

	Results
	Presentation
	2016



EXECUTIVE SUMMARY – In the context of GDP growth of 0,6%

FOR THE YEAR ENDED 31 MARCH 2016

TRANSNET



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Revenue increased by 1,7% to R62,2 billion for the year, driven by a 4,2% increase in rail containers and automotive volumes as a result of concerted efforts to shift rail-friendly cargo from road to rail, as well as a 1,4% growth in petroleum volumes.



Operating expenses were contained to R35,9 billion, an increase of only 1,0%, well below inflation. Aggressive management of costs to preserve our financial performance, resulted in R6,6 billion savings against planned costs.



EBITDA grew by 2,6% to R26,3 billion, 4,3 times the SA GDP growth for the financial year.



Gearing at 43,1% and cash interest cover at 3,1 times.



Cash generated from operations increased by 1,7% to R27,7 billion.



The Company maintained an investment grade credit rating confirming its solid stand-alone credit profile.



Capital investment of R29,6 billion, bringing the spend during the MDS period to R124 billion (including intangibles), with expected spend of between R340 billion to R380 billion over the next 10 years.



Continued focus on operational improvements resulted in the Group operational efficiency increasing by 15,9%.



B-BBEE spend of R43,5 billion or 100,6% of total measured procurement spend for the year, per DTI codes.



Enterprise and supplier development equates to 36,7% of net profit after taxation.



The Company spent 3,6% of its labour costs on training focusing on artisans, engineers, and engineering technicians.



The DIFR ratio is at 0,69 and is the fifth consecutive year the Company recorded a DIFR ratio below the target of 0,75 and the global benchmark of 1. This is due to continued focus and investment in safety.



5 YEAR REVIEW

FOR THE YEAR ENDED 31 MARCH 2016

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	2012	2013	2014	2015	2016	5 year % Variance**
Volumes						
- GFB (mt)	81,0	82,6	88,0	90,6	84,1	3,7
- Export coal (mt)	67,7	69,2	68,1	76,3	72,1	6,5
- Export iron ore (mt)	52,3	55,9	54,3	59,7	58,0	11,1
- Total rail	201,0	207,7	210,4	226,6	214,2	6,6
- Containers (TPT) ('000 TEUs)	4 305	4 237	4 503	4 571	4 366	1,4
- Petroleum (Mℓ)	16 741	15 882	16 583	17 186	17 426	4,1
Financials						
- Revenue	45 900	50 194	56 606	61 152	62 167	35,4
- EBITDA	18 882	21 051	23 639	25 588	26 250	39,0
- Capital investment	22 259	27 471	31 766	33 565	29 561	32,8
- Total assets	178 005	203 896	240 073	328 439	356 393	100,2
- Total borrowings	58 132	73 088	90 444	110 377	134 517	131,4
Ratios/statistics						
- EBITDA margin (%)	41,1	41,9	41,8	41,8	42,2	
- Gearing (%)	41,9	44,6	45,9	40,0	43,1	
- Return on total average assets (%)*	7,8	7,7	6,5	6,4	3,7	
- Cash interest cover (times)	4,2	3,7	3,7	3,6	3,1	
- FFO/Debt (%)	22,1	19,7	18,1	16,2	12,5	
- FFO/cash interest coverage (times)	2,5	2,4	2,5	2,2	1,9	
- Group operational efficiency (%)	17,5	3,3	13,8	16,6	15,9	
- Real GDP Growth (%)	2,2	2,2	1,5	1,4	0,6	

* Excluding Regulator claw backs.

** Absolute comparison to 2012.



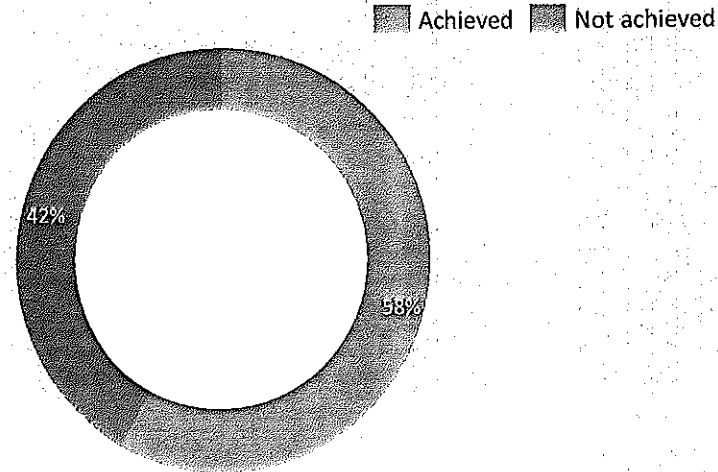
SHAREHOLDER'S COMPACT AUDITED PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2016

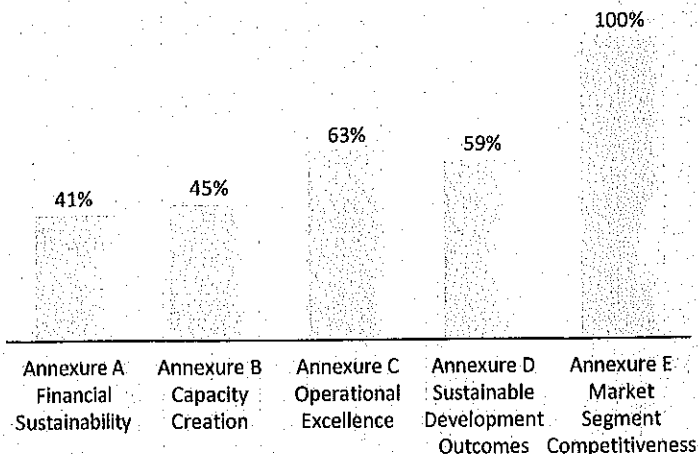
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Shareholder's Compact achievement (Annexures A, B, C, D, and E)



Percentage achievement against 2016 Shareholder's Compact



Annexure A:

- 3 (41%) of the 7 financial measures were met and the remaining 4 within 95% of budget.
- At 43,1%, gearing remains well within Transnet's limit of 50%. Despite significant constraints in cash-flow from operations, CIC was 3,1 times, exceeding the Shareholder's Compact target of 3,0 times. Focus on working capital management, and aggressive pursuit of volume targets and new markets will continue to manage this ratio.

Annexure B:

The 45% achievement on planned capital project completion rates is mainly due to capital optimisation in response to subdued commodity markets and resultant decrease in capacity requirements.

Annexure C:

- 63% achievement was mainly due to negative volume growth resulting from customer cancellations as a result of weak economic growth and declining commodity prices.
- Significant improvements were made in GFB and export iron ore on-time departures and arrivals, as well as port and pipeline efficiencies.
- Export coal on-time arrivals was negatively impacted by product availability, power outages, cable theft and challenges with locomotives.
- Daily operations centre telecommunications are held to ensure rapid recovery from operational deviations.

Annexure D:

- In line with the positive five-year trend, Transnet exceeded 9 of its 12 procurement and supplier development targets, meaningfully contributing to Government's transformation agenda as part of its integrated supply chain management policies.
- The number of employees trained to date is on target as per the Workplace Skills Plan. 155 engineering and 232 technician learners were recruited, exceeding budget for 2016. The company recruited 1809 sector specific trainees and 102 artisan learners. Although budget was not met, this is mainly due to cost optimisation measures and smarter training methods.
- Transnet continued to demonstrate its corporate social responsibility through its flagship Corporate Social Investment programme. The programme spent R248,4m (79,3%) of the annual budget of R313 million on community health and other services through the two Phelophepa trains. The performance gap is mainly due to cost containment initiatives implemented to address affordability constraints in the adverse economic environment.

Annexure E:

The 100% achievement was due to the following:

- Development of market segment competitiveness KPIs for the container and automotive segments by December 2015.
- Development of the Liquid fuel master-plan for 3 segments.
- Development of the strategic approach to the domestic intermodal strategy.



ACTUAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2016



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Weighted group volume performance



Revenue*



EBITDA*



Depreciation



Finance costs



Capital investment



Cash interest cover (times)**



Gearing**

March 2016
vs
Prior year

(3,1%)

+1,7%

+2,6%

+39,5%

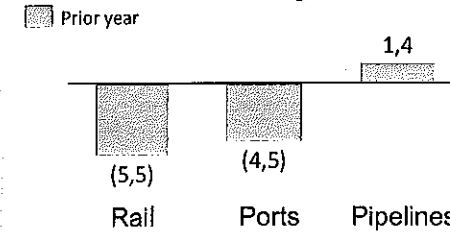
+19,0%

(11,9%)

(0,5)

+3,1%

March 2016 volume growth %



- Decline in global economic activity resulted in a drop in volumes handled.
- Customers downscaling their operations.
- GDP growth tracking below expectations:

2013 FY 1st year of MDS (3,3%)

2016 FY Actual (0,6%)

2016 FY Transnet's operating sector (0,1%)

* Including Regulator claw backs.

** Absolute variance.



REVENUE AND VOLUMES

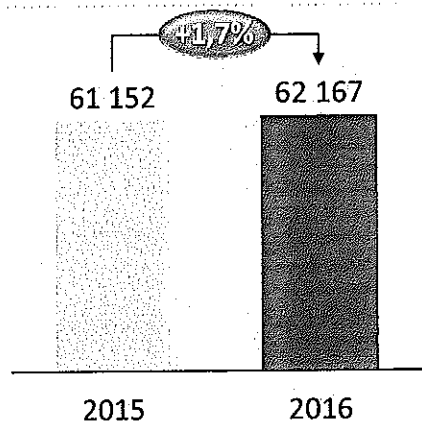
FOR THE YEAR ENDED 31 MARCH 2016

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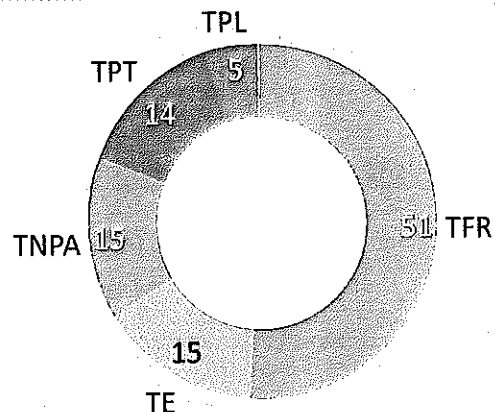
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Revenue (R million)



Included in revenue above is R2,8 billion generated by Transnet's Africa Strategy which extends business beyond the borders of South Africa.

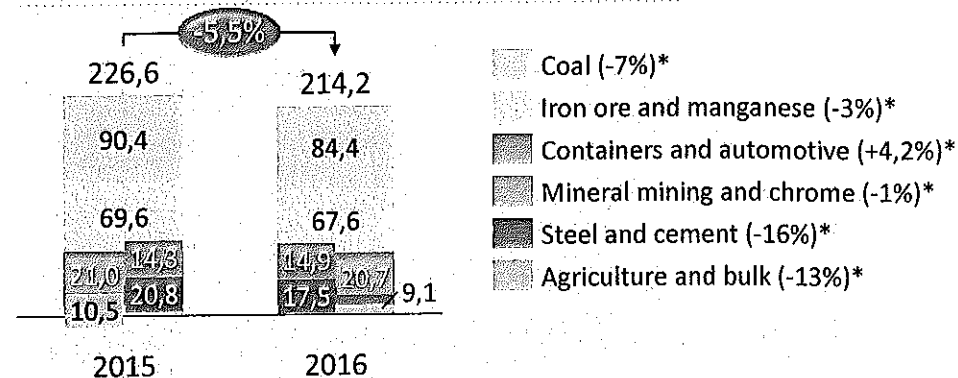
Revenue contribution by Operating Division** (%)



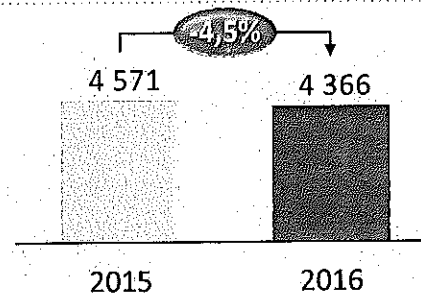
* Variance % to prior year.

** Excludes specialist units and intercompany eliminations.

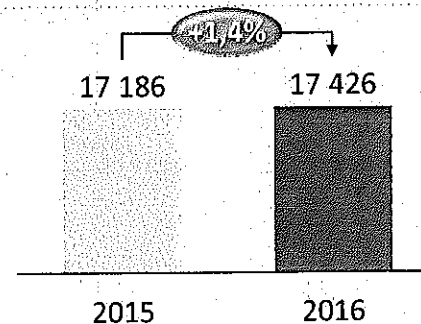
Rail volumes (mt)



Port containers ('000 TEUs)



Petroleum (Mℓ)





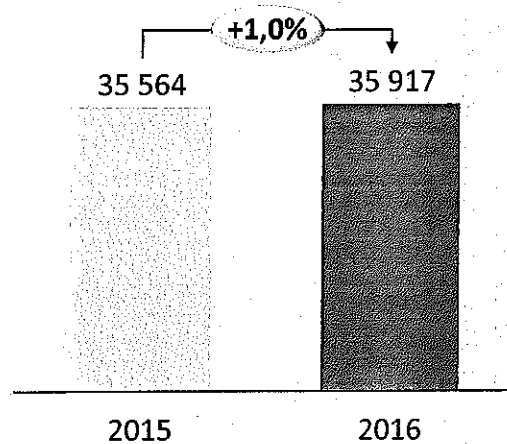
OPERATING EXPENSES

FOR THE YEAR ENDED 31 MARCH 2016

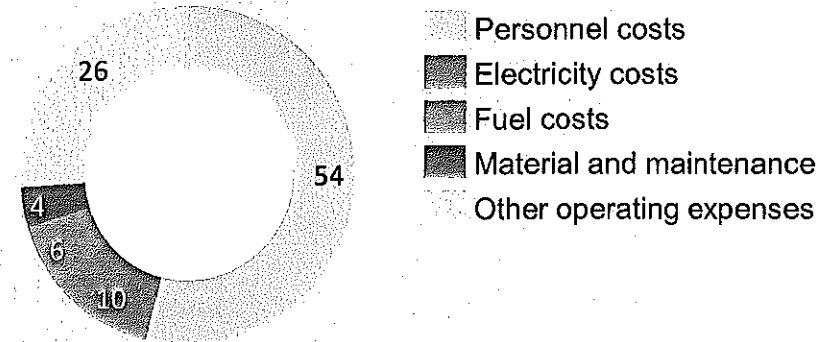


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Net operating expenses (R million)



Net operating expenses contribution by cost element (%)



The operating expense were contained at a modest increase of 1,0%, well below inflation, despite:

- Increase in personnel costs of 5,9%; and
- Increase in electricity costs of 3,9%.
- These costs, which are largely fixed, constitute 64% of Transnet's total operating expenses.

R6,6 billion saving against planned costs, by implementing numerous cost-reduction initiatives:

- Moratorium on the filling of vacancies;
- Overtime limited to critical activities;
- Reduction in professional and consulting fees through price negotiations and reorganising non-critical projects and programmes; and
- Limit on discretionary costs as it relates to travel, accommodation, printing, stationary and telecommunications.

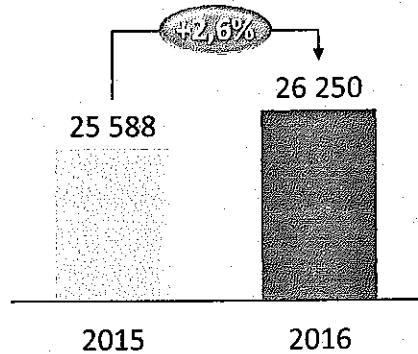


EBITDA

FOR THE YEAR ENDED 31 MARCH 2016

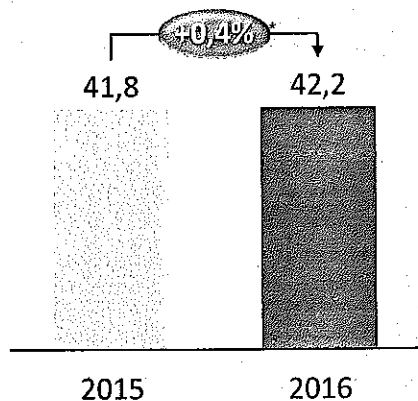


EBITDA (R million)



EBITDA growth of 2,6%, well in excess of GDP growth of 0,6% and Transnet's operating sector GDP contracting by 0,1%.

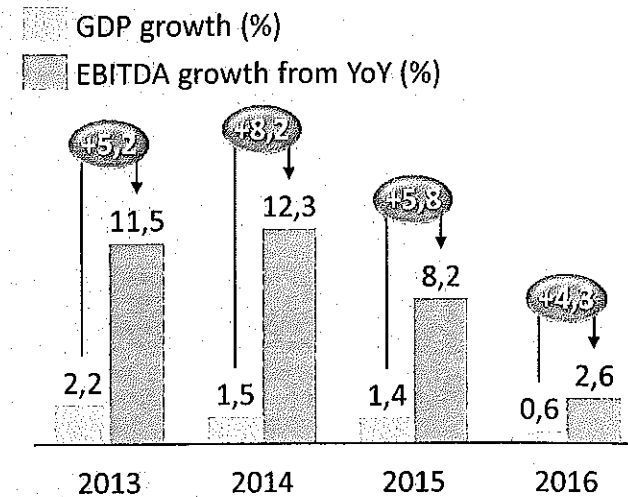
EBITDA margin (%)



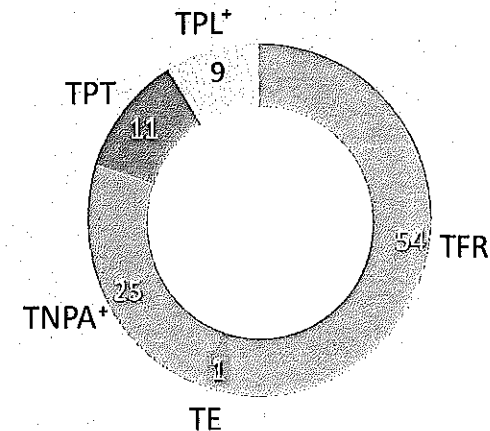
* Absolute variance.

** Excludes specialist units and intercompany adjustments.

EBITDA growth compared to GDP growth (times)



EBITDA contribution by Operating Division** (%)



+ Regulated entities contributed 34% to the overall EBITDA.



ABRIDGED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2016

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	2016	2015
	R million	R million
ASSETS		
Property, plant and equipment	302 463	287 166
Investment properties	10 105	9 074
Other non-current assets	5 624	9 701
Non-current assets	328 192	305 941
Current assets	28 201	22 498
Total assets	356 393	328 439
EQUITY AND LIABILITIES		
Capital and reserves	143 290	142 328
Non-current liabilities	171 254	145 853
Current liabilities	41 849	40 258
Total equity and liabilities	356 393	328 439



ABRIDGED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2016

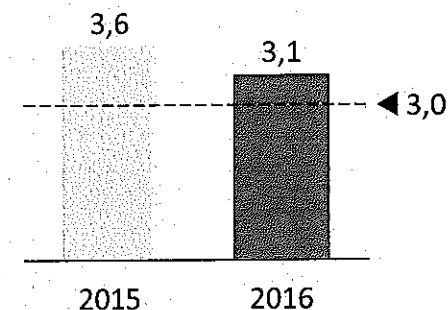
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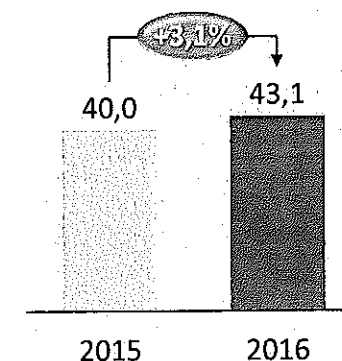
	2016	2015	Variance
	R million	R million	%
Cash and cash equivalents at the beginning of the year	6 264	3 633	72,4
Cash flows from operating activities	28 572	23 666	20,7
Cash generated from operations	27 747	27 280	1,7
Changes in working capital	408	3 327	(87,9)
Other operating activities	417	(6 941)	(106,0)
Cash flows utilised in investing activities	(34 328)	(36 715)	(6,5)
Cash flows from financing activities	13 435	15 680	(14,3)
Net increase in cash and cash equivalents	7 679	2 631	191,9
Total cash and cash equivalents at the end of the year	13 943	6 264	122,6

Cash interest cover (times)



This level is above the Group's target of 3 times, and is well above the triggers in loan covenants, reflecting our ability to generate strong cash flows.

Gearing (%)



This level is below the Group's target range of 50,0% and is well below the triggers in loan covenants, reflecting the capacity available to continue with its investment strategy, aligned to validated demand.

Credit rating



STANDARD
& POOR'S

Long-term foreign currency	Baa2/Negative outlook	BBB-/Negative outlook
Long-term local currency	Baa2/P-2/Negative outlook	BBB+/Negative outlook

Sources of funding

2016 R billion

Development finance institutions	8,3
Commercial paper and call loans	8,5
Domestic bond issue	4,6
Domestic bank and club loans	19,1
Other	0,4
Total	40,9

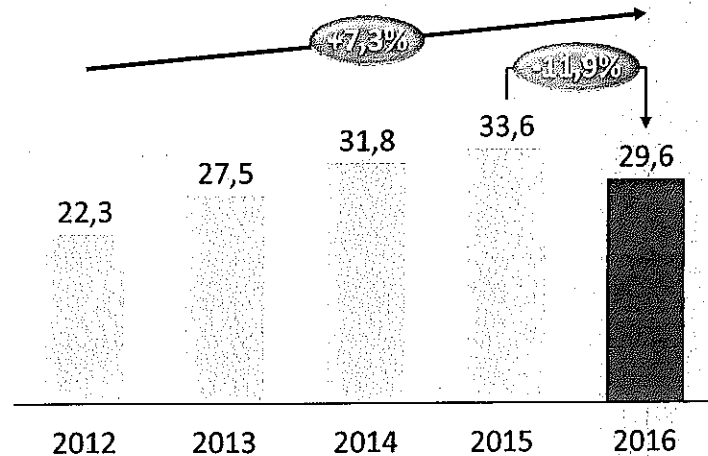


CAPITAL INVESTMENT ANALYSIS

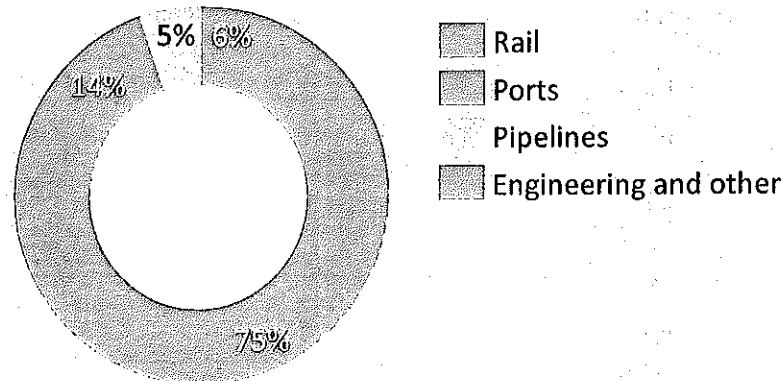
FOR THE YEAR ENDED 31 MARCH 2016



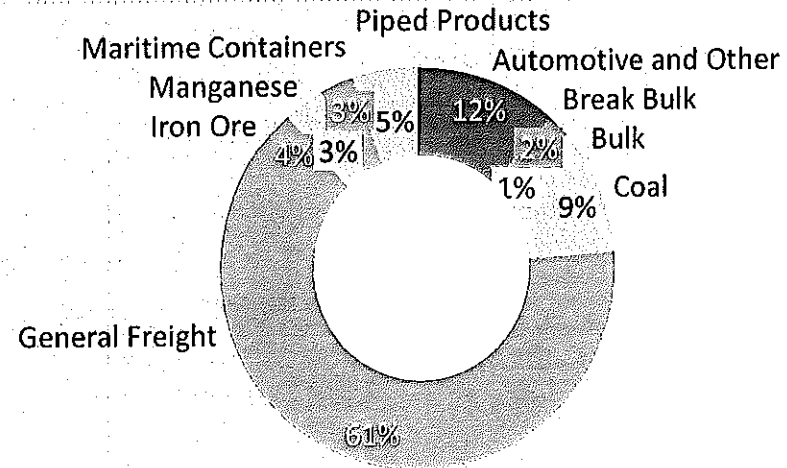
Capital investment (R billion)



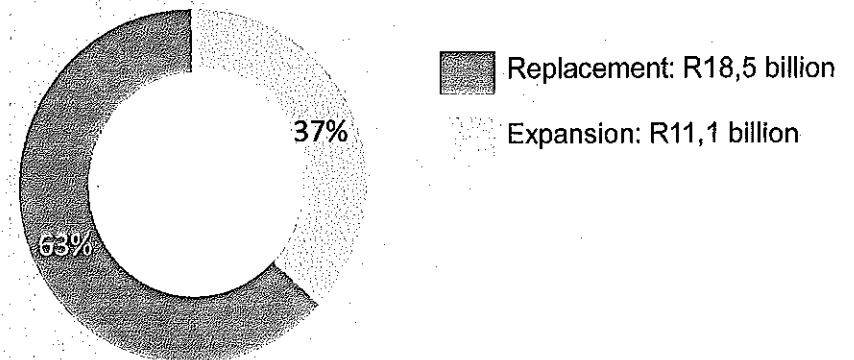
Capital investment by operating segment



Capital investment by commodity



Expansion vs replacement



The global economic slowdown has resulted in key customers deferring their expansionary programmes. Accordingly, this has negatively impacted Transnet's expansionary capital spend for the current year.



MAJOR CAPITAL DELIVERIES

FOR THE YEAR ENDED 31 MARCH 2016

TRANSNET



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Asset type	March 2016	Cumulative*
Locomotives**		
60 Class 43 Diesel	35	60
95 Class 20 Electric	1	95
100 Class 21 Electric	86	100
233 Class 44 Diesel	34	34
359 Class 22 Electrical	55	55

Wagons	March 2016	Cumulative*
GFB	1 400	9 388
Export Coal	700	700

Asset type	March 2016
Rail refurbishment: Infrastructure	
Turnouts	114
Universals	228
Screening	360km
Sleepers	315 752

* Cumulative since inception of contracts.

** Zero deliveries have been made on the 232 Class 45 Diesel and the 240 Class 23 Electrical locomotives.

Asset type	March 2016
Port Equipment	
Front End Loaders	2
Reach Stackers	1
Ship-to-shore cranes for DCT	2
Skid Steer Loader	1
Sweeper Truck	1
Dredgers	1
Tugs (Mvezo)	1

Asset type	Stage of completion
Pipeline infrastructure	
NMPP Coastal Terminal (Tight lining scope)	97%
NMPP Inland Terminal	96%
NMPP Trunkline and Pump Stations are fully operational	



PRIVATE SECTOR PARTICIPATION PROJECTS

FOR THE YEAR ENDED 31 MARCH 2016



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Portfolio overview

Projects progress

Bulk commodities (coal, iron ore and manganese)	<ul style="list-style-type: none"> • Waterberg Consolidation Lephalale • Funding for Heavy Haul coal link 	<ul style="list-style-type: none"> ○ Swazi rail link ○ Manganese Common User Facility in Mamatwan
Intermodal (focus on containers)	<ul style="list-style-type: none"> ● Funding for Durban Dig Out Port ● Tambo Springs intermodal hub 	<ul style="list-style-type: none"> • Pyramid intermodal hub
Rail (general freight services)	<ul style="list-style-type: none"> • Specialized wagons ● Grootvlei Coal Loading Terminal 	<ul style="list-style-type: none"> • Pending Chrome loading Terminal ● Tharisa Chrome loading Terminal
Branch Lines	<ul style="list-style-type: none"> ● Belmont - Douglas – Northern Cape ● Ceres - Prince Alfred Hamlet - Wolseley - Western Cape 	<ul style="list-style-type: none"> ○ George – Knysna - Western Cape ○ Alicedale – Grahamstown – Port Alfred – Eastern Cape
Ports (multi-purpose services)	<ul style="list-style-type: none"> ● Agri-port Durban - KZN ● East London Grain Elevators 	<ul style="list-style-type: none"> ○ Liquid Fuel Terminals
Regional integration	<ul style="list-style-type: none"> • Botswana – Waterberg coal link ● Maputo corridor and Port investments 	<ul style="list-style-type: none"> • North South corridor • East West corridor
Non-core but complementary to MDS	<ul style="list-style-type: none"> • Property Portfolio • Unsolicited bids ● Blue Train 	<ul style="list-style-type: none"> • Gas to Power in support of DOE IPP programme
Operation Phakisa	<ul style="list-style-type: none"> ○ Port of Saldanha - Rig Repairs ● Offshore Supply Base – Port of Saldanha ○ Ship Repairs - Port of Saldanha 	<ul style="list-style-type: none"> ○ Boat Building - Port of East London ○ Ship Repairs - Port of Richards Bay

● Advanced ○ Development ● On hold



VOLUMES AND OPERATIONS

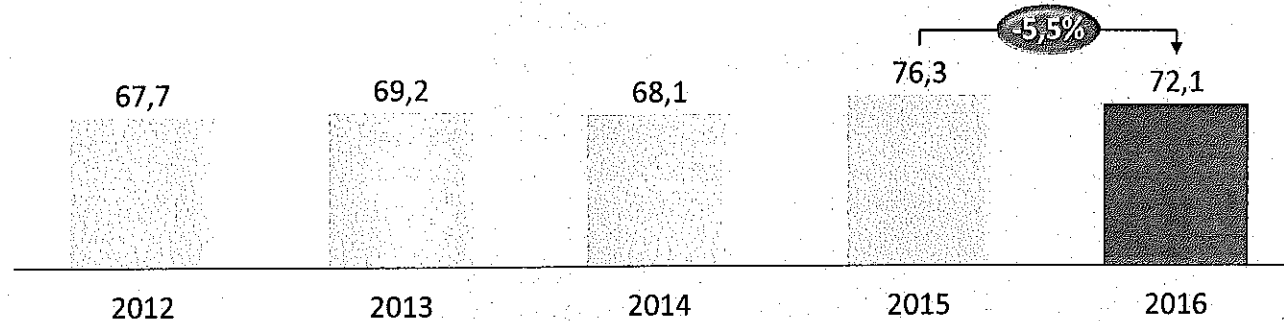
FOR THE YEAR ENDED 31 MARCH 2016



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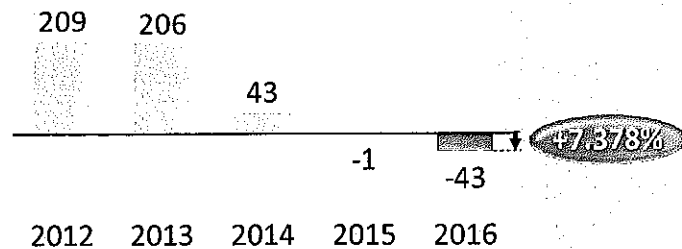
Rail – export coal

Volumes (mt)

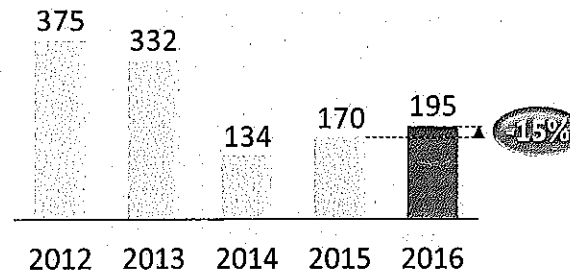


Productivity and efficiency

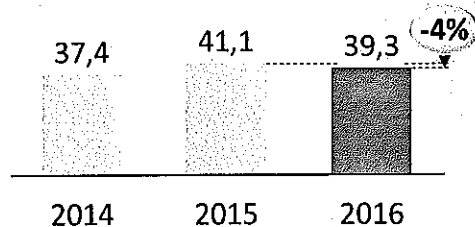
On-time departure (minutes)



On-time arrivals (minutes)



Route density (Richards Bay corridor)
Tonkm/Routekm



- Export coal volumes decreased by 5,5% from 76,3mt to 72,1mt, compared to the prior year, mainly due to:
 - Overall decline in commodity prices;
 - Locomotive failures (19E and 11E) were experienced in the earlier part of the year;
 - Falling coal prices led to train cancellations by customers operating in the spot market (Glencore);
 - Optimum Coal, which produces 10mt of coal annually, was placed under business rescue; and
 - Eskom power failures and cable theft.
- Operational incidents such as power failures, locomotive failures, in-section failures and poor response time to failures resulted in on-time arrivals deteriorating. Strong focus on processing times ensured that on-time departures were better than the prior year.
- The decreased volumes negatively impacted corridor density.



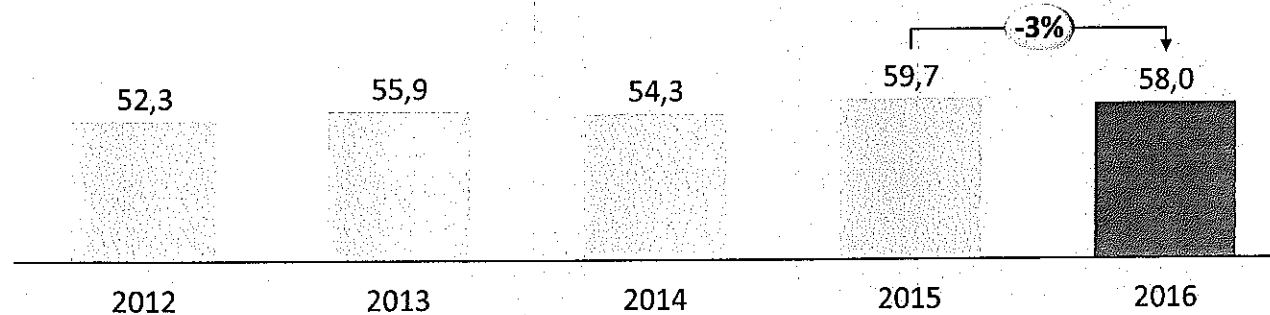
VOLUMES AND OPERATIONS

FOR THE YEAR ENDED 31 MARCH 2016



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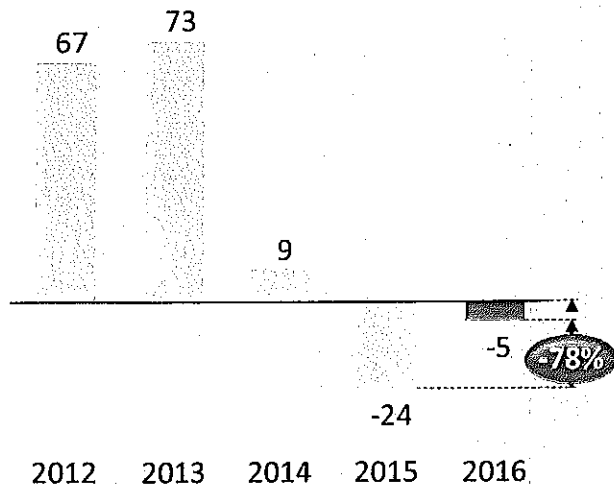
Volumes (mt)



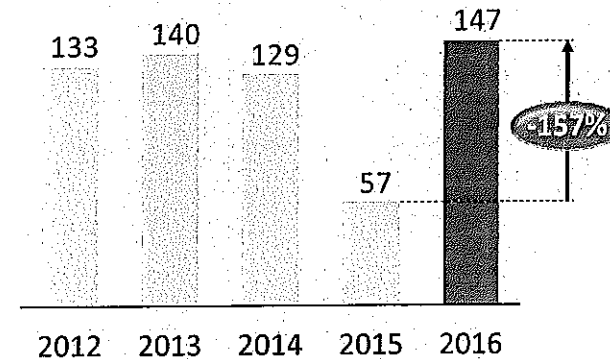
- Export iron ore volumes decreased by 3% from 59,7mt to 58,0mt, compared to the prior year, mainly due to:
 - Kumba ordered less trains as a result of production challenges (lack of sufficient quality ore) and cost pressures; and
 - Tippler failures on the ore line.

Productivity and efficiency

On-time departure (minutes)



On-time arrivals (minutes)



- Both on-time departures and on-time arrivals deteriorated when compared to prior year as a result of tippler related delays and derailments.

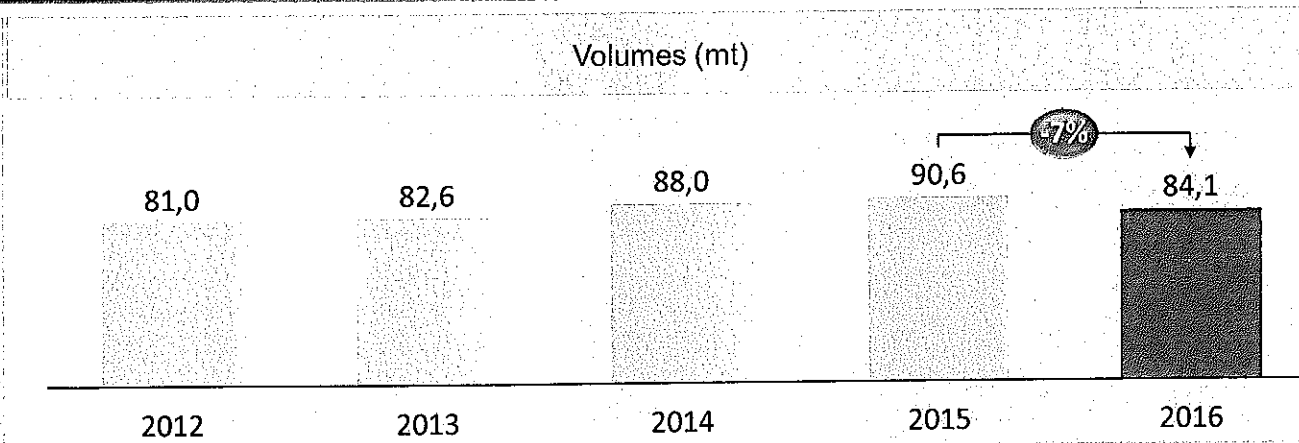
Rail – export iron ore



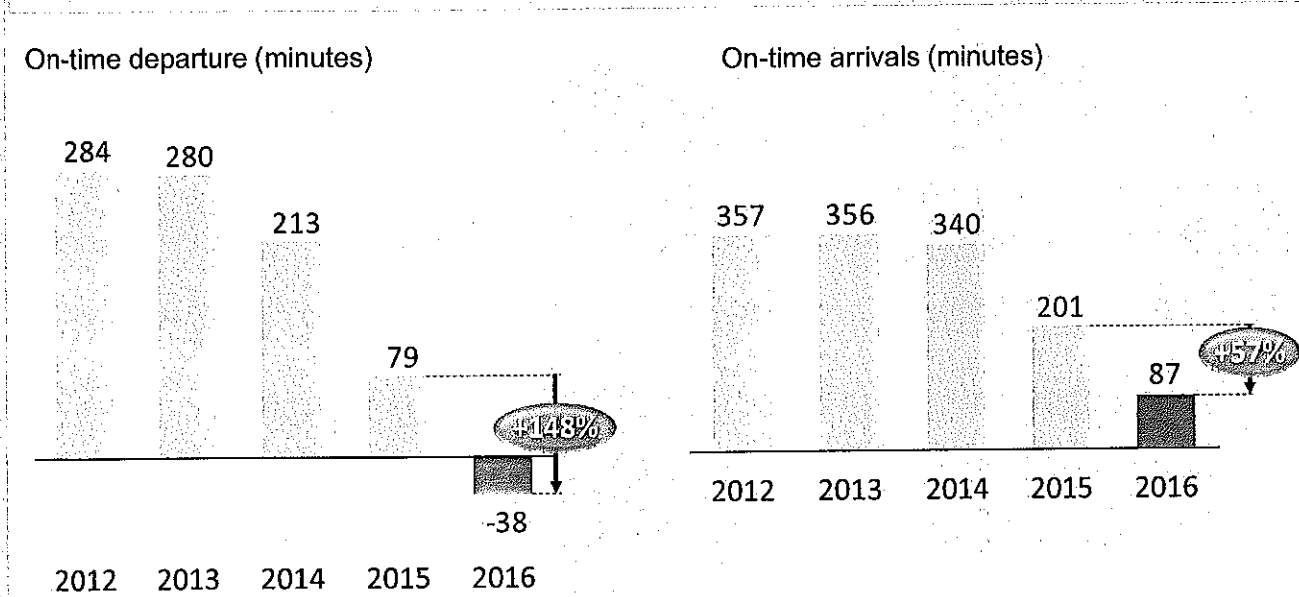
VOLUMES AND OPERATIONS

FOR THE YEAR ENDED 31 MARCH 2016

Rail – General freight business (GFB)



Productivity and efficiency



- GFB volumes decreased by 7% from the prior year, mainly due to:
 - The economic downturn and low commodity prices which had a negative impact on customers. Evraz Highveld Steel was placed under business rescue and AMSA reduced volumes as a result of the global meltdown in the steel sector;
 - Price reprieves provided to customers in support of the economy resulted in further revenue shortfalls. Commitments from customers to ramp up volumes in lieu of price reprieves did not materialise as expected;
 - Customer cancellations (33,9%), market conditions (36,5%) and product availability contributed significantly to the shortfall in volumes and revenue; and
 - Operational challenges included derailments, loading and offloading equipment breakdowns, locomotive failures and wagon shortages.
- These were partially offset by the container and automotive business volumes increasing by 4,2%, evidence of continued success in the growth of market share arising from the road-to-rail modal shift.
- Both on-time departures and on-time arrivals improved significantly, mainly due to continuous focus on en-route monitoring of mainline trains by the Transnet National Command Centre as well as lean and six sigma strategies.



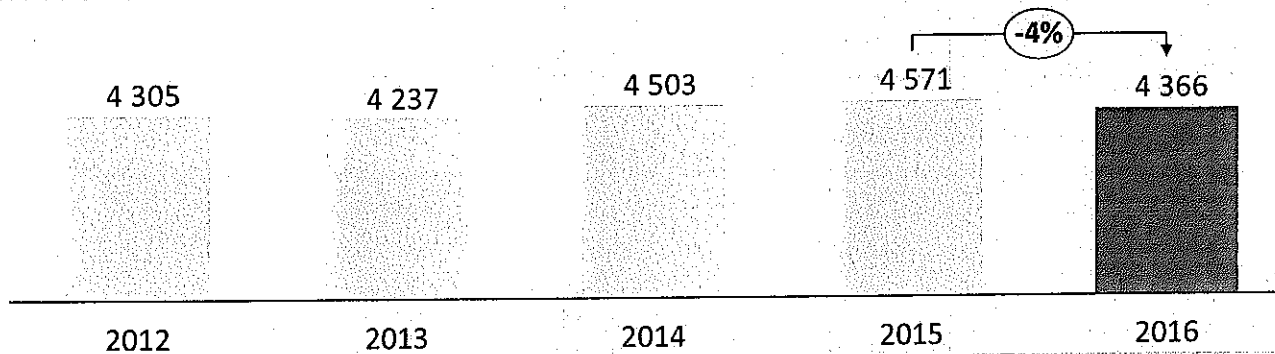
VOLUMES AND OPERATIONS

FOR THE YEAR ENDED 31 MARCH 2016



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Volumes ('000 TEUs)

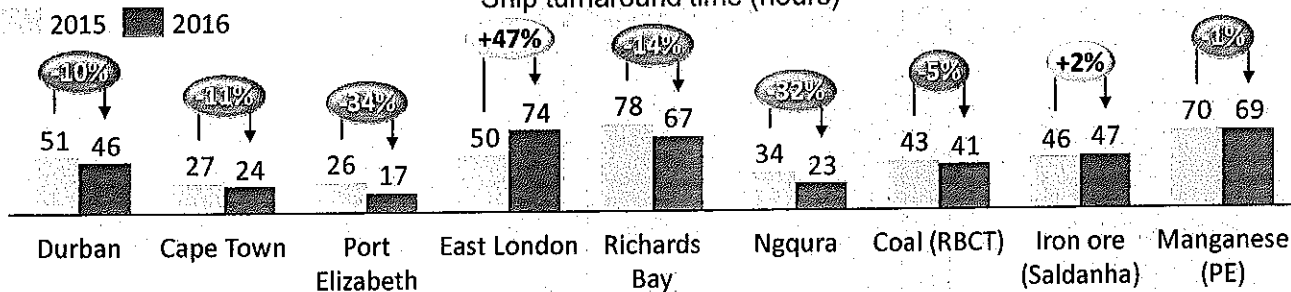


- Maritime container volumes declined by 4% compared to the prior year, due to a decline in:
 - Transshipment containers;
 - Vehicle and transport equipment imports; and
 - Exports of electronics, base metal and chemical products.

Ports – containers

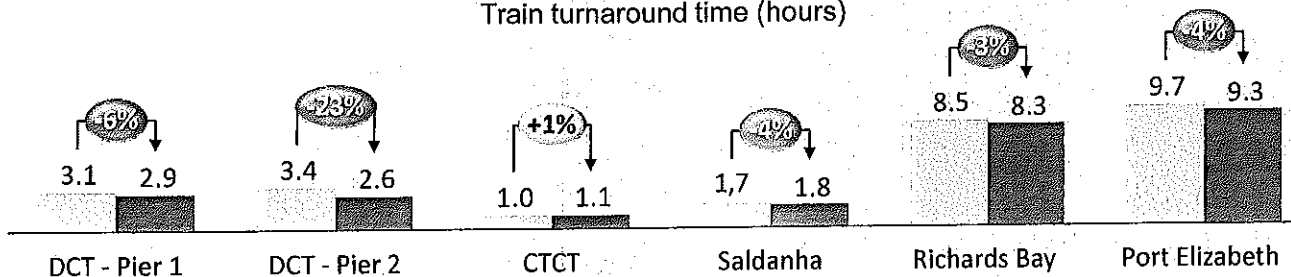
Productivity and efficiency

Ship turnaround time (hours)



- Ship turnaround times reflect well at all the indicated ports with the exception of East London and Saldanha iron ore terminal. These challenges are being addressed.

Train turnaround time (hours)



- Train turnaround times reflect well, with the exception of the Cape Town container terminal, with notable improvements in Pier 2.



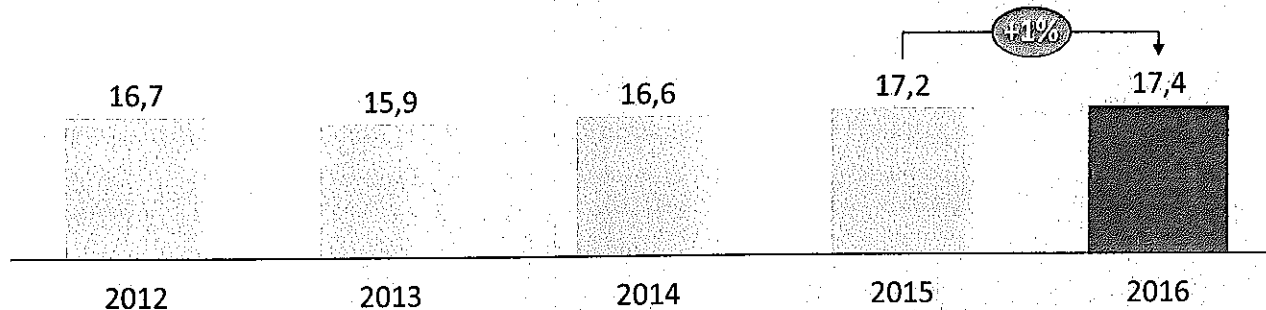
VOLUMES AND OPERATIONS

FOR THE YEAR ENDED 31 MARCH 2016



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Volumes (bl)

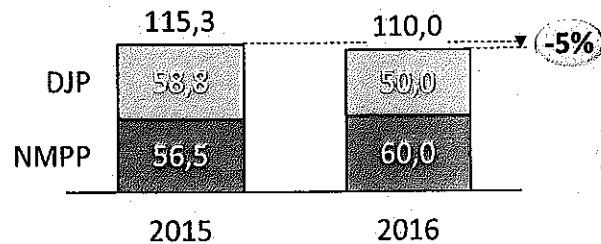


- Petroleum products' volumes increased by 1,4% compared to the prior year, mainly due to:
 - Increased Avtur volumes transported from the coast; and
 - Improved crude volumes.

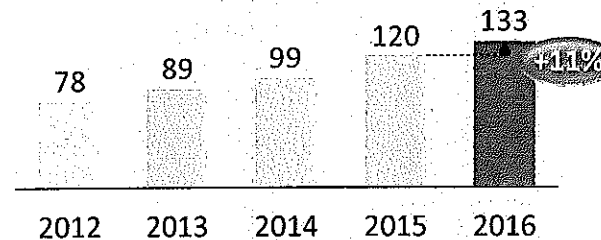
Productivity and efficiency

Pipelines

DJP + NMPP capacity utilisation (M/Week)

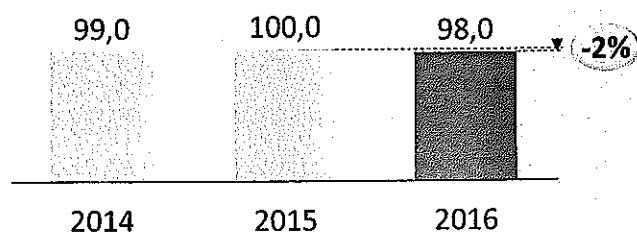


Operating cost per Ml.km (Nominal R/Ml.km)

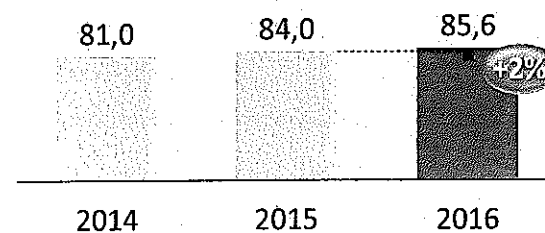


- The DJP and NMPP capacity utilisation averaged 110 mega-litres per week, which falls short compared to the prior year.

Ordered vs delivered volumes (% of deliverables within 5% of order)



Planned vs actual delivery time (% of deliverables within 2 hours of plan)



- Pipeline operating costs reflecting an increase compared to the prior year, in line with inflationary pressures.
- Planned vs actual delivery times reflect favourably against the prior year.



SAFETY – the fifth consecutive year that the Company recorded a DIFR ratio below 0,75 and the global benchmark of 1

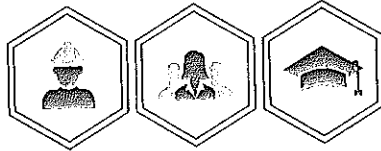


Metric	2012	2013	2014	2015	2016
Disabling injury frequency rate (DIFR)	0,65	0,74	0,69	0,69	0,69
Employee fatalities (Numbers)	7	9	7	4	8

The Company recorded a DIFR performance of 0,69 compared to the target of 0,75. This is the fifth consecutive year that the Company recorded a DIFR ratio below 0,75, due to continued focus and investment in safety.

Various safety management initiatives are being executed throughout the Company, such as Integrated Health and Safety Management System, Visible Felt Leadership and Planned safety audits.

The organisation remains committed to zero employee fatalities. Despite considerable efforts to improve safety, the Company regrets to report eight employee fatalities in the current year. These were mainly due to motor vehicle accidents. The Company has implemented vehicle safety and driver awareness campaigns.



HUMAN RESOURCES – Employment, Transformation, Skills development

FOR THE YEAR ENDED 31 MARCH 2016



A representative workforce

Designated categories	Actual %	Target %
	2016	2016
Black	84,2	80,0
Females at Group Exco*	31,3	50,0
Females at extended Exco	44,3	50,0
Females below extended Exco	27,5	37,0
PWD's	2,3	2,5

- 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.

*Includes acting Exco members

Skills development, capacity building and job creation

Key performance Indicator	Unit of measure	Annual Target	2016 Actual
Training spend	% of personnel costs Rand million	≥ 3,4	3,6 880
Engineering trainees	Number of learners	≥ 155	155
Technician trainees	Number of learners	≥ 200	232
Artisan trainees	Number of learners	≥ 665	102
Sector specific trainees	Number of learners	≥ 2 000	1 830
Protection officers	Number of learners	500	508

- Transnet invested 3,6% of personnel costs on skills development initiatives to grow and develop capacity requirements to support MDS (focusing on operational and technical training) and plans to spend **R7,6 billion on training** over the MDS period.
- Transnet achieved its targets for 2016 in most critical skills that were the focus for the year.
- Training of protection officers also took place.
- Schools of Excellence in Transnet continued to be a great flagship of the Transnet Academy's delivery showing positive progress in the School of Security.
- According to Transnet's Macro-economic Impact Model, **Transnet's activities created or sustained 55 000 direct jobs, 73 736 indirect jobs and 184 499 induced jobs** within the wider South African economy.



COMMUNITY DEVELOPMENT – Transnet Foundation invested R248 million
FOR THE YEAR ENDED 31 MARCH 2016



Health care – Access to primary health care services for rural communities. Two Phelophepa health care trains.

- **177 871 patients** assisted through the Phelophepa trains' on-board clinics.
- **378 816 individuals** assisted through the train's outreach programmes.
- **1 353 medical student** placements on Phelophepa.
- Teenage Health programme reached **10 000 girls and 2400 boys**.

Rural and Farm Schools Sports development

- Two multi-purpose sports complexes completed at Bankhara Bodulong, Northern Cape.
- Sports apparel and equipment donated to **over 211 schools** across the country.
- **105 110 learners** participated in sporting talent events.
- **4 000 programme beneficiaries** are participating in provincial/national sporting codes.

Employee Volunteer Programme (EVP) and Socio-Economic Infrastructure Development (SEID)

- EVP projects included: **A youth precinct** in De Aar; tourism internships for **40 youth** at Saldanha Bay and Vredenburg; **Solar energy to 91 households** in Rosmead, Eastern Cape; **infrastructure upgrades to 4 pre-schools** in Greenpoint and Kimberley.
- SEID supported the **establishment of kitchen and dining facilities** to Masizakhe Children's Home in the Eastern Cape.
- **23 728 non-financial beneficiaries** from SEID.
- **9 SMMEs established** and **45 SMMEs trained**.
- **15 participants** benefitting from **adult basic education training (ABET)**.
- **753 destitute families benefitted** from food distribution.

Education – Looks after orphaned and vulnerable youth in communities where Transnet has large projects or operations.

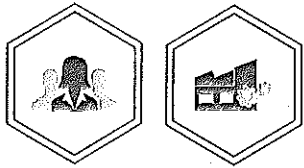
- **10 youths** drawn into the programme from Waterval Boven, a key TFR operational area.
- **40 orphans** are currently in the programme.
- **80% matric pass-rate** (university exemption) by programme beneficiaries in 2015.
- **13 participants** are enrolled at various universities.
- **155 full-time engineering bursaries** were awarded.

Grants and Donations

- **Donated just under R4,5 million** to various non-profit, charity and community development projects and organisations.

Heritage preservation – managing Transnet heritage assets for future generations.

- **Railway museum** in George attracts increasing number of tourists and school visits.
- Continued with **restoration of three steam locomotives** and a steam crane.



INDUSTRIAL CAPABILITY BUILDING AND TRANSFORMATION

FOR THE YEAR ENDED 31 MARCH 2016

TRANSNET

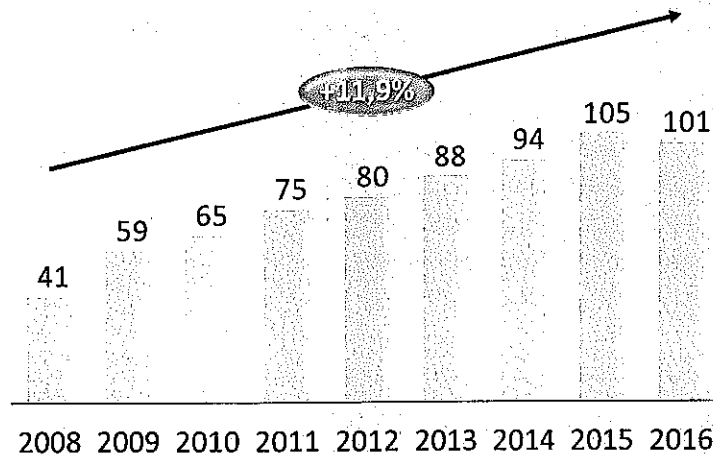


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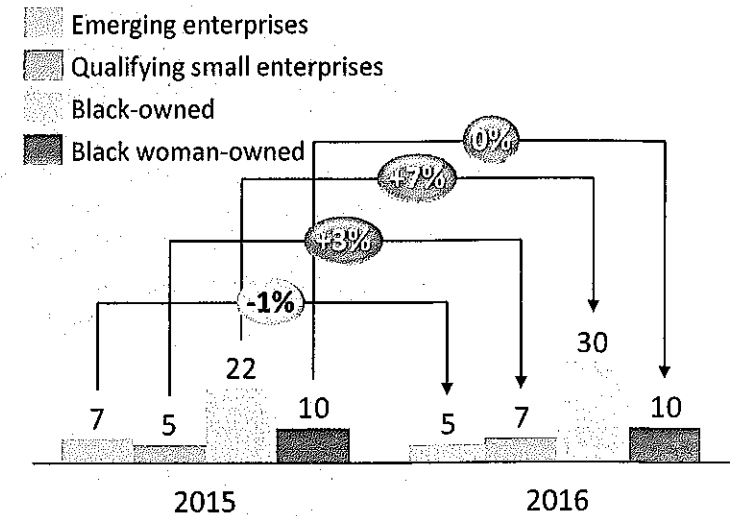
Broad-based black economic empowerment (B-BBEE) and local supplier industry development

Transnet is currently rated as a **Level 2 B-BBEE contributor**.

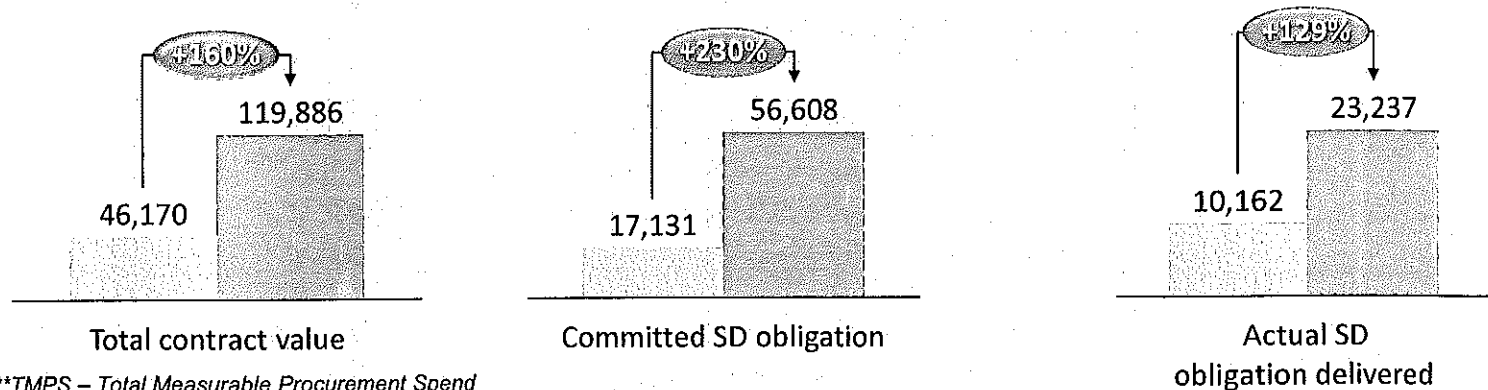
% B-BBEE spend of TMPS**



B-BBEE categories spend % of TMPS**



Supplier development (SD) programme (R million)



**TMPS – Total Measurable Procurement Spend



TRANSNET'S ENTERPRISE DEVELOPMENT INITIATIVES FOR THE YEAR ENDED 31 MARCH 2016

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ED initiative	Description
Transnet Design and Innovation Challenge and Research Centre	Through a partnership between Transnet, SABS, JASA and Wits Transnet Centre for Systems Engineering the initiative aims to stimulate entry by black entrepreneurs , particularly black youth, into the high tech sectors through Innovation and R&D facilities by mentoring, design capability, funding, incubation, and access to markets.
Container Bakeries	A partnership between Transnet and Umnyakazo to empower 100% rural black women-owned co-operatives to run and operate container bakeries in their communities.
Enterprise Development Hubs	The Enterprise Development Hub is to ensure that Transnet creates an enabling environment for SMMEs to access products and services that are offered by both Provincial and National Economic Development Institutions.
Various Incubation Centres & Academies	<ul style="list-style-type: none"> • Through a partnership between Transnet and Furntech, this is a Centre of Excellence for the furniture industry, to offer business incubation and / or skills development in furniture manufacturing. • Transnet has also partnered to establish a driving school academy and computer academy for disabled people. • The Transnet Shanduka Incubation centres provides non-financial support service aimed at incubating 100% black-owned SMMEs, which can meet Transnet's supply chain needs.
Itereleng and Godisa Funds	<ul style="list-style-type: none"> • A strategic partnership with Transnet and Gauteng Enterprise Propeller, aimed at providing financial and non-financial assistance to ensure SMMEs benefit from Transnet's ED programme. • Collaboration between Transnet, Anglo American and Small Enterprise Finance Agency to provide both Financial and Non-Financial Support to Transnet Black Owned Supplier. • Capitalised with R165 million for 10 years. • R150 million for financial assistance and R15 million for non-financial assistance. • Business imperative more developmental than commercial. • Aims to nurture black-owned Transnet's current suppliers so they can consistently meet their contractual obligations and grow their businesses sustainably.
Other	<ul style="list-style-type: none"> • The Transnet – Productivity SA initiative aims to provide operational support to qualifying Black Owned SMMEs who are Transnet suppliers to ensure that they meet Transnet demand and also address challenges affecting operational performance affecting product or service delivery. This is achieved through an 11 week programme aimed at the reduction of waste, improving utilization of resources, efficiency and quality. • The GIBS Enterprise Development Academy aims to empower new and existing growth-oriented entrepreneurs with a business education, mentorship and other support services in order for them to build or grow their enterprises. • A partnership between Transnet and AIDC aimed at improving Transnet supplier's manufacturing and quality standards, lean and six sigma training as well as competitiveness.



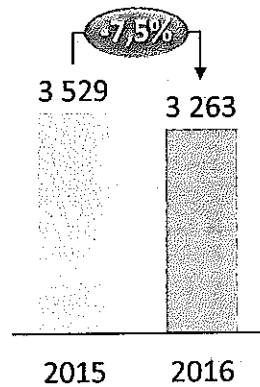
ENVIRONMENTAL STEWARDSHIP: Energy efficiency, carbon emissions reduction

FOR THE YEAR ENDED 31 MARCH 2016

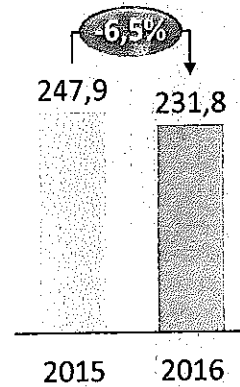


Energy consumption & efficiency

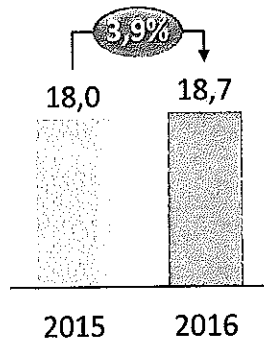
Total electricity consumption (GWh)



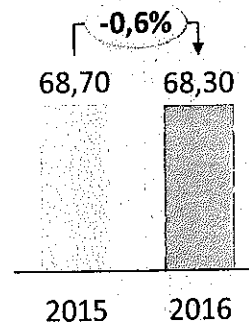
Total fuel consumption (million litres)



Total energy efficiency (ton/GJ)

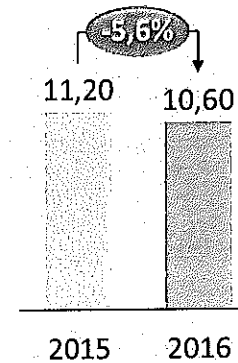


Traction electricity efficiency (gk/kWh)

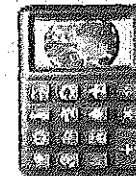
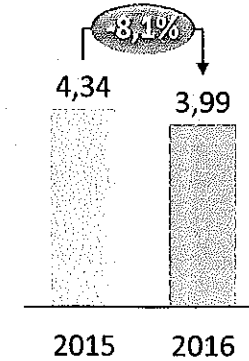


Carbon emissions

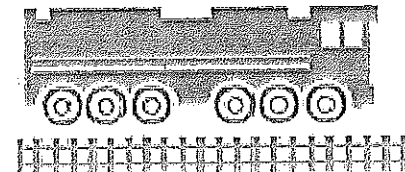
Carbon emissions intensity (kgCO₂e/ ton)



Carbon emissions (mtCO₂e)



Freight commodities market share gains from road hauliers in the year resulted in carbon emissions savings to the South African transport sector of 313 699 tCO₂e.



145 863MWh electricity regenerated by the new 15E and 19E locomotives.

tCO₂e - tons of carbon dioxide equivalent
 MWh - Megawatt hours
 GJ - Gigajoule
 Gtk - gross ton km



**INTERNAL CONTROL ENVIRONMENT
FOR THE YEAR ENDED 31 MARCH 2016**



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.
2016

Risk and Control component	Key Financial Processes		Key Operational Processes	
	Adequacy	Effectiveness	Adequacy	Effectiveness
Governance	Adequate	Satisfactory	Adequate	Requires improvement
People	Adequate	Satisfactory	Adequate	Requires improvement
Method and practices	Adequate	Satisfactory	Adequate	Requires improvement
Overall Assessment	Adequate	Satisfactory	Adequate	Requires Improvement

Adequate
Controls exist and are adequately designed and documented.

Satisfactory
Control activities are undertaken as laid down.

Requires Improvement
Limited or no controls exist or are not properly documented (*design*) or Control activities are not always undertaken as laid down (*implementation*).

2015

Risk and control component	Key financial processes		Key operational processes	
	Adequacy	Effectiveness	Adequacy	Effectiveness
Governance	Adequate	Satisfactory	Adequate	Requires improvement
People	Adequate	Satisfactory	Adequate	Requires improvement
Methods and practices	Adequate	Satisfactory	Adequate	Requires improvement
Overall assessment	Adequate	Satisfactory	Adequate	Requires improvement

The Audit Committee is of the view that the system of internal controls at Transnet is appropriate in terms of:

- Meeting the strategic objectives of Transnet;
- Evaluating and mitigating the key risks facing Transnet;
- Ensuring compliance with applicable laws and regulations;
- Ensuring that Transnet's assets are safeguarded; and
- Ensuring that transactions undertaken are correctly recorded in Transnet's accounting records.



REPORTABLE PFMA ITEMS FOR THE YEAR ENDED 31 MARCH 2016

TRANSNET



The Shareholder Representative determined that the materiality limit for reporting in terms of section 55(2)(b)(i), (ii) and (iii) of the PFMA, relating to losses and expenditure through criminal conduct, fruitless and wasteful and irregular expenditure, is R25 million per transaction.

Consequently, the Board of Directors is pleased to advise that in terms of this materiality framework no single transaction has exceeded this limit.

Category of reportable items	%#	R million	2016		%#	R million	2015	
			Number of incidents	Number of finalised disciplinary/ criminal cases			Number of incidents	Number of finalised disciplinary/ criminal cases
Fruitless and wasteful expenditure	0,009	3,9	26*	35/3	0,04	23,0	27*	24/7
Losses through criminal conduct	0,131	60,3	43*	12/1029	1,02	519,3 [^]	26*	11/600
Non Collection of Revenue	-	-	-	-	-	-	-	-
Total irregular expenditure ***	0,551	254,9	36	10/0	0,06	32,2	31*	15/1
Less: Irregular expenditure condoned	0,010	(4,5)	1	0/0	-	-	-	-
Less: Potential irregular expenditure under investigation	0,497	(229,8)	22	0/0	-	-	-	-
Remaining irregular expenditure	0,044	20,6	13	10/0	0,06	32,2	31	15/1

[^] This item mainly relates to a fraudulent activity by an employee which occurred in the prior year.

* Represents cumulative reportable items of the same nature.

Reportable items expressed as a % of total expenditure of R46,2 billion (2015: R50,8 billion), which is net operating expenditure less personnel costs plus capital expenditure.

The reportable items must be reviewed in the context of the expenditure of R46,2 billion (2015: R50,8 billion) which is the net operating expenditure less personnel costs plus capital expenditure.

- The table above also reflects 57 disciplinary cases that have been finalised against employees for non-compliance with the PFMA.
- There are numerous other cases that are still pending finalisation, and will be reported in the annual financial statements for the year ending 31 March 2017.
- 1032 criminal cases have also been lodged with SAPS, as it relates to losses through criminal conduct.
- The Company is committed to complying with the provisions of the PFMA and handling alleged governance breaches in a firm and expeditious manner. Accordingly the company has implemented a number of preventative initiatives.

***Potential expenditure under investigation.

Included in total irregular expenditure is expenditure under investigation regarding the confirmation of the tax compliance status for foreign suppliers – the PPPFA regulations require that tenders may only be awarded to a person whose tax matters have been declared to be in order by the South African Revenue Services (SARS). SARS is only able to provide a taxpayer with confirmation of the taxpayer's tax compliance status as compliant if the taxpayer is registered for tax in South Africa. Foreign suppliers are not automatically chargeable with any tax leviable under the Income Tax Act; this is fact based. All awards made are assessed at the time of conclusion of the contract, and where the facts endorse that the foreign supplier is not chargeable with any tax leviable under the Income Tax Act, it is accepted that no confirmation of the taxpayer's tax compliance status can be provided by SARS. 22 contracts awarded to foreign suppliers, amounting to R229,8 million, have been identified where SARS is not in a position to confirm the foreign suppliers tax compliance status. Clarity is being sought on the reporting of these contracts.



REPORTABLE PFMA ITEMS FOR THE YEAR ENDED 31 MARCH 2016

√ - COMPLETED	Legend
On track	
Behind	

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Transnet is committed to prevent and reduce irregular expenditure by embarking on various initiatives to achieve sustainable results. 19 initiatives have been implemented of which 12 have been completed.

Root Cause	Number	Initiative	Status
Non adherences to Delegation of Authority and Procurement Process.	1	Updating PFMA policy and guideline.	√
	2	Roll out of PFMA training to all Operating Divisions.	√
	3	Inclusion of PFMA training in new employee induction manual.	√
	4	Presentation to Operating Division Exco members.	√
	5	(a) Development and implementation of PFMA online training and accreditation – completed. (b) Accreditation rolled out to all Exco and Extended Exco members and manager levels C, D and E (Phase 1 and 2). Consequence management in progress. (c) Roll out preparations to levels F, G and new appointments from level A to E in progress. Targeted roll out Q4 2015/2016 (Phase 3).	On track.
	6	Training on standard operational procedures at Operating divisions.	√
	7	Development and implementation of supplier integrity pacts.	√
	8	Forensics and procurement training on procurement related violations.	√
	9	Fraud resistance assessments and compliance checks.	√
	10	Forensics data analytics.	√
	11	Compliance review by TIA on adequacy of implementation of delegation of authority on the SAP system.	√
Non adherences to Procurement and Capex procedures and contravention of DOA.	12	PFMA Checklists: Development completed. Establishing workaround links for duplicate controls in other processes which currently SAP GRC cannot facilitate. Checklist has been developed in the interim. Checklist still to be validated by Group Compliance for completeness in terms of meeting the full requirements of the PFMA act.	On track.
Non adherences to Procurement Process.	13	Activation of SAP request for quotation functionality across all Operating divisions. Business case prepared and approved.	On track.
	14	Improvement to data analytics solution to monitor effectiveness and efficiency of 'Procure to Pay' process across Transnet.	On track.
Overspend on Contract value/ spend on expired contracts.	15	Additional data analytic indicators developed.	√
	16	Developing and implementing contract lifecycle management system. Contract lifecycle management system upgrade and migration of all contracts into a single repository completed. Integration, user access, linking to purchase order, reporting, and tender automation to commence when system is fully functional. TPT, TCC, TGC, TF, TP, TNPA and TE OD's are live.	On track.
	17	Implementing data quality improvement project for vendor, material and service master data clean ups.	On track.
Improve Process and Systems.	18	Migration of PFMA from Cura system to SAP GRC. SAP GRC system feasibility study completed. Analysis from the detailed design phase confirmed that SAP GRC does not meet business requirements as it will require an estimated 50% custom development which is both inefficient and expensive. The SAP system will also require duplicate capturing by OD's.	Initiative discontinued until another suitable tool is identified.
	19	Knowledge sharing with other Public Entities.	√



CONCLUSION

FOR THE YEAR ENDED 31 MARCH 2016

TRANSNET



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- The fourth year of MDS implementation has proved challenging, with the continued economic slowdown.
- Transnet has demonstrated resilience in both its financial and operational performance during the 2016 financial year, and therein, an ability to adapt to changing market conditions.
- Transnet will continue to stimulate the economy securing existing market share and aggressively capturing new market share, specifically in the general freight business, whilst executing its capital programme based on validated customer demand.
- Management is confident that the strategic initiatives related to the road-to-rail opportunities and the reshaping of the core of Transnet's operations will enable the Company to achieve its targets.
- We will achieve this with our 4 strategic thrusts:
 - Agile: Be fit and focused in a volatile world;
 - Admired: Cement ourselves as a trusted, innovative South African brand;
 - Digital: Continuously evolve to improve our customer value proposition; and
 - United: Uniting Transnet because together we succeed.



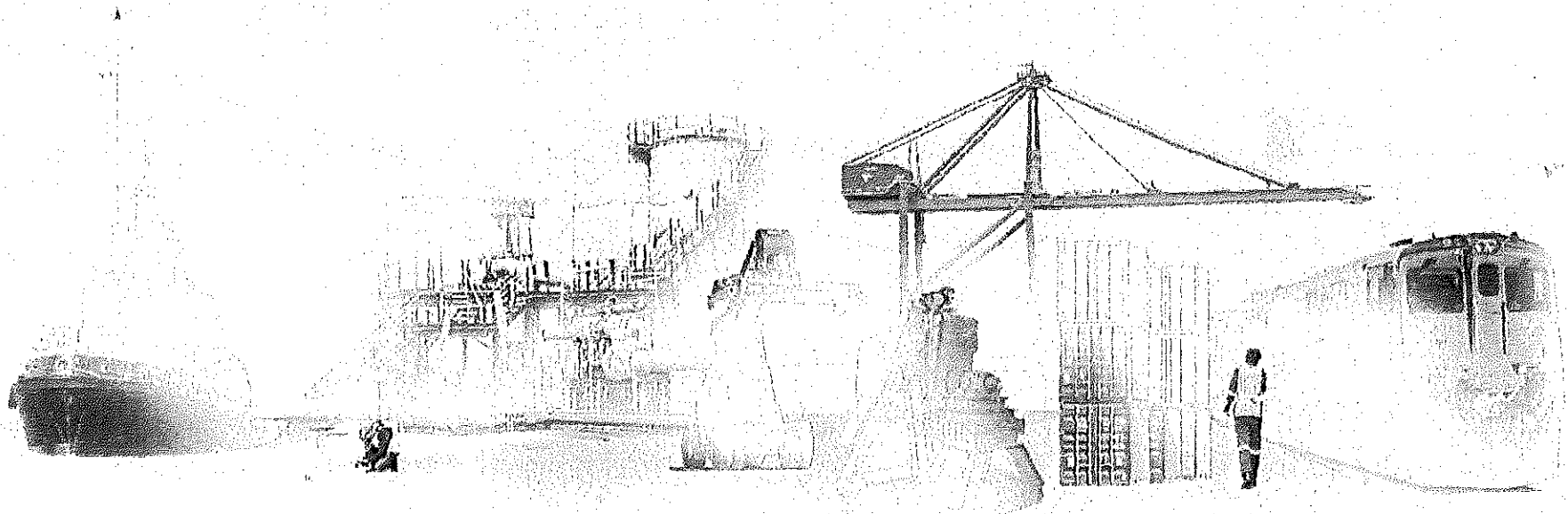
LIST OF AWARDS

FOR THE YEAR ENDED 31 MARCH 2016

TRANSNET



- Nkonki SOC Integrated Reporting Awards 2015 (Winner: State-Owned Companies).
- Chartered Secretaries Southern Africa Integrated Report Awards (Winner: Large State-Owned Company category).
- Businesswomen's Association (BWA) – Six leading businesswomen for 2015 (National Ports Authority).
- Top Employers South Africa 2016 certification by Top Employers Institute (Freight Rail).
- 2015 Exporter of the Year Awards – Merit Award (Port Terminals: Ngqura Container Terminal; Port Terminals - Port Elizabeth; and Port Terminals – East London Terminals).
- Nominated among top three finalist of the 2015 Business Continuity Institute (BCI) Africa Awards (Port Terminals).
- CFO awards of the year 2015 – Public CFO of the year and the Strategy Execution Award.
- CIPS Pan African Procurement and SOEPF AAPP CPO Awards 2015 – CPO of the year.



Thank you