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Navigating this report

Icons key

Strategic fundamentals











Sound governance and ethics

Sustainable Developmental Outcomes (SDOs)



The Capitals



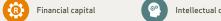
















Improvement on prior year performance







Geographic

Ensure long-term financial stability

in a tough econom

Ensure custome

centricity and build partnerships for

sustainable growth

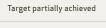
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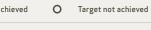












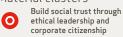


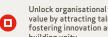


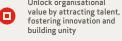


Transnet 4.0 Strategy

Product and service

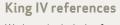












We have included references to King IV principles where appropriate in this report.

Promote transformation

and growth in the wider South African economy

Anticipating the future

and developing methods of minimising the effects

of shocks and stresses



The list of the 17 King IV Principles can be found in Annexure D.

Reporting formats











Integrated Report

is the Company's

primary report to all stakeholders

The 2018







The 2018 Annual Financial Statements include reports of the directors and independent auditors.

Report documents Transnet's

Forward-looking information

the 2018 reports are extracted from the 2018 Transnet Corporate Plan and approved by the Board of Directors.

We welcome feedback on our 2018 Integrated Report. Kilford.Gondo@transnet.net.



We were deeply saddened by the loss of fellow Board nember and dear friend, Mr Gideon J Mahlalela who bassed away on 29 March 2018, We are profoundly ecipient of an Honorary Doctorate in Philosophy from the University of California. He was thus a pioneer at neart, a mentor in business, and a philosopher in spirit, His passing was sudden and unexpected. Our thoughts

In respectful memory of Gideon Mahlalela and our late colleagues:

Mr Edgar Masilela, 15 July 2017 Mr Tshiamo Alfred Meku, 15 October 2017 Mr Frederick Hermanus Matthysen, 18 October 2017 Ms Thandeka Mzimela, 1 November 2017 Ms Senzekile Mase Mthethwa, 6 December 2017



































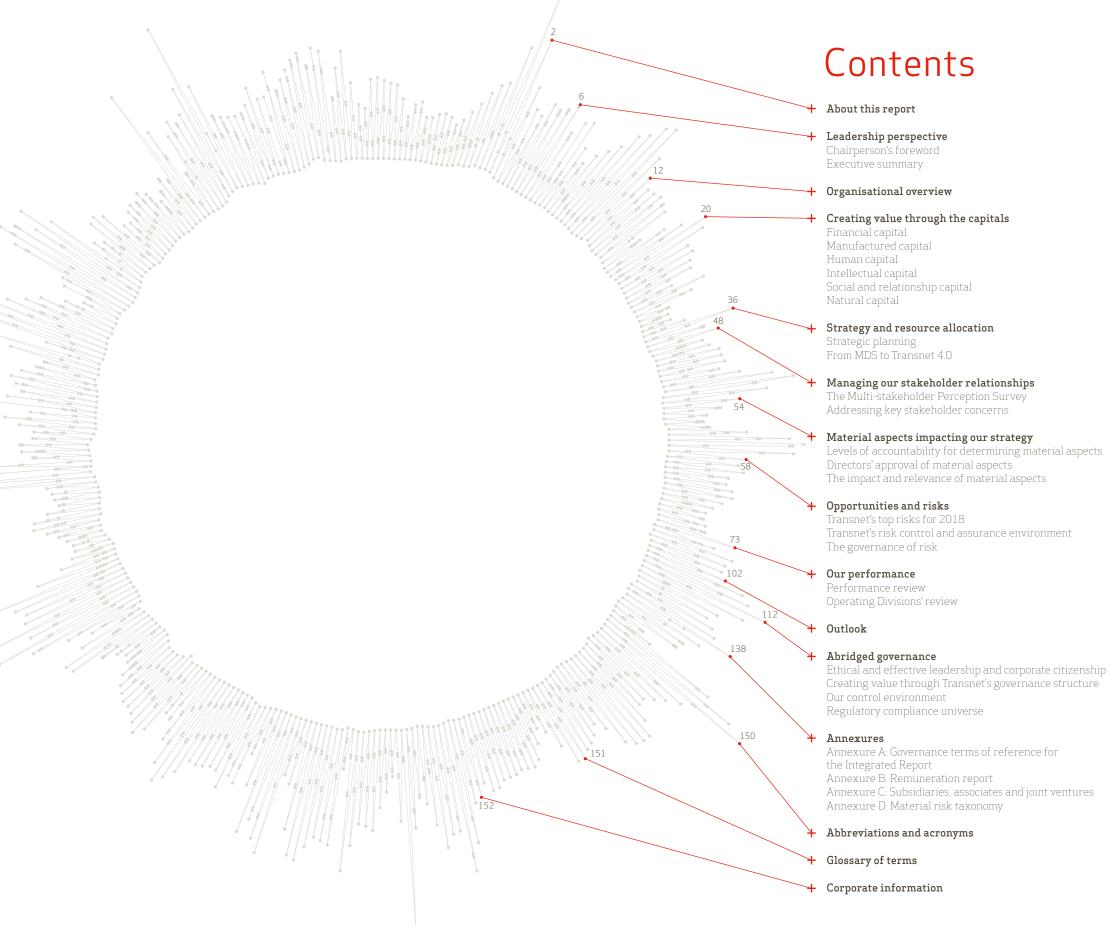
All references to forward-looking information and targets in

Feedback on this report

Please provide written feedback to Kilford Gondo at







TRANSNET Integrated Report 2018 About this report



About this report

Reporting philosophy and approach



Transnet SOC Ltd (Transnet or the Company) has been an active participant in the International Integrated Reporting Council (IIRC) Pilot Programme since its inception and has followed the developments and application of the Integrated Reporting Framework. Our reporting is evolving as the Company's strategic focus, operational priorities and organisational thinking become more integrated, thereby enabling us to remain strategically aligned with and responsive to stakeholders' concerns.

Reporting boundary

The 2018 Integrated Report covers the financial reporting period from 1 April 2017 to 31 March 2018. The boundary of this report (Figure 1) encompasses the Transnet Group, its Operating Divisions and Specialist Units. The boundary further extends to include factors that impact Transnet's ability to create value.

There were no significant changes in scope or aspect boundaries, save for the progress made during the year. Where relevant, restatements or changes in measurement methods are disclosed in the annual financial statements.

The Transnet Integrated Report is published annually and approved by the Board of Directors (Board). The previous Integrated Report was approved by the Transnet Board on 1 June 2017.

Reporting frameworks and guidelines 4

Primary framework

This report was prepared according to the guidance of the International Integrated Reporting <IR> Framework, as adopted by the Transnet Board.

Secondary frameworks, guidelines and standards

This report - read together with the accompanying detailed Annual Financial Statements and Sustainability Outcomes Report - was further informed by:

- The Global Reporting Initiative (GRI-G4) (General Standard Disclosures);
- The King Report on Corporate Governance for South Africa (2009) (King III) and King IV Report on Corporate Governance for South Africa (2016) (King IV);

- International Financial Reporting Standards (IFRS);
- The Companies Act, No 71 of 2008 (Companies Act);
- The Public Finance Management Act, No 1 of 1999 (PFMA);
- United Nations 2015 Sustainable Developmental Goals:
- The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard prescribed by the Carbon Disclosure
- AA1000 Stakeholder Engagement Standard; and
- Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice.

138 Read more

Governance terms of reference for the 2018 Integrated Report are contained in Annexure A.

Statement of stakeholder commitment 🙀

We strive to communicate with our stakeholders regularly. Our core values - expressed in our Culture Charter - guide us in our interactions with stakeholders.

To meet stakeholder commitments, we continue to strive for:

- An organisational culture that views change as an opportunity to improve quality in all we do;
- A safe working environment, and an 'iBELONG' culture;
- Customer-centric business innovations, and reliable service offerings presented to customers as 'One Transnet';
- Fair, equitable and transparent supply chain tender processes;
- Integrity, communication, diversity, continuous learning, accountability and excellence in everything we do;
- Support for communities where we operate;
- Collaborative relationships with policymakers and regulators;
- Demonstrable sensitivity and care for the environment; and
- Superior returns to our investors as a reliable and credible borrower which, albeit state-owned, issues debt on the strength of its financial position without any Government guarantees.

Integrated approach to assurance

The Board and management have applied Transnet's Integrated Assurance Plan to the integrated reporting process to enhance the value-creation narrative, and to provide an independent perspective on the transparency and accountability of our disclosures. Our Integrated Assurance Plan encompasses the assurance provided by management, internal specialists, internal audit, external audit, external advisers and service providers. The Board serves as the last line of defence.

About this report continued TRANSNET Integrated Report 2018

Integrated Reporting Assurance framework

ì	Content	Assurance providers	Outcome	Framework/Standard
	Annual Financial Statements (consolidated and summary)	• SizweNtsalubaGobodo	 Qualified opinion Material findings on usefulness and reliability of certain performance information 	PFMACompanies ActIFRSShareholder's Compact
	Integrated Report (in full)	Transnet BoardAudit CommitteeRemuneration, Social and Ethics Committee	Directors' approval	International Integrated Reporting <ir> Framework</ir>
	Review of internal controls and risk management	 Transnet Internal Audit (TIA) National Occupational Safety Association (NOSA) International Standards Organisation (ISO) accreditation bodies Legal firms 	 Financial controls: Requires improvement Operational controls: Requires improvement Legislative assessment Functional risk management and compliance maturity assessment 	 Committee of Sponsoring Organisations PFMA NOSA standards ISO standards relating to safety and environment including ISO 9000 and ISO 14000 Legislative requirements Enterprise risk management ISO 31000 standard
	BEE contributor level	TIA Beever Agency CC	Level confirmed as 'Level 2'	B-BBEE Act and Charters Rail sub-sector scorecard Marine sub-sector scorecard
-	Corporate Governance	• TIA	Maturity assessment: Fully established Assessment of controls: Requires improvement	 King IV PFMA Companies Act
	Selected information in the Transnet Sustainability Outcomes Report 2018 and contained in summary form in this report	• SizweNtsalubaGobodo	Conclusion: Selected sustainability information has been prepared in all material respects in accordance with Transnet's reporting criteria.	Transnet's sustainability reporting criteria

Materiality in our reporting

The 2018 Integrated Report provides information that we consider to be of material significance in creating short-, medium- and long-term value. We have identified 24 material aspects for the 2018 reporting year and have organised these into six clusters. We are confident that the report provides information that is of material interest to all stakeholders wishing to make informed assessments of our performance and our ability to create and sustain long-term value.

Read more



The impact and relevance of material issues. Proces's for identifying, validating and approving material aspects.

Qualified opinion

The external auditors issued a qualified opinion relating to the completeness of the identification and reporting of irregular expenditure, including a material uncertainty relating to going concern in the year under review.

Going-concern status

The Board reviewed the Group's performance for the year and considered the robustness of budgets and business results, cash flow projections for the 15 months ending 30 June 2019, costsaving opportunities, the cost of capital projects and related optimisation opportunities, the funding plan and loan covenants.

The directors have also assessed the going-concern ability of the Group as a result of the qualified audit opinion.

Bilateral and syndicated loans amounting to R15.8 billion have a clause relating to a qualified audit opinion as an event of default. The qualification of Transnet's Annual Financial Statements is an event of default under these financing agreements.

On declaration of the qualified opinion, the bilateral and syndicated loan lenders have a right to accelerate their loans which then become due and payable.

The Board and management have engaged these lenders to share the nature of the modification, root causes, remedial actions and timelines for remediation. The engagements took place in a positive environment, gaining confidence from the lenders that the partnership with Transnet remains strong, against the backdrop of the strong financial position and cash flow generating capability

To date, half of the lenders granted waivers and/or reserved rights to immediate acceleration to allow Transnet the opportunity to implement remedial actions to improve the control environment around the prevention and detection of irregular expenditure. Transnet is confident that an agreement will be reached with all affected lenders to the satisfaction of all parties.

A funding strategy has been developed to ensure that the Company is able to successfully fund its capital investment plan without breaching the set financial parameters. Taking into consideration

the difficult economic conditions that continue to prevail, Transnet will continue to aggressively pursue specific available project funding areas that are within the parameters of its funding strategy and continue to optimise capital expenditure spend.

Further, the Board does not expect the actions by both rating agencies against Transnet and the sovereign to negatively impact the ability of the Company to access the debt capital markets as both rating agencies have assigned a stable outlook for the Company. Transnet has managed to maintain an investment grade stand-alone credit profile amidst a series of rating downgrades.

Integrating sustainability reporting



The Board has reviewed Transnet's sustainability performance disclosures in the 2018 Integrated Report for the year ended 31 March 2018, and the external auditor's assurance statement issued to the directors on the subject matters contained in the online Sustainability Outcomes Report 2018 available at www.transnet.net.



Transnet Sustainability Outcomes Report online at www.transnet.net

Statement of precautionary approach

Human health and well-being



Our operating context is industrial- and infrastructure-driven, and necessitates occupational training, as well as comprehensive policies and procedures to safeguard our employees, communities within and around our operations and the public.

Balancing stakeholder interests

We recognise that our keystone expansion projects - such as our large-scale port infrastructure improvement project at the Port of Durban - need to balance the economic benefits for the Shareholder Minister and the country with the social and environmental concerns raised by surrounding communities. Adverse impacts on local communities include the possibility of social and small business displacement and extensive waste generation during the construction phase. We continue to engage project stakeholders to support the most reasonable, responsible and beneficial balance of outcomes for all concerned.

Environmental health



Water

Some of our operations are in water-stressed catchments with resultant risks, including water contamination and water supply shortages. We continue to ensure that water use licences are obtained timeously and are appropriate to the scale and nature of water use. Where water is required to reduce the environmental impact of dust from our Saldanha iron ore terminal, a reverse osmosis plant has been constructed to limit the demand on municipal water by desalinating seawater for use in the terminal

Waste 😕



Our operations generate a variety of waste materials as by-products and we strive to implement the principles of responsible waste management, i.e. avoidance, reduction, recovery, reuse, recycling and disposal, if no other use can be found. In accordance with the requirements of section 36 of the National Environmental Management: Waste Act, No 59 of 2008, we continue to identify contaminated areas in our operations using scientific methods and visual site assessments. Management plans are developed for areas contaminated by asbestos and hydrocarbon waste.

Pipeline spills present a challenge for the Company and surrounding communities, and we continue to educate property owners and contractors on safe and responsible work procedures; remedial activities include revegetation of sites, excavation of contaminated soil, monitoring of groundwater and backfilling of soil.

Modal shift from road to rail

Transnet's programme to accelerate the modal shift from road to rail is a flagship carbon mitigation programme for South Africa. Rail transport is three to four times more efficient than road transport, offering cleaner, safer, cheaper and reliable freight mobility through improved road safety, reduced road congestion and carbon emissions, and ultimately a lower cost of doing business.

Governance and ethics 44



As a logistics state-owned company, our large infrastructure development projects pose a risk in terms of ethical and transparent procurement practices and 'rent-seeking' behaviour. Our mandate relies on domestic and foreign investment and perceptions of anti-competitive behaviour and corruption negatively impact our reputation, brand and investment sentiment. Given the challenges during the reporting period, we will continue to work towards greater transparency and accountability, enhancing our procurement practices and stakeholder relationships, and refining our Code of Ethics to ensure the protection of all stakeholder rights. Refining our governance framework to accurately track and address ethical transgressions remains a priority for Transnet.

Directors' approval

The Board has applied its collective mind to ensure the integrity of the 2018 Integrated Report and any supplementary information referenced in the report. The Board has considered the completeness of the material aspects addressed in the report, and the reliability of reported performance information presented, based on the integrated assurance process followed.

The Board is satisfied that the 2018 Integrated Report provides a fair representation of the integrated performance of the Company during the year. Further, it has concluded that the report is presented in accordance with the International Integrated Reporting <IR> Framework and aligns with the King IV guidelines. The report also contains Standard Disclosures from the GRI Sustainability Reporting Guidelines.

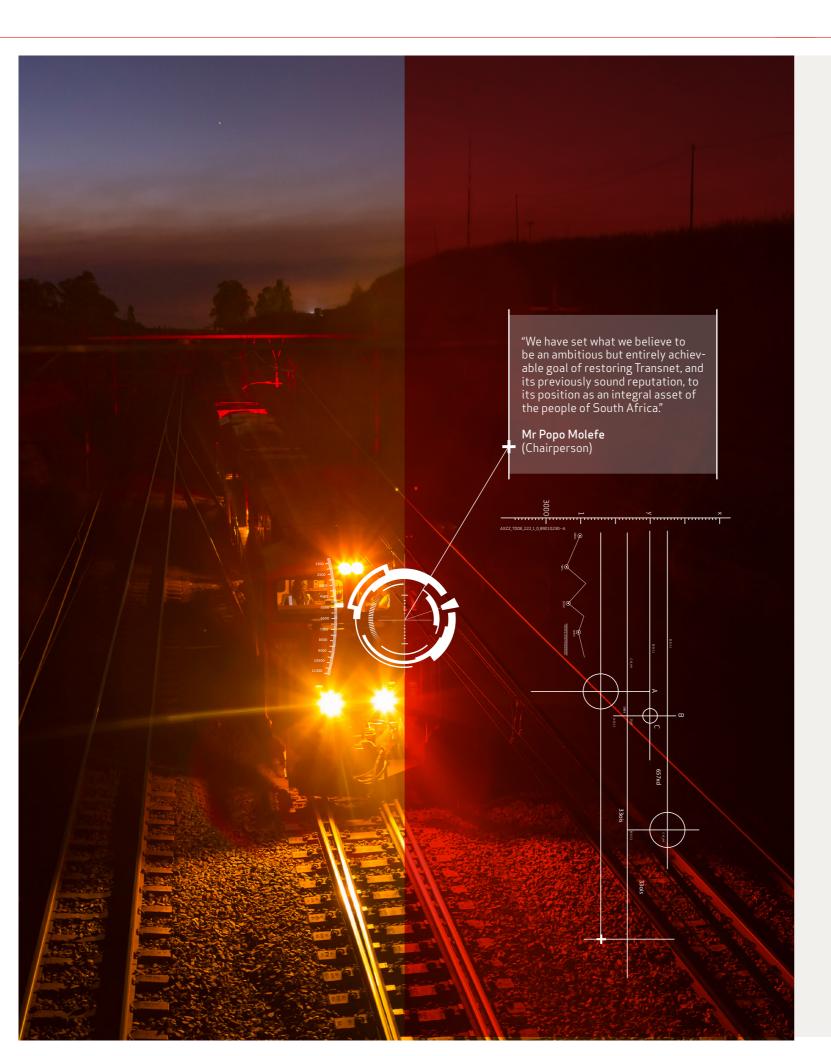
The 2018 Integrated Report was approved by the Board and signed on its behalf by:

PS Molefe

Chairperson

10 August 2018 Johannesburg

6 Leadership perspective TRANSNET Integrated Report 2018



Chairperson's foreword

The current Board of Directors (Board) of Transnet SOC Ltd was appointed on 24 May 2018, approximately two months after the end of the year under review. Its appointment coincided with the new epoch defined by the President of the Republic of South Africa as the "New Dawn".

The New Dawn is characterised by a resolute determination to rid public institutions of all malfeasance, which set in over the past nine years of our democracy, accompanied by their systemic destruction or weakening. Our task now is to rebuild our public institutions, restore the loss of their integrity and to refocus them on their mandates. For the Board of Transnet, the strategic challenge flowing from the aforegoing vision relates directly to the biggest logistics, transport and infrastructure company of the State of which the strategic mandate is to drive socio-economic development. The outcomes of its successful discharge of this task must be the stimulation of economic growth, growth of other businesses, especially small and medium-sized ones, increased jobs and the reduction of poverty and inequalities.

The Board considers itself privileged to have been appointed to the stewardship of the largest logistics, transport and infrastructure company of the people of South Africa. The Directors, without exception, appreciate the depth of dedication required of them, together with the management collective and the more than 50 000 Transnet employees. We also acknowledge the concomitant collaboration with our customers and service providers that is necessary to drive the economic growth and sustainable development of Transnet's human capital, and that of society at large.

Our first days in office coincided with sustained negative media coverage of the Company's business dealings. At the same time, the preparation of Transnet's 2018 Integrated Report and Financial Statements were near completion. According to King IV, the annual Integrated Report represents the voice of the governing body. As Directors, we owe our duties to the legal entity that is Transnet SOC Ltd. In acknowledging the diverse interests representing the Company, which include the interests of our Shareholder, our employees, customers and communities, we are duty-bound to act in good faith, not only in signing off on the year's performance but also in setting the direction and tone for Transnet's strategic aspirations going forward.

Given the brief period available to us to examine, approve and sign off the Transnet 2018 integrated reporting suite, we have relied heavily on the work done by Management and attempted to interrogate and provide our own observations where we could

From the work of the various Board committees, it has become apparent that certain irregularities derive from lapses in financial discipline. While these irregularities do not necessarily



Dr Popo Molefe Chairperson

result in fruitless and wasteful expenditure, it is evident that the corporate governance of the Company is inadequate and requires improvement, which enforces the dire need for strengthened controls, particularly in the procurement environment. Since the appointment of the new Board we have undertaken the following steps:

- Engaged certain forensic specialists to review the reports prepared relating to the much-talked about 1 064 locomotives contract, where Transnet has been accused of mismanaging the supply-chain management process resulting in associated costs increasing from approximately R38 billion to R54 billion.
- Formulated the key governance sub-committees of the Board.
- Abolished the 'Acquisitions and Disposals' (ADC) subcommittee, as we do not believe the Board should be directly involved in procurement processes.
- Commenced interactions with key state institutions charged with investigating "state capture".
- Reviewed the progress of the investigations instituted by management, relating to payments made to companies identified in various media reports.

The reporting period was further marked by a credit downgrade of Transnet's foreign and local currency ratings, due to the rating action on the sovereign, as Transnet is viewed to be closely linked to the Government. The downgrades precipitated an increase in financing costs and a forced slowdown in capital expenditure, necessitating a need to supplement investments with capital raised through private-sector partnerships. The rating agencies have, however, noted significant growth potential for the country, even though they acknowledge that the new political administration will require time to improve economic growth, accelerate employment and stabilise the fiscal position, given the country's structural weaknesses.

¹ https://www.youtube.com/watch?v=w1NxcRNW_Qk

8 Leadership perspective continued TRANSNET Integrated Report 2018



Together with management, we have set what we believe to be an ambitious but entirely achievable goal of restoring the integrity and reputation of Transnet. As a Board, with appropriately diverse skill-sets and depth of commercial experience befitting the task, we intend to ride the coat-tails of our President, who, in December 2017 began to usher in a new era of greater cooperation between the Government, business, labour and civil society, and to foster greater inclusivity in South Africa's policy environment, as evidenced by his success to date in his R1,2 trillion investment drive. His market-friendly approach and firm stance against corruption and maladministration is steadily building greater confidence among consumers, businesses and investors alike. In his words, "a restoration of confidence is the quickest and cheapest form of stimulus available, especially in light of our fiscal constraints". This is true at the macro-economic level for our country, and at the micro-business level for Transnet.

At the heart of the business is our obligation to assist in lowering the cost of doing business in South Africa, while ensuring security of supply by providing appropriate port, rail and pipeline infrastructure. As a SOC, Transnet must deliver on national developmental goals, as they pertain to the transport and logistics sector, ensuring that the country remains competitive on the continent and globally. In many respects, our country is a driving force for the growth and expansion of the African continent, with infrastructure to match any first-world country. This said, the World Bank and International Finance Corporation (IFC) rank South Africa in 39th place in the world for ease of doing business. Cost is of concern, particularly when trading across borders. The Company's Transnet 4.0 strategy, formally set in motion during the 2018 financial year, is geared to accelerate efforts to extend the Company's - and indeed South Africa's - commercial footprint in the fast-growing regions of Africa, the Middle East and Asia (AMEA), by offering affordable rail, port and pipeline infrastructure support to our cross-border neighbours. This vision proudly aligns with the "Africa 2063" strategic framework for socio-economic transformation of the continent over the next 50 years into a uniquely African trade environment, which fosters growth and sustainable development for Africans, by Africans.

The founding principles of the Transnet 4.0 strategy further echo a key tenet of the President's 2018 Address, in that our prosperity as a nation depends on our ability to take full advantage of rapid technological change. The new Board is committed to transitioning the business to adapt to global industry 4.0 trends, particularly in the ambitious goal of transitioning from our current second-party logistics provider (2PL) status to becoming a third-party logistics provider (3PL) in the short to medium term, and ultimately striving for fourth-party logistics provider (4PL) status in the long term. Ultimately, Transnet must progress with the times by becoming a digitally driven organisation, both from the perspective of driving efficiencies to lower business costs, and to innovate around new products and services.

It is prudent that we first and foremost guard against the financial, operational and governance challenges that have in recent years both directly and indirectly impacted negatively on the overall performance of the economy and, consequently placed pressure on the very fiscus we, as a SOC, serve to protect.

As the Transnet Board, we are committed to improving coordination, oversight and sustainability of the business, by enhancing internal governance oversight and supporting the Auditor-General to strengthen external audit processes. In this way, we hope to help restore public trust in Transnet as a SOC, a national infrastructure provider, a progressive business partner, and a national employer of choice.

We will also improve our engagements and interaction with various stakeholders, customers, service providers and emerging business.

Notwithstanding the various governance challenges experienced in recent years, we are convinced that Transnet can be an extraordinary company that, given the opportunity, will grow and impact positively on the economy of our country. A valuable point of departure is to restate Transnet's core mandate, particularly as it facilitates the broader economic and developmental goals of the country as articulated by President Cyril Ramaphosa in his 2018 State of the Nation Address (SONA); and to express our own understanding of and commitment to the mandate bestowed on us as the new Board in steering the Company towards its vision. The excellent financial performance appears clearly in the Annual Financial Statements and is further articulated in the Executive summary of the Group Chief Executive and Acting Chief Financial Officer.

Condolences

Regrettably, during the year five employees passed away in our operations. On behalf of the Board of Directors, we wish to express our heartfelt condolences to their families and all who were touched by their passing. The Company also lost a friend and mentor in Gideon Mahlalela, whose passing two days before yearend was sudden and unexpected.

We further wish to convey our sympathies to the families of the 102 members of the public who lost their lives during the year in and around our operational activities. As the Board, we undertake to review the nature and causality of all fatalities and do our best to entrench Group-wide safety awareness.

Appreciation

We wish to acknowledge the ongoing efforts by all Transnet employees. As the Board, we appreciate that the 2018 reporting year was harrowing, given the pervasive and sustained media reports on State Capture, which cast a cloud over many SOCs, Transnet included. As disheartened as many might feel at this time, we owe it to ourselves and our colleagues to remain strong and grounded. We also wish to thank the leadership of organised labour for their guidance, leadership and willingness to share in the Company's long-term vision.

Thank you to our customers and commercial partners for your support and confidence in our abilities amid difficult economic and operational conditions during the year. As the new Board, we look forward to learning more about our customer environment and to finding innovative ways to improve Transnet's service offerings to you.

Our sincere gratitude to the Minister of Public Enterprises, Mr Pravin Gordhan – who represents our Shareholder and the people of South Africa – for his confidence in our ability to deliver on our DPE mandate, for his encouragement, guidance and his belief in the leadership to take Transnet forward. On behalf of the Board of Directors, we pledge our unwavering support for his vision for our company.

Our deep appreciation to our regulators, including ministries with which we work closely; as well as various committees in Parliament; provincial governments; and municipalities that contribute their oversight responsibilities and partnership commitments. To community partners across the country, we are privileged to serve as the custodians of South Africa's largest infrastructure stateowned company. We look forward to partnering with you in our various enabling projects.

HS. Molefle

Chairperson

10 August 2018 Johannesburg

"The erosion of trust in SOCs and public institutions has negatively affected our social licence to operate. Our challenge is to win back the trust of the public, investors and Government. The only way to do this is to demonstrate unwavering commitment to good corporate governance."

Dr Popo Molefe Chairperson 10 Leadership perspective TRANSNET Integrated Report 2018



Executive summary

Revenue growth and profits have been erratic for many transport and logistics companies over the last 10 years, with revenue increasing but profits not matching up to the rate of revenue increases on average. Return on capital employed (ROCE) and profits are relatively low for many companies in this sector compared to other industries, such as technology, consumer non-durables and retail.

Despite the challenges faced during the year, the Company has achieved unparalleled financial results for the year ended 31 March 2018. Revenue for the year increased by 11,3% to R72,9 billion. Stringent cost-containment measures and working capital management contained operating costs at R40,4 billion (2017: R37,9 billion), a 6,5% increase, resulting in a R3,1 billion saving against planned costs. As a result, earnings before interest, taxation, depreciation and amortisation (EBITDA) – Transnet's key measure of profitability – increased by 18% to R32,5 billion (2017: R27,6 billion and 2016: R26,3 billion), with the EBITDA margin increasing by 2,4% to 44,6%. Gearing at 43,4% and cash interest cover at 3,0 times were well within the approved financial parameters.

Revenue performance was underpinned by solid growth in strategic rail sectors:

- 6,1% increase in port containers
- Record general freight volumes of 90,8 mt, an increase of 3.1% from the prior year
- 6,5% growth in railed containers and automotive volumes
- 17,5% growth in chrome
- 13,2% increase in manganese
- Record of 77,0 mt export coal volumes (Richards Bay Container Terminals)

Progress on major projects is also largely on track with 402 locomotives from the 1 064 locomotive programme having been accepted into operations during the year, and 16 more delivered and currently undergoing acceptance testing. Further, Transnet has commenced its manganese expansion project, which aims to expand the capacity for transporting manganese volumes beyond 5,5 million tonnes (mt). South Africa accounts for 75% of globally identified manganese reserves and 31% of manganese exports by value, making it a sustainable, lucrative supply market to Europe and China. During the year, demand for manganese exceeded budget by a substantial 46,6%.

R1,3 billion was invested in the NMPP project during the year. The coastal terminal (tight-line solution), inland terminal, 24" main pipeline and 16" inland pipelines have been fully commissioned and are operational, having transported more than 199,48 billion litres of diesel from Durban to the inland region since commissioning. Following the coastal terminal commissioning in August 2017, the pipeline is now operating as a multi-product pipeline (various grades of diesel and petrol) functioning at full phase 1 flow rates, thereby securing fuel supply for the South African economy over the medium to long term. The inland terminal was commissioned and became fully operational in December 2017.

Transnet has initiated various geographic expansionary projects under a new subsidiary, Transnet International Holdings (TIH) SOC Ltd, such as the Nigerian railway concession project worth approximately \$2 billion; the approval of a private-sector participation investment proposal to operate three berths in the Port of Lamu, as per the LAPSSET Corridor Memorandum of Understanding (MOU) signed between South Africa and Kenya in 2016; and a tender awarded to the Transnet-Diaspora Infrastructure Development Group (DIDG) Consortium to raise finance for the rehabilitation and renewal of key equipment, systems and infrastructure for the National Railways of Zimbabwe.

Other important developments relating to our advanced manufacturing sector include the launch of the TransAfrica Locomotive during April 2017 and the prototyping of a fully autonomous (self-drive) Special Inspection Device (SID) in collaboration with the Council for Scientific and Industrial Research (CSIR) to detect obstacles on rail ahead of travelling trains. We are hopeful that the SID's capabilities will revolutionise rail safety.

We are actively leveraging technological advancements to improve operational efficiencies. Technologies such as the Internet of Things, Machine Learning and Artificial Intelligence (AI) will provide valuable insights into improving operational reliability and service delivery to customers; whereas blockchain technology will modernise legacy systems and offer new customer service platforms. The aCTES system – serving as an industry-wide service platform – will help to generate relevant transportation and logistics data from multiple sources across the entire transport eco-system, thereby radically enhancing our customers' experiences across the logistics value chain.

Going forward, Transnet's growth will rely on our ability to diversify value-added services, and to harness some of the megatrends shaping the global transport and logistics sector. This implies diversifying revenue streams to tap into logistics opportunities presented by rapidly developing economies, such as logistics advisory services, infrastructure development and freight forwarding over large distances. Consolidation of the logistics sector, where larger players acquire small or niche players, is also a growing trend in the transport and logistics sector, in part due to companies' reduced payloads, low profitability levels and evolving customer preferences. In terms of the latter, our own customer surveys reflect that we are still slow to respond to their fast-changing requirements, which is a combined factor of our systems, customer support structures and our organisational culture, all of which need to undergo a fundamental transformation.

"We are committed to improving coordination, oversight and sustainability of the business, by enhancing internal governance oversight"



Mr Siyabonga Gama Group Chief Executive



Mr Mohammed Mahomedy Acting Chief Financial Officer

Our point of departure draws from our view of long-term sustainability. As a SOC, we cannot defer our developmental mandate. Hence, our sustainable developmental outcomes form part of the essential blueprint for our new strategic direction. This means we need to consider our local suppliers in our expansion aspirations, acknowledge the new ways in which many 'new economy' enterprises and youth entrepreneurs work so that they benefit from our enterprise development programmes, involve our communities in our move to 'digitalisation,' and consider developing the technologies and skills we will need 30 years from now.

S.I. Gama

SI Gama

Group Chief Executive

M. S. Mahomedy

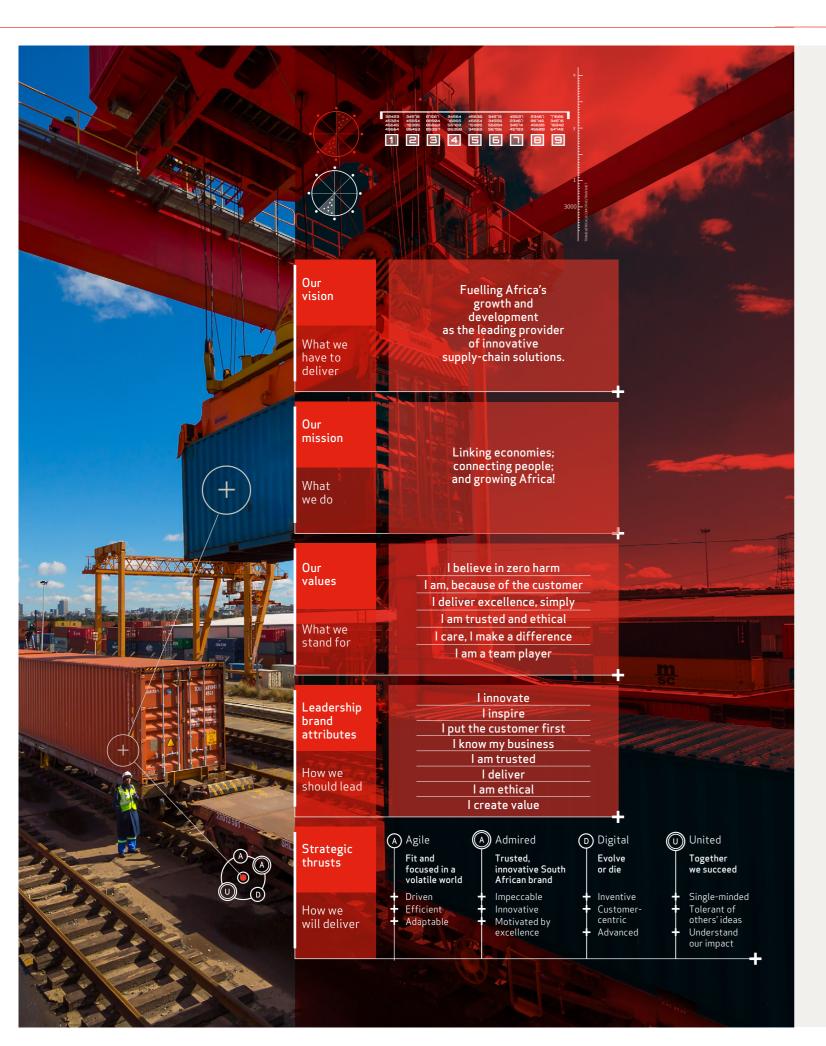
MS Mahomedy

Acting Chief Financial Officer

10.4 . 2010

10 August 2018 Johannesburg

TRANSNET Integrated Report 2018 Organisational overview



Organisational overview

Our mandate

Assist in lowering the cost of doing business in South Africa

Enable economic growth

Ensure security of supply by providing appropriate port, rail and pipeline infrastructure in a cost-effective and efficient manner, within acceptable benchmarks

Governance context 44



Transnet SOC Ltd is a public company (constituted in terms of the Legal Succession to the South African Transport Services Act, No 9 of 1989), with the South African Government as the sole Shareholder.

Transnet is the owner of South Africa's railway, ports and pipelines infrastructure.

The Company's Memorandum of Incorporation - approved by the Shareholder Minister on 25 June 2013 - aligns with the provisions of the Public Finance Management Act (PFMA), the Companies Act and the National Ports Act, No 12 of 2005, as amended (the National Ports Act).

As a state-owned company (SOC), the PFMA serves as Transnet's primary legislation.

Transnet signs an annual Shareholder's Compact with the Government of South Africa, represented by the Minister of Public Enterprises. The Shareholder's Compact mandates the Company to deliver on numerous strategic deliverables, including sustainable economic, social and environmental outcomes.

The Board directs the Company's strategy in response to the Statement of Strategic intent.

Broad-Based Black Economic Empowerment (B-BBEE)

Transnet's B-BBEE verification covers six of the seven elements of the Generic Transport Public Sector Scorecard (excluding the ownership element). The Maritime, Property and Rail Charters are also applied.

Transnet achieved the full points for enterprise development and socio-economic development for the 2018 financial year.

The post-MDS Transnet 4.0 strategic blueprint will address and maximise the scores for employment equity, preferential procurement and skills development.

Transnet Group's B-BBEE performance per pillar for the 2018 review period

	Element A	ctual score	Target
٦	Equity ownership	N/A	N/A
	Management control	8,59	11
	Employment equity	14,17	18
	Skills development	19,56	25
	Preferential procurement	28,51	33
	Enterprise development	15,00	15,00
	Socio-economic development	5,0	5,0
	Total	90,83	107
	B-BBEE Level 2		

Employee profile

Total employees 55 666

Black 73.9% Indian 3.4% Coloured 9.7% White 13%

Total employees represented by collective bargaining as a % of total headcount 89.0%

People with disabilities 2,4%

Permanent employees 51 324

Male 36 683 Female 14 641

Permanent employees represented by collective bargaining as a % of total headcount 81.4%

Non-permanent employees 4342

Integrated Supply-Chain Management function

Optimises inbound supply-chain activities

Enables efficient and reliable outbound services to the end-customer

As we enter the 4th Industrial Revolution, opportunities for suppliers include:

- Internet-based service provider platform for suppliers working in the 'Gig-economy';
- Mentoring network of industry leaders to guide small, medium and micro-enterprises (SMMEs) in sector changes due to digital trends;
- Transnet 'Mega Hubs' to support SMME suppliers;
- Market access to SMMEs through revenue-sharing model;
- 'Common purpose' technology platforms for SMME collaboration (tools and templates).

As Transnet expands regionally, we will spearhead regional supply-chain opportunities for South African-based SMMEs and expand Transnet's Enterprise and Supplier Development Strategy to support regional supplier development in countries where we operate.

Enterprise and supplier development

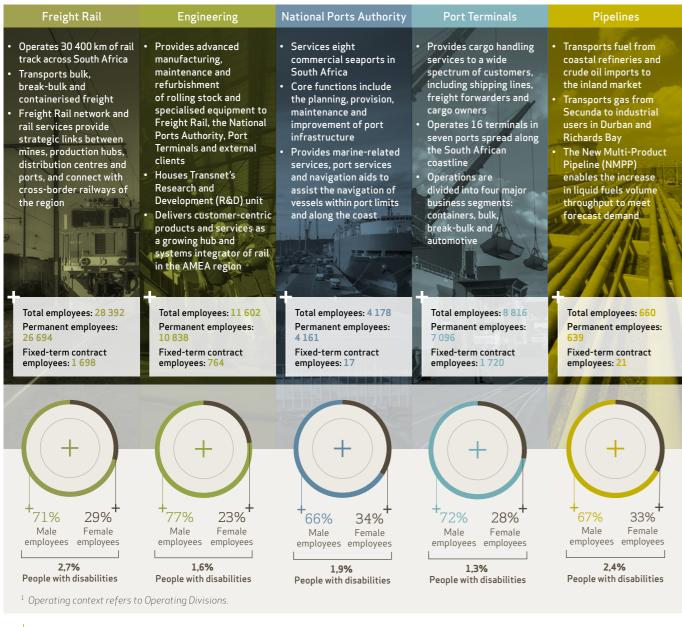
- Guided by Government's Competitive Supplier Development Programme
- Informed by the B-BBEE Codes of Good Practice
- Aims to increase the competitiveness, capacity and capability of black-owned suppliers through financial and non-financial support
- Targeted ESD initiatives support localisation and industrialisation, and provide opportunities for black people, youth, women, small businesses, people with disabilities and people living in rural communities

Our integrated Enterprise and Supplier Development Strategy supports the rise of young black entrepreneurs through the various developmental levels - from high-school innovation programmes through business case development and business incubation to our Black Industrialist Programme and our regional and global exporting and trade programmes.

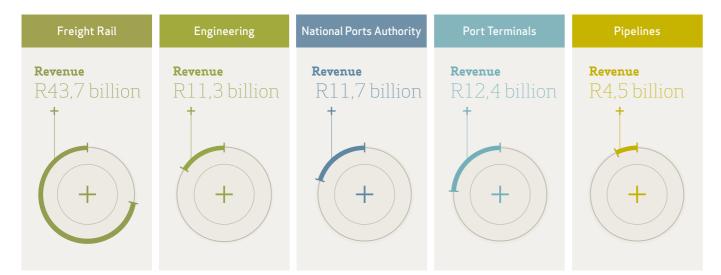
14 Organisational overview continued

Operating context¹

Figure 2



Read more



+ Customer profile

Large mining, shipping, manufacturing, agricultural, industrial, retail and energy contributors to the South African economy

+ Specialist Units

Transnet Group Capital | Transnet Property

+ Where we operate

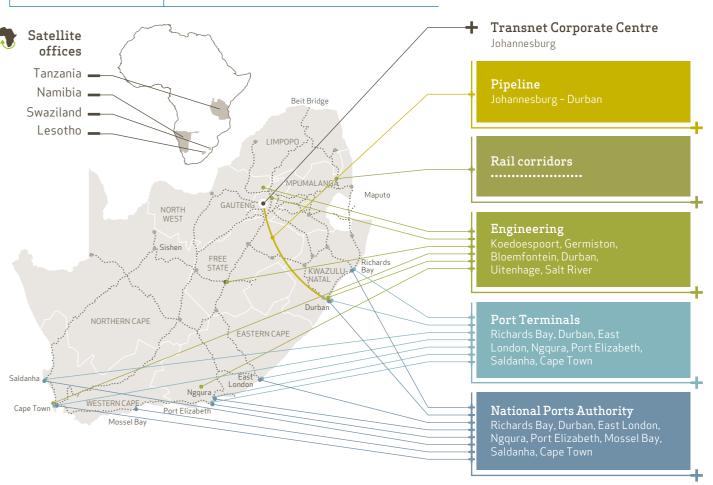
Five Operating Divisions spread throughout South Africa

Four satellite offices

in Lesotho, Tanzania, Namibia and Swaziland

Three joint operating centres

in Mozambique, Botswana and Zimbabwe



Services provided

Outbound services (South African businesses moving products to international markets) and inbound services (bringing products to South African markets)

Commodities transported: mining exports, general freight and petroleum products

General freight: containerised cargo, local manganese, minerals, local coal, local iron ore, chrome and ferrochrome, agricultural products, iron and steel, fertilisers, cement, fast-moving consumer goods, bulk liquids, wood and wood products, industrial chemicals, intermediate products and automotive products

Sub-saharan Africa's estimated regional growth is 3,4%

Petroleum products: crude oil, refined petroleum products, aviation turbine fuel and methane-rich gas products

Strategic context

Transnet is transitioning from the Market Demand Strategy (MDS) – first implemented in 2012 – to a new blueprint for growth and diversification, the Transnet 4.0 Strategy (Transnet 4.0).

The MDS has largely achieved its objective of closing the market demand capacity gap for freight logistics infrastructure, with approximately R165,6 billion invested in the previous six years. Transnet 4.0 provides a framework for Transnet's growth and diversification within the context of the 4th Industrial Revolution.

Main growth thrusts of Transnet 4.0 include:

- Extending Transnet's footprint in Africa, the Middle East and South Asia:
- Product and service innovation; and
- Expanding Transnet's advanced manufacturing business, with leading technologies to enhance new and existing products, and improve business processes.

TRANSNET Integrated Report 2018 Organisational overview continued

Market context

Global growth of 3,9% estimated for 2018, with 4,9% growth forecast for developing and emerging markets.

Continued strong growth in emerging Asia and Europe, and a modest upswing in commodity exports after three years of weak performance.

The International Monetary Fund forecasts South Africa's economy to grow by 1,5% in 2018, an improvement on the 1,3% growth rate of 2017. Business confidence improved following a period of political uncertainty, with the growth rate set to keep improving beyond 2018.

Sub-saharan Africa's estimated regional growth is 3,4%.

Still unclear whether projected improvements in GDP and business confidence will provide sufficient relief from the effects of South Africa's sovereign credit-rating downgrade in 2017.

The new presidential dispensation should help buy growth in private consumption and fixed investment. Higher prices for commodities will sustain growth in the mining sector.

The 4th Industrial Revolution ushers in a fusion of technologies poised to disrupt every industry, with major economic and technological ramifications and systemic transformation of civil society, production, governance structures and human identity. Transportation and communication costs are likely to reduce, and logistics and global supply chains will become more effective. The cost of trade is rapidly diminishing to drive new markets and economic growth.

Transnet's primary focus remains volume growth of the core business, while seeking new growth paths to compensate for low growth expectations and instability in traditional markets. Organic growth in the current freight transport and handling divisions will account for the bulk of this growth as we improve connectivity, density and capacity of an increasingly integrated port, rail and pipeline network.

Strategic private-sector partnerships in the freight logistics sector will accelerate new business ventures and new revenue growth.

+ Regulatory context

The Company operates in compliance with 200 regulations. Tariffs charged by the National Ports Authority and Pipelines are determined by independent economic regulators, namely the Ports Regulator of South Africa (Ports Regulator) and the National Energy Regulator of South Africa (Nersa) respectively.

The Railway Safety Regulator regulates the safety of the rail operations of the Company, issues safety permits (for a fee), and conducts inspections and audits on the Company. Transnet also operates within a policy context determined by the Department of Public Enterprises and the Department of Transport respectively.

Financial context

As a SOC, the financial strategy reflects the higher risk profile of the business. To meet long-term market demand, Transnet invests for long-term growth prospects, but considers short- to medium-term volatility in domestic and international markets. Transnet raises funds in the debt markets based on the strength of its financial position, having raised funding without Government guarantees since March 1999.

Funded through reserves and borrowings with no subsidies or guarantees received from Government.

Remain within the medium-term target - Gearing < 50% and cash interest cover of >2,5 times.

Legacy Government-guaranteed debt amounts to R3 500 million comprising Eurorand bonds under the Euro Medium-Term Note Programme maturing in 2028 (R2 000 million) and 2029 (R1 500 million) respectively.

Socio-economic context

Transnet's strategic focus is guided by the Statement of Strategic Intent issued by the Minister of Public Enterprises and the Shareholder's Compact, which stipulate mediumterm strategic objectives, including:

- Reducing the total cost of logistics as a percentage of transportable gross domestic product (GDP);
- Accelerating the modal shift by maximising the role of rail in the national transport task;
- Leveraging the private sector in the provision of both infrastructure and operations where required;
- Integrating South Africa with the region and the rest
- Optimising the social and economic impact of all interventions undertaken by the Company in the achievement of these objectives.

Endorsement of external charters and frameworks (not limited to)

Generic Transport Public Sector Charter Rail Charter Maritime Charter **Property Charter** United Nations Global Compact (since 2012) International Integrated <IR> Reporting Framework

Membership of associations (not limited to)

New Partnership for Africa's Development (Nepad) South African Railways Association International Union of Railways Association of American Railroads Railroad Association Union of African Railways Maputo Corridor Logistics Initiatives International Association of Marine Aids to Navigation and Lighthouse Authorities

Group Internal Audit – Internal Audit Group Company Secretariat – Governar Group Strategy Strategy Corporate and Pul Transnet Internati	
Group Company Secretariat – Governar Group Strategy Strategy Corporate and Pul Transnet Internati	Strategy Corporate and Public Affairs Transnet International Holdings Shareholder's Compact In-house Consulting Printical ters, Istructure - Financial and capital planning - Treasury, funding and investor relations - Procurement - Reporting - Taxation - Income statement and statement of financial position - Capital assurance - Long-term planning - Capital business case support - Capital mega project execution - Engineering and technical - Capital project support - Stakeholder relations - Port Perminal operations - Port Terminal operations - Port Authority operations - Port Perminal operations - Port Authority operations - Port Perminal operations - Port Legal - Legal - Security - Security - Stakeholder relations - Port Legal - Security - Society - Security - Society - Security - Society - Security
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Corporate and Pul Transnet Internati	blic Affairs
· •	npact
Management of critical financial parameters, including capital structure investor relation Procurement Reporting Taxation Income statemer of financial position	nt and statement
Lead the execution of Transnet's capital expenditure programme, • Capital mega pro • Engineering and	Specialist Under Specialist Under Specialist Under Spite Capital Capital Spite
and Regulatory • Risk • Compliance	tions
	erations consists
Drive a Group-wide integrated operational philosophy. The Chief Executives of the Property manage	Operating Divis
Development • Product and serv	erty contracts
Support Transnet 4.0 by optimising and diversifying • Commercial capa • Branding • Market intelliger	. <u>∵</u>
Manufacturing design, manufact	turing and sales
Four customer-facing businesses: • Manufacturing • Maintenance and services and wagons • Research and de • OEM partnership	velopment
Communications Technology (ICT) •IT build applicati •IT infrastructure	
	nagement
Lead Group-wide performance management, labour relations and corporate social investment • Talent manageme • EVP • CSI	ent Specialist U

Summary performance

	2018	2017
Revenue	R72,9 billion	R65,5 billion
Operating expenses	R40,4 billion	R37,9 billion
Savings against planned costs	R3,1 billion	R2,4 billion
EBITDA	R32,5 billion	R27,6 billion
Profit	R4,9 billion	R2,8 billion
Gearing	43,4%	44,2%
Cash interest cover	3,0 times (within loan covenant requirements)	2,9 times (within loan covenant requirements
Cash generated from operations	R34,9 billion	R31,0 billion
Borrowings raised	R40,9 billion	R17,0 billion
Borrowings repaid	R41,0 billion	R24,9 billion
Capital investment (expenditure for the MDS period reaching R165,6 billion)	R21,8 billion	R21,4 billion
Locomotives accepted into operations	402	452
% of personnel costs invested in training	2,9%	3,1%
Disabling injury frequency rate (DIFR)	0,73	0,69
B-BBEE spend	R25,8 billion	R37,0 billion
B-BBEE spend as % of total measured procurement spend	86,9%	103,1%
Spend with black- owned enterprises	R12,47 billion (42,0% of total measured procurement spend)	R12,2 billion (34,0% of total measured procurement spend)
Spend with black women-owned enterprises	R9,34 billion (31,4% of total measured procurement spend)	R4,6 billion (12,8% of total measured procurement spend)
Transnet's B-BBEE level	Level 2	Level 2
Corporate social investment	R219 million	R234 million
Number of patients treated on board the Phelophepa trains	157 418	173 016
Number of individuals benefiting from community outreach services	435 332	438 807

Our business model

Our value proposition

As a state-owned company, our overarching value proposition is founded in our Shareholder Mandate:

The modernisation and renewal of South Africa's transport and logistics infrastructure through strategic investment in rail, ports and oil and gas pipeline infrastructure;

Cost-effective logistics value chains;

Value-added services; and

Advanced engineering solutions.

What we do Main activities facilitated through five Operating Divisions

Statement of Strategic Intent

6 Provide cost-competitive logistics

Grow rail market share

Integrate South Africa with the region, the continent, and the rest of the world

Leverage private-sector investment in infrastructure and operations



Optimise sustainable economic, social and environmental outcomes of all business

Opportunities for long-term

competitiveness

warehousing, financing)

Key freight system challenges

- Slow rates of global and local economic growth and volatile commodity prices impact freight volumes and revenue
- Fewer small/niche players in SA's logistics sector







- A large-scale modal shift from road to rail to address costs, congestion and carbon emissions

- New value-added services (e.g. customs clearing,

- Africa and international growth opportunities

- Transnet can acquire small/niche players

- A low-carbon, energy-efficient freight system that will reduce vulnerability to volatile oil prices

- Global and regional maritime connectivity is poor



- Creation of international hub ports - Increased maritime connectivity between regional ports
- The regional freight system is not well integrated and displays poor performance



- A high-performing core transport network in the region that will enable growth in intraregional trade

- Demand for transport infrastructure across all modes will rise significantly based on forecast freight demand



- A robust infrastructure funding model able to ensure capacity ahead of demand
- Digital integration of logistics value chain

- Commercialise digital opportunities

- Shortage of specialist skills across most areas of the freight system, particularly in new digital platforms



- Targeted skills development strategies, particularly in digital programming, engineering and project management fields

- Cybersecurity threats
- Variability of digital infrastructure and uptake in
- Customer-centric digital products and services
- (e.g. advanced diagnostic system on locomotives)
- Supplier industries for all transport modes are underdeveloped



- Unitary end-to-end control of the integrated network - Supplier development plan linked to long-term
- infrastructure investment plan

- Fusion of technologies poised to disrupt industries and transform systems of production, management and governance



- Asset-light products and services (e.g. volume aggregators using third-party assets for shipments)

- Climate change adaptation and energy and water supply challenges



- Access and distribution of liquid and gas energy - R&D in renewable energy and desalinated water plants (e.g. at the ports to assist in dust control)

Freight solutions

World-class, competitive and customer-centric end-to-end freight solutions (value chain)

Added capabilities and partnerships to enhance general freight positioning (4PL)

Africa dimension - port and rail concessions

Foster regional trade



Infrastructure and spatial solutions (local and regional)

Creating and enhancing logistics ecosystems to enable and accelerate economic growth

Port and inland hubs

Optimise local, national and regional freight logistics networks

Core and leveraged partnerships



Advanced manufacturing

Africa's own rail, ports and transport OEM

lifecycle solutions (design, finance build, maintain and replace)



Liquids and gas

Facilitate integrated and reliable access and distribution of liquid and gas energy resources

Liquefied natural gas (LNG) opportunity

Energy opportunities



Digital

Leveraging and monetising freight- and infrastructure-related digital capabilities (e.g. fibre and telecommunications, data solutions and information-driven business)

Creation of digitised value-added services (e.g. alerts to value chain participants)

Revenue streams Commodity-based revenue from commodities transported:

Iron ore Manganese Chrome Steel

Cement

Agricultural

products

Automotives Fast-moving consumer goods Containerised

Forestry

products

petroleum products Crude oil Aviation turbine fuel

Refined

Methane-rich cargo and gas crude oil Ferrochrome

Non-commodity revenue from:

Engineering

Transnet Property

Other revenue at Freight Rail, National Ports Authority, Port Terminals and Pipelines

Funding sources

International and domestic capital markets

Loan markets (public and private)

Development finance institutions (domestic and international)

Export credit markets

Structured financing

Partial funding by customers and/or interested parties that are part of Transnet's investment plan

Project-specific funding

Cost considerations

Fuel and electricity costs

Asset depreciation

Personnel costs

Investment in infrastructure projects and equipment

Regulatory and compliance costs

Supplier and support services

Borrowing costs Inflation

Materials and maintenance costs

Top 10 risks

Pricing risk

Capital execution risk

Macroeconomic environment risk

Volume growth risk

Operational readiness risk

People management risk

Productivity and efficiency risk

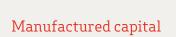
Regulatory risk

ICT risk

Creating value through the capitals

Financial capital

Our financial sustainability relies on the availability and management of our own and borrowed funds. Financial capital – as a stock of value – enables value creation with all other capitals. Through the combined use of capital inputs, such as share capital, cash reserves and borrowings, we fund our infrastructure projects, build manufactured assets, such as rolling stock and wagons, enhance the productive capacity of our people through training, innovate around technology and services, and benefit our community relationships through our investment in CSI initiatives. The current business strategy, as encapsulated in the MDS, aims to create pre-emptive long-term capacity ahead of



- Through our manufactured assets – such as our buildings, equipment and transport infrastructure we create value for the Company in the form of revenue from operations; and create infrastructural value for the wider economy, while reducing the cost of doing business in South Africa. While our road-to-rail strategy impacts positively on natural capital by reducing carbon emissions and air pollution, new rail, ports and pipeline infrastructure projects could adversely impact ecosystems and result in contamination of the natural environment and generate a variety of outputs in the form of waste materials as by-products.



Through our intellectual capital (e.g. intellectual property in the form of patents, copyrights and licences) and organisational capital (e.g. our tacit knowledge in the form of procedures and knowledge-based systems of governance, compliance and leadership), we create both tangible (monetised) value in the form of revenue from value-add services and new product innovations, and intangible (non-monetised) value in the form of brand value and thought leadership.



Human capital

Exponential value is created for and on behalf of Transnet and the country through our most critical asset: our people. Through our employees' collective accomplishments, collaborations, innovations and discipline, we are able to provide innovative solutions to infrastructural logistics challenges, foster lasting relationships with our customers, and build and maintain the infrastructure capacity required to sustain economic growth.



Social and relationship capital

Through our social and relationship capital (e.g. relationships with commercial and academic partners, regulators, suppliers, customers, communities, labour unions, the media and more), we build both tangible and intangible value expressed through mutual trust, collaborative ventures, new innovations and value-added products and services. Positive stakeholder relations contribute to commercial stability (e.g. through strong customer and supplier relationships, and a social licence to operate) and organisational stability (e.g. healthy employee morale).



Natural capital

Our business is conducted across diverse ecosystems where we build and maintain infrastructure, operate equipment and handle large volumes of cargo. Our employees, contractors, suppliers and customers have an impact on the natural environment and depend on it for their livelihoods. The 'natural capitals' in the context of our commercial activities include air, water, land, minerals and forests, as well as biodiversity and ecosystems health. Our operations generate waste, including greenhouse gases, which in turn contribute to global warming.

Inputs

Property, plant and equipment Rail and branch-line networks Multi-cargo ports 3 800 km of petroleum and gas pipeline infrastructure Locomotives and rolling stock Port terminals

Continuous enhancements on project ifecycle programme methodologies Research and developmen Engineering R&D unit) (Engineering Read unit)
Standard operating procedures
Policies, frameworks and processe



Biodiversity and ecosystem health

Key outputs of our business

City Deep

port system and logistics chain

Transportation of a range of general bulk and containerised freight commodities

Provision of in-service maintenance, repair, upgrade, conversion and manufacture of various types of wagons, coaches, locomotives, as well as equipment, machines and services

Capacity through new and refurbished locomotives and wagons

Provision of cargo-handling services to a range of customers

Secure inland petroleum product supply

An organisational culture to drive health and safety of our people and the public in and around our operations

Engineering R&D initiatives, such as a traction motor for rugged conditions; a control system for diesel and electric locomotives; and a new diesel locomotive

Waste materials as by-products of our infrastructure projects in the form of asbestos and hydrocarbon

Pipeline spills and marine pollution (e.g. plastics entering marine water at ports)

Outcomes

A funding strategy based on strategic priorities Capital investments that are likely to yield the best financial

A reliable and credible borrower which, albeit state-owned, issues debt on the strength of its financial position without Government guarantees

Continued financial stability and strength Investment-grade stand-alone credit profile Cash interest cover of 3,0 times Gearing at 43,4%

Full value-chain service propositions

Digital transformation across the value chain Mega and critical projects, such as the Multi-Product Pipeline, urban Container Terminal expansion and extension o

Business continuity

Infrastructure reliability

Saldanha Tippler 3

Operational efficiencies and improved productivity Ability to avail analytics to end-users through multiple digital

Distinctive product and service designs Global operational standards Strong governance structure and oversight

Agile digital technologies and capabilities A knowledge-based organisation World-class technological innovations

Integrated planning and resourcing

Enhanced transparency through advanced, integrated digital

An 'iBELONG' culture

A skilled and representative workforce A safe working environment, promoting diversity, equal opportunity, training and education Responsible leadership An 'employer of choice' Exposure to broader national and regional opportunities

Retain social licence to operate Customer-centric and reliable delivery of customer volumes Collective agreements with organised labour Partnerships with customers and other logistics providers along the value chain Fair, transparent and efficient contract management Fair and equitable tender processes

Proactive and collaborative supplier development

Environmental stewardship 0,9% improvement in energy efficiency Identifying opportunities for improving water consumption Cost saving from recycling

Value created for Transnet

Ensure long-term financial stability in a tough economy

Our efforts enable us to build financial stability in the short, medium and long term as guided by gearing and cash interest cover

Align with regulatory

maintain the required

compliances within our

Strengthen our credibility

requirements to

secure infrastructure

Build stable.

operations Maintain our stand-alone Maintain agility within a cost structure in which

credit rating and attract funding from 80% to 90% of fixed costs and assets have various lifecycle times of 30 sources to 100 years

Promote a push for Build partnerships business for sustainable performance growth without compromising on safety

in terms of infrastructure reliability and our delivery Be agile in an of customer-centric ever-changing solutions socio-econon environment

Enhance human capabilities and Promote productive capacity of employment our people - particularly in terms of scarce skills equity within the Company

Improve physical and Promote mental health and safety of our employees ethical and other stakeholders business practices as well as sound environmenta stewardship

within our

operations

Optimise 'that which makes Transnet great' by living the Transnet culture - 'our unity shows in our shared practices'

Value created for others

Through our activities, we deliver these nine Sustainable Developmental Outcomes (SDOs) for our Shareholder, the economy and our stakeholders

Employment

Create measurable direct, indirect and induced employment for South Africans



Skills development

Enhance and improve human capabilities and productive capacity within the South African job market



Industrial capability building

Promote industrial development for South Africa and improved competitiveness Vastly improve rail and freight

infrastructure Create increased capacity at South African ports

Facilitate a Multi-Product Pipeline Increase capacity for South African commodity exports

percentage of transportable GDP Reduce cost of logistics as a



Investment leveraged

Leverage private-sector investment in the country's freight logistics svstem



Regional integration

Improve freight logistics connectivity on the continent



Transformation

Promote black economic empowerment within supplier entities Promote supplier localisation



Health and safety

Improve physical and mental health, and safety of the public and communities where we operate



Measurably improve economic, social, cultural and environmental

Community development

well-being of communities Environmental stewardship



Enhance capacity of the natural environment to meet the resource needs of future generations Promote a modal shift from road to rail in the national transport task









Our definition of 'value creation'

We create value, broadly speaking, by lowering the cost of business in South Africa. We do so through the provision and maintenance of freight logistics infrastructure and solutions to support the local economy. In so doing our goal is not only to facilitate trade in South Africa, but also to enable regional trade and integration on the continent. In addition to economic value generated, it is pertinent that we increase the social value of the country through social investment, and enterprise and supplier development. The value we create can be measured by the increase or decrease in the stores of value represented by the six capitals, as well as our ability to achieve our strategic

Through our integrated reporting, we aim to share how we connect to and use these tangible and intangible assets to create and preserve the value we create for Transnet and for others. A measure of the maturity of our integrated thinking – as decision-makers and employees – is our ability to define both the upsides and downsides of our choices; stated differently, the degree to comprehend and articulate the 'trade-offs' in our decisions. As we accelerate into the 4th Industrial Revolution, new measures of value will emerge, which will require us to reimagine our business - and, along with it, the future value-creation story we want to tell Cash and cash equivalents: R6,4 billion Share capital and reserves: R144,6 billion Long- and short-term borrowings: R124,8 billion Revenue from commodity volumes: R66,2 billion Non-commodity revenue: R9,4 billion

(Engineering, Property and other revenue at Freight Rail, National Ports Authority, Port Terminals and Pipelines) Yields from tariffs: R1,7 billion

Maintain acceptable capital and debt structure parameters: Adequate reinvestment to sustain infrastructure and expand capacity Optimal cost of capital, including external debt Optimal utilisation of working capital Maintain a maximum capital-to-debt structure (gearing) at <50%

Maintain cash interest

cover of at least 3 times

2. Structuring our capital

3. Approaches to managing financial capital outcomes Diversify revenue sources Stringent cost management and cost optimisation (balance capital expenditure) Aggressive working capital management

Generate a return on assets equal to the risk Maintain cost-effective structured funding 'Take-or-pay' contracts with customers

Attract funding from diverse sources

Maintain credit ratings

on other capitals

Investment in

property, plant

and equipment

development

4. Influences/risks

currency devaluation and energy-price risk (electricity and diesel) economic Commodity price risks

breaching investment-Credit grade thresholds ratings

economic climate projects

5. Mitigation strategies

execution in a volatile

6. Financial value created

Financial returns for:

- The Company

Shareholder Providers of capital

Economic value

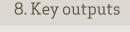
created for: Broader

stakeholder base South African economy

Management of working capital

Diversify revenue sources > including driving África revenue

Holistic portfolio of measures > optimise the business to buffer market stress



1. Inputs

EBITDA **R32,5 billion** (2017: R27,6 billion)

Negative regulator clawbacks: R909 million

Operating profit R18,8 billion (2017: R14,1 billion)

Cash generated from operations (after working capital changes) R34,9 billion (2017: R32,8 billion)

EBITDA margin 44,6% (2017: 42,1%)

Gearing 43,4% (2017: 44,2%) Cash interest cover 3,0 times

(2017: 2,8 times) Cash and cash equivalents R4,4 billion

(2017: R6,4 billion) Share capital and reserves R156,9 billion

Capital investment R21,8 billion (2017: R21,4 billion)

Long- and short-term borrowings R122,6 billion (2017: R124,8 billion)

Stand-alone credit rating - Moody's Baa3

(2017: R144,6 billion)

- Standard and Poor's BBB

Pipelines allowable revenue for 2019 1.43% increase in allowable revenue compared to prior tariff period

National Ports Authority granted an average tariff increase of 6,0% for 2019

7. Trade-offs

R23,5 billion

R63,4 billion

Committed Supplier

Development (SD)

Investment in

personnel cost

Financial capital impacts

R5,4 billion Capital investment in expanding infrastructure



spend

















B-BBEE spend as %

of total measured

procurement spend











empowered competent

productivity

and ingenuity

investment infrastructure

R741 million Investment in skills

increase employee investment competency

R219 million CSI spend



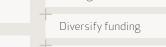




development +

reputational





Risk modelling and management > align with the overall capital portfolio (particularly co-dependencies)

De-risk capital projects > ensure positive returns (even under market pressure)

Organisational overview continued Manufactured capital + L 1. Inputs 2. Key factors impacting manufactured capital Property, plant and equipment R313,4 billion Rail track 30 400 km ensure capital investment affordability Petroleum and gas pipelines infrastructure 3 800 km Port, rail and pipelines infrastructure ICT systems, digital platforms and cloud services with validated demand Information and communications technology (ICT) locomotive capitalised maintenance big data and advanced analytics Future security models > move from a 'closed loop' with other cloud data centres

Capital projects: Deterioration in the macroeconomic environment > renders certain infrastructure capital projects unviable. Reprioritise capital projects to

Delivering rolling stock: Market challenges > Freight Rail to review delivery of rolling stock in line

The current aged fleet is being retired > reduces

ICT infrastructure: Adapt to rapid advancements in digitalisation > explore 3D printing, drone technology,

system to an interconnected networked system

3. Approaches to managing manufactured capital outcomes

A 'cradle-to-grave' solutions Specialist Unit (Group Capital) > advises Transnet and clients on capacity solutions

Integrated Capital Projects/Programme > integrated view of the capital portfolio

TVCC > transparency of projects in the capital pipeline

Robust business case validation > test project viability

The Assurance Framework (ICPAF) >

augments the assurance and control framework around capital projects

Programme prioritisation > allocates resources to programmes best aligned with strategy

6. Key outputs

Transnet concluded a locomotive acquisition contract in 2014 which resulted in the acquisition of 1064 new locomotives for General Freight and Coal businesses

402 locomotives accepted into operations

16 locomotives delivered and undergoing acceptance testing

Port expansion

Lengthening and deepening of Durban Container Terminal berths 203 to 205

Capacity expansion for manganese Expanded beyond 5,5 mt

Export coal expansion

Expanded to 81 mtpa

Waterberg upgrade

NMPP project

Stage II

The 24" main pipeline and 16" inland pipelines are fully commissioned and operational, and transported 199,48 billion litres of diesel from Durban to the inland region since commissioning

Wagon modernisation plan

86 new SCL wagons for the automotive business 346 CR wagons to be used within the mining

sectors to transport ore from shafts to processing plants and for servicing the automotive market

5. Trade-offs

Generated from

Value

operations

Manufactured capital impacts

infrastructureongoing intensive business usage in

R89,4 million

Total value of revenue generated through waste management initiatives

sale of scrap responsible

biosphere through waste

equipment usage

investment some existing jobs develop new develop new ICT may become service areas for competencies redundant and people to fill and digital skills replaced by

Significant environmental incidents in 2018

Infrastructure

meet the 4th

requirements to

Industrial Revolution

damage

biospheric damages infrastructure caused by spills or waste costs of

loss of trust/ reputation rehabilitation

on other capitals

4. Manufactured value created

Critical logistics infrastructure to meet national economic growth demands

Freight Rail > world-class heavy-haul ore export lines transporting a range of general bulk and containerised freight commodities

Engineering > original equipment manufacturer (OEM) for wagons and becoming a locomotive OEM (in-service maintenance, repair, upgrade, conversion, design and manufacture of various types of wagons, coaches, locomotives as well as equipment, machines and services)

Port Terminals > operates major port container terminals as critical facilitator of international cargo trade

Pipelines > strategic in the petroleum products supply chain, ensuring capacity anticipates demand, thus securing inland product supply

ICT>

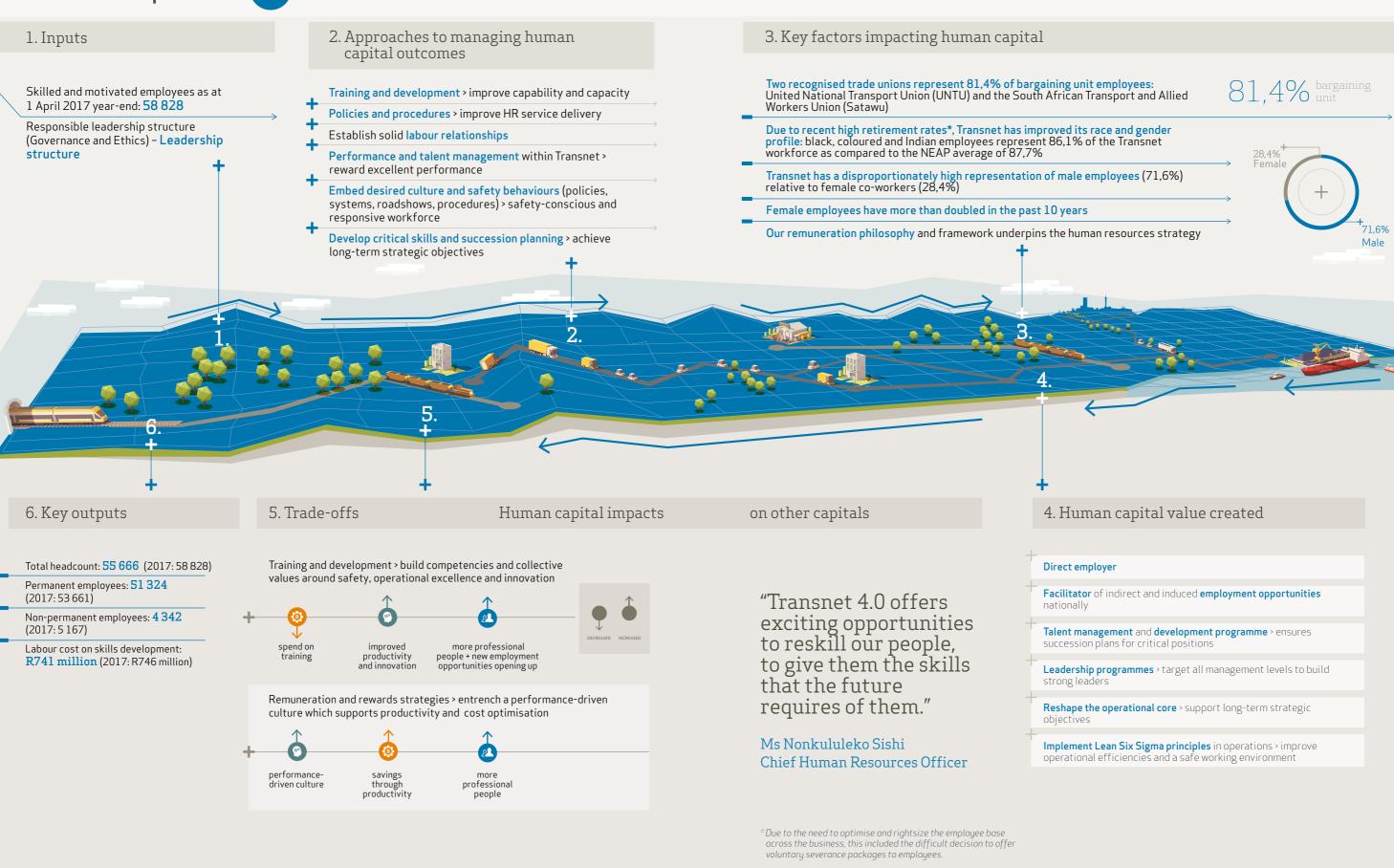
- Electronic enclosures and certain mechanical sub-components
- Track-and-trace technology to track port assets, (e.g. tugs and dredgers)



Organisational overview continued

TRANSNET Integrated Report 2018 29

Human capital + 21



Intellectual capital + (**)

1. Inputs

Research and development (Engineering) - Research

Standard operating procedures -Procedures

Policies, frameworks and processes - Frameworks

Responsible leadership principles and practices - Leadership

2. Approaches to managing intellectual capital outcomes

Research and development > emerging digital technologies as a key enabler of innovation - 'Digital Tansnet'

Attract and retain key skills > enable our strategy and add value through innovation

Create customer-centric business solutions > enhance customer relationship management and business intelligence

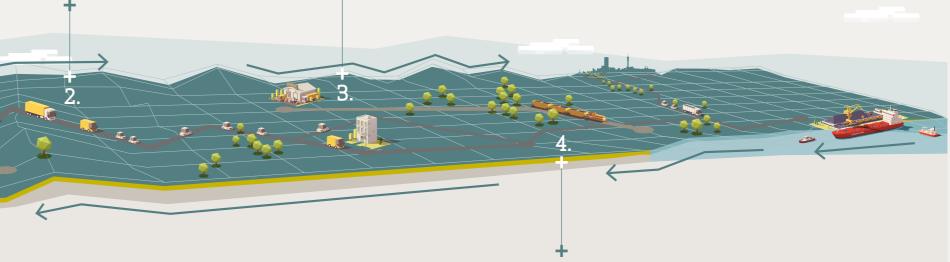
Partner with academic institutions > empower growth-oriented entrepreneurs (business education and mentorship)

Ensure protection of intellectual capital > copyrights and patents

3. Key factors impacting intellectual capital

Rapid decline in revenue from traditional markets > invest heavily in achieving OEM status in passenger trains (Engineering)

Large investments remain critical in research and business intelligence development > increase revenue in niche markets



6. Key outputs

Transnet's first in-house designed traction motor

Transnet's first in-house designed CMS using satellite, 3G, WiFi and GPS for real-time condition monitoring of stationary and mobile assets

Transnet's first in-house designed IRIS

Transnet's first standard gauge wagon bogie - currently undergoing manufacturing

Transnet's own port hauler, which is a truck-like vehicle for the ports

Deployed an in-house developed commissioning tool for locomotives (TransAfrica Locomotive) - an application to connect to Transnet's in-house designed control system for advanced diagnostics and monitoring

5. Trade-offs

Intellectual capital impacts

Learning from the traction motor prototype > used to manufacture full-scale prototypes



equipment

building and

product lines



develop innovation



employ more production grows

The Condition Monitoring System (CMS) > tracks stationary and mobile assets











improved decision-making

Our real-time Advanced Data Analytics and Machine Learning platform (IRIS) > enables predictive maintenance, which improves reliability and productivity









reputational gains as world-class rolling stock OEM

on other capitals

Operate as a multi-faceted, manufacture-driven, service-led Company in the 4th Industrial Revolution > some current technical skills may become obsolete, while other yet unknown competencies will be required

Some existing skills may be replaced by technological innovations > balance our requirement for specialist technical advancements, and our mandate to create and sustain broad-based employment for the Company and the wider economy > maintain this balance by investing in upskilling of people and appropriate redeployment of skills

4. Intellectual value created

Engineering (internationally acclaimed OEM of freight wagons) > our research and innovation hub - expanding its offerings to narrow-gauge operators worldwide

Our investment in research and development > leads to an expanding range of rolling stock products designed to suit various area-specific conditions

"Even with the best infrastructure, if our people and our thinking are not aligned, the customer will not reap the benefits."

Mr Gert de Beer Chief Business Development Officer

TRANSNET Integrated Report 2018 Organisational overview continued

Social and relationship capital + (**)





Transaction relationships with customers and suppliers - Transaction relationships

Constructive and equitable engagements with Government and regulators - Engagements

A positive relationship with employees and organised labour - Employee relationships

Proactive interaction with communities, citizens, institutions, media and pensioners - Corporate citizenship

Collaborative relationships with the Shareholder and funders - Collaboration

2. Approaches to managing social and relationship capital outcomes

Reputational value and market visibility > attract vital competencies at all levels of operations

CSI programmes > provide support for communities within and around operations

Transnet's supply chain > support manufacturing and services sectors of South Africa > quality of supplier relationships impact customer service

Overall responsibility for stakeholder engagement rests with the Board > delegates authority to the **Group Chief Executive**

Enterprise and Supplier Development > support SMMEs

Consistent and transparent investor engagements > align collective understanding of value creation and expectations around long-term targets

Forge and strengthen partnerships with OEMs > enhance skills and create new market opportunities

Partner with private-sector logistics partners > create end-to-end solutions for clients

Streamline contract management activities across the Company > ensure compliance with legal and contractual terms, while maximising value

3. Key factors impacting social and relationship capital

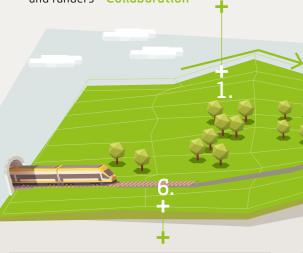
behaviour

foreign direct investment

Our large infrastructure development projects pose a risk in terms of ethical and transparent procurement practices and 'rent-seeking'

Transnet relies heavily on foreign investment, and perceptions of anti-competitive behaviour and corruption negatively impact international

Sound and ethical corporate governance can attract local and foreign investment and deter unethical business practices that hamper the image of SOCs



6. Key outputs

5. Trade-offs

Social and relationship capital

impacts on other capitals

4. Social and relationship value created

Total CSI spend R219 million (2017: R234 million)

Committed Supplier Development R63,4 billion (2017: R62,6 billion)

Enterprise Development spend R41 million (2017: R38,6 million)

50 black-owned SMMEs incubated and provided with entrepreneurial skills over a three-year period

Patients treated at the health, dental, eye, psychology and pharmacy clinics 157 418 (2017: 173 016)

Individuals who benefited from community outreach services 435 332 (2017: 438 807)

Health and hygiene workshops implemented in seven provinces (2017: nine provinces)

Ongoing academic support was provided for 52 vulnerable youth (2017: 52 enrolled in our programmes)

Partner with private-sector logistics partners > creates end-to-end infrastructure logistics solutions for customers and new revenue streams



develop new

private-sector

partnerships

shared skills competencies

opportunities + new

Supplier and enterprise development



develop new entrepreneurs in the wider economy

skills to apply to Transnet husiness Community investment



goodwill created through sound mmunity relationships + responsible corporate citizenship

Transparent and ethical reporting



good corporate citizen + sound reputation management

Private-sector participation > provide investment into South Africa's freight logistics system beyond levels already committed by Transnet

Integrated Supply Chain Management (iSCM) > support much-needed national ED

Transnet Foundation's* socio-economic programmes > empower South Africa's rural communities

CSI initiatives from Operating Divisions > respond proactively to the needs of vulnerable communities surrounding our operations

"Innovation doesn't mean much if it doesn't matter to our customers. Disruptive innovation is about doing more for customers than anyone else will."

Mr Mlamuli Buthelezi Chief Operating Officer

 st Due to changes in the operating model in 2018, part of Transnet Foundation resources have been incorporated into Transnet Corporate Centre.

TRANSNET Integrated Report 2018 35 Organisational overview continued



asbestos removed

galley waste removed

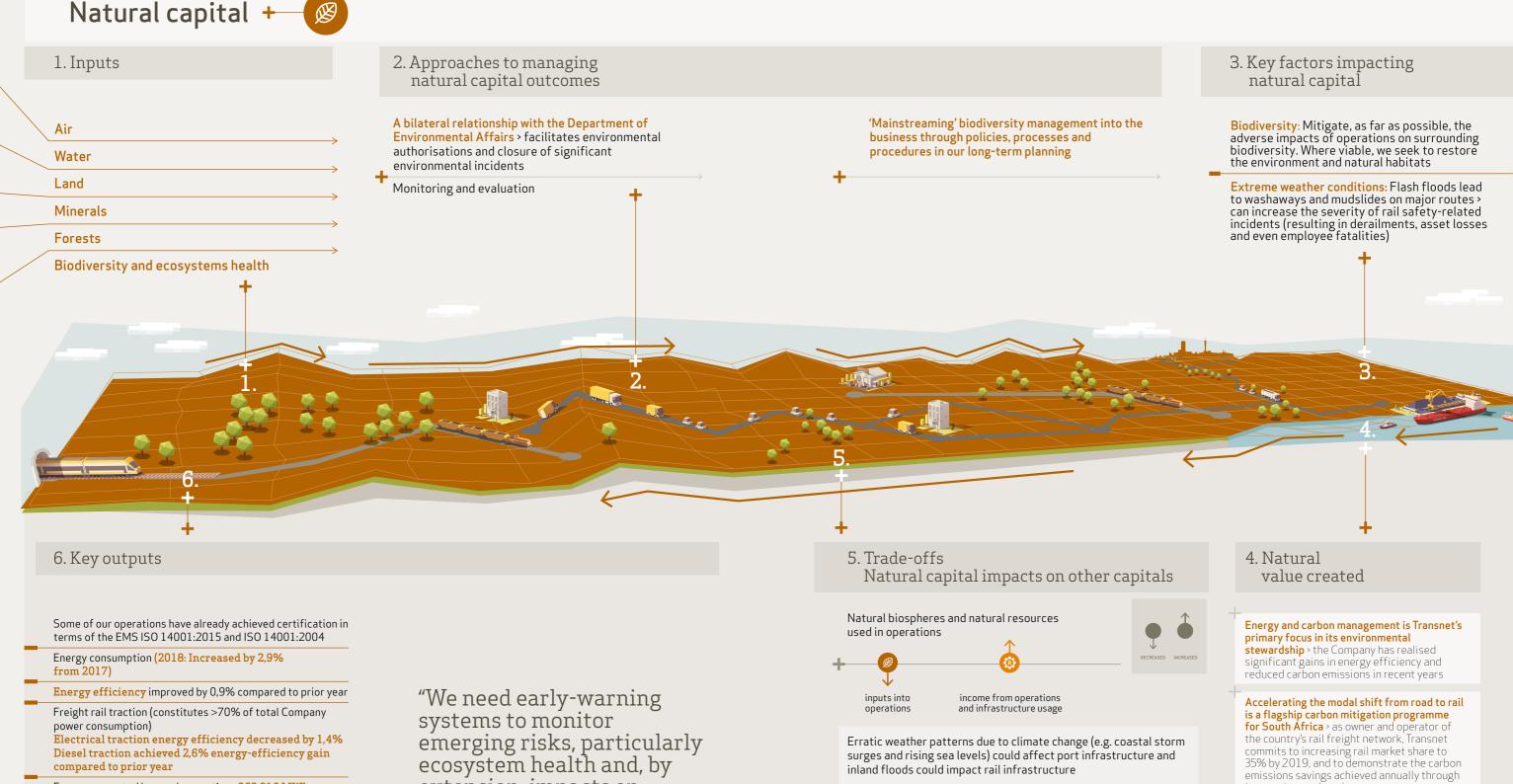
Galley Waste Management (Port of Durban): 213,59 tons

Recycled Waste Management: 33 628 tons removed

Port Terminals Waste Management: 2 872 tons waste

recycled

removed



infrastructure negatively cost of maintenance

and repairs

Severe drought adversely affects bulk export commodities

(e.g. grain), which negatively impacts volume performance

impacted by adverse

and associated revenue

volumes and revenue negatively impacted

extension, impacts on human health. We owe this to our staff, communities

Ms Mmathabo Sukati

its growing market share

Transnet seeks to mitigate impacts on biodiversity arising from operations > where possible, restore the environment and natural

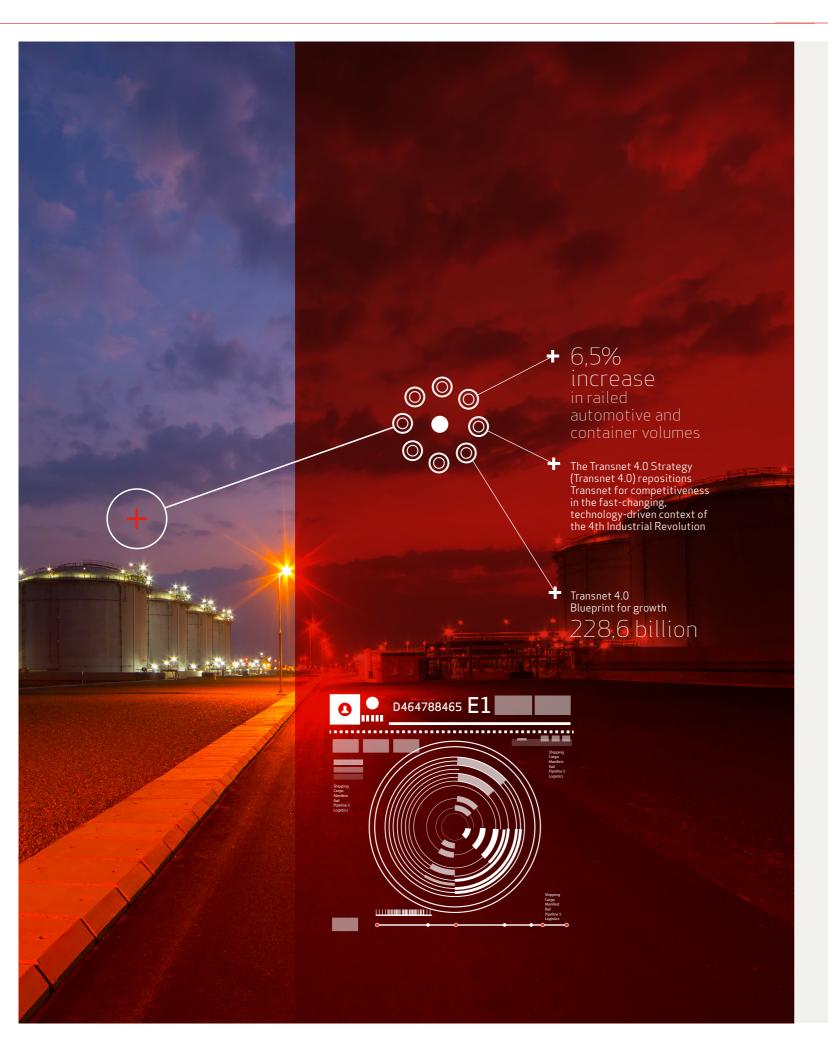
Transnet's water stewardship initiatives form part of project planning in water-sensitive

Transnet reduces energy costs through more efficient energy consumption > positively impacts financial sustainability

Energy generated by new locomotives 262 016 MWh Asbestos Remediation and Rehabilitation: 929,88 tons of Used oil reclamation: 202 Kl used oil sold and future generations." Waste recycling (Inyanda Precinct): 87,7 tons of waste

Chief Audit Executive

Strategy and resource allocation TRANSNET Integrated Report 2018



Strategy and resource allocation

Strategic planning 📱 🍪



Transnet's strategic planning framework drives capacity planning at five levels, each with its unique context and planning requirements. Overall, planning is aligned across the different levels and geared towards the same outcomes.

While each level addresses capacity planning differently, efforts are fundamentally aligned and geared towards the same objectives.

The Company's Long-term Planning Framework is a critical link between national and provincial masterplans and policy, and the Transnet 4.0 Strategy.

The frameworks informing Transnet's strategic planning and goal setting are outlined in Figure 4. At each level, the Company ensures appropriate resourcing that is both aligned with targets, and able to adapt to changing market conditions and other external impacts.

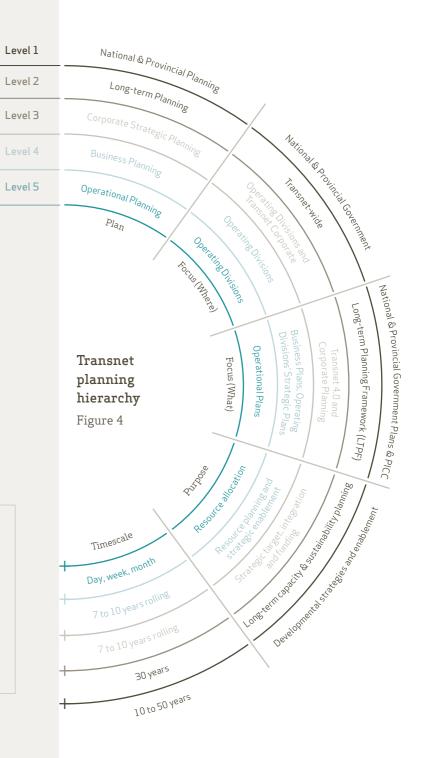
Read more



Transnet's short- to medium-term planning perspective in the section on Outlook.

"We see ourselves as a critical player in enabling the bold infrastructure goals that have been set for the African continent."

Mr Thamsanga Jiyane Chief Officer: Advanced Manufacturing



Strategy and resource allocation continued TRANSNET Integrated Report 2018 39

Figure 5

Transnet long-term planning principles	United Nations Sustainable Developmental Goals
Provide capacity in line with validated demand to enable and promote economic growth in South Africa and in the region	1 8 9 11 12
Adopt sustainability principles as part of development plans, including improved energy efficiency and reducing carbon emissions	2 6 7 8 9 10 11 12 13 14 15
Integrate rail, port and pipeline planning within Transnet	3 9 11 12
Pursue alignment with national road and electricity supply planning	4 9 8 9 11 22 18
Assume that operational efficiency is optimised first, then consider infrastructure-based capacity solutions	5 8 9 12
Target rail-suitable freight to shift from road to rail	6 8 9 11 12 13
Benchmark internationally against world-class handling services, new technologies and best practices	7 9 11 12
Plan to improve South Africa's global competitiveness by reducing the total cost of freight transport and logistics	8 8 9 11 12
Identify opportunities in Africa and leverage the economies of scale in global trade	9 8 9 11 12
Provide responsive infrastructure that meets South Africa's economic needs in line with the New Growth Path and the National Development Plan	10 10 5 6 7 8 9 10 11 12 13 14 15
1 POWERTY 2 POWERT 3 AND PRESENTING 4 COUNTY 1 POWERTY 1 POWERTY	TO GENERAL



Expand the scope of the manufacturing business



Increase advanced manufacturing capabilities

- Preferred maintenance, repairer and overhaul partner for all rail and port-related equipment in Africa

Manufacturer

- World-class original equipment manufacturer (OEM) of rolling stock and logistics equipment

New markets

- Target the regional and international markets with new locomotive technologies and drive economic growth in sub-Saharan Africa



Product and service innovation



- Third-party logistics provider - End-to-end,
- customer-focused logistics provider - Expand routing options for moving freight

Spatial development

- Unlock value in Transnet's property portfolio
- Commercialisation of
- Port and inland hubs

Private-sector participation

- Opportunities creating digital track-and-trace, and sharing asset utilisation

Digital enablement

- Optimal use of technology to drive service proficiency and reliability
- Monetising freight and infrastructure-related digital capabilities
- New digital service and product innovation



Geographic expansion Transnet International Holdings (TIH)





A Rail

- Grow cross-border volumes and enable regional integration
- Execute a unified railway system per corridor
- Intensify road-to-rail modal shift
- Rail concessions

Engineering

- Become regional OEM
- New regional rail-share markets: TransAfrica Locomotive

Ports Ports

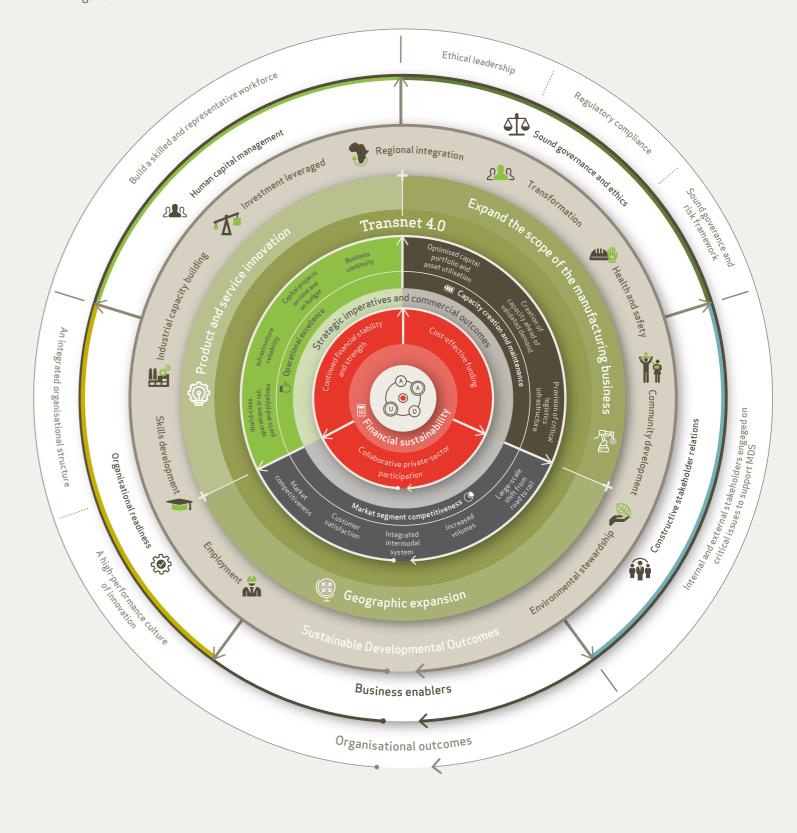
- Port concessions.
- Regional private-sector partnerships

Pipelines

- New oil and gas infrastructure capacity and new-build project opportunities
- Enable frontier economies to enter the global oil and gas sector

Transnet strategic fundamentals

Figure 6





40 Strategy and resource allocation continued 41

Interconnected elements of the strategy

Strategic thrusts	Financial sustainability	Capacity creation and maintenance	Operational excellence	Market segment competitiveness	Sustainable Developmental Outcomes
Agile	Diversify revenue sources to reduce the risk exposure on commodity demand and associated volatility Manage liquidity and raise cost-effective funding Stringent cost management and cost optimisation Reshaping the core of Transnet's operations Resilient management of working capital Generate a return on assets commensurate with the risk Pursue private-sector partnerships Implement 'take-or-pay' contracts and agreed escalation rates aligned with capital investment needs Maintain key financial ratios Optimise the capital portfolio investment plan to respond to changing environment	Optimise the capital portfolio and create a flexible project resourcing and delivery model to promote capital efficiency Create critical logistics infrastructure and capacity ahead of validated demand for cargo transport and handling services Investigate appropriate routing options for end-to-end logistics delivery Continuously enhance the Project Lifecycle Programme methodology Mitigate programme and project risks through: The Integrated Capital Projects/Programme Assurance Framework (ICPAF) Transnet's Integrated Assurance Plan	Build operational readiness and infrastructure reliability – by ensuring right skills at the right time, appropriate digital innovation and strong governance capability Provide 'Project Factory' support for large and complex programmes	Promote an integrated regional infrastructure network that optimises the value chain at network and industry levels Pursue new business opportunities in existing and new markets by developing new product and logistics solutions Reduce the total cost of logistics as a percentage of transportable GDP Promote end-to-end logistics solutions by partnering with private-sector logistics providers	Employment Measurable direct, indirect or induced employment Skills development Enhanced or improved human capabilities Productive capacity of people within and outside the Company Industrial capability building Industrial development for South Africa Improved
Admired Commercial drivers	Build a strong profile by networking with rating agencies, regulators, investors and other key stakeholders Develop highly competent finance personnel and well-rounded business leaders	Deliver cost-effective solutions – benchmarked against the market – to deliver a return on investment Meet and exceed customer expectations by delivering projects within agreed commitments Create customer value through specialised advisory services, and capital and non-capital solutions	Optimise what makes Transnet unique and gives us our competitive advantage Consistently transport record tonnages by rail and heavy haul operations to achieve global standards Grow our capability in container and manufacturing sector Reinforce our status as a trusted, innovative South Africa brand and a top employer in South Africa Explore innovative digital solutions that will enhance Transnet's market leaderships	Grow Transnet's brand reputation and credentials in existing and new markets Develop market/segment-specific brand positioning strategies Improve and integrate branding, marketing and sales capacity Promote Transnet's commercial contribution to economic growth and job creation Become a sustainable contributor to domestic and regional growth Increase our levels of responsiveness to the needs of customers	Investment leveraged Private-sector investment in the country's freight logistics system Regional integration Improved freight logistics connectivity on the continent Transformation
Digital	Place 'digital innovation' on the Finance Executive Committee's agenda Use leading data analytics to optimise financial decision-making	Digital project portfolio dashboards based on key performance indicators to improve project visibility and project governance oversight	Provide integrated customer and operational perspectives by aligning reporting systems, measurements and dashboards with business processes Use advanced data analytics to create 'one version of the truth' for performance As a digital organisation, avail analytics to end-users through multiple digital platforms to support agile decision-making Transform Transnet for the digital economy and empower current and future customers to grow their businesses Leverage the digital operational 'ecosystem' that includes strategic partnerships to ensure that ICT provides agile and innovative services	Develop digital platforms to simplify doing business with Transnet Implement systems to increase the visibility of customer engagements and the resolution of customer issues	Employment equity within the Company Black economic empowerment within supplier entities Health and safety Improved physical and mental health and safety of employees Improved physical and mental health and safety
- United	Align financial and performance information at Operating Divisional levels for efficient decision-making	Collaborate with stakeholders and promote customer- centric delivery to co-create optimal solutions	Succeed together by living the Transnet culture, promoting shared practices Align measures and scorecards to build common standards to meet customer expectations	Unite Transnet employees around a common purpose of serving our customers with pride Streamline Company-wide contract management activities to promote compliance with legal and contractual terms	Community development Measurably improved economic, social, cultural and environmental
Commercial outcomes	Continued financial stability and strength Cost-effective funding Collaborative private-sector participation	Optimised capital portfolio and asset utilisation Creation of capacity ahead of validated demand Provision of critical logistics infrastructure Capital projects on time and within budget	World-class operations in rail, ports and pipelines Infrastructure reliability Business continuity	Market competitiveness Customer satisfaction Integrated intermodal system Increased volumes Large-scale shift from road to rail	well-being of communities Environmental stewardship Enhanced capacity of the natural environment to
Transnet 4.0-specific growth imperatives	New products and services New revenue streams	Expand Transnet's advanced manufacturing capability Become a regional OEM for rail, ports and transport infrastructure	A competent workforce to address 'industry 4.0' skills challenges Become a fully integrated logistics service provider, offering end-to-end solutions to key partners Create digitally enabled platforms to transform the value chain through three core drivers: Operational reliability Service excellence The right to disrupt	New domestic, regional and international markets Expanded African footprint	meet the resource needs of future generations

Strategy and resource allocation continued TRANSNET Integrated Report 2018

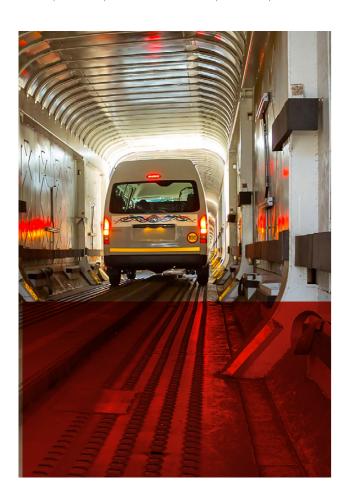
From MDS to Transnet 4.0 @



As a state-owned company (SOC), Transnet must deliver on national developmental goals, as they pertain to the transport and logistics sector, ensuring that the country remains competitive on the continent and globally. During the mid-2000s global commodity 'super cycle,' it became apparent that South Africa's historical underinvestment in infrastructure inhibited the country from benefiting to the fullest from this upward swing in commodity markets, constraining our overall market competitiveness. The Market Demand Strategy (MDS) was Transnet's response to this challenge of infrastructure underinvestment, with the MDS poised to create the required long-term capacity ahead of demand by investing through short-term economic cycles.

The MDS was always intended to cater for future demand, anticipating the required capacity we would need as a country andas a business to take advantage of future commodity booms, or even just catering adequately for future economic growth. Transnet also intended that the ramp-up in capacity should happen in the shortest possible window to address the country's immediate-term capacity constraints. At the core of MDS was South Africa's own aspirations: becoming a key thermal coal exporter, as well as an increasingly important fourth largest supplier of iron ore to China, a leading global manganese exporter, the leading logistics hub for sub-Saharan Africa, and a globally recognised benchmark for container and heavy-haul operations.

The majority share of investment was allocated to General Freight and Freight Rail, by increasing GFB rail capacity growth to meet market demand volumes from 79,7 mt to 170,2 mt, increasing Transnet's fleet, improving infrastructure, and completing the New Multi-Product Pipeline. These initiatives intended to create additional capacity across all commodities. Anticipated growth in General Freight would be coupled with significant improvements in rail operational performance, as well as productivity



improvements and improved asset utilisation at the ports. Throughout the seven-year cycle, Transnet continuously adapted to cash flow requirements (cash flow from operations versus capital investments) to ensure an affordable and realistic funding plan within approved financial parameters. The MDS's key tenet of moving rail-friendly cargo from road to rail would not only lower the cost of doing business in South Africa, through reduced logistics costs, efficiency improvements and coastal transshipments, and moving containers on rail, but it would also have marked benefits for the environment by curbing carbon emissions, with emissions from road freight contributing up to ~96% of overall freight emissions1.

However, it would be short-sighted to lock the MDS's guiding principles into a time-based seven-year strategic cycle, given that there was no guarantee that another global commodity boom would transpire during the seven-year MDS period from 2012 to 2019. While our investment aspirations to create capacity ahead of demand materialised during the seven-year period, the anticipated commodity growth and associated volumes did not

As a SOC it is irresponsible to continue to invest in national infrastructure when anticipated economic growth - both domestically and globally - does not materialise. This does not mean that it never will. However, the business must be agile enough to respond to 'what is,' as much as 'what could be' - that is, take the current low-growth path in the short term to remain financially stable, while preparing for possible future high-growth paths to remain economically sustainable.

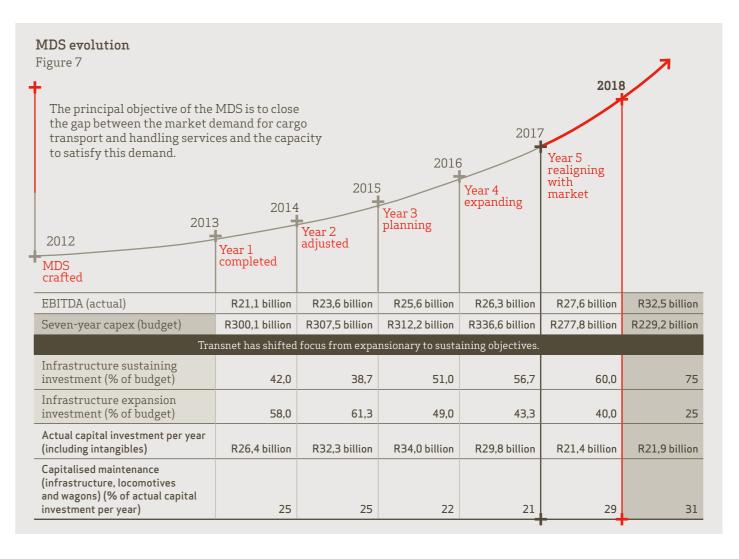
The MDS is, and potentially always was, a long-term planning blueprint from which to create future growth, rather than simply a medium-term counter-cyclical investment strategy. Transnet has all but closed the capacity gap in freight logistics infrastructure demand and is now poised to springboard its growth and diversification aspirations. Stated differently, whereas the MDS provides us with the organisational philosophy to invest for future capacitation of the business, Transnet 4.0 - our strategic prelude into the 4th Industrial Revolution - identifies what type of business we need to become to take advantage of future growth. It enables us to look beyond 'business as usual' to identify what type of trains, ports and operations we need to build, and which markets we need to enter to drive South Africa's - and indeed Africa's - global competitiveness in the new 4.0 digital paradigm.

Transnet 4.0 is launching off the firm bedrock created by the MDS and requires a fundamental reimagining of the organisation, its operations and culture. We easily reach for terms such as 'innovative' and 'disruptive' when we describe our impressions of the '4.0' organisation. However, the 4th Industrial Revolution includes the simple and the mundane. Ultimately, we must do what it takes to do more for our customers than anyone else will. Transnet 4.0 is well encapsulated by the mission statement: 'Solutions delivered'.

MDS in review: responding to economic dynamics

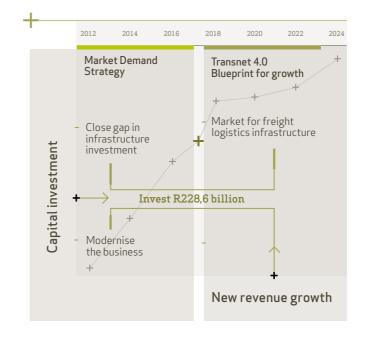
The MDS is positively characterised by:

- An increase in capacity ahead of market demand through a counter-cyclical investment strategy;
- Steady gains in rail market share and growth in cross-border freight volumes (2017: R2,1 billion);
- Growth in rail volumes of 18 million tons between 2012 and
- Average revenue growth rates of 7,4% per annum over the past
- Maintaining gearing at <50% and cash interest cover of >3,0 times, without Government guarantees; and
- R165,6 billion in capital investment over the past six years, averaging R28,8 billion per year.



Post-MDS - closing the gap and transitioning to Transnet 4.0

Figure 8



"The Industry 4.0 environment invites us to familiarise ourselves with the unknown, to anticipate potential changes to our working environment in future and to strategically

Mr Siyabonga Gama Group Chief Executive

capacitate ourselves."

¹ http://www.engineeringnews.co.za/article/road-to-rail-freight-shiftneeds-economic-environmental-drivers-wwf-sa-2015-07-06

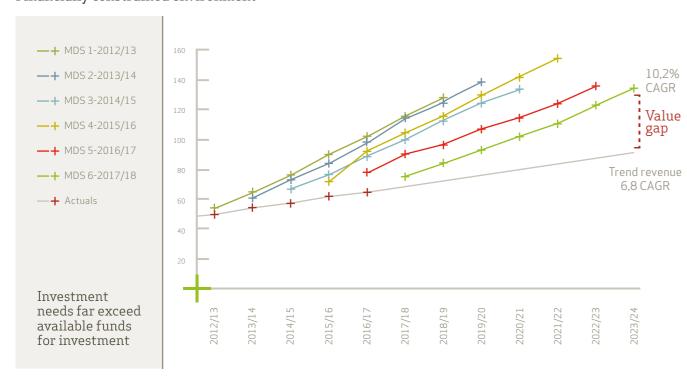
4 Strategy and resource allocation continued
TRANSNET Integrated Report 2018

On the downside, the economic growth ultimately anticipated for the MDS period did not materialise as expected, with investment requirements exceeding available funds for investment, as demonstrated in the graph below:

The period was also tainted by a credit ratings downgrade of Transnet's foreign and local currency ratings, both due to the rating action on the sovereign, as Transnet is viewed to be closely

linked to the Government. The downgrades precipitated increased financing costs and a forced slowdown in capital expenditure, aligned with validated demand, necessitating a need to supplement investments with capital raised through private-sector partnerships. Albeit Transnet's financial position, liquidity and solvency have not suffered significant negative impacts, the downgrade – coupled with slow recovery in the macroeconomic environment – has made the transition to Transnet 4.0 increasingly urgent.

Financially constrained environment



Adapting to the Transnet 4.0 strategic paradigm A changing logistics landscape

Transnet has seen volatile commodity prices severely impact freight volumes and revenue in recent years. Despite demonstrating resilience to commodity market volatility, we recognise the need to pursue alternative opportunities to ensure financial sustainability. Indeed, revenue growth and profits have been erratic for many transport and logistics companies over the last 10 years, with revenue increasing but profits not matching up to the rate of revenue increases on average. Return on capital employed (ROCE) and profits are relatively low for many companies in this sector when compared to other sectors, such as technology, consumer non-durables and retail. In future, Transnet's own growth will depend on our ability to diversify value-added services, and to tap into some of the megatrends shaping the global transport and logistics sector. This implies diversifying revenue streams to tap into the logistics opportunities presented by rapidly developing economies. These opportunities relate, for instance, to logistics advisory services, infrastructure development and freight forwarding over large distances.

Consolidation of the logistics sector, where larger players acquire small or niche players, is a growing trend in the transport and logistics sector, in part due to companies' reduced payloads, low profitability levels and evolving customer preferences. Other notable reasons include geographic expansion, securing management talent and broadening service offerings.

Innovative, 'uber-like' last-mile solutions are already part of the logistics product and service environment. In 2013, DHL Freight in Sweden piloted a mobile app called 'My Ways' to connect shippers with individuals willing to deliver packages along their daily routes in return for a small fee. Furthermore, a shake-up of the container market could be imminent through the potential 'uberisation' of this sector. The use of mobile technology to connect truck drivers to loads has been shown to reduce congestion and reduce distances travelled without cargo on return trips. These advances will result in lower operating costs for trucking. For Transnet, this may present an opportunity for new revenue streams through the implementation of a new business line, built on offering 'asset-light' products and services, such as volume aggregators using third-party assets for shipments.

Evolving customer expectations

In addition to having major economic and technological ramifications, the emerging 4th Industrial Revolution promises a systemic transformation of civil society, production, governance structures and human identity. This new digital paradigm will be characterised by a fusion of technologies poised to disrupt almost all industries. Transportation and communication costs are likely to reduce, and logistics and global supply chains will become more effective, with the cost of trade diminishing at a rapid rate, all of which will drive new markets and economic growth. From a commercial perspective, the customer will be at the centre of all that is conceived, designed and executed, and will

inform all efforts, enabled by an everexpanding landscape of digital technologies and applications.

Our customer surveys have shown that we are still slow to respond to their fast-changing requirements, which is a combined factor of our systems, customer support structures and our organisational culture, all of which need to undergo a fundamental transformation in the context of Transnet 4.0. We are actively leveraging technological advancements to improve operational efficiency and develop the culture and mindset to be a beneficiary of the changes we are observing. This implies becoming a more technologically aware digital enterprise and includes:

- Exploring opportunities for customercentric digital products and services (e.g. advanced diagnostic systems on locomotives):
- Harnessing digital capabilities to offer value-added services to our existing customer base; and
- Lowering operating costs through digital enablement, project prioritisation and strategic resourcing.

Transitioning to 3PL

We have set ourselves the ambitious goal of transitioning from our current second-party logistics provider (2PL) status to becoming a third-party logistics provider (3PL) in the short to medium term, and will ultimately strive for fourth-party logistics provider (4PL) status in the long term. The 3PL model will offer end-to-end logistics solutions to customers and, while we will continue to intensify our road-to-rail strategy to move more road freight to rail, our 3PL service offering will extend to addressing rail freighting constraints by negotiating alternative modes of transport on behalf of our key customers.

In adapting to the 4.0 industry changes in the logistics sector, Transnet is also exploring future opportunities to acquire small and niche operators in the logistics industry.

Transforming the business

Transnet's business model, operating structure and leadership team (in place since May 2016) have been fundamentally reinvented to adapt to the new Transnet 4.0 strategic paradigm, which has three main growth areas (illustrated alongside):



Becoming a digitally-driven organisation

- These growth paths will be amplified by using digital technology to drive efficiency and innovation. A core pillar of the Transnet 4.0 Strategy is the digitalisation of both its internal and external facing business processes. This necessitates the rapid incorporation of leading technologies into new and existing products and business processes, and a profound shift in our thinking as an organisation.
- The following drivers will enable this digitalisation going forward:



Operational reliability

By enhancing digitalisation of our operations, we intend to optimise operational performance and reliability through technologies such as the Internet of Things, Machine Learning and Artificial Intelligence (AI). As we realise cost and performance benefits, we will continue to refine our customer interactions to ensure more streamlined customer interfaces.

¹ http://www.logisticsbureau.com/uberisation-of-logistics-are-you-too-late/



Digitalisation offers exponential opportunities to improve service levels and to enrich the customer's experience of the Company. Technologies such as blockchain will bring about new platforms for customer interaction with Transnet and will bring about the modernisation of legacy custom-facing processes.



The right to disrupt

Disruptive technologies will continue to reshape the logistics industry. Accordingly, Transnet is piloting various technologies to determine the impact on the Company, its customers and the logistics sector. By investing in the right people, skills sets and technologies, Transnet will be positioned for growth in the emerging 4.0 paradigm.

2

Transnet International Holdings (TIH) focus areas

Through Transnet 4.0 we are reimagining Transnet's regional and indeed global identity. Transnet will drive all international-bound commercial activities through its newly formed subsidiary company, TIH which has been formally incorporated in the Department of Trade and Industry's Companies and Intellectual Property Commission. An inaugural Shareholder meeting to appoint the Board was held on 27 February 2018, with the first Board meeting held on 15 March 2018. Transnet envisages multiple rail, port and pipeline projects on the continent, facilitated through TIH. Specific strategies are developed around areas of interest. The regional freight system benefits from deeper integration and enhanced connectivity. Transnet continues to participate in the New Partnership for Africa's Development (Nepad) Business Foundation, Southern African Railways Association, Port Management Association of Eastern and Southern Africa and other regional forums.

Rail Engineering Ports **Pipelines** The basis of Transnet's geographic The sector's primary aim is to grow As economic growth in Africa The discovery of new oil and gas cross-border volumes and enable regional integration, focusing on the: unfolds, the need for a road-to-rail expansion for the ports sector lies reserves in Africa has resulted in a modal shift in transportation in port concessions, which remain significant demand for new pipeline becomes more urgent, and the lucrative in the region. The low infrastructure capacity and demand for rolling stock and incidence of distressed or new-build project opportunities. Oil Maputo Corridor (South Africa, and gas commodity prices remain associated maintenance will cancelled contracts demonstrates Swaziland, Mozambique); increase. Engineering already that this route has achieved the low and, in some instances, below East/West Corridor (South Africa, Namibia, Botswana, Lesotho); and operates in this space and is well project hurdle rates, placing a desired outcome. Excluding South Africa, approximately 69% of all positioned to meet increased damper on new-build plans. Numerous new-build opportunities are likely to reach final investment demand. The capacity of its containers are shipped through North/South Corridor (South extensive manufacturing facilities terminals operated by the private Africa, Zimbabwe, Zambia, Democratic Republic of Congo, Tanzania). is easily increased by initiating sector. While port concession decision in 2018 and will be additional shifts. The development opportunities are limited, Transnet issued to the private sector on of the TransAfrica Locomotive is is well positioned to compete in concession. This signals a strong political desire to drive oil revenues expected to satisfy a market need this arena. It is anticipated that rail operators at a competitive price. and provide frontier economies an will execute a unified railway opportunity to enter the global oil system per corridor as if no boundaries exist between the and gas sector. countries involved. The increase in Closer to home, Transnet is cross-border volumes is the largest potential revenue driver of the positioning itself as a mid-stream infrastructure enabler through a . Transnet International Strategy. financial and technical partnership with qualifying private-sector sponsors and empowerment partners to form a Natural Gas Networks infrastructure backbone between KwaZulu-Natal and Gauteng by 2022/23. The partnership will facilitate the design, finance, build and operation of a new liquefied natural gases (LNG) import infrastructure, consisting of a regasification and storage terminal and integrated transmission pipelines.

Our point of departure: long-term sustainability

Our point of departure draws from our view of long-term sustainability. As a SOC, we cannot defer on our developmental mandate. Hence, our sustainable developmental outcomes form part of the essential blueprint for our new strategic direction. This means we need to consider our local suppliers in our expansion aspirations, acknowledge the new ways in which many 'new economy' enterprises and youth entrepreneurs work so they can benefit from our enterprise development programmes, involve our communities in our move to 'digitalisation', and consider developing the technologies and skills we will need 30 years from now.

The skills, experience and investment support that private-sector partnerships will bring to our geographic expansion strategy will also be invaluable, particularly as this support relates to port concession opportunities in the region, with approximately 69% of all containers shipped outside South Africa being routed through terminals operated by the private sector.

We also need to consider Transnet's relationship with resources and energy. A key force for innovation in Transnet 4.0 will be to explore new revenue opportunities in the energy sector and intensify our commitment to the modal shift of freight from road to rail.

Resourcing for the long term: Transnet of Tomorrow Figure 9

Rail infrastructure

petter representation of journey times, dwell times and turnaround times. Corridor services wi offer end-to-end solutions, thus aligning mainline upgrades with train-handling requirements at the endpoints.

30-year rail

R167 billion

30-year rolling stock infrastructure

R283 billion

Resourcing fundamentals

Align infrastructure with freight type Improve operational characteristics Ensure network connectivity Standardise infrastructure Align with Prasa/non-Transnet operator

Match capacity to demand Develop regional integration

requirements

Port infrastructure

We envisage new port sites along South Africa's coast, with sustainable approaches for future port development. Ports will harness the value of leading-edge emerging digital technologies. urban's container capacity planning will be evised and a more comprehensive suite of impo ptions will be devised for natural gas through th prt system. This landscape will also consider th port system. This landscape will also consider potential port and pipeline infrastructure required to import and distribute gas in Sou Africa, including Floating Storage and Regasification Units power barges and land-based power generation.

30-year port infrastructure investment

R226 billion

Develop back-of-port logistics areas to increase port capacity Integrate and align port and rail capacity planning

Maximise port zone functions

Resourcing fundamentals

Improve infrastructural and

operational efficiencies

Maintain flexibility to respond to changing technological and economic conditions Respond to environmental opportunities

and constraints Develop regional integration

Port system-wide capital investment

Align with planning initiatives of key stakeholders

Pipeline and gas infrastructure

+ 3 3 3 3 3 3 3

liquid fuel system as a result of better engagement with key stakeholders such as Government, oil majors and historically disadvantaged South Africans. Sustainable infrastructure will consider rehabilitation, reuse and optimisation of existing infrastructure. Transnet will enjoy successful partnerships with other gas roleplayers. Transnet Infrastructure Planning will also be upgraded to meet the fast-evolving gas energy landscape with due

R38 billion

Align with the planning initiatives of local, provincial and national Government, and other key stakeholders

Maintain flexibility to respond to changing technological and economic conditions

Respond to environmental opportunities and constraints in a sustainable manner

Follow a common user principle in developing an integrated liquid fuels supply system

Provide a logical range of facilities to meet local as well as hinterland demand

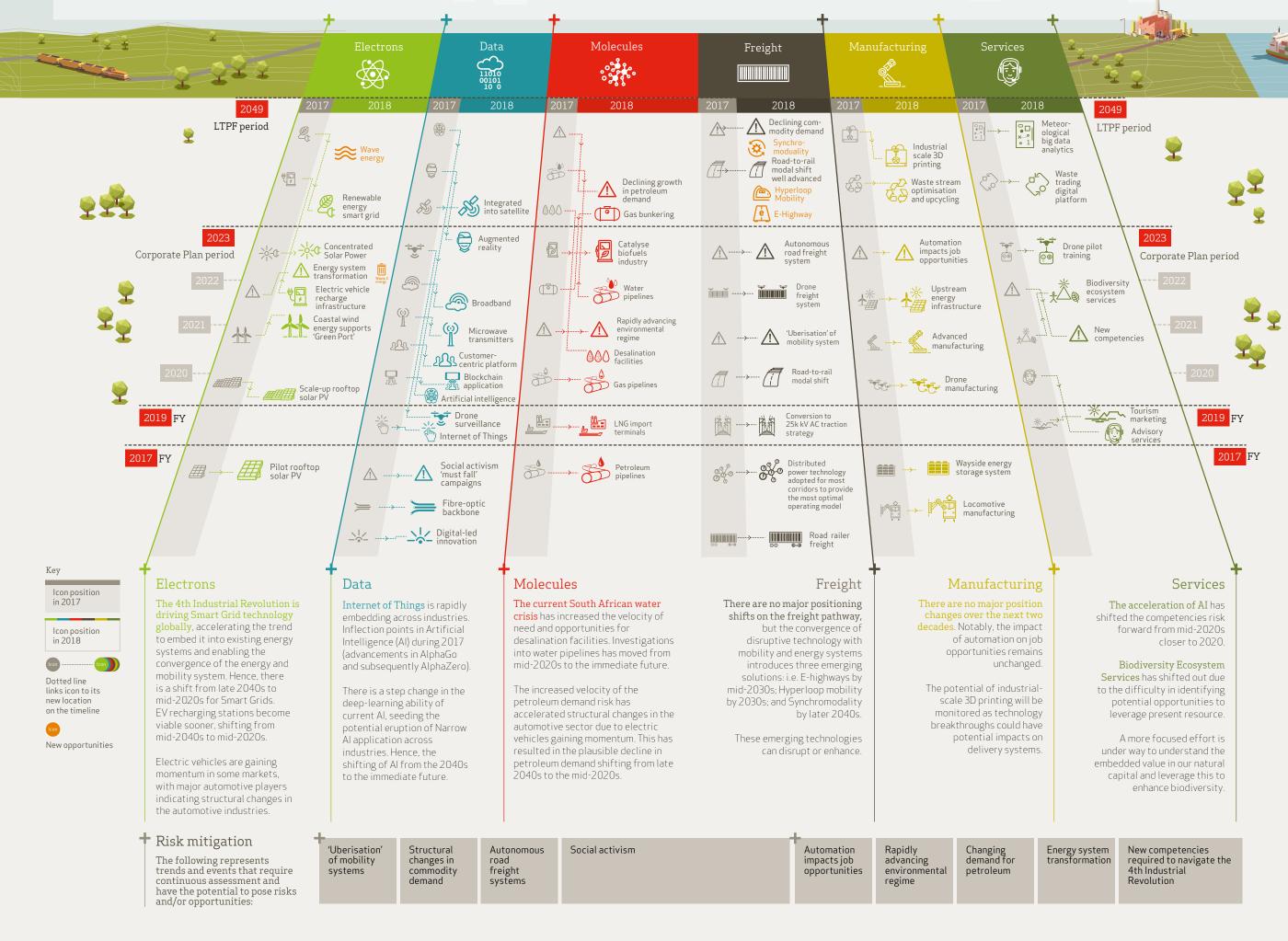
Integrate and align pipeline with port and oil terminal capacity planning

Meet the market demand and provide equitable access and capacity for all parties that want to participate in the oil and gas business sector

Facilitate the Department of Energy's security of supply objectives to comply with the Petroleum Pipeline Act and the Gas Act

Improve infrastructural and operational efficiencies and reduce transport and logistics costs

The Transnet of tomorrow

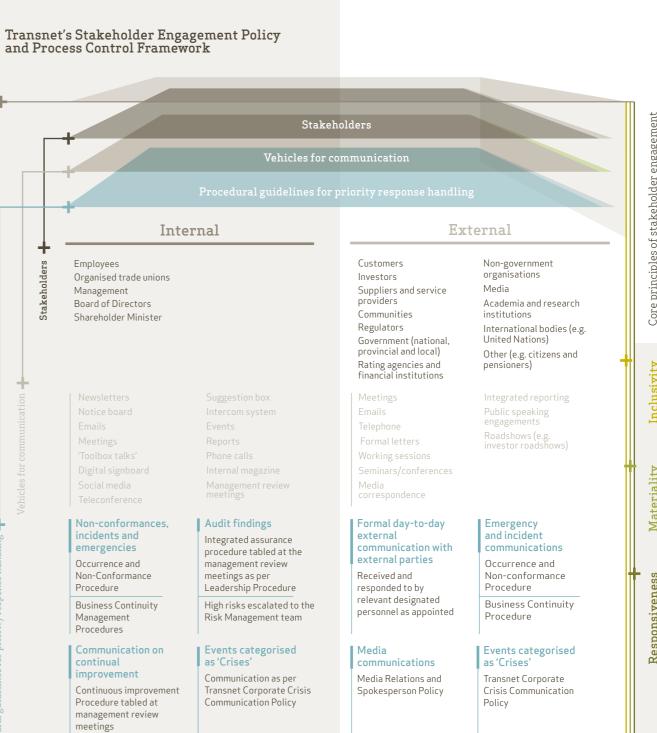






Managing our stakeholder relationships 😘

Feedback as per Leadership Procedure



0 Managing our stakeholder relationships continued
TRANSNET Integrated Report 2018

The Multi-stakeholder Perception Survey

Results of the 2017 Multi-stakeholder Perception Survey

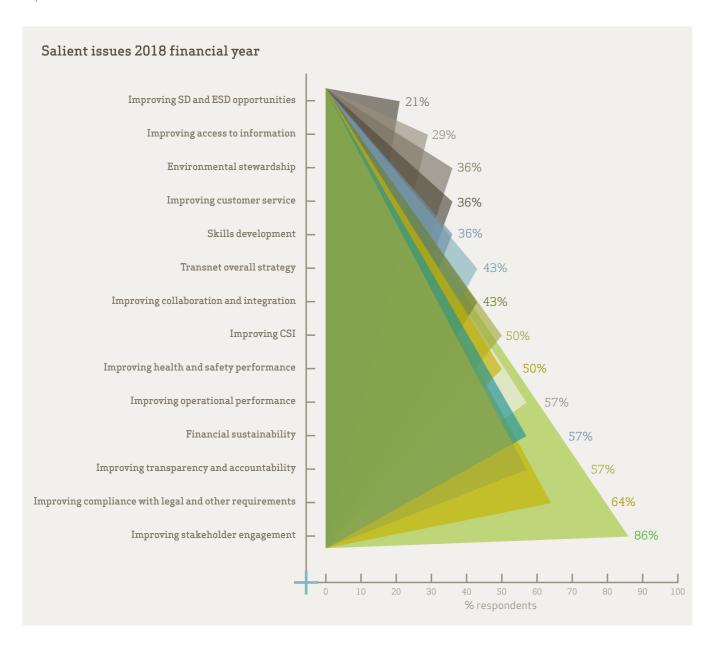
Results from the 2017 Multi-stakeholder Perception Survey indicated that Transnet's brand and reputation had been severely compromised during the reporting year due to a lack of proactive stakeholder engagement and a perceived lack of transparency and accountability relating to material stakeholder issues. Allegations of corruption, together with community demonstrations, fatalities and customer concerns around capacity and delivery, have contributed to negative perceptions with some stakeholders.

It is apparent from the survey results, coupled with media reports, that Transnet must radically improve its engagement with both internal and external stakeholders. This will require more active and regular consultation, involvement and communication. In addition to improving stakeholder engagements, we need to address the core of these issues, be they ethical or related to performance.

The 2018 Integrated Report attempts to address some of the key issues raised: firstly, by openly acknowledging concerns or allegations and, secondly, by sharing our responses to these issues. While ongoing internal legal investigations for some of the allegations may prevent us from concluding on these issues at the time of publishing this report, we are, at the very least, able to share our mechanisms for handling them.

Key issues/concerns impacting stakeholders during the reporting period

Based on the combined perspective of 'relevance' and 'importance' of material stakeholder issues, the top 24 material issues have been identified for discussion in the 2018 Integrated Report. These issues are further represented in this report as part of the 2018 'material aspects inforgraphic' (page 54) and clustered together with the other material issues arising from Transnet's mandate, business context, and the SDOs.



Addressing key stakeholder concerns

Key issues arising from our Multi-stakeholder Perception Survey

Key issues/concerns impacting stakeholders

Improving stakeholder engagement Transnet's response:

- Our Stakeholder Engagement and Management Procedure details the communication process for consultation, involvement and stakeholder engagement.
- We are upgrading our stakeholder engagement and management database to be operational in August 2019.
- Our Community Investment Plan (CIP) will simplify engagement with communities near our operations.
- Our Stakeholder Policy manages our stakeholder engagement, while iBELONG, our employee engagement solution, connects employees directly to the Company in a preferred language through various modes, including real-time mobile surveys.
- Group Leadership Team (GLT) members are each assigned an operational area to visit with employees. Issues raised during these visits are prioritised at the GLT structures and addressed accordingly.

Improving overall compliance with legal and other requirements

- We are communicating our strategic position through the Draft White Paper on National Rail Policy.
- We have support from the Department of Public Enterprises (DPE) for an appropriate Railway Safety Permit Fee Methodology that is equitable and non-prejudicial.
- We are involved in the Nersa Discussion Document on Prudency Assessment Criteria
- We are engaging with the DPE to highlight the regulatory risks to Transnet and the petroleum industry.
- We have support from the DPE for an appropriate methodology for the valuation of the National Port Authority's Regulatory Asset Base that will ensure regulatory certainty and a stable tariff path
- We have bilateral agreements with relevant authorities to streamline our processes with regulatory requirements.
- We continuously monitor and report on compliance with PFMA controls.

Improving transparency and accountability



- We institute internal forensic investigations into issues relating to contracts.
- Our team of non-executive directors is leading a review of the Company's procurement processes relating to the 1 064 locomotive contracts.
- We engage with financial institutions to inform them of our strategy, planned capital expenditure, operations and financial position and provide ad hoc requests for credit information.
- We comply with requests from rating agencies for annual reviews and credit information. In our engagements with rating agencies, we provide them with operational and financial information to enable them to provide the market with an independent assessment of Transnet – our sustainability, operations, strategy and impact on South Africa's economy.



 We have facilities available for bridging finance and to meet short-term maturing obligations, while long-term funding is being concluded.





- We ensure the uniform application of policies and guidelines, as well as processes and standard operating procedures to improve operational efficiencies.
- Our Operating Divisions collaborate to increase efficiencies.
- We conduct workshops in the drafting of feeder lines.
- We have implemented the Transnet Integrated Management Approach across our business.
- We engage with customers to address their concerns.
- The TVCC approach streamlines the end-to-end business value chain, optimises processes and improves turnaround times.

Key issues/concerns impacting stakeholders

Improving health and safety performance



Transnet's response:

- We are running a 'Zero Harm' campaign across the Company.Monthly themes issued by our Health and Safety departments
- Monthly themes issued by our Health and Safety departments feed into the Visible Felt Leadership (VFL) campaigns, highlighting issues of concern.
- VFL training was rolled out throughout the ports system and headquarters from March 2017 to January 2018.
- Health and safety incident recall audits are held at hot spots where disabling injuries have occurred.
- The GLT undertakes visits to operational areas across Transnet to encourage employee engagements with a view to increasing safety awareness.
- Work stoppages occur across Transnet when investigated outcomes of fatal incidents are presented.
- We conduct regular safety and awareness campaigns for the public at level-crossing areas.

Improving CSI



Transnet's response:

- Our Phelophepa project provides primary healthcare services that complement existing community clinics.
- Our Teenage Health Programme implements youth-friendly developmental services incorporating physical health and emotional well-being, lifestyle choices, future planning, etc.
- Our Employee Volunteer Programme will initiate a range of community-based social upliftment activities designed to facilitate rail safety and security infrastructure, construction and renovation, developing a social and economic hub, education and skills development, SMME incubation and promote agriculture and food security.

Improving collaborations and integration



- The TVCC approach streamlines the end-to-end business value chain, optimising processes, improving turnaround times and enhancing customer satisfaction.
- The Transnet Integrated Management Approach provides a common platform to manage safety, health, environment, quality, risk, security, compliance and other business processes.
 All business risks are consolidated into one framework, enabling Transnet to unify objectives and standardise processes.
- The CIP provides a coordinated governance structure to enable proactive and collaborative investment responses to community issues.

Transnet's overall strategy: Clarity in terms of the transition from the MDS to Transnet 4.0

Transnet's response:

- 2019 will be the year of transitioning from the MDS to Transnet 4.0 Strategy. The MDS is largely a capital-intensive strategy to create capacity to meet validated demand and improve operational efficiencies while remaining financially sustainable.
- Transnet 4.0 will build on the foundation created by the MDS. Transnet 4.0 will reposition Transnet for competitiveness in the fast-changing, technology-driven context of the 4th Industrial Revolution. Transnet 4.0 is aligned with the Shareholder's priorities and has three main growth thrusts: (i) geographic expansion; (ii) product and service innovation; and (iii) expanding the scope of Transnet's manufacturing business.

Communication of the strategy

- At an Indaba in 2018 we communicated the strategic transition from the MDS to Transnet 4.0 to our internal and external stakeholders.
- We have established a strategic communications team, comprising representatives from Corporate Affairs, Human Resources and Business Development to create awareness about the new Transnet 4.0 Strategy.
- The 2018 Integrated Report provides clarity on the transition to Transnet 4.0, including emerging risks, the contextual environment, medium- to long-term capital investment strategies and the Company's long-term planning horizon – 'Transnet of tomorrow'.

Skills development



Transnet's response:

• The CIP prioritises the intake of learners in communities that are near our operations.

Improving customer service



- Our robust tariff methodologies for both regulated and non-regulated businesses provide transparent pricing aligned with legal, economic and reputational requirements. The models are updated annually.
- We conduct regular benchmarks on prices to align with best practice through:
- Regular pricing studies for road versus rail; and
- Commodity benchmark studies on major commodities to benchmark rail tariffs.
- Our centralised customer relationship management solution optimises customer experiences, customer satisfaction and our engagement with customers.
- We are engaging in round-table discussions to address customers' complaints and concerns.

Key issues/concerns impacting stakeholders

Improving environmental stewardship



Transnet's response:

- The Sustainability and Environmental Forum represented by each Operating Division, Specialist Unit and environmental stewardship personnel – provide platforms to discuss and monitor environmental performance.
- Our environmental risk strategy provides guidelines for implementing sound environmental stewardship.
- We monitor environmental performance through regular audits and inspections.
- Bilateral agreements with the Department of Environmental Affairs and Tourism and with the Department of Water and Sanitation help us to streamline the environmental permitting authorisation and licensing processes.

Improving access to information

Transnet's response:

- Community development personnel will be appointed at district municipality level through the CIP to oversee community development services, including information on jobs and business opportunities.
- Transnet publishes its information on the intraweb available at www.transnet.net
- Our Integrated Report is our primary communication vehicle to all stakeholders, published online at www.transnet.net.

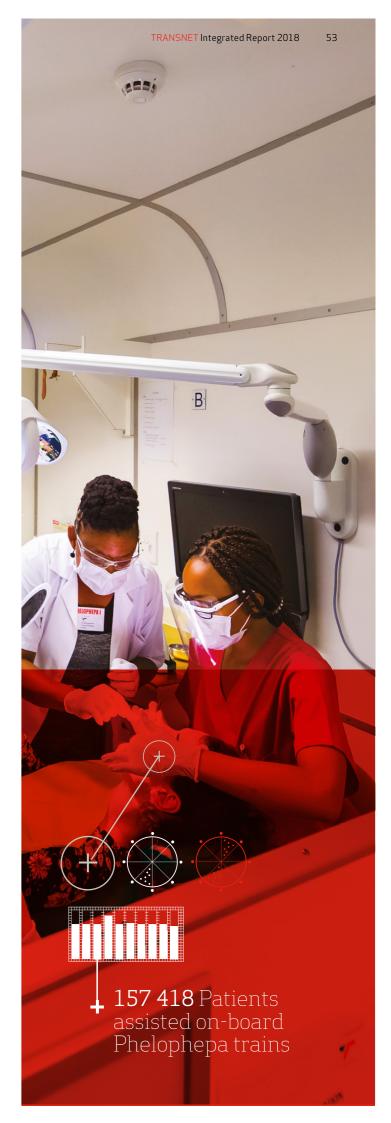
Improving Enterprise Development (ED) and Supplier Development (SD)



- The CIP provides a cohesive and integrated approach to the implementation of ED and SD initiatives.
- Supplier hubs provide community development services and business incubation support.
- Community centres help to facilitate entrepreneurship programmes.

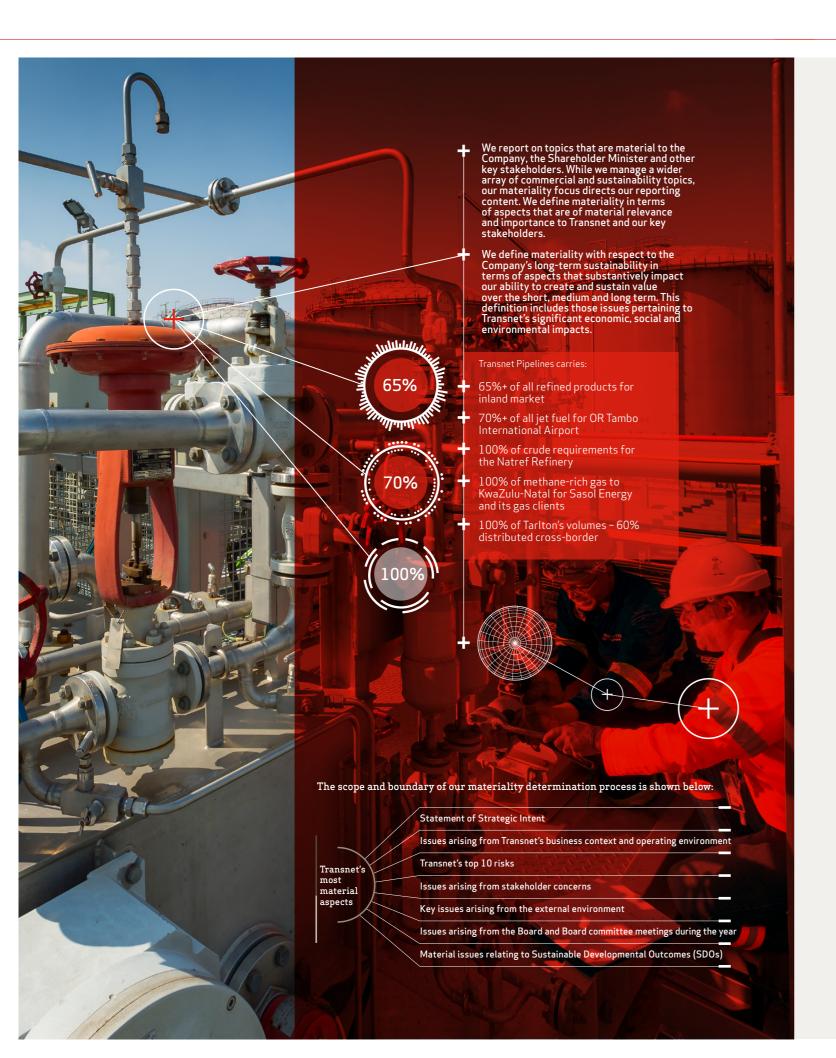
"We are very conscious of the link between reputation and the organisation's capacity to execute its strategy."

Mr Mohammed Mahomedy Acting Chief Financial Officer



54 Material aspects impacting our strategy

TRANSNET Integrated Report 2018



Material aspects impacting our strategy ••

Levels of accountability for determining material aspects

Transnet determined material aspects through a structured process of identifying relevant issues and prioritising those that are most material to the Company's commercial, social and environmental contexts. Figure 10 summarises the levels of accountability for identifying, validating and approving Transnet's material issues, as well as the criteria used during each stage of the process.

Validating material issues

In validating material aspects, we considered the severity of impact on the Company. Figure 10 shows the areas of the business considered during the process of deriving and validating material aspects. Aspects were measured quantitatively in potential ZAR impact (e.g. top risks), and qualitatively in terms of value impacted (e.g. the impact on reputation, natural capital, relationship capital and strategy).

Changes in reporting on material aspects

With Transnet's transition from the MDS to Transnet 4.0, we identified a sixth materiality cluster and associated aspects: Anticipating the future and developing methods of minimising the effects of shocks and stresses of future events. Material aspects include:

- Business continuity;
- Extreme weather events;
- Disruptive technologies;
- Restructuring of value chains and value networks; and
- Investing in emerging technologies and ensuring digital readiness.

Further, results from the 2017 Multi-stakeholder Perception Survey reflected that Transnet's brand and reputation were severely compromised during the year by inadequate stakeholder engagement and a perceived lack of transparency and accountability. Accordingly, we identified the material issue of 'Transparency and accountability' as an addition to the materiality cluster, Build social trust through ethical leadership and corporate citizenship.

The Company does not yet have firm measures for tracking performance for these aspects. Where appropriate, they are addressed qualitatively in this Integrated Report.

Directors' approval of material aspects

The Board signed off on the Company's material aspects. During the materiality determination process, material issues derived from the business context were validated, prioritised and approved by the relevant oversight Board committees.

The levels of accountability for identifying, validating and approving Transnet's material issues

Figure 10

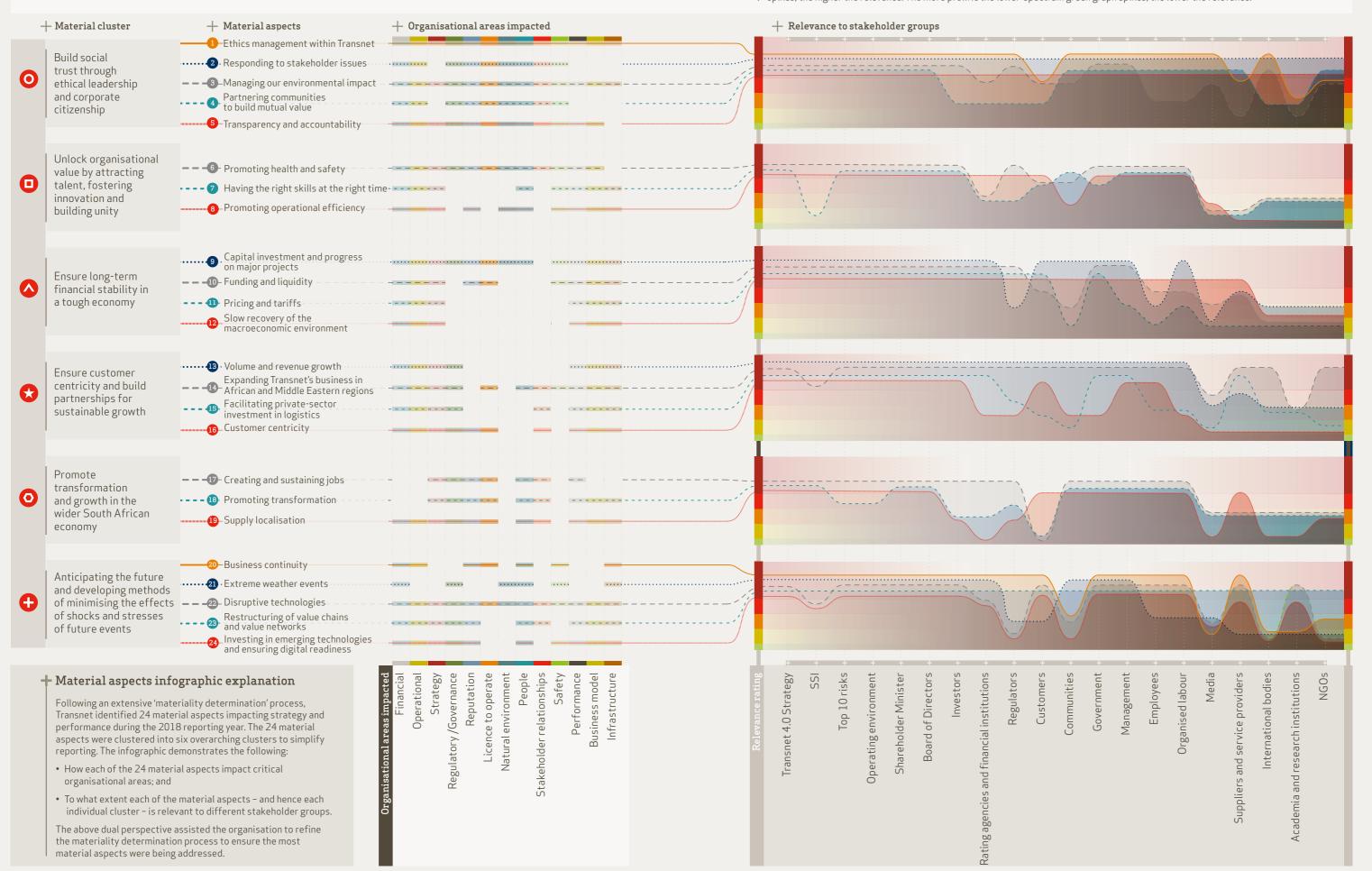
Identification criteria Identification Frequency of aspect being raised • Relevance of topics to multiple Transnet stakeholders Sustainability Department Applicability to Transnet's mandate, strategy and SDOs Group Finance • Efficacy of the Transnet control Stage 1 environment in mitigating associated risks Emerging risks Actual incidents arising during Transnet the year Sustainability Continuing applicability from the Department prior vear Stakeholder inclusivity Group Finance Management assessment, discussion Group and approval Corporate Appropriateness of the range Stage 2 Governance of aspects to be covered in Transnet's integrated reporting process Regulatory Severity of impact on the business* Transnet • How and where material issues occur Operating and impact in terms of Transnet's Divisions reporting boundary • Relevance within the 2018 reporting period Prioritisation criteria Transnet Prioritisation • Align 'relevance' of material aspects Sustainability with 'boundary context' Department • Management perspective on impact Group Finance and likelihood on Transnet's business Group context, strategy Alignment with top 10 risks Corporate Stage 3 • Consideration of 'relevance' both in Governance terms of challenges and opportunities (i.e. overall impact on the Company's Regulatory ability to create sustainable value) Sustainability Forum Remuneration, Social and Ethics Committee (material sustainability aspects) Group Financial Committee (material financial and commercial aspects) Stage 4 Risk Committee (all material aspects) Transnet Group Leadership (all material aspects) Transnet Board of Directors (all material aspects) * Quantitatively measured in potential ZAR impact and qualitatively

* Quantitatively measured in potential ZAR impact and qualitativel measured in terms of value impacted (e.g. impact on reputation, natural capital, relationship capital and strategy). 56 Material aspects impacting our strategy continued

TRANSNET Integrated Report 2018

The impact and relevance of material aspects

To read: Follow each material aspect across the page to see how it impacts organisational areas and to what extent it 'matters' to each stakeholder group. For a more holistic perspective, follow each cluster path across the page to see its overall impact on organisational areas and ultimately its overall relevance to stakeholder groups. The more prolific the higher-spectrum red graph 'spikes,' the higher the relevance. The more prolific the lower-spectrum green graph spikes, the lower the relevance.



58 Opportunities and risks

TRANSNET Integrated Report 2018



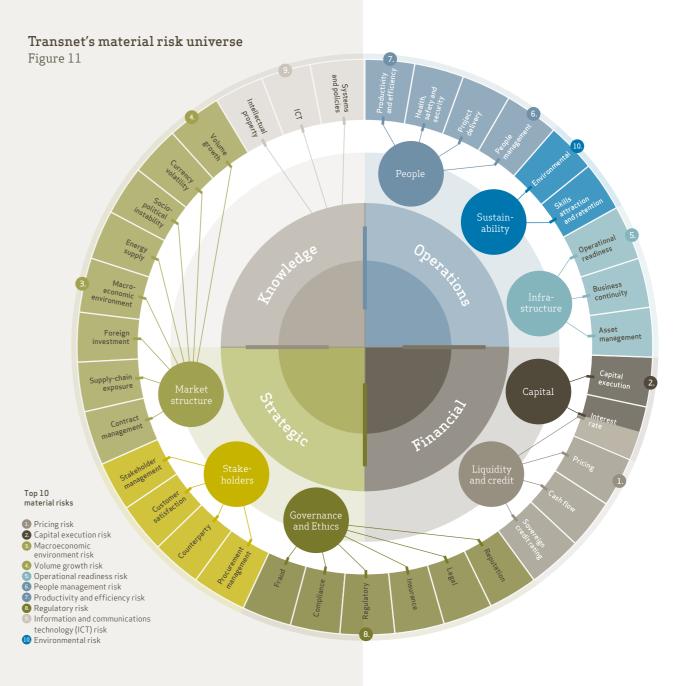
Opportunities and risks

Transnet's top risks for 2018

Transnet assesses strategic risks on an annual basis. Risks are evaluated on an inherent risk basis before considering current controls. Both internal and external factors are considered to understand the interconnectedness of risks and to appreciate potential impacts. Risk sponsors are assigned to each strategic risk to ensure mitigation strategies are aligned across all

operations. The Group Leadership Team rates the effectiveness of the current basket of controls, which is expressed as a percentage, resulting in a residual risk rating for each risk.

Figure 11 shows Transnet's overall material risk universe for the $2018\,\mbox{financial}$ year.

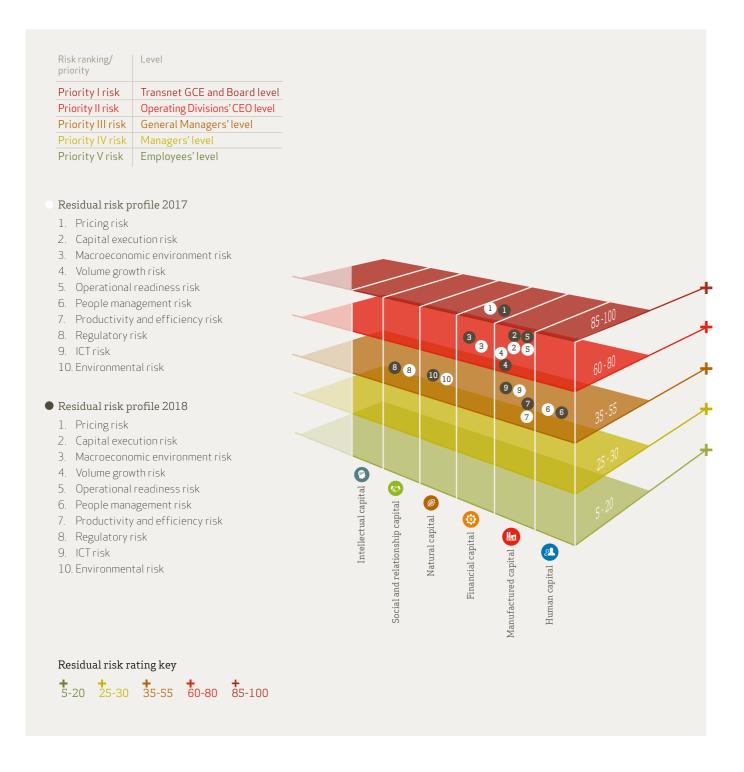


60 Opportunities and risks continued

Transnet's top 10 material risks for 2018 and the year-on-year movement of the top 10 risks from the prior year

Figure 12

Figure 12 shows Transnet's top 10 material risks for the 2018 financial year, as approved by the Board on 9 November 2017. The relative positions of risks are plotted on the heatmap according to their consequence and likelihood ratings, and expressed as a consolidated priority risk rating. The top 10 material risks for 2018 are plotted in relation to the prior year's top 20 material risks.



Risks and opportunities arising from material matters

O Cluster: Build social trust through strong leadership and corporate citizenship

Material aspects	Why it matters: Risks and opportunities	Management approach	Time frame
Ethics management within Transnet	Practices that lead to Government intervention to rebalance infrastructural disparities can lead to ethical transgressions. Perceptions of anti-competitive behaviour and corruption negatively impact reputation and investment sentiment. Sound corporate governance and a track record of ethical leadership can attract local and foreign investment and promote our reputation.	The Governance Framework guides management of governance and ethics. The Board delegates leadership for ethics and sustainability matters to the Remuneration, Social and Ethics Committee. Transnet is subject to sections 51 and 55 of the PFMA's obligations.	Short to medium term
Responding to stakeholder issues	Negative stakeholder sentiment adversely impacts the Company and affects global investor confidence. Proactively engaging stakeholders retains customers, counters competitive resistance, and attracts critical talent and investor confidence.	Structured process and protocols for engaging stakeholders and handling stakeholder concerns – from everyday interactions through to crisis communication (read more page 47).	Short to medium term
Managing our environmental impact	Risks include adverse impacts of energy supply, pollution, water shortages and extreme weather patterns. We can set leading precedents in managing waste and pollution within operations, particularly in view of our regional strategy.	Transnet's freight demand modelling tools quantify the highest-impact opportunities to reduce greenhouse gas emissions. Our environmental stewardship initiatives focus on energy and water use. Transnet's Energy Policy outlines our commitments to energy efficiency and security. The ISO 50001 energy management system is implemented across the Company. Transnet is investigating alternative energy technologies.	Medium to long term
Partnering communities to build mutual value	Adverse impacts on communities could lead to reputational risks and challenge our social licence to operate. Transnet can improve the lives of communities, e.g. localised procurement, enterprise development and employment.	Transnet Foundation* invests in projects with a strong community impact. Integrated CSI approach between the Foundation* and Operating Divisions.	Medium to long term
Transparency and accountability	Radical transparency' – stakeholders demand that all facts are put on the table, even if uncomfortable. Lack of transparency can lead to loss of stakeholder confidence and reputational risks. Transparency enables more realistic future expectations and builds trust.	Structured process and protocols for engaging stakeholders and handling stakeholder concerns – from everyday interactions through to crisis communication (read more page 47).	Short to medium term

$\label{prop:continuous} Key \, measures \, for \, tracking \, our \, performance$

— Adherence to PFMA provisions and monitoring PFMA reporting

Stakeholder surveys and customer satisfaction ratio

- Percentage improvement in our Group Weighted Energy Efficiency (electricity and fuel)

Our ability to reduce our carbon emission intensity (kgCO $_2$ /ton)

└─ Our CSI spend

*Due to changes in the operating model in 2018, part of Transnet Foundation resources have been incorporated into Transnet Corporate Centre.

Unlock organisational value by attracting talent, fostering innovation and building unity

Material aspects	Why it matters: Risks and opportunities	Management approach	Time frame
Promoting health and safety	Adherence to standard operating procedures (SOPs) in a highly industrial operating environment and public safety at level crossings. In adhering to SOPs, our staff become personally accountable for operational impacts on colleagues, the environment and communities while reducing business interruptions.	Health and Safety committees. Recognition agreements with trade unions ensure a safe working environment. Various policies improve safety across the business, (e.g. Occupational Health Management Policy, Integrated Emergency Management Service, etc.)	Short to medium term
Having the right skills at the right time	Transnet has to compete for scarce skills with other engineering firms and SOCs. As an 'employer of choice', Transnet attracts scarce technical skills, and strengthens staff retention and sustained productivity.	Transnet's talent management and development programme plans for priority and critical positions. Leadership programmes and coaching target specific management levels. Feeder training pipelines support critical skills categories.	Short to medium term
Operational efficiency	Low productivity levels due to absenteeism, strike action or operational inefficiencies lead to unreliable services, reduced asset performance and adverse impacts on service delivery. Efficiency gains improve operational efficiency of the entire freight logistics system - shaping the country's ability to compete globally.	The TVCC coordinates oversight of operational activities in the value chain and streamlines task flows. Automation and digitisation within operations enhance efficiencies.	Short to medium term

$\label{eq:Keymeasures} \text{Key measures for tracking our performance}$

- Tracking our training spend and the number of artisans, engineers and technicians trained
- Maintaining a DIFR below 0,75 to maintain global leading standards
- Tracking our performance in terms of volume growth, rail efficiency, container moves, train turnaround times, average anchorage waiting time and ship turnaround times
- Our investment in new technologies
- Our spend on research and development

62 Opportunities and risks continued

TRANSNET Integrated Report 2018

A Ensure long-term financial stability in a tough economy

Material aspects	Why it matters: Risks and opportunities	Management approach	Time frame
Capital investment and progress on major projects	Transnet not realising benefits from its capital investments. As a SOC, Transnet facilitates broad-scale industrial opportunities by delivering major infrastructure benefit to the country and promoting the localisation of supply on mega projects.	The Capital Governance Framework has an integrated assurance framework that empowers oversight authorities to assess, challenge and direct project, programme and portfolio delivery.	Medium to long term
Funding and liquidity	Inadequate liquidity can negatively impact the Company's going-concern status and impact our credit rating, cost of funding and investment plans. Private-sector partnerships enable Transnet to broaden the available finance pool and expedite infrastructure development and capacity creation.	Positive engagement with financial capital providers. We access facilities from various sources for bridging finance. Revenue diversification. We constantly review our finance and funding strategy.	Short to medium term
Pricing and tariffs	Tariff decisions could impact negatively on investment decisions, investor confidence and strategic execution. To justify tariff increases we must provide infrastructure service reliability and technical innovation commensurate with tariff increases. Through operational efficiency and R&D activities, we enhance infrastructure reliability, as well as our technical expertise.	We manage national sector policy processes, tariff modelling and tariff benchmarking to ensure a fair return on investment and cash flow. Our pricing strategy for non-regulated entities ensures pricing methodologies; and tools, governance and performance measures inform business decisions. Revenue risk management mitigates policy, economic and reputational risks. We are engaging Government policy departments and regulators.	Short to medium term
Slow recovery of the macroeconomic environment	The global economic growth outlook, while improved, is clouded by policy uncertainty as pressure mounts on the world trading system. The positive trajectory breaks with several years of declining growth, yet the projected growth rate falls short of reducing unemployment, poverty and inequality.	Three main growth thrusts of Transnet 4.0: Geographic expansion Product and service innovation Expanding the scope of Transnet's manufacturing business Compliance with the Treasury Financial Risk Management Framework. Adopting the Long-term Planning Framework. Developing and maintaining strategic customer engagement plans.	Medium to long term

$\label{eq:Keymeasures} \text{Key measures for tracking our performance}$

- Investment in sustaining and expanding infrastructure requirements (e.g. the acquisition of locomotives and wagons)
- Capital investment in key capacity-creation projects
- Financial, such as EBITDA, cash interest cover, gearing, ROTA and average tariff increases

Ensure customer centricity and build partnerships for sustainable growth

Material aspects	Why it matters: Risks and opportunities	Management approach	Time frame
Volume and revenue growth	Not attracting and sustaining additional volumes as new capacity is created and protecting current volumes against new entrants. Opportunity to capture greater domestic market share through the road-to-rail strategy and geographic expansion.	Basing volumes targets on inputs from customers, financial plans, funding requirements, operational plans, capital investments and risk management strategies across the Company.	Medium to long term
Expanding Transnet's business on the continent	Socio-economic and political instability in operating countries and operational risks in planning and staffing of the regional business. The region needs improved infrastructure connectivity, which Transnet can facilitate through its Africa expansion strategy.	Transnet's Africa expansion strategy. A subdivision of Transnet – Transnet International Holdings (TIH) – will direct all regional activities.	Medium to long term
Fostering lasting customer relationships	The risk that poor client service delivery and capacity constraints result in strained relationships with customers and loss of business. Mutually beneficial customer relationships facilitate longterm planning of commodity performance with customers.	Enhanced key account management. Enhanced integrated customer planning. Designing transparent capacity allocation processes. Becoming a 3PL end-to-end logistics service provider.	Medium to long term
Facilitating private sector investment in logistics	Collaborative partnerships with customers and private- sector partners can support end-to-end logistics service solutions. Strategic commercial partnerships play a crucial role in enabling our regional integration strategy.	Transnet is pursuing agreements with various port authorities to develop regional shipping services, thus boosting inter-Africa trade. Concession opportunities are also being pursued. Create new market opportunities by strengthening partnerships with regional OEMs.	Medium to long term

Key measures for tracking our performance

- Tracking volume growth, e.g. general freight railed volumes, export coal and iron ore railed volumes, and container and automotive volumes handled through the ports
- Cross-border revenue from our regional integration initiatives and Africa operations
- The number of regional integration projects in selected African corridors
- Achieving key operational targets to meet customer expectations
- Number of PSP transactions concluded

Promote transformation and growth in the wider South African economy

Material aspects	Why it matters: Risks and opportunities	Management approach	Time frame
Promoting transformation	As a SOC, Transnet must deliver on Government's developmental imperatives (i.e. job creation, skills development, transformation and localisation). Transnet promotes social value through employment equity in the Company and black economic empowerment through our suppliers.	Transnet's Employment Equity Policy supports the Employment Equity Act, No 55 of 1998. Transnet's Broad-Based Black Economic Empowerment (B-BBEE) policy and strategy addresses economic transformation.	Medium to long term
Localisation of supply	Transnet 4.0 requires specialist emerging skills and digital technologies. If these skills and tools are not locally available, Transnet, as a SOC, must support the growth of national capability among local suppliers. The scale and scope of our procurement expenditure creates and empowers local black businesses in many sectors.	Transnet promotes training, skills development and local technology transfer, particularly through our relationships with OEMs in our locomotives acquisition programme. Our Supplier Development Plan is guided by Government's Competitive Supplier Development Programme. Enterprise development hubs in Johannesburg, De Aar and Saldanha Bay provide a 'one-stop' business resource facility for potential suppliers.	Medium to long term
Creating and sustaining jobs	Ensuring the recruitment and retention of top-quality employees in all employment groups – for the Company, but also to boost South Africa's market competitiveness – particularly in the engineering and logistics sector.	Our human capital strategy approaches job creation within the framework of strategic workforce planning. Our supplier development initiatives create direct and indirect jobs in the wider economy.	Medium to long term

Key measures for tracking our performance

- Tracking performance against transformation targets, e.g. employee equity targets, B-BBEE, and enterprise and supplier development
- Procurement of local content through local suppliers
- Fair and competitive remuneration and reward for employees
- Measurable direct, indirect or induced employment in the wider economy

Anticipating the future and developing methods of minimising the effects of shocks and stresses of future events

Material aspects	Why it matters: Risks and opportunities	Management approach	Time frame
Business continuity	The risk that essential business functions are interrupted during or after a disaster, operational incident or challenges, such as load-shedding or inadequate Information and Communications Technology (ICT) infrastructure, which extends to cybersecurity failures.	Business continuity intervention plans. Equipment lifecycle management and ICT Disaster Recovery Plan. Comprehensive security and monitoring for all critical systems – including cybersecurity.	Medium to long term
Extreme weather events	Changes in the frequency, intensity, spatial extent, duration and timing of extreme weather and climate events, resulting in business disruption, infrastructure vulnerability, safety events and economic losses.	Business continuity interventions in place in case of weather disruptions. Two-way ICT Disaster Recovery Plan. Comprehensive security and monitoring for all critical systems.	Medium to long term
Disruptive technologies	New technologies can displace Transnet's established technologies or alter its way of doing business, resulting in business losses. Transnet can use and develop 'disruptive technologies' to adapt to industry evolutions.	Transnet 4.0 Strategy – strategy for growth in the context of a disruptive and innovative 4th Industrial Revolution. Digital technologies to reimagine the business and revenue streams. The digital growth aims to develop commercialisation strategies and customer value propositions for growth initiatives.	Medium to long term
Restructuring value chains and value networks	Long-standing value chain models are being transformed by new entrants who restructure the way value is delivered to the customer. They use productivity, technology and innovation to change the division of labour and influence workflows, skill needs and control. As an end-to-end 3PL logistics provider, Transnet can use technology, skills and value chain partnerships to eliminate whole stages of complex logistics value chains.	The Framework and Capacity Planning unit is developing future scenarios within the Transnet 4.0 context. Value chain performance measures to drive incentives. Automation to simplify, integrate and optimise end-to-end Freight Rail value chain processes. Digitising the transactional value chain. The TVCC is being geared to deliver total product transportation solutions to final destination.	Medium to long term
Investing in emerging technologies and ensuring digital readiness	The risk of Transnet not being ready to embrace or adapt to disruptive technologies and our current ICT solutions not being integrated. We can create new and innovative technologies to adapt to the 4th Industrial Revolution.	Leading the convergence for digital planning in the capital project environment – tools, systems and processes. Digitalisation strategy and roadmap. Digitisation project for managing construction projects. Predictive systems to maintain Transnet's assets.	Medium to long term

Key measures for tracking our performance

- The quality of ICT governance
- R&D investment in advanced manufacturing
- Investment in new technologies

Opportunities and risks continued TRANSNET Integrated Report 2018 65

Internal sources of risks (aspects of business activities):

- Product planning, design and manufacture
- Specialist skills and knowledge deployment
- Quality, cost competitiveness and technological advantage
 Processes, training, relationship management
- Market differentiation
- Business model

Priority I risk – Transnet GCE and Board level Priority II risk - Operating Divisions' CEO level Priority III risk – General Managers' level Priority IV risk - Managers' level Priority V risk – Employees' level

Business moder				
Risk description	Inherent risk Residual risk	Root causes of risks	Impact(s) on value: Financial Manufactured Intellectual Human Social and Relationship Environmental	Key control strategies
Pricing risk - high cost of providing freight service is rendering price uncompetitive in certain commodities		Non-regulated pricing - models and methods not flexible enough to be competitive Regulated pricing - tariff guidelines not supportive of volume growth	Not meeting planned volume growth Impacting adversely on financial results Slowing down the road-to-rail strategy	National Ports Authority applies the Ports Regulator's approved tariff methodology to ensure regulatory and revenue certainty. Ports Regulator does not account for inflationary increases. Pipelines applies for its petroleum pipelines tariffs on an annual basis due to NMPP project challenges. Ministerial Task Team was established to develop the Interim Rail Economic Regulatory Capacity for Freight Rail. Economic regulation of Freight Rail will put pressure on future revenue streams. Stakeholder relationship building with regulators and Government departments. Key non-regulated pricing strategy: Effective pricing will mitigate risks Review current strategy Strategy to be dynamic, broad and inclusive
Productivity/efficiency risk - inefficiencies in the value chain leading to lower volumes and financial instability		Ineffective value chain coordination Ineffective rail and port planning Asset availability and reliability concerns	Lower volumes Financial instability Reduced asset performance Adversely affecting service delivery levels	Full implementation of Crew Management System in Freight Rail. Develop Capacity vs Demand Model for ports to address holistic operation. Review Port Development Framework Plans. Improve and reinforce the TVCC coordination. Initiate Port Operations Centres and develop into Joint Operations Centres. Implement Regional Economic Integration Programme and memorandums of understanding to coordinate regional cargo flows. Establish a competent human resources capacity. Develop comprehensive business continuity management plans to allay incidents and asset failures. Embed a risk management culture in decision-making. Integrated planning between Operating Divisions and industry for contingency capacity in the event of outages.
Operational readiness risk - misalignment between operational readiness and rolling stock acquisition		Operations not ready to operate the newly acquired assets in terms of training of drivers and maintenance staff, upfront spares, tools and facilities Alignment across the value chain between Operating Divisions and Specialist Units	Delays in the deployment of newly acquired rolling stock Reduced availability of rolling stock Lower productivity	Locomotive execution strategy – four-tier governance (Executive Sponsor, Steering Committee, Locomotive Owners, Programme Director). 1 064 Locomotive Steering Committee to manage effectiveness and controls – Engineering and Freight Rail committees established. Group SteerCo not established yet. Capital project planning between Group Capital, Engineering, Port Terminals and Freight Rail for alignment across the value chain. Operational readiness effected in preparation for locomotive deployment. Ordering of railway material done a year in advance. Project Management Office (PMO) established. Engineering and Freight Rail maintain risk registers.
ICT risk - inadequate ICT infrastructure and technology to enable business and to deal with disruptive innovation		Organisation not ready to embrace disruptive technologies Current ICT solutions not integrated Funding constraints	Business is not enabled to deal with disruptive innovation Delayed implementation of new technologies Reskilling of human resources required Delayed commercialisation of digital solutions	Effective implementation plans for the IT Strategy. IT systems convergence to improve visibility between Operating Divisions. Strategic customer engagement. Ramp up training before new assets in production. Equipment lifecycle management. Two-way ICT Disaster Recovery Plan. Comprehensive security and tracking for critical systems. Redesign the Project Management Office (PMO). Legacy renewal continues. Implement systems automation strategies. Evolving pre-emptive and proactive responses to business needs through diagnostic capabilities to deliver on advanced analytics.
People management risk - inadequately skilled staff in operations, not skilled for future operations		Operational staff not skilled for future operations Lack of scarce skills in the job market Not actively managing skills development	Delayed benefits realisation of new technologies Retraining of current employees Reliance on external skills	Implement a compelling employer brand. Workforce strategy to determine long-term and temporary skills requirements. Cultivate skills development strategies, i.e. partnerships with educational institutions or programmes to supply scarce skills. Vacancy management and displacement. Initiate recruitment, talent and compensation strategies to attract scarce skills (i.e. rural areas and global). Renegotiate main agreements with organised labour.

Inherent risk Residual risk	Root causes of risks	Impact(s) on value: Financial Manufactured Intellectual Human Social and Relationship Environmental	Key control strategies
Capital execution risk - not realising benefits of capital investment	Expected market demand not validated sufficiently Lower economic activity both locally and internationally leading to a lack of market demand Delays in the execution of capital projects	Not generating adequate cash flows to contribute to future capital expenditure Stranding and underutilisation of newly acquired assets	Implemented total cost of ownership planning techniques to ensure the best option when acquiring assets, using case validation and gate review process. Fleet planning with the full asset lifecycle in mind. Develop clear Replace/Repair/Refurbish guidelines. Operational readiness monitored in execution through SteerCo, with focus on mega projects. Apply design to cost principles. Robust demand validation process is now mandated for all strategic commodities. Quarterly portfolio update and monitoring to assess changes in macroeconomic factors – to be considered in rebalancing the portfolio. Developing assets with scalable and flexible solutions. Capital Operating Model finalised. Skills audit on 1 200 PMO offices.

External sources of risks (aspects of legal, commercial, social, environmental and political contexts) – direct or indirect impacts of risks:

- Needs and interests of stakeholders
- Macro/micro economic conditions
 Market forces, e.g. competitor strengths/weaknesses
 Political environment
 Market segmentation
- Environmental challenges

- Legislative and regulatory environment

•	Market	channels
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Risk description	Inherent risk Residual risk	Root causes of risks	Impact(s) on value: Financial Manufactured Intellectual Human Social and Relationship Environmental	Key control strategies
Environmental risk – energy supply, water shortage and adverse weather patterns		Absence of sufficient sub-stations along the network Water shortage in certain geographical areas Adverse weather patterns resulting in strong winds and torrential rains	Operational disruptions Handling of certain commodities adversely affected (i.e. saw dust at Port of Richards Bay) Safety incidents: loss of life and damage to equipment	Setting of energy-efficiency targets, energy-saving initiatives and consumption reporting. Electricity price path management, continuous price analysis. Implement ISO 50001. Water Policy. Water retention initiatives – leak detectors, pressure control values, remote loggers. Refurbish Delkor Plant, boreholes. Agreement with Council for Scientific and Industrial Research to obtain weather updates.
Macroeconomic environment risk – deterioration in macroeconomic environment due to global economic slowdown and slow recovery rendering capital projects unviable		Global economic slowdown and concomitant slow recovery Local economic policy uncertainty Weakening of local currency	Capital projects becoming unviable Increased cost for the replacement of current assets and acquisition of spares Possible sovereign credit rating downgrades	Treasury Financial Risk Management Framework. Adopt Long-term Planning Framework. Strategic customer engagement plans. Annual corporate plan and budgeting. Flexibility to adjust the Corporate Plan and investment strategy to operations. Capital reprioritisation.
Regulatory risk – changes in the regulatory environment (i.e. economic, technical and compliance) – spending on capex based on assumptions that may be negatively impacted by subsequent changes in regulations		National policy changes anticipated in terms of economic regulation National Treasury increasing procurement controls to contain uneconomical spend and opportunities for fraud	Spending on capex based on assumptions may be negatively impacted by subsequent changes in regulations Compliance requirements becoming more onerous Local policy uncertainty	Regular engagement with Government and regulators to align strategies. Assessing draft legislation through communication and consolidation of impacts on internal processes. Shareholder Task Team built to engage with the Rail Regulator. Developed and maintained minimum control frameworks in response to procurement legislation. Assurance activities on priority legislation for control effectiveness. Competition Commission investigation – prepare the required documentation to inform on alleged port and rail exclusionary practices and price discrimination.
Volume growth risk - inability to attract and sustain additional volumes as new capacity is created and to protect current volumes against new entrants, customer activism		High reserve stock levels of some commodities Current customers in financial distress Pricing not integrated across the Company Inflexible pricing strategies don't compete with rivals in new markets	Not meeting planned revenue diversification opportunities Stranding and underutilisation of newly acquired assets Reduced volumes from current customers	GLT diversification initiatives Think Tank initiatives Strategic customer engagement plans Group integrated pricing forum Key account management Approved pricing strategy Road-to-rail strategy

66 Opportunities and risks continued

Transnet's risk control and assurance environment

Transnet has an established, principles-based Integrated Assurance Model that provides a clearly defined, documented approach for integrating and aligning Transnet's assurance processes and control systems, thereby enabling appropriate risk and governance oversight.

The governance of risk

Accountability is key in the management of risks. Named individuals are associated with specific risks, controls or tasks. The primary risk roles are:

- Risk owners: Ensure that the risk assessments are up to date and properly recorded in risk registers.
- Control owners: Provide periodic assurance that controls are adequate, effective and efficient.
- Task owners: Take appropriate risk treatment actions.

Risks taken outside tolerance levels

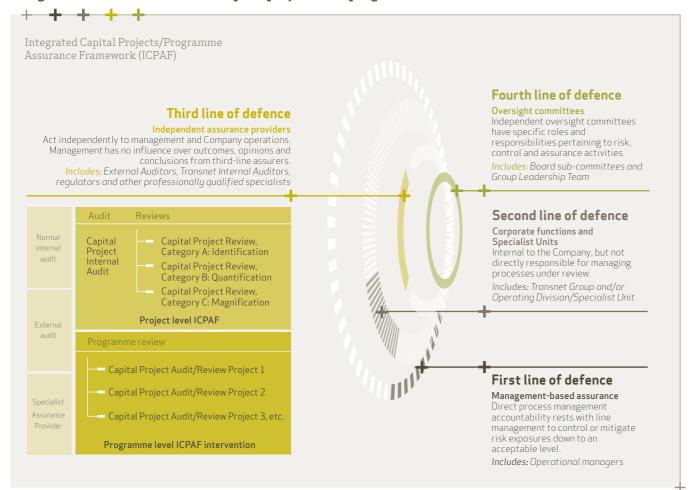
Risk sponsors assess the desired control effectiveness of all risks, assuming that all additional mitigation has become effective. The level of desired control effectiveness considers

various perspectives, including the extent to which the Company can control the root causes, consequences and the likelihood of the risk materialising. The Company also performs a cost benefit analysis when assessing the scope for further control and risk treatment. The risk sponsors consider closing the gap (if any) between the actual control effectiveness and the desired control effectiveness when deciding on risk response strategies. The top five residual risks are tolerated for being outside the generic tolerance levels. This is largely due to the influence of external factors on these risks.

Management of risk

Transnet's enterprise risk management (ERM) process aims to achieve an appropriate balance between opportunities realised for gain, while minimising adverse impacts. General activities include risk identification, evaluation, prioritisation, treatment, monitoring, reporting and integration in decision-making and key business processes. Rather than striving only for inherent efficiencies and operational performance, the ERM process helps to shape the business' strategic direction. The risk management approach is evolving from being process- and compliance-focused, to one of data centricity. The strategic risk profile considers King IV principles¹ and the ISO 31000:2009 Risk Management Standard. It is further based on Transnet's Shareholder's Compact and strategic fundamentals².

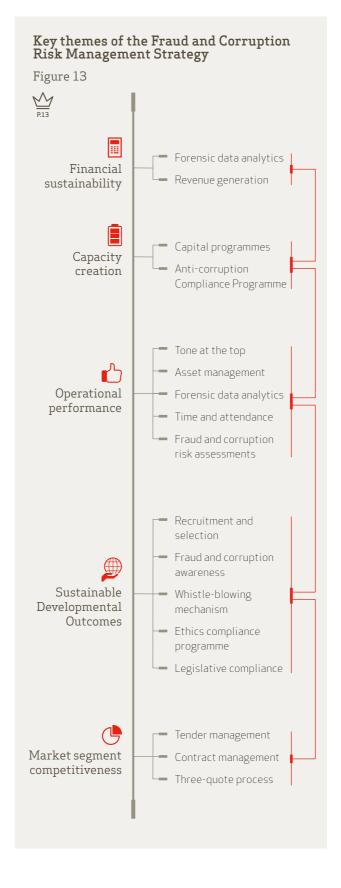
Integrated Assurance Model for capital projects and programmes



¹ King IV Report on Corporate Governance of 2016.

Fraud and Corruption Risk Management Strategy

Transnet's Fraud and Corruption Risk Management Strategy, as contained in the Fraud Risk Management Programme (FRMP), provides mechanisms for the prevention, early detection and investigation of irregularities. The FRMP provides corrective measures to address control breakdowns and related root causes.



Emerging risks

In 2016, Transnet undertook a Sustainability Risk and Opportunities Assessment to assess emerging risks that have the potential to impact our business in the medium to long term. Accordingly, we developed a pathway to leverage opportunities. This was done across seven themes:

- Biodiversity
- Circular economy
- Climate change
- Disruptive technology
- Energy security
- Energy security
- Social inequality
- Water

Risk event proximity

Since reporting on these risks in our 2017 Integrated Report, we have observed movements in these risks, with some having already materialised in the current reporting year. Accordingly, we assessed how the risks have evolved over the past two-year period and reviewed their relative impacts.

Transnet used an Event Proximity Matrix (EPM) to track the status of emerging risks. The EPM defines the time proximity for the risk assessment in terms of short (One-year: Financial year), medium (Five-year: Corporate Plan) and long term (30-year: Long-term Planning Framework) time horizons, and positions emerging risks in terms the following parameters:

- Value network: Provides a global view of emerging risks
- Value chain: Provides a localised (South African) view of emerging risks
- Business operations: Provides a view of emerging risks in terms of Transnet's business operations

Accordingly, Transnet can interpret the interconnectedness and dependencies of operations with greater accuracy. It is particularly useful as a planning tool to assess the speed and intensity with which these emerging risks are likely to impact our operations as they filter through from a global to local context, compelling the Company to transform at an accelerated pace.

We encourage the reader to read our EPM findings below together with our section on 'Strategy and Resources' (page 45), which looks ahead at our long-term planning horizon, as well as our 'Outlook' section (page 110), which considers our short- to medium-term planning horizon.

² Financial sustainability, capacity creation, operational excellence, market segment competitiveness, and nine SDOs.

Circular economy emerging risks and opportunities

(VN) Global view

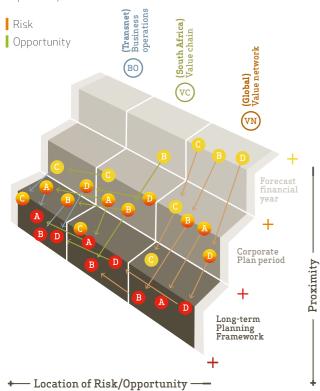
- a. The global shift to a circular economy, coupled with cheaper renewable energy sources and climate change agreements, is expected to scale up adoption of renewable energy sources resulting in a decline of fossil fuel production.
- b. Increased steel recycling is expected to pose a threat to iron ore
- c. Increased alliance in a circular economy and its unique requirements are expected to fast-track circular economy across Africa through collaborations
- d. Adoption of digital factories and use of 3D printing adopted in Western Europe is expected to spread to other areas.

(vc) South African view

- a. The increased use of alternative energy will impact negatively on coal mining and its transportation.
- b. Iron ore mining will be impacted due to increased efficiency gains in recycling of steel and a decline in demand due to material substitution related to disruptive technology
- c. Manufacturing waste requirements are expected to be incorporated for producers.
- d. Manufacturing at point of use and 3D technologies and digitisation are expected to increase efficiencies.

(BO) Transnet view

- a. Coal volumes are expected to decline due to transition to cleaner energy.
- b. Iron ore volumes expected to slow down or decline due to increase in steel recycling and new materials.
- c. Impact on waste management optimisation presents an opportunity for recycling and transportation of recycled materials.
- d. Manufacturing is expected to be impacted negatively due to increase in manufacturing at point of use through 3D printing. However, opportunity to generate new advanced manufacturing products/services.



Biodiversity enhancement emerging risks and opportunities

(VN) Global view

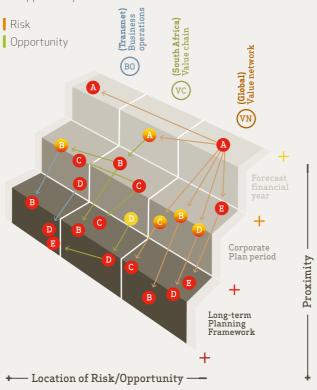
- a. Habitat loss caused by land-use change will lead, with high certainty, to continuing decline in the local and global diversity
- b. The continuing increase in illegal fishing is contributing to a decline in fish around the world, thus impacting food security.
- Emergence of Monitoring Valuation and Accounting System (payment for loss of biodiversity instituted).
- d. Land-use change due to increased demand for bio-energy.
- e. Decline in bee population, thus impacting food production and presenting opportunities for mechanical pollination.

(vc) South African view

- a. Forests and woodlands are converted to cropland and pastures at a rate quick enough to endanger ecosystems.
- b. Legacy spatial distribution errors largely have an impact on urban areas due to urbanisation and land grabs, thus impacting biodiversity.
- c. Declines in fish population also impacting food production, ultimately causing a rise in food prices.
- d. Increase in bio-energy demand impacting the demand of fossil fuel hvdrocarbons.

(BO) Transnet view

- a. An increased difficulty in obtaining Environmental Authorisations and licences (WULA and tree-cutting permits).
- b. Future corridors at risk due to population growth and human settlements (encroachments) along those corridors.
- c. Diminishing fisheries industry, thus impacting the fishery stock volumes decreasing export volumes.
- d. Removal of ground cover impacting surface water channelling, accelerated erosion and ultimately damage to infrastructure, increasing the cost of maintenance and possible environmental liability due to pipeline spillages and derailments.
- e. Increase in bio-energy demand possibly creating an export opportunity.



Water security emerging risks and opportunities

(VN) Global view

- a. Water stress amplifying, thus increasing volatility to catchments and subsequently water supply.
- b. Review of multinational water supply agreements.

(VC) South African view

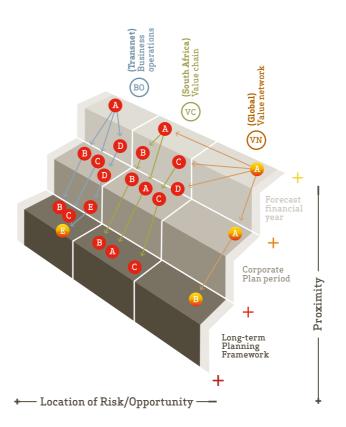
- a. Municipal supplies affected, resulting in increasing water tariffs and restrictions on domestic and industrial usage.
- b. Food production impacted, resulting in inflationary increase on food prices and increase in imports.
- c. Increased water stress in Waterberg region impacting access to water use licensing for coal mining.
- d. Water scarcity in the Western Cape and other regions addressed through innovative water solutions.

(BO) Transnet view

- a. Strict restrictions on water supply impacting business continuity in affected regions and health and hygiene of
- b. Volume increase at ports from possible increased food imports and exports, thus requiring timeous capacity to be in place.
- c. Coal production impacted, resulting in stranded rail capacity and negative impact on revenue
- d. Water security in the Western Cape, thus no water supply to Port of Saldanha and Port of Cape Town - affecting business continuity. Constraints on dust suppression systems at Saldanha impacting export volumes and subsequently revenue.
- e. Operations impacted due to changing food import and export patterns.

Risk

Opportunity



† Climate change emerging risks and opportunities

(VN) Global view

- a. Limited progress on global consensus on implementing measures to constrain climate change.
- b. Increasing likelihood of large-scale weather events shifting global action towards strong mitigation and adaptation measures.
- Scaling up of adaptation requirements to build resilience to the environment, society and economic systems.
- d. Amplifying response to mitigation with high price placed on carbon.
- e. High price placed on carbon drives adaptation at scale including geo-engineering.

(vc) South African view

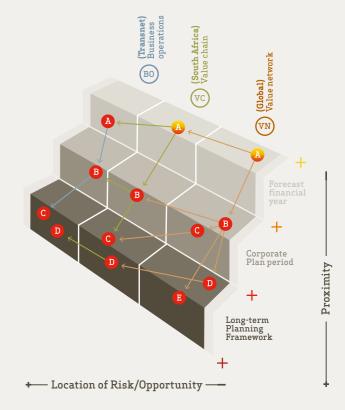
- a. Water scarcity amplifying across South Africa.
- b. Extreme weather events begin to directly impact South African
- c. Increasing intensity of weather events requiring increased resilience and adaptive capacity for society and business.
- d. Thermal coal mining declines due to reduced demand driven by high carbon price.

(BO) Transnet view

- a. Impact of water scarcity and weather events on business continuity.
- b. Damage to infrastructure and safety risk to employees under extreme weather events.
- c. Increasing volatility of weather systems amplifying impacts to business.
- d. High carbon price impacts thermal coal demand on a global scale, stranding rail capacity and future revenue streams.

Risk

Opportunity



TRANSNET Integrated Report 2018 Opportunities and risks continued

Energy emerging risks and opportunities

(VN) Global view

- a. Acceleration of a circular economy means less energy requirements for the same amount of output.
- b. Global emissions reduction agreements lead to global carbon price and subsequently reduce demand for fossil fuel-based energy.
- Cap placed on carbon emissions drives disinvestment in fossil fuels and thus more focus on renewables.

(vc) South African view

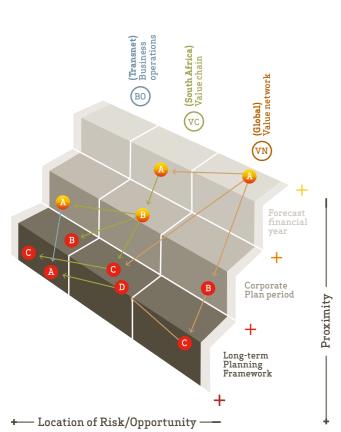
- a. Renewable energy beginning to reach price parity with fossil fuel
- b. Fuel switching behaviour observed across value chains, especially for primary energy usage and energy-intensive industries.
- ... Increased confidence in electric vehicle drives renewable energy and smart grid technology, displacing petroleum as dominant energy source for mobility system.
- d. Thermal coal mining declines due to reduced demand driven by high carbon price.

(BO) Transnet view

- a. Price volatility for thermal coal due to competitiveness created by convergence of: renewable energy; smart grid technology driven by 4th Industrial Revolution; and agreement on global carbon price.
- b. Thermal coal and iron ore demand impacted due to fuel switching, technology changes and consumption.
- c. Petroleum demand decreases as electric vehicles dominate mobility energy mix.

Risk

Opportunity



Disruptive technology emerging risks and opportunities

(VN) Global view

- a. Narrow Artificial Intelligence (AI) and Big Data Analytics are accelerating disruption across multiple sectors of the global
- b. Embedding Narrow Al into existing business processes accelerates automation, having a negative impact on jobs. Broad Al begins disrupting established business models and reducing embedded waste (time and resources) in the economy
- Al addresses system-level challenges such as social inequality, economic progress and environmental challenges, however, creates risks in respect of human ingenuity.

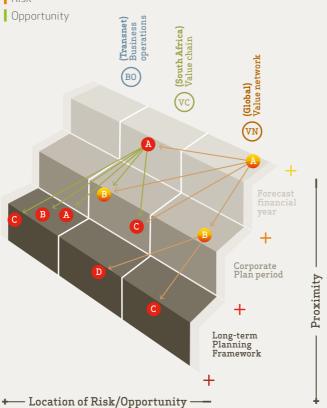
(vc) South African view

- a. Incremental embedding of Machine Learning and Big Data Analytics in blockchain technology increases efficiency in upstream and downstream markets, creating risks and displacing traditional jobs. Need for reskilling
- b. Convergence of Al-driven technology platforms disrupting existing logistics business models, displacing existing jobs.
- c. Al-driven predictive analytics provide new avenues of revenue generation and adaptive capacity for industries that are forward looking, thus increasing business resilience, but having a negative impact on organisations still using legacy systems.

(BO) Transnet view

- a. Disruptive technology in the mobility system starts to impact road-to-rail market share. Transnet has the ability to harness such technology as a third- or fourth-party logistics provider.
- b. 3D Printing technology at industrial scale reduces quantum of goods to be transported. Opportunities for Transnet to adapt through new products and logistics services.
- c. Advancements in electric vehicle technology begin to reduce demand for petroleum products.

Risk



+ Social inequality emerging risks and opportunities

(VN) Global view

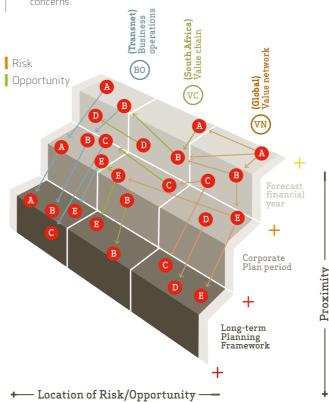
- a. Deepening income inequality eroding social contracts within and between countries.
- b. Increased unemployment due to disruptive technologies has a negative impact on individuals.
- Increased volatility in global commodity prices linked to resource optimisation and circular economy impacts economies reliant on fossil fuels.
- d. Extreme income inequality leads to economic collapse and klentocracy
- e. Increasing political instability and social unrest result in increased large-scale involuntary migration across countries.

(vc) South African view

- a. Slow redress of historical inequality leading to service delivery demonstrations
- b. Social unrest emerging as a result of persistent job losses due to automation, lack of accessibility and efficient service delivery.
- c. Severe shift in commodity prices leads to instabilities in communities, businesses and government
- d. Increase in the value-added tax (VAT) exacerbates social inequality.
- e. Strain on social services and infrastructure due to inability to cater for increased population due to migration. Regional rail integration and infrastructure reliability become more critical.

(BO) Transnet view

- a. Community unrest imminent as a result of Transnet's inability to meet immediate community expectations on employment,
- b. Threat to employment due to Transnet not responding to the requirements of the 4th Industrial Revolution. Skills retraining critical.
- . Increase in VAT may result in price increases, thus requiring deeper engagement with customers.
- d. Future corridors at risk due to population growth and human settlements encroaching along those corridors, causing safety



"Governance and compliance are becoming more embedded throughout the transaction lifecycle to partner with the organisation in providing advisory services and to provide assurance that risks are identified and mitigated."

Ms Ndiphiwe Silinga Acting Chief Corporate and Regulatory Officer



Additional information on our long-term strategic response to the 4th Industrial Revolution paradigm.



Our performance TRANSNET Integrated Report 2018



Our performance

Financial sustainability 🗏 🐵

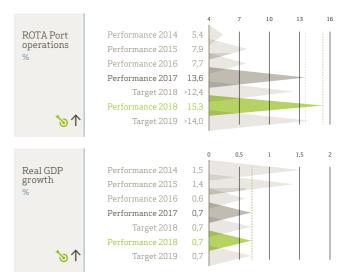




Transnet continues to perform well in the current economy, confirmed by an 18,0% increase in our key profitability measure, EBITDA. Despite the impediments associated with current market conditions, Transnet has continued to execute the Market Demand Strategy (MDS) through a dynamic management approach, holding steadfast to the key principles of its strategy. Improved operational efficiency and productivity lead to increased volumes in the rail and port businesses, supplemented by management's continued cost-management mindset, optimisation and the rephrasing of capital spend, all of which has resulted in Transnet achieving the current year's impressive results.

Five-year review: Key profitability ratios and statistics





Commentary on key ratios

The gearing ratio decreased to 43,4% (2017: 44,2%). This level is below the Group's target range of 50,0%, and is well below the triggers in loan covenants, reflecting the available capacity to continue with its investment strategy, aligned with validated market demand. The gearing ratio is not expected to exceed the target ratio over the medium term.

The cash interest cover ratio (excluding working capital changes) at 3,0 times (2017: 2,9 times) is in line with the internal target of 3,0 times, reflecting Transnet's strong cash-generating capability. This is also significantly higher than the triggers in loan covenants.



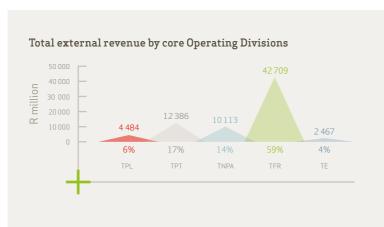
Our performance continued TRANSNET Integrated Report 2018

Income statement

for the year ended 31 March 2018

,		Aud	ited
(in R million)		31 March 2018	31 March 2017
Revenue Net operating expenses excluding depreciation and amortisation	<u>А</u> В	72 887 (40 372)	65 478 (37 921)
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA) Depreciation, derecognition and amortisation	C D	32 515 (13 686)	27 557 (13 471)
Profit from operations before items listed below: Impairment of assets Post-retirement benefit obligation expense Fair value adjustments Income from equity-accounted investees	E	18 829 (1 442) (268) 410 9	14 086 (2 538) (243) 1 576 20
Profit from operations before net finance costs Finance costs Finance income	G	17 538 (10 211) 302	12 901 (9 045) 409
Profit before tax Income tax expense	н	7 629 (2 778)	4 265 (1 500)
Profit for the year		4 851	2 765

- A Revenue for the year increased by 11,3% to R72,9 billion (2017: R65,5 billion), driven by a 4,3% increase in railed export coals volumes and a 6,5% increase in railed automotive and container volumes. The respective increases were due to improved operational efficiency, attributable to the deployment of new-generation locomotives on the network, and growth in market share arising from a shift in rail-friendly cargo from road to rail. Port container volumes also increased by 6,1%.
- B Operating costs increased by 6,5% to R40,4 billion (2017: R37,9 billion), notwithstanding a 13,6% increase in fuel costs. Numerous cost-reduction initiatives implemented throughout the Company helped to limit the increase in operating costs, resulting in a R3,1 billion saving against planned costs. These initiatives included limiting overtime, reducing professional and consulting fees, rolling out programmes to measure condition-assessment versus time-based maintenance execution, and limiting discretionary costs relating to travel, accommodation, printing, stationery and telecommunications
- Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 18,0% to R32,5 billion (2017: R27,6 billion) with a resultant increase in the EBITDA margin to 44,6% (2017: 42,1%).
- Depreciation, derecognition and amortisation of assets increased by 1,6% to R13,7 billion (2017: R13,5 billion), due to the revaluation of property, plant and equipment, partially offset by a significant decrease in derecognition costs. Accordingly, profit from operations after depreciation and amortisation increased by 33,7% to R18,8 billion (2017: R14,1 billion).
- Impairment of assets, amounting to R1,4 billion (2017: R2,5 billion), is primarily due to the impairment of property, plant and equipment, resulting from derailments, as well as impairments of trade and other receivables.
- Fair value adjustments amounted to a R410 million gain (2017: R1,6 billion gain). These adjustments are mainly due to investment property fair value gains, recognised in terms of IAS 40: Investment Property, partially offset by losses on credit valuation adjustments and credit contingent default swaps, in terms of IFRS 13: Fair Value Measurement and IAS 39: Financial Instruments: Recognition and Measurement.
- Met finance costs increased by 14,7 % to R9,9 billion (2017: R8,6 billion) in line with expectations, due to the increased cost of borrowings. Capitalised borrowing costs amounted to R2,9 billion (2017: R3,9 billion).
- H The taxation charge of R2,8 billion (2017: R1,5 billion) is largely due to an increase in the deferred taxation, mainly from an increase in wear and tear allowances that are deductible for tax purposes. This was partially offset by the impact of the Company's calculated taxation loss. The effective taxation rate for the Group is 36,4% (2017: 35,2%), which was impacted by expenses that are non-deductible for tax purposes.









Electricity costs Material and maintenance Other operating expenses

Statement of financial position

as at 31 March 2018

	Audited			
(in R million)	31 March 2018	Restated 31 March 2017		
Assets		225.450		
Non-current assets	352 333	335 150		
Property, plant and equipment	335 488	313 431		
Investment properties	11 225	10 333		
Intangible assets Investments in equity-accounted investees	1 158 155	1 404 155		
Derivative financial assets	2 807	8 206		
Long-term loans and advances	19	20		
Other investments and long-term financial assets	1 481	1 601		
Current assets	17 490	17 989		
Inventories	3 282	3 354		
Trade and other receivables	9 088	7 768		
Derivative financial assets	49	3		
Other short-term investments	561 4 380*	332		
Cash and cash equivalents Assets classified as held-for-sale	4 380"	6 422 110		
ASSELS CLASSIFIED AS FIELD FOR TSALE	130	110		
Total assets	369 823	353 139		
Equity and liabilities				
Capital and reserves	156 874	144 646		
Issued capital	12 661	12 661		
Reserves	144 213	131 985		
Non-current liabilities	158 036	168 954		
Employee benefits	2 854	2 624		
Long-term borrowings	93 593	111 026		
Derivative financial liabilities	2 430	1 938		
Long-term provisions Deferred tax liabilities	2 258 50 911	1 944 45 274		
Other non-current liabilities	5 990	6 148		
Current liabilities	54 913	39 539		
Trade payables and accruals	21 280	21 673		
Short-term borrowings	28 957	13 754		
Current tax liability	14	14		
Derivative financial liabilities	25	46		
Short-term provisions	1 059	914		
Other current liabilities	3 578	3 138		

å Included in cash and cash equivalents are restricted Transnet Pipelines Rehabilitation Trust accounts amounting to R293 million.

Statement of comprehensive income for the year ended 31 March 2018

	Audited		
(in R million)	31 March 2018	Restated 31 March 2017	
Profit for the year	4 851	2 765	
Other comprehensive income/(loss)	10 236	(2 018)	
Gains on revaluations Cash flow hedges Actuarial gain on post-retirement benefit obligations	11 678 (1 471) 29	762 (2 887) 107	
Tax relating to components of other comprehensive income	(2 859)	609	
Other comprehensive income/(loss) for the year, net of tax	7 377	(1 409)	
Total comprehensive income for the year	12 228	1 356	

Headline earnings for the year ended 31 March 2018

,	Aud	ited
(in R million)	31 March 2018	31 March 2017
Profit for the year attributable to the equity holder Profit on the disposal of property, plant and equipment Loss on the disposal of intangible assets Loss on the disposal of investment property Total remeasurements	4 851 (1) 1 6 64	2 765 (34) — 2 1 653
Investment property fair value adjustments Impairment of property, plant and equipment Impairment of intangible assets	(697) 760 1	(182) 1 835 —
Total tax effects of adjustments	(59)	(471)
Headline earnings	4 862	3 915

Segment information for the year ended 31 March 2018

		isnet nt Rail		nsnet eering		snet rts Authority		nsnet erminals		nsnet lines		tal e segments	Otl	${\sf ner}^1$		otal nsnet
(in R million)	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited
	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
External revenue	42 709	38 696	2 467	1 622	10 113	8 943	12 386	11 143	4 484	4 352	72 159	64 756	728	722 A	72 887	65 478
Internal revenue	1 000	418	8 783	7 758	1 586	1 436	7	7	4	3	11 380	9 622	(11 380)	(9 622)	—	—
Total revenue Earnings before interest, tax, depreciation, derecognition and amortisation (EBITDA)	43 709	39 114	11 250	9 380	11 699	10 379	12 393	11 150	4 488	4 355	83 539	74 378	(10 652)	(8 900)	72 887	65 478
	20 473	17 263	(139)	(457)	7 196	6 367	4 172	3 794	3 192	3 377	34 894	30 344	(2 379)	(2 787)	32 515	27 557
Total assets ^{2, 4} Total liabilities ⁴ Capital expenditure ³ Cash generated from operations after changes in working capital	192 964 123 823 17 598 20 703	175 865 116 105 15 746	20 245 18 713 275 (3 978)	17 083 14 415 945 (753)	94 359 43 872 1 054 8 308	90 747 45 533 2 020 7 277	17 853 6 573 1 365 4 463	18 341 8 277 1 208 3 854	43 873 23 375 1 544 3 423	41 619 22 856 1 706	369 294 216 356 21 836 32 919	343 655 207 186 21 625 32 983	399 (3 407) (55)	9 374 1 307 (187)	369 693 212 949 21 781 32 754	353 029 208 493 21 438 32 765

 $^{^{\,1}}$ Other includes other segments, inter-unit eliminations and consolidation adjustments.

Capital expenditure excludes the effects of borrowing costs, includes capitalised finance leases and capitalised decommissioning liabilities.
 Restated.

Statement of cash flows

for the year ended 31 March 2018

	Αι	ıdited
(in R million)	31 March 2018	
Cash flows from operating activities	22 958	25 104
Cash generated from operations Changes in working capital	34 915 (2 161	
Cash generated from operations after changes in working capital Finance costs Finance income Tax paid Settlement of post-retirement benefit obligations Derivatives settled	32 754 (8 930 261 — (180 (947	(7 622) 357 (3) (192)
Cash flows utilised in investing activities	(24 891) (24 689)
Investment to maintain operations Investment to expand operations Changes in investments, loans, advances and other investing activities	(16 726 (8 096 (69	(8 867)
Cash flows utilised in financing activities	(109	(7 936)
Borrowings raised* Borrowings repaid	J 40 920 K (41 029	
Net decrease in cash and cash equivalents Cash and cash equivalents at the beginning of the year	(2 042 6 422	
Total cash and cash equivalents at the end of the year	4 380	6 422

*Including short-term commercial paper and call loans of R31 billion (2017: R7,6 billion).

- Cash generated from operations amounted to R34,9 billion (2016: R31,0 billion), an increase of 12,6% from the prior year.
- A well-defined funding strategy enabled Transnet to raise R40,9 billion for the year without Government guarantees, comprised mainly of the following funding sources:
 - R3,5 billion from development finance institutions
 - R31,0 billion of commercial paper and call loans
 - R2,8 billion from export credit agencies
 - R1,1 billion in domestic bonds
 - R2,5 billion other bank loans

The Company borrows on the strength of its financial position and has maintained an investment-grade credit rating, confirming its solid stand-alone credit profile.

Transnet repaid borrowings amounting to R41,0 billion, which related predominantly to loans, bonds and commercial paper that matured during the year.

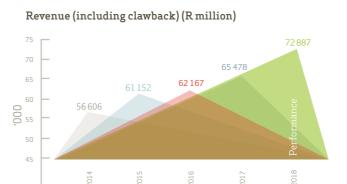
The Group Company Secretary certificate, as well as the approval of the Annual Financial Statements can be found on www.transnet.net

Five-year review: Business growth through volume performance





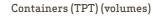
Revenue and volume performance

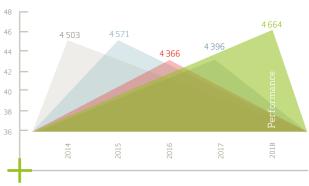




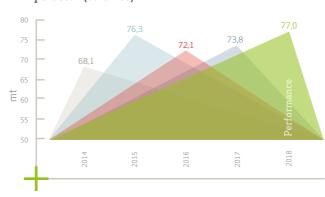




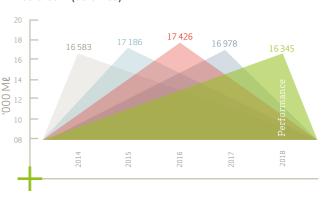




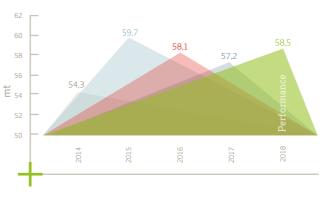
Export coal (volumes)



Petroleum (volumes)



Export iron ore (volumes)



Commentary on revenue and volume





performance of Transnet's Operating Divisions

Rail

Transnet Freight Rail

Freight Rail achieved remarkable operational and financial results, posting 226,3 mt in 2018 volumes compared to 219,1 mt in the prior year (3,3% increase). This performance is despite the subdued economic climate characterised by low GDP growth and lowerthan-expected commodity prices negatively impacting demand.

Freight Rail's revenue for the year increased by 11,7% to R43,7 billion (R39,1 billion), mainly due to a 3,3% increase in volumes, complemented by an increase in the average R/ton at R186,75 in 2018 (2017: R174,95 R/ton). The 6,7% average increase in R/ton was mainly attributable to the prioritisation of a high-yield commodity mix.

General Freight Business

Volumes in the general freight business grew by 3,1% to a record 90,8 mt (2017: 88,1 mt) despite the subdued economic climate. Some commodities performed exceptionally well:

- Chrome increased by 17,5% to 6,7 mt (2017: 5,7 mt);
- Grain volumes increased by 16,7% to 2,1 mt (2017: 1,8 mt);
- Manganese volumes increased by 13,2% to 13,7 mt (2017: 12,1 mt); and
- Iron, steel and scrap metal increased by 11,2% to 9,9 mt (2017: 8,9 mt).

The container and automotive business grew by 6,5% to 9,8 mt (2017: 9,2 mt), suggesting continued success in market-share growth arising from the road-to-rail modal shift.

Product unavailability, plant breakdowns, extreme weather conditions, community unrest blocking train operations, and the impact of infrastructure-related crimes on the Freight Rail network resulted in lower performance in other sectors: granite decreased by 25%, domestic coal decreased by 7% and cement and lime decreased by 7%.

The average wagon turnaround time for general freight improved by 5,6% to 10,1 days (2017: 10,7 days).

Export coal line

Freight Rail railed a record 77,0 mt of export coal (2017: 73,8 mt), 4,3% higher than the prior year. This achievement includes a monthly record throughput of 7,2 mt in the month of September 2017. The wagon cycle time on the export coal line improved by 1,7% to 62,6 hours (2017: 63,7 hours).

Export iron ore line

While extreme weather conditions disrupted rail operations during the financial year, export iron ore volumes increased marginally by 2,3% to 58,5 mt (2017: 57,2 mt). Also, numerous safety incidents, particularly mainline derailments, resulted in volume losses. However, continued efforts to improve efficiencies yielded positive results, such as the 3,9% improvement in wagon turnaround time to 86,8 hours (2017: 90,3 hours).

2018 rail volume performance



"Freight Rail recorded a record 77,0 mt of export coal (2017: 73,8 mt), 4,3% higher than the prior year."

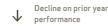
Ports

Volume performance reflected an improvement across all sectors. Container volumes increased by 6,1% to 4 663 888 TEUs, exceeding the budget by 6%. Bulk and break-bulk volumes combined increased by 4,3% to 102,2 mt, however, volumes fell 2% short of the 2018 target. The automotive sector had an increase of 3,6% to 704 052 units. Volumes in the container sector were boosted by a positive economic environment, which has resulted in increased demand for containerised goods. Durban, Port Elizabeth and Nggura container terminals have significantly outperformed their expected volumes. Bulk and break-bulk volumes were boosted by high-performing manganese and iron ore volumes, but adversely impacted by declining magnetite volumes. The increase in the automotive sector was due to favourable market conditions, however, the market is showing signs of decline.

2018 ports volume performance



Key Improvement on prior year performance









O Target not achieved

Pipelines

Pipelines' revenue for the year, including clawback and levy, increased 3,1% to R4,5 billion (2017: R4,4 billion), mainly due to the 1,4% increase in petroleum allowable revenue granted by the National Energy Regulator of South Africa (Nersa) in its 2018 Tariff Determination. The favourable distribution pattern from the coast, and the unwinding of clawback raised in the previous financial year added to positive revenue performance, albeit partially offset by the lower crude volumes transported during

The petroleum volumes transported for the year decreased by 3,7% to 16 345 million litres (2017: 16 978 million litres), mainly due to the shutdown of Natref Refinery, which negatively impacted crude volumes transported, and the lower demand for refined volumes in the current economic environment.

2018 pipeline volume performance



"Transnet 4.0 is a response to transformations and megatrends in the market: it is. however, largely based on

servicing changing customer needs and demands."

Mr Mohammed Mahomedy Acting Chief Financial Officer

Operational excellence 🖒

Regulatory matters

Pipelines

On 31 October 2017, Pipelines filed its Petroleum Pipelines System Multi-year Tariff Application for the 2019 and 2020 tariff years. Pipelines filed for a tariff increase of 35,6% for 2019 and a tariff increase of 10,0% for the 2020 financial year. Contrary to the multi-year tariff application, Nersa will set tariffs for one year

On 15 March 2018, Nersa informed Transnet that it has set the Petroleum Pipelines System tariffs that will allow Pipelines an effective tariff increase of 19%, resulting in an increase of approximately 6,57 cents per litre (c/l) in the petroleum transportation levy for the Durban to Alrode destination. Pipelines awaits the publication of the reason for Nersa's decision.

National Ports Authority

On 1 August 2017, National Ports Authority submitted its tariff application for the 2019 financial year to the Ports Regulator of South Africa, requesting an average tariff increase of 8,5%.

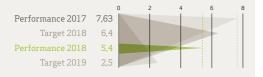
The Ports Regulator published its Record of Decision on 1 March 2018 granting National Ports Authority an average tariff increase of 2,5%.

The Ports Regulator conducted research in which it raised significant concerns regarding anomalies relating to tariff imbalances evident in the tariff book, as well as the cost levels facing other users. It further raised concerns regarding the impact of the recent depreciation of the Rand on costs. The Ports Regulator subsequently approved the following specific changes applicable to the tariffs as set out in the tariff book:

- Marine services and related tariffs to increase by 8,5%
- Coal export cargo dues to increase by 8,5%
- No increase on container cargo dues
- No increase on all roll-on/roll-off tariffs
- All other cargo dues to increase by 5,4%
- All break-bulk cargo dues to be capped at R100/ton In line with the multi-year tariff manual of March 2017, the Ports Regulator projects that the indicative overall average tariff adjustment for the 2020 and 2021 tariff years will be within the 6% inflation target band.

On 29 March 2018, the Ports Regulator published the Methodology for the Valuation of the National Ports Authority Regulatory Asset Base (Asset Methodology). The main issue in the Asset Methodology is that the Ports Regulator has determined not to recognise the Starting Regulatory Asset Base, which was informed by the depreciated optimised replacement cost valuation methodology. Instead, the Ports Regulator will treat assets as follows: trended original costs will be applied to new assets (post-1990) and those with capitalisation dates (pre-1990) will be treated on a historical cost basis.





Rail volumes productivity and efficiency

Rail - Export coal



Improvement on prior year performance Decline on prior year performance Equivalent performance Target achieved **b** Target partially achieved Target not achieved

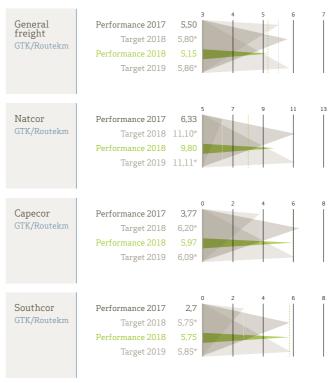
Operational efficiency: Density



Density is a function of volumes transported over the network. General freight volumes, although reflecting 3% growth on prior year, were below target due to economic, customer and operational factors. General freight volume performance hindered the achievement of the overall general freight density target.

Density performance on the key corridors was favourably impacted by the growth in numbers of containers transported on these corridors. Container growth recorded was respectively:

- NatCor Additional 49 000 TEUs or 13%
- CapeCor Additional 18 000 TEUs or 39%
- SouthCor Additional 6 000 TEUs or 7% (includes TEUs through terminals at Port Elizabeth and Ngqura)



* The key performance indicators, which include distance and mass in their calculations, have been rebased, therefore, the 2018 actual cannot be compared to prior year actuals. The 2018 targets were determined before the rebase. The 2019 targets have also been rebased.

Operational efficiency: Locomotive utilisation



The General Freight locomotive utilisation performance was due to both lower than projected volumes being railed due to customer train cancellations and to operational factors such as the poor reliability and failure of older locomotives. New locomotives were commissioned into operations and were simultaneously operated along with older locomotives. The operation of both old and new locomotives is a necessary practice to keep the system stable, while the process of commissioning new rolling stock into service is under way; before retiring the older locomotives. This does however result in a negative impact on locomotive utilisation performance results.

Freight Rail envisages an improvement in the targeted performance of locomotives in the future due to the gradual retirement of old locomotives from the system. Significant improvement of efficiencies will be realised over the next two to three years, following the full deployment of new 1 064 locomotives and as the old locomotives are retired.

Export coal achieved a historical record of 77 mt exceeding volume projections. The 2018 actual cannot be compared to prior year actuals because the mass and distance measurements have been

rebased. It is projected that similar coal tonnages will be railed in 2019. Additional and new locomotives are scheduled to be deployed resulting in the 2019 target being lower than 2018 actual. The locomotive efficiency will be improved in subsequent years as old locomotives are expected to be phased out.

The export iron ore line locomotive utilisation was impacted by lower than projected tonnages recorded due to unforeseen customer cancellations; tippler off-loading challenges; and derailments in the network. The 2018 actual cannot be compared to prior year actuals due to the mass and distance calculations being rebased. A greater target has been set for 2019 to accommodate the new manganese service on the iron ore line which will further improve locomotive utilisation on this corridor.



The key performance indicators, which include distance and mass in their calculations, have been rebased, therefore, the 2018 actual cannot be compared to prior year actuals. The 2018 targets were determined before the rebase. The 2019 targets have also been rebased

Port volumes and terminal efficiency



Port - container volumes

The overall target for containers was achieved mainly due to increased transshipments resulting from an incentive agreement reached with Mediterranean Shipping Company (MSC). Freight rates for the North/ South trade recovered slowly, and volume growth from regions like China, and North and South Asia increased by 4,9%, 6,8% and 6,3% respectively from the prior year. The strengthening Rand also assisted in increasing import volumes. The price for some commodities recovered along with demand, while commodities such as manganese have started moving in containers again.

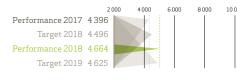
Break-bulk volumes exceeded the budget mainly due to the high rice demand, as well as the increased cement imports from Pakistan due to its cheaper price.

Liquid bulk volumes improved due to the increase in exports on the back of the strong Rand.

Dry bulk volumes achieved target mainly due to the high demand for manganese, which exceeded budget by a substantial 46,6%. This offset iron ore volumes that could not meet target due to low production in the mines. Coal reached target marginally due to the efficient infrastructure provided by rail and improved marine services.

The target for vehicles was achieved due to increased transshipment within the Port of Durban. Further, transshipment of agricultural vehicles and machinery increased to the African region. VW Amarok was also transshipped for three months to the African region as demand increased.



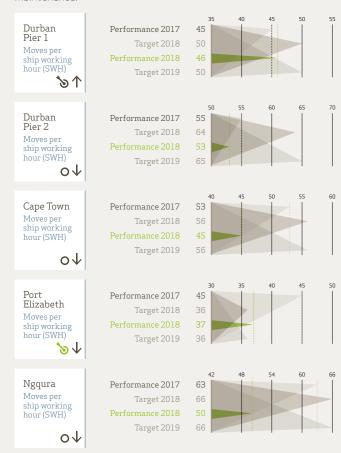


Port – average moves per ship working hour (SWH)



Port Terminals' primary measure of operational efficiency, i.e. average moves per SWH, declined across most container terminals. Pier 1 Container Terminal in Durban, however, improved SWH performance marginally from 45 to 46 moves per ship working hour, despite the impact of the October storm on equipment and operations. DCT's Pier 2 SWH declined primarily due to low availability and reliability of key equipment as well as congestion during the bumper reefer season in the first half of the year. In the latter half of the year, operations were impacted by a severe storm, which damaged equipment and reduced the terminal's operational capacity. The terminal recovered from this incident, with performance in the last quarter reflecting significant improvement.

The Nggura Container Terminal's SWH decreased due to severe weather conditions and limited human resources, while the Cape Town Container Terminal SWH declined, primarily due to poor weather conditions and challenges in equipment reliability. Port Terminals will work to improve and sustain operating performance in Ngqura and Cape Town in 2019 through weather mitigation strategies as well as improved human resourcing and planned maintenance.



Key

Improvement on prior year performance

Decline on prior year nerformance

Equivalent performance to prior year

Target achieved

b Target partially achieved

O Target not achieved

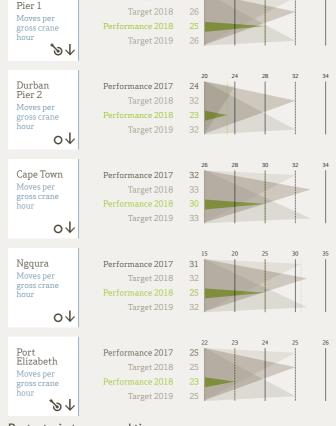
Port – moves per gross crane hour

Durban



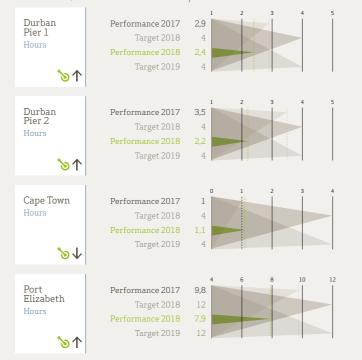
The average moves per gross crane hour (GCH) declined by 12% to 25 (2017: 28) and did not achieve the 2018 targets across the container terminals. Reasons for this include the poor reliability and availability of key operating equipment; the impact of the October storm on the DCT's operations and a significant deterioration in weather conditions.

Performance 2017 26



Port - train turnaround time

The container terminals have maintained their train turnaround time below the targeted four hours in 2018, while the bulk terminals have also maintained their train turnaround times below the targeted 109 minutes at Saldanha, 11 hours at Richards Bay and 12 hours at Port Elizabeth.





Port - truck turnaround time

Durban

Pier 1

The average truck turnaround time was 40 minutes against a target of 35 minutes. This adverse variance was attributable to truck turnaround time at Durban Container Terminal's (DCT) Pier 2, which was slowed by equipment challenges. Poor weather conditions have impacted the Cape Town and Nggura terminals.

Performance 2017 37



Port - anchorage waiting time

Main factors affecting performance included a major storm in the Port of Durban; adverse weather conditions during the year; operational delays leading to a build-up at anchorage, resulting in vessels waiting longer for service; and vessels arriving ahead of schedule.



Port - average ship turnaround times



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Pipelines volumes and efficiency Pipelines volumes

The petroleum volumes transported for the year decreased by 3,7% from the prior year to 16,345 million litres. Capacity utilisation for the pipeline network has been negatively impacted by the current economic environment. Further, the Natref Refinery shutdown has impacted the crude pipeline utilisation.

Pipelines' operational cost per megalitre kilometre (M ℓ .km) of R135 per M ℓ .km is lower than the target of R151 per M ℓ .km due to cost management initiatives implemented during the year.



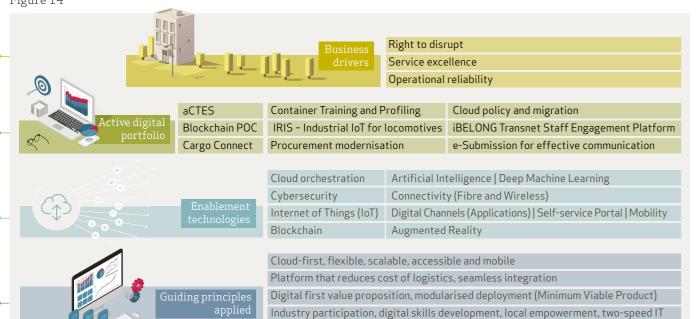
Digital innovation and enablement to support operational excellence

During the year, we progressed our Transnet 4.0 ICT strategy, with various ongoing projects to drive digital enablement as we transition to Transnet 4.0. Three key business drivers form the backbone of the ICT strategy: the right to disrupt, service excellence and operational reliability. Figure 14 provides a snapshot of our digital roadmap, which outlines our active digital portfolio and the various technological elements currently being considered by the Company.



Technologies such as the Internet of Things, machine learning and Artificial Intelligence (AI) will provide valuable insights into improving operational reliability and service delivery to customers, whereas blockchain technology will bring about new platforms for interacting with customers, while modernising legacy customerfacing processes. The aCTES system – which will serve as an industry-wide service platform – will help to bring about an active and continuous aggregation of relevant transportation and logistics data from multiple sources across the entire transport ecosystem, thereby radically improving our customers' experiences across the logistics value chain.

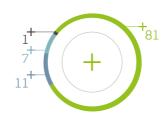
Reimagining Transnet in the digital age – what we are doing at present Figure 14



Capacity creation and maintenance **#**

Investment perspective

Capital investment by operating segment (%)



2018
Rail
Ports
Pipelines
Engineering and other

Capital investment by commodity (%)



Automotive and other
Coal
Bulk and break bulk
Bulk
Iron ore
Maritime containers
Piped products
Break bulk

Manganese

"Our infrastructure projects not only create capacity 70 to 80 years into the future, but many jobs are created where we build our infrastructure, with people from those communities gaining new skills and opportunities."

Mr Krishna Reddy Chief Capital Officer

Major capital deliveries

Commentary on progress of major capital projects

Transnet expects to invest R163,7 billion over the next five years in expanding and maintaining infrastructure. While the core focus remains on growing volumes, Transnet is also seeking new growth paths to compensate for lower growth expectations in its traditional markets. During the year, Transnet executed the following major projects:

Locomotives

Transnet acquired 219 new locomotives (215 deployed to operations in the financial year) for the general freight business.

R7,3 billion was spent on locomotive contracts for the period under review.

In total R 1.8 billion was spent during the financial year to maintain a fleet of 2 600 locomotives:

- Minor overhaul programmes have been performed on 169 locomotives (15E, 19E, 18E) at R392,9 million;
- 59 derailed locomotives have been repaired at a cost of R208.5 million:
- General overhaul maintenance programmes were performed on 34 diesel locomotives (35GM and GE, 36GM and GE class locomotives) at R121,8 million;
- R53,3 million was spent on maintenance of coaches (Phelophepa 1 and 2 and The Blue Train);
- Planned and unplanned maintenance: R801 million was spent on locomotives;
- The remaining R197 million was spent on maintenance and repairs required due to such incidents as pantograph hook-ups; minor vandalism (cable theft): third-party claims; minor modifications: and minor component change-outs on various locomotives.

Wagons

Transnet Freight Rail and Transnet Engineering embarked on a programme to build the following:

- 2 500 coal containers to service Eskom power stations;
- 300 new CR-13/14 wagons for the iron ore business to service the shortfall caused by longer turnaround times on trains servicing junior miners that load ore using front-end loaders;
- 86 new SCL wagons for the automotive business; and
- 364 CR wagons to be used within the mining sectors to transport ore from shafts to processing plants, and for servicing the automotive market.

For the 2018 financial year, 1 250 coal containers and 682 wagons were built and received by Freight Rail resulting in a capital investment of R1 billion.

Manganese expansion rail phase 1

South Africa accounts for 75% of globally identified manganese reserves and 31% of manganese exports by value, making it a sustainable, lucrative supply market to Europe and China. The purpose of this project was to expand the capacity beyond 5,5 mt by constructing various loops, including the Spytfontein loop extension, Kraankuil loop, Beaconsfield (AC staging line), Beaconsfield – Spytfontein, Heuningneskloof, Poupan, Potfontein – Houtkraal, Kor – Kraankuil and Rosmead nearing completion with level crossings still to be completed.

To date, Transnet has invested R2,1 billion in the project, with R212 million invested during the year.

Coal line investment programmes

The coal line is the main channel for export coal, commencing from the mines in Mpumalanga and stretching through the Overvaal Tunnel all the way to the Port of Richards Bay Coal Terminal (RBCT).

The coal programme comprises the following key projects:

Export coal expansion to 81 mtpa

To date, Transnet has invested R2,8 billion in expanding capacity on the export coal line to 81 mtpa. For the year ending 31 March 2018, the Company invested R55 million in the upgrade of yards, lines and electrical equipment.

Waterberg upgrade stage 2

The Waterberg region has 40% of South Africa's remaining coal reserves and is regarded as the next strategic growth node of the coal sector. The availability of infrastructure is critical to unlocking the region's potential and is a prerequisite for current and future mining developments.

This project will be rolled out in a phased approach to align with validated demand. The funded projects at this stage include:

- Stage 2, which refers to capital investment to grow capacity to 6,3 mtpa through incremental upgrades of the existing rail networks and yards by using additional loops, maintaining the existing 20 axle loads and level crossings, strengthening steel bridges, doing electrical upgrades and improving train control
- Stage 3 to 5 feasibility study aims to develop an engineering solution to meet validated demand and to increase capacity to 24

Since inception, Transnet has invested R164 million in the project, with R98 million invested for the year.

Overvaal solution

The long-term sustainability of the Overvaal Tunnel is a challenge due to its age and it also only provides for a single rail line. Transnet is currently finalising an optimal solution to replace the single line tunnel by either providing a new double track tunnel adjacent to the existing tunnel or a double line deviation to bypass the tunnel. The key motivations for this investment are to protect revenue generated on the coal line, and to enable Freight Rail to maintain the current throughput.

New Multi-Product Pipeline (NMPP)

The NMPP is a strategic investment to secure the supply of petroleum products from the coastal terminal in Durban to the inland (predominantly Gauteng) market over the long term. It is one of the largest and most complex multi-product pipelines in the world.

R1,3 billion was invested in the NMPP project during the year. The coastal terminal (tight-line solution), inland terminal, 24" main pipeline and 16" inland pipelines have been fully commissioned and are operational, having transported more than 199,48 billion litres of diesel from Durban to the inland region since commissioning. Following the coastal terminal commissioning in August 2017, the pipeline is now operating as a multi-product pipeline (various grades of diesel and petrol) functioning at full phase 1 flow rates, thereby securing fuel supply for the South African economy over the medium to long term. The inland terminal was commissioned and became fully operational in December 2017.

Port infrastructure, equipment and floating crafts

Providing capacity ahead of validated demand remains a key strategic intent for Transnet. As Transnet transitions to Transnet 4.0, Port Terminals and National Ports Authority have plans to invest in infrastructure and equipment to unlock demand as well as to contribute to the economic development of South Africa. For the year ended 31 March 2018, Transnet has invested approximately R2 billion for the maintenance and acquisition of cranes, tipplers, dredgers, tugs, straddle carriers and other port equipment. The development of Maydon Wharf berths in the Port of Durban and a new port administration building in the Port of Ngqura were also completed during this year.

Port marine and liquefied natural gas (LNG) terminal midstream infrastructure options

Transnet has initiated a project to enter into a financial and

technical partnership with qualifying private-sector sponsors and empowerment partners to design, finance, build and operate the LNG import infrastructure, regasification and storage terminal and integrated transmission pipelines to form a Natural Gas Networks infrastructure backbone between KwaZulu-Natal and Gauteng

The new LNG backbone project includes the following infrastructure

Marine options

- New dedicated dig-out basin with jetty for LNG vessels [TNPA FEL2 done]
- Extension of current liquid bulk berth berth 207 [TNPA FEL2 done]
- Use of existing Multi-purpose Terminal berths 607 to 609 and

Terminal options

- Dedicated onshore storage facilities and regasification unit
- Floating Storage Regasification Unit (FSRU)
- Floating Storage Unit (FSU) with onshore regasification unit

Capitalised maintenance

The total capitalised maintenance for the year ended 31 March 2018 amounted to R6,8 billion, of which R2,3 billion was invested in interventions to sustain the Company's rail infrastructure, with R4,5 billion invested to maintain the condition of the rolling stock at a sustainable level.

Expanding the scope of Transnet's manufacturing

TransAfrica Locomotive

The launch of the TransAfrica Locomotive during April 2017 marked a crucial step in our strategy of becoming a leading manufacturer and supplier of rolling stock in Africa. The locomotive, designed, engineered and manufactured in Africa, is suitable for use on branch lines and in the yard for shunting, while also being able to travel on old rail tracks originally designed to carry light axle loads. In addition, the diesel-powered TransAfrica Locomotive is appropriate for aged railway lines that operate on the Cape Gauge system, offering a cost-effective solution for the majority of the continent's railway lines that are currently unused.

Special inspection device (SID)

The prototype of this fully autonomous inspection device is being used and tested by Transnet to detect:

- Obstacles such as livestock or humans;
- Defects on the track in front of trains; and
- Cable theft or overhead traction issues.

The device has a 'cow-catcher' at the front to remove small obstacles on the track, like stones. Six engineers spent 18 months developing the concept and working on the prototype in collaboration with the Council for Scientific and Industrial Research. There is nothing like SID in the world. What makes it unique is that there is no driver, it is fully autonomous. Plans are under way to introduce SID to other rail operators and to industrialise it.

Infrastructure spatial solutions: Ngqura waste treatment

Transnet is due to invest approximately R1 010 million in a new Nggura waste treatment infrastructure project, which aims to establish South Africa as a regional and global environmental leader.

Transnet is due to acquire 26% in the project, with an option for an additional 4%. A trust will be established to accommodate 5% for a BEE black economic empowerment component. A joint venture will be established to pay National Ports Authority R3 840 000 per year, escalating at 9% per year for 20 years. Property, plant and equipment is estimated at R520 million, while the separator, vessels and trucks are estimated at R490 million.

Market segment competitiveness 🕒 🌃 🔚



Transnet's rail development framework aims to expand regionwide rail service capacity, while growing tonnages and capturing new market share.

Rail freight demand forecasting takes into consideration that:

- Not all freight on the surface of South Africa is suitable for rail;
- Rail competes with other modes such as road and pipelines.

Market competitiveness for rail is measured in terms of Rail Addressable Market Share (RAMS) based on tons per calendar year.

General Freight market share considered in terms of RAMS percentage per net ton kilometre (RAMS % NTK) reflected a notable improvement from 29,4% in 2017 to 31,4% in 2018. This was due to the year-on-year General Freight volume growth of 3% in a challenging business environment. Specific initiatives implemented to attract rail-friendly volumes back to rail contributed to this positive performance. These efforts will be strengthened as the business strives to achieve a RAMS target of 34% in 2019.



Maritime

General

Freight Business

Excl heavy-h

manganese RAMS % NTK

Index

connectivity

Improvement on prior year

Decline on prior year

Equivalent performance

performance

to prior year

Target achieved

b Target partially achieved

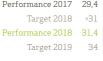
O Target not achieved

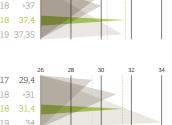












Gains from progress on road to rail and enabling key customer expansion

We have calculated that Transnet's road-to-rail efforts have yielded a total of 147 661 off-road trips, amounting to approximately 178 million kilometers. This amounts to approximately 1 335 trucks being permanently removed from South Africa's roads.

Exxaro - new 10-vear agreement signed for 7,6 mtpa from Waterberg, to the value of R23 billion.



6,5% annual growth for the financial year, to the value of -R900 million.

Magnetite

PMC - three-year take-or-pay agreement for 8 mtpa to the value of R5,9 billion.



15 000 tons per day road-to-rail migration.

Manganese

Gained just under a million tons from road to the value R430 million.

Kalagadi – 600 000 tons per annum from June 2018 to the value of R4,8 billion.



Chrome

Volumes increased to 6,628 mt, gaining 1,012 mt from road to the value of R398 million.



1,8 mtpa gained from road to rail in the last year, to the value of R570 million.

Containers

Alliances with BPL, DSV and other forwarding and clearing agents concluded.



6,1% year-on-year increase to container volumes through ports.

75 000 TEUs road-to-rail migration increase, accounting for an increase of R375 million.

Steel

The Isando steel hub in partnership with our customer and two 3PL players - Barloworld and Grindrod - has seen an additional 530 000 tons of steel moving from road to rail.



TRANSNET Integrated Report 2018 Our performance continued

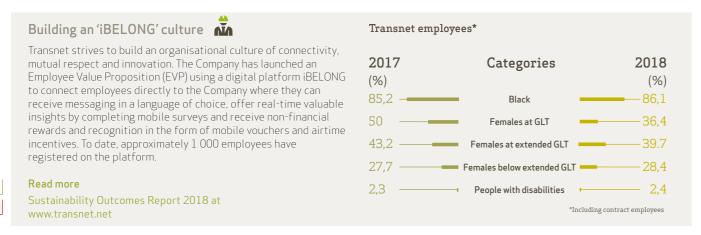
Group performance in support of the SDOs 🔑 🖸



Employment

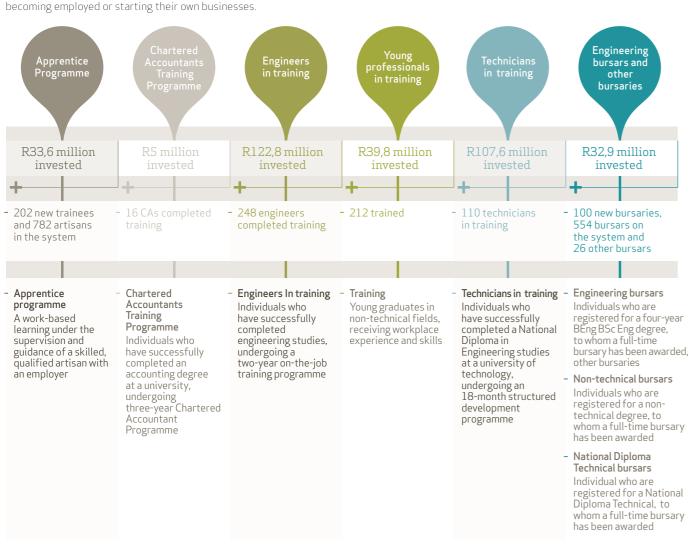
The unemployment rate in South Africa is currently at 26,7%, which shows a negligible improvement from the 27,1% reported in 2017. A total of 36,5% of Transnet's workforce is between the ages of 26 to 35, which is the productive range, followed by ages 36 to 45 at 32,4%, while 2,9% are between ages of 61 and 63 towards retirement. Transnet has made a concerted effort in recent years to increase the percentage of younger employees by focusing on lower and middle management through leadership development.

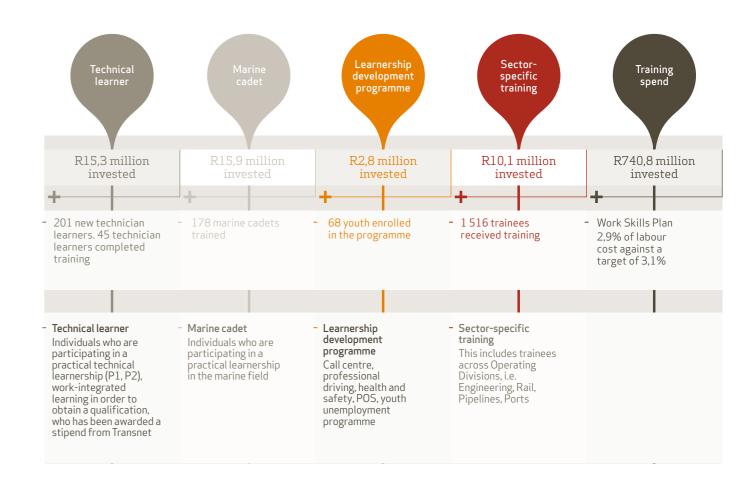
In 2018, the total headcount decreased from 58 828 in 2017 to 55 666 in 2018. This is attributable to the employee optimisation process undertaken in 2018.



Skills development







Read more

Sustainability Outcomes Report 2018 at www.transnet.net

Health and safety



Transnet's safety performance is measured against industryrecognised indicators, such as the disabling injury frequency rate (DIFR), which includes fatalities, loss incidents and derailments. During the year, Transnet recorded 539 disabling injuries compared to 516 reported in 2017. While our overall DIFR performance continues to be exceptional by international standards at 0,73 (2017: 0,69), we regret to report five employee fatalities during the year.

Accidents at railway crossings continue to be a safety challenge for Transnet. As our rail network runs for kilometres across a large national footprint, it is prone to encroachment by informal settlements. We continue to create awareness about the dangers of railway-level crossings. Public fatalities increased to 102 in 2018 (2017: 82). However, we recorded a decrease in running-line derailments, from 81 in the prior year to 80 in 2018. Shunting derailments decreased from 159 in the prior year to 140 in 2018. This performance is an achievement of tolerance limit that was set for the financial year.

The Board conveys its deepest condolences to the families, colleagues and friends of the employees and members of the public who lost their lives. We wish to reiterate our continued commitment to the safety of employees and the public as a vital component of the Company's operations.

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The following DIFR figures were recorded per Operating Division/Specialist Units



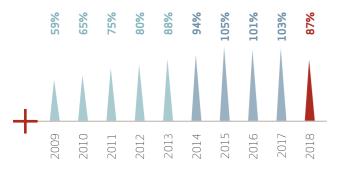
Industrial capability building and transformation

Transnet was rated a Level 2 B-BBEE contributor in 2018 and seeks to achieve sustainable and inclusive economic growth by investing in emerging technologies and manufacturing capabilities, as well as procuring locally produced goods services.

B-BBEE spend

Transnet's total recognised B-BBEE spend for the year, as per the Department of Trade and Industry Codes (the dti Codes), was R25,81 billion accounting for 86,9% of Total Measured Procurement Spend (TMPS) of R29,71 billion. Transnet spent R12,47 billion (42,0% of TMPS spend) on black-owned enterprises; R9,34 billion (31,4% of TMPS spend) on black women-owned enterprises; R2,47 billion (8,3% of TMPS spend) on exempted micro-enterprises; and R2,69 billion (9,1% of TMPS spend) on qualifying small enterprises. Spend on black youth-owned enterprises accounts for R224,63 million (0,8% of TMPS) while spend on enterprises owned by black people living with disabilities accounts for R24,55 million (0,08% of TMPS).

% B-BBEE spend of TMPS



B-BBEE categories spend	Investment value	% of TMPS
Qualifying small enterprises	R2,69 billion	9,1
Exempted micro-enterprises	R2,47 billion	8,3
Black-owned enterprises	R12,47 billion	42,0
Black women- owned enterprises	R9,34 billion	31,4
Black youth-owned enterprises	R224,63 million	0,80
Enterprises owned by black people living with disabilities	R24,55 million	0,08

Supplier development

Transnet's Supplier Development (SD) programme promotes skills development and the creation and preservation of jobs. It further encourages the transfer of intellectual property and the localisation of supply, and ultimately promotes industrialisation through contractually obligated SD plans. Since inception of the programme, total contract value to date amounts to R137,6 billion (2017: R134,4 billion). SD obligations concluded with suppliers amount to R63,4 billion or 46,1% (2017: R62,6 billion or 46,6%) of contract value. To date R42,5 billion or 67,0% of these SD obligations have been met (2017: R32,2 billion or 51,5%). The SD numbers include the locomotive awards and related SD obligations.

Transforming our workforce

While we continue with efforts to ensure we reach racial balance in our workforce, our performance in respect of employing black employees in 2018 (73,9%) was poor compared to the prior year (2017: 83,1%). The proportion of people with disabilities was at 2,4%, which shows an increase from the 2,3% in the past two consecutive years.

Transnet also seeks to achieve gender equality and empower all women as espoused in the United Nations' Sustainable Developmental Goals. Our strategic plans will continue to focus on increasing the representation of black employees, female employees and people with disabilities. Transnet's gross value-add increased from R50,4 billion in 2017 to R56,7 billion in 2018.

Black employees within different employment cadres

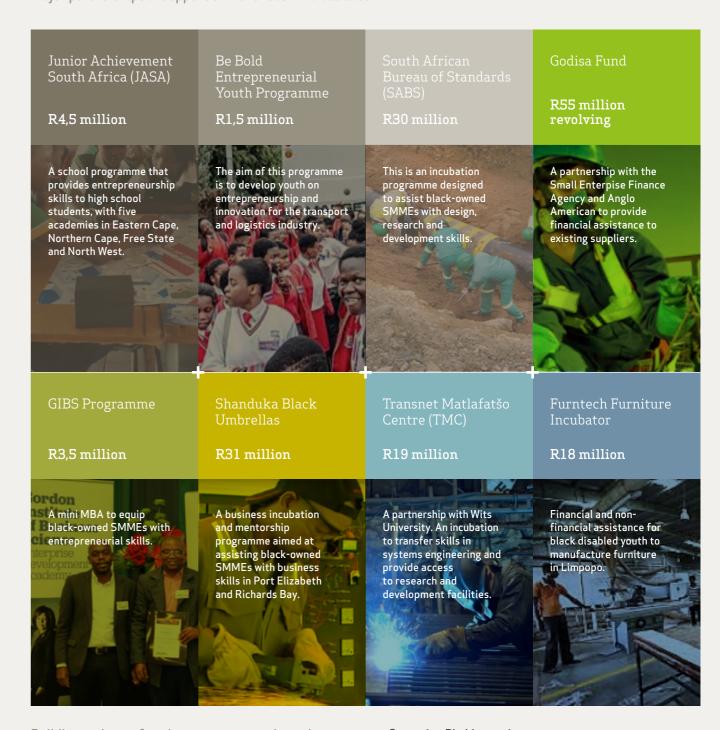
Black females and males

2017		2018
50	─────────────────────────────────────	
228	——— Senior managemen	t 440
1 602		2 482
6 424	Skilled	
4 189	Semi-skilled	12 038
1 039		4 3 3 4

"Creating resonance with your people, in an organisation of just under 60 000, is key. We can

Ms Nonkululeko Sishi Chief Human Resources Officer

Major partnerships in support of Transnet's ED initiatives



Building and transforming our economy through private-sector partnerships

Private-sector partnerships (PSPs) have been included in the broader delivery of Transnet's strategy as a large-scale investment in economic infrastructure designed to support the country's socio-economic imperatives as mandated by the DPE. To accelerate Transnet's commercial impact on economic growth - and the development of downstream and upstream businesses - we aim to create supply chains that could link service providers from across the country and cross-border regions, while fuelling rural development and job creation.

Operation Phakisa projects

National Ports Authority invested approximately R17 million in Expressions of Interest and the market feasibility for Operation Phakisa projects. National Ports Authority further invested R152 million at the Port of Saldanha in the off-shore supply base (OSSB) Berth 205. The appointment of the private OSSB Facility Operator is in the final stages. The private sector is expected to spend approximately R200 million once the Facility Operator has been appointed. Additionally, R1,8 million has been invested to date towards the engineering prefeasibility studies for the Richards Bay Floating Dock. This project is under way.



Section 56 projects: PSPs

Transnet followed a section 56 of the National Ports Act No 12 of 2005, process to seek and appoint private-sector investors for seven projects. Section 56 agreements have been signed for four of these projects, namely: Sunrise Energy Liquefied Petroleum Gas project at the Port of Saldanha, Oil Tanking Grindrod Calulo (OTGC) Liquid Bulk Terminal at the Port of Ngqura, Burgan Cape Liquid Bulk Terminal at the Port of Cape Town and the Cape Town Cruise Terminal.

Section 56 agreement	Invested		
Oil Tanking Grindrod Calulo Liquid Bulk Terminal	R2 billion		
Off-shore supply base	R1,8 billion		
Sunrise Energy	R1,1 billion		
Burgan Cape	R650 million		
Durban Cruise Terminal	R215 million		
Cape Town Cruise Terminal	R179 million		

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www.transnet.net

Regional integration

During the year, Transnet progressed various regional projects through Transnet International Holdings (TIH), laying a firm foundation for its geographic expansion drive under the Transnet 4.0 Strategy.

Nigerian railway project

The Nigerian government plans to overhaul its ageing railway system, built before independence in 1960. A General Electric-led consortium (Transnet SOC Limited, Dutch-based APM Terminals and China's Sinohydro) submitted the only bid for a Nigerian railway concession project worth approximately US\$2 billion. The Award Letter was issued on 23 May 2017. The concession will cover about 3 500 km of existing narrow-gauge lines from the south-western commercial capital, Lagos, to Kano in the north, and south-eastern oil hub Port Harcourt to Maiduguri in the north-east. This will include inland container depots at Kaduna, Kanu, and so forth. The Nigerian government has requested an interim solution while the parties negotiate the Concession Agreement (circa 18 months to financial close). The consortium is finalising the appropriate solution, which will focus only on the Lagos - Kano rail line.

National Railways of Zimbabwe

Transnet submitted a response to the Request for Proposal by the National Railways of Zimbabwe (NRZ) to raise finance for the rehabilitation and renewal of key equipment, systems and infrastructure for its railway system. The evaluation criteria was 60% financial and 40% technical, with a requirement to have an entity that understands local conditions as part of the consortium. The tender has since been awarded to the Transnet-Diaspora Infrastructure Development Group (DIDG) consortium. The joint bid is to recapitalise NRZ with US\$400 million. Following a ribboncutting ceremony by His Excellency President Mnangagwa of Zimbabwe on 21 February 2018, Transnet launched the Project Interim Solution, a precursor to the 25-year concession envisaged to commence at the end of June 2018. The interim solution entails leasing rolling stock to NRZ while we are finalising the concession suite of documents

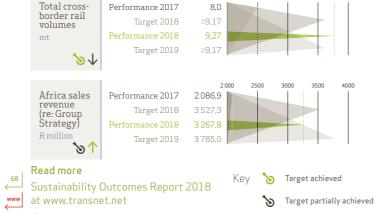
Swaziland Rail Link

The Swaziland Rail Link is a 150 km greenfields rail development adjoining the rail network of South Africa at Lothair and that of Swaziland at Sidvokodvo. The project is being jointly developed by Transnet and Swaziland Railway at an estimated cost of R19 billion. Each company will be responsible for upgrading its adjoining rail networks. Transnet's contribution to the special-purpose-vehicle (SPV) that will develop the Swaziland Rail Link has been identified. Swaziland Railway is also assessing its contribution to the SPV. The next step, pending approval of both sponsors, is to engage investors to finalise the funding of the project.

Kenya LAPSSET Corridor - Lamu Port

The Government of South Africa and Kenya signed the LAPSSET Corridor memorandum of understanding in October 2016. The LAPSSET Corridor has the following seven components: Lamu Port and a 700 sq special economic zone; highways; oil pipeline; railway; international ports; resort cities and oil refinery. Lamu Port will be a deep-sea port with transshipment capabilities on the East Coast of Africa and a gateway with seamless and reliable connectivity of transport systems in Kenya and to the neighbouring

Transnet has received a letter approving the privately initiated investment proposal on Lamu Port. The letter paves the way to commence negotiations in terms of the provisions of the Public Private Partnership Act, No 15 of 1993, for the operation of three berths in the Port of Lamu. The first berth is envisaged to be completed by July 2019, which is being constructed by a Chinese company. Transnet's role, if successful, will be to operate the three berths through a 25-year concession. Initial investment by Transnet to operationalise the first berth amounts to circa US\$25 - US\$30 million.



Community development

Through our human resources and corporate social investment portfolios, we are committed to measurably improving the quality of life of the communities where we operate. During the year, there were numerous incidents of community discontent (led by industry bodies, community members and business forums). Transnet's inability to provide job and business opportunities was cited as a contributing factor. While Transnet acknowledges its role as a SOC to support and improve communities' economic and social well-being, many of these incidents could also be attributed to the 'inequality risk' prevalent in South Africa, which is a major contributor to social and labour instability.

Transnet recognises that we are unable to address these issues in isolation. Accordingly, we have developed a Community Investment Plan (CIP) as a vehicle to remedy current unfavourable relations, and to foster more positive relations in the long term. The CIP, approved in August 2017, provides a structured and integrated approach towards collaboration and sustained shared value, and aims to develop a self-sustainable plan to respond to community issues as they arise, thereby maintaining our social licence to operate.

During the year, Transnet invested R219 million in sustainable community development programmes across South Africa.



Rural and farm schools' sports	Learners reached through programmes	Learners participating in sporting talent events	Graduate participants in provincial/ national sporting codes	Teachers receiving training in sports safety	Teachers receiving training in first aid
	50 000	1 659	146	75	144

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

EVP projects Partnerships R15,4 million invested in the Employee Volunteerism Programme

Partnership with Tenova Mining and Minerals is establishing an enterprise geared towards youth tourism and travel in Saldanha

SEID projects

- Formal district forum established in the Idondotha area Construction of the Idondotha Community Centre is proceeding
- without interruption and is 60% complete • Construction of the Empangeni ESD centre is complete
- Four community centres at Khuma, Thokoza, Ireagh and Springs provided social services to 45 989 clients
- 152 poor households received food-garden produce donations
- 4 148 motorists and pedestrians reached through rail safety programmes

outh in <u>vhere Transne</u>

IA South Africa Entrepreneurship Academy Programme

20 youth-owned businesses formed

Mobile libraries delivered to five provinces

 King Zwelithini | and Eastern Cape Primary School's library 2019 teacher completed

Mobile libraries

National teachers' skills audit programme

to support the

development

programme

10

Teachers' skills • 120 learners enrolled in are being audited 2018 in Mpumalanga, Four graduates Northern Cape

Excellence

Association Sport School of

participating in international football 62 graduates

participating in national football teams

Transpet/South African Football Whole school

- R15,2 million invested to ensure 52 vulnerable youths have access to quality education and social upliftment
- Seven provinces
- 45 school governing bodies
- 22 500 learners
- 30 school management teams
- 30 schools enrolled
- 40 teachers enrolled

Non-financial People reached 45 989 6.919

SMMEs established Members trained beneficiaries (SMME development, safety and education)

121

Education and of food Training (ABET) distribution beneficiaries programmes

Adult Basic

179

477

Beneficiaries



96 Our performance continued TRANSNET Integrated Report 2018

Environmental stewardship

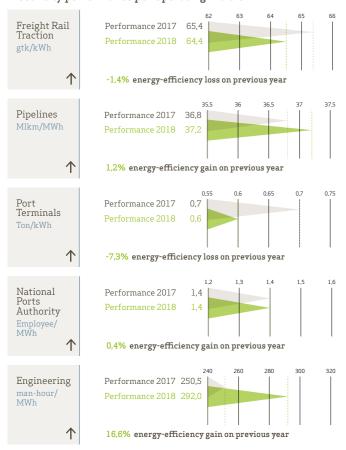
Energy-efficiency and carbon emissions reduction

Transnet recorded a 2,9% increase in energy consumption, while energy efficiency increased by 0,9%. In Freight Rail traction (which constitutes more than 70% of total Company power consumption), electrical traction energy efficiency decreased by 1,4%, and diesel traction achieved a 2,6% energy-efficiency gain. The new 15E, 19E, 20E and 21E locomotives together regenerated 262 016 MWh for the year.

The Company's year-to-date carbon emission intensity decreased by 2,6%, compared to the prior year, while energy efficiency improved by 0,9% in 2018 compared to 2017, measured as tons/GJ.

Market share gains from road hauliers in Freight Rail's top 10 general freight commodities resulted in carbon emissions savings for the South African transport sector of $859\,228\,tCO_2e$.

Electricity performance per Operating Division



Key



Decline on prior year performance

Equivalent performance
to prior year

Target achieved

Target partially achievedTarget not achieved

Fuel efficiency performance 2018



Transnet recorded an increase of 1,1% in carbon emissions in 2018 from 3,95 mtCO $_2$ e in 2017 to 4,0 mtCO $_2$ e. Freight Rail accounts for 80% of the total GHG emissions.

Natural gas has been identified as a key energy source for South Africa's growth and transition to a lower-carbon economy, requiring enabling infrastructure. Transnet is preparing for partnerships with the private sector to establish common-user midstream natural gas networks (NGN) of integrated port facilities and pipelines (for import, storage and regasification of liquefied natural gas (LNG)) and the transmission of natural gas to multi-sectoral customers in the industrial, power and transport sectors. The initial NGN project will facilitate the import of LNG at Richards Bay and access to natural gas using Transnet's pipeline assets.

Through our research and development unit within Transnet Engineering, we continue to investigate alternative energy technologies.

Modal shift from road to rail

The transport sector accounts for approximately 9% of South Africa's GHG emissions. The modal shift of cargo from road to rail offers an immediate opportunity to lower carbon emissions in the transport sector; especially for the hauling of large volumes of high-density freight over long distances, rail is generally three to five times more efficient compared to road. Additional benefits offered by rail include reduction in accidents, congestion, noise pollution and lowering of costs in the transport sector.

As the owner, operator and custodian of the country's rail freight network, Transnet has committed to increasing rail market share and to demonstrate the carbon emissions saving achieved annually through its growing market share.

Carbon mitigation results from road-to-rail gains up to March 2018

Commodity groups	Volume gains (tons)	Carbon emissions savings (tCO ₂ e)
Agriculture and bulk liquids	138 426	9 570
Coal	6 761 403	286 731
Containers and automotive	1 732 090	134 005
Iron ore and manganese	2 621 174	303 103
Mineral mining and chrome	1 440 785	83 695
Steel and cement	701 396	42 126
Total	13 395 274	859 228

Freight Rail continues to make a meaningful annual contribution to the reduction in carbon emissions in the transport sector. In 2018, Freight Rail gained market share in numerous commodity groups where there is strong competition with road hauliers. This rail tonnage gain amounts to 'volumes off road'. The carbon emissions savings in road-to-rail volume gains during the year amounted to $859\,228\,\mathrm{tCO}_2\mathrm{e}$. The emissions savings are dependent on volumes gained and distance travelled.

Water stewardship

The current water crisis experienced across our footprint, amid drought conditions, has directed the Company to investigate and explore alternative water sources, including desalination, underground water resources as well as other innovative technology solutions. We continue to implement water stewardship initiatives, such as installation of boreholes, low-flow shower heads with timers, waterless pressure testing, rainwater harvesting and water recycling, to achieve water saving and reduce consumption.

We also continue to engage with public and private stakeholders in key water-stressed catchments to collaboratively develop solutions. We continue to participate in the Carbon Disclosure Project: Water and achieved a 'B' score in 2018.

Waste optimisation

Transnet recognises that issues of wastewater management and water quality have cross-linkages and continues to manage the quality and quantity of effluent discharged by implementing effluent-monitoring programmes at all effluent discharge points and treatment plants across its operations. Wastewater presents opportunities to enhance sustainable development through effective wastewater treatment and reuse. We have invested R1 million at the Transnet Engineering Durban centre to install a new test area, which reuses water in locomotives in a water test facility where 60% of water is fed back into the system.

Transnet also continues to address historic asbestos and hydrocarbon contamination by adopting a more integrated, cohesive and collaborative approach. Our engagements with the Department of Mineral Resources for possible collaboration in respect of asbestos remediation and rehabilitation are at advanced stages. The Company further continued with its ad hoc clean-up efforts in contaminated areas, where the asbestos exposure risk interferes with employees and the public. In 2018, 929,88 tons of asbestos waste was removed in ad hoc clean-up initiatives compared to 37,3 tons in 2017. We also invested R2,1 million to clean seven historic hydrocarbon-contaminated sites across our railway network.

During the year, Transnet generated R89,4 million revenue through the recovery of scrap metal and electronic waste. This is an improvement from the two previous years (2016: R87,8 million and 2017: R70,9 million). We continue to ensure the reduction of waste generated by our operations to reduce total waste going to landfill



Read more

Sustainability Outcomes Report 2018 at www.transnet.net

"Not all business success requires disruption. Sometimes more efficient ways to do things is all that is required. Digitalisation can enable simple efficiencies as well as change entire market

Ms Makano Mosidi Chief Information Officer Our performance continued

Legislative compliance

Pending legal matters

Pension and post-retirement benefit obligations

Historical view

Following certification of the pensioners' class action proceedings on 31 July 2015, Transnet was served with a summons on 11 June 2015 issued out of the Pretoria High Court. According to the summons, the pensioners seek an order directing Transnet and the pension funds to increase the pensions of all fund members by an annual rate of not less than 70% of the rate of inflation, with effect from 2002, as well as an order that Transnet pays a legacy debt of R17,5 billion to the funds, plus interest from 1 April 1990. Lastly, an order is also sought that Transnet pays a sum of R309,1 million to the Transnet Sub-fund of the Transport Pension Fund (TTPF) as repayment of an amount allegedly donated by the TTPF to Transnet from a members' surplus in 2001.

2018 update

Transnet filed legal arguments (exceptions) showing that the particulars of claim are defective and that the plaintiffs should remove or amend their particulars. These were heard on 4 and 5 April 2016.

Judgment on the exceptions upheld three of Transnet's exceptions and gave the plaintiffs 14 days within which to amend their particulars of claim. The plaintiffs instead lodged an application for leave to appeal in respect of the judgment, followed by a

petition to the Supreme Court of Appeal (SCA), then an application to the President of the SCA and finally an application in the Constitutional Court.

Judgment was delivered by the Constitutional Court on 25 April 2018, effectively dismissing all exceptions against the particulars of claim. Accordingly, the plaintiffs' particulars of claim did not have to be amended, and Transnet filed its plea, as required, within 20 days from date of judgment.

Transnet remains confident, based on legal advice, that it will successfully defend the class action and will demonstrate to the High Court that:

- Historical pension increases have not been less than the relevant laws provide for;
- The historical actuarial funding deficit of R17,18 billion was never a debt due by Transnet, and the funds are both currently
- The allegation that the surplus apportionment in 2001 was an unlawful donation is factually and legally incorrect. The amount was determined by an independent actuary, in accordance with resolutions taken by the fund's trustees and allocated to Transnet on the understanding that Transnet would utilise the surplus for the benefit of the beneficiaries of the Transnet Second Defined Benefit Fund and the TTPF (also the plaintiffs), which has been done through certain ex gratia payments amounting to R523 million made by Transnet SOC Ltd; and
- In addition to the factual allegations being incorrect, the legal basis for a number of the allegations is flawed.

To the best knowledge of Transnet's directors, the Company has complied, in all material respects, with all regulations applicable to it during the period, except as noted below.

PFMA reporting









Category of reportable items	2018 R million	2017 R million
Fruitless and wasteful expenditure	23,5	21,9
Losses through criminal conduct	59,1	43,1
Irregular expenditure – spent in current year Irregular expenditure – spent in prior year	3 427,4 4 695,7	142,4 550,3
Total irregular expenditure	8 123,1	692,7
Less: Irregular expenditure condoned Less: Amounts recoverable (not condoned) Less: Amounts not recoverable (not condoned)	(0,2) — —	(293,3) (158,6) (240,8)
Remaining irregular expenditure awaiting condonation	8 122,9	_
Irregular expenditure under investigation	507,3	32,8

Incidents of non-compliance with internal policies and/or provisions of the PFMA have resulted in 44 finalised disciplinary cases and the lodging of 1 022 criminal cases with SAPS. The bulk of the criminal cases relate to the theft of cable and other assets from the rail infrastructure network.

The expenditure identified as irregular is due to non-compliance with the procurement procedure manual (PPM), PPPFA or Construction Industry Development Board (CIDB) regulations:

- Contract value exceeded.
- PPM tender/bid process not followed.
- Procurement and capital expenditure procedures not adhered to.
- Non-compliance with DOA.
- Incorrect use of procurement emergency procedure.
- PPM confinement process not followed.

While goods and services were received, it is clear that the prevention and detection controls in this area are not achieving the desired level of compliance. The Board, together with management, has implemented corrective action.

The Shareholder Representative has determined that the materiality limit for reporting in terms of sections 55(2)(b)(i), (ii) and (iii) of the PFMA is R25 million per transaction. In terms of this materiality framework, there are 26 reportable items exceeding R25 million which have been reported as irregular expenditure for the financial year. More detailed disclosure relating to these items, together with corrective action, is set out in Annexure E to the annual financial statements.

State-capture allegations

During the year, substantive stakeholder concerns were reported across various print media, with specific reference to media allegations relating to the so-called 'Gupta Leaks'. The loss estimates related to the ongoing litigation and corruption investigations will only be finalised when all investigations are completed. The process has been facilitated in a phased approach. Transnet's Forensic team reviewed and analysed media reports pertaining to Transnet contracts. Letters were written to suppliers informing them about the investigation into allegations of supplier kickbacks on SOE contracts. Suppliers were requested to provide details of third-party companies and individuals that assisted to acquire business from Transnet, as well as the value of service payments made to companies or individuals, and the dates of payments. Suppliers were further required to disclose the names of Transnet employees with whom they had interacted with regard to contracts, and to disclose whether any undue influence had been applied to persuade them to pay commissions to any Transnet employees. Responses were received from three companies. Overall, 33 companies were identified in media searches, of which nine may have Transnet contracts, four may be fronting, 18 may have received funds from Transnet contracts. Altogether 15 of the companies may be international.

Following the review, Transnet Forensics assessed the extent to which affected companies had complied with procurement procedures and policies as well as applicable National Treasury regulations, and the extent to which payments were made for genuine goods and services received by Transnet. Media reports of fraud and corruption allegations relating to specific Transnet employees were also investigated. Relationships were established between current and past directors through business addresses, directorships and transactions with Transnet for these companies (12 in total).

An Internal Audit Payments Review was subsequently performed to identifying non-compliance with controls and red flags for fraud and corruption. The payment review assessed the following control weaknesses:

- Payments not linked to purchase orders.
- Irregular allocation of invoices to purchase order and contracts.
- Possible duplicate payments.

- Possible buyers and suppliers relationships.
- Possible advance payments.
- Invoices with round values and vague descriptions.
- Possible irregularities in sub-contracting and conflicts of interest.
- Lack of time schedules supporting payments.
- Possible overspend on contract value.
- · Potential for non-segregation of duties.
- Transactions parked and released by same person.
- Delayed billing and payment of invoices (overlapping three financial periods).
- Deviations from contract terms.
- Suspicious change of bank accounts.

Reviews of companies implicated were completed in March 2018. A criminal investigation was recommended and a case has been opened with the SAPS to establish the flow of funds between linked companies, directors and Transnet employees identified during the forensic investigation. At the time of publishing this Integrated Report, the investigation is still ongoing, with external service providers contracted to facilitate further forensic assessments and criminal investigations.

The new Transnet Board has done away with the Acquisitions and Disposals Committee. This is to ensure that Transnet directors are not involved in acquisition processes. Further, the Board has established a special sub-committee comprising the chairpersons of the various Board sub-committees to advise the Board on the implementation of recommendations from externally sourced investigative reports. The Board will also seek legal advice on the uncoupling and implementation of civil, criminal and disciplinary matters. Processes under way include the investigations of the Special Investigating Unit (SIÚ) and Hawks as well as the Zondo Commission into state-capture.

T-Systems and Gijima

The dispute on the IT service contract involving Transnet on the one hand and T-Systems and Gijima on the other is receiving the Board's attention. The focus is to get Transnet to transition from its current 'outsourced' data centre service environment in a manner that will enable the Company to assume internal control of these services. Coupled to the transitioning process, Transnet will continue to enhance its internal ICT capacity. The T-Systems/Gijima matter is now before the court. All issues relating to this matter will, therefore, be handled through this process unless an amicable resolution is agreed upon by all parties involved in the matter.

Contracts for purchase of 1 064 locomotives

It has been widely reported in the media that the contracts to purchase 1 064 locomotives are the subject of certain corrupt activity. This led the previous Board to initiate a forensic investigation by Werksmans Attorneys, followed by further investigative work carried out by MNS Attorneys. Transnet is aware of additional investigations into the same matter being undertaken by the SIU, the Hawks and the Zondo Commission (all investigations are at various stages of completion).

As at the reporting date, there is still further work being undertaken by the new Board. Transnet is, therefore, not in a position to make a firm determination as to whether any, a portion, or all of the expenditure should be considered as non-compliant with the provisions of the PFMA and, therefore, whether such expenditure should be classified as irregular. The estimated total contract value is R54,5 billion, with cumulative expenditure to 31 March 2018 amounting to R30,1 billion.

To the extent that any of this expenditure is found to be in contravention of the provisions of the PFMA, it will be reported and appropriately classified in the annual financial statements for the year ended 31 March 2019.

Operating Divisions' review KPIs Revenue (R million) EBITDA (R million) Operating expenses (R million) ROTA (%) Capex Volumes Black employees (%) Training spend (% of personnel cost)

Disabling injury frequency rate (DIFR)

% energy-efficiency improvement

on the previous year (electricity)

Freight Rail							
2018	2017						
43 709	39 114	1	ঠ				
20 473	17 263	1	ঠ				
23 236	21 851						
7,6	5,8	1	ঠ				
17 598	15 746	1	ঠ				
226,3 (mt)	219,1 (mt)	1	0				
87,9	87	1	ঠ				
2,1	1,9	\downarrow	ঠ				
0,91	0,78	\downarrow	ঠ				
64,4	65,4	1	0				
2 113	1 860	1	\$				

Engineering								
2018 2017								
11 250	9 380	1	ঠ					
(139)	(457)	1	ঠ					
11 389	9 837							
(3,4)	(6,7)	1	ঠ					
275	945	\downarrow	0					
_	_							
80,8	80,2	1	0					
2,6	3,6	\downarrow	0					
0,66	0.61	\downarrow	ঠ					
9,6	14	↑	0					
254	227	\downarrow	0					

Port Terminals						
2018	2017					
12 393	11 150	1	ঠ			
4 172	3 794	1				
8 221	7 356					
15,3	13,6	1	b			
1 365	1 208	1	ঠ			
4 664 ('000 TEUs)	4 396 ('000 TEUs)	1	ঠ			
87	85	1	ঠ			
1,5	1,5	=	b			
0,67	0,71	1	b			
1,7	2	1	ঠ			
5,9	8,2	\downarrow	ঠ			

Pipelines 2018 2017 1 3 4 488 4 355 \downarrow 3 192 3 377 978 1 296 √ >> 6,9 10,7 ↓ 5 1544 1706 \downarrow ঠ 16 345 (Mℓ) 16 978 (Mℓ) ঠ 89 88 1 3 3,5 3,3 **1** 3 0,09 0.37 (1,0)n/a n/a n/a 89,1 n/a n/a

Commentary

Regional integration: Cross-border revenue (R million)

Improvement on prior year performance

Decline on prior year

Equivalent performance



Target partially achieved

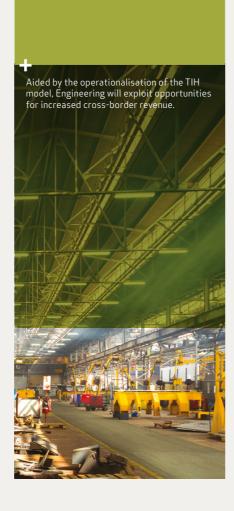
O Target not achieved

Opportunities in the short to medium term

Acceleration of new business development and road-to-rail initiatives to improve

Cost optimisation (both capital and





Revenue increased by 12,7% to R11, 7 billion (2017: R10,4 billion) due to increased volumes across all commodities.

National Ports Authority

2017

10 379

6 3 6 7

4012

2 0 2 0

4 466 ('000 TEUs)

85,8

0.59

1,42

6,9

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2018

11 699

7 196 4 503

6,0

4 778 ('000 TEUs)

88

5,9

0,33

1,9

77,9

1 054

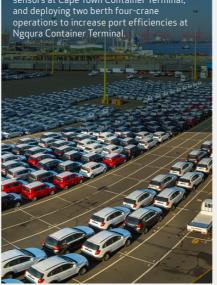
External revenue increased by 7,6% to R10,1 billion (2017: R8,4 billion).

Net operating expenses increased by 12.2% to R4,5 billion (2017: R4,0 billion), mainly due to increases in personnel costs, energy costs and legal fees.

The Port of Ngqura will embark on the Multi-Purpose Terminal: Planning phase.

South African port system: The new business development team has eight planned section 56 concession projects for the year ahead.

Various efficiency-improvement projects include the installation of early-warning sensors at Cape Town Container Terminal, Nggura Container Terminal.



Explore opportunities to expand Port Terminals' service offerings across the transport value chain. 'Back of port' opportunities are being explored to offer warehousing and value-add services in the container, mineral bulk and automotive segments.

Port Terminals will continue to support Transnet's international strategy by applying strengths and capabilities to regional opportunities in Africa.

Port Terminals continues to grow volumes as the South African economy recovers and commodity prices improve.

The TVCC strategy continues to facilitate improvements in operational efficiencies and logistics integration between port and rail.

Pipelines will look to achieve the petroleum volume target of 17,516 billion litres.

Measures will be implemented to mitigate the impact of a lower allowable revenue granted by Nersa for the 2019 financial year.

Opportunities exist to increase volumes at Tarlton, including influencing the Botswana supply mix and route alternatives.

Maximise volumes for Transnet through the Transnet Value Chain Coordinator (TVCC) and continue to explore diversification opportunities in the LNG market.



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Outlook 🖷 🕲 🔞





With 2017 observing the fastest rate of global growth recorded since 2011¹, large parts of the emerging world and resource-rich regions have stabilised due to a continued recovery of commodity prices. Coal prices improved by almost 30,0% and, similarly, metals prices recovered by more than 20,0%. Stabilisation of commodity prices bodes well for Transnet as the transportation and handling of key commodities, such as coal, iron ore and manganese, contribute significantly to our bottom line.

However, these improvements must be viewed within the context of a series of global economic crises, negative shocks and falling commodity prices between 2008 and 2016. Transnet was not immune to these headwinds, which influenced our projections as they relate to profit and capital expenditure. Notwithstanding these challenges, the global economy appears to have entered a cyclical upswing with the International Monetary Fund (IMF) forecasting global growth of 3,9% and developing and emerging market growth of 4,9% in 2018. Contributing factors to the positive outlook is the expectation that advanced economies will grow faster in 2018 and 2019.

Accommodative monetary policy in the Euro area and expansionary fiscal policy in the US are driving favourable projections for those regions. Emerging and developing economies should benefit from continued strong growth in emerging Asia and Europe, and from a modest upswing in commodity exporters after three years of weak performance².

Significantly, global growth is not expected to continue at the same pace beyond the next couple of years. The IMF notes that "while upside and downside risks to the short-term outlook are broadly balanced, risks beyond the next several quarters clearly lean to the downside". These risks emanate, in part, from trade tensions stemming from inward-looking policies as well as geopolitical strain.

At home, national accounts data for the fourth quarter of 2017 surprised on the upside, with a sharp quarter-on-quarter expansion driven by private consumption and fixed investment. In January 2018, manufacturing output expanded for the fourth consecutive month, recording its sharpest increase since June 2016³. Indeed, the IMF has forecast South Africa's economy to grow by 1,5% in 2018, which is an improvement on the 1,3% growth rate of 2017. The country's forecasted growth rate is still well below the sub-Saharan African region's average of 3,4%. However, with improving business confidence after a period of political uncertainty, the growth rate is expected to keep improving beyond 2018. It still remains unclear at this stage whether the projected improvements in GDP and business confidence will provide sufficient relief from the effects of the downgrade of the sovereign credit rating of South Africa in 2017.

Strategic considerations

The world, including South Africa, is facing a 4th Industrial Revolution. According to the World Economic Forum (2017) this evolution follows on the digital technologies of the 3rd Industrial Revolution powered by a wide range of new breakthroughs not only in the digital realm (such as artificial intelligence) but also in the physical realm. These new automated technologies bring advanced robotics, new forms of automated vehicles, quantum computing, etc.

"Transnet 4.0 brings with it opportunity, challenge and change. If we don't jump in, we will be left behind."

Mr Gert de Beer Chief Business Development Officer

¹ https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/WESP2018_Full_Web-1.pdf

² IMF World Economic Outlook, April 2018: Cyclical Upswing, Structural Change,

³ https://www.focus-economics.com/countries/south-africa

With the expected global recovery not materialising as anticipated during the MDS period, the Company was compelled to recalibrate and refine its capital expenditure as per the changing market conditions, changing from investing ahead of demand to investing based on validated demand.

The 2019 financial year marks not only the conclusion of the original MDS planning horizon, but also the introduction of our new Transnet 4.0 Strategy which, at its core, is Transnet's response to the emerging 4th Industrial Revolution. This evolving paradigm is characterised by a fusion of technologies and digital applications poised to disrupt almost all industries, while transforming systems of production, governance and management at all levels of the value chain. Transnet 4.0 will use the MDS as a base to reposition Transnet for new growth and competitiveness in the fast-evolving, technology-driven context of the 4th Industrial Revolution as we continue to provide capacity ahead of demand.

Transnet expects to invest a further R163,7 billion in capital over the next five years to 2023. In 2019 we will see a shift in the balance of 'sustaining' and 'expansion' capital expenditure - with the pendulum swinging towards sustaining investment. At the inception of the MDS in 2013, this split was 'expansion' at 58,0%, versus 'sustaining' at 42,0%. The capital expenditure split is now expected to shift to 34,0% and 66,0% respectively in the coming financial year, which will result in more effort being placed in maintaining and enhancing current operations.

While our primary focus remains volume growth of the core business in the long term, Transnet is also seeking new growth paths to compensate for low-growth expectations and instability in its traditional market segments. Accordingly, organic growth of the current freight transport and handling divisions will still account for the bulk of this growth as we target improved connectivity, density and capacity of an increasingly integrated port, rail and pipeline network. The accelerated development of logistics and industrial zones, centred on intermodal terminals, will be a key component of this, providing critical infrastructure to complement and feed the network.

In tandem, we will improve operational efficiency and reliability, and innovate around new revenue streams to grow market share in both domestic and regional markets, particularly in integrated logistics, the development of logistics hubs and clusters, natural gas midstream infrastructure, manufactured products and digital businesses. Private-sector partnerships will be a key enabler and driver of these new ventures.

Going forward, the success of Transnet 4.0 will, in great part, depend on our ability to create new revenue streams that leverage Transnet's digital capability, expertise and platforms to deliver technology and business solutions for the African market, firstly for the regions of East Africa and the South African Development Community (SADC) region, and later extending to the greater sub-Saharan African region. Again, strategic partnerships and collaborations with sector specialists in the freight logistics environment will accelerate new business ventures and new revenue growth.

We have considered several megatrends in the transport and logistics industry sector, together with risks and opportunities.

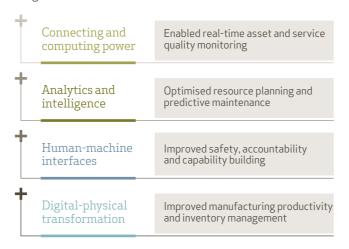
Transnet's business model

Megatrends affecting the logistics sector

Figure 15



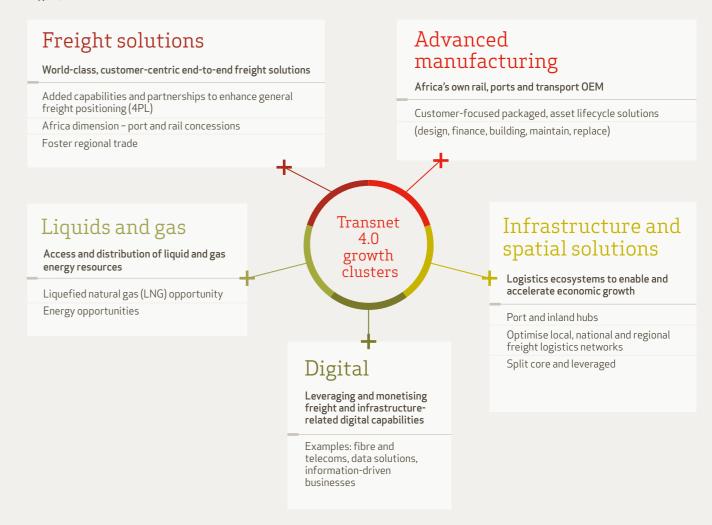
Global 'Industry 4.0' megatrends Figure 16



"Moving into 4.0, a key operational issue will be visibility of performance. You have to be able to see where the hold-ups in your logistics system are and find out why at the click of a button."

Mr Mlamuli Buthelezi Chief Operating Officer Five growth clusters will drive Transnet 4.0, with the potential for significantly increasing revenue over the next five years:

Figure 17

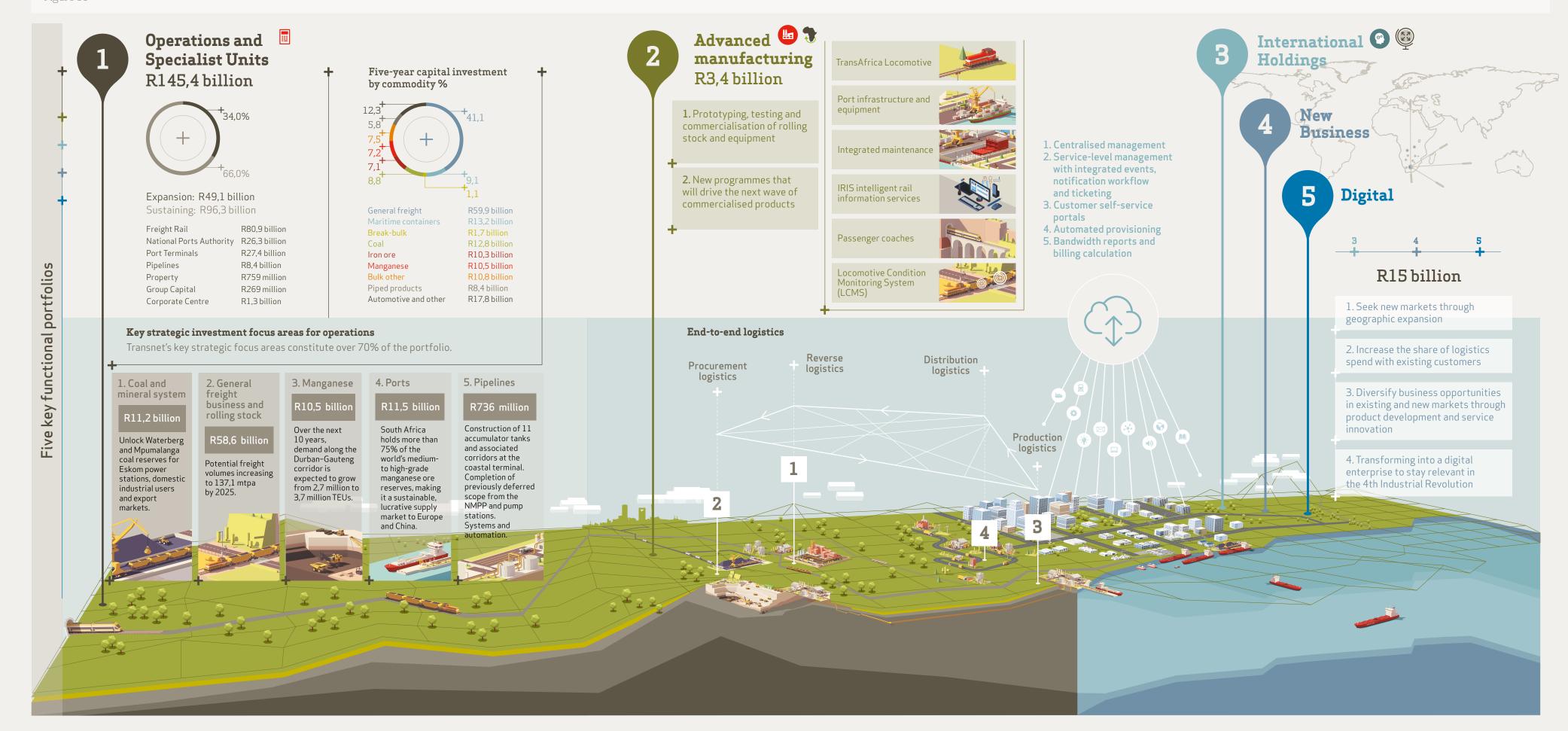


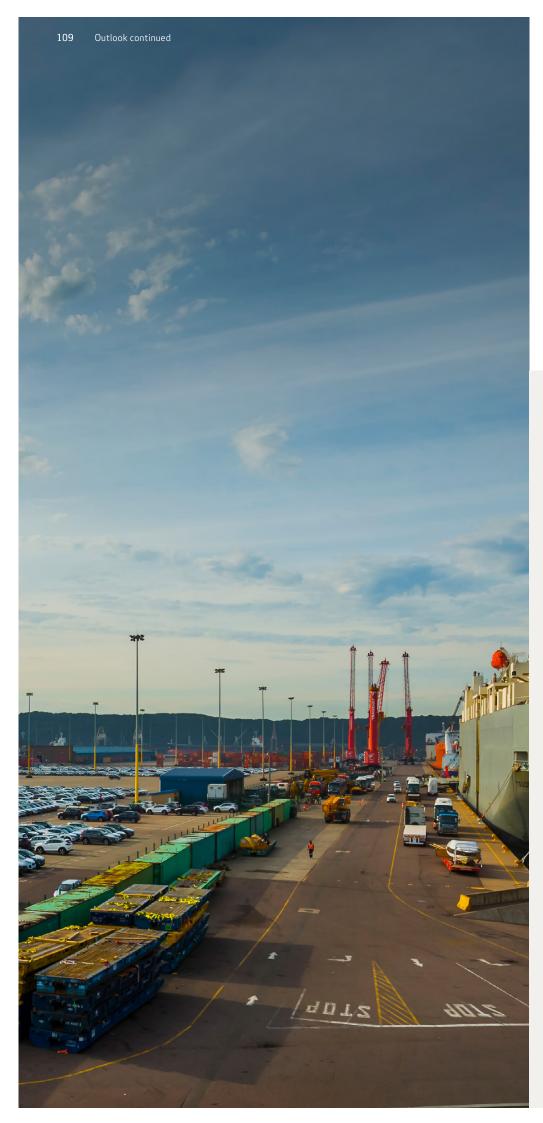
As we embark on Transnet 4.0, we will need to balance our investment in traditional infrastructure, such as rail, pipeline and ports, with our investment in other revenue-diversification opportunities, as well as technological innovation and digital enablement within our operations. Figure 17 outlines this perspective as we transition from the current functional portfolios of the remaining MDS horizon in the short term, towards greater focus on our advanced manufacturing business, as well as our growth aspirations through geographic expansion, new markets and digital innovation within the logistics value chain.

"Transnet 4.0 is essentially about growth and diversification, so even if a person is hardly touched by technology in their job, any efficiency and improvement that facilitates our growth and diversification is part of 4.0."

Mr Khaya Ngema Group Executive Strategy Short- to medium-term focus (Investment outlook)
Figure 18

Five-year investment portfolio R163,7 billion





Conclusion and medium-term planning horizon

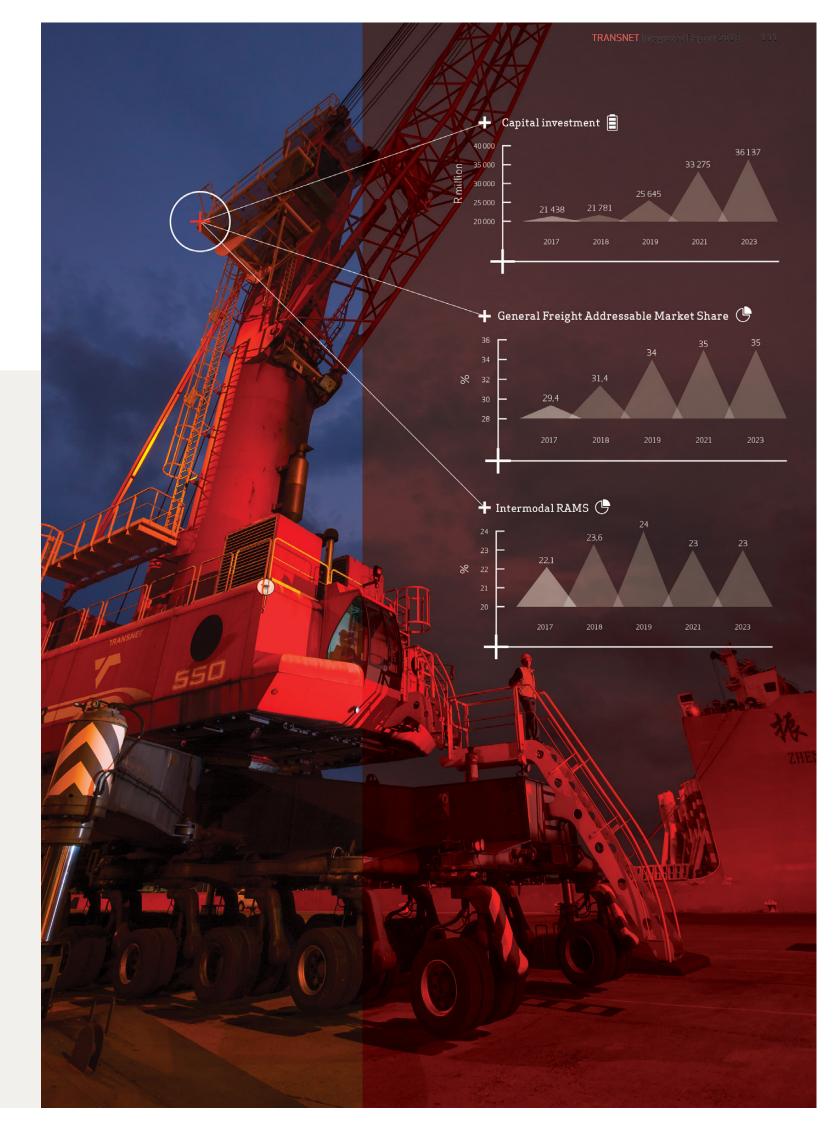
Overall, the short-term global economic outlook is positive. We are cautiously optimistic that the South African economy is in steady recovery and with it, our domestic business outlook. However, the sub-investment grade economic climate in South Africa is negatively impacting the general level of liquidity in the debt markets. Transnet has identified several measures that could be implemented to mitigate a potentially constrained funding scenario. By way of example, this may include reducing capital investments in the short term by prioritising and optimising capital projects, cost-containment initiatives, operational efficiency improvements and securing diversified and new revenue streams.

Capacity creation remains a strategic fundamental for Transnet, both in terms of our own competitiveness and in contributing to wider economic growth. As a State-owned Company, Transnet will continue to play its role in creating transport infrastructure capacity as well as maintaining and improving the reliability of existing services to contribute positively towards a growing and inclusive economy.

Going forward, Transnet 4.0 aims to mitigate our exposure to 'boom and bust' cycles in commodity markets through diversification and product innovation, and also chart new growth paths that are sensitive to the realities of an operational landscape that is modernising at an accelerated rate.

Medium-term	nlanning	horizon.	Transitioning	to Transnet	4 N	(Critical KPIs)
MEGITALIC CELLIC	Digitilitie	ILUI IZUIL.	11 ali SI (I U I I I I I I	to manismet	7.0	(CIIIIICAIIXI IS)

• 0					
Financial sustainability	2017 Performance	2018 Performance	2019 Year ahead	2021 Short term	2023 Medium term
Revenue (million)	65 478	72 887	85 048	101 152	119 375
EBITDA (million)	27 557	32 515	37 906	44 421	53 626
Net profit after tax (million)	2 765	4 851	5 916	8 893	13 336
Gearing (%)	44,2	43,4	43,5	43,0	40,9
Cash interest cover (times)	2,9	3,0	2,5	2,9	3,3
Cash flow from operations (million)	25 104	22 958	21 215	30 015	37 759
Capacity creation and maintenance	2017 Performance	2018 Performance	2019 Year ahead	2021 Short term	2023 Medium tern
Freight Rail (million)	15 737	17 599	16 387	17 851	14 57
National Ports Authority (million)	2 020	1 054	2 636	5 025	7 29
Port Terminals (million)	1 208	1 365	2 722	4 280	7 08
Pipelines (million)	1 706	1 544	1 338	2 941	36
Engineering /Advanced Manufacturing (million)	945	275	748	764	49:
Overall capital investment (million)	21 438	21 781	25 645	33 275	36 13
Market segment competitiveness	2017 Performance	2018 Performance	2019 Year ahead	2021 Short term	202 Medium terr
General Freight Rail					
Addressable Market Share (RAMS) (%)	29,4	31,4	34	35	3.
Intermodal RAMS (%)	22,1	23,6	24	23	2
Operational excellence	2017 Performance	2018 Performance	2019 Year ahead	2021 Short term	2023 Medium terr
Freight Rail volumes					
General Freight (mt)	88,1	90,77	104,2	117,6	125,
Export coal (mt)	73,8	77,0	77,0	77,0	79,
Export iron ore (mt)	57,2	58,5	60,0	60,0	60,



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Abridged governance

Ethical and effective leadership and corporate citizenship

The Board is principally responsible for directing and controlling the business of the Company and ensuring its long-term economic, social and environmental sustainability.

This responsibility includes it being the deemed Board of the Transnet National Ports Authority in terms of the National Ports Act.

The Board leads the Company in its achievement of strategic objectives by directing and approving the Company's overall strategy and associated operational objectives. It monitors the Company's performance against the targets outlined in the Shareholder's Compact and ensures that adequate processes are in place for budget planning and allocation to advance the Company's mandate. This includes oversight of the Company's socio-economic programmes.

The Board is accountable for leading the Company ethically and effectively. The qualities of integrity, competence, responsibility, fairness and transparency are cultivated and exhibited through the Company's compliance with legislation, rules and binding codes, underscoring its responsibilities as a good corporate citizen

The Board is committed to implementing the King IV Code on Corporate Governance.

Compliance with laws, codes, rules and standards

The Board governs and directs compliance with applicable laws and adopted, non-binding rules, codes and standards. The Board delegates the responsibility for implementing the compliance function to management. To this end, the Company has an established Compliance function. As is the case with all the Company policies, the Compliance Policy is reviewed every five years in accordance with the Company Policy Framework or updated as and when required. The Compliance Policy forms the foundation of the Compliance Framework.

The Board considers non-compliance with legislative requirements a key risk, as it not only exposes the Company to fines and civil claims, but can also result in loss of operational authorisations and reputational harm.

The Board oversees compliance management and has delegated the review and approval of the Company's Compliance Plan to the Risk Committee. The Compliance Plan details procedures for identifying regulatory risks and monitoring compliance with applicable regulatory requirements. The Compliance Plan is aligned with the Company's strategy to mitigate compliance risk exposures emerging from the execution of the strategy.

Public Finance Management Act (PFMA)

The PFMA requires the Board to ensure that the Company and its employees comply with the provisions applicable to Schedule 2 Companies, as well as any other legislation applicable to the Company. Accordingly, the Board – in its capacity as the Company's accounting authority – ensures that the Company adheres to the requirements for the assessment of risk and annual budget submissions, and the annual conclusion of a Shareholder's Compact. The Board also further ensures that the Company adheres to all procedures for quarterly reporting to the Executive Authority through submission of quarterly PFMA reports.

The Board has noted the ineffectiveness of supply chain-related controls, which resulted in significant irregular expenditure in terms of the PFMA, as highlighted within the annual financial statements on pages 15 and 16 of the Report of the Directors, as well as Annexure E, from pages 116 to 120.

Companies Act

The Company reports on the extent of its compliance with the Companies Act in the Directors' Report.

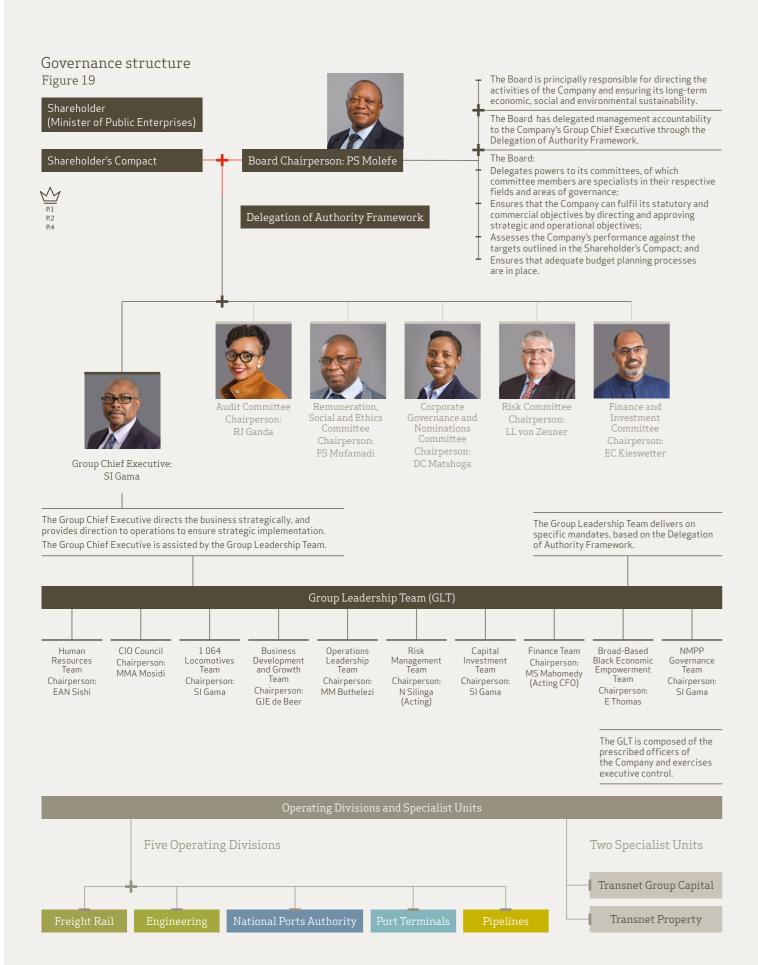
King IV

The Board is committed to the application of King IV governance principles in conjunction with regulatory provisions to achieve the overarching principles of sound governance, namely an ethical culture, good performance, effective control and operational and social legitimacy. It intends to do so substantively and not simply in form, so that its decisions and actions impact positively on the Company and all its stakeholders. The Governance Assessment

"A strong theme for us in the Capital space is going back to basics;

we are focusing our attention on compliance, governance and internal controls."

Mr Krishna Reddy Chief Capital Officer 114 Abridged governance continued



Instrument is utilised to monitor the level of application of the King IV principles. The King Report on Corporate Governance has been reviewed and the level of application of King IV principles are reported in the full Governance Report available at www.transnet.net.

Governance instruments

The Company's governance instruments include:

- Memorandum of Incorporation (MOI), as lodged with the Companies and Intellectual Property Commission (CIPC);
- Delegation of Authority Framework, approved by the Board on 31 August 2016, with effect from 1 September 2016, and cascaded Company-wide; and
- Matters reserved for decision by the Board¹ encompass:
- Approvals and recommendations of financial, statutory and administrative matters; and
- Matters relating to regulatory, human resources and policies. Subject to the Memorandum of Incorporation of the Company, the PFMA, and such other applicable legislation, on the basis of any recommendation as may be made from time to time by the Group Chief

Independent performance evaluation of the Board, its committees and directors



The Board evaluates its performance and that of its committees, Chairperson and individual directors through an annual independent evaluation and provides ongoing support for continued improvement. The process is facilitated by an independent service provider

2018 Board evaluation

PricewaterhouseCoopers, an external service provider, conducted the 2018 Board evaluation in February 2018. Identified areas of improvement included:

- Requirements for logistics, freight and rail;
- Capital projects and programmes expertise;
- Investment and economics expertise;
- Information and communications technology expertise; and
- Technical engineering expertise and cost.

Further areas for consideration included the following:

- In terms of the appointment, induction, training and succession planning of directors, King IV recommends that a programme be implemented by the Board to ensure a staggered rotation of non-executive directors to the extent that this is not already regulated by the Company's MOI or other relevant legislation.
- In terms of strategy, compliance and Group performance emphasis is placed on the Board's focus on the achievement of value creation as set out by King IV and aligned with leading practice trends. The Board should ensure that the Company strategy is expressed in terms of performance that creates value in a sustainable manner within the economic, social and environmental context in which the Company operates.

Action plans are being developed to address the gaps. The appointment of the new Board in May 2018 addressed areas of improvement, which included the balance of skills and filling of vacancies. The Board Evaluation Report is generally tabled for noting at the annual general meeting.

Directors' induction and continuous development

The Group Company Secretary develops an Annual Board Training Plan to support the enhancement of skills of members of the Board and its committees. Individual directors are encouraged to identify any training events they may wish to attend through recognised training institutes as provided by the Group Company Secretariat.

A full list of training activities conducted during the year with the Board by external training service providers is provided in the Governance Report available online at www.transnet.net. It is submitted to the Shareholder for information purposes.

Board independence

The Board comprises an appropriate balance of knowledge, skills, experience, diversity and independence, enabling the objective and effective discharge of its duties. In accordance with the King IV Code, the Board is satisfied that the non-executive directors of the Company are independent.

Core responsibilities of the Board

The Board of Directors serves as the focal point and custodian of corporate governance in the Company. The protocol for exercising its leadership role is outlined in the approved Board and committees' mandates. The mandates clearly define the procedures for the Board and committees to obtain professional advice, and the procedures for management to submit documentation for the Board to make informed decisions.

The Board has interrogated the reports relating to the year under review in line with its mandate, and to date is satisfied that it has discharged its responsibilities.

Board and committee meetings

Status of meetings convened in the 2018 financial year

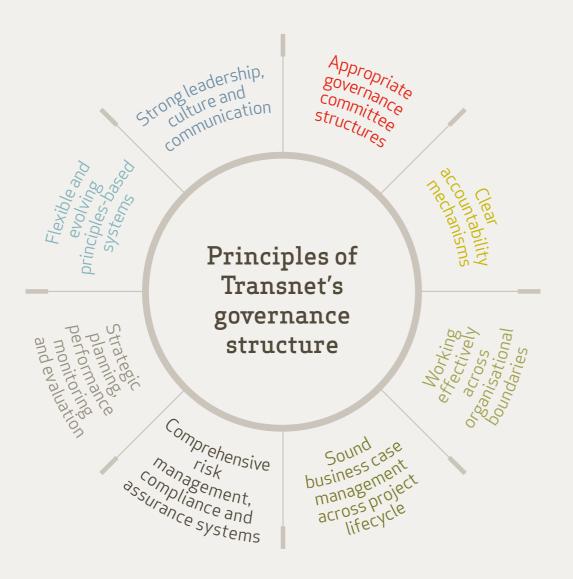


On 28 May 2018, the Board dissolved the Acquisitions and Disposals Committee

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Creating value through Transnet's governance structure $\Phi \bullet$

Characteristics of an enabling governance environment Figure 20



- Monitor the implementation of strategic acquisitions and disposals against approved plans
- Develop key performance indicators to monitor sustainability performance
- Set the tone for Transnet's value system (filtered into corporate culture)
- Maintain highest standards in the social and ethics environment (policies, legal requirements and codes of best practice)

- Ensure integrity of accounting and financial control system
- Inform the overall 'control consciousness' of employees without restricting performance or innovation
- Manage legal and moral obligations for economic, social and natural environments, and set standards for ethical conduct
- As custodians of governance, set an ethical tone and enforce sound ethical principles
- Monitor reward practices and promote competitive reward strategies to recruit and retain high-performing people
- Ensure the Board's composition and structure enable it to fulfil its mandate and obligations, aligned with strategy
- Ensure appropriate skills represented by the Board and appoint competent executive management
- End-to-end visibility of key financial control
- Ensure the Company's strategy, risk compliance, performance and sustainability are inseparable
- Balance financial accountabilities, organisational performance and strategic priorities
- Monitor trends in supplier development spend and progress against targets
- Assess private-sector participation models to support project funding and economic growth
- Ensure that intellectual property created (e.g. ICT and advanced manufacturing innovations) is protected
- Provide assurance on governance-related processes and controls applied by the Board to support strategy
- Meet Transnet's strategic objectives while mitigating risks
- Safeguard manufactured assets
- Manage ICT architecture and mitigate digital risks
- Integrate and align assurance processes and control systems to enable risk and governance oversight
- Adhere to legal, compliance and accounting requirements, and contribute to climate of discipline to reduce fraud and losses

Value created by Transnet's governance function

Aligns operational performance with strategic objectives

Ensures effective Board composition and skills

Promotes financial sustainability

Supports performance monitoring

Safeguards resources and limits undesirable

Promotes an integrated mindset regarding the Company's inseparable elements

Promotes ethical leadership and an ethical organisational culture by enforcing sound ethical principles at decision-making levels

Provides a framework for ethical, inclusive stakeholder relations to build credibility, promote social trust and to enable material stakeholders to make informed decisions

Fosters a work environment that attracts and retains the right skills

Promotes and supports a culture of innovation

Highlights and enables sound management of Transnet's impact on its various stakeholders and the environment

Supports the ethical management of trade-offs between the six capitals (financial, manufactured, intellectual, human, social and relationship, and natural)

Promotes fairness and inclusivity within Transnet's employee base

Promotes fairness and inclusivity within Transnet's supplier relationships

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Board

- Total number of meetings held during the year: 9
- Directors' attendance at Board meetings denoted by ()

Chairperson:

• Ms LC Mabaso ++ (9)

Members:

- Ms Y Forbes ++ (8)
- Mr SI Gama + (9)
- Ms AC Kinley¹ ++ (2)
- Mr GJ Mahlalela² ++ (9)
- Ms PEB Mathekga³ ++ (9)
- Mr ZA Nagdee ++ (9)

• Executive director +

• Mr VM Nkonyane ++ (9)

• Independent non-executive director ++

- Mr GJ Pita + (8)
- Mr SD Shane⁴ ++ (0)
- Mr BG Stagman⁵ ++ (5) Mr SM Radebe⁶ ++ (3)

Most material matters arising during the year

- The Board skills mix
- Board composition and the resultant Memorandum of Incorporation clause amendment.
- · Increasing PFMA issues.
- Media allegations against Transnet.
- Issues raised by Standing Committee on Public Accounts (SCOPA).
- Noted the Public Protector matters.

Main undertakings and considerations

- The Company has reinstated assurance committees at the Operating Divisions' level to address PFMA transgressions as they arise. A step-up programme has been introduced to enhance internal controls and more emphasis is given on instituting consequence management.
- The Company has made an undertaking to SCOPA to reduce instances of contract variations through deviations and extensions.
- The Company has also instituted independent forensic investigations to address the alleged corporate governance breaches on contracts concluded between 2014 and 2016 and the prevailing media allegations. Some of the recommendations from the forensic investigation have been implemented, while a further investigation has been commissioned and will be finalised by the end of June 2018.
- The Board, together with the Shareholder Minister, is addressing the appointment and induction of additional Board members. The Shareholder Minister has addressed this gap through the appointment of the new Board on 23 May 2018.
- * A more detailed table of key activities and outputs for the 2018 financial year is contained online in the full Governance Report available at www.transnet.net 1 Ms Kinley was appointed as a director and member of the Audit Committee with effect from 21 December 2017, and the Chairperson of the Acquisitions and
- Disposals Committee with effect from 30 January 2018.
- ² Mr Mahlalela passed away on 29 March 2018. 3 Ms Mathekga was appointed as a member of the Remuneration, Social and Ethics Committee and ceased to be a member of Corporate Governance with effect from 30 January 2018.
- ⁴ Mr Shane resigned as a director of the Company with effect from 29 June 2017.
- ⁵ Mr Stagman resigned as a director of the Company with effect from 10 December 2017.
- ⁶ Mr Radebe was appointed as a director and the Chairperson of the Audit Committee with effect from 21 December 2017.

Chairperson and Group Chief Executive

The roles of the Chairperson and the Group Chief Executive are separate, with their individual responsibilities clearly defined. The Chairperson is an independent non-executive director and is responsible for leading the Board and ensuring its effectiveness. The Group Chief Executive is responsible for the execution of the Company's strategy and the day-to-day business of the Company. He is supported by the Group Leadership Team (GLT), of which he is the Chairperson.

The Delegation of Authority Framework records the nature and extent of the authorities delegated by the Board to the Group Chief Executive and specified governance structures and, in turn, by the Group Chief Executive to the members of the GLT to implement certain actions by or on behalf of the Company. It includes - to the extent necessary and incidental thereto - the authority to discharge all duties, obligations and powers imposed upon the deemed Authority under the National Ports Act. The new Board has undertaken a process to review the Delegation of Authority Framework.

Succession planning

Non-executive directors are appointed to the Board by the Shareholder Minister, on a three-year term, renewable annually. The Chairperson of the Board engages continuously with the

Shareholder Minister, who is the final arbiter on the Board's succession plans and approval of transaction applications in accordance with the provisions of section 54 of the PFMA.

Management of potential conflicts of interest

The Companies Act codified the fiduciary duties of directors, and prohibits the use of position, privileges and/or confidential information for personal gain or to improperly benefit another person. The Board adheres to the prescribed standards of ethical and professional conduct.

Where a director or a prescribed officer has any direct or indirect personal or private business interest in a particular matter, that director or prescribed officer must be recused from the proceedings when the matter is considered, unless the Board, committee or the GLT, as the case may be, decides that the member's interest in the matter is trivial or irrelevant. The declaration of interest and related-party disclosures registers are signed by the members and attendees at all formal meetings of the Board and the GLT, and their committees. These registers are maintained by the Group Company Secretary. In addition, non-executive directors, the GLT, Extended Leadership Team members, line management (Levels C to F) and any employee who has an interest, either directly or indirectly, are required to file an annual declaration of interest form with the Group Company Secretary at the beginning of each

year or within 30 days from date of appointment. Any changes in interests during the course of the year necessitate the filing of revised declaration of interest forms, which are formally noted by the relevant governance structures.

The Board and the GLT note their respective Annual Declarations of Interests Registers. The Corporate Governance and Nominations Committee, and the Remuneration, Social and Ethics Committee conduct annual reviews of the filed declaration of interest forms of the Board and GLT members for adequacy and oversight.

The Declaration of Interests process is conducted through an electronic filing system. In addition, the Company requires all employees to sign confidentiality and declaration of interest forms when adjudicating on procurement contracts, and this practice is strictly enforced. The Declaration of Interest and Related-party Disclosure policies for directors and employees are revised every five years, or as required, in line with the Company Policy Framework.

Non-executive directors

The non-executive directors, appointed on 23 May 2018, have diverse skills, experience and backgrounds. They are principally free from any business relationship that could hamper their objectivity or judgement in terms of the business and activities of the Company. All the non-executive directors have unrestricted access to the Company's information, documents, records and property in the interest of fulfilling their fiduciary duties and responsibilities.

The non-executive directors have direct, unfettered access to the Company's employees, external auditors, professional advisers and internal auditors. The non-executive directors continue to act in the best interest of the Company at all times.

Group Company Secretariat function

The Board adheres to the requirement of the Companies Act and has appointed a competent and qualified Group Company Secretary. The Group Company Secretary is responsible for developing systems and processes to enable the Board to discharge its functions efficiently and effectively. The Group Company Secretary prepares Annual Work Plans for the Board, as informed by the strategic direction of the Company. The Annual Work Plans are approved for implementation by the respective governance structures and are continually tracked to assess progress. The Group Company Secretary advises the Board on corporate governance issues, the requirements of the Companies Act and other relevant legislation.

The Board has unfettered access to the services and advice of the Group Company Secretary. The Group Company Secretary is qualified to perform duties in accordance with applicable legislation and is considered by the Board to be fit and proper for the position. The Group Company Secretary does not fulfil an executive management function and is not a director. Therefore, the Board is satisfied that the Group Company Secretary maintains an arm's-length relationship with the Executive Management Team, the Board and the individual non-executive directors.

Benchmarking

The Group Company Secretariat has shared and learnt the knowledge it has gained in the corporate governance sphere with other SOCs, with the objective of enhancing uniformity, standardisation and alignment of best practice across the SOCs.

Board committees

Audit Committee

During the year, the Company continued to comply with the Companies Act's requirements for the functioning and reporting of the Audit Committee. PFMA requirements for the composition and election of the Audit Committee are strictly observed.

The Audit Committee comprises independent non-executive directors who are duly elected by the Shareholder Minister at the annual general meeting in line with legislative requirements. Overall, four scheduled and two special meetings were held during the year and all quorum requirements were met accordingly. The Audit Committee provides the following support activities to the

- Assists the Board in discharging its duties for the safeguarding of assets and the evaluation of internal control frameworks.
- Reviews and assesses the integrity and effectiveness of the accounting, financial, compliance and other control systems.
- Considers the internal and external audit process, accounting principles and policies.
- Strengthens the independence of the internal and external audit functions to ensure their effectiveness.
- Ensures effective communication between the internal auditors, external auditors, the Board, management and
- Ensures compliance with and adherence to applicable legal, regulatory and accounting requirements;
- Contributes to a climate of discipline and control which will reduce the opportunity for fraud.
- Assists the Board in discharging its duties as it pertains to ICT governance.

"At Transnet Internal Audit, we are getting involved in Company initiatives early on,

and control design, thereby

Ms Mmathabo Sukati Chief Audit Executive 120 Abridged governance continued TRANSNET Integrated Report 2018 121

Our Board members

Dr Popo Molefe Chairperson

Date of birth: April 1952

Year of appointment: May 2018

Qualifications: Honorary
Doctorate (Leadership Aptitude)
(University of North West),
Certificate of Conflict Resolution
(Harvard University), Course on
Governance (Harvard University),
Certificate of Completion of
Business Leadership Course
(Pennsylvania University)



Mr Siyabonga Gama Group Chief Executive Date of birth: May 1967

Year of appointment to the Board: October 2015

Qualifications: MBA (Jointly awarded

by New York University Leonard N Stern School of Business, the London School of Economics and Political Science and HEC Paris, BCom (University of Swaziland), Banking Diploma (Institute of bankers CAIB (SA)), Post graduate Diploma in Company Direction Advanced Executive Development Program (City University of New York), Certificate in Port Management (Netherlands IHE), Advanced Port Management and Operations Program (National University of Singapore), Global Leadership Program (GIBS), Executive Development Program (University of Pennsylvania)

Mr Mohammed Mahomedy Acting Chief Financial Officer

Date of birth: March 1971 Year of appointment to the Board: May 2018

Qualifications: CA(SA) PDip Acc (University of KwaZulu-Natal), BCompt (Unisa), Advanced Strategic Management (IMD Switzerland), Global Executive Leadership Development Programme (GIBS)

Ms Ursula Fikelepi

Date of birth: January 1973 Year of appointment: May 2018

Qualifications: MBA (GIBS), LLM (University of New Hampshire, USA), LLB (University of Cape Town), BA Law (Rhodes University)



Ms Ramasela Ganda

Date of birth: September 1974 Year of appointment: May 2018

Qualifications: CA(SA), BCom (Hons) (University of Pretoria), CTA (University of Pretoria), Accounting Special (Bridging Course) (University of Pretoria), BCom (Vista University), Associate - SAICA and PAAB



Prof Edward Kieswetter

Date of birth: November 1958 Year of appointment: May 2018

Qualifications: MCom (SA and International Tax Law (cum laude) (North-West University), MBA (Strategy and Transformation) (Henley, UK), M.Ed (Cognitive Development) (University of the Western Cape), B.Ed (Hons) (Mathematics and Science) (University of the Western Cape), PG Dip (Engineering and Mathematics Ed) (University of Cape Town), NHD (Elec.Eng) (Cape Peninsula University of Technology)



Ms Mpho Letlape

Date of birth: March 1959 Year of appointment: May 2018

Qualifications: Bachelor of Computer Science and Psychology (University of Fort Hare), Management Advanced Programme (Wits Business School), Strategic Human Resources Management (UCT Graduate School), Leading Change (Harvard Business School), Management Advanced Programme (Wits), Strategic Perspective in NPO Management (Harvard Business School), Orchestrating Winning Performance (IMD) (Harvard Business School), Strategic Human Resources (Harvard Business School)

Ms Dimakatso Matshoga

Date of birth: May 1978

Year of appointment: May 2018

Qualifications: MBA (Management College of SA), BSc (Electronic Engineering) (University of Natal), PD in Project Management (School of Project Management), PrEng and Certified Director (IoDSA)





100% 0-3 years

Finance and Investment Committee

Risk Committee

Length of tenure of independent non-executive directors as at 31 March 2017

3-6 years

Board members' competencies – as per competency key, including: Corporate Governance

Management and Leadership
Legal, Compliance and Regulatory
Infrastructure, Logistics and Manufacturing
Strategy and Planning
Economics, Finance and Investment
Auditing and Accounting
Procurement and Supply Chain
Construction and Engineering
HR and Industrial Relations
Business development, Marketing and Sales
Risk Management
Stakeholder Relations
Policy Development
Business acquisitions and Communication Technology

Transformation and Sustainable Development

Project management



Ms Vivien McMenamin

Date of birth: March 1963 Year of appointment: May 2018

Qualifications: MSc Economics
(University of London), BSocSci
Hons (Economics) (University of
Cape Town), IMD Advanced High
Performance Leadership, IMD
High Performance Leadership,
Banking and Finance Diploma
(University of London)



Adv Oupa Motaung

Date of birth: August 1970 Year of appointment: May 2018

Qualifications: BProc (Wits University), LLB (Wits University), LLM (Tax Law) (Wits University), HDip Co. Law (Wits University), AIPSA Diploma (University of Pretoria), Advanced Certificate in Construction Law (University of Pretoria), Certificate in Banking and Financial Markets (Wits University)



Dr Fholisani Mufamadi

Date of birth: February 1959 Year of appointment: May

Qualifications: DSc (Honoris Causa) (University of London), PhD (University of London), Honorary Professor (Political and Government Studies) (Nelson Mandela Metropolitan University), MSc (University of London)



Mr Aluwani Ramabulana

Date of birth: October 1971 Year of appointment: May 2018

Qualifications: MBA (Nyenrode University, The Netherlands), BSc (Chemical Engineering) (Oregon State University), Executive Development Programme (IMD, Switzerland), Certificate in Corporate Governance and Risk Management



Ms Gratitude Ramphaka

Date of birth: August 1979 Year of appointment: May 2018

Qualifications: CA(SA), BAcc (Hons) (University of Witwatersrand), BCom (University of Witwatersrand), Auditing Specialism Course (Advanced Accounting and Auditing), Auditing Professional Training (Advanced Auditing and Professional Training)



Mr Louis von Zeuner

Date of birth: June 1961 Year of appointment: May

Qualifications: Chartered Director CD(SA) (Institute of Directors SA), BA (Econ) (University of Stellenbosch)



Ms Nokuthula Khumalo Group Company Secretary

Date of birth: September 1970 Year of appointment: September 2016

Qualifications: Admitted Attorney; LLM - Environmental Law (University of Aberdeen, Scotland), BProc (University of Natal), Executive Programme (GIBS), Practical Law School - Law Society of South Africa, Waste Management (University of Pretoria), EIA Certificate (University of North-West)

Resignations due to Board rotation Mr Garry Pita (19 April 2018) Ms Linda Mabaso (3 May 2018) Mr Vusi Nkonyane (3 May 2018) Ms Yasmina Forbes (3 May 2018)

Mr Stanley Shane (29 June 2017) Mr Brett Stagman (10 December 2017) Ms AC Kinley (May 2018) Removals due to Board rotation Mr Potso Mathekga (May 2018) Mr Zainul Nagdee (May 2018) Mr Seth Radebe (May 2018) Deceased

Mr Mahlalela (29 March 2018)

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Directors' active memberships on other boards

1. Dr Popo Molefe

Chairperson

Membership/Directorship

Lereko Investments (Pty) Ltd

Lereko Mobility

Tedcor (Pty) Ltd

Lereko Eco

Global Aviations Operations (Pty) Ltd

Aberdeen Offshore Engineering (Pty) Ltd

Lereko Broad-based Consortium 212

Golden Gong Investments

Lereko Metier Investors (Pty) Ltd

Lereko Metier Trustees

Lereko Fleet Management

Bigbit Trading

Lereko Broad-based Consortium 222

Friedshelf 1516

Lereko Motors

Shumani Industrial Equipment

Sunshine Street Investments 71 (Pty) Ltd

LMCGF

Marble Gold

Popo Molefe Trust

Mabele Trust

Mooki Trust

2. Mr Siyabonga Gama Group Chief Executive

Directorship/Trusteeship/Shareholding

Mafumbuka Investment Holdings (Pty) Ltd

Pony Lane Homeowners Association

Transnet International Holdings SOC Ltd

Maputo Corridor Logistics Initiatives

Siyaya Free to Air TV (PVT) Ltd

Sikhuliso Resources (Pty) Ltd (25%)

Four Arrows Investment 256 (Pty) Ltd

Tswelopele Beneficiation Operations (Pty) Ltd (31%)

Phithikeza Trust (property-owning family trust)

The Mndawo Trust

Salesian Past Pupils Association

The Selope Thema Foundation (NPO)

Shareholder

Old Mutual

Sanlam Ubuntu Botho Capital

Telkom

South 32 Redefine Properties

Sephaku Cement

3. Mr Mohammed Mahomedy

Acting Chief Financial Officer

Directorship/Trusteeship

Cutting Edge Finance (Pty) Ltd (100%)

Maquady Family Trust

YMM Family Trust

4. Ms Ursula Fikelepi

Directorship/Shareholding

Emmaus Holdings (100% holding)

Mitzamo Africa (Pty) Ltd (16,7% holding)

Directorship

Mitsamo Properties (Pty) Ltd (16,7% holding) Mitzamo Capital (Pty) Ltd (16,7% holding)

Cloud Atlas (RF) (Pty) Ltd (3% holding)

5. Ms Ramasela Ganda

Directorship/Shareholding

BPC Chartered Accountant (100% holding)

Mytechie (Pty) Ltd (25% holding)

6. Prof Edward Kieswetter

Directorship/Shareholding

Shoprite

African Unity (10% holding)

Da Vinci Institute of Managerial Leadership (65% holding)

GEMS Education Africa

DST Technology Innovation Agency

7. Ms Mpho Letlape

Directorship/Trusteeship/Shareholding

Standard Bank Tutuwa Community Foundation NPC

Lethushane (Pty) Ltd

Tower Group

Africa Harm Reduction Alliance

Sapphire Logistics

National Research Foundation

South African Women in Dialogue

Food Forward South Africa

Lethushaneng Advisory Services

T-systems South African (resigned)

T-systems Community Trust (resigned)

8. Ms Dimakatso Matshoga

Directorship/Shareholding

Atafatsa Foundation (non-profit company) (33,3% holding)

Atafala Consulting (100% holding)

Isa-Stra Tech Solutions (primary cooperative) (20% holding)

9. Ms Vivien McMenamin

Directorship/Shareholding

Durban Girls College

Forestry SA

SiyaQhubeka Forests

Forestry Charter

Mondi Zimele

South African Association for Marine Biological Research

10. Adv Oupa Motaung

Directorship/Shareholding

Vaxiscore Investment (100% holding)

Kuena Construction Projects (100% holding) Thulo Trustees (100% holding)

Twende Investments (10% holding)

Nordaspan (100% holding)

Orthorox (100% holding)

Condoclox (100% holding)

11. Dr Fholisani Mufamadi

Directorship/Shareholding

Barclays Bank Mozambique

National Bank of Commerce (Tanzania)

Adcorp Holdings Limited

Implats Holdings Limited

Zimplats (Chairman of the Board)

Muendanyi Consulting (dormant)

Debshan (Pty) Ltd

Nokukhanya & Inkosi Albert Luthuli Peace and

Development Institute

12. Mr Aluwani Ramabulana

Directorship/Shareholding/Trusteeship

MDZ Fleet Solutions (100% holding)

DataQuip Rentals ((60% holding) Mudzi Palfinger JV (51% holding)

MDZ Logistics (100% holding)

MDZ Capital (100% holding) Bono Lithihi Investment Holdings (Pty) Ltd (5% holding)

Lateospace (49% holding)s

13. Ms Gratitude Ramphaka

Membership

South African Council for the Project and Construction

Management Finance Committee

Office - Full Costing Sub-committee

Advisory Board of the National Intellectual Property Management

14. Mr Louis von Zeuner

Directorship/Trusteeship

Afgri Holding Limited Afgri Ltd

African Bank Holdings Limited

African Bank Limited

Cricket South Africa (NPC)

enX Group

LIV Foundation & LIV Equity Trust

Lungisisa Indlela Village (RF) NPC Mahela Boerdery (Pty) Ltd

MMI Group Limited

MMI Holdings Limited

Momentum Short-term Insurance

Paycorp Investments (Pty) Ltd

Telkom SA

Fairfax Africa Investments (Pty) Ltd Aditiya Birla Health Insurance Co Ltd

SA Rugby

L & R Family Trust Edward Vorster Trust

SARPA Foundation

Anzelle Trust

Audit Committee

- Total number of meetings held during the year: Four scheduled meetings and two special meetings
- Directors' attendance at Audit Committee meetings denoted by () Independent non-executive director ++

Executive director +

- Mr GJ Mahlalela⁴: ⁺⁺(4 scheduled)

Most material matters arising during the year

considerations

• PFMA reportable items - Annual Financial Statement Disclosure

• The Company has reinstated assurance committees at Operating Division level to address PFMA transgressions as they arise.

• A step-up programme was introduced to tighten internal controls and more emphasis placed on consequence management.

• The Company also made an undertaking to SCOPA to reduce contract deviations and extensions

• A Board Steering Committee comprising the Audit Committee members and the Board

• Fraud allegations

chairperson was established. This Board Steering Committee commissioned a forensic investigation.

* A more detailed table of key activities and outputs for the 2018 financial year appears in the full Governance Report at www.transnet.net

 1 Mr Radebe was appointed as a director and the Chairperson of the Audit Committee with effect from 21 December 2017.

² Mr Stagman resigned as a director of the Company with effect from 10 December 2017.

3 Ms Kinley was appointed as a director and member of the Audit Committee with effect from 21 December 2017 and the Chairperson of the Acquisitions and Disposals Committee with effect from 30 January 2018.

⁴ Mr Mahlalela passed away on 29 March 2018.

5 Ms Mathekga was appointed as a member of the Remuneration, Social and Ethics Committee and ceased to be a member of Corporate Governance with effect from 30 January 2018.

Summary of the main undertakings and considerations during the year*

- Chairperson:
- Mr SM Radebe¹: ⁺⁺(1 scheduled) (2 unscheduled) • Mr BG Stagman² ++(3 scheduled)

Members:

- Ms AC Kinley^{3 ++} (1 scheduled) (2 unscheduled)
- Ms PEB Mathekga⁵: ⁺⁺ (3 scheduled) (2 unscheduled) No external advisers attended committee meetings during the year.

Main undertakings and

TRANSNET Integrated Report 2018 125 Abridged governance continued

The Acquisitions and Disposals Committee



The Acquisitions and Disposals Committee provides the following support activities to the Board:

- Advances and maintains the Company's acquisition and disposal policies.
- Approves procurement transactions within the committee's delegated authority.
- Monitors trends in supplier development spend and progress on plan.
- Considers strategic acquisitions and disposals and makes recommendations to the Board.
- Considers, for recommendation to the Board, potential private-sector participation models.

- Reviews quarterly capital expenditure reports, and monitors the execution of approved projects.
- Monitors the implementation of strategic acquisitions against the approved plans.
- Approves procurement strategies for proposed acquisitions and disposals to the Board in line with the Delegation of Authority Framework.

In line with the Shareholder's view and impending direction, to remove the involvement of non-executive directors in procurement-related activities, the Board dissolved the Acquisitions and Disposals Committee in May 2018. The Board further constituted a Finance and Investment Committee.

Summary of the main undertakings and considerations during the year*

The Acquisitions and Disposals Committee

- Total number of meetings held during the year: 6
- Directors' attendance at the Acquisitions and Disposals Committee meetings denoted by ()
- Executive director +
- Independent non-executive director ++

Chairperson:

- Ms AC Kinley¹ ++ (1)
- Mr SD Shane² ++ (1)

Members:

- Ms LC Mabaso ++ (6)
- Mr ZA Nagdee ++ (6)
- Mr SI Gama +(4)

Additional director attendees during the year

• Mr BG Stagman³ ++ (1)

No external advisers attended committee meetings during the year.

Most material matters arising during the year

- targets for spend on businesses owned by black youth and people living with disabilities.
- PFMA reportable matters in relation to contract deviations and/or exemptions.
- Committee composition and requisite skills balance.

Main undertakings and considerations

- Continuously striving to attain and exceed the set
 The Company has introduced B-BBEE improvement plans as a requirement in the procurement assessment criteria.
 - The Enterprise Development hubs that were established in various provinces to strengthen the Supplier Development component are yielding positive results.
 - Considered and agreed on the reduction of applications for contract deviations and extensions, thus ensuring compliance with the PFMA.
 - Effective project and contract management, which the Company is continuously addressing through Transnet Group Capital and related strategies.
 - Committee composition and skills balance was partially addressed by the secondment of Mr Stagman to the committee.
- * A more detailed table of key activities and outputs for the 2018 financial year appears in the full Governance Report at www.transnet.net
- 1 Ms Kinley was appointed as the Chairperson of the Acquisitions and Disposals Committee with effect from 30 January 2018.
- ² Mr Shane resigned as a director of the Company with effect from 29 June 2017.
- $^{\rm 3}$ Mr Stagman resigned as a director of the Company with effect from 10 December 2017.

Corporate Governance and Nominations Committee O



The Corporate Governance and Nominations Committee provides the following support activities to the Board:

- Ensures that the Board's composition and structure enable it to fulfil the obligations of the Board mandate and advance and maintain the Company's corporate governance policies and the Corporate Governance Framework.
- Sets criteria for the nomination of directors to be recommended to the Board for appointment to the committees of the Board, other than the Audit Committee.
- Nominates potential Audit Committee members for appointment by the Shareholder Minister.

- Nominates potential Remuneration, Social and Ethics Committee members for approval by the Board and confirmation by the Shareholder Minister at the annual general meeting or through a written resolution.
- Ensures that best-practice succession planning policies are implemented in respect of executive directors and independent non-executive directors.
- Administers and manages the selection process of the Company Chief Executive on behalf of the Board, and makes recommendations on the top three candidates - in order of priority - to the Board by complying with the 'Guidelines for the appointment of a Group Chief Executive for a State-Owned Enterprise'
- Training, Development and Appraisal of Board members to ensure good governance best practice.

Summary of the main undertakings and considerations during the year*

Corporate Governance and Nominations Committee

- Total number of meetings held during the year: 4
- Directors' attendance at Corporate Governance and Nominations Committee meetings denoted by ()
- Executive director +
- Independent non-executive director ++

Chairperson:

• Ms LC Mabaso ++ (4)

Members:

- Ms Y Forbes: ++ (4)
- Ms PEB Mathekga¹: ++ (3)
- Mr VM Nkonyane: ++ (4)

No external advisers attended committee meetings during the year.

Most material matters arising during the year

Filling positions on the Board following departures of Board members.

Main undertakings and considerations

- The Company further reviewed its MOI and lodged it with the CIPC on 19 December 2017. The revised MOI was subsequently accepted and placed on file with the CIPC. The amendment to the MOI reduced the minimum number of directors to six of which not less than four shall be non-executive directors.
- The Shareholder Minister appointed two additional directors, both of whom are chartered accountants to address the Board skills mix.
- To monitor the policy dashboard.

^{*} A more detailed table of key activities and outputs for the 2018 financial year appears in the full Governance Report at www.transnet.net

¹ Ms Mathekga was appointed as a member of the Remuneration, Social and Ethics Committee and ceased to be a member of Corporate Governance with effect from 30 January 2018.

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Risk Committee

The Risk Committee provides the following support activities to

- Reviews and assesses the integrity of the risk control processes and systems.
- Ensures that the risk policies are managed effectively and in accordance with the Enterprise Risk Management Framework approved by the Board from time to time.
- Ensures effective communication with the internal and external auditors, the Audit Committee, the Board, management and regulators on risk management.
- Contributes to a climate of discipline and control which will reduce the opportunity for fraud and other operational losses.
- Assesses any significant risk control failings or weaknesses identified and their potential impact, and confirms that appropriate action has been or is being taken.

Summary of the main undertakings and considerations during the year*

Risk Committee

- Total number of meetings held during the year: 5
- Directors' attendance at Risk Committee meetings denoted by () Independent non-executive director ++

Chairperson:

• Mr GJ Mahlalela1: (Acting) ++ (5)

- Executive director +

Members:

- Mr BG Stagman²: ++ (4)
- Ms Y Forbes: ++ (3)
- Mr SM Radebe³: ++ (1)
- Mr SI Gama: + (4)
- No external advisers attended committee meetings during the year.

Most material matters arising during the year

- Increasing trend in employee fatalities and derailments. • Mitigation plans to manage cyber risks and related
- policies and procedures.
- Credit rating agencies assessments, and their impact on the Company's funding requirements.
- Reputation risk based on media allegations and PFMA transgressions.

Main undertakings and considerations

- Group Leadership Team roadshows across the Company and visible leadership strategies implemented, which include individual GLT members being allocated specific work areas to visit regularly to engage employees on different matters, including safety.
- Management is finalising policies and a framework for effective management of
- Mitigation plans to improve the Company's rating while considering the link with the sovereign, included reduction and deferral of capital spend, and consideration of alternative funding models and institutions.
- Matters of reputational risk were elevated to Board level for comprehensive oversight. Mechanisms for improved stakeholder engagement and the 'rebuilding of trust' actioned. The Integrated Report considered a key vehicle for communicating strategic insights, opportunities and change objectives. The Board emphasised the need for improved transparency and stakeholder inclusivity.

Remuneration, Social and Ethics Committee O



In accordance with Regulation 43(i)(a) of the Companies Act, which requires state-owned companies to establish social and ethics committees, the Company has established the Remuneration, Social and Ethics Committee to assist in discharging its responsibilities, consistent with King III and general corporate governance best practice. The mandate outlining the authority delegated to it by the Board includes the purpose of the Remuneration Committee, composition, reporting responsibilities, terms of reference and the right of any member to seek and be provided with independent

advice at the Company's expense, if such member considers that necessary for the effective execution of his/her fiduciary duties to the Company.

The committee has an independent role, operating as an overseer and a maker of recommendations to the Board for its consideration and final approval. The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

Summary of the main undertakings and considerations during the year*

Remuneration, Social and Ethics Comiittee

- Total number of meetings held during the year: 5
- Directors' attendance at Remuneration, Social and Ethics Committee meetings denoted by ()
- Executive director +
- Independent non-executive director ++

Chairperson:

• Mr VM Nkonyane: ++ (5)

Members:

- Ms PEB Mathekga¹: ++ (1)
- Ms ZA Nagdee: ++ (5)
- Mr SD Shane²: ++ (1)

Most material matters arising during the year

- employee and public fatalities remains a challenge, although improved safety measures are bearing positive results.
- Improve employment equity (EE) targets at all levels levels. of the Company.
- Countering negative publicity to safeguard Transnet's reputation.
- Fraud and corruption matters and the need to improve efficiencies in consequence management.

Main undertakings and considerations

- The need for continuous improvement in addressing Safety measures, including collaborating with municipalities and local government, to ensure non-encroachment on the railway lines by informal settlements in a bid to reduce public fatalities.
 - Management is considering initiatives to improve EE targets, especially at GLT
 - In addition to addressing internal challenges of ethical violations through appropriate policy and procedural means, we are publicising the Company's good news stories, including those of a social nature, to counter the negative publicity stemming from media allegations. Management is using multiple media platforms, including social media, to target divergent stakeholders to amplify the Company's positive narrative, while addressing the related issues.
 - Management of fraud and corruption is being enhanced through more stringent measures for instituting consequence management and the suspension of employees to avoid lengthy disciplinary processes and excessive costs.

^{*} A more detailed table of key activities and outputs for the 2018 financial year appears in the full Governance Report at www.transnet.net

¹ Mr Mahlalela passed away on 29 March 2018.

² Mr Stagman resigned as a director of the Company with effect from 10 December 2017.

³ Mr Radebe was appointed as a director and the Chairperson of the Audit Committee with effect from 21 December 2017.

^{*} A more detailed table of key activities and outputs for the 2018 financial year appears in the full Governance Report at www.transnet.net

 $^{^{1}}$ Ms Mathekga was appointed as a member of the Remuneration, Social and Ethics Committee and ceased to be a member of Corporate Governance with effect from 30 January 2018.

² Mr Shane resigned as a director of the Company with effect from 29 June 2017.

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TRANSNET Integrated Report 2018

Our Group Leadership Team (GLT)

Mr Siyabonga Gama Group Chief Executive Date of birth: May 1967 Year of appointment: July 1994

Qualifications: Refer to Board member's profile



Mr Mohammed Mahomedy Acting Chief Financial Officer

Date of birth: March 1971
Year of appointment:
May 2008

Qualifications: Refer to Board member's profile



Ms Nonkululeko Sishi Chief Human Resources Officer

Date of birth: October 1964 Year of appointment: January 2012

Qualifications: BAdmin (University of Zululand), Certificate in Labour Law (University of Natal), postgraduate Diploma in Business Management (University of Natal), Specialist Certificate in Human Resources Management (Institute of Personal Management – IPM), Advanced Management Program (Harvard University)



Ms Makano Mosidi
Chief Information Officer

Date of birth: January 1964 Year of appointment: June 2016

Qualifications: BCom
(Financial Accounting and
Computer Science)
(University of the North),
University Education
Diploma – UED (University
of the North)



Mr Gert de Beer Chief Business Development Officer

Date of birth: October 1964 Year of appointment: August 2016

Qualifications: BCompt
(University of Pretoria),
BCompt (Honours)
(University of Pretoria),
CA(SA), Master's Degree in
Commerce (University of
Pretoria)



Date of birth: June 1965 Year of appointment: July 2011

Qualifications: BSc
(Mechanical Engineering)
(Tulane University), Higher
Diploma Mechanical
Engineering (Durban
University of Technology),
MBL (Unisa)



Black females: 3 Black males: 5 Indian males: 2 White males: 1

Extended Group
 Leadership supporting
 the Office of the GCE



Mr Khaya Ngema
 Group Executive: Strategy

Date of hirth: October 1970

Date of birth: October 1970 Year of appointment: July 2017

Qualifications: Senior Executive Programme (Wits Business School/Harvard Business School), Master of Arts (Public Policy and Administration) (Institution of Social Studies - Erasmus University), Post graduate diploma in Management (Public Policy and Development Administration) (Wits University), Bachelor of Arts (Law and Industrial Sociology) (Wits University)



Ms Mmathabo Sukati Chief Audit Executive

Date of birth: August 1969 Year of appointment: July 2013

Qualifications: MBA (GIBS – University of Pretoria), CA(SA), BCom (Honours in Accounting) (University of Cape Town, BCom (University of Cape Town), Postgraduate Diploma in Accounting (University of Cape Town)



Mr Ndiphiwe Silinga Acting Chief Corporate and Regulatory Officer Date of Birth: March 1963 Year of appointment:

Qualifications: BJuris (University of Transkei), LLB (University of Natal), Executive Development Management (GIBS)

December 2008



Mr Thamsanqa Jiyane Chief Officer: Advanced Manufacturing

Date of Birth: May 1974 Year of appointment: November 2001

Qualifications: MBL (Unisa - School of Business Leadership (SBL)), BAdmin (Supply Chain and Operations Management) (University of Natal), National Diploma in Teaching (Indumiso College of Education)



Mr Krishna Reddy Chief Capital Officer

Date of birth: August 1971 Year of appointment: December 1992

Qualifications: BSc Civil
Engineering (University of Natal), Senior Management
Certificate (University of Stellenbosch), BCom
Logistics (Unisa), Port
Engineering and Capacity
Program (Antwerp,
Belgium)

Extended Group Leadership supporting the Office of the GCE

Prescribed officers

GLT members' competencies as per competency key, including: Corporate Governance Management and Leadership Legal and Compliance Infrastructure and Logistics Strategy and Planning Finance and Investment Performance Management Procurement and Supply Chain Construction and Engineering HR and Industrial Relations Business Development Risk Management Stakeholder Relations Policy Development

Contract Management
Information and Communications Technology
Project Management

TRANSNET Integrated Report 2018 131 Abridged governance continued

Remuneration philosophy

Transnet's human resources strategy, including the reward strategy, is designed to facilitate and support the achievement of strategic objectives, as well as help align organisational behaviour with the strategic thrusts of being 'agile,' 'admired,' 'digital' and 'united.' Further, the reward strategies aim to entrench a performancedriven culture. Reward-related concerns raised by the Shareholder are attended to by the Board of Directors, which considers the issue and endeavours to mitigate any emerging risk.

Transnet's remuneration philosophy is designed to achieve the

- Align the remuneration strategy and practices with Transnet's mandate, vision and business strategy.
- Ensure an integrated approach for remuneration management across Transnet that attracts, motivates, engages and retains the talent required to achieve Transnet's business objectives, and specifically to:
- Contain remuneration-related cost;
- Support a high-performing organisation through the recognition and reward of superior performance;
- Accommodate flexibility and responsiveness to changing business requirements;
- Achieve optimal return on expenditure;
- Adhere to legal, statutory, ethical and best-practice standards:
- Ensure the long-term sustainability of the business;
- Comply with corporate governance and citizenship;
- Comply with employment and tax legislation; and
- Endeavour to ensure that remuneration and incentive policies and practices are concise and easy to understand.

The remuneration philosophy considers three employment levels informed by complexity, decision-making and judgement:

- 1. Executive and management levels.
- 2. First-line managers, specialists and technicians (grade level G) form part of the bargaining unit.
- 3. Junior employees (grade levels H to L) form part of the bargaining unit.

Guaranteed pay

Transnet strives to align guaranteed remuneration with the market median. Annual salary increases are approved by the Remuneration, Social and Ethics Committee of the Board. Annual increases for management levels are informed by individual performance ratings.

In determining the annual mandate for guaranteed pay increases, the following factors are considered:

- · The national economic and business outlook.
- External market predictions and history of market movements and increases granted.
- National and internal staff turnover rates.
- External parity (market benchmarks) based on market median;
- Internal parity.
- Affordability.

Transnet concluded a three-year wage agreement with the recognised labour unions, which expires at the end of the 2018 reporting period.



Benefits

It is compulsory for all permanent employees to join the Transnet Retirement Fund, which provides for retirement funding, risk cover and a death benefit.

The total contribution to the Transnet Retirement Fund is 19.5%. consisting of an employer contribution of 12,0% (which covers the risk and death benefit portion) and an employee contribution

Variable pay

Transnet has implemented both a short-term and a long-term incentive scheme.

The short-term incentive scheme was redesigned during the reporting year to drive the achievement of stretch business targets and to reward employees for this effort. It is applicable to all employees and is governed by detailed ground rules, approved by the Remuneration, Social and Ethics Committee of the Board.

The long-term incentive scheme is applicable to executive and selected senior managers.

Annual incentive payments must clearly relate to performance achieved against annual objectives consistent with long-term value for the Shareholder. Individual and corporate performance targets, both financial and sustainability-related, are tailored to the needs of the business and reviewed regularly to ensure they remain appropriate.

The detail of the short- and long-term incentive schemes are described in more detail in Annexure B.

Individual performance management

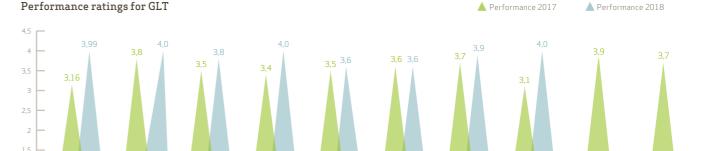
Transnet has an overall performance framework, which is aligned with the Statement of Strategic Intent and the Shareholder's Compact. The framework is translated into an annual Transnet scorecard, as well as the scorecard of the Group Chief Executive, and is then cascaded to all managers.

Performance management for the Group Leadership Team (GLT)

Each GLT member has an individual scorecard with objectives and measures, which are derived from the overall Transnet performance scorecard, as translated from the Transnet Performance Framework. Performance objectives are aligned with the business strategy, and GLT members are rewarded for their

contribution to Transnet's success. GLT members undergo rigorous quarterly performance assessments to track progress and to address deviations from their performance plans.

The graph below depicts performance ratings for the GLT members over the past three financial periods, compared to the overall performance rating of the Company.



Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

Remuneration for the GLT

Seven principles underpin Transnet's approach to remunerating senior and executive management:

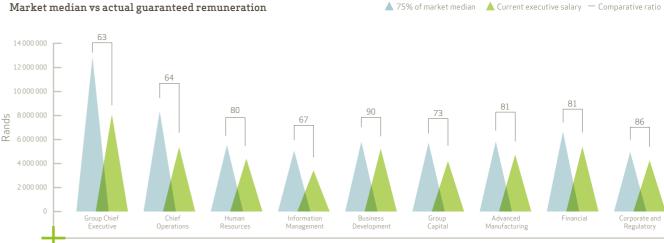
- Utilisation of talent management as a strategic business driver to build individual capability in response to organisational capacity requirements.
- A differentiated approach to attract and retain key talent, to ensure high-quality people in high-leverage/mission-critical positions
- Developing leadership competency.
- Redeployment opportunities in line with succession plans.
- Supporting individual growth and career path development.
- Ensuring equitable remuneration.
- · Rewarding people for superior performance.

Annual guaranteed pay increases for GLT members are informed by market movement. Transnet uses Deloitte's 'SA Guide to Executive Remuneration and Reward' to benchmark executive remuneration with the external market.

The graph below depicts the actual guaranteed remuneration of the GLT against 75% of the market median. According to the graph, GLT remuneration is lagging the market median. Transnet is following a phased approach to ensure that the guaranteed remuneration is gradually aligned with the market median

Guaranteed pay of the Transnet GLT for the 2018 financial period is contained on page 140 of the full remuneration report attached as Annexure B.

Market median vs actual guaranteed remuneration



Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

¹ A national remuneration survey published annually by Deloitte Consulting.

Executive remuneration - variable

GLT members are eligible for payments in respect of the shortterm incentive (STI) scheme. The quantum of the STI payment is based on the bonus pool generated by the achievement of EBITDA and the impact of the primary and secondary modifiers. Individual bonus percentages are further modified according to individual performance assessment ratings.

The eligibility percentages linked to specific business performance achievement are indicated in the table below:

Employment category	Grade level	On-target eligibility
Leadership committee	А	60%
Group executives, chief executives	А	50%
Members of extended leadership		
teams	В	40%

Short- and long-term incentive payments

The STI payment for the 2018 financial year was based on the achievement of the annual EBITDA as well as the impact of the primary and secondary modifiers at Group and Operating Division levels. The 2014/15 conditional award in respect of the Transnet long-term incentive (LTI) scheme vested at the end of the 2018 financial period. The members of the Transnet GLT were eligible for payment in respect of the LTI scheme based on the ground rules of the scheme and took place at the end of April 2018.

STI and LTI payments for the Transnet executives are contained on page 144 of the full remuneration report attached as Annexure B.

Remuneration structure for non-executive directors

Non-executive directors are appointed by the Shareholder Representative for a three-year term. Transnet's Memorandum of Incorporation, however, requires that the non-executive directors be submitted for re-election for each of the three years at the Company's annual general meeting.

The Shareholder Representative approves the fees payable to non-executive directors in advance. The non-executive directors are paid an annual retainer as well as an additional retainer fee for committee membership. They are not paid for attendance of meetings. Fees paid to non-executive directors are differentiated based on their appointments to the various committees of the

Remuneration for the Transnet non-executive directors for the financial period are contained on page 145 of the full remuneration report attached as Annexure B.

Our control environment

Integrated procurement management

Audit

Internal

Acquisition Council Terms of Reference.

Optimally regulated infrastructurerelated procurement and delivery management with Acquisitions and Disposals Committee Terms of Reference.

Infrastructure Procurement and Delivery Management Framework with procurement rules, procedures and processes.

Procurement Ombudsman.

Up-to-date compliance assurance for high-value tender processes.

Transnet Delegation of Authority.

Efficient and effective contract management, with SCM Contract Management Procedures Manual and Procurement Procedure Manual.

SCM Policy and robust, independent complaints handling.

Adherence to strict set of laws, codes, rules and standards, including (but not limited to):

Section 217 (1) of the Constitution and section 51(1)(a)(iii) of the PFMA;

Promotion of Just Administrative Action Act, No 3 of 2000, which was issued in terms of section 33 of the Constitution:

The Construction Industry Development Board Act, No 38 of 2000 (CIDB Act), and the regulations (CIDB regulations)

The Promotion of Access to Information Act, No 2 of 2000 (PAIA);

The Preferential Procurement Policy Framework Act, No 5 of 2000 (PPPFA) and the regulations thereto (PPPFA regulations); and

Instruction notes are also issued by National Treasury, which regulate Transnet's procurement processes.

Accords with section 51 of the

Governed by the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA standards).

An independent assurance function that is functionally accountable to the Transnet Audit Committee.

The mandate and terms of reference are included in the Internal Audit Charter - approved annually by the Transnet Audit Committee

Transnet Internal Audit is a fully outsourced function operating under strategic leadership of the Chief Audit Executive - a Transnet permanent employee and a Group Leadership Team member.

The internal audit consortium of firms assists with the implementation of the approved Strategic Audit Plan, and the panel of forensic firms assists with forensic investigations.

Develops and executes a risk-based audit plan.

Zero tolerance for fraud, theft. corruption and other economic crimes. Enterprise risk management (ERM) and integrated assurance

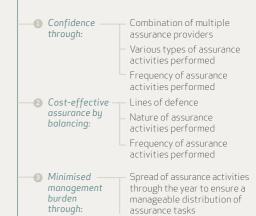
The Board delegates the Group's Risk

Management function to the Risk Committee. The strategic risk profile is generated from the Transnet ERM Strategy Framework, based

on ISO 31000: 2009. Transnet's Integrated Assurance Model manages risks and controls, and encompasses the assurances provided by management, internal specialists, internal audit, external audit, and

The Integrated Assurance Model is based on three perspectives:

external advisers and service providers.



The first line of defence is based on the assurances provided by direct line management. which is blanket assurance across the full scope of risks and controls.

The second line of defence encompasses assurance providers that are internal to the Company, yet not directly responsible for the direct management of the process under review.

The third line of defence relates to assurance providers that act independently from management and the Company's operations. This implies that management has no influence over the outcomes, opinions and conclusions emanating from the assurance activities performed by the third-line assurance providers.

The fourth line of defence relates to independent oversight committees with specific roles and responsibilities pertaining to the risk, control and assurance of Transnet's activities and their impact on other stakeholders.







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Our control environment

Strategic execution and performance management Transnet's performance targets are confirmed in the annually negotiated Shareholder's Compact. Transnet manages the execution of its strategic imperatives through the Company's Strategic Execution Framework. The framework is designed to achieve: Visibility of strategic execution to identify and close execution gaps; Group-wide integration and alignment

A risk-based execution process to monitor the MDS; and

of the MDS initiatives and critical

follow through with robust solution-

Problem-solving and analytical tools, and

A platform for collaboration and seamless execution of strategic initiatives.

Ethics and fraud management

The Code of Ethics ("the Code") enables a culture of entrenched values, principles, standards and norms.

Integrity pacts are concluded with all bidders and suppliers.

Fraud and corruption awareness training is conducted annually with all employees - bargaining and non-bargaining council employees.

The Company's service providers, suppliers and trade partners are also subject to the Code.

The Code is revised every five years or as required.

The Group Company Secretary is responsible for policy development, review, and Human Resources is responsible for the implementation of the Code.

Aspects of the Code are included in fraud and corruption awareness training, and are accessible to all employees on the Company's intranet.

The Fraud and Corruption Risk Management Strategy provides mechanisms for the prevention, early detection and investigation of irregularities.

engagement and management

The Board delegates authority to the Group Chief Executive who reports to the Board on all material stakeholder issues, and takes responsibility for incorporating these into Transnet's strategy and risk management.

Stakeholder engagement practices align with the Company's Culture Charter and supporting values.

Engagement norms include inclusivity, accountability and responsiveness.

Stakeholder engagement performance is measured as a key performance indicator in the Balanced Scorecards of Stakeholder Relationship Owners.

Stakeholder engagement is decentralised, but the Board has overall responsibility for stakeholder engagement.

The monitoring and evaluation of stakeholder engagement is reported to the Remuneration, Social and Ethics Committee and to the Board.

Transnet has adopted guidelines from the AA1000 standards (Accountability Principles Standard 2008 and the AA1000 Stakeholder Engagement Standard 2011).

IT management and ICT governance

The Board, supported by the Audit Committee and Risk Committee, is responsible for IT governance and oversight; and sets and approves the approach and policies for technology and information governance (including adoption of appropriate frameworks and standards), in particular overseeing the relevant business continuity arrangements as required.

The Board has delegated the responsibility for the implementation of the IT governance framework to management and mandates progress reports on major IT projects. There is integration of people, technologies, information and processes across the organisation, with a focus on ethical and responsible use of technology and information, as well as strict compliance with relevant laws.

The CIO Council is constituted as a substructure of the Group Leadership Team (GLT) and is responsible for directing, controlling and measuring ICT activities and processes within Transnet. The CIO Council's primary role is to exercise its authority in support of Transnet's strategic and operational endeavours to achieve expected outcomes. It further periodically evaluates ICT activities of performance and monitors remedial actions to improve such performance. The CIO Council measures, manages and communicates ICT performance to the GLT and regularly demonstrates to the GLT that Transnet has adequate business resilience arrangements in the event of a disaster affecting ICT performance. The Council further recommends business information strategies, policies and strategic frameworks to the GLT for approval.

As part of the work plan for a new year, various artefacts, such as the ICT Governance Framework and the IT Governance Charter, are added to the Board agenda for review, approval and assessment for effectiveness. To ensure business resilience, ICT's disaster recovery plans, tests and reports are regularly submitted to the Board for review.

The ethical and responsible use of ICT, and compliance with applicable laws, is the overall responsibility of the Board, which is provided with insight on the ICT's updated

Transnet IT positions cybersecurity as a top priority and feeds back status to the Board on a regular basis. It further guards against negative publicity and reputational damage

To monitor third-party and outsourced service provider risks (particularly as it calculates the potential risks or vulnerabilities by completing a service provider assessment for each third-party engagement and conducts a thorough due diligence before the relation commences. Contingency plans are in place for terminating vendor contracts if required.

To monitor and evaluate the value delivered from ICT investments, Transnet IT applies the principles to plan for, monitor and track benefits throughout the project delivery process:

Pre-execution Planning: Identify and quantify benefits (FEL 1); value and appraise benefits (FEL 2); value and appraise benefits (FEL 3); and benefits planning (FEL 4).

Execution Phase (and Closeout): Benefits realisation.

Post-implementation – User Adoption Reports.

Management of the disposal of obsolete technology and information is governed by the Acquisitions and Disposals Committee of the Board.

The Minimum Control Framework for ICT risks includes the following critical resources: Appropriately skilled staff; enterprise architecture management; effective education programmes; measures to minimise business impact through systems recovery; information security; and IT vendor relationship management.

Transnet has implemented a King IV-aligned governance framework to achieve continuous improvements and to achieve the following:

Positioned to improve delivery on Transnet's strategic outcomes.

Improved achievement of Transnet's strategic goals.

Improved ICT enablement of business.

Improved stakeholder communication.

Improved effective service delivery through ICT-enabled services.

Lower costs.

Increased alignment of investment towards strategic goals.

Improved return on ICT-enabled

ICT risks managed in line with the priorities and risk appetite of Transnet.

Appropriate security measures to protect Transnet and employee information.

Improved management of business-related ICT projects.

Improved management of information.

ICT executed in line with legislative and regulatory requirements.

Regulatory compliance

Group Regulatory and Compliance ensures that the outcome of its plan is aligned with the mandates of the Audit Committee and Risk Committee, and executes its areas of focus from an annual

Board-approved Compliance Plan. Managers are responsible for ensuring compliance as it relates to their areas of accountability.

More than 200 primary regulatory requirements impact Transnet.

Compliance is implemented through a risk-based approach using a decentralised model, with Compliance Officers appointed within Operating Divisions and Corporate Centre functions.

The Compliance function independently monitors and reports on compliance controls relating to high-priority regulatory requirements.

The Compliance function assists and supports the Board and management to discharge their compliance responsibilities.

Governance of sustainability

A Company-wide Sustainability Forum comprises representatives from the Corporate Centre functions, Operating Divisions and Specialist Units.

The Sustainability Forum meets quarterly and is tasked with developing key performance indicators in relation to analysing sustainability performance.

Sustainability committees in the Operating Divisions add impetus to sustainability initiatives.





regulatory universe each year.

resulting from social media risks.

relates to ICT service providers), Transnet

Regulatory compliance universe

Risk management plan Figure 21

DIAGRAM LEGEND

Material aspects derived through key stakeholders

Sustainable developmental outcomes

Strategic imperatives Business enablers

3 4.0 Strategic themes

Regulatory alignment

MATERIAL ASPECTS

- A. Pricing and tariffs
- B. Facilitating private-sector investment in logistics
- C. Volume and revenue growth
- D. Funding and liquidity
- E. Capital investment and progress on major projects F. Localisation of supply
- G. Creating and sustaining jobs in the wider community $% \left(x_{1},x_{2}\right) =\left(x_{1},x_{2}\right)$
- H. Fostering lasting customer relationships
- I. Expanding Transnet's business on the continent J. Operational efficiency
- K. Business resilience
- L. Promoting health and safety
- M. Creating jobs and developing skills N. Promoting transformation
- O. Having the right skills at the right time
- P. Investing in emerging technologies
- $\ensuremath{\mathsf{Q}}.$ Ethics management within Transnet
- R. Managing our environmental impact
- S. Responding to stakeholder issues T. Partnering communities to build mutual value

SUSTAINABLE DEVELOPMENTAL OUTCOMES

Industrial capability building

Investment leveraged

Regional integration

Health and safety

Community development

Skills development

Employment

Environmental stewardship

4.0 STRATEGIC THEMES

Institutional transformation

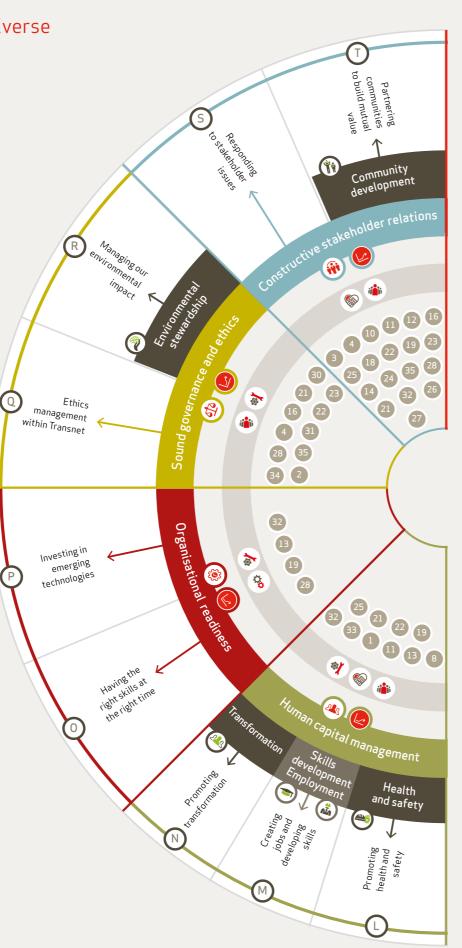
Operations management

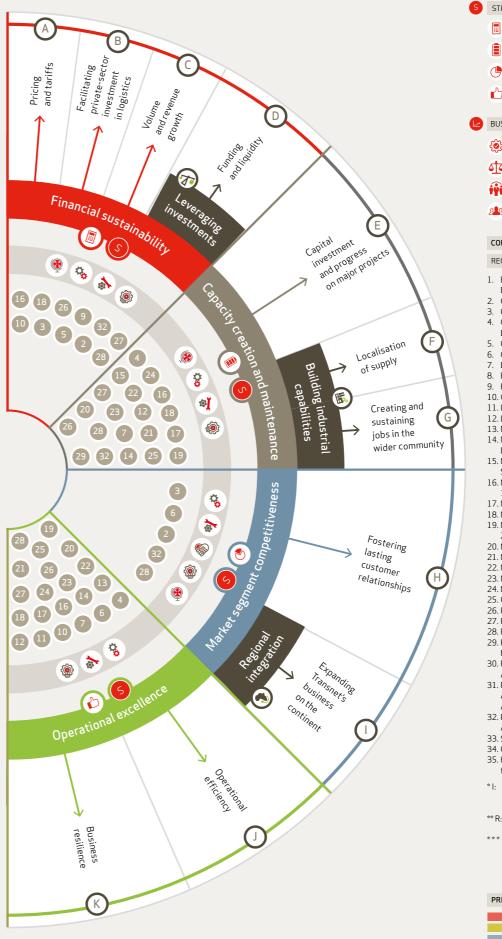
Customer management

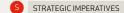
Innovative products

Geographic expansion

Social impact







Financial sustainability

Capacity creation and maintenance

Market segment competitiveness

Operational excellence

BUSINESS ENABLERS

Organisational readiness

Sound governance and ethics

Constructive stakeholder relations

I* R**

Human capital management

CORE REGULATORY UNIVERSE

REGULATORY ITEMS

1. Broad-Based Black Economic

Empowerment Act, 2003

2. Companies Act, 2008

3. Competition Act, 1998

4. Construction Industry Development Board Act, 2000

5. Currency and Exchanges Act, 1933 6. Customs and Excise Act, 1964

7. Electronic Communications Act, 2005

8. Employment Equity Act, 1998

. Financial Markets Act, 2012

10. Gas Act, 2001

11. Labour Relations Act, 1995

12. Legal Metrology Act, 2014

13. Merchant Shipping Act, 1951

14. Mineral and Petroleum Resources Development Act, 2002

15. National Building Regulations and Building Standards Act, 1977

16. National Environmental Management Act, 1998

17. National Key Points Act, 1980

18. National Ports Act, 2005

19. National Railway Safety Regulator Act, 2002

20. National Road Traffic Act, 1996

21. National Water Act, 1998

22. NEM: Air Quality Act, 2004

23. NEM: Biodiversity Act. 2004

24. NEM: ICMA Act, 2008 25. Occupational Health and Safety Act, 1993

26. Petroleum Pipelines Act, 2003

27. Petroleum Products Act, 1977

28. Public Finance Management Act, 1999 29. Preferential Procurement Policy

Framework Act, 2000

30. Prevention and Combating of Corrupt Activities Act, 2004

31. Protection of Constitutional Democracy Against Terrorist and Related Activities

Act. 2004 32. Protection of Personal Information

Act, 2013 *** 33. Skills Development Act, 1998

34. Office of Foreign Assets Control

35. King Code of Corporate Governance

for South Africa

Inherent risk - This is the risk that an activity would pose if no controls or other mitigating factors were in place. Residual risk - The risk that remains

after controls are taken into account.

Not yet fully operational

PRIORITY RISK RATING

Priority 1 Priority 2 Priority 3 Priority 4 Priority 5

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Annexure A: Governance terms of reference for the Integrated Report

The table below provides an overview of the 'terms of reference' for our 2018 Integrated Report, as provided by various governance oversight bodies within Transnet:

Sub-committees of the

Integrated reporting element	Mandate/Terms of reference	Sub-committees of the Group Executive Committee	Committee of the Board
Stakeholder engagement and relationships	 Effective stakeholder engagement and responsiveness Effective identification and assessment of material issues 	Human Resources Sub- committee Broad-Based Black Economic Empowerment Sub-committee	Remuneration, Social and Ethics Committee
Risks and opportunities	 Identification of material risks and associated mitigation actions Identification of meaningful opportunities for sustainable commercial outcomes Identification of potential adverse impacts of operations on the environment and stakeholders 	 Risk Management Sub- committee Business Information Management Sub-committee Operations Sub-committee 	Risk Committee
Strategy and resource allocation	 Appropriate strategic response including: Accurate communication of MDS objectives and outcomes Processes and controls Initiatives and activities Resource allocation 	Capital Investment Sub-committee Human Resources Sub-committee Operations Sub-committee Finance Sub-committee	 Audit Committee Acquisitions and Disposals Committee Remuneration, Social and Ethics Committee
Performance and outlook	 Appropriate performance measurement and management including: Appropriate lead and lag indicators Setting of targets, accountability and incentivisation 	Risk Management Sub-committee Finance Sub-committee Human Resources Sub-committee Capital Investment Sub-committee Results Management Office Sub-committee Operations Sub-committee	Corporate Governance and Nominations Committee Remuneration, Social and Ethics Committee Acquisitions and Disposals Committee
Remuneration	 Appropriate remuneration structured to align performance against strategy in short-, medium- and long- term incentives 	Human Resources Sub- committee.	Remuneration, Social and Ethics Committee
Governance	 Governance and assurance processes to oversee execution of strategy and structures in accordance with policy and regulation 	 Risk Management Sub- committee Finance Sub-committee 	 Corporate Governance and Nominations Committee Risk Committee Audit Committee

Annexure B: Remuneration report

Introduction

The remuneration report provides an overview of the Transnet remuneration philosophy and strategic intent. It also aims to provide detail of specific reward interventions that occurred during the 2018 reporting period.

Terminology

For the purposes of this report:

- The term 'executives' refers to members of the Transnet Group Leadership Team (GLT) and the Operating Divisions' leadership teams (grade levels A and B);
- 'Management' refers to the rest of the management employees (grade levels C to F);
- 'Bargaining unit employees' refers to all employees whose conditions of employment are negotiated. This term includes first-line managers, specialists and technicians (grade level G refers to first-line managers, specialists and technicians and grade levels H to L to the rest of the bargaining unit employees); and
- 'Junior employees' refer specifically to bargaining unit employees on the grade levels below the first-line managers, specialists and technicians.

Remuneration philosophy

Transnet is on the brink of a technological revolution that will fundamentally alter the way we live, work and relate to one another. The 4th Industrial Revolution is characterised by a fusion of technologies that are poised to disrupt almost all industries and transform systems of production, management and governance. The Transnet 4.0 Strategy is focused on repositioning Transnet for competitiveness in the fast-changing, technology-driven context of the 4th Industrial Revolution.

The human resources strategy, inclusive of the reward strategy, is designed to facilitate and support the achievement of the strategic objectives of the Transnet 4.0 Strategy, as well as the strategic thrusts of being agile, admired, digital and united.

The Transnet remuneration philosophy and framework, as approved by the Remuneration, Social and Ethics Committee of the Board from time to time, form an integrated part of the key deliverables of the human resources strategy and therefore the reward strategies remain focused on entrenching a performance-driven culture.

Any reward-related concern raised by the Shareholder will be brought to the attention of the Board who will consider the issue and endeavour to mitigate the risk (if applicable).

The total reward approach within Transnet is integrated into its people management processes, such as transformation, performance management recognition, learning and development, and talent management, and forms an integral part of the Transnet Employee Value Proposition.

The objective of the Transnet remuneration philosophy is to:

- Align remuneration strategy and practices with Transnet's mandate, vision and business strategy;
- Ensure an integrated approach for remuneration management across Transnet that effectively attracts, motivates, engages and retains the talent required to achieve Transnet's business objectives; and specifically to:
- Contain remuneration-related costs;
- Support a high-performing organisation through the recognition and reward of superior performance;
- Accommodate flexibility and responsiveness to changing business requirements;
- Achieve optimal return on expenditure;
- Adhere to legal, statutory, ethical and best-practice standards;
- Ensure the long-term sustainability of the business;
- Comply with corporate governance and citizenship;
- Comply with employment and tax legislation; and
- Endeavour to ensure that remuneration and incentive policies and practices are concise, void of complexity and easily understandable.

The remuneration philosophy for Transnet is approved by the Remuneration, Social and Ethics Committee of the Board and will be available on the Transnet intranet. The Transnet Delegation of Authority Framework governs all approvals in terms of remuneration across Transnet

The remuneration philosophy for Transnet takes into account the different hierarchical levels informed by complexity, decision-making and judgement.

Transnet has clustered these hierarchical levels into three respective categories of employees, summarised as follows:

- Executive and management levels.
- First-line managers, specialists and technicians (grade level G) form part of the bargaining unit.
- Junior employees (grade levels H to L) form part of the bargaining unit.

The different reward elements are discussed in detail in the following paragraphs:

Guaranteed pay

Transnet remains committed to fair remuneration practices that support the business objectives and create a culture and environment for superior performance and facilitate employee development and retention of critical and key skills.

In general, Transnet strives to align guaranteed remuneration with the market median. The determination of individual remuneration levels is, however, strictly controlled across the business and subject to directives in this regard, and also informed by the various collective agreements.

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In determining the annual mandate for guaranteed pay increases, various factors impacting the guaranteed pay are considered.

These factors include:

- The national economic and business outlook;
- External market predictions and history of market movements and increases granted;
- National and internal staff turnover rates;
- External parity (market benchmarks) based on market median;
- Internal parity; and
- Affordability.

Annual salary increases are approved by the Remuneration, Social and Ethics Committee of the Board.

Annual increases for management levels are informed by individual performance ratings.

Increases occur once annually or in the event of a promotion. Transnet does not support interim/ad hoc salary increases.

Transnet concluded a three-year wage agreement with the recognised labour unions, which expires at the end of the 2017/18 reporting period. The three-year wage agreement provided labour stability during the period and allows the opportunity for employees to focus on the achievement of the Transnet strategic objectives.

The graph below depicts the increases differentiated between executive management and bargaining unit compared to CPI for the past three years:



Benefits

It is compulsory for all permanent employees to join the Transnet Retirement Fund, which provides for retirement funding, risk cover and a death benefit.

The total contribution to the Transnet Retirement Fund is 19,5% consisting of an employer contribution of 12,0%, which covers the risk and death benefit portion, and an employee contribution of 7,5%

Permanent bargaining unit employees, who opt to become a principal members of one of the Transnet recognised medical schemes, are eligible to receive a medical subsidy.

Permanent bargaining unit employees receive a guaranteed amount as a housing allowance.

The housing allowance, as well as the medical subsidy, increases on an annual basis as per the wage agreement.

Individual performance management

Transnet has an overall performance framework which is aligned the Statement of Strategic Intent and the Shareholder's Compact. The framework is annually translated into a Transnet scorecard, the scorecard of the Group Chief Executive and then cascaded to all managers.

The balanced scorecard performance management methodology is well entrenched across the business and is utilised for the management category as well as for first-line managers, specialists and technicians.

On an annual basis, the individual performance ratings of managers are ratified to ensure alignment of individual performance with the overall Transnet and Operating Division-specific performance.

Performance in terms of the corporate scorecard, as well as individual scorecards, form the basis for the determination of short-term incentive payments and annual increases.

During the reporting period, Transnet has also successfully implemented individual performance management for junior employees. The performance management is based on business and team performance objectives and measurements, as well as an individual component focusing on behavioural factors within the employee's control such as attendance, discipline and safety. This approach ensures that employees have clear visibility of their contribution to business drivers within the value chain.

The performance management score is utilised to inform the annual salary progression payment and the individual component of the performance score impact on the value of the short-term incentive payment. This ground-breaking intervention is in line with Transnet's drive to create a high-performance culture.

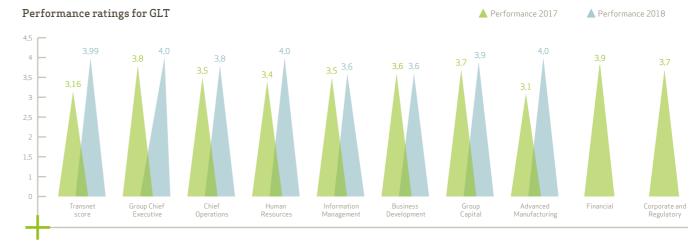
Performance management for the GLT

Transnet remains focused on achieving a high-performance culture and uses the balanced scorecard methodology and framework as part of the Group's strategic management process and integrates this with performance management.

Each GLT member has an individual scorecard with objectives and measures which are derived from the overall Transnet performance scorecard as translated from the Transnet Performance Framework. The performance objectives of each GLT member are aligned with the business strategy. The achievement of set performance objectives and targets reward them for their contribution to the success of Transnet.

The members of the GLT are subject to rigorous quarterly performance assessments to track progress and to timeously address any deviations from the plan.

The graph below depicts the performance ratings of the members of the GLT over the past two financial periods compared to the overall performance rating of the Company:



Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

Remuneration for the GLT

Leadership plays a critical part in achieving the Company's mission of delivering outstanding sustainable value to stakeholders. The goal for every employee at Transnet is to develop a challenging career with opportunities for growth, competitive rewards and a balance between work and home life.

The successful execution of the Transnet strategy requires sustained effort and energy of the executive leadership to ensure high performance, as well as a sustainable and profitable long-term growth path. As part of the Transnet strategy, the Company designed a reward philosophy for executive management to drive the implementation of the strategy while ensuring that key role players are retained in the Company.

The main principles underpinning Transnet's approach to senior and executive management are as follows:

- Utilisation of talent management as a strategic business driver to build individual capability in response to organisational capability needs.
- A differentiated approach for key talent to ensure high-quality people in high-leverage/mission critical positions.
- Leadership development.
- Redeployment opportunities in line with succession plans are critical for development and retention.
- Individual growth and career path development.
- Equitable remuneration.
- Reward for superior performance.

Transnet is committed to encouraging diversity in the workplace and in society and practises equal opportunity in all hiring and promotions, and will help to expand employment opportunities within South Africa. Transnet is further committed to the creation, facilitation and development of an organisation that supports the equality of all South Africans.

The issue of the wage gap is not unique to SOCs or even South Africa, but is an international discussion point. Transnet is concerned about the wage gap. However, the bigger challenge Transnet faces is to expand skills, organise work more productively and increase volumes. If Transnet is able to address this challenge, it will have a direct impact on the growth of the economy to ensure employment opportunities across the country.

Transnet continuously strives to become an employer of choice and regards its employees as the most valued asset of the business. The aim is to pay fairly for responsibility exercised and results achieved.

Annual guaranteed pay increases for the members of the Transnet executive teams are informed by market movement. Transnet annually conducts an executive remuneration benchmark exercise to compare the remuneration of the executive teams with the external market

Transnet utilises the Deloitte 'SA Guide to Executive Remuneration and Reward', a national remuneration survey published annually by Deloitte Consulting.

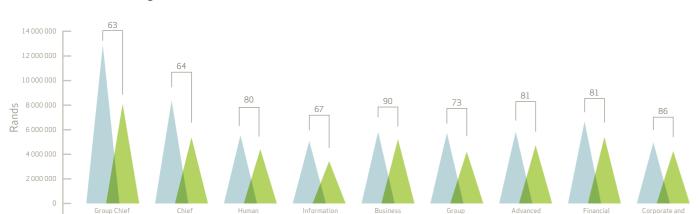
Up to the current reporting period, it was the intent to reach the market median, i.e. the 50th percentile of the market. Transnet, however, strives to pay its members of the GLT at the 75th percentile of the market. To achieve this objective, special interventions by the Remuneration, Social and Ethics Committee will have to be applied in order to reach the 75th percentile within the next two years.

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The graph below depicts the actual guaranteed remuneration of the GLT against a 75th percentile of the market; the current remuneration of the leadership ranges between 63% and 90% of the 75th percentile:

▲ 75% of market median ▲ Current executive salary — Comparative ratio

Market median vs actual guaranteed remuneration



Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

The table below depicts the guaranteed pay of the Transnet GLT for the reporting period:

Guaranteed pay of Transnet GLT

GLT member	Salary R'000	Post- retirement benefit fund contributions R'000	Other contributions R '000	Other payments R '000	Total 2018 R '000	Total 2017 R'000
SI Gama ¹	7 328	778	2		8 108	7 448
GJ Pita ^{1,3}	4 950	454	2	_	5 406	5 0 1 5
MM Buthelezi	4 980	419	2	_	5 401	4 369
GJE de Beer	4 751	505	2	_	5 258	3 2 6 7
EAN Sishi	4 027	392	2	170	4 591	4 005
DC Moephuli ²	2 289	194	1	_	2 484	3 877
KV Reddy	3 806	404	2	_	4 212	3 419
MMA Mosidi	3212	229	2	_	3 443	2 653
T Jiyane	4 325	421	2	_	4 748	4 424
N Silinga ^{4,5}	1 290	108	1	_	1 399	392
M Gregg-Macdonald ⁴	_	_	_	_	_	451
KC Phihlela ⁴	_	_	_	_	_	492
KXT Socikwa ⁴	_	_	_	_	_	559
R Vallihu ⁴	_	_	_	_	_	572
S Chetty ⁴	_	_	_	_	_	368
RE Lepule ⁴	_	_	_	_	_	451
MA Sukati ⁴	_	_	_	_	_	423
ZE Lebelo ⁴	_	_	_	_	_	367
LMH Msagala ⁴	_	_	_	_	_	380
R Nair ⁴	_	_	_	_	_	577
Total	40 958	3 904	18	170	45 050	43 509

¹ Group executives who are members of the Board of Directors.

Variable pay

Variable pay is informed by Transnet's financial performance. The incentive pool funds all incentive payments, i.e. the short-term incentive payments as well as long-term incentive conditional awards.

The following conditions regulate incentive provisions:

- Year-on-year improvement in actual EBITDA achievement.
- The Group not breaching key debt covenant ratios.
- The Group not being placed in financial distress.
- The payment of the incentive bonus does not result in a net loss after tax for the reporting period.

Transnet's financial results for the period ended 31 March 2018 reflect exceptional performance despite the challenges faced during the year, such as the South Coast storms experienced during October 2017, and the local and foreign currency ratings downgrade to sub-investment levels by the credit rating agencies. EBITDA generated at the end of the reporting period increased from R28,6 billion to R35,0 billion, an increase of 22,4% (excluding incentive provision).

Based on the ground rules of the scheme, the calculated value of the bonus pool for the reporting equates to R3 589 million.

An incentive provision exceeding R2 512 million will result in a breach of the cash interest cover requirement of ≥3,0 times, which is a condition of the foreign borrowing limit approved by National Treasury during February 2018. Management has, therefore, limited the incentive provision to R2 512 million (70% of the calculated pool) in order not to breach any of the requirements.

EBITDA increased by 18,0% to R32,5 billion (after providing for the proposed incentive bonus), with a resultant increase in the EBITDA margin to 44,6% compared to 42,1% in the previous year.

All conditions for the payment of the incentive bonus have been met at the end of the reporting period. The incentive pool funds both the short- and long-term incentive schemes.

Short-term incentive scheme

The Transnet short-term incentive scheme is well entrenched and designed with the specific objective to drive the achievement of stretch business targets and to reward employees for this effort. In addition, the design of the scheme focuses on integration of the total business and increased customer service.

Annual incentive payments relate to performance achieved against annual objectives consistent with long-term value for the Shareholder. Individual and corporate performance targets, both financial and sustainability related, are tailored to the needs of the business and reviewed regularly to ensure they remain appropriate.

Transnet shares the Company performance with labour at the strategic leadership forum, as well as the Transnet employees at large, who have a legitimate expectation for a bonus payment based on the approved rules of the scheme and the Company achievements for the reporting period.

The bonus pool is distributed based on the results from measures related to the Operating Division productivity and safety achievements as derived from the Shareholder's Compact and Corporate Plan, as well as the employee's individual performance score.

Transnet has a robust individual performance management system and the balanced scorecard methodology is well established for the management cadre. Transnet also has a ratification process to ensure that individual performance scores are aligned with the overall Operating Division and Transnet performance.

The performance system is based on a five-point rating scale. Employees with an individual performance score of below 2 are not eligible to receive an incentive payment.

Long-term incentive scheme

Transnet has implemented a long-term incentive scheme to sustain the achievement of the Transnet strategy, to retain key talent who ensure the success of the strategy, to continuously encourage stretch performance and reward performance above target.

The long-term incentive conditional award to eligible participants is banked over a three-year period to ensure sustained business performance and retention of key talent over the banking period. Participation in the scheme is informed by level of seniority, i.e. grade level in the organisation, individual performance as well as results from the talent management framework. Following the completion of the three-year banking period, the vesting payment is also subject to individual performance- and talent-rating criteria. The banked long-term incentive amounts accrue interest over the three-year banking period.

The long-term incentive scheme has specific clauses dealing with Company performance over the banking period and to this effect a Group modifier has been introduced. The measure of total average assets (ROTA) (excluding capital work in progress) is used as the Group long-term incentive modifier.

The 2015 conditional award in respect of the Transnet long-term incentive scheme vested at the end of the reporting period. The value of the long-term incentive payment is impacted by the level of achievement of specific Company and individual performance objectives.

The members of the Transnet GLT were eligible for payment in respect of the long-term incentive scheme based on the ground rules of the scheme.

² Resigned during the year.

 $^{^3}$ Resigned after the end of the reporting period. Mr M Mohamedy was thereafter appointed as Acting Chief Financial Officer.

⁴ Previous members of the Executive Committee, but no longer members of the GLT (previously Executive Committee).

 $^{^{\}rm 5}$ Acted as a GLT member from 1 November 2017 to 31 March 2018.

The table below reflects the short- and long-term incentive payments for the Transnet GLT for the reporting period:

GLT member	LTI 2018 R '000	LTI 2017 R'000	STI 2018 R <i>'</i> 000	STI 2017 R'000
SI Gama ¹	1 881	3 185	5 661	1 571
GJ Pita ^{1,3}	896	1 304	_	1 120
MM Buthelezi	980	1 607	3 658	1 015
GJE de Beer	_	_	3 452	670
EAN Sishi	1 145	1 911	3 086	861
DC Moephuli ²	_	1 855	_	820
KV Reddy	716	1 116	2 766	801
MMA Mosidi	_	_	2 261	538
T Jiyane	607	986	2 723	898
N Silinga ^{4,5}	395	123	838	87
M Gregg-Macdonald ⁴	_	258	_	90
KC Phihlela ⁴	_	293	_	94
KXT Socikwa ⁴	_	333	_	107
R Vallihu ⁴	_	316	_	124
S Chetty ⁴	_	184	_	_
RE Lepule ⁴	_	233	_	86
MA Sukati ⁴	_	164	_	96
ZE Lebelo ⁴	_	126	_	76
R Nair ⁴	_	137	_	121
Total	6 620	14 131	24 445	9 175

 $^{^{\}rm 1}$ Group executives who are members of the Board of Directors.

Remuneration structure for non-executive directors

Non-executive directors are appointed by the Shareholder Representative for a three-year term. Transnet's Memorandum of Incorporation, however, requires that the non-executive directors be submitted for re-election for each of the three years at the Company's annual general meeting.

Among the issues considered by the Shareholder Representative prior to re-election is the individual non-executive director's performance.

The Shareholder Representative approves, in advance, the fees payable to non-executive directors. The non-executive directors are paid an annual retainer as well as an additional retainer fee for committee membership. They are not paid for attendance of meetings.

Fees paid to non-executive directors are differentiated based on their appointments to the various committees of the Board.

The table below depicts the actual remuneration for the Transnet non-executive directors for the reporting period:

Fees R '000	Other payments R '000	Total 2018 R '000	Total 2017 R '000
1 348	2	1 350	1 280
656	_	656	624
550	_	550	518
642	_	642	518
581	_	581	518
642	_	642	605
197	_	197	732
625	_	625	605
_	_	_	605
160	_	160	_
192	_	192	_
5 593	2	5 595	6 005
	R'000 1 348 656 550 642 581 642 197 625 — 160 192	Fees R'000 payments R'000 1 348 2 656 — 550 — 642 — 581 — 642 — 197 — 625 — — — 160 — 192 —	Fees R'000 payments R'000 2018 R'000 1 348 2 1 350 656 — 656 550 — 550 642 — 642 581 — 581 642 — 642 197 — 197 625 — 625 — — — 160 — 160 192 — 192

¹ Resigned during the year.

The following non-executive directors were appointed after the end of the reporting period: Dr PS Molefe (Chairperson), UN Fikelepi, RJ Ganda, Prof EC Kieswetter, DC Matshoga, LL von Zeuner, ME Letlape, Adv O Motaung, G Ramphaka, AP Ramabulana, V McMenamin and Dr FS Mufamadi.

Remuneration, Social and Ethics Committee of the Transnet Board

The Transnet Board has established the Remuneration, Social and Ethics Committee to assist in discharging its responsibilities. The mandate outlining the authority delegated to it by the Board includes the purpose of the Remuneration, Social and Ethics Committee, composition, reporting responsibilities, terms of reference and the right of any member to seek and be provided with independent advice, at the Company's expense, if such member considers that necessary for the effective execution of his/her fiduciary duties to the Company.

The committee has an independent role, operating as an overseer and a maker of recommendations to the Board for its consideration and final approval. In addition, the committee has the role of ensuring that remuneration and incentive policies and strategies are aligned with the Shareholder's Compact as well as organisational and individual performance.

The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

² Resigned during the year.

³ Resigned after the end of the reporting period. Mr M Mohamedy was thereafter appointed as Acting Chief Financial Officer.

⁴ Previous members of the Executive Committee, but no longer members of the GLT (previously Executive Committee).

⁵ Acted as a GLT member from 1 November 2017 to 31 March 2018.

² Resigned after the end of the reporting period.

³ Directors' fees paid to Integrated Capital Management (Pty) Ltd (ICM).

⁴ Trustee's fees included.

⁵ Deceased.

⁶ Removed from the Board in May 2018.

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Annexure C: Subsidiaries, associates and joint ventures

for the year ended 31 March 2018

Subsidiaries

	Effective holding		Voting e holding power held Shares at cost co		Interest of holding company net profit/(loss)		Interest of holding company indebtedness		Accumulated impairment and losses			
	2018 %	2017 %	2018 %		2018 R million	2017 R million	2018 R million	2017 R million	2018 R million	2017 R million	2018 R million	2017 R million
Subsidiaries held by Transnet Local subsidiaries Environmental responsibility Transnet Pipelines Rehabilitation Trust	100	_	100		_	_	7	_	_	_	_	_
Social responsibility Transnet Foundation Trust ¹	100	100	100		_	_	_	_	_	_	_	_ _
International business activities Transnet International Holdings SOC Ltd ²	100	_	100		_	_	_	_	_	_	_	_ _
Foreign subsidiaries Transport logistics African Joint Air Services Ltd (Uganda) ³	57	57	57		_	_	_	6	_	392	_	392
					_	_	7	6	_	392	_	392

¹ In dissolution.

Equity-accounted investees¹

		Effective holding		Shares at cost		Interest of holding company indebtedness		Accumulated impairment and losses		Share of post- acquisition reserves		Total	
	Principal activity	2018 %	2017 %	2018 R million	2017 R million	2018 R million	2017 R million	2018 R million	2017 R million	2018 R million	2017 R million	2018 R million	2017 R million
Associates Commercial Cold Storage (Ports) (Pty) Ltd Comazar (Pty) Ltd ² Experience Delivery Company (Pty) Ltd RainProp (Pty) Ltd	Storage and bondage Transport logistics Managing agent Property development and management	30 32 11 20	30 32 11 20	_ 13 _ _	 13 	1 8 — 1	1 8 — 1	_ 21 _ _	_ 21 _ _	10 — — — 116	23 _ 106	11 - - 117	24 — — 107
Joint ventures Gabarone Container Terminal	Container terminal	36	36	6	б	_	_	_	_	21	18	27	24
				19	19	10	10	21	21	147	147	155	155

 $^{^{\,1}\,}$ Incorporated in the Republic of South Africa, unless stated otherwise.

$Summarised\ financial\ information\ of\ equity-accounted\ investees$

	Commercial Cold Storage (Ports) (Pty) Ltd R million	RainProp (Pty) Ltd R million	Gabarone Container Terminal R million
Financial position			
Total assets	74	1 189	97
Total liabilities	9	527	2
Results of operations			
Revenue	27	52	21
Net profit	7	14	4

² Not trading.

³ Dormant.

² Dormant

Annexure D: Material risk taxonomy

Asset management	Risk of ineffective management of Transnet's infrastructure and heritage assets.				
Business continuity	The risk that essential business functions are interrupted during or after a disaster or operational incident.				
Capital execution	Inability to deliver on the Capex Plan.				
Cash flow	The risk of insufficient cash reserves.				
Competition	The risk that Transnet's competitive advantage may decline within competitive market environments.				
Compliance	The risk of non-compliance with regulatory or statutory frameworks or laws (including sustainability-related laws and regulations).				
Contract management	The risk of Transnet not adequately structuring and/or managing contractual agreements with third-party service providers				
Counterparty	The risk of third-party firms breaking their contractual obligations with Transnet.				
Currency volatility	The risk of changes in exchange rates impacting costs or revenue.				
Customer satisfaction	The risk that poor client service delivery results in damaged relationships with customers.				
Energy supply	Uncertainty regarding the supply of energy by Eskom.				
Environmental	The risk of adverse environmental impacts or of missing environmental sustainability targets.				
Foreign investment	Risk associated with investing in foreign country environments relating to market dynamics, foreign political or other business contexts.				
Fraud	The risk of individuals or parties practising a form of deceit to achieve an unfair or unjust advantage or gain over anoth either through transaction fraud, financial fraud (misappropriation of funds), identity fraud or system fraud.				
Health, safety and security	The risk that health and safety incidents impact the physical and mental well-being of staff and the public; and the risk of the theft of Transnet's assets.				
ICT risk	Inadequate ICT infrastructure and technology to enable business processes. ICT risk also includes the risk of cyber-s (including hacking, phishing, unauthorised data access, corruption or deletion of data, and interception of data).				
Insurance	The likelihood that an insured event will occur – either as a result of Transnet's activities or as a result of third parties causing damage to Transnet property or assets. This includes the risk of insurers not settling claims within anticipated timeframes or according to insured terms and conditions.				
Intellectual property	The risk of intellectual property loss or liability.				
Interest rate	Changes in interest rates negatively impact funding/investment decisions.				
Legal	Risk of litigation/financial loss resulting from legal proceedings.				
Macroeconomic	Deterioration in the macroeconomic environment due to the global economic slowdown and slow recovery, leading to capital projects becoming non-viable.				
Operational readiness	Misalignment between operational readiness and rolling stock acquisition.				
People management	Ineffective people management and inability to attract and retain the talent to operate the newly acquired assets.				
Pricing	Pricing/tariff guidelines, methodologies and models are not supportive of volume growth.				
Procurement management risk	The risk of non-adherence to the strict set of laws, rules and standards governing the procurement process.				
Productivity	Low productivity levels as a result of absenteeism, strike action or operational inefficiencies.				
Project delivery	The risk of project failures or non-delivery within time and budget thresholds.				
Regulatory	Changes in the regulatory environment (i.e. economic, technical and compliance) may negatively impact spending on capex based on existing regulatory assumptions.				
Reputation	The risk of negative publicity or negative relationships with employees, customers, partners, counterparties and regulator				
Skills attraction and retention	Shortage of the critical skills required for the execution of Transnet's strategy.				
Socio-political instability	Political or social instability hampering business activities or damaging Transnet property.				
Sovereign credit rating	The risk of obtaining a negative sovereign credit rating impacts Transnet's investment appeal.				
Stakeholder management	Internal and external stakeholders are resistant to change, thereby negatively impacting business/commercial aspirations				
Supply-chain exposure	Exposures could occur through the supply chain and the nature of customers' operations could impact Transnet's capital projects, as well as operational systems, volumes, revenue and the Company's reputation.				
Systems and policies	Inadequate systems and policies to enable business processes and practices/lack of integrated business processes and supporting systems leading to inefficient business operations.				
Volume growth	An inability to attract and sustain additional volumes as new capacity is created, as well as the inability to protect current				



Abbreviations and acronyms

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AGM	Annual General Meeting
B-BBEE	Broad-Based Black Economic Empowerment
Capex	Capital expenditure
CEO	Chief Executive Officer
CIDB	Construction Industry Development Board
CIPC	Companies and Intellectual Property Commission
CMS	Condition Monitoring System
CPI	Consumer price index
CSI	Corporate social investment
CSIR	Council for Scientific and Industrial Research
DCT	Durban Container Terminal
DIFR	Disabling injury frequency rate
DPE	Department of Public Enterprises
EBITDA	Earnings before interest, taxation, depreciation and amortisation
ED	Enterprise Development
ERM	Enterprise risk management
ESD	Enterprise and supplier development
EVP	Employee Value Proposition
FEL	Front-end loading
FRMP	Fraud Risk Management Programme
GDP	Gross domestic product
GFB	General Freight Business
GLT	Group Leadership Team
GRI	Global Reporting Initiative
ICPAF	Integrated Capital Projects/Programme Assurance Framework
ICT	Information and communications technology
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IR	Integrated Report
IRIS	Intelligent Real-time Information Services (Advanced Data Analytics and Machine Learning platform)
iSCM	Integrated Supply Chain Management
ISO	International Standards Organisation
IT	Information technology
King lll	King Report on Corporate Governance for South Africa, 2009
King lV	King Report on Corporate Governance for South Africa, 2016
KPI	Key performance indicator
LNG	Liquefied natural gas
LTI	Long-term incentive

MCLI	Maputo Corridor Logistics Initiatives
MDS	Market Demand Strategy
Mℓ/km	Million litres per kilometre
MOI	Memorandum of Incorporation
MOU	Memorandum of Understanding
mt	Million tons
mtpa	Million tons per annum
NEAP	National Economically Active Population
Nersa	National Energy Regulator of South Africa
NGO	Non-governmental organisation
NMPP	New Multi-Product Pipeline
NTK	Net ton kilometre
OEM	Original equipment manufacturer
PAIA	Prevention of Access to Information Act
PFMA	Public Finance Management Act
PPPFA	Preferential Procurement Policy Framework Act
Prasa	Passenger Rail Agency of South Africa
PSP	Private-sector partnerships
R&D	Research and Development
RAMS	Rail Addressable Market Share
RBCT	Richards Bay Coal Terminal
RFP	Request for Proposal
RMO	Results Management Office
ROCE	Return on capital employed
ROTA	Return on total average assets
S&P	Standard & Poor's
Satawu	South African Transport and Allied Workers Union
SCM	Supply Chain Management
SD	Supplier Development
SDOs	Sustainable Developmental Outcomes
SOC	State-owned company
STI	Short-term incentive
TAL	TransAfrica Locomotive
TEU	Twenty-foot equivalent unit
TIA	Transnet Internal Audit
TIH	Transnet International Holdings
TMPS	Total Measured Procurement Spend
TSDBF	Transnet Second Defined Benefit Fund
TTPF	Transnet Sub-fund of the Transport Pension Fund
TVCC	Transnet Value Chain Co-ordinator
UNTU	United National Transport Union

Glossary of terms

Asset turnover (times)

Revenue divided by total assets (total assets excluding capital work-in-progress).

Cash interest cover (times)

Cash generated from operations after working capital changes, divided by net finance costs (net finance costs include finance costs, finance income and capitalised borrowing costs from the cash flow statement).

Debt (for gearing calculation)

Long-term borrowings, short-term borrowings, employee benefits, derivative financial liabilities plus overdraft less other short-term investments, less derivative financial assets and less cash and cash equivalents.

EBITDA

Profit/(loss) from operations before depreciation, derecognition, amortisation, impairment of assets, dividend received, post-retirement benefit obligation (costs)/income, fair value adjustments, income/(loss) from associates and net finance costs.

EBITDA margin

EBITDA expressed as a percentage of revenue.

Equity

Issued capital and reserves.

Gearing

Debt expressed as a percentage of the sum of debt and Shareholder's equity.

Headline earnings

As defined in Circular 2/2013, issued by the South African Institute of Chartered Accountants, all items of a capital nature are separated from earnings (by headline earnings).

Operating profit

Profit/(loss) from operations after depreciation, derecognition and amortisation but before impairment of assets, dividends received, post-retirement benefit obligation (expense)/income, fair value adjustments, income/(loss) from associates and net finance costs.

Operating profit margin

Operating profit expressed as a percentage of revenue.

Return on total average assets

Operating profit expressed as a percentage of total average assets (total average assets exclude capital work-in-progress).

Total assets

Non-current and current assets.

Total average assets

Total assets, where 'average' is equal to the total assets at the beginning of the reporting year plus total assets at the end of the reporting year, divided by two.

Total debt

Non-current and current liabilities.

TRANSNET Integrated Report 2018

Corporate information

Transnet SOC Ltd

Incorporated in the Republic of South Africa. Registration number 1990/000900/30.

47th Floor, Carlton Centre 150 Commissioner Street Johannesburg 2001

Executive directors

Mr SI Gama (Group Chief Executive)
Mr MS Mahomedy (Acting Chief Financial Officer)

Mr GJ Pita resigned in April 2018.

Mr MS Mahomedy was appointed in May 2018.

Independent non-executive directors

Dr PS Molefe (Chairperson), Ms UN Fikelepi, Ms RJ Ganda, Prof EC Kieswetter, Ms DC Matshoga, Mr LL von Zeuner, Ms ME Letlape, Adv OM Motaung, Ms G Ramphaka, Mr AP Ramabulana, Ms V McMenamin, Dr FS Mufamadi were appointed in May 2018.

Mr SD Shane resigned in June 2017 and Mr BG Stagman resigned in December 2017.

Ms AC Kinley and Mr SM Radebe were appointed to the Board in December 2017.

Mr GJ Mahlalela passed away in March 2018.

Ms LC Mabaso, Ms Y Forbes, Mr VM Nkonyane and Ms AC Kinley resigned in May 2018.

Mr PEB Mathekga, Mr ZA Nagdee and Mr SM Radebe were removed in May 2018.

Group Company Secretary

NE Khumalo 47th Floor, Carlton Centre 150 Commissioner Street Johannesburg 2001

PO Box 72501 Parkview 2122 South Africa

Auditors

SizweNtsalubaGobodo Inc. 20 Morris Street East Woodmead Johannesburg

The internal audit function has been outsourced to SekelaXabiso (Pty) Ltd.

SekelaXabiso (Pty) Ltd 1st Floor, Building 22B The Woodlands Office Park 20 Woodlands Drive Woodmead Johannesburg

KPMG Services (Pty) Ltd left the internal audit function during the reporting period.

Nkonki Inc. left the internal audit function after the reporting period.