



Navigating this report

Icons key

Financial sustainability

Capacity creation and maintenance

Market segment competitiveness

Institutional transformation

Operations management

Customer management

Operational excellence

Human capital management

Organisational readiness

Innovative products

Geographic expansion

Social impact

Sound governance and ethics

Constructive stakeholder relations

Sustainable Developmental Outcomes

Expanding the scope of Transnet's manufacturing business

Sustainable Developmental Outcomes (SDOs)

Employment

Investment leveraged

Health and safety

Skills development

Regional integration

Community development

Industrial capability building

Transformation

Environmental stewardship

The Capitals

Financial capital

Intellectual capital

Social and relationship capital

Manufactured capital

Human capital

Natural capital

Our Material Themes

Creating and sustaining a transformative workforce

Building and transforming our economy

Managing our environmental impact

Caring about our people and communities

Expanding our global reach

Performance Key

Improvement on prior year performance

Decline on prior year performance

Target achieved

Target partially achieved

Equivalent performance to prior year

Target not achieved

Material clusters

Build social trust through ethical leadership and corporate citizenship

Ensure long-term financial stability in a tough economy

Promote transformation and growth in the wider South African economy

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

Ensure customer-centricity and build partnerships for sustainable growth

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

Strategic thrusts

Agile

Admired

United

Digital

Stakeholder icons

Shareholder Minister

Board of Directors

Management

Employees

Organised Labour Unions

International Bodies

Customers

Investors

Suppliers and Service Providers

Communities

Regulators

NGOs

Government

Rating Agencies and Financial Institutions

Media

Academic and Research Institutions

Forward-looking information

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

Feedback on this report

We welcome feedback on our Sustainability Outcomes Report. Please provide written feedback to Daphney Ramaphosa at daphney.ramaphosa@transnet.net.



Contents

+

About this report

2

+

Assurance

3

+

About Transnet

4

+

Our mission and vision

5

+

Message from the Board

12

+

Message from the Group Chief Executive

14

+

Our sustainability framework

Our strategy

Material issues determination

Identifying and confirming material issues

16

20

22

19

+

Enablers of sustainable developmental outcomes:

Governance

Ethics

Stakeholder engagement

24

25

26

27

+

Managing our emerging risks

33

+

Unifying our risk management approach to achieve agility

41

+

Transnet's material themes for 2018

Creating and sustaining a transformative workforce

Caring about our people and our communities

Building and transforming our economy

Expanding our global reach

Managing our environmental impact

44

46

50

60

66

70

+

Annexure A

82

+

Abbreviations and Acronyms

85

+

Corporate Information

86

Reporting formats

Available in print format and full HTML report

Available online in PDF format

The Integrated Report 2018 is the Company's primary report to all stakeholders.

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

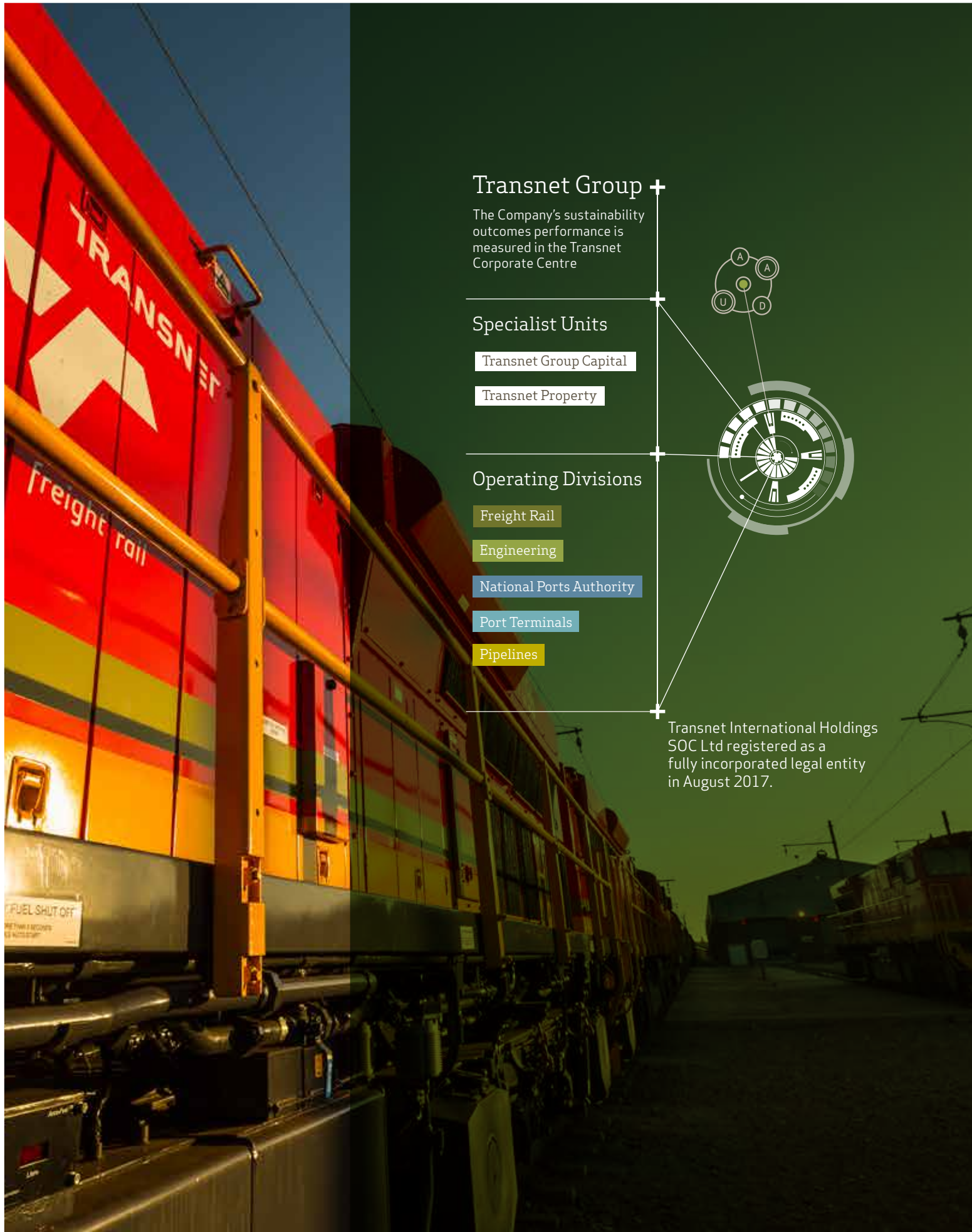
The Sustainability Outcomes Report 2018 documents Transnet's performance on the nine SDOs in greater detail.

Dedication

We were deeply saddened by the loss of our colleagues. We are profoundly grateful for their dedicated service to Transnet and will forever remember them. Our thoughts are with their families and friends.

In respectful memory:

Mr Gideon J. Mahlalela, 29 March 2018 (Board Member)
Mr Edgar Masilela, 15 July 2017
Mr Tshiamo Alfred Meku, 15 October 2017
Mr Frederick Hermanus Matthysen, 18 October 2017
Ms Thandeka Mzimela, 1 November 2017
Ms Senzekile Mase Mthethwa, 6 December 2017



Transnet Group +

The Company's sustainability outcomes performance is measured in the Transnet Corporate Centre

Specialist Units

- Transnet Group Capital
- Transnet Property

Operating Divisions

- Freight Rail
- Engineering
- National Ports Authority
- Port Terminals
- Pipelines

Transnet International Holdings SOC Ltd registered as a fully incorporated legal entity in August 2017.

About this report

The Sustainability Outcomes Report 2018 ("SOR 2018") provides the stakeholders of Transnet SOC Ltd ("Transnet" or "the Company") with a view of our sustainability performance for the financial year, 1 April 2017 to 31 March 2018. We recognise the diversity of our stakeholders and endeavour to ensure a balance in our reporting by preparing a suite of reports. The SOR 2018 builds on the Sustainability Report 2017, and reflects our performance on the nine Sustainable Developmental Outcomes (SDOs), which are based on our Shareholder's requirements. A more holistic view of how our strategy, governance and operational performance create and sustain long-term value is provided in the Integrated Report 2018 ("IR 2018"), while our financial performance and the reports of the independent auditors and directors are available in the Annual Financial Statements 2018 ("AFS 2018").

[www](http://www.transnet.net) **Read more**
The IR, AFS and SOR are available on www.transnet.net

The Company's sustainability outcomes performance is measured in the Transnet Corporate Centre.

The boundary of this report is the Transnet legal entity. There have been no significant changes in scope or aspect boundaries during the reporting period save for progress made in execution of Transnet International Holdings during the year under review. Where any restatements or changes in measurement methods have taken place, these are described in the relevant section of this report.

The SOR 2018 is based on Transnet's sustainability framework namely the nine SDOs

The SOR 2018 is based on Transnet's sustainability framework, namely the nine SDOs (refer to figure 5). This report also contains Standard Disclosures from the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines. We have also provided disclosures on our management approach for material issues in line with the Specific Standard Disclosures of these guidelines (refer Annexure A). Transnet's sustainability outcomes reporting for 2018 has been further informed by the principles of the United Nations Global Compact (UNGC) to which Transnet has been a signatory since 6 July 2012; the Greenhouse Gas Protocol – Corporate Accounting and Reporting Standard prescribed by the Carbon Disclosure Project (CDP); and the AccountAbility 1000 Stakeholder Engagement Standard. This report is aimed at Transnet's broad range of stakeholders (see the Stakeholder Engagement section on pages 27 to 33).

2018 marks the fifth year that Transnet has obtained an external assurance statement

Assurance

2018 marks the fifth year that Transnet has obtained an external assurance statement for the SOR from its independent external assurance provider, SizweNtsalubaGobodo Inc. The assurance statement provides reasonable assurance over specific subject matters (refer Annexure A). Financial information included in the SOR 2018 is extracted from the AFS 2018, audited by SizweNtsalubaGobodo Inc., which includes a modified audit opinion relating to the completeness of the identification and reporting of irregular expenditure. The AFS 2018 audit report also included a material uncertainty related to going concern.

Freight Rail



Engineering



Pipelines



National Ports Authority



Port Terminals



About Transnet

Transnet SOC Ltd is a State-owned Company (SOC) and the custodian of the country's freight logistics chain: railway, ports and pipelines. As a SOC, Transnet is accountable not only to its sole Shareholder, the Department of Public Enterprises, but also to its employees, the communities in which it operates, suppliers, investors, customers and the public at large for the long-term sustainable value that the Company creates for the economy, society and the environment through its day-to-day business activities.

During the reporting year, we registered Transnet International Holdings SOC Ltd as a fully incorporated legal entity in an effort to expand our global reach. Our integrated Go-to-Market approach will enable us to pursue international opportunities in a co-ordinated and well-planned manner by defining specific opportunities to pursue, determining how to position the Company in the market and by defining the services required.

In line with Government's National Development Plan (NDP), Transnet is required to contribute to the Government's Medium Term Strategic Framework (MTSF) outcomes. By balancing these developmental outcomes with building a commercially viable business, Transnet aims to:

- Contribute to economic growth through the provision of world-class infrastructure and technologies;
- Expand the economic infrastructure;
- Create jobs;
- Build a skilled and capable workforce;
- Protect and enhance environmental assets and natural resources; and
- Provide a better South Africa, contributing to a better Africa and a better world.

Our Vision and Mission

Our mandate is to assist in lowering the cost of doing business in South Africa, enabling economic growth and ensuring security of supply by providing appropriate port, rail and pipeline 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 (SSI) issued by the Minister of Public Enterprises.

Where we operate and what we do

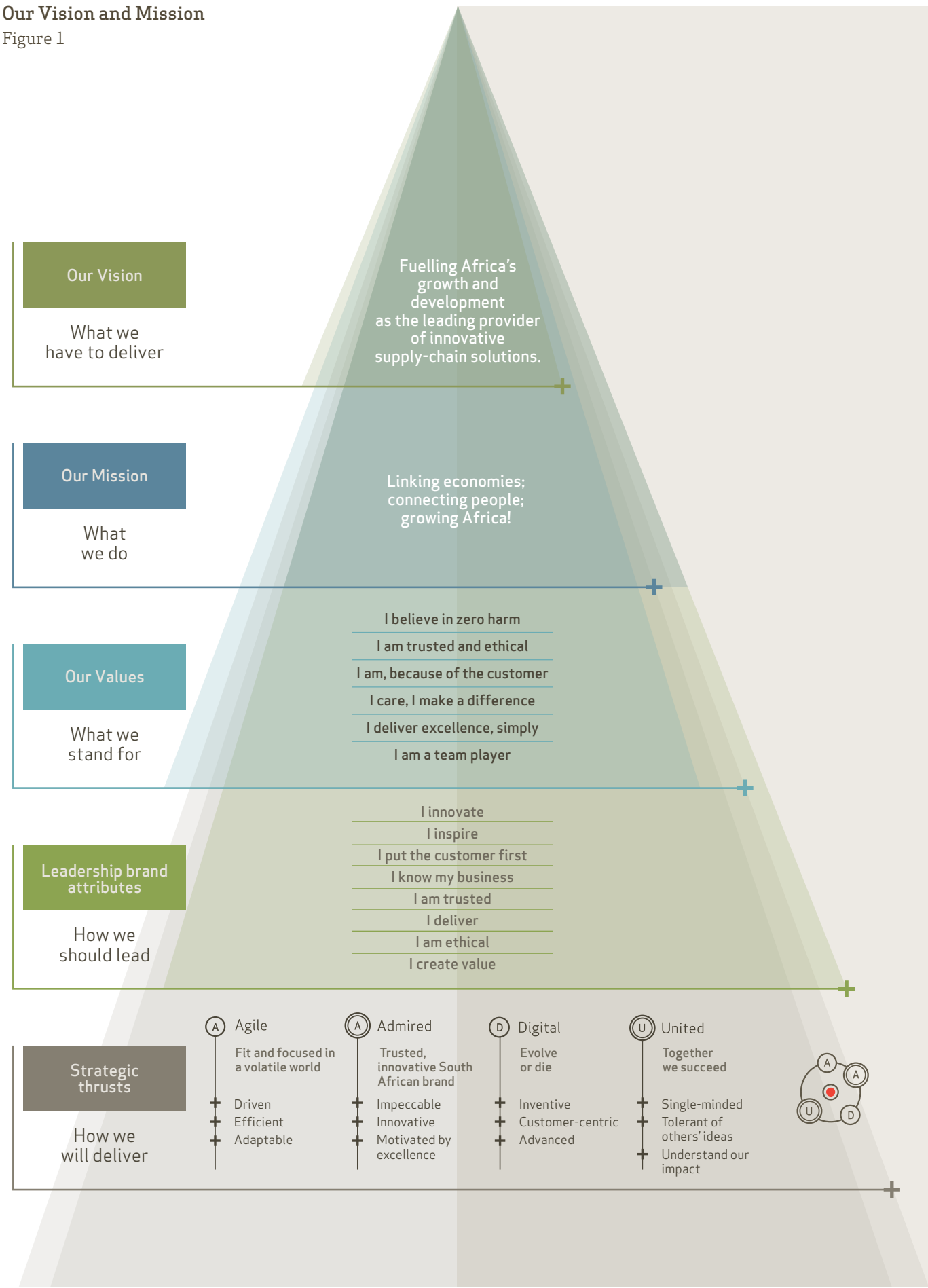
Nationally, the Transnet Corporate Centre is based in Johannesburg, South Africa, and the five Operating Divisions are spread across South Africa.

Transnet, together with the relevant railways, ports and terminal operators, participates and plays a central role in four Joint Operating Centres (JOCs) in Mozambique, Zambia, Botswana and Zimbabwe. Transnet also has satellite offices in Lesotho, Tanzania, Namibia and Swaziland. To expand the Company's reach beyond Africa, Transnet International Holdings SOC Ltd was registered in August 2017 as a wholly owned subsidiary of Transnet SOC Ltd.

Our integrated Go-to-Market approach will enable us to pursue international opportunities

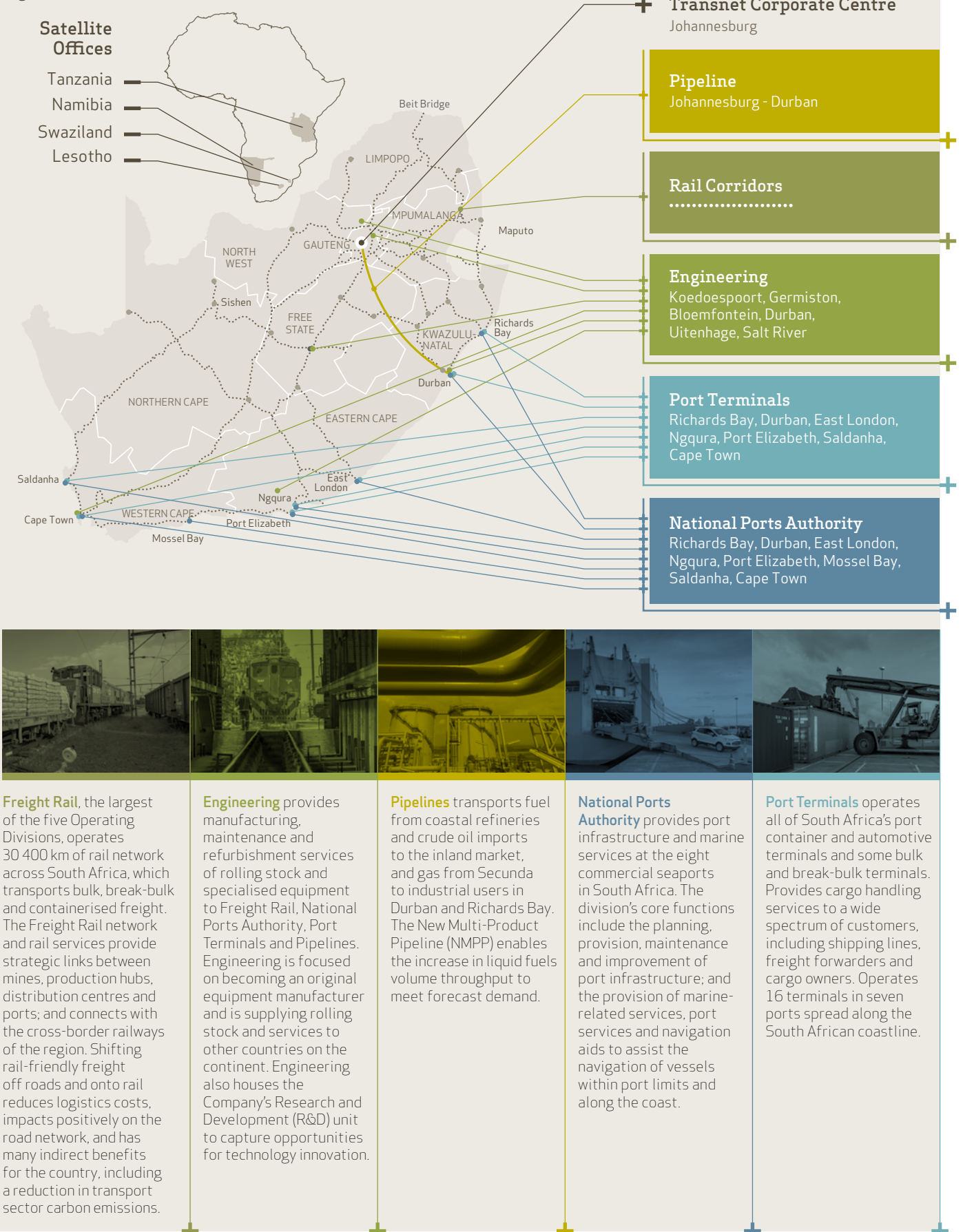
Our Vision and Mission

Figure 1



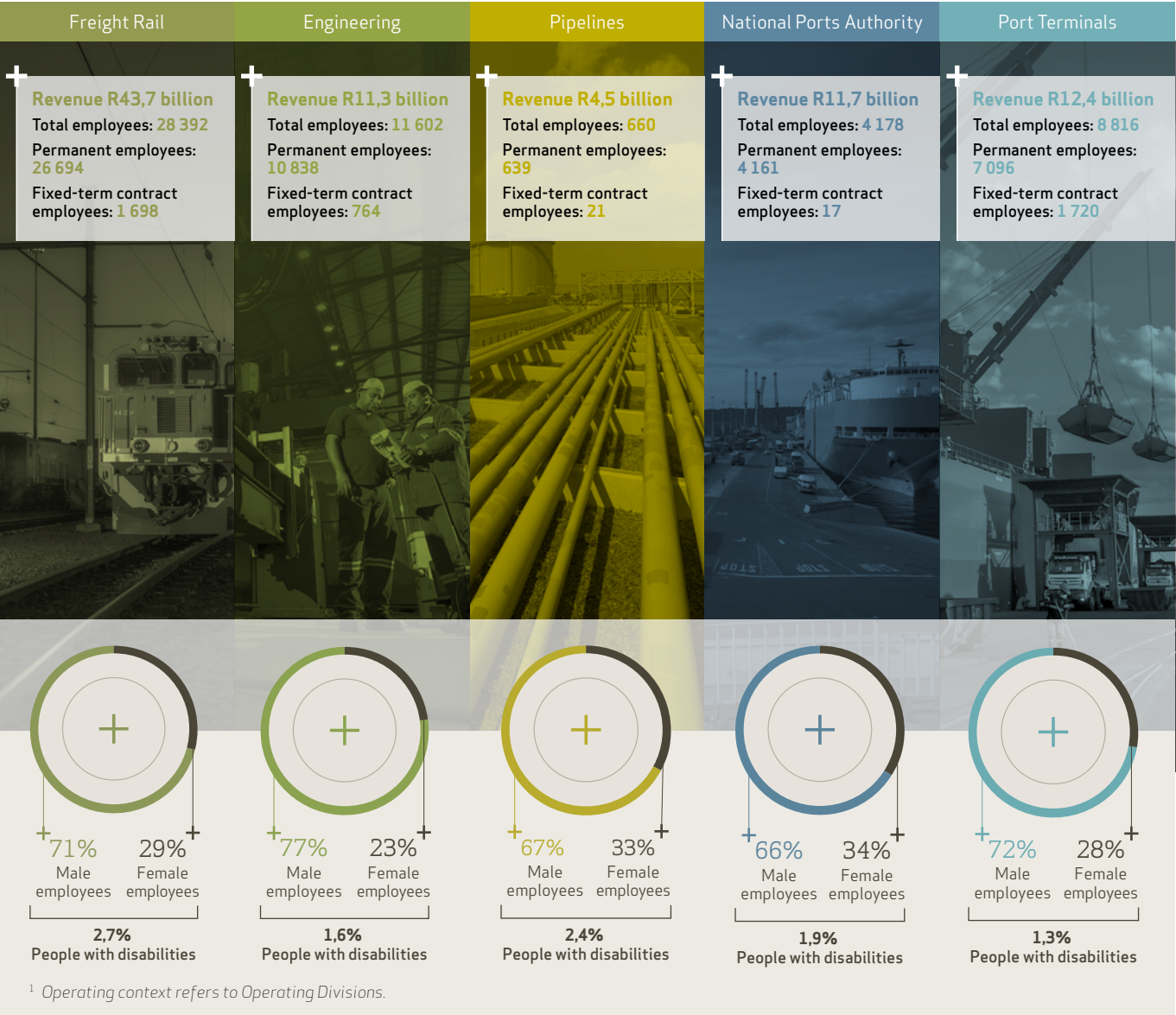
Geographic location of the Transnet Corporate Centre and Operating Divisions

Figure 2



Operating context

Figure 3



IR 24 Read more

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.

Strategic context

Over the past six years, Transnet has been implementing the Market Demand Strategy (MDS) which focused on closing capacity gaps and modernising the Company. These capacity gaps in rail, ports and pipelines have been largely eliminated, while the modernisation of the infrastructure and equipment is well under way.

The long-term vision for Transnet is encapsulated in our Transnet 4.0 Strategy (introduced in the Integrated Report 2017), which focuses on repositioning the Company as a global integrated logistics service provider by:

- Accelerating efforts to extend its footprint in the fast-growing regions of Africa, the Middle East and South Asia, thus enhancing existing trade corridors and creating new ones;
- Product and service innovation and diversification to transform from being primarily a transport and cargo-handling business to an integrated logistics service provider, offering end-to-end solutions to customers; and
- Expanding the scope of manufacturing capabilities as well as seeking new markets for existing manufactured products with an aim to provide a stimulus to reindustrialise the domestic and regional economies.

While Transnet 4.0 is preparing the Company for accelerated growth within the context of the 4th Industrial Revolution, it will also guide our activities in the next financial year.



Market context

- Real economic activity strengthened after the first quarter of 2017 despite declining levels of business and consumer confidence, and a credit ratings downgrade.
- Economic growth is expected to rise to 3,3% in sub-Saharan Africa from 2,7% in 2017, creating more opportunities for increased intra-regional trade.
- Commodity prices are continuing to recover.
- While several key risks remain, the global economy appears to have entered a cyclical upswing with the International Monetary Fund forecasting global growth of 3,9% in 2018, and developing and emerging market growth of 4,9% for the same period.
- The logistics industry is experiencing rapid changes driven by increasing customer expectations, new technologies and new business models both internationally and domestically.
- Total demand for land freight exceeds 848 million tons, with the primary economy (agriculture and mining) accounting for 76% and the secondary economy (manufacturing) making up the remaining 24%. This illustrates the transport intensity of the South African freight system.



Socio-economic context

As a SOC, Transnet's strategic focus is primarily informed by the Statement of Strategic Intent issued by the Minister of Public Enterprises, and the Shareholder's Compact, which stipulates the medium-term strategy and objectives, including:

- Reducing the cost of logistics as a percentage of transportable GDP;
- Effecting and accelerating the modal shift by maximising the role of rail in the national transport task;
- Leveraging the private sector in the provision of both infrastructure and operations, where required;
- Integrating South Africa with the region and the rest of the world;
- Optimising sustainable economic, social and environmental outcomes of all activities undertaken by Transnet; and
- The nine Sustainable Developmental Outcome (SDOs), which have been negotiated with the Shareholder and align with the South African Government's vision as per the NDP and the MTSF initiatives, which are aimed at addressing poverty, inequality and unemployment.

Financial context

In order to ensure long-term sustainability, Transnet's Financial Plan takes cognisance of the Company's risk profile. We embrace the challenges that come with the 4th Industrial Revolution and, continue to strive to find a balance between investing in traditional infrastructure such as rail, pipeline and ports; and funding the demand for investing in the digital revolution and other diversification opportunities.

The recent downgrade of South Africa's sovereign rating, which resulted in the automatic downgrade of Transnet, has been one of our emerging challenges this reporting year, and it may impact our debt finance cost.

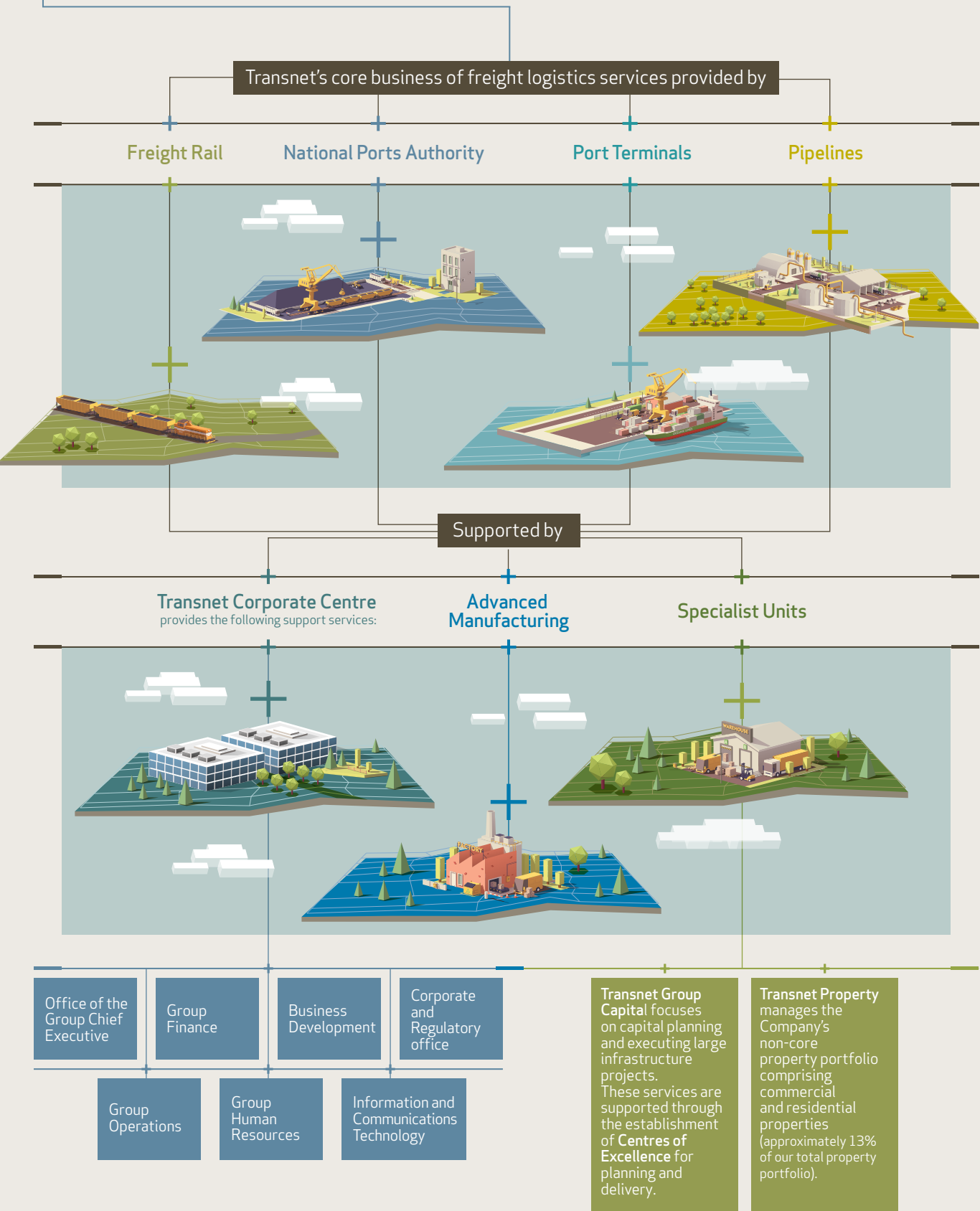
Transnet continues to pursue the following key financial interventions to ensure that the Capital Investment Plan is executed responsibly and affordably:

- 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.

Our support services

Figure 4



Regulatory context

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

The Railway Safety Regulator regulates the safety of the rail operations of the Company, and South African Maritime Safety Authority issues safety permits (for a fee) and conducts inspections and audits on the Company, while the Department of Water and Sanitation and the Department of Environmental Affairs regulate Transnet's activities that interact with the environment. Transnet also operates within a policy context which is determined by the Department of Public Enterprises and the Department of Transport.

Our supply chain

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 suppliers and their products. Furthermore, we recognise the important role that Transnet's purchasing power plays in the local economy. To achieve wider economic, social and environmental value, Transnet recognises that procurement practice must go beyond sourcing inventory and logistics. It must be supported by an outcomes strategy. As procurement practices have matured in Transnet, more attention has been placed on integrated Supply Chain Management, with our sphere of influence extending through the upstream supply chain to Enterprise Development (ED). Our ED and Enterprise Supplier Development (ESD) are geared towards spreading economic growth and transforming the South African economy, as well as supporting government programmes that seek to redress the imbalances of the past.

The Company operates in compliance with over 200 regulations





Message from the Board

The Remuneration, Social and Ethics Committee oversaw the implementation of the 2018 sustainability strategy throughout the year under review. The committee has reviewed this report together with the external auditor's assurance statement as a reflection of Transnet's sustainability performance and initiatives for the year under review, and the Board of Directors has duly approved this report for publication.

Transnet's SOR 2018 outlines the impact of the Company on society, the environment as well as the economy. We measure our performance not only by our financial gains, but also by the value we create for our diverse range of stakeholders, including our shareholder, employees, the communities in which we operate, suppliers, customers and the public at large.

As a signatory to the Ten Principles of the United Nations Global Compact, we continue to uphold these principles governing human rights, the environment and anti-corruption. We further continue to seek ways to contribute towards the achievement of the United Nations Sustainable Development Goals.

This report reflects Transnet's performance against its nine Sustainable Developmental Outcomes (SDOs) as well as the enablers which form Transnet's sustainability framework. We recognise that as a SOC, we have a responsibility to contribute towards redressing the imbalances of the past and we are committed to doing so by aligning our sustainability outcomes with the vision set out in the Government's National Development Plan (NDP) and its Medium-Term Strategic Framework (MTSF) that was established to address poverty, inequality and unemployment.

We measure our performance not only by our financial gains, but also by the value we create for our diverse range of stakeholders



We have a strong foundation and roadmap to embed sustainability in all we do

Transnet's sustainability performance continues to improve, despite the challenges that come with the downgrade of the sovereign credit rating of South Africa and the subsequent downgrade of Transnet. However, we remain resolute in contributing towards job creation and sustenance, skills development, localisation of procurement spend, investment in new technologies, promotion of regional integration, improvement of infrastructure through private-sector investment, transformation, measurably improving the quality of life of communities we operate in and caring for our environment.

We have a strong foundation and roadmap to embed sustainability in all we do, and we believe that with continued support from our employees and stakeholders, we can indeed achieve our mandate.

F. S. Mufamadi

Dr Fholisani S Mufamadi
Chairperson: Remuneration, Social and Ethics Committee

Message from the Group Chief Executive

A transition in the global economy is already in progress. The emergence of disruptive technology fuelling the 4th Industrial Revolution, driven by extreme automation and artificial intelligence, is already changing the face of business globally. The social system is also experiencing disruptions in power dynamics, as evidenced by increasing social activism campaigns across the world.

Transnet is mindful of these rapid developments and as such is transitioning from the **Market Demand Strategy** (primarily a capital-intensive strategy aimed at creating capacity to meet validated demand and improving operational efficiencies while remaining financially sustainable) to the **Transnet 4.0 Strategy**. Transnet 4.0 focuses on repositioning Transnet as a global integrated logistics service provider, thus enabling its competitiveness within the fast-changing, technology-driven context of the 4th Industrial Revolution.

In forging ahead with Transnet 4.0, we recognise that our success cannot only be measured by EBITDA, but should also include the value we create for our diverse stakeholder groups and the environment.

- A strong focus on operational resilience is critical in light of the extreme weather events we are experiencing globally. Water security has become critical. South Africa and Transnet alike are not islands and are therefore not immune to the impact thereof. Following three unforeseen years of severe drought, Cape Town and Saldanha now face the very real prospects of water shortages, which will have a direct impact on our operations and communities.
- We are mindful that our stakeholder needs and expectations are not static, and endeavour to meet these changing needs and expectations. In 2018, we were met with challenges in relation to our stakeholders, particularly investors and financial institutions, owing to allegations of irregularities; communities demanding employment and business opportunities; regulators, around permit and licensing issues; and customers, due to service delivery concerns. Measures to manage these relationships are ongoing and are already showing favourable outcomes. We are rolling out supporting governance processes and systems to drive a customer-centric culture that will respond to these changing needs.
- Transnet's reputation was also thrust into a bad light with reports casting aspersions on the integrity of our governance processes, especially relating to procurement. These allegations have created a difficult environment in our broader stakeholder community. Transnet has been on a continuous improvement journey with respect to its corporate governance and control systems, and the management team is resolute in its efforts to restore trust and confidence in the Company.



In line with the evolution of the Transnet operating model and emerging risks, we are taking proactive steps to build new skills and capabilities in order to advance our mandate. Our Information and Communications Technology platforms are being enhanced to enable timeous decision-making and to support operational efficiencies.

We continue to be committed to 'Zero Harm' and have zero tolerance for unsafe acts and conditions. One life lost is a life too many. I would like to thank all our employees for being each other's keeper and exhibiting 'Sustainability in all they do'.

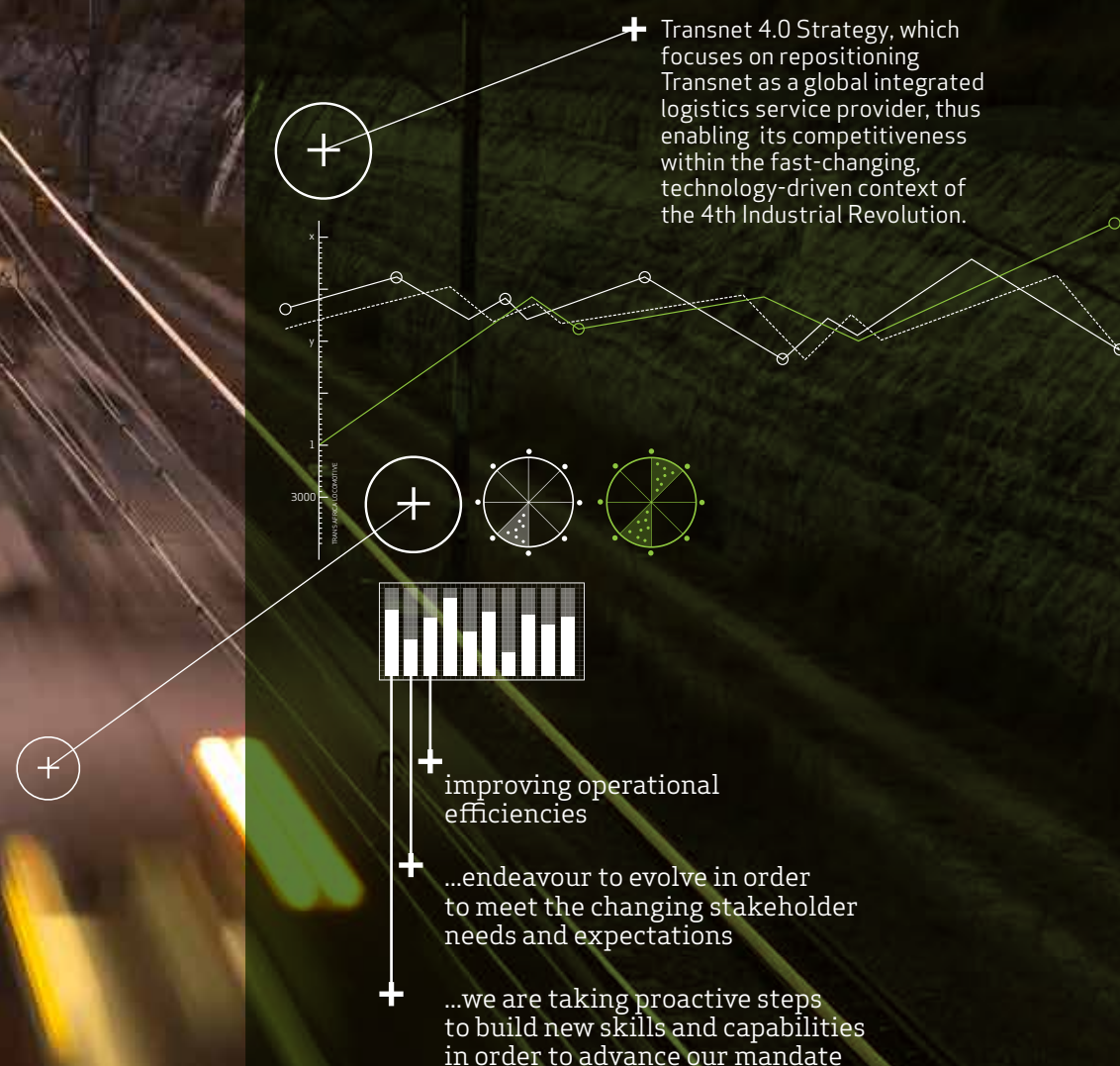
We will continue to strive to expand our global reach, further contributing to building the African economy. We aim to achieve this collaboratively with appropriate partners and/or service providers. We will also continue to use our four strategic thrusts (Agile, Admired, Digital and United) as our guiding principles in building the 'Transnet of tomorrow'.

Transnet's mission of "Linking economies; connecting people; growing Africa" articulates our clear purpose as we strive towards our vision of "Fuelling Africa's growth and development as the leading provider of innovative supply-chain solutions".

S.I. Gama

Siyabonga Gama

Group Chief Executive





Our sustainability framework

Sustainability at Transnet is driven by an outcomes-based approach to reporting on performance. This outcomes-based approach focuses on achieving real, measurable value for the economy, society and the environment. Transnet is in its third year of using the Sustainable Developmental Outcomes (SDOs) framework to measure the value that we create for society at large. These outcomes were integrated into our Market Demand Strategy (MDS), reflecting the critical developmental outcomes of all Transnet's activities, and are being carried through to the Transnet 4.0 Strategy. Transnet also endeavours to use the SDO framework to measure our contribution to the achievement of the UN Sustainable Development Goals 2030.

The nine SDO themes are: employment, skills development, industrial capability building, investment leveraged, regional integration, transformation, health and safety, community development and environmental stewardship. Transnet's sustainability performance is measured against these with three key business enablers (i.e. governance, ethics and stakeholder engagement) directly affecting our ability to deliver these SDOs.

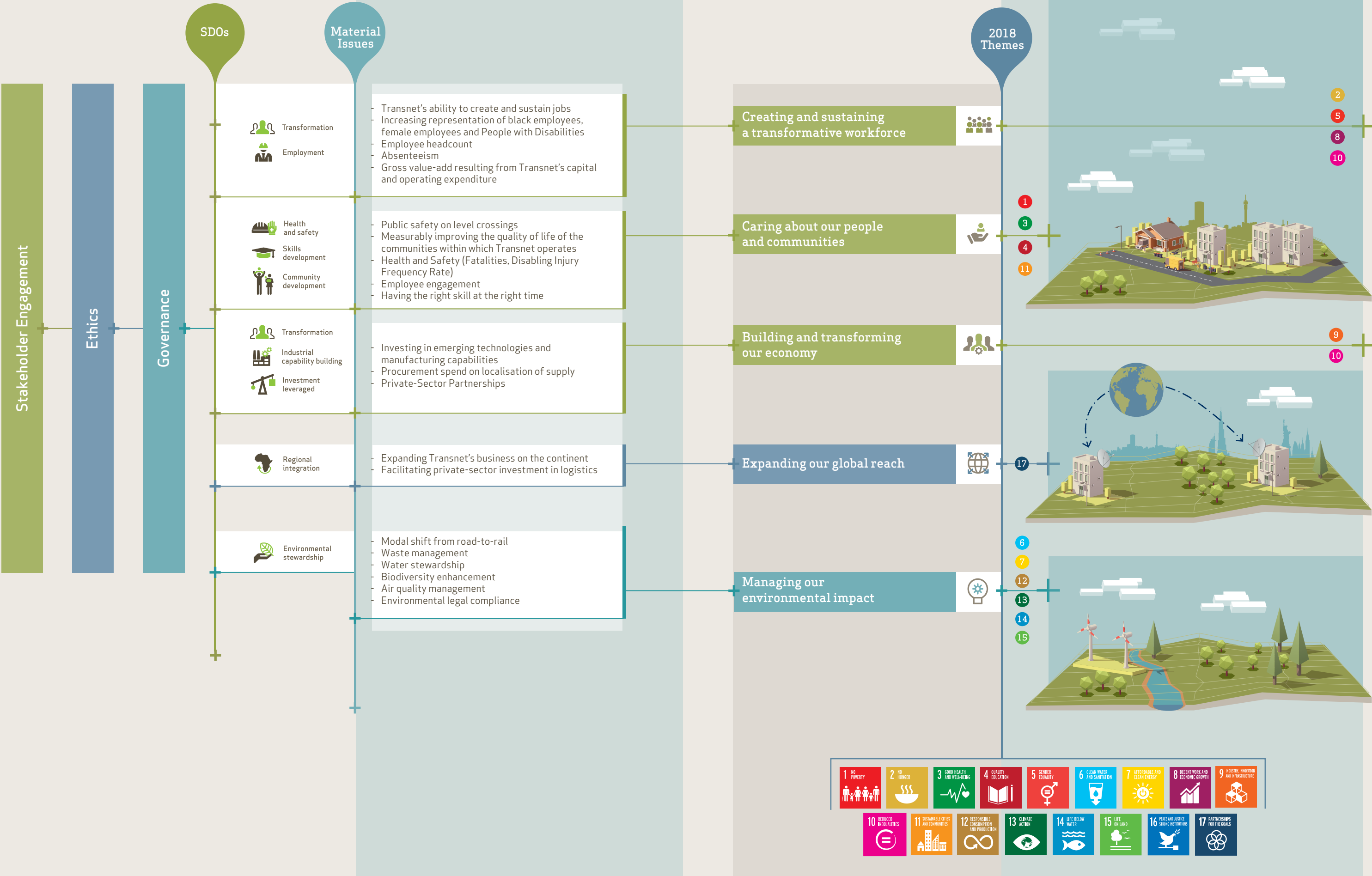
Transnet is driven by an outcomes-based approach to reporting on performance

Sustainable Developmental Outcomes (SDOs)

Figure 5

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

Our sustainability framework
Figure 6



Our strategy

Transnet is at an important strategic inflection point. Over the past six years, the Company has been implementing the MDS which focused on closing capacity gaps and modernising the Company. Capacity gaps in rail, ports and pipelines have been largely eradicated while the modernisation of the infrastructure and equipment is well on track.

Continuous improvements in operational efficiency, reliability, capacity and customer service remain at the core of Transnet's strategy and we will continue to channel the bulk of our investment into these upgrades.

However, Transnet does have to take appropriate strategic action to reposition itself and to deal with the complex and rapidly changing competitive environment characterised as the 4th Industrial Revolution³. For Transnet to effectively play its role and achieve its strategic objectives, the Company must embrace technology and aim to disrupt itself instead of being disrupted.

Transnet has adopted the Transnet 4.0 Strategy which is focused on repositioning Transnet as a global integrated logistics service provider. The strategy aims to grow Transnet to a R100 billion business by 2020 and a top international logistics service provider by focusing on the following three growth areas:

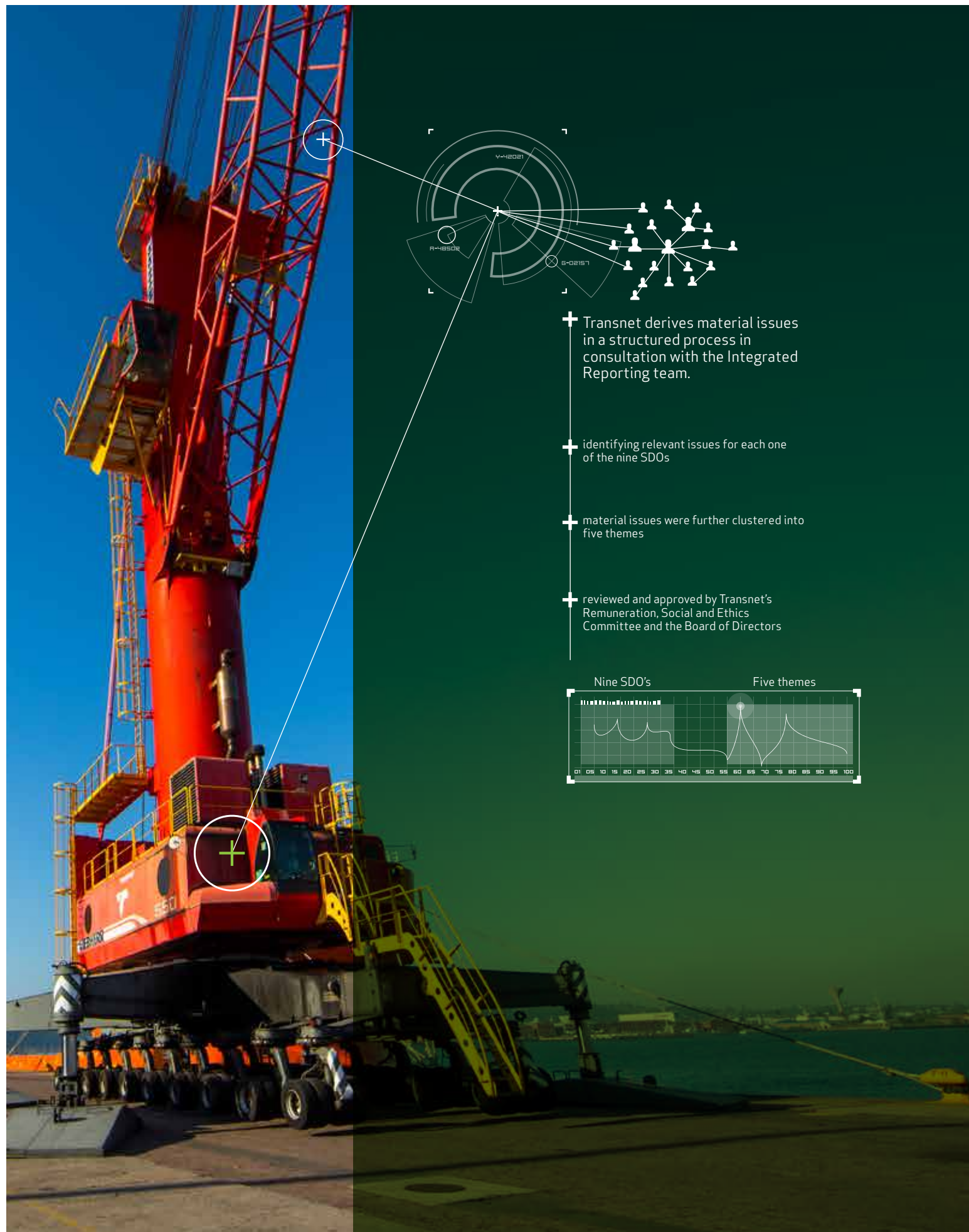
+ The strategy aims to grow Transnet to a R100 billion business by 2020 and a top international logistics service provider

³ As has been articulated by the World Economic Forum, we stand on the brink of a technological revolution that will fundamentally alter the way we live, work and relate to one another. The 4th Industrial Revolution is characterised by a fusion of technologies that are poised to disrupt almost all industries and transform systems of production, management and governance.

Our strategy: Transnet 4.0

Figure 7





Material issues determination

Transnet defines materiality with respect to sustainability as *'issues 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.'*

Identifying and confirming material issues

Transnet derives material issues in a structured process in consultation with the Integrated Reporting team. This ensures alignment between the developmental 'issues' and commercial 'aspects' that are deemed material for Transnet. The distinction between developmental material 'issues' and commercial material 'aspects' provides the focus of both the Sustainability Outcomes Report (SOR) and the Integrated Report (IR). The material 'issues' and 'aspects' are clustered to show further alignment between the SOR and IR.

In this report, Transnet's developmental material issues were determined through a structured process of identifying relevant issues for each one of the nine SDOs and prioritising those that are material, based on their importance to our stakeholders and their impact on our Company (as shown in figure 8). These material issues were further clustered into five themes for 2018, which were reviewed and approved by Transnet's Remuneration, Social and Ethics Committee and the Board of Directors. These issues have been assessed according to their relevance in terms of our sustainability context, and the scope and boundary of this report.

In addition, Transnet augments the above input and feedback by reviewing media coverage of the Company's activities. Material issues/aspects are identified based on:

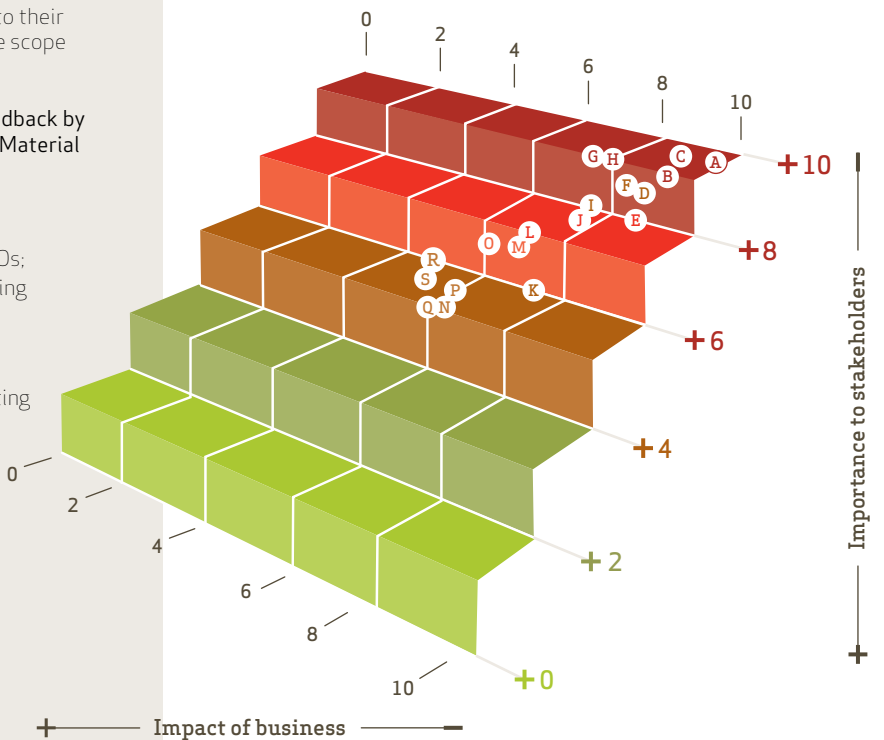
- Frequency of aspect raised;
- Relevance of topics to multiple stakeholders;
- Applicability to Transnet's mandate, strategy and SDOs;
- Efficacy of Transnet's control environment in mitigating associated risks; and
- Emerging risks.

Material issues for 2018 were spread across topics relating to our environment, society, governance and our value chain (see figure 8). Further elaboration on governance is provided in the Integrated Report 2018.

Materiality

Figure 8

- A Stakeholder engagement
- B Water stewardship
- C Improving quality of life for communities
- D Transnet's ability to create and sustain jobs
- E Increasing representation of black employees, female employees and People with Disabilities
- F Health and Safety (DIFR and Fatalities)
- G Governance and Ethics
- H Public safety on level crossings
- I Adherence to Standard Operating Procedures
- J Investing in emerging technologies and manufacturing capabilities
- K Modal shift from road-to-rail
- L Fostering collaborations
- M Having the right skill at the right time
- N Expanding Transnet's business in the AMEA region
- O Procurement spend on localisation of supply
- P Biodiversity enhancement
- Q Private-sector investment in logistics
- R Reducing absenteeism through wellness
- S Waste management



Enablers of sustainable developmental outcomes

As part of our reporting this year, we consulted the King IV Report on Corporate Governance for South Africa, 2016 (King IV). We are encouraged that our outcomes-based reporting approach is aligned with the principles and thinking reflected in King IV. As stated in the supplement for State-owned Entities, *performance encompasses both an organisation's achievements relative to its strategic objectives, and positive outcomes in terms of the triple context in which it operates. Our ability to deliver positive outcomes to society is directly linked to the continuous improvements in corporate governance, ethics and stakeholder engagement.*

Governance

Achieving good corporate governance is a multi-faceted and ongoing process. It requires deep understanding of the interplay of strategy, value creation, the Company's socio-economic and political environment, and the fundamentals of human nature. As we explore the emerging landscape 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.

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 Company. We acknowledge 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.

Ethical and effective leadership

Ethical leadership is vital in operating a successful and sustainable business and provides assurance to stakeholders that the Company is well managed. The relationship with Government as the sole Shareholder, represented by the Minister of Public Enterprises (Shareholder Minister), is managed through the Shareholder's Compact, which sets out the annual Shareholder's targets for the Company. Safety, risk and sustainability remain key priorities for the Company.

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 Transnet National Ports Authority in terms of the National Ports Act, No 12 of 2005. The Board of Directors offers leadership that results in the achievement of the Company strategy by directing and approving the Company's strategic and operational objectives and by monitoring the Company's performance against 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 on the Company's socio-economic programmes. The Board of Directors is tasked with ensuring that the Company is able to achieve its statutory and commercial objectives.

The Board of Directors remains accountable for leading the Company 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 the Company's responsibilities as a good corporate citizen. The Board of Directors is committed to the implementation of the King IV Code on Corporate Governance.

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 further adheres strictly to the requirements of the Public Finance Management Act, No 1 of 1999 (PFMA). 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.
- Corporate Governance and Nominations Committee.

+ Ethical leadership is vital for operating a successful and sustainable business.

+ The Company's Tip-Offs Anonymous Hotline enables employees, customers, communities, trade partners and suppliers to report concerns about unethical and unlawful behavior.

+ 17% improvement in community grievances reported.



Ethics

The Company's Code of Ethics ("the Code") promotes a culture of entrenched values, principles, standards and norms that guide the behaviour of the Company's employees. The Code aims to instil a culture of honesty, respect, integrity and overall ethical behaviour for employees' engagements with internal and external stakeholders. All employment contracts make reference to the Code and thereby commit employees to the highest standards of ethical behaviour. The Code also binds non-executive directors to the highest standard of ethical behaviour. The Company's service providers, suppliers and trade partners are also subject to the Code.

The Code of Ethics is reviewed every five years or as and when required for adequacy and appropriateness. Aspects of the Code are included in fraud and corruption awareness training, and are accessible to all employees on the Company's intranet.

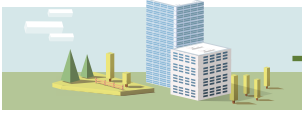




In addition to the Code, the Company concludes Integrity Pacts with all bidders and suppliers. Integrity Pacts have replaced Transnet's Supplier Code of Conduct. Each party agrees to avoid all forms of dishonesty, fraud and corruption, including practices that are anti-competitive in nature, negotiations made in bad faith and underpricing. As part of ethics management enhancement, the Company introduced an electronic gifts registry system. Reports are drawn from the electronic gifts registers and presented at the Remuneration, Social and Ethics Committee meetings for information purposes twice a year. The Company plans to review the declaration of interest system and electronic gifts registry system to improve efficiency.

The Company's Tip-Offs Anonymous Hotline ("the Hotline") enables communities, employees, customers and trade partners to report concerns about unethical or unlawful behaviour. The Hotline is independently managed by Deloitte, while investigations are conducted by Transnet's Internal Audit, Operating Divisions and Specialist Units, dependent on the nature of the matter. All cases reported to management or to the Hotline are investigated through an established forensics investigation process. 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. Details of the Hotline are communicated to all employees through various awareness and education mechanisms. Employees are protected from victimisation by the Transnet Whistle-blowing Policy insofar as reporting is undertaken in line with the Protected Disclosures Act, No 26 of 2000, as amended.

During the reporting year, 711 incidents of irregularities were reported of which 61 were founded, while 1 882 incidents of scams were reported with 122 of these incidents being founded. The incidents of irregularities include fraud, corruption, human resources, misuse of resources, non-compliance to policy and legislation, procurement and theft, while the scams include procurement and recruitment scams, whereby individuals act as Transnet's agents/employees who trick unsuspecting people into handing over money in exchange for a job or tender. In addition to internal forensic investigations, Transnet has also established a non-executive directors' task team to lead a review of the 1 064 locomotives transaction.

+ Incidents of scams 2018

Figure 10

Operating Division / Specialist Unit	Investigations in progress	Reported incidents unfounded	Reported incidents founded	Total reported incidents
 Transnet Corporate Centre	558	1 138	0	1 696
 Transnet Freight Rail	57	2	122	181
 Transnet Engineering	0	1	0	1
 National Ports Authority	0	0	0	0
 Transnet Port Terminals	4	0	0	4
Total	619	1 141	122	1 882

+ Incidents of irregularities 2018

Figure 9

Operating Division / Specialist Unit	Investigations in progress	Reported incidents unfounded	Reported incidents founded	Total reported incidents
 Transnet Corporate Centre	34	31	3	68
 Transnet Freight Rail	100	144	32	276
 Transnet Engineering	108	41	17	166
 National Ports Authority	29	10	3	42
 Transnet Port Terminals	111	3	2	116
 Transnet Pipelines	4	3	2	9
 Transnet Group Capital	12	9	1	22
 Transnet Property	9	2	1	12
Total	407	243	61	711

Stakeholder engagement

Our stakeholder concerns

Our stakeholders are one of our most valuable assets. We recognise that good stakeholder relations is critical for the Company to operate optimally and as such continually strive to improve relations with all our stakeholders. Stakeholder engagement in Transnet is undertaken in accordance with the requirements of the Stakeholder Engagement Policy, as well as the Stakeholder Engagement and Management Procedure.

The Stakeholder Engagement Policy was reviewed and approved in April 2017. The review was informed by the requirements of the King IV Code, the AA1000 Stakeholder Engagement Standard, as well as the outcome of the Multi-Stakeholder Perception Survey undertaken in the 2017FY. The Stakeholder Engagement and Management Procedure (approved in December 2017) was informed by the Transnet Integrated Management Approach (TIMA). The policy mainly reviewed the objectives, outcomes, action plans, roles and responsibility, and added management, the Board of Directors, ratings agencies and financial institutions to the stakeholder universe.

Our stakeholder concerns and responses

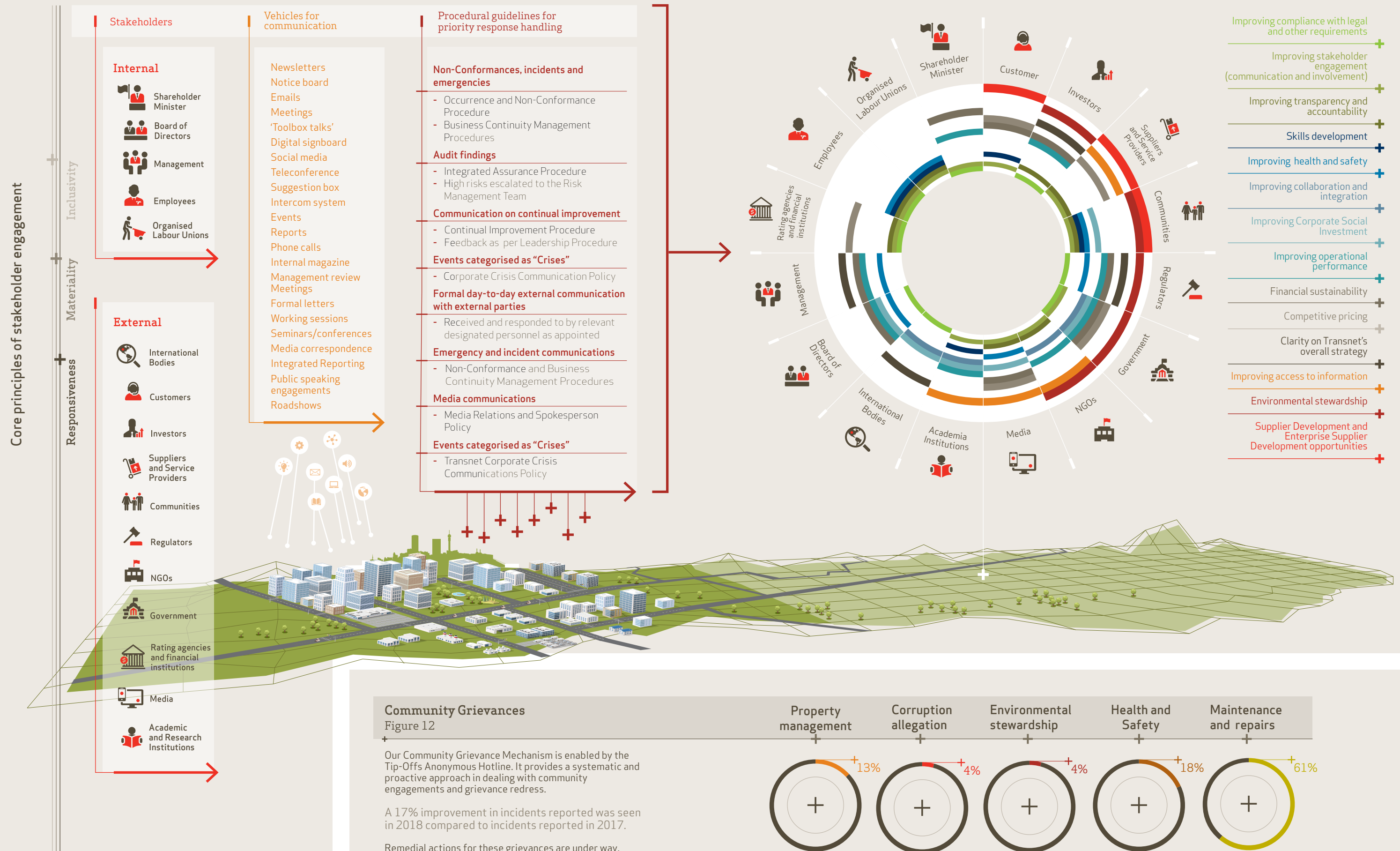
Transnet's engagements with stakeholders in the 2018FY revealed a number of material issues common to multiple stakeholders, as well as recurring issues from our 2017FY engagements.

Transnet has a broad range of stakeholders and we continue to work towards understanding what matters to them. In the 2018FY, we undertook a stakeholder analysis in order to understand their needs and concerns (see figure 11 for the stakeholder concerns reported in 2018).

Transnet has a broad range of stakeholders and we continue to work towards understanding what matters to them.

How we engage with our stakeholders

Figure 11





Transnet's response to issues raised

Improving stakeholder engagement

- Transnet's stakeholder engagement and management procedure, which was approved in December 2017, details the process through which communication, consultation, involvement and stakeholder engagement should be undertaken.
- Transnet is in the process of enhancing a stakeholder engagement and management database, to be operational in 2019.
- The Community Investment Plan (CIP) approved in August 2017 will enable a collaborative and cohesive approach to community investment and ease of communication and engagement with communities in close proximity to our operations.
- Transnet has developed "i-BELONG", a digital employee engagement solution that uses existing technology provided by a strategic partner. It connects each employee directly to the Company and employees are able to receive messaging in a language of their choice, real-time valuable insights by completing mobile surveys and non-financial rewards and recognition in the form of mobile vouchers and airtime incentives. The technology platform uses a USSD code and Mobi technology to give each employee a voice that matters.
- Each Group Leadership Team (GLT) member has been assigned an operational area, where they undertake visits to engage with employees. Issues raised during these visits are prioritised at the GLT structures and responded to accordingly.

Transnet's overall compliance with regulatory and other requirements

- We communicated our strategic position in the Draft White Paper on National Rail Policy: 2017 to Government prior to submitting the Draft White Paper to Cabinet.
- We have support from the Department of Public Enterprises (DPE) for an appropriate Railway Safety Permit Fee Methodology that is equitable, fair and non-prejudicial.
- We submitted comments on the National Energy Regulator of South Africa (NERSA) Discussion Document: Prudency Assessment Criteria.
- We are engaging with the DPE to highlight the regulatory risks to Transnet and the petroleum industry.
- We have support from the DPE for an appropriate methodology for the valuation of the National Ports Authority's Regulatory Asset Base that will ensure regulatory certainty and a stable tariff path.
- We have bilateral agreements with relevant authorities to streamline our processes with regulatory requirements.
- The Company continuously monitors and reports on compliance with PFMA controls to ensure compliance with all sections of the PFMA and related regulations.

Improving transparency and accountability

- Transnet has instituted internal forensic investigations into the matters relating to contracts while one of the matters is before the court.
- Transnet has established a non-executive directors' task team to lead a review of the Company's procurement processes relating to the 1064 locomotives contract.
- We engage with financial institutions (via meetings, emails, phone and formal letters) to inform them of our strategy, planned CAPEX, operations and financial position and respond to ad hoc requests for credit information.

- We comply with requests from rating agencies for annual reviews and credit information. In our engagements with rating agencies, we provide them with operational and financial information to enable them to provide the market with an independent assessment of Transnet – our sustainability, operations, strategy and impact on South Africa's economy.

Ensuring financial sustainability

- We engage with financial institutions (via meetings, emails, phone and formal letters) to inform them of our strategy, planned CAPEX, operations and financial position and also respond to ad hoc requests for credit information. This information will guide the financial institutions in their financing decisions to provide us with much-needed funding requirements.

Improving operational performance

- We ensure the uniform application of policies and guidelines, as well as processes and standard operating procedures to improve operational efficiencies.
- Our Operating Divisions collaborate to increase efficiencies, including improvements from newly acquired capital investments.
- We conduct workshops and interactions in the drafting of feeder lines.
- We are implementing the Transnet Integrated Management Approach across our business.
- Transnet is engaging in round-table discussions to address complaints and concerns from customers in respect of service delivery and efficiencies.
- The Transnet Value Chain Co-ordination (TVCC) approach has been implemented to streamline the end-to-end business value chain, optimise processes, and improve turnaround times and customer satisfaction.

Improving health and safety performance

- We launched a 'Zero Harm' campaign across the Company to promote the importance of safety.
- Our health and safety departments introduce monthly themes to highlight important issues.
- To enhance the current Visible Felt Leadership (VFL) programme and continual improvements, VFL training was rolled out throughout the ports system and head office from March 2017 to January 2018. Leadership also continues to conduct VFL visits to improve relations with employees.
- Health and safety incident recall audits are held at hot-spots where disabling injuries occurred. These are planned as part of audit programmes for safety.
- The Group Leadership Team continues to undertake visits to operational areas across the business as a vehicle for employee engagements to highlight safety performance.
- Work stoppages are done across the business where investigation outcomes of fatal incidents are presented and lessons learned are shared.
- We conduct ongoing safety campaigns for the public at level-crossing areas, and also ensure that proper signage is posted at these areas.

Improving Corporate Social Investment

- Our Phelophepa project continues to provide primary healthcare services that complement existing community clinics.
- Our Teenage Health Programme continues to implement youth-friendly developmental services incorporating physical and emotional health and well-being, lifestyle choices and future planning. These will be located in schools aligned to local health clinics for a range of youth-friendly services, including physical and psychological well-being and access to youth medical and rehabilitative services.
- Transnet plans to utilise a strong Employee Volunteer Programme to initiate a range of community-based social upliftment activities designed to facilitate:
 - Rail safety and security;
 - Infrastructure construction/renovation;
 - Development of a social and economic hub;
 - Education and skills development;
 - SMME incubation to equip them with business skills; and
 - Agriculture and food security.

Improving collaborations and integration

- The TVCC approach streamlines the end-to-end business value chain, optimising processes, improving turnaround times and customer satisfaction.
- The Transnet Integrated Management Approach was initiated as a transversal programme that would establish a common platform and standardised approach for managing Transnet's safety, health, environment, quality, risk, security, compliance and other impacting business processes. These processes will be achieved through the implementation of an Integrated Risk Management System for Transnet that will consolidate all risks and associated business components into one complete framework, enabling the Company to work as a single unit with unified objectives of standardised processes, increased efficiencies, reduced operating costs and a singular model of communication across all Operating Divisions.
- The CIP (approved in 2017) provides a co-ordinated governance structure to enable proactive and collaborative responses to community issues.

Transnet's overall strategy

Clarity in terms of the Market Demand Strategy vs the Transnet 4.0 Strategy

- Transnet is in a transitional phase from the MDS to Transnet 4.0.
- Transnet 4.0 is expected to continue building on the foundation created by the MDS. It is focused on repositioning Transnet for competitiveness in the fast-changing, technology-driven context of the 4th Industrial Revolution. Transnet 4.0 is aligned with the Shareholder's priorities and has three main growth thrusts: (i) geographic expansion; (ii) product and service innovation and diversification which includes the penetration into the integrated logistics service provider market, energy sector diversification, and the establishment of a digital business; and (iii) the expansion of the scope of Transnet's manufacturing business.

Communication of the strategy

- At an Indaba in 2017 we communicated the strategic transition from the MDS to Transnet 4.0 to our internal and external stakeholders.
- We have established a strategic communications team, comprising representatives from Corporate Affairs, Human Resources and Business Development.

Skills development

- Through the CIP, Transnet will prioritise the intake of learners in communities that are in close proximity to our operations.

Improving customer service

- Transnet has developed robust tariff methodologies for both regulated and non-regulated businesses to ensure transparent pricing is aligned with legal, economic and reputational requirements. The models are updated annually and are also subjected to stringent control and process audits, as and when required.
- Transnet conducts regular benchmarks on prices to ensure that our prices and methodologies are in line with best practice through:
 - Regular pricing studies for road versus rail; and
 - Studies on major commodities to benchmark rail tariffs.
- The Company implemented a centralised Customer Relationship Management solution that seeks to optimise customer experience, improve customer visibility, enhance customer satisfaction, increase customer engagement, promote a single view of customers and increase productivity within sales and marketing.
- We are engaging in round-table discussions to address complaints and concerns from customers in respect of service delivery and efficiencies.

Improving environmental stewardship

- The Sustainability and Environmental Forums represented by Operating Divisions, Specialist Units and the Transnet Corporate Centre's environmental stewardship personnel – provides a platform through which environmental performance is discussed and monitored.
- Our environmental risk strategy provides guidelines for implementing sound environmental stewardship initiatives and practices.
- We monitor environmental performance through regular audits and inspections.
- Bilateral agreements with the Department of Environmental Affairs and Tourism and the Department of Water and Sanitation help us to streamline the environmental permitting, authorisation and licensing processes.

Improving access to information

- Through the CIP, approved in 2017, Transnet will appoint community development personnel at district municipality level across the business to provide community development services, including information on jobs and business opportunities.
- Transnet publishes its information on the intranet available at www.transnet.net

Improving Enterprise Development and Enterprise Supplier Development

- Transnet's CIP provides a cohesive and integrated approach to the implementation of ED and ESD initiatives.
- Hubs have been established to provide community development services and business incubation support.
- Community centres have been established to facilitate entrepreneurship programmes.

Managing our emerging risks

Transnet undertook a Sustainability Risks and Opportunities Assessment (SROA) in 2016 to identify and assess emerging risks that have a potential to impact on our business and to develop a pathway for opportunities that can be leveraged. This was done across six themes, namely circular economy, disruptive technology, energy, social inequality, biodiversity loss and water security. To date, there have been developments in these risks, with some having materialised in the year under review.

These risks were reviewed in 2018 to assess how they have evolved over the past two years, and what, if any, impact they have had on the business. Climate change was added to the SROA portfolio as it has become evident that this risk is already being experienced at different levels in the business. Disruptions are being experienced across economic, social and environmental systems. Sustainability is emerging as a source of collaborative advantage.

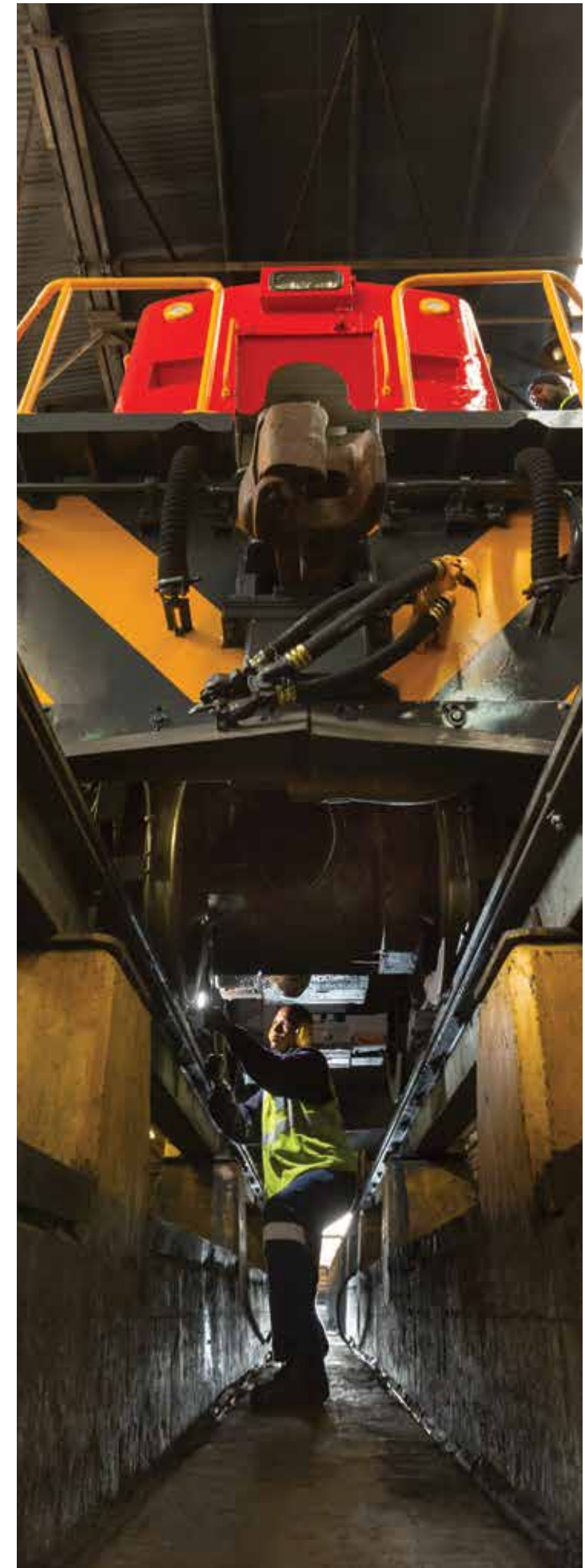
As we co-evolve within the 4th Industrial Revolution, technologies carry immense opportunities to transform the way we do business and what our business looks like in the future. These technologies are driving new ways of creating value in a circular economy, for both emerging and established businesses alike. The fragility of the linear economy, and its reliance on finite natural resources for growth, continues to edge us closer to the brink of our planet's boundaries. It is clear that companies that embrace the 4th Industrial Revolution are key to unlocking the value of a circular economy by transforming business models towards restorative and regenerative value chains.

A growing global population, largely concentrated in cities due to rapid rates of urbanisation, and a rising urban middle class, have led to an increase in the demands and pressures on urban infrastructure, and an increase in the consumption of resources, accelerating climate change-induced water security and biodiversity loss. The lack of restorative or regenerative mechanisms, coupled with population pressures, are leading to structural waste (and consequently lost economic opportunities) and negative environmental outcomes.

South Africa continues to face social inequality and poverty, which manifests as crime, service delivery protests and most recently, land grabs, creating disruptions across social, economic and environmental systems.

Event proximity

Transnet re-assessed the six risk themes, as well as climate change, in order to understand how these will continue to evolve over time. The Event Proximity Matrix (EPM) was used for this purpose. The EPM defines the time proximity for the risk assessment in short (Financial Year), medium (Corporate Plan) and long (Long-Term Planning Framework) terms; and locates those risks in the business operations, value chain and value network. By extending the location and time proximity boundaries to value chain and value network, Corporate Plan and Long-Term Planning Framework respectively, Transnet is able to understand the interconnectedness and dependencies of operations with greater accuracy, especially from a value chain and value network perspective over extended time horizons.

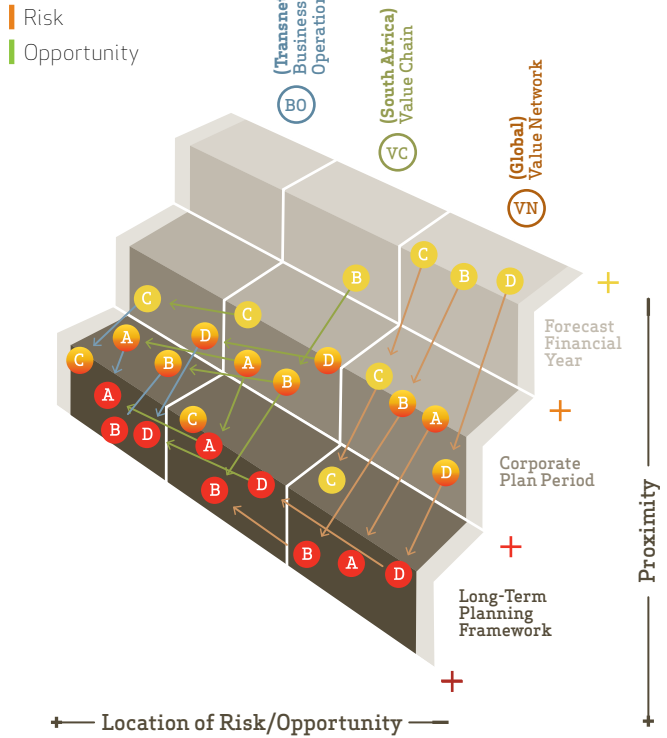


Technologies carry immense opportunities to transform the way we do business

+ Circular economy emerging risks and opportunities

Figure 13

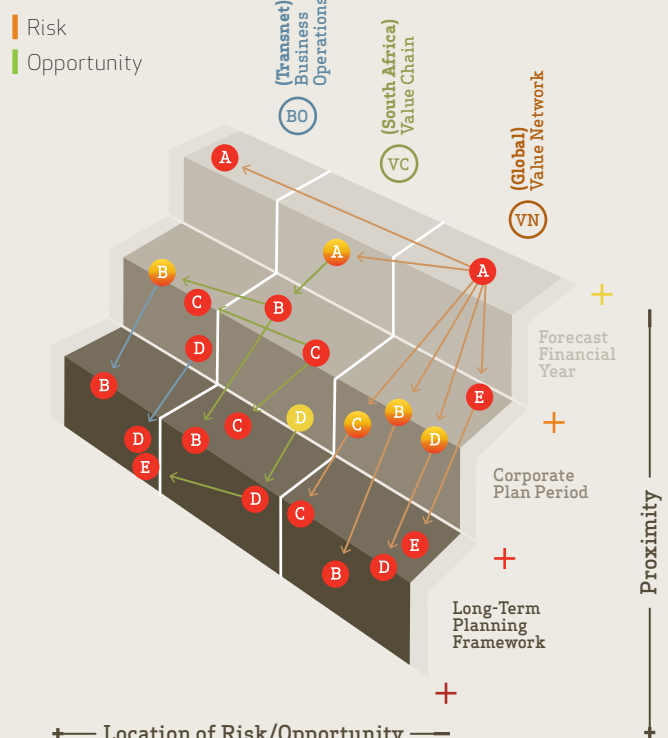
- (VN) Global view**
- a. The global shift to circular economy, coupled with cheaper renewable energy sources and climate change agreements, are expected to scale up adoption of renewable energy sources resulting in a decline of fossil fuel production.
 - b. Increased steel recycling is expected to pose a threat to iron ore demand.
 - c. Increased alliance in circular economy and its unique requirements are expected to fast-track circular economy across Africa through collaborations.
 - d. Adoption of digital factories and use of 3D printing adopted in Western Europe is expected to spread to other areas.
- (VC) South African view**
- a. The increased use of alternative energy will impact negatively on coal mining and its transportation.
 - b. Iron ore mining will be impacted due to increased efficiency gains in recycling of steel and a decline in demand due to material substitution related to disruptive technology.
 - c. Manufacturing waste requirements are expected to be incorporated for producers.
 - d. Manufacturing at point-of-use and 3D technologies and digitisation expected to increase efficiencies.
- (BO) Transnet view**
- a. Coal volumes are expected to decline due to transition to cleaner energy.
 - b. Iron ore volumes expected to slow down or decline due to increase in steel recycling and new materials.
 - c. Impact on waste management optimisation presents an opportunity for recycling and transportation of recycled materials.
 - d. Manufacturing is expected to be impacted negatively due to increase in manufacturing at point of use through 3D printing. However, opportunity to generate new advanced manufacturing products / services.



+ Biodiversity enhancement emerging risks and opportunities

Figure 14

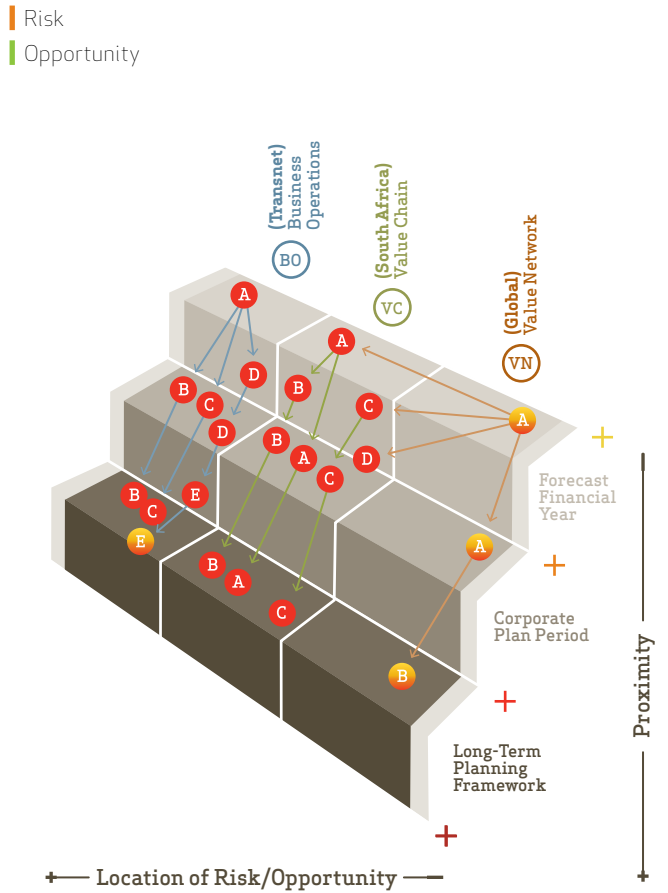
- (VN) Global view**
- a. Habitat loss caused by land-use change will lead, with high certainty, to continuing decline in the local and global diversity of some taxa.
 - b. The continuing increase in illegal fishing is contributing to a decline in fish around the world, thus impacting food security.
 - c. Emergence of Monitoring Valuation and Accounting System (payment for loss of biodiversity instituted).
 - d. Land-use change due to increased demand for bio-energy.
 - e. Decline in bee population thus impacting food production and presenting opportunities for mechanical pollination.
- (VC) South African view**
- a. Forests and woodlands are converted to cropland and pastures at a rate quick enough to endanger ecosystems.
 - b. Legacy spatial distribution errors impact largely on urban areas due to urbanisation and land grabs, thus impacting on biodiversity.
 - c. Fish population declines and also impacting on food production, ultimately causing a rise in food prices.
 - d. Increase in bio-energy demand impacting on the demand of fossil fuel hydrocarbons.
- (BO) Transnet view**
- a. An increased difficulty in obtaining Environmental Authorisations and licences (WULA and tree cutting permits).
 - b. Future corridors at risk due to population growth and human settlements (encroachments) along those corridors.
 - c. Diminishing fisheries industry, thus impacting on the fishery stock volumes, decreasing export volumes.
 - d. Removal of ground cover impacting on surface water channelling, accelerated erosion and ultimately damage to infrastructure, increasing the cost of maintenance and possible environmental liability due to pipeline spillages and derailments.
 - e. Increase in bio-energy demand possibly creating an export opportunity.



+ Water Security emerging risks and opportunities

Figure 15

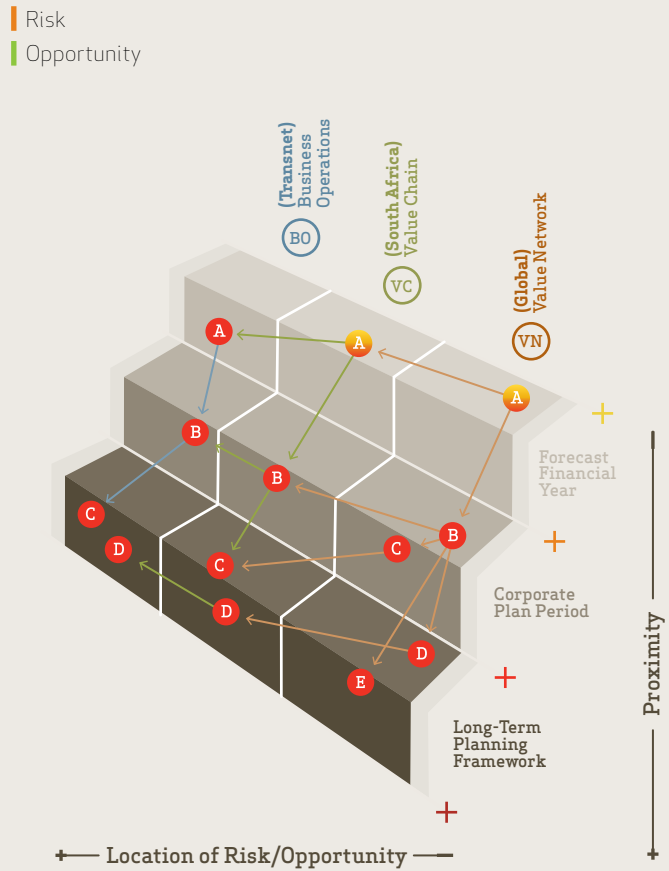
- (VN) Global view**
- a. Water stress amplifying thus increasing volatility to catchments and subsequently water supply.
 - b. Review of multinational water supply agreements.
- (VC) South African view**
- a. Municipal supplies affected, resulting in increasing water tariffs and restrictions on domestic and industrial usage.
 - b. Food production impacted, resulting in inflationary increase on food prices and increase in imports.
 - c. Increased water stress in Waterberg region, impacting access to Water Use Licensing for coal mining.
 - d. Water scarcity in the Western Cape province and other regions addressed through innovative water solutions.
- (BO) Transnet view**
- a. Strict restrictions on water supply impacting on business continuity in affected regions and health and hygiene of employees.
 - b. Volume increase at Ports from possible increased food imports and exports, thus requiring timeous capacity to be in place.
 - c. Coal production impacted, resulting in stranded rail capacity and negative impact on revenue.
 - d. Water security in the Western Cape, thus no water supply to Port of Saldanha and Port of Cape Town - affecting business continuity. Constraints on dust suppression systems at Saldanha, impacting on export volumes and subsequently revenue.
 - e. Operations impacted due to changing food import and export patterns.



+ Climate change emerging risks and opportunities

Figure 16

- (VN) Global view**
- a. Limited progress on global consensus on implementing measures to constrain climate change.
 - b. Increasing likelihood of large-scale weather events, shifting global action towards strong mitigation and adaptation measures.
 - c. Scaling up of adaptation requirements to build resilience to the environment, society and economic systems.
 - d. Amplifying response to mitigation with high price placed on carbon.
 - e. High price placed on carbon drives adaptation at scale, including geo-engineering.
- (VC) South African view**
- a. Water scarcity amplifying across South Africa.
 - b. Extreme weather events begin to impact directly on South African economy.
 - c. Increasing intensity of weather events requiring increased resilience and adaptive capacity for society and business.
 - d. Thermal coal mining declines due to reduced demand driven by high carbon price.
- (BO) Transnet view**
- a. Impact of water scarcity and weather events on business continuity.
 - b. Damage to infrastructure and safety risk to employees under extreme weather events.
 - c. Increasing volatility of weather systems, amplifying impacts to business.
 - d. High carbon price impacts thermal coal demand on a global scale, stranding rail capacity and future revenue streams.

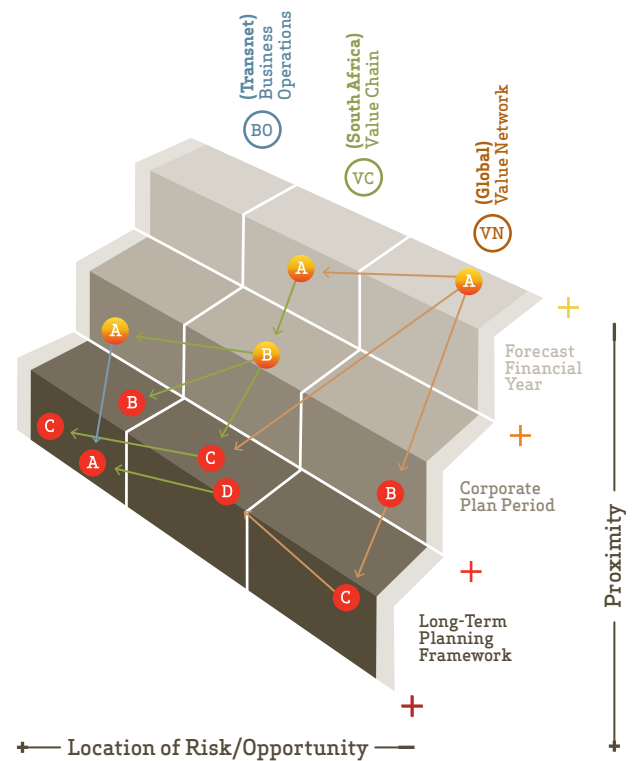


+ Energy emerging risks and opportunities

Figure 17

- VN Global view**
- a. Acceleration of a circular economy means less energy requirements for the same amount of output.
 - b. Global emissions reduction agreements lead to global carbon price and subsequently reduce demand for fossil fuel-based energy.
 - c. Cap placed on carbon emissions drives disinvestment in fossil fuels and thus more focus on renewables.
- VC South African view**
- a. Renewable energy beginning to reach price parity with fossil fuel options.
 - b. Fuel switching behaviour observed across value chains, especially for primary energy usage and energy-intensive industries.
 - c. Increased confidence in Electric Vehicles drives renewable energy and smart grid technology, displacing petroleum as dominant energy source for mobility system.
 - d. Thermal coal mining declines due to reduced demand driven by high carbon price.
- BO Transnet view**
- a. Price volatility for thermal coal due to competitiveness created by convergence of: renewable energy; smart grid technology driven by 4th Industrial Revolution; and agreement on global carbon price.
 - b. Thermal coal and iron ore demand impacted due to fuel switching, technology changes and consumption.
 - c. Petroleum demand decreases as Electric Vehicles dominate mobility energy mix.

Risk
Opportunity

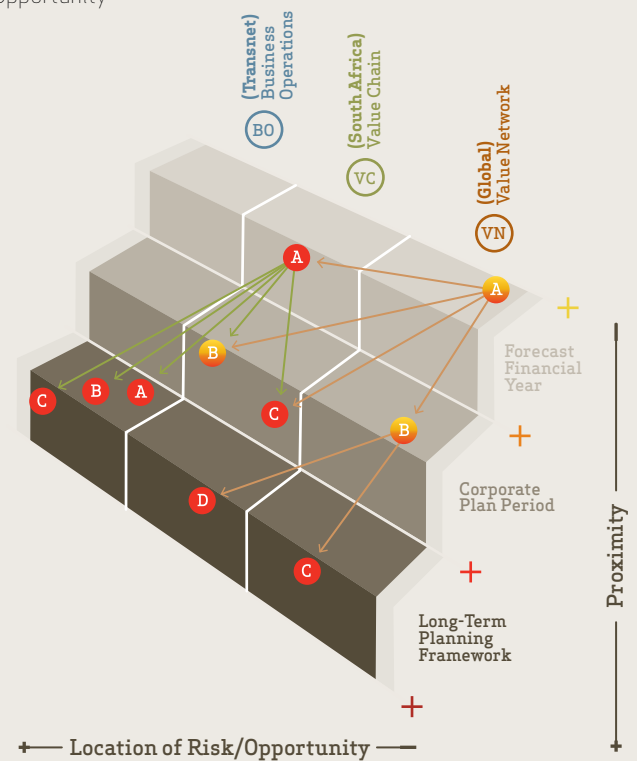


+ Disruptive technology emerging risks and opportunities

Figure 18

- VN Global view**
- a. Narrow Artificial Intelligence (AI) and Big Data Analytics is accelerating disruption across multiple sectors of the global economy.
 - b. Embedding Narrow AI into existing business processes accelerates automation, impacting negatively on jobs. Broad AI begins disrupting established business models and reducing embedded waste (time and resources) in the economy.
 - c. AI addresses system-level challenges, such as social inequality, economic progress and environmental challenges: however, creates risks in respect of human ingenuity.
- VC South African view**
- a. Incremental embedding of Machine Learning and Big Data Analytics in blockchain technology increases efficiency in upstream and downstream markets, creating risks and displacing traditional jobs. Need for reskilling.
 - b. Convergence of AI-driven technology platforms disrupting existing logistics business models, displacing existing jobs.
 - c. AI-driven predictive analytics provide new avenues of revenue generation and adaptive capacity for industries that are forward looking, thus increasing business resilience, but impacting negatively on organisations still using legacy systems.
- BO Transnet view**
- a. Disruptive technology in the mobility system starts to impact on road-to-rail market share. Transnet has the ability to harness such technology as a third- or fourth-party logistics provider.
 - b. 3D Printing technology at industrial scale reduces quantum of goods to be transported. Opportunities for Transnet to adapt through new products and logistics services.
 - c. Advancements in Electric Vehicle technology begins to reduce demand for petroleum products.

Risk
Opportunity

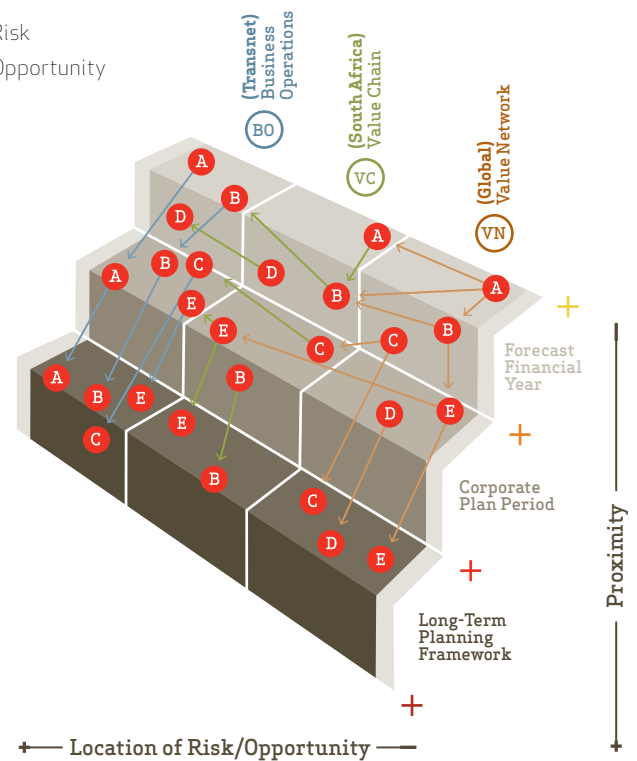


+ Social inequality emerging risks and opportunities

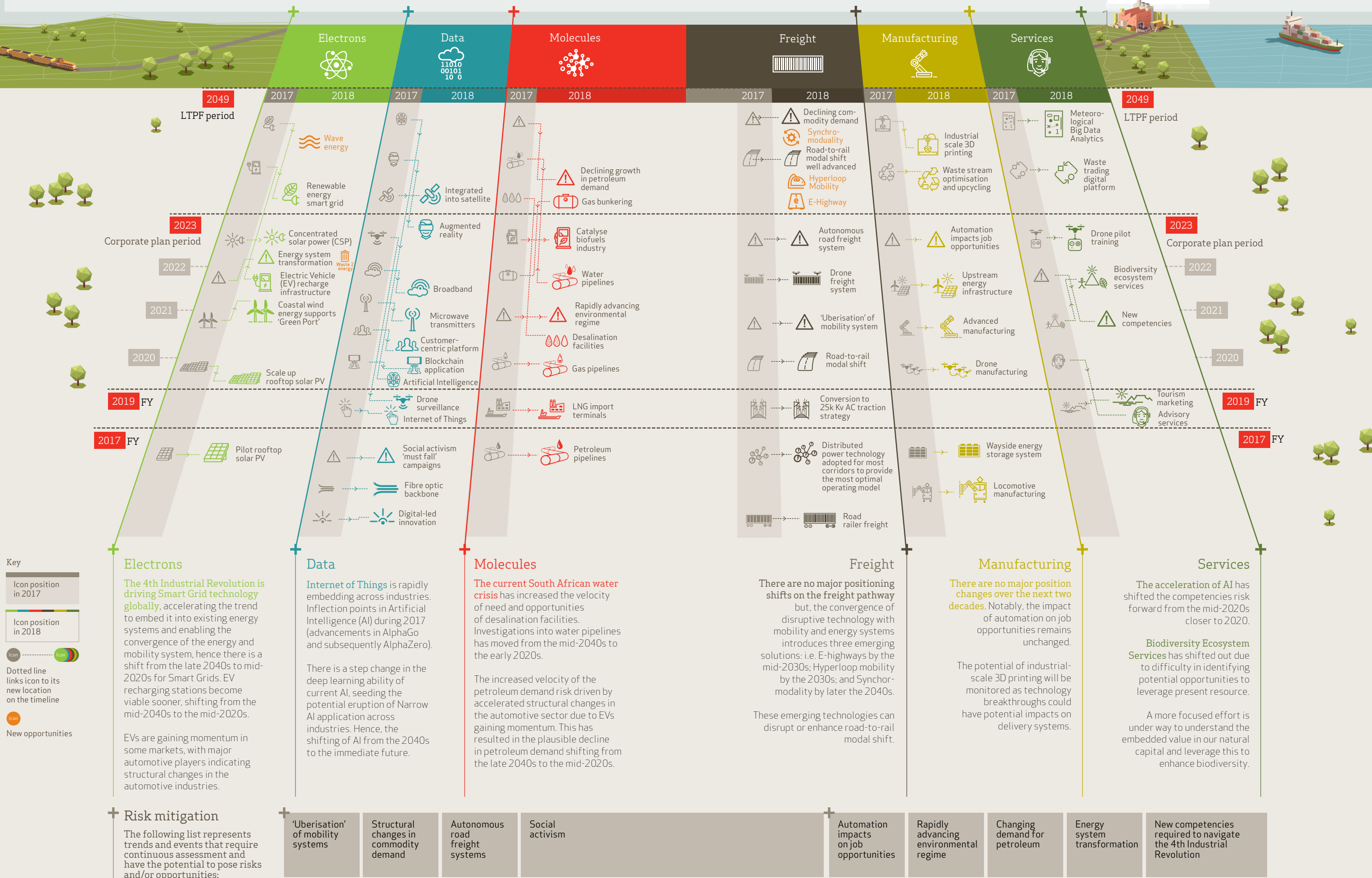
Figure 19

- VN Global view**
- a. Deepening income inequality eroding social contracts within and between countries.
 - b. Increased unemployment due to disruptive technologies impacts negatively on individuals.
 - c. Increased volatility in global commodity prices linked to resource optimisation and circular economy impacts economies reliant on fossil fuels.
 - d. Extreme income inequality leads to economic collapse and kleptocracy.
 - e. Increasing political instability and social unrest result in increased large-scale involuntary migration across countries.
- VC South African view**
- a. Slow redress of historical inequality leading to service delivery demonstrations.
 - b. Social unrest emerging as a result of persistent job losses due to automation, lack of accessibility and efficient service delivery.
 - c. Severe shift in commodity prices leads to instabilities in communities, businesses and government.
 - d. Increase in the Value Added Tax (VAT) increases social inequality.
 - e. Strain on social services and infrastructure due to inability to cater for increased population due to migration. Regional rail integration and infrastructure reliability becomes more critical.
- BO Transnet view**
- a. Community unrest imminent as a result of Transnet's inability to meet immediate community expectations on employment, inequalities, etc.
 - b. Threat to employment due to Transnet not responding to the requirements of the 4th Industrial Revolution. Skills retraining critical.
 - c. Increase in the Value-Added Tax (VAT) may result in price increases, thus requiring deeper engagement with customers.
 - d. Future corridors at risk due to population growth and human settlements encroaching along those corridors, causing safety concerns.

Risk
Opportunity



The Transnet of tomorrow
Figure 20



Scenario planning

Transnet takes a view of plausibility in scenario planning. We subjected the emerging risks to scenario planning and plotted a pathway that we need to take in order to remain sustainable. We take a view of four worlds within which we think we exist.

We are making strides to respond to the disruptions that come with the 4th Industrial Revolution. We embrace big data and are making a concerted effort to advance digitalisation. We also continue to implement carbon mitigation initiatives to limit the impact of climate change.

Building our country’s economy

Figure 21



Transnet acknowledge the high social inequality gaps prevalent in our country and, as a SOC, we recognise our duty to contribute towards redress actions. We have developed a CIP, which seeks to provide a collaborative (united) approach to proactively respond to community concerns.

Unifying our risk management approach to achieve agility

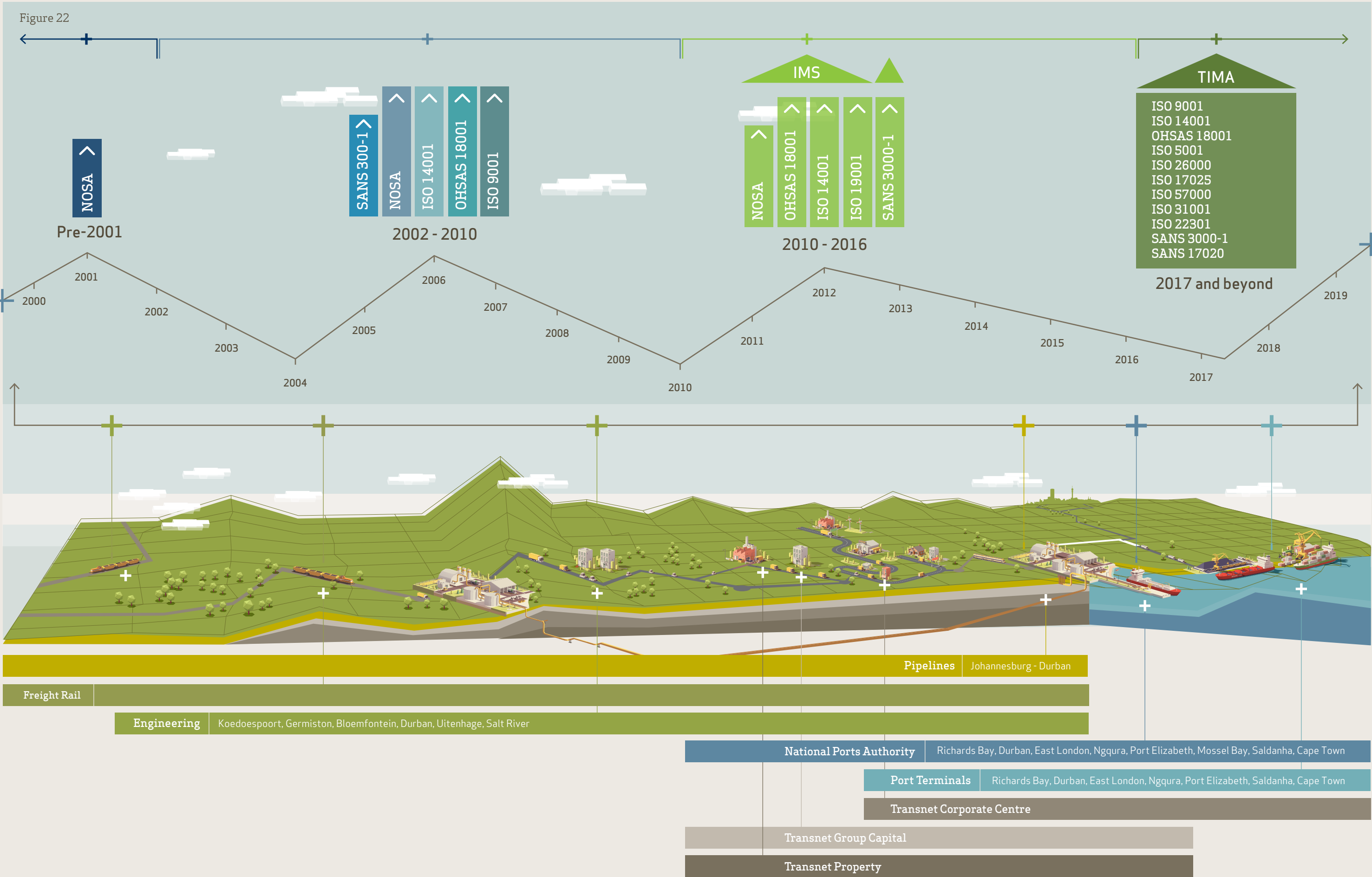
In 2016, Transnet took a strategic decision to develop and implement a Risk Integrated Management System (RIMS). The Transnet Integrated Management Approach (TIMA) was initiated as an enterprise-wide programme that aims to align and integrate governance-related processes and system elements across the Company, particularly within the compliance environment. It seeks to establish a common platform and standardised approach for managing Transnet’s Safety, Health, Environment, Quality, Risk, Security, Compliance and other impacting business processes. These processes would be achieved through the implementation of a RIMS, that aims to consolidate all the risk and associated business components into one complete framework, enabling Transnet to work as a single unit with unified objectives of standardised processes, increased efficiencies, reduced operating costs and a singular model of communication across all Operating Divisions.

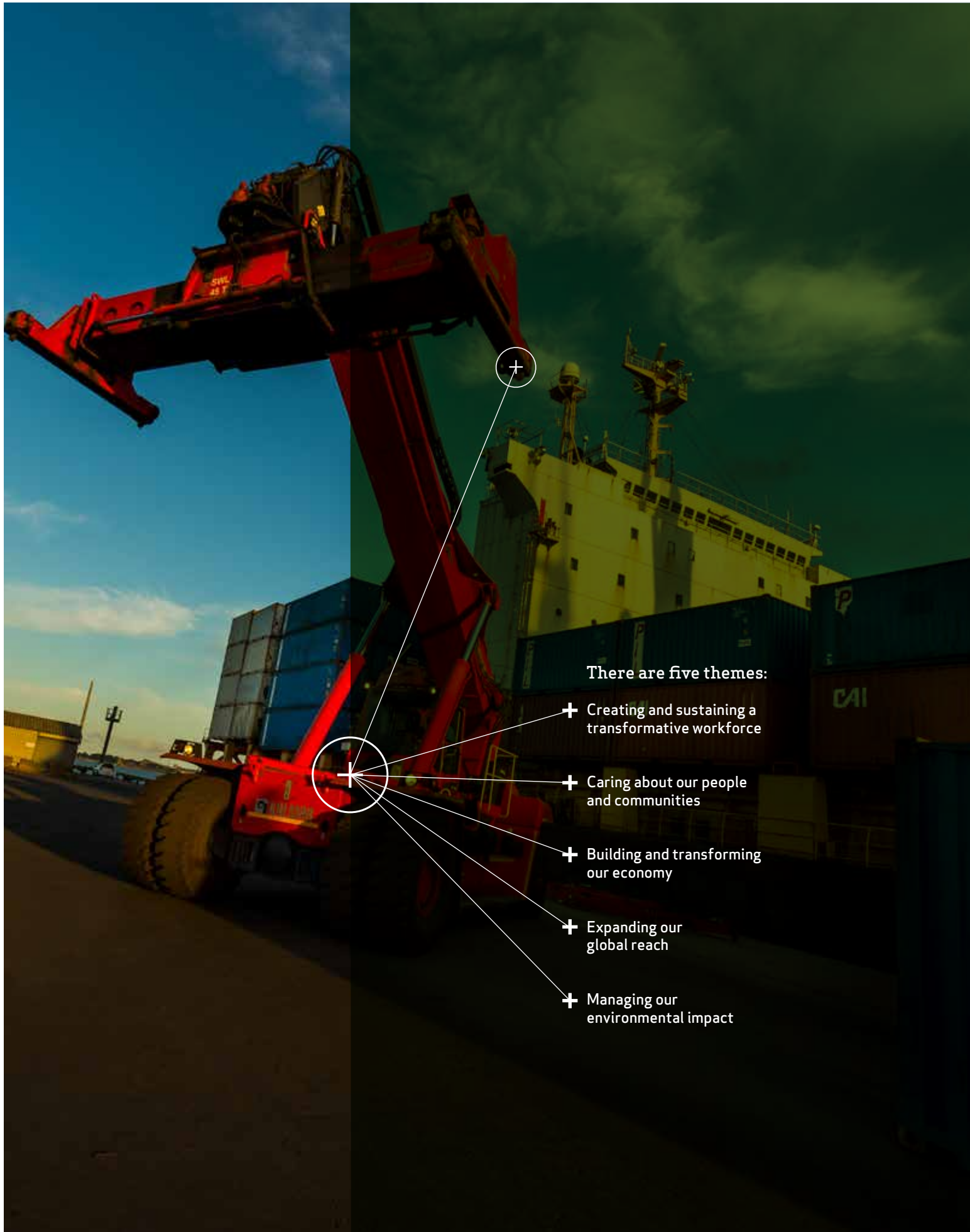
In 2018, Phase 1 (documentation) of TIMA was completed. Phase 2 (implementation) is starting April 2018 and phase 3 (testing and recertification) will be implemented starting 2020.

+ ...a single unit with unified objectives...



TIMA Journey





There are five themes:

- + Creating and sustaining a transformative workforce
- + Caring about our people and communities
- + Building and transforming our economy
- + Expanding our global reach
- + Managing our environmental impact

Transnet's material themes for 2018

1. Creating and sustaining a transformative workforce:

indicates Transnet's performance in respect of direct and indirect employment for South Africans, as well as employment created for designated groups, namely black employees, black females as well as people with disabilities.



2. Caring about our people and communities:

indicates Transnet's performance in respect of the physical and mental health of our employees; safety and well-being of our employees and the public, and measurably improving the social, economic, cultural and environmental well-being of communities where we operate.



3. Building and transforming our economy:

indicates Transnet's contribution towards industrial development and improved competitiveness for South Africa; private-sector investment; supplier localisation, promotion of black-owned businesses and those owned by people with disabilities.



4. Expanding our global reach:

indicates how Transnet has been able to forge partnerships and leverage private-sector investment to improve freight logistics connectivity on the continent.



5. Managing our environmental impact:

indicates how Transnet manages its activities to mitigate adverse effects on the natural environment, as such promoting the natural environment's capacity to meet the resource needs of future generations.





Creating and sustaining a transformative workforce

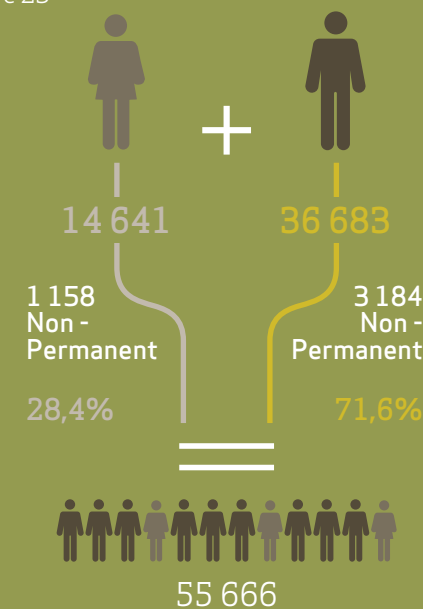
Creating and sustaining jobs

South Africa has been facing unemployment challenges for many years. The unemployment rate is currently at 26,7%, which shows a negligible improvement from the 27,1% reported in 2017¹. According to the International Labour Organisation, South Africa has the ninth highest unemployment rate in the world⁴. As a SOC, we understand our responsibility to contribute to measures that seek to manage this risk as such strive to create productive employment and decent work for all, as well as decent employment through inclusive growth as advocated in the United Nations Sustainable Development Goals (SDGs) and the NDP respectively. We do this through our Human Capital Strategy which approaches job creation within the framework of strategic workforce planning to ensure recruitment and retention of top-quality employees in all employment groups. We also use our Talent Management and Development Programme as an enabler for talent retention and robust succession planning for priority and critical positions. The leadership programmes target specific management levels, while coaching and mentoring programmes are also provided. Our most material outcome in respect of employment is for Transnet to be able to create and sustain jobs.

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

Employee headcount by gender

Figure 23

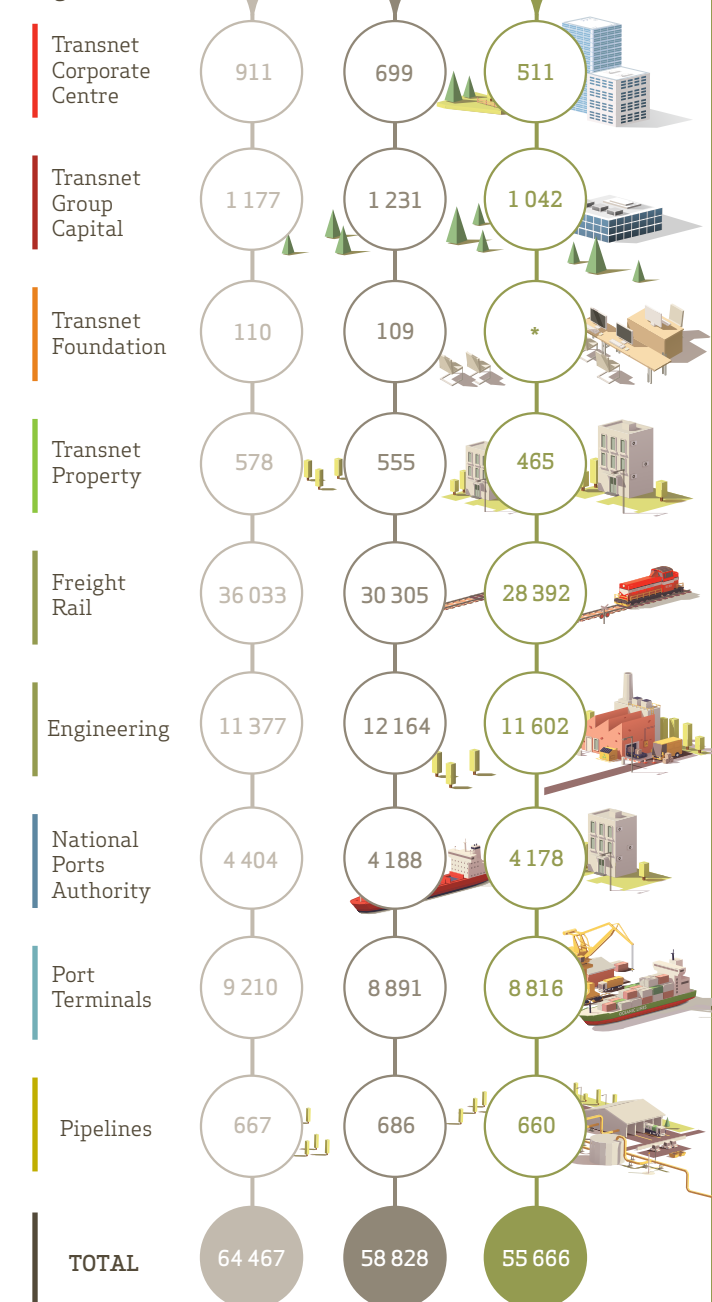


¹ <http://www.ilo.org>, (December 2017)



Employee headcount 2018

Figure 24

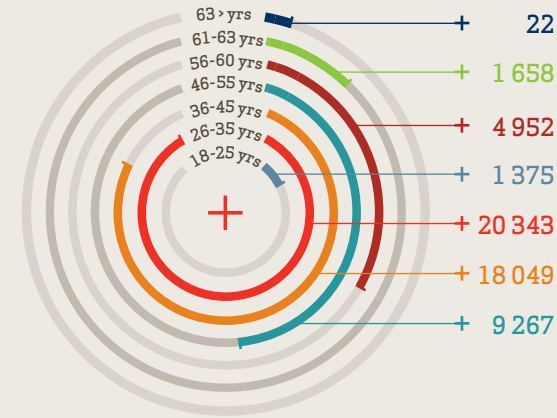


* Due to changes in the operating model in 2018, part of Transnet Foundation resources have been incorporated into Transnet Corporate Centre.

Transnet embraces age diversity and strives to ensure a balanced workforce. We recognise that youth unemployment is a major challenge and as such strive to address this challenge by increasing the intake of the younger workforce. This is evident in our Company's workforce age spectrum with 36,5% of our workforce being between the ages of 26 and 35, followed by ages 36 to 45 at 32,4% while 2,9% is between the ages of 61 and 63 towards retirement. We are committed to increasing the percentage of younger employees by focusing on lower and middle management through leadership development, as well as the intake of young graduates. We also ensure that retirement of the older workforce is done in a phased manner so as to enable skills transfer. We continue with these focus areas in order to ensure that the younger workforce is upskilled, and that the talent pool for succession is strengthened.

Employees by age distribution

Figure 25



As we transition from the Market Demand Strategy to the Transnet 4.0 Strategy, in response to the 4th Industrial Revolution fuelled by automation and artificial intelligence, we are mindful that we may require new skills. We are already in the process of defining relevant functional competencies as well as assessing our skills pool in line with this transition, with the aim of ensuring that we have the right skills at the right time.

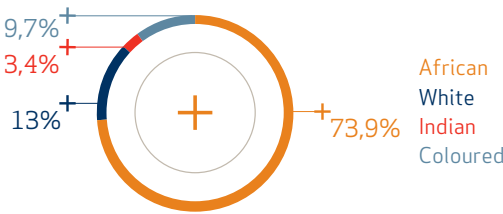
Transforming our workforce



We are confronted with the impact of historical social inequality based on gender and race. Transnet continues with efforts to redress the impact of this unpleasant and unfortunate past, and strives to ensure a racial balance in our workforce. We uphold the principles of the United National Global Compact (UNGC) on equity and anti-discrimination, and seek to create an organisation that reflects the diversity of South African society. While we continue with efforts to ensure we reach race balance in our workforce, our proportion in respect of African employees in 2018 (73,9%) was low compared to 2017 (83,12%).

Employees by race

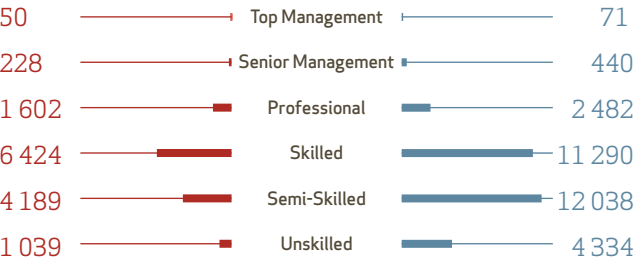
Figure 26



Transnet also seeks to achieve gender equality and empower all women as espoused in the global SDGs. Our policies enable us to appoint and promote women and people with disabilities. Our most material outcome in respect of transforming the workplace is achieving gender equality and empowering women, thereby fostering transformation and inclusive growth as well as eliminating any discrimination in employment and occupation as espoused in the UNGC principles. There has been an overall headcount decrease in Top Management in 2018, owing to the implementation of the new operating model. Black female and black male representation at Top Management level decreased from 57 (2017) to 50 (2018) as well as 74 (2017) to 71 (2018) respectively.

Black Females and Males

Figure 27



People with disabilities remain a key area of focus for Transnet's transformation agenda. In 2018, the proportion of people with disabilities was at 2,4%, compared to 2,34% in the past two consecutive years. We will continue with efforts to increase this proportion.

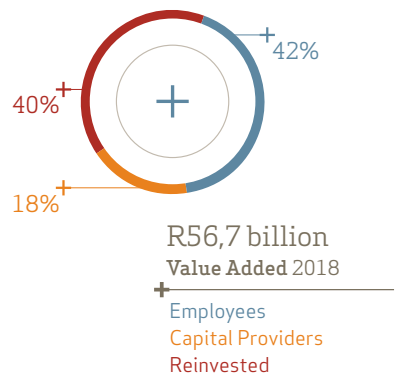
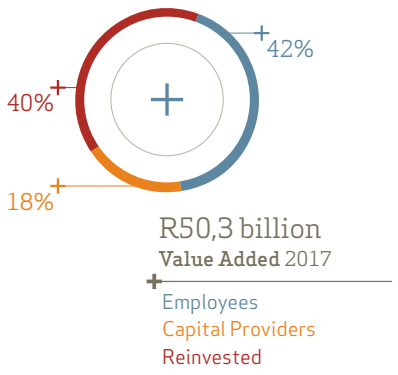
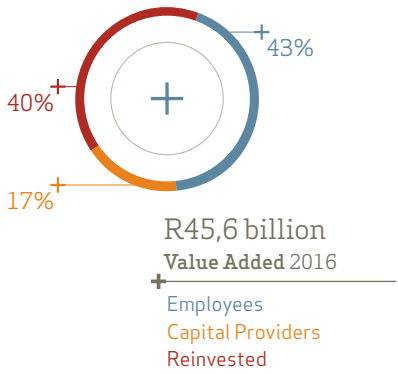
Our Employment Equity Strategy and Plan (2019-2020) aligned and guided by a combination of the National Economically Active Population (NEAP) and Regional Economically Active Population (REAP) statistics will guide us in achieving our employment equity (EE) targets. A balance of the NEAP and REAP was considered in the configuration of targets in order to remain focused on transformation efforts and compliance. Our strategic plans will continue to focus on increasing the representation of black employees, female employees and people with disabilities, motivating and retaining them.

Gross value-add resulting from Transnet capital and operating expenditure

Transnet defines value-add as the financial value created by the activities of the Company and its employees. Transnet's gross value-add increased from R50,4 billion in 2017 to R56,7 billion in 2018.

Gross value-add resulting from Transnet capital and operating expenditure 2018

Figure 28



Case study

A sense of belonging



Transnet has launched an Employee Value Proposition (EVP) using 'iBELONG', a digital platform. This employee engagement solution connects each employee directly to the Company where they are able to receive messaging in a language of choice, real-time valuable insights by completing mobile surveys, and receive non-financial rewards and recognition in the form of mobile vouchers and airtime incentives. The technology platform focuses on a USSD code and Mobi-technology to give each employee a voice that matters.

The EVP offering seeks to entrench the sense of 'BELONGING' for all Transnet employees. It is a long-term commitment by Transnet to its employees, which encapsulates the "employment promise" and facilitates the alignment of all people practices across the Company. A soft launch of the EVP has taken place throughout the Operating Divisions with the theme of 'iBELONG'. Work is currently under way to fully operationalise the digital platform and train the trainer sessions with the Change Community are also in progress. Approximately 1 000 employees have registered on the platform to date. A full launch across the Company is planned for the 2019FY.

Case study

Nurturing our key talent

Launched in October 2017, the Group Chief Executive (GCE) Talent Nurturing Programme is a Transnet flagship programme sponsored by the GCE to ensure that there is adequate bench strength of talent across all leadership levels. The programme has enrolled 150 delegates across junior, middle and senior management.



- The programme aims to:
- Create a pipeline of leaders who will lead Transnet into the future, thereby 'Blueprinting the future leaders';
 - Develop our highest performing talent by deploying them against Transnet's greatest business needs;
 - Accelerate growth of our high performers by building and enhancing their self-mastery and critical skills; and
 - Build Transnet's brand as an Employer of Choice and Talent Magnet.



+ DIFR at **0,73**

+ **435 322** individuals reached through community outreach activities

+ **R107 million** spent on Phelophepa Health Train

+ **R32,9 million** spent on bursaries

Caring about our people and communities

Creating a healthy and safe environment for our people to operate



The Company recognises that employees are our most valuable asset. We believe that there is more to employee satisfaction than remuneration (salary and benefits), and that there are non-financial aspects that attract, retain and motivate our employees. We further seek to ensure that we provide an environment that promotes efficiency and effectiveness.

The nature and scope of our activities require targeted efforts in maintaining the highest standards of safety for our employees, contractors, business partners, customers and communities. We are guided by the Safety, Health, Environment and Quality Policy in our safety management approach. The policy advocates zero harm to self, colleagues and the environment. Transnet's approach to ensuring a healthy and safe workforce is also informed by the correlation between employee wellness and productivity. We see the health and safety of our employees as a wealth creator for the Company.

During the year under review, we strengthened our management approach by developing the Transnet Integrated Management Approach (TIMA).

The most material impact we would like to achieve in respect of a healthy and safe workforce is an improved quality of life for our workforce. This will translate to a lower absenteeism rate and improved productivity.



Absenteeism

Through our Employee Assistance Programme we continue to ensure that employees maintain optimal health so that they are kept in employment, and so that sick and unplanned absenteeism is reduced. During the year under review, we rolled out 365 employee awareness campaigns across the Company.

We provided 16 170 face-to-face counselling sessions as well as 10 471 calls made to the EAP service provider by Transnet employees. We also continue to provide chronic disease management support on HIV, hypertension, diabetes, hyperlipidaemia and asthma and invested R3,5 million towards the chronic disease management programme in 2018. Our unplanned absenteeism rate was 3,38% in 2018 compared to 2,96 in 2017 against a target of 2,9%, and our sick absenteeism rate was 2,75% in 2018 compared to 2,39 in 2017 against a target of 2,50%. This performance is attributable to changes in the leave policy.

Figure 29

R	Overall unplanned leave cost	Sick leave cost
	R544,8 million	R439,7 million
%	Unplanned absenteeism rate	Sick absenteeism rate
	3,38%	2,75%

Sick leave cost includes: Sick leave, hospitalisation leave, special sick leave, injury on duty and leave in lieu of sickness

* Overall unplanned leave is inclusive of sick leave

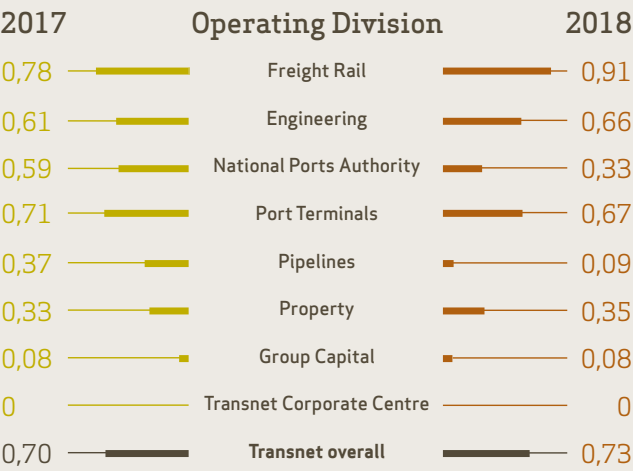
Disabling injuries

Transnet’s safety performance is measured against industry-recognised indicators, such as the disabling injury frequency rate (DIFR), fatalities, loss incidents and derailments. During the year under review, Transnet recorded 539 disabling injuries compared to 516 reported in 2017. We continue with efforts to embed a safety culture across all our operations in order to significantly improve our performance. The Company’s DIFR for the year under review increased to 0,73 against a tolerance of 0,75 (2017: 0,69).

Railway crossings continue to be a safety challenge for Transnet. As our rail network runs for kilometres across a large footprint, it is prone to encroachment by informal settlements. We continue with efforts to create awareness about the dangers of railway level crossings. In 2018, we recorded 102 public fatalities (2017: 82). We recorded 80 running line derailments (2017: 81) and 140 shunting derailments (2017: 159).

Transnet believes in ‘Zero Harm’ as we continue with efforts to improve our safety performance across all our operations. We continue to conduct safety campaigns for the public at level-crossing areas, and also continue to ensure there is proper signage at these areas. We also observe one-hour work stoppages across the Company, where investigation outcomes of fatal incidents are presented and lessons learnt are shared.

Figure 30



Transnet believes in ‘Zero Harm’ as we continue with efforts to improve our safety performance

Dedication

We were deeply saddened by the loss of our colleagues. We are profoundly grateful for their dedicated service to Transnet and will forever remember them. Our thoughts are with their families and friends.

In respectful memory:

Gideon J. Mahlalela
29 March 2018 (Board Member)

Mr Edgar Masilela
15 July 2017

Mr Tshiamo Alfred Meku
15 October 2017

Mr Frederick Hermanus Matthysen
18 October 2017

Ms Thandeka Mzimela
1 November 2017

Ms Senzekile Mase Mthethwa
6 December 2017

Measurably improving the lives of our communities



Through our human resources and Corporate Social Investment (CSI) portfolios, we are committed to measurably improving the quality of life of the communities within which we operate. We respond to the need to strengthen community development interventions and for a responsive social protection system. Through these efforts, we demonstrate our commitment to the creation of sustainable communities as advocated in the SDGs, MTSF and the NDP developmental outcomes.

Transnet experienced a number of incidents during 2018 relating to community discontent (led by industry bodies, community members and business forums), citing Transnet’s inability to provide job and business opportunities as a contributing factor. These incidents are not only due to Transnet’s inability to meet community needs and expectations, they can also be attributed to the inequality prevalent in South Africa. Inequality results in social and labour instability, disharmony and a breakdown of social contract.

Transnet recognises that we cannot address these issues in isolation and have thus developed a Community Investment Plan (CIP) as a vehicle to remedy the current hostile relations with a long-term view of building and maintaining good relations. The CIP, approved in August 2017, provides a structured and integrated approach that fosters collaboration and sustained shared value. The aim of this approach is to develop a self-sustainable plan, which adequately responds to the issues and needs of communities in close proximity to Transnet’s operations in order to maintain our social licence to operate and remain admired.

Total CSI spent: R219 million

Agile community response mechanism

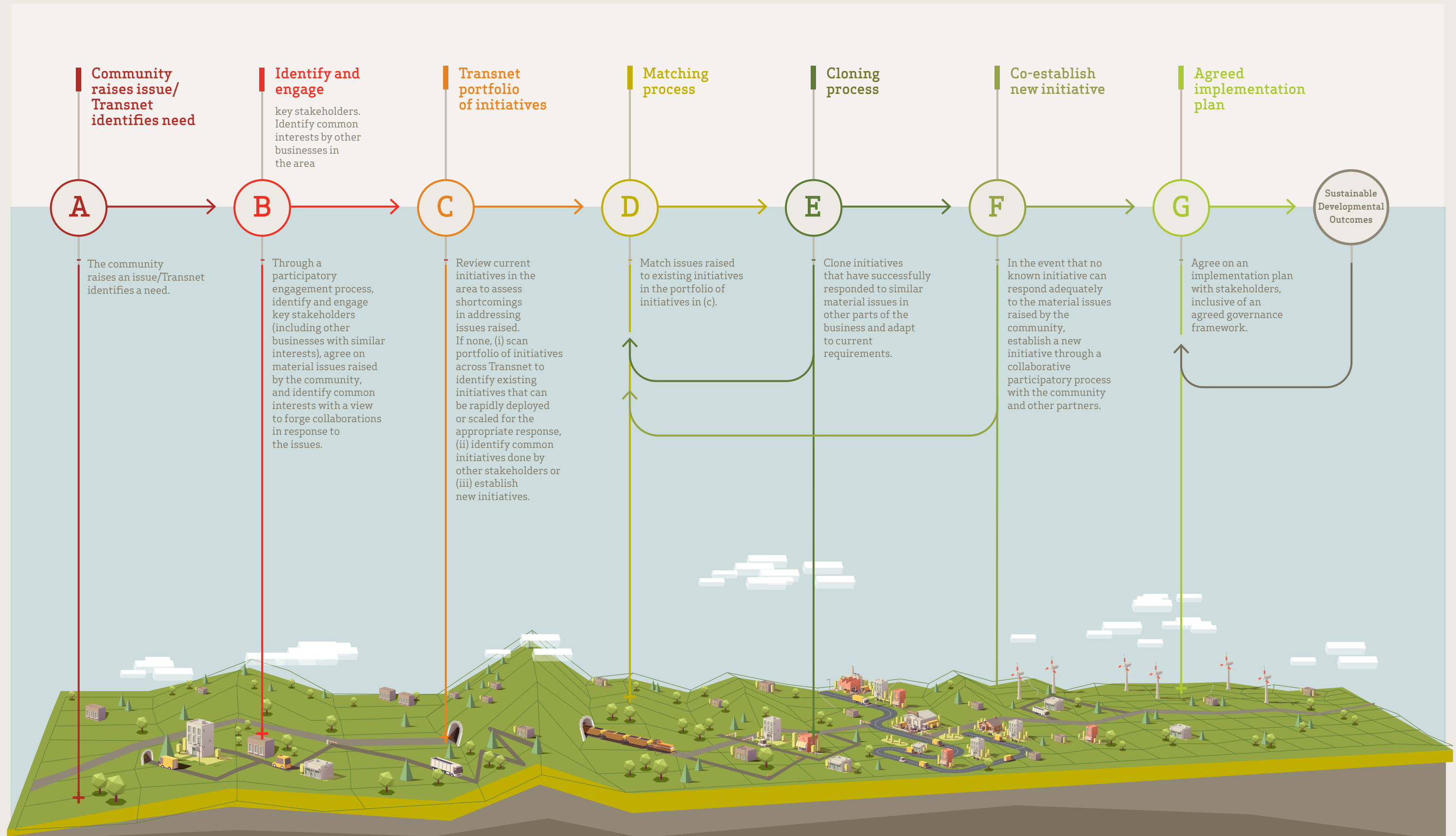
Implementation on the CIP requires consultation, collaboration and an inclusive adoption across Transnet and within the surrounding communities. The model of phasing in the implementation is adopted to ensure sustainable embedding of the approach and acceptance by relevant stakeholders, starting with areas where the challenge is greatest. 2019 will see closer partnerships among Transnet and other organisations operating within the same vicinity.



Agile community response mechanism

Figure 31

The CIP provides a process through which community engagement and investment will be undertaken as outlined in the Agile Community Response Mechanism and is implemented as follows:



Measurably improving the lives of communities through health

As a SOC, we have a duty to improve the quality of life of communities where we operate and we do so in a number of ways. The Phelophepa I and II is an initiative through which we aim to improve access to primary healthcare services to rural communities to ensure their good health and well-being. In 2018, Transnet provided healthcare services across our railway footprint using Phelophepa I and II. We visited rural communities in KwaZulu-Natal, Northern Cape, Western Cape, Eastern Cape, Free State, Limpopo and Mpumalanga. We reached 435 322 individuals through community outreach activities.

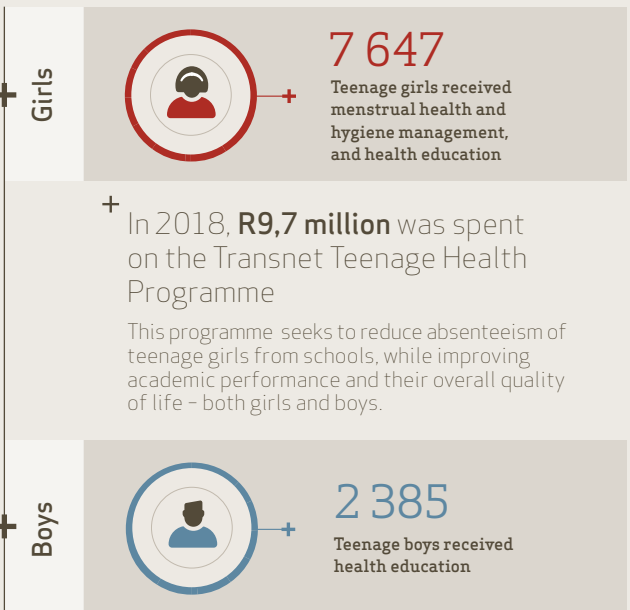
Figure 32

R107,6 million spent on Phelophepa Health Train, improving the lives of our communities through health.



Teenage Health Programme

Figure 33



Measurably improving the lives of our communities through education

In previous years, Transnet focused on teacher development and mentorship of teacher interns in mathematics and science. Although this initiative yielded good results, Transnet recognised that in order to have a greater impact, we needed a more holistic programme that includes all stakeholders within the schooling system. In 2018, Transnet launched the Whole School Development Programme, which provides holistic support to teachers, learners, school management and the school governing body in order to improve school governance, and the quality of education and academic performance in key learning areas.

Transnet also recognises that South Africa has one of the highest number of child-headed homes. In 2018, Transnet continued to implement the Orphan Youth Programme under the Whole School Programme to ensure access to quality education and social upliftment of vulnerable youth.

Measurably improving the lives of our communities through sports

Our aim is to improve the lives of communities in close proximity to our operations through sports. We continue to invest in the South African Football Association (SAFA)/Transnet School of Excellence which aims to develop footballing potential among the youth, as well as the Rural and Farm School Sports Development Programme, aimed at discovering sporting talent and nurturing it to the highest possible level. These programmes not only focus on improving sports skills, but also improving academic performance.

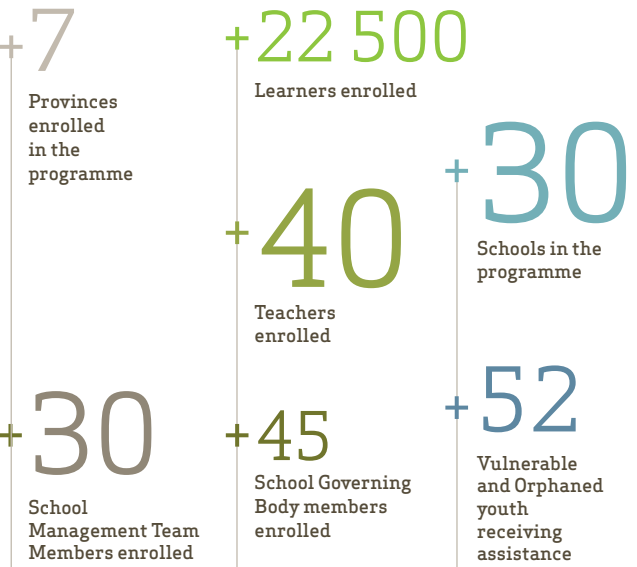
R18,8 million invested in the South African Football Association (SAFA)/Transnet School of Excellence

Figure 34



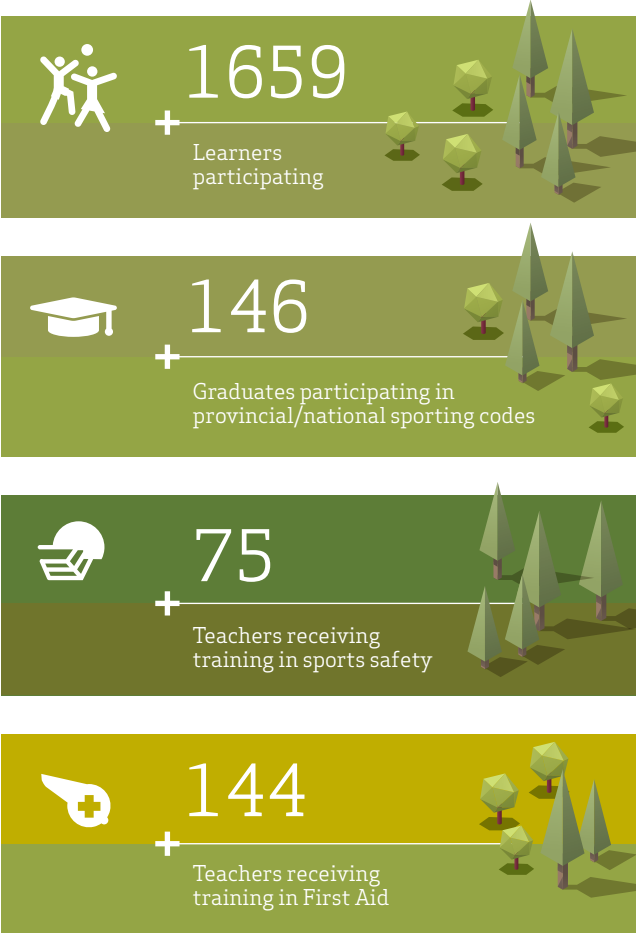
R15,2 million invested in the Whole School Programme

Figure 35



R13,4 million invested in the Rural and Farm School Sports Development Programme

Figure 36

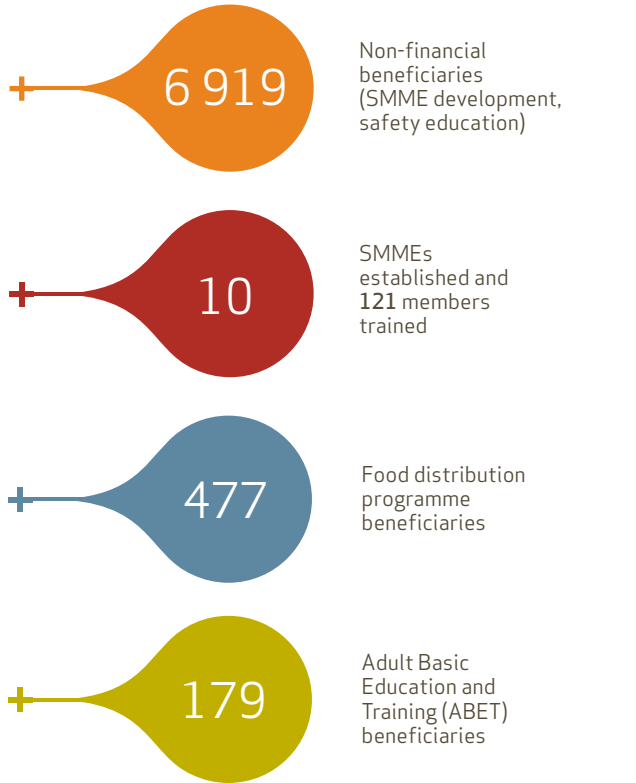


Measurably improving the lives of our communities through socio-economic infrastructure development

Investing in economic infrastructure development in our communities remains imperative as it improves societal living conditions and access to basic services in the rural, vulnerable and disadvantaged communities that we operate in. The Socio-Economic Infrastructure Programme converts old freight containers into community centres, police stations, schools and clinics and also builds, renovates and run community centres. Through these initiatives we were able to provide access to basic services to at least 45 989 people.

R6,8 million invested in the Socio-Economic Infrastructure Development Programme

Figure 37



R15,4 million invested in the Employee Volunteerism Programme

Transnet’s Employee Volunteer Programme (EVP) geared to conceptualise, implement and run community improvement projects in line with Transnet’s overarching corporate strategy. The EVP matches the broad wealth of skills and knowledge in Transnet

with the broad range of developmental needs of a receiving community ranging from infrastructure development, job creation or skills development. With R15,4 million invested in the 2018FY we have successfully managed to deploy our employees’ skills and resources to help improve the livelihoods of people in various communities within which the company operates. Employees volunteer of their own accord for a project of their own choice.

Case study

Our treasured heritage

As a SOC, Transnet has specific statutory obligations to manage its heritage assets. Aligning with the National Heritage Resources Act 25 of 1999, Transnet is mandated to identify, manage and conserve heritage assets under its control and report on these matters to the South African Heritage Resources Agency (“SAHRA”). The identification and disposal of redundant Transnet assets with or without heritage significance is monitored.

In 2018, Transnet invested R10 845 527 on the preservation of large variety of railway artefacts, steam locomotives, coaches and various railway-related equipment and machinery at George and Kimberley museum. The locomotive storage facilities in Bloemfontein has been established to accommodate locomotives, coaches and wagons of heritage significance for future generations. Transnet museums are managed and maintained to ensure that the history of the organisation is available to employees, community and tourists for educational purposes. As tourist attractions, the museums are indirectly contributing to job creation and the economy of the region.

Inside George Museum



Dual bus that was used for transporting passengers and freight

Old steam boiler

Old wooden body passenger/guardsvan

Measurably improving the lives of our communities through skills development

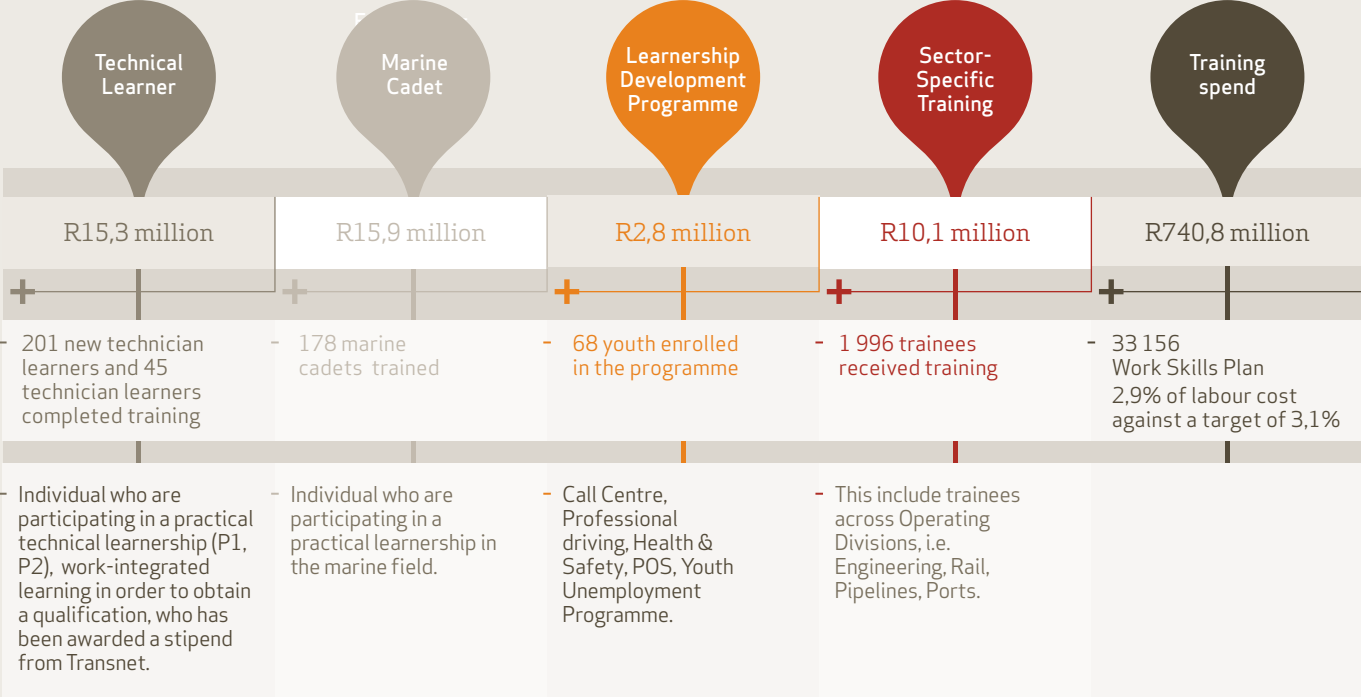
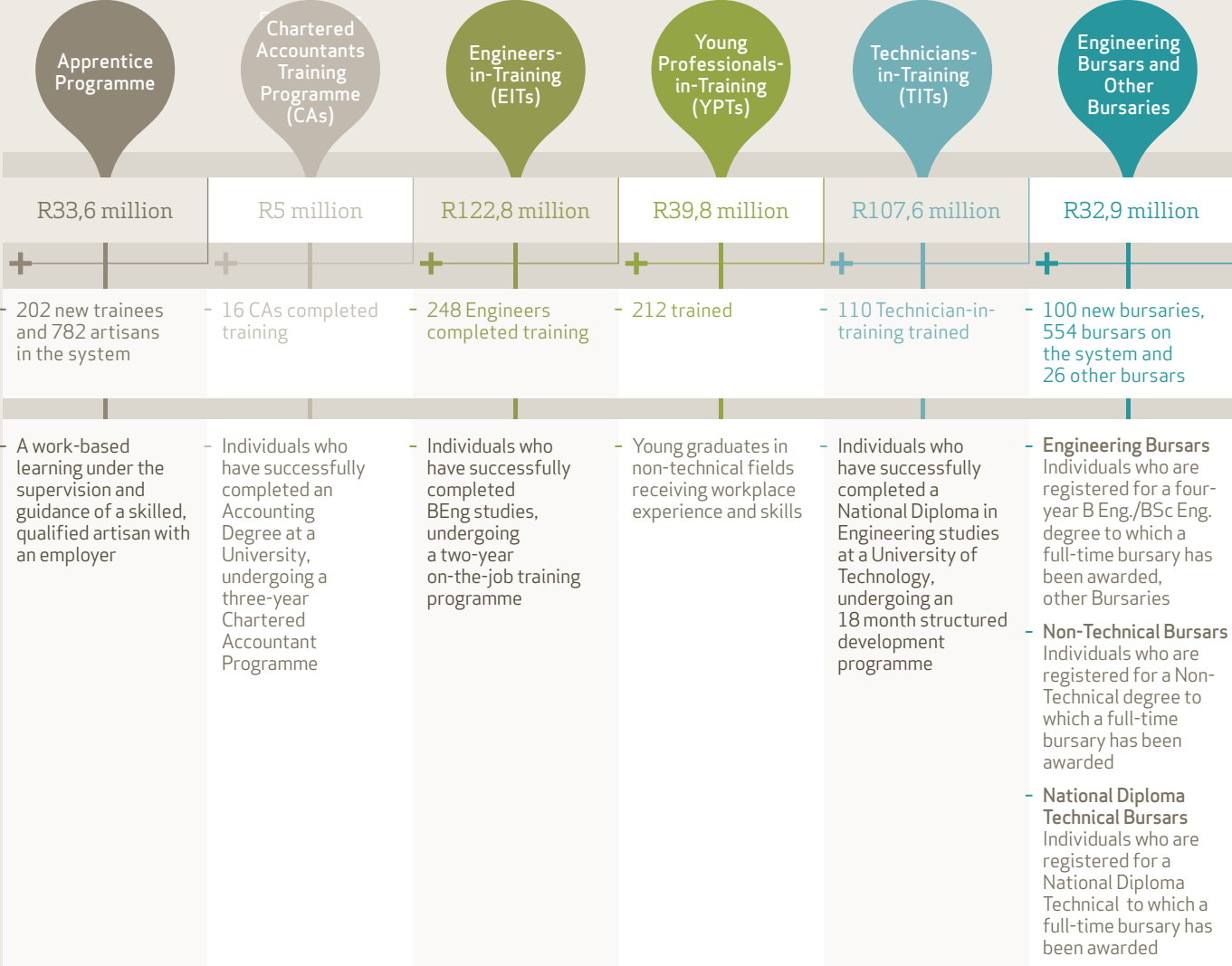
Transnet understands that South Africa needs a workforce that is skilled and also capable to support an inclusive growth path. We continue to provide occupational programmes in needed areas to expand the availability of intermediate-level skills in specific sectors. Our Schools of Engineering, Rail, Pipeline, Security, and Maritime School of Excellence provide sector-specific training to increase the employability of our communities.

In order to address the technical skills gap in the economy, Transnet, through our Human Capital Strategy, identifies skills shortages experienced in the Company, and also in the broader economy.

We are committed to enhancing human capabilities and building the productive capacity of people, both within and outside the Company, with a focus on the youth. Transnet presents youth development opportunities through skills training in order to enable them to enter the mainstream economy by becoming employed or starting their own businesses.

Skills Development Programme

Figure 38



Building and transforming our economy

Building our economy

Transnet's long-term social value creation involves the transformation of society not only by providing employment within the prescripts of employment equity, but also through black economic empowerment within the entities that supply Transnet. We seek to do this by investing in emerging technologies and manufacturing capabilities, as well as procuring locally produced goods and services.

Transnet's focus is on broadening and improving meaningful Broad-Based Black Economic Empowerment (B-BBEE) participation in the economy and extensively increasing our participation through the involvement of communities in our Company's procurement opportunities to drive ownership and control of Enterprise and Supplier Development. We continue to be guided by Government's Competitive Supplier Development Programme, and an Enterprise Development programme informed by the Broad-Based Black Economic Empowerment Act, No 53 of 2003, as amended by Act 46 of 2013, as well as the B-BBEE Codes of Good Practice.

Transnet's B-BBEE policy and strategy also enable us to ensure that we transform the lives of historically disadvantaged individuals. Our policy is a form of control that ensures consistency in the management and implementation of B-BBEE across the Company. As a SOC, Transnet's B-BBEE verification covers six of the seven elements of the Generic Transport Public Sector Scorecard, excluding the ownership element. The Rail Charter, Maritime Charter and Property Charter are also applied. Transnet was rated a Level 2 B-BBEE contributor in 2018 FY. We acknowledge the importance of B-BBEE as a critical component of achieving sustainable and inclusive economic growth. The Company will, therefore, aim to optimise its contribution to B-BBEE in the execution of its mandate as a SOC.

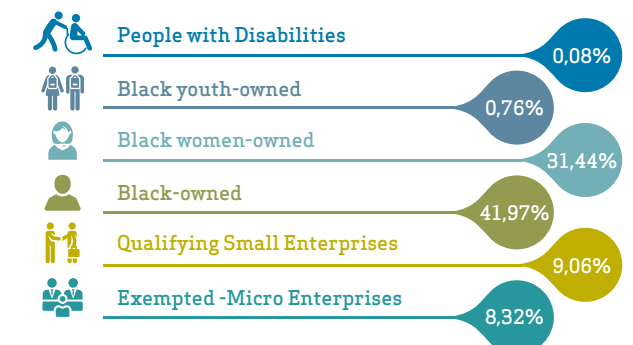
Transnet developed an Integrated Enterprise and Supplier Development (IESD) strategy in 2018, that is due for approval in 2019. This strategy prioritises entrepreneurship and the advancement of SMMEs as the catalyst to achieving economic growth and development. This will be enhanced through the already existing programmes of hubs, incubation, productivity, funding and business development support which address the basic requirements for businesses to perform optimally.

Through the hubs, Transnet aims to increase the economic activities of the communities living in close proximity to Transnet's operations; and drive a co-ordinated Government effort towards regional social and economic growth and development. These hubs provide a one-stop shop for potential suppliers to Transnet, offering the following services: business development and registration, procurement advisory services, tax registration and compliance, financial support and guidance on black economic empowerment.



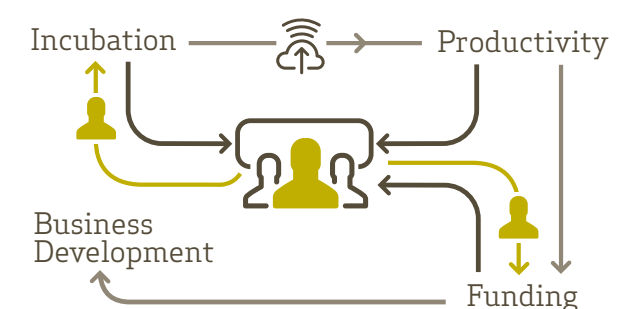
Transnet's total recognised B-BBEE spend for the year, as per the Department of Trade and Industry Codes (the dti Codes), was R25,81 billion, thus accounting for 86,88% of Total Measured Procurement Spend (TMPs) of R29,71 billion. Transnet spent R12,47 billion (41,97% of TMPs spend) on black-owned enterprises; R9,34 billion (31,44% of TMPs spend) on black women-owned enterprises; R2,47 billion (8,32% of TMPs spend) on exempted micro-enterprises; and R2,69 billion (9,06% of TMPs spend) on qualifying small enterprises. Spend on black youth enterprises accounts for R224,63 million (-0,76% of TMPs) while spend on black people living with disability enterprises accounts for R24,55 million (-0,08% of TMPs).

B-BBEE Figure 39



Transnet's Supplier Development (SD) programme promotes skills development and the creation and preservation of jobs. It further encourages the transfer of intellectual property and the localisation of supply; and ultimately promotes industrialisation through contractually obligated SD plans. Since inception of the programme, total contract value to date amounts to R137,6 billion (2017: R134,4 billion). SD obligations concluded with suppliers amount to R63,40 billion or 46,1% (2017: R62,6 billion or 46,6%) of contract value. To date, R42,48 billion or 67,0% of these SD obligations have been met (2017: R32,2 billion or 51,5%). The SD numbers include the locomotive awards and related SD obligations. Transnet is working on improving its SD programme so that it can deliver even more tangible value-adding results.

Transnet Mega-Hub Structure Figure 40



+ **R114,8 million**
invested in ED & ESD

+ **41,97%**
spent on black-owned
enterprises

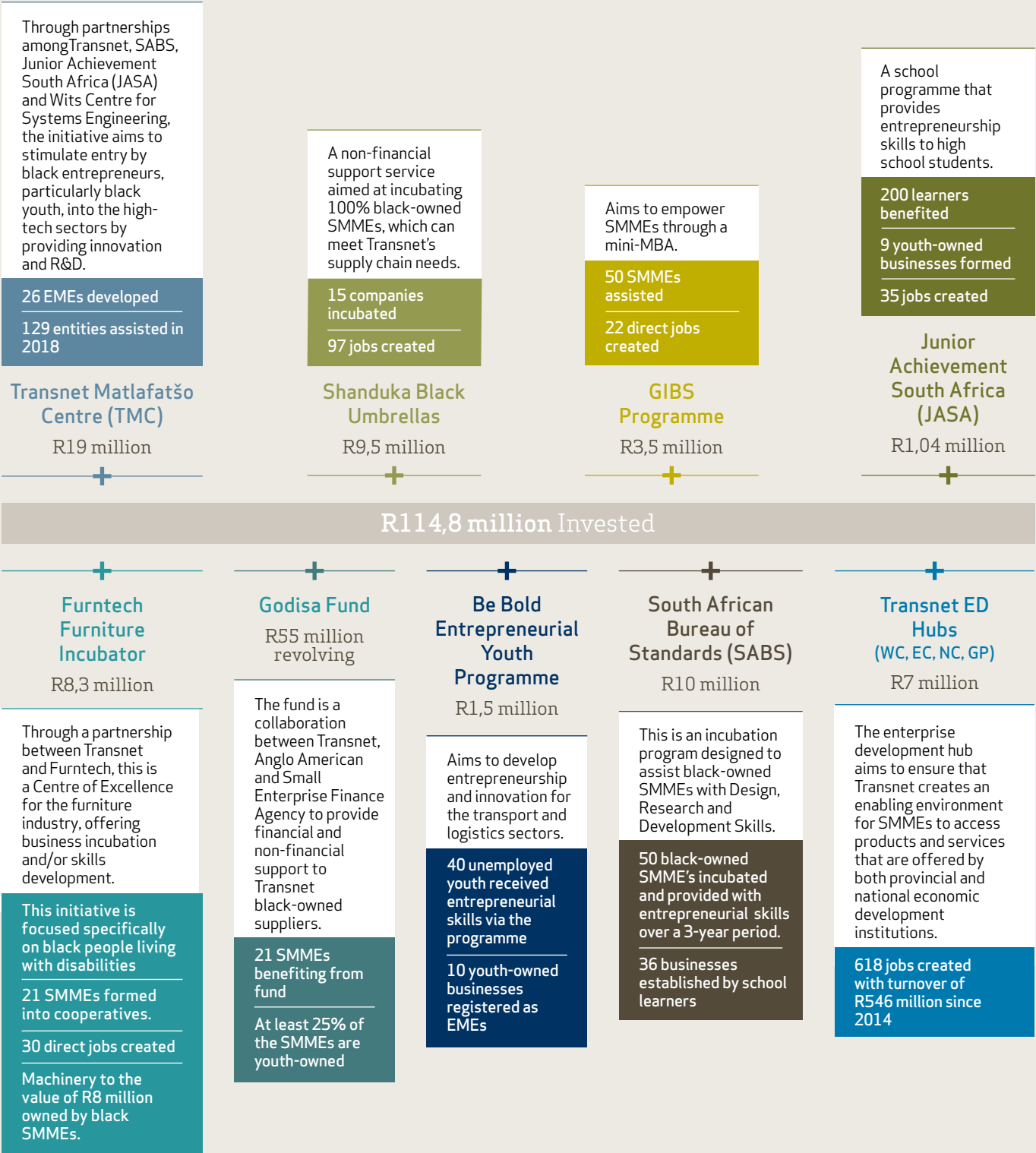
+ **31,44%**
spent on black women-
owned enterprises

+ Rated
Level 2 B-BBEE
contributor

+ **86,88%**
of Total Measured
Procurement Spend

Building and transforming our economy through Enterprise Development and Enterprise Supplier Development

Figure 41



Building and transforming our economy through Private-Sector Partnerships

As a SOC, Transnet is well positioned to facilitate and encourage investment by private companies. This will accelerate Transnet's commercial impact on economic growth, development of downstream and upstream businesses, creation of supply chains which could potentially link service provision from across the country and respective regions, rural development and job creation, thus aiding in eradicating the social and spatial imbalances in South Africa.

Private-Sector Partnerships (PSPs) have been included in the broader delivery of Transnet's strategy as a large scale investment in economic infrastructure designed to support the country's socio-economic imperatives as mandated by the DPE. Transnet uses PSPs as a vehicle to increase capacity and efficiencies to lower the cost of logistics as well as remove barriers to entry for private investment and operations in ports and rails.

- PSPs, enables Transnet to:
- Broaden the available finance pool and expedite infrastructure development and capacity creation;
 - Encourage intermodal efficiencies and road-to-rail modal shift;
 - Leverage private-sector skills and expertise in the provision of infrastructure and operations;
 - Encourage foreign direct investment in the South African and regional infrastructure and industry;
 - Mitigate risk for large infrastructure projects and freight systems connectivity;
 - Position Transnet to support the involvement of B-BBEE investors in PSP opportunities to contribute to transformation in the broader economy; and
 - Improve the social and developmental benefits leveraged from such investment programmes through close collaboration between the public and private sectors.

Operation Phakisa projects

Operation Phakisa projects in ship and rig repair, boat building and related port services were initiated in 2016, aiming for private-sector investment contracts in 2017. In 2018, we have made the following progress:

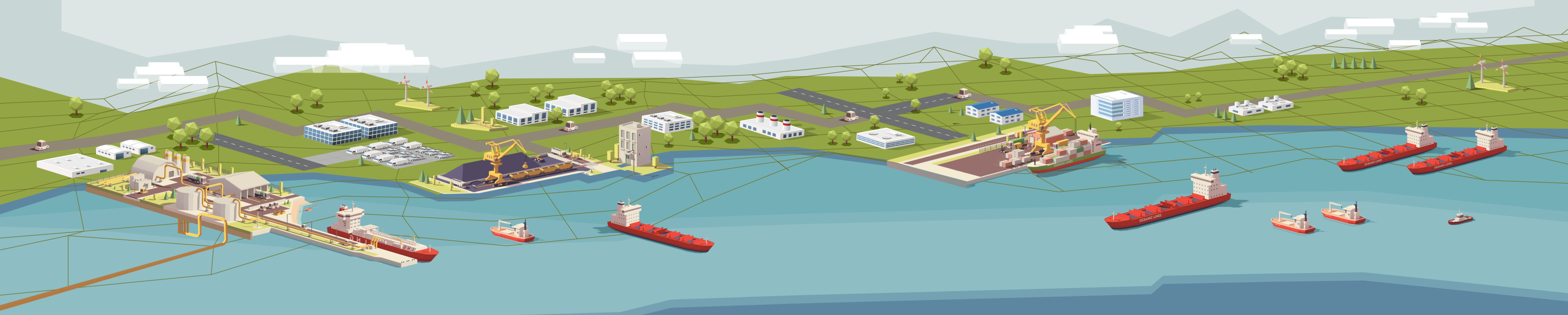
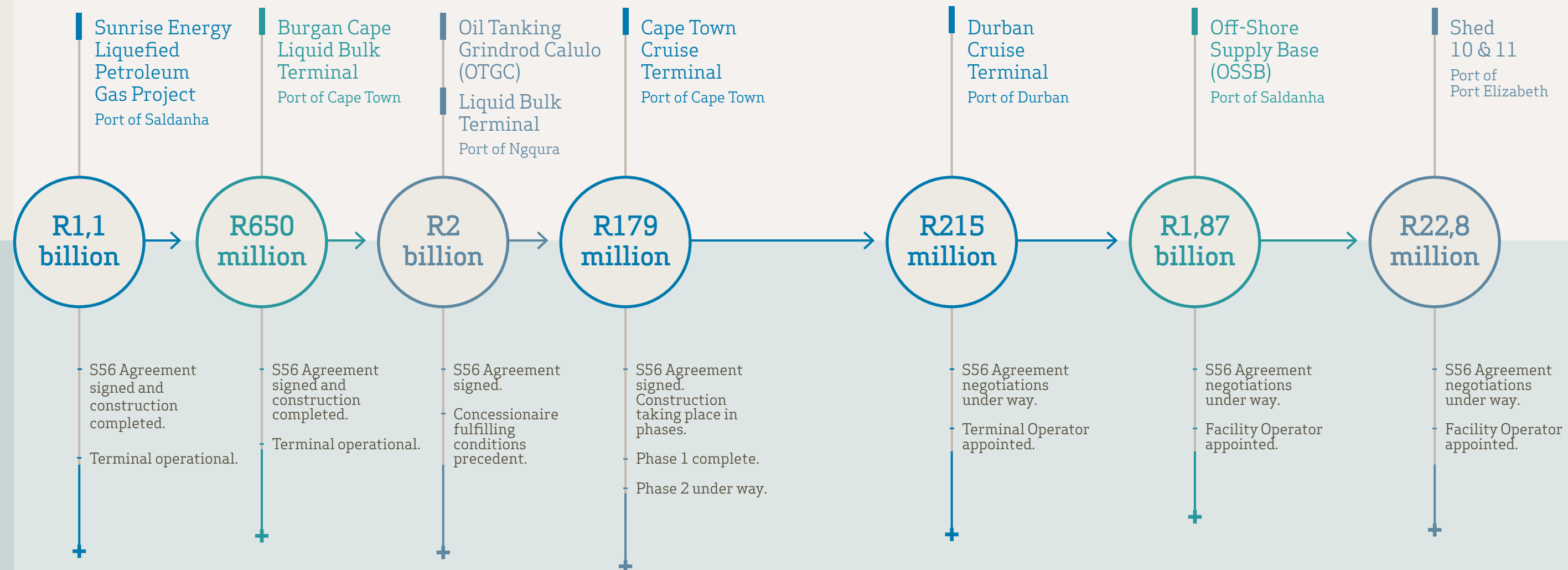
- Transnet National Ports Authority (TNPA) invested approximately R17 million in Expressions of Interest and the market feasibility for Operation Phakisa projects.
- Berth 205, Mossgas Quay and East London boat building facility are not as yet attractive to investors due to lack of demand in a weak economic climate.
- The Richards Bay floating dock project shows good market appetite and is being taken forward for a combination of public- and private-sector investment. TNPA has invested R1,8 million to date towards the engineering prefeasibility studies for the Richards Bay floating dock. The process for the identification of a floating dock operator will commence towards the latter part of 2019.

Section 56 projects

Transnet followed a Section 56 (of the National Ports Act of 2005) process to seek and appoint private-sector investors for seven projects. Section 56 agreements have been signed for four of these projects, namely, Sunrise Energy Liquefied Petroleum Gas project at the Port of Saldanha, Oil Tanking Grindrod Calulo (OTGC) Liquid Bulk Terminal at the Port of Ngqura, Burgan Cape Liquid Bulk Terminal at the Port of Cape Town and the Cape Town Cruise Terminal. Negotiations will be concluded in the first quarter of 2019FY for the Durban Cruise Terminal, Off-Shore Supply Base (OSSB) to support offshore oil and gas activities at the Port of Saldanha and the Sheds 10 & 11 at the Port of Port Elizabeth with construction activities expected to commence in the same year. These projects are expected to create 4 306 direct and indirect jobs during the construction phase, and 2 013 direct and indirect jobs during the operational phase of the projects.

Investment Leveraged: Building our economy through Private-Sector Partnerships

Figure 42



Expanding our global reach



Regional integration is vital for not only diversifying economies away from dependence on the export of mineral products, but in delivering food and energy security, creating and sustaining jobs for the increasing number of youths, alleviating poverty and delivering shared prosperity¹. Intra-regional trade in Africa, as a share of total foreign trade, has traditionally been low compared to other countries. While upgrades of ports continue throughout the region, some ports operating concessions exist. These opportunities form the basis of the geographic expansion initiatives of Transnet International Holdings SOC Ltd (TIH) where it can pursue these opportunities to expand its footprint outside the borders of South Africa, in line with the Company's international expansion ambitions.

The registration of TIH as a fully incorporated legal entity, to commence trading in April 2018, is a catalyst for expanding our global reach. This entity will house all foreign contractual arrangements for foreign operations and/or export of goods and services from our South African operations. Our integrated Go-to-Market approach will enable us to pursue international opportunities in a co-ordinated and well-planned manner by defining specific opportunities to pursue, how to position the Company in the market and by defining the services required. Opportunities will be pursued in a collaborative manner with appropriate partners and/or service providers.

Transnet's International Strategy identifies the need to focus on geographic expansion and beyond. Through numerous bilateral agreements, with support from the Government of South Africa, Transnet will be able to play an active role in further promoting intra-Africa trade between regional ports, thereby actively contributing to the reduction of the cost of logistics in the region.

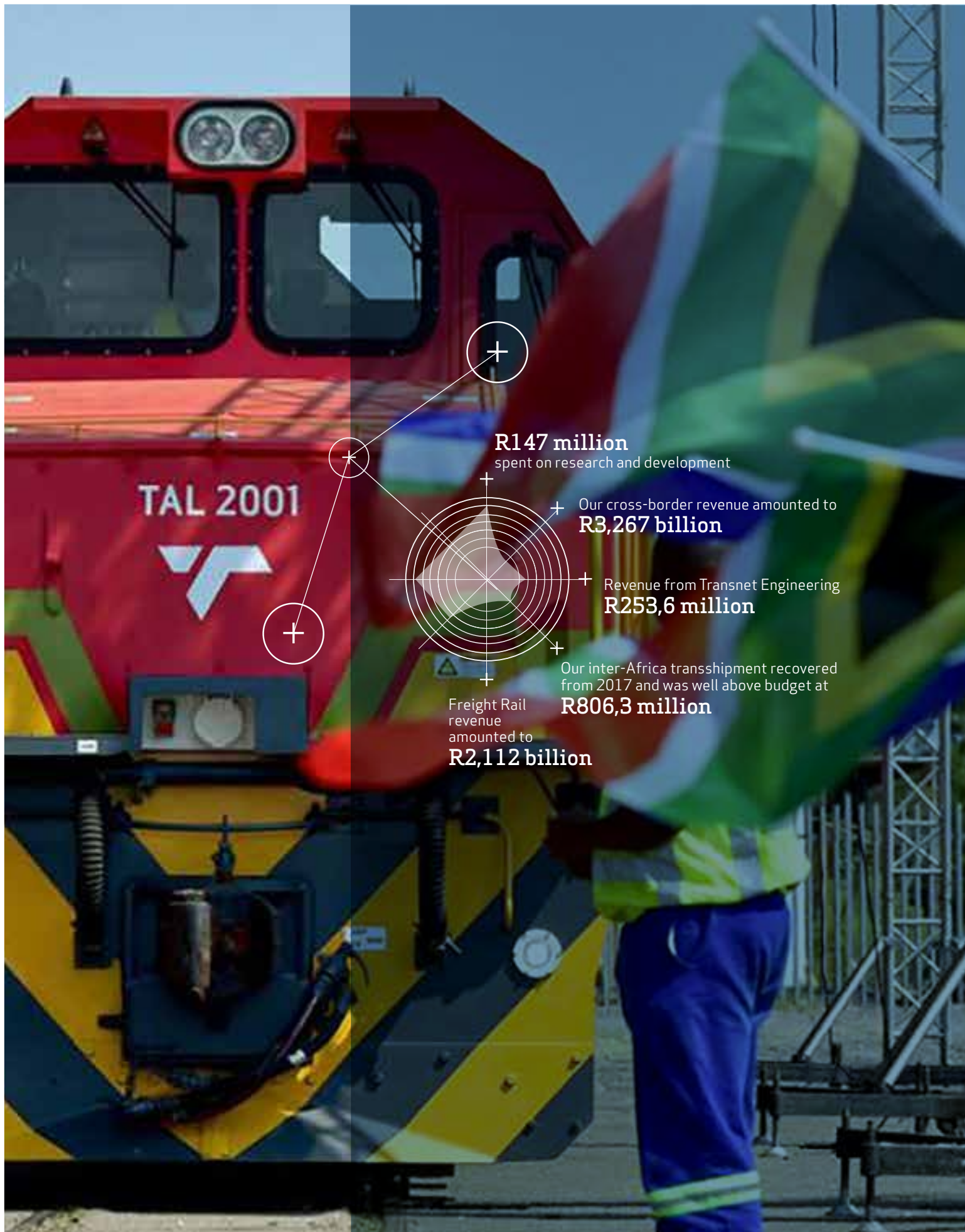
¹ www.weforum.org, 2016



Catalysing transformation through research and development

Transnet acknowledges that disruptive technologies are changing dominant business models and has positioned itself as a catalyst for African innovation and industrialisation through our research and development portfolio. This year, the proudly South African TransAfrica Locomotive (TAL) has seen its debut. Officially launched in April 2017, TAL has since been approved by the Rail Safety Regulator of South Africa for operation on South African railway lines. The engineering and commissioning teams have been working tirelessly to improve the locomotive and ready it for customer orders. We are hopeful that this is a new door to entering the African and global markets of rolling stock and allows Transnet the opportunity to provide a more integrated set of products to address client's needs.

Another major achievement in the digital space this year has been the development and testing of a Locomotive Condition Monitoring System (LCMS). The LCMS collects real-time data from the locomotive control system - more than 50 individual signals - and transmits this to a central database server within the Transnet domain. This allows determination of real-time condition, speed, Global Positioning Satellite position and many more parameters that will allow operators and maintainers to plan better and execute their objectives. The employment of such devices under the umbrella of Digital Transformation and Internet of Things (IoT) allows better understanding of our assets and provides the data to significantly improve our operations and maintenance.



Enabling regional integration through partnerships

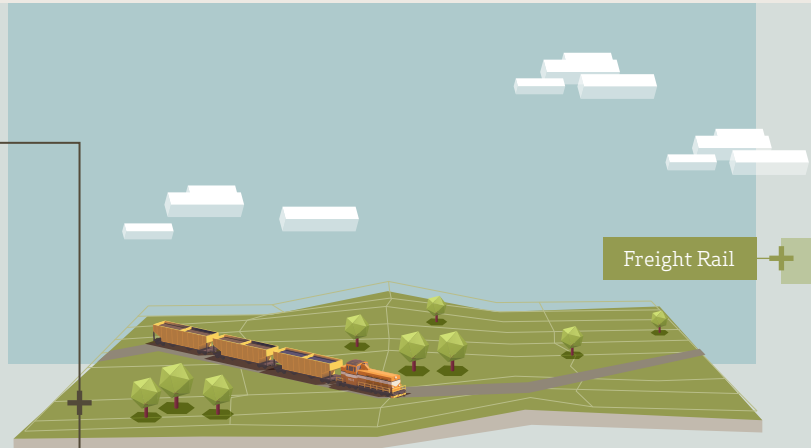
Transnet seeks to position itself as a leading logistics service provider in Africa and the rest of the world. Through our Joint Operating Centres (JOCs) established in Botswana (to service the East/West Corridor), Zimbabwe (to service the North/South corridor) and Mozambique (to service the Maputo Corridor), we aim to grow cross-border volumes and enable rail connectivity in these regions. Transnet has satellite offices in Maputo, Gaborone, Lesotho, Bulawayo and Ndola. Transnet has also signed several inter-port agreements with Namibia, Maputo, Ghana and Sudan.

Our cross-border revenue amounted to R3,267 billion (2017: R2,087 billion).

Revenue from Transnet Engineering was well below budget at R253,6 million in 2018. This is attributable to a late start in the year, non-commitment of orders, the funding and pricing challenges which are being resolved, as well as late operationalisation of the TIH model.

Our inter-Africa transshipment recovered from 2017 and was well above budget at R806,3 million

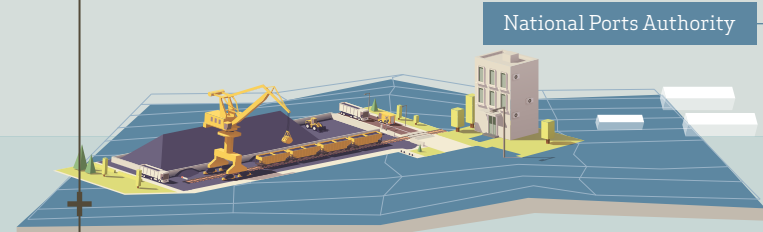
Freight Rail revenue amounted to R2,112 billion



Freight Rail



Engineering



National Ports Authority



Port Terminals



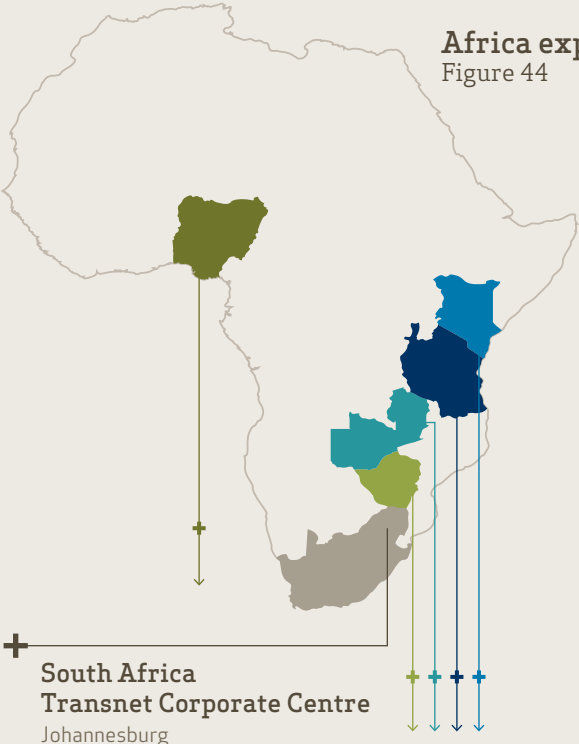
Pipelines

Cross-border sales (R million)
Figure 43

	Budget	Actual	Variance
Freight Rail	TFR		
	R 1 864,9	R 2 112,9	13,3%
Engineering	TE		
	R 1 250,0	R 253,6	-79,7%
National Ports Authority	TNPA: Transshipment		
	R 25,8	R 77,9	201,9%
Port Terminals	TPT: Transshipment		
	R 262,5	R 728,4	177,5%
Port Terminals	TPT: Consulting		
	R 6,3	R 5,9	-6,3%
Pipelines	TPL		
	R 117,8	R 89,1	-24,4%
TOTAL			
	R 3 527,3	R 3 267,8	-7,4%

⁵ www.weforum.org, 2016

Africa expansion
Figure 44



South Africa
Transnet Corporate Centre
Johannesburg

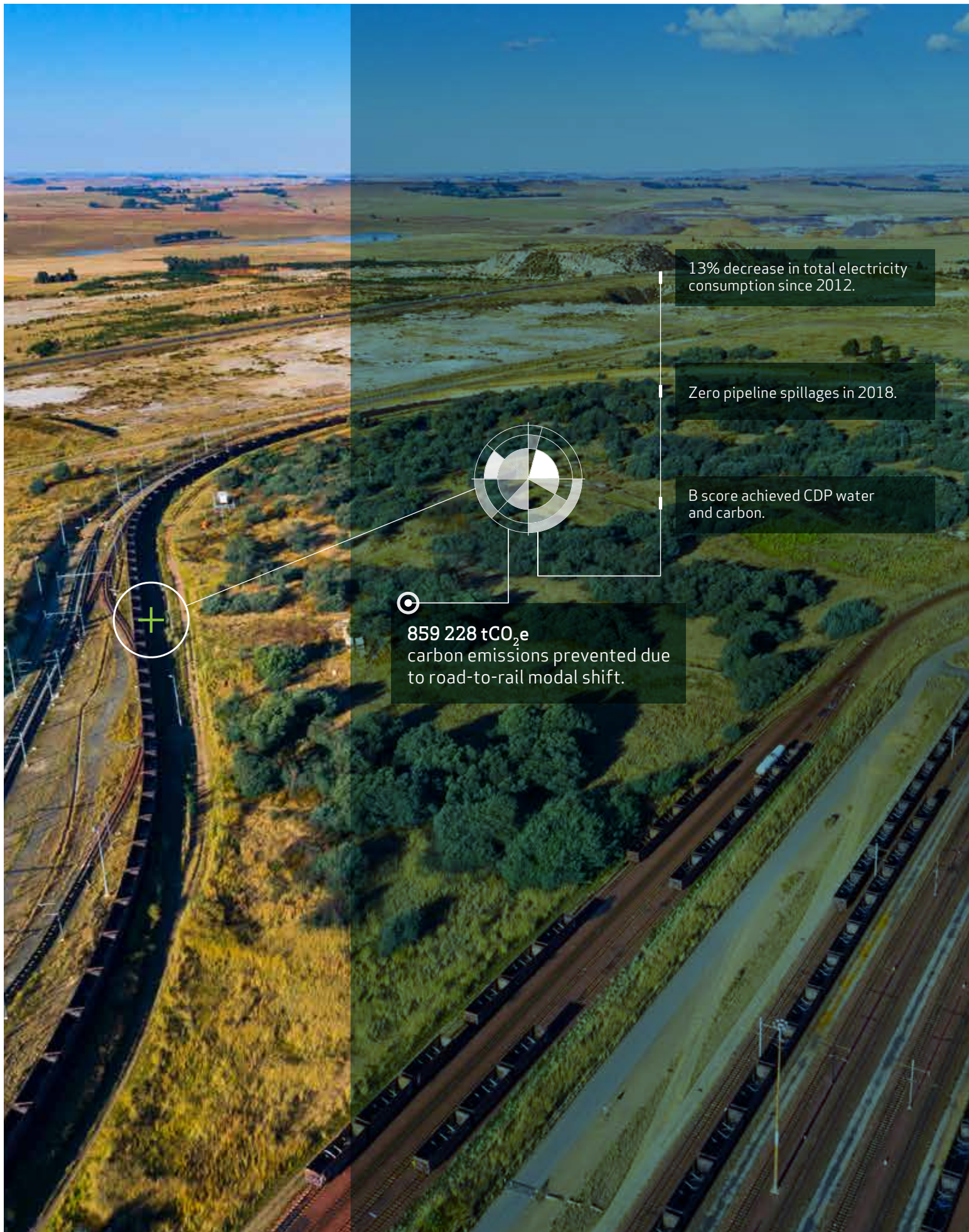
Nigeria – Transnet, together with other partners, has been awarded the tender for the 25 year “Concession of the Western (Lagos-Kano-Nguru) and Eastern (Port Harcourt – Maiduguri) lines, and associated operational infrastructure and spur lines of the Nigeria Railway Corporation”. The Minister of Transport has requested an interim solution whilst the parties negotiate the Concession Agreement (circa 18 months). The Consortium is finalising the appropriate solution which will focus on the Lagos – Kano rail line.

Kenya – Port of Lamu: Transnet’s role is to operate the three berths through a concession with the Kenyan Port Authority (KPA). Transnet to agree with KPA on berths development plans and timelines. Government Memorandum of Understanding (MoU) concluded and signed. Transnet has received a letter of award. The first berth is envisaged to be completed by July 2018, which is being constructed by a Chinese company.

Tanzania – Tanzania-Zambia Railway Authority (TAZARA): Transnet has signed an agreement with TAZARA towards partnering at a technical and operational level. Transnet is preparing to supply rolling stock to TAZARA to address an immediate demand and to assess the potential of establishing a joint-venture partnership with TAZARA.

Zambia Railways Limited: Transnet is working on the interim solution to deliver 1,100 wagons and 5 locomotives to ZRL. The MoU has been signed.

National Railways of Zimbabwe (NRZ) Recapitalisation Project: In August 2017, the State Procurement Board gave conditional award to Transnet/Diaspora Infrastructure Development Group Consortium to execute the project subject to clarifications.



Managing our environmental impact

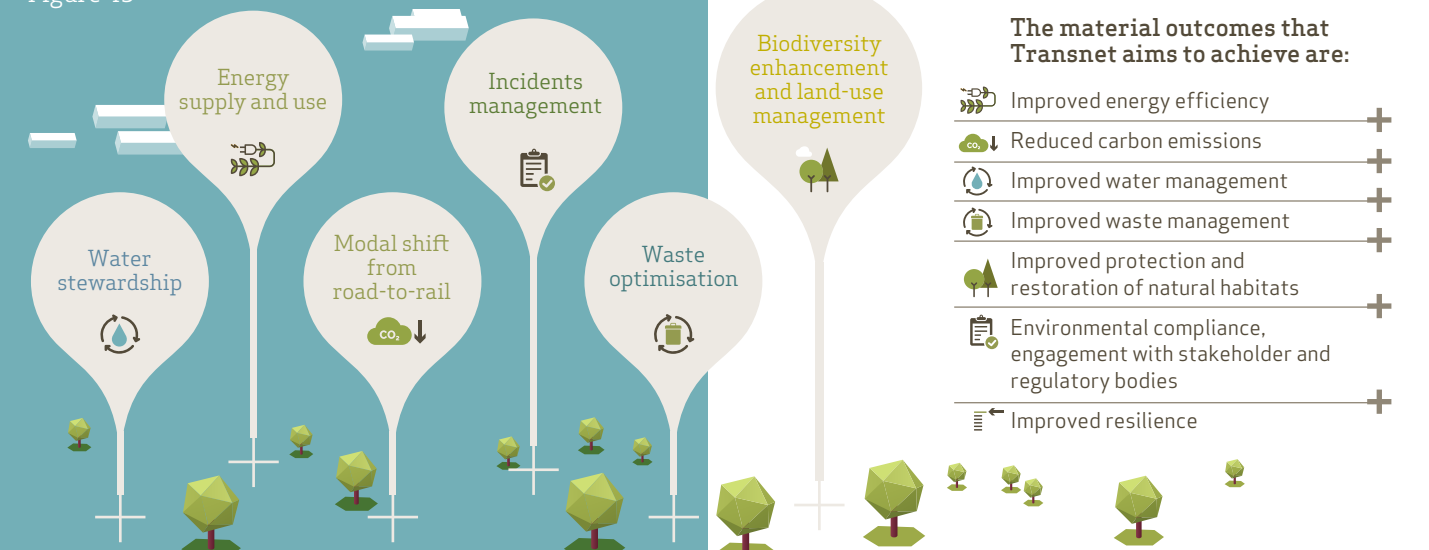
Transnet's operations, and that of its stakeholders and customers, have material impacts on the environment, which are felt by communities that depend on the ecosystem to sustain their livelihood. Environmental stewardship is a mechanism that Transnet employs to minimise its environmental impacts and prevent pollution through an integrated systems approach. The SDGs guide our efforts to drive a sustainable future through sustainable growth and development.

Transnet's environmental stewardship commitment goes beyond affirming the Company's compliance with environmental laws. It is our undertaking to become a corporate leader in enabling the planet's natural resources to support the well-being of future generations. Environmental stewardship is important to Transnet to ensure sustainable growth and development. Energy efficiency, climate change mitigation and adaptation, water stewardship, biodiversity enhancement and land-use management are some of the material outcomes that Transnet aims to achieve and therefore remain the focus of our environmental stewardship initiatives. The immediate priority has been ensuring adequate water supply for operational needs without compromising the needs (both current and future) of communities and compliance with legal requirements.



Environmental stewardship

Issues and outcomes
Figure 45



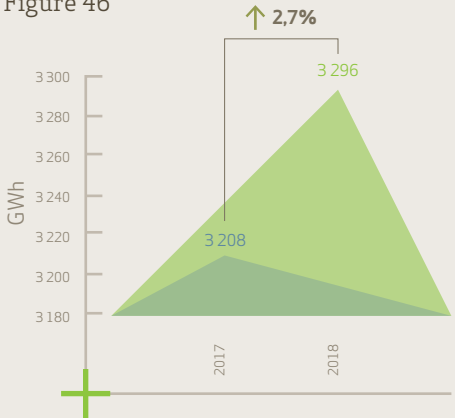
¹ www.worldbank.org

Transnet's total electricity consumption for 2018 was 3 295 658 MWh, up 2,7% from 3 207 544 MWh in 2017. Since 2012, when energy-efficiency measures were instituted at Transnet, total electricity consumption has decreased by 13% from 3 798 908 MWh.

In 2018, energy constituted 16,8% of Transnet's total operating cost compared to 16,4% reported in 2017. Transnet's total fuel consumption for 2018 was 246 mega litres, up 3,0% from 238,9 mega litres in 2017.

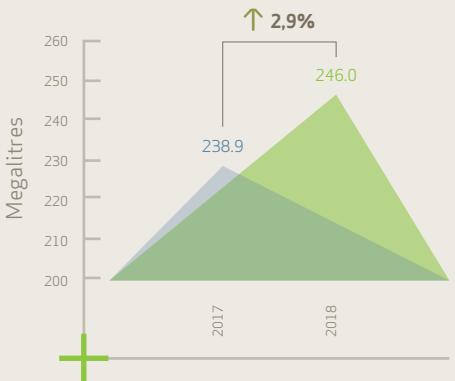
Total electricity consumption 2018 (GWh)

Figure 46



Total fuel consumption 2018 (Megalitres)

Figure 47

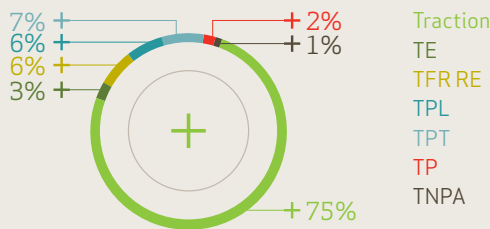


In 2018, 75% of electricity was used for Freight Rail traction² and the remainder in Transnet's properties, ports, pipelines and engineering operations.

Of the total fuel consumption figure: 73% was used for Freight Rail diesel traction³, 8,7% on road vehicles, 13% on home-based fuel, and 5,2% on marine diesel and 0,1% jet fuel.

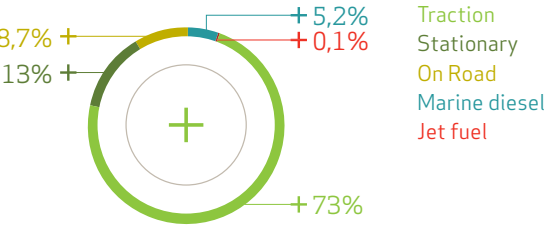
Electricity distribution 2018

Figure 48



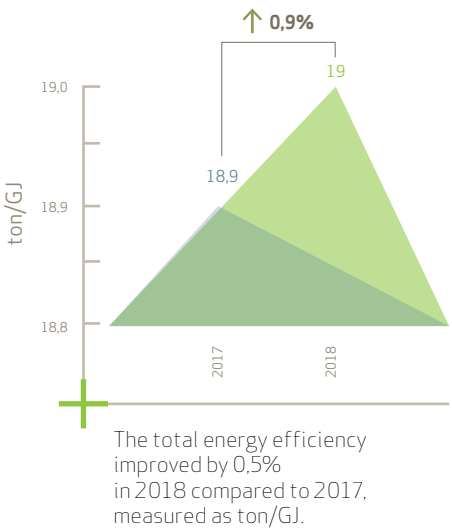
Fuel distribution 2018

Figure 49



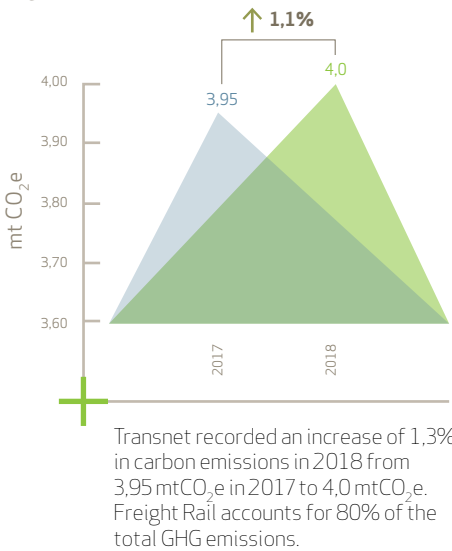
Energy efficiency 2018

Figure 50



Carbon emissions 2018

Figure 51



² Freight Rail traction refers to the use of electrical locomotives to move freight volumes.

³ Freight Rail traction diesel power refers to the use of diesel locomotives to move freight volumes.

Electricity efficiency performance 2018 Figure 52

Operating Division	Measurement	Actual 2017	Actual 2018	Energy-efficiency gain on previous year %
Freight Rail Traction	gtk/kWh	65,4	64,5	-1,4%
Pipelines	MI km/MWh	36,8	37,2	1,2%
Port Terminals	Ton/kWh	0,7	0,6	-7,3%
National Port Authority	Employee/MWh	1,4	1,4	0,4%
Engineering	man-hour/MWh	250,5	292	16,9%

Traction electricity efficiency declined by 1,4% in 2018 compared to 2017 measure in gtk/kWh.



Electricity performance 2018

Operating Division	Measurement	Actual 2017	Actual 2018	Electricity reduction on previous year %
Freight Rail Real Estate	kWh	208 680 615	205 287 580	1,6%
Transnet Property	kWh	66 320 249	57 144 350	13,8%

Fuel efficiency performance 2018

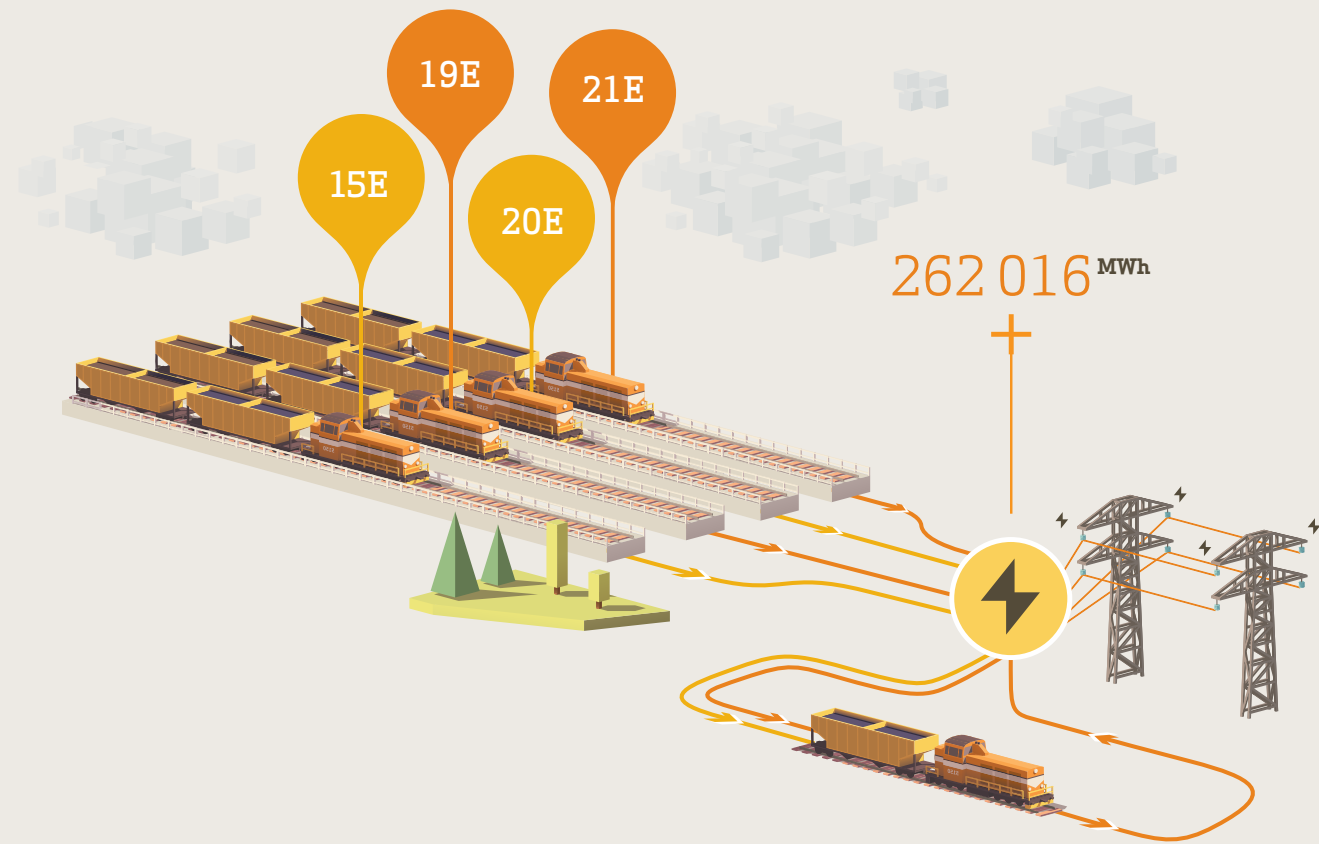
Operating Division	Measurement	Actual 2017	Actual 2018	Energy-efficiency gain on previous year %
Freight Rail Traction	gtk/litre	207,9	213,4	2,6%
Port Terminals	ton/litre	5,5	5,4	-2,4%
Engineering	man-hour/litre	10,1	10,0	-1,0%

Traction fuel efficiency in 2018 improved by 2,6% compared to 2017 measured in gtk/litre.

Case study

Transnet regenerative braking system
Figure 53

Freight Rail's class 19E, 15E, 20E and 21E electric locomotives with regenerative capabilities have contributed to reducing electricity consumption. The regenerated electricity is partly used in our own networks, and excess electricity is transmitted back into the Eskom grid. In 2018, a total of 262 016 MWh of electricity regeneration was recorded by Freight Rail.



Modal shift from road-to-rail

The transport sector accounts for approximately 9%⁴ of South Africa's GHG emissions. Modal shift of cargo from road-to-rail offers a great immediate opportunity to lower carbon emissions in the transport sector, especially for the hauling of large volumes of high-density freight over long distances. Rail is generally three to five times more efficient compared to road. Additional benefits offered by rail include reduction in accidents, congestion, noise pollution and lowering of costs in the transport sector. In South Africa, accelerating modal shift from road-to-rail is included in the Minister of Public Enterprises' Statement of Strategic Intent (SSI). Government identifies modal shift of freight from road to rail in the transport flagship programme for South Africa⁵. Transnet engages with its existing and new customers to increase and to gain new capacity in rail.

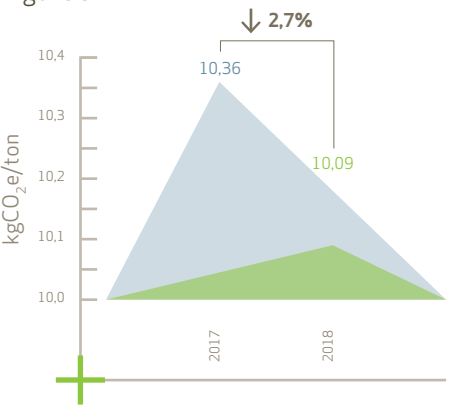
As the owner, operator and custodian of the country's freight rail network, Transnet has committed to increasing rail market share and to demonstrate the carbon emissions saving achieved annually through its growing market share.

9%
of South Africa's GHG
emissions are from
the transport sector

Freight Rail continues to make a meaningful annual contribution to the reduction in carbon emissions in the transport sector. In 2018, Freight Rail gained market share in a number of commodity groups where there is strong competition with road hauliers. This rail tonnage gain amounts to 'volumes off road'. The carbon emissions savings in road-to-rail volume gains in 2018 amount to 859 228 tCO₂e. The emissions savings are dependent on volumes gained and distance travelled.

Carbon emission intensity 2018

Figure 54



With respect to overall carbon emission intensity, Transnet recorded an overall 2.4% reduction from 2017 due to a 3.9% increase in volumes on a 2.9% increase in energy in 2018.

⁴ Department of Environment Affairs, South Africa's Green House Gas Mitigation Potential Analysis 2014
⁵ Government's National Climate Change Response White Paper (2011)

Carbon mitigation results from
road-to-rail gains 2018

Figure 55

Commodity groups	Volume gains (tons)	Carbon emissions savings (tCO ₂ e)
Agriculture and Bulk Liquids	138 426	9 570
Coal	6 761 403	286 731
Containers and Automotive	1 732 090	134 005
Iron Ore and Manganese	2 621 174	303 103
Mineral Mining and Chrome	1 440 785	83 695
Steel and Cement	701 396	42 126
Total	13 395 274	859 228

Managing our environmental impact through water stewardship



Water is a shared and finite resource with high sustainability value as it impacts across environmental, social, cultural and economic spectrum. The World Economic Forum⁶ has identified water as one of the top 10 global risks in terms of impact and uncertainty, while the Institute of Risk Management South Africa⁷ has rated it number two in the top 10 South African country-level risks together with droughts in sub-Saharan Africa. Transnet finds itself exposed to greater water risks due to our national footprint. Our operations are located in water-stressed catchments. Access to water remains a concern and challenge to the Company and as such it has remained in the Company's top 10 strategic risks.

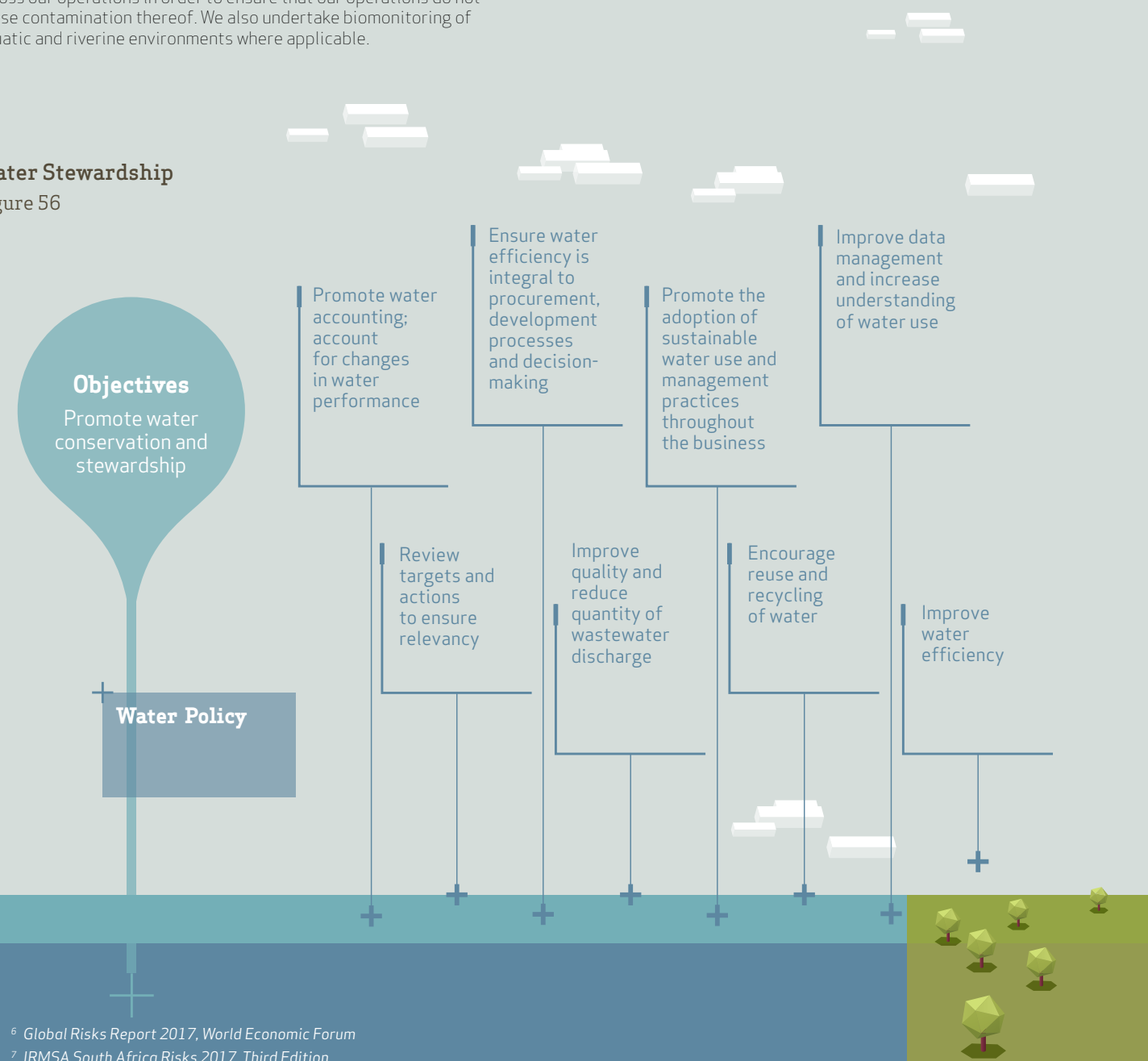
Transnet's commitment to water stewardship is articulated in our water policy. Water stewardship is fundamental to achieving our strategic objectives and we continue with efforts to ensure water efficiency, conservation and responsible consumption thereof. We continue to monitor the quality of underground and surface water across our operations in order to ensure that our operations do not cause contamination thereof. We also undertake biomonitoring of aquatic and riverine environments where applicable.

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

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

Water Stewardship

Figure 56



⁶ Global Risks Report 2017, World Economic Forum

⁷ IRMSA South Africa Risks 2017, Third Edition

Managing our environmental impact through waste optimisation



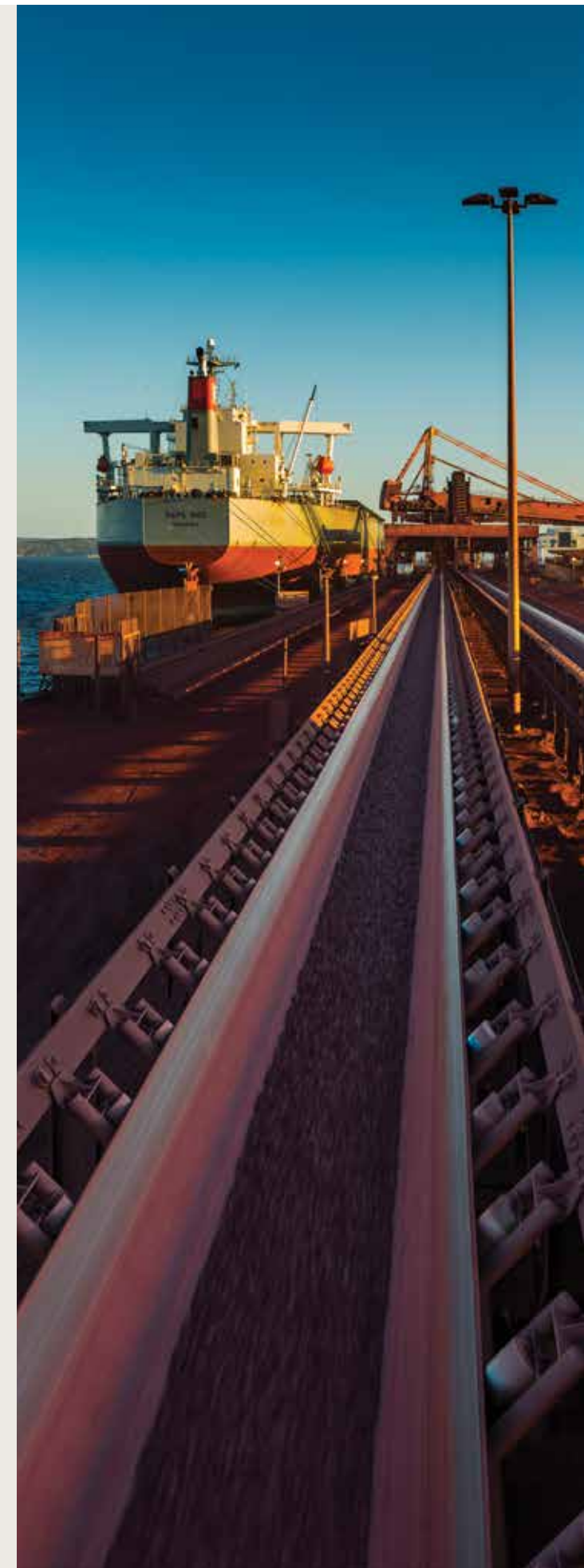
Our day-to-day operations generate a number of waste streams. We handle our waste as per the waste hierarchy stipulations and this is managed in a manner which is within the requirements of the law and minimises harm to the environment. It is Transnet's undertaking to migrate towards ZERO waste, representative of a circular economy (where almost everything can be reused, recycled or converted to energy), throughout its operations.

In accordance with the requirements of section 36 of the National Environmental Management: Waste Act, No 59 of 2008 (Waste Act), We have identified contaminated areas throughout our operations using guidelines stipulated in the National Framework for the Management of Contaminated Land, which provides national norms and standards for the practical implementation of remediation activities in compliance with section 7(2)(d) of the Waste Act. Management and rehabilitation plans have been developed and implemented, where applicable, for specific contaminated areas with remediation orders.

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

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





In 2018, Transnet generated R89,4 million revenue through the recovery of scrap metal and electronic waste. This is an improvement from the two previous years (2016: R87,7 million and 2017: R70,9 million). We continue with efforts to ensure the reduction of waste generated by our operations so as to reduce the total waste to landfill.



Waste management

Figure 57

	Material activity	Input	Output	Material outcome	Impact
 Freight Rail	Scrap reclamation	Management cost	32 583,7 tonnes of ferrous and non-ferrous scrap sold	R87,2 million revenue generated	 Sustainable waste management
	Waste recycling (Inyanda Precinct)	Management cost	87,7 tonnes waste recycled	Improved waste management practices	
	Hazardous waste disposed	R1,8 million	541 tonnes of worn-out track absorbent mats	Reduced hydrocarbon contamination	
 Pipelines	General waste	Management cost	30,55 tonnes waste removed	Improved waste management	 Sustainable waste management
	Hazardous waste	Management cost	1 230 tonnes	Improved waste management	
 Engineering	General waste	Management cost	234,64 tonnes of waste removed	Improved waste management	 Sustainable waste management
	Hazardous waste	Management cost	111,67 tonnes of waste removed	Improved waste management	
 Group Capital	General waste	Management cost	62 787 tonnes	Improved waste management	 Sustainable waste management
	Hazardous waste	Management cost	36 969 tonnes	Improved waste management	

	Material activity	Input	Output	Material outcome	Impact
 Port Terminals	Scrap reclamation	Management cost	22 359 450 tonnes of ferrous and non-ferrous scrap sold	R2,276 million revenue generated	 Sustainable waste management
	Used oil reclamation	Management cost	202 KI used oil sold	R330 946 revenue generated	
	Electronic waste	Management cost	3,58 tonnes sold	R14 403,20 revenue generated	
	General waste	Management cost	2 872 tonnes	Improved waste management	
	Medical waste	Management cost	0,79 tonnes of medical waste	Improved waste management	
 National Ports Authority	Galley waste management	R1,3 million	213,59 tonnes galley waste removed	Improved waste management	 Sustainable waste management
	Grit waste (Port of Durban)	R59 273,05	128,22 tonnes grit removed	Improved waste management	
	Recycled waste management	R6,6 million	33 628 tonnes removed	R779 829 rebate generated	
	General waste	R1,9 million	1 971,3 tonnes	Improved waste management	
	Medical waste	Management cost	38,87 tonnes of medical waste	Improved waste management	

Managing our environmental impact through biodiversity enhancement

Transnet recognises that biodiversity is under threat from a range of factors, including habitat loss, exploitation of species, climate change and the spread of alien invasive species. Biodiversity is being lost at mass-extinction rates. Our operations span across a diversity of ecosystems. Our approach to biodiversity management is that of mainstreaming it into our operations and building and strengthening partnerships to support and explore opportunities to conserve, improve and achieve best practice for biodiversity conservation throughout our operations. As a founding partner of the National Biodiversity and Business Network, we are adopting designs and methodologies with high potential to minimise impact on biodiversity at the early stages of the Project Life Cycle Process and throughout the operational phases of each project. Through these targeted interventions, 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 continues to collaborate with other stakeholders to address external pollution sources and maintain ecological stability across our ports by contributing to the development of Estuary Management Plans with the Department of Environmental Affairs (DEA), municipalities and published in November 2017. Transnet further developed and submitted Invasive Species Monitoring, Control and Eradication Plans as per section 76 of the National Environmental Management: Biodiversity Act, No 10 of 2004, and its Regulations to the DEA. In 2018, a combined 1 307 hectares infested with alien invasive species was cleared at the Port of Richards Bay. Durban and Freight Rail network footprint at a total investment of R14 585 million.



Case study

Investing in green infrastructure to enhance biodiversity

In 2018, Transnet established a rooftop garden. The garden was officially opened in February 2018 at the Transnet Pipelines building in Durban City Centre.

The garden consists of 98% indigenous species and only 2% exotic non-invasive species, which are used on the living wall due to specific conditions associated with indoor planting, such as lack of natural lighting.



Managing our environmental impact through legal compliance

In order to effectively manage environmental legal compliance and reputational risk, we have established multilateral relationships with the national, provincial and local environmental authorities to facilitate environmental authorisations, licences, permits and closure of significant environmental incidents to date.

Transnet recorded 12 significant environmental incidents in 2018 compared to 13 in 2017. Of the 12, 6 of these incidents were a result of train derailments, 5 were chemical and oil spillages and one was a spillage of plastic nurdles from a vessel at the Port of Durban. The relevant authorities have been informed and clean-up has been completed. Transnet continues to monitor these areas.

Commitment to continually improve our compliance is demonstrated by the fact that some of our operations have already achieved certification in terms of the EMS ISO 14001:2015 and ISO 14001:2004.

Transnet also continues to maintain a regulatory universe to ensure compliance with relevant regulatory obligations and monitor changes that may impact the Company's business. Moreover, Transnet also comments as an interested and affected party during public participation processes on amendments and reviews of legislation.

Managing our environmental impact through air quality management

Transnet understands that the nature of our business in some operations impacts on air quality, hence it is our duty to remain committed to compliance and to promote sustainable ambient air quality improvement, thereby minimising the environmental impact of our activities. Our approach is to reduce, eliminate, or prevent pollution at its source.

We have been issued with Air Emissions Licences (AELs) for all our activities in Pipelines and Ports that may impact negatively on ambient air quality, and we ensure that the impacts are mitigated and reduced to acceptable legal levels and limits. AELs for our Engineering businesses are being pursued with the relevant municipalities.

Efforts are being put in place to address air quality-related complaints received from communities in and around Saldanha Bay area.

We have seen a visible reduction in emissions over the last 4 years, during which monitoring has been undertaken. The trends identified thus far show peaks and dips that are aligned to not only organisational activities, but also to seasonal meteorological patterns, i.e. peaks in emissions are evident especially during winter.

The following are some of the mitigation measures that were implemented in 2018:

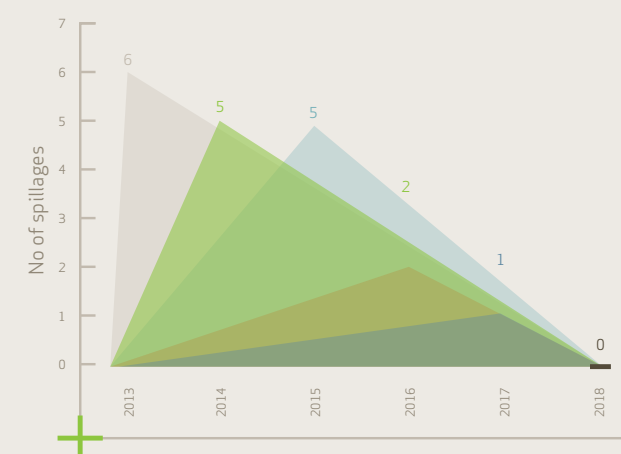
- Repair/replacement of internal floating blankets where inspection of all tanks and their internal floating blankets is conducted to ascertain if they are in acceptable working condition, and undertaking repair or replacement where needed. The purpose of the floating blankets is to reduce the escape of emissions from storage tanks.
- Annual leak detection and repair is undertaken on all above-ground equipment to ensure that leaks can be identified and repaired accordingly. An inventory of emissions from ships and marine-related vessels has been developed for all ports.

Case study

Zero Pipeline spillages for 2018

Transnet has seen a decrease in its pipeline spillages over the past 5 years from six in 2013 to Zero in 2018. Previously the spillages were attributed to the fatigued multi-product 12-inch pipeline, known as the Durban Johannesburg pipeline (DJP) which was constructed in 1965. Transnet has successfully commissioned the New Multi-Product Pipeline (NMPP) which will take over the DJP. The NMPP is equipped with electronic monitoring devices (ATMOS Leak Detection, pressure and flow monitoring) coupled with regular scheduled patrols to detect pipeline leaks or ruptures. A decommissioning plan detailing a phased approach has been developed for the DJP as we put to rest a legendary network that has kept Gauteng wet and driven the South African economy.

Figure 58



Annexure A

Independent Assurance Report on Selected Sustainability Information

To the Directors of Transnet SOC Ltd (“Transnet”)

Report on Selected Sustainability Information

We have undertaken an assurance engagement on selected subject matters, as described below, and presented in the Sustainability Outcome Report 2018 of Transnet for the year ended 31 March 2018 (“the Report”). This engagement was conducted by a multidisciplinary team including environmental and assurance specialists with relevant experience in sustainability reporting.

Subject Matter

We have been engaged to provide a reasonable assurance opinion on the subject matters listed in table (a) and a limited assurance conclusion on the subject matters listed in table (b) below. The selected subject matters described below have been prepared in accordance with Transnet reporting criteria that accompanies the sustainability information on the relevant pages of the report (the accompanying Transnet reporting criteria).

Directors’ Responsibilities

The Directors are responsible for the selection, preparation and presentation of the selected Sustainable Development Outcomes (SDOs) in accordance with the Transnet SDOs framework. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues, commitments with respect to sustainability performance and design, implementation

Category	Selected subject matters	Scope of Coverage
(a) Reasonable assurance on the following subject matters:		
Ethics	<ul style="list-style-type: none">Reported incidents of irregularities (Page 26);Investigations in progress,total unfounded,total foundedtotal incidents	Transnet Group
Employment	<ul style="list-style-type: none">Transnet total headcount of employees for 2017/2018 (Page 47)Gross value-add from capital and operating expenditure (Page 49).	Transnet Group
Skills development	<ul style="list-style-type: none">Total spend on skills development (Page 59);Actual number of bursars on the Transnet training and engineering bursary programme (Page 59); andActual number of training participants per category for 2017/2018. (Page 59).	Transnet Group
Industrial capability building	<ul style="list-style-type: none">Research and Development Spend (Page 66).	Transnet Group
Regional integration	<ul style="list-style-type: none">Total cross-border revenue for 2017/2018 (Page 68).	Transnet Group
Transformation	<ul style="list-style-type: none">Employment equity: Black employees, women and people with disabilities as a percentage of the workforce for 2017/2018 (Page 48);Employment equity: Black employees per occupational level and female employees per occupational level actuals 2017/2018 (Page 48);Broad-Based Black Economic Empowerment Policy (Page 61);Broad-Based Black Economic Empowerment Spend (Page 61).	Transnet Group
Health and safety	<ul style="list-style-type: none">Safety statistics – DIFR rate for Transnet (Page 52);Safety statistics – DIFR rate per Operating Division (Page 52);Percentage change in unplanned absenteeism (Page 51).	Transnet Group
Community development	<ul style="list-style-type: none">CSI Spend per programme. (Page 56);Total CSI spend. (Page 53).	Transnet Group
Environmental stewardship	<ul style="list-style-type: none">Total electricity consumption for the 2017/2018 year (MWh) (Page 72);Electricity distribution (MWh) (Page 72);Total fuel consumption (Litres) (Page 72);Fuel distribution (Litres) (Page 72);Energy efficiencies (Efficiency rates) (Page 73);Scope 1 and 2 emissions (Page 72);Carbon emissions intensity for 2018 (Page 75).	Transnet Group
(b) Limited assurance on the following subject matters:		
Stakeholder Engagement	<ul style="list-style-type: none">Stakeholder Engagement Policy and Process Control Framework (Page 27).	Transnet Group

and maintenance of internal control relevant to the preparation of the report that is free from material misstatement, whether due to fraud or error. The Directors are also responsible for determining the appropriateness of the measurement and reporting criteria in view of the intended users of the selected SDOs and for ensuring that those criteria are publicly available to the report users.

Inherent Limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the method used for determining, calculating, sampling and estimating such information. The absence of a significant body of established practice on which to draw allows for the selection of certain different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements; and the precision thereof may change over time. It is important to read the report in the context of the reporting criteria.

In particular, where the information relies on the factors derived by independent third parties, our assurance work has not included examination of the derivation of those factors and other third party information.

Our Independence and Quality Control

We have complied with the independence and all other ethical requirements of the Code of Professional Conduct for Registered Auditors, issued by the Independent Regulatory Board for Auditors (IRBA), that is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

SizweNtsalubaGobodo Inc. applies the International Standard on Quality Control 1, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibility

Our responsibility is to express either a reasonable assurance opinion or limited assurance conclusion on the selected SDOs as set out in section (a) and (b) of the Subject Matter paragraph, based on the procedures we have performed and the evidence we have obtained. We conducted our reasonable and limited assurance engagement in accordance with International Standards on Assurance Engagements: *Assurance Engagements other than Audits and Reviews of Historical Financial Information (Revised) (ISAE 3000)* and in respect of greenhouse gas emissions, International Standard on Assurance Engagements 3410: *Assurance Engagements on Greenhouse Gas Statements (ISAE 3410)* issued by the International Auditing and Assurance Standards Board. These standards require that we plan and perform our engagement to obtain the appropriate level of assurance about whether the selected SDOs are free from material misstatement.

The procedures performed in a limited assurance engagement vary in nature and timing, and are less in extent than for a reasonable assurance engagement. As a result the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

(a) Reasonable assurance

A reasonable assurance engagement in accordance with ISAE 3000 (Revised) involves performing procedures to obtain evidence about the measurement of the selected SDOs and related disclosures in the report. The nature, timing and extent of procedures selected depend on the auditor’s professional judgement, including the assessment of the risks of material misstatement of the selected SDOs, whether due to fraud or error.

In making those risk assessments we have considered internal control relevant to Transnet’s preparation of the selected SDOs. A reasonable assurance engagement also includes:

- Evaluating the appropriateness of quantification methods, reporting policies and internal guidelines used and the reasonableness of estimates made by Transnet;
- Assessing the suitability in the circumstances of Transnet’s use of the applicable reporting criteria as a basis for preparing the selected information; and
- Evaluating the overall presentation of the selected sustainability performance information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our reasonable assurance opinion.

(b) Limited assurance

A limited assurance engagement undertaken in accordance with ISAE 3000 (Revised) involves assessing the suitability in the circumstances of Transnet’s use of its reporting criteria as the basis of preparation for the selected SDOs, assessing the risks of material misstatement of the selected SDOs whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the selected SDOs. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Accordingly, for the SDOs where limited assurance was obtained, we do not express a reasonable assurance opinion about whether Transnet’s selected SDOs have been prepared, in all material respects, in accordance with the accompanying Transnet reporting criteria.

The procedures we performed were based on our professional judgement and included inquiries, observation of processes followed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- Interviewed management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process;
- Inspected documentation to corroborate the statements of management and senior executives in our interviews;
- Tested the processes and systems to generate, collate, aggregate, monitor and report the selected SDOs;
- Performed a controls walkthrough of identified key controls;
- Inspected supporting documentation on a sample basis and performed analytical procedures to evaluate the data generation and reporting processes against the reporting criteria;
- Evaluated the reasonableness and appropriateness of significant estimates and judgements made by the directors in the preparation of the selected SDOs; and
- Evaluated whether the selected SDOs presented in the Report are consistent with our overall knowledge and experience of sustainability management and performance at Transnet.

Reasonable Assurance Opinion and Limited Assurance Conclusion

(a) Reasonable assurance opinion

In our opinion and subject to the inherent limitations outlined elsewhere in this report, the selected SDOs set out in section (a) of the Subject Matter paragraph above for the year ended 31 March 2018 are prepared, in all material respects, in accordance with the accompanying Transnet’s reporting criteria.

(b) Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained and subject to the inherent limitations outlined elsewhere in this report, nothing has come to our attention that causes us to believe that the selected SDOs as set out in section (b) of the Subject Matter paragraph above for the year ended 31 March 2018 are not prepared, in all material respects, in accordance with the accompanying Transnet reporting criteria.

Other Matters

The maintenance and integrity of the Transnet’s website is the responsibility of Transnet’s management. Our procedures did not involve consideration of these matters and, accordingly, we accept no responsibility for any changes to either the information in the Report or our independent assurance report that may have occurred since the initial date of its presentation on Transnet’s website.

Restriction of Liability

Our work has been undertaken to enable us to express either a reasonable assurance opinion or a limited assurance conclusion on the selected SDOs to the Directors of Transnet in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than Transnet, for our work, for this report, or for the conclusion we have reached. SizweNtsalubaGobodo Inc.

Mr Alex Philippou CA (SA)

Registered Auditor
Director
10 August 2018

20 Morris Street East
Woodmead
Johannesburg
2191

Abbreviations and acronyms

+	ABET	Adult Basic Education and Training	LNG	Liquefied Natural Gas
	AELS	Air Emission Licenses	MOU	Memorandum of Understanding
	AFS	Annual Financial Statements	MTSF	Medium-Term Strategic Framework
	AI	Artificial Intelligence	NC	Northern Cape
	AIDS	Acquired immune deficiency syndrome	NCR	Non-Conformance Report
	AMEA	Africa, the Middle East and Asia	NDP	National Development Plan
	B-BBEE	Broad-Based Black Economic Empowerment	NEAP	National Economically Active Population
	BCM	Business Continuity Management	NERSA	National Energy Regulator of South Africa
	CDP	Carbon Disclosure Project	NGN	Natural Gas Network
	CEO	Chief Executive Officer	NGOs	Non-Governmental Organisations
	CIP	Community Investment Plan	NMPP	New Multi-Product Pipeline
	CGM	Community Grievance Mechanism	OEMs	Original Equipment Manufacturers
	CSI	Corporate Social Investment	OSSB	Off-Shore Supply Base
	CSR	Corporate Social Responsibility	OTGC	Oil Tanking Grindrod Calulo
	DEA	Department of Environmental Affairs	PFMA	Public Finance Management Act
	DIFR	Disabling Injury Frequency Rate	PLP	Project Life-cycle Process
	DJP	Durban Johannesburg Pipeline	PSPs	Private-Sector Partnerships
	DPE	Department of Public Enterprises	QSEs	Qualifying Small Enterprises
	DTI	Department of Trade and Industry	R&D	Research and Development
	EAP	Employee Assistance Programme	REAP	Regional Economically Active Population
	EBITDA	Earnings Before Interest, Taxation, Depreciation and Amortisation	REMSEC	Remuneration, Social and Ethics Committee
	ED	Enterprise Development	RFP	Request For Proposals
	EE	Employment Equity	RIMS	Risk Integrated Management System
	EITs	Engineer-in-Trainings	RSR	Railway Safety Regulator
	EMEs	Exempted Mirco-Enterprises	SABS	South African Bureau of Standards
	EPM	Event Proximity Matrix	SADC	Southern Africa Development Community
	ESD	Enterprise Supplier Development	SAFA	South African Football Association
	EV	Electric Vehicle	SBU	Shanduka Black Umbrellas
	EVP	Employee Value Proposition	SD	Supplier Development
	FINCO	Financial Committee	SDGs	Sustainable Development Goals
	FRMP	Fraud Risk Management Plan	SDOs	Sustainable Developmental Outcomes
	GCE	Group Chief Executive	SMMEs	Small Medium and Micro-Enterprises
	GDP	Gross Domestic Product	SOC	State-Owned Company
	GHG	Greenhouse gas	SOR	Sustainability Outcomes Report
	GLT	Group Leadership Team	SR	Sustainability Report
	GRI	Global Reporting Initiative	SROA	Sustainability Risks and Opportunity Assessment
	HIV	Human Immunodeficiency Virus	SSI	Statement of Strategic Intent
	ICT	Information and Communication Technology	TAL	TransAfrica Locomotive
	iESD	Integrated Enterprise and Supplier Development	TEU	Twenty-foot Equivalent Unit
	IoT	Internet of Things	TIMA	Transnet Integrated Management Approach
	IR	Integrated Report	TIH	Transnet International Holdings SOC Ltd
	IRMSA	Institute of Risk Management of South Africa	TITs	Technician-in-Trainings
	iSCM	Integrated Supply Chain Management	TMPS	Total Measurable Procurement Spend
	ISL	Internal Safety Leagues	UNGC	United Nations Global Compact
	ISO	International Organisation for Standardisation	VAT	Value-Added Tax
	JASA	Junior Achievement South Africa	VFL	Visible Felt Leadership
	JOCs	Joint Operating Centres	YPT	Youth Professionals-in-Training
	LCMS	Locomotive Condition Monitoring System	ZAR	South African Rand

Corporate information

Transnet SOC Ltd

Incorporated in the Republic of South Africa.
Registration number 1990/000900/30.

47th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
2001

Executive directors

Mr SI Gama (Group Chief Executive)
Mr MS Mahomedy (Acting Chief Financial Officer)

Mr GJ Pita resigned in April 2018.

Mr MS Mahomedy was appointed in May 2018.

Independent non-executive directors

Dr PS Molefe (Chairperson), Ms UN Fikelepi, Ms RJ Ganda, Prof EC Kieswetter, Ms DC Matshoga, Mr LL von Zeuner, Ms ME Letlape, Adv OM Motaung, Ms G Ramphaka, Mr AP Ramabulana, Ms V McMenamin, Dr FS Mufamadi were appointed in May 2018.

Mr SD Shane resigned in June 2017 and Mr BG Stagman resigned in December 2017.

Ms AC Kinley and Mr SM Radebe were appointed to the Board in December 2017.

Mr GJ Mahlalela passed away in March 2018.

Ms LC Mabaso, Ms Y Forbes, Mr VM Nkonyane and Ms AC Kinley resigned in May 2018.

Mr PEB Mathekga, Mr ZA Nagdee and Mr SM Radebe were removed in May 2018.

Group Company Secretary

NE Khumalo
47th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
2001

PO Box 72501
Parkview
2122
South Africa

Auditors

SizweNtsalubaGobodo Inc.
20 Morris Street East
Woodmead
Johannesburg
2191

The internal audit function has been outsourced to SekelaXabiso (Pty) Ltd.

SekelaXabiso (Pty) Ltd
1st Floor, Building 22B
The Woodlands Office Park
20 Woodlands Drive
Woodmead
Johannesburg

KPMG Services (Pty) Ltd left the internal audit function during the reporting period.

Nkonki Inc. left the internal audit function after the reporting period.