

PORTFOLIO COMMITTEE PRESENTATION

For year ended
31 March 2020



- TRANSNET GROUP EXECUTIVE LEADERSHIP
- TRANSNET AT A GLANCE
- OPERATIONAL PERFORMANCE
- TRANSNET'S DEVELOPMENTAL MANDATE
- FINANCIAL PERFORMANCE
- PFMA & AUDIT OUTCOME
- COVID-19 FINANCIAL IMPACT
- STRATEGY AND OUTLOOK



Transnet Group Executive Leadership





- Transnet at a glance
- Operational performance
- Developmental mandate

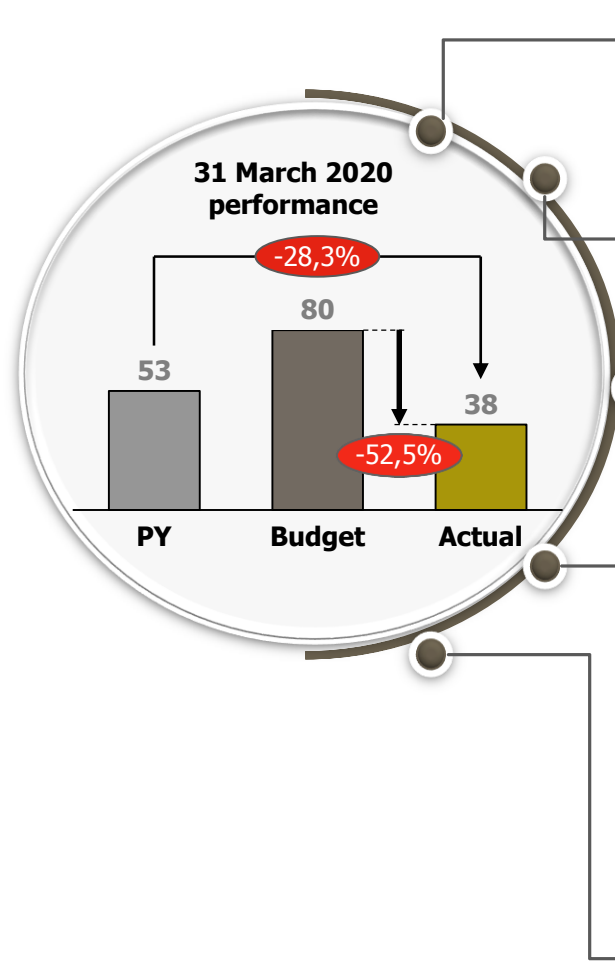
Our value propositions are founded in our Shareholder mandate

Value for the economy	Customer value	Socio-economic value	
<ul style="list-style-type: none">• Reduce total cost of logistics• Leverage private sector for infrastructure, rolling stock and operations• Integrate the SA economy – regionally and globally• Support market competitiveness• Modernisation and renewal of SA’s transport and logistics infrastructure• Road-to-rail migration – preserving road infrastructure	<ul style="list-style-type: none">• Predictable, reliable customer volumes• Customer-centric business innovations• Integrated value chain service propositions• Distinctive product and service designs	<ul style="list-style-type: none">• Optimise social and economic impacts of all our interventions• CSI initiatives that contribute to the socio-economic well-being of communities in the vicinity of our operations• Activities that enhance rather than deplete the natural environment	
Value for suppliers	Value for employees	Value for financial partners	Value for our Shareholder
<ul style="list-style-type: none">• An ethical, fair, transparent and effective procurement process• Fair and equitable tender processes• A proactive and collaborative approach to local supplier development	<ul style="list-style-type: none">• Employer of choice• A work ethos of ‘safety and integrity in all we do’• Opportunities to grow personally, professionally and academically• Exposure and connectivity to broader national and regional opportunities	<ul style="list-style-type: none">• A funding strategy based on strategic priorities and sound environmental, social and corporate governance principles• Capital investments likely to yield superior financial and social returns• A reliable and credible borrower, which secures debt on the strength of its financial position without government guarantees	<ul style="list-style-type: none">• Sustained financial returns and broad socio-economic value• Regulatory compliance, accountable business practices, ethical leadership and responsible corporate citizenship• Investment priorities closely aligned with Government’s infrastructure programme

Shareholder's Compact performance

Comments:

- The 31 March 2020 report is based on the **74** KPIs contained in the 2020 Shareholder's Compact
- Out of the 74 compacted KPIs, only 28 were achieved. This represents an overall achievement of 38% for the 2020 financial year
- Overall performance is significantly below the DPE threshold and the prior year's performance



A

Financial Sustainability (60%)

- EBITDA margin is in line with target. This is due to **cost containment initiatives implemented offset by** the non-performance of rail and container volumes.
- ROIC is below budget due to lower than budgeted profit before net finance costs, partially offset by the March 2019 and current year net devaluation adjustments and lower than expected total debt in line with lower capex requirements.

B

Operational Excellence (24%)

- The GFB and Eskom coal volumes did not achieve their targets. This is due to production challenges (product spillage), network challenges (cable theft, faulty points and hook-up) and poor reliability of locomotives and wagons.
- Container port volumes and port efficiencies are below budget due to equipment and machine breakdowns experienced affecting their reliability and the consistent impact of weather conditions.
- Two (2) of the four KPIs for network maintenance were not achieved due to the breaking down of machinery that resulted in no work planned and the changing of schedules by contractors.

C

Capacity Creation and Strategic Initiatives (9%)

- Of the six (6) capital projects contained in this annexure, only DCT berth construction, deepening and lengthening achieved all its milestones.
- Of the five (5) strategic initiatives: operation Phakisa, private sector participation, revenue initiatives and Transnet property strategy, none were achieved.

D

Socio Economic Development Outcomes (67%)

- Only six (6) of the nine (9) KPIs were achieved in this annexure. Number of patients receiving health services target was not achieved due to closure of Phelophepa I and II in May 2019, train delays and breakdowns during the year impacted on the train services. Number of teenagers receiving a package of health services target was also not achieved due to budget being deviated to the Phelophepa project during the financial year and a decision to completely change the programme model in September 2019.
- Carbon emission negative performance compared to target due to Eskom's grid emission factor which increased by 9,3% from the prior year.

E

Industrialisation (67%)

- R&D spend is below budget due to material shortages which have been resolved and their impact only realised at the end of quarter 4.
- A number of innovative products launched and commercialised are below budget due to material shortages experienced and procurement process challenges which are being integrated in line with the commercialisation framework and strategy.
- Local content is below budget due to the lack of response from suppliers regarding the affidavit letters (part of standard tender documents) sent out.

Salient features: Freight Rail and Engineering

Transnet Freight Rail

[Read online Report](#)



Upside performance

- **Marginal increase in export coal and export iron ore volumes**
- Partially **removed restrictions** on Natcor, Capecor and Southcor
- **Improved cycle times** on the export iron ore line

Total headcount: 29 714*



**Including contract employees*

Performance constraints

- **Security incidents**
- Rail infrastructure, equipment and maintenance **backlogs**
- **Demand constraints** in certain commodities
- **Locomotive undersupply** and **reliability**
- **Operations disruptions** due to **community unrest/protests**
- **Weather-related disruptions**



Market opportunities

- **Private sector partnerships** to provide **rolling stock** and **branch-lines**
- Development of multi-user **freight terminals** and **back-of-port facilities**

Transnet Engineering

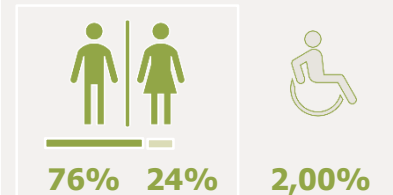
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Upside performance

- **400 wagons** manufactured and delivered
- **Improving rolling stock availability**
- **Backlog** maintenance **successfully addressed**
- **Cost-optimisation** efforts

Total headcount: 10 328*



**Including contract employees*

Performance constraints

- **Above inflationary increases** in products and service costs

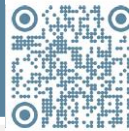
Market opportunities

- Improve **cross-border sales**
- **Commercialisation** of **already-developed innovative products** (e.g. port equipment, locomotive condition monitoring and energy-saving systems)
- Further **diversification** of maintenance services



Salient features: National Ports Authority and Port Terminals

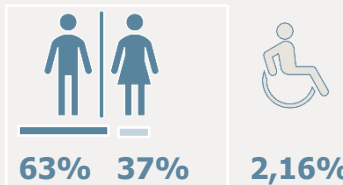
Transnet National Ports Authority

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Upside performance

- Marine Fleet **Asset Maintenance improvements** resulting in **higher tugboat availability**
- Delivery of **new Helicopters** for Pilotage at the ports of **Durban and Richards Bay**

Total headcount: 4 165*



*Including contract employees

Performance constraints

- 2% lower** revenue attributable to 0,32% weighted tariff adjustment together with lower container and breakbulk volumes.
- Weather conditions** affecting port productivity
- Delayed **capital investment** delivery
- Covid-19** onset caused **vessel delays** in quarter 4



Market opportunities

- Gas energy hub** to **secure supply**, support **industrial development** and establish **gas** as an **alternate energy source**
- Develop Durban** to be a **hub port** for **containers**
- Promote **Port of Ngqura** as regional **transshipment hub** in sub-Saharan Africa
- Promote **SA port system** globally to **attract investments** and optimise **industrial development**

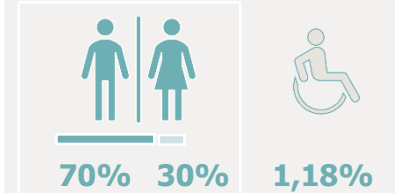
Transnet Port Terminals

[Read online Report](#)


Upside performance

- Pilot project** to address frequent **strong winds** on waterside port operations in CT
- Lean initiatives to reduce port congestion - truck appointment system and truck staging
- Multi-fold initiatives to address **productivity** and **morale**

Total headcount: 9 596*



*Including contract employees

Performance constraints

- Capital **investment** and **maintenance backlogs**
- Weather conditions** affecting port productivity
- Critical **skills shortages**
- Covid-19** onset caused **vessel delays** in quarter 4
- Industrial action** at certain **container terminals**

Market opportunities

- Back-of-port** opportunities for inland terminals and warehousing
- Value-add services** - containers, mineral bulk and automotive
- Private sector** participation to reduce funding needs



Salient features: Pipelines

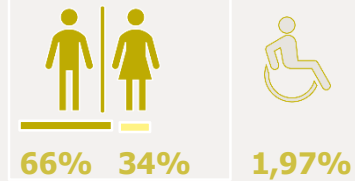
Transnet Pipelines

[Read online Report](#)


Upside performance

- **Maximum** execution on **available volumes**
- **Security incidents** receiving **priority focus**
- Appropriate **operational improvements** to **address volume losses** and **customer delivery targets**

Total headcount: 711*



Performance constraints

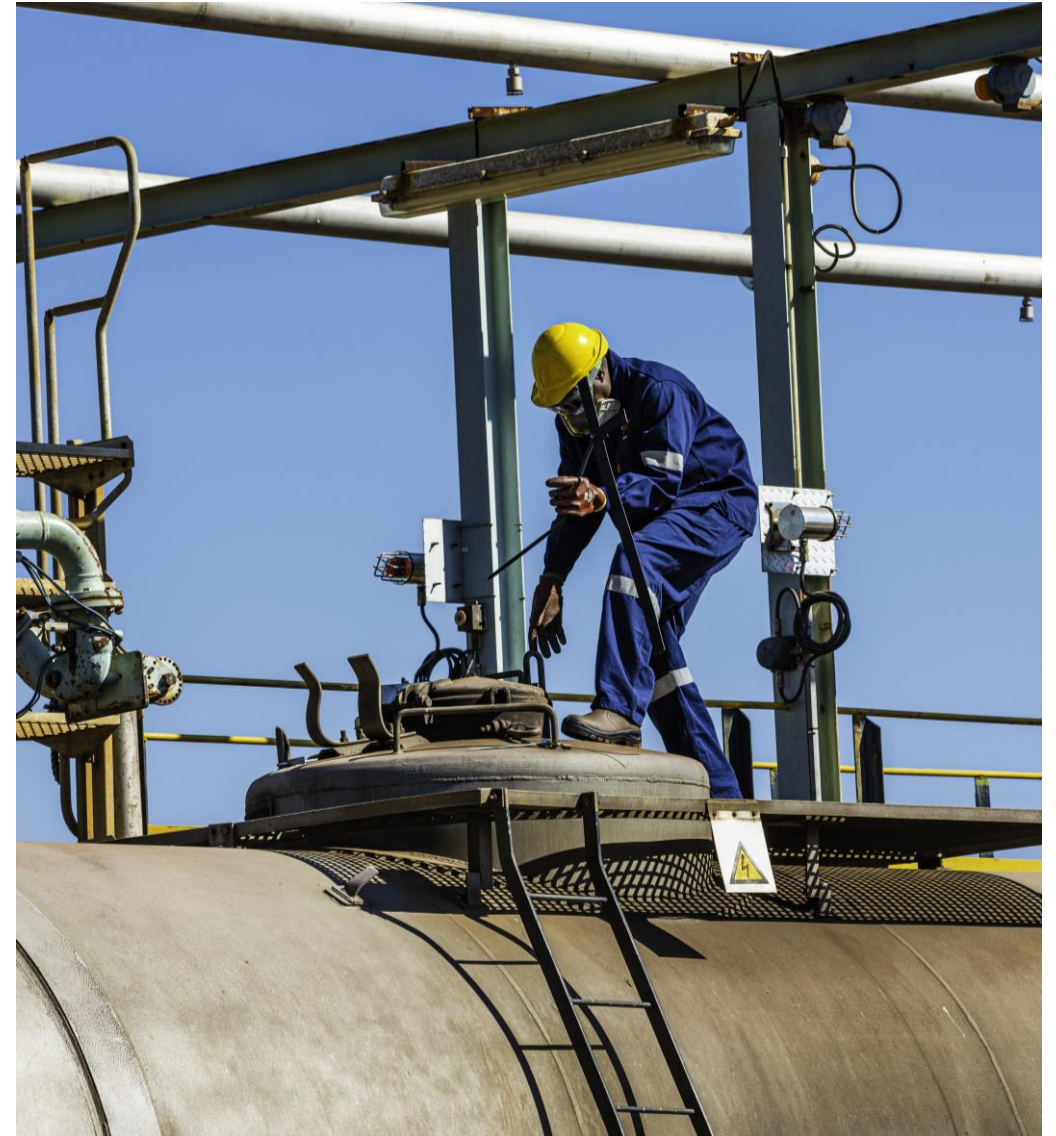
- Marginal **decrease** in **transported crude volumes** given the partial shutdown of the Natref refinery from October to November 2019
- Increase in **environmental remediation** and **rehabilitation costs** due to unprecedented increase in **pipeline theft**
- **Vessel delays** caused **product injection challenges** from the coast

**Including contract employees*



Market opportunities

- Initiative to **secure a direct import terminal** at the Port of Durban to enable **new market participants**
- Enable **road and rail distribution** from Jameson Park Terminal
- Alternative use of **Durban-Johannesburg Pipeline** assets



Covid-19 – Bringing Transnet's developmental mandate into sharp focus

At the onset of the Covid-19 pandemic

Protecting employees and stabilising operations

- January 2020, **response team established** to conduct preliminary **risk assessments**
- Formal **communication protocols**, educating employees and **distributing specialised PPE**
- Established **business continuity** strategies and plans
- Protection and **duty of care** to **people** and **assets**
- Engaged **labour** on **challenges** and **appropriate practices**
- **Financial impact assessments**
- Strategic **risk assessments** and set up **Command Centre**
- **Shutdown of businesses** for lockdown and defining **essential service** requirements

Addressing commercial challenges

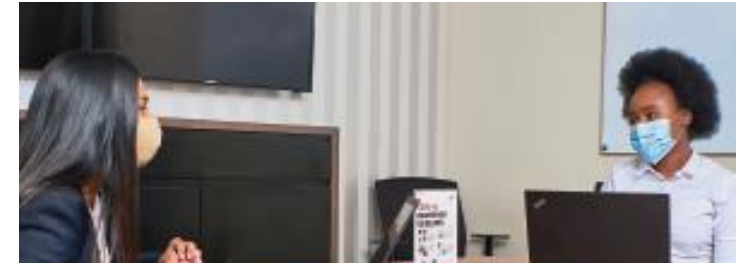
Comply with legislation while operationalising essential services

- Initially focused operations on **compliance** with essential **cargo regulations**, operationalising **container terminals** and **ports** as well as **essential rail corridors**
- Movement of **essential containerised cargo** threatened to **clog ports and terminals**, requiring amendments to allow **non-essential containers** to be relocated
- **Maintain movement** of coal, chrome and magnetite by operationalising **additional commodity flows**
- Dedicated focus on **employees' health and safety**
- Engaged with **regulators** and **government agencies** to ensure legislative compliance throughout the lockdown

Contributing to Government initiatives

Mobilising to support Government's efforts

- **Financial donations** and **non-monetary** contributions
- **Food parcels**
- **Alternative housing** for displaced citizens
- Helping rural schools connect to **distance-learning facilities** using spare **fibre optic network** capacity
- Distributing **medical grade PPE**
- Mobilising the **two Phelophepa Health Trains** to provide **Covid-19 testing** and general **medical support** to remote communities.



Transnet's sustainable developmental outcomes (SDOs) overview

Employment ▲	Skills development ▲	Transformation ▲	Community development ▲
<ul style="list-style-type: none"> Total headcount: 56 414* across various age groups <p><i>*Including contract employees (permanent headcount of 50 560)</i></p>	<ul style="list-style-type: none"> 238 Young Professionals-in-Training appointed to operations 60 full-time engineering bursaries awarded 	<ul style="list-style-type: none"> African employee representation up 10% to 76,35% Black female representation at 28% 	<ul style="list-style-type: none"> 105 565 patients aided by Phelophepa healthcare trains 357 323 individuals benefited from community healthcare programmes
Regional integration ▲	Environmental stewardship ▲	Health and safety ▲	Industrial capability building ▲
<ul style="list-style-type: none"> Cross-border revenue from Engineering: R166 million 	<ul style="list-style-type: none"> Total energy efficiency at 19,88 ton/GJ Carbon emissions at 3,85 mtCO2e 	<ul style="list-style-type: none"> DIFR performance of 0,73 against a target of 0,75 Regrettably six employee fatalities, and 109 public fatalities Tested 2 799 employees for Covid-19, of which 2 740 tested positive, 41 Covid-related deaths as at 29 Sep'20 	<ul style="list-style-type: none"> Supplier development spend: R840,4 million R49,2 million spent on supplier incubator hubs
<div> <div>Investment leveraged ▲</div> <ul style="list-style-type: none"> R4,7 billion committed by TNPA for ship repair facilities and floating docks - 5 000 jobs to be created </div>			



People – employment, transformation and skills development

Employment and transformation

Designated categories	Target % 2020	Actual % 2020
Black	90,0	89,5
Females at Exco	50,0	43,8
Females at extended Exco	50,0	42,5
Females below extended Exco	34,0	29,5
People with disability (PWD)'s	3,3	2,2



56 414

Transnet
employees**Including contract employees
(permanent headcount of 50 560)

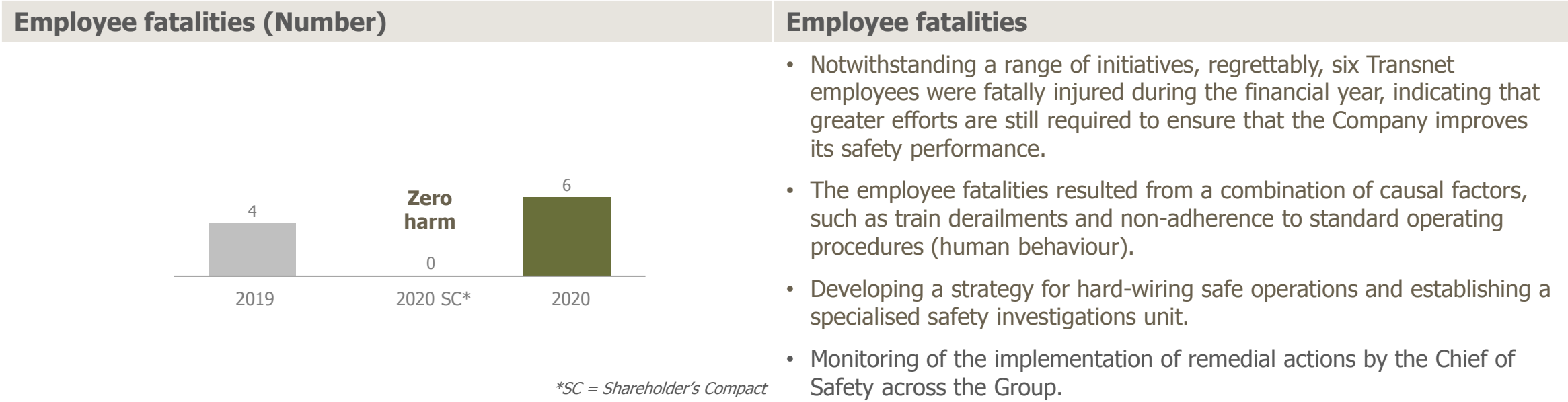
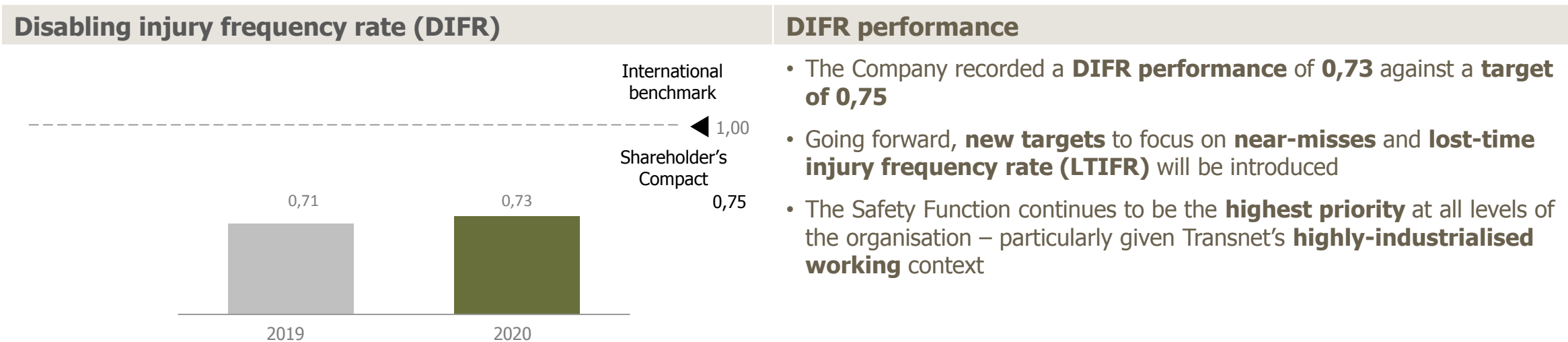
- Significant effort needed on **Employment Equity**: particularly **women** and **people with disabilities**.
- An **Employment Equity, Diversity, Inclusion** and **Transformation strategy** aims to address this.
- Continue to **build depth** in the **core operational capabilities**.
- Past **investments** in learning and development **did not adequately** focus on **operational skills**.
- Henceforth, the **talent pipeline** and **training budget** will be **focused** on this.
- Transnet is **managing the balance** between its **internal capabilities** and the **overall cost** base of the Company, to maintain an **optimal operating ratio**.
- Continue to **invest** in **young talent** for the **logistics industry** and maintain various **programmes**.
- Transnet has implemented **various changes** to its **organisational structure** and to improve **agility** and **speed** of decision-making and ensure **dedicated focus** on the **core business**.

Skills development

Key performance indicator	Unit of measure	Annual target	Actual 2020
Training spend	% of personnel costs	≥ 2,5	2,7
Engineering trainees	Number of learners	≥ 60	60
Technician trainees	Number of learners	≥ 70	79
Artisan trainees	Number of learners	≥ 200	238
Sector specific trainees	Number of learners	≥ 1 052	2 088

Skills
development,
capacity
building and
job creation

Safety – recording a DIFR ratio below 0,75



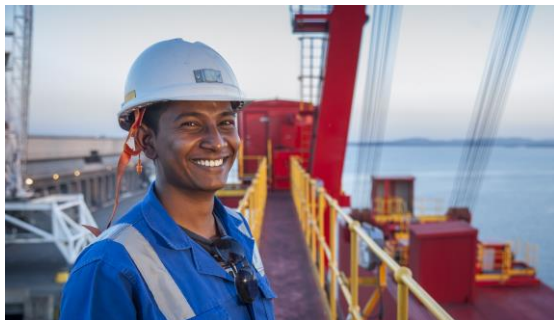
*SC = Shareholder's Compact



- Financial performance,
- PFMA & Audit outcome
- Covid-19 financial impact

Group financial performance overview

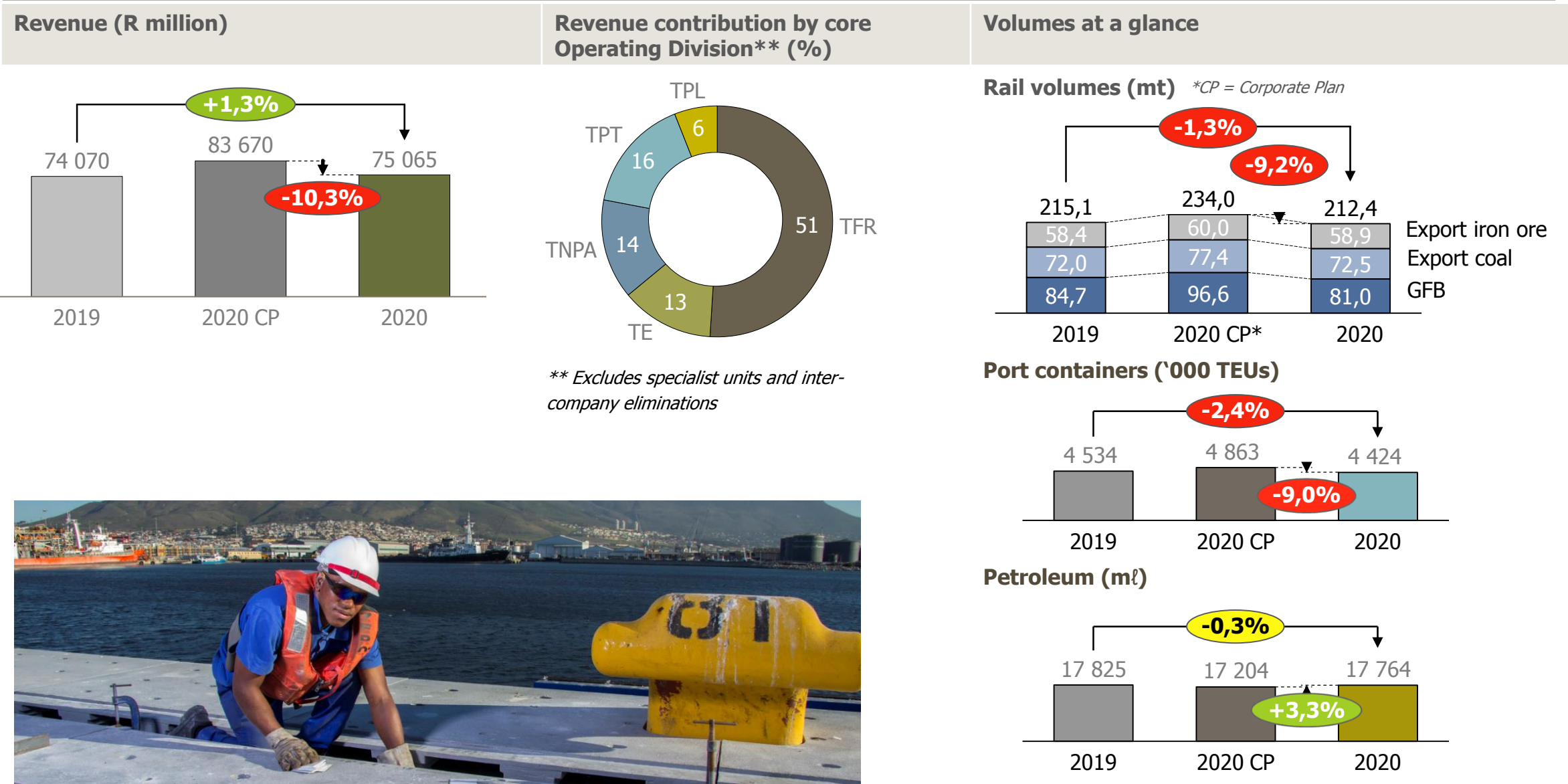
Revenue ▲ Up 1,3% to R75,1 billion , mainly due to a weighted tariff increase of 2,9% , partially offset by a 1,3% decline in rail freight volumes and a 2,4% decline in port container throughput	Net operating expenses ▲ Up 1,9% to R41,1 billion – positive, considering FY2019 cost level reflected zero growth compared to FY2018	EBITDA ▲ Up 0,7% to R34,0 billion , with EBITDA margin down from 45,6% to 45,3% Performance is below its potential as a result of insufficient maintenance of ageing infrastructure and sluggish global economic growth	Net profit ▼ Down 34,9% to R3,9 billion , primarily due to prior year's fair value adjustments being R2,5 billion higher than the current year
Capital investments ▲ Up 3,5% to R18,6 billion	Cash generated ▲ Up 2,1% to R35,9 billion	Ratios ▲ Gearing of 47,6% and cash interest cover at 2,9 times both within loan covenant requirements	Personnel costs ▲ 2,7% of personnel costs invested in training artisans, engineers, and technicians



B-BBEE ▲

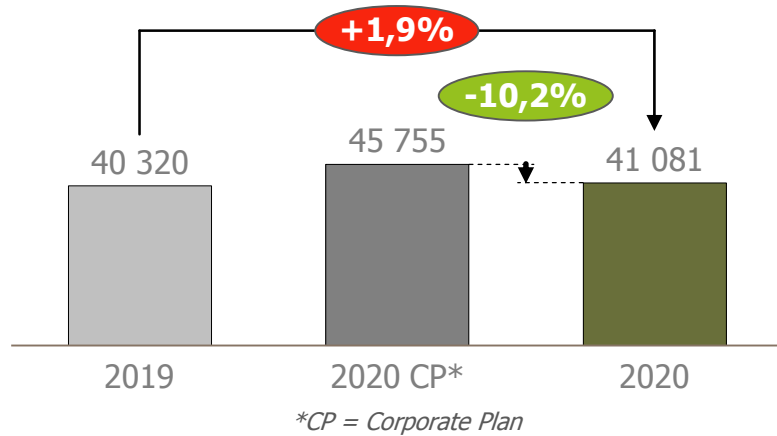
Maintained at Level 2 – with **R31,31 billion spend** or **111,82%** of total measured procurement spend as defined by DTIC codes

Revenue remained consistent amid subdued economic activity

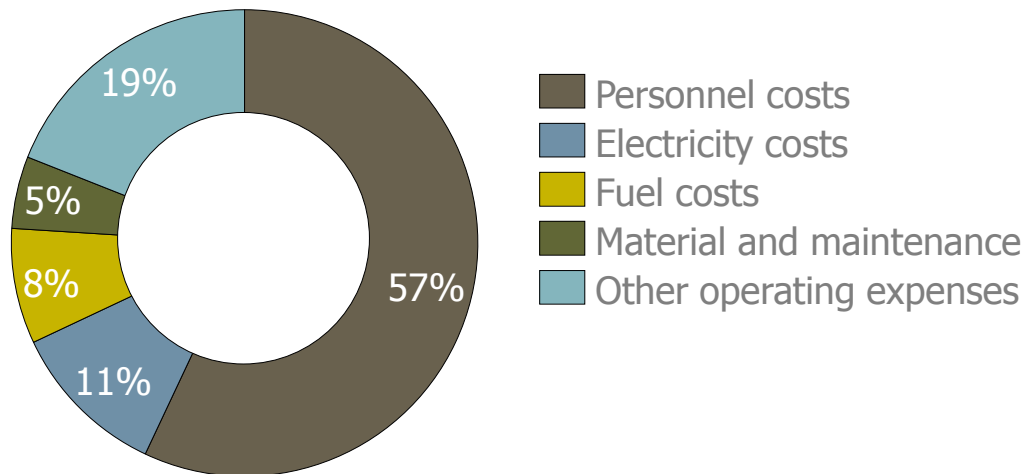


Cost increases contained at levels below inflation

Net operating expenses (R million)



Net operating expenses contribution by cost element



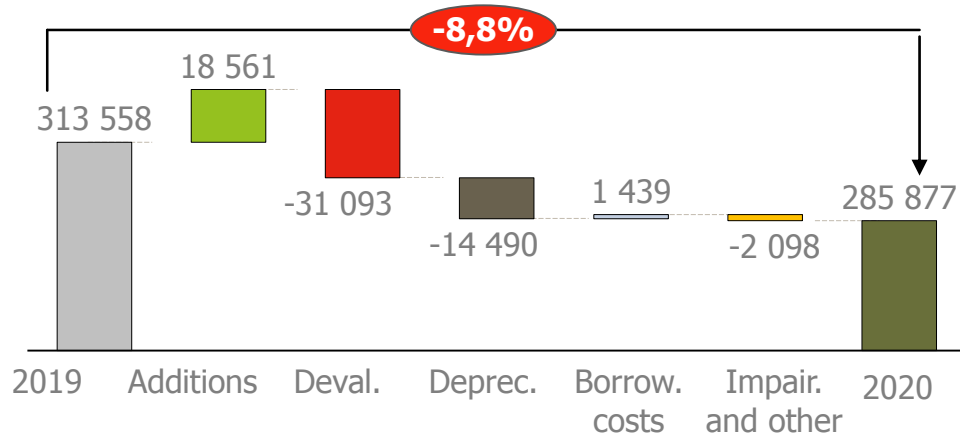
Cost-optimisation initiatives

- **Overtime management**
- **Reduction** of professional and consulting **fees**
- Programmes to **measure condition-assessment** vs **time-based maintenance** execution
- **Limit discretionary costs** (travel, printing, stationery telecommunications.)

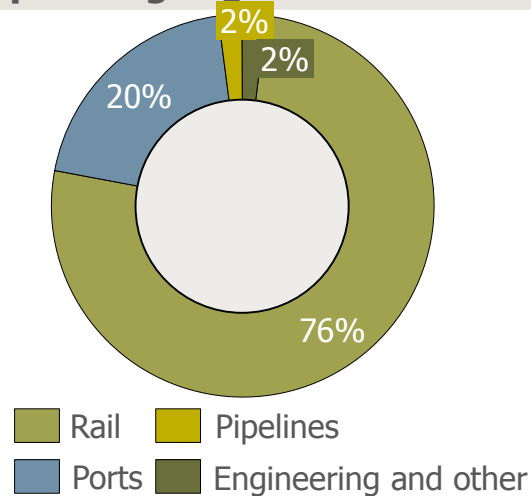
R4,7 billion
saving against
planned costs

Investments to maintain and expand capacity

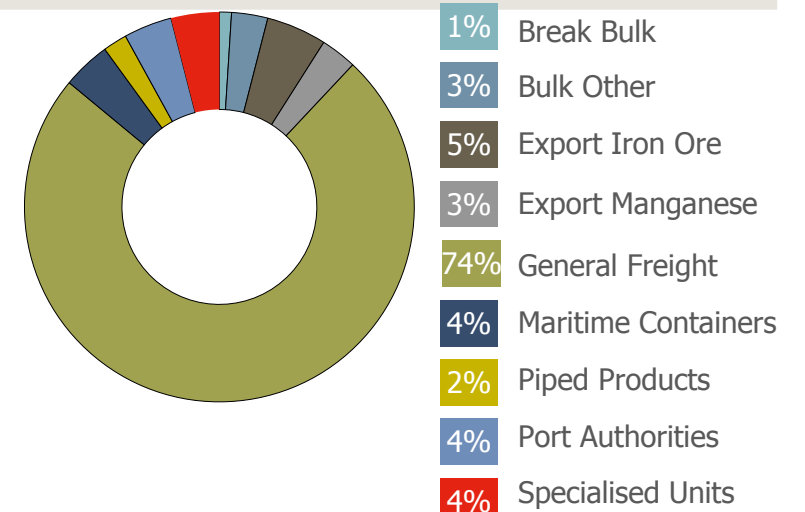
Property, plant and equipment (R million)



Capital investment by operating segment



Capital investment by commodity



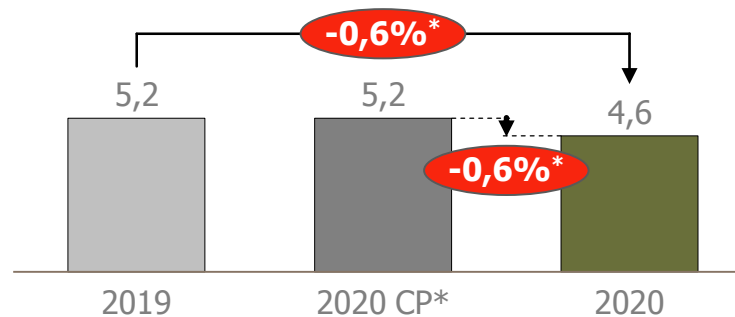
PPE decreased by **8,8%** to **R285,9 billion** mainly as a result of the net devaluation of R31,1 billion:

- **Rail infrastructure** devaluation of **R14,9 billion**
- **Port infrastructure** devaluation of **R16,6 billion**
- offset by
- **Pipeline networks** revaluation of **R427 million**

Offset by **capital investment of R18,6 billion**

- **Expansion:** R3,5 billion
- **Sustaining:** R15,1 billion

Return on invested capital



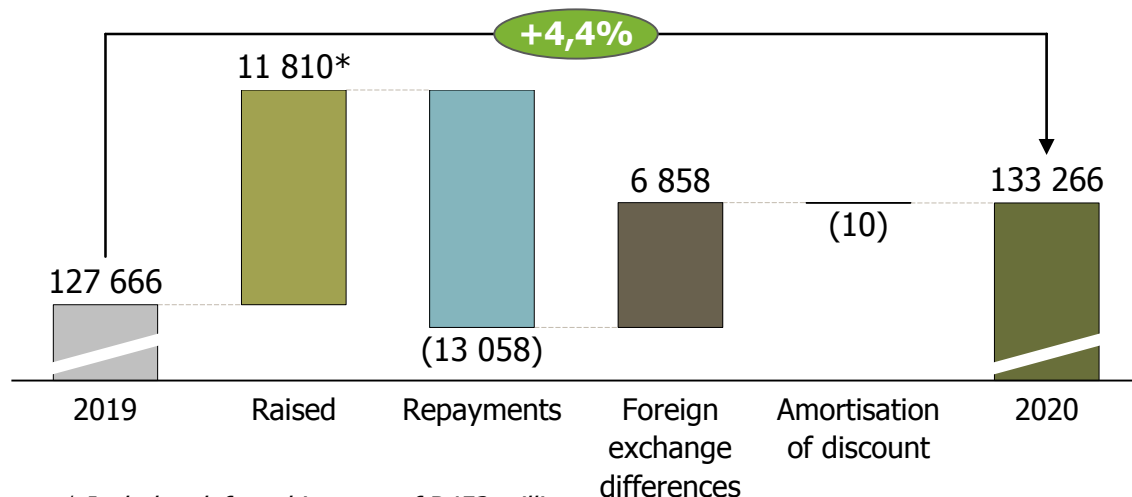
*CP = Corporate Plan

Investment principles

- **Asset care:** adhere to maintenance regimes, ensuring safe operations
- **Prioritising maintenance:** prioritise capital investments linked directly to operational capacity and volumes
- **Closer collaboration with customers and logistics community** to develop sector/commodity strategies to determine future capital investments
- **Enhance localisation**
- **Agility of execution:** Transnet's capacity to execute has to be agile and swiftly mobilised

Funding raised on the strength of Transnet's financial position

Total borrowings (R million)

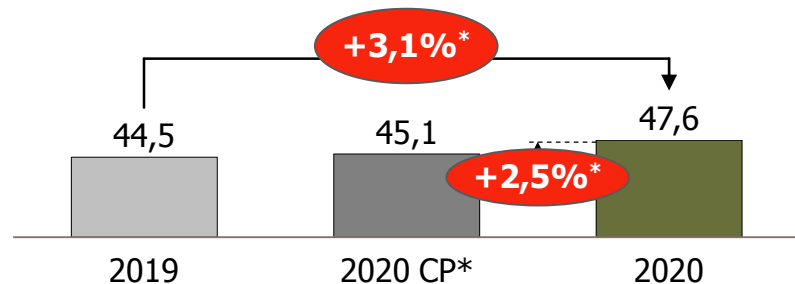


* Includes deferred interest of R453 million.

Total borrowings increased by 4,4%.

- **Funding raised** through the issuance of **Transnet bonds** and **commercial paper** and the execution of **bilateral loans**
- All **foreign debt** is **fully hedged** against **foreign exchange rate fluctuations**
- Transnet continues to **borrow on the strength of its financial position**
- Only **R3,5 billion** of **total debt** is supported by **government guarantees** and these guarantees **date back to the 1999** financial year
- The **funding needs**, until the end of calendar year 2021, are **largely catered for**

Gearing (%)



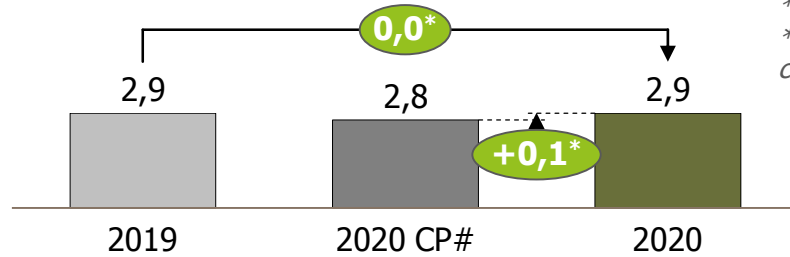
*CP = Corporate Plan

* Absolute variance.

- Within the **target range of <50,0%** and within the **triggers in loan covenants**
- The **gearing ratio** is **not expected** to **exceed loan covenant triggers** over the **medium-term**

Strong operating cash flows and stable funding outlook

Cash interest cover (times)**



* Absolute variance
 ** Excludes working capital changes
 #CP = Corporate Plan

Credit rating



	Moody's	S&P Global Ratings
Foreign currency	Ba1/negative outlook	BB-/stable outlook
Local currency	Ba1/negative outlook	BB-/stable outlook
SACP/BCA	ba2/negative outlook	bb-/stable outlook



- Transnet has two officially recognised credit rating agencies: **S&P** and **Moody's**
- For the **foreign currency rating**, Transnet's credit rating currently **mirrors that of Government** – three notches above highly speculative grade for Moody's and one notch above highly speculative grade for S&P at Ba1 & BB- respectively.
- For the **local currency rating**, Transnet's credit rating is one notch above highly speculative grade for S&P and three notches above highly speculative grade for Moody's.
- For the **Stand Alone Credit Profile (SACP)** rating, Moody's rate Transnet two notches above highly speculative grade and S&P currently rates Transnet at one notch above highly speculative grade.

Public Finance Management Act (PFMA)

Information Required by the Public Finance Management Act

Sections 51 and 55 of the PFMA impose certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure, irregular expenditure losses through criminal conduct and the collection of all revenue

Reporting responsibilities in terms of section 55 (2) (b)

Classification	Definition	Examples of transgressions
Criminal Conduct	Losses incurred as a result of criminal conduct or action	Theft ,malicious damage, fraud or embezzlement
Fruitless and Wasteful	Expenditure that was made in vain; and would have been avoided had reasonable care been taken. No value nor benefit received.	Interest, penalties, contract cancellation or withdrawal fees
Irregular Expenditure	Irregular expenditure is when expenditure is incurred in contravention/ not in accordance with the requirements of the applicable legislation	Unapproved procurement, non-compliance to PPPFA, CIDB, PPM, incorrect DOA applied

PFMA reporting process

Irregular expenditure challenges date back to 2011/12

Historical context	Prior year challenges	Current year
<ul style="list-style-type: none"> In FY2018, Transnet reported a significant increase in incidents of irregular expenditure dating back to 2011/12 The bulk of irregular expenditure was reported for the first time as part of the annual compliance audit conducted by Transnet's external auditors, which resulted in a qualified audit report 	<ul style="list-style-type: none"> In the FY2019 audit, irregular expenditure related to the use of Supplier Development (SD) as a tender pre-qualification was raised This was in relation to the Preferential Procurement Regulations (PPR) of 2017 Transnet had discontinued this practice but had not reported the related contracts and expenditure as irregular Due to the significance of the impact, the AFS of FY2019 were again qualified 	<ul style="list-style-type: none"> It was further determined that the use of SD as a tender pre-qualification from 2011/12 was irregular after the release PPR 2011 Following the FY2018 qualified audit outcome, the Board and Management embarked on a remedial plan Although a remedial plan was implemented and tracked, challenges in supply management have not been fully arrested The improvements achieved through the remedial plan have resulted in reduced irregular expenditure from contracts placed post FY2018 However, expenditure from active contracts placed prior to 2018 continues to result in irregular expenditure



Audit outcome and remedial plan

Qualified audit opinion



- Due to **the understatement of reported irregular expenditure.**
- The **financial statements**, have **not been qualified** from the perspective of **compliance** with **IFRS**

Quantum of irregular expenditure



- **Total** for FY2020 is **R9 965 million**
- **Efforts** to **improve compliance** led to a **significant reduction** in irregular expenditure arising from **new contracts** entered into in the current year.

Legacy of procurement events

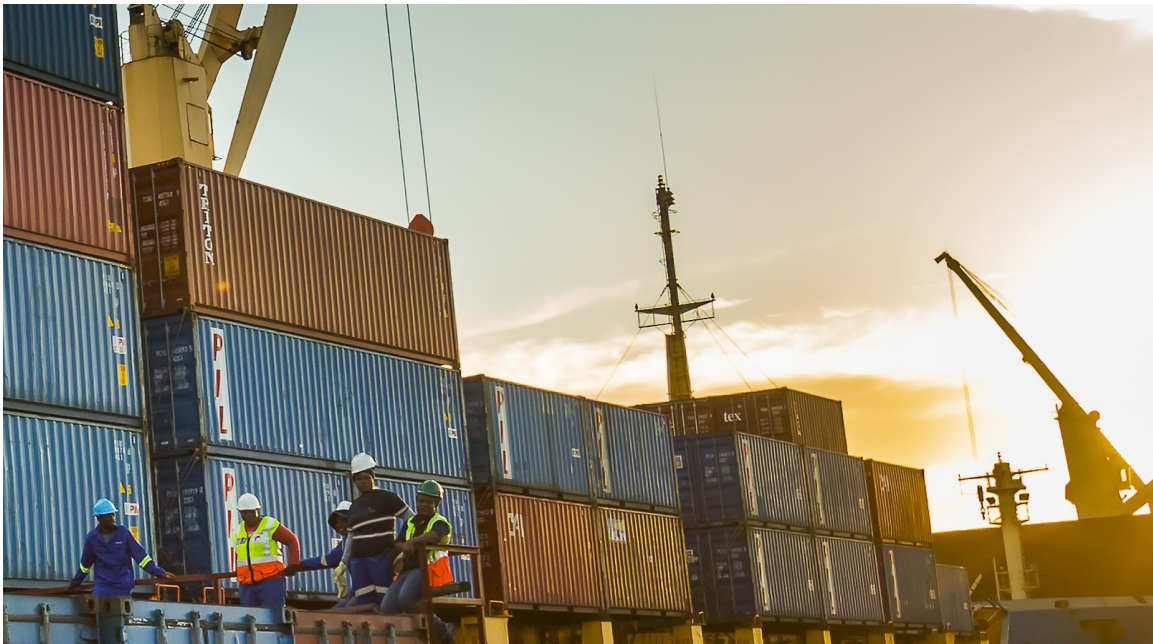


- Prior **non-compliant procurement** events and **procurement practices** not in accordance with the Preferential Procurement Framework
- **Manual process** to **identify** and accurately report **all irregular expenditure** continues to result in **reporting inaccuracies**
- Based on the payments made, approximately **12 800 contracts** have to be assessed for compliance.

Remedial plan



- The **remedial plan** of **2018** is being **reviewed** to **close gaps** and address the backlog
- Continue to identify **sustainable solutions** to address these challenges, including:
 - IT solutions
 - Enhanced governance
 - New supply-chain operating model
 - Setting up a loss-control function to drive the implementation
 - Improve internal controls and reporting capability
- The progress of the implementation will be reported and tracked at various governance structures



Independent assurance



- **Transnet Internal Audit** will provide **independent assurance** on the **progress** and **implementation** of the plan
- Enhance **PFMA integrated** assurance

Irregular expenditure reporting

Completeness and accuracy remains a concern, resulting in the FY2020 qualification

Category	2020 (R bn)	%	Cumulative (R bn)	%	Comments
Use of tender pre-qualification criteria after release of the PPPFA 2011 regulations	3,6	37%	51,1	45%	<ul style="list-style-type: none"> The use of the supplier development as a pre-qualification criteria in tenders prior to 2017 has contributed significantly to the increase in reported irregular expenditure.
Continued use of tender pre-qualification criteria after release of the PPPFA 2017 regulations	1,9	19%	3,8	3%	<ul style="list-style-type: none"> Transnet implemented the necessary controls not to use the supplier development criteria as a tender pre-qualification, hence the minimal impact from this regulation.
Spend in respect of the 1 064, 95 and 100 locomotive transactions	2,1	21%	43,6	38%	<ul style="list-style-type: none"> The expenditure in respect of "1 064" locomotives is reported as irregular expenditure and is under legal review.
Other	2,3	23%	15,8	14%	<ul style="list-style-type: none"> Although reporting of irregular expenditure has significantly improved over the last three years, completeness and accuracy remains a concern, resulting in the FY2020 qualification.
Total	9,9		114,3		

Steady improvement in the current year performance confirms financial resilience

Revenue impact	Operating expenditure impact	Capital expenditure impact	Funding and liquidity
<ul style="list-style-type: none"> Transnet's revenue was reduced to almost half as a result of Level-5 lockdown restrictions However, we have seen recovery close to budget levels as lockdown restrictions eased Revenue improved from average of 60% in April to over 90% by August 2020 Export iron ore, Export coal and Export manganese contributions expected to track close to budget as restrictions continue to ease <p>Key sector performance</p> <ul style="list-style-type: none"> Containers: Port terminals operating at 'close to normal' – volumes improving with reduced lockdown restrictions Automotive: resumed manufacturing on 2 May 2020 (at 50% production) – Auto export processing resumed Fuel: Petroleum volumes heavily impacted due to airport shutdown and general lockdown 	<ul style="list-style-type: none"> Reduced operational levels led to lower variable and overhead costs We are pursuing cost containment initiatives to mitigate impact on FY2021 performance Good progress on numerous commercial issues which will release unplanned cash into the system 	<ul style="list-style-type: none"> Expect FY2021 Capital expenditure to be 26% below plan due to Covid-19 lockdown restrictions on project execution No impact on maintenance capital <p>Key activities</p> <ul style="list-style-type: none"> Continue to assess commercial viability and benefits of current projects Sector/commodity-specific strategies to determine future capital investments 	<ul style="list-style-type: none"> Funding on strength of financial position without Government guarantees We will look for partnerships to further support investment opportunities The providers of the facilities have expressed their support, We have met all maturity requirements Sufficient short-term facilities

The lockdown restrictions imposed by Government in late March 2020 did **not have a significant impact on the Group's operations for FY2020**

The **full extent** of **Covid-19** on the business performance is **yet to be determined for FY2021**



Strategy and outlook

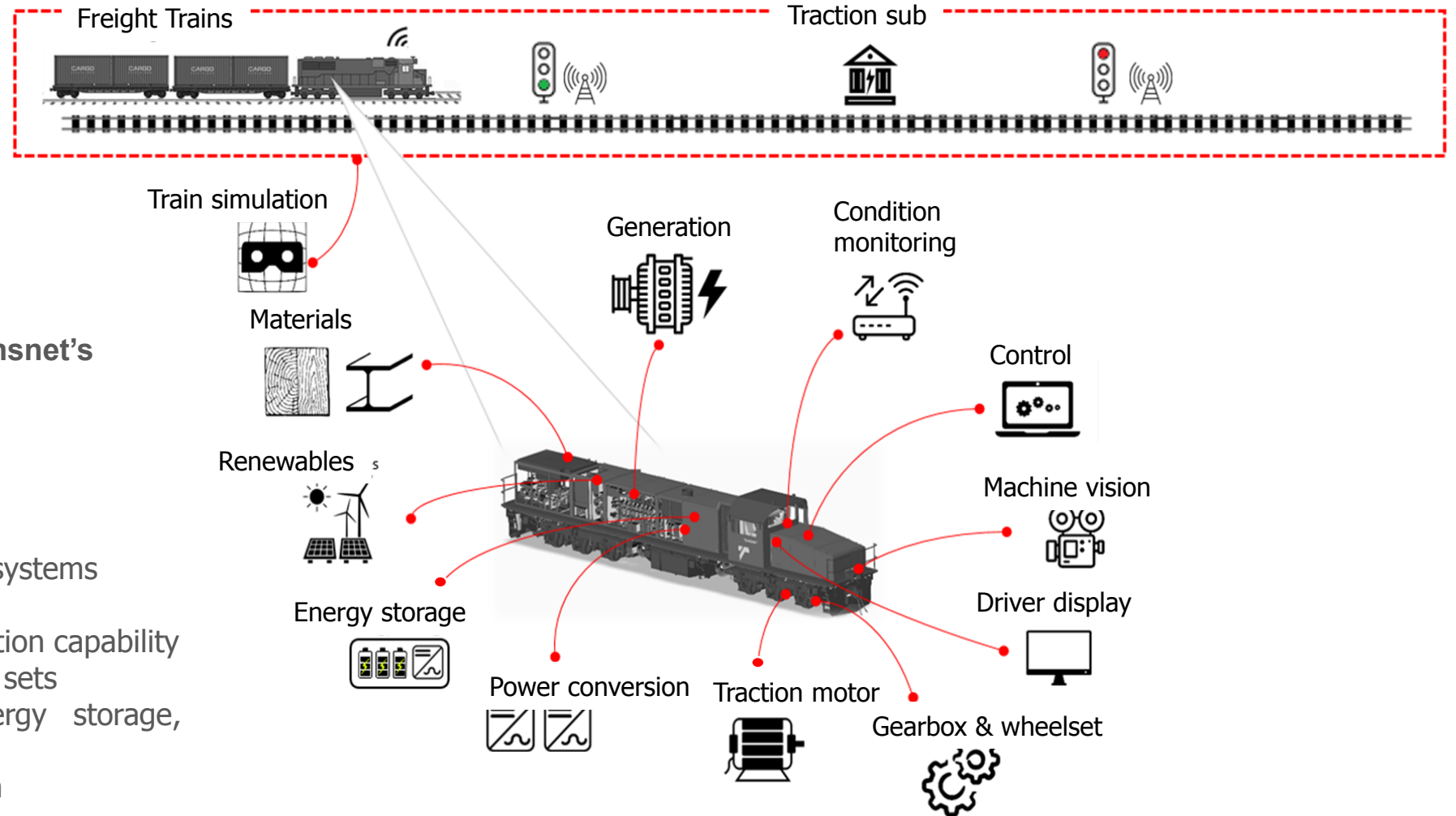
Research & Development – investing in the future

Focus Areas:

- Reducing cost of doing business
- Reducing imports where economically viable
- Moving Transnet towards being a smart system

Research areas to support Transnet's operations and grow domestic manufacturing capability

- Exhaust power generator
- Condition monitoring
- Obstacle detection
- Train control and monitoring systems
- Instrumentation
- Improved drive train and traction capability
- Improved gearbox and wheel sets
- Power conversion and energy storage, including renewables
- Optimised diesel consumption



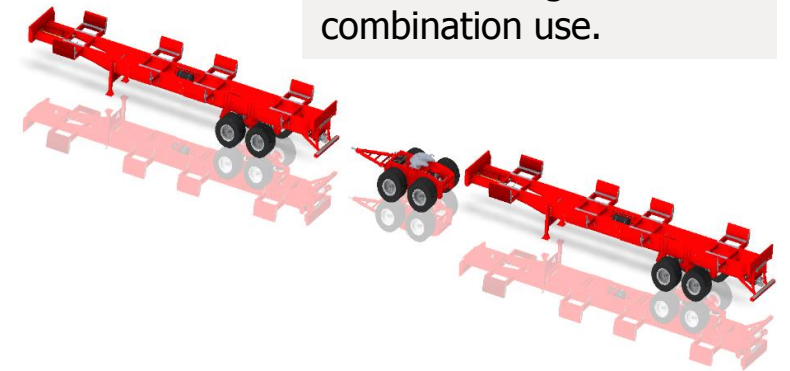
Total number of Engineers: **104**

Engineering – enabling port handling





Transnet's Port Hauler (TPH)

- A vehicle **specially designed** to **haul** bulk and **container commodities** across handling facilities.
- The hauler features a **customer digital driver interface**; latest technological advancements and **local engineering excellence**.
- The **first in-house designed** and built **Port Hauler, TPH1**, is in its **final stages of system testing**.
- The **next generation** (commercial) **Port Hauler (TPH2)** is in the **final stage** of its design phase.

Semi-trailers have been deployed at Port Terminals and testing is currently in progress to determine single or combination use.



Moving in the right direction

Past 	Present 	Future 	Building resilience in a post-Covid-19 world 	
<ul style="list-style-type: none"> • High level of investment in locomotives and wagons not matched by investment in rail network, terminals and maintenance • Large cost overruns on major capital projects • Expected efficiencies and capacity expansions from accelerated capital programme not realised • Volumes below anticipated levels • Historical growth projections overly optimistic 	<ul style="list-style-type: none"> • SA has become default global gateway to landlocked countries in the region • Capital investment focused on maintenance and improving existing asset capacity vs expansion capital • More rigorous evaluation of future demand projections • Review and refine Group-wide capital allocation process • Improve validation of business cases • Incentivise capital efficiency • Incentivise market share growth 	<ul style="list-style-type: none"> • Deliver more effectively • Align to the customer • Crowd in private sector investment • Contribute more effectively to SA's development goals: <ul style="list-style-type: none"> • Industrialisation • Regional integration • Economic transformation • Energy efficiency • Socio-economic development 	Fix the Core	<ul style="list-style-type: none"> • A sharper focus on supply chain performance and appropriate positioning in the supply chain • Focus on customers, people, safety, assets and costs • Technology and data driven optimization
			Partnerships for Growth	<ul style="list-style-type: none"> • Target investment in infrastructure • Investment in SPVs and JV's to: <ul style="list-style-type: none"> • Better align to customers • Build volumes • Enhance operational efficiency • Attract new investment
			Operational Efficiency	<ul style="list-style-type: none"> • Targeted corridor alignment • Build volumes and generate revenue • Build customers into solution profile • Cost containment and effective allocation of resources



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Building globally-competitive value chains

Containers sector	Fuel sector	Iron ore
<ul style="list-style-type: none"> Establish SA as shipping and industrial hub Improve container terminal efficiency, reliability and predictability Developing stronger logistics clusters at critical nodes of the networks Involve private sector to enhance containers on rail and container throughput in ports Investment in rail to restore design capacity Increase port and rail equipment maintenance 	<ul style="list-style-type: none"> SA produces 5% of fuel from gas, 35% from coal and 50% from local crude oil refineries Need for new refineries or significant investment to maintain existing refineries Storage infrastructure may be the next constraint Changes to current fuel distribution infrastructure holds potential for new connections to the NMPP Solutions incl. SPVs in storage 	<ul style="list-style-type: none"> SA remains highly competitive with high-quality ore-grade Transnet's export iron ore line a global benchmark for efficient and effective heavy haul rail Invest in maintenance on the rail track and port handling equipment to reduce operational disruptions Increase throughput at the Port of Saldanha increase channel capacity
Automotive sector	Coal sector	Manganese
<ul style="list-style-type: none"> Challenges: inbound and outbound logistics costs long-standing concern Harness current automotive clusters in KZN, E. Cape and Gauteng Leverage economies of scale through OEM cooperation Better asset utilisation: transport fully built-up vehicles, cooperate with OEMs and promote shared use of inland and port terminals 	<ul style="list-style-type: none"> Transnet capping export coal line capacity from Ermelo to Richards Bay to 81mt Expand access to Waterberg Strengthen Channel access to Mozambique Growth opportunities for coal supply to Eskom Transnet's strategy aligns with SA Gov's 2019 Integrated Resource Plan 	<ul style="list-style-type: none"> SA remains highly competitive with high-quality ore-grade Transnet adopting multi-channel strategy to increase manganese export capacity Supply chain solutions for manganese exports include bulk and containerised exports for maximum flexibility Solutions incl. PPP/SPVs in terminals