



Presentation to Portfolio Committee

Transnet Annual Report and Financial Statements 31 March 2012

11 September 2012

Contents

MARKET DEMAND STRATEGY

TRANSNET

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INTRODUCTION AND OVERVIEW

Company Overview

TRANSNET

Rail

Freight Rail

- 30 000 km of railway track
- General freight and 2 heavy haul export lines

Rail Engineering

- Support to TFR for rolling stock maintenance

Ports

National Ports Authority

- 8 Commercial ports

Port Terminals

- 16 Cargo terminal operations across SA ports

Pipelines

Pipelines

- 17 billion litres of petroleum products and gas through 3000km pipelines

Specialist Units

- Transnet Capital Projects
- Transnet Property
- Transnet Foundation

Note - All data as at 31 March 2012

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FINANCIAL PERFORMANCE

Financial highlights

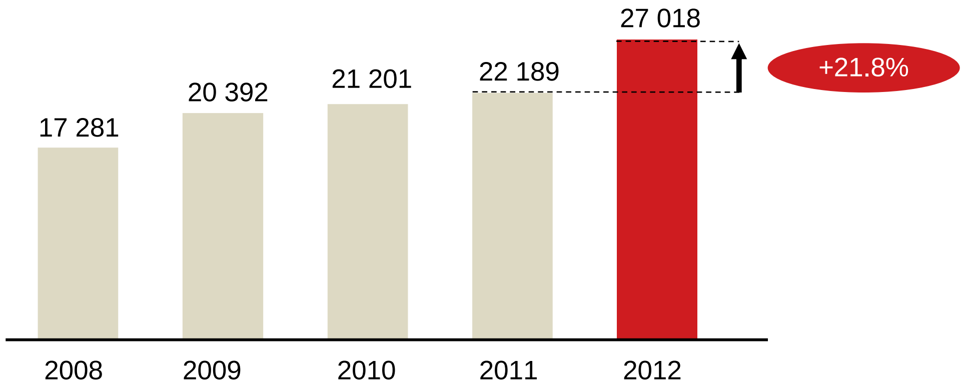
	2012 R billion	2011 R billion		YoY % change
Revenue	**45,9**	38,0	↑	20,9
EBITDA	**18,9**	15,8	↑	19,8
Cash generated from operations after working capital changes	**22,7**	18,3	↑	24,3
Capital investment*	**22,3**	21,5	↑	3,5

Key ratios	**2012**	2011
EBITDA margin (%)	**41,1**	41,5
Gearing (%)	**42,1**	41,1
Cash interest cover (times)	**4,2**	3,9
Return on average total assets (excluding CWIP)(%)	**6,8**	6,6

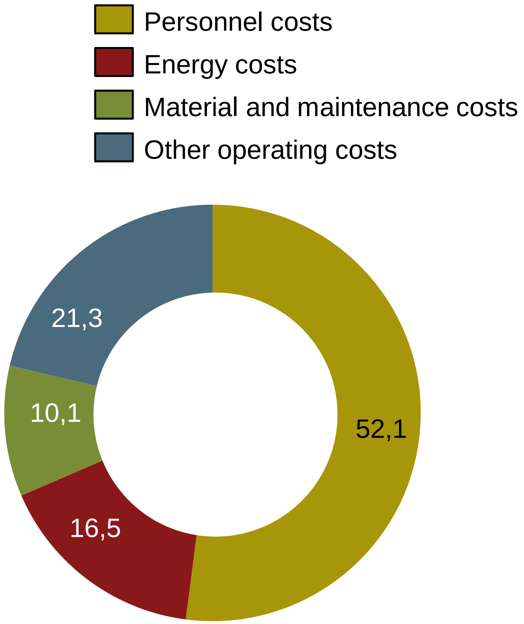
** Excludes capitalised borrowing costs, including capitalised finance leases, decommissioning liabilities and acquisition of DIA.*

Operating expenses

Operating expenses (R million)



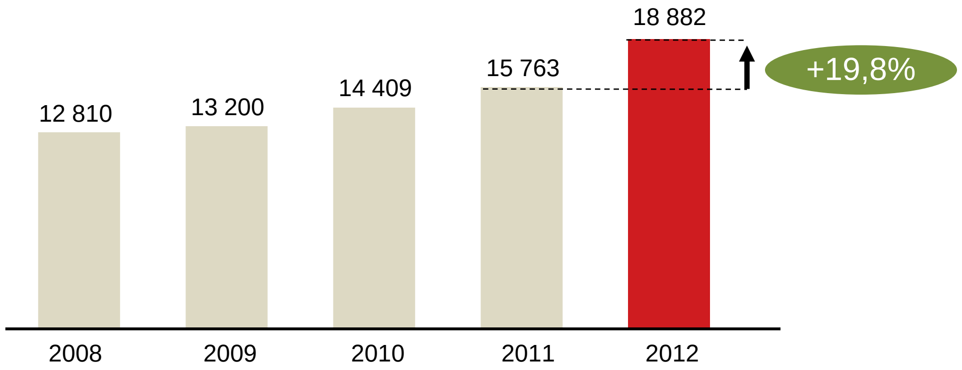
Operating expenses contribution by cost element (%)



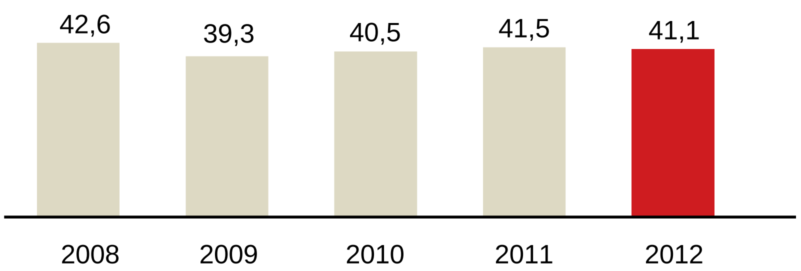
- Although operating expenses increased by 21,8%, it is still 2,5% below planned expenditure for the year.
- Operating expenses increased by 21,8% mainly due to increases in material costs (46,4%), personnel costs (18,8%) and energy costs (31,4%) – in line with expectations.
- Material cost increased in response to higher levels of maintenance incurred to support volume growth and to facilitate the improvement of safety.
- Personnel costs increased due to salaries and wages being lower in the prior year as a result of the 3 week industrial strike, an 8% average increase during the year as well as an increase in headcount of 3 159 to fill critical vacancies as well as an increase in performance related payments.
- Energy costs increased due to electricity tariff and fuel cost increases.

EBITDA

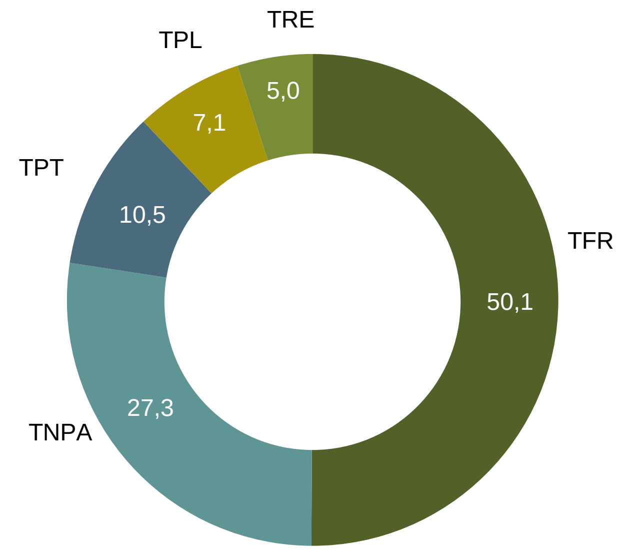
EBITDA (R million)



EBITDA margin (%)



EBITDA contribution by Operating divisions* (%)



** Excludes Specialist Units and intercompany adjustments.*

EBITDA increased by 19,8% to R18,9 billion due to increase in operational efficiencies and volume growth.

Depreciation and amortisation, net finance costs, taxation and profit for the year

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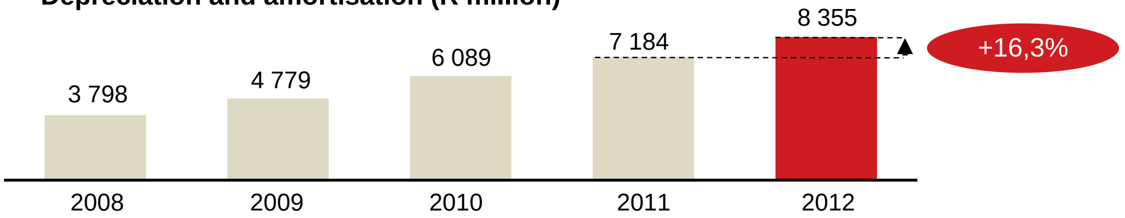
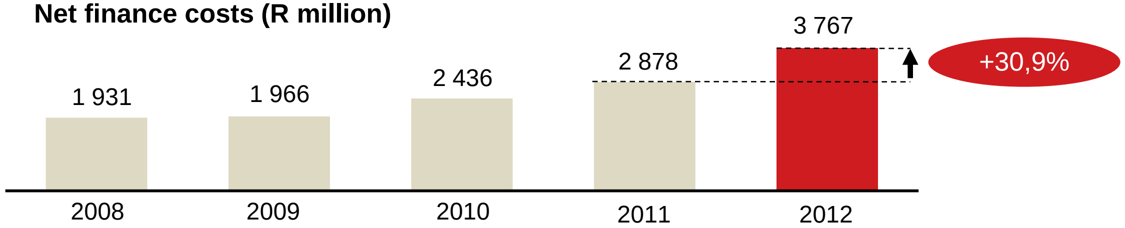
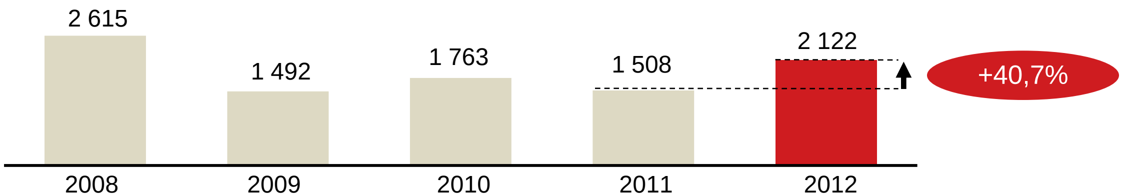
Depreciation and amortisation (R million)



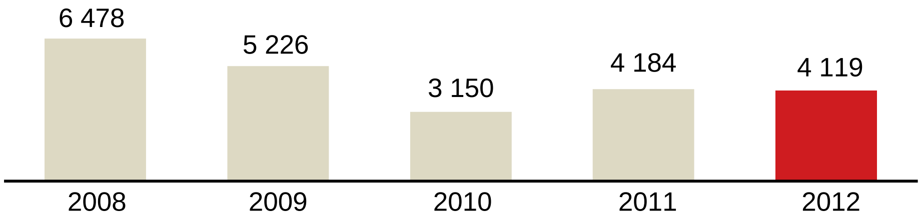
Net finance costs (R million)



Taxation (R million)



Profit for the year (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.

Increase in net finance costs due to borrowings of R5,1 billion raised during the last week of the prior financial year as well as borrowings raised during the year.

At 34,0% (2011: 26,8%) the effective taxation rate is above the corporate taxation rate of 28,0% due to increased capital gains taxation inclusion rate from 50,0% to 66,6% and permanent differences .

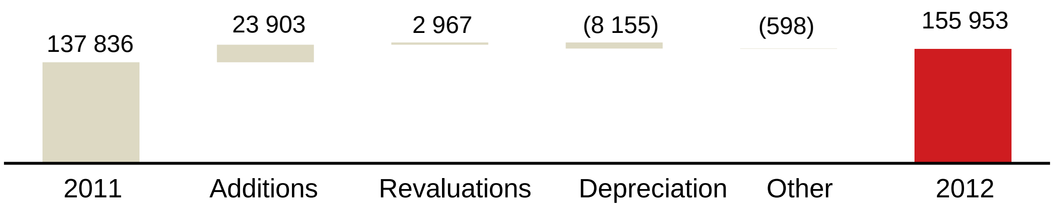
Abridged statement of financial position

	2012 R million	2011 R million
ASSETS		
Non-current assets	**165 380**	146 243
Property, plant and equipment	**155 953**	137 836
Investment properties	**7 732**	7 368
Other non-current assets	**1 695**	1 039
Current assets	**12 625**	20 827
Total assets	**178 005**	167 070
EQUITY AND LIABILITIES		
Capital and reserves	**79 421**	73 666
Non-current liabilities	**79 846**	72 660
Current liabilities	**18 738**	20 744
Total equity and liabilities	**178 005**	167 070

Transnet's strong financial position enables the execution of the borrowing programme without Government guarantees and creates a stable platform to execute the MDS.

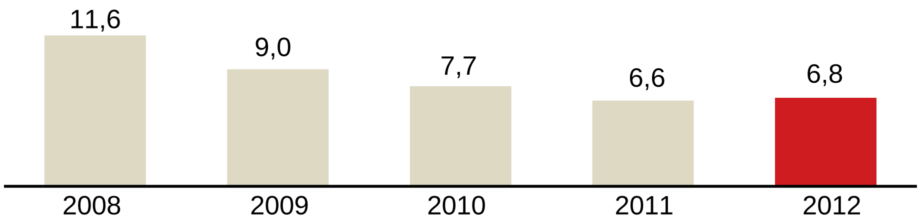
Property, plant and equipment and total borrowings

Property, plant and equipment (R million)



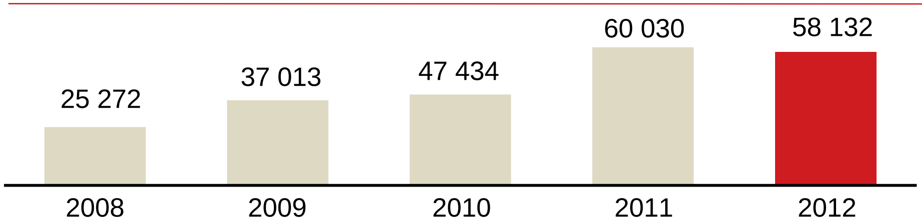
Continued aggressive investment in infrastructure of R22,3 billion excluding the DIA payment of R1,2 billion. Included in other is R150 million impairment.

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



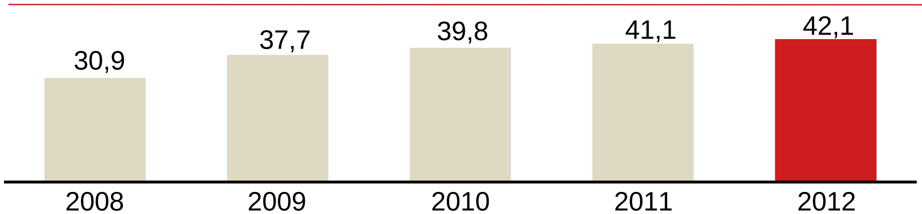
The ROTA is expected to progressively improve from 2013 onwards as a result of planned operational efficiencies, improved asset utilisation and the consequent growth in volumes.

Total borrowings (R million)



The total funding raised during the year to 31 March 2012 amounted to R11,1 billion. Transnet repaid borrowings amounting to R14,0 billion, which related predominantly to domestic bonds, commercial paper, domestic and foreign loans that matured during the year. Transnet also early redeemed the T018 bonds during the year.

Gearing (%)

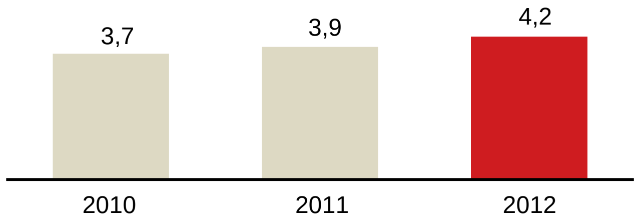


Gearing, which is lower than the Board limit of 50,0% is not expected to exceed this limit going forward.

Abridged cash flow statement and funding

	2012 R million	2011 R million	%
Cash equivalents at the beginning of the year	**10 876**	7 944	36,9
Cash from operating activities	**17 910**	13 159	36,1
• Cash generated from operations	20 616	16 159	27,6
• Security of supply petroleum levy	1 315	1 315	–
• Changes in working capital	781	792	(1,4)
• Other operating activities	(4 802)	(5 107)	(6,0)
Cash utilised in investing activities	**(24 661)**	(23 018)	7,1
Cash (utilised in)/from financing activities	**(2 936)**	12 791	(>100)
Net (decrease)/increase in cash equivalents	**(9 687)**	2 932	(>100)
Total cash equivalents at the end of the year	**1 189**	10 876	(89,1)

Cash interest cover (times)



Cash interest cover at 4,2 times remains significantly above the minimum Board target of 3,0 times and is not expected to fall below the target going forward.

Sources of funding	2012 R billion	2013* R billion
• GMTN/DFIs/ECA	0,5	5,8
• DMTN/Bonds	1,8	4,0
• Commercial paper	3,2	2,2
• Bank loans and asset backed finance	5,6	2,1
Total	**11,1**	14,1

** Subject to market conditions.*

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Volume and operational performance

Volume growth

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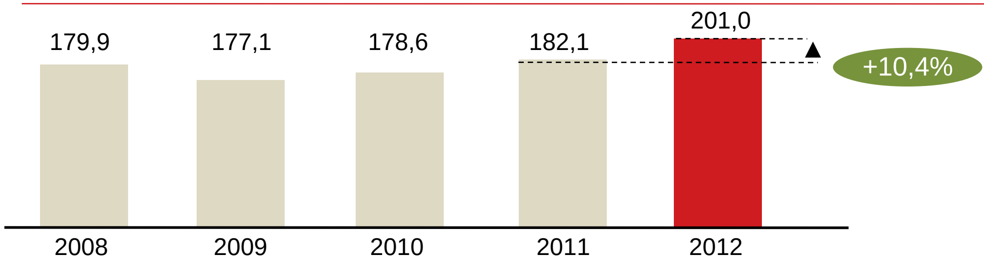
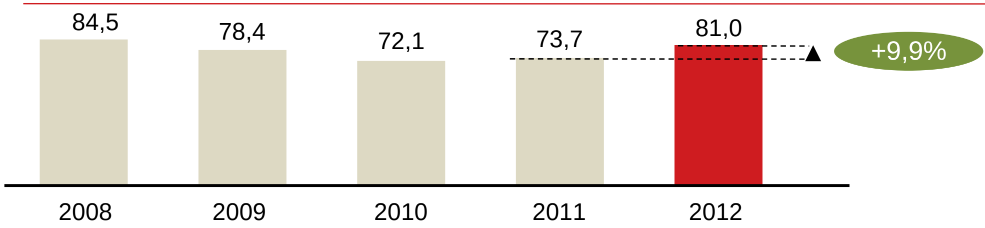
Total volumes (mt)

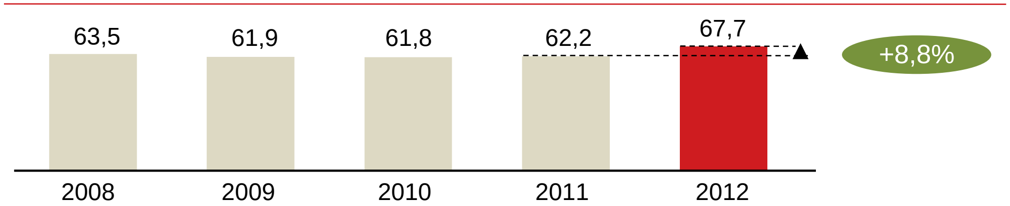
Total (mt)



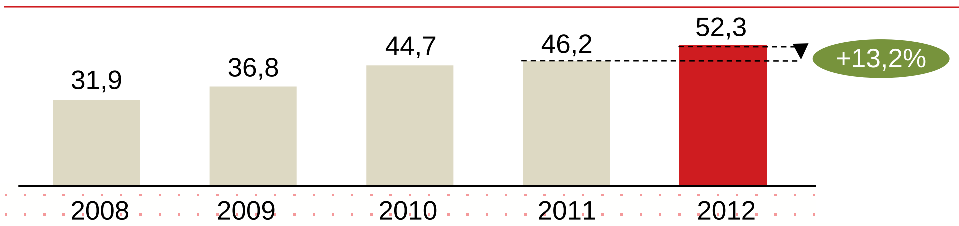
GFB (mt)



Export coal (mt)



Export iron ore (mt)

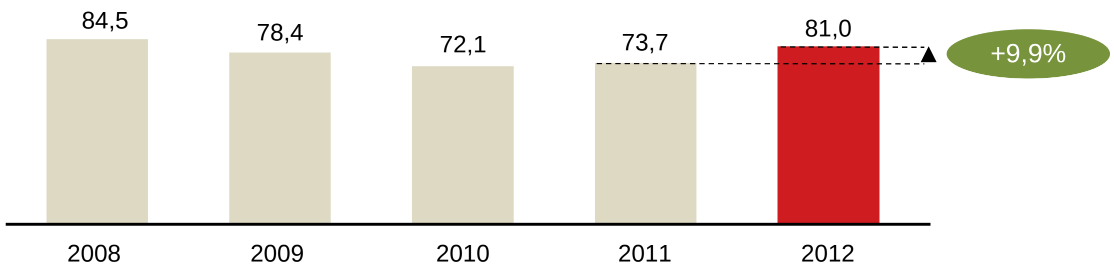


- Freight Rail moved 201,0mt of freight during the year representing a 10,4% increase compared to the prior year.
- This is the highest tonnage transported in the division's history.

Volume growth, productivity and efficiency

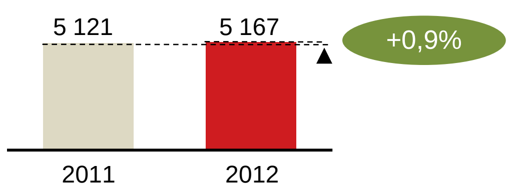
General freight business (GFB)

Volumes (mt)

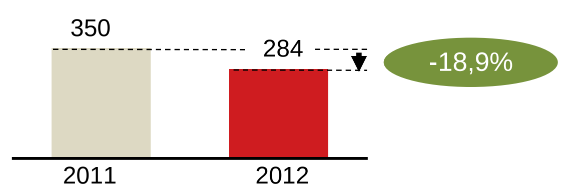


Productivity and efficiency

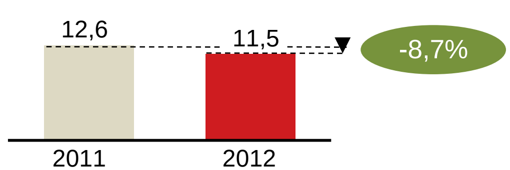
GTK /loco/month ('000)



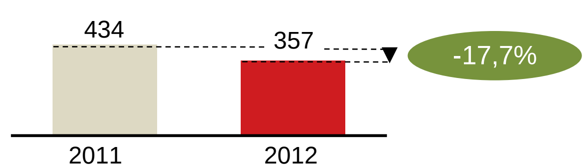
On-time departures (avg minutes delayed)



Wagon turnaround (days)



On-time arrivals (avg minutes delayed)



- GFB volumes reflect a 9,9% growth from the prior year. Volume growth is progressing towards 2008 levels, pre-recession.
- Volume growth performance is higher than GDP.
- On time departures and arrivals for GFB improved by 18,9% and 17,7% respectively compared to prior year as a result of the 'Yard countdown Tool' introduced during the year as part of Schedule Railway strategy.

Volume growth, productivity and efficiency (continued)

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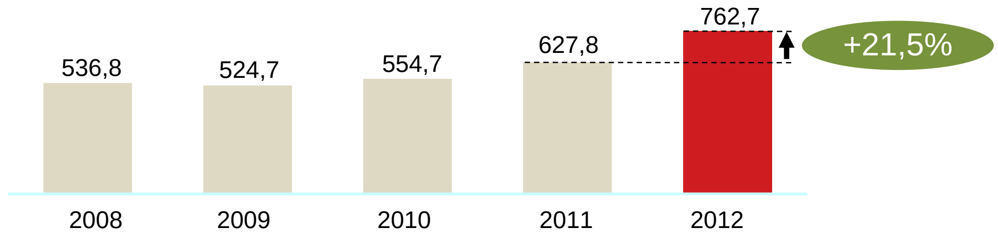
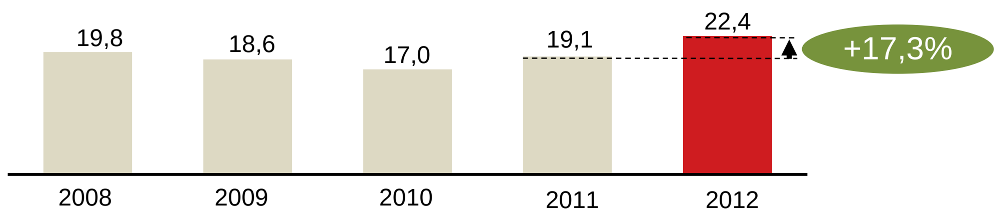
Strategic commodities – GFB

Containers on rail ('000 TEUs)



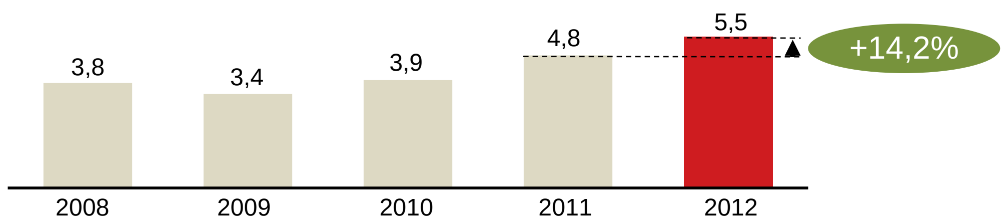
- Volumes increased by 21,5% compared to the prior year.
- Freight Rail's overall 'rail friendly' container market share increased from 30,9% to 34,0%.
- This result in the modal shift from road-to-rail which will reduce the cost of doing business and reduce carbon emissions.

Domestic coal (mt)



- Volume growth of 17,3% from prior year.
- One of Transnet's key focus areas over the next five years is to meet Eskom's domestic coal requirements.
- The road-to-rail migration will result in reduced CO_2 emissions.

Export manganese (mt)

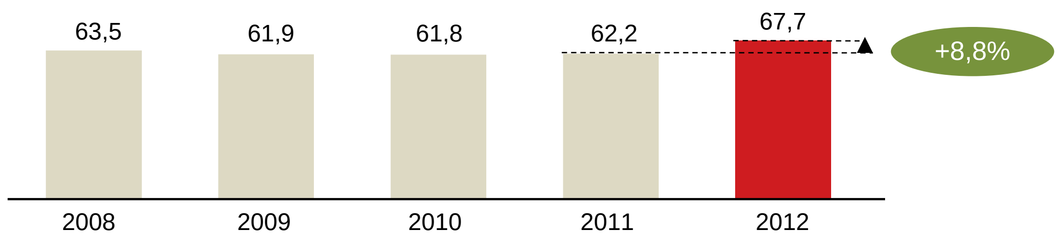


- Export manganese volumes increased by 14,2% compared to the prior year.

Volume growth, productivity and efficiency (continued)

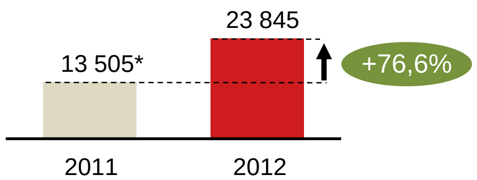
Export coal

Volumes (mt)

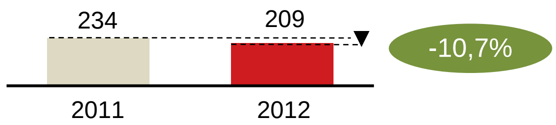


Productivity and efficiency

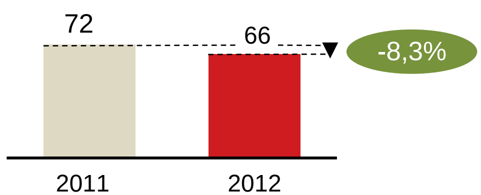
GTK /loco/month ('000)



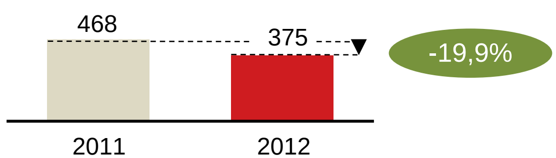
On-time departures (avg minutes delayed)



Wagon cycle time (hours)



On-time arrivals (avg minutes delayed)



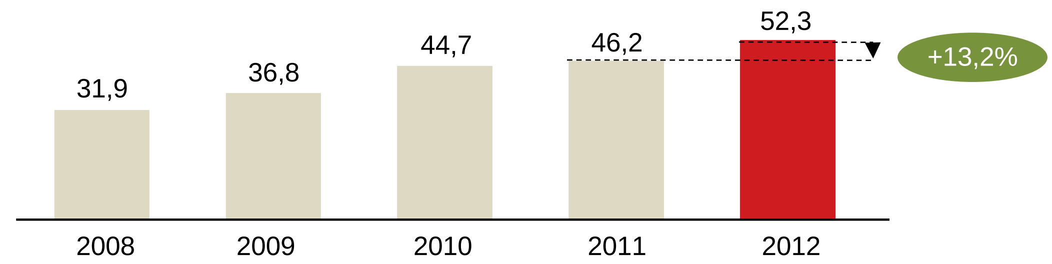
** Includes GFB locos running on export coal line, which has been excluded from 2012 onwards.*

- Export coal volumes increased by 8,8% from the prior year reversing a long trend of stagnating volume growth spanning more than five years.
- A new weekly record of 1,7mt was achieved during the year.
- Transnet is engaging with the coal industry to ensure that capacity on the coal line is created for emerging miners.
- On time departures and arrivals improved by 10,7% and 19,9% respectively compared to the prior year.

Volume growth, productivity and efficiency (continued)

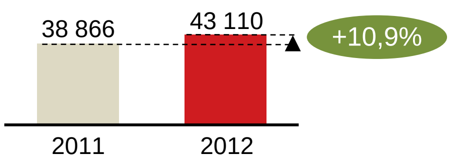
Export iron ore

Volumes (mt)

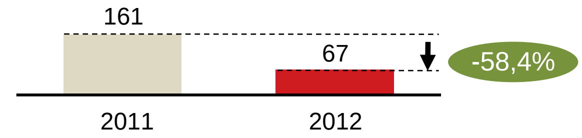


Productivity and efficiency

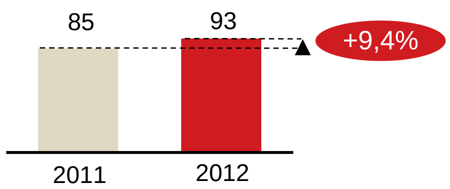
GTK /loco/month ('000)



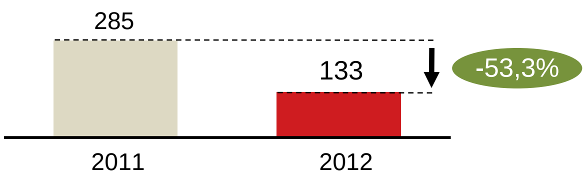
On-time departures (avg minutes delayed)



Wagon cycle times (hours)



On-time arrivals (avg minutes delayed)

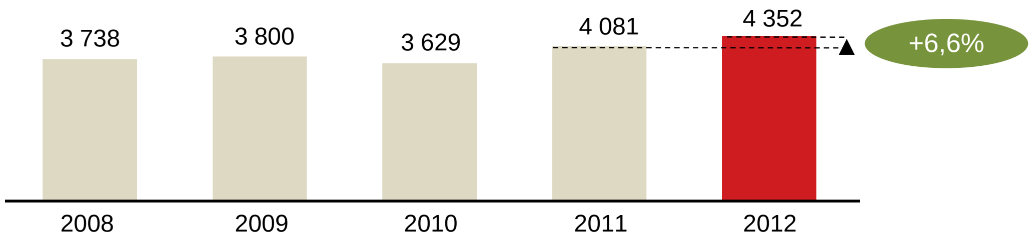


- Export iron ore volumes increased by 13,2% due to improved efficiencies.
- A record weekly throughput tempo of 1,2mt was achieved in the last week of the financial year. This demonstrates the positive impact of the new operations philosophy as well as the benefit of increased capacity created.
- The tempo improved by 10,9% compared to the prior year.
- The scheduled departures and arrivals improved by 58,4% and 53,3% respectively.

Volume growth, productivity and efficiency (continued)

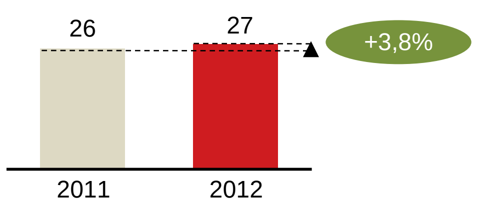
Maritime containers

Volumes ('000 TEUs)

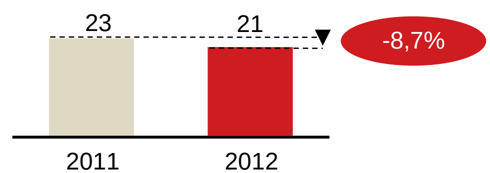


Productivity and efficiency

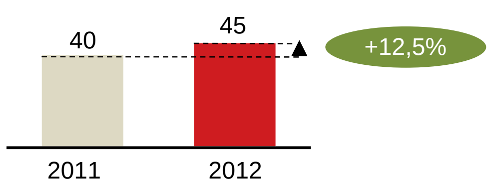
GCH – DCT Pier 1



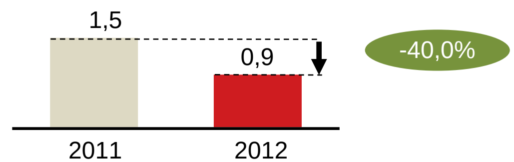
GCH – DCT Pier 2



TEUs/STAT Hour – Durban



Shipping delays (avg hours if ship is delayed)



- Maritime container volumes reflect a 6,6% growth.
- The GCH for DCT Pier 1 improved to 27 from 26 in the prior year.
- The GCH for DCT Pier 2 declined to 21 from 23 in the prior year due to problems with Navis implementation.
- The purchase of new equipment which will be delivered in December 2012 will address efficiency issues at the DCT Pier 1 and 2.

Volume growth, productivity and efficiency (continued)

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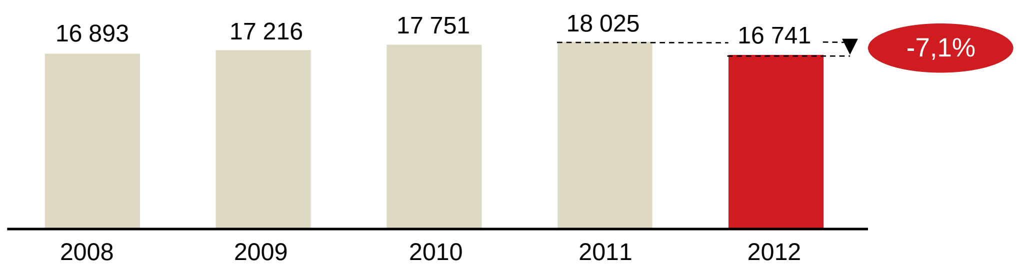
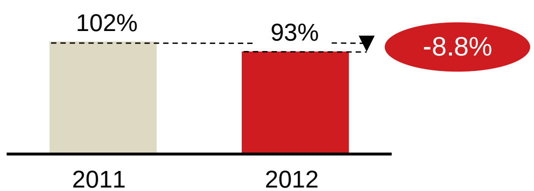
Petroleum

Volumes (mℓ)

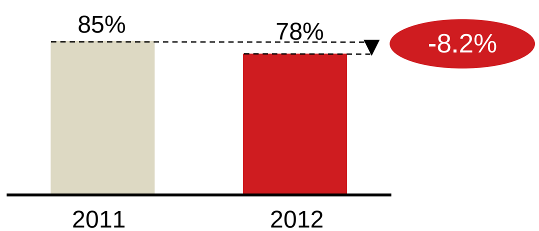


Productivity and efficiency

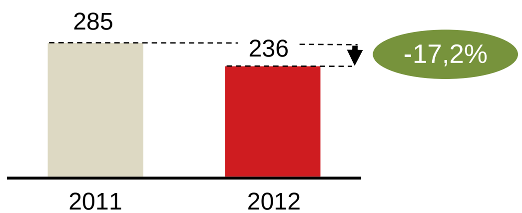
Capacity utilisation – DJP



Capacity utilisation – Crude



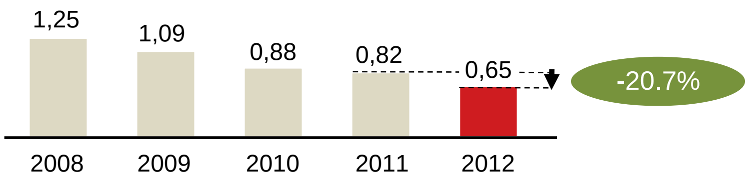
Internal production interruptions (total annual hours)



- Petroleum volumes decreased by 7,1% from the prior year due to supply (production) challenges. Several refineries were down leading to stock-outs.
- No transport problems.
- 98,0% of all orders placed were met in the financial year.
- Capacity utilisation of DJP decreased to
- 93,0% from 102,0% in the prior year.
- Internal production interruptions improved by 17,2% from the prior year.
- NMPP 24” trunk line was commissioned in January 2012 and the 16” network lines in April and May 2011

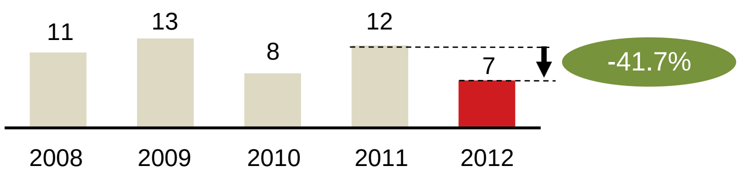
Safety

Disabling Injury Frequency Rate (DIFR)



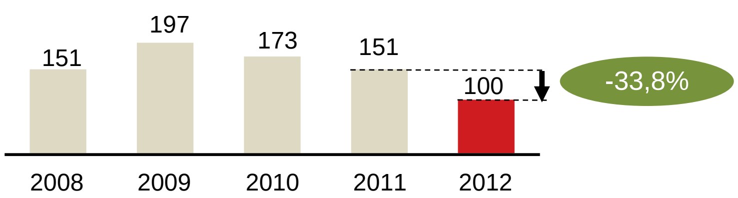
The Company recorded an improvement in the disabling injury frequency rate (weighted) from 0,82 in the prior year to 0,65 in 2012.

Employee fatalities (Numbers)



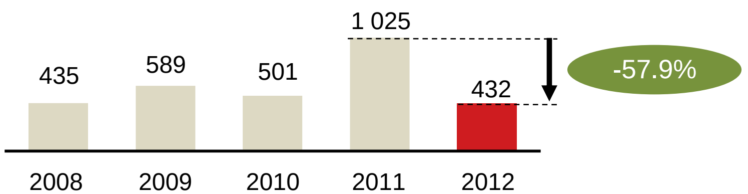
Sadly the Company recorded seven employee fatalities compared to 12 in the prior year. The majority of these fatalities were as a result of motor vehicle accidents.

Public fatalities (Numbers)



Public fatalities decreased by 33,8% to 100 for the year compared to 151 in the prior year – the majority being rail-related. Trespassing onto Transnet's railway lines remains the largest contributor to these incidents.

Cost of losses (R million)



Cost of losses reduced to R432 million for the year compared to R1,0 billion in the prior year.

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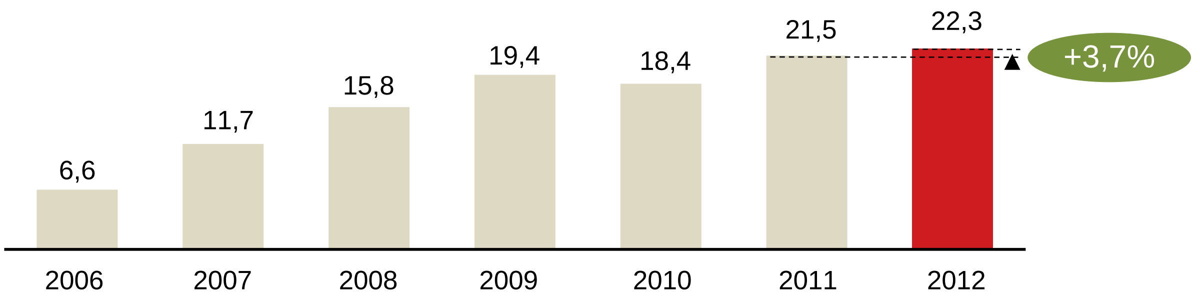
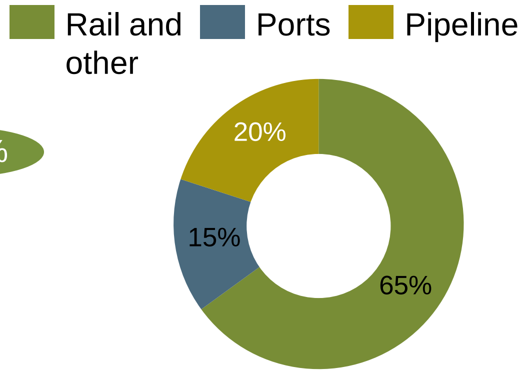
Capital Investment Programme

Summary of Capital Investment

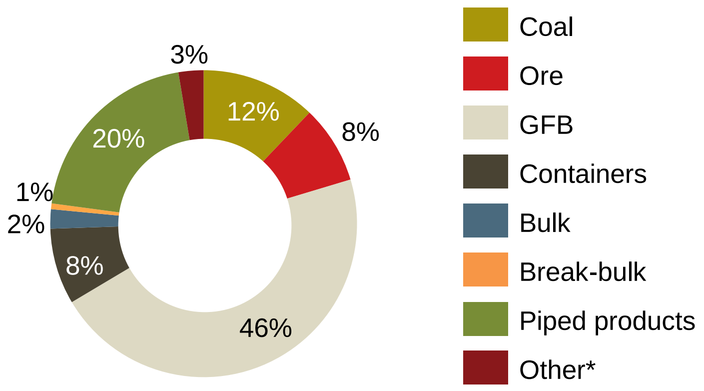
Seven-year capital investment (R billion)

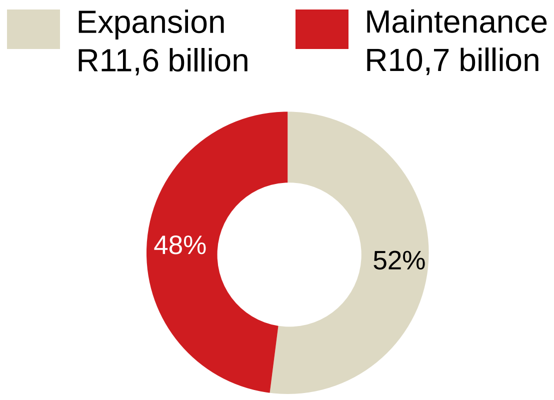


Capital investment by operating segment 2012



Capital investment by commodity





** Other includes investments in non-commodity specific assets such as tugs and dredgers which support all commodities.*

Capital investment 2012: Major capital expenditure during the year

Asset type	Quantity
Acquisitions	
Locomotives*	
110 Class 19E dual voltage locomotives for the coal line	98
44 Class 15E locomotives for the ore line	44
100 Class 43 GE diesel locomotives	39
Wagons	
Domestic coal Eskom	354
Export coal	652
Export iron ore	720
Refurbishments	
Locomotives	
Conversion from Class 6E to 18E	43
Minor overhaul programmes (various classes)	87
General overhaul programmes (various classes)	20
Wagons	
Wagon liftings	13 755
Conversion of wagons from BA to C type	796

Asset type	Quantity
Rail refurbishment: Infrastructure	
Rails	731km
Screening	690km
Sleepers	391 000
Port infrastructure	
Tug for Durban	1
CTCT completion of Berth 3	1
Cargo handling equipment and facilities	
Replacement straddle carriers for DCT	28
Haulers for DCT	20
Reach stackers	6
Pipeline infrastructure	
PL 1: 24 inch trunk line from Durban to Jameson Park	555km
PL 2: 16 inch line from Jameson Park to Alrode	41km
PL 3: 16 inch line from Alrode to Langlaagte	31km
PL 4: 16 inch line from Kendal to Waltloo	88km

* *Locomotive deliveries are cumulative since inception and includes deliveries from prior years.*

Locomotive and wagon acquisition programme

Existing locomotive contracts

Year	Coal 110 Cl 19E	Ore 32 Cl 15E	GFB 100 Cl 43	GFB 43 Cl 43
Since inception (units)	98	–	39	–
2013 (units)	12	15	61	18
2014 (units)	–	17	–	25

Acquisition of 110 Class 19E dual voltage locomotives for the coal line:

- 98 locomotives have been delivered:
  – 94 locomotives accepted into operations; and
  – 4 undergoing acceptance testing.
- 12 locomotives are expected to be delivered by July 2012.

Acquisition of 100 Class 43 diesel locomotives: Locomotives for GFB for replacement of ageing fleet.

- 39 locomotives delivered with 38 having been accepted into operations and 1 undergoing acceptance testing.
- Remaining 61 locomotives expected to be delivered in 2013.

Acquisition of 44 Class 15E locomotives for the iron ore line:
Acquisition to facilitate the ramp up in iron ore volumes to 60,7mt:

- All 44 locomotives delivered by September 2011.
- Transnet entered into a contract to acquire 32 more Class 15E locomotives with delivery expected as follows:
  – 15 locomotives in 2013; and
  – 17 locomotives in 2014.

Market Demand Strategy: Rolling stock acquisition plan

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New locomotives and wagons: To be contracted for

	General freight business				Export coal	Export iron ore
Year	95 Electric locomotives	599 Electric locomotives	465 Diesel locomotives	19 400 wagons	112 Class 19E locomotives	23 Class 15E and 3 diesel locomotives
2013 (units)	45	–	–	2 108	–	–
2014 (units)	50	–	100	1 398	56	–
2015 (units)	–	65	100	2 440	56	–
2016 (units)	–	130	100	3 092	–	26
2017 (units)	–	130	100	4 285	–	–
2018 (units)	–	130	65	3 223	–	–
2019 (units)	–	144	–	2 854	–	–

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Human Capital

Human Capital 2011/12

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A representative workforce

	2011	2012
White	24%	21,5%
Black	76%	78,5%

Representation of black (African, Coloured and Indian) employees improved to 78,5% of total workforce.

	2011	2012
Female	20%	22%
Male	80%	78%

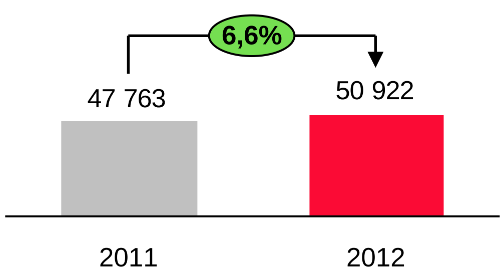
Since 2001, Transnet has managed to more than double its female employee base from 8,4% to 22,0%.

People with disabilities comprise 0,8% of Transnet's workforce.

Skilled human resources aligned to infrastructure and services

	2012 Corporate Plan	2012 Actual
Engineering trainees (number of learners)	60	60
Technician trainees (number of learners)	180	181
Artisan trainees (number of learners)	500	854
Sector specific trainees (number of learners)	1 500	2 506
Training spend (% of personnel cost)	>3,5%	3,9%

Employee numbers



Employee numbers across the Company increased by 6,6%. The majority of the new appointments support the critical skills requirement. This number excludes fixed term contractors of 10 290 (7 756).

Payments to Pensioners

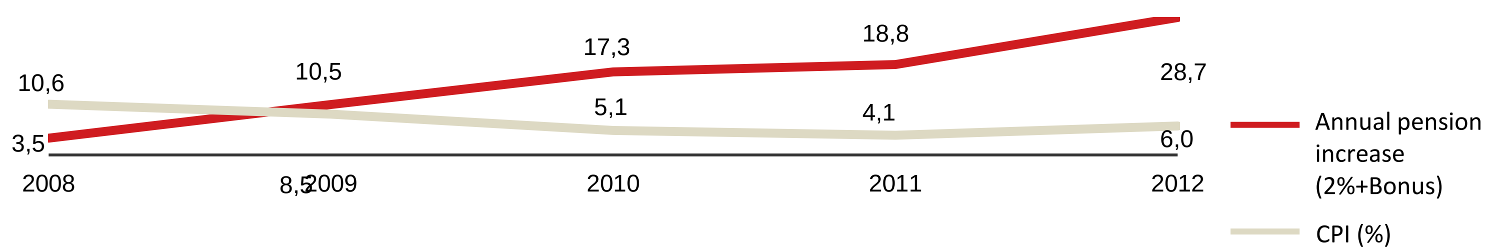
Stakeholder engagement: Pensioners

Ex gratia payments to pensioners

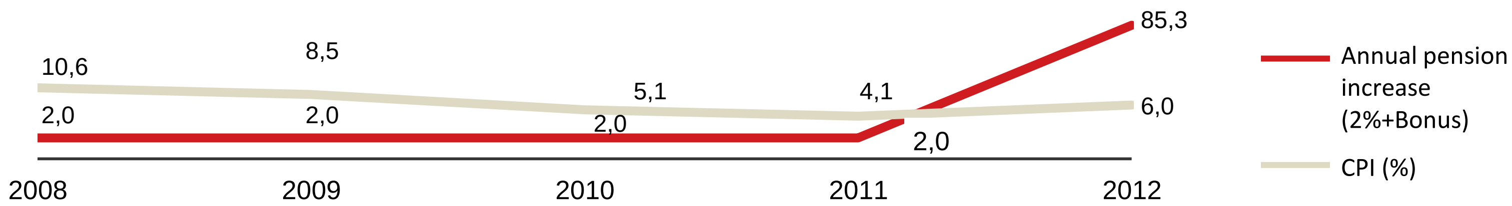
·Since 2007 the TSDBF and, since 2011, the TTPF, have made ad hoc bonus payments to their pensioners of R1,529 billion, in addition to their monthly pensions. Cumulatively, approximately R1,9 billion was paid to pensioners in excess of their 2% statutory increases.

In addition, over the past four years, Transnet has made ex gratia bonus payments of R385 million to the members of the TSDBF. Typically, these pensioners are the widows of black pensioners with long service and relatively low pensions.

TSDBF increases



TSDBF increases



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Sustainability

Sustainability Highlights 2011/12

Modal shift from road-to-rail, lowering South Africa's carbon emissions	In 2011/12, Freight Rail increased containers on rail from 627 825 TEUs to 762 760 TEUs; automotives on rail from 131,400 units to 144,700 units; and domestic coal to Eskom from 7,1mtpa to 8,5mtpa. The estimated GHG reduction of these volumes being on rail rather than road is 218 189,5 tons of CO_2 equivalent. Full operational NMPP will reduce fuel tankers on road by 60%
Energy efficiency	Transnet's total electricity consumption in 2011/12 was approximately 3 792 146MWh. 68% of this was used for Freight Rail traction; 9% in buildings; and the remainder in Transnet's ports, pipelines and rail engineering operations. Coal line – 100 new class 19E locomotives: 10% energy regenerated Iron ore line – 44 new class 15E locomotives: 20% energy regenerated Port of Ngqura – 6 new cranes: 20% energy regenerated
Climate change	In 2011/12, Transnet completed its carbon footprint study. Transnet accounted for 4,31mt CO2 equivalent. This is approximately 1% of South Africa's total emissions and 10% of South Africa's total transport sector emmissions.

Procurement, CSDP & SD

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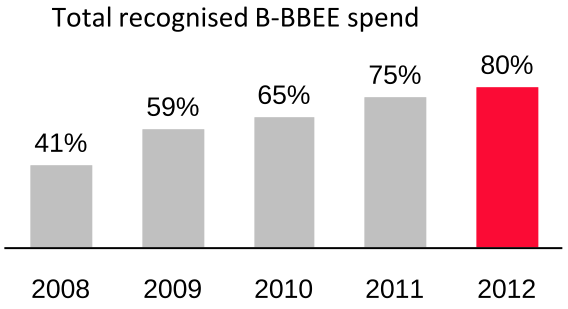
CSDP

The total contract value since inception of the CSDP amounts to R14,1 billion with CSDP obligations concluded with suppliers of R5,4 billion representing 39,0% of total contract value. To date, R3,0 billion or 55,0% of total supplied development obligations have been executed.



Highlights

- The acquisition of 43 locomotives including CSDP obligations of 65%.
- The following key port handling equipment transactions were concluded during the year:
  - 7 tandem lift cranes
  - 6 mobile harbour cranes
  - 28 straddle carriers
  - 1 pneumatic ship un-loader
  - 1 ship loader
  - 33 haulers and 8 reach stackers.

- The CSDP focuses on skills development, job creation and preservation and the localisation of suppliers and original equipment manufacturers(OEMs) through contractually obligated supplier developments plan.

- Numerous transactions were concluded during the year with the focus shifting from rolling stock to port handling equipment.

Corporate Social Investment

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Corporate Social Investment

- Transnet invested over R160 million (excluding capital expenditure) in its social programmes across South Africa. Spend during the year, focused on healthcare, teacher education, sports development, container assistance programme and employee volunteer programmes.
- The second Phelophepa train was commissioned during the year, practically doubling the reach of this award winning outreach service to create healthcare access for approximately 360 000 beneficiaries.
- During the year 5 000 learners and 600 teachers participated in the Rural and Farms School Sport Programme, which targeted learners from 13 to 17 years of age in the poorest rural areas across the country.
- The Container Assistance Programme is an innovative way to address infrastructure challenges, with old and disused containers being refurbished to meet security and infrastructure needs. Since 2001, R28 million has been invested in building 33 satellite police stations and community centres. The programme benefits 120 000 people annually.





Audit opinion and Public Finance Management Act (PFMA)

Assurance over control environment

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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 PFMA

- Auditor General – Audit of Performance Information
  - There were no material findings on the audit of predetermined objectives for 2011/12 concerning the presentation, usefulness and reliability of the information

- Auditor General – Contracts audit
  - No significant findings were identified in respect of the audit work performed, apart from the PFMA issues already mentioned, on the contracts tested. A total of 105 contracts were checked for compliance to the procurement process by external audit over the last two years with a total contract value of approximately R51 billion

- Auditor General – Key controls checklist
  - Out of a total of 112 controls assessed across the Transnet control environment 91 controls were assessed as “good” and 21 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 2011 to 31 March 2012 were as follows:

Risk and control component	Process	Assessment
Governance	Financial	Satisfactory
People	Financial	Satisfactory
Method and practices	Financial	Satisfactory

PFMA reporting

The Shareholder Representative has determined that the materiality limit for reporting in terms of sections 55(2) (b)(i),(ii) and (iii) of the PFMA is R25 million per transaction. Four transactions have been separately reported in the Annual Financial Statements.

Amounts classified as fruitless and wasteful and irregular expenditure as well as losses through criminal conduct, irrespective of value are reported internally to the relevant structures including the Group Executive Committee and the Board to ensure that control weaknesses are identified and that corrective action is taken.

- Fruitless and wasteful expenditure
  - Amounts totaling R89,6 million was reported in the year
  - The number of finalised disciplinaries has increased to 62 from 27 in the prior year

- Losses and criminal conduct
  - The amounts has decreased by 74% compared to the prior year to R76,9 million in the year
  - The number of incidents have decreased to 35 from 73 in the prior year
  - The number of criminal cases registered has increased to 173 compared to 122 in the prior year

- Total irregular expenditure
  - Reflects a significant improvement compared to the prior year from R8,3 billion to R195,5 million reported in the year
  - In all instances value was derived by Transnet for work performed
  - The number of finalised disciplinaries have increased to 10 in the year

Actions to reduce PFMA violations

Notwithstanding the improvements made in some of the areas noted on the previous slide , the PFMA violations are still unacceptable. Consequently, the following is being undertaken to further reduce the PFMA violations.

PFMA awareness

- Management training with accreditation on procurement policies and Delegation of Authority Framework.
- On-going train the trainer training at ODs.
- Fraud awareness training including impact on PFMA.
- Executive Committee and Extended Exco awareness sessions.

Implementation of Cura system

- Centralised database of PFMA reportable violations.
- Sign off on closed reportable items (remedial action and disciplinaries, criminal or civil action) by independent parties (Internal Audit and Employee Relations).
- Monitoring and tracking open item statuses and potential recoveries.
- Automated notifications and reminders to all related parties.
- Reporting functionality to identify common types of violations across the group in order to implement Group wide initiatives.

- Root cause analysis of items reported in previous year to ensure that these are addressed in order to minimise reoccurrence of similar issues.
- Linking of contract management and procurement systems to ensure PFMA compliance.

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Conclusion and way forward

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Conclusion and way forward

Transnet reports yet another year of robust performance, which was characterised by:

- Financial stability
- Unprecedented growth in volumes
- Improvement in operational efficiencies and productivity
- Significant gains in safety resulting in a reduction in safety-related incidents
- Sustainability achievements for the economy, society and the environment
- Enhanced reputation of the Company both internally and externally

The 2012 performance has set a solid platform to execute on the Market Demand Strategy

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Thank you and questions