

TRANSNET



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**PRESENTATION OF ANNUAL FINANCIAL STATEMENTS  
TO THE PORTFOLIO COMMITTEE ON PUBLIC ENTERPRISES  
13 September 2011  
Mr Brian Molefe, Group Chief Executive**



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## ANNUAL FINANCIAL STATEMENTS

- Financial performance 2010/11
- Audit opinion
- Irregular expenditure

## EXECUTION OF THE QUANTUM LEAP STRATEGY

- Volume growth and operational efficiency
- Capital investment
- Human capital
- Strategic enablers
- Safety
- Regulatory environment
- Social development



## CONCLUSION AND WAY FORWARD



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## FINANCIAL REVIEW



## FINANCIAL HIGHLIGHTS



	2011 R billion		% change
Revenue	38,0	↑	6,6
EBITDA	15,8	↑	9,4
Cash generated from operations after changes in working capital	18,3	↑	13,5
Capital investment*	21,5	↑	16,6

Key Ratios	2011	2010
EBITDA margin	41,5%	40,5%
Gearing	41,1%	39,8%
Cash interest cover	3,9 times	4,1 times
Return on average total assets (excluding CWIP)	6,6%	7,7%

\* Excludes capitalised borrowing costs, including capitalised finance leases.

## ABRIDGED INCOME STATEMENT



	2011 R million	2010 R million	%
Revenue	37 952	35 610	6,6
Net operating expenses excluding depreciation and amortisation	(22 189)	(21 201)	4,7
<b>EBITDA</b>	<b>15 763</b>	14 409	9,4
Depreciation and amortisation	(7 184)	(6 089)	18,0
<b>Profit before items listed below</b>	<b>8 579</b>	8 320	3,1
Impairment of assets, fair value adjustments and other items	(9)	(971)	(99,1)
Net finance costs	(2 878)	(2 436)	18,1
<b>Profit before taxation</b>	<b>5 692</b>	4 913	15,9
Taxation	(1 508)	(1 763)	(14,5)
<b>Profit from continuing operations</b>	<b>4 184</b>	3 150	32,8

• The sustained financial performance has created a platform for the execution of the capital investment programme.

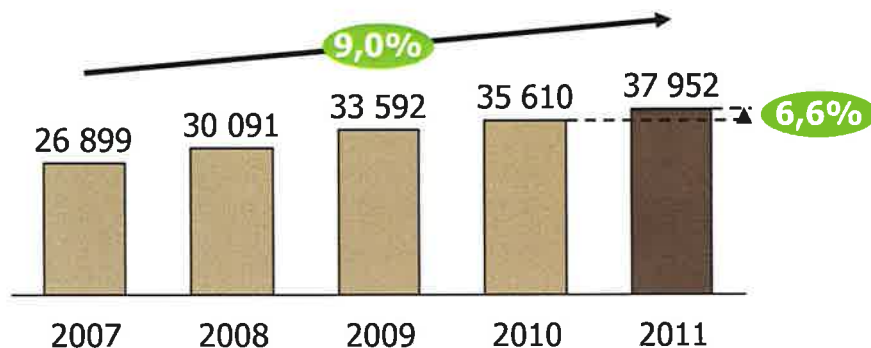


# REVENUE

4-Year  
CAGR



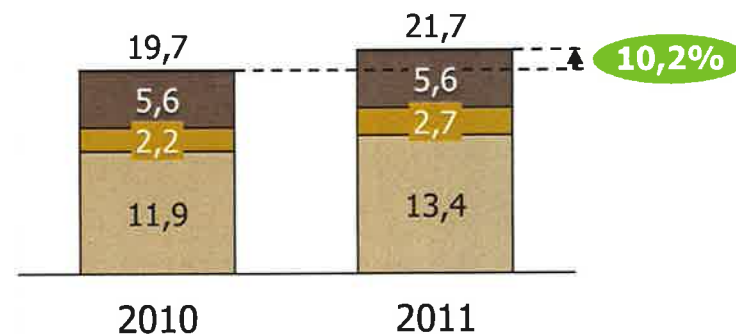
## Revenue (R million)



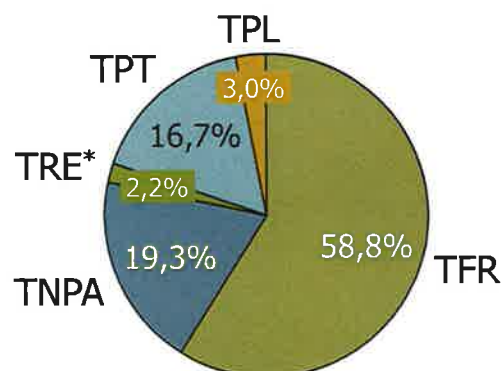
## Commodity revenue

Rail sector (R billion)

Export coal GFB  
Export iron ore



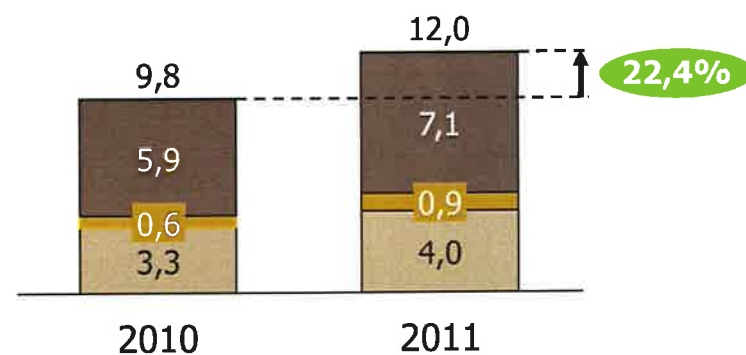
## Revenue contribution by Operating division



\* Includes Specialist Units

Ports sector (R billion)

Containers Total bulk  
Automotive



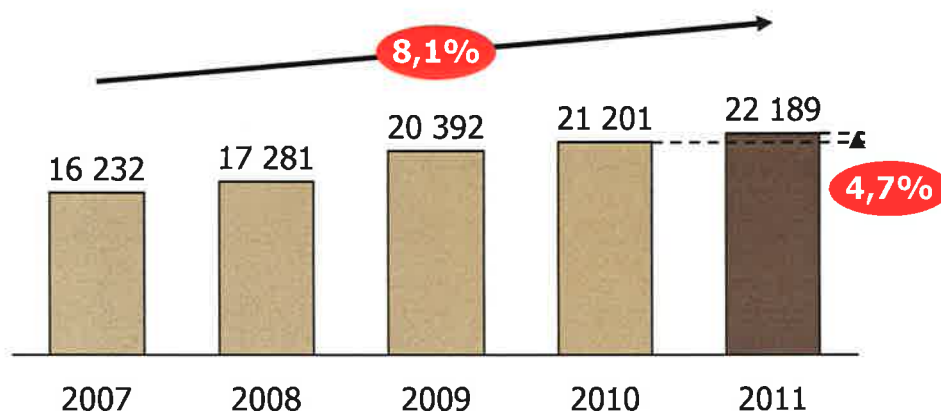
• Revenue increased by 6,6% despite the negative impact of the industrial action.

# OPERATING EXPENSES

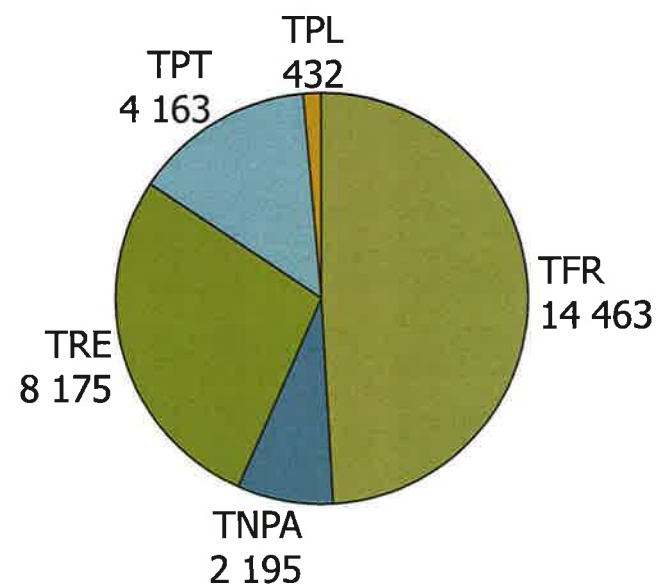
4-Year  
CAGR



Operating expenses (R million)



Operating expenses contribution by Operating division\* (R million)



\* Excludes Specialist Units.

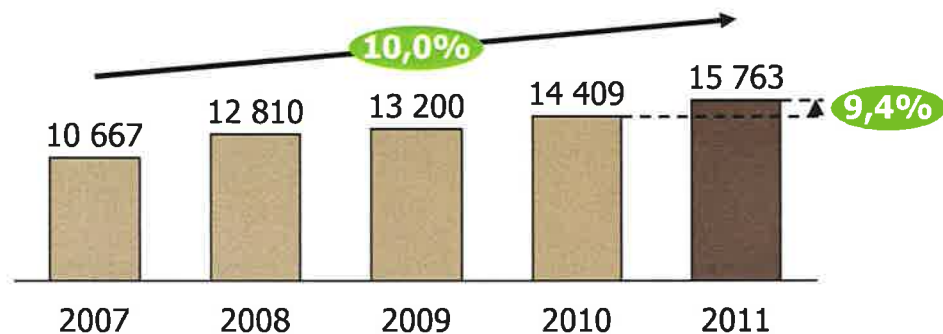
- Operating expenses increased by 4,7% despite an increase in input costs, such as electricity costs of 25%.
- Cost saving initiatives resulted in a R2,1 billion reduction in planned costs.
- The marginal increase in operating expenses is indicative of ongoing cost saving initiatives and efficiency improvements.

# EBITDA

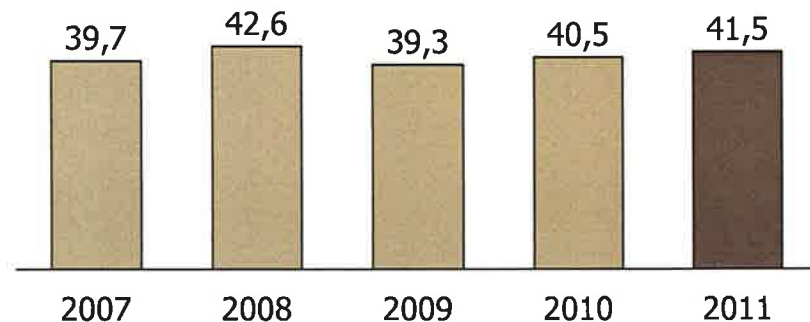
4-Year  
CAGR



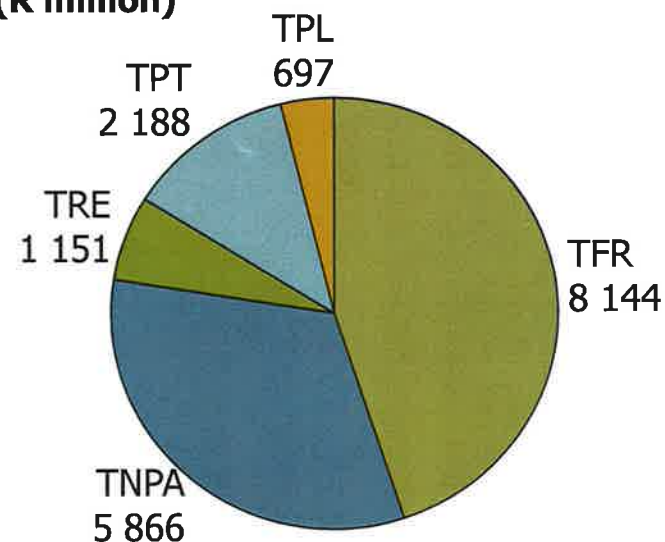
**EBITDA (R million)**



**EBITDA margin (%)**



**EBITDA contribution by Operating divisions\* (R million)**



\* Excludes Specialist Units and intercompany eliminations.

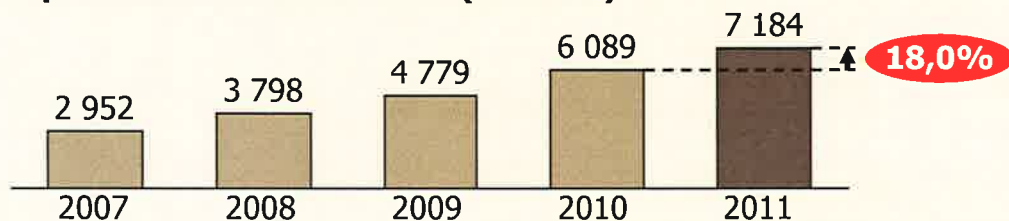
- Improvement in EBITDA margin is as a result of revenue growth and cost reduction initiatives implemented during the year.
- Strong profitability over the last 5 years.



# DEPRECIATION AND AMORTISATION, NET FINANCE COSTS, TAXATION AND PROFIT FOR THE YEAR

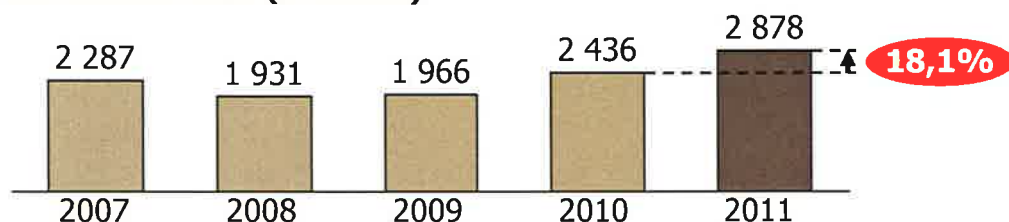


## Depreciation and amortisation (R million)



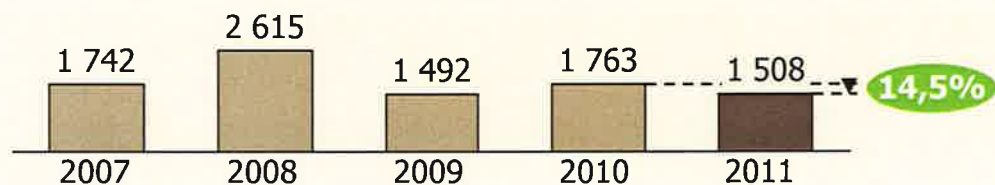
- In line with expectations, the increase in depreciation and amortisation is attributable to the capital investment programme and revaluations of port facilities and pipeline networks.

## Net finance costs (R million)



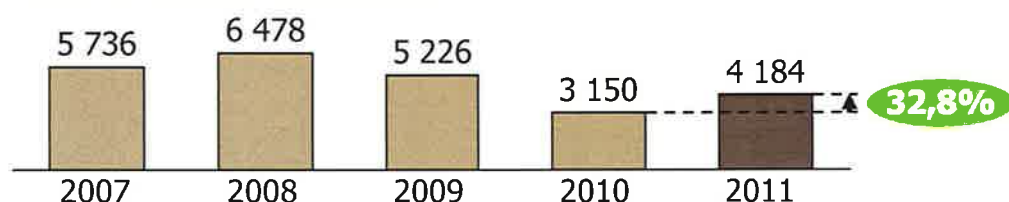
- Increase in net finance costs due to increased long-term borrowings to fund the capital investment programme.

## Taxation (R million)



- At 26,8% (2010: 36,8%) the effective taxation rate is marginally below the corporate taxation rate of 28%.

## Profit for the year (R million)



- Strong year on year improvement is mainly due to the volume increases and cost reduction initiatives.

## ABRIDGED STATEMENT OF FINANCIAL POSITION



	2011 R million	2010 R million
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>146 243</b>	120 845
Property, plant and equipment	<b>137 836</b>	113 579
Investment properties	<b>7 368</b>	6 604
Other non-current assets	<b>1 039</b>	662
<b>Current assets</b>	<b>20 827</b>	18 040
<b>Total assets</b>	<b>167 070</b>	138 885
<b>EQUITY AND LIABILITIES</b>		
Capital and reserves	<b>73 666</b>	63 347
Non-current liabilities	<b>72 660</b>	60 179
Current liabilities	<b>20 744</b>	15 359
<b>Total equity and liabilities</b>	<b>167 070</b>	138 885

• Transnet's strong financial position enables the execution of the borrowing programme without Government guarantees.

# PROPERTY, PLANT AND EQUIPMENT AND LONG-TERM BORROWINGS

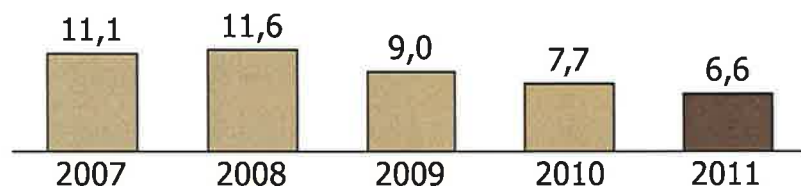


## Property, plant and equipment (R million)



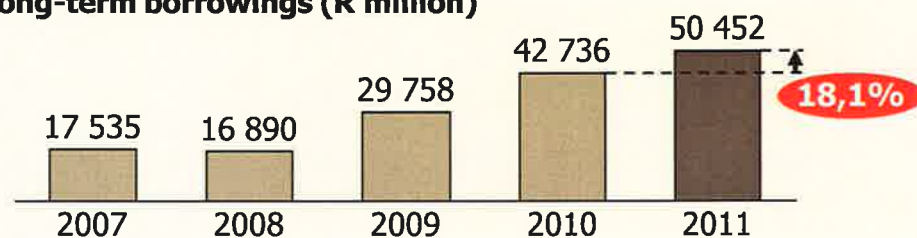
- Included in additions are capital investments of R21,5 billion and capitalised borrowing costs of R1,8 billion.
- Revaluations are in respect of:
  - Pipeline network assets R310 million;
  - Port facilities R8,2 billion; and
  - Land and buildings R264 million.

## Return on average total assets (excluding CWIP) (%)



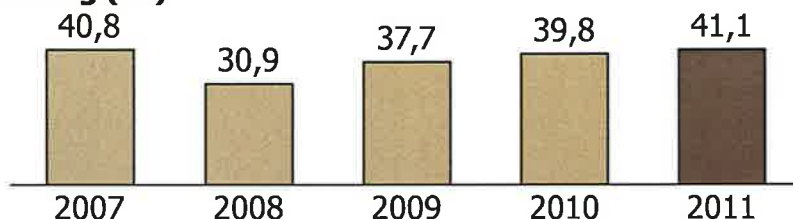
- Decline in return on average total assets due to higher depreciation charge as a result of the capital investment programme as well as the revaluation of assets.

## Long-term borrowings (R million)



- Long-term borrowings increased due to funding raised for the capital investment programme which is creating capacity ahead of demand.

## Gearing (%)



- Gearing, which is lower than the Board limit, reflects adequate capacity to fund future capital investments.



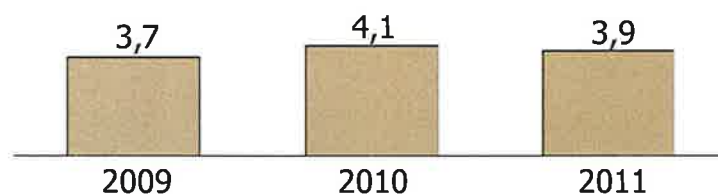
## ABRIDGED CASH FLOW STATEMENT AND FUNDING



	2011 R million	%
<b>Cash from operating activities</b>	<b>13 159</b>	<b>8,8</b>
• Cash generated from operations	16 159	13,5
• Security of supply petroleum levy	1 315	>100,0
• Changes in working capital	792	(57,2)
• Other operating activities	(5 107)	27,8
<b>Cash utilised in investing activities</b>	<b>(23 018)</b>	<b>12,8</b>
<b>Cash from financing activities</b>	<b>12 791</b>	<b>23,5</b>

- Generated strong, predictable and sustainable cash from operations.
- Transnet has adequate liquidity and funding facilities to meet all its operational and capital investment funding requirements over the medium-term.
- Successfully implemented the funding strategy.
- Required funds raised in a cost effective manner evidenced by the reduction in WACD to below 10%.

### Cash interest cover (times)



- Cash interest cover of 3,9 times remains significantly above the minimum Board target of 3,0 times and is not expected to fall below the target in the medium-term.

### Sources of funding 2011

	R billion
• GMTN	5,1
• DMTN	7,7
• Commercial paper	2,0
• Bank loans and asset backed finance	1,9
• DFIs/ECA	1,7

### Total

**18,4**

# EXTERNAL AUDIT AND INTERNAL AUDIT OPINION ON ANNUAL FINANCIAL STATEMENTS



## EXTERNAL AUDIT

- **Financial statement assurance**
  - Transnet continues to achieve unqualified external audit reports;
  - External audit highlighted a number of reportable items in terms of section 55(2)(b) of the Public Finance Management Act (PFMA) .
- **Auditor General – Audit of Performance Information**
  - The external auditors introduced the review of performance information in the 2009/2010 financial year. There were no material findings on the audit of predetermined objectives for 2010/11 concerning the presentation, usefulness and reliability of the information.
- **Auditor General – Procurement Contracts audit**
  - No significant findings were identified in respect of the audit work performed, apart from the PFMA issues mentioned. A total of 104 contracts were reviewed with a total contract value of approximately R22 billion.
- **Auditor General – Key controls checklist**
  - Out of a total of 111 controls assessed across the Transnet control environment 93 controls were assessed as “good” and 18 controls were assessed as “in progress” whilst 0 controls were assessed as “intervention required”.

## INTERNAL AUDIT

- Internal Audits overall assessment of the effectiveness of the system of internal controls and risk management for the period from 1 April 2010 to 31 March 2011 were as follows:

Risk and Control component	Process	Assessment
Governance	Financial	Satisfactory
	Operational	Requires Improvement
People	Financial	Satisfactory
	Operational	Requires Improvement
Method and practices	Financial	Satisfactory
	Operational	Requires Improvement

## PFMA IRREGULAR EXPENDITURE



### Background

- Expenditure classified as irregular (R7.2 billion) due to non-compliance with Transnet procurement processes and practices.
- In all cases value for service rendered was obtained.
- All non-compliances have been rectified .

### Recent tender audit performed by Transnet External and Internal Audit

- A recent tender audit performed by Transnet Internal Audit resulted in a “requires improvement rating” and only 1 finding relating to non-compliance to procurement policy. This is a significant improvement from the tender audit performed in the 2008/2009 financial year which identified 19 findings.
- A total of 104 contracts were reviewed with a total contract value of approximately R22 billion.

### Irregular expenditure resulting from non – compliance to the procurement policy and actions taken:

- Procurement policy and procedures have been made user-friendly;
- Training on the revised procurement policy has been rolled out ;
- Internal audit monitors all high value tenders (>R50m) has been implemented;
- The delegation of authority has been revised - authority for condonation of expenditure by the Group Chief Executive only;
- All irregular expenditure and fruitless and wasteful expenditure is investigated to determine the root cause and corrective measures required;
- An internal disciplinary process is undertaken and the relevant sanction is given as per the Transnet disciplinary policy.



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**EXECUTION OF THE QUANTUM LEAP STRATEGY**



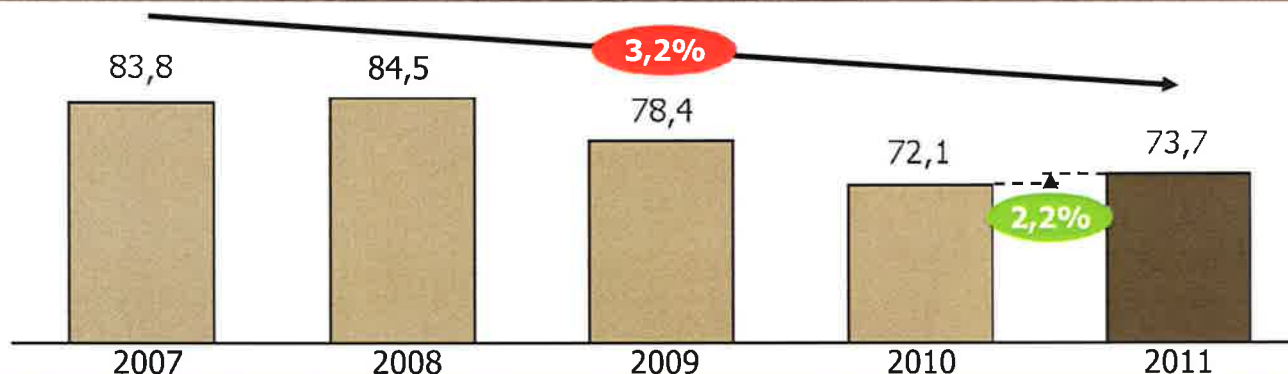
# VOLUME GROWTH, PRODUCTIVITY AND EFFICIENCY

4-Year CAGR



General freight business

## Volumes (mt)



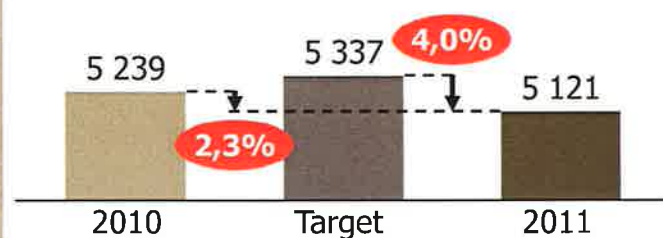
- GFB volumes reflect a 2,2% growth from the prior year, despite a loss of volumes due to the May 2010 industrial action, cable theft and rolling stock related faults.

- However, strategic commodities within GFB performed well.

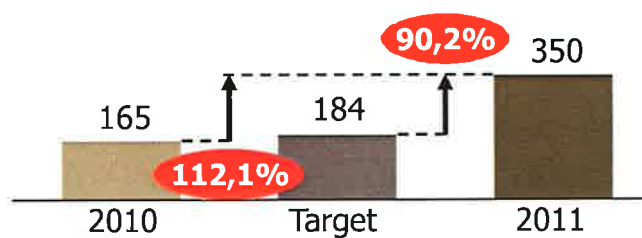
- Overall productivity and service delivery deteriorated from the prior year.

## Productivity and efficiency

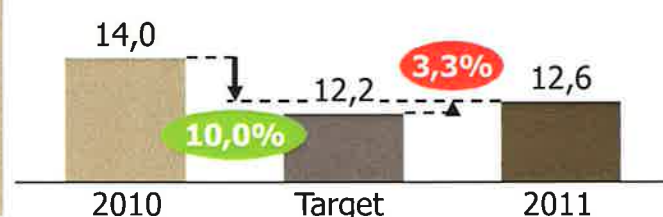
### GTK /loco/month ('000)



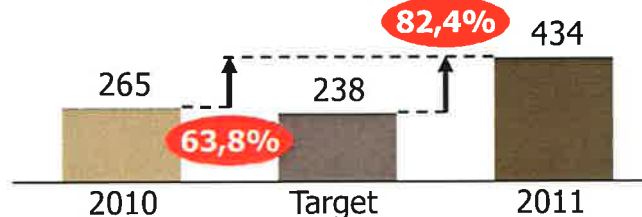
### On-time departures (avg minutes delayed)



### Wagon turnaround (days)



### On-time arrivals (avg minutes delayed)





## VOLUME GROWTH, PRODUCTIVITY AND EFFICIENCY (continued)

4-Year  
CAGR



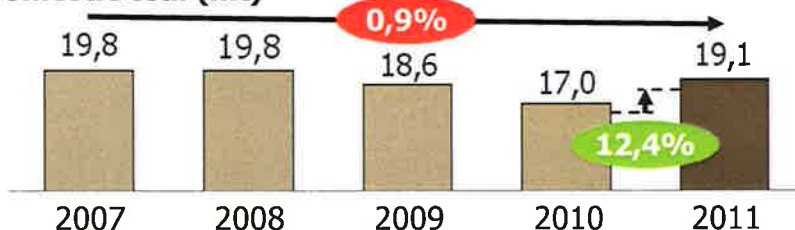
Strategic Commodities – GFB

### Containers on rail ('000 TEUs)



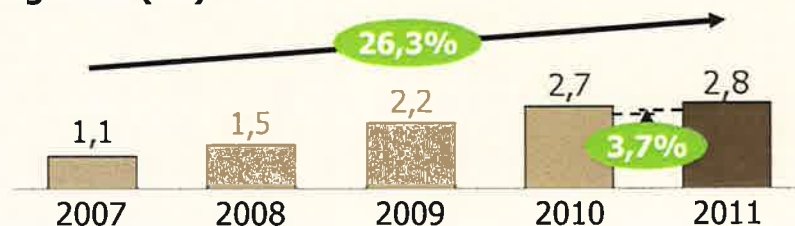
- Volumes increased by 13,2% compared to the prior year.
- Freight Rail's overall "rail friendly" container market share increased from 30,9% to 34,0%.

### Domestic coal (mt)



- Volume growth of 12,4% despite operational challenges and customer cancellations.
- One of Transnet's key focus areas over the next five years is to meet Eskom's domestic coal requirements.

### Magnetite (mt)



- Volumes increased by 3,7% despite the negative impact of the Brakspruit Bridge collapse – the main transport route for this commodity.

### Export manganese (mt)



- Export manganese volumes increased by 23,1% compared to the prior year.



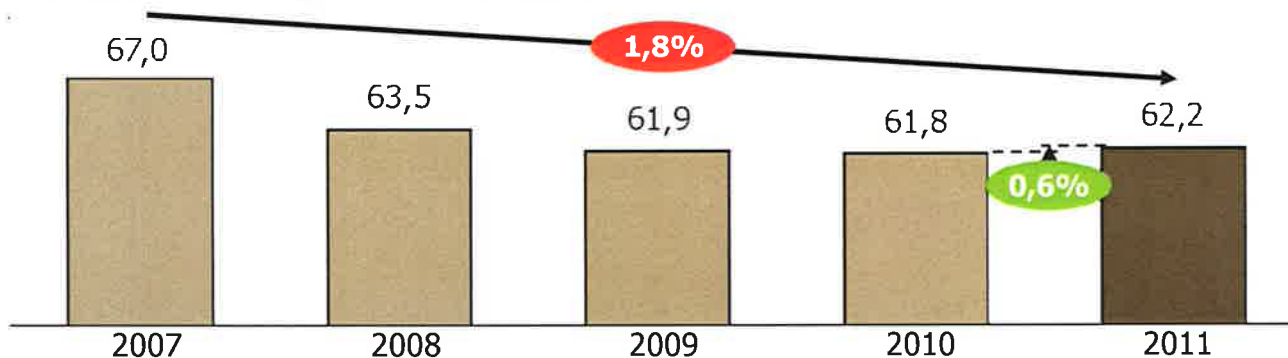
## VOLUME GROWTH, PRODUCTIVITY AND EFFICIENCY (continued)

4-Year  
CAGR



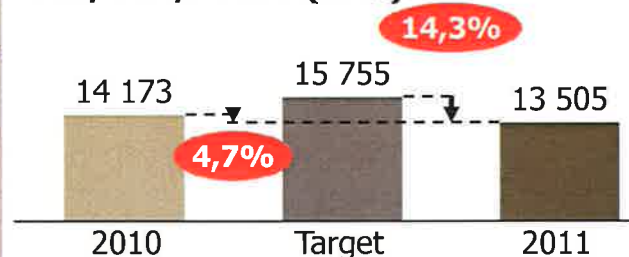
Export coal

### Volumes (mt)

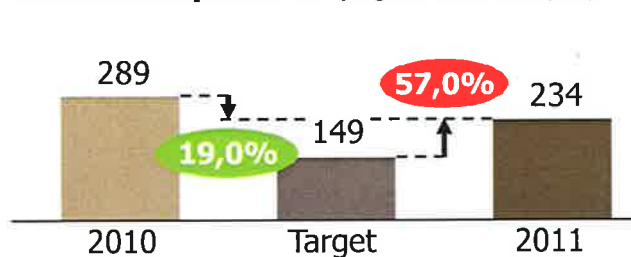


### Productivity and efficiency

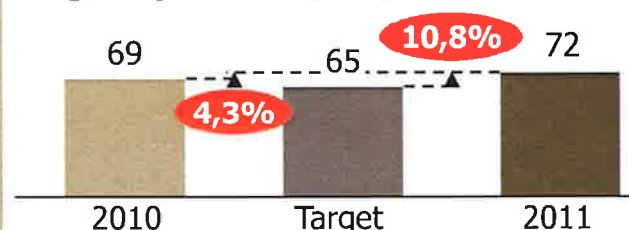
#### GTK /loco/month ('000)



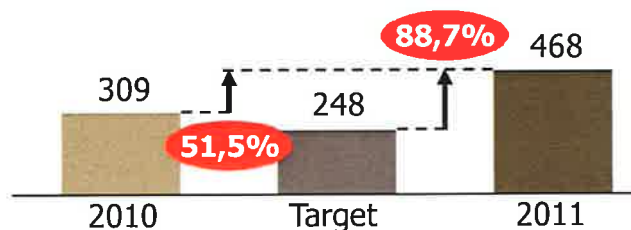
#### On-time departures (avg minutes delayed)



#### Wagon cycle time (hours)



#### On-time arrivals (avg minutes delayed)



• Export coal volumes reflect marginal growth from the prior year, despite a loss of 3,1mt due to the May 2010 industrial action, derailments and a longer than planned shutdown of the line due to the industrial action.

• Overall productivity and service delivery deteriorated from the prior year, mainly due to the impact of the industrial action as well as rail infrastructure problems and operational challenges such as crew scheduling, hook-up failures, cable theft and RBCT cancellations.

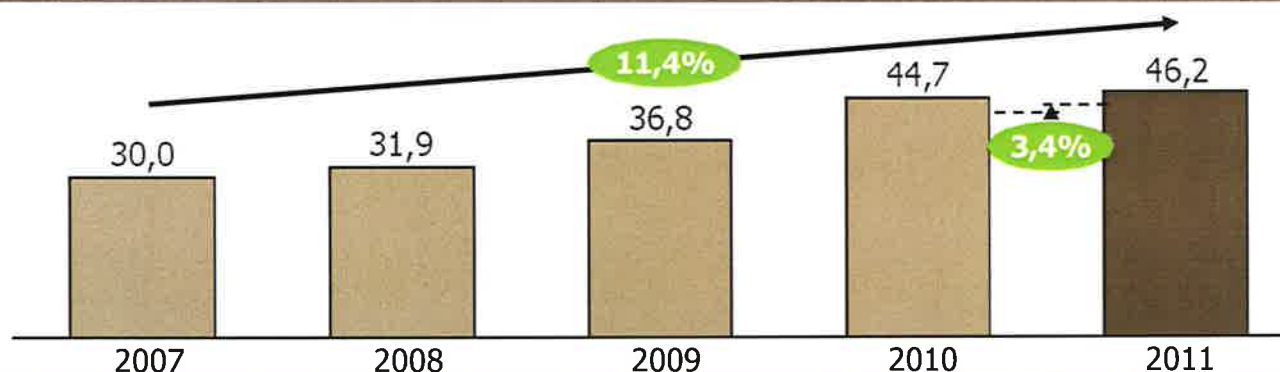
# VOLUME GROWTH, PRODUCTIVITY AND EFFICIENCY (continued)

4-Year  
CAGR



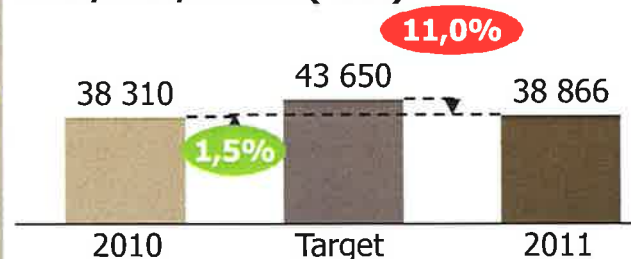
Export iron ore

## Volumes (mt)

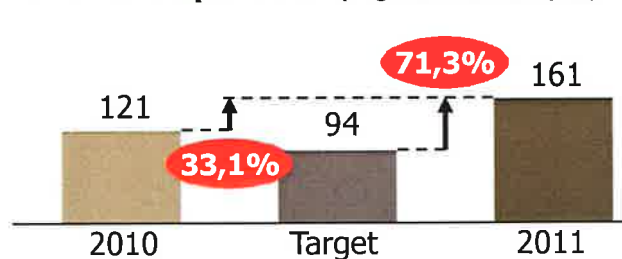


## Productivity and efficiency

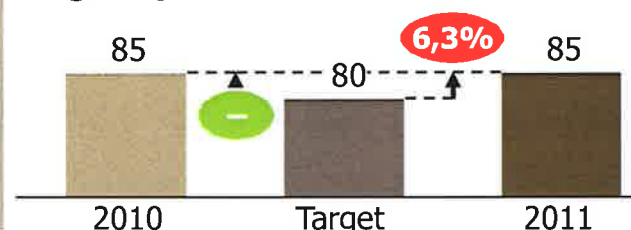
### GTK /loco/month ('000)



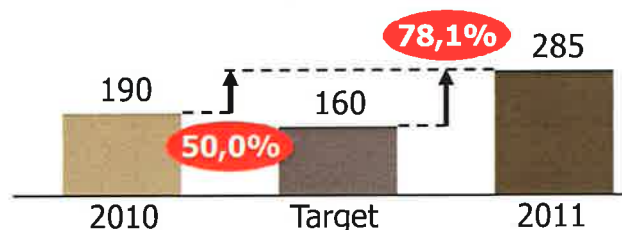
### On-time departures (avg minutes delayed)



### Wagon cycle times (hours)



### On-time arrivals (avg minutes delayed)



• Export iron ore volumes increased by 3,4%, despite an unprecedented number of derailments resulting in lost volumes which also impacted operational performance levels.

• Ship loading rates (TPT) increased with 9,7% from 6 341 tons per hour during 2010 to 6 959 tons per hour during 2011 due to the successful implementation of dual and staggered ship loading at the Iron Ore Terminal.

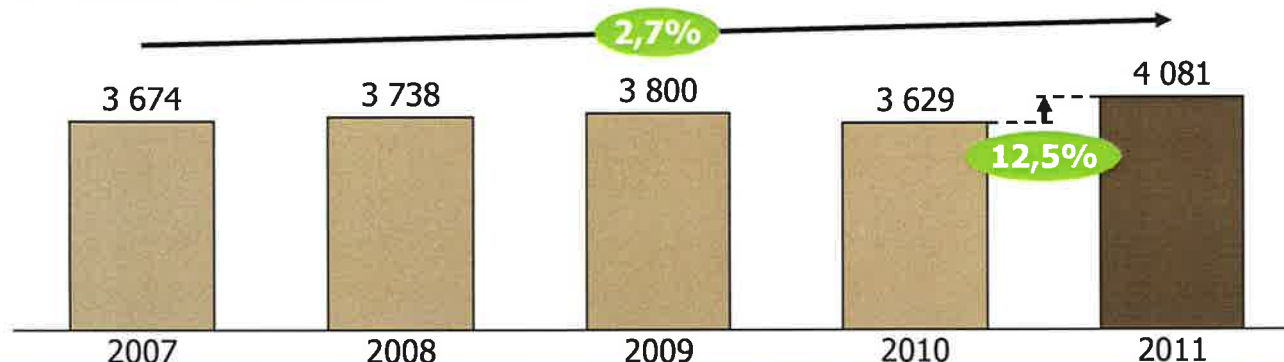
## VOLUME GROWTH, PRODUCTIVITY AND EFFICIENCY (continued)

4-Year  
CAGR



Maritime Containers

### Volumes ('000 TEUs)

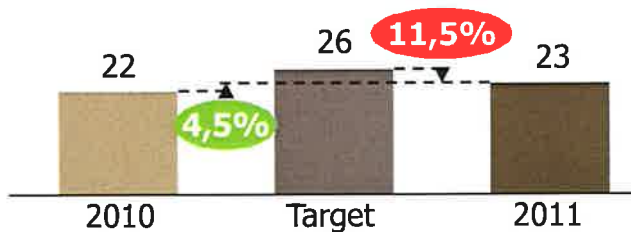


### Productivity and efficiency

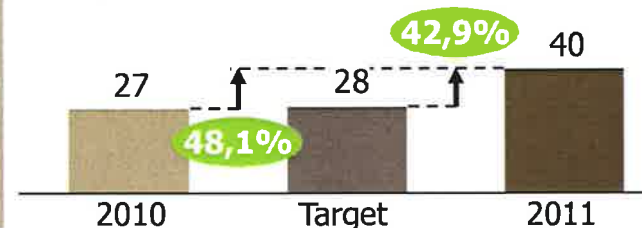
#### GCH – DCT Pier 1



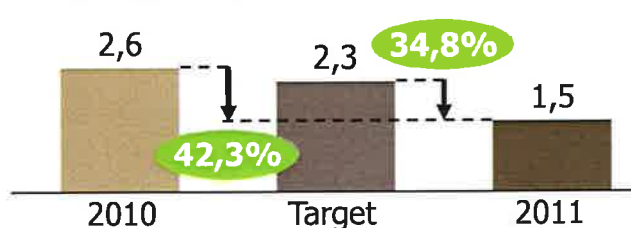
#### GCH – DCT Pier 2



#### TEUs/STAT Hour - Durban



#### Shipping delays (avg hours if ship is delayed)



- Maritime container volumes reflect a 12,5% growth, primarily driven by an increase in transshipments and imports due to the 2010 FIFA Soccer World Cup.

- Container handling rates (moves per gross crane hour) have improved by an average 12,8% across all terminals and resulted in an increase in overall container port efficiencies.

- Marine services delays caused by tugs, pilots and berthing staff at all ports have decreased significantly with 42,3% (average across all ports).

- Since December 2010, DCT Pier 1 and Pier 2 have sustained an average GCH of 29,5 and 24,5 respectively.