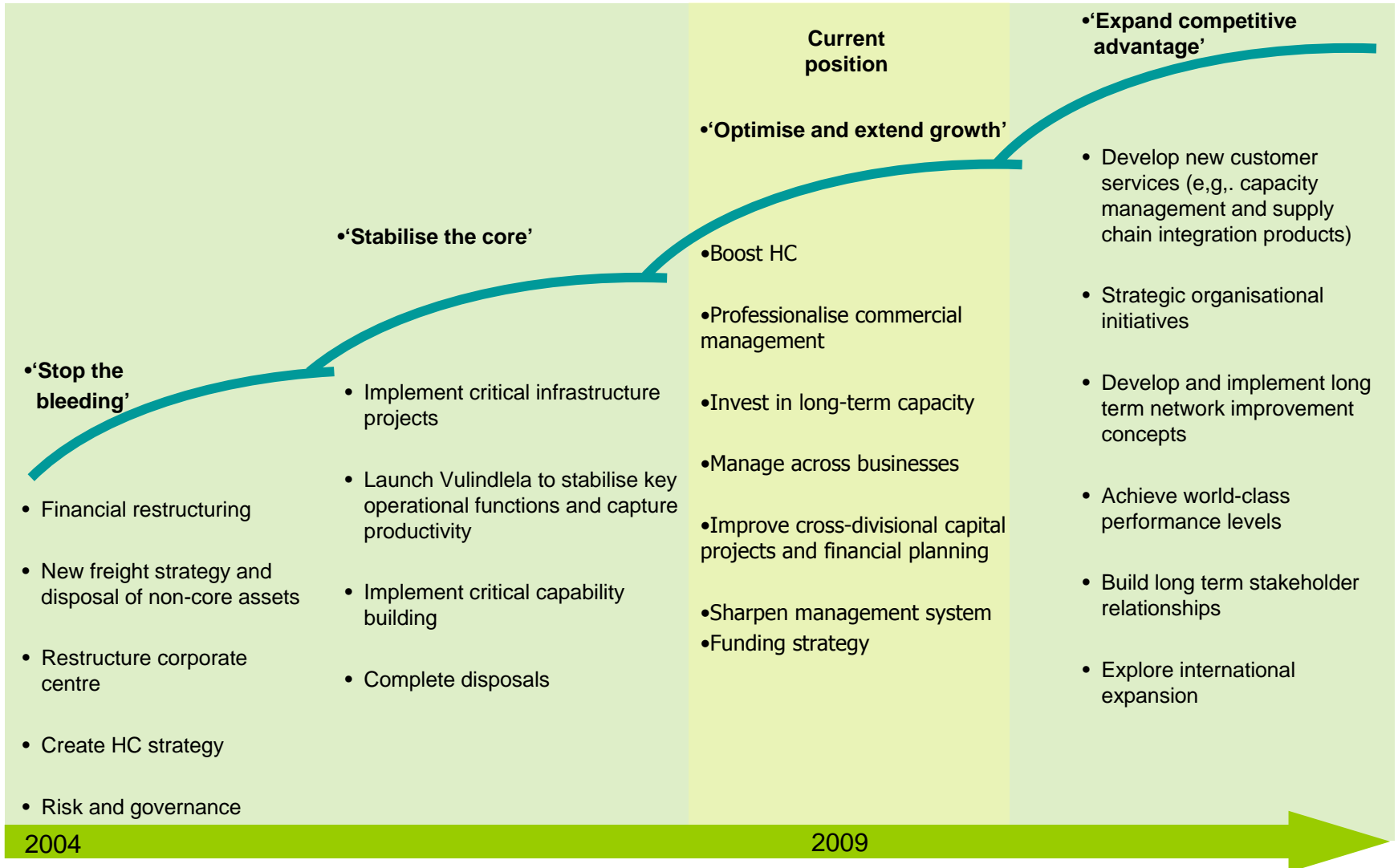


## TRANSNET'S STRATEGY IS DESIGNED TO MEET SYSTEMIC CHALLENGES BY:

- Operating the ports in a complementary manner to make the port system more efficient, increase maritime connectivity and reduce ocean freight rates.
- Implementing a high performance rail corridor backbone for the country that will alleviate corridor congestion and provide the capacity to meet long- term demand for freight in the economy.
- Integrating physical, financial and information flows along the supply chain to ease the administrative burden of trade and create greater visibility and responsiveness within industry supply chains.
- Formulating and implementing integrated service strategies for key customer segments to realise the synergies of the port, rail and pipeline systems.
- Enhancing the connectivity of the South African freight system with the regional freight system.
- Growing the skills base and supplier base for the broader industry.
- Identifying opportunities for black economic empowerment.

# TRANSNET'S JOURNEY OF TRANSFORMATION

Transformation horizons for a networked organisation



# TRANSNET'S TURNAROUND STRATEGY RESTED ON FOUR PILLARS

## Business Re-engineering

- To establish a focused and integrated freight logistics business (Ports, Rail and Pipelines)
- Productivity and efficiency improvement through re-engineering programme (Vulindlela)
- Reorient company towards its customers
- Restructure and redefine role of Corporate Head Office to lead and support the turnaround
- Investment plan to address backlog and create capacity

## Strategic Balance Sheet Management

- Dispose of non-core assets to release cash locked-up
- Improve the returns on assets (>WACC)
- Optimise cash flow and cash management
- Strategic asset/liability management to improve gearing

## Corporate Governance & Risk Management

- To enhance internal control environment
- Improved risk management with focus on safety
- Enhance corporate governance and risk management and establish a compact with Shareholder on service delivery

## Human Capital

- Transform culture and behaviour of staff to support new strategy
- Identify and manage critical skills and refocus training
- Train and establish accountability at all levels in the company
- Establish sound union relationships to assist with transformation of company



Client orientated planning and execution through integrated commercial management

Governance and performance management

- Focusing on 5 key corridors, providing end-to-end logistics services to customers
- Focus on key commodities
- Productivity and efficiency improvements

Reengineering, integration, productivity and efficiency

Capital optimisation and financial management

Safety, risk and effective governance

Human capital optimisation

- Financial strength and sustainability
- Enterprise-wide performance management linked to benchmarked operating KPIs
- Risk and safety management
- Transnet culture charter

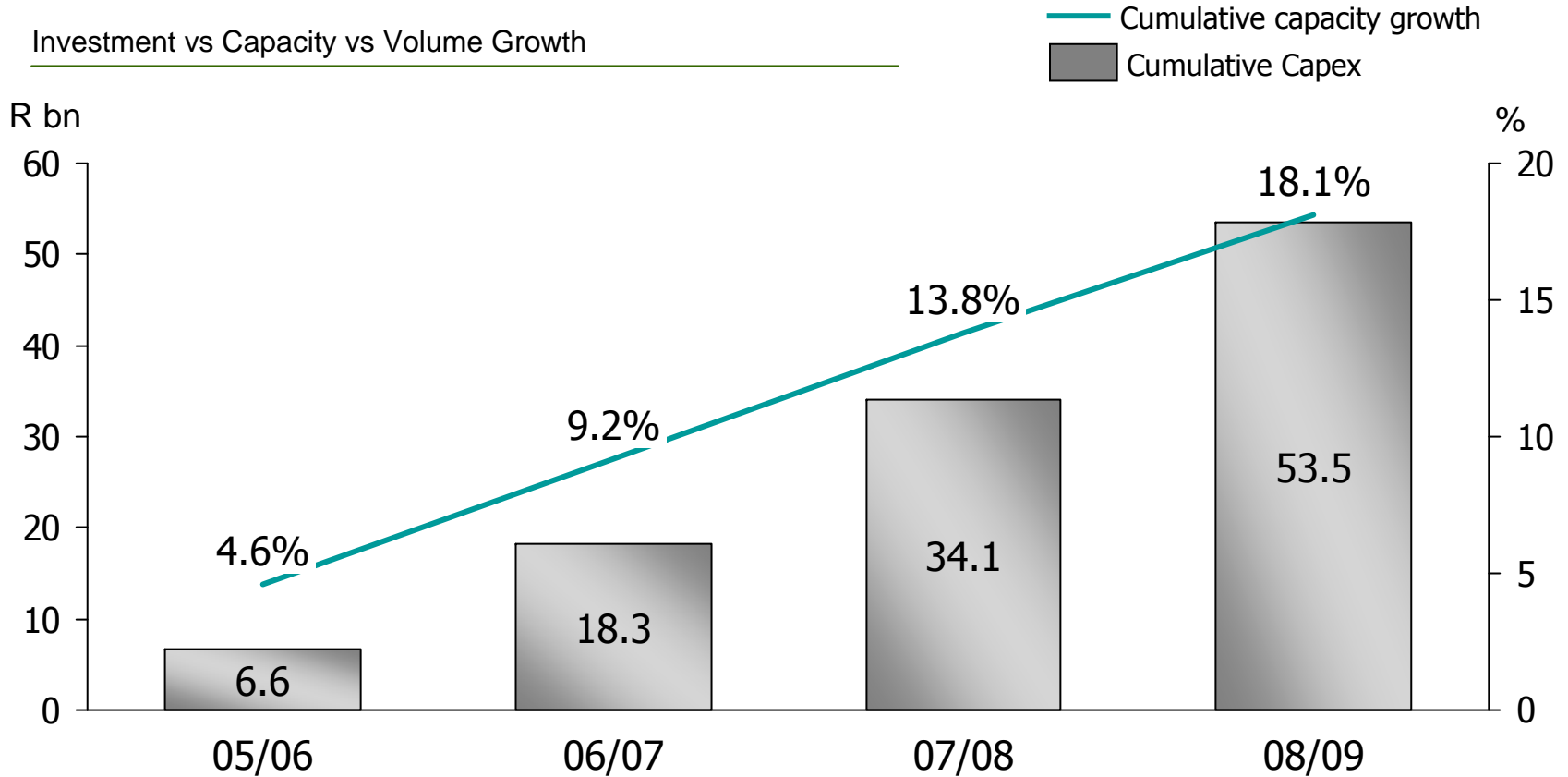


- Replacement and expansion of existing infrastructure to support growth. Investment of R80,5 billion across rail, ports and pipelines. Maintenance of core asset base

**Growth Strategy still relevant >> Transnet still committed despite slowdown >> Positioned for growth**

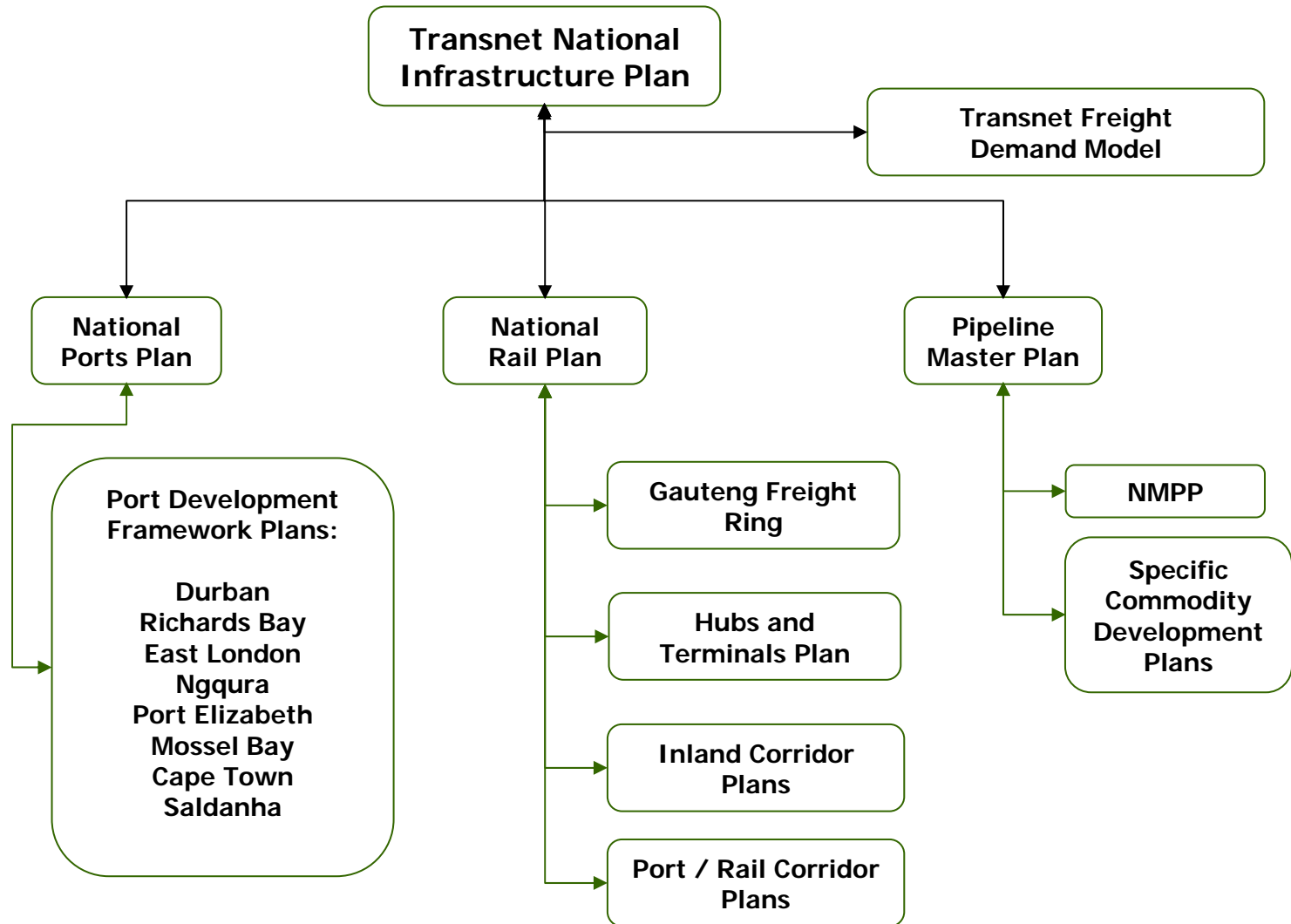
# INTRODUCTION TO TRANSNET INVESTMENT OVER THE PAST 4 YEARS

Investment vs Capacity vs Volume Growth



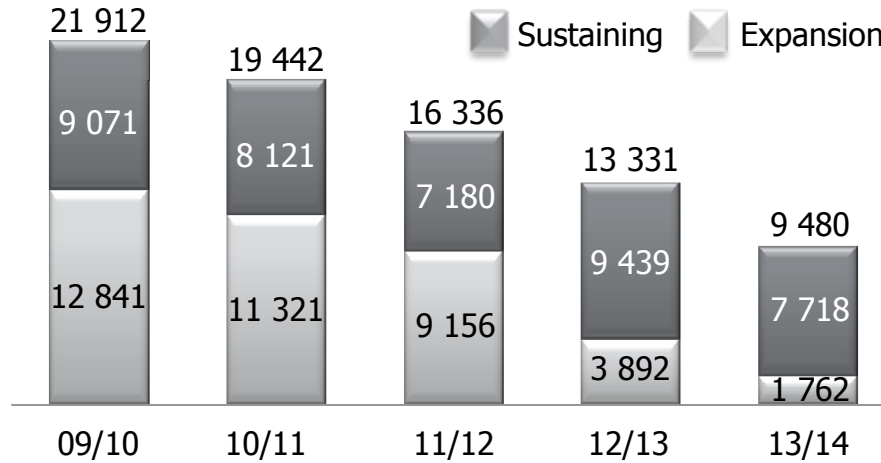
Created 18% additional capacity since 2005/06  
 Total investment over period = R53.5bn

# TRANSNET PLANNING HIERARCHY

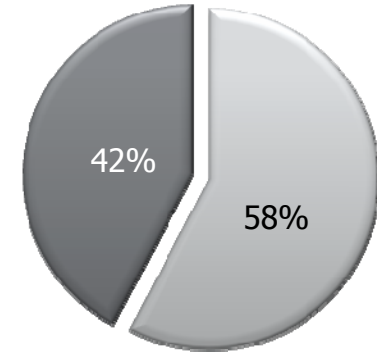


# CAPITAL INVESTMENT: FIVE-YEAR PLAN R80.5 BILLION

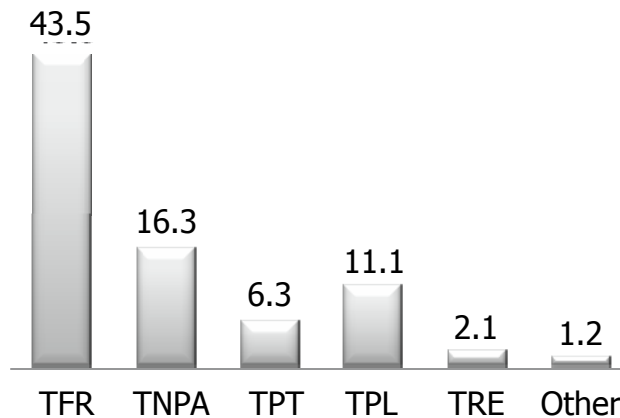
Projected  
Capex by  
nature  
(R million)



Sustaining vs  
Expansion  
(3-year view)



Projected  
Capex by  
Division  
(R billion)



Possible  
rescheduling  
of cash flows  
over the 5  
years

# CAPITAL INVESTMENTS: MAJOR PROJECTS

## Iron Ore Channel Expansion: Phase 1A&B

Spending (R million)

Approved ETC	Spending since inception	2008/09 actual
8 769	4 583	1 389

- Expansion Phase 1A to 41mtpa: Project is almost complete with only the dust mitigation component remaining. This is due to the EIA delay relating to the Reverse Osmosis plant.
- Expansion Phase 1B to 47mtpa: Contracted with clients to increase throughput capacity.
  - Commissioning of Stacker Reclaimer No. 4 is a major milestone of the project, completed during Q1 of 2009 and is performing at a rate of 10 000 tons/hour.
  - Includes acquisition of 44 locomotives.
  - Ore volume capacity is expected to meet contractual volumes by end of 2009.
  - Staggered loading of ore vessels has been initiated.
- Expansion Phase 1C to 60mtpa: In principle approval obtained to proceed with R4.3 billion project.





# CAPITAL INVESTMENTS: MAJOR PROJECTS

## Coal Line

Spending (R million)

Approved ETC	Spending since inception	2008/09 actual
5 011	1 736	487

Expansion above 71mtpa:

- Rail and power infrastructure work has progressed well and is 35% complete.
- The project team has been strengthened with the introduction of HMG to provide specialist engineering, procurement and construction management skills.



## Locomotive Acquisition Update

Acquisition of 110 Dual Voltage Locomotives (19E) (ETC R3.4 billion)

- Project undertaken to support the increase in capacity that will be created by the Coal Line expansion above 71mtpa.
- Behind schedule by 12 months but no impact on volume throughput is expected as latest projections indicate lower volumes.
- Three locomotives have been delivered to TFR for testing and a further 6 are expected by June 2009.
- Average delivery rate going forward will be between 6 and 8 units per quarter.
- Assembling of the units has commenced at Union Carriage Works in Nigel.

Acquisition of 44 Locomotives for the Iron Ore Line (ETC\* R1.4 billion)

- Similar production issues as experienced with the dual voltage locomotives for the Coal Line resulting in an 8-month delay
- Supplier has committed to deliver testing units by August 2009

Average planned rate of delivery is:

7 in 2009	25 in 2010	12 in 2011
-----------	------------	------------

\*ETC amount included in the Iron Ore Channel Expansion as reflected previously

Acquisition of 50 "Like New" locomotives (ETC R887 million)

- Production and manufacturing problems were experienced resulting in a 12-month delay
- 5 units have been delivered to TFR for testing
- Based on the latest delivery schedule the last locomotive will be delivered by December 2009

Acquisition of 100 "Fast Track" Locomotives for General Freight Business

- Main aim is to service the General Freight Business and transport magnetite, copper, vermiculite and rock phosphate
- In November 2008 a confined tender was issued to acquire 100 "commercial off the shelf" locomotives
- Three tenders were received and are currently being evaluated
- Planned delivery is scheduled for the latter part of 2010.

## New Container Terminal at Pier 1 Durban

Spending (R million)

Approved ETC	Spending since inception	2008/09 actual
1 989	1 377	167

Construction of a new container handling facility next to Durban Container Terminal creating additional capacity of 720 000 TEUs per annum.

- The terminal has been operating since August 2007 and has reached full functionality during the year.
- Project is due for completion by August 2009.



# CAPITAL INVESTMENTS: MAJOR PROJECTS

## Reengineering of Durban Container Terminal

Spending (R million)

Approved ETC	Spending since inception	2008/09 actual
1 489	690	599

Creation of additional annual capacity of 1 million TEUs.

- Quayside work at berth 204 has been completed.
- Entrance gate facility is in progress and expected completion by September 2009.
- Concrete surfacing and new facilities at Y-site are progressing well.
- 200 000 TEUs capacity has already become available.



# CAPITAL INVESTMENTS: MAJOR PROJECTS

## Durban Harbour Entrance Channel Widening

Spending (R million)

Approved ETC	Spending since inception	2008/09 actual
3 359	1 855	1 090

Objective is to improve the safety of navigation and enable larger vessels to enter the port. When complete the entrance channel will be 225m wide with depth ranging from 16m to 19m.

- Dredging in the temporary north channel is progressing well and was completed in May 2009.
- Stockpiling of rock at A-berth has progressed well and placement has since commenced.
- Armouring of the south breakwater is progressing well, however sea conditions are causing the occasional shut down.
- Commissioning of the temporary sand bypass system is planned for July 2009.
- Study for the permanent sand bypass system has been completed.



# CAPITAL INVESTMENTS: MAJOR PROJECTS

## Cape Town Container Expansion

Spending (R million)

Approved ETC	Spending since inception	2008/09 actual
4 126	1 461	892

Aim of the project is to increase capacity to service the Western Cape region.

- The first 300m of a 1 200m new quay wall has been constructed and dredged to a depth of 15.5m. Handover to operations of this component is expected towards the end of July 2009.
- The first 4 of 16 RTG cranes have been delivered and will be operational by end of 2009.
- Geotechnical surveys revealed risks around the stability of the quay wall which led to delays in the schedule and additional costs of R220 million.
- Completion of the project is expected in 2013.



# CAPITAL INVESTMENTS: MAJOR PROJECTS

## Ngqura Container Terminal

Spending (R million)

Approved ETC	Spending since inception	2008/09 actual
7 885	3 065	2 230

Construction of a full service container terminal to service the new generation container vessels.

- Port infrastructure completed to date includes the completion of 630m of quay wall.
- 30ha of paved surfacing for the stacking of containers.
- High mast lights, reefer points, admin facilities and access roads.
- Rail infrastructure completed thus far includes a marshalling yard, 3 rail mounted gantry cranes and a link to the main line to Gauteng.
- Operating equipment installed to date includes 6 STS cranes, 22 RTG cranes, 30 haulers and 45 trailers.
- The terminal will commence commercial operations in October 2009 (expect 50 000 TEUs in 2009/10).



# CAPITAL INVESTMENTS: MAJOR PROJECTS

## New Multi-Product Pipeline (NMPP)

Spending (R million)

Latest ETC	Spending since inception	2008/09 actual
12.6	3 278	2 565

The aim of this project is to build a 550km new trunk line from Durban to Gauteng 24" in diameter, addressing the increased demand for fuel in Gauteng and surrounding areas. Completion is expected towards the end of 2011.

- Transnet was granted a licence to construct the NMPP by NERSA.
- In May 2008 a R3.3 billion contract was awarded to Spiecapag Group 5, a South African French Consortium for the construction of the NMPP.
- Manufacturing for the 16" pipe commenced in April 2008 and all 105 000 tons of steel for the main 24" pipe has arrived in South Africa. The first 6 out of a total of 170km of 16" pipe has been laid in the Kendall/Waltloo area.

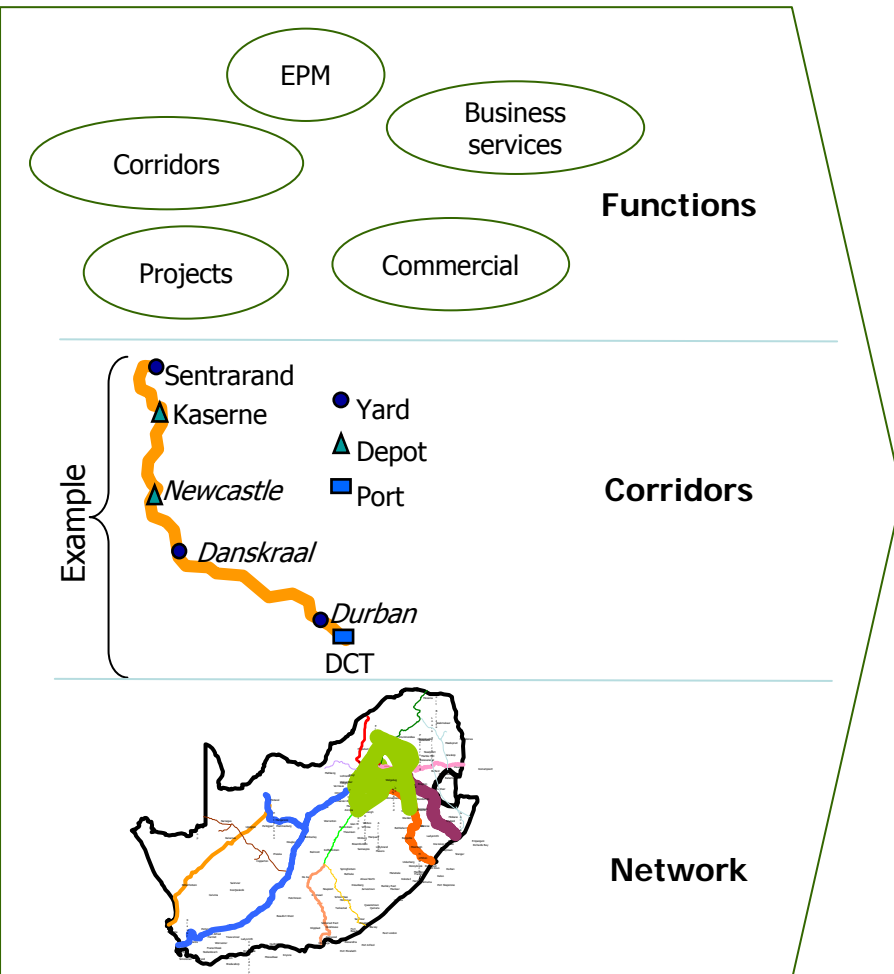




## FIVE-YEAR CAPITAL INVESTMENT PLAN

- Latest approved Five-year Investment Plan (2009/10) amounts to R80.5 billion.
- Changes in economic conditions necessitate the review of projects and the re-prioritising thereof as well as rescheduling of cash flows over 5 years to:
  - remain within the financial parameters;
  - ensure that revised customer demands are still met; and
  - create capacity ahead of demand to meet future volume requirements.
- Of the planned Capital Investment of R80.5 billion, spending will be as follows:
  - 59% in infrastructure related projects (R47.5 billion)
  - 32% in rolling stock (R25.8 billion)
  - 9% in acquisition of machinery and equipment and floating craft (R7.2 billion)

**Transnet remains committed to implement the five-year capital investment plan to create appropriate and cost-effective capacity**



- Enterprise Performance Management focusing on improving key performance indicators (KPIs) and to ensure alignment to primary value drivers as well as the effective management thereof. The project is receiving high priority and driven throughout the Company.
- The Corridor approach to business is yielding visible benefits on the main corridors:
  - Coal Line (RBayCor) – railed average of 1.48mt per week compared to previous average of 1.2mt per week
  - Iron Ore Line – weekly rail record (880 000 tons) in Feb 09 and monthly shipping record of 4.45mt in April 09
  - NatCor – reduced average standing time in Kings Rest from 6 hrs to 2 hrs
- A Group commercial function was established to introduce an integrated port-rail service offering to our customers with a view to improving our customers' experience of Transnet's supply chain solutions.
- Business services integrate supply chain management, information technology and business intelligence with a view to develop a shared services centre.



## WHILST THE GROWTH STRATEGY REMAINS APPROPRIATE, TACTICAL CHANGES HAVE BEEN MADE IN THE SHORT TERM



- Capital expenditure has been reviewed to be aligned with latest volume projections
- Aggressive cost cutting has been effected to cater for lower revenues
- Procurement processes have been reviewed to lower input costs
- Greater focus on protecting volumes and preserving cash (iron ore and coal exports)
- Drive to explore growth opportunities in domestic markets (domestic coal and containers)
- Funding risk has increased and is receiving greater focus and using increasing flexibility

# CONTENTS

INTRODUCTION

LOGISTICS AND MARKET ENVIRONMENT

TRANSNET'S STRATEGY AND INFRASTRUCTURE PLAN

FINANCING THE INVESTMENTS

ECONOMIC REGULATION

ECONOMIC CHALLENGES GOING FORWARD

TRANSNET'S CORPORATE SOCIAL INVESTMENT

CONCLUSION

# CORPORATE PLAN: 2009/10

## INTEGRATED PLANNING AND EXECUTION

### CORPORATE PLAN OBJECTIVES

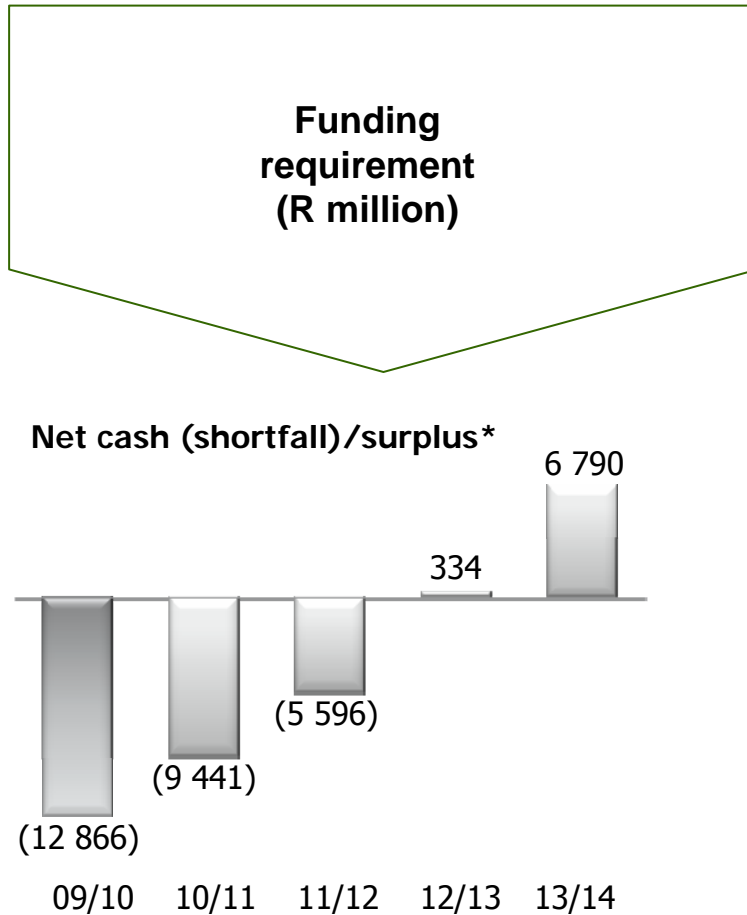
- Supply chain integration between port, rail and pipeline interface across the Group
- Coordinated and integrated capital plan to optimise asset portfolio
  - **To meet customer demands and future requirements**

#### **All assets in the Group must:**

- Be optimally utilised and managed in an integrated way
- Generate returns greater than WACC of the company and thereby ensure a fair return on investment
- Cash flows are optimally managed to reduce financial risk

**Strategic financial and funding planning are managed and executed centrally**

# 2009/10 FUNDING PLAN: ENABLING THE ROLLOUT OF THE STRATEGY



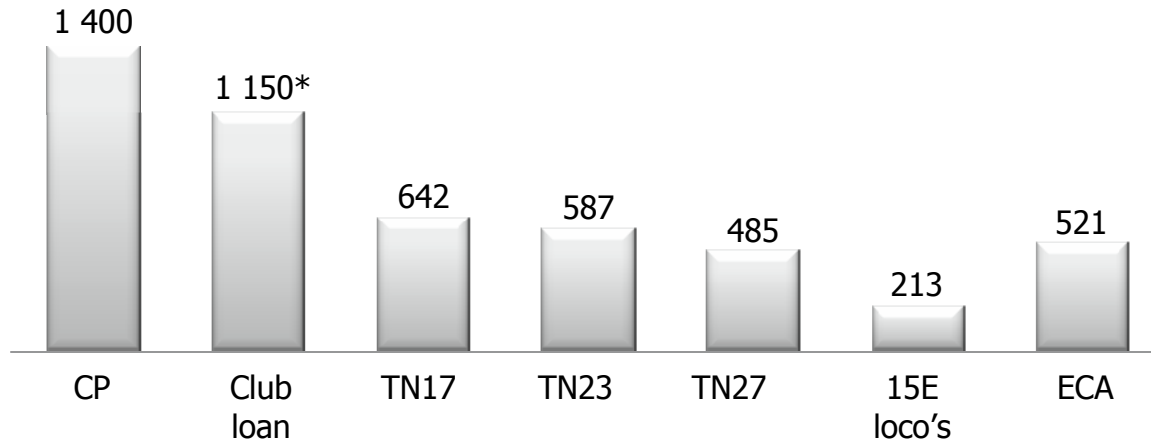
## Funding environment

- Widening credit spread since global financial crisis
- Increased cost of funding
- Capacity of domestic market in context of Government and other large corporations accessing market
- Low funding appetite in domestic and international market

## Funding strategy

- More than 50% of the funding requirements for 2009/10 already raised
- Diversify sources of funding between the domestic and international market
- Optimal mix between fixed/floating financial instruments
- Cost-effective funding options

## Funding raised since 1 April 2009 to date (R million)



\*Excluding R6 billion raised during March 2009

## Funding activities to date

- A loan facility of 35 billion ¥en was signed with Japan Bank of International Cooperation (JBIC) during the latter part of May. This loan has a two year drawdown and a 10-year amortising repayment (Widening and deepening of the Durban harbour).
- The first ECA supported funding was signed with Finnvera on 17 April to finance port equipment. The first drawdown of R521 million occurred on 29 May 2009.

# FUNDING PLAN: ENABLING THE ROLLOUT OF THE STRATEGY

## Possible funding sources

- **Domestic bonds (TN17, TN23 and T27 Bonds)**  
Currently drawing down R1 billion per month and plan to launch at least 1 new bond to increase the size as liquidity increases
- **Development Finance Institutions**  
AFDB at due diligence stage is expected to be concluded in due course
- **Domestic Loans**  
Rand Bilateral loans from banks (8) and other financial institutions (2)
- **Other International Initiatives**  
AFLAC Loan – legal documentation finalised but still negotiating pricing levels
- **Commercial Paper**  
Bi-weekly issues of Commercial Paper varying between R500 million and R750 million, but the plan is to replace maturities with bonds
- **Global Medium Term Note (GMTN)**  
Last year this programme was postponed due to the state of the global debt capital markets  
Close to concluding documentation and update with year-end financials, if not implemented will replace with domestic bonds (Plans are progressing well for the listing of the GMTN)
- **Export Credit Agencies (ECA)**  
For imports ECA will form an important source of funding



# CONTENTS



INTRODUCTION

LOGISTICS AND MARKET ENVIRONMENT

TRANSNET'S STRATEGY AND INFRASTRUCTURE PLAN

FINANCING THE INVESTMENTS

ECONOMIC REGULATION

ECONOMIC CHALLENGES GOING FORWARD

TRANSNET'S CORPORATE SOCIAL INVESTMENT

CONCLUSION

## NEW POLICY THINKING ON SOE'S

- **Extract from Minister Hogan's budget speech**
- The current regulatory system was established during a period of minimal investment, and has not been adequately revised.
- Given the accumulated backlog of investment in infrastructure, it is critical that we create an environment where the private sector can participate in the system alongside SOEs, rather than as an alternative to them.
- It is absolutely critical that funding models for our enterprises be finalised as soon as possible.
- In the present worldwide economic recession and in the light of the huge backlog in infrastructural investment, the SOEs must massively expand the rollout of their infrastructure programmes.
  
- **Extract from Minister Ndebele's budget speech**
- We should be forward-looking and start investing in a manner that will meet future transport requirements.
- We are also working towards a framework for the creation of a single Transport Regulator.

South Africa needs a shared vision for the freight transport system that responds to the unique challenges confronting the country and the region.

Regulatory reform should then be targeted towards realising this vision.

# EXISTING POLICY AND REGULATORY TRENDS ARE MISALIGNED WITH NEW POLICY THINKING

- Current port and pipeline Regulators' mandates encourage:
  - tariffs to be set low at the expense of long-term infrastructure investment;
  - inconsistent and discretionary regulatory rules, creating uncertainty and risk for investment planning;
  - Regulators to take on policy-making roles that impact on Transnet's mandate.
- Other government stated port, rail and pipeline policy assumes that:
  - competition to Transnet operations is a pre-requisite for freight system optimization;
  - separating infrastructure ownership from operations is necessary for operational improvements;
  - the state should own and invest in infrastructure and allow private sector to operate; and
  - splitting Transnet into separate state-owned enterprises will benefit the economy.
- This policy thinking does not always recognize that Transnet's integrated infrastructure ownership, combined with its revenue from operations, enables it to borrow optimally in the capital markets for long-term investments.

Without a strategic SOE role, the freight network will depend on project-specific state revenue allocations and short-horizon, costly private sector investment.

# IMPACT OF REGULATION ON REVENUES

## Transnet Pipelines

In its 2009/10 tariff determination for Transnet Pipelines, NERSA decided not to allow a recovery of costs associated with borrowings for the construction of the NMPP, leaving Transnet with approximately R1 billion revenue shortfall in 2009/10. This will also result in a significant spike in tariffs when the NMPP is commissioned in 2011/12.

## Transnet National Ports Authority

The Ports Regulator's Directives to be published shortly, provide for a cap to be imposed on TNPA tariffs from 2010/11 at "CPIX minus x", where "x" is an "efficiency factor determined by the Regulator", and a tariff level re-basing exercise every five years. This will significantly constrain port infrastructure investment going forward.

The key risks confronting Transnet are revenue risk and the fragmentation of the existing network.

# CONTENTS



INTRODUCTION

LOGISTICS AND MARKET ENVIRONMENT

TRANSNET'S STRATEGY AND INFRASTRUCTURE PLAN

FINANCING THE INVESTMENTS

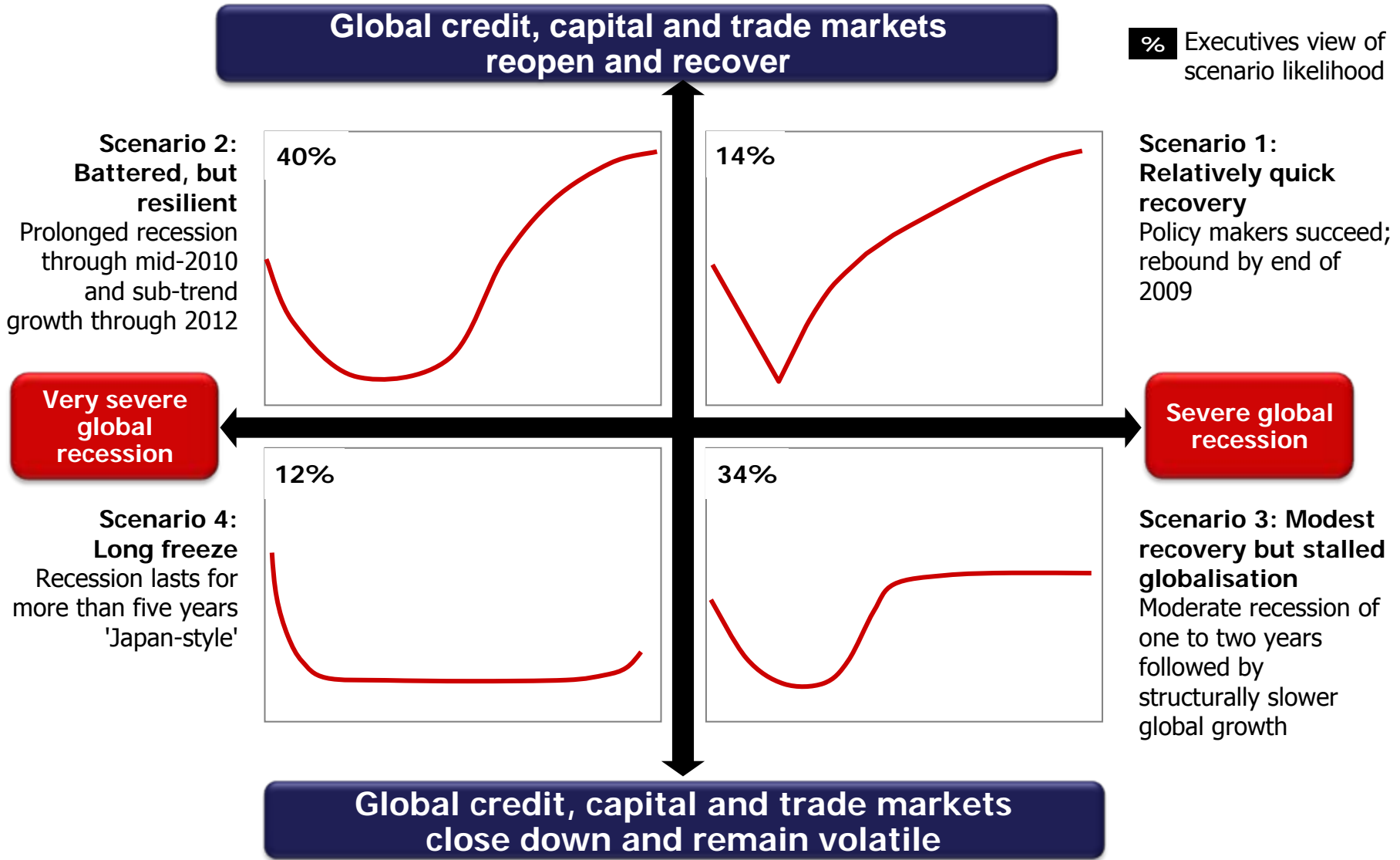
ECONOMIC REGULATION

ECONOMIC CHALLENGES GOING FORWARD

TRANSNET'S CORPORATE SOCIAL INVESTMENT

CONCLUSION

# THE ECONOMIC CRISIS: BUSINESS LEADERS BELIEVE THAT SCENARIO 2 AND 3 ARE MOST LIKELY

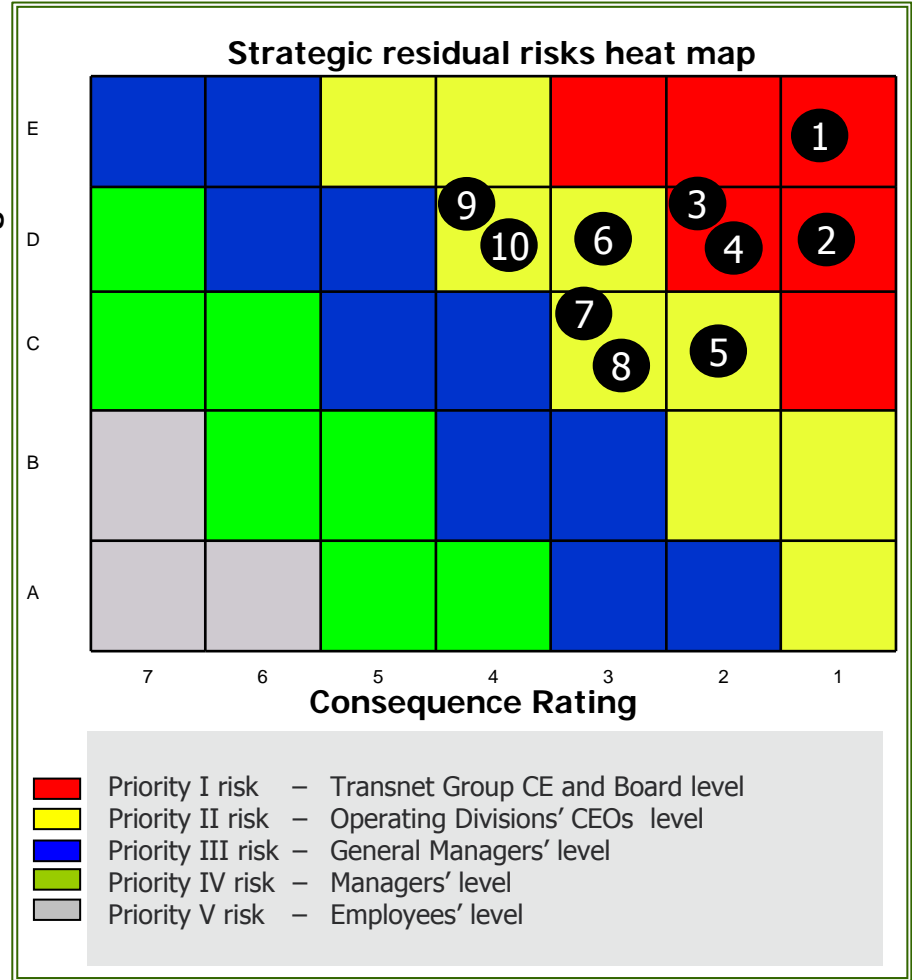


# GROUP KEY RISKS

1	Revenue and volume growth
2	Non-compliance with safety and standard operating procedures (SOPs)
3	Economic regulation ( <i>Ports and Pipelines</i> )
4	Funding and liquidity risk
5	Delivery of capital projects on time and within budgets and affordability
6	Asset performance and maintenance regime
7	Human resources capability to deliver on growth strategy
8	Environmental risks
9	Input costs – energy (electricity and fuel), steel, pricing and supply
10	Commodity and concentration risks

Mitigating plans are in place to manage the key risks and are monitored by the appropriate governance structures

Likelihood Rating



# CONTENTS

INTRODUCTION

LOGISTICS AND MARKET ENVIRONMENT

TRANSNET'S STRATEGY AND INFRASTRUCTURE PLAN

FINANCING THE INVESTMENTS

ECONOMIC REGULATION

ECONOMIC CHALLENGES GOING FORWARD

TRANSNET'S CORPORATE SOCIAL INVESTMENT

CONCLUSION



## CORPORATE SOCIAL INVESTMENT

- Transnet invests more than R141 million in the following initiatives to:-
  - Grow its own skills and those to serve the market in general;
  - Improve access to quality primary health care;
  - Develop sports;
  - Develop and improve access to arts and culture;
  - Provide containerised infrastructure assistance.

## GROWING OUR OWN SKILLS

- Like many organisations, Transnet, faces the skills challenges of:-
  - Retaining experienced technical staff in light of the current economic growth in the country.
  - Shortage of critical staff accentuated by the lack of “feeder pipelines” within companies.
  - Companies opt to “buy” skills at attractive remuneration packages rather than invest in development pipelines.
- In light of the above Transnet has developed a skills resource plan that is supported by a comprehensive “grow your own” strategy. The strategy focuses on nurturing young talent and strengthening the ‘engineering management and commercial skills pipeline’.

## GROWING OUR OWN SKILLS

- In line with our 'Grow your Own' strategy the following initiatives are currently in progress:
  - To build an adequate 'engineering skills pipeline' we currently have 310 Engineering bursars and 341 Technician bursars receiving financial support and training from Transnet to the tune of R40 Million.
  - To increase Maths and Science throughput at a schools level, Transnet is presently supporting 7 Dinaledi Schools.
  - Transnet's Graduate in Training (GIT) targets commercial graduates and provides them with relevant and valuable workplace experience. Currently have 38 GITs.
  - These initiatives will be maintained for the next three years.

# THE TRANSNET FOUNDATION: EDUCATION

## Strategic focus of Portfolio

Improved quality of education in Maths, Science, Technology & English at target sites so that learners achieve outstanding results in these learner areas, and can contribute to alleviating the challenge of scarce skills. Develop sound curriculum knowledge amongst educators to improve teaching and learning in these fields.

## Projects delivered to achieve strategy

### Sharp Minds! Get Ahead in Life – Maths & Science

Transnet Sharp Minds Learner Development

Transnet Sharp Minds Educator Development

Transnet Sharp Minds Infrastructure Development

Transnet Sharp Minds After-care Learner Support

## Business fit - Alignment

The Transnet Sharp Minds programme will contribute towards addressing the critical skills shortage within the country and also impact positively on the skills requirements of Transnet's human resources.

## TRANSNET FOUNDATION HEALTH: PHELOPHEPA

An 18 coach primary health care train

Eye, dental, health, counseling and pharmaceutical clinics on board.  
Also offers health education outreach programmes.

36 stops a year and delivers health care to 43 000 patients annually

The Transnet-Phelophepa health care train became the first South African Corporate Social Investment project to receive the United Nations Public Service Award for excellence in public service delivery. The United Nations Public Service Awards Programme is the most prestigious international recognition of excellence in public service. It rewards the creative achievements and contributions of public service institutions to development in countries around the world.

# TRANSNET FOUNDATION: SPORT

## Strategic focus of Portfolio

The sports portfolio is aimed at identifying and developing excellence in sport amongst the youth of South Africa. This is achieved by providing access to sporting opportunities for youth who fall outside of the regular net of sporting bodies.

## Projects delivered to achieve strategy

Rural & Farm School Sport Games  
 Transnet Soccer School of Excellence

## Business fit - Alignment

Creating an enabling sport environment to harnesses the talent of the participating youth, and, through the positive impact, strengthen the social fabric of the targeted communities. Access to sporting excellence is aimed at a professional career in sport and resultant economic sustainability

# TRANSNET FOUNDATION: ARTS & CULTURE

Access to the Arts – Theatre Trucks

Five horse and trailer pantechnicons converted into performance stages

Fully equipped with sound and lighting stage facilities

Implemented in partnership with Theatres across the country

Aimed at moving the arts to the people, especially rural communities

Theatres can implement an outreach programme, and artists can take their productions beyond Theatres in a cost effective way



# TRANSNET FOUNDATION: CONTAINERISED ASSISTANCE PROGRAMME

## Strategic focus of Portfolio

The containerised assistance programme of the Transnet Foundation is an innovative way of addressing the shortage of infrastructure and capacity in rural communities.

## Projects delivered to achieve strategy

SAPS Kagisho (Northern Cape) Satellite Police Station  
SAPS Dundee (Kwa-Zulu Natal) Satellite Police Station  
Nkomazi (Mpumalanga) Multi Purpose Centre

## Business fit - Alignment

Containers are an integral part of Transnet freight business. At the end of their lifecycle these containers are used by Transnet Foundation, renovated and made available for social investment projects specifically in the areas of social development and safety and security.



# Transnet's Training Outside Public Practice Programme "TOPP"



Approved  
Training  
Organisation

Transnet is affiliated with the South African Institute of Chartered Accountants as an Approved Training Organisation since 1997.

Thuthuka  
Programme

Currently 30 bursars are supported on the Thuthuka programme which aims to place African and Coloured students at selected accredited universities on special undergraduate BComm accounting programmes.

TOPP  
Programme

- Transnet has 11 Learners on the TOPP programme.
- TOPP is a 3 year learnership programme for candidates that have a Certificate in Theory of Accounting/ BCompt Honours or equivalent who wish to pursue a career as Chartered Accountants.
- Since the inception of the TOPP programme Transnet has trained 65 candidates of which 30 qualified as Chartered Accountants.

# CONTENTS

INTRODUCTION

LOGISTICS AND MARKET ENVIRONMENT

TRANSNET'S STRATEGY AND INFRASTRUCTURE PLAN

FINANCING THE INVESTMENTS

ECONOMIC REGULATION

ECONOMIC CHALLENGES GOING FORWARD

TRANSNET'S CORPORATE SOCIAL INVESTMENT

CONCLUSION

## CONCLUSION

The slowdown in economic activity is a set back to the growth path.

Transnet will however, proceed with the roll out of the growth strategy and bolster the impact of lower economic growth by:

- Focussing on identified growth opportunities in domestic market (container and domestic coal) and for exports (iron ore and coal);
- Productivity/efficiency improvements to improve competitiveness and lowering operational costs as well as to drive performance to KPI benchmarks;
- Embedding lower cost structures on a wide front within the company;
- Continuing planned infrastructure investments to create capacity in line with customer demand;
- Being nimble and proactively assess key cash drivers to ensure that gearing and cash interest cover metrics are not breached.

Transnet has created a solid foundation to withstand the current economic downturn and is therefore able to meet the 5-year growth targets whilst maintaining a strong balance sheet.

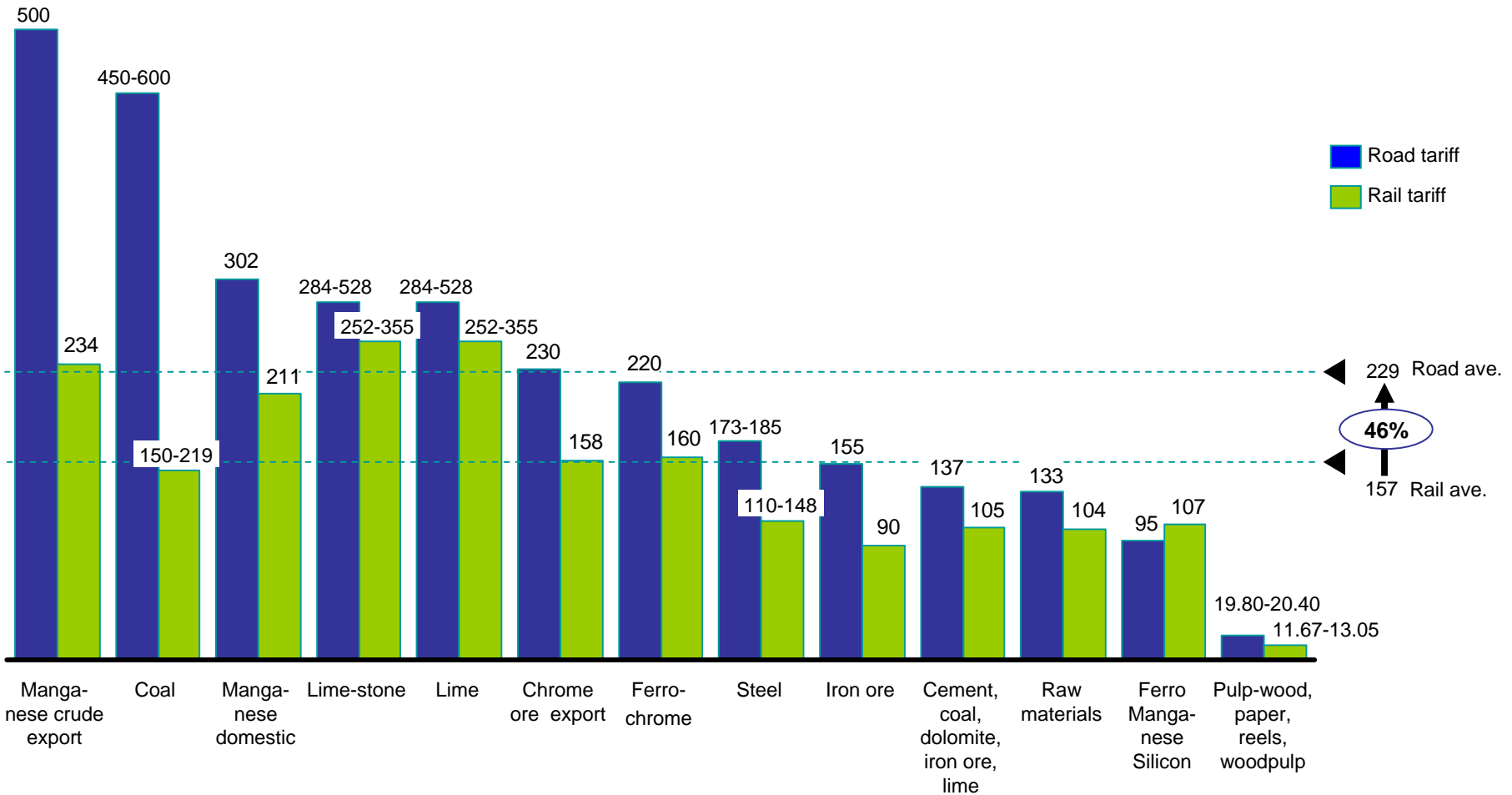
THANK YOU



# BACK-UP SLIDES

## FREIGHT RAIL TARIFFS ARE VERY COMPETITIVE AND BULK EXPORT LINES OPERATE AT WORLD CLASS LEVELS

R/tonne EXAMPLES FROM CUSTOMERS



# OUR COAL LINE OPERATES AT WORLD CLASS STANDARDS

Country	Operator	No of Collieries	ATD (km)	Avg Rail Rate (US cents/tonkm)	Rank
Australia	PN	35	110	4.28	7
	QR	39	228	2.88	6
Colombia	EC	5	150	0.80	1
	FdA	10	202	3.57	7
Canada	CNR	7	1019	1.39	3
	CPR	6	1183	1.53	4
China	National	92	630	1.64	5
<b>SA</b>	<b>Transnet Freight Rail</b>	<b>43</b>	<b>530</b>	<b>1.31</b>	<b>2</b>

South Africa's Coal Export rail costs are competitive against major exporting countries, second only to EC's (Columbia) rail rates at more than thrice the distance in SA

# EXPORT IRON ORE BENCHMARKS



Measure/Category Ranking System: 1 – Best, 2 – Mid, 3 – Worst	South Africa	Western Australia	Central Qld Coal
Mine-Rail Loading Rate	2	1	3
Cycle Times	3	2	1
Train Length	2	1	3
Ship loading Rate	2	1	3
Train path utilisation	3	2	1
Net tonnes per train	2	1	3
Locomotive crew cost per hour	1	2	3
Electric energy	1	-	2
Train set cost	2	3	1
Rail Line Haul Pricing	1	2	3
ZAR / tonne	31 – 41	26 – 32	30 – 36
Line Haul (km)	860.00	322.00	200
ZAR / ntk (above rail)	-	0.05 – 0.06	0.10 – 0.12
ZAR / ntk (below rail)	-	0.03 – 0.04	0.05 – 0.06
ZAR / ntk (total)	0.04 – 0.05	0.08 – 0.10	0.15 – 0.18

Transnet's cost per ton is higher than Australian supply chains however on a net tonne km basis, Transnet's pricing is much lower

# CONTEXT OF THE NATIONAL INFRASTRUCTURE PLAN

- Transnet owns, manages & operates a **national freight transport system** consisting of Port, Rail & Pipeline infrastructure
- To optimise benefits, this system needs to be developed and operated in a **coordinated and integrated manner**
- The **National Infrastructure Plan** (“NIP”) provides the basis for the holistic infrastructure development of the freight transport system.
- The NIP is Transnet’s strategic **long-term infrastructure planning framework**



# PLANNING PRINCIPLES OF THE NIP

- Provide capacity ahead of demand
- Ensure sustainability of development plans
- Integrate port, rail and pipeline planning
- Alignment with national road and electricity supply planning
- Provide capacity through operational efficiencies before infrastructure provision
- Provide reliable, safe and cost-effective freight handling services of world class standards
- Benchmark all developments internationally

## **National Ports Act, 2005 (Act No. 12 of 2005)**

- The Act became effective 26 November 2006.
- Ports Regulator Board was appointed in December 2006 and the Ports Regulator's CEO commenced work in mid-2008.
- The Act makes Transnet National Ports Authority ("TNPA") responsible for ensuring the safe, efficient and effective functioning of the ports.
- It provides for the corporatisation of TNPA and for competition to Transnet Port Terminals. Steps to corporatise TNPA were stalled by government in 2008 in light of Transnet's investment commitments.
- Ports Regulator's functions are annually to approve TNPA tariffs; promote competition in ports; and adjudicate complaints and appeals from port users.
- Directives setting out the manner in which the Ports Regulator will perform its statutory functions are, however, still outstanding with deadlines on their finalisation consistently moving.
- In accordance with draft Directives issued by the Regulator, TNPA's tariff application for 2009/10 was submitted on 1 August 2008. No response was received from the Ports Regulator, and in the light of the Directives not being finalised in time for the commencement of the 2009/10 financial year, TNPA had no choice but to proceed with inflation-linked adjustments to its tariffs in the normal course. These adjustments are however, inadequate to recover port investments going forward.
- In regulations issued by the Minister of Transport in November 2007, the Ports Regulator was tasked, within one year, to review the current participation in port operations of public entities, private entities and public-private partnerships and make recommendations to the Minister. To date, this review has not commenced.

# ECONOMIC REGULATION: PIPELINES

## Petroleum Pipelines Act, 2003 (Act No. 60 of 2003)

- NERSA’s powers under the Pipelines Act are:
  - to licence petroleum pipelines and storage facilities, and
  - to set and approve tariffs as a condition of licence
- Transnet Limited submitted the 2009/10 petroleum pipeline and storage tariff applications to the NERSA on 11 November 2008.
- Due to the revised implementation schedule of the NMPP and Transnet’s proposed treatment of the F-factor (as borrowing costs) and the correction of an error regarding the capitalisation of an asset, the required revenue is R 2,043m, or a tariff increase of 74%.
- History of NERSA decisions on Transnet Pipelines’ tariffs to date:

Tariff period	Transnet’s proposed tariff increase	NERSA decision
2007/08	5.6%	0%
2008/09	15%	4.43%
2009/10	82.50%	Pending (current draft decision for public comment – 77%)

# ECONOMIC REGULATION: PIPELINES

## The Gas Act, 2001 (Act No. 48 of 2001)

- NERSA's powers under the Gas Act are:
  - to regulate prices, monitor and approve, and
  - if necessary, regulate gas transmission and storage tariffs.
- NERSA published the draft methodology for piped-gas industry in June 2008.
- Transnet submitted detailed comments on 14 August 2008 to the draft methodology for piped-gas industry . To date, NERSA has not finalised the methodology.
- No licence received as yet for the Gas Pipeline. New contract with Sasol is in place based on 80% ship-or pay arrangement.