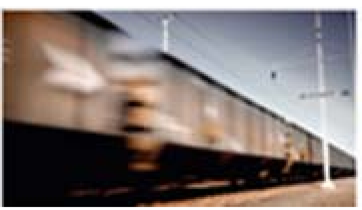
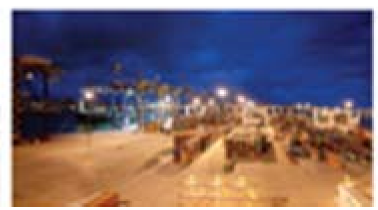
TRANSNET

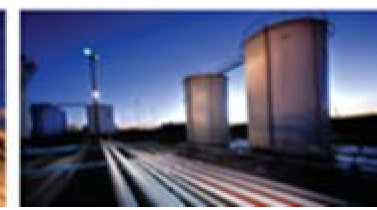
delivering on our commitment *to you*

TRANSNET BRIEFING TO DPE WINTER SCHOOL

AUGUST 2009







TRANSNET freight rail

TRANSNET rail engineering

TRANSNET national ports authority

TRANSNET port terminals

TRANSNET pipelines

CONTENTS

INTRODUCTION TO TRANSNET

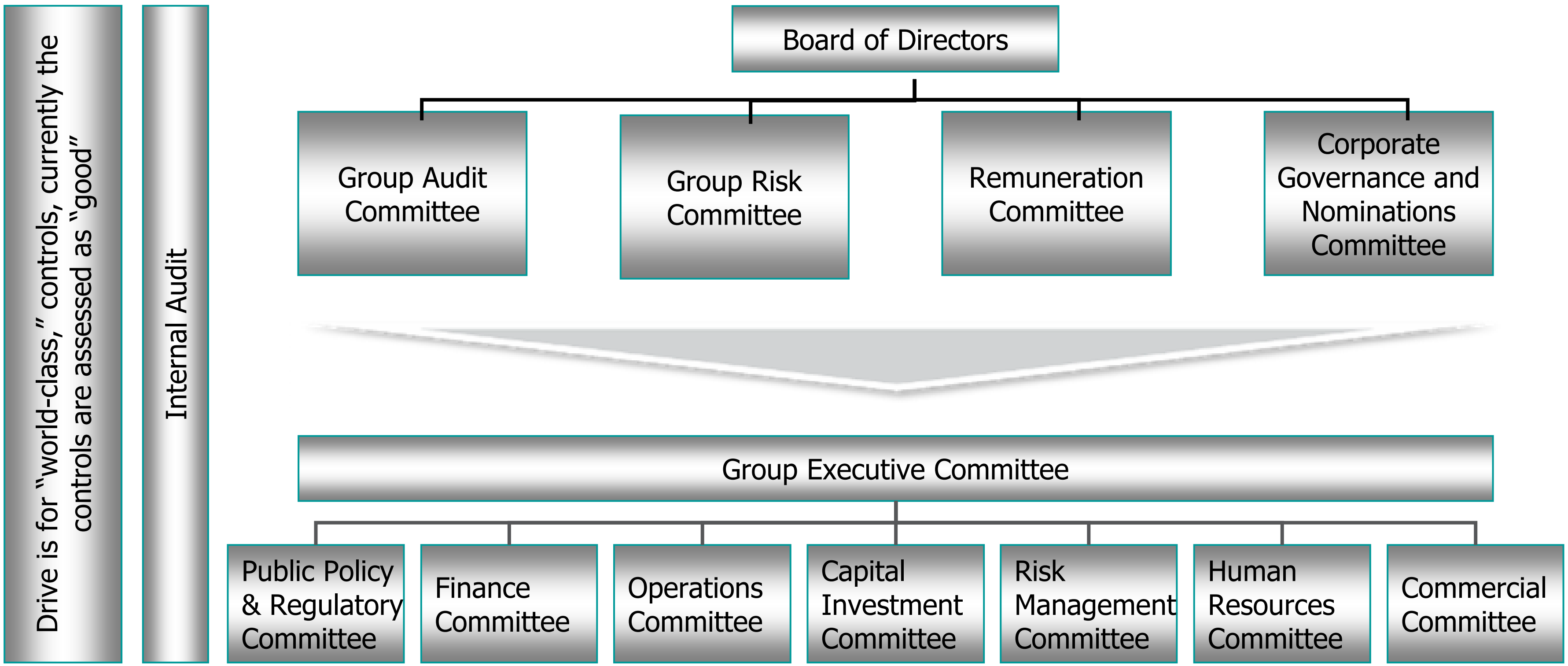
Shareholder mandate	Transnet's key role is to assist in lowering the cost of doing business in South Africa and enabling economic growth through providing appropriate port, rail and pipeline infrastructure and operations in a cost-effective and efficient manner and within acceptable benchmark standards. Transnet is self-funded and does not receive subsidies from the State.
Vision and mission	Transnet is a focused freight transport company, delivering integrated, efficient, safe, reliable and cost-effective services to promote economic growth in South Africa. This is to be achieved through increasing our market share, improving productivity and profitability and by providing appropriate capacity to our customers ahead of demand.
Values	We would like our customers: to prefer us because we are reliable, trustworthy, responsive and safe; and because: our employees are committed, safety conscious, accountable, ethical, disciplined and results orientated.

SHAREHOLDER'S COMPACT: STRATEGIC OBJECTIVES

1. Volume and revenue growth	- Grow rail volumes where opportunities exist to increase market share - Competitively provide services
2. Capital and financial efficiency	- Strong balance sheet - Appropriate gearing - Cost effective funding
3. Operating efficiency & effectiveness	- Operating efficiency and effectiveness in line with industry standards - Operating margin improvement based on cost reduction/containment
4. Infrastructure Investments	- Make appropriate investments in ports, rail and pipelines to enable growth - Correlation between budget and actual capital spending
5. Development	- ASGISA- SA - Logistics cost reduction - Skills development - BEE

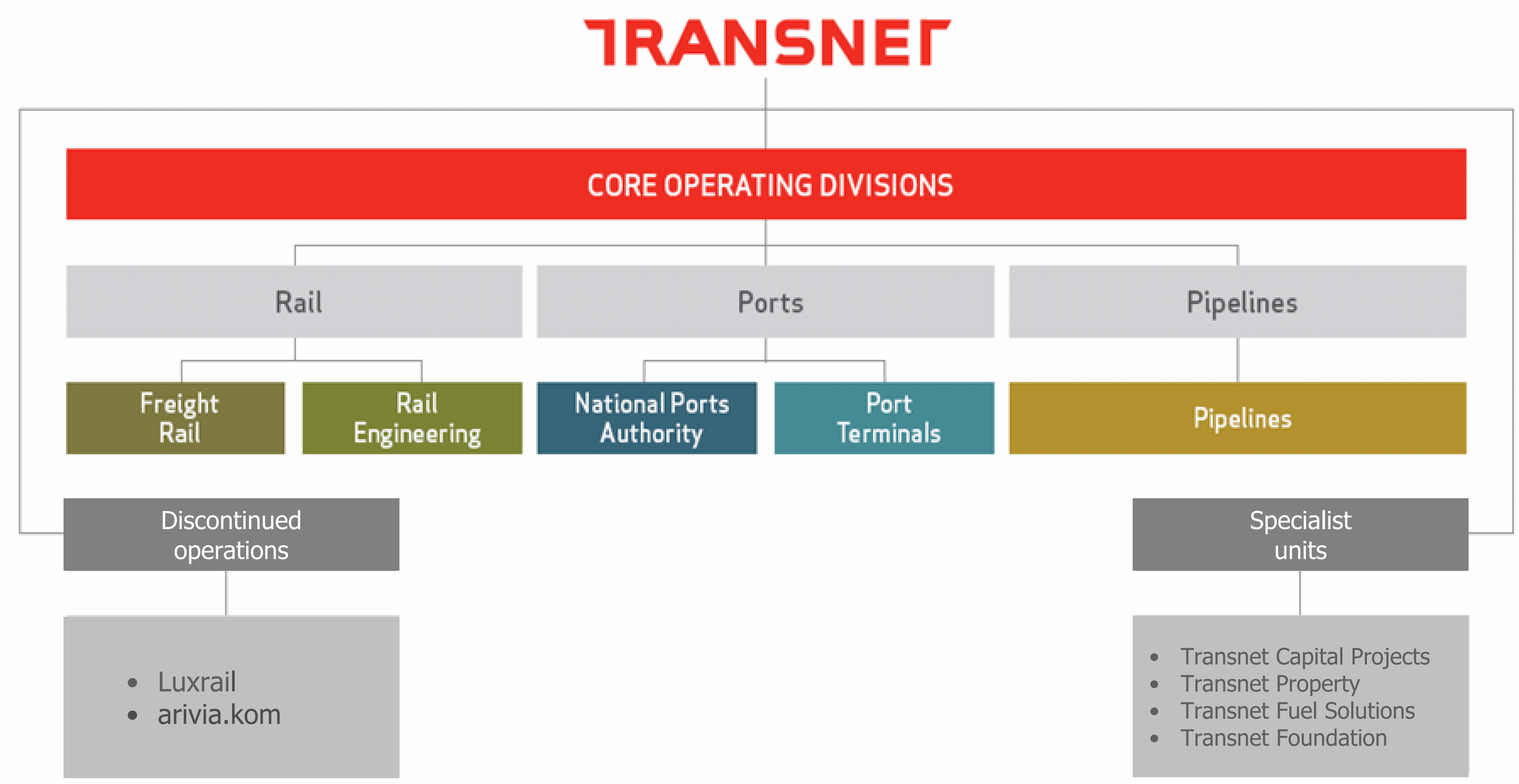
TRANSNET CHALLENGE → **To create capacity, improve efficiencies, grow volumes and maintain a strong financial position**

GOVERNANCE STRUCTURE



The role of the Group Exco is to provide strategic direction to the business, and provide sufficient oversight to the operations to ensure that the strategy is successfully implemented.
In addition, Group Exco provides oversight for financial and operational risk management across the Company.

ORGANISATIONAL STRUCTURE



TRANSNET IS AN INTEGRATED FREIGHT TRANSPORT COMPANY, FORMED AROUND A CORE OF FIVE OPERATING DIVISIONS THAT COMPLEMENT EACH OTHER

TRANSNET freight rail	Transnet Freight Rail (TFR) is focused on transporting bulk and containerised freight. Its business lines comprise the coal and iron ore export channels and the general freight business.
TRANSNET rail engineering	Transnet Rail Engineering (TRE) consists of eight product-focused business units which provide services ranging from refurbishment, conversion and upgrades, to the manufacturing of rail-related rolling stock mainly for TFR and PRASA, the Passenger Rail Association of South Africa.
TRANSNET national ports authority	Transnet National Ports Authority (TNPA) is responsible for the safe, efficient and effective economic functioning of the national ports system, which it manages in a landlord capacity. TNPA is also a provider of port infrastructure and marine services at all seven commercial ports in South Africa. The eighth port, and the newest, is the Port of Ngqura, which will open in October 2009.
TRANSNET port terminals	Transnet Port Terminals (TPT) manages 15 cargo terminal operations situated across six South African ports. It provides cargo handling services for containers, dry bulk, break-bulk and automotive cargoes. TPT is gearing itself to operate the container terminal at the Port of Ngqura upon opening.
TRANSNET pipelines	Transnet Pipelines (TPL) transports a range of petroleum products and gas through 3000 km of underground pipelines traversing five provinces. This excludes the New Multi-Product Pipeline (NMPP), which is scheduled for completion towards the end of 2011.

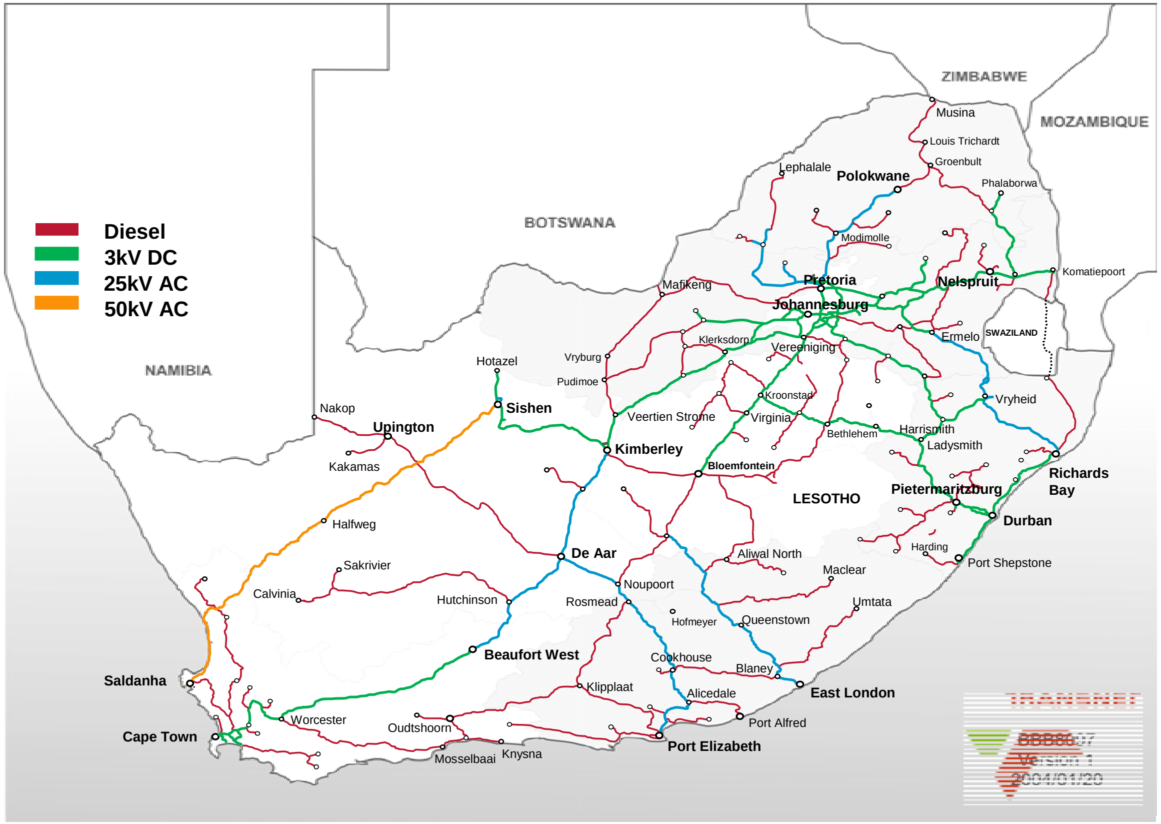
PORT INFRASTRUCTURE

- Nine commercial ports
- Complementary grouping into west, central and eastern region
- Older ports reaching capacity
- Potential for growth at newer ports

19 container berths	3 automotive terminals	26 dry bulk berths	39 break bulk berths	13 liquid bulk berths

RAIL INFRASTRUCTURE

- 30 000 km of track
- Core network – 6 994 km
- 30% of core network carries 95% of the freight volumes

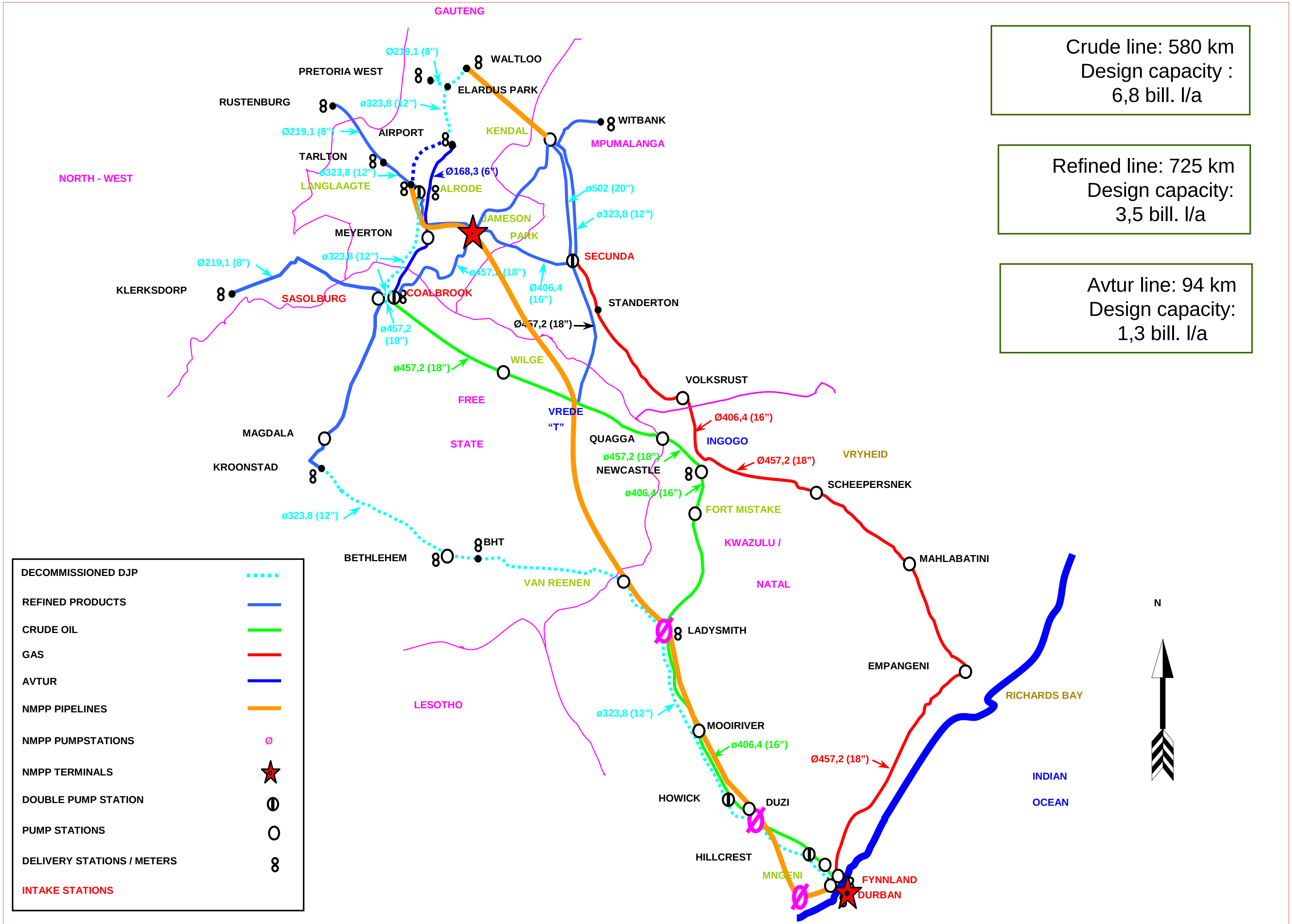


Network electrification:
50 kV AC (861 km)
25 kV AC (2 309 km)
3 kV DC (4 935 km)

Axle loading:
Main lines at 22t/axle
Coal and ore lines at 30t/axle (coal line operates at 27 ton)

PIPELINE NETWORK

TRANSNET



Crude line: 580 km
Design capacity :
6,8 bill. l/a

Refined line: 725 km
Design capacity:
3,5 bill. l/a

Avtur line: 94 km
Design capacity:
1,3 bill. l/a

INTRODUCTION TO TRANSNET
FINANCIAL RESULTS: 31 MARCH 2009

Consolidated income statement	2009 R million	%	2008 R million
Revenue	33 592	11.6	30 091
Net operating expenses	(20 392)	18.0	(17 281)
EBITDA	13 200	3.0	12 810
Depreciation and amortisation	(4 779)	25.8	(3 798)
Impairment of assets, dividends received, equity accounted profit/(loss)	(242)	>100	(90)
Fair value adjustments	941	(33.6)	1 416
Post-retirement benefit obligation (costs)/income	(436)	>100	686
Profit from operations before net finance costs	8 684	(21.2)	11 024
Net finance costs	(1 966)	1.8	(1 931)
Taxation	(1 674)	(36.6)	(2 642)
Profit for the year from continuing operations	5 044	(21.8)	6 451

FINANCIAL RESULTS: 31 MARCH 2009

Consolidated balance sheet	2009 R million	2008 R million
ASSETS		
Non-current assets		
Property, plant and equipment	96 459	78 256
Investment properties	5 961	4 515
Other	997	1 449
Current assets		
Inventory	2 589	2 319
Trade and other receivables	5 503	4 074
Cash and cash equivalents	5 880	5 980
Assets classified as held-for-sale	374	1 131
Derivative financial assets and other short-term investments	771	962
Total assets	118 534	98 686

- Increased inventory levels are due to the increased levels of maintenance activity and long lead times of supply.
- Accruals of the revised coal export tariff and the sale of Shosholoza Meyl to PRASA impact the increase in trade receivables.

FINANCIAL RESULTS: 31 MARCH 2009

Consolidated balance sheet	2009 R million	2008 R million
EQUITY AND LIABILITIES		
Capital and reserves	58 334	50 961
Non-current liabilities	43 198	28 208
Post-retirement benefit obligations	2 324	2 181
Long-term borrowings	29 758	16 890
Deferred taxation liabilities, provisions and derivative liabilities	11 116	9 137
Current liabilities	17 002	19 517
Trade payables and other	16 988	18 841
Liabilities classified as held-for-sale	14	676
Total equity and liabilities	118 534	98 686

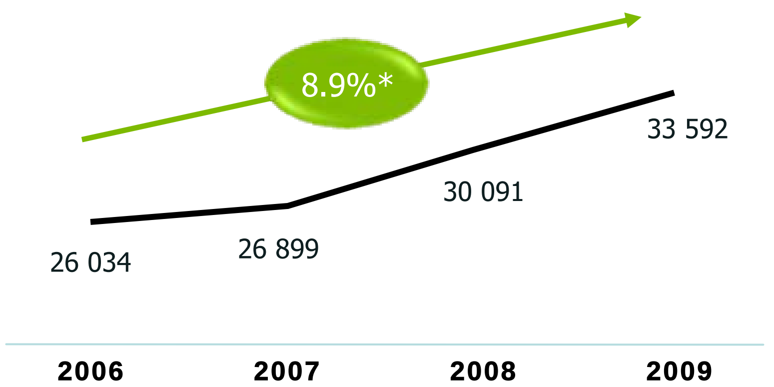
FINANCIAL RESULTS: 31 MARCH 2009

Consolidated cash flow statement	2009 R million	%p	2008 R million
Cash flow from operating activities	7 400	(28.0)	10 287
Cash flows from investing activities	(19 084)	>100	(8 250)
Capital expenditure – expansion	(10 884)		(7 051)
Capital expenditure – replacement	(8 498)		(8 729)
Other investing activities	298		7 530

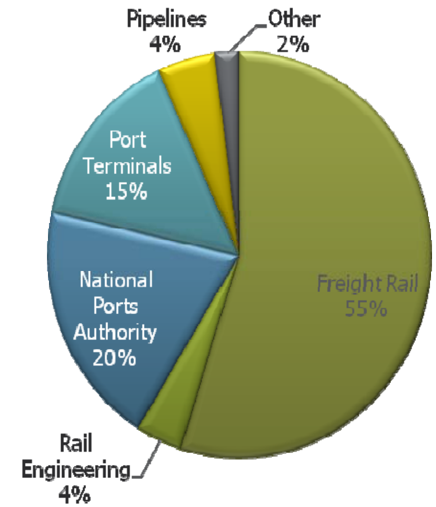
- The capital expenditure programme for the current year amounted to R19.4 billion (2008: R15.8 billion) excluding capitalised borrowing costs – an increase of 22.8%.
- The decline in other investing activities in 2009 is mainly due to proceeds of R5.6 billion received in the prior year from sale of the C-Class preference share.

SEGMENTAL CONTRIBUTION

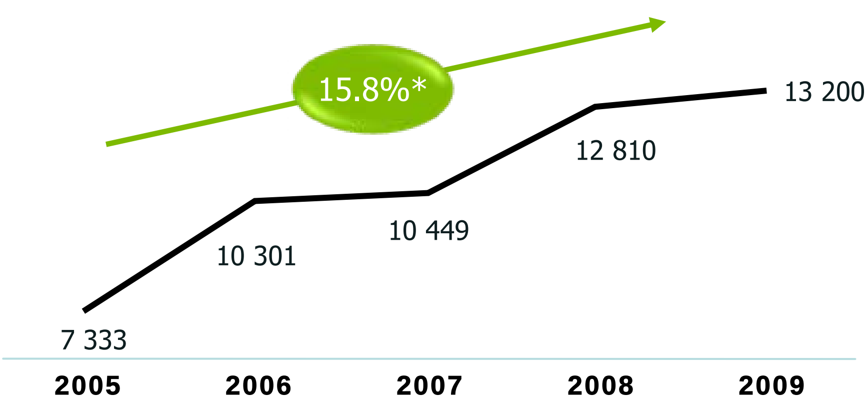
Revenue (R million)



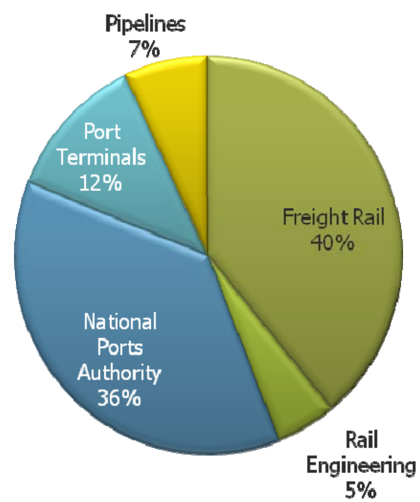
% contribution per division to external revenue



EBITDA (R million)



% contribution per core division to EBITDA



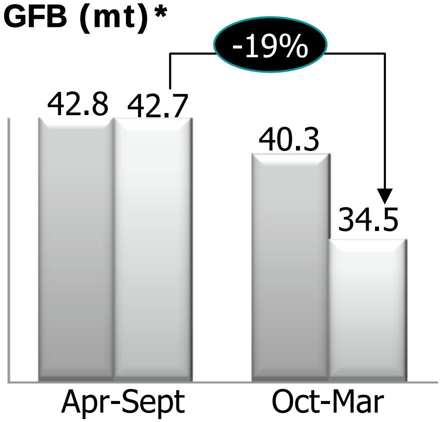
*Compound annual growth rate %

IMPACT OF ECONOMIC CRISIS ON TRANSNET

TRANSNET

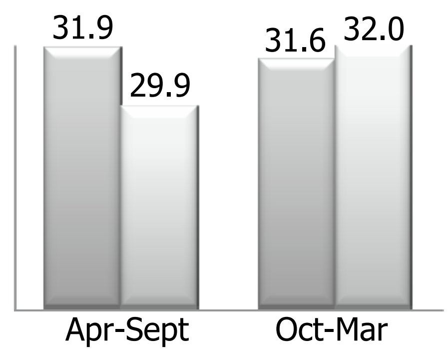
Rail volumes

GFB (mt)*

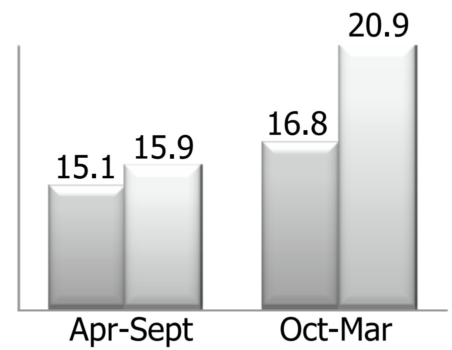


Q4 2009 vs Q4 2008 = (20%)

Coal (mt)

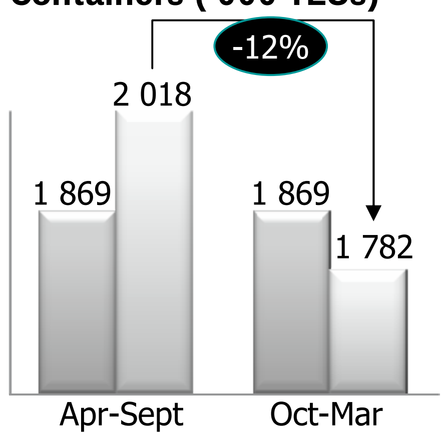


Iron Ore (mt)



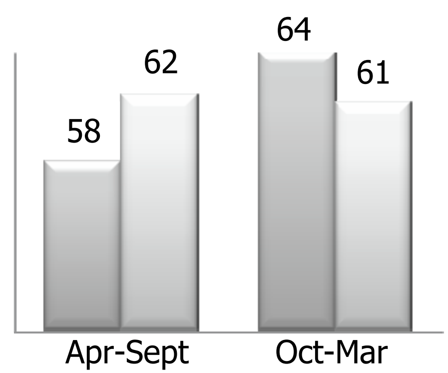
Port volumes

Containers ('000 TEUs)

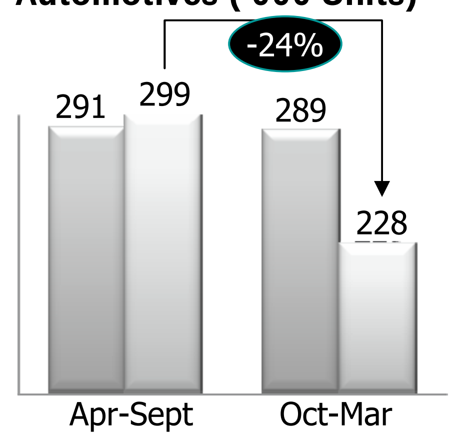


Q4 2009 vs Q4 2008 = (14%)

Dry Bulk (mt)



Automotives ('000 Units)



2007/08 2008/09

* Excluding "intra" volumes

DIVISIONAL OVERVIEW - TRANSNET FREIGHT RAIL

Financial Results

Revenue

12.6% to
R18 683
million

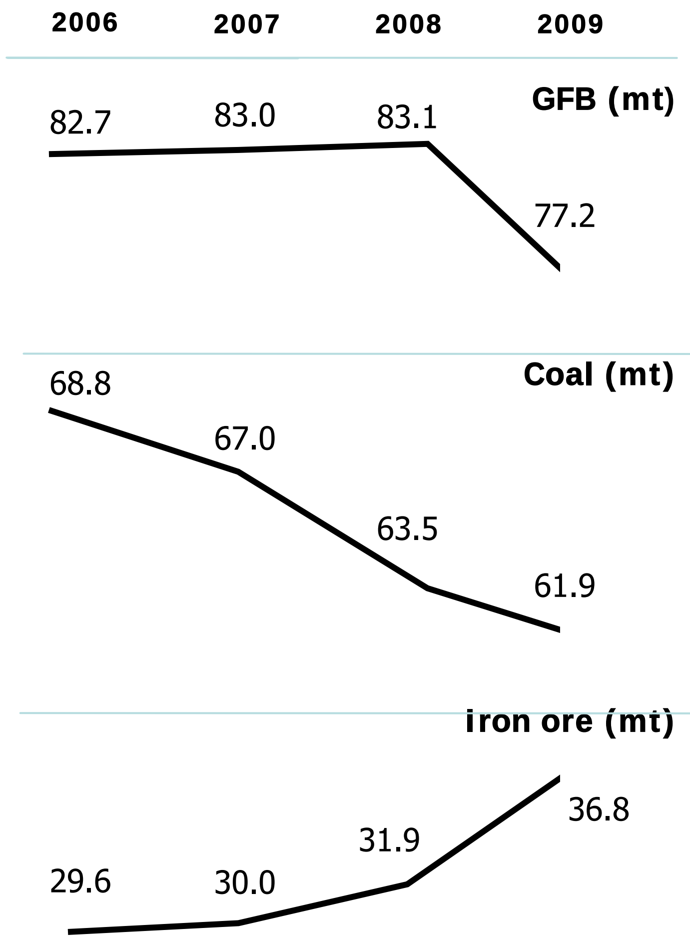
EBITDA

11.0% to
R5 673
million

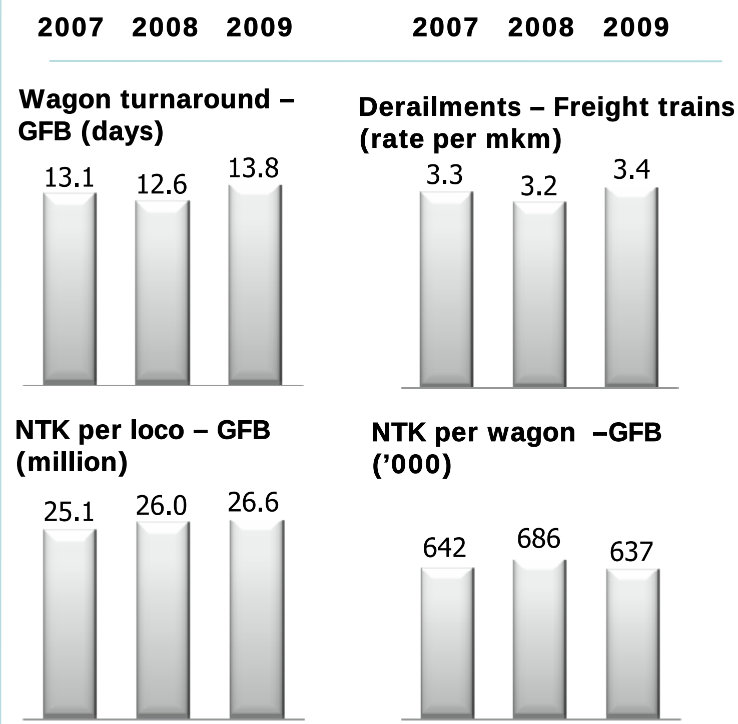
CAPEX

6.4% to
R8 593
million

Key volumes



Operational indicators



DIVISIONAL OVERVIEW - TRANSNET RAIL ENGINEERING

Financial Results

Revenue

0.9% to
R8 228
million

EBITDA

36.1% to
R764
million

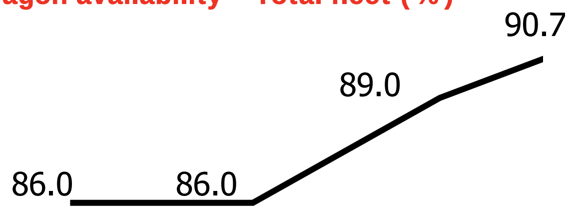
CAPEX

25.7% to
R568
million

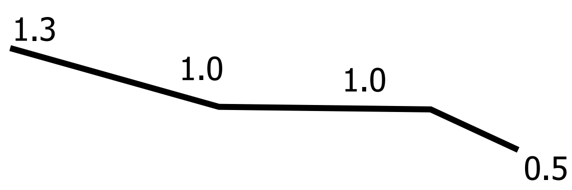
Operational indicators

2006 2007 2008 2009

Wagon availability – Total fleet (%)



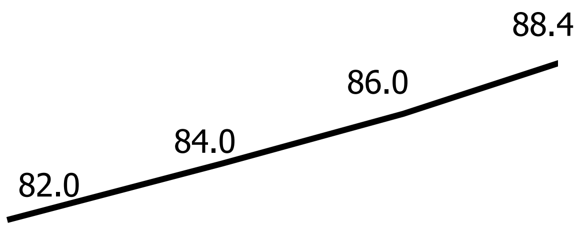
Wagon reliability – Total fleet (faults per mkm)



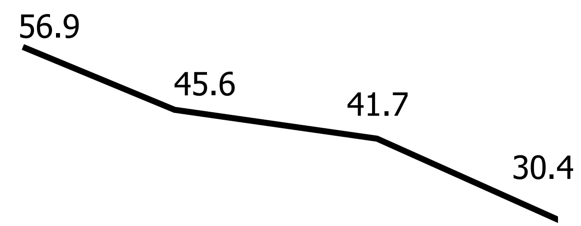
Operational indicators

2006 2007 2008 2009

Loco availability – Total fleet (%)



Loco reliability – Total fleet (faults per mkm)



- External revenue increased by 32.9%
- DIFR improved by 12.2% to 1.15 (2008: 1.31)
- Action plans are focused on improving availability and reliability of rolling stock

DIVISIONAL OVERVIEW - TRANSNET NATIONAL PORTS AUTHORITY

TRANSNET

Financial Results

Revenue

3.9% to
R7 110
million

EBITDA

1.2% to
R5 251
million

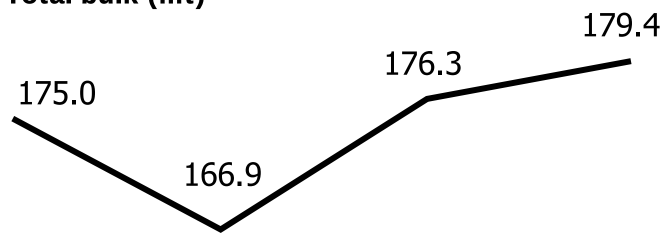
CAPEX

54.9% to
R4 237
million

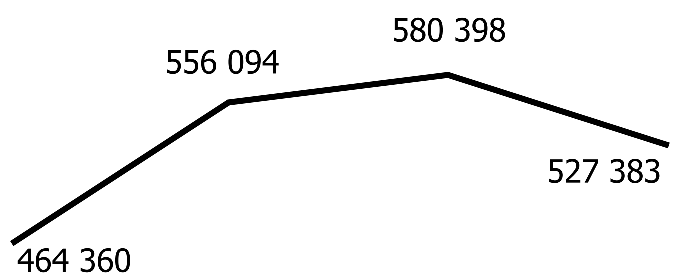
Key volumes

2006	2007	2008	2009

Total bulk (mt)



Vehicle (units)

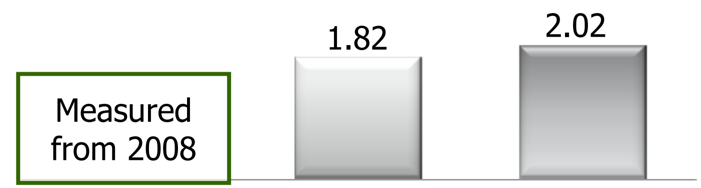


Container volumes –
refer to TPT overview

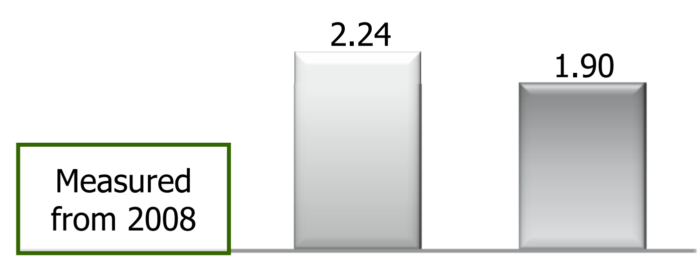
Operational indicators

2007	2008	2009

Shipping delays – Tugs (hours)



Shipping delays – Pilot (hours)



DIVISIONAL OVERVIEW - TRANSNET PORT TERMINALS

Financial Results

Revenue

4.0% to
R5 037
million

EBITDA

6.5% to
R1 688
million

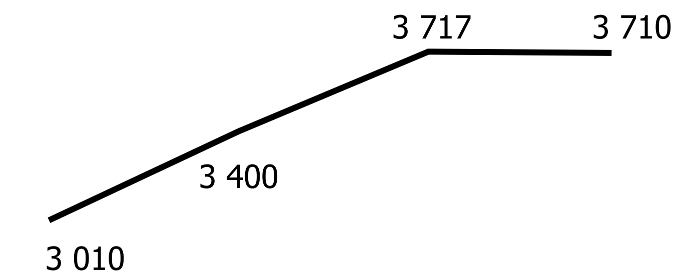
CAPEX

59.1% to
R3 144
million

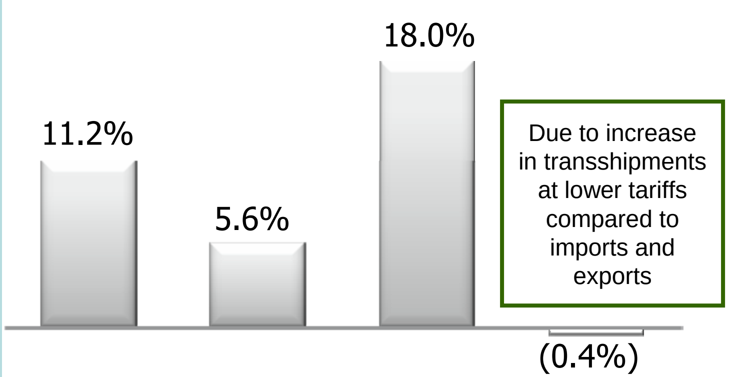
Key volumes/Tariff

2006 **2007** **2008** **2009**

Containers ('000 TEU's)



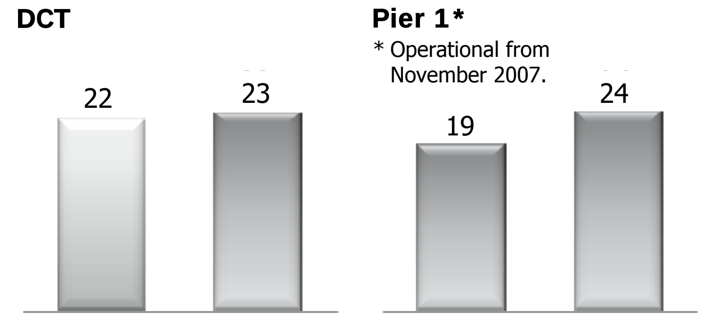
Container/revenue per unit increase



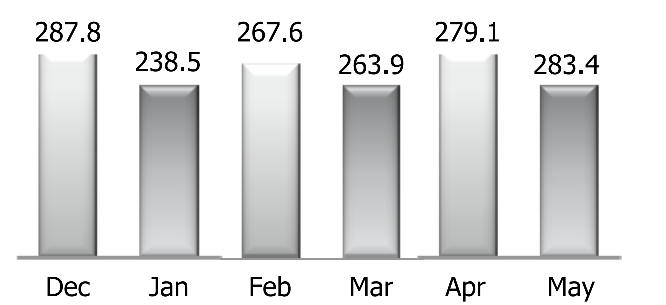
Operational indicators

2008 **2009** **2008** **2009**

Crane moves per hour



Containers volumes – last 6 months ('000 TEUs)



DIVISIONAL OVERVIEW - TRANSNET PIPELINES

Financial Results

Revenue

13.2% to
R1 463
million

EBITDA

6.7% to
R1 048
million

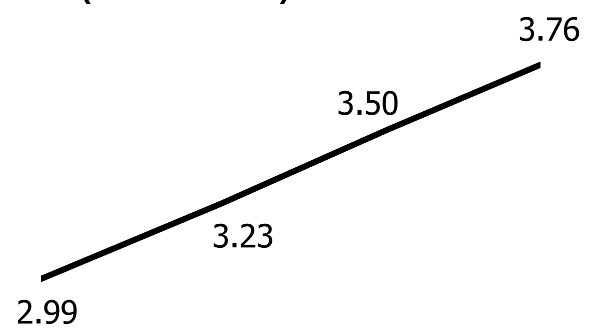
CAPEX

>100% to
R2 772
million

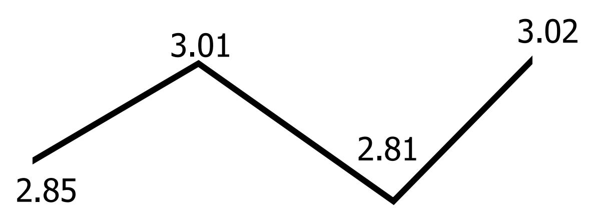
Key volumes

2006	2007	2008	2009

Refined (million Mℓ/km)



Crude (million Mℓ/km)

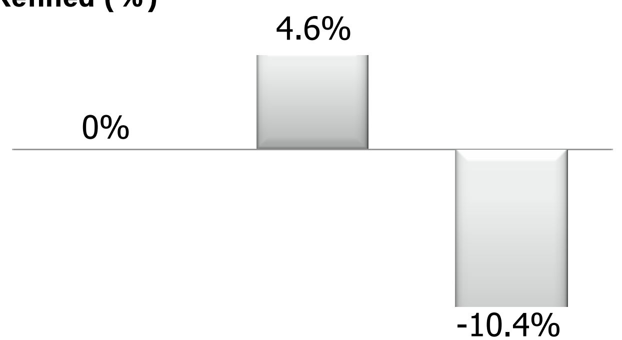


Maximum utilisation of the network as a result of the Bridging plan

Average tariff increases

2008	2009	2010

Refined (%)



- NERSA ruling on tariffs for 2009/10 reflects a loss in revenue of approximately R1 billion
- Alternative funding options for the NMPP are being pursued

SHAREHOLDER COMPACT KPIs – 2009/10

Key Performance Area	Key Performance Indicator	Unit of Measure	Target Range - 2009/10					
			Group	TFR	TRE	TNPA	TPT	TPL
Volume and Revenue	Volume Growth (Weighted)	(%)	≤ (5%)	≤ (5%)		≤ (8%)	≤ (3%)	≤ (2%)
	Tariff Increases	(%)	≤11%	≤7.5%		To be determined by Regulator	≤6%	To be determined by Regulator
Financial Value Creation	EBITDA Margin	%	≥33%	≥27%	≥8%	≥70.5%	≥28%	≥77%
	Return on Average Total Assets (excl CWIP)	%	≥6%	≥4.0%	≥9.0%	≥10.0%	≥5.0%	≥25.5%
	Cash Interest Cover	Times	≥3.4					
	Gearing	%	≤44%					
Infrastructure & Maintenance	Capital Expenditure	Percentage of Rm budget	≥90%					
			21 912	10 063	487	3 974	2 743	4 356
Operational Efficiency	Loco Efficiency (GFB)	GTK per loco per month		≥ 4.0				
	Wagon Turnaround (GFB)	Days		≤13				
	Net ton kilometres - GFB - Export Coal - Export Iron Ore	Net ton kilometre (million)		33,590 39,845 37,380				
	Loco Availability (Weighted)	%			≥88%			
	Wagon Availability (Weighted)	%			≥93%			
	Average Shipping Delays - Tugs	Hours				≤2.5		
	Average Shipping Delays - Berthing	Hours				≤1.5		
	Moves per Crane Hour	Number of Moves					DCT: ≥25 CTCT: ≥25 Pier 1: ≥25	
	Production interruptions - internal and external causes	Hours						≤750
Human Capital	Training spend - 3% of personnel costs	%	3.0%					
Risk and Safety	DIFR	Rate	≤0.87	≤1.08	≤1.00	≤1.00	≤0.80	≤1.30

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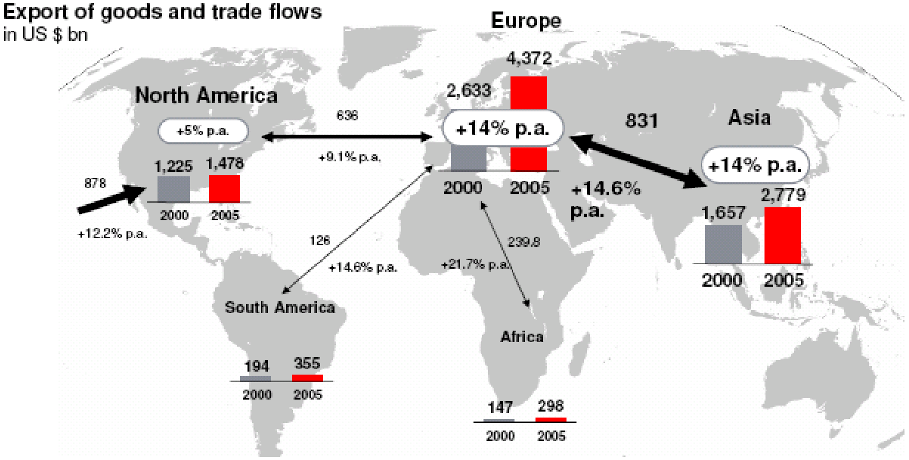
THE GLOBAL LOGISTICS INDUSTRY IS EXPERIENCING GREAT CHANGES

Markets	⇨	Rapid expansion of international trade in most regions, and particularly in Asia: many supply chains are now truly global
Expectations	⇨	Global competition in product and service markets is driving higher standards and lower costs in logistics supplier markets
Competition	⇨	Despite some industry concentration, the freeing of transport markets is creating greater contestability in logistics services and sub-markets
Technology	⇨	All modes of transport are investing to obtain more efficiencies, usually larger vessels/vehicles and improved traffic dispatching, monitoring and control capability

"By 2025, 80% of goods traded will be produced in countries different than where they are consumed." (McKinsey and Company)

CUSTOMER REQUIREMENTS TODAY ARE: GLOBAL SHIPMENTS, MULTIMODAL SOLUTIONS & INTEGRATED LOGISTIC SOLUTIONS

- Increasing flexibility of supply chains requires:
- Globally active Logistics Providers
- With a close meshed network
- With globally valid standards
- With central decision making competence
- With efficient IT systems
- With flexible service packages and
- Capable of quickly offering bespoke customer solutions

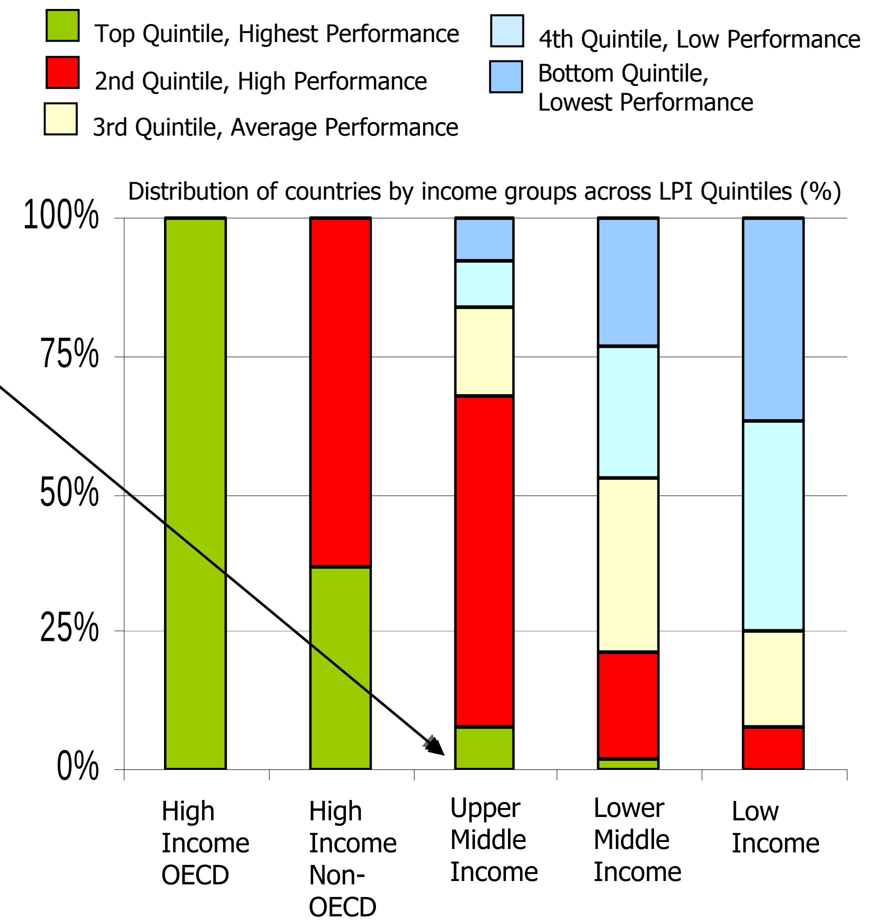


REACTION - CONSOLIDATION WITHIN THE SECTOR

Trend towards oligopoly structures and megamergers in the transport markets as this makes collaboration easier.
Transnet is similarly pursuing an integration strategy.

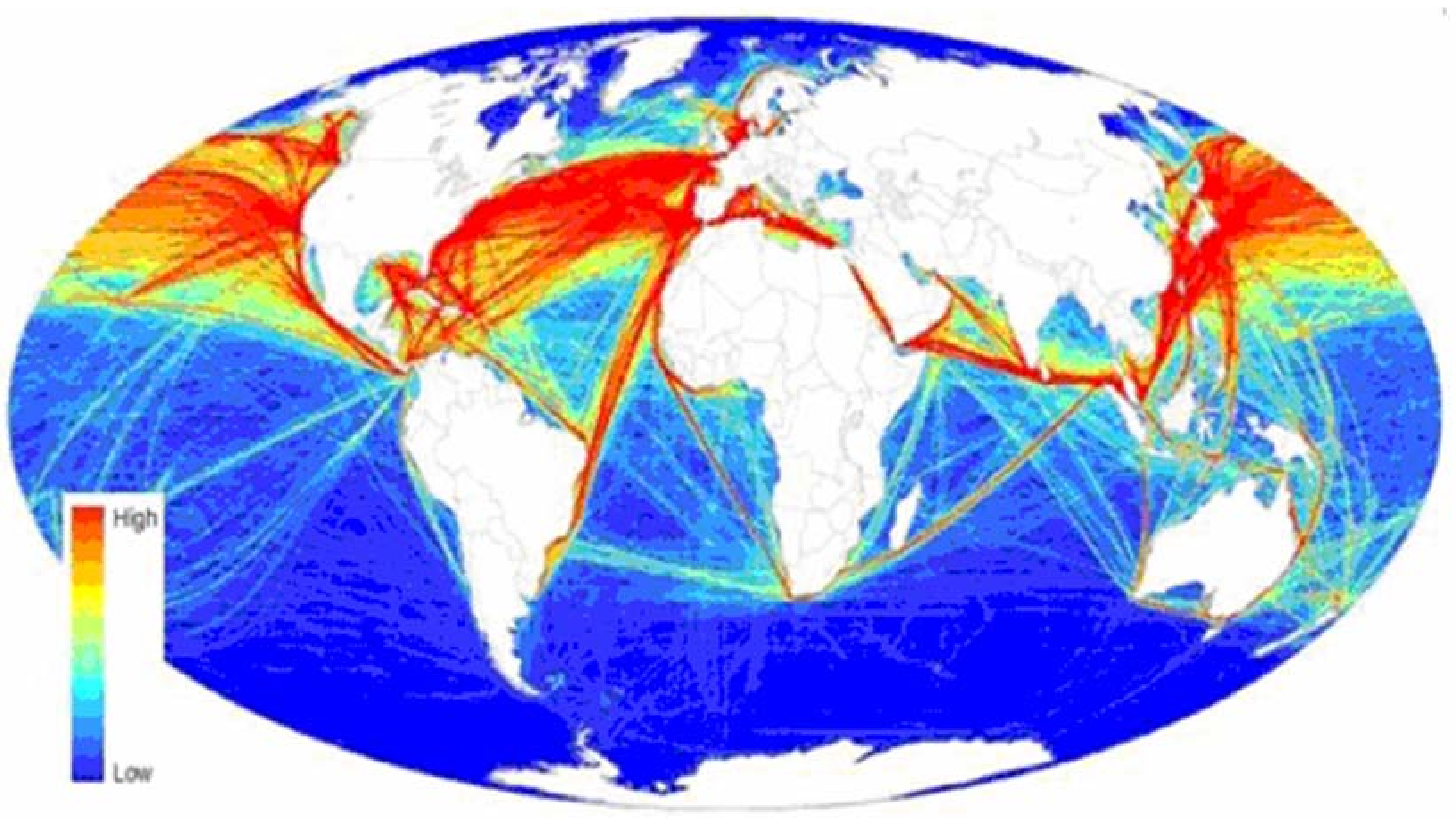
SOUTH AFRICA'S FREIGHT SYSTEM IS PERFORMING RELATIVELY WELL (World Bank, 2007)

- High income countries are generally top performers but there are big differences between countries at other income levels.
- South Africa placed 24th out of 150 countries and is the highest ranked middle income country in a list which includes Malaysia (27), Chile (32), Turkey (34) and Hungary (35).
- Singapore, Netherlands and Germany are the top 3 ranked countries respectively.
- China (30) is the top performer amongst lower middle income countries.
- India (39) is the top performer amongst low income countries.



Source: World Bank, Connecting to Compete: Trade Logistics in the Global Economy, October 2007
LPI = Logistics Performance Index

CONNECTIVITY IS NEEDED FOR SUCCESS IN GLOBAL ECONOMY



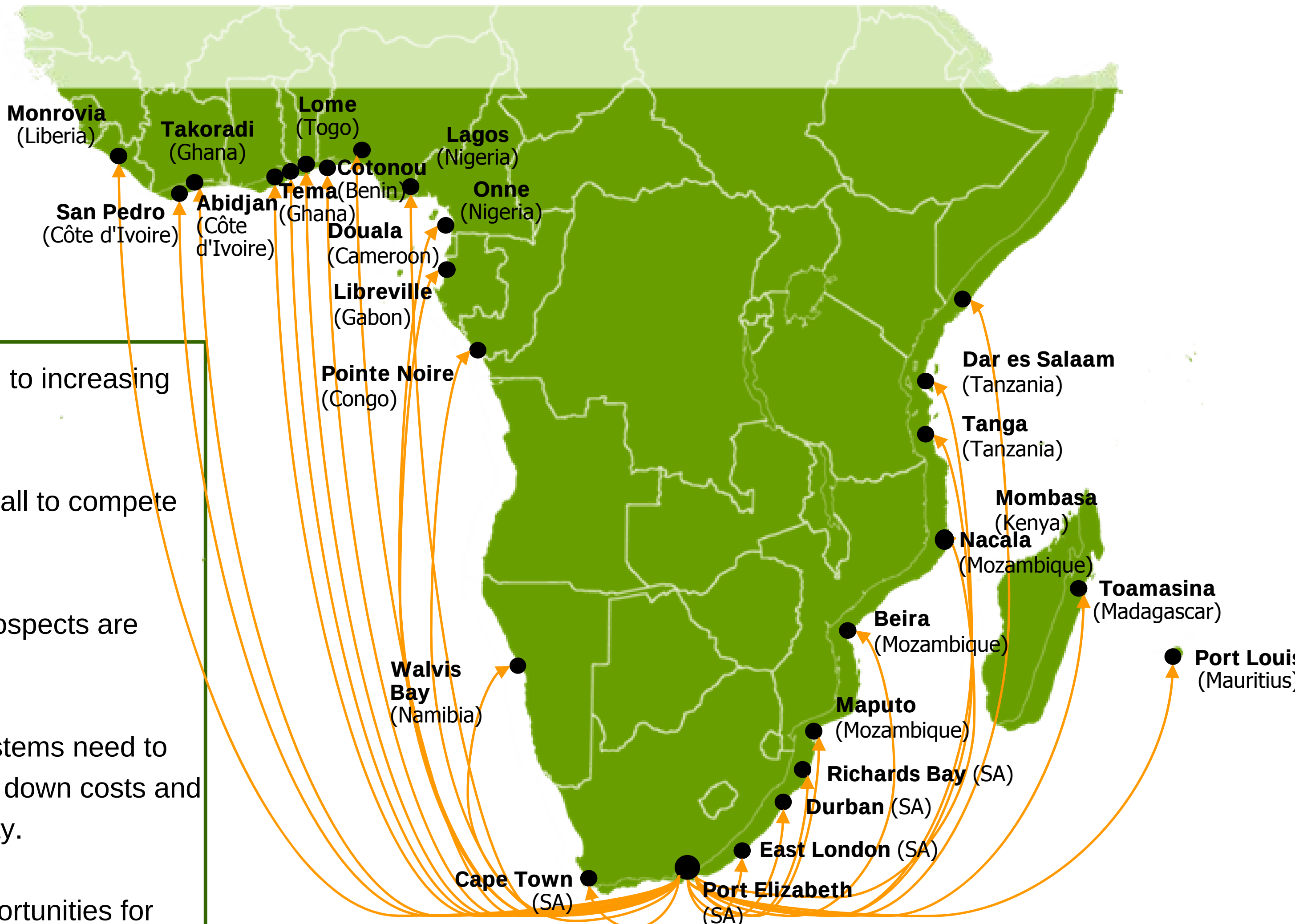
The intensity of global shipping by number of sailings

Africa's share of global trade has been declining for decades:
from nearly 4% in 1960s to under 2% today.

Source: World Bank

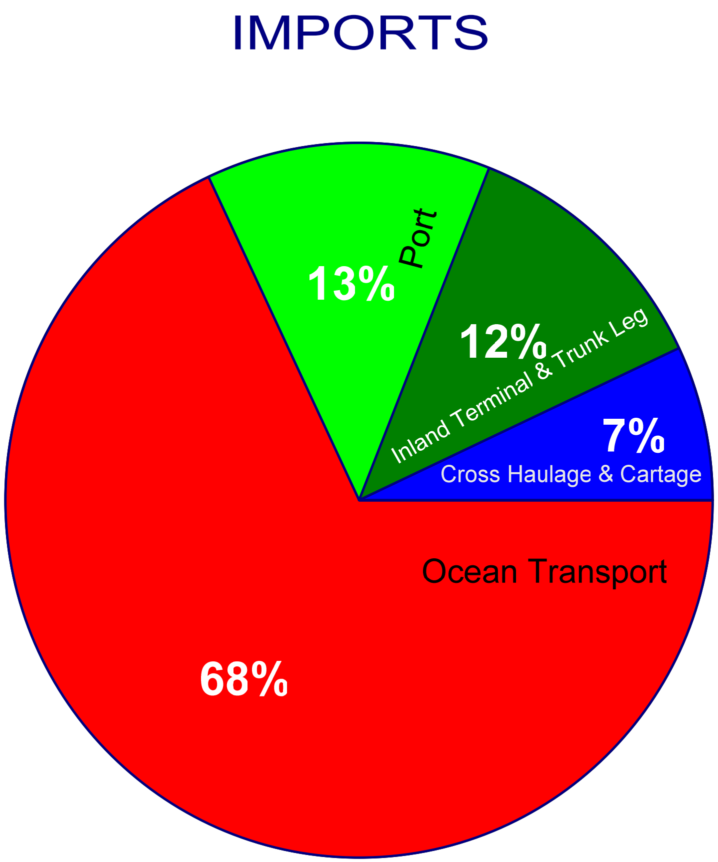
A REGIONAL APPROACH IS REQUIRED TO BUILD ECONOMIES OF SCALE AND DRIVE TRANSPORT SYSTEM EFFICIENCIES

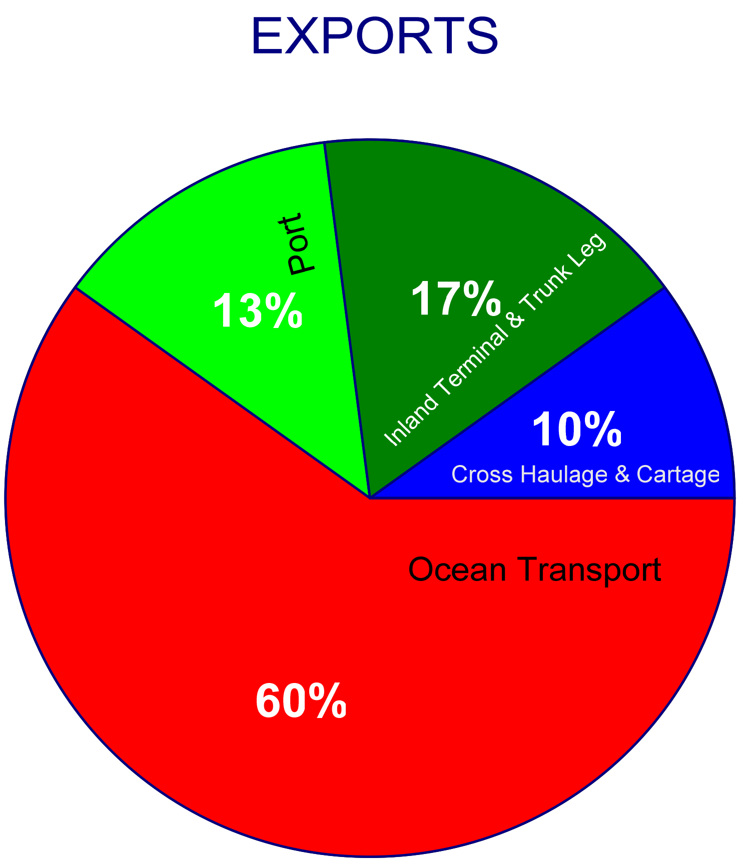
TRANSNET



- Volumes are critical to increasing connectivity.
- SA's market too small to compete successfully.
- Regional growth prospects are stronger than ever.
- Regional freight systems need to consolidate to drive down costs and increase connectivity.
- Feeder system opportunities for BEE

OCEAN FREIGHT COSTS IMPACT GREATLY ON SOUTH AFRICAN SUPPLY CHAIN COMPETITIVENESS

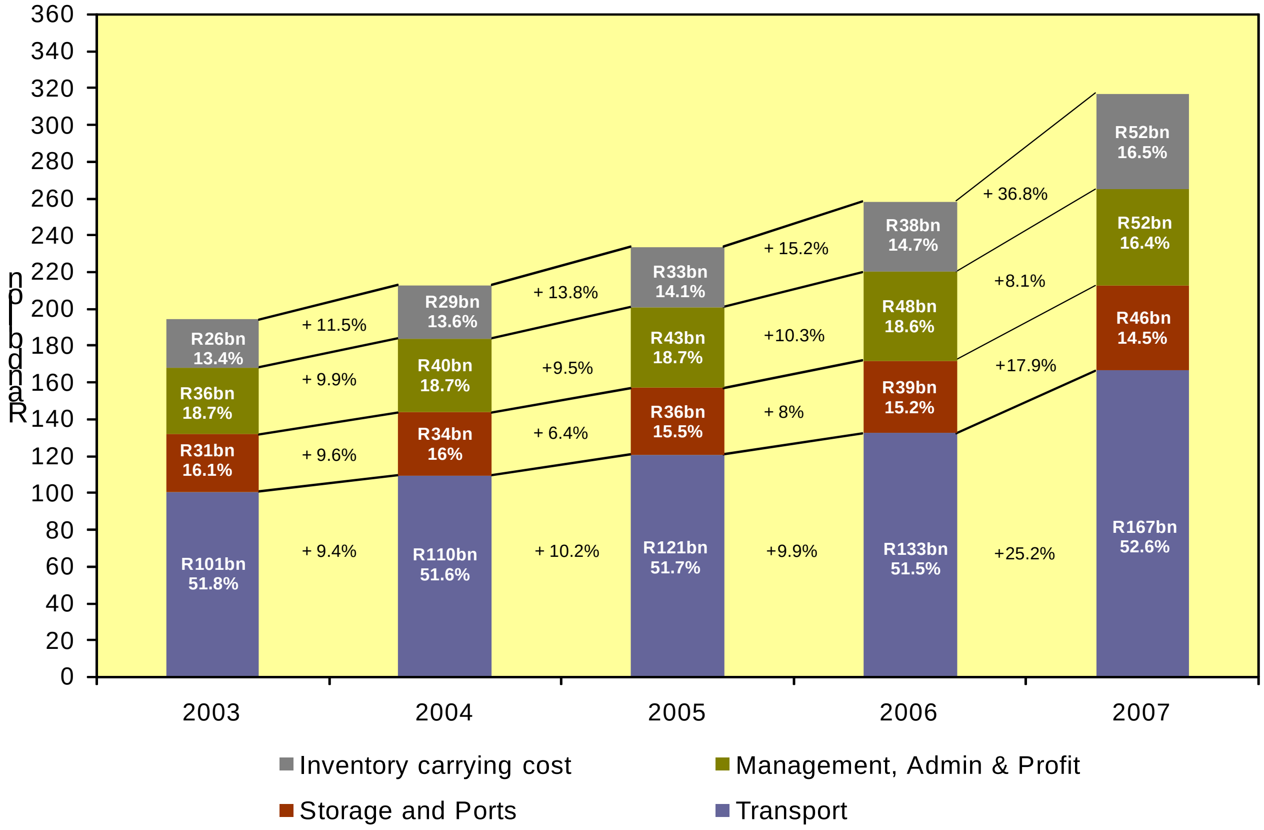




Note: Based on case studies

Sources: Industry interviews, Moving South Africa Analysis

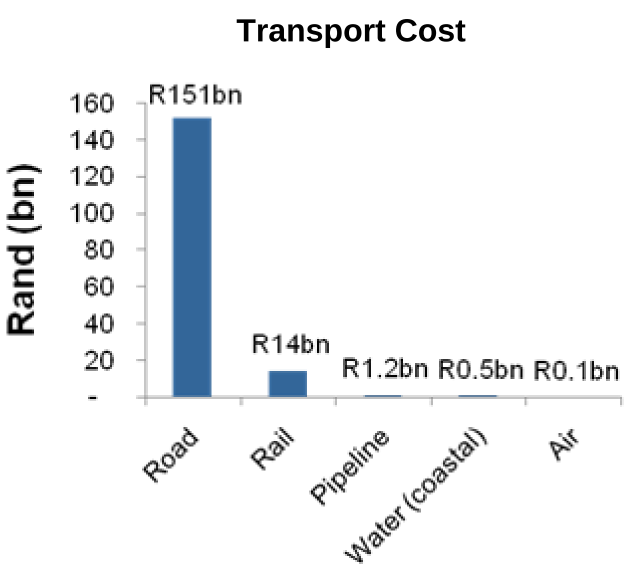
INLAND LOGISTICS COSTS FOR SOUTH AFRICA HAVE STEADILY INCREASED OVER THE PAST FIVE YEARS

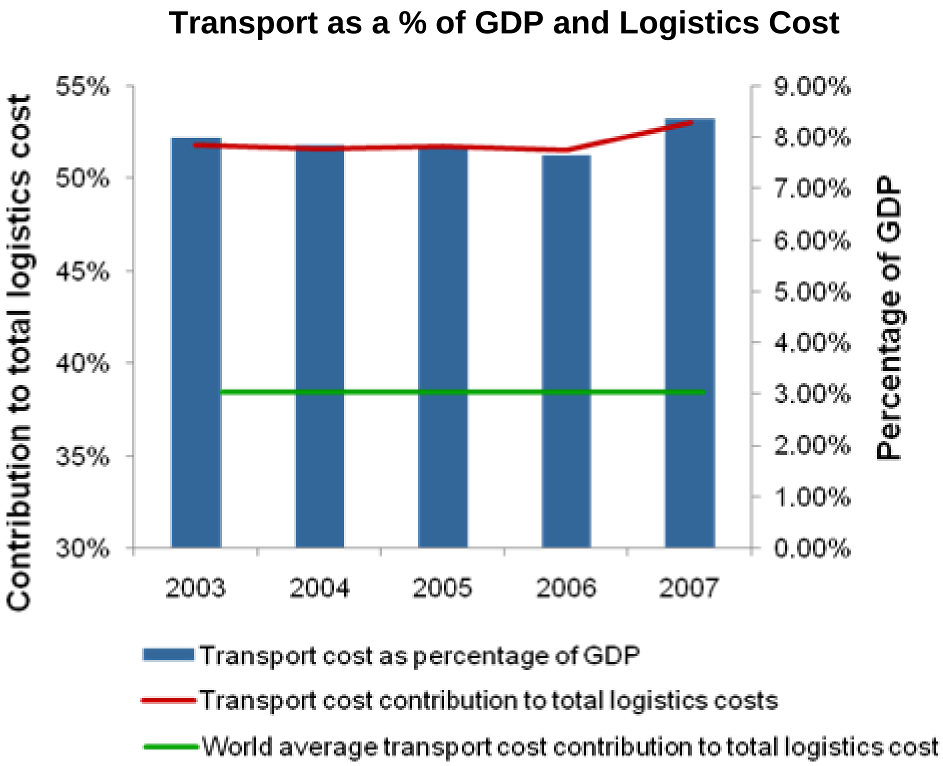


Total logistics costs equal R 317 bn in 2007, up 22 % from 2006.
Transnet accounts for 10% of costs

Source: University of Stellenbosch Logistics Cost Model

SOUTH AFRICA'S FREIGHT TRANSPORT AS A PERCENTAGE OF LOGISTICS COSTS IS THE HIGHEST KNOWN (MEASURED) FIGURE IN THE WORLD AND IS RISING

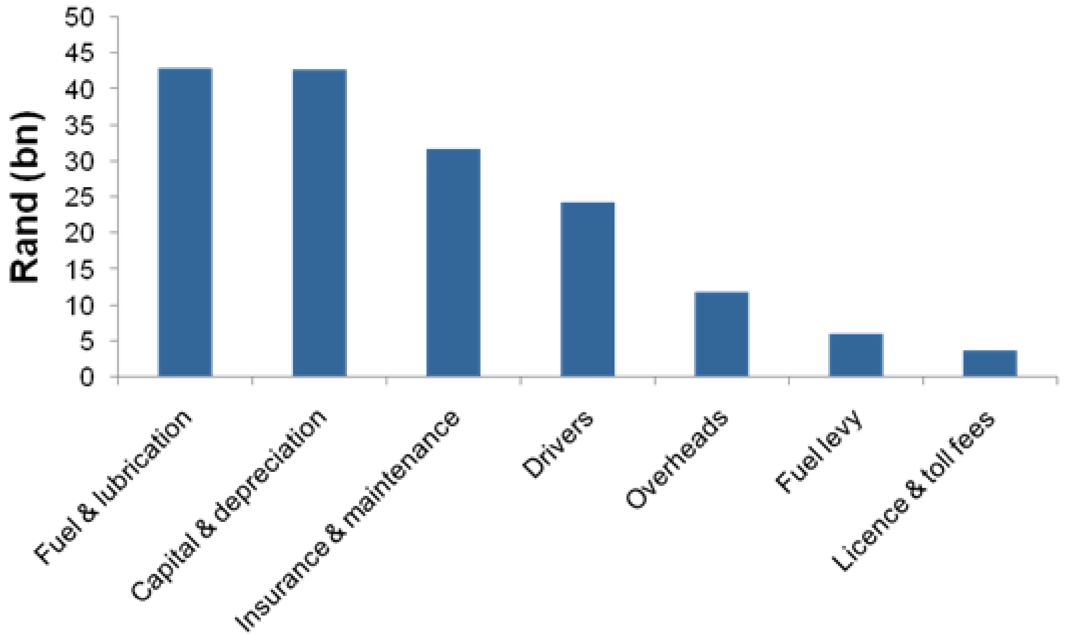




The transport cost challenge relates to freight not on rail. This requires an intermodal strategy.

Source: Transnet Freight Demand Model, and the Logistics Cost Model

FUEL IS THE LARGEST COST DRIVER OF ROAD FREIGHT TRANSPORT

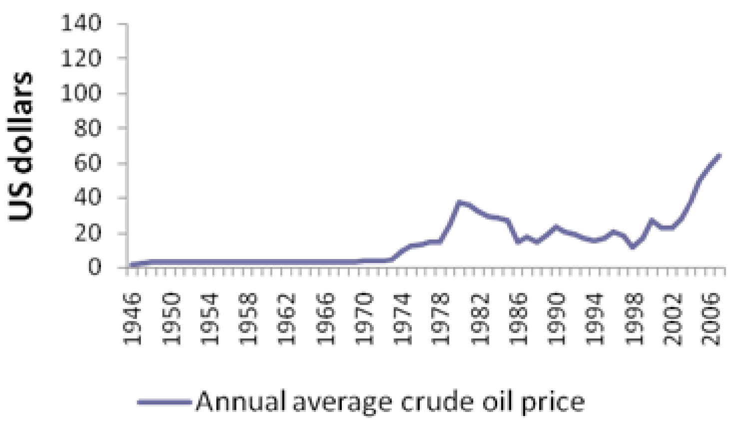


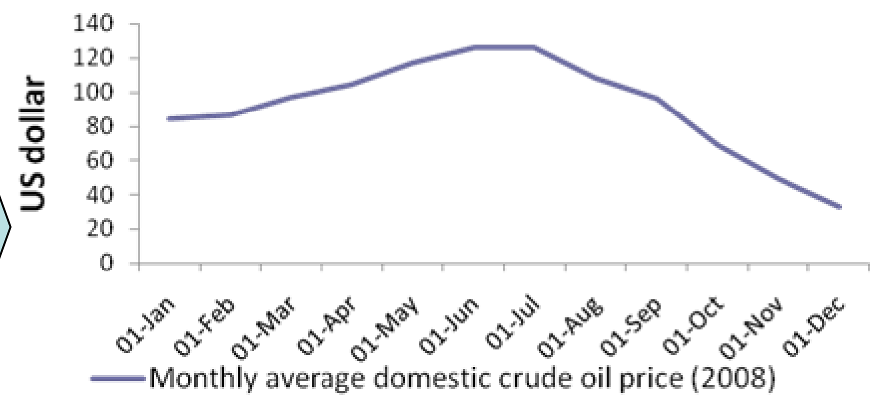
Road transport is 90% of transport cost, fuel cost is nearly a third of all transport cost

Source: University of Stellenbosch Logistics Cost Model

EXPOSURE TO FUEL PRICE IS A RISK – PRICES ARE UNPREDICTABLE AND OUT OF SOUTH AFRICA'S CONTROL

- The world is caught in an energy gap between the age of fossil fuels, particularly oil, and the slow development of the coming age of alternative fuel sources
  - By 2025, nuclear, hydrogen, solar and wind will be the predominant emerging energy sources. But, on current trends, the transition may not be well managed. Higher costs of food production may become ever more entrenched, and international tourism and mobility are likely to be negatively affected
  - The growing shortage and deterioration in quality of other critical resources, particularly soil, air and water, are also highly likely to become key global issues
- The oil price continues to rise – but recent events demonstrate its volatility

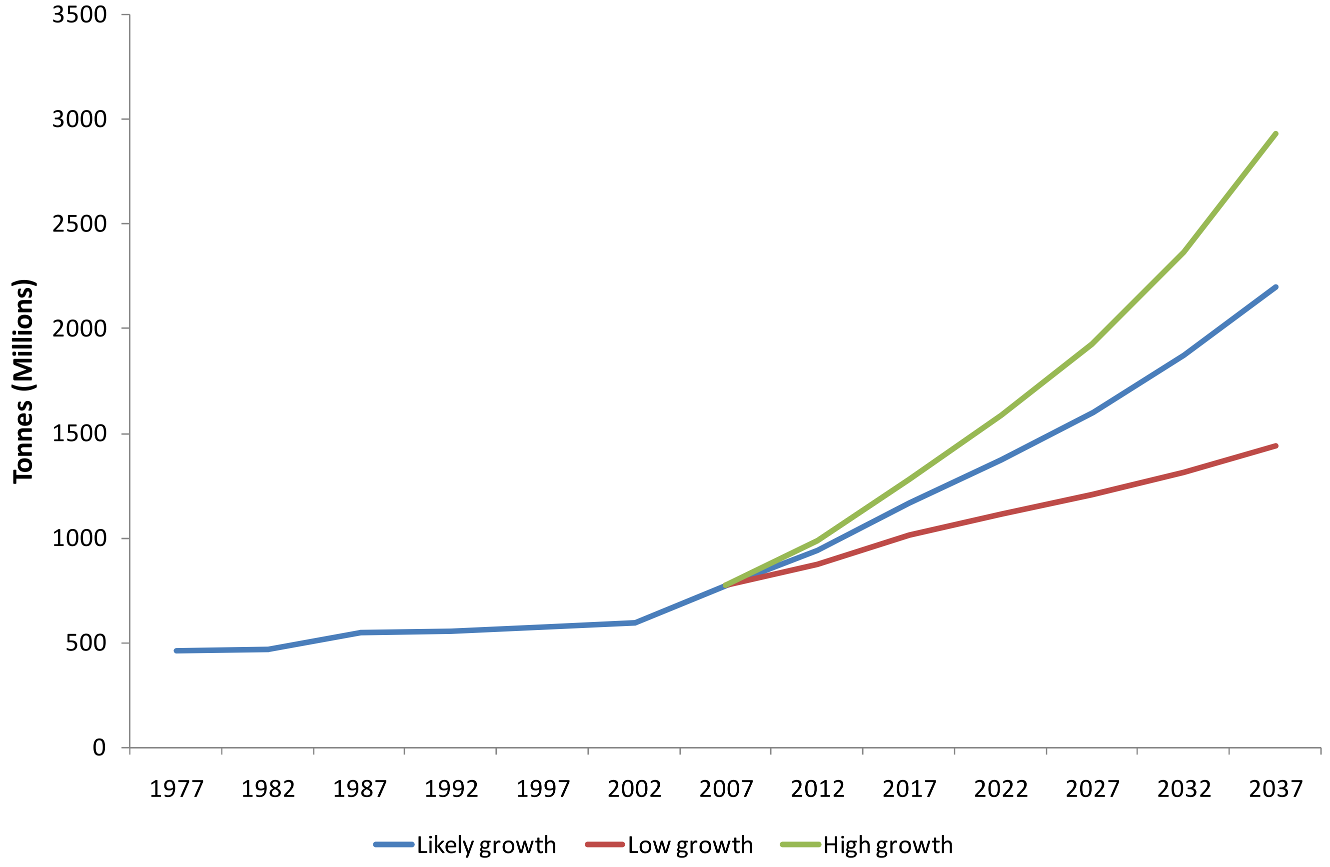




Anybody wanting to predict the fuel price for 2015???

Source: http://inflationdata.com/inflation/inflation_Rate/Historical_Oil_Prices_Table.asp

FREIGHT DEMAND IN SA IS LIKELY TO DOUBLE WITHIN THE NEXT TWENTY YEARS



Even a low growth scenario means that a continuation of the status quo with respect to road and rail market share is impossible

Source: Transnet Freight Demand Model

TRANSNET

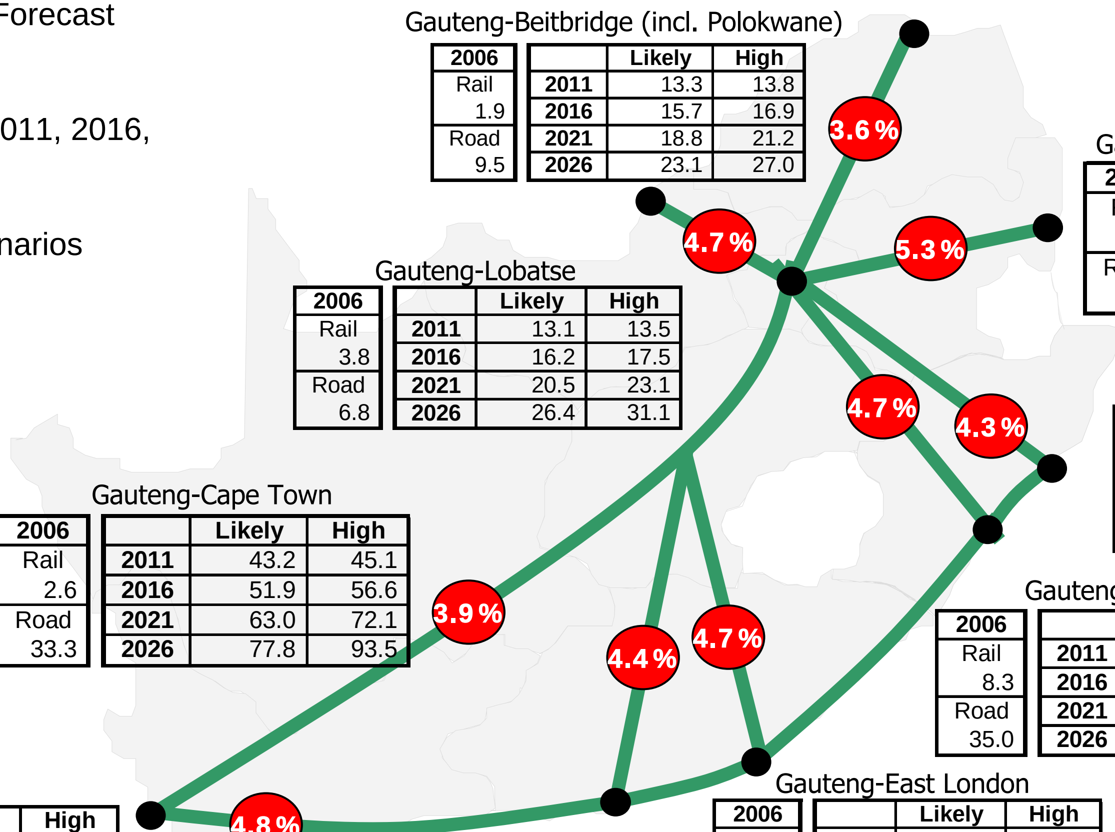
FUTURE DEMAND FOR FREIGHT TRANSPORT IN SOUTH AFRICA

Transnet's Freight Forecast model:

Million tons 2006, 2011, 2016, 2021, 2026

Likely and high scenarios

CAGR



Gauteng-Beitbridge (incl. Polokwane)

2006	
Rail	1.9
Road	9.5

	Likely	High
2011	13.3	13.8
2016	15.7	16.9
2021	18.8	21.2
2026	23.1	27.0

Gauteng-Nelspruit (incl. Witbank)

2006	
Rail	4.2
Road	12.2

	Likely	High
2011	22.0	23.2
2016	28.0	30.9
2021	36.1	42.0
2026	46.1	56.6

Gauteng-Lobatse

2006	
Rail	3.8
Road	6.8

	Likely	High
2011	13.1	13.5
2016	16.2	17.5
2021	20.5	23.1
2026	26.4	31.1

Gauteng-Richards Bay

2006	
Rail	9.2
Road	5.1

	Likely	High
2011	17.1	17.8
2016	21.0	22.9
2021	26.2	30.2
2026	33.4	40.6

Gauteng-Cape Town

2006	
Rail	2.6
Road	33.3

	Likely	High
2011	43.2	45.1
2016	51.9	56.6
2021	63.0	72.1
2026	77.8	93.5

Gauteng-Durban

2006	
Rail	8.3
Road	35.0

	Likely	High
2011	54.1	56.8
2016	67.3	74.6
2021	84.9	99.4
2026	109.3	134.2

Coastal

2006	
Rail	1.5
Road	35.3

	Likely	High
2011	45.8	48.0
2016	57.2	62.9
2021	72.3	83.7
2026	93.7	113.1

Gauteng-PE

2006	
Rail	0.5
Road	4.6

	Likely	High
2011	6.2	6.4
2016	7.6	8.3
2021	9.5	11.0
2026	12.1	15.0

Gauteng-East London

2006	
Rail	0.4
Road	6.5

	Likely	High
2011	8.6	9.0
2016	10.7	11.7
2021	13.4	15.5
2026	17.3	21.1

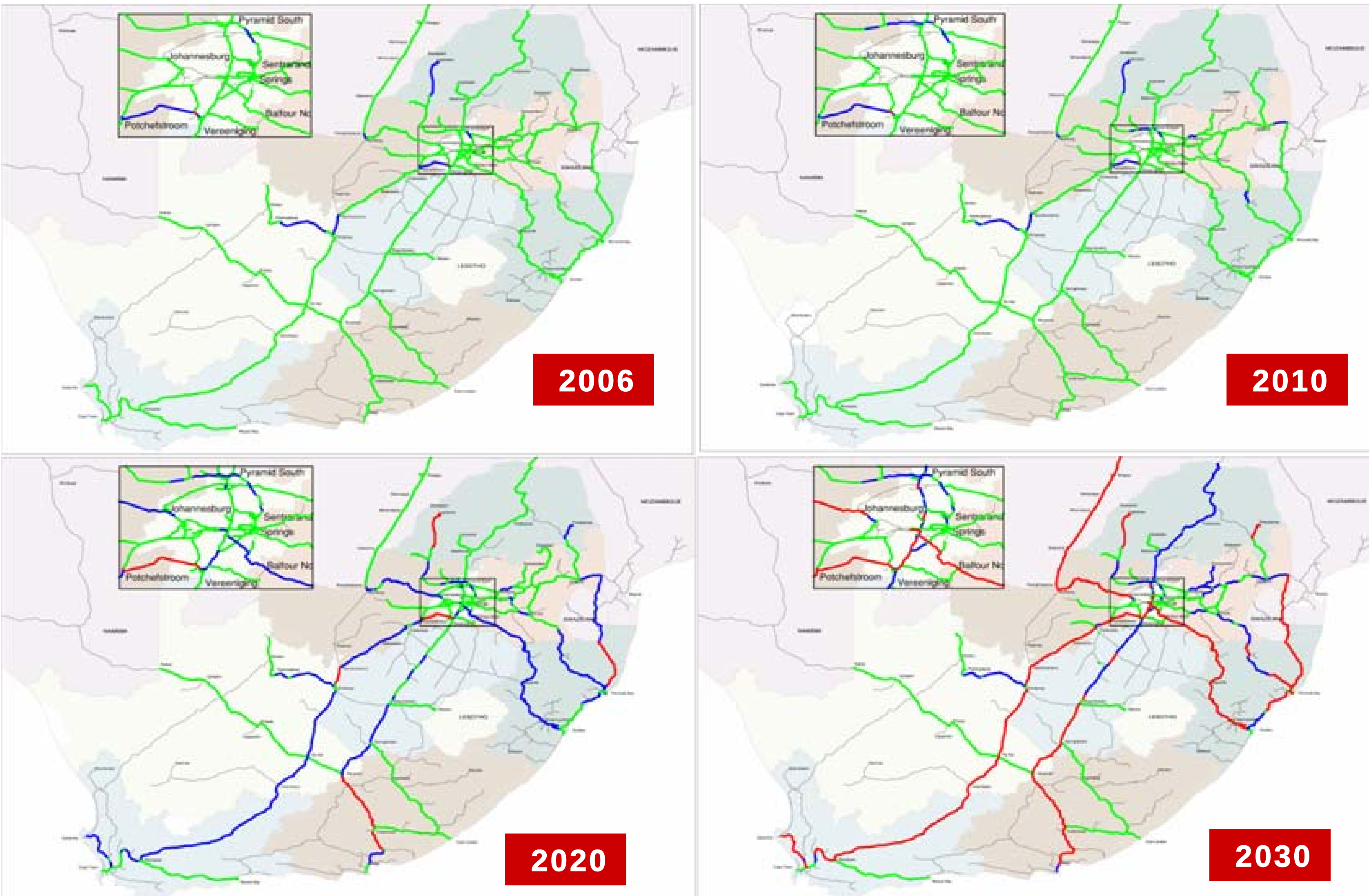
Source: Transnet Freight Demand Model

INTERMODAL SOLUTIONS: THE ONLY SUSTAINABLE WAY TO MEET DEMAND

SIGNIFICANT SUSTAINED INVESTMENT IS REQUIRED

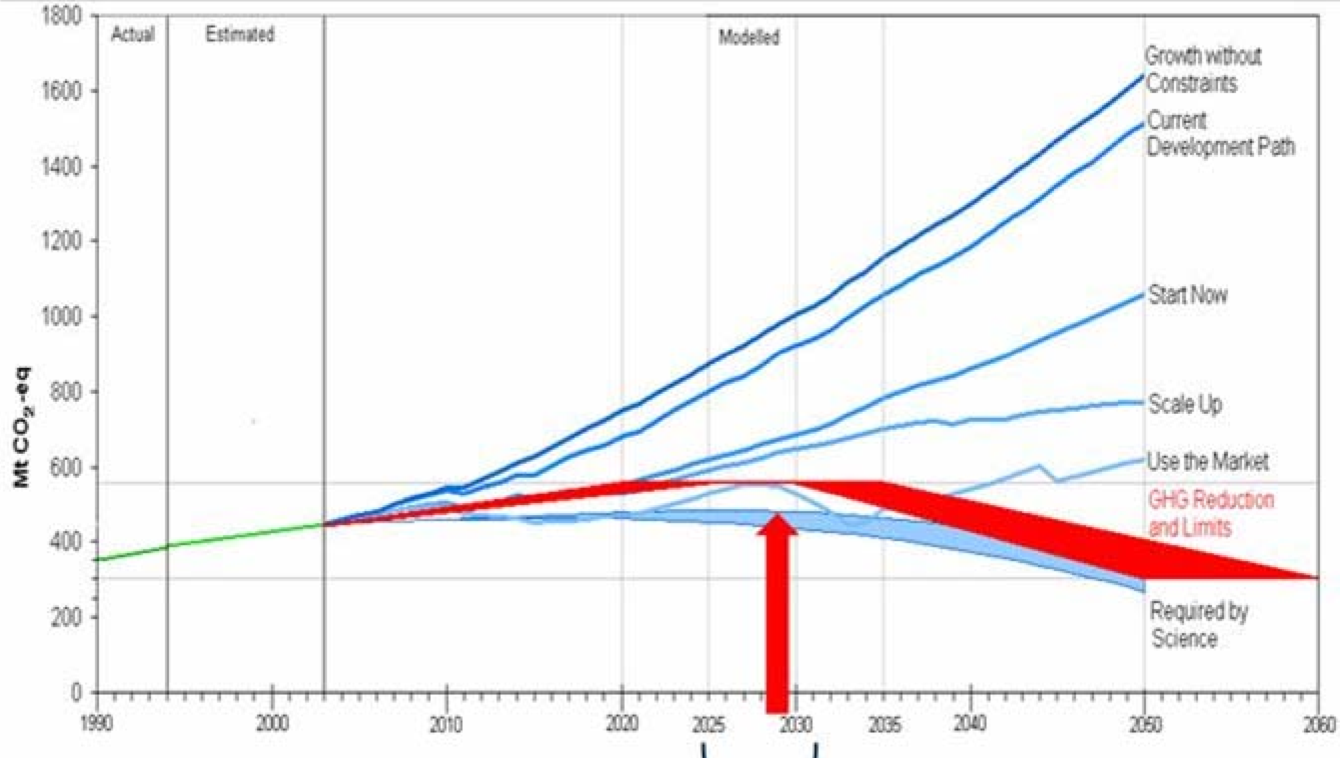
Rail network demand vs installed capacity

- Operational capacity limit
- Physical capacity limit



ENVIRONMENTAL SUSTAINABILITY IS BECOMING FUNDAMENTAL TO STAYING IN BUSINESS

South African climate change scenarios



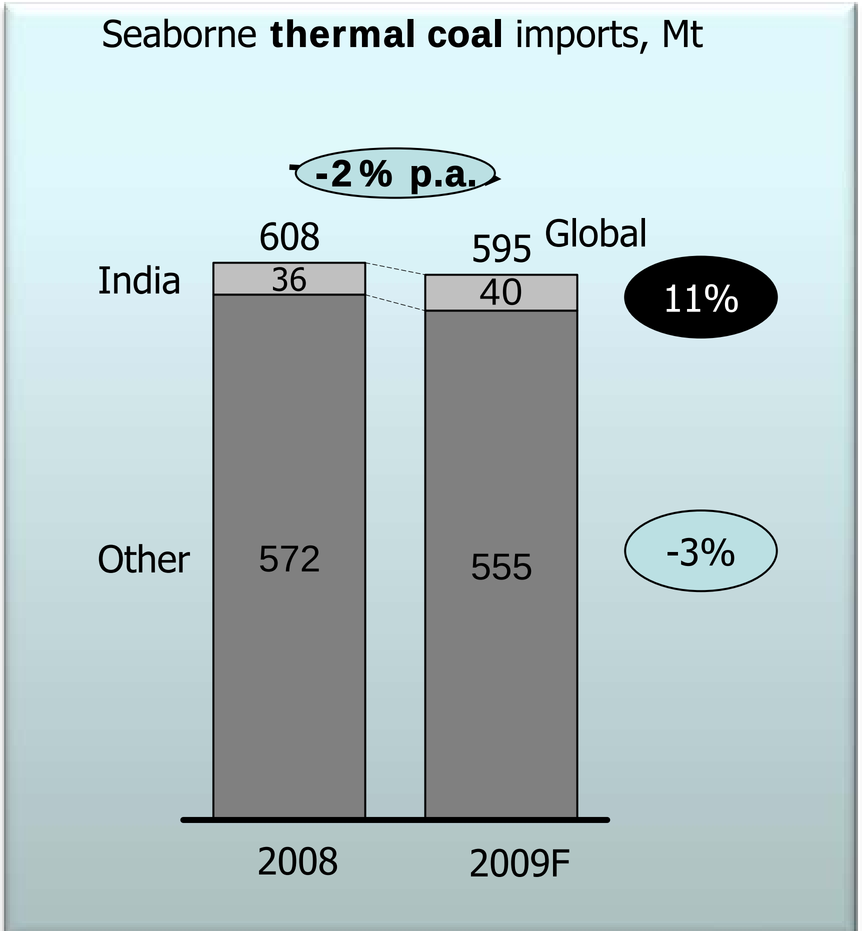
[redacted]

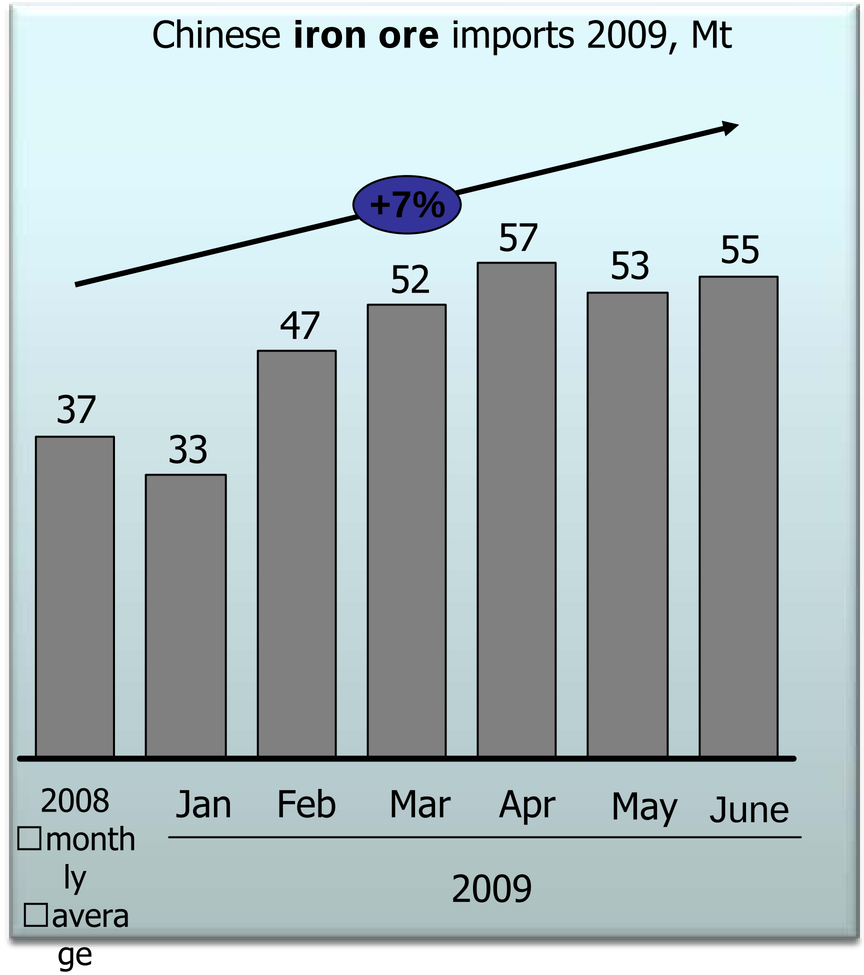
Government has outlined an ambitious vision and adopted a pro-active and scientifically and economically robust policy framework that will ensure South Africa meets the challenges of climate change.

Source: S Raubenheimer in Genesis NBI Briefing Note, 2008

Despite the weak overall macro outlook, there are real pockets of opportunity – India's thermal coal & Chinese iron ore examples are set out below

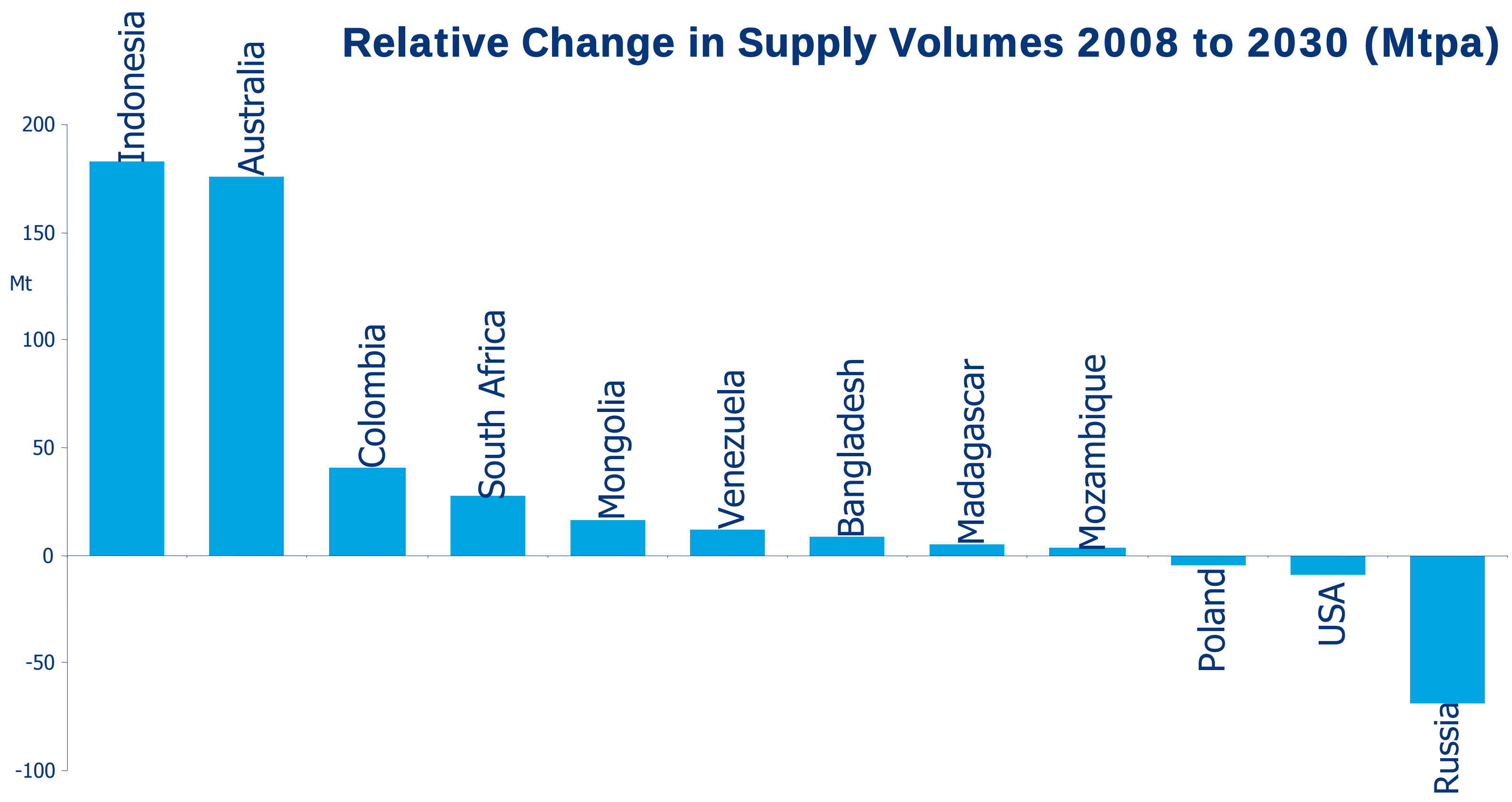
CAGR





SOURCE: AME July forecast, Wood Mackenzie June forecast for thermal coal, McKinsey steel model medium scenario for steel, Clarksons dry bulk trade May 2009 forecast for iron ore

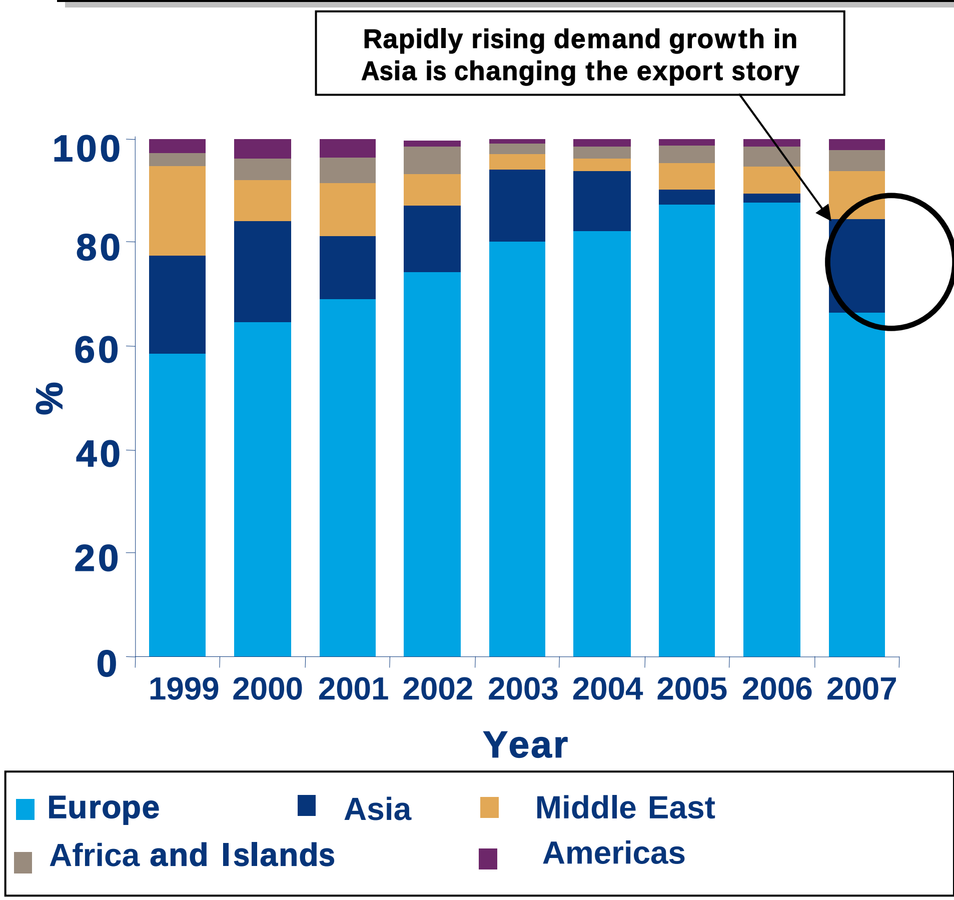
COAL : Australia and Indonesia win the lion's share of growth, yet Colombia and South Africa have relatively meager growth prospects by comparison, whilst Russia disappears without a trace........



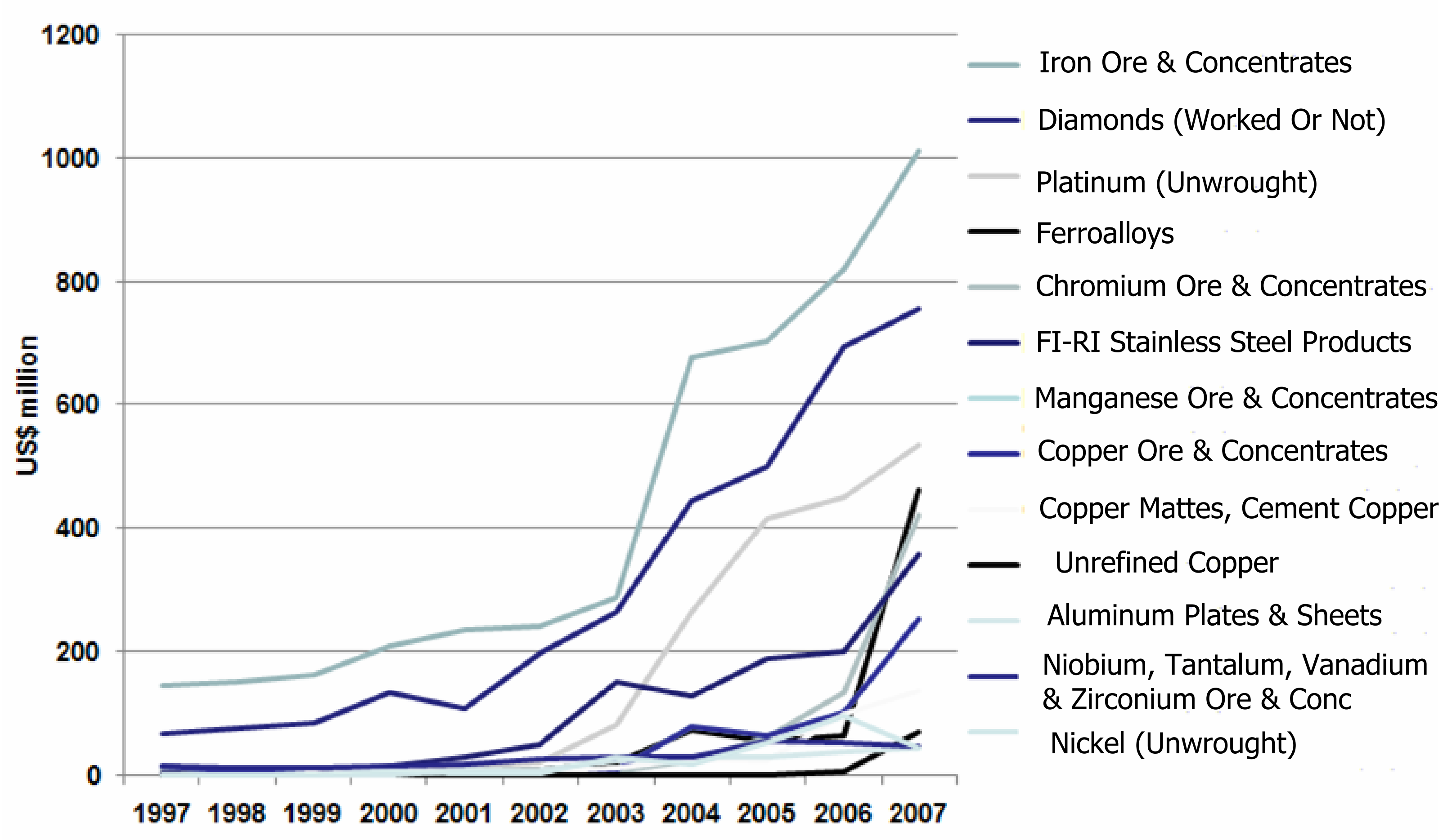
Europe is still the largest importer of South African coal, however Asian exports are growing, led by a power-hungry India

- European coal exports have been the main driver of the South African coal market. The bulk of exports (63-80% in 2008) went to Europe and the European facilities are fond of SA's low sulphur coal, washed and with very consistent quality that usually does not create problems to the user with variations of one or other of the quality parameters.
- The Asian continent, especially India, is very eager to use more steam coal from South Africa, unfortunately, due to the limited production and the bottlenecks caused by infrastructure, there is not enough coal to satisfy both markets and the European region is still considered a prime destination by local producers.

South Africa's Coal Export Distribution by Region (67 MMt)



South African Mineral Exports to China HS4 Code 1997-2007



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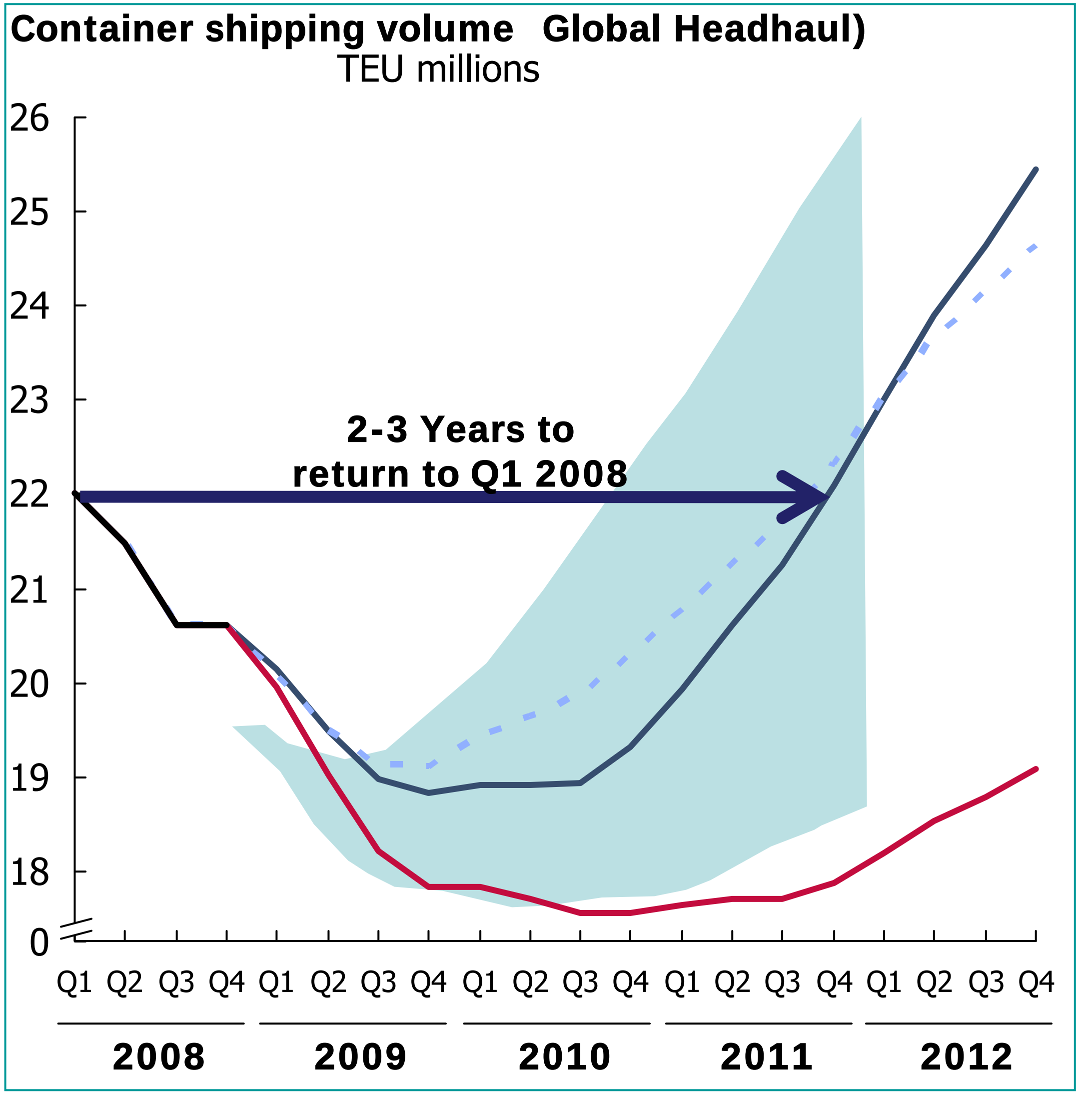
ECONOMIC CHALLENGES:
2010 is expected to be a tough year for the logistics industry



CONTAINER SHIPPING

SEASONALLY ADJUSTED

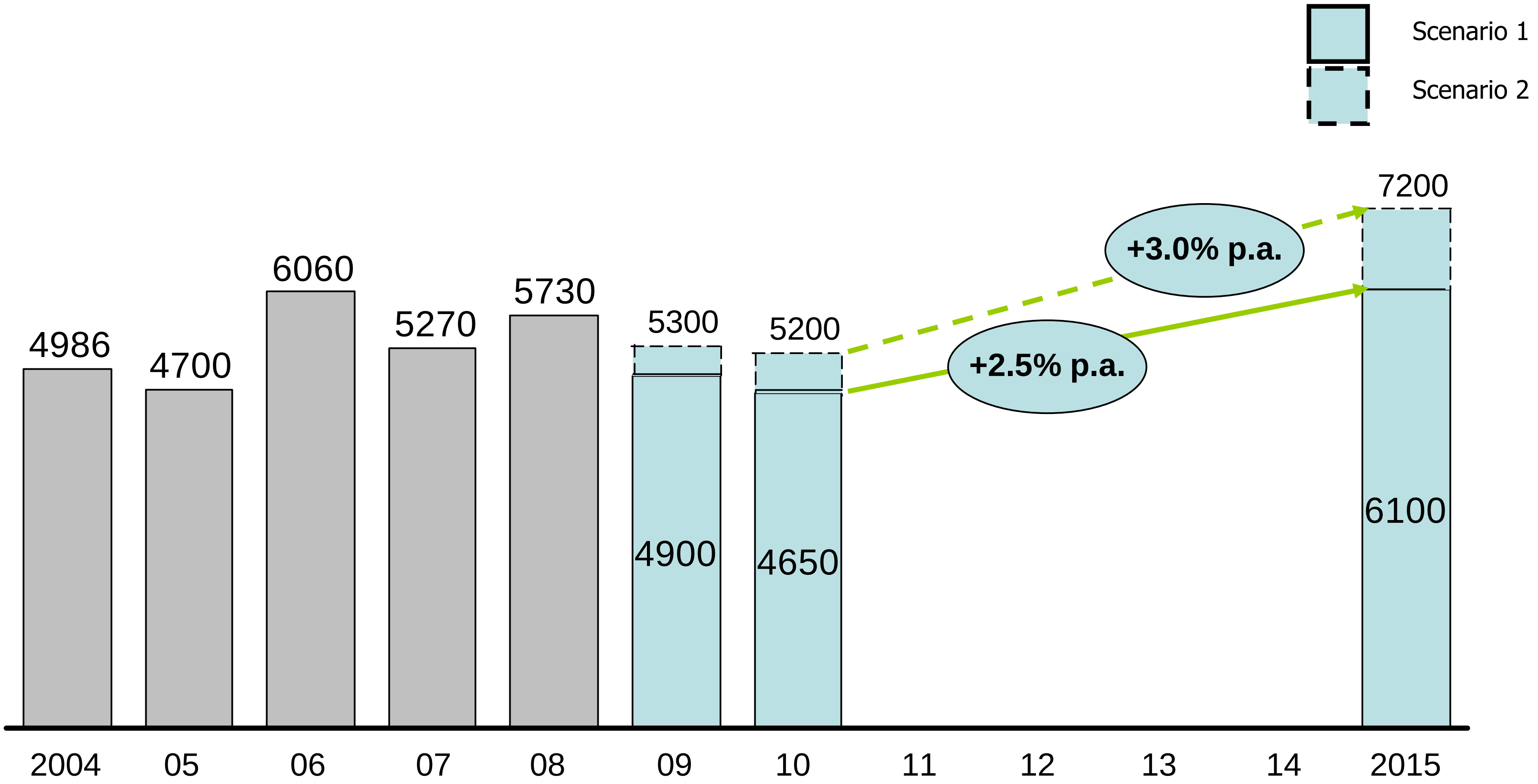
	2009 annual decline %	Peak-to-trough decline %	The 'trough' quarter
Battered but resilient	**8**	**14**	Q4 2009
Stalled globalization	**8**	**13**	Q4 2009
Long freeze	**11**	**20**	Q3 2010

- These scenarios suggest a more pessimistic view (annual decline 5-11%) than Drewry (-3%) and UBS (-5%)
- However, Feb 2009 container port throughput YoY growth data indicates that even the deepest drop is possible
  - Long Beach (loaded inbound): -43%
  - Los Angeles (loaded inbound): -32%
  - Singapore (both in and out): -20%

Source: Global Insight (Mar 18, 2009); Drewry (Q4 2008); UBS (Dec 2009); Port of Long Beach; Port of Los Angeles; Singapore Port Authority; McKinsey Global Trade Flow Initiative (Apr 8, 2009)

The South African steel demand should recover as of 2010

Million Ton finished steel

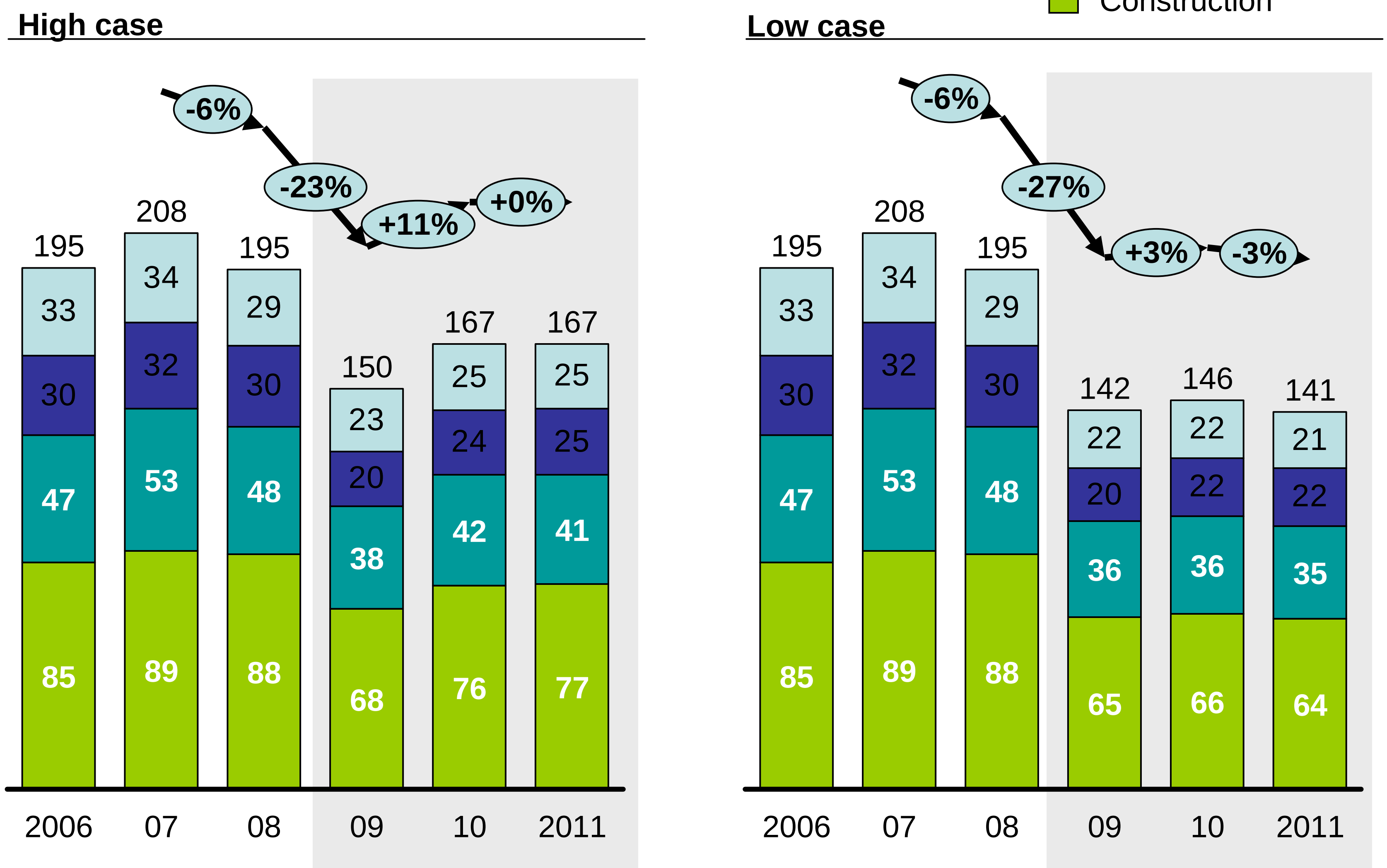


SOURCE: JF King; BMI

Europe will see a decrease in steel demand for the next years

Real steel demand development in EU27+3 by segments, Million tons

Others
Transport equipment
Machinery and equipment
Construction



SOURCE: Global insight Jan 2009; McKinsey Analysis

BUT KEY CHALLENGES NEED TO BE ADDRESSED

- High ocean freight costs.
- Poor regional connectivity.
- Investment backlog in the national network.
- Traffic demand likely to double (or triple) in the next 20 years.
- Limited intermodal solutions in inland distribution.
- Skills shortage throughout the sector.
- Limited black private sector participation.

CONTENTS