



Directors' approval

In accordance with King IV's Sector Supplement for SOEs (Principle 2.1), the Transnet Board of Directors is actively leading the value-creation process within Transnet. As such, it has satisfied itself that the 2019 Integrated Report demonstrates the Company's ongoing journey towards integrating elements of strategy, risk, opportunities, performance and sustainable development.

The Board has applied its collective mind to ensure the integrity of the 2019 Integrated Report and any supplementary information referenced in the report.

The Board has considered the completeness of the material aspects addressed in the report, and the reliability of reported performance information presented, based on the combined assurance process followed.

The Board is satisfied that the 2019 Integrated Report provides a fair representation of the integrated performance of the Company during the year and enables stakeholders to make an informed assessment of the Company's performance and its ability to create value in a sustainable manner (King IV, SOE Sector Supplement Principle 2.2).

It has further concluded that the report is presented in accordance with the International Integrated Reporting Framework <IR> published by the International Integrated Reporting Council (IIRC), and aligns with the King IV guidelines on integrated reporting. The Integrated Report also contains Standard Disclosures from the GRI Sustainability Reporting Guidelines.

The 2019 Integrated Report was approved by the Board of Directors and signed on its behalf by:

PS. Molefe

Dr PS Molefe
(Chairperson)

M.S. Mahomed

Mr MS Mahomed
(Acting Group Chief Executive)

MD Gregg-Macdonald

Mr MD Gregg-Macdonald
(Acting Group Chief Financial Officer)

UN Fikelepi

Ms UN Fikelepi

R.J. Ganda

Ms RJ Ganda

D. Matshoga

Ms DC Matshoga

L.L. von Zeuner

Mr LL von Zeuner

M.E. Letlape

Ms ME Letlape

OM Motaung

Adv OM Motaung

A. Ramphaka

Ms GT Ramphaka

A.P. Ramabulana

Mr AP Ramabulana

F.S. Mufamadi

Dr FS Mufamadi

26 September 2019
Johannesburg

Navigating this report

Icons key

Strategic focus areas

Financial sustainability	Operational excellence	Sound governance and ethics
Capacity creation and maintenance	Human capital management	Constructive stakeholder relations
Industrialisation	Organisational readiness	Socio-economic developmental outcomes

Socio-economic developmental outcomes (SDOs)

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

The capitals

Financial capital	Intellectual capital	Social and relationship capital
Manufactured capital	Human capital	Natural capital

Performance key

Improvement on prior year performance	Target achieved	Equivalent performance to prior year
Decline on prior year performance	Target partially achieved	Target not achieved

Material clusters

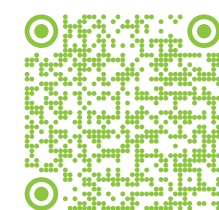
Ensure financial stability and sustainability in a tough economy	Improve operational performance in the core business	Create and maintain capacity to support the growing demand for transport infrastructure
Promote industrial development in the Developmental State	Ensure our activities result in sound socio-economic developmental outcomes (SDOs)	Build a resilient business

King IV^{TM1} references

We have included references to King IV principles where appropriate in this report.



King IV Report on Corporate Governance for South Africa 2016



Download Transnet QR reader

Android User:

Installation

1. Download the Transnet QR Scanner mobile application from Google Play Store.
2. Open the App from your mobile device.
3. Accept the permission required. (Make sure you read the privacy policy before accepting permissions required by the App).

Using the App

1. Hover your phone over the QR Code and make sure the QR code fits completely into the scanner.
2. You will see two screenshot options: "Visit" and "OK".
3. The "Visit" option will allow the App to open the Mobile Device's browser and take you to the specific articles.
4. The "OK" will let you exit the scanned link and allow you to scan a new QR Code.

iPhone users:

iPhone camera is enabled to scan QR codes so there is no need to download an app. Hover the camera over the QR code. A notification will appear stating 'Website QR code'. Click on it. It will open your phone's default browser and take you to that specific article.

Reporting formats



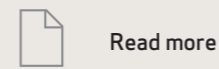
King IV, P5



The 2019 Integrated Report is the Company's primary report to all stakeholders.



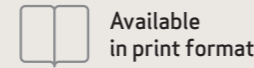
The 2019 Annual Financial Statements include reports of the directors and independent auditors.



Read more



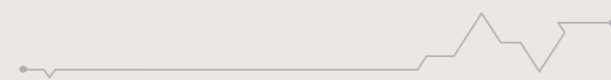
Full HTML report



Available in print format



Available online in PDF format



Forward-looking information

All references to forward-looking information and targets in the 2019 reports are extracted from the 2019 Transnet Corporate Plan and approved by the Board of Directors.

Feedback on this report

We welcome feedback on our Integrated Report. Please provide written feedback to Kilford Gondo at Kilford.Gondo@transnet.net.



Corporate information

Transnet SOC Ltd

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

Waterfall Business Estate
9 Country Estate Drive
Midrand
1662

Executive directors

Mr MS Mahomedy (*Acting Group Chief Executive*)
Mr MD Gregg-Macdonald (*Acting Group Chief Financial Officer*)

Mr SI Gama's employment contract was terminated in October 2018.

Mr T Morwe was appointed in November 2018 and his contract expired on 30 April 2019.

Mr MS Mahomedy was appointed during May 2019.

Mr MD Gregg-Macdonald was appointed during May 2019.

Independent non-executive directors

Dr PS Molefe (Chairperson), Ms UN Fikelepi, Ms RJ Ganda, Ms DC Matshoga, Mr LL von Zeuner, Ms ME Letlape, Adv OM Motaung, Ms GT Ramphaka, Mr AP Ramabulana, Dr FS Mufamadi.

Ms V McMenamin resigned during February 2019.

Professor EC Kieswetter resigned during May 2019.

Acting Group Company Secretary

Ms K Naicker
Waterfall Business Estate
9 Country Estate Drive
Midrand
1662

PO Box 72501
Parkview
2122
South Africa

Auditors

SizweNtsalubaGobodo Grant Thornton Inc.
20 Morris Street East
Woodmead
Johannesburg
2191

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About this report

Our reporting is evolving as the Company's strategic focus, operational priorities and organisational thinking become more integrated, thereby enabling us to remain strategically aligned and responsive to stakeholder concerns.



Reporting philosophy and approach



This report was prepared in accordance with the IIRC's or <IR> framework.

We report on financial and non-financial performance for the year in review, and provide forward-looking information in terms of our short-, medium- and long-term strategic outlook, highlighting the material relationships between the stores of value (capitals) that form the basis of our value-creation process.

Reporting boundary



The 2019 Integrated Report covers the financial reporting period from 1 April 2018 to 31 March 2019. The reporting boundary (Figure 1) encompasses the Transnet Group, its Operating Divisions and Specialist Units, and extends to include factors that impact Transnet's ability to create value.

The Transnet Integrated Report is published annually and approved by the Board of Directors. The previous Integrated Report for the period 1 April 2017 to 31 March 2018 was approved by the Board on 10 August 2018.

Materiality in our reporting



The 2019 Integrated Report provides information that we consider to be of material significance in creating short-, medium- and long-term value. To observe the IIRC's principles of 'Materiality', 'Connectivity' and 'Conciseness', we have considerably simplified our materiality reporting to align with Transnet's Performance Framework (page 48). Accordingly, we emphasise six overarching material aspects for the 2019 reporting year, which we unpack throughout this report and reference by way of page citations. We further align material aspects to performance, strategy, risks and opportunities, linked visibly by icons, and disclose material stakeholder impacts and concerns raised during the year.

We are confident that the report provides information that is of material interest to all stakeholders wishing to make informed assessments of Transnet's performance and its ability to create and sustain long-term value.

31 [Read more](#)
Transnet's material aspects
Process for identifying, validating and approving material aspects

Transnet Group

Figure 1: Reporting boundary

Specialist Units

- Transnet Group Capital
- Transnet Property

Operating Divisions

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

Factors impacting Transnet's ability to create value

Statement of Strategic Intent

Transnet's business context and operating environment including its subsidiaries, associates and joint ventures¹

Material risks

Stakeholder concerns

- Employees
- Shareholder (DPE²)
- Customers
- Investors and commercial partners
- Rating agencies and financial institutions
- Suppliers and service providers
- Regulators
- Government
- Media and the general public
- Academia and research institutions
- NGOs³
- International bodies
- Communities
- Organised labour

¹ Referenced in the Annual Financial Statements, note 38.
² Department of Public Enterprises.
³ Non-Governmental Organisations.

Integrated approach to assurance



Transnet's Integrated Assurance Plan has been applied to the process of preparing the Integrated Report to provide an independent perspective on the transparency and accountability of our disclosures. Transnet's Integrated Assurance Plan encompasses the assurance provided by management, internal specialists, internal audit, external audit, external advisers and service providers. The Board serves as the last line of defence.

Table 1: Integrated Reporting Assurance Framework

Content	Assurance providers	Outcome	Framework/Standard
Integrated Report (in full)	<ul style="list-style-type: none"> Transnet Board Audit Committee Remuneration, Social and Ethics Committee Corporate Governance and Nominations Committee 	<ul style="list-style-type: none"> Directors' approval 	<ul style="list-style-type: none"> International <IR> Framework Audit Committee Terms of Reference
Annual Financial Statements (consolidated and summary)	<ul style="list-style-type: none"> SizweNtsalubaGobodo Grant Thornton Inc. Audit Committee Transnet Board 	<ul style="list-style-type: none"> Qualified audit opinion due to external audit not being able to satisfy themselves that the reported Irregular Expenditure in note 40 in the Annual Financial Statement is complete and accurate. Material findings on processes used to measure certain performance information. 	<ul style="list-style-type: none"> Public Finance Management Act (PFMA) Companies Act of South Africa, No 71 of 2008 (Companies Act) International Financial Reporting Standards (IFRS)
Selected information relating to Transnets socio-economic developmental outcomes (SDO) contained in this report	<ul style="list-style-type: none"> SizweNtsalubaGobodo Grant Thornton Inc. 	<ul style="list-style-type: none"> Reasonable assurance opinion, and limited assurance conclusion. Sustainability information has been prepared in all material respects in accordance with Transnet's reporting criteria. 	<ul style="list-style-type: none"> Transnet's sustainability reporting criteria
Review of internal controls and risk management	<ul style="list-style-type: none"> Transnet Internal Audit National Occupational Safety Association (NOSA) International Standards Organisation (ISO) accreditation bodies Legal firms 	<ul style="list-style-type: none"> Financial controls: Requires improvement Operational controls: Unsatisfactory Risk management: Requires improvement 	<ul style="list-style-type: none"> Committee of Sponsoring Organisations (COSO) PFMA NOSA standards ISO standards relating to safety and environment, including ISO 9000 and ISO 14000 Legislative requirements Enterprise risk management ISO 31000 standard
B-BBEE contributor level	<ul style="list-style-type: none"> Beever Verification Agency CC 	<ul style="list-style-type: none"> Level confirmed as Level 2 	<ul style="list-style-type: none"> Broad-Based Black Economic Empowerment (B-BBEE) Act and charters Rail sub-sector scorecard Marine sub-sector scorecard
Corporate Governance	<ul style="list-style-type: none"> Transnet Internal Audit 	<ul style="list-style-type: none"> Assessment of controls: Unsatisfactory 	<ul style="list-style-type: none"> King IV PFMA Companies Act

[Read more](#)
40 Addressing stakeholder interests

Statement of stakeholder commitment



We strive to communicate with stakeholders early and often. Our core values – expressed in our Culture Charter – guide us in our interactions with stakeholders.

To meet stakeholder commitments, we continue to strive for:

- An organisational culture that views change as an opportunity to improve quality in all that we do;
- A safe working environment, and an iBELONG culture;
- Customer-centric business innovations and reliable service offerings;
- Fair and equitable tender processes;
- Integrity, communication, diversity, continuous learning, accountability and excellence in everything that we do;
- Support for communities where we operate;
- Collaborative relationships with policymakers and regulators;

- Demonstrable sensitivity and care for the environment; and
- Superior returns to our investors, as a reliable and credible borrower which, albeit State-owned, issues debt on the strength of its financial position without any government guarantees.

Going concern status



In adopting the going concern assumption, the Board reviewed the Group's performance for the year and considered the robustness of budgets and business results, cash flow projections for the 15 months ending 30 June 2020, cost-saving opportunities, the cost of capital projects and related optimisation opportunities, the funding plan and loan covenants.

The impact of the prior year audit qualification on loan covenants has been resolved, with all affected funders having provided a waiver to Transnet. The directors have considered the impact of the current year audit qualification and, due to the nature of the qualification being similar to that of the prior financial year (related to the accuracy and completeness

of reported irregular expenditure), do not expect any impact on the going concern ability of the Company.

Credit rating agencies have assigned a stable outlook for the Company and the Board does not anticipate any difficulty in accessing the debt capital markets for required funding.

Board oversight of the elements of the 2019 Integrated Report



The Board and the Group Executive Committee have respectively established committees to ensure effective management and monitoring of the business, and to respond to the elements of the Company's mandate and strategy. Accordingly, the table below links the management activities and Board committee oversight to the required elements for inclusion in the 2019 Integrated Report.

The Governance Terms of Reference for the 2019 Integrated Report are contained in Annexure A of this report.

Table 2: Board oversight of integrated reporting elements

Integrated reporting element	Required activities	Group Executive Committee governance structures	Committees of the Board
Stakeholder engagement and relationships	<ul style="list-style-type: none"> Effective stakeholder engagement and responsiveness Complaints Desk 	<ul style="list-style-type: none"> Human Resources Committee Risk Management Committee 	<ul style="list-style-type: none"> Remuneration, Social and Ethics Committee
Risks and opportunities	<ul style="list-style-type: none"> Effective identification and assessment of material issues 	<ul style="list-style-type: none"> Risk Management Committee CIO Council 	<ul style="list-style-type: none"> Risk Committee Audit Committee
Strategy and resource allocation	<ul style="list-style-type: none"> Appropriate strategic response including: <ul style="list-style-type: none"> Processes and controls Initiatives and activities Resource allocation 	<ul style="list-style-type: none"> Capital Investment Committee Human Resources Committee Procurement Committee 	<ul style="list-style-type: none"> Audit Committee Finance and Investment Committee Remuneration, Social and Ethics Committee
Performance and outlook	<ul style="list-style-type: none"> Appropriate performance measurement and management including: <ul style="list-style-type: none"> Applicable lead and lag indicators Setting of targets, accountability and incentivisation 	<ul style="list-style-type: none"> Risk Management Committee Finance Committee Human Resources Committee Capital Investment Committee Procurement Committee 	<ul style="list-style-type: none"> Corporate Governance and Nominations Committee Remuneration, Social and Ethics Committee Finance and Investment Committee
Remuneration	<ul style="list-style-type: none"> Appropriate remuneration structure to align performance against strategy in short-, medium- and long-term incentives 	<ul style="list-style-type: none"> Human Resources Committee 	<ul style="list-style-type: none"> Remuneration, Social and Ethics Committee
Governance	<ul style="list-style-type: none"> Governance and assurance processes to oversee execution of strategy and structures in accordance with policy and regulation 	<ul style="list-style-type: none"> Risk Management Committee Finance Committee Procurement Committee Forensic Committee 	<ul style="list-style-type: none"> Corporate Governance and Nominations Committee Risk Committee Audit Committee

Our business

Chairperson's review

Dr Popo S Molefe
Chairperson



There is no substitute for true humility. Not a shrinking back, but rather the willingness to see and acknowledge things as they really are. As the incumbent Transnet Board of Directors, this is our present position, as it allows for the greatest degree of objectivity and corrective action. As the Board, it is also the perspective of custodians who appreciate both the privilege of their positions, and recognise the gravity and wide-scale implications of their decisions in steering one of the largest logistics infrastructure SOCs on the African continent – in some ways, the very heart and lungs of South Africa's economy – towards restored operational health and economic well-being.

Righting the ship in a challenging operating climate

During the 2019 financial year, Transnet continued to operate in a difficult economic environment, with weak economic growth, political and policy uncertainty, rising Government debt and rating agency concerns around the financial health of SOCs. These concerns have a direct bearing on Transnet's own credit rating and, by extension, the cost of borrowing as Transnet battles economic headwinds while simultaneously trying to right the ship.

Further, Transnet was not immune to the now widely-publicised phenomenon of state capture, which manifested as a systemic weakening of South Africa's SOCs over the past nine years through the misallocation of resources, widespread corruption, weakened leadership structures and the breakdown in governance control systems. The breakdown in Transnet's internal controls, especially in the procurement space, appears to have been a deliberate intervention by the proponents of state capture to create an enabling environment to profit commercially. This placed the Company in a precarious position within its community of stakeholders, with the resulting reputational damage impacting customer confidence, customer growth potential, our ability to raise cost-effective funding and employee morale. We have a long road ahead to rebuild trust within our Company, and with our stakeholders, and to heal the corrosive

In setting our new strategic direction, Transnet's mandate is our constant beacon. It focuses all our actions and aspirations and reminds us that we ultimately serve all South Africans. Our purpose is to make the country commercially competitive in a rapidly changing global context by lowering the cost of doing business in South Africa.

effects of corruption on our business. This will involve both organisational and behavioural change. I am confident, however, that we have the will and commitment of our people to reposition Transnet for the long term.

Restoring integrity and reputation

The Transnet Board is responsible for strengthening the Company, restoring its integrity and reputation and refocusing Transnet on its mandate. As the Board, we can begin to achieve this directive by ensuring that the Company understands – at all levels – the manifestations of state capture and by implementing robust structures and processes to minimise the risk of a recurrence. We have spent most of 2019 identifying the Company's failings and taking the requisite remedial actions to reposition the business while strengthening our internal controls – specifically, fortifying both the *form* and *substance* of our governance systems and controls.

Final thoughts on state capture

The nature and pervasiveness of state capture have perplexed the minds of rational, ethical human beings, and from all that has emerged during the Zondo Commission of Inquiry, it appears corruption has become a culture within our SOCs and across the national spectrum. Both organs of State and private sector companies have been implicated in wrongdoing. It may well be helpful for the State to create a fund and forum for the widespread re-education of our people about the impacts of corruption. My final thoughts on the matter of state capture underscore that of our Shareholder Minister: we cannot detach corruption from human choice. We need to ensure that, as Transnet, our management cadres are adequately schooled in ethics and sufficiently accountable to the Board and that the Board, in turn, is sufficiently accountable to the Shareholder, so that when choices are made, they are ethical and in the interests of the Company and all people of South Africa.

Strategic direction

In setting our new strategic direction, Transnet's mandate is our constant beacon. It focuses all our actions and aspirations and reminds us that we ultimately serve all South Africans. Our purpose is to make the country commercially competitive in a rapidly changing global context by lowering the cost of doing business in South Africa, enabling economic growth, and ensuring security of supply in providing ports, rail and pipeline infrastructure in a cost-effective manner. In principle, we interpret our mandate to have three key tenets: enabling competitive industry supply chains; exemplifying responsible corporate citizenship; and achieving commercial self-sustainability.

The period of sustained investment in new capacity, from which we have now emerged, did not adequately prioritise investment in the sustaining of assets. Our strategic vision is to strengthen our operations while expanding both the Company's influence and its caring by rebalancing our commercial and developmental objectives. To do this successfully, Transnet needs to remain a

financially self-sustaining entity which can thrive commercially while addressing the social and ecological goals of the developmental state.

Transnet's strategic path will transition the Company from an accelerated capital investment approach towards a less capital-intensive approach, focused on fixing, optimising and growing the core business. Our growth aspirations will consider the most expedient routes based on current operational capabilities and constraints, while remaining within acceptable capital and debt structure parameters. Additionally, we are considering our future growth in the context of the megatrends and freight system challenges we are observing in the market, such as poor maritime connectivity, high costs of road freighting which also leads to high carbon intensity and international oil price vulnerability, skills shortages across the freight system and under-developed supplier industries for all transport modes.

In parallel, we must ensure adequate reinvestment in the Company to maintain, grow and diversify our operations, maintain an optimal cost of capital (including external debt) and ensure the optimal use of our working capital. Accordingly, the Board has set the following key financial metrics:

- Maintain the maximum capital debt structure (gearing) at < 50%
- Maintain a cash interest cover of at least 2,5 times
- Maintain a stand-alone investment-grade credit rating

We intend to hold off on large-scale changes in the year ahead while we stabilise the Company and rebuild our social and relationship capital with key stakeholders.

Condolences

Regrettably, during the year, four employees passed away. On behalf of the Board, I wish to express my heartfelt condolences to their families and all who were affected by their passing.

As the Board, we undertake to review the nature and causality of all fatalities and to do our best to entrench group-wide safety awareness.

We further wish to convey our sympathies to the families of the 134 members of the public who lost their lives during the year in and around our operational activities. Railway crossings continue to be a safety challenge. Our rail network spans some 30 400 km and, due to its large footprint, is prone to encroachment by informal settlements. We are, however, unequivocally committed to doing more to raise safety awareness within the communities that border our rail operations.

Appreciation

As we transitioned into the 25th anniversary year of our country's democracy, we dedicated ourselves to reshaping Transnet into a proud asset that serves the people of South Africa. To echo the words of President Cyril Ramaphosa during his 2019 SONA address:

"A year ago, we set out on a path of growth and renewal. Emerging from a period of uncertainty and a loss of confidence and trust, we resolved to break with all that divides us, to embrace all that unites us."¹

Thank you to the Minister of Public Enterprises, Mr Pravin Gordhan – who represents our Shareholder and the people of South Africa – for your vocal and unwavering support and your firm hand in guiding the Company towards recovery. On behalf of the Transnet Board, I assure you of our continued commitment to our task.

Thank you to the Transnet Board for your diligence and resolve during the challenging circumstances of the 2019 financial year. Your stewardship was characterised by integrity, perseverance and fearlessness. I am privileged to serve alongside you.

Thank you to our customers and commercial partners for your patience and confidence in our abilities amid difficult economic and operational conditions during the year. We remain resolute in our efforts to improve our service offerings to you.

Thank you to the leadership of organised labour for your guidance and willingness to share in the Company's long-term vision.

Finally, thank you to each of our employees working tirelessly to rebuild the organisation. There is no Transnet without your priceless contributions. Change is inevitable and our growth depends on it. That said, we all have a choice in how Transnet will move forward to contribute to the well-being of fellow South Africans. Let us choose wisely and ethically so that when we rebuild our organisation, we do our small part in shaping the nation we choose to leave behind as our living legacy for future generations.

P.S. Molefe

Dr Popo S Molefe
Chairperson

26 September 2019
Johannesburg

Transnet continues to implement safety measures to prevent safety incidents, particularly at level crossings. These include level-crossing blocks, safety billboards, public awareness campaigns and awareness campaigns at schools.



¹ <https://pmg.org.za/page/SONA%202019%20Speech>.

Our Board members



Dr Popo Molefe
Chairperson



Date of birth:
April 1952
Year of appointment:
May 2018

Qualifications:
Honorary Doctorate (Leadership Aptitude) (University of North West); Certificate of Conflict Resolution (Harvard University); Course on Governance (Harvard University); Certificate of Completion of Business Leadership Course (Pennsylvania University)

Directorship/Shareholding/Trusteeship:
Aberdeen Offshore Engineering (Pty) Ltd
Bigbit Trading
Devland Meat Production
Friedshelf 1516
Global Aviations Operations (Pty) Ltd
Lereko Broad-based Consortium 212
Lereko Eco
Lereko Investments (Pty) Ltd
Lereko Metier Investors (Pty) Ltd
Lereko Metier Trustees
Lereko Mobility
Lereko Systems
Lereko Metier Capital Growth Fund
Mabele Trust
Marble Gold
Mooki Trust
Popo Molefe Foundation
Sunshine Street Investments 71 (Pty) Ltd
Tedcor (Pty) Ltd



Mr Mohammed Mahomedy
Acting Group Chief Executive



Date of birth:
March 1971
Year of appointment:
May 2018

Qualifications:
CA(SA); PDip Acc (University of KwaZulu-Natal); BCompt (University of South Africa); Advanced Strategic Management (IMD Switzerland); Global Executive Leadership Development Programme (Gordon Institute of Business Science)

Directorship/Shareholding/Trusteeship:
Cutting Edge Finance (Pty) Ltd (100%)
Maquady Family Trust
YMM Family Trust



Ms Ursula Fikelepi
Independent non-executive director



Date of birth:
January 1973
Year of appointment:
May 2018

Qualifications:
MBA (Gordon Institute of Business Science); LLM (University of New Hampshire USA); LLB (University of Cape Town); BA Law (Rhodes University)

Directorship/Shareholding/Trusteeship:
Emmaus Holdings (100% holding)
Grace Bible Church
Mtizamo Africa (Pty) Ltd (16.7% holding)



Ms Komilla Naicker
Acting Group Company Secretary

Date of birth:
February 1969
Year of appointment:
July 2019

Qualifications:
Admitted Attorney; BA Law (University of Durban Westville); LLB (University of Durban Westville); Transnet Senior Management Leadership Development Programme (Gordon Institute of Business Science); Leading Women Programme (Gordon Institute of Business Science); Short Term Insurance 1 (Insurance Institute of South Africa)

Directorship/Shareholding/Trusteeship:
Transmed Medical Scheme Board of Trustees



Ms Ramasela Ganda
Independent non-executive director



Date of birth:
September 1974
Year of appointment:
May 2018

Qualifications:
CA(SA); BCom (Hons) (University of Pretoria); CTA (University of Pretoria); Accounting Special (Bridging Course) (University of Pretoria); BCom (Vista University); Associate - South African Institute of Chartered Accountants (SAICA) and The Public Accountants' and Auditors' Board (PAAB)

Directorship/Shareholding/Trusteeship:
BPC Chartered Accountant (100% holding)
Mytechie (Pty) Ltd (25% holding)



Ms Dimakatso Matshoga
Independent non-executive director



Date of birth:
May 1978
Year of appointment:
May 2018

Qualifications:
MBA (Management College of South Africa); BSc (Electronic Engineering) (University of KwaZulu-Natal); PD in Project Management (School of Project Management); PrEng and Certified Director Institute of Directors in Southern Africa (IoDSA)

Directorship/Shareholding/Trusteeship:
Atafala Consulting (100% holding)
Atafatsa Foundation (non-profit company) (33.3% holding)
ATISSA Engineering and Environmental (33%) (in deregistration process)
Isa-Stra Tech Solutions (primary co-operative) (20% holding)



Ms Mpho Letlape
Independent non-executive director



Date of birth:
March 1959
Year of appointment:
May 2018

Qualifications:
Bachelor of Computer Science and Psychology (University of Fort Hare); Management Advanced Programme (Wits Business School); Strategic Human Resources Management (University of Cape Town Graduate School); Leading Change (Harvard Business School); Strategic Perspective in NPO Management (Harvard Business School); Orchestrating Winning Performance (IMD) (Harvard Business School); Strategic Human Resources (Harvard Business School)

Directorship/Shareholding/Trusteeship:
Africa Harm Reduction Alliance
Food Forward South Africa
Lethushaneng Advisory Services
Lethushane (Pty) Ltd
National Research Foundation
Sapphire Logistics
South African Women in Dialogue
Standard Bank Tutuwa Community Foundation NPC
Tower Group



Board committees

- Audit Committee
- Corporate Governance and Nominations Committee
- Finance and Investment Committee
- Remuneration, Social and Ethics Committee
- Risk Committee

Board members' competencies





Adv Oupa Motaung
Independent non-executive director



Date of birth:
August 1970
Year of appointment:
May 2018

Qualifications:
BProc (University of the Witwatersrand); LLB (University of the Witwatersrand); LLM (Tax Law) (University of the Witwatersrand); HDip Company Law (University of the Witwatersrand); AIPSA Diploma (University of Pretoria); Advanced Certificate in Construction Law (University of Pretoria); Certificate in Banking and Financial Markets (University of the Witwatersrand)

Directorship/Shareholding/Trusteeship:
Condoclox (100% holding)
Kuena Construction Projects (100% holding)
Nordaspan (100% holding)
Orthorox (100% holding)
Vaxiscore Investment (100% holding)
Thulo Trustees (100% holding)
Twende Investments (10% holding)

3 6 9

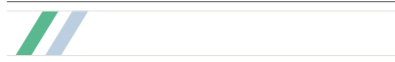
Board committees

- Audit Committee
- Corporate Governance and Nominations Committee
- Finance and Investment Committee
- Remuneration, Social and Ethics Committee
- Risk Committee

Board members' competencies



Dr Fholisani Mufamadi
Independent non-executive director



Date of birth:
February 1959
Year of appointment:
May 2018

Qualifications:
DSc (Honoris Causa) (University of London); PhD (University of London); Honorary Professor (Political and Government Studies) (Nelson Mandela Metropolitan University); MSc (University of London)

Directorship/Shareholding/Trusteeship:
Adcorp Holdings Ltd
Barclays Bank Mozambique
Debshan (Pty) Ltd
Implats Holdings Ltd
Muendanyi Consulting (dormant)
National Bank of Commerce (Tanzania)
Nokukhanya and Inkosi Albert Luthuli Peace and Development Institute
Zimplats (Chairman of the Board)

2 10 14 17



Mr Aluwani Ramabulana
Independent non-executive director



Date of birth:
October 1971
Year of appointment:
May 2018

Qualifications:
MBA (Nyenrode Universiteit.net; The Netherlands); BSc (Chemical Engineering) (Oregon State University); Executive Development Programme (IMD, Switzerland); Certificate in Corporate Governance and Risk Management

Directorship/Shareholding/Trusteeship:
Bono Lithihi Investment Holdings (Pty) Ltd (5% holding)
DataQwip Rentals (60% holding)
Lateospace (49% holding)
MDZ Capital (100% holding)
MDZ Fleet Solutions (100% holding)
MDZ Logistics (100% holding)
Mudzi Palfinger JV (51% holding)
NBC

1 2 4 5 6 9 11

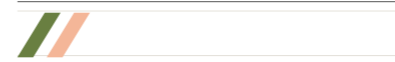
Length of tenure of independent non-executive directors as at 26 September 2019

100%
0-3 years

0%
3-6 years



Ms Gratitude Ramphaka
Independent non-executive director



Date of birth:
August 1979
Year of appointment:
May 2018

Qualifications:
CA(SA); BAcc (Hons) (University of the Witwatersrand); BCom (University of the Witwatersrand); Auditing Specialism Course (Advanced Accounting and Auditing); Auditing Professional Training (Advanced Auditing and Professional Training)

6 7 12

Gender representation as at 26 September 2019

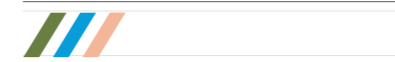
58% male
42% female

Race representation as at 26 September 2019

75% (9 African)
17% (2 White)
8% (1 Indian)



Mr Louis von Zeuner
Independent non-executive director



Date of birth:
June 1961
Year of appointment:
May 2018

Qualifications:
Chartered Director CD(SA) (Institute of Directors SA); BA (Econ) (University of Stellenbosch)

Directorship/Shareholding/Trusteeship:
Afgri Holdings Ltd
Anzelle Trust
Edward Vorster Trust
FirstRand Bank Ltd
L & R Family Trust
LIV Foundation and LIV Equity Trust
Lungisisa Indlela Village (RF) NPC
Mahela Boerdery (Pty) Ltd
SARPA Foundation
Telkom SA
Tongaat Hulett Ltd
Wildeklaar (Pty) Ltd

1 2 3 6 7 12

Board departures

- Mr Siyabonga Gama: contract terminated 28 October 2018
- Ms Vivien McMenamin: resigned 28 February 2019
- Mr Tau Morwe: contract expired 30 April 2019
- Prof Edward Kieswetter: resigned 6 May 2019



Mr Mark Gregg-Macdonald
Acting Group Chief Financial Officer

Date of birth:
February 1960
Year of appointment:
May 2019

Qualifications:
CA(SA); BCompt (Hons) (University of South Africa); On Campus Senior Management Programme (Henley Management College, Henley-on-Thames, UK)

Directorship/Shareholding/Trusteeship:
Histospot (Pty) Ltd (25%)

2 4 5 6 12 15 17

Our business continued

Organisational overview

Our vision

► What we have to deliver

Fuelling Africa's growth and development as the leading provider of innovative supply chain solutions.

Our mission

► What we need to do

Link economies; connect people; grow Africa!

Our values

► What we stand for

- > I believe in zero harm
- > I am trusted and ethical
- > I am, because of the customer
- > I care, I make a difference
- > I deliver excellence, simply
- > I am a team player

Leadership brand attributes

► How we should lead

- > I innovate
- > I inspire
- > I put the customer first
- > I know my business
- > I am trusted
- > I deliver
- > I am ethical
- > I create value

Our mandate

Transnet's mandate and strategic objectives are aligned with national development plans and the Statement of Strategic Intent issued by the Minister of Public Enterprises:

- > Assist in lowering the cost of doing business in South Africa
- > Enable economic growth
- > Ensure security of supply by providing appropriate port, rail and pipeline infrastructure in a cost-effective and efficient manner, within acceptable benchmarks

Governance context

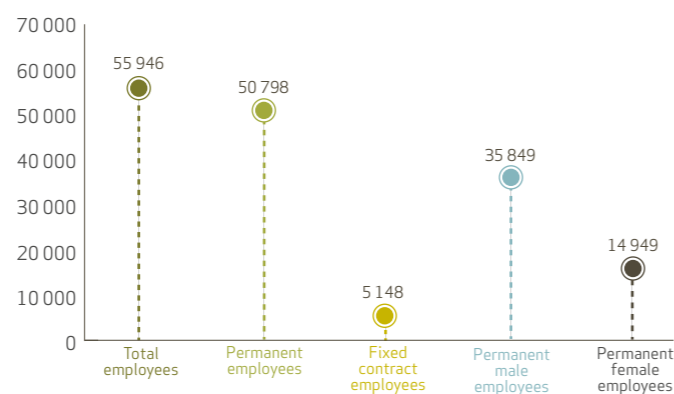


- Public company (constituted in terms of the Legal Succession Act of 1989), with the South African Government as the sole shareholder.
- Owner of South Africa's railway, ports and pipelines infrastructure.
- The Company's Memorandum of Incorporation (MOI) – approved by the Shareholder Minister on 25 June 2013 – aligns with the provisions of the PFMA, the Companies Act and the National Ports Act, No 12 of 2005, as amended (the National Ports Act).

- As a State-owned Company (SOC), the PFMA serves as Transnet's primary legislation.
- Transnet signs an annual Shareholder's Compact with the Government of the Republic of South Africa, represented by the Minister of Public Enterprises. The Shareholder's Compact mandates the Company to deliver on numerous strategic deliverables, including sustainable economic, social and environmental outcomes.
- The Board directs the Company's strategy in response to the Statement of Strategic Intent.

Summary of employee headcount by Operating Division	Employees 2019
Transnet Corporate Centre	550
Transnet Freight Rail (TFR)	28 868
Transnet Engineering (TE)	10 866
Transnet National Ports Authority (TNPA)	4 199
Transnet Port Terminals (TPT)	9 357
Transnet Pipelines (TPL)	706
Transnet Group Capital (TGC)	963
Transnet Property (TP)	437
Total headcount	55 946

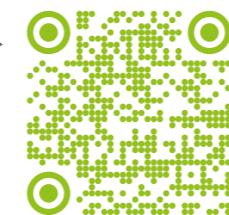
Employee profile



For more information

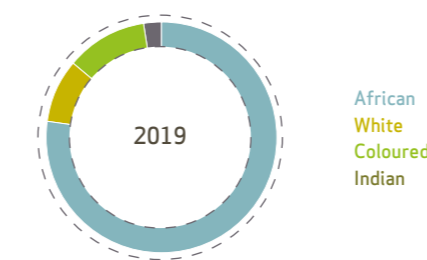


DETAIL ON OUR SHAREHOLDER



Total employees represented by collective bargaining as a % of total headcount:	88,7%
Permanent employees represented by collective bargaining as a % of total headcount:	79,7%
People with disabilities	2,3%

Employees by race



Broad-Based Black Economic Empowerment (B-BBEE)

Transnet's B-BBEE verification covers six of the seven elements of the Generic Transport Public Sector Scorecard (excluding the ownership element). The maritime, property and rail charters are also applied.

Transnet achieved full points for enterprise development and socio-economic development for the 2019 financial year.

Enterprise and supplier development (ESD)

Transnet acknowledges the importance of spreading economic growth and transformation in the South African economy and supporting Government programmes that seek to redress the imbalances of the past. Transnet's ESD is a key element of South Africa's developmental agenda.

As such, our ESD is:

- Guided by Government's Competitive Supplier Development Programme;
- Informed by the B-BBEE Codes of Good Practice;
- Increasing the competitiveness, capacity and capability of black-owned suppliers through financial and non-financial support; and

- Targeted at ESD initiatives that support localisation and industrialisation, and provide opportunities for black people, youth, women, small businesses, people with disabilities and people living in rural communities.

The rise of young black entrepreneurs through the various developmental levels – from high school innovation programmes, through business case development and business incubation to our Black Industrialist Programme and our regional and global exporting and trade programmes.

Endorsement of external charters and frameworks (not limited to)

- Generic Transport Public Sector Charter
- Maritime Charter
- Property Charter
- Rail Charter
- United Nations Global Compact (since 2012)
- International Integrated Reporting Framework

Membership of associations (not limited to)

- Association of American Railroads
- International Association of Marine Aids to Navigation and Lighthouse Authorities

Transnet Group's B-BBEE performance per pillar for the 2018 review period

Element	Actual score	Target
Management control	8,62	11,00
Employment equity	13,77	18,00
Skills development	19,27	25,00
Preferential procurement	29,06	33,00
Enterprise development	15,00	15,00
Socio-economic development	5,00	5,00
Total	90,72	107,00

B-BBEE Level 2

- Maputo Corridor Logistics Initiatives
- New Partnership for Africa's Development
- Railroad Association
- Southern African Railways Association
- Union of African Railways
- International Union of Railways

Socio-economic development context

South Africa is confronted with significant economic and social challenges that continue to affect the well-being of its citizens and the achievement of inclusive growth. Poverty, unemployment and inequality remain South Africa's most pressing problems and it remains one of the most unequal economies in the world. Social change and enhanced access to rights have not translated into comparable economic shifts – unemployment has risen and inequality remains extreme.

Through the adoption of the 2030 Agenda for Sustainable Development in September 2015, South Africa seeks to accelerate the redress of these socio-economic ills and to elevate its agenda relating to people, the planet and prosperity. Transnet, as a South African SOC, and signatory to the United Nations Global Compact since 6 July 2012, understands its role in the economy and employs the socio-economic developmental outcomes (SDO) framework as a mechanism to advance the achievement of the Sustainable Development Goals as espoused in the 2030 Agenda.



Strategic context

South Africa's freight demand will more than double in the next 20 years and consistently high levels of investment are required to maintain, modernise and expand ports, rail and pipelines. Transnet will have to grow beyond its core to support the necessary investment funding.

In recent years, Transnet has focused on addressing identified freight system challenges and has prepared the foundation for long-term competitiveness of the freight system. Despite realising important gains, Transnet fell short in resolving various critical strategic and operational challenges, including operating efficiency, effectiveness and reliability, customer satisfaction and rising administered prices.

The Board remains committed to the transition towards a less capital-intensive approach focused on fixing, optimising and growing the core business while exploring growth adjacent to the core, using existing capabilities and assets as part of a revenue diversification thrust. The key difference is an enhanced focus on optimal capital allocation and on managing returns on invested capital, rather than earnings before interest, tax, depreciation and amortisation (EBITDA), and an enhanced focus on private sector partnerships.

Further, as we move into the 4th Industrial Revolution, the transport and logistics industry, like others, is undergoing rapid change driven by new technologies and business models, as well as ever-increasing customer requirements. These changes present both opportunities and threats to Transnet. The Company will harness the potential of Big Data and the strength of device connectivity to take advantage of the growing number of autonomous data sources to improve the customer experience, while enhancing operational efficiency and reliability and creating new adaptive business models.

Market context

Internationally, the transport and logistics sector is experiencing several megatrends which define the key priorities and challenges going forward for transporters, forwarders and contract logistics providers.

Table 3: Market trends

Megatrend	What is it?	Transnet's response
The 'two-speed'	A world of rapid change, which splits naturally into steady progress punctuated by sudden disruptions.	Pursue partnerships with the next wave of global challengers.
Urbanisation	Population shift from rural areas to urban areas, and the gradual increase in the proportion of people living in urban areas.	<ul style="list-style-type: none"> City-logistics offerings Integrated hub services for mega cities
Sustainability	Maintaining change in a balanced environment where resource exploitation, the direction of investments, technological development and institutional change are in harmony and enhance current and future potential to meet human needs and aspirations.	<ul style="list-style-type: none"> Replace ageing fleets with new and/or electric vehicles Reduce environmental impact Collaborative supply chain offerings
Infrastructure congestion and scarcity	Freight movement takes its toll on roadways, bridges, ports and other infrastructure. As more freight is moved, costs to maintain and build infrastructure rise.	<ul style="list-style-type: none"> Optimise intermodal efficiencies Ensure access to infrastructure Industry-based outsourcing solutions
E-commerce	Buying or selling products online or over the internet. Online marketplaces enable third-party business-to-consumer or consumer-to-consumer sales.	<ul style="list-style-type: none"> Last mile strategy Refined fulfilment services
Digitisation	The key market drivers of digitisation are increased requirements for transparency, supply capability and delivery reliability as well as the desire for individualised products or services.	<ul style="list-style-type: none"> Capture Big Data and automation efficiency gains Offer platform solutions (freight exchanges and virtual forwarding)

Regulatory context

The Company operates in compliance with more than 195 regulatory requirements. Tariffs charged by the National Ports Authority and Pipelines are determined by independent economic regulators, namely the Ports Regulator of South Africa (Ports Regulator) and the National Energy Regulator of South Africa (Nersa) respectively.

The Railway Safety Regulator regulates the safety of the rail operations of the Company, issues safety permits (for a fee), and conducts inspections and audits on the Company. Transnet also operates within a policy context which is determined by the Department of Public Enterprises and the Department of Transport respectively.

Financial context

As a SOC, the financial strategy reflects the higher risk profile of the business. To meet long-term market demand, Transnet invests for long-term growth prospects, but considers short- to medium-term volatility in domestic and international markets. Transnet raises funds in the debt markets based on the strength of its own balance sheet.

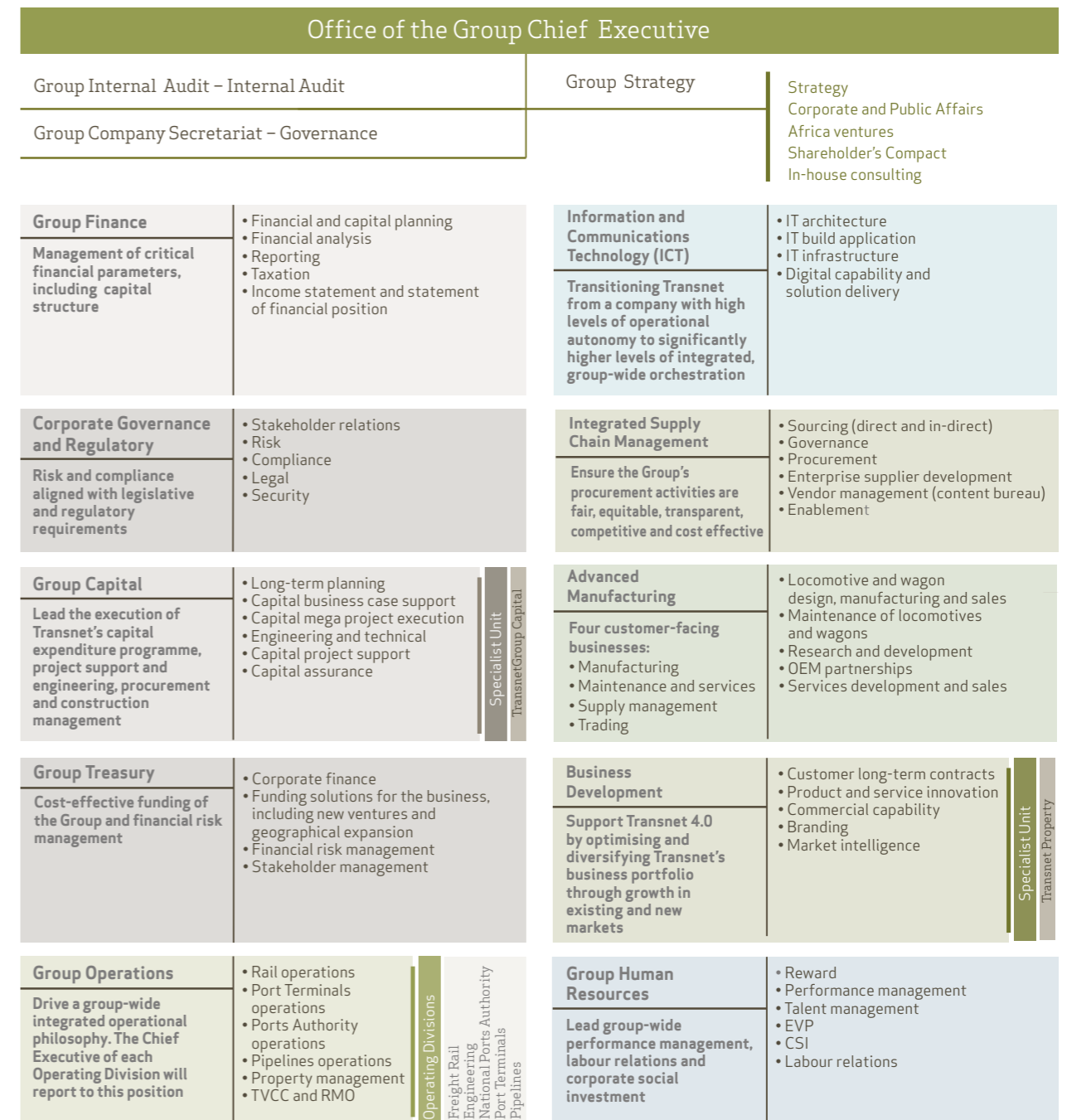
Transnet's capital structure comprises funding from equity and debt which is used to finance its existing business, future growth opportunities and to refinance maturing debt.

Gross value add resulting from Transnet capital and operating expenditure

Transnet defines value add as the financial value created by the activities of the Company and its employees. Transnet's gross value add increased from R56,7 billion in 2018 to R60,3 billion in 2019.

Gross value add resulting from Transnet's capital and operating expenditure			
	2017	2018	2019
Value added	R50,4 billion	R56,7 billion	R60,3 billion
Employees	42%	42%	39%
Capital providers	18%	18%	19%
Reinvested	40%	40%	42%

Figure 2: Operating structure



Operating context

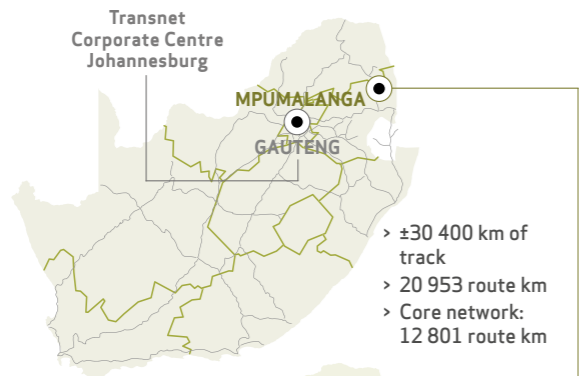
Five Operating Divisions spread throughout South Africa

Four satellite offices in Lesotho, Tanzania, Namibia and Swaziland

Three joint operating centres in Mozambique, Botswana and Zimbabwe

Specialist Units

Transnet Group Capital
Transnet Property



Satellite offices



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

Services provided

Outbound services

South African businesses moving products to international markets

Inbound services

Bringing products to South African markets

Commodities transported

Mining exports, general freight and petroleum products

General freight

Containerised cargo, local manganese, minerals, local coal, local iron ore, chrome and ferrochrome, agricultural products, iron and steel, fertilisers, cement, fast-moving consumer goods, bulk liquids, wood and wood products, industrial chemicals, intermediate products and automotive products

Petroleum products

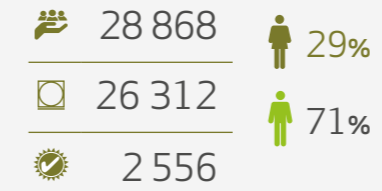
Crude oil, refined petroleum products, aviation turbine fuel and methane-rich gas products

Operating Divisions' overview

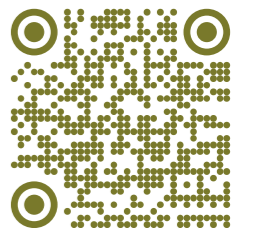
Employees → Total Permanent Fixed-term contract

Rail corridor throughout South Africa

Employees

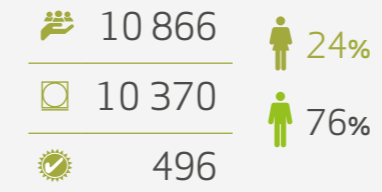


Revenue **R43,6** billion

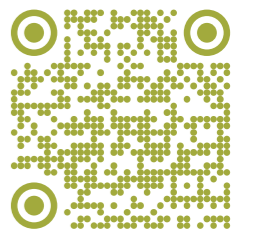


Koedoespoort, Germiston, Bloemfontein, Durban, Uitenhage, Salt River

Employees

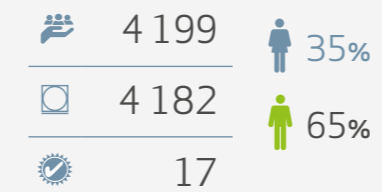


Revenue **R10,5** billion

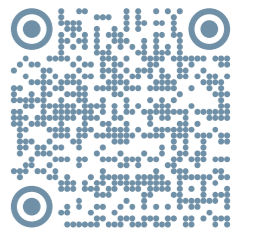


Richards Bay, Durban, East London, Ngqura, Port Elizabeth, Mossel Bay, Saldanha, Cape Town

Employees

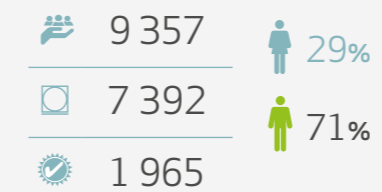


Revenue **R12,5** billion

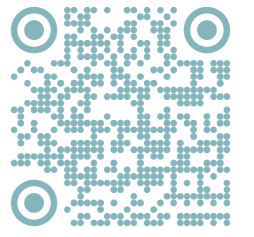


Richards Bay, Durban, East London, Ngqura, Port Elizabeth, Cape Town, Saldanha

Employees

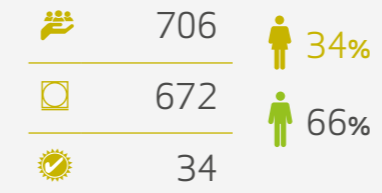


Revenue **R13,1** billion

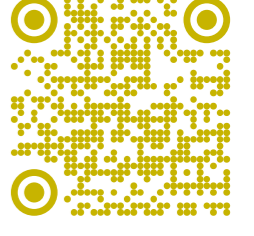


Durban - Johannesburg

Employees



Revenue **R5,3** billion



Our business continued

For more information

SCAN TO DOWNLOAD OPERATING DIVISIONS' REPORTS

Value through the capitals

Performance highlights and capital trade-offs



Outbound services
South African businesses moving products to international markets

Inbound services
Bringing products to South African markets

Strategies to preserve or create value

Examples of trade-offs

Financial capital
Cash and cash equivalents
Total capital borrowings
Finance income
Manufactured capital
Property, plant and equipment
Rail track
Pipeline infrastructure
Information and communications technology (ICT) infrastructure
Human and intellectual capitals
Skilled, healthy and motivated workforce
Standard operating procedures
Policies, frameworks, management systems and processes
Efficient and reliable leadership team delivering on our mandate
National pool of skilled artisans and engineers
Research and development
Social capital
Transactional, collaborative and constructive relationships with stakeholders
Engaged workforce
Social licence to operate
Natural capital
Natural resources we use to enable us to operate (water, air, energy, etc.)
Land on which to run operations
Biodiversity and ecosystem health

MEASURE		2017	2018	2019	Page references
Revenue	R billion	65,5	72,9	74,1	51/52
Operating expenses	R billion	37,9	40,4	40,3	51/57
ROTA	%	4,6	5,9	5,8	50
EBITDA margin	%	42,1	44,6	45,6	51/57
Profit	R billion	2,8	4,9	6,0	51/52
Gearing	%	44,2	43,4	44,5	50
Cash interest cover	times	2,9	3,0	2,9	51/53
Capital expenditure (including accruals)	R billion	21,4	21,8	17,9	55
Infrastructure maintenance spend	R billion	16,2	16,4	14,7	55
Depreciation and amortisation	R billion	13,5	13,7	14,3	51
Net impairment of assets	R billion	2,5	1,4	2,7	51
Number of permanent employees	Number	53 661	51 324	50 798	14
Personnel cost	R billion	24,5	25,7	26,8	57
Training spend	R million	746	741	740,8	68
Training spend (as % of labour cost)	%	3,1	2,9	2,5	68
Engineering trainees	Number	173	100	60	68
Investment in R&D	R million	185	147	10,8	67
Technology transfer/intellectual property (% of TMPS)	%	2,1*	0,93	0,74	67
DIFR	Rate	0,69	0,73	0,71	63
* % of SD					
Total CSI spend	R million	234	219	151	72
B-BBEE spend	R billion	37,0	25,8	29,9	69
Committed supplier development	R billion	62,6	63,4	4,96	69
Patients treated on Phelophepa Healthcare train	Number	173 016	157 418	91 588	72
Energy-efficiency improvement	%	1,1	0,9	0,5	64/65
Carbon emissions	mtCO ₂ e	3,95	4,0	3,78	64/65
Used oil reclaimed	KL	1,2	202	140,9	64
Alien invasive species eradicated	Ha	3 398,1	1 307	1 158	64
Number of pipeline spillages	Number	1	0	2	64
Asbestos waste removed	Tonnes	37,3	929,8	49,2	64

Maintaining a strong capital base to maintain investor, creditor and market confidence to support future growth of the business

Maintaining a cash interest cover of at least 2,5 times

Advancing Transnet's Inland Terminal Strategy and addressing infrastructure and rolling stock maintenance requirements

Structuring and maintaining the information technology network for more reliable connectivity

Implementing and embedding the Integrated Management System (IMS) across all operations

Developing and implementing an integrated training plan for key procurement staff

Transnet has developed a three-year plan (Stakeholder Engagement Plan 2021) that sets out precise actions required to rebuild relations particularly with our Shareholder, Government, investors, funders, customers, regulators, communities as well as our employees

Transnet's approach to natural capital management encompasses energy efficiency, climate change mitigation and adaptation, water stewardship, biodiversity management and enhancement and land use management

Introducing stringent cost-containment initiatives to reduce costs across operations

Maintaining a capital-to-debt structure (gearing) below maximum parameters (< 50%)

Strictly adhering to the capital maintenance programme and cultivating a culture of maintenance and preservation of existing assets

Optimising Transnet's property portfolio

Contributing towards the development of young professionals through Young Professionals-in-Training programmes

Developing intellectual property through research and development

Transnet's Phelophepa Healthcare programme is a CSI flagship project across eight of South Africa's nine provinces that is in its 25th year of operation, and provides experiential learning opportunities to an estimated 2 500 healthcare students per annum

Through the modal shift of cargo from road to rail, we aim to lower carbon emissions in the transport sector, especially for the hauling of large volumes of high-density freight over long distances

Managing working capital to meet target levels

Ensuring adequate reinvestment in the business and maintaining a stand-alone investment-grade credit rating

Ensuring integrated management of projects through the Integrated Capital Projects Programme

Applying Transnet's Value Chain Co-ordinator (TVCC) in operations to streamline activity

Providing apprenticeship opportunities through the young engineers and technicians in training programmes

Embedding a zero-harm safety culture across operations

As part of Transnet's strategic plans to create enterprise development programmes that expand opportunities to communities where the Company operates, there are currently five enterprise development hubs for small businesses and entrepreneurs with the fifth mega hub officially launched in March 2019 in Empangeni, north of KwaZulu-Natal

Our integrated asbestos and hydrocarbon clean-up programmes enable us to manage the impact of historical environmental contamination

Our credit rating is dependent on our ability to manage our social licence to operate and the extent to which our leadership and governance structures ensure ethical and sustainable business practices. Negative media coverage of governance failures within Transnet has made it more challenging to maintain our credit rating. Effort and resources spent on improving governance and internal controls will ensure we maintain or reduce the cost of capital.

Investing in manufactured capital requires substantial investment and reduction of financial capital. Even within manufactured capital, a trade-off exists between using financial resources on maintenance spend or expansionary capital expenditure.

While the financial store of value is decreased by spending on research and development as well as training of technicians and engineers e.g. the anticipated future inflows to financial capital and manufactured capital created by spending on intellectual capital outweigh immediate cost.

Keystone expansion projects – such as our large-scale port infrastructure improvement project at the Port of Durban – need to balance the economic benefits for the country with the social and environmental concerns raised by surrounding communities.

Transnet's operations have adverse impacts on local communities – as such, we apportion financial investment towards programmes aimed at improving the quality of lives of

We understand that some of our operations deplete natural resources and are in pristine environments. We are guided by environmental impact assessments in our approach to developments.

Our operations span across the country and beyond with waste production and emissions to air, water and land.

Transnet's mandate requires management and improvement of the national logistics infrastructure to support future capacity demand and to ensure market competitiveness for South African trade in the global market.

Transnet's ability to commit to capital expenditure needs to be balanced with the need for sufficient return on assets to support funding requirements.

In recent years, spend was weighted towards expansionary capital investment. Going forward, however, in order to safeguard financial sustainability and improve operational efficiency, the balance of maintenance versus expansionary expenditure will be tilted towards maintenance.

Also, the benefit to the nation of increasing the pool of skilled engineers and artisans is imperative for dealing with structural unemployment challenges that the country faces.

these communities as well as in the larger economy.

As Transnet strives for growth through the expansion and modernisation of the country's ports, rail and pipelines infrastructure, the Company realises the importance of spreading economic growth and transformation in the South African economy and supports the Government programme that seeks to redress the imbalances of the past.

We endeavour to achieve net positive gains through the implementation of waste recycling programmes, land remediation, dust suppression programmes, and the invasive species eradication programme to reduce the impact in water stress catchments where we operate.

Value through the capitals

Our business model

Our value proposition is founded in our mandate (see page 14):



Financial

- International and domestic capital markets
- Loan markets (public and private)
- Development finance institutions
- Export credit markets
- Structured financing
- Partial funding by customers and/or interested parties that are part of Transnet's Investment Plan
- Project-specific funding
- Commodity-based revenue (e.g. transported iron ore and steel)
- Non-commodity revenue from operations

Our purpose

Modernisation and renewal of South Africa's transport and logistics infrastructure through strategic investment in rail, ports, and oil and gas pipeline infrastructure.

Cost-effective logistics value chains

Value-added services

Advanced engineering solutions

Manufactured

- Property, plant and equipment
- Investment property
- Rail and branch-line networks
- Multi-cargo ports
- 3 800 km of petroleum and gas pipeline infrastructure
- Locomotives and rolling stock
- Port terminals

Intellectual

- Project lifecycle programme methodologies
- Research and development
- Standard operating procedures
- Policies, frameworks and processes
- Responsible leadership

Human

- Responsible leadership
- 55 946 skilled and motivated employees as at 31 March 2019 year end
- Remuneration philosophy and process

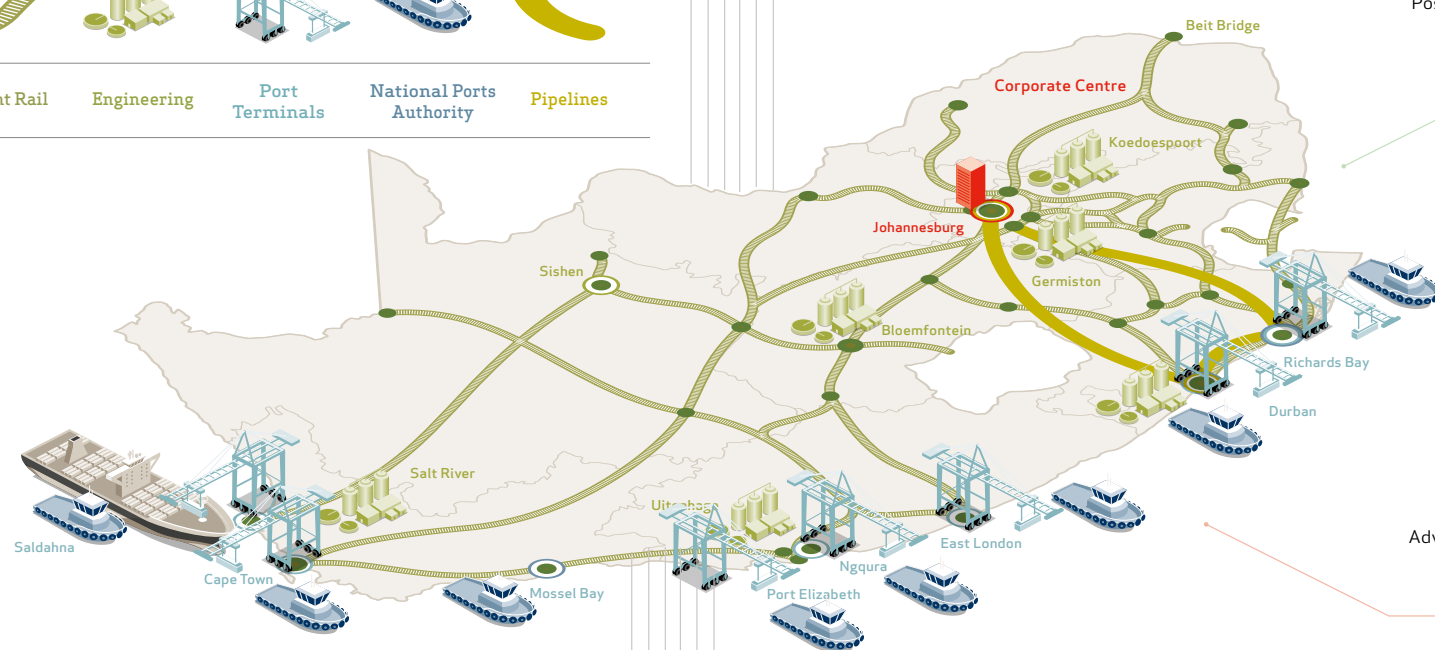
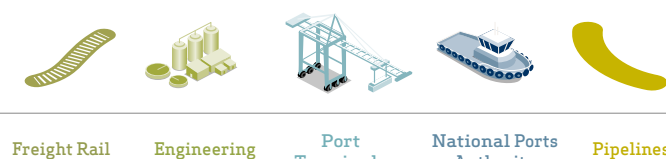
Social and relationship

- Customers: Large mining, shipping, manufacturing, agricultural, industrial, retail and energy contributors to the South African economy
- Government and regulators
- Employees and organised labour
- Communities, citizens, institutions, media and pensioners
- Shareholder and funders

Natural

- Water
- Air
- Land
- Biodiversity and ecosystem health

Capital inputs



Positive outputs

- Wide range of transported general bulk and containerised freight commodities
- Cargo-handling services to a range of customers
- Secure inland petroleum product supply
- Organisational culture to drive health and safety
- Engineering R&D initiatives, e.g. traction motor for rugged conditions, control system for diesel and electric locomotives and new diesel locomotive
- In-service maintenance, repair, upgrade, conversion and manufacture of various types of wagons, coaches, locomotives as well as equipment, machines and services
- Capacity growth through new and refurbished locomotives and wagons

Adverse outputs

- Waste materials as by-products of infrastructure projects (e.g. asbestos and hydrocarbon waste)
- Pipeline spills and marine pollution (e.g. plastics and oil entering marine water at ports)

Outcomes

- Funding strategy based on strategic priorities
- High-yield capital investments (financial and social returns)
- Reliable borrower which, albeit state-owned, issues debt on the strength of its financial position without government guarantees
- Investment-grade stand-alone credit profile
- Cash interest cover of 2.9 times
- Gearing at 44.5%

- Full value chain service propositions
- Digital transformation across the value chain
- Mega critical projects, such as the Multi-Product Pipeline, Durban Container Terminal expansion and extension of Saldanha Tippler 3
- Business continuity
- Infrastructure reliability
- Operational efficiencies and improved productivity
- Ability to avail analytics to end-users through multiple digital platforms

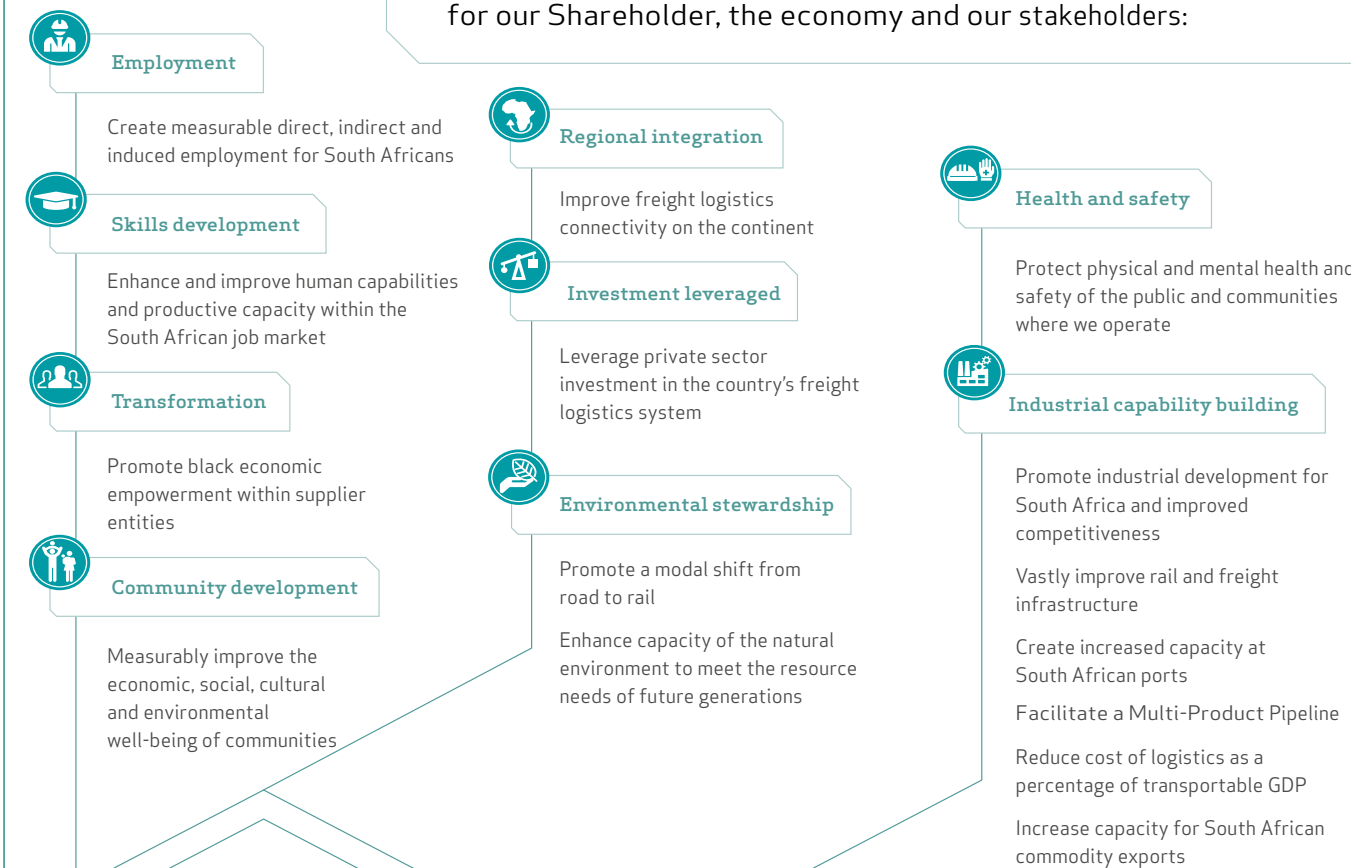
- Distinctive product and service designs
- Global operational standards
- Strong governance structure and oversight
- Agile digital technologies and capabilities
- Integrated planning and resourcing
- Enhanced transparency through advanced, integrated digital platforms

- An iBELONG culture
- Skilled and representative workforce
- Safe working environment, promoting diversity, equal opportunity, training and education
- Responsible, ethical leadership
- Employer of choice
- Exposure to broader national and regional opportunities

- Social licence to operate
- Customer-centric and reliable delivery of customer volumes
- Collective agreements with organised labour
- Partnerships with customers and logistics providers along the value chain
- Fair, transparent and efficient contract management
- Fair and equitable tender processes
- Proactive and collaborative supplier development

- Environmental stewardship
- Opportunities for improving water consumption
- Cost saving from recycling
- 6.4% improvement in energy efficiency over the past five years
- 2.3% reduction in carbon emissions intensity

Through our activities, we deliver **Socio-economic Developmental Outcomes (SDOs)** for our Shareholder, the economy and our stakeholders:



Value created

For others

For Transnet

- Long-term financial stability
- Financial stability in the short, medium and long term as per gearing and cash interest cover
- Stable, secure infrastructure
- Stand-alone credit rating - attract funding from diverse sources
- Operational performance without compromising on safety
- Commercial agility in a changing socio-economic environment
- Employment equity
- Promote ethical business practices as well as sound environmental stewardship within operations
- Enhanced human capabilities and productive capacity (particularly scarce skills)
- Improved physical and mental health and safety of employees and other stakeholders
- Optimise 'that which makes Transnet great' by living the Transnet culture
- Align with regulatory requirements to maintain required operational compliances
- Maintain agility within a cost structure in which 80% to 90% of fixed costs and assets have lifecycle times of 30 to 100 years
- Build partnerships for sustainable growth
- Strengthen our credibility in terms of infrastructure reliability
- Enhance delivery of customer-centric solutions

Operating context

Acting Group Chief Executive's review

Mr Mohammed Mahomedy
Acting Group Chief Executive



I recently helped dock a ship liner via a series of cell phone conversations with our port team. The success of it was exhilarating and a moment of great pride as we docked the vessel two days before its due date. The exuberance was short lived as relief set in. As a result of our collective 'can do' attitude on that day, a major automotive client could meet its critical business objectives. Relief, however, turned to frustration given procedural red tape that could have delayed the process. I was attempting to help remotely execute what is standard procedure at our ports, the failure of which would have had catastrophic consequences for our customer, and by extension for us as well. I recall this incident here to emphasise the need for procedures and processes that are appropriately adaptable and reliable to support our business priorities with due urgency, and to remind our people to be personally inspired and accountable to achieve excellence in their daily tasks. We must put the customer's priorities first, no matter what it takes.

2019 was a challenging year for me, personally and professionally; firstly, stepping into the position of Acting Group Chief Financial Officer, and then into the position of Acting Group Chief Executive. I am both humbled and inspired by the opportunity to serve our people as we change course, quite abruptly, from the accelerated capital investment approach of the seven-year Market Demand Strategy as well as the corrosive effects of state capture on our business.

The task at hand requires that we first strengthen our internal controls, particularly as they relate to our procurement environment and investment activities; secondly, that we stabilise and restore our core operations; and thirdly, that we rectify the maintenance backlog and broader lack of co-ordination in our investments through a less capital-intensive approach to take full advantage of the Company's recent expansion projects. A bold refocusing is critical to ensuring Transnet's rail, ports and pipeline infrastructure operates at globally competitive standards. Transnet can capitalise on emerging opportunities but only if the Company can significantly improve performance in its core business.

How we disappointed

During May 2019, I presented my views on the impact of the scourge of state capture on our business at the Zondo Commission of Inquiry¹. Before

addressing our performance context and results for the year, I would like to share my concluding thoughts on the matter, as stated by me, as well as other Transnet employees (past and present) and representatives of MNS Attorneys at the inquiry.

By all accounts, Transnet was successfully manipulated to benefit a small group of individuals and entities through the following modus operandi:

- Significant procurement transactions for goods and services were executed, requiring willing participants both internally and externally; and
- Local consulting firms were inserted by certain Transnet executives to identify commercial opportunities using Transnet's supplier development mechanisms. In some instances, it transpired, companies were paid without having performed any work.

The incumbent Board and executive management have engaged in much debate and introspection around how this phenomenon took root, and the extent to which it had swept up willing enablers as it gained momentum. Following our own forensic investigations, and in collaboration with the Zondo Commission, Werksmans and MNS Attorneys, and various law-enforcement agencies, it is emerging that the large-scale corruption manifested due to considerable breaches of corporate governance and the manipulation of certain accountability processes and policies without due regard for the monumental risks and burdens placed on the organisation's financial sustainability.

We have subsequently introduced measures to enable an immediate improvement in our procurement processes and controls, including:

- Bringing in enhanced Treasury risk management and oversight;
- Embedding financial and capital controls that should exist - and have in the past;
- Amending the Company's delegation of authority to limit the authority of individuals in signing off on procurement transactions and capital decisions;
- Implementing end-to-end contracting systems;
- Significantly improving oversight and assurance processes; and
- Implementing a remedial plan to address:
 - the prevention, identification and reporting of fruitless and wasteful expenditure;
 - irregular expenditure that does not comply with operational policies;
 - losses through criminal conduct; and
 - the collection of all revenue.

Notwithstanding the flawed judgments of some of our people coming to light during the Zondo Commission, I sincerely believe that most of our 55 000-strong Transnet community are good, committed and passionate people who have given of themselves for the benefit of the organisation and all that it stands for. Transnet is a significant entity in the lives of South Africans and the local business community, and together, we remain committed to the organisation's success and its developmental mandate.

The year in review

Economic overview and financial capital performance

South Africa's economy has performed sluggishly during the financial year, contracting at times and showing signs of recovery at other times. There was a short-lived technical recession during the second quarter of the 2018 calendar year, with a growth of 1,4% in the fourth quarter contributing to an overall growth rate of 0,8% for the year. The marginal growth was a result of a decline in activity in the agriculture, transport and manufacturing industries, as well as reduced activity in Government sectors and trade. We saw energy prices fluctuating markedly in the second half of 2018, mainly reflecting supply factors, with sharp falls towards the end of the year. The market challenges are perhaps best exemplified by South Africa's unemployment rate increasing to 27,5% at the end of the third quarter of 2018, averaging 25,71% from 2000 until 2019.

Regardless of the tough economic and operational contexts, the Company continued to achieve notable results, confirmed by increased EBITDA at 3,8% and a net profit of R6,0 billion for the year - a 24,7% increase on the prior year.

The Company's financial capital outcomes for the year are outlined in more detail in the Group Chief Financial Officer's review and in Our performance and outlook section on page 46.

Continued investment in sustaining our manufactured capital

We continued to execute our asset investment programme, spending R17,9 billion, a 17,9% decrease from the previous year (2018: R21,8 billion). Our capital investment for the year ended 31 March 2019 represents R3,2 billion invested in the expansion of capacity, mainly on the integrated freight network, while R14,7 billion was invested to

¹ "A Commission of Inquiry to investigate allegations of state capture, corruption and fraud in the public sector including organs of state..." https://www.sastatecapture.org.za/uploads/Terms_Of_Reference.pdf.

maintain capacity, mainly in the rail and ports divisions, taking the total investment for the past seven years to R183,5 billion.

More specifically, as at 31 March 2019, the cumulative expenditure incurred on the 1 064 locomotive contract amounted to R33,6 billion, with R3,9 billion invested in the current year. A total of 525 locomotives had been accepted into operations, with a further seven locomotives delivered and undergoing acceptance testing. Additionally, Freight Rail and Engineering embarked on a programme to build 318 CR13 wagons for the iron ore line, and 169 CR19 wagons for the General Freight Business. For the year ending 31 March 2019, a total of 393 wagons were manufactured, commissioned and accepted into operations by Freight Rail, resulting in a capital investment of R607 million.

We highlight other sustaining infrastructure investments on page 55 of this report.

Commitment to our customers

To restore the credibility of our State-owned institutions, both in South Africa and internationally, we must stabilise and strengthen our operations to deliver sustained value. While our infrastructure provides the engine for economic growth, our customers fuel Transnet's momentum forward. Our seventh consecutive annual customer satisfaction survey raised several concerns, including declining rail performance levels, poor port productivity, poor customer communication and a lack of integration on key customer touchpoints. Greater effort is required to satisfy our customers' needs.

During the year, we hosted integrated customer and industry engagements to better understand their requirements and to discern where we are not measuring up. The engagements included customer breakfasts and customer steering committees, and specific forums, such as the NAAMSA Automotive Industry Supply Chain Forum and the Container Liner Operators Forum. Constructive outcomes of the proactive engagements included concluding long-term take-or-pay contracts with eight manganese clients, as well as signing an internal Transnet Customer Charter (in September 2018) to drive a customer-centric culture in the Company.

On page 62 of this report, we detail some of our proud moments during the year, when we excelled beyond the basics.

Safety and security performance in our operations

Safety and organisational well-being

It was gratifying to see that disabling injuries declined in our operations, with the Company's disabling injury frequency rate (DIFR) decreasing from 0,73 in 2018 to 0,71. However, we still experienced an unacceptably high occurrence of safety incidents during the year, losing four colleagues and 134 members of the public due to fatal accidents in and around our operations. As leadership, we are mindful of the inherent safety challenges in our operations and are determined to improve Transnet's safety performance by implementing global-standard safety measures and initiatives. That said, employee safety and well-being are not simply the responsibility of management. It is imperative that all our people internalise a culture of self-preservation and safety consciousness, which, I believe, starts with self-confidence and pride in doing purposeful and productive work every day. It is also concerning to note that both our planned and unplanned absentee rates continued an upward trend from the prior year, with our overall unplanned leave cost to company at R614,3 million (2018: R585,1 million) and our planned sick leave cost at R454,8 million (2018: R439,7 million).

With the organisation's painful governance failures coming to light, as well as the challenging working conditions I describe further on in this review – especially at our ports – it would be fair to assume that low employee morale was a major contributor to absenteeism. While we can empathise, we owe it to ourselves and our stakeholders to rebuild our collective confidence and to recommit to personal accountability and ethical business practices. Without these qualities we cannot be the company our customers, Shareholder and the people of South Africa need us to be. At the time of publishing this report, management had embarked on an employee engagement programme to determine and address main areas of concern as part of a remedial action plan.

Security, theft and community unrests

As leadership, we are concerned about the frequency and severity of the impacts of security incidents and theft in our operations during the financial year, which included cable theft, derailments and community unrest, particularly on the export coal line. Overall, we experienced 65 running line derailments, and 153 shunting derailments.

Derailments, suspected cases of cable theft and vandalism, as well as incidents of coal, chrome and petrochemical spillages also caused significant environmental incidents. These incidents have ripple effects on our ability to deliver on planned volumes and to comply with environmental regulations. They further cause tension with adjacent communities, incur high remedial costs and affect our reputation. Our divisional managers must create sufficient awareness of the integrated nature of our operations and the potential trade-offs of working in a highly industrialised operating environment. We cannot look at issues of security and theft as separate from commercial sustainability, stakeholder relations, environmental compliance and the reputational impacts they may have for us as a company.

We provide more details on these issues in our PFMA reporting on page 75. We also provide more detail on our health and safety performance on page 63.

Preserving our natural capital

To plan effectively for our future infrastructure requirements, it is critical that we consider the reliability of water access and future water quality in our national operations. According to the Department of Water and Sanitation, without intervention, South Africa faces a deficit of about 3 000 billion litres of water per year by 2030². With our national operational footprint, Transnet's operations are particularly exposed to climate change impacts and water-access challenges. During the year, we participated in the *Carbon Disclosure Project: Water* and achieved a "C" score³, highlighting a critical need for the business to step up its water stewardship efforts. A Transnet-wide water strategy, which would consider water-saving mechanisms and alternative water sources, such as setting up desalination and recycling facilities will be developed in the coming financial year.

With the introduction of carbon tax to South Africa in June 2019, businesses are encouraged to implement measures that will reduce greenhouse gas emissions, and to mitigate costs in the value chain. Transnet views the tax as an opportunity to motivate for, and to provide the solution of shifting more cargo from road to rail, especially for hauling large volumes of high-density freight over long distances. To this end, Freight Rail achieved a meaningful annual contribution to reduce carbon emissions in the transport sector through its 'rail tonnage gains' of 1 650 266 tonnes, with 110 078,8 tCO₂e carbon emissions savings.

More detail on our natural capital performance is reported in the operational performance section on page 63.

How we will recover

In many respects, we should thank brave and pervasive journalism for lifting the lid on corruption in our Company and our wider social context in recent years. Judge Professor Mervyn King, Chairman of the IIRC⁴ suggests that we have entered a new age of immediacy in which society has rigorous transparency at its fingertips through social media and will no longer accept wrongful acts committed by companies. As a SOC, with a national mandate to better the lives of all South Africans, we would do well to keep this top of mind.

For me, radical transparency is about visibility and radical authenticity – seeing it, and saying it as it is. My first months as Acting Group Chief Executive were concerned with understanding what our people really think and feel, where they need support and what they need in their jobs to thrive. As the executive, we have been inspired by the notion of visible and accessible leadership, as demonstrated by the current Transnet Board and Shareholder. Accordingly, we embarked on a series of operational site visits and walkabouts at the ports, which culminated in a report on our findings to the Transnet Chairperson. We endeavoured to meet as many employees as possible. In a 72-hour period, we met approximately 2 500 people from Port Elizabeth, Durban and Cape Town. We met the 5am shift workers and appreciated their dedication to wake up three hours earlier to make their way to work on time. We met staff going off shift at 10pm and realised the challenge this posed to them spending quality time with their families. We were taken aback though at their claims that this was the first time that they had met any of the executives from Johannesburg. People shared with us their concerns about challenging working conditions, which included absent operational equipment, poor condition of assets, maintenance breakdowns and facilities that require urgent attention. They showed us buildings with shattered windows, broken lights and cracked shower doors. Overall, we found marked differences between the quality of amenities between the ports, so much so that we could not believe we were in the same Transnet.

I took from this experience that the small stuff matters, and that we cannot expect our people to take pride in their work if Transnet, as a company, does not show pride in them first, by ensuring the most basic of dignified working conditions. Calls to excellence and customer-centricity are meaningless if people feel

unacknowledged, insecure and uncomfortable in their immediate surroundings. We also know that economically-strapped people have few economic options and that corruption thrives upon weaknesses in key economic, political and social institutions.

Looking ahead

As Acting Group Chief Executive, this may be my first and final public call to action. As such, I am appealing to divisional managers to mobilise and to provide lasting, implementable solutions to our teams on the ground. As the Executive Committee, we have activated teams to assist with the state of equipment and to address the maintenance backlog matters. Asset care should become part of our DNA. We have developed a 90-day remedial plan, a blueprint that addresses culture, values, efficiency and operational effectiveness, focusing on our most pressing challenges:

- Transnet has embarked on a programme to renegotiate contractual terms with OEMs of the 1 064 programme to align with Transnet's requirements in the short, medium and long term, and where feasible, to recover funds.
 - R618 million has been recovered from China South Rail, with a further R86 million being pursued; and
 - We are exploring legal options and processes to set aside interest rate swap transactions costing the organisation R400 million a year.
- We are working to improve the role and function of Group forensics insofar as it relates to the collapse of governance and administrative functions within the organisation.
- With procurement challenges presenting both reputational and operational risks, we are mapping assurance activities and lines of assurance against each step in the procurement process.
- We are exploring various sustainable solutions to support Transnet Engineering to achieve financial sustainability, and resolving service level agreement terms between Engineering and Freight Rail.
- We are formulating a real estate strategy to address governance failings in our Property unit and to reduce revenue leakages and audit findings.
- We are working to align our digital strategy across all business units to create a single-view perspective of all digital initiatives within Transnet.
- With the recent exposure of compromising conduct, characterised by employees circumventing internal controls, an ethical revival is required in the organisation. Accordingly, we

are designing an ethics programme to support the behavioural change required within the Company to rebuild our corporate standing and reputation.

At the time of publishing this report, our executive and extended executive leadership structures are comprised of several interim executives, some of whom have been with Transnet for more than two decades. As such, they bring institutional knowledge and organisational experience, as well as fresh perspectives and objectivity to the business. I would like to commend them for taking full and primary accountability for stewarding the organisation through a challenging period while the process for recruiting permanent executive members is actively underway.

Every company on the planet experiences challenges. The companies that stand head and shoulders above the others are those that respond appropriately and decisively. It is time to take decisive action, and to act in the best interest of our customers, our Company and our country.

In appreciation

I would like to express my heartfelt gratitude to each of our employees for their courage and steadfastness during the year. Together we must safeguard the three fundamentals of our business: our finances, our procurement processes and our operations. We, the people, are the *heart* of the business and it is up to us to take care of these fundamentals, each with personal accountability and pride. I look forward to a new chapter within Transnet, in which we can rebuild trust and pride – with each other, with our customers and with the people of South Africa.

Thank you to the Transnet Shareholder Minister, Mr Pravin Gordhan; the Transnet Chairperson, Dr Popo Molefe; the Board; the Acting Chief Financial Officer, Mr Mark Gregg-Macdonald; and the Transnet executives for your encouragement and guidance as I stepped into the role of Acting Group Chief Executive. With your support, I trust that I will be equal to the challenging yet aspirational task of shepherding Transnet in the interim as it rebuilds and repositions itself for growth.

M. S. Mahomed

Mr Mohammed Mahomed
Acting Group Chief Executive

26 September 2019
Johannesburg

² <https://www.news24.com/SouthAfrica/News/a-countrywide-water-shortage-is-looming-and-government-is-mum-on-wastewater-audit-20190225>.

³ The main idea is that a company goes through four main steps, starting with disclosure of their current position; moving to awareness which looks at whether a company is conscious of its environmental impact; to management, i.e. if a company is managing these overall impacts and the risks and opportunities related to these; and finally leadership, which is a measure of whether a company is implementing best practices in this environmental realm. F: Failure to provide sufficient information; D: Disclosure; C: Awareness; B: Management; A: Leadership.

⁴ <https://integratedreporting.org/news/2018-address-by-judge-professor-mervyn-king-chairman-of-the-council-iirc/>.

Executive Committee



Mr Mohammed Suleman Mahomed
Acting Group Chief Executive

Date of birth: March 1971
Year of appointment: 2008
Appointed AGCE 1 May 2019
Qualifications Refer to the Board profile on page 10

2 5 6 7 19



Mr Gert De Beer
Chief Business Development Officer

Date of birth: October 1964
Year of appointment: 2016
Qualifications Master's Degree in Commerce (University of Pretoria); CA(SA); BCompt (Hons) (University of South Africa); BCompt (University of South Africa)

4 5 6 7 8 11



Mr Thoba Majoka
Acting Chief Officer: Advanced Manufacturing

Date of birth: January 1963
Year of appointment: 1997
Appointed Acting COAM and Exco member 10 September 2018
Qualifications MBA (University of Potchefstroom); BSc Mechanical Engineering (University of Cape Town)

2 5 9 17 20



Ms Rebatho Madiba
Acting Chief Information Officer

Date of birth: February 1978
Year of appointment: 2013
Appointed Acting CIO and Exco member 1 October 2018
Qualifications BSc Information Systems (University of Leeds UK)

1 2 5 12 16



Ms Nozipho Mdawe
Acting Chief Executive: Transnet National Ports Authority

Date of birth: January 1973
Year of appointment: 2018
Appointed Acting CE: TNPA and Exco member 18 March 2019
Qualifications Diploma in Geology (Witwatersrand Technikon); Management Advanced Programme (Wits Business School); Transnet Executive Women Development Programme (Operations and Logistics Management) (Gordon Institute of Business Science); MBA (Gordon Institute of Business Science); Finance for Non-Financial Managers (Wits Business School); IRSMI Management Development Programme (University of France); Advanced Strategic Management Programme (IMD, Switzerland); Global Executive Development Programme (Gordon Institute of Business Science)

2 4 5 6 10 20



Ms Xoliswa Buyiswa Mpongose
Chief Corporate and Regulatory Officer

Date of birth: September 1964
Year of appointment: 2018
Appointed CCRO 22 October 2018
Qualifications B Proc (University of the Western Cape); Dip Juris (University of the Western Cape); Certificate in Compliance Management (University of Cape Town)

1 2 3 5 12



Ms Michelle Jean Phillips
Acting Chief Executive: Transnet Port Terminals

Date of birth: December 1970
Year of appointment: 1999
Appointed Acting CE: TPT and Exco member 7 August 2019
Qualifications B Juris LLB (Nelson Mandela University); Executive Development Leadership Programme (Gordon Institute of Business Science); Global Executive Development Leadership Programme (Gordon Institute of Business Science); Breakthrough Programme for Senior Executives (IMD Business School)

2 3 4 20



Ms Sanet Vorster
Acting Chief Human Resources Officer

Date of birth: October 1956
Year of appointment: 2006
Appointed Acting Chief Human Resources Officer and Exco member 18 March 2019
Qualifications BA (Rand Afrikaans University); Organisation and Work Study Certificate (Pretoria Technikon); Global Executive Development Programme (Gordon Institute of Business Science)

2 5 10



Mr Richard Valliuh
Acting Chief Operating Officer

Date of birth: June 1964
Year of appointment: 1995
Appointed Acting COO and Exco member 7 August 2019
Qualifications MBA (Specialising in Technology) (University of Southern Queensland, Australia); BSc (Hons) (Longborough University of Technology, UK); Financial Management Certificate (Rand Afrikaans University); Advanced Management Programme (Harvard Business School)

2 4 5 6 16 20



Mr Lloyd Tobias
Acting Chief Executive: Transnet Freight Rail

Date of birth: August 1963
Year of appointment: 2004
Appointed Acting CE: TFR and Exco member 18 March 2019
Qualifications MBA (Wits Business School); BA (University of South Africa); Certificate in Business Project Management (Wits Business School); Breakthrough Programme for Senior Executives (Wits Business School); Global Executive Development Programme (Gordon Institute of Business Science); Change Leadership for Executives (INSEAD); Coaching to Excellence (University of Cape Town); Diploma in Education (Rand College of Education)

2 15 18 20



Mr Mark Gregg-Macdonald
Acting Group Chief Financial Officer

Date of birth: February 1960
Year of appointment: First appointment 2001
Appointed Acting GCFO 13 May 2019
Qualifications CA(SA); BCompt (Hons) (University of South Africa); On Campus Senior Management Programme (Henley Management College, Henley-on-Thames, UK)

2 4 5 6 12 15 17

Executive Committee members whose contracts expired/are on suspension and/or resigned

Name	Job title	Date
Mr T Jiyane	Chief Advanced Manufacturing Officer	Contract terminated 7 August 2019
Ms M Mosidi	Chief Information Officer	Resigned 30 September 2018
Mr N Silinga	Chief Corporate and Regulatory Officer (Acting)	Fulfilled acting role until the appointment of CCRO in October 2018
Mr SI Gama	Group Chief Executive	Contract terminated 28 October 2018
Ms NE Sishi	Chief Human Resources Officer	Suspended 5 March 2019
Mr L Moodley	Chief Executive: Transnet Pipelines	Suspended 3 May 2019
Ms S Qalige	Chief Executive: Transnet National Ports Authority	Suspended 8 March 2019
Mr M Buthelezi	Chief Operating Officer	Resigned 31 March 2019
Mr R Nair	Chief Executive: Transnet Freight Rail	Resigned 31 March 2019
Mr TC Morwe	Group Chief Executive (Acting)	Contract expired 30 April 2019
Ms N Sithole	Chief Executive: Transnet Port Terminals	Suspended 7 August 2019

Executive Committee members' competencies



Operating context continued

Our strategy

Our strategic context

Transnet's national mandate

The NDP vision for the 2030 Agenda for Sustainable Development aspires towards a SOC landscape in which efficient, financially sound and well-governed State-owned companies address the country's developmental objectives in areas where neither the executive arms of Government nor private enterprises can do so effectively. These enterprises must deliver a quality and reliable service at a cost that enables South Africa to be globally competitive.

As a SOC, Transnet's core mandate is to assist in lowering the cost of doing business in South Africa, enabling economic growth and ensuring security of supply through the provision of

appropriate ports, rail and pipeline infrastructure, as well as providing operations in a cost-effective and efficient manner, within acceptable benchmark standards.

To fulfil this mandate, Transnet needs to grow beyond its current core. Freight forecasts indicate a doubling of freight demand in 20 years and an increasingly important role for ports, rail and pipelines in the national freight system. Organic growth of the current business will not yield the required funds to meet future investment needs. Transnet of the future needs to participate at various levels of the freight system, even though it will not itself directly provide each step in the value chain. Accordingly, it needs to nurture its core technical competencies and promote competition to benefit the development of the national freight system, while encouraging pivotal strategic

partnerships to augment and deliver its total value chain vision.

Market trends influencing strategy

Internationally, several trends define the key priorities and challenges for logistics providers. Larger players are increasing the range of services offered, often developing deep specialisation in a limited number of industry sectors and focusing on international end-to-end logistics networks and service provision. The orientation is to move away from transport modes in favour of servicing industry segments. Transnet is positioning itself to take advantage of these trends and the trends and opportunities observed in the domestic transport and logistics sector which are summarised below.

Table 4: Trends in the domestic transport and logistics sector

Summary of trend	Opportunities
Diversification into logistics value-added services <ul style="list-style-type: none"> Provision of add-on value-added services to complement core logistics products is becoming increasingly common among large logistics service providers. 	<ul style="list-style-type: none"> Develop and roll-out new value-added services to Transnet's existing customer base and beyond (such as customs clearing, warehousing, financing, etc.).
Industry consolidation <ul style="list-style-type: none"> South Africa's logistics industry is consolidating with larger players acquiring small/niche players. This is primarily due to reduced payloads, low profitability levels and evolving customer preferences. 	<ul style="list-style-type: none"> Reduced number of small/niche players in South Africa's logistics sector. Possibilities for Transnet to acquire or partner with small/niche players.
Energy diversification <ul style="list-style-type: none"> Declining use of fossil fuels, particularly coal, and increased use of gas and renewables. New long-term mega investments in coal infrastructure are at risk. 	<ul style="list-style-type: none"> Develop infrastructure for uptake in gas and electricity generation, industry and transport. Expedite wayside battery storage for electric locomotive efficiencies.
Digitisation of operations <ul style="list-style-type: none"> Digitisation of operations via sensors, augmented reality, drones and robots and autonomous vehicles. Leveraging Big Data and analytics to improve operational efficiencies and processes. 	<ul style="list-style-type: none"> Exploitation of digital capabilities to offer value-added services to Transnet's existing customer base and to lower operating costs.
The 'uberisation' of freight <ul style="list-style-type: none"> Advances in 'uberising' the trucking industry are currently underway - this will result in lower operating costs for trucking companies. 	<ul style="list-style-type: none"> Implementation of a new business built on offering asset-light products and services (such as volume aggregators using third-party assets for shipments).

New strategy and supporting operating model

At the time of publishing this report, the organisation is principally concerned with preserving, repairing and strengthening its operational core by optimising and restoring its essential and vital operational capability.

Accordingly, the Board has determined that Transnet requires both a new strategy and supporting operating model to reposition the Company as the integral national asset that it ought to be. The following strategic objectives are at the core of the Board's decision:

- Align Transnet's strategy and operations to harness opportunities presented by global market trends.
- Ensure Transnet readies itself to survive and ultimately to thrive in the data-driven 4th Industrial Revolution.
- Re-emphasise the Company's developmental obligations.
- Improve visibility in all areas of the business to empower management to accurately diagnose operational challenges.
- Redefine lines of accountability and enforce consequence management to drive a culture of governance and performance excellence.
- Cultivate a workplace of safety, pride and ethics, where each employee can

appreciate their role in the greater aspirations of the Company and feel empowered to contribute to the collective vision.

As this process of optimisation and restoration gains momentum, the Company intends to build on its gains by growing the core beyond its current incarnation, investing in new growth areas adjacent to our core operations and exploring innovative opportunities across the logistics value chain. This will be achieved while increasing the scope of Transnet's participation in the overall logistics value chain as it capitalises on the trends of industry convergence and evolving integrated and potentially disruptive business models.

Material matters impacting our strategy

Changes in reporting on material aspects

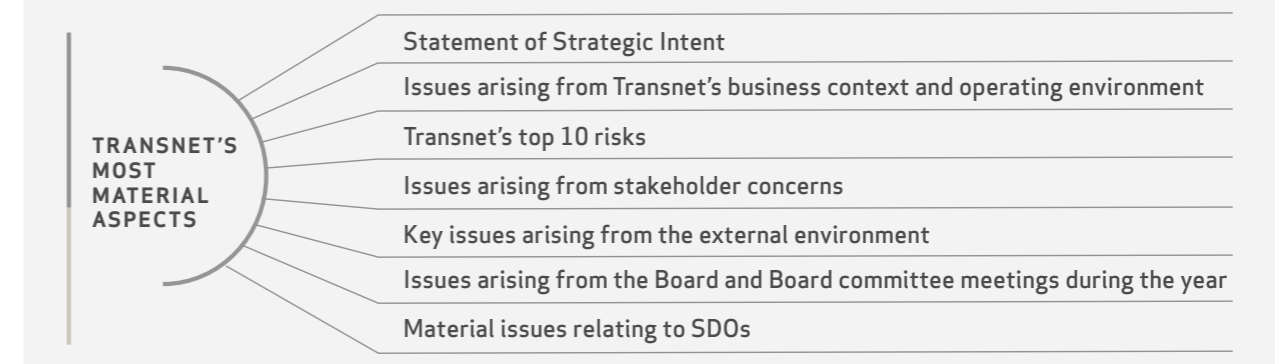
The Company is transitioning towards a less capital-intensive approach, focused on fixing, optimising and growing the core business while exploring growth adjacent to the core, using existing capabilities and assets as part of a revenue diversification thrust. At the same time, the transport and logistics industry, like others, is undergoing rapid changes driven by new technologies and business models and ever-increasing customer requirements.

Figure 3: The levels of accountability for identifying, validating and approving Transnet's material issues

Stage	Accountability	Criteria
Stage 1	Identification	Identification criteria <ul style="list-style-type: none"> Frequency of aspect being raised Relevance of topics to multiple stakeholders Applicability to Transnet's mandate, strategy and SDOs Efficacy of the Transnet control environment in mitigating associated risks Emerging risks
Stage 2	Validation	Validation criteria <ul style="list-style-type: none"> Actual incidents arising during the year Continuing applicability from the prior year Stakeholder inclusivity Management assessment, discussion and approval Appropriateness of the range of aspects to be covered in Transnet's integrated reporting process Severity of impact on the business* How and where material issues occur and their impact in terms of Transnet's reporting boundary Relevance within the 2019 reporting period
Stage 3	Prioritisation	Prioritisation criteria <ul style="list-style-type: none"> Align relevance of material aspects with boundary context Management perspective on impact and likelihood on Transnet's business context and strategy Alignment with top 10 risks Consideration of relevance both in terms of challenges and opportunities (i.e. overall impact on the Company's ability to create sustainable value)
Stage 4	Approval	<ul style="list-style-type: none"> Remuneration, Social and Ethics Committee (sustainability aspects) Risk Committee (all material aspects) Audit Committee (all material aspects) Corporate Governance and Nominations Committee (all material aspects) Transnet Board of Directors (all material aspects)

* Quantitatively measured in potential Rand impact and qualitatively measured in terms of value impacted (e.g. impact on reputation, natural capital, relationship capital and strategy).

Figure 4: The scope and boundary of our materiality determination process is shown below:







Material matters, opportunities and risks

Opportunities arising from material matters









Our material topics relate directly to matters that impact the performance of the core business, our strategic growth objectives and the Company's standing as a responsible corporate citizen.

Table 5: Opportunities arising from material matters

Material cluster: Ensure financial stability and sustainability in a tough economy  	
Material matters impacting on strategy	Opportunities
<ul style="list-style-type: none"> Improve financial performance Drive cost efficiency across all spheres of the business (cost optimisation) 	<ul style="list-style-type: none"> Exploring private sector partnership (PSP) opportunities to reduce funding and operational requirements and leverage the capabilities of partners for mutual benefit. Leveraging real estate, telecommunications and other diversified revenue streams in partnership with the private sector. Diversifying the property portfolio to maximise returns. Monetising the spare capacity on Transnet's optic fibre network with the potential to extend wireless network services. Enabling service scalability and leveraging an operating expenditure-based consumption model. Achieving cost efficiency through economies of scale and allowing Operating Divisions to focus on core business, continuous improvement and compliance through centralisation through Project Sisonke.
Material cluster: Create and maintain capacity to support growing demand for transport infrastructure  	
Material matter impacting on strategy	Opportunities
<ul style="list-style-type: none"> Less capital-intensive approach to capital investment in favour of sustaining infrastructure 	<ul style="list-style-type: none"> Increasing the Tarlton fuel storage and handling depot throughput to operate at maximum capacity through multimodal intakes and deliveries. Exploiting connectivity and computing power to enable real-time asset monitoring across all capital programmes. Developing capacity through new growth initiatives (e.g. Tambo Springs Intermodal Gateway; Ngqura Waste Treatment Facility for liquid waste from vessels; Natural Gas Networks of integrated port and pipeline infrastructure; and liquid fuels storage and pipelines to maximise the use of Transnet's liquid fuels infrastructure). Unlocking section 56 concession opportunities with the private sector to leverage investment in the port system (e.g. offshore supply base and LPG terminal in Saldanha; liquid bulk facilities and green ship recycling in Cape Town and the Port Elizabeth Waterfront project). Bolstering skills in gas operations to build capacity and experience for future gas terminals. Creating an oil and gas hub as well as rig repair facilities. Providing ship-to-ship operations outside ports. Exploring opportunities for back-of-port services to offer warehousing and value-add services in the container, mineral bulk and automotive segments. Offering tailor-made solutions to original equipment manufacturers (OEMs) in the automotive industry.
Material cluster: Improve operational performance in the core business  	
Material matters impacting on strategy	Opportunities
<ul style="list-style-type: none"> Greater customer-centricity Improve operational efficiency and effectiveness Focus on fixing, optimising and growing the core business Grow volumes Build market competitiveness for the Company and the country in regional and global markets 	<ul style="list-style-type: none"> Offering integrated customer end-to-end value propositions. Implementing new locomotive operational readiness plans – Krugersdorp, Springs, Polokwane, Phalaborwa and Empangeni – to retire older locomotives and cascading plans to other areas to harness new market opportunities (43D class locomotives to be cascaded to the ore line). Optimising key operational processes using digital technology to create real-time visibility for customers – with a 'one Transnet view' aggregated for the customer – enabling customers to track and trace commodities across the Transnet value chain (i.e. determining whether assets are in transit or in storage). Creating an e-commerce customer platform for easy onboarding and transacting. This platform could offer a service catalogue, spot quoting, service level agreements, contracting options and other value-added services such as crypto currency options. Improving port efficiencies by enforcing global-standard performance terminal oversight. Positioning Pipelines as an international best-in-class pipeline operator and offering subject matter expertise in the pipeline arena. Improving the utilisation of less-utilised assets – key corridors/certain wagon types for market growth.

Operating context continued

Material cluster: Ensure our activities result in sound socio-economic developmental outcomes (SDOs)  	
Material matters impacting on strategy	Opportunities
<ul style="list-style-type: none"> Develop skills Restore stakeholder confidence and trust in the Company Create shared value through Transnet's CSI initiatives Improve safety and environmental compliance Promote sound environmental stewardship (water, energy security, land usage and carbon mitigation) Promote transformation through localisation of supply Create shared economic value through private sector partnerships Contribute towards regional integration of the freight system 	<ul style="list-style-type: none"> Leveraging environmental friendliness of rail. Improving safety in operations through Transnet's Roadmap to Safety Programme, which aims to embed best practice safety standards. Leveraging our procurement spend to engage in specific supplier development initiatives, as well as generating economic value by optimising our sourcing strategies. Reducing cost, risk and inefficiencies while improving audit trails and compliance of environmental policies. Partnering with Government departments (e.g. the Department of Trade and Industry) to attract new OEMs. Exploiting regional integration opportunities – dredging and marine training (Maritime School of Excellence) in Africa SADC. Promoting the port of Ngqura as a transshipment hub for sub-Saharan Africa. Aggregating relevant transportation and logistics data from multiple sources in a connected transport ecosystem through the African Connected Transport Ecosystem.
Material cluster: Promote industrial development in the Developmental State  	
Material matters impacting on strategy	Opportunities
<ul style="list-style-type: none"> Invest in research and development and explore global-standard technological innovations Build a representative workforce based on equity and fairness Contribute to the transformation and growth of the South African economy 	<ul style="list-style-type: none"> Creating an e-commerce customer platform for easy onboarding and transacting. This platform could offer a service catalogue, spot quoting, service level agreements, contracting options and other value-added services such as crypto currency options. Harnessing the value of the Black Industrialist Programme to accelerate ESD efforts and accelerate the sourcing and development of black industrialists. Influencing industrialisation, beneficiation and development planning of special economic zones to develop capacity for rail volume growth. Investing in bimodal technologies and logistics real estate to contribute to intermodal capability corridor densification. Supporting mining companies that select to purchase their own rolling stock rather than relying on traditional railway operators. Exploring alternative uses for the Durban-Johannesburg Pipeline (DJP) (i.e. fibre and gas). Leveraging Transnet's position as the holder of a large property portfolio to positively influence the property industry. Leveraging blockchain technology for transport and logistics disruptive innovation.
Material cluster: Build a resilient business  	
Material matters impacting on strategy	Opportunities
<ul style="list-style-type: none"> Strengthen governance, compliance and risk management Enable access to network infrastructure Prepare the organisation and its employees for the 4th Industrial Revolution Improve business continuity following business disruption Build a high-performance and desirable organisational culture 	<ul style="list-style-type: none"> Utilising data analytics and intelligence to optimise resource planning and predictive maintenance. Taking advantage of digital-physical transformation to improve manufacturing productivity and inventory management (augmented reality). Leveraging virtual/augmented reality for operations innovation. Enabling predictive analysis through Artificial Intelligence for near to real-time decision-making. Extending line of business services to mobile end-point devices for continuous and increased productivity. Extracting data from strategic operational assets using IoT sensors to connect, collect, transmit and analyse key operational performance indicators. Integrating next-generation applications and analytics characterised by faster parallel processing, simplification and improved efficiencies. Automating seamless, efficient and effective processes to provide more strategic, transparent and value-added procurement services across Transnet.

Transnet's risk management process

 King IV. P11 & 12

Transnet has used a single risk framework to manage all business risks since 2007. While this framework is now established, we continue to promote a risk management culture across the organisation. The introduction of the Integrated Risk Management Policy in November 2017, however, paved the way for a more cohesive approach to risk management in the organisation.

The policy introduced risk management at three levels: strategic, tactical and operational. While the strategic and tactical risk management processes and methodologies are identical, the operational risk management process and methodology are somewhat different and tailored for the specific needs of risk assessments at the operations level. The Transnet Integrated Management System (TIMS) incorporates the operational risk management methodology into one of its core procedures.

The emergence of generally accepted corporate governance principles has seen risk management focus increasingly on Transnet's strategic objectives. Rather than merely striving for inherent efficiencies and operational performance, enterprise risk management (ERM) has now emerged as a function that can shape the strategic direction of the organisation. The risk management approach is evolving from a process and compliance focus to one of data-centricity.

Transnet's risk management architecture is based on the ISO 31000:2018 standard for the ERM process. There are two distinct but integrated cycles. The innermost cycle contains the approach that is core to the risk management process and provides the framework for managing risk on a day-to-day basis. Surrounding the tactical process is the strategic envelope which drives risk management according to business and strategic objectives, stakeholders' needs, our desired risk culture, appropriate organisational structure, plans for advancing risk management, integrated control assurance aspirations and the requirements of governance instruments and legislation.

Achieving best practice levels

 King IV. P11

To achieve best practice levels, the requirements of the guidelines of the King IV Report on Corporate Governance for South Africa, 2016 (King IV) and ISO 31000:2018 risk management standard are considered in Transnet's ERM approach. The strategic risk profile is based on Transnet's eight strategic focus areas, as expressed through the Shareholder's Statement of Strategic Intent.

During the 2018/19 financial year, we performed a formal review of the ERM framework and standards to address key improvements; assess alignment with COSO, ISO and King IV requirements; and to determine any emerging challenges facing the Transnet risk management function. An ERM audit was undertaken by Transnet Internal Audit (TIA) and a subsequent remedial action plan was developed to improve ERM within Transnet.

Adding value through ERM

 King IV. P4 & 11

The business development/accelerated investment model was developed with the Business Development team to filter new business opportunities using a risk and compliance lens. This model is being used at the Growth Investment Committee (GIC).

The risk and compliance function participates in the remedial plan relating to reported PFMA non-compliance: Lean Six Sigma study (the non-compliance root cause analysis) to facilitate improvements in Transnet's procurement process, and to integrate and map current assurance activities and lines of assurance against each step in the procurement processes.

The project risk and opportunity management methodology assists in providing contingency reserves for programme and project risks. The opportunities identified in projects serve as a basis for value engineering within projects.

year, with none of those risks being retired. The top 10 risks have remained relatively unchanged over the last five financial years, with the risks for 2019 financial year remaining the same as that of the prior year, however, the risk rankings have changed somewhat. Negative movements in rankings (consequence ratings) can be seen in respect of pricing risk, sustainability risk, people management risk and macroeconomic risk.

Transnet's pricing risk is attributed to the high cost of providing freight services, rendering pricing uncompetitive in certain commodities. This risk is driven by the nature of the fee structure that is not regulated within the rail and port operations, while the regulated pricing guidelines in the port and pipeline environments are not supportive of volume growth.

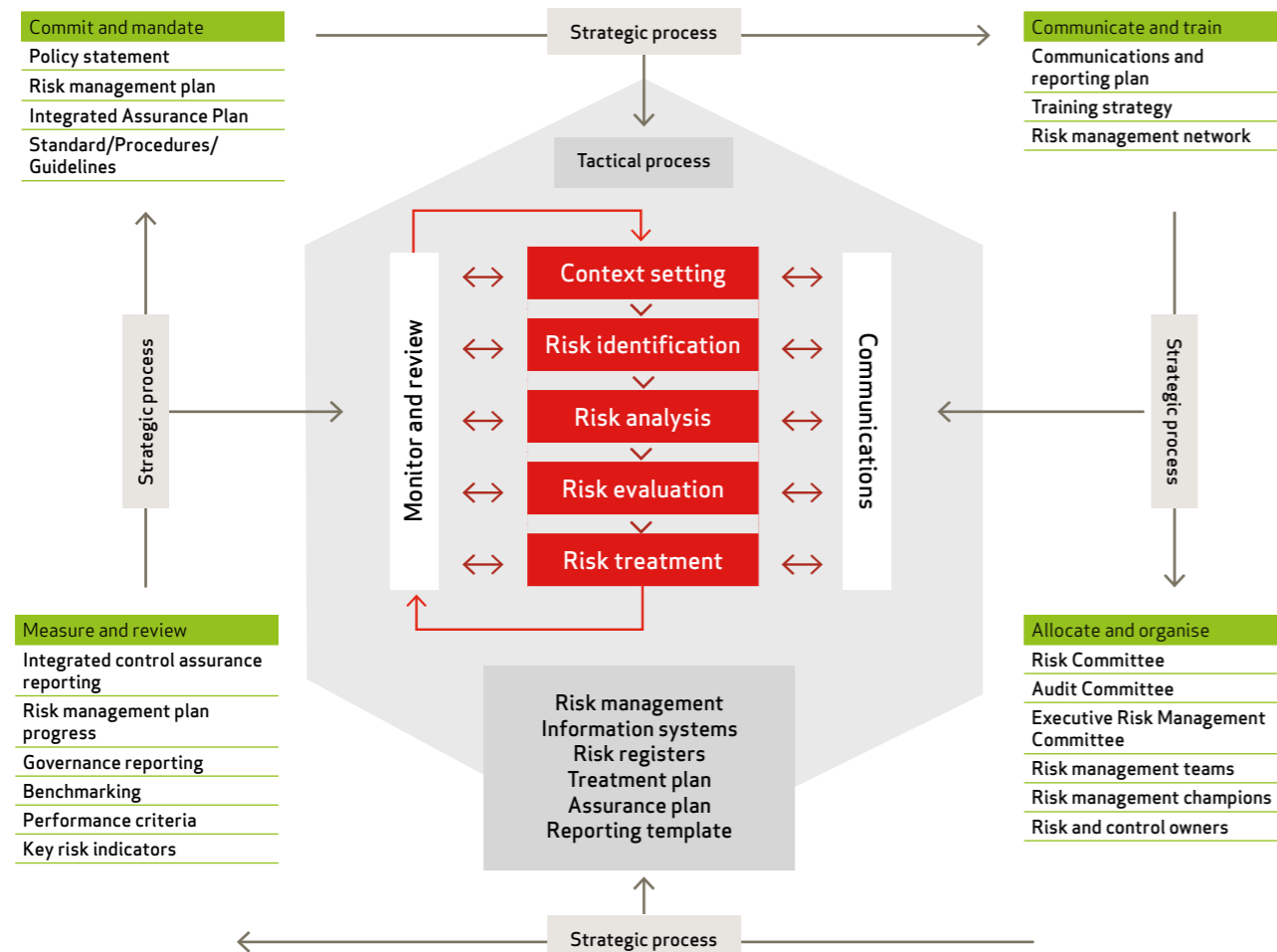
Transnet's sustainability risk is described in the context of inadequate energy supply, water shortage and the impact of adverse weather patterns on the operations of the business. To this effect, Transnet has already experienced two severe flood events in two consecutive years, the insurance claims of which amounted to R443 million. The uncertainty in the supply of energy by Eskom, the continued use of carbon-intensive energy sources, extreme drought and flood conditions are the drivers to this risk.

People management risk denotes the inadequate capacity and misalignment of skills to address current and future business demand. Despite present mitigating controls, a lack of workforce planning has resulted in continued exposure to inadequate capacity planning and misalignment of skills. In the context of the 4th Industrial Revolution, Transnet needs to reskill the labour force to be responsive against a backdrop of increasing labour activism.

Macroeconomic risk is attributed to the deterioration in the macroeconomic environment due to global economic slowdown, concentration risk and dependency on five key commodities, i.e. coal, iron ore, fuel, containers and manganese. Risk drivers include Transnet's high dependency on the mining sector and the fact that previous investments were informed by these key commodities.

While the ranking for the operational efficiency risk remained the same, there is still a risk exposure that inefficiencies and high costs in the value chain can lead to lower volumes and financial instability. Risk drivers include non-availability of operating assets, ineffective rail and port planning as well as ineffective value chain co-ordination among other exposures.

Figure 5: Risk management process and architecture



Transnet's key strategic risk movements

The 2019 review of Transnet's top 10 risks was premised on the previously identified strategic risks of the prior

Figure 6: Transnet's top 10 material risks for 2019 and the year-on-year movement of the top 10 risks from the prior year

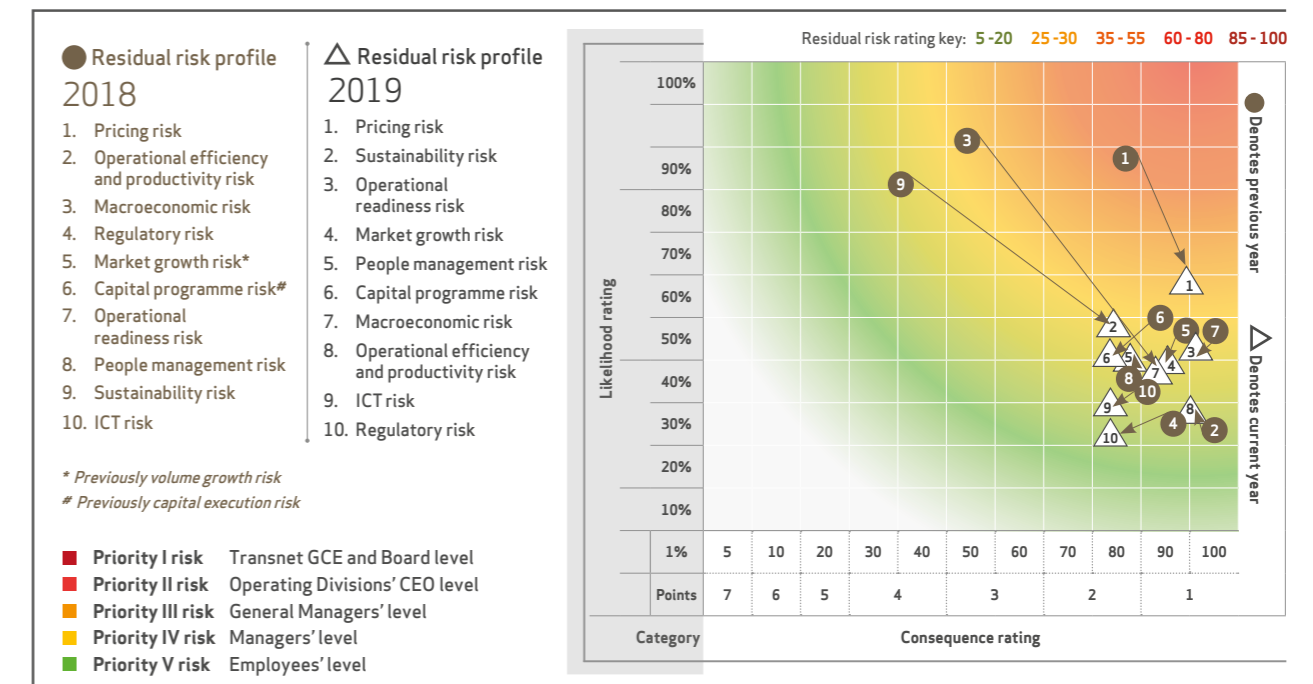


Table 6: Root causes of risks and value impacted

Risk description	Inherent risk Residual risk	Root causes of risks	Value impacted	Activities to manage risk
1. Pricing risk The high cost of rendering freight services is rendering prices uncompetitive in certain commodities (commercial pricing risk (Competition Act, No 89 of 1998)) 		<ul style="list-style-type: none"> Non-regulated pricing models and methods are not flexible enough to be competitive Regulated pricing – tariff guidelines not supportive of volume growth 	<ul style="list-style-type: none"> Not meeting planned volume growth Impacting adversely on financial results Slowing down the road-to-rail strategy 	Regulated pricing controls: <ul style="list-style-type: none"> Build relationships with regulators and Government departments Conclude multi-year tariff agreements with the National Energy Regulator of South Africa and the Ports Regulator of South Africa Non-regulated pricing controls: <ul style="list-style-type: none"> Conclude take-or-pay contracts (certainty around price per volume for major customers, including iron ore, manganese and coal segments) Introduce pricing predictive models that consider cost recovery and adequate returns to determine pricing Integrated pricing methodologies to be applied across Operating Division
2. Sustainability risk Energy supply, water shortage and adverse weather patterns 		<ul style="list-style-type: none"> Absence of sufficient sub-stations along the network Water shortage in certain geographical areas Adverse weather patterns resulting in strong winds and torrential rain 	<ul style="list-style-type: none"> Operational disruptions Handling of certain commodities adversely affected (i.e. saw dust at Port of Richards Bay) Safety incidents: loss of life and damage to equipment 	<ul style="list-style-type: none"> Execute the port climate response strategy that focuses on adopting a holistic cross-sector approach in building resilience Continuously identify opportunities for the introduction of renewable energy sources e.g. rooftop solar photovoltaic and wayside energy storage systems for traction Ensure compliance with energy-efficiency targets, energy-saving initiatives and consumption reporting across the Company Improve the understanding of water challenges and contribute to the development of effective response strategies through participating in Carbon Disclosure Projects (CDPs) worldwide water initiatives Implement integrated business continuity plans across the value chain
3. Operational readiness risk Misalignment between operational readiness and new assets 		<ul style="list-style-type: none"> Operations not ready to operate the newly-acquired assets in terms of training drivers and maintenance staff, upfront spares, tools and facilities Alignment across the value chain between Operating Divisions and Specialist Units 	<ul style="list-style-type: none"> Delays in the deployment of newly-acquired rolling stock Reduced availability of rolling stock Lower productivity 	<ul style="list-style-type: none"> Execute the locomotive execution strategy – four-tier governance structure (Executive Sponsor, Steering Committee, Locomotive Owners Team, Programme Director) Integrate capital project planning to ensure alignment across the value chain Perform operational readiness plans in preparation for locomotive deployment (e.g. training train drivers and maintenance staff, acquisition of upfront spares, tools and facilities) Implement the locomotive deployment plan
4. Market growth risk Inability to attract and sustain additional volumes as new capacity is created and protecting current volumes against new entrants and customer activism 		<ul style="list-style-type: none"> High reserve stock levels of some commodities Current customers in financial distress Pricing not integrated across the organisation Inflexible pricing strategies do not compete with rivals in new markets 	<ul style="list-style-type: none"> Not meeting planned revenue diversification opportunities Stranding and under-utilisation of newly-acquired assets Reduced volumes from current customers 	<ul style="list-style-type: none"> Refocus the Company on diversification initiatives Explore alternative income streams as part of Transnet's leadership reshape Develop and maintain strategic customer engagement plans, including onboarding of new customers with greater speed Enhance key account management to ensure service consistency and proactive customer communication
5. People management risk Inadequately skilled staff in operations not skilled for future operations 		<ul style="list-style-type: none"> Operational staff not skilled for future operations Lack of scarce skills in the job market Not actively managing skills development 	<ul style="list-style-type: none"> Delayed benefits realisation of new technologies Retraining of current employees Reliance on external skills 	<ul style="list-style-type: none"> Implement a compelling employer brand proposition Compile the strategic workforce plan to determine long-term and temporary skills requirements (differentiate scarce skills) Develop short-, medium- and long-term skills development strategies i.e. create partnerships with educational institutions or programmes to improve the supply of scarce skills Initiate differentiated recruitment, talent and compensation strategies to attract and retain scarce skills

- **Priority I risk** Transnet GCE and Board level
- **Priority II risk** Operating Divisions' CEO level
- **Priority III risk** General Managers' level
- **Priority IV risk** Managers' level
- **Priority V risk** Employees' level

Risk description	Inherent risk Residual risk	Root causes of risks	Value impacted	Activities to manage risk
6. Capital programme risk Not realising the benefits from the capital investments 		<ul style="list-style-type: none"> Expected market demand not validated sufficiently Lower economic activity both locally and internationally leading to a lack of market demand Delays in the execution of capital projects 	<ul style="list-style-type: none"> Not generating adequate cash flows to contribute to future capital expenditure Stranding and under-utilisation of newly-acquired assets 	<ul style="list-style-type: none"> Validate business cases prior to investment decisions Update and monitor the portfolio on a quarterly basis and rebalance if required Exhaust operational efficiency improvements prior to capital investment decisions Consider full asset lifecycles during strategic fleet planning Develop clear principles and guidelines around replace/repair/refurbish decisions Apply design to cost principles throughout the lifecycle of programmes/projects Design and develop assets with flexible and scalable solutions Structure the Capital Investment team to provide integrated portfolio views of capital investments and execution Align delegation of authority, role profiles and programme and project governance structures to ensure effective implementation of the new Capital Operating Model Establish and resource Centres of Excellence to support the Capital Operating Model
7. Macroeconomic risk Deterioration in the macroeconomic environment due to global economic slowdown and slow recovery leading to capital projects becoming economically non-viable 		<ul style="list-style-type: none"> Global economic slowdown and concomitant slow recovery Local economic policy uncertainty Weakening of local currency 	<ul style="list-style-type: none"> Capital projects becoming non-viable Increased cost for the replacement of current assets and acquisition of spares Possible Sovereign credit rating downgrades 	<ul style="list-style-type: none"> Comply with the Treasury Financial Risk Management Framework Adopt the Long-term Planning Framework Develop and maintain strategic customer engagement plans Consider international demand for raw materials through the annual Corporate Plan and budgeting process Implement more robust corporate planning and budget processes
8. Operational efficiency and productivity risk Inefficiencies in the value chain leading to lower volumes and financial instability 		<ul style="list-style-type: none"> Ineffective value chain co-ordination Ineffective rail and port planning Asset availability and reliability concerns 	<ul style="list-style-type: none"> Lower volumes Financial instability Reduced asset performance Adversely affecting service delivery levels 	<ul style="list-style-type: none"> Fully implement and utilise operational and improvement systems in Operating Divisions Develop a capacity versus demand model for ports that addresses holistic operations of ports and review all port development framework plans Implement a regional economic integration programme and memorandums of understanding to co-ordinate regional cargo flows through South African ports Embed a culture of risk management in the decision-making process Ensure integrated planning between the Operating Divisions and industry to create contingent capacity in the event of capacity outages
9. ICT risk Inadequate information and communication infrastructure and technology to enable business and to deal with disruptive innovation 		<ul style="list-style-type: none"> Organisation not ready to embrace disruptive technologies Current ICT solutions not integrated Funding constraints 	<ul style="list-style-type: none"> Business is not enabled to deal with disruptive innovation Delayed implementation of new technologies Reskilling of Human Resources required Delayed commercialisation of digital solutions 	<ul style="list-style-type: none"> Effective implementation plans (people, systems and processes) for the IT strategy Ensure the convergence of IT systems to improve visibility of information between Operating Divisions Implement two-way ICT disaster recovery plan Continue with the legacy (systems) renewal process to phase out outdated systems and technologies Implement systems automation strategies to streamline processes
10. Regulatory risk Changes in the regulatory environment i.e. economic, technical and compliance: spending on capital investment based on assumptions that may be negatively impacted by subsequent changes in regulation 		<ul style="list-style-type: none"> National policy changes anticipated in terms of economic regulation National Treasury increasing procurement controls to contain uneconomical spend and opportunities for fraud 	<ul style="list-style-type: none"> Spending on capital expenditure based on assumptions may be negatively impacted by subsequent changes in regulation Compliance requirements becoming more onerous Local policy uncertainty 	<ul style="list-style-type: none"> Initiate regular engagement with relevant Government departments/regulators to ensure alignment between strategies Regularly analyse and monitor the regulatory landscape Develop and maintain minimum control frameworks in response to procurement legislation

Emerging sustainability risks



Transnet faces various strategic, operational and sustainability-related emerging sustainability risks which are likely to impact the organisation going forward. These risks relate in part to environmental and market factors that fall outside of Transnet's locus of control, such as climate change events, community unrest and unforeseen disruptive technological developments in the freight and logistics sector. We have, however, also observed emerging risks in our operational environment that require greater attention in the short to medium term, as detailed in the table below:

Table 7: Emerging sustainability risks for 2019

Emerging risk	Key root causes	Mitigating controls	Anticipated outcomes
Damage to infrastructure and safety of employees due to extreme weather events	<ul style="list-style-type: none"> Climate change adaptation: extreme weather events and weather volatility 	<ul style="list-style-type: none"> Develop and implement a climate change adaptation strategy Quantify revenue at risk Develop and implement resilience projects Hazard management through business continuity 	<ul style="list-style-type: none"> Decrease damage to infrastructure through adaptive planning Increase safety of employees
Global decrease in thermal coal, iron ore and petroleum demand due to international agreements to reduce carbon emissions thereby impacting on revenue	<ul style="list-style-type: none"> Climate change mitigation: structural changes in commodity demand 	<ul style="list-style-type: none"> Long-term take-or-pay contracts are in place for the export iron ore and coal flows A planned transition to mitigate stranded rail and pipeline capacity by diversifying future revenue streams 	<ul style="list-style-type: none"> Long-term business sustainability
Negative impact on road-to-rail modal shift	<ul style="list-style-type: none"> Autonomous road freight systems 	<ul style="list-style-type: none"> Research and development into possible technology solutions to mitigate risk of autonomous trucks displacing rail 	<ul style="list-style-type: none"> Maintain market competitiveness
Risk of inadequate skills and competencies to fully respond to 4th Industrial Revolution business models	<ul style="list-style-type: none"> New competencies required to navigate 4th Industrial Revolution 	<ul style="list-style-type: none"> Centres of Excellence being established to respond to 4th Industrial Revolution prerequisites 	<ul style="list-style-type: none"> Long-term business sustainability
Water shortage impacting on: - Operations - Employees - Health and hygiene - Customers and supply chain	<ul style="list-style-type: none"> Drought and water restrictions increasing in frequency Ports of Saldanha, Port Elizabeth and Richards Bay also at risk 	<ul style="list-style-type: none"> Development and implementation of the water strategy to address the following: <ul style="list-style-type: none"> Alternative water sources Water conservation Communication and awareness campaigns 	<ul style="list-style-type: none"> Uninterrupted water supply Healthy and hygienic work environment Establish security of supply for Transnet
Amplifying community discontent due to Transnet not meeting community demands in respect of job and business opportunities, thereby resulting in operational disruptions	<ul style="list-style-type: none"> Social activism 	<ul style="list-style-type: none"> Implementation of the Community Investment Plan to respond to community grievances Appointment of community liaison officers and regional co-ordinators Establishment of community engagement structures at district municipality level Implementation of the community grievance mechanism through a toll-free hotline 	<ul style="list-style-type: none"> Social licence to operate Minimal disruptions to operations Upliftment of communities in close proximity to our operations
Loss of trust in the integrity of Transnet governance processes resulting in reputational damage	<ul style="list-style-type: none"> Increasing expectation from stakeholders for transparent decision-making and accountability 	<ul style="list-style-type: none"> Visible and measurable enhancement of internal governance and control environment Implementation of the Stakeholder Engagement and Management Procedure and the Transnet Stakeholder Improvement Plan Appointment, training and capacitation of stakeholder relationship owners who manage and build relationships with stakeholders and understand stakeholder needs and expectations 	<ul style="list-style-type: none"> Improved reputation for Transnet

Operating context continued

The infographic that follows, titled 'Emerging sustainability risks and opportunities', provides a 30-year perspective of Transnet's changing operating environment, in which the business adapts to changing social and environmental conditions, new technologies to mitigate perceived risks in the natural environment and to bring new and often 'disruptive' solutions to operational challenges across the freight and logistics landscape.

Risks taken outside of tolerance levels



The desired control effectiveness is decided by risk sponsors/owners, assuming that all additional mitigation has become effective at some planned future date. The level of desired control effectiveness is based on considerations such as the extent to which the root causes, consequences or likelihood of the risk materialising can be controlled.

Due consideration is also given to the cost benefit analysis when deciding on the scope for further control and risk treatment.

The risk sponsors/owners consider closing the gap (if any) between the actual control effectiveness and the desired control effectiveness when deciding on risk response strategies. The top five residual risks are therefore tolerated for being outside the generic tolerance levels. This is largely due to the influence of external factors on these risks.

Transnet's risk control and assurance environment



Integrated Assurance Model for capital projects and programmes

Management is in the process of reviewing and embedding an integrated control assurance process that provides a clearly defined, documented approach for integrating and aligning Transnet's assurance processes and control systems thereby enabling appropriate risk and governance oversight.

Figure 7: Integrated Capital Projects/Programme Assurance Framework (ICPAF)



Key focus areas for 2020

The key thrust of the risk management plan is to inculcate a vigilant risk culture within the organisation as per the risk management plan in the Corporate Plan. This plan articulates the key objectives for 2020 as follows:

- To fully integrate risk management considerations into strategic and tactical management and provide risk intelligence that drives continuous improvement of the control environment.
- To ensure a consistent approach to project risk and opportunity

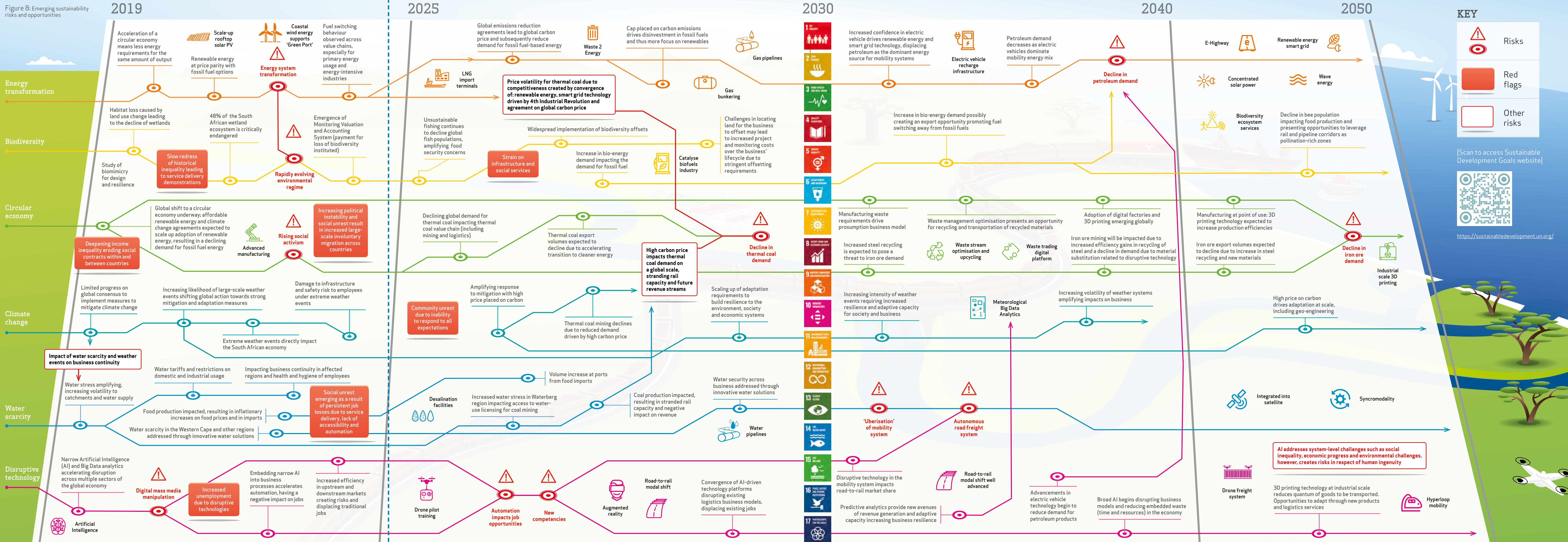
management across all capital projects and the standardisation of models used for assessing project risk and opportunities.

- To assist the Board, governance structures and management to understand whether:
 - Business has been conducted in compliance with applicable regulatory requirements;
 - Compliance risks have been adequately and effectively managed; and
 - Organisational structures have effectively and consistently implemented and applied the

compliance policy, framework methodology and processes.

- To eliminate duplication in assurance coverage and improve risk governance.
- To increase awareness of insurance cover through increasing accountability on incidents that give rise to increased claims that affect the premium.
- To increase awareness, ensuring overall visibility, accountability and compliance with PFMA requirements and provide systems and processes to enable effective, efficient and timely reporting.

Figure 8: Emerging sustainability risks and opportunities

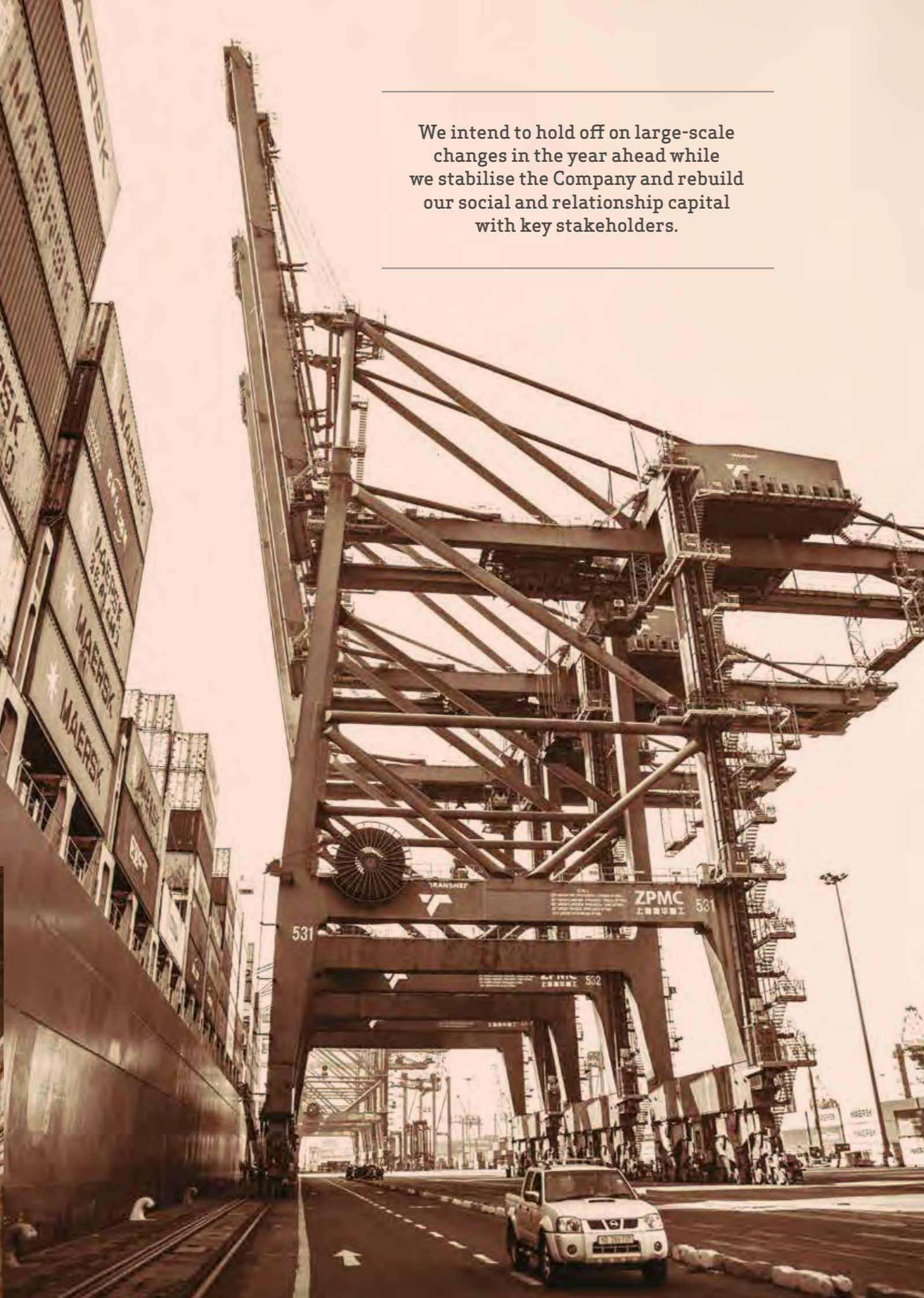
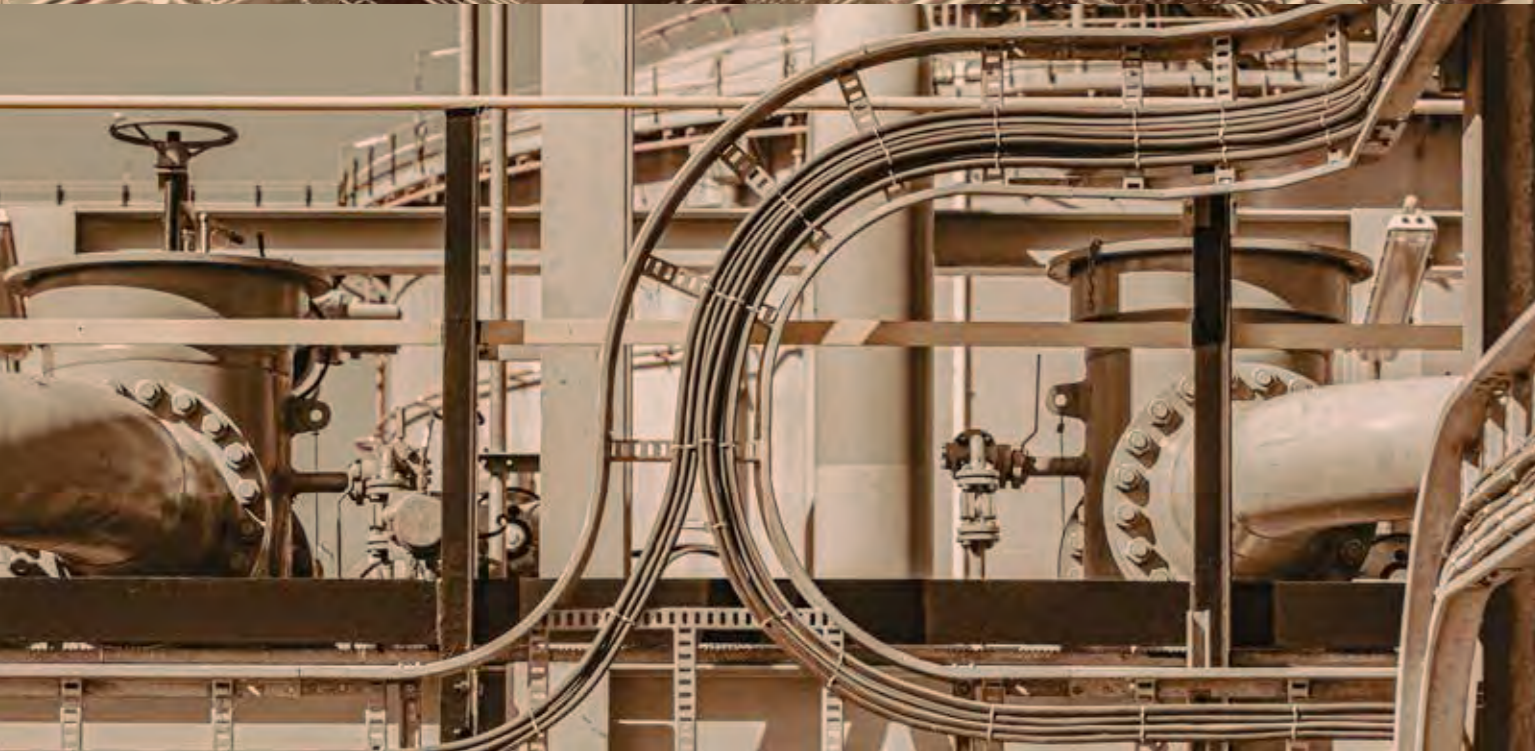


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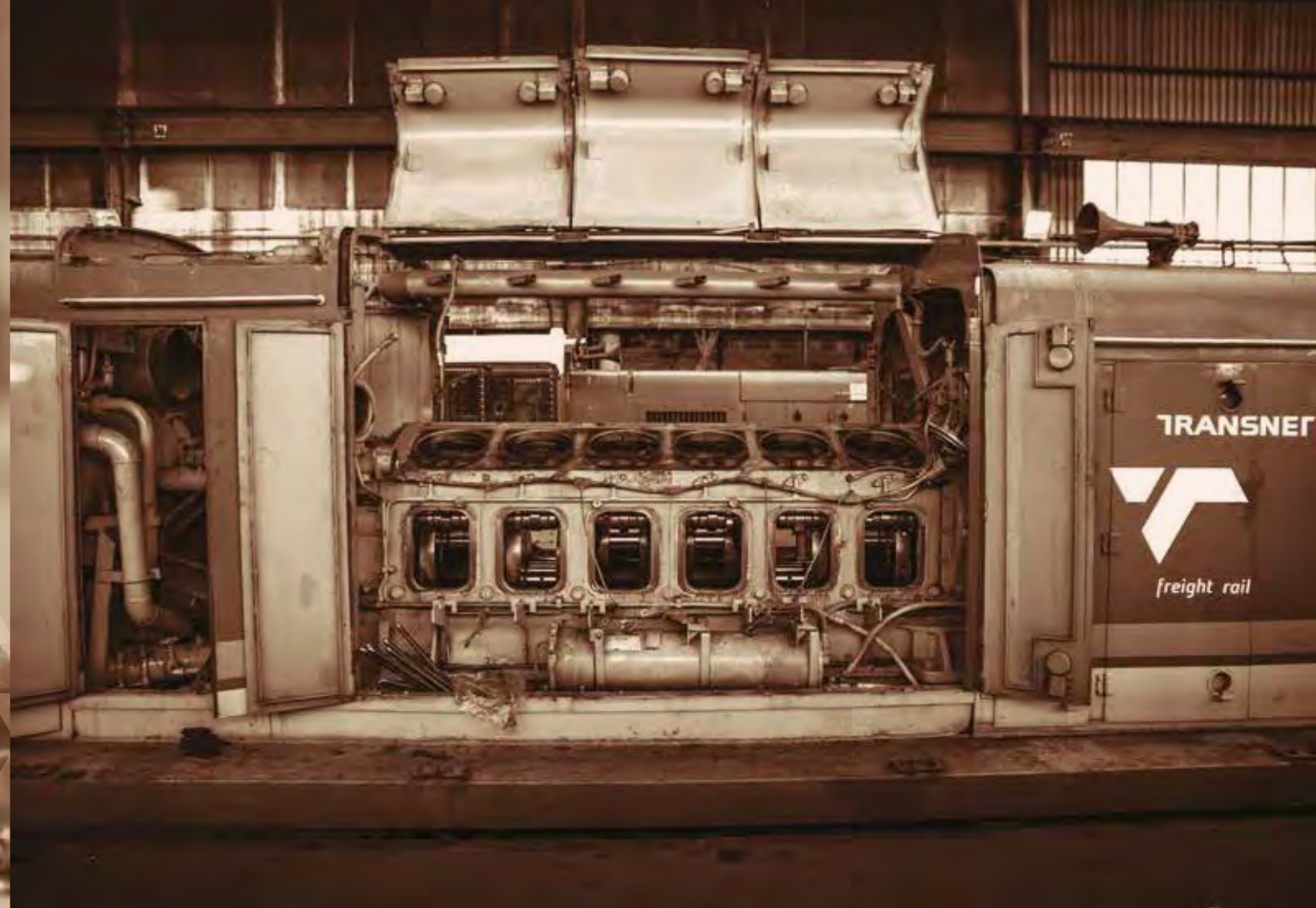
- Risks
- Red flags
- Other risks

[Scan to access Sustainable Development Goals website]

<https://sustainabledevelopment.un.org/>



We intend to hold off on large-scale changes in the year ahead while we stabilise the Company and rebuild our social and relationship capital with key stakeholders.



Addressing stakeholder interests

Our stakeholder universe



King IV. P16

We recognise the critical value of good stakeholder relationships in ensuring that the Company operates optimally to achieve its mandate. As such, we continue to strive to improve the ways in which we engage and communicate with our stakeholders. During the year, we reviewed our stakeholder universe, which comprises 17 stakeholder categories that have the potential to affect or be affected by the organisation's activities. These categories of stakeholders also have the power to influence our business, both positively and negatively.

We promote an inclusive approach when engaging our material stakeholders. We align as far possible to the King IV Code in executing our mandate and attempt to consider all legitimate and reasonable needs, expectation and interests of all our material stakeholders. We continue to improve the quality of our stakeholder relationships and are guided by the Stakeholder Engagement Policy and Stakeholder Engagement Management Procedure in our endeavours. Together, they provide a methodical, company-wide approach to managing stakeholder engagements. These engagements range from formal, daily communication with stakeholders to responding to crises.

Transnet's detailed Stakeholder Engagement Report for the 2019 financial year is available online at www.transnet.net.

2019 Multi-Stakeholder Perception Survey



King IV. P16

The Remuneration, Social and Ethics Committee (REMSEC) of the Board of Directors oversees Transnet's stakeholder relationship management. To execute this duty, the REMSEC resolved that Transnet conducts a Multi-Stakeholder Perception Survey every two years to independently gauge how the organisation is perceived by its stakeholders. Over and above gauging perception, Part 5.5 of the King IV Report provides inter alia that:

5.1 (4e) "The governing body shall oversee stakeholder relationship management, including the measurement of the quality of relationships and resultant appropriate responses."

The 2019 Multi-Stakeholder Perception Survey covered 14 of the 17 stakeholder categories as per our stakeholder universe.

The sample size (n) for the survey was 450, a 66,6% increase from the 150 respondents in the 2016/17 financial year survey, owing to the inclusion of employees which comprised both management and non-management (n=300). The results of the survey are conclusive given that, of the 450 participants surveyed, 89,7% (404) reported that they have been active stakeholders to Transnet (whether passively or involved) for a period of more than two years, while the remaining 10,3% (46) have been stakeholders for less than two years. We recorded a 100% response rate across all questions. A summary of results of the survey is provided below and can be read in full in the detailed Stakeholder Report on Transnet's website at www.transnet.net.

Results of the 2019 Multi-Stakeholder Perception Survey

The overall quality of Transnet's engagement during the 2019 financial year was measured at 65%, reflecting a 5% improvement from the previous survey (2018: 60%). We also recorded good performance overall in terms of the quality of our stakeholder relationships, with 75% of survey participants indicating an overall good quality of their relationship with Transnet. The results

reflect the new Board's ongoing efforts to re-engage stakeholders in a genuine spirit of collaboration, transparency and good corporate citizenship.

Regulators (n=5) noted an overall improvement in their relations with Transnet, with at least 80% of participants indicating a very high improvement in engagements. This can be attributed to the numerous engagements with the Railway Safety Regulator and Ports Regulator to manage issues relating to the Railway Safety Permit and the tariff applications. Further, Transnet has made progress with environmental regulators through bilateral/multilateral engagements to streamline processes relating to regulatory requirements, especially relating to Environmental Authorisations and Atmospheric Emission Licences.

Financial institutions (n=20) also expressed a good level of satisfaction with Transnet's engagement efforts. Overall, aspersions cast against Transnet's governance processes and prolonged investigations into corruption have resulted in a high level of doubt in the integrity of the organisation's leadership. Transnet has however, made good progress in rebuilding trust with lenders through continuous open engagements as part of the remedial plan developed in response to the qualified audit opinion, financial control environment and other governance matters.

Employees reported a high level of dissatisfaction and weakening of relations. This stakeholder category (n=300) comprised both management and non-management. Only 24% of employees rated the quality of their relationship with Transnet as an employer as good, citing the following issues:

- Dissatisfaction with issues relating to lack of uniformity in the application of policies and procedures.
- Lack of recognition, talent nurturing and reward.
- Poor and ineffective communication.
- The lack of transparency and consultation with respect to the new operating model.
- Job security.

Communities (n=21) cited issues pertaining to lack of access to business and job opportunities, requesting that they be more engaged, and that certain opportunities be ring-fenced for those in close proximity to our operations. Accordingly, Transnet held numerous

engagements with communities, business forums and the Amakhosi (community leadership) in those regions during the reporting period to establish formal structures to manage these needs and expectations.

Engaging our stakeholders on the new Transnet strategy



King IV. P16

Transnet's new strategy will be implemented through a new operating model that places customer-centricity, operational excellence, financial sustainability and integration at the core of the business. Accordingly, Transnet's stakeholder engagement strategy is being adapted to share the key tenets of the strategy with material stakeholders.

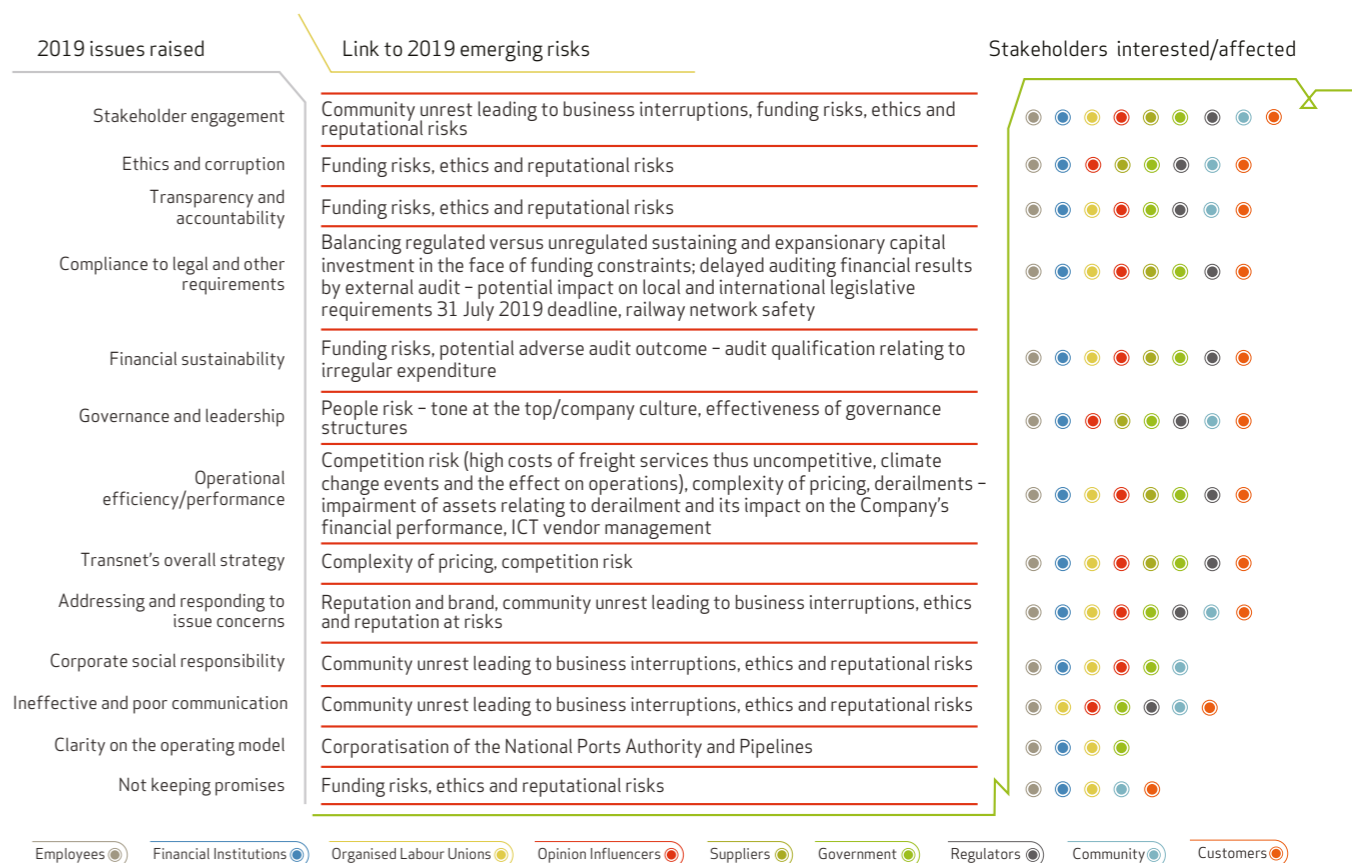
The stakeholder engagement strategy is designed to be transparent, and to reach stakeholders through the communication

channels that work best for them. Our messaging intends to contextualise the new business strategy within the present business environment, our historical context and the broader market, and to make it understandable, accessible, and implementable across Transnet.

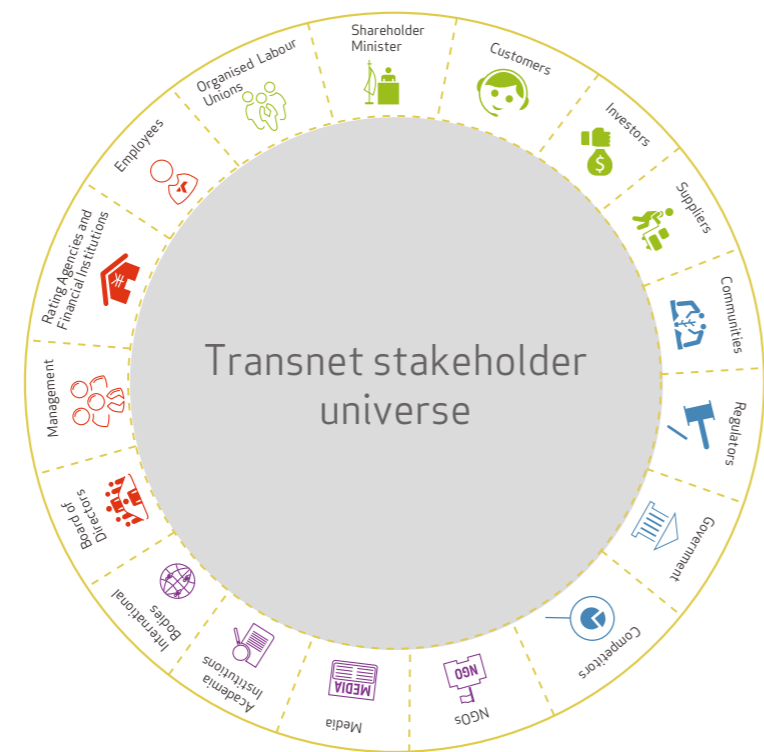
During the year, greater emphasis was placed on actively engaging with stakeholders. The newly-appointed Board worked persistently to rebuild and regain confidence with our stakeholders. The Board hosted its first stakeholder breakfast with financial institutions, investors, business organisations and the media, with the objective of updating the South African public on the status of our business, our commitment to transparency and good governance, and our commitment – as the Board – to stabilise the organisation.

Transnet further held numerous employee engagement sessions across the business to share the Board's vision and to provide a platform through which employees can engage with the Company's leadership.

Figure 9: Key issues/concerns impacting stakeholders during the 2019 reporting period



Operating context continued



Addressing key stakeholder concerns



Table 8: Key issues arising from our 2019 Multi-Stakeholder Perception Survey

Stakeholder categories: Employees and Management		
Engagement frequency and communication vehicles: <ul style="list-style-type: none"> • Frequency: Periodically • Vehicles: Newsflashes, email, staff broadcasts, roadshows and meetings 		
Reasons for engaging with employees and management	Key engagements in 2019	Key issues/areas of interest
<ul style="list-style-type: none"> • Understand and respond to the needs and concerns of our employees. • Ensure that we remain an employer of choice by providing a conducive working environment. • Share the strategic direction of the Company. • Share the performance of the Company. 	<ul style="list-style-type: none"> • The Acting Group Chief Executive held numerous employee engagement sessions across Transnet between November 2018 and March 2019. • Transnet launched the Employee Value Proposition and Values Cascade session in November 2018. 	<ul style="list-style-type: none"> • Lack of consequence management • Transparency and accountability • Uniform application of policies and procedures • Female representation at top management level • Uncertainty about the new operating model • Job security
Our responses: <ul style="list-style-type: none"> • We issued precautionary suspension letters to employees who have been implicated in allegations of corruption through internal audit and forensic reports. • We are providing refresher training to management and bargaining unit employees at Transnet Group Services on the talent management process – concept, methodology and the role of both management and employees throughout the process. • We provided training on Performance Management and Contracting to management in February 2019. • We are establishing a central human resources approach – Project Sisonke – which structures support services of human resources into a shared service model across operations to uniformly apply procedures and policies. • We provided fraud awareness training to employees. 		
Stakeholder categories: Investors and Rating Agencies and Financial Institutions		
Engagement frequency and communication vehicles: <ul style="list-style-type: none"> • Frequency: Periodically, annually, quarterly and bi-annually • Vehicles: Meetings, email, telecons and formal letters 		
Reasons for engaging with investors and rating agencies and financial institutions	Key engagements in 2019	Key issues/areas of interest
<ul style="list-style-type: none"> • Ensure good governance and deepen trust. • Manage investor expectations and reputational risk. • Provide performance information. • Inform them about our strategy, governance, capex plans, funding needs and credit information. • Meet with credit rating agencies for liquidity reviews. 	<ul style="list-style-type: none"> • Transnet hosted a stakeholder breakfast in February 2019 with financial institutions, investors, businesses and the media to demonstrate its commitment to transparency and good governance as well as the Board's commitment to stabilising the Company. This was followed by a roadshow (London/Frankfurt) to update our international lenders and investors. • Quarterly engagements with lenders focused on the 2018 financial year's qualified audit opinion, financial controls (remedial action) and governance matters. • Transnet met with key global players at the World Economic Forum to attract investment. 	<ul style="list-style-type: none"> • Accountability • Leadership stability • Transnet's overall strategic direction • Financial sustainability • 2018 financial year's qualified audit opinion • Financial control environment • Governance matters • Ethical leadership
Our responses: <ul style="list-style-type: none"> • We have implemented a remedial plan that was shared with lenders affected by the audit qualification event, and with other lenders and stakeholders such as rating agencies. The remedial plan focuses on ensuring completeness of reporting on irregular expenditure as well as developing additional controls to prevent irregular expenditure from recurring. • We launched an investor portal in December 2018 to provide targeted interim performance information via a quick access online mechanism. • We continue to regularly engage with lenders and investors, providing updates on our performance and funding needed. 		

Stakeholder categories: Shareholder Minister and Board of Directors		
Engagement frequency and communication vehicles: <ul style="list-style-type: none"> • Frequency: Periodically, annually and quarterly • Vehicles: Memoranda, letters, meetings and telecons 		
Reasons for engaging with the Shareholder Minister	Key engagements in 2019	Key issues/areas of interest
<ul style="list-style-type: none"> • Negotiate and conclude the Significance and Materiality Framework detailing how to address significant transactions for ministerial approval or noting. • Conclude the Shareholder's Compact between July and December annually. • Report on the Company's performance against the Shareholder's Compact and share the strategic direction and goals of the Company. 	<ul style="list-style-type: none"> • Engagement on and approval of the Significance and Materiality Framework. • Engagements on the strategic outlook of the Company considering the winding down of the Market Demand Strategy – as part of the new strategy formulation. • Negotiation of the 2019/20 Shareholder's Compact. • Reporting of interim results in September 2018. • Board strategy session in November 2018 to review Transnet's financial and operational performance. 	<ul style="list-style-type: none"> • Mainstreaming of private sector partnerships (PSPs) • Development of the new strategy • Development of the new operating model • Operational and financial performance • Linking incentives to performance and audits • Corporate governance issues
Our responses: <ul style="list-style-type: none"> • We have started discussions on possible projects to be set aside for PSPs. • We have assembled a team to focus on the development of the new strategy and operating model – this process is ongoing. • We are instituting mechanisms to improve performance, including initiatives to recover lost volumes from the first quarter and broadly reconfiguring the Company to align with customer requirements. • We are including a clause in the 2019/20 Shareholder's Compact to set out parameters for the treatment of the incentive regime. • We have instituted mechanisms to improve corporate governance, including lifestyle audits, co-operation with the Zondo Commission of Inquiry and are acting on the forensic reports commissioned by the Company. • The Group Leadership Team was dissolved and an interim Executive Committee was established to stabilise the Company and to introduce a renewed focus on organisational performance. 		
Stakeholder category: Customers		
Engagement frequency and communication vehicles: <ul style="list-style-type: none"> • Frequency: Annually, bi-annually, periodically, quarterly and ad hoc • Vehicles: Customer Satisfaction Survey, letters and telecons 		
Reasons for engaging with customers	Key engagements in 2019	Key issues/areas of interest
<ul style="list-style-type: none"> • Obtain feedback on perceived service quality through the Customer Satisfaction Survey. • Participate in sector events, such as the African Mining Indaba as platforms to connect with current and potential customers. • Engage customers through customer breakfast sessions to demonstrate commitment to gauging and responding to their needs and concerns. • Address service offering matters through the Customer Nerve Centre. 	<ul style="list-style-type: none"> • The Board led an engagement with customers, business organisations and media in East London, where a Memorandum of Understanding (MOU) was signed with the Buffalo City Metropolitan Municipality and East London Industrial Development Zone (IDZ) to harness the potential of the Port of East London and the IDZ to foster economic growth in East London. • The Acting Group Chief Executive spoke at the African Mining Indaba where he shared the Company's long-term vision to facilitate an integrated freight logistics system in Africa. • Transnet participated in the South African Production and Inventory Control Society which took place from 10 to 13 June 2018. 	<ul style="list-style-type: none"> • Competitive pricing • How Transnet can collaborate with customers and partners early on in projects to make them 'bankable' • Reducing the cost of logistics • Customer service • Low levels of trust in our ability to deliver services reliably • Poor customer communication • Declining rail performance levels and poor port productivity resulted in industry and customer complaints • Lack of integration on key customer touchpoints
Our responses: <ul style="list-style-type: none"> • We continue to engage with customers outside of formal meetings to showcase other service offerings. • We are establishing a Customer Nerve Centre to serve as a centralised touchpoint that will facilitate the understanding, internal alignment, drive and ownership required to fulfil customer desires and resolve issues timeously. • We are following up on issues and opportunities emanating from engagements with our African counterparts. • We are engaging customers to discern their interests and concerns in order to incorporate these into the new operating model so that it responds to customers' needs. 		

Stakeholder category: Regulators

Engagement frequency and communication vehicles:

- Frequency: Periodic, monthly, quarterly
- Vehicles: Meetings, letters, MOUs and telecons

Reasons for engaging with regulators	Key engagements in 2019	Key issues/areas of interest
<ul style="list-style-type: none"> • Facilitate the strategic management of economic regulation, safety regulation and the transport policy to ensure compliance, operational time and reputation and to prevent loss of revenue. • Discuss and submit tariff applications based on approved methodologies. • Ensure that the Company's policy is aligned to its regulatory position. • Discuss compliance issues. 	<ul style="list-style-type: none"> • Quarterly meetings held with the Department of Environmental Affairs and the Department of Water and Sanitation to discuss pending permits and licences as well as compliance to existing authorisations. • Meetings on the decommissioning of the Durban-Johannesburg pipeline. • Transnet National Ports Authority (TNPA) and Transnet Pipelines (TPL) tariff application meetings. 	<ul style="list-style-type: none"> • Compliance with legal and other requirements, including permit and licence conditions • Transnet's application of the asset base valuation methodology on TNPA's regulated assets • Adherence to Rail Safety Permit requirements • Project planning and funding for the decommissioning of the Durban-Johannesburg pipeline • Delays and cost overruns on the completion on the New Multi-Product Pipeline (NMPP) project

Our responses:

- We are continuing with bilateral/multilateral engagements with relevant authorities to streamline our processes with regulatory requirements.
- We continuously engage the Ports Regulator in respect of the regulated asset valuation methodology.
- A proposal to establish a team to review the Railway Safety Permit application has been communicated to the Regulator. The team will comprise representatives from both the Regulator and railway operators. We continue to engage the Railway Safety Regulator to demonstrate our safety management system.
- We are in continuous engagement with Nersa to provide updates on the Durban-Johannesburg Pipeline decommissioning plan.
- An NMPP prudency exercise is underway.

Stakeholder categories: Communities and Suppliers

Engagement frequency and communication vehicles:

- Frequency: Periodically
- Vehicles: Meetings, campaigns, events and direct engagements

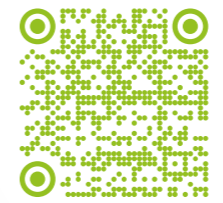
Reasons for engaging with communities and suppliers	Key engagements in 2019	Key issues/areas of interest
<ul style="list-style-type: none"> • Understand their needs and expectations. • Forge partnerships that serve to facilitate asset-based community development. • Create awareness about railway safety, including level crossings. • Communicate Transnet's Community Investment Plan. 	<ul style="list-style-type: none"> • Launch of an enterprise development mega hub in Richards Bay in March 2019. • Engagements held between April and December 2018 with community forums in the Gert Sibande District Municipality, King Cetshwayo District Municipality, Umkhanyakude Municipality and Zululand District Municipality to discuss job and business opportunities. • The Acting GCE engaged local business forums through stakeholder breakfasts and dinners. • Engagements with Amakhosi in KwaZulu-Natal. 	<ul style="list-style-type: none"> • Access to enterprise and supplier development opportunities • Job opportunities • Health and safety along the railway reserve • Access to bursaries • Skills development • Localisation of supply and labour

Our responses:

- We continue to present youth development opportunities through skills training to enable them to enter the mainstream economy by becoming employed or starting their own businesses.
- Through our Learning and Development department, we are ring-fencing opportunities for Engineers-in-Training, Chartered Accountants as well as Young Professionals-in-Training.
- We provide primary healthcare services via the Phelophepa Healthcare Trains.
- We are providing socio-economic development opportunities through hubs.
- We are offering education and sports through the Whole School Programme, which provides support to both learners and teachers.
- We are taking an integrated approach to enterprise and supplier development and CSI to ensure a much greater impact on the societies surrounding our operations.
- We launched an enterprise development mega hub to support and transform the growth of small, medium and micro enterprises and aspiring entrepreneurs in Empangeni in Richards Bay.

For more information  

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Our performance and outlook

Acting Group Chief Financial Officer's review

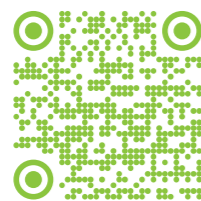
Mr Mark Gregg-Macdonald
Acting Group Chief Financial Officer



For more information



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THE 2019 ANNUAL
FINANCIAL
STATEMENTS



Transnet has produced solid financial results in a challenging year and progress on stabilising the business is yielding positive results.

Transnet's leadership is committed to implementing the necessary remedial plans and restoring integrity throughout the organisation.

The performance for the reporting period unfolded under tough conditions for the South African economy.

In addition to tough macroeconomic conditions, the operational environment was also beset with numerous challenges, which led to the Company railing only 215,1 mt for the year. Weighted volumes (i.e. aggregate of rail, port and pipeline commodities) performed at 93,65% against the planned target.

Transnet's 2019 financial performance was severely impacted by the lower-than-budgeted volume of bulk commodities railed. This was as a result of the contraction in the mining sector as well as other variables impacting our operational performance.

Group revenue grew by a marginal 1,6% year on year to R74,1 billion, supported by strong performance in the pipeline business.

Stringent cost-containment measures resulted in operating expenses being contained to R40,3 billion, which represents a R6,8 billion saving against planned costs. This resulted in EBITDA improving by 3,8% to R33,8 billion, and EBITDA margin improving to 45,6%.

The Company achieved 65% of the total number of key performance indicators (KPIs) contained in the Shareholder's Compact for the period ended 31 March 2019. Significantly, 100% of Transnet's financial sustainability KPIs were achieved. This is reflective of the organisation-wide effort to lower costs and maintain financial discipline.

Efforts to improve operational efficiency as well as governance and internal controls are critical to maintaining and improving on our financial sustainability.

Transnet has produced solid financial results in a challenging year and progress on stabilising the business is yielding positive results.

Despite our best efforts to improve internal controls – particularly our procurement controls – we were unable to avoid an audit qualification on the completeness and accuracy of the reported Irregular Expenditure during the year. The audit finding related to the interpretation on the use of certain tender prequalification criteria (with reference to Preferential Procurement Regulations, 2017) that was inconsistent with the legislation. Kindly refer to note 40 in the Annual Financial Statements and to page 74 of this report.

Capital expenditure

We continued to execute our infrastructure investment programme, spending R17,9 billion for the year (2018: R21,8 billion), which brings total expenditure over the past seven years to R183,5 billion.

The capital investment for the year comprises R3,2 billion invested in the expansion of infrastructure and equipment and R14,7 billion invested to

maintain capacity in the rail and ports divisions.

The Company expects to invest a further R153,5 billion over the next five years, while the core focus remains on sustaining and growing volumes. Transnet is also seeking new growth paths to diversify our revenue to compensate for lower growth expectations in its traditional market segments.

Funding

As at 31 March 2019, the Company's total borrowings amounted to R127,6 billion (2018: R122,6 billion), an increase of R5 billion compared to the prior year, primarily due to foreign exchange rate movements. The increase in the value of borrowings, is offset by a corresponding increase in net derivative financial assets, as exposure to foreign exchange movements is fully hedged.

The gearing ratio at 44,5% remains well below the threshold of 50% prescribed in the Shareholder's Compact. Cash interest cover reflects Transnet's strong cash-generating capability and, at 2,9 times, is comfortably above the triggers in loan covenants. With the subdued business environment, Transnet will be taking a more conservative approach in the management of its financial position in the near term.

Credit ratings

Transnet has two officially recognised rating agencies: Standard & Poor's (S&P) and Moody's Investors Service (Moody's). Transnet's credit rating as at 31 March 2019 is depicted in the table below.

Issuer rating	Moody's	S&P
Foreign currency rating	Baa3/stable outlook	BB/stable outlook
Local currency rating	Baa3/P-3/stable outlook	BB+/stable outlook
National scale rating (NSR) – long and short term	Aa1.za/Aa3.za/P-1.za/stable outlook	zaAA+/zaA-1+
BCA/SACP	Baa3/stable outlook	bbb-

Moody's

On 28 March 2019, Moody's released an update of Transnet's credit opinion, followed by an opinion on the Sovereign on 2 April 2019. The agency did not take any rating action as was scheduled in the rating calendar. In the credit opinion, Moody's highlights that they still expect South Africa's credit profile to be in line with Baa3 rated sovereigns.

Should the Sovereign be downgraded, Transnet will also be downgraded as it is classified as a Government Related Entity in terms of Moody's methodology. In parallel, Transnet's Baseline Credit Assessment can be downgraded if working capital remains constrained.

S&P

On 28 November 2018, S&P affirmed all Transnet's ratings, citing its strong stand-alone credit profile (SACP) supported by its solid operating performance in the 2018 financial year. Transnet's ratings are capped to that of the Sovereign's due to its strong linkages with the Government.

Governance issues were highlighted to still pose a risk to Transnet's ratings, particularly the SACP rating. Should management and governance matrices – which have been revised to fair – deteriorate further, Transnet's SACP may be downgraded.

Prospects

As we emerge from a year marked by several distractions, defined in large part by the Board and management's efforts to remediate the widespread effects of corruption on our business, the way forward is clear. While we have experienced operational challenges, particularly in the port environment, we are confident that the continued efforts of the current leadership to enhance internal controls, improve operational efficiency and customer service, and to shape the ethical cultural bedrock required to set the Company on its new growth trajectory, will deliver the quality and reliable service needed to build a globally-competitive national freight system.

Despite the challenges experienced in the year's difficult business and

operational climate, we are heartened by instances of record-breaking performance across the Company, as evidenced by the continued commitment of our many dedicated employees across South Africa.

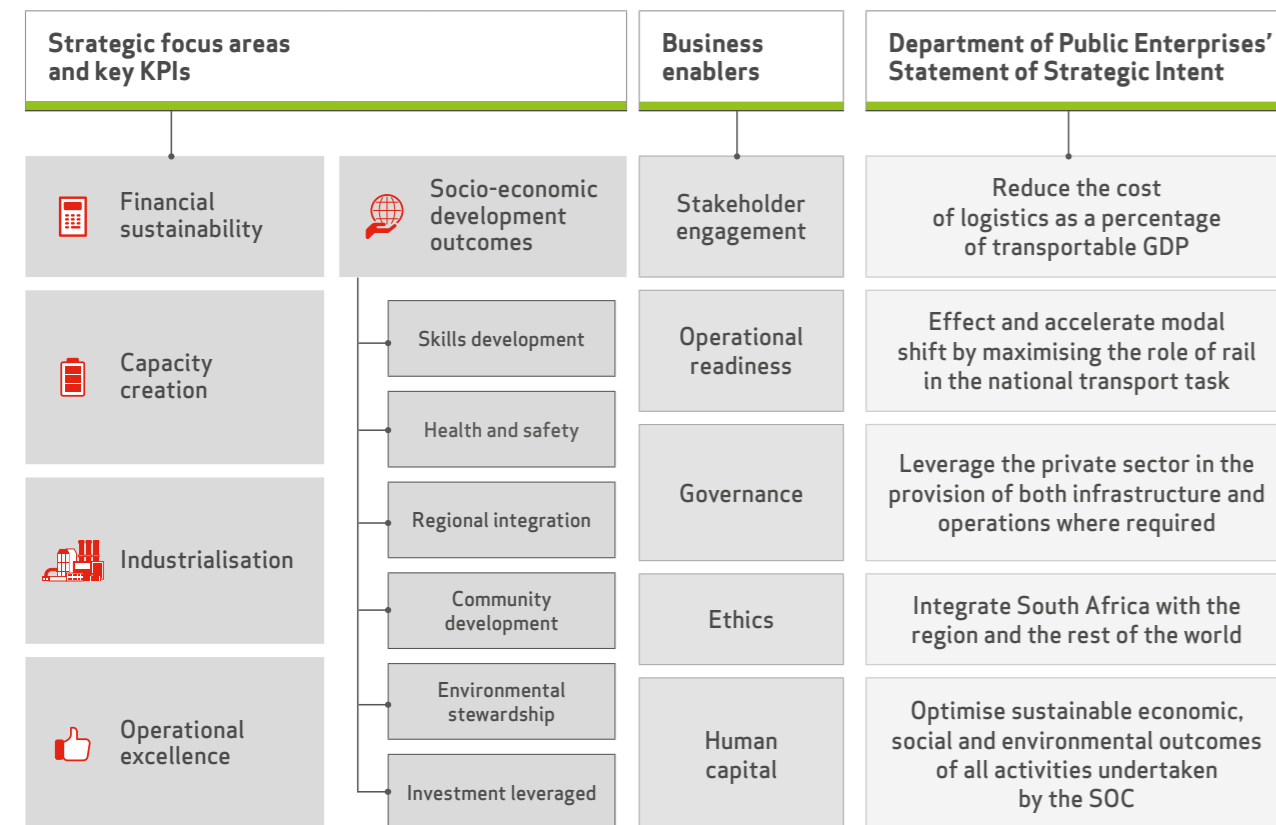
We expect the Company to continue to generate strong cash flows, to maintain affordable levels of debt without any Government support, and to continue to report year-on-year improvement in financial performance. More importantly, we trust that our efforts will contribute to the overall efficiency and growth of the South African logistics environment and, in turn, have a positive impact on the economic growth of the country.



Mr Mark Gregg-Macdonald
Acting Group Chief Financial Officer

26 September 2019

Figure 10: Transnet's Performance Framework



Operating Divisions' review

KPIs

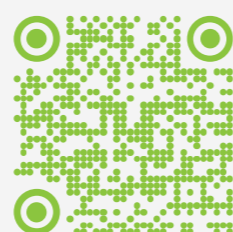
	Freight Rail		Engineering	
	2019	2018	2019	2018
Revenue (R million)	↓ ↘ 43 582	43 709	↓ ○ 10 524	11 250
Operating expenses (R million)	24 076	23 236	11 261	11 389
EBITDA (R million)	↓ ○ 19 506	20 473	↓ ○ (737)	(139)
ROTA (%)	↓ ○ 6,6	7,8	↓ ○ (6,5)	(0,9)
Capex	14 818	17 598	301	275
Volumes (mt)	↓ ○ 215,1	226,3	n/a n/a	n/a
Black employees (%)	↑ ↘ 88,74	87,9	↑ ○ 81,7	80,8
Training spend (% of personnel cost)	↑ ○ 2,03	2,1	↓ ↘ 2,4	2,6
Disabling injury frequency rate (DIFR)	↑ ↘ 0,90	0,91	= ○ 0,66	0,66
% energy-efficiency improvement on the previous year (electricity)	↑ 1,60	(1,43)	↓ 0,70	16,88
Regional integration: Cross-border revenue (R million)	↑ ○ 2 152	2 113	↓ ○ 166	254

Performance key

- ↑ Improvement on prior year performance
- ↓ Decline on prior year performance
- ↘ Target achieved
- ↗ Target partially achieved
- = Equivalent performance to prior year
- Target not achieved

For more information

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Revenue
R43,6 billion

Revenue decreased by 0,3% to R43,6 billion (2018: R43,7 billion), mainly due to the 4,9% decrease in volumes resulting in a R2,1 billion unfavourable volume variance. This variance was partially offset by an increase in average Rand/tonne at R196,55 in 2019 (2018: R186,75).

Operating expenses increased by 3,6% to R24,1 billion (2018: R23,2 billion). Austerity measures yielded significant cost savings in administration and overhead costs.

The EBITDA margin decreased 1,2% to 44,8% (2018: 46,8%) with EBITDA reducing by 4,7% to R19,5 billion (2018: R20,5 billion).

Return on average total assets decreased by 6,6% (2018: 7,8%), due mainly to a decrease in operating profit, somewhat offset by the impact of a decrease in asset base following the devaluation of infrastructure assets.

Opportunities in the short to medium term:

- Assist in reducing logistics costs through acceleration of road-to-rail initiatives, thereby ensuring the long-term competitiveness of the national freight system.
- Collaborate with supply chain partners and the private sector to encourage participation and creation of cost-effective, rail-based end-to-end logistics solutions such as intermodal terminals, common-user facilities and strategic hubs.
- Optimise the capital portfolio to assure rail capacity; and improve business performance through the execution of operational efficiency initiatives – Productivity of Wagons, Operations Control Centre, and the Value Chain Integration Programme.
- Improve operating models and practices to increase regional volumes in co-operation with regional partners.

Revenue
R10,5 billion

Revenue decreased by 7% to R10,5 billion (2018: R11,3 billion), due mainly to a decline in external orders as well as poor cross-border sales. Low Africa sales for the current year were mainly due to competition and unfavourable macroeconomic conditions.

Operating expenses reduced by 1,1% to R11,3 billion (2018: R11,4 billion). Engineering implemented aggressive cost-optimisation initiatives, with savings noted in maintenance, energy, travel and leases.

Engineering had an EBITDA loss of R737 million (2018: R139 million loss). Significant turnaround strategies are in place to improve Engineering's performance.

Opportunities in the short to medium term:

- Energy-saving initiatives including installation of solar PV in all office blocks and the phasing out of non-energy-efficient systems.
- Offer funding packages for rolling stock sales to customers in targeted markets.
- Provide turnkey products and service solutions for locomotives, wagons and maintenance.
- New bulk commodity mines across the world provide for an expanding market.

	National Ports Authority		Port Terminals		Pipelines	
	2019	2018	2019	2018	2019	2018
Revenue	↑ ↘ 12 450	11 700	↑ ↘ 13 086	12 393	↑ ○ 5 262	4 488
Operating expenses	4 133	4 503	8 545	8 221	1 266	1 296
EBITDA	↑ ↘ 8 317	7 196	↑ ↘ 4 541	4 172	↑ ○ 3 996	3 192
ROTA (%)	↓ ↘ 7,0	7,04	↑ ↘ 20,5	17,2	↓ ○ 7,0	7,04
Capex	941	1 054	1 515	1 365	326	1 544
Volumes ('000 TEUs)	↓ ↘ 4 682	4 778	↓ ↘ 4 534	4 664	↑ ↘ 17 825	16 345
Black employees (%)	= ↘ 88	88	↑ ↘ 88	87	↑ ↘ 90	89
Training spend (% of personnel cost)	↓ ○ 1,5	5,9	↑ ↘ 3,2	1,5	↓ ○ 1,1	3,5
Disabling injury frequency rate (DIFR)	↓ ↘ 0,41	0,33	↑ ↘ 0,52	0,67	↓ ↘ 0,18	0,09
% energy-efficiency improvement on the previous year (electricity)	↑ 2,80	0,36	↓ 5,40	(7,27)	↑ 1,50	1,23
Regional integration: Cross-border revenue (R million)	↓ ↘ 69,8	77,9	↑ ↘ 6,7	5,9	n/a n/a	0

Revenue
R12,5 billion

Revenue increased by 6,4% to R12,5 billion (2018: R11,7 billion), mainly due to an increase in tariffs and the discontinuation of clawback accounting.

Operating expenses decreased by 8,2% to R4,1 billion (2018: R4,5 billion), mainly due to savings on maintenance and other operating costs as well as the capitalisation of operating lease expenditure as required by IFRS 16.

With EBITDA increasing by 15,6% to R8,3 billion (2018: R7,2 billion), the EBITDA margin increased to 66,8% (2018: 61,5%).

Opportunities in the short to medium term:

- Section 56 concessions will be considered as an additional source of revenue.
- The real estate business is geared to bring additional revenues.
- TNPA will continue managing costs through cost-saving initiatives.

Revenue
R13,1 billion

Revenue increased by 5,6% to R13,1 billion (2018: R12,4 billion), due mainly to lower than anticipated volumes.

Operating expenses increased by 3,9% to R8,4 billion (2018: R8,2 billion). While costs have been tightly managed, energy costs have increased by 8,3% as a result of higher year-on-year tariff increases. Also, repairs and maintenance on aging bulk and other operating equipment increased by 14,5%.

EBITDA grew by 8,8% to R4,5 billion (2018: R4,2 billion) and the EBITDA margin increased from 33,7% to 34,7% in 2019.

Opportunities in the short to medium term:

- 'Back-of-port' opportunities offer warehousing and value-add services in the container, mineral bulk and automotive segments.
- Private sector participation opportunities may reduce funding and operational requirements and present opportunities to leverage partner capabilities for mutual benefit.
- The Transnet Value Chain Co-ordinator continues to facilitate operational efficiency improvements and logistics integration with Freight Rail, creating opportunities to shift more cargo from road to rail, ease congestion on the roads and reduce carbon emissions.
- Offer tailor-made solutions to original equipment manufacturers in the automotive industry.

Revenue
R5,3 billion

Revenue increased by 17,2% to R5,3 billion (2018: R4,5 billion), due mainly to the Nersa decision to increase the 2018/19 petroleum allowable revenue by 25,96%.

Net operating expenses decreased by 2,3% to R1,27 billion (2018: R1,3 billion), mainly as a result of significant inventory write-offs in the prior year that did not repeat.

EBITDA of R4,0 billion (2018: R3,2 billion) is 25,2% higher than the prior year.

Opportunities in the short to medium term:

- Diversify into the LNG market.
- Create import capability for new users at Island View in Durban.
- Terminal operations planned at Island View and Ambrose Park in Durban.
- Grow the non-regulated business by sharing skills, knowledge, pipeline training and operational services with other African pipeline companies in the Southern Africa Development Community, including Kenya.
- Structure the intermodal integration of a Freight Rail and Pipelines service offering for liquid fuel.

We expect the Company to continue to generate strong cash flows, to maintain affordable levels of debt without any Government support, and to continue to report year-on-year improvement in financial performance.



Financial sustainability: performance



The technical recession experienced during the second quarter of 2018, coupled with a decline in the agriculture, transport and manufacturing industries, as well as reduced activity in Government sectors and trade, contributed to a marginal GDP growth rate of only 0,8% for the 2018 calendar year.

Amid these trying economic conditions, Transnet had to address numerous allegations of fraud and corruption, performing its own forensic investigations and collaborating with various law-enforcement agencies to determine the extent and impact of reported incidents. The current leadership made significant progress in addressing each allegation, instituting the requisite remedial actions and taking steps to stabilise the organisation.

Numerous other operational challenges impeded the Company's ability to achieve the planned volumes and operational efficiency targets.

The resultant lower-than-targeted revenue was, however, more than offset by stringent cost-containment measures that resulted in a 0,1% decline in operating costs compared to the prior year.

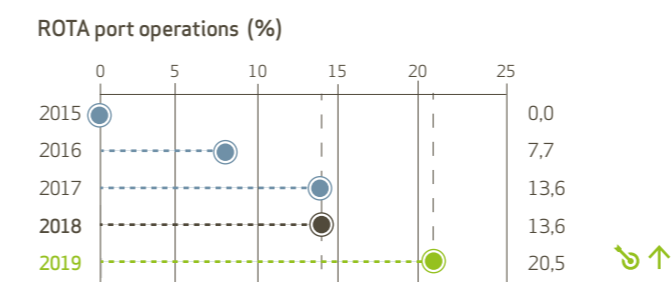
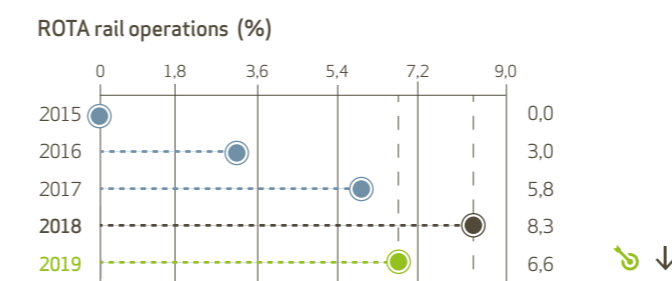
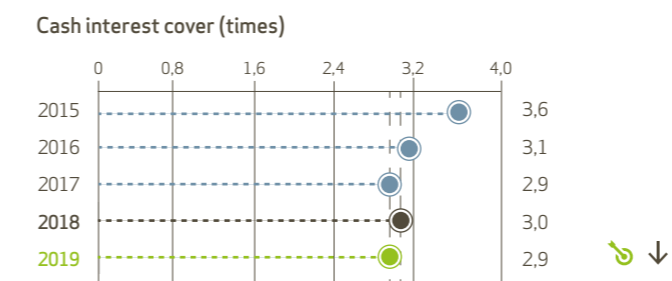
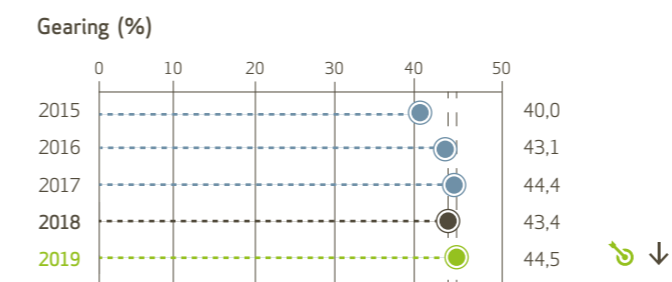
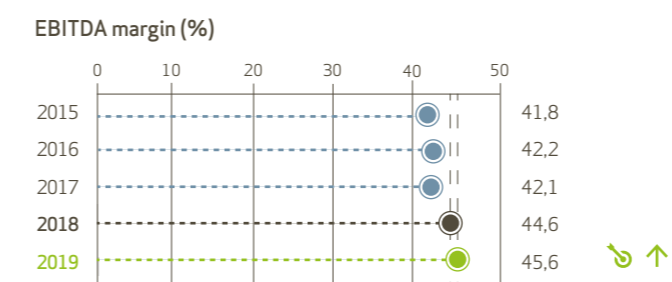
Commentary on key ratios

The gearing ratio increased to 44,5% (2018: 43,4%). This level is within the Group's target range of < 50,0%, and is well within the triggers in loan covenants, reflecting the available capacity to continue with its capital investment plan. The gearing ratio is expected to remain within the target ratio over the medium term.

Performance key

- ↑ Improvement on prior year performance
- ↓ Decline on prior year performance
- 🎯 Target achieved
- 🎯 Target partially achieved
- = Equivalent performance to prior year
- Target not achieved

Five-year review: Key profitability ratios and statistics



Revenue for the year increased by 1,6% to R74,1 billion (2018: R72,9 billion), supported by a 9,1% increase in petroleum volumes. The increase in petroleum volumes is mainly due to the operationalisation of Terminal 2.

Operating expenses were contained to R40,3 billion, (2018: R40,4 billion) despite an increase of 16,6% in fuel costs. Numerous cost-optimisation initiatives implemented throughout the Company aided cost containment, resulting in a R6,8 billion saving against planned costs. These initiatives included rationalising overtime, reducing professional and consulting fees and limiting discretionary costs relating to travel, printing, stationery and telecommunications.

EBITDA increased by 3,8% to R33,8 billion (2018: R32,5 billion) with the EBITDA margin increasing to 45,6% (2018: 44,6%).

Impairment of assets, amounting to R2,7 billion (2018: R1,4 billion), is primarily due to the impairment of property, plant and equipment, resulting from derailments, the index valuation impairment on port operating assets and impairments on trade and other receivables.

Fair value adjustments amounted to a R3,3 billion gain (2018: R410 million gain). These adjustments are mainly due to investment property fair value gains, recognised in terms of IAS 40 Investment Property, as well as fair value gains on interest rate swaps in terms of IFRS 13 Fair Value Measurement and IFRS 9 Financial Instruments.

Finance costs increased by 13,6% to R11,6 billion (2018: R10,2 billion). This is due to borrowing costs related to the NMPP project no longer being capitalised following its operationalisation in December 2017, and increased interest rates due to the impact of the credit rating downgrade in November 2017.

Profit for the year increased by 24,7% to R6,0 billion (2018: R4,9 billion).

Income statement

for the year ended 31 March 2019

	Audited	
(in R million)	31 March 2019	31 March 2018
A Revenue	74 070	72 887
B Net operating expenses excluding depreciation and amortisation	(40 320)	(40 372)
C Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)	33 750	32 515
Depreciation, derecognition and amortisation	(14 274)	(13 686)
D Profit from operations before items listed below:	19 476	18 829
Impairment of financial assets	(444)	(681)
Impairment of non-financial assets	(2 244)	(761)
Post-retirement benefit obligation expense	(287)	(268)
E Fair value adjustments	3 271	410
Income from equity-accounted investees	19	9
F Profit from operations before net finance costs	19 791	17 538
Finance costs	(11 597)	(10 211)
Finance income	387	302
G Profit before tax	8 581	7 629
Income tax expense	(2 534)	(2 778)
Profit for the year	6 047	4 851

Statement of comprehensive income

for the year ended 31 March 2019

	Audited	
(in R million)	31 March 2019	31 March 2018
Profit for the year	6 047	4 851
Other comprehensive (loss)/income	(18 603)	8 442
Gains on revaluations	(25 970)	11 678
Cash flow hedges	789	(1 471)
Actuarial gain on post-retirement benefit obligations	90	29
Tax relating to components of other comprehensive income	7 070	(2 859)
Other comprehensive (loss)/income for the year, net of tax	(18 021)	7 377
Total comprehensive (loss)/income for the year	(11 974)	12 228

Headline earnings

for the year ended 31 March 2019

(in R million)	Audited	
	31 March 2019	31 March 2018
Profit for the year attributable to the equity holder	6 047	4 851
Profit on the disposal of property, plant and equipment	(54)	(1)
Loss on the disposal of intangible assets	—	1
Loss on the disposal of investment property	—	6
Total remeasurements	(916)	64
Investment property fair value adjustments	(3 160)	(697)
Impairment of property, plant and equipment	2 244	760
Impairment of intangible assets	—	1
Total tax effects of adjustments	95	(59)
Headline earnings	5 172	4 862

Condensed statement of financial position

for the year ended 31 March 2019

(in R million)	Audited	
	31 March 2019	31 March 2018
Non-current assets	339 422	352 333
Current assets	16 078	17 490
Total assets	355 500	369 823
Capital and reserves	148 631	156 874
Non-current liabilities	173 782	158 036
Current liabilities	33 087	54 913
Total equity and liabilities	355 500	369 823

Segment information

for the year ended 31 March 2019

(in R million)	Transnet Freight Rail		Transnet Engineering		Transnet National Ports Authority		Transnet Port Terminals		Transnet Pipelines		Total reportable segments		Other ¹		Total Transnet	
	Audited 31 March 2019	Audited 31 March 2018	Audited 31 March 2019	Audited 31 March 2018	Audited 31 March 2019	Audited 31 March 2018	Audited 31 March 2019	Audited 31 March 2018	Audited 31 March 2019	Audited 31 March 2018	Audited 31 March 2019	Audited 31 March 2018	Audited 31 March 2019	Audited 31 March 2018	Audited 31 March 2019	Audited 31 March 2018
	External revenue	42 650	42 709	1 657	2 467	10 755	10 113	13 073	12 386	5 258	4 484	73 393	72 159	677	728	74 070
Internal revenue	932	1 000	8 867	8 783	1 695	1 586	13	7	4	4	11 511	11 380	1 599	(11 380)	—	—
Total revenue	43 582	43 709	10 524	11 250	12 450	11 699	13 086	12 393	5 262	4 488	84 904	83 539	2 276	(10 652)	74 070	72 887
EBITDA	19 506	20 473	(757)	(139)	8 317	7 196	4 541	4 172	3 996	3 192	35 623	34 894	(1 338)	(2 379)	33 750	32 515
Total assets ²	176 443	191 864	19 883	20 245	93 077	94 359	16 970	17 853	43 515	43 873	349 888	369 294	21 918	399	355 327	369 693
Total liabilities	120 912	122 673	20 390	18 713	35 399	43 872	4 508	6 573	21 100	23 375	202 309	216 356	15 925	(3 407)	206 869	212 949
Capital expenditure ³	14 818	17 598	301	275	941	1 054	1 515	1 365	326	1 544	17 901	21 836	40	(55)	17 941	21 781
Cash generated from operations after changes in working capital	17 491	20 703	891	(3 978)	8 040	8 308	4 160	4 463	3 545	3 423	34 127	32 919	(595)	(165)	33 532	32 754

¹ Other includes other segments, inter-unit eliminations and consolidation adjustments.

² Excludes assets held-for-sale.

³ Capital expenditure excludes the effects of borrowing costs, includes capitalised finance leases and capitalised decommissioning liabilities.

Statement of cash flows

for the year ended 31 March 2019

(in R million)	Audited	
	31 March 2019	31 March 2018
Cash flows from operating activities	21 930	22 958
Cash generated from operations	35 165	34 915
Changes in working capital	(1 633)	(2 161)
Cash generated from operations after changes in working capital	33 532	32 754
Finance costs	(10 968)	(8 930)
Finance income	387	261
Tax paid	(7)	—
Settlement of post-retirement benefit obligations	(144)	(180)
Derivatives settled	(870)	(947)
Cash flows utilised in investing activities	(20 124)	(24 891)
Investment to maintain operations	(15 318)	(16 795)
Investment to expand operations	(4 806)	(8 096)
Changes in investments, loans, advances and other investing activities	(297)	(68)
Cash flows utilised in financing activities	(2 030)	(109)
Borrowings raised*	8 387	13 336
Borrowings repaid	(10 417)	(13 445)
Net decrease in cash and cash equivalents	(224)	(2 042)
Cash and cash equivalents at the beginning of the year	4 380	6 422
Total cash and cash equivalents at the end of the year	4 156	4 380

Cash generated from operations amounted to R35,2 billion (2018: R34,9 billion), an increase of 0,7% from the prior year. The cash interest cover ratio (excluding working capital changes) at 2,9 times (2018: 3,0 times) reflects Transnet's strong cash-generating capability. This is also comfortably above loan covenant triggers.

The Company borrows on the strength of its financial position and has maintained a stand-alone investment-grade credit rating. New long-term funding of R6,5 billion was raised for the period without government guarantees.

* Borrowings raised is reported net of deferred interest of R702 million (2018: R1 227 million), refer to note 34.3 and IFRS 16 adjustment of R777 million (2018: nil). Refer to PPE reconciliation note 9, which is included in borrowings raised for the reporting period.

See page 51 • See page 51

Economic regulation

The tariffs for Pipelines are regulated by the National Energy Regulator of South Africa (Nersa), while the National Ports Authority's tariffs are regulated by the Ports Regulator of South Africa (the Regulator). Railway safety permit fees are charged by the Railway Safety Regulator (RSR) to the Company. The Company also operates within a policy context which is determined by the Department of Public Enterprises (DPE) and the Department of Transport (DoT).

Rail

Transnet is engaging with the DPE and the DoT on the Revised White Paper on the National Transport Policy, Economic Regulation of Transport Bill, 2018, and the Railway Safety Bill, 2017. Transnet will continue to engage the DoT through existing protocol to contextualise its views and proposals prior to submission of the abovementioned draft policies and Bills to Cabinet for approval.

On 11 May 2018, the Minister of Transport published a notice setting out the safety permit fees payable to the RSR for the 2019 financial year. Transnet paid a non-refundable application fee of R53 650 and a permit fee of R98,94 million.

Transnet submitted its permit application to RSR on 30 June 2018. On 8 August 2018, the RSR issued Transnet's Railway Safety Permit with two special conditions as follows:

- Special Condition 1: Transnet to list all its rail operational safety and security risks on the newly-developed risk assessment register; and
- Special Condition 2 (Human Factor Management): Transnet to provide the RSR with the consolidated number of safety-related and safety-critical vacancies against the budgeted positions.

Furthermore, Transnet must demonstrate how it addresses the management of fitness for duty and also provide the RSR with training matrices for both technical and non-technical training.

Ports

On 1 December 2018, after considering the application, the written and oral submissions by all stakeholders, and based on the latest available data, the Regulator concluded, in its Record of Decision (ROD), that an appropriate overall adjustment in average tariffs for the 2020 financial year is a decrease of 6,27%, and has approved that the following specific changes to the tariff book would apply from 1 April 2019:

1. Marine services and related tariffs are to remain unchanged at the 2019 financial year levels;
2. All container and roll on/roll off (RoRo) cargo dues are to decrease by 10%;
3. Coal dry bulk export cargo dues are to increase by 10%; and
4. The following tariffs are to be reduced to upper limit caps applicable as follows:
 - a. All break-bulk cargo dues are to be capped at R31,50/tonne;
 - b. All dry bulk cargo dues are to be capped at R20,00/tonne;
 - c. All liquid bulk cargo dues are to be capped at R40,00/KL; and
 - d. The tariffs below these upper limit caps in the categories above will remain at 2019 financial year tariff levels, excluding coal dry bulk export cargo dues.

Furthermore, the Regulator in the ROD indicated that in the 2020 financial year it will:

1. Reassess the impact of the specific approach adopted in the valuation of the regulated asset base (RAB) in relation to the sustainability concerns expressed by the National Ports Authority;
2. Consult further with port stakeholders, as well as the National Ports Authority on the applicability of the historical cost component of the RAB valuation in the context of the implementation of section 3(2) of the National Ports Act which requires the corporatisation of the National Ports Authority;
3. Assess the progress of the implementation of section 3(2) of the National Ports Act; and
4. Finalise the specific approach of the RAB valuation within the next multi-year tariff methodology review (which, will be conducted during the 2020 financial year).

Pipelines

On 1 March 2019, Nersa elected to set Pipelines' 2020 financial year tariffs as per sections 4(f) and 28(1) of the Petroleum Pipelines Act, No 60 of 2003. The Regulator increased Pipelines' allowable revenue (AR) by 7,69% for the 2020 financial year.

This translates into an 11% increase in the Durban to Alrode tariff from 41,18 cents per litre to 45,70 cents per litre for the 2020 financial year.

In its decision, the Regulator has elected to smooth the tariff increases over the next four years. Nersa also deferred the 'give back' on assets until it has finalised its prudency study in the 2020 financial year.

Capacity creation and maintenance: performance



Performance review

Capital investment

Transnet continued to execute its asset investment programme, spending R17,9 billion (2018: R21,8 billion). The capital investment for the year ended 31 March 2019 represents R3,2 billion invested in the expansion of capacity mainly on the integrated freight network, while R14,7 billion was invested to maintain capacity, mainly in the rail and ports divisions, taking the total investment for the past seven years to R183,5 billion.

The Company expects to invest a further R153,5 billion over the next five years, while the core focus remains on sustaining and growing volumes. Transnet is also seeking new growth paths to diversify its revenue to compensate for lower growth expectations in its traditional market segments.

Among the Company's most significant investments is the acquisition of locomotives, infrastructure and rolling stock to modernise its fleet in anticipation of a rise in general freight volumes and the solidification of the road-to-rail strategy. As at 31 March 2019, the cumulative

expenditure incurred on the 1 064 locomotive contract amounts to R33,6 billion, with R3,9 billion invested in the current year.

In total, 525 locomotives have been accepted into operations with a further seven locomotives delivered and undergoing acceptance testing.

In the year under review, Transnet Freight Rail and Transnet Engineering embarked on a programme to build the following wagons:

- CR13 (iron ore): 318 wagons manufactured and commissioned.
- CR19 (GFB): 169 wagons manufactured and commissioned.

For the full year period ending 31 March 2019, a total of 393 wagons were manufactured, commissioned and accepted into operations by Transnet Freight Rail, a capital investment of R607 million.

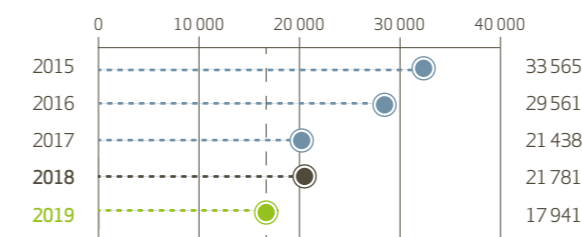
Other infrastructure investment highlights for the financial year include:

- R3,1 billion invested in rail infrastructure;
- R4,9 billion invested to maintain the condition of rolling stock;

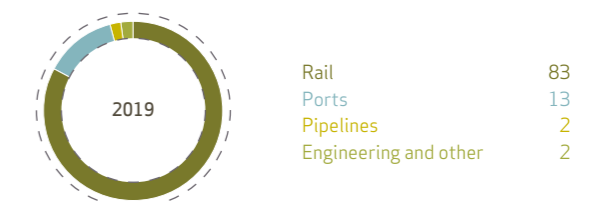
- R527 million invested in wagon fleet renewal and modernisations;
- R111 million invested towards the upgrade of yards, lines and electrical equipment under the coal line investment programmes in expanding capacity on the export coal line to 81 mtpa;
- R179 million invested in the Port of Durban, Durban Container Terminal (DCT) Berth Deepening project as it commences execution;
- R99 million invested in the reconstruction of sheet-pile quay walls in the Port of Durban, Maydon Wharf precinct, which has been completed;
- R95 million invested in firefighting upgrades at Pipelines to ensure stringent compliance to safety standards and regulations;
- A R99 million investment in the multi-product pipeline towards the construction of tanks; and
- Approximately R2 billion was spent in the maintenance and acquisition of cranes, tippers, dredgers, tugs, straddle carriers and other port marine and terminal equipment.

Five-year review: Investment perspective

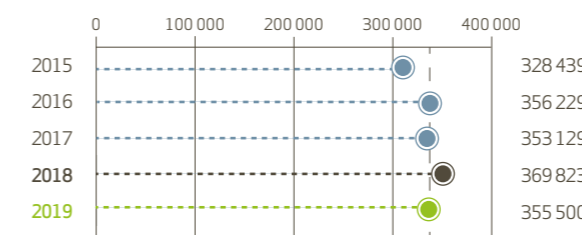
Capital investment (R million)



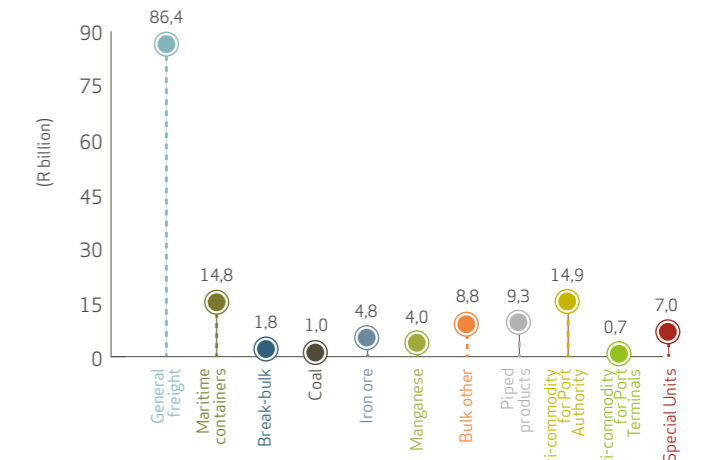
Capital investment by operating segment (%)



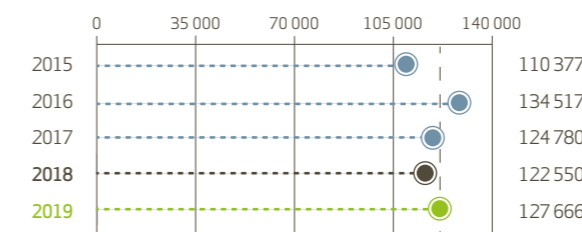
Total assets (R million)



Capital investment by commodity



Total borrowings (R million)



SDO: Investment leveraged and private sector participation



As a SOC, we are mandated to deliver integrated cost-effective services to promote economic growth in South Africa. Transnet's business operations portfolios enable diverse opportunities to integrate with private companies to leverage investments. Through the Investment Leveraged Portfolio, Transnet seeks to supplement the growing demand for economic infrastructure that supports socio-economic imperatives as mandated by the Department of Public Enterprises.

Private sector partnerships (PSPs)

PSPs represent an opportunity for Transnet to increase capacity and efficiencies, to lower the cost of logistics and to remove barriers to entry for private investment and operations in the port and rail environment.

PSPs enable Transnet to:

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

Section 56 (S56) projects

Transnet is guided by section 56 of the National Ports, Act No 12 of 2005. The S56 projects help to develop a competitive and productive South African ports industry that contributes to South Africa's economic growth and development. The S56 projects present opportunities for new operators to enter the port system in line with the country's transformation agenda 2030.

Our 2019 PSP performance in brief:

- Three S56 projects were launched, namely the Green ship recycling project (to be implemented across all ports), the Maydon Wharf Agri Terminal project (public process to commence in the next financial year), and Lot 100 (Durban liquid fuels facility) at the Port of Durban (bid evaluations).
- A total number of S56 projects across the port system to date: 10.

Operation Phakisa projects

Operation Phakisa provides collaborative partnership opportunities with the private sector.

Our 2019 Operation Phakisa project performance in brief:

- R1,8 million was invested by the National Ports Authority towards engineering prefeasibility studies for the Richards Bay floating dock project. The process for identifying a floating dock operator is due to start in the latter part of the 2019 calendar year. This project demonstrates positive market appetite and is being progressed for a combination of public and private sector investment.
- Berth 205, Mossgas Quay and East London boat building facility have not as yet attracted investors due to a lack of demand in a weak economic climate.

2019 – S56 project investments

Section 56 projects	Invested
Sunrise Energy Liquefied Petroleum Gas Project	R1,1 billion
Offshore Supply Base (OSSB)	R1,87 billion
Burgan Cape Liquid Bulk Terminal	R650 million
Cape Town Cruise Terminal	R179 million
Durban Cruise Terminal	R215 million
Oil Tanking Grindrod Calulo	R2 billion
Sheds 10 and 11	R20 million
Green ship recycling (new)	Project inception phase
Maydon Wharf Agri Terminal (new)	Public process in 2020
Lot 100 Port of Durban liquid fuels facility (new)	Bid evaluation

Operational excellence: performance



Revenue from operations and volumes productivity

Freight Rail

Freight Rail operational and financial performance for the period ended 31 March 2019 was below expectations, owing mainly to subdued customer demand and operational issues. As a result, volumes railed decreased from 226,3 mt in 2018 to 215,1 mt this year (a 4,9% decrease).

Revenue for the period under review decreased by 0,3% to R43,6 billion compared to the prior year (2018: R43,7 billion). This deterioration is mainly driven by the 4,9% decrease in volumes, resulting in a R2,1 billion unfavourable volume variance, partially offset by an increase in average Rand/tonne (R196,55 in 2019 compared to R186,75 in 2018), resulting in a R1,9 billion favourable price and mix variance. The average increase in Rand/tonne at 5,2% was slightly higher than the average CPI (averaged 4,7% over the reporting period) mainly attributable to the prioritisation of high-yield commodities in the mix.

General Freight Business

General freight volumes decreased by 6,7% to 84,7 mt (2018: 90,8 mt) because of the current weak economic climate as well as various operational issues including network, crew and resource challenges. Some commodities performed exceptionally well, such as manganese, which set a new record, and increased by 2,2% to 14,0 mt (2018: 13,7 mt), chrome volumes increased by 4,6% to 7,1 mt (2018: 6,7 mt) and timber and paper volumes increased by 3,4% to 2,4 mt (2018: 2,3 mt).

The aforementioned was offset by poor performance in other sectors such as domestic coal, down by 21,1% to 15,1 mt (2018: 19,1 mt), mineral mining down by 10,1% to 11,5 mt (2018: 12,8 mt) and cement and lime lower by 4,1% to 5,7 mt (2018: 6,0 mt), mainly due to product unavailability, plant breakdowns, extreme weather conditions, community unrest blocking train operations and the impact of infrastructure-related crimes on the Freight Rail network.

Export coal line

Freight Rail railed 72,0 mt of export coal (2018: 77,0 mt), 6,5% lower than the prior year. The poor performance was mainly due to low demand in quarter one, panto hook ups, power failures, export coal parties under business rescue, mine cancellations, cable thefts, derailments and community unrest that negatively impacted the export coal line.

Export iron ore line

Export iron ore volumes decreased marginally by 0,2% to 58,4 mt (2018: 58,5 mt). The main reason for this was the bridge incident that resulted in a 1,7 mt loss. Rail operations were also disrupted by extreme weather conditions during the financial year. In addition, a number of network challenges, particularly main line speed restrictions, resulted in volume losses.

Operating expenses increased by 3,6% to R24,1 billion compared to the prior year (2018: R23,2 billion). Austerity measures fuelled significant cost savings which were realised mainly in administration and overhead costs thus mitigating the impact of increases in certain operating expense items such as personnel, materials and fuel costs which increased above inflation. Fuel costs increased by 18,2%, mainly as a result of unbudgeted price escalations exacerbated by the RAF rebate rejection of R189 million relating to claims dating back to the 2013 financial year that were disallowed by the South African Revenue Services.

Driven by the deterioration in revenue, the EBITDA margin decreased to 44,8% (2018: 46,8%) with EBITDA reducing by 4,7% to R19,5 billion (2018: R20,5 billion).

Engineering

Engineering recorded revenue of R10,5 billion (2018: R11,3 billion). It recorded very low Africa sales for the

current year, mainly due to the tough competition and unfavourable macroeconomic conditions. The R2,5 billion shortfall in cross-border revenue was partially offset by R1,7 billion worth of maintenance work performed for Freight Rail.

In order to respond to the decline in revenue, Engineering implemented aggressive cost-optimisation initiatives to improve its performance with a focus on its two major cost base items, being material and labour.

Although bargaining unit employees received a 7,5% inflationary increase, a headcount reduction has positively contributed to personnel costs increasing by a marginal 1,6% year on year. Engineering is implementing a flexible workforce model that will assist with labour cost savings in future financial years. Engineering has also managed to reduce operating expenses by 1,1% (excluding material), due to cost-optimisation initiatives with savings noted in maintenance, energy, travel and leases.

Consequently, Engineering had an EBITDA loss of R737 million (2018: R139 million loss). There are significant turnaround strategies in place to improve Engineering's performance.

National Ports Authority

Revenue increased by 6,4% to R12,5 billion (2018: R11,7 billion). This is mainly attributable to the increase in tariffs and the discontinuation of clawback accounting which was partially offset by a decrease in volumes.

Net operating expenses decreased by 8,2% to R4,1 billion (2018: R4,5 billion), due mainly to the capitalisation of operating lease expenditure as required by IFRS 16.

Accordingly, EBITDA increased by 15,6% to R8,3 billion (2018: R7,2 billion).

Table 9: Summary rail volume performance

Key performance indicator	Unit of measure	2019 target	2019 actual
Total rail volumes	million tonnes	≥ 235,00	215,13
General freight	million tonnes	≥ 99,00	84,69
Pipeline volumes	billion litres	≥ 17 025	17 825
Eskom coal	million tonnes	≥ 11,50	8,54
Container throughput Natcor	TEUs	≥ 352 686	424 908
Container throughput Capcor	TEUs	≥ 28 852	57 744
Automotive	units	≥ 272 205	198 039

Port Terminals

Revenue increased by 5,6% to R13,1 billion (2018: R12,4 billion).

Volume performance was varied across the sectors. The automotive sector increased by 5,6% to 743 350 units (2018: 704 052 units). Break-bulk volumes increased by 3,7% to 19,8 mt (2018: 19,1 mt) while container volumes decreased by 2,8% to

4 534 341 TEUs (2018: 4 663 888 TEUs). Bulk volumes decreased marginally by 0,8% to 82,4 mt (2018: 83,1 mt). Bulk volumes were impacted by weaker commodity prices for magnetite, chrome and coal as well as load shedding and supply chain challenges, which impacted the export of bulk commodities during the year.

Net operating expenses increased by 3,9% to R8,4 billion (2018: R8,2 billion).

While costs have been tightly managed, energy costs increased by 8,3% as a result of higher year-on-year tariff increases and repairs and maintenance on aging bulk and other operating equipment increased by 14,5%.

As a result of the above, Port Terminals was able to grow its EBITDA by 8,8% to R4,5 billion (2018: R4,2 billion).

Table 10: Summary port volume performance

Volumes	2018	Target 2019	Actual 2019	Improvement/decline on prior year or equivalent performance	Percentage increase/decrease %
Bulk and break-bulk volumes (mt)	102,2	106,0	102,7	↑	0,5
Container volumes (000 TEUs)	4 664	4 625	4 534	↓	(2,8)
Total automotive volumes (units)	704 052	725 401	743 350	↑	5,6
Liquid bulk (million kilolitres)	44,5	42,1	40,4	↓	(9,2)

Pipelines

Revenue for the year increased by 17,2% to R5,3 billion (2018: R4,5 billion). This is mainly attributable to the Nersa decision to increase the 2018/19 petroleum allowable revenue by 25,96%.

Petroleum volumes transported for the period increased by 9,1% to 17 825 million litres (2018: 16 345 million litres). Net operating expenses decreased by 2,3% to R1,27 billion (2018: R1,3 billion). This decrease is mainly

attributable to inventory write-offs in the prior year that were not repeated. Consequently, EBITDA of R4,0 billion (2018: R3,2 billion) is 25,2% higher than the prior year.

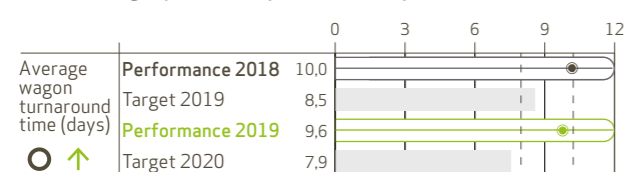
Table 11: Summary pipeline volume performance

Volumes	2018	Target 2019	Actual 2019	Improvement/decline on prior year or equivalent performance	Percentage increase/decrease %
Transported petroleum volumes (MI)	16 345	17 025	17 825	↑	9,1
Gas volumes (million m ³)	489	506	509	↑	4,1
Storage (MI)	315	338	553	↑	75,6

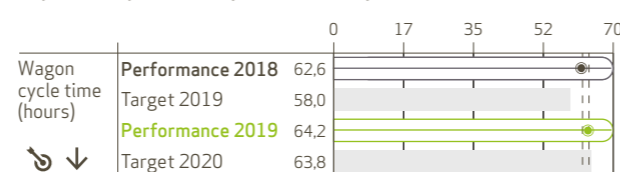
Rail efficiency

Continued efforts to improve efficiencies have yielded positive results, as evidenced by the 4,9% improvement in the general freight average wagon turnaround time, from 10,0 days in 2018 to 9,6 days.

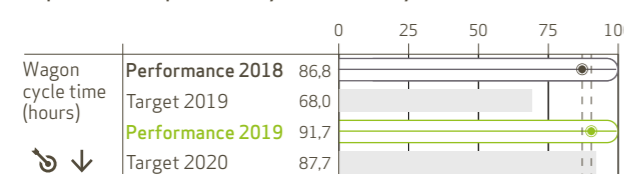
General freight productivity and efficiency



Export coal productivity and efficiency



Export iron ore productivity and efficiency



Performance key

- ↑ Improvement on prior year performance
- ↓ Decline on prior year performance
- ↻ Target achieved
- ⊖ Target partially achieved
- = Equivalent performance to prior year
- Target not achieved

Table 12: Operational efficiency: Density

Volumes	2018	Target 2019	Actual 2019	Target 2020	Improvement/decline on prior year or equivalent performance	Target achieved/not achieved/partially achieved
General freight (GTK/Route km)	5,08	5,56	4,87	> 5,74	↓	○
Natcor (GTK/Route km)	8,04	10,56	8,90	> 10,14	↑	○
Capecor (GTK/Route km)	5,56	5,95	5,77	> 6,93	↑	○
Southcor (GTK/Route km)	4,71	5,52	5,97	> 6,67	↑	↻

Table 13: Operational efficiency: Loco-utilisation

Volumes	2018	Target 2019	Actual 2019	Target 2020	Improvement/decline on prior year or equivalent performance	Target achieved/not achieved/partially achieved
General freight (GTK'000/Loco/Month)	4 917	4 327	4 551	4 227	↓	↻
Export coal (GTK'000/Loco/Month)	18 547	17 793	11 147	17 232	↓	○
Export iron ore (GTK'000/Loco/Month)	40 458	54 594	34 122	54 576	↓	○

Port terminal efficiency

Port Terminals' primary measure of operational efficiency, average moves per ship working hour (SWH), has improved across most container terminals compared to the prior year. Durban Pier 1 Container Terminal has improved its average SWH performance from 46 to 47 moves in 2019.

Durban Pier 2 Container Terminal has marginally increased its SWH from 53 to 54 moves. The Cape Town Container Terminal SWH has also increased marginally to 46 moves from 45 moves in the prior year. These improvements have been achieved despite the terminals experiencing operational challenges due to the deterioration in weather conditions.

The Ngqura Container Terminal's SWH has decreased from 50 to 47 moves due to limitations in people resources and equipment uptime, which are both currently being addressed. The terminal has also experienced a significant decline in weather conditions which has had a negative impact on operations.

Table 14: Port - average moves per ship working hour (SWH)

Port - containers productivity and efficiency	2018	Target 2019	Performance 2019	Target 2020	Performance	Target
Moves per SWH Durban Pier 1	46	≥ 50	47	> 50	↑	○
Durban Pier 2	53	≥ 65	54	> 65	↑	○
Cape Town	45	≥ 56	45	> 56	=	○
Ngqura	50	≥ 66	47	> 56	↓	○

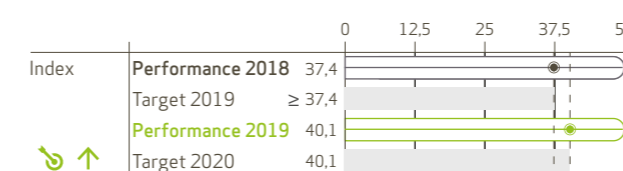
The Richards Bay Dry Bulk Terminal's loading rate reflected an improvement from 785 tonnes per hour in 2018 to 849 tonnes per hour in 2019. The discharge (offloading) rate improved from 391 tonnes per hour in 2018 to 462 tonnes per hour in 2019.

Table 15: Port - productivity loading, offloading and dual loading

Port - productivity and efficiency	2018	Target 2019	Performance 2019	Target 2020	Performance	Target
Dual loading (Tonnes per hour) Saldanha - iron ore	8 576	8 100	8 657	8 100	↑	↻
Loading rate (Tonnes per hour) Richards Bay DBT - Loading - Magnetite	1 229	1 050	1 236	1 100	↑	↻
Richards Bay DBT - Loading - Chrome	820	950	893	950	↑	↻
Richards Bay DBT - Loading - Coal	688	800	691	800	↑	○
Offloading rate (Tonnes per hour) Richards Bay DBT - Offloading - Coking coal	615	600	532	650	↓	↻

The average tonnes dual loaded per hour at the Saldanha Iron Ore Terminal has been maintained above the target of 8 094 tonnes per hour.

Maritime connectivity



General Freight Business

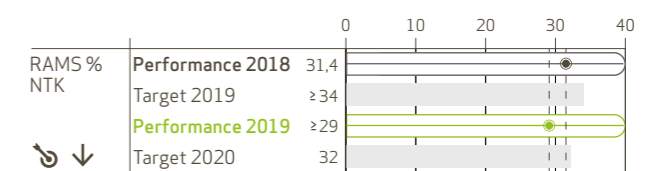


Table 16: Port – average ship turnaround times

Port – efficiency		2018	Target 2019	Performance 2019	Target 2020	Performance	Target
Average ship turnaround times (containers STAT hour)	Durban Pier 1	69	≥ 55	56	< 55	↑	🔒
	Durban Pier 2	72	≥ 53	60	< 63	↑	○
	Cape Town	32	≥ 27	33	< 32	↓	○
	Ngqura	38	≥ 30	31	< 30	↑	🔒

Table 17: Port – anchorage waiting time

Port – efficiency		2018	Target 2019	Performance 2019	Target 2020	Performance	Target
Anchorage waiting times (average hours)	Durban Pier 1	42	≤ 30	33	< 25	↑	○
	Durban Pier 2	79	≤ 40	66	< 30	↑	○
	Cape Town	34	≤ 28	34	< 25	=	○
	Ngqura	42	≤ 28	29	< 28	↑	🔒

Table 18: Port – train turnaround time

Port – containers productivity and efficiency		2018	Target 2019	Performance 2019	Target 2020	Performance	Target
Train turnaround time (hours/minutes)	Durban Pier 1 (hours)	2,4	4	2,3	4	↑	🔒
	Durban Pier 2 (hours)	2,2	4	2,0	4	↑	🔒
	Cape Town (hours)	1,1	4	1,3	4	↓	🔒
	Port Elizabeth (hours)	7,8	12	7,5	12	↑	🔒
	Ngqura (hours)	3,9	4	3,8	4	↑	🔒
	Richards Bay (hours)	8,4	11	9,1	11	↓	🔒
	Saldanha (minutes)	105	109	109	109	↓	🔒

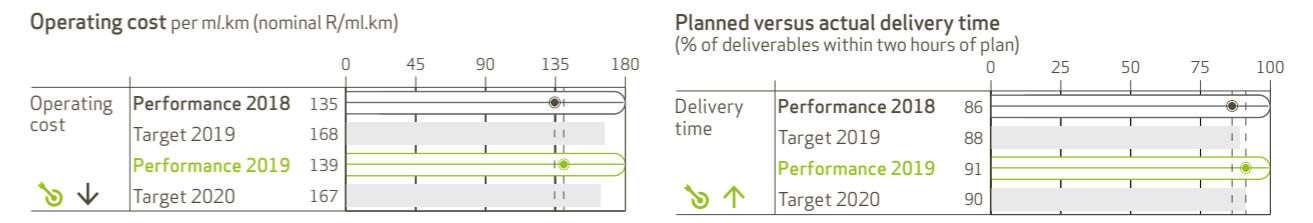
Table 19: Port – truck turnaround time

Port – productivity and efficiency		2018	Target 2019	Performance 2019	Target 2020	Performance	Target
Truck turnaround time (minutes)	Durban Pier 1	55	35	41	35	↑	○
	Durban Pier 2	72	35	69	65	↑	○
	Cape Town	36	35	35	35	↑	🔒
	Ngqura	36	35	36	35	=	🔒
	Richards Bay	24	35	31	35	↓	🔒

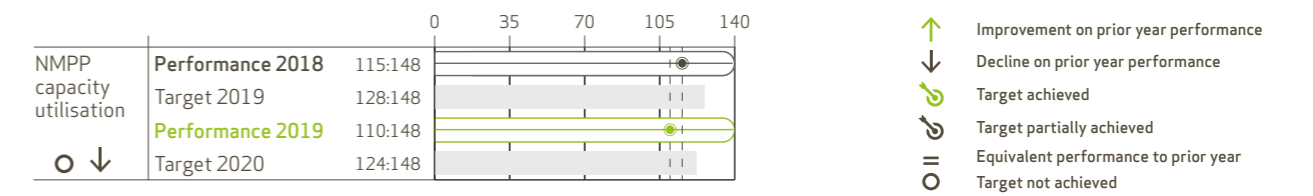
Table 20: Port – moves per gross crane hour

Port – productivity and efficiency		2018	Target 2019	Performance 2019	Target 2020	Performance	Target
Moves per gross crane hour	Durban Pier 1	25	26	24	26	↓	○
	Durban Pier 2	23	32	21	28	↓	○
	Cape Town	30	33	22	28	↓	○
	Ngqura	25	32	21	28	↓	○
	Port Elizabeth	23	25	21	25	↓	○

Pipelines efficiency

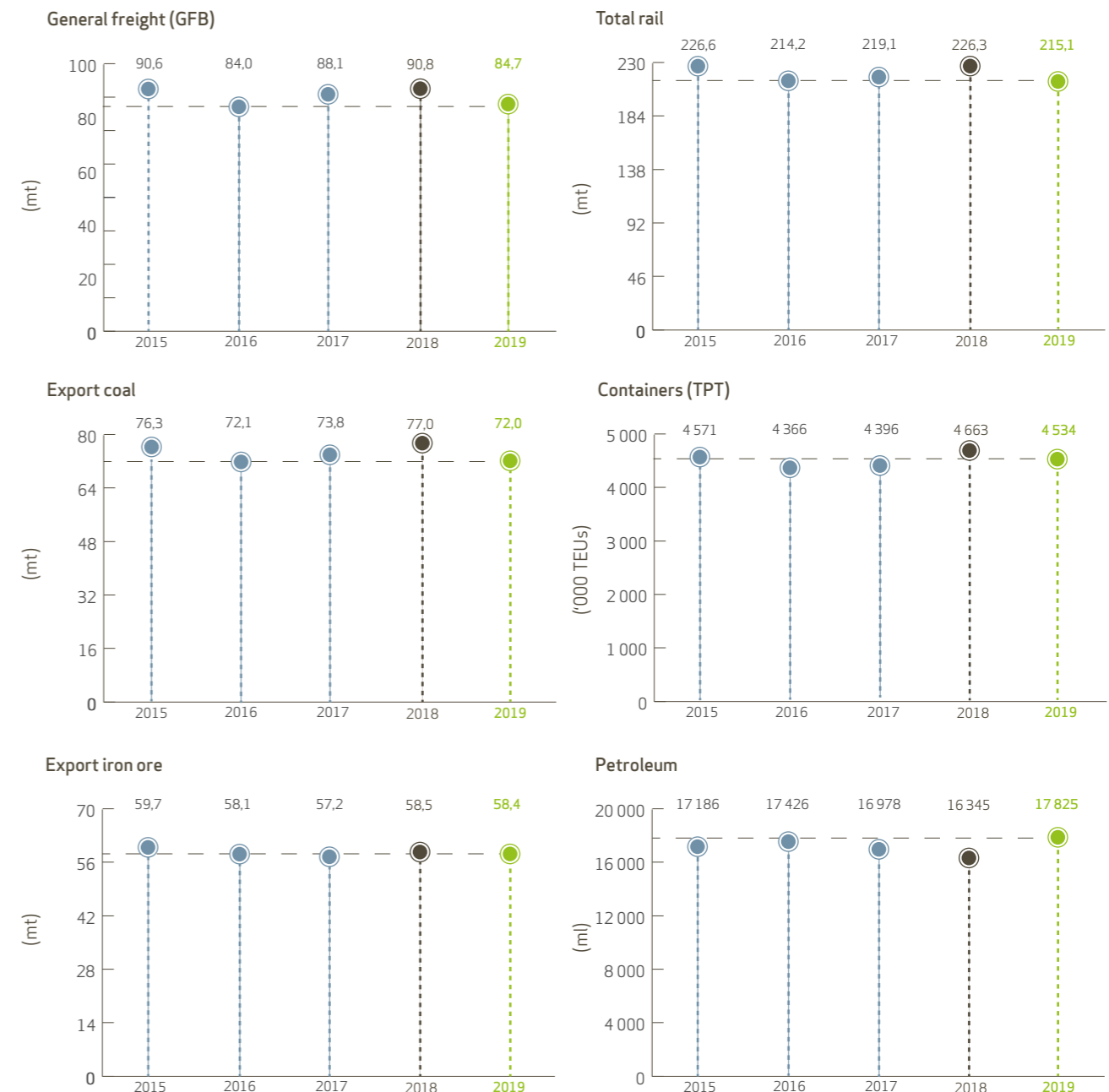


DJP + NMPP capacity utilisation

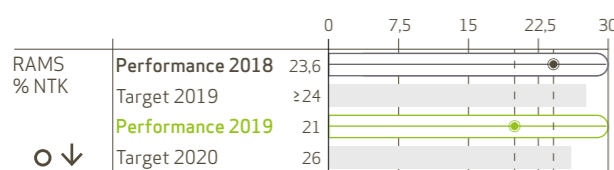


Five-year review: Business growth through volume performance

A five-year perspective for volume performance is reflected below:



Intermodel (containers and vehicles)



Performance key

- ↑ Improvement on prior year performance
- ↓ Decline on prior year performance
- 🔒 Target achieved
- 🔒 Target partially achieved
- Equivalent performance to prior year
- Target not achieved

SDO: Regional integration



Transnet's geographic expansion opportunities will ideally be achieved through port and rail operating concession agreements. These agreements will be pursued collaboratively with suitable regional logistics partners to accelerate the economic integration processes that help develop regional value chains. Transnet Africa unit is responsible for enabling the Company's competitiveness, growth and development in the region through reliable delivery of freight, port and pipeline solutions.

Transnet continues to establish Joint Operating Centres (JOCs) and inter-rail agreements to improve corridor efficiencies across all our regional partnerships.

Our 2019 regional integration performance in brief:

- Cross-border revenue from Transnet Engineering: R166 million (2018: R254 million).
- Inter-Africa transshipment: R798,17 million (2018: R278 million).
- Freight Rail cross-border revenue: R2,152 billion (2018: R3,785 billion).

Positive operational performance highlights

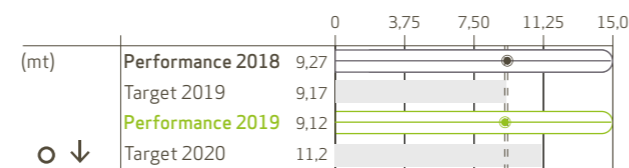
We are pleased to report the following performance highlights reflecting instances of superior performance within our operations:

- Following the breakdown of stacker reclaimer 4 in Saldanha, repair on the equipment was completed within seven days, as opposed to the original timeline of four weeks, thereby significantly reducing the impact of the breakdown.
- Repair of the iron ore rail bridge accident, that occurred in December 2018, took nine days against a projected 11 days to complete. The two-day schedule gain resulted in a Transnet revenue opportunity of R56 million, and a benefit to the South African economy of R474 million.
- Record manganese volumes moved in a week of 329 000 tonnes was railed in April 2019.
- A record volume of 14,3 million tonnes of manganese was moved on rail and a further 2 million tonnes by the port for the year.
- The largest production train in the world was officially implemented in Saldanha in April 2019, with 125 wagons of manganese.
- Transnet successfully enabled the only 100% sinter beneficiating manganese producer in the country (Kalagadi Manganese) on 1 April 2019.
- Record automotive volumes of 510 000 vehicle units were handled at Durban RoRo Terminal for the year.

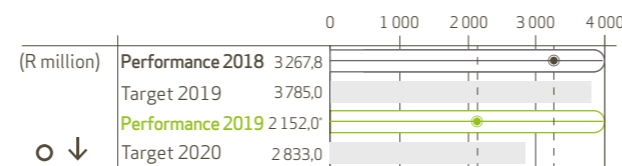
Cross-border revenue by Operating Division

Operating Divisions (R million)	Budget	Actual	Variance (%)
TFR	2 924	2 152	-26
TE	2 100	166	-92
TNPA Transshipment	69,22	69,77	+1
TPT Transshipment	853,5	728,4	-14,7
TPT Consulting	6,3	5,9	-6,4
TPL	138	108	-22
Total	6 091,02	3 229,81	-47

Total cross-border rail volumes



Cross-border rail revenue



* Includes R112,7 million revenue generated from interim solutions implemented in Zambia and Zimbabwe.

Performance key

- ↑ Improvement on prior year performance
- ↓ Decline on prior year performance
- ↻ Target achieved
- ⤵ Target partially achieved
- = Equivalent performance to prior year
- Target not achieved

SDO: Health and safety



Safety performance

Transnet's safety performance is measured against industry-recognised indicators, such as the disabling injury frequency rate (DIFR), fatalities, loss incidents and derailments. We continue to strive towards improved safety performance each year through the implementation of zero harm measures to

improve efficiencies as well as safety management. We acknowledge that the highly industrial nature and scope of our activities requires targeted efforts to maintain the highest standards of safety for our employees, contractors, business partners, customers and communities. The Company's DIFR for the year decreased from 0,73 in 2018 to 0,71 against a tolerance of 0,75.

Transnet continues to implement safety measures to prevent safety incidents, particularly at level crossings. These include level-crossing blocks, safety billboards, public awareness campaigns and awareness campaigns at schools.

During the year, we lost four colleagues and 134 members of the public to fatal accidents in and around our operations.

In respectful memory of our late colleagues:

- Mr Bongani Lucky Magagula
- Mr Henry Tshikila
- Mr Abednego Nkuluma Kubheka
- Mr Bantubonke Qikani

Our 2019 safety performance in brief:

- Disabling injuries: 509 (2018: 539)
- Public fatalities: 134 (2018: 102)
- Running line derailments: 65 (2018: 80)
- Shunting derailments: 153 (2018: 140)

Table 21 reflects DIFR figures recorded per Operating Division during the year.

Table 21: Operating Divisions' DIFR performance for 2019

Operating Division/Business	Disabling Injuries (DIs)		Disabling Injuries Frequency Rate (DIFR)	
	2017/18	2018/19	2017/18	2018/19
Freight Rail	334	342	0,91	0,90
Engineering	91	82	0,66	0,66
Port Terminals	92	61	0,67	0,52
National Ports Authority	16	20	0,33	0,41
Pipelines	1	2	0,09	0,18
Transnet Group Capital	1	1	0,08	0,09
Transnet Corporate Centre	0	1	0,00	0,19
Transnet Property	4	0	0,35	0,00
Group	539	509	0,73	0,71

Employee wellness

We are guided by the Safety, Health, Environment and Quality Policy in our safety management approach advocating zero harm to self, colleagues and the environment. We also acknowledge that productivity is an elusive concept especially if it is not merged with employees' well-being. As such, Transnet ensures that a healthy and safe workforce relies on the mindful balance between employee wellness and productivity.

Our 2019 wellness performance in brief:

- Unplanned absenteeism rate: 3,49% (2018: 3,49%)
- Sick absenteeism rate: 2,86% (2018: 2,85%)
- Overall unplanned leave cost: R614,3 million (2018: R585,1 million)
- Sick leave cost: R353,8 million (2018: R439,7 million)
- Face-to-face counselling sessions provided: 15 814
- Calls made to the Employee Assistance Programme service provider by Transnet employees: 9 538
- Investment in our chronic disease management programme: R3,5 million
- Number of employee awareness campaigns rolled out across the Company: 45

SDO: Environmental stewardship



Environmental stewardship is a mechanism that Transnet employs to minimise its environmental impacts and prevent pollution through an integrated systems approach. As a SOC, it is both our core mandate and a key impetus of our strategic purpose to ensure that we steward the natural resources in our operational areas to support the well-being of future generations.

Water stewardship

Transnet is exposed to various water risks due to the Company's national footprint. Our operations are located in three of the

highly water-stressed catchments in the country i.e. Olifants, Inkomati-Usethu and Berg-Olifants. We also continue to engage with public and private stakeholders in key water-stressed catchments to collaboratively develop sustainable solutions. Transnet has bilateral engagements with the Department of Water and Sanitation to monitor water-related issues affecting our operations and to ensure compliance and, where possible, to shape policy outcomes. We participated in the Carbon Disclosure Project: Water and achieved a C score¹ in 2019. The score highlighted a need for the business to step up its water stewardship efforts by setting meaningful targets and embedding the reality, risks and opportunities of a water-secure future into their business through operational practices, and financial and policy decision-making.

In 2019, Transnet consumed 33 megalitres of water and we endeavour to implement initiatives that will lower this across our operations.

¹ Company goes through four main steps, starting with disclosure of their current position; moving to awareness which looks at whether a company is conscious of its environmental impact; to management, so if a company is managing these overall impacts and the risks and opportunities related to these; and finally leadership, which is a measure of whether a company is implementing best practices in this environmental realm. F: Failure to provide sufficient information, D: Disclosure, C: Awareness, B: Management, A: Leadership.

Waste management

Transnet's operations generate numerous waste streams. Transnet has identified, applied and received remediation orders for contaminated sites as per the requirements of section 36 of the National Environmental Management: Waste Act, No 59 of 2008 (Waste Act). We are implementing the conditions of the remediation orders as per the developed rehabilitation plans. Engagements with authorities are ongoing to ensure that we implement the best options for managing and rehabilitating contaminated areas.

Transnet further performs ad hoc clean-ups in contaminated areas where asbestos exposure presents risks to employees and the public.

Our 2019 waste management performance in brief:

- Revenue generated through the recovery of general and hazardous waste such as scrap metal and used oil: R210,24 million (2018: R89,4 million)
- Hazardous waste disposed: 35 855 tonnes (of which 60% was contaminated soil)
- Asbestos remediation and rehabilitation: nine sites and 49,2 tonnes (2018: 929,88 tonnes)
- Clean-up of hydrocarbon contaminated sites: seven

Biodiversity enhancement

Our operations traverse numerous ecosystems. Conservation and biodiversity enhancement not only benefit the communities where we operate but is critical in ensuring our long-term business sustainability. Transnet monitors and controls invasive species throughout our operations. In total, 1 158 ha of alien and invasive species were eradicated. We also monitor the environmental health of estuaries in our port operations, where we direct our conservation efforts to understand and mitigate the impact of environmental risks on the marine environment.

Heritage management

We further protect and relocate historical graves within our operations where impact cannot be avoided. During 2019, we relocated 48 graves on the Swazi Rail Link from farming land to a formal cemetery in Lothair, Mpumalanga.

Air quality management

Transnet handles large quantities of commodities which impact on air quality. Transnet continues to manage and implement Air Emissions Licences (AELs) conditions, as per the National Environmental Management: Air Quality Act, No 39 of 2004. We endeavour to mitigate any air quality infringements and to operate within legal limits.

Operational trends reflect that different ranges of emission intensity are highly influenced by activities, such as volumes moved or handled and seasonal patterns. Emissions tend to peak during winter months where dispersion is at its lowest. Through our monitoring efforts, we have, however, observed a reduction in emissions over the past five years.

Significant environmental incidents during the year were mainly due to train derailments, operational incidents and suspected cases of theft and vandalism, as well as spillages ranging from coal, chrome and petrochemicals (diesel, petrol and oil). The business also experienced two pipeline spillages; one due to a pipeline rupture in Mpumalanga where diesel was spilled into the natural environment and another one was due to an operational fault at Pipelines' Howick Depot where 600 litres of crude oil was spilled. The relevant authorities were informed and clean-ups were completed on the affected sites.

Our 2019 compliance performance in brief:

- Number of compliance inspections by authorities: eight
- Significant environmental incidents: 15 (2018: 12)
- Value of fines due to non-compliance: R1 million
- Number of pipeline spillages: two (2018: 0)

Energy management

In South Africa, energy supply is dominated by coal, accountable for 59% of the primary energy supply, followed by renewables at 20% and crude oil at 16%. Natural gas contributes 3%, while nuclear contributes only 2% to the total primary supply¹. The Draft Integrated Resource Plan 2018 envisages that renewables will contribute 26% to electricity generation, while coal will contribute 44,5% in 2030. This is a clear indication that South Africa is transforming towards a low-carbon economy.

Of the 3 176 930 MWh consumed by Transnet, 57% was supplied by Eskom's coal-dominated national grid. Electricity generation is the largest key source of greenhouse gas (GHGs) emissions in South Africa. Transnet continues to implement energy-efficiency measures to manage electricity consumption. Fuel accounted for approximately 43% of energy needs. Diesel fuel, imported from oil-extracting countries and manufactured by emissions-intensive processing locally, emits GHG at a high cost to the environment, both in climate change and localised air quality. Approximately 74% of Transnets total electricity and fuel consumption is accounted for in Freight Rail, one of our largest Operating Divisions.

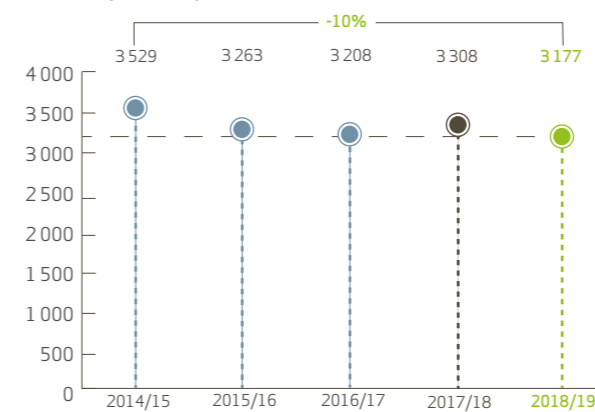
Natural gas has been identified as a key energy source for South Africa's growth and transition to a lower-carbon economy, requiring enabling infrastructure. Transnet is preparing for partnerships with the private sector to establish common-user midstream natural gas networks of integrated port facilities and pipelines (for import, storage and regasification of liquefied natural gas and the transmission of natural gas to multi-sectoral customers in the industrial, power and transport sectors). Through our research and development unit, we continue to investigate alternative means of energy efficiency and opportunities resulting from gas and hybrid-type locomotives.

Our 2019 energy performance in brief:

- In 2019, energy constituted 18,7% of Transnet's total operating cost compared to 16,8% reported in 2018.

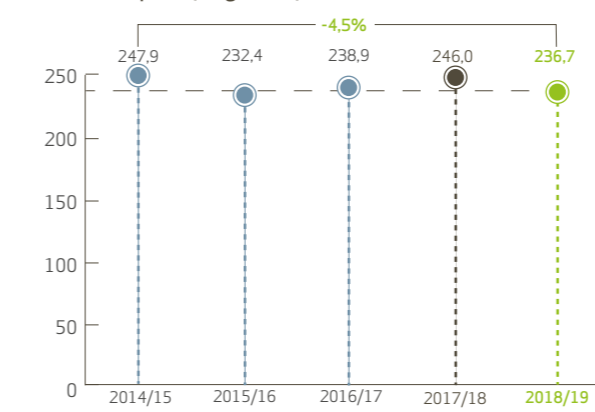
Transnet's total electricity consumption over the period 2014 to 2019 decreased by 10,0% from 3 529 GWh in 2014 to 3 177 GWh in 2019.

Electricity consumption (GWh)



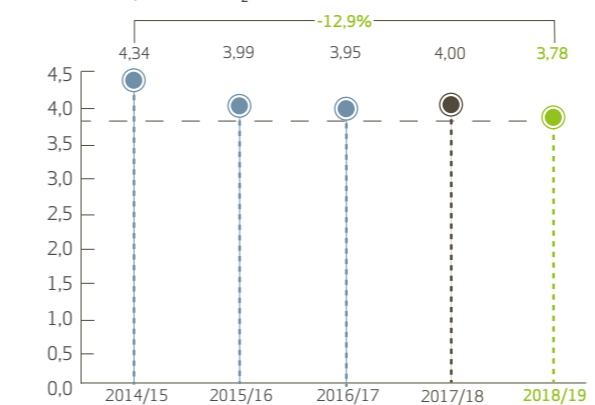
Transnet's total fuel consumption over the period 2014 to 2019 increased by 4,5% from 247,9 megalitres in 2014 to 236,7 megalitres in 2019.

Fuel consumption (megalitres)



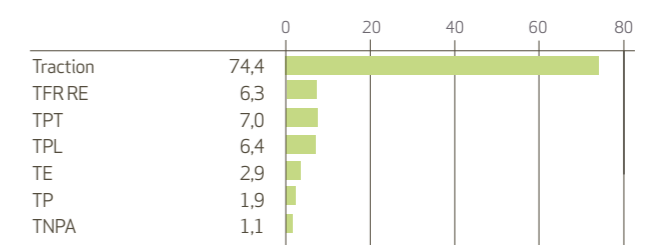
Transnet's total carbon emissions (tCO₂e) over the period 2014 to 2019 decreased by 12,9% from 4,34 tCO₂e in 2014 to 3,78 tCO₂e in 2019.

Carbon footprint (mtCO₂e)



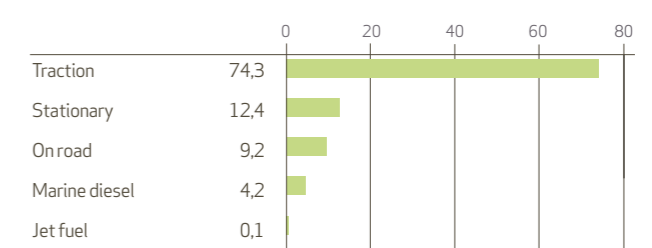
In 2019, 74,4% of electricity was used for Freight Rail traction and the remainder of Transnet's properties, ports, pipelines and engineering operations.

Electricity distribution %



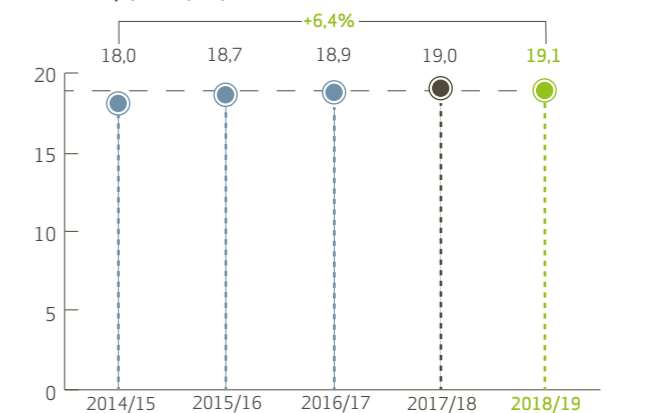
Of the total fuel consumption figure, 74,3% was used for Freight Rail diesel traction, 12,4% on home-base fuel, 9,2% on road vehicles, 4,2% on marine diesel and 0,1% jet fuel.

Fuel distribution %



Transnet's overall energy efficiency (tonne/GJ) over the period 2014 to 2019 improved by 6,4% from 18,0 tonne/GJ in 2014 to 19,1 tonne/GJ in 2019.

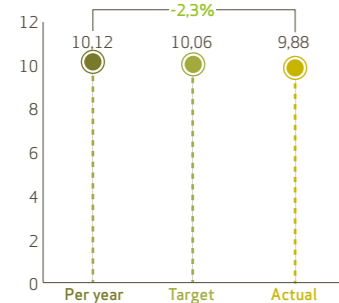
Efficiency (tonne/GJ)



¹ South African Energy Sector Report, DoE, 2018.

With respect to the Transnet Shareholder's Compact agreement, the total carbon emissions intensity (kgCO₂e) performance recorded a 2,3% reduction from 2018.

Carbon emissions (Scope 1 and 2) Intensity (kgCO₂e/tonne)



The overall weighted energy-efficiency performance for 2019 recorded a 2,8% improvement above the Shareholder's Compact target (each operation's energy-efficiency performance against own target is measured per weight contributed to total energy).

Group-weighted energy efficiency



Modal shift from road to rail

South Africa's shift to a low-carbon economy necessitates a reduction of carbon emissions in the transport sector with support for a significant shift of cargo from road to rail.

We anticipate that the introduction of carbon tax and carbon budget constraints will encourage business to reduce GHGs in

order to limit their carbon tax burden. This also presents opportunities for Transnet to position the benefits of carbon-emissions savings from shifting road cargo to rail, especially for the hauling of large volumes over long distances. Transnet is investing aggressively in rail development to accommodate current and future freight demand, to improve quality of service and reliability, and to reduce rail costs. In the past five years, approximately 34,4 mt of cargo was shifted from road to rail, amounting to carbon emissions savings of 2,4 mtCO₂e in the transport sector. The carbon emissions savings in 2019 amounted to 110 ktCO₂e, contributing to the reduction of carbon emissions in the transport sector.

Our 2019 road-to-rail performance in brief:

- Road-to-rail volume gains amounted to 1 650 266,4 tonnes
- Carbon emissions savings in 2019 amounted to 110 078,8 tCO₂e

Table 22: Carbon mitigation results from road-to-rail gains up to March 2019

Commodity groups	Volume gains (tonnes)	Carbon emissions savings (tCO ₂ e)
Agriculture and Bulk Liquids	238 583,8	14 758,4
Coal	198 014,6	8 926,3
Containers and Automotive	665 552,2	50 586,7
Iron Ore and Manganese	79 729,9	9 032,5
Mineral Mining and Chrome	141 169,6	7 960,8
Steel and Cement	327 216,2	18 814,1
Total	1 650 266,4	110 078,8

Numbers rounded to one decimal place.
Note: Calculations are based on volume gained and distance travelled.

Industrialisation: performance

Research and development



Our research and development (R&D) portfolio contributes to the diversification of Transnet's revenue and business streams, with the intention of expanding from the commodity product portfolio to higher value-adding products and services. Our R&D portfolio researches enabling technologies such as autonomous vehicles, additive manufacturing, 3D printing, material science and energy storage. It further serves as a product and business support department, involved in the continuous upgrade, modification, testing and commissioning of the current fleets to ensure greater operational reliability.

The development of the South African TransAfrica Locomotive (TAL) has been one of our greatest achievements, and we are preparing for TAL testing in the next financial year. Freight Rail intends to incorporate additional requirements into the current design.

Our 2019 research and development performance in brief:

- Investment in the research and development portfolio: R10,8 million
- Table 23 provides an overview of our R&D performance against key performance indicators

SDO: Skills development



Transnet remains committed to skills development and the upskilling of critical skills within the organisation and the communities along our servitudes. Our youth development initiatives enable us to respond to the national youth development strategy, while Transnet's schools of Engineering, Rail, Pipeline and Maritime School of Excellence provide sector-specific training to increase the employability of our communities.

The impact of the 4th Industrial Revolution on our industry is bringing far-reaching change. As such, Transnet is assessing the skills required for this new environment and working to close the skills gaps resulting from industry disruptions and new opportunities presented by technology. Our schools are already equipped with state-of-the-art simulation and digital learning technologies to respond to future skills requirements.

While we seek to remain competitive in our industry, we acknowledge that our operational sustainability depends on our ability to implement our skills development programmes. Transnet was awarded a Certificate of Recognition for Excellence in Skills Development and Training at the Transport Sector Education Training Authority (TETA) Skills Summit.

Our 2019 skills development performance in brief:

- Percentage of labour cost spent on training: 2,5% (2018: 2,9%)
- Sector-specific training programmes intake: 1 902 (2018: 1 996)
- Full-time engineering bursaries awarded in various disciplines: 60
- Engineering technician trainees offered workplace experience opportunities: 108
- New apprentices joined the Company's apprenticeship scheme: 223
- New Young Professionals-in-Training contracted: 250
- Number of engineering bursars in Transnet's talent pool: 477

Table 23: Research and development performance for 2019

Research and development	KPI	2019 Target	2019
Second generation TransAfrica locomotive	Number of project milestones completed	2	0
MC 25-Baluleka coach	Number of project milestones completed	7	0
Skills development	% of TMPS	≥ 4,00	0,29
Local spend	% of total spend	≥ 75,00	65,34
Technology transfer/ intellectual property (IP)	% of TMPS	≥ 1,50	0,74
Investment in plant	% of TMPS	≥ 6,00	0,18

Table 24: Skills development programme

Programmes	Input R million 2019	KPI	Output 2019
Training spend	667,89	% of training spend	2,5% (target: 3,1%)
Apprentices programme Work-based learning under the supervision and guidance of a skilled, qualified artisan with an employer	25,18	Number of new trainees	223
		Number of artisans that completed training	368 (target: 200)
Technicians-in-Training Individuals who have successfully completed a National Diploma in Engineering studies at a university of technology, undergoing an 18-month structured development programme	97,56	Number of new trainees	129
Engineers-in-Training Graduates, who have completed an engineering degree at university, undergoing a two-year structured development programme	126,74	Number of engineers	230
Young Professionals-in-Training Young graduates in non-technical fields receiving workplace experience and skills	47,40	Number of trainees	250
Chartered Accountants Training Programme Individuals who have successfully completed an accounting degree at a university, undergoing a three-year chartered accountant programme	6,25	Number of chartered accounting trainees	17
Technical Learner Individuals who are participating in a practical technical learnership (P1,P2) work-integrated learning in order to obtain a qualification, who have been awarded a stipend from Transnet	14,26	Number of new technician learners	200 (target: 200)
		Number of technician learners that completed training	181

Table 25: Bursar and learnership development programme

Programmes	Input R million 2019	KPI	Output 2019
Engineering bursars Engineering bursars individuals who are registered for a four-year BEng/BSc Eng degree to which a full-time bursary has been awarded; other bursaries non-technical bursars Individuals who are registered for a non-technical degree to which a full-time bursary has been awarded; National Diploma (technical bursars) Individuals who are registered for a National Diploma to which a full-time bursary has been awarded	36,75	Number of new bursars	60 (target: ≥ 50)
		Number of bursars in the system	477
Other bursaries • Non-technical bursar • National Diploma technical bursar		Number of other bursars	41 (target: 40)
This includes trainees across Operating Divisions i.e. Engineering, Rail, Pipelines and Ports			
Learnership Development Programmes Call centre, professional driving, health and safety, point of sale, Youth Unemployment Programme	3,04	Number of youth enrolled in the programme	50
Sector-specific training Engineering, Rail, Port and Pipeline	2,81	Number of trainees that completed training	1 902 (target 1 002)

SDO: Industrial capability building



B-BBEE spend

Transnet's B-BBEE verification covers six of the seven elements of the Generic Transport Public Sector Scorecard, excluding the ownership element. The Rail Charter, Maritime Charter and Property Charter are also applied. Transnet was rated a Level 2 B-BBEE contributor in 2019.

Transnet's total recognised B-BBEE spend for the year, as per the Department of Trade and Industry Codes (the Codes), is R29,93 billion or 92,62% of total

% B-BBEE spend of TMPS

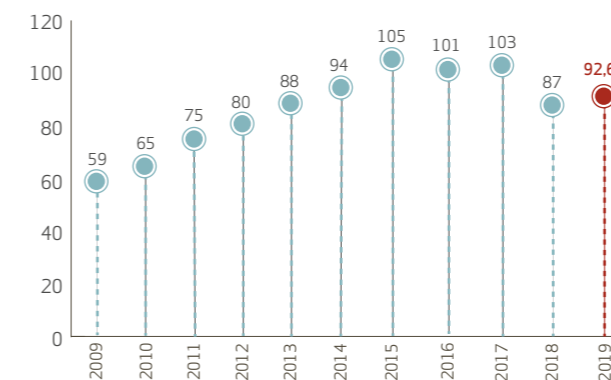


Table 27: B-BBEE categories of spend

Key performance area (Transformation)	Unit of measure	2019 Target (without PPPFA exemption)	March 2019 %
Local spend	% of total spend	> 75	65,34
B-BBEE	% of TMPS	> 70	92,62
Black women-owned	% of TMPS	> 5	28,50
Black-owned	% of TMPS	> 15	42,14
Black youth-owned	% of TMPS	> 1	1,11
EME	% of TMPS	> 7	8,41
QSE	% of TMPS	> 5	10,12
People living with disabilities	% of TMPS	> 0,125	0,13

measured procurement spend (TMPS) of R32,31 billion (2018: R25,8 billion or 86,9% of R29,7 billion). Transnet spent R13,61 billion (42,14% of TMPS) on black-owned enterprises; R9,20 billion (28,5% of TMPS) on black women-owned enterprises; R2,71 billion (8,41% of TMPS) on exempted micro-enterprises (EMEs); and R3,26 billion (10,12% of TMPS) on qualifying small enterprises (QSEs). Black youth-owned enterprise spend accounts for R360 million (1,11% of TMPS). Enterprise spend relating to black people living with disabilities accounts for R42 million (0,13% of TMPS).

Enterprise development (ED)

Transnet recognises that today's entrepreneurs and small businesses are South Africa's future creators of direct and indirect employment and will form a critical part in the country's economic revival. Accordingly, Transnet's ED

programmes provide much-needed financial and practical business support and entrepreneurship training to advance small businesses.

Supplier development (SD)

Transnet's SD programme promotes skills development and aims to create and preserve jobs in the South African economy. It further encourages the transfer of intellectual property and the promotion of local suppliers and ultimately promotes industrialisation through contractually-obligated SD plans. SD spend amounted to R5,7 billion (17,66% of TMPS), with the following category breakdown: SD of R92,19 million (0,29% of TMPS), investment in plant of R59,27 million (0,18% of TMPS) and technology transfer of R259,55 million (0,74% of TMPS).

Table 26: Industrial capability

Key performance area Industrial capability building	Unit of measure	2019 Target (without PPPFA exemption)	March 2019 %
CSDP (SD value)	% of TMPS	> 39	17,66
SD	% of TMPS	> 4	0,29
Technology transfer/IP	% of TMPS	> 1,25	0,74
Investment in plant	% of TMPS	> 5	0,18

Table 28: Building and transforming our economy through enterprise and supplier development

#	Initiatives	Description	Outcomes	Type of programme	Beneficiaries	Investment 2019
1	• Shanduka Black Umbrellas	• A non-financial support service aimed at incubating 100% black-owned SMMEs, which can meet Transnet's supply chain needs.	• Business incubation and mentorship • 30 companies are incubated in Port Elizabeth and Richards Bay • 97 jobs were created	• Enterprise Development	• Black-owned SMMEs through incubation	R10 million
2	• Godisa	• The fund is a collaboration between Transnet, Anglo American and the Small Enterprise Finance Agency to provide financial and non-financial support to Transnets black-owned suppliers.	• Provides financial assistance to 21 black-owned current suppliers • In 2013 Transnet awarded a R15,5 billion oil contract to nine black-owned companies	• Supplier Development	• Revolving loan	R13 million
3	• Junior Achievement South Africa (JASA)	• A school programme that provides entrepreneurship skills to high school students.	• School programme that provides entrepreneurship skills • 321 learners benefited • 20 youth-owned businesses were formed. • Established five entrepreneurial academies in four provinces and more than 35 jobs created	• Enterprise Development	• High school learners	R4,2 million
4	• SABS	• This is an incubation programme designed to assist black-owned SMMEs with design, research and development skills.	• 100 black-owned businesses were incubated and provided with entrepreneurial, research and innovation skills over a three-year period • 36 businesses were established by the school's learners • One of the black industrialists was from this programme	• Enterprise Development	• Black-owned SMMEs research and development	R10,6 million
5	• Empangeni Hub (building refurbishment)	• The enterprise development hub aims to ensure that Transnet creates an enabling environment for SMMEs to access products and services that are offered by both provincial and national economic development institutions.	• Building refurbishment for incubation	• Enterprise Development	• Incubation of Transnet former Graduates-in-Training (GITs) that are unemployed	R7,3 million
6	• Small Enterprise Development Agency Incubation	• Incubation and mentorship of military veterans in KwaZulu-Natal (KZN) and Eastern Cape (EC).	• 16 SMMEs currently incubated	• Enterprise Development	• Incubation of Transnet former GITs that are unemployed	R4 million
7	• CVC Africa	• Develops entrepreneurship and innovation for the transport and logistics industry. • Incubation and mentorship of military veterans in KZN and EC.	• 201 beneficiaries benefited	• Enterprise Development	• Military veterans based in KZN and Eastern Cape	R29 million
8	• Mtiya Dynamics	• Enterprise and skills development and research for black-owned business.	• 20 SMME black industrialists were incubated	• Enterprise Development	• Black industrialist incubation	R3,5 million

SDO: Employment and transformation



Transnet upholds the principles of the United Nations Global Compact (UNGC) on equity and anti-discrimination and, as an organisation, seeks to reflect the diversity of South African society. The employee race profile for the year was 75,1% African, 9,8% coloured, 3,3% Indian and 11,8% white. Female representation now exceeds 28,9% in executive, senior, professional and skilled technical levels, including a 38,1% representation in the Interim Executive Committee.

Representation of people with disabilities remains a challenge at 2,3% of the total headcount (2018: 2,4%). The employment of people with disabilities remains a priority for Transnet's transformation agenda.

We continue to build our talent pool of younger employees with the intake of graduates into our Graduates-in-Training programmes and other learnerships. To further strengthen the talent pool for succession, we assign young mentees to our more mature personnel to provide guidance and technical skills transfer. At least 37,2% of our workforce comprises personnel less than 35 years, a decrease from the 39% in 2018. A decrease has also been noted in the older workforce at 0,02% (2018: 0,03%).

Table 29: Transnet employment equity profile

Designated categories	2018	2019
Black	85,2	88,2*
Females at executive level	50,0	38,1
Females at extended executive level	43,2	44,4
Females below extended executive level	27,7	28,9
People with disabilities	2,4	2,3

* Including contract employees.

Table 30: Black employees: male and female

	Male	Female
Top management	70	58
Senior management	505	274
Professional	2 628	1 727
Skilled	11 730	6 905
Semi-skilled	13 301	4 718
Unskilled	5 957	1 462

Table 31: Employee by age distribution

	2019 Actual number of category employees	% of the overall workforce
63 years	15	0,02
61-62 years	1 718	3,1
56-60 years	4 801	8,6
46-55 years	9 303	16,6
36-45 years	19 308	34,5
26-35 years	19 540	34,9
18-25 years	1 261	2,3

SDO: Community development



Healthcare

As a SOC, Transnet continues to address the challenges of poverty, unemployment and inequality. We continue to prioritise healthcare services to rural and semi-rural communities through two main healthcare programmes:

Teenage health programmes

Our teenage health programmes advance health rights across South Africa by recognising that health rights are human rights. These programmes continue to be responsive to the needs of adolescents and youth as outlined in the National Adolescent and Youth Health Policy and include stakeholders from Government, civil society and the private sector.

Phelophepa Healthcare Trains I and II

Our Phelophepa Healthcare Trains I and II extend the reach of primary healthcare services and healthcare education to enable individuals along Transnet's national corridors to receive healthcare that they would not otherwise have access to. Our pharmacy provides up to schedule 4 medication. The health clinic treats common illnesses and ailments, diabetes and provides cancer screening. The dental clinic is equipped to perform teeth cleaning, extractions and restorations, and also has a digital X-ray unit for intra-oral radiography. The eye clinic treats patients' eyes and sight, while prescription spectacles are produced in the laboratory on the train and a range of ready-made readers are also available. The educational clinic trains volunteers from each community in preventative healthcare at each of the stations on route. The psychology clinic continues to provide a valuable link to local community psychologists, social workers and other professionals for follow-up assistance.

Our 2019 community health performance in brief:

- Investment in the Phelophepa Healthcare Trains: R88,44 million
- Patients receiving medication through the on-board pharmacies: 55 468
- Patients receiving primary healthcare: 66 913
- Patients receiving dentistry services: 24 264
- Patients receiving optometry services: 46 712

Table 32: Youth benefiting from health programmes nationally

Province	Adolescent male	Adolescent female	Youth out of school
KwaZulu-Natal	1 044	2 238	395
Free State	322	1 016	300
Northern Cape	247	501	20
Eastern Cape	383	959	289
Limpopo	228	1 304	0
Mpumalanga	452	900	100
North West Province	200	673	779
Western Cape	410	1 505	300
Total	3 286	9 096	2 183

- Patients receiving counselling services: 1 894
- Individuals assisted through outreach: 452 866 (2018: 435 332)
- Volunteers trained on preventative healthcare at edu-clinics: 6 591
- Experimental learning opportunities provided to healthcare students: 2 500
- Established dedicated youth health centres: Ermelo, Bodibe and Bloemfontein
- Unemployed youth enrolled in accredited community health-worker training as possible career paths: 100
- Investment in teenage health and development programmes: R20,66 million
- Number of adolescents and youth benefiting from the health programmes: 14 565
- Learners participating in the provincial and the national sports tournaments: 25 000
- Vulnerable and orphaned youth receiving assistance: 37
- Graduates participating in international football teams: four
- Graduates participating in national football teams: 62
- Learners enrolled in 2019: 119

Socio-economic and infrastructure development (SEID)

SEID improves the societal welfare in vulnerable and disadvantaged communities. Transnet's SEID programmes convert old freight containers into community centres, enterprise incubation hubs, police stations, schools and clinics using a specialised mix of buildings and containers. We reach out to the communities through our SEID programmes in partnership with both the private and public sectors. We also collaborate with other Government social services institutions to enable communities to access basic services. By engaging unemployed youth graduates in innovative ways – especially in economics, engineering and construction – we have observed excellent returns in the areas where we operate.

Our 2019 socio-economic and infrastructure development performance in brief:

- People benefiting from SEID initiatives along our servitudes: 37 261
- Investment in the SEID programme: R6,61 million
- Non-financial beneficiaries (SMME development, safety, health, social, education):
 - SMMEs established: two
 - SMME members trained: 21
 - Food distribution programme beneficiaries: 162
 - Adult Basic Education and Training (ABET) beneficiaries: two

Employee volunteerism (EV)

Given Transnet's diverse skill sets across the business, we have adopted an integrated community development approach by creating a formal EV programme. The EV programme offers employees an opportunity to volunteer their wealth of skills and knowledge to help address communities' needs. Our EV offerings range from infrastructure development, to job creation and skills development and help to grow communities' competency levels.

As a SOC, Transnet encourages a culture of volunteerism by allocating three days a year for volunteerism to each employee, and also allows employees to volunteer their time to a non-profit project or organisation of their choice. During the year, R9 698 728 million was invested in EV.

Legislative compliance



To the best knowledge of the directors, the Company has complied, in all material respects, with all legislation and regulations applicable to it during the year, except as disclosed on page 74 where we report on PFMA compliance.

Pending legal matters

Pension and post-retirement benefit obligations

Following the certification of the pensioners' class action proceedings on 31 July 2014, Transnet was served with a summons on 11 June 2015 issued out of the Pretoria High Court. In terms of the summons, the plaintiffs are members of the Transnet Transport Pension Fund (TTPF) and the Transnet Second Defined Benefit Fund (TSDBF) respectively, and they represent all members of their

respective funds who have not opted out of the class action.

On 31 May 2019, Transnet's attorneys concluded a Joint Memorandum of Agreement (JMoA) with the plaintiffs' attorneys recording matters that are resolved on the essential economic arrangements for the settlement of the litigation.

On 20 June 2019, the two funds' boards unanimously resolved to accept the contents of the JMoA as the basis for a settlement agreement among all the parties to the class action litigation. In a special Transnet Board meeting held on 16 July 2019, the Board approved the settlement proposal of the pensioners' class action as set out in the JMoA. The settlement proposal is affordable to the funds and has no financial implications on Transnet.

The settlement will only take effect once it is made an order of the court. Application to the High Court for approval of the settlement agreement is being prepared, subject to a window period for members of the classes and interested parties to make representations to the High Court. Assuming that the settlement agreement is accepted by the High Court, implementation of the agreement on its terms will proceed.

Accordingly, the case management timetable and the class action litigation have been suspended by agreement among the parties' representatives.

Incidents relating to irregularities and fraud

We have identified fraud, corruption and procurement irregularities as a significant risk that continues to plague the organisation. The Company continues to root out such behaviour and has implemented proactive analytics to identify these irregularities. To facilitate

independent opinion, we have outsourced the Tip-Offs Anonymous Hotline to a third party to ensure seamless investigation without prejudice. The Hotline is available 24 hours a day, seven days a week and the call centre agents can converse in all 11 official South African languages, and irregularities can be reported anonymously.

We seek to ensure that the outcomes of the investigations be measured by either criminal convictions, disciplinary action (formal dismissal or other sanctions), civil recovery and blacklisting of vendors who have been dishonest. We continue to raise awareness on different communication platforms about fraud, corruption and scams; and to protect our employees from victimisation by implementing the Transnet Whistle-blowing Policy. Reporting is undertaken in line with the Protected Disclosures Act, No 26 of 2000, as amended. Transnet acknowledges that fraud, corruption and procurement irregularities remain a significant challenge that requires prioritisation.

In 2019, incidents relating to procurement irregularities remained high at 39%. 31% related to corruption and fraud, 19% related to the misuse of resources while 11% was due to non-compliance to policy or legislation. A total of 2 064 incidents were reported during the financial year, with 1 328 having undergone investigation. Of the incidents investigated, 45,1% were founded, 54,2% were unfounded while 0,7% were partially founded.

The Company also recorded 1 250 incidences of scamming during the year, with 41,4% scam incidents being founded and 42,6% being unfounded; 15,8% were still under investigation at the financial year end. The majority of the scam incidents occurred within Freight Rail. Of the 535 incidents reported for Transnet's Corporate Centre, 16 are presently under investigation and zero incidents have been founded to date.

Table 33: Incidents of irregularities 2019

Incidents	2019				
	Investigation in progress	Reported incidents unfounded	Reported incidents founded	Reported incidents partially founded	Total
Operating Divisions					
Transnet Corporate Centre	15	32	1	1	49
Transnet Freight Rail	311	56	39	0	406
Transnet Engineering	70	43	10	1	124
Transnet Ports National Authority	30	18	4	4	56
Transnet Port Terminals	68	29	26	2	125
Transnet Pipelines	9	1	1	0	11
Transnet Group Capital	28	2	0	0	30
Transnet Property	7	6	0	0	13
Total	538	187	81	8	814

Table 34: Incidents of scams 2019

Incidents	2019				
	Investigation in progress	Reported incidents unfounded	Reported incidents founded	Reported incidents partially founded	Total
Operating Divisions					
Transnet Corporate Centre	16	519	0	0	535
Transnet Freight Rail	152	7	518	1	678
Transnet Engineering	6	3	0	0	9
Transnet Ports National Authority	2	1	0	0	3
Transnet Port Terminals	12	3	0	0	15
Transnet Pipelines	6	0	0	0	6
Transnet Group Capital	1	0	0	0	1
Transnet Property	3	0	0	0	3
Total	198	533	518	1	1 250

Governance and Compliance

Update on state-capture allegations

During the year, the Company was the subject of pervasive media coverage relating to what is commonly referred to as the Gupta leaks and state capture. The Transnet Board, appointed on 23 May 2018, drove numerous forensic investigations. While the negative media allegations pummelled Transnet's reputation and employee morale for more than a year, the focus has now shifted to rebuilding trust with our various stakeholders and recovering any funds due to Transnet. In addition to the civil action taken, the appropriate criminal charges have been laid, and may continue to be laid where appropriate. The Company is co-operating fully with law enforcement and investigative agencies and has provided extensive evidence to the Zondo Commission of Inquiry.

PFMA reporting 2017/18 audit findings

In terms of the Public Finance Management Act of South Africa, 1999 (PFMA), the Company is required to report the quantum of Irregular Expenditure incurred, which is expenditure that was incurred in contravention of procurement legislation, notwithstanding that value was received.

In the prior year, the audit opinion was qualified due to external audit being unable to obtain sufficient audit evidence that the disclosure of irregular expenditure was complete and accurate.

2018/19 audit findings

During the year under review, management made a significant effort to improve and establish adequate controls to maintain complete and accurate records of irregular expenditure. The vast majority of the irregular expenditure reported in the current year relates to contracts entered into in prior years, which is indicative of the improvement in the procurement control environment that is now preventing new incidences of non-compliance.

The amount of irregular expenditure reported in the current year is significant due to the expected inclusion of R41,5 billion expenditure on locomotive contracts, entered into prior to 2015, that was the subject of several investigations at the time of finalising the prior year report.

Despite the abovementioned corrective action, it was confirmed during the current audit that Transnet's implementation of certain of the Preferential Procurement Regulations, 2017 relating to tender prequalification criteria was inconsistent with the legislation. The Company ceased using the tender prequalification criteria in June 2018 and, at the commencement of

the audit, was of the opinion that the affected expenditure was not irregular, as the use of the tender prequalification criteria was aimed at assisting the Company to achieve the competitive supplier development targets set by the Shareholder.

This matter has been considered in detail and, with input provided by various technical and legal experts, the Company now accepts that the affected expenditure should be reported as irregular. We need to emphasise that this is merely due to the misinterpretation of legislation in an effort to align our procurement practices to achieve certain competing developmental objectives. Given management's interpretation of the legislation, appropriate controls to identify and record this category of expenditure were not put in place. Due to this, as well as the timing of the clarification relating to this issue, the Company was not in a position to satisfy external audit that the reporting of this category of irregular expenditure is complete and accurate and, accordingly, the external auditors have issued a qualified opinion that is specific to the completeness and accuracy of the reported irregular expenditure, as required by the PFMA.

The qualified opinion is not related to compliance with International Financial Reporting Standards (IFRS) nor the Companies Act of South Africa, 2008.

Activities undertaken to ensure complete and accurate reporting on irregular expenditure

- Complete procurement files for all active contracts have been compiled in both hard and soft copy, and reviewed by management to ensure that the procurement processes followed were in compliance with the PFMA and related regulations and policies.
- Identified non-compliance categorised as 'Irregular Expenditure', 'Fruitless and Wasteful Expenditure', 'Losses from Criminal Conduct' or 'Non-collection of Revenue' – have been fully quantified for reporting purposes.
- A detailed reconciliation of all procurement spend for the 2018/19 financial year confirmed the accuracy and completeness of all reviews.
- A project has been initiated to ensure the requisite technology platform and tools are in place to sustain the aforementioned activities and to

provide automated process improvements. Processes include, among others, the linking of purchase orders to contracts, the management of pre-award procurement activities, and the enforcement of error reporting for purchase orders created above threshold values.

- The Company has collaborated with all forensics investigations to ensure group-wide alignment of employee relations on consequence management on all matters reported in the Annual Financial Statements.

Table 35: PFMA reporting in 2019

Reportable PFMA incidents	Recurrence of incidents*	Loss value (R million)		Outcome of remedial actions during the 2019 financial year
		2019	2018	
Irregular expenditure				
Current year spend on contracts entered into in the current year	✓	1 618	3 427	• 87% incurred prior to the remedial plan kick off.
Current and prior year spend, identified in the current year, for contracts entered into in prior years	^	4 846	4 696	• R507 million removed which was under investigation as potential irregular expenditure in the prior year and now confirmed not irregular.
Non-compliance to PPPFA – tender pre-qualification criteria				
Current year spend	^	837	—	• Misinterpretation of legislation in an effort to align Transnet's procurement practices to contribute to the achievement of the competitive supplier development targets set by the Shareholder.
Prior year spend		1 092	—	
Locomotive transactions				
Spend on "1 064", "95" and "100" locomotive transactions and associated transaction advisory services	^	41 529	—	• Under investigation in the prior year. • Contravention of the PFMA provisions. • Accordingly, transactions are reported on in the current year and appropriately classified as irregular expenditure. • The Board sought independent legal advice on the implementation of civil, criminal and disciplinary matters.
Fruitless and wasteful expenditure				
Identified in the current year, relating to current year	^	134	4,8	• Mainly due to poor contract management, fines and penalties and non-adherence to the Company's delegation of authority.
Identified in the current year, relating to prior years	^	350	18,7	
Criminal conduct				
Cable theft (copper, cabling and related equipment)	^	44	22	• 171 cases reported to the South African Police Service (SAPS). • R1,4 million worth of stolen material recovered. • One employee was dismissed.
General theft and damage to assets	^	32	21	• 72 cases reported to SAPS. • R1,4 million of stolen material was recovered.
Collusion and fraud	^	20	—	• Disciplinary, criminal and civil proceedings instituted. • Two employees dismissed following the disciplinary process. • Two employees resigned. • One employee suspended. • One matter still under investigation.
Theft of signals, perway and equipment	=	13	13	• 92 incidents of theft. • Two employees suspended. • R525 000 of stolen equipment recovered.
Non-collection of revenue				
Bad debts written off	^	(432)	—	• R432 million written off due to efforts to collect debt (unpaid rentals) being unsuccessful.
Delayed invoicing	^	(2)	—	• R2 million recovered.

* The significant increase in the number of items reported is mainly due to the concerted drive to improve our reporting.

Outlook

Economic considerations

Transnet's economic performance, insofar as it relates to volume growth, is directly linked to the performance of the global and domestic economy. At the same time, Transnet is a key enabler of the domestic economy through its provision and maintenance of logistics infrastructure and freight solutions.

Global financing conditions have tightened in the wake of weakened growth. Industrial production has moderated, with intensified trade tensions resulting in some large emerging market and developing economies (EMDEs) losing momentum and experiencing significant financial market stress. The global economy is currently characterised by volatility and high levels of uncertainty. With the stubborn recovery of the global economy and persistent vulnerability of EMDEs to market swings and increasing protectionism in advanced economies, global trade movements are constrained. In this climate, the organisation has had to revise its capital expenditure and infrastructure investment approach from the previous accelerated Market Demand Strategy, which relied on growing global and domestic aggregated demand. In the short to medium term, Transnet is shifting its emphasis towards capital expenditure based on validated demand, and prioritising spend on sustaining capital rather than capital expansion.

Downside macroeconomic risks have become more acute and include the possibility of unpredictable financial market movements. Furthermore, an escalation of trade disputes and debt vulnerabilities in EMDEs have increased, particularly in low-income countries. Also, slower than projected growth in China and the Euro area, which have strong trade and investment links with sub-Saharan Africa, will adversely affect the region through lower export demand and investment.

In South Africa, economic growth remains weak due partially to continued policy uncertainty. According to the Bureau of Economic Research¹, South Africa is projected to recover slower than previously expected in 2019 to 0,7%, before rising to 1,9% in 2021². The International Monetary Fund (IMF) has revised South Africa's growth rate downward to 0,7%³. High unemployment and slow growth in household credit extensions are expected to constrain domestic demand in the near term, while fiscal consolidation is likely to limit

Government spending. That said, a higher rate of growth in the country's economy is expected in 2020.

An improved outlook from 2020 stems from the expectation that Government's structural reform agenda will gradually gather speed, and help to boost investment growth, as policy uncertainty recedes and investor sentiment improves. The IMF cutting its January 2019 growth outlook for the country is due to the view that policy uncertainty has only modestly reduced since the May 2019 national election and, additionally, structural pressures remain. This is best demonstrated by the economy shrinking more than it has in a decade during the first quarter of 2019 due to the nation experiencing the worst power outages since 2008.

Commodity outlook

The haulage of commodities has traditionally been the cornerstone of the organisation's shipping activities. As such, the global commodity outlook is a significant factor in considering the organisation's economic prospects.

Agricultural prices were roughly flat in 2018 but declined appreciably in the second half of the year, with developments varying by commodity. Agricultural prices are projected to remain broadly stable in 2019 and 2020.

Energy prices fluctuated markedly in the second half of 2018, mainly reflecting supply factors, with sharp falls toward the end of the year. Prices of most metals and, to a lesser extent, agricultural commodities also weakened, largely due to concerns about the effects of tariffs on global growth and trade. Oil prices are expected to average \$67/bbl⁴ in 2019 and 2020. This forecast, however, remains highly uncertain. While growth in oil demand is expected to remain robust in 2019, the estimated loss in momentum across EMDEs could have a greater impact on oil demand than anticipated. Excessive demand on road freight transport poses an input cost risk to South African economic participants when oil and, by implication, fuel prices face volatility. Reducing the dependence on road and providing intermodal solutions is ever more critical with the high cost of freight services rendering prices uncompetitive for suppliers in certain commodities.

After increasing in the first half of the year, prices of metals fell sharply in the second half, following the imposition of

broad-based tariffs by the United States on China's imports. Heightened trade tensions involving these economies have raised market concerns about global trade and investment prospects, and as a result, they have clouded the outlook for commodity demand.

Supporting local commodity exporters and importers through our infrastructure and freight solutions requires continued investment in infrastructure maintenance and improvements. That said, operational efficiency gains and stringent cost reduction will buffer unpredictable or slow growth in commodities in the near term.

Capital investment outlook

Transnet plans to spend R153,5 billion on capital investment over the next five years, of which 71,3% (R109,4 billion) will be spent on sustaining capital. A significant portion of capitalised maintenance (R73,2 billion) will be spent on permanent ways and rolling stock (locomotives and wagons) while the remainder is planned for port and pipeline fleet and equipment respectively.

Funding outlook

Apart from the initial share capital of approximately R12,7 billion at the time of the establishment of Transnet, debt capital (local and foreign bonds and loans) is the only source of external funding that has been used to finance Transnet. Less than 3% (R3,5 billion) of Transnet debt is supported by government guarantees and the current funding plan assumes no further reliance on government guarantees.

Funding initiatives to satisfy the funding needs for the new financial year are already well advanced and there is every indication that the aspiration to not only reduce our total debt levels, but to also reduce the weighted average cost thereof, is achievable in the short term.

While the short-term funding requirements are likely to be sourced from the traditional sources of debt funding, we continue to explore all other sources of funding (e.g. asset leases, project finance and private sector participation) and will utilise these sources where more appropriate.

Vigilant management of the risk factors associated with our debt book is a central feature of our Financial Risk Management Framework.

The performance framework depicting the performance outlook for our KPIs is depicted below.

Table 36: Medium-term planning horizon

	2018 performance	2019 performance	2020 year ahead	2022 short term	2024 medium term
Financial sustainability					
Revenue (R million)	72 887	74 070	83 670	96 280	111 424
Net operating expenses	40 372	40 320	45 755	52 014	59 236
EBITDA (R million)	32 515	33 750	37 915	44 266	52 188
EBITDA margin (%)	44,5	45,6	45,3	46,0	46,8
Net profit after tax (R million)	4 851	6 047	6 089	7 287	11 144
Capital investment	21 781	17 941	28 911	33 861	28 225
Gearing (%)	43,5	44,5	45,1	46,0	42,2
Cash interest cover (times)	3,0	2,9	2,8	2,7	3,0
Cash flow from operations (R million)	22 958	21 930	23 300	27 453	33 587
ROIC	6,4	7,2	5,2	5,8	6,9
Capacity creation (R million)					
Freight Rail	17 598	14 818	20 358	19 200	13 623
National Ports Authority	1 054	941	2 706	5 414	7 261
Port Terminals	1 365	1 515	2 877	5 170	4 966
Pipelines	1 544	326	1 418	2 681	1 054
Engineering	275	301	510	457	468
Operational performance (mt)					
Rail volumes (mt)					
General Freight Business	90,8	84,7	96,6	104,6	115,0
Export coal	77,0	72,0	77,4	77,5	77,5
Export iron ore	58,5	58,4	60,0	60,0	60,0
Port volumes					
Containers ('000 TEUs)	4 664	4 534	4 863	5 112	5 356
Bulk (mt)	83,1	82,4	85,6	89,2	93,9
Break-bulk (mt)	19,1	19,8	21,7	24,9	27,9
Vehicles (units)	704 052	743 350	724 141	725 087	802 090
Pipelines					
Total petroleum products (Ml)	16 345	17 825	17 204	17 575	17 989
Market share competitiveness (%)					
General freight					
Rail addressable market share (RAMS)	31,4	29	32	32	33
Intermodal rail addressable market share (RAMS)	23,6	20,9	26	26	26

Within the current economic environment, it is critical that Transnet focuses on that which it can control and on mitigating internal and external risks to its financial sustainability. As previously stated, the Company is transitioning from an accelerated capital investment approach towards a less capital-intensive approach. In 2020, the Company will prioritise operational efficiency, reliability and visibility, thus improving the customer experience.

¹ <https://m.fin24.com/Economy/sas-economic-growth-prospects-keep-diving-20190724>.

² Source: Bureau for Economic Research, June 2019.

³ <https://m.fin24.com/Economy/sas-economic-growth-prospects-keep-diving-20190724>.

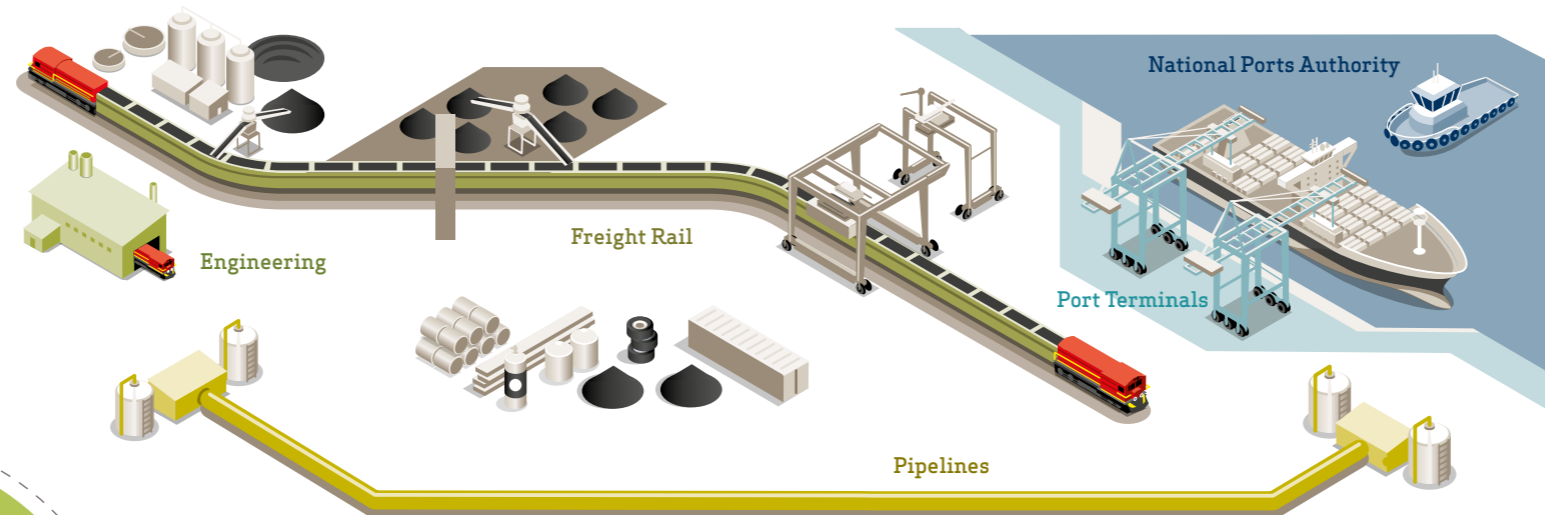
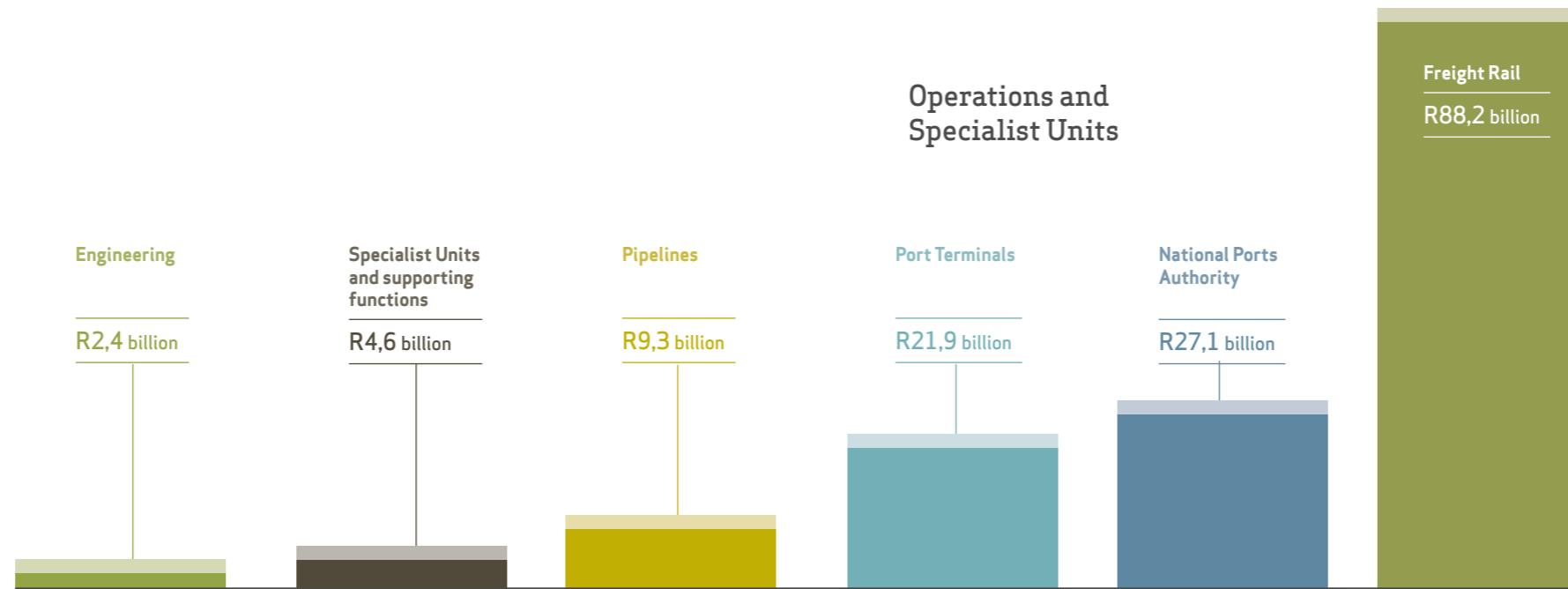
⁴ <https://businessstech.co.za/news/business/310036/imf-cuts-south-african-growth-forecast-for-2019/>.

Figure 11: Five-year investment portfolio

The National Infrastructure Development Plan, comprising 18 Strategic Integrated Projects (SIPs), forms the cornerstone of Government's infrastructure programme. Transnet has active projects in the SIPs, and we co-operate with the Presidential Infrastructure Co-ordinating Commission (PICC) to align our investment priorities with Government's infrastructure aspirations.

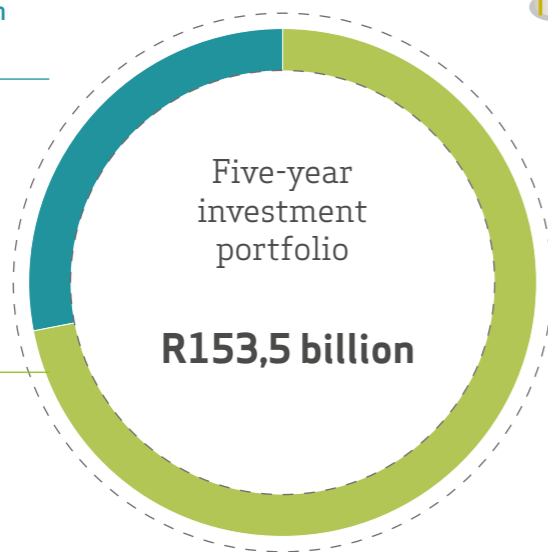
The investment required to maintain, modernise and expand the country's ports, rail and pipelines cannot be met by Transnet alone. Optimal performance of the national freight system requires greater integration between all parties in the value chains, and there are many opportunities to achieve this given Transnet's commitment to partnering with the private sector.

We are gearing the business towards becoming a diversified organisation that partners with the private and public sectors in various ways to pursue adjacent and new business and to act as a catalyst for economic growth. We anticipate that private partnership opportunities will also reduce funding and operational requirements and present opportunities for leveraging a wider network of partner capabilities for mutual benefit.



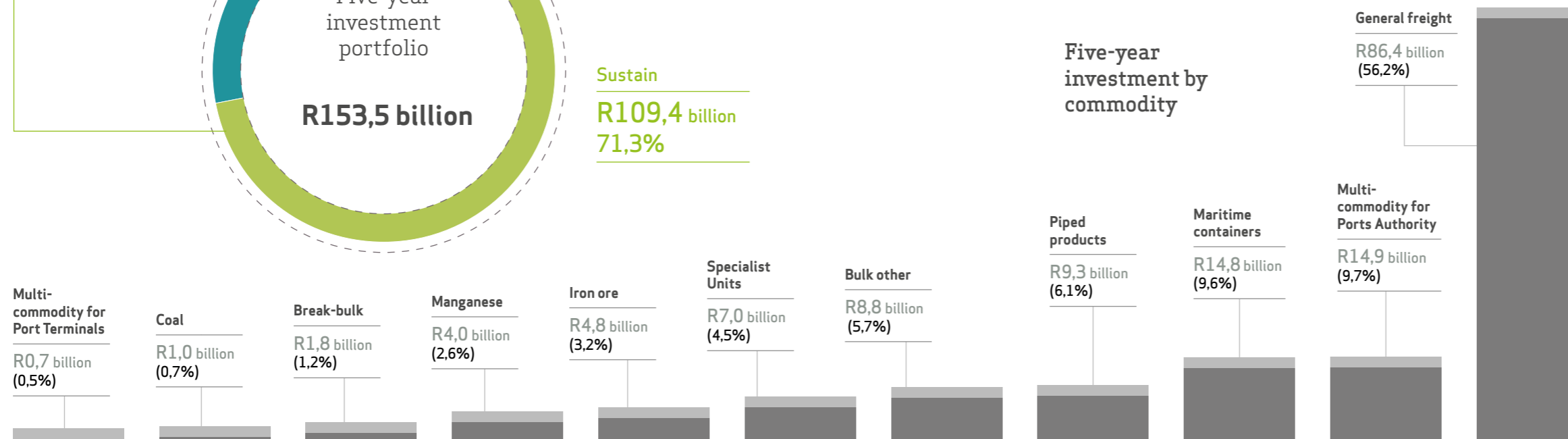
71,3% (R109,4 billion) will be spent on sustaining capital

Expand R44,1 billion 28,7%



Sustain R109,4 billion 71,3%

Five-year investment by commodity



Key strategic investment focus areas for operations

Port investments

R6,4 billion	Durban Container Terminal
R1,3 billion	Container expansion Phase 2B (CT)
R914 million	Richards Bay Expansion Programme (RBEP)
R1,2 billion	Ngqura Tank Farm
R391 million	Salisbury Island Pier 1 infill

Coal and Mineral System

R805 million	Export coal expansion to 81 mtpa
R958 million	Waterberg upgrade stages 2-5
R1,9 billion	Overvaal solution

Pipelines

R2,5 billion	New Multi-Product Pipeline (NMPP) (Phase 1b)
R2,2 billion	NMPP PL5 and PL6
R637 million	Fire upgrade

General freight

R60,5 billion	General Freight Business and rolling stock
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Manganese

R3,7 billion	Investment in manganese
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Engineering

R2,4 billion	Advanced manufacturing investment
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Abridged governance

Review of the Chairperson: Corporate Governance and Nominations Committee

Ms Dimakatso Matshoga

Chairperson: Corporate Governance and
Nominations Committee



Transnet is on a continuous improvement journey with respect to its corporate governance, compliance and risk management. Accordingly, the Board of Directors (the Board) and management are resolute in their efforts to restore trust and confidence in the Company. The web of fraud and wrongdoing that gradually unravelled during the reporting year in the wake of state capture allegations – and the roles that some external parties and Transnet employees had played in this alarming phenomenon – demanded urgent governance attention. The appointment of a new Board in May 2018 served as the first step in embarking on the challenging journey to restore stability to the largest and most crucial part of South Africa's freight logistics chain.

Reform of State-owned Companies is one of the major themes that President Cyril Ramaphosa underlined in his 2019 State of the Nation Address. He emphasised the need for decisive measures to improve governance, strengthen leadership and restore stability in strategic entities. It is the current Board's duty to usher in the necessary changes to create a more robust, responsive and effective system of governance to support Transnet's new strategic direction, that is intended to restabilise an operational core and create a strategy, which has been thrown off course from its core mandate. It is the Board's firm undertaking to re-establish a firm governance foundation which can monitor performance, enable clear and transparent communication relating to that performance, and ultimately hold our people to account for their actions, regardless of their positions within the organisation.

The first steps we took as a new Board on this governance journey included:

1. Overhauling all Board subcommittees and disbanding the Acquisitions and Disposals subcommittee – which had the Board involved in procurement awards – and establishing the Finance and Investment subcommittee, with the Board providing strategic oversight and guidance in the procurement process;

Our governance function needs to reflect our broader evolutionary journey – in spirit and in practice to acknowledge the needs of all our stakeholders.

2. Initiating the implementation of the Werksmans and MNS report recommendations, e.g. suspending several senior managers;
3. Instigating the requisite corrective measures and consequence management;
4. Issuing multiple summonses in lieu of civil recoveries, as well as entering into contractual negotiations with the OEM suppliers of the 1 064 locomotives;
5. Launching criminal complaints against key individuals as investigations progress;
6. Working with the Zondo Commission, the Special Investigating Unit and the Directorate of Priority Crimes Investigations to support their investigation processes;
7. The Board, together with management undertook numerous roadshows with Transnet's broad base of stakeholders to address challenges and to share Transnet's strategic objectives;
8. Stabilising the executive management echelon by taking steps to appoint executive officers, starting with the Group Chief Executive, Group Chief Financial Officer, Chief Procurement Officer and Group Treasurer; and

9. Establishing a Forensic Committee as a subcommittee of the Executive Committee to perform various forensic tasks aligned with ongoing investigations.

Further, during its strategic planning session in November 2018, the Board resolved to review the Company's operating model while also reviewing the Delegation of Authority Framework, which defines the parameters within which individuals can make financial decisions on behalf of the Company. These reviews necessitated an update of the committee mandates which is currently underway. As the business concretises Transnet's strategic vision, and as we strengthen our core operations and governance structures in the short to medium term, the new operating model will start coming into effect.

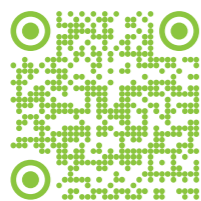
In gearing up for commercial growth, our governance function needs to reflect our broader evolutionary journey – in spirit and in practice – to acknowledge the needs of all our stakeholders, and to ultimately create the broader economic and developmental value for society demanded by our national mandate. To this end, the Board intends to establish a governance platform that embodies the core values of professional ethics, leadership, accountability, inclusivity and responsiveness – and to ensure that when we act, we do so decisively, ethically and with fair regard for those impacted.

D. Matshoga

Ms Dimakatso Matshoga
Chairperson

26 September 2019
Johannesburg

For more information



CORPORATE
GOVERNANCE REPORT
ONLINE AT
WWW.TRANSNET.NET



How our improved governance function will support our strategy and operations

 King IV. P2, 12 & 13

Monitor the implementation of strategic acquisitions and disposals against approved plans.

Develop key performance indicators to monitor sustainability performance.

Monitor reward practices and promote competitive reward strategies to recruit and retain high-performing people.

Ensure the Board's composition and structure enables it to fulfil its mandate and obligations, aligned to strategy.

Ensure appropriate skills are represented on the Board and appoint competent executive management.

Manage legal and moral obligations for economic, social and natural environments and set standards for ethical conduct.

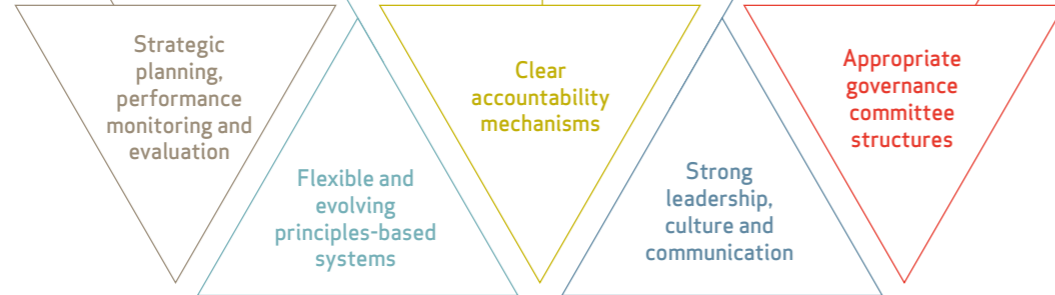
As custodians of governance, set an ethical tone and enforce sound ethical principles.

Ensure the integrity of accounting and financial control system.

Inform the overall control consciousness of employees without restricting performance or innovation.

Set the tone for Transnet's value system (filtered into the corporate culture).

Maintain the highest standards in the social and ethics environment (policies, legal requirements and codes of best practice).



Principles that Transnet's governance structure aspires to uphold

Strong leadership, culture and communication

Comprehensive risk management, compliance and assurance systems

Sound business case management across project lifecycles

Working effectively across organisational boundaries

Balance financial accountabilities, organisational performance and strategic priorities.

Monitor trends in supplier development spend and progress against targets.

Assess private sector participation models to support project funding and economic growth.

Ensure that intellectual property created (e.g. ICT and advanced manufacturing innovations) is protected.

End-to-end visibility of key financial control.

Ensure that the Company's strategy, risk compliance, performance and sustainability are inseparable.

Provide assurance on governance-related processes and controls applied by the Board to support strategy.

Meet Transnet's strategic objectives while mitigating risks.

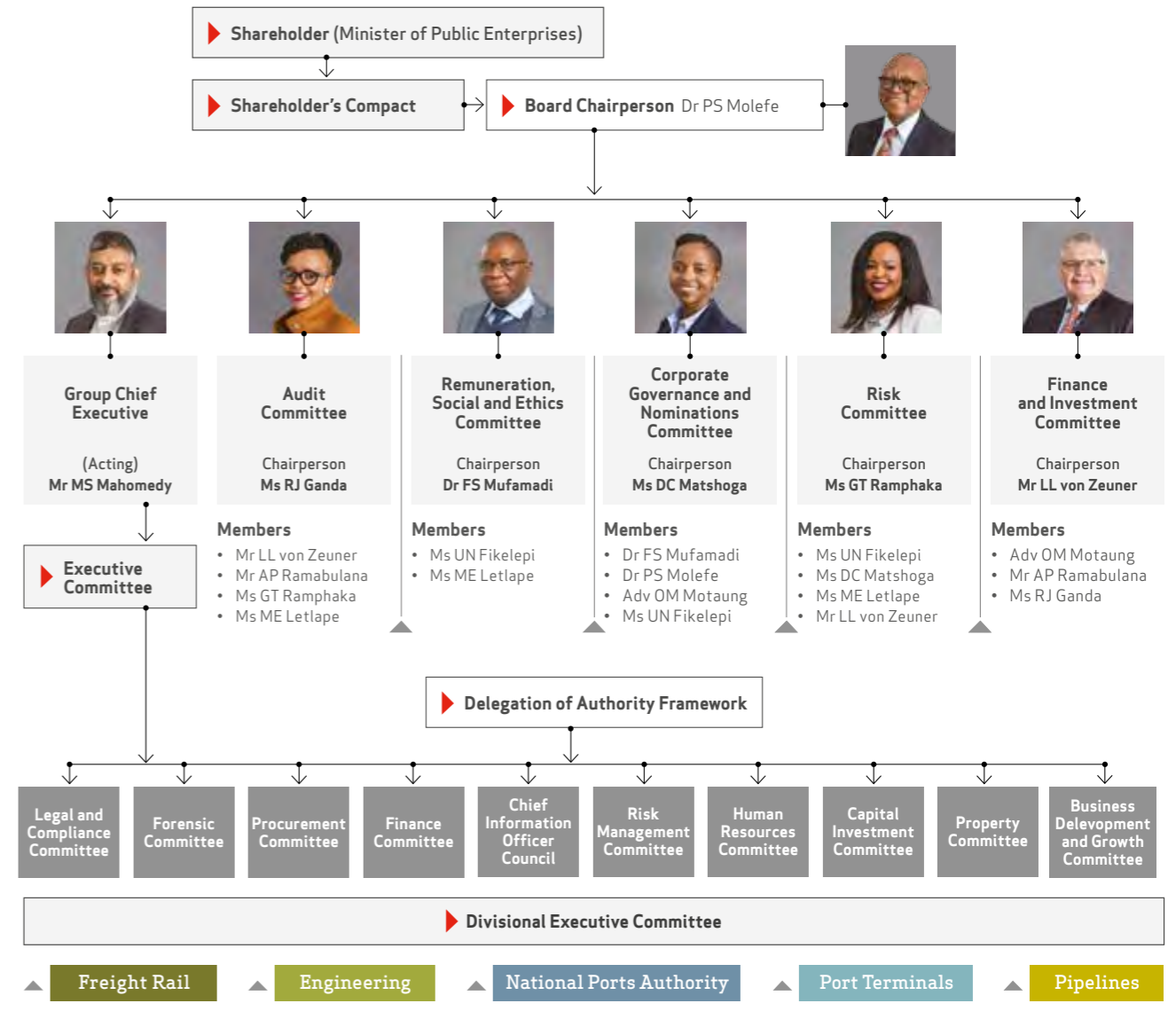
Safeguard manufactured assets.

Manage ICT architecture and mitigate digital risks.

Integrate and align assurance processes and control systems to enable risk and governance oversight.

Adhere to legal, compliance and accounting requirements, and contribute to a climate of discipline to reduce fraud and losses.

Figure 12: Company structure and governance committees



Abridged governance continued

Governance in action during the 2019 reporting year



King IV. P6, 11 & 12

Ethical leadership, oversight and accountability are instituted through the appointment of the Board and the determination of the Board's strategic and operational objectives. The following oversight deliverables were achieved during the year:

- The roles of the Chairperson and Group Chief Executive remained separate as recommended by King IV.
- A formal induction and training programme for the Board was implemented. Training and development needs identified by the Board and its committees were incorporated into training programmes.
- Appropriate disclosure of the remuneration of directors has been made in the 2019 Integrated Report, in line with applicable laws and regulations.
- The Board continued to be assisted by a competent, suitably qualified and experienced Group Company Secretary during the period under review. The mandatory duties of the Group Company Secretary are formalised and adequately defined in accordance with the provisions of the Companies Act.
- The Board continues to ensure that appropriate risk and governance frameworks and methodologies are in place to enhance the Company's ability to anticipate and respond to unpredictable risks and identified opportunities.
- The Board reviewed the IT strategy and its associated risks.

Transparency, accountability and integrity



King IV. P1, 12 & 13

The PFMA, Companies Act and Protection of Personal Information Act, No 4 of 2013 (POPI Act) provide specific requirements pertaining to the Company's records management practices, such as interim financial results and annual financial statements that satisfy the International Financial Reporting Standards, and for the audited annual financial statements to be prepared within five months following the financial year end. To that end, the Company finalises its Annual

Financial Statements within the legislated timelines and ensures that the Shareholder Minister has timely access to the audited Annual Financial Statements.

The Company has developed procedures and systems to ensure early adoption of the POPI Act once it is promulgated. More detail on section 8 on page 98.

Compliance with laws, codes, rules and standards



King IV. P13

The Board governs and directs compliance with applicable laws.

Public Finance Management Act (PFMA)

The Company is identified as a major business entity and is listed under Schedule 2 of the PFMA. The Board ensures that the Company adheres to the requirements for the assessment of risk and annual budget submissions and the annual conclusion of a Shareholder's Compact. The Board also ensures that the Company adheres to all procedures for quarterly reporting to the Executive Authority through the submission of quarterly PFMA reports to the Shareholder Minister.

King IV

The Company has adopted the King IV principles in conjunction with regulatory provisions to achieve the overarching principles of sound governance, namely responsibility, accountability, fairness and transparency. The Company attempts to do so substantively and not simply in form, so that its decisions and actions impact positively on the Company and its stakeholders, which include its employees, the communities in which it operates, suppliers, customers and the public at large.

The Governance Assessment Instrument is utilised to monitor the level of application of the King IV principles. Transnet has adhered to some of the King IV principles and recommendations as evidenced in the 2019 Integrated Report, Remuneration Report and the Sustainably Outcomes Report.

Companies Act

The Company reports on the extent of its compliance with the Companies Act in the Directors' Report in the 2019 Annual Financial Statements.

Governance instruments



King IV. P7, 10 & 13

The Company's governance instruments include:

- A Memorandum of Incorporation (MOI), as lodged with the Companies and Intellectual Property Commission (CIPC); and
- A Delegation of Authority Framework, approved by the Board and cascaded Company-wide.

Memorandum of Incorporation

The MOI was revised and filed with the CIPC on 19 December 2017. The mandates of the Board of Directors and its committees are aligned with the Company's MOI. The Company has since embarked on the MOI amendment process to include the changes introduced by the new Board, such as disbanding the Acquisitions and Disposals Committee, and the subsequent establishment of the Finance and Investment Committee, as well as the appointment of a Board member as a Chairperson of the Corporate Governance and Nominations Committee.

Board composition

The amendment to the MOI provides that the Board shall consist of a minimum of six and a maximum of 14 directors, comprising not less than four non-executive directors, from whom the Chairperson of the Board shall be appointed. The Board is, therefore, adequately resourced in line with the MOI. The Board composition is, however, under continuous review to ensure adequate resourcing of the Board and its committees.

Non-executive directors

A non-executive director shall hold office for a term of three years from the date of his/her appointment, subject to confirmation of his/her appointment at the annual general meeting, provided that no person is appointed as a non-executive director for more than three consecutive terms. The Board shall consist of not less than two executive directors who shall include the Group Chief Executive and the Group Chief Financial Officer. The Board shall at all times consist of a majority of non-executive directors.

Ms V McMenamin and Prof EC Kieswetter resigned as non-executive directors of the Company with effect from 28 February 2019 and 6 May 2019, respectively.

Delegation of Authority Framework

The Company reviewed its Delegation of Authority Framework which was approved by the Board of Directors on 29 January 2019. The objective of the review was to craft and implement a Delegation of Authority Framework which defines the parameters within which individuals can make financial decisions on behalf of the Company. This approach would ensure that there are checks and balances in the decision-making process and that there is no one individual with superior powers which results in abuse of authority, particularly in acquisition or procurement-related transactions.

The review of the Delegation of Authority Framework takes cognisance of the Company's strategic objectives. The framework is reviewed annually for adequacy and completeness and approved by the Board.

All the Operating Divisions and Specialist Units are required to sub-delegate authority according to the latest DOA Framework to their respective executive committees (Extended Executive Committee) within a period of 30 days from the date of signature by the Group Chief Executive.

The mandates of the Board of Directors and its committees are aligned with the provisions of the Companies Act and the DOA. Similarly, the mandates of the Group Executive Committee and its subcommittees are aligned with the current DOA and the mandates of the Board and its committees.

The role of the Board of Directors



King IV. P1 & 9

The Board is principally responsible for directing and overseeing the affairs of the Company, balancing the interests of stakeholders, and ensuring the Company's long-term economic, social and environmental sustainability. This responsibility includes it being the deemed Board of the Transnet National Ports Authority in terms of the National Ports Act, No 12 of 2005, as amended.

The Board, through its Chairperson, also serves as the Shareholder of Transnet International Holdings SOC Ltd, a wholly-owned subsidiary of Transnet SOC Ltd, incorporated on 29 August 2017 which is currently dormant.

The Board leads the Company in its achievement of strategic objectives by directing and approving the Company's overall strategy and associated operational objectives. It monitors the Company's performance against targets outlined in the Shareholder's Compact and ensures that adequate processes are in place for budget planning and allocation to advance the Company's mandate. This includes oversight of the Company's socio-economic programmes. The Board is tasked with ensuring that the Company can achieve its statutory and commercial objectives.

The Company has incurred severe damage due to procurement governance failures which have tainted the good image that the Company held for decades. During the year, the implementation of the investigation outcomes and the ongoing investigations as well as various governance interventions have kept the Board engaged in extensive meetings with various stakeholders ranging from law-enforcement agencies to lenders, customers and employees.

Independent performance evaluation of the Board, its committees and directors

The Board ensures the evaluation of its own performance and that of its committees. The Chairperson and individual directors provide support for continued improvement in the Board's efficiency and effectiveness. An annual independent evaluation is conducted to assess the effectiveness of the Board, its committees, the Chairperson and the individual contributions of the directors.

The findings of the evaluation are considered by the Board and compared to the prior year's assessment, with appropriate action plans being formulated. The Board tracks progress against those plans through the Corporate Governance and Nominations Committee.

The Committee considered a self-evaluation programme for use in the Company and, in keeping with the directive from the Shareholder Minister, six-monthly reviews will be conducted going forward. A hybrid approach has been implemented where a self-assessment will be conducted during the interim financial year through a programme that is linked to the Company's Governance Assessment Instrument.

As the Board was still fairly new during the 2019 financial year – having been appointed in May 2018 – no annual independent Board evaluation assessment was conducted for the year. An independent evaluation will be considered for the 2019/20 financial year and the process to appoint an independent evaluator will be initiated by September 2019.

Directors' induction and continuous development



King IV. P1 & 9

As part of enhancing the directors' skills, the Group Company Secretary develops an Annual Board Training Plan, which identifies training requirements for the Board and its committees. Individual directors are also encouraged to identify any governance-related training events they may wish to attend through recognised training institutions.

Board and committee induction sessions (including site visits) were held between May and July 2018 for the newly-appointed directors. The induction of directors is ongoing to acquaint the Board with the business of the Company. In the year under review, the following training activities were conducted by both internal and external training service providers:

Table 37: Board and committee induction sessions

Governance structure	Training provided	Service provider	Date	Attendees
Remuneration, Social and Ethics Committee	Short-term Incentive (STI) Ground Rules	In-House: Transnet Group Human Resources/Group Finance	12 June 2018	Dr FS Mufamadi Ms ME Letlape Mr SI Gama Mr MS Mahomedy
	Social and Ethics as per the Companies Act	Institute of Directors of Southern Africa	4 February 2019	Dr FS Mufamadi Ms ME Letlape Prof EC Kieswetter
Corporate Governance and Nominations Committee	The Role of the Committee	iThemba Governance and Statutory Solutions	26 July 2018	Ms DC Matshoga Dr PS Molefe Ms UN Fikelepi Adv OM Motaung Dr FS Mufamadi Mr MS Mahomedy
Risk Committee	Transnet Risk Management Approach	In-House: Group Risk and Compliance	2 August 2018	Mr LL von Zeuner Ms UN Fikelepi Ms DC Matshoga Ms GT Ramphaka Mr SI Gama Mr MS Mahomedy
Audit Committee	Role of the Audit Committee	Institute of Directors of Southern Africa	23 August 2018	Ms RJ Ganda Ms ME Letlape Mr AP Ramabulana Ms GT Ramphaka Mr LL von Zeuner Mr SI Gama Mr MS Mahomedy
	Integrated Assurance	FirstRand	12 February 2019	Ms RJ Ganda Ms ME Letlape Mr AP Ramabulana Ms GT Ramphaka Mr LL von Zeuner Mr TC Morwe Mr MS Mahomedy
Finance and Investment Committee	PLP, Capital Operating Model and Indicative Capital Budgets for 2018/19	In-House: Transnet Group Capital	8 November 2018	Prof EC Kieswetter Mr AP Ramabulana Mr TC Morwe Mr LL von Zeuner Mr MS Mahomedy
Board of Directors	National Ports Act	In-House: TNPA	21 February 2019	Dr PS Molefe Ms UN Fikelepi Ms RJ Ganda Prof EC Kieswetter Ms ME Letlape Mr MS Mahomedy Ms DC Matshoga Mr TC Morwe Dr FS Mufamadi Adv OM Motaung Mr AP Ramabulana Mr LL von Zeuner
Individual director development	Technology and Information Governance	Institute of Directors of Southern Africa	27 March 2019	Ms UN Fikelepi

Board independence



The Board comprises an appropriate balance of knowledge, skills, experience, diversity and independence, enabling it to objectively and effectively discharge its duties. In accordance with King IV, the Board is satisfied that the non-executive directors of the Company are independent.

The non-executive directors have diverse skills, experience and backgrounds. They are principally free from any business relationship that could hamper their objectivity or judgement in terms of the business and activities of the Company. All the

non-executive directors have unrestricted access to the Company's information, documents, records and property in the interest of fulfilling their fiduciary duties and responsibilities.

Core responsibilities of the Board

The Board serves as the focal point and custodian of corporate governance in the Company. The protocol for exercising its leadership role is outlined in the approved Board and committee mandates. The mandates clearly define the procedures for the Board and committees to obtain professional advice and the procedures for management to submit documentation for the Board to make informed decisions.

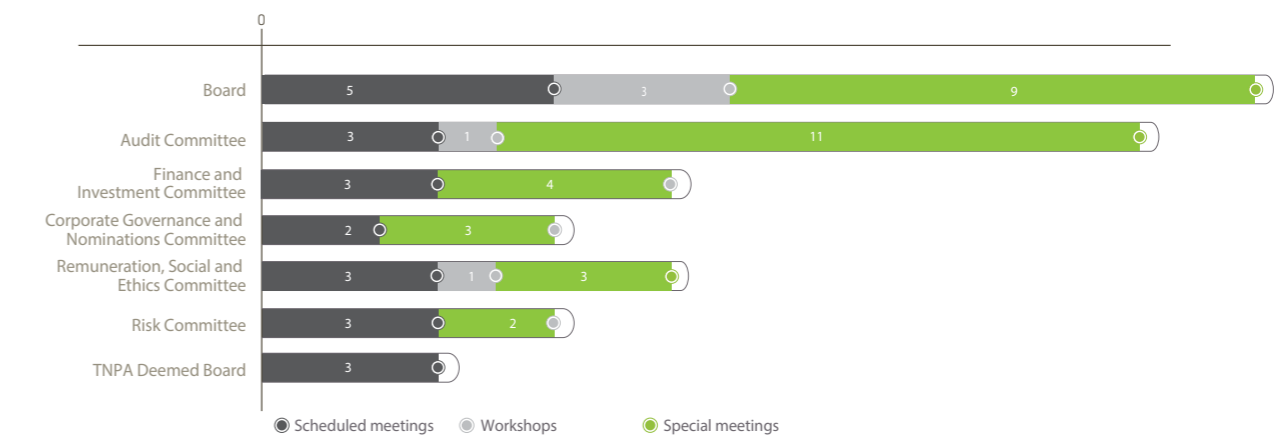
The Board has interrogated matters within its mandate and those relating to the year under review and is satisfied that it has discharged its responsibilities.

Board and committee meetings



The diagram below indicates the number of scheduled and ad hoc meetings held during the year under review.

Status of meetings convened during the 2019 financial year



Board and committee meetings held during the period 1 April to 13 May 2018

Board and committee meetings were held and attended by the previous non-executive directors prior to the appointment of the current Board on 14 May 2018, whose appointment was confirmed on 23 May 2019. The table below discloses the number of meetings held and attended by the former directors during the period 1 April to 13 May 2018.

Table 38: Board and committee meetings held during the period 1 April to 13 May 2018

Board/Committee	Board	Audit Committee	Risk Committee	Acquisitions and Disposals Committee
Number of meetings held	1 (CS)	1 (SP)	1	1
Ms LC Mabaso# (Chairperson)	✓	—	—	✓
Mr SI Gama ¹	—	—	✓	✓
Ms Y Forbes#	✓	—	✓	—
Ms AC Kinley#	✓	✓	—	✓
Ms PEB Mathekga#	✓	✓	—	—
Mr ZA Nagdee#	✓	—	—	✓
Mr VM Nkonyane#	✓	—	—	—
Mr GJ Pita ²	—	—	—	—
Mr SM Radebe#	✓	✓	✓	—

¹ Mr SI Gama's contract of employment was terminated with effect from 28 October 2018.

² Mr Pita resigned with effect from 19 April 2018.

Ms LC Mabaso, Y Forbes and AC Kinley resigned with effect from May 2018 and Ms PEB Mathekga and Messrs VM Nkonyane, ZA Nagdee and SM Radebe were removed with effect from May 2018.

CS Closed session.

SP Special meeting.

The table below discloses the number of meetings held during the year and the attendance of the respective directors from 23 May 2018 to 31 March 2019.

Table 39: Schedule of directors' attendance at Board and committee meetings*

Board/Committee	Board	Audit Committee	Finance and Investment Committee	Corporate Governance and Nominations Committee	Remuneration, Social and Ethics Committee	Risk Committee	TNPA Deemed Board
Number of meetings held	17	15	7	5	7	5	3
Dr PS Molefe (Chairperson)	17	—	—	5	—	—	3
Ms UN Fikelepi	16	—	—	5	—	5	3
Ms RJ Ganda	15	14	5	—	—	—	2
Mr SI Gama ¹	6	—	—	—	—	—	1
Prof EC Kieswetter ⁴	15	—	7	—	2	—	1
Ms ME Letlape	16	14	—	—	7	2	3
Mr MS Mahomed ⁵	15	—	—	—	—	—	2
Ms DC Matshoga	16	—	—	5	—	4	2
Ms V McMenamin ³	4	—	—	—	2	—	—
Mr TC Morwe ²	7	—	—	—	—	—	1
Adv OM Motaung	11	—	2	4	—	—	3
Dr FS Mufamadi	14	—	—	5	7	—	1
Mr AP Ramabulana	15	14	7	—	—	—	3
Ms GT Ramphaka	16	13	—	—	—	5	3
Mr LL von Zeuner	16	10	7	—	—	5	3

* Each scheduled Board meeting is preceded by a closed session attended by non-executive directors.

¹ Mr SI Gama's contract of employment was terminated with effect from 28 October 2018.

² Mr TC Morwe was appointed with effect from 1 November 2018. His contract of employment expired with effect from 30 April 2019.

³ Ms V McMenamin resigned with effect from 28 February 2019.

⁴ Prof EC Kieswetter resigned with effect from 6 May 2019.

Mr MS Mahomed was appointed Acting Group Chief Executive in May 2019.

Mr MD Gregg-Macdonald was appointed Acting Group Chief Financial Officer with effect from 13 May 2019.

Mr LL von Zeuner attended two days of the three-day workshop held in November 2018.

Ms UN Fikelepi was appointed a member of the Remuneration, Social and Ethics Committee with effect from 15 March 2019.

Executive directors are not members of the Board committees.

Table 40: Summary of critical matters during 2018/19*



Board	
• Total number of meetings held during the year: 17	
• Executive director [^]	
• Independent non-executive director ⁺	
Chairperson:	Members:
Dr PS Molefe ⁺	<ul style="list-style-type: none"> Ms UN Fikelepi⁺ Ms RJ Ganda⁺ Prof EC Kieswetter⁺¹ Ms ME Letlape⁺ Ms DC Matshoga⁺ Dr FS Mufamadi⁺ Mr LL von Zeuner⁺
	<ul style="list-style-type: none"> Ms V McMenamin⁺² Mr SI Gama⁺³ Mr TC Morwe⁺⁴ Mr MS Mahomed⁺⁵ Adv OM Motaung⁺ Mr AP Ramabulana⁺ Ms GT Ramphaka⁺
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> Dissolution of the Acquisitions and Disposals Committee New Board composition and amendment to the MOI Executive directors' fees Pension Funds' bonus payments Going concern status State capture issues PFMA matters Contract management Forensic investigations and co-operation with law-enforcement agencies Derailments Low volumes 	<ul style="list-style-type: none"> Dissolved the Acquisitions and Disposals Committee. Established the Finance and Investment Committee. Recommended the amendments in the MOI to the Shareholder Minister for approval. Approved the going concern assertion. Recommended the executive directors' fees to the Shareholder Minister for approval. Approved the Transnet Sub-fund of the Transport Pension Fund (TTPF) 2019 ad hoc bonus payment. Approved the Transnet Second Defined Benefit Fund (TSDBF) ad hoc bonus payment. Considered state capture-related issues and appearances before the Zondo Commission of Inquiry by Company representatives. Considered increasing PFMA reportable issues, media allegations against Transnet and issues raised by the Standing Committee on Public Accounts (SCOPA). Under took to SCOPA to reduce instances of contract variations through deviations and extensions. As such, reporting on contracts is a standing matter at the Finance and Investment Committee meetings to ensure proactive review of contracts and effective management of contracts. The Company has also instituted independent forensic investigations to address the alleged corporate governance breaches on contracts concluded between 2004 and 2018 and the prevailing media allegations. Some of the recommendations from the forensic investigation have been implemented while further investigations have been commissioned. Collaborated with law-enforcement agencies. Considered root causes of derailments and low volumes, and the related remedial plans.

* A more detailed table of key activities and outputs for the 2019 financial year is online in the full Governance Report at www.transnet.net.

¹ Prof EC Kieswetter resigned as a non-executive director of the Company with effect from 6 May 2019.

² Ms V McMenamin resigned as a non-executive director of the Company with effect from 28 February 2019.

³ Mr SI Gama's contract of employment was terminated with effect from 28 October 2018.

⁴ Mr TC Morwe was appointed with effect from 1 November 2018. His contract of employment expired with effect from 30 April 2019.

⁵ Mr MS Mahomed was appointed Acting Group Chief Executive in May 2019.

Chairperson and Group Chief Executive



The roles of the Chairperson and the Group Chief Executive are separate, with their individual responsibilities clearly defined.

The Chairperson is an independent non-executive director and is responsible for leading the Board and ensuring its effectiveness.

The Group Chief Executive is responsible for the execution of the Company's strategy, and the day-to-day business of the Company. He is supported by the Group Executive Committee, of which he is the Chairperson.

The Board is satisfied that the Delegation of Authority Framework clearly records the nature and extent of the authorities delegated by the Board to the Group Chief Executive and specified governance structures and/or, in turn, by the Group Chief Executive to the members of the Group Executive Committee in order to implement certain actions by or on behalf of the Company. It includes, to the extent necessary and/or incidental thereto, the authority to discharge all the duties, obligations and powers imposed upon the deemed authority under the National Ports Act.

Appointment of directors and succession planning



The Company, through the Shareholder Minister, adheres to the prescribed requirements for the composition, election, appointment and remuneration of the Board. The Corporate Governance and Nominations Committee is responsible for the succession planning of the Board (based on the related skills requirements and skills matrix) for recommendation to the Shareholder Minister. The Company has provided indemnification and insurance for directors and prescribed officers, the extent and adequacy of which is reviewed annually.

The Transnet Board terminated the employment of the Group Chief Executive, Mr Siyabonga Gama, with effect from 23 October 2018.

It is critical that Transnet fulfils its economic and developmental mandates, and the Board considers it both a business and governance imperative that a new executive head be appointed to ensure this outcome.

Mr Tau Morwe was appointed Acting GCE with effect from 1 November 2018 for a six-month period. When his contract expired on 30 April 2019, Mr Mohammed Mahomed was appointed as Acting Group Chief Executive, effective from 1 May 2019.

Management of potential conflicts of interest



The Companies Act codified the fiduciary duties of directors, and prohibits the use of position, privileges and/or confidential information for personal gain or to benefit another person improperly. The Board continuously improves the governance instrument to ensure continued adherence to the prescribed standards of ethical and professional conduct.

Where it has been established that a director or a prescribed officer has any direct or indirect personal or private business interest in a particular matter, that director or prescribed officer must be recused from the proceedings when the matter is considered, unless the Board, Board committees or Group Executive Committee and its subcommittees, as the case may be, decide that the member's interest in the matter is trivial or irrelevant.

The declaration of interest and related-party disclosures registers are signed by the members and attendees at all formal meetings of the Board, the Group Executive Committee and their committees. These registers are maintained by the Group Company Secretary. In addition, non-executive directors, the Group Executive Committee members, Extended Executive Committee members, line management (levels C to F) and any employee who has an interest, either directly or indirectly, are required to file an annual declaration of interest form with the Group Company Secretary at the beginning of each financial year or within 30 days from date of appointment. Any changes in interests during the course of the year necessitate the filing of revised declaration of interest forms, which are formally noted by the relevant governance structures.

The Board and the Group Executive Committee note their respective annual declarations of interest registers. The Corporate Governance and Nominations Committee and the Remuneration, Social and Ethics Committee conduct annual reviews of the filed declaration of interest forms of the members of the Board and Group Executive Committee for oversight purposes.

The declaration of interest process is conducted through an electronic filing system. In addition, the Company requires all employees to sign confidentiality and declaration of interest forms when adjudicating on procurement contracts, and this practice is strictly enforced. The declaration of interest and related-party disclosure policies for directors and employees are revised every five years, or as required, in line with the Company Policy Framework.

Group Company Secretariat function



The Board has appointed a competent and qualified Group Company Secretary who is responsible for developing systems and processes to enable the Board to discharge its functions efficiently and effectively. The Group Company Secretary prepares Annual Work Plans for the Board and its committees as informed by the strategic direction of the Company. The Corporate Governance and Nominations Committee reviews the Annual Work Plans and makes recommendations to the respective Board committees for consideration. These Annual Work Plans are recommended to the Board for approval by the respective Board committees for implementation and are continually tracked to assess progress.

The Group Company Secretary also advises the Board on corporate governance issues, the requirements of the Companies Act and other relevant legislation, both collectively and individually. The Board has unfettered access to the services and advice of the Group Company Secretary, and the Group Company Secretary acts as the primary point of contact between the Board and the Company.

In addition to various statutory functions, the Group Company Secretary provides individual non-executive directors and the Board with induction, guidance on duties, responsibilities and the impact of regulatory developments.

In consultation with the Chairperson, the Group Company Secretary ensures that the contents of the agenda are relevant to the Board's decision-making and communicates the Board's resolutions throughout the Company in a timely and appropriate manner.

The Group Company Secretary is qualified to perform duties in accordance with applicable legislation and is considered by the Board to be fit and proper for the position. The Group Company Secretary does not fulfil an executive management function and is not a director. The Board is therefore satisfied that the Group Company Secretary maintains an arm's-length relationship with the Executive Committee, the Board and the individual non-executive directors.

Ms Nokuthula Khumalo resigned from the role of the Group Company Secretary with effect from 30 June 2019. The Board of Directors appointed Ms Komilla Naicker as the Acting Group Company Secretary with effect from 16 July 2019.

Benchmarking

The Group Company Secretariat continues to conduct benchmark exercises with other SOCs and private companies, while sharing knowledge gained in the corporate governance sphere with other SOCs, with the objective of enhancing uniformity, standardisation and alignment of best practice across the SOCs. This exercise mutually benefits the participants.

Board committees

Audit Committee



During the year, the Company continued to comply with the Companies Act's requirements for the functioning and reporting of the Audit Committee. PFMA requirements for the composition and election of the Audit Committee are strictly observed.

The Audit Committee comprises independent non-executive directors who are duly elected by the Shareholder Minister at the annual general meeting in line with legislative requirements. Two

scheduled meetings were held during the year and all quorum requirements were met. The Audit Committee provides the following support activities to the Board:

- Assists the Board in discharging its duties to safeguard assets and evaluate internal control frameworks.
- Reviews and assesses the integrity and effectiveness of the accounting, financial, compliance and other control systems.
- Considers the internal and external audit process, accounting principles and policies.
- Strengthens the independence of the internal and external audit functions to ensure their effectiveness.
- Ensures effective communication between the internal auditors, external auditors, the Board, management and regulators.
- Ensures compliance with and adherence to applicable legal, regulatory and accounting requirements.
- Contributes to a climate of discipline and control which will reduce the opportunity for fraud.
- Assists the Board in discharging its duties as it pertains to ICT governance.

Table 41: Summary of main undertakings and considerations during the year*

Audit Committee	
<ul style="list-style-type: none"> • Total number of meetings held during the year: 15 • Executive director[^] • Independent non-executive director⁺ 	
Chairperson Ms RJ Ganda ⁺	Members <ul style="list-style-type: none"> • Ms ME Letlape⁺ • Mr AP Ramabulana⁺ • Ms GT Ramphaka⁺ • Mr LL von Zeuner⁺ No external advisers attended committee meetings during the year.
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> • Integrated Report material aspects • Tightening of internal controls • Contract deviations and extensions • Irregular expenditure • Qualified audit report • Company's loan covenant 	<ul style="list-style-type: none"> • The committee approved the <IR> material topics and matters and the <IR> terms of reference. • The Company has reinstated assurance committees at the Operating Divisions' level to deal with PFMA transgressions as they arise. • A step-up programme was introduced to tighten internal controls and to give more emphasis on consequence management. • Considered irregular expenditure. • Considered a remedial plan to deal with the weak governance environment. • Considered the threat to the Company's loan covenants.

* A more detailed table of key activities and outputs for the 2019 financial year is included in the full Governance Report at www.transnet.net.

Corporate Governance and Nominations Committee



King IV. P6 & 8

The Corporate Governance and Nominations Committee provides the following support activities to the Board:

- Ensures that the Board's composition and structure enables it to fulfil the obligations of the Board mandate and advance and maintain the Company's corporate governance policies and the Corporate Governance Framework.

- Sets criteria for the nomination of directors to be recommended to the Board for appointment to the Board committees.
- Nominates potential Audit Committee members for appointment by the Shareholder Minister.
- Nominates potential Remuneration, Social and Ethics Committee members for approval by the Board and confirmation by the Shareholder Minister at the annual general meeting or through a written resolution.
- Ensures that best practice succession planning policies are implemented in respect of executive directors and independent non-executive directors.
- Administers and manages the selection process of the Group Chief Executive on behalf of the Board and makes recommendations on the top three candidates - in order of priority - to the Board by complying with the Guidelines for the appointment of a Group Chief Executive for a State-owned Enterprise.

Table 42: Summary of the main undertakings and considerations during the year*

Corporate Governance and Nominations Committee	
Total number of meetings held during the year: 5	Executive director^ Independent non-executive director^
Chairperson Ms DC Matshoga [†]	Members <ul style="list-style-type: none"> • Dr PS Molefe[†] • Ms UN Fikelepi[†] • Adv OM Motaung[†] • Dr FS Mufamadi[†] No external advisers attended committee meetings during the year.
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> • Delegation of Authority (DOA) Framework • Board composition and Board evaluation • TTPF matters • TSDBF matters • Shareholder's Compact monitoring • Review cross-cutting matters from other committees • Director development and Board continuous improvement 	<ul style="list-style-type: none"> • Recommended to the Board the approval of the DOA Framework. • Recommended to the Board the Board's committees composition. • Approved the Internal Board Evaluation Scope. • Recommended to the Board the TTPF ad hoc bonus payment. • Recommended to the Board the TSDBF proposed rule amendment 11.

* A more detailed table of key activities and outputs for the 2019 financial year is included in the full Governance Report at www.transnet.net.

Risk Committee



King IV. P6 & 8

The Risk Committee provides the following support activities to the Board:

- Reviews and assesses the integrity of the risk control processes and systems.

- Ensures that the risk policies are managed effectively and in accordance with the Enterprise Risk Management Framework approved by the Board from time to time.
- Ensures effective communication with the internal and external auditors, the Audit Committee, the Board, management and regulators on risk management.
- Contributes to a climate of discipline and control which will reduce the opportunity for fraud and other operational losses.
- Assesses any significant risk control failings or weaknesses identified and their potential impact and confirms that appropriate action has or is being taken.

Table 43: Summary of the main undertakings and considerations during the year*

Risk Committee	
Total number of meetings held during the year: 5	Executive director^ Independent non-executive director^
Chairperson Mr LL von Zeuner [†]	Members Ms UN Fikelepi [†] Ms ME Letlape [†] Ms DC Matshoga [†] Ms GT Ramphaka ¹ Mr SI Gama ² No external advisers attended committee meetings during the year.
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> • An increasing trend in derailments • Credit rating agencies' assessments and their impact on the Company's funding requirements • Fraud risks and consequence management • Status of ongoing forensic investigations • Ensuring regular updates on forensic investigations • Integrated risk reporting within Transnet • Reputational risks 	<ul style="list-style-type: none"> • Considered an increasing trend in derailments - addressed across the Company and visible leadership strategies implemented, which include individual executive members being allocated specific work areas to visit regularly to engage employees on different matters, including safety. • Considered credit rating agencies' assessments, and their impact on the Company's funding requirements. Mitigation plans to improve the Company rating while acknowledging the link with the sovereign - included reducing and deferring capital spend and instituting alternative funding models until a stable position is achieved. • Considered fraud risks and forensic management briefings on consequence management and expediting the management of cases through forensic investigations. • Held meetings dedicated to ensuring that the committee receives regular updates on the forensic investigations and consequence management implementation. The forensic portfolio was transferred from the Chief Audit Executive to the Chief Corporate and Regulatory Officer. • Considered reputational risks. • Streamlined risk reporting through integrated risk reporting to ensure effective oversight of the Company's complicated business.

* A more detailed table of key activities and outputs for the 2019 financial year is included in the full Governance Report at www.transnet.net.

¹ Ms GT Ramphaka was appointed Chairperson of the Risk Committee with effect from 29 May 2019.

² Mr SI Gama attended once between 1 April 2018 to 13 May 2018. His employment contract was terminated with effect from 28 October 2018.

Finance and Investment Committee



The Finance and Investment Committee provides the following support activities to the Board:

- Advances and maintains the Company's financial and investment policies to ensure its financial sustainability.

- Approves investment transactions within the committee's delegated authority.
- Oversees trends in supplier development and localisation spend in line with Broad-Based Black Economic Empowerment plans and monitors progress on these plans.
- Considers strategic growth investments and partnerships and makes recommendations to the Board.
- Monitors the implementation of strategic growth investments and partnerships against the approved plans.
- Recommends divestments (disposals) to the Board in line with the Delegation of Authority (DOA) Framework.
- Approves procurement strategies and oversees related awards in line with the DOA Framework for assurance purposes.
- Considers property lease agreements in line with the DOA Framework.

Table 44: Summary of the main undertakings and considerations during the year*

Finance and Investment Committee	
<ul style="list-style-type: none"> • Total number of meetings held during the year: 7 	
<ul style="list-style-type: none"> • Executive director[^] • Independent non-executive director⁺ 	
Chairperson Prof EC Kieswetter ^{*1}	Members <ul style="list-style-type: none"> • Ms RJ Ganda⁺ • Adv OM Motaung⁺ • Mr AP Ramabulana⁺ • Mr LL von Zeuner^{*2} No external advisers attended committee meetings during the year.
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> • Eskom Long-term Transportation Agreement • Improved procurement governance 	<ul style="list-style-type: none"> • Recommended to the Board the Eskom Long-term Transportation Agreement. • In line with its mandate, the committee provided guidance and oversight on procurement-related matters to assure that tender awards are issued to bidders who meet the criteria and have adequate capabilities to execute the contracts. This assurance will proceed until such time that there is assurance that corrupt activities have been eradicated and that good governance prevails.

* A more detailed table of key activities and outputs for the 2019 financial year is included in the full Governance Report at www.transnet.net.

¹ Prof EC Kieswetter resigned as a non-executive director of the Company with effect from 6 May 2019.

² Mr LL von Zeuner was appointed Chairperson of the Finance and Investment Committee with effect from 29 May 2019.

Remuneration, Social and Ethics Committee



The Remuneration, Social and Ethics Committee is constituted as a statutory committee of Transnet SOC Ltd in respect of its statutory duties in terms of section 72(4) and Regulation 43 of the Companies Act, and as a committee of the Board in respect of all other duties assigned to it by the Board in terms of its mandate.

The committee provides the following support activities to the Board:

- Advises the Board regarding responsible corporate citizenship and the ethical relationship between the Company and its stakeholders, both internally and externally. The committee manages the Company's legal and moral obligations for its economic, social and natural environment, including the objectives

- and standards of the Company's conduct and activities.
- Manages and monitors the Company's activities to achieve and maintain world-class standards in the Company's social and ethics environment, with due regard to all relevant legislation, policies, legal requirements and codes of best practice.
- Oversees the ethics management programme implemented by management.
- Ensures that competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high-performance staff at all levels in support of realising corporate objectives and to safeguard the Shareholder's interests.
- Reviews the design and management of salary structures, policies and incentive schemes and ensures that they motivate sustained high performance and are linked to corporate performance.

- Develops and implements a remuneration philosophy for disclosure to enable a reasonable assessment of reward practices and governance processes to be made by stakeholders.
- Recommends the level of independent non-executive directors' fees to the Board.
- Ensures compliance with applicable laws and codes.
- Considers and makes recommendations on all human capital matters related to the:
 - Restructuring of Transnet;
 - Disposal of assets/part of Transnet's business; and
 - Acquisition of assets/new business.
- Development of human resources issues.
- Approves the succession planning policy and procedures for the Group Executive Committee (other than executive directors) and the Extended Executive Committee members.

Table 45: Summary of the main undertakings and considerations during the year*

Remuneration, Social and Ethics Committee	
Total number of meetings held during the year: 7	
<ul style="list-style-type: none"> • Executive director[^] • Independent non-executive director⁺ 	
Chairperson Dr FS Mufamadi ⁺	Members <ul style="list-style-type: none"> • Ms UN Fikelepi⁺³ • Prof EC Kieswetter^{*1} • Ms ME Letlape⁺ • Ms V McMenamin^{*2} No external advisers attended committee meetings during the year.
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> • Non-executive directors' remuneration • Actions required in terms of suspensions and appointments of senior executives in light of widespread corruption allegations • Measures to address employee and public safety and fatalities • Improvement of employment equity across the organisation • Need to improve consequence management in terms of fraud and corruption matters 	<ul style="list-style-type: none"> • Recommended to the Board and Shareholder Minister the review of the non-executive directors' fees. • Recommended consequence management of the Group Chief Executive and other executives. • Recommended the extension of the Acting Group Chief Executive's contract. • Considered Human Resources policies for review. • Considered suspensions and terminations. • Considered Executive Committee vacancies. • Considered skills and capacity building, including management skills. • Reviewed the remuneration and reward philosophy. The committee called for the revision of the Company's balanced scorecards and related reward schemes (Short-term and Long-term Incentive Scheme Ground Rules). • Considered ethics matters, such as fraud and corruption matters and the need to improve efficiencies in consequence management. 2019 saw more decisive action being taken to institute consequence management. • More transparent reporting regarding remedial actions taken to eradicate corruption and sharing positive and constructive news have impacted positively on media reporting.

* A more detailed table of key activities and outputs for the 2019 financial year is included in the full Governance Report at www.transnet.net.

¹ Prof EC Kieswetter resigned as a non-executive director of the Company with effect from 6 May 2019.

² Ms V McMenamin resigned as a non-executive director of the Company with effect from 28 February 2019.

³ Ms UN Fikelepi was appointed a member of the Remuneration, Social and Ethics Committee with effect from 15 March 2019.

Our control environment in brief

King IV. P2, 4, 8, 11, 12, 13 & 16

Transnet's governance control environment comprises eight key areas:

1. Integrated procurement management

- Optimally regulated infrastructure-related procurement and delivery management with Finance and Investment Committee Terms of Reference.
- Infrastructure Procurement and Delivery Management Framework with procurement rules, procedures and processes.
- Procurement Ombudsman.
- Up-to-date compliance assurance for high-value tender processes.
- Transnet Delegation of Authority.
- Efficient and effective contract management, with SCM Contract Management Procedures Manual and Procurement Procedure Manual.

- Supply Chain Management Policy and robust, independent complaints handling.
- Adherence to a strict set of laws, codes, rules and standards, including (but not limited to):
 - Section 217(1) of the Constitution of South Africa and section 51(1)(a)(iii) of the PFMA;
 - Promotion of Administrative Justice Act, No 3 of 2000, which was issued in terms of section 33 of the Constitution;
 - The Construction Industry Development Board Act, No 38 of 2000, and the regulations thereto;
 - The Promotion of Access to Information Act, No 2 of 2000;
 - The Preferential Procurement Policy Framework Act, No 5 of 2000, and the regulations thereto; and
 - Instruction notes are also issued by National Treasury, which regulate Transnet's procurement processes.

74 PFMA compliance

2. Internal Audit

- Accords with section 51 of the PFMA.
- Governed by the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.
- An independent assurance function that is functionally accountable to the Transnet Audit Committee.
- The mandate and terms of reference are included in the Internal Audit Charter - approved annually by the Transnet Audit Committee.
- Transnet Internal Audit was a fully outsourced function operating under strategic leadership of the Chief Audit Executive - a Transnet permanent employee. Transnet is considering increasing the internal capacity.
- Develops and executes a risk-based audit plan.

3. Enterprise risk management and integrated assurance

- The Board delegates the Group's risk management function to the Risk Committee.
- The strategic risk profile is generated from the Transnet ERM Strategy Framework, based on ISO 31000: 2009.
- Transnet's Integrated Assurance Model manages risks and controls, and encompasses the assurances provided by management, internal audit, external audit and external advisers and service providers.
- First line of defence: Assurances provided by direct line management, which is blanket assurance across the full scope of risks and controls.
- Second line of defence: Assurance providers that are internal to the Company, yet not directly responsible for the direct management of the process under review.
- Third line of defence: Assurance providers that act independently from management and the Company's operations.
- Fourth line of defence: Independent oversight committees with specific responsibilities pertaining to the risk, control and assurance of Transnet's activities and their impact on stakeholders.

32 Material matters, opportunities and risks

4. Strategic execution and performance management

- Transnet's performance targets are confirmed in the annually negotiated Shareholder's Compact.
- Transnet manages the execution of its strategic imperatives through the Company's Strategic Execution Framework.
- The framework is designed to achieve:
 - Visibility of strategic execution to identify and close execution gaps;
 - Group-wide integration and alignment of strategic initiatives and critical processes;
 - Problem-solving and analytical tools, and follow through with solution-driven actions;
 - A risk-based execution process to monitor the MDS; and
 - A platform for collaboration and seamless execution of strategic initiatives.

32 Material matters, opportunities and risks

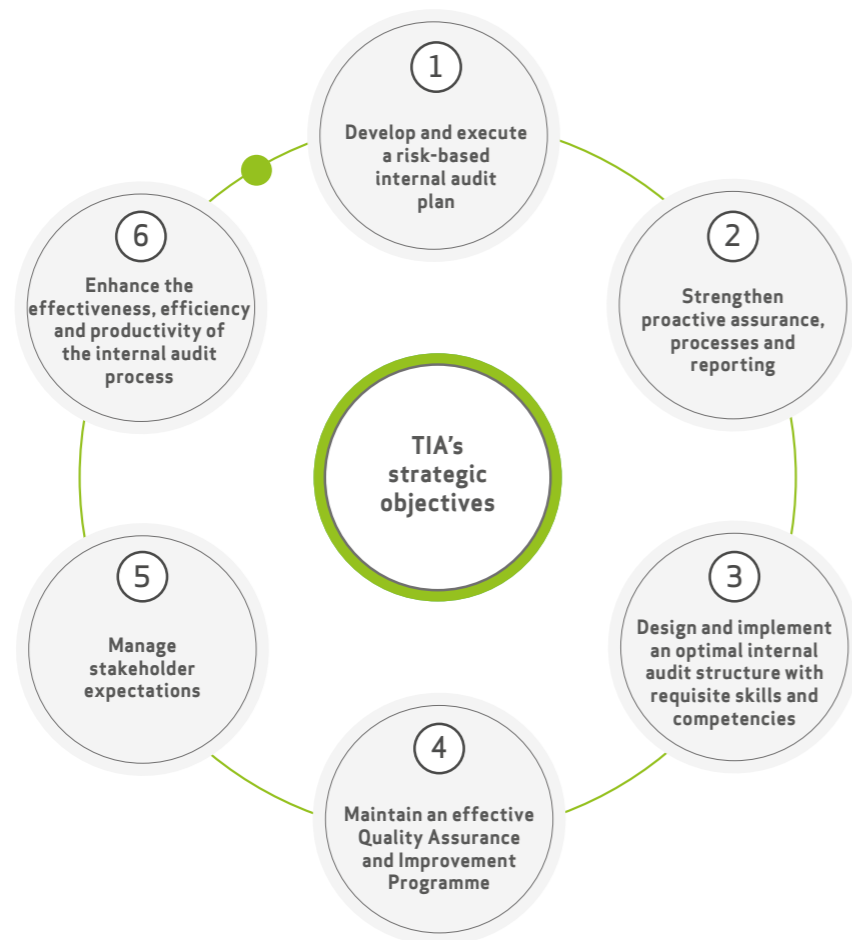
5. Ethics and fraud management

- The Code of Ethics (the Code) enables a culture of entrenched values, principles, standards and norms.
- Integrity pacts are concluded with all bidders and suppliers.
- Fraud and corruption awareness training is conducted annually with all employees.

- Service providers, suppliers and trade partners are also subject to the Code.
- The Code is revised every five years or as required.
- The Group Company Secretary is responsible for the Code development, review, and Human Resources is responsible for the implementation of the Code.
- Aspects of the Code are included in fraud and corruption awareness training and are accessible to all employees on the Company's intranet.
- The Tip-Offs Anonymous Hotline is outsourced to a third party to ensure independent, seamless investigation without prejudice. The Hotline is available 24 hours a day, seven days a week and call centre agents converse in all 11 official South African languages. All irregularities, whether reported through external or internal reporting channels, are investigated through an established forensics investigation process.
- The Transnet Whistle-blowing Policy is aligned with the Protected Disclosures Act, No 26 of 2000, and helps to protect employees from various forms of victimisation.
- The fraud and corruption risk management strategy provides mechanisms for the prevention, early detection and investigation of irregularities.

46 Our performance and outlook

Figure 13: Transnet Internal Audit (TIA) strategic objectives



Fraud and corruption risk management strategy

Figure 14: Key themes of the fraud and corruption risk strategy

Financial capital	Manufactured capital	Intellectual capital	Social and relation capital	Human capital
Forensic data analytics	Capital programmes	Tone at the top Asset management	Fraud and corruption risk assessments	Recruitment and selection
Revenue generation	Anti-corruption compliance programme	Forensic data analytics Time and attendance	Declaration of interest	Anti-bribery, fraud and corruption awareness
Rail sidings	Lease management	Fraud and corruption risk assessments Tender management	Declaration of gifts	Whistle-blowing mechanism
Treasury transactions	Verification of vacant/illegal properties	Contract management Three-quote process	Recruitment and selection	Ethics Compliance Programme
Inventory	Scrap sales	Payroll Procurement to pay	Ethics management	Legislative compliance
		High Value Tender reviews		

6. Governance of stakeholder management and engagement

- The Board delegates authority to the Group Chief Executive who reports to the Board on all material stakeholder issues and takes responsibility for incorporating these into Transnet's strategy and risk management.
- Stakeholder engagement practices align with the Company's Culture Charter and supporting values.
- Engagement norms include inclusivity, accountability and responsiveness.
- Stakeholder engagement performance is measured as a key performance indicator in the balanced scorecards of stakeholder relationship owners.
- Stakeholder engagement is decentralised, but the Board has overall responsibility for stakeholder engagement.
- The monitoring and evaluation of stakeholder engagement is reported to the Remuneration, Social and Ethics Committee and to the Board.
- Transnet has adopted guidelines from the AA1000 standards (Accountability Principles Standard 2008 and the AA1000 Stakeholder Engagement Standard 2011).

42 Addressing stakeholder concerns

7. ICT management and governance

- The Board, supported by the Corporate Governance, Audit Committee and Risk Committee, is responsible for IT governance and oversight.
- The Board has delegated the responsibility for the implementation of the IT governance framework to management with the mandate to implement effective ICT and digital structures, principles, processes and practices that will enable effective ICT and Digital governance within Transnet.
- ICT and Digital is governed by the CIO Council, responsible for directing, controlling and measuring of overall ICT and Digital strategic definition and implementation within Transnet.
- As part of the work plan for a new year, various artefacts, such as the ICT Governance Framework and the IT Governance Charter, are added to the Board agenda for review, approval and assessment for effectiveness. To ensure business resilience, ICT's disaster recovery plans, tests and reports are regularly submitted to the Board for review.

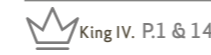
- The ethical and responsible use of ICT, and compliance with applicable laws, is the overall responsibility of the Board, which is provided with insight on ICT's updated regulatory universe each year.
- In aligning IT Governance practices within Transnet, ICT has focused on the improvement of the integrated assurance approach, in addition to optimising the assurance coverage on ICT and Digital following feedback from both external and internal assurance as well as risk management.
- With the proliferation of technology in this digital era, Transnet ICT has elevated cybersecurity to a top priority and provides feedback to the Board on a regular basis. It further guards against negative publicity and reputational damage resulting from social media risks.
- Focus has been on protecting Transnet's security posture through the initiated cybersecurity improvement initiative.
- Incidents such as ransomware outbreak and cloning of the Transnet website have occurred during the course of the year, necessitating the strengthening of our incident response process and ICT continuity management.
- Transnet ICT continues to monitor its strategic risk - Inadequate Information and Communication Technology (ICT) Infrastructure and Technology to enable Business to achieve its Objectives - through the strengthening of effective controls in domains of contract and vendor management, strategy and architecture, data management and asset management.
- Business value engineering processes enforce monitoring and evaluating the value delivered from ICT investments following Transnet's project delivery process for ICT; to principles to plan for, monitor and track benefits throughout the project delivery process.
- Transnet has implemented a King IV-aligned governance framework to achieve continuous improvements and to achieve the following:
 - Improved delivery on Transnet's strategic goals and outcomes.
 - Improved ICT business enablement.
 - Improved stakeholder communication.
 - Effective service delivery through ICT-enabled services.
 - Lower costs.
 - Increased alignment of investment towards strategic goals.

- Improved return on ICT-enabled investment.
- ICT risks managed in line with the priorities and Transnet's risk appetite.
- Appropriate security measures to protect Transnet and employee information.
- Improved management of business-related ICT projects.
- Improved information management.
- ICT executed in line with legislative and regulatory requirements.

8. Regulatory compliance

- Group Risk and Compliance ensures that the outcome of its plan is aligned with the mandates of the Audit Committee and Risk Committee and executes its areas of focus from an annual Board-approved Compliance Plan.
- Managers are responsible for ensuring compliance as it relates to their areas of accountability.
- More than 200 primary regulatory requirements impact Transnet.
- Compliance is implemented through a risk-based approach using a decentralised model, with Compliance Officers appointed within Operating Divisions and Corporate Centre functions.
- The compliance function independently monitors and reports on compliance controls relating to high-priority regulatory requirements.
- The compliance function assists and supports the Board and management to discharge their compliance responsibilities.
- A Transnet POPI Steering Committee, sponsored by the CHRO, has been established to ensure that all specialist functional areas comply with the requirements of POPI. These include HR, iSCM, ICT, Security, Business Development, Foundation, Insurance and Internal Audit. Each functional area has developed Compliance Control Plans which detail the controls required to ensure compliance to the Act. Further, POPI training was also conducted across the business. A review process is currently underway in order to determine the adequacy of the controls implemented.

Remuneration



Remuneration philosophy

King IV Principle 14 emphasises that remuneration practices should be equitable, responsible and transparent, linked to Transnet's strategy, and should result in continued shareholder value creation. In this regard, Transnet aims to ensure that remuneration is commensurate with the roles and responsibilities of executives and also linked to the achievement of our

strategic objective, to promote Transnet's long-term sustainability.

Transnet's remuneration philosophy supports the strategic goals and objectives of the organisation and creates an environment in which teams are challenged and rewarded to achieve targets and to sustain superior performance. This approach to remuneration aims to encourage and reward performance that is aligned to the business strategy.

Management is responsible for delivering against the mandate set by the Transnet Board and the Shareholder and to

manage the business on a day-to-day basis to achieve the stated objectives. The performance of Transnet as a Company, and individual performance against a set of broadly predetermined metrics, form part of the remuneration cycle.

Linking reward to the strategic intent of Transnet

The table below provides an overview of the different reward elements and the link to the strategic intent of Transnet.

Table 46: Reward linked to strategy

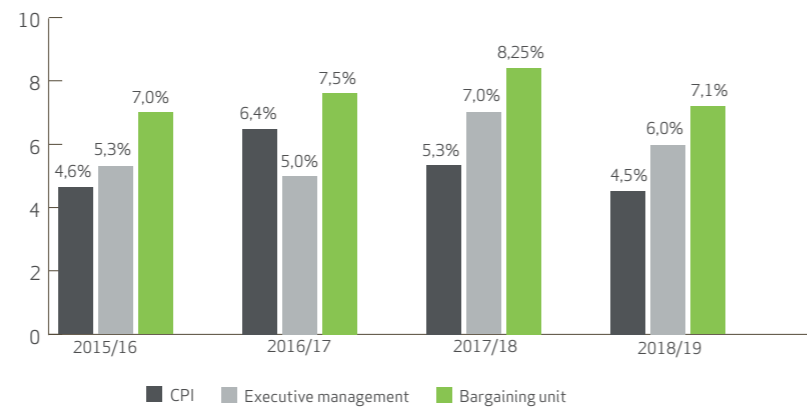
Reward element	Management (Grade level A to F)	First line management, specialists and technicians (Grade level G)	Junior employees (Grade level H to L)	Link to strategic intent
Guaranteed pay	<ul style="list-style-type: none"> • Total cost-to-company • Salary increases based on mandate and individual performance • 13th cheque can be structured as part of package • Travel allowance structured if required to conduct business travel 	<ul style="list-style-type: none"> • Cost-to-company package • Excludes medical subsidy • 13th cheque is structured as part of package • Increases negotiated, partially based on individual performance 	<ul style="list-style-type: none"> • Basic salary • Service bonus (13th cheque) • Increases negotiated 	<ul style="list-style-type: none"> • Ensure that talented individuals are attracted and retained • Reward superior performance
Other benefits	<ul style="list-style-type: none"> • Cell phones (tool of trade) • Computers (tool of trade) • Members of the Executive Committee are eligible for drivers and personal security based on risk assessment 	<ul style="list-style-type: none"> • Medical subsidy if an employee is a principal member of a recognised medical aid • Cell phones (tool of trade) if job requirement • Computers (tool of trade) if job requirement 	<ul style="list-style-type: none"> • Housing allowance • Medical subsidy if an employee is a member of a recognised medical aid • Cell phones (tool of trade) if job requirement • Computers (tool of trade) if job requirement 	<ul style="list-style-type: none"> • Ensure that employees can perform their role efficiently thereby increasing productivity
Short-term Incentive (STI) Scheme	<ul style="list-style-type: none"> • All eligible employees • Support and reinforce the desired behaviour to ensure the delivery and performance against the financial, non-financial, operational and strategic metrics that have been agreed, and to reward when these targets have been achieved and exceeded. 			<ul style="list-style-type: none"> • Manage and facilitate the performance of employees through a results-driven approach
Long-term Incentive (LTI) Scheme	<ul style="list-style-type: none"> • Applicable to grade levels A, B and C based on individual performance and talent cluster • Attract and retain the required talent to sustain business performance 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Ensure long-term sustainability of the business
Recognition Programme	<ul style="list-style-type: none"> • All eligible employees • Support a culture where success is celebrated and employees feel valued for their contribution to the business 			<ul style="list-style-type: none"> • Improve employee engagement, productivity and quality of work

Annual salary increases

Annual increases for management levels are informed by individual performance ratings. Increases occur once annually or in the event of a promotion. Transnet does not allow interim or ad hoc salary increases.

Transnet concluded a three-year wage agreement with the recognised labour unions which expires at the end of the 2020/21 reporting period. The three-year wage agreement provides labour stability during the period and allows an opportunity for employees to focus on the achievement of the Transnet strategic objectives.

The graph on the right depicts the increases differentiated between executive management and a bargaining unit compared to CPI for the past three years.



seniority, such as grade level in the organisation, individual performance as well as results from the talent management framework. Following the completion of the three-year banking period, the vesting payment is also subject to individual performance-rating and talent-rating criteria. The banked LTI amounts accrue interest over the three-year banking period.

The LTI scheme has specific clauses dealing with the Company's performance over the banking period. Accordingly, a group modifier has been introduced. The measure of total average assets (ROTA) (excluding capital work in progress) is used as the Group LTI modifier.

Transnet will review both the STI and LTI schemes during the 2019/20 financial period to align with the DPE Remuneration Guide.

Individual performance management

Transnet's overall Performance Framework aligns to the Statement of Strategic Intent and the Shareholder's Compact. Each year, the framework is translated into a Transnet Scorecard, as well as the scorecard of the Group Chief Executive and then cascaded to all managers. The Balanced Scorecard Performance Management Methodology is well-entrenched across the business and is utilised for the management category as well as for first line managers, specialists and technicians.

Each year, managers' individual performance ratings are ratified to align individual performance with the overall performance of Transnet and its Operating Divisions. Both corporate and individual scorecards inform the determination of STI payments and annual increases.

Individual performance management for junior employees provides employees with clear visibility of their contribution to business drivers in the value chain and is based on both business and team performance objectives and measures. Individual behavioural aspects within an employee's control, such as attendance, discipline and safety, are also considered.

The performance management score informs the annual salary progression payment and the individual components of the performance score impact on the value of the STI payment. This groundbreaking intervention is in line with Transnet's drive to create a high-performance culture.

Remuneration of the Transnet prescribed officers

The successful execution of the Transnet strategy requires sustained effort and energy of the executive leadership to ensure high performance as well as a sustainable and profitable long-term growth path. As part of the Transnet strategy, the Company designed a reward philosophy for executive management to drive the implementation of the strategy while ensuring that key role players are retained in the Company. This is also aligned with the Remuneration Guide as issued by the Department of Public Enterprises.

Transnet is committed to the creation, facilitation and development of an organisation that supports the equality of all South Africans.

The executive directors and prescribed officers will not receive salary increases for the 2019/20 financial period, based on the directive issued by the office of the Minister of Public Enterprises.

Table 47: Guaranteed pay of the Transnet Executive Committee

The table below depicts the guaranteed pay of the Transnet Group Executive team for the reporting year:

Exco member	Salary R'000	Retirement benefit fund contributions R'000	Other contributions R'000	Other payments R'000	Total 2019 R'000	Total 2018 R'000
Mr TC Morwe ^{1,9}	3 666	—	1	—	3 667	—
Mr S Gama ^{1,2}	4 297	442	1	—	4 740	8 108
Mr MM Buthelezi ⁶	5 225	446	2	11 543	17 216	5 401
Ms EAN Sishi ⁷	4 555	443	2	—	5 000	4 591
Ms DC Moephuli ¹²	—	—	—	—	—	2 484
Ms MMA Mosidi ¹²	1 597	123	1	—	1 720	3 443
Ms GJ Pita ^{1,12}	261	29	—	—	290	5 406Ms
Mr T Jiyane ¹²	4 578	445	2	—	5 025	4 748
Mr GJE de Beer	5 029	534	2	—	5 565	5 258
Mr KV Reddy	4 044	430	2	—	4 476	4 212
Mr XB Mpongoshe ⁵	1 635	127	1	—	1 763	—
Mr N Silinga ⁴	—	—	—	—	—	1 399
Mr MS Mahomed ^{1,3,10}	4 272	206	2	—	4 480	—
Ms SA Vorster ³	178	17	—	—	195	—
Ms R Madiba ³	990	83	1	—	1 074	—
Mr T Majoka ³	1 472	118	1	—	1 591	—
Ms GLN Sithole ⁸	694	50	—	—	744	—
Ms S Qalinge ⁷	679	66	—	—	745	—
Ms N Mdawe ³	141	12	—	—	153	—
Mr LM Moodley ^{8,11}	506	43	—	—	549	—
Mr R Nair ⁶	806	69	—	12 483	13 358	—
Mr LL Tobias ³	216	18	—	—	234	—
Mr MA Fanucchi	729	77	—	—	806	—
Total	45 570	3 778	18	24 026	73 392	45 050

¹ Group executives who are members of the Board of Directors.

² Contract terminated.

³ Acted as Exco member.

⁴ Acted as Exco member from 1 November 2017 to 31 March 2018.

⁵ Hired in October 2018.

⁶ Resigned - 31 March 2019.

⁷ Suspended.

⁸ Appointed as Exco member during the year.

⁹ Hired during the year. Contract expired.

¹⁰ Appointed acting Group Chief Executive after year end. Mr MD Gregg-Macdonald was appointed acting Chief Financial Officer after year end.

¹¹ Suspended after year end.

¹² Services terminated in August 2019.

In the 2019/20 financial period, Transnet will review the DOA Framework in respect of separation benefits to align with the DPE Remuneration Guide.

Variable pay for prescribed Officers

Ex-Gratia Payment for 2018/19

Transnet did not pay a Short-Term Incentive (STI) for the 2018/19 financial year. The rationale for the non-payment was based on the ground rules of the STI scheme, where payment is subject to compliance with specific gatekeepers. The payment of an incentive bonus, in terms of the STI scheme rules, requires the following conditions to be present:

- A year-on-year improvement in actual EBITDA (before provision for incentives);

- The payment must not result in the group breaching key debt covenant ratios;
- The payment must not place the Group in financial distress; and
- The payment must not result in a net loss after tax for the financial period.

EBITDA, before incentives, for the 2018/19 financial period is 1,7% lower than that achieved in the prior year. In terms of the incentive scheme rules, the bonus pool for 2018/19 is therefore zero (no year-on-year improvement). Having considered the risks of a non-payment of a STI, the Transnet Board approved an ex-gratia payment to employees to the value of 50% of a thirteenth cheque, translated as 4,167% of guaranteed earnings.

Long-term Incentive

The 2015/16 conditional award in respect of the Transnet Long-term Incentive (LTI) scheme vested at the end of the 2018 financial period and payment will take place on 26 July 2019. The value of the LTI payment is impacted by the level of achievement of specific company and individual performance objectives.

The members of the Transnet Executive Committee were eligible for payment in respect of the LTI Scheme based on the ground rules of the scheme. The table below reflects the short- and long-term incentive payments for Transnet executives.

Table 48: Short- and Long-term Incentive payments for Transnet executives

Transnet executive	LTI 2019 R'000	LTI 2018 R'000	Ex-gratia 2019 R'000	STI 2018 R'000
Mr TC Morwe ^{1,9}	—	—	—	—
Mr S Gama ^{1,8}	—	1 881	—	—
Mr MM Buthelezi ⁶	—	980	—	3 658
Ms EAN Sishi ⁷	—	1 145	—	3 086
Ms DC Moephuli ²	—	—	—	—
Ms MMA Mosidi ²	—	—	—	2 261
Mr GJ Pita ^{1,2}	—	896	—	—
Mr T Jiyane ⁸	—	607	—	—
Mr GJE de Beer	—	—	232	3 452
Mr KV Reddy	237	716	186	2 766
Mr XB Mpongoshe ⁵	—	—	70	—
Mr N Silinga ⁴	—	947	148	2 012
Mr MS Mahomed ^{1,3}	221	—	187	—
Ms SA Vorster ³	15	—	8	—
Ms R Madiba ³	—	—	41	—
Mr T Majoka ³	97	—	64	—
Ms GLN Sithole ⁷	36	—	31	—
Ms S Qalinge ⁷	—	—	—	—
Ms N Mdawe ³	—	—	6	—
Mr LM Moodley ⁷	—	—	—	—
Mr R Nair ⁶	—	—	—	—
Mr LL Tobias ³	16	—	10	—
Mr MA Fanucchi	—	—	34	—
Total	662	7 172	1 016	17 235

¹ Group executives who are members of the Board of Directors.

² Resigned during the year.

³ Acted as Exco member.

⁴ Acted as Exco member from 1 November 2017 to 31 March 2018.

⁵ Hired in October 2018.

⁶ Resigned - 31 March 2019.

⁷ Suspended.

⁸ Contract terminated.

⁹ Hired during the year. Contract expired.

Fee structure for non-executive directors

The fee structure for non-executive directors will be aligned with the Shareholder remuneration guidelines and the strategic intent of Transnet in the 2019/20 reporting period. Non-executive directors are appointed by the Shareholder Representative for a three-year term. Transnet's Memorandum of Incorporation, however, requires that the non-executive directors be submitted for re-election for each of the three years

at the Company's annual general meeting. Among the issues considered by the Shareholder Representative prior to re-election is the individual non-executive director's performance. The Shareholder Representative approves the fees payable to non-executive directors in advance. The non-executive directors are paid an annual retainer as well as an additional retainer fee for committee membership. They are, however, not paid for attendance of meetings. Fees paid to non-executive directors are differentiated based on

their appointments to the various committees of the Board.

The executive directors and prescribed officers will not receive salary increases for the 2019/20 financial period, based on the directive issued by the office of the Minister of Public Enterprises.

The table below depicts the actual remuneration for the Transnet non-executive directors for the reporting year:

Table 49: Guaranteed pay of Transnet non-executive directors

Board member	Fees R'000	Other payments R'000	Total 2019 R'000	Total 2018 R'000
Ms LC Mabaso (Chairperson) ²	112	—	112	1 350
Ms Y Forbes ^{2,4}	62	—	62	656
Ms PEB Matheka ⁷	67	—	67	550
Mr GJ Mahlalela ⁵	—	—	—	642
Mr ZA Nagdee ⁷	67	—	67	581
Mr VM Nkonyane ²	60	—	60	642
Mr BG Stagman ¹	—	—	—	625
Ms AC Kinley ²	91	—	91	160
Mr SM Radebe ^{4,7}	121	—	121	192
Mr PS Molefe (Chairperson) ³	1 076	2	1 078	—
Mr LL von Zeuner ³	647	—	647	—
Prof EC Kieswetter ³	566	—	566	—
Ms RJ Ganda ³	566	—	566	—
Ms DC Matshoga ³	566	—	566	—
Ms UN Fikelepi ³	485	—	485	—
Ms GT Ramphaka ³	472	—	472	—
Adv OM Motaung ³	472	—	472	—
Dr FS Mufamadi ³	550	—	550	—
Mr AP Ramabulana ³	472	—	472	—
Ms ME Letlape ³	517	—	517	—
Ms V McMenamin ^{2,3}	278	—	278	—
Total	7 247	2	7 370	5 398

¹ Resigned during the prior year.

² Resigned during the year.

³ Hired in May 2018.

⁴ Trustees fees included.

⁵ Deceased during the prior year.

⁶ Directors' fees paid to Integrated Capital Management (Pty) Ltd.

⁷ Removed during the year.

Annexure A: Audit Committee Terms of Reference for Integrated Reporting

Audit Committee Terms of Reference for the Integrated Report <IR>	
Purpose in relation to integrated reporting	<ul style="list-style-type: none"> Recommend the annual <IR> for approval by the Board. Oversee and monitor the quality and integrity of the Integrated Report: incorporating the Annual Financial Statements, sustainability reporting (nine SDOs), and public announcements in respect of the financial results. Assess the overall integrity of the <IR> project programme – this includes transparency and balance of <IR> information. Anticipate and understand how regulatory and reporting developments in the areas of financial, sustainability reporting and integrated reporting may affect the Company in terms of the six capitals (financial, manufactured, intellectual, human, social and relationship and natural).
Accountability and responsibilities and Terms of Reference (ToRs)	<ul style="list-style-type: none"> Evaluate factors and risks that may impact on the accuracy of the <IR> and other external reporting. This includes factors that may predispose management to present misleading information or display significant poor judgement in the provision of information for the collation of the <IR>. Oversee the governance of the reporting processes and relevance of the related accounting policies and frameworks for the <IR>, Annual Financial Statements, preliminary results announcements and interim reports. Assess and give guidance on the application of the principles of comparability (to prior year), balance (address material stakeholder issues), transparency (particularly in terms of PFMA reporting) and reliability (internal and external assurance) insofar as it relates to disclosures contained within the <IR>. Confirm that material issues relating to sustainability have been ratified/approved by the Remuneration, Social and Ethics Committee.
Accountability and responsibilities and ToRs	<ul style="list-style-type: none"> Ensure that remuneration disclosures have been approved by the Remuneration, Social and Ethics Committee before recommending the <IR> to the Board. Provide internal assurance of the factual accuracy of performance data contained within the <IR> and that the achievement of strategic objectives is based on sound and reasonable judgement. Jointly, with the Risk Committee, approve the Corporate Governance Report to be contained as part of the <IR> suite.
Frequency of meetings and manner of call	<ul style="list-style-type: none"> As set out in the corporate calendar. Where necessary, however, special meetings will be called for the explicit intention of monitoring and for giving guidance on the production of the <IR>.
Quorum	<ul style="list-style-type: none"> As set out in the Audit Committee's overall ToR.
IR resources	<ul style="list-style-type: none"> Approved the IR governance process. The Board to provide support to the Audit Committee in the production of the <IR> at Audit Committee meetings.
Reporting	<ul style="list-style-type: none"> The <IR> Forum Steering Committee, as represented by the General Manager: Group Reporting and Taxation, will report to the Audit Committee on progress and structure as well as content contained within the <IR>. The Audit Committee will report to the Board on the <IR> programme.

Abbreviations and acronyms

AGM	Annual General Meeting	MDS	Market Demand Strategy
B-BBEE	Broad-Based Black Economic Empowerment	MI/km	Million litres per kilometre
Capex	Capital expenditure	MOI	Memorandum of Incorporation
CEO	Chief Executive Officer	MOU	Memorandum of Understanding
CIPC	Companies and Intellectual Property Commission	mt	Million tons
CMS	Condition Monitoring System	mtpa	Million tons per annum
CPI	Consumer price index	Nersa	National Energy Regulator of South Africa
CSI	Corporate social investment	NGO	Non-Governmental organisation
DCT	Durban Container Terminal	NMPP	New Multi-Product Pipeline
DIFR	Disabling injury frequency rate	NTK	Net ton kilometre
DOA	Delegation of authority	OEM	Original equipment manufacturer
DPE	Department of Public Enterprises	PFMA	Public Finance Management Act
EBITDA	Earnings before interest, taxation, depreciation and amortisation	PPPFA	Preferential Procurement Policy Framework Act
ED	Enterprise Development	PSP	Private-sector partnerships
ERM	Enterprise risk management	R&D	Research and Development
ESD	Enterprise and supplier development	RAMS	Rail Addressable Market Share
EVP	Employee Value Proposition	RBCT	Richards Bay Coal Terminal
GDP	Gross domestic product	RMO	Results Management Office
GFB	General Freight Business	ROTA	Return on total average assets
GRI	Global Reporting Initiative	S&P	Standard & Poor's
ICPAF	Integrated Capital Projects/Programme Assurance Framework	SCM	Supply Chain Management
ICT	Information and communications technology	SD	Supplier Development
IFRS	International Financial Reporting Standards	SDOs	Sustainable Developmental Outcomes
IIA	Institute of Internal Auditors	SOC	State-owned Company
IR	Integrated Report	STI	Short-term Incentive
iSCM	Integrated Supply Chain Management	TAL	TransAfrica Locomotive
ISO	International Standards Organisation	TEU	Twenty-foot equivalent unit
IT	Information technology	TIA	Transnet Internal Audit
King IV	King Report on Corporate Governance for South Africa, 2016	TMPS	Total Measured Procurement Spend
KPI	Key performance indicator	TSDBF	Transnet Second Defined Benefit Fund
LNG	Liquefied natural gas	TTPF	Transnet Sub-fund of the Transport Pension Fund
LTI	Long-term Incentive	TVCC	Transnet Value Chain Co-ordinator

