

TRANSNET

delivering freight reliably

TRANSNET PLAN TO SUPPORT THE ECONOMIC RECONSTRUCTION AND RECOVERY PLAN

PRESENTATION TO: THE SELECT COMMITTEE TRADE AND INDUSTRY, ECONOMIC DEVELOPMENT, TOURISM, EMPLOYMENT AND LABOUR

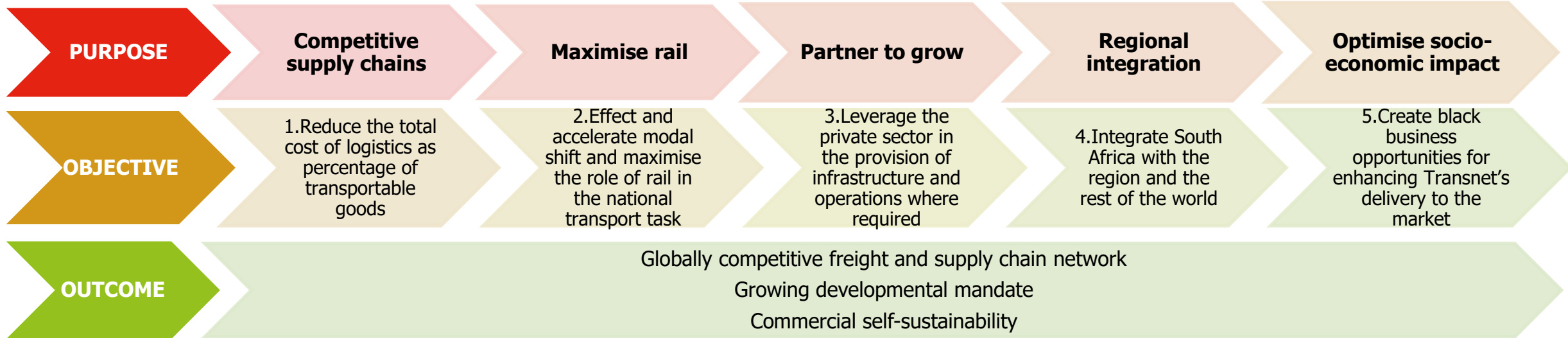
PRESENTATION BY: MS PORTIA DERBY - GROUP CHIEF EXECUTIVE

DATE: 09 NOVEMBER 2021



Our strategic mandate requires a carefully balanced execution approach

Transnet must reduce the cost of doing business, ensure security of supply and enable economic growth



"The Balancing Act"

- Commercial mandate versus Developmental mandate
- Cross-subsidisation of unprofitable cargo with profitable cargo to sustain a comprehensive network and portfolio of services and jobs
- Creating capacity ahead of demand versus desire to reduce prices
- Profitability versus developmental cost relating to procurement, skills development, enterprise development etc.



Transnet is however faced with several challenges and external pressures necessitating a change in how we work



Transnet has been faced with several challenges that have been exacerbated by COVID-19 ...

... and similarly several policy proposals being considered have also created pressure ...

- i • **High levels** of debt and repayment **obligations** threatening sustainability
- ii • Stagnant or **declining market share** across many segments, or an inability to service growing market segments
- iii • **Low** asset **utilization** resulting in a low return on assets
- iv • **Low levels** of customer satisfaction within most segments
- v • **Declining** asset **condition** and **reliability** of key infrastructure and equipment
- vi • **Increased** incidents of theft and vandalism across the network

Independent port authority

- Subsidiarization of port authority is underway and may impact funding position of the broader group
- May reduce strategic options associated with owning and operating an integrated network infrastructure over time

Open access rail network

- Allowing 3rd party access to the core network
- A two-Tier Network is being considered with independent operators dominant on the secondary network
- 3rd party operators would change nature of industry and increase competition

Integrated regulation of transport

- Offers an opportunity to shift the analytic lens away from modes and towards supply chains
- However, also poses the risk of sub-optimal regulation in rail which does not account for the full network impact

Network tariff model

- Introduction of a misaligned approach to rail tariff which could have suboptimal cost allocation and could disallow full recovery of sustaining costs
- Competition for TFR operations will grow over time

As a result Transnet has adopted a new approach to strategic thinking



In an environment of uncertainty and constraint, Transnet has considerably **altered the lens** used to view our **current business** and **growth opportunities**



We have developed a **new strategy**, centred on improving operational efficiency and leveraging **partnerships** to grow Transnet.

The **SEGMENT STRATEGIES** represent a fundamental change for Transnet, away from a divisional, modal service offering to **strategic participation** and structured **collaboration** in **integrated commodity supply chains**.

Focus on what we're good at

Work together with the private sector where help is needed

Collaboration means that the whole economy benefits

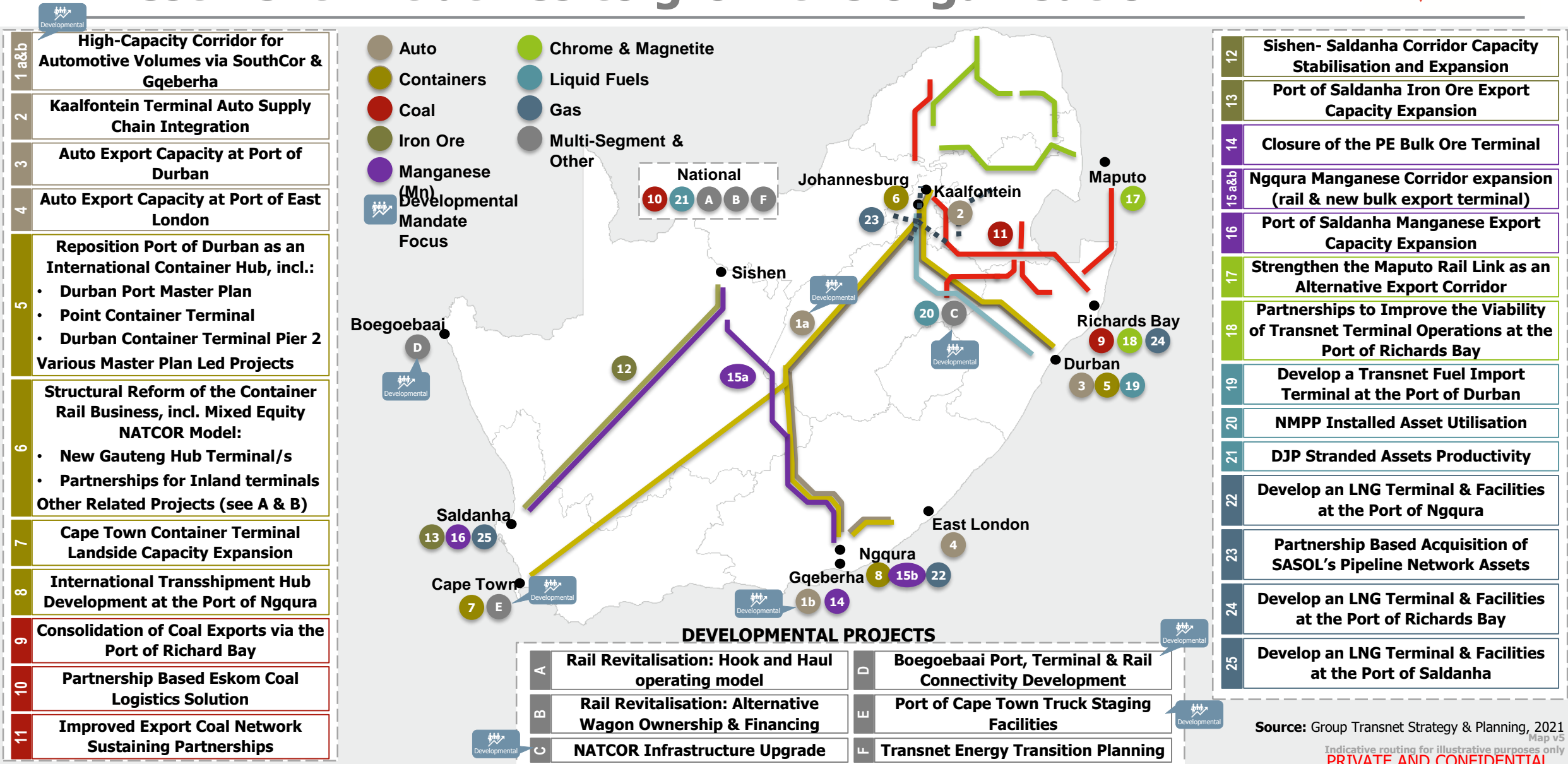


These segment strategies are designed to protect and grow the key industrial supply chains



	Iron Ore	Leverage capital and operational capabilities from partners to stabilize delivery and support growth in the iron ore sector to ~67mtpa
	Manganese	Migrate manganese exports from Gqeberha to Ngqura and introduce private sector capital and capabilities into terminal operations to support sector growth to ~22mtpa
	Coal	Reduce the cost of logistics to competitively maintain South Africa's export coal capacity at ~81mtpa
	Chrome & Magnetite	Maintain South Africa's global position as preferred, leading chrome exporter through partnerships and strengthen export channels via the ports of Richards Bay and Maputo to deliver ~9.8mtpa
	Auto & Containers	Partner to expand the regional hub port system for clean commodities in the port of Durban And leverage PSPs to re-position the auto & container rail & port terminal businesses
	Agri (Fruit & Grain)	Use public and private partnerships to support the growth and transformation of the rapidly expanding agricultural cluster
	Fuel & Gas	Use public and private partnerships to grow refined fuel import capacity & new entrant access and develop the gas infrastructure network as building blocks towards a sustainable energy portfolio

Transnet will be undertaking several transactions and investment initiatives to grow the organisation



- 1 a&b **High-Capacity Corridor for Automotive Volumes via SouthCor & Gqeberha**
- 2 **Kaalfontein Terminal Auto Supply Chain Integration**
- 3 **Auto Export Capacity at Port of Durban**
- 4 **Auto Export Capacity at Port of East London**
- 5 **Reposition Port of Durban as an International Container Hub, incl.:**
 - Durban Port Master Plan
 - Point Container Terminal
 - Durban Container Terminal Pier 2**Various Master Plan Led Projects**
- 6 **Structural Reform of the Container Rail Business, incl. Mixed Equity NATCOR Model:**
 - New Gauteng Hub Terminal/s
 - Partnerships for Inland terminals**Other Related Projects (see A & B)**
- 7 **Cape Town Container Terminal Landside Capacity Expansion**
- 8 **International Transshipment Hub Development at the Port of Ngqura**
- 9 **Consolidation of Coal Exports via the Port of Richard Bay**
- 10 **Partnership Based Eskom Coal Logistics Solution**
- 11 **Improved Export Coal Network Sustaining Partnerships**

- 12 **Sishen- Saldanha Corridor Capacity Stabilisation and Expansion**
- 13 **Port of Saldanha Iron Ore Export Capacity Expansion**
- 14 **Closure of the PE Bulk Ore Terminal**
- 15 a&b **Ngqura Manganese Corridor expansion (rail & new bulk export terminal)**
- 16 **Port of Saldanha Manganese Export Capacity Expansion**
- 17 **Strengthen the Maputo Rail Link as an Alternative Export Corridor**
- 18 **Partnerships to Improve the Viability of Transnet Terminal Operations at the Port of Richards Bay**
- 19 **Develop a Transnet Fuel Import Terminal at the Port of Durban**
- 20 **NMPP Installed Asset Utilisation**
- 21 **DJP Stranded Assets Productivity**
- 22 **Develop an LNG Terminal & Facilities at the Port of Ngqura**
- 23 **Partnership Based Acquisition of SASOL's Pipeline Network Assets**
- 24 **Develop an LNG Terminal & Facilities at the Port of Richards Bay**
- 25 **Develop an LNG Terminal & Facilities at the Port of Saldanha**

DEVELOPMENTAL PROJECTS

A	Rail Revitalisation: Hook and Haul operating model	D	Boegoebaai Port, Terminal & Rail Connectivity Development
B	Rail Revitalisation: Alternative Wagon Ownership & Financing	E	Port of Cape Town Truck Staging Facilities
C	NATCOR Infrastructure Upgrade	F	Transnet Energy Transition Planning



Which will move the company in the right direction

Present	Future	Building resilience in a post-Covid-19 world	
<ul style="list-style-type: none"> • Financial crunch requires cash generation and cash saving interventions • Security of supply challenges for key industries including containers and autos • Bulk of capital investment in maintenance of existing assets with a growing maintenance backlog • Review and refine capital allocation process underway • Organisational Modernisation through Shared Services – Property, Transnet Engineering (TE), People Management, ICT and Procurement • Establishing a new commercial model – accounting separation, wagon sales, terminal partnerships, etc. 	<ul style="list-style-type: none"> • Supply chain focus • Commercial separation of the network and non-network businesses • Crowd in private sector investment • Contribute more effectively to South Africa's development goals: <ul style="list-style-type: none"> • Industrialisation • Regional integration • Economic transformation • Energy efficiency • Socio-economic development 	<p>Fix the core</p>	<ul style="list-style-type: none"> • Focus on customers, people, safety, assets and costs to improve performance of existing businesses • Technology and data-driven optimisation • Commercial ring-fencing of businesses within the Operating Divisions and empowerment of these businesses • Develop a BU and Flow based Incentive Scheme
		<p>Partnerships for growth</p>	<ul style="list-style-type: none"> • Target investment in infrastructure • Investment in special purpose vehicles and joint ventures to: <ul style="list-style-type: none"> • Grow volumes • Attract new investment • Acquire new capabilities and insights • Enhance operational efficiency • Better align to customers

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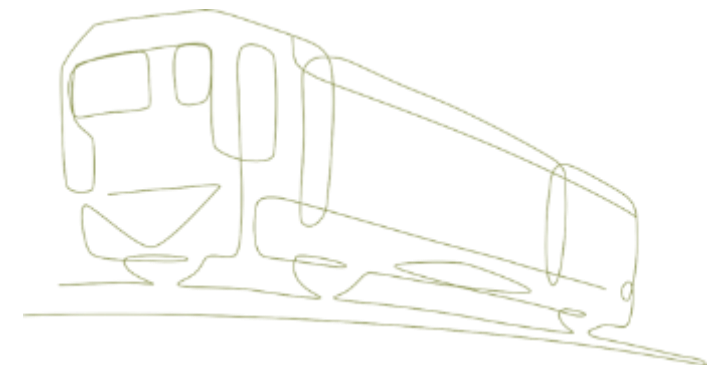
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C. Overview of planned investment and key projects for Eastern Cape

D. Developmental partnership resolutions with EC Provincial Government and BCM



Transnet's Role in the Economy

Stimulating local economic recovery through custodianship of Rail and Ports



Transnet is a key player in the South African sea and land freight transport and logistics industry

South African Economic Reconstruction & Recovery Plan 2020



Recovery and reform includes interventions to restore the economy while controlling strategic risks



Restoring assets to connect and revitalise the local economy

TRANSNET MANDATE

Lower the cost of doing business in South Africa, enable economic growth and ensure security of supply through providing appropriate ports, rail and pipeline infrastructure as well as operations in a cost-effective and efficient manner, within acceptable benchmark standards

KEY PRIORITIES

HUMAN CAPITAL	CUSTOMERS	SAFETY	ASSET UTILISATION	COST MANAGEMENT
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REPOSITION

Through appropriate partnerships provide for the logistics needs of the country & continent and connect us to the world

Source: Group Transnet Strategy & Planning, 2021

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Economic Reconstruction and Recovery Plan

Key levers to supporting stimulation of economic growth



1

Improve **utilisation** and **access** to strategic **network infrastructure** asset base to enhance economic efficiency and market integration

An icon of two interlocking gears, one larger than the other, positioned at the bottom left of the first block.

2

Development of **strategic partnerships** with other logistics operators and clients to **leverage expertise** and **skill set** to improve supply chain resilience and performance

An icon of two hands shaking, positioned at the bottom left of the second block.

3

Explore **alternative** funding models for infrastructure **investment** to enable capacity **restoration** and / or **expansion**

An icon of a money bag with a stack of coins, positioned at the bottom left of the third block.

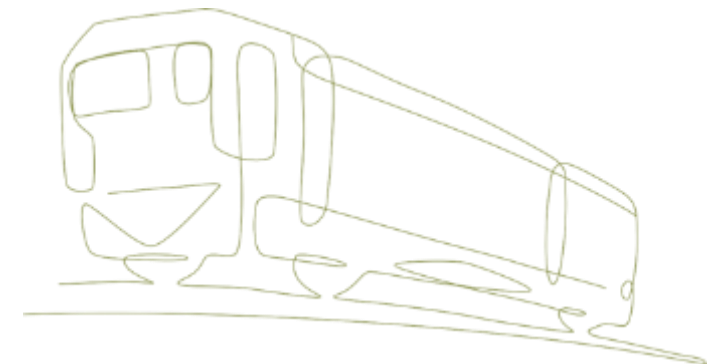
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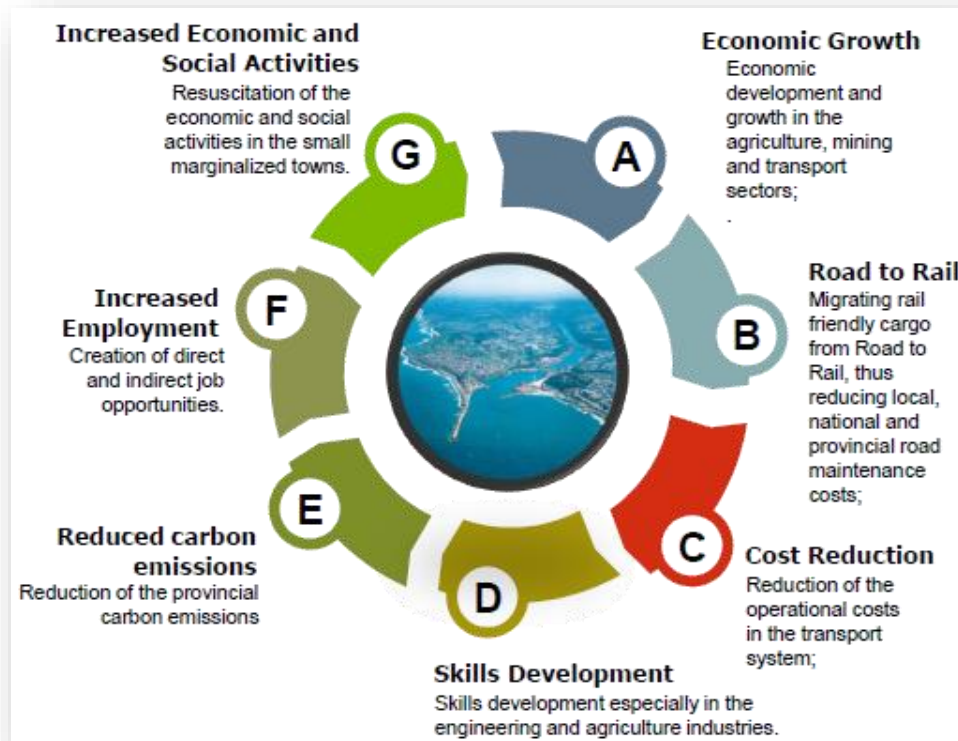
Strategic Infrastructure Roadmap (SIR)

of the Eastern Region of the Eastern Cape



The **Strategic Investment Roadmap (SIR)** of the **Eastern Region** of the **Eastern Cape Province** aims to **catalyse** and **revive economic development** and **social emancipation** of the communities across the region

SIR Roadmap



SIR Outcomes

Enabling production and trade

Catalyst for economic growth

Driving exports & ensuring rural access to markets

Creation of strategic transport infrastructure

Regional & global connectivity & integration

Job creation and skills development

Development of world class port & rail technologies

Link to Transnet Mandate

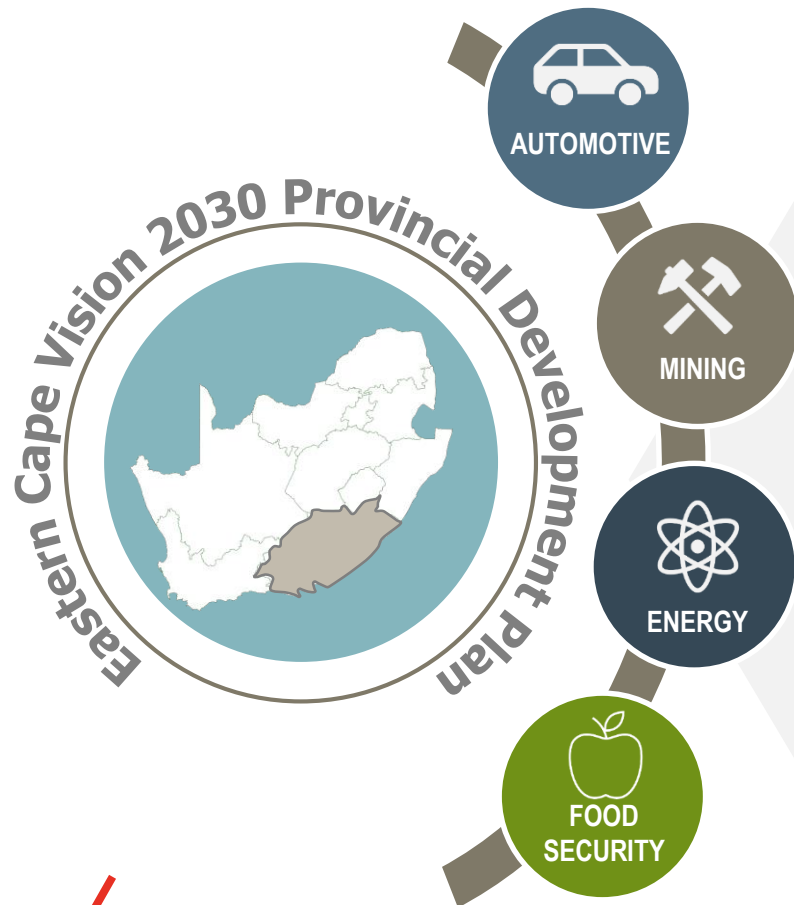
Assist in **lowering the cost of doing business** in South Africa, **enabling economic growth** and **ensuring security of supply** through providing appropriate (port, rail and pipeline) infrastructure in a cost-effective and efficient manner

Transnet's Segment Strategies

Focus on the Eastern Cape



In line with the **Eastern Cape Vision 2030 Provincial Development Plan**, Transnet has prioritised growth and optimisation of **containers, automotive, manganese, LNG** and **agriculture** initiatives.



Transnet Segment Strategies Support the Aims of Vision 2030

Manganese

Migrate manganese exports from the Port of Port Elizabeth to the Port of Ngqura and introduce private sector capital and capabilities into terminal operations to support sector **growth** to **~22Mtpa**

Auto & Container

Partner to expand the **regional hub port system for containers** at the **Port of Ngqura**, and develop a **high-capacity automotive corridor** between the **Port of Port Elizabeth** and the **inland region**, utilizing the **SouthCor** rail corridor.

Fuel & Gas

Use public and private partnerships to develop gas **import capacity at the Port of Ngqura** as building blocks towards a sustainable Energy Portfolio

Agriculture

Use public and private partnerships to support the **growth** and **transformation** of the rapidly expanding **agricultural cluster**

Auto & Containers Sectors: Capacity for Growth

Consolidation and performance improvement alongside expansion of auto capacity



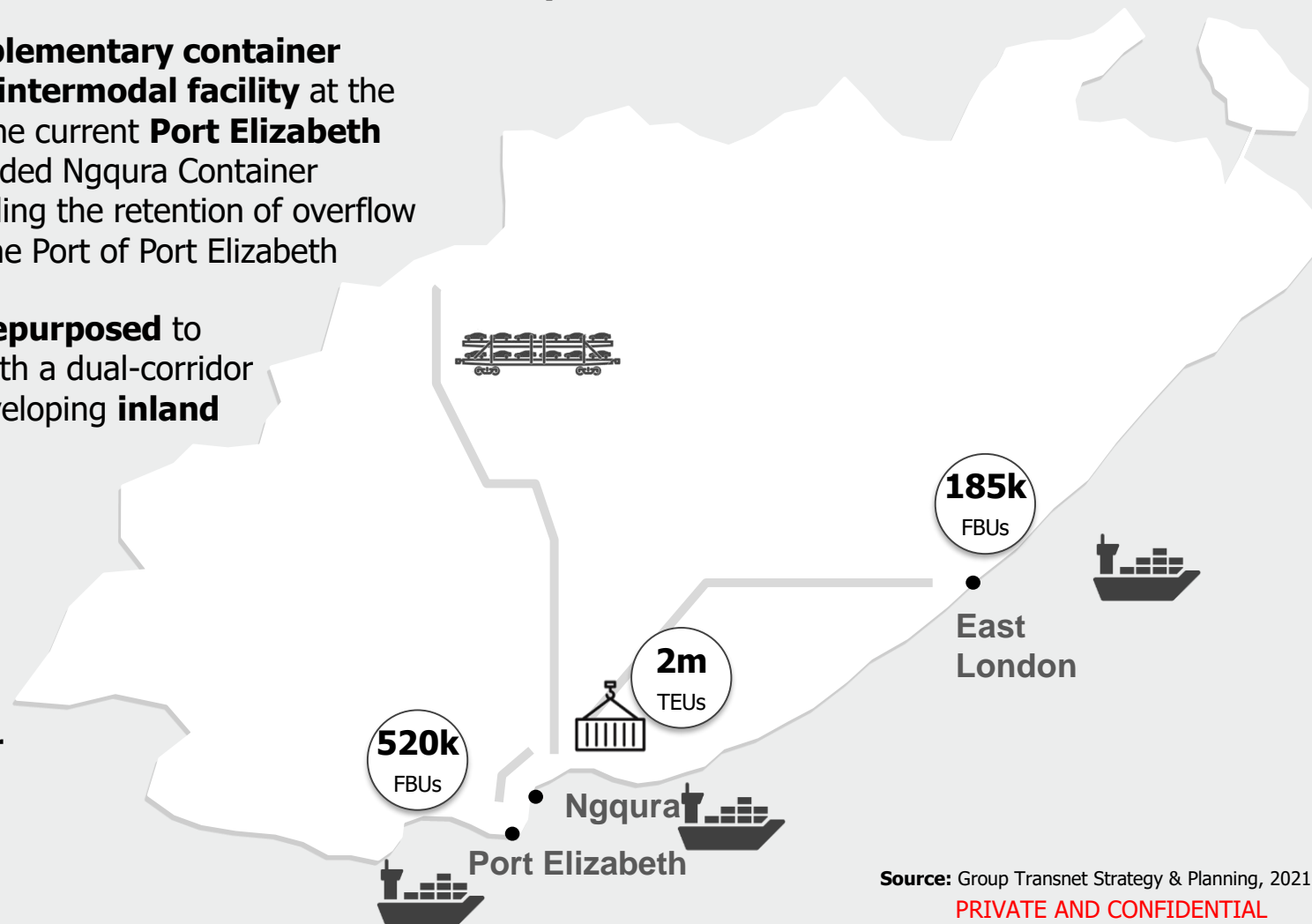
The container segment is focussed on the creation of a **world-class deep water hub port** at the **Port of Durban**, capable handling the **largest container vessels** to **international efficiency standards**.

Augmenting the Port of Durban are the various **complementary container ports** nationally, including a significantly **expanded intermodal facility** at the **Port of Ngqura**. The bulk of container traffic from the current **Port Elizabeth Container Terminal** will be **migrated** to the expanded Ngqura Container Terminal, however an assessment is underway regarding the retention of overflow capacity (particularly for refrigerated containers) at the Port of Port Elizabeth (PECT).

The reduced container footprint at the PECT will be **repurposed** to **expand automotive capacity** at the port, in line with a dual-corridor approach being undertaken to support the rapidly developing **inland automotive industry**.

The **Port of East London** will see substantial automotive **capacity increases** to support local production.

While the **Port of Durban** will remain the **primary port** for **automotive capacity** to service inland automotive industries, a **high capacity rail corridor** along the **SouthCor** to the **Port of Port Elizabeth** with significant **port side expansion** is planned.

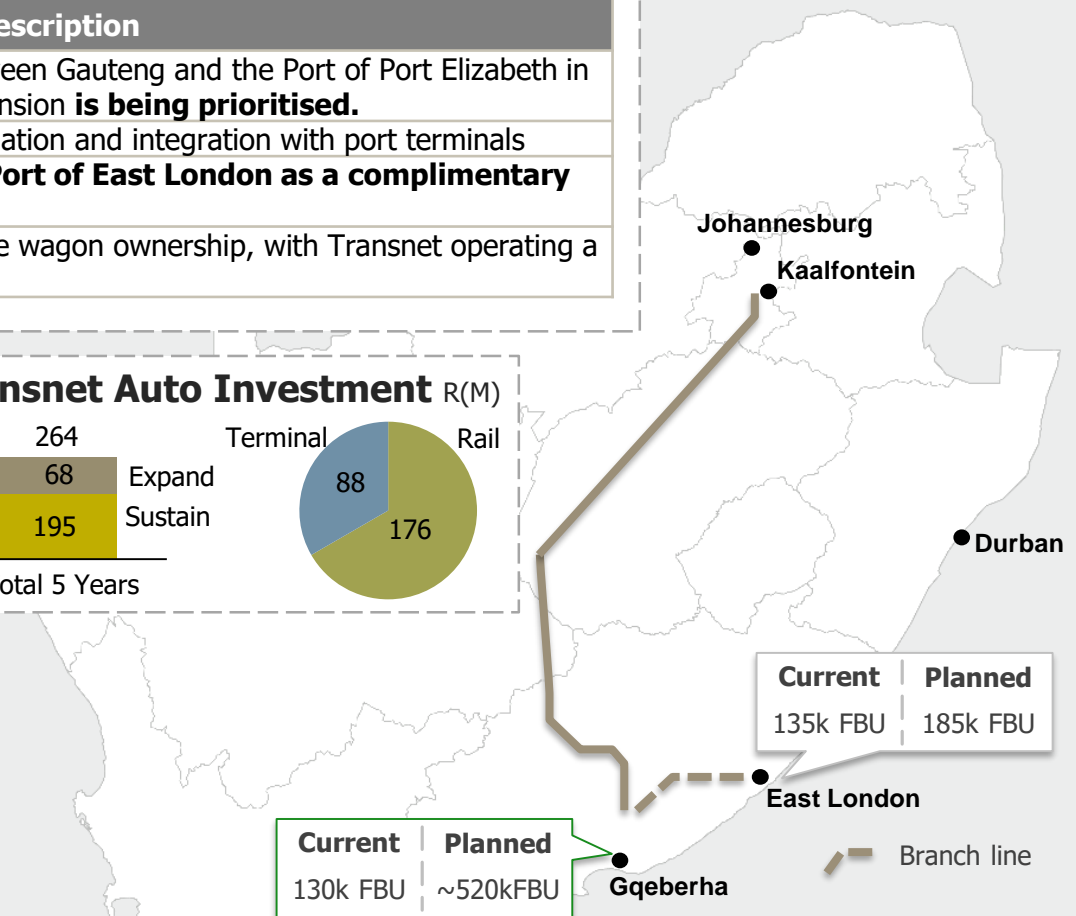
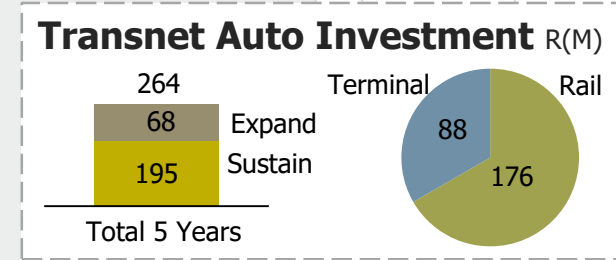


The Eastern Cape will see significant OEM investments in the Auto sector



Bolstered by the Automotive Production & Development Programme (APDP), the sector is a significant source of **foreign direct investment** into the country, with OEMs having invested R 7,3 billion in 2019, and a further **R40 billion** in investment committed over the **next five years**. Transnet will support the industry by revitalising port and rail logistics solutions through strategic investment in **back-of-port capacity** at various locations; rerouting certain automotive volumes via the SouthCor Rail link through the **Port of Port Elizabeth** and transitioning to a **hook-and-haul** rail haulage service for **private wagon fleets**.

	Initiative	Brief Description
1	High Capacity Corridor for Automotive Volumes via the SouthCor and the Port of Port Elizabeth	Capacity expansion of the rail corridor between Gauteng and the Port of Port Elizabeth in Gqeberha, in addition to port capacity expansion is being prioritised .
2	Improve Auto Supply Chain Integration at Kaalfontein	Supply chain integration to improve coordination and integration with port terminals
3	Expand auto export capacity at Port of East London	Expansion of auto export capacity at Port of East London as a complimentary export avenue.
4	Alternative wagon ownership & financing model Hook and Haul operating model	Revised operating model to allow for private wagon ownership, with Transnet operating a hook-and-haul service.



Source: Group Transnet Strategy & Planning, 2021

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Manganese Sector: Focused Capacity Growth

Investment in consolidated export facilities

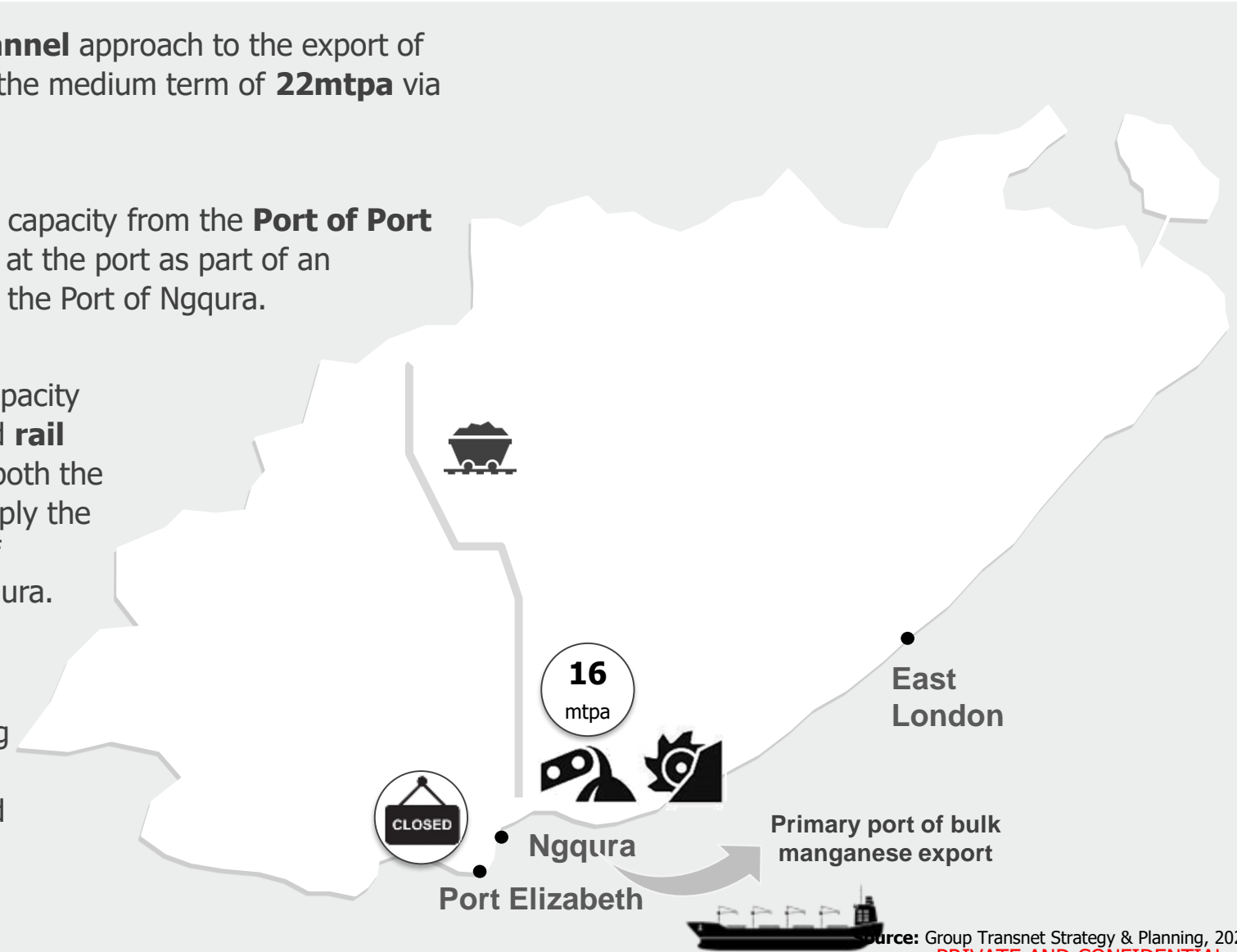


The Transnet Segment Strategies call for a **dual channel** approach to the export of Manganese nationally, aiming to provide capacity in the medium term of **22mtpa** via Saldanha (6mtpa) and **Ngqura (16mtpa)**.

The strategy involves a **migration** of current export capacity from the **Port of Port Elizabeth**, and the closure of the Bulk Ore Terminal at the port as part of an integrated plan aligned to the creation of capacity at the Port of Ngqura.

Investment in the expansion of manganese export capacity at the Port of Ngqura will require significant **port and rail** investment. Transnet intends to **partner** to support both the upgrading the **SouthCor rail infrastructure** to supply the port, in addition to partnering for the development of appropriate **back of port** facilities at the Port of Ngqura.

Key considerations in the planning of the facilities is the **environmental impact** of the manganese being exported, with Transnet prioritizing solutions that will **minimize** the **overall supply chain footprint**, and a **migration** of current **road-based** back of port transportation to **rail-based** solutions.



The Manganese Segment Strategy

frames channel-based focus areas for investment and partnership



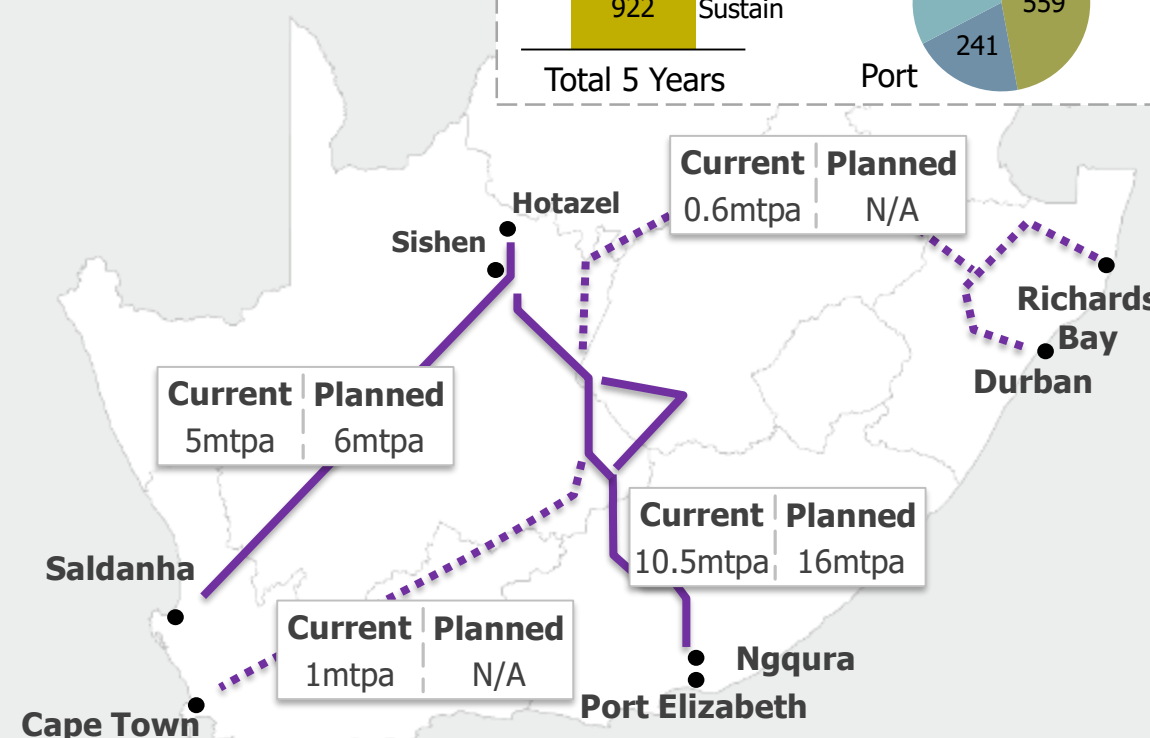
Demand for manganese export capacity remains **optimistic** with volumes expected to rapidly exceed **22 million tons per annum** in the short to medium term. Transnet will seek partnership to develop a **world-class 16mtpa Manganese export** facility at the **Port of Ngqura**, augmented by an increase in capacity to ~ **6mtpa** through the **Port of Saldanha**. In supporting further transformation of the industry Transnet will, through these partnerships, provide access to manganese export capacity for emerging miners.

Partnerships to Expand Export Capacity via Saldanha

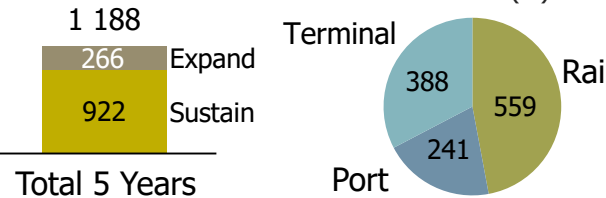
Complemented by parallel investments in Iron Ore assets, Transnet will increase rail capacity between **Hotazel and Sishen**, stabilize rail performance between **Sishen and Saldanha**, and increase storage **capacity in Saldanha** via additional **back of port facilities to for 6mtpa** of manganese.

Additional **berthing capacity** at the Port of Saldanha is under assessment and will consider both Iron Ore & Manganese capacity requirements.

— Primary Export Channels
 - - - Supplementary Channels



Transnet Mn Investment R(M)



Partnerships to Migrate and Expand Export Capacity via Ngqura

To ensure security of supply, Transnet will fast track **the development of the planned 16mtpa manganese export terminal in the Port of Ngqura** via a private partnership, to enable **the closure of the Port Elizabeth Bulk Ore Terminal**

Capacity in the rail corridor to **Ngqura** will be increased to cater for the increase in volumes to 16Mtpa

Agricultural Sector: Collaborative Growth Potential

Ports and Rail to unlock the latent potential in agriculture



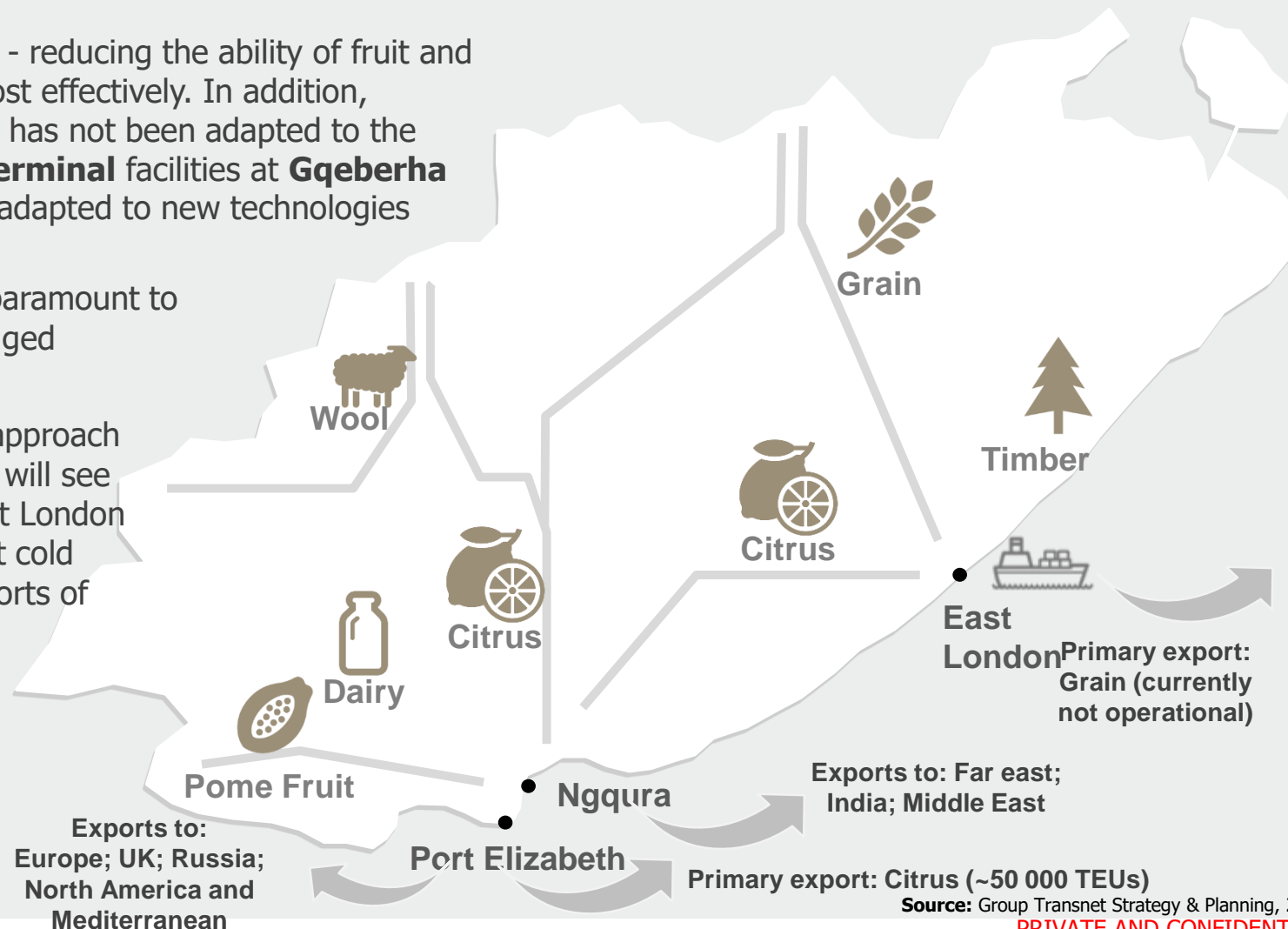
The agricultural sector in the Eastern Cape has **major economic potential**, much of which is currently hamstrung by **infrastructural challenges** in the province.

Many of the **branch lines** in the province are closed - reducing the ability of fruit and grain producing areas from accessing their markets cost effectively. In addition, infrastructure at the **grain elevator** in **East London** has not been adapted to the changing industry demands, and shared **container terminal** facilities at **Gqeberha** and **Ngqura** have not provided sufficient capacity or adapted to new technologies demanded by the industry today.

Improved logistics performance of the sector is paramount to the **development** of subsistence farmers to fully fledged **commercial farmers**

In order to deliver on this, Transnet's newly adopted approach to **collaborative, partnership-based** development will see various **branch lines** and the **Grain Elevator** in East London **revitalised** alongside improvement in the fruit export cold chain with investments in container terminals in the Ports of Port Elizabeth and Ngqura.

Infrastructure tailored to the needs of the province is an important consideration - constrained **on-farm loading facilities**, developing **beneficiation facilities** and the **diverse** nature of the **Agri sector** in the province to name a few.



Transnet will also partner for the recommissioning of several branch lines in the Eastern cape



Transnet Freight Rail (TFR): Objectives for Branch Line Initiatives

- To contribute to lowering the cost of doing business in the Eastern Cape Province through the densification of freight on the branch and main rail lines.
- To provide opportunities for private sector players to complement Transnet infrastructure investments.
- Through collaborative investment in rail infrastructure, Transnet aims to create a competitive link for Eastern Cape based manufacturers and businesses to the rest of the country thereby enabling their economic growth and ensuring security of supply.
- To provide an enabling environment for emerging miners in the province, and to stimulate the agriculture sector in the area.
- To provide access for rural towns to the developed economic centers (East London and Gqeberha).
- To alleviate road congestion, and to reduce provincial road maintenance costs through migration of rail friendly cargo from road to rail, thereby reducing the cost of externalities associated with road transportation, and minimizing carbon emissions.
- Branch lines will be launched into the market for partnerships.

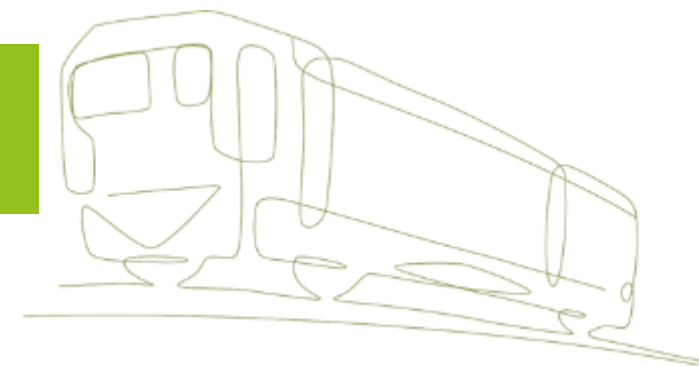
Project	Commodities	Volumes/ann um (tons)	Ownership
Umthatha-Amabele	Fuel, Cement, Chrome, Slag, Timber	500 000	Concession
Cookhouse-Blaney	Beer, Cement, Containers	300 000	Transnet
Sterkstroom-Maclear	Coal, Timber, Grain	1 520	Transnet
Queenstown – Springfontein	Coal, Containers, Grain, Cement, Chrome, Timber	TBD	Transnet
Stomberg-Dreunberg	Grain, Rusks, Coal	7 120 000	Transnet
Burgersdorp-Aliwal North-Zastron	Grain, FMCG	390 000	Transnet
Imvani-Qamata	Grain	200 000	Transnet
Grand Total		9 310 000	

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Transnet, EC Province and Buffalo City Metro

Stakeholder Engagement Resolutions



Implementation Approach

i **Infrastructure – Port Expansion Project**

- Cost Sharing for Pre - Feasibility Study focusing on socio-economic and regional benefits (TNPA, ELIDZ BCMM & EC Province)
- Finalisation of Project Scoping / Specification
- Engagement of Presidential Infrastructure Coordination Committee for Project Funding
- Establishment of a Multi – Stakeholder Working Committee

ii **Automotive – MBSA Retention (W207 Model)**

- Engagement with MBSA by Transnet in relation to Port Productivity and Efficiencies (Car Terminal Expansion)
- Facilitation of internal governance processes and alignment of project execution phases (N-Berth Deepening)

iii **Automotive – Attract BMW to Export through Port of East London**

- Tailored wagons availability and railway line readiness (JHB - EL)
- Port Efficiencies Consideration (car terminal dwell times)

iv **Tourism and Leisure – Waterfront Development (Port of East London)**

- Finalisation of governance process by Transnet Property
- Signing of Joint Development Agreement (TP & BCMDA)
- Proceed with land making (critical infrastructure) to enable valuation process by TP

v **Real Estate - Land Parcels in BCM**

- TP to expedite the expression of interest process for land parcels in Gately, Cambridge etc for stimulating development

vi **Agriculture - Grain Elevator**

- TPT to outline future plans for the grain elevator for market approach in relation to the mooted agricultural strategy
- Demand Validation linked to the Industrial Parks championed by ECDC for rail connectivity - opening of dormant branch lines

TRANSNET



delivering freight reliably

THANK YOU, SIYABULELA!!

