

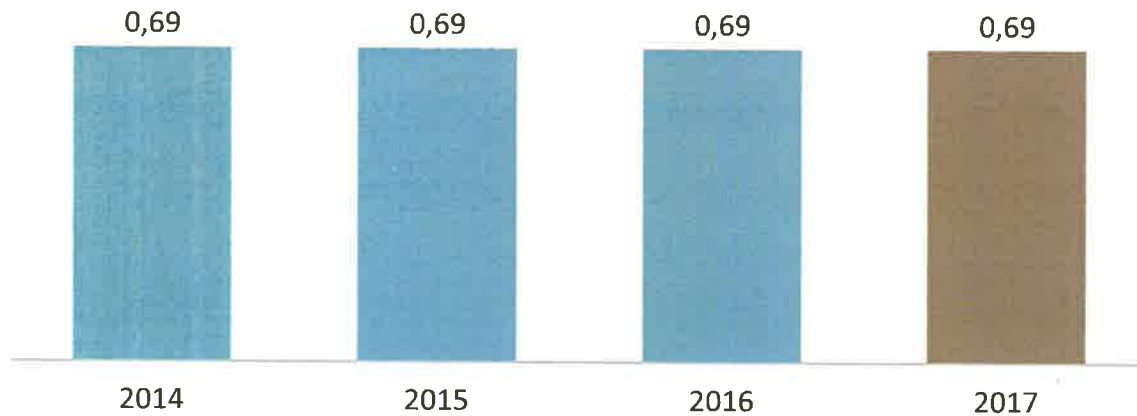
# Sustainable development outcomes

TRANSNET

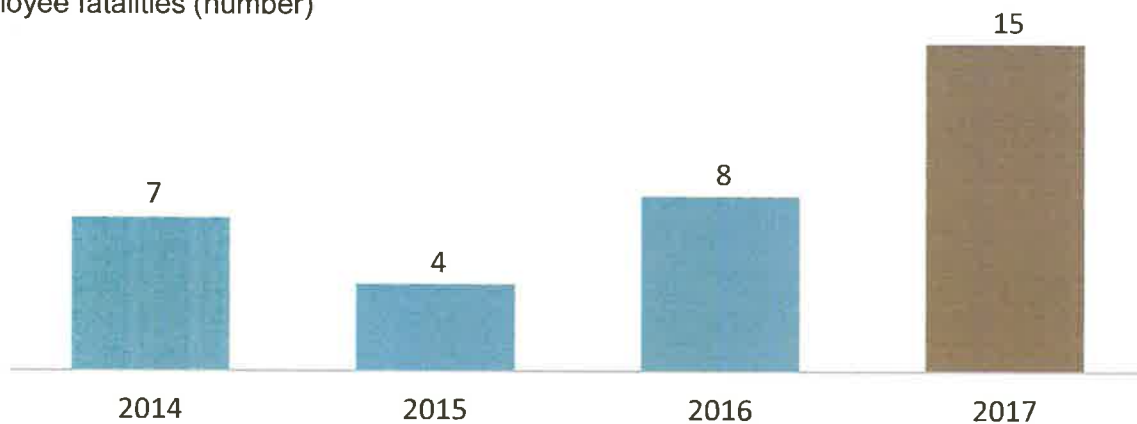


## Safety – the sixth consecutive year recording a DIFR ratio below 0,75

Disabling injury frequency rate (DIFR)



Employee fatalities (number)



### DIFR performance of 0,69 (target: 0,75)

- Sixth consecutive year recording a DIFR ratio below 0,75, reflecting continued focus and investment in safety.

**The Company continues to monitor and mitigate where possible, both operational and behavioural risks inherent in Transnet's work environment.**

Despite considerable efforts to improve safety, the Company had to report 15 employee fatalities in the current year compared to 8 in the prior year. These were due to vehicle and train accidents, as well as non-adherence to standard operating procedures.

Transnet's leadership has heightened its oversight and safety performance in more visible ways through site visits and audits. Various levels of safety performance are clearly understood and adhered to.

The Company continues to analyse and review its safety approaches and efficiency, while proactively striving to prevent harm. Numerous vehicle safety, driver awareness and training campaigns have been introduced to further embed safety within Transnet's operations.

# Human resources – employment, transformation, skills development



58 828

Transnet employees\*

A representative workforce

## Designated categories

	Target %	Actual %
	2017	2017
Black	80,0	85,2
Females at GLT	50,0	50,0
Females at extended GLT	50,0	44,4
Females below extended GLT	40,0	27,7
PWD's	3,0	2,3

Exceeded target for black employees

Female representation is growing steadily despite significant challenges in an operations-heavy environment and unskilled levels.



Skills development, capacity building and job creation

## Key performance Indicator

Key performance Indicator	Unit of measure	Annual Target	Actual 2017
Training spend	% of personnel costs Rand million	≥ 3,0	3,1 746
Engineering trainees	Number of learners	≥ 171	173
Technician trainees	Number of learners	≥ 220	229
Artisan trainees	Number of learners	≥ 250	250
Sector specific trainees	Number of learners	≥ 2 200	1 813

Invested 3,1% of the labour development initiatives (focus on operational and technical training)

Transnet achieved its target most critical skills development were the focus for the year.

Schools of Excellence in Training will continue to be a great flagship of the Transnet delivery.

\*Including contract employees.

## Human resources – employment, transformation, skills development per province



58 828

Transnet employees\*

A representative workforce

Province	Black (%)	Females at GLT (%)	Females at extended GLT (%)	Females below extended GLT PWD's (%)
<b>Total</b>	85,2	50	44,9	27,7
Eastern Cape	81,1			25,6
Free State	78,4			21,6
Gauteng	84,5	50	46,5	32,6
KZN	87,2		37,5	27,2
Limpopo	93,5			25,2
Mpumalanga	92,4		100,0	28,2
North West	87,5			21,6
Northern Cape	86,6			21,1
Western Cape	81,2		0,0	25,5



Skills development, capacity building and job creation

Province	Engineering trainees	Technician trainees	Artisan trainees
<b>Total</b>	173	229	250
Eastern Cape	12	37	32
Free state	8	23	27
Gauteng	44	41	39
Kwazulu/Natal	39	66	93
Limpopo	30	36	6
Mpumalanga	16	13	6
Northern Cape	3	1	15
North-West	3	6	2
Western Cape	18	6	30

\*Including contract employees.

# Community development

## Transnet Foundation invested R234 million



### Healthcare

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

- 173 016 patients assisted on-board.
- 438 807 individuals assisted through outreach.
- 1 624 medical student placements.
- Teenage Health programme reached 9 105 girls and 2 849 boys.



### Rural and farm schools sports development

- Two multi-purpose sports complexes completed in Empangeni.
- Sports apparel and equipment donated to 194 schools.
- 100 000 learners participated in sporting talent events.
- 1 200 graduate participants in Provincial/National sporting codes.
- The School of Excellence achieved a 100% matric pass rate for the 2016 calendar year.



### Employee volunteer programme (EVP) and socio-economic infrastructure development (SEID)

- EVP projects: 3 216 employees volunteered during the year in mega projects across the country.
- SEID: The contractor for the construction of Idondotha Community Centre in KZN has been appointed.
- The donation of land was approved by Msunduzi Municipality for the construction of the Ezinkatheni Community Centre in 2017.



### Education

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

- 39 matric learners from the programme achieved 100% pass-rate with 40 distinctions.
- Mobile libraries procured and delivered much needed educational material to three schools.



### Grants and donations

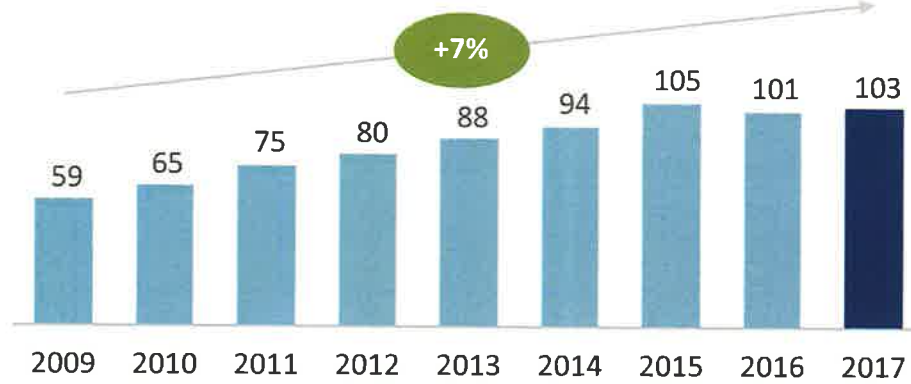
- The third and final instalment of R250 000 was paid to Batswana High School towards the building of four classrooms.
- R855 000 donated to NGO Afrika Tikun for youth skills development and employment assistance.

# Industrial capability building and transformation



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

% B-BBEE spend of TMPS\*

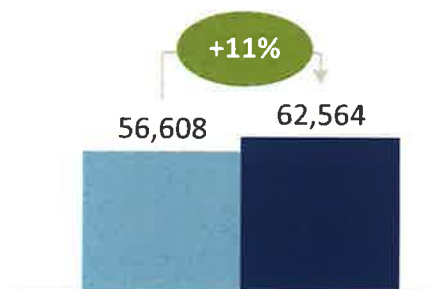


Supplier development (SD) programme (R million)

2016 2017



Total contract value

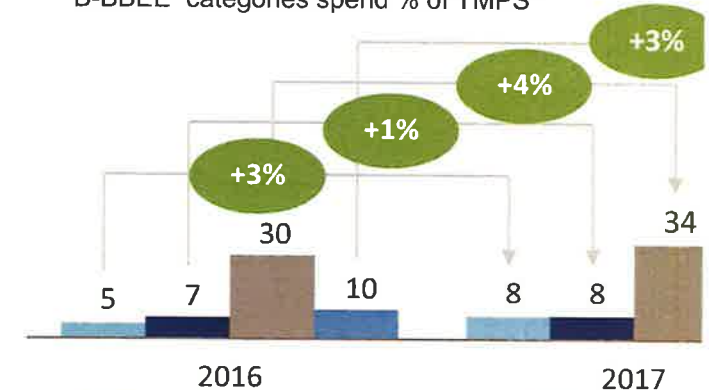


Committed SD obligation



Actual SD obligation delivered

B-BBEE categories spend % of TMPS\*

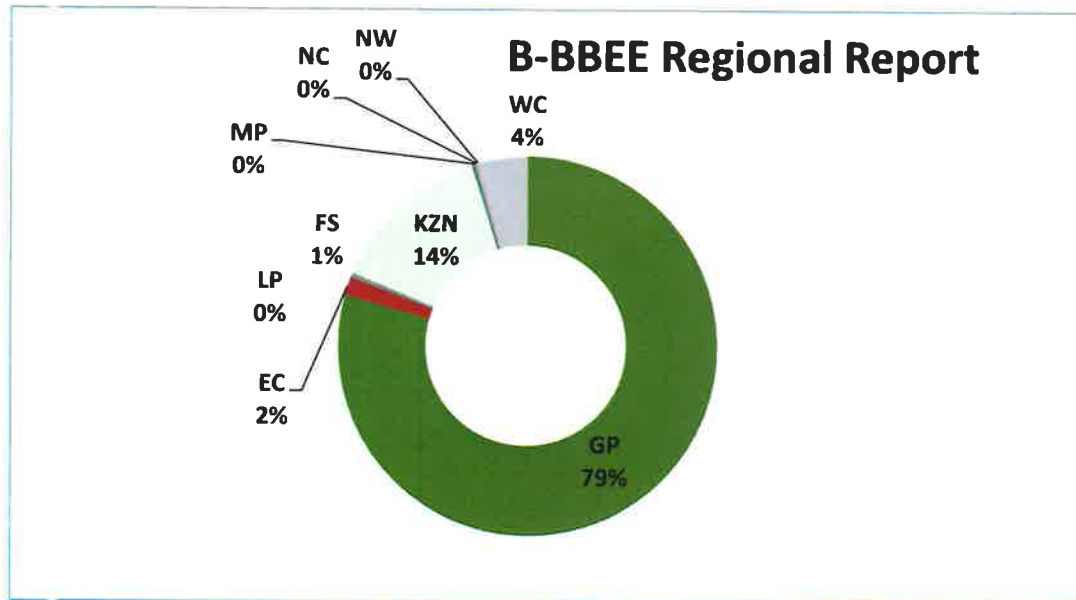


Emerging enterprises Black owned  
Qualifying small enterprises Black women-owned

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

\*TMPS – Total measurable procurement spend.

# Regional Consolidation Report



Region	Total spend (R million)	Percentage
GP	26 054,1	79%
EC	479,3	2%
FS	132,2	1%
KZN	4 558,8	14%
LP	26,5	0%
MP	71,2	0%
NC	85,4	0%
NW	39,8	0%
WC	1 380,4	4%
<b>Total</b>	<b>32 827,7</b>	

# Enterprise development initiatives



## Transnet Design and Innovation Challenge and Research Centre

R160 million spend since inception in 2014.  
R106 million remaining expected spend until 2021.

- Partnership between Transnet, SABS, JASA and Wits Transnet Centre for Systems Engineering.
- The initiative aims to stimulate the entry of black entrepreneurs, particularly black youth, into high-tech sectors through Innovation and R&D facilities.
- Provides mentoring, design capability, funding, incubation, and access to markets.



## Transnet – Shanduka Black Umbrella Incubation

Transnet has spent R30 million since inception in 2013. The project has been completed in the current year.

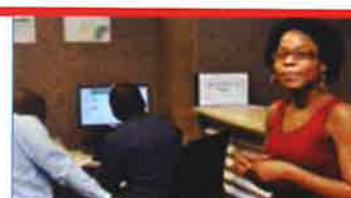
- A non-financial support service aimed at incubating 100% black-owned SMMEs, which can meet Transnet's supply chain needs.
- The two incubation centres are currently running in the Richards Bay (KwaZulu-Natal), and Port Elizabeth (Eastern Cape) areas.



## Transnet – Productivity SA

R18 million spend since inception in 2014. To be completed in 2019.

- The Transnet – Productivity SA initiative provides operational support to qualifying black-owned SMME suppliers to Transnet.
- Helps small suppliers meet Transnet demand.
- Addresses challenges of operational performance that may affect product or service delivery.



## Enterprise Development Hubs

R27 million spend since inception in 2014.  
R12 million expected spend until 2019.

- The Enterprise Development Hub creates an enabling environment for SMMEs to access products and services offered by Provincial and National Economic Development Institutions.
- Four ED Hubs in operation in Johannesburg, Saldanha, De Aar and Mdantsane.



## Godisa Fund

R55 million spend since inception in 2014. To be completed in 2023.

- Collaboration between Transnet, Anglo American and Small Enterprise Finance Agency.
- R150 million for financial assistance and R15 million for non-financial assistance.
- Aims to nurture current black-owned Transnet suppliers to meet contractual obligations and grow their businesses sustainably.



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# Enterprise development initiatives



## Automotive Industry Development Centre (AIDC) Rapid Process Improvement Programme

R1,9 million spend since inception in 2013. The project has been completed.

- A partnership between Transnet and AIDC.
- Aims to improve Transnet supplier's in manufacturing and quality standards.
- Lean six sigma training.



## Transnet – GIBS Supplier Development Programme

R13 million spend since inception in 2014. R9,7 million expected spend until 2018.

- The GIBS Enterprise Development Academy, aims to empower new and existing growth-oriented entrepreneurs through business education, mentorship.



## Furniture Manufacturing Incubation

R18 million spend since inception in 2014. To be completed in 2018.

- Partnership between Transnet and Furntech.
- Centre of Excellence for the furniture industry.
- Offers business incubation and/or skills development in furniture manufacturing.
- Focused specifically on black people living with disabilities.



## Transnet 'BE BOLD' Programme

R1,4 million spend in the current year. To be completed in 2018.

- Innovation and Entrepreneurship Programme for University Students.
- Provides mentorship and training to youth to develop innovative products and services.



## Phuhliso Enterprise and Supplier Development Fund

R50 million spend since inception and R50 million expected spend until completion.

- Funding for BO, BWO, BYO, BDO SMMEs in the Cape Region (WC, NC & EC).
- Provides guarantees for large contracts and provide accessible funding to SMMEs.



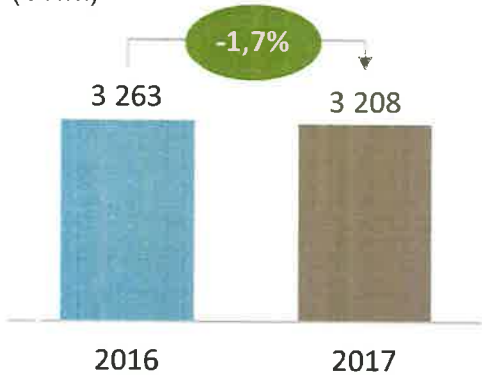
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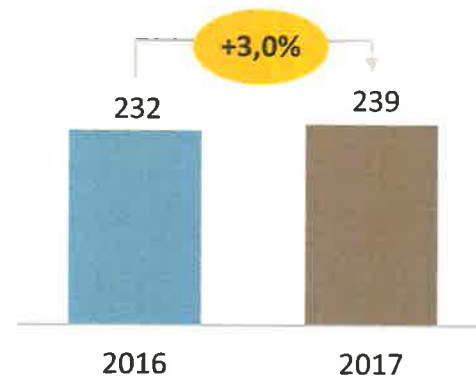
# Environmental stewardship

## ENERGY CONSUMPTION & EFFICIENCY

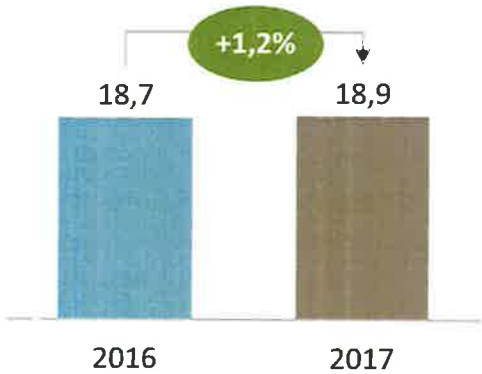
Total electricity consumption (GW/h)



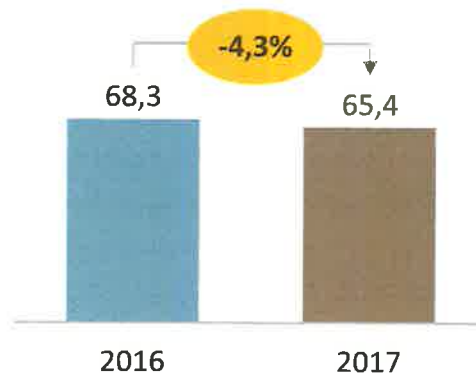
Total fuel consumption (million litres)



Total energy efficiency (ton/GJ)

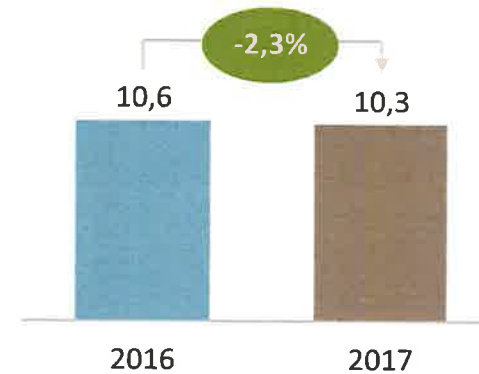


Traction electricity efficiency (gtk/kWh)



## CARBON EMISSIONS

Carbon emissions intensity (kgCO<sub>2</sub>e/ton)



Carbon emissions (tCO<sub>2</sub>e)



Freight commodities market share gains from road hauliers in the year resulted in carbon emissions savings to the South African transport sector of 637 152 tCO<sub>2</sub>e.



242 788MWh electricity regenerated by the new 15E, 19E, 20E and 21E locomotives.

tCO<sub>2</sub>e - tons of carbon dioxide equivalent  
MWh - Megawatt hours

GJ  
Gtl



## Internal controls initiatives

There are 7 reportable items exceeding R25m which have been reported as irregular expenditure as at 31 March 2017.

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. The specific root causes on the irregular expenditure relating to the current and prior year have been assessed and mitigating controls, as tabulated below have been developed.

### ROOT CAUSE

Contract value exceeded.

PPM tender/bid process not followed.

Procurement and capital expenditure procedures not adhered to.

Non compliance to DOA.

Incorrect use of procurement emergency procedure.

PPM confinement process not followed.

### MITIGATING CONTROLS

Implementation of automated controls in SAP.

Enablement of the end to end procurement process. Strict implementation and of documented processes via exception reporting.

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Capital and procurement approval processes to be automated.

Ongoing training and monitoring.

Automation and ongoing monitoring via exception reporting.

## Maintaining a world class risk and internal control environment

### Transnet Financial Processes 'Step Up Programme'

- Group-wide step up programme on the critical financial reporting control's environment.
- Initiated by office of the Chief Financial Officer (CFO).
- Focus on end-to-end adequacy of key financial control processes.
- Commenced September 2016.
- To be completed March 2018.
- Spearheaded by management in close collaboration with Transnet Internal Audit.
- Moving towards a preventative and automated control environment.

### Transnet Key Business Processes 'Step Up Programme'

- Group-wide step up programme on the business critical operational control environment.
- Initiated by the Office of the Group Chief Operating Officer (GCOO).
- Focus on end-to-end adequacy of key business control processes impacting business objectives, e.g. revenue/volume.
- Commenced February 2017.
- To be completed March 2018 for Phase I.
- Spearheaded by operational management in close collaboration with Transnet Internal Audit function.
- Moving towards a preventative and automated control environment.

# Conclusion

## Short- to medium-term outlook

- ✓ Continue to **respond to changing market conditions** in an **agile way** through **bold and resilient cash flow management interventions** driven by the Group Leadership Team and the Board.
- ✓ MDS being **repositioned** to create **capacity ahead of validated demand** in the short to medium term.
- ✓ Aim to achieve capital spend of **R229,2 billion** (including R20 billion allocated to mergers and acquisitions) over the MDS period and between R340 billion and R380 billion to be invested over the next 10 years, depending on demand, to increase capacity **across all commodities and sectors**.
- ✓ Focus on: **diversified revenue streams, customer-centric service ethos, cost management, and productivity**.

## Long-term outlook

- ✓ Management adopting the **Transnet 4.0** vision to accelerate MDS growth in the 4<sup>th</sup> Industrial Revolution.
- ✓ The future is **digital** and the Company will use the **latest technology intelligently**, to implement **real-time customer solutions and new product offerings**.
- ✓ Establish infrastructure networks for the transmission of **natural gas**.
- ✓ Accelerate growth in **property, spatial development and maritime connectivity**.
- ✓ Fundamentally reinventing Transnet's existing **business model** and **operational philosophy**:
  - **Extend Transnet's footprint in Africa, the Middle East and South Asia.**
  - **Become a fully integrated logistics service provider, with end-to-end solutions.**
  - **Establish an advanced manufacturing capability as an OEM for Africa.**

Through **dynamism, financial agility, operational unity and perpetual innovation**, Transnet achieved a **5,0% growth in EBITDA** (despite providing in excess of R600 million in price reprieves), a **16,4% increase in cash generated from operations** after working capital changes, and a **14,9% improvement in operational efficiency**.

## Seven-year investment by commodity



\*Excludes R20 and acquisition

Thank you

TRANSNET

