

TRANSNET



delivering freight reliably



Transnet Africa Strategy

12 August 2015



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1 *Development of the Transnet Africa Strategy*

2 *Geographic expansion initiatives*

3 *Governance / Operating Model*





Direction from the Shareholder

Shareholder Compact Targets

Strategic Objective 5.1.4

Integrate south Africa with the region and the rest of the continent

Annexure D: Sustainable Development Outcomes

Regional Integration	Total Cross Border Rail volumes	Mt	≥ 12.31
	Africa Sales Revenue (TE)	R million	≥ 1540





SWOT Analysis for Transnet entry into the rest of Africa

Strengths

1. State Owned Company
2. Proven operational capability
3. Transnet brand
4. Integrated Service offering (Rail, Port, Pipeline)
5. Accredited training programmes
6. Willing to partner / collaborate

Weaknesses

1. Late entry to market
2. Lack of dedicated resources to implement
3. Capital constraints

Opportunities

1. 7 of the 10 fastest growing economies are in Africa
2. Ports are congested / high tariffs
3. Rail infrastructure neglected
4. Total estimated cost of implementing PIDA projects by 2040 is US\$360 billion
5. Revenue diversification in foreign currency

Threats

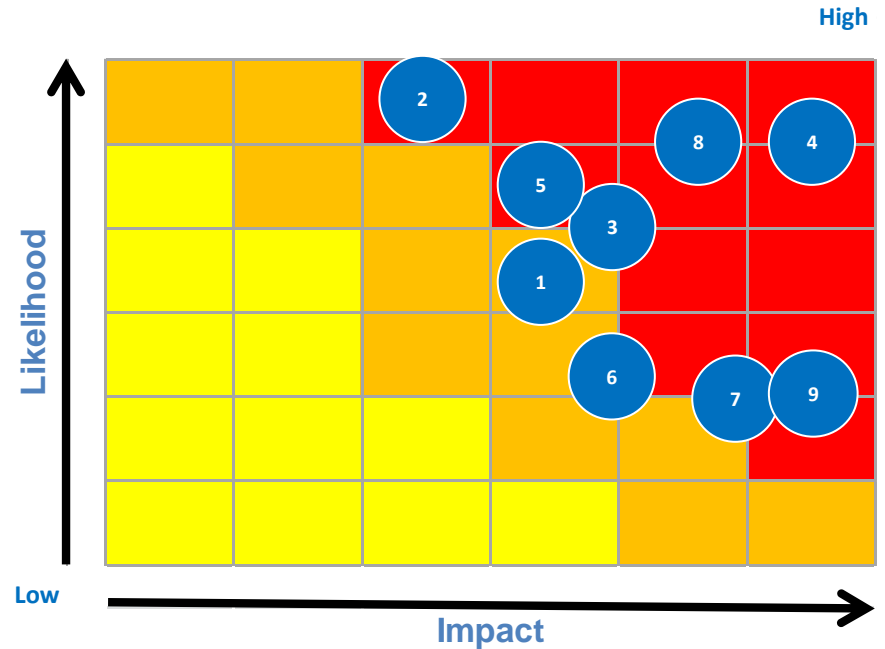
1. Intense competition from global operators
2. Cheap capital from China – South African DFI's struggle to compete
3. Poor policy & regularity environment in Africa
4. Political Risks





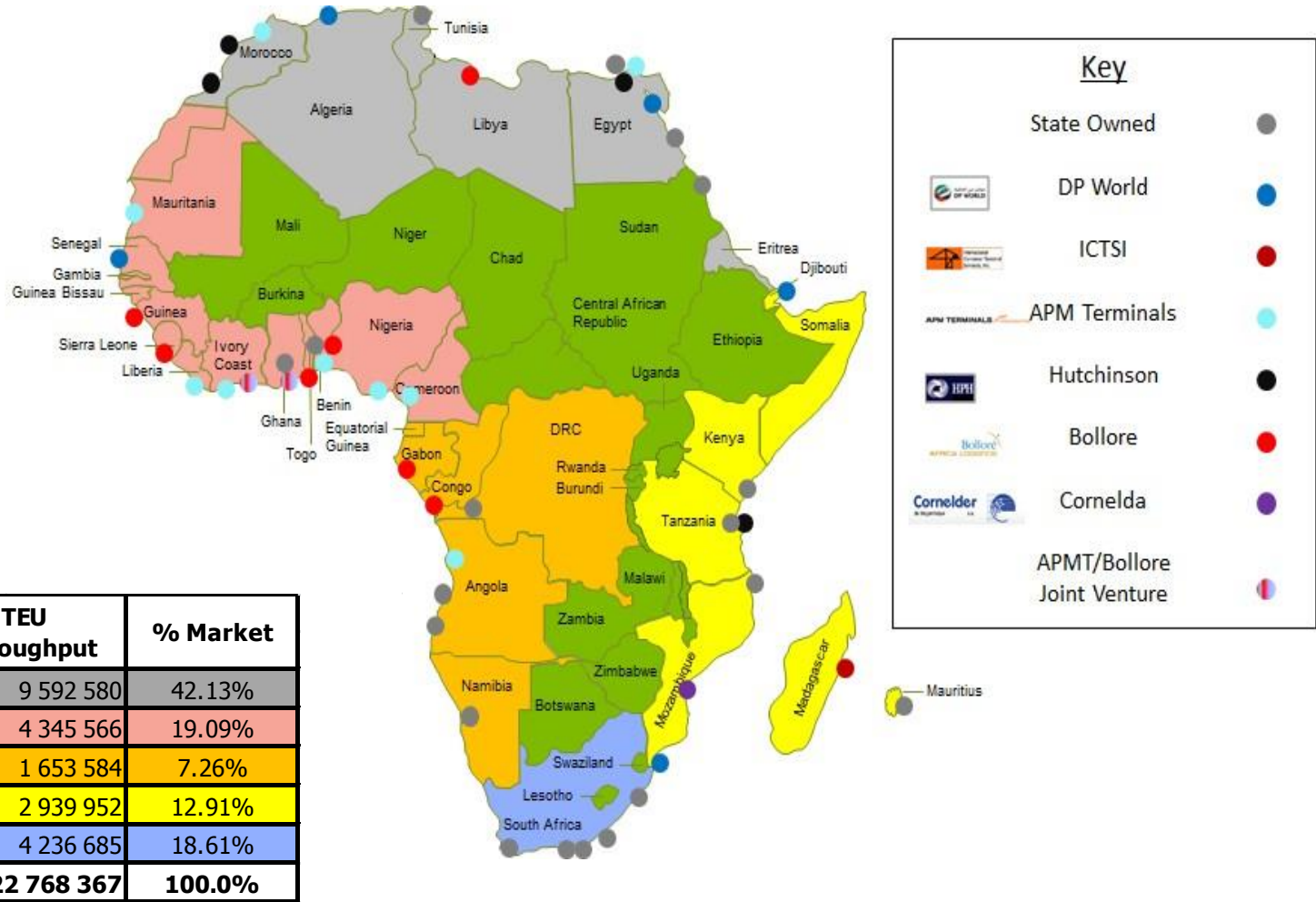
Risks for Transnet entry into the rest of Africa

1. Poor Regulatory Environment
2. Constant change of Ministers of Transport and DG's
3. Weak balance sheet of Regional Rail/Port Operators
4. Competition from global operators
5. Weak commodity prices (impact on bankability of some business cases)
6. Skills shortage in Africa
7. Lack of dedicated Transnet resources to implement
8. Political tension
9. Safety Concerns





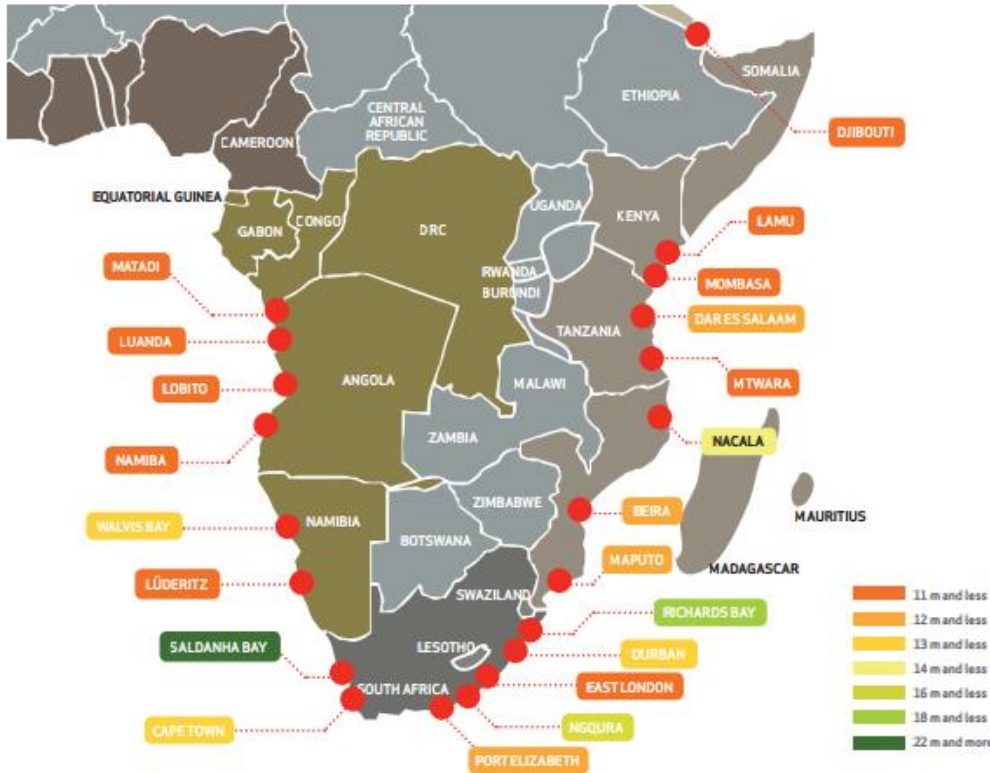
Market Analysis of container traffic in the African market



Transshipments to/from East and West African ports account for approximately 18% of Transnet’s container throughput in South Africa – Transnet already fills the role of a trans-shipment hub servicing East/West Africa



Challenges Facing Ports in Africa



Of the 59 ports in Africa, approximately 75% are still plagued with the following challenges:

- Lack of deep water berths
- Poor equipment and lack of infrastructure maintenance
- Limited or no training
- Limited capital to modernise port infrastructure

Transnet's Port Divisions (TNPA and TPT) have recent and practical experience in resolving the issues that face many of the ports in Africa, including but not limited to:

- Construction of New Port (Ngqura)
- Widening of an entrance channel (Durban)
- Reconstruction of quay walls (Berth 12 – Maydon Wharf)
- Deepening of berths
- Introduction of new generation cranes and port handling equipment
- Implementation of new operating systems
- Elimination of congestion surcharge (Durban)
- Reduction in container dwell time (Durban port is a World Bank case study)

This experience must be leveraged by the port businesses to expand their footprint into East and West Africa

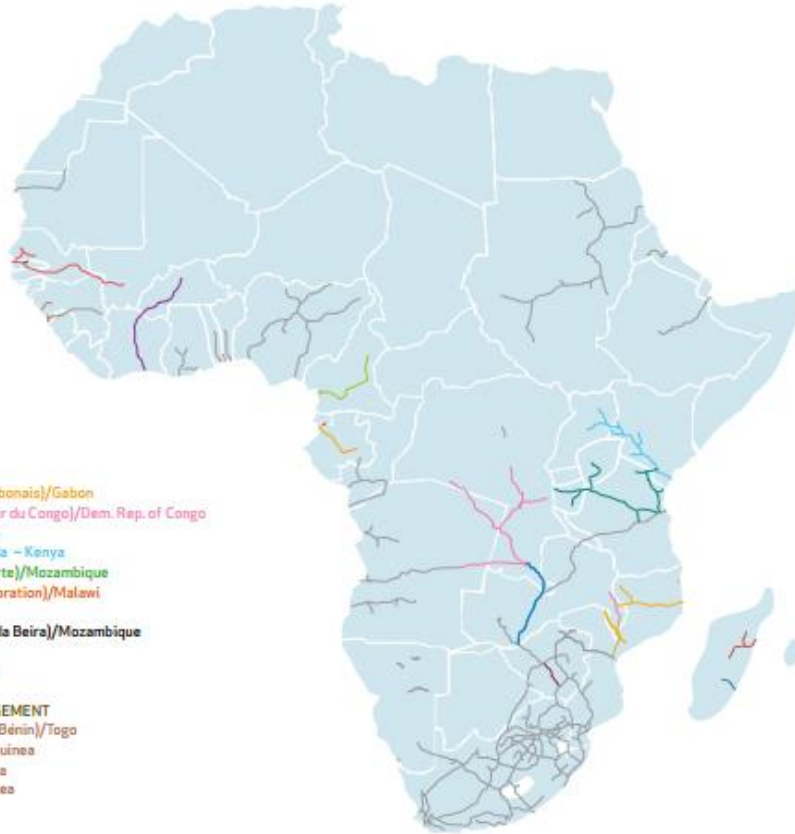


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Market Assessment – Rail Sector

Private participation in African railways



RAIL GAUGE AND CONNECTIVITY

- Transrail/Senegal – Mali
- Sitarail/Côte d'Ivoire – Burkino Faso
- Camrail/Cameroon
- SETRAG (Société d'exploitation du Transgabonais)/Gabon
- SNCC (Société nationale des chemins de fer du Congo)/Dem. Rep. of Congo
- RSZ (Railway Systems of Zambia)/Zambia
- RVRC (Rift Valley Rail Corporation)/Uganda – Kenya
- CDN (Corredor de Desenvolvimento do Norte)/Mozambique
- CEAR (Central East African Railways Corporation)/Malawi
- Madarail/Madagascar
- CCFB (Companhia dos Caminhos de Ferro da Beira)/Mozambique
- BBR (Beitbridge Bulawayo)/Zimbabwe
- TRL* (Tanzania Railway Limited)/Tanzania

MINING RAILWAYS UNDER PRIVATE MANAGEMENT

- CTMB (Compagnie Togolaise des Mines du Bénin)/Togo
- CBG (Companie des Bauxites de Guinée)/Guinea
- ACG (Alumina Company of Guinea)/Guinea
- SBK (Société des Bauxites de Kindia)/Guinea

— Other operational railways



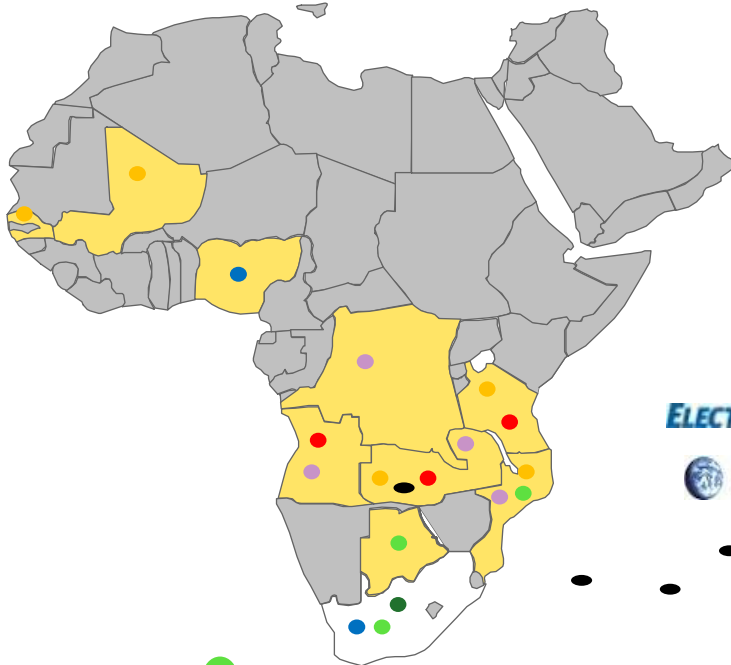
Rail freight volumes in the rest of Africa is low

Country	Tons
Mozambique	11.40
Zimbabwe	5.30
Swaziland	3.90
Namibia	2.07
Tanzania	2.01
Botswana	1.85
Ghana	1.80
Cameroon	1.62
Kenya	1.48
Zambia	1.15
Congo	0.97
Cote d'Ivoire/Burkina	0.89
DRC	0.53
Madagascar	0.45
Malawi	0.40
Senegal/Mali	0.30
Nigeria	0.15
Benin	0.10
Angola	0.04
Total	36.41

South Africa	226.60
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Transnet Engineering (TE) main competitors have an established presence in Sub Saharan Africa



GE Transportation

- Operates in SA through its subsidiary called General Electric South Africa Technologies (GESAT).
- Supplying 143 locomotives to TFR.
- Using its investment in rail engineering in South Africa as a springboard to expand into other African countries.
- GE Transportation has already delivered 25 diesel locomotives, manufactured in Brazil at GE Transportation South America, to Nigeria.



Electro-Motive Diesel Africa

- Formed in 2012, Electro-Motive Diesel Africa is a joint venture between Barloworld and Electro-Motive Diesel Inc (EMD).
- Electro-Motive Diesel Inc. supplied TE with 50 locomotives, between 2009 and 2010.
- Electro-Motive Diesel Africa will provide locomotives and railway products, as well as advanced diesel and emissions technology, specifically to the wider Southern African railway markets. Local manufacture of EMD locomotives is expected to commence once a suitable plant is established.



Diesel Locomotives Work (DLW)

- DLW is owned by Indian Railways
- Current activity includes the supply of locomotives to Tanzania and Mozambique and coaches to Angola.
- Other African countries that have received DLW locomotives include Mali and Senegal.

- Transnet Engineering
- GE Transportation
- Electro-Motive Diesel Africa
- DLW Indian Railways
- Dominex Imports and Exports CC
- Mitsui & Co. Ltd
- Chinese Companies (CNR / CSR)
- Grindrod (RRL)





Opportunities in Africa for Transnet Engineering (export sales)

The Demand for rolling stock in Africa is increasing. . .

Projects (next 5 years)	Locos	Wagons
Trans Kalahari	550	9000
LAPSSET	59	970
Nacala Corridor	112	1836
Tete-Nacala	110	3500
Tete- Macuse	59	952
Mombasa-Nairobi	61	1600
Nigeria Coastal	143	1836
Zambia-Angola	22	360
Djibouti- Addis Abeba	66	1700

African Demand over next 10 yrs (SA included)	Wagons
Narrow Gauge	30 626
Standard Gauge	19 068
TOTAL	49 694



There is also a corresponding need for maintenance services for locomotives, wagons and coaches in Africa.

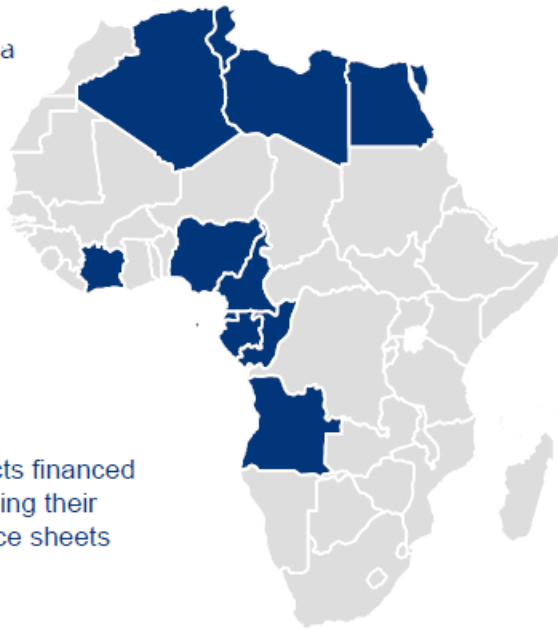


Market Assessment – Pipeline sector

Growth in Oil & Gas sector

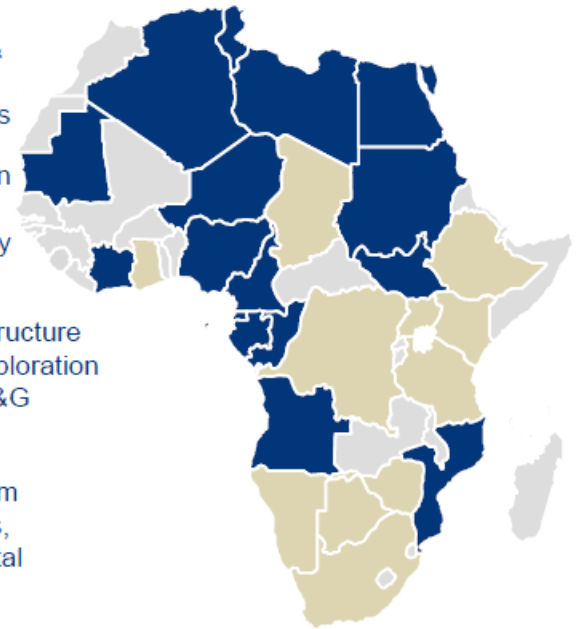
Before 2000

- Oil & Gas activities in Africa dominated by Nigeria, Angola, Egypt, Algeria and Libya
- Development of Oil & Gas projects challenging due to lack of infrastructure
- Oil & Gas projects financed by Oil Majors using their corporate balance sheets



Today

- Increased exploration activities across East & West Africa has delivered new reserves
- New frontier exploration in deep/ultra deep offshore, and potentially also shale/CBM
- Development of infrastructure projects catalyst for exploration and development of O&G projects
- Financing available from industry players, banks, investment funds, capital markets



 O&G production

 O&G development projects

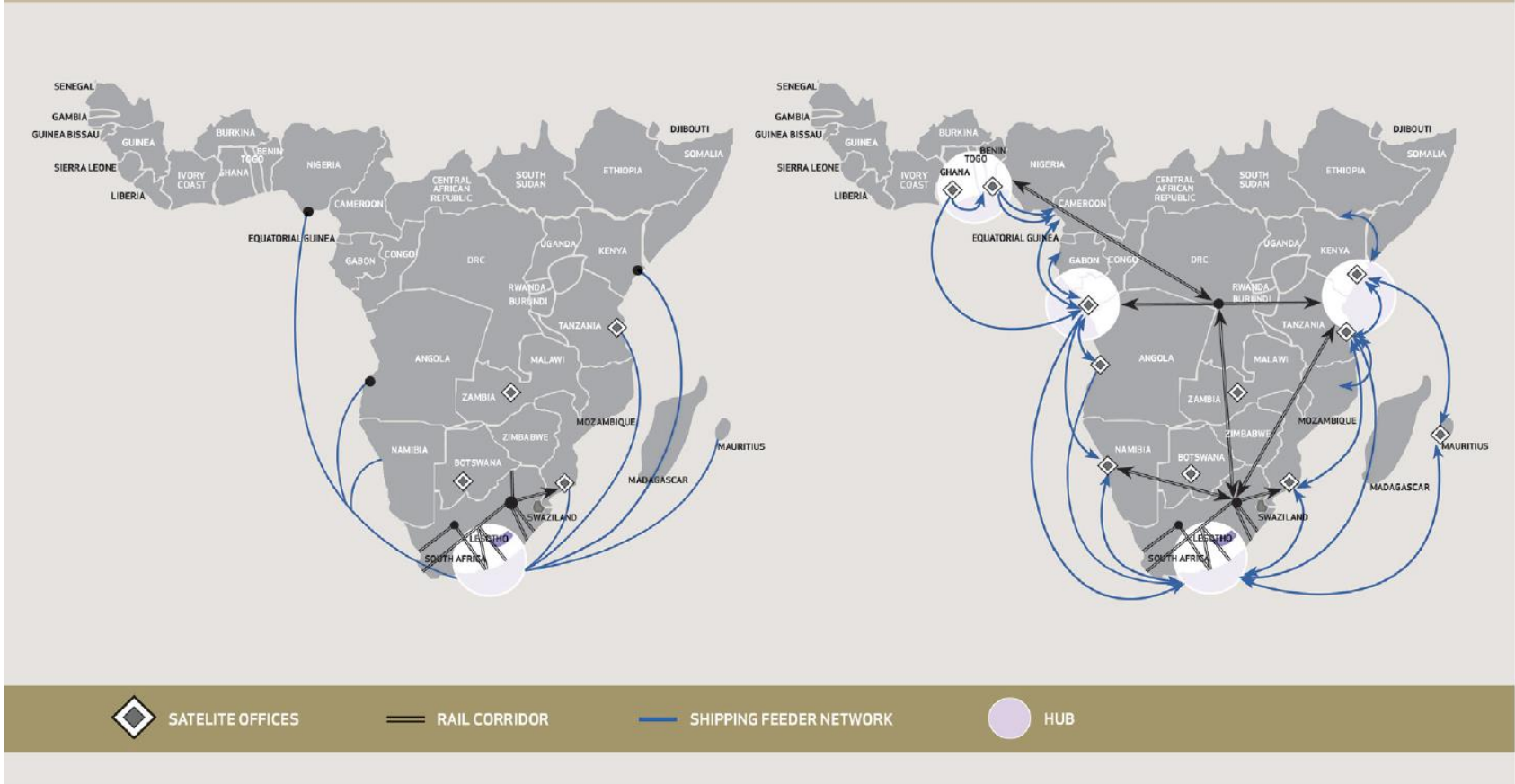


Future development of shipping “Hubs” with rail connectivity



TRANSNET AFRICA 2014 FOOTPRINT

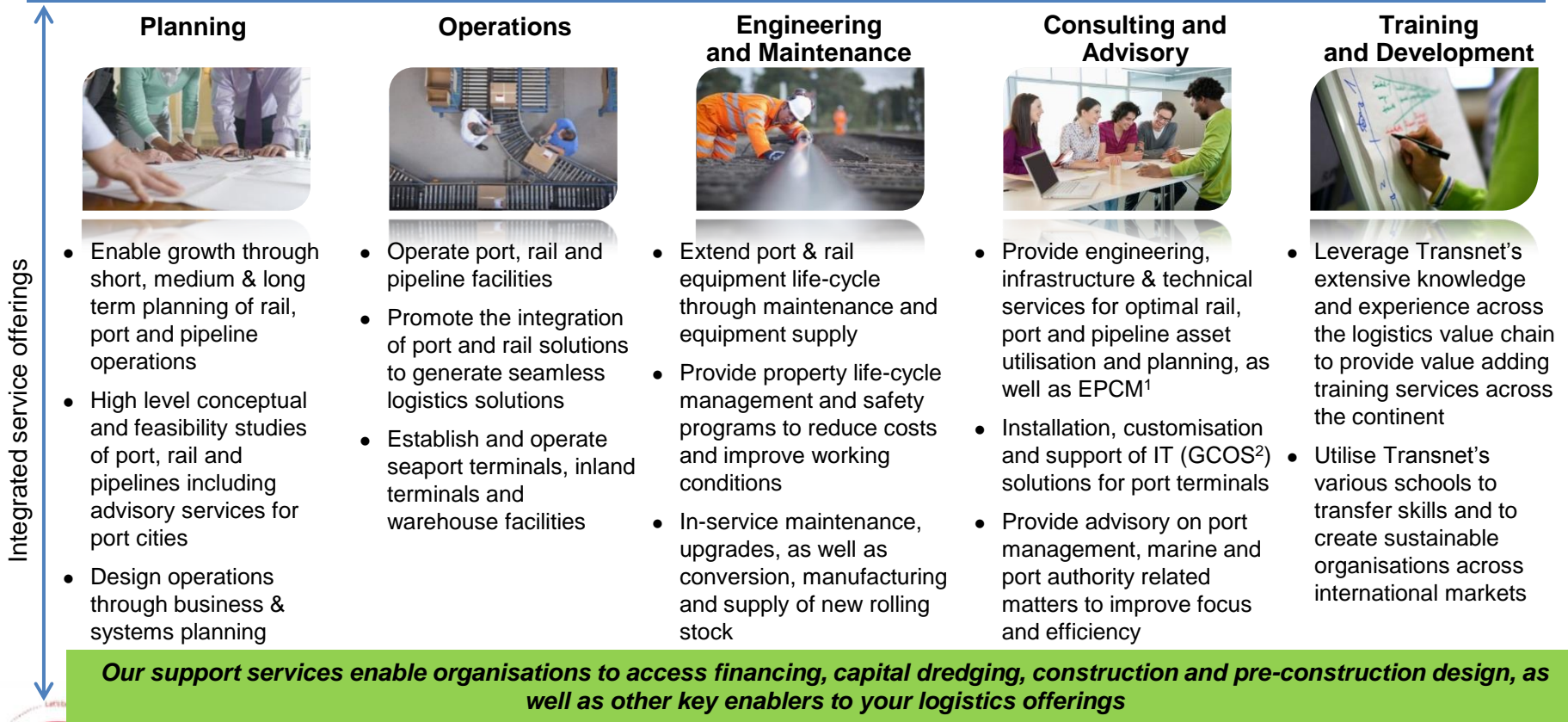
TRANSNET AFRICA 2030 VISION





Transnet is able to offer the African market an integrated value proposition

As an African State-owned Entity with extensive experience, deep capabilities and unique expertise across the logistics supply chain, Transnet delivers competitive, innovative, end-to-end logistics solutions by creating partnerships to support customers throughout the logistics life-cycle, to sustainably grow together



Notes: ¹ EPCM is an Engineer, Procure, Construct and Manage service provided by Transnet Capital Projects; ² General Cargo Operational Systems.



The Transnet Africa Strategy has Four Key Revenue Drivers

VISION: *Transnet is clearly recognised as the leading logistics service provider in sub-Saharan Africa*

1 Geographic Expansion

- Pursue option to invest in rail, port and pipeline operating concessions
- Relationship management (partnerships, JV's etc.)
- Revenue target of R10.5.billion p.a. by 2021/22

2 Export Sales

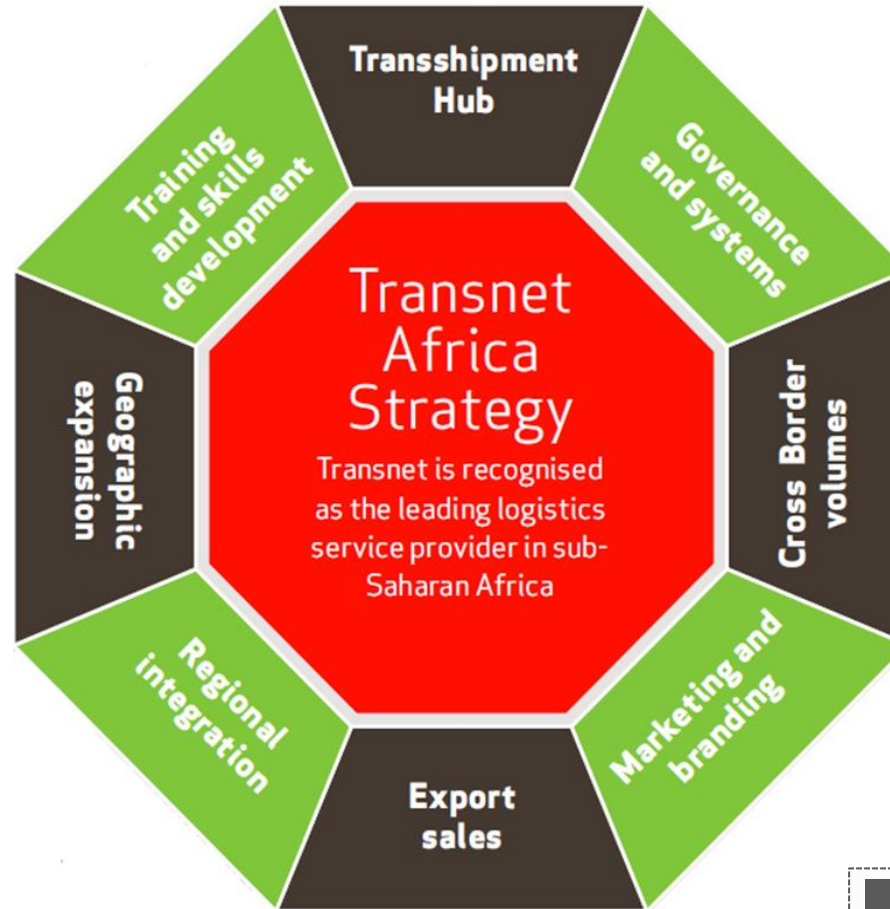
- Position TE as preferred OEM for Africa
- Launch the Africa Locomotive
- Increase export sales to R2.7 billion p.a. by 2021/22

3 Transshipment Hub

- Grow transshipment revenue from R386 mill to R1008 million p.a. by 2021/22
- Create a specialised unit in TPT/TNPA to focus on short sea shipping & transshipment
- Promote linkages between short sea shipping and rail operators
- Create alliances with transshipment destination ports

4 Cross-border Volumes

- Focus on three rail corridors
- Set up joint-operating centres
- Increase cross-border rail volumes from 7.1 mtpa to 18.9mtpa by 2021/22
- Increase annual revenue to R6.3 billion by 2021/22





Africa Volume and Revenue Targets

Cross border Rail Traffic		Transshipment Containers to / from Africa		Export Sales to Africa	External concession operations	Total
Volumes (000's tons)	Revenue (R mill)	Volumes (000's teu)	Revenue (R mill)	Revenue (R mill)	Revenue (R mill)	Revenue (R mill)
7 176	1 883	846	386	1 073	0	3 342
Contribution to Transnet 2013/14 Revenue						5.9%
7 900	2 104	784	517	555	0	3 176
Contribution to Transnet 2014/15 Revenue						5.2%
10 600	2 725	601	480	1 500	0	4 705
Contribution to Transnet 2015/16 Revenue						6.5%
18 994	6 382	925	1 008	2 700	10 500	20 590
Contribution to Transnet 2021/22 Revenue						12.5%





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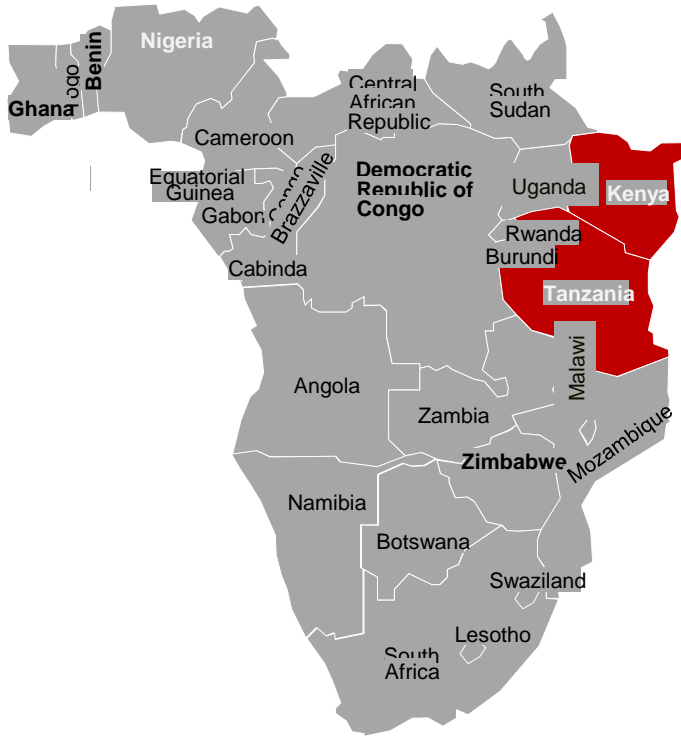
Geographic Expansion Initiatives being explored by Transnet

Country	Project Description	Revenue Driver	Status
Benin	Technical Partnership with the State Owned terminal Operator SOBEMAP	<ul style="list-style-type: none"> Geographic Expansion of Port Operations 	<ul style="list-style-type: none"> Signature of contract with SOBEMAP planned for end August 2015.
Nigeria	Pre-qualified for a multi-purpose terminal operating concession, in JV with Nigeria based Rosehill Group	<ul style="list-style-type: none"> Geographic Expansion of Port Operations 	<ul style="list-style-type: none"> Awaiting approval to access the data room
Guinea	Rio Tinto has concession to develop a 100 mtpa high grade iron ore mine. Rio is required to set up the rail and port infrastructure to support the 35 year life on the mine.	<ul style="list-style-type: none"> Geographic Expansion of Port and Rail Operations 	<ul style="list-style-type: none"> Transnet is investigating a possible role in the 30 year Build, Operate and Transfer infrastructure project, which will be supported by a 30 year take-or-pay logistics contract with Rio Tinto.





Geographic Expansion Initiatives being explored by Transnet



Country	Project Description	Revenue Driver	Status
Kenya	Port of Lamu concession	<ul style="list-style-type: none"> Geographic Expansion of Port Operations 	Government of Kenya and a consortium (Transnet/DBSA /Group5/Dredging International / Mwalimu Ltd) intend signing a framework agreement on the 30 th July 2015 to allow the consortium to conduct a detailed feasibility study to determine the commercial viability of the opportunity.
Tanzania	Transnet/Aveng consortium pre-qualified for the concession to design, build, finance and operate a 2 berth container terminal.	<ul style="list-style-type: none"> Geographic Expansion of Port Operations 	Pre-Qualified in JV with Aveng for Berths 13 & 14 (project now delayed by one year).





Geographic Expansion Initiatives being explored by Transnet



Country	Project Description	Revenue Driver	Status
Zimbabwe	Technical partner and equipment supplier needed for recapitalisation of NRZ.	<ul style="list-style-type: none"> Export Sales Cross Border Volumes Rail Operations 	Awaiting decision from Government of Zimbabwe
North South Corridor	Working with 5 Railway operators to develop and implement an integrated master-plan for the rail corridor from the DRC to Durban & Richards Bay	<ul style="list-style-type: none"> Cross Border Volumes Rail Operations Export sales opportunity 	Work in progress
SADC	Development of a locomotive leasing pool is being driven through the Nepad Business Forum (Africa Infrastructure Desk)	<ul style="list-style-type: none"> Export Sales Cross Border Volumes Rail Operations 	Work in progress
Burundi, Rwanda and Tanzania	Development of a standard gauge railway line from Dar es Salaam via Isaka to Kigali with a link to Burundi	<ul style="list-style-type: none"> Geographic expansion Export Sales Rail Operations 	Expressions of Interest due 14 August 2015





TPL have identified potential Pipeline opportunities in Africa

Country

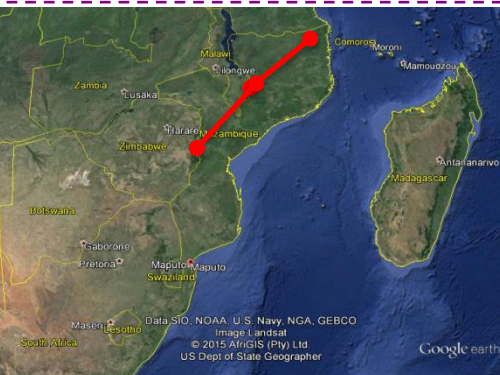
Project Description



- The Horn of Africa Pipeline is a 550 km multiproduct fuel pipeline project, aimed at supplying Ethiopian jet fuel, diesel and gasoline demand.
- The Pipeline will transport refined oil products from the Port of Djibouti to storage facilities in Awash, Ethiopia (near Addis Ababa). Currently, 500 per day tanker trucks transport jet fuel, diesel and gasoline from the Port of Djibouti 800km to the greater Addis Ababa area;
- Black Rhino is developing the Horn of Africa Pipeline project in joint-venture with Mining, Oil and Gas Solutions (MOGS), a wholly owned subsidiary of Royal Bafokeng Holdings.
- Transnet is in discussion with Black Rhino re a possible Operating / Maintenance role.



- The Hoima-Lokichar-Lamu Pipeline is 1300km in length and connects the Port of Lamu (Kenya) and Hoima (Uganda)
- The construction of this pipeline will be an EPC arrangement with private funding.
- There is a possibility for Transnet to operate this Pipeline jointly with the State Owned Pipeline operating companies in Kenya and Uganda.



- The Gasnosu North South Pipeline (Mozambique) is a 2100km pipeline to be funded by Gigajoule.
- The tender for the construction and operation of this pipeline is scheduled to be released in the coming months
- Transnet is exploring, jointly with Fluor, to establish if there is an opportunity for an Operation and Maintenance role.



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Design of Africa Operating Model



The DPE Africa strategy principles and the Transnet Africa strategy, together, provide the guidelines for the design of the Transnet Africa Operating model.

DPE Africa Strategy Principles

1. Build a better working Africa by enabling economic transformation and socio-economic upliftment for the host country and the region (as well as for South Africa)
2. Ensure collaboration across all stakeholders (within both the public and private sector) to enhance the delivery of an end-to-end value proposition
3. Build strong networks and relationships within the local host country
4. Provide for a continuous, consultative relationship with the DPE
5. Understand the local country environment and customers
6. Design a strategy that meets the future needs of the SOC – rather than designing around current structures, people and teams
7. Assign a dedicated on-the-ground resource or body that is focused on executing the SOC's plans and objectives
8. Ensure country exit is done properly at both a political and operational level



Constructs of Transnet's Africa Strategy

1. Transnet Africa should be its own legal entity (legal structure) in the short term and an autonomous operating division (corporate structure) with its own profit and loss in the long term
2. Legal structure should limit Transnet SOC Ltd.'s liabilities and risks to the lowest possible single derivative or entity
3. Transnet Africa should operate as a single brand in African countries and projects
4. Core capabilities will not be outsourced
5. Project requirements should drive business decision making
6. The model must foster an entrepreneurial culture that is that is agile and responsive
7. The model must enable partnering with third parties
8. The structure must provide economies of scale (particularly for scarce specialist resources)
9. There must be clear accountability for driving the Africa growth agenda and its revenue targets



Design Considerations

- Does the model reflect the end state and describe the steps to get there?
- Is the structure efficient and scalable?
- Does the structure affect who owns the P&L?
- Does the structure support the development of key growth capabilities?
- What shared services (traditional and specialist) are appropriate, and should the centre provide them?
- To what extent does the structure utilize current core competencies or areas of strength?
- How do culture, behavior and talent requirements need to shift to enable the end state?
- Where do we need general management talent versus functional/specialist talent?
- How does the structure support employee development across borders?
- Does the structure allow for faster decision making?





Governance / Operating Model

- 1. Robust governance framework to ensure appropriate coordination and control of Africa business activities – with initial focus on:
 - 'business development and implementation' framework to govern capital investment decisions; and
 - 'human capital' framework to support mobility for Africa expansion.*
- 2. Repeatable “New Country Entry Model” framework, i.e., an executable new country entry/exit project management framework and checklist for new country operations and projects.*
- 3. Implement the go-to-market strategy by deploying resources, creating partnerships to support the integrated Transnet Africa value proposition, and leverage stakeholders across target markets.*
- 4. The Department of Public Enterprises hosts a monthly Africa Steering Committee. Participants in the forum include DIRCO, SAA, SA Express, Denel, Alexkor, Eskom and Transnet. The forum consolidates the initiatives being pursued in Africa by the SOC's with the focus being on how DPE and DIRCO can support the SOC's.*
- 5. Transnet Africa cannot be “run” as a single operating unit as the international regulatory, legal and tax landscape does not allow a single legal entity to operate in the various target jurisdictions for the envisaged projects.*
- 6. To protect Transnet SOC Ltd.'s South African operations and profits, it is strongly recommended, based on best practice and practical experience, that a Transnet International Holding entity be created as a wholly-owned subsidiary of Transnet SOC Ltd.*
- 7. Transnet International Holding (TIH) will be the (future) owner of in-country branches and/or subsidiaries.*
- 8. Given the treaty network with the target countries in Africa, the regulatory environment, the substance (people and functions) in South Africa and the tax incentives and reliefs in South Africa it is a natural fit that TIH be incorporated in South Africa.*



TRANSNET



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THANK YOU