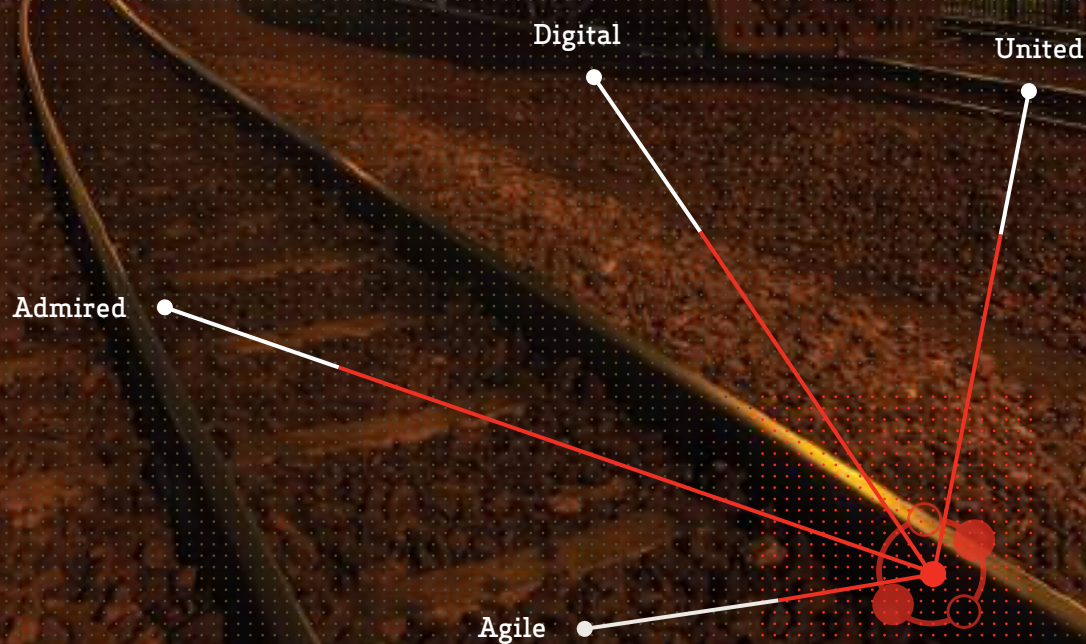


TRANSNET



delivering freight reliably

## INTEGRATED REPORT 2017



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## Navigating this report

### Icons key

#### Market Demand Strategy (MDS)

	Financial sustainability		Organisational readiness
	Capacity creation and maintenance		Sound governance and ethics
	Market segment competitiveness		Constructive stakeholder relations
	Operational excellence		Sustainable Developmental Outcomes
	Human capital management		

#### Sustainable Developmental Outcomes (SDOs)

	Employment		Transformation
	Skills development		Health and safety
	Industrial capability building		Community development
	Investment leveraged		Environmental stewardship
	Regional integration		

#### The Capitals

	Financial capital		Human capital
	Manufactured capital		Social and relationship capital
	Intellectual capital		Natural capital

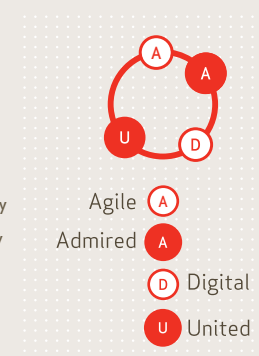
#### Performance Key

	Improvement on prior year performance		Target achieved
	Decline on prior year performance		Target partially achieved
	Equivalent performance to prior year		Target not achieved

#### Material clusters

- 
- 
- 
- 
- 

#### MDS strategic thrusts



## Reporting formats



Available in  
print format



The 2017  
**Integrated  
Report** is the  
Company's  
primary report  
to all  
stakeholders.



Available online  
in PDF format



The 2017 Annual Financial  
Statements include  
reports of the directors and  
independent auditors.

The 2017 Sustainability  
Report documents  
Transnet's sustainability  
performance in greater  
detail.

## Forward-looking information

All references to forward-looking information and targets in the 2017 reports are extracted from the 2018 Transnet Corporate Plan approved by the Board of Directors.

## Feedback on this report

We welcome feedback on our Integrated Report to ensure that we continue to disclose information that is pertinent to all our stakeholders. Should you wish to provide written feedback or obtain further clarity on specific issues disclosed in this report, please email Kilford Gondo at [Kilford.Gondo@transnet.net](mailto:Kilford.Gondo@transnet.net).



## King IV references

While disclosure on the application of King IV is only effective in respect of financial years starting on or after 1 April 2017, we have included references to King IV principles where appropriate in this report, thereby viewing our 2017 Integrated Report as a 'transitional' report from a King IV reporting perspective.



P = Principle

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

## Dedication

During the year, we were deeply saddened by the loss of our fellow Board member and close friend, Peter Williams, who passed away after his struggle with cancer, at the age of 49. A Human Rights lawyer and steadfast activist, Peter graced our Board with his quiet wisdom, courage, and humble determination. His passing was a tough blow, both to Transnet and to our nation.

We also wish to express our heartfelt condolences to the families and friends of our 15 colleagues who passed away during the year, and the 82 members of the public who lost their lives in and around our operational activities. We continue to intensify our efforts to safeguard employees, contractors and the public within and around our operations. We are determined to do better by reviewing the nature and causality of all fatalities and ensuring that we continue to entrench safety awareness.

### In respectful memory of Peter Williams and our late colleagues:

Mr Café Johannes Kumalo, 14 April 2016  
Mr Lwazi Ngcobo, 15 April 2016  
Mr Keith Poggenpoel, 31 May 2016  
Mr Orapeleng Goodboy Aukhweng, 21 June 2016  
Mr Alexander Frederick Flemming, 18 August 2016  
Mr Bhekizenzo Lloyd Mathe, 3 September 2016  
Ms Nombulelo Carol Mdingi, 3 September 2016  
Mr Nkosinathi Kenneth Mathobela, 6 September 2016  
Mr Tebogo Petrus Phiri, 15 September 2016  
Mr Neo Ezekiel Oageng, 21 December 2016  
Mr Christopher Sauer, 11 January 2017  
Mr Adolph Dikobe Mogashoa, 19 January 2017  
Mr Themba Jabulani Methula, 27 January 2017  
Mr Steven Lategan, 4 February 2017  
Mr Lindani Philip Sithole, 18 February 2017



# ABOUT THIS REPORT

## Reporting philosophy and approach

Transnet SOC Ltd 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 and responsive to stakeholder concerns.

Through this report, we aim to share our perspectives on:

- How we have performed during the year within the Company's social, economic and regulatory contexts;
- The material aspects impacting our ability to create and sustain long-term value;
- How our governance structures create an enabling environment to achieve strategic objectives and motivate ethical business practices;
- Our key risks and how we manage them;
- Our emerging risks in the context of our long-term planning;
- Our ability to realise intended commercial and Sustainable Developmental Outcomes (SDOs) from our activities; and
- Our ability to mitigate and remediate unintended adverse impacts on our environment and stakeholders.

## Reporting boundary

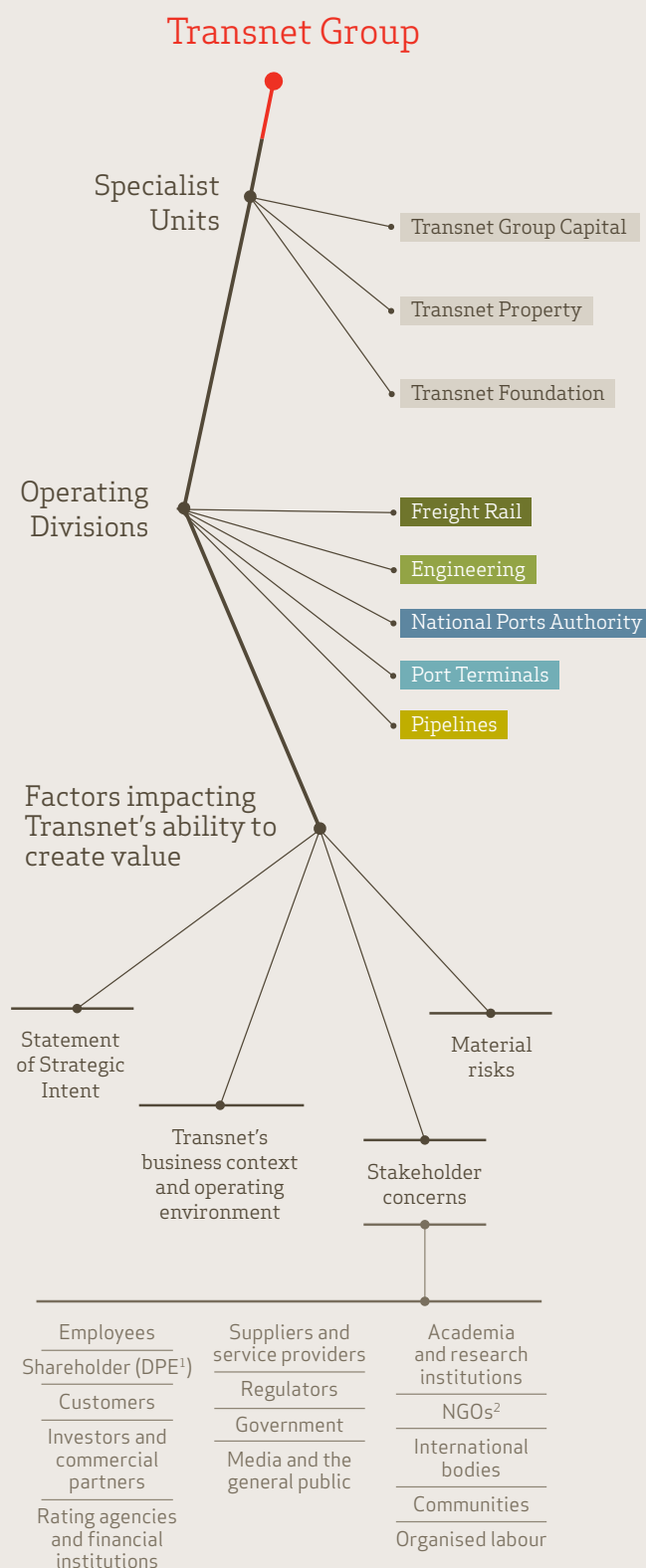
The 2017 Integrated Report covers the financial reporting period from 1 April 2016 to 31 March 2017. The boundary of this report (Figure 1) encompasses the Transnet Group, its Operating Divisions and Specialist Units. The boundary further extends to include factors that impact Transnet's ability to create value.

There have been no significant changes in scope or aspect boundaries during the reporting period, save for the progress made during the year. Where any restatements or changes in measurement methods have taken place, these are described in the relevant sections of this report.

The Transnet Integrated Report is published annually and approved by the Board of Directors. The previous Integrated Report was approved by the Transnet Board of Directors on 1 June 2016 and published for the period 1 April 2015 to 31 March 2016.

Figure 1

## Reporting boundary for the 2017 Integrated Report



<sup>1</sup> Department of Public Enterprises

<sup>2</sup> Non-Governmental Organisations



## Outcomes-based approach to reporting

Transnet monitors performance outcomes of its Market Demand Strategy (MDS) in line with an outcomes-based monitoring framework agreed with the Department of Public Enterprises and expressed through the Shareholder's Compact signed with the Shareholder Minister.

The Compact specifies five key performance areas, which correspond to the MDS's four strategic imperatives, namely financial sustainability, capacity creation and maintenance, market segment competitiveness and operational excellence; and the nine SDOs that represent the value created through Transnet's cumulative activities for the wider South African economy.



Figure 2

## Reporting frameworks and guidelines

### Primary framework

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

### Secondary frameworks, guidelines and standards

This Integrated Report – read together with the accompanying detailed Annual Financial Statements and Sustainability Report – was further informed by the following secondary frameworks and guidelines:

- The Global Reporting Initiative (GRI-G4) – (General Standard Disclosures);
- The King Code of Governance for South Africa (2009) (King III/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 Project (CDP);
- AA1000 Stakeholder Engagement Standard; and
- Broad-Based Black Economic Empowerment Codes of Good Practice.

### Governance terms of reference for the Integrated Report

The table on page 4 provides an overview of the 'terms of reference' for our 2017 Integrated Report, as provided by various governance oversight bodies within Transnet.

## Governance oversight and terms of reference

Integrated reporting element	Mandate/Terms of reference	Sub-teams of the Group Leadership Team	Committee of the Board
Stakeholder Engagement and Relationships	<ul style="list-style-type: none"> <li>Effective stakeholder engagement and responsiveness</li> <li>Effective identification and assessment of material issues.</li> </ul>	<ul style="list-style-type: none"> <li>Human Resources Team</li> <li>Broad-Based Black Economic Empowerment Team.</li> </ul>	<ul style="list-style-type: none"> <li>Remuneration, Social and Ethics Committee.</li> </ul>
Risks and Opportunities	<ul style="list-style-type: none"> <li>Identification of material risks and associated mitigation actions</li> <li>Identification of meaningful opportunities for sustainable commercial outcomes</li> <li>Identification of potential adverse impacts of operations on the environment and stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>Risk Management Team</li> <li>Chief Information Officer Counsel</li> <li>Operations Leadership Team</li> <li>New Multi-Product Pipeline (NMPP) Governance Steering Team.</li> </ul>	<ul style="list-style-type: none"> <li>Risk Committee</li> <li>Remuneration, Social and Ethics Committee.</li> </ul>
Strategy and Resource Allocation	<p>Appropriate strategic response including:</p> <ul style="list-style-type: none"> <li>Accurate communication of MDS objectives and outcomes</li> <li>Processes and controls</li> <li>Initiatives and activities</li> <li>Resource allocation.</li> </ul>	<ul style="list-style-type: none"> <li>Capital Investment Team</li> <li>Human Resources Team</li> <li>Operations Leadership Team</li> <li>Finance Team.</li> </ul>	<ul style="list-style-type: none"> <li>Audit Committee</li> <li>Acquisitions and Disposals Committee</li> <li>Remuneration, Social and Ethics Committee.</li> </ul>
Performance and Outlook	<p>Appropriate performance measurement and management including:</p> <ul style="list-style-type: none"> <li>Appropriate lead and lag indicators</li> <li>Setting of targets, accountability and incentivisation.</li> </ul>	<ul style="list-style-type: none"> <li>Risk Management Team</li> <li>Finance Team</li> <li>Human Resources Team</li> <li>Capital Investment Team</li> <li>Operations Leadership Team</li> <li>NMPP Governance Steering Team.</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Governance and Nominations Committee</li> <li>Remuneration, Social and Ethics Committee</li> <li>Acquisitions and Disposals Committee.</li> </ul>
Remuneration	<ul style="list-style-type: none"> <li>Appropriate remuneration structured to align performance against strategy in short-, medium- and long-term incentives.</li> </ul>	<ul style="list-style-type: none"> <li>Human Resources Team.</li> </ul>	<ul style="list-style-type: none"> <li>Remuneration, Social and Ethics Committee.</li> </ul>
Governance	<ul style="list-style-type: none"> <li>Governance and assurance processes to oversee execution of strategy and structures in accordance with policy and regulation.</li> </ul>	<ul style="list-style-type: none"> <li>Risk Management Team</li> <li>Finance Team</li> <li>NMPP Governance Steering Team.</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Governance and Nominations Committee</li> <li>Risk Committee</li> <li>Audit Committee.</li> </ul>





## Integrated approach to assurance

The Board of Directors and management recognise the importance of a strong control environment in managing risks, improving performance, enhancing governance, instilling stakeholder confidence and strengthening the Company's reputation. We have applied, where appropriate, our 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. Transnet's Integrated Assurance Plan encompasses the assurance provided by management, internal specialists, internal audit, external audit, external advisers and service providers. The Board of Directors serves as the last line of defence.

## Integrated Reporting Assurance Framework

Content	Assurance providers	Outcome	Framework/Standard
Annual Financial Statements (consolidated and summary)	<ul style="list-style-type: none"> <li>SizweNtsalubaGobodo.</li> </ul>	<ul style="list-style-type: none"> <li>Unmodified Audit Opinion.</li> </ul>	<ul style="list-style-type: none"> <li>PFMA</li> <li>Companies Act</li> <li>IFRS.</li> </ul>
Integrated Report (in full)	<ul style="list-style-type: none"> <li>The Transnet Board of Directors</li> <li>Audit Committee.</li> </ul>	<ul style="list-style-type: none"> <li>Directors' Approval.</li> </ul>	<ul style="list-style-type: none"> <li>International Integrated Reporting Framework.</li> </ul>
Review of internal controls and risk management	<ul style="list-style-type: none"> <li>Transnet Internal Audit</li> <li>National Occupational Safety Association (NOSA)</li> <li>International Standards Organisation (ISO) accreditation bodies</li> <li>Legal firms.</li> </ul>	<ul style="list-style-type: none"> <li>Financial controls: Satisfactory rating</li> <li>Operational controls: Requires improvement</li> <li>Legislative assessment</li> <li>Functional risk management and compliance maturity assessment.</li> </ul>	<ul style="list-style-type: none"> <li>Committee of Sponsoring Organisations (COSO)</li> <li>PFMA</li> <li>NOSA standards</li> <li>ISO standards relating to safety and environment including ISO 9000 and 14000</li> <li>Legislative requirements</li> <li>Enterprise risk management ISO 31000 standard.</li> </ul>
BEE contributor level	<ul style="list-style-type: none"> <li>Transnet Internal Audit</li> <li>Beever Agency CC.</li> </ul>	<ul style="list-style-type: none"> <li>Level confirmed as 'Level 2'</li> </ul>	<ul style="list-style-type: none"> <li>Broad-Based Black Economic Empowerment (B-BBEE) Act and Charters</li> <li>Rail sub-sector scorecard</li> <li>Marine sub-sector scorecard.</li> </ul>
Corporate governance	<ul style="list-style-type: none"> <li>Transnet Internal Audit.</li> </ul>	<ul style="list-style-type: none"> <li>Maturity assessment: Fully Established</li> <li>Assessment of controls.</li> </ul>	<ul style="list-style-type: none"> <li>King III/King IV*</li> <li>PFMA</li> <li>Companies Act.</li> </ul>
Selected information in the Transnet Sustainability Report and contained in summary form in this report	<ul style="list-style-type: none"> <li>SizweNtsalubaGobodo.</li> </ul>	<ul style="list-style-type: none"> <li>Conclusion: Selected sustainability information has been prepared in all material respects in accordance with Transnet's reporting criteria.</li> </ul>	<ul style="list-style-type: none"> <li>Transnet's sustainability reporting criteria.</li> </ul>

\* For this report we also considered areas in which Transnet already embraces the King IV principles.



## Statement of stakeholder commitment

In determining our material aspects, we acknowledged the most material issues raised by our stakeholders. Transnet's Stakeholder Engagement Policy, adopted by the Board of Directors in November 2014, defines 'stakeholder' as a person (or group of persons) who is directly or indirectly affected by Transnet, including those who may have interests in Transnet's business activities and/or the ability to influence Transnet's business outcomes, either positively or negatively.

We strive to communicate with stakeholders early and often. Our core values, as expressed in our Culture Charter, guide us in our interactions with stakeholders.

To meet – and improve on – our 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;
- Fair and equitable 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 to 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.



Read more:

50 | Engaging our stakeholders

## Our approach to materiality

The 2017 Integrated Report provides information that we consider to be of material significance in creating short-, medium- and long-term value. We have identified 19 material aspects for the 2017 reporting year and have clustered them into five overarching clusters to simplify our reporting. Material aspects were derived from our internal and external business environment and from key stakeholder concerns. We followed a structured process of identifying, validating, prioritising and approving material aspects.

Read more:

51 | Transnet's materiality universe

59 | Process of identifying, validating and approving material aspects within Transnet

Throughout this report, we provide links between material aspects and other reporting elements, such as our discussion on the six capitals, our section on strategy and resourcing, and our performance reporting according to our Shareholder's Compact.

We are confident that the report provides information that is of material interest to all stakeholders wishing to make informed assessments of Transnet's performance and its ability to create and sustain long-term value.

## Going-concern status

The Company and Group have adequate resources and facilities in place to continue in operation for the foreseeable future. Therefore, the Board of Directors is satisfied that Transnet is a going concern and has continued to adopt the going-concern basis in preparing the annual financial statements, of which a summary is presented in this Integrated Report in the Summarised Audited Financial Results.

83

## Integrating sustainability reporting in the 2017 Integrated Report

As the Integrated Report aims to capture and communicate the full value of the Group, it provides a perspective on the interdependencies between both financial and non-financial information. Accordingly, we have integrated information on our performance on Transnet's commercial outcomes with that of the nine SDOs in our discussion on value creation and our performance disclosures for the 2017 financial year.

24  
80

The Board of Directors has reviewed Transnet's sustainability performance disclosures contained in the 2017 Integrated Report for the year ended 31 March 2017, and the external auditor's assurance statement issued to the directors on the subject matters contained in the online Sustainability Report available at [www.transnet.net](http://www.transnet.net).

SR  
www

Transnet's online Sustainability Report publishes the results achieved under the Company's nine SDO themes, which form part of Transnet's Shareholder's Compact. These outcomes are aligned with the vision set in Government's National Development Plan and with the medium-term initiatives that Government is driving to reduce poverty, inequality and unemployment in South Africa.

SR  
www

Read more:

Transnet Sustainability Report online at [www.transnet.net](http://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 and the public within and around our operations. There is a need to foster safety vigilance among our employees through a safety-oriented operational culture.

Additionally, 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. The investment aims to sustain the current container capacity at South Africa's premier multi-cargo port and will allow the port to safely accommodate the larger post-Panamax vessels. However, adverse impacts on local communities include the possibility of social and small business displacement and extensive waste generation during the construction phase. We will continue to actively engage project stakeholders to help guide the most responsible and beneficial balance of outcomes for all concerned.

### Environmental health

Energy and water use are our two most significant impacts on the environment, and Transnet has made the management thereof the focus of its environmental stewardship initiatives.

Some of our operations are located 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, thereby limiting the demand on municipal water.

Transnet's Energy Policy outlines the Company's commitments to ensure that:

- Energy consumption is proactively managed;
- Energy efficiency improves;
- Greenhouse gas emissions decline;
- Energy costs are reduced; and
- Energy security improves.

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

Our operations also 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 have identified contaminated areas throughout our operations using scientific methods and visual site assessments.

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



Read more:

Transnet Sustainability Report online at [www.transnet.net](http://www.transnet.net)

## Directors' approval

The Board of Directors applied themselves to ensure the integrity of the 2017 Integrated Report and any supplementary information referenced in the report. The Board of Directors has considered the completeness of the material aspects addressed in the report, and the reliability of reported performance information presented, based on the combined assurance process followed. Accordingly, the Board of Directors is satisfied that the 2017 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 Framework, and aligns with the King III guidelines on integrated reporting. It is further satisfied that, where possible, the Integrated Report references areas where the organisation aligns with King IV principles. The Integrated Report also contains Standard Disclosures from the GRI Sustainability Reporting Guidelines.

The Integrated Report 2017 was approved by the Board of Directors and signed on its behalf by:

LC Mabaso

Chairperson

1 June 2017  
Johannesburg

# LEADERSHIP PERSPECTIVE

**The measures of our success as a State-owned Company are varied, and intricately linked to our ability to create inclusive and sustained value for the national economy. We continue to drive growth through the expansion and modernisation of the country's ports, rail and pipelines infrastructure, having invested R145 billion over the past five years; and we contribute to the quality of life for all South African by proactively enabling the broader development goals of the Government's National Development Plan (NDP). The NDP has its roots in the United Nations' Sustainable Development Goals and aligns with the integrated developmental aspirations of the African Union's Agenda 2063. Accordingly, we see ourselves as part of an African and indeed globally inclusive community with a planetary mandate to ensure sustainable social and economic progress worldwide.**

Our success is also defined by the value we create for the economies of several other African states that use South Africa's networks and harbours to transfer their imports and exports to inland markets. Beyond moving goods from ports across land on rail, much of our future success will depend on our ability to harness South Africa's strategic location, infrastructure and skills base to accelerate growth in the new maritime economy with our ports serving as strategic conduits of trade on the southern-most tip of Africa. We are ideally positioned to serve the East-West cargo traffic and

**The recently unveiled TransAfrica Locomotive is a brainchild of our engineering and manufacturing Division, Transnet Engineering. It was conceptualised and engineered by a team of experts from within Transnet and assembled at our production facility in Koedoespoort, east of Pretoria, with 60% of its components being locally manufactured.**

the booming African offshore oil and gas industry, through marine manufacturing, which includes ship and rig repair, refurbishment and boatbuilding. The oceans have the potential to contribute up to R177 billion to the gross domestic product (GDP) and create just over one million jobs by 2033<sup>1</sup>.

We are, as a country and an organisation, part of a vast global family, and we are growing ever closer through digital communication platforms and shrinking our physical borders to harness the infinite opportunities of the 'cloud'<sup>2</sup>.

What does this mean for Transnet going forward? Whereas we have historically based both our commercial success and the success of our Sustainable Developmental Outcomes squarely on the inherent value created by Transnet's infrastructure expansion and logistics activities, we now need to acknowledge the exciting – yet daunting – prospects inherent in the fast-emerging digital paradigm of the 4th Industrial Revolution<sup>3</sup>. As Transnet, we require resilience, agility and adaptive capacity to transition successfully over the coming decades.

On a continent still widely challenged by social inequalities, food insecurity and persistent job losses, a transition to a futuristic digital paradigm seems remote. However, this will be exactly the fertile soil from which emerging technologies, entrepreneurial ideas and tenacious digital innovations will grow and thrive, leapfrogging the growing pains experienced by developed economies through technological advancements. Regionally networked transport infrastructure too will play a critical part. The recently unveiled TransAfrica Locomotive<sup>4</sup> is a brainchild of our engineering and manufacturing division, Transnet Engineering. It was conceptualised and engineered by a team of experts from within Transnet and assembled at our production facility in Koedoespoort, east of Pretoria, with 60% of its components being locally manufactured.

Transnet intends to thrive in this new paradigm. To be successful, we must both simplify and ramp up our current operations to meet the one consistent feature of this new landscape – unprecedented change. We must also ensure that our performance targets reflect the current economic perspective and market realities; and that our governance capability is fit for purpose to both enable and protect the future value we create, particularly as we diversify revenue streams, adapt to emerging industry trends and technologies, and identify new market opportunities, mainly beyond regional borders and through intra-Africa logistics partnerships.

<sup>1</sup> <https://www.environment.gov.za/projectsprogrammes/operationphakisa/oceanseconomy>.

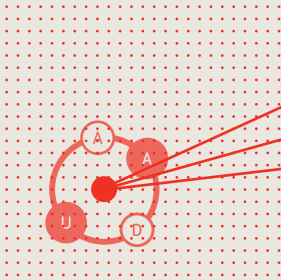
<sup>2</sup> Where in the past, people would run applications or programs from software downloaded on a physical computer or server in their building, cloud computing allows people to access the same kinds of applications through the internet. [<http://mashable.com/2013/08/26/what-is-the-cloud/#7imW03iPzgqr>].

<sup>3</sup> The 4th Industrial Revolution, or '4IR', is the fourth major industrial era since the initial Industrial Revolution of the 18th century. The 4IR can represent a range of new technologies that are fusing the physical, digital and biological worlds, and impacting all disciplines, economies and industries. It can be compared to the Second Machine Age in terms of the effects of digitisation and AI on the economy, but with a broader role for advancing biological technologies. Central to this revolution are emerging technology breakthroughs in fields such as artificial intelligence, robotics, the Internet of Things, autonomous vehicles, 3D printing, quantum computing and nanotechnology. [[https://en.wikipedia.org/wiki/Fourth\\_Industrial\\_Revolution](https://en.wikipedia.org/wiki/Fourth_Industrial_Revolution)].

<sup>4</sup> Unveiled in April 2017, the TransAfrica Locomotive 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. 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.



38 Moving into the sixth year of the Market Demand Strategy (MDS), we have so far invested R145 billion in key projects in the freight system across the rail, port and pipeline networks. The key driver behind the large MDS capital investment programme remains the need to close the gap between the market demand for cargo transport and handling services, and the infrastructural capacity to satisfy this demand. We expect to invest a further R229,2 billion over the remaining MDS period, which will include an amount of R20 billion set aside expressly for harnessing validated opportunities to diversify revenue streams, so as to accelerate and facilitate growth over the MDS period to 2024.



80 Over the past five years we have observed the market decline, and we have responded by setting future growth projections for key commodity customers on a lower growth path, requiring a slower pace of capacity creation from Transnet. The continued lower-than-planned demand for freight logistics services directly impacts Transnet's revenue line and, as a result, impacts the affordability of our capital investments. Notwithstanding ongoing economic uncertainty, lower demand and depressed commodity prices, our performance for the year confirmed Transnet's financial agility and operational endurance. Revenue for the year increased by 5,3% to R65,5 billion (2016: R62,2 billion), driven by a 4,9% increase in general freight and a 2,4% increase in export coal railed volumes. The respective increases were due to market-share growth arising from a shift in rail-addressable cargo from road to rail, and improved operational efficiencies from the deployment of new-generation locomotives on the network. Container volumes increased marginally by 0,7%, while manganese volumes increased by an impressive 17,5% to 12,1 mt (2016: 10,3 mt). This exceptional volume performance was mainly due to the recovery in commodity prices in this sector, which resulted in customers increasing production outputs. We, in turn, responded by improving operational efficiencies – most notably through the Transnet Value Chain Coordinator, a strategic initiative intended to drive volumes in line with MDS commitments by addressing operational integration, customer satisfaction and operational efficiency, thereby optimising our utilisation of assets and our ability to deliver targeted returns on our investment.



1 Linda Mabaso  
2 Siyabonga Gama  
3 Garry Pita



We continued to mitigate the impact of slow economic growth through stringent cost-containment measures and working-capital management, containing operating costs at R37,9 billion (2016: R35,9 billion), a 5,6% increase. This resulted in a R2,4 billion saving in planned costs. As a result, earnings before interest, taxation, depreciation and amortisation (EBITDA) – Transnet's key measure of profitability – increased by 5,0% to R27,6 billion (2016: R26,3 billion). The EBITDA margin decreased by 0,2% to 42,1% (2016: 42,2%).

We maintained financial stability and agility by optimising capital expenditure based on validated demand, with our capital investment for the year amounting to R21,4 billion (excluding capitalised borrowing costs), representing a 27,5% decrease from the prior year (2015: R29,6 billion). The capital investment for the year represents R5,2 billion invested in the expansion of infrastructure and equipment, while R16,2 billion was invested in maintaining capacity in the rail and ports divisions.

Our rail network continues to face strong competition from road transport, and has lost significant tonnages to road over the past two decades. It is imperative, therefore, that we expand our rail development framework to meet region-wide rail service capacity, while at the same time growing tonnages and capturing market share. Our road-to-rail initiatives remain at the forefront of Freight Rail's strategy, and the market has shown huge interest in this area of the Freight Rail value offering, particularly as it relates to the automotive industry.

Additionally, Africa's intra-continental trade has almost doubled since 1995, and the increase in volume of goods moving through the supply chain is creating transportation and logistical complexities that slow down shipments. Transnet, in collaboration with General Electric, plans to deliver a 'smart port' digital solution that will enhance efficiency and productivity in the regional transport sector by connecting shippers and transport operators and simplifying intricate commercial issues, such as pricing, capacity on the network, and making it easier to plan shipments to get goods to market. On average, Transnet delivers 13 000 containers and 620 000 tons of goods critical to Africa's economy daily.

Freight Rail's regional business impetus is to grow cross-border volumes and to enable regional integration of rail, with particular focus on the Maputo Corridor<sup>5</sup>, the East/West Corridor<sup>6</sup> and the North/South Corridor<sup>7</sup>. We have established joint operating centres in Mozambique, Botswana and Zimbabwe to promote alignment between the rail companies that occupy these corridors so that rail operators can execute one unified railway system per corridor.

As economic growth in Africa unfolds, the demand for rolling stock and associated maintenance will increase. Engineering already operates in this space and is well positioned to meet increased demand. The development of the TransAfrica Locomotive will satisfy a market need at a competitive price. Going forward, Engineering will pursue Original Equipment Manufacturer (OEM) status in passenger trains. This requires intensive investment to remain critical in developing research and business intelligence to increase revenue in niche markets. Transnet's ability to attract sufficient funding remains key to our ability to greatly expand our commercial horizons, regionally and indeed globally.

The basis of Transnet's geographic expansion for the ports sector lies in port concessions, which remain lucrative in the region, while significant future regional opportunities for our Pipelines business pertain to the discovery of new oil and gas reserves in Africa, which has resulted in a significant demand for new infrastructure capacity and new-build project opportunities.

We envisage driving our regional business activities through a wholly owned subsidiary, Transnet International Holdings, which has been approved by the Transnet Board of Directors, the Department of Public Enterprises (DPE) and the Minister of Finance. Transnet International Holdings will be operational in 2018. Our total Africa revenue for the 2017 financial year amounted to R2,1 billion.

As a transportation and logistics company, Transnet's information and communication technology capability must evolve beyond business enablement to become a competitive edge. We are already embracing innovative digital technology to create business value, such as 3D printing for rolling stock, electronic enclosure design and certain mechanical sub-components. Aerial and underwater drones, as well as track and trace technology, will soon become familiar features of our operational landscape. Through our newly established 'think tanks' – internal hubs where some of our best minds are collaborating to innovate Transnet's product and service solutions – we hope to stretch digital innovations even further, both for our own usage and also as potential future revenue streams.

The longer-term vision for Transnet is encapsulated in our new strategic framework, Transnet 4.0, as introduced in our Integrated Report. The framework sets the scene for our future commercial activities and will, importantly, guide our activities for the remaining MDS period while establishing a firm foundation for our activities post-MDS.

Our 2017 Integrated Report is focused on the future, and we are encouraged by the growing enthusiasm in the Company in terms of what a digital future might mean for the 'Transnet of tomorrow' – from the perspective of enhanced operational efficiencies and new revenue streams; and also what it could mean for more sustainability-conscious operational impacts on the environment.

We need to return briefly to the year in review to appreciate the collective efforts of our employees during a difficult economic period. Overall, our operational efficiency ratio exceeded the 2017 target by 14,9%. We have also started to reshape the core of our business to create an optimally streamlined and agile operational structure, with the commercial, technical and marketing expertise to deliver on our short- to medium-term MDS commitments, and to gear us up for the long term. Due to the need to optimise and right size the employee base across the business, this included the difficult decision to offer voluntary severance packages to employees. However, we acknowledge that this restructure effort put strain on our people, particularly with the spectre of a credit rating downgrade looming.

At the time of writing this report, international rating agency, Standard & Poor's has lowered the Company's foreign currency rating to BB+ from BBB- and the local currency to BBB- from BBB, both with a negative outlook. On 13 June 2017, Moody's also

<sup>5</sup> South Africa, Swaziland, Mozambique.

<sup>6</sup> South Africa, Namibia, Botswana, Lesotho.

<sup>7</sup> South Africa, Zimbabwe, Zambia, Democratic Republic of Congo, Tanzania.

lowered the Company's rating to Baa3 with a negative outlook. Both these actions were due to the rating action on the Sovereign as Transnet is viewed to be closely linked to the Government. We have evaluated the potential impact on the Company's financial position, liquidity and solvency and do not expect significant negative effect on estimates. S&P's affirmation and acknowledgement of the critical role that Transnet plays in South Africa's economy as a provider of essential infrastructure services evidences the strong and agile manner in which Transnet management is navigating present macroeconomic challenges. S&P has further indicated that Transnet's liquidity was still adequate and has acknowledged the sound relationship it has with South African banks. The agency also recognised the Company's good standing in capital markets, its sufficient risk and management framework, and its unused credit facilities.

The year included several sad events within our operations, with 15 employees passing away. On behalf of the Board of Directors, we wish to express our heartfelt condolences to their families and friends. We have no words to describe the overwhelming sense of loss felt by all within Transnet who were touched by the passing of one or more colleagues. We also lost our fellow Board member and close friend, Peter Williams, who passed away on 15 March 2017. He enriched the Transnet Board with his authoritative views on ethical leadership and governance. We miss Peter; and we are grateful for his dedicated service over the past three years.

We further wish to convey our sympathies to the families of the 82 members of the public who lost their lives during the year in and around our operational activities. We are determined to do better by reviewing the nature and causality of all fatalities and by ensuring that we continue to entrench Group-wide safety awareness. Thank you to our colleagues at executive and management levels who have taken up the baton of safety and are actively driving this awareness through roadshows, operational site visits and safety campaigns, both internally and with communities who live close to our railway lines and other infrastructure.

In transitioning into the digital world of the 4th Industrial Revolution, we need to adjust our ambitions in the short term while looking for more sustainable longer-term solutions. Competition is tough, the economy is uncertain, but we must reinvent ourselves to build the 'Transnet of tomorrow'. A collective future needs to be imagined collectively. This requires a common vision and single-minded determination to get us there.

## Appreciation

We wish to thank each of our 58 828 colleagues who continue to contribute to our financial and organisational longevity. We appreciate your dedication and commitment during a difficult year and encourage you to reimagine your own contribution to the 'Transnet of tomorrow'.

We also wish to thank the leadership of our recognised unions, South African Transport and Allied Workers Union (Satawu) and

United National Transport Union (UNTU), for their guidance, leadership and willingness to share in the Company's long-term vision.

Thank you to our colleagues on the Board of Directors for your wisdom and wise counsel. Your continued support is invaluable.

Thank you to our customers and commercial partners for your continued support and confidence in our abilities amid difficult economic and operational conditions during the year. We look forward to improving our service in the year ahead and finding common solutions to our shared challenges.

Our sincere gratitude to the Minister of Public Enterprises, Ms Lynne Brown – who represents our Shareholder and the people of South Africa – for her unflagging efforts in ensuring we meet our mandate. The Shareholder Minister and her officials' contribution to our success is invaluable.

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, it is a privilege to collaborate with you in our various enabling projects.

Lastly, thank you to all our colleagues across Transnet who participated in our 2017 integrated reporting process.



**LC Mabaso**  
Chairperson



**SI Gama**  
Group Chief Executive



**GJ Pita**  
Chief Financial Officer

1 June 2017  
Johannesburg



# ORGANISATIONAL OVERVIEW

## Our vision

To meet customer demand for reliable freight transport and handling services by:

Fully integrating and maximising the use of our unique set of assets;

Continuously driving efficiency improvements; and

Demonstrating concern for sustainability in everything we do.

## Our mission

To enable the competitiveness, growth and development of the South African economy by delivering reliable freight transport and handling services that satisfy customer demand.

## Values

We have a safety mindset.

We have good communication.

We treat each other with dignity and respect.

We are empowered to perform our jobs.

We are business focused.

We recognise and reward good work.

We deliver on our promises.

## Governance context

Transnet SOC Ltd is a public company, constituted in terms of the Legal Succession Act of 1989, with the South African Government being its sole Shareholder.

Owner of South Africa's railway, ports and pipelines infrastructure.

The Company's Memorandum of Incorporation (Moi) is aligned 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).

The Moi was approved by the Shareholder Minister on 25 June 2013. As a State-owned company (SOC), the PFMA serves as Transnet's primary legislation.

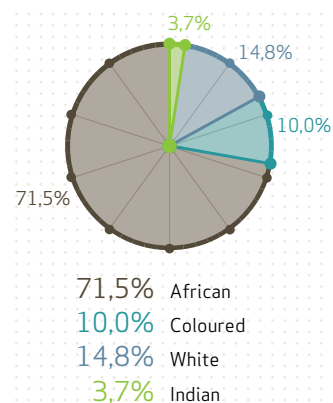
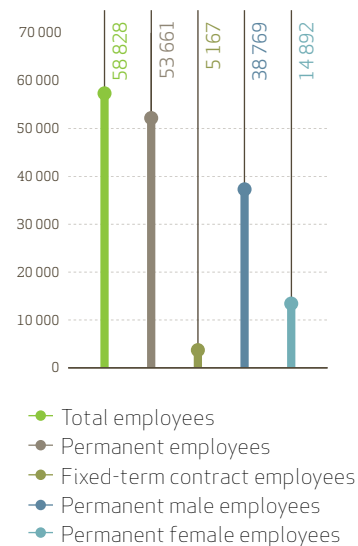
Transnet enters into an annual Shareholder's Compact with the Government of the Republic of South Africa, represented by the Minister of Public Enterprises.

The Shareholder's Compact mandates the Company to deliver on numerous strategic deliverables, including sustainable economic, social and environmental outcomes.

The Board of Directors adopted the Market Demand Strategy (MDS) in response to the Statement of Strategic Intent (SSI).

[106 Read more](#)

## Employee profile



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



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



People with disabilities:



## Our mandate

Assist in lowering the cost of doing business in South Africa;

Enable economic growth; and

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

Transnet's mandate and strategic objectives are aligned with national plans and the Statement of Strategic Intent issued by the Minister of Public Enterprises.

## 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 2017 financial year. We are committed to optimising our contribution to B-BBEE in the execution of our mandate and aim to be an exemplary SOC through the maximisation of our contribution to economic transformation, and by demonstrating innovation in this area. Accordingly, strategies are in place to address and maximise the scores for employment equity, preferential procurement and skills development.

## Transnet's supply chain

Transnet's integrated Supply Chain Management (iSCM) function delivers economic value to the Company and provides broader strategic value to the Government of South Africa. It optimises inbound supply-chain activities, which in turn enable efficient and reliable outbound services to the end customer.

Transnet's iSCM aligns with the MDS to achieve Platinum Standard levels by capacitating under-resourced departments, standardising performance management reporting and providing automated end-to-end procurement business processes to enhance contract management.

## Enterprise and supplier development (ESD)

Transnet's Supplier Development Programme is guided by Government's Competitive Supplier Development Programme. Our ESD Programme is informed by the B-BBEE Codes of Good Practice.

Transnet's ESD function aims to increase the competitiveness, capacity and capability of black-owned suppliers through financial and non-financial support services. The ESD department transforms the Company's supplier base through targeted ESD initiatives that support localisation and industrialisation, and provide opportunities for black people, youth, women, small businesses, people with disabilities and people living in rural communities.

## Transnet's Group B-BBEE performance per pillar for the 2017 review period

Element	Actual score	Target
Equity ownership	N/A	N/A
Management control	8,33	11
Employment equity	13,59	18
Skills development	22,28	25
Preferential procurement	26,11	33
Enterprise development	15	15
Socio-economic development	5	5
<b>Total</b>	<b>90,31</b>	<b>107</b>

B-BBEE Level 2

## Our culture roadmap

To become an organisation that thrives and flourishes, the Group Chief Executive has set out four strategic thrusts to drive organisational culture and business conduct:

### A Agile

To be agile in a volatile world the Company must be fit, focused and able to adapt rapidly to change.

Driven  
Efficient  
Adaptable

### A Admired

The Company wants to be admired by its stakeholders as leaders in customer satisfaction, operational excellence and innovation.

Impeccable  
Innovative  
Motivated by excellence

### D Digital

The future is digital and the Company needs to add intellectual capital to create value from its substantial investment in physical capital.

Inventive  
Customer-centric  
Advanced

### U United

The Company will only succeed if it is united. This means working as one team to change Transnet with its Group Leadership Team, the Board of Directors, Shareholder, management and labour all pulling together coherently.

Single minded  
Tolerant of others' ideas  
Understand our impact

## Operating context<sup>1</sup>

Freight Rail	Engineering	National Ports Authority	Port Terminals	Pipelines
<ul style="list-style-type: none"> <li>Operates 30 400 km of rail track across South Africa.</li> <li>Transports bulk, break-bulk and containerised freight.</li> <li>Freight Rail network and rail services provide strategic links between mines, production hubs, distribution centres and ports, and connect with cross-border railways of the region.</li> </ul>	<ul style="list-style-type: none"> <li>Provides manufacturing, maintenance and refurbishment services of rolling stock and specialised equipment to Freight Rail, the National Ports Authority, Port Terminals and external clients. Houses Transnet's Research and Development (R&amp;D) unit to capture opportunities for technology innovation.</li> </ul>	<ul style="list-style-type: none"> <li>Serves eight commercial seaports in South Africa.</li> <li>Core functions include the planning, provision, maintenance and improvement of port infrastructure.</li> <li>Provides marine-related services, port services and navigation aids to assist the navigation of vessels within port limits and along the coast.</li> </ul>	<ul style="list-style-type: none"> <li>Provides cargo handling services to a wide spectrum of customers, including shipping lines, freight forwarders and cargo owners.</li> <li>Operates 16 terminals in eight ports spread along the South African coastline.</li> <li>Operations are divided into four major business segments, namely containers, bulk, break-bulk and automotive.</li> </ul>	<ul style="list-style-type: none"> <li>Transports fuel from coastal refineries and crude oil imports to the inland market.</li> <li>Transports gas from Secunda to industrial users in Durban and Richards Bay.</li> <li>The New Multi-Product Pipeline (NMPP) enables the increase in liquid fuels volume throughput to meet forecast demand.</li> </ul>
Revenue <b>R39,1 billion</b>	Revenue <b>R9,4 billion</b>	Revenue <b>R10,4 billion</b>	Revenue <b>R11,2 billion</b>	Revenue <b>R4,4 billion</b>
Total employees: <b>30 305</b>	Total employees: <b>12 164</b>	Total employees: <b>4 188</b>	Total employees: <b>8 891</b>	Total employees: <b>686</b>
Permanent employees: <b>27 679</b>	Permanent employees: <b>11 731</b>	Permanent employees: <b>4 160</b>	Permanent employees: <b>7 087</b>	Permanent employees: <b>642</b>
Fixed-term contract employees: <b>2 626</b>	Fixed-term contract employees: <b>433</b>	Fixed-term contract employees: <b>28</b>	Fixed-term contract employees: <b>1 804</b>	Fixed-term contract employees: <b>44</b>
<p>28% Female employees 72% Male employees 2,6% People with disabilities</p>	<p>22% Female employees 78% Male employees 1,4% People with disabilities</p>	<p>33% Female employees 67% Male employees 2,1% People with disabilities</p>	<p>27% Female employees 73% Male employees 1,2% People with disabilities</p>	<p>34% Female employees 66% Male employees 2,9% People with disabilities</p>
<a href="#">98 Read more</a>				

<sup>1</sup> Operating context refers to Operating Divisions.

## Customer profile

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

## Services provided

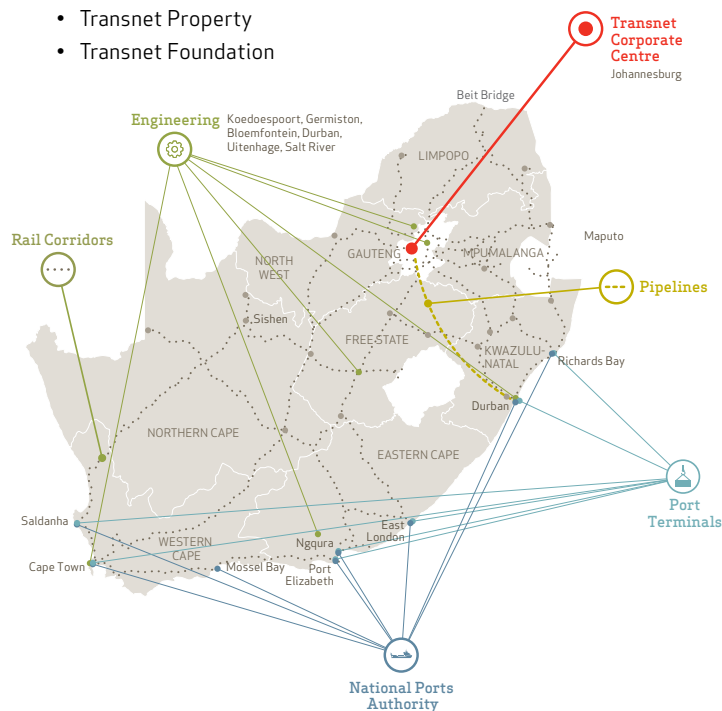
- Transnet's services are both outbound (South African businesses moving products to international markets) and inbound (bringing products to South African markets).
- Commodities transported include mining exports, general freight and petroleum products.
- General freight includes: containerised cargo, 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.
- Petroleum products include: crude oil, refined petroleum products, aviation turbine fuel and methane-rich gas products.

## 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

## Specialist Units

- Transnet Group Capital
- Transnet Property
- Transnet Foundation





## Strategic context

Transnet's strategic direction is expressed through the MDS.

The MDS and its implementation is guided by the SSI issued by the Minister of Public Enterprises and the Shareholder's Compact.

The Company has adopted a new strategic blueprint, namely Transnet 4.0 – to gear the MDS to meet the challenges and opportunities of the 4th Industrial Revolution.

### Main growth thrusts of Transnet 4.0 include:

- Accelerated efforts to extend Transnet's footprint in the fast-growing regions of Africa, Middle East and South Asia;
- Product and service innovation to transform from a transport and cargo handling-focused business to an integrated, end-to-end logistics service provider; and
- Scope expansion of Transnet's manufacturing business, with leading technologies to enhance new and existing products and improve business processes.

## Market context

- Global growth for 2016 is estimated to have slowed to 3,1%, recovering to 3,4% in 2017.
- Partially recovered commodity prices.
- Global asset markets appear calm, equity prices are at high levels.
- Renewed capital inflows to emerging market economies.
- Subdued outlook for advanced economies, placing downward pressure on interest rates as monetary policy could remain accommodative for longer.
- Prospects for 2017 differ sharply across countries and regions, with emerging Asia and India showing robust growth.
- Sub-Saharan Africa forecast to experience overall growth of only 2,9%.
- Continuing trend of weaker gross domestic product (GDP).
- The South African ratings downgrade greatly limits the options for Government to intervene to boost economic activity through fiscal or monetary actions.
- While commodity markets could improve, demand for value-added and consumer goods could struggle to grow. Transnet's regional demand prospects remain positive, especially if greater connectivity can be engineered.
- The 4th Industrial Revolution promises a fusion of technologies poised to disrupt almost all industries and transform systems of production, management and governance.

## 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 which is determined by the Department of Public Enterprises and the Department of Transport respectively.

## Financial context

Transnet is funded through reserves and borrowings and does not receive subsidies or guarantees from Government. It raises funds in the debt markets based on the strength of its own balance sheet, having raised funding without Government guarantees since March 1999. Legacy Government-guaranteed debt amounts to R3,5 billion comprising Eurobond under the Euro Medium-Term Note (EMTN) Programme maturing in 2028 (R2,0 billion) and 2029 (R1,5 billion) respectively.

As an SOC, the financial strategy reflects the higher risk profile of the business. To meet long-term market demand, Transnet must invest for long-term growth prospects, but be cognisant of short- to medium-term volatility in the domestic and international markets. The Capital Investment Plan has reduced from R277,8 billion to R229,2 billion over the next seven years in response to the predicted lower-than-planned freight demand.

### Key financial interventions

- Revenue diversification
- Stringent cost management and optimisation
- Aggressive working capital management
- Generating a return on assets commensurate with the risk
- Maintaining Transnet's standalone investment grade credit ratings
- Structured funding at cost-effective levels
- During the year, there were no significant changes to the way in which Transnet is owned, structured or in the way it functions

## Socio-economic context

Transnet SOC Ltd is a freight transport and logistics company. The Company's strategic focus is guided by the SSI issued by the Minister of Public Enterprises and the Shareholder's Compact, which stipulate medium-term strategy and objectives, including:

Reduce the cost of logistics as a percentage of transportable GDP;

Effect and accelerate the modal shift by maximising the role of rail in the national transport task;

Leverage the private sector in the provision of both infrastructure and operations where required;

Integrate South Africa with the region and the rest of the continent; and

Optimise sustainable economic, social and environmental outcomes of all activities undertaken by Transnet.

Nine Sustainable Developmental Outcomes (SDOs) have been negotiated with the Shareholder and are aligned with the Government's vision as per the National Development Plan and the medium-term initiatives that Government is driving to address poverty, inequality and unemployment.

## 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 Reporting Framework	•

## Memberships of associations (not limited to)

New Partnership for Africa's Development (NEPAD)	•
South African Railways Association (SARA)	•
International Union of Railways	•
Association of American Railroads (AAR)	•
Railroad Association (RRA)	•
Union of African Railways (UAR)	•
Maputo Corridor Logistics Initiatives (MCLI)	•
International Association of Marine Aids to Navigation and Lighthouse Authorities (IALA-AISM)	•

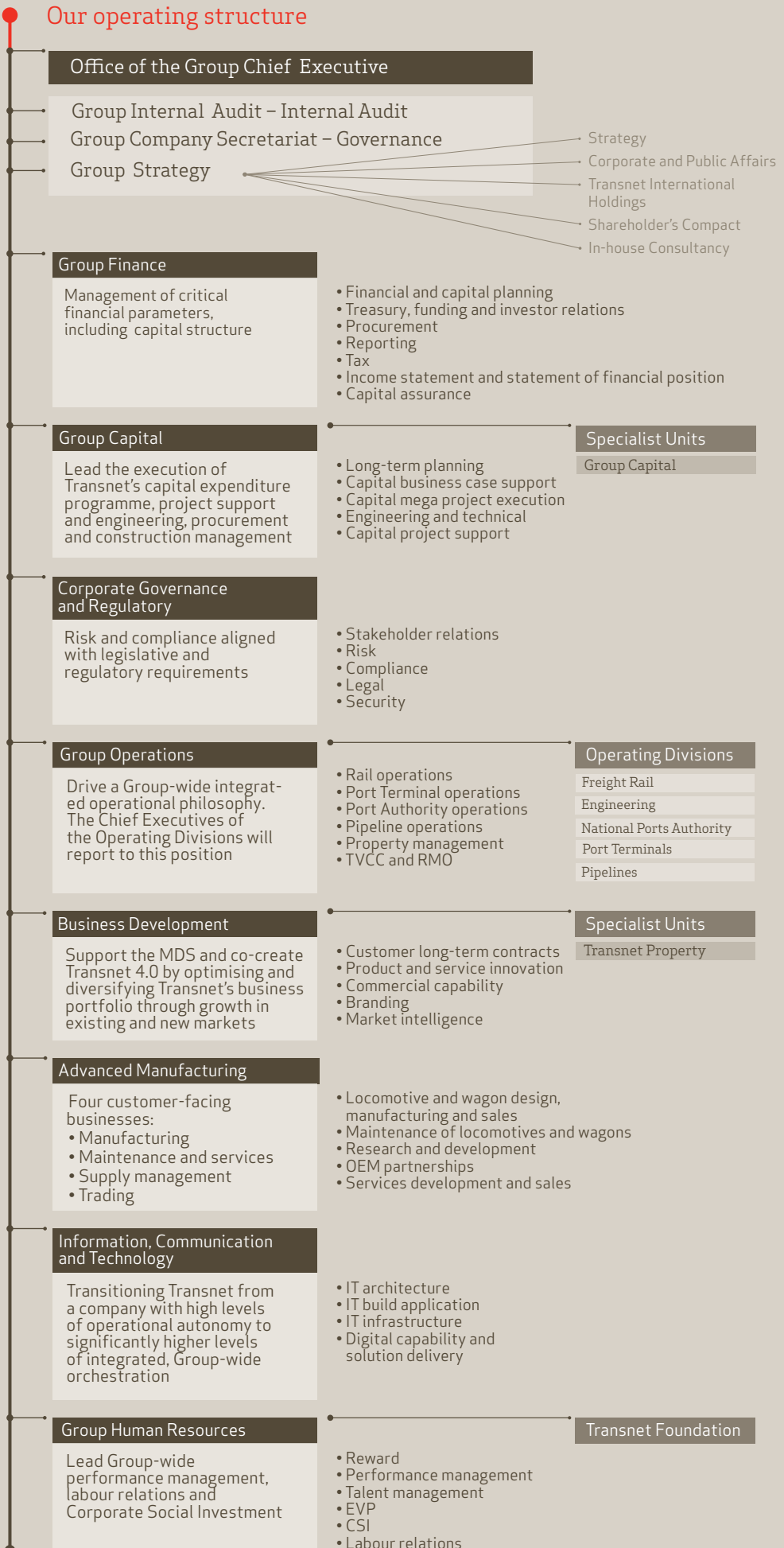
## List of awards for the 2017 financial year

- Chartered Secretaries Southern Africa Integrated Report Awards (winner: Large State-owned Company category)
- 2016 Ernst & Young Award for Excellence in Integrated Reporting
- Top Employers South Africa 2017 certification by Top Employers Institute
- CFO Awards: Transformation and Empowerment Award (winner)

### Women in Transport Awards

• Best Innovation Partnership in Service Delivery (Project): Freight Rail (Maria Mzimela)
• Best Head of Department in Transport: Sylvia Siyo, National Ports Authority
• Best Skills Contributor: Khomotjo Mphahlele, Transnet Maritime School of Excellence (South Africa)
• BASA Awards for the National Arts Festival

## Our operating structure



## Our value proposition

As a State-owned Company, our overarching value proposition is founded in our Shareholder mandate and enabled through the MDS:

The modernisation and renewal of South Africa's transport and logistics infrastructure through strategic investment in rail, ports and gas pipeline infrastructure; cost-effective logistics value chains; value-added logistics services; and advanced engineering solutions.

### Value for customers

- Predictable and reliable delivery of customer volumes
- Customer-centric business innovations
- Full value-chain service propositions
- Distinctive product and service designs per market segment
- Integrated cross-operating divisional customer support across the logistics value chain and 'lifecycle of requirements'
- Digital transformation across the value chain

### Value for suppliers and service providers

- An ethical and transparent procurement process
- Fair and equitable tender processes
- Fair, transparent and efficient contract management
- A proactive and collaborative approach to local supplier development

### Value for employees

- Employer of choice
- A work ethos of 'safety in all we do'
- An 'iBelong' culture
- Opportunities to grow personally, professionally and academically
- Exposure and connectivity to broader national and regional opportunities
- A supportive environment in which to prosper

## Our business model

### Value for our Shareholder

Sustained financial returns and broad socio-economic value through sound capital investments in infrastructure ahead of demand, regulatory compliance, accountable business practices, ethical leadership and responsible corporate citizenship

### Value for financial partners

- A funding strategy based on strategic priorities
- Capital investments that are likely to yield the best financial and social returns
- A reliable and credible borrower which, albeit State-owned, issues debt on the strength of its financial position without Government guarantees

### Socio-economic value and environmental stewardship

- The modernisation and renewal of South Africa's transport and logistics infrastructure
- Regional integration to support South Africa's market competitiveness
- CSI initiatives that contribute meaningfully to the socio-economic well-being of communities where we operate
- Activities that enhance the natural environment's capacity to meet the resource needs of future generations

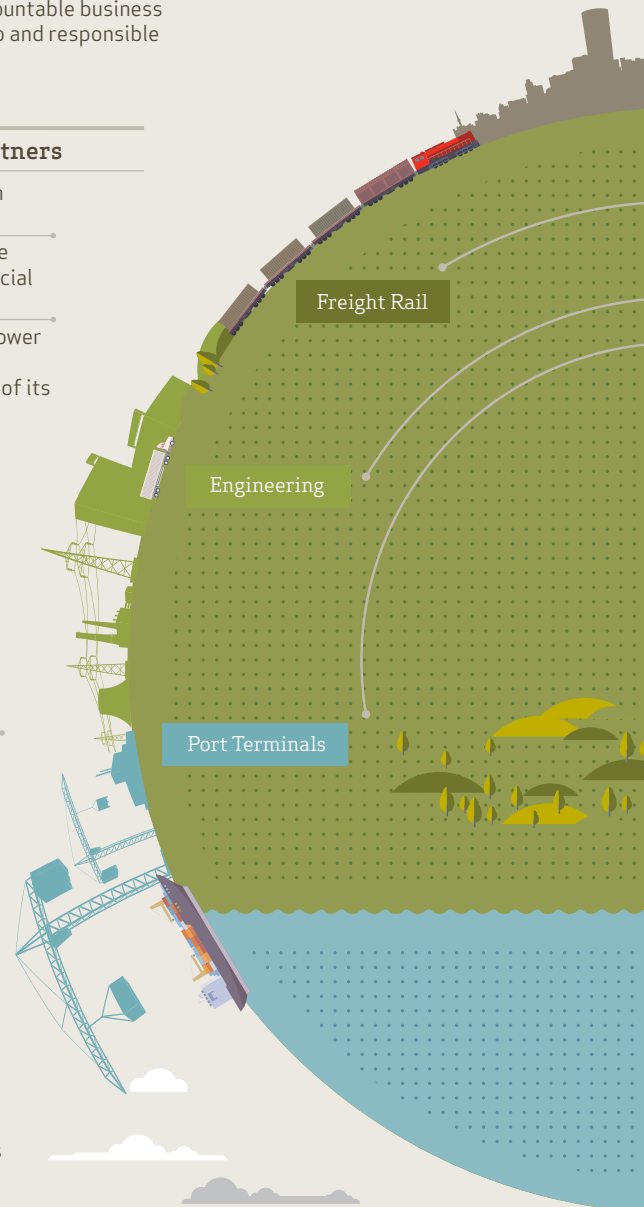


Figure 3

## Funding sources

- International and domestic capital markets
- Loan market (public and private)
- Development finance institutions (domestic and international)
- Export credit market
- 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

## What we do

### 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

Main activities facilitated through five Operating Divisions

Pipelines

Flow of imports, exports and transshipments through cargo terminals

National Ports Authority

Oversight of the total port system and logistics chain

### 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
- Customer-focused packaged asset lifecycle solutions (design, finance, build, maintain and replace)

### 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)

### Liquids and gas

- Facilitate integrated and reliable access and distribution of liquid and gas energy resources
- Liquefied natural gas (LNG) opportunity
- Energy opportunities

## Revenue streams

Commodity-based revenue from commodities transported:

Coal	Forestry products	Refined petroleum products
Iron ore	Aggregate	Crude oil
Manganese	automotives	Aviation turbine fuel
Chrome	Fast-moving consumer goods	Methane-rich gas
Steel	Containerised cargo and crude oil	
Cement		
Agricultural products		

## Non-commodity revenue from:

Engineering

Transnet Property

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

## External variables impacting our business

- Slow rates of global and local economic growth
- Widening social inequality
- Structural unemployment
- Climate change adaptation
- Volatile commodity prices impacting freight volumes and revenue
- Energy and water supply challenges
- South Africa's creditworthiness impacting borrowing costs

## Opportunities

- Growth opportunities in Africa
- Grow market share in the domestic transport market through the road-to-rail strategy
- Private-sector partnerships
- Service expansion through value-added services
- Research and development in renewable energy
- Strength of Transnet's financial position and investment grade credit rating for domestic borrowings

## Top 10 risks

- Pricing risk
- Capital investment risk
- Macroeconomic risk
- Volume growth risk
- Operational risk
- Human resources risk
- Productivity/efficiency risk
- Regulatory risk
- ICT infrastructure risk
- Sustainability risks



## External environment

Our activities are influenced by various external factors:

### Economic environment

- Global asset markets appear calm, equity prices are at high levels and renewed capital is flowing to emerging market economies.
- Stable growth performance has reduced concerns about China's growth prospects, and commodity prices have partially recovered. The challenge of declining demand for commodities, however, has not entirely abated.
- Sub-Saharan Africa is forecast to experience overall growth of 2.9%. In South Africa, the economic situation remains challenging, with growth of around 1.0%<sup>1</sup> anticipated in 2017, continuing the general trend of weaker gross domestic product (GDP) growth performance since the 2008 global financial crisis.
- In the domestic context, South Africa has been downgraded to non-investment grade BB+ from BBB-, so-called 'junk' status by rating agencies Standard and Poor's and Fitch. Following on this rating agency Moody's placed South Africa on a ratings review. The Sovereign credit rating saw the further downgrade of SOCs, including Transnet, impacting our credit rating going forward.
- Transnet's demand picture is mixed. While commodity markets are expected to improve slightly, demand for value-added and consumer goods will struggle to grow. Transnet's regional demand prospects remain positive, especially if greater connectivity can be engineered.

### Industry trends

#### Rail sector

- Containerised freight traffic is increasing globally, and in developing countries, such as South Africa, the growth in port container handling is expected to be even greater over the next three decades.
- International trends indicate that one of the main drivers to increased freight forwarding is the development of mega-terminals and super-terminals in strategically located corridors.

#### Port sector

Key issues impacting port operations include:

- A worldwide trend towards industrialisation and specialisation, creating a need for large shipments of goods and materials over significant distances;
- An increase in free trade agreements – and an unprecedented expansion in trading volumes and widespread deregulation of many economies – has led to the private sector playing an increasingly important and profitable role in port terminal management;
- Exponential increase in vessel sizes in pursuit of economies of scale in transporting cargo;
- Restructuring of logistics networks and improvement in dealing with hinterland congestion and intermodal transport links;
- Awarding of concessions to global terminal operators to improve productivity, efficiencies and profitability of ports; and
- Ports accommodating and including infrastructure for the transport and handling of alternative forms of energy, such as liquefied petroleum gas (LPG) and liquefied natural gas (LNG).

### Pipeline and gas

- South Africa's energy resources are dominated by coal; more than 80% of electricity generated by Eskom is from coal-fired power stations. To align with the global objectives of lower greenhouse gas emissions, Government aims to diversify South Africa's energy supply mix; doing so will improve the security of energy supply and reduce the overall carbon footprint of the country. Natural gas is a significant alternative energy source for South Africa.

Key issues that will influence long-term pipeline and terminal planning:

- The need for sustainability in developing infrastructure solutions, as well as increased stakeholder engagement on key issues;
- Government's Clean Fuels 2 Programme and the impact on security of supply; and
- Slowdown in local economy and lower fuel demand.

### Technological innovation

- The 'digital evolution' is reshaping industries across the board, and the pressure to innovate is increasingly compelling transport and logistics providers to become 'fast digital followers' to remain competitive.
- Customer value chains are changing, with many clients already ahead of the technological curve, and evidencing ever-increasing service expectations.
- The emerging digital environment is also enabling new business models, particularly regarding collaborative solutions and modal connectivity.
- The new digital landscape is characterised by a fusion of technologies that are poised to disrupt almost all industries and transform systems of production, management and governance.
- Governance and compliance will be significantly enhanced by 'click-of-a-button' transparency on performance. Return on assets will be maximised by deploying tools to drive asset productivity in yards and networks; and by improving service reliability through data and advanced analytics.

### Regulatory environment

- Transnet faces regulatory uncertainty, particularly regarding lower-than-required tariff escalation as determined by the Ports Regulator and the Nersa. Approximately 22.5% of Transnet's revenue and 35.4% of its EBITDA is impacted by economic regulation. Unless relationships with regulators are proactively and strategically managed, tariff decisions could have a significant impact on investment decisions, investor confidence and ultimately on the execution of the Company's strategy.
- Sharp escalations in safety permit fees charged by the Rail Safety Regulator is also a critical consideration for the Company's revenue planning.
- Institutional investors have pointed out policy uncertainty as a significant factor that may result in sluggish investment growth. Furthermore, the socio-economic climate is growing increasingly precarious following the downgrade of the Sovereign credit rating. Should investment slow down, there is reduced scope, nationally, for improving employment statistics as businesses grapple with reduced spending and reduced investment. Transnet must face these challenges, not only as a corporate but also as an agent of Government's imperatives, which include remediating the country's challenges of poverty and inequality.

<sup>1</sup> Bureau for Economic Research – January 2017.

## Natural environment

- Transnet's business is conducted across South Africa's diverse ecosystems where it builds infrastructure, operates equipment and handles large volumes of cargo. Our employees, contractors, suppliers and customers have an impact on the natural environment and depend on it for their livelihoods.
- Transnet recognises the potential impacts of its operations on the biodiversity of areas where it operates. The Company's operational footprint spans across kilometres of ecosystems. Accordingly, we seek to avoid, minimise and mitigate the impacts arising from our operations and, where possible, restore the environment to maintain healthy ecosystem services for the future well-being of all South Africans.
- Transnet is one of South Africa's largest industrial consumers of electricity. Energy and carbon management is, therefore, Transnet's primary focus for its environmental stewardship initiatives. The Company has realised significant gains in terms of energy efficiency and reduced carbon emissions in recent years, moving more cargo with less energy.
- Transnet aims to further improve the protection and restoration of natural habitats as a critical outcome of our biodiversity management approach.

## Pipelines

Transnet has identified the following environmental sensitivities<sup>2</sup> for its pipelines operations:

- The Critically Endangered Vaal River is crossed by the Refined Products Pipeline;
- Biodiversity sensitivities along the Refined Products Pipeline include the Critically Endangered Blesbokspruit and Klip River Highveld Grassland Habitats;

- The Critically endangered Wilge River is crossed by the Crude Oil Pipeline; and
- Critically endangered Wetland Habitats are concentrated as the lines approach Gauteng and the coastal cities and extend along the KwaZulu-Natal coastline.

Regular maintenance and monitoring must be undertaken to mitigate the risk of leaks and ensure that, when they occur, they are quickly addressed.

## Ports

- Over time vessel berths experience a gradual filling of fine silt and clay sediment, known as shoaling. Excessive shoaling leads to a decrease in water depth at a berth, which in turn leads to limiting the drafts of visiting vessels. The conventional approach to mitigating shoaling is through maintenance dredging, which is expensive and has several environmental implications. As an alternative to maintenance dredging, a series of submerged jet water pumps can be installed at the berth. The pumps will periodically increase the speed of passing water currents, thus reducing the likelihood of shoaling.
- On dredging, it is commonly assumed that dredged material is contaminated waste and should, therefore, be disposed of; however, a substantial portion of dredged material is usable and untainted, with contaminated dredged material usually limited to industrial sites. Recently, the stigma of dredged material has shifted from a waste product to a beneficial resource through recycling. However, cost is a major obstacle in determining how best to manage dredged material – recycling is costlier than securing a disposal site.

<sup>2</sup> As per the Transnet Long-term Planning Framework SEA conducted for existing Transnet pipelines.



Figure 4



## Our value creation model

### Our capitals

### Inputs



#### 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 validated demand.

- Share capital and reserves
- Cash and cash equivalents
- Long- and short-term borrowings
- Investment in infrastructure, expansion and maintenance



#### Manufactured capital

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.

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



#### Intellectual capital

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.

- 'Project factory' support of large and complex programmes
- Continuous enhancements on project lifecycle programme methodologies
- Research and development (Engineering research and development unit)
- Standard operating procedures
- Policies, frameworks and processes
- Responsible 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.

- Responsible leadership
- 64 467 skilled and motivated employees as at 1 April 2016 year-end
- Remuneration philosophy and process
- Responsible leadership structure



#### 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).

- Relationship with customers and suppliers
- Constructive and equitable dealings with Government and regulators
- Positive relationship with employees and organised labour
- Proactive interaction with communities, citizens, institutions, media and pensioners
- Collaborative relationships with the Shareholder and funders



#### 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.

- Water
- Air
- Land
- Biodiversity and ecosystem health

## Activities

### Port Terminals

Flow of imports, exports and transshipments through cargo terminals



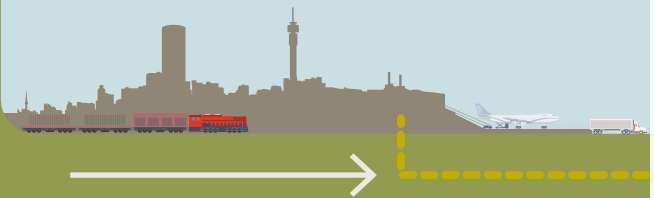
### Engineering

Engineering solutions to support rail and port operations



### Freight Rail

Integrated rail transportation flow of various goods and commodities from inland customers to ports and from ports to inland customers



### Pipelines

Integrated rail and pipeline solution to ensure reliable and safe transportation of gas and petroleum products



### National Ports Authority

Oversight of the total port system and logistics chain



## Key outputs of our business

### Positive outputs

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

Rail 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

### Adverse outputs

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

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

## Outcomes



- Cost-effective funding
- Continued financial stability and strength
- Investment-grade credit rating
- Cash interest cover of 2,9 times
- Gearing at 44,4%



- A modern, integrated freight and logistics system for South Africa
- Mega- and critical projects, such as the New Multi-Product Pipeline, Durban Container Terminal Expansion and extension of Saldanha Tippler 3
- Business continuity
- Large-scale shift from road to rail
- Infrastructure reliability
- Operational efficiencies and improved productivity
- Ability to avail analytics to end-users through multiple digital platforms



- 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 platforms



- A skilled and representative workforce
- A safe working environment which promotes diversity and equal opportunity as well as training and education
- Responsible leadership
- An 'employer of choice'



- Retain social licence to operate
- Collective agreements with organised labour
- Partnerships with customers and other logistics providers along the value chain
- Proactive interaction with our stakeholders
- Positive contribution to the socio-economic well-being and health of the communities in which we operate
- An ethos of tolerance and respect



- Environmental stewardship
- 1,2% 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

Build stable, secure infrastructure	Align with regulatory requirements to maintain the required compliances within our operations
Maintain our standalone credit rating and attract funding from various sources	Maintain agility within a cost structure in which 80% to 90% of fixed costs and assets have lifecycle times of 30 to 100 years
Promote a push for business performance without compromising on safety	Build partnerships for sustainable growth
Enable us to be agile in an ever-changing socio-economic environment	Strengthen our credibility in terms of infrastructure reliability and our delivery of customer-centric solutions
Promote employment equity within the Company	Enhance human capabilities and productive capacity of our people – particularly in terms of scarce skills
Promote ethical business practices as well as sound environmental stewardship within our operations	Improve physical and mental health and safety of our employees and other stakeholders
	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 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 new multi-product pipeline

Increase capacity for South African commodity exports

Reduce cost of logistics as a percentage of transportable GDP



### Investment leveraged

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



### 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



### Community development

Measurably improve economic, social, cultural and environmental 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





## Highlights

### Economic

 Revenue increased by 5,3% to R65,5 billion	 EBITDA grew by 5,0 % to R27,6 billion
 Operating expenses were contained at a 5,6% increase to R37,9 billion	
 Profit of the year increased to R2,8 billion (2016: R393 million) more than 600% higher than the prior year	 Operational efficiency at 14,9%
 Aggressive management of costs resulted in a R2,4 billion saving in planned costs	Capital investment of R21,4 billion
 SA GDP growth of 0,7% for the financial year	
 Gearing at 44,4% and cash interest cover at 2,9 times	B-BBEE spend: % of total measured procurement spend: 103,1% R37 billion
 R62,6 billion spend on SD, R38,6 million on ED	

### Social

**Skills development:**  
Amount invested:  
R746 million or 3,6%  
of the wage bill

3,1% 

**Apprentice bursars in talent pool:**

1 700 

**Engineering bursars in talent pool:**

597 

**Corporate social investment:**

R234 million 

**DIFR rate:**

0,69 

### Environmental

Electricity consumption reduction: 1,7%

Electricity generated by new locomotives: 242 788 MWh

Traction energy-efficiency improvement: 0,6 %

Electricity consumption: 3 207 544 MWh

Transport sector carbon emissions avoided (road-to-rail gains): 637 152 tCO<sub>2e</sub>

Volume gains/emissions avoided (road to rail): 2 857 365 tons/ 313 699 tCO<sub>2e</sub>

Total fuel consumption: 238,9 megalitres

Total overall energy-efficiency improvement: 1,2%

Transnet carbon emissions: 3,95 mtCO<sub>2e</sub>

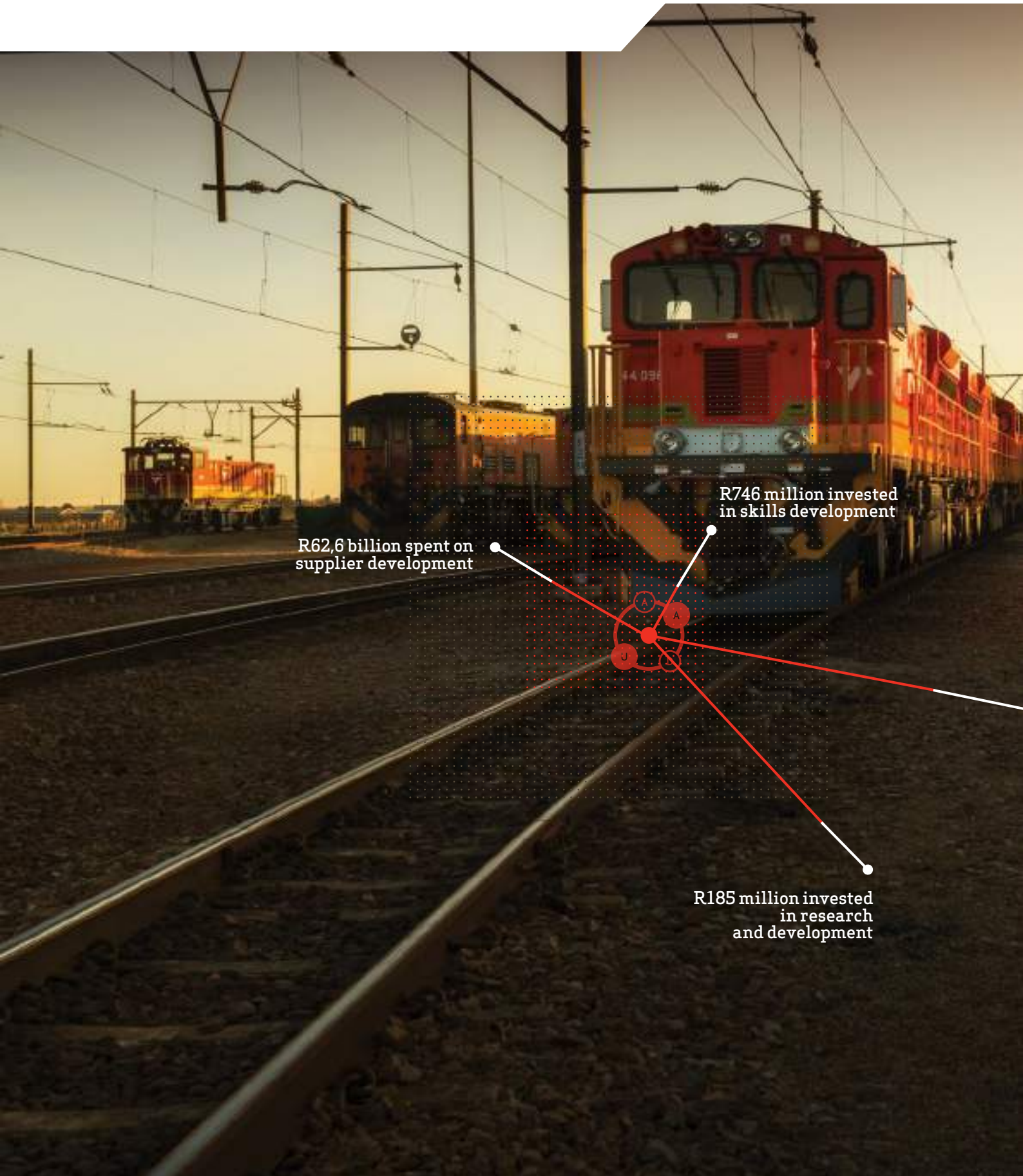
Scope 1 emissions: 681 016 tCO<sub>2e</sub>

Scope 2 emissions: 3 295 208 tCO<sub>2e</sub>

Scope 3 emissions: 16 368 tCO<sub>2e</sub>

Carbon emission intensity reduction: 2,3%

## CREATING VALUE THROUGH THE SIX CAPITALS



R62,6 billion spent on  
supplier development

R746 million invested  
in skills development

R185 million invested  
in research  
and development

## Our definition of 'value creation'



Value creation happens through our interactions and relationships with our stakeholders; and within the commercial and developmental contexts within which we operate, on which we depend, and which we in turn impact. We create value from tangible assets, such as our monetary assets, infrastructure, technology, property and natural resources. We also create value from our intangible assets, such as our brand reputation, our institutional knowledge, relationships, strategies and methodologies. Our operations are invariably located in and around resources shared by other stakeholders – such as land, oceans, water sources and public-use areas – and we acknowledge the need for transparency and accountability in our sharing of these common resources.

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 which we can fully 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.



Financial  
capital

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Manufactured  
capital

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Intellectual  
capital

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Human  
capital

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Social and  
relationship  
capital

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Natural  
Capital

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## Financial capital



Our financial strategy is designed to create capacity over the long term and to maintain financial stability. To meet market demand, Transnet must invest for long-term growth prospects, while considering short- to medium-term volatility and uncertainty in the domestic and global markets. Credit rating downgrades for the country influence Transnet's ability to attract investors. The decline in commodity prices has led to new lows in the demand for key commodities. These trends may severely impact our future efforts to grow volumes, placing significant pressure on our revenue growth aspirations.

### Creating financial value

**Transnet creates financial value from two perspectives:**

- The creation of financial returns for the Company, its Shareholder and providers of capital; and
- The economic value created for its broader stakeholder base and the South African economy.

Economic tariffs are key outputs of Transnet's business activities, while revenue from tariffs is an important capital input. Tariffs for both Pipelines and National Ports Authority are subject to economic regulation.

Pipelines holds operating licences for the petroleum and gas pipeline network as well as the associated storage facilities and applies the Nersa tariff methodology for setting tariffs in the petroleum industry.

National Ports Authority applies the guidelines set out in the Regulatory Manual for the tariff years 2017 to 2018. Freight Rail is free to set market-related tariffs without economic regulation. In determining tariffs, Transnet considers major input cost increases.

To justify tariff increases for improved service pricing, Transnet must provide services (e.g. port services), infrastructure service reliability and technical innovation. Through its operational efficiency and R&D activities, infrastructure reliability and technical expertise are enhanced, thus helping to maintain pricing levels and strengthen Transnet's market position in the non-regulated business for its Africa Strategy.

Transnet aims to contain price increases through improved efficiency in all areas of operations. Its role is to create infrastructure capacity and to improve the reliability of existing services. Consequently, it must recover the cost of its investment while maintaining operational performance, and generate a return commensurate with the risk on investment. Failure to obtain an appropriate return on investment would impact Transnet's financial position and ultimately its ability to access the debt capital market cost effectively.

### How we structure our financial capital

Transnet accesses debt capital markets for funding. We aim to retain and constantly improve our financial strength. Given the Company's commercial objectives, it has to remain within acceptable capital and debt structure parameters to ensure:

- Adequate reinvestment in the Company to sustain infrastructure and expand capacity;
- Optimal cost of capital, including external debt; and
- Optimal utilisation of working capital.

**The Board of Directors has set specific financial metrics to enable the preceding objectives:**

- Maintain a maximum capital-to-debt structure (gearing) at 50%; and
- Maintain a cash interest cover of at least 3 times.

As a State-owned Company (SOC), the financial strategy reflects the higher risk profile of the business. The capital structure parameters are included in the Shareholder's Compact to uphold sustainability and provide assurance in respect of the long-term sustainability of the Company and to evade undue financial risks.

### Key financial capital inputs at 1 April 2016

Cash and cash equivalents	R13,9 billion
Share capital and reserves	R143,3 billion
Long- and short-term borrowings	R134,5 billion

### Approaches to managing financial capital outcomes

Diversifying revenue sources to reduce risk related to commodity demand and associated volatility.

Ensuring stringent cost management and optimisation as well as striking a healthy balance in capital expenditure.

Aggressive working capital management.

Generating a return on assets equal to the risk.

Maintaining cost-effective structured funding.

'Take-or-pay' contracts with customers.

Maintaining credit ratings and attracting funding from various sources.

### Key factors impacting financial capital

#### Influences

Changes in freight logistics market demand driven by global economic growth.

Macroeconomic risks – currency devaluation and energy-price risk (electricity and diesel).

Credit ratings breaching investment-grade thresholds.

Execution of capital projects in a volatile economic climate.

#### Mitigation strategies

De-risking capital projects – ensuring positive returns even under market pressure.

Risk modelling and management according to the overall capital portfolio – particularly co-dependencies.

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

Funding diversification.

Revenue source diversification – including driving Africa revenue.

Sound management of working capital.

### Key financial capital impacts on the other capitals

Personnel cost	R20,8 billion	
Capital investment in expanding infrastructure	R5,2 billion	
B-BBEE spend as % of total measured procurement spend	103,1%	
Investment in property, plant and equipment	R311,9 billion	
Committed Supplier Development (SD)	R62,6 billion	
Investment in research and development	R185 million	
Investment in skills development	R746 million	
CSI spend	R234 million	

### Key financial capital outputs at 31 March 2017

EBITDA	R27,6 billion
Operating profit	R14,1 billion
Cash generated from operations (after working capital changes)	R32,8 billion
EBITDA margin	42,1%
Gearing	44,4%
Cash interest cover	2,9 times
Cash and cash equivalents	R6,4 billion
Share capital and reserves	R143,6 billion
Capital investment	R21,4 billion
Long- and short-term borrowings	R124,8 billion
Standalone credit rating <sup>1</sup>	
Moody's	Baa3
Standard and Poor's (S&P)	BBB
Pipelines allowable revenue for 2018	1,43% increase in allowable revenue compared to prior tariff period
National Ports Authority	granted an average tariff increase of 5,97% for 2018

### Trade-offs in our use of financial capital

To meet future market demand, Transnet must invest for long-term growth prospects as per the MDS, while responding with agility to short- to medium-term volatility in markets. This approach is reflected by the reduction in our Capital Investment Plan from R277,8 billion to R229,2 billion over the next seven years in response to the lower-than-anticipated freight demand. For now, we must align our infrastructure development and manufactured capital creation more closely to validated demand. Transnet must reduce investment in infrastructure-related capital projects (or its manufactured capital) in the near term to remain financially sustainable.

There are also trade-offs in terms of Transnet's ability to consistently meet its developmental mandate to create and sustain jobs in the domestic economy and remain financially agile in a tough global economy.

<sup>1</sup> On 5 April 2017, Standard & Poor's lowered the Company's foreign currency rating to BB+ from BBB- and the local currency to BBB- from BBB, both with a negative outlook. On 13 June 2017, Moody's also lowered the Company's rating to Baa3 with a negative outlook. Both these actions were due to the rating action on the Sovereign as Transnet is viewed to be closely linked to the Government. Transnet evaluated the potential impact on its financial position, liquidity and solvency and expects no significant negative effect on estimates.



## Manufactured capital



We have invested R145 billion in key projects in the freight system across the rail, port and pipeline networks over the past five years. Closing the gap between the market demand for cargo transport and handling services, and the capacity to satisfy this demand is the key driver behind the large MDS capital investment programme. Investment in our manufactured assets enables us to generate long-term value for the Company, our Shareholder and the economy. The economic decline has set future growth projections for key commodity customers on a lower growth path, which requires a slower pace of capacity creation from Transnet. Additionally, keystone expansion projects need to balance economic benefits with social and environmental concerns raised by communities in and around our operations. We continue to actively engage project stakeholders to help guide the most responsible and beneficial balance of outcomes for all concerned. Transport operations (in general) have several impacts on the environment through emissions, noise pollution and ecosystems impacts. Transnet plans to bring about a lasting and substantial shift of rail-friendly cargo from road to rail, aligning directly with its strategy to grow rail volumes.

### Creating infrastructure value

#### Enabling infrastructure

Transnet provides critical logistics infrastructure to meet the growth demands of the national economy. Long term, Transnet's infrastructure development programme will reduce the overall cost of doing business in South Africa and address capacity constraints in mining and other sectors.

Freight Rail runs world-class heavy haul ore export lines and transports a range of general bulk and containerised freight commodities.

Engineering is an Original Equipment Manufacturer (OEM) for wagons and has started the journey to becoming a locomotive OEM. As the backbone of the railway industry, it provides 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 container terminals at the ports of Durban, Ngqura, Port Elizabeth and Cape Town, as a critical facilitator of cargo trade with the rest of the world, providing cargo-handling services to a range of customers.

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

#### Technology, information and communication technology (ICT)

As a transportation and logistics company, ICT is moving beyond business enablement and becoming a source of competitive advantage. The integration between modal operators' operational systems (e.g. port and rail) enables Transnet to improve its asset utilisation and forward planning.

Innovative and disruptive technology is enabling us to create business value, such as 3D printing for rolling stock, electronic enclosures and certain mechanical sub-components. Aerial and underwater drones, as well as track-and-trace technology used to track port assets, such as tugs and dredgers, have been piloted successfully by the National Ports Authority at the Port of Durban.

#### Forms of waste as outputs of our operations

Transnet's operations generate a variety of waste materials as by-products and we strive to implement the principles of waste management: avoidance, reduction, recovery, re-use, recycling and disposal, if no other use can be found. In the recovery, re-use and recycling stages, Transnet is pursuing ways to create value from waste generated.

### Key manufactured capital inputs at 1 April 2016

Property, plant and equipment	R302,5 billion
Rail track	30 400 km
Petroleum and gas pipelines infrastructure	3 800 km
Port, rail and pipelines infrastructure	Infrastructure
ICT systems, digital platforms and 'cloud services'	Information and communication technology

### Approaches to managing manufactured capital outcomes

Introducing a 'cradle-to-grave' solutions Specialist Unit (Group Capital) to advise Transnet and clients on capacity solutions through capital planning and advisory services, capacity development, engineering and management services.

Providing an integrated view of the capital portfolio, with transparency of projects in the capital pipeline.

Allocating Transnet's limited resources to programmes with the greatest alignment with strategic objectives.

Project optimisation through robust business case validation to test viability and ensure strategic alignment.

Implementing the Integrated Capital Projects/Programme Assurance Framework (ICPAF), which augments the assurance and control framework around capital projects, enforcing additional internal controls coverage.

### Key factors impacting manufactured capital

#### Capital projects

Deterioration in the macroeconomic environment due to global economic influences rendered certain infrastructure capital projects unviable. We are currently re-prioritising capital projects to ensure affordability of capital investments.

#### Delivering MDS rolling stock

Due to market challenges, Freight Rail is reviewing the delivery of the MDS rolling stock in line with the reduced capacity required. Delivery of new locomotives will be adjusted to suit reduced business requirements, allowing the retirement of the current aged fleet, thus reducing locomotive capitalised maintenance.

#### ICT infrastructure

Transnet is changing the way it thinks and manages its business environment with the rapid advancements in digitalisation. Future security models will require that we secure our own environment while also requiring secured connections to multiple cloud environments globally. Our IT environment will no longer be a 'closed loop' system, but interconnect with other cloud data centres.

### Key manufactured capital impacts on the other capitals

Environmental incidents reported

13 significant incidents in 2017



Running line derailments

81 running line derailments



Shunting derailments

159



Total value of revenue generated through waste management initiatives

R70,9 million, most of which involved the sale of scrap metal



Future digital technology will require skills that are not present in the organisation today, such as digital architects, data scientists, Rapid App builders, cybersecurity architects and User Interface design experts



### Key manufactured capital outputs at 31 March 2017

1 064 diesel and electric locomotives for GFB	80 locomotives accepted into operations
359 class 22E electric locomotives	
233 class 44 diesel locomotives	117 locomotives accepted into operations
232 class 45 diesel locomotives	two locomotives delivered and undergoing acceptance testing
240 class 23E electric locomotives	first two locomotives delivered and undergoing acceptance testing
Port expansion	lengthening and deepening of DCT Berths 203 to 205
Capacity expansion for manganese	expanded beyond 5,5 mt
Export coal expansion	expanded to 81 mtpa
Waterberg upgrade	stage II
NMPP project	the 24" main pipeline and 16" inland pipelines are fully commissioned and operational, and transported 15 billion litres of diesel from Durban to the inland region since commissioning
Wagon modernisation plan	100 SCL automotive wagons built by Engineering and delivered to Freight Rail
	18 948 wagon maintenance interventions carried out on various rail wagons

### Trade-offs in our use of manufactured capital

Transnet's operations generate a variety of waste materials as by-products. We have identified contaminated areas throughout our operations, using scientific methods and visual assessments. Management plans have been developed for the asbestos and hydrocarbon contaminated areas, and we work with relevant authorities to ensure appropriate remediation.

Our operations are industrial- and infrastructure-driven, with excellent productivity and safety as primary objectives. Accident avoidance and high productivity are tightly linked. In the short term, however, these systems may operate under tight human resource and time constraints, which may result in trade-offs between immediate productivity and safety. Transnet's safety management strategies for critical systems involve multiple dimensions, including design philosophy, maintenance policies and operating procedures, procedures for hiring the appropriate staff, occupational training and performance evaluation.

## Intellectual capital



As a logistics infrastructure enabler, Transnet has to grow, invest and modernise at unprecedented rates through innovation and technological advancements. Our investment in research and development has led to an ever-expanding range of rolling stock products. Our technology and capabilities are focused to deliver world-class products and services specifically designed for the African market. To build in-house capability – and to promote local skills and content – we balance the technical content that can be outsourced to local providers, and that which needs to be developed internally as the organisation's intellectual capital. Inherent in our drive for innovation is the need to publish and protect Transnet's intellectual property assets. Our Long-term Planning Framework contains several unique methodologies that originated within Transnet.

### Creating intellectual value




Engineering, an internationally acclaimed original equipment manufacturer (OEM) of freight wagons, forms our research and innovation hub. Through Engineering, Transnet is expanding its offerings to narrow-gauge operators worldwide.

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

### Key intellectual capital inputs at 1 April 2016

Research and development (Engineering)	Research
Standard operating procedures	Procedures
Policies, frameworks and processes	Frameworks
Responsible leadership principles and practices	Leadership

### Key intellectual capital impacts on the other capitals

Learning from the traction motor prototype will be used in the manufacture of the full-scale prototypes	Advanced manufacturing 
The Condition Monitoring System (CMS) tracks stationary and mobile assets	Improved decision-making 
Our real-time Advanced Data Analytics and Machine Learning platform facilitates predictive maintenance, which improves reliability and productivity	World-class rolling stock OEM 

### Key factors impacting intellectual capital

The rapid decline in revenue from traditional markets means Engineering must invest heavily in achieving OEM status in passenger trains. Large investments remain critical in research and business intelligence development to increase revenue in niche markets. Transnet's ability to attract sufficient funding remains key to our ability to greatly expand our horizons and contribute to the MDS.

### Key intellectual capital outputs at 31 March 2017

- 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 Advanced Data Analytics and Machine Learning platform (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 (TAL) – an application to connect to Transnet's in-house designed control system for advanced diagnostics and monitoring

### Trade-offs in our use of intellectual capital

Moving into the 4th Industrial Revolution, Transnet will increasingly operate as a multi-faceted, manufacture-driven, service-led organisation. Some of our existing technical competencies may become obsolete, while other yet unknown competencies will be required. Some existing skills may be replaced by technological innovations. Within this digital context, in which Transnet hopes to play an innovative role, we need to maintain a careful balance in our requirement for specialist technical advancements, and our mandate to create and sustain broad-based employment for the Company and the wider economy. This balance will be maintained, in part, by investing in appropriate upskilling of people and appropriate re-deployment of skills.

### Approaches to managing intellectual capital outcomes

Leading research and development into emerging digital technologies. Technology is a key enabler of innovation and transforming the organisation into a 'digital' Transnet.

Attracting and retaining people with skills that enable our strategy and add value through innovation.

Enhancing customer relationship management and business intelligence to create customer-centric business solutions.

Partnering with academic institutions to empower growth-oriented entrepreneurs through business education, mentorship and other support.

## Human capital



The competencies, motivation and ethical work practices of our employees and service providers enable us to create commercial and sustainable developmental value in the short, medium and long term. Our operating context is industrial- and infrastructure-driven, necessitating occupational training, as well as comprehensive policies and procedures to safeguard employees and the public in and around our operations. We foster safety vigilance among employees through a safety-oriented operational culture.

### Creating human capital value

Transnet acknowledges its ethical and strategic roles as both direct employer and national facilitator of indirect and induced employment opportunities.

Transnet's Human Capital Strategy approaches job creation with strategic planning to recruit and retain top-quality employees. Our talent management and development programme is designed to ensure succession plans for critical positions. Leadership programmes target all management levels, while coaching and mentoring programmes are also provided.

We promote outcomes-oriented skills development and human resourcing. Over the past two years, Transnet has 're-shaped the core' of its operations to support our long-term strategic objectives.

We continue to improve operational efficiencies and a safe working environment by implementing Lean Six Sigma principles, safety and environmental initiatives, and by promoting a culture of 'safety in all we do'.

### Key human capital impacts on the other capitals

In attracting and retaining scarce technical and specialist skills, we maintain and improve productivity levels and innovate around new technical solutions. Training and development build competencies and collective values around safety, operational excellence and innovation.

Improved  
productivity and  
innovation



The Transnet remuneration philosophy and framework form an integrated part of the human resources strategy. Rewards strategies focus on entrenching a performance-driven culture which supports cost optimisation.

Performance-  
driven culture and  
optimised costs

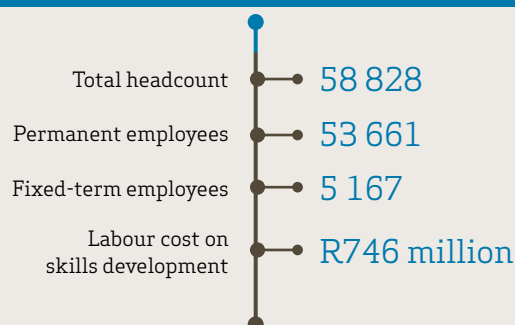


### Key human capital inputs at 1 April 2016

Skilled and motivated employees as at 1 April 2016 year-end 66 467

Responsible leadership structure (Governance and Ethics) Leadership structure

### Key human capital outputs at 31 March 2017



### Key factors impacting human capital

Transnet has two recognised trade unions: the United National Transport Union (UNTU) and the South African Transport and Allied Workers Union (Satawu). Collectively they represented 79,2% of bargaining unit employees as at the end of November 2016.

Due to recent high retirement rates, Transnet has improved its race and gender profile to better reflect the National Economically Active Population (NEAP) benchmarks as provided by Statistics South Africa. Black, coloured and Indian employees represent 85,0% of the Transnet workforce as compared to the NEAP average of 87,7%.

Transnet has a disproportionately high representation of male employees (72,5%) relative to female co-workers (27,5%). Over the last 10 years the female employee base has more than doubled.

Our remuneration philosophy and framework form an integrated part of the key deliverables of the human resources strategy.

### Approaches to managing human capital outcomes

Improving capability and capacity through training and development.

Improving HR service delivery through appropriate policies and procedures, and establishing solid labour relationships.

Managing talent within Transnet and rewarding excellent performance.

Encouraging employees to adhere to our desired organisational culture and safety behaviours.

Developing critical skills and succession planning to achieve long-term strategic objectives.

## Social and relationship capital



The quality of our stakeholder relationships has renewed significance in the context of the global and domestic macroeconomic strain on the economy and our customers – especially commodity customers. Collaborative work practices, customer-centricity and the trust built up with our customers, employees, suppliers and communities in and around our operations over many years will go a long way to ensure mutual sustainability in the medium to long term. It is incumbent on Transnet to be responsive to the needs and interests of all stakeholders and to build social trust through authentic corporate citizenship.

### Creating social and relationship capital value

South Africa's freight logistics system requires investment beyond levels already committed to by Transnet. The DPE has mandated that Private Sector Participation (PSP) be included in the broader delivery of the MDS to support the country's socio-economic imperatives.

As procurement practices have matured in Transnet, our focus on integrated Supply Chain Management (iSCM) has increased with our influence extending to much-needed national Enterprise Development (ED).

Our commitment to developing mutually beneficial relationships with communities in and around our operations is expressed through the Transnet Foundation's socio-economic programmes, which empower South Africa's rural communities. Our Operating Divisions respond proactively to the needs of vulnerable communities surrounding our operations.

### Key social and relationship capital inputs at 1 April 2016

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

### Approaches to managing social and relationship capital outcomes

Transnet builds reputational value and market visibility to attract vital competencies at all levels of the organisation.

Transnet's CSI programmes focus on health, socio-economic infrastructure and education in rural communities situated along the rail network and projects with a strong community impact near ports and pipelines.

Transnet's supply chain has an extensive reach into the manufacturing and services sectors of South Africa and draws upon international sources where required. Our service to customers is linked to the quality of these supplier relationships.

The Board of Directors holds overall responsibility for decentralised stakeholder engagement, delegating authority to the Group Chief Executive, who reports to them on material stakeholder issues and takes responsibility for incorporating these into strategy and risk management.

Our Enterprise and Supplier Development increasingly supports small, medium and micro-enterprises through nurturing industrialisation and entrepreneurship.

Maintaining consistent and transparent engagements with investors helps to align our collective understanding of value creation and future expectations around long-term targets.

Continuing to forge and strengthen partnerships with OEMs to enhance skills and create new market opportunities.

Partnering with private-sector logistics partners to create solutions for our clients.

Streamlining and effective contract management activities across the Company that ensure compliance with legal and contractual terms, while maximising value.



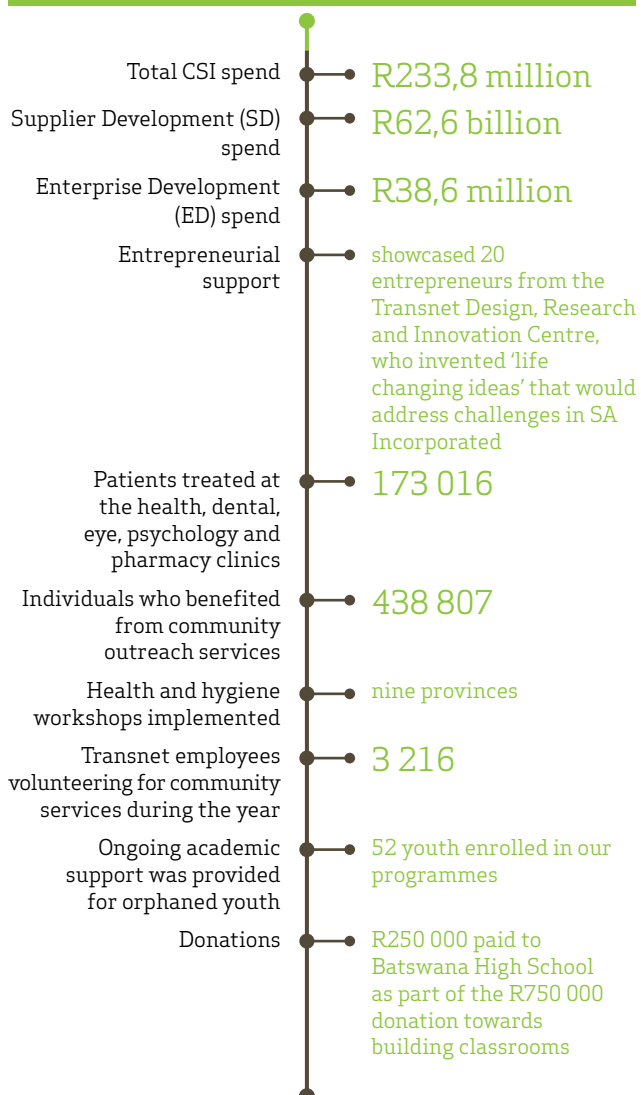
### Key factors impacting social and relationship capital

#### Ethical stakeholder relationships

Our large infrastructure development projects pose a risk in terms of ethical and transparent procurement practices and 'rent-seeking' behaviour. Transnet's ambitious MDS relies heavily on foreign investment, and perceptions of anti-competitive behaviour and corruption negatively impact international foreign direct investment. Sound and ethical corporate governance can attract local and foreign investment and deter unethical business practices that blight the image of SOCs. We undertake to intensify our commitment to the following principles:

- **Equitable treatment of all stakeholders:** We continue to work towards transparency regarding business issues of material interest to stakeholders; enhancing our reporting on stakeholder relationships; and refining our Code of Ethics to ensure the protection of stakeholder rights.
- **Ethical relationships with all stakeholders:** Refining our corporate governance framework towards a methodology that accurately tracks corporate governance transgressions.

### Key social and relationship capital outputs at 31 March 2017



### Key social and relationship capital impacts on the other capitals

Partnering with private sector logistics partners creates end-to-end infrastructure logistics solutions for customers, including technology solutions and specialised services.

Private-sector partnerships



Transnet pursues new revenue streams through private-sector collaboration and complementary investment by private companies. This further accelerates Transnet's commercial impact on economic growth and job creation in South Africa and the region.

New revenue streams



Transnet's Procurement strategy is integral to the growth of a 'green economy' whereby efficient and resilient technologies, along with increasing use of rail for freight transport, lower business costs and stimulate economic activity in environmentally responsible ways.

Procurement strategy



### Trade-offs in our use of social and relationship capital

Our keystone expansion projects – such as our large-scale port infrastructure improvement project at the Port of Durban – need to balance the economic benefits of the country with the social and environmental concerns raised by surrounding communities. The investment aims to sustain the current container capacity at South Africa's premier multi-cargo port. However, adverse impacts on local communities include the possibility of social and small business displacement, extensive waste generation during the construction phase and pressure on shared resources, such as water and electricity.

Our developmental spend, both from ED and CSI perspectives, must always be balanced against our financial sustainability.



## 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. Transnet embraces its responsibility to institute activities that enhance the natural environment's capacity to meet the resource needs of future generations.

### Protecting natural capital value

The Company generates waste, including greenhouse gases, which in turn contribute to global warming. As one of South Africa's largest industrial consumers of national electricity, energy and carbon management is Transnet's primary focus in its environmental stewardship. The Company has realised significant gains in energy efficiency and reduced carbon emissions in recent years.

Accelerating the modal shift from road to rail is included in the SSI. Government's National Climate Change Response White Paper (2011) identifies such a modal shift as a flagship carbon mitigation programme for South Africa. As owner and operator of the country's rail freight network, Transnet commits to increasing rail market share to 35% by 2019, and to demonstrate the carbon emissions savings achieved annually through its growing market share.

Transnet recognises the potential impacts of its operations on the biodiversity of areas where it operates. Accordingly, we seek to mitigate impacts arising from our operations and, where possible, restore the environment and natural habitats.

Structured water stewardship initiatives form part of the value we create to safeguard the natural environment's capacity to meet the resource needs of future generations.

### Key factors impacting our natural capital

#### Biodiversity

We mitigate, as far as possible, the adverse impacts of our operations on surrounding biodiversity. Where viable, we seek to restore the environment and natural habitats.

#### Air

Extreme weather conditions such as flash floods lead to washaways and mudslides on major routes, which can increase the severity of rail safety-related incidents, resulting in derailments, asset losses and even employee fatalities.

### Key natural capital inputs at 1 April 2016

Air, water, land, minerals and forests, as well as biodiversity and ecosystems health.

### Key natural capital outputs at 31 March 2017

ISO 14001: Environmental Management System certification process	95% of business operations now certified <sup>1</sup>
Electricity consumption	Decreased by 1,7% from 2016
Energy efficiency	Increased by 1,2% from 2016
Freight rail traction (constitutes >70% of total Company power consumption)	Electrical traction energy efficiency decreased by 4,3%. Diesel traction achieved 7,9% energy-efficiency gain from 2016
Energy generated by new locomotives	242 788 MWh
Waste management Freight Rail Hydrocarbon Elimination Programme 2	16 sites sampled and assessed for historical contamination
Asbestos Remediation and Rehabilitation	35 tons of asbestos removed
Used Oil Reclamation	1 200 litres used oil sold
Waste Recycling (Inyanda Precinct)	118,7 tons waste recycled
National Ports Authority Asbestos Remediation and Rehabilitation	2,3 tons of asbestos removed
Galley Waste Management (Port of Durban)	149 tons galley waste removed
Industrial Waste Management (Port of Durban)	1 647,4 tons industrial waste generated
Ports Terminals Asbestos Remediation and Rehabilitation	17 283,5 tons waste generated and 662 766,6 tons waste recycled
Environmental legal compliance	Recorded 13 significant incidents <sup>2</sup> – a 13% improvement from 2016

<sup>1</sup> The Port of Cape Town lost its certification, two of Freight Rail's business units are awaiting re-certification, while the Port of Mossel Bay is not certified.

<sup>2</sup> Already being tracked under the bilateral agreement. These incidents include spills from our pipeline and incidents occurring due to derailments.

### Key natural capital impacts on the other capitals

Erratic weather patterns due to climate change, such as coastal storm surges and rising sea levels, could affect port infrastructure while inland floods could impact rail infrastructure.

Infrastructure impacts



Severe drought adversely affects bulk export commodities, such as grain, which negatively impacted volume performance and associated revenue.

Volume and revenue impacts



We transport mineral commodities for key customers, thereby growing revenue.

Revenue growth



### Approaches to managing natural capital outcomes

Transnet established a bilateral relationship with the Department of Environmental Affairs to facilitate environmental authorisations and closure of significant environmental incidents.

We are considering mechanisms to further 'mainstream' biodiversity management into the business through policies, processes and procedures in our long-term planning.

### Trade-offs in our use of natural capital

Trade-offs relating to natural capital relate mainly to those areas where our operations compete for shared natural resources in common-use areas and, by extension, the impacts on the communities who share those resources with our operations, placing pressures on the critical biodiversity and environmental services which underpin and support South Africa's social and economic development.

Our development and economic activities are essential for economic growth. However, under 'Business as Usual' practices, this can result in the loss of biodiversity, such as wetlands; displacement of communities and businesses on land where we expand infrastructure; and competition for natural resources such as water and clean air.

We acknowledge the trade-offs in transporting large quantities of commodity volumes for customers and, by extension, the impacts of our customers' operations on natural capital in producing those commodities on which we depend for our business. This includes the conversion of natural vegetation for land use (e.g. cultivation, mining and urban expansion).

By reducing energy costs through more efficient energy consumption, we positively impact financial sustainability.





## STRATEGY AND RESOURCE ALLOCATION

### Market Demand Strategy (MDS)

Transnet remains committed to the MDS and its principle of meeting validated market demand through new capacity and infrastructure, with the Capital Investment Plan as a key enabler. The MDS, now in its sixth year, aligns with the Shareholder's priorities in the annual Shareholder's Compact.



R21,4 billion  
investment in  
infrastructure

Figure 5

## Market Demand Strategy

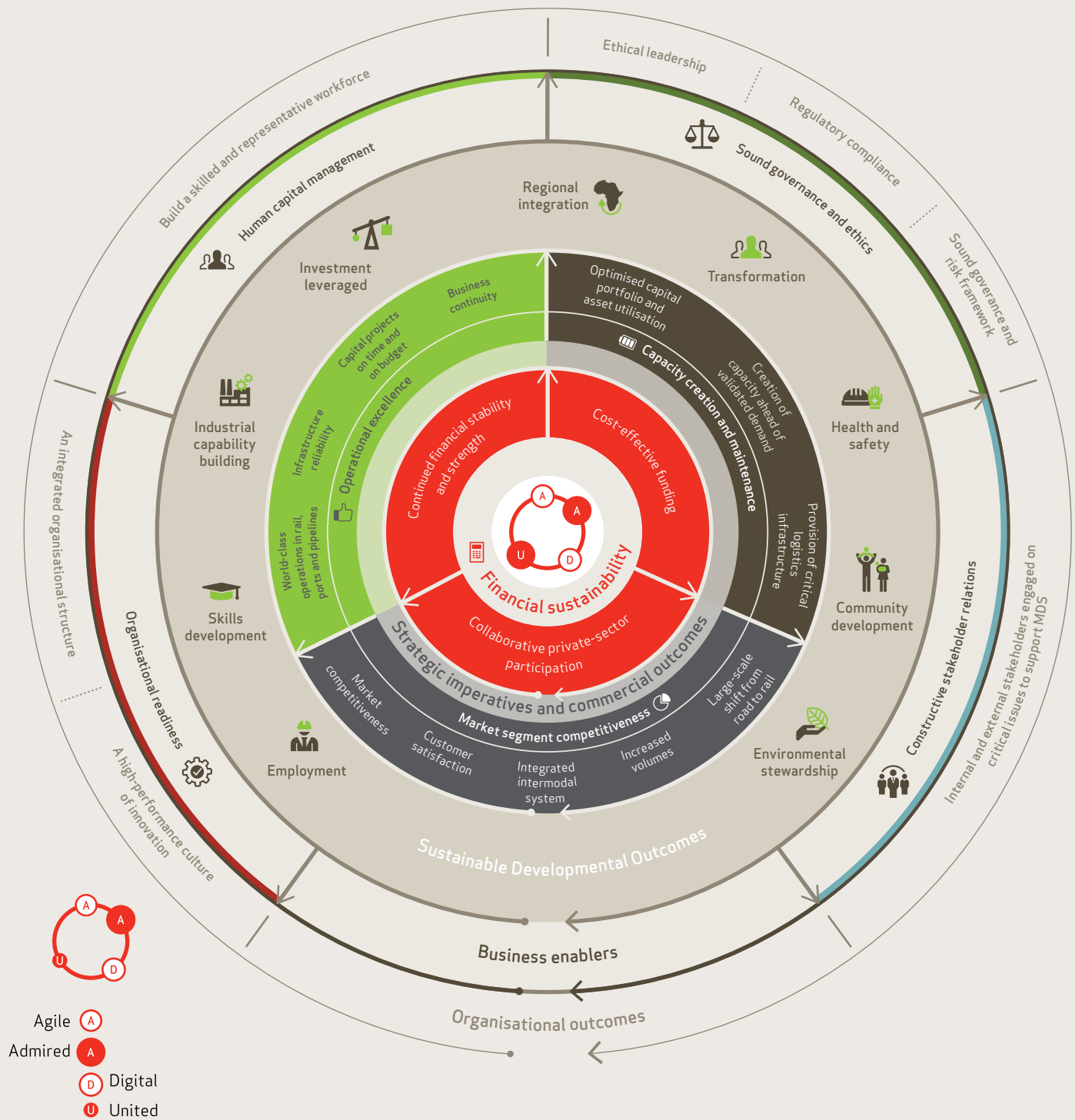
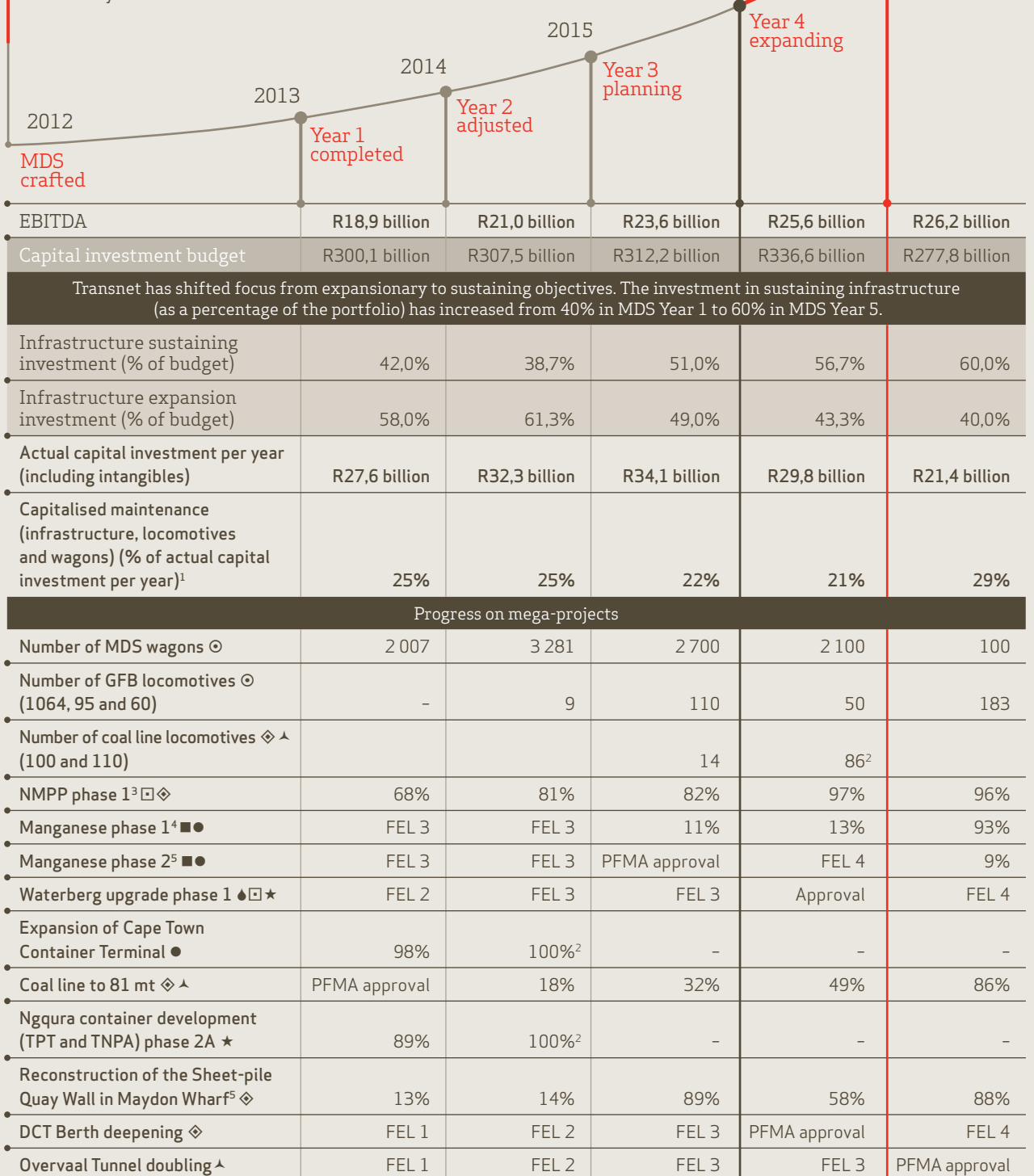




Figure 6

## MDS evolution

The principal objective of the MDS is to close the gap between the market demand for cargo transport and handling services and the capacity to satisfy this demand.



<sup>1</sup> Copex is based on annual maintenance initiatives for locomotives, rail infrastructure and wagons and is generally spent fully within a financial period.

<sup>2</sup> Projects completed

<sup>3</sup> The project faced challenges due to procurement delays for critical equipment, which has impacted the schedule. The project, however, is back on track and will be completed within the 2017 calendar year.

<sup>4</sup> Project expected to be completed in the 2017/18 period.

<sup>5</sup> This programme has been re-baselined and optimised, and is now based on a revised schedule and cost estimate.

☉ National  
□ Gauteng  
♦ KwaZulu-Natal  
▲ Mpumalanga  
★ Limpopo  
❖ Eastern Cape  
● Western Cape  
■ Northern Cape  
● North West

## Progress on the MDS

Transnet invested R145 billion (excluding intangibles) in the past five years, and expects to invest a further R229,2 billion by 2024. Current capacity remains ahead of demand across much of the freight system. The MDS aims to grow rail volumes to 273 mtpa by 2024. This increased capacity will be achieved through operational efficiencies, sustaining current infrastructure and rolling stock, and by creating additional capacity for validated demand.

While still committed to a counter-cyclical investment strategy, our implementation of the MDS in the current economic climate requires more agility. Accordingly, we assess and rephase key programmes and projects in response to changes in global and domestic markets. To accelerate growth, the Board of Directors of new revenue streams, including appropriate acquisitions, and funding for the Company's geographical expansion into the rest of Africa.

## MDS strategic thrusts

Transnet's future success is underpinned by its culture and behaviours. We must hold a clear vision of a shared and prosperous future in which we pursue excellence in all we do, have an openness to learn and the discipline to deliver consistently high performance outcomes. Transnet has introduced four MDS strategic thrusts to drive an organisational culture that can thrive amid exponential change.

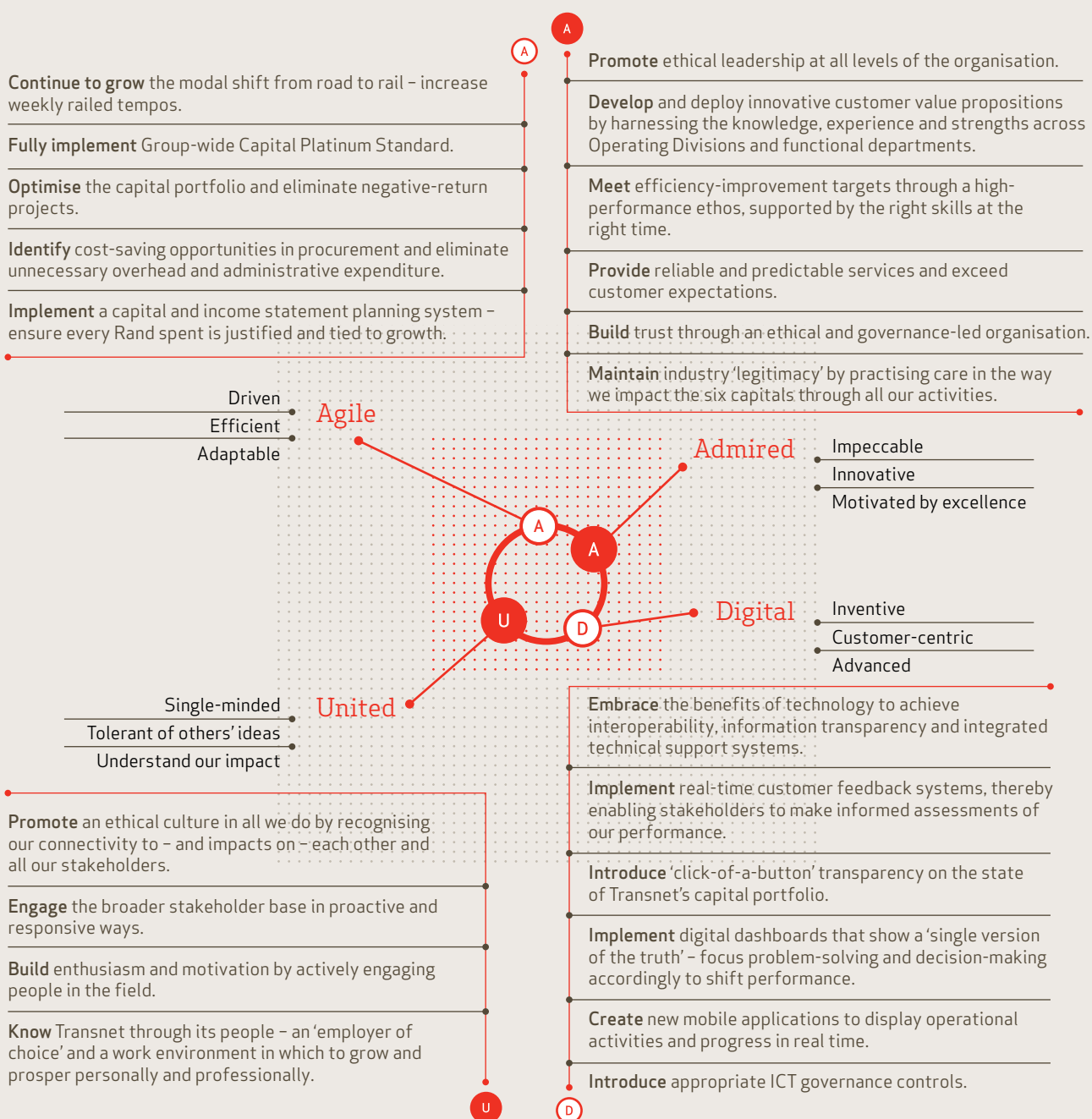


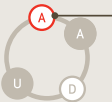
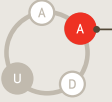
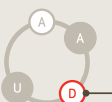
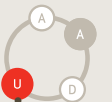


Figure 7

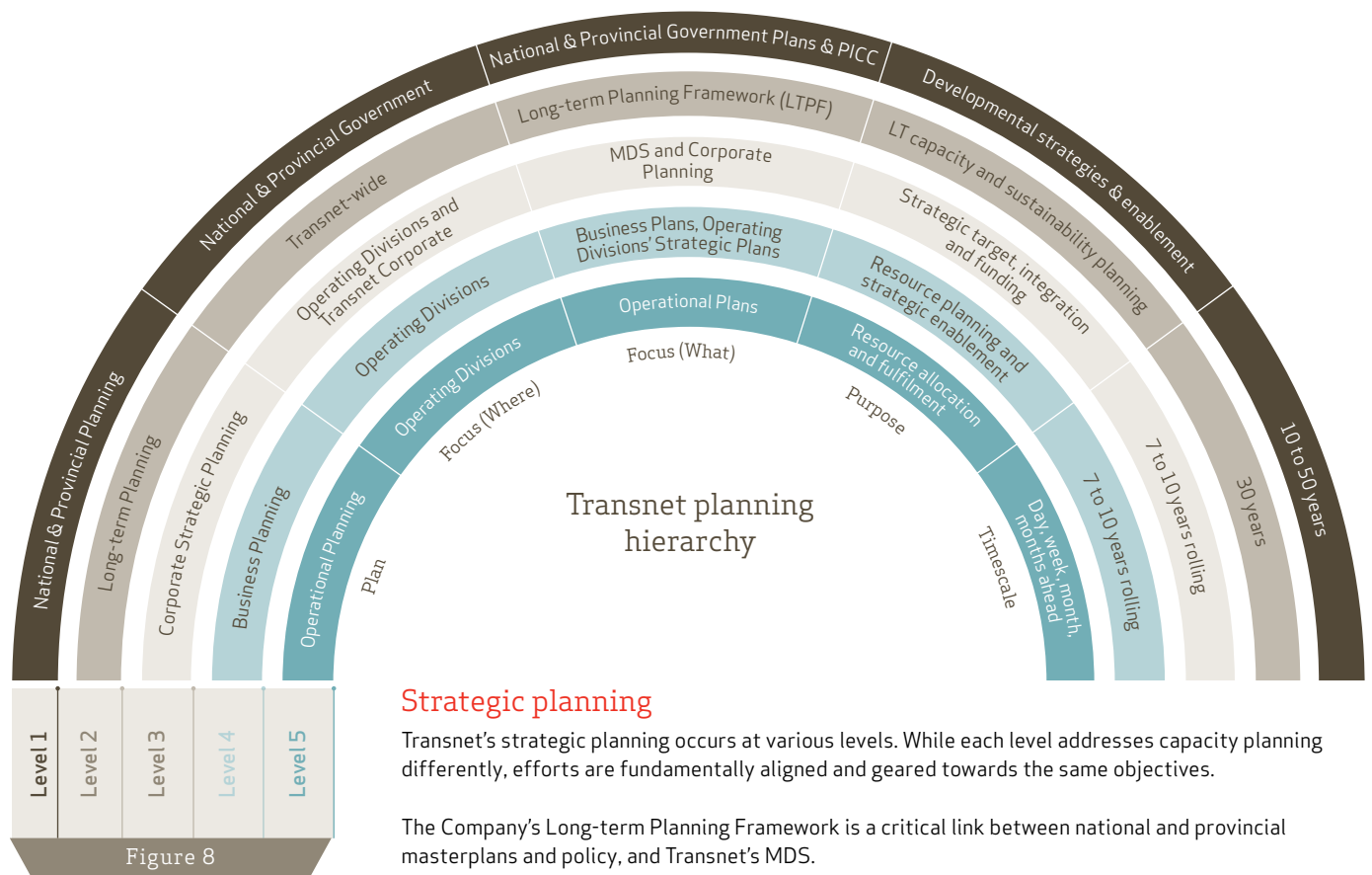
## Interconnected elements of the MDS

The table below demonstrates the connectivity between our MDS strategic imperatives, commercial drivers and outcomes, and the value created for the economy through our Sustainable Developmental Outcomes (SDOs):

MDS strategic imperatives		
MDS thrusts	 Financial sustainability	 Capacity creation and maintenance
 Agile   Admired   Digital   United	Commercial drivers	
	<ul style="list-style-type: none"> <li>Diversify revenue sources to reduce exposure to commodity demand and associated volatility.</li> <li>Manage liquidity and raise cost-effective funding.</li> <li>Pursue stringent cost management and optimisation interventions – including re-shaping the core of Transnet's operations – in line with activity levels – to improve productivity and efficiency; and ultimately to enhance profitability.</li> <li>Be resilient in the management of working capital.</li> <li>Generate a return on assets commensurate with the associated risk.</li> <li>Pursue private-sector partnerships.</li> <li>Implement 'take-or-pay' contracts and agreed escalation rates aligned with capital investment requirements.</li> <li>Maintain key financial ratios.</li> <li>Ensure the right size and agile capital portfolio to achieve strategic objectives, and to ensure the Company is sufficiently agile to respond to changing environmental factors.</li> </ul>	<ul style="list-style-type: none"> <li>Promote efficiency through capital optimisation and a flexible project resourcing and delivery model.</li> <li>Create critical logistics infrastructure and capacity ahead of validated demand for cargo transport and handling services.</li> <li>Continuous enhancement of the project lifecycle programme methodology.</li> </ul>
	<ul style="list-style-type: none"> <li>Build a strong profile by networking with rating agencies, regulators, investors and other key stakeholders.</li> <li>Develop highly competent finance personnel in addition to well-rounded business leaders.</li> </ul>	<ul style="list-style-type: none"> <li>Deliver cost-effective solutions that are benchmarked to the market and quality projects that deliver a return on investment while improving productivity and efficiency.</li> <li>Meet and exceed customer expectations by delivering projects within agreed commitments.</li> <li>Create value for the customer through specialised advisory services, and the development and implementation of both capital and non-capital solutions.</li> </ul>
	<ul style="list-style-type: none"> <li>Drive digitalisation of the business through the CIO Council in collaboration with various line functions, including New Business Development, with an emphasis on the commercialisation of digital products and the digitalisation of the organisation.</li> </ul>	<ul style="list-style-type: none"> <li>Achieve project visibility for improved decision-making through digital project portfolio dashboards based on key performance indicators.</li> <li>Two sub-committees, namely the Digital Business Forum and the Cloud Governance Committee report to the CIO Council and ensure capacity and focus are created for digitalisation.</li> </ul>
	<ul style="list-style-type: none"> <li>Ensure key decision-makers and Operating Divisions have the right levels of financial and operational performance information for efficient decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>Promote collaboration with stakeholders and promote customer-centricity in delivery to co-create optimal solutions.</li> </ul>
Commercial outcomes	<ul style="list-style-type: none"> <li>Continued financial stability and strength.</li> <li>Cost-effective funding.</li> <li>Collaborative private-sector participation.</li> </ul>	<ul style="list-style-type: none"> <li>Optimised capital portfolio and asset utilisation.</li> <li>Creation of capacity ahead of validated demand.</li> <li>Provision of critical logistics infrastructure.</li> </ul>

## MDS strategic imperatives

 Operational excellence	 Market segment competitiveness	 Sustainable Developmental Outcomes
<ul style="list-style-type: none"> <li>Build operational readiness and infrastructure reliability by ensuring right skills at the right time, appropriate digital innovation and strong governance capability.</li> <li>Provide 'Project Factory' support for large and complex programmes.</li> <li>Mitigation of programme and project risks through:               <ul style="list-style-type: none"> <li>The Integrated Capital Projects/Programme Assurance Framework (ICPAF); and</li> <li>Transnet's Integrated Assurance Model.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Promote an integrated and aligned regional infrastructure network that allows for value chain optimisation at network and industry levels.</li> <li>Identify and pursue new business opportunities in existing and new markets by developing innovative products and logistics solutions.</li> <li>Reduce the total cost of logistics as a percentage of transportable GDP.</li> <li>Promote end-to-end logistics solutions by partnering with private-sector logistics providers.</li> </ul>	<ul style="list-style-type: none"> <li> <b>Employment</b> <ul style="list-style-type: none"> <li>Measurable direct, indirect and/or induced employment.</li> </ul> </li> <li> <b>Skills development</b> <ul style="list-style-type: none"> <li>Enhanced or improved human capabilities.</li> <li>Productive capacity of people within and outside the Company.</li> </ul> </li> <li> <b>Industrial capability building</b> <ul style="list-style-type: none"> <li>Industrial development for South Africa.</li> <li>Improved competitiveness.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Leverage the complementarity of our Operating Divisions by optimising what makes Transnet unique and gives us our competitive advantage.</li> <li>Consistently transport record tonnages by rail and heavy haul operations to achieve global standards.</li> <li>Grow capability in container and manufacturing sector transport and develop Transnet academies for skills development to reinforce our status as a trusted, innovative SA brand and a top employer in South Africa.</li> </ul>	<ul style="list-style-type: none"> <li>Grow Transnet's brand reputation and credentials in existing and new markets.</li> <li>Develop market/segment-specific brand positioning strategies.</li> <li>Develop capabilities for improved and integrated branding, marketing and sales capacity.</li> <li>Promote Transnet's commercial contribution to economic growth and job creation.</li> <li>Become a sustainable contributor to domestic and regional growth.</li> <li>Increase our levels of responsiveness to the needs of our current customers.</li> </ul>	<ul style="list-style-type: none"> <li> <b>Investment leveraged</b> <ul style="list-style-type: none"> <li>Private-sector investment in the country's freight logistics system.</li> </ul> </li> <li> <b>Regional integration</b> <ul style="list-style-type: none"> <li>Improved freight logistics connectivity on the continent.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Align reporting systems, measurements and dashboards with business processes to provide integrated customer and operational perspectives.</li> <li>Utilise advanced data analytics to create 'one version of the truth' for performance.</li> <li>As a digital organisation, avail analytics to end-users through multiple digital platforms to support agile decision-making.</li> <li>Implement best practice reference models for digitalisation to serve as common platforms for all Operating Divisions, thereby ensuring uniformity and standardisation across the organisation.</li> </ul>	<ul style="list-style-type: none"> <li>Develop digital solutions to improve the ease of doing business with Transnet.</li> <li>Implement systems to increase the visibility of customer engagements and the resolution of customer issues.</li> <li>Information and data will become the core building blocks required to become a logistically enabled organisation.</li> </ul>	<ul style="list-style-type: none"> <li> <b>Transformation</b> <ul style="list-style-type: none"> <li>Employment equity within the Company.</li> <li>Black Economic Empowerment within supplier entities.</li> </ul> </li> <li> <b>Health and safety</b> <ul style="list-style-type: none"> <li>Improved physical and mental health and safety of employees.</li> <li>Improved physical and mental health and safety of communities.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Succeed together by living the Transnet culture, promoting shared practices and aligning measures and scorecards to build common standards to meet customer expectations.</li> </ul>	<ul style="list-style-type: none"> <li>Unite the people of Transnet around the common purpose of serving our customers with pride.</li> <li>Streamlined and effective contract management activities across the Company to promote compliance with legal and contractual terms.</li> </ul>	<ul style="list-style-type: none"> <li> <b>Community development</b> <ul style="list-style-type: none"> <li>Measurably improved economic, social, cultural and environmental well-being of communities.</li> </ul> </li> <li> <b>Environmental stewardship</b> <ul style="list-style-type: none"> <li>Enhanced capacity of the natural environment to meet the resource needs of future generations.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>World-class operations in rail, ports and pipelines.</li> <li>Infrastructure reliability.</li> <li>Capital projects on time and within budget.</li> <li>Business continuity.</li> </ul>	<ul style="list-style-type: none"> <li>Market competitiveness.</li> <li>Customer satisfaction.</li> <li>Integrated intermodal system.</li> <li>Increased volumes.</li> <li>Large-scale shift from road to rail.</li> </ul>	



### Strategic planning

Transnet's strategic planning occurs at various levels. 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 Transnet's MDS.

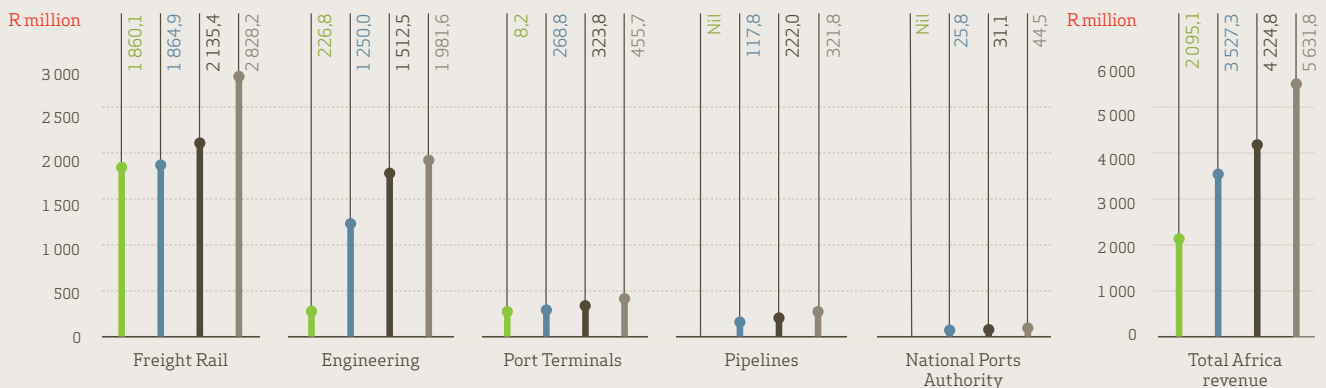
The frameworks informing Transnet's strategic planning and goal-setting are outlined in Figure 8. At each level, the Company ensures appropriate resourcing that is both aligned with targets, and able to adapt to changing market conditions and other external impacts.



### The MDS medium-term planning horizon

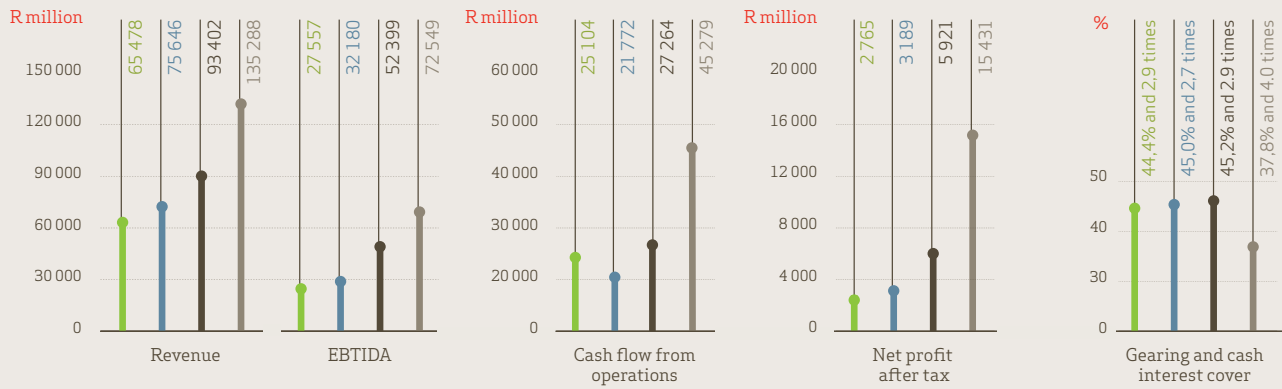
To meet long-term demand, Transnet must invest for long-term growth prospects, but be mindful of short- to medium-term volatility in the domestic and international markets. This approach is reflected in the reduction of the Capital Investment Plan from R277,8 billion to R229,2 billion over the next seven years, in response to the lower-than-planned freight demand. Seven-year targets for the MDS strategic imperatives are shown below:

### Regional integration (Africa revenue)



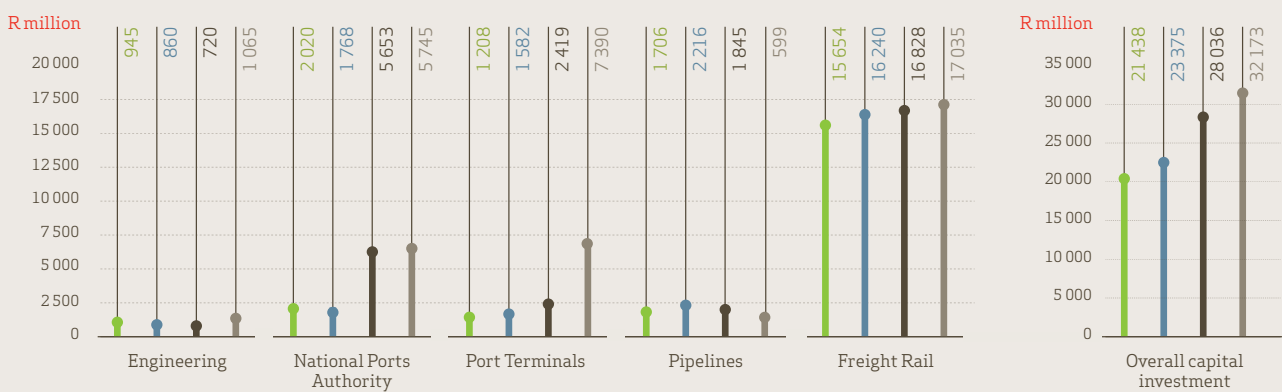


## Financial sustainability



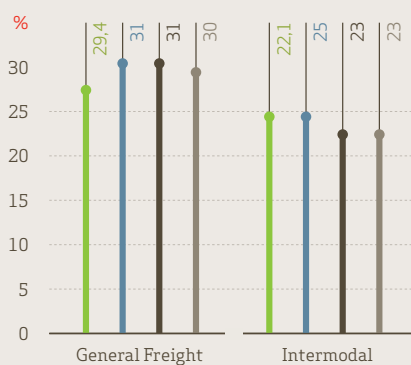
## Capacity creation

(Capital expenditure per Operating Division)



## Market segment competitiveness

(Rail Addressable Market Share growth: RAMS % NTK)



## Operational excellence

Freight Rail volumes

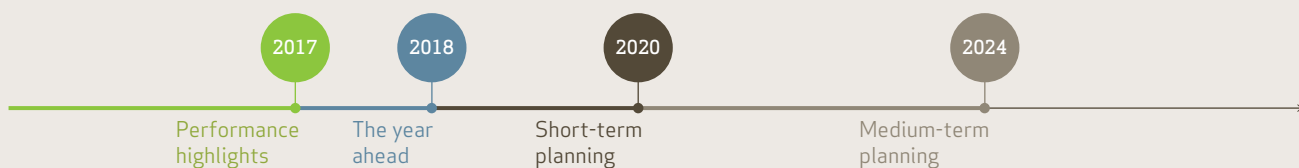
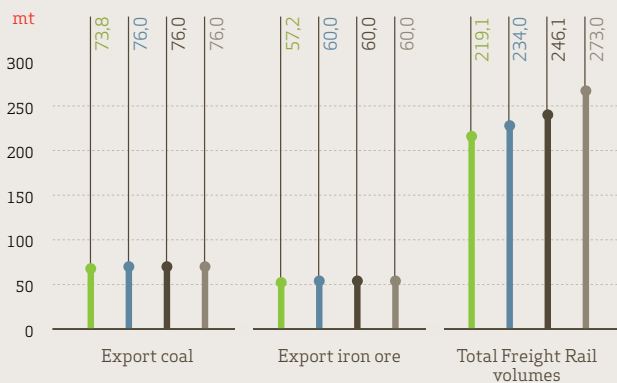


Figure 9

## Transnet long-term planning principles

## United Nations Sustainable Development Goals

- **Provide** capacity marginally ahead of demand to enable and promote economic growth in South Africa and in the region
- **Adopt** sustainability principles as part of development plans, including improved energy efficiency and reducing carbon emissions
- **Integrate** rail, port and pipeline planning within Transnet
- **Pursue** alignment with national road and electricity supply planning
- **Assume** that operational efficiency is optimised first, then consider infrastructure-based capacity solutions
- **Target** rail suitable freight to shift from road to rail
- **Benchmark** internationally on world-class handling services, new technologies and best practices.
- **Plan** to improve South Africa's global competitiveness by reducing the total cost of freight transport and logistics.
- **Identify** opportunities in Africa and leverage the economies of scale in global trade
- **Provide** responsive infrastructure that meets South Africa's economic needs in line with the New Growth Path and the National Development Plan

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## Transnet's long-term strategic perspective

The world stands on the brink of a technological revolution that will fundamentally alter the way we live, work and relate to one another. The digital 4th Industrial Revolution will see a fusion of technologies poised to disrupt almost all industries and transform production, management and governance systems. Transportation and communication costs will likely drop, 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. The 4th Industrial Revolution promises a systemic transformation that impacts civil society, governance structures and human identity in addition to having solely economic and manufacturing ramifications.

Maximising the penetration of Transnet's current market with existing products is a key focus of the MDS. Equally important will be the diversification of business with new services and markets. Digitalisation is an opportunity to accelerate diversification and to realise new business models for Transnet.

## Two baseline fundamentals are apparent:

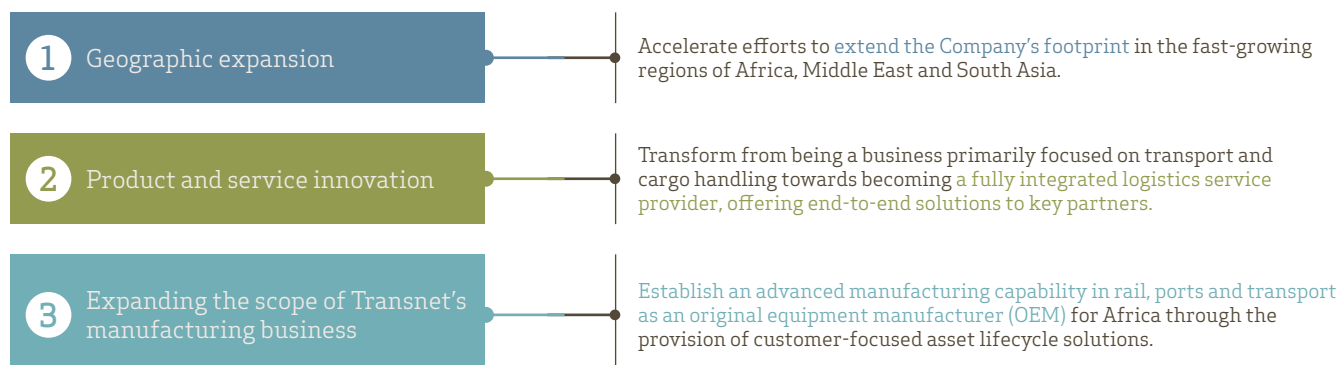
- The customer is at the centre of all that is conceived, designed and executed, and informs all efforts, powered by both new and current technologies; and
- Technology is a key enabler to realise short-, medium- and long-term objectives.

As the custodian of competitiveness of the country's transport and logistics industry, Transnet will look at replicating and possibly leading disruptive industrial innovations by consuming new technologies such as AI, 3D printing, Internet of Things (IoT) and robotics, which exponentially increase the pace of change. Transnet's Digital Transformation strategy is focused on innovation that supports investments in technology, business processes and business model review to create value for customers, employees and the Shareholder.

## Transnet 4.0 – ‘Transnet of tomorrow’

Management has adopted the Transnet 4.0 vision for accelerating growth in the context of the 4th Industrial Revolution. The aim is to deliver on MDS outcomes, while fundamentally reinventing the existing business model to acclimatise to the challenges and opportunities of this emerging paradigm.

Transnet 4.0 has three main growth areas:



Transnet International Holdings focus areas



### Rail

The sector's primary aim is to grow cross-border volumes and enable regional integration, focusing on the:

- Maputo Corridor (South Africa, Swaziland, Mozambique);
- East/West Corridor (South Africa, Namibia, Botswana, Lesotho); and
- North/South Corridor (South Africa, Zimbabwe, Zambia, Democratic Republic of Congo, Tanzania).

It is anticipated that rail operators will execute a unified railway system per corridor, as if no boundaries exist between countries involved. The increase in cross-border volumes is the largest revenue driver of the Transnet International Strategy.



### Engineering

As economic growth in Africa unfolds, the need for a road-to-rail modal shift in transportation becomes more urgent, and the demand for rolling stock and associated maintenance will increase. Engineering already operates in this space and is well positioned to meet increased demand. Capacity of its extensive manufacturing facilities is easily increased by initiating additional shifts. The development of the TransAfrica Locomotive is expected to satisfy a market need at a competitive price.



### Ports

The basis of Transnet's geographic expansion for the ports sector lies in port concessions, which remain lucrative in the region. The low incidence of distressed or cancelled contracts demonstrates that this route has achieved the desired outcome. Excluding South Africa, approximately 69% of all containers are shipped through terminals operated by the private sector. While port concession opportunities are limited, Transnet is well positioned to compete in this arena.



### Pipelines

The discovery of new oil and gas reserves in Africa has resulted in a significant demand for new infrastructure capacity and new-build project opportunities. Oil and gas commodity prices remain low and, in some instances, below project hurdle rates, placing a damper on new-build plans. Numerous new-build opportunities are likely to reach final investment decision in 2018, and will be issued to the private sector on concession. This signals a strong political desire to drive oil revenues and provide frontier economies an opportunity to enter the global oil and gas sector. Transnet is well placed to participate in such concessions.

## 1 Geographic expansion

As custodian of the South African ports, rail network and pipeline infrastructure, enhanced connectivity of the regional freight system is a priority, and is embedded in the Statement of Strategic Intent and the Shareholder's Compact. Transnet International Holdings (TIH) will co-ordinate all activities beyond the borders of South Africa. TIH was approved by the Transnet Board of Directors, DPE and the Minister of Finance. It is envisaged that TIH will be operational during the financial year.

## 2 Product and service innovation

Key initiatives to support Transnet's focus on product and service innovation include:

- Introducing portfolio management to develop solutions from ideation to concept launch;
- Supporting the growth of the natural gas sector in South Africa by developing and implementing a business case for Transnet's role as a national LNG and gas infrastructure developer and operator;
- Encouraging PSPs through a combination of efforts such as separating the terminal and rail haulage business; creating digital track-and-trace; and sharing asset utilisation with the private sector;
- Intensifying Transnet's footprint regionally and globally with competitive supply chains on corridors;
- Creating and enhancing logistics ecosystems to accelerate economic growth through our property portfolio;
- Establishing Transnet as Africa's own rail, ports and transport OEM; and
- Driving property/spatial development and innovation.
- Pursuing digital solutions and other exponential growth opportunities in the context of the 4th Industrial Revolution.

## 3 Expanding the scope of Transnet's manufacturing business

We intend to expand the scope of our manufacturing capabilities as well as seek new markets for existing products. Engineering will soon launch a shunting locomotive targeted at the African market and, additionally, develop a mainline locomotive. The Operating Division has also expanded into the ports sector, focusing on the maintenance and enhancement of cargo-handling equipment.

## Digitally enabled growth

The above three converging growth areas will be underpinned by the optimal use of technology to drive service proficiency and reliability. Transnet 4.0 requires that we become a multi-faceted and service-oriented manufacture-driven, digital organisation. The rapid incorporation of leading technologies into new and existing products and processes will be a key characteristic as Transnet moves forward.

## Resourcing for the long term: Transnet of tomorrow

The current linear model of growth, founded on resource consumption and pollutant emissions, is unsustainable. Transitioning towards a more circular economy will require fundamental changes to Transnet's business model. Disruptive innovation is already reshaping our existing business model and how we prepare for the 'Transnet of tomorrow'.

The United Nations Environment Programme (UNEP) commissioned an analysis of the options for a green economy transition for selected key economic sectors in South Africa, at the request of the South African Department of Environmental Affairs<sup>1</sup>. The findings reflect that longer-term sustainable growth is related to the management of natural resources. Increasing the efficiency of use and curbing waste of such resources would reduce the decline – and support the growth – of some capitals.

Transnet has developed the Sustainability Risks and Opportunities Assessment (Transnet SROA<sup>®</sup>)<sup>2</sup> methodology to:

- Identify risks and trends that have a likelihood of occurring over Transnet's long-term planning period (30 years), that would have a high impact on Transnet's ability to deliver on its mandate; and
- Identify and recommend opportunities to enhance value creation over the long term.

Analysis of Transnet's long-term sustainability risks and trends identified six key emerging risk areas, with their parallel emerging opportunities, namely:

- Circular Economy<sup>3</sup>
- Disruptive Technology<sup>4</sup>
- Energy
- Water
- Biodiversity
- Social Inequality

77 [Read more](#)  
More information on emerging risks and trends.

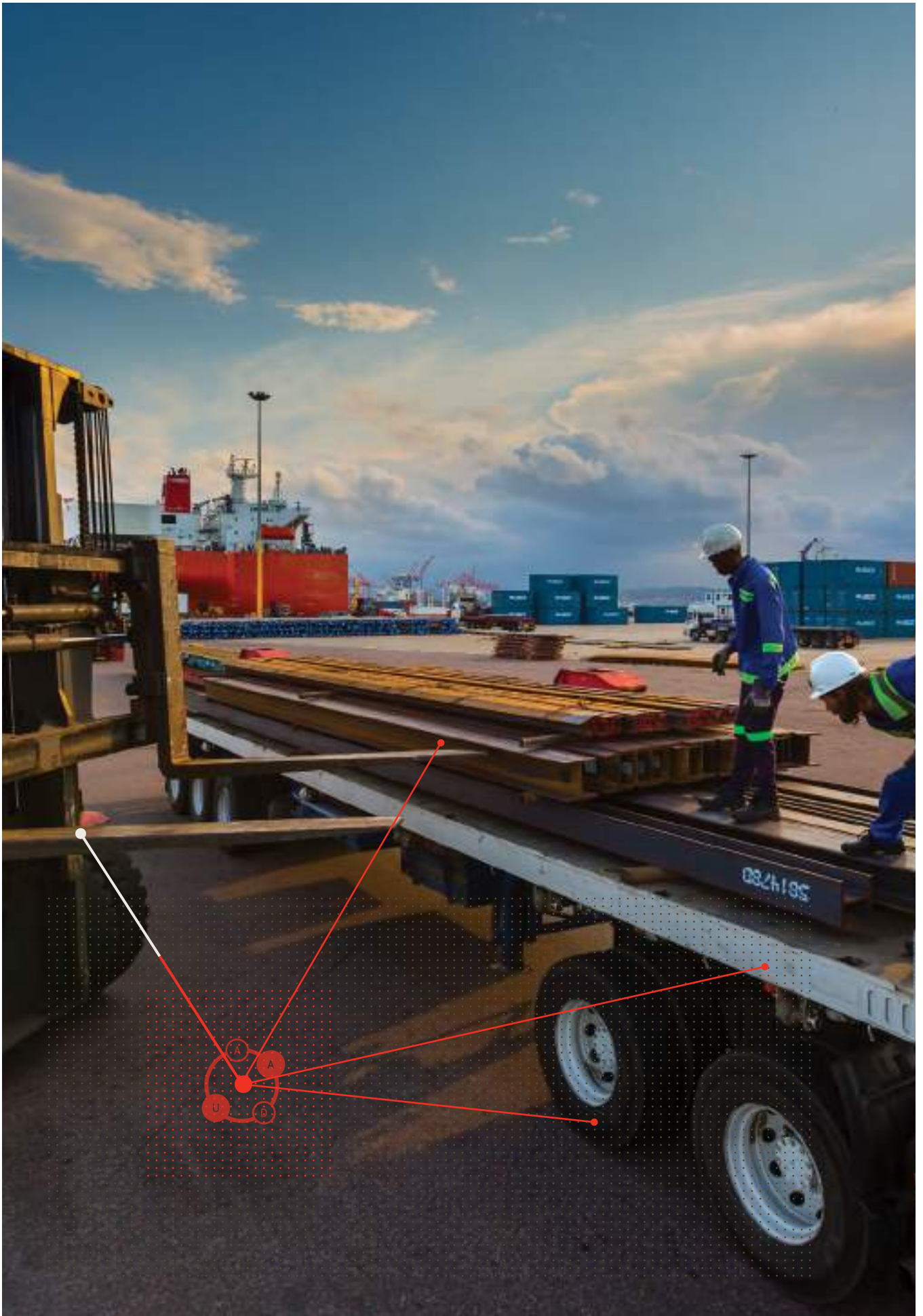
<sup>1</sup> UNEP: South African Green Economy Modelling Report, 2013.

<sup>2</sup> The SROA process was driven by a 27-participant team from multiple disciplines, of which 17 were Transnet employees. The SROA team performed a scenario analysis on the six risk areas to determine how each risk may evolve over the next 30 years. A valuable outcome of the process was a set of recommendations for diversifying revenue streams, harnessing co-benefit opportunities and reducing operating costs based on re-imagining the 'Transnet of tomorrow' from a sustainability perspective.

<sup>3</sup> An alternative to a traditional linear economy (make, use, dispose) in which we keep resources in use for as long as possible, extract the maximum value from them while in use, then recover and regenerate products and materials at the end of each service life.

<sup>4</sup> Technological innovations that create new market and value networks and eventually disrupt an existing market and value network.









## The conceptual roadmap of the 'Transnet of tomorrow'.

### Rail infrastructure

Our vision for improved rail services includes new elements of service reliability, while rolling stock models will be upgraded and refined to provide a better representation of journey times, dwell times and turnaround times. Corridor services will offer end-to-end solutions, thus aligning mainline upgrades with train-handling requirements at the endpoints.

30-year rail infrastructure investment:

**R167 billion**

30-year rolling stock infrastructure investment:

**R283 billion**

#### Resourcing fundamentals

Align infrastructure with freight type.

Improve operational characteristics.

Ensure network connectivity.

Standardise infrastructure.

Align with Prasa/non-Transnet operator requirements.

Match capacity to demand.

Develop regional integration.

### 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. Durban's container capacity planning will be revised and a more comprehensive suite of import options will be devised for natural gas through the port system. This landscape will also consider the potential port and pipeline infrastructure required to import and distribute gas in South Africa, including Floating Storage and Regasification Units (FSRUs) power barges and land-based power generation.

30-year port infrastructure investment:

**R226 billion**

#### Resourcing fundamentals

Improve infrastructural and operational efficiency.

Maximise port zone functions.

Develop back-of-port logistics areas to increase port capacity.

Integrate and align port and rail capacity planning.

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

Transnet will identify new pipeline, terminal and storage investment opportunities in South Africa. We envisage much improved planning across the 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 consideration for the drivers of natural gas use and other Government initiatives.

30-year pipeline and gas infrastructure investment:

**R38 billion**

#### Resourcing fundamentals

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.

Maintain the flexibility to respond to changing technological and economic conditions.

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 DoE'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.

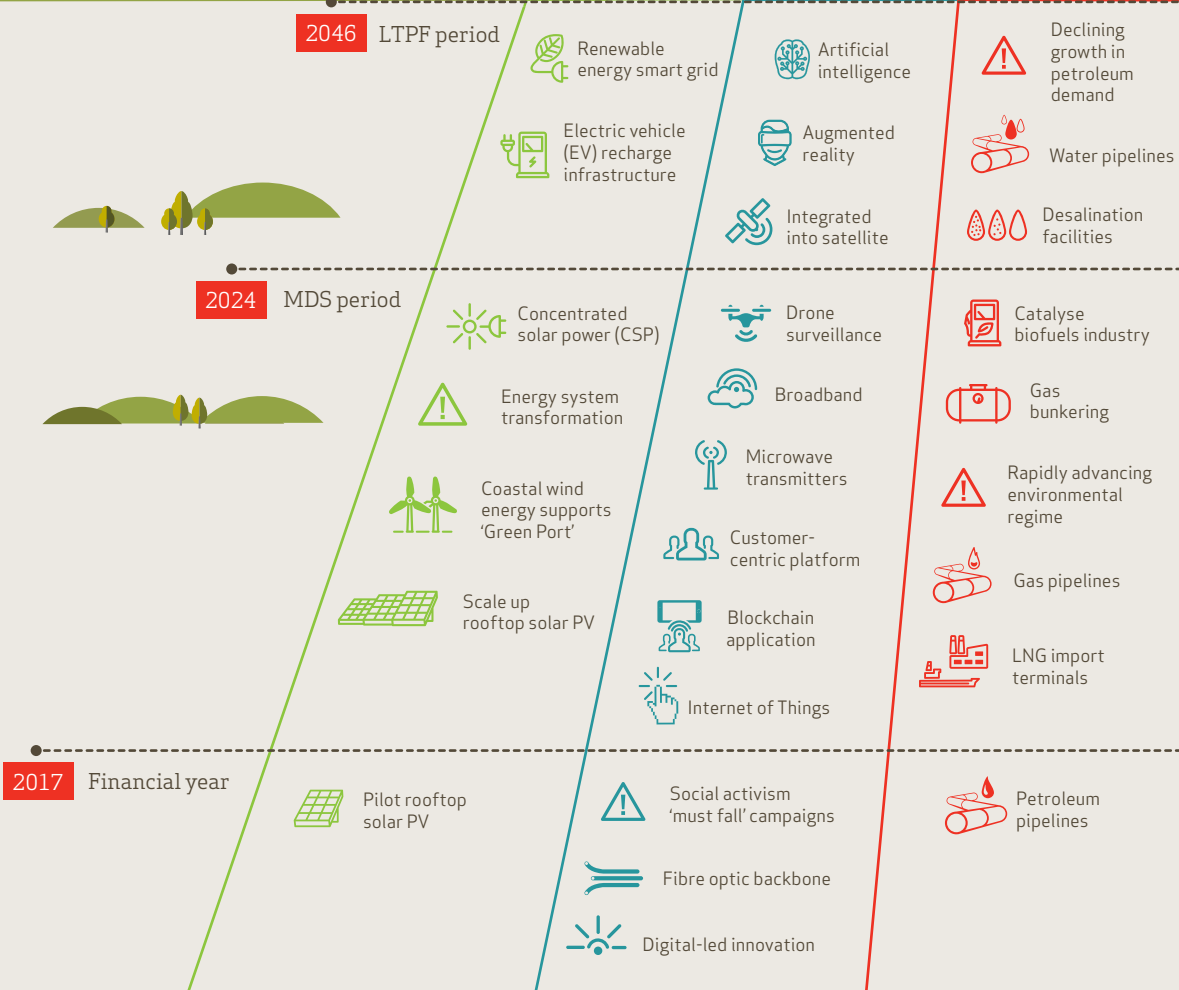
### Africa expansion

Transnet envisages multiple rail, port and pipeline projects on the continent, facilitated through Transnet International Holdings. 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.

Risk mitigation

The following list represents trends and events that require continuous assessment and have the potential to pose risks and/or opportunities:

- 'Uberisation' of mobility systems
- Structural changes in commodity demand
- Autonomous road freight systems
- Social activism: #mustfall campaigns
- Automation impacts on job opportunities
- Rapidly advancing environmental regime
- Changing demand for petroleum
- Energy system transformation
- New competencies required to navigate 4th Industrial Revolution



Electronics

Diversification of revenue streams by leveraging property portfolio for:

- Rooftop solar PV
- Wind energy
- Concentrated solar power

Co-benefit opportunities:

Support road-to-rail initiatives through collaboration with car manufacturers through provision of EV centres

Advanced manufacturing of upstream energy infrastructure

Reduce operating cost by:

- Pursuing renewable energy cost at price parity with grid electricity
- Minimising energy cost volatility

Data

Diversification of revenue streams by leveraging digital innovation:

Extension of fibre backbone to value-added service such as broadband, cellular and WiFi opportunities

Digital service offerings

Customer loyalty programmes (e.g. Discovery drive loyalty programme)

Co-benefit opportunities:

Provision of digital access to communities in proximity to Transnet network

Reduce operating cost by:

- Removing intermediary costs through digital replacement
- Preventing theft through drone surveillance
- Minimising time wastage via real-time augmented reality
- Increasing efficiency via automation and autonomous processes

Molecules

Diversification of revenue streams by leveraging core competence in infrastructure to:

Tolling model for LNG infrastructure

Identify revenue-generating potential across the biofuel value chain

Rent port space for desalination facilities (or diversify into this market)

Secure partnership to supply renewable energy to desalination facilities

Rent access to water pipelines within corridors

Co-benefit opportunities:

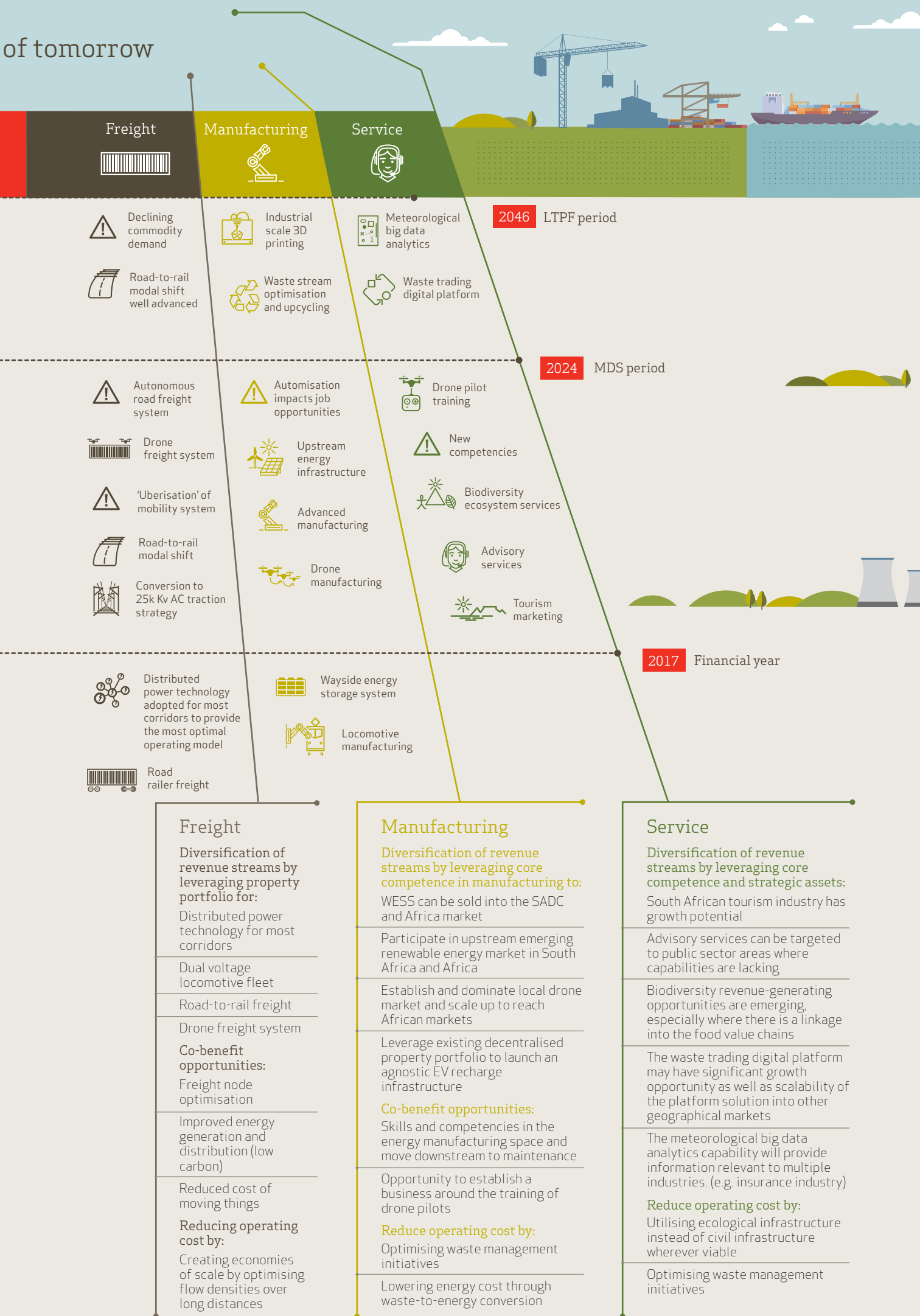
Integrate biodiversity ecosystem services into biofuels industry

Position SA ports as leading gas bunkering on the continent

Build competency in desalination and sell on into other markets

Reduce operating cost by:

- Lowering exposure to oil price volatility through biofuel switching
- Lowering carbon tax exposure through biofuels
- Securing water supply via access to desalinated water for usage in operations

















# MANAGING OUR STAKEHOLDER RELATIONSHIPS

## Engaging our stakeholders



Our stakeholder engagement practices are key success factors in achieving our strategy, and form part of the boundary and scope of our Enterprise Risk Management Framework. Our stakeholders influence our brand equity, and they work collaboratively alongside us through shared and sustainable values.

Our first priority in creating value through (and in partnership with) our stakeholders is to ensure that we manage our stakeholder relationships ethically and accountably. We do so through various governance mechanisms, including our Stakeholder Engagement Policy and Process Control Framework.

The Stakeholder Engagement Policy specifies the norms and values that guide Transnet's stakeholder relations and establishes a systematic approach to the management of Transnet's stakeholder engagements across the Company.

30% improvement in  
customer satisfaction



## Material stakeholder interests impacting value creation

### The Shareholder: The Department of Public Enterprise (DPE)

- Our Shareholder mandates us to deliver on the National Infrastructure Plan through responsible capital investment, thereby enabling the competitiveness, growth and development of the South African economy. We achieve this through the reliable delivery of transport logistics infrastructure and handling services.
- As Transnet's sole shareholder, the DPE is concerned with Transnet meeting its performance targets, as agreed in the annual Shareholder's Compact, which relate to commercial and developmental performance outcomes as enabled through the MDS. These outcomes span all six capitals.

#### How we engage

- Regular scheduled engagements between the Minister and the Board Chairperson.
- Quarterly bilateral and issue-specific meetings between the DPE and Transnet's executive management.
- Detailed quarterly reports submitted to the DPE on the Company's performance against targets.
- DPE is involved in Transnet's annual infrastructure capacity planning.
- Strategic engagements between the DPE and Transnet management inform the development of the annual Corporate Plan.

#### Material interests

- Outcome-based approach – risk management, performance management
- Policy and regulatory uncertainty
- Shareholder's Compact
- Strategy execution
- Reduction of cost of logistics
- TE sustainability
- Transnet integrated approach
- Jobs and community development
- Supplier and Enterprise Development
- Engagements with communities and Government
- Disposal of properties in line with Government policies
- Timeliness of reporting
- Health and environmental hazards
- Reduction of safety incidents

### Investors, commercial partners and credit rating agencies

- Key sources of funding to support Transnet's business activities.
- The global economic situation is putting increasing pressure on public-sector funding. Innovation through commercial partnerships is an essential mechanism for maintaining the quality and scope of services while reducing costs.
- Credit rating agencies assess Transnet's creditworthiness. Transnet has a standalone investment grade and raises funds on the strength of its balance sheet and receives no funding or guarantees from the fiscus.

#### How we engage

- Quarterly investor briefings
- Roadshows
- Bi-annual reporting
- Commercial networks and business interactions

#### Material interests

- Liquidity and sustainability
- Capital project execution
- Volumes and efficiencies
- Impact on the community
- Policy and regulatory uncertainties

### Customers

- Contribute to our revenue through their use of Transnet's rail infrastructure to transport volumes.
- Impacted by pricing and tariff structures agreed with regulatory bodies.
- Expect service value commensurate with tariff increases.
- Value is provided in the form of infrastructural enablement and transport infrastructure as well as service support.

#### How we engage

- Customer-specific operational meetings
- Roadshows
- Seminars and conferences
- Industry networks

#### Material interests

- Operational efficiency and productivity
- Sharing of long-term plans
- Competitive pricing
- Development of small, medium and micro-enterprises
- Security of goods and services

## Material stakeholder interests impacting value creation continued

### Employees

- The principal human capital needed by Transnet to enable its business.
- Transnet remunerates employees commensurate with industry remuneration standards and invests in their upskilling and development.

#### How we engage

- Regular staff meetings and roadshows
- Newsletters
- Staff communiques
- Team building
- Strategic planning sessions

#### Material interests

- Changes in terms and conditions of service
- Standardisation of processes and operating procedures
- Health and safety of employees
- Involvement in community upliftment projects

### Suppliers and service providers

- Provide products and services that span the various capitals.
- Suppliers both impact and are impacted by Transnet's procurement processes and supplier development programmes as well as the contracting terms contained in procurement agreements.
- Ethical conduct.

#### How we engage

- Monthly and quarterly meetings
- Scheduled supplier summits
- Supplier contracting process
- Electronic supplier communication to assess ease of engagement with Transnet and priority concerns

#### Material interests

- Transparency of procurement processes
- Information about tendering and contracting
- Information about enterprise and supplier development programmes
- Operational inefficiencies within supply chain management – contract management

### Organised labour

- Transnet engages with organised labour through recognition agreements.

#### How we engage

- Engagement through recognition agreements which provide for monthly and/or quarterly meetings
- Collective bargaining takes place regularly through the bargaining council

#### Material interests

- Compliance with employment equity
- Increase in wages aligned with inflation
- Problem of unrecognised labour unions
- Gender representation

### Communities

- Transnet's activities impact the lives of communities in and around our operations. We actively promote community well-being in and around our operations through the Transnet Foundation.

#### How we engage

- Regular meetings and workshops
- Communication and engagement campaigns
- Roadshows
- Career expos
- Implementation and management of CSI projects

#### Material interests

- Socio-economic impact on communities
- Relationships with community representatives
- Cable theft
- Level-crossing safety
- Criminal activities

### Regulators

- Tariffs for two of our divisions, the National Ports Authority and Pipelines, are set by the Ports Regulator of South Africa (the Ports Regulator) and the National Energy Regulator of South Africa (Nersa) respectively. Freight Rail is free to set market-related tariffs without economic regulation.
- Sharp escalations in safety permit fees charged by the Rail Safety Regulator are a critical consideration for the Company's revenue planning.

#### How we engage

- The annual applications processes
- Ongoing meetings and joint planning sessions
- Scheduled strategic planning sessions
- Written comments and workshops

#### Material interests

- Company performance and pricing strategy
- Security of supply of goods and services
- Regulatory uncertainty
- Impact on the economy
- Payment of permit fees

## Government

- Transnet collaborates with both National and Provincial Government departments in the planning and management of freight infrastructure.
- Provincial and national priorities extend to the upliftment of local communities and businesses. Government is invested in Transnet's ability to facilitate employment and business opportunities, particularly for historically disadvantaged South Africans.
- Local Government is concerned with Transnet's management of the Company's property and equipment and the impact of these capitals on surrounding communities and the public. Impacts include the safety within the proximity of Transnet property and equipment, e.g. accidents at level crossings and the theft of equipment, such as cables and other assets.

### How we engage

- Regular issue-specific meetings
- Joint planning sessions
- Strategic Integrated Programme co-ordination structures
- Written comments and workshops
- Meetings with a variety of local structures
- Joint planning sessions
- Regular feedback to the relevant Parliamentary Portfolio Committees
- Annual presentation to the Parliamentary Portfolio Committee on Public Enterprises on Transnet's results and Shareholder's Compact performance

### Material interests

- Collaboration in planning of freight management
- Alignment with provincial programmes and objectives
- Community development, jobs and supplier development
- Environmental compliance
- Alignment between Government infrastructure plans and Transnet's planning
- Transnet's servitude agreements with landowners
- Crime in and around Transnet properties
- Utilisation of unused Transnet property
- Municipal rail siding infrastructure
- Access to Transnet land, assets and facilities

## Non-Governmental Organisations (NGOs) and international bodies

- Transnet partners well-established NGOs to further common conservation or developmental goals through financial, human or infrastructural support for existing initiatives. Other NGOs include those concerned with broad environmental stewardship, animal and biodiversity conservation, and community upliftment in and around Transnet's operations.

### How we engage

- Engagement through various associations
- Environmental Impact Assessments consultation processes
- Local CSI projects

### Material interests

- Transnet's impact on the environment
- Transnet's impact on the communities where operations are located

## Media and the general public

- The print, broadcast and electronic social media are concerned with transparent access to information relating to Transnet's performance, including large-scale economic and developmental achievements and potential failures.

### How we engage

- Group and Operating Division media relations
- Online archive of Transnet press articles
- Regular media briefings and press releases
- Communication and engagement campaigns
- Media roadshows
- Participation in sector-specific and trade publications
- When required, engaging through written comments

### Material interests

- Perceived lack of transparency and information availability

## Academic institutions

- Important contributors to Transnet's research and development initiatives, as well as adding a body of technical skills and capacity to augment the Company's own engineering and project management capabilities.
- Partnerships include joint environmental monitoring activities and projects to address significant techno-disciplinary challenges, such as developing a feeder stream of highly qualified and contributing engineers.

### How we engage

- Engagements with academic and scientific institutions based on project interests and requirements
- Formal partnerships with key academic institutions

### Material interests

- Collaboration on research, technology and innovation
- Community development



## 2017 Multi-Stakeholder Perception Survey

During the year, we engaged our stakeholders in a Multi-Stakeholder Perception Survey. The survey was performed telephonically with 150 participants. The sample was collected across six stakeholder clusters: influencers, governing bodies and regulators, investors, organised labour, suppliers and enterprise development. Overall the quality of our stakeholder engagement has improved, with respondents scoring our quality of engagement at 60% (out of 100%), with our ability to meet stakeholder needs at 83%, and our responsiveness to stakeholder concerns at 79%.

Overall strengths identified by participants included:

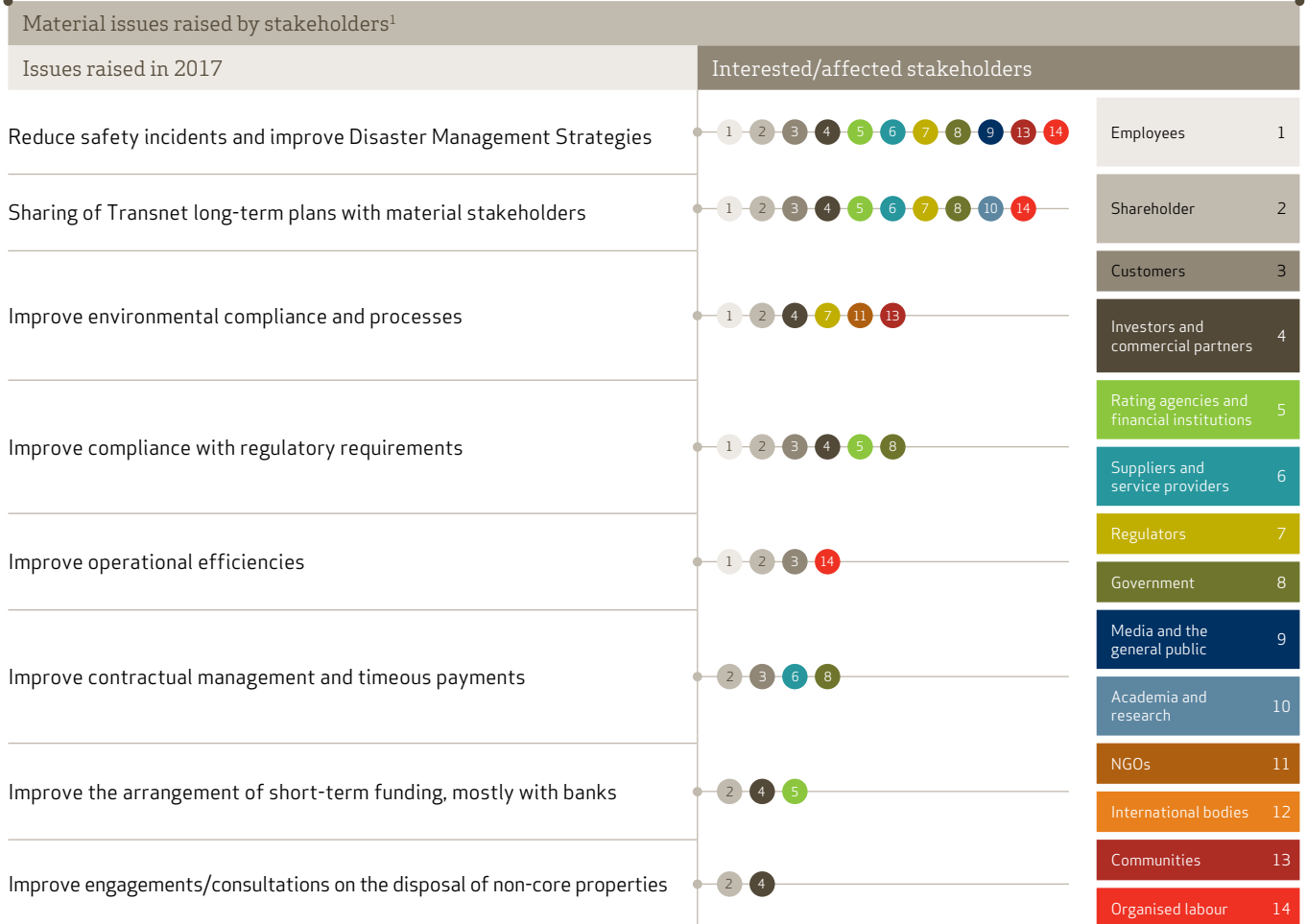
- Good communication;
- Responsive (address key issues and concerns);
- Consistency (deliver promises despite being late);
- Strong brand;
- Use diverse tools to engage, e.g. social media;
- Eagerness to improve;
- Ethical values (honesty, transparency and openness);
- Strong leadership; and
- Efficiency and productivity.

Main areas for improvement included:

- More balanced and evenly distributed information to stakeholders;
- Improve involvement of staff in crucial decision-making;
- Improve transparency – particularly with regard to long-term planning; and
- Improve ‘out of the box’ thinking.

Going forward, we will perform additional studies to validate the above engagement perceptions and to gauge further improvements and weaknesses. The survey process provides a meaningful perspective of the quality of Transnet's relationships with its material stakeholders.

Our 2017 engagement with stakeholders across diverse functional disciplines revealed several material issues common to multiple stakeholders. The importance and relevance of material issues varied between stakeholder groups.



<sup>1</sup> Based on the combined perspective of ‘relevance’ and ‘importance’ of material issues to our stakeholders, the top eight shared material issues above were identified for discussion in the Integrated Report.

## Key issues/concerns impacting stakeholders during the 2017 reporting period

### Sharing of Transnet long-term plans with material stakeholders

#### Transnet's response

- Producing an annual Integrated Report, online Sustainability Report and Annual Financial Statements to a) report on performance, and b) to share information on the Company's strategy and goals.
- Publishing Transnet's Long-term Planning Framework online for public consumption and documenting (in detail) how Transnet plans for future growth opportunities and accompanying risks.
- Aligning Transnet's plans and MDS with Local and Provincial Government plans and sharing these in a timely manner with Local, Provincial and National Government representatives.
- Engaging with relevant stakeholders to enable projects to move forward as planned.
- Ensuring that our quarterly reports are prepared and signed off in time – as stipulated by the Shareholder – demonstrating our progress on and alignment with programmes and plans.

### Reduce safety incidents and improve Disaster Management Strategies

#### Transnet's response

- Ensuring that the Company embeds sustainability criteria into all material decision-making, to set sustainability targets and to measure and report on performance against these targets.
- Our Safety League Models have been revised with a new proposed safety-culture operating model. The model drives long-term sustainability; ensures maturity of the existing safety league programme and operating model; promotes the 'safest site' vision; and integrates our safety efforts with the Group Risk Strategy.
- Partnering with various stakeholders (e.g. Anglo American) to ensure that a safety mindset is embedded.
- Conducting safety awareness campaigns for the public at level-crossing areas.
- Conducting door-to-door campaigns at identified hotspots where safety and crime pamphlets are issued.
- Facilitating presentations to Regulators through the Environmental Monitoring Committee and the Environmental Liaison Committee.
- Facilitating interventions in areas that are polluted in the ports to curb further pollution.
- Work done by academics in ports have assisted us to better understand issues identified by external research (e.g. plastics that enter marine water, including ports, pose a threat to marine life).
- RCB working group made up of DAFF<sup>1</sup>, KZN Ezemvelo, provincial environmental affairs, and KZN Water Affairs to discuss biodiversity in the port of Richards Bay, development requirements and potential solutions to balance the two.

### Improve operational efficiencies through regular updates on overall performance, new projects and service improvement initiatives

#### Transnet's response

- Transnet's Operating Divisions continue to collaborate to increase port efficiencies, including improvements from newly acquired capital investments.
- Engaging in round-table discussions to address customers' complaints and concerns around service delivery and efficiencies.
- Implementing integrated Service Level Agreements (SLAs) management and embarking on TVCC initiatives to improve service offerings, including on-time delivery.
- Implementing Terminal Operation Performance Standards (TOPS), and Integrated Port Management System (IPMS) for tracking and tracing operation.
- Conducting detailed schedule workshops and interactions in the drafting of feeder line agreements.
- Ensuring the uniform implementation of policies and guidelines, as well as processes and standard operating procedures to improve operational efficiencies.

### Improve compliance with regulatory requirements

#### Transnet's response

- Embed risk management and compliance principles that are aligned with legislative, regulatory and statutory requirements.
- Ongoing engagement with Regulators to facilitate common understanding of pricing risks and market requirements.
- Requesting Shareholder intervention on National Ports Act section 56 and 79 provisions, and requesting clarity on National Ports Authority and Pipelines corporatisation.
- Keeping the Regulators informed as to construction progress of the New Multi-Product Pipeline (NMPP) through the six-monthly construction progress report.
- Submitting all outstanding regulatory compliance requirements and completing requisite tariff applications.
- Conducting joint presentations with Pipelines as per the licence conditions.

<sup>1</sup> Department of Agriculture, Forestry and Fisheries.

### Key issues/concerns impacting stakeholders during the 2017 reporting period continued

#### Improve contractual management and timeous payments

##### Transnet's response

- The Contract Management office provides practical guidance on the implementation of contract management frameworks for effective contract management activities during the lifecycle of contracts.
- Contract Management aims to ensure that we operate within the ambit of the agreed terms set out in the signed agreement. Our Contract Management Policy and frameworks collectively form an integral part of business for effective and efficient management of contracts within Transnet.
- The Contract Management and Security Governance offices ensure that all active contracts are valid and contractual spend and revenue management is within the parameters, terms and conditions of the contracts.
- Contract lifecycle management systems are being embedded in the business to facilitate streamlined contract management.

- The key elements of Transnet's Contract Management function include:
  - **Risk** – The early identification of risks, together with managing the mitigating actions throughout the contract lifecycle ensures that the risk realisation is minimised;
  - **Planning** – Contract deliverables are identified and plans are designed to manage the contract throughout the contract;
  - **Delivery Management** – Ensuring active delivery against contract milestones in terms of the agreement;
  - **Relationship Management** – Every major contract must be managed in line with a relationship management plan for the effective achievement of Supplier Development and Enterprise Development;
  - **Contract Administration** – The centralised location of all contracts on one electronic platform; and
  - **Contract review and close-out activities** – Contracts must be closed out prior to the expiry of the contract. The overall management of the contract is reviewed holistically to ensure that Transnet learns from mistakes and builds on successes.

#### Improve engagements/consultations on the disposal of non-core properties

##### Transnet's response

- According to Transnet's Significance and Materiality Framework (as determined by the Shareholder), the Shareholder is presented with detailed notifications for all acquisitions and disposals of assets above R2 billion.

- Transnet Property continues to engage National, Provincial and Local Government on any new property transactions.

#### Improve environmental compliance and processes

##### Transnet's response

- Transnet continues to engage the Department of Water and Sanitation (DWS) and the Department of Environmental Affairs (DEA) with the aim of ensuring alignment of our plans with those of regulators and to streamline processes.
- Issues of environmental non-compliance are also discussed at bi-monthly meetings with the key governmental departments (DEA and DWS).

- During the 2017 financial year, Transnet, together with DWS, held a workshop to further unpack and understand the requirements of water-use authorisations and compliance monitoring.
- Workshops were held with the DEA throughout the country to further unpack the requirements of Part 8 of the Waste Act.

#### Improve the arrangement of short-term funding, mostly with banks

##### Transnet's response

- Transnet has raised sufficient funding up to 31 March 2017 and hence there are no concerns in terms of our short-term funding.
- Transnet consistently meets with rating agencies and shares Company plans relating to capex optimisation to respond to the weak economic environment and to share all other cost-saving initiatives that are being implemented. Rating agencies are comfortable with Transnet's plans to optimise capex, in response to the weak economic environment and all other cost-saving initiatives that are being implemented.

- Transnet has facilities from various sources for bridging finance and to meet short-term maturing obligations, while long-term funding is being concluded.





# MATERIAL ASPECTS IMPACTING OUR STRATEGY



## Changes in reporting on material aspects

We continue to report on topics that are material to the business, the Shareholder Minister and other key stakeholders. While we manage a wider array of commercial and sustainability topics, our 'materiality' focus helps to direct our reporting content according to aspects that are of material relevance and importance to Transnet and its key stakeholders.

There were marginal changes to the aspects we consider 'material' from the prior year, as represented by the table on the next page. Further, the 2017 Integrated Report clusters material aspects according to five material themes to simplify connectivity to other sections in the report, such as those relating to strategy and performance (see figure 12).

### Directors' approval of material aspects

The Board of Directors has 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 materiality determination process is described in more detail in the section that follows.

## Determining material aspects

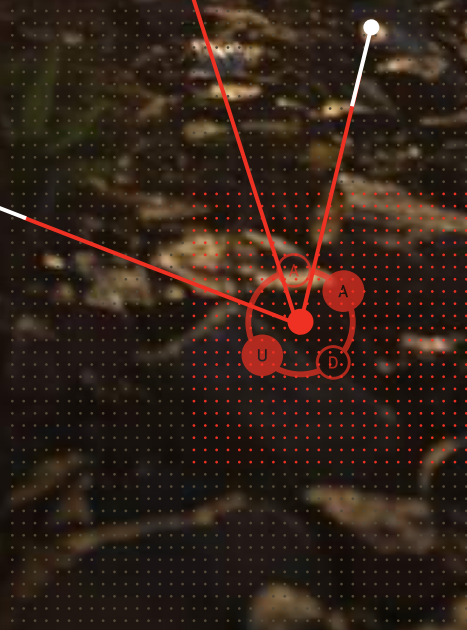
Transnet defines materiality with respect to the Company's long-term sustainability in terms of aspects that substantively impact Transnet's ability to create and sustain value over the short, medium and long term. This definition includes those issues pertaining to Transnet's significant economic, social and environmental impacts.

Transnet's material aspects were determined through a structured process of identifying relevant issues and prioritising those that are most material to the organisation's commercial, social and environmental contexts.

Figure 10 summarises the levels of accountability for identifying, validating and approving material issues within Transnet, as well as the criteria used during each stage of the process.

Build social trust

Unlock organisational value





## Levels of accountability for determining material aspects

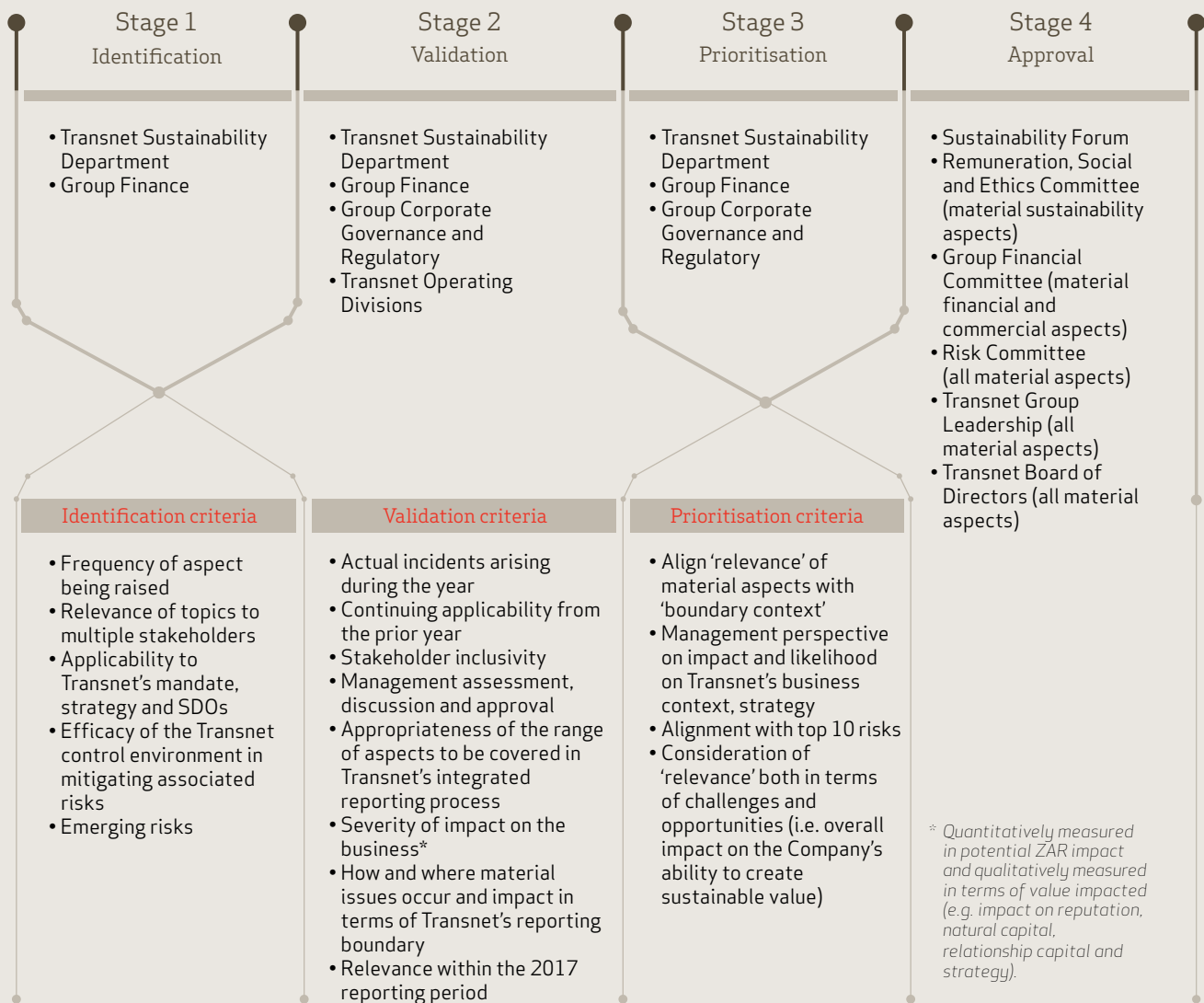


Figure 10

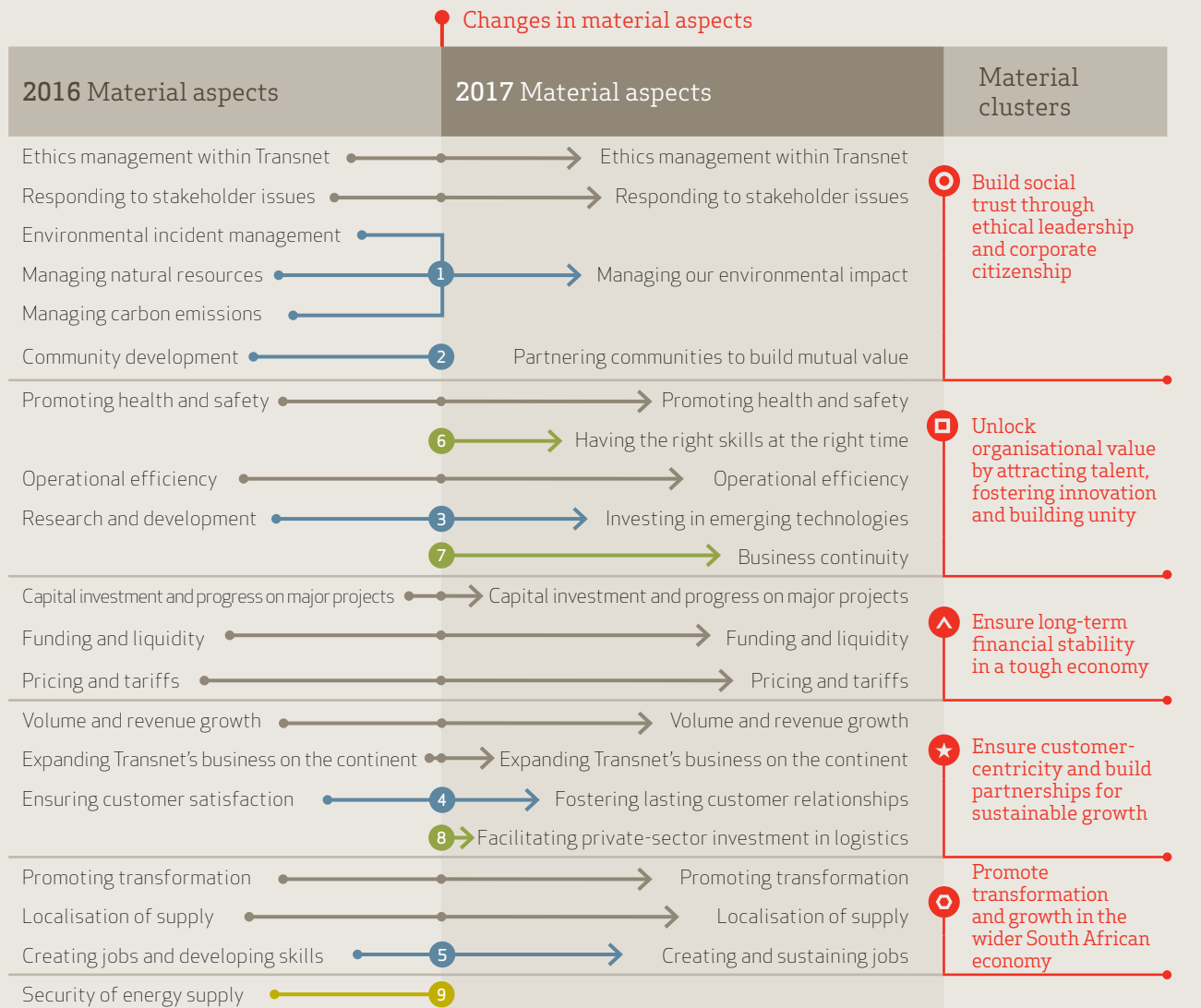
The scope and boundary of our materiality determination process is shown below:



Figure 11

Figure 12

## Changes in reporting on material aspects continued



- Remains constant
- Marginal change in focus
- New material aspect for 2017
- Not a material aspect for 2017

- Build social trust through ethical leadership and corporate citizenship
- Unlock organisational value by attracting talent, fostering innovation and building unity
- ^ Ensure long-term financial stability in a tough economy
- ★ Ensure customer-centricity and build partnerships for sustainable growth
- Promote transformation and growth in the wider South African economy

## Reasons for material aspect change in 2017

### Marginal change in focus

- 1 Our 10th highest risk for 2017 – “Environmental risk – energy supply, water shortage and adverse weather patterns” – considers multiple levels of environmental impacts. The risk relates both to impacts from the Company's activities on the environment, and extends to external environmental impacts on the Company's activities.
- 2 Through our engagements with communities residing in and around our operational areas, we are increasingly aware of the social and also economic value inherent in creating positive, mutually beneficial long-term partnerships with communities. This ethos moves beyond an essentially one-sided perspective of the Company creating value for and on behalf of communities, to one where communities themselves become collaborative partners in the value-creation process. Transnet has identified more than 20 emerging opportunities for collaboration with communities.
- 3 While research and development remains a major strategic focus for the Company, Transnet 4.0 emphasises the future dependence on ‘digital’ innovation. This new paradigm is characterised by a fusion of technologies that are poised to disrupt almost all industries and transform systems of production, management and governance. Transnet's research and development going forward will be increasingly geared towards new digital service platforms and commercial solutions.
- 4 Transnet 4.0 – the Company's strategic drive gearing the MDS to meet challenges and opportunities of the 4th Industrial Revolution – calls for a move beyond ‘satisfying’ customers to fostering lasting customer relationships through authentic understanding of customer needs, sincere commitment to meeting those needs and the insight to harness the value of long-term customer loyalty and partnerships to build resilient, sustained market presence.
- 5 Reworded to reflect the emphasis on ‘sustaining’ jobs in the economy, which goes beyond simply creating jobs and developing skills.

### New material aspect for 2017

- 6 Transnet currently competes in the local job market for scarce technical skills which are in high demand from other engineering firms and SOCs such as Eskom and Telkom. Our fourth highest risk for 2017 is “People management – inadequately skilled staff in operations, not skilled for future operations”. Moving into the 4th Industrial Revolution, Transnet will operate as a manufacture-driven, service-led organisation. It is reasonable to assume that some of our existing, already scarce, competencies may become obsolete in this new paradigm, while other, as yet unknown, competencies will be required.
- 7 Business continuity in Transnet's materiality context relates to multiple scenarios: a) having the correct ICT infrastructure in place to meet future digital demands of the 4th Industrial Revolution, b) having appropriate cybersecurity and data protection mechanisms in place, and responding appropriately in terms of disaster management.
- 8 Transnet 4.0 calls for a greater emphasis on private-sector partnerships to provide collaborative, end-to-end business solutions throughout the supply chain. These partnerships will become increasingly critical as Transnet moves from its current status as a third-party logistics (3PL) service provider to fourth-party logistics (4PL) service provider. The new Group Business Development function within Transnet's new operating model will be responsible for leveraging private-sector collaboration and PSPs to enhance and increase Transnet's logistics service offerings.

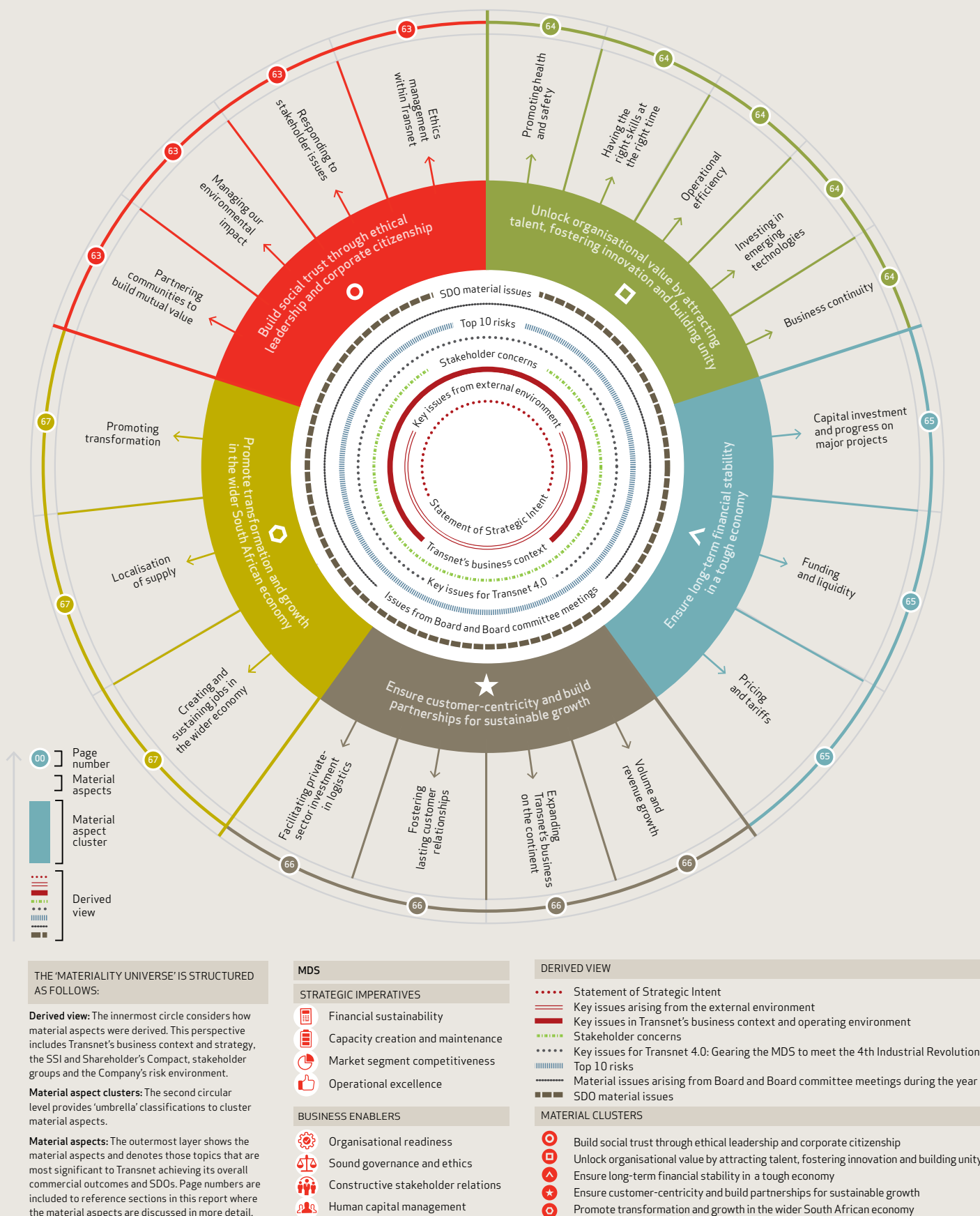
### Not a material aspect for 2017

- 9 Energy security is at the core of current and future industrial and technological advancement. The secure supply of energy is encapsulated in Transnet's ‘Environmental risk’ and therefore still top of mind for the organisation. However, as a material aspect, it is also encapsulated in the material aspects of ‘Managing our environmental impact’ and that of ‘Business continuity’. The National Development Plan (NDP) envisages that by 2030 South Africa will have an energy sector that promotes economic growth and development through adequate investment in energy infrastructure. The plan envisages that by 2030 South Africa will have an adequate supply of electricity and liquid fuels to ensure that economic activity and welfare are not disrupted, and that at least 95% of the population will have access to grid or off-grid electricity. Other renewable resources, like wind, solar and hydro-electricity, will be viable alternatives to coal and could supply at least 20 000 MW of the additional 29 000 MW of electricity needed by 2030.

Figure 13

## Materiality universe aligned with strategy

Transnet's 'materiality universe' is presented graphically below and provides a holistic view of our MDS themes and associated material aspects:



## Identifying and managing material aspects

### Material aspect cluster Build social trust through ethical leadership and corporate citizenship



Ethics management within Transnet  
Responding to stakeholder issues  
Managing our environmental impact  
Partnering communities to build mutual value



#### How is it material to value creation?

To be sustainable, corporate ethics must align with the desire for profitability. In this way, ethics management becomes a source of value creation. Without social trust, Transnet cannot guarantee its social licence to operate. Visibly ethical leadership is, therefore, fundamental to building social trust and extends to fostering ethical relationships with our stakeholders and ensuring ethical stewardship of the natural environment within which we operate. Our stakeholder engagement practices are key to enabling our strategy and the quality of our relationships impact our ability to generate revenue, grow brand equity, ensure reliable service delivery, maintain positive community relations and build employee morale. Our mandate is to be an influential, long-term partner in broad economic value creation for the entire country, partnering with Government, local suppliers, private-sector partners and the communities to build mutual value.

#### Key elements of our management approach

- A robust governance framework and practices to guide ethical behaviour in executing our business, cultivating positive stakeholder relationships and managing our environmental footprint.
- The Shareholder's Compact provides a monitoring framework for our strategic planning, and sets annual and long-term performance targets. Importantly, our performance against the nine SDOs is monitored through this framework. Transnet's main tool of engagement with the Shareholder is quarterly reports, which reflect our performance against the Shareholder's Compact.
- The Board of Directors has delegated the leadership for ethics performance and sustainability-related matters to the Remuneration, Social and Ethics Committee, which advises the Board of Directors on responsible corporate citizenship and sustainability.
- Sections 51 and 55 of the PFMA impose certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; losses through criminal conduct; and the collection of all revenue. To comply with the PFMA's obligations, the Board of Directors has a materiality framework, which is approved by the Shareholder Representative, subject to certain conditions.
- As signatories to the UN Global Compact, Transnet undertakes initiatives to promote greater environmental responsibility, i.e. mapping biodiversity hotspots to ensure future projects' ecological sustainability.
- Our commitment to community development is expressed through the Transnet Foundation, with a strong focus on rural communities and investment in projects with strong community impact.

#### Key measures for tracking our performance

Adherence to PFMA provisions and monitoring irregular expenditure

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<sub>2</sub>/ton)

Our CSI spend



## Material aspect cluster

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

Promoting health and safety  
Having the right skills at the right time  
Operational efficiency  
Investing in emerging technologies  
Business continuity



#### How is it material to value creation?

The continuing success of the MDS – and our long-term sustainability as an organisation – depends on our ability to unlock organisational value to meet the rapidly emerging paradigm of the 4th Industrial Revolution. This new paradigm will require new skills competencies in the context of emerging technologies and new business models to enhance our operational efficiency and service reliability, while also opening new avenues for generating revenue. Critical to our success will be our ability to protect our people and to guard the integrity of our intellectual capital. Data-centricity is a major feature of the new industrial paradigm, which brings both opportunities and risks in the common usage of the internet environment. Our ability to protect our data and our privacy as an institution and as individuals will play a vital role in growing the business and competing globally in years to come. The 4th Industrial Revolution will require a new type of employee and we must attract talent suited to the tasks set by long-term expansion goals and the emerging realities of the times. This includes building a culture of unity to sustain a shared, positive vision of our collective future.

#### Key elements of our management approach

- Transnet's talent management and development programme aims to retain top talent and to ensure robust succession plans for priority and critical positions. Leadership programmes target specific management levels, while coaching and mentoring programmes are also provided.
- Health and safety committees offer employees a platform for engagement on health and safety issues. Approximately 247 formal joint management-worker health and safety committees have been established, with 1 611 representatives. Recognition agreements with trade unions also ensure a safe working environment, while various policies and internationally recognised safety systems are implemented to improve safety across the business.
- The Transnet Value Chain Coordinator (TVCC) co-ordinates oversight of operational activities within the value chain and streamlines task flows. Business continuity interventions are in place in the event of energy disruptions or cyber threats.
- A pillar of the four MDS strategic thrusts is 'Unity' – we will work together to build a unified culture, through a unified vision of our future, a single-minded approach to our goals, care and responsibility for ourselves, our colleagues and all our stakeholders that travel this exciting journey with us.

#### Key measures for tracking our performance

Tracking our training spend and the number of artisans, engineers and technicians trained

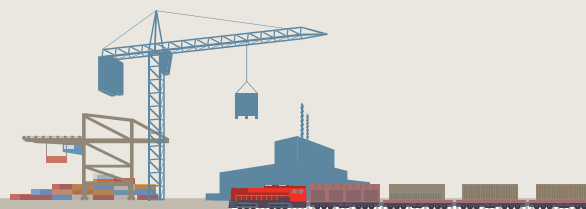
<0,75

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, and our spend on research and development



## Material aspect cluster

### Ensure long-term financial stability in a tough economy

Capital investment and progress on major projects

Funding and liquidity

Pricing and tariffs



#### How is it material to value creation?

Our strategic commercial imperatives and developmental outcomes rely on our financial stability, agility and intelligent approach to market fundamentals. We must adapt to – and thrive within – the external economic, regulatory and socio-political contexts within which we operate. As new risks and opportunities within these contexts impact our business, we need to adjust our spending and project investment expectations accordingly. Insufficient liquidity will negatively impact the Company's going-concern status and its credit rating, which, in turn, affects the cost of funds and our investment plans. Approximately 21% of our revenue is impacted by economic regulation. If not well managed, tariff decisions could have a significant negative impact on investment decisions, investor confidence and ultimately on the execution of the Company's strategy. Exorbitant and unpredictable escalation in Railway safety permit fees charged by the Railway Safety Regulator are critical considerations for the Company's revenue-planning activities.

#### Key elements of our management approach

- We constantly review our finance and funding strategy and aim to respond deftly to business and market conditions. We continue to maintain our standalone investment-grade credit rating.
- Positive engagement with financial capital providers ensures that our good borrowing track record, robust strategy and sound corporate governance reflect a responsible and profitable organisation. Transnet has facilities from various sources for bridging finance to meet short-term maturing obligations, while long-term funding is being concluded.
- Transnet has introduced a capital governance framework, in line with its new operating model and integrated assurance framework, to assist oversight authorities within the appropriate internal governance structures to 'challenge' project, programme and portfolio delivery; to provide assurance to the Board of Directors and the Shareholder that corporate plans are being successfully achieved. The chief purpose of a governed capital environment is to provide a structure for the leadership and management to be directed and held to account.
- Transnet's Group Commercial function has developed a pricing strategy for its non-regulated entities to ensure that pricing methodologies, tools, governance and performance measures inform business decisions.
- Ongoing engagements with the Shareholder, Government policy departments and Regulators for the development of national sector policies and regulatory approaches.
- Revenue risk management strategies mitigate policy, and economic and reputational risks in the regulatory environment.
- Proactive engagement with Government policy departments and Regulators facilitate common understanding and impact of national sector policies, tariff risks and market requirements.
- We actively manage national sector policy processes, tariff modelling and tariff benchmarking to ensure a fair return on investment, cash flow and to minimise Railway safety permit fees.
- We ensure monitoring prudence in regulated activities and potential anti-competitive business practices.

#### 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, e.g. the New Multi-Product Pipeline (NMPP), manganese expansion programme, coal line investment programmes, port infrastructure, equipment and floating crafts, and the lengthening and deepening of DCT Berths 203 to 205 at Durban Container Terminal (DCT)

Financial ratios, such as EBITDA, cash interest cover (CIC), gearing, ROTA and average tariff increases



Material aspect cluster:

## Ensure customer-centricity and build partnerships for sustainable growth

Volume and revenue growth

Expanding Transnet's business on the continent

Fostering lasting customer relationships

Facilitating private-sector investment in logistics



### How is it material to value creation?

Transnet's ability to meet future demand for freight logistics services is dependent on volume and revenue growth to finance investments. Enhanced connectivity of the regional freight system will promote volume growth, and is a strategic priority for long-term business sustainability. Enhanced regional connectivity will boost investment on the continent, and will open new commercial horizons for Transnet and its customers and partners. By understanding and attending responsibly to the commercial needs of our customers, we will build lasting customer relationships, a key source of relationship value in tough economic conditions, and a strong contributor to market sector competitiveness, both for Transnet and the broader economy.

### Key elements of our management approach

Key elements of our management approach to ensuring customer-centricity and building partnerships for sustainable growth include the following:

- We base our volumes targets and alignment on inputs from customers, financial plans, funding requirements, operational plans, capital investments and risk management strategies across the Company;
- Transnet's Africa expansion strategy outlines the intention to extend our business beyond the South African borders and become the leading logistics service provider in sub-Saharan Africa. Transnet International Holdings will direct all activities outside the borders of South Africa;
- Strategic commercial partnerships will play a crucial role in enabling our regional integration strategy. In one instance, Transnet is pursuing agreements with various port authorities to develop regional shipping services, thus boosting inter-Africa trade. Concession opportunities are also being pursued;
- Engineering continues to strengthen partnerships with original equipment manufacturers to enhance existing know-how and create new market opportunities. Engineering intends to increase its external revenue by extending its advanced manufacturing capabilities in Africa, the Middle East and South America;
- To maintain a customer-centric focus, we are enhancing key account management abilities and implementing integrated customer planning through innovative digital platforms. We are also designing transparent capacity allocation processes. Our long-term strategy requires collaboration with customers and private-sector partners that supports end-to-end logistics service solutions; and
- Transnet aims to contain price increases to our customers through efficiency improvements in all areas of operations which will be practically enabled by the Transnet Value Chain Co-ordinator (TVCC).

### 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

## Material aspect cluster

### Promote transformation and growth in the wider South African economy

Promoting transformation

Localisation of supply

Creating and sustaining jobs



#### How is it material to value creation?

A transformed economy is an inclusive economy, with growth and economic opportunities available to the entire population. As one of South Africa's largest single employers, Transnet supports Government initiatives aimed at addressing the socio-economic legacy of the past. Our long-term social value success lies in being committed to the transformation of our society through employment equity and black economic empowerment. We commit to upholding the principles of the UNGC with respect to equity and anti-discrimination, and seek to create an organisation that reflects the diversity of South African society.

Transnet's Supplier Development (SD) aims to develop skills, create jobs, transfer intellectual property, and localise supply and industrialisation through contractually obligated SD plans. Our Enterprise Development (ED) interventions assist and accelerate the development, sustainability and independence of small, medium and micro-businesses in the country.

#### Key elements of our management approach

- Transnet's Employment Equity Policy supports the Employment Equity Act, No 55 of 1998. In the wider South African context, we have implemented a B-BBEE policy and strategy to address economic transformation. Additionally, Transnet adheres to the following Acts:
  - Promotion of Equality and Prevention of Unfair Discrimination Act, No 4 of 2000;
  - Labour Relations Act, No 65 of 1995; and
  - Skills Development Act, No 97 of 1998.
- Apropos the wider transformation agenda of Government, our broad Supplier Development Plan is guided by Government's Competitive Supplier Development Programme with a monitoring unit checking its operations.
- Our Human Capital Strategy approaches job creation within the framework of strategic workforce planning to ensure the recruitment and retention of the top-quality employees in all employment groups.
- Transnet has established ED hubs in Johannesburg, De Aar, Saldanha Bay and Mdantsane which provide a 'one-stop' facility for potential suppliers. The hub provides resources relating to business development and registration, procurement advisory services, tax registration and compliance, financial support and guidance on black economic empowerment.

#### Key measures for tracking our performance

Tracking performance against transformation targets, e.g. employee equity targets, broad-based black economic empowerment (B-BBEE), and enterprise and supplier development

Procurement of local content through local suppliers

Fair and competitive remuneration and reward of employees

Measurable direct, indirect or induced employment in the wider economy

# OPPORTUNITIES AND RISKS

## Risk management within Transnet

### Transnet's top risks for 2017

The strategic risks of Transnet are reassessed on an annual basis by considering the best available information on changes in both the internal and external environments of the organisation. Risks are evaluated and assessed on an inherent risk basis, before current controls are considered. The control effectiveness of the current basket of controls is rated by the Group Leadership Team and expressed as a percentage. This results in a residual risk rating per risk.



Our risk environment supports strategy and planning

Accountability is key in the management of risks



## Transnet's top 10 material risks for 2017 and the year-on-year movement of the top 10 risks from the prior year

Risk ranking/ priority	Level	Impact on net operating profit range
Priority I risk	GCE and Board level	> R1 billion
Priority II risk	Operating Divisions' CE level	R100 million to R999 million
Priority III risk	General Managers' level	R10 million to R99 million
Priority IV risk	Managers' level	R100 000 to R9,9 million
Priority V risk	Employees' level	< R100 000

### ○ Residual risk profile 2016

1. Macroeconomic environment risk
2. Energy supply risk
3. Capital execution risk
4. People management risk
5. Pricing risk
6. ICT risk
7. Productivity and efficiency risk
8. Operational readiness risk
9. Regulatory risk
10. Volume growth risk

### ● Residual risk profile 2017

1. Pricing risk
2. Capital execution risk
3. Macroeconomic environment risk
4. Volume growth risk
5. Operational readiness risk
6. People management risk
7. Productivity and efficiency risk
8. Regulatory risk
9. ICT risk
10. Environmental risk

#### Probability key

5-20 25-30 35-55 60-80 85-100



In reviewing the Company's key risks, we consider both internal and external factors to understand the interconnectedness of risks and to appreciate the possible impacts. Risk sponsors are assigned to each strategic risk to ensure mitigation strategies areas are aligned across all operations. Risks are ranked according to the residual risk rating after considering the adequacy and effectiveness of controls that mitigate those risks.

The risks and opportunities arising from material aspects

Material aspects	Risks and opportunities
<b>Build social trust through ethical leadership and corporate citizenship</b>	
  P11 <b>Ethics management within Transnet</b>	<ul style="list-style-type: none"> <li>Practices that lead to Government intervention to rebalance infrastructural disparities can lead to ethical transgressions within our stakeholder relationships. Perceptions of potentially anti-competitive behaviour and corruption negatively impact reputation and investment sentiment.</li> <li>Sound corporate governance and a track record of ethical leadership can attract local and foreign investment and promote a strong reputation.</li> </ul>
 <b>Responding to stakeholder issues</b>	<ul style="list-style-type: none"> <li>Negative stakeholder sentiment could adversely impact beyond the business – affecting international investor confidence.</li> <li>Our ability to engage stakeholders positively encourages positive contribution from stakeholders to support Transnet's MDS, supports customer retention, counters competitive resistance, and attracts critical scarce talent and investor confidence.</li> </ul>
 <b>Managing our environmental impact</b>	<ul style="list-style-type: none"> <li>Environmental risks relate to the adverse impacts of secure supply of energy, water shortages and adverse weather patterns on the business.</li> <li>We can set leading precedents in the management of waste and pollution within operations, particularly in view of our cross-border expansion strategy. This leadership may extend to the implementation and sharing of innovative conservation models with regional partners.</li> </ul>
 <b>Partnering communities to build mutual value</b>	<ul style="list-style-type: none"> <li>Risk of adverse impacts on communities could lead to reputational risks and challenge our social licence to operate.</li> <li>Transnet has many opportunities beyond simply investing in CSI initiatives to improve the lives of communities, e.g. localised procurement and employment where feasible, Enterprise Development, collaboration on safety and the environment, and targeted investment in social services.</li> </ul>
<b>Unlock organisational value by attracting talent, fostering innovation and building unity</b>	
<b>Promoting health and safety</b>	<ul style="list-style-type: none"> <li>Major safety risks relate to employees' adherence to standard operating procedures within our highly industrial operating environment and public safety at level crossings.</li> <li>Improving staff adherence to standard operating procedures improves the safety environment Company-wide. Employees gain greater understanding and accountability for their operational impacts on colleagues, the environment and communities while reducing business interruptions.</li> </ul>
 <b>Having the right skills at the right time</b>	<ul style="list-style-type: none"> <li>Risk of operational staff not skilled for future operations, and lack of scarce skills in the job market means we compete with other engineering firms and SOC's.</li> <li>As an employer, Transnet can attract scarce technical skills in demand, resulting in improved staff retention, which in turn results in sustained productivity.</li> </ul>
 <b>Operational efficiency</b>	<ul style="list-style-type: none"> <li>Low productivity levels due to absenteeism, strike action or operational inefficiencies lead to unreliable services, reduced asset performance and adverse impacts on service delivery levels.</li> <li>Operational efficiencies have both financial and market impacts. Our efficiency gains improve operational efficiency of the freight logistics system. Logistics productivity and reliability are critical determining factors in shaping the country's ability to compete globally.</li> </ul>
 <b>Investing in emerging technologies</b>	<ul style="list-style-type: none"> <li>Digitalisation enables the organisation to move into markets previously not considered due to legacy business models and associated processes. The organisation can now harvest its data and provide its customers with end-to-end value chain logistics capabilities.</li> <li>The business model of the digital organisation is different to current business models and will require Transnet to re-imagine itself in the digital economy.</li> </ul>
 <b>Business continuity</b>	<ul style="list-style-type: none"> <li>The risk that essential business functions are interrupted during or after a disaster, operational incident or challenges, such as load-shedding or inadequate ICT infrastructure, which extends to cybersecurity failures.</li> </ul>

Material aspects	Risks and opportunities
<b>Ensure long-term financial stability in a tough economy</b>	
Capital investment and progress on major projects	<ul style="list-style-type: none"> <li>The risk of Transnet not realising the benefits from its capital investments, with lower economic activity both locally and internationally, leading to a lack of market demand.</li> <li>Through the MDS, we facilitate broad-scale opportunities by delivering major infrastructure benefit to the country and promoting the localisation of supply on mega-projects, thereby building industrial capability.</li> </ul>
Funding and liquidity	<ul style="list-style-type: none"> <li>Inadequate liquidity can negatively impact the Company's going-concern status and impact our credit rating, cost of funds and investment plans. The high cost of funds impacts the cash interest cover.</li> <li>Private Sector Participation (PSP) enables Transnet to broaden the available finance pool and expedite infrastructure development and capacity creation, and encourages foreign direct investment in South African and regional infrastructure.</li> </ul>
Pricing and tariffs	<ul style="list-style-type: none"> <li>Unless the relationships with Regulators are strategically managed, tariff decisions could impact negatively on investment decisions, investor confidence and ultimately on the execution of the Company's strategy.</li> <li>To justify tariff increases (resulting in improved service pricing), Transnet must provide infrastructure service reliability and technical innovation commensurate with tariff increases. Through operational efficiency and R&amp;D activities, we enhance infrastructure reliability, as well as our technical expertise. Efficiency and productivity gains also strengthen our market position.</li> </ul>
<b>Ensure customer-centricity and build partnerships for sustainable growth</b>	
Volume and revenue growth	<ul style="list-style-type: none"> <li>The risk of not attracting and sustaining additional volumes as new capacity is created and to protect current volumes against new entrants.</li> <li>Opportunity to capture greater market share in the domestic transport market through the road-to-rail strategy and extending the Company's footprint across the border into the rest of the African continent and the Middle East.</li> </ul>
Expanding Transnet's business on the continent	<ul style="list-style-type: none"> <li>Regional risks associated with regional expansion include socio-economic and political instability in operating countries and operational risks around planning, staffing and operationalising of the regional business.</li> <li>While economic growth forecasts for developing countries are muted, the region is in need of significantly improved infrastructure connectivity, which Transnet can help to facilitate through its Africa expansion strategy.</li> </ul>
Fostering lasting customer relationships	<ul style="list-style-type: none"> <li>The risk that poor client service delivery results in strained relationships with customers.</li> <li>Mutually beneficial customer relationships facilitate long-term planning of commodity performance with customers, including global planning around commodity demand and South Africa's global market position – particularly valuable in the current macroeconomic climate.</li> </ul>
Facilitating private-sector investment in logistics	<ul style="list-style-type: none"> <li>Collaborative partnerships with customers and private-sector partners can support end-to-end logistics service solutions. These partnerships will become increasingly critical as Transnet moves from its current status as a third-party logistics (3PL) service provider to fourth-party logistics (4PL) service provider.</li> </ul>
<b>Promote transformation and growth in the wider South African economy</b>	
Promoting transformation	<p>As a SOC, Transnet is expected to deliver on Government's socio-economic, developmental imperatives (job creation, skills development, transformation and localisation). As one of South Africa's largest single employers and one of the country's largest infrastructure investors and network operators, Transnet is well placed to promote social value creation through employment equity in the Company and black economic empowerment through our suppliers. Transnet promotes training, skills development and local technology transfer, particularly through our relationships with OEMs in our locomotives acquisition programme. The scale and scope of our procurement expenditure will create and empower local black business in many sectors, and lead industry through new technological innovations.</p>
Localisation of supply	
Creating and sustaining jobs	



## Internal sources of risks (aspects of business activities)

Residual risk profiles  
of the top 10 risk  
heat map

● 2017




○ 2016

Residual risk  
Inherent risk

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

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

Risk description	Root causes	Impact(s) on value	Key control strategies
<b>Pricing risk</b> <i>Pricing/tariff guidelines, methodologies and models not supportive of volume growth</i>  (5) (1)	<ul style="list-style-type: none"> <li>• <b>Non-regulated pricing:</b> Models and methods not flexible enough to be competitive</li> <li>• <b>Regulated pricing:</b> Tariff guidelines not supportive of volume growth</li> </ul>	<ul style="list-style-type: none"> <li>• Not meeting planned volume growth</li> <li>• Impacting adversely on financial results</li> <li>• Slowing down the road-to-rail strategy</li> </ul>	<b>Key regulated pricing controls</b> <ul style="list-style-type: none"> <li>• National Ports Authority applies the Ports Regulator's approved TM to ensure regulatory and revenue certainty. Ports Regulator does not account for inflationary increases.</li> <li>• Pipelines applies for its petroleum pipelines tariffs on an annual basis due to NMPP project challenges.</li> <li>• Ministerial Task Team was established to develop the Interim Rail Economic Regulatory Capacity for Freight Rail.</li> <li>• Economic regulation of Freight Rail will put pressure on future revenue streams.</li> <li>• Stakeholder relationship building with Regulators and Government departments.</li> <li>• Key non-regulated pricing strategy:               <ul style="list-style-type: none"> <li>• Effective pricing will mitigate risks;</li> <li>• Review current strategy; and</li> <li>• Strategy to be dynamic, broad and inclusive.</li> </ul> </li> </ul>
<b>Productivity/efficiency risk</b> <i>Suboptimal productivity and efficiency levels</i>  (7) (7)	<ul style="list-style-type: none"> <li>• Ineffective value chain co-ordination</li> <li>• Ineffective rail and port planning</li> <li>• Asset availability and reliability concerns</li> </ul>	<ul style="list-style-type: none"> <li>• Lower volumes</li> <li>• Financial instability</li> <li>• Reduced asset performance</li> <li>• Adversely affecting service delivery levels</li> </ul>	<b>Key control strategies</b> <ul style="list-style-type: none"> <li>• Full implementation of Crew Management System in Freight Rail.</li> <li>• Develop Capacity vs Demand Model for Ports to address holistic operation. Review Port Development Framework Plans.</li> <li>• Improve and reinforce the TVCC co-ordination.</li> <li>• Initiate Port Operations Centres and develop into Joint Operations Centres.</li> <li>• Implement Regional Economic Integration Programme and MOUs to co-ordinate regional cargo flows.</li> <li>• Establish competent human resources capacity.</li> <li>• Develop comprehensive business continuity management plans to allay incidents and asset failures.</li> <li>• Embed a risk management culture in decision-making.</li> <li>• Integrated planning between Operating Divisions and industry for contingent capacity in the event of outages.</li> </ul>
<b>Operational readiness risk</b> <i>Misalignment between operational readiness and rolling stock acquisition</i>  (8) (5)	<ul style="list-style-type: none"> <li>• Operations not ready to operate the newly acquired assets in terms of training of drivers and maintenance staff, upfront spares, tools and facilities</li> <li>• Alignment across the value chain between Operating Divisions and Specialist Units</li> </ul>	<ul style="list-style-type: none"> <li>• Delays in the deployment of newly acquired rolling stock</li> <li>• Reduced availability of rolling stock</li> <li>• Lower productivity</li> </ul>	<b>Key control strategies</b> <ul style="list-style-type: none"> <li>• Locomotive execution strategy – four-tier governance (Executive Sponsor, Steering Committee, locomotive owners, Programme Director).</li> <li>• 1 064 Locomotive Team to manage effectiveness of controls – Engineering and Freight Rail committees established. Group SteerCo not established yet.</li> <li>• Capital project planning between Engineering, Port Terminals and Rail Network for alignment across the value chain.</li> <li>• Operational readiness effected in preparation for locomotive deployment.</li> <li>• Ordering of railway material done a year in advance.</li> <li>• Programme Management office established.</li> <li>• Engineering and Freight Rail maintain risk registers.</li> </ul>

<div> <div>Residual risk</div> <div>Inherent risk</div> </div> <div> <div>Priority I risk – GCE and Board level</div> <div>Priority II risk – Operating Divisions' CE level</div> <div>Priority III risk – General Managers' level</div> <div>Priority IV risk – Managers' level</div> <div>Priority V risk – Employees' level</div> </div>			
Risk description	Root causes	Impact(s) on value	Key control strategies
<b>ICT risk</b> <i>Inadequate ICT infrastructure and technology to enable business and to deal with disruptive innovation</i>  6 9	<ul style="list-style-type: none"> <li>• Organisation not ready to embrace disruptive technologies</li> <li>• Current ICT solutions not integrated</li> <li>• Funding constraints</li> <li>• Poor cybersecurity awareness among employees</li> <li>• Software vulnerabilities and lack of industry security standards in the new digital economy</li> </ul>	<ul style="list-style-type: none"> <li>• Business is not enabled to deal with disruptive innovation</li> <li>• Delayed implementation of new technologies</li> <li>• Reskilling of human resources required</li> <li>• Delayed commercialisation of digital solutions</li> </ul>	<b>Key control strategies</b> <ul style="list-style-type: none"> <li>• Effective implementation plans for the IT strategy.</li> <li>• IT systems convergence to improve visibility between Operating Divisions.</li> <li>• Strengthened perimeter protection with implementation of next generation firewalls.</li> <li>• Ramp up training before new assets in production.</li> <li>• Equipment lifecycle management.</li> <li>• Two-way ICT Disaster Recovery Plan.</li> <li>• Comprehensive security and tracking for critical systems.</li> <li>• Automation of software patches for servers and workstations.</li> <li>• Digital think tank established.</li> <li>• Implement systems automation strategies.</li> <li>• Evolving pre-emptive and proactive responses in response to the business needs through diagnostic capabilities, to deliver on advanced analytics.</li> </ul>
<b>People management risk</b> <i>Inadequately skilled staff in operations, not skilled for future operations</i>  4 6	<ul style="list-style-type: none"> <li>• Operational staff not skilled for future operations</li> <li>• Lack of scarce skills in the job market</li> <li>• Not actively managing skills development</li> </ul>	<ul style="list-style-type: none"> <li>• Delayed benefits realisation of new technologies</li> <li>• Retraining of current employees</li> <li>• Reliance on external skills</li> </ul>	<b>Key control strategies</b> <ul style="list-style-type: none"> <li>• Implement a compelling employer brand.</li> <li>• Workforce strategy to determine long-term and temporary skills requirements.</li> <li>• Cultivate skills development strategies, i.e. partnerships with educational institutions or programmes to supply scarce skills.</li> <li>• Vacancy management and displacement.</li> <li>• Initiate recruitment, talent and compensation strategies to attract scarce skills (i.e. rural areas, global).</li> <li>• Renegotiate main agreements with organised labour.</li> </ul>
<b>Capital execution risk</b> <i>Not realising the benefits from the capital investments</i>  3 2	<ul style="list-style-type: none"> <li>• Expected market demand not validated sufficiently</li> <li>• Lower economic activity both locally and internationally, leading to a lack of market demand</li> <li>• Delays in the execution of capital projects</li> </ul>	<ul style="list-style-type: none"> <li>• Not generating adequate cash flows to contribute to future capital expenditure</li> <li>• Underutilisation of newly acquired assets</li> </ul>	<b>Key control strategies</b> <ul style="list-style-type: none"> <li>• Implemented total cost of ownership planning techniques to ensure the best option when acquiring assets, using case validation and gate review process.</li> <li>• Fleet planning with the full asset lifecycle in mind.</li> <li>• Develop clear Replace/Repair/Refurbish guidelines.</li> <li>• Operational readiness monitored in execution through SteerCo, with focus on Mega-programmes.</li> <li>• Apply design to cost principles.</li> <li>• Robust demand validation process is now mandated for all strategic commodities.</li> <li>• Quarterly portfolio update and monitoring to assess changes in macroeconomic factors – to be considered in re-balancing the portfolio.</li> <li>• Developing assets with scalable and flexible solutions.</li> <li>• Capital Operating Model finalised.</li> <li>• Skills audit on 1 200 Project Management offices across the Group.</li> </ul>





### External sources of risks (aspects of legal, commercial, social, environmental and political contexts)

Needs and interests of stakeholders  
Macro/microeconomic conditions  
Market forces, e.g. competitor strengths/weaknesses  
Environmental challenges

Legislative and regulatory environment  
Political environment  
Market segmentation  
Market channels

### Direct or indirect impacts of risks

Residual risk Inherent risk			
Residual risk profiles of the top 10 risk heat map			
● 2017 ○ 2016			
Risk description	Root causes	Impact(s) on value	Key control strategies
<b>Environmental risk</b> <i>Energy supply, water shortage and adverse weather patterns</i> 	<ul style="list-style-type: none"> <li>Absence of sufficient sub-stations along the network</li> <li>Water shortage in certain geographical areas</li> <li>Adverse weather patterns resulting in strong winds and torrential rain</li> </ul>	<ul style="list-style-type: none"> <li>Operational disruptions</li> <li>Handling of certain commodities adversely affected (i.e. sawdust at Port of Richards Bay)</li> <li>Safety incidents: Loss of life and damage to equipment</li> </ul>	<b>Key control strategies</b> <ul style="list-style-type: none"> <li>Setting of energy-efficiency targets, energy-saving initiatives and consumption reporting.</li> <li>Electricity price path management, continuous price analysis.</li> <li>Implement ISO 50001 for certification planned for 2018.</li> <li>Water policy.</li> <li>Water-retention initiatives – leak detectors, pressure control valves, remote loggers.</li> <li>Refurbish Delkor Plant, boreholes.</li> <li>Agreement with CSIR to obtain weather updates.</li> </ul>
<b>Macroeconomic environment risk</b> <i>Deterioration in macroeconomic environment due to global economic slowdown and slow recovery, rendering capital projects non-viable</i> 	<ul style="list-style-type: none"> <li>Global economic slowdown and concomitant slow recovery</li> <li>Local economic policy uncertainty</li> <li>Weakening of local currency</li> </ul>	<ul style="list-style-type: none"> <li>Capital projects becoming non-viable</li> <li>Increased cost for the replacement of current assets and acquisition of spares</li> <li>Possible Sovereign credit rating downgrades</li> </ul>	<b>Key control strategies</b> <ul style="list-style-type: none"> <li>Treasury Financial Risk Management Framework.</li> <li>Adopt Long-term Planning Framework.</li> <li>Strategic customer engagement plans.</li> <li>Annual Corporate Plan and budgeting.</li> <li>Flexibility to adjust Corporate Plan and investment strategy to operations.</li> <li>Capital reprioritisation.</li> </ul>
<b>Regulatory risk</b> <i>Changes in the regulatory environment* – spending on capex based on assumptions that may be negatively impacted by subsequent changes in regulation</i> 	<ul style="list-style-type: none"> <li>National policy changes anticipated in economic regulation</li> <li>National Treasury increasing procurement controls to contain uneconomical spend and opportunities for fraud</li> </ul>	<ul style="list-style-type: none"> <li>Spending on capex based on assumptions may be negatively impacted by subsequent changes in regulation</li> <li>Compliance requirements becoming more onerous</li> <li>Local policy uncertainty</li> </ul>	<b>Key control strategies</b> <ul style="list-style-type: none"> <li>Regular engagement with Government and Regulators to align strategies.</li> <li>Assessing draft legislation through communication and consolidation of impacts on internal processes.</li> <li>Shareholder Task Team built to engage with the Rail Regulator.</li> <li>Developed and maintained minimum control frameworks in response to procurement legislation.</li> <li>Assurance activities on priority legislation for control effectiveness.</li> <li>Competition Commission investigation – prepare the required documentation to inform on alleged port and rail exclusionary practices and price discrimination.</li> </ul>
<b>Volume growth risk</b> <i>Inability to attract and sustain additional volumes with new capacity Protecting current volumes against new entrants, customer activism</i> 	<ul style="list-style-type: none"> <li>High reserve stock levels of some commodities</li> <li>Current customers in financial distress</li> <li>Pricing not integrated across the organisation</li> <li>Inflexible in pricing strategies, do not compete with rivals in new markets</li> </ul>	<ul style="list-style-type: none"> <li>Not meeting planned revenue diversification opportunities</li> <li>Stranding and underutilisation of newly acquired assets</li> <li>Reduced volumes from current customers</li> </ul>	<b>Key control strategies</b> <ul style="list-style-type: none"> <li>GLT diversification initiatives.</li> <li>Think tank initiatives.</li> <li>Strategic customer engagement plans.</li> <li>Group integrated pricing forum.</li> <li>Key account management.</li> <li>Approved pricing strategy.</li> <li>Road-to-rail strategy.</li> </ul>

\* i.e. economic, technical and compliance.



## Risks taken outside tolerance levels

Desired control effectiveness is assessed by risk sponsors, assuming that all additional mitigation has become effective. The level of desired control effectiveness is based on various considerations, 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.



## The governance of risk

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

- Risk owners: ensure that the assessment of that risk is up to date and is properly recorded in risk registers;
- Control owners: provide periodic assurance that controls are adequate, effective and efficient; and
- Task owners: take risk treatment actions.

## Transnet's risk control and assurance environment

### Integrated Assurance Model for capital projects programmes

Transnet has an established, principles-based Integrated Assurance Model (IAM) 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.

### Integrated Assurance Model for capital programmes

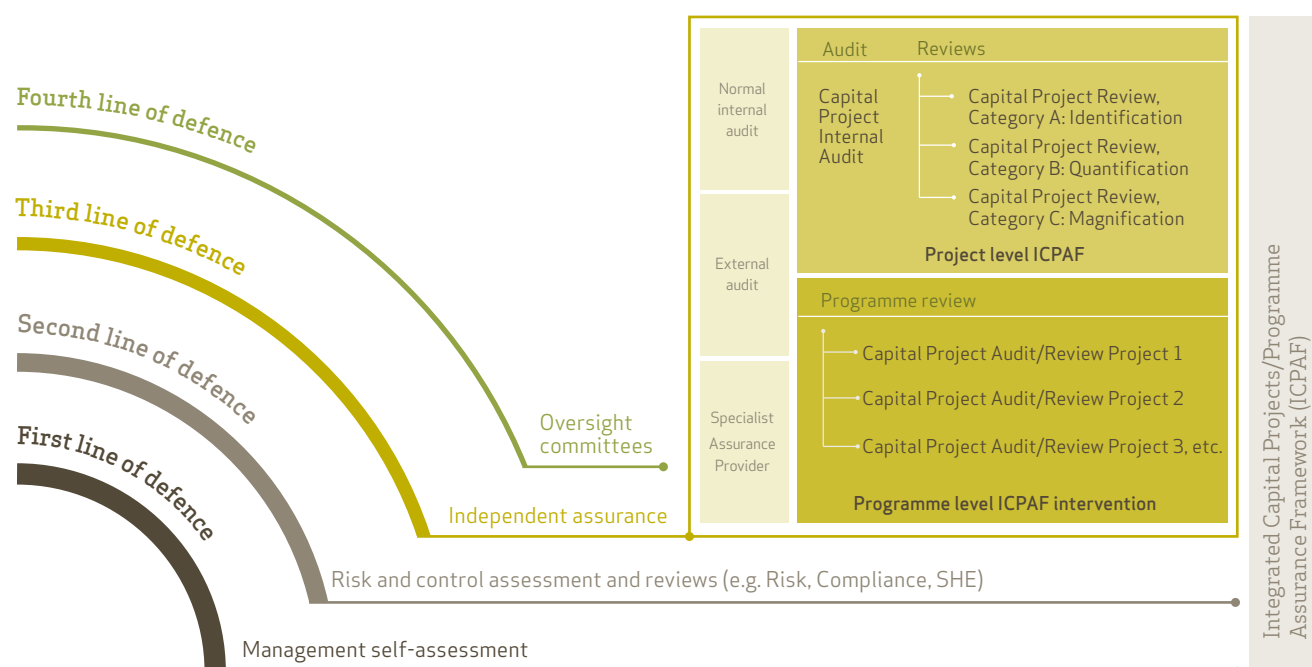


Figure 15



## Management of risk

During 2007, Transnet introduced one framework for the management of all risks across the business. While the framework is now established, we continue to consolidate and embed Enterprise Risk Management (ERM) activity across the organisation.

ERM aims to achieve an appropriate balance between opportunities realised for gain, while minimising adverse impacts. The general activities in a formal ERM process include risk identification, evaluation, prioritisation, treatment, monitoring, reporting and integration into strategic decision-making and key business processes.

The emergence of generally accepted corporate governance principles has seen risk management focus increasingly on Transnet's strategic objectives. Rather than striving only for

inherent efficiencies and operational performance, ERM helps to shape the business' strategic direction. The risk management approach is evolving from being process- and compliance-focused, to one of data-centricity.

To achieve best-practice levels, Transnet considers the requirements of the guidelines of the King Report on Corporate Governance for South Africa, 2017 (King IV), and ISO 31000: 2009 Risk Management Standard. The strategic risk profile is based on the five strategic imperatives of the MDS and the nine Sustainable Developmental Outcomes (SDOs):

- Financial sustainability;
- Capacity creation;
- Operational performance; and
- Market segment competitiveness.

### Fraud and Corruption Risk Management Strategy

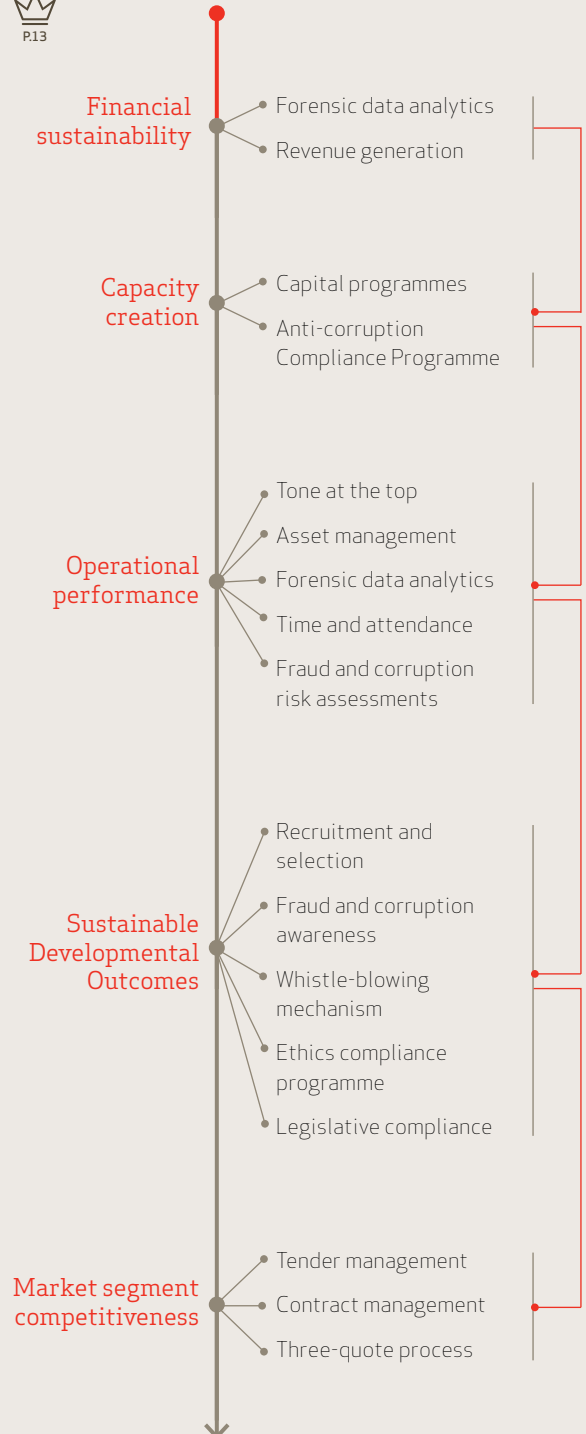
Transnet's Fraud and Corruption Risk Management Strategy, as contained in the Fraud Risk Management Programme (FRMP), provides mechanisms for the prevention, early detection and investigation of irregularities. The FRMP also provides corrective measures to address control breakdowns and the related root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

The MDS strategic imperatives and SDOs represent the overarching themes of the FRMP in that they not only embrace the fraud risk management initiatives undertaken in previous years, but also emphasise the related root causes of fraud and corruption emanating from the areas of governance, people, methods and practices. Further, the successful implementation of the various initiatives contained within the identified themes will continue to assist Transnet in positioning itself as a leading company with a robust fraud and corruption risk management strategy.



Figure 16

### Key themes of the Fraud and Corruption Risk Management Strategy





## Emerging risks

The following emerging risks were identified over the past financial year and are receiving appropriate attention:

### Short-term to medium-term emerging risks

#### Update at the time of writing this report

**Emerging financial risk – Sovereign credit downgrade:** The risk of obtaining a negative Sovereign credit rating impacts Transnet's investment appeal. Transnet's rating is linked to that of the Sovereign.

At the time of writing this report (as at 5 April 2017), Standard & Poor's had lowered the Company's foreign currency rating to BB+ from BBB- and the local currency to BBB- from BBB, both with a negative outlook. On 13 June 2017, Moody's also lowered the Company's rating to Baa3 with a negative outlook. Both these actions were due to the rating action on the Sovereign as Transnet is viewed to be closely linked to the Government. Transnet evaluated the potential impact on its financial position, liquidity and solvency and expects no significant negative effect on estimates.

• **Emerging operational risks** – Extreme weather conditions, such as flash floods, lead to washaways and mudslides on major routes which increase the severity of rail safety-related incidents, which could result in derailments, asset losses and even employee fatalities. An agreement was reached with the CSIR to share weather updates with Transnet as an early warning of expected adverse weather conditions. The Company also employs activity-based risk assessments to determine unsafe conditions in operations.

• **Emerging ICT risks** – New technologies have the potential to drive innovation, new opportunities and create value, while they also have potential to negatively impact society and the business environment if skills are not sufficient to adopt and implement these technologies. It is imperative for South Africa to develop skills capacity for emerging technologies.

### Long-term emerging risk environment

A transition in the global economy is under way. The emergence of disruptive technology fuelling the 4th Industrial Revolution, driven by extreme automation and artificial intelligence, is already changing business globally. The social system also is experiencing disruptions in power dynamics as evidenced by increasing social activism campaigns across the world (e.g. Arab Spring, Keystone XL, #feesmustfall), all enabled by digital platforms. South Africa has experienced a significant deterioration of its electricity security situation over the past 10 years and, increasingly, decision-makers are realising that biodiversity loss is not a second-order issue but is intricately linked to economic development, food challenges and water security. Transnet's emerging risk landscape holds both challenges and opportunities for growth.

#### Circular economy – decoupling of economic progress from resource utilisation

Transitioning from the current global industrial economy towards a circular economy necessitates that we continue to adapt and evolve Transnet's business model to remain fit for purpose. Moving forward in the medium term, Transnet could expect a reduction in the transportation of certain mining commodities within the domestic market (e.g. coal) as a direct result of the reduced need for energy per unit of output, and the move to cleaner energy. There are likely limits to growth on Transnet's iron ore export line in the medium to long term, and demand is even likely to follow a pessimistic outlook in an increasingly 'sustainable world'. The flow of manufactured goods by rail will be negatively impacted where such goods can be manufactured at the point of use, particularly using 3D printing. Such technologies may also displace Advanced Manufacturing's work in the medium to long term, as organisations shift to their own manufacturing.

Transnet has already begun to adapt its business model and operational structure in earnest to meet this new industrial paradigm, with due consideration for the opportunities and major risk areas presented by the future business landscape as summarised below:

- Disruptive technology
- Energy
- Water
- Biodiversity
- Social inequality

### Disruptive technology

'Disruptive' technology is known to displace or discontinue an established or sustaining technology and shake up an industry. It can also be a groundbreaking product that creates a completely new industry. Transnet can create new and innovative technologies to adapt to the 4th Industrial Revolution paradigm or, conversely, have aspects of its business displaced by external disruptive technological innovations. Disruptive technology can be good and bad depending on response.

Disruptive technology has not yet displaced any aspects of Transnet's business. However, if left to chance and 'business as usual', Transnet may find it difficult to be competitive in the next decade. Transnet is an energy-intensive company with ownership in the country's freight

rail, ports and pipeline infrastructure. The development of technologies, such as Internet of Things, fuel cells, drones, driverless cars, renewable energy and energy storage system, will have consequences for Transnet's business model. It is thus paramount to understand this impact and how it will evolve. Agility, speed and investment in emerging technologies will be crucial for Transnet to succeed as beneficiaries in this rapidly changing developmental revolution.

In the medium term, driverless vehicles may impact Transnet as road transport may be favoured over rail based on the efficiencies that driverless technology will bring. This can have an impact on volumes, especially in General Freight. In the long term, it is expected that driverless technology would have displaced the traditional mode of transportation.

### Energy

The current global energy system is based on fossil fuels and this will change in future as the global economy is shifting towards cleaner fuels. Social inclusion by providing access of energy to all will be critical as the energy system transforms.

Demand for coal transportation by Transnet for Eskom power generation is unlikely to be affected in the short to medium term, as South Africa is locked into coal-powered generation, but it is likely to be affected negatively in the longer term. Coal exports could be affected negatively

before 2020. If South Africa opts to import LNG, this is unlikely to happen much before 2020, but it does present a new opportunity for Transnet to off load and distribute the gas throughout the country.

Electricity security is expected to have an impact on all SDOs over Transnet's long-term planning period. Industrial capability building and investment are already being impacted for the immediate term due to the energy security risk. Electricity security is critical to Transnet to remain a going concern, although no material business disruption has yet been reported.

### Water

Water stress is expected to amplify over the next decade and further if governments, businesses and civil society do not implement mitigation measures. There is a high probability of an increased volatility to catchments and subsequent impact on dam levels. Regionally, the Kariba Dam, which feeds Zimbabwe and Zambia, is currently at 14%, which is an extremely dangerously low level. This will have a ripple effect on Zambia's energy sector as it is 95% reliant on hydro power. With global population expected to exceed the 9 billion mark by 2050<sup>1</sup>, more strain is expected on the global water system.

In the business operation water stress has already been experienced. The uMhlathuze Municipality has been imposing restrictions since 2014 and continued through 2016. Water at the Port of Richards Bay terminal is used for dust suppression, washing conveyor belts and sanitation and hygiene. Although there are alternatives to using water for dust suppression, this comes at a cost premium and subsequent increase in the cost of operations. Having adequate water for sanitation and

hygiene is critical to ensure the health of employees and is a basic requirement for a workplace as shortages can increase the level of absenteeism due to ill health. Absenteeism can have an impact on operational efficiencies and thus impact costs and revenues.

Transnet has a percentage of the market share in the transportation of maize and thus this may have an impact on the business in the short to medium term. Further, having a large percentage of market share of coal transportation, the impact on volumes is inevitable, not only due to emission reduction pressures, but also owing to the difficulty in obtaining water use licences for mining. The prioritisation of allocations for water will be of fundamental importance in terms of industrial versus domestic water needs.

While it is a challenge, water risk also presents an immediate opportunity in the business operation from an import perspective. South Africa may need to import up to half of its maize requirements over the course of 2016 and beyond. Five of our ports have grain handling facilities with substantial storage capacity to handle the growth in volumes. The Port of Durban is geared up to act as the importation hub for maize.

<sup>1</sup> <http://www.un.org/esa/population/publications/wpp2008/pressrelease.pdf>



### Biodiversity

Biodiversity loss presents many more risks to Transnet's value network, value chain and business operations. In the medium and long term, future corridors are at risk due to population increase, and human settlement along those corridors. De-ballasting remains a challenge at the ports and poses a risk of alien invasion.

This can have a great impact on the marine environment and can greatly impact aquatic life. An increased difficulty in obtaining licences (Water Use Licences and tree-cutting permits) resulting in payment of standing time and possible deviations is expected throughout the MDS and LTPF – this is a cost to the business. This would be due to increasing stringency in conservation laws and Government's drive towards sustainability.

### Social inequality

Social inequality has been widening throughout many economies. This has a potential to erode social contracts between states. Transnet has a development agenda to support economic growth and job creation. It operates across South Africa and has a regional agenda. The Company is susceptible to societal risks to gain a

licence to operate. There will be growing expectations from societies for Transnet to be inclusive in its development and to collaborate. Community unrest may emerge due to Transnet's inability to meet community expectations.



# OUR PERFORMANCE

## Performance review

Transnet aims to achieve capital spend of R229,2 billion over the Market Demand Strategy (MDS) period (between R340 billion and R380 billion to be invested over the next 10 years) to increase capacity across all commodities and sectors.

We measure the success of our performance based on the expansion of rail, port and pipelines infrastructure, and the increase of capacity to meet validated market demand. Key to achieving the MDS is achieving specific financial key performance indicators (KPIs) that relate to our financial agility and sustainability. The success of the MDS further relies on significant productivity and operational efficiency improvements. The Shareholder's Compact contains the KPIs that the Board of Directors and the Shareholder Representative agree on, and serves as the performance monitoring framework for the Company.

## Financial sustainability



We continued to execute the MDS, with concerted efforts to manage costs, improve operational efficiency and rephase and optimise capital investments in response to a muted economy.

The year was characterised by persisting challenges in the economic environment, with depressed commodity prices and low domestic economic growth. This resulted in lower-than-budgeted customer demand for freight services, coupled with the realisation of below-budget Rand per ton prices.

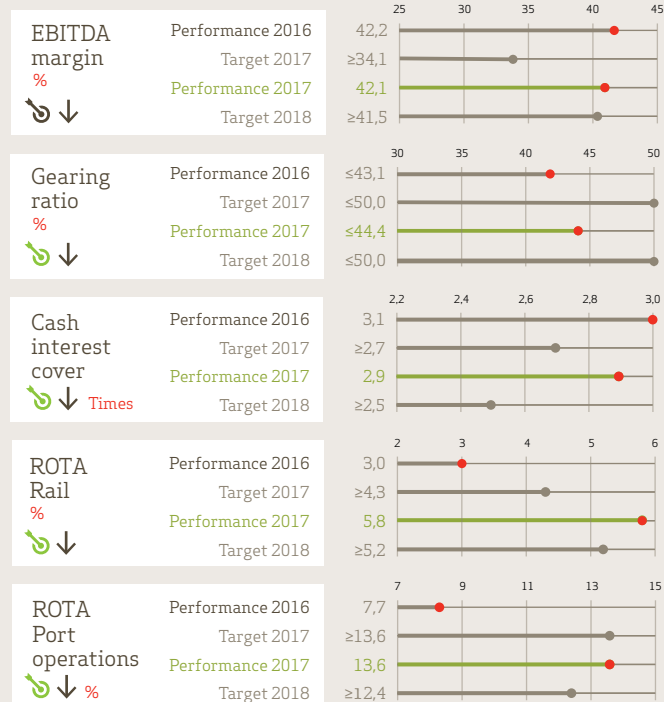
Notwithstanding economic challenges, Transnet's revenue for the year increased by 5,3% to R65,5 billion (2016: R62,2 billion), driven by a 4,9% increase in general freight to 88,1 mt (2016: 84,0 mt) and a 2,4% increase in export coal railed volumes.

Profit of the year increased to R2,8 billion (2016: R393 million) more than 600% higher than the prior year

5,3% increase in revenue to R65,5 billion



## Key compact KPIs



Our ability to maintain financial stability is aided by the achievement and management of key profitability ratios, such as the EBITDA margin, gearing, cash interest cover and return on total average assets. Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 5,0% to R27,6 billion (2016: R26,3 billion), with a resultant decrease in the EBITDA margin to 42,1% (2016: 42,2%).

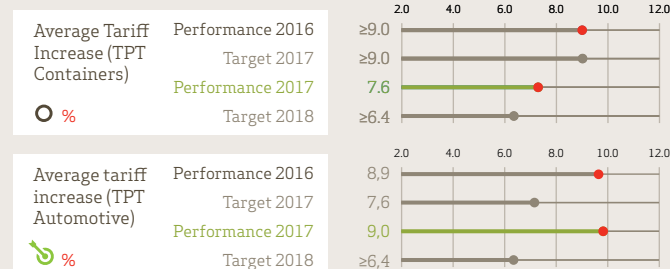
The gearing ratio increased marginally to 44,4% (2016: 43,1%), due mainly to the execution of the capital expenditure programme. This level is below the Group's target range of 50,0%, and is well below the triggers in loan covenants, reflecting the available capacity to continue with the investment strategy, aligned to validated market demand. The gearing ratio is not expected to exceed the target ratio over the medium term.

The cash interest cover ratio at 2,9 times (2016: 3,1 times) is below the internal target of 3,0 times, due to the significant increase in net finance costs, which resulted from borrowings to fund the capital investment programme. This is, however, higher than the triggers in loan covenants.

## Regulatory affairs



## Key compact KPIs



## Key

- ↑ Improvement on prior year performance
- ↓ Decline on prior year performance
- = Equivalent performance to prior year
- 🎯 Target achieved
- 🎯 Target partially achieved
- Target not achieved

Transnet is engaging with the Department of Public Enterprises and the Department of Transport on the Revised White Paper on National Transport Policy, which was last developed in 1996 to ensure that the Company's inputs are considered.

During the financial year, Transnet was granted a single-entity Railway Safety Permit valid from 31 August 2016 until 31 August 2017 by the Railway Safety Regulator. Transnet paid Railway safety permit fees amounting to R69,95 million for the 2017 financial year.

The following regulatory developments took place for each of the divisions during 2017:

## Freight Rail

*Draft Railway Levies Bill and Draft Railway Safety Bill*

Transnet submitted comments on the Draft Railway Levies Bill and Draft Railway Safety Bill to the Department of Transport in August 2016. Further comments on the Draft Railway Safety Bill were submitted to the Department of Transport in March 2017. Transnet will continue to engage the Department of Transport through existing protocol to contextualise its views and proposals prior to submission of the Draft Railway Levies and Draft Railway Safety Bills to Cabinet for approval.



### Pipelines

Pipelines filed its 2018 petroleum pipelines tariff application on 1 November 2016. In its application, Pipelines requested an Allowable Revenue decrease of 6,83%. On 23 February 2017, NERSA granted Pipelines a 1,43% increase in allowable revenue compared to the prior tariff period.

Pipelines filed its multi-year piped-gas transmission pipeline (Lilly Pipelines) tariff application on 9 December 2016. In its application, Pipelines requested allowable revenue increases of 0,2% for 2018, an increase of 7,5% for 2019 and an increase of 6,8% for 2020. On 31 March 2017 Nersa approved the multi-year tariffs as per the application.

Nersa published the Amendment to the Guidelines for Monitoring and Approving Piped-gas Transmission and Storage Tariffs (Guidelines) for public comment on 8 February 2017. The key reason for the review was for the harmonization of the three regulated industries to ensure coherence and consistency across Piped-gas, Petroleum Pipelines and Electricity.

### National Ports Authority

The National Ports Authority submitted its 2018 tariff application to the Ports Regulator on 1 August 2016. The application requested a revenue requirement translating into an average tariff adjustment of 8,02% for the 2018 tariff year.

The Ports Regulator made the tariff determination for the National Ports Authority on 1 December 2016 and declined the proposed average 8,02% tariff increase in favour of an average tariff determination of 5,97% for the 2018 tariff year.

Transnet engaged with the Ports Regulator and port users on the review of Multi-year Tariff Methodology. The Ports Regulator, published the Multi-year Tariff Methodology for the 2019 to 2021 tariff periods on 31 March 2017.

### Draft Comprehensive Maritime Transport Policy, 2017

Transnet has made inputs into the Draft Comprehensive Maritime Transport Policy on 23 March 2017 prior to the Department of Transport submitting same to Cabinet for approval.

#### 2018 Focus

- Contribute meaningfully to the work of the Ministerial Task Team in establishing the Rail Economic Regulatory model.
- Manage the process and inputs regarding the Ports Regulator of South Africa's intended discussion document on the National Ports Authority's asset base.
- Monitor the respective Nersa and Transnet NMPP project prudency studies.
- Participate in the Department of Transport-led review of the existing Railway Safety Permit Fees Methodology.
- Engage Nersa on the 2018 petroleum pipelines system tariff application.
- Conduct a tariff gap analysis of the Record of Decisions versus submitted tariff applications.





## Income statement

for the year ended 31 March 2017

		AUDITED	
(in R million)		31 March 2017	31 March 2016
<b>Continuing operations</b>			
<b>A</b>	<b>Revenue</b>	65 478	62 167
<b>B</b>	<b>Net operating expenses excluding depreciation and amortisation</b>	(37 921)	(35 917)
<b>C</b>	<b>Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)</b>	27 557	26 250
<b>D</b>	<b>Depreciation, derecognition and amortisation</b>	(13 471)	(15 275)
	<b>Profit from operations before items listed below</b>	14 086	10 975
<b>E</b>	<b>Impairment of assets</b>	(2 538)	(1 524)
<b>F</b>	<b>Post-retirement benefit obligation expense</b>	(243)	(346)
	Fair value adjustments	1 576	(590)
	Income from associates and joint ventures	20	26
	<b>Profit from operations before net finance costs</b>	12 901	8 541
<b>G</b>	<b>Finance costs</b>	(9 045)	(7 481)
	Finance income	409	408
	<b>Profit before taxation</b>	4 265	1 468
<b>H</b>	<b>Taxation</b>	(1 500)	(1 075)
	<b>Profit for the year</b>	2 765	393

- A** Revenue for the year increased by 5,3% to R65,5 billion (2016: R62,2 billion), driven by a 4,9% increase in general freight and a 2,4% increase in export coal railed. The respective increases were due to growth in market share arising from a shift in rail-friendly cargo from road to rail, and improved operational efficiency attributable to the deployment of new-generation locomotives on the network. Port container volumes increased marginally by 0,7% to 4 395 962 TEUs (2016: 4 366 376 TEUs), notwithstanding weaker demand. Petroleum volumes transported for the year decreased by 2,6% to 16 978 million litres (2016: 17 426 million litres). The decrease relates predominantly to the lower market demand for refined volumes stemming from current depressed commodity prices and the economic slowdown.
- B** Operating costs increased by 5,6% to R37,9 billion (2016: R35,9 billion), notwithstanding a 10,1% increase in electricity costs mainly due to higher electricity tariffs and a 7,5% increase in personnel costs. Numerous cost-reduction initiatives implemented throughout the Company helped to limit the increase in operating costs, resulting in a R2,4 billion saving in planned costs. These initiatives included the limiting of overtime, a reduction in professional and consulting fees, and placing a limit on discretionary costs as it relates to travel, accommodation, printing, stationery and telecommunications.
- C** Consequently, EBITDA increased by 5,0% to R27,6 billion (2016: R26,3 billion) with a resultant decrease in the EBITDA margin to 42,1% (2016: 42,2%).
- D** Depreciation, derecognition and amortisation of assets decreased by 11,8% to R13,5 billion (2016: R15,3 billion), due to annual useful life adjustments to rolling stock and the rephasing of capital investments to align with lower market demand.
- E** Impairment of assets, amounting to R2,5 billion (2016: R1,5 billion), is primarily due to the impairment of property, plant and equipment, mainly due to derailments, as well as an impairment of trade and other receivables.
- F** Post-retirement benefit obligations are actuarially assessed in accordance with IAS 19: Employee Benefits, and adjusted accordingly. A cost of R243 million (2016: R346 million) was recognised during the year.
- G** Net finance costs increased by 22,1% to R8,6 billion (2016: R7,1 billion) in line with expectations, due to the increased cost of borrowings. Capitalised borrowing costs amounted to R3,9 billion (2016: R3,5 billion).
- H** The taxation charge of R1,5 billion (2016: R1,1 billion) is comprised of a deferred taxation charge. The increase in the deferred taxation charge arose mainly due to an increase in wear and tear allowances, as well as capitalised borrowing costs that are deductible for tax purposes. The deferral of certain foreign exchange gains (due to a legislative change in the current financial year) was partially offset by the impact of the Company's calculated taxation loss. The effective taxation rate for the Group is 35,2% (2016: 73,2%), which was impacted by expenses that are non-deductible for tax purposes.

## Statement of comprehensive income

for the year ended 31 March 2017

(in R million)	AUDITED	
	31 March 2017	31 March 2016
Profit for the year	2 765	393
Other comprehensive (loss)/income	(3 522)	792
Exchange differences on translation of foreign operations	-	2
Losses/gains on revaluations	(742)	(780)
Cash flow hedges	(2 887)	1 403
Actuarial gain on post-retirement benefit obligations	107	167
Taxation relating to components of other comprehensive loss/(income)	1 030	(223)
Other comprehensive (loss)/income for the year, net of taxation	(2 492)	569
<b>Total comprehensive income for the year</b>	<b>273</b>	<b>962</b>

## Segment information

for the year ended 31 March 2017

(in R million)	Transnet Freight Rail		Transnet Engineering		Transnet National Ports Authority	
	Audited 31 March 2017	Audited 31 March 2016	Audited 31 March 2017	Audited 31 March 2016	Audited 31 March 2017	Audited 31 March 2016
External revenue	38 696	36 474	1 622	1 356	8 943	9 825
Internal revenue	418	478	7 758	9 378	1 436	1 319
<b>Total revenue</b>	<b>39 114</b>	<b>36 952</b>	<b>9 380</b>	<b>10 734</b>	<b>10 379</b>	<b>11 144</b>
Earnings before interest, taxation, depreciation, derecognition and amortisation (EBITDA)	17 263	15 468	(457)	389	6 367	7 284
Total assets <sup>2</sup>	175 865	175 876	17 083	13 283	89 243	82 962
Total liabilities	116 105	112 575	14 415	9 077	45 112	45 163
Capital expenditure <sup>3</sup>	15 746	22 619	945	1 002	2 020	2 938
Cash generated from operations after changes in working capital	19 202	12 763	(753)	(298)	7 277	8 718

<sup>1</sup> Other includes other segments, inter-unit eliminations and consolidation adjustments.

<sup>2</sup> Excludes assets held-for-sale.

<sup>3</sup> Capital expenditure excludes the effects of borrowing costs, includes capitalised finance leases and capitalised decommissioning liabilities.

## Headline earnings summarised reconciliation

for the year ended 31 March 2017

(in R million)	AUDITED	
	31 March 2017	31 March 2016
Profit for the year attributable to the equity holder	2 765	393
Profit on the disposal of property, plant and equipment	(34)	(51)
Loss on the disposal intangible assets	-	3
Loss/(profit) on the disposal of investment property	2	(49)
Total remeasurements	1 653	620
Investment property fair value adjustments	(182)	(439)
Impairment of intangible assets	-	1
Impairment of property, plant and equipment	1 835	1 058
Total taxation effects of adjustments	(471)	(187)
<b>Headline earnings</b>	<b>3 915</b>	<b>729</b>

Transnet Port Terminals		Transnet Pipelines		Total reportable segments		Other <sup>1</sup>		Total Transnet	
Audited 31 March 2017	Audited 31 March 2016	Audited 31 March 2017	Audited 31 March 2016	Audited 31 March 2017	Audited 31 March 2016	Audited 31 March 2017	Audited 31 March 2016	Audited 31 March 2017	Audited 31 March 2016
11 143	10 199	4 352	3 663	64 756	61 517	722	650	A 65 478	62 167
7	11	3	5	9 622	11 191	(9 622)	(11 191)	-	-
11 150	10 210	4 355	3 668	74 378	72 708	(8 900)	(10 541)	65 478	62 167
3 794	3 035	3 377	2 626	30 344	28 802	(2 787)	(2 552)	C 27 557	26 250
18 341	19 259	41 619	38 929	342 151	330 309	9 374	25 920	351 525	356 229
8 277	9 877	22 856	22 401	206 765	199 093	1 307	14 010	208 072	213 103
1 208	1 126	1 706	1 550	21 625	29 235	(95)	326	21 438	29 561
3 854	2 773	3 403	2 041	32 983	25 997	(218)	2 158	32 765	28 155

See page 83

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## Statement of financial position

as at 31 March 2017

(in R million)	AUDITED	
	31 March 2017	31 March 2016
<b>ASSETS</b>		
<b>Non-current assets</b>	333 646	328 192
Property, plant and equipment	311 927	302 463
Investment properties	10 333	10 105
Intangible assets	1 404	1 489
Investments in associates and joint ventures	155	137
Derivative financial assets	8 206	13 076
Long-term loans and advances	20	21
Other investments and long-term financial assets	1 601	901
<b>Current assets</b>	17 989	28 201
Inventories	3 354	3 594
Trade and other receivables	7 768	8 535
Derivative financial assets	3	324
Other short-term investments	332	1 641
Cash and cash equivalents	6 422	13 943
Assets classified as held-for-sale	110	164
<b>Total assets</b>	<b>351 635</b>	<b>356 393</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>	143 563	143 290
Issued capital	12 661	12 661
Reserves	130 902	130 629
<b>Non-current liabilities</b>	168 533	171 254
Employee benefits	2 624	2 646
Long-term borrowings	111 026	117 468
Derivative financial liabilities	1 938	-
Long-term provisions	1 944	1 886
Deferred taxation liabilities	44 853	44 387
Other non-current liabilities	6 148	4 867
<b>Current liabilities</b>	39 539	41 849
Trade payables and accruals	21 673	20 220
Short-term borrowings	13 754	17 049
Current taxation liability	14	13
Derivative financial liabilities	46	247
Short-term provisions	914	932
Other current liabilities	3 138	3 388
<b>Total equity and liabilities</b>	<b>351 635</b>	<b>356 393</b>



## Statement of cash flows

for the year ended 31 March 2017

		AUDITED	
(in R million)		31 March 2017	31 March 2016
<b>Cash flows from operating activities</b>		25 104	28 572
<b>I</b>	Cash generated from operations	31 018	27 747
	Changes in working capital	1 747	408
<b>J</b>	Cash generated from operations after changes in working capital	32 765	28 155
	Finance costs	(7 622)	(6 002)
	Finance income	357	361
	Taxation paid	(3)	(23)
	Settlement of post-retirement benefit obligations	(192)	(208)
	Derivatives settled and raised	(201)	6 289
<b>Cash flows utilised in investing activities</b>		(24 689)	(34 328)
	Investment to maintain operations	(16 486)	(18 864)
	Investment to expand operations	(8 867)	(14 353)
	Changes in investments, loans, advances and other investing activities	664	(1 111)
<b>Cash flows (utilised in)/from financing activities</b>		(7 936)	13 435
<b>K</b>	Borrowings raised	17 009	40 905
<b>L</b>	Borrowings repaid	(24 945)	(27 470)
	Net (decrease)/increase in cash and cash equivalents	(7 521)	7 679
	Cash and cash equivalents at the beginning of the year	13 943	6 264
<b>Total cash and cash equivalents at the end of the year</b>		6 422	13 943

**I** Cash generated from operations amounted to R31,0 billion (2016: R27,7 billion), an increase of 11,8% from the prior year.

**J** Cash generated from operations – after working capital changes – increased by 16,4% to R32,8 billion (2016: R28,2 billion) reflecting the company's strong cash generating capability.

**K** A well-defined funding strategy has enabled Transnet to raise R17,0 billion for the year without Government guarantees, comprised mainly of the following funding sources:

- R5,5 billion from development finance institutions;
- R7,6 billion of commercial paper and call loans;
- R2,9 billion from export credit agencies; and
- R1,0 billion in domestic bonds.

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

**L** Transnet repaid borrowings amounting to R24,9 billion, which related predominantly to loans, bonds and commercial paper that matured during the year.

### Read more

Additional information

The Group Company Secretary certificate, as well as the approval of the Annual Financial Statements, can be found on [www.transnet.net](http://www.transnet.net)

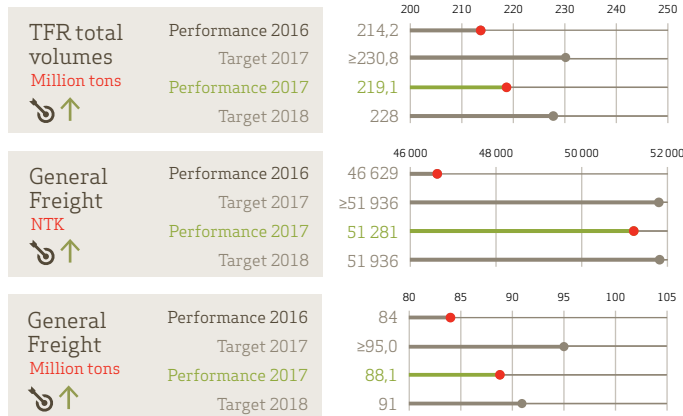


## Operational efficiency

Overall, Transnet's operational efficiency ratio exceeded the 2017 target by 14,9%.

### Rail volumes

#### Key compact KPIs



- Total TFR volumes increased by 2,3% to 219,1 mt (2016: 214,2 mt).
- General freight volumes increased by 4,8% to 88,1 mt (2016: 84,0 mt); this growth is also attributable to a 7% increase in tons for containers transported, including Eskom coal in containers, with a growth from 14,6 mt in 2016 to 15,6 mt in 2017.<sup>1</sup>
- Export coal volumes increased by 2,4%, mainly due to the deployment of new-generation locomotives on the network improving operational efficiencies.
- Manganese volumes increased by 17,5% to 12,1 mt (2016: 10,3 mt), mainly due to recoveries in commodity prices, resulting in customers increasing production outputs.
- The container and automotive business increased volumes by 24,3% to 9,2 mt (2016: 7,4 mt), evidencing continued market share growth from the road-to-rail modal shift.
- Mineral mining and chrome volumes increased by 6,3% to 22,0 mt (2016: 20,7 mt), with price recoveries for chrome and magnetite boosting customer demand.
- Iron ore export volumes decreased by 1,5% to 57,2 mt (2016: 58,1 mt), mainly due to the lower demand for iron ore. Tippler challenges at the port also slowed volume performance.
- Steel and cement volumes decreased by 12,0%, from 17,5 mt to 15,4 mt. Adverse weather conditions negatively impacted the cement industry. Performance was also impacted by a plant shutdown of a large steel customer.
- Agriculture and bulk liquids volumes decreased by 1,1% to 9,0 mt (2016: 9,1 mt), due to the poor grain season given severe drought. Adverse weather and flooding also negatively impacted the timber industry.

### Ports volumes

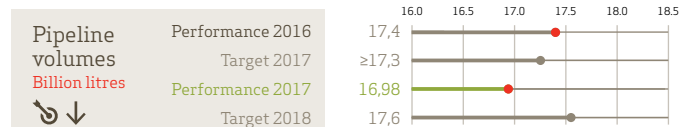
#### Key compact KPIs



- While total export volumes increased by 2,3%, volume performance varied across sectors.
- Import and export volumes across commodity classes showed mixed outcomes, with most commodity volumes generally improving from the prior year.
- Bulk and break-bulk volumes grew by 2,1% to 98,0 mt (2016: 178 354 090 mt) despite downward pressure from low commodity prices.
- Container volumes increased by 0,7% to 4 395 962 TEUs (2016: 4 366 376 TEUs) despite weaker demand due to the slower global economy.
- Total automotive volumes declined by 4,2% to 679 792 (2016: 709 891). Sluggish vehicle imports and exports were due to unfavourable domestic economic conditions.
- Container volumes were 9,8% below target (4 466 000 TEUs versus the target of 4 952 000 TEUs).
- Liquid bulk volumes declined by 1,6% to 41 042 050 mt (2016: 41 704 885 mt), due to decrease in petroleum volumes.

### Pipelines volumes

#### Key compact KPIs



- Transported petroleum volumes decreased by 2,6% to 16 978 million litres (2016: 17 426 million litres), due mainly to lower market demand for refined volumes stemming from current depressed commodity prices and the economic slowdown.
- Gas volumes increased by 2,4%.

#### Key

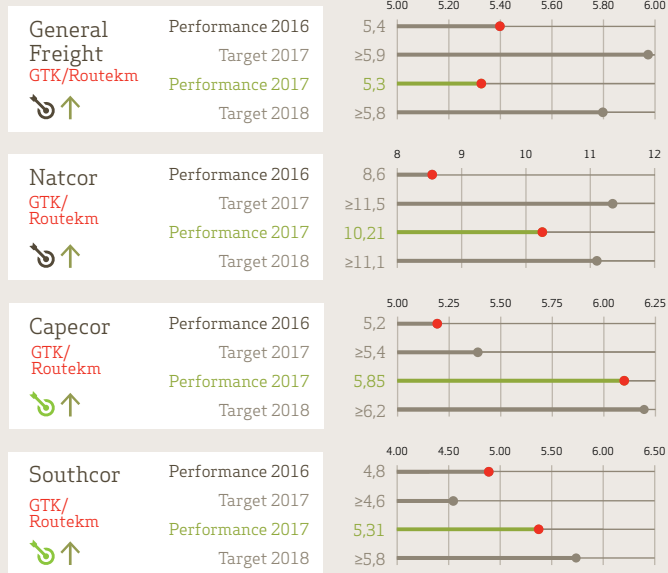
- ↑ Improvement on prior year performance
- ↓ Decline on prior year performance
- = Equivalent performance to prior year
- ✓ Target achieved
- ⚡ Target partially achieved
- Target not achieved

<sup>1</sup> Including Eskom coal containers, with a growth from 14,6 mt in 2016 to 15,6 mt in 2017.

## Operational efficiency/excellence

### Rail efficiency

#### Key compact KPIs

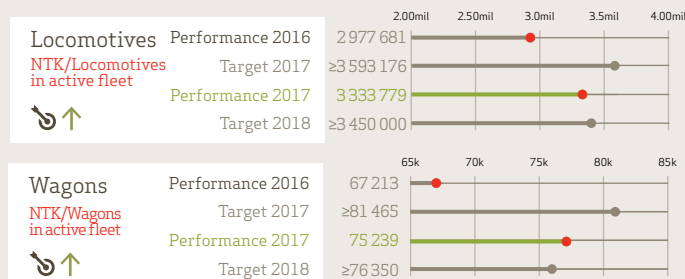


Freight Rail's General Freight efficiency KPI for Density (GTK/Route km), has neither met nor exceeded the target set for the year. The shortfall in general freight volumes transported negatively impacted GTK and thus the density performance. The density of the GF network is further impacted by the traffic mix that was made up largely of shorter trains.

Overall, volumes executed on Natcor performed beyond expectation, falling short of budget by a small margin.

Freight Rail realised excellent volume and density efficiencies on Capecor and Southcor. This is largely due to the high concentration of dense iron ore and manganese commodities conveyed on these corridors. These trains are designed to run with the longest trains possible over a fixed design for route/km. The efficiencies realised in operating these services by far exceeded targets.

### Locomotives



### NTK/Loco

Despite the slump experienced in volumes due to market conditions, the active locomotives that were used in the execution of services were planned and utilised efficiently. The shortfall against target could also be ascribed to the volume shortfall and a complex network (viz. diesel, AC and DC electrified sections) over which a large fleet of older and modern locomotives are deployed.

### NTK/Wagons

The ratio of net tons transported against available wagons reflects a shortfall against target. This is largely due to a variety of wagon types on offer for a variety of services and commodity types. The seasonal and specialised wagon types demanded are included in the 'available wagon' fleet even though they may only be used to transport freight for certain periods in the year.

### Port Terminals efficiency

Port Terminals' primary measure of operational efficiency, average moves per ship working hour (SWH), has declined across all the terminals. In Durban, the Pier 1 SWH decreased from 53 to 45 moves, while the Pier 2 SWH declined from 63 to 55 moves. The Durban Terminals experienced equipment and weather challenges, which negatively impacted performance. The Ngqura Container Terminal SWH declined from 66 to 63 moves due to the lower parcel sizes resulting from the current global economic environment. The Cape Town Container Terminal SWH decreased marginally, from 54 to 53 moves, having been impacted by uncommonly harsh weather conditions.

Container terminals have reduced their train turnaround time to below the targeted four hours. Targets were met at all our container terminals except Saldanha, where the target was marginally missed; the terminal achieved 112 minutes vs the 109 minutes target. Saldanha was impacted by a number of equipment challenges earlier in the year; however, these have since been addressed and performance has improved.

Ports performed exceptionally well regarding 'average anchorage waiting times' performance targets. The favourable performance is attributable to minimal equipment failure disruptions, continuous terminal operations' monitoring and proactive stakeholder engagement geared towards operational efficiency.

## Capacity creation and maintenance

### Capital investment and progress on major projects

Transnet has invested R145 billion on MDS initiatives over the past five years and expects to invest a further R229,2 billion. The latter includes an amount of R20 billion, to be set aside expressly for the identification of validated opportunities to diversify revenue streams, so as to accelerate and facilitate growth beyond the MDS period to 2024.

We have maintained financial stability and agility by optimising capital expenditure based on validated demand. Our capital investment for the year amounted to R21,4 billion (excluding capitalised borrowing costs), representing a 27,5% decrease from the prior year (2015: R29,6 billion). The capital investment for the year represents R5,2 billion invested in the expansion of infrastructure and equipment, while R16,2 billion was invested in maintaining capacity in the rail and ports divisions.

### Locomotives

The composition of the 1 064 diesel and electric locomotives for General Freight business are as follows:

- 359 class 22E electric locomotives: 80 locomotives have been accepted into operations;
- 233 class 44 diesel locomotives: 117 locomotives have been accepted into operations;
- 232 class 45 diesel locomotives: to date two locomotives have been delivered and are undergoing acceptance testing; and
- 240 class 23E electric locomotives: the first two locomotives have been delivered and are undergoing acceptance testing.

### Wagons

Wagons are maintained and built according to the wagon modernisation plan, customer demand and operational requirements. The type and number of wagons to be provided is thus reviewed annually. During the year, 100 SCL automotive wagons were built by Transnet Engineering (TE) and delivered to Freight Rail. These specialised wagons enable Freight Rail to provide capacity for transporting high-profile motor vehicles. In addition, a total of 18 948 wagon maintenance interventions were carried out on various rail wagons.

Intervention	Quantity
Liftings	13 905
Barrel testing	688
Unscheduled maintenance	4 238
Wreck repair interventions	117
	18 948

### Capitalised maintenance

The total capitalised maintenance for the year amounted to R6,2 billion of which R2,0 billion was invested in interventions to sustain the Company's rail infrastructure, with R4,2 billion invested to maintain the condition of the rolling stock at a sustainable level.

### Manganese expansion

South Africa accounts for 75% of global manganese identified reserves and 31% of manganese exports by value, making it a sustainable, lucrative supply market to Europe and China. The prevailing market conditions and fundamental changes in forecast manganese ore prices necessitated the introduction of a scalable export capacity, initially at 12 mtpa and then growing to 16 mtpa, to meet sustainable export levels.

The phasing of the investment over a longer period will sustain the competitive position of existing and future producers. The manganese expansion programme will increase manganese export capacity through the upgrade of the rail network between Hotazel (Northern Cape) and Coega (Eastern Cape); and the provision of a new bulk terminal at the Port of Ngqura. The project aims to retain South Africa's position as the leading exporter of high-grade manganese ore.

R811 million has been invested in expanding capacity for manganese beyond 5,5 mt, with R137 million being invested in the project during the year.

### Coal line investment programmes

The coal line is the main channel for export coal. It commences at the mines in Mpumalanga, extending 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 R2,7 billion has been invested to expand capacity on the export coal line to 81 mtpa. For the year, R145 million was invested in the coal line expansion to upgrade yards, lines and electrical equipment.
- Waterberg upgrade Stage II: This project grows rail capacity to 6 mtpa through incremental upgrades of the existing rail networks and yards using additional loops; while maintaining the existing axle loads, electrical upgrades and improved train control systems. Since inception, R126 million has been invested in the project, and for the year R28 million has been invested.
- Overvaal Tunnel doubling: The condition of the current Overvaal Tunnel is deteriorating and it only provides a single rail line. A new double-track tunnel will be constructed adjacent to the existing tunnel. In all, R3,5 billion has been approved for the doubling of the Overvaal Tunnel. Execution has not commenced due to further assessments being conducted for an alternative technology solution to develop the tunnel. To date, R8 million has been spent on the Rail Regulator's fees.

### 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.

Transnet invested R1,5 billion in the NMPP project in the 2017 financial year. The 24" main pipeline and 16" inland pipelines have been fully commissioned and are operational, having transported 15 billion litres of diesel from Durban to the inland region since commissioning. This ensures secure supply of fuel for the South African economy over the medium to long term. The multi-product operation of the NMPP trunkline via the implementation of tightlining at the coastal terminal and completion of the Inland Accumulation Facility is expected to be operational by the end of November 2017.

### Port infrastructure, equipment and floating crafts

As part of the MDS, Port Terminals and National Ports Authority intend to invest in infrastructure and equipment to unlock demand as well as to contribute to the economic development of South Africa.

During the year, Transnet invested approximately R1 billion in the maintenance and acquisition of cranes, tipplers, dredgers, tugs, straddle carriers and other port equipment.

### Durban Container Terminal (DCT)

The Port of Durban is the largest South African container port situated on the east coast of South Africa, with dedicated container-handling facilities at the DCT. DCT handles approximately 65% of the total containerised cargo of South Africa and is the main link to South Africa's industrialised hub, Gauteng.

In all, R7,7 billion had been approved for the lengthening and deepening of DCT Berths 203 to 205 to further enhance the ability of the port to handle large container vessels.

### Market segment competitiveness







Transnet's rail network faces strong competition from road and has lost significant tonnages over the past two decades to road. Transnet's rail development framework, therefore, aims to expand the region-wide rail service capacity, but at the same time it is vital to accomplish this in a competitive manner to grow tonnages and capture market share.

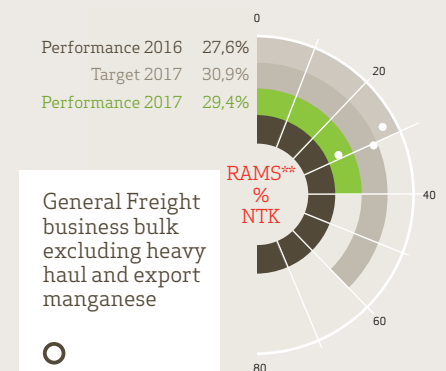
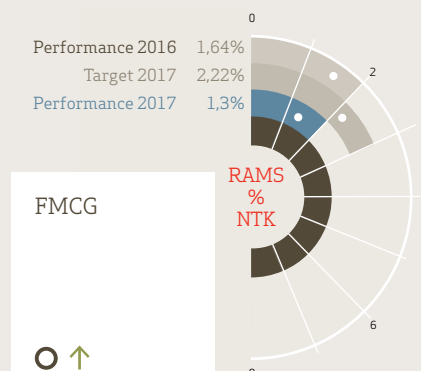
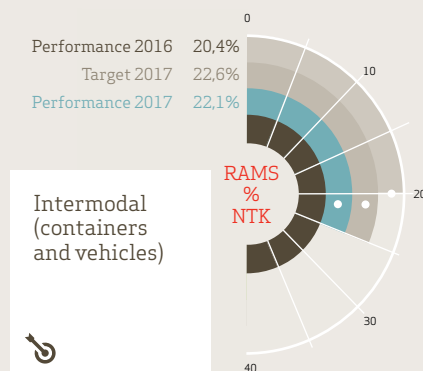
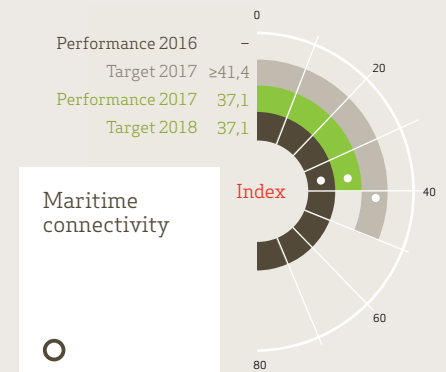
Rail freight demand forecasting takes into consideration that:

- 1 Not all freight on the surface of South Africa is suitable for rail; and
- 2 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 measured per calendar year.

#### Key

-  Improvement on prior year performance
-  Decline on prior year performance
-  Equivalent performance to prior year
-  Target achieved
-  Target partially achieved
-  Target not achieved



The maritime shipping industry is an essential co-ordinating and cohesive element of many other industries. It is an integral component to physical trade and economic exchange, enabling businesses to thrive in a globally interdependent economy. Competitiveness for ports is measured in terms of the maritime connectivity index, which captures how well countries are connected in global shipping networks. This index considers five important components of the shipping sector:

- Number of vessels;
- Vessel's container-carrying capacity;
- Maximum vessel size;
- Number of services; and
- Number of shipping liner companies that deploy container ships to the country's port.



## Expanding Transnet's business on the continent



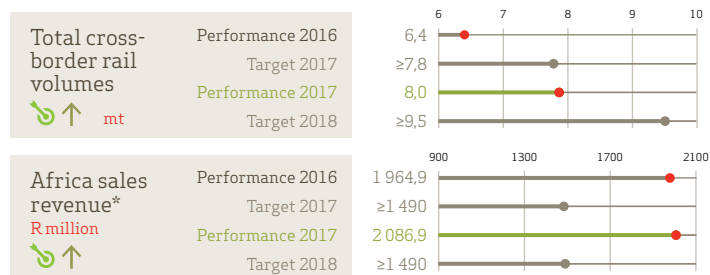
Transnet, in collaboration with General Electric (GE), plans to deliver a digital solution that will enhance efficiency and productivity in Africa's transport sector. The proposed plan will connect shippers and transport operators, making it easier for a company to understand pricing and capacity on the network, plan a shipment and get goods to market. Transnet delivers on average 13 000 containers and 620 000 tons of goods critical to Africa's economy daily. Africa's intra-continental trade has almost doubled since 1995, and the increase in volume of goods moving through the supply chain is creating transportation and logistical complexities that slow down shipments.

Our integrated 'Go-to-Market' approach will enable Transnet to pursue international opportunities in a co-ordinated and well-planned manner by defining specific opportunities to pursue, determining how to position Transnet in the market and by defining the support services required.

Key aspects developed as part of our integrated 'Go-to-Market' approach during the year include:

- An integrated value proposition for Transnet, capturing its cross-Operating Division capabilities to support customers across the logistics value chain and across their lifecycle of requirements;
- Levers across which internal and external stakeholders, including Government structures, can be leveraged to support Transnet in gaining traction across revenue drivers; and
- A competitive process for selection of partners across functional areas and geographies to offer services essential for the full value proposition.

### Regional integration



\* Excludes Port Terminals and National Ports Authority.

#### Key

- ↑ Improvement on prior year performance
- ↓ Decline on prior year performance
- = Equivalent performance to prior year
- 🎯 Target achieved

## Investing in emerging technologies



We acknowledge that disruptive innovations are appearing across the digital sphere to challenge dominant business models, and have thus positioned the Company as a catalyst for African innovation and industrialisation. Innovation and enterprise development are central to Transnet's plans to improve its service offering and contribute to the advancement of the economy; we will achieve this by creating new industries and thereby contributing to job creation.

Transnet Engineering successfully tested the TransAfrica Locomotive during the year and is proud to report that during testing the locomotive has had no major failures. Engineering also successfully developed and prototyped the following innovations:

- Transnet's first in-house designed traction motor. This scaled model is currently undergoing critical tests. Learning from this prototype will be used in the manufacture of the full-scale prototype;
- Transnet's first in-house designed Condition Monitoring System, which uses satellite, 3G, WiFi and GPS for real-time condition monitoring of both stationary and mobile assets. The first configuration of the system is being deployed to TFR as a Locomotive Condition Monitoring System (400 units);
- Transnet's first in-house designed Advanced Data Analytics and Machine Learning platform called IRIS (Intelligent Rail Information Services). This platform can be used across Transnet for predictive maintenance and to improve asset reliability and productivity. The first applications deployed on the platform are a wheel wear prediction tool, which TE uses for predictive maintenance of wheels, and a fleet monitoring service that is deployed with the Locomotive Condition Monitoring System at TFR;
- Transnet's first Standard Gauge Wagon Bogie, which is currently being manufactured;
- Transnet's own Port Hauler, which is a truck-like vehicle for the ports, is currently being manufactured; and
- Software commissioning tool for locomotives, the first of which is TAL. This is a desktop application that can connect to Transnet's in-house designed control system for advanced diagnostics and monitoring. This tool will be packaged with every sale of TAL.

During the year, we showcased 20 entrepreneurs from the Transnet Design Research and Innovation Centre, who invented 'life-changing ideas' that would provide solutions to challenges in 'SA Incorporated'. We selected ideas from 1 200 candidates who recently completed an innovation accelerator programme. The programme is designed to advance entrepreneurial ideas into sustainable solutions with commercial viability.

### Research and development



## Group performance in support of Transnet's Sustainable Developmental Outcomes

### Responding to stakeholder issues

In July 2017, we commenced employee training on a stakeholder engagement database which was developed to help embed Transnet's Stakeholder Engagement Policy and accompanying process control manual.

### Stakeholder perception survey

We performed a multi-stakeholder perception survey during the year, with 150 participants across all stakeholder groups. The survey focused on areas where we have significant operations. Overall, the quality of our stakeholder engagements improved by 60% with an overall satisfaction rating from 65% of participants.

### Customer satisfaction survey

Our 2016 Customer Satisfaction Survey was the sixth survey conducted since 2011. The survey was conducted in September 2016 with 150 existing customers and was extended to include 24 potential customers. While we improved our overall customer satisfaction rating to 56% (2016: 26%), we fell short of our target score of 60%.

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#### Read more

More on our performance relating to stakeholder engagement Sustainability Report online at [www.transnet.net](http://www.transnet.net)

## Managing our environmental impact

Transnet recorded a 0,3% decrease in energy consumption during the year, while energy efficiency increased by 1,2% from the prior year. Regarding freight rail traction (which constitutes more than 70% of total Company power consumption), electrical traction energy efficiency decreased by 4,3%, and diesel traction achieved a 7,9% energy-efficiency gain, compared to the prior year. The new 15E, 19E, 20E and 21E locomotives together regenerated 242 788 MWh for the period.

The Company's carbon emission intensity decreased by 2,3%, compared to the prior year.

Freight Rail's top 10 general freight commodities' market share gains from road hauliers resulted in 637 152 tCO<sub>2</sub>e carbon emissions savings for the South African transport sector.

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#### Read more

Sustainability Report online at [www.transnet.net](http://www.transnet.net)

## Partnering communities to build mutual value

Transnet's total Corporate Social Investment (CSI) spend for 2017 was R234 million. CSI spend contributed to the achievement of an overall B-BBEE score of Level 2. In all, R197,1 million was spent on programmes and R37,3 million on support functions. The total CSI spend amount includes external sponsorships and donations of R17,6 million, as well as Transnet employees' directorship fees of R1,0 million, and the Transnet CSI budget allocation of R215,2 million.

### Community development



SR

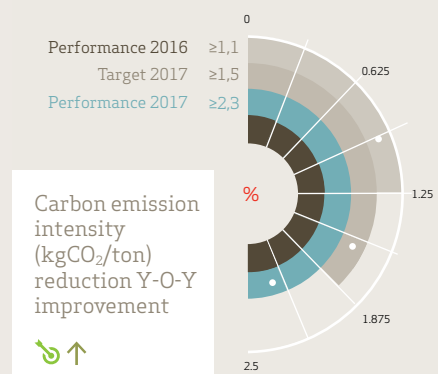
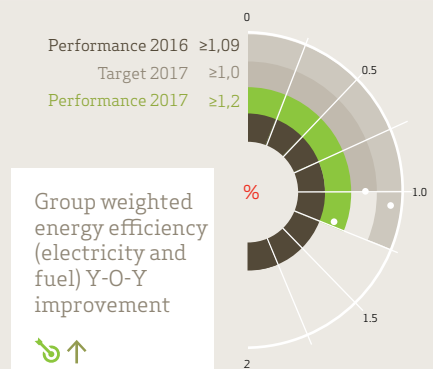
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#### Read more

More on our performance relating to CSI Sustainability Report online at [www.transnet.net](http://www.transnet.net)

## Environmental stewardship



## Promoting health and safety

Transnet measures safety performance against the industry-recognised rolling 12-month 'disabling injury frequency rate' (DIFR). We recorded overall company DIFR performance of 0,69 against a target of 0,75. This is the sixth consecutive year that Transnet has recorded a DIFR ratio below 0,75.

Safety performance is measured against industry recognised indicators such as the disabling injury frequency rate (DIFR) including fatalities, as well as loss incidents and derailments. During the year, running line derailments decreased from 84 in 2016 to 81 in 2017, whereas shunting derailments decreased from 171 in 2016 to 159 in 2017.

While our overall DIFR performance continues to be exceptional by international standards, we regret to report 15 employee fatalities during the year. Of the 15 fatalities, three colleagues passed away in road vehicle accidents, and six as a result of train-related incidents. The remaining fatalities were mainly due to employees not adhering to internal operating procedures. The number and nature of these fatalities indicate that greater efforts are required to improve safety vigilance and performance. We continue to monitor and mitigate, as best possible, both operational and behavioural risks that are inherent in a highly industrialised manufacturing work environment. To this end, the Transnet Board of Directors and Executive Management have heightened their oversight roles of operational performance – and safety performance in particular – in more visible ways through site visits, and by instituting an integrated systems management approach to ensure the various levels of safety performance are clearly understood and adhered to within the organisation.

We continue to analyse and review our current safety approaches and efficiency, while proactively striving 'towards zero harm.' Numerous vehicle safety, driver awareness and other safety campaigns have been introduced to further embed a safety culture within Transnet's operations.

We further regret to report 82 public fatalities during the year (compared to 97 in the prior year). These fatalities were due

mainly to people trespassing onto operating railway lines. During the year, Transnet collaborated with local municipalities, schools, the South African Police Service and other relevant stakeholders to extend its Level Crossing Awareness Campaign to educate communities, the public – and children in particular – about the dangers of living near railway lines.

The Board of Directors 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.

### Staff wellness

We experienced an increase in the rate of unplanned absenteeism, from 2,25% in 2016 to 2,96% in 2017. A change in leave policies may have led to this increase. The sick absentee rate decreased from 2,61% to 2,39% in 2017. Transnet continues to improve governance related to the management of attendance to curtail absenteeism.

### Community wellness

A process is under way to convert contract Phelophepa staff to permanent employment. Overall, 173 016 patients were treated at the health, dental, eye, psychology and pharmacy clinics. In all, 438 807 individuals benefited from services through community outreach activities. Transnet Foundation implemented various health-awareness campaigns from April 2016 to January 2017, focusing on cancer and diabetes screening and testing. In all, 1 591 students from South African Training Institutions and 33 optometry students from Glasgow Caledonian University in Scotland received experiential training on board Phelophepa between April 2016 and January 2017. Health and hygiene workshops were implemented in nine provinces, with 9 105 female learners receiving dignity packs.



**Read more**

Sustainability Report online at [www.transnet.net](http://www.transnet.net)



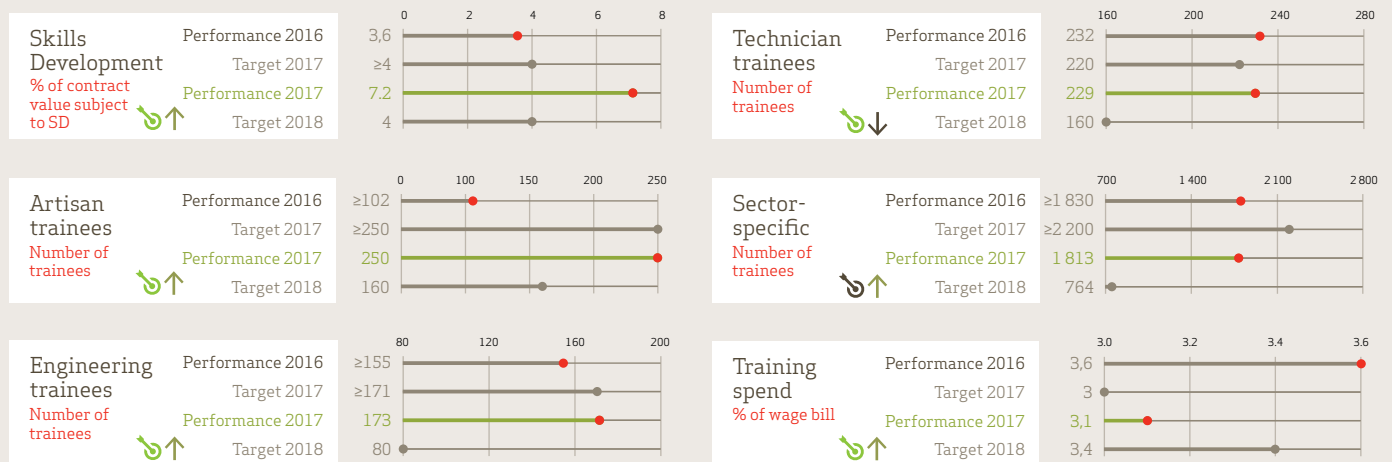
## Having the right skills at the right time

Transnet's total headcount decreased from 64 467 in 2016 to 58 828 in 2017. Headcount comprises 53 661 permanent employees and 5 167 fixed-term contract employees. There has been a gradual decrease in headcount over the past three years. To curb recruitment costs and support cost savings initiatives within the Company, a moratorium was placed on the appointment of external candidates during 2017. The focus for the year was on training and further skills development, as well as job preservation.

The Company spent 3,1% of its labour cost on training during the period, focusing on artisans, engineers and engineering technicians. Overall, 173 full-time engineering bursaries were awarded in various disciplines and 229 engineering technician







trainees were given workplace experience opportunities. In all, 250 new apprentices joined the Company's apprenticeship scheme and 77 new Young Professionals-in-Training were contracted. Sector-specific skills development continued to focus on maritime, rail and port terminal operations, with 1 813 learners participating in these programmes. Currently, the Company has access to 1 700 apprentices and 597 engineering bursars in its talent pool.

Overall 1 247 employees were trained as part of leadership development, a decline in training figures compared to the prior year due to cost-cutting measures as the Company responded to the lagging growth in volumes and revenue. We aim to increase our training participants in 2018.



**Read more**  
Sustainability Report online at [www.transnet.net](http://www.transnet.net)

### Key

-  Improvement on prior year performance
-  Decline on prior year performance
-  Equivalent performance to prior year
-  Target achieved
-  Target partially achieved
-  Target not achieved













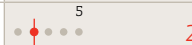







## Supply localisation

Transnet continued to provide both financial and non-financial support to qualifying black-owned, black women-owned, black youth-owned businesses; businesses owned by people with disabilities; qualifying small enterprises; and exempted micro-enterprises. Transnet opened yet another Enterprise Development (ED) hub in Mdantsane, which aims to foster an enabling environment for small business to access economic development interventions and to create a culture of entrepreneurship by supporting new entrepreneurs through structured training and mentorship programmes. This is the fourth hub opened by Transnet, with additional hubs due to be launched during the MDS period.

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 supplier development plans. Since programme inception, total contract value to date amounts to R134,4 billion (2016: R119,9 billion). SD obligations concluded with suppliers amounts to R62,6 billion or 46,6% of contract value (2016: R56,6 billion or 47,2% of contract value). To date, R32,2 billion or 51,5% (2016: R23,2 billion or 41,1%) of these SD obligations have been met. The SD numbers include the locomotive awards and related SD obligations. Transnet is working to improve its SD programme so that it can deliver even more tangible value-adding results going forward.

## Industrial capability building

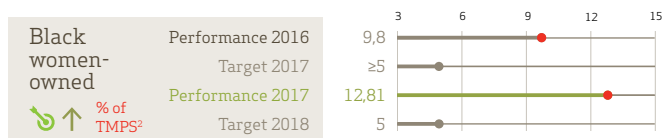
Key performance indicators	Unit of measure	Performance 2016	Targets 2017	Performance 2017	Targets 2018
 Local content	%	 79	 ≥75	 83	 ≥75
 SD value	%	 47	 ≥39	 47	 ≥39
 Technology transfer/IP <sup>1</sup>	%		 ≥1,25	 2,1	 ≥1,25
 Investment in plant <sup>1</sup>	%		 ≥5	 7,9	 ≥5

<sup>1</sup> Target tracked from the 2017 financial year.







## Promoting transformation

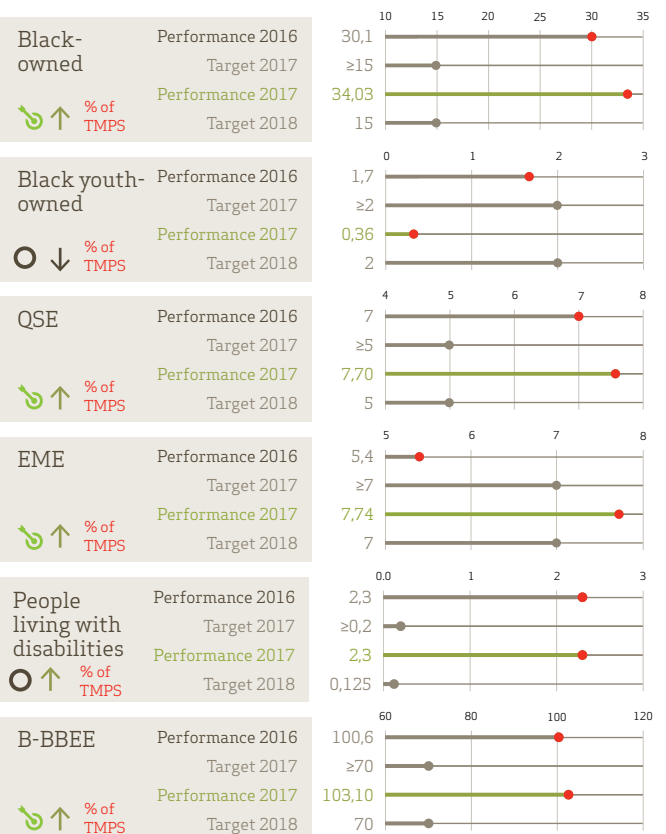
Transnet achieved – and exceeded – its employment equity targets across all job grades. The employee race profile for the period was 71,5% black, 10,0% coloured, 3,7% Indian and 14,8% white. Female representation now exceeds 27,7% in executive, senior, professional and skilled technical levels, including a 50,0% representation in the Group Leadership Team. Increasing representation of people with disabilities remains a challenge, at 2,3% of the total headcount (2016: 2,3%).

### Preferential procurement



#### Key

-  Improvement on prior year performance
-  Decline on prior year performance
-  Equivalent performance to prior year
-  Target achieved
-  Target partially achieved
-  Target not achieved



<sup>2</sup> Total Measurable Procurement Spend



## Legislative compliance

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 reportable items

  
P13  
  
16  


  
17  


Category of reportable items	2017 R million	2016 R million
Fruitless and wasteful expenditure	21,9	3,9
Losses through criminal conduct	43,1	60,3
Irregular expenditure – spent in current year	142,4	-
Irregular expenditure – spent in prior year	550,3	20,6
<b>Total irregular expenditure</b>	<b>692,7</b>	<b>20,6</b>
Less: Irregular expenditure condoned subsequent to year end <sup>2</sup>	(293,3)	(4,5)
Less: amounts recoverable (not condoned)	(158,6)	-
Less: amounts not recoverable (not condoned)	(240,8)	(20,6)
<b>Remaining irregular expenditure awaiting condonation</b>	<b>0</b>	<b>0</b>
Potential irregular expenditure under investigation	32,8 <sup>3</sup>	229,8 <sup>1</sup>

The Company is committed to complying with the provisions of the PFMA and handling alleged governance breaches in a firm and expeditious manner. During the financial year, the Company enhanced its reporting systems for irregular expenditure, which resulted in additional items – largely from previous years – being identified and reported in the current year.

Accordingly, the Company has implemented a number of preventative initiatives. The specific root causes of the irregular expenditure relating to the current and prior years have been assessed and mitigating controls have been developed as tabulated below.

Root cause	Mitigating controls
Contract value exceeded.	Implementation of automated controls in SAP.
PPM <sup>4</sup> tender/bid process not followed.	Enablement of the end-to-end procurement process. Strict implementation and monitoring of documented processes via exception reporting.
Procurement and capital expenditure procedures not adhered to.	Enablement of the end-to-end procurement process. Strict implementation and monitoring of documented processes via exception reporting.
Non-compliance with DOA <sup>5</sup> .	Capital and procurement approval processes to be automated.
Incorrect use of procurement emergency procedure.	Ongoing training and monitoring.
PPM confinement process not followed.	Automation and ongoing monitoring through exception reporting.

<sup>1</sup> Irregular expenditure relating to foreign vendors under investigation in the prior year (R229,8 million) has been condoned by National Treasury subsequent to the Annual Financial Statements being signed-off.

<sup>2</sup> Irregular expenditure amounting to R319,8 million was being assessed for potential condonement at the time of the Annual Financial Statements being signed off. Subsequently, R293,3 million has been condoned. The final impact of the condonation process will be disclosed in the 2018 Annual Financial Statements Annexure E, accordingly.

<sup>3</sup> As at 31 March 2017 there is one reportable item exceeding R25 million reported as irregular expenditure under investigation relating to Transnet Property where an official offered a lessee a lease contract at a reduced rental without having the proper delegation of authority, which may result in financial losses amounting to R32,8 million over the period of the lease. Transnet Property noted the matter as a potential finding. The lease is currently being renegotiated by Transnet Property and the lessee, which may result in a reduction of the potential loss.

<sup>4</sup> Transnet Procurement Procedures Manual.

<sup>5</sup> Delegation of Authority Framework.

## OPERATING DIVISIONS' PERFORMANCE

## Operating Divisions' review

## KPIs

Revenue (R million)	→
EBITDA (R million)	→
Operational expenditure (R million)	→
ROTA (%)	→
Capex	→
Volumes	→
% black employees	→
Training spend (% of personnel cost)	→
DIFR	→
% energy efficiency improvement on PY (electricity)	→
Regional Integration: Cross-border revenue (R million)	→

## Key

- ↑ Improvement on prior year performance
- ↓ Decline on prior year performance
- = Equivalent performance to prior year
- 🟢 Target achieved
- 🟡 Target partially achieved
- Target not achieved

## Commentary

→

## Opportunities in the short to medium term

→

## Read more

Operating Divisions' reports online at [www.transnet.net](http://www.transnet.net)

## Freight Rail

2016	2017		
36 952	39 114	↑	🟡
15 468	17 263	↑	🟡
21 484	21 851	↑	🟢
3,3	5,80	↑	🟡
22 619	15 746	↓	🟢
214,2 (mt)	219,1 (mt)	↑	🟡
85	87	↑	🟢
1,9	1,9	=	🟡
0,86	0,78	↑	🟢
(0,6%)	(4,5%)	↓	○
1 645	1 860	↑	🟡

Revenue for the year increased by 5,9% to R39,1 billion (2016: R37,0 billion).

Despite a challenging economic climate, Freight Rail's volume performance increased by 2,3% to 219,1 mt (2016: 214,2 mt).

The volume increase was accompanied by a slight increase in the average Rand per ton of R174,95 (2016: R168,74).

Net operating expenses increased marginally.

Growing volumes through strategic interventions, including digital tools to aid in maximising on back-to-rail opportunities in various sectors.

Improve efficiency through continuous improvement initiatives, such as implementing Lean Six Sigma methodology and employing digital and technological innovations.

Create value through the refinement and implementation of operating models, consolidation hubs and value propositions that attract and retain customers.

## Engineering

2016	2017		
10 734	9 380	↓	🟡
389	(457)	↓	○
10 345	9 700	↑	🟢
1,2	(7,0)	↓	○
1 002	945	↓	🟡
-	-		
79,70	80,20	↑	🟢
2,35	(3,4)	↓	○
0,45	0,61	↑	🟢
6,8%	14%	↑	🟢
319	227	↓	○

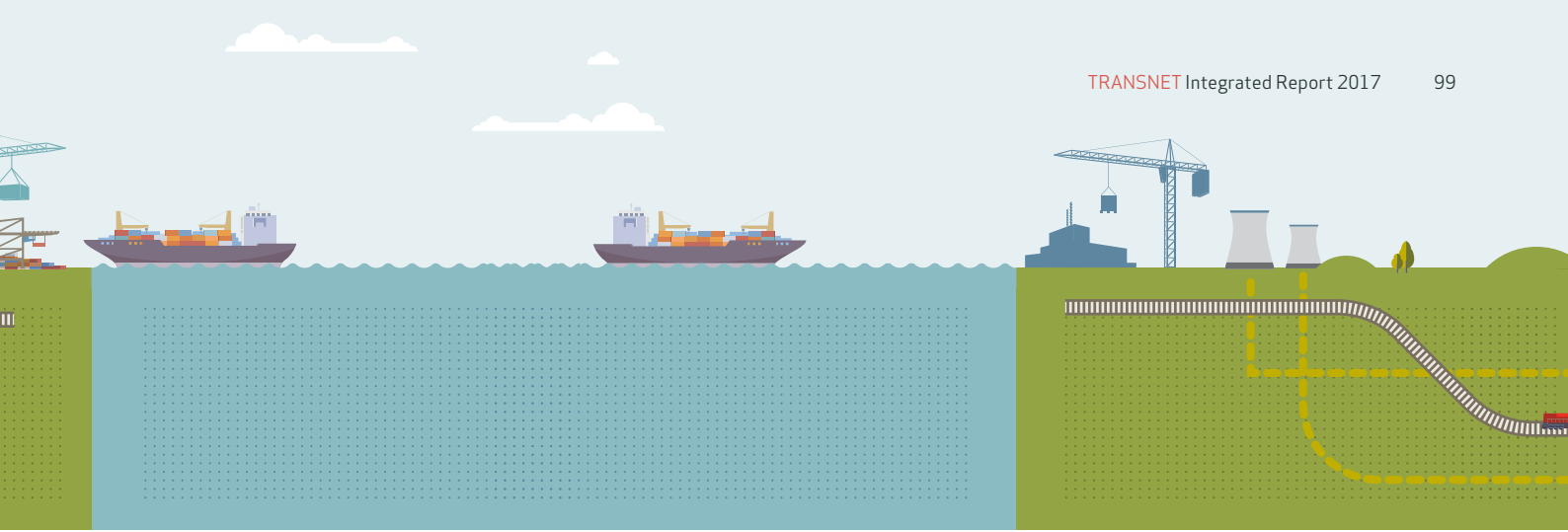
Demand for new rolling stock from Rail reduced, resulting in a 17% revenue reduction from Freight Rail to R7,8 billion (2016: R9,4 billion).

Despite weak economic conditions, Engineering-related product demand resulted in a 19,6% increase in external revenue to R1,6 billion (2016: 1,4 billion).

Operating expenses were reduced by 4,9% to R9,8 billion (2016: R10,3 billion). Other operating expenses, excluding labour costs, reduced by 17% to R4,8 billion (2016: R5,8 billion), despite the upward inflationary environment, indicating Engineering's successful variable cost-containment initiatives.

Rolling stock overhauls and upgrades will continue to be strong in Africa, and this provides an opportunity to sell refurbished rolling stock.

New rail corridors being developed within sub-Saharan Africa allowing Engineering to exploit these markets with the supply of rolling stock.



## Port Terminals

2016	2017
10 210	11 150 ↑ ↻
3 035	3 794 ↑ ↻
7 175	7 249 ↑ ↻
7,95	13,60 ↑ ↻
1 126	1 208 ↑ ○
4 366 (000' TEUs)	4 396 (000' TEUs) ↑ ↻
85	85 = ↻
2,14	1,50 ↓ ↻
0,61	0,71 ↓ ↻
1,5%	2% ↑ ↻
4,2	8,2 ↑ ↻

Revenue increased by 9,2% to R11,2 billion (2016: R10,2 billion).

Net operating expenses increased by 2,5% to R7,4 billion (2016: R7,2 billion), resulting in total cost increases well below CPI.

Costs were tightly managed despite upward pressure from electricity tariffs and fixed operating structures.

Port Terminals is exploring opportunities to support Transnet's regional integration strategy by applying strengths and capabilities to countries in Africa.

Port Terminals will continue to explore opportunities to offer tailor-made services to individual Original Equipment Manufacturers (OEMs).

## National Ports Authority

2016	2017
11 144	10 379 ↓ ↻
7 284	6 367 ↓ ↻
3 860	3 923 ↓ ↻
7,61	5,80 ↓ ○
2 938	2 020 ↓ ↻
4 439 (000' TEUs)	4 466 (000' TEUs) ↑ ↻
83	85,8 ↑ ↻
8,14	5,00 ↓ ○
0,71	0,66 ↓ ↻
9,9%	(4,0%) ↓ ↻

Revenue decreased by 6,9% to R10,4 billion (2016: R11,1 billion), due to a negative clawback adjustment of R0,90 billion (2016: positive R136 million).

The external revenue increase (excluding clawback) was limited to R180 million, due to a zero percent tariff increase on various commodities granted by the Ports Regulator.

Net operating expenses increased by 3,9% to R4,0 billion (2016: R3,9 billion), mainly due to increased personnel, energy and operating lease costs, offset by a reduction in legal fees.

The Port of Ngqura will add significant value to Transnet as a regional transshipment hub in sub-Saharan Africa.

Promotion of the South African port system globally to attract investment and stimulate industrial development zones.

Improving efficiencies and customer service through integrated technology and improving market collaboration.

## Pipelines

2016	2017
3 668	4 355 ↑ ↻
2 626	3 377 ↑ ↻
1 042	962 ↑ ↻
8,58	11,50 ↑ ↻
1 550	1 706 ↑ ↻
17 426 (Mℓ)	16 978 (Mℓ) ↓ ↻
87	88 ↑ ↻
4,70	3,30 ↓ ↻
0,18	0,37 ↓ ↻
(2,1%)	(1,0%) ↓ ↻

Revenue increased by 18,7% to R4,4 billion (2016: R3,7 billion).

The revenue increase was due mainly to a 23% increase in allowable petroleum revenue granted by Nersa in its 2017 Tariff Determination, a favourable distribution pattern from the coast, and the unwinding of a clawback raised in the previous financial year.

Net operating expenses decreased by 7,7% to R962 million (2016: R1,0 billion), mainly due to reduced environmental rehabilitation costs.

Pipelines will look to capitalise on the opportunity to diversify into the liquefied natural gas (LNG) market in the near future.

We will focus on ensuring the success of the Africa Strategy – to grow the non-regulated business by sharing skills, knowledge, pipeline training and operational services to other African pipeline companies in the Southern Africa Development Community, including Kenya.

# OUTLOOK

Global growth for the year was characterised by sluggish recovery and has remained at 3,1% – the same as the prior year. South Africa registered negligible growth due to the effects of weak global demand, low commodity prices, a severe drought and low levels of business and consumer confidence. With a GDP growth rate of 0,7%, which is marginally below the expected growth rate of 0,8%, and unemployment rising to the highest level in 13 years, South Africa also saw a contraction in private-sector capital investment. A challenging outlook for the country going forward was further affirmed by the downgrade of the Sovereign credit rating by two credit rating agencies to so-called junk status, from 'BBB' to 'BB+'<sup>1</sup> and the long-term local currency rating to 'BBB-' from 'BBB'.

Globally, a high degree of uncertainty dominates geopolitical and economic relations. Tensions in many parts of the globe are rising, and populist movements have appeared in Europe and the United States. Political tensions have now made advanced economies a major locus of policy uncertainty, with rhetoric in many countries suggesting an orientation towards inward-looking policies and protectionism. On the upside, concerns from a year ago regarding China's growth prospects and the consequent struggles of primary commodity exporters have largely abated, with commodity prices partially recovering.



The expectation is for moderate global economic recovery in 2017. World growth is expected to rise from 3,1% in 2016 to 3,5% in 2017, and 3,6% in 2018<sup>1</sup>.

Despite the commodity price recovery, commodity prices are expected to remain below their peaks in 2011 to 2014 peaks, reflecting a weak global recovery<sup>2</sup>. Prospects for 2017 differ sharply across countries and regions, with emerging Asia in general, and India in particular, showing robust growth. Sub-Saharan Africa is forecast to experience overall growth of only 2,6%.

GDP growth %	Actual		Projections	
	2015	2016	2017	2018
World GDP	3,1	3,1	3,5	3,6
Sub-Saharan Africa	3,4	1,4	2,6	3,5
USA	2,4	1,6	2,3	2,5
EU	1,6	1,7	1,7	1,6
Brazil	(3,8)	(3,6)	0,2	1,7
Russia	(3,7)	(0,2)	1,4	1,4
India	7,3	6,8	7,2	7,7
China	6,9	6,7	6,6	6,2
South Africa	1,3	0,7	0,8	1,6

The short-term global outlook is mixed and, with it, Transnet's demand picture is also mixed. We continue to experience slow global recovery and uncertainty, paired with an increasingly challenging economic environment at home. Our strategic intent as an SOC, encapsulated in the Statement of Strategic Intent from our Shareholder (DPE), requires us not only to navigate these precarious economic times in a manner that improves our bottom line, and secures our future, but also to chart a course that leads the country towards sustainable and inclusive growth. As a large infrastructure company, we intend to contribute towards this growth by investing in strategic infrastructure ahead of demand, of which the positive outcomes extend to both our commercial and developmental objectives. However, it is crucial that we temper our aspirations for capacity creation in the context of current market conditions. We are, therefore, repositioning the MDS, now in its sixth year, to increase capacity ahead of pre-empted, 'validated' demand.

In the prior year's scenario planning, we revised our seven-year capital portfolio planning down from initial projections of R277,8 billion to R254,9 billion if economic recovery remained stagnant. Transnet now expects to invest R229,2 billion over the next seven years to 2024, thereby reducing our capital investment planning by R48,6 billion.

<sup>1</sup> International Monetary Fund, 2017. World Economic Outlook: Gaining Momentum? Washington, April

<sup>2</sup> Africa Pulse, October 2016, Volume 14, <https://openknowledge.worldbank.org/handle/10986/25097>

As a result of the Sovereign rating downgrade by S&P Global, the ratings agency has reviewed Transnet's long-term foreign currency Sovereign credit rating from 'BBB-' to 'BB+', and the long-term local currency rating from 'BBB' to 'BBB-'. This outlook is in line with the rating agency's assessment of the Sovereign rating given that Transnet's rating is linked to that of the Sovereign. S&P has, however, maintained Transnet's standalone credit profile at 'BBB', reflecting our strong financial metrics as we execute our multi-billion-Rand infrastructure investment programme.

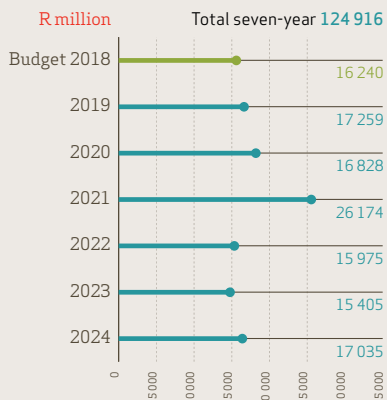
Transnet is indeed well positioned to withstand the downgrade, as we continue to raise funds on the strength of our own balance sheet. Transnet does not receive funding or guarantees

from the National Government. We will continue to undertake our investment and capitalisation strategies with the requisite degree of prudence and risk awareness to ensure we do not undermine our financial sustainability.

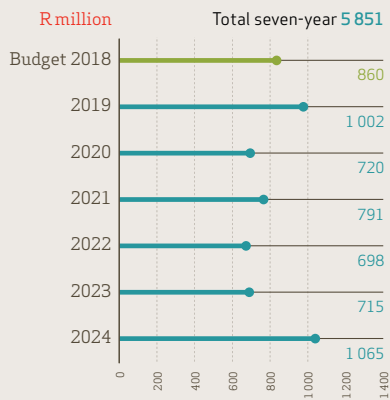
#### Capacity creation

Transnet aims to achieve capital spend of R229,2 billion over the Market Demand Strategy (MDS) period (between R340 billion and R380 billion to be invested over the next 10 years) to increase capacity across all commodities and sectors.

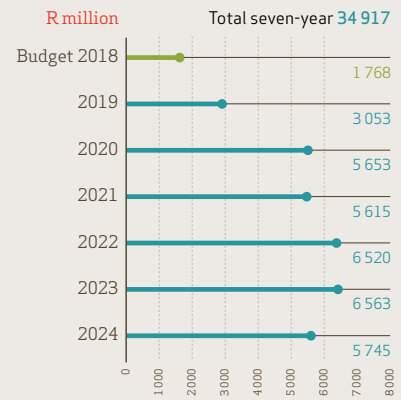
#### Freight Rail



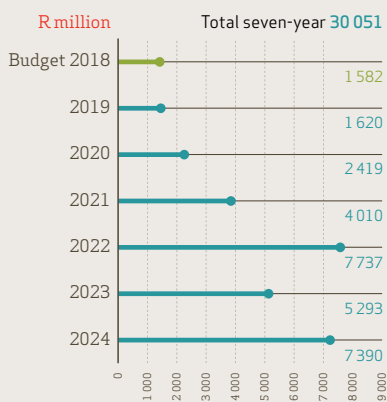
#### Engineering



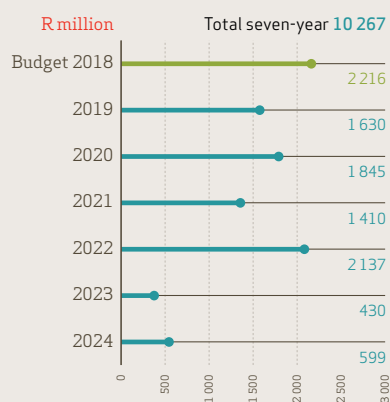
#### National Ports Authority



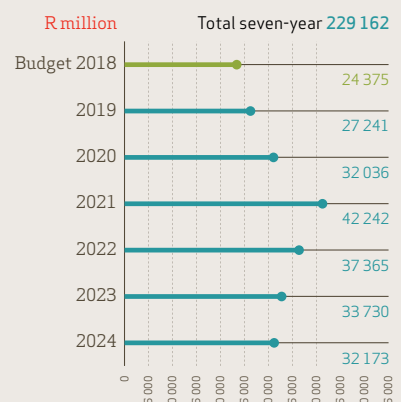
#### Port Terminals



#### Pipelines



#### Total capacity creation





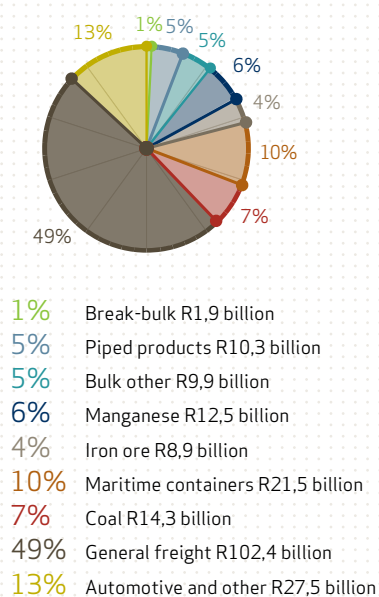
## Short- to medium-term focus

Going forward, we will continue to develop opportunities in the port, rail and pipeline sectors, supporting Transnet's geographic expansion revenue driver: creating a footprint for the Company beyond the borders of South Africa.

Our Capacity Creation Programme focuses on five core strategic areas, with projects and programmes grouped together based on the business outcomes. These five mega-programmes constitute 85% of the portfolio:

- 1 Coal and mineral system
- 2 General freight business and rolling stock
- 3 Manganese
- 4 Ports
- 5 Pipelines

Seven-year capital investment by commodity (%)



\* Excluding R20 billion allocated to Mergers and Acquisitions.

## Coal and mineral system

Transnet has embarked on a programme to sustain and create rail infrastructure capacity to unlock the Waterberg and Mpumalanga coal reserves for Eskom power stations, domestic industrial users and export markets. In addition, various other mineral developments are being pursued in Limpopo for domestic and export purposes.

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 unlock the region's potential and is a prerequisite for current and future mining developments. The investment will secure rail transport capacity from Waterberg for the export market and for domestic (Eskom) consumption. This project will be rolled out in a phased approach to align with validated demand.

## General freight business and rolling stock

In the rail sector, the General Freight business presents the greatest opportunity for growth, with potential volumes increasing to 137,0 mtpa by 2024. Present market challenges have compelled Freight Rail to review the delivery of planned MDS rolling stock in line with the reduced capacity required. All rolling stock requirements are being prioritised for the areas where the much-needed capacity is required and not affected by the changes in market conditions. Although locomotive shortages have historically been the main bottleneck to grow general freight volumes, the delivery of new locomotives must be adjusted in line with reduced business requirements. This still allows Transnet to retire the current aged fleet of locomotives (some exceeding 40 years), resulting in a reduction in locomotive capitalised maintenance.

The New Build Wagon Programme has not been left unscathed by market conditions. The need for efficient delivery of the New Build Wagon Programme, combined with the economic downturn, means that Freight Rail has a higher wagon capacity than volume demand. Going forward, Transnet has the opportunity to enhance efficiencies and increase wagon utilisation in line with Gold Class Railways internationally.

Freight Rail will continue to seek volume growth by serving existing and new customers, particularly in as much as Transnet's regional strategy opens up new market prospects. As growth in Africa unfolds, the need for a modal shift in freight transportation from road to rail will become more urgent and the demand for new or refurbished rolling stock, together with associated maintenance services, will continue to increase. Engineering is already operating in this space and is well positioned to take advantage of the increased demand. It has extensive manufacturing facilities and the capacity of these facilities is easily increased through the introduction of additional shifts.

## Manganese

South Africa holds more than 80% of the world's medium- to high-grade manganese ore reserves, making it a sustainable, lucrative supply market to Europe and China. Transnet is fully committed to developing a new, expanded manganese bulk ore terminal in the Port of Ngqura, fulfilling its promise to terminate operations at the current manganese bulk terminal in Port Elizabeth due to environmental challenges.

## Ports sector

### Container strategy

The demand trends and the goal for container trade is to maintain an efficient intermodal supply chain. The National Ports Authority has developed a strategy for port infrastructure development for container handling. South African ports currently handle a throughput of 4,5 million TEUs. Container movement through the east coast (Durban) comprises 65% of total container volume, which makes the east coast the leading region for container flows. The majority of these containers are utilised within the Durban, Pinetown and Cato Ridge area. Over the next 10 years, demand along the Durban-Gauteng corridor is expected to grow from 3,0 million to 4,2 million TEUs. Vessel technology is also forecast to change over the next 10 years, which will place demand on the ports for longer quays, deeper berths and channels, larger outreach equipment, higher efficiencies and state-of-the-art operations.

### Break-bulk strategy

There is sufficient break-bulk capacity in most ports and, as a result, both Cape Town and Durban will convert break-bulk berths to cater for alternative commodities based on validated demand. In the ports of Ngqura, Mossel Bay and Saldanha Bay, break-bulk berths are planned for commercial reasons as these ports are strategically placed to harness oil, gas and other potential energy-related industries, and to support the fishing industry.

### Dry bulk strategy

Dry bulk development is heavily export driven, with 82% of the total volume being made up of coal, iron ore and manganese. The balance comprises ferrous metals, magnetite and chrome.

### Port of Durban

The Port of Durban is South Africa's premier multi-cargo port and is counted among the busiest ports in Africa, handling over 80 mtpa of cargo. This is the leading port in the Southern African Development Community region and the premier trade gateway for South-South trade, Far East trade, Europe and the United States, East and West Africa regional trade. It is the international commercial gateway to South Africa and is strategically positioned on world shipping routes. The Port of Durban occupies a focal point in the transport and logistics chain with 60% of all imports and exports passing through the port. It therefore assumes a leading role in facilitating economic growth in South Africa. The main capacity focus for the port is ensuring safe berths

and the protection of current and future revenue streams and the construction of berths that will cater for long-term future-generation vessels together with the flexibility to accommodate future changes in types of cargo handled in this port, including deep-water container handling.

## Pipelines

The discovery of new oil and gas reserves in Africa has resulted in a significant demand for new refining, storage, pipeline and marine terminal infrastructure capacity, which translates into a broad list of new-build project opportunities. However, oil and gas commodity prices remain low and in some instances below project hurdle rates, and are placing a damper on new-build infrastructure development plans.

It is envisaged that numerous new-build opportunities will progress to final investment decision in 2018 and 2019, and will be issued to the private sector on a Build, Operate and Transfer concession. These projects signal a strong political desire to drive oil revenues and provide frontier economies an opportunity to enter the global oil and gas sector. Transnet is well placed to participate in such concessions given the sound operational and recent new-build experience that resides within Pipelines and Group Capital. This experience and the depressed development activity in this sector offers Transnet an opportunity to focus on developing strategies, partnerships and relationships with prospective developers. Pipelines is working closely with Freight Rail to offer an integrated pipeline and rail solution as an alternative to volumes presently being transported by road. This model can be replicated to service neighbouring countries such as Botswana and Zimbabwe.

Transnet has identified Ghana, Nigeria, Ethiopia, Djibouti, Kenya, Mozambique, Botswana and Tanzania as prospective markets.

In addition to geographic expansion, Pipelines will embark on a service offering development strategy to broaden its current service offering in oil and gas to a full supply-chain offering from ship to refinery/storage depot to field depots; and full supply-chain service offerings for liquefied petroleum gas and liquefied natural gas.

## Conclusion

To safeguard capital value created in the short to medium term, we must adapt to changing market conditions in an agile way to protect important ratios until growth returns in earnest. Current market conditions continue to temper Transnet's expectations while strengthening the Company's resolve regarding its strategy. The MDS has been tailored to respond to market dynamics through employee dynamism, financial agility, operational unity and perpetual innovation. In implementing the MDS, the Company will focus on volumes, safety and capital optimisation in the new year and take advantage of available growth opportunities to ensure that the overall objectives of the MDS are ultimately achieved.

## Key initiatives for the year ahead

Financial sustainability	Capacity creation	Market segment competitiveness	Operational excellence
<b>Freight Rail</b>			
<ul style="list-style-type: none"> <li>Accelerate new business development and back to rail initiatives to improve volume performance.</li> <li>Improve operational efficiencies and consistency.</li> <li>Improve diversified revenue opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>Implement approved capital programmes to sustain and/ create capacity – Coal 81 mt expansion, Overvaal Tunnel doubling, manganese expansion and New 1 064 Locomotive Programme.</li> <li>Refine and implement Wagon Build Programme to meet customer demand.</li> <li>Commission and deploy new locomotives – 22E, 23E and 44D – according to the deployment plan.</li> </ul>	<ul style="list-style-type: none"> <li>Develop and implement marketing strategies, pricing and contracting models to grow identified customers in the General Freight business segments.</li> <li>Continue to develop bi-modal technologies.</li> <li>Continue rollout of digital applications.</li> </ul>	<ul style="list-style-type: none"> <li>Embed 2020 programmes for improved productivity, utilisation and efficiencies.</li> <li>Implement programmes for continuous improvement in cost effectiveness, waste reduction, volume growth and efficiency improvement.</li> <li>Pursue efficiencies across operating channels.</li> </ul>
<b>Engineering</b>			
<ul style="list-style-type: none"> <li>Pursue growth from external customers, mostly in the locomotive build programme, as well as growth in Africa market share.</li> <li>Review and enhance cost-optimisation and reduction initiatives.</li> <li>Revenue diversification.</li> </ul>	<ul style="list-style-type: none"> <li>Expand Engineering's footprint in the rest of Africa by setting up maintenance workshops in targeted countries.</li> <li>Provide remote technical/field service support to customers as part of warranty maintenance services.</li> </ul>	<ul style="list-style-type: none"> <li>Develop the next versions of the TransAfrica Locomotives and passenger coach transportation (MC-25).</li> <li>Develop the next version of the Train Control and Monitoring System (TCMS).</li> </ul>	<ul style="list-style-type: none"> <li>Rollout advanced traction motor designs.</li> <li>Establish world-class motor test facilities.</li> <li>Rollout capability-enhancement initiatives for motor development.</li> <li>Introduce flexible design strategies.</li> </ul>
<b>Port Terminals</b>			
<ul style="list-style-type: none"> <li>Enhance operations and supply-chain efficiency to unlock capacity in the bulk sectors.</li> <li>Promote additional export channels for manganese.</li> <li>Optimise service delivery within the Durban Container precinct.</li> </ul>	<ul style="list-style-type: none"> <li>Increase capacity for the Saldanha MPT terminal from 8,7 mtpa to 10 mtpa through mobile ship loaders.</li> <li>Deploy a dedicated bulk export terminal at Ngqura to create capacity to handle 16 mtpa of manganese.</li> <li>Expand capacity in the automotive sector.</li> </ul>	<ul style="list-style-type: none"> <li>Containers: Unlock capacity and improve operational efficiencies.</li> <li>Bulk: Integrated contract management.</li> <li>Break-bulk: Channel optimisation through TVCC to improve efficiencies.</li> <li>Automotive: Expand operations at the East London Car Terminal.</li> </ul>	<ul style="list-style-type: none"> <li>Maximise crane deployment across vessels.</li> <li>Collaborate with shipping lines to optimise stowage.</li> <li>Express-loading empty containers through twin and tandem lift operations.</li> <li>Effective yard planning to minimise delays caused by re-handling of containers in the stack.</li> </ul>
<b>National Ports Authority</b>			
<ul style="list-style-type: none"> <li>Market the South African port system through local industry platforms and customer forums, global industry platforms and conferences, seminars and other promotion mediums (sector-based promotion, i.e. containers, automotive, Operation Phakisa products).</li> </ul>	<ul style="list-style-type: none"> <li>Invest R1,7 billion (2017/18) and R34,9 billion (seven year: 2017/18 to 2023/24) in capacity creation, infrastructure renewal and modernisation projects.</li> </ul>	<ul style="list-style-type: none"> <li>Various initiatives to improve customer services and market performance.</li> <li>Implement port operational performance standards.</li> <li>Continue the rollout of operational centres, and deploy smart technology.</li> </ul>	<ul style="list-style-type: none"> <li>Improve availability of marine service fleet through the fleet management programme.</li> <li>Continue quarterly assessments of the performance of Terminal Operators against Terminal Operator Performance Standards (TOPS).</li> </ul>
<b>Pipelines</b>			
<ul style="list-style-type: none"> <li>Engage Nersa regarding NMPP prudence.</li> <li>Pursue a new business focus relating to gas and terminal operations.</li> </ul>	<ul style="list-style-type: none"> <li>Achieve multi-product operation of the NMPP trunkline through tightlining and the completion of the Inland Accumulation Facility by 30 November 2017.</li> <li>Commence the FEL1 for the replacement of the Sasolburg to Kroonstad pipeline and the Jameson Park to OR Tambo Airport pipeline.</li> </ul>	<ul style="list-style-type: none"> <li>Achieve the set petroleum volume target of 17,6 billion litres.</li> <li>Increase volumes at Tarlton, including influencing Botswana supply mix.</li> <li>Review compatibility of other gases with methane-rich gas (MRG) to facilitate new entrants into the pipeline.</li> </ul>	<ul style="list-style-type: none"> <li>Successful conversion of the NMPP to handle multi-products and management of intermixture generation on completion of the tightlining solution and the Inland Accumulation Facility.</li> </ul>







# ABRIDGED GOVERNANCE



## Board of Directors' perspective on corporate governance

The Transnet Board of Directors views good governance as a vital component in operating a successful and sustainable business, as well as providing assurance to stakeholders that the Company is well managed. Our formal governance structures oversee the Company's ethical performance through codes, policies and processes, and ensure that structural accountability and principled behaviour are promoted throughout the organisation. We acknowledge, however, that good governance is ultimately about good decision-making, which is dependent on transparency and the availability of accurate information – particularly as it pertains to the Company's financial well-being and the quality of its relationships with all stakeholders.

Achieving good corporate governance is a multi-faceted and ongoing process. It requires deep understanding of the interplay of strategy, value creation, the organisation's socio-economic and political environment, and the fundamentals of human nature. As we move into the new and exciting paradigm of the 4th Industrial Revolution, we need to ask ourselves whether our existing governance structures remain 'fit for purpose' considering current financial and economic conditions, emerging digital platforms, industry disruptions, and the need to upskill and adapt accordingly.

We should also consider how these frameworks have functioned in practice over the last two decades and whether our corporate culture is enabling our governance codes, structures and processes. A healthy corporate culture and sound governance structures cannot be mutually exclusive if we are serious about driving long-term sustainability for Transnet. Therefore, the Board of Directors must focus on the economic, social and environmental well-being of the Company.

As a State-owned Company, our governance function supports the Company's ability to achieve the commercial and developmental imperatives set out in the MDS. To this end, the Board of Directors ensures that programmes to create value for all stakeholders are developed and monitored. Visible good governance – 'good governance in action' – can create value as it helps us to build social trust, maintain investor credibility



and promote institutional integrity, as this action is undertaken by people. As the Board of Directors, we acknowledge our responsibility to hold our people accountable for their actions, and vice versa. As we gear up for growth, our governance should reflect our evolution by enhancing existing compliance structures and practices, regardless of how mature we consider them to be. This requires a mutually designed and agreed system of ethical behaviour by all our people that collectively support Transnet's long-term vision for value creation. In a nutshell, 'governance' should not just be about how we do things at Transnet, but how we actively live the Transnet brand.

LC Mabaso  
Chairperson

 [Read more  
Full Governance Report online at \*\*www.transnet.net\*\*.](https://www.transnet.net)



## Creating value through Transnet's governance structure

Transnet's governance structure supports the Company's ability to create value in the short, medium and long term by creating an enabling environment within which to achieve strategic objectives.



### Characteristics of an enabling environment

#### Financial accountability

- A mature Audit function enables us to review and assess the integrity and effectiveness of our accounting and financial control systems.
- A Group-wide Step-up Programme on the critical financial reporting controls environment managed within the office of the Chief Financial Officer ensures the end-to-end adequacy of key financial control processes.
- The Board of Directors annually approves the Financial Risk Management Framework (FRMF). The FRMF is a financial risk management policy that provides a framework within which Transnet Treasury operates and aids in meeting the Company's objectives while mitigating the associated risks.
- The Board of Directors and Group Leadership Team (GLT) hold periodic strategic planning workshops where, among others, the Financial Results, Corporate Plan, Shareholder's Compact and Company Performance are reviewed to ensure balance and information integrity.

#### Performance monitoring

- The Acquisitions and Disposals Committee monitors the implementation of strategic acquisitions against approved plans. The committee is also responsible for decision-making on economic and social impacts. It ensures that procurement and provisioning policies are fair, equitable, transparent and cost-effective.
- The Acquisitions and Disposals Committee approves tenders and contracts up to the maximum of the investment decision. It also monitors trends in supplier development spend and progress on plans including support of the Government's economic policies, Competitive Supplier Development Programme, Local Supplier Development and Preferential Procurement and Enterprise Development.
- The Internal Audit function conducts annual audits on the Company's corporate governance structures to provide assurance that governance-related processes and controls are consistently applied by the Board of Directors to support MDS performance.
- The Internal Audit Plan is aligned to the MDS and continues to focus on the key risks and challenges faced by the Company. The Plan further considers the overall control consciousness of employees, including contract personnel, and addresses factors that could influence the satisfactory realisation of Transnet's goals and objectives.

#### The safeguarding of resources and the limitation of undesirable outcomes

- Our Internal Audit function assists the Board of Directors to safeguard the Company's manufactured assets through acquisition and disposal policies and by approving procurement transactions within a stringent delegated authority framework.
- Our ICT Governance function manages Transnet's ICT architecture and drives effective measures to minimise adverse business impacts of digital risks through systems recovery and Information security.
- The Acquisitions and Disposals Committee monitors strategic acquisitions and disposals and makes recommendations to the Board of Directors.
- The Audit Committee assesses any significant risk-control failings or weaknesses identified and their potential impact, and confirms that appropriate action has been or is being taken.
- Our Risk Management function contributes to a climate of discipline and control which reduces opportunities for fraud and other operational losses.
- The Audit Committee ensures compliance with and adherence to applicable legal, regulatory and accounting requirements, and contributes to a climate of discipline and control which will reduce the opportunity for fraud.
- The Risk Management function monitors environmental outcomes relating to energy, climate and water, and helps to mitigate the risks relating to non-compliance with environmental legislation.
- Transnet has an established, principles-based Integrated Assurance Model (IAM) 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.

#### An integrated mindset regarding the business's inseparable elements

- By embracing King III – and now King IV – the Board of Directors ensures that the Company's strategy, risk compliance, performance and sustainability are inseparable.
- The Sustainability Forum meets quarterly and is tasked with developing key performance indicators (KPIs) in relation to analysing sustainability performance.
- The Board of Directors approves the Company's Integrated, Financial and Sustainability Reports and ensures that all material aspects are covered.
- The Risk Committee reviews the Company's risks on a quarterly basis, and an annual review is performed by the Board of Directors. The Integrated Report, which is approved by the Board of Directors, aligns risks with strategy, operations and the Company's most material aspects.

### Ethical leadership and an ethical organisational culture

- Our Remuneration, Social and Ethics Committee helps to maintain world-class standards in the social and ethics environment, with due regard to all relevant legislation, policies, legal requirements and codes of best practice.
- Our governance framework enables the value system set by the Board of Directors and top management to filter into the organisation's corporate culture, allowing them to lead by example – 'tone at the top'.

### Ethical, inclusive stakeholder relations to promote social trust (corporate citizenship)

- Our Remuneration, Social and Ethics Committee advises the Board of Directors in regard to responsible corporate citizenship and the ethical relationship between the Company and its stakeholders, both internally and externally.
- The committee manages the Company's legal and moral obligations for its economic, social and natural environment, including the objectives and standards of the Company's conduct and activities.
- The Acquisitions and Disposals Committee recommends potential private-sector participation models to the Board of Directors.
- The Acquisitions and Disposals Committee monitors trends in supplier development spend and progress.

### The ability to attract and retain the right skills

- Our remuneration philosophy and policy environment monitors reward practices and ensures that competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high-performance staff at all levels.
- Our Corporate Governance and Nominations Committee ensures that the Board to the Board of Directors' composition and structure enables it to fulfil its mandate and obligations in the context of Transnet's strategic mandate.
- The Board of Directors' skills matrix monitors its mix of skills. The Board of Directors' skills currently include Legal/Compliance, Accounting/Finance, IT, HR, Business Acumen, Operations, Engineering, Risk, Corporate Governance, Procurement, Strategy, Logistics and Marketing.

### A culture of innovation

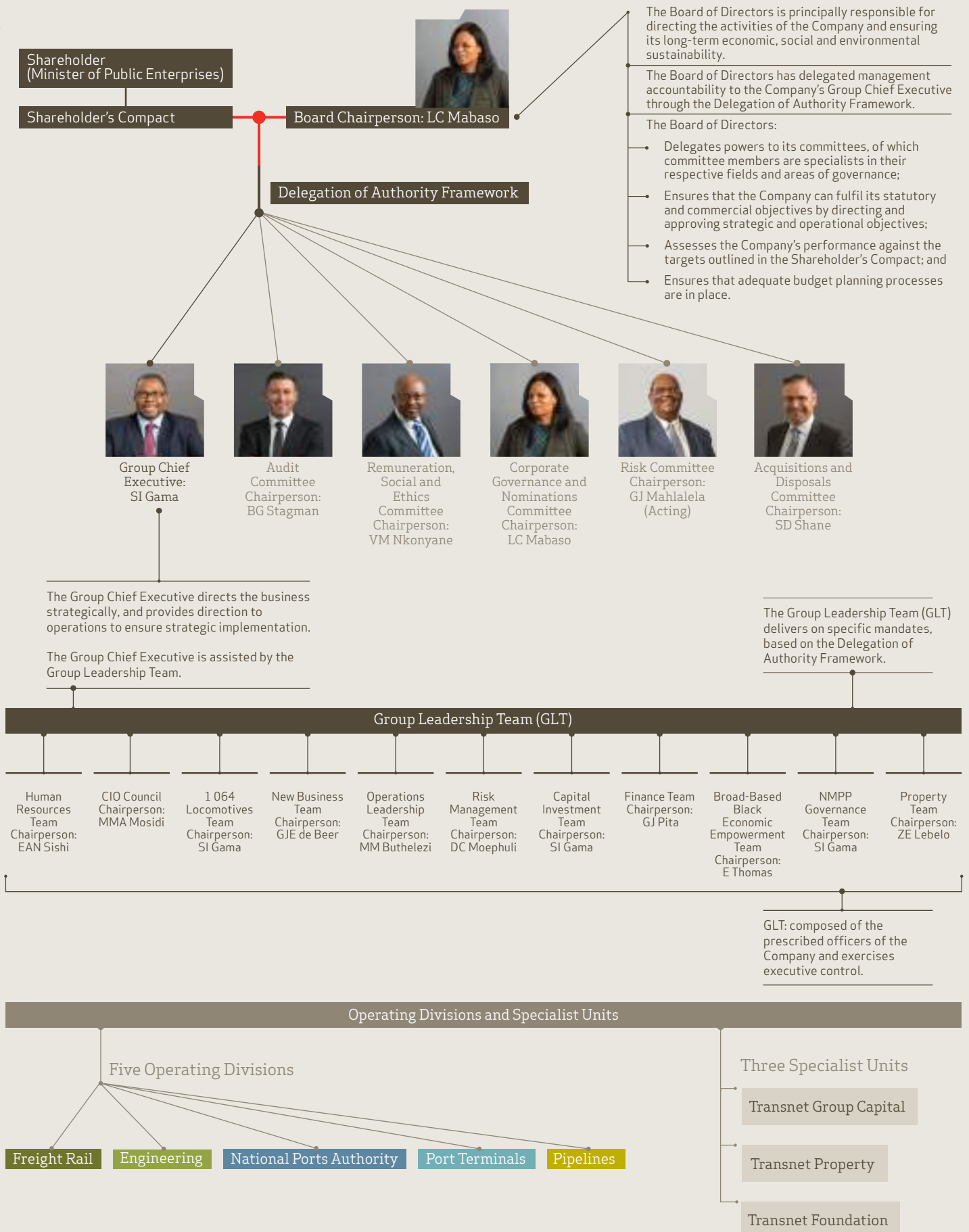
- Data will become the currency for the digital economy, and the collection and dissemination of data will become a critical baseline for revenue diversification through innovative service solutions. ICT governance plays a critical role in securing the organisation's data assets and intellectual capital as it moves into the new digital economy. The ICT Governance function manages Transnet's interactions with cyberspace, identifies vulnerabilities, assesses risks and acts to mitigate them at a reasonable cost with technology and processes that minimise cost and effort. Beyond risk management, ICT governance manages cybersecurity to ensure organisational resiliency and strategies for business continuity in the event of a cyberattack.



Figure 17

P1  
P2  
P4

## Governance structure



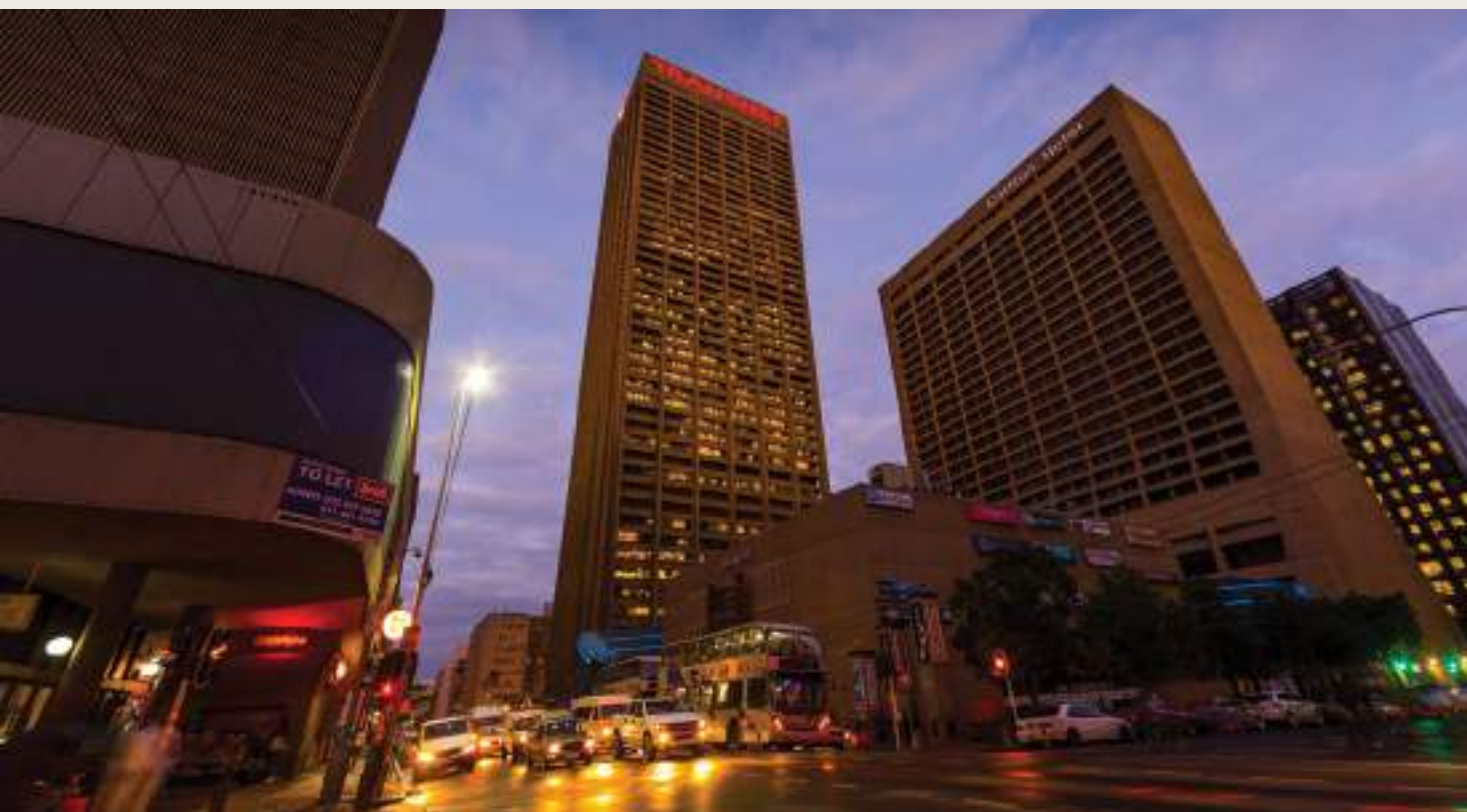


P1  
P2  
P3  
P4  
P6

The Company operates within the following control objectives:

Control objectives	Aspects of Transnet's control objectives
Ethical leadership, oversight and accountability	<ul style="list-style-type: none"> <li>The appointment of the Board of Directors and the determination of the Board of Directors' strategic and operational objectives.</li> </ul>
Active and informed direction of the Company	<ul style="list-style-type: none"> <li>Board direction includes approving the Company's strategy and KPIs in line with the Shareholder's Compact; providing input into the Corporate Plan; identifying critical risks and overseeing appropriate risk mitigation strategies; determining the Company's Risk Appetite; and reviewing the Enterprise Risk Management Framework annually.</li> </ul>
Progress monitoring of organisational strategy	<ul style="list-style-type: none"> <li>The Board of Directors monitors the implementation of the MDS through Annual Work Programmes and is kept abreast of the achievements and risks associated with achievement of the strategy. Long-term sustainability is a key focus of the Board of Directors and it monitors economic, social and environmental outcomes on a continuous basis.</li> <li>Economic benefits, such as cost efficiencies, reliable services, local supplier industry development, job creation, rural development and financial stability, are monitored by the Acquisitions and Disposals Committee.</li> <li>Social outcomes include good governance, accountability and transparency, zero tolerance of fraud and corruption, a representative workforce, safety, employee wellness, Broad-Based Black Economic Empowerment, community benefits and proactive stakeholder engagement, which are closely monitored by the Remuneration, Social and Ethics Committee (REMSEC).</li> <li>Environmental outcomes relating to energy, climate and water. Risks relating to non-compliance with environmental legislation are monitored by the Risk Committee.</li> </ul>
Appropriate governance structures	<ul style="list-style-type: none"> <li>Governance structures are underpinned by clear mandates that fulfil the Board of Directors' responsibilities in line with the Companies Act and PFMA requirements.</li> </ul>
Enhanced internal governance processes	<ul style="list-style-type: none"> <li>Internal governance processes are enhanced through:               <ul style="list-style-type: none"> <li>The Transnet Value Chain Co-ordinator (TVCC), an interdependent forum to ensure business optimisation and integration of the value chain service offerings;</li> <li>The Group Capital Integration and Assurance Unit, tasked with reviewing the capital (mega) projects business cases between the different front-end loading (FEL) stages to ensure project readiness before consideration by the respective governance structures; and</li> <li>The Capital Investment Forum, responsible for reviewing business cases and making recommendations to the Capital Investment Committee.</li> </ul> </li> </ul>
An impeccable governance framework	<ul style="list-style-type: none"> <li>The Company's governance framework complies with specific requirements of the Companies Act and ensures that the Audited Financial Statements are made available to the appropriate stakeholders.</li> <li>It promotes transparency, accountability and integrity with respect to Transnet's management practices.</li> <li>It adheres to the prescribed requirements for the composition, appointment, remuneration and the election of directors.</li> </ul>
Embedding a culture of entrenched ethical values, principles, standards and norms	<ul style="list-style-type: none"> <li>Ethical values, standards and norms guide both employee and supplier behaviour through the Company's Code of Ethics (the Code) and Integrity Pacts with suppliers.</li> <li>The Code aims to instill a culture of honesty, respect, integrity and overall ethical behaviour in terms of employees' engagements with internal and external stakeholders.</li> <li>The Code is revised every five years or as and when required.</li> </ul>

Control objectives	Aspects of Transnet's control objectives
Adopting a 'zero tolerance' approach to fraud and corruption	<ul style="list-style-type: none"> <li>• The Company's fraud and corruption preventative methodology enables it to identify and mitigate the occurrence of fraud and corruption through risk assessments and compliance checks. These are performed annually across the Company.</li> <li>• The top-three areas at risk of fraudulent activities for the 2016 financial year were procurement, human resourcing and resource management (i.e. the potential misuse of resources). Mitigating controls and action plans are in place to reduce risks of fraud and corruption in these areas.</li> <li>• Transnet's fraud investigation methodology actively addresses fraud and corruption by responding to allegations of fraud and corruption in a timely manner. Investigations have numerous outcomes, including disciplinary action, and criminal and/or civil action. Subsequent to an investigation, all internal control weaknesses or breakdowns in processes are rectified to prevent future repetition of the irregularity.</li> <li>• During the year, the Company's Anti-fraud Policy was amended to include elements of anti-corruption.</li> <li>• Formal fraud and corruption awareness training is conducted on an annual basis with all employees, including both bargaining and non-bargaining council employees.</li> <li>• Transnet's tip-offs anonymous hotline enables employees and the public to report unethical behaviour. The hotline is managed by Transnet Internal Audit and all reported cases are investigated through an established forensics investigation process. Cases reported are managed through an automated case-management system and allocated to the relevant Operating Division for investigation. Operating Divisions' fraud working groups are mandated to monitor the investigation of reported allegations. The hotline is available 24 hours a day, seven days a week and the call centre agents are able to converse in all 11 official South African languages.</li> </ul>





## Ethical and effective leadership and corporate citizenship

The Board of Directors 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 National Ports Authority in terms of the National Ports Act. The Board of Directors offers leadership that results in the achievement of the strategy by directing and approving the Company's strategic and operational objectives, and by monitoring the Company's performance against the targets outlined in the Shareholder's Compact. It further ensures that adequate budget planning processes are in place to advance the Company's mandate by providing an oversight role over the Company's socio-economic programmes. The Board of Directors is further tasked with ensuring that the Company is able to achieve its statutory and commercial objectives by directing and approving the Company's strategic and operational objectives, and by assessing its performance against targets outlined in the Shareholder's Compact.

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



The Board of Directors is committed to the early implementation of the King IV Code on Corporate Governance.



## Compliance with laws, codes, rules and standards

The Board of Directors governs, and directs compliance with applicable laws and adopted, non-binding rules, codes and standards. The responsibility for implementing a compliance function is delegated 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 of Directors 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 PFMA requires the Board of Directors 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. The Compliance function therefore identifies, assesses and monitors critical controls associated with regulatory requirements, statutory licences, codes and standards applicable to the Company. Compliance issues are reviewed both at the Corporate Centre and within the Operating Divisions and Specialist Units.

The Board of Directors 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 MDS to mitigate compliance risk exposures emerging from the execution of the strategy.



### PFMA

The PFMA outlines the fiduciary duties and responsibilities of the Board of Directors, and requires that it serves as the Company's accounting authority. The Company is identified as a major business entity and is listed under Schedule 2 of the PFMA. The Board of Directors 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 of Directors also ensures that the Company adheres to all procedures for quarterly reporting to the Executive Authority through submission of quarterly PFMA reports.

### Companies Act

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



### King III and IV

The Board of Directors is committed to the application of King III governance principles in conjunction with regulatory provisions to achieve the overarching principles of sound governance, namely responsibility, accountability, fairness and transparency.

King IV was launched on 1 November 2016 and early implementation is envisaged. The Board of Directors is committed to this process and will assess and report on implementation for the 2018 financial year. The Company is, however, already complying with the majority of the King IV principles. Application of the King III principles is monitored through the Governance Assessment Instrument (GAI).

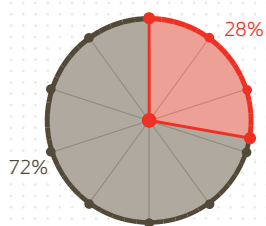
The Company maintained its AAA status during the 2017 financial year, and complied with applicable aspects of King III, with the following exceptions:

		Governance Assessment Instrument – Exceptions and Explanations Register as at 31 March 2017	
Main category	Sub-category	All 'Not Applied' exception(s) sorted by significance	Reference No
Chapter 2	Principle 2.18	<p>When determining the number of directors to serve on the board, the entity (or the Minister as applicable) does not adequately consider the knowledge, skills and resources that are necessitated by the size and nature of its business.</p> <p><b>Report comment</b> The Corporate Governance and Nominations Committee compiles a Board skills matrix for consideration by the Shareholder Minister as part of non-executive directors' succession planning activities.</p>	29-848-5929
Chapter 2	Principle 2.16	<p>There is no succession planning in place for the chairperson.</p> <p><b>Report comment</b> This is conducted by the Shareholder Minister and not the Company.</p>	29-852-5954
Chapter 2	Principle 2.18	<p>Non-executive directors that are classified as 'independent' are not subjected to an annual evaluation of their independence by the chairman and the board.</p> <p><b>Report comment</b> Consideration is being made to include this aspect as part of the peer reviews.</p>	29-848-5933
Chapter 2	Principle 2.18	<p>The nominations committee does not make recommendations for appointment as director or, if it does, does not base its recommendations on all of the following: knowledge and experience gap on the board; integrity of the candidate; and skills and capacity of the candidate.</p> <p><b>Report comment</b> The Shareholder appoints the Board members.</p>	29-873-6202
Chapter 2	Principle 2.19	<p>Procedures for appointments to the board are not all of the following: formally set out in a policy; transparent; a matter for the board as a whole (although the board may be assisted by the nomination committee) or the Minister as applicable.</p> <p><b>Report comment</b> The Board of Directors is appointed by the Shareholder Minister.</p>	29-848-5918
Chapter 2	Principle 2.17	<p>The board does not appoint the CEO or, if required by legislation, the Minister does not appoint.</p> <p><b>Report comment</b> The Board of Directors recommends the appointment of the Group Chief Executive and the Shareholder Minister makes the final appointment.</p>	29-853-5955
Chapter 2	Principle 2.22	<p>The nomination for re-appointment of a director does not occur only after an evaluation of the performance of the director.</p> <p><b>Report comment</b> Generally, the results of the evaluation are reported to the Shareholder Minister. The appointment of the Board of Directors is at the discretion of the Shareholder Minister.</p>	29-877-6219
Chapter 2	Principle 2.25	<p>Non-executive directors' fees do not comprise both a base fee and an attendance fee per meeting.</p> <p><b>Report comment</b> The Company pays a retainer for the Board and its committees on a quarterly basis.</p>	29-850-5946
Chapter 3	Principle 3.3	<p>The chairman of the audit committee is not selected by the board.</p> <p><b>Report comment</b> The Board nominates a potential appointee and the Shareholder Minister elects the nominee by means of a formal resolution.</p>	29-870-6164

Main category	Sub-category	Governance Assessment Instrument – Exceptions and Explanations Register as at 31 March 2017	
		All 'Not Applied' exception(s) sorted by significance	Reference No
Chapter 2	Principle 2.16	<p>The chairperson is not appointed by the board every year or, if required by legislation, the Minister does not appoint.</p> <p><b>Report comment</b> In line with the Memorandum of Incorporation, the Chairperson is appointed by the Shareholder Minister and not the Board. The appointment is renewable annually at the AGM.</p>	29-852-5951
Chapter 2	Principle 2.19	<p>The nominations committee does not do one or both of the following: establish procedures for appointments to the board; ensure that these procedures are properly carried out.</p> <p><b>Report comment</b> The Shareholder appoints the Board members.</p>	29-873-6203
Chapter 3	Principle 3.9	<p>The audit committee has not defined a policy for non-audit services provided by the external auditor.</p> <p><b>Report comment</b> Non-audit Services are approved as part of the Annual Internal Audit Plan.</p>	29-870-6150
Chapter 2	Principle 2.19	<p>Before candidates are nominated for board appointments, there are no procedures in place to investigate the candidates' backgrounds or legal exclusions from membership inspected and applied.</p> <p><b>Report comment</b> The fit and proper test is conducted by the Shareholder Minister.</p>	29-848-5919
Chapter 2	Principle 2.19	<p>The nominations committee does not ensure that new directors have not been declared delinquent or are not serving probation in terms of section 162 of the Companies Act, 2008.</p> <p><b>Report comment</b> The fit and proper test of directors is conducted by the Shareholder Minister.</p>	29-873-6204
Chapter 2	Principle 2.19	<p>The nominations committee does not identify and participate in selecting board members.</p> <p><b>Report comment</b> The Shareholder Minister appoints the Board members.</p>	29-873-6200
Chapter 2	Principle 2.23	<p>The names and details of all external advisers who regularly attend or are invited to attend committee meetings are not disclosed.</p> <p><b>Report comment</b> External advisers are generally not invited to committee meetings.</p>	29-868-6108
Chapter 3	Principle 3.2	<p>If vacancies on the audit committee arise, the board will not elect a replacement as and when the need arises.</p> <p><b>Report comment</b> Vacancies on the Audit Committee are filled by the Shareholder. The election is considered at the next AGM or as and when necessary.</p>	29-870-6162

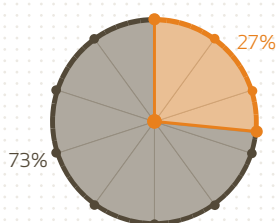
## Board composition

The Company's current Memorandum of Incorporation provides that there shall not be less than 10 and not more than 14 directors, of whom not less than eight shall be non-executive directors and two executive directors. As at 31 March 2017, the Board of Directors comprises 10 directors, of whom the majority, eight in total, are independent non-executive, including the Chairperson. The Board of Directors currently has four vacancies, due to the passing of Mr Peter Williams on 15 March 2017. The Chairperson continues to engage the Shareholder Minister on the matter.



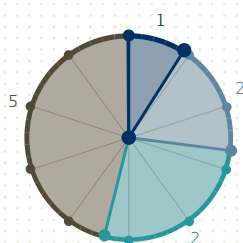
Length of tenure of independent non-executive directors  
as at 31 March 2017

28% 0 – 3 years  
72% 3 – 6 years



Directors' gender representation  
as at 31 March 2017  
(incl. executive directors)

27% Female  
73% Male



Directors' representation by race  
as at 31 March 2017  
(incl. executive directors)

5 Black  
2 Coloured  
1 Indian  
2 White



## Governance instruments

The Company's governance instruments include:

### Memorandum of Incorporation

The Company has a Memorandum of Incorporation in place which was lodged with the Companies and Intellectual Property Commission (CIPC).

### Delegation of Authority Framework

The Company's Delegation of Authority Framework is reviewed annually for adequacy and completeness. The existing Delegation of Authority Framework was approved by the Board of Directors on 31 August 2016, and came into effect on 1 September 2016. All the Operating Divisions and Specialist Units cascaded the latest edition of the Delegation of Authority Framework timeously.

The respective governance structures will commence with the review of the proposed Delegation of Authority Framework in May 2017.

### Matters reserved for decision by the Board of Directors

Certain aspects relating to approvals and recommendations of financial, statutory and administrative matters, and matters relating to regulatory, human resources, policies and procedures, and Board and Board committee mandates are specifically reserved for decisions by the Board of Directors. This Board-level decision-making function is 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 Executive.

[www](http://www.transnet.net) **Read more**  
2017 Corporate Governance Report online at [www.transnet.net](http://www.transnet.net).



## Independent performance evaluation of the Board of Directors, its committees and directors

The Board of Directors ensures the evaluation of its own performance and that of its committees. An annual independent evaluation is conducted to assess the effectiveness of the Board of Directors, its committees, the Chairperson and the individual contributions of the directors. The process is managed by an independent service provider.

### 2017 Board evaluation

The 2017 Board evaluation was conducted by an external service provider, appointed in October 2015. Areas for improvement included:

- Requirement for engineering skills, with construction expertise and industry-specific experience, namely, transport and logistics; and accounting and/or economic skills, for example, a Chartered Accountant (SA) and/or an economist or entrepreneur; and
- The non-alignment of the remuneration of non-executive directors and related Company activities.

Action plans are being developed to address the gaps, while the Shareholder Minister will be engaged on filling of vacancies, taking cognisance of the skills requirements for the Company's activities. The Board Evaluation Report is tabled for noting at the Annual General Meeting.

### Directors' induction and continuous development

As part of enhancing the directors' skills, the Group Company Secretary develops an Annual Board Training Plan. The Board Training Plan identifies training requirements for the Board of Directors and its committees. Individual directors are encouraged to identify any training events they may wish to attend through recognised training institutes. In the year under review, the following training activities were conducted by external training service providers:

## Directors' training for the year ended 31 March 2017

Training provided	Date	Attendees		
Remuneration, Social and Ethics Committee				
Value Creation and Executive Pay	17 May 2016	Mr VM Nkonyane	Ms Y Forbes	Mr ZA Nagdee
Social and Ethics Committee responsibilities	6 October 2016	Mr VM Nkonyane Mr SD Shane	Ms Y Forbes	Mr ZA Nagdee
Risk Committee				
Effective Enterprise Risk Management: Role of the Board of Directors	4 August 2016	Mr PG Williams <sup>1</sup> Mr GJ Pita	Mr GJ Mahlalela	Mr BG Stagman
Role of the Risk Committee vis-à-vis other committees of the Board of Directors	2 February 2017	Mr GJ Mahlalela Mr BG Stagman	Ms Y Forbes Mr SI Gama	Mr GJ Pita Ms PEB Mathekga
Audit Committee				
Fraud-related matters <sup>2</sup>	23 August 2016	Mr BG Stagman Ms PEB Mathekga Ms Y Forbes	Mr GJ Mahlalela Mr SI Gama	Mr PG Williams <sup>1</sup> Mr GJ Pita
Board: Strategy Workshop				
National Railway Safety Regulator Act, 2000 Overview of the Procurement Procedure Manual	29 – 30 August 2016	Ms LC Mabaso Mr GJ Mahlalela Mr VM Nkonyane Mr BG Stagman	Ms Y Forbes Ms PEB Mathekga Mr GJ Pita Mr PG Williams <sup>1</sup>	Mr SI Gama Mr ZA Nagdee Mr SD Shane
Corporate Governance and Nominations Committee				
Corporate Governance in the Public Sector	10 October 2016	Ms LC Mabaso Ms Y Forbes	Ms PEB Mathekga	Mr VM Nkonyane

<sup>1</sup> Mr PG Williams passed away on 15 March 2017.

<sup>2</sup> Global Trends, National Trends, Fraud Risk Management, Ethics, the role of the Audit Committee and what to expect from Transnet Internal Audit.



### Directors' balance of skills and expertise

The graphic below reflects the skills and expertise which are balanced to ensure effective discussions in fulfilling the Board of Directors' mandate:

120

[Read more](#)

Details on the individual directors' skills and expertise

### Directors' strengths



Figure 18

### Board independence



P.3.2  
P.7

The Board of Directors comprises an appropriate balance of knowledge, skills, experience, diversity and independence, enabling the objective and effective discharge of its duties. Directors' independence is determined according to the definition in the King III Code, which includes the number of years a director has served on the Board of Directors. A review, as provided for in the King III Code, is conducted to ascertain the independence of long-serving directors. None of the current independent non-executive directors have served in that capacity for more than nine years.



## Core responsibilities of the Board of Directors

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

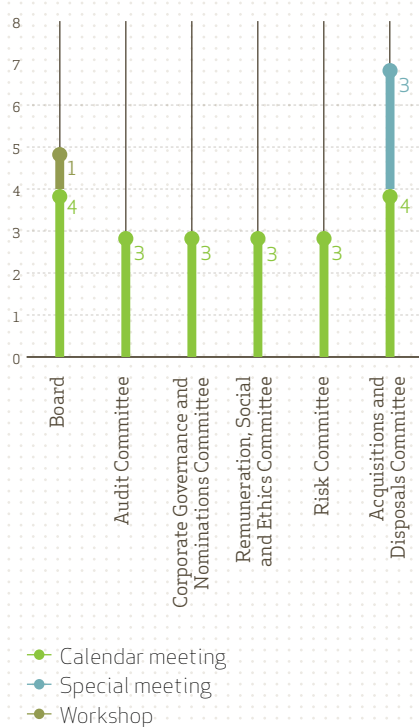
The Board is satisfied that it has discharged its responsibilities in relation to its mandate.



## Board and committee meetings

The graph below indicates the number of scheduled and ad hoc meetings held during the period under review:

Status of meetings convened in the 2017 financial year



## Summary of critical issues during the year

### Board of Directors<sup>1</sup>

#### Chairperson

Ms LC Mabaso  
(Independent non-executive director)

#### Members

Ms Y Forbes	Mr GJ Pita
Mr SI Gama <sup>2</sup>	Mr SR Seleke
Mr GJ Mahlalela	Mr SD Shane
Ms PEB Mathekga	Mr BG Stagman
Mr ZA Nagdee	Mr PG Williams <sup>3</sup>
Mr VM Nkonyane	

### Main undertakings and considerations

### Leadership response

- Diversification of revenue sources and the implementation of the Africa Strategy.
- The status of the Company's credit rating and the impact on its funding initiatives.
- Management is currently developing a diversification strategy and will establish Transnet International Holdings, a special-purpose vehicle, to execute the Africa Strategy.
- Credit rating agencies were engaged on the Company's plans to increase revenue and to reduce operational expenditure.

<sup>1</sup> A summary table of key activities and outputs for the 2017 financial year is contained in Annexure A.

<sup>2</sup> Mr Gama was appointed as a member of the:

– Acquisitions and Disposals Committee, effective from 31 August 2016; and

– Corporate Governance and Nominations Committee and the Risk Committee, effective from 31 August 2016.

<sup>3</sup> Mr PG Williams passed away on 15 March 2017.

## Material clusters

- Build social trust through ethical leadership and corporate citizenship
- Unlock organisational value by attracting talent, fostering innovation and building unity
- Ensure long-term financial stability in a tough economy
- Ensure customer-centricity and build partnerships for sustainable growth
- Promote transformation and growth in the wider South African economy





## 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 of Directors 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 GLT of which he is the Chairperson. The Board of Directors is satisfied that the Delegation of Authority Framework clearly records the nature and extent of the authorities delegated by the Board of Directors to the Group Chief Executive and specified governance structures, and/or, in turn, by the Group Chief Executive to the members of the GLT, in order to implement certain actions by or on behalf of the Company.

## Succession planning

Non-executive directors are appointed to the Board of Directors by the Shareholder Minister, on a three-year term, renewable annually. The Chairperson of the Board of Directors engages continuously with the Shareholder Minister, who is the final arbiter on the Board of Directors' succession plans and approval of transaction applications in accordance with the provisions of section 54 of the PFMA.



## Declaration of interest

The Companies Act codified the fiduciary duties of directors and prohibits the use of position, privileges or confidential information for personal gain, or to improperly benefit another person. In instances where an independent non-executive director or a prescribed officer has any direct or indirect personal or private business interest in a matter, that independent non-executive director or prescribed officer must be recused from the proceedings when the matter is considered, unless the Board of Directors, committee or Group Leadership Team (GLT) decides that the member's interest in the matter is trivial or irrelevant.

For all formal meetings, registers for Declarations of Interest and Related Party Disclosures are completed by the independent non-executive directors, attendees at meetings of the Board of Directors, and members of the GLT and its attendees. These registers are maintained by the Group Company Secretary. Declarations of Interest and Related Party Disclosures are signed by committee members participating in meetings of the various governance structures, in relation to the contents of the meeting packs. Further, independent non-executive directors, Group Leadership and Extended Leadership Team members are required to complete an annual Declarations of Interest form declaring their financial and contractual interests, and to file it with the Group Company Secretary prior to 1 April each year. Should the interest change during the year, revised Declarations of Interest forms are filed and formally noted within various governance structures.

The Board of Directors and the GLT note their respective annual Declarations of Interest and Related Party Disclosures Registers. For adequacy and proper monitoring, the Corporate Governance and Nominations Committee, as well as the Remuneration, Social and Ethics Committee perform annual reviews of the filed Declaration of Interest forms for the Board of Directors and GLT members. Quarterly reports are drawn from the electronic

Declarations of Interest and Related Party Disclosure, and the Electronic Gifts and Hospitality Registry Systems, and tabled at the Remuneration, Social and Ethics Committee meetings for information purposes. In addition, the Company requires all employees to sign confidentiality and Declaration of Interest forms when adjudicating on procurement contracts. The Declaration of Interest and Related Party Disclosure Policies for directors and employees respectively, are revised every five years or as required.

## Independent non-executive directors

The independent non-executive directors 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 of Directors 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 of Directors to discharge its functions efficiently and effectively. The Group Company Secretary prepares Annual Work Plans for the Board of Directors as informed by the strategic direction of the Company. These Annual Work Plans are approved by the respective governance structures for implementation and are continually tracked to assess progress. The Group Company Secretary advises the Board of Directors on corporate governance issues, the requirements of the Companies Act and other relevant legislation. The Board of Directors 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 of Directors 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 of Directors is satisfied that the Group Company Secretary maintains an arm's length relationship with the Executive Management Team, the Board of Directors and the individual non-executive directors.

Ms Ayanda Ceba resigned from the role of Group Company Secretary with effect from 31 August 2016. The Board of Directors, at its meeting held on 31 August 2016, appointed Ms Nokuthula Khumalo, formerly Deputy Group Company Secretary, as the Group Company Secretary with effect from 1 September 2016.

## Benchmarking

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

## Our Board members

### 1. Ms Linda Mabaso Chairperson

**Date of birth:** December 1964

**Year of appointment:**  
December 2014

**Qualifications:** BProc  
(University of Pretoria).

**Area of expertise**

Corporate Governance,  
Management, Leadership,  
Law and Strategy.

### 2. Mr Siyabonga Gama Group Chief Executive

**Date of birth:** May 1967

**Year of appointment to the Board of Directors:**  
October 2015

**Qualifications:** BCom (University of Swaziland);  
Certificate in Port Management (IHE, DELFT); Advanced  
Executive Programme (CUNY); Advanced Certificate in  
Port and Operations Management (Singapore Private  
Institute); Postgraduate Diploma in Company Direction;  
Banking Diploma Institute of Bankers (CAIB); Executive  
Development Program (Wharton); MBA (Stern NYU).

**Area of expertise**

Leadership, Logistics, Strategy, Finance, Operations,  
Business turnaround and Global Economy.

### 3. Mr Garry Pita Chief Financial Officer

**Date of birth:** May 1979

**Year of appointment to the Board of Directors as  
Chief Financial Officer:** October 2015

**Qualifications:** BCom (University of the  
Witwatersrand); BAcc (Hons) (University of the  
Witwatersrand) CA(SA); the Global Executive  
Development Programme (Gordon Institute of  
Business Science); Accounting and Auditing  
Professional Training Specialist Course.

**Area of expertise**

Finance, Auditing, Management, Logistics, Strategy  
and Supply Chain.

### 4. Mr Brett Stagman

**Date of birth:** September 1973

**Year of appointment:**  
December 2014

**Qualifications:** BCompt,  
BCompt (Hons) (University  
of South Africa); CA(SA).

**Area of expertise**

Audit Management,  
Management, Finance,  
Leadership and Strategy.

### 5. Ms Potso Mathekga

**Date of birth:** March 1976

**Year of appointment:** December 2014

**Qualifications:** MBL (University of South  
Africa); Programme in Business Leadership  
(University of South Africa); BTech  
(Chemical Engineering) (Pretoria Technikon);  
Diploma (Chemical Engineering) (Technikon  
Northern Gauteng).

**Area of expertise**

Finance, Strategy, Business Management,  
Engineering and Leadership.

### 6. Mr Gideon Mahlalela

**Date of birth:** July 1950

**Year of appointment:** December 2014

**Qualifications:** Honorary Doctorate (Philosophy) (University of California,  
USA); BA (Liberal Studies Arts) (Antioch University, USA); Leadership  
Programme (Burlington Northern Railway Leadership Centre, USA); Helsinki  
School of Economics Certificate (Helsinki School of Economics); Pricing and  
Costing of Transport Services Certificate (Eastern and Southern African  
Management Institute Arusha); Diploma (Accounting and Finance) (Seneca  
College of Applied Arts and Technology, Canada).

**Area of expertise**

Rail Management, Financial Management, Business Management,  
Stakeholder Relations Management and Corporate Governance.

### 7. Mr Vusi Nkonyane

**Date of birth:** August 1956

**Year of appointment:** December 2014

**Qualifications:** BA (Social Science) (University  
of the North); Diploma (Education) (University  
of the North); Certificate Programme in  
Industrial Relations (Wits Business School);  
MAP (Wits Business School); Master of  
Management (Human Resources) (Wits  
Business School).

**Area of expertise**

Leadership, Human Resources, Financial  
Management, Strategy and Industrial Relations.

### 8. Mr Stanley Shane

**Date of birth:** February 1971

**Year of appointment:** December 2014

**Qualifications:** BCom (Finance) (University  
of the Witwatersrand); Overseas Leadership  
Programme (MTA) Israel; Regulatory  
Examinations – Key Individual and FSP –  
Financial Services Board (FSB) (SA); Member  
SA Institute of Stockbrokers (SA).

**Area of expertise**

Investment, Finance, Management, Strategy  
and Leadership.

### 9. Ms Nokuthula Khumalo

**Group Company Secretary**

**Date of birth:** September 1970

**Year of appointment:** 2016

**Qualifications:** Admitted Attorney; BProc; LLM  
(Environmental Law) 1995.

**Area of expertise**

Strategy, Corporate Governance, Litigation, Contract  
Negotiation, Risk Management and Public Policy.

### 10. Ms Yasmina Forbes

**Date of birth:** February 1959

**Year of appointment:** June 2011

**Qualifications:** MBA (Bond University);  
Diploma (Marketing Management) (Damelin  
College); Public Relations (Damelin College).

**Area of expertise**

Information Technology, Corporate  
Governance, Marketing and Sales,  
Leadership and Strategy.

### 11. Mr Zainul Nagdee

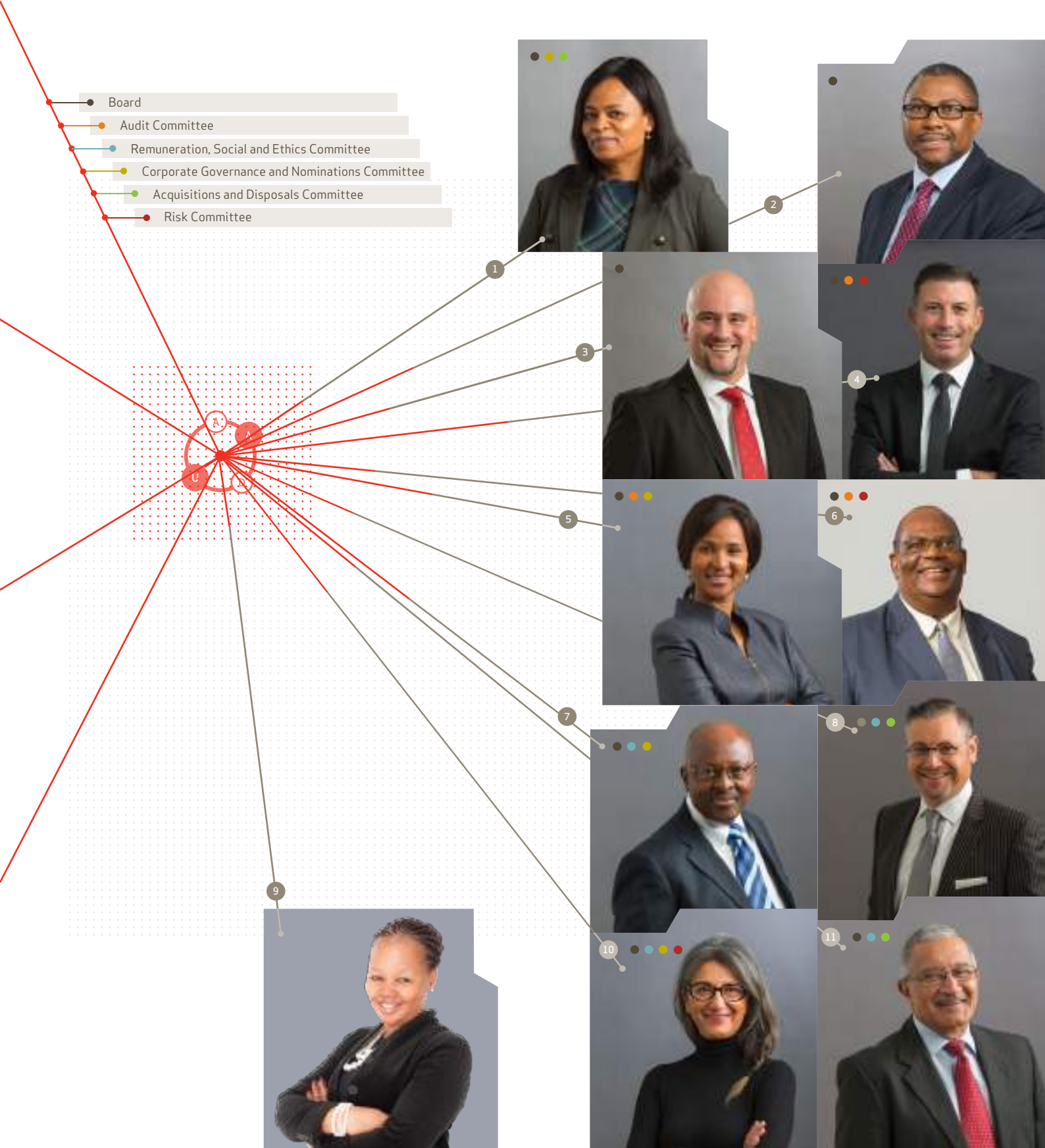
**Date of birth:** May 1949

**Year of appointment:** December 2014

**Qualifications:** MAP (Wits Business School).

**Area of expertise**

Information Technology, Business Development, Stakeholder  
Relations Management, Leadership and Strategy.





## Directors' active memberships of other boards

**1. Ms Linda Mabaso****Chairperson****Membership/Directorship**

Mabaso Attorneys  
The Ark Foundation  
Trustee of the Transnet Retirement Fund

**2. Mr Siyabonga Gama****Group Chief Executive****Directorship**

Maputo Corridor Logistics Initiative  
Italtile Limited  
Mafumbuka Investment Holdings (Pty) Ltd  
Pony Lane Country Estate Homeowners Association

**Chairperson**

Selope Thema Foundation

**Trustee**

Phithikeza Trust (Property owning family Trust)  
Italtile Foundation Trust

**Shareholder**

Various JSE Entities

**3. Mr Garry Pita****Chief Financial Officer****Directorship**

SASDC

**Shareholder**

OPP Investments CC

**4. Mr Brett Stagman****Directorship**

Bluchip Retail Solutions (Pty) Ltd  
Blu's Brothers (Pty) Ltd

**Shareholder**

Mobifin Nigeria Ltd

**5. Ms Potso Mathekg****Directorship**

Lizbridge Trading Enterprise  
Kgari Trading Solutions (Pty) Ltd  
Lisaphase (Pty) Ltd  
Mmule Julia Kgari Foundation NPC

**Shareholder**

Grapeseed Trading CC

**6. Mr Gideon Mahlalela****Directorship**

African Alliance Securities (Pty) Ltd  
African Alliance Swaziland Ltd  
Orchard Insurance Ltd  
Commonwealth Mastership for Technology Management  
Union Consultants (Pty) Ltd

**7. Mr Vusi Nkonyane****Directorship**

Prime Portfolio Investment A  
Prime Portfolio Investment B  
Mphephethe Projects  
Circle Seven Trading 533  
Nkonyane Minerals and Energy  
Black Aurum Commodities  
Empumelelo Investment and Management Services  
Yakani Black Aurum Commodities  
Platinum Hospitality Holdings  
Kerastyle  
Extriforce Investments  
Vexiscore  
Lanzidex

**8. Mr Stanley Shane****Directorship/Trustee**

Integrated Capital SA (Pty) Ltd  
Integrated Capital Management (Pty) Ltd  
Aquiprox (Pty) Ltd  
Integrated Capital Investments (Pty) Ltd  
Integrated Investments (SICAV – SIF)  
Integrated Strategic Fund Limited  
Integrated Multi-Strategy Fund Limited  
Integrated Alternative Investments Limited  
Cross Point Trading 109 (Pty) Ltd  
Aerton Investments (Pty) Ltd  
Aerton Properties (Pty) Ltd  
Waleston II Investments (Pty) Ltd  
Newshelf 172 CC  
Indenture Requirements (Pty) Ltd  
Amalgamated Electronic Corporation Ltd  
New Wheels Underwriting Agency (Pty) Ltd  
Biggest SA Trading (Pty) Ltd  
Glenhazel Community Security Initiative NPC (Non-profit)  
Bnei Akiva Bayit (Pty) Ltd  
United Mizrachi Organisation of South Africa (Non-profit)  
Transnet Sub-fund of the Transport Pension Fund  
Transnet Second Defined Benefit Fund

**9. Mr Zainul Nagdee****Directorship**

Lechabile Technology KZN  
Digital Energy Solutions

**Shareholder**

Hadzambe

**10. Ms Yasmina Forbes****Directorship/Trustee**

University of the Western Cape  
RESAF Nutrition (Pty) Ltd  
YF & Associates  
Pegasus Trust  
Transnet Second Defined Benefit Fund



## Board committees

In line with the requirements of the Companies Act, and to ensure that delegation within the Board of Directors' own structures promotes independent judgement and assists with the balance of power and effective discharge of its duties, the Board of Directors established the Audit Committee and the Remuneration, Social and Ethics Committee as statutory committees. The Audit Committee's constitution, functioning and reporting adhere strictly to the PFMA requirements. In addition to the statutory committees, the following committees have been constituted to assist in the achievement of the Company's objectives:

- Acquisitions and Disposals Committee;
- Risk Committee; and
- Corporate Governance and Nominations Committee.

### Audit Committee

During the year, the Company continued to comply with the Companies Act and PFMA requirements for the functioning and reporting of the Audit Committee.

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.

A total of four meetings were held during the year and all quorum requirements were met accordingly. The Audit Committee provides the following support activities to the Board of Directors:

- Assists the Board of Directors in discharging its duties relating to the safeguarding of assets and the evaluation of internal control frameworks within the Company;
- Reviews and assesses the integrity and effectiveness of the accounting, financial, compliance and other control systems;
- Considers the internal and external audit processes and the 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, the external auditors, the Board of Directors, management and regulators;
- Ensures compliance with and adherence to applicable legal, regulatory and accounting requirements; and
- Contributes to a climate of discipline and control which will reduce the opportunity for fraud.

## Summary of the main undertakings and considerations during the year

### Audit Committee<sup>1</sup>

#### Chairperson

Mr BG Stagman  
(Independent non-executive director)

#### Members

Mr GJ Mahlalela (Independent non-executive director)  
Ms PEB Mathekga (Independent non-executive director)  
Mr PG Williams<sup>2</sup> (Independent non-executive director)  
No external advisers attended committee meetings during the year.

### Main undertakings and considerations

- The requirement of an additional Board member with a Chartered Accounting qualification to enhance the Committee.

### Leadership response

- One of the vacancies on the Board of Directors should be filled by a Chartered Accountant. The Shareholder is being engaged accordingly.

<sup>1</sup> A summary table of key activities and outputs for the 2017 financial year is contained in Annexure A.

<sup>2</sup> Mr PG Williams passed away on 15 March 2017.

## The Acquisitions and Disposals Committee

The Acquisitions and Disposals Committee provides the following support activities to the Board of Directors:

- 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 of Directors;
- Considers, for recommendation to the Board of Directors, 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; and
- Approves procurement strategies for proposed acquisitions and disposals to the Board of Directors in line with the Delegation of Authority Framework.

## Summary of the main undertakings and considerations during the year

The Acquisitions and Disposals Committee<sup>1</sup>

## Chairperson

Mr SD Shane  
(Independent non-executive director)

## Members

Mr SI Gama<sup>2</sup> (Executive director)  
Ms LC Mabaso (Independent non-executive director)  
Mr ZA Nagdee (Independent non-executive director)  
No external advisers attended committee meetings during the year.

## Main undertakings and considerations

- Continuously striving to attain targets for black youth-owned businesses, black women-owned businesses and people with disabilities.

## Leadership response

- The Company has introduced B-BBEE improvement plans as part of the requirements in the assessment criteria. Furthermore, the Company has established Enterprise Development hubs in various provinces to strengthen its Supplier Development component.

<sup>1</sup> A summary table of key activities and outputs for the 2017 financial year is contained in Annexure A.

<sup>2</sup> Member since 31 August 2016.

## Corporate Governance and Nominations Committee

The Corporate Governance and Nominations Committee provides the following support activities to the Board of Directors:

- Ensures that the Board of Directors' composition and structure enables 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 member for approval by the Board of Directors 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 non-executive directors.
- Administers and manages the selection process of the Company's Group Chief Executive on behalf of the Board of Directors, and makes recommendations on the top-three candidates – in order of priority – to the Board of Directors by complying with the Guidelines for the appointment of a Group Chief Executive for a State-owned Enterprise.

## Summary of the main undertakings and considerations during the year

Corporate Governance and Nominations Committee<sup>1</sup>

## Chairperson

Ms LC Mabaso  
(Independent non-executive director)

## Members

Ms Y Forbes (Independent non-executive director)  
Mr SI Gama<sup>2</sup> (Executive director)  
Ms PEB Mathekga (Independent non-executive director)  
Mr VM Nkonyane (Independent non-executive director)  
No external advisers attended committee meetings during the year.

## Main undertakings and considerations

- The Shareholder's Compact targets were adversely impacted by the economic downturn and the decline in volumes.
- The adequacy of the skills mix at Board level due to directors' resignations.

## Leadership response

- The committee recommended that the target-setting process should be realistic and reflective of the prevailing economic circumstances as well as Transnet's strategic trajectory towards a more diversified business.
- The Company continues to engage the Shareholder Minister on the preferred skills when filling the vacancies.

<sup>1</sup> A summary table of key activities and outputs for the 2017 financial year is contained in Annexure A.

<sup>2</sup> Member since 31 August 2016.

## Risk Committee

The Risk Committee provides the following support activities to the Board of Directors:

- 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 of Directors from time to time;

- Ensures effective communication with the internal and external auditors, the Audit Committee, the Board of Directors, 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; and
- 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<sup>1</sup>

## Chairperson

Mr PG Williams<sup>2</sup>: Acting during 2017  
(Independent non-executive director)

## Members

Ms Y Forbes<sup>3</sup> (Independent non-executive director)  
Mr SI Gama<sup>4</sup> (Executive director)  
Mr GJ Mahlalela (Independent non-executive director)  
Mr BG Stagman (Independent non-executive director)  
No external advisers attended committee meetings during the year.

## Main undertakings and considerations

- Increasing trend in employee fatalities and derailments.

## Leadership response

- Group Leadership Team (GLT) has introduced safety awareness roadshows to engage employees on safety governance and practices.
- 'Visible leadership' strategies have been implemented, which include individual GLT members being allocated specific operations work areas, which they visit regularly to engage employees on different matters, including safety.

<sup>1</sup> A summary table of key activities and outputs for the 2017 financial year is contained in Annexure A.

<sup>2</sup> Mr PG Williams passed away on 15 March 2017.

<sup>3</sup> Member of the Risk Committee effective 22 January 2017.

<sup>4</sup> Member since 31 August 2016.

## Remuneration, Social and Ethics Committee

The Board of Directors has established the Remuneration, Social and Ethics Committee (REMSEC) 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 of Directors 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 of Directors 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 Committee<sup>1</sup>

## Chairperson

Mr VM Nkonyane  
(Independent non-executive director)

## Members

Ms Y Forbes<sup>2</sup> (Independent non-executive director)  
Mr ZA Nagdee (Independent non-executive director)  
Mr SD Shane (Independent non-executive director)  
No external advisers attended committee meetings during the year.

## Main undertakings and considerations

- Alignment of remuneration policies to the proposed DPE Remuneration Standards and Incentive Guidelines.

## Leadership response

- Numerous engagements with DPE were convened to ensure that the DPE's-proposed remuneration model is adequate for the Company's changing environment.

<sup>1</sup> A summary table of key activities and outputs for the 2017 Financial Year is contained in Annexure A.

<sup>2</sup> Member of REMSEC until 21 January 2017.

## Read more

Transnet's full Remuneration Report is contained in Annexure B and also in the 2017 Annual Financial Statements, and forms part of the Report of the Directors.

## Our Group Leadership Team (GLT)

### 1. Mr Siyabonga Gama Group Chief Executive

**Date of birth:** May 1967

Year of appointment: 1994

**Qualifications:** BCom (University of Swaziland), Certificate in Port Management (IHE, DELFT); Advanced Executive Programme (City University of New York); Advanced Certificate in Port and Operations Management (Singapore Private Institute); Postgraduate Diploma in Company Direction; Banking Diploma Institute of Bankers (CAIB), Executive Development Program (Wharton); MBA (Stern, NYU).

**Area of expertise**

Leadership, Logistics, Strategy, Finance, Operations, Business turnaround and Global Economy.

### 2. Mr Garry Pita Chief Financial Officer

**Date of birth:** May 1979

Year of appointment: 2006

**Qualifications:** BCom (University of the Witwatersrand); BAcc (Hons) (University of the Witwatersrand); CA(SA); Global Executive Development Programme (Gordon Institute of Business Science); Accounting and Auditing Professional Training Specialist Course.

**Area of expertise**

Finance, Auditing, Management, Logistics, Strategy and Supply Chain.

### 3. Mr Mlamuli Buthelezi Chief Operating Officer

**Date of birth:** June 1965

Year of appointment: 2011

**Qualifications:** BSc (Mechanical Engineering); Higher Diploma Mechanical Engineering; MBL (UNISA).

**Area of expertise**

Operations, Engineering and Leadership.

### 4. Mr Gert de Beer Chief Business Development Officer

**Date of birth:** October 1964

Year of appointment: 2016

**Qualifications:** BCompt; BCompt (Honours); CA (SA), M.Com (RAU).

**Area of expertise**

Logistics, Supply Chain Management, Operations and Business Development.

### 5. Ms Disebo Moephuli Chief Corporate and Regulatory Officer

**Date of birth:** April 1964

Year of appointment: 2006

**Qualifications:** BA (Economics); MBA.

**Area of expertise**

Management, Finance, Investment and Funding, and Risk Management.

### 6. Ms Makano Mosidi Chief Information Officer

**Date of birth:** January 1964

Year of appointment: 2016

**Qualifications:** BCom (Financial Accounting and Computer Science).

**Area of expertise**

Information Technology.

### 7. Mr Krishna Reddy Chief Capital Officer

**Date of birth:** June 1971

Year of appointment: 1990

**Qualifications:** BSc Civil Engineering; BCom (Logistics).

**Area of expertise**

Engineering and Project Management.

### 8. Ms Nonkululeko Sishi Chief Human Resources Officer

**Date of birth:** June 1968

Year of appointment: 2012

**Qualifications:** BAdmin; Certificate in Labour Law; Postgraduate Diploma in Business Management; Certificate in Human Resources Management; Management Advanced Program (Harvard).

**Area of expertise**

Human Resources and Management.

### 9. Mr Thamsanqa Jiyane Chief Officer: Advanced Manufacturing

**Date of birth:** May 1974

Year of appointment: 2001

**Qualifications:** BAdmin (Supply Chain, Operations Management); MBL (UNISA).

**Area of expertise**

Supply Chain Management, Operations Management, Business Management, Logistics Management, Leadership and Stakeholder Relations Management.

### 10. Ms Mmathabo Sukati Chief Audit Executive

**Date of birth:** 7 August 1969

Year of appointment: 2013

**Qualifications:** B Com, B Com (Honours in Accounting), Postgraduate Diploma in Accounting, Master of Business Administration (MBA), CA (SA).

**Area of expertise**

Finance, Accounting, Auditing, Governance and Risk Management, Compliance Management, Performance Improvement.

### 11. Ms Shulami Qalinge Group Executive: Strategy

**Date of birth:** 4 January 1971

Year of appointment: 1994

**Qualifications:** MBA (De Montfort University), Diploma in Industrial Engineering (Nelson Mandela University of Technology), Strategic Leadership Programme (Gordon Institute of Business Science), Breakthrough Programme for Senior Executives (International Institute for Management Development), Senior Executive Programme Africa (SEPA) (Harvard Business School).

**Area of expertise**

Operations, Strategic Planning, Performance Monitoring and Diagnostic and Project Management.

### 12. Ms Nokuthula Khumalo Group Company Secretary

**Date of birth:** September 1970

Year of appointment: 2016

**Qualifications:** Admitted Attorney; BProc; LLM (Environmental Law) 1995.

**Area of expertise**

Strategy, Corporate Governance, Litigation, Contract Negotiation, Risk Management and Public Policy.







## Remuneration philosophy

Transnet's reward philosophy provides a framework for a fair and transparent reward dispensation that:

- Supports MDS objectives;
- Ensures long-term business sustainability;
- Ensures fair and competitive salaries for all employees;
- Attracts and retains critical skills; and
- Rewards high performance.

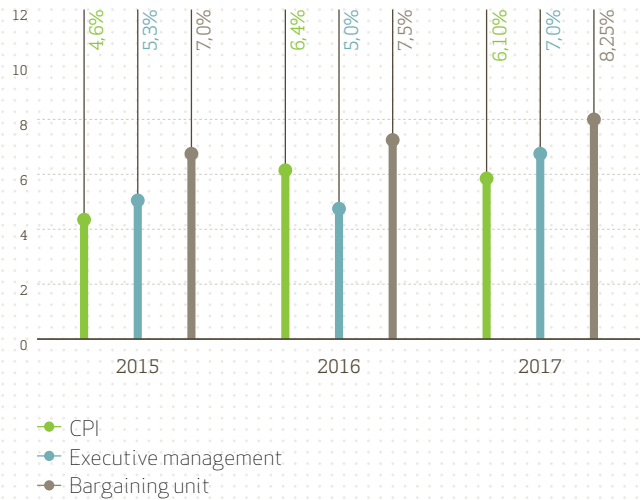
The remuneration philosophy considers three different employment levels informed by complexity, decision-making responsibility and judgement (based on a wide range of competencies, i.e. skills-sets, experience, qualifications, sector expertise, etc.):

- 1 *Executive management.*
- 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*

Transnet's Remuneration Strategy follows an integrated approach to Group-wide remuneration management to attract, motivate, engage and retain the talent required to achieve business objectives. Remuneration practices are aligned with Transnet's business strategy, thereby ensuring that the remuneration practices support the business objectives.

The graph below depicts the increases differentiated between executive management and the bargaining unit compared to CPI for the past three years:

Annual increase vs CPI

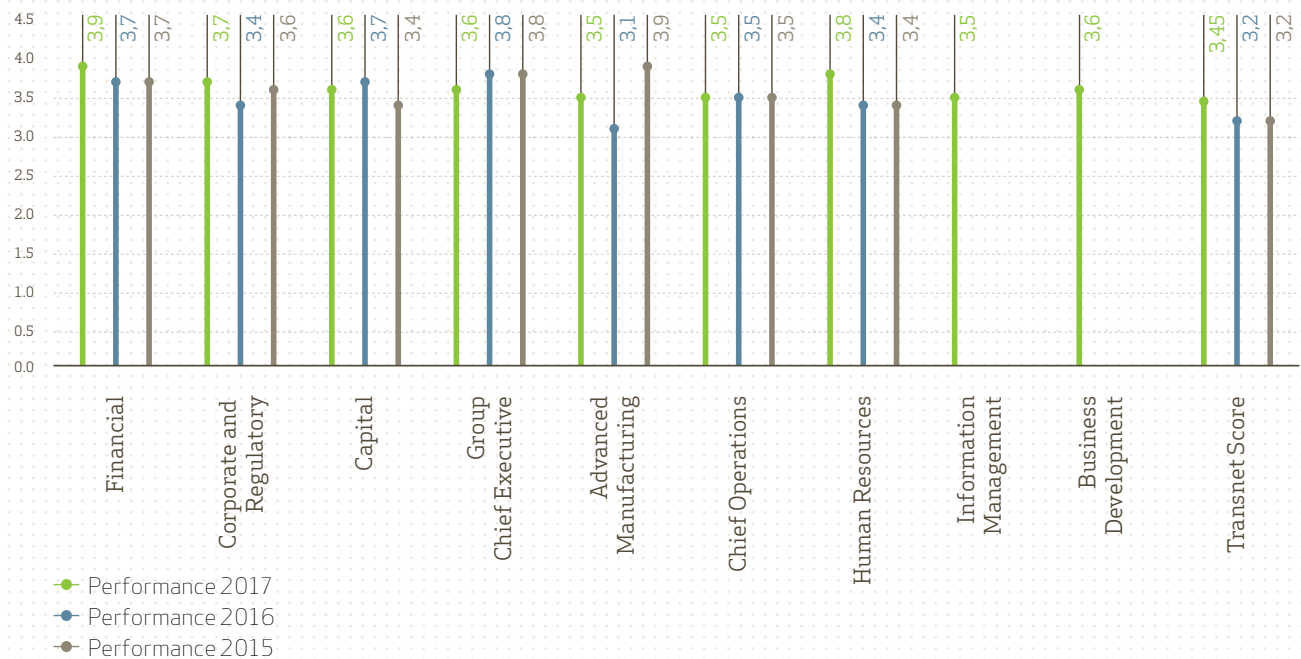


## Performance Management for Group Leadership Team (GLT)

The individual performance targets for the members of the GLT are cascaded from the Corporate Plan and the Shareholder Compact. Quarterly performance assessments ensure that progress against targets is monitored and managed.

The graph below depicts the performance ratings of the members of the GLT over the past three financial periods compared to the overall performance rating of the Company:

Performance ratings for Group Leadership Team





## Remuneration for Group Leadership Team (GLT)

Transnet designed and implemented a new operating model during the reporting period with significant changes to the executive leadership team. The previous executive committee was restructured and reduced from 20 members to the newly constituted GLT, consisting of nine members.

Transnet strives to remunerate the members of its executive teams at the market median. Annual guaranteed pay increases for the members of the Transnet executive teams are largely informed by market benchmarks.

Transnet conducts an annual 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.

In addition to the annual increases for the Group Executive members, a remuneration adjustment was effected for specific members of the GLT whose remuneration was substantially below the comparable market.

The graph below depicts the actual guaranteed remuneration of the GLT against the market median. The graph reflects that the remuneration of the GLT is lagging the market median. Transnet is following a phased approach to ensure that the guaranteed remuneration will align with the market median in time.



## Executive remuneration – variable

The members of the GLT are eligible for payments in respect of the Short-term Incentive (STI) Scheme provided that the strategic objectives, as agreed with the Shareholder Representative, have been achieved. Individual bonus percentages are further modified with individual performance assessment ratings.



## Short-term Incentive (STI) and Long-term Incentive (LTI) payments

The STI payment for the 2017 financial year was based on the actual achievement of the annual EBITDA, as well as the productivity and safety modifiers at Group and Operating Division levels.

The 2014 conditional award in respect of the Transnet LTI scheme vested at the end of the 2017 financial period. The value of the LTI payment is impacted by the level of achievement of specific Company and individual performance objectives.

The members of the GLT were eligible for payment in respect of the LTI scheme based on the ground rules of the scheme. The payment of the vested LTI amounts took place at the end of April 2017.



## Remuneration structure for non-executive directors

Non-executive directors are appointed by the Shareholder Representative for a three-year term. The Memorandum of Incorporation of the Company, however, requires that the non-executive directors be submitted for re-election for each of the three years at the Company's AGM.

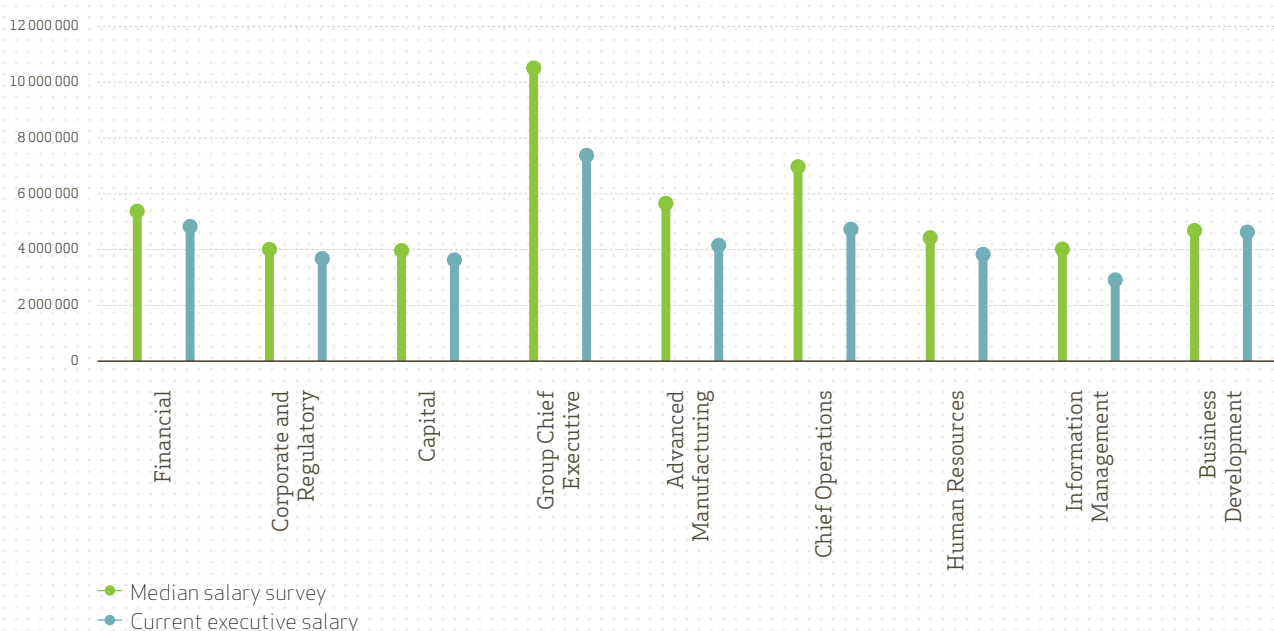
Among the issues considered by the Shareholder Representative prior to re-election is the individual non-executive director's performance. The Shareholder Representative approves, in advance, the fees payable to non-executive directors. The non-executive directors are paid an annual retainer as well as an additional retainer fee for committee membership.

Fees paid to non-executive directors are differentiated based on their appointments to the various committees of the Board of Directors.



**Read more**  
Transnet's full Remuneration Report is contained in Annexure B.

Market median vs actual guaranteed remuneration



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Our control environment

The Board of Directors, management and all employees of the Company are responsible for establishing and maintaining the internal control environment of the Company. All employees play a role in either strengthening or weakening the Company's internal control system.

Strategic implementation of the MDS requires Transnet to meet – as far as possible – financial and operational targets within the context of good corporate governance, risk management, control effectiveness and compliance.

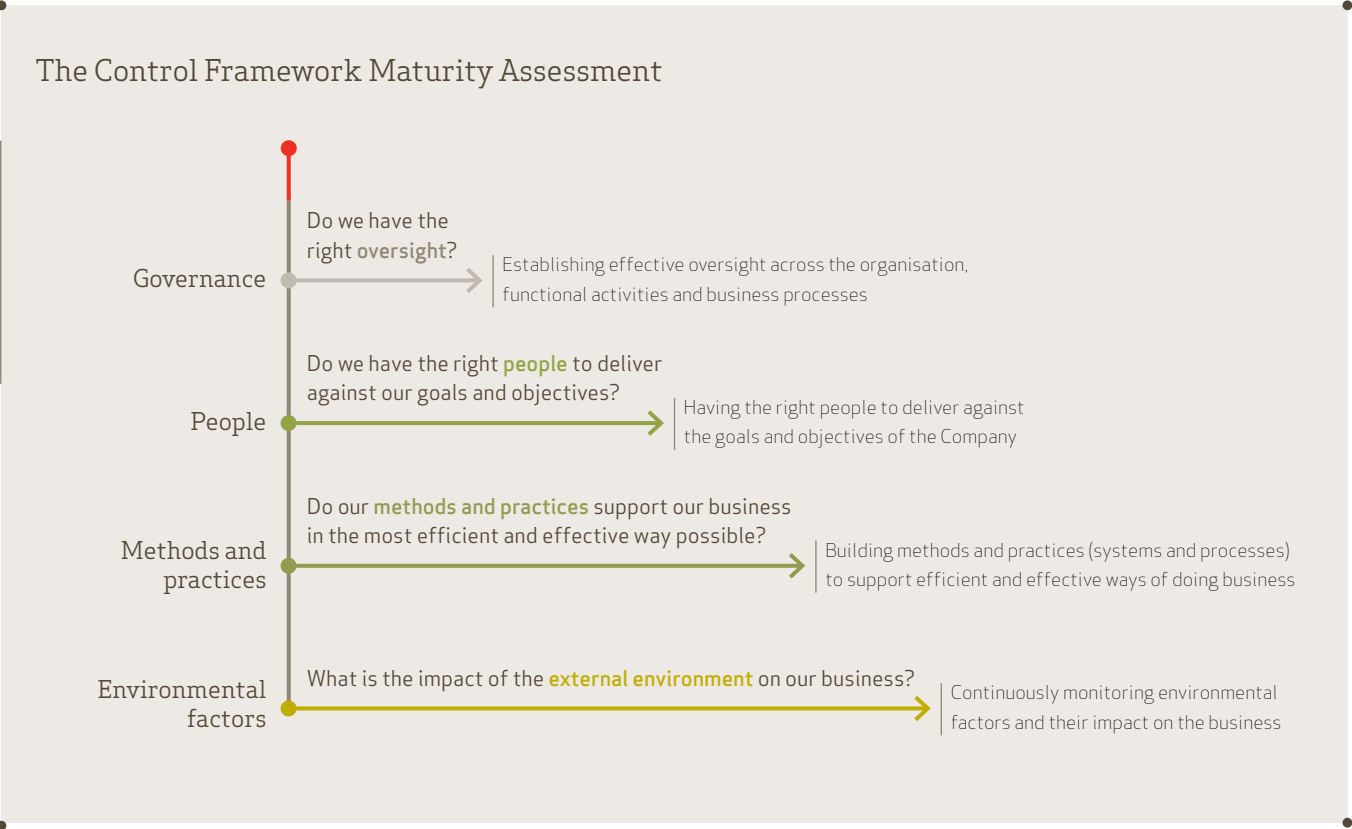
The Transnet Internal Control function aims to provide reasonable assurance that the Company's strategic objectives and initiatives

will be achieved while complying with policies, processes, legislation and optimally applying technology.

Internal Control enables members of the Audit Committee and management to gain better visibility into key business processes and ensure a high level of reliability in financial statement reporting. It also assists financial stakeholders and business process owners with extensive reporting capabilities, automated control testing and monitoring of business processes using predefined and configurable business rules.

The Control Framework Maturity Assessment is used to measure the strength of the control environment. The components of the framework are depicted below:

Figure 19



Governance functions within Transnet's control environment

Transnet's control environment encompasses various governance functions and operational management practices, including (but not limited to):

- Integrated procurement management
- Internal Audit
- Enterprise Risk Management (ERM) and integrated assurance

- Strategic execution and performance management
- Governance of sustainability
- Governance of stakeholder engagement and management
- Information technology (IT) management and ICT governance
- Ethics and fraud risk management
- Regulatory compliance (including the tariffing process)

## Our control environment

### Integrated procurement management

- Acquisition Council Terms of Reference.
- Optimally regulated infrastructure-related 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 (HVT) processes.
- Transnet Delegation of Authority.
- Efficient and effective contract management, with SCM Contract Management Procedures Manual and Procurement Procedures 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) thereto;
  - The Promotion of Access to Information Act, No 2 of 2000 (PAIA);
  - The Preferential Procurement Policy Framework Act, No 5 of 2000 (PPFPA), and the regulations thereto (PPFPA regulations); and
  - National Treasury (NT) also issues Instruction Notes which regulate Transnet's procurement processes.

### Internal Audit

- Accords with section 51 of the Public Finance Management Act (PFMA).
- 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.
- TIA 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 of Directors 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 external advisers and service providers.
- The Integrated Assurance Model is based on three perspectives:
  - Confidence through:**
    - Combination of multiple assurance providers
    - Various types of assurance activities performed
    - Frequency of assurance activities performed
  - Cost-effective assurance by balancing:**
    - Lines of defence
    - Nature of assurance activities performed
    - Frequency of assurance activities performed
  - Minimised management burden through:**
    - Spread of assurance activities through the year to ensure a manageable distribution of assurance tasks
- 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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Continues →



## Our control environment

continued

### 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 of the MDS initiatives and critical processes;
  - Problem-solving and analytical tools, and follow through with robust solution-driven actions;
  - A risk-based execution process to monitor the MDS; 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 the 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.



### Governance of stakeholder engagement and management

- The Board of Directors delegates authority to the Group Chief Executive who reports to the Board of Directors 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 of Directors 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 of Directors.
- Transnet has adopted guidelines from the AA1000 standards (Accountability Principles Standard 2008 and the AA1000 Stakeholder Engagement Standard 2011).



## Information technology (IT) management and ICT governance

- The Board of Directors, supported by the Audit Committee and Risk Committee, is responsible for information technology governance and oversight.
- ICT governance is exercised through the approved governance and minimum controls frameworks - which are based on the Control Objectives for Information and Related Technologies (CoBIT) principles.
- The Board of Directors has delegated the responsibility for the implementation of the IT governance framework to the Risk Committee, which has further delegated to management.
- The Minimum Control Framework for ICT risks includes the following critical resources:
  - Appropriately skilled staff;
  - Enterprise Architecture management;
  - Effective education programmes;
  - Effective measures to minimise business impact through systems recovery;
  - Information security; and
  - IT vendor relationship management.
- The IT risk management framework is aligned to, and cascaded from, the Group Enterprise-wide Risk Management (ERM) framework, which includes disaster recovery and business continuity measures.

## 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 of Directors 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 KPIs in relation to analysing sustainability performance.
- Sustainability committees in the Operating Divisions add impetus to sustainability initiatives.



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Figure 20

## Aligning the Market Demand Strategy (MDS) to Transnet's regulatory context

Linking Transnet's strategy to the regulatory context

### Regulatory compliance universe

#### Priority compliance universe

Compliance management focus areas are defined by the Regulatory Universe, with output reflecting risk-based legislation of priority impact on Transnet. The Regulatory Universe is consolidated across the Company. Additionally, the compliance focus is defined by understanding which critical business processes and priority regulatory requirements are required to achieve the Company's objectives.

The illustration reflects the alignment between the MDS, the developmental outcomes and material aspects identified through various stakeholders.

The regulatory items reflected are key to ensure ongoing operations and sustainability.

Group Risk and Compliance ensures that the outcome of its annual Compliance Plan is aligned with the Audit Committee and Risk Committee mandates, and informs the following key aspects contained within the Board mandate:

- It provides an opinion on the state of compliance to applicable regulatory requirements impacting Transnet; and
- The implementation of controls in management.

#### How to read the regulatory compliance universe

Each segment of the wheel refers to specific MDS strategic imperatives, business enablers and Sustainable Developmental Outcomes (SDOs).

Reading the wheel from the inside outwards, the first level of interpretation is the regulations.

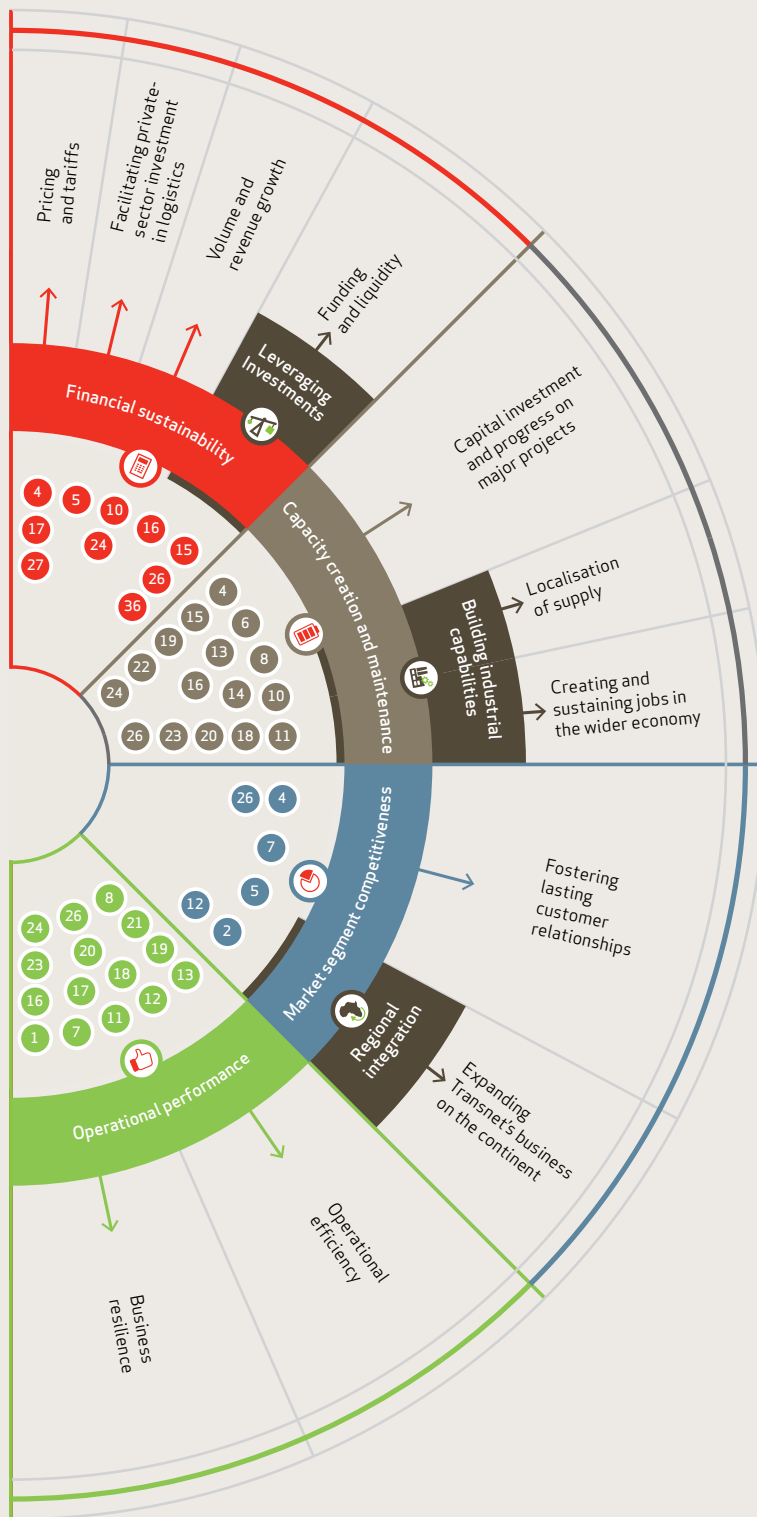
These are related to a specific strategic imperative or business enabler as per the segment they fall under. The layer beyond the regulations depicts the strategic imperatives and business enabler segments of the wheel.



The outermost layers show the material aspects related to each segment.

#### MATERIAL ASPECTS

- |   |  |
|---|--|
| ■ Pricing and tariffs                                 | ■ Fostering lasting customer relationships       |
| ■ Facilitating private-sector investment in logistics | ■ Expanding Transnet's business on the continent |
| ■ Volume and revenue growth                           | ■ Operational efficiency                         |
| ■ Funding and liquidity                               | ■ Business resilience                            |
| ■ Capital investment and progress on major projects   |  |
| ■ Localisation of supply                              |  |
| ■ Creating and sustaining jobs in the wider economy   |  |



## MDS

## STRATEGIC IMPERATIVES

- Financial sustainability
- Capacity creation and maintenance
- Market segment competitiveness
- Operational excellence

## BUSINESS ENABLERS

- Organisational readiness
- Sound governance and ethics
- Constructive stakeholder relations
- Human capital management

## SUSTAINABLE DEVELOPMENTAL OUTCOMES

- Building industrial capability
- Employment
- Leveraging investments
- Skills development
- Regional integration
- Transformation
- Health and safety
- Environmental stewardship
- Community development

## REGULATORY ALIGNMENT

1. Air Services Licensing Act, 1990
2. Basic Conditions of Employment Act, 1997
3. Broad-Based Black Economic Empowerment Act, 2003
4. Companies Act, 2008
5. Competition Act, 1998
6. Construction Industry Development Board Act, 2000
7. Customs and Excise Act, 1964
8. Electronic Communications Act, 2005
9. Employment Equity Act, 1998
10. Gas Act, 2001
11. Hazardous Substances Act, 1973
12. Labour Relations Act, 1995
13. Merchant Shipping Act, 1951
14. National Building Regulations and Building Standards Act, 1977
15. National Energy Regulator Act, 2004
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 Water Act, 1998
21. NEM: Air Quality Act, 2004
22. NEM: ICMA Act, 2008
23. Occupational Health and Safety Act, 1993
24. Petroleum Pipelines Act, 2003
25. Petroleum Products Act, 1977
26. Public Finance Management Act, 1999
27. Preferential Procurement Policy Framework Act, 2000
28. Skills Development Act, 1998
29. Prevention and Combating of Corrupt Activities Act, 2004
30. Protection of Constitutional Democracy Against Terrorist and Related Activities Act, 2004
31. Office of Foreign Assets Control
32. NEM: Biodiversity Act, 2004
33. National Road Traffic Act, 1996
34. Legal Metrology Act, 2014
35. King Code of Governance for South Africa, 2009
36. Currency and Exchanges Act, 1933

- Page numbers
- Material aspects
- Material Aspect Cluster
- Regulatory area

- Promoting health and safety
- Creating jobs and developing skills
- Promoting transformation
- Ethics management within Transnet
- Managing our environmental impact
- Responding to stakeholder issues
- Partnering communities to build mutual value

# ANNEXURE A: DIRECTORS' ATTENDANCE AT BOARD OF DIRECTORS' AND COMMITTEE MEETINGS

## Schedule of directors' attendance at Board of Directors' and committee meetings



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Board/committee	Board	Audit Committee	Corporate Governance and Nominations Committee	Remuneration, Social and Ethics Committee	Risk Committee	Acquisitions and Disposals Committee
Number of meetings held	7	4	3	5	4	7
Ms LC Mabaso (Chairperson)	6	-	3	-	-	5
Ms Y Forbes <sup>1</sup>	7	-	3	4 <sup>1</sup>	1 <sup>1</sup>	-
Mr SI Gama <sup>2</sup>	7	4 <sup>3</sup>	3 <sup>2</sup>	3 <sup>3</sup>	3 <sup>2</sup>	5 <sup>2</sup>
Mr GJ Mahlalela	6	4	-	-	4	-
Ms PEB Mathekga	7	3 <sup>4</sup>	3	-	-	-
Mr ZA Nagdee	7	-	-	5	-	7
Mr VM Nkonyane	6	-	3	5	-	-
Mr GJ Pita	7	4 <sup>5</sup>	-	-	3 <sup>5</sup>	5 <sup>5</sup>
Mr SD Shane	7	-	-	3	-	7
Mr BG Stagman	7	4	-	-	3	-
Mr PG Williams <sup>6</sup>	5	3	-	-	3	-

<sup>1</sup> Member of REMSEC until 21 January 2017, and member of Risk Committee effective 22 January 2017.

<sup>2</sup> Mr Gama was appointed as a member of the non-statutory Board committees, namely Acquisitions and Disposals, Corporate Governance and Nominations and Risk committees, effective from 31 August 2016.

<sup>3</sup> Mr Gama is a standing Attendee at the Audit and Remuneration, Social and Ethics Committees.

<sup>4</sup> A scheduled meeting of the Audit Committee, per the approved Corporate Calendar was rescheduled from 20 October 2016 to 18 October 2016. Ms Mathekga tendered her apologies accordingly.

<sup>5</sup> Mr Pita is a standing Attendee at the Audit, Risk and Acquisitions and Disposals Committees.

<sup>6</sup> Mr PG Williams passed away on 15 March 2017.

## Board Summary of Board of Directors' mandate

### Chairperson

Ms LC Mabaso

### Members

Ms Y Forbes

Mr SI Gama

Mr GJ Mahlalela

Ms PEB Mathekga

Mr ZA Nagdee

Mr VM Nkonyane

Mr GJ Pita

Mr SD Shane

Mr BG Stagman

Mr PG Williams<sup>1</sup>

The Board of Directors' primary mandate is to ensure the sustainable and successful continuation of business activities by providing strategic direction to the Company. Non-executive directors are appointed to the Board of Directors by the Shareholder Minister on a three-year term. The appointments are confirmed annually at the Annual General Meeting. The Chairperson of the Board of Directors engages continuously with the Shareholder Minister, who is the final arbiter on the Board of Directors' succession plans and approval of transaction applications in accordance with the provisions of section 54 of the PFMA. King III – and now King IV – imposes specific responsibilities on the Board of Directors. The non-executive directors embrace these and acknowledge that the Board of Directors is primarily responsible for ensuring that the Company's strategy, risk compliance, performance and sustainability are inseparable. The Board of Directors provides effective leadership based on an ethical foundation of responsibility, accountability, fairness and transparency.

<sup>1</sup> Mr PG Williams passed away on 15 March 2017.



### Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year

The Board of Directors held seven meetings during the year under review where it considered, among others, the following:

- Approved the Global Medium-term Note Programme financial results for the year ended 31 March 2016;
- Approved the Directors' Valuation of Unlisted Investments and movements in the Impairment Provisions for the year ended 31 March 2016;
- Approved the integrated sourcing strategy for Durban Container Terminal Berths 203 to 205 reconstruction, deepening and lengthening, including the main works package;
- Approved the Transnet Second Defined Benefit Fund (TSDBF) and Transnet Sub-fund of the Transport Pension Fund (TPF): 2016 ad hoc bonus payment;
- Approved the Dividend Policy as contained in the Report of the Directors as part of the 2016 financial year Annual Financial Statements;
- Approved the proposed GCE's 2017 financial year Performance Agreement, and delegated authority to the Chairperson to submit same to the Shareholder Minister for information purposes prior to 30 June 2016;
- Approved the formation of the Intellectual Property Committee, and delegated authority to the Chairperson to submit same to the Shareholder Minister for approval;
- Approved the Maintenance Agreement for Locomotives;
- Approved the Reviewed Property Disposal Strategy;
- Approved the award of contract for delivery of steel for a period of five years;
- Approved the 2017 financial year Board committees' composition;
- Approved the Delegation of Authority Framework, subject to the proposed amendments;
- Approved the Delegation of Authority to the GCE;
- Approved the proposed amendments to the existing Board and Board committee mandates;
- Approved the Risk Appetite Statement for the 2017 financial year, subject to the proposed amendments;
- Approved the 2018 financial year Shareholder's Compact;
- Approved the Amendment to the Rules of the Transnet Retirement Fund;
- Approved the appointments to the Pension Fund;
- Approved the increase in ETC and change in ATO date for the NMPP project;
- Approved the Corporate Governance Policy Framework;
- Approved the Memorandum of Incorporation of Transnet International Holdings Ltd (TIH);
- Adopted the resolutions from the Strategy Workshop;
- Approved the Shareholder's Agreement and Memorandum of Incorporation to be entered into between Transnet SOC Ltd and CRRC Zhuzhou - Group SA (Pty) Ltd;
- Approved the Transnet and General Electric Digital Initiative (Project Zakiya);
- Approved the proposed Corporate Calendar for the 2018 financial year;
- Approved the proposed submission in preparation for the forthcoming AGM scheduled to be held on 29 June 2017;
- Approved the amended Policy on Non-executive Directorship and Trusteeship of Transnet Employees with effect from 1 January 2017;
- Approved the proposed Annual Work Plan for the 2018 financial year;
- Approved the compensation clause in the Agreement between TNPA and OTGC;
- Approved the IT Data Services contract extension;
- Approved the Fleet Heavy Commercial Vehicles Strategy;
- Approved the Godisa Supplier Development Fund: Appointment of a Director;
- Approved the amended targets of the draft 2018 financial year Shareholder's Compact for submission to the Shareholder Minister, subject to the proposed amendments;
- Approved the volume and financial budget, capital investment plan and funding requirements for inclusion in the 2018 financial year Corporate Plan, which will be submitted for approval at the forthcoming Board meeting;
- Approved the Mergers and Acquisitions Framework to serve as a guiding principle for the Company's best practice in undertaking mergers and acquisitions activity;
- Approved the amended targets of the draft 2018 financial year Shareholder's Compact for submission to the Shareholder Minister, subject to the proposed amendments;
- Approved the volume and financial budget, capital investment plan and funding requirements for inclusion in the 2018 financial year Corporate Plan, which will be submitted for approval at the forthcoming Board meeting of 22 February 2017;
- Approved that Ms Forbes be appointed as a member of the Risk Committee and removed as a member of the Remuneration, Social and Ethics Committee;
- Approved the revised Audit Committee mandate;
- Approved the Treasury Financial Risk Management Framework;
- Approved the following:
  - The Company's 2018 financial year Corporate Plan as required in terms of section 52 of the Public Finance Management Act, No 1 of 1999, as amended; and
  - The Company's 2018 financial year Borrowing Plan (included in the Corporate Plan) as required in terms of section 66(7)(a) of the Public Finance Management Act, and the Financial Plan.

Audit Committee	Summary of committee mandate
<b>Chairperson</b> Mr BG Stagman	The Audit Committee (the committee) is constituted as a statutory committee of Transnet SOC Ltd in respect of its statutory duties in terms of Treasury Regulation 27.1, executed under section 76 (4)(d) the Public Finance Management Act, 1999 (Act No1 of 1999) (the PFMA), section 77 of the PFMA and section 94(7) of the Companies Act, 2008, and as a committee of the Board of Directors in respect of all duties assigned to it by the Board of Directors in terms of its mandate. The purpose of the committee is to:
<b>Members</b> Mr GJ Mahlalela Ms PEB Mathekga Mr PG Williams <sup>1</sup>	<ul style="list-style-type: none"> <li>• Assist the Board of Directors in discharging its duties relating to the safeguarding of assets and the evaluation of internal control frameworks within the Company;</li> <li>• Review and assess the integrity and effectiveness of the accounting, financial, compliance and other control systems;</li> <li>• Consider the internal and external audit processes and the accounting principles and policies;</li> <li>• Strengthen the independence of the internal and external audit functions to ensure their effectiveness;</li> <li>• Ensure effective communication between the internal auditors, the external auditors, the Board of Directors, management and regulators;</li> <li>• Ensure compliance with and adherence to applicable legal, regulatory and accounting requirements;</li> <li>• Contribute to a climate of discipline and control which will reduce the opportunity for fraud; and</li> <li>• Assist the Board of Directors in discharging its duties as pertains to ICT Governance.</li> </ul>
<b>Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year</b>	

The committee held four meetings during the year under review where it considered, among others, the following:

- Recommended that the Board of Directors approves the Committee Evaluation Report and the Action List for the 2016 financial year;
- Recommended that the Board of Directors approves the Integrated Report, Annual Financial Statements and Press Announcement for the 2016 financial year;
- Recommended that the Board of Directors approves the Going-concern Assertion as at 31 March 2016;
- Recommended that the Board of Directors approves the GMTN financial results for the period ended 31 March 2016;
- Recommended that the Board of Directors approves the Audit Committee Report for the year ended 31 March 2016;
- Recommended that the Board of Directors approves the Sustainability Report for the 2016 financial year;
- Recommended that the Board of Directors approves the directors' valuation and impairment provision of unlisted investments for the period ended 31 March 2016;
- Recommended that the Board of Directors approves the Annual Financial Statements and Management Representation Letter of TNPA and TPL for the 2016 financial year;
- Recommended that the Board of Directors approves the following for inclusion in the Annual Financial Statements:
  - There were no reportable PFMA items exceeding R25 million for Q4 of the 2016 financial year;
  - Results of the online PFMA Accreditation Assessment as at 31 March 2016; and
  - Status update on the PFMA initiatives undertaken to prevent and reduce PFMA violations.
- Approved the assessment of the Chief Financial Officer;
- Approved the assessment of the Finance function;
- Approved the assessment of the Chief Audit Executive;
- Recommended that the Board of Directors approves the proposed amendments to the existing Audit Committee mandate;
- The committee approves the change in the Company's internal definition of the Cash Interest Cover ratio;
- Recommended that the Board of Directors approves the proposed amendments to the Delegation of Authority Framework;
- Recommended that the Board of Directors approves the GMTN Interim Financial Results, Going-concern Assessment, Management Representation Letter and Draft Press Release for the period ended 30 September 2016;
- Recommended that the Board of Directors approves the proposed Corporate Calendar for the 2017 financial year;
- Approved the Audit Planning Memorandum for the period ending 31 March 2017;
- Approved the Audit Committee Annual Work Plan for the 2018 financial year, subject to the proposed amendments;
- Recommended that the Board of Directors approves the proposed amendments to the existing Audit Committee mandate, subject to proposed amendments;
- Recommended that the Board of Directors approves the proposed submission in preparation for the forthcoming AGM scheduled to be held on 29 June 2017;
- Recommended that the Board of Directors approves the updated Financial Risk Management Framework;
- Approved the GMTN Financial Results for the period ended 31 December 2016;
- Approved the Going-concern Assessment for the period ended 31 December 2016;
- Approved the Transnet Internal Audit Charter for the 2018 financial year; and
- Approved the three-year rolling Strategic Internal Audit Plan for the 2018 financial year to the 2020 financial year and the Transnet Internal Audit budget for the 2018 financial year, subject to proposed amendments.

<sup>1</sup> Mr PG Williams passed away on 15 March 2017.

## Remuneration, Social and Ethics Committee

### Summary of committee mandate

#### Chairperson

Mr VM Nkonyane

#### Members

Ms Y Forbes<sup>2</sup>

Mr ZA Nagdee

Mr SD Shane

The Remuneration, Social and Ethics Committee is constituted as a statutory committee of Transnet SOC Ltd in respect of its statutory duties in terms of section 72(4) and Regulation 43 of the Companies Act, 2008, and as a committee of the Board of Directors in respect of all other duties assigned to it by the Board of Directors in terms of its mandate. The purpose of the committee is to:

- Advise the Board of Directors in regard to responsible corporate citizenship and the ethical relationship between the Company and its stakeholders, both internally and externally. The committee will manage the Company's legal and moral obligations for its economic, social and natural environment, including the objectives and standards of the Company's conduct and activities;
- Manage and monitor the Company's activities to achieve and maintain world-class standards in the Company's social and ethics environment, with due regard to all relevant legislation, policies, legal requirements and codes of best practice;
- Oversee the ethics management programme implemented by management;
- Ensure that competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high-performance staff at all levels in support of realising corporate objectives and to safeguard Shareholder interests;
- Review the design and management of salary structures, policies and incentive schemes and to ensure that they motivate sustained high performance and are linked to corporate performance;
- Review the mandates of the remuneration committees of the subsidiaries of Transnet and to approve the remuneration policies and practices recommended by them;
- Develop and implement a remuneration philosophy for disclosure to enable a reasonable assessment of reward practices and governance processes to be made by stakeholders;
- Recommend the level of independent non-executive directors' fees to the Board of Directors;
- Ensure compliance with applicable laws and codes;
- Consider and make recommendations on all human capital matters related to the:
  - Restructuring of Transnet;
  - Disposal of assets/part of Transnet's business;
  - Acquisition of assets/new business; and
  - Development of human resources issues.
- Approve succession planning policy and procedures for the Group Leadership Team (other than executive directors) and Extended Leadership Team.

### Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year

The committee held five meetings in the year under review where it considered, among others, the following:

- Recommended that the Board of Directors approves the Committee Evaluation Report for the 2016 financial year, subject to the proposed amendments;
- Approved the Short-term Incentive payment for the 2016 financial year;
- Approved the Remuneration Report for inclusion in the Directors' Report for the 2016 financial year Integrated Report;
- Recommended that the Board approves the Sustainability Report for the 2016 financial year, subject to proposed amendments;
- Approved the Principles of the Short-term Incentive Scheme;
- Approved the Company's Ethics Management Programme, strategy and plan for the period of 2017 financial year to 2019 financial year;
- Approved the following:
  - High-level guiding principles that will inform the review of the Company's incentive schemes;
  - The design of the sales incentives; and
  - To obtain approval for the high-level principles to inform the modelling approach.
- Approved the Company's Ethics Management Programme, strategy and plan for the period of 2017 financial year to 2019 financial year;
- Approved the following:
  - Commencement of labour consultation, with a view to plan for the termination and withdrawal of current agreed incentive schemes across the business; and
  - The proposed way forward with regard to a phased-in implementation approach.
- Approved the proposed committee Annual Work Plan for the 2018 financial year, subject to proposed amendments;
- Recommended that the Board of Directors approves the Corporate Calendar for 2018 financial year;
- Approved the proposed amendments to the Ground Rules of the Transnet Long-term Incentive Scheme;
- Approved the payment of the 2014 financial year conditional awards on 26 April 2017 based on the Ground Rules of the Long-term Incentive Scheme;
- Approved the allocation of the Long-term Incentive grants for eligible participants for the 2016 financial year;
- Approved the Communication Plan for 2018 financial year;
- Approved the Whistle-blowing Policy;
- Approved the Anti-bribery and Anti-corruption Policy;
- Recommended that the Board of Directors approves the Structure and Materiality for the Sustainability Report for the 2017 financial year; and
- Recommended that the Board of Directors approves the amendment of clause 2.1 of the mandate, to state that "The committee shall, at all times, have at least three non-executive directors of the Company elected as members".

<sup>2</sup> Member of REMSEC until 21 January 2017, and member of the Risk Committee effective 22 January 2017.

Corporate Governance and Nominations Committee	Summary of committee mandate
<p><b>Chairperson</b> Ms LC Mabaso</p> <p><b>Members</b> Ms Y Forbes<sup>1</sup> Ms PEB Mathekga Mr VM Nkonyane</p>	<p>The Corporate Governance and Nominations Committee is constituted as a committee of Transnet SOC Ltd in respect of all other duties assigned to it by the Board of Directors in terms of its mandate. The purpose of the committee is to:</p> <ul style="list-style-type: none"> <li>• Ensure that the Board of Directors' composition and structure enables it to fulfil the obligations of the Board mandate and advance and maintain the Company's corporate governance policies and the Corporate Governance Framework;</li> <li>• Set criteria for the nomination of directors to be recommended to the Board of Directors for appointment to the committees of the Board of Directors, other than the Audit Committee;</li> <li>• Nominate potential Audit Committee members for appointment by the Shareholder Minister;</li> <li>• Nominate potential Remuneration, Social and Ethics members for approval by the Board of Directors and confirmation by the Shareholder Minister;</li> <li>• Ensure that best practice succession planning policies are implemented in respect of executive directors and independent non-executive directors; and</li> <li>• Administer and manage the selection process of the Company's Chief Executive on behalf of the Board of Directors and make recommendations on the top-three candidates, in order of priority, to the Board of Directors, by complying with the "Guidelines for the appointment of a Chief Executive for a State-owned Enterprise".</li> </ul>
Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year	
<p>The committee held three meetings during the year under review where it considered, among others, the following:</p> <ul style="list-style-type: none"> <li>• Recommended that the Board of Directors approves the Board Evaluation Report and Action Plan for the 2016 financial year;</li> <li>• Recommended that the Board of Directors approves the Committee Evaluation Report and Action List for the 2016 financial year;</li> <li>• Recommended that the Board of Directors approves the proposed AGM arrangements and statutory authorisation applicable to the proposed agenda;</li> <li>• Recommended that the Board of Directors approves the Integrated Report, subject to the minor amendments;</li> <li>• Recommended that the Board of Directors approves the Transnet Second Defined Benefit Fund (TSDBF) and Transnet Sub-fund of the Transport Pension Fund (TTPF) 2016 ad hoc bonus payments to the respective pensioners;</li> <li>• Recommended that the Board of Directors approves the Draft Sustainability Report for the 2016 financial year, subject to proposed amendments;</li> <li>• Approved the proposed Acquisitions and Disposals Committee training programme;</li> <li>• Recommended that the Board of Directors notes the outcome on the adoption of King III principles based on the Governance Assessment Instrument (GAI), and the inclusion of the GAI Report in the Integrated Report for the 2016 financial year;</li> <li>• Recommended that the Board of Directors approves the 2017 financial year Board committees' composition;</li> <li>• Recommended that the Board of Directors approves the Corporate Governance Policy Framework, subject to the proposed minor amendments;</li> <li>• Recommended that the Board of Directors approves the proposed amendments to the Rules of the Transnet Retirement Fund;</li> <li>• Recommended that the Board of Directors approves the proposed Trustees for the Pension Funds;</li> <li>• Recommended that the Board of Directors approves the amended Policy on Non-executive Directors and Trusteeship of Transnet Employees;</li> <li>• Recommended that the Board of Directors approves the proposed amendments to the Delegation of Authority Framework, subject to proposed amendments;</li> <li>• Recommended that the Board of Directors approves the Corporate Calendar for the 2018 financial year, subject to minor amendments;</li> <li>• Recommended that the Board of Directors approves the proposed submission in preparation for the forthcoming AGM and notes the matters arising list from the previous AGM; and</li> <li>• Approved the committee's Annual Work Plan for the 2018 financial year, subject to the proposed amendments.</li> </ul>	

<sup>1</sup> Member of REMSEC until 21 January 2017, and member of the Risk Committee effective 22 January 2017.

Risk Committee	Summary of committee mandate
<b>Chairperson</b> Mr PG Williams <sup>1</sup> (Acting)	<p>Risk Management is, as set out in King III and the PFMA, ultimately the responsibility of the Board of Directors. The Risk Committee is constituted as a committee of Transnet SOC Ltd in respect of all other duties assigned to it by the Board of Directors in terms of its mandate. The purpose of the committee is to:</p> <ul style="list-style-type: none"> <li>• Review and assess the integrity of the risk control processes and systems;</li> <li>• Ensure that the risk policies are managed effectively and in accordance with the Enterprise Risk Management Framework (ERM Framework) approved by the Board of Directors from time to time;</li> <li>• Ensure effective communication with the internal and external auditors, the Audit Committee, the Board of Directors, management and regulators on risk management;</li> <li>• Contribute to a climate of discipline and control which will reduce the opportunity for fraud and other operational losses; and</li> <li>• Assess any significant risk control failings or weaknesses identified and their potential impact, and confirm that appropriate action has been or is being taken.</li> </ul>
<b>Members</b> Ms Y Forbes <sup>2</sup> Mr GJ Mahlalela Mr BG Stagman	

#### Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year

The committee held four meetings during the year under review and considered, among others, the following:

- Approved the Committee Evaluation Report for the 2016 financial year;
- Approved the Committee Evaluation Action List for the 2016 financial year;
- Approved the proposed Annual Work Plan for the 2018 financial year;
- The committee approved the Risk Assessment on the 1 064 Locomotives and related mitigation measures;
- Approved the proposed changes to the Annual Insurance Renewal Limits for the 2018 financial year, subject to the final negotiations with the insurers, which will be reported upon conclusion; and
- Approved the Compliance Plan for the 2018 financial year.

<sup>1</sup> Mr PG Williams passed away on 15 March 2017.

<sup>2</sup> Member of REMSEC until 21 January 2017, and member of the Risk Committee effective 22 January 2017.

Acquisitions and Disposals Committee	Summary of committee mandate
<b>Chairperson</b> Mr SD Shane	<p>The Acquisitions and Disposals Committee is constituted as a committee of Transnet SOC Ltd in respect of all other duties assigned to it by the Board of Directors in terms of its mandate. The purpose of the committee is to:</p> <ul style="list-style-type: none"> <li>• Advance and maintain the Company's acquisition and disposal policies;</li> <li>• Approve procurement transactions within the committee's delegated authority;</li> <li>• Monitor trends in supplier development spend and progress on plan;</li> <li>• Consider strategic acquisitions and disposals and make recommendations to the Board of Directors;</li> <li>• Consider, for recommendation to the Board of Directors, potential private-sector participation models;</li> <li>• Review quarterly capital expenditure reports, and monitor execution of approved projects;</li> <li>• Monitor the implementation of strategic acquisitions against the approved plans; and</li> <li>• Approve procurement strategies for proposed acquisitions and disposals to the Board of Directors in line with the Delegation of Authority Framework.</li> </ul>
<b>Members</b> Ms LC Mabaso Mr ZA Nagdee	

#### Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year

The committee held seven meetings during the year under review where it considered, among others, the following:

- Approved its Committee Evaluation Report for the 2016 financial year;
- Approved its Committee Evaluation Report Action List for the 2016 financial year;
- Approved the non-award for the Request for Proposal (RFP) No TE14-KLP-09T-0005 for the supply of critical spare parts and components to Transnet Engineering for the maintenance of the TFR GM/Electric Motor Diesel Locomotive fleet over a period of five years;
- Approved the Annual Work Plan for the 2018 financial year;
- Approved that the Annual Procurement Plan be submitted to National Treasury by the Group Chief Executive;
- Approved the Company's Infrastructure Framework for Infrastructure Procurement and Delivery Management;
- Approved the Enterprise and Supplier Development Initiatives for the 2017 financial year;
- Recommended that the Board of Directors approves the proposed Corporate Calendar for the 2018 financial year;
- Recommended that the Board of Directors notes the revised Corporate Plan and approves the 2018 financial year Budget and Progress Report;
- Approved the revised Company Procurement Ombudsman Terms of Reference; and
- Approved the Procurement and Transformation Targets as discussed with the Department of Public Enterprise for inclusion in the 2018 financial year Shareholder's Compact.



## Group Leadership Team (GLT) meetings

Schedule of members' attendance at GLT meetings held during the period under review:

Meetings held	11
Mr SI Gama (Chairperson)	10
Mr MM Buthelezi	6
Mr GJE de Beer	7
Ms S Chetty <sup>1</sup>	1
Mr M Gregg-Macdonald <sup>1</sup>	2
Mr T Jiyane	11
Ms NE Khumalo <sup>3</sup>	5
Mr ZE Lebelo <sup>1</sup>	2
Ms R Lepule <sup>1</sup>	2
Ms DC Moephuli	10
Ms MA Mosidi	8
Mr LMH Msagala <sup>1</sup>	2
Mr R Nair <sup>1</sup>	2
Mr K Phihlela <sup>2</sup>	5
Mr GJ Pita	10
Ms S Qalinge <sup>3</sup>	10
Mr K Reddy	9
Mr N Silinga <sup>1</sup>	2
Ms EAN Sishi	10
Mr KXT Socikwa <sup>1</sup>	
Ms MA Sukati	1
Mr R Vallihu	2

<sup>1</sup> Messrs Gregg-Macdonald, Lebelo, Msagala, Nair, Silinga and Socikwa, and Mss Chetty and Lepule were members of the GLT meeting until 30 April 2016 prior the change in the corporate structure.

<sup>2</sup> Mr Phihlela was acting as Chief Business Development Officer until Mr de Beer's appointment on 1 August 2016.

<sup>3</sup> Ms Khumalo and Ms Qalinge are attendees at the GLT meetings.

# ANNEXURE B: REMUNERATION REPORT

## Remuneration

The Remuneration Report provides an overview of the Transnet remuneration philosophy and strategic intent, as well as detail of specific reward interventions that occurred during the 2017 financial year.

## Terminology

For the purposes of this report:

- Executives refers to members of the Transnet Group Leadership Team and the Operating Divisional Executive Committees (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 and strategy

Transnet is poised to become one of the world's largest freight logistics groups and is currently the largest and most crucial part of the freight logistics chain that delivers goods to each and every South African. Transnet's vision and mission is to be a focused freight transport company, delivering integrated, efficient, safe, reliable and cost-effective services to promote economic growth in South Africa.

The human resources strategy, inclusive of the reward strategy, is designed to facilitate and support the achievement of the strategic objectives of the Market Demand Strategy (MDS). The Transnet remuneration philosophy and framework 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.

The objective of the Transnet reward philosophy is to provide a framework for a fair and transparent reward dispensation that:

- Supports the objectives of the business strategy;
- Ensures the long-term sustainability of the business;
- Ensures that all employees are paid a fair and competitive salary;
- Aims to attract and retain valued employees; and
- Ensures that employees are rewarded and recognised for high performance.

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; and
- Junior employees (grade levels H to L) form part of the bargaining unit.

The objective of the Transnet Remuneration Strategy is to:

- Provide an integrated approach for remuneration management across Transnet that effectively attracts, motivates, engages and retains the talent required to achieve Transnet's business objectives;
- Align remuneration practices with Transnet's business strategy, thereby ensuring that the remuneration practices support the business objectives;
- Inform remuneration decisions that will be made across Transnet to ensure:
  - Remuneration-related cost is contained;
  - Performance is recognised and rewarded;
  - Performance improvement is incentivised;
  - Changing business requirements can be accommodated;
  - Optimal return on expenditure is achieved;
  - Legal, ethical and best practice standards are adhered to;
  - The business remains sustainable over the long term;
  - Compliance with corporate governance and citizenship; and
  - Compliance with employment and tax legislation.

The different reward elements are discussed in detail in the paragraphs below.

## 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.

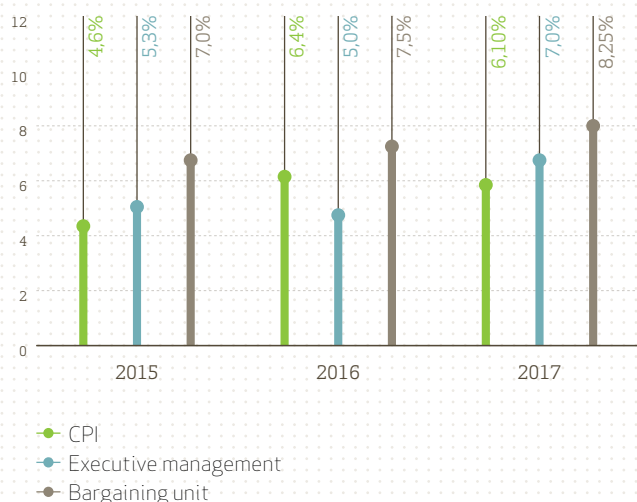
In general, Transnet strives to align guaranteed remuneration with the market median. The determination of individual remuneration levels is, however, strictly controlled across the business and subject to directives in this regard, and also informed by the various collective agreements.

Annual salary increases are informed by an approved mandate obtained from the Remuneration, Social and Ethics Committee of the Board of Directors. 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 historical three-year wage agreement with the recognised labour unions, which expires in 2018. The three-year wage agreement continues to provide 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 the bargaining unit, compared to CPI for the past three years:

**Annual increase vs CPI**



## 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%, which covers the risk and death benefit portion, and an employee contribution of 7.5%.

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. Bargaining unit employees also receive a guaranteed amount as housing allowance.

Both the housing allowance and the medical subsidy increase on an annual basis per the wage agreement.

## Variable pay

Transnet has implemented a short- and a long-term incentive scheme. The Short-term Incentive Scheme is applicable to all employees and is governed by detailed ground rules, annually approved by the Remuneration, Social and Ethics Committee of the Board of Directors. The Long-term Incentive Scheme is applicable to executive and selected senior managers.

Individual strategic objectives of management employees are derived from and aligned with key performance indicators (KPIs) as stated in the Shareholder's Compact.

### Short-term Incentive (STI) Scheme

The STI Scheme is designed to drive the annual achievement of stretch business targets and to reward employees for this effort.

The bonus pool funding the payment of the annual STI is generated by the achievement of the Transnet earnings before interest, tax, depreciation and amortisation (EBITDA) target. The pool is modified by a productivity measure relating to the KPIs as per the Shareholder's Compact, as well as the safety achievement. The non-achievement of productivity and safety measures can reduce the bonus pool by up to 50%.

Employees on all grade levels are eligible for payment in terms of the annual STI Scheme, subject to the achievement of the business targets. Eligibility percentages are differentiated based on grade level.

The management category has a higher component of at-risk pay (variable pay), specifically linked to the achievement of business targets. For managers, the individual bonus percentages are modified with individual performance ratings.

In addition to the annual component of the STI Scheme, a gain-share incentive scheme is implemented for bargaining unit employees. The objective of the gain-share is to enhance line of sight between targets and actual performance, as well as to ensure internal parity. This provided that the majority of bargaining unit employees could potentially earn:

- An annual on-target bonus component, aimed at achieving performance targets with an on-target eligibility of 10% for junior employees and 12% for first-line managers, specialists and technicians; plus
- A quarterly gain-share bonus component, which becomes accessible by exceeding the quarterly EBITDA and relevant secondary measure targets. Employees have the opportunity to gain up to a maximum of 16% per annum when super stretch business targets are exceeded.

The combined annual and gain-share components of the STI Scheme allow bargaining unit employees to earn up to a maximum of 26% of annual pensionable salary for junior employees and 28% of the annual cost-to-company package for first-line managers, specialists and technicians.

Transnet has revised its STI Scheme during the period with the objective to:

- Standardise and align all STI schemes across Transnet. The current gain-share scheme for bargaining unit employees is not standardised across the business, resulting in disparity of gain-share payments across Transnet;
- Strengthen integration across Transnet and focus on the full value chain; and
- Increase customer centricity by focusing on increased orders, as well as a flawless and safe execution of operational activities across the business.

The revised scheme has been approved by the Remuneration, Social and Ethics Committee of the Board of Directors and consulted with relevant stakeholders. It will be implemented during the 2018 financial period.

### Long-term incentive (LTI) Scheme

Transnet has implemented LTI Scheme to sustain the achievement of the Transnet strategy, retain key talent to ensure the success of the strategy, and to continuously encourage stretch performance and reward performance above target.

The LTI is designed on a three-year rolling basis to ensure sustained business performance and retention over the three-year banking period. Participation in the scheme is informed by our level of seniority in the organisation, individual performance, as well as results from the talent management forum. Following the completion of the three-year banking period, the vesting payment is also subject to individual performance and talent rating criteria.

The LTI Scheme has specific clauses dealing with Company performance over the banking period, and to this effect a group modifier – the return on total average assets (ROTA) – is applied.

### Individual performance management

The balanced scorecard performance management methodology for the management category, as well as for first line managers, specialists and technicians, is well entrenched.

The annual Company objectives as per the Shareholder's Compact are translated into a corporate scorecard and then cascaded to all managers across Transnet. Performance, in terms of the corporate as well as individual scorecards, forms the basis for the determination of STI payments and annual increases.

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.

During the 2016 reporting period, Transnet and its recognised unions, UNTU and Satawu, concluded the Progression Agreement for bargaining unit employees in the Transnet Bargaining Council. The agreement introduces a groundbreaking performance management approach for bargaining unit employees, which will align performance with reward, in line with Transnet's drive to create a high-performance culture.

The performance management principles will drive individual, team and business-specific objectives, measures and targets. This approach will allow all employees to have clear visibility of their contribution to business drivers within the value chain.

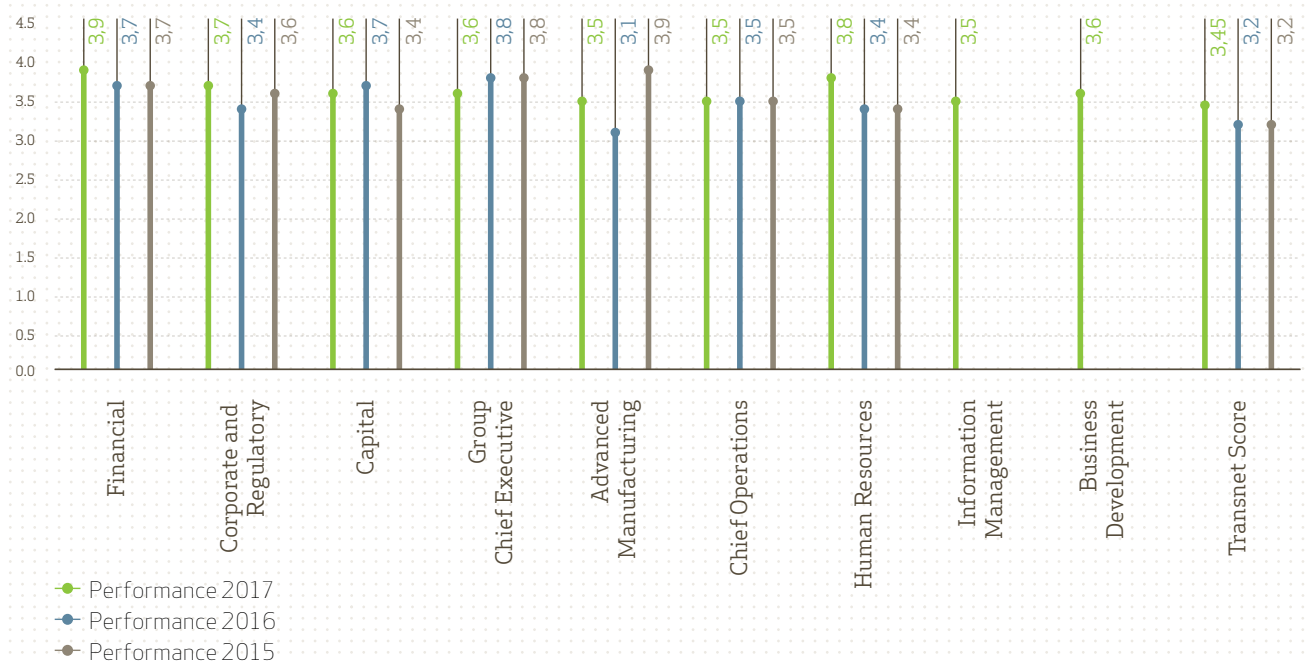
The individual performance management for bargaining unit employees will, from the 2018 financial period, also impact the STI payment for this category of employees.

### Performance management for Group Leadership Team (GLT)

The individual performance targets for the members of the GLT are cascaded from the corporate plan and the Shareholder's Compact. Quarterly performance assessments ensure that progress against targets is monitored and managed.

The graph below depicts the performance ratings of the members of the GLT over the past three financial periods compared to the overall performance rating of the Company:

Performance ratings for Group Leadership Team



## Remuneration for Group Leadership Team (GLT)

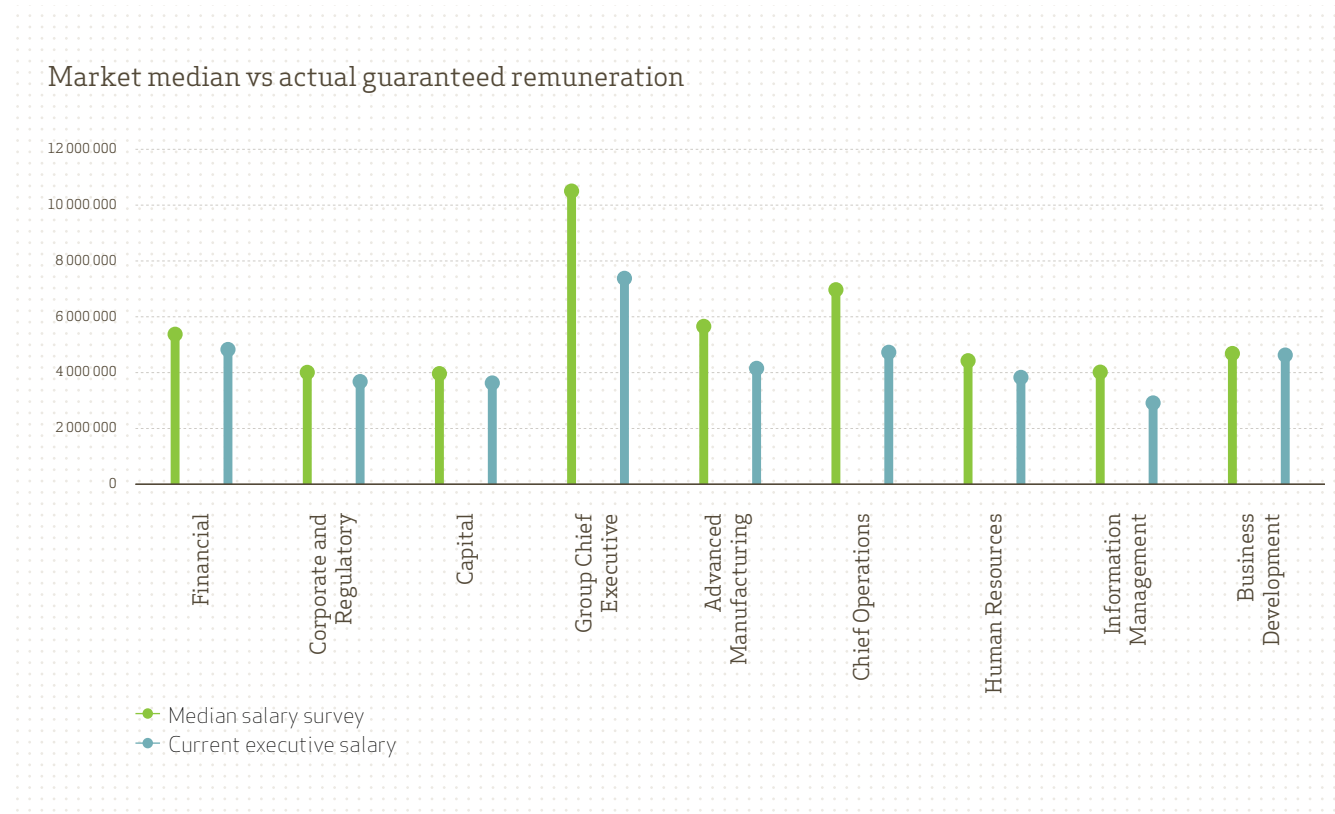
Transnet designed and implemented a new operating model during the reporting period with significant changes to the top leadership. The previous Executive Committee was restructured and reduced from 20 members to the newly constituted GLT consisting of nine members.

Transnet strives to remunerate the members of its executive teams at the market median. Annual guaranteed pay increases for the members of the Transnet executive teams are largely informed by market benchmarks.

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.

In addition to the annual increases for the Group Executive members, a remuneration adjustment was effected for specific members of the GLT whose remuneration was substantially below the comparable market.

The graph below depicts the actual guaranteed remuneration of the GLT against the market median:



The graph above indicates that the remuneration of the GLT is lagging the market median. Transnet is following a phased approach to ensure that the guaranteed remuneration over a period of time is aligned with the market median.



The table below depicts the guaranteed pay of the Transnet Group Leadership Team for the 2017 financial year:

	Salary R '000	Post- retirement benefit fund contributions R '000	Other payments R '000	Total 2017 R '000	Total 2016 R '000
B Molefe <sup>4</sup>	-	-	-	-	1 461
SI Gama <sup>1</sup>	6 792	654	2	7 448	7 249
M Gregg-Macdonald <sup>2</sup>	411	40	-	451	3 389
T Morwe <sup>4</sup>	-	-	-	-	2 804
KC Phihlela <sup>2,5</sup>	459	33	-	492	3 723
A Singh <sup>4</sup>	-	-	-	-	2 254
KXT Socikwa <sup>2,5</sup>	512	47	-	559	4 253
R Vallihu <sup>2,5</sup>	530	42	-	572	4 330
EAN Sishi	3 651	352	2	4 005	3 308
DC Moephuli	3 530	345	2	3 877	3 193
S Chetty <sup>2,5</sup>	339	29	-	368	2 662
RE Lepule <sup>2,5</sup>	411	40	-	451	3 353
MA Sukati <sup>2,5</sup>	390	33	-	423	3 120
MA Matooane <sup>4</sup>	-	-	-	-	1 897
ZE Lebelo <sup>2,5</sup>	341	26	-	367	2 720
LMH Msagala <sup>2,5</sup>	346	34	-	380	2 889
N Silinga <sup>2,5</sup>	362	30	-	392	2 846
GJ Pita <sup>1</sup>	4 593	421	1	5 015	3 070
T Jiyane	4 030	392	2	4 424	3 783
R Nair <sup>2,5</sup>	539	38	-	577	3 950
GJE de Beer <sup>3</sup>	2 952	314	1	3 267	-
KV Reddy <sup>3</sup>	3 094	323	2	3 419	-
MMA Mosidi <sup>3</sup>	2 476	176	1	2 653	-
MM Buthelezi <sup>3</sup>	4 031	336	2	4 369	-
	39 789	3 705	15	43 509	66 254

<sup>1</sup> GLT members who are members of the Board of Directors.

<sup>2</sup> Previous members of the Executive Committee, but no longer members of the GLT (previously Executive Committee).

<sup>3</sup> Appointed during the year.

<sup>4</sup> Resigned during the previous year.

<sup>5</sup> Exited from the GLT during the prior year.

### Executive remuneration – variable

The members of the GLT are eligible for payments in respect of the STI Scheme provided that the strategic objectives, as agreed with the Shareholder Representative, have been achieved. Individual bonus percentages are further modified with individual performance assessment ratings.

The eligibility percentages linked to specific business performance achievement is indicated in the table below:

Employment category	Grade level	Qualifying percentage		
		Threshold	On-target	Maximum
Group Leadership Team	A	25%	50%	100%
Extended Leadership Team	B	20%	40%	80%

### Short-term and long-term incentive payments

The short-term payment for the 2017 financial year was based on the actual achievement of the annual EBITDA, as well as the productivity and safety modifiers at Group and Operating Division levels.

The 2014 conditional award in respect of the Transnet long-term incentive scheme vested at the end of the 2017 financial 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. The payment of the vested amounts took place at the end of April 2017:

	LTI 2017 R 000	LTI 2016 R 000	STI 2017 R 000	STI 2016 R 000
B Molefe <sup>4</sup>	-	6 285	-	-
SI Gama <sup>1</sup>	3 185	884	1 571	402
M Gregg-Macdonald <sup>2</sup>	258	577	90	261
K Phihlela <sup>2</sup>	293	650	94	283
A Singh <sup>4</sup>	-	4 235	-	-
KXT Socikwa <sup>2</sup>	333	704	107	312
R Vallihu <sup>2</sup>	816	684	124	329
DC Moephuli	1 855	431	820	230
S Chetty <sup>2</sup>	184	355	-	205
RE Lepule <sup>2</sup>	233	309	86	246
EAN Sishi	1 911	540	861	246
MA Sukati <sup>2</sup>	164	-	96	251
ZE Lebelo <sup>2</sup>	126	128	76	210
LMH Msagala <sup>2</sup>	-	312	-	212
N Silinga <sup>2</sup>	123	285	87	227
GJ Pita <sup>1</sup>	1 304	369	1 120	221
T Jiyane	986	273	898	298
R Nair <sup>5</sup>	137	-	121	147
GJE de Beer <sup>3</sup>	-	-	670	-
KV Reddy <sup>3</sup>	1 116	-	801	-
MMA Mosidi <sup>3</sup>	-	-	538	-
MM Buthelezi <sup>3</sup>	1 607	-	1 015	-
<b>Total</b>	<b>14 131</b>	<b>17 021</b>	<b>9 175</b>	<b>4 080</b>

<sup>1</sup> GLT member who is a member of the Board of Directors.

<sup>2</sup> Previous members of the Executive Committee, but no longer members of the GLT (previously Executive Committee).

<sup>3</sup> Appointed during the year.

<sup>4</sup> Resigned during the previous year.

## Remuneration structure for non-executive directors

Non-executive directors are appointed by the Shareholder Representative for a three-year term. The Memorandum of Incorporation of the Company, however, requires that the non-executive directors be submitted for re-election for each of the three years at the Company's AGM.

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.

Fees paid to non-executive directors are differentiated based on their appointments to the various committees of the Board of Directors.

The table below depicts the actual remuneration for the Transnet non-executive directors for the financial year:

Name of Board member (Current Board of Directors)	Fees R '000	Other payments R '000	Total 2017 R '000	Total 2016 R '000
LC Mabaso (Chairperson) <sup>4</sup>	1 151	129	1 280	1 103
Y Forbes <sup>4</sup>	518	106	624	496
N Moola <sup>1</sup>	-	-	-	207
PEB Mathekga	518	-	518	496
GJ Mahlalela	518	-	518	496
ZA Nagdee	518	-	518	496
VM Nkonyne	605	-	605	579
MR Seleke <sup>1,5</sup>	-	-	-	421
S Shane <sup>2,4</sup>	605	127	732	660
BG Stagman	605	-	605	579
PG Williams <sup>3</sup>	605	-	605	516
Total	5 643	362	6 005	6 049

<sup>1</sup> Resigned during the previous year.

<sup>2</sup> Director's fees paid to Integrated Capital Management (Pty) Ltd.

<sup>3</sup> Passed away during the year.

<sup>4</sup> Pension fund trustees' fees included.

<sup>5</sup> Director's fees paid to Kapela Investments.

## Remuneration, Social and Ethics Committee of the Transnet Board of Directors

The Transnet Board of Directors 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 of Directors 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 of Directors 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.

# ANNEXURE C: SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

for the year ended 31 March 2017

## Subsidiaries

	Effective holding		Voting power held	
	2017 %	2016 %	2017 %	
SUBSIDIARIES HELD BY TRANSNET				
Local subsidiaries				
Transport logistics				
Viaren (Pty) Ltd <sup>1</sup>	-	100	-	
Property holdings				
Transhold Properties (Pty) Ltd <sup>2</sup>	-	100	-	
Insurance captive cells				
Guardrisk Insurance Company Ltd	100	100	100	
Social responsibility				
Transnet Foundation Trust <sup>3</sup>	100	100	100	
Foreign subsidiaries				
Transport logistics				
African Joint Air Services Ltd (Uganda) <sup>4</sup>	57	57	57	
Spoornet do Brasil Ltda (Brazil) <sup>5</sup>	-	-	-	

<sup>1</sup> Dissolved on 6 May 2016.

<sup>3</sup> In dissolution.

<sup>5</sup> Dissolved during the previous financial year.

<sup>2</sup> Deregistration.

<sup>4</sup> Dormant.

## Associates and joint ventures<sup>1</sup>

		Effective holding		Shares at cost	
Principal activity		2017 %	2016 %	2017 R million	2016 R million
<b>ASSOCIATES</b>					
Commercial Cold Storage (Ports) (Pty) Ltd	Storage and bondage	30	30	-	-
Comazar (Pty) Ltd <sup>2</sup>	Transport logistics	32	32	13	13
Experience Delivery Company (Pty) Ltd	Managing agent	11	11	-	-
RainProp (Pty) Ltd	Property development and management	20	20	-	-
<b>JOINT VENTURES</b>					
Gabarone Container Terminal	Container terminal	36	36	6	6
				19	19

<sup>1</sup> Incorporated in the Republic of South Africa, unless stated otherwise.

<sup>2</sup> Dormant.

## Summarised financial information of significant associates

	Commercial Cold Storage (Ports) (Pty) Ltd R million	Gabarone Container Terminal R million	RainProp (Pty) Ltd R million
<b>Financial position</b>			
Total assets	89	85	1 133
Total liabilities	9	1	538
<b>Results of operations</b>			
Revenue	10	21	49
Net profit	2	7	25

Shares at cost		Interest of holding company net profit/(loss)		Interest of holding company indebtedness		Accumulated impairment and losses	
2017 R million	2016 R million	2017 R million	2016 R million	2017 R million	2016 R million	2017 R million	2016 R million
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
3	3	7	5	-	-	-	-
-	-	-	-	-	-	-	-
-	-	6	(7)	392	398	392	398
-	-	-	(10)	-	-	-	-
3	3	13	(12)	392	398	392	398

Interest of holding company indebtedness		Accumulated impairment and losses		Share of post-acquisition reserves		Total	
2017 R million	2016 R million	2017 R million	2016 R million	2017 R million	2016 R million	2017 R million	2016 R million
1	1	-	-	23	19	24	20
8	8	21	21	-	-	-	-
-	-	-	-	-	-	-	-
1	2	-	-	106	93	107	95
-	-	-	-	18	16	24	22
10	11	21	21	147	128	155	137



## ANNEXURE D:

# THE 17 PRINCIPLES OF KING IV

<b>Principle 1</b>	The governing body should lead ethically and effectively.
<b>Principle 2</b>	The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.
<b>Principle 3</b>	The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.
<b>Principle 4</b>	The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value-creation process.
<b>Principle 5</b>	The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short-, medium- and long-term prospects.
<b>Principle 6</b>	The governing body should serve as the focal point and custodian of corporate governance in the organisation.
<b>Principle 7</b>	The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.
<b>Principle 8</b>	The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.
<b>Principle 9</b>	The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.
<b>Principle 10</b>	The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.
<b>Principle 11</b>	The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.
<b>Principle 12</b>	The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.
<b>Principle 13</b>	The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.
<b>Principle 14</b>	The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.
<b>Principle 15</b>	The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.
<b>Principle 16</b>	In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.
<b>Principle 17</b>	The Board of Directors should ensure that responsible investment is practised by the fund to promote good governance and the creation of value by the companies in which it invests.

# ANNEXURE E:

## GLOBAL REPORTING INITIATIVE TABLE

General standard disclosures	Reference 2017 Sustainability Report	Page	Reference 2017 Integrated Report	Page
<b>Strategy and analysis</b>				
<b>G4-1</b> Provide a statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability.	Message from the Board of Directors, and Message from the Group Chief Executive.	10,12	About this report - Integrating sustainability reporting in the 2017 Integrated Report (jointly approved by Transnet Chairperson, Group Chief Executive and Chief Financial Officer).  Leadership perspective - Sustainable Developmental Outcomes (jointly provided by Transnet Chairperson, Group Chief Executive and Chief Financial Officer).	2  8
<b>G4-2</b> Description of key impacts, risks and opportunities.			Materiality Universe (Figure 13).  Aligning material aspects to risks and opportunities.	62  70 - 71
<b>Organisational profile</b>				
<b>G4-3</b> Report the name of the organisation.	Transnet SOC Ltd.		Organisational overview.	12
<b>G4-4</b> Report the primary brands, products and services.	About Transnet - Who we are, and Our services.		Organisational overview.	12
<b>G4-5</b> Report the location of the organisation's headquarters.	Johannesburg, South Africa.		Organisational overview.	12
<b>G4-6</b> Report the number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report.	About Transnet - Where we operate and what we do.		Organisational overview.	12
<b>G4-7</b> Report the nature of ownership and legal form.	About Transnet - Who we are.		Organisational overview: Strategic context, Regulatory context and Financial context.	12
<b>G4-8</b> Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	About Transnet - Who we are; Where we operate and what we do; and Our services.		Organisational overview: Where we operate.	14
<b>G4-9</b> Report the scale of organisation, including: <ul style="list-style-type: none"> <li>• Total number of employees;</li> <li>• Total number of operations;</li> <li>• Net revenues (for public-sector organisations); and</li> <li>• Quantity of products or services provided.</li> </ul>	About Transnet - Who we are; Where we operate and what we do; and Our services.		Organisational overview: Employee profile. Organisational overview: Operating context and Where we operate. Organisational overview: Operating context. Organisational overview: Transnet's services and service sectors.	12 12 - 16 12 - 16 12 - 16
<b>G4-10</b> Workforce			Organisational overview: Employee profile.	12
<b>G4-11</b> Percentage of employees covered by collective bargaining agreements.			% of employees represented by collective bargaining as a % of total headcount= 89,8%.  % of permanent employees represented by collective bargaining as a % of total headcount= 75,3%.	12  12
<b>G4-12</b> Supply chain.			Organisational overview: Transnet's supply chain.	13

General standard disclosures	Reference 2017 Sustainability Report	Page	Reference 2017 Integrated Report	Page
<b>G4-13</b> Report any significant changes during the reporting period regarding the organisation's size, structure, ownership or its supply chain.	Reporting approach - About this report.	2	About this report.	2
<b>G4-14</b> Report whether and how the precautionary approach or principle is addressed by the organisation.	Transnet supports the precautionary approach to environmental challenges, as espoused in Principle 16 of the Rio Declaration, 1992 - Environmental Stewardship.	68 - 77	About this report: Statement of Precautionary Approach.	7
<b>G4-15</b> List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	Reporting approach - About this report.	2	About this report: Reporting frameworks and guidelines.	2 - 3
<b>G4-16</b> List memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation: <ul style="list-style-type: none"> <li>• Holds a position on governance body;</li> <li>• Participates in projects or committees;</li> <li>• Provides substantive funding beyond routine membership dues; and</li> <li>• Views memberships as strategic.</li> </ul>	UNGC (represented on the UNGC's Local Network Advisory Committee); National Business Initiative; Energy Intensive Users Group; Energy Efficiency Leadership Network; Industry Task Team on Climate Change; and the National Biodiversity and Business Network.	2	Organisational overview: Memberships of Associations (partial).	16
<b>Identified material aspects and boundaries</b>				
<b>G4-17</b> (a) List all entities included in the organisation's consolidated financial statements or equivalent documents. (b) Report whether any entity included in the organisation's consolidated financial statements or equivalent document is not covered by the report.	Transnet SOC Ltd denotes the five Operating Divisions and three Specialist Units. For a list of all entities included in the organisation's financial statements refer to the AFS for the year ending 31 March 2016.	18 - 23	About this report: Reporting boundary.	2
<b>G4-18</b> (a) Explain the process for defining the report content and the aspect boundaries. (b) Explain how the organisation has implemented the reporting principles for defining report content.	Material issues - Material issues determination.	18 - 23	Material aspects.	58
<b>G4-19</b> List all the material aspects identified in the process for defining report content.	Material issues - Material issues determination.	18 - 23	Material aspects: Materiality universe (Figure 13).	62
<b>G4-20</b> For each material aspect, report the boundary within the organisation as follows: <ul style="list-style-type: none"> <li>• Report whether the aspect is material within the organisation.</li> </ul>	Material issues - Material issues determination.	18 - 23	Material aspects: Materiality universe (Figure 13) - 'derived view' shows how internal and external stakeholder groups served as source of identification of material aspects and, hence, how they are impacted by material aspects.	62
<b>G4-21</b> For each material aspect - boundary outside the organisation.	Material issues - Material issues determination.	18 - 23	Material aspects: Materiality universe (Figure 13) - 'derived view' shows how internal and external stakeholder groups served as source of identification of material aspects and, hence, how they are impacted by material aspects.	62
<b>G4-22</b> Report the effect of any restatements of information provided in the previous reports, and the reasons for such statements.	Reporting approach - About this report.	2	About this report: Reporting boundary.	2

General standard disclosures	Reference 2017 Sustainability Report	Page	Reference 2017 Integrated Report	Page
<b>G4-23</b> Report significant changes from previous reporting periods in the scope and aspect boundaries.	Reporting approach – About this report.	2	About this report: Reporting boundary.	2
<b>Stakeholder engagement</b>				
<b>G4-24</b> Provide a list of stakeholder groups engaged by the organisation.	Material issues – Material issues determination, stakeholder engagement.	20	Material aspects. Material aspects: Materiality universe (Figure 13).	58 62
<b>G4-25</b> Report the basis for identification and selection of stakeholders with whom to engage.	Enablers of Sustainable Developmental Outcomes – stakeholder engagement.	26	Material aspects: Engaging our stakeholders. Ethical stakeholder relationships.	50 50 – 54
<b>G4-26</b> Report the organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	Enablers of Sustainable Developmental Outcomes – stakeholder engagement.	26	Material aspects: Engaging our stakeholders. Ethical stakeholder relationships. Governance of stakeholder relationships.	50 – 54 50 – 54 132
<b>G4-27</b> Report key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	Transnet's material sustainability issues 2017 table, and Sustainability Performance Overview.	20, 30 – 77	Key issues/concerns arising from our 2017 stakeholder engagement process.	55 – 56
<b>Report profile</b>				
<b>G4-28</b> Reporting period (such as fiscal or calendar year) of information provided.	1 April 2016 – 31 March 2017.	2	Reporting boundary.	2
<b>G4-29</b> Date of most recent, previous report.	31 March 2016.	2	Reporting boundary.	2
<b>G4-30</b> Reporting cycle (such as annual, biannual).	Annual.	2	Reporting boundary.	2
<b>G4-31</b> Provide the contact point for questions regarding the report or its contents.	General Manager: Public Policy and Sustainability, Sue.Lund@transnet.net.		Navigating this report Senior Manager: Group Reporting – Kilford.gondo@transnet.net.	0 – 1
<b>G4-32</b> (a) Report the 'in accordance' option the organisation has chosen. (b) Report the GRI Content Index for the chosen option. (c) Report the reference to the External Assurance Report.	Reporting approach – About this report and Assurance.	2	About this report: Board Responsibility and Approval Statement.	7
<b>G4-33</b> (a) Report the organisation's policy and current practice with regard to seeking external assurance for the report. (b) If not included in the Assurance Report accompanying the Sustainability Report, report the scope and basis of any external assurance provided. (c) Report the relationship between the organisation and assurance. (d) Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's Sustainability Report.	Reporting approach – Assurance; and Appendix A: External Assurance Statement.	2	Integrated approach to assurance. Integrating sustainability reporting in the 2017 Integrated Report.	5 6

General standard disclosures	Reference 2017 Sustainability Report	Page	Reference 2017 Integrated Report	Page
<b>Governance</b>				
<b>G4-34</b> Report the governance structure of the organisation, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	Enablers of Sustainable Developmental Outcomes – Governance.	24	Abridged governance.	109
<b>G4-35</b> Process for delegating authority for sustainability topics.		24	Our Control environment: Governance of sustainability.	133
<b>G4-36</b> Executive level position for sustainability topics.		24	Our Control environment: Governance of sustainability. Abridged governance: Ethical leadership and corporate citizenship.	133 108, 110, 133
<b>G4-37</b> Process for consultation between stakeholder and Board of Directors on sustainability topics.			Engaging stakeholders and measuring our performance.	50 – 56
<b>G4-38</b> Composition of highest governance body (Board of Directors) and committees.			Abridged governance.	109
<b>G4-39</b> Is Chair also CEO?			Abridged governance: Chairperson and Group Chief Executive. The Chairperson, Ms Linda Mabaso, is an independent non-executive director.	109
<b>G4-40</b> Nominations and selection process for Board of Directors and its committees.			The Corporate Governance and Nominations Committee sets criteria for the nomination of directors to be recommended to the Board of Directors for appointment to the committees of the Board of Directors, other than the Audit Committee. Non-executive directors are appointed by the Shareholder Representative for a three-year term. Board of Directors' composition and directors' balance of strengths.	109, 124 and Annexure A: v Annexure A: xiv 117 and 120
<b>G4-41</b> Process to avoid and manage conflict of interest.			Abridged governance: Declaration of interest.	119
<b>G4-42</b> Board of Directors' role in development, approval and updating of the organisation's purpose, value or mission statement, strategies, policies and goals related to sustainability impacts.			Abridged governance: Ethical leadership and corporate citizenship.	108, 110, 133
<b>G4-43</b> Measures to develop and enhance the Board of Directors' knowledge on sustainability topics.			Abridged governance: Directors' induction and continuous development.	116
<b>G4-44</b> Process for evaluation of Board of Directors' performance with regard to governance of sustainability topics, and actions taken.			Abridged governance: Independent performance evaluation of the Board of Directors, its committees and directors.	116
<b>G4-45</b> Board of Directors' role in identification and management of sustainability impacts, risks and opportunities, and stakeholder consultation in the process.			Abridged governance: Ethical leadership and corporate citizenship – The Board of Directors delegates the leadership, oversight and accountability for ethics performance and sustainability-related matters to the Remuneration, Ethics and Social Committee, which advises the Board of Directors on issues pertaining to responsible corporate citizenship and sustainability. Abridged governance: Governance of sustainability.	116 and 125 133



General standard disclosures	Reference 2017 Sustainability Report	Page	Reference 2017 Integrated Report	Page
<b>G4-46</b> Board's role in reviewing effectiveness of risk management processes for sustainability topics.			Opportunities and risks. Abridged governance: Our approach to enterprise risk management.	68 131
<b>G4-47</b> Frequency of Board of Directors' review of sustainability impacts, risks and opportunities.			Abridged governance: Risk Committee. Annexure A: Directors' attendance at Board of Directors' and committee meetings – Risk Committee.	125 Annexure A: i
<b>G4-48</b> Highest committee or position that formally approves the Sustainability Report.		24	Integrated sustainability reporting in the 2017 Integrated Report. Abridged governance: Governance of sustainability.	6 133
<b>G4-49</b> Process for communicating critical concerns to the Board of Directors.			Abridged governance: Ethical leadership and corporate citizenship. Abridged governance: Governance of sustainability.	108 and 110 133
<b>G4-50</b> Nature and number of critical concerns that were communicated to the Board of Directors, and mechanisms used to address/resolve them.			Annexure A: Directors' attendance at Board of Directors' and committee meetings.	Annexure A: i
<b>G4-51</b> Remuneration policies for Board of Directors and Senior Executives.			Abridged governance: Directors' remuneration. Annexure B: Annual Remuneration Report.	128 Annexure B: viii
<b>G4-52</b> Process for determining remuneration.			Annexure B: Annual Remuneration Report.	Annexure B: viii
<b>G4-53</b> How are stakeholders' views sought and taken into account regarding remuneration.			Not reported.	
<b>G4-54</b> Ratio of annual total compensation for highest-paid individual to the median annual total compensation for all employees.			Annexure B: Annual Remuneration Report.	Annexure B: viii
<b>G4-55</b> Ratio of percentage increase in annual total compensation for highest-paid individual to the median percentage increase for all employees.			Annexure B: Annual Remuneration Report.	Annexure B: viii
<b>Ethics and integrity</b>				
<b>G4-56</b> Describe the organisation's values, principles, standards and norms of behaviour, such as codes of conduct and codes of ethics.	Enablers of Sustainable Developmental Outcomes – Ethics.	19 – 21	Our mission, vision and values. Our culture roadmap. Creating value through Transnet's governance structure.	12 13 107
<b>G4-57</b> Internal and external mechanisms for seeking advice on ethical and lawful behaviour.	Not reported.		Core responsibilities of the Board of Directors. Group Company Secretariat function.	118 119
<b>G4-58</b> Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour.	Enablers of Sustainable Developmental Outcomes – Ethics.	19 – 21	Abridged governance: Ethics and fraud management.	132
<b>Disclosure on management approach</b>				
<b>G4-DMA</b> For each identified material aspect: Why is it material and how is it managed?			Material aspects impacting our strategy.	58 – 63

# ABBREVIATIONS AND ACRONYMS

<b>AAR</b>	Association of American Railroads
<b>AFS</b>	Annual Financial Statements
<b>AGM</b>	Annual General Meeting
<b>ALA – AISM</b>	International Association of Marine Aids to Navigation and Lighthouse Authorities
<b>B-BBEE</b>	Broad-Based Black Economic Empowerment
<b>Capex</b>	Capital expenditure
<b>CDP</b>	Carbon Disclosure Project
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CIDB Act</b>	Construction Industry Development Board Act
<b>CIPC</b>	Companies and Intellectual Property Commission
<b>CMS</b>	Condition Monitoring System
<b>CoBIT</b>	Control Objectives for Information and related Technologies
<b>COSO</b>	Committee of Sponsoring Organisations
<b>CPAF</b>	Capital Projects/Programme Assurance Framework
<b>CPI</b>	Consumer price index
<b>CSI</b>	Corporate social investment
<b>CSIR</b>	Council for Scientific and Industrial Research
<b>DCT</b>	Durban Container Terminal
<b>DEA</b>	Department of Environmental Affairs
<b>DIFR</b>	Disabling injury frequency rate
<b>DPE</b>	Department of Public Enterprises
<b>DWS</b>	Department of Water and Sanitation
<b>EBITDA</b>	Earnings before interest, taxation, depreciation and amortisation
<b>ED</b>	Enterprise Development
<b>EMTN</b>	Euro Medium-Term Note
<b>ERM</b>	Enterprise Risk Management
<b>ESD</b>	Enterprise and supplier development
<b>EVP</b>	Employee Value Proposition
<b>FEL</b>	Front-end loading
<b>FRMF</b>	Financial Risk Management Framework
<b>FRMP</b>	Fraud Risk Management Programme
<b>GDP</b>	Gross domestic product
<b>GE</b>	General Electric
<b>GFB</b>	General Freight Business
<b>GLT</b>	Group Leadership Team
<b>GMTN</b>	Global Medium-term Note
<b>GRI</b>	Global Reporting Initiative

<b>IAM</b>	Integrated Assurance Model
<b>ICT</b>	Information and communication technology
<b>IFRS</b>	International Financial Reporting Standards
<b>IIA</b>	Institute of Internal Auditors
<b>IR</b>	Integrated Report
<b>IRIS</b>	Intelligent Real-time Information Services (Advanced Data Analytics and Machine Learning platform)
<b>iSCM</b>	Integrated Supply Chain Management
<b>ISO</b>	International Organisation for Standardisation
<b>IT</b>	Information technology
<b>King III</b>	King Report on Governance for South Africa, 2009
<b>King IV</b>	King Report on Corporate Governance for South Africa, 2016
<b>KPI</b>	Key performance indicator
<b>LNG</b>	Liquefied natural gas
<b>LPG</b>	Liquefied petroleum gas
<b>LTi</b>	Long-term Incentive
<b>MCLI</b>	Maputo Corridor Logistics Initiatives
<b>MDS</b>	Market Demand Strategy
<b>Ml/km</b>	Million litres per kilometre
<b>MOI</b>	Memorandum of Incorporation
<b>MOU</b>	Memorandum of Understanding
<b>mt</b>	Million tons
<b>mtpa</b>	Million tons per annum
<b>NDP</b>	National Development Plan
<b>NEAP</b>	National Economically Active Population
<b>NEPAD</b>	New Partnership for Africa's Development
<b>Nersa</b>	National Energy Regulator of South Africa
<b>NGO</b>	Non-governmental organisation
<b>NMPP</b>	New Multi-Product Pipeline
<b>NT</b>	National Treasury
<b>NTK</b>	Net ton kilometre
<b>OEM</b>	Original equipment manufacturer
<b>PAIA</b>	Prevention of Access to Information Act
<b>PFMA</b>	Public Finance Management Act
<b>PPPFA</b>	Preferential Procurement Policy Framework Act
<b>PSP</b>	Private sector participation
<b>R&amp;D</b>	Research and Development
<b>RAMS</b>	Rail Addressable Market Share
<b>RBCT</b>	Richards Bay Coal Terminal
<b>REMSEC</b>	Remuneration, Social and Ethics Committee

RFP	Request for Proposal
RMO	Results Management Office
ROTA	Return on total average assets
RRA	Railroad Association
S&P	Standard & Poor's
SARA	South African Railways Association
Satawu	South African Transport and Allied Workers Union
SCM	Supply Chain Management
SD	Supplier Development
SDOs	Sustainable Developmental Outcomes
SOC	State-owned company
SR	Sustainability Report
SROA	Sustainability Risks and Opportunities Assessment
SSI	Statement of Strategic Intent
STI	Short-term Incentive
TAL	TransAfrica Locomotive
TE	Engineering
TEU	Twenty-foot equivalent unit
TFR	Freight Rail
TIA	Transnet Internal Audit
TIH	Transnet International Holdings
TCMS	Train Control and Management System
TMPS	Total Measurable Procurement Spend
TNPA	National Ports Authority
TPL	Pipelines
TPT	Port Terminals
TSDBF	Transnet Second Defined Benefit Fund
TTPF	Transnet Sub-fund of the Transport Pension Fund
TVCC	Transnet Value Chain Co-ordinator
UAR	Union of African Railways
UNEP	United Nations Environment Programme
UNGC	United Nations Global Compact
UNTU	United National Transport Union

# GLOSSARY OF TERMS

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## 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, 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 and amortisation but before impairment of assets, dividends received, post-retirement benefit obligation (costs)/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.

# CORPORATE INFORMATION

## Transnet SOC Ltd

47th Floor, Carlton Centre  
150 Commissioner Street  
Johannesburg  
2001

Incorporated in the Republic of South Africa.  
Registration number 1990/000900/30

## Executive directors

SI Gama (Group Chief Executive)  
GJ Pita (Chief Financial Officer)

## Independent non-executive directors

LC Mabaso (Chairperson), Y Forbes, GJ Mahlalela, PEB Mathekga,  
ZA Nagdee, VM Nkonyane, SD Shane, BG Stagman

## 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  
2191

The Internal Audit function has been outsourced to  
SekelaXabiso (Pty) Ltd, Nkonki Inc. and KPMG Services (Pty) Ltd.

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1st Floor, Building 22B  
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