



# Transnet Freight Rail : Road to Rail Strategy Progress : June 2015





# Overview

- 1 Strategic Context**
- 2 Rail Performance**
- 3 Road to Rail Journey**
- 4 Commodity Strategies**
- 5 Looking ahead**
- 6 Conclusion**





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# The Transnet Group

## Ports

## Rail

## Pipelines

## Supporting

Transnet National Ports Authority (TNPA)

Transnet Port Terminals (TPT)

Transnet Engineering (TE)

Transnet Freight Rail (TFR)

Transnet Pipelines (TPL)

Capital Projects  
Transnet Foundation  
Property  
Schools



- 8 Commercial ports along 2 798 km of coastline
- Revenue R9.9bn
- Assets R 72.5 bn
- 3 823 employees

- 16 Cargo Terminals operating across 7 SA ports
- Revenue R8.5 bn
- Assets R19 bn
- 6 624 employees

- Support TFR for rolling stock and TPT for lifting equipment maintenance
- Revenue R13.4 bn
- Assets R11.2 bn
- 12 428 employees

- 20 500 km of railway track
- 226 million tons of freight
- General freight & two heavy haul export lines
- Revenue R34.4 bn
- Assets R99.7 bn
- 37 891 employees

- 18 billion litres of petroleum products and gas through 3 800 km of pipelines, mainly to Gauteng
- Revenue R3.1 bn
- Assets R32.3 bn
- 621 employees

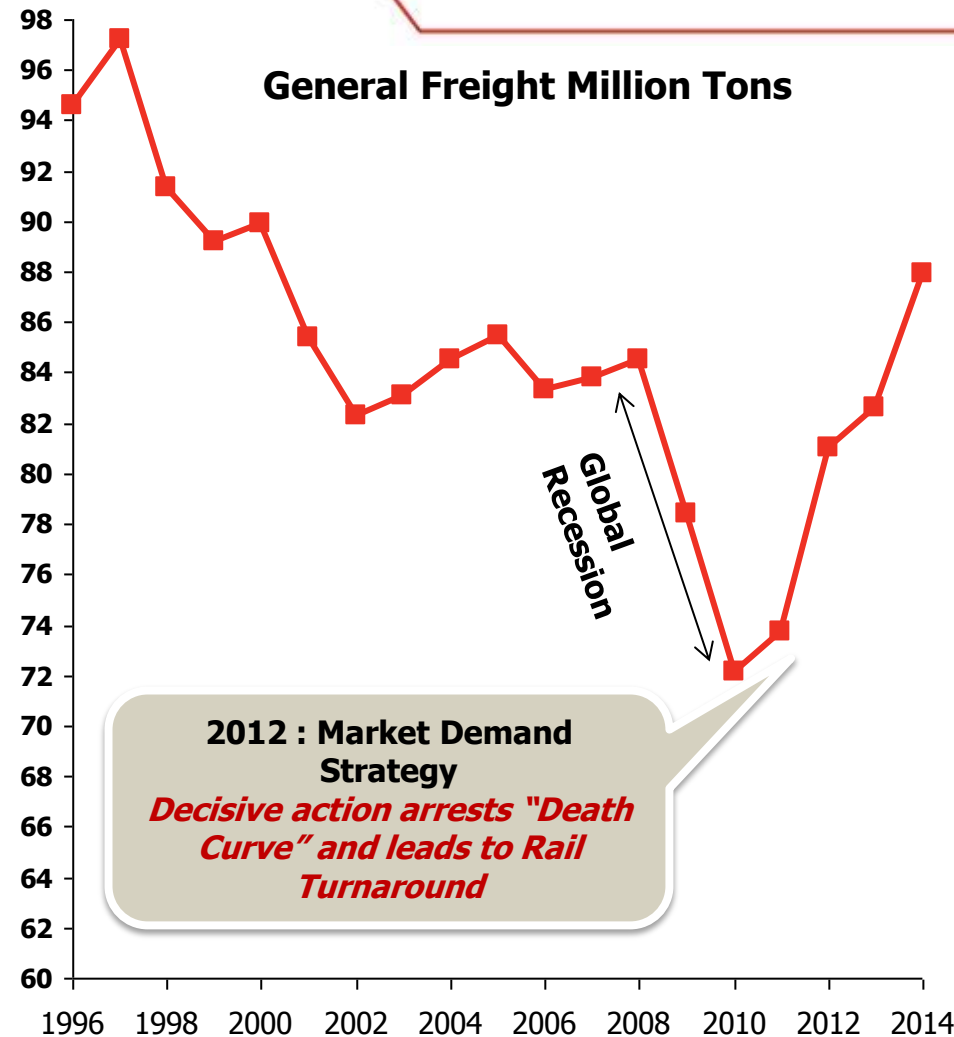
- R312 billion of capital investments over 7 years
- CSI in Education, Health, Sport, Arts & Agriculture
- Property Management
- Transnet Schools



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# MDS – Arresting the “Death Curve” to drive volumes back to rail

- **1986** : Decline in volumes following deregulation
- **1990s** : Lack of investment compromises service and leads to less utilisation of rail - loss of market share to Road
- Business in decline – loss of skills and market reputation
- **1998** onwards : Consultants propose privatisation of heavy haul lines and various misleading “shrink to grow” strategies
- **2000s** : Inadequate and ageing capacity. Unable to capitalise on economic growth and commodity boom
- **2005** : Management introduce Vulindlela Re-engineering Programme and other General freight volume growth strategies appropriate for the high fixed cost rail business
- **2009** : Economic Recession interrupts growth path – Affordability constrains capacity creation



**Road to Rail shift through General Freight growth**

# Rail market share growth is a fundamental driver of the MDS

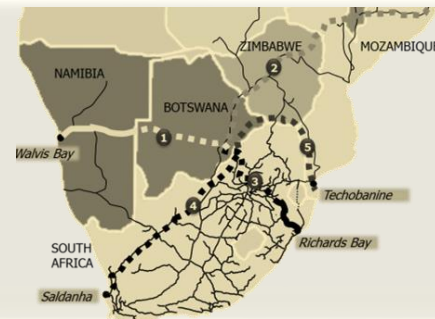
## Catalyst for Economic Growth



## Job Creation



## Regional Integration

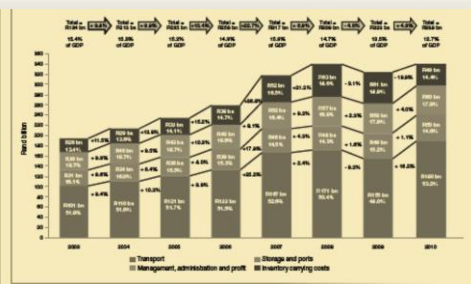


## Market Demand Strategy

## Road-Rail Freight Industry Imbalance



## Reducing the Cost of Logistics



## Meet Freight Demand & Improve Service Delivery





# All pillars equally important to the strategy

**Goal : Top 5 Railway - Financially sustainable, Integrated Logistics Service Provider, Innovative, Employer of Choice, World Class Customer Service, Gold Standard Operations and Capital Execution**

## Market Demand Strategy

### Core Strategies

**Market Development**

**Operational Efficiency**

**Capital Investment**

**Regional Integration**

**Safety**

**People**

### Objectives

- To build market reputation & credibility
- To increase market share
- To develop a customer centric culture

- To improve performance productivity and operational efficiency
- To contribute to a reduction in the cost of logistics

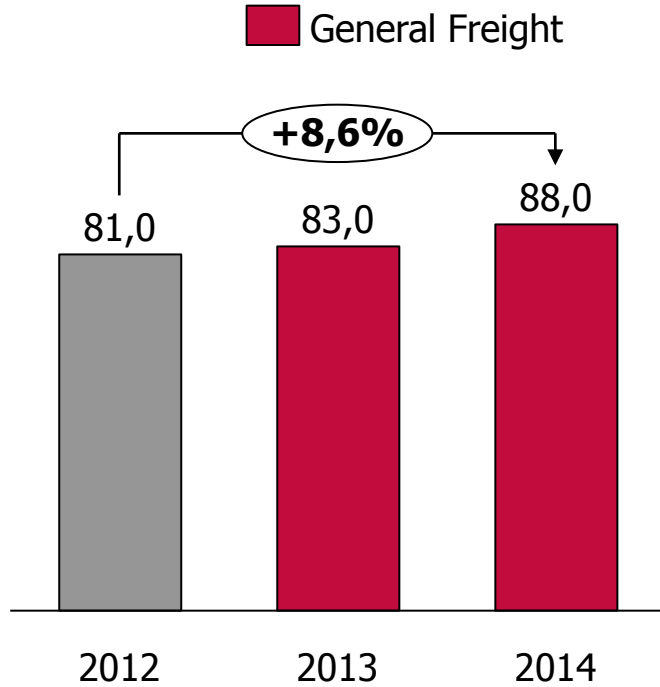
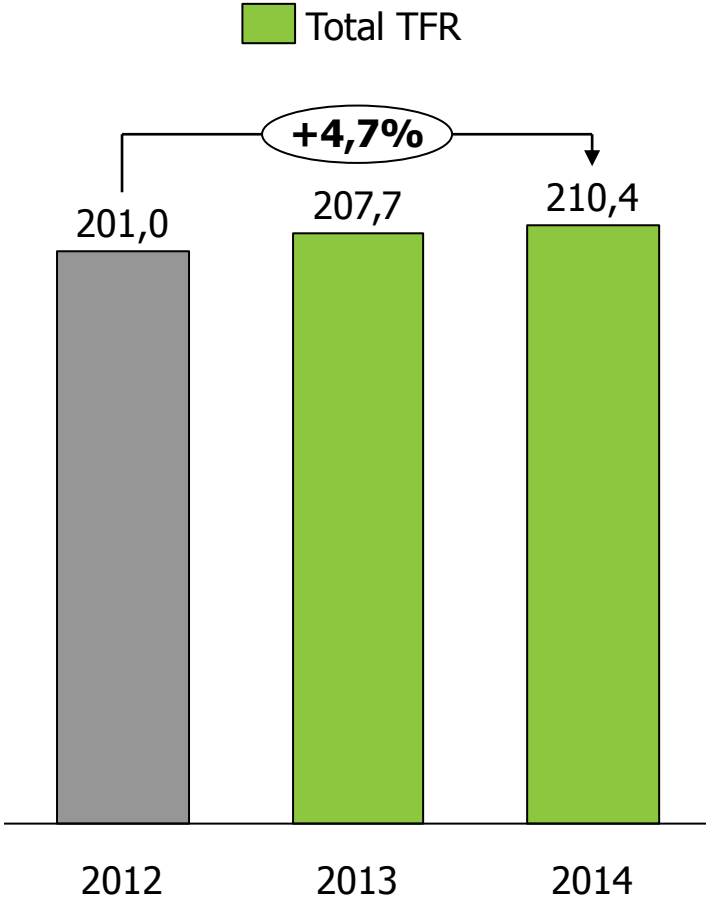
- To create capacity ahead of demand
- To maintain, upgrade and modernise the rail system

- To develop an integrated Regional rail system with economic growth opportunities

- To build and maintain a healthy and safe working and operations environment

- To develop skills
- To create sustainable employment opportunities
- To transform the business to a high performance culture

# Volume Growth following MDS implementation in 2012/13

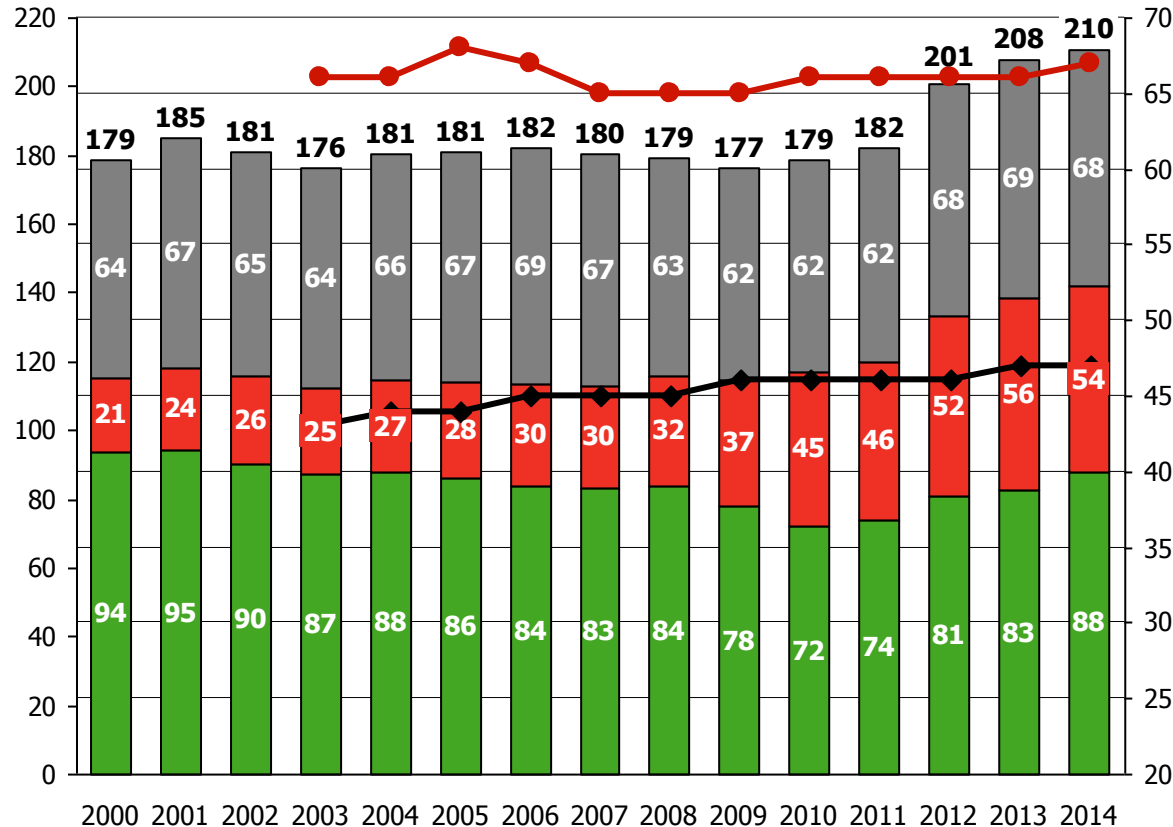


**Significant rail volume growth despite low economic growth**



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# Rail Addressable Market Share reflects Rail capture since MDS in 2012



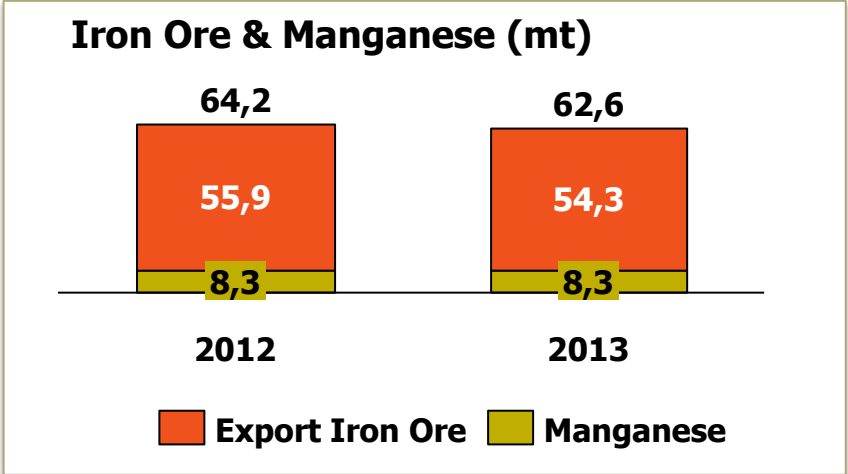
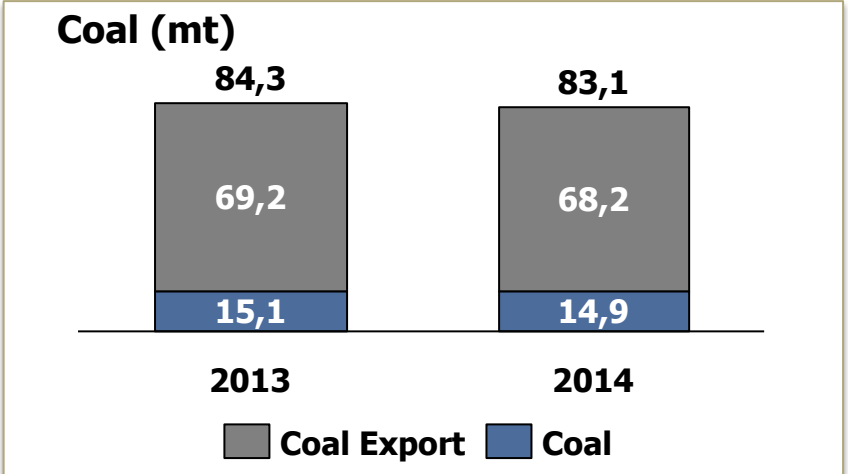
● RAMS TonKm    ■ Export Coal    ■ General Freight  
◆ RAMS Tons    ■ Export Iron Ore

## Accelerating Implementation

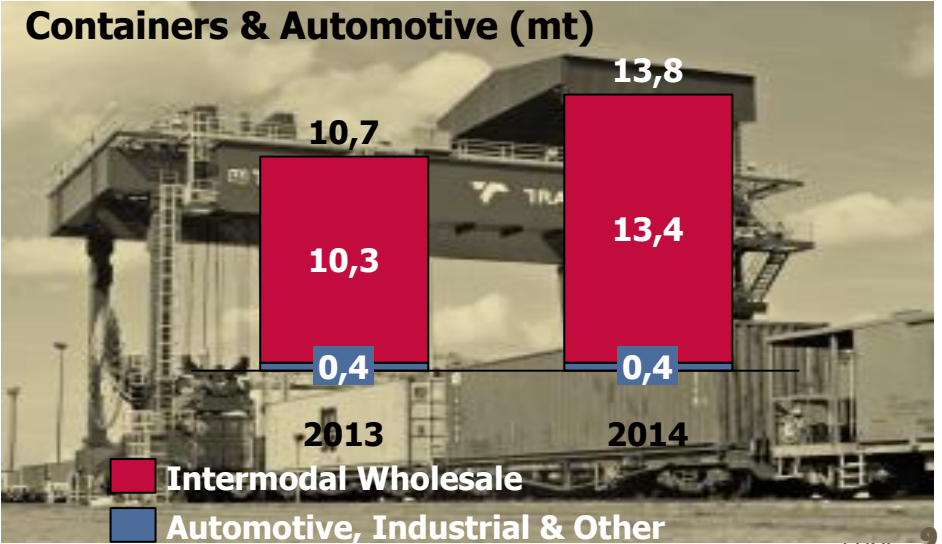
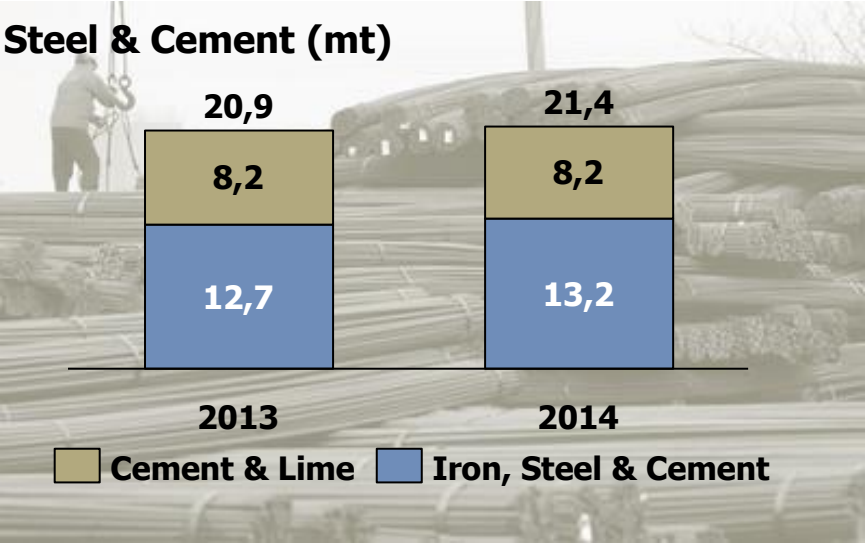
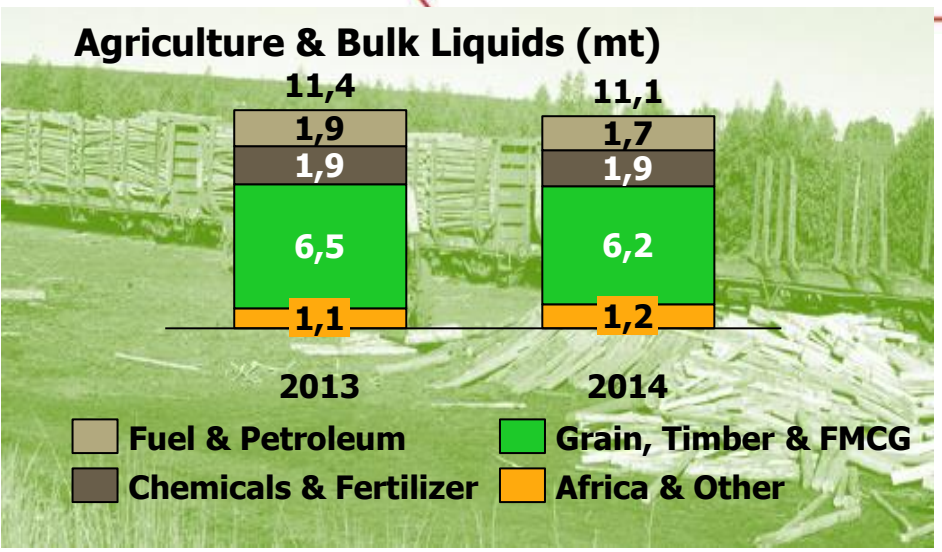
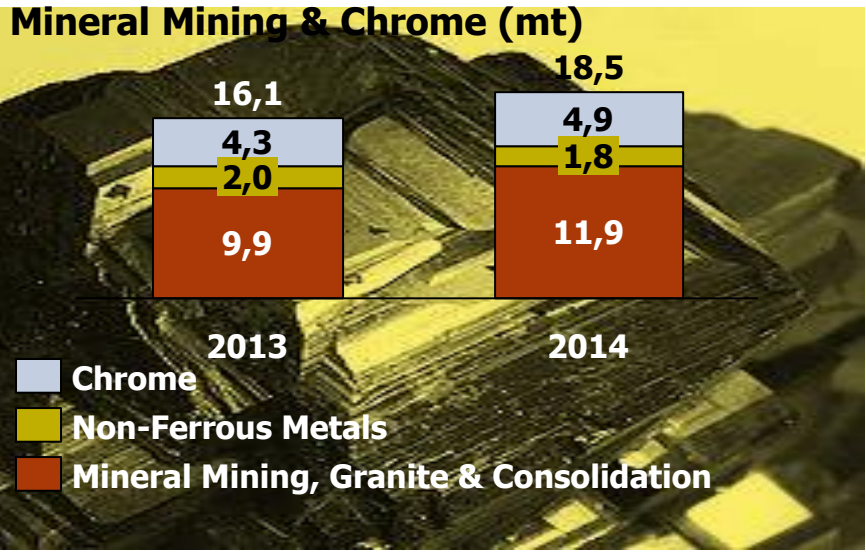
- Robust **execution plans**
- Building a **commercial and logistics mindset** – beyond sale of rail transport
- Value propositions to meet specific **customer requirements**
- Building further **alliances** to fast-track opportunities
- Building **market reputation** through **reliable and efficient service delivery**
- **Rolling stock and network modernisation** programme



# Heavy haul lines contributing to national export drive



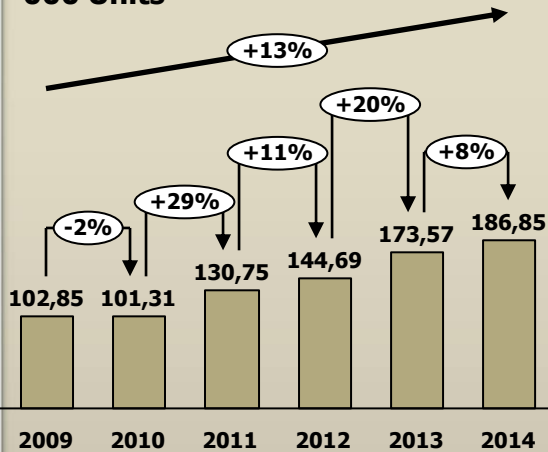
# Achieving growth in General Freight Commodities, the foundation for Road-Rail shift



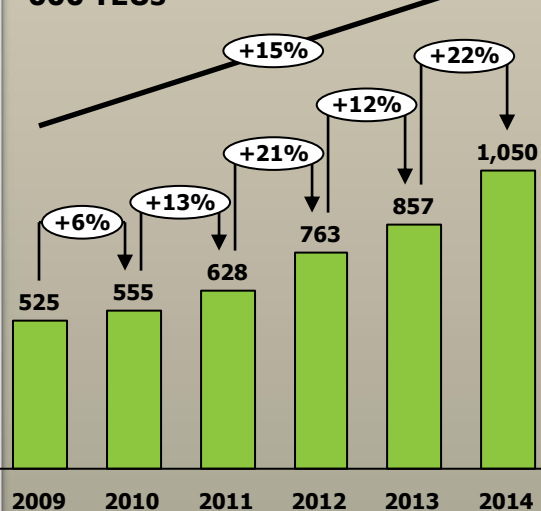


# Building competence in Intermodal growth sectors – Extending Superhighway Philosophy since 2009

TFR Automotive Volumes on Rail  
'000 Units



TFR Containers on Rail  
'000 TEUs



Introduced  
**“Superhighway”**  
philosophy on Natcor,  
Cape gateway and  
Ngqura Express



- Marketing services directly to Shipping lines
- Siding conversion strategy
- Investing in City Deep Terminal
- Security of containers
- Crew safety
- Crew book-off system
- Average Rail Transit time achieved: from 23 hrs average to 18 hours rail transit time
- Reduced Short-shipments
- Improved planning - NCC



# Addressing the challenges to accelerated growth

- 01 Locomotive failure

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- 02 Wagon availability

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- 03 Customer cancellations

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- 04 Power failures

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- 05 Tippler failure

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- 06 Emergency occupation

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- 07 Shutdown delays

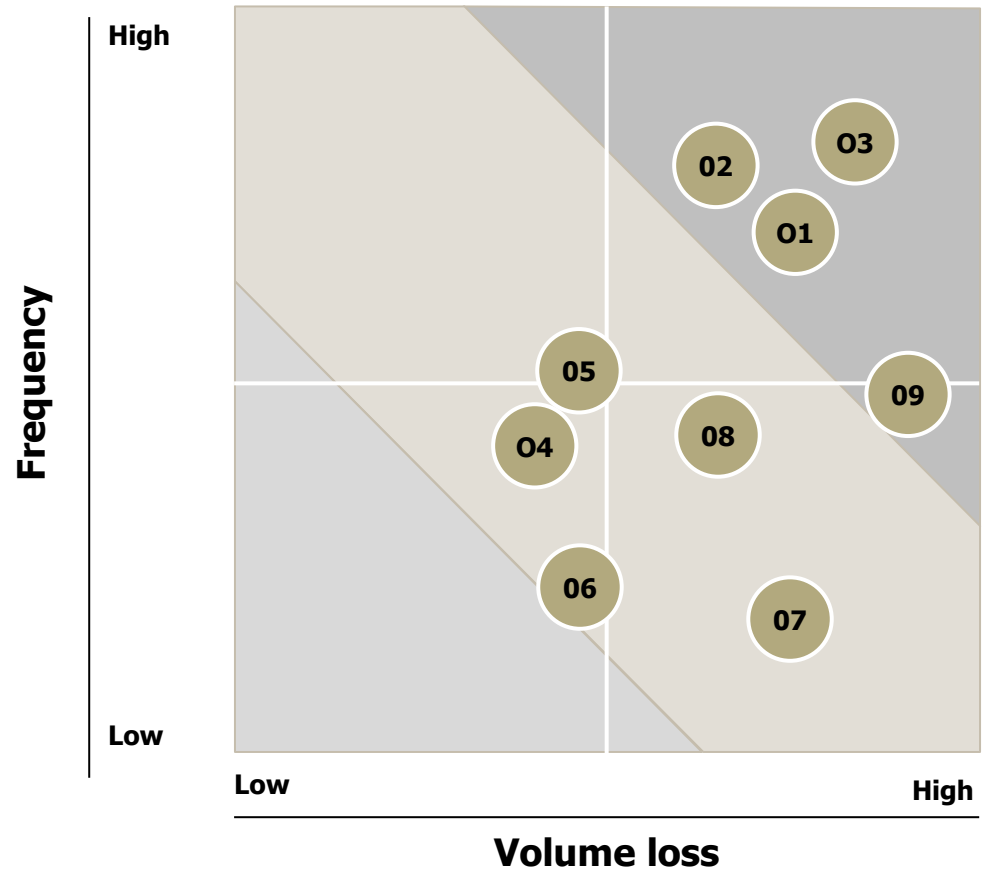
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- 08 Industrial action

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- 09 Economic conditions

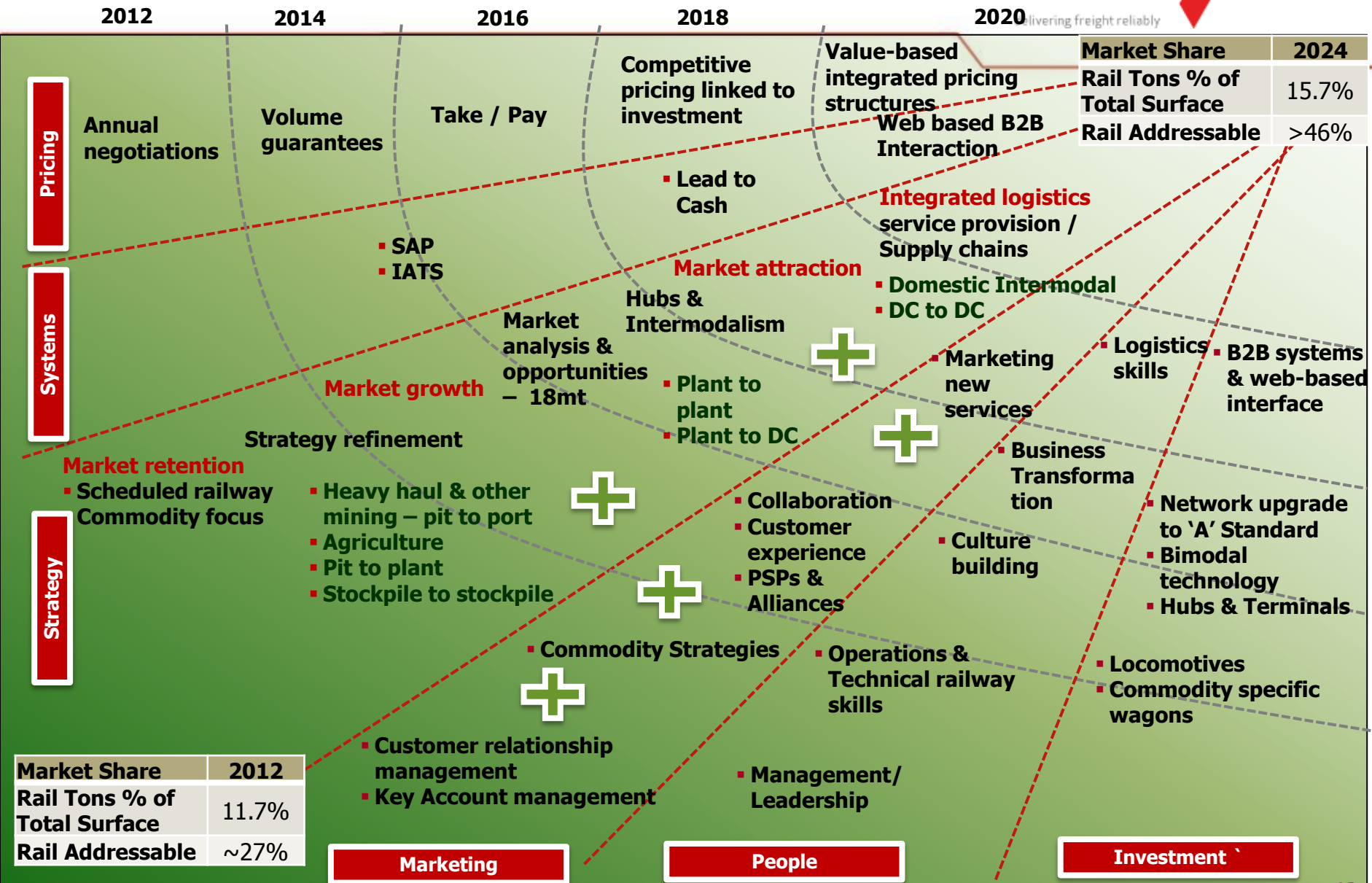
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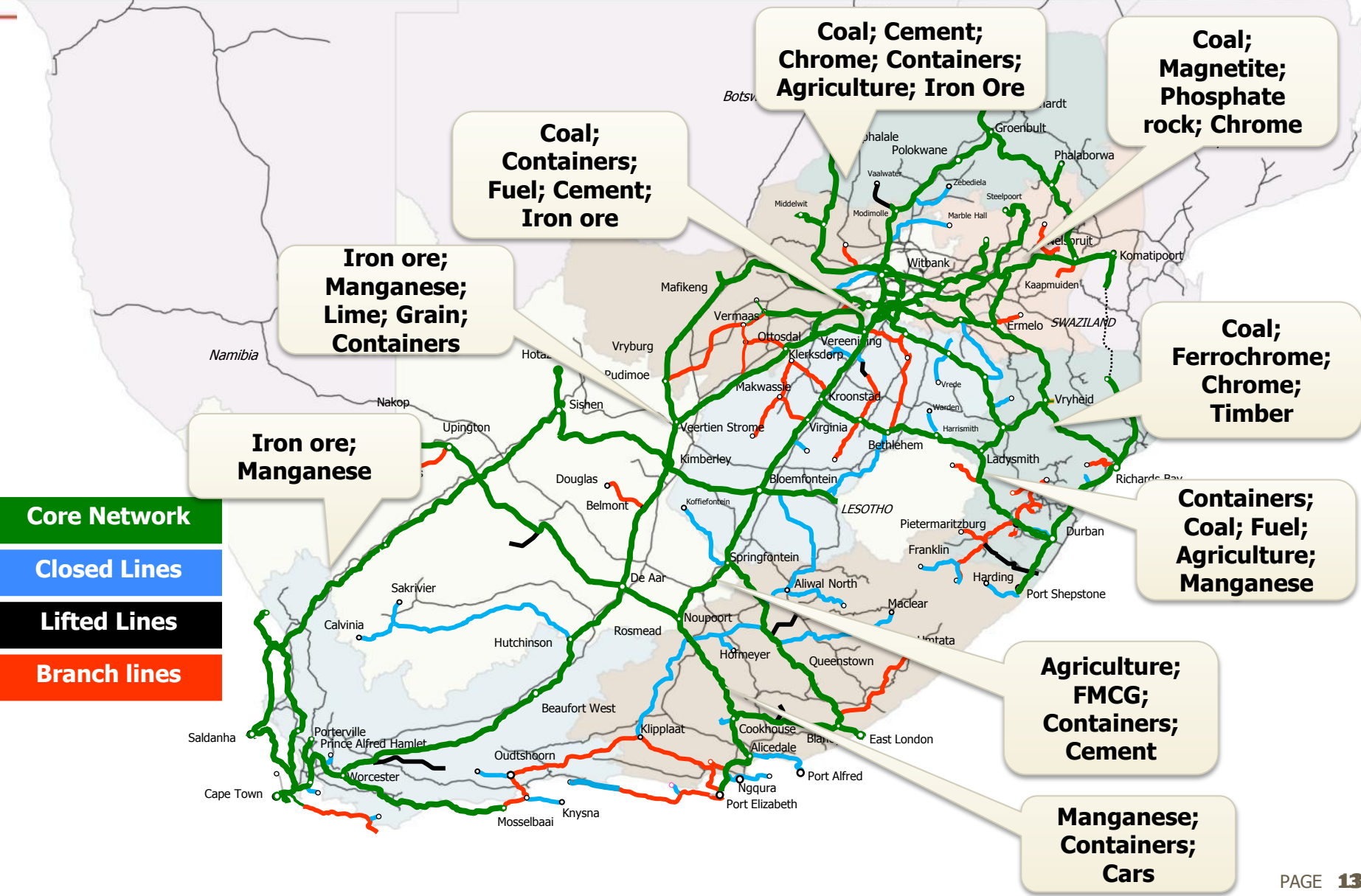
**Significant impact of economic environment, commodity price fluctuations and locomotive reliability**



# Road to Rail Strategy – Journey Progress







# Six Business Units targeting specific commodities across the shared network



- Core Network**
- Closed Lines**
- Lifted Lines**
- Branch lines**

# Commodity Strategies – Intermediate Manufacturing and Manufactured Goods



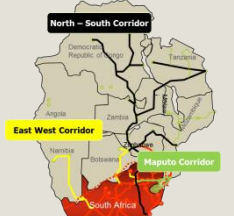


Commodity	Strategies
<p><b>Steel &amp; Cement</b></p> 	<p><b>Grow share of finished steel and cement products from current ~20%</b></p> <ul style="list-style-type: none"> <li>▪ Deployment of <i>20E locomotives</i> to key AMSA flows</li> <li>▪ Design multi purpose wagons</li> <li>▪ Introduce integrated service offering - logistics value proposition and establishment of distribution hubs</li> <li>▪ Industry and customer collaboration; Sales force and marketing tools development</li> </ul>
<p><b>Intermodal, Containers and Palletised Freight</b></p> 	<p><b>Intensive Market Penetration to grow current &lt;20% share</b></p> <ul style="list-style-type: none"> <li>▪ New locomotive deployment to Capecor – <i>23E and 45D</i></li> <li>▪ Merchant heavy haul strategy for growth of Import-Export flows; Domestic Intermodal strategy implementation</li> <li>▪ Introduction of Bimodal technology – to be piloted on Natcor and Capecor</li> <li>▪ PSP strategy for development of terminals</li> <li>▪ Collaboration with freight forwarding agents</li> <li>▪ Development of logistics service offering and specific value proposition</li> <li>▪ Sales force and marketing tools development</li> </ul>
<p><b>Automotive</b></p> 	<p><b>Grow share of Vehicles and Components transportation</b></p> <ul style="list-style-type: none"> <li>▪ Building of automotive wagons – to profile specifications</li> <li>▪ Enhance competitive service offering - supply chain / logistics value proposition</li> <li>▪ Sales force and marketing tools development</li> </ul>
<p><b>Fuel &amp; Chemicals</b></p> 	<p><b>Maintain share of Fuel prior to NMPP migration; Grow share of Chemicals</b></p> <ul style="list-style-type: none"> <li>▪ PSPs for specialised tanker wagons</li> <li>▪ Refine service offering - supply chain / logistics value proposition</li> <li>▪ Sales force and marketing tools development</li> </ul>



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# Commodity Strategies – Agricultural

Commodity	Strategies
<p><b><i>Agricultural Commodities</i></b></p> 	<p><b>Grow share of agricultural products from current ~20%</b></p> <ul style="list-style-type: none"> <li>▪ Deploy / Cascade locomotives appropriate for “hub and spoke” and “Less than Train Load” operating models</li> <li>▪ Implement Branch Lines strategy</li> <li>▪ Design &amp; Develop multi purpose wagons – PSPs focusing on swop body wagons / containers</li> <li>▪ Introduce integrated service offering - supply chain / logistics value proposition</li> <li>▪ Industry collaboration – eg. Grain industry, Sugar Industry</li> <li>▪ Sales force and marketing tools development</li> </ul>
<p><b><i>Timber</i></b></p> 	<p><b>Maintain share of Timber</b></p> <ul style="list-style-type: none"> <li>▪ Deployment of locomotives for operation of 100 wagon timber trains</li> <li>▪ PSPs for timber wagons / swop bodies</li> <li>▪ Refine service offering - supply chain / logistics value proposition</li> <li>▪ Customer collaboration Sales force and marketing tools development</li> </ul>
<p><b><i>Regional Integration</i></b></p> 	<p><b>Improve Cross border traffic</b></p> <ul style="list-style-type: none"> <li>• Implementation of the North-South corridor service to improve asset cycle time from +20 days to 6 days.</li> <li>• Capture new market from road to rail, eg. copper and containerised traffic</li> <li>• In line with inter-railway operations, neighbouring countries are allowed access to Transnet Freight Rail’s rail-network to support cohesive regional development</li> </ul>





# Commodity Strategies - Mining

Commodity	Strategies
<p>Manganese</p> 	<p><b>Capacity creation to grow current market share of ~90%</b></p> <ul style="list-style-type: none"> <li>▪ Manganese capacity expansion programme – Heavy haul operations philosophy</li> <li>▪ Deployment of <i>20E</i> locomotives and 200 wagon trains &amp; Common User Facilities</li> <li>▪ Competitive pricing; Take or Pay Contracting</li> </ul>
<p>Magnetite</p> 	<p><b>Capacity creation for road-rail shift</b></p> <ul style="list-style-type: none"> <li>▪ Infrastructure capacity creation programme - Phalaborwa to Komatipoort. Connectivity with Mozambique and Swaziland with Joint Operating Offices</li> <li>▪ Replace 60 CMR wagon train with 75 CR wagon train.</li> <li>▪ Deployed <i>43D</i> locomotives with RDP to increase train length from 75 to 150 wagons</li> <li>▪ Relationship Building; Competitive pricing models</li> </ul>
<p>Chrome</p> 	<ul style="list-style-type: none"> <li>▪ Deployment of <i>43D / 44D</i> locomotives and 100 wagon trains</li> <li>▪ Development of Common User Facilities</li> <li>▪ Customer Relationship Management; Industry Collaboration; Competitive pricing; Take or Pay Contracting</li> </ul>
<p>Eskom Coal</p> 	<p><b>Customer Collaboration and Capacity Creation for Road-Rail shift</b></p> <ul style="list-style-type: none"> <li>▪ Customer collaboration on coal supply and power generation OD pairs</li> <li>▪ Review of loading and offloading times, aligned rail and tippler maintenance</li> <li>▪ Integration of planning process for all domestic and export coal</li> <li>▪ Customer Relationship Management; Centralised consolidation of key account plans</li> </ul>
<p>Waterberg Coal</p>	<p><b>Capacity Creation for Export and Domestic Growth</b></p> <ul style="list-style-type: none"> <li>▪ Upgrading existing lines &amp; power supply systems; additional / extending loops, electrification of Thabazimbi – Lephalale section</li> <li>▪ Research and Market Intelligence for trends in strategic commodity</li> <li>▪ Relationship Building; Competitive pricing models</li> </ul>



# Creating the fundamentals for Logistics Development and Rail Migration



- **Rolling Stock**
  - Locomotives:**
    - New dual voltage locos to reduce throughput time and improve service reliability
  - Wagons:**
    - Develop common wagon chassis to reduce shunting, enable faster wagon turnaround, improved asset utilisation, increased density and lower unit costs
    - Investigate feasibility of swop body wagons / containers
- **Infrastructure** maintenance & development
  - “A” standard network upgrade and modernisation
  - Weighbridges
- Development of **Terminals, CUFs and Distribution hubs** – Location and Upgrading
- **Technology & Systems**
  - **Bi-modal** Road–Rail technologies –piloting on NatCor and CapeCor - suitable to service intermodal, agricultural and FMCG flows
  - Specialised haulage power, handling technologies to work in various terrains and terminals, specialised loading and lifting equipment or trailing vehicles
- **Customer Siding Development, Maintenance and Management** including Loading & Offloading **Equipment**
- **Logistics alliances** and **Logistics skills** development
- North-South **corridor development, operations model, business model and pricing**
- **Real estate development** – logistics facilities, warehousing, facilities
- **Systems development** – Track and Trace; Web interface

# Terminals, CUFs and Hubs to improve integration and service to customers



## Recent Hub / Terminal Development

- Bloemfontein – Containerised Manganese
- Pendering Multi-User Facility – Chrome & Ferrochrome
- Lohatla – Manganese
- Newcastle – Coal & Ferrochrome
- Newcastle - CAB Multi-User, Multi-Product Facility

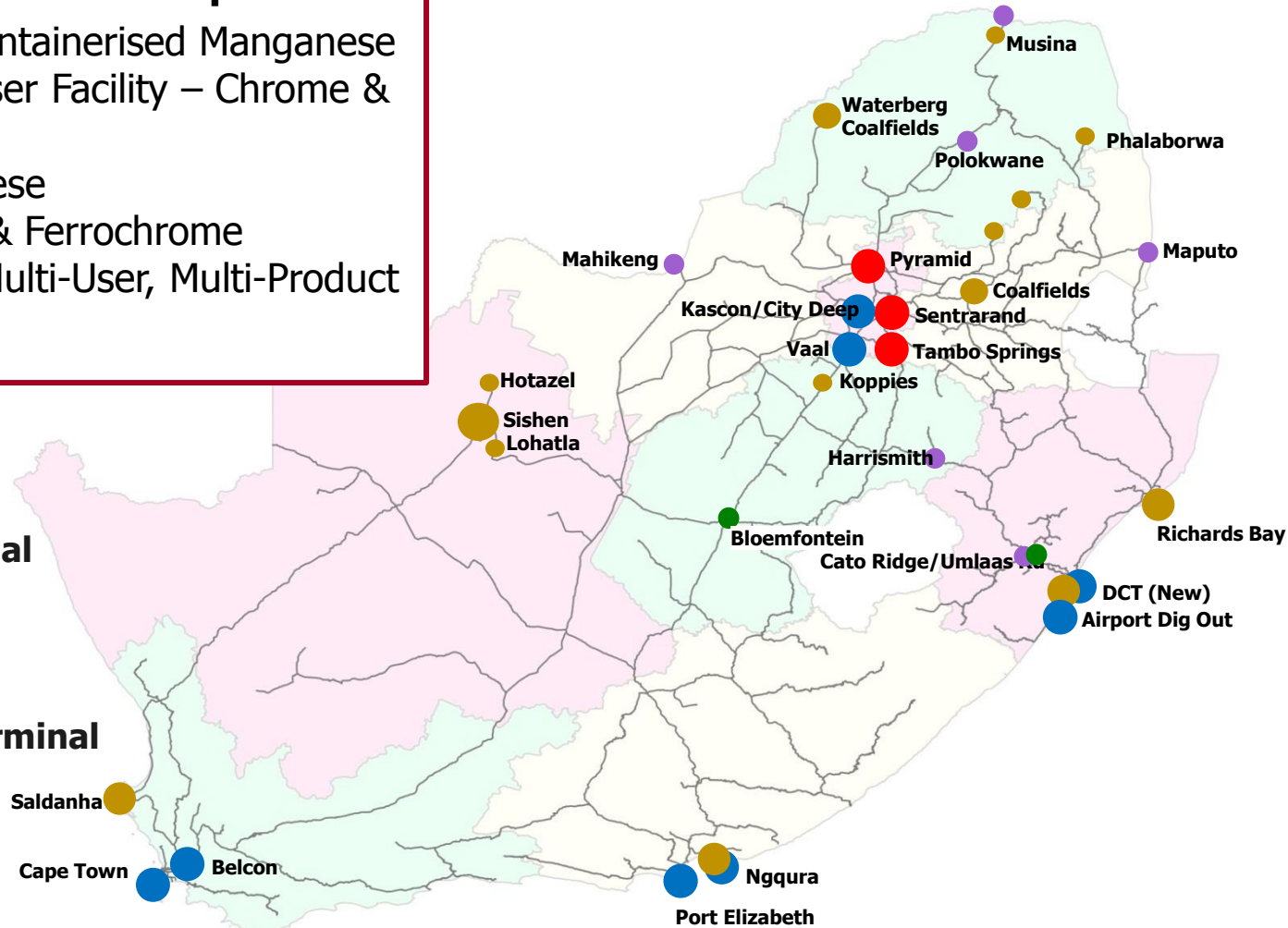
● Super terminal

● Intermodal terminal

● Freight nodes

● Mineral nodes

● General freight terminal



# New locomotives to be deployed across the network for continued tonnage growth

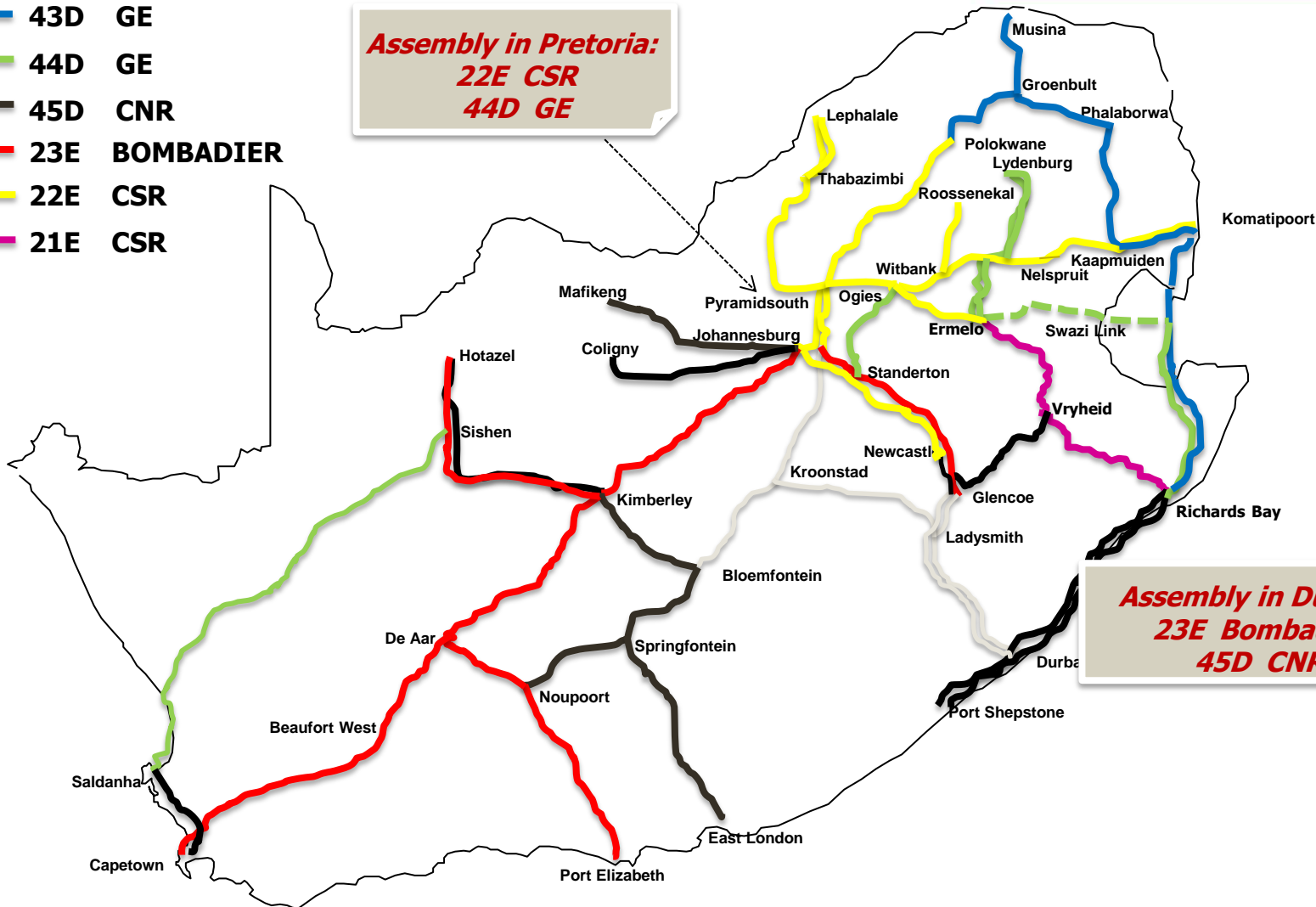


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- 43D GE
- 44D GE
- 45D CNR
- 23E BOMBARDIER
- 22E CSR
- 21E CSR

*Assembly in Pretoria:  
22E CSR  
44D GE*

*Assembly in Durban:  
23E Bombardier  
45D CNR*





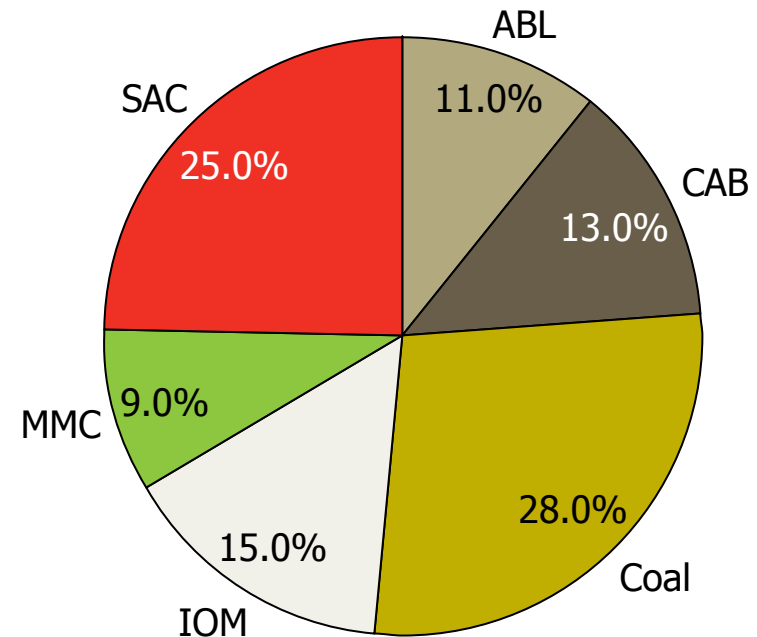
# Refinement of specific Back to Rail initiatives to secure opportunities in 2015/16

## Progress to date

- **Opportunities identified** per business unit – pipeline is at 18.9 mt
- **Detailed action plans** outlining specific requirements - eg resources required, operational readiness, customer / industry readiness to ensure effective implementation and bankable tons per week being refined
- **Customer analysis** and validation of volumes in progress.

## Next Steps

- Development of detailed **implementation plans** outlining specific requirements per opportunity identified
- Engagement and / proposal to **pricing** committee on the approach to pricing for the additional volumes
- Setting up of physical **nerve centres** per Business Unit
- **Engagement** plans **with customers** with high growth potential
- Development of **Marketing Tools**

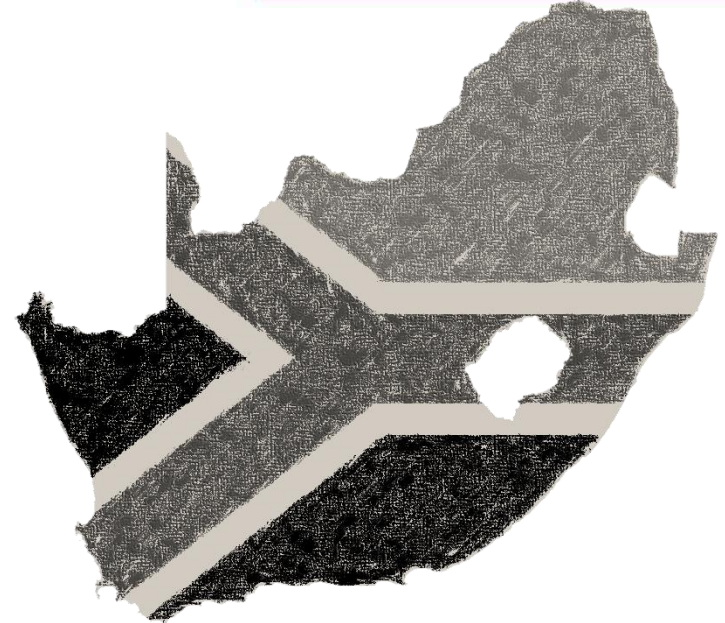


**Opportunities identified for Road-Rail growth – 18.9mt**



# Conclusion

- **Rail growth is a catalyst for Economic Growth and Development**
- **Unlocking Regional Growth and Integration**
- **Creating Jobs and Building skills**
- **Leading Sector Transformation**



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Thank You

