

INTEGRATED REPORT 2022



Directors' approval: Statement of responsibility



In accordance with the supplement for SOEs (Principle 2.1) in the King IV Report on Corporate Governance (King IV^{TM1}), the Transnet Board of Directors (the Board), as the body charged with overall governance oversight, actively leads the Company's value creation process. As the integrated report is used to assess Transnet's ability to create value over time, the Board oversees the overall quality and accuracy of the report as well as the process-related disclosures outlined in the Governance terms of reference for the report (see Annexure B). Accordingly, the Board has satisfied itself that the 2022 Integrated Report demonstrates the Company's ongoing journey towards integrating elements of strategy, risk, opportunities, performance and sustainable development.

The Board has assessed the 2022 Integrated Report to ensure the:

- Integrity of the report and any supplementary information referenced in the report;
- Completeness of the material aspects addressed herein; and
- Reliability of reported performance information, based on the combined assurance process followed.

The Board is satisfied that the 2022 Integrated Report provides a fair representation of the integrated performance of the Company during the year and enables the reader of the report to make an informed assessment of the Company's performance and its ability to create value in a sustainable manner (King IV supplement for SOEs, Principle 2.2).

The Board has concluded that this report is presented in accordance with the Value Reporting Foundation's Integrated Reporting Framework, which is a principles-based, multi-capital framework that is used to promote the adoption of integrated reporting across the Company. Further, the report aligns with the King IV guidelines on integrated reporting. In addition, the report contains disclosures from Transnet's unique sustainability reporting criteria.

A summary of the key frameworks and standards adhered to in our reporting is contained in Table 1: Integrated Reporting Assurance Framework (see page 4).

The 2022 Integrated Report was approved by the Board of Directors and signed on its behalf by:

PS Molefe

Dr PS Molefe
(Chairperson)

PPJ Derby

Ms PPJ Derby
(Group Chief Executive)

NS Dlamini

Ms NS Dlamini
(Group Chief Financial Officer)

UN Fikelepi

Ms UN Fikelepi

M.E. Letlape

Ms ME Letlape

25 July 2022
Johannesburg

DC Matshoga

Ms DC Matshoga

F.S. MUFAMADI

Prof FS Mufamadi

A.P. Ramabula

Mr AP Ramabulana

A. Ramphaka

Ms GT Ramphaka

L.L. von Zeuner

Mr LL von Zeuner

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Navigating this report

ICONS KEY






Material clusters

-  Ensure financial sustainability
-  Reduce the total cost of logistics, effect and accelerate modal shift in strategic growth segments
-  Leverage private sector in the provision of both infrastructure and operations for strategic growth segments
-  Integrate South Africa with the region and the rest of the world
-  Optimise the social and economic impact of all interventions in the achievement of these objectives






Sustainable Development Outcomes

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





The capitals

-  Financial capital
-  Manufactured capital
-  Human and intellectual capital
-  Social and relational capital
-  Natural capital

Performance key









-  Improvement on prior year performance
-  Decline compared to prior year performance
-  Target achieved
-  Equivalent performance to prior year
-  Target not achieved

Read more

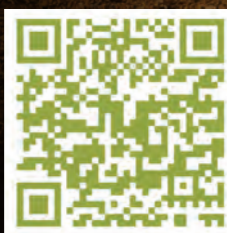
-  Full HTML report
-  Available in print format
-  Available online in PDF format
-  King IV Report on Corporate Governance for South Africa, 2016

IFRS sustainability disclosures*

The objective of sustainability-related commercial and financial disclosures on strategy is to enable users of general-purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities. The key below outlines the different disclosures in the strategic narrative that follows.

Disclosure	Reference
Significant sustainability-related risks and opportunities and their effects on the business, strategy, decision-making and financial performance	
The resilience of Transnet's strategy	
Qualifier	
Qualitative (Q) or Financial (F)	
Time horizon	
Short term: 1 – 2 years	
Medium term: 3 – 5 years	
Long term: 6 – 20 years	

* IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information



Forward-looking information

All references to forward-looking information and targets in the 2022 reports are extracted from the 2022/23 Transnet Corporate Plan approved by the Board.

Feedback on this report

We welcome feedback on our 2022 Integrated Report. Please provide written feedback to Kilford Gondo
Kilford.Gondo@transnet.net



The 2022 Integrated Report is the Company's primary report to all stakeholders.



The 2022 Annual Financial Statements include reports of the directors and independent auditor.

King IV Principle 4 states:

“The Accounting Authority should appreciate that the SOE's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.”

For Transnet, sustainable value creation considers the dynamic trade-offs in all aspects of the business, with the understanding that financial capital, as a medium of exchange and trade, cannot replace or compensate for the loss of any natural living organism, biosphere or human right in the course of its commercial practices. Hence, we do not observe pure financial gain or financial capital trade-offs as de facto measures of sustainable progress in our business.

Corporate information

Transnet SOC Ltd

Incorporated in the Republic of South Africa
Registration number 1990/000900/30
138 Eloff Street
Braamfontein
Johannesburg
2000

PO Box 72501
Parkview
Johannesburg
South Africa
2122

Executive directors

Ms PPJ Derby
(Group Chief Executive)

Ms NS Dlamini
(Group Chief Financial Officer)

Independent non-executive directors

Dr PS Molefe (Chairperson)
Ms UN Fikelepi
Ms ME Letlape
Ms DC Matshoga
Prof FS Mufamadi
Mr AP Ramabulana
Ms GT Ramphaka
Mr LL von Zeuner

Group Company Secretary

S Bopape
138 Eloff Street
Braamfontein
Johannesburg
2000

PO Box 72501
Parkview
Johannesburg
South Africa
2122

Auditors

Auditor-General of South Africa
4 Davenport Street
Lynnwood Bridge Office Park
Lynnwood Manor
Pretoria
South Africa
PO Box 446
Pretoria
0001

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About this report

Transnet Group

Operating Divisions

Freight Rail (TFR)

Engineering (TE)

National Ports Authority (TNPA)

Port Terminals (TPT)

Pipelines (TPL)

Property (TP)

Factors impacting Transnet's ability to create value

- Statement of Strategic Intent
- Business context and operating environment
- Material risks
- Stakeholder concerns

Employees
Shareholder (DPE ¹)
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
NGOs ²
International bodies
Communities
Organised labour

Figure 1: Reporting boundary

“The only true consideration of value for us is to measure the overall shared value created in the context of all our business activities.”

¹ Department of Public Enterprises
² Non-governmental organisations

Reporting philosophy and approach



King IV. P5

This report was prepared in accordance with the Value Reporting Foundation's principles-based integrated reporting framework. We report on financial and non-financial performance for the year in review and provide forward-looking information relating to our short, medium and long-term strategic outlook, highlighting the material relationships between the stores of value (i.e. the capitals) that form the basis of our value creation process. The Board acknowledges that reference to 'value creation' in this report includes the concepts of 'value preservation' and 'value diminution/erosion'.

Reporting boundary



King IV. P5

Transnet SOC Ltd is a state-owned company (SOC), with the Department of Public Enterprises (DPE) being its sole shareholder. The 2022 Integrated Report covers the financial reporting period from 1 April 2021 to 31 March 2022. The reporting boundary (Figure 2) encompasses the Transnet Group and its Operating Divisions, 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. The previous integrated report for the period 1 April 2020 to 31 March 2021 was approved by the Board on 25 October 2021.

Materiality in our reporting



King IV. P4 & 16

This report provides information that we consider to be of material significance in creating and preserving short, medium and long-term value. To observe the Value Reporting Foundation's principles of 'materiality', 'connectivity' and 'conciseness', we have considerably simplified our materiality reporting to align with Transnet's Performance Framework (page 44).

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.

[Read more](#)
Refer to page 44 for Transnet's material aspects and page 45 for the process for identifying, validating and approving material aspects.

Integrated approach to assurance



King IV, P2, 5 & 15

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. This 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



King IV, P8 & 15

Content	Assurance providers	Outcome	Framework/Standard
Integrated Report (in full)	<ul style="list-style-type: none"> Transnet Board and Board committees oversight Auditor-General of South Africa oversight DPE oversight Parliamentary oversight 	<ul style="list-style-type: none"> Review and commentary Approval 	<ul style="list-style-type: none"> International Integrated Reporting <IR> Framework Audit Committee's Governance Terms of Reference for the report (Annexure B) Corporate Governance Committee King IV Public Finance Management Act, No 1 of 1999 (PFMA) Companies Act, No 71 of 2008 (Companies Act)
Annual Financial Statements (consolidated and summary)	<ul style="list-style-type: none"> Transnet Board and Board committees oversight Auditor-General of South Africa oversight DPE oversight Parliamentary oversight 	<ul style="list-style-type: none"> Review and commentary Approval 	<ul style="list-style-type: none"> PFMA Companies Act IFRS
Selected information relating to Transnet's SDOs contained in this report	<ul style="list-style-type: none"> Transnet Board and Board committees oversight Auditor-General of South Africa oversight DPE oversight Parliamentary oversight 	<ul style="list-style-type: none"> Review and commentary Selected Sustainability information has been prepared in all material respects in accordance with Transnet's reporting criteria Approval 	<ul style="list-style-type: none"> Transnet's sustainability reporting criteria Standard General Disclosures from the GRI
Review of internal controls and risk management	<ul style="list-style-type: none"> Transnet Board and Board committees oversight Transnet Internal Audit 	<ul style="list-style-type: none"> Review and commentary Assess and address residual risks Strengthen risk governance policies and protocols Internal audit outcome: risk management requires improvement Approval 	<ul style="list-style-type: none"> Committee of Sponsoring Organisations (COSO) PFMA ISO standards relating to safety and environment, including ISO 9000 and ISO 14000 Legislative requirements Enterprise risk management ISO 31000 standard
Broad-Based Black Economic Empowerment (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 - as reported to BEE 	<ul style="list-style-type: none"> Broad-Based Black Economic Empowerment Act, No 53 of 2003 and charters Rail subsector scorecard Marine subsector scorecard
Corporate governance	<ul style="list-style-type: none"> Transnet Board and Board committees oversight Transnet Internal Audit 	<ul style="list-style-type: none"> Review and commentary Internal audit outcome: internal control environment requires improvement Approval 	<ul style="list-style-type: none"> King IV PFMA Companies Act

Going concern status



King IV, P2

Management performed a going concern assessment of the Group as at 31 March 2022. Some of the factors included financial performance and projections; current economic factors; funding considerations; solvency and liquidity considerations; economic regulation risks; current litigation matters; contingent liabilities and post balance sheet events; counterparty risk; and the impact of COVID.

The Board is satisfied that Transnet will remain a going concern for the foreseeable future.

Table 2: Board oversight of integrated reporting elements



King IV, P5, 8, 11, 13, 14, 15 & 16

Integrated reporting element	Required activities	Group Executive Committee governance structures	Board committee
Stakeholder engagement and relationships	<ul style="list-style-type: none"> Effective stakeholder engagement and responsiveness Complaints Desk Effective identification and assessment of material issues Ongoing communications and awareness creation 	<ul style="list-style-type: none"> Human Resources 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 Risk mitigations 	<ul style="list-style-type: none"> Risk Management Committee CIO Council 	<ul style="list-style-type: none"> Risk Committee Audit Committee Finance and Investment Committee
Strategy and resource allocation	<ul style="list-style-type: none"> Appropriate strategic response including: <ul style="list-style-type: none"> Applicable lead and lag indicators Setting of targets, accountability and incentivisation 	<ul style="list-style-type: none"> Capital Investment Committee Human Resources Committee Procurement Committee 	<ul style="list-style-type: none"> Corporate Governance and Nominations Committee 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 <p>* Also has oversight of health and safety and environmental performance</p>
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

Board oversight of the elements of the 2022 Integrated Report



King IV, P5, 8, 11, 13, 14, 15 & 16

Transnet's Board committees are charged with the effective management of the business and with responding to the elements of the Company's mandate and strategy. The table below links the management activities and Board committee oversight to the disclosure elements in this report. The Governance Terms of Reference for the 2022 Integrated Report are contained in Annexure B.

Our commitment to stakeholders



Transnet's strategic direction for the next five years is contingent on five key levers aimed at actualising shared stakeholder value, namely customer service, people, asset utilisation, safety and cost optimisation.

Customer service

- We guard against our personal interests influencing business decisions.
- We aspire to honour the content and spirit of all business transactions.
- We aim to exceed internal and external customer expectations.
- We strive for superior service and quality in all our tasks – honestly and without prejudice.

Care for our people

- We strive to build a company where colleagues trust each other's best intentions.
- Mutual respect governs our business practices.
- Our people – their ideas, commitment, knowledge and competencies – are our strength and pride.

Asset utilisation

- We care for Transnet's assets and guard against loss, damage, misuse and theft.
- Purposeful usage, well-designed procedures and efficient operations can leverage more value from existing assets.

Safety

- Safety is every employee's responsibility and means 100% compliance to safety standards, 100% of the time.
- We strive to foster a safe and productive working environment, free of harassment, intimidation and discrimination.
- Sensitivity and care for the communities and natural environment where we operate are critical business principles.

Cost optimisation

- We continually refine our processes to achieve higher degrees of precision that yield efficient operations.
- We maintain zero tolerance towards fraud, corruption and other economic crimes.
- We aim to deliver superior returns to our investors, as a reliable and credible borrower.
- Albeit a SOC, Transnet issues debt on the strength of its financial position without any government guarantees.

Organisational overview



Governance context

- Transnet SOC Ltd is a public company (constituted in terms of the Legal Succession Act of 1989), with the South African Government as the sole shareholder.
- Transnet owns 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 (DPE). The Shareholder's Compact mandates the Company to deliver on numerous strategic deliverables, including sustainable economic, social and environmental outcomes.

Our Shareholder's Statement of Strategic Intent (SSI)

The DPE is the Shareholder representative for Government and is mandated by the Executive to oversee a number of SOCs that operate in core sectors of the economy like mining, defence, energy, logistics and others.

The DPE's strategy has been developed in the context of the National Development Plan (NDP), the Medium-Term Strategic Framework and in response to internal and external environmental drivers.

Of necessity, the DPE's strategy recognises the challenging and complex prevailing macro-environment and the attendant challenge of choosing where best to allocate scarce resources for maximum effect.

Transnet has aligned its Growth and Renewal Strategy with the Shareholder's SSI, which mandates Transnet to deliver on the following macro strategic outcomes:

- Reduce the total cost of logistics as a percentage of transportable GDP
- Effect and accelerate the modal shift by maximising the role of rail in the national transport task
- Integrate South Africa with the region and the rest of the world
- Optimise the social and economic impact of all interventions undertaken by the SOC in the achievement of these objectives
- Leverage the private sector in the provision of both infrastructure and operations, where required

Regulatory context

Transnet complies with the provisions of the PFMA for Schedule 2 Companies as well as more than 200 regulatory requirements.

Tariffs charged by the Transnet National Ports Authority and Transnet 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 Transnet's rail operations, issues safety permits (for a fee), and conducts inspections and audits the Company.

Transnet also operates within a policy context determined by the Department of Public Enterprises and the Department of Transport.

The Department of Trade and Industry's B-BBEE Codes of Good Practice emerged in February 2007 as an implementation framework for the B-BBEE policy and legislation. After implementing the framework, institutional mechanisms were established for the monitoring and evaluation of B-BBEE in the entire economy. Transnet's adherence to the B-BBEE Codes are detailed below.

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 the full points for enterprise development and socio-economic development for the 2022 financial year.

Enterprise and Supplier Development (ESD)

ESD initiatives are key elements 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;
- intended to increase 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.

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

Table 3: Key performance indicators at a glance	2022	2021	2020
Financial performance			
Revenue	R68,5 billion	R67,2 billion	R75,1 billion
EBITDA margin	34,3%	28,9%	45,3%
EBITDA	R23,4 billion	R19,5 billion	R34 billion
Profit after tax	R5 billion	R8,7 billion loss	R2,9 billion
Gearing ratio	45,5%	48,7%	47,1%
Cash interest cover	2,6 times	2,1 times	2,9 times
Cash generated from operations	R29,1 billion	R24,6 billion	R35,9 billion
Net finance costs	R10,6 billion	R11 billion	R11,17 billion
Value from operations			
Export coal volumes	58,3 mt	66,9 mt	72,5 mt
Iron ore volumes	54,6 mt	53,0 mt	58,9 mt
General freight volumes	60,2 mt	63,4 mt	81,0 mt
Petroleum volumes	15 350 million litres	13 067 million litres	17 764 million litres
Automotive volumes	719 114 units	485 375 units	791 647 units
Social value			
Sector-specific training spend	R13,86 million	R30,2 million	R2,7 million
Supplier development spend	R67 million	R52,1 million	R840,4 million
Healthcare provided through our Phelophepha trains	378 218	237 762	105 565
Environmental performance			
Water consumption from operations	8 338 274 kl	29 578 873 kl	28 189 517 kl
Water recycled amounted to	87 238 kl	351 375 kl	396 578 kl
Asbestos remediation and rehabilitation from historical contamination	30,42 tons	274,34 tons	63,18 tons
Environmental incidents (mostly pipeline spillages)	79	70	36
Carbon emission intensity	3,27 mtCO ₂ e	3,22 mtCO ₂ e	3,85 mtCO ₂ e

Table 4: Transnet's Group B-BBEE performance per pillar for the 2022 review period

B-BBEE Level 2 status

Element	Actual score	Target
Equity ownership	n/a	n/a
Management control	10,67	11
Employment equity	13,31	18
Skills development	22,11	25
Preferential procurement	21,84	33
Enterprise development	15,00	15,00
Socio-economic development	5,00	5,00
Total	87,92	107

Socio-development context

Poverty, unemployment and inequality remain South Africa's most pressing problems with one of the most unequal economies in the world. By adopting 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, prosperity, peace and partnerships. Transnet, as a South African SOC and signatory to the United Nations Global Compact since 6 July 2012, acknowledges its role in the economy and employs the Sustainable Development Outcomes framework as a mechanism to advance the achievement of the Sustainable Development Goals (SDGs) as espoused in the 2030 Agenda.

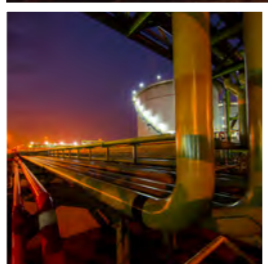
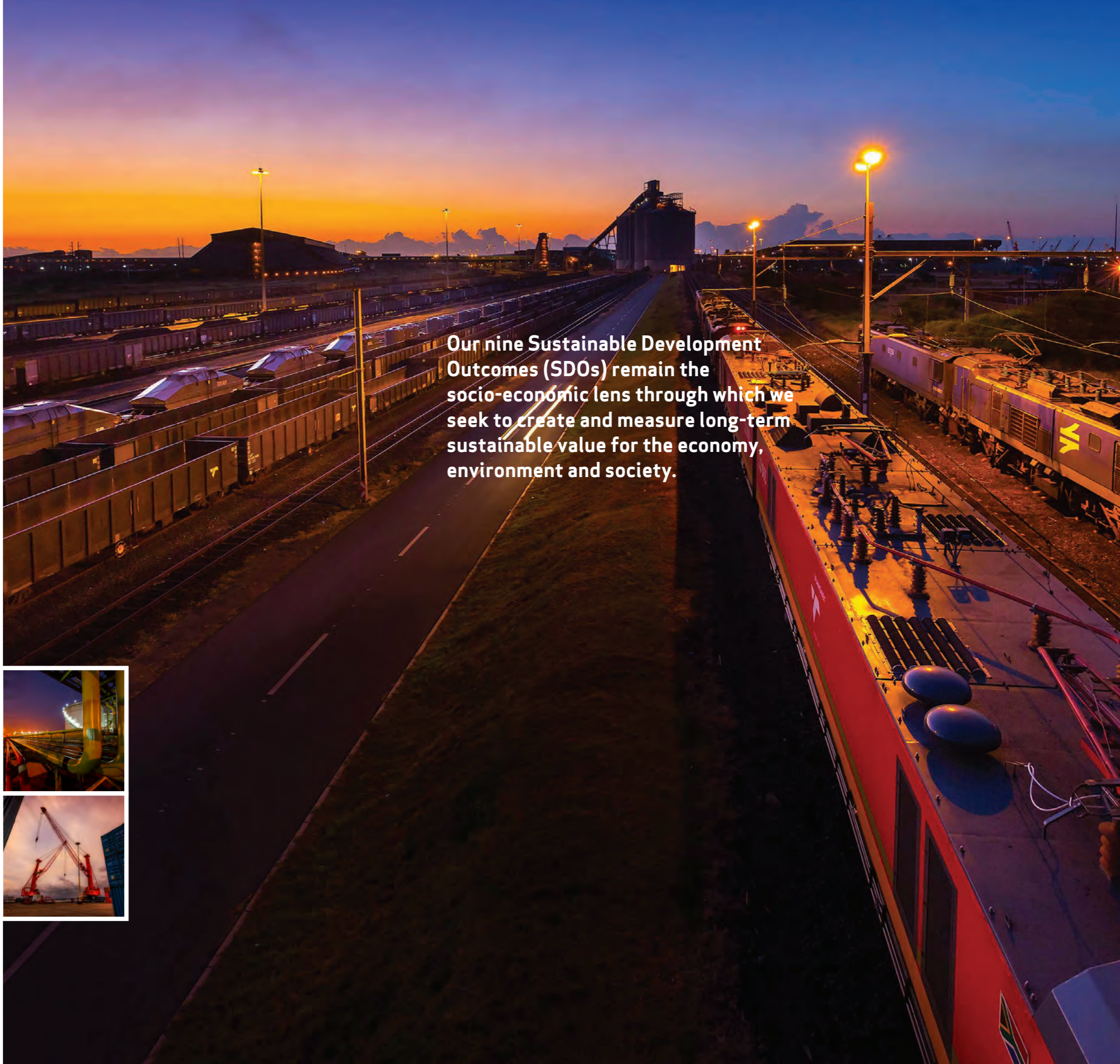
Membership of associations (not limited to)

- Association of American Railroads
- International Association of Marine Aids to Navigation and Lighthouse Authorities
- Maputo Corridor Logistics Initiatives
- New Partnership for Africa's Development
- Railroad Association
- Southern African Railways Association
- Union of African Railways

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)
- The Value Reporting Foundation's Integrated Reporting Framework

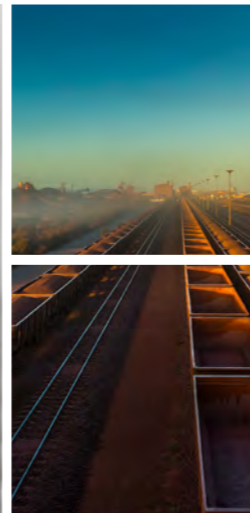
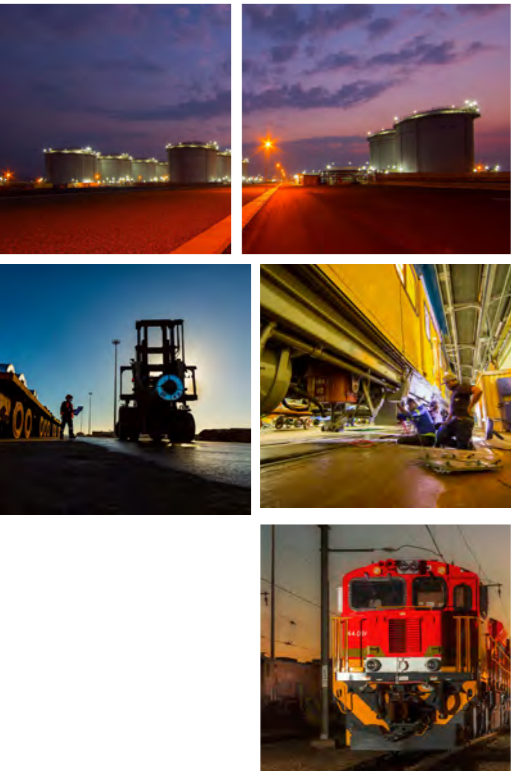
[Read more](#)
Refer to our chapter on Sustainable Development Outcomes on page 126.



Our operating context



Chairperson's review



“We are taking bold steps to achieve our future-state vision of Transnet – a company that excels at what it is good at, and partners with competent market participants where necessary to effect improvements and achieve best-in-class service efficiencies in our critical commodity value chains.”

According to National Treasury's 2022 Budget Review, the economy grew by an estimated 4,9% in 2021 compared to the 5,1% projected for the year in 2021¹. The downward revision reflects a sharp third-quarter contraction driven by a new wave of COVID-19, the outbreak of public violence in July 2021, heightened global uncertainty and modest growth expectations for the fourth quarter following renewed power cuts.

Structural constraints have reduced potential economic growth for the past decade and remain an impediment to recovery. During 2021, the economic effects of the pandemic – lost jobs and delayed investments – were exacerbated by inadequate electricity supply, with the highest levels of load shedding ever. Higher global inflation, monetary policy adjustments, commodity price changes and emerging geopolitical risks also contributed to elevated uncertainty over the medium term. The initial recovery in economic growth during 2021 was not matched by higher employment or investment, and the slow take-up of vaccinations continue to leave the country vulnerable to new waves of COVID-19 infections.

¹ National Treasury 2022 Budget Review.

In 2021 unemployment reached an unprecedented 32,5% in the fourth quarter of 2020². That number grew year on year to 35,3% in the fourth quarter of 2021 – the highest since 2008³. While encouragingly, the number of employed persons increased by 262 000 to 14,5 million during the fourth quarter, the number of unemployed persons unfortunately also increased by 278 000 to 7,9 million during the same time frame⁴.

South Africa needs rapid implementation of Government reforms, complemented by fiscal consolidation to provide a stable foundation for growth, to ease investor concerns about South Africa, and support a faster recovery and higher levels of economic growth. Reducing regulatory constraints, providing effective services, and coordinating and sequencing economic interventions will bolster public and private investment, which will, in turn, increase resilience and support economic transformation.

Operational performance

Revenue performance

Transnet is beginning to recover financially from the past two years, with our 2022 revenue performance increasing by 1,8% to R68,5 billion, mainly due to improved container and petroleum volumes, which signifies increased demand for product flows in these sectors. Our Rail Division reported lower railed volumes due to reduced availability of locomotives and infrastructure, as well as operational challenges, such as security incidents on heavy haul lines (e.g. cable theft) electricity power supply challenges, and community unrest.

The easing of COVID-19 Disaster Management Regulations in 2022 has not yet resulted in full business recovery across our regional integration operations. Accordingly, we fell short of our total cross-border revenue targets. We are, however, pleased to report that our Engineering Division exceeded its export target by 42% while National Ports Authority's transshipment performance was 45% above target.

104 to 119 [Read more](#)
Refer to our financial performance on pages 104 – 119.

Safety performance

We continue to encourage all stakeholders to abide by our rigorous safety procedures and safety interventions. Railway crossings present particularly serious safety challenges for people living adjacent to our rail operations, especially given our vast national rail footprint, with our network spanning some 31 400 km. The encroachment of the railway reserves necessitates vigilance from all stakeholders. Transnet has made safety a strategic priority for the Company. We recognise that the quality of our operations and the strength of our reputation are only as prized as our safety record.

² Structural challenges, weak growth and the continuing impacts of COVID-19 linger to subvert the progress we as South Africans have made in reducing poverty in recent years. Unemployment reached an unprecedented 32,5 percent in the fourth quarter of 2020, with the highest unemployment rate being among youths aged between 15 and 24, at around 63%.

³ <http://www.statssa.gov.za/publications/P0211/Media%20release%20QLFS%20Q4%202021.pdf>

⁴ <http://www.statssa.gov.za/publications/P0211/Media%20release%20QLFS%20Q4%202021.pdf>

Regrettably, I have to report the unfortunate loss of three of our colleagues and 111 members of the public to fatal accidents, 12 being from level-crossing accidents.

We wish to convey our sympathies to the families and colleagues of the three staff members who lost their lives, as well as the families of the deceased members of the public who lost their lives in and around our operational activities.

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

Climate change

In our 2021 Integrated Report, Transnet committed to net zero emissions (NZE) by 2040 based on an internal study indicating plausible scenarios for us to reach this ambitious goal. This work is already being advanced, with the notable launch of the Green Freight Strategy, which will identify climate-related risks and vulnerabilities across Transnet's Operating Divisions, as well as the most material challenges, constraints and opportunities Transnet faces in adapting the business to meet our NZE target.

Several factors drive our energy transition to clean and renewable source options as a transport logistics company, including above-inflation electricity tariff annual increases, carbon emissions resulting from fossil fuel dominated grid supplies, and a reliance on diesel. Our NZE strategy projects that by 2040 our energy supplies will be dominated by clean fuels, which is encouraging given that our mandate already requires us to move greater volumes of freight from road to rail to drive positive environmental externalities for the country.

Additionally, Transnet has planned for liquefied natural gas (LNG) to be imported through the ports of Richards Bay and Ngqura and has recently engaged the markets to develop LNG terminals. Transnet is also developing its Green Hydrogen Roadmap to support the country's drive to integrate hydrogen into its energy portfolio.

From a carbon footprint perspective, Transnet's total carbon emissions (mtCO₂e) have decreased by 24,7% over the past seven years, from 4,34 mtCO₂e in 2015 to 3,27 mtCO₂e in 2022.

Supplier development

As a SOC, Transnet contributes significantly to the growth and development of local suppliers and entrepreneurs through its targeted procurement spend. Further, our research and development spend aims to grow long-term original equipment manufacturing capability for the broader economy.


We invested R67 million in ESD in 2022, amounting to 2,1% of net profit after tax, compared to R52,1 million in the prior year, with R378 million in early payments to qualifying ESD beneficiaries.

Community upliftment

Transnet's social licence to operate is premised on our ability to act in socially accountable ways, with due consideration for the rights and well-being of the communities who reside within and around our operations. Our socio-economic initiatives aim to improve the quality of life for vulnerable and rural communities, and we achieve this primarily through our Phelophepha I and II Healthcare Trains, which provide primary healthcare services, as well as dental, optometry, pharmaceutical and counselling services.

In addition to our healthcare programmes, our community support programmes also extend to an infrastructure development programme, which we deliver in collaboration with various governmental social services institutions to provide much-needed infrastructure in underdeveloped community sectors; education programmes that provide holistic support to teachers and learners; and our Sport Development Programme, which identifies and nurtures sporting talent, especially in rural areas.

During the year, we invested R139,56 million (2021: R112,2 million) in community development initiatives in the areas of health, education, sports, employee volunteerism and socio-economic infrastructure development across South Africa. An unplanned, but critical amount of R15 million was invested in food relief efforts after the civil unrest experienced throughout the country during July 2021. Our Phelophepha Healthcare Trains I and II provided comprehensive primary healthcare to 344 362 patients in over 70 communities across the country, with an estimated 33 856 citizens being vaccinated against COVID-19 through the Transnet Transvaco vaccine train.

 [Read more](#)
Refer to our financial performance on pages 104 – 119.

Our internal control environment

For Transnet to achieve its strategic objectives, we need to ensure we keep our house in order from a financial control perspective. Our annual assessment of the Company's internal control environment found that we still have work to do. Our internal controls are still classed as 'sub-optimal' at the level of complete and accurate reporting and regarding our compliance with all applicable laws and regulations. Despite our present leadership's best efforts to prioritise corporate governance as a crucial business imperative, and strengthening deeper levels of governance defence, there are no quick fixes. Accordingly, we have put in the work required to embed, measure, and monitor our control environment to achieve the required improvements. That said, following the cyberattack in July of 2021, we have significantly stepped up our technology systems, which has helped to tighten controls. These improvements, we are working to close the gaps to reduce the risks of ageing and overdue open audit findings, particularly those needing long-term solutions.

Notwithstanding the above challenges, Transnet received an unqualified audit for the 2022 financial year.

Review of judicial proceedings



The annual financial statements include the best estimate of expected settlement costs for judicial proceedings involving Transnet, as either defendant or plaintiff, where the outcome can be assessed with reasonable certainty. These estimates take into account the legal opinions obtained for the Group. Contingent liabilities of the Group are disclosed in note 31 of the annual financial statements.

1 064 review application

On 9 March 2021, Transnet and the SIU jointly launched a substantive application in the High Court to review and set aside the locomotive supply agreements concluded with four original equipment manufacturers (OEMs): China South Rail, China North Rail, Bombardier Transport and General Electric. The relief sought against each OEM is specific but includes the set aside of the contracts, for the court to award a just and equitable remedy, which will include Transnet retaining those locomotives in its possession and receiving compensation for overpayments.

All of the OEMs have served notice of intention to defend the application. Transnet and the SIU are proceeding with the application.

Once the court processes conclude, Transnet will consider the impact of the outcomes on the fair representation of property, plant and equipment.

Investigation by the Competition Commission

On or around 7 July 2016, the Commissioner initiated two formal complaints against Transnet and its three Operating Divisions, i.e. Transnet Freight Rail, Transnet Port Terminals and Transnet National Ports Authority. In November 2021 the Competition Commission informed Transnet of an additional investigation that is being pursued against Transnet in respect of an anonymous complaint under Case Number: 2020Oct0035.

Whilst engagements are underway between Transnet and the Commission with a view to resolve all matters under investigation, it is important to note that the investigations against TFR, TPT and TNPA have been ongoing for more than six (6) years and to date there has been no referral of any of these matters by the Commission to the Competition Tribunal. With respect to TPT and TNPA, it has been two years since the Commission communicated its preliminary findings against both parties, and its readiness to refer the matters to the Competition Tribunal for adjudication.

Transnet introduced competition law compliance training for customer facing functionaries and is collaborating with the Competition Commission regarding the refinement of its curriculum.

Investigation by the Zondo Judicial Commission of Inquiry

The Judicial Commission of Inquiry into State Capture, (the Commission) released its report on Transnet on 1 February 2022. The majority of the recommendations were directed to law enforcement agencies. As such, Transnet is cooperating to the extent required with these agencies. The findings in respect of various contracts are, where possible, being pursued through civil recovery litigation with the SIU. We are acting upon the report's recommendations.

All the individuals cited in the Commission's report for further criminal investigation are no longer employed by Transnet, having either resigned from the Company or having been dismissed.

Special tribunal outcome

Transnet is working closely with the SIU in recovering losses suffered as a result of wrongdoing. Following a report from the SIU about the conduct of a previous Group Executive, Transnet dismissed the Group Executive and successfully litigated with the SIU in the SIU Special Tribunal obtaining a judgment on 31 August 2021 in terms of which the previous executive was ordered to pay back to Transnet R26,4 million for disgorgement of secret profits he earned while employed by Transnet.

Transnet and the SIU also launched proceedings in the SIU Special Tribunal for the seizure and forfeiture of funds held by CRRC E-Locomotive Supply (previously known as China South Rail, one of the OEMs contracted to deliver locomotives in terms of the 1 064 locomotive supply agreements. Transnet and the SIU obtained an ex parte order against funds of CRRC held in various South African bank accounts and a final judgement in the matter is pending.

Transnet is preparing legal papers to pursue further civil recovery in respect of parties implicated in SIU investigations and the findings of the Zondo Commission Report.

Total SA and Sasol Oil v Transnet Pipelines

Total South Africa (Pty) Limited (Total) and Sasol Oil (Pty) Limited (Sasol) initially brought separate action proceedings against Transnet for contractual damages amounting, cumulatively, to over ZAR1,8 billion. Litigation has been ongoing since 2013 by Total and 2018 by Sasol.

Transnet successfully petitioned for leave to appeal against the judgment by the South Gauteng High Court to the Constitutional Court. The appeal was heard on 16 November 2021 and judgment was reserved. On 22 June 2022, the Constitutional Court ruled that Transnet has (as from 13 September 2020) validly terminated the pipeline agreement with Total and Sasol which regulated the conveyance of crude oil from Durban to the Natref inland refinery at Sasolburg. There has been no determination of the merits of the claimed amount and that the proceedings thus far have centred primarily on the termination of the variation agreement. The matter will revert to the High Court for determination of the remaining separated issues.

Parallel to the litigation above, Transnet also lodged a complaint with regard to the 'neutrality agreement', in that it was not aligned to the Petroleum Pipelines Act. Transnet has had various engagements with Nersa regarding the complaint and Nersa is still considering same for purposes of adjudication.

Repositioning the business

We are taking bold steps to achieve our future-state vision of Transnet – a company that excels at what it is good at, and partners with competent market participants where necessary to achieve best-in-class service efficiencies in our critical commodity value chains. The first step towards our vision is to commercially separate our network and non-network businesses so that third-party players can access the network infrastructure. As such, our Network business portfolio will account for the rail network, port network and pipeline business, while the Operations business portfolio will account for our rail operations, port terminals, property business and engineering operations. We will also seek to secure partnerships for our Engineering portfolio, which will be expanded beyond rolling stock to include the manufacture and maintenance of port equipment. In this way, our various operational businesses will be able to position themselves appropriately within their respective market segments.

Where market-appropriate, Transnet will optimise its portfolio by enhancing areas where we already have strong capabilities and leverage partnerships across certain parts of the portfolio where we need to improve, or where it has become too costly for us to adequately service our markets. In these instances, we will make a concerted effort to crowd in capital, skills, technology, and know-how to supplement our own capabilities and capacity. Ultimately, our measure of success, as Transnet, will become our customers' commercial success, the overall trade competitiveness of their respective markets, and that of South Africa in the region and internationally.

Transnet's transformation programme for the freight and port systems, in particular, should be seen in the context of the National Infrastructure Plan (NIP), which envisages the diversification and growth of South Africa's major industrial sectors through a freight system comprised of regionally and globally competitive supply chains by 2030. We intend to have addressed numerous strategic challenges confronting the freight system by then by improving cross-border trade corridors, shifting long-distance freight from road to rail, and improving maritime connectivity. In this way, we will reduce the cost and carbon intensity of supply chains, while increasing supply chain speed and reliability.

Our reform programme also orientates the organisation around critical supply chains or market segments to align with the NIP's recommendations for a transport freight system that:

- relies on State institutions to become increasingly progressive and capable of driving reform and delivery in the transport sector;
- integrates a transport policy into growth plans for South Africa's critical supply chains;
- scales the growth and renewal of dominant freight corridors to lower costs and improve competitiveness;
- crowds in private sector funding to ensure collaborative, commercially based, and sustainable funding models to grow infrastructure capacity and industrial capability;
- supports inter-regional trade and supply chain connectivity;
- grows transport hubs to stimulate industrial diversification and clustering; and
- enhances South Africa's position as a global maritime hub for Africa in the southern hemisphere.

For ports, the process of establishing the National Ports Authority as a subsidiary of Transnet is well advanced. The corporate subsidiarisation will ensure a more competitive environment in the port terminal operations space and will enhance oversight of port terminal operations to improve their effectiveness. For rail, the accounting separation of rail infrastructure and operations is far advanced, and a pilot project is being finalised to release the first tranche of rail capacity to third-party operators during 2022.

Appreciation

I wish to thank each of our 46 086 colleagues who continue to contribute to our organisational well-being and financial sustainability. Thank you for your dedication and commitment during a difficult year. Through our Growth and Renewal Strategy, we have new opportunities to improve, grow and prosper together with our customers and partners. Let our customers' success be the measure of our own achievements. I also wish to thank the leadership of our recognised unions, namely the South African Transport and Allied Workers Union (Satawu) and United National Transport Union (UNTU), for their guidance, leadership and willingness to share in the Company's long-term vision.

Thank you to my colleagues on the Board of Directors for your hard work and long hours. Your continued support is invaluable.

Thank you to our customers and commercial partners for your continued support and confidence in our abilities amid difficult economic and operational conditions during the year. We look forward to improving our service in the year ahead and finding common solutions to our shared challenges.

On behalf of the Transnet Board, our Executive Leadership, and the people of Transnet, I wish to extend my gratitude to the Minister of Public Enterprises, Mr Pravin Gordhan - who represents our Shareholder and the people of South Africa - for your oversight, encouragement and support.

Our deep appreciation to our regulators, including ministries with which we work closely, and the various committees in Parliament, provincial governments and municipalities that contribute their oversight and support.

To community partners across the country, it is a privilege to collaborate with you in our various enabling projects.

P.S. Molefe

Dr Popo S Molefe
Chairperson

25 July 2022
Johannesburg

We intend to leverage private sector capital and other resource capabilities to revitalise and grow our port and rail logistics solutions. Adopting a segment-based strategic approach places us in a position to use strategic private partnerships in segment supply chains to leverage synergies between our Operating Divisions and move us towards a value chain operating model.



Our Board members



Dr Popo Molefe
Chairperson

Date of birth: April 1952

Date 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
- Andru Mining (Pty) Ltd
- Bigbit Trading
- Friedshelf 1516
- Global Aviations Operations (Pty) Ltd
- Lereko Broad-based Consortium 212
- Lereko Metier Capital Growth Fund (LMCGF)
- Lereko Eco
- Lereko Investments (Pty) Ltd
- Lereko Metier Investors (Pty) Ltd
- Lereko Metier Trustees
- Lereko Mobility
- Lereko Systems
- Mabele Trust
- Marble Gold
- Mooki Trust
- Mopisi
- Popo Molefe Foundation
- Sunshine Street Investments 71 (Pty) Ltd
- Tedcor (Pty) Ltd



Ms Portia Derby
Group Chief Executive

Date of birth: December 1969

Date of appointment: February 2020



Qualifications:
MBA (University of the Witwatersrand); BSc (Hons) Economics (University of KwaZulu-Natal); BSc Geology and Economics (University of KwaZulu-Natal); Management Advancement Programme Certificate

Directorship/Shareholding/Trusteeship:

- JoyAnanda Investments (50% holding)
- LPA Properties (50% holding)
- Pholela Trust
- Sisanda Holdings
- Tandimanzi (Pty) Ltd
- Ubu Investment Holdings (60% holding)



Mr Aluwani Ramabulana
Independent non-executive director

Date of birth: October 1971

Date of appointment: May 2018



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

Directorship/Shareholding/Trusteeship:

- Balxores (100%)
- Bono Lithihi Investment Holdings (Pty) Ltd (100%)
- DataQwip Logistics (5% holding)
- Halda (Pty) Ltd (30% holding)
- Lateospace (49% holding)
- MDZ Capital (100%)
- MDZ Fleet Solutions (100%)
- MDZ Holdings Trust (100%)
- MDZ Logistics (100%)
- Mudzi Palfinger JV (51% holding)
- Sabanoscope (33% holding)
- Timeless Moments (100%)

BOARD COMMITTEES

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



Ms Mpho Letlape
Independent non-executive director

Date of birth: March 1959

Date of appointment: May 2018



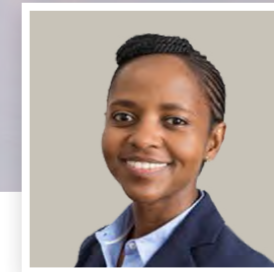
Qualifications:
Bachelor of Computer Science and Psychology (University of Fort Hare); Management Advanced Programme (Wits Business School); Strategic Human Resources Management (University of Cape Town Graduate School); Leading Change (Harvard Business School); Strategic Perspective in NPO Management (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
- Lethushane (Pty) Ltd (100%)
- Lethushaneng Advisory Services (100%)
- National Research Foundation
- South African Women in Dialogue
- Standard Bank Tutuwa Community Foundation NPC
- Tower Group
- Vinton Holdings Foundation

BOARD MEMBERS' COMPETENCIES

- 1** Corporate Governance
- 2** Management and Leadership
- 3** Legal Compliance and Regulatory
- 4** Infrastructure, Logistics and Manufacturing
- 5** Business Development, Marketing and Sales
- 6** Finance, Economics and Investment
- 7** Business Process Re-engineering



Ms Dimakatso Matshoga
Independent non-executive director

Date of birth: May 1978

Date 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 Enterprises t/a Atafala Consulting (100%)
- Atafatsa Foundation (non-profit company) (33.3% holding)
- ATISSA Engineering and Environmental Services (in deregistration process)
- Isa-Stra Tech Solutions (20% holding)
- Sustainable Heating Holding Company (withdrawal in progress)
- Sustainable Heating 7 (withdrawal in progress)
- SAion SA Digital (NPC) - (Director)

- 8** ICT and Systems Engineering
- 9** Transformation and Socio-economic Development
- 10** HR and Industrial Relations
- 11** Strategy and Planning
- 12** Risk Management
- 13** Stakeholder Relations
- 14** Policy Development



Ms Ursula Fikelepi
Independent non-executive director

Date of birth: January 1973

Date 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%)
- Emmaus Properties (100%)
- Grace Bible Church
- Mtizamo Capital
- Zelopahad Holdings (25%)

- 15** Auditing and Accounting
- 16** Procurement and Supply Chain
- 17** Construction and Engineering
- 18** Project Management
- 19** Transport (Road, Rail, Shipping, Aviation)
- 20** Operations Management
- 21** Property Management



Prof Fholisani Mufamadi
Independent non-executive director

Date of birth: February 1959

Date of appointment: May 2018



Qualifications:
PhD (University of London);
MSc (University of London)

Directorship/Shareholding/Trusteeship:

- Absa Bank Mozambique
- Environmental Economics Research Centre (0%)
- Implats Holdings Limited
- Muendanyi Consulting (100% holding)
- Zimplats (Chairman of the Board)



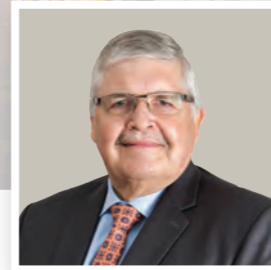
Ms Gratitude Ramphaka
Independent non-executive director

Date of birth: August 1979

Date of appointment: May 2018



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



Mr Louis von Zeuner
Independent non-executive director

Date of birth: June 1961

Date of appointment: May 2018



Qualifications:
Chartered Director CD(SA) (IoDSA);
B.Economics (University of Stellenbosch)

Directorship/Shareholding/Trusteeship:

- FirstRand Bank Ltd
- FirstRand Ltd
- Mahela Boerdery (Pty) Ltd
- Mahela Group Holdings (Pty) Ltd
- Telkom SA SOC Ltd
- University of the Free State (Council)
- Wildeklawer Investments (Pty) Ltd



Ms Nonkululeko Dlamini
Group Chief Financial Officer

Date of birth: October 1973

Date of appointment: July 2020



Qualifications:
CA(SA); BCom (University of the Witwatersrand); Higher Diploma in Accounting (CTA) (University of Natal)

Directorship/Shareholding/Trusteeship:

- Coalition Trading 363 (AR final deregistration)
- Melody Hills Trading 127 (AR final deregistration)
- Rosherville Properties



Ms Shokie Bopape
Group Company Secretary

Date of birth: May 1969

Date of appointment: September 2020



Qualifications:
BJuris (University of KwaZulu-Natal);
LLB (University of KwaZulu-Natal);
MA (Social Policy - Industrial Stream) (UKZN); Postgraduate qualification in Strategic leadership (GIBS);
CSSA Professional Postgraduate Qualification: Company Secretarial and Governance Practice (Chartered Secretaries Southern Africa)

Gender representation

50% male

50% female

Race representation

87,5% (7 African)

12,5% (1 White)

Excluding executive directors and Company Secretary.

BOARD COMMITTEES

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

BOARD MEMBERS' COMPETENCIES

- 1** Corporate Governance
- 2** Management and Leadership
- 3** Legal Compliance and Regulatory
- 4** Infrastructure, Logistics and Manufacturing
- 5** Business Development, Marketing and Sales
- 6** Finance, Economics and Investment
- 7** Business Process Re-engineering
- 8** ICT and Systems Engineering
- 9** Transformation and Socio-economic Development
- 10** HR and Industrial Relations
- 11** Strategy and Planning
- 12** Risk Management
- 13** Stakeholder Relations
- 14** Policy Development
- 15** Auditing and Accounting
- 16** Procurement and Supply Chain
- 17** Construction and Engineering
- 18** Project Management
- 19** Transport (Road, Rail, Shipping, Aviation)
- 20** Operations Management
- 21** Property Management

Operating context

Business model and value chain activities

Our vision

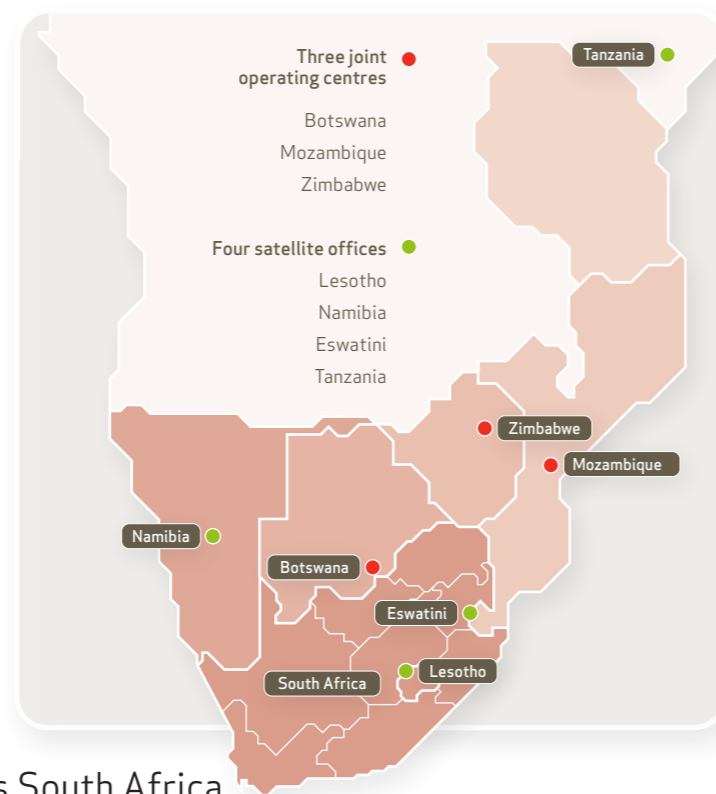
Fuelling Africa's growth and development as the leading provider of innovative supply chain solutions.

Our mission: what we need to do

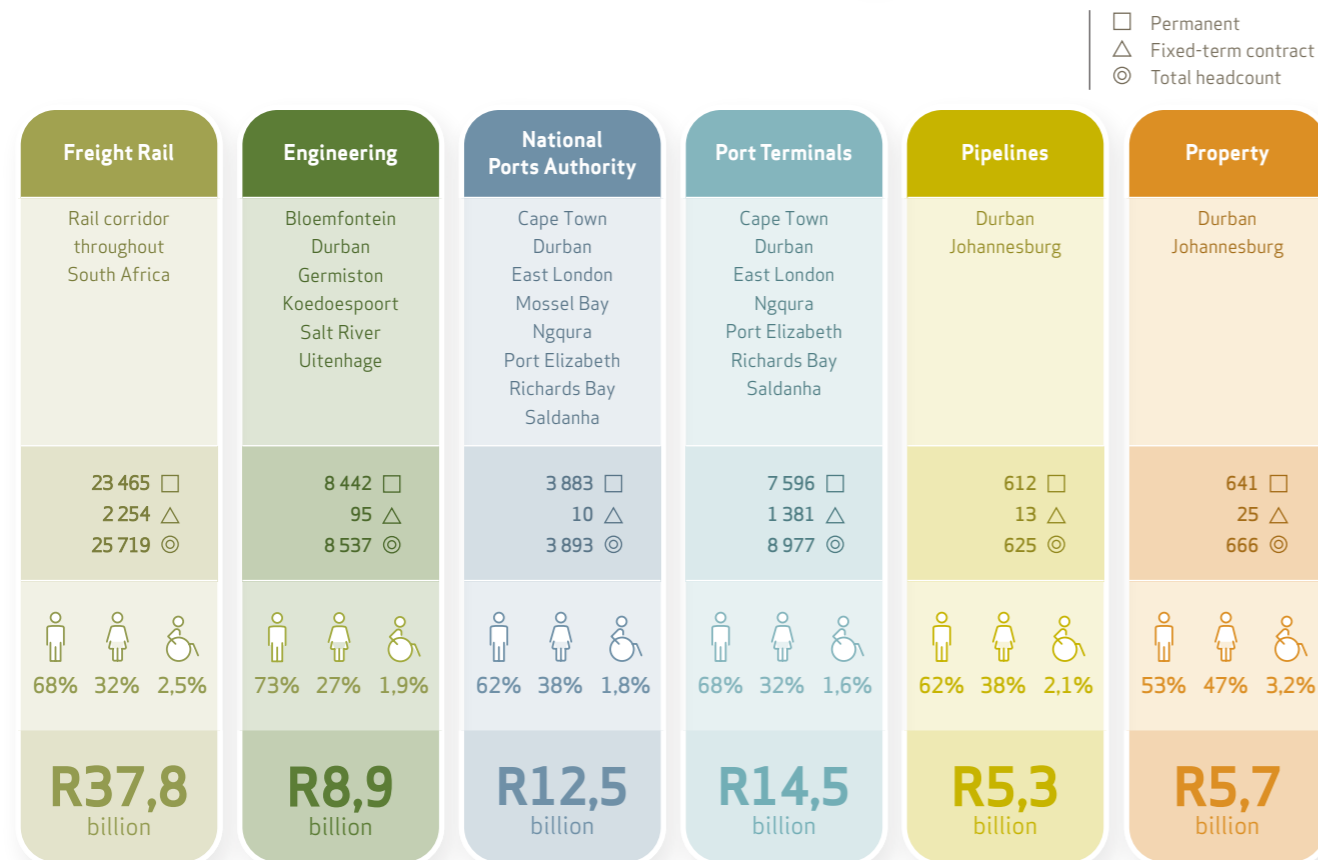
Linking economies; connecting people; growing Africa!

Our mandate

To assist in lowering the cost of doing business in South Africa, facilitating economic growth, and ensuring security of supply by providing appropriate port, rail, and pipeline infrastructure in a cost-effective and efficient manner, while remaining within acceptable benchmarks. The mission and goals of Transnet, as well as our Shareholders' Statement of Strategic Intent, are congruent with national objectives.



Six Operating Divisions (ODs) across South Africa



Our unique assets

R338,8 billion	46 086	3 800 km	1 854	64 329	8
Overall asset base	Permanent Employees	Pipelines	Locomotives	Wagons	Commercial ports along 2 798 km of coastline
16	30 400 km	6	132	R7,5 billion	
Cargo terminals across seven South African ports	Railway network track and two heavy-haul lines	Rail and port manufacturing and maintenance factories	Maintenance depots and 11 engineering yards	Portfolio of commercial and residential properties	

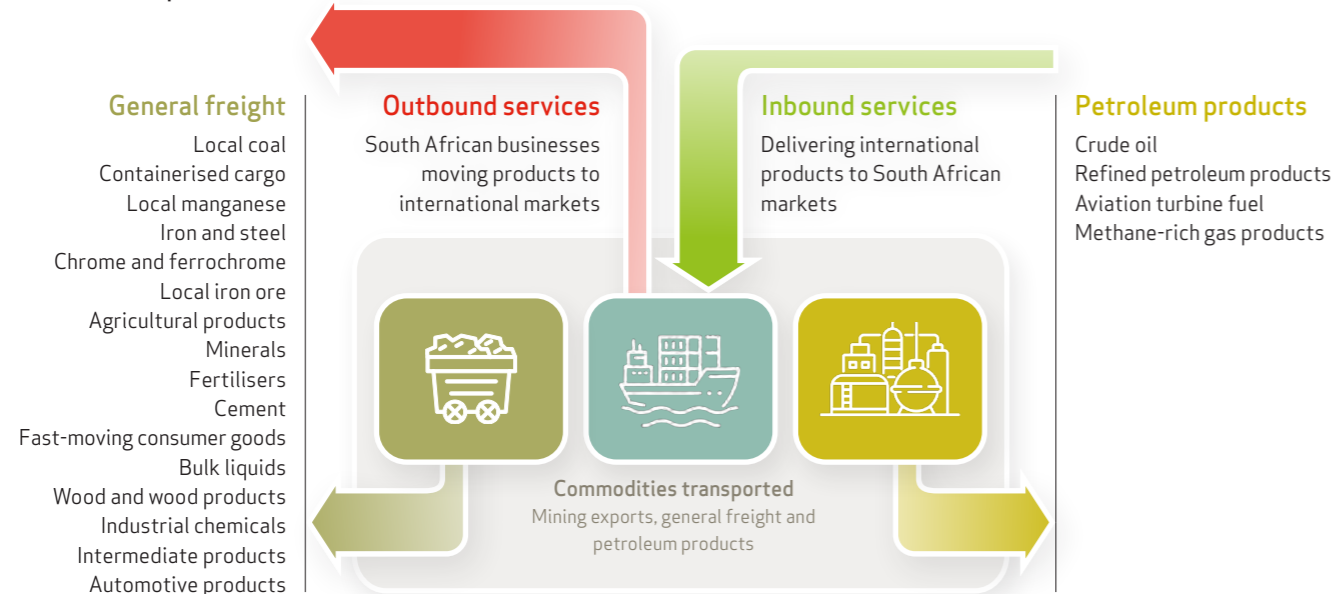
Our value propositions

Value for the economy	Socio-economic value and environmental stewardship		
<ul style="list-style-type: none"> Cut down on the total costs of logistics as a proportion of transportable gross domestic product (GDP). Maximise the contribution of rail transportation to the overall national transportation task in order to facilitate and quicken the process of mode transfer. Utilise the resources of the private sector to assist in the delivery of both infrastructure and operational services. Integrate the South African economy with economies in both the region and the rest of the world. Enhance the positive social and economic effects of any and all interventions that are undertaken toward the fulfilment of these goals. Ensure continued expansion of commercial activities and financial viability. 	<p>The socio-economic development initiatives established by Transnet combine specifically targeted economic endeavours to generate a net positive influence on society. We contribute to the national objective of preventing stagnation or regression in societal development by implementing a wide variety of interventions in the socio-economic developmental parameters that are listed below:</p> <ul style="list-style-type: none"> Safety Poverty/social exclusion Life satisfaction Access to facilities Quality of education, skills and training Surrounding environment Social relationships Health Level of income Employment Material welfare Quality of work Housing and tenure status Living conditions <p>Moving forward, we will hold ourselves accountable for our contribution towards these socio-economic development criteria by making use of a complete macroeconomic impact estimating framework, namely the Transnet Social Accounting Matrix (SAM). An updated SAM model will align Transnet's socio-economic performance reporting mechanisms with the Government-wide Monitoring and Evaluation System, which is being spearheaded by the Presidency. We plan to fully integrate SAM into both our business operations and the planning of our projects in order to provide credible evidence of the social impact portfolio we have created. This will allow us to use the SAM model to monitor the socio-economic impacts and outcomes of all of our investments.</p>		
Value for domestic and regional customers	Value for suppliers and service providers	Value for employees	
<ul style="list-style-type: none"> Strive to continue delivering customer volumes that are both reliable and predictable. Innovations in business centred on the customer. Full value chain service propositions. Product and service configurations that are customised to each market segment. Integrated cross-operating divisional customer support, spanning the whole logistical value chain and the life cycle of requirements. Digital transformation across the entire value chain. 	<ul style="list-style-type: none"> An ethical and transparent procurement process. Fair and equitable tender processes. Fair, transparent and efficient contract management. A proactive and collaborative approach to local supplier development. 	<ul style="list-style-type: none"> A work ethos of "safety is in everything we do." Opportunities to advance both professionally and academically. Exposure and connectivity to broader regional and national opportunities, both professionally and academically. 	
Value for our Shareholder	Value for financial partners		
<ul style="list-style-type: none"> The Growth and Renewal Strategy will contribute to broad industrial development within South Africa's key commodity segments, thereby supporting post-COVID economic growth. Sustained financial returns and broad socio-economic value. Regulatory compliance, accountable business practices, ethical leadership and responsible corporate citizenship. Investment priorities closely aligned with Government's infrastructure programme. 	<ul style="list-style-type: none"> A strong balance sheet and the ability to generate cash flow to support further investment for continued financial stability. A strong ESG record through both targeted investment in ESG projects and ensuring sustainable socio-economic and environmental outcomes of our commercial activities. Exceptional expertise in our core sectors of rail, ports and pipelines, with strong growth potential in regional markets across all modes. A funding strategy based on the strategic priorities of our segmental Growth and Renewal Strategy. A business model that promotes strategic value for large burgeoning markets by reducing the cost of regional logistics infrastructure and ensuring a secure product supply. A reliable and credible borrower which issues debt on the strength of its financial position without government guarantees. 		

Our value chain activities

					
Transnet Freight Rail	Transnet Engineering	Transnet Ports Authority	Transnet Port Terminals	Transnet Pipelines	Transnet Property
<ul style="list-style-type: none"> Operates and maintains one of the top 10 freight railroads in the world and the largest in Africa. A rail network with 31 400 track kilometers carries a variety of bulk general freight commodities as well as containerised freight, including export coal, iron ore and manganese. Operates the famed, award-winning, luxury Blue Train. Our Phelophepa Healthcare Trains offer primary healthcare services to rural communities. 	<ul style="list-style-type: none"> Core competencies in the areas of research, design, testing, manufacture, remanufacturing, assembly, and maintenance of railway rolling stock, including but not limited to locomotives, freight wagons, passenger coaches and port equipment. We are an independent OEM in Africa that specialises in the production of wagons. 	<ul style="list-style-type: none"> Transnet is the ports landlord responsible for the secure, productive and economic functioning of the national ports system, and supervises, controls, and administers the system on behalf of the state. Maintains port infrastructure, regulates land use inside the port, assists with the navigation of vessels within the port limits and along the entire South African coastline, and offers services linked to maritime activities. 	<ul style="list-style-type: none"> Operates 16 terminals with 68 berths across seven ports along the South African coastline. Enables the efficient flow of imports, exports and transshipments through its cargo terminals, ensuring year-round economic connectivity with regional and international trade partners. Provides cargo-handling services to a wide spectrum of customers (e.g. shipping lines, freight forwarders and cargo owners). 	<ul style="list-style-type: none"> Transnet is the largest operator of multi-product pipelines in southern Africa, transporting liquid petroleum and methane-rich gas through a network of 3 800 km of pipeline infrastructure. Transnet transports more than 70% of all refined products destined for the inland market, thereby guaranteeing the uninterrupted supply of goods to that sector of the economy. 	<ul style="list-style-type: none"> Transnet manages total assets of R7,5 billion, including a portfolio of commercial and residential properties, comprising offices, warehouses and retail buildings, and vacant land. Transnet provides specialised real estate services to our Operating Divisions and Corporate Centre, with competencies in strategic asset management as well as property development and management.

Services provided



Five critical operational drivers

Customer service | Providing the quality service our customers expect.

- Customer-centricity and service reliability to provide a value-based customer experience
- Clear and proactive customer communication regarding delays or stoppages throughout the life cycle of an agreement
- Joint strategic planning with customers to address market challenges and service delivery
- Ensure adequate capacity and well-coordinated resources to meet customer demand
- Develop nodes/inland ports to increase capacity and efficiency on the network, reduce costs, and to improve traceability and accountability

People | Our operating environment is labour-intensive, with more than 55 000 employees nationally. The interface between our employees and service delivery is critical to our performance.

- Invest in training and development, particularly as we move into an increasingly digitally oriented work environment
- View talent sourcing and acquisition as a critical strategic enabler
- Continue to improve current working conditions
- Foster employee dignity and wellness and nurture ingenuity
- Continue to enhance systematic communications to keep our employees in the loop regarding strategic and operational progress
- Encourage collaboration and an ethos of 'service to others'

Asset utilisation | The more efficient our procedures and operations, the more value can be leveraged from our assets (from locos and wagons to office equipment and floor space).

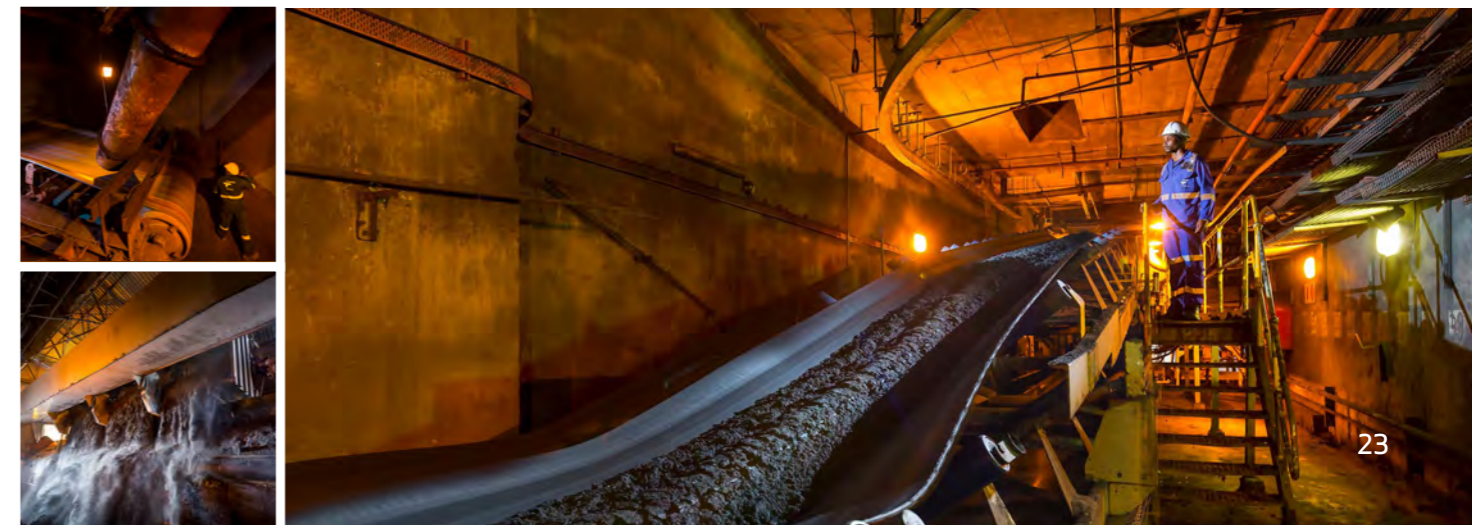
- Address the maintenance backlog in the network and our equipment
- Ensure minimal downtime of the existing asset base
- Leverage complementary assets through integrated planning, improved maintenance and de-bottlenecking
- Reduce the loan book by improving the portfolio of cash-generating assets in the process of capital scrubbing
- Leverage technology to enhance operations
- Emphasise coordinated and integrated planning at OD level

Safety | Safety is every employee's responsibility. The more predictable and reliable our processes, the safer our operations, especially in our highly industrialised operating environment.

- Establish a corporate coordinating and assurance role to guide and monitor safety measures
- Supplement the existing safety indicators with additional measures to provide a more meaningful safety monitoring environment
- Change the mental models and mindsets of employees towards a posture of safety through education and awareness campaigns
- Enforce a culture of safety compliance and zero tolerance for deviation from safety-critical practices
- Enhance accident investigation capabilities to avoid similar safety incidents in future
- Ensure a robust risk management environment

Cost optimisation | Effective management means understanding the impact of all expenses for short-term day-to-day operating expenses and long-term capital expenses.

- Apply financial prudence to all business decisions
- Visible and transparent cost allocation and cross-subsidisation across the Company
- Up-to-date and business-relevant financing policies and frameworks
- Adopt an iterative budgeting process and approach
- Ensure Transnet remains 'bank friendly'
- Enforce cost accountability and ownership at OD level



Our investment case



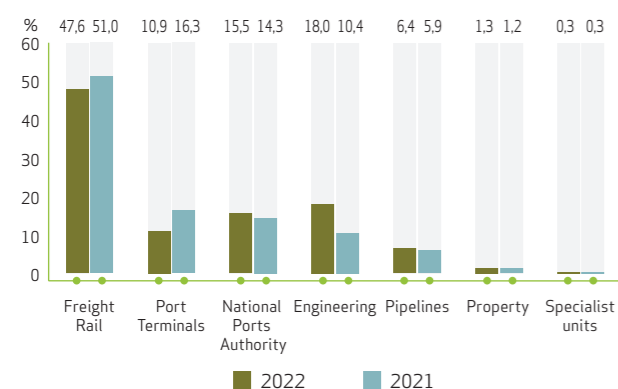
Table 5: Financial sustainability drivers

Key performance indicator	Unit of measure	2022 target	2022 actual
Operating ratio	%	≥ 62,5	65,7
Cash interest cover (CIC)	times	≥ 2,5	2,6
EBITDA margin	%	≥ 37,5	34,3
Return on invested capital (ROIC)	%	≥ 4,1	4,4
Gearing	%	≤ 48,4	45,5

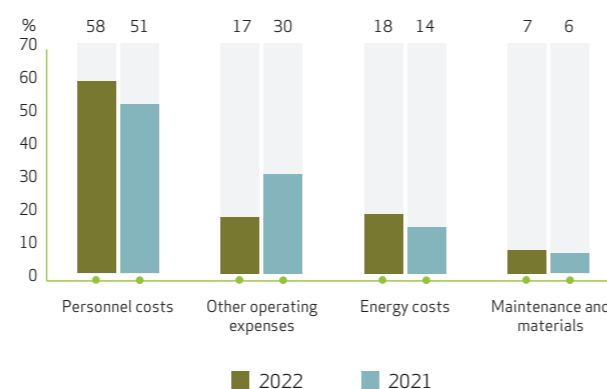
Table 6: Transnet's revenue drivers

Commodity-based revenue from commodities transported								
	2022 %	2021 %		2022 %	2021 %		2022 %	2021 %
Coal	17,7	20,7	Forestry products	0,3	0,5	Refined petroleum products	4,6	4,3
Iron ore	14,1	20,7	Aggregate automotive	2,2	1,6	Crude oil	2,6	2,6
Manganese	12,6	10,2	Fast-moving consumer goods	3,4	3,5	Aviation turbine fuel	0,1	0,0
Chrome	2,4	3,3	Containerised cargo	17,1	16,5	Methane-rich gas	0,2	0,2
Steel	2,9	2,9	Agricultural products	0,5	0,6			
Cement	1,1	1,1						
Non-commodity revenue from:								
			2022 %	2021 %				
Maintenance and engineering services provided by Transnet Engineering			0,7	0,3				
Other revenue from Freight Rail, National Ports Authority, Port Terminals and Pipelines			16,5	17,1				
Property rentals from Transnet Property			1,1	1,1				

Graph 1: Percentage of revenue by Operating Division



Graph 2: Percentage of major cost drivers



The core purpose of Transnet's business as a SOC is to enable a globally competitive freight logistics system that will create large-scale industrial capability-building for South Africa's key economic sectors. By doing this, we will reduce the cost of doing business in South Africa and create the requisite capacity to promote trade competitiveness through efficient export and import corridors for both South Africa's large and small industrial players.

In the 2020 suite of reports, we introduced our private partnership-based Growth and Renewal Strategy, which will support the renewal of the South African economy through collaborative multistakeholder initiatives within the key commodity segments. The Company's private sector participation (PSP) model aligns with the Shareholder Minister's Statement of Strategic Intent, which mandates Transnet to leverage the private sector in the provision of both infrastructure and operations, where required. The strategy's sector initiatives will be market-appropriate and span the various levels of required infrastructure repair and modernisation, while also renewing and transforming critical value chain services.

A SWOT analysis per segment has revealed long-term growth opportunities in all the segments (other than coal and liquid fuels) where our competitive strength as a heavy-haul freight bulk carrier, established railway asset base, and sub-Saharan African rail connectivity is unparalleled.

Our ports, with multipurpose port infrastructure, are near economic zones and strategically located in the South-South corridor. As such, Port Terminals is a regional leader in the container, automotive and dry bulk (excluding coal) segments. It is also a market leader in the handling of iron ore and manganese and holds 21 terminal operator licences across the country.

Transnet Pipelines has a well-established pipeline supply value chain, with associated infrastructure, advanced pipeline skills and experience in operations, engineering and maintenance. It is the largest multi-product pipeline operator in southern Africa. Pipelines has the ability to establish strategic terminal import connectivity and capability for the southern hemisphere, particularly in the renewable energy sector.

Transnet Engineering supports its rail, ports and pipeline infrastructure requirements as South Africa's largest heavy engineering firm and owner of one of the largest engineering fabrication facilities in Africa. Engineering's multiskilled workforce has a unique understanding of the design requirements of rolling stock within the African environment, specifically relating to narrow gauge railways operating on poor-quality infrastructure, and a strong capability in conceptualising, designing, manufacturing, assembling and maintaining infrastructure assets.

Transnet Property is one of the largest landowners in South Africa, with a diverse property portfolio covering 204 municipalities.

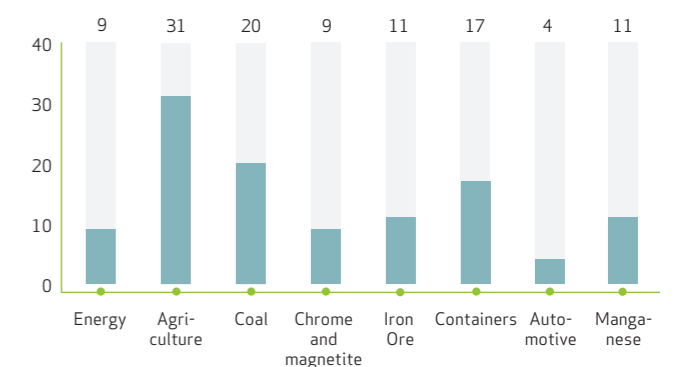
The Company's move towards a more integrated operational model is set to significantly improve on its pit-to-port flows in all its major commodity sectors. A strong example of this interdivisional cooperation is the ability of Port Terminals to collaborate with Freight Rail to offer integrated port/rail solutions to improve overall operational efficiencies in the logistics chains of its key commodity sectors.

Transnet's segment strategies are a change from our historical

divisional, modal service offering. They will enable the Company to participate in numerous integrated commodity value chains, and work together with the private sector to rethink, reimagine and grow Transnet's portfolio in a financially sustainable manner.

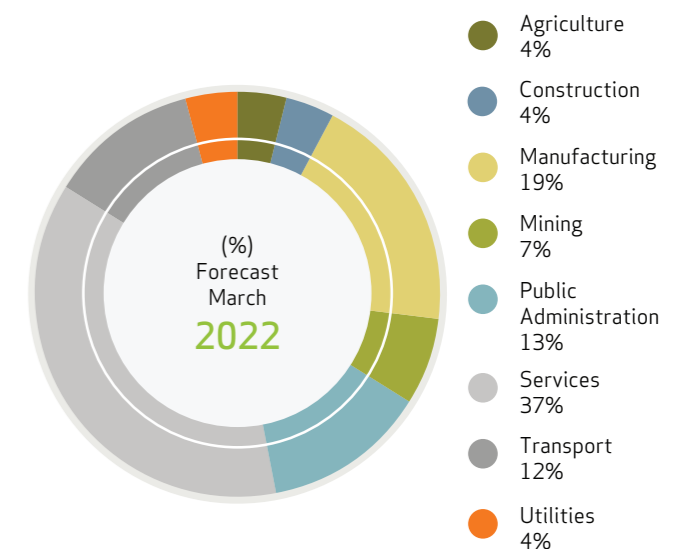
Transnet is applying an affordability and sustainability lens to its future capital investments and "shifting to rail" remains a key environmentally sustainable strategy to lift pressure off the road network, to reduce carbon emissions and to reduce transport costs.

Graph 3: Segment contributions to Transnet's revenue and South Africa's GDP (%)



* Agriculture forms part of Transnet's economic reconstruction and recovery focus.

Graph 4: GDP forecast - March 2022 calendar year



Read more
Refer to our chapter on Strategy on page 46.

Capital portfolio and prioritisation principles

To ensure the Capital Investment Plan aligns with the strategy, is affordable and creates value for the Company and its stakeholders, the following prioritisation principles have been developed, and some elements of these principles were used to inform the capital portfolio:

- All capital investment projects, be they infrastructure-related or a partnering approach, will be evaluated through the lens of each segment. The focus is on covering the cost of capital by way of growth in revenue, profitability and market share for the segment overall.
- Investment opportunities will be evaluated within their context as part of a segment or supply chain and business case. The investment opportunity must show the impact of the investment decision on the overall supply chain, segment, and Transnet's performance.
- All capital projects (including individual projects) will be evaluated using the following five criteria:
 - Strategic fit
 - Financial impact
 - Alternative funding sources
 - Risk rating
 - Special impact

Our functional portfolio

Transnet plans to spend R98,9 billion on capital investment over the next five years, of which 79,7% (R78,9 billion) will be spent on maintenance and sustaining capital investment. A significant portion of this capital (R39,1 billion) will be spent on maintaining and sustaining permanent ways and rolling stock (locomotives and wagons), while the remainder is planned for port fleet and pipeline equipment.

The investment in permanent ways has not kept pace with the investment in locomotives and, as a result, there is an urgent need to accelerate investment in this category. Investment in permanent ways therefore receives the major portion of the investment at R14,9 billion (18,9%) of the sustaining investment planned over the period. These investments will realise significant business benefits from the new locomotives and terminal capacity.

Investment governance and assurance

Transnet's investment governance is based on an organisational framework that enables effective and transparent decision-making in its capital investment projects. This ensures that the right projects and programmes are progressed through their respective life cycles to collectively deliver on the Company's strategic objectives. Investment decisions will be based on the shared risk portfolio, quality, viability, sustainability and portfolio fit to create maximum strategic value. Transnet's Finance and Investment Committee supports effective decision-making on all capital investment projects.

Our Funding Plan

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.

After a period of more than 20 years of funding without government guarantees, there is an increasing necessity for Transnet to have government debt guarantees readily available, mainly for credit enhancements to support our developmental capital investment objectives.

A company of Transnet's size is typically funded from a variety of sources to avoid the concentration risk associated with relying on limited sources of funding. To date, Transnet has achieved a diversified portfolio of debt, with the total existing debt, after hedging, being split as follows:

Table 7: Debt portfolio as at 31 March 2022

	%
Corporate bonds: Domestic Medium-term Note (DMTN) Programme (Johannesburg Stock Exchange, listed and unlisted)	31,40
Corporate bonds: Global Medium-term Note (GMTN) Programme (London Stock Exchange, listed)	11,40
Corporate bonds: Euro Medium-term Note (EMTN) Programme (Luxembourg Stock Exchange)*	2,40
Local currency-denominated loans	38,90
Foreign currency-denominated loans	9,10
Short-term call loans	6,80
Total	100,00

* Government guaranteed

The total debt maturities for the next three years (from April 2022), amount to R40,97 billion. Transnet aims to refinance these debt maturities and fund the capital expenditure programme through long-term funding at cost-effective rates while avoiding a concentration in the debt redemption profile in the coming years.

Transnet successfully raised R3 billion in long-term funding and R3,6 billion in bonds and commercial paper issued under the DMTN Programme through private placements. Despite difficult domestic and global market conditions as the world emerges from the COVID pandemic, together with historical operational challenges during the reporting year,

Further to the R3,6 billion, Transnet successfully raised R2,0 billion under the DMTN Programme through a public auction in February 2022, with senior unsecured notes ranging from a tenor of one to 12 years. This has effectively funded the redemption of R6 billion of the DMTN bonds that matured in May 2021.

Transnet has a liquidity buffer in the form of committed short-term call loans amounting to R13,3 billion. These call loans are a source of funding for the Company's short-term liquidity needs. With significant debt maturities in the next six financial years, Transnet must raise sufficient long-term funding to meet its debt obligations and fund its capital expenditure programme while demonstrating that it has adequate funding sources to address liquidity risk events. An adequate liquidity buffer is credit positive in terms of credit rating agency assessments as well as credit risk assessments by lenders offering new funding.

Deleveraging the balance sheet to bring gearing levels to 45% and below, and creating cash interest cover headroom by moving towards a cash interest cover of three times, will be important for Transnet to maintain a sustainable capital structure. Accordingly, Transnet will limit its capital expenditure to a maximum of 80% of its cash on operating activities in the next five years.

Opportunities underlying the funding environment

Our Growth and Renewal strategy along with management's commitment and ability to execute on the strategy is regarded by investors as a positive turnaround for the business to play its critical role in the economy of South Africa. The level of investor engagement and communication through Stock Exchange News

Table 8: Transnet's key potential sources of funding

Committed 12-month call loans	A significant portion of the committed call loans totalling R13,3 billion has been utilised, and plans are in progress to restore these facilities.
DMTN Programme	The issuing of short-term 'commercial paper' and 'medium to long-term bonds' (listed on the JSE).
GMTN Programme	The issuing of medium to long-term bonds (listed on the London Stock Exchange).
EMTN Programme	The bonds issued under the EMTN Programme in Europe (Berlin, Luxembourg, Frankfurt and Stuttgart) are Rand-denominated and represent the only funding that is supported by a government guarantee. The utilisation of the EMTN Programme needs to be revisited as a potential source of future funding.
Long-term loans	Transnet has a number of loan agreements in place that provide funding in both Rand and foreign currency, including bank funding, export credit agency-backed funding and support from development finance institutions. Transnet will continue accessing the loan market for funding.

Our financial risk management

In December 2021, the Board approved the Treasury Financial Risk Management Policy (FRMP). The FRMP provides key guiding principles for Transnet to apply when managing treasury-related financial risk exposures mainly on funding risk, foreign currency risk, liquidity risk, interest rate risk, commodity risk and credit risk. The Audit Committee revises credit risk exposure on counterparty limits annually to reasonably tolerable levels. Furthermore, credit risk exposures are monitored daily within Group Treasury.

Credit rating agencies

Transnet is officially rated by S&P Global Ratings (S&P) and Moody's Investors Service (Moody's). The credit rating methodologies applied by these credit rating agencies result in Transnet's credit rating being strongly linked to that of the South African Government, as our sole shareholder. Consequently, Transnet cannot be rated higher than the Government, except by one notch under very exceptional circumstances. For Transnet as

Service (SENS) and other media communication channels has been welcomed by investors and is expected to boost investor confidence.

Our stronger balance sheet compared to other SOCs ensures that Transnet enjoys strong investor support in the debt capital markets, both internationally and domestically.

Transnet has not defaulted on its obligations to service debt (both capital and interest repayments) on any of its funding instruments. Our capital expenditure programme has been observed by lenders and credit rating agencies to be flexible and responsive to both market conditions and the financial performance of the Company, contributing positively to effective liquidity management.

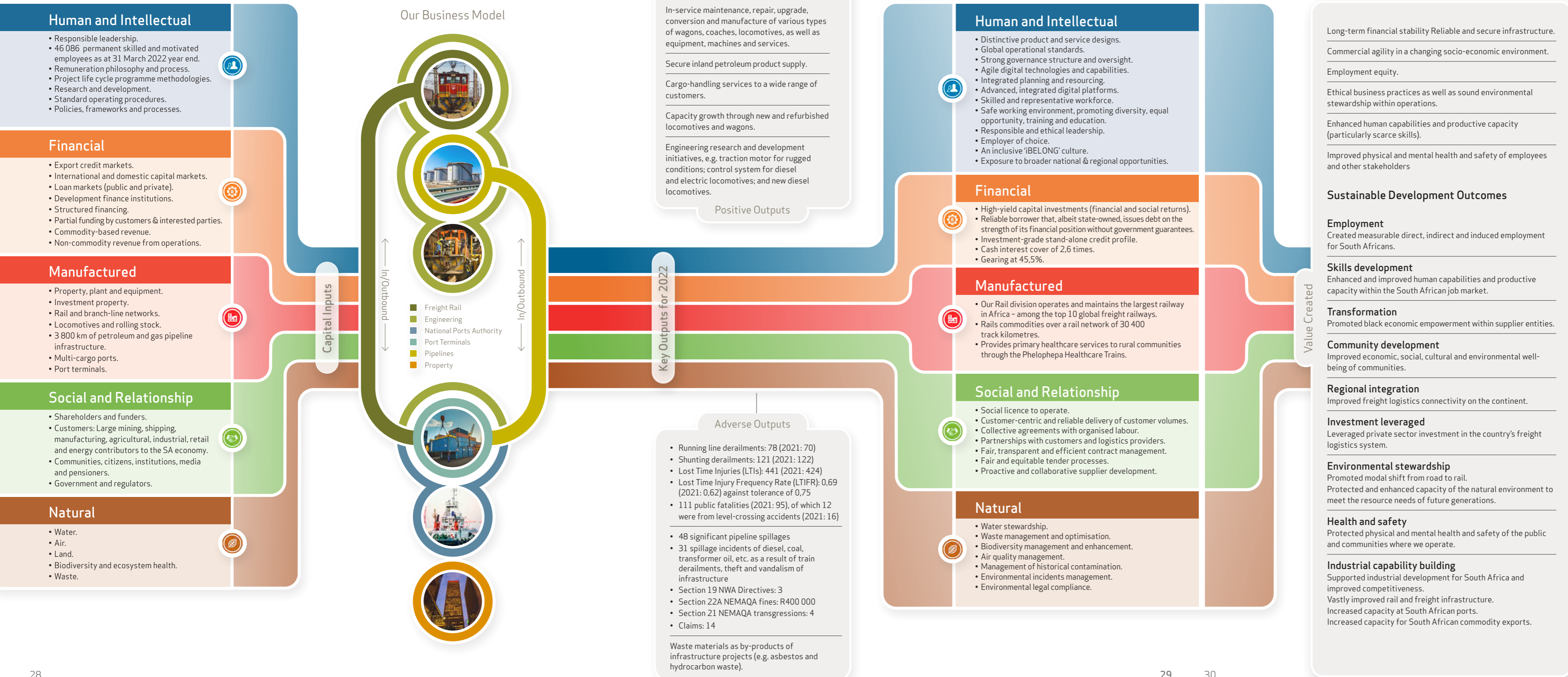
the rated entity, the focus from credit rating agencies remains centred around our liquidity profile, cash flows generated from operating activities, debt refinancing risks and corporate governance.

Transnet's downgrade by Moody's in November 2021 triggered credit rating-related covenants in the bilateral loan agreements. Transnet successfully negotiated waiver agreements with the lenders who either had rights to call for guarantees or prepayment of their loans as a result of the downgrade. S&P acknowledged the positive progress made by Transnet on the matters raised when the Company was placed under credit watch negative in November 2021, particularly the completion of the waiver process, as well as the funding raised since the beginning of the 2022 calendar year, and progress in the refinancing of the TNUS22 bond maturity.

Table 9: Transnet's current credit ratings

Rating category	Moody's	S&P
Corporate Family Rating/Foreign currency rating	Ba3/Ratings under review	BB-/Negative outlook
Corporate Family Rating/Local currency rating	Ba3/Ratings under review	BB-/Negative outlook
National scale rating (NSR) - long/short term	A2.za/P-1.za/Ratings under review	zaAA/zaA-1+
BCA/SACP	B2/Ratings under review	bb-/Negative outlook

Sustaining value through the capitals



Our Integrity Statement: Balancing value with capital trade-offs



King IV Principle 4 states: “The Accounting Authority should appreciate that the SOE’s core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.”

For Transnet, sustainable value creation considers the dynamic trade-offs in all aspects of the business, with the understanding that financial capital, as a medium of exchange and trade, cannot replace or compensate for the loss of any natural living organism, biosphere or human right in the course of its commercial practices. Hence, we do not observe pure financial gain or financial capital trade-offs as de facto measures of sustainable progress in our business.

Our value is dependent on three principles:

1. Our ability to create shared value by understanding our relationship with all stakeholders in the value chain. The

inherent and combined value contributed by our stakeholders is a particularly critical aspect of our Growth and Renewal Strategy.

2. Our ability to authentically assess our impact on all aspects of and on all participants in our commercial environment is reported in our chapter on Sustainable Development Outcomes (page 126).
3. We understand that our core value as a SOC is commensurate with the direct and derived value we can create through our Growth and Renewal Strategy for the key commodity sectors within which we operate, and for the country at large.

Accordingly, all people working and thriving within the commodity sectors where we operate – including our own employees and vulnerable communities – share in the consumption of our natural and manufactured resources and should, therefore, also share in the positive value created within the sectors’ value chains, as produced through our joint operations with private and public sector partners.

The only true consideration of value for us is to measure the overall shared value created in the context of all our business activities. With this as our sole purpose and perspective, we can assess how well we are performing relative to our ascension towards ever-higher degrees of success and organisational well-being.

Highlights of our capital value generated and trade-offs

Human and intellectual capitals	
Implementation of policies, programmes and services that contribute to the attainment of Company and employee goals while ensuring that employee needs and organisational goals are balanced for 46 086 motivated and efficient employees	
Strategies to create or sustain value	Potential trade-offs
<ul style="list-style-type: none"> • Driving an ethical culture to support the Company’s long-term viability • Embedding a zero-harm safety culture across operations – follow 100% of our safety rules, 100% of the time • Managing the impact of COVID on our people and operations • Improving the working environment, conditions, safety and well-being of our people • Building a culture that is both inclusive and accommodating while demanding performance excellence and innovation • Supporting the development of South Africa’s artisanal labour force and creating positive externalities while transferring value back to civil society • Developing appropriate technology strategies and governance to support changing work practices 	<ul style="list-style-type: none"> • Time, effort and resources invested to improve the operational environment for our people may initially divert focus from pure manufactured capacity building, but the long-term financial health of the organisation depends on a conducive environment where our people can excel and be safe. • The decision not to institute pay cuts while revenue was reduced due to the effects of COVID strained our financial reserves, particularly for work not desk-bound, such as operating trains or cranes. • New mobile work practices can enable people to continue working safely, but it could widen governance gaps, strain work-life balance and impair data management. • As we prepare for the emerging 4th Industrial Revolution, many industrial-heavy jobs could be displaced, while the new divisions of labour will create new jobs. While needing to maintain present productivity levels, we need to invest in the skills, technology and know-how required for the new world of work.
Value generated	
<ul style="list-style-type: none"> • Sustained strong safety and occupational health performance: <ul style="list-style-type: none"> o Three employee fatalities (2021: 4) o LTIFR: 0,69 (2021: 0,62) against tolerance of 0,75 • Improved and aligned employee skill sets, equity and diversity as well as culture of accountability with: <ul style="list-style-type: none"> o R23,3 billion spent on personnel costs and benefits (2021: R23,3 billion) o R655 million spent on training and development (2021: R462,6 million) • Contributed to the national pool of skilled artisans and engineers with: <ul style="list-style-type: none"> o Engineers-in-training: 321 (2021: 253) o Sector-specific training spend of R13,9 million (2021: R30,2 million) • Investment of R98,3 million in R&D (2021: R1 41,9 million) 	

Social and relationship capital	
Transactional, collaborative and constructive relationships with stakeholders to maintain trust and a social licence to operate	
Strategies to create or sustain value	Potential trade-offs
<ul style="list-style-type: none"> • Using customer requirements to guide how and where to integrate services and streamlining our management structures and processes where operations are centres of business • Creating enterprise development programmes to expand opportunities to communities where the Company operates • Ensuring transparent disclosure of financial, operational and ESG performance to stakeholders • Creating socio-economic infrastructure such as community centres and hubs • Providing primary healthcare across eight of South Africa’s nine provinces and mobilising two medical trains through Transnet’s Phelophepa healthcare programme, with experiential learning to an estimated 2 500 healthcare trainee professionals • Mobilising two medical trains for COVID testing 	<ul style="list-style-type: none"> • Our keystone expansion projects – such as our large-scale port infrastructure improvement projects – need to balance the economic benefits for our Shareholder and the country with the social and environmental concerns raised by surrounding communities (e.g. the potential displacement of people and business as a result of port expansions).
Value generated	
<ul style="list-style-type: none"> • 20 000 people benefited from the socio-economic and infrastructure development (SEID) initiatives along our servitudes (2021: 28 000) • R1,1 million invested in SEID (2021: R4,8 million) • 378 218 (including COVID-19 services) people treated on our Phelophepa Healthcare Trains (2021: 237 762) 	

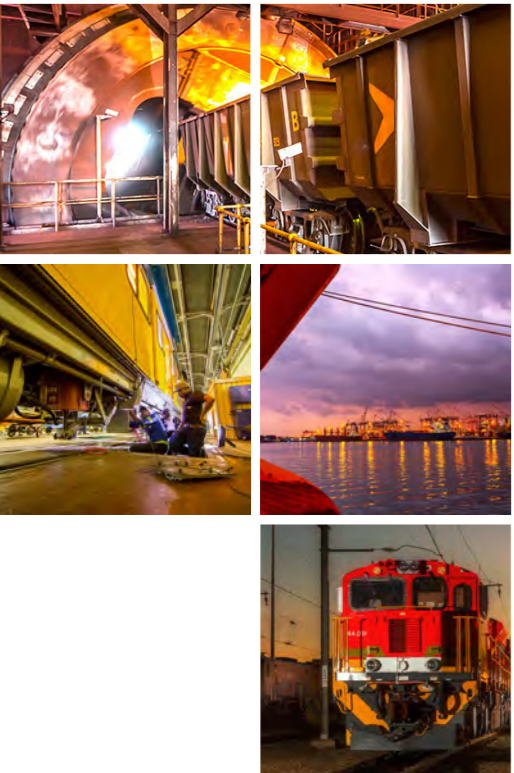
Financial capital	
Made up of cash and cash equivalents as well as borrowings	
Strategies to create or sustain value	Potential trade-offs
<ul style="list-style-type: none"> • Managing working capital to meet target levels • Maintaining a cash interest cover of at least 2,5 times • Achieving financial targets related to gearing, ROIC and cash interest cover to maintain the Company’s stand-alone credit rating and secure cost-effective funding to execute the Capital Investment Plan • Ensuring a strong capital base to maintain investor, creditor and market confidence to support the Company’s future growth • Maintaining cost-control initiatives through ‘right management’ (understanding the impact) of all expenses for short-term and day-to-day operating expenses and long-term capital expenses • Evaluating the cash flow profile of the business and proactively managing associated operational and financial risks for long-term financial sustainability 	<ul style="list-style-type: none"> • Effort and resources spent on improving governance and internal controls will ensure we maintain or reduce the cost of capital. • Transnet’s ability to commit to capital expenditure needs to be balanced with the need for sufficient return on assets to support funding requirements.
Value generated	
<ul style="list-style-type: none"> • EBITDA margin increased to 34,3% (2021: 28,9%) • Realised cash interest cover of 2,6 times (2021: 2,1 times) • EBITDA amounted to R23 449 billion (2021: R19 460 billion) 	

Manufactured capital	
A means of generating value through physical infrastructure in the form of property, plant and equipment, which includes rail, port and pipeline infrastructure in the country	
Strategies to create or sustain value	Potential trade-offs
<ul style="list-style-type: none"> • Adhering to the capital maintenance programme while maximising asset utilisation • Ensuring integrated management of projects through the Integrated Capital Projects Programme • Advancing Transnet’s Inland Terminal Strategy and addressing infrastructure and rolling stock maintenance requirements • Structuring and maintaining the information technology network for more connectivity • Optimising Transnet’s property portfolio 	<ul style="list-style-type: none"> • Investing in manufactured capital requires substantial financial capital investment. There are trade-offs between using financial resources on maintenance spend or expansionary capital expenditure to upgrade logistics value chains. • Our operations generate a range of waste materials as by-products; and operational accidents, such as derailments or pipeline spillages can cause severe environmental harm and negatively affect communities where we operate. We strive to implement the principles of responsible waste management and environmental remediation.
Value generated	
<ul style="list-style-type: none"> • Spend on expansion amounted to R20,0 billion (2021: R84,8 billion) • Spend on sustaining amounted to R78,9 billion (2021: R15 billion) 	

Natural capital	
Shared natural environment on which our operations are located and have an impact on the ocean, rivers, ecosystems and air.	
Strategies to create or sustain value	Potential trade-offs
<ul style="list-style-type: none"> • Factoring in climate change mitigation and adaptation, water stewardship, and biodiversity management into all our capital projects • Reducing carbon emission intensity and improving energy efficiency • Lowering carbon emissions in the transport sector, especially for the hauling of large volumes of high-density freight over long distances, by shifting cargo from road to rail • Managing the impact of historical environmental contamination with our integrated asbestos and hydrocarbon clean-up programmes • Implementing best-practice environmental risk management and adhering to natural capital policies 	<ul style="list-style-type: none"> • Moving towards cleaner energy usage will result in trade-offs in the way people work and the costs associated with pursuing a more appropriate energy mix. We anticipate that new capacity will be led by solar and wind power. • Some of our operations require natural resources and operate in pristine environments. We are guided by environmental impact assessments in our approach to developments.
Value generated	
<ul style="list-style-type: none"> • Recycled 87 238 kℓ of water (2021: 351 375 kℓ) • Asbestos remediation and rehabilitation from historical contamination: 30,42 tons (2021: 274,34 tons) • Recorded 79 significant environmental incidents • Energy-efficiency management and carbon footprint: <ul style="list-style-type: none"> o Total carbon emissions (mtCO₂e): 3,27 (2021: 3,22) o Overall energy efficiency remained at 19,6 ton/GJ o Carbon emission savings from road to rail: 3 122 mtCO₂e (2021: 2 926 mtCO₂e) 	



Group Chief Executive's review



“To harness new market opportunities, we must ensure our operations are appropriately positioned to explore and service those opportunities.”

The year in review

The past two years have been characterised by fundamental structural shifts. Our world was forever transformed as the COVID-19 pandemic set in, impacting every aspect of our personal, social and professional. The commercial uncertainties experienced as a result of lockdown restrictions, and ensuing productivity challenges, exacerbated the difficulties that took root in SOCs during the years of State Capture, which were characterised by wide-scale capital misallocation and a systemic weakening of senior levels of SOC leadership. An unfortunate impact of the compounded outcomes of the pandemic is that sizeable industrial engineering supply chains have also deteriorated over time.

Transnet's own capacity constraints for the primary export commodities, such as coal and iron ore, were exacerbated by locomotive unavailability due to a shortage of spare parts for the fleet forming part of the 1 064 procurement transaction, as well as vandalism of the rail infrastructure and continued criminality related to cable theft. All of this is happening during a time when there is particularly high demand for these commodities across the globe as a result of the war in Ukraine.

The container, automotive and agricultural supply chains, together with major mining commodity sectors and the energy sector (liquid fuels and gas), make up more than 80% of Transnet's revenue base, and it is now critical that we rebuild the necessary capacity to exploit opportunities in these value chains.

At the start of the financial year, we embarked on a significant transformation journey, moving toward a more supply-chain or segment-oriented view of the business. Using this new segmental lens, we devised segment strategies for each of Transnet's key revenue-intensive market segments. The segment strategies consider how supply chains in South Africa's key industries can become globally competitive, thereby making the country more trade competitive in the region and internationally. As such, we are beginning to move away from our historical focus on transport modes towards an emphasis on the competitive trade performance of customer supply chains, making optimal supply chain performance and the radically improved trade competitiveness of these major value chains the primary units of analysis for Transnet's operational success and financial sustainability going forward.

Performance highlights


Transnet has remained financially sustainable since its inception in 2000. The last time any guarantees were issued was in 1999, although these will only expire in 2029. It is gratifying to report that we achieved meaningful EBITDA growth during the year, up 20,5% year on year from R19,5 billion in 2021 to R23,4 billion, improving our EBITDA margin from 28,9% to 34,3%.

Revenue performance has been volatile over the past four years, with initial growth from R72 billion in 2018 to R74,1 billion in 2019 and R75,1 billion in 2020, mainly due to increased transported volumes and tariff increases. Growth started declining in the context of the COVID-19 pandemic, reaching R67,3 billion in 2020. Adverse contributing factors included lockdown restrictions, intensified by the first tangible signs of a slowdown in world trade, changing flows in tourism and disruptions in global supply chains, particularly for businesses that rely on manufactured products.

Our 2022 revenue performance at R68,5 billion has begun a new upward trajectory as we recorded higher year-on-year volume performance in the first two quarters of the financial year. In the port sector, handled volumes increased by 5,5% from the prior year, with 3,916 million TEUs in 2021, improving to 4,131 million TEUs in 2022, translating to Port Terminals' revenue increasing by 10% from R13,1 billion in 2021 to R14,5 billion in 2022.

Encouragingly, pipeline volumes increased by 17,5% from 13 067 million litres in 2021 to 15 350 million litres in 2022, despite challenges of theft and vandalism on our pipeline infrastructure, culminating in total revenue of R5,3 billion compared to R4,9 billion in 2021.

Rail volumes declined due to numerous stated challenges, reducing Freight Rail revenue from R39,4 billion in 2021 to R37,8 billion in 2022.

 [Read more](#)
Refer to our financial performance on pages 104 - 119.

Performance against the Shareholder's Compact

We monitor our performance against the achievement of our mandate through the Shareholder's Compact as agreed with the Department of Public Enterprises (DPE) annually¹. Our 2022 Compact performance strongly reflects the dynamic internal and external environments in which Transnet operates. Our Compact performance was adversely affected by the compounded impact of unexpected challenges at the beginning of the second quarter as we began paving the way towards pre-pandemic recovery. Amongst others, these included the national unrest in July 2021, which triggered wider rioting and looting, primarily impacting our port and rail operations in KwaZulu-Natal; a rise in security-related incidents, mainly cable theft and vandalism of our rail and pipeline infrastructure; as well as ICT security challenges, with a company-wide ransomware cyberattack, which forced us to declare a force majeure at several key container terminals, including the ports of Durban, Ngqura, Port Elizabeth and Cape Town. Added to this, we were unable to meet our mining customers' need for higher volume exports when commodity prices increased as Freight Rail was hamstrung by a shortage of locomotives, vandalism and cable theft as well as poor network infrastructure as a result of a lack of targeted infrastructure investment over the years.

Consequently, we achieved 17 of our 44 Compact targets, translating into a 39% achievement rate. While we surpassed the 12% achievement rate of 2021, we still performed well below expectations. The Board has called for a paradigm shift in the Company's approach to structuring the Shareholder's Compact to better align our performance expectations and measurement indicators with the new Growth and Renewal Strategy's core objectives, which include restoring our rail and port asset base to deliver on revenue commitments; prioritising our investment resources towards growth in high-margin flows, particularly bulk mining commodities; and partnering with those commercial entities that are geared to support flows where we are less effective.

The proposed key performance areas for the 2022/23 Shareholder's Compact have been structured according to short, medium and long-term priorities, as follows:

Short-term priorities

- Implement rigorous maintenance programmes to improve efficiencies while stemming safety and security incidents, improving performance and driving volumes
- Drive strategic initiatives to improve the Company's financial situation
- Improve performance in key financial ratios
- Enable socio-economic benefits

¹ As required by the Public Finance Management Act (PFMA).

Medium to long-term priorities

- Repair the business's core aspects, such as enhancing operational competencies and modernising infrastructure to ensure we provide reliable customer service
- Expand and scale the logistics distribution network using owned assets, third-party logistics partnerships and private investments to ensure a sustainable funding model
- Invest in new services to expand and support the rail, port, and pipeline value chains
- Align with regulations for both operating models (e.g. third-party access) and structuring (e.g. subsidiarisation)

154 [Read more](#)
Refer to our operational performance in the Directors' report (Annexure A), which discloses our 2022 performance against the 2021/22 Compact. In the Directors' Report (Annexure A), which discloses our 2022 performance against the 2021/22 Compact.

The outcome of the external audit

Over the past four years, we have received qualified audit opinions due to misstatements identified in the Company's irregular expenditure. In 2022, Transnet approached the National Treasury to request a departure from disclosing amounts as required by specific provisions of the PFMA and related instruction notes in the Annual Financial Statements. These included irregular, fruitless and wasteful expenditure (IFWE) and non-condoned historical irregular expenditure as required by the Irregular Expenditure Framework.

Accordingly, Transnet received an exemption from disclosing the particulars required by sections 55(2)(b)(i), (ii) and (iii) of the PFMA in the AFS for three years, starting from 2022 to the 2024 financial year. The extent of the exemption has been limited to the disclosure of the confirmed and under assessment IFWE in this integrated report, together with one comparative year. National Treasury granted the exemption to enable us to develop and implement more rigorous internal control measures to ensure we report accurately on IFWE disclosures in the future.

I am encouraged to report that Transnet has received an unqualified audit for the 2022 financial year. That said, we need to continue to close the governance gaps that still prevent us from receiving a fully positive audit report from the AGSA². On behalf of my colleagues on the Executive Leadership Team, I wish to thank the AGSA for its support and encouragement during the audit.

Update on regulatory reforms

The regulatory reform process in ports and rail, triggered by South Africa's Economic Reconstruction and Recovery Plan, gathered pace during the year. We made good progress in aligning with the emerging regulatory environment. Accordingly, we separated the accounts of rail infrastructure and operations to enable third-party access to the rail network, and the National Ports Authority is currently in the process of being subsidiarised as a wholly owned subsidiary of Transnet. We expect that the establishment of the new subsidiary will assist in driving greater efficiencies in the port terminals.

Moving forward

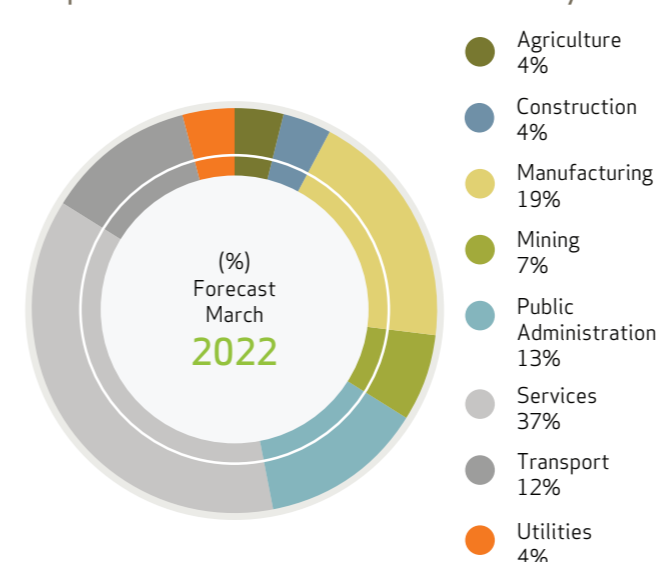
Our growth and renewal strategy

South Africa's real GDP grew by 4,9% in 2022, following a significant decline of 6,4% in 2021 but increasing by 1,9% in the first quarter of 2022. The improved economic activity was attributable to strong commodity prices and the moderate reopening of the local economy after strict COVID-19 restrictions. Despite the anticipated and slight economic improvement in 2021, South Africa still faces critical challenges to economic growth, such as currency depreciation, rising unemployment as well as the country's ongoing energy crisis. While these latter challenges are beyond our control as Transnet, playing a collaborative role with strategic partners in optimising our strategic segmental value chains will significantly affect how these sectors recover, function and grow going forward.

Transnet considers the growth and economic value of South Africa's critical GDP contributors – which are strategic to our trade competitiveness as a country – as foundational to our long-term strategic planning framework. Transnet's Growth and Renewal Strategy uses a segmental lens to focus on the major GDP contributors that provide more than 80% of the Company's present revenue value. As we move forward, we will assess how these segments are growing and expanding and consider what is needed in the various segmental value chains to best support these sectors to lead South Africa's trade competitiveness in the region.

The sectors of transport, agriculture, mining and manufacturing are high-value earners for South Africa. For Transnet, the automotive and container sectors are proxies for both the transport sector at 12% of the forecast GDP³ and the manufacturing sector, which is the second-largest contributor to South Africa's GDP, at 19% (see graph below). From the perspective of the mining sector, at 7% contribution, we transport several mining commodities, including coal, iron ore, chrome, magnetite and manganese. Transnet's transport of liquid fuels and gas are, in turn, proxies for the utility sectors, with the latter contributing 4%. Agriculture, also at an anticipated 4% contribution, has formed part of Transnet's Economic Reconstruction and Recovery Focus, meaning that we consider it a critical contributing sector to our economic recovery as South Africa in a post-COVID world.⁴

Graph 5: GDP forecast – March 2022 calendar year



Source: <https://tradingeconomics.com/south-africa/gdp>

Given the importance of these sectors to the South African economy, Transnet has strengthened its strategic interventions at the commodity flow level of South Africa's major commodity value chains. Notwithstanding our limited capital investment capacity, we will prioritise various strategic interventions over the next three to five years.

Further, we will continue to analyse each commodity segment to assess the nature and scope of the interventions required, which will help us to structure programmes and design centres of excellence around the operational priorities of these value chains. For instance, according to the World Bank's 2022 forecast, the widespread coal shortages during the year have throttled the production of electricity in several countries, curbing energy-intensive manufacturing activities. The resulting global supply bottlenecks have restricted global goods trade and industrial production.⁵ As Transnet, we regard coal not simply as a transportable commodity but as a critical strategic source of input into all value chains as it impacts all aspects of production and productivity. For this reason, we will implement various operational breakthrough programmes to support our coal operations, which will include fast-tracking the procurement of critical components and services to support operations across the North Corridor and strategic ports (i.e. Richards Bay Coal Terminal, Richards Bay Multipurpose Terminal and RBT Grindrod Terminal) and allocate underutilised assets to support profitable flows exported via the Richards Bay Multi-purpose Terminal. We will also run longer train sets, where appropriate, and focus on interventions that promote secure and protected electrical infrastructure across high-crime areas on the network by collaborating with clients, communities and national law enforcement and security services. Further, we intend to prioritise the use of dual-voltage locomotives (i.e. 21E and 22E locomotive types) to reduce changeover time. Through such interventions, we intend to ensure that greater volumes can be serviced in this sector. As such, we anticipate coal volumes to increase by 7 mtpa in the medium term, which could, in turn, generate significant revenue through partnership-based co-investment.

50 to 58 [Read more](#)
Refer the segmental strategies of our Growth and Renewal Strategy on pages 50 to 58.

Financial sustainability

To ensure sustainable and accountable capital management, we must implement a robust capital allocation framework that guides our capital investments (on balance sheet and crowded investments) to align with priority segments and networks, focusing on growth in revenue, profitability and market share, while assisting us in our debt repayments and improving our overall liquidity. The more targeted we can be in our capital allocation and the better our oversight of our project execution, the better our ability to mitigate capital execution risks.

We are confident that Transnet will continue to have access to debt capital markets to meet current funding requirements in the future, primarily through the DMTN⁶ programme and bilateral long-term loans, amongst others. As such, Transnet will follow its strategic funding plan, which will prioritise diversified sources of cost-effective funding as well as levelling our capital redemptions maturity profile over time. COVID-19 placed severe pressure on our liquidity buffer, together with a sizeable nominal R6 billion bullet capital redemption in May 2021 due to bond maturities that had to be refinanced from our committed short-term credit facilities of R13,3 billion. However, for the remainder of the 2022/23 financial year, we will see lower month-on-month capital redemptions and significant debt-raising initiatives to replenish the liquidity buffer. The latter is not only reliant on us implementing our funding plans, but also on projected cash flows from operations materialising, highlighting the importance of driving new revenue initiatives through our ODs⁶.

In particular, we are eager to explore new manufacturing opportunities through Transnet Engineering, our advanced manufacturing division and the first African independent OEM for wagons. The Growth and Renewal Strategy will open unique revenue-earning opportunities for Engineering, to serve Freight Rail's in-house wagon and loco maintenance requirements and new supply chain markets that will require wagon manufacturing and maintenance services. Additionally, as we grow our African footprint, we will showcase Engineering as a serious player in rolling stock manufacturing in sub-Saharan Africa, as is already evident with Engineering's manufacture and delivery of 300 freight wagons to Mozambican state-owned railway operator, Caminhos De Ferro De Mocambique (CFM).

Transnet is also participating in promulgating the White Paper on National Rail Policy, as approved by Cabinet on 23 March 2022. While the White Paper has been approved and gazetted, implementation of the relevant principles is still being ironed out. Transnet will participate in the Interim Rail Economic Regulation Capacity, which is focused on developing a new economic regulatory model for rail, amongst other things. We plan to sell rail slots on a limited number of corridors, thereby fast-tracking the implementation of the White Paper and the intended liberalising of South Africa's rail sector. The slot sales will help us to understand the added complexities of third-party access to the rail network, reposition rail in markets where we are not dominant, densify underutilised raiing routes, and ultimately move traffic from road to rail.

² The Auditor General of South Africa.

³ For the 2022 calendar year.

⁴ <https://tradingeconomics.com/south-africa/gdp>

⁵ January 2022 Global Economic Prospects – A World Bank Group Flagship Report, page 28.

⁶ Domestic Medium-Term Note

Restructuring the business

To harness new market opportunities, we must ensure our operations are appropriately positioned to explore and service those opportunities. Transnet will leverage partnerships to crowd in financial capital, technology, skills, and know-how to support the restructuring of the business over the short to medium term. Our segment-based partnership strategies will assist us in repositioning loss-making businesses while investing available capital in business areas that will support the growth and renewal of strategic sectors of the economy. Additionally, we anticipate that partner collaborations in these critical value chains will increase bulk commodity capacity by an estimated 52 million tons per annum (mtpa) across our key sectors.

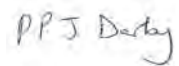
In restructuring the business, Transnet will adopt an operational improvement philosophy that will focus on critical elements such as knowledge, leadership, and group-wide synergies, together with a logistical strategy to engage the organisation in a vital productivity drive. The workplace is the interface between employees and service delivery and is, therefore, critical to Transnet's transformation and performance.

Where to from here?

As a developing economy, South Africa will benefit from the direct and derived investment outcomes of our Growth and Renewal Strategy. Given the economy's growth rate, we must bring partners into our projects. Collaborative partnerships will contribute to our own productivity improvements, and ultimately the renewal and growth of our country's rail, ports, and pipeline network infrastructure. This, in turn, will create an efficient system to leverage the strengths of the public and private sectors to improve supply chain competitiveness across our critical commodity sectors. A reliable and effective freight system enables competitive and profitable value chains.

Transnet's Growth and Renewal Strategy is intended to support the Government's Programme of Action as captured in the Economic Reconstruction and Recovery Plan (ERRP) to renew the South African economy in a post-COVID world. As Transnet, we have a critical role to play. It is, therefore, both our privilege and our duty to step up our own contribution to South Africa's long-term trade competitiveness in the region and globally.

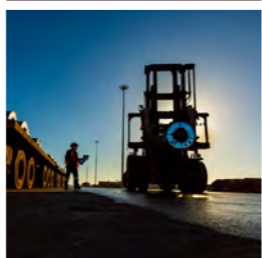
On behalf of the Transnet Executive Leadership Team, I want to thank our employees for persevering through a difficult year. In the year ahead, we are going to have to adjust the way we see Transnet as a company. Our Growth and Renewal Strategy requires that we become collaborators with our customers and industry partners. To achieve this, we need to reimagine and restructure our organisation to embrace new ways of doing business in a post-COVID world. We have now started on this journey, and our business has begun its upward trajectory.



Ms Portia Derby
Group Chief Executive

25 July 2022
Johannesburg

As a developing economy, South Africa will benefit from the direct and derived investment outcomes of our Growth and Renewal Strategy. Given the economy's growth rate, we must bring partners into our projects. Collaborative partnerships will contribute to our own productivity improvements and ultimately, the renewal and growth of our country's rail, ports, and pipeline network infrastructure.



Our Executive leadership



Portia Derby *Group Chief Executive*

Qualifications:
MBA (University of the Witwatersrand); BSc (Hons) Economics (University of KwaZulu-Natal); BSc Geology and Economics (University of KwaZulu-Natal); Management Advancement Programme Certificate

Date of birth: December 1969 **Year of appointment:** 2020 2 6 11 15 19



Ms Sizakele Mzimela *Chief Executive: Transnet Freight Rail*

Qualifications:
BA Economics and Statistics (University of Swaziland); Certificate in Management (Henley College); Transnet Executive Development Programme (GIBS); Financing Small Businesses (USAID); World Class Service Excellence (GIBS); Executive Airline Briefing; Stephen Shaw Airport Management; Board Leadership Programme (GIBS)

Date of birth: May 1965 **Year of appointment:** 2020 2 4 6 11 19 20



Mr Pepi Silinga *Chief Executive: Transnet National Ports Authority*

Qualifications:
Master of Engineering (University of Witswatersrand); MBA (Heriot Watt University); MDP (Unisa); BSc Civil Engineering (University of KwaZulu-Natal); Chartered Director (IoD UK); CMP (Stellenbosch); AMP (INSEAD); Postgraduate Diploma - Company Direction (GMIT) and IoD (UK); Diploma in Industrial Relations (Damelin); Major Projects Association (Templeton College - Oxford)

Date of birth: December 1964 **Year of appointment:** 2020 2 10 17 18



Mr Kapei Phahlamohlaka *Chief Executive: Transnet Property*

Qualifications:
MBA (Regent Business School); LLB (University of South Africa); BA (Hons) (Vista University); Certificate in Commercial Property Practice, CCPP (University of Pretoria); Property Development Program, PDP (UCT); Certified Property Manager, CPM (IREM); Practical Legal Training, PLT (LSSA LEAD)

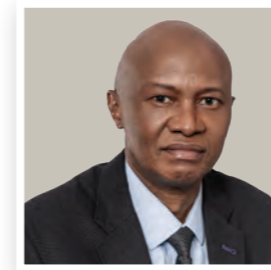
Date of birth: April 1976 **Year of appointment:** 2020 2 3 6 21



Ms Nonkululeko Dlamini *Group Chief Financial Officer*

Qualifications:
CA(SA); BCom (University of the Witwatersrand); Higher Diploma in Accounting (CTA) (University of Natal)

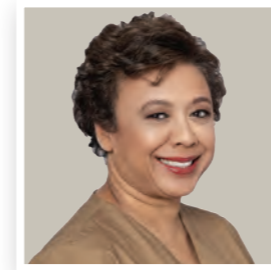
Date of birth: October 1973 **Year of appointment:** 2020 2 6 15



Mr Jabulani Mdaki *Chief Executive: Transnet Port Terminals*

Qualifications:
Global Executive Development Program (GIBS); Postgraduate Diploma in Business Management (PGDM) University of KwaZulu-Natal; National Diploma in Mechanical Engineering (Mangosuthu Technikon)

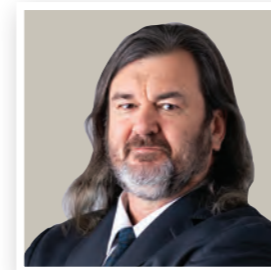
Date of birth: September 1967 **Year of appointment:** 2021 2 5 13 20



Adv Michelle Phillips *Chief Executive: Transnet Pipelines*

Qualifications:
BJuris LLB (Nelson Mandela University); Executive Development Leadership Programme (GIBS); Global Executive Leadership Programme (GIBS); Breakthrough Programme for Senior Executives (IMD Business School); International Terminal Operations Management Programme; Transnet Women in Operations Management Programme

Date of birth: December 1970 **Year of appointment:** 1999 2 3 4 5 7 12 20



Mr Ralph Mills *Chief Executive: Transnet Engineering*

Qualifications:
Bachelor's degree in Military Science (BMil) (SA Military Academy at the University of Stellenbosch); MBL (University of South Africa's School of Business Leadership)

Date of birth: January 1964 **Year of appointment:** 2020 2 7 8 11 20

Gender representation

53% male

47% female

Race representation

59% (10 African)

18% (3 White)

11% (2 Coloured)

11% (2 Indian)

Length of tenure of independent non-executive directors

as at 31 March 2022

0% 0-3 years

100% 3-6 years

Executive Leadership's competencies

- 1 Corporate Governance
- 2 Management and Leadership
- 3 Legal Compliance and Regulatory
- 4 Infrastructure, Logistics and Manufacturing
- 5 Business Development, Marketing and Sales
- 6 Finance, Economics and Investment
- 7 Business Process Re-engineering
- 8 ICT and Systems Engineering
- 9 Transformation and Socio-economic Development
- 10 HR and Industrial Relations
- 11 Strategy and Planning
- 12 Risk Management
- 13 Stakeholder Relations
- 14 Policy Development
- 15 Auditing and Accounting
- 16 Procurement and Supply Chain
- 17 Construction and Engineering
- 18 Project Management
- 19 Transport (Road, Rail, Shipping, Aviation)
- 20 Operations Management
- 21 Property Management

Our Executive leadership

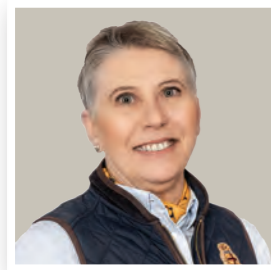


Dr Andrew Shaw *Chief Strategy and Planning Officer*

Qualifications:

DPhil Transport Economics (University of Leeds); MBA (University of Reading, UK); MSc Engineering (University of the Witwatersrand); BSc (University of the Witwatersrand)

Date of birth: May 1967 Year of appointment: 2020 2 4 6 11 14 17 19 20

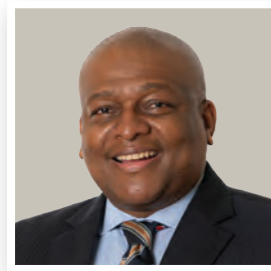


Adv Sandra Coetzee *Chief Legal Officer*

Qualifications:

An admitted advocate of the High Court of South Africa; BLC (University of Pretoria); LLB (University of Pretoria); Senior Leadership Programme Certificates (University of Cambridge and London School of Economics)

Date of birth: April 1962 Year of appointment: 2020 1 2 3 7 9 12 13

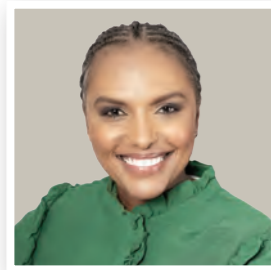


Mr Itumeleng Matsheka *Chief of People and Learning*

Qualifications:

Master's in Business Administration (Milpark Business School); Bachelor of Social Sciences (Honours) (Rhodes University); Bachelor of Social Sciences (Rhodes University)

Date of birth: July 1969 Year of appointment: 2020 2 3 10 11 14



Ms Yolisa Kani *Chief Business Development Officer*

Qualifications:

BSc (Hons) in Applied Science (with a specialisation in Transportation Engineering) (University of Pretoria)

Date of birth: September 1975 Year of appointment: 2020 2 5 14 17 19 20

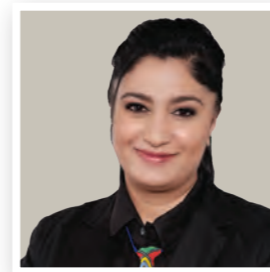


Mr Vuledzani Nemukula *Chief Procurement Officer*

Qualifications:

MBA (University of Wales); BSc (University of Cape Town); Advanced Business Programme (University of Johannesburg); Advanced Management Programme (INSEAD); Oxford Executive Leadership Programme (Oxford University - Said Business School); Postgraduate diploma in Purchasing & Materials Management (University of Cape Town)

Date of birth: January 1968 Year of appointment: 2020 1 2 3 4 16



Ms Sayeeda Khan *Chief Audit Executive*

Qualifications:

BCom Accounting (University of Durban Westville); Diploma in Accountancy (University of Durban Westville); CA(SA); CIA

Date of birth: March 1975 Year of appointment: 2022 1 3 12 13 15

Ms Xoliswa Ntshingila was the Acting Chief Audit Executive from July 2021 until February 2022.



Mr Pandelani Munyai *Chief Information Officer*

Qualifications:

MBL (University of South Africa); Master of Electronic Engineering (University of Pretoria); BSc Electrical Engineering (University of Cape Town); BSc Physics and Mathematics (University of Venda)

Date of birth: January 1969 Year of appointment: 2020 2 5 6 8 13 16 17 20

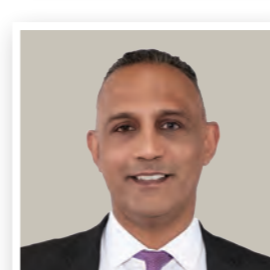


Ms Hema Chetty *Chief Digital Officer*

Qualifications:

BCom Internal Auditing (Hons) (University of Pretoria); BCom Financial Accounting (University of Pretoria); Executive Programme in Digital Transformation (Massachusetts Institute of Technology (MIT))

Date of birth: April 1982 Year of appointment: 2022 2 8 15



Mr Andre Pillay *Group Treasurer*

Qualifications:

BSc Mathematics (University of Pretoria); BCom (NDP): Econ, Accountancy (University of South Africa)

Date of birth: August 1969 Year of appointment: 2022 2 5 16

Mr Thandwayinkosi Siyaya was the Acting Group Treasurer from October 2020 until April 2022.

Executive Leadership's competencies

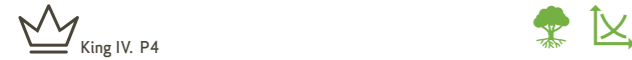
- | | | |
|---|---|---|
| 1 Corporate Governance | 8 ICT and Systems Engineering | 15 Auditing and Accounting |
| 2 Management and Leadership | 9 Transformation and Socio-economic Development | 16 Procurement and Supply Chain |
| 3 Legal Compliance and Regulatory | 10 HR and Industrial Relations | 17 Construction and Engineering |
| 4 Infrastructure, Logistics and Manufacturing | 11 Strategy and Planning | 18 Project Management |
| 5 Business Development, Marketing and Sales | 12 Risk Management | 19 Transport (Road, Rail, Shipping, Aviation) |
| 6 Finance, Economics and Investment | 13 Stakeholder Relations | 20 Operations Management |
| 7 Business Process Re-engineering | 14 Policy Development | 21 Property Management |

IFRS sustainability disclosures*

The resilience of Transnet's strategy Qualitative (Q) or Financial (F) **Q F** | Short term: 1 - 2 years **S** | Medium term: 3 - 5 years **M** | Long term: 6 - 20 years **L**

* IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Material matters impacting our strategy



Changes in reporting on material aspects

Our reporting on material matters is primarily derived from our Shareholder's Compact, which is developed annually in terms of the Treasury Regulations and our Memorandum of Incorporation. Over the past few years, we have followed a compacting model provided by the Department of Public Enterprises through the Statement of Strategic Intent. During the 2022 reporting year, the Board reviewed the existing compacting model and found that it did not help us to focus on the risks and opportunities that our business is facing and, therefore, has not yielded the expected results.

Performance for the past three years has declined from 65% achievement in the 2019 reporting year to 38% in 2020 to 12% in 2021. Overall performance against the Shareholder's Compact for 2022 also requires significant improvement, considering the impact of additional waves of the COVID-19 virus and operational challenges experienced during the reporting period. Accordingly, management's efforts to implement strategic objectives and improve operational efficiencies and thus reduce the cost of doing business were significantly hampered. We require a paradigm shift in our approach to the Shareholder's Compact as well as in identifying performance indicators that enable management, the Board and the Shareholder to focus on immediate challenges to repair core aspects of our business.

The 2022/23 approach to the Shareholder's Compact is, therefore, reflective of the challenges that Transnet is facing and tracks the initiatives to address these challenges. The proposed KPIs and targets are based on the commitments made in our Corporate Plan for the 2023 reporting year.

The table below provides explanations for each material cluster together with the key metrics used to measure our progress for each cluster.

Table 10: Material clusters for 2022

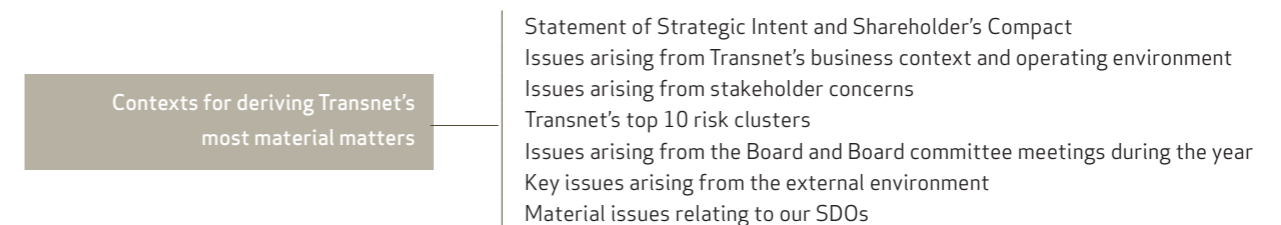
Material clusters	Material matter	Time Qualifier	Time horizon
Ensure financial sustainability 	<ul style="list-style-type: none"> Harness the value of capital allocation and deployment to ensure financial self-sustainability while ensuring derived commercial and developmental value creation in South Africa's key commodity segments Reinvest sufficient revenue growth into the business to ensure self-sustainability 		
How we measure 2022 progress	• Operating ratio: ≥62,5%	F	S
	• Cash interest cover (CIC): ≥2,5 times	F	S
	• EBITDA margin: ≥37,5%	F	S
	• Return on invested capital (ROIC): ≥4,1%	F	S
	• Current ratio: ≥0,63 times	F	S
	• Gearing: ≤48,4%	F	S
	• Free cash flow percentage of cash flow before capital investment: ≥18%	F	S
Reduce the total cost of logistics, effect and accelerate the modal shift in strategic growth segments 	<ul style="list-style-type: none"> Prioritise repairing and reforming business assets to ensure service efficiency and infrastructure reliability within Transnet's core business Partner with the private sector to reduce inherent costs within key commodity sectors Harness rail volume growth within commodity sectors Move freight from road to rail to reduce carbon emissions from trucking transport 		
How we measure 2022 progress	• Total rail volumes: ≥208 mt	Q	S
	• Measurement instrument for the cost of logistics as a percentage of transportable GDP finalised: By 30 September 2022	Q	S
	• LTIFR: ≤0,75 ratio	Q	S

[Read more](#)
Refer to the Directors' report of in Annexure A for more detail on our 2022 performance analysis.

Qualitative (Q) or Financial (F) **Q F** | Short term: 1 - 2 years **S** | Medium term: 3 - 5 years **M** | Long term: 6 - 20 years **L**

Material clusters	Material matter	Time Qualifier	Time horizon
Leverage the private sector in the provision of both infrastructure and operations for strategic growth segments 	<ul style="list-style-type: none"> Crowd in private sector partners to cooperate in funding and mobilising key strategic resources within South Africa's key commodity value chains to deliver on our mandate 		
How we measure 2022 progress	• Report on the process for approving and refining the PSP framework	Q	S
	• Completion of the preparatory phase (viability, structuring and market consultation) for the Cape Town, Durban and Richards Bay Multipurpose Terminals: By 30 September 2022	Q	S
Integrate South Africa with the region and the rest of the world 	<ul style="list-style-type: none"> Optimal mobilisation of Transnet's strategic and tactical resources (core competencies, key infrastructure and strategic partnerships) to grow over-border revenue from existing and new customers to increase trade competitiveness for South Africa in the region 		
How we measure 2022 progress	• Cross-border revenue: R3,0 billion	F	S
	• Maritime Connectivity Index: ≥40,8	Q	S
Optimise the social and economic impact of all interventions in the achievement of these objectives 	<ul style="list-style-type: none"> Ensure direct and derived commercial and developmental outcomes from all Transnet's activities: <ul style="list-style-type: none"> Employment Skills development Industrial capability building Investment leverage and private sector participation Regional integration Transformation Health and safety Community development Environmental stewardship 		
How we measure 2022 progress	• Number of trainees: ≥450	Q	S
	• R&D spend: ≥R119 million	F	S
	• Enterprise and Supplier Development: 3% of NPAT	Q	S
	• B-BBEE certification level: Level 2	Q	S

Figure 2: The scope and boundary of our materiality determination process



Directors' approval of material matters

The Board signed off on the Company's material matters. During the materiality determination process, material issues derived from the business context were validated, prioritised and approved by the relevant Board committees.

Strategy



King IV. P4



Our Strategic Monitoring Framework

The Government, through the Shareholder Representative (i.e. Minister of Public Enterprises), and the Transnet Board of Directors conclude a Shareholder's Compact on an annual basis, as required by the Public Finance Management Act (PFMA). The Shareholder's Compact stipulates and defines the Company's mandate and strategic objectives over the medium term, which, in turn, forms the basis for the Company's Corporate Plan.

During the 2022 reporting year, the Board held a strategy workshop to accelerate the delivery of the initiatives in the segment strategies, as encapsulated in our Growth and Renewal Strategy. The key objectives of the strategy are:

- Restoring our rail and port asset base to deliver on revenue commitments;
- Prioritising our investment resources towards growth in high-margin flows, particularly bulk mining commodities; and
- Facilitating partnerships geared to support flows where we are less effective.

The strategy relies on a stable base of operations and high investor confidence. Accordingly, the Board has called for a paradigm shift in the Company's approach to structuring the Shareholder's Compact to align performance expectations and measurement indicators with the Growth and Renewal Strategy's core objectives.

The proposed key performance areas for the 2022/23 Shareholder's Compact are structured according to short, medium and long-term priorities:

Short-term priorities S

- Implement rigorous maintenance programmes to improve efficiencies while stemming safety and security incidents and improving performance
- Drive strategic initiatives to drive volumes and improve the financial position
- Improve performance in key financial ratios
- Enable socio-economic benefits

Medium to long-term priorities M L

- Repair the business's core aspects, such as enhancing operational competencies and modernising infrastructure to ensure we provide reliable services to our customers
- Expand and scale the logistics distribution network by using owned assets, third-party logistics partnerships and private investments to ensure a sustainable funding model
- Invest in new services to expand and support the rail, port and pipeline value chains
- Align with regulatory requirements relating to both operating models (third-party access) and structuring (subsidiarisation)

Our Growth and Renewal Strategy

Transnet's Growth and Renewal Strategy will prioritise capital investments based on a high-impact, market-segment approach to the commodity value chains that account for 80% of the Company's revenue.

The foundation of our cooperative Growth and Renewal Strategy is rebuilding our economy through collaborative multistakeholder initiatives rooted in a private sector participation (PSP) model. Our PSP model aligns with our Shareholder Minister's Statement of Strategic Intent, which mandates Transnet to leverage the private sector in the provision of both infrastructure and operations to strengthen the country's strategic economic and developmental outcomes. We have gained significant traction through a range of national PSP initiatives in development, leveraging investments through numerous partnerships, targeted concessions and Section 56 National Ports Authority (NPA) agreements. We acknowledge that the private sector requires confidence and trust in Transnet to successfully deliver against commitments. Accordingly, we continue to improve on the timelines within which these transactions can be concluded.

We have 8 000 km of rail system defined as branch lines. We will craft economic opportunities in collaboration with industry players that want to use this strategic asset to enable sustainable economic reform to build more efficient value chains to support the country's commodity sectors.

Investing in more efficient logistics solutions to grow our mining and industrial commodity sectors has become a critical focus as we move into a post-COVID world. Corporates, financiers and equity investors seek to invest in capabilities that serve innovative ways of doing business while prioritising sustainable development goals. While South Africa's logistics performance is satisfactory, we have fallen behind our regional and international peers in the last decade. Drastic intervention is required to enhance our logistics sector's competitiveness as it directly impacts South Africa's regional and global trade competitiveness.

We intend to leverage private sector capital and other resource capabilities to revitalise and grow our port and rail logistics solutions. Adopting a segment-based strategic approach places us in a position to use strategic private partnerships in segment supply chains to leverage synergies between our ODs and move us towards a value chain operating model. However, to restore intrinsic value in these supply chains, Transnet requires investment in three fundamental areas:

1. Repairing core aspects of the business to enhance operational competencies and modernise infrastructure to ensure we provide a reliable service to our customers. We play a critical role in stimulating both direct and indirect trade competitiveness while prioritising overall economic development and sustainable development outcomes such as broad-based job creation. We recognise that customers, such as chrome exporters, have moved from rail to road because of rail and port terminal constraints. Our cooperative Growth and Renewal Strategy focuses our operational and financial resources on reversing this trend. A reliable and productive asset base and best-in-class skill set are essential to attracting traffic from road to rail in an integrated, safe and reliable manner. Renewal of our business has the added benefit of introducing 'green economy' interventions as directed by the Government's Programme of Action captured in the Economic Reconstruction and Recovery Plan (ERRP).
2. Expanding and scaling the logistics distribution network by leveraging owned assets, third-party logistics partnerships and private investments as key enablers of industrialisation and economic growth based on a sustainable funding model.
3. Investing in new services to expand and support the rail, port and pipeline value chains and acting as a supply chain coordinator in key commodity segments while pursuing growth opportunities with customers to expand our geographical reach in the continent. Expanding our footprint into Africa will favourably position us as a regional trade hub and transshipment hub for clean commodities in the automotive and container segments.

Our Growth and Renewal Strategy aims to crowd-in PSPs in a structured yet dynamic way by collaborating with the private sector to improve the value chains of eight commodity segments that represent 80% of Transnet's revenue. An in-depth understanding of the unique requirements of each commodity segment and the associated assets, skills, operations and investments required in the value chain informs the value to be derived from focused PSP opportunities.

We will structure segment initiatives to meet the needs of specific value chains, focusing on infrastructure rehabilitation and modernisation in tandem with the renewal and transformation of critical value chain services. We will enable private partners to invest in all or selective projects within a segment's value chain or

invest across multiple segment value chains, thereby encouraging risk-sharing and transparency. In addition, we will adhere to stringent governance processes for each transaction, including group-level oversight, to safeguard strategic alignment and to afford appropriate transaction oversight to strategic private sector partners once transactions are approved.

Even though the capital investments associated with these transactions are likely to yield positive financial and social returns for external investors, Transnet's own capital outlay is reduced substantially, enabling us to focus on core maintenance investment and to maintain our Capital Investment Plan at sustainable levels.

Attracting suitable private sector and industry investments to sustain and expand the various segment value chains will accelerate the realisation of benefits such as improved operational productivity and efficiency and optimal asset utilisation. In addition, collaboration via PSP transactions allows all value chain partners to contribute to and benefit from an improved return on assets while customers benefit from a reduction in logistics cost.

Having recognised the wide-ranging commercial benefits of PSPs as advocated in Government's ERRP, Transnet's PSP Strategy encourages multisector resource mobilisation. Therefore, private sector investments are not limited to financial investment and can take the form of other resource investments, such as the provision of capacity, distribution channels, skills and training, infrastructure ownership or maintenance, and technology investments. Multisector resource mobilisation creates a platform for multipurpose, multistakeholder private sector resource investments from a much broader spread of large, medium and micro market participants. Opening up opportunities for investment across strategic segment value chains embodies the spirit of the ERRP and creates a roadmap to introduce sustainable development outcomes aligned to the United Nations Sustainable Development Goals (SDGs), specifically SDG 17: Partnerships for the Goals¹.

As a developing economy, South Africa benefits in the medium to long term from the direct and derived investment outcomes articulated in our Growth and Renewal Strategy.

¹ Partnerships for sustainable development are multistakeholder initiatives voluntarily undertaken by governments, intergovernmental organisations, major groups and other stakeholders, whose efforts are contributing to the implementation of intergovernmental agreed development goals and commitments, as included in Agenda 21, the Johannesburg Plan of Implementation, the Millennium Declaration, the outcome document of the United Nations Conference on Sustainable Development (Rio+20) entitled "The Future We Want", the Third International Conference on Small Island Developing States, and the 2030 Agenda for Sustainable Development.

Critical strategic drivers

The Growth and Renewal Strategy is designed to enable the DPE's Statement of Strategic Intent (see page 7), as well as the Company's mandate. It further aims to give expression to the Government's ERRP, which considers the maintenance, modernisation and expansion of network infrastructure as a central pillar of the plan for South Africa's recovery in a post-COVID world. Transnet's strategic capital investments must lead and complement private sector investments to raise the level of the overall multistakeholder partnership investments in the freight system while improving the competitiveness of South Africa's freight logistics system for global competitiveness.

Tactical enablers of the strategy

Transnet's five tactical enablers (i.e. customer service, people, asset utilisation, safety and cost optimisation) will create the necessary conditions to restore the Company's core business operations to deliver on its critical port, rail and pipeline cargo transport and handling services. Further, they will support the Company in its efforts to:

- Self-correct Transnet's declining trajectory in delivering on its promises to customers by ensuring services are delivered efficiently and reliably;
- Build the operational environment needed to drive safety, productivity, innovation and accountability among our people;
- Optimise capital investments to deliver on priority infrastructure and logistics services; and
- Ensure the business revives its nameplate status as an effective and efficient custodian of ports, rail and pipelines and an enabler of globally competitive supply chains for customers.

Partnerships for growth

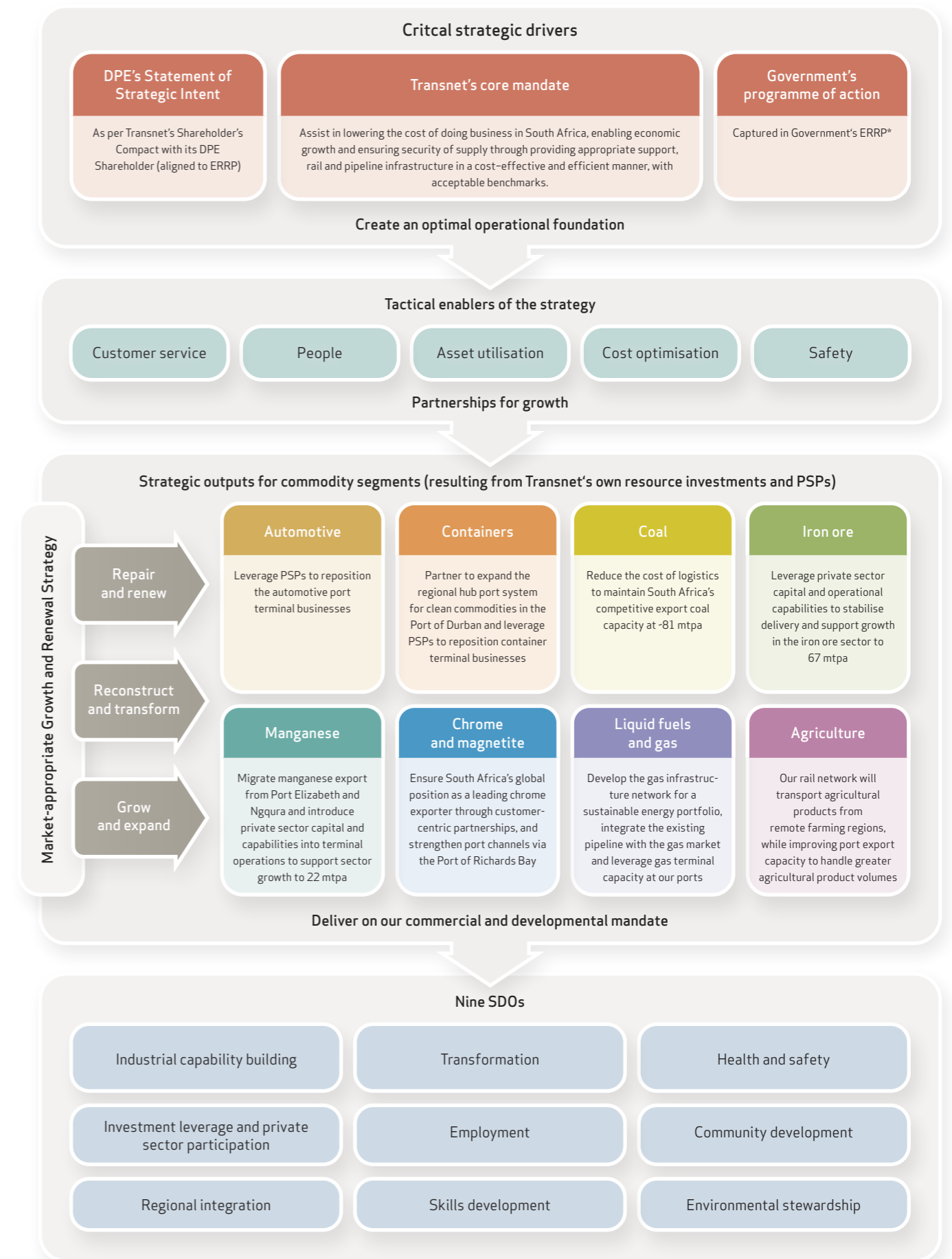
By engaging in collaborative initiatives with the private sector, Transnet will enable capacity to grow and renew the country's rail, ports and pipeline network infrastructure under Transnet's purview and custodianship. Partnership strategies have been developed to grow Transnet's most important market segments. These partnerships can take multiple forms depending on the aspect of enablement required and where such enablement is required. Transnet will maintain and enhance its services where it already

does well, which includes moving high volumes of freight, and will partner to increase capacity and market share. Partnerships include investments of funds, but also investments of tactical resources such as capacity, skills, advisory services, distribution channels, regulatory components, R&D and other intellectual, human, manufactured or natural capital. The goal is to create an efficient system to leverage the strengths of the public and private sectors to improve supply chain competitiveness and achieve the required economic and developmental outcomes for South Africa. A reliable, effective freight system is one that enables competitive and profitable value chains. This is where Transnet's key focus is, particularly with respect to its top eight commodities that account for more than 80% of its revenue.

The segment strategies, which articulate Transnet's strategic positioning and partnership approach in each of its top eight segments, form the basis for its Growth and Renewal Strategy.

Delivering on our commercial and developmental mandate

Transnet is required to execute its business in a financially sustainable manner that maximises its own developmental outcomes, but also those of the key sectors within which it operates. Transnet's nine sustainable development outcomes (SDOs) encapsulate the core of Transnet's developmentally oriented commercial mandate and brings it into focus to provide synergistic value for South Africa's commodity sectors, and ultimately for the country as a whole. Accordingly, the nine SDOs propose derived value for each of the segments where large-scale, collaborative partner interventions are delivered to grow the national freight system.



126 to 153
Read more
Refer to our nine SDOs and our 2022 sustainability performance on pages 126 to 153.

IFRS sustainability disclosures*

The resilience of Transnet's strategy Qualitative (Q) or Financial (F) Short term: 1 – 2 years Medium term: 3 – 5 years Long term: 6 – 20 years

* IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Table 11: Container sector context

Segmental context	Key opportunities for Transnet	Priorities for 2022/23	Anticipated outcomes
Containers			
<ul style="list-style-type: none"> More significant volume consolidation by connecting hubs and feeder ports can attract larger vessels Larger vessels result in improved economies of scale, reducing the cost of container shipping A global trend towards larger vessels outside of the handling capacity of South African ports can lead to exclusion and bypassing Global hub ports attract larger trade volumes as the unit costs of moving containers decrease Countries with hub ports benefit extensively as they don't incur the cost of feeder services Hub ports tend to dominate east-west trade, but this changes as new trade flows (volumes) develop in the south Durban represents 60% of South Africa's trade volumes, and is well-positioned to take advantage of this change in trade flows Creating a hub port status could substantially increase the handling of transshipment volumes destined for ports in the broader SADC region The complex nature of planning in the container sector calls for increased private sector integration in Transnet's rail business, requiring an operating model evolution to allow for third-party access. This aligns with rail regulatory reform developments 	<ul style="list-style-type: none"> Reposition Durban Port as a global container shipping hub port Significantly improve rail performance between Durban Port and Gauteng Create a more efficient mechanism to move containers between domestic ports Enhance the capacity and capabilities of trade entry points Support attractiveness of Gauteng as an industrial base with increased locations for intermodal transfers, e.g. Sentrarend Promote rail freight to South Africa's northern neighbours Develop a dedicated Durban Point Container Terminal Reposition the ContainerCor rail container business to allow for third-party access, creating space for hinterland logistics partnerships to grow the sector Build Ngqura's connectivity as a regional transshipment hub Build efficient connecting subsystems to handle mega industrial and agri complexes¹ 	<ul style="list-style-type: none"> Request for Proposal to enhance Durban Container Terminal Pier 2 by partnering with an ITO, including incorporating the terminal into the ITO's partner network Request for Proposal to partner with an international terminal operator (ITO) and/or shipping line to establish Ngqura as a global transshipment hub with an installed capacity of 2 million TEUs Implement the slot sales pilot project, including completing back-office enablement set-up activities, registering and verifying participants, and practical implementation to enable the first third-party train to run on the network Develop a business case to partner with the intent to drive volumes, efficiency and cost-effectiveness at the City Deep inland rail terminal 	<ul style="list-style-type: none"> Significantly lower maritime shipping costs Efficient and reliable container terminals (port and inland) Assets operating at design capacity An intermodal container service that competes with road supply chains as a viable alternative Optimised network design to drive rail freight density Ability to harness private sector skills and capabilities by mobilising joint resources in the segment's value chain An ecosystem of specialist service providers collaborating to develop, manage and operate the container supply chain Enhanced ports and container terminals positioned for greater maritime connectivity Regional and global container shipping connectivity Include the Port of Ngqura into a global network of ports and terminals and develop and operate associated industrial development zone-based value-added services Create greater visibility and accountability in the ContainerCor line business's financial management and create a rail-enabled industrial and logistics cluster to increase rail market share
Key segmental risks directing Transnet's strategic responses	Transnet's strategic responses		
<ul style="list-style-type: none"> Misaligned investment could result in either over- or under-capacity Terminals run by ITOs could gradually erode our existing terminals' business if we do not keep pace Labour may erroneously perceive the proposed transactions as "privatisation" rather than industry mobilisation of joint resources through PSPs (in line with Government's ERRP) and hence as a potential threat to job security Lack of engagement with environmentalists that are resistant to expansion plans at the Port of Durban could result in delayed environmental approvals and/or onerous ecological requirements 	<ul style="list-style-type: none"> M Clearly define the role of the anticipated hub ports (Durban and Ngqura) both regionally and to international stakeholders to align strategic expansion plans and joint commercial aspects M Develop a strategy to attract and secure sustainable demand by ensuring Transnet aligns with the medium- to long-term needs and expected deliverables from various customer segments in the container sectors S Ensure an iterative, phased approach to developing additional capacity (port and rail) to ensure alignment of Transnet's plans with the pace and potential of sector growth M Ensure Transnet invests with discernment where its capacity and capabilities are already proving efficient, with potential for improvement, and crowd in private sector investment to augment the resource requirements in the medium- to long-term expansion of the container sectors' value chains S Develop a robust stakeholder engagement and communications strategy to clarify Transnet's Segmental Strategy as one of joint segmental growth and industrial enablement, aligned with the Government's ERRP, to ease stakeholder tensions, particularly labour's concerns S Ensure Transnet's PSP transactions incorporate the Company's existing labour policies and adjust policies where required to remain inclusive and sensitive to labour's concerns, particularly in a post-COVID-19 and post-2021 unrest economic context 		

¹ Including the Durban/Pietermaritzburg/KwaZulu-Natal Midlands industrial and agricultural complex, the Sasolburg and Vanderbijlpark industrial complex and connections into Mpumalanga and the broader region.

Table 12: Automotive sector context

Segmental context	Key opportunities for Transnet	Priorities for 2022/23	Anticipated outcomes
Automotive			
<ul style="list-style-type: none"> South Africa's automotive sector experienced a resurgence in 2021 post-COVID volumes, with a 20.5% increase over 2020 figures for the overall local automotive industry, pushing the domestic market past 2019 highs Export of transport equipment is recovering, with 2021 exports totalling R154,49 billion, up from 2020's slump to R134,07 billion in 2020, but not quite reaching the high of R162,55 billion in 2019 The sector is being heavily disrupted by various escalating factors, including the adoption by several vital markets (both production and consumption) of restrictions on internal combustion engines, volatility in the supply of component parts (in particular, semiconductor-related) and the impact of the war in Ukraine (a supplier of components for many key inputs, particularly in the German auto industry) The Automotive Production and Development Programme and Pan-African Auto Pact are expected to strengthen the automotive value chain around Port Elizabeth Significant congestion on the current export channel (rail haulage on the Container Corridor and import/export via the Port of Durban) Lack of dedicated secure parking and inadequately optimised and integrated operations leading to poor service levels and low railable volumes at Kaalfontein terminal Changing automotive model requirements pose an ongoing challenge to wagon configurations, with current wagon configurations likely to become obsolete 	<ul style="list-style-type: none"> Adapt the operating model of the port automotive terminals to a throughput model, more efficiently utilising port parking capacity Re-engineer the Port of Durban Ocean Terminal precinct to be a flat, open automotive footprint with optimised parking bays and a dedicated preloading facility closer to the berth per the new operating model Offer extended dwell days storage at various back-of-port facilities that the private sector develops Explore a value-add and ancillary service proposition to better support the automotive industry at various back-of-port facilities developed through PSP transactions Improve automotive supply chain integration at the Kaalfontein terminal through a lease or concession to support the road-to-rail strategy Migrate Ford automotive flows to the Port of Port Elizabeth by increasing the SouthCor rail corridor and port capacities Boost automotive wagon availability, utilisation and suitability - revise the automotive wagon ownership through possible PSPs and operating model for a hook-and-haul philosophy 	<ul style="list-style-type: none"> Undertake a feasibility study to define the scope, time and magnitude of investments - and the sourcing of co-investments from strategic partners - to relocate the import and export of certain automotive segment supply chains for fully built-up units through the SouthCor to the Port of Port Elizabeth Explore potential partnership to develop the BoP automotive export and import capacity and the value-add and ancillary services at the Port Elizabeth, Durban and East London ports Consider disposing of Transnet's current automotive wagon fleet to a wagon-owning logistics service provider, while partnering with one or more wagon operators to collaborate with OEMs to ensure adequate wagon configurations for growth Develop and implement a hook-and-haul operating methodology 	<ul style="list-style-type: none"> Economies of scale will create opportunities for more rail-based inbound and outbound logistics by removing "last mile" challenges to intermodal solutions A range of co-sourcing investments and partnerships for port and rail will support growth in the automotive segment Changing automotive model configuration needs will be constructively addressed by suitable wagon structures Mitigate risks of increasing operating expenses and capacity constraints imposed by the existing limited wagon fleet and inland terminal constraints Sustainable risk sharing of investments due to the high volatility of automotive demand Unlock port capacity to meet the industry demand by re-engineering the operating model Broaden the value proposition to incorporate value-add and ancillary services
Key segmental risks directing Transnet's strategic responses	Transnet's strategic responses		
<ul style="list-style-type: none"> The volatility of global demand in the automotive sector may result in export volumes not materialising, thereby rendering investments in the segment's supply chain infrastructure unsustainable in the short to medium term Due to the laggard nature of the South African automotive industry in the transition to smart electric vehicles and hybrid technology readiness, there is a risk that local South African OEMs could miss out on the manufacturing contracts of electric and sustainable hybrid vehicle types, resulting in a reduction in export volumes and stranded assets, rendering the segment's supply chain infrastructure unsustainable in the short to medium term 	<ul style="list-style-type: none"> M Promulgate and gazette the anticipated project for expanding capacity on the SouthCor rail to accommodate automotive volumes as a strategic infrastructure project within the Presidential Infrastructure Coordination Commission. Further, apply for Government subsidy and crowd-in financing support to co-fund the project M Monitor global, regional and domestic automotive demand and trend capital investments to the most prudent investments on a just-in-time basis M Share investment risk with industry participants across the value chain M Influence the Government's policy planning and effect policy change in the Automotive Production and Development Programme and the SAAM master plan to support the incentivisation of OEMs to start building capacity infrastructure, technology and skills to embrace the smart electric vehicle production capability M Innovative, flexible wagon designs can be tailored and modified seamlessly as a priority in wagon manufacturing 		

IFRS sustainability disclosures*

The resilience of Transnet's strategy Qualitative (Q) or Financial (F) Short term: 1 – 2 years Medium term: 3 – 5 years Long term: 6 – 20 years

* IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Table 13: Coal sector context

Segmental context	Key opportunities for Transnet	Priorities for 2022/23	Anticipated outcomes
Coal			
<ul style="list-style-type: none"> Coal dominates the South African energy mix. As such, it contributed 81.8% to the national energy mix in the first quarter of 2021. It was used as an additional coal unit as Kusile Power Station as the latter entered commercial operation Comparatively, the contribution from renewable energy sources totalled almost 11% (e.g. solar PV, wind, hydro and concentrating solar power), while zero-carbon energy sources contributed 14.3% (e.g. renewables and nuclear) Internationally, governments are legislating reduced use of coal in electricity generation. In South Africa, coal-generated power in the electricity mix is expected to gradually decrease from 71% (2019) to 43% (2030), as indicated by the Integrated Resource Plan 2019 Although the prevailing narrative is to transition to renewables, coal-fired electricity generation reached all-time highs globally in 2021, demonstrating that eliminating coal from the energy mix will not be a simple task Coal-powered electricity generation rose by 9.0% in 2021 to 10,042 Terawatt-hours (TWh), marking the most significant percentage rise since 1985 The Russia-Ukraine tensions have put pressure on the EU's energy supplies, which sources the bulk of its energy sources, such as coal and gas, from Russia. This has presented a unique opportunity for South Africa to accelerate coal exports to European markets with a coal supply deficit resulting from the sanctions imposed on Russia In March 2022, South Africa's thermal coal exports increased 6.3% year on year The EU sanctions against Russia, imposed after the country invaded Ukraine, have put European countries under severe pressure to diversify their coal supply. South Africa's Exxaro Resources and our country's other major coal mines have received numerous requests from European countries to sign supply contracts after the EU proposed sanctions on Russian coal From Transnet's perspective, various coal export value chain elements have been under significant strain over the historic medium term. For example, our export terminal at the Port of Richards Bay is restricted due to recent spates of fires, which caused damage to coal export conveyors. The rail channel continues to be impacted by vandalism, theft of overhead cabling and other tactical and operational challenges 	<ul style="list-style-type: none"> Collaboration and partnerships with the industry to improve performance and increase volumes of export coal via: <ul style="list-style-type: none"> Joint security initiatives Reduction in cycle times of limited rolling stock Improved asset utilisation Restoration of rail channels to nameplate operations Partnerships with the private sector for intermodal logistics services to increase rail flows and jointly provide a holistic mine-to-furnace solution with Eskom 	<ul style="list-style-type: none"> Continued collaboration with industry to improve security along the export rail channel Increased usage of inland consolidated loading sites to reduce cycle times and increase wagon payload Partnerships with customers for restoration of fire-damaged infrastructure Investigate a shared investment scheme for customers to contribute to a centrally managed Infrastructure Fund expressly for work required to reinstate the coal channel to nameplate design Explore consolidation hubs to increase rail flows to Eskom and improve the quality of coal delivery to power stations 	<ul style="list-style-type: none"> Consolidation of activities, efficiency improvements and improved asset utilisation to increase export volumes Funding from customers will increase maintenance activities to restore the network to nameplate operations A tripartite agreement with Eskom will result in the sourcing of correct coal grades from local mines, coordination of rail logistics to deliver coal to the respective power stations, and adequate reserves being maintained at each station

Key segmental risks directing Transnet's strategic responses	Transnet's strategic responses
<ul style="list-style-type: none"> With waning investment appeal for coal as a commodity sector globally, funding sources from traditional investment houses to sustain and improve the existing export channel to the Port of Richards Bay may not materialise The ongoing lack of after-sales support and spares on locomotives may further reduce the reliability of the current fleet The change in global supply dynamics and/or slower transition to renewable energy sources may spike export coal demand from South Africa, resulting in insufficient rail capacity on the export channel 	<ul style="list-style-type: none"> Structure financing transactions with coal exporters to secure joint capital resources to sustain operations and improve performance Investigate and test the use of alternative components on locomotives awaiting OEM spares. Modify locomotives currently used on other flows to be compatible for heavy-haul operations to Richards Bay Coal Terminal to bolster the export coal locomotive fleet Validate customer commitments to verify if expansion is ultimately viable and sustainable via joint investment schemes with customers Structure financing transactions with coal exporters to secure joint capital resources to sustain operations and improve performance

Table 14: Chrome and magnetite context

Segmental context	Key opportunities for Transnet	Priorities for 2022/23	Anticipated outcomes
Chrome and magnetite			
<ul style="list-style-type: none"> World chromium resources are geographically concentrated (95%) in Kazakhstan and southern Africa South Africa was the leading producer of chrome worldwide in 2021, with production amounting to 18 million metric tons. The total global mine production volume of chrome was 41 million metric tons Post-COVID predictions see global chrome and ferrochrome export markets growing at around 6% per year over the next five years to 2027 Demand for magnetite (used in steel making) is expected to increase to a peak of 15 mtpa, growing at a CAGR of 5% The future of the global magnetite market looks promising with opportunities in the iron and steel and medication industries. The major drivers for this market are growing demand for high-grade iron ore, increasing steel production in China, growth in building and infrastructure development, and rapid industrialisation Chrome and ferrochrome are exported via Maputo, Durban and Richards Bay, with the majority via the Port of Richards Bay Magnetite exports are shared between the Maputo and Richards Bay ports Transnet and CFM¹ (Mozambique's national railway operator) currently cooperate in providing export services for South African-mined chrome and magnetite through Maputo Port Like the coal channel, the chrome and magnetite channels are also experiencing locomotive reliability issues due to the non-availability of OEM spares and high incidents of theft and vandalism 	<ul style="list-style-type: none"> Collaborate with CFM to strengthen the Maputo link Operational improvement initiatives at the Port of Richards Bay to capture chrome and magnetite demand Partnerships with the private sector for operational interventions and funding, to sustain the existing business operations in the sector and to expand the value chain by establishing a chrome mega terminal at the Port of Richards Bay 	<ul style="list-style-type: none"> Collaborate with CFM to include the cooperation of the respective national governments and customs authorities and sharing of networks Complete Phase 1 of the business turnaround plan at Port Terminals in the Port of Richards Bay to improve the performance of the terminal operations Approve a strategy and roadmap for the partnership with the private sector for Phase 2 of the business turnaround strategy to mobilise additional partner resources to increase terminal throughput 	<ul style="list-style-type: none"> Develop and optimise a second chrome and magnetite export channel through Maputo Port Shared utilisation of rail networks and streamlined customs processes will improve regional integration Improved export volumes through the involvement of the private sector will increase productivity and capital investments
Key segmental risks directing Transnet's strategic responses		Transnet's strategic responses	
<ul style="list-style-type: none"> Border-crossing controls may not be optimised, preventing seamless movement between South Africa and Mozambique The risk of not sufficiently testing the private sector's appetite to invest in Transnet-operated terminals in the Port of Richards Bay Freight Rail may not be adequately equipped to sustain and expand operations to feed the Transnet-operated terminals in the Port of Richards Bay 	<ul style="list-style-type: none"> M M M S 	<ul style="list-style-type: none"> Continuous engagements with CFM to reduce delays at border controls and assess the benefits of shared networks The transaction strategy at the Port of Richards Bay will consider varying shareholding percentages and associated benefits to partners (i.e. the quantum of returns) to increase private sector investment willingness and appetite The transaction strategy will consider the benefits of single versus multiple PSPs per project Structure financing transactions together with customers to acquire the necessary capital, especially for the rolling stock requirements to increase volumes 	

¹ *Portos e Caminhos de Ferro de Moçambique (CFM) is a state-owned company. It oversees Mozambique's railway system and its connected parts.*

IFRS sustainability disclosures*

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Table 15: Iron ore context

Segmental context	Key opportunities for Transnet	Priorities for 2022/23	Anticipated outcomes
Iron ore			
<ul style="list-style-type: none"> Iron ore mining and exports represent 1,39% of South Africa's GDP and create 19 769 jobs The iron ore sector has benefited significantly from an extended period of very high commodity prices China remains a crucial market for the global iron ore industry, accounting for ~70% of the worldwide share of iron ore imports A structural shift in China's economic growth trajectory will induce a price decline driven by weaker demand growth and more vital supply Fitch Solution projects multi-year downtrends in iron ore prices from USD180/ton in 2021 to ~USD63/ton by 2030. Therefore, South African exporters have a limited window to benefit from short to medium-term supply-side gaps as China is seeking alternative supply sources, mainly in Africa Although South Africa is the sixth-largest iron ore producer, the country remains highly competitive given its high-quality ore Forecast demand for export capacity exceeds 76 mtpa, with significant growth coming from emerging miners with mining resources containing both iron ore and manganese deposits Growth opportunities for South African exporters are currently constrained by capacity on the Sishen-Saldanha corridor due to a 60 mtpa Air Emissions Licence (AEL) limit and prevailing operational challenges 	<ul style="list-style-type: none"> Sustainably build on and refine the operating model and efficiencies associated with the world-class heavy haul export system Work with the private sector to: <ul style="list-style-type: none"> Support asset maintenance and renewal Restore operations to design capacity Develop and install new assets in line with future expansions Develop and install enabling infrastructure to improve operational efficiencies and support emerging miners Increase port terminal capacity to 67 mtpa via investments in port off-loading and storage capacity and vessel berthing and loading capacity 	<ul style="list-style-type: none"> Increase rail and port asset maintenance in the Sishen-Saldanha corridor to reduce operational disruptions Assess the permanency of severe weather events as well as locust outbreaks Commence with the following feasibility studies to sustain and grow the iron ore rail corridor: <ul style="list-style-type: none"> Mainline rail and yard expansions Expansion of the bulk terminal in Saldanha Development of a new bulk berth in Saldanha Common loading facilities for emerging mines on the heavy haul rail network 	<ul style="list-style-type: none"> Reduce Transnet capital investment burden while increasing private sector partnerships to sustain the channel Restore the condition of infrastructure assets and improve operational performance to deliver on contracted volumes while improving overall customer satisfaction Modernise current assets and invest in new assets to grow and transform the sector Increase volumes and revenue Retain South Africa's cost curve trade competitiveness in this sector







Key segmental risks directing Transnet's strategic responses	Transnet's strategic responses
<ul style="list-style-type: none"> Life of mine concerns in South Africa, together with substantial investments to increase production for exports, combined with the volatile and negative price outlook will influence the viability of business cases Declining cost-curve competitiveness (and low return on investments) increases margin pressures for exporters, particularly emerging miners who are forecast to be the primary drivers of growth in the sector. As a result, these miners are typically more exposed to adverse commodity price movements due to lower margins and higher cost structures Growth is dependent on securing a new AEL for higher volumes. However, increasing calls for Transnet to lessen the impact of its operations on the environment and human health can delay the approval of new environmental authorisations and increase the cost of solutions to comply with regulations Deteriorating port and rail asset conditions can increase operational disruptions and volume losses, reducing export capacity over time 	<ul style="list-style-type: none"> Monitoring market conditions and commodity price movements to stay ahead of the curve on projected market volatilities and changes Formalised demand validation will inform the timing, scope, cost and affordability of capacity expansion tranches concerning future commodity price movements Explore PSP opportunities to attract investment funding to sustain and grow the iron ore sector Develop investment and operational risk-sharing models through PSP and attractive long-term commercial contracting methodologies Conduct a strategic health and environmental study for the handling of both iron ore and manganese to provide a framework for capacity expansion on the channel based on more sustainable technical solutions Prioritise increased investments in the rail network and rolling stock and port handling equipment to improve operational performance Explore opportunities to optimise operational performance and asset utilisation on the channel to entrench collaborative stewardship with the industry Monitor adherence to and quality of execution against approved maintenance plans, including delivery on annual shutdown plans

Table 16: Manganese ore context

Segmental context	Key opportunities for Transnet	Priorities for 2022/23	Anticipated outcomes
Manganese ore			
<ul style="list-style-type: none"> South Africa is the largest global producer of seaborne manganese ore with the largest global reserves Globally, China dominates as a manganese consumer and drives the demand/supply balance and commodity price In 2021, manganese production increased to 19.2 mt, yielding export earnings of R34.3 billion Both established and emerging South African manganese ore miners are competitive on the global cost curve. They can benefit from growth in seaborne trade and by replacing the declining production in Australia and China Demand for manganese export capacity remains optimistic with volumes exceeding 22 mtpa, resulting in exports peaking at ~28 mtpa by 2025/26 In collaboration with the private sector, Transnet has created more than 11 mtpa of export capacity via various channels since 2012 with investments mainly in rolling stock Capacity via existing channels is saturated South African exporters can maintain global market dominance should current logistics challenges be addressed Thus, Transnet will introduce a dual-channel strategy to increase port and rail capacity in line with the envisaged demand 	<ul style="list-style-type: none"> Introduce a dual-channel export strategy to increase export capacity to 22 mtpa initially Seek private sector support to: <ul style="list-style-type: none"> Develop a new 16 mtpa bulk export terminal in the Port of Ngqura Expand rail capacity to 16 mtpa between Hotazel and Ngqura Increase rail and port export capacity to ~6 mtpa via the Port of Saldanha Develop an export solution via Boegoebaai for volume growth beyond 22 mtpa Provide access to export capacity for emerging miners to drive the transformation of the industry 	<ul style="list-style-type: none"> Target investment in the rail network, rolling stock and port equipment maintenance to optimise manganese exports via current channels Award the EPCM contract to develop a new 16 mtpa manganese export terminal in Ngqura in line with the dual-channel strategy Conduct the necessary feasibility studies to mature the 16 mtpa rail expansion scope to construction readiness Confirm funding models for expansion Finalise the engineering studies for rail-enabling projects supporting the Saldanha and Ngqura channels 	<ul style="list-style-type: none"> Meet and exceed annually contracted volumes Increase capacity to meet current contracted demand Increase capacity to meet demand growth to 22 mtpa Migrate volumes from road to rail Increase customer service satisfaction Increase contribution to the fiscus Reduce the burden on Transnet's balance sheet Share risk with the private sector, where market-appropriate Increase capacity for emerging miners to further transform the industry

Key segmental risks directing Transnet's strategic responses	Transnet's strategic responses
<ul style="list-style-type: none"> Deteriorating operational performance due to asset condition and asset utilisation Increasing volatility in the commodity price leading to lower demand, consequential investment risk and stranded assets New capacity results in market oversupply from South African mines leading to a price collapse and impacting the viability of emerging mines The cost of expansion could impact customer margins, with most domestic producers not being able to absorb the tariff increases required to recover investment costs Increasing environmental compliance could increase the cost of the solutions Non-aligned rail and port expansions result in a capacity/demand mismatch, delaying volume uptake Inability to raise funding for expansion initiatives 	<ul style="list-style-type: none"> Prioritise increased maintenance of the rail network and rolling stock and port handling equipment to improve operational performance Closely monitor market conditions, commodity price movements and cost-curve adjustments to ensure Transnet adapts its activities and investments accordingly Value engineering capital investments to reduce the Rand/ton cost for expansion initiatives Adherence to the Manganese Export Capacity Allocation (MECA) principles governing capacity allocation, with capacity secured to onboard emerging miners Maintain integrated planning and programme execution/oversight structures to ensure alignment of port and rail project milestones Conduct a strategic health and environmental study for handling iron ore and manganese on the channel to provide a framework for expanding capacity in the channel based on more sustainable technical solutions Utilise innovative partnership-based funding models with the private sector to secure funding for investments in rail infrastructure and rolling stock, inland loading terminals and port terminals before construction

IFRS sustainability disclosures*

The resilience of Transnet's strategy  Qualitative (Q) or Financial (F)   Short term: 1 – 2 years  Medium term: 3 – 5 years  Long term: 6 – 20 years 

* IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

The energy segment reflects a consolidation of prior liquid fuels and natural gas segments and relates to the strategic optimisation of Transnet's installed assets, while exploring the Company's role in the broader economy for natural gas. In addition, Transnet plans to develop branching strategies, such as the Green Hydrogen Strategy.

Table 17: Energy context – fuel and gas





























Segmental context	Key opportunities for Transnet	Priorities for 2022/23	Anticipated outcomes
	 	 	 
Liquid fuel			
<ul style="list-style-type: none"> In the past 15 years, the domestic downstream refined product market shifted from a net export market to a net import market Refined product imports meet 20% of domestic fuel needs Gauteng accounts for 35% of domestic liquid fuel demand There is an urgent need for investment in South Africa's existing refineries or new refineries Better access to competitive fuel import and storage facilities for historically disadvantaged individuals is a priority for the sector Growth in transport demand for liquid fuels may slow down post-2025 as increased efficiencies and gas and electric vehicles gain market share. Natural gas is the fastest-growing alternative (6,8% p.a – predicted to reach 7% of the transport market by 2035) There are high cost implications for converting existing refineries to meet clean fuel specifications A proposed USD10 billion, 300 000 barrel per day crude oil refinery is expected to come on online by 2028, although with a high degree of uncertainty, making it the largest regional refinery. It will likely serve both domestic and regional demand, leading to the retirement of existing refining capacity to cater to an imported finished product Changes are required to the current fuel distribution infrastructure and potentially a new pipeline to connect to the New Multi-Product Pipeline (NMPP) or directly to Gauteng Road-to-rail market share is being targeted for non-Gauteng inland markets and fuel supply to neighbouring countries 	<ul style="list-style-type: none"> Explore options for lease renewals at the Island View Precinct in the Port of Durban, which directly links to the operation of fuel pipelines and nearby Engen and SAPREF oil refineries Provide greater efficiency/reliability/cost incentives for the market to use NMPP-installed assets Develop a Transnet fuel import terminal and accumulation facility at the Port of Durban 	<ul style="list-style-type: none"> Progress the liquid fuels segment strategy to secure supply to the inland region, ensure optimal asset utilisation and secure access to the market for new entrants Increase independent operator participation – and participation of historically disadvantaged companies – in Transnet's Island View Precinct Continue to develop a parallel solution revolving around the phased development of a Transnet fuel import and accumulation facility in partnership with a consortium of industry players 	<ul style="list-style-type: none"> Short-term: A multipronged approach to growing market share in the current assets that Transnet operates – mainly the NMPP – and the targeted augmentation and optimal use of Transnet's existing asset base Long-term: The transformation of the sector and Transnet's environmental stewardship role as a SOC in the sector, moving away from the pipeline and associated infrastructure towards a broader and cleaner energy portfolio Improved operational efficiencies and risk mitigation by ensuring secure supply when developing the Island View Precinct accumulation facility A fuel import facility to accommodate new entrants into the market The development of a sustainable energy portfolio to support the South African Government's decarbonisation transformation agenda
Key segmental risks directing Transnet's strategic responses	Transnet's strategic responses		
 	 		
<ul style="list-style-type: none"> Due to vandalism and fuel theft on the Durban to Johannesburg (NMPP) pipeline, the primary customers may not be keen to enter into long-term, volume-related contracts, resulting in further pipeline volumes being lost to road transport. The latter further increases road traffic incidents and adds to the national carbon footprint With liquid fuels being a declining market due to competing energy technologies, volumes are decreasing New entrants into the import market do not have the financial capacity and stability to co-invest in additional import capacity and associated infrastructure If the existing pipeline network and associated infrastructure cannot be repurposed for long-term sustainability within a green energy portfolio, Transnet may need to begin a strategy to disinvest from the pipeline business to limit long-term financial exposure 	<ul style="list-style-type: none">  Adopt market-appropriate interventions and leading-practice monitoring technology to monitor and manage vandalism on the pipelines  Leverage the tariff to the maximum to incentivise the use of the pipeline over road transport  Apply for concessions to the pipeline tariff to drive the decarbonisation initiative  Engage Government to intervene by providing financial support to previously disadvantaged organisations interested in participating as bona fide partners in the value chain  Prioritise and expedite new value-chain opportunities to grow the import market within Transnet's operations and ensure appropriate competencies, infrastructure tools, and assets to support new tasks in the value chain  Extensive research and development studies on competing energy technologies and international trends to repurpose the existing pipeline network and associated infrastructure 		

Table 18: Gas context

Segmental context	Key opportunities for Transnet	Priorities for 2022/23	Anticipated outcomes
	 	 	 
Gas			
<ul style="list-style-type: none"> Despite an uncertain macro environment, the global outlook for gas markets is positive as the energy transition towards cleaner fuels (gas and renewables) is rapidly accelerating The natural gas demand is projected to grow by -1,5% p.a.¹ and comprise 25% of the global energy mix by 2040 Gas currently makes up only 3% of South Africa's energy mix², and until recently the domestic gas industry has been dominated by Sasol and PetroSA Sasol produces natural gas from its Temane/Pande fields, processes it at the central processing unit and transmits it through the ROMPCO³ pipeline to Maputo and Secunda Sasol transports 18 million gigajoule p.a. of methane-rich gas from Secunda to KwaZulu-Natal using the Lilly Gas Pipeline Temane/Pande fields could decline by 2024 and PetroSA has communicated a significant reduction in gas reserves Sasol approached the market in 2019/20 to sell its gas infrastructure assets, which constitute its share in the ROMPCO pipeline, and its transmission and distribution assets in South Africa (serving industrial gas users in Mpumalanga, Gauteng, KwaZulu-Natal and Free State) The International Group of Liquefied Natural Gas Importers (IGLNL) indicates that global gas supply is rapidly increasing, with liquefied natural gas (LNG) trade anticipated to grow at >4% p.a. over the next decade 	<ul style="list-style-type: none"> Engagement with Sasol on the renewal of the LNG import into South African ports: This is the development of an LNG terminal, LNG road/rail loading, and gas transmission pipelines infrastructure at key ports, namely Ngqura, Richards Bay and Saldanha Bay Transnet BD/Pipelines actively involved in Port of Richards Bay and Ngqura LNG Terminal and pipeline (physical and virtual) projects 	<ul style="list-style-type: none"> Complete the pre-feasibility study for the Richards Bay Natural Gas Network LNG terminal and gas connection from the terminal to the Lilly Gas Pipeline and Eskom's 3 000 MW site at the Richards Bay industrial development zone Review the Gas Strategy to ensure optimal asset utilisation and cost optimisation Ensure the Pipelines OD is capacitated with resources and competencies in the gas sector Conduct an in-depth market analysis to ensure Transnet is fully abreast of gas market volatilities and able to respond appropriately 	<ul style="list-style-type: none"> Establishment of a gas department in the Pipelines OD in anticipation of Pipelines' involvement in delivering gas A new gas-oriented business within Pipelines will ensure diversified income streams for Transnet
Key segmental risks directing Transnet's strategic responses	Transnet's strategic responses		
 	 		
<ul style="list-style-type: none"> Natural Gas Networks: Gas demand is dispersed all around South Africa, while the gas supply infrastructure is limited to certain parts of the country (Mpumalanga, Gauteng, KwaZulu-Natal and Free State). Therefore, the gas pipeline infrastructure development will take a long time to implement and will be costly 	<ul style="list-style-type: none">  Developing a domestic LNG terminal infrastructure at the three key ports (Ngqura, Richards Bay and Saldanha Bay) is critical to South Africa's economic development  Create a virtual pipeline infrastructure to enable gas supply to areas far from the pipeline, which will accelerate gas market development in South Africa 		

¹ International Energy Agency, 2020.

² BP Energy Outlook, 2019.

³ Republic of Mozambique Pipeline Company (ROMPCO) – owned by Sasol, iGAS (South African Gas Company Limited) and CMG (Companhia Limitada de Gasoduto).

IFRS sustainability disclosures*

The resilience of Transnet's strategy Qualitative (Q) or Financial (F) **Q** **F** Short term: 1 - 2 years **S** Medium term: 3 - 5 years **M** Long term: 6 - 20 years **L**

* IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Table 19: Agriculture context

Segmental context	Key opportunities for Transnet	Priorities for 2022/23	Anticipated outcomes
	Q	S	Q L
Agriculture			
<ul style="list-style-type: none"> The agriculture sector is a fast-growing industry, with the fruit sector quickly outpacing road haulage capacity, particularly in more rural areas South Africa is a prominent exporter, particularly of pome fruit, citrus and grapes, with strong export ties to the European and Asian markets The segment has experienced a significant drop-off in rail market share, partially due to the dispersed nature of the sector leading to branch line density and viability challenges There is increased capacity and appetite for the private sector to play a more active role in developing and implementing logistics solutions The sector is a crucial enabler for the ERRP There has been significant technological development in tools and operating models in the sector, which Transnet has not adopted to date 	<ul style="list-style-type: none"> The sector is ripe for an overarching value chain to be implemented, both internationally and locally The integrated nature of the fruit value chain, with the cold chain and various other KPIs driving international rail-friendly solutions, creates a template for South Africa to adopt 	<ul style="list-style-type: none"> Develop and implement a value chain-based portfolio of initiatives based on: <ul style="list-style-type: none"> Inland consolidation points to drive rail density; The concession of branch lines to allow private sector operators to manage associated costs A third-party access rail operating model allowing branch line operators to access port terminals for efficient operations Potential use of near-port terminals as purpose-designed back-of-port facilities Port terminals aligned to the value chain need (cool ports, grain elevators, etc.) or utilised as throughput ports alongside back-of-port facilities 	<ul style="list-style-type: none"> Migrate volumes from road to rail, ensuring significant growth in the rail market share for the agri industry Increased market access and reduced logistics costs prompting further growth in the South African agri industry Efficient port terminal operations enabling greater volume throughput and improved financial results
Key segmental risks directing Transnet's strategic responses		Transnet's strategic responses	
Q	Q		
<ul style="list-style-type: none"> Significant investment is required for greenfields or brownfields inland consolidation facilities and, in some cases, mothballed branch lines Low rail density causes viability challenges Market volatility and peaking due to seasonal and easily disrupted production characteristics; planning for the peaks is not a viable option 	<ul style="list-style-type: none"> Transnet will follow a partnership approach to investment. As a result, the industry plays a pivotal role in informing both the planning of the solutions to support the value chain and sharing in the financial risks associated with the investment The concession-based model for branch lines has the private partner assuming the fixed cost responsibility for maintaining and restoring the infrastructure, while integrating with Transnet's rail operations via hook-and-haul or third-party access operating models Transnet will integrate and align its planning with industry planning and forecasting processes to understand and capacitate according to realistic and appropriate target setting 		



Outlook

To a large degree, South Africa relies on commodity exports, with the economy being intrinsically linked to the global outlook. Transnet is a strategic player in the reconstruction of the South African economy, specifically to build large-scale industrial capability and to lower the cost of doing business in the country.

Economic considerations

According to the World Bank's June 2022 economic report, the world economy continues to suffer from a series of destabilising shocks. Two years on from the start of the pandemic, the Russian Federation's invasion of Ukraine and its global impacts on commodity markets, supply chains, inflation, and financial conditions have significantly slowed global growth. In particular, the war in Ukraine is leading to escalating prices and volatility in energy markets. The Ukraine invasion has also led to a significant increase in agricultural commodity prices, thereby exacerbating food insecurity and extreme poverty in many emerging market and developing economies (EMDEs)¹. Numerous risks could further derail what is now a precarious recovery, including the possibility of high global inflation accompanied by tepid growth. The latter could eventually lead to a tightening of monetary policy in advanced economies to curb inflation, escalate borrowing costs, and place additional pressure on some EMDEs. According to the report, a forceful and wide-ranging policy response is required by EMDE authorities and the global community to boost growth, bolster macroeconomic frameworks, reduce financial vulnerabilities, provide support to vulnerable population groups, and attenuate the long-term impacts of the global shocks of recent years.

In the strongest post-recession pace in 80 years, global growth is estimated to have surged to 5,5% in 2021 due to a relaxation of pandemic-related lockdowns in many countries boosting demand². However, global growth is expected to have decelerated markedly to 4,1% in 2022, reflecting continued COVID-19 flare-ups, diminished fiscal support, and lingering supply bottlenecks³.

The near-term outlook for global growth is weaker and for global inflation notably higher than previously envisioned, owing to the potential of a resurgence in the pandemic, higher costs of food and energy, and more damaging supply-chain disruptions. Global growth is projected to soften to 3,2% in 2023 as pent-up demand wanes and supportive macroeconomic policies continue to be unwound⁴.

Although output and investment in advanced economies are projected to return to pre-pandemic trends in the year ahead, EMDEs, particularly in small states and fragile and conflict-ridden countries, are projected to remain markedly below owing to lower vaccination rates, tighter fiscal and monetary policies, and more persistent scarring from the pandemic. Additionally, various downside risks cloud the outlook, including simultaneous omicron-driven economic disruptions, further supply bottlenecks, a de-anchoring of inflation expectations, financial stress, climate-related disasters, and a weakening of long-term growth drivers. As emerging market and developing economies (EMDE) have limited policy space to provide additional support, if needed, these downside risks heighten the possibility of a hard landing⁵. EMDE policymakers also face the challenges of heightened inflationary pressures, spill overs from prospective advanced-economy

monetary tightening, and constrained fiscal space. Despite budgetary consolidation, debt levels – which are already at record highs in many EMDEs – are likely to rise further due to sustained revenue weakness. Over the longer term, EMDEs will need to buttress growth by pursuing decisive policy actions, including reforms that mitigate vulnerabilities to commodity shocks, reduce income and gender inequality, and enhance preparedness for health- and climate-related crises⁶.

Outlook for sub-Saharan Africa

Despite growth in sub-Saharan Africa reaching an estimated 3,5% in 2021, supported by a rebound in commodity prices and a gradual easing of social restrictions⁷, recurrent virus flare-ups in several countries and low vaccination rates have slowed the pace of the recovery. Growth is forecast to firm to 3,7% per year on average in 2022/23 – slightly above prior years' projections, but insufficient to reverse increases in poverty and losses in per capita income⁸. Slow progress with vaccinations is expected to underpin only a gradual recovery of domestic demand, with substantial downside risks overshadowing the outlook.

Outlook for South Africa

In South Africa, growth has moderated substantially because of the growth-dampening effects of high unemployment; infrastructure bottlenecks, including recurring power shortages; slow progress with reforms; and weak private investment. Infrastructure damage to the country's main port following severe floods has exacerbated supply chain disruptions related to Russia's invasion of Ukraine and mobility restrictions in China in response to pandemic outbreaks. Although the fiscal position has improved somewhat, high public debt constrains public spending, particularly investment⁹.

Improved control over virus outbreaks along with more widespread vaccinations are expected to continue to support the recovery in services sectors, including tourism. However, persistent large-scale unemployment, high inequality, and structural impediments to growth will continue to weigh on economic activity. Many constraints on long-term growth in South Africa predate COVID-19, including the legacy of weak public finances and slow implementation of reforms needed to boost productivity and employment growth. As such, rising government debt and debt service costs will continue to constrain policy space and curtail public spending, leaving gaps in essential public services and infrastructure which are major obstacles to stronger potential growth.

In his recent State of the Nation Address, President Cyril Ramaphosa noted that "the key task of government is to create the conditions that will enable the private sector – both big and small – to emerge, to grow, to access new markets, to create new products, and to hire more employees". Reforms that promote growth and employment are needed to build on the recovery observed over the past year. These include interventions to stimulate demand through investment in infrastructure, complemented by employment programmes and social transfers that will boost household consumption. Modernised network industries will support an increase in the economy's productive capacity, boost electricity production and reduce the cost of doing business¹⁰.

Transnet's mandate

At the start of the 2021 financial year, Transnet commenced a large-scale organisational transformation process to align the Company's operations with a more supply-chain or segment-oriented view of the business. Segment strategies have been defined for each of our key market segments, where more than 80% of our revenue is generated. The segment strategies intend to drive competitive supply chains for key industries, thereby building South Africa's regional, and indeed global, trade competitiveness. The orientation away from focusing on transport modes and towards the performance of customer supply chains ensures that supply chain performance and competitiveness becomes Transnet's primary units of analysis for success.

At the same time, the regulatory reform process in ports and rail, triggered by Government's ERRP, has gathered momentum and Transnet has worked hard to align with the complexities of the emerging regulatory environment. We have progressed well in establishing the Transnet National Ports Authority as a wholly owned subsidiary of Transnet, as well as in separating the accounts of rail infrastructure and operations, with a view to enabling third-party access to the rail network.

The South African ERRP adopted by Cabinet in October 2020 continues to provide a guiding framework for Transnet's overall strategic growth trajectory. A proposed R1 trillion has been earmarked for infrastructure investment, particularly for network infrastructure, as a central pillar of the plan. An important aspect of the plan is the reform of port and rail to facilitate greater private investment in these areas. Specific reform initiatives are directed towards making cross-subsidies in the existing system explicit, enabling third-party access to the rail network and introducing greater competition in the port and rail space.

Despite a very challenging operating environment, numerous growth and improvement opportunities exist. These form the basis of Transnet's segment strategies, which outline both the strategic and tactical steps to be taken to build capacity and to improve the competitiveness of Transnet's key industry supply chains.

Accordingly, Transnet has adopted a multipronged approach to harness the value of collaborative partnerships. Capacity creation will largely be driven by crowding in investment in support of – and in partnership with – the industries that we serves. Further, we will work together with major players in the logistics industry in direct operational partnerships to acquire skills, equipment, technology and access to markets. Over and above regulatory alignment, Transnet considers partnerships to be the cornerstone of an agile strategy for volume growth and the densification of the network, both of which will ensure sustainable growth for the Group and the industries it serves.

Commodity outlook

According to the South African Treasury, the country's current account surplus, as a share of GDP, is expected to remain unchanged at 3,8% in 2021, supported by a robust trade surplus, as the value of merchandise exports grew faster than imports during the 2021 financial year. Mining accounts for just over 60% of total exports, particularly iron ore, rhodium and coal. Net trade gains are expected to dissipate in 2022 as the prices of South African commodities ease over the short term and import volumes recover more

substantially. While some major commodity prices declined during the second half of 2021, prices remain above pre-pandemic levels (final quarter of 2019) providing further support to commodity exporters.¹¹

Automotive

Global sales of new vehicles are forecast to rise by 7,5% in 2022, growing past 2019 levels. The recovery will be led by Asia and North America. However, many vehicle makers will struggle to meet recovering demand amid continuing supply chain disruptions. Nevertheless South Africa's longer-term outlook for this sector is very positive.

The domestic new vehicle market declined during December 2021, with aggregate industry new vehicle sales at 35 948 units recording a decline of 1 302 vehicles or a fall of 3,5% compared to the total new vehicle sales of 37 250 units in December 2020. The December 2021 new passenger car market and light commercial vehicle market reflected a mixed performance with a year-on-year volume increase of 1,7% for new passenger cars and a decline of 16,6% for light commercial vehicles, while heavy commercial vehicles and buses were marginally down by 0,7%.¹²

Transnet's strategic priorities in the automotive sector

Automotive focus areas for 2022/23 include initiating partnership transactions at the Kaalfontein Automotive Terminal in Gauteng and unlocking capacity by implementing a new through-put operating model at the coastal automotive terminals in Durban, Port Elizabeth and East London. In addition, we will explore suitable back-of-port automotive handling facilities for long dwell stays, as well as incorporating value-adding services to be developed and provided by private sector partners. The partnerships are expected to contribute to growing the capacity of the existing terminals and to increase the range of services provided by these terminals.

Transnet is pursuing a risk-mitigating, dual-rail channel export solution for the automotive sector, with better rail corridors between Gauteng and eThekweni and Gauteng and the Eastern Cape ports. The Port of Durban is planning to almost double in capacity to over 900 000 fully built units and will remain the primary port of export in the long term. However, constraints on the Container Corridor, between Gauteng and Durban, and anticipated disruptions to the Port of Durban through the course of a major revitalisation initiative have required that work be prioritised to expand capacity on the corridor servicing the ports of Port Elizabeth and East London. This channel will be a crucial artery to support the industry, and various partnership-driven funding and delivery mechanisms are in development to ensure that Transnet can crowd in private investment to create this capacity as soon as possible.

Over and above expanding capacity on rail and at ports, enabling this in the most efficient manner will require deeper partnerships at both inland and coastal terminals. Transnet is also planning to invite third-party rail operators (through slot sales) onto both the Gauteng – East London route and the Gauteng – Durban route during 2022/23 to create additional train capacity in the system.

¹ World Bank Group January 2022 Global Economic Prospects: Page 3

² World Bank Group January 2022 Global Economic Prospects: Page 3

³ World Bank Group January 2022 Global Economic Prospects: Page 3

⁴ World Bank Group January 2022 Global Economic Prospects: Page 3

⁵ World Bank Group January 2022 Global Economic Prospects: Page 3

⁶ World Bank Group January 2022 Global Economic Prospects: Page 3

⁷ World Bank Group January 2022 Global Economic Prospects: Page 101

⁸ World Bank Group January 2022 Global Economic Prospects: Page 101

⁹ World Bank Group January 2022 Global Economic Prospects: Page 104

¹⁰ South African Treasury Review 2022: Page 10

¹¹ South African Treasury Review 2022: Page 17

¹² BUSINESSTECH: <https://businessstech.co.za/news/motoring/549816/south-africas-car-market-has-shifted-heres-what-to-expect-in-2022/>

Containers

Container shipping rates remain elevated in both the spot market and, more recently, the longer-term contracts shippers are signing with the container liners. Afriforesight, an independent research house, expects container shipping rates in 2022 and 2023 to be volatile, but to trend downwards due to easing bottlenecks and declining costs.

Transnet's strategic priorities in the container sector

The South African container landscape has suffered from two primary challenges to date, namely underinvestment in port and rail infrastructure and equipment, and consequent poor operational efficiency, predictability and reliability. A forward-looking and concerted plan to revitalise both port and rail infrastructure and operations has been developed.

On the port side, the initiatives are aimed at developing the Port of Durban as a modern, deep-water port playing the role of a southern hemisphere and Indian Ocean maritime hub with an eventual envisaged capacity in the region of 11 million TEUs. This is a long-term development plan aimed at focusing the Port of Durban primarily on containers and automotive exports. In the short term, Transnet aims to conclude a partnership with an ITO at Durban Container Terminal Pier 2. The expansion of the port terminal is also a priority project for which partners will be sought.

Transnet will continue to optimise and develop capacity at the Cape Town Container Terminal (1,4 million TEUs), offering a gateway to regional and European trade, while the Ngqura Container Terminal will see a capacity development programme to 2 million TEUs (predominantly transshipment) and operational transformation undertaken in collaboration with a partner. This is also a priority transaction for 2022/23.

The economy of scale and ability to cater for the new generation of larger and more efficient vessels is anticipated to result in a significant improvement in South Africa's container supply chains, with estimates of a 20% reduction in the cost of logistics forecast as a result of these interventions.

The corridor between Gauteng and eThekweni (the Container Corridor) is the main industrial corridor in the country and a greatly improved rail service is required to optimise the performance of container supply chains. An efficient, predictable and reliable rail service is a prerequisite for establishing the Port of Durban as a hub. Transnet has several initiatives planned to improve rail performance on this corridor, including the sale of rail slots to third-party operators.

Third-party operations on the branch lines connecting to this corridor will also be prioritised, either through vertically integrated concessions or third-party access, depending on the market need. Planned partnerships at inland and port terminals are designed to increase capacity at these terminals, but more importantly to raise productivity and efficiency and increase the range of services provided by these terminals, which are the key enabling elements of intermodal solutions.

Container segment focus areas for 2022/23 include the conclusion of partnership agreements and financial close on the Durban Container Terminal Pier 2 and Ngqura Container Terminal transactions, which will kick-start the rejuvenation of South Africa's container logistics ecosystem. In addition, we are planning to sell rail slots on this corridor in 2022/23 and will seek a partner to upgrade and reposition the City Deep Container Terminal. In parallel, we are developing a long-term plan for the Container Corridor with international experts.

Coal

Coal prices reached all-time highs in early October 2021, with imported thermal coal in Europe, for example, hitting USD298 per ton.¹³ Coal prices are expected to continue to increase in response to the recovery in demand. Over the longer term, easing coal prices are expected to offset gradually rising precious metal prices.¹⁴

Transnet's strategic priorities in the coal sector

Coal, particularly export coal, has for many years been a backbone commodity for both Transnet and the South African economy. Transnet acknowledges the significant international and local movement away from coal towards green energy production and, as such, the priority for the segment is the operational optimisation of logistics chains to improve the return on invested capital as far as possible for both Transnet and the industry at large, while expanding operations capacity from 74 mtpa to 81 mtpa.

Recognising the limited window of opportunity to keep the segment viable, Transnet is focused on reducing the cost of logistics and improving reliability and optimal use of assets already in service. This includes co-funded consolidation of export coal volumes on the lowest cost supply chain possible, and an optimised sustaining investment in the existing asset base to ensure that operational stability and the ability to export against installed capacity are maintained in line with market demand.

In addition to export coal, domestic coal utilised for power generation is an area where opportunities for optimisation abound. Transnet is undertaking strategic discussions with Eskom on the way forward for a logistics partner-driven solution to utilise spare rail capacity to reduce road congestion and improve on costs associated with delivering coal to various power stations.

Focus areas for 2022/23 are primarily on operational efficiency initiatives, expansion of the rolling stock fleet and the creation of an enabling environment for future consolidation of coal exports along the lowest-cost supply chain. This includes commercial and partnership-based arrangements regarding funding of required investments. In addition, a joint plan and roadmap between Eskom and Transnet guiding the future of domestic coal logistics is a key objective for delivery.

Chrome and magnetite

Afriforesight expects chrome prices to rise in the medium term as stainless steel demand recovers with global growth, while South African primary producers are expected to restrain output growth due to tight margins.

Transnet's strategic priorities in the chrome and magnetite sector

With South Africa producing half of the world's chrome ore, the clear focus is on stability, efficiency and risk reduction of the broader supply chain.

With chrome ore being a strategic commodity utilised in the production of stainless steel, among other products, it is imperative that capacity and resilience of the supply chains are prioritised. Therefore, our primary focus is a dual-channel approach to the export of chrome ore (and the adjacent magnetite ore). This entails a partner-driven expansion of capacity at the Port of Richards Bay to 26 mtpa, in addition to a strategic partnership with regional players to improve capacity and efficiency of exports through the Port of Maputo to over 11 mtpa. The capacity expansion is planned to accommodate the migration of chrome and other bulk commodities from the Port of Durban, which will allow for additional rail servicing of the multiple commodities planned to be exported via the Port of Richards Bay. In line with the planned rail operating model overhaul, wagons are anticipated to be sold to private operators and we will offer hook-and-haul services for these wagons.

Focus areas for 2022/23 include the development of a pre-feasibility business case and associated roadmap for the planned capacity expansion of export capacity via the Port of Richards Bay, in tandem with planned operational efficiency enhancements at the port planned for 2021/22 but delayed as a result of the fire damage sustained to the conveyor belt and related infrastructure. Transnet will strengthen collaborative ties with the Port of Maputo, driving volume growth and creating capacity in the short to medium term while the repairs and capacity expansion is effected at the Port of Richards Bay.

Iron ore

According to Anglo American's and America's first quarter report for 2022, iron ore production decreased by 19% as high rainfall and plant issues affected both Kumba and Minas-Rio, with full-year guidance revised to 60 - 64 million tons (previously 63 - 67 million tons).¹⁵

Transnet's strategic priorities in the iron ore sector

Iron ore is a key anchor commodity for Transnet, and our business is seen as an innovative global leader in bulk commodity logistics. Recent underinvestment has led to spiralling challenges regarding operational reliability and efficiency, however, we have developed a strong action plan to restore this line and expand capacity to meet growing demand in the medium to long term.

Growth in capacity requires addressing capacity constraints both on rail and at the port, with Transnet taking on board and prioritising stakeholder concerns regarding the environmental and health impact of our current operations. The AEL restrictions present a key challenge to increasing bulk mineral exports through the Port of Saldanha. A strategic health and environmental assessment has been commissioned and will guide operations and investment planning for expansion solutions under investigation. This is applicable to both iron ore and manganese due to the common facilities, operating model and perceived impact of operations.

Emanating from this study, capacity and operational improvements to the Sishen-Saldanha rail line and rolling stock will be effected, in addition to partnership-driven investment in capacity at the Port of Saldanha to increase capacity on the line to 67 mtpa in the medium term, with a roadmap to increase to an estimated 77 mtpa to meet the needs of the market and industry.

As part of the transition to a partner-inclusive rail model, iron ore wagons are intended to be among the first to be sold to private operators, acting as a catalyst and blueprint for the future sale of wagons serving other commodities. Transnet will support rail operations on the corridor through a hook-and-haul operating model.

Focus areas for 2022/23 include pioneering the sale of wagons and developing the required enabling environment for future wagon sale events including associated commercial, operational and related matters. In addition, a sustainable expansionary roadmap will be developed for the Port of Saldanha, including planning for partnership or alternative funding-related processes to expand the capacity of the port and the iron ore channel.

Manganese

For manganese, mined supply growth is expected from Gabon and South Africa in 2022 and 2023, respectively. Supply is expected to overtake demand and result in downward pressure on prices during 2023 (Afriforesight, 2022).

Transnet's strategic priorities in the manganese sector

The manganese export market is a significant growth market, with strong demand for additional capacity in the medium to long term. Although Transnet will expand capacity at the Port of Saldanha to 6 mtpa, there is limited opportunity to meet demand via this port. In response, Transnet has prioritised the utilisation of installed infrastructure to enable partner-driven development of a new world-class bulk export solution capable of exporting 16 mtpa at the Port of Ngqura. Supporting this, a long-term roadmap is in development to consider alternative ports of export, including considerations around the Port of Boegoebaai, while all solutions and current operations considered in both the medium to long term will be built on the framework created by the strategic health and environmental study that is being undertaken.

The Port of Ngqura's capacity is being fast-tracked to respond to urgent industry requirements, with rail capacity expansion to be delivered in parallel. The planned heavy haul rail operations require that we maintain an onboarding channel for junior miners, planned to continue via the Cape Town Multipurpose Terminal (-1 mtpa). This onboarding channel is intended to support emerging miners not yet in a position to comply with the requirements of the heavy haul line specifications, in effect reducing the barrier to entry at lower volumes. Transnet intends to create at least 22 mtpa of efficient bulk export capacity in the medium term, with future expansion plans to be determined by market and industry-aligned planning.

The focus areas for 2022/23 include concluding the financial close of a partnership-based development of a 16 mtpa bulk manganese export terminal at the Port of Ngqura, the development of a business case and roadmap for the associated rail capacity expansion along the South Corridor, and the sustainable solution development roadmap for the expansion of manganese export capacity at the Port of Saldanha.

¹³ INVESTMENT.COM: <https://investingnews.com/coal-outlook-2022/>

¹⁴ South African Treasury Review 2022: Page 13

¹⁵ ANGLO AMERICA: <https://www.angloamerican.com/media/press-releases/2022/21-04-2022>

Energy (liquid fuels and gas)

Fuel prices were up 40,4% in the year to December 2021 owing to higher global crude oil prices. A June 2022 World Bank report predicts sharp increases in global fuel prices due to the invasion of Ukraine. In the long term, the South African gasoline price is projected to trend around USD1,71/litre in 2023 and USD1,83/litre in 2024¹⁶.

Transnet's strategic priorities in the energy sector

The liquid fuels and gas markets play key roles in the current and future energy mix for South Africa, and Transnet's role as a critical logistics enabler for the markets defines the organisation's positioning and investment planning.

From a liquid fuels perspective, a strong international trend away from fossil fuels has informed projected flattening demand for liquid fuels capacity, which has prompted us to replan the step-up phased Multi-Product Pipeline expansion programme. Projections currently do not warrant moving forward with increased main line capacity. Instead, Transnet is seeking opportunities to broaden market access to the pipeline while minimising planned investment. The Transnet Fuel Import Terminal at the Port of Durban will be a partnership-delivered, common-user liquid fuel import facility aimed at maximising utility from installed assets and minimising the need for new investment. The initiative is intended to act as a catalyst for historically disadvantaged entrants into the market, driving volume uptake on the Multi-Product Pipeline, with increased volumes ultimately reducing the cost per litre of fuel to the market and driving growth in pipeline market share.

The natural gas segment is a fledgling market in South Africa, currently accounting for only 3% of South Africa's energy mix. This, however, is projected to evolve as a complementary power-generation capacity, closing the gap between peaking capacity requirements and baseload capacity. Supplemented by increasing projected volumes of gas available regionally and the recent discovery of potentially significant offshore reserves, Transnet's role as an enabler for this more fuel-efficient energy source is rapidly escalating in significance.

Currently, partnership-driven investments to support three key natural gas entry points are planned at the Richards Bay, Ngqura and Saldanha Bay ports. The Richards Bay and Ngqura investments are being fast-tracked to align with planned anchor investments in peaking power-generation facilities in the respective industrial development zones, with the added potential to link to the Lilly Gas Pipeline from Richards Bay. Virtual pipelines via rail or road are under consideration for the Ngqura and Saldanha investments to enable inland and regional market access, with a multitude of potential applications to be facilitated.

On the green fuels front, a significant amount of focus is on the development of green hydrogen, with South Africa notably well positioned for both production and export of the in-demand commodity. According to a recent study, green hydrogen is expected to experience a compound annual growth rate of 54% from 2021 to 2030, growing from the current USD1,8 billion to an estimated market size of USD89 billion during the period. Investigations into options in the Northern Cape are in progress, with vast renewable energy potential via solar power generation paired with the potential development of manufacturing and export facilities at the Port of Boegoebaai, creating an ideal opportunity to play a role in the development of this market.

The focus areas for 2022/23 include the completion of the partner procurement or similar co-funding agreement process for three transactions, namely the development of the Transnet Fuel Import Terminal Project at the Port of Durban, the natural gas import facility at the Port of Ngqura and the natural gas import facility at the Port of Richards Bay.

Agriculture

The agriculture, forestry and fishing sector grew by 3,3% in real value over the first three quarters of 2021 compared with the same period in 2020. Good summer and winter rains, coupled with favourable prices, will sustain a second consecutive year of growth despite the third-quarter contraction. Agriculture is expected to continue growing during 2022 in response to broadly favourable conditions. Trade and logistics disruptions, and ongoing animal-health concerns, are risks to the sector.¹⁷

Transnet's strategic priorities in the agriculture sector

The agriculture segment is of national strategic importance and key to the ERRP. The sector has unmatched potential for job creation and in several areas is forecast to have strong economic growth potential. The main challenge with Transnet's involvement in the sector is the lack of rail density and seasonal nature of the commodities exported, creating significant viability challenges for investment in infrastructure and equipment.

The partnership philosophy, however, creates an ideal opportunity to work with the private sector to create an enabling environment to support development and expansion of this sector, and catalyse an economic resurgence of many rural areas in South Africa.

The grain sector will be supported through a series of partnerships for branch lines serving regional agricultural hubs. In addition to partnership-developed storage and loading facilities on underutilised Transnet land, third-party access to branch lines and private wagon ownership will be encouraged. Port export capacity will be increased through a combination of containerised exports and the upgrade and repurposing of grain elevators in Durban and East London.

The fruit market is forecast to be severely constrained without a viable intermodal strategy to serve this high-growth and high-value export market. The industry presents challenges to serve due to the strict cold chain industry requirements, especially when considering destination market compliance demands and that effective rail-based transport is the only economically sustainable solution from a volume, compliance and green transport perspective.

Responding to the needs of this market demands a collaborative approach, taking account of the end-to-end cold chain accountability requirements. A similar approach is being developed for the grain strategy, entailing:

- The concession of specific branch lines supporting the industry;
- The partnership-based development of inland reefer terminals;
- Sales of rail slots to third-party operators; and
- Expanded reefer capacity at various port terminals including the Cape Town Container Terminal, the Durban Container Terminal and the Ngqura Container Terminal.

The 2022/23 focus areas and commitments for the agriculture segment are being finalised with the various internal and external role players, with the key deliverable for the period being a committed roadmap and partnership strategy for the segment.

Funding outlook

Transnet's Funding Strategy is anchored in the adoption of its segment-based Growth and Renewal Strategy. The level of capital investment required in identified segments is limited by the Company's ability to raise funding on the strength of its financial position. Accordingly, the PSP model is an important aspect of the Funding Plan.

PSPs will be pursued where investments are either unaffordable to Transnet alone or are complementary to Transnet's strategy; or where business opportunities within ports, rail and pipelines are not core to our strategy. This Funding Strategy is to ensure that Transnet can fund its Capital Investment Plan within the set financial metrics, while mitigating possible funding, foreign exchange and interest rate risks. The cash interest cover is expected to improve from 2,6 times in 2021/22 to 3,1 times by 2025/26.

Based on the detailed cash flow forecasts, the forecast funding requirement for the five-year period is R46,9 billion. The Funding Plan seeks to establish Transnet as a reliable and credible borrower, even as a SOC, with Transnet securing debt on the strength of its financial position without any government guarantees. There are significant debt maturities in the next three financial years and Transnet must raise sufficient long-term funding to meet its debt obligations and fund its capex programme.

The potential funding mix over the five-year period is as follows:

- | | |
|------------------|---------------|
| • DMTN programme | R18 billion |
| • DFI/A and GMTN | R14,9 billion |
| • Bank loans | R10,4 billion |

Transnet currently has sufficient credit facilities available and regular updates are provided to the investor community and credit rating agencies.

Five-year capital investment outlook

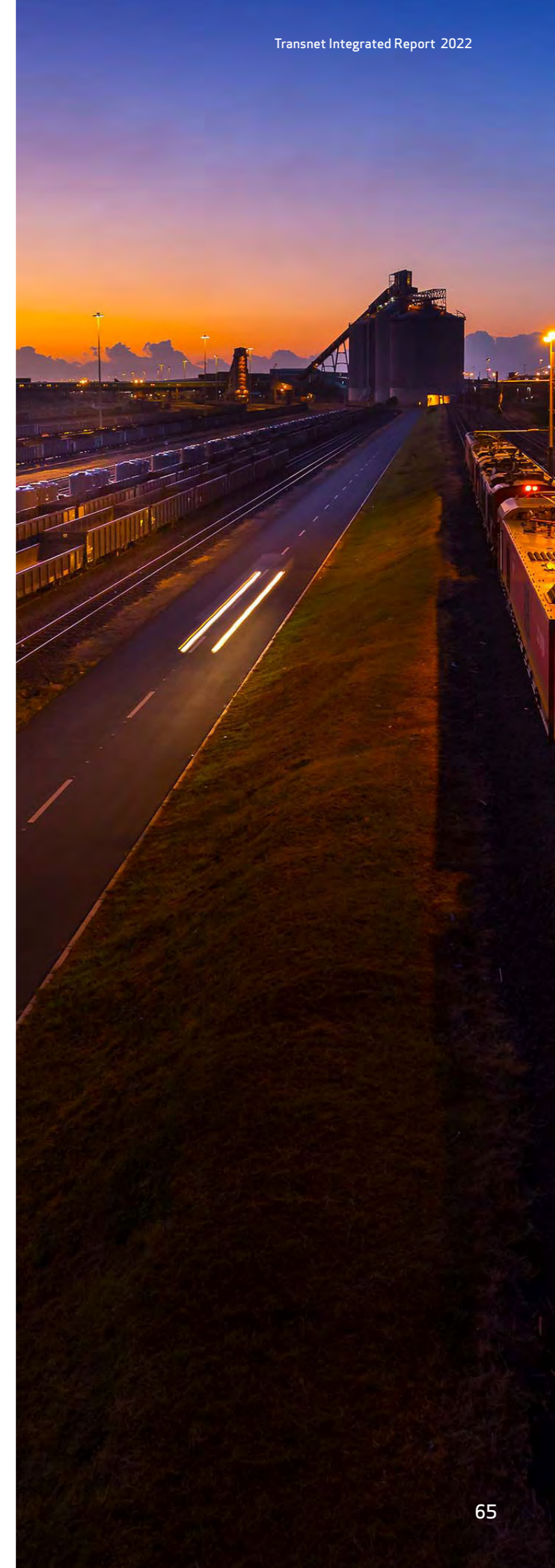
A proposed R1 trillion has been earmarked by Government for infrastructure investment, particularly for network infrastructure, as a central pillar of the Funding Plan. Government is planning for the reform of network industries, including port and rail, to facilitate greater private investment in infrastructure.

Transnet's capital investments have been aligned to the segment strategies to only provide funding for essential, safety and sustaining capital requirements and to limit capital investment to 80% of cash flows before capital investment at OD level. Transnet will be leveraging maintenance funding through the segment strategies which incorporate PSPs. New expansion projects will be funded from alternative funding sources and through segment partnering strategies. Capital investment aims to improve operational productivity and efficiency, maximise asset utilisation and optimise return on assets.

Transnet plans to spend R98,9 billion on capital investment over the next five years of which 79,7% (R78,9 billion) will be spent on maintenance and sustaining capital. The high level of investment in sustaining capital investment is due to a significant backlog in infrastructure and rolling stock, coupled with planned mid-life and cyclical maintenance on fleet and port equipment. A significant portion of this capital (i.e. R35,2 billion) will be spent on maintaining and sustaining permanent ways and rolling stock (locomotives and wagons), while the remainder is planned for port fleet and pipeline equipment. On the expansion side, R5,7 billion of the R15 billion is earmarked for expansion of the freight business.

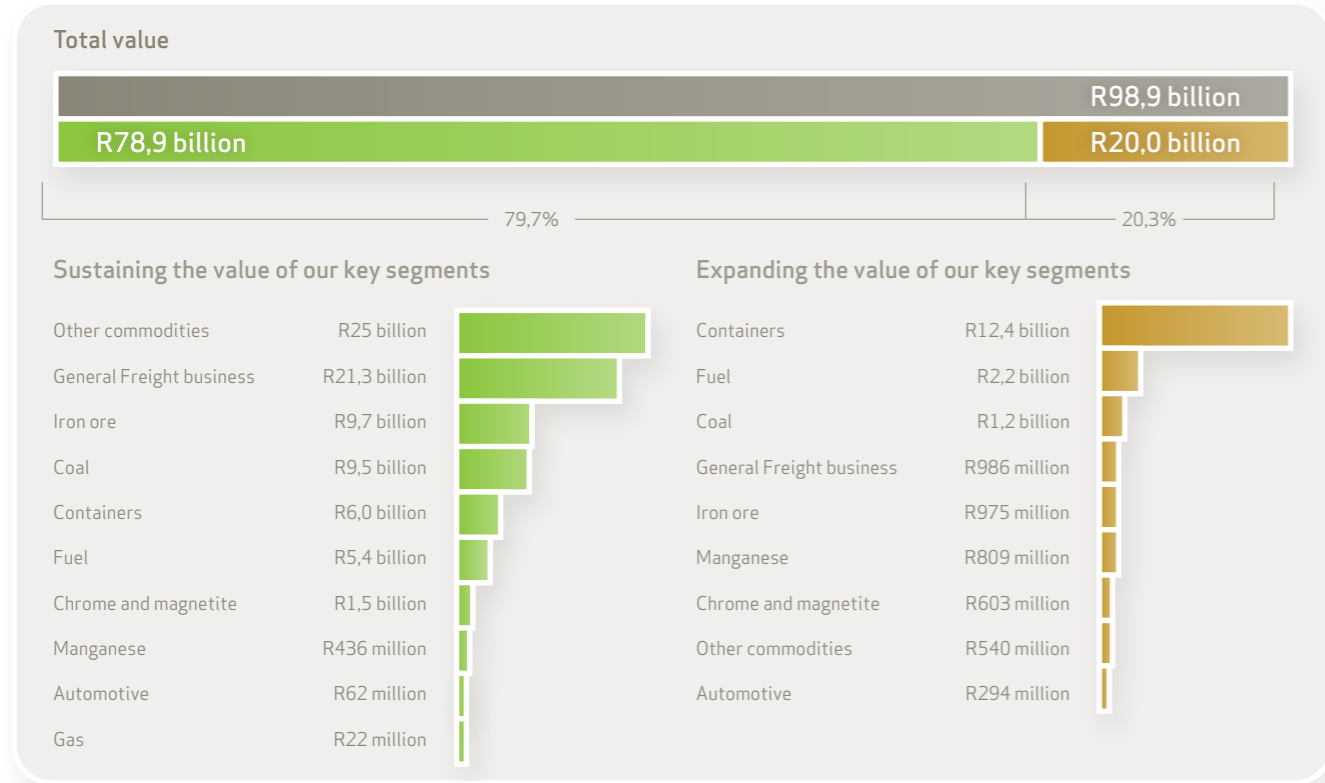
¹⁶ South African Treasury Review 2022: Page 15

¹⁷ South African Treasury Review 2022: Page 20



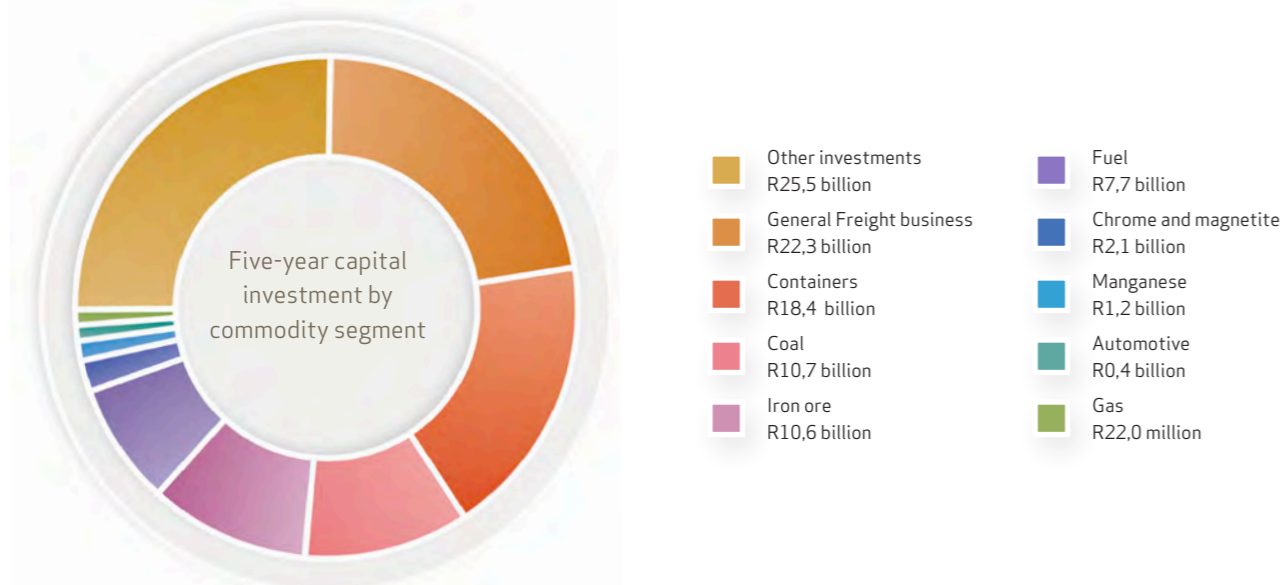
Five-year investment

Over the planning period, Transnet's financial ratios will be sustained within the targeted financial parameters and the Company will continue to strive to improve financial stability, as guided by gearing levels, cash interest cover, return on invested capital, free cash flows and a cost-effective funding strategy



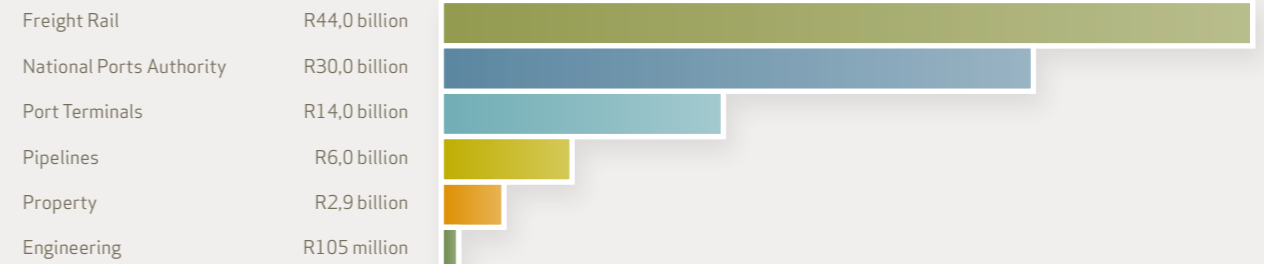
The Growth and Renewal Strategy enables Transnet to focus on core maintenance investment and to maintain its own Capital Investment Plan at sustainable levels. The strategy will crowd in PSPs by cooperating with the private sector to improve the value chains of eight commodity segments representing 80% of Transnet's revenue. Additionally, investments in our General Freight business also represent significant investment in critical

segmental value chains. Transnet's sustaining investment initiatives will focus on infrastructure rehabilitation and modernisation in tandem with the renewal and transformation of critical value chain services. Private partners will be encouraged to invest in both expansion and sustaining initiatives across multiple infrastructure projects and across multiple segment value chains, thereby encouraging risk-sharing and transparency.



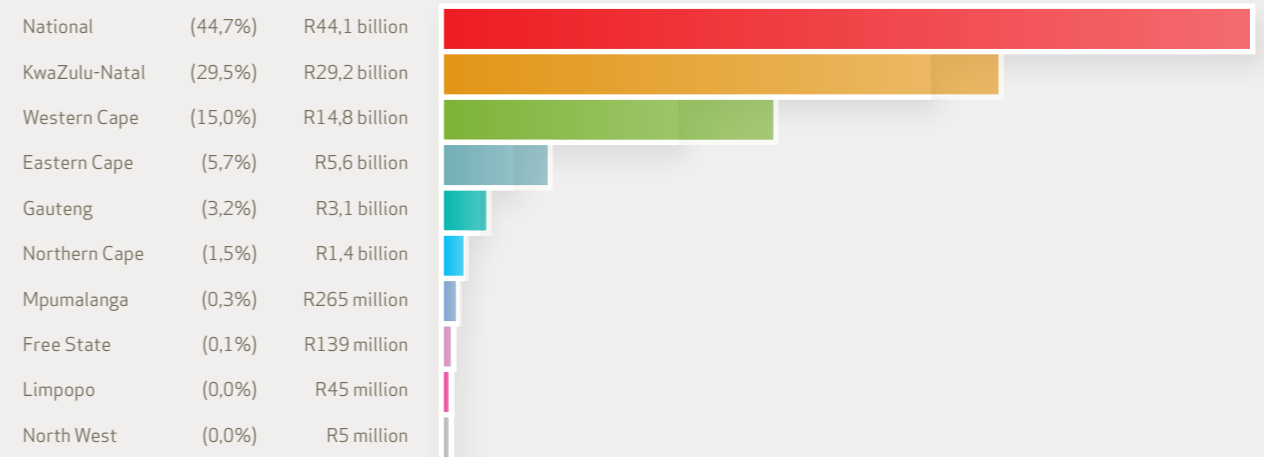
Source for the above information: Transnet Corporate Plan 2022/23 page 61 - 72

Value to be invested in Transnet's operations per functional portfolio over next five years

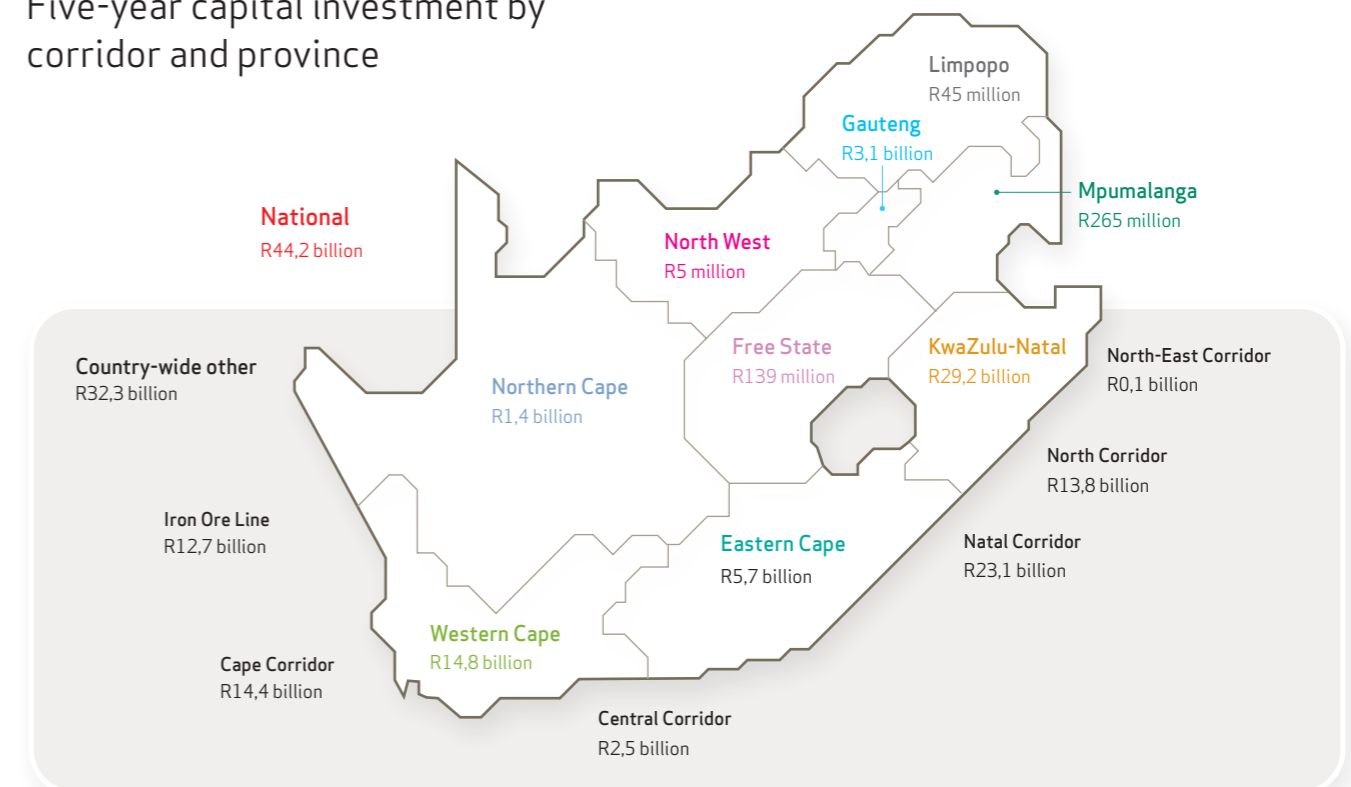


Value created for South Africa

Estimated national value outcomes across provinces: R99,8 billion (2020: R127,7 billion)



Five-year capital investment by corridor and province



Addressing stakeholder interests

Our approach to stakeholder engagement

Stakeholder engagements play a strategic role in forging mutual and beneficial relationships for Transnet and its stakeholders. These engagements are key to influencing and improving the Company's reputation.

Transnet engages with several stakeholders on a continual basis to improve relations with key stakeholders and strengthen brand visibility. During these engagements, stakeholders are kept informed of the Company's strategic direction and plans, and its renewal process.

Transnet intends to improve its offering to key stakeholders through ongoing and responsive engagements. Part of this aspiration is for an improved maturity level of engagements so that we can intentionally and purposefully solidify our relationships with stakeholders through our renewed stakeholder engagement approach.

In our quest to improve our relational capital, we are committed to ensuring alignment with the King IV Report on Corporate Governance for South Africa in the execution of our mandate with a view to considering all the legitimate and reasonable needs, expectations and interests of our material stakeholders. We continue to strive towards improving the quality of our relationships and are guided by the Stakeholder Engagement Policy

and Stakeholder Engagement and Management Procedure in these endeavours.

We are proud to report that our attempts to embed the stakeholder engagement culture in the business is gaining traction and yielding positive results internally. Our frameworks have thus enabled us to institute a systematic approach to the management of stakeholder engagement practices across the Company, which is in accordance with the requirements of the following:

- King IV Code
- The International Integrated Reporting Framework
- Global Reporting Initiative G4 Guidelines
- The AA1000 Stakeholder Engagement Standard

We continue to strengthen the process of streamlining collective assurance efforts to enable management, our Audit Committee and the Board to obtain a stronger maturity level of the engagement processes and the ability to provide appropriate responses to any issues raised by stakeholders. This would in turn lead to improved operational efficiencies, increased productivity levels, financial sustainability, and achievement of the targets, objectives and goals of the organisation. However, we want to be able to respond to our stakeholders and provide a systems-based approach to maximise value for our stakeholders by developing solutions around our principles to be inclusive, materiality oriented, consistent, responsive and accountable.

Figure 4: Stakeholder engagement process

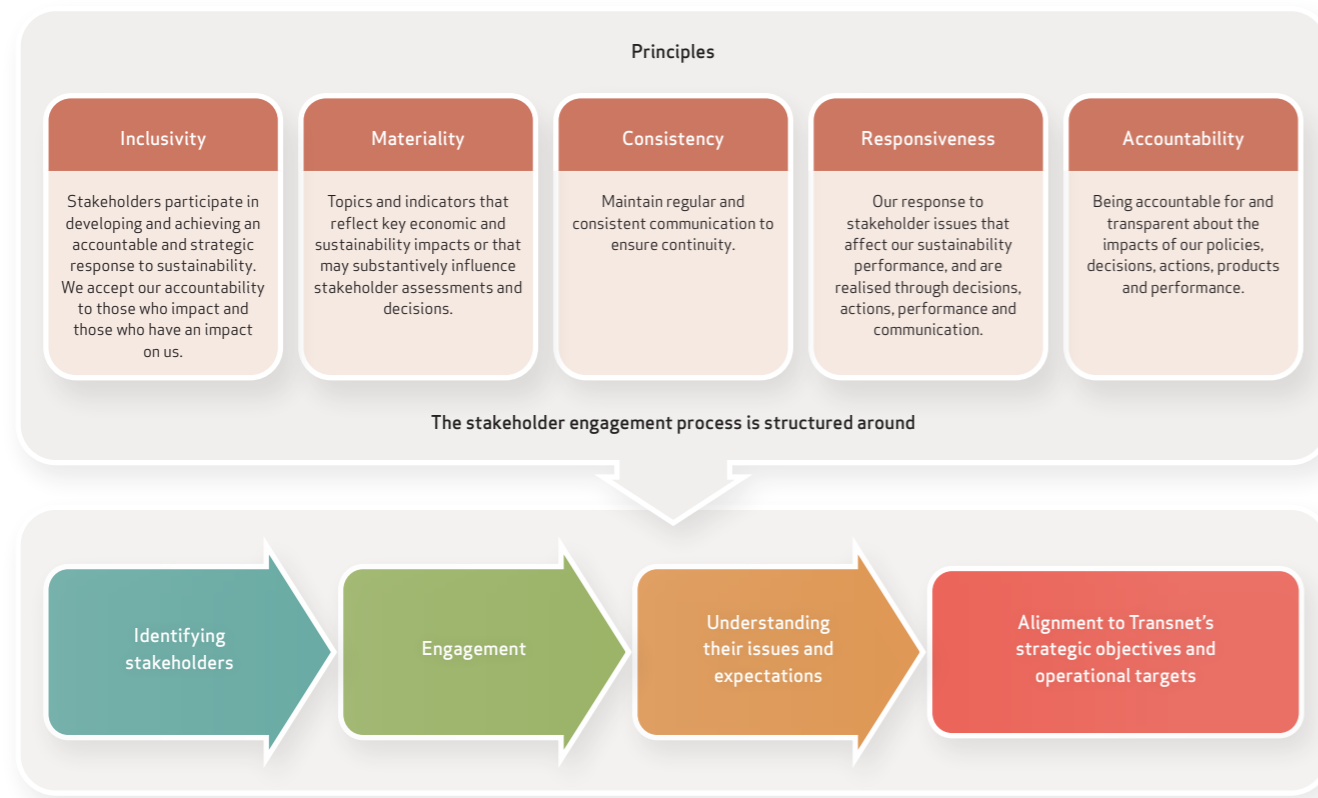
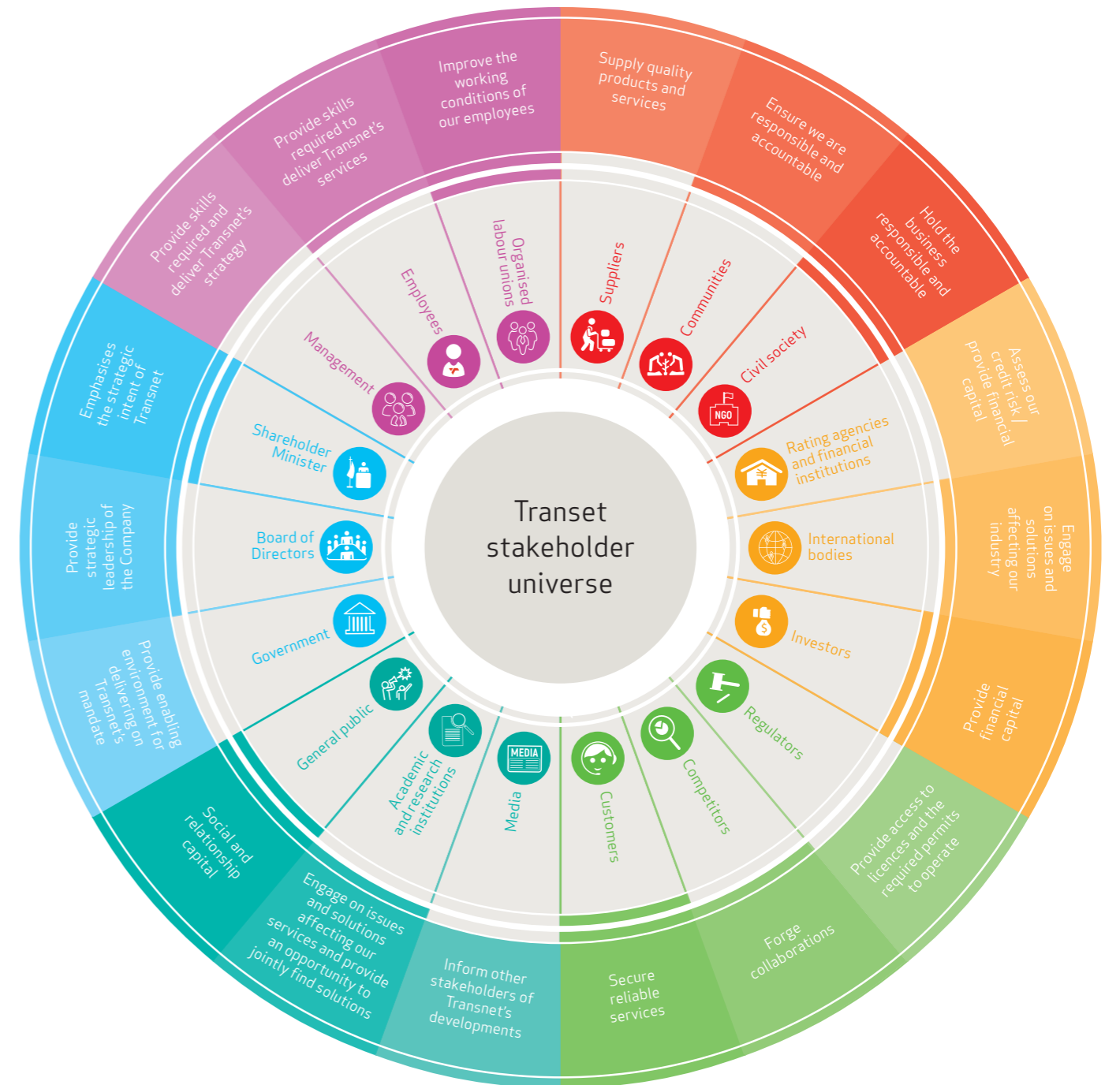











Figure 5: Our 2022 stakeholder universe





Stakeholder issues impacting our strategy and operations


Governance and leadership matters	
Concerned/interested stakeholders	Matters raised
 Shareholder Minister	<ul style="list-style-type: none"> Governance and leadership issues
 Investors, ratings agencies and financial institutions	<ul style="list-style-type: none"> Concerns around governance
Transnet's responses	
<ul style="list-style-type: none"> Accountability: Transnet has implemented initiatives to improve corporate governance and is committed to keeping the Shareholder updated on all legal and regulatory matters that may impact Transnet's reputation and brand, as well as providing timeous reporting on the financial and operational sustainability of the Company. Corporate governance: Initiatives include strengthening the internal control environment by continuously issuing amendments to the Delegation of Authority Framework as required, providing additional PFMA-related training for all levels of management, and launching the e-Tender portal to prevent any mishandling of tender submissions. Fraud prevention: Consequence management, through legal action if required, has been strengthened to prevent fraudulent activities. 	

Improving compliance with legal and other requirements	
Concerned/interested stakeholders	Matters raised
 Shareholder Minister	<ul style="list-style-type: none"> Performance against Shareholder's Compact
 Investors, ratings agencies and financial institutions	<ul style="list-style-type: none"> Covenant breaches and credit rating downgrades
 Board of Directors	<ul style="list-style-type: none"> Approval and monitoring of Shareholder's Compact
 Customers	<ul style="list-style-type: none"> Terms and conditions of long-term contracts with coal exporters
Transnet's responses	
<ul style="list-style-type: none"> Shareholder's Compact: Transnet is focusing the Shareholder's Compact on initiatives that are central to the organisation's structural reform and continues to provide the Shareholder and other interested stakeholders with updates on Compact performance, operational performance, financial performance, capital expenditure performance, and regulatory matter. Regular Board and committee meetings, as prescribed, interrogate matters within their respective mandates. Covenant breaches: All funding partners have been engaged regarding present and possible covenant breaches on loans due to credit rating downgrades. Although the negotiations are still ongoing, Transnet is confident that funding partners will consider waivers for the affected loans owing to long-standing business relationships. Coal contracts: Transnet, through Freight Rail, has commenced discussions on the terms of long-term contracts with coal exporters. 	

Addressing and responding to issues and concerns	
Concerned/interested stakeholders	Matters raised
 Customers	<ul style="list-style-type: none"> Impact of congestion and poor operations on agricultural sector
 Employees	<ul style="list-style-type: none"> Request to receive information in their mother tongue languages
 General public	<ul style="list-style-type: none"> Request to detour NMPP in certain residential areas
Transnet's responses	
<ul style="list-style-type: none"> Mother tongue: Group Corporate Affairs performed a Language Preference survey to gauge employees' language preferences for receiving information, and preferred languages for communicating with the Company. Agriculture: As a strategically important sector to the economy, the agricultural sector has been prioritised by Transnet as part of the Growth and Renewal Strategy. Short-term interventions are underway to resolve the immediate operational challenges faced by agricultural exporters, while medium- to long-term capacity expansion plans are receiving attention. Transnet Port Terminals continues to work with customers and the industry to ensure that the ports adequately support the timeous export of agricultural products to international markets. NMPP: The Kaydale Residents Forum has requested that the Multi-Product Pipeline be detoured to avoid their area, alleging that the process of servitude acquisition had been conducted without engaging the relevant and/or affected land (ervens) owners. According to records, after the granting of Environmental Authorisation in 2008, servitude agreements were signed between BCCL Developers (Pty) Ltd and landowners in the same year. These were subsequently registered in 2011. With continued adherence to the servitude conditions, the pipeline poses a minimal risk to communities. 	

Ethics and corruption	
Concerned/interested stakeholders	Matters raised
 Investors, ratings agencies and financial institutions	<ul style="list-style-type: none"> State Capture
 Government	<ul style="list-style-type: none"> SCOPA and State Capture
Transnet's responses	
<ul style="list-style-type: none"> From the Shareholder: It is the view of both the Minister and DPE management that the Transnet management team has performed well in repositioning Transnet and in providing transparent insight into the Company's financial standing and its operational issues. SCOPA: Full co-operation with the Commission was monitored through weekly meetings with the Commission investigators who were hosted at the Transnet premises. Transnet appointed a firm of attorneys to represent the Company during the investigations. The Company continues to provide the Commission with all requested information in conducting the investigations. State Capture: With regard to State capture and the 1 064 locomotives legal action, Transnet and the SIU jointly launched a substantive application in the High Court to review and set aside the locomotive supply agreements, which had been concluded with four OEMs: China South Rail, China North Rail, Bombardier Transport and General Electric. The relief sought against each OEM is specific but includes the set aside of the contracts, and for the court to award a just and equitable remedy, which will include Transnet retaining the locomotives in its possession and receiving compensation for overpayments. 	






Employment and skills development

Concerned/interested stakeholders	Matters raised
 Communities	<ul style="list-style-type: none"> • Employment of locals particularly youth • Employment of foreign nationals by service providers

Transnet's responses

- **Employment opportunities:** Transnet is committed to advertising positions with a greater geographic focus so that local community stakeholders can get information on vacancies or other opportunities closer to their communities. Transnet will also embark on career expos in rural and disadvantaged communities to inform as many people as possible about future opportunities.
- **Foreign labour:** Transnet has initiated an investigation into the appointment of foreign nationals by service providers (e.g truck drivers and cleaners). Accordingly, findings and recommendations on resolving significant issues will be presented to All Truck Drivers Foundation South Africa (ATDFSA) and other concerned stakeholders in due course.




Improving health and safety

Concerned/interested stakeholders	Matters raised
 Board of Directors	<ul style="list-style-type: none"> • Health and safety of employees • Mental health issues related to stress induced by the COVID pandemic • Safety next to railway lines • Low employee vaccination uptake, and declaration • Fires on the Blue Train at the Richards Bay and Durban container terminals (DCT)
 Employees	
 Communities	
 Management	
 Media	

Transnet's responses

- **Hazards:** Group Safety, in collaboration with Group Corporate Affairs, created a hotline and WhatsApp line, which were shared Transnet-wide for quick reporting of incidents and safety hazards.
- **Mental health:** As part of Transnet's efforts to assist staff to manage stress and anxiety related to the COVID-19 pandemic, Transnet introduced the Kimi Screening Stress Tool to assist staff in dealing with stress. Group Occupational Health and Wellness, in collaboration with Group Corporate Affairs, also hosted a series of webinars to educate employees about the importance of good nutrition as an important factor in staying well during the pandemic.
- **Vaccination:** The "Take a Shot for SA" campaign to inform and encourage employees to get vaccinated, as well as the Ambassadors programme and Vaccination Drive Week ahead of the festive season, were initiatives by Group Corporate Affairs and Occupational Health and Wellness. Key objectives were to debunk COVID-19 vaccine misinformation, to gather employees' views about the vaccine, and create awareness of the vaccine and its benefits.
- **Community safety:** Regular awareness raising sessions are taking place and pamphlets are being distributed within communities, schools and churches, particularly in the vicinity of level crossings.
- **Fires:** Following a Blue Train coach catching fire, management took the decision to temporarily suspend operations in 2021/22 as a precautionary measure, while the train underwent thorough technical assessments. The fire occurred while the train was in for repairs at Transnet's Engineering facility in Koedoespoort. Further fires at Durban Container Terminal (DCT) Pier 2 were investigated where Transnet was working with shipping agents, Customs (SARS) and other relevant authorities on the matter. Port regulations require that each consignment be declared in terms of the International Maritime Dangerous Goods (IMDG) Codes, denoting them as either general or dangerous goods.




Improving collaboration and integration

Concerned/interested stakeholders	Matters raised
 Shareholder Minister	<ul style="list-style-type: none"> • Collaboration with PRASA • Efficiencies at the Port of Cape Town • Congestion at the Port of Durban
 Customers	
 Media	

Transnet's responses

- **Durban Port capacity:** To improve overall port efficiency and address congestion challenges within the Port of Durban, National Ports Authority (TNPA) is currently optimising port upgrade plans. The old ACSA airport site is also earmarked as a priority development site for back-of-port operations and a truck staging site. The automotive cluster is set to receive a boost and will benefit from additional access to land. It is proposed that Dube Trade Port participate in the management of port upgrades in order to benefit from access to the industrial development zone at Gqeberha. The Port of Cape Town is also a focal point for TNPA's optimisation plans.
- **Road to rail:** The volume shift from road to rail is closely tracked and significant achievements have been recorded, such as 26 000 truckloads having been moved from the roads on the Cape corridor.






Financial sustainability and cost containment

Concerned/interested stakeholders	Matters raised
 Investors, ratings agencies and financial institutions	<ul style="list-style-type: none"> • Liquidity and funding, and financial market instruments • Cash interest cover and audit qualification covenant breaches • NPA investment in ports over the next five years • Voluntary severance packages (VSPs)
 Media	
 Organised labour unions	

Transnet's responses

- **Cost containment and VSPs:** Transnet has engaged with labour on VSPs. The VSP process aimed to cut the Company's operational costs by R3,2 billion, which could be diverted to other running costs such as capital investments. Transnet employees were offered financial guidance and financial planning sessions in this regard.
- **Liquidity:** Transnet continues to engage rating agencies to share the latest cash flow projections as an indication of the current and short-term liquidity positions. Any strategic interventions that are proposed or implemented by Transnet are shared with the rating agencies to improve their confidence in Transnet's ability to remediate its liquidity position. Transnet is seeking to remedy liquidity issues raised with other long-term funding.
- **Investment:** TNPA intends to invest heavily into the ports in the next five years. The Group Chief Executive held a media briefing alongside the Minister of the Department of Public Enterprises, Mr Pravin Gordhan, and the President of South Africa, Hon Cyril Ramaphosa, on the planned port expansions and developments around the ports of South Africa over the next five years. These investments have an estimated value of over R100 billion.




Clarity on Transnet's overall strategy

Concerned/interested stakeholders	Matters raised
 Investors, ratings agencies and financial institutions	<ul style="list-style-type: none"> • Transnet's new strategy
 Board of Directors	<ul style="list-style-type: none"> • Development, approval, and monitoring of strategy
 Government	<ul style="list-style-type: none"> • Transnet's Hub Port Strategy and justification for expansion and volumes
 Organised labour unions	<ul style="list-style-type: none"> • Private sector partnerships (PSPs)
 Regulators	<ul style="list-style-type: none"> • Enabling third party access and participation on TFR Rail Network

Transnet's responses

- **Transnet's strategy:** With Transnet embarking on the new Growth and Renewal Strategy, roadshows were successfully conducted with potential investors who expressed interest in participating.
- **Hub port:** Transnet's Hub Port Strategy and the Durban hub port development seek to create an integrated hub port system, which will increase the attractiveness and capacity of South African ports.
- **PSPs:** PSP offerings include branch line opportunities, and various ports. To address concerns relating to PSPs, Transnet has engaged with heads of employee relations and all labour representatives to discuss the nature and participation scopes of intended PSPs. The Board of Directors also committed to biannual deep dive sessions to review strategic projects as part of the development, approval, implementation, and monitoring of the PSP-based Growth and Renewal Strategy.
- **Third-party access:** Transnet's intended Rail reform will provide a platform from which to leverage partnerships for growth. Further, to adhere to the Department of Transport's requirement to open rail branch lines, Transnet has begun engaging the Railway Safety Regulator and processes are underway to enable third-party access and participation on the Freight Rail Network. Third-party access arrangements and slot pricing are being developed.



Clarity on the operating model

Concerned/interested stakeholders	Matters raised
 Board of Directors	<ul style="list-style-type: none"> • Corporatisation of TNPA
 Government	<ul style="list-style-type: none"> • Subsidisation of the entity by the TNPA
 Regulators	<ul style="list-style-type: none"> • Corporatisation of NPA

Transnet's responses

- **Transnet National Ports Authority:** The decision to corporatise the TNPA as an independent subsidiary of Transnet seeks to eliminate financial reporting issues and the subsidisation of the entity by the TNPA. The TNPA will now have its own subsidiary board. Stock Exchange News Service (SENS) announcements regarding the subsidiarisation of TNPA have been issued, with lenders, rating agencies, and investors all having been engaged on the matter.





Competitive pricing

Concerned/interested stakeholders	Matters raised
 Customers	<ul style="list-style-type: none"> • Fair and equitable railway safety permit fees methodology
 Regulators	<ul style="list-style-type: none"> • Competition Commission investigations

Transnet's responses

- **Competition Commission:** Transnet continues to engage the Competition Commission on current investigations and has made an offer on a "no-liability basis" to the Constitutional Court. The Transnet team is receiving training on competition matters.
- **Railway safety permit fees methodology:** Transnet has engaged the Shareholder Ministry on business matters of a strategic nature such as the development of an appropriate, fair and equitable railway safety permit fees methodology. The Railway Safety Regulator (RSR) and its business advisory firm, Deloitte, have contributed to the discussion.


Transnet Property

Concerned/interested stakeholders	Matters raised
 Employees	<ul style="list-style-type: none"> • Relocation of Corporate Centre from Waterfall to Carlton Centre
 Government	<ul style="list-style-type: none"> • Competing land-uses by Air Force and Navy
 Management	<ul style="list-style-type: none"> • Reluctance of employees to return to site after COVID-19
 Media	<ul style="list-style-type: none"> • Richards Bay land claim

Transnet's responses

- **Durban:** The South African Air Force currently occupies a base on land which historically belonged to ACSA, which has now been earmarked for development. Planning is underway for the Air Force to move to the Dube Trade Port in the foreseeable future.
- **Head office:** Transnet's Corporate Centre has relocated from the centralised Waterfall Estate to Carlton Centre, Nzazm, Isando and 138 Eloff Street from 1 October 2021.
- **COVID-19:** With employees reluctant to return to work sites after the announcement of COVID-19 Alert Level 1, Group Corporate Affairs produced a "return to site" video message which was shared company-wide as well as a weekly "return to site" messages that was transmitted by SMS and other media.
- **Richards Bay land claim:** Transnet completed the Richards Bay land claim processes with the people of uMhlatuze. This was a landmark agreement that will allow for the progress of the port expansion plans.




Environmental stewardship

Concerned/interested stakeholders	Matters raised
 Regulators	<ul style="list-style-type: none"> Pipeline spillages resulting in water and land pollution

Transnet's responses

- Environmental impacts:** Transnet is collaborating with a dedicated team to prevent incidents of theft and to ensure that perpetrators are charged and prosecuted where incidents have occurred. This team includes members of the Hawks, SAPS Crime Intelligence, State Security Agency, the National Prosecuting Authority (NPA), local SAPS services, and community policing forums. The Department of Forestry, Fisheries and the Environment (DFFE) has also been engaged in the frequent spillage incidents from Transnet Pipeline, which result in water and land pollution.



Security management

Concerned/interested stakeholders	Matters raised
 Customers	<ul style="list-style-type: none"> Impact of theft and vandalism on rail service
 Government	<ul style="list-style-type: none"> Cyberattacks Security breaches on the pipeline and vandalism
 Communities	<ul style="list-style-type: none"> Theft and vandalism affecting service provision to communities

Transnet's responses

- Cybersecurity:** Transnet employed cybersecurity experts to assist with incident analysis, and to upgrade the legacy systems and anti-virus software to more resilient solutions. A security-awareness campaign has been rolled out to all staff, and various cybersecurity mitigation plans have been implemented.
- Theft and vandalism:** Transnet experienced an unprecedented spate of theft and acts of vandalism on its infrastructure over the past two years. This has elevated customer concerns about erratic and unpredictable rail service offerings as a result of cable theft. Cable theft and other security incidents pose a security risk to the safe and reliable transport of customers' cargo across the rail network. Transnet engages communities to gather intelligence that could lead to arrests and prosecution of perpetrators. Transnet has also campaigned to inform communities of the risks associated with tampering with pipelines, which could cause fires, environmental pollution and even death. Transnet is committed to environmental protection and the safety of communities near its operations.








SD and ESD opportunities

Concerned/interested stakeholders	Matters raised
 Communities	<ul style="list-style-type: none"> SMEs and local business forums' demand for participation or inclusion in the supply chain
 Suppliers and service providers	<ul style="list-style-type: none"> Complaints regarding limited local business initiatives

Transnet's responses

- Opportunities for all:** Transnet has engaged community stakeholders to inform and train interested stakeholders on the required documentation and processes to follow for successful bidding. Transnet has prioritised supplier development by training suppliers on the new procurement system and online portal, as well as guiding them on how to do business with Transnet in general. A number of supplier engagement workshops were organised, however, some sessions had to be cancelled due to elevated COVID-19 risks at public gatherings. Workshops were arranged in various locations to inform potential SMMEs of Transnet's procurement guidelines and vendor requirements.

Procurement

Concerned/interested stakeholders	Matters raised
 Shareholder Minister	<ul style="list-style-type: none"> 2021 AFS qualified audit opinion
 Board of Directors	<ul style="list-style-type: none"> Preferential points system
 Government	<ul style="list-style-type: none"> Procurement challenges, underexpenditure
 Communities	<ul style="list-style-type: none"> Localisation of procurement spending for specific works
 Media	<ul style="list-style-type: none"> Preferential point system Localisation of procurement spend
 Regulators	<ul style="list-style-type: none"> AFS qualified audit opinion
 Suppliers and service providers	<ul style="list-style-type: none"> Challenges in the procurement of 'local content'

Transnet's responses

- Annual Financial Statements (AFS):** Transnet has obtained an exemption from disclosing irregular, fruitless and wasteful expenditure (IFWE) in its AFS as required by the PFMA for a period of three years starting from 2021/22 to 2023/24 financial periods.
- Preferential points system:** On 30 May 2022 the Constitutional Court delivered its judgment to the urgent request initiated by the Minister of Finance. The Constitutional Court, in its judgment, confirmed that order of invalidity of the PPR, 2017 should be suspended for a period of 12 months from 16 February 2022 to 23 January 2023. Transnet will therefore continue using the PPR, 2017 until National Treasury issues new regulations, this means that the preferential points system, B-BBEE level status, Pre-qualification criteria, local content etc will be applicable from 31 May 2022 until 23 January 2023 unless new regulation get promulgated before the expiry of the suspension period.
- Optimised procurement:** Transnet is implementing initiatives to reduce non-compliance with procurement principles and to ensure that Transnet remains competitive, with a more strategic approach to the appointment of its service providers.
- Localisation of spend:** Transnet has applied to the Department of Trade, Industry and Competition (DTIC) to provide clarity on matters regarding the localisation of procurement spend, as some suppliers hold the view that business opportunities are given to people outside their area and that there are very limited local business development initiatives.
- Local content:** Transnet remains fully committed to transformation and the full participation of historically disadvantaged individuals in the economy and the operations of Transnet and other State-owned Companies. The Company encourages the localisation of production. As such, procurement targets for local content relating to the procurement of the ports' equipment have led to certain challenges, as these goods had to be manufactured in South Africa. Transnet is presently in talks with the DTIC, the DPE and National Treasury to address this matter.

Enterprise Risk Management (ERM)

Introduction to our risk environment

Transnet's risk management process and architecture

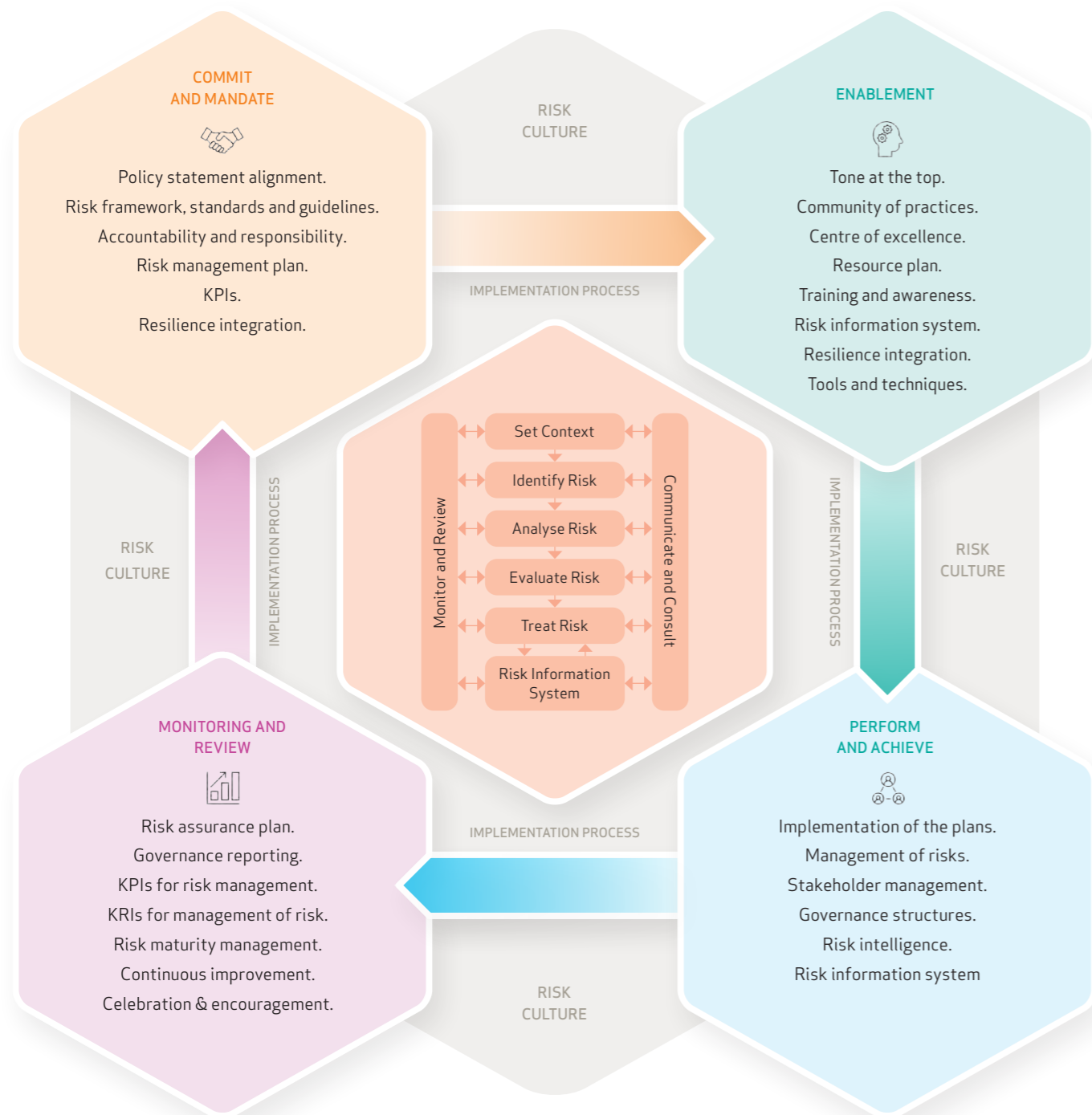


King IV. P2, 4, 8 & 11



During the 2020 reporting year, we embarked on a formal risk transformation management process to close the risk strategy-to-execution gap. Accordingly, we are embedding the ERM architecture methodologies while also steering our employees' mindsets towards risk ownership instead of simply risk reporting. Transnet's Integrated Risk Management Plan (IRMP) framework is depicted below.

Figure 5: Transnet's risk management process and architecture



Structure of the IRMP

The IRMP defines four integrated focus areas that drive the principles, concepts, common language and direction required to execute the plan, namely:

- Commitment and mandate
- Enablement
- Perform and achieve
- Monitoring and review

Operationally engaged executives lead in the definition and management of these four focus areas of the plan, resulting in this risk transformation process being both practical and relevant to the business.

The three-year IRMP is in its third year of implementation. Significant progress has been made and the Risk Committee continues to actively monitor its progress.

Our risk control and assurance environment

Risk management architecture

A formalised ERM architecture ensures a structured and consistent approach to risk management. It aligns strategy, processes, people, technology and knowledge for the purpose of evaluating and managing the uncertainties that the Company faces in creating current and future shareholder value.

The critical elements that make up the new ERM architecture are Transnet's:

- ERM Policy;
- ERM Framework; and
- Risk Appetite and Tolerance Framework.

These three elements were reviewed for purpose and appropriateness during the year. Accordingly, the Board approved related documents for the year ended 31 March 2022 and these elements are being rolled out.

The ERM Policy provides direction to the business through a commitment statement from our Board and the Group Chief Executive. The statement outlines the approach to managing risk to support the achievement of corporate objectives, to protect employees and business assets and to ensure financial sustainability.

In turn, the policy is made practical through the ERM Framework. The risk management approach that we have adopted was developed with reference to ISO 31000:2018 risk management principles and guidelines, the 2017 COSO ERM Framework and South African legislative requirements. The purpose of the framework is to provide detailed guidelines on:

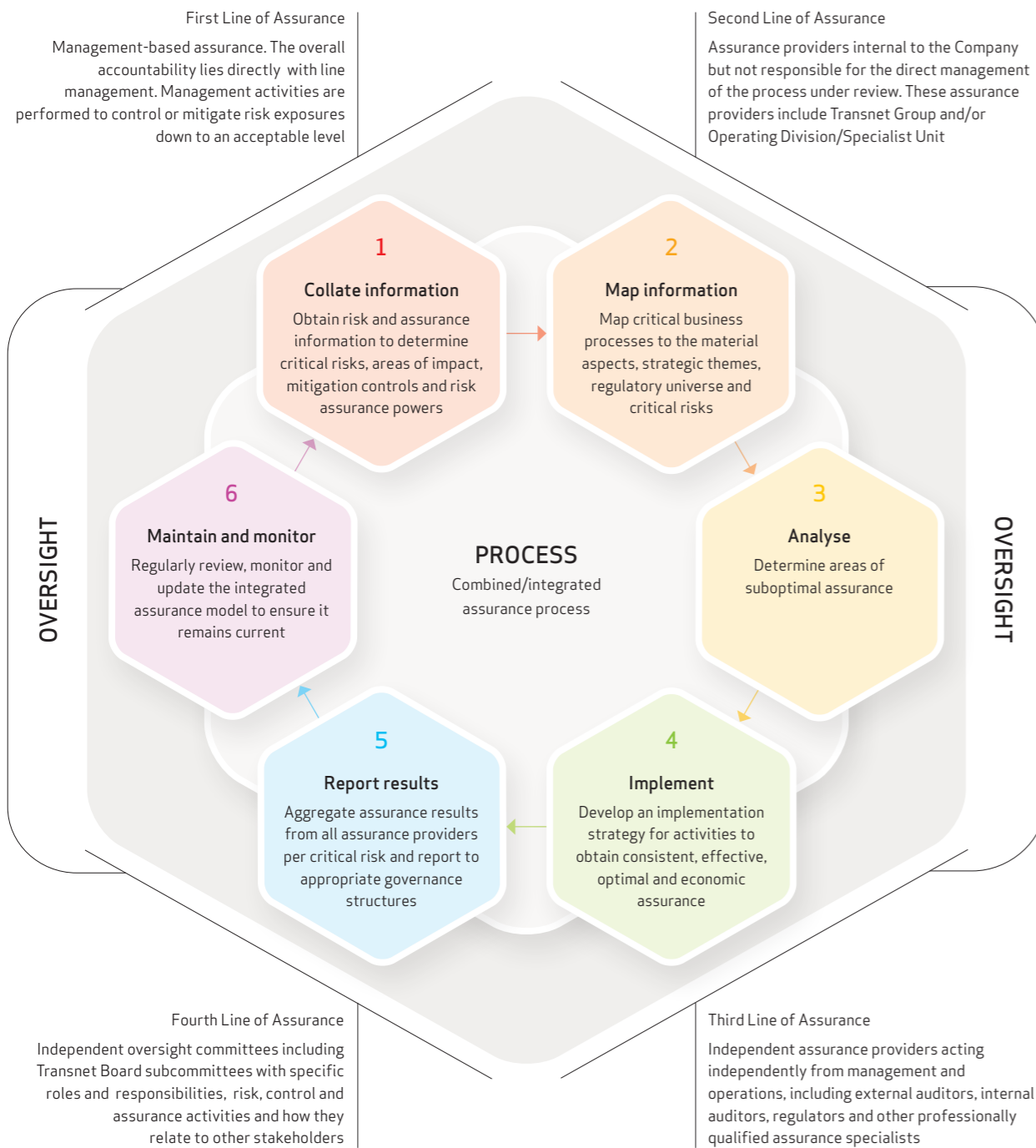
- The fundamentals and principles relating to the management of risk as well as the risk management methodologies to be applied across the organisation;
- The process for identifying, assessing, mitigating, monitoring and reporting risks and controls;
- The risk management roles and responsibilities of each management level; and
- The mechanisms for managing, monitoring and providing assurance on risks.

The IRMP emphasises the need to reset the risk management base and to reposition the function of risk management to respond to the ever-changing macroeconomic, strategic, social and operational contexts of a dynamic and evolving organisation. Further, Transnet advocates the need to instil an ethos of ethical leadership founded on the principled values advocated by the King IV Report. Accordingly, risk-crucial leadership conversations and the implementation of functional risk action plans are ongoing to achieve the aforementioned contextual alignment and value-based principles.

As a first line of assurance, the responsibility for managing risk is actualised by assigning organisational risk 'sponsorship' and 'ownership' to mitigate the top 10 strategic risk clusters and key emerging risks. Therefore, risk accountability is directly in the ambit of line management, and while the Company has made measurable progress, more attention is required to ensure the desired levels of accountability are embedded.

The second line of assurance engages assurance providers internal to the organisation, but who are indirectly accountable for risk management, such as Group functions and the ODs. The second line of assurance aims to further embed adequacy and effectiveness in managing the top 10 strategic risk clusters and key emerging risks. During the 2022 reporting year, this element of assurance was reviewed and was found to require improvement, which could be achieved through more rigorous integrated audits across assurance functions such as Risk, Sustainability and Compliance.

The third and fourth lines of assurance are provided by independent assurance providers acting independently from management and our operations. The third line of assurance relates to the Company's internal and external audit providers and regulators. The fourth line of assurance relates to the independent oversight of our Board committees that consider the impact of risks on our strategy, operations and stakeholders.



Managing our risk appetite and tolerance

The DPE is Transnet's sole shareholder and also oversees several state-owned companies that play key roles in South Africa's critical economic sectors. The DPE has developed the Risk and Integrity Management Framework (RIMF) to support improved oversight and performance and also to strengthen governance in state-owned companies. The RIMF outlines norms and standards related to risk-based performance management, which expresses the amount and type of risk that the board of a state-owned company should be willing to accept (risk appetite and tolerance). This should also include the extent to which our current level of risk-taking is aligned

to the chosen risk appetite expressed in the risk appetite statement.

To give effect to this framework's compliance requirements, we are implementing a database tracking and monitoring strategy and process to measure our risk appetite, risk threshold and possible breaches going forward. Additionally, related organisational functions have been integrated to detect, prevent and mitigate the impacts of acts of fraud. To this end, the implementation of the RIMF will be rolled out iteratively across the business during 2022/23.

Contextualising our top 10 risks for 2022

During the reporting year, we reviewed the top strategic and emerging risks in the context of Transnet's Segment Strategy. Risks and opportunities were identified and confirmed through discussions with the ODs and TCC functions. Following a meeting of the Extended Exco in October 2021, risk mitigation strategies and actions were reviewed for purpose and adequacy. Subsequent engagements were held with risk owners and risk sponsors to align their understanding and activities with the findings of the Extended Exco's outcomes.

Emerging risks were identified through a review of the current business environment (external and internal factors that may impact our business). Accordingly, risks were assessed in the context of their potential to impact the Company's operational and strategic delivery. This assessment considered various key risk indicators and tolerances applicable to each risk cluster.

The risk appetite statements and tolerance limits are identified for each strategic risk cluster and these are both qualitative and quantitative. There is a rigorous programme in place to digitise the risk information which will ensure the integrity of data for the efficient monitoring and reporting of tolerance breaches.

Below we provide an overview of events and operational aspects posing significant risks to the business together with summaries of their nature and severity:

Operational sustainability and efficiency risk, including recent Durban floods

Operational challenges

During the year, Transnet suffered various operational adversities, including major derailments that led to direct losses ranging from asset damage to consequential losses such as the loss of products and planned train slots. Community unrests are on the rise along our railway operations. As such, the scourge of cable theft and vandalism continued to be challenges, resulting in derailments and impacting our overall operational performance. Similarly, product theft on the NMPP resulted in product losses and material environmental harm. Fire incidents contributed to equipment and infrastructure damage.

Flooding in KwaZulu-Natal

Following the heavy rains and flooding in Durban during April 2022, Transnet prioritised the safety and support of our employees during the crisis as well as the recovery and stabilisation of operations. We established a Nerve Command Centre to handle remediation activities to sustain the business without compromising the safety of our employees.

The Port of Durban has recovered sufficiently in the aftermath of the floods and is operational for both Port Terminals and Transnet National Ports Authority. Pipelines is also operating normally, ensuring the security of fuel supply to inland markets. Rehabilitation of the rail business is a continuing priority, given that our rail operations remain under pressure from severe flood damages. The total cost of damages is being assessed and is anticipated to be substantial. Power disruptions and water supply reticulation disruptions are key risks resulting from the floods.

Cyberattack on Transnet

A cyberattack negatively impacted our operations and financial performance during the reporting year. With ransomware continuing to rise, we have fast-tracked employee training to ensure that they

remain aware of the critical nature of cyber threats and the ways in which these can be actualised due to carelessness.

Infrastructure/asset creation risk

Risks impacting Transnet's infrastructure and asset management could present major constraints to the business, with negative implications for capital expenditure as well as operating expenses, both being critical for infrastructure maintenance. Strategic prioritisation of asset-based investments is critical in the context of our self-funded financial sustainability and investment in the maintenance and expansion of key infrastructure assets. Should the condition of infrastructure continue to deteriorate while maintenance falls behind over an extended period, significant infrastructure risks could lead to equipment failure and serious safety and security incidents, including vandalism, theft and fires, as was experienced during the year.

Transnet's top 10 risks for 2022

Table 20: Residual top 10 risk cluster ranking - movement from 2021 to 2022







Risk priority and senior oversight	
Priority I Risk - GCE and Board level	
Priority II Risk - Operating Divisions' CEs	
Priority III Risk - General Manager level	
Priority IV Risk - Management level	
Priority V Risk - Employee level	

Table 21: Residual top 10 risk cluster ranking - movement from 2021 to 2022

2021 risk rating (residual)	
1	Financial sustainability
2	Customers/markets/segments
3	Developmental/industrialisation
4	Commercial
5	Stakeholder engagement
6	Infrastructure/asset creation
7	People
8	Governance
9	Safety, security, health and environment
10	Operational sustainability and efficiency
2022 risk rating (residual)	
1	Financial sustainability
2	Market/segment/customer ¹
3	Business development ²
4	Infrastructure/asset creation
5	Operational sustainability and efficiency
6	Safety, security, health and environment
7	People and learning ³
8	Governance
9	Stakeholder management
10	Developmental/industrialisation/procurement ⁴

¹ Market/segment/customer - the customer business process has been moved to TFR and TPT.
² Commercial - this cluster has been renamed business development which includes regional integration and PSPs (new business).
³ People - this cluster has been updated to reflect people management and the Transnet Academy under one sponsor and department.
⁴ Developmental/industrialisation has been updated to include procurement risks.

IFRS Sustainability Disclosures*

The resilience of Transnet's strategy  Qualitative (Q) or Financial (F)   Short term: 1 - 2 years  Medium term: 3 - 5 years  Long term: 6 - 20 years 

* IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information


Risk root causes and mitigation strategies

Table 21: Top 10 risk cluster root causes and mitigation strategies

Causes	Key mitigation strategies per root cause		Qualifier
	Time horizon 		
1. Financial sustainability			
• Poor business performance which may lead to debt covenant breaches and asset impairments		• Managing revenue at risk and implemented recovery plans for those sectors at risk	
• Tax regulation amendments leading to additional tax liability and payments	S	• Subscribing to SAICA (e.g. Integritax), attending National Treasury workshops and reviewing the annual Budget Speech proposals to stay abreast with legislative proposals and to understand the impact of legislative proposals and/or changes	Q
• Credit downgrades complicating ability to raise affordable funding or match long-term funding needs	L	• Introducing project funding aimed at achieving a lower cost of funding	Q
2. Customers/markets/segments			
• Failure to address the high levels of customer dissatisfaction	S	• Address operational challenges (e.g. cable theft, asset condition) resulting in volumes not being executed and commitments to customers not being honoured • Regular customer engagement to align on delivery	Q
• Operational challenges resulting in volumes not being executed and commitments to customers not being honoured	S	• Order book tracking and monitoring	Q
• The Russia/Ukraine war has an impact on some of our key markets, e.g. fuel, automotive and agricultural products	L	• Entering long-term take or pay contracts • Network-based costing model applied for pricing models • Revenue at risk reports produced annually and sampling of prices to assess deviations	Q
3. Developmental/industrialisation/procurement			
• Inability to attract suitable PSPs to develop key infrastructure requirements	M	• Extensive market research, vetting and background checks to identify suitable PSPs	Q
• Commercially complex agreements onerous to manage	M	• Identifying commercial risks early in the investment and case preparation, and changing plans decisively if required to prevent costly mistakes	Q
• Not realising the benefits from PSP and cross-border investments	M	• Effective contract management with measurable KPIs that are closely monitored	Q
• Inability to reduce the cost of doing business	M	• Effective contract management with pre-agreed prices that are cost effective to Transnet	Q
• Inadequate demand planning, poor inventory planning and/or management	M	• Implementing more efficient stock management processes and systems • Providing assurance on the improved demand planning processes	Q
• Inadequate implementation and embedding of governance frameworks and combating corruption risk	L	• Resourcing the organisational structure against the approved SCM operating model • Embed probity checks on procurement processes, verify conflicts of interest and conduct lifestyle audits on employees • Implement proactive assurance within procurement processes including compliance checkpoints to ensure effective compliance monitoring and reporting to strengthen the control environment • Refine governance frameworks and leverage digitisation solutions to standardise procurement processes, improve procurement efficiency, visibility and reporting	Q
• Inadequate category management	L	• Implementing optimisation initiatives on projects • Ensuring ODs have standardised the procurement performance targets • Sourcing process to be initiated based on category strategies	Q

Causes	Key mitigation strategies per root cause		Qualifier
	Time horizon 		
4. Business development			
• Insufficient or lack of funding for projects resulting in failure to take up growth opportunities	L	• Determining appropriate funding strategies to exploit growth opportunities • Identifying local and international funding partners to improve capital affordability and availability	Q
• Lack of integration and alignment with key stakeholders and strategic partners resulting in failure to effectively fulfil transactions	M	• Update stakeholder engagement plan for each transaction	Q
• Partners may not have the requisite capabilities and competencies to execute the transactions	L	• Conducting partner vetting (i.e. legal, technical and financial) • Identifying partners who may not have the country risk review (desktop analysis)	Q
5. Stakeholder engagement			
• Perceived or real lack of a participative process aimed at addressing poor socio-economic conditions	M	• Developing and implementing a plan for proactive and ongoing community engagements	Q
• Fake news that may be seen as legitimate by stakeholders, resulting in reputational damage to Transnet	L	• Developing and implementing solutions with strategic partners like the ICT department to issue take-down notices for fake sites	Q
• Poor brand reputation leading to bad perceptions of the Company	M	• Repositioning the brand in line with brand audit findings	Q
• Disengaged employees, resulting in poor productivity levels	M	• Timeous and consistent information sharing to promote a culture of transparency and inclusivity	Q
6. Infrastructure/asset creation			
• Delays in procurement of long lead items due to global challenges increase costs, turnaround time and non-delivery of strategic objectives	M	• Implementing the revised Capital Programme Governance Framework to track benefit realisation • Procurement strategies for long lead items to be in place/developed and implemented as part of project life cycle process • Construction Procurement Manual to be reviewed to ensure agile procurement and contracting processes	Q
• Lack of scheduled maintenance plan in place or insufficient planning (i.e. including planning of procurement processes) for scheduled maintenance, leading to unsafe working conditions and impacting on delivery to customers	M	• Implementation of specific maintenance plans for specific operating divisions (infrastructure, locomotives, wagons, ports and pipelines) • Assurance of maintenance projects • Development of a maintenance policy	Q
• Lack of measurement of benefits and return on investment during the life cycle of projects, leading to non-sustainability of business	M	• Conducting interim reviews and post-implementation reviews throughout the life cycle of projects • Implementing the revised Capital Programme Governance Framework to track benefit realisation	Q
7. People and learning			
• Slow pace of restructuring, transformation and the lack of digitalisation in people management, resulting in poor service delivery	L	• Embedding the people management operating model by aligning the people management structures, roles and responsibilities across the business • Ensuring high visibility, integrity and validity of people management data to support organisational decisions and to enable the business • Reviewing and optimising the Transnet Change Management Framework to enable the effective application of the change network • Maximising digital platforms and adopting a staggered approach to implementing people management automation, including learning solutions and mobile tools of the trade	Q
• Lack of parity in pay and benefits across the ODs for bargaining unit employees, resulting in non-standard pay practices and not having equal work for equal pay	M	• Implementing a pay and benefit strategy and reward model that ensures all employees are remunerated fairly and competitively, and that employees are rewarded and recognised for high performance • Reviewing recognition agreements to ensure equitable pay, benefits and conditions of employment	Q
• Limited partnerships with institutions of higher learning to accelerate skills development	M	• Accelerating the finalisation of partnerships with learning institutions	Q
• The impact of COVID-19 to deliver training	S	• Designing risk-based COVID-19 protocols within the learning environment	Q

IFRS Sustainability Disclosures*

The resilience of Transnet's strategy  Qualitative (Q) or Financial (F) **Q** **F** Short term: 1 - 2 years **S** Medium term: 3 - 5 years **M** Long term: 6 - 20 years **L**

* IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Causes	Key mitigation strategies per root cause		
	Time horizon 		Qualifier
8. Governance			
• Policy/regulatory uncertainty	L	• Developing position papers to influence sector policy developments, economic and safety regulation approaches and methodologies, and sector and regulatory legislation in instances where government strategy, policy or legislation pose risks to Transnet's mandate	Q
• Inability to detect non-compliance with laws and regulations and respond in a timely manner	M	• Implementing the monitoring framework to ensure that conditions attached to regulatory decisions regarding permits, licences and tariff applications are implemented	Q
• National Treasury increasing regulatory controls to contain uneconomical spend and increasing procurement lead times	M	• Regular engagements with National Treasury to agree on the protocol in terms of engagement regarding proposed National Treasury regulatory requirements	Q
9. Safety, security, health and environment			
• Repeated operational occurrences such as fire incidents, derailments, equipment damage, manual train authorisations and the consequences on safety of a deteriorating state of our properties and infrastructure	S	• Implementing a safety risk management framework across the Company to enable risks to be timeously identified and mitigated before they result in death, injuries or interruptions to operations	Q
• Vandalism of infrastructure and assets (e.g. cables) and product theft at Transnet Pipelines	M	• Installing technology in hotspot areas, our buildings and yards to allow redeployment of these personnel to the rail reserve • Aerial surveillance with choppers and drones	Q
• Negative impact of COVID-19 pandemic on people's health and wellness	S	• Implementing employee wellness initiatives to holistically enhance well-being and the health management needs of employees • Implement the Occupational Health and Wellness Strategy and Framework and compliance with COVID-19 regulations and protocols	Q
• Adverse weather conditions impacting operations	L	• Implementing recommendations of the approved Climate Change Position Paper	Q
10. Operational sustainability and efficiency			
• Unavailability of critical port equipment on a consistent basis due to poor reliability, ageing (especially in the bulk sector), accidents and long lead times in the sourcing of spares	S	• Implementing the Transnet Freight Rail and Transnet Engineering Master Services Agreements, inclusive of a long-term parts agreement	Q
• Inadequate port infrastructure maintenance	M	• Reinforcing asset maintenance procedures during the annual Chief Engineer's inspections • Ensuring alignment of the maintenance plan with the procurement plan by instructing the implementation of maintenance forums at port level	Q
• Uncertainty in supply of energy by Eskom	M	• Signing curtailment agreements with Eskom to exclude terminals from risk of load shedding	Q
• Inadequate infrastructure to dock TNPA fleet to undergo repairs and maintenance	L	• Implementing the Ship Repair Strategy • Ship Repair to devise a plan for construction of dry docks for the ports requiring remediation	Q

Risks taken outside tolerance levels



The desired control effectiveness is decided by risk sponsors and owners, assuming that all additional mitigation becomes effective at a planned 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 and 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.

Our approach to understanding long term sustainability risks and opportunities borrows from the philosophies of Event Proximity Modelling (EPM) and scenario planning. We augment the existing ERM approach with these two elements in order to conduct a future-looking analysis. The EPM defines the time proximity for the risk assessment in short (financial year), medium (Corporate Plan) and long terms; and locates those risks in the business operations, value chain and value network. By extending the location and time proximity boundaries, we are able to understand the interconnectedness and dependencies over extended time horizons. With respect to scenario planning, we apply the notion of plausibility by combining known facts and key driving forces across the themes under assessment in order to derive the plausible scenarios that may play out. In 2022, we applied the above methodology to review our environment and social risks and opportunities, and developed a revised pathway.

Sustainability risk pathway

The infographic that follows, titled 'Emerging environmental and social risks and opportunities pathway', provides a detailed long-term perspective of Transnet's emerging sustainability risks and opportunities. The pathway reflects the interdependencies and influences of risks and opportunities over a 30-year period.

Our approach to assessing sustainability risks and opportunities



As we co-evolve within the sphere of sustainability, there are immense opportunities to transform the way we do business as well as the scope and nature of our business in the future. Sustainability continues to be a strategic imperative for nearly all organisations requiring careful management of the risks and opportunities that it brings to the fore. Technologies have driven new ways of creating value in a circular economy, for both emerging and established businesses alike. The fragility of the linear economy and its reliance on finite natural resources for growth continue to edge us closer to the brink of our planet's boundaries. Companies that embrace environmental stewardship are key to unlocking the value of a circular economy by transforming business models towards restorative and regenerative value chains. In the social domain, the growing global population (largely concentrated in cities due to rapid rates of urbanisation) and a rising urban middle class have led to an increase in the demands and pressures on urban infrastructure, and an increase in the consumption of resources, accelerating climate change-induced water security and biodiversity loss. The lack of restorative or regenerative mechanisms, coupled with population pressures, are leading to structural waste (and consequently lost economic opportunities) and negative environmental outcomes. South Africa continues to face social inequality, unemployment and poverty, which manifest as crime and service delivery protests creating disruptions across social, economic and environmental systems. All these challenges require robust governance systems in the form of oversight and policy that can lead to informed decision-making.

Abridged governance

Introduction



As the Accounting Authority, the Board of Directors (the Board) reports to the Minister of Public Enterprises who serves as the Executive Authority and Shareholder Minister of Transnet SOC Ltd (the Company). The Shareholder's rights are represented in accordance with the provisions of the PFMA and the Companies Act. The Board oversees the execution of the Company's strategy and monitors delivery of operational, commercial and statutory objectives. In executing the above, the Board ensures the Company's long-term financial, socio-economic and environmental sustainability while balancing the interests of key stakeholders.

The Company annually enters into a Shareholder's Compact with the Shareholder Minister where it records key performance measures and indicators. The Board oversees and monitors the Company's performance against the agreed targets and ensures that adequate processes are in place for budget planning and allocation to advance the Company's mandate. The Board also approves the annual Corporate Plan which ensures proper execution of plans and effective utilisation of resources.

The Company is also the Shareholder of two wholly owned subsidiaries, namely Transnet International Holdings SOC Ltd (incorporated on 29 August 2017) and Transnet National Ports Authority SOC Ltd (currently being subsidiarised in line with the National Ports Act, No 12 of 2005).

Governance framework



Governance is underpinned by effective leadership, oversight and management accountability based on a sound ethical foundation. In this regard, the Board sets the tone for ethical leadership, which forms the foundation for good corporate governance. Sound governance principles and processes define and steer the responsibilities of the Board and actively promote a sustained governance culture throughout the organisation. The Board continuously strives to ensure adherence to good governance principles when executing the Company's mandate in line with the approved strategy while being cognisant of the Company's risk appetite. The Board ensures that the recommended corrective actions appropriately address identified challenges when overseeing the implementation of the Company's strategy.

Executive directors



In addition, the Board also includes the following two executive directors:

- Ms Portia Penelope Joy Derby is the Group Chief Executive (GCE) and an executive director of the Company since 1 February 2020.
- Ms Nonkululeko Sylvia Dlamini is the Group Chief Financial Officer (GCFO) and an executive director of the Company since 1 July 2020.

Core responsibilities of the Board



The Board serves as the Company's focal point and guardian of corporate governance. The approved Board and committee charters detail the process for executing its leadership function. The charters explicitly outline the processes for the Board and committees to receive expert assistance in carrying out their responsibilities.

The non-executive directors have access to:

- The Company's employees by submitting written requests to the Chairperson of the Board and the GCE to engage with an employee;
- External auditors;
- Internal auditors; and
- Professional advisers.

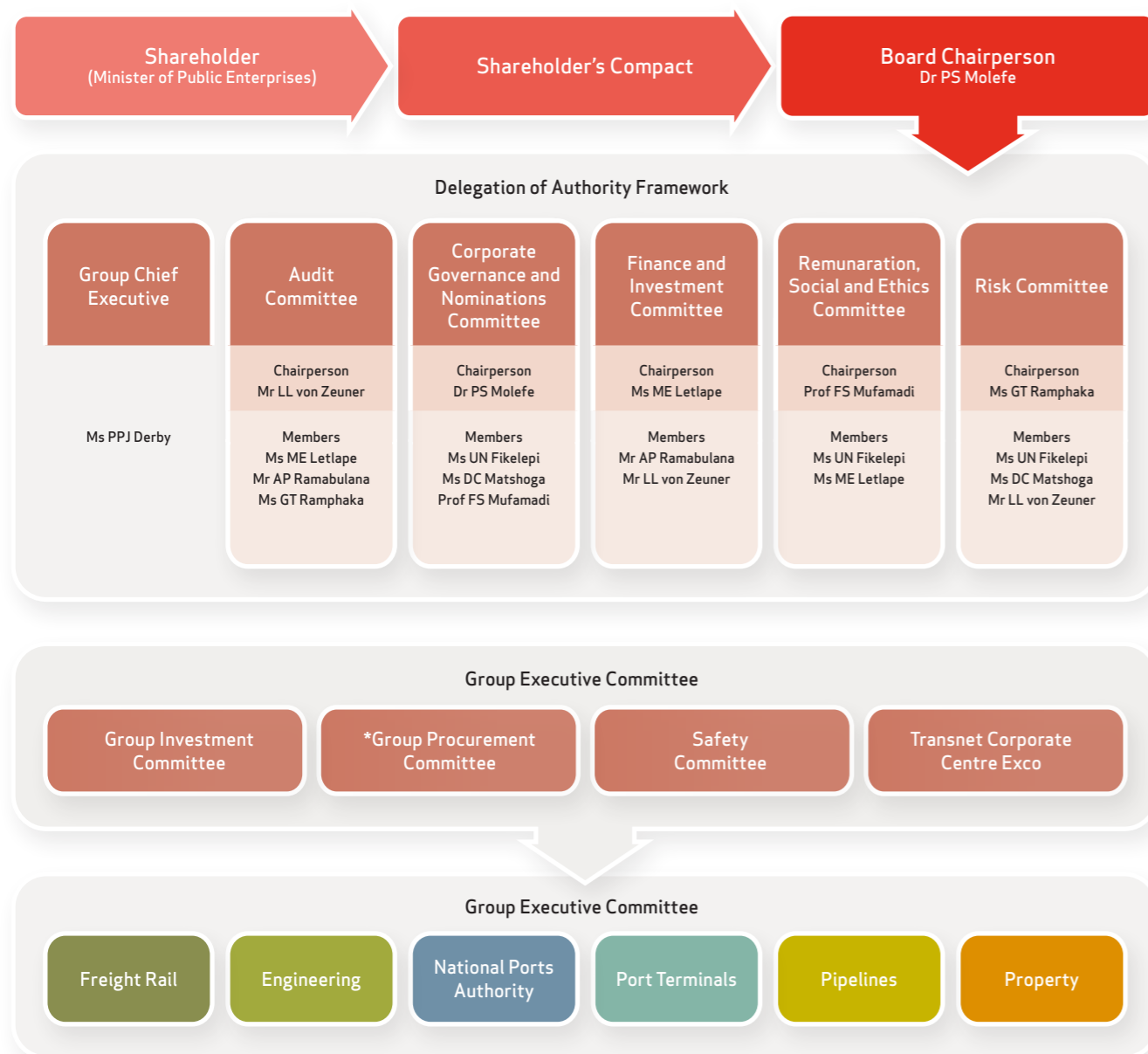
The Board is satisfied that the non-executive directors of the Company are independent, in accordance with Principle 7 of the King IV Report on Corporate Governance for South Africa, and that they have delivered on their mandate and fulfilled their fiduciary responsibilities for the year under review.

Roles of the Chairperson and Group Chief Executive



The Board ensures that the appointment of and delegation to management contribute to role clarity and effective exercise of authority and responsibility. The roles of the Chairperson and the GCE 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 GCE is an executive director and is responsible for the execution of the Company's strategy and the day-to-day management of the Company. The Group Executive Committee supports the GCE in the execution of her role.

Figure 6: Governance structure



* Procurement Committee ceased to exist upon coming into effect of Central Bid Adjudication Committee

Leadership

Appointment of directors



The Memorandum of Incorporation (MOI) is the Company's constitutive document aligned to various legislative requirements and constitutes and is the cornerstone on which the Company is managed and governed. The Company, through the Shareholder Minister, complies with the prescribed requirements in the Companies Act and the MOI for the Board's composition and the election, appointment and remuneration of the directors. The Corporate Governance and Nominations Committee is responsible for the Board's succession planning (based on the related skills requirements and skills matrix) for recommendation to the Shareholder Minister.

Non-executive directors



The current non-executive directors were reappointed at the Company's 31st annual general meeting (AGM) after having served one term in office from May 2018 to May 2021. The Board comprises eight non-executive directors.

The non-executive directors are:

- Popo Simon Molefe (Chairperson)
- Ursula Nobulali Fikelepi
- Mpho Emily Letlape
- Dimakatso Catherine Matshoga
- Fholisani Sydney Mufamadi
- Aluwani Percy Ramabulana
- Gratitude Tsholofelo Ramphaka
- Louis Leon von Zeuner



Board committees



The Board established the following committees to assist it in achieving the Company's objectives as required by the Companies Act and the MOI:

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

Effective meetings



The Board and its committees meet regularly and as and when required by the business. The meetings are facilitated by the Group Company Secretary and are planned for the financial year to deliver the Annual Work Plans in accordance with the approved corporate calendar. When necessary and after appropriate consultation, special meetings may be called at the Chairperson's or any member's request. The meeting packs are electronically dispatched timeously to the members of the Board and its committees to enable proper preparation and meaningful deliberation of matters. The committee meetings are managed by the respective committee chairpersons and are well attended.

The minutes of the Board and committee meetings are tabled at the next scheduled meeting for approval. Key governance matters, including Board attendance and decisions taken by the Board and its committees, are reported quarterly to the Shareholder Minister and as and when required.

The Companies Act requires a director to disclose any personal financial interest that they or a related person has in respect of a matter to be considered at a meeting of the Board of Directors and recuse themselves from the said meeting, unless the committee decides otherwise after due consideration. In support of the abovementioned, members and attendees of the Board and its committees declare their interests at the commencement of all its formal meetings. Similarly, members and attendees of the Group Executive Committee and its subcommittees declare their interests prior to or at the commencement of the formal meetings. These declarations are maintained by the Group Company Secretary.

Specific governance requirements



PFMA

The PFMA designates the Board of Directors as the Company's Accounting Authority and further outlines their fiduciary duties and responsibilities. The Company is classified as a major business entity and is listed under Schedule 2 of the PFMA. The Board ensures that the Company adheres to the requirements of the PFMA including for the assessment of risk, the annual budget submissions, and the conclusion of the annual Shareholder's Compact. In addition, 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.

Companies Act

The Company is governed in terms of the Companies Act and accordingly reports on the extent of its compliance with the Act as part of the Directors' Report in the Company's Annual Financial Statements (AFS).

Prescribed officers

The Company's Executive Committee members are designated as prescribed officers (see Group Executive Committee members for brief profiles set out on pages 16 to 19). The Exco members serve as the Executive Authority within their respective functional areas and Operating Divisions, and are responsible for implementing the Company's strategy as approved by the Board. They exercise general executive control over and management of the whole, or significant portion, of the business and activities of the Company as defined by the Companies Act and its regulations. The appointment of prescribed officers is elevated to the Board of Directors for consideration, with the assistance of the remuneration, social, and ethics committee. The disclosure on the remuneration of prescribed officers is set out on pages 98 to 100 of the Integrated Report as required in terms of the disclosure requirements.

King IV

The Company has adopted the principles espoused in the King IV Report on Corporate Governance for South Africa, in conjunction with regulatory provisions to achieve the overarching outcomes of sound governance, namely an ethical culture, good performance, effective control as well as operational and social legitimacy in a transparent manner. The Company attempts to do so substantively, and not simply in form, to achieve these outcomes. The Company adheres to a majority of the King IV principles and recommendations as herein outlined and reported.

The PFMA, Companies Act and Protection of Personal Information Act, No 4 of 2013 (POPIA)

This aforementioned legislations provides specific requirements pertaining to the Company's information and records management practices. These include interim financial results and annual financial statements that satisfy the International Financial Reporting Standards and the audited annual financial statements to be submitted to the relevant authorities as required. To that end, the Company finalises its annual financial statements within the set timelines and ensures that all critical stakeholders (including the Shareholder Minister, National Treasury and auditors) have timely access to those audited annual financial statements.

Corporate governance oversight frameworks



The Company's governance instruments include the following:

- **The MOI:** In addition to setting out the rights, duties and responsibilities of the Shareholder, Board and management, the MOI contains matters that are reserved for the Board's decision. The MOI was reviewed and amended during the year under review and is subject to approval by the Shareholder Minister.
- **Delegation of Authority (DOA) Policy and Framework:** The Board approved both the DOA Policy and the Framework on 17 August 2021, which became effective on 1 October 2021. The DOA Framework, an Annexure to the DOA Policy, outlines matters reserved for the Board as well as matters delegated to Board

committees, the Group Chief Executive and prescribed officers; it is reviewed annually and as and when required for adequacy and completeness.

- **Board and its committees charters:** These charters are regularly reviewed to ensure alignment with the Company's governance instruments of control, as well as any changing business needs. Similarly, the charters of the Group Executive Committee and its subcommittees are aligned with the DOA Framework and the charters of the Board and its committees. In turn, these charters inform the Annual Work Plans that direct the agendas and matters to be considered at Board meetings.
- **Corporate Governance Framework:** This framework aims to align the Company's governance processes with all the Shareholder's directives as articulated in the Statement of Intent and all other governance instruments. The framework is currently being reviewed and undergoing governance structures for approval.
- **Board-approved policies and procedures:** These policies and procedures seek to provide guidance for day-to-day operations to ensure compliance with relevant legislation, give guidance for decision-making, and streamline internal processes.

- **Management of potential conflicts of interest:** The Board continuously reviews and improves governance instruments to ensure continued adherence to the prescribed standards of ethical and professional conduct. The Companies Act prohibits a director from using the position of director, or any information obtained while acting in the capacity of a director, to gain an advantage for themselves or any other person, or to knowingly cause harm to the company or a subsidiary of the company. In this regard, various policies are developed to regulate conflicts of interest, namely Domestic Prominent Influential Persons (DPIP) and Foreign Prominent Public Officials (FPPO) and Related Parties Policy, and Declaration of Interest and Related Party Disclosures Policies for Directors and Employees.

Climate change oversight

The Board had delegated authority to the remuneration, social and ethics committee to oversee ESG-related issues. The ESG Report, including the impact of the Company's activities and products on the environment and society, is a standing item on the committee's agenda.

Board and committee meetings



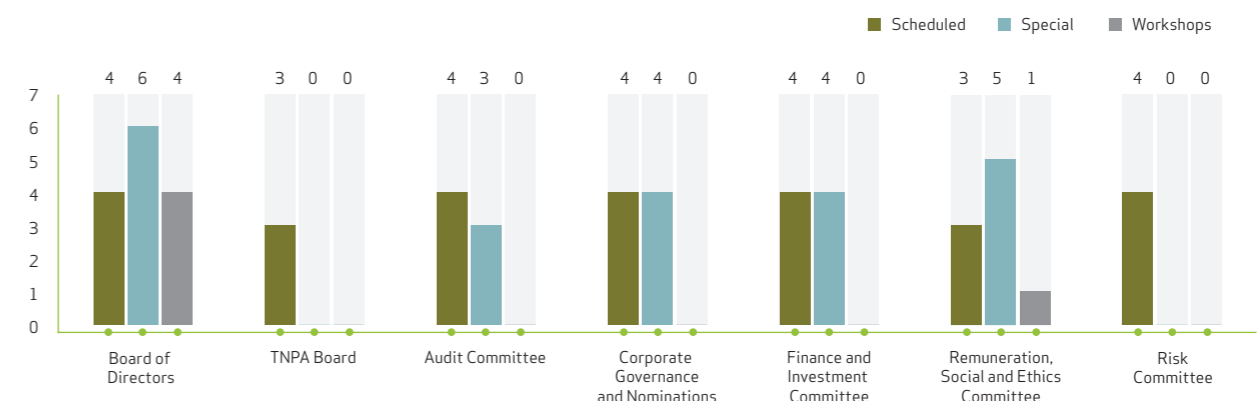
Table 22: Schedule of directors' attendance at Board and committee meetings*

Board/committee	Board	Audit Committee	Corporate Governance and Nominations Committee	Finance and Investment Committee	Remuneration, Social and Ethics Committee	Risk Committee	*NPA Board
Number of meetings held	10	7	8	8	8	4	3
Dr PS Molefe (Chairperson)	7	—	6	—	—	—	1
Ms PPJ Derby	9	—	—	—	—	—	2
Ms NS Dlamini	10	—	—	—	—	—	3
Ms UN Fikelepi	7	—	8	—	7	4	1
Ms ME Letlape	9	5	1#	7	7	—	1
Ms DC Matshoga	7	—	7	—	—	4	1
Prof FS Mufamadi	7	—	6	—	8	—	2
Mr AP Ramabulana	10	7	—	6	—	—	1
Ms GT Ramphaka	10	6	—	—	—	4	1
Mr LL von Zeuner	7	7	—	7	—	4	3

* An interim NPA Board was appointed in July 2021 to assist with the governance of the TNPA.

Attendee OBO Dr Molefe.

Graph 6: Board and committee meeting attendance for FY2021/22



Board of Directors



The Board's primary mandate is to ensure the sustainable and successful continuation of business activities by providing strategic direction to the Company. The Shareholder Minister appoints non-executive directors to the Board on a three-year term, and these appointments are confirmed at the AGM. The Chairperson of the Board engages continuously with the Shareholder Minister who

is the final arbiter on the Board's succession plans and approval of transaction applications in accordance with the provisions of section 54 of the PFMA.

King IV imposes specific responsibilities on the Board. The non-executive directors embrace these and acknowledge that the Board is primarily responsible for ensuring that the Company's strategy, risk compliance, performance and sustainability are inseparable. The Board provides effective leadership based on an ethical foundation of responsibility, accountability, fairness and transparency.

Table 23: Summary of Board's main undertakings and considerations during the year*

Board	Chairperson	Members
<p>10 total number of meetings held during the year</p> <p>Directors' attendance at Board meetings denoted by ()</p> <p>^ Executive director † Independent non-executive director</p>	Dr PS Molefe† (7)	<ul style="list-style-type: none"> › Ms PPJ Derby^ (9) › Ms N Dlamini† (10) › Ms UN Fikelepi† (7) › Ms ME Letlape† (9) › Ms DC Matshoga† (7) › Prof FS Mufamadi† (7) › Mr AP Ramabulana† (10) › Ms GT Ramphaka† (10) › Mr LL von Zeuner† (7)
Most material matters arising during the year	Main undertakings for 2023	
<ul style="list-style-type: none"> › Filling of Board vacancies following the passing of one director, and the resignation of four non-executive directors. The existing vacancies created a void with regard to certain skill sets › Alignment of performance targets due to circumstances beyond the control of the Company, e.g. theft, vandalism, security of supply and irregular and unlawful contracts entered during the State Capture period › Poor financial performance and operational turn around › Civil unrest and floods in KwaZulu-Natal as well as cyberattack which resulted in business continuity plans being invoked › Impact of recovery from COVID-19 on operations, i.e. volumes and revenue generation › Theft on the pipeline causing spillages and environmental hazard › Safety, i.e. fires 	<ul style="list-style-type: none"> › Strengthening the internal control environment › Improving financial and operational performance › Post COVID-19 Business Recovery (Financial (revenue generation and maintaining key financial ratios), People, Operations (increasing volumes)) › Updating business continuity plans and processes › Rationalisation of Company policies › Improvement in safety performance 	

Audit Committee



The Audit Committee comprises independent non-executive directors who are duly elected and appointed by the Shareholder Minister at the AGM in line with legislative requirements. Seven 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, the 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 pertaining to the governance of ICT

Table 24: Summary of main undertakings and considerations during the year

Audit committee	Chairperson	Members
<p>7 total number of meetings held during the year</p> <p>Directors' attendance at Audit Committee meetings denoted by ()</p> <p>^ Executive director † Independent non-executive director</p>	Mr LL von Zeuner† (7)	<ul style="list-style-type: none"> › Ms ME Letlape† (5) › Mr AP Ramabulana† (7) › Ms GT Ramphaka† (6) <p>No external advisers attended committee meetings during the year.</p>
Most material considerations in 2021	Main undertakings for 2023	
<ul style="list-style-type: none"> › Addressing the issues that would bring about a solution to PFMA matters that in the past gave rise to a qualified audit › To prepare the business to deal with debt maturities and refinancing - and key short and medium terms actions › Communication with financial stakeholders in light of the challenges at operational level that impacted cash flow › Internal audit function in transition and external audit not placing reliance on work of internal audit › Control environment not at the desired level › Dealing with the consequences of Procurement/SCM and IT still in the midst of a turnaround journey › Irregular expenditure and non-compliance with PFMA/ Procurement requirements › Under-performance of the business at operational level 	<ul style="list-style-type: none"> › To cooperate and work along with other board committees to complete the turnaround process of Group IT and SCM › Support management in the next phase of the bond issuing process that will assist in restructuring the balance sheet of Transnet › Oversee operational performance improvement that will contribute to improved liquidity and lower gearing levels › Oversee the turnaround of Internal Audit that will also assist in improving the control environment › Oversee the continuation of the process that must lead to reduced levels of irregular expenditure and implement preventative measures in this regard › Improve the quality of management information to detect areas of underperformance sooner › Provide the financial control oversight as Transnet role out its strategy and in particular PSP initiatives › Improve financial management and reporting linked to ESG › Continue the engagement process with all stakeholders and keeping them informed of the progress with the turnaround strategy of Transnet › Although a dispensation was received on PFMA reporting Transnet cannot allow slippage in implementing PFMA adherence discipline › Ensuring the correct implementation of the relevant changes in accounting policies › Compliance with all regulatory and JSE requirements › Oversee the activities that will ensure that partner and investors in Transnet will find financial management and governance at the desirable level 	

Corporate Governance and Nominations Committee



King IV, P6 & 8

King IV Principle 8 (Recommended Practice 60) recommends that the Board should consider allocating oversight of the following to a dedicated committee or adding it to the responsibility of another committee:

- The process of nominating, electing and appointing members of the Board
- Succession plan in terms of members of the Board
- Evaluation of the performance of the Board

The committee provides the following support to the Board:

- Ensures that the Board's composition and structure enable it to fulfil the obligations of the Board's 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 committees of the Board, other than the Audit Committee
- 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 AGM 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 GCE 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 Chief Executive for a State-owned Enterprise"

Table 25: Summary of the main undertakings and considerations during the year

Corporate Governance and Nominations Committee	Chairperson	Members
<p>8 total number of meetings held during the year</p> <p>Directors' attendance at Corporate Governance and Nominations Committee meetings denoted by ()</p> <p>^ Executive director * Independent non-executive director</p>	<p>Dr PS Molefe* (6)</p>	<ul style="list-style-type: none"> › Ms UN Fikelepi* (8) › Ms DC Matshoga* (7) › Prof FS Mufamadi* (6) › Non-executive/executive directors in attendance: › Ms ME Letlape* (1)
Most material matters arising during the year	Main undertakings for 2023	
<ul style="list-style-type: none"> › Board and committee composition is not optimal. The Board has subsequently requested the Shareholder Minister to fill vacancies › Board evaluation frequency as required by DPE. The Chairperson continues to engage the Shareholder Minister on alignment of the Board evaluation process with best practice › The frequency of special meetings and written resolutions. Directors and management are engaging on streamlining the governance process to increase efficiencies › Filling of Board vacancies to address the skills gap. The Board has requested to fill vacancies and address the skills gap › Challenges for the Board to implement succession planning in respect of non-executive directors and executive directors because the power of appointment resides under the Executive Authority and the Cabinet. The Company is reviewing the MOI, and engagements with the DPE are continuing 	<ul style="list-style-type: none"> › Better alignment of governance instruments › Streamlining of governance processes to increase efficiencies › Improved scheduling of Director Development initiatives › Improved ICT environment › Streamlining and retiring company policies that are not mandatory in terms of legislation › Ensuring compliance with governance best practices and applicable laws and governance instruments 	

Risk Committee



King IV, P6 & 8

King IV Principle 11, Recommended Practice 1, recommends that the Board should assume responsibility for the governance of risk by setting the direction for which the risk should be approached and addressed in the organisation.

King IV Principle 8, Recommended Practice 62, recommends that the Board should consider allocating oversight of risk governance to a dedicated committee or adding it to the responsibility of another committee.

The Risk Committee provides the following support 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 opportunities for fraud and other operational losses
- Assesses any significant risk control failings or weaknesses and their potential impact and confirms that appropriate action has or is being taken

Table 26: Summary of the main undertakings and considerations during the year

Risk Committee	Chairperson	Members
<p>4 total number of meetings held during the year</p> <p>Directors' attendance at the Risk Committee meetings denoted by ()</p> <p>^ Executive director * Independent non-executive director</p>	<p>Ms GT Ramphaka* (4)</p>	<ul style="list-style-type: none"> › Ms UN Fikelepi* (4) › Ms DC Matshoga* (4) › Mr LL von Zeuner* (4) <p>No external advisers attended committee meetings during the year.</p>
Most material matters arising during the year	Main undertakings for 2023	
<ul style="list-style-type: none"> › Reputation-related risks not always being properly managed › Funding and capital investment-related risks › Risks related to the maintenance of locomotives and the impact on the business and revenue › A more effective insurance strategy. › The lack of integration between TE and TFR affecting operations and business performance › High legal costs without traction in cases › Infrastructure security (i.e. cable theft and fuel theft) › Safety risks 	<ul style="list-style-type: none"> › ICT-related risks › Security and safety-related risks › Post-COVID people strategy-related risks › Capital investment funding-related risks › Locomotive maintenance-related risks › Improved integration between TE and TFR › Adequacy of business continuity plans 	

Finance and Investment Committee



King IV, P6 & 8

The Finance and Investment Committee provides the following support 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 B-BBEE 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 DOA Framework
- Approves procurement strategies and oversees related awards in line with the DOA Framework
- Considers property lease agreements in line with the DOA Framework

Table 27: Summary of the main undertakings and considerations during the year

Finance and Investment Committee	Chairperson	Members
<p>8 total number of meetings held during the year</p> <p>Directors' attendance at the Finance and Investment Committee meetings denoted by ()</p> <p>^ Executive director * Independent non-executive director</p>	Ms ME Letlape* (7)	<ul style="list-style-type: none"> › Ms AP Ramabulana* (6) › Mr LL von Zeuner* (7) <p>No external advisers attended committee meetings during the year.</p>
Most material matters arising during the year	Main undertakings for 2023	
<ul style="list-style-type: none"> › Procurement transformation as it impacts the business. Efforts are underway to reorganise the procurement function › Delay in collection of debts owed to Transnet. Various initiatives are in place to collect outstanding debts. › Capital investment is a challenge but prioritisation efforts are being considered to ensure optimum investments in certain areas › Turning performance of the business is a major challenge. Improvement of the financial situation and business performance is underway 	<ul style="list-style-type: none"> › Financial sustainability post COVID-19 › Revenue growth and diversification › Securing funding for capital projects › The impact of TNPA's corporatisation on the Company's balance sheet › Mitigation/Elimination of Locomotive, Infrastructure and Security Challenges › Delivery of maximum tonnages to achieve required improvements in revenue and financial performance › Monitoring and Evaluation Strategies implemented and changes made on business processes – codifying of lessons learnt and improvements made › Monitoring and Evaluation of Private Sector Participation impact on business operations – codifying of lessons being learnt › Transformation and Development of Transnet Property Division › Oversee the implementation of improvement in quality of business cases presented to the committee – with specific reference to ROIC and other key financial measures › Oversee the successful implementation of major projects and initiatives that will contribute to the financial sustainability of Company › Update on the turnaround plan for the key corridors, Coal line, as well as the rebuild of the Natcor line damaged by floods › Procurement turnaround and progress 	

Remuneration, Social and Ethics Committee



King IV.P6 & 8

King IV Principle 8, Recommended Practice 65, recommends that the Board should consider allocating oversight of remuneration to a dedicated committee or adding it to the responsibility of another committee as it is appropriate for the organisation.

Section 72(4) of the Companies Act, in line with Regulation 43 of the Companies Act, states the need for every state-owned company, every listed public company and any other company that has in any two of the previous five years scored above 500 points in terms of regulation 26(2) to appoint a social and ethics committee.

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 employees 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
- Reviews the mandates of the remuneration committees of the subsidiaries of Transnet and approves their recommended remuneration policies and practices
- 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 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;
 - Acquisition of assets/new business; and
 - Development of human resources issues.
- Approves the Succession Planning Policy and related procedures for the Group Executive Committee (other than executive directors) and the Extended Executive Committee members

Table 28: Summary of the main undertakings and considerations during the year

Remuneration, Social and Ethics Committee	Chairperson	Members
<p>8 total number of meetings held during the year</p> <p>Directors' attendance at the Remuneration, Social and Ethics Committee meetings denoted by ()</p> <p>^ Executive director * Independent non-executive director</p>	Prof FS Mufamadi* (8)	<ul style="list-style-type: none"> › Ms UN Fikelepi* (7) › Mr ME Letlape* (7) <p>No external advisers attended committee meetings during the year.</p>
Most material matters arising during the year	Main undertakings for 2023	
<ul style="list-style-type: none"> › The Board vacancies increased pressure on the effective functioning of the Board. The Shareholder Minister is attending to the matter › Finalisation of disciplinary processes for especially senior employees. This subsequently received focus from the Chairperson of REMSEC and the Board Chair in an effort to reduce the backlog › There's a need to address employee and public safety and related fatalities. The safety function has subsequently been elevated to create focus across the business and engagement initiatives on public safety with employees and communities improved › Effecting consequence management measures in accordance with the PFMA › Various initiatives have been put in place on PFMA compliance, and tracking as well as PFMA training to ensure timeous corrective action where appropriate › Finalisation of reorganization including offering of the Voluntary Separation Packages (VSP) to all employees 	<ul style="list-style-type: none"> › Improvements of ESG-related initiatives › Reorganisation initiatives considering COVID-19 pandemic › Establishment of stronger collaboration with labour › Improvement of ethics-related initiatives › Re-purposing Transnet Foundation › New CSI Strategy and approach › Implementation of DPE Remuneration Guidelines › Consequence management 	

Remuneration

Linking our remuneration to our strategic intent

The remuneration strategy considers the overall financial impact of the Company's remuneration structure on aspects of employee engagement. It also aims to drive the founding principles of an environment where teams are challenged and rewarded for achieving targets and sustaining superior performance. Employees are compensated in line with seniority and grade level in the organisation.

Remuneration is an important method for reinforcing corporate culture, promoting the right behaviours and supporting the achievement of the organisation's strategic objectives. Transnet's remuneration strategy is designed to increase the Company's overall employee value proposition as well as continued brand awareness.

The remuneration strategy links to our strategic intent by:

- Compensating employees in line with seniority and grade levels in the organisation;
- Attracting and retaining talented individuals;
- Rewarding superior performance;
- Guaranteeing that remuneration policies and practices are equitable and fair;
- Ensuring that remuneration is market related;
- Promoting excellence through fit-for-purpose incentive schemes
- Encouraging and rewarding behaviours that align to Transnet's values;
- Managing and facilitating the performance of employees through a results-driven approach;
- Ensuring fit-for-purpose differentiation in remuneration practices to cater for uniqueness in employment category, environment and circumstances;
- Safeguarding the financial position of Transnet through cost control and affordability; and
- Alignment with the Remuneration Guidelines as published by the Department of Public Enterprises

Individual performance management

- Transnet has an overall performance framework that is aligned to the Statement of Strategic Intent and the Shareholder's Compact. Every year, the framework is translated into a Transnet scorecard, the scorecard of the GCE, and then cascaded to all managers.
- Transnet is focused on entrenching a performance driven culture and utilises an approved performance management methodology and framework to ensure alignment to the business strategic performance objectives and targets.
- The Balanced Scorecard Performance Management Methodology is established across the business and is utilised for the management category as well as for first-line managers, specialists and technicians.
- The individual performance ratings of managers are ratified annually to ensure alignment of individual performance with the overall performance of Transnet and the ODs.
- Transnet has also successfully implemented individual performance management for junior employees, which is based on business and team performance objectives and measurements as well as an individual component focusing on behavioural factors within the employee's control such as attendance, discipline and safety. This approach ensures that employees have clear visibility of their contribution to business drivers within the value chain.

- The performance management score informs the annual salary progression payment for the bargaining unit employees in scope of the collective agreement that governs the reward model for these employees. This unique intervention is in line with Transnet's drive to create a high-performance culture. Progression payment based on the performance criteria took place at the end of October 2020 as per the collective agreement.

Succession management

- Succession planning is a pillar in Transnet's integrated talent management methodology and a strategic business imperative. It entails identifying and developing top talent who have the potential for key critical roles. It also enables proactive sourcing and the development of a talent pipeline and pool.
- The succession planning objectives translate into benefits that may be embedded in the succession process. These include improving employee commitment and retention; meeting the career development expectations and aspirations of existing employees; and countering the increasing difficulty and costs of recruiting employees externally.
- Succession management is a cyclical series of activities that include identifying key roles for succession; defining the competencies and motivational profile required to undertake those roles; and assessing people from pools of talent that could potentially fill and perform highly in these key roles.
- The fundamental end-state is developing employees to be ready for advancement into key roles and to develop a high-performance culture.

Pillars of our Remuneration Strategy

The Transnet Remuneration Strategy is informed by, and includes the following elements:

- Guaranteed pay.
- Variable pay, with fit for purpose short- and long-term incentive schemes.
- Recognition scheme.
- Job evaluation and job-sizing which inform the pay scales.
- Internal and external remuneration benchmarking.
- Respective Variation and Collective Agreements with the recognized labour unions, informing the reward approach for the bargaining unit employees.
- Integration with the Company's and individuals' performance achievements, external market movements and economic conditions that feed into the annual increase process.
- Alignment with the SOC remuneration guide as published by the DPE.
- Other benefits, inclusive of leave, retirement fund, medical aid, funeral fund and housing allowance.
- A reliable system (SAP HCM) to manage all reward and benefit-related processes.
- Flexibility, which ensures that the strategy is responsive to changes in the organisation and the external market.
- The South African law, namely the Basic Conditions of Employment and Labour Relations Act.

Linking our remuneration elements to employee categories



Table 29: Remuneration elements linked to employee categories

Reward element	Management	First-line management, specialists and technicians	Junior employees
Guaranteed pay	<ul style="list-style-type: none"> • Total cost to company, inclusive of medical aid, pension fund and UIF contributions • Annual salary increases based on mandate from RemSEC • 13th cheque can be structured as part of the package • Option to structure travel allowance if frequent business travel is conducted • Funeral benefit unless the manager opts to deselect the benefit 	<ul style="list-style-type: none"> • Cost-to-company package, inclusive of pension fund and UIF contributions, but excludes medical subsidy • 13th cheque is structured as part of the package • Negotiated increases, partially based on individual performance • Funeral benefit fund 	<ul style="list-style-type: none"> • Basic salary • Service bonus (13th cheque) • Increases negotiated
Other benefits	<ul style="list-style-type: none"> • Personal protection based on a threat and risk assessment 	<ul style="list-style-type: none"> • Medical subsidy if employee is the principal member of a recognised medical scheme • Funeral benefit 	<ul style="list-style-type: none"> • Employer portion of pension fund contributions, inclusive of risk and administration contributions • Housing allowance • Medical subsidy if employee is the principal member of a Transnet recognised medical aid • Funeral benefit • Travel Concessions
Circumstantial allowances		<ul style="list-style-type: none"> • Overtime • Standby allowance • Night shift allowance • Call-out allowance 	<ul style="list-style-type: none"> • Overtime • Standby allowance • Night shift allowance • Call-out allowance
Tools of Trade	<ul style="list-style-type: none"> • Cellular phone • Computer 	<ul style="list-style-type: none"> • Cellular phone (if job requirement) • Computer (if job requirement) 	<ul style="list-style-type: none"> • Cellular phone (if job requirement) • Computer (if job requirement)
Short-Term Incentive (STI) Scheme	<ul style="list-style-type: none"> • 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 employees when these targets have been achieved and/or exceeded • Management – payment made on an annual basis if relevant targets are achieved 	<ul style="list-style-type: none"> • Support and reinforce the desired behaviour to ensure reward for achievement of business objectives • Unique fit-for-purpose schemes designed for different Operating Divisions • Increased line of sight • Increase in frequency of payments 	
Long-Term Incentive (LTI) Scheme	<ul style="list-style-type: none"> • Transnet is in process to review the LTI Scheme to align it with the DPE's Remuneration Guide. 	<ul style="list-style-type: none"> • Not applicable 	
Recognition Programme	<ul style="list-style-type: none"> • All eligible employees • Promote and reward behaviours aligned with Transnet values • Support a culture where success is celebrated, and employees feel valued for their contributions to the business 		

Annual salary increases and incentive schemes

Annual salary increases

Remuneration increases occur once annually, normally in April, or in the event of a promotion. Transnet does not support ad hoc salary increases.

Annual salary increase mandates are approved by:

- The Shareholder Minister for executive directors and prescribed officers;
- The Remuneration, Social and Ethics Committee for employees in the management category; and
- The Remuneration, Social and Ethics Committee for bargaining unit employees, and then negotiated in the Transnet Bargaining Council.

The outcomes of the negotiations are detailed in a wage agreement. Transnet entered into a one-year wage agreement with the recognised labour unions. In terms of the conditions of the agreement, bargaining unit employees received an increase of 5.0%, effective 1 April 2021. Increases for employees in the management category ranged between 0% and 5% and was implemented with effect from 1 July 2021.

Short term incentive scheme (STI)

Transnet reviewed its STI Scheme for the bargaining unit employees with the aim of replacing it with an incentive scheme that rewards the achievement of specific financial and productivity targets. The Productivity and Container Incentive Schemes for Bargaining Unit employees are based on actual achievement of financial and productivity targets.

The revised Transnet Turnaround Incentive Scheme for management employees was designed to transcend the business from a loss to a

Non-executive directors' fees

Table 30: Non-executive directors fees

Board member	Fees R'000	Other payments R'000	Total 2022 R'000	Total 2021 R'000
P Molefe (Chairperson)	1 329	—	1 329	1 278
LL von Zeuner	917	—	917	840
DC Matshoga	599	—	599	575
UN Fikelepi	699	—	699	671
GT Ramphaka	699	—	699	671
OM Motaung ¹	—	—	—	287
FS Mufamadi	699	—	699	671
AP Ramabulana	599	—	599	575
ME Letlape	798	—	798	834
Total	6 339	—	6 339	6 402

¹ Advocate OM Motaung passed away in September 2020.

profit making entity while drive the achievement of business targets and alignment with the DPE Remuneration Guide and is due for implementation in 2022.

In terms of the 2021/22 financial period, management employees did not receive any short-term incentive payments as the requirements of the scheme were not met.

Long term incentive scheme (LTI)

Transnet is in the process of reviewing the LTI Scheme to align with business requirements as well as the DPE Remuneration Guide.

Fee structure for non-executive directors

The Shareholder Representative appoints non-executive directors for a three-year term. However, the MOI requires that the non-executive directors be submitted for re-election for each of the three years at the Company's AGM. 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. The non-executive directors are paid an annual retainer as well as an additional fee for committee membership.

Fees paid to non-executive directors are differentiated based on their appointments to the various Board committees.

Ongoing engagement is taking place with DPE to ensure alignment of non-executive directors with that of the DPE's Remuneration Guide given the significant lag of current Transnet non-executive director fees relative to the DPE guide.

Remuneration of executive directors and prescribed officers

Leadership plays a critical role in achieving the Company's mission to deliver outstanding sustainable value to stakeholders. The goal for every employee at Transnet is to develop a challenging career with opportunities for growth, competitive rewards and a balance between work and home life.

The successful execution of the Transnet Strategy requires persistent effort and the executive leadership's energy 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 DPE's Remuneration Guide.

Transnet encourages diversity in the workplace and in society. It practises equal opportunity in all recruitments and promotions and aims to increase employment opportunities within South Africa. As an organisation, Transnet is also committed to promoting the equality of all South Africans.

Table 31: Guaranteed pay of the Transnet Group Executive Team

The table below depicts the guaranteed pay of the Transnet Exco for the reporting year:

Exco member	Salary R'000	Retirement benefit fund contributions R'000	UIF contributions R'000	Other payments* R'000	Total 2022 R'000	Total 2021 R'000
KV Reddy ¹⁰	—	—	—	—	—	2 238
Xoliswa Mpongoshe ⁴	—	—	—	—	—	317
T Majoka ^{7,10}	—	—	—	—	—	480
PPJ Derby ¹	7 784	714	2	—	8 500	8 500
M Phillips ^{7,8}	3 919	279	2	—	4 200	4 623
K Phihlela ⁷	—	—	—	—	—	2 400
S Khathi ⁷	—	—	—	—	—	1 442
MD Gregg-Macdonald ^{2,3,9}	—	—	—	—	—	11 397
K Ngema ^{6,7,8}	2 315	208	1	2 432	4 956	4 757
P Munyai ⁸	3 828	297	2	—	4 127	3 382
BL Kgomo ^{8,12}	1 021	98	1	194	1 314	3 250
V Nemukula ⁸	3 570	328	2	—	3 900	3 900
N Dlamini ^{1,8}	5 798	—	2	—	5 800	3 375
A Shaw ⁸	4 608	490	2	—	5 100	3 824
S Coetzee ⁸	5 398	—	2	—	5 400	4 950
B Kani ⁸	3 803	295	2	—	4 100	3 759
S Mzimela ⁸	6 098	—	2	—	6 100	6 100
R Mills ⁸	3 935	383	2	—	4 320	3 960
V Dube ^{6,8}	2 319	150	1	5 028	7 498	4 037
M Silinga ⁸	5 375	523	2	—	5 900	2 950
K Phahlamohlaka ⁸	4 267	331	2	—	4 600	2 683
L Sesoko ^{7,10}	—	—	—	—	—	1 330
X Ntshingila ^{5,7}	1 106	118	1	1 090	2 315	821
T Siyaya ^{5,6,7}	1 479	115	2	1 424	3 020	643
IK Matsheka ¹¹	2 225	173	1	—	2 399	—
S Khan ¹¹	328	30	—	—	358	—
DJ Mdaki ^{5,11}	1 556	151	1	513	2 221	—
Total	70 732	4 683	32	10 681	86 128	85 118

* Included in trade payables, accruals and contract liabilities (refer note 28).

¹ Group executives who are members of the Board of Directors.

² Group executives who were members of the Board of Directors.

³ Includes settlement in respect of service termination.

⁴ Member of Exco for one month of the financial year.

⁵ Acted as Exco member during the financial year.

⁶ Includes voluntary severance package benefit.

⁷ Acted as Exco member in the prior financial year.

⁸ Appointed as Exco member during the previous financial year.

⁹ Acted as Group Chief Financial Officer from 1 April to 30 June 2020, and appointed as Group Treasurer from 1 July to 19 October 2020.

¹⁰ Left Exco during the prior financial year.

¹¹ Appointed as Exco member during the financial year.

¹² Mr BL Kgomo passed away in July 2021.

Our control environment in brief



King IV. P.1, 2, 6, 12 & 13

Table 32: Short- and long-term incentive payments for Transnet Exco

The table below reflects the short- and long-term incentive payments for the Transnet Exco for the reporting year:

Exco member	Long-term incentive* 2022 R 000	Long-term incentive* 2021 R 000	Short-term incentive* 2022 R 000	Ex Gratia incentive* 2021 R 000
KV Reddy ¹⁰	—	—	—	—
Xoliswa Mpongoshe ⁴	—	—	—	—
T Majoka ^{7, 10}	—	—	—	—
PPJ Derby ¹	—	—	—	—
M Phillips ^{7, 8}	—	—	—	—
K Phihlela ⁷	—	—	—	—
S Khathi ⁷	—	—	—	—
MD Gregg-Macdonald ^{2, 3, 9}	—	—	—	—
K Ngema ^{6, 7, 8}	—	—	—	—
P Munyai ⁸	—	—	—	—
BL Kgomo ^{8, 12}	—	—	—	—
V Nemukula ⁸	—	—	—	—
N Dlamini ^{1, 8}	—	—	—	—
A Shaw ⁸	—	—	—	—
S Coetzee ⁸	—	—	—	—
B Kani ⁸	—	—	—	—
S Mzimela ⁸	—	—	—	—
R Mills ⁸	—	—	—	—
V Dube ^{6, 8}	—	—	—	—
M Silinga ⁸	—	—	—	—
K Phahlamohlaka ⁸	—	—	—	—
L Sesoko ^{7, 10}	—	—	—	—
X Ntshingila ^{5, 7}	—	—	—	—
T Siyaya ^{5, 6, 7}	—	—	—	—
IK Matsheka ¹¹	—	—	—	—
S Khan ¹¹	—	—	—	—
DJ Mdaki ^{5, 11}	—	—	—	—
Total	—	—	—	—

* Included in trade payables, accruals and contract liabilities (refer note 28).

¹ Group executives who are members of the Board of directors.

² Group executives who were members of the Board of directors.

³ Includes settlement in respect of service termination.

⁴ Member of Exco for 1 month of the financial year.

⁵ Acted as Exco member during the financial year.

⁶ Includes voluntary severance package benefit.

⁷ Acted as Exco member in the prior financial year.

⁸ Appointed as Exco member during the previous financial year.

⁹ Acted as Group Chief Financial Officer from 1 April to 30 June 2020, and appointed as Group Treasurer from 1 July to 19 October 2020.

¹⁰ Left Exco during the prior financial year.

¹¹ Appointed as Exco member during the financial year.

¹² Mr BL Kgomo passed away in July 2021.

Integrated procurement management

- Optimally regulated infrastructure-related procurement and delivery management with Finance and Investment Committee's terms of reference
- Infrastructure Procurement and Delivery Management Framework with procurement rules, procedures and processes
- Up-to-date compliance assurance for high-value tender processes
- Transnet Delegation of Authority Framework
- Efficient and effective contract management, with SCM Contract Management Procedure Manual and Procurement Procedure Manual
- SCM Policy and robust, independent complaints handling
- Adherence to strict set of laws, codes, rules and standards, including (but not limited to):
 - Section 217(1) of the Constitution 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 (CIDB Act), and the regulations thereto;
 - The Promotion of Access to Information Act, No 2 of 2000 (PAIA);
 - The Preferential Procurement Policy Framework Act, No 5 of 2000 (PPPFA), and the regulations thereto; and
 - Instruction notes are also issued by National Treasury, which regulate Transnet's procurement processes

Internal audit



King IV. P.8

- Accords with section 51 of the PFMA
- Governed by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA standards)
- An Independent Assurance function that is functionally accountable to the Audit Committee
- The mandate and terms of reference are included in the Internal Audit Charter that is approved annually by the Audit Committee
- Transnet Internal Audit is a fully co-sourced function operating under the strategic leadership of the Chief Audit Executive, a permanent employee of Transnet and a Group Executive Team member
- Internal Audit implements the approved Strategic Audit Plan,
- Develops and executes a risk-based audit plan

Enterprise risk management and integrated assurance



King IV. P.8

- 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 specialists, internal audit, external audit, 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, but 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

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 solutions-driven actions;
 - A risk-based execution process to monitor strategic outcomes; and
 - A platform for collaboration and seamless execution of strategic initiatives

Ethics and fraud management

- The Code of Ethics (the Code) enables a culture of entrenched values, principles, standards and norms
- All employment contracts refer to the Code, committing employees and leadership (executive and non-executive directors) to the highest standards of ethical behaviour
- 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, which is revised every five years or as required
- The Group Company Secretary is responsible for policy development and 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 Fraud and Corruption Risk Management Strategy provides mechanisms for the prevention, early detection and investigation of irregularities
- A Tip-Offs Anonymous Hotline (the Hotline) enables employees, customers and trade partners to report concerns about unethical or unlawful behaviour
- An electronic gifts registry system provides biannual reports for review by the Corporate Governance and Nominations Committee and the Remuneration, Social and Ethics Committee for information purposes
- All irregularities reported through external and internal reporting channels are investigated through a forensics investigation process

Governance of stakeholder management and engagement

- The Board delegates authority to the GCE who reports to the Board on all material stakeholder issues and is responsible 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 KPI 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)

ICT management and governance



King IV, P12

1. **Set the approach and approve the policy for technology and information governance (including adoption of appropriate frameworks and standards)**
 - The ICT Governance Framework and IT Governance Charter are communicated to the Board for review, approval and assessment for effectiveness
 - In support of the achievement of the Transnet strategic outcomes, Group ICT has adopted values and principles as contained in the Transnet ICT House of Value
2. **Delegate the effective management of technology and information implementation to management**
 - The Risk Committee is responsible for overseeing ICT risk management
 - In particular, the Risk Committee oversees the establishment and implementation of business continuity arrangements that allow Transnet to operate under conditions of instability, and to withstand and recover from any serious risk issues
3. **Oversee results of management's implementation of the following:**
 - *ICT integration*
There is integration of people, technologies, information and processes across the organisation. There is ethical and responsible use of technology and information and compliance with relevant laws
 - *ICT role in ensuring business resilience*
ICT's challenges on disaster recovery plans, tests and reports were communicated to the Board and its subcommittees
 - *Ensure responsiveness to cybersecurity and social media risks*
Board seeks feedback on the Transnet cybersecurity posture and plans. Transnet IT positions cybersecurity as a top priority, and guards against negative publicity and reputational damage
 - *Monitor third-party and outsourced service provider risks*
Transnet calculates the potential risks or vulnerabilities by completing a service provider assessment for each third-party engagement and also conducts thorough due diligence
 - *Monitor and evaluate value delivered from technology investments and projects*
Apply Benefits Realisation management to plan for, monitor and track benefits realisation throughout the project delivery process:

Pre-execution planning:

- FEL 1 - Identify and quantify benefits
- FEL 2 - Value and appraise benefits
- FEL 3 - Value and appraise benefits
- FEL 4 - Benefits planning

Execution phase (and closeout):

Benefits Realisation

- Benefits Realisation report
- Benefits review health check

Post implementation:

User adoption change management reports

- *Management of the disposal of obsolete technology and information*
Governed by the Finance and Investment Committee
 - *The ethical and responsible use of ICT and compliance with applicable law*
Board has requested and been provided with insight on the ICT's regulatory universe
4. **Oversee management of information (including use information architecture, protection of privacy and security)**
 - ICT analyses information used by the organisation
 - ICT tracks and enforces regulatory compliance (POPI Act) and conformance to regulatory policies, standards, architecture and procedures
 5. **Oversee arrangements governing and managing technology and information**
 - The ICT Executive Committee has been established as a structure that provides feedback to the Group Executive Committee on matters pertaining to the ICT Strategy, Corporate Plan and digital initiatives
 - Development and implementation of data and information architecture that supports confidentiality, integrity and availability of information
 6. **Areas of current and future focus**
 - ICT aims to employ a digital-first culture to digitise both existing and next-generation products and services
 - The digital-first approach is enabled by the provision of digital platforms as well as disruptive and enabling technologies to support digital transformation which underpins a strong digital backbone
 - Leveraging an ecosystem that includes strategic partnerships to ensure that ICT provides agile and innovative services

7. Significant changes, acquisitions, incident management and remedial action

- This is the primary role of the ICT leadership (ManCo and ODs) in conjunction with the IT service providers
- The Change Advisory Board delivers support to a change management team by advising on requested changes, and assisting in the assessment and prioritisation of changes
- Incident management, problem management and remedial actions are managed by the ICT Service Management team reporting to the Enterprise Technology Services functional unit

Regulatory compliance

- Group Regulatory 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 the 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

Our performance

Group Chief Financial Officer's review



"The Company embarked on a stringent capital optimisation journey, considering affordability and liquidity improvement requirements. This has resulted in reduced but targeted capital expenditure. The Company's investment property values have also been aligned to prevailing market prices."

Introduction

Transnet's operational performance for the year has been positive compared to the prior year. The salient achievements for the year ended 31 March 2022 include the Company's R5,0 billion net profit after tax, the unqualified audit opinion and the release of results on time, thereby adhering to regulatory requirements. While these milestones are worth highlighting, Transnet is by no means out of the woods.

The entity is still reeling from years of financial and operational performance adversities. The positive results are attributable, in the main to:

- a favourable revenue performance due to the improvement in petroleum and container volumes;
- fair value adjustment in Investment properties; and
- successful cost containment and cash preservation initiatives implemented during the year.

Transnet is on its path to sustainable financial recovery, which will boost investor confidence and its drive to be a sustainable entity.

The Company is exploring various strategic initiatives to improve operational performance, however, these are being hamstrung by challenges in our operating environment, such as unabated vandalism of our rail network, cable theft and intermittent power cuts, locomotive availability and maintenance backlog.

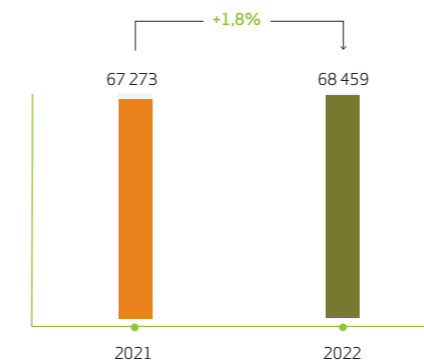
On the production side of the economy, eight of the ten industries recorded growth between January and March 2022, with the manufacturing sector being the star performer. The sharp increase in manufacturing output was mainly driven by a rise in the production of petroleum and chemicals, food and beverages, and metals and machinery. Notably, both mining and construction contracted in the first quarter. Mining output was lower, mainly due to a pullback in the production of platinum group metals, iron ore and gold. Construction saw its fourth consecutive quarter of contraction, with underwhelming results reported for residential buildings and construction works. Economic activity related to non-residential buildings, however, increased in the first quarter.³

Imports were boosted by a rise in demand for motor vehicles, parts and accessories; mineral products; and fauna and flora-related fats. The economy also recorded a rise in exports, mainly driven by increased trade in motor vehicles; parts and accessories; mineral products; and machinery and equipment. The automotive sector plays an important role in both export and import markets, as outlined in a recent article that tracks the flow of products through the South African economy.⁴

Financial performance overview

The success of Transnet as a freight logistics company largely depends on the positive outcome of trade flows and other economic imperatives. Trade flows influence the Company's transported volumes while the investment property portfolio responds to the economic swings of the real estate sector.

Graph 7: Transnet revenue performance for 2022 (Rm)



Transnet generated revenue of R68,5 billion for the year, which is 1,8% higher than the prior year. This improvement is attributable to a combination of tariff adjustments and a positive prioritisation of profitable product flows. Petroleum volumes increased by 17,5% while container volumes increased by 5,5%, mainly due to an increase in customer demand in these sectors.

The total rail volumes are 5,6% lower than the previous year at 173,1 mt (2021: 183,3 mt), largely driven by operational challenges as stated.

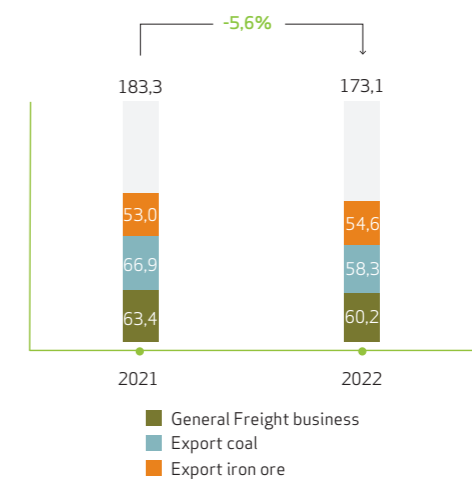
Transnet Freight Rail (TFR)

TFR's operational and financial performance for the year was below expectations, exacerbated by subdued economic and trading conditions from the prior year. Other factors, such as the effects of the lingering COVID-19 pandemic, electricity power supply challenges, security incidents on the heavy haul lines (e.g. cable theft), and community unrest, also contributed to restrained performance. Accordingly, railed volumes declined from 183,3 mt in 2021 to 173,1 mt.

Freight Rail's revenue declined by 4,1% from R39,4 billion to R37,8 billion impacted mainly by challenges on the coal line, which accounts for 33,7% of Transnet's volumes. Despite the cost savings implemented during the year, TFR's operating expenses increased by 5,4% to R26,5 billion (2021: R25,1 billion). Personnel costs increased by 4,3%, due to provision and payment of voluntary severance packages (VSPs).

Driven by lower revenue and increased costs, Freight Rail's EBITDA declined by 21,0% to R11,3 billion (2021: R14,3 billion).

Graph 8: Rail volume performance for 2022 (mt)



¹ www.statssa.gov.za: After two years, GDP returns to pre-pandemic levels, 7 June 2022

² www.statssa.gov.za: After two years, GDP returns to pre-pandemic levels, 7 June 2022

³ www.statssa.gov.za: After two years, GDP returns to pre-pandemic levels, 7 June 2022

⁴ www.statssa.gov.za: After two years, GDP returns to pre-pandemic levels, 7 June 2022

The 2018 financial year saw Freight Rail achieve its best performance to date, with a locomotive fleet of 2 215 locomotives. This fleet has reduced to 1 656 locomotives in the 2022 financial year (i.e. 25% less) significantly reducing the Operating Division's ability to increase rail volumes.

Transnet Engineering (TE)

Engineering's revenue increased by 8,7% to R8,9 billion (2021: R8,2 billion), due mainly to the increase in internal revenue from Freight Rail, and a significant increase in external revenue for the sale of 300 high-sided wagons.

Net operating expenses increased by 7,6% to R10,4 billion (2021: R9,7 billion), with a major portion related to personnel costs associated with the once-off cost of VSPs.

Engineering's EBITDA decreased by 1,6% to R1 497 million loss (2021: R1 474 million loss).

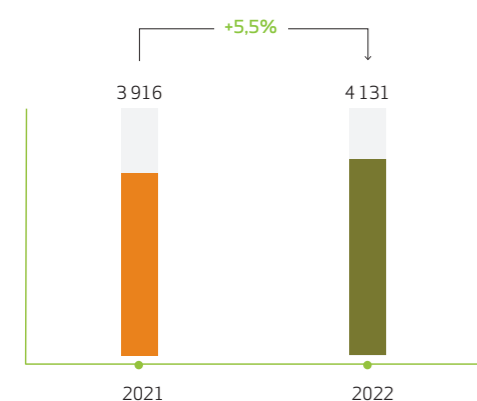
Transnet Port Terminals (TPT)

TPT's revenue increased by 11,0% to R14,5 billion (2021: R13,1 billion), with volume performance across all sectors showing year-on-year improvement due to the recovery from the COVID-19 pandemic, which negatively impacted the previous year's financial performance. Container volumes increased by 5,5% to 4 131 million TEUs (2021: 3 916 million TEUs).

Net operating expenses increased by 9,2% to R10,3 billion (2021: R9,5 billion), mainly due to inflation-related growth, VSP pay-outs as well as asset write-offs for the Durban and Saldanha Container terminals.

Port Terminal's EBITDA increased by 15,8% to R4,2 billion (2021: R3,6 billion).

Graph 9: Container volume performance for 2022 (TEUs)



Transnet National Ports Authority (TNPA)

National Ports Authority's revenue increased by 7,8% to R12,5 billion (2021: R11,6 billion) mainly due to an increase in marine, container, and bulk revenue.

Net operating expenses increased by 2,0% to R5,0 billion (2021: R4,9 billion), mainly due to the relocation of TNPA's headquarters to Gqeberha, as well as personnel cost increases, which included the impact of the Voluntary severance packages. Other cost contributors include energy usage, material, and maintenance costs from increased activity following lockdown restrictions.

National Ports Authority's EBITDA increased by 11,9% to R7,5 billion (2021: R6,7 billion).

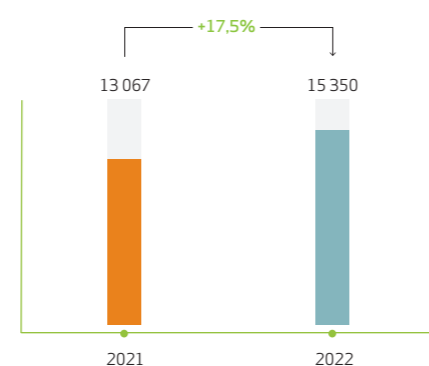
Transnet Pipelines (TPL)

TPL's revenue increased by 8,0% to R5,3 billion (2021: R4,9 billion) mainly due to the increase in petroleum volumes transported for the year, with transported petroleum volumes increasing by 17,5% to 15 350 million litres (2021: 13 067 million litres). The favourable performance is directly attributable to the opening of airports and the lifting of travel restrictions.

Net operating expenses decreased by 76,8% to R1,6 billion (2021: R6,9 billion) due to a reduction in provisions.

TPL's EBITDA improved to R3,7 billion from the prior year's loss (2021: R2,1 billion).

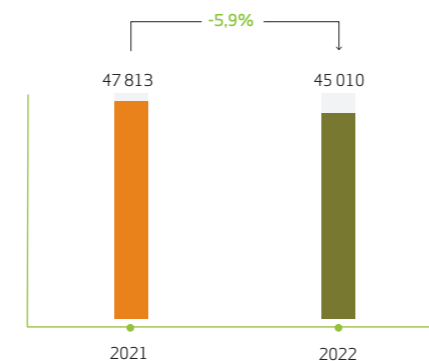
Graph 10: Petroleum volume performance for 2022 (mℓ)



Net operating expenses

Net operating expenses decreased by 5,9% to R45,0 billion (2021: R47,8 billion). The cost saving is mainly attributable to various cash preservation initiatives implemented by Management during the year, third-party settlements, reduction in environmental provisions. However, this was slightly offset by the provision and payment of voluntary severance packages.

Graph 11: Operating expenses for 2022 (Rmillion)

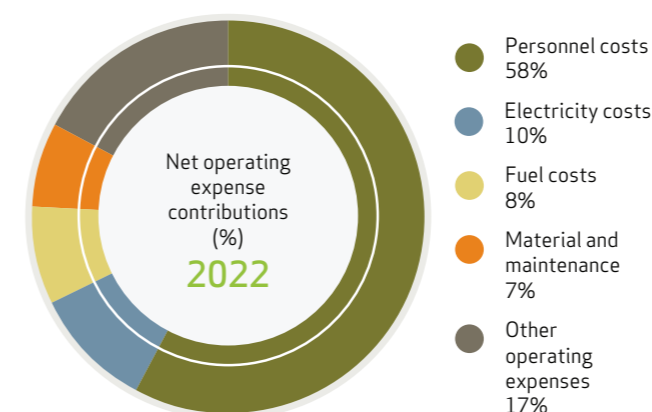


Net operating expense contributions

While the personnel cost proportion of our net operating expenses remain higher than the desired levels, the current percentage of 58% includes the once-off VSP payment.

Transnet's permanent employee headcount has reduced by 7,2% to 46 086 as at 31 March 2022 (49 642 in 2021) due to the combination of the VSP process, natural attrition and retirements.

Graph 12: Operating expenditure contributions by category for 2022

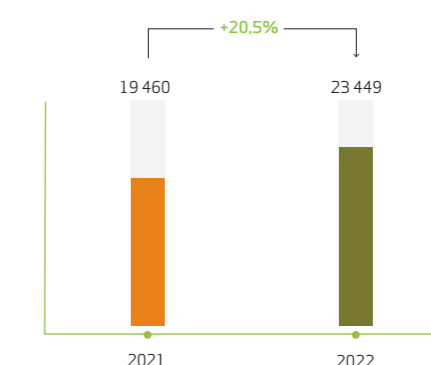


The efforts to curb the increase in operating costs is negatively impacted by the aforementioned incidents of business interruptions, which do not only hamper our operational tempo, but induce unbudgeted expenditure. The criminal act of cable theft is a national crisis that has become a burden to the South African fiscus. To address this criminality, Transnet is collaborating with all affected stakeholders, including law-enforcement agencies and communities. While we have made significant progress in curbing fuel theft on the petroleum pipeline, more than 1 000 kilometres of cable have been stolen from our rail operations, resulting in more than R1,6 billion being spent on security, and approximately R400 million on replacing stolen cables. Lost revenue due to operational disruptions is estimated at R1,9 billion in Transnet Freight Rail alone.

EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 20,5% to R23,4 billion (2021: R19,5 billion) with a resultant increase in the EBITDA margin to 34,3% (2021: 28,9%). The EBITDA improvement is due to a combination of increased revenue and reduced operational costs.

Graph 13: EBITDA performance for 2022 (R million)



Depreciation and amortisation (R million)

Depreciation and amortisation costs increased by 7% to R14,8 billion (2021: R13,9 billion) due to an increase in capital expenditure and infrastructure spend. The increase is in line with the useful life and revaluation of owned assets that are depreciated at historical cost and revalued portion.

Impairment for the year reduced to R2,1 billion (2021: R3,4 billion), due mainly to an assessment of capital work in progress (CWIP), a review of useful life, and impairment of locomotives that occurred in the prior year. The 2022 impairment is due to impairment of rolling stock (locomotives and wagons) and capital working progress assessment.

Fair value adjustments

Transnet has a history of undervalued properties. The Company undertook a process of aligning its property values to the market in line with International Financial Reporting Standards (IFRS) 13 processes., Transnet thus conducted an investment property valuation exercise to determine the fair value of our investment properties. This was done in compliance with the (IFRS).

This resulted in Transnet reporting a significant increase in fair value adjustments of R10,2 billion (2021: R1,2 billion loss). IFRS 13 reporting determines that investment properties are supposed to be valued on a fair value basis, with comparable evidence, which is the market value approach basis. IFRS 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." In this instance, Investment Property applies to the accounting for property (land and/or buildings) held to earn rentals, or for capital appreciation (or both).

Given the dynamics, size and complexities of Transnet's property portfolio, investment property valuations are normally conducted in a three-year cycle. The first-year cycle is a full valuation process, which entails engaging independent valuers to physically inspect the condition of the properties and to perform the valuations based on the most recent fair value rates. The three-year (3) cycle approach is an acceptable industry norm, particularly for Real Estate entities with a sizeable property portfolio. The remaining two years will be desktop valuations.

Methodology

The fair value was derived by capitalising the normalised net annual income at market-derived capitalisation rates, which are adjusted, where appropriate, to reflect the risk profile of each individual property. The prior year valuation was conducted by Transnet's internal valuers applying a desktop valuations approach, which does not require physical inspection.

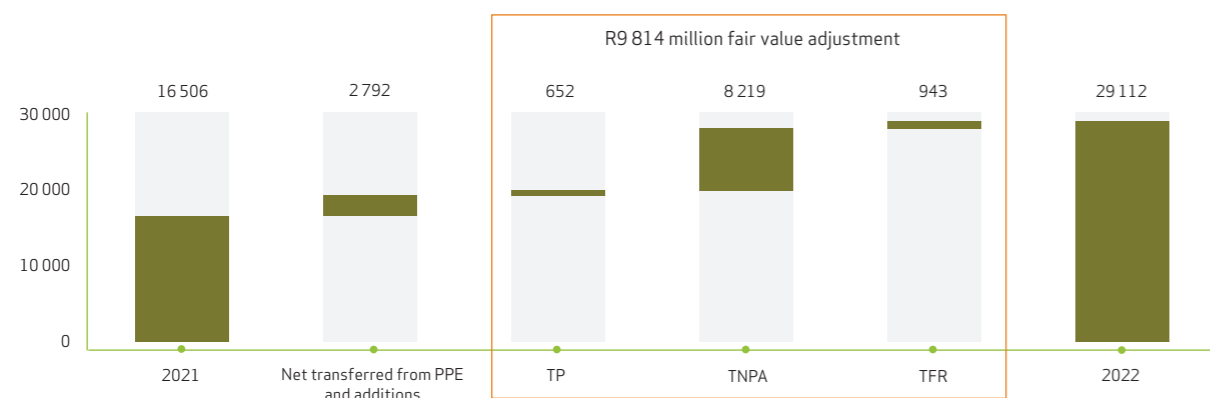
The real estate industry continues to show signs of recovery, with property prices starting to normalise. The industrial sector space remains strong, leading to year-on-year capital growth, with growing occupancy rates, albeit gradually, which is now evident throughout the Transnet property portfolio. There is also a growing demand for warehouse and distribution space due to the significant growth in online retail sales from a relatively low base in South Africa in prior years. The weighted average rate per square meter has increased from R8 895 in 2020 to R9 441 in 2021, which has a positive impact on Net Asset Values (NAVs).

The relaxation of lockdown restrictions in 2021, and total removal of restrictions in 2022, have had further positive impacts on the NAVs. Transnet's property values increased year-on-year in the 2022 financial year for the following reasons:

- Desktop valuation vs full valuation: In the 2021 financial year, a desktop valuation method was used, given the challenges of inspecting properties during lockdown restrictions. While the desktop approach is an acceptable valuation method, the process relies more on assumptions than fact (e.g., the actual condition of a building).

- Prior year valuation conducted during a depressed economic period: COVID-19 resulted in reduced and discounted rentals, lower escalation rates, and shorter lease renewals due to future uncertainty. Yields in the property market were down 49% in the first quarter of 2020.
- 2021 valuation conducted during a period of volatile property values: Volatile property values made it difficult to reliably benchmark market prices, causing an over-reliance on internal rentals for valuation purposes.
- Rebasement of the 2018/19 overpriced property valuation: COVID-19 provided an opportunity to reduce previously overpriced market valuations.
- Reduced lending rates were lower than historic levels: There is a direct correlation between interest rates and property prices. Lower lending rates in prior years resulted in marginal benefit in the current debt costs. It is estimated that 70% of property debt in South Africa is fixed, therefore yielding no significant benefit from reduced rates. However, the reduced interest rates during a period of under priced stock accelerated demand and caused a price readjustment.
- Property is starting to normalise: 2022 Valuations are benefiting from the market recovery, reflecting a positive future trajectory.
- PSP properties transferring to Transnet in full: Rentals are calculated on the full development as opposed to only land lease.

Graph 14: Investment property fair value adjustment for 2022



Finance costs

The Company embarked on a stringent capital optimisation journey, considering affordability and liquidity improvement requirements. This has resulted in reduced but targeted capital expenditure activity. Utilisation of short-term funding sources while sourcing long-term facilities also contributes to reduced finance costs. Accordingly, net finance costs decreased by 3,6% to R10,6 billion (2021: R11,0 billion). The weighted average cost of borrowing also reduced from 9,33% in 2021 to 9,11% due to our optimised funding strategy and plan. In the current market condition and the need for long-term funding, costs of borrowing may increase.

Tax

The income statement charge of R441 billion (2021: 2,5 billion credit) is comprised of deferred taxation. The charge arose mainly due to the increase in profit before taxation for the 2022 year (2021: loss before taxation), together with an increase in the fair value adjustments that are not recognised for tax purposes, offset largely by the impact of the Company's taxation loss. The result was

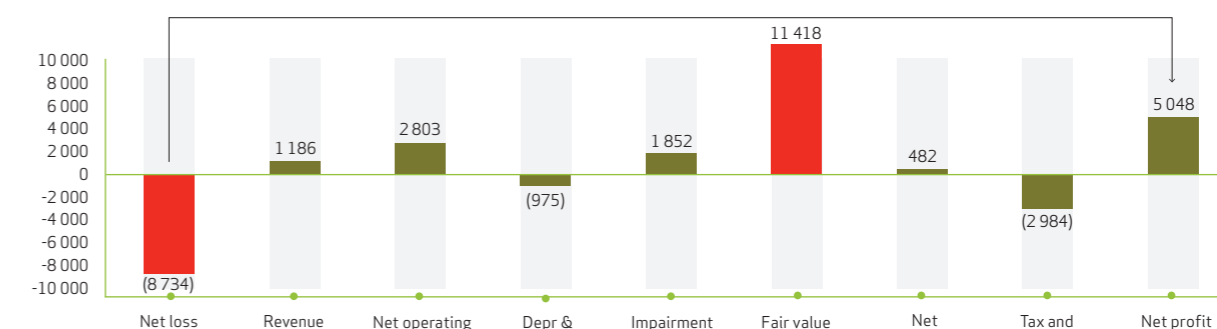
then further offset by the impact of the reduction of the corporate tax rate from 28% to 27%, which was substantively enacted in the Minister of Finance's 2021/22 Budget Speech. This resulted in a decrease in the provision for deferred taxation. The effective taxation rate for the Group is 8,3% (2021: 22,50%)

Net profit after tax movement from March 2021 to March 2022

The movement from the tax credit reported in the prior year is impacted by an increase in profit before tax, which, in turn, is due to the revaluation of investment properties in the current financial year.

As a result of the increase in revenue, together with stringent cost control measures, third-party recoveries, and the increase in fair value adjustments based on investment property valuations, the Group reported a net profit for the year of R5,0 billion. The graph that follows depicts the significant movement in reported profits.

Graph 15: Movement in the net profit after tax for 2022 (R million)



* Includes impact of employee benefits and loss from associates

Cash generated from operations after working capital changes increased by 18,1% to R29,1 billion (2021: R24,6 billion). The cash interest cover ratio (including working capital changes) is at 2,6 times (2021: 2,1 times). Although it improved from the prior year, it still reflects Transnet's difficult operating and cash constrained environment. The reported cash interest cover is within the loan covenant requirements, and the Company's overall compliance to loan covenants continue to play a significant role in the raising of new funding. Transnet continues to engage the lenders on all the loan covenant triggers.

The Company continues to be cash generative and well positioned to service its debt obligations.

Capital expenditure

As a large infrastructure and logistics company, Transnet requires planned and methodical capital investment to sustain operational performance and expansion goals. Ultimately, Transnet's investments should enable the ease of doing business, thereby contributing to South Africa's trade competitiveness in the region and globally. Breakdowns due to maintenance backlogs can cause bottlenecks in our customer supply chains, which impact business opportunities and customer reputations as well as the effectiveness of entire value chains across our commodity sectors. It is, therefore, crucial that Transnet targets its capital investment to improve operational performance.

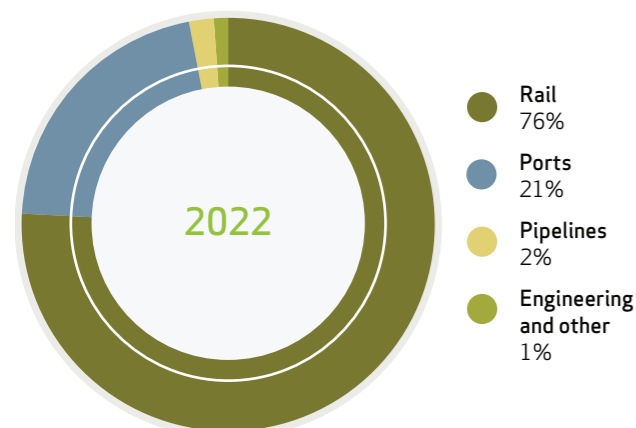
The Company continued to execute its infrastructure investment programme during the year, spending R13,2 billion (2021: R15,9 billion). The decrease in capital expenditure relates to the Company's drive to optimise capital investment as well as delays in executing certain infrastructure projects during the year.

The capital investment for the year comprised R1,9 billion (2021: R2,0 billion) invested in the expansion of infrastructure and equipment, and R11,3 billion (2021: R13,9 billion) invested to sustain capacity in the rail, pipelines, ports and other operations.

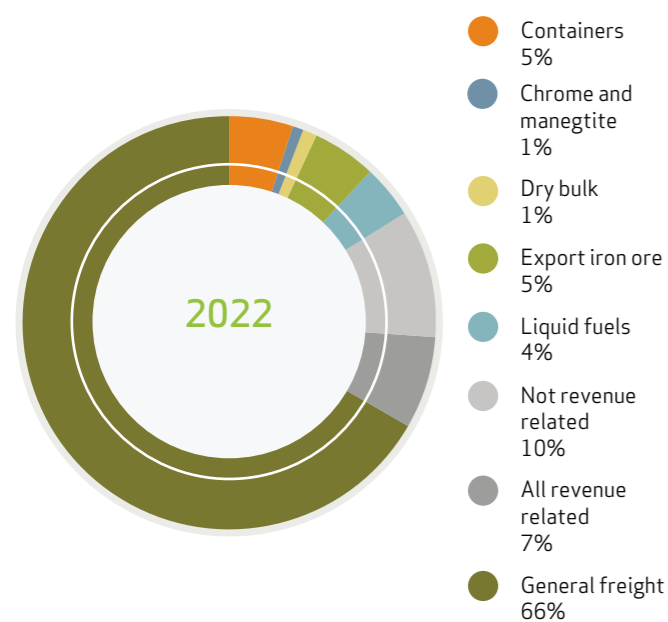
Other infrastructure investment highlights for the financial year include:

- R2,92 billion invested to maintain the condition of rail infrastructure;
- R4,85 billion invested to maintain the condition of rolling stock;
- R183 million invested in wagon fleet renewal and modernisations;
- R727 million invested in the acquisition of new locomotives;
- R340 million for the construction of the new tippler in Saldanha and all the related bulk electric power supply;
- R131 million invested in the roads, port entrance and other services for the tank farm in the Port of Ngqura;
- R210 million invested on the acquisition of 45 Straddle carries; and
- R101 million investment in the NMPP programme.

Graph 16: Capital investment by operating segment (%)



Graph 17: Capital investment by asset group (%)



Funding perspective

As at 31 March 2022, the Company's total borrowings amounted to R128,8 billion (2021: R129,1 billion), a decrease of R0,3 billion compared to the prior year, due to foreign exchange rate movements, partially offset by net debt raised. The decrease in the value of debt arising from movements in exchange rates was offset by a corresponding decrease in net derivative financial assets, as the exposure to foreign currency is fully hedged. In the year under review, the Group raised funding of R13,1 billion (2021: R12,3 billion) through the issuance of bonds and commercial paper (under the DMTN programme) and the execution of bank loans.

The Company continues to be cash generative and well positioned to service its debt obligations. The gearing level reduced to 45,5% (2021: 49,0%), mainly due to cash preservation initiatives implemented during the year. The current year's gearing is well within debt covenant requirements. All issues that are related to the downgrade in the prior financial year were successfully addressed and Transnet successfully secured waivers from all lenders affected by covenant breaches as reported in the prior year.

The gearing level is expected to remain within the target over the medium term. An important aspect of Transnet's Funding Strategy is to enter into longer-term funding agreements to match the tenor of the funding with the useful lives of its asset base. The Company is driving a strategy of limiting capital expenditure to 80% of available cash before capital investment, and aligning to the expected cost compression through improved procurement processes. The latter will ensure a reduction in future debt levels and an improved cash interest cover. Further, the Company has continued with the implementation of cash preservation measures to safeguard financial performance and cash flows over and above the plan.

Transnet will continue to access debt capital markets on the strength of its financial position without support from the Government. However, where opportunity exists to obtain Government support for price enhancement purposes, Transnet will tap into such opportunities.

On behalf of Transnet's Executive leadership, I wish to express our gratitude to our lenders for their continued support, and for enabling us to access the required capital to deliver on our mandate. We are confident in our ability to achieve the strategic goals we have set for ourselves going forward.

S&P acknowledged the positive progress made by Transnet on the matters raised when the Company was placed under credit watch negative in November 2021, particularly the completion of the waiver process, as well as the funding raised since the beginning of the 2022 calendar year, and progress in the refinancing of the TNUS22 bond maturity.

Transnet's credit rating is aligned to the credit rating of the sovereign and is unlikely to exceed the credit rating of the same.

Going concern assessment

Management performed a going concern assessment as at 31 March 2022, which included a review of the financial performance and projections, current economic factors, funding considerations, solvency and liquidity considerations, counterparty risk, contingent liabilities and post balance sheet events (which include, amongst others, the impact of the KZN flood on costs required to restore the infrastructure damage). Transnet is satisfied that it will remain a going concern for the foreseeable future.

PFMA compliance



In the past four financial years, Transnet has received qualified audit opinions as a result of misstatements that were identified in the respective irregular expenditure disclosure notes in the AFS.

These qualifications were underpinned by, amongst others:

- A weak control environment;
- Non-adherence to legislated procurement requirements; and
- Ineffective systems to comply with and record PFMA non-compliance.

Following the 2021 audit, Transnet continued its engagements with National Treasury to seek to resolve prior year PFMA matters. These resulted in an application for departure on 15 February 2022. As such, Transnet requested a departure from disclosing in the AFS amounts as required by certain provisions of the PFMA and related instruction notes. These included irregular and fruitless and wasteful expenditure (IFWE) and non-condoned historical irregular expenditure (IE) as required by the IE framework.

On 31 March 2022 National Treasury granted an exemption from the specified provisions of the Treasury Regulations issued in terms of the PFMA and National Treasury Instruction No. 2 of 2019/2020.

As a SOC, Transnet is regulated by the PFMA, which requires certain disclosures to be made in terms of paragraph 55(2)(b) of the PFMA in the notes to its Annual Financial Statements (AFS). Such disclosures are not required in terms of the International Financial Reporting Standards (IFRS) and have led to modified audit opinions from the 2018 to 2021 financial years.

The exemption affords Transnet the opportunity to address the legacy challenges in this area by focusing on the implementation of the remedial action plan and attending to the improvement of internal control measures to ensure accurate and complete reporting of Irregular and Fruitless and Wasteful Expenditure going forward.

As such, the exemption allows Transnet to report Irregular and Fruitless and Wasteful Expenditure in the integrated report instead of the AFS, effective from the financial year ended 31 March 2022 until 31 March 2024. This is a significant development that is expected to curb delays to the release of the AFS due to PFMA-related matters.

The disclosure only includes events that occurred between 1 April 2021 and 31 March 2022, with one-year comparative view including events from 1 April 2020 to 31 March 2021, which is in line with the integrated reporting guidelines issued by National Treasury on 4 April 2022. The comparative year disclosure excludes any opening balance adjustments.

Agreed upon procedures

Transnet and the AGSA, with the support of National Treasury, agreed that AUPs would be performed by the AGSA on the reportable items that are disclosed in the integrated report. The responsibilities relating to AUPs do not constitute an assurance engagement and accordingly, auditors do not express an audit opinion or any form of assurance thereon.

Enhancing Transnet's control environment

The PFMA exemption was granted to allow Transnet to develop and implement internal control measures to ensure accurate and complete reporting of IFWE.

To date, Transnet has ensured that consequence management (CM) and remediation actions are continuously being undertaken, which include matters handed over to the Special Investigating Unit (SIU) for further investigations. Courts have also been approached to set aside certain contracts linked to fraudulent activities.

Updates on the consequence management taken by Transnet will be included in quarterly reports to be submitted to the National Treasury and the Department of Public Enterprises.

The enhancement of the PFMA remedial plan remains a key priority for the Company. The lessons learned and challenges have been clearly defined and place the organisation in a much better position to speedily implement initiatives that drive PFMA compliance across Transnet.

Transnet disclosed R105 billion of PFMA reportable items in its 2021 year AFS, which included R104,3 billion of irregular expenditure and R728 million of fruitless and wasteful expenditure. These amounts were inclusive of prior year's opening balances.

Credit rating

Transnet has two officially recognised credit rating agencies, Standard & Poor's (S&P) and Moody's Investors Service (Moody's). Transnet's credit rating as at 31 March 2022 is depicted in the table below.

Rating category	Moody's	S&P
Corporate Family Rating/Foreign currency rating	Ba3/Ratings under review	BB-/Negative Outlook
Corporate Family Rating/Local currency rating	Ba3/Ratings under review	BB-/Negative Outlook
National scale rating (NSR) - long/short term	A2.za/P-1.za/Ratings under review	zaAA/zaA-1+
BCA/SACP	B2/Ratings under review	bb-/Negative Outlook

Moving forward

- To ensure the sustainability of the interventions put in place to address prior audit findings.
- A critical component of this lies with the automation of processes.
- This is currently in progress to ensure that when the manual intervention is complete, the systems required for data integrity and sound governance going forward are in place.

The Group Executive Committee will continue to monitor progress of the remedial with oversight provided by the Audit Committee and the Board.

Appreciation

I wish to thank the AGSA for supporting us through the 2022 audit process, and National Treasury for granting Transnet the three-year PFMA exemption, thereby affording Transnet the opportunity to address our legacy challenges. As part of our long-term initiatives, the procurement environment is undergoing a significant reform and transformation that will enable improved PFMA compliance going forward. Appropriate action will be taken against implicated individuals as soon as any non-compliance is identified. We have already taken disciplinary actions against certain former senior executives, which have resulted in dismissals. We are working closely with law-enforcement agencies to mitigate future risks in our procurement environment.

On behalf of Transnet's Executive leadership, I wish to express our gratitude to our lenders for their continued support, and for enabling us to access the required capital to deliver on our mandate. We are confident in our ability to achieve the strategic goals we have set for ourselves going forward.

Audit opinion

The AGSA audited the consolidated and separate financial statements of the Transnet and its subsidiaries which comprise the consolidated and separate statement of financial position as at 31 March 2022. The AGSA expressed an opinion as follows, "the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Transnet and its subsidiaries (the Group) as at 31 March 2022, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008 (Companies Act)." This is a resounding achievement, worth celebrating, as it reflects the intentional focus in cleaning up and strengthening the control environment in Transnet as a business. The opinion further strengthens our business case and commitments to the shareholder, the investor community and stakeholder universe. The journey continues.

Outlook

Transnet continues to work towards operational and financial sustainability through the Growth and Renewal strategy, which focuses on improving cash generation, enhancing operational performance, reforming the procurement environment and leveraging strategic partnerships. The strategy will contribute substantively to building industrial capability within the country's key commodity segments, thereby making South Africa more trade-competitive in the region and globally.

Fundamentally, the strategic thrust is about Transnet playing its role in Government's economic reconstruction and recovery plan through collaborative, multi-stakeholder initiatives rooted in a private sector participation (PSP) model. The success of the

strategy relies on a stable base of operations and high investor confidence, and it prioritises capital investments based on a high-impact, market-appropriate, segmental approach to the commodity value chains that account for 80% of the Company's revenue. To this end, it is crucial for Transnet to invest in capabilities and capacity that support innovative ways of doing business, while prioritising sustainable development outcomes.

In the short- to medium-term, Transnet will undertake to:

- sustain financial returns and to broaden socio-economic value;
- drive strategic initiatives to improve the financial position;
- improve performance in key financial ratios;
- ensure regulatory compliance, accountable business practices, ethical leadership, and responsible corporate citizenship;
- maintain investment priorities closely aligned with Government's infrastructure programme;
- leverage private sector capital and other resource capabilities to revitalise and grow our port and rail logistics solutions.
- invest in more efficient logistics solutions to grow our mining and industrial commodity sectors;
- strengthen the ability to raise debt on the strength of the financial position;
- keep adequate levels of reinvestments in the Company to maintain, grow and diversify operations;
- target optimal debt levels without exposing the company to liquidity and solvency risks; and
- maintain an optimal utilisation of working capital.

The investment property portfolio is expected to continue with its growth trajectory in line with evident recovery and growth prospects in the real-estate sector, post the COVID-19 stagnation. This segment of the business contributes to the restructuring of the balance sheet to leverage funding opportunities in the debt capital markets in a cost-effective manner. As an entity with commercial objectives, it is imperative for Transnet to retain and improve its financial strength.

Whilst the positive outcome of the audit process solidifies the foundation of Transnet's transformational journey, the Company still has much to achieve. In the long term, Transnet will place greater emphasis on the use of digital solutions, to the extent possible, to create an increasingly stable control environment through improved data integrity.

Transnet is required to report PFMA violations to National Treasury on a quarterly basis in accordance with the terms of the exemption, and in line with the IFWE Frameworks. All quarterly submissions will be subjected to Transnet's Internal Audit reviews. In addition, the Company will continue to report financial misconduct to the DPE. To facilitate the opening balance clean-up and ensure removal of historical reported items, Operating Divisions will report the following disclosures to Group EXCO on a monthly basis:

- Progress on closing out of prior year reported items.
- PFMA violations identified year-to-date.
- Status of consequence management on reported items.
- Progress on condonations.
- Progress on the PFMA remedial plan.

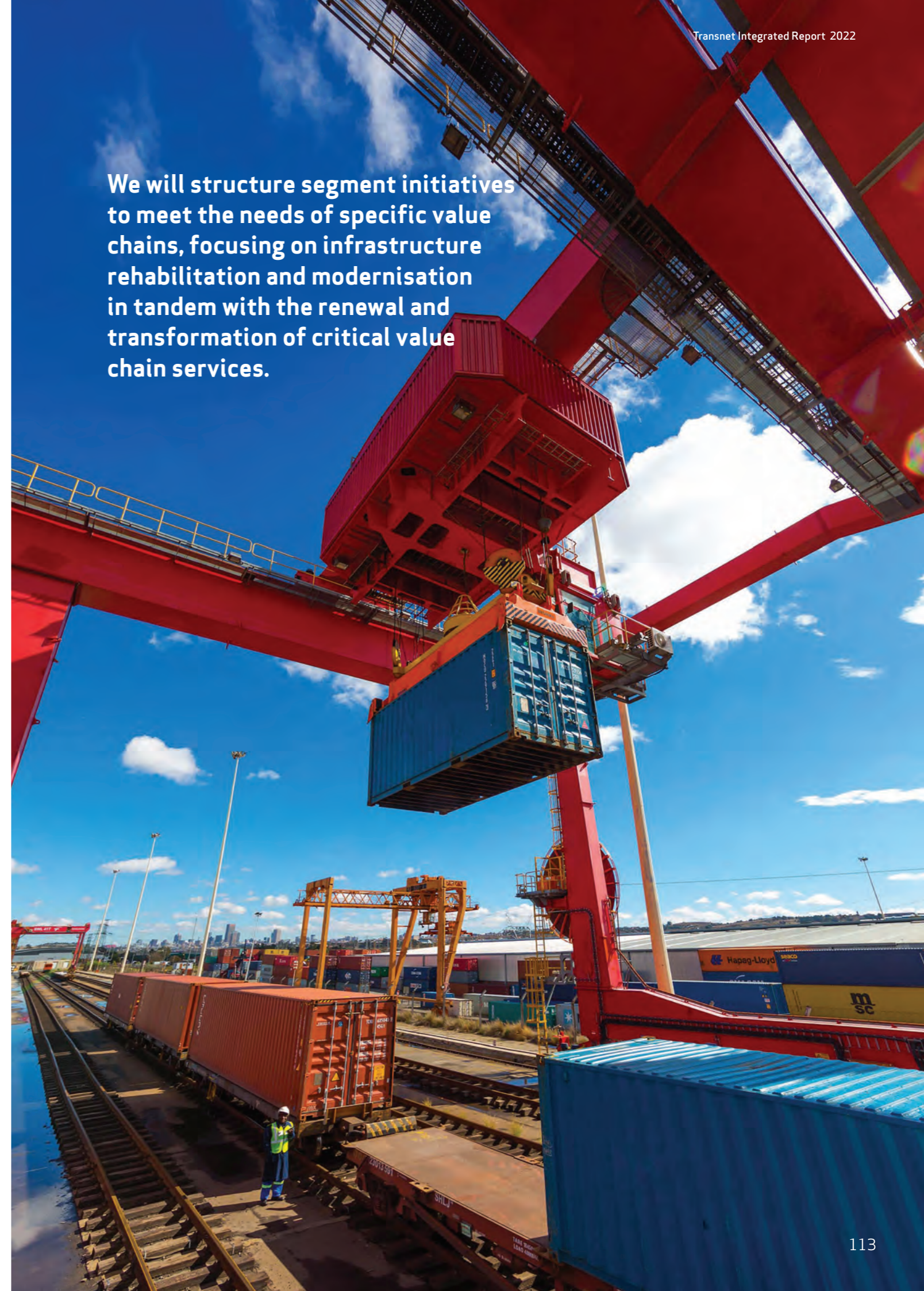
These monthly submissions will be subjected to various reviews by second and third lines of defence.

N S Dlamini

Ms Nonkululeko Dlamini
Group Chief Financial Officer

25 July 2022
Johannesburg

We will structure segment initiatives to meet the needs of specific value chains, focusing on infrastructure rehabilitation and modernisation in tandem with the renewal and transformation of critical value chain services.



Operating Divisions' review

		Revenue (R million)	EBITDA (R million)	Operational expenditure (R million)	ROTA/ROIC (%)	Capex (R million)
Freight Rail	2021	39 448	14 303	25 145	2,8	11 926
	2022	↓ 37 812	↓ 11 298	↑ 26 514	↓ 1,0	↓ 10 037
Engineering	2021	8 191	(1 474)	9 665	(12,3)	222
	2022	↑ 8 901	↓ (1 497)	↑ 10 398	↑ 13,9	↓ 99
National Ports Authority	2021	11 558	6 702	4 856	5,2	684
	2022	↑ 12 548	↑ 7 514	↑ 5 034	↑ 12,1	○ ↓ 1 185
Port Terminals	2021	13 094	3 631	9 463	8,7	2 324
	2022	↑ 14 535	○ ↑ 4 206	○ ↑ 10 329	○ ↑ 9,7	○ ↑ 1 548
Pipelines	2021	4 892	(2 052)	6 944	(8,6)	499
	2022	↑ 5 283	↑ 3 719	○ ↑ 1 564	↑ 6,8	○ ↑ 330
Property	2021	1 013	234,9	778	1,4	166,2
	2022	○ ↓ 937	○ ↓ 112,1	↑ 825	○ ↑ 16,1	○ ↓ 70,3

	Volumes	% black employees	Training spend (% of personnel revenue cost)	LTIFR
	183,3mt	90,6	2,1	0,77
	○ ↓ 172,7 mt	↑ 92,8	○ ↓ 0,9	↓ 0,74
	n/a	84	2,2	0,66
	n/a	○ ↑ 86,1	↑ 2,6	○ ↓ 0,63
	n/a	91	0,2	0,21
	○ ↓ n/a	↑ 92	○ ↓ (0,2)	○ ↑ 0,62
	3,916 TEUs	91	2,3	0,48
	↑ 4,131 TEUs	↑ 92	○ ↓ 2,2	↑ 0,70
	13 067 ml	92	1,5	1,5
	○ ↑ 15 350 ml	= 92	↑ 2,2	↓ 0,18
	n/a	87,2	1,4	0,04
	n/a	= 87,2	↓ 1,2	○ ↓ 0,03

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For more information
SCAN TO DOWNLOAD
OPERATING DIVISIONS'
REPORTS

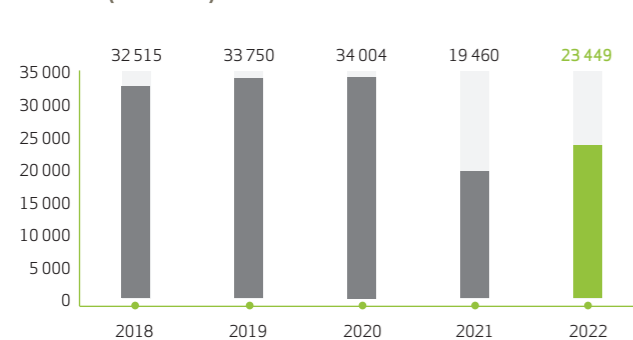
Performance key

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

Financial sustainability: performance

Five-year review: Key profitability ratios and statistics

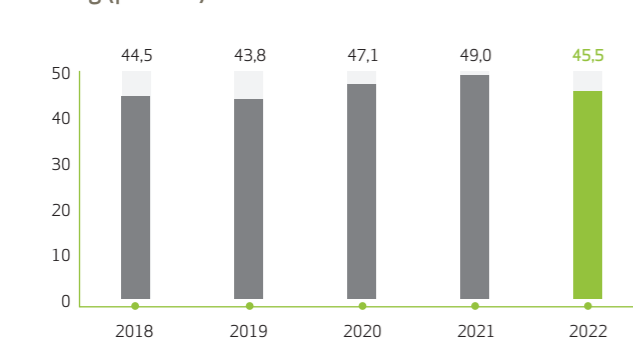
EBITDA (R million)



Revenue increased by 1,8% to R68,5 billion (2021:R67,3 billion), this marginal improvement is attributable to a combination of tariff adjustments and a positive prioritisation of profitable product flows. Petroleum volumes increased by 17,5% while container volumes increased by 5,5%. These improvements are mainly due to an increase in customer demand in these sectors compared to prior years, contributing positively to the upward trend in revenue. **A**

Net operating expenses decreased by 5,9% to R45,0 billion (2021: R47,8 billion) mainly as a result of receiving third-party settlements (including a third-party settlement of R870 million), and the cash preservation initiatives implemented by management, resulting in operating cost savings. These savings are partially offset by the provision for the cost of granting voluntary severance packages (VSP's) to employees. **B**

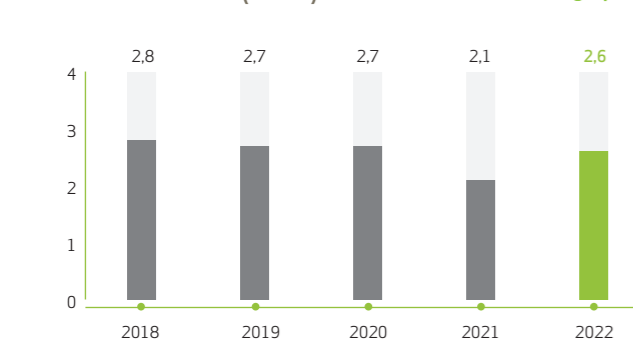
Gearing (percent)



Earnings before interest, tax, depreciation, and amortisation (EBITDA) increased by 20,5% to R23,4 billion (2021: R19,5 billion) with a resultant increase in the EBITDA margin to 34,3% (2021: 28,9%). The EBITDA improvement is due to a combination of increased revenue and reduced operational costs. **C**

Impairment for the year reduced to R2,1 billion (March 2021: R3,4 billion), due mainly to an assessment of capital work in progress (CWIP), a review of useful life, and impairment of locomotives that occurred in the prior year. The 2022 impairment is due to impairment of rolling stock (locomotives and wagons) and capital working progress assessment. **D**

Cash interest cover* (times)



Transnet reported a significant increase in fair value adjustments of R10,2 billion (2021: R1.2 billion loss). In compliance International Financial Reporting Standards (IFRS), and the International Accounting Standard 40 (IAS 40- Investment Property), Transnet conducted an investment property valuation to determine the fair value of our investment properties. **E**

Net finance costs decreased marginally by 3,6% to R10,6 billion (2021: R11,0 billion) due mainly to utilisation of less costly sources of funding. **F**

As a result of the increase in revenue, together with stringent cost control measures, third-party recoveries, and the increase in fair-value adjustments based on investment property valuations, the Group reported a net profit for the year of R5,0 billion (2021: R8,7 billion loss restated) **G**

* Including working capital changes.

Performance key

- ↑ Improvement on prior year performance
- ↓ Decline compared to prior year performance
- 🎯 Target achieved
- ⊞ Equivalent performance to prior year
- Target not achieved

Income statement

for the year ended 31 March 2022

(in R million)	Audited	
	31 March 2022	31 March 2021
A Revenue	68 459	67 273
B Net operating expenses excluding depreciation, derecognition and amortisation	(45 010)	(47 813)
C Profit from operations before depreciation, derecognition, amortisation and items listed below	23 449	19 460
Depreciation, derecognition and amortisation	(14 847)	(13 872)
Profit from operations before the items listed below	8 602	5 588
Impairment of financial assets	(415)	(987)
D Impairment of non-financial assets	(2 119)	(3 399)
Dividends received	—	—
Post-retirement benefit obligation expense	(190)	(202)
E Fair value adjustments	10 175	(1 256)
(Loss)/income from associates and joint ventures	(6)	13
Profit/(loss) from operations before net finance costs	16 047	(230)
F Finance costs	(10 684)	(11 296)
Finance income	126	256
Profit/(loss) before taxation	5 489	(11 270)
Taxation	(441)	2 536
G Profit/(loss) for the year	5 048	(8 734)

Statement of comprehensive income

for the year ended 31 March 2022

(in R million)	Audited	
	31 March 2022	31 March 2021
Profit/(loss) for the year	5 048	(8 734)
Other comprehensive income		
Net items that will not be reclassified subsequently to profit or loss	10 916	6 141
Items that will not be reclassified subsequently to profit or loss	13 715	8 568
Tax relating to components that will not be reclassified subsequently to profit or loss*	(2 799)	(2 427)
Net items that may be reclassified subsequently to profit or loss	(7)	(59)
Items that may be reclassified subsequently to profit or loss	3	(74)
Tax relating to components that may be reclassified subsequently to profit or loss*	(10)	15
Other comprehensive income for the year, net of tax	10 909	6 082
Total comprehensive income/(loss) for the year	15 957	(2 652)

* Includes the impact of the corporate tax rate change, from 28% to 27%, on the related opening tax balances recorded in equity.

Headline earnings

for the year ended 31 March 2022

(in R million)	Audited	
	31 March 2022	31 March 2021
Profit/(loss) for the year attributable to equity holder	5 048	(8 734)
Loss on disposal of property, plant and equipment	137	617
Fair value adjustments on investment property	(9 814)	770
Impairment of non-financial assets	2 119	3 399
Headline earnings before tax effects	(2 510)	(3 948)
Tax effects		
Loss on disposal of property, plant and equipment	(37)	(9)
Fair value adjustments on investment property	2 120	(172)
Impairment of non-financial assets	(572)	(557)
Headline earnings	(999)	(4 686)

Condensed statement of financial position

as at 31 March 2022

(in R million)	Audited	
	31 March 2022	31 March 2021
Non-current assets	332 636	319 520
Current assets	22 882	14 530
Total assets	355 518	334 050
Capital and reserves	143 778	127 821
Non-current liabilities	152 951	135 576
Current liabilities	58 789	70 653
Total equity and liabilities	355 518	334 050

Segment information

for the year ended 31 March 2022

(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 2022	Audited 31 March 2021	Audited 31 March 2022	Audited 31 March 2021	Audited 31 March 2022	Audited 31 March 2021	Audited 31 March 2022	Audited 31 March 2021	Audited 31 March 2022	Audited 31 March 2021	Audited 31 March 2022	Audited 31 March 2021	Audited 31 March 2022	Audited 31 March 2021	Audited 31 March 2022	Audited 31 March 2021
External revenue ²	37 093	38 757	459	230	10 288	9 579	14 535	13 094	5 278	4 887	67 653	66 547	806	726	68 459	67 273
Internal revenue	719	691	8 442	7 961	2 260	1 979	—	—	5	5	11 426	10 636	212	469	—	—
Total revenue	37 812	39 448	8 901	8 191	12 548	11 558	14 535	13 094	5 283	4 892	79 079	77 183	1 018	1 195	68 459	67 273
EBITDA	11 298	14 303	(1 497)	(1 474)	7 514	6 702	4 206	3 631	3 719	(2 052)	25 240	21 110	(1 791)	(1 650)	23 449	19 460
Total assets ³	174 770	167 416	17 939	16 671	97 276	85 181	24 175	21 053	41 551	41 318	355 711	331 639	16 077	15 821	355 211	333 774
Total liabilities	124 901	122 090	15 444	11 917	26 978	27 626	5 845	4 895	19 778	21 784	192 946	188 312	30 962	26 932	211 740	206 229
Capital expenditure ⁴	10 037	11 926	99	222	1 185	684	1 548	2 324	330	499	13 199	15 655	41	261	13 240	15 916
Cash generated from operations after changes in working capital	14 690	13 283	(2 125)	1 302	9 399	6 512	5 301	3 586	3 886	2 992	31 151	27 675	(2 093)	(3 068)	29 058	24 607

¹ Other adjustments include the Corporate Centre functions.

² External revenue from contracts with customers relate mainly to lighthouse-related tariff income, the use of ship repair facility-related income at the ports, telecommunication services provided on the rail network and rail-related demurrage income.

³ Excludes assets held-for-sale.

⁴ Excludes capitalised borrowing costs; includes capitalised finance leases and capitalised decommissioning liabilities.

Statement of cash flows

for the year ended 31 March 2022

(in R million)	Audited	
	31 March 2022	31 March 2021
Cash flows from operating activities	17 534	12 419
Cash generated from operations	25 601	27 308
Changes in working capital	3 457	(2 701)
Cash generated from operations after working capital changes	29 058	24 607
Finance costs	(9 980)	(10 914)
Finance income	126	256
Tax paid	(13)	(9)
Settlement of post-retirement benefit obligations	(120)	(143)
Derivatives settled and raised	(1 537)	(1 378)
Cash flows utilised in investing activities	(13 115)	(15 626)
Investment to maintain operations	(10 096)	(12 486)
Investment to expand operations	(3 019)	(3 140)
Cash flows (utilised in)/from financing activities	(1 651)	119
Borrowings raised*	18 411	18 051
Borrowings repaid**	(20 062)	(17 932)
Net increase/(decrease) in cash and cash equivalents	2 768	(3 088)
Cash and cash equivalents at the beginning of the year	1 168	4 256
Total cash and cash equivalents at the end of the year	3 936	1 168

* Borrowings raised excludes deferred interest of R479 million (2021: R464 million), refer note 34.3 and fees relating to the raising of borrowings of R35 million (2021: R35 million).

** Included in borrowings repaid are repayments in respect of leases of R599 million (2021: R659 million).

[Read more](#)
Refer to Annexure A: Directors' report.

Legislative compliance



King IV. P13

Incidents relating to irregularities and fraud

Ethics and fraud management within Transnet

Transnet's Code of Ethics (the Code) encompasses the following objectives:

- The Code enables a culture of entrenched values, principles, standards and norms
- All employment contracts refer to the Code, committing employees and leadership (executive and non-executive directors) to the highest standards of ethical behaviour
- Integrity pacts are concluded with all bidders and suppliers
- Fraud and corruption awareness training is provided annually to all employees
- Service providers, suppliers and trade partners are also subject to the Code, which is revised every five years or as required
- The Group Company Secretary is responsible for policy development and review while the Chief Legal Officer/Chief of Security is responsible for implementing 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 Fraud and Corruption Risk Management Strategy provides mechanisms for the prevention, early detection and investigation of irregularities

- An Ethics Helpdesk Hotline (the Hotline) operates 24/7, enabling employees, customers and trade partners to report concerns about unethical or unlawful behaviour
- All irregularities reported through external and internal reporting channels are investigated through a forensics investigation process

The Fraud and Corruption Risk Management Strategy encompasses the Anti-Fraud and Corruption Policy which provides mechanisms for the prevention, early detection and investigation of irregularities. All our stakeholders have access to an independent and free Ethics Helpdesk Hotline operated by an external third party to ensure impartial investigations into incidents of corruption and fraud. Transnet acknowledges that it has the diverse numbers of stakeholders, as such the Ethics Helpdesk Hotline line is operated externally by call centre agents and is available 24 hours a day, seven days a week. As at the end of financial year, Transnet was reviewing its contract Ethics Helpdesk. During investigations, we work closely with law enforcement and independent agencies to expedite the process.

We have revised our process mapping approach and developed standard operating procedures (SOPs) and, we have reviewed the following policies in the current financial year to strengthen the ethical environment to address fraud and corruption:

- Domestic Prominent Influential Persons (DPIP) and Foreign Prominent Public Officials (FPPO) and Related Individuals Policy
- Anti-Fraud and Corruption Policy
- Whistle-blowing Policy

The priority of the Investigations function is to ensure that all allegations of fraud and/or corruption are scrutinised, and to support the various entities within Transnet that have been charged with instituting consequence management with respect to completed founded investigations.

The Investigations function also provides inputs to the combined assurance initiatives and assists the Fraud Risk Management function in identifying key fraud and corruption risks and to strengthen identified internal control weaknesses.

The Investigations function also liaises and co-ordinates activities and shares information with relevant law enforcement agencies. The Investigations team manages and co-ordinates activities through the newly established Case Management System. This system is interlinked with the Hotline from where direct referrals/ requests for investigations and/or incidents detected are reported. The Investigations function is therefore the only mandated entity within Transnet responsible for the management of whistle-blowers and the information they provide.

The Investigations function also ensures that matters which require consequence management are concluded through its support to the office of the Chief Legal Officer and Employee Relations at OD level. It is envisaged that this will deter future acts of fraud, corruption and theft.

Key initiatives for the Investigations function will focus on implementing its analytics capability; effectively managing the whistle-blower hotline; rolling out its regional investigative delivery; appointing and managing external service providers; enhancing internal and external partnerships to leverage impactful investigative outcomes; and strengthening preliminary investigations to efficiently focus Investigations' resources.

Fraud risk management

The Fraud Risk Management function identifies, prioritises and monitors fraud risk that poses a threat to Transnet's ability to run a seamless business and provide value to the Shareholder. Management has commenced the robust development of a fraud prevention and detection programme as part of the overall Fraud Risk Management Plan. In addition, management has embarked on the development of a comprehensive fraud risk assessment aimed at proactively addressing vulnerabilities to internal and external fraud, which is aimed at addressing and confirming identified weaknesses for the purpose of strengthening internal controls. Through analysis of these weaknesses and a better understanding of the risk environment, the fraud risk assessment will assist management in reviewing and updating the evolving three-year Fraud Risk Management Plan to its maturity. This plan is prepared in terms of National Treasury Regulation 29.1.1 prescribed under the Public Finance Management Act, No 1 of 1999 (PFMA), which requires all state-owned companies to have a plan to prevent fraud. The plan is aimed at the detection, prevention and investigation of fraud and corruption through risk assessments and audits, which cover key financial processes of revenue, procurement, human capital/payroll, fixed assets, financial statements and inventory management.

The Fraud Risk Management Plan will further encompass the execution of a fraud prevention and detection programme as part of Transnet's Combined Assurance Framework and overall risk management efforts to ensure better fraud control in the Company.

Key initiatives for this function are the roll-out of the Fraud Risk Framework between ODs and the Group, fraud awareness programmes across Transnet, implementation of the next phase of lifestyle audits and enhancement of due diligence in support of Transnet's supply chain management processes.

Current activities

The following activities are ongoing and will be completed during the upcoming financial year:

- A review of the Lifestyle Audit process and SOP
- A review of the Fraud Risk Management process and SOP
- A Lifestyle Audit is conducted for employees at Levels D to F

PFMA compliance

Sections 51 and 55 of the PFMA impose certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; losses through criminal conduct; and the collection of all revenue.

Irregular expenditure is defined as expenditure incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. The scope is therefore very broad as it includes all transgressions of any statute or internal policy and procedure regardless of whether the breaches were deliberate or accidental, or they happened unknowingly or in good faith.

The fact that value (an asset or service) was received for the expenditure incurred is not relevant, as the requirement is to report the related non-compliance.

Irregular expenditure should be clearly distinguished from fruitless and wasteful expenditure.

Fruitless and wasteful expenses are defined as expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Losses through criminal conduct include losses where Transnet employees were party to the criminal acts committed.

Details of irregular expenditure, fruitless and wasteful expenditure, and losses through criminal conduct are presented in the pages that follow.

Exemption disclosure requirements

Legislative framework in relation to the disclosure of irregular expenditure

Section 55 (2)(b) of the PFMA requires the accounting authority to ensure that the annual report and annual financial statements (AFS) of the entity includes: (i) any material losses through criminal conduct and any irregular and fruitless and wasteful expenditure that occurred during the financial year; (ii) any criminal or disciplinary steps taken as a consequence of such losses or irregular or fruitless and wasteful expenditure; and (iii) any losses recovered or written off.

Furthermore, a public entity is required to disclose in its AFS any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure as required by Treasury Regulation 28.2.1.

Table 33: Investigations during 2022

Operating Divisions	Reported incidents closed after a preliminary investigation	Investigations in progress		Reported incidents unfounded		Reported incidents founded		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022
Transnet Corporate	27	108	54	64	17	16	10	188	108
Transnet Engineering	26	56	19	58	13	8	9	122	67
Transnet Freight Rail	40	278	127	222	71	34	34	534	272
Transnet National Ports Authority	11	78	33	41	13	8	4	127	61
Transnet Pipelines	3	33	15	5	2	3	4	41	24
Transnet Port Terminals	60	160	67	89	22	26	6	275	155
Transnet Property	0	12	7	11	2	6	1	29	10
Total	167	725	322	490	140	101	68	1 316	697

The Irregular Expenditure Framework requires the accounting authority of the public entity to disclose in their AFS, any irregular and fruitless and wasteful expenditure incurred in the current and previous financial years. The period of how far back the entity must disclose the irregular or fruitless and wasteful expenditure is not defined nor provided for in the framework.

The Minister of Finance considered granting an exemption to Transnet as follows:

- (a) Approval of an exemption from section 55(2)(b)(i)(ii) & (iii) of the PFMA for a period of three (3) years starting from 2021/2022 to 2023/2024 to allow Transnet, to develop and implement internal controls measures in ensuring accurate and complete reporting of irregular and fruitless and wasteful expenditure.
- (b) Report irregular and fruitless and wasteful expenditure confirmed for the current and previous financial year (one year comparative) in the annual report of the entity;
- (c) Report irregular and fruitless and wasteful expenditure for the current and previous financial year (one year comparative) in the annual report, those transactions that are -
 - i. under assessment, determination and/or investigation;
 - ii. not condoned by the relevant authority (not applicable to fruitless and wasteful expenditure);
 - iii. transferred to receivables for recovery;
 - iv. written off if irrecoverable; and/or
 - v. not condoned and removed (not applicable to fruitless and wasteful expenditure).
- (d) Report quarterly in terms of the Irregular Expenditure Framework to the National Treasury

- i. under assessment, determination and/or investigation.
 - ii. not condoned by the relevant authority (not applicable to fruitless and wasteful expenditure).
 - iii. transferred to receivables for recovery.
 - iv. written off if irrecoverable; and/or
 - v. not condoned and removed (not applicable to fruitless and wasteful expenditure).
- (d) Report quarterly in terms of the Irregular Expenditure Framework to the National Treasury

Agreed Upon Procedures

Transnet and AGSA, with the support of National Treasury, agreed that AUPs would be performed by the AGSA on the reportable items that are disclosed in the integrated report. The responsibilities relating to AUPs do not constitute an assurance engagement and accordingly auditors do not express an audit opinion or any form of assurance thereon.

Progress on the PFMA remedial plan focus areas

- **Governance** - Implementation of Combined Assurance Project in Supply Chain Management (SCM) and established PFMA governance structures.
- **Procurement** - In an effort to automate its procurement practices and in line with Transnet's digitalisation strategy, a new electronic tender submission system was launched in October 2021. The system aims to ensure that Transnet tenders are submitted via a secure e-Tender Submission Portal replacing manual publications.
- **Contract management** - Automated controls have been activated and there is continuous process to enforce compliance across the organisation.
- **Systems and reporting** - System enhancements are underway to ensure accuracy and completeness of reporting.
- **People Management and Learning** - Improved consequence management process in place with law enforcement agencies assisting with previously reported PFMA violations.

The enhancement of the PFMA remedial plan remains a key priority for the Company. The lessons learned and challenges have been clearly defined and place the organisation in a much better position to speedily implement initiatives that drive PFMA compliance across Transnet.

Progress on the PFMA remedial plan focus areas

- **Governance** - Implementation of Combined Assurance Project in Supply Chain Management (SCM) and established PFMA governance structures.
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PFMA reportable items for the year ended 31 March 2022

Transnet disclosed R105 billion of PFMA reportable items in its prior year AFS, which included R104,3 billion of irregular expenditure and R728 million of fruitless and wasteful expenditure. These amounts were inclusive of the prior year's opening balances.

The details below reflect current year actual and potential PFMA reportable items and the related one-year comparative:

1. Irregular expenditure

(a) Details of current and previous year irregular expenditure (confirmed and under assessment)

	2022 R million	2021 R million
Irregular expenditure confirmed	1 140	3 869
Non-compliance with the Construction Industry Development Board regulations	—	24
Non-compliance with the Basic Conditions of Employment Act	136	—
Non-compliance with the National Treasury requirements	151	1 141
Non-compliance with the Preferential Procurement Policy Framework Act	211	781
Other (N1)	642	1 923
Irregular expenditure under assessment	32	—
Total	1 172	3 869

N1: Other matters include:

- Services rendered/good received prior going through procurement processes and issuing purchase orders;
- Tenders issued to the market without stipulating mandatory Local content requirements; and
- Contraventions of other applicable legislation, which resulted in irregular expenditure.

(b) Details of current and previous year irregular expenditure (under determination and investigation)

	2022 R million	2021 R million
Irregular expenditure under determination	58	—
Irregular expenditure under investigation	—	—

(c) Details of current and previous year irregular expenditure condoned

	2022 R million	2021 R million
Irregular expenditure condoned	—	—

(d) Details of current and previous year irregular expenditure removed by the Board - (not condoned)

	2022 R million	2021 R million
Irregular expenditure removed	—	—

(e) Details of current and previous year irregular expenditure recovered

	2022 R million	2021 R million
Irregular expenditure recovered	—	—

(f) Details of current and previous year irregular expenditure written off (irrecoverable)

	2022 R million	2021 R million
Irregular expenditure written off	—	—

(g) Details of current and previous year disciplinary or criminal steps taken as a result of irregular expenditure

Disciplinary steps taken	2022 R million	2021 R million
Matters where no action was taken or required (N1)	224	147
Counselling	—	—
Training	1	304
Verbal warnings	—	—
Written warnings	—	8
Suspended without pay	—	—
Dismissal	—	217
In progress (N2)	27	870
Not started (N3)	888	2 323
Total	1 140	3 869

N1: Matters where no action was taken or required include cases where line management had addressed a transgression by taking action that did not constitute disciplinary action; and cases where disciplinary action could not be instituted as the responsible persons had already left the employ of Transnet.

N2: Cases in progress include cases where line management or the Employee Relations (ER) function is in the process of disciplining the employee(s) responsible.

N3: Cases not started refers to matters that ER has received from line management/PFMA champions but has not started with the process of disciplinary action; and those matters for which determination tests have not yet been performed.

2. Fruitless and Wasteful Expenditure

(a) Details of current and previous year fruitless and wasteful expenditure (confirmed and under assessment)

Disciplinary steps taken	2022 R million	2021 R million
Fruitless and wasteful expenditure confirmed*	3	120
Poor contract management	—	83
Redundant assets and stock	—	11
Fines and penalties	1	5
Other (N1)	2	21
Fruitless and wasteful expenditure under assessment (N2)	183	—
Total	186	120

* Rounding off differences

N1: The FY2021/22 are before net recoveries and write-offs, which have been separately presented below. The nature of these transactions amongst others include negligence, poor management oversight and settlement paid.

N2: The National Treasury issued reporting guidelines as part of the PFMA exemption requirements that Transnet must follow when reporting PFMA matters in its integrated report. These new guidelines required the entity to report both confirmed and under assessment PFMA reportable items starting from 31 March 2022 financial year up to the end of the PFMA exemption period, in the 2024 financial year.

A total of R183m, fruitless and wasteful expenditure under assessment includes, R148m (81%) relating to TFR's proactive approach to remove electrical overheads equipment on railway lines that are susceptible to theft. TIA considered this approach to be a potential fruitless and wasteful exercise and the related determination process to confirm was in progress at year-end.

(b) Details of current and previous year fruitless and wasteful expenditure (under determination and investigation)

	2022 R million	2021 R million
Fruitless and wasteful expenditure under determination	—	—
Fruitless and wasteful expenditure under investigation	—	—

(c) Details of current and previous year fruitless and wasteful expenditure recovered

	2022 R million	2021 R million
Fruitless and wasteful expenditure recovered	—	—

(d) Details of current and previous year fruitless and wasteful expenditure written off - (not recovered)

	2022 R million	2021 R million
Fruitless and wasteful expenditure written off	—	—

(e) Details of current and previous year disciplinary or criminal steps taken as a result of losses and fruitless and wasteful expenditure

Disciplinary steps taken	2022 R million	2021 R million
Matters where no action was taken or required (N1)	1	6
Counselling	—	—
Training	—	—
Verbal warnings	—	—
Written warnings	2	2
Suspensions without pay	—	—
Dismissals	—	—
In progress	—	106
Not started	—	7
Total	3	120

0 - rounded off figures.

N1: Matters where no action was taken or required include cases where line management has addressed a transgression by taking action that does not constitute disciplinary; and cases where disciplinary could not be instituted as the responsible persons had already left the employ of Transnet.

N2: Cases in progress include cases where line management or the Employee Relations (ER) function is in the process of disciplining the employee(s) responsible.

N3: Cases not started referring to matters that ER has received from line management/PFMA champions but has not started with the process of disciplinary; and those matters for which determination tests have not been performed.

3. Details of material losses through criminal conduct

(a) Details of current and previous year material losses through criminal conduct

Disciplinary steps taken	2022 R million	2021 R million
Material losses through criminal conduct	4	—
Theft (N1)	4	—
Written off	—	—
Recovered	—	—
Total	4	—

N1: Material losses through criminal conduct relates to criminal matters where Transnet employees were involved. These include theft of scrap wheels amounting to over R3 million.

(b) Other material losses

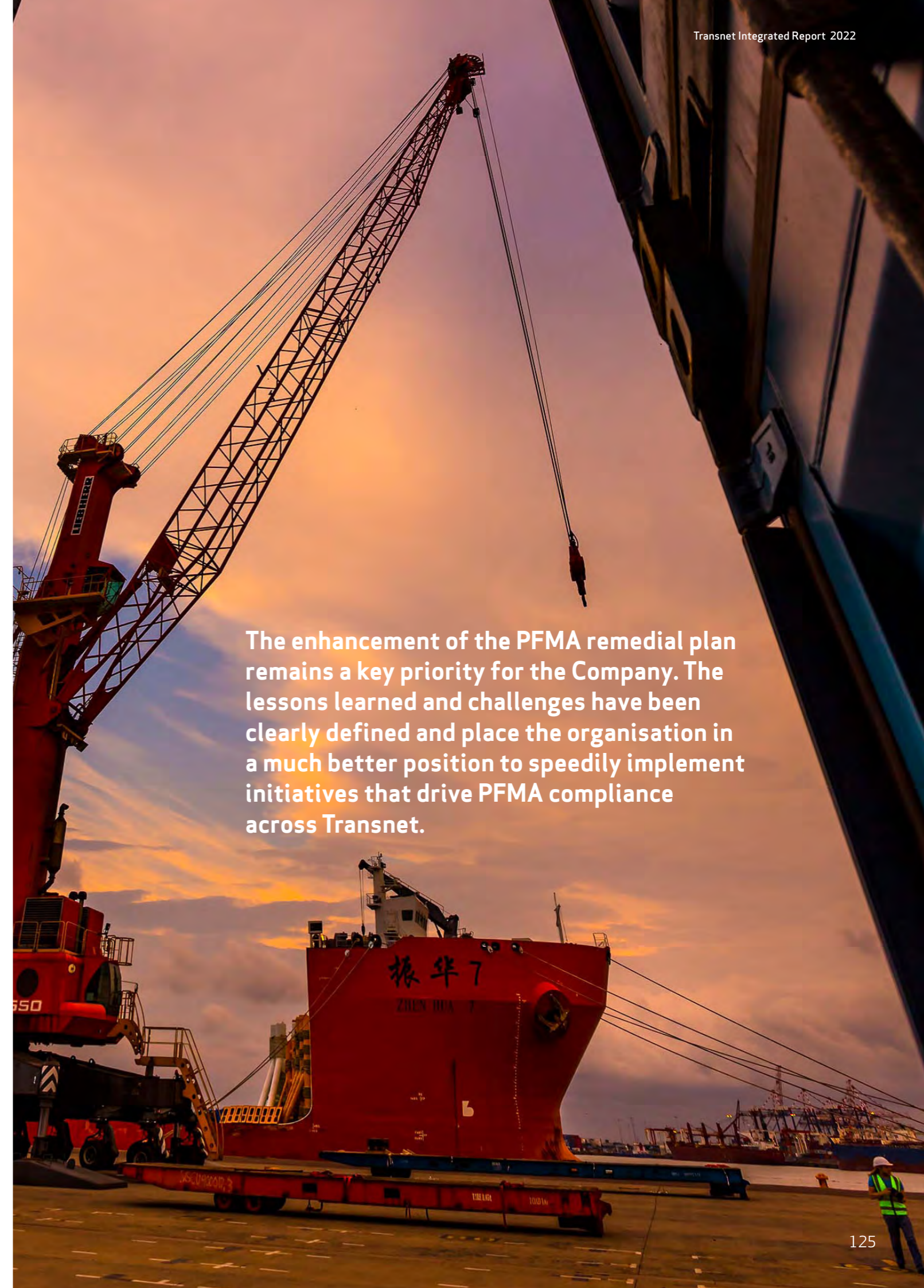
Nature of other material losses	2022 R million	2021 R million
Other material losses	—	—

(c) Material losses written off

Nature of losses	2022 R million	2021 R million
Material losses written off	—	—

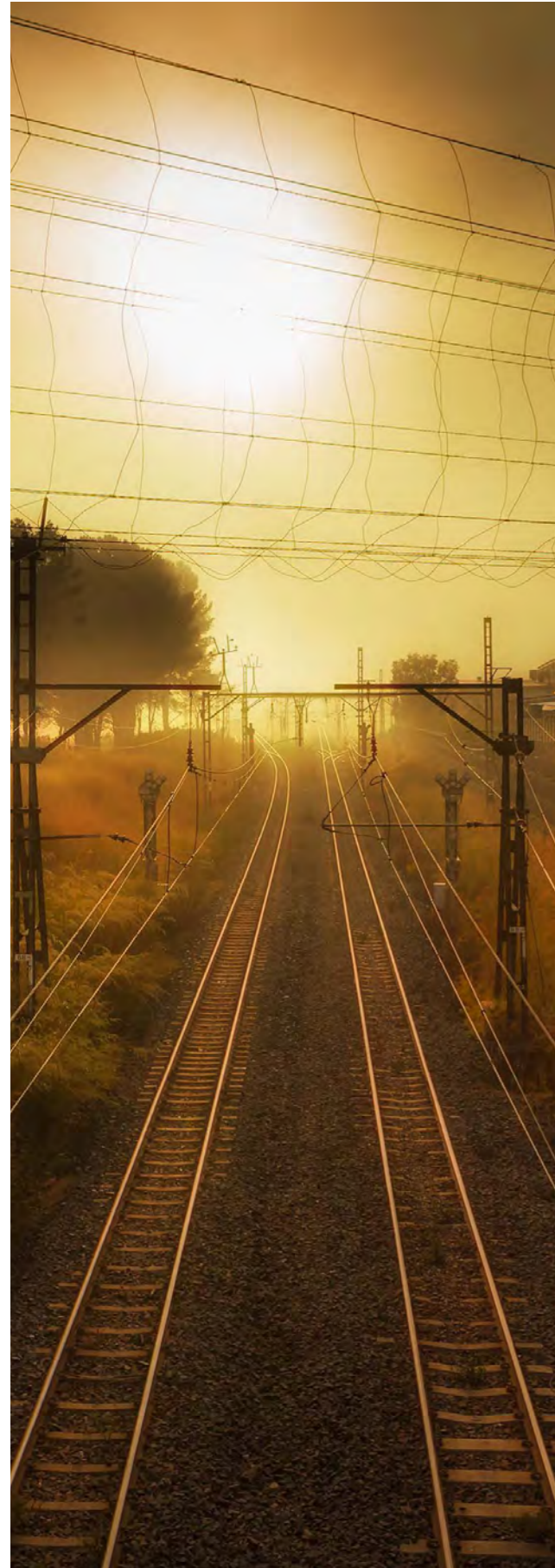
(d) Material losses recovered

Nature of losses	2022 R million	2021 R million
Other material losses	—	—



The enhancement of the PFMA remedial plan remains a key priority for the Company. The lessons learned and challenges have been clearly defined and place the organisation in a much better position to speedily implement initiatives that drive PFMA compliance across Transnet.

Sustainable Development Outcomes for 2022



Strategic perspective of Sustainable Development Outcomes

Introduction

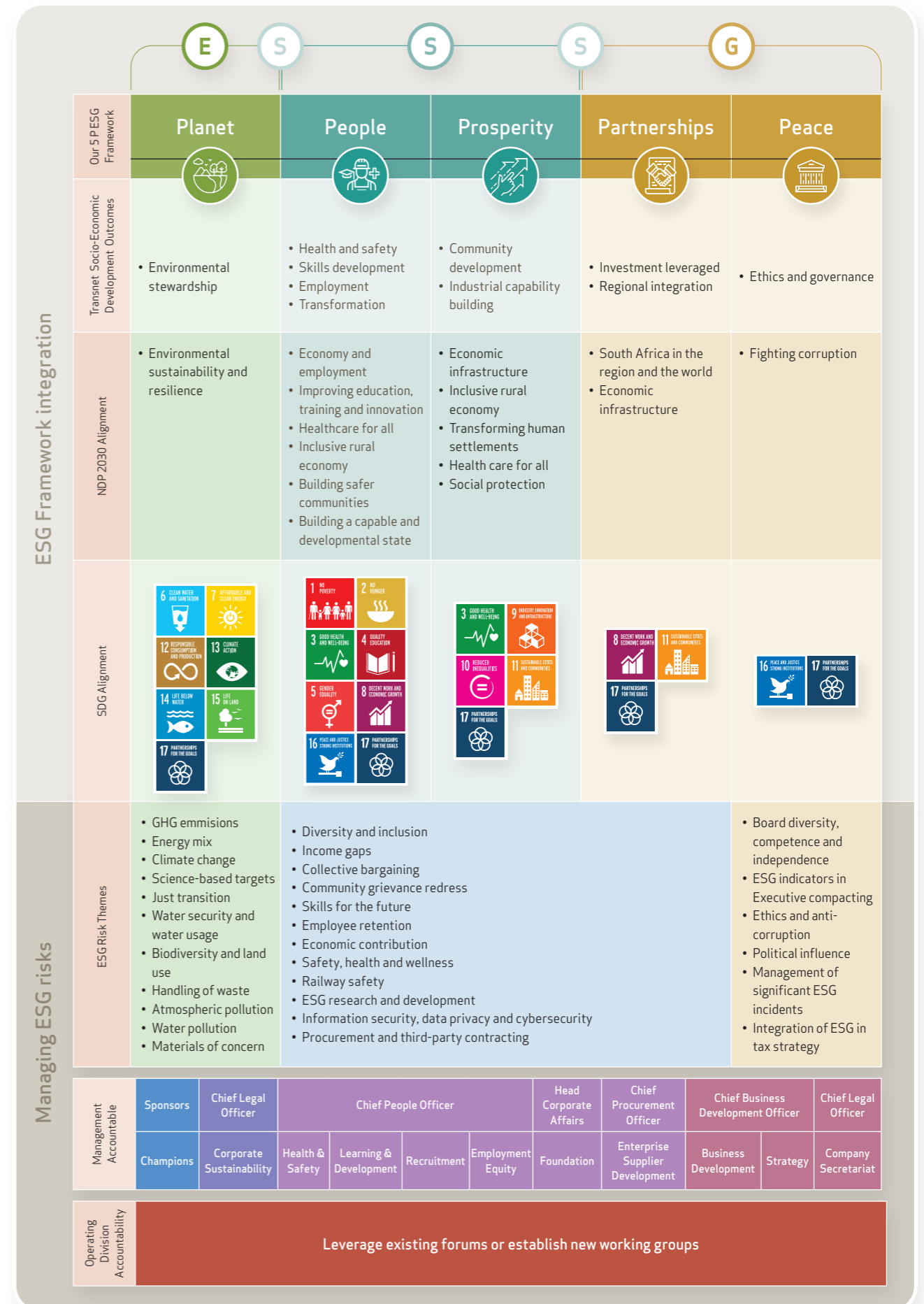
Transnet's nine Sustainable Development Outcomes (SDO) framework is anchored by five tactical enablers, namely people, customer service, asset utilisation, cost control and safety. These enablers are aligned to the National Development Plan (NDP) and United Nations Sustainable Development Goals (SDGs) and remain the lens through which we seek to create and measure long-term sustainable value for the economy, environment and society. Further to the SDOs, we understand that we are exposed to risks in the environmental, social and governance (ESG) domains that may hinder us from delivering on our mandate and that have material adverse impacts on our current and future enterprise value. Given the systemic nature of these ESG risks, these have been identified and clustered into themes and form part of our revised approach to sustainability and ESG as shown in figure 7. This approach demonstrates both our positive developmental impact, as well as ESG risks.

Transnet strives to align its disclosures to global best practice. In recent years, there have been many developments insofar as ESG and sustainability disclosures are concerned, with the following recent changes adding to these developments: the evolving ESG-based financial reporting framework defined by the Task Force on Climate-related Financial Disclosures (TCFD); the merge between the Value Reporting Foundation (previously the International Integrated Reporting Council (IIRC)) and the Sustainability Accounting Standards Board (SASB) leading to more complex principle-based ESG disclosures; developments in the Johannesburg Stock Exchange's Sustainability and Climate Disclosure Guidelines; and the continually evolving needs and expectation of Transnet's stakeholders. We further take cognisance of the growing need to undergo an ESG rating assessment, and view this as the core of how we are planning our operations for the future and how we govern the Company commercially to comply with all regulatory and other obligations while recognising an inclusive stakeholder approach. An ESG rating assessment is planned for the 2022/23 financial year as our baseline year.

In this 2022 report, we have considered the aforementioned developments, and will continue to ensure that our reporting adequately reflects these best practice guidelines. Accordingly, we have also reviewed our material disclosures to ensure our disclosures enable stakeholders to understand:

- Our governance processes relating to ESG matters;
- Our material ESG risks;
- Our developmental impact;
- Our sustainability risk and opportunities; and
- Our performance on material ESG and sustainability metrics and targets.

Figure 7: Our ESG approach



ESG governance

Effective corporate governance is critical in the execution of Transnet's mandate in the economy, our strategy, responsibilities to our clients, and in delivering value for our stakeholders. Transnet's commitment to good governance with respect to ESG matters is reflected in our strong leadership and effective oversight by senior management and the Board. Furthermore, our adoption of the King IV principles as well as being signatories to the UNGC for the past 10 years enable us to continually improve.

Below is a brief overview of Transnet's approach to ESG governance, while a comprehensive overview of Transnet's overall governance is outlined in the Governance Report available at www.transnet.net.

ESG oversight

Transnet's first tier of ESG oversight lies with the Board, which is responsible for approving, directing and overseeing the Company's strategy as well as the Company's associated operational, commercial and statutory objectives. During this process, the Board balances the interests of stakeholders and ensures that the

Company's long-term economic, social and environmental sustainability is achieved.

Our second tier of ESG oversight is enabled by the Board's committees. The Board delegated some of its authority, including matters relating to ESG, to these committees through the Delegation of Authority (DOA) Framework and the committee charters. This ensures that delegation within the Board's own structures promotes independent judgement and assists with the balance of power and effective discharge of its duties. The charters set out the terms of reference of the Board and its committees and are achieved through the execution of the Annual Work Plans, effective meetings, periodic Board strategy workshops, operational site visits and deep dive sessions.

The third tier of governance is achieved through management oversight facilitated by the management committees/forums, which ensure that everything the organisation does supports its vision, purpose and aims. These committees establish the Company's fundamental values and strategic direction and oversee progress towards the achievement of Transnet's strategic objectives, including ESG matters.

Figure 8: Our ESG governance structure

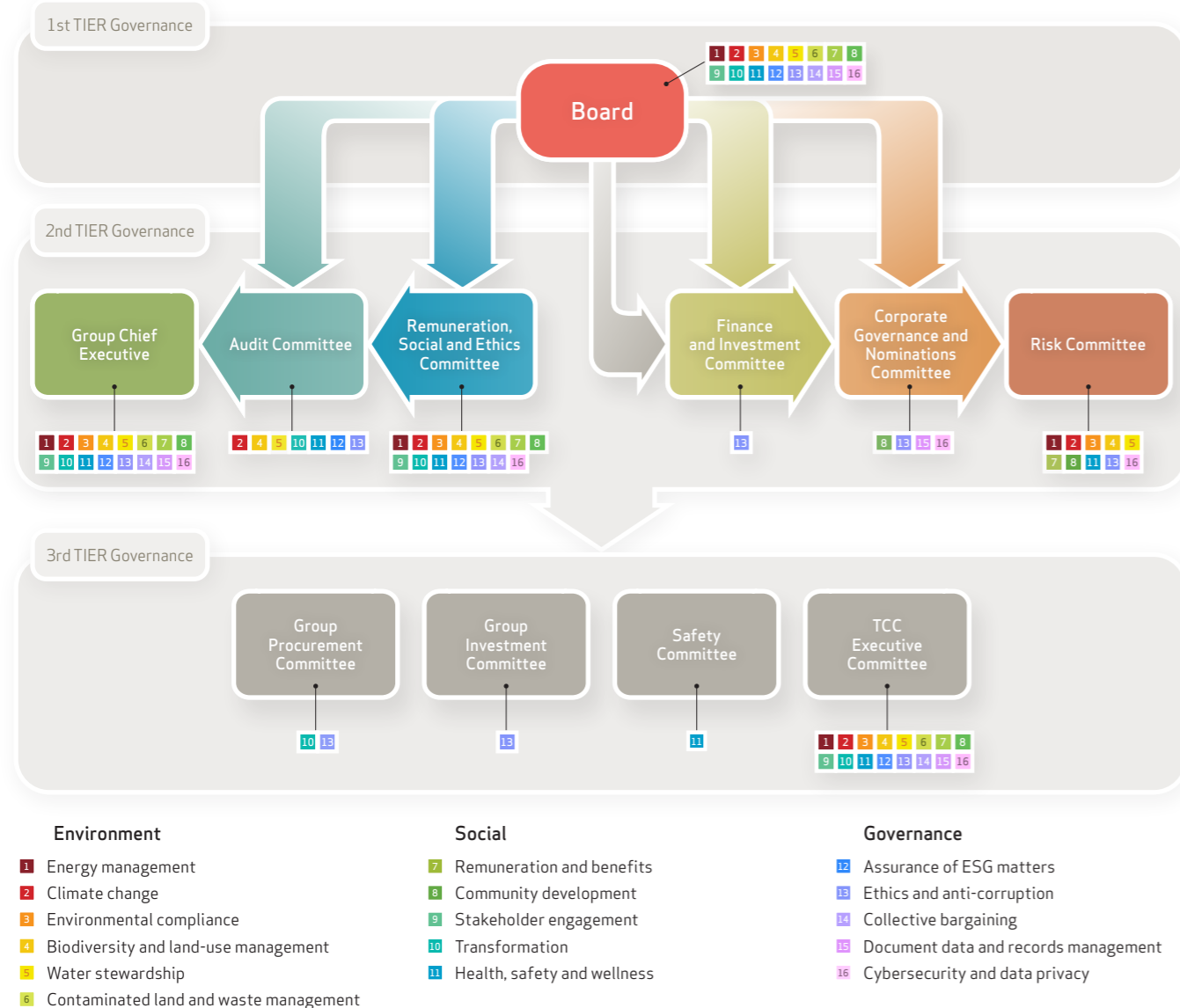


Table 34: Oversight of ESG-related matters

Management committees/forums	ESG-related matters	Committee/forum reporting line
Sustainability Forum	• SDOs and enablers	General Manager: Corporate Sustainability reporting to Chief Legal Officer
Environmental Forum	• Environmental risk, compliance and stewardship	General Manager: Corporate Sustainability reporting to Chief Legal Officer
Energy Management Forum	• Energy management and climate change	General Manager: Corporate Sustainability reporting to Chief Legal Officer
People Management Council	• Ensuring an equal, diverse, inclusive and transformative (EDIT) workforce • Creating and sustaining decent employment • Ensuring the health and wellness of employees • Remuneration and benefits	GMs reporting to Chief People Officer
Safety Exco	• Ensuring the safety of employees and communities in close proximity to our operations	General Manager: Safety reporting to Group Chief Executive
Enterprise and Supplier Development (ESD) Forum	• ESD • Procurement (supplier code of conduct) • Transformation - inclusion of designated groups	ESD Executive reporting to ESD Chief Procurement Officer
B-BBEE Steerco	• Compliance with the B-BBEE Codes of Good Practice	B-BBEE specialist reporting to ESD Executive Manager
Risk Management Forum	• ESG risks and opportunities	General Manager: Risk reporting to Chief Legal Officer
Corporate Social Investment Forum	• Improving the quality of life of communities • CSI and charitable giving	Head: Transnet Foundation reporting to Corporate Affairs Executive and Spokesperson
Stakeholder Engagement Forum	• Stakeholder issues and responses	Corporate Affairs Executive and Spokesperson
Company Secretariat Forum	• Strengthening ethics and governance	Group Company Secretary reporting to Chief Legal Officer
Security Governance Committee	• Governance, risk, compliance training and integration of physical security matters	Head: Physical Security reporting to Group Chief Security Officer
Fraud Risk Management Committee	• Anti-corruption • Fraud • Consequence management	Head: Fraud Risk Management reporting to Group Chief Security Officer
Investigations Committee	• Lifestyle audits • Due diligence of high-value tenders • Anti-corruption	Head: Investigations reporting to Group Chief Security Officer
Security Vetting Committee	• Security of and management of classified information	Head: Security Vetting, reporting to Group Chief Security Officer
National Skills Development Committee	• Skills development inputs, outcomes and enablers • Ensuring the right skills at the right time	Head of Learning and Development: Governance reporting to Chief of People and Learning

The sections that follow provide details on our SDO performance for the 2022 reporting year.

SDO: Industrial capability building



Transnet contributes significantly to growth and transformation in the South African economy. This contribution is important when considering the challenges of inequality, unemployment and poverty that South Africa continues to face. Our most material outcomes in respect of industrial capability building are increased competitiveness, capacity and capability of local suppliers; establishment of original equipment manufacturing in Transnet; growth in local industry and increased security of supply; and increased employment and entrepreneurship for black women and the youth. We aim to achieve this through our procurement spend that targets local suppliers in order to support national developmental goals as well as through our investment in research and development, aimed at building long-term original equipment manufacturing capability for the broader economy.

Table 35: Breakdown of ESD KPIs

Key performance indicator	Unit of measurement	Target (%)	Achieved (%)
Enterprise and supplier development	% of NOPAT	≥3	16,7
Local content*	% of designated sector spend	70	72

* Local content no longer forms part of the Shareholder's Compact targets, but for transformation purposes this is tracked regularly. The local content target was developed in collaboration with the Department of Public Enterprises (DPE) and is based on actual local content percentages set in the previous financial year as well as targets set by other DPE state-owned Entities (SOEs). This ensures that Transnet is consistent with how other SOEs are measured regarding local content when reporting to the DPE

Table 36: Spend on ESD programmes

Programme	R million	Purpose	Type
Godisa Fund	45,0	Revolving loan to Transnet black-owned SMMEs managed by the Small Enterprise Finance Agency (SEFA)	SD
Mtiya Dynamics	3,9	Facilitate the integration of SMMEs into the Black Industrialist Programme	ED
Small Enterprise Development Agency (SEDA)	4,0	Incubation of Transnet former Graduates-in-Training (GITs) that are unemployed	ED

Transnet also seeks to contribute towards industrial capability building through R&D, with R98,3 million spent in 2022 (2021: R141,9 million.)

Enterprise and Supplier Development

The Government's B-BBEE Act and the accompanying Codes of Good Practice, which include Enterprise and Supplier Development (ESD), as well as the PPPFA, direct Transnet's industrial development efforts. We aim to enhance positive participation in our procurement opportunities across these vehicles by increasing opportunities owned by designated groups.

2022 Enterprise and Supplier Development (ESD) performance in brief:

- ESD spend amounted to R432 million, 16,7% of net profit after tax (NOPAT).
- Local content accounted for 72% designated sector spend.

SDO: Investment leveraged



Transnet facilitates private sector investment in the country's freight logistics system to lower the cost of doing business, advance inclusive growth and create jobs. The most material outcomes in this respect are to widen the available finance pool, remove barriers to entry for private investment and operations in the port and rail environments, expedite infrastructure development, mitigate risks for large-scale infrastructure projects, and increase capacity and efficiencies in the ports, pipelines and rail environments. Through concession agreements (S56 agreements) Transnet is able to introduce new activities into the port system; enable renewal of old port facilities; facilitate supplier development programmes aligned to national economic objectives; and encourage participation in port activities by businesses owned by historically disadvantaged persons in accordance with legislative requirements. To entrench broad participation and liberalisation of port capacity, bidders are required to comply with a set criteria, including those under relevant sector codes, for example black ownership.

In 2022, Transnet developed a Framework for Joint Investment and External Partners Selection. The framework provides for a process for private sector participation, whereby Transnet will partner with the private sector in order to leverage its assets and operations and benefit from the market access, access to finance and productivity from private sector operators. The first two transactions under this framework are the Durban Container Terminal Pier 2, where Transnet seeks to enhance throughput and improve performance, and Ngqura Container Terminal where Transnet seeks to improve volume throughput. Transnet plans to approach the market to increase private sector participation on the freight railway line by offering rail slots to the market in the 2022/23FY.

Operation Phakisa

Since its inception in 2014, Operation Phakisa has been earmarked as one of the radical change agents for unlocking the ocean's economy to a wider group of South Africans. It is said that by 2033, this initiative would have contributed an estimated R177 billion to the country's GDP. As the custodian of South Africa's ports and related infrastructure, Transnet has committed R4,7 billion towards this initiative to date and has been identified as one of the pioneering enablers to accelerate this programme. We remain committed to the strategic national objectives of reviving and fast-tracking the implementation of Operation Phakisa and have included these objectives in our strategic roadmap going forward.

SDO: Regional integration



Regional integration is vital to diversify economies away from dependence on the export of mineral products, and also to deliver food and energy security, create and sustain jobs, alleviate poverty and deliver shared prosperity. Intra-regional trade in Africa, as a share of total foreign trade, has traditionally been low compared to other countries. Transnet has extensive freight transport and logistics capabilities in ports, rail and pipelines, and is ideally positioned to play a catalytic role in providing expertise and support to expedite infrastructure development across the continent. Africa is still experiencing significant infrastructure gaps, and annual national public spending on transport infrastructure remains exceedingly low relative to the exponential population growth. As such, development in the currently constrained infrastructure system of rail, roads, ports, electricity and ICT is key to economic development. Infrastructure development within the major transport corridors in Africa will promote intra-Africa trade. These corridors will allow the flow of economic value to global markets and more critically within the continent, thereby leveraging the Africa Continental Free Trade Agreement to achieve its desired objectives. Transport corridors are also key enablers of regional integration with an increased probability of forging critical mass for certain economic activities. However, these opportunities are being delayed by slow infrastructure development and the reduced value exchange between markets and suppliers.

Aligned with Transnet's regional integration mandate, four key revenue drivers underpin the Company's regional transactions, namely geographic expansion, over-border volumes, export sales of rolling stock and transshipment volumes (intra-Africa). In collaboration with neighbouring rail operators, great strides are being made in expanding and improving operations across regional freight corridors. In addition, the ports businesses have signed port cooperation agreements, which promote maritime linkages and allow access to revenue opportunities in maritime training, dredging, terminal operations and port consulting. In 2022, our cross-border operations were mainly in the regions of Benin, Botswana, Democratic Republic of Congo, Zambia and Zimbabwe. We continue with efforts to form partnerships in the rest of Africa.

The easing of COVID-19 Disaster Management Regulations in late 2022 has not yet realised business recovery across our regional integration operations with an overall variance of -11% against target in total revenue. Our TE export and TNPA transshipment performance were 42% and 45% (TNPA) above target, respectively.

Below is a tabulation of our performance.

2022 Regional integration performance in brief

Table 37: Cross-border revenue performance by Operating Division

	2021/22			2020/21		
	Budget R million	Actual R million	Variance %	Budget R million	Actual R million	Variance %
Regional revenue						
TFR cross-border revenue	2 534 819 550	2 162 726 984	(15)	2 806 785 867	2 105 686 670	(25)
TE export revenue	182 908 861	260 312 510	42	104 000 000	172 657 966	66
TNPA Africa revenue (transshipments)	37 195 698	53 965 640	45	47 129 769	45 532 427	(3)
TPT Africa revenue (transshipments)	176 667 493	143 204 363	(19)	274 157 077	187 000 000	(32)
Total regional revenue	2 931 591 602	2 620 209 497	(11)	3 232 072 713	2 510 877 063	(22)
Geographic expansion						
Zimbabwe	82 067 039	58 483 692	(29)	76 500 000	79 397 720	4
Benin (Benisa*)	632 000			6 165 722	5 989 704	(3)
Zambia	37 487 108	28 843 917	(23)	24 480 000	35 980 864	47
Total geographic expansion	120 186 147	87 327 609	(23)	107 145 722	121 368 288	13
Total revenue	3 050 513 749	2 707 537 106	(11)	3 339 218 435	2 632 245 351	(21)

* End-user agreement with Benin was not signed, revenue therefore all reserved (verified).

SDO: Skills development



Extensive investment in skills development is required to ensure that Transnet delivers critical logistics infrastructure and operational efficiency that South Africa's freight system needs to support economic growth. The Skills Development Act, No 97 of 1998; the Sector Education and Training Authority (SETA); and the National Skills Development Strategy guide our efforts in responding to the skills shortages experienced in the Company and the broader economy to ensure that we have the right skills at the

right time, particularly "skills for the future". We are aware of the scourge of unemployment especially in the youth and continue to provide opportunities for workplace experience through the Young Professionals-in-Training programme as well as on-the-job training, mentoring and coaching. Our most material outcome in respect of skills development is to ensure a skilled and capable workforce to support an inclusive growth path in a world characterised by volatility, uncertainty, complexity and ambiguity.

Our 2022 skills development performance in brief

- Transnet schools provided training to 1 229 trainees (2021: 1 396), surpassing the annual target of 1 105 (2021: 1 052)
- A total of R655 million was spent on skills development
- 22,11 points of B-BBEE skills development points achieved, which assisted the organisation to be on Level 2.

Table 38: Skills development programme performance

Programme	KPI	2022			2021		
		Performance	Target	Input (ZAR spent)	Performance	Annual target	Input (ZAR Spent)
Training spend	% of training spend	2,1%	2,5%	R655 000 000,00	1,6%	2,5%	R462 682 639,00
Apprentice programme A work-based learning under the supervision and guidance of a skilled, qualified artisan with an employer	Number of new trainees	200	200	R15 224 134,45	200	200	R18 786 031,06
	Number of artisans that completed training	45	n/a		163		

Programme	KPI	2022			2021		
		Performance	Target	Input (ZAR spent)	Performance	Annual target	Input (ZAR Spent)
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	Number of new trainees	111	100	R82 931 948,86	53	70	R106 062 060,68

Programme	KPI	2022			2021		
		Performance	Target	Input (ZAR spent)	Performance	Annual target	Input (ZAR Spent)
Engineers-in-Training Graduates who have completed an Engineering degree at a university, undergoing a two-year structured development programme	Number of graduates	321	250	R92 743 076,54	253	150	R110 106 023,85

Programme	KPI	2022			2021		
		Performance	Target	Input (ZAR spent)	Performance	Annual target	Input (ZAR Spent)
Young Professionals-in-Training Young graduates in non-technical fields receiving workplace experience and skills	Number of graduates	341	150	R39 774 540,14	276	150	R52 800 056,89

Table 39: Skills development programme performance (continued)

Programme	KPI	2022			2021		
		Performance	Target	Input (ZAR spent)	Performance	Annual target	Input (ZAR Spent)
Chartered Accountants Training Programme Graduates who have successfully completed an Accounting degree at a university, undergoing a three-year chartered accountant programme	Number of chartered accounting trainees	6	10	R1 970 126,58	7	8	R2 115 661,80

Programme	KPI	2022			2021		
		Performance	Target	Input (ZAR spent)	Performance	Annual target	Input (ZAR Spent)
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	Number of new technician learners	203	200	*R18 122 554,08	180	200	R16 243 531,00
	Number of technician learners completed	141			15		

Programme	KPI	2022			2021		
		Performance	Target	Input (ZAR spent)	Performance	Annual target	Input (ZAR Spent)
Engineering bursars Individuals who are registered for a four-year BEng/BSc Eng degree to which a full-time bursary has been awarded; and other bursaries	Number of new bursars	42	50	R31 139 412,12	60	60	*R28 592 937,00
	Number of bursars in the system	311			402		
Other bursars These trainees include non-technical bursars and National Diploma technical bursars across ODs, i.e. Engineering, Freight Rail, Pipelines and Ports.	Number of other bursars	60	40		66	40	

* The 2022 spend for technical learners includes non-technical learners.

Programme	KPI	2022			2021		
		Performance	Target	Input (ZAR spent)	Performance	Annual target	Input (ZAR Spent)
Learnership Development Programmes Individuals who are participating in a practical learnership in call centres, professional driving, health and safety, POS and youth unemployment	Number youth enrolled in the programme	49	40	R1 802 819,88	43	20	R1 890 330,47

Programme	KPI	2022			2021		
		Performance	Target	Input (ZAR spent)	Performance	Annual target	Input (ZAR Spent)
Marine Cadet* Individuals who are participating in a practical learnership in the marine field	Number of marine cadets trained	153	150	R6 951 615,88	149	-	R17 316 102,58

Programme	KPI	2022			2021		
		Performance	Target	Input (ZAR spent)	Performance	Annual target	Input (ZAR Spent)
Sector-specific training	Number of trainees who completed training (Engineering)	1 229	1 105	R13 855 774,88	1 396	1 052	R30 236 744,00
	Number of trainees who completed training (Rail)						
	Number of trainees who completed training (Pipelines)						
	Number of trainees who completed training (Port)						

* New approach for target setting being developed and will be effected in the next reporting period.

SDO: Transformation – employment equity



Transnet's transformation endeavours are guided by the South Africa Government's transformation imperatives that seek to reduce the impact of the injustices of the past, while advancing SDG 5 and SDG 10. Our strategy on equality, diversity, inclusion and transformation (EDIT) is aligned to the Employment Equity Act, No 55 of 1998, the Skills Development Act, No 97 of 1998 and the B-BBEE Act, No 53 of 2003. These principles are fundamentally embedded in our values, which are rooted in dignity and respect for ourselves, for each other, our customer and the communities in which we operate. Our most material outcome with respect to transformation is the promotion sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

We also continue to use the EDIT forums that were established in 2021 to drive a transversal agenda in: (i) female leadership and Development; (ii) inclusivity of people living with disabilities; (iii) Lesbian, Gay, Bisexual, Transgender, Queer, Intersex (LGBTQI) flagship programmes; (iv) youth development; and (v) male empowerment.

Our 2022 employment equity performance in brief

Transnet employees by race distribution reflect the demographics of our country, with representation of African employees marginally increasing to 78,6% (2021: 76,9%) as per table 40.

Table 42: 2022 gender equality performance across designated operational categories

	2022		2021	
	Male	Female	Male	Female
Black employees				
Top management	45	50	76	63
Senior management	257	188	545	297
Professional (qualified and experienced specialists and mid-management)	1 925	1 450	3 219	1 975
Skilled (technical and academically qualified workers, junior management, supervisors, foremen, and superintendents)	9 316	6 261	14 606	7 566
Semi-skilled (discretionary decision making)	10 031	4 135	11 520	4 406
Unskilled (defined decision making)	4 431	1 209	4 214	1 163

Table 43: 2022 performance in respect of people with disabilities

	2022 %	2021 %	Target %
People with disabilities	2,3	2,2	2,0

Transnet Property established a multidisciplinary task team to address the refurbishment of offices, mess and ablution facilities in order to ensure that our facilities are universally accessible for people with disabilities. The organisation is committed to creating a safe, healthy and inclusive environment through an integrated approach to organisational design, which will cut across ICT, property, fleet management and people management.

Table 40: Employees by race distribution in 2022

Employees by race	2022 %	2021 %
African	78,6	76,9
White	9,2	9,7
Indian	3,2	3,2
Coloured	9,8	10,1
Foreign nationals	0,09	0,17

The table below depicts the gender equality performance across designated leadership categories within Transnet.

Table 41: Gender equality performance across designated leadership categories

Designated categories	2022 %	2021 %
Black (African, Indian and Coloured)	91,6*	90,3
Females at executive level	44,0	40,0
Females at extended executive level	47,4	46,6
Females below extended executive level	31,6	30,1

Including contract employees (permanent headcount of 45 623).

* Black employees target: 88,5%.

We are aware that the South African labour market is more favourable to men than it is to women, especially African women and continue to strive towards gender equality in our workforce.

B-BBEE

Section 5 of the PPPFA regulates Transnet's procurement policy and framework. However, there has been development with respect to application of the Act in March 2022 for all organs of state. Transnet requested and was granted an exemption from the application of the provisions of the PPPFA, effective 11 March 2022 until the new Preferential Procurement Regulations (PPR) take effect or the Constitutional Court confirms the effective date of the judgment, whichever comes first.

Transnet remains fully committed to transformation and the full participation of historically disadvantaged individuals in the economy and the operations of Transnet and other state-owned companies (SOCs), as well as encouraging the localisation of production. Transnet's view remains that least cost procurement militates against transformation and reindustrialisation, and the Company will aggressively pursue all available mechanisms to effect transformation, empowerment and localisation as the legislative landscape shifts.

SDO: Employment



South Africa's unemployment rate has maintained its weak ascent, reaching a high of 35,3%²⁷ in 2022 and is expected to rise further. Our strategic workforce planning and talent management and development programmes aid us in recruiting and retaining top quality employees in all employment categories, and these programmes are integral to our succession plans for critical positions. Our most material outcome in this respect is to create and sustain decent job opportunities and we plan to achieve this through our private sector partnership approach to building the economy, enabled by our segment strategies.

Total headcount (including contract employees) has reduced from 55 827 in 2021 to 50 015 in the year under review. This shows an 11% reduction, which is attributable to the Company's reorganisation to drive the new Transnet strategy and uptake of VSPs in October 2021. The numbers also reflect a sad reality of employees who succumbed to COVID-19. We remain committed to the ongoing safety of our employees during this pandemic.

Table 45: Employee by age distribution

	2022		2021	
	Actual number of category employees	% of the overall workforce	Actual number of category employees	% of the overall workforce
63 – 68 years	63	0,13	12	0,0
61 – 62 years	936	1,87	1 558	2,8
56 – 60 years	3 117	6,23	4 144	7,4
46 – 55 years	10 183	20,36	10 143	18,2
36 – 45 years	21 415	42,82	21 793	39,0
26 – 35 years	13 637	27,27	17 003	30,5
18 – 25 years	664	1,33	1 174	2,1

²⁷ <http://www.statssa.gov.za/>

In 2022, our performance was as follows:

- Transnet recognised B-BBEE spend (R29,15 billion) is 99,77% of the Total Measured Procurement Spend (TMPS) of R29,22 billion at 31 March 2022
- Black-owned enterprises spend accounts for R12,55 billion (-42,98% of TMPS)
- Black women-owned enterprises spend accounts for R7,41 billion (-25,38% of TMPS)
- EME spend accounts for R5,14 billion (-17,61% of TMPS)
- QSE spend accounts for R2,91 billion (-9,98% of TMPS)
- Black youth enterprises spend accounts for R1,83 billion (-6,29% of TMPS)
- Black people living with disability enterprises spend accounts for R98,81 million (-0,34% of TMPS)

Table 44: Summary of employee headcount (including contract employees) by OD

	2022	2021
Transnet Corporate Centre	1 598	882
Transnet Freight Rail (TFR)	25 719	29 952
Transnet Engineering (TE)	8 537	9 893
Transnet National Ports Authority (TNPA)	3 893	4 249
Transnet Port Terminals (TPT)	8 977	9 707
Transnet Pipelines (TPL)	625	709
Transnet Property (TP)	666	435
Total headcount (including contract employees)	50 015	55 827

Employees by age distribution

The table below reflects that 14 301 (28,6%) of our employees are in the youth category (<35 years); 31 598 (63,18%) are in the 36 to 55 category; and 4 116 (8,23%) are 56 to 63 years old. We continue to build our talent pool of younger employees with the intake of graduates into our Young Professionals-in-Training programmes and other learnerships. Mentorship is vital to our succession planning and we assign young mentees to our more mature personnel who provide guidance and transfer technical skills.

SDO: Health and safety



Safety performance

As one of the five tactical enablers, safety is at the heart of Transnet's strategic agenda. The nature and scope of our operations necessitates a concerted effort in maintaining the highest standards of safety for our employees, contractors, business partners, customers and the public. We continue to be guided by key safety legislation such as the Occupational Health and Safety Act,

No 85 of 1993 (OHS), the safety requirements of the Railway Safety Regulator and the Labour Relations Act, No 66 of 1995. Our safety strategy 2020 provides a structured and coherent approach to identifying, assessing and managing safety risks and propels us to a more mature approach to safety. Our most material outcome in this respect is zero harm to and wellness of self, colleagues, communities and the environment. Our Integrated Management System Policy and associated procedures, supported by regular safety audits, drive continuous improvement in our highly industrialised facilities and infrastructure.

Our view of safety is multidimensional, encompassing environmental safety, community safety, organisational safety and operational safety, with employee safety as the nucleus of our approach.

Figure 9: Our safety approach



We continue to encourage our stakeholders to abide by our rigorous safety procedures and safety interventions, which include level-crossing blocks, safety billboards, public awareness campaigns and awareness campaigns at schools. Regrettably, Transnet has to report the unfortunate loss of 3 (2021:4) of our colleagues and 111 (2021: 95) members of the public.

Transnet will continue to take active steps towards improving its safety record.

Our 2022 safety performance in brief

- Lost Time Injuries (LTIs): 441 (2021: 424)
- Lost Time Injury Frequency Rate (LTIFR): 0,69 (2021: 0,62) against tolerance of 0,75
- Fatalities resulting from level-crossing accidents: 12 (2021: 16)
- Running line derailments: 78 (2021: 70)
- Shunting derailments: 121 (2021: 122)

Table 46: LTIFR figures recorded per Operating Division:

Operating Division/ Business	Lost Time Injuries			LTIFR		
	2022	2021	2020	2022	2021	2020
Freight Rail	261	286	339	0,74	0,77	0,88
Engineering	64	72	97	0,70	0,66	0,82
Port Terminals	84	55	59	0,70	0,48	0,54
National Ports Authority	29	10	12	0,62	0,21	0,25
Pipelines	2	0	8	0,18	0,00	0,70
Transnet Corporate Centre	0	0	0	0,00	0,00	0,00
Transnet Property	1	1	2	0,18	0,04	0,09
Group	441	424	517	0,69	0,62	0,73

In the year under review, we implemented the following initiatives:

- Established a Group Fire Management Project including a focus on working and sufficient fire equipment, competent and skilled fire personnel appointments and advanced fire training (upskilling our personnel and facilities to ensure adequate practice facilities)
- Established an Asbestos Working Group to deal with land and buildings contaminated by asbestos
- Established the Safety Assurance Forum to provide second line of assurance in order to embed a safety culture programme in the business
- Continued to work with other SOCs to set up public/community safety practices
- Occupational hygiene surveys and assessments, oversight and assurance are ongoing with a focus on occupational exposures inclusive of noise, asbestos, indoor air quality, etc.
- Continuous and effective communication on safety and established the safety hotline to report safety issues timeously
- Focused on lead and lag indicators to enable predictive safety and established reporting of both at various governance forums, e.g. Safety Exco
- Monitored outstanding medicals and overtime, and ensured vacancies of safety critical grades were filled to enable a fit workforce
- Reviewed the occurrence management and prevention process to improve the standard of investigations
- Undertook a three-yearly Railway Permit application to enable Transnet's licence to operate

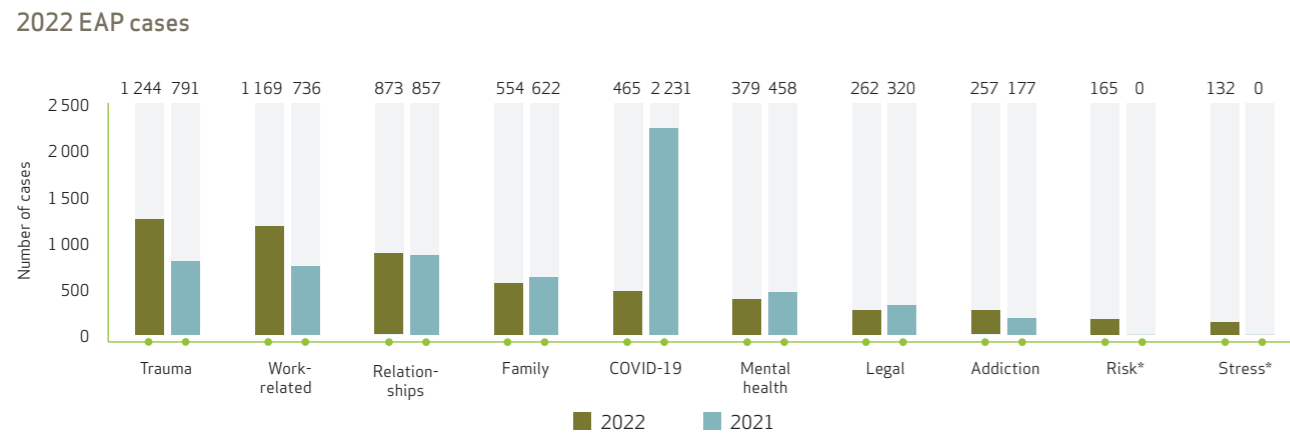
- Safety is a standing item on the agenda of various governance forums and also at Board level
- Provided input into a combined assurance methodology to provide for a safe place of work, to embed a safety culture programme and to ensure the continuous monitoring of legislative and policy implementation aligned to business performance analysis

Health: Employee wellness

Employee wellness is an important aspect of our employees' well-being, affecting efficiency and performance and this is managed effectively through our Employee Assistance Programme (EAP). The Transnet Occupational and Employee Wellness Policy also guides our approach to employee health and is closely aligned with the Company's COVID-19 management interventions. The policy prioritises chronic disease management in light of the high risks of exposure to COVID-19. It was disappointing to observe a relatively high increase in chronic conditions among our workforce.

As such, Transnet has extended the EAP service offerings across all 11 official South African languages. The EAP operates continuously for 24 hours, providing assistance to employees and their immediate family members. The number of employees taking up the service has grown substantially over the 2021/22 reporting period. To a large degree, this has been attributed to the COVID-19-related engagements. Most support services related to either employees or their family members who tested positive for COVID-19.

Graph 6: Top 10 presenting wellness matters in 2022



* New presenting categories in 2022.

As seen above, trauma, work-related reasons, relationships, and family remain the top primary reasons for seeking EAP services. New presenting categories for employee engagement include stress and other risks. We will continue to monitor reasons for employee unwellness and to provide support to our employees.

Table 47: Transnet’s health and wellness performance

Health and wellness performance	2022	2021
Unplanned absenteeism rate (%)	3,96	3,22
Sick absenteeism rate (%)	3,37	2,73
Total sick leave cost (R million)	672,3	526,4
Overall unplanned leave cost (R million)	786,6	632,2
EAP: Face to face (number)	6 357	9 585
EAP: Telephonic (number)	3 399	7 802
Wellness awareness sessions for employees	114	18
Hours allocated to health and education training engagements	300	300*

* 300 hours have been allocated over a three year duration of the SLA.

SDO: Environmental stewardship



Transnet aims to protect and enhance environmental assets and natural resources through its environmental stewardship. As South Africa’s framework environmental legislation, the National Environmental Management Act, No 107 of 1998, and its environmental management principles guide Transnet’s approach to stewardship. This is supported through the specific environmental

management Acts, associated environmental regulations, international standards and best practice guidelines, together with Transnet’s internal policies and frameworks.

Our most material outcomes in respect of environmental stewardship, include improved water management, air quality management, waste management, environmental incidents management, combatting climate change, improved protection and restoration of natural habitats, prevention of pollution, and environmental compliance. We aim to achieve this through water stewardship, waste management and optimisation, biodiversity management and enhancement, air quality management, management of historical contamination, incidents management and environmental legal compliance.

Table 48: Water stewardship approach and performance

Material issue	Approach
Water stewardship	We strive to continuously improve our water usage and to reduce water-related impacts from both our internal and external value chain operations. Accordingly, our water stewardship efforts are directed by our Water Policy of 2017, which is key in managing our shared use of water resources together with key stakeholders. Our long-term sustainability is premised on the positive development of our host communities and the protection of surrounding ecosystems. We continue to adopt a risks-based approach to drive water stewardship programmes. COVID-19 posed a critical risk to our water conservation initiatives in the increased requirement for hand hygiene protocols, which increased the Company’s water usage.
Performance	<ul style="list-style-type: none"> Water recycled: 87 238 kℓ (2021: 351 375 kℓ)

Table 49: Waste management approach and performance

Material issue	Approach
Waste management	Transnet strives to reduce waste generation patterns across our operations, as espoused in SDG 12 and the National Waste Management Strategy 2020. Our current waste management priorities are centred around addressing historical contamination, the recovery of waste, recycling and reusing waste materials, and most importantly, the avoidance and minimisation of waste where possible. By its very nature, Transnet is a highly industrialised company and generates volumes of waste materials of different types and classifications.
Performance	<p>Transnet continues to improve strategies to manage historical contamination within our operational areas. In alignment with the requirements of Part 8 of the National Environmental Management: Waste Act, No 59 of 2008 (Waste Act) and other applicable legislative requirements, we assess and carefully manage the risks of contamination to human health and the environment. Suspected and known contaminated sites are assessed, reported to authorities, continuously monitored and remediated as per the remediation orders to manage potential impacts.</p> <ul style="list-style-type: none"> Asbestos removed from historical contamination: 30,42 tons (2021: 274,34 tons) Hazardous waste disposed: 417 753 tons (2021: 82 082 tons) Recycled waste: 18 927,82 tons (2021: 30 723 tons) Recycled used oil: 389 kℓ (2021: 340 kℓ) General waste disposed: 185 352,09 tons (2021: 53 829 tons)

Table 50: Biodiversity management approach and performance

Material issue	Approach
Biodiversity management	Transnet actively participates in biodiversity management initiatives to boost ecosystem productivity in environments where we operate. We are investigating partnerships with biodiversity groups in order to improve our biodiversity approach and manage our impacts in areas where we operate.
Performance	<ul style="list-style-type: none"> Alien and invasive species eradicated: 2 211 Ha (2021: 2 338,65 Ha).

Table 51: Air quality management approach and performance

Material issue	Approach
Air quality management	<p>A number of Transnet business activities trigger the need to obtain Air Emission Licences (AELs) as per the requirements of National Environment Management: Air Quality Act, No 39 of 2004. The application and renewal of an AEL is dependent on several factors, including Transnet’s past non-compliance and adherence to licence conditions; relevant Transnet business activities require licensing, including but not limited to the storage and handling of petroleum products, foundry operations, and storage, handling and transportation of iron ore, manganese and coal. Operating without a licence will draw a potential fine or imprisonment.</p> <p>The AELs impose upon Transnet the requirement to monitor the air quality to ensure it does not exceed certain mandatory pollutant thresholds. As such, we have air quality monitoring programmes that continually measure emissions from our operations as per the conditions of our AELs. The data is made available as required to authorities and other stakeholders through our stakeholder engagement forums/platforms.</p> <p>In 2022, Transnet procured dust suppressors in the Saldanha terminals to complement existing dust control equipment such as tippler sprayers, dust extraction systems, wetting sprays on the conveyor belts and water cannons. We have also partnered with research institutions to develop solutions that will enable better management and control of air emissions across our operations.</p>
Performance	<ul style="list-style-type: none"> AELs received: 3 (2021: 3) Air quality management related complaints: 78 (2021: 50)

Table 52: Legal compliance approach and performance

Material issue	Approach
Legal compliance	<p>Transnet’s ecological footprint extends across the nine provinces in South Africa, and traverses various types of ecosystems, some of which are pristine or provide ecological functions that support surrounding communities. Given the extent of Transnet’s operational footprint as well as the evolving conditions and obligations of the progressive national legislative framework for environmental management, the Company’s activities trigger numerous primary environmental regulatory requirements.</p> <p>Material environmental compliance risks are identified through the development of risk registers, and appropriate mitigation measures and controls are implemented. Some of the risks are identified through the regulatory universe where priority legislation is identified for implementation as they pose risks to the operations of the organisation. We continue to track and monitor our compliance with these regulatory requirements.</p>
Performance	<ul style="list-style-type: none"> Directives: 3 (Section 19 NWA and Section 30 NEMA pipeline spillages at Mooi River (1 March 2021), Creswell Park (31 July 2021) and Azaadville (23 August 2021)) Fines: <ul style="list-style-type: none"> TE: Section 22A of the NEM: Air Quality Act of 2004 on 21 September 2021: R200 000 for undertaking a listed activity without a valid licence TFR: Section 22A of the NEM: Air Quality Act of 2004 on 16 February 2022: R200 000 for undertaking a listed activity without a valid licence 4 (TFR 1, TE 1 and TPT 2) Section 21 transgressions of the NEM: Air Quality Act of 2004 for non-compliance with the conditions of the AEL and undertaking a listed activity without a valid licence Claims: 14

Environmental incidents

The National Environmental Management Act holds landowners and development proponents responsible for taking the required steps to control, remedy and/or rehabilitate areas where sudden and uncontrolled release of hazardous substances have occurred, which may cause harm to the environment, human lives and property.

Our management of environmental incidents in brief

Over the past three years, Transnet witnessed an unprecedented siege on its national assets, most predominantly the pipeline. The table below details the types of incidents that materialised during 2022, the receiving environments and the Company’s responses.

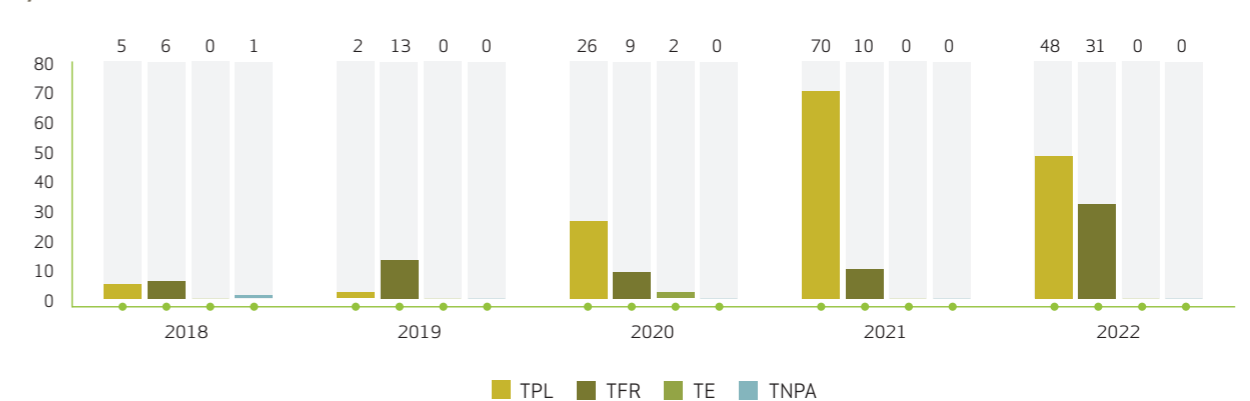
Table 53: Summary of significant environmental incidents

Operating Division	Nature of incident	Receiving environment	Response
Pipelines	<p>48 Section 30 incidents due to:</p> <ul style="list-style-type: none"> Third-party tampering with the pipeline; and Product theft in various locations 	Soil, wetland and water	<ul style="list-style-type: none"> Emergency spill contract was activated to contain and recover the product from the spillages The incidents were investigated, and root cause analysis is undertaken Site rehabilitation commenced, where appropriate Security measures were implemented to prevent reoccurrence of the incidents All incidents were reported to environmental authorities, namely DFFE and affected municipalities as per section 30 of NEMA as well as to the Department of Water and Sanitation as per section 20 of the National Water Act, No 36 of 1998, where required
Freight Rail	<p>31 Section 30 incidents:</p> <ul style="list-style-type: none"> Spillage of diesel, coal, transformer oil, etc. as a result of train derailment, theft and vandalism of our infrastructure 	Soil and water	

Table 54: Remediation of Section 30 incidents

Details of remediation of Pipelines’ Section 30 incidents
<p>Number of sites where remediation is completed</p> <p>152 sites have undergone risk assessments to determine appropriate remedial actions to be implemented:</p> <ul style="list-style-type: none"> 68 sites were remediated 84 sites not remediated

Graph 19: Section 30 incidents over the past five years



Transnet's responses to pipeline incidents

Transnet's responses to ongoing pipeline incidents include the following:

- Working consistently with law enforcement agencies and environmental authorities to implement a multidisciplinary and multistakeholder security strategy to reduce ongoing thefts, acts of vandalism and to minimise related impacts on the environment and the business
- Implementation of a Transnet risk-based approach/strategy to manage the rate and quantum of spend on environmental remediation, as approved by the DFFE
- Engagement with the authorities to provide progress on the implementation of the Transnet risk-based approach/strategy
- Engaging with landowners who have been affected by spills to determine appropriate solutions to reduce the impact of spills. We provide opportunities for local communities to take part in the remediation work
- Regular compliance audits to identify and address non-compliance with standard operating procedures intended to safeguard the pipeline and rail network
- Transnet's Environmental Management System (EMS) is being embedded as a tool to enhance our compliance with environmental legislation and standards across all ODs



Climate and energy management



Climate change journey

Transnet's business operations are susceptible to climate-related risks. As such, we have embarked on the trajectory to mitigate the impact of these risks on our business over the last decade while also contributing to the global and national climate change reduction drives and targets.

A key feature of our NetZero roadmap is to be a responsible participant in the Just Transition Trajectory of South Africa. At the heart of our plans is timely adaptation of our infrastructure and operations to respond to new world energy commodities, to reduce our energy cost and increase green energy in partnership with the private sector and our customers. While implementing this roadmap, Transnet will ensure that it meets its commitment to its current customer base. We view climate change as integral to our ESG and engagement with financial markets, customers and society at large as opposed to an add on.

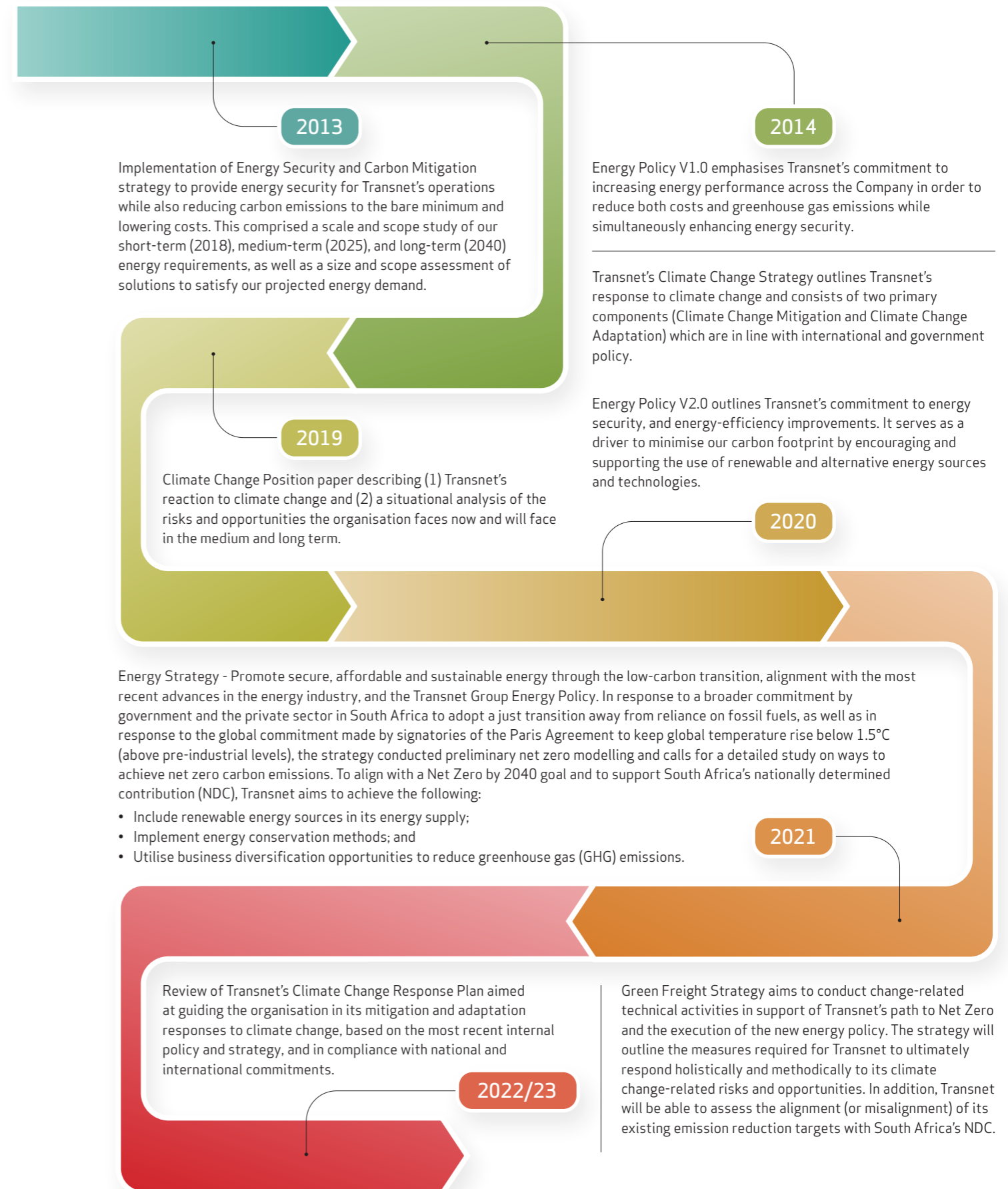
Transnet's Climate Change Plan comprises these main elements:

- Mitigation**
 - Energy Strategy encompassing energy security, energy efficiency and cost and carbon emission reduction
 - GHG inventory management and reporting with advanced reporting on both scope 1 and 2 emissions while mechanism for scope 3 reporting is in the infant stages
 - Road-to-rail modal shift
- Adaptation**
 - Risk and vulnerability assessment - initially high level concluded with a comprehensive assessment currently underway
 - Incorporation of global risks into Transnet's risk approach - integrating adaptation into decision making
 - Adaptation Strategy

Transnet has developed systems and tools to measure and manage GHG data for decision-making and reporting purposes. Data is tracked monthly throughout the business and reports are collated and are evaluated in alignment with climate change disclosures across each of the four TCFD recommendations: governance, strategy, risk management and metrics.

In the 2021 Integrated Report, Transnet committed to net zero emissions (NZE) by 2040 based on the internal study indicating plausible scenarios to NZE. This work is now being advanced by the inception of the Green Freight Strategy, which will undertake detailed modelling and also outline climate risks and vulnerabilities across the Operating Divisions, the major challenges, constraints and opportunities Transnet faces in adapting its business to meet an NZE target. Figure 1 below illustrates Transnet's journey in its climate response over the last decade.

Our response to climate change



Energy management performance

Security of energy continues to be a concern for South Africa with capacity shortages affecting Transnet operations every time load shedding is introduced. In addition, Transnet's rail network is prone to vandalism and cable theft to the extent that this has prompted fuel switching in some sections to ensure continuity in business operations. For the year ending 31 March 2022, Transnet received its energy provisions through grid-supplied electricity accounting for 2 479 GWh, which is 53% of our energy needs and 207,5 megalitres of diesel accounting for 47% of the total energy consumption.

Grid capacity constraints, above-inflation electricity tariff annual increases, carbon emissions resulting from fossil fuel dominated grid supplies, and diesel reliance are driving Transnet's energy transition to clean and renewable options. Based on its strategy, Transnet projects that by 2040 its energy supplies will be dominated by clean fuels thus implementation of its Energy Strategy is being accelerated.

With support from the World Bank and KfW Development Bank, we are developing a Green Freight Strategy (GFS) as well as a Green Hydrogen Roadmap to support the country's just transition trajectory, as well as the integration of hydrogen in the energy portfolio. The outcomes of the GFS include a systematic, risk-based approach to decision-making in response to climate change impacts to increase climate resilience to physical risk; a low-carbon response into operations to combat climate change and attain net zero, as evidenced by transition and activity-based modelling; ascertainment of the business's resilience owing to commodity shifts caused by the low-carbon transition; and advocating for a just transition that considers community life, including employment preservation, economic stability, and environmental protection. The Green Hydrogen Roadmap will provide an analysis of market development scenarios of green hydrogen in South Africa (including the development of green hydrogen production cluster in South Africa to understand the dynamics of a future hydrogen economy in South Africa as well as the role of Transnet across the entire hydrogen value chain with a focus on business opportunities in the areas of ports, rails and pipelines.

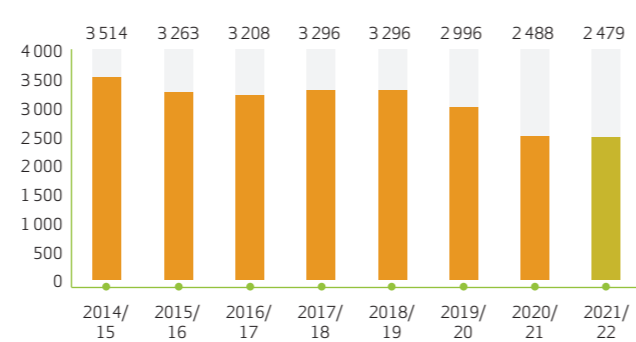
Transnet will continue to play a pivotal role in converting natural gas to electricity as this requires an enabling logistics infrastructure through its port terminals. Transnet has planned for liquefied natural gas (LNG) to be imported through the ports of Richards Bay and Ngqura and has recently engaged the markets in order to develop LNG terminals.

Our historical performance to date is recorded below.

Electricity consumption

Transnet's total electricity consumption over the period 2015 to 2022 decreased by 29,5% from 3 514 GWh in 2015 to 2 479 GWh in 2022.

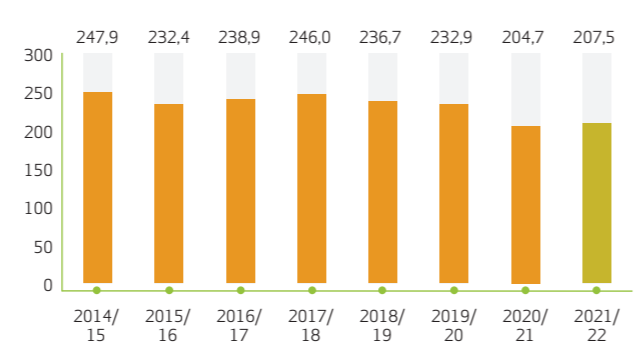
Graph 20: Electricity consumption [GWh]



Fuel consumption

Transnet's total fuel consumption over the period 2015 to 2022 decreased by 16,3% from 247,9 megalitres in 2015 to 207,5 megalitres in 2022.

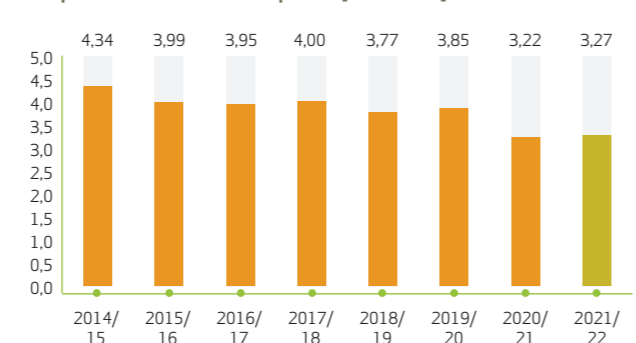
Graph 21: Fuel consumption [Megalitres]



Carbon footprint

Transnet's total carbon emissions (mtCO₂e) over the period 2015 to 2022 decreased 24,7% from 4,34 mtCO₂e in 2015 to 3,27 mtCO₂e in 2022.

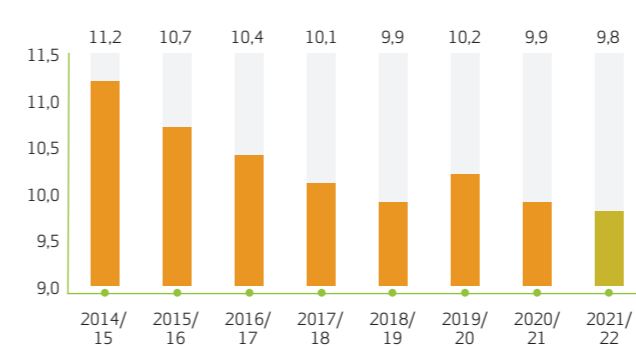
Graph 22: Carbon footprint [mtCO₂e]



Emissions intensity

Transnet's carbon emissions intensity over the period 2015 to 2022 decreased 12,5% from 11,2 kgCO₂/ton in 2015 to 9,8 kgCO₂/ton in 2022.

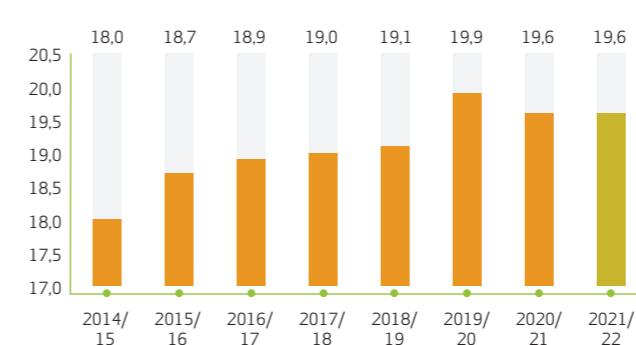
Graph 23: Emissions intensity [kgCO₂/ton]



Energy-efficiency performance [ton/GJ]

Transnet's overall energy efficiency (ton/GJ) over the period 2015 to 2022 improved 8,9% from 18,0 ton/GJ in 2015 to 19,6 ton/GJ in 2022.

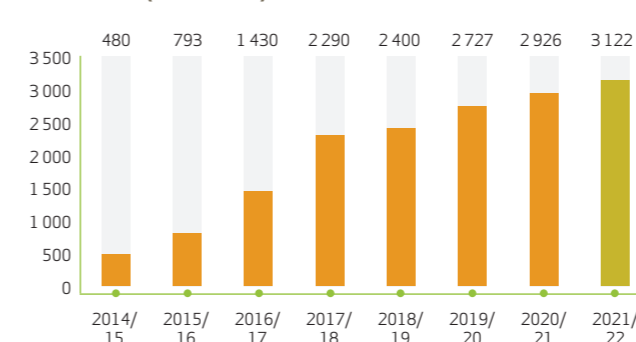
Graph 24: Energy-efficiency performance [ton/GJ]



Road-to-rail carbon emission saved collectively (mtonCO₂)

Transnet's cumulative carbon emission savings from road-to-rail over the period 2015 to 2022 totalled 3 122 mtonCO₂.

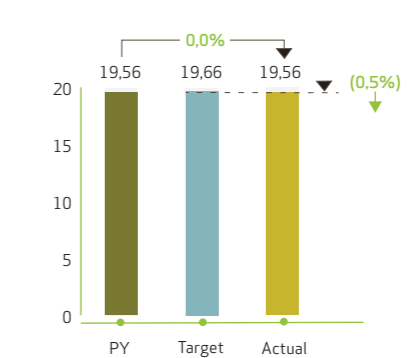
Graph 25: Road to Rail Carbon emission saved from (mtonCO₂) 2015 to 2021



Energy-efficiency intensity

With respect to the Transnet Corporate Plan on total energy efficiency (ton/GJ) recorded - matched the previous year performance meaning continual improvement target was not achieved by a deviation of 0,5% below the Corporate Plan 2022.

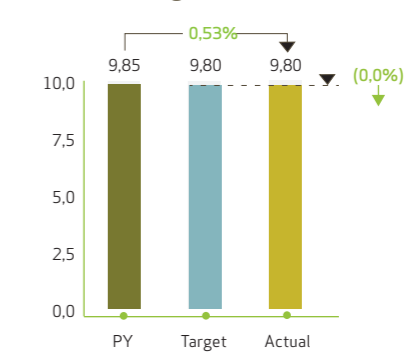
Graph 26: Group energy efficiency (ton/GJ) for 2022



Carbon emissions intensity

With respect to the Transnet Corporate Plan on total carbon emissions intensity (kgCO₂e/ton) - recorded a 0,5% improvement against the previous year meeting the Transnet Corporate Plan target for 2022.

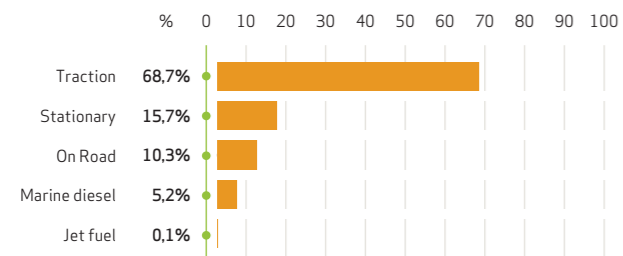
Graph 27: Carbon emissions (Scope 1&2) intensity (kgCO₂e/ton) for 2022



Diesel consumption

A total of 207,5 megalitres of diesel consumption has been recorded, accounting for 47% of the total energy consumption. In total, 68,7% of the total fuel consumption was used for Freight Rail diesel traction, 15,7% on home-based fuel, 10,3% on-road vehicles, 5,2% on marine diesel and 0,1% on jet fuel.

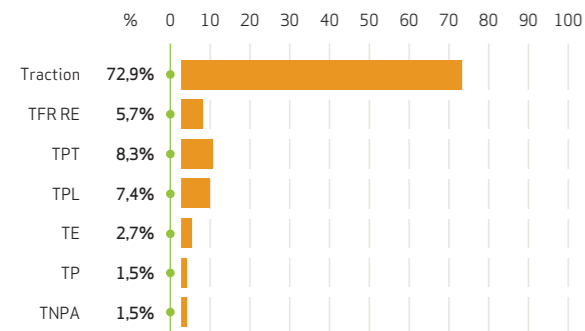
Graph 28: Fuel distribution for 2022



Electricity distribution

A total of 72,9% of electricity was used for Freight Rail traction and the remainder on Transnet's properties, ports, pipelines and engineering operations.

Graph 29: Electricity consumption per OD



Community-oriented outcomes

SDO: Community development



Transnet's social licence to operate finds expression through the socio-economic upliftment of the communities within which it operates, and we recognise that our employees form part of these communities. We seek to embed a more holistic and integrated approach to create sustainable communities as advocated in the SDGs and the NDP's developmental outcomes. Our most material outcomes in respect of community development are improved quality of life for vulnerable and rural communities. This is achieved through our healthcare programmes (Phelophepa I and II Healthcare Trains providing primary healthcare services, dentistry, optometry, pharmacy and counselling services and Transnet's Teenage Health Programme); Socio-Economic and Infrastructure Development programme (providing infrastructure and collaborating with government social services institutions to promote access to basic community services); education programmes that provide holistic support to teachers, learners, school management and school governing bodies to improve school governance, and to enhance the quality of education and academic performance in key learning areas); Sport Development Programme that identifies and nurtures sporting talent especially in rural areas as well as our SAFA/Transnet School of Excellence, established to nurture and promote soccer talent amongst identified youth to provide opportunities to play professionally; and our Employee Volunteerism which enables employees to volunteer their wealth of skills and knowledge to help address communities' needs and contribute to development in communities.

We are deliberate in selecting beneficiaries under our community development programmes. Selection is based on a comprehensive needs analysis undertaken within, and in collaboration with the different communities. Our initiatives are aimed at stabilising social challenges, and as such we are informed by our in-depth understanding of the respective social contexts in order to be adequately responsive. We invested R139,56 million (2021: R112,2 million) in community development initiatives in the areas of health, education, sports, employee volunteerism and socio-economic infrastructure development across South Africa. An unplanned, but critical amount of R15 million was invested in food relief efforts after the civil unrest experienced throughout the country in 2021.

In the true spirit of partnership as espoused in SDG 17, Transnet designed and built a vaccination train known as Transvaco from old coaches, which provided COVID-19 vaccines to patients in rural areas who do not have easy access to healthcare facilities such as hospitals and clinics. The Transvaco train was launched in August 2021 and was equipped with ultra-cold fridges to handle temperature-sensitive vaccines with the capacity to hold up to 108 000 vials of various COVID-19 vaccines. Between August and March 2022, Transvaco had administered a total of 12 600 vaccines. With both the Phelophepa trains and Transvaco providing critical COVID-19 vaccines in communities, 33 856 citizens were vaccinated during the period under review. These initiatives are an indicator of Transnet's commitment to partner with Government to restore the state of good health in South Africa.

Our 2022 community development performance in brief

Notable material outcomes have been realised across the Company's CSI portfolio's focus areas as follows:

Healthcare

- Phelophepa Healthcare Trains I and II provided comprehensive primary healthcare to 344 362 patients in over 70 communities across South Africa.
- An estimated 33 856 citizens were vaccinated against COVID-19 through the Phelophepa I and II Healthcare Trains and the Transnet Transvaco vaccine train.
- R113,74 million was invested in comprehensive primary healthcare services to an estimated 378 218 (2021: 237 762 (including COVID-19 testing)) patients from communities along the rail corridor.
- Over 4 620 temporary jobs were created through Phelophepa I and II and over R7,7 million was invested in job creation efforts in communities hard hit by unemployment.
- A total of 16 500 substantive food hampers were distributed to 27 schools across South Africa and 10 800 sanitary packs were provided to young female learners through the Transnet Teenage and Youth Health and Development Programme.
- More than 6 583 community members were trained in basic healthcare and over 70 community food gardens were established at every community visited by the two trains to help alleviate food insecurity.
- Over 36 000 spectacles were dispensed to patients.

Table 55: Beneficiaries reached by Transnet's Phelophepa I and II Healthcare Trains

Phelophepa and Transvaco trains	2022 (including Transvaco vaccine train)	2021	2020	2019
Investment in the Phelophepa I and II Healthcare Trains	R113,74 million	R85,56 million	R100,2 million	R88,4 million
Total patients provided with comprehensive healthcare services	378 218	237 762	105 565	131 865
Patients receiving medication through the on-board pharmacies	34 791	7 953	39 531	55 468
Patients receiving health clinic services	144 007	11 368	49 985	66 913
Patients receiving dental clinic services	93 829	4 631	21 095	24 264
Patients receiving eye clinic services	38 341	9 069	37 477	46 712
Patients receiving counselling	35 687	567	1 478	1 894
Individuals assisted through outreach	229 422	12 674	357 323	452 866
Volunteers trained on preventative healthcare at Edu-clinics	6 583	361	6 339	6 591
COVID-19 community screening and testing	nil (as per COVID-19 regulations, COVID-19 testing was discontinued)	197 215	—	—

Teenage health programmes

Transnet's teenage health programmes aim to provide youth with health and psycho-social programmes in schools.

Table 56: Teenage and Youth Health and Development Programme beneficiaries

	2022	2021
Number of adolescents receiving integrated basket of health and developmental services (including food hampers to alleviate COVID-19 distress faced by learners and their families)	16 500	974
Teenage health spending (R million)	R114 332	0*

* Nil saving was due to use of mainly donations.

Education development

The education portfolio provides bursaries and psycho-social support, including academic enrichment programmes, accommodation, medical aid and stipends to cover living expenses. The programme targets impoverished beneficiaries that are academically gifted orphans and vulnerable youth, aptly defined as those who demonstrate or have the potential to demonstrate outstanding intellectual aptitude and academic ability.

Table 57: Performance of Transnet's Education Programme in 2022

Education Initiatives	2022	2021	2020	2019
Investment in the education: orphan and vulnerable youth programme	R2,87 million	R16 500 (includes orphaned and vulnerable children)	R24 million	R48,89 million
Orphan and vulnerable youth supported	31	120	120	119

2021/22 saw 31 students assisted through this programme. At year end, three graduated from their respective tertiary institutions.

Employee volunteerism (EV)

The Transnet EV programme enables Transnet employees to use their specific skills to meaningfully contribute to our CSI mandate and developmental outcomes. The EV programme aims to support the developmental needs of communities and to empower civil society organisations through skills transfers and the provision of labour, thereby offsetting the costs of doing business by these organisations.

Material outcomes of the EV programme include:

- Creating shared value between communities and Transnet;
- Leveraging employee skills and human capital;
- Creating sustainable communities through direct skills transfers to beneficiaries; and
- Enhancing Transnet's reputation as a good corporate citizen.

Transnet is currently creating a virtual volunteering platform (VVP) (website) where accredited NGOs/NPOs can promote their needs and invite volunteers to respond.

The COVID-19 pandemic affected the number of employee volunteers. The portfolio was cognisant of the health and safety of employees and consequently limited their exposure to initiatives that will not place them at risk.

Our 2022 EV performance in brief:

Table 58: 2022 EV programmes and impacts

Initiative: Food security	Value: R2 000 000
Location: Glencoe and Warrenton	Transnet identified food insecurity, hunger and poverty key challenges in communities where we operate, because they could lead to heightened crime and high levels of anti-social behaviour.
Developed a business concept and currently rolling out two food farms in Warrenton and Glencoe to address the socio-economic need of food security and its impact on the local community. Both sites are identified as Transnet hotspots. Intervention is aimed at providing a sustainable social solution through the provision of food as well as a sustainable economic solution through economising the produce from the food farms.	
A total of 150 households are targeted in Glencoe. These are all tenants in Transnet properties. In Warrenton a total of 50 households are targeted.	
Two strategic partnerships will be entered into with two NGOs to operate the food farms.	

Table 59: Sport Legacy Project outcomes – Saldanha Bays

Initiative: Sport Legacy Project	Value: R900 000
Location: Saldanha Bay	Transnet partnered with the Saldanha Bay Municipality to build the Saldanha Sports Stadium. The Saldanha Rugby Club requested Transnet to recognise the social and economic potential of rugby in Saldanha Bay by establishing a legacy project for the partnership.
<ul style="list-style-type: none"> • Invested in the Saldanha Super 8 Rugby Tournament as a legacy project of the Stadium partnership. • The tournament takes place over the Easter weekend and makes an economic impact on the hospitality and retail sector of the area through an increase in the revenue generated over the tournament period. • Employees volunteer at the tournament; this affords them a great sense of pride to be actively part of one of the biggest events in Saldanha Bay. • One strategic partnership is with the Saldanha Rugby Club. • Outcome is high brand visibility for the Company. 	

Table 60: Sishen Kathu CSI Project outcomes

Initiative: Sishen Kathu CSI Project	Value: R885 713
Location: Sishen Kathu	Transnet community requested the Foundation to implement a CSI project in Sishen Kathu since it plays a central role in the operations of Transnet. Opportunity to invest in the community of Sishen Kathu that is impacted by Transnet operations.
<ul style="list-style-type: none"> • Employees volunteered to rehabilitate the Mapotong Soup Kitchen and ECD centre • Located in a Transnet hotspot that is the starting point of the iron ore line • Created a conducive environment for the soup kitchen and ECD centre • At least 250 beneficiaries daily through the provision of meals and early childhood development 	

Table 61: Sport Legacy Project outcomes – Saldanha Bay and Vredenburg

Initiative: Sport Legacy Project	Value: R528 000
Location: Sishen Kathu	The local Saldanha community requested Transnet to provide sporting facilities for schools in the local Saldanha Bay communities to ensure easy access to sports facilities for young people.
<ul style="list-style-type: none"> • Planted grass to develop sports fields at two schools, namely Weston High and Diasville High in Saldanha Bay and Vredenburg • The intervention provided a direct response to the identified community need • Located in a volatile Transnet hotspot 	

Socio-economic and infrastructure development (SEID)

The development of quality, sustainable and resilient infrastructure as espoused in SDG 9 forms one of the centrepieces of the Transnet SEID portfolio. As such, we aim to provide infrastructure for social, health, safety and entrepreneurial programmes to contribute towards resilient communities where we operate. Priority is given to areas that are rural and historically disadvantaged. Accordingly, we have set up functional and community-operated support centres to facilitate community engagement and to render a wide range of social services to the beneficiary communities. We aim to expand our services to identify local businesses that can be channelled to receive support via the Transnet ESD.

Table 62: Phelophepa and Transvaco trains

Phelophepa and Transvaco trains	2022	2021	2020	2019
People benefiting from SEID initiatives along our servitudes	20 000	28 000	39 859	37 261
Investment in the SEID programme	R1,134 million	R4,8 million	R3,1 million	R6,6 million
SMMEs established	nil	10	0	2
SMME members trained	nil	0	14	21
Food distribution programme beneficiaries	nil	47	59	162
Adult Basic Education and Training (ABET) beneficiaries	nil	0	0	2

Sports portfolio initiatives

SAFA/Transnet School of Excellence

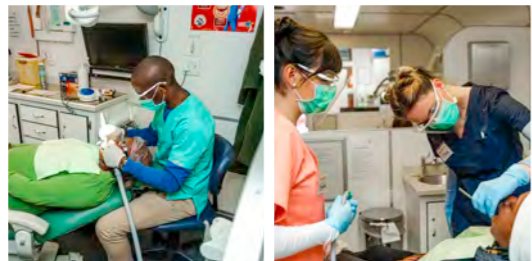
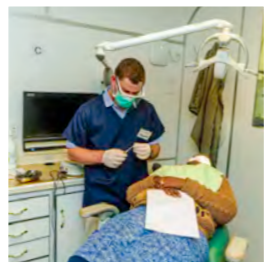
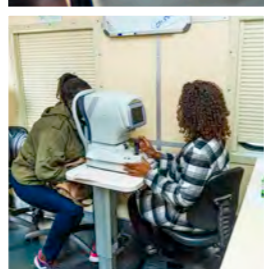
The SAFA/Transnet Football School of Excellence has been operating for over 20 years. It is one of Transnet's CSI programmes, focusing on academic and football development for a maximum of 120 boys annually from the ages of 13 to 19. The school was registered as a Trust and is managed according to a Trust Deed. Transnet appoints trustees to serve on the Board, as per the requisite of the Trust. Learners are recruited into the programme through a national talent identification programme implemented in all nine provinces of South Africa annually.

In the year under review, four learners from the School of Excellence were signed on to Kaizer Chiefs and the school realised R450 000 as a return on this investment. The same four learners were selected for the provincial junior national team to represent South Africa in Morocco. (Note that due to COVID-19 impacts, this international away match was cancelled.)

A total of R20 million was invested by Transnet in the school for the 2021/22 period. The grade 12 class of 2021 achieved a 97,45% pass rate consisting of: 10 bachelors, five diplomas and four higher certificates.

Farm and Rural Sport Development Programme

Due to the impact of COVID-19, contact sports was suspended, therefore this initiative did not take place during the year under review.



Annexure A: Directors' report

Introduction

The directors submit their report, together with the Company and Group annual financial statements, for the year ended 31 March 2022.

Nature of business

Transnet is a public company, wholly owned by the Government of South Africa, and is the custodian of the country's rail, ports and pipelines. Transnet is responsible for enabling the competitiveness, growth and development of the South African economy by delivering reliable freight transport and handling services that satisfy customer demand.

As the custodian of ports, rail and pipelines, Transnet has a responsibility to ensure the optimal development of the national freight system. Furthermore, as a responsible corporate citizen and key implementing agent of the developmental state, Transnet conducts its activities in order to optimise developmental outcomes, such as job creation, skills development, economic transformation, regional integration and industrial capability building.

Board of directors

The composition of the Board of Directors at 31 March 2022, summary curricula vitae of the directors, key activities and decisions of the Board and its committees and performance evaluations are set out in the 'abridged governance' section of the integrated report. A separate, unabridged version of the governance report is also available online.

The remuneration and fees paid to directors are set out in note 38 of the annual financial statements.

Performance for the reporting period

Transnet performance for the 2021/22 financial year (FY) improved from the prior financial year performance but was met with internal and external challenges as it began paving the way towards pre-pandemic recovery.

In the 2022 calendar year, South Africa's real gross domestic product (GDP) grew by 4,9% following a substantial decline of 6,4% in 2021. The higher economic activity was attributable to strong commodity prices and the moderate reopening of the local economy after strict COVID-19 restriction. Despite the anticipated and slight economic improvement experienced in the 2021FY; rand depreciation, rising unemployment rate as well as the country's ongoing energy crisis continue to pose a significant threat to the South African economic growth.

Rising security incidents mainly cable theft and vandalism of rail and pipeline infrastructure, and an IT security breach and related challenges also impacted port and rail operations.

Transnet's approach for the 2021/22FY proved resilient as it recorded higher volume performance in the first two quarters of the financial year compared to the prior reporting period. This achievement translated to volume growth in the port and pipeline operations, with port containers handled of 4 131 '000 TEUs

(2021: 3 916 '000 TEUs) a 5,5% increase and pipeline volumes of 15 350 million litres (2021: 13 067 million litres) an increase of 17,5%. Rail volumes did however decline due to the operational challenges experienced, relating to locomotive availability, security incidents and bad weather conditions.

Detailed commentary on the performance for the year is contained in the integrated report on pages 104 to 109.

Accounting policies

The accounting policies applied in the preparation of the annual financial statements for the year ended 31 March 2022 are in accordance with IFRS and are consistent with those applied in the prior year.

Judgements made by management in the application of IFRS that have a significant impact on the annual financial statements are disclosed in the accompanying notes to the annual financial statements.

Share capital

There has been no change in the authorised or issued share capital of the Company during the year. The issued share capital of the Company is 12 660 986 310 ordinary shares of R1 each. Further details pertaining to the Company's share capital are contained in note 21 of the annual financial statements.

Dividend

Distributions to the Shareholder are governed by paragraph 28 of the Company's Memorandum of Incorporation in line with the requirements of section 46 of the Companies Act, and are made in accordance with the Company's approved dividend policy.

In determining the declaration of dividend, the Transnet Board of Directors must consider the environment in which the business operates over the current, short and medium term, taking into account the following:

- Shareholder expectations
- Future funding requirement and reinvestment opportunity
- Solvency and liquidity
- Going concern assessment
- Changes in government and regulatory policies
- Company's cash generation ability
- Economic environment

Further, dividend payment is informed by the availability of excess cash from operating activities after allowing for:

- Debt servicing (interest and principal)
- Funding a sustaining capital investment
- Financial flexibility

The Board of Directors have decided not to declare a dividend for the financial year ended 31 March 2022. The Company assessed the following factors in arriving at this decision:

- Based on the 2023 Corporate Plan, Transnet will have no excess cash in the 2022/23 financial year;
- The Company has a significant sustaining capital investment backlog and operational requirements given its strategy;
- The significant debt repayment profile in the short term;

- The funding of strategic priorities in the corporate plan, including but not limited to, enterprise development and social investments; and
- Transnet's current sub-investment grade credit rating that may increase the cost of borrowing.

The declaration of a dividend is reviewed annually and is subject to the approval of the Shareholder Representative at the annual general meeting.

Divisions, subsidiaries and associate companies

A detailed list of subsidiaries and equity-accounted investees is contained in note 37 of the annual financial statements.

Revaluation of property, plant and equipment

The Group performs revaluations of its rail infrastructure, port infrastructure and pipeline networks in accordance with its accounting policy, which requires an independent valuation every three years, as well as index or discounted cash flow valuations in the intervening years where appropriate.

At 31 March 2022, the rail infrastructure assets were revalued based on the depreciated optimised replacement cost and discounted cash flow methods. An external valuation of the pipeline network was performed by an independent firm of professional valuers on the basis of the depreciated replacement cost methodology. Port infrastructure was revalued based on the discounted cash flow method, while port operating assets were revalued based on an index valuation.

Rail infrastructure

The carrying value of rail infrastructure was revalued by R6,6 billion (2021: R1,3 billion devaluation) in line with the revenue projections in the 2023 corporate plan.

Port facilities

The carrying value of port infrastructure was revalued by R3,9 billion (2021: R10,5 billion revaluation) in line with revenue projections and port operating assets were revalued by R169,3 million (2021: R59,4 million devaluation).

Pipeline networks

The carrying value of pipeline networks was revalued by R905 million (2021: R257 million devaluation).

Fair valuation of investment property

The Group determines the fair value of its investment property on an annual basis in accordance with IAS 40 *Investment Property*. The valuation of the Group's investment properties at 31 March 2022 was performed by qualified external property valuers and was arrived at by capitalising normalised net operating income at market-derived capitalisation rates which are adjusted where appropriate, to reflect the risk profile of each individual property.

The valuation resulted in a fair value increase in investment property of R9,8 billion (2021: R770 million decrease) due mainly to the improvement in the property market since the effects of the COVID-19 pandemic on the economy in the prior year.

Capital expenditure and commitments

The Company continued to execute its infrastructure investment programme, spending R13,2 billion for the year (2021: R15,9 billion). The decrease is mainly due to the financial constraints, following the impact of COVID-19 lockdown restrictions and capital optimisation.

The capital investment for the year comprised R1,9 billion (2021: R2,2 billion) invested in the expansion of infrastructure and equipment and R11,3 billion (2021: R13,7 billion) invested to maintain capacity in the rail, pipelines and ports divisions.

Further details regarding capital commitments are contained in note 30.1 of the annual financial statements.

Prior year restatements

The prior year financial statements have been restated mainly as a result of management's assessment of CWIP balances and the fair value of investment property. These errors were accounted for as prior year adjustments to the annual financial statements in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

For further detail in this regard, please refer to note 39 of the annual financial statements.

Passenger Rail Agency of South Africa (Prasa)

Prasa owed Transnet R1,8 billion at 31 March 2022 (2021: R2,3 billion), of which R315 million (2021: R396 million) related to services provided during the year.

The Group recognised R505 million of revenue billed to Prasa in accordance with IFRS 15, including R249 million which had not been recognised in prior periods, as the collectability requirement for these invoices was met following a set-off agreement between Transnet and Prasa, which allowed Freight Rail to set-off an amount of R597 million against invoices owed to Prasa.

Going concern

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 2023, cost-saving opportunities, the cost of capital projects and related optimisation opportunities and the funding plan.

Annexure A: Directors' report

Funding

As at 31 March 2022, the Company's total borrowings amounted to R128,8 billion (2021: R129,1 billion).

In the period under review, the Group raised funding of R13,1 billion (2021: R12,3 billion) through the issuance of bonds and commercial paper (under the Domestic Medium-Term Note (DMTN) programme) and the execution of bilateral loans without the provision of government guarantees.

The decision to limit future capital expenditure to 80% of cash generated from operations, together with the expected cost compression through improved procurement processes, will ensure a reduction in forward-looking debt levels.

Credit ratings

Transnet has two officially recognised rating agencies: S&P Global Ratings (S&P) and Moody's Investors Service (Moody's). Transnet's credit rating at the date of issuing this report is depicted in the table below.

Issuer rating	Moody's	S&P
Corporate Family Rating/Foreign currency rating	Ba3/Ratings under review	BB-/Negative outlook
Corporate Family Rating/Local currency rating	Ba3/Ratings under review	BB-/Negative outlook
National scale rating (NSR) – long/short term	A2.za/P-1.za/Ratings under review	zaAA/zaA-1+
BCA/SACP	B2/Ratings under review	bb-/Negative outlook

Further details are provided in note 36 of the annual financial statements.

Post-retirement benefit obligations

Benefit funds

The Group provides various post-retirement benefits to its active and retired employees, including post-retirement medical pension.

The two defined benefit funds, namely the Transnet sub-fund of the Transport Pension Fund (TTPF) and the Transnet Second Defined Benefit Fund (TSDBF) are fully funded with actuarial surpluses of R1 381 million (2021: R1 186 million) and R4 013 million (2021: R3 375 million) respectively. Transnet has not recognised any portion of the surplus on these funds, as the fund rules presently do not allow for the distribution of a surplus.

The post-retirement medical benefit obligation is approximately R368 million (2021: R456 million).

SATS pensioners' post-retirement medical benefit obligations

Transnet is committed to identifying a sustainable long-term solution for the provision of medical scheme benefits to SATS pensioners and their dependants.

Events subsequent to the reporting period date

Impact of adverse weather and flooding in KwaZulu Natal Province on Transnet's operations

In the month of April 2022, most parts of KwaZulu-Natal experienced extreme storms and heavy rainfall which led to widespread disruptions and regrettably a loss of lives. Transnet was not spared and the immediate focus was to ensure the safety of people, and the reinstatement of operations. Notable damage to assets occurred at Transnet Freight Rail (TFR), Transnet Engineering (TE), Transnet National Ports Authority (TNPA) and Transnet Property (TP).

The estimated financial impact is under assessment and will be accounted for in the 2023 reporting period. Further details will be provided once the financial impact of the adverse weather and flooding in KwaZulu-Natal province has been finalised or determined with a greater degree of certainty.

Compliance and legislation

To the best knowledge and belief of the directors, the Company has, during the year, complied, in all material respects, with all legislation and regulations applicable to it, except as disclosed in the annual financial statements.

The Company has a dedicated Compliance function to assist directors with the management of compliance obligations. Compliance utilises a risk-based methodology and approach to ensure that Transnet's high risks are treated and/or eliminated.

PFMA compliance

The Public Finance Management Act (PFMA) imposes certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; losses through criminal conduct; and the collection of all revenue.

In the past four financial years, Transnet has received a qualified audit opinion as a result of misstatements identified in the irregular expenditure disclosed in the annual financial statements (AFS). The consequences of the qualifications have been severe for Transnet. Against this background, Transnet requested a departure from the National Treasury from disclosing in the AFS amounts as required by certain provisions of the PFMA and related instruction notes. These included irregular and fruitless and wasteful expenditure (IFWE) and non-condoned historical irregular expenditure as required by the Irregular Expenditure Framework. Transnet received an exemption from disclosing the particulars required by section 55(2)(b)(i) (ii) and (iii) of the PFMA in the AFS for a period of three years, starting from 2021/22 to 2023/24 financial years. The extent of the exemption has resulted in the disclosure of the confirmed and under assessment IFWE in the integrated report of the current and one comparative year.

The exemption was granted to allow Transnet to develop and implement internal control measures to ensure accurate and complete reporting of IFWE.

Transnet has put measures in place to ensure that consequence management and remediation actions are continuously being undertaken, this includes matters handed over to the Special Investigative Unit (SIU) for further investigations. Courts have also been approached to have certain contracts linked to fraudulent activities set aside.

Updates on the consequence management taken by Transnet will be included in reports sent to the National Treasury and the Department of Public Enterprises.

The enhancement of the PFMA remediation plan remains a key priority for the Company. The lessons learned and challenges have been clearly defined and place the organisation in a much better position to speedily implement initiatives that drive PFMA compliance across the organisation.

In an effort to automate its procurement practices and in line with Transnet's digitalisation strategy, a new electronic tender submission system was launched in October 2021. The system aims to ensure that Transnet tenders are submitted via a secure e-Tender submission portal replacing manual publications.

Material irregularity

In the 2021/22 FY no material irregularities (MI) were confirmed.

The MI reported in the 2020/21 FY, relating to procurement irregularities identified in Transnet Port Terminals was subjected to a forensic investigation. This was required in order to confirm actual value of financial loss as well as any remedial actions to be taken against any employees that were involved in causing the irregularities and related financial loss. A forensic investigation was conducted by an independent firm and was concluded in February 2022. External audit assessed the outcome and have not yet concluded as the consequence management process is still in progress and will therefore be re-assessed by external audit in the next financial cycle.

Economic regulation and regulatory reform

The tariffs of two operating divisions, namely Transnet Pipelines (TPL) and Transnet National Ports Authority are regulated by the National Energy Regulator of South Africa (Nersa) and the Ports Regulator of South Africa (Ports Regulator) respectively. The railway safety permit fees are determined by the Department of Transport and are payable to the Railway Safety Regulator (RSR).

The Company operates within a policy context determined by the Department of Public Enterprises (DPE) and the Department of Transport (DoT) respectively.

With approximately 22,7% of Transnet's revenue and 47,9% of EBITDA impacted by economic regulation, it is critical that relationships with regulators are managed proactively and strategically as their decisions could have a significant impact on operating results, capital investment decisions and investor confidence.

Pipelines

On 30 September 2021, TPL submitted its 2022/23 financial year (FY) tariff application to NERSA in terms of the methodology.

On 24 February 2022 the Energy Regulator set the petroleum pipelines system tariffs that will allow Transnet to realise a 9,10% increase in allowable revenue compared to the 2021/22 FY tariff period. This translates to an 8,02% tariff increase for the Durban to Alrode route, which will result in an increase of approximately R4,18 cents c/l in the fuel price in the 2022/23 FY (from 52,20 c/l to 56,39 c/l).

Any capital expenditure incurred by TPL in furthering its business is allowable by NERSA provided that it can be proved to be prudently incurred. A prudency exercise has been completed by NERSA on the construction costs of the new multi-product pipeline (NMPP). This exercise resulted in NERSA declaring an additional R1,1 billion imprudent to the Transnet R3,17 billion imprudent amount that is included in the Regulated Asset Base (RAB). This has been factored into the 2022/23 petroleum pipelines tariff decision by NERSA.

National Ports Authority

On 16 August 2021, TNPA submitted its tariff application as prescribed by the tariff methodology. On 15 December 2021, the Ports Regulator approved TNPA's tariff increase of 4,8%, due to the consistent application of the tariff methodology.

Corporatisation and Incorporation of Transnet National Ports Authority

The creation of TNPA, as a subsidiary of Transnet SOC LTD is ongoing. Once the relevant provisions of the NPA Act are amended, as recommended, the incorporation of the TNPA SOC LTD will be in accordance with the company's Memorandum of Incorporation (MOI) and will establish a State-Owned Company as defined in the Companies Act, No 71 of 2008, incorporated in accordance with and/or governed by the NPA; the PFMA and other applicable legislation.

Freight Rail

On 30 October 2020, Transnet presented its views on the Economic Regulation of Transport (ERT Bill) to the Parliament Portfolio Committee on Transport. The Company requested harmonised Economic Regulation Methodologies for an integrated network of Rail, Ports and Pipelines to be established in the ERT Bill to enable full economic cost recovery across the network.

Annexure A: Directors' report

Application for Transnet Single Entity Safety Permit for period 2022 to 2024

Transnet has submitted its application for the renewal of its three-yearly Railway Safety Permit, which was due to the Railway Safety Regulator (RSR) on 31 May 2022. The requirement is that such application must be submitted to the RSR 90 days before the expiry of the existing permit. Transnet's current permit expires on 31 August 2022 and includes the 2021/22 financial year-end performance results.

Railway Safety Permit Fees 2022 financial year determination

In terms of the notice, the Minister of Transport made a final determination of R114,6 million payable by Transnet on the permit fees for the 2022/23FY. The determination represents a zero percent increase from the fee charged for the 2021/22FY. It is envisaged that this will be the last determination based on the current approach followed by the DoT, as the RSR will be finalising its proposal on the revision of the methodology. It is expected that the RSR will submit its revised methodology to the DOT in the fourth quarter of the year for approval and that the new methodology will be applicable as from the 2023/24FY.

Judicial proceedings

The annual financial statements include a best estimate of expected settlement costs for judicial proceedings involving Transnet, as either defendant or plaintiff, where the outcome can be assessed with reasonable certainty. These estimates take into account the legal opinions obtained for the Group. Contingent liabilities of the Group are disclosed in note 31 of the annual financial statements.

1 064 review application

On 9 March 2021, Transnet and the SIU jointly launched a substantive application in the High Court to review and set aside the locomotive supply agreements concluded with four original equipment manufacturers (OEMs): China South Rail, China North Rail, Bombardier Transport and General Electric. The relief sought against each OEM is specific but includes the set aside of the contracts, for the court to award a just and equitable remedy, which will include Transnet retaining those locomotives in its possession and receiving compensation for overpayments.

All of the OEMs have served notice of intention to defend the application. Transnet and the SIU are proceeding with the application.

Once the court processes conclude, Transnet will consider the impact of the outcomes on the fair representation of property, plant and equipment.

Investigation by the Competition Commission

On or around 7 July 2016, the Commissioner initiated two formal complaints against Transnet and its three Operating Divisions, i.e. Transnet Freight Rail, Transnet Port Terminals and Transnet National Ports Authority. In November 2021 the Competition Commission informed Transnet of an additional investigation that is

being pursued against Transnet in respect of an anonymous complaint under Case Number: 2020Oct0035.

Whilst engagements are underway between Transnet and the Commission with a view to resolve all matters under investigation, it is important to note that the investigations against TFR, TPT and TNPA have been ongoing for more than six (6) years and to date there has been no referral of any of these matters by the Commission to the Competition Tribunal. With respect to TPT and TNPA, it has been two years since the Commission communicated its preliminary findings against both parties, and its readiness to refer the matters to the Competition Tribunal for adjudication.

Transnet introduced competition law compliance training for customer facing functionaries and is collaborating with the Competition Commission regarding the refinement of its curriculum.

Investigation by the Zondo Judicial Commission of Inquiry

The Judicial Commission of Inquiry into State Capture, (the Commission) released its report on Transnet on 1 February 2022. The recommendations directed at Transnet are being acted upon. The majority of the recommendations were directed to law enforcement agencies and Transnet is co-operating to the extent required with these agencies. The findings in respect of various contracts are, where possible, being pursued through civil recovery litigation with the Special Investigating Unit (the SIU).

All the individuals cited in the Commission's report for further criminal investigation are no longer employed by Transnet having resigned from Transnet or have been dismissed.

Special tribunal outcome

Transnet is working closely with the SIU in recovering losses suffered as a result of wrongdoing. Following a report from the SIU about the conduct of a previous Group Executive, Transnet dismissed the Group Executive and successfully litigated with the SIU in the SIU Special Tribunal obtaining a judgment on 31 August 2021 in terms of which the previous executive was ordered to pay back to Transnet R26,4 million for disgorgement of secret profits he earned while employed by Transnet.

Transnet and the SIU also launched proceedings in the SIU Special Tribunal for the seizure and forfeiture of funds held by CRRC E-Locomotive Supply (previously known as China South Rail, one of the OEMs contracted to deliver locomotives in terms of the 1 064 locomotive supply agreements. Transnet and the SIU obtained an ex parte order against funds of CRRC held in various South African bank accounts and a final judgement in the matter is pending.

Transnet is preparing legal papers to pursue further civil recovery in respect of parties implicated in SIU investigations and the findings of the Zondo Commission Report.

Total SA and Sasol Oil v Transnet Pipelines

Total South Africa (Pty) Limited (Total) and Sasol Oil (Pty) Limited (Sasol) initially brought separate action proceedings against Transnet for contractual damages amounting, cumulatively, to over ZAR1,8 billion. Litigation has been ongoing since 2013 by Total and 2018 by Sasol.

Transnet successfully petitioned for leave to appeal against the judgment by the South Gauteng High Court to the Constitutional Court. The appeal was heard on 16 November 2021 and judgment was reserved. On 22 June 2022, the Constitutional Court ruled that Transnet has (as from 13 September 2020) validly terminated the pipeline agreement with Total and Sasol which regulated the conveyance of crude oil from Durban to the Natref inland refinery at Sasolburg. There has been no determination of the merits of the claimed amount and that the proceedings thus far have centred primarily on the termination of the variation agreement. The matter will revert to the High Court for determination of the remaining separated issues.

Parallel to the litigation above, Transnet also lodged a complaint with regard to the 'neutrality agreement', in that it was not aligned to the Petroleum Pipelines Act. Transnet has had various engagements with Nersa regarding the complaint and Nersa is still considering same for purposes of adjudication.

Shareholder's Compact - performance criteria

The 2021/22FY revised Shareholder's Compact was approved by the Board of Directors on 25 October 2021 and by the Minister of the Department of Public Enterprises on 17 January 2022.

The Shareholder's Compact KPIs that the Board and the Shareholder Representative agree on is the performance-monitoring framework for the Company. The 2021/22 financial year performance against the Shareholder's Compact targets are outlined in the tables that follow. The performance information contained therein has been subjected to independent audit review, and the auditors have reported their findings in the independent auditor's report.

Key performance area 1: Ensure financial sustainability

Key performance indicator	Unit of measurement	2022 target	2022 actual
Operating ratio	%	≤62,5	65,7
Cash interest cover (CIC)	times	≥2,5	2,6
EBITDA margin	%	≥37,5	34,3
Return on invested capital (ROIC)	%	≥4,1	4,4
Current ratio	times	≥0,63	0,39
Gearing	%	≤48,4	45,5
Free cash flow	Percentage of cash flow before capital investment	≥18	25,0

Transnet Shareholder's Compact performance for the 2021/22FY is a reflection of the dynamic internal and external environments which Transnet operates in. The performance of the Shareholder's Compact was adversely affected by the compounded impact of unexpected challenges experienced in the beginning of quarter 2 as Transnet began paving the way towards pre-pandemic recovery. These challenges include amongst others; increase in security related incidents mainly cable theft and vandalism of rail and pipeline infrastructure, IT security challenges and KZN unrest which largely impacted port and rail operations.

As a result, only 17 of the 44 Shareholder Compact measures achieved their target for the financial year resulting in 39% achievement. This represents an increase from the 12% overall achievement registered in the 2020/21FY, but significantly lower than the 80% threshold required by the DPE. Despite these challenges, the following measures registered positive volume performance for the financial year; rail containers (Natcor and Capecor), port containers, port automotive and pipeline volumes. As a first in an endeavour to improve performance through private sector participation, the Transnet Board of Directors approved the private sector participation framework for implementation in the 2022/23 financial year.

To address the consistent operational challenges in the Group environment, the focus of the 2022/23FY Shareholder's Compact for Transnet will seek to address the immediate challenges by identifying and compacting on KPIs that will enable management to focus on addressing the operational and financial challenges of the organisation.

Annexure A: Directors' report

Key performance area 2: Reduce the total cost of logistics, effect and accelerate modal shift in strategic growth segments

Key performance indicator	Unit of measurement	2022 target	2022 actual	
Total rail volumes	mt	≥208,83	173,1	
Measurement instrument for the cost of logistics as a percentage of transportable GDP finalised	Date	30 September 2021	Target achieved	
Loss time injury frequency rate (LTIFR)	Ratio	≤0,75	0,69	
Commercial/accounting separation of TNPA's regulatory and landlord function finalised	Date	31 March 2022	Not achieved. The process to amend the Ports Act was still in progress by 31 March 2022	
Container segment	Rail containers (Natcor and Capecor)	TEUs	≥306 387	309 358
	Port containers	'000 TEUs	≥4 059	4 131
Automotive segment	Rail automotive units	units	229 389	135 356
	Port automotive units	units	535 530	719 138
Coal segment	Export coal	mt	≥73,2	58,3
	Eskom coal	mt	≥4,10	2,51
Chrome and magnetite segment	Chrome	mt	≥8,99	4,84
	Magnetite	mt	≥11,67	8,64
Iron ore segment and manganese segment	Export iron ore	mt	≥59	54,6
	Manganese	mt	≥16,27	14,48
Fuel segment	Rail liquid fuel	mt	≥1,4	0,54
	Pipeline volumes	bl	≥14,00	15,35

Key performance area 3: Leverage private sector in the provision of both infrastructure and operations for strategic growth segments

Key performance indicator	Unit of measurement	2022 target	2022 actual	
Private sector participation framework revised and approved.	Date	30 September 2021	Not achieved. The framework was under development and not approved by 30 September 2021 but was subsequently revised and approved by the Board on 31 March 2022	
Accounting separation of TFR operations and rail infrastructure slot allocation costs finalised.	Accounting separation of TFR operations and rail infrastructure	Date	31 March 2022	Target achieved
	Slot allocation costs finalised	Date	31 March 2022	Target achieved
Strategic segments				
Container segment	Request for information (RFI) for concession of the Durban Point Container Terminal project issued to the market	Date	30 November 2021	Not achieved. Consultations with the transaction advisor was still in progress as at 30 November 2021
	RFI for an international terminal operator to partner at DCT Pier 2 issued to the market	Date	30 September 2021	Target achieved
	RFI for concession of the Inland Container Terminal Project (City Deep) issued to market	Date	31 March 2022	Not achieved. Business case development was in progress as at 31 March 2022

Key performance indicator	Unit of measurement	2022 target	2022 actual	
Automotive segment	RFI for concession of the Inland Terminal (Kaalfontein) issued to the market	Date	31 March 2022	Not achieved. Business case development was in progress as at 31 March 2022
Coal segment	Consolidation of all coal exports through Richards Bay	Date	31 March 2022	Not achieved. The consolidation enablers were under development as at 31 March 2022
Iron ore segment and manganese segment	RFI for PSP transaction for the development of the Back of Port iron-ore and manganese facility in Saldanha issued to the market	Date	31 March 2022	Not achieved. The approach has been re-evaluated as there are concerns with the environmental impact and the RFI was still on hold as at 31 March 2022
	Feasibility study for Sishen-Saldanha rail operating lease completed	Date	31 March 2022	Target achieved
Completion of the preparatory phase (viability, structuring and market consultation) for the Cape Town and Richards Bay Multi-Purpose Terminals (MPT)	Date	30 September 2021	Not achieved. Cape Town MPT analysis has been completed and the Richards Bay MPT business case was in progress as at 30 September 2021	

Key performance area 4: Integrate South Africa with the region and the rest of the world

Key performance indicator	Unit of measurement	2022 target	2022 actual
Cross-border revenue	R million	3 033	2 707
Financial close for the acquisition of 16% shareholding in Maputo Port Development Corporation (MPDC)	Date	31 March 2022	Not achieved. The preliminary due diligence, valuation, conceptual funding solution, draft business case, non-binding expression of interest and negotiation term sheet were not 100% achieved as at 31 March 2022
Maritime connectivity	Index	≥40,8	39,1
RFI to identify equity partner for TPT at Ngqura Container Terminal issued to the market to drive the transshipment strategy	Date	31 December 2021	Target achieved
Chrome and magnetite export volumes through Maputo	mt	7,11	6,15
Volumes on the North/South corridor	mt	0,412	0,35

Key performance area 5: Optimise the social and economic impact of all interventions in the achievement

Key performance indicator	Unit of measurement	2022 target	2022 actual
Number of trainees	Number	≥450	445
Research and development spend (R million)	Number	≥119	98,3
Enterprise and supplier development	% of NOPAT	≥3	16,70
BBBEE level	Certification level	2	2

Remuneration report

Details of directors' remuneration are included in note 38 of the annual financial statements. A detailed remuneration report is included in the integrated report on pages 96 to 100.

Annexure B: Governance Terms of Reference for the report



Audit Committee Terms of Reference for 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 IR: incorporating the financial statements sustainability reporting (9 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 judgment 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. Confirm that material issues have been ratified / approved by the Remuneration, Social and Ethics Committee. 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. Assess the completeness of information in the IR (qualitative management assessment) and the quality of alignment of the IR with the reporting requirements of Treasury, the IIRC/IRCSA and King IV and disclosures required by the Companies Act. An <IR> should include a statement from those charged with governance (The Board) that includes: <ul style="list-style-type: none"> An acknowledgement of their responsibility to ensure the integrity of the integrated report Their opinion or conclusion about whether, or the extent to which, the integrated report is presented in accordance with the <IR> Framework.
Accountability and responsibilities and Terms of Reference (ToRs)	<ul style="list-style-type: none"> Accordingly, disclosures about the process followed to prepare and present the <IR> are encouraged. Such disclosures can include: <ul style="list-style-type: none"> Related systems, procedures and controls, including key responsibilities and activities The role of those charged with governance, including relevant committees. As such, the Board should state whether it is satisfied that the <IR> meets the following key requirements of the <IR> Framework: <p>GUIDING PRINCIPLES</p> <ol style="list-style-type: none"> Strategic focus and future orientation Connectivity of information Stakeholder relationships Materiality Conciseness Reliability and completeness Consistency and comparability
Frequency of meetings and manner of call	<ul style="list-style-type: none"> As set out in the corporate calendar. However, where necessary, 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 terms of reference.
IR Resources – Engagement	<ul style="list-style-type: none"> Approve the IR governance process, which includes Process Owner engagement protocols (as below) Project Steerco to provide support to the Audit Committee in the production of the IR at audit committee meetings. Engagement of Process Owners: <ul style="list-style-type: none"> Individual executive leadership of key <IR> chapters to be engaged as “first port of call” to direct overall disclosures, approve timelines, agree on <IR> inclusions (some of strategic nature) and to ensure senior oversight of tactical resourcing teams INCLUDING GCE, FINANCE, STRATEGY, BUSINESS DEVELOPMENT, ICT. Tactical process owners to be engaged to ensure correct and accurate information sourced “at origin” to ensure information authenticity and accuracy. Weekly/Bi-Weekly engagements are required (arranged by Project Steerco) throughout the <IR> project process to ensure tandem delivery of information.
Reporting	<ul style="list-style-type: none"> The Project Steerco, as represented by the GCFO, 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.

Annexure C: Principle-based checklist of strategic progress on Transnet’s “Integrated Thinking” journey

According to the Value Reporting Foundation:

“**Integrated thinking**” is the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term. Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organisation’s ability to create value over time, including:

- The capitals that the organisation uses or affects, and the critical interdependencies, including trade-offs, between them.
- The capacity of the organisation to respond to key stakeholders’ legitimate needs and interests
- How the organisation tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces.
- The organisation’s activities, performance (financial and other) and outcomes in terms of the capitals – past, present and future.¹

“**Critical success factors**” include the minimum-level activities within business processes (specifying how the capitals are used) that must be performed well for a business to be successful; activities using key resources in pursuit of opportunities.

“**Business model**” is an organisation’s system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfil the organisation’s strategic purposes and create value over the short, medium and long term.²

“**Enterprise value**” denotes market capitalisation plus net debt, where market capitalisation is determined by the market via the company’s share price, which is in turn informed by its financial and/or operational performance. Enterprise value is therefore influenced by factors such as revenue, costs, assets, liabilities, cost of capital, and risk profile.³

“**Intangibles**” are non-physical resources which, either alone or in conjunction with other tangible or intangible resources, can generate a positive or a negative effect on the value of the organisation in the short, medium and long term.⁴

The principle-based checklist below outlines Transnet’s strategic journey towards ever-increasing ‘integrated thinking’ within its organisational purpose, strategy, enterprise risk management, organisational culture, governance structures and operational performance. The tables that follow provide a qualitative management perspective on Transnet progress for each statement.

Statement rating	Fully achieved	Excellent progress	Good progress	Partial progress	No progress
PURPOSE					
Our organisational purpose is unique and clearly articulated. It is brought to life in the interactions of our leadership, management, staff, customers, suppliers, host governments and local communities.					Fully achieved
Our organisational purpose is motivational and the North Star for how we conduct our business.					Fully achieved
Our Board routinely reviews whether our company’s decision-making and resource allocation are consistent with our purpose.					Fully achieved
Our purpose is as relevant on the shop floor as it is in the Boardroom, as well as amongst our key external business partners and broader stakeholders.					Fully achieved
STRATEGY					
We scan the horizon for strategic opportunities.					Fully achieved
We have identified our strategic objectives and gauged how their achievement will enable us to achieve our purpose and contribute to the SDGs.					Fully achieved
Our sustainability priorities are aligned with our business strategy.					Excellent progress
We understand how the material issues associated with our business model affect our ability to execute our strategy.					Excellent progress
We understand how our products and services meet our customers’ needs.					Good progress
We consider how our strategic actions affect our broader stakeholders.					Good progress
We generate competitive advantage through our innovation, unique insights and perspectives, and our ability to bring our products and services to market in an effective and efficient way, whilst also generating a financial surplus					Good progress
The executive team identifies future opportunities for our organisation during our strategic planning process.					Fully achieved
Our strategy and strategic objectives are clearly defined, forward-looking and responsive to longer-term drivers of value creation, such as technological, societal and climate change.					Fully achieved
Our strategy and strategic objectives are aligned with the distinct contribution our organisation can make to the SDGs.					Fully achieved
Our sustainability priorities have been identified through an objective process and reinforce our business strategy.					Fully achieved
The executive team regularly assesses whether the achievement of our strategic objectives is helping us achieve our purpose.					Fully achieved

¹ International Framework (January 2021), Preface, p. 3

² International Framework (January 2021), p. 41

³ Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard (CDP, CDSB, GRI, IIRC & SASB, December 2020), Appendix 4, p. 38.

⁴ WICI Intangibles Reporting Framework (2016), p. 1

Annexure C: Principle-based checklist of strategic progress on Transnet’s “Integrated Thinking” journey

STRATEGY (continued)	
We undertake a periodic assessment of our material issues and have assessed how these may affect our ability to execute our strategy.	
The strategic opportunities presented by our operating environment, including in our supply chain and broader value chain, are regularly assessed by the executive team.	
We invest in innovative products and services and nurture a culture of innovation through our purpose and values.	
We manage our operations efficiently, taking account of all our dependencies and impacts on our material capitals.	
RISKS & OPPORTUNITIES	
We routinely assess the impact of the external environment against the robustness of our business model and our operations, and our ability to execute our strategy, deliver our strategic objectives and create value over time.	
We also routinely assess the impact of our business model, operations and strategy against the external environment	
We have identified the material external issues which create risks and opportunities for our business model, operations and strategy, such as trading conditions, the availability of resources, societal changes and climate change.	
The executive team completes a regular cross-functional assessment of all of these material issues and how they are affecting our ability to create or preserve value across the resources and relationships of our business model.	
The executive team models the impact of these risks and opportunities, such as climate change scenarios and technological and societal changes, on our future performance.	
The executive team recalibrates our business model and strategic objectives based on the insights yielded by these processes	
CULTURE	
Our conduct and how we do things are consistent with our purpose.	
Our organisational culture aligns with our business partners and broader stakeholders. We recognise the critical interdependency between enterprise value creation and value creation for our investors and other key stakeholders.	
The executive team assesses how effectively we live our values via an annual employee survey and regular pulse surveys, course-correcting any discrepancies.	
The executive team enforces policies on ethical behaviour and transparent reporting, taking action if such policies are breached.	
Our key stakeholders have been identified through an objective assessment exercise, which we revisit periodically.	
The executive team assesses the degree of alignment of our corporate culture and that of our key suppliers and customers when making significant procurement and sales decisions.	
The executive team has identified our business model’s key stakeholders as part of our stakeholder engagement and materiality assessment processes.	
Our materiality assessment identifies those matters with the greatest positive or negative potential to impact enterprise value creation and value creation for our investors and other key stakeholders.	
GOVERNANCE	
Our Board’s objectives and critical success factors are clearly defined.	
Our leadership, organisational structures, cross-functional teaming and decision-making processes support our Board and management team in executing our strategy and delivering our strategic objectives.	
We recognise that value creation for one type of capital may create, preserve or erode value creation across another type of capital.	
Our governance structures and processes support the decision-making which enables us to navigate the necessary trade-offs between the capitals.	
The diversity of skills and experiences of our Board enables them to guide the senior management team and also to hold them to account for the delivery of our strategy.	
We measure and report our progress in delivering our critical success factors through our financial and sustainability-related KPIs.	
Strategic opportunities are assessed with the same degree of rigour as strategic risks.	
The Board’s decision-making processes assess value creation, preservation and erosion across all the capitals which are material to the decision being taken.	
The Board ensures that the company’s incentive structures are aligned with long-term enterprise value creation, including, where practicable, long-term value creation for our external business partners and broader stakeholders too.	
Our teams work collectively to deliver our strategic objectives and we actively break down functional siloes where these exist.	
The Board regularly reviews its governance structures and processes and identifies opportunities to improve them.	
Our integrated report is reasonably assured.	

PERFORMANCE	
Our KPIs and management information measure how well we are delivering against our strategic objectives. They also measure the value we are creating, preserving or eroding across the capitals which are material to our business model.	
We measure and report our contribution to the SDGs.	
Our incentive structures are aligned with enterprise value creation and value creation for other key stakeholders.	
Our integrated report communicates the short- and long-term enterprise value we have created, preserved or eroded for our investors and the value we have created for other key stakeholders.	
Our integrated report describes its basis of preparation and presentation.	
We measure our progress towards the delivery of our strategic objectives using KPIs and discuss this during our regular leadership team meetings.	
Using KPIs, we measure the value we have created, preserved or eroded over time across our material capitals.	
We have identified the SDGs to which we make the most material contribution; we measure our contribution and communicate this to our stakeholders.	
We report all these KPIs internally and draw on them in decision-making and resource allocation	
Our management systems collect this performance information, with appropriate controls in place to ensure its quality and integrity.	
The quality, relevance and reliability of the information by which we manage the business are formally assessed.	
We prepare an annual integrated report in accordance with the Framework, measuring and communicating our outputs and outcomes.	
Our integrated report includes a description of the materiality determination process, reporting boundary and frameworks and methods used to quantify or evaluate material matters.	

Annexure D: Application of King IV Principles

Principle 1: Leadership

The Accounting Authority should lead ethically and effectively

Governance outcomes:

- Ethical Culture
- Legitimacy



King IV.P1

Application	Explanation
Declaration of interest (DOI) process	<ul style="list-style-type: none"> • There are Declaration of interest and related party disclosure policies for directors and employees in place to govern the management of conflicts and related matters. • All directors and employees (including consultants and fixed-term contractors) are required to declare their interests annually or as and when there are changes in their interests in accordance with the policies. • The declaration of interest is a standing item on the agenda of all Board and committee meetings, Exco and committee meetings and all other key meetings where decisions are taken. • The declarations of interest for directors are presented to the Board for consideration prior to presentation at the AGM on the recommendation of the Corporate Governance and Nominations Committee. • The REMSEC reviews the declarations of interest of the directors and members of the Group Executive Committee for oversight purposes. • The Register of Declaration of Interests for Directors and Prescribed Officers is tabled at the Company's annual general meeting for noting by the Shareholder.
Management of ethics-related policies	<ul style="list-style-type: none"> • The Company has the following policies in place in support of creating ethical culture: Code of Ethics, No Gifts and Hospitality Policy, the Non-Executive Directorship and Trusteeships Policy, Whistle-blowing Policy, Anti-Bribery and Anti-Corruption Policy, Domestic Prominent Influential Persons and Foreign Prominent Public Officials Policy and the Lifestyle Audit Policy. These policies apply to both employees and directors.

Principle 2: Organisational ethics

Govern the ethics of the organisation in a way that supports the establishment of an ethical culture

Governance outcomes:

- Ethical Culture
- Effective Control
- Legitimacy



King IV.P2

Application	Explanation
The Remuneration, Social and Ethics Committee	<ul style="list-style-type: none"> • The committee is responsible for the governance of ethics and ensures that the Company's ethical performance is assessed, monitored, reported and disclosed in the Company's Integrated Report. • Social and ethics matters are considered by the Remuneration, Social and Ethics Committee and there is a social and ethics focused meeting held on an annual basis. • The Company's Code of Ethics, which applies to the directors and employees of the Company, is reviewed every five years or as and when necessary.
Ethics Management Programme	<ul style="list-style-type: none"> • The Board has an approved Code of Ethics which is published on the Transnet website and incorporated into contractual arrangements with all employees and suppliers, and integrity pacts are concluded with all bidders and suppliers. • Ethics management is led from the office of the Chief Legal Officer who is an Exco member, in conjunction with the Chief of Security. • Aspects of the Code of Ethics are included in fraud and corruption awareness training and are accessible to all employees on the Company's intranet. • The Board has in support of its ethics management programme, approved the Transnet Lifestyle Audit Policy which is applicable to all employees. The Board of Directors, in support of all employees, also participates in the lifestyle audit process to set the tone from the top.
The Code of Ethics ('The code')	<ul style="list-style-type: none"> • The Code of Ethics includes the Company's values and guidelines, and sets out the ethical standards for business practice, individual business conduct, and assists all employees and directors with their ethical deliberations, choices, decisions and conduct.

Principle 3: Responsible corporate citizenship

Ensure that the organisation is and is seen to be a responsible corporation citizen

Governance outcomes:

- Ethical Culture
- Legitimacy



King IV.P3

Application	Explanation
Good corporate citizenship	<ul style="list-style-type: none"> • The Board ensures that the Company is a responsible corporate citizen by complying with all national and international laws and standards, and adheres to its own Codes of Conduct and policies. The Company is also a signatory to the UN Global Compact and has extensive corporate social investment (CSI) programmes in place. • The Transnet Foundation is responsible for driving the Company's socio-economic developmental agenda to benefit communities along its operational footprint and other beneficiaries. • The Company's community investment programmes are underpinned by its commitment to uplifting and empowering communities through health interventions, promoting education and training, enabling effective asset utilisation to provide much needed infrastructure solutions, developing rural sports, and deploying employees' skills and competencies to effect positive changes in the various communities. • Socio-economic initiatives are managed at the highest level and form part of the Shareholder's Compact targets. • The ESG report is a standing item at the meetings of the Remuneration, Social and Ethics Committee, and the reports are tabled on a quarterly basis at the Audit Committee meetings. • The Board monitors CSI activities through REMSEC and reports on its CSI activities annually in the Integrated Report.

Principle 4: Strategy and performance

The Accounting Authority should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process

Governance outcome:

- Good Performance



King IV.P4

Application	Explanation
Board strategic session and the deep dive	<ul style="list-style-type: none"> • The Board holds strategy workshops and deep dive sessions where matters of a topical and strategic nature are discussed in detail. Initiatives and recommendations from these sessions are then formulated into strategies and plans and submitted to the Board for formal consideration.
Shareholder's Compact	<ul style="list-style-type: none"> • The Company annually enters into a Shareholder's Compact with the Shareholder Minister. The Shareholder's Compact mandates the Company to deliver on numerous strategic deliverables, a process which the Board oversees. The Board monitors the Company's performance against the targets set out in the Shareholder's Compact and ensures that there are adequate processes in place for budget planning and allocation to advance the Company's mandate. • The Shareholder's Compact was approved by the Corporate Governance and Nominations Committee as delegated by the Board in the year under review.
Corporate Plan	<ul style="list-style-type: none"> • The Corporate Plan was approved by the Board and submitted to the National Treasury and the Department of Public Enterprise as required by the PFMA. • The Transnet Corporate Plan is prepared annually by the Group Exco and approved by the Board. The Corporate Plan outlines the Company's strategy, objectives and plans, and details the initiatives and associated key performance indicators that will be implemented to achieve the Company's strategic objectives.
Risk identification assessment and Going concerns	<ul style="list-style-type: none"> • Transnet has adopted an Integrated Risk Management Policy and Enterprise Risk Management (ERM) Strategy and Framework as approved by the Board as part of the strategy review. • The Company continually performs regular risk identification assessments and reports these to the Risk Committee and elevates material changes in the Company's risk profile to the Board when so required. • The Audit Committee assesses the going concern assertion of the Company on regular basis and makes a statement to that effect in the Company's financial statements after submission to the Board.
Delegation of Authority (DOA) Policy and Framework	<ul style="list-style-type: none"> • The Delegation of Authority Policy, approved by the Board in May 2021, outlines and documents a structured decision-making architecture for the Board of Directors and management in order to promote effective and efficient governance in line with the approved Company structure. • The DOA Framework devolves the powers that vest with the Board as the Accounting Authority to various appointed functionaries and established governance structures to enable the business strategy and defines the limits of authority designated by the Board.
Company strategy	<ul style="list-style-type: none"> • Transnet revised and refined the Transnet Segment Strategy, which was approved by the Board on 18 February 2021 for implementation in the year under review.

Annexure D: Application of King IV Principles

Principle 5: Reporting

The Accounting Authority should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects

Governance outcomes:

- Effective Control
- Legitimacy



King IV.P5

Application	Explanation
Department of Public Enterprise Quarterly Report	<ul style="list-style-type: none"> • The Board ensures that the Company adheres to all procedures for quarterly reporting to the Executive Authority through the submission of quarterly reports to the Shareholder Minister as required by the PFMA. • Key decisions taken and governance milestones achieved by the Board and its committees are reported quarterly to the Shareholder.
Integrated Report	<ul style="list-style-type: none"> • The Integrated Report provides information of material significance in creating short, medium and long-term value. • To ensure the integrity of the reporting, the Integrated Report is compiled and reviewed by an interdisciplinary management team prior to submission of relevant sections to the appropriate Board committees for recommendation to the Board for approval. Assurance on accuracy and reliability of financial information and sustainability matters is provided by the external auditor. • Key governance matters are reported in the Integrated Report by the Board and its committees in the governance section. • The Group Company Secretary certifies that the Company has filed with the Companies and Intellectual Property Commission all such returns and notices for the year end, as required in terms of the Companies Act, and that all such returns are true, correct and up to date.
Annual financial statements	<ul style="list-style-type: none"> • The Company issues audited interim and annual financial statements in line with applicable legislation. • The Company also reports on the extent of its compliance with the Companies Act in the directors' report in the annual financial statements.

Principle 6: Primary roles and responsibilities of the Accounting Authority

The Accounting Authority should serve as the focal point and custodian of the corporate governance in the organisation

Governance outcomes:

- Ethical Culture
- Ethical Control
- Good Performance



King IV.P6

Application	Explanation
Annual review of the committee charters	<ul style="list-style-type: none"> • The Board and its committees have approved charters, which are reviewed on an annual basis for relevance and adequacy. • The Board and committee charters outline the roles and responsibilities of the Board and each committee.
Access to Company information	<ul style="list-style-type: none"> • The Board has unrestricted access to all Company information, records, documents and property subject to internal controls.
Board of Directors' meetings	<ul style="list-style-type: none"> • The Board meets at least four times a year. The number of meetings held and attendance thereof, together with decisions taken by the Board and its committees, are reported quarterly to the Shareholder and in the Integrated Report. • The Board is satisfied that it has fulfilled its duties and responsibilities in accordance with its charter for the reporting period.

Principle 7: Composition of the Accounting Authority

The Accounting Authority should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively

Governance outcomes:

- Ethical Culture
- Effective Control
- Good Performance
- Legitimacy



King IV.P7

Application	Explanation
The Board should comprise appropriate knowledge, skills, experience, diversity and independence	<ul style="list-style-type: none"> • The Company's Memorandum of Incorporation (MOI) prescribes that the minimum number of directors is six (6) and the maximum number is fourteen (14) comprising not less than four (4) non-executive directors. There are currently 10 directors, of which 8 are independent non-executive directors and two are executive directors of diverse race, gender, age and possessing various skills and experience.
Composition of the Accounting Authority	<ul style="list-style-type: none"> • The Board of Directors and members of the Audit Committee and the Remuneration, Social and Ethics Committee are appointed by the Shareholder Minister. • The Board is appointed by the Shareholder on a three-year term renewable for two terms and as confirmed at every annual general meeting. The executive directors are appointed on five-year contract terms. • The Corporate Governance and Nominations Committee compiles the Board skills matrix for consideration by the Shareholder Minister as part of non-executive directors' succession planning activities. • The Corporate Governance and Nominations Committee, through the Board of Directors, recommends the appointment of executive directors to the Shareholder.
The MOI of the Company provides that the Board shall at all times consist of a majority of independent non-executive directors	<ul style="list-style-type: none"> • The Board of Directors currently comprises 10 directors, eight of whom are independent non-executive directors, including the Chairperson. • The Board has a minimum of two executive directors, consisting of the Group Chief Executive and Group Chief Financial Officer.

Principle 8: Committees of the Accounting Authority

The Accounting Authority should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and effective discharge of its duties

Governance outcomes:

- Ethical Culture
- Effective Control
- Good Performance
- Legitimacy



King IV.P8

Application	Explanation
The Board and its committees	<ul style="list-style-type: none"> • The Board of Directors established the Audit Committee and the Remuneration, Social and Ethics Committee as statutory committees as well as the Corporate Governance and Nominations Committee, Risk Committee, and Finance and Investment Committee as non-statutory committees. • The Board committees have a minimum of three members. The respective Board committee charters make provision for the minimum number of members required for each committee. • The Board is accountable to the Shareholder Minister on all the decisions taken by any Board committee and by any member of the Board authorised on its behalf. The directors have fiduciary duties to ensure that the Company complies with all legislative and regulatory requirements, including the provisions of the Companies Act, the PFMA, and the King IV Code. • Information on Board committees is disclosed in the abridged governance section of the Integrated Report.
DOA Framework	<ul style="list-style-type: none"> • The DOA Framework, which forms part of the DOA Policy, was approved by the Board in August 2021.
The Board committee charters	<ul style="list-style-type: none"> • All Board committee charters were approved by the Board. • The respective committee Charters also clearly set out the composition, quorum, roles and responsibilities of each committee.

Annexure D: Application of King IV Principles

Principle 9: Evaluation of the performance of the Accounting Authority

The Accounting Authority should ensure that the evaluation of its own performance and that of its own committees, its chair and its individual members support continued improvement in its performance and effectiveness

Governance outcomes:

- Ethical Culture
- Effective Control
- Good Performance
- Legitimacy



King IV. P9

Application	Explanation
Board Performance Evaluation Policy	<ul style="list-style-type: none"> • There is an approved Board Performance Evaluation Policy, which sets out the principles that guide the performance and effectiveness of the Transnet Board, Board committees and individual directors.
Evaluation of the Group Company Secretary	<ul style="list-style-type: none"> • The performance of the Group Company Secretary was evaluated by the Board through the external evaluations. • The Board is satisfied with the performance of the Group Company Secretary.
Meeting Assessments	<ul style="list-style-type: none"> • Meeting assessments are conducted at least twice a year at the Board and subcommittee meetings.

Principle 10: Appointment and delegation to management

The Accounting Authority should ensure that the appointment of, and delegation to, management contribute to role clarity and effective exercise of authority and responsibilities

Governance outcomes:

- Effective Control
- Ethical Culture
- Good Performance
- Legitimacy



King IV. P10

Application	Explanation
Appointment of the Group Chief Executive	<ul style="list-style-type: none"> • The Board of Directors recommends the preferred candidates for the appointment of the Group Chief Executive to the Shareholder Minister, who makes the final appointment.
Delegation of power	<ul style="list-style-type: none"> • The Board of Directors delegates powers to the Group Chief Executive to manage the business strategically and provide adequate direction to the Company's operations to ensure that the strategy is successfully implemented through the DOA Framework. The Group Chief Executive is assisted by members of the Group Executive Committee to deliver on specific mandates in their areas of responsibility. • The DOA Policy and Framework also outlines both the Shareholder and Board-reserved matters.
Review of the Delegation of Authority Framework	<ul style="list-style-type: none"> • The Board approved the Delegation of Authority Policy and Framework, which outlines and documents a structured decision-making framework for the Board of Directors and management. It devolves the powers that vest with the Transnet Board as the Accounting Authority to the various appointed functionaries, and established governance and defined the limits of authority as designated by the Board.
Appointment of the Group Company Secretary	<ul style="list-style-type: none"> • The appointment of a Group Company Secretary is a statutory requirement for the Company. • The Group Company Secretary was appointed by the Board effective 1 April 2022.
Independent advice	<ul style="list-style-type: none"> • The Board and committee charters provide for authority to seek independent advice and to consult with specialists or consultants, facilitated by the Group Company Secretary.

Principle 11: Risk governance

The Accounting Authority should govern risk in a way that supports the organisation in setting and achieving its strategic objectives

Governance outcomes:

- Effective Control
- Ethical Culture
- Good Performance
- Legitimacy



King IV. P11

Application	Explanation
Integrated Risk Management Policy	<ul style="list-style-type: none"> • The Board has approved the Integrated Risk Management Policy which paved the way for a more cohesive approach to risk management in the organisation at three levels, namely strategic, tactical and operational. • The purpose of the Integrated Risk Management Policy is to outline Transnet's policy directive and commitment to risk governance, implementation of risk management processes, risk monitoring and risk reporting.
Risk Committee	<ul style="list-style-type: none"> • The Board of Directors has established the Risk Committee which is responsible for oversight of risk related matters within the Company which include the following: <ul style="list-style-type: none"> - Enterprise Risk Management Strategy and Framework - Integrated Risk Management Plan - Risk Appetite and Tolerance Framework - Enterprise Risk Management Methodology - Risk maturity surveys - Business continuity management plans - Integrated Report (risk management section) - Corporate Plan (risk management section) - Risk and Integrity Management Framework (RIMF) Implementation Plan

Principle 12: Technology and information governance

The Accounting Authority should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

Governance outcomes:

- Good Performance
- Effective Control
- Legitimacy



King IV. P12

Application	Explanation
ICT Governance Framework and IT Governance Charter	<ul style="list-style-type: none"> • The ICT Governance Framework and IT Governance Charter are communicated to the Board for review, approval and assessment for effectiveness. • The purpose of the framework is to define the requirements for implementing effective ICT structures, principles, processes and practices that will enable effective IT and Digital Governance within Transnet. The framework sets out the foundation for the effective evaluating, directing, and monitoring of ICT within Transnet. • The purpose of the charter is to define, assign and communicate roles and responsibilities for IT governance to relevant stakeholders within Transnet in order to: <ul style="list-style-type: none"> - Ensure clear accountability and responsibility for IT governance within the Transnet Group - Implement an IT governance structure that allows ICT to operate cohesively throughout Transnet and facilitate the achievement of strategic business objectives - Align IT governance with group-wide governance practices - Adopt IT governance good practices across the Group - Ensure that all ICT decisions are business case driven to the maximum benefit of the Group - Develop understanding and support of the practices driving the success of the Operating Divisions (ODs) - Attain and maintain the buy-in of the CIOs for transversal initiatives

Annexure D: Application of King IV Principles

Principle 12: Technology and information governance

The Accounting Authority should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

Governance outcomes:

- Effective Control
- Good Performance
- Legitimacy

Application	Explanation
Delegation to management to implement, executive effective technology and information management	<ul style="list-style-type: none"> • The delegation of ICT from the Board to management is addressed in the DOA Framework which is approved by the Board. • The Risk Committee is delegated with the responsibility of exercising ongoing oversight of ICT risk management. • The Risk Committee also oversees the establishment and implementation of business continuity initiatives that enable Transnet to continue to operate under conditions of IT instability and to be able to recover from any serious risks.
ICT integration	<ul style="list-style-type: none"> • There is integration of people, technologies, information and processes across the organisation. There is ethical and responsible use of technology and information, and compliance with relevant laws.
ICT role in ensuring business resilience	<ul style="list-style-type: none"> • ICT's challenges on disaster recovery plans, tests and reports were communicated to the Board and its subcommittees.
Ensuring responsiveness to cybersecurity and social media risks	<ul style="list-style-type: none"> • The Board receives feedback on the Transnet cybersecurity posture and plans. Transnet IT positions cybersecurity as a top priority and guards against negative publicity and reputational damage.
Monitoring of third-party and outsourced service provider risks	<ul style="list-style-type: none"> • Transnet calculates the potential risks or vulnerabilities by completing a service provider assessment for each third-party engagement and further conducts thorough due diligence before the relationship commences.

Principle 12: Technology and information governance

The Accounting Authority should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

Governance outcomes:

- Effective Control
- Good Governance
- Legitimacy

Application	Explanation
Monitor and evaluate value delivered from technology investments and projects	<ul style="list-style-type: none"> • Apply benefits realisation management to plan for, monitor and track benefits realisation throughout the project delivery process: <ul style="list-style-type: none"> - Pre-Execution Planning - FEL 1 - Identify and Quantify Benefits - FEL 2 - Value and Appraise Benefits - FEL 3 - Value and Appraise Benefits - FEL 4 - Benefits Planning - Execution Phase (and Closeout) - Benefits Realisation - Benefits Realisation Report - Benefits Review Health Check - Post Implementation - User Adoption Change Management reports

Principle 12: Technology and information governance

The Accounting Authority should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

Governance outcomes:

- Good Performance
- Effective Control
- Legitimacy

Application	Explanation
Management of the disposal of obsolete technology and information	<ul style="list-style-type: none"> • Governed by Divisional Bid Acquisition Council.
The ethical and responsible use of ICT and compliance with applicable laws	<ul style="list-style-type: none"> • The Board has requested and been provided with insight on the ICT's regulatory universe.
Oversee management of information (including use of information architecture, protection of privacy and security)	<ul style="list-style-type: none"> • ICT analyses information used by the organisation. • ICT tracks and enforces regulatory compliance (POPI Act) and conformance to regulatory policies, standards, architecture and procedures.
The overview of arrangements governing and managing technology and information	<ul style="list-style-type: none"> • The ICT Executive Committee has been established as a structure that provides feedback to the Group Executive Committee on matters pertaining to the ICT strategy, Corporate Plan and digital initiatives. Development and implementation of data and information architecture that supports confidentiality, integrity and availability of information.

Principle 12: Technology and information governance

The Accounting Authority should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

Governance outcomes:

- Good Performance
- Effective Control
- Legitimacy

Application	Explanation
Areas of current and future focus	<ul style="list-style-type: none"> • ICT aims to employ a digital-first culture to digitise both existing and next-generation products and services. • The digital-first approach is enabled by the provision of digital platforms as well as disruptive and enabling technologies to support digital transformation which underpins a strong digital backbone. • Leveraging an ecosystem that includes strategic partnerships to ensure that ICT provides agile and innovative services.
Significant changes, acquisitions, incident management and remedial action	<ul style="list-style-type: none"> • This is the primary role of the ICT leadership (ManCo and Operating Divisions) in conjunction with the IT service providers. • The Change Advisory Board delivers support to a change management team by advising on requested changes, and assisting in the assessment and prioritisation of changes. • Acquisitions are concluded by the Transnet Acquisition Council facilitated by the Supply Chain Management Department. • Incident management, problem management and remedial actions are managed by the ICT Service Management team reporting to the Enterprise Technology Services functional unit.

Annexure D: Application of King IV Principles

Principle 13: Compliance governance

The Accounting Authority should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that it supports the organisation being ethical and a good corporate citizen

Governance outcomes:

- Ethical Culture
- Effective Control
- Good Governance
- Legitimacy



King IV. P13

Application	Explanation
Compliance management	<ul style="list-style-type: none"> • Transnet has a dedicated Regulation and Compliance function to assist the Board and management with discharging their compliance responsibilities. • The Regulation and Compliance function provides advice, risk management support, and independent monitoring and reporting on compliance controls for high-priority regulatory requirements. • Accountability for the implementation of compliance controls lies with management. • Approximately 174 primary pieces of legislation impact Transnet, inclusive of 45 strategic pieces of legislation. • Compliance is implemented through a risk-based approach using a decentralised model, with compliance officers appointed within Operating Divisions and Corporate Centre functions. • A Compliance Maturity Plan for the 2022/23FY was approved by the Risk Committee. • Compliance standards and frameworks are in place and improvements to adapt to our changing environments are constantly effected. • The stand-alone Compliance Policy will be retired with Compliance Policy Statements being incorporated into a Compliance Framework. • Inspections by environmental regulators are tracked, monitored and reported in the Integrated Report.

Principle 14: Remuneration governance

The Accounting Authority should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in short, medium and long term

Governance outcomes:

- Ethical Culture
- Effective Control
- Legitimacy



King IV. P14

Application	Explanation
Remuneration, Social and Ethics Committee	<ul style="list-style-type: none"> • The Remuneration, Social and Ethics Committee considers the non-binding advisory vote of the Shareholder on the Company's remuneration policy, and assists the Board in setting and administering such remuneration policy and applicable practice standards which must be aligned to the strategy of the Company on an annual basis. • The REMSEC recommends the level of independent non-executive directors' fees to the Board for approval by the Shareholder Minister at the annual general meeting. The Board and the remuneration, social and ethics committee continuously assess the effectiveness of remuneration policies.
Remuneration policy	<ul style="list-style-type: none"> • The Remuneration Policy for management is in the process of review and finalisation. The policy will be submitted to the REMSEC and the Board for recommendation to the Minister in August 2022. The work plan for the finalisation of the remuneration policy was submitted to the DPE and several discussions have subsequently taken place with the DPE. • The remuneration policy and philosophy address organisation-wide remuneration and include provisions to attract, motivate, reward and retain human capital. • Remuneration policies and practices are aligned with the Transnet strategy, DPE Remuneration Guide and linked to individual performance. • The remuneration elements and design principles informing the remuneration arrangements for management employees will be included in the remuneration policy. • Remuneration elements for bargaining unit employees are contained in collective agreements. • Details of obligations in executive employment contracts with regard to leave entitlement for executives are included in the relevant policies as prescribed by the Companies Act. • The remuneration and implementation report is tabled annually for separate non-binding advisory votes by shareholders at the annual general meeting.
Remuneration report	<ul style="list-style-type: none"> • The remuneration report includes details of all fees paid to non-executive directors, and remuneration awarded to executive directors and prescribed officers during the reporting period. • The remuneration report includes all remuneration including short and long-term incentive amounts for the current and prior years for executive directors and prescribed officers.

Principle 15: Assurance

The Accounting Authority should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and of the organisation's external reports

Governance outcomes:

- Effective Control
- Legitimacy
- Ethical Culture



King IV. P15

Application	Explanation
Combined assurance	<ul style="list-style-type: none"> • A Combined Assurance Model, which aims to streamline collective assurance effort in order to enable senior management, the Audit Committee and the Board to obtain a comprehensive, holistic view of the effectiveness of internal controls over the organisation's governance and risk management, is in the process of being rolled out. The Combined Assurance Model sets out the roles and responsibilities of the three lines of assurance. • A Combined Assurance Policy has been developed and approved by the Audit Committee. • The Combined Assurance Plan for the 2022/23FY is presented to the Audit Committee for approval. The 2022/23FY plan has been approved. • Internal Audit's assurance responsibilities are defined in the Internal Audit Charter. • Combined Assurance reports as well as reports from Internal Audit and External Audit are submitted to the Audit Committee to enable them to form their opinion on the integrity of information and effectiveness of the control environment.
Assurance of external reports	<ul style="list-style-type: none"> • As a statutory requirement, External Audit provides assurance on the Transnet Annual Financial Statements and Integrated Report. • As part of the Risk Based Audit Plan, Internal Audit provides assurance on the Corporate Plan and Shareholder's Compact performance targets, amongst other reviews.

Principle 15: Assurance

The Accounting Authority should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and of the organisation's external reports

Governance outcomes:

- Effective Control
- Legitimacy
- Ethical Culture

Application	Explanation
Internal Audit	<ul style="list-style-type: none"> • The Board has delegated to the Audit Committee the responsibility to provide oversight on Internal Audit and External Audit activities. • The Internal Audit Charter, which details Internal Audit's purpose, status, authority and responsibilities is approved by the Audit Committee. The Internal Audit Charter is continuously reviewed and updated. The Chief Audit Executive (CAE) ensures that Internal Audit has sufficient and adequate skills for the performance of the Internal Audit function. • To ensure independence of the Internal Audit function, the CAE reports functionally to the Audit Committee and administratively to the Group Chief Executive. • Appointment of the CAE was approved by the Audit Committee and there are mechanisms in place for continuous performance assessment and monitoring. The Audit Committee reviews Transnet Internal Audit's performance of its responsibilities on an annual basis. • The CAE has direct access to the Chairperson of the Audit Committee. • The CAE is a permanent Transnet employee and a member of the Executive Committee with limited rights to ensure independence, i.e. no voting rights. • Internal Audit prepares and submits a risk-based plan annually to the Audit Committee for approval. The 2022/23FY Audit Plan has been approved. • An annual statement on the effectiveness of the governance, risk management and controls is submitted to the Audit Committee. The 2021/22 Internal Audit Assessment has been noted by the Audit Committee. • As part of Internal Audit's Quality Assurance and Improvement Programme, internal quality assurance is conducted continuously and an external independent review is conducted every five years. • Annually, all Internal Audit staff complete a declaration confirming conformance to the Code of Ethics. • All employees including Internal Audit staff complete annual declarations of interest and independence.

Annexure D: Application of King IV Principles

Principle 16: Stakeholder

In the execution of its governance roles and responsibilities, the Accounting Authority should adopt a stakeholder-inclusive approach that balance the needs, interests and expectation of material stakeholders in the best interests of the organisation over time

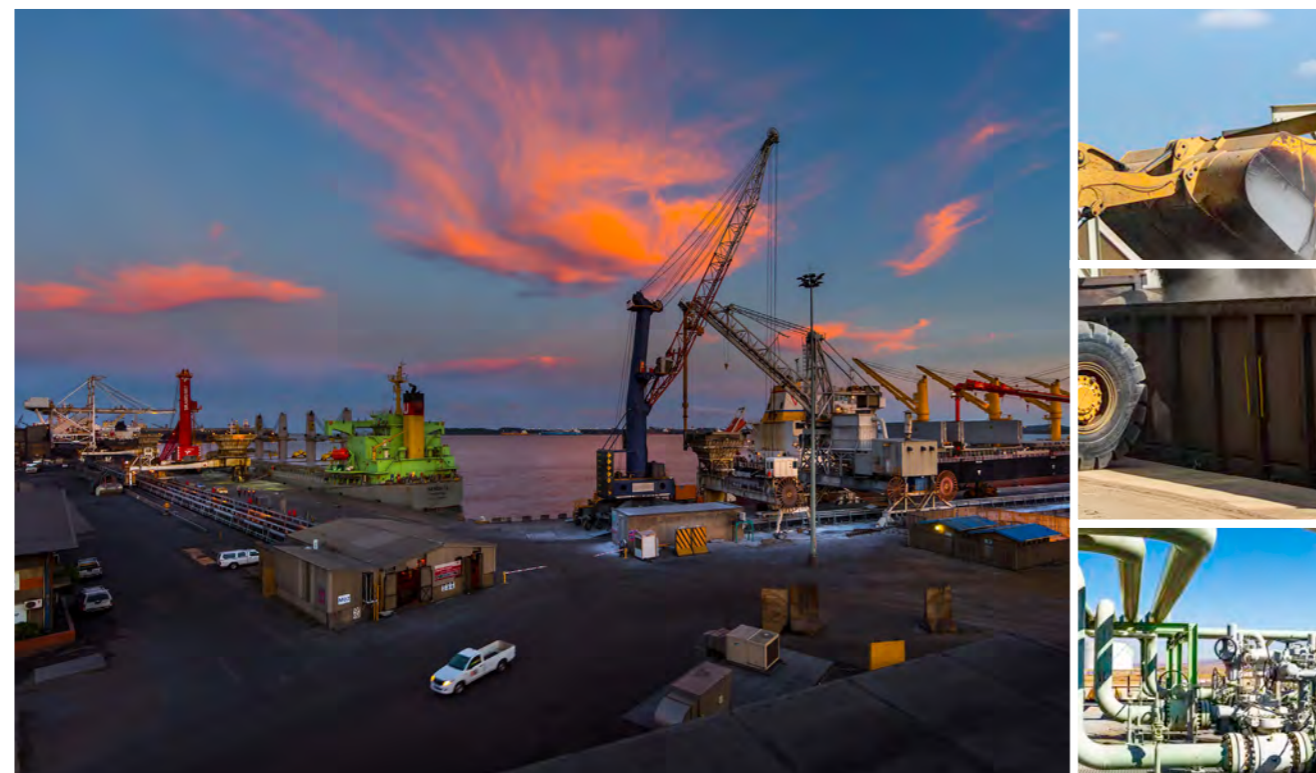
Governance outcomes:

- Ethical Culture
- Ethical Leadership



King IV.P16

Application	Explanation
Stakeholder relationships	<ul style="list-style-type: none"> 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 centralised, with Corporate Affairs being responsible for coordination of this function, 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). The Stakeholder Engagement Report incorporates the measurement of the quality of material stakeholder relationships and appropriate responses to the outcomes. The Stakeholder Engagement Policy and Procedure are approved at Board level. Stakeholder engagement practices are aligned with the Delegation of Authority Framework. Community Champions enhance provision of feedback on communities' grievances and developments. A Group Stakeholder Engagement Forum (GSE Forum) has been established. The Terms of Reference guides the rules of engagements for the GSE Forum. The Stakeholder Engagement Report provides an overview of engagements with critical stakeholders.
Shareholder Relationship, including the Annual General (AGM) Meeting	<ul style="list-style-type: none"> There is continuous engagement with the Shareholder Minister and the Department of Public Enterprises. The AGM notice was published on the Company's website. The Auditor-General of South Africa was present at the Company's 31st AGM held on 29 October 2021.



Abbreviations and acronyms

AEL	Air Emission Licence	LTI	Long-term Incentive
AFS	Annual financial statements	LTIFR	Lost time injury frequency rate
AGM	Annual general meeting	MOI	Memorandum of Incorporation
AGSA	Auditor-General of South Africa	mt	Million tons
AI	Artificial intelligence	Nersa	National Energy Regulator of South Africa
B-BBEE	Broad-Based Black Economic Empowerment	NGO	Non-governmental organisation
Capex	Capital expenditure	NMPP	New Multi-Product Pipeline
CIPC	Companies and Intellectual Property Commission	NPAT	Net profit after tax
CPI	Consumer price index	NPO	Non-profit organisation
CSI	Corporate social investment	NTK	Net ton kilometre
CWIP	Capital work in progress	OD	Operating Division
DFFE	Department of Forestry, Fisheries and the Environment	OEM	Original equipment manufacturer
DIFR	Disabling injury frequency rate	PFMA	Public Finance Management Act, No 1 of 1999
DMTN	Domestic Medium-Term Note programme)	POPIA	Protection of Personal Information Act, No 4 of 2013
DOA	Delegation of Authority	PPPFA	Preferential Procurement Policy Framework Act, No 5 of 2000
DPE	Department of Public Enterprises	Prasa	Passenger Rail Agency of South Africa
EAP	Employee Assistance Programme	PSP	Private sector participation
EBITDA	Earnings before interest, taxation, depreciation and amortisation	R&D	Research and development
ECA	Export credit agency	REMSEC	Remuneration, Social and Ethics Committee
ERRP	Economic Recovery and Reconstruction Plan	ROTA	Return on total average assets
ESD	Enterprise and Supplier Development	S&P	S&P Global Ratings
ESG	Environmental, social and governance	SCOPA	Standing Committee on Public Accounts
EV	Employee volunteerism	SD	Supplier development
FY	Financial year	SDGs	Sustainable Development Goals
GCE	Group Chief Executive	SDOs	Sustainable Development Outcomes
GDP	Gross domestic product	SMMEs	Small, medium and micro enterprises
GFB	General Freight business	SOC	State-owned company
GMTN	Global Medium-term Note Programme	STI	Short-term Incentive
GRI	Global Reporting Initiative	TE	Transnet Engineering OD
ICT	Information and communications technology	TEU	Twenty-foot equivalent unit
IFRS	International Financial Reporting Standards	TFR	Transnet Freight Rail OD
IFWE	Irregular, fruitless, and wasteful expenditure	TIA	Transnet Internal Audit
IIRC	International Integrated Reporting Council	TMPS	Total Measured Procurement Spend
ISO	International Organisation for Standardisation	TNPA	Transnet National Ports Authority OD
IT	Information technology	TPL	Transnet Pipelines OD
King IV	King IV Report on Corporate Governance for South Africa, 2016	TP	Transnet Property OD
KPI	Key performance indicator	TPT	Transnet Port Terminals OD
LNG	Liquefied natural gas	TSDBF	Transnet Second Defined Benefit Fund
		TTPF	Transnet Sub-fund of the Transport Pension Fund

Glossary of terms

Asset turnover (times)

Revenue divided by total assets (total assets excluding capital work in progress).

Cash interest cover (times)

Cash generated from operations after working capital changes, divided by net finance costs (net finance costs include finance costs, finance income and capitalised borrowing costs from the cash flow statement).

Debt (for gearing calculation)

Long-term borrowings, short-term borrowings, employee benefits, derivative financial liabilities plus overdraft, less other short-term investments, less derivative financial assets and less cash and cash equivalents.

EBITDA

Profit/(loss) from operations before depreciation, derecognition, amortisation, impairment of assets, dividend received, post-retirement benefit obligation (costs)/income, fair value adjustments, income/(loss) from associates and net finance costs.

EBITDA margin

EBITDA expressed as a percentage of revenue.

Equity

Issued capital and reserves.

Gearing

Debt expressed as a percentage of the sum of debt and Shareholder's equity.

Headline earnings

As defined in Circular 2/2013, issued by the South African Institute of Chartered Accountants, all items of a capital nature are separated from earnings (by headline earnings).

Operating profit

Profit/(loss) from operations after depreciation, derecognition and amortisation but before impairment of assets, dividends received, post-retirement benefit obligation (expense)/income, fair value adjustments, income/(loss) from associates and net finance costs.

Operating profit margin

Operating profit expressed as a percentage of revenue.

Return on total average assets

Operating profit expressed as a percentage of total average assets (total average assets exclude capital work in progress).

Total assets

Non-current and current assets.

Total average assets

Total assets, where average is equal to the total assets at the beginning of the reporting year, plus total assets at the end of the reporting year, divided by two.

Total debt

Non-current and current liabilities.