including lean project plans.

# Volumes and operations

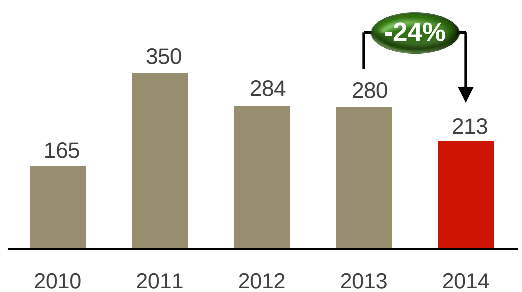
Rail – General freight business (GFB)

## Volumes (mt)

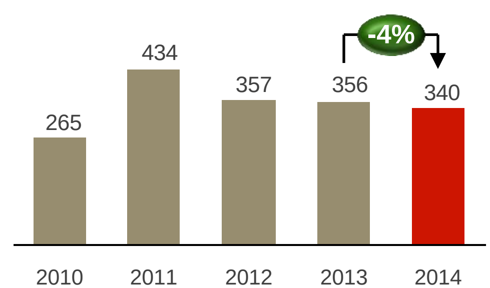



## Productivity and efficiency

On-time departure (minutes)




On-time arrivals (minutes)




- General freight volumes increased by 6%, mainly due to the increase in the:
  - Container and automotive business;
  - Mineral, mining and chrome business; and
  - Steel and cement business.
- The focus on operational efficiency resulted in improvements in on-time departures and arrivals.

# Volumes and operations

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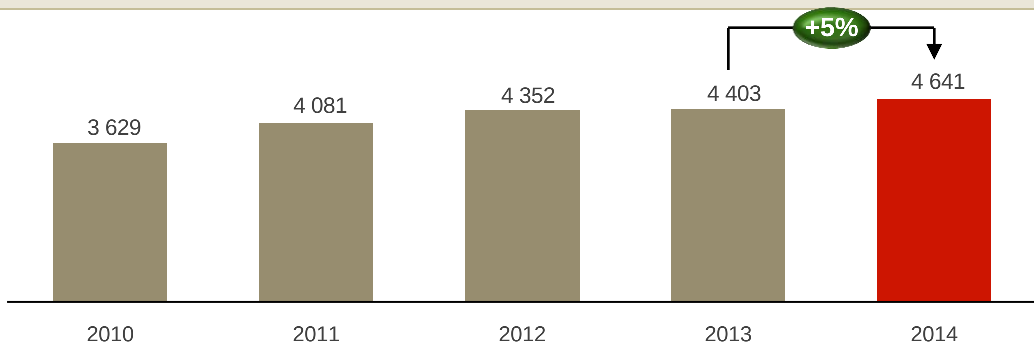
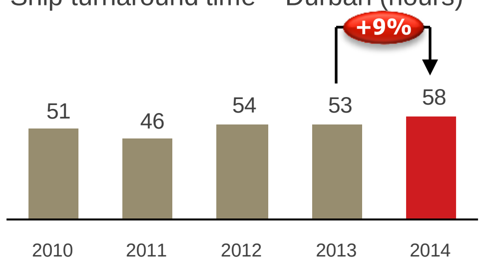
Ports – containers

## Volumes ('000 TEUs)

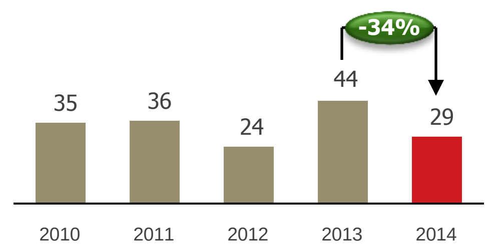



## Productivity and efficiency

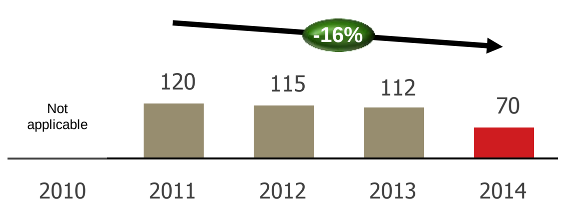
Ship turnaround time – Durban (hours)




Ship turnaround time – Cape Town (hours)




Ship turnaround time – Richards Bay (hours)




- Maritime container volumes increased by 5% compared to prior year, mainly due to:
  - Increase in transshipment volumes;
  - Vehicle and transport equipment imports; and
  - Strong machinery, electronics, base metal and chemical product export volumes.
- Performance improvement initiatives, including revised yard strategy, have been implemented to improve efficiencies.

# Volumes and operations

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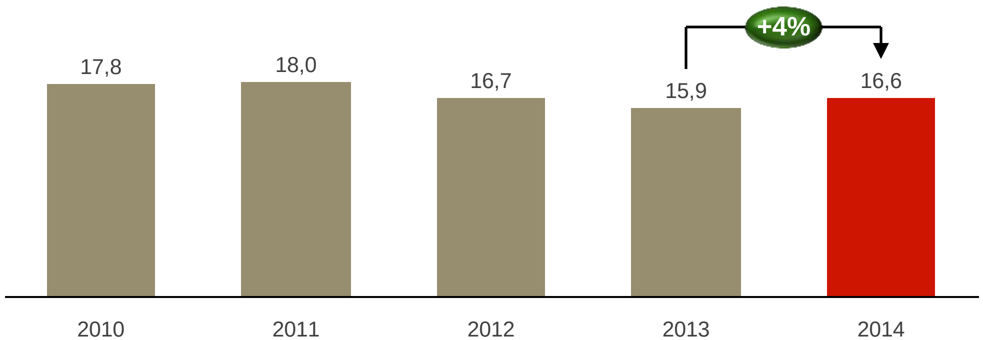
Pipelines

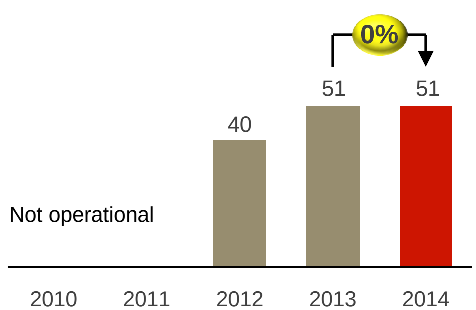
## Volumes (bℓ)



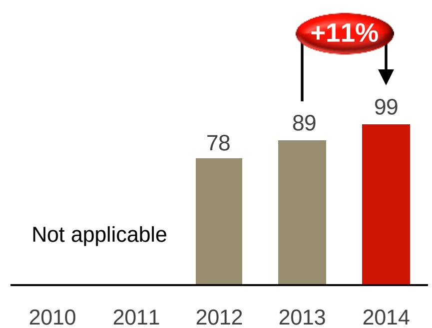

- Petroleum product volumes improved by 4%, mainly due to:
  - Improved throughput of refined products, offset by;
  - Subdued domestic demand; and
  - Lower production at Natref.

## Productivity and efficiency

NMPP Capacity utilisation (Mℓ/Week)

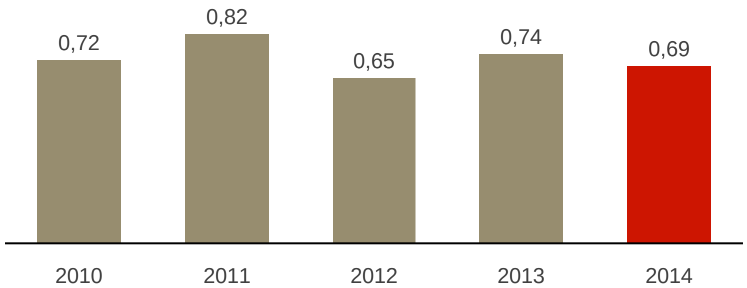
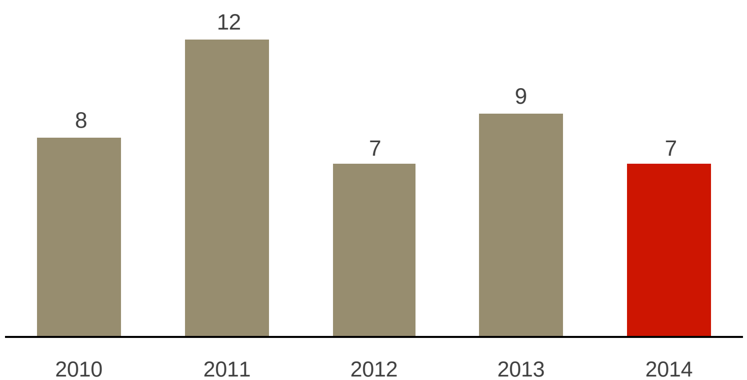



Operating cost per Mℓ.km
(Nominal R/Mℓ.km)




- Pipeline operating costs increased compared to prior year due to inflationary pressures.

# Safety

| | | |
|---|---|---|
| Disabling injury frequency rate (DIFR) |   | The Company recorded a reduction in the disabling injury frequency rate compared to the 0,75 annual target, which is exceptional by international standards. This is the third consecutive year that the Company recorded a DIFR ratio below 0,75, due to continued focus and investment in safety. |
| Employee fatalities (Numbers) |   | The organisation remains committed to zero employee fatalities. Sadly, the company recorded seven employee fatalities during the 2014 financial year compared to nine in the prior year. |

# Human resources

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**A representative workforce.**

| Designated categories | Actual % 2014 | Target % 2014 |
|---|---|---|
| Black | 81,5 | 75,0 |
| Females at Group Exco | 50,0 | 50,0 |
| Females at extended Exco | 40,0 | 50,0 |
| Females below extended Exco | 24,4 | 35,0 |
| PWDs | 1,6 | 2,0 |

- Transnet achieved and exceeded its targets for black employees.
- Female representation is growing steadily despite significant challenges in an operations heavy environment at semi and unskilled levels.

**Skills development, capacity building and job creation.**

| Key performance Indicator | Unit of measure | Target | 2014 Actual |
|---|---|---|---|
| Economy wide jobs created | Number | | 17 279 |
| Training spend | Rand value | ≥ 5,0 | R621 million |
| Engineering trainees | Number of learners | ≥ 132 | 138 |
| Technician trainees | Number of learners | ≥ 330 | 339 |
| Artisan trainees | Number of learners | ≥ 1 550 | 1 552 |
| Sector specific trainees | Number of learners | ≥ 1 980 | 2 295 |
| - Transnet Freight Rail (Train drivers new intakes) | | | 687 |
| - Transnet National Ports Authority (12 pilots, 12 tug masters, 11 VTS operators, 12 coxswains, 24 motormen and 24 dredger masters) | | | 95 |
| - Transnet Port Terminals (1 348 0perators, 54 drivers and 111 cargo coordinators ) | | | 1 513 |
| Protection officers | Number of learners | | 429 |
| - Value of incidents | | | 19% ↓ |
| - Total arrests | | | 43.2% ↑ |
| - Number of convictions | | | 19.5% ↑ |

# CSI Transnet Foundation programmes – R174 million

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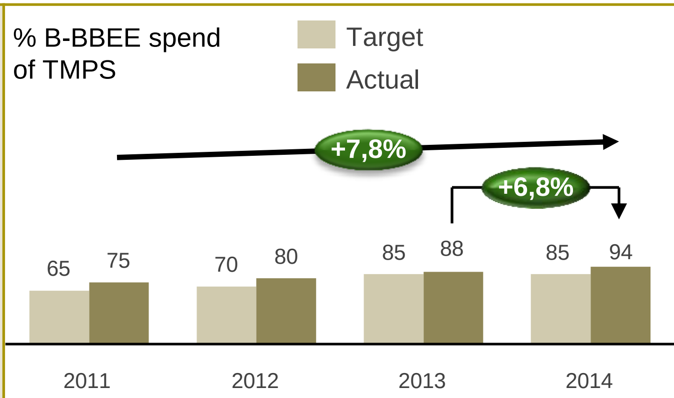
| | |
|---|---|
| **Health –** Provide access to primary health care services to rural communities. | • Invested R72,3 million in primary health care initiatives impacting 252 560 patients.<br>• Teenage Health programme reached 8000 girls in 2014. |
| **Education –** Provide skills training to teachers and improve academic performance for orphaned youth. | • Youth development education programme targets vulnerable orphan youth.<br>• Expanded in 2014, accepting 30 youth (2013: 20).<br>• Teacher development programme graduated 6 teacher interns.<br>• Total investment R13,3 million. |
| **Sports development –** Promote a healthy lifestyle among learners in rural and farm schools. | • Nine learners selected to play for Banyana Banyana.<br>• 14 qualifiers to be recruited to the SAFA/Transnet School of Excellence.<br>• Matric pass rate of 87%.<br>• R18,6 million invested in various sport disciplines in 290 schools country wide. |
| **Transnet employee volunteer programme (EVP) –** Inculcate and encourage an ethos of volunteering among Transnet employees. | • Expansion to De Aar and the west coast.<br>• R20,9 million invested in EVP villages in the current year. |
| **Container assistance programme (CAP) –** Provide vital infrastructure solutions to communities in need. | • CAP with SAPS aided Freight Rail conduct rail safety awareness programmes<br>• CAP's partnership with government resulted in a bouquet of government services being available to rural communities.<br>• R7,4 million invested in the current year. |
| **Heritage preservation –** Manage Transnet heritage assets for future generations. | • Heritage policy approved.<br>• R3,9 million invested in heritage sites branding refurbishment. |

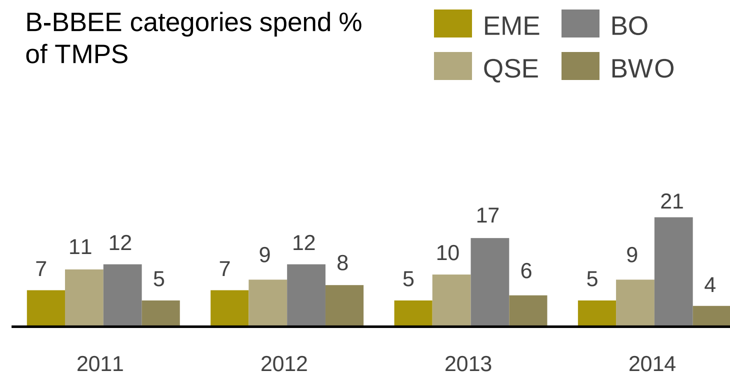
# B-BBEE spend and CSDP

Transnet is currently rated as a Level 3 B-BBEE contributor.

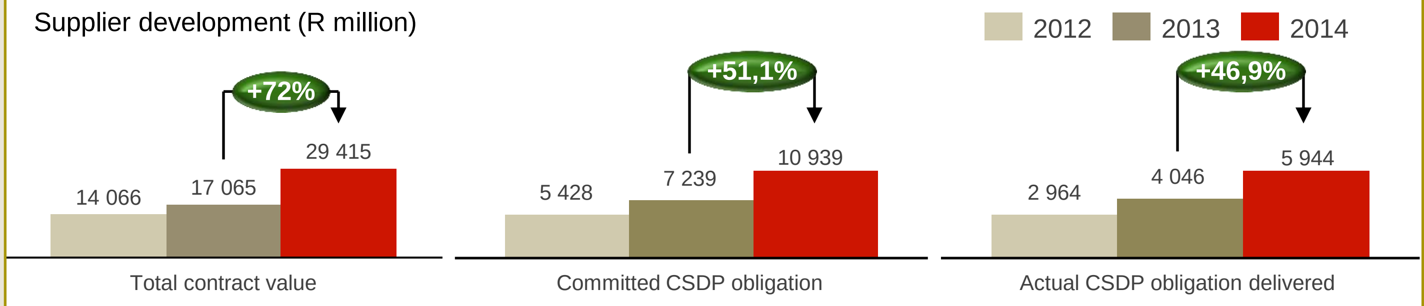
% B-BBEE spend of TMPS



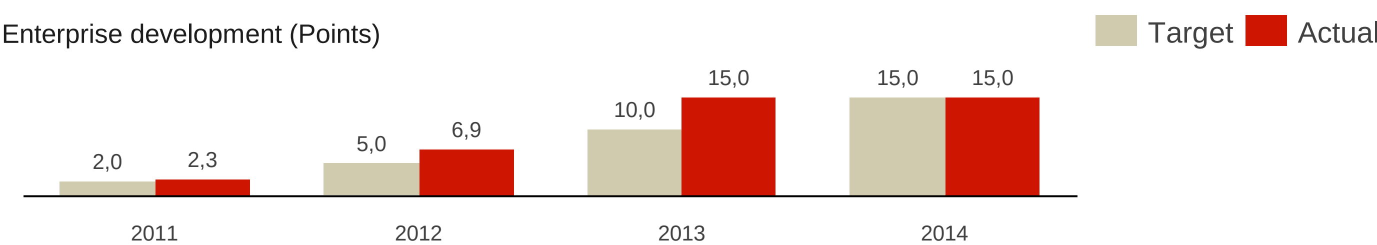

B-BBEE categories spend % of TMPS




Supplier development (R million)




Enterprise development (Points)

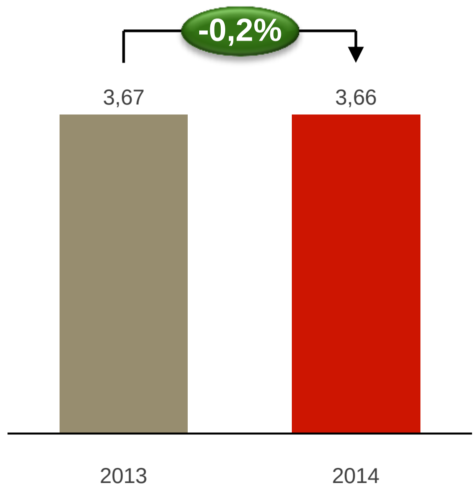


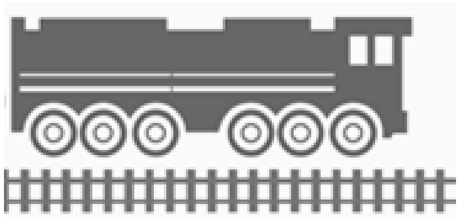
# Energy and carbon emissions

delivering freight reliably

## Electricity consumption

Total electricity consumption
(million MWh)

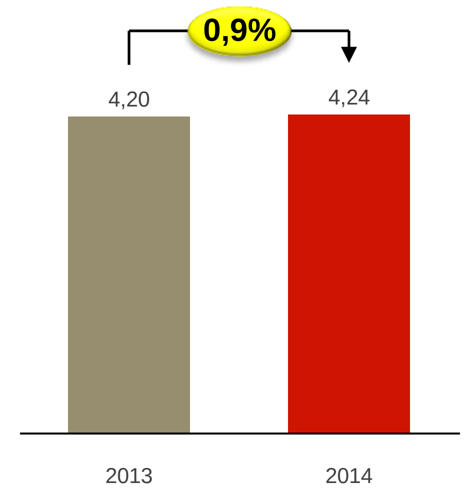


**176 185MWh** electricity regenerated by new 19E and 15E locomotives.

## Carbon emissions

GHG emissions
($mtCO_2e$)




Road-to-rail: Top 10 commodity volume gains on rail reduced the transport sector's carbon emissions by **0.8 $mtCO_2e$.**

# Initiatives to decrease reportable expenditure in terms of PFMA

Transnet made a commitment in the 2013 financial year to prevent/reduce irregular expenditure by embarking on various initiatives to achieve a sustainable solution:

- 14 such initiatives were undertaken in the 2013 financial year, of which eight were completed;
- Of the six initiatives carried over to the 2014 financial year, two were completed; and
- Four new initiatives were undertaken in the 2014 financial year.

| Number | Initiative | Status |
|---|---|---|
| 1. | Updating PFMA policy and guideline. | Completed |
| 2. | Roll out of PFMA training to all Operating divisions. Ongoing training and support is given to all new PFMA champions. | Completed |
| 3. | Inclusion of PFMA training in new employee induction. | Completed |
| 4. | Presentation to Operating division Exco members. | Completed |
| 5. | Migration of PFMA on Cura to SAP GRC platform. | On track |
| 6. | Additional data analytic indicators developed, user acceptance testing completed and Operating division training and implementation target date is June 2014. | On track |
| 7. | Development and implementation of PFMA online training and accreditation.<br>– Phase 1 rolled out to all Exco and extended members, with phase 2 to be rolled out in June 2014. | On track |
| 8. | Control self assessments. | On track |
| 9. | Training on standard operational procedures. | Completed |
| 10. | Development and implementation of supplier and employee integrity pacts. | Completed |
| 11. | Forensics and procurement training on procurement related violations. | Completed |
| 12. | Fraud resistance assessments and compliance checks. | Completed |
| 13. | Forensics data analytics. | Completed |
| 14. | Knowledge sharing with other Public Entities. | Completed |
| 15. | Activation of SAP request for quotation functionality across all Operating divisions. | On track |
| 16. | Developing and implementing contract lifecycle management system. | On track |
| 17. | Implementing data quality improvement projects. | On track |
| 18. | Long-term continuous control monitoring – analytics reporting solution. | On track |

# Internal control environment

**Evaluation of the internal control environment**

The Audit Committee's overall assessment of the Company's internal control environment is presented in the table below.

| Risk and control component | Process | 2014 assessment | 2013 assessment |
|---|---|---|---|
| Governance | Financial | Satisfactory | Satisfactory |
| | Operational | Requires improvement* | Satisfactory |
| People | Financial | Satisfactory | Satisfactory |
| | Operational | Requires improvement | Requires improvement |
| Method and practices | Financial | Satisfactory | Satisfactory |
| | Operational | Requires improvement | Requires improvement |

* In the interest of aligning the control environment with MDS imperatives, the audit approach in evaluating the adequacy and effectiveness of Transnet's key business processes was refocused in the current financial year. This resulted in deep dive locational audits being conducted this year, which indicated that room for improvement exist for operational controls as they relate to the governance pillar.

# Conclusion

Following another successful year of MDS implementation, We are confident that:

- The strategic objectives of the MDS remain appropriate and relevant in the context of the South African economy.

- We will prioritise operational efficiency and volume growth in our continued implementation of the MDS.

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Thank you