TRANSNET

Reviewed condensed consolidated financial results

for the six months ended 30 September 2023

Salient features

Revenue of **R39,2 billion**, increased by **8,6%**, despite decreased rail **(-7,2%)**, petroleum **(-7,2%)** and container volumes **(-1,8%)**.

Net operating expenses increased by **9,5%** to **R25,3 billion**, due mainly to increased personnel, electricity, security and material costs.

EBITDA of **R13,8 billion**, with the EBITDA margin decreasing to **35,3%**.

Cash generated from operations after working capital changes increased by **9,6%** to **R13,1 billion**.

Capital investment increased by **5,2%** to **R6,3 billion.**

B-BBEE spend amounted to **R10,76 billion** or **87,98%** of total measured procurement spend.

2,9% of **labour costs** were spent on training, focusing on artisans, engineers, and engineering technicians.

LTIFR performance of **0,68** against a tolerance of **0,75**, which is within the global benchmark of **1,0.**

Gearing of **44,4%** and rolling cash interest cover at **1,9 times.**

Income statement

For the period ended

(in R million)	**Reviewed Sept 2023**	Reviewed Sept 2022	Audited March 2023
Revenue	**39 165**	36 053	68 877
Net operating expenses excluding depreciation and amortisation	**(25 327)**	(23 120)	(45 919)
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)	**13 838**	12 933	22 958
Depreciation, derecognition and amortisation	**(8 937)**	(7 586)	(16 098)
Profit from operations before items listed below:	**4 901**	5 347	6 860
Impairment of assets	**(325)**	(97)	(3 607)
Post-retirement benefit obligation expense	**(39)**	(44)	(157)
Fair value adjustments	**(73)**	914	1 566
Income from associates and joint ventures	**–**	11	14
Profit from operations before net finance costs	**4 464**	6 131	4 676
Finance costs	**(6 882)**	(5 690)	(12 187)
Finance income	**257**	15	186
(Loss)/profit before tax	**(2 161)**	456	(7 325)
Tax	**583**	(297)	1 649
(Loss)/profit for the period	**(1 578)**	159	(5 676)

Statement of comprehensive income

For the period ended

(in R million)	**Reviewed Sept 2023**	Reviewed Sept 2022	Audited March 2023
(Loss)/profit for the period	**(1 578)**	159	(5 676)
Other comprehensive (loss)/income for the period, net of tax	**(1 457)**	6 439	3 782
Other comprehensive (loss)/income	**(2 005)**	8 776	5 065
(Losses)/gains on revaluations	**(2 037)**	8 444	4 515
Cash flow hedges	**(26)**	286	537
Actuarial gains on post-retirement benefit obligations	**58**	46	13
Tax relating to components of other comprehensive loss/(income)	**548**	(2 337)	(1 283)
Total comprehensive (loss)/income for the period	**(3 035)**	6 598	(1 894)

Headline earnings summarised reconciliation

For the period ended

(in R million)	**Reviewed Sept 2023**	Reviewed Sept 2022	Audited March 2023
(Loss)/profit for the period attributable to the equity holder	**(1 578)**	159	(5 676)
(Profit)/loss on the disposal of property, plant and equipment	**(22)**	80	82
Loss on the disposal of intangible assets	**–**	–	4
Total remeasurements	**(429)**	57	3 438
Investment property fair value adjustments	**(23)**	(92)	(1 054)
Impairment of non-financial assets	**(406)**	149	4 492
Total tax effects of adjustments	**121**	(42)	(1 001)
Headline (loss)/earnings	**(1 908)**	254	(3 153)

Statement of financial position

As at

(in R million)	**Reviewed Sept 2023**	Reviewed Sept 2022	Audited March 2023
Assets			
Non-current assets	**335 616**	343 601	336 912
Property, plant and equipment	**296 901**	308 366	300 235
Investment property	**30 125**	29 053	30 095
Intangible assets	**617**	649	704
Investments in associates and joint ventures	**71**	93	73
Derivative financial assets	**5 623**	4 179	3 418
Other financial assets	**2 279**	1 261	2 387
Current assets	**23 184**	20 854	27 142
Inventory	**3 892**	3 677	3 655
Trade and other receivables	**9 442**	8 194	8 840
Contract assets	**848**	818	722
Current tax asset	**2**	2	2
Derivative financial assets	**6**	95	–
Short-term investments	**55**	54	57
Cash and cash equivalents	**8 592**	7 692	13 540
Assets classified as held-for-sale	**347**	322	326
Total assets	**358 800**	364 455	364 054
Equity and liabilities			
Capital and reserves	**144 686**	150 376	147 721
Issued capital	**18 498**	12 661	18 498
Reserves	**126 188**	137 715	129 223
Non-current liabilities	**121 902**	130 060	137 927
Employee benefits	**664**	727	729
Long-term borrowings	**63 839**	67 757	78 729
Derivative financial liabilities	**245**	443	567
Long-term provisions	**10 369**	10 126	10 268
Deferred tax liability	**43 182**	47 315	44 314
Other non-current liabilities	**3 603**	3 692	3 320
Current liabilities	**92 212**	84 019	78 406
Contract liabilities	**1 380**	1 259	1 825
Trade payables and accruals	**24 971**	22 212	24 382
Short-term borrowings	**65 090**	59 807	51 338
Derivative financial liabilities	**2**	30	16
Short-term provisions	**769**	711	845
Total equity and liabilities	**358 800**	364 455	364 054

Statement of cash flows

For the period ended

(in R million)	**Reviewed Sept 2023**	Reviewed Sept 2022	Audited March 2023
Cash flows from operating activities	**6 069**	15 211	22 196
Cash generated from operations	**14 613**	10 710	21 816
Changes in working capital	**(1 515)**	1 236	3 535
Cash generated from operations after changes in working capital	**13 098**	11 946	25 351
Finance costs	**(6 802)**	(4 781)	(10 963)
Finance income	**257**	15	186
Tax paid	**–**	–	–
Settlement of post-retirement benefit obligations	**(49)**	(46)	(122)
Derivatives settled and raised	**(435)**	8 077	7 744
Cash flows utilised in investing activities	**(6 710)**	(6 403)	(15 705)
Investment to maintain operations	**(4 826)**	(5 503)	(12 371)
Investment to expand operations	**(1 847)**	(909)	(2 169)
Changes in investments, loans, advances and other investing activities	**(37)**	9	(1 165)
Cash flows (utilised in)/from financing activities	**(4 307)**	(5 052)	3 113
Borrowings raised	**–**	26 300	50 273
Borrowings repaid	**(4 307)**	(31 352)	(52 997)
Ordinary share issuance	**–**	–	5 837
Net (decrease)/increase in cash and cash equivalents	**(4 948)**	3 756	9 604
Cash and cash equivalents at the beginning of the period	**13 540**	3 936	3 936
Cash and cash equivalents at the end of the period	**8 592**	7 692	13 540

Statement of changes in equity

For the period ended

(in R million)	Issued capital	Revaluation reserve	Actuarial gains and losses	Cash flow hedging reserve	Other	Retained earnings	Total
Opening balance as at 1 April 2022	12 661	61 408	2 590	(583)	249	67 453	143 778
Total comprehensive income for the period (net of tax and transfers to retained earnings)	–	6 169	34	208	–	187	6 598
Balances as at 30 September 2022	12 661	67 577	2 624	(375)	249	67 640	150 376
Ordinary share issuance	5 837	–	–	–	–	–	5 837
Total comprehensive (loss)/income for the period (net of tax and transfers to retained earnings)	–	(3 127)	(23)	183	–	(5 525)	(8 492)
Balances as at 31 March 2023	18 498	64 450	2 601	(192)	249	62 115	147 721
Total comprehensive (loss)/income for the period (net of tax)	**–**	**(1 480)**	**42**	**(19)**	**–**	**(1 578)**	**(3 035)**
Transfer to retained earnings (net of tax)	**–**	**(50)**	**–**	**–**	**–**	**50**	**–**
Balances as at 30 September 2023	**18 498**	**62 920**	**2 643**	**(211)**	**249**	**60 587**	**144 686**

Segment information

for the six months ended

	Transnet Freight Rail		Transnet Rail Engineering		Transnet National Ports Authority		Transnet Port Terminals		Transnet Pipelines		Total reportable segments		Other*		Total Transnet	
(in R million)	**Reviewed 30 Sept 2023**	Reviewed 30 Sept 2022	**Reviewed 30 Sept 2023**	Reviewed 30 Sept 2022	**Reviewed 30 Sept 2023**	Reviewed 30 Sept 2022	**Reviewed 30 Sept 2023**	Reviewed 30 Sept 2022	**Reviewed 30 Sept 2023**	Reviewed 30 Sept 2022	**Reviewed 30 Sept 2023**	Reviewed 30 Sept 2022	**Reviewed 30 Sept 2023**	Reviewed 30 Sept 2022	**Reviewed 30 Sept 2023**	Reviewed 30 Sept 2022
External revenue*	**20 015**	18 505	**234**	45	**5 747**	5 557	**9 440**	8 780	**3 232**	2 840	**38 668**	35 727	**497**	326	**39 165**	36 053
Internal revenue	**232**	220	**4 080**	3 807	**1 310**	1 172	**–**	–	**3**	2	**5 625**	5 201	**(5 625)**	(5 201)	**–**	–
Total revenue	**20 247**	18 725	**4 314**	3 852	**7 057**	6 729	**9 440**	8 780	**3 235**	2 842	**44 293**	40 928	**(5 128)**	(4 875)	**39 165**	36 053
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**4 702**	4 580	**(517)**	(775)	**3 994**	3 958	**3 536**	3 051	**2 389**	2 660	**14 104**	13 474	**(266)**	(541)	**13 838**	12 933
Total assets**	**169 822**	180 676	**11 331**	15 754	**100 112**	97 400	**31 339**	26 778	**40 817**	40 664	**353 421**	361 272	**5 032**	2 861	**358 453**	364 133
Total liabilities	**135 252**	126 630	**11 178**	14 619	**22 334**	24 924	**6 715**	6 602	**15 048**	17 461	**190 527**	190 236	**23 587**	23 843	**214 114**	214 079
Capital expenditure***	**4 666**	4 891	**43**	(3)	**997**	570	**407**	495	**118**	45	**6 231**	5 998	**67**	(13)	**6 298**	5 985
Cash generated from operations after changes in working capital	**(878)**	2 137	**4 011**	426	**4 353**	3 050	**3 145**	3 357	**2 255**	1 937	**12 886**	10 907	**212**	1 039	**13 098**	11 946

* *Revenue from segments below the quantitative thresholds are attributable to Transnet Property and the corporate centre function. Transnet Property manages internal and external leases of commercial and residential property and the Transnet corporate centre function performs an administration function for the Group.*

** *Excludes assets held-for-sale.*

*** *Excludes capitalised borrowing costs, includes capitalised finance leases and capitalised decommissioning liabilities.*

Commentary

Introduction

Rising oil prices and sustained losses for the rand reinforced concerns about a deteriorating near-term domestic inflation outlook that persisted during the reporting period. South Africa's load-shedding continued and prices for commodity exports also weakened. In concert with economic uncertainty, Transnet also experienced various operational challenges which resulted in a decline in volumes that diminished the overall financial performance of the Group.

Performance overview

Revenue for the period increased by 8,6% to R39,2 billion (2022: R36,1 billion), in line with weighted average tariff increases in the rail, port and pipeline businesses, partially offset by lower volumes throughout operations. Lower operational volumes especially at Freight Rail, were impacted by various operational challenges (including collisions and community unrest on the coal line and equipment challenges on the ore line), derailments, Eskom power outages affecting all lines, as well as customer challenges on the coal and general freight business (GFB) lines. Petroleum volumes decreased due mainly to a refinery shutdown in the first quarter of the period. Container volumes decreased due mainly to market and adverse weather conditions.

Net operating expenses increased by 9,5% to R25,3 billion, (2022: R23,1 billion) due mainly to increased personnel (salary increases, bargaining council wage agreements, lower labour costs capitalised to projects and increased headcount at the ports), electricity (tariff increases), security (rail related and pipeline theft and vandalism incidents) and material costs compared to the prior period.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 7,0% to R13,8 billion (2022: R12,9 billion) with a resultant decrease in the EBITDA margin to 35,3% (2022: 35,9%).

Depreciation, derecognition and amortisation of assets increased by 17,8% to R8,9 billion (2022: R7,6 billion), due mainly to the revaluation of port facilities and pipelines in March 2023 and capital expenditure for the last 12 months.

Profit from operations after depreciation and amortisation decreased by 8,3% to R4,9 billion (2022: R5,3 billion).

Impairment of assets, amounting to R325 million (2022: R97 million), is primarily due to the impairment of trade and other receivables from the rail and property portfolio.

Post-retirement benefit obligations are actuarially assessed in accordance with IAS 19: *Employee Benefits* and adjusted accordingly. The Company recognised a cost of R39 million (2022: R44 million) during the period.

Fair value adjustments amounted to a R73 million loss (2022: R914 million gain). These adjustments are mainly due to derivative fair value losses as a result of cross currency swaps that are hedge accounted for, in terms of IFRS 13: *Fair Value Measurement*, partially offset by a gain on investment property valuation recognised in terms of IAS 40: Investment Property.

Profit from operations before net finance costs decreased by 27,2% to R4,5 billion (2022: R6,1 billion).

Net finance costs increased by 16,7% to R6,6 billion (2022: R5,7 billion) resulting mainly from the interest rate hikes compared to the prior period.

The tax credit of R583 million (2022: R297 million charge) consists of a deferred tax credit. The deferred tax credit arose mainly due to the loss before tax. The effective tax rate for the Group is 27,0%.

This resulted in a loss after tax of R1,6 billion (2022: R159 million profit).

Commentary on operating divisions

Transnet Freight Rail (Freight Rail)

Operationally, Freight Rail was negatively impacted by continued challenges relating to security-related incidents, rolling stock unavailability and safety incidents. This resulted in a slower-than-expected recovery from the constrained volume base of the prior financial period. These trading conditions negatively impacted rail volume performance as evidenced by a decline in operational and financial results relative to the prior period. Volume performance was lower than the prior period, reflecting a decrease of 7,2% to 75,6 million tons (mt) (2022: 81,5 mt).

Revenue for the period under review increased by 8,1% to R20,2 billion (2022: R18,7 billion). The increase in revenue is largely attributable to a 12,0% increase in Rand/Ton to R253,85 (2022: R226,75) as a result of customer price rebase, inflationary price increase and better product mix on delivered volumes.

General freight business

GFB volumes declined by 4,8% to 25,7mt (2022: 27,0mt). The main contributors to the decrease in volumes were manganese down 9,0% to 7,1mt (2022: 7,8mt), domestic coal by 11,1% to 1,6mt (2022: 1,8mt), coal to Eskom power stations by 21,4% to 1,1mt (2022: 1,4mt), chrome and ferro chrome by 12,0% to 2,2mt (2022: 2,5mt). Long-standing locomotive issues, ongoing security incidents, resource constraints, vandalised substations, derailments, a shunt locomotive failure and operational challenges had a marked effect on performance.

Despite these challenges mineral mining (magnetite) traffic increased by 10,0% to 5,5mt (2022: 5,0mt) and intermodal traffic increased by 38,5% to 1,8mt (2022: 1,3mt). Average wagon cycle times reflect a slight decrease from 13,6 days to 13,58 days, primarily due to the factors noted above.

Export coal line

The business railed 23,4mt of export coal (2022: 26,2mt), 10,7% less than the prior period. The deterioration in performance was due mainly to an increase in derailments, unavailability of resources and an unreliable rail network. Average wagon cycle times were negatively impacted owing to the factors mentioned above and increased from an average of 86 hours to 94 hours (9,3%).

Export iron ore line

Export iron ore volumes transported decreased by 6,4% to 26,5mt (2022: 28,3mt). The deterioration in performance was mainly due to an increase in derailments, security-related challenges, unavailability of resources (long-standing locomotives) and an unreliable rail network as well as off-loading issues at Saldanha harbour. Average wagon cycle times were negatively impacted owing to the factors mentioned above and increased from an average of 88,9 hours to 101,0 hours (13,6%).

Operating expenditure increased by 9,9% to R15,5 billion compared to the prior period (2022: R14,1 billion), mainly due to increased personnel costs attributed to salary and wage increases and lower capitalised labour; security cost increases attributed to security interventions; an insurance cost increase, an increase in electronic data costs linked to Transversal contracts and increased energy costs linked to tariff increases.

Driven by the decline in volumes and on the back of an increase in operating costs, the EBITDA margin declined to 23,2% (2022: 24,5%).

Transnet Engineering (Engineering)

Revenue for the period increased by 12,0% to R4,3 billion compared to the prior period (2022: R3,9 billion). This increase was driven by Freight Rail sales for the manufacturing and maintenance of rolling stock and was supported by increased cross-border and domestic customer sales due to an increased demand for wagons and locomotives.

Net operating expenses increased by 4,4% to R4,8 billion (2022: R4,6 billion) in line with increased activity.

Consequently, an EBITDA loss of R517 million was recorded (2022: R775 million) which is 33,3% lower than the prior period.

Transnet National Ports Authority (National Ports Authority)

Revenue increased by 4,9% to R7,1 billion (2022: R6,73 billion) due mainly to an increase in marine revenue (including cargo dues) and an increase in lease income. The cargo dues increase was driven by a 23,3% increase in break bulk revenue; and 20,6% increase in liquid bulk revenue; partially offset by the decrease in containers, dry bulk, and automotive.

Net operating expenses increased by 10,5% to R3,1 billion (2022: R2,77 billion), due mainly to an increase in personnel costs attributable to wage agreement increases, and filling of critical vacancies; increased energy costs, due to higher electricity tariffs and fuel costs because of increased activity; and increased maintenance and materials costs.

Accordingly, EBITDA has increased by 0,9% to R4,0 billion (2022: R3,96 billion).

Transnet Port Terminals (Port Terminals)

Revenue increased by 7,5% to R9,4 billion (2022: R8,8 billion).

Markets have stabilised post Covid-19, however, volume performance across all sectors shows a regression compared to the prior period due to various internal and external factors. Container volumes declined by 1,8% to 2 142 525 TEUs (2022: 2 182 498 TEUs). The container sector has been negatively impacted by the lower global and domestic demand, on the back of higher inflation and rising food prices and has had challenges on the operational side with equipment availability and adverse weather conditions. Automotive volumes declined by 4,2% to 415 511 units (2022: 433 828 units). The automotive sector decline is primarily due to the tapering off of the catch-up on the backlog caused by semi-conductor supply shortages in the prior period. This is coupled with lower domestic demand due to inflation and affordability. Bulk volumes decreased by 6,8% to 35,9mt (2022: 38,5mt) due mainly to rail constraints as a result of locomotive shortages, derailments, cable theft and equipment challenges. Break-bulk volumes decreased by 8,0% to 13,8mt (2022: 15,0mt) due to unfavourable market conditions. Coal remains high but not at prior period levels, while manganese at the multi-purpose terminals has been impacted by rail challenges and a slow start to the manganese export channel allocation contract (MECCA 3) and emerging miners.

The average moves per ship working hour (SWH) performance, has been adversely impacted by equipment availability and reliability challenges across the dedicated container terminals compared to the prior period. Furthermore, adverse weather conditions (strong winds and rain) also affected operational performance. The Durban Container Terminal (DCT) Pier 1 average SWH has declined from 40 moves per hour in 2022 to 33 moves per hour in 2023. DCT Pier 2 container terminal has decreased from 44 moves in 2022 to 41 moves per hour in 2023. The Ngqura Container Terminal (NCT) has also decreased from 42 moves per hour in 2022 to 39 moves per hour in 2023. The Cape Town Container Terminal (CTCT) has decreased from 35 moves per hour in 2022 to 24 moves per hour in 2023. This decline is being addressed through a focused turnaround plan, which includes the replenishment of the key equipment fleet in the short and medium term as well as through the acquisition of critical spares to support the maintenance teams, which will be supplemented by additional technical resources. Furthermore, there is a specific focus on reducing operational delays in order to unlock capacity and improve efficiencies.

Saldanha Iron Ore (bulk) Terminal has maintained its average dual loading rate per hour being above the target of 8 100 tons per hour. At the Richards Bay Dry Bulk Terminal (DBT), the magnetite loading rate for Sep 2023 of 1 103 tons per hour was marginally below the loading rate for the prior period of 1 141 tons per hour. Similarly, the loading rate for chrome at DBT was 703 tons per hour, below the 732 tons per hour recorded for the prior period. The current focus in the bulk sector is on equipment maintenance and refurbishments to ensure that plant and equipment availability is maintained to drive operational efficiencies.

All the automotive terminals improved on their loading/discharge rates, when compared to the prior period. East London Automotive Terminal improved by 8,5% (from 188 to 204 units per hour). Durban Automotive Terminal improved by 6,3% (from 143 to 152 units per hour). Port Elizabeth Automotive Terminal improved marginally by 1,1% (from 180 to 182 units per hour).

Net operating expenses increased by 3,1% to R5,9 billion (2022: R5,7 billion). The increase is mainly due to higher labour costs as a result of salary increases and the additional headcount from the partial implementation of the fourth shift. This is coupled with higher TNPA rentals, repairs and maintenance due to ageing equipment as well as inflation-related growth across most categories, while discretionary costs have been well managed over the period.

The resultant impact on Port Terminals' EBITDA is an increase of 15,9% to R3,5 billion (2022: R3,1 billion).

Transnet Pipelines (Pipelines)

Revenue for the period has increased by 13,8% to R3,2 billion (2022: R2,8 billion) due mainly to regulated tariff increases.

Petroleum volumes transported have decreased by 7,2% to 7,408 billion litres (2022: 7,979 billion litres) as a result of a refinery maintenance shutdown during the first quarter of the financial year.

Net operating expenses have increased to R846 million (2022: R182 million). This is predominantly attributable to the prior period including a reduction in litigious claims and an increase in the environmental provision in the current period based on an assessment of the remediation activities to be undertaken on sites impacted by product theft.

Consequently, EBITDA for the period has decreased by 10,2% to R2,4 billion (2022: R2,7 billion).

Group financial position

Revaluation of property, plant and equipment

The Group assesses the revaluation of its rail infrastructure, port infrastructure and pipeline networks in line with its accounting policy, which requires an independent valuation every three years, as well as index valuations in the intervening periods. During the period, a discounted cash flow valuation was performed on rail infrastructure, and an index valuation was performed on port operating assets and pipeline assets.

- The carrying value of rail infrastructure required a devaluation of R2,2 billion (March 2023: R772 million gain).
- The carrying value of port facilities required a revaluation of R133 million (March 2023: R4,2 billion).
- The carrying value of pipeline networks did not require a revaluation adjustment (March 2023: R453 million).

These revaluation adjustments are performed in accordance with IAS 16: *Property, plant and equipment.*

Deferred tax

The deferred tax liability decreased to R43,2 billion (March 2023: R44,3 billion), mainly as a result of the impact of the net loss for the period and the deferred tax impact on the net devaluation recorded directly in equity.

Cash flows

Cash generated from operations after working capital changes increased by 9,6% to R13,1 billion (2022: R11,9 billion) in line with the increase in EBITDA. The rolling cash interest cover ratio at 1,9 times (2022: 2,1 times) is mainly as a result of the decreased cash generated from operations after working capital changes and the higher net finance costs. This has resulted in a breach in loan covenants, with all the required waivers received from the affected lenders.

Borrowings

Transnet did not raise any funding during the interim period and made debt repayments of R4,3 billion.

The gearing ratio increased to 44,4% (March 2023: 43,6%), within the Group's target range of <50,0%, and is well within the triggers in loan covenants. The deterioration is mainly as a result of the decrease in cash on hand, loss for the period and the devaluation adjustments made to rail infrastructure during the interim reporting period.

Derivative financial assets and liabilities

Derivative financial instruments are held by the Group to hedge financial risks associated with its capital investment and borrowing programmes. The 'mark-to-market' of these derivative financial instruments resulted in a net derivative financial asset of R5,4 billion (March 2023: R2,8 billion). Cross-currency interest rate hedges and forward-exchange contracts were executed to eliminate foreign currency and interest rate risk on borrowings. These hedges have been hedge accounted for in terms of IFRS 9: *Financial Instruments*.

Pension and post-retirement benefit obligations

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 246 million (March 2023: R1 054 million) and R4 455 million (March 2023: R3 871 million) respectively. Transnet has not recognised any portion of the surplus on these funds, as the fund rules do not allow for the distribution of a surplus.

The total value of ad hoc bonuses paid to beneficiaries by the TTPF (since December 2011) and TSDBF (since November 2007) amounts to R599 million and R5,1 billion respectively. These payments continue to supplement the current statutory increase of the beneficiaries of the TTPF and TSDBF to provide pensioners with increases above CPI.

The post-retirement medical benefit obligation is approximately R300 million (March 2023: R352 million).

Going concern assessment

The Transnet Board (Board) has assessed the ability of the Group to continue as a going concern into the foreseeable future (15 months).

Transnet has been experiencing operational challenges which negatively affected the Group's performance for the interim period, reporting a net loss of R1,6 billion (31 March 2023: R5,7 billion) and a net current liability position of R69,0 billion (31 March 2023: R51,3 billion). The Group did not generate sufficient cash from operations due to these operational challenges resulting in the breach of loan covenants and a reclassification of the impacted loan commitments from non-current liabilities to current liabilities. The covenants breached are the cash interest cover and credit ratings review downgrade from S&P (Moody's is still in the process of reviewing the Company's rating). Although the affected lenders have provided waivers for the breach in covenants, the Board has noted that the lenders are now placing more stringent conditions when granting new funding and waivers for the breached covenants on the existing loans. Despite these stringent conditions, the Group still managed to secure the required financial support from a group of lenders in the form of a syndicated loan facility and this is a positive sentiment from these lenders.

The operational challenges, mainly at Freight Rail contributed to the decline in volumes hauled and consequently reduced revenue. The Board noted that Transnet missed its cash flow forecast (operational and capital) in the reporting period which may have negative implications on the infrastructure maintenance programme.

The Board has developed a recovery plan to address the challenges that the Group is experiencing, however, there are uncertainties and dependencies that exist both from a timing of intervention perspective as well as whether the plans will materialise as anticipated.

In support of Transnet's implementation of the recovery plan, Government provided a R47 billion guarantee for Transnet to be able to raise additional funding to settle current obligations, fund operations and the required capital expenditure. The Board notes the resultant increase in debt levels, the related borrowing cost pressure on the cash flow projections and the ability of the Group to settle their debts as they become due and payable. The National Treasury (NT) is still in the process of finalising the guarantee framework conditions.

The above matters cause material uncertainty in the going concern assessment and may cast significant doubt on the ability of the Group to continue as a going concern.

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

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

Guarantees

The sole Shareholder in Transnet SOC Ltd, namely the South African Government, has guaranteed certain borrowings of the Group amounting to R3,5 billion (March 2023: R3,5 billion), representing 2,7% of total borrowings of R128,9 billion.

Capital investment

The Transnet Group continued to execute its capital investment programme. Capital expenditure for the period ended 30 September 2023 amounts to R6,3 billion representing an increase of 5,2% against the prior period of R6,0 billion. 19,9% was invested in the expansion of capacity while 80,1% was invested in maintaining current capacity.

The infrastructure investment highlights for the period include:

- R1,5 billion invested to maintain the condition of rail infrastructure;
- R2,4 billion invested to maintain the condition of rolling stock;
- R202 million invested in the acquisition of new locomotives;
- R560 million invested in the acquisition of new generator sets;
- R131 million invested in wagon fleet renewal and modernisations;
- R105 million invested in the roads, port entrance and other services for the tank farm in the Port of Ngqura;
- R80 million invested in the construction of the new tippler in Saldanha and all the related bulk electric power supply;
- R24 million invested in the NMPP programme;
- R4 million invested on the acquisition of 45 straddle carriers; and
- R3 million invested in the replacement of conveyor belts.

Economic, social and environmental impact

Broad-based black economic empowerment (B-BBEE) enterprise and supplier development

Transnet undertakes all its procurement activities in a manner that protects and advances persons, or categories of persons, who have been disadvantaged by past discrimination and ensures that procurement activities are fair, equitable, transparent, competitive and cost-effective. Transnet's procurement activities contribute directly to the growth and economic transformation of South Africa and as such, can decrease income inequalities, while significantly increasing the number of previously disadvantaged individuals who manage, own and control businesses.

Transnet recognises that socio-economics remain a significant challenge in South Africa. As such, the Group continues to implement a value-creation approach in transforming communities and societies by providing opportunities through Broad-Based Black Economic Empowerment (B-BBEE) as well as employment equity. The Company seeks to empower small, medium and micro-sized enterprises (SMMEs) that are black-owned, black youth-owned, black female-owned and people with disabilities-owned by developing their capabilities in order to be competitive. As a SOC, Transnet recognises that the ongoing weak economic conditions and high levels of unemployment in South Africa significantly impact the job market hence entrepreneurship, innovation and transformation is encouraged.

Transnet embraces transformation through alignment with the B-BBEE legislation in order to realise South Africa's full economic potential. The Group is guided by the Enterprise Development programme informed by the Broad-Based Black Economic Empowerment Act, No 53 of 2003, as amended (Act 46 of 2013), as well as the B-BBEE Codes of Good Practice. As a state-owned company (SOC), Transnet is also guided by section 5 of the Preferential Procurement Policy Framework Act (PPPFA) which is intended to assist with the implementation of the PPPFA Regulations 5 of 2000. Transnet remains focused on broadening and improving meaningful B-BBEE participation in the economy and extensively increasing its participation through the involvement of communities in the Company's procurement opportunities to drive ownership and control of enterprise and supplier development.

As a state-owned company, Transnet's Broad-Based Black Economic Empowerment (B-BBEE) verification covers six of the seven elements of the Generic Transport Public Sector Scorecard, excluding the ownership element. The Rail Charter, Maritime Charter and Property Charter are also applied. Transnet maintained and retained a level 2 B-BBEE status for 2022/2023. Transnet acknowledges the importance of B-BBEE as a critical component of achieving sustainable and inclusive economic growth. The Company will, therefore, continue to optimise its contribution to B-BBEE in the execution of its mandate as a SOC.

Transnet's total recognised B-BBEE spend for the interim period, as per the Department of Trade and Industry Codes (the Codes), is R10,76 billion or 87,98% of total measured procurement spend (TMPS) of R12,23 billion. Transnet spent R4,87 billion (39,82% of TMPS) on black-owned enterprises; R3,34 billion (27,31% of TMPS) on black women-owned enterprises; R859 million (7,02% of TMPS) on exempted micro-enterprises (EME); and R1,35 billion (11,04% of TMPS) on qualifying small enterprises (QSE). Black youth enterprises spend accounts for R708 million (5,79% of TMPS). Enterprise spend relating to black people living with disabilities accounts for R6 million (0,05% of TMPS).

Safety

Transnet has implemented a 10-point safety plan to address workplace and public incidents. In this respect, the following progress has been made:

- The health and safety representatives agreement has been adopted by the Transnet Bargaining Council as well as the Group Safety Executive Committee post consultation with various stakeholders, including organised labour. The conditions of this agreement, together with the accompanying management programmes, are being implemented across the organisation.
- The Group Safety Policy has been developed, published, and socialised throughout Transnet.
  - The safety policy statement has been published to serve as a leadership statement of commitment for, *inter alia*, the provision and maintenance of a healthy and safe working environment for employees and other stakeholders.
  - The published safety policy statement serves as a commitment to Transnet's "Zero Harm" vision, safety mission statement, safety fundamental principles and flagship programmes. The latter is published as per the requirements of Section 7(3) of the Occupational Health and Safety Act 85 of 1993.

The three-year Transnet railway safety permit has been approved based on the annual safety improvement plan (ASIP) submission to the Railway Safety Regulator (RSR).

Sadly, three colleagues lost their lives in work-related incidents during the current period. Transnet extends its deepest condolences to the families, friends, and colleagues of the late employees. In-depth investigations have taken place in this regard with preventative measures being put in place where appropriate.

Transnet's rolling lost time injury frequency rate (LTIFR) is 0,68 compared to the tolerance rate of 0,75. Thirty-eight public fatalities have been reported in the current financial year, compared to thirty-two reported for the prior period. These are attributed to factors including bodies found next to the line, collisions at level crossings, and people trespassing.

Through the Public Safe Awareness programme, Transnet continues to work in collaboration with local municipalities, schools, the South African Police Services and the RSR and other similar organisations, to create community awareness about the dangers of living and operating near railways, ports and pipelines.

To ensure continued focus on the well-being of employees and other stakeholders, safety has been adopted as one of the five Transnet values. The safety value is being cascaded down into the organisation as part of the Transnet culture journey.

Corporate social investment (CSI)

Transnet's CSI remains focussed on uplifting and developing communities across the country, despite tougher than ever financial constraints that the Company faces, setting the tone for the moderate CSI investment of R52,45 million in communities for the interim period. The Foundation focussed its resources on sustainable projects focusing on health, education, socio-economic infrastructure development and sport development, including continued sponsorship to the Transnet/SAFA Football School of Excellence. The new operating model will focus on sustained development in communities through a more dynamic, flexible and consultative process going into the second half of the current financial year.

Phelophepa I and II health care trains

Transnet's two global flagship "Phelophepa" health care trains provided comprehensive, high-end primary health care services to communities situated along the rail corridors assisting 410 583 patients. Service offerings to the most vulnerable and marginalised included general health check-ups, screening for a range of health conditions, including cancers; the provision of dentistry, optometry, and counselling services. Additionally, Phelophepa provided a range of medicines and distributed prescription spectacles and ready readers to patients.

Employee volunteerism

1 141 volunteers from across the organisation have dedicated their time and skill set to support community development projects. To this end, three employee volunteer blitzes took place in Springs, Tokoza and Khuma to install uninterrupted power at the community centres with 43 employee volunteers.

Additionally, employees who are on the Transnet Academy young leadership programme are currently volunteering at different public benefit organisations (PBOs) across the country. The scope of volunteering includes the transfer of skills or developing sustainable business solutions for the PBOs.

Sport development:

SAFA/Transnet School of Excellence
The school is attended by 120 talented potential professional soccer players. Transnet provides the means for the learners at the school to receive a quality education and professional soccer coaching, to harness, nurture, and contribute to professional football talent development in South Africa.

Rural and farm schools development
Transnet hosted learners from 300 schools in the Free State and Northern Cape as part of the annual rural and farm schools sports tournaments. The aim is to create opportunities for young sportsmen and sportswomen to showcase their sporting talent and inculcate the spirit of healthy sports competition amongst young talented youth.

Education development

ICT centres were built in two schools in the Xhariep District. A further two ICT centres are currently in the process of completion at two identified schools in Limpopo (Ba-Phalaborwa).

Social relief of distress

The country again experienced unprecedented natural disasters, especially in KwaZulu-Natal and the Western Cape. The Foundation with private sector partners distributed food hampers, baby diapers, water purification tablets, mattresses, blankets, hygiene packs of toiletries and sanitary towels to distressed families and non-government organisations (NGOs) supporting displaced persons in and around Saldanha Bay as well as parts of KwaZulu-Natal.

Energy efficiency and carbon emissions reduction

Transnet's energy efficiency and carbon emissions intensity have exhibited suboptimal performance, primarily due to reduced operational volumes which also influenced the slight reduction in energy consumption. During the reporting period, Transnet's total electricity consumption amounted to 891 GWh, marking a 4,5% decrease from the prior period's 933 GWh. This reduction in consumption can be attributed to a decline in Transnet's overall business volumes. Similarly, the total fuel consumption for the period stood at 77 megalitres, representing a 1,3% decrease compared to 78 megalitres in the prior period, primarily driven by reduced business activity.

Transnet's total carbon emissions for the reporting period amounted to 1,13 mt CO_2e (year to date, August 2023), reflecting a 5,0% decrease from the prior period's 1,19 mt CO_2e. This decline in carbon emissions can be primarily attributed to a 2,6% reduction in scope 1 emissions and a 5,4% decrease in scope 2 emissions. The decrease in scope 1 emissions is in line with the reduction in fuel consumption, while the decrease in scope 2 emissions aligns with the reduction in electricity consumption. Transnet's total energy efficiency registered 20,86 ton/GJ, a marginal decrease of 0,95% compared to the prior period's 21,06 ton/GJ. Additionally, Transnet's carbon emissions intensity was recorded at 8,807 kg CO_2e/ton, representing a slight decline of 0,04% compared to the prior period, indicating a modest decrease in performance.

Human capital

Transnet's permanent employee headcount as at 30 September 2023 was 46 069. The Company spent 2,9% of its labour cost on training during the period, focusing on artisans, engineers, and engineering technicians. Transnet gave 36 engineering technician trainees workplace experience opportunities, with no bursaries awarded for the interim period. 9 new apprentices joined the Company's apprenticeship scheme and 51 new young professionals-in-training were contracted.

Sector-specific skills development continued to focus on maritime, rail and port terminal operations, with 103 learners participating in these programmes. Currently, the Company has access to 789 apprentices and 240 engineering bursars in its talent pool.

Transnet did not achieve its employment equity targets across all job grades. The employee race profile for the period was 79,8% african, 9,9% coloured, 3,0% indian and 7,3% white. Female representation now exceeds 37,4% in executive, senior, professional and skilled technical levels, including a 47,1% representation in the Group Exco team. Representation of people with disabilities remains a challenge, at 2,2% of the total headcount (2022: 2,2%).

Legislative compliance

To the best knowledge of the directors, the Company has complied, in all material respects, with all legislation and regulations applicable to it during the period. This includes, without limitation, the Companies Act, 71 of 2008 (as amended), the Public Finance Management Act, No 1 of 1999 (as amended), the Treasury Regulations and the Income Tax Act, No 58 of 1962 (as amended).
The status quo remains since March 2012 as it relates to the National Environmental Management: Integrated Coastal Management Act, No 24 of 2008 and the National Ports Act, No 12 of 2005.

Economic regulation

The tariffs for Pipelines are regulated by the National Energy Regulator of South Africa (NERSA), while the National Ports Authority's tariffs are regulated by the Ports Regulator of South Africa (the Ports Regulator).

The Railway Safety Regulator (RSR) charges railway safety permit fees to the Company. Transnet also operates within a policy context which is determined by the Department of Public Enterprises and the Department of Transport.

Pipelines

Petroleum pipelines

On 01 August 2023, Pipelines submitted its 2024/25 financial year (FY) petroleum pipelines tariff application to NERSA. Based on the application of the methodology, Pipelines applied for a 25,6% increase in tariffs. The increase is due mainly to deferred allowable revenue from the 2023/24 FY decision and the deferral of the volume risk-sharing revenue clawback relating to the 2020/21 FY. NERSA has published the application on their website.

Petroleum storage

On 01 August 2023, Pipelines submitted its 2024/25 financial year (FY) petroleum storage tariff application to NERSA. Based on the application of the methodology, Pipelines applied for a 12,87% increase in tariffs (after smoothing of the clawback).

National Ports Authority

On 01 September 2023, the National Ports Authority submitted its tariff application for the 2024/25FY to the Ports Regulator for approval. The tariff application was based on prescribed tariff methodology and considers the National Ports Authority becoming an independent subsidiary by 01 April 2024. The application translated into a weighted average tariff adjustment of 4,98%.

The tariff application is currently under review by the Ports Regulator.

Economic Regulation of Transport Bill, 2020

The Economic Regulation of Transport Bill (ERT Bill) propagates the establishment of a single Transport Economic Regulator to oversee and regulate access arrangements, train path allocation and access fees, amongst other regulatory roles. The ERT Bill was passed by the National Assembly and submitted to the National Council of Provinces for concurrence.

On 27 March 2023, Transnet submitted written comments on the ERT Bill to the Select Committee on Transport, Public Service and Administration, and Public Works and Infrastructure (the Committee). Transnet further made oral presentations to the Committee on 7 June 2023. Implications for Transnet Freight Rail and Transnet National Ports Authority have been presented to the Department of Transport, Department of Public Enterprises and the Presidency for consideration in respect of the assent and effective dates applicable to Transnet operations. Transnet requested harmonised economic regulation methodologies for an integrated network, to enable full economic cost recovery across the network and support competitive neutrality between modes of transport.

Group accounting policies

The condensed financial information has been prepared in compliance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and contains the information required by the International Accounting Standard (IAS) 34: Interim Financial Reporting, and the requirements of the Companies Act, No 71, 2008 of South Africa.

Financial information presented has been prepared using accounting policies that comply with International Financial Reporting Standards (IFRS). The accounting policies are consistent with those applied in the annual financial statements for the year ended 31 March 2023.

New standards and interpretations issued by the International Accounting Standards Board, effective for the period under review, did not have a significant impact on the Group's financial results.

Events after reporting period date

Cash interest cover loan covenant breach

For the 30 September 2023 reporting period, Transnet achieved a CIC of 1,9 times. A number of loans require Transnet to maintain the CIC loan covenant at a minimum of 2,5 and 2,0 times at 31 March and 30 September of each financial year. The current CIC level constitutes a breach of the CIC loan covenant on 10 loans at 2,5 times with a total capital balance of R32,8 billion and 8 loans at 2,0 times with a total capital balance of R16 billion. The breach is an event of default.

On 24 October 2023, Transnet submitted waiver requests to each of the lenders requesting that they waive the triggered event of default. The waiver process has been completed and Transnet has received all the required waivers from the affected lenders.

Commercial paper issuance

On 6 November 2023, Transnet issued commercial paper of R4,6 billion, maturing on 8 March 2024.

Credit ratings update

Moody's Investors Service (Moody's)

On 10 November 2023 Moody's placed Transnet's credit ratings on review for a downgrade. Moody's plans to conclude the review within the coming weeks.

S&P Global Ratings (S&P)

On 13 November 2023 S&P lowered Transnet's stand-alone credit profile (SACP) by one notch to 'b' from 'b+' (all other ratings remained unchanged). The downgrade triggered an event of default on two (2) loans, with a total outstanding capital balance of R6,0 billion as at 30 September 2023. Transnet submitted waiver requests for both loans to remedy the triggered event of default. The waiver process has been completed with the required waivers received.

Government guarantee

On 1 December 2023, the Government announced that Transnet will receive a Government guarantee of R47 billion for future funding. On the back of this guarantee on 14 December 2023, Transnet concluded a R14 billion syndicated loan facility with a group of lenders, from which R6 billion was drawn.

External auditor's review opinion

The Group's independent auditors, the Auditor General of South Africa (AGSA), reviewed the condensed financial information for the period ended 30 September 2023. The review was conducted in accordance with ISRE 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. A copy of their unmodified review report is available for inspection at the Company's registered office. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Group's external auditors.

Group Chief Executive statement

Transnet has faced a number of operational challenges during the reporting period. In response to these challenges, Transnet has developed a multi-tiered, targeted recovery plan that is anchored on improving operational execution through tactical initiatives that drive operational performance improvement and volume recovery. The initiatives include focused centres of operational excellence where Transnet in partnership with key stakeholders, plan and monitor the execution of the recovery plan. The plan also requires that Transnet enhances the availability and reliability of critical equipment as a primary goal. Initiatives around the availability of equipment has seen partnerships with customers availing much needed equipment especially for the Ports. Cost control measures have been and continue to be implemented, along with better planning and execution of maintenance, employee training and incentives to support improved operational delivery. Procurement optimisation (particularly for critical spares), more efficient capital allocation to drive volume throughput, and maintenance delivery are a top priority.

The plan is executable in the next 18-month period and is in its third month of delivery. The delivery against the plan is monitored on a weekly basis and input from all key stakeholders is considered to ensure that the plan is met. Transnet has secured a guarantee of R47 billion from the Government to support the funding of the recovery plan. This support has been instrumental in the conclusion of a facility of R14 billion to meet capital and operational requirements of the business. Transnet is working closely with Government in the transformation of the logistics sector and the initiatives will support the long-term sustainability of the business. There is a focus on identifying quick wins that can be immediately addressed, as well as longer-term initiatives to stabilise the business and return it to its growth trajectory.

Approved by the Board of Directors

Management and the Board of Directors declares that in terms of Article 4(2) (b and c) of the Transparency Law of 2008, to the best of their knowledge, the 30 September 2023 reviewed condensed consolidated interim financial results have been prepared in accordance with IFRS and give a true and fair view of the assets, liabilities, financial position and profit or loss of Transnet SOC Ltd. The 30 September 2023 reviewed condensed consolidated interim financial results include a fair review of the development and performance of the business, important events and the position of Transnet SOC Ltd, together with a description of the principal risks and uncertainties that Transnet SOC Ltd faces.

Ms M Phillips	**Ms H Makhathini**
Acting Group Chief Executive	*Acting Group Chief Financial Officer*
20 December 2023	20 December 2023

Corporate information

Transnet SOC Ltd
Incorporated in the Republic of South Africa

Registration number 1990/000900/30

Directors

Executive directors
Ms M Phillips (Acting Group Chief Executive)
Ms H Makhathini (Acting Group Chief Financial Officer)

Ms NS Dlamini resigned as Group Chief Financial Officer, effective 29 September 2023.
Ms PPJ Derby resigned as Group Chief Executive, effective 31 October 2023.

Ms H Makhathini was appointed Acting Group Chief Financial Officer, effective 30 September 2023.
Ms M Phillips was appointed Acting Group Chief Executive, effective 1 November 2023.

Non-executive directors
Mr A Sangqu (Chairperson), Mr C Benjamin, Ms R Buthelezi, Mr M Debel, Mr B Jiya, Ms L Letsoalo, Prof FS Mufamadi, Mr D Patel, Ms B Sedupane, Ms MP Zambane

Mr C Benjamin was appointed to the Board, effective 1 September 2023.
Dr PS Molefe resigned from the Board, effective 31 October 2023.

Group Company Secretary
Ms S Bopape
138 Eloff Street, Braamfontein, Johannesburg, 2000

Auditors
Auditor-General of South Africa
4 Daventry Street, Lynnwood Bridge Office Park, Lynnwood Manor, Pretoria, SA

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