Transnet SOC Limited
(Incorporated in the Republic of South Africa)
(Registration Number: 1990/000900/30)
Issuer Bond Code: BITRA
(Transnet, the Company or the Issuer)

TRANSNET RELEASES AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2024 WITH AN UNMODIFIED AUDIT OPINION

Noteholders are advised that the Company's unmodified audited annual financial statements for the year ended 31 March 2024 have been published and are available on Transnet's website: https://www.transnet.net/InvestorRelations/Pages/Annual-Results-2024.aspx

The annual financial statements are available for inspection at the registered office of Transnet, 138 Eloff Street, Johannesburg and the offices of the debt sponsor (Absa Corporate and Investment Bank (a division of Absa Bank Limited)), 15 Alice Lane, Sandton, from 09:00 to 16:00 on business days.

Salient features of the financial performance, compared to the prior financial year, are as follows:

- **Revenue** increased by 11,6% to R76,7 billion,
- **EBITDA** (Earnings before interest, taxation, depreciation and amortisation) declined by 3,6% to R21,9 billion,
- **Loss for the year** is R7,3 billion, this includes a provision of R4,8 billion due to litigious matters,
- **Cash generated** from operations after working capital changes increased by 13,6% to R28,8 billion,
- **Capital investment** increased by 20,1% to R16,7 billion for the year,
- **Rolling cash interest cover** (including working capital changes) is 1,9 times; and
- **Gearing at 46,2%** is within debt covenant requirements of <50%.

Performance overview

The Company experienced a marginal improvement in the operating environment, particularly in the rail business, owing to the **implementation of the Recovery Plan**. Transnet's revenue performance for the year **improved by 11,6%,** compared to the prior year and this was driven by weighted average tariff increases as well as marginal volume increases in the container and rail businesses, partially offset by lower pipeline volumes.

This was achieved despite various challenges that continue to impact the rail business. These include collisions, derailments, community unrest on the coal line and equipment availability on the ore line, high levels of cable theft as well as infrastructure vandalism resulting in lower volumes railed.
The entity recorded an EBITDA of R22,0 billion for the year, which was marginally below the prior year.

Net finance costs increased by 14,8% to R13,8 billion, resulting mainly from the higher structural interest rate environment and the increase in total borrowings compared to the prior year.

The Group **reported a R7,3 billion net loss,** however, the net loss prior to the Natref provision is R3.8 billion (2023: net loss of R5.1 billion). For purposes of cautionary disclosure, Transnet has made a R4,8 billion provision relating to the Natref matter as a result of the High Court judgment in June 2024. Transnet has filed an appeal that could result in another court coming to a different determination as the Commercial Court. Transnet will pursue all legal remedies up to the highest court. Therefore, the execution of the Commercial Court's judgement is stayed.

Restatement of prior year financial statements

The prior year's financial statements have been restated due to the following:

- **Investment property fair value prior year error correction**

In the current year, the Group performed an external valuation of one third of its investment property portfolio in line with the company's accounting policy. In assessing the change in fair value for certain developmental lease related properties, an error in the apportionment of these fair values in the prior year was identified. This resulted in an increase in fair value and investment property of R748 million for the financial year ended 31 March 2023.

- **Lease smoothing prior year error correction**

In the current year, the Group performed a lease smoothing assessment related to its port investment property. During this assessment, an error regarding the application of lease smoothing was identified affecting the 2023 and 2022 financial years. This resulted in a R162 million decrease in lease revenue, a R128 million increase in fair value adjustments, a R1,3 billion decrease in investment property, a R1,1 billion increase in long-term lease smoothing debtors and a R211 million increase in short-term lease smoothing debtors for the financial year ended 31 March 2023. This also increased long-term lease smoothing debtors by R1,3 billion, increased short-term lease smoothing debtors by R176 million and decreased investment property by R1,4 billion in the financial year ended 31 March 2022.

Audit opinion

The Auditor-General of South Africa, the Company's independent statutory external auditor, has expressed an unmodified audit opinion on the annual financial statements for the year ended 31 March 2024.

Emphasis of matter

Without modifying their opinion, the external auditors raised the following emphasis of matter:

- Events after the reporting period date.

  Attention is drawn to note 41 in the consolidated and separate financial statements, which discloses material non-adjusting subsequent events:

  - This includes the appointment of a Group Chief Financial Officer
  - Legal proceedings by Transnet against Nedbank
  - Oversight allocation of Transnet from the Department of Public Enterprises to the Department of Planning, Monitoring and Evaluation as its new shareholder representative. However, the Proclamation of the transfer of the administration and powers of Transnet to the Department of Transport was confirmed on 23 August 2024.

- Restatement of corresponding figures

  Attention is drawn to note 39 in the consolidated and separate financial statements, the corresponding figures for 31 March 2023 and 31 March 2022 were restated as a result of errors in the financial statements of the public entity at, and for the year ended 31 March 2024.

- An uncertainty relating to the future outcome of exceptional litigation

  Attention is drawn to note 25 of the annual financial statements, the public entity is the defendant in a litigation with Total Energies Marketing South Africa and Sasol Oil (Pty) Ltd. The public entity was ordered to pay over R6,0 billion flowing from an alleged breach of a 1991 contract, as it is alleged that Transnet overcharged the plaintiffs for the transportation of crude oil through its pipeline system by not correctly using an agreed formula to determine tariff or price for such transportation. A provision to the value of R9,3 billion was made in the financial statements, which considered the claim, interest and legal fees as estimated. Transnet has filed an application for leave to appeal on 8 July 2024 which was acknowledged by the appeals registrar on 12 July 2024.

Material uncertainty related to going concern

Without modifying their opinion, the external auditors have concluded that there exist events or conditions which cast significant doubt on the ability of the company to continue as going concern in the foreseeable future, the basis is detailed in the going concern assessment in Note 40.

The Board strongly believes that these associated risks will be satisfactorily addressed with the mitigation strategies in place and continues to manage these strategies as a priority to ensure that they materialise as envisaged.

The Board further concluded, after carefully considering the progress of the Recovery Plan and the financial support from the Government through the provision of R47 billion guarantee support, that there is an expectation that the Group will continue to have access to adequate resources and facilities to be able to continue its operations as well as fund the capital investment programme for the foreseeable future, as a going concern.

Reportable irregularities

In accordance with the Public Audit Act and the Material Irregularity Regulations, the external auditors have included the following material irregularities which were identified during the audit:

- Late payment of VAT liability resulting in interest and penalties

On 31 March 2023, Transnet was liable to make a payment of R555 million (after offsetting the allowable diesel balance of R22 million) relating to the return submitted for the Value Added Tax (VAT) period ending on 28 February 2023 in accordance with the requirements of section 28(1)(b)(iii) of the VAT Act. However, a decision was made by management to delay the settlement of the VAT payable to improve the cash flows of the public entity. This resulted in a contravention of the VAT Act. The delay in settlement resulted in the South African Revenue Service (SARS) raising a penalty of R57,7 million and charging interest to the amount of R6,5 million which was subsequently paid by the entity. The Board took the following actions to address the material irregularity:

  - Internal controls were enhanced which has resulted in similar non-compliances not recurring. In addition, to address the operational and cash flow challenges, the public entity implemented a recovery plan; and
  - Furthermore, the accounting authority has taken active steps to recover the financial loss as a result of the non-compliance. This is evidenced by the following:
    - the public entity lodged a notice of objection which was disallowed by SARS on 14 May 2024,
    - the public entity then lodged a notice of appeal on 26 June 2024; and
    - in August 2024, Transnet and SARS reached a settlement agreement, in which SARS has agreed to waive 90% of the penalties.

As a result, the irregularity has since been remedied and the external auditors concluded to not pursue this matter further as a material irregularity.

Operational outlook

The Transnet Board, together with management, developed a multi-tiered, targeted Recovery Plan that is anchored on improving operational execution through tactical initiatives that drive operational performance improvement and volume recovery to return the Company to a financially viable and sustainable path.

The plan also requires that Transnet enhances the availability and reliability of critical equipment as a primary goal. Initiatives around the availability of equipment has seen partnerships with customers availing much-needed equipment, especially for the ports. Cost control measures continue to be implemented, along with better planning and execution of maintenance, employee training and incentives to support improved operational delivery.

Procurement optimisation, particularly for critical spares, more efficient capital allocation to drive volume throughput, and maintenance delivery are a top priority.

Improvements in operations and financial performance can already be observed, including an improvement in rail and container volumes in the 2023/4 FY, with further improvements budgeted for in the 2024/25 FY.

With the continued support of the Shareholder representative and National Treasury (in the form of the R47 billion approved government guarantee), Transnet is on course to contributing positively to economic growth in the country.

A key priority will be increasing locomotive availability and returning long-standing locomotives in order to service key export flows. Most of the contracts have been signed for the return of the long-standing locos, and work has commenced. These locomotives will enable additional capacity and contribute to volume growth. Transnet Freight Rail (TFR) also implemented Outcomes-Based Security solutions on 1 August 2023, which is on track to deliver expected improvements in incidents of cable theft.

In a bid to enhance operational and financial performance through private sector involvement, Transnet has finalised the selection process for an equity partner for its flagship Durban Container Terminal (DCT) Pier 2. International Container Terminal Services Inc. (ICTSI), an international terminal operator, has been selected for a 25-year joint venture with Transnet Port Terminals (TPT) to develop and upgrade the terminal. The unsuccessful bidder is challenging Transnet through litigation.

Furthermore, Transnet has achieved the construction of the Mamathwane Crossing Loop in the Northern Cape ahead of schedule by 30 days. This completion will expand rail capacity for manganese exports, facilitating a new East London rail solution from mines to the Port of East London. It is estimated that this development will divert approximately 40 540 trucks off the roads annually, with the potential to transport 1.5mt per annum.

Transnet will continue to navigate an ever-changing legislative landscape on its path to recovery, including reforms. The corporatisation of the National Ports Authority into a wholly owned subsidiary of Transnet and the split of Freight Rail into a Transnet Freight Rail Operating Company and the Transnet Rail Infrastructure Manager (TRIM) are among the changes underway. TRIM, which could also become a wholly owned subsidiary of Transnet, will oversee rail network quality and reliability to deliver the highest possible tonnage for the system. These reforms are still in the process of assessment, refinement and full quantification.

The Board and management remain optimistic that the Recovery Plan will return Transnet to profitability.

Johannesburg

02 September 2024

JSE Debt Sponsor
Absa Corporate and Investment Bank (a division of Absa Bank Limited)