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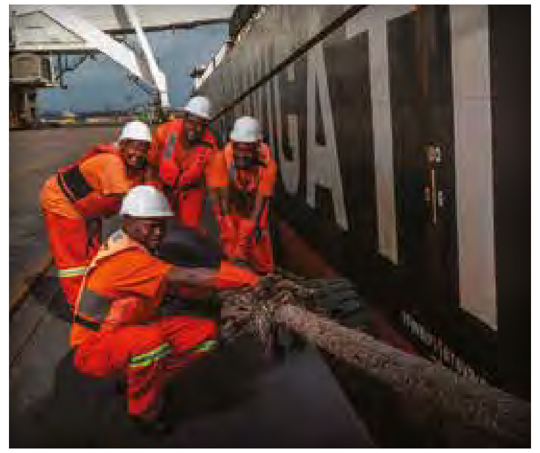
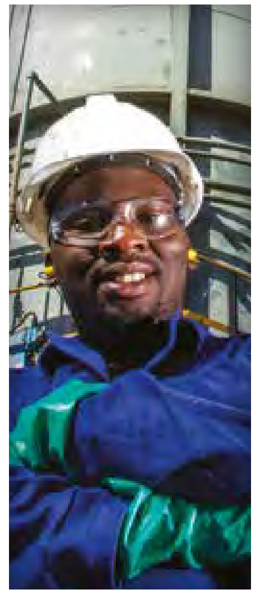
TRANSNET

Integrated Report 2020

TRANSNET

INTEGRATED REPORT 2020





Directors' approval: Statement of responsibility

In accordance with King IV's Sector Supplement for SOEs (Principle 2.1), the Transnet Board of Directors ("the Board"), as the body charged with overall governance oversight, actively leads the Company's value-creation process. As such, the Board oversees the overall quality and accuracy of the integrated report, which is used to assess Transnet's ability to create value over time as well as the process-related disclosures as outlined in the Transnet <IR> Terms of Reference in Annexure A. Accordingly, the Board has satisfied itself that the 2020 Integrated Report demonstrates the Company's ongoing journey towards integrating elements of strategy, risk, opportunities, performance and sustainable development.

The Board has applied its collective mind to ensure the:

- Integrity of the 2020 Integrated Report and any supplementary information referenced in the report;
- Completeness of the material aspects addressed herein; and
- Reliability of reported performance information presented, based on the combined assurance process followed.

The Board is satisfied that the 2020 Integrated Report provides a fair representation of the integrated performance of the Company during the year, and enables stakeholders to make an informed assessment of the Company's performance and its ability to create value in a sustainable manner (King IV, SOE Sector Supplement Principle 2.2).

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

The 2020 Integrated Report was approved by the Board and signed on its behalf by:

Dr PS Molefe *(Chairperson)*	**Mr LL von Zeuner**
Ms PPJ Derby *(Group Chief Executive)*	**Ms ME Letlape**
Ms NS Dlamini *(Group Chief Financial Officer)*	**Ms GT Ramphaka**
Ms UN Fikelepi	**Mr AP Ramabulana**
Ms DC Matshoga	**Dr FS Mufamadi**

29 September 2020
Johannesburg

Navigating this report

ICONS KEY

Strategic focus areas

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

Socio-economic developmental 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 relationship 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

Material clusters

- Customer service
- People
- Asset utilisation
- Safety
- Cost control

[1] *The King IV Report on Corporate Governance for South Africa™. The copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.*

King IV™[1] references

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

P = Principle

King IV Report on Corporate Governance for South Africa 2016

Download Transnet QR reader

QR

Android users:

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

Using the app

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

iPhone users:

The iPhone camera is enabled to scan QR codes so there is no need to download an app. Simply hover the camera over the QR Code.

A notification will appear stating 'Website QR code'. Click on it.

It will open your phone's default browser and take you to that specific article.

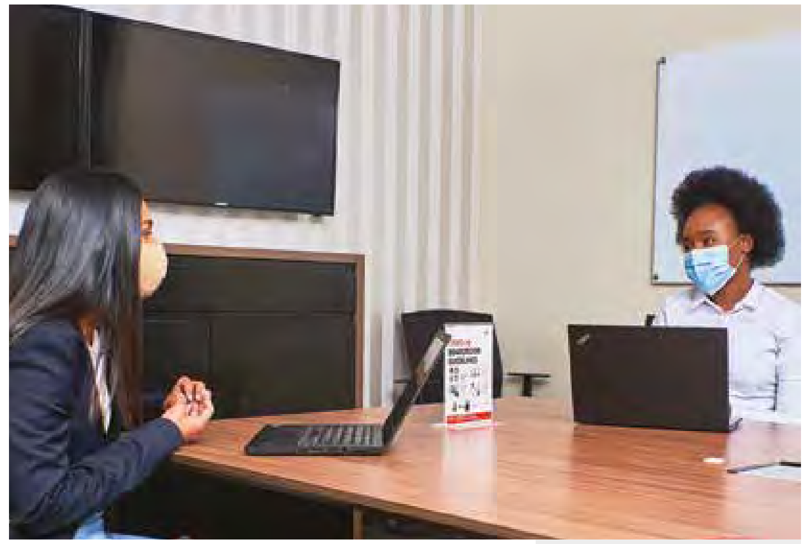
Celebrating our Transnet heroes

Our 2020 Integrated Report is dedicated to our frontline employees who have heroically worked to ensure our business remained operational during the Covid-19 lockdown period.

Our Transnet heroes are located across our operations, in different functions, across five provinces. They ensured the continuous and seamless movement of essential cargo from our ports to inland terminals across South Africa and beyond our borders. They ensured our petroleum pipeline network remained fully functional to service the gas and fuel industries while monitoring the movement of product at pump stations and remote locations. They handled the loading and offloading of than more than 30 different commodities including coal, chrome, magnetite, aluminium, agriproducts and woodchips. They successfully docked the first crude vessel carrying 900 000 barrels of crude oil. Our technical support and repair teams worked swiftly to repair damage caused to equipment through acts of theft. Our refurbishment teams assembled a wide range of railway wheels for local customers and continued to produce rolling stock for other rail companies on the continent.

Our Transnet heroes further helped to procure and distribute personal protective equipment (PPE) for all frontline employees nationally, which proved challenging during lockdown. Our Port Terminals frontline heroes at the Port of Cape Town received a special customer commendation for their outstanding service in handling essential pharmaceutical products needed in the country.

We are grateful to the courageous and warm-hearted actions of our frontline employees during a difficult time. In short, we are beyond proud of our Transnet heroes.



Reporting formats

The 2020 Integrated Report is the Company's primary report to all stakeholders.

The 2020 Annual Financial Statements include reports of the directors and independent auditors.

Navigational icons

Read more

Available online in PDF format

Forward-looking information

All references to forward-looking information and targets in the 2020 reports are extracted from the 2020/21 Transnet Corporate Plan approved by the Board

Feedback on this report

We welcome feedback on our 2020 Integrated Report. Please provide written feedback to Kilford Gondo at Kilford.Gondo@transnet.net

Corporate information

Transnet SOC Ltd

Incorporated in the Republic of South Africa.
Registration number 1990/000900/30.
Waterfall Business Estate
9 Country Estate Drive
Midrand
1662

Executive directors

Ms PPJ Derby
(Group Chief Executive)

Ms NS Dlamini
(Group Chief Financial Officer)

Ms PPJ Derby was appointed on 1 February 2020.

Ms NS Dlamini was appointed on 1 July 2020.

Mr MS Mahomedy's appointment as the Acting Group Chief Executive was terminated on 31 January 2020 and he was reappointed as the Acting Group Chief Financial Officer on 1 February 2020. He subsequently resigned as the Acting Group Chief Financial Officer on 31 March 2020.

Mr MD Gregg-Macdonald's appointment as the Acting Group Chief Financial Officer was terminated on 31 January 2020. He was re-appointed as the Acting Group Chief Financial Officer on 1 April 2020 and he subsequently resigned as the Acting Group Chief Financial Officer on 30 June 2020.

Independent non-executive directors

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

Ms RJ Ganda resigned on 31 March 2020.

Adv OM Motaung passed away in September 2020.

Interim Group Company Secretary

Ms S Bopape
Waterfall Business Estate
2nd Floor, 9 Country Estate Drive
Midrand
1662

Auditors

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

Contents

First things first

About this report

Figure 1: Reporting boundary

Transnet Group

- **Operating Divisions**
  - Freight Rail
  - Engineering
  - National Ports Authority
  - Port Terminals
  - Pipelines
  - Transnet Property*

* *A separate Operating Division from 1 April 2020.*

- **Factors impacting Transnet's ability to create value**
  - Statement of Strategic Intent
  - Business context and operating environment
  - Material risks
  - Stakeholder concerns
    - Employees
    - Shareholder (DPE[2])
    - 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[3]
    - International bodies
    - Communities
    - Organised labour

[2] *Department of Public Enterprises*
[3] *Non-governmental organisations*

Reporting philosophy and approach

IR BUSINESS NETWORK

King IV. P5

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

Transnet's corporate planning process started before the global Covid-19 outbreak. Accordingly, the impact of the nationwide 21-day lockdown (announced on 23 March 2020) has not been incorporated in determining our future targets. The rippling impact of the gradual easing of South Africa's five-level lockdown process and the impacts of lockdowns implemented by other trading countries on imports and exports will be assessed in the 2021 financial year. Where feasible, we have revised mid- to longer-term projections.

Reporting boundary

King IV. P5

Transnet SOC Ltd is a State-owned Company (SOC), with the Minister of Public Enterprises being the Shareholder representative. The 2020 Integrated Report covers the financial reporting period from 1 April 2019 to 31 March 2020. The reporting boundary (Figure 1) encompasses the Transnet Group, its Operating Divisions and extends to include factors that impact Transnet's ability to create value.

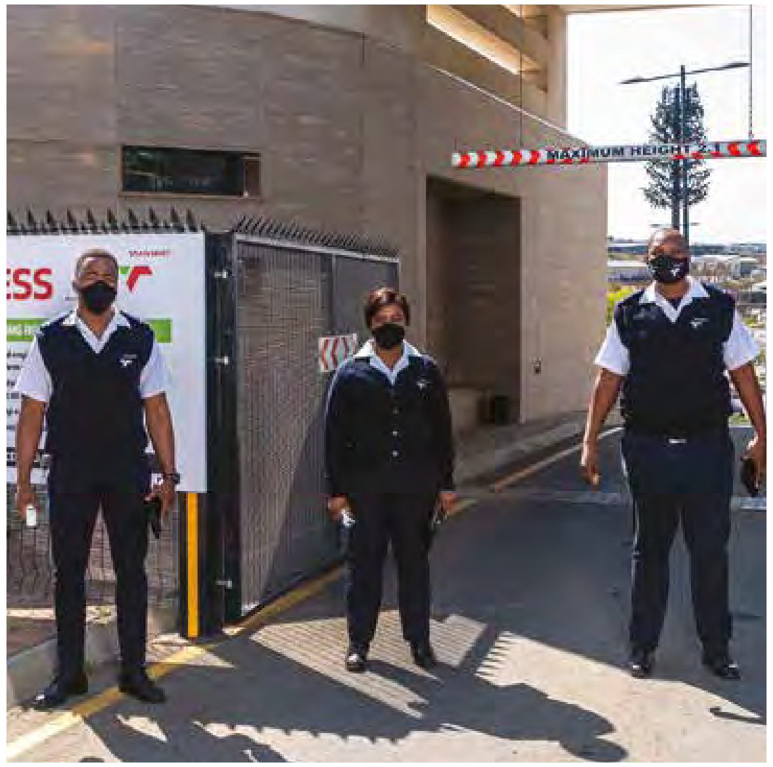
The Transnet Integrated Report is published annually and approved by the Board of Directors. The previous integrated report for the period 1 April 2018 to 31 March 2019 was approved by the Board of Directors on 26 September 2019.

Materiality in our reporting

King IV. P4 & 16

The 2020 Integrated Report provides information that Transnet considers to be of material significance in creating short, medium and long-term value. To observe the IIRC's principles of 'Materiality', 'Connectivity' and 'Conciseness', we have considerably simplified our materiality reporting to align with Transnet's Performance Framework. Accordingly, we emphasise six overarching material aspects for the 2020 reporting year, which we unpack throughout this report and reference by way of page citations.

Transnet further aligns material aspects to performance, strategy, risks and opportunities (linked visibly by icons), and discloses material stakeholder impacts and concerns raised during the year.



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

Read more
49 Transnet's material aspects
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. The Integrated Assurance Plan encompasses the assurance provided by the Transnet Board, its committees and management, internal specialists, internal audit, external audit, external advisers and service providers. The Board serves as the last line of defence.

Table 1: Integrated Reporting Assurance Framework

Content	Assurance providers	Outcome	Framework/Standard
Integrated Report (in full)	• Transnet Board and Board committees oversight • Auditor General of South Africa (AGSA) oversight • Department of Public Enterprises (DPE) oversight • Parliamentary oversight	• Review and commentary • Approval	• International Integrated Reporting <IR> Framework • Audit Committee's Governance Terms of Reference for the report (Annexure A) • Corporate Governance Committee • King IV • PFMA • Companies Act
Annual Financial Statements (consolidated and summary)	• Transnet Board and Board committees oversight • Auditor General of South Africa (AGSA) oversight • DPE oversight • Parliamentary oversight • SizweNtsalubaGobodo Grant Thornton Inc.	• Qualified audit opinion due to external audit not being able to satisfy themselves that the reported irregular expenditure in note 39 in the Annual Financial Statement is complete and accurate • Review and commentary • Approval	• Public Finance Management Act (PFMA) • Companies Act of South Africa, No 71 of 2008 (Companies Act) • International Financial Reporting Standards (IFRS)
Selected information relating to Transnet's Sustainable Developmental Outcomes (SDOs) contained in this report	• Transnet Board and Board committees oversight • Auditor General of South Africa (AGSA) oversight • DPE oversight • Parliamentary oversight • SizweNtsalubaGobodo Grant Thornton Inc.	• Review and commentary • Reasonable assurance opinion, and limited assurance conclusion • Selected Sustainability information has been prepared in all material respects in accordance with Transnet's reporting criteria • Approval	• Transnet's sustainability reporting criteria
Review of internal controls and risk management	• Transnet Board and Board committees oversight • Transnet Internal Audit	• Review and commentary • Assess and address residual risks resulting from the Covid-19 context • Strengthen risk governance policies and protocols • Internal audit outcome: risk management requires improvement • Approval	• 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
B-BBEE contributor level	• Beever Verification Agency cc	• Level confirmed as Level 2	• Broad-Based Black Economic Empowerment (B-BBEE) Act and charters • Rail subsector scorecard • Marine subsector scorecard
Corporate governance	• Transnet Board and Board committees oversight • Transnet Internal Audit	• Review and commentary • Internal audit outcome: internal control environment requires improvement • Approval	• King IV • PFMA • Companies Act

Going concern status

King IV. P2

Management has performed a going-concern assessment as at 31 March 2020. Some of the factors considered 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
- Covid-19 impact.

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

Please see page 19 of the Annual Financial Statements for more information at www.transnet.net.

Board oversight of the elements of the 2020 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 2020 Integrated Report are contained in Annexure A.

Our Integrated Assurance Plan was applied to the process of preparing the integrated report

Table 2: Board oversight of integrated reporting elements

Integrated reporting element	Required activities	Group Executive Committee governance structures*	Committees of the Board
Stakeholder engagement and relationships	• Effective stakeholder engagement and responsiveness • Complaints Desk	• Human Resources Committee	• Remuneration, Social and Ethics Committee
Risks and opportunities	Effective identification and assessment of material issues	• Risk Management Committee • CIO Council	• Risk Committee • Audit Committee
Strategy and resource allocation	Appropriate strategic response including: • Processes and controls • Initiatives and activities • Resource allocation	• Capital Investment Committee • Human Resources Committee • Procurement Committee	• Corporate Governance and Nominations Committee • Audit Committee • Finance and Investment Committee • Remuneration, Social and Ethics Committee
Performance and outlook	Appropriate performance measurement and management including: • Applicable lead and lag indicators • Setting of targets, accountability and incentivisation	• Risk Management Committee • Finance Committee • Human Resources Committee • Capital Investment Committee • Procurement Committee	• Corporate Governance and Nominations Committee • Remuneration, Social and Ethics Committee* • Finance and Investment Committee * *Also has oversight of health and safety and environmental performance*
Remuneration	Appropriate remuneration structure to align performance against strategy in short, medium and long-term incentives	• Human Resources Committee	• Remuneration, Social and Ethics Committee
Governance	Governance and assurance processes to oversee execution of strategy and structures in accordance with policy and regulation	• Risk Management Committee • Finance Committee • Procurement Committee • Forensic Committee	• Corporate Governance and Nominations Committee • Risk Committee • Audit Committee

* *In July 2020, the Group Executive Committee dissolved its subcommittees, save for the Procurement Committee and established the Group Investment Committee as a new subcommittee.*

Our overarching purpose is to deliver shared value to all our stakeholders and to reduce the cost of doing business in South Africa

Our pledge to stakeholders

King IV. P16

Our overarching purpose is to deliver shared value to all our stakeholders and to reduce the cost of doing business in South Africa. Transnet's strategic direction for the next five years is contingent on five strategic levers aimed at actualising shared stakeholder value: customer service, people, asset utilisation, safety and cost control.

Customer service

Our actions impact our customers, and their clients down the line. We guard against our personal interests influencing business decisions and aspire to honour the content and spirit of all business transactions, while exceeding internal and external customer expectations through superior service and quality in all our tasks – honestly and free of prejudice.

People

We strive to build a company in which our people trust in each other's best intentions and professional conduct, and refrain from using positions of authority and facilities provided by Transnet to further personal interests or those of friends, relatives and associates.

Asset utilisation

The more efficient our procedures and operations, the more value can be leveraged from existing assets – from locos and wagons to office equipment and floor space. We aim to care for Transnet's assets and to guard against loss, damage, misuse or theft.

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, while demonstrating sensitivity and care for the communities and natural environment where we operate.

Cost control

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

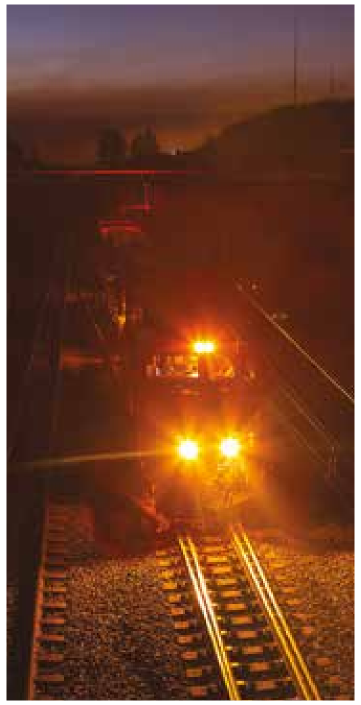


Figure 2: Summary of our performance

	Financial performance		
		2020	2019
↑	**Revenue** increased 1,3% to	R75,1 billion	R74,1billion
↓	**EBITDA margin** decreased to	45,3%	45,6%
↑	**EBITDA** increased by 0,7% to	R34,0 billion	R33,8 billion
↓	**Profit after tax** decreased by 35% to	R3,9 billion	R6,0 billion
↓	**Gearing ratio** increased to	47,6%	44,5%
=	**Cash-interest cover** remained at	2,9 times	2,9 times
↑	**Cash generated from operations** increased by 2,1% to	R35,9 billion	R35,2 billion
↑	**Net finance costs** decreased by 0,4% to	R11,17 billion	R11,21 billion
	Value from operations		
		2020	2019
↑	**Export coal volumes** increased by 0,7%, to	72,5 mt	72,0 mt
↑	**Iron ore volumes** increased by 0,9% to	58,9 mt	58,4 mt
↓	**Domestic coal volumes** decreased by 7,9% to	13,9 mt	15,1 mt
↓	**General freight volumes** decreased by 4,4% to	81,0 mt	84,7 mt
↓	**Petroleum volumes** decreased by 0,3% to	17 764 million litres	17 825 million litres
↑	**Automotive volumes** increased by 6,5%	791 647 units	743 350 units
	Social value		
		2020	2019
↓	**Sector-specific training spend** decreased by 3,5% to	R2,7million	R2,8 million
↑	**Spend on training engineering/other bursaries**	R764 million	R667 million
↑	**Supplier development spend** amounted to	R840,4 million	R4,96 million
↑	**Healthcare provided through our Phelophepha trains to**	105 565 patients	91 588 patients
	Environmental performance		
		2020	2019
↑	**Water consumption from operations** reduced to	28 189 517 kℓ	33 080 882 kℓ
↓	**Water recycled** amounted to	396 578 kℓ	1 267 477 kℓ
↓	**Rebates generated from general waste recycling** amounted to	R19,6 million	R210,9 million
↑	**Asbestos remediation and rehabilitation** from historical contamination	63,18 tons	49,2 tons
↓	**Environmental incidents** (mostly pipeline spillages) increased by 58%	36	15
↓	**Carbon emission intensity** increased marginally to	3,85 mtCO$_2$e	3,78 mtCO$_2$e

Performance key

↑ Improvement on prior year performance ↓ Decline compared to prior year performance = Equivalent performance to prior year

What drives our business

Chairperson's review

"We have repositioned the Company strategically, with a renewed focus on the strategic levers of customer service, people, asset utilisation, safety and cost control underpinned by ethical leadership"

Our initiatives to improve port efficiencies are already producing tangible results

The global Covid-19 pandemic was first reported on 31 December 2019 by the World Health Organization (WHO) following a cluster of pneumonia cases in Wuhan City, Hubei Province of China. The virus has since spread to more than 100 countries, including South Africa, leaving few businesses untouched.

As we prepare to publish our 2020 Integrated Report, global cases of the pandemic have surpassed the 29 million count, with more than 900 000 fatalities worldwide and more than 650 000 confirmed cases in South Africa. Soon after the WHO's December report, we observed 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. It became apparent to the world that China is the only manufacturing hub that provides multiple global supplies on a large scale. In the age of just-in-time logistics, it took the coronavirus just days to spread from Wuhan to other cities in China, hundreds of miles away, and mere weeks to spread beyond China along major trade and tourism routes and international supply chains.

As a rail, port and pipeline company, Transnet is directly exposed to global macroeconomic trends. A goliath in every respect, the Covid-19 pandemic has played out in critical tandem with other socio-economic challenges affecting Southern Africa over the past decade, including reducing agricultural productivity, escalating trade tensions, limiting job prospects, and increasing political and regulatory uncertainty. Resilience is a critical consideration in evaluating the medium to long-term sustainability of any company, along with its ability to adapt to infrequent but potentially devastating humanitarian crises such as Covid-19.

Ethical leadership

The first dimension of our long-term sustainability relates to competent, capable and ethical leadership. The Board of Directors is two years into its mandate to restore the integrity of the Company following the widely publicised phenomenon of state capture over the past nine years. Since my appointment as Transnet Chair in 2018, I have observed the Company's genuine efforts to correct past mistakes. Our cooperation with various law enforcement agencies is starting to bear fruits. The Company has conducted disciplinary processes to deal with malfeasance that has tarnished its reputation over the years. Some of the litigation matters are still underway.

Aside from the catastrophic impacts of state capture, Transnet has performed below its potential in recent years, which has constrained its financial position and left us with limited room for budgetary adjustments. Insufficient maintenance of ageing infrastructure and a sedentary posture towards safety and systems reliability has impaired our operations, resulting in inadequate service delivery. The knock-on effects have included declining levels of customer satisfaction, lower volumes and undue financial pressure. This said, we are making steady inroads in correcting our future course. Most notably, we have completely restructured our executive management cadre appointing talented and experienced executives and are refocusing aspects of the business to curb overspending, validate business cases and incentivise capital efficiency. We have also repositioned the Company strategically, with a renewed focus on the five essential strategic levers of customer service , people, asset utilisation, safety, cost control and underpinned by ethical leadership.

42 76

We provide more comprehensive perspectives on our operational performance in the chapter on our strategic progress on page 42 and Our performance and outlook starting on page 76.

Our strategy

The second dimension of our long-term sustainability relates to our medium to long-term strategic planning and resource allocation, and the urgency with which we can address our shortcomings in the context of changing economic and market dynamics. During the first year of this Board's tenure, the main strategic objective was to 'stabilise the core', which aimed to preserve, repair and strengthen Transnet's operational core by optimising and restoring its essential and vital operational capability. Two years in, we remain committed to fixing the basics, with a focus on operational excellence across the supply chain and on meeting existing customer demand. We are, however, in a stronger position to assess what operational challenges and opportunities direct our strategic impetus.

The next phase of our strategic repositioning will intensify our focus on future growth opportunities while continuing to build an enabling environment for our people, particularly given the new work practices and technological trends developing post the Covid-19 lockdown. A diversified growth path will be driven across three planning horizons. The *core growth* horizon will optimise Transnet's rail, ports and pipelines freight logistics systems through investment and operating partnerships with the private sector, while strategic equity partnerships will enhance our global competitiveness and regional integration. *Adjacent growth* prospects will look to regional expansion of the rail, ports and pipelines logistics systems; while *new growth* will see Transnet venturing into diversified businesses spaces. Please read more on our strategic direction on pages 42 to 46.

42 to 46

Building a competitive freight and supply chain network

Repositioning to deliver on our mandate

Among the key challenges we face in South Africa is an economy that is not growing sufficiently and is shedding jobs even as it grapples with the reality of high levels of unemployment, especially among the youth. This is compounded by the return of energy-supply challenges facing South Africa. Further, the emergence of Covid-19 has brought into focus the vulnerability of global supply chains to disruption. As such, we intend to develop a more acute focus on understanding the strategic risks inherent in our customers' supply chains and to respond more decisively and proportionately to these disruptions.

We provide a more comprehensive perspective on our future commodity outlook in the chapter on Our performance and outlook on page 76.

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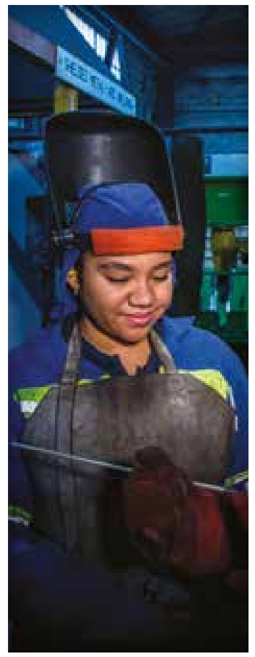
Transnet's port container and automotive terminals play a critical role in the manufacturing, agri and retail sectors enabling the export and import of intermediate and final goods. These sectors will play an increasingly important role in Transnet's revenue mix going forward.

It is gratifying to see that our initiatives to improve port efficiencies are already producing tangible results. While writing this review, the Port of Cape Town exceeded its efficiency targets for citrus exports. The port had been hit hard during the first stages of Covid-19, with only one port team working at the main terminal, with delays of up to 21 days in the roadstead. Now, halfway through the citrus season, and despite the lingering challenges of Covid, we are exceeding reefer targets and have improved Cape Town Container Terminals' handled volumes, thanks to constant communication with customers to maximise 24-hour operations.

Adapting to the 4th Industrial Revolution

While attending the World Economic Forum on Africa in September 2019, I was once again reminded of the relentless advancement of the 4th Industrial Revolution, and what it means for our Company in practical terms. As a transport and logistics SOC, we are facing nothing short of an operational paradigm shift. This shift encompasses not only the automation of our operating environment, but extends to how we approach new technological advancements and also how we prepare our people for changing skills sets and operational methodologies, specifically our younger generations.

Two years in, we remain committed to fixing the basics



With more than 200 million people aged between 15 and 24, Africa has the youngest population in the world, and the current trend indicates that this figure will double by 2045. One set of cautious estimates by the World Economic Forum shows that 75 million jobs may be displaced by a shift in the division of labour between humans and machines, while 133 million new roles may emerge that are more adapted to the new division of labour between humans, machines and algorithms. While these numbers remain a moving target, they are useful in highlighting the types of adaptation strategies that must be put in place to facilitate the transition of our workforce to the new world of work.

We have developed and piloted several technology projects, including advanced sensors and track-and-trace technology, as well as our survey and inspection device (SID). The SID can provide early warnings for trains by travelling ahead of them, alerting them to track obstacles and potential hazards at level crossings. The SID operates autonomously in metros and rural areas, collecting and reporting data through wireless communication. This capability holds huge potential from a human and livestock safety perspective as well as for infrastructure inspections. Additionally, our port customers already access all the services they need to import or export cargos on an e-commerce platform, from customs declarations to applying for finance. One of the next steps for Transnet is a more targeted use of the Internet of Things (IoT) and data analytics to create 'smart ports', using a single common technology platform to enable our customers, suppliers, finance holders, stevedores, agents, warehousing and other stakeholders to share information, thereby optimising the flow of cargo through the port.

I would be remiss if I did not also acknowledge that while leveraging technological advancements will greatly assist us to improve our operational efficiencies, it is imperative that we first look at improving the tools and equipment in the present working environment where our employees operate. Substandard working conditions negatively affect employee morale and reduce productivity. We need to better utilise our present assets by ensuring minimal downtime of our existing asset base and leveraging complementary assets through integrated planning, improved maintenance and debottlenecking. The Company has invested heavily in assets in recent years, although associated volumes and returns have been significantly below forecast. A further critical factor in ensuring we get the most from our current and future technology assets relates to ICT governance. In many ways, the Covid-19 lockdown period has accelerated our digital strategy with remote and mobile work practices necessitating stricter data management and more rigorous ICT governance, particularly around cyber security and internet fraud and scamming.

> As an SOC, Transnet will play an important future role in regional economic growth

Achieving our developmental mandate

As an SOC, the lesson of the pandemic has been to bring our developmental mandate into sharper focus. For us, as for all companies post-pandemic, the only sustainable advantage going forward is to recognise our inherent and integral connections to all who make up our society, and to recommit to our overarching purpose, which is to serve the people of South Africa.

As we navigated the first few months of Covid-19, responding to safety protocols, coordinating the tools for some to work remotely, preparing our frontline employees for essential services and planning how to support our customers' critical supply chains, our purpose expanded beyond our resolve to lowering the cost of doing business in South Africa to a whole-hearted, people-driven commitment to the health, safety and well-being of all South Africans.

We provide more information on the various financial and non-financial contributions to Government's Covid-19 efforts in our chapter on What matters to our stakeholders on page 65.

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Going forward, we will continue to strengthen our developmental efforts. One way we intend to achieve this is through our alignment to the Transport Sector Charter, with an overarching vision to develop a world-class rail industry that will grow in size, stimulate economic growth and development, facilitate trade and comply with effective safety standards, not simply in South Africa but also regionally. As such, Transnet continues to position itself as a key facilitator of trade growth in the region. This extends to building regional sovereignty as a successful logistics operator to reduce the need for foreign debt. As an SOC, Transnet will play an important future role in regional economic growth through job creation and skills development, wide-scale industrialisation as well as creating partnerships with the private sector at scale. These in turn will create a conductive environment for regional investments, supporting trade competitiveness, and for migrating traffic from road to rail.

We provide more information on our sustainable developmental outcomes (SDO) performance in the chapter on Our performance and outlook from page 76.

76

Maintaining commercial self-sustainability

As we closed off the financial year in March 2020, Moody's Investor Service (Moody's) downgraded the Government of South Africa's long-term foreign currency and local currency issuer ratings to Ba1 from Baa3, with a negative outlook. The Moody's downgrade was followed days later by S&P Global Ratings (S&P) lowering South Africa's sovereign credit rating further into non-investment grade, otherwise known as 'junk status', citing the impact of the pandemic on South Africa's public finances and economic growth as one of the reasons for its ratings action.

Transnet remains well positioned to raise funding through the domestic medium-term note. Transnet is in the process of securing several long-term facilities which will help improve its liquidity profile in the near term.

Outcome of the external audit

Despite all efforts to accurately identify, quantify and report irregular expenditure, the Company has again been unable to satisfy the external auditors in this regard, resulting in an audit qualification for the third year in a row. The qualification does not talk to the financial soundness of the Company, but does indicate the extent of the impact that legacy procurement events are having on the Company. While immediate remedial actions have been implemented, and have materially reduced non-compliance in current year procurement events (accounting for less than 4% of irregular expenditure reported), the new leadership appointed as part of these remedial actions initiated by the Board of Directors, have an arduous task in addressing legacy matters extending over more than 8 years, taking into account high staff turnover in the supply chain environment and limited record-keeping.

Our Group Chief Financial Officer, Ms Nonkululeko Dlamini and our Treasurer, Mr Mark Gregg-Macdonald provide more information on our financial performance in their review in the chapter relating in Our performance and outlook on page 76.

76

Condolences

Regrettably, during the year, six colleagues passed away while at work. On behalf of the Board, I wish to once again express our sincere condolences to their families and all who knew them. As the Board, we review the nature and causality of all fatalities and do our best to entrench group-wide safety awareness.

We also wish to convey our sympathies to the families of the members of the public who lost their lives in and around our operational activities. Railway crossings remain a safety challenge given the vast national footprint of our rail network, spanning some 31 000 km. The encroachment of the railway reserves needs attention from all stakeholders involved. We have made safety a strategic priority for the Company going forward and intend to hold our people to account for any acts of negligence. We recognise that the quality of our operations and the strength of our reputation are only as prized as our safety record.

As we prepare to finalise this integrated report, we are deeply saddened by the loss of our dear friend and colleague, Adv Oupa Motaung, who passed away on 28 September. Adv Motaung joined the Transnet Board in May 2018 at a critical time in the Company's history as we navigated the tempests of State Capture. We wish his family strength and fortitude as they endeavour to come to terms with their huge loss. We all join them in their grief, for their loss is our loss.

In concluding this review, I would also like to extend our thoughts and well-wishes to all across our operations and the country who have been impacted by Covid-19.

Appreciation

Foremost, I would like to acknowledge the people of Transnet for your commitment to keeping the proverbial wheels turning under difficult conditions. The Covid-19 situation evolves from day to day, and there is a lot we do not know about the long-term implications for our business and the transport and logistics sector. Despite the uncertainty, we must do our best to anticipate possible changes and use the crisis as a way to steer our business in a more sustainable direction, deciding which parts of the old ways to keep and what to let go.

Thank you to the Minister of Public Enterprises, Mr Pravin Gordhan, who represents our Shareholder and the people of South Africa, for your unwavering support and guidance. On behalf of the Transnet Board, I assure you of our steadfastness in repositioning Transnet for future growth and sustainability. Thank you, also to our colleagues at the Department of Public Enterprises for your constructive counsel and direction.

Thank you to the Transnet Board for your conscientiousness and stewardship during a challenging year. I am grateful for your commitment and support and am proud to serve by your side.

Thank you to our customers and commercial partners for your continued confidence in our abilities. Understandably, we face an uncertain future in many respects, but we face it together. As Transnet, we have every intention to improve and also to thrive, and we look forward to journeying towards what I can only term an optimistic vision of the future.

Thank you to Transnet Management for your commitment and determination during a difficult year. As the Board, we recognise your efforts in motivating, focusing and leading our people towards the achievement of the Company's goals.

Thank you to the leadership of organised labour for your guidance and willingness to share in our journey. On behalf of the Board, I would like to acknowledge the commitment of our organised labour in helping Transnet to survive during the very difficult Covid-19 period. We depend on the capacity and capability of our people, more so in dealing with the coronavirus. We recognise that our goals are the same, which is to create an ethical, transparent culture, and a safe and healthy work environment, where our people face each day with self-confidence and the promise of personal growth and communal well-being.

Dr Popo S Molefe
Chairperson

29 September 2020
Johannesburg

> As an SOC, the lesson of the pandemic has been to bring our developmental mandate into sharper focus

Our Board members

Dr Popo Molefe
Chairperson

Date of birth: April 1952

Year of appointment: May 2018

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

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

1 2 9 11

Ms Portia Derby
Group Chief Executive

Date of birth: December 1969

Year 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
- Tandimanzi (Pty) Ltd
- Ubu Investment Holdings (60% holding)

2 6 11 15 19

Mr Aluwani Ramabulana
Independent non-executive director

Date of birth: October 1971

Year of appointment: May 2018

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

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

1 2 4 5 6 9 11

Length of tenure of independent non-executive directors

as at 29 September 2020

100% 0 – 3 years

0% 4 – 6 years

Ms Ursula Fikelepi
Independent non-executive director

Date of birth: January 1973

Year of appointment: May 2018

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

Directorship/Shareholding/Trusteeship:
- Emmaus Holdings (100% holding)
- Grace Bible Church
- Mtizamo Africa (Pty) Ltd (16% holding)
- Mtizamo Capital
- Mtizamo Properties (Pty) Ltd

1 2 3 6 7 11

Ms Dimakatso Matshoga
Independent non-executive director

Date of birth: May 1978

Year of appointment: May 2018

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

Directorship/Shareholding/Trusteeship:
- Atafala Enterprises t/a Atafala Consulting (100% holding)
- Atafatsa Foundation (non-profit company) (33,3% holding)
- ATISSA Engineering and Environmental Services (in deregistration process)
- Isa-Stra Tech Solutions (20% holding)

1 2 11 13 17 18 19

Ms Mpho Letlape
Independent non-executive director

Date of birth: March 1959

Year of appointment: May 2018

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

Directorship/Shareholding/Trusteeship:
- Africa Harm Reduction Alliance
- Food Forward South Africa
- Lethushane (Pty) Ltd (100% holding)
- Lethushaneng Advisory Services (100% holding)
- National Research Foundation
- South African Women in Dialogue
- Standard Bank Tutuwa Community Foundation NPC
- Tower Group
- Vinton Holdings Foundation

2 8 10 11 18

Corporate Governance and Nominations | Finance and Investment | Remuneration, Social and Ethics | Audit | Risk — Board committees

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

Our Board members

Adv Oupa Motaung
Independent non-executive director

Date of birth: August 1970

Year of appointment: May 2018

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

Directorship/Shareholding/Trusteeship:
- Condoclox (100% holding)
- Epic Telecommunication
- Kuena Construction Projects (100% holding)
- Miracle Mile 74 Investment
- Nordaspan (100% holding)
- Orthorox (deregistration – dormant)
- Thulo Trustees (100% holding)
- Twende Investments (10% holding)
- Vaxiscore Investment (100% holding)

3 6 17

Dr Fholisani Mufamadi
Independent non-executive director

Date of birth: February 1959

Year of appointment: May 2018

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

Directorship/Shareholding/Trusteeship:
- Absa Bank Mozambique
- Adcorp Holdings Ltd
- Implats Holdings Ltd
- Muendanyi Consulting (100% holding)
- Nokukhanya and Inkosi Albert Luthuli Peace and Development Institute
- Zimplats (Chairman of the Board)

2 9 10 14

Ms Gratitude Ramphaka
Independent non-executive director

Date of birth: August 1979

Year of appointment: May 2018

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

Directorship/Shareholding/Trusteeship:
- Mbabo Transport Services cc (Dormant – being deregistered)

6 12 15

Gender representation
as at 29 September 2020

56% male

44% female

Race representation
as at 29 September 2020

89% (8 African)

11% (1 White)

Excluding Executive Directors and Company Secretary.

Corporate Governance and Nominations | Finance and Investment | Remuneration, Social and Ethics | Audit | Risk — Board committees

Mr Louis von Zeuner
Independent non-executive director

Date of birth: June 1961

Year of appointment: May 2018

Qualifications:
Chartered Director CD(SA) (IoDSA); BA (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
- Tongaat Hulett Ltd
- Wildeklawer Investments (Pty) Ltd

1 2 3 6 7 12

Ms Nonkululeko Dlamini
Group Chief Financial Officer

Date of birth: October 1973

Year 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)
- Khula Credit Guarantee
- Kutlwanong Centre for Maths and Science Technology (NRC)
- Melody Hills Trading 127 (AR final deregistration)
- Rosherville Properties
- Small Enterprise Finance Agency (SEFA)

2 6 15

Group Company Secretariat
Ms S Bopape – Interim Group Company Secretary
For more information please see page 126

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

Our business model and value chain

Our vision

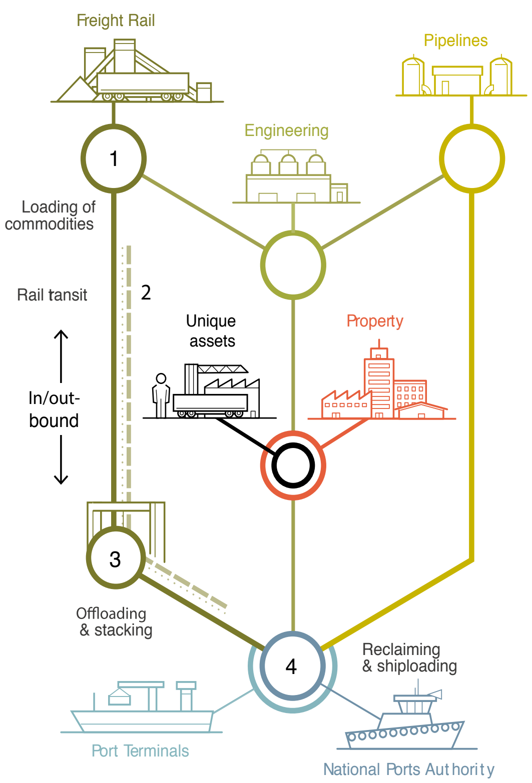
Fuelling Africa's growth and development as the leading provider of innovative supply chain solutions

Our mission

Linking economies; connecting people; growing Africa!

Our mandate

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



Our value propositions

As a State-owned Company, our overarching value propositions are founded in our Shareholder mandate and enabled through our strategic objectives.

Value for the economy

- Reduce the total cost of logistics as a percentage of transportable GDP
- Accelerate the modal shift, maximising the role of rail in the national transport task
- Leverage the private sector in the provision of both infrastructure and operations
- Integrate the South African economy with the region and the rest of the world
- Optimise the social and economic impact of all our interventions in achieving these objectives
- Ensure commercial growth and financial sustainability

Socio-economic value and environmental stewardship

- The modernisation and renewal of South Africa's transport and logistics infrastructure
- Regional integration to support South Africa's market competitiveness
- Preserving road infrastructure through road-to-rail migration
- Stimulating economic activity through growth in the commodities sector
- CSI initiatives that contribute to the socio-economic well-being of communities where we operate
- Activities that enhance rather than deplete the natural environment

Value for domestic and regional customers

- Aspire to deliver predictable and reliable customer volumes
- Customer-centric business innovations
- Full value chain service propositions
- Distinctive product and service designs per market segment
- Integrated cross-operating divisional customer support across the logistics value chain
- Digital transformation across the value chain

Value for suppliers and service providers

- 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

Value for employees

- Employer of choice
- A work ethos of 'safety and integrity in all we do'
- Opportunities to grow personally, professionally and academically
- Exposure and connectivity to broader national and regional opportunities

Value for our Shareholder

- 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

Value for financial partners

- A funding strategy based on strategic priorities and sound environmental, social and corporate governance principles
- Capital investments likely to yield superior financial and social returns
- A reliable and credible borrower, which issues debt on the strength of its financial position without government guarantees

Who we are (our value chain activities)

Our unique assets

- 56 414 employees
- 31 000 km of railway track – general freight and two heavy-haul export lines
- 143 engineering depots
- 8 commercial ports along 2 798 km of coastline
- 16 cargo terminals operating across seven South African ports
- 3 800 km of pipeline infrastructure
- 2 454 locomotives
- 71 075 wagons
- 6 rail and port manufacturing and maintenance factories

Transnet Freight Rail

- Operates and maintains the largest railway in Africa – among the top 10 global freight railways
- Commodities railed over a rail network of 31 000 track kilometres
- Operates the prestigious award-winning luxury Blue Train
- Provides primary healthcare services to rural communities through the Phelophepa trains

Transnet Engineering

- Core capabilities in research, design, testing, manufacture, remanufacturing, assembly and maintenance of railway rolling stock including locomotives, freight wagons, passenger coaches and port equipment
- An independent African original equipment manufacturer (OEM) for wagons

Transnet Ports Authority

- Ports landlord responsible for the safe, efficient, effective and economic functioning of the national ports system, which it manages, controls and administers on behalf of the State
- Maintains port infrastructure, controls port land use, assists in the navigation of vessels within port limits and along the coast, and provides marine-related services

Transnet Port Terminals

- 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

Transnet Pipelines

- Largest multi-product pipeline operator in southern Africa, transporting liquid petroleum and methane-rich gas through a network of 3 116 km of operational pipeline infrastructure
- Ensures security of product supply for the inland market, transporting over 70% of all inland market-bound products

Transnet Property

- Manages a portfolio of commercial and residential properties with a book value of R6,5 billion

Five strategic drivers

Strategic levers	What the levers mean to us
Customer service *Providing the quality service our customers expect from Transnet*	• Customer-centricity and service reliability to provide a value-based customer experience • Clear and proactive customer communication regarding delays or stoppages throughout the lifecycle 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 56 414 people nationally. It is the interface between employees and service delivery, and thus critical to our performance*	• Invest in training and development especially since we are moving 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 employee communications • 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 network and equipment backlog • Ensure minimal downtime of the existing asset base • Leverage complementary assets through integrated planning, improved maintenance and debottlenecking • Reduce the loan book by improving the generation of cash through the portfolio of assets • Leverage technology to enhance operations • Emphasise coordinated and integrated planning at Operating Division level
Safety *Safety is every employee's responsibility. The more predictable and reliable our processes, the safer our operations, particularly 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
Cost control *Right 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 • Enforce cost accountability and ownership at an Operating Division level

Financial sustainability drivers

	Key performance indicator	2020 target	2020 actual	2021 target
Liquidity	Cash interest cover	2,8 times	2,9 times	2,7 times
Profitability	EBITDA margin	45,3%	45,3%	44,9%
	Return on invested capital	5,2%	4,6%	4,8%
Gearing	Debt to equity ratio	45,1%	47,6%	45,8%
Debt coverage	Net debt to EBITDA	4,0 times	3,60 times	3,51 times

Revenue drivers

Commodity-based revenue from commodities transported

Coal	Forestry products	Refined petroleum products
Iron ore	Aggregate automotive	Crude oil
Manganese	Fast-moving consumer goods	Aviation turbine fuel
Chrome	Containerised cargo and crude oil	Methane-rich gas
Steel	Agricultural products	
Cement		

Non-commodity revenue

Maintenance and engineering services provided by Transnet Engineering	Other revenue from Freight Rail, National Ports Authority, Port Terminals and Pipelines	Property rentals from Transnet Property

% of current Group revenue per Operating Division

Freight Rail	42%
Group eliminations and other provisions	14%
Port Terminals	13%
National Ports Authority	12%
Engineering	11%
Pipelines	5%
Specialist Units (Corporate Centre, Group Capital and Africa Unit)	1%
Property	1%

Cost drivers

Personnel costs	41%
Maintenance and materials	21%
Operating leases	11%
Other admin and overheads	11%
Energy	8%
Electronic data costs	4%
Security	2%
Group eliminations and other provisions	2%

External variables impacting value

- The global and domestic impacts of Covid-19 on customers, our people and operations
- Systemic weakening of many SOCs through the widely publicised phenomenon of 'state capture'
- Slow rates of global and local economic growth
- Changes in global energy consumption, particularly the anticipated reduction in coal consumption
- Historical underinvestment in the maintenance of South Africa's logistics infrastructure
- Structural unemployment
- Climate change adaption
- Volatile commodity prices impacting freight volumes and revenue
- Energy and water supply challenges
- South Africa's creditworthiness impacting borrowing costs

Funding sources

- International and domestic capital markets
- Development finance institutions (domestic and international)
- Loan market (public and private)
- Export credit market
- Structured financing
- Partial funding by customers and interested parties forming part of Transnet's investment plan
- Project-specific funding

Our investment case

As an SOC, our Shareholder mandate requires that we ensure cost-effective logistics infrastructure for South Africa, while remaining financially self-sustainable.

Despite global socio-economic challenges impacting Transnet's overall growth outlook, we continue to observe a positive outlook for sustained revenue growth through an increase in transported volumes in the domestic market, particularly as we progress our modal shift strategy to move cargo from road to rail, as well as increased cross-border revenue from our Africa strategy.

A rephasing and deferment of our expansion capital investments will enable us to prioritise capital investments that have a direct and short-term impact on revenue.

Accordingly, we are reassessing the current system to identify overlooked opportunities that could increase capacity without accommodating increases in investment.

We are continuously monitoring our overall capital portfolio to ensure bankable business cases can activate deferred investments on short notice once conditions improve.

42 Read more on our strategy

Financial stability

Transnet has a strong balance sheet and the ability to generate cash flow to support further investment for continued financial stability through a sustainable capital management approach, cost management and volume consolidation and growth. Five principles underscore our investment decisions:

- Asset care
- Priority focus on maintenance
- Rephasing of expansion capital investments
- Support for SMMEs who are existing partners
- Agility of execution

Sector expertise and partnerships

We have exceptional expertise in our core sectors of rail, ports and pipelines, with strong growth potential in regional markets through a platform for partnership interoperability across all modes with industry and the private sector.

Resilience under pressure

At the time of publishing this report, we have demonstrated economic, social and cultural resilience in light of Covid-19, maintaining momentum in delivering core services and supporting our customers' essential supply chain activities amid global logistic disruptions.

Support large burgeoning markets

Our business model aims to promote strategic value for large burgeoning markets on the continent by reducing the cost of regional logistics infrastructure and ensuring product-supply security.

Business with a conscience

Our developmental mandate has come into sharp focus as we have reached beyond our commercial activities to support vulnerable pockets of society, as well as small businesses, communities where we operate and other SOCs.

Transnet's Northern Cape inland manganese loading and handling terminal for emerging mines is strategically reconfiguring a critical logistics channel by enabling the movement of manganese from road to rail.

About R308 million invested in 23 new, locally assembled Kalmar straddle carriers for Port Terminals' DCT Pier 2 operations to address equipment failures, improve reliability and lower the maintenance costs.

R350 billion invested in the TransAfrica Locomotive – designed, engineered and manufactured in Africa.

The world's longest train at 4 km with 375 wagons could add annual freight revenue of R350 million, particularly for manganese exports and in future the nascent zinc sector.

Since commissioning the Durban to Johannesburg trunk line in 2012, the 555 km and 24-inch New Multi-Product Pipeline (NMPP) trunk line has transported more than 16 billion litres of diesel. Two additional grades of petrol – Unleaded 93 Octane and Unleaded 95 Octane – will see a potential of 7 billion litres of petroleum product being pumped per annum.

Transnet's Manganese Export Capacity Allocation (MECA2) programme integrates multiple export manganese contracts. Nine out of 10 MECA2 contracts have been concluded with local manganese companies, including:

- A 7,5-year export manganese contract with mining company, Tshipi é Ntle, yielding nearly 2,1 million tons of manganese railed per annum;
- A 7,5-year MECA2 R8 billion+ contract with United Manganese of Kalahari, the fourth largest manganese producer in South Africa;
- A R3 billion MECA2 partnership with Kalagadi Manganese (Pty) Ltd to transport up to 3 million tons of beneficiated sinter manganese per annum; and
- A manganese contract with South 32 is set to yield 2,6 million tons of export manganese per annum at close to R10,4 billion in total value for Transnet.

A 25-year concession agreement worth R200 million+ between National Ports Authority and KwaZulu Cruise Terminal (Pty) Ltd to finance, construct and operate a new cruise terminal facility in the Port of Durban by 2021.

A cost-sharing agreement with IFC, a member of the World Bank Group, to do a feasibility study to develop a LNG storage and regasification terminal at the Port of Richards Bay and to repurpose Transnet Pipelines for natural gas transmission to inland markets.

Sustaining value through the capitals

Capital inputs

Human and Intellectual

- Responsible and accountable leadership
- 56 414 skilled and motivated employees as at 1 April 2020 year-end
- Research and development
- Standard operating procedures
- Policies, frameworks and processes

Financial

- Access to affordable funds through international and domestic capital markets
- Cash generated from operations: R35,911 billion
- Borrowings raised: R11 357 million
- Share capital and reserves

Manufactured

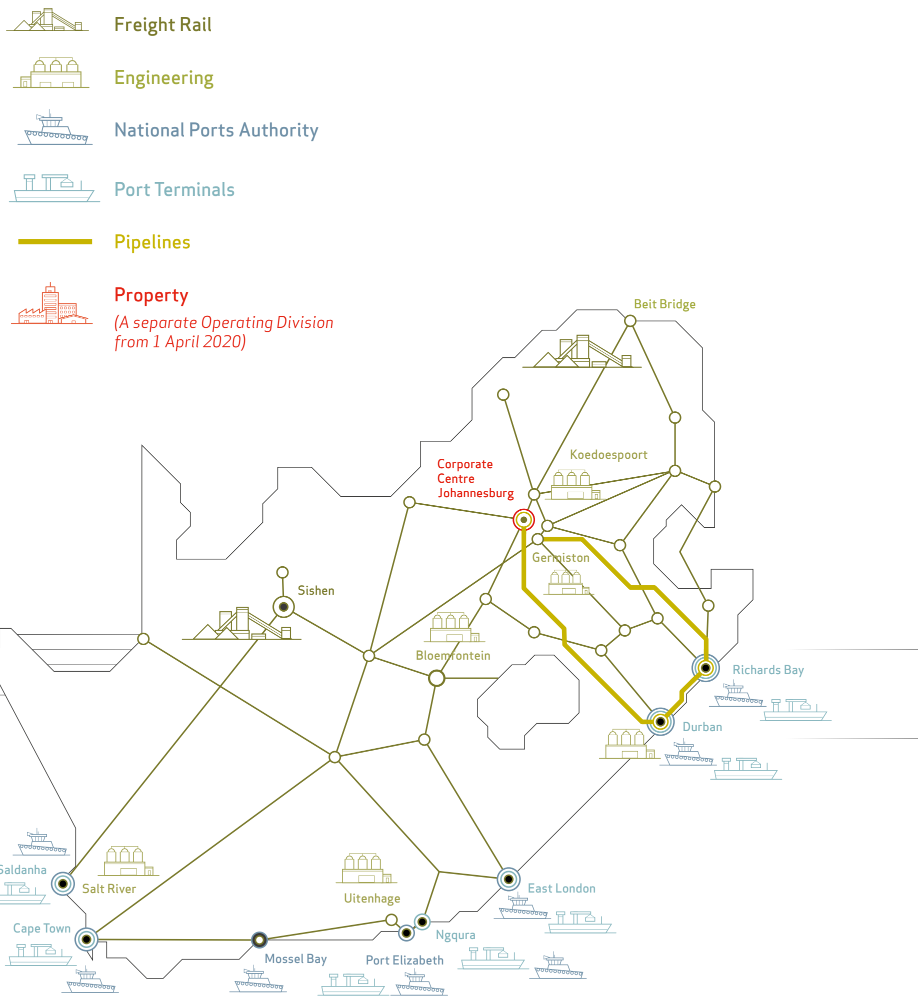
- Property, plant and equipment: R313 558 million
- Port, rail and pipelines infrastructure
- ICT systems, digital platforms and cloud services

Social and relationship

- Effective engagement with Shareholder and funders
- Healthy customer relations
- Collaborative and supportive partnership with communities
- Transparent and positive relations with institutions and media
- Constructive engagement with Government and regulators
- Supplier development

Natural

- Water
- Air
- Land
- Biodiversity and ecosystem health
- Waste



Commodities

Including mining exports, general freight and petroleum products

Petroleum products

Including crude oil, refined petroleum products and aviation turbine fuel

General freight

Including minerals, automotive products and containerised cargo

We aim to ensure

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

Cost-effective logistics value chains

Value-added services

Advanced engineering solutions

Positive outputs

Wide range of transported general bulk and containerised freight commodities

In-service maintenance, repair, upgrade, conversion and manufacture of various types of wagons, coaches, locomotives as well as equipment, machines and services

Secure inland petroleum product supply

Cargo-handling services to a wide range of customers

Capacity growth through new and refurbished locomotives and wagons

Adverse outputs

Waste materials as by-products of infrastructure projects (e.g. asbestos and hydrocarbon waste)

Pipeline spills and marine pollution (e.g. plastics entering marine water at ports)

Outcomes

Human and Intellectual

- Distinctive product and service designs
- Global operational standards
- Strong governance structure and oversight
- Integrated planning and resourcing
- Skilled and representative workforce
- Safe working environment promoting diversity, equal opportunity, training and education
- Responsible, ethical leadership
- An inclusive 'iBELONG' culture

Financial

- Funding strategy based on strategic priorities
- High-yield capital investments (financial and social returns)
- Cash interest cover of 2,9 times
- Gearing at 47,6%

Manufactured

- Full value chain service propositions
- Digital transformation across the value chain
- Business continuity
- Infrastructure reliability
- Analytics to end-users through multiple digital platforms

Social and relationship

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

Natural

- Environmental stewardship
- Opportunities for improving water consumption
- Cost saving from recycling
- 6,4% improvement in energy efficiency over the past five years
- 2,3% increase in carbon emissions intensity

Value created

For Transnet

Long-term financial stability

Reliable and secure infrastructure

Commercial agility in a changing socio-economic environment

Employment equity

Ethical business practices as well as sound environmental stewardship within operations

Enhanced human capabilities and productive capacity (particularly scarce skills)

Improved physical and mental health and safety of employees and other stakeholders

For others

Employment

Created measurable direct, indirect and induced employment for South Africans

Skills development

Enhanced and improved human capabilities and productive capacity within the South African job market

Transformation

Promoted black economic empowerment within supplier entities

Community development

Improved economic, social, cultural and environmental well-being of communities

Regional integration

Improved freight logistics connectivity on the continent

Investment leveraged

Leveraged private sector investment in the country's freight logistics system

Environmental stewardship

Promoted modal shift from road to rail

Protected and enhanced capacity of the natural environment to meet the resource needs of future generations

Health and safety

Protected physical and mental health and safety of the public and communities where we operate

Industrial capability building

Supported industrial development for South Africa and improved competitiveness

Vastly improved rail and freight infrastructure

Increased capacity at South African ports

Increased capacity for South African commodity exports

Capital value generated and trade-offs

For Transnet, sustainable development not only reflects the trade-offs between business activities, the environment and community stakeholders, but also works consciously to create long-term synergy between them. Balancing short-term and long-term interests remains one of our most complex trade-offs. However, it is imperative that we do not view the concept of 'trade-offs' as a 'win/lose' scenario, but rather consider the ways shared value can be achieved in the mutual balance of all interests.

Human and Intellectual capital – 56 414 motivated and efficient employees

Implementation of policies, programmes and services to attain Company and employee goals while ensuring that employee needs and organisational goals are balanced

Strategies to create or sustain value	Trade-offs	Value generated
• Strategies to improve working conditions and employee wellness • A zero-harm safety culture across operations • Employee culture that is inclusive and accommodating while demanding performance, innovation and excellence • Drive an ethical culture to support the Company's long-term viability • Support the development of South Africa's artisanal labour force, thereby creating positive externalities and transferring value to civil society • Manage the impact of Covid-19 on our people and operations, e.g. develop technology strategies and governance to support changing work practices (see pages 64 and 65 for more on our response to the impact of Covid-19 on our employees)	• Time, effort and resources to improve operations may initially divert focus from pure manufactured capacity-building, but the Company's long-term financial health requires a thriving and safe work environment • The decision not to institute pay cuts, while revenue was reduced due to the effect of Covid-19 put strain on financial capital, particularly for work that is not desk-bound, e.g. operating trains or cranes • The efficiency and practicalities of mobile work practices need to be balanced with more stringent governance	Effectiveness of our efforts to sustain our employees' welfare and contribute to the economic well-being of citizens: • Sustained strong safety and occupational health performance: – 6 employee fatalities (2019: 4) – Total disabling injury frequency rate (DIFR) of 0,73, against a tolerance of 0,75 (2019: 0,71) • Improved and aligned employee skills sets, equity and diversity as well as culture of accountability with: – R23,3 billion spent on personnel costs and benefits (2019: R22,9 billion) – R764 million spent on training and development (2019: R667 million) • Contributed to the national pool of skilled artisans and engineers with: – 60 Engineering trainees (2019: 60) – Sector-specific training spend of R2,7 million (2019: R2,8 million) • Investment in R&D of R234,3 million, up from R10,8 million in 2019

Social and relationship capital

Transactional, collaborative and constructive relationships with stakeholders to maintain trust and a social licence to operate

64 65

Strategies to create or sustain value	Trade-offs	Value generated
• Use customer requirements to guide how and where to integrate services • Transnet's Phelophepa Healthcare programme provides primary healthcare across eight provinces and experiential learning to some 2 500 healthcare trainee professionals • Mobilise two medical trains for Covid-19 testing (see pages 64 and 65 for more on strategic response to the impact of Covid-19 on people) • Creating enterprise development programmes to expand opportunities to communities where the Company operates • Manage and establish socio-economic infrastructure such as community centres and hubs • Transparent disclosure of sustainability performance to stakeholders	• Keystone expansion projects – such as our large-scale port infrastructure improvement project at the Port of Durban – need to balance the economic benefits for the country with the social and environmental concerns raised by surrounding communities • Transnet's operations have adverse impacts on local communities – as such, we apportion financial investment towards programmes aimed at improving the quality of lives of these communities as well as in the larger economy	Effectiveness of our efforts to add value through our relationships Beneficiaries of socio-economic and infrastructure development (SEID): • People benefiting from the SEID initiatives along our servitudes: 39 859 (2019: 37 261) • Investment in the SEID programme: R7,98 million (2019: R6,61 million) • 105 565 people treated in our Phelophepa Healthcare programme (2019: 91 588)

Financial capital

Made up of cash and cash equivalents as well as borrowings

Strategies to create or sustain value	Trade-offs	Value generated
• Maintain a strong capital base to promote investor, creditor and market confidence to support future growth of the business • Achieve financial targets related to gearing, the return on investment capital and cash interest cover, e.g. maintain the Company's stand-alone credit rating and secure cost-effective funding in the rollout of our Capital Investment Plan • Continued cost-control initiatives through 'right management' • Managing working capital to meet target levels • Continuously evaluate the cash flow profile of the business and proactively manage operational and financial risks for long-term financial sustainability • Maintain a cash interest cover of at least 2,5 times	• 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 is balanced with the need for sufficient return on assets to support funding requirements	Effectiveness of our efforts to sustain financial capital: • EBITDA margin decreased to 45,3% (2019: 45,6%) • Realised cash interest cover of 2,9 times (2019: 2,9 times) • Ended the year with a net cash position of R4 256 million (2019: R4 156 million) • EBITDA amounted to R34 billion (2019: R33,8 billion)

Manufactured capital

Means of generating value through physical infrastructure in the form of property, plant and equipment, which includes rail, port and pipeline infrastructure of the country

Strategies to create or sustain value	Trade-offs	Value generated
• Adhere to the capital maintenance programme and cultivate a culture of process fine-tuning and preservation of existing assets, while maximising asset utilisation • Ensure integrated management of projects through the Integrated Capital Projects Programme • Structure and maintain the ICT network for reliable connectivity • Optimise Transnet's property portfolio	• Investing in manufactured capital requires substantial investment and reduction of financial capital. There is a trade-off between using financial resources on maintenance spend or expansionary capital spend • In recent years, spend was weighted towards expansionary capital. Going forward, to safeguard financial sustainability and improve operational efficiency, the investment balance will tilt towards infrastructure maintenance	Capital investment: • Spend on expansion amounted to R3,5 billion • Spend on sustaining amounted to R15,1 billion • See page 87 for more on performance and planning as it relates to infrastructure and physical assets

87

Natural capital

Shared natural environment in which our operations are located and have an impact such as the ocean, rivers, ecosystems and air

Strategies to create or sustain value	Trade-offs	Value generated
• Transnet's approach to natural capital management encompasses energy efficiency, climate change mitigation and adaptation, water stewardship, biodiversity management and enhancement, and land use management • Through the modal shift of cargo from road to rail, we aim to lower carbon emissions in the transport sector, especially for the hauling of large volumes of high-density freight over long distances • Our integrated asbestos and hydrocarbon clean-up programmes enable us to manage the impact of historical environmental contamination • Implement best practice environmental risk management and natural capital policies	• We understand that some of our operations deplete natural resources and are in pristine environments. We are guided by environmental impact assessments in our approach to infrastructure maintenance and expansion	• Water stewardship: – Achieved a 'B' score in the Carbon Disclosure Project for Water in 2019, an improvement from the 'C' score obtained in 2018 – Water recycled: 396 578 kℓ (2019: 1 267 477 kℓ) • Rebates generated from general waste recycling: R19 693 967 from 11 908 tons (2019: R210 965 355) • Asbestos remediation and rehabilitation from historical contamination: 63,18 tons (2019: 49,2 tons) • Recorded 36 Section 30 incidents[4], a 58% increase compared to 2019 • Energy efficiency management and carbon footprint: – Total carbon emissions (tCO_2e) increased by 3,1% during 2020 – Overall energy efficiency improved by 3,9%, to 19,8 ton/GJ (2019: 19,1 ton/GJ) – Carbon emission savings from 'road to rail' of 327 644 tCO_2e (2019: 110 078,8 tCO_2e)

[4] *As per the National Environmental Management Act, No 107 of 1998.*

Our operating context

Group Chief Executive's review

"It is encouraging to see that our Executive team is making short work of the new structural changes required to transition Transnet towards greater efficiencies and customer responsiveness."

The Covid-19 pandemic has tested – and proven – the tenacity and resolve of our employees. In the face of the worst pandemic the country – and indeed the world – has experienced, our people rose to the challenge, and ensured that we continue to deliver freight reliably for our customers. During the worst of the first wave of infections, a group of our employees volunteered to move from Durban, to assist to clear the backlog in Cape Town, thereby saving the citrus export season. As a result of their combined efforts, we delivered a bumper citrus export season. This is but one of many examples where our employees have stepped up, and gone above and beyond the call of duty. Once again we salute you.

Over the next three years, we will unfold the new risk and assurance plan in a phased approach

This Integrated Report is therefore dedicated to our people, hence the pictures you see throughout this report are of our people in our various operations. With their commitment and hard work – which I have had the privilege to bear witness to throughout my visits across our operations in the country – I have no doubt that we can turn Transnet SOC Ltd ('Transnet') around, and ensure that it is a sustainable business, that is able to deliver on its core mandate.

There is no doubt that the year under review has been a challenging one for Transnet, operationally and financially, as the Annual Financial Statements attest. Some basic housekeeping involves the strengthening of controls to address the irregular expenditure that continues to plague us. Among our most urgent tasks is the overhaul of the procurement and finance functions across the organisation. It is clear from the auditors' report that these have been the weakest link for Transnet, and we must correct this, for the long-term financial sustainability of the Company.

We are in the process of developing our five-year strategy for the organisation, which is built on five key pillars: People, Customer Service, Safety, Asset Utilisation and Cost Control. Dedicated focus on these five areas will ensure that ensure that we turn Transnet into an efficient freight transport services provider while contributing to Government's growth and socio-economic development agenda. The appointment of the new Group Executive Management structure is an essential first step in the stabilisation of the Company. The new management team brings an impressive and diverse range of skills, coupled with a wealth of experience and knowledge to help steer Transnet's business operations going forward. It is also encouraging to see that our Executive team is making short work of reorganising their operations, introducing stability and a new culture focused on our people, customers and operational excellence.

Part of this has entailed the revision of our Corporate Planning process to ensure we are setting realistic performance targets linked to the performance of the economy and our clients' growth aspirations; targets that can be monitored and measured in driving our strategic trajectory. We are focusing on bringing in commercial skills especially with regards to business case development for new investments and how we organise and align to our customer needs. Unfortunately or maybe fortunately, we now have a balance sheet that requires us to prioritize investments that have a direct link to revenue generation, through either sustaining or enhancing more efficient business operations or carefully expanding our business to meet customer demand and generate additional revenue. We will be reviewing all capital projects and the value addition that these spend programmes bring. Our focus will be to drive projects and private sector involvement and partnerships that enhance our ability to deliver more product for our customers more efficiently. Decision-making around what and how we invest will be based on carefully assessing the value chain and demand for each of the markets which Transnet serves. This more responsible approach to capital investment will help us drive positive cash flows in this much more difficult post-Covid world. We anticipate that these changes will progressively yield positive results and contribute meaningfully to the overall financial health of the Company. This approach will in addition drive improved logistics performance for the South African economy as a whole.

In the fourth quarter of the year, work began to reset the base for our risk and assurance processes within Transnet. A comprehensive maturity assessment reflected the need for a more resilient approach to our risk management and assurance processes. The environment has changed and there has been an explosion in complexity and contagions are swift, think of Covid-19, we must anticipate and mitigate as many risks as we can identify and remain vigilant for any new trends that could adversely affect our ability to meet customers' needs, maintain our infrastructure assets, ensure the safety and well-being of our people, control our costs, and may hinder our ability to achieve critical environmental, social and corporate governance (ESG) targets. Over the next three years, we will implement the new risk and assurance plan in a phased approach to ensure we guide our strategic and operational performance according to best practice governance principles.

I take pleasure in highlighting some pockets of excellence that emerged during the year. Our Durban Car Terminal teams continued to break records, handling 487 000 fully built units for two years in a row. Transnet's overall car-handling capacity is 817 000 at the Durban, Port Elizabeth and East London car terminals, with 195 822 of these units being moved by rail. During the year, Transnet National Ports Authority (TNPA) docked at least 670 automotive carriers.

Our operations

On the downside, we experienced a number of operational challenges during the year. Various capital projects have been running over time and budget, severely impacting our operations. An example is the Thornwood project aimed at improving train transit time that is limiting capacity on the NatCor by up to 30%. Overall, we have observed a major challenge developing around 'assets at risk of failure'; this is an urgent area of maintenance or replace capital. Further, the systemic neglect and sabotage of key infrastructure assets remains a significant area of concern for the business, and is being addressed as a matter of urgency.

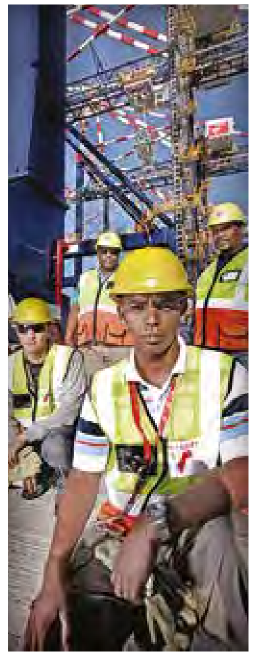
Theft remains a major concern, with diesel and fuel theft at Transnet Pipelines and cable and rail equipment theft and locomotive stripping escalating to crisis levels. We have introduced measures to fight the theft, and are already in the process of improving security in our operations and collaboration with other state-owned companies and law enforcement agencies. These incidents impact negatively on cost, service delivery, regulatory compliance and most importantly, on communities and the environment. With a reduction in theft and thus improved reliability of our services especially on rail, we will not see the shift from road to rail.

Our technology roadmap for the business requires an overhaul, we have various conflicting technology paths that are not harmonised towards a common purpose, leading to a misalignment in the digital capabilities of our Operating Divisions. Our digital strategy is a critical pillar for us achieving a few critical benchmarks – maintenance of infrastructure to design specification, this encompasses both rail and rolling stock and lifting equipment at the ports. The digitisation of our administrative functions from procurement to finance to people management is being driven from our Shared Services Project. This is a critical project for us as it is key to the reduction of irregular expenditure and improved data and business process integrity.

AS OF JULY 2020, TRANSNET HAD CLOSE TO 43 000 STAFF WHO WERE DEPLOYED IN OPERATIONS ACROSS OUR VARIOUS DIVISIONS. THIS IS EQUIVALENT TO

83%

OF OUR PEOPLE BEING OPERATIONAL



The legacy of failed procurement events (e.g. the 1064 locomotives) is having a lingering effect on the business. Resolving these is a priority and is under the able leadership of our Chief of Legal and the Chief of Procurement.

Our response to Covid-19

As a company, this period has required us to very carefully balance the need to protect our employees from Covid-19 while ensuring service delivery to our customers. We are proud to have played our part in flattening the curve and also supporting each other, our pensioners and the broader community. We have supported various NGOs and Government through the Transnet Foundation both in the form of monetary assistance and non-financial contributions. We also made our Phelophepa trains available for Covid-19 mass testing in remote communities in the Eastern Cape, KwaZulu-Natal, the North West and Gauteng, and availed some of our properties and accommodation for those who needed quarantine facilities. Within Transnet too, I would like to recognise the contributions made by our employees who responded to the call for donations to the internal Covid-19 Fund, which was ultimately donated to the national Solidarity Fund.

Like the rest of the South African economy, our operations have had to cope with the unprecedented challenges presented by the pandemic and the complex regulatory environment it introduced. We are grateful for the support received from our shareholder department, the policy departments and our customers who enabled us to respond speedily to any bottlenecks.

Our heartfelt condolences go to the 41 Transnet families and the broader South Africa who lost their loved ones due to Covid-19. We continue to be vigilant.

The OTMS Saldanha facility has been developed to store, blend and tranship crude oil in bulk to the international market

Economic overview and impacts on performance

Notwithstanding the challenges posed by Covid-19 that we are still in the process of quantifying, the South African economy has been a poor performer for some time now, entering a technical recession in the fourth quarter of 2019 as real GDP contracted by 1,4%. Economic activity in the primary, secondary and tertiary sectors have all continued their downward trend.

These economic conditions contributed to Transnet's depressed performance during the year. Additionally, the lower-than-budgeted bulk commodities railed due to the contraction in the mining sector further impacted Transnet's performance. Poor infrastructure maintenance played its part too.

We did not achieve our overall Shareholder's Compact threshold for the period ending 31 March 2020. From a transported volumes perspective, volumes railed decreased by 1, 3% to 212,3 mt, while containers handled decreased by 2,4% to 4 423 894 TEUs. The petroleum volumes transported for the year decreased by 0,3% to 17 764 million litres.

The South African economy has been plagued by structural impediments well before the Covid-19 pandemic. The implication has been that the GDP shortfall during 2019 weakened our resilience to cope with the severity of the challenges brought by the virus. As a broad-based logistics provider exposed to key domestic and import and export sectors of the economy, the downturn has sharply affected our business. Transnet is a high fixed-cost business with heavy reliance on a long-term invested asset base, and is has been difficult to rapidly realign our cost base to the declines in customer demand. The reduced movement of goods and commodities has been felt through our ports, on our railways and within our pipelines. This is not to say that market demand has been our only constraint. The more recent focus on improving operating efficiencies across Transnet has exposed just the extent of our maintenance backlog in some parts of our business, and the weaknesses that have been encountered in operational effectiveness. Without these internal constraints we may have done better even during these more challenged economic conditions.

Generating positive returns

Transnet continues to be an essential part of the South African economy. However, if we are to leverage any sort of value from economic growth, we will have to ensure that we continue to be cash flow positive by generating strong cash flows from operations, while maintaining sustainable levels of debt. It is imperative that these funds find expression in investments that generate a positive return for the business going forward. In addition, these must be geared towards providing excellent services to customers, and confidence to lenders.

We have underperformed relative to our capacity, capabilities and competencies, particularly with respect to operational efficiency and reliability. Notwithstanding the challenges, ethical leadership, service excellence and operational efficiency are the bedrock on which to rebuild Transnet. Added to this, we will continue to strengthen our governance and risk management capabilities to restore reputational value to the Company and improve our financial position.

Several key focus areas have been identified to strengthen our balance sheet and cash flow-generating activities, specifically the consolidation and growth in volumes, cost and capital management. As part of a concerted effort to promote sound capital management, Transnet will ensure that all investments adhere to the following key principles:

- **Asset care:** Focus on adherence to maintenance regimes to ensure safe operations. This includes undertaking proactive asset inspections and compulsory routine maintenance.
- **Prioritising maintenance:** Capital investments that can be linked directly to operational capacity and volumes moved will be prioritised. This means investments will be focused on maintaining rail network, rolling stock (locomotives and wagons) and port equipment to improve reliability and availability of these assets. This supports Transnet's intent to embed safety into our operations.
- **Rephasing and deferring expansion capital investments:** We will prioritise capital investments that have a direct and short-term impact on revenue. To do this, it will be important to reassess the current system to identify overlooked opportunities that could increase capacity without increasing investment. We will also work to ensure bankable business cases are in place to activate deferred investments at short notice once economic conditions improve. We are changing the culture of budget as entitlement.
- **Working more closely with our customers and the logistics community:** Strengthening our resilience and aligning to deliver greater volume and revenue growth will require us to get much closer to the logistics community that we serve. Our key customers are often well positioned to improve our ability to respond and deliver a logistics chain that meets their needs and this would in turn improve our returns. Working with them in partnerships to enhance both or collective operations and through public private partnerships for delivering and operating new infrastructure more effectively are areas we would actively wish to pursue.
- **Enhancing support for SMMEs that are already our partners:** To strengthen and increase dynamism in key supply chains that support our business and lower our cost of doing business, Transnet will partner with SMMEs to become engines of growth and employment in a post-Covid South Africa. Accordingly, Transnet will share its investment and maintenance plans with existing suppliers and the market to improve confidence in our operations, increase investments by these partners and thereby stave off retrenchments from poor business confidence.
- **Agility of execution:** Transnet's capacity to execute has to be agile and mobilised swiftly and efficiently. This also requires fast and effective approval and procurement processes.

Our intent is to focus on our core business, which is to run an efficient freight transport company. This means that partnerships for new infrastructure construction will be sought. This should soon boost activity in the construction sector, a key employer of our people. These initiatives, coupled with our ability to maintain open lines of communication with our customers and key stakeholders, will ensure that we are accessible to all the communities in which we live and work.

Historical risk factors relate to the underinvestment in infrastructure maintenance in recent years. These resulted in reduced operational readiness, lower productivity and efficiency in some of our operational areas. In addition, the lingering effects of state capture and the temporary destabilisation of our executive leadership structures impacted employee morale and their well-being. Our people risks, which include health and safety and skills availability, are intricately linked to operational readiness and productivity risks. Collectively, these risks have moved up on the top of our list of risks. Covid-19 has exacerbated these risks. With this in mind, our highest priority remains the safety and well-being of our people as we support them through the pandemic and the period thereafter.

Resilience is a critical consideration in evaluating the medium to long-term sustainability of any company, along with its ability to adapt to infrequent but potentially devastating humanitarian crises, such as Covid-19. Now, more than ever, as we navigate the lingering aftermath of the pandemic, we are well advised to consider the multifaceted dimensions of our long-term sustainability as a company, and as 'South Africa Inc.'

The top 10 risk clusters that straddle the 2020 to 2021 financial years as well as our emerging sustainability risks are outlined on pages 60 to 63 of this report.

Several key focus areas have been identified to strengthen our balance sheet and cash flow-generating activities

60 TO 63

Appreciation

The majority of us at Transnet are hard-working, dedicated and patriotic South Africans who want the Transnet machine to become a mean, efficient machine, rating among the best. I believe we are on the right track. I would like to thank each and every single employee, who wakes up each morning, ready to serve. I have every confidence in our collective capability to steer Transnet towards becoming a world-class transport logistics provider. An essential partner in all we do are the recognised unions, UNTU and SATAWU – thank you for the challenging and respectful relationship. I look forward to our ongoing engagement as we ensure that as in the best stakeholder capitalist environments, workers and shareholders benefit.

I would like to extend my appreciation to the Transnet Board of Directors, with special mention for our courageous chairman, Rre Popo Molefe and my fellow Executives for their sound judgement and counsel during my first seven months as Transnet Group Chief Executive. I trust that together we will make decisions that are in the best interests of the business, and our broader economy. I would also like to thank our management teams and colleagues across the business for their tireless commitment to excellence at the coalface of our operations. I would like to thank our Shareholder department and Minister, for the oversight and support they have provided to us. A special thank you to everyone in my office.

Thank you to our customers for your continued support and confidence in our abilities to partner with you in achieving your operational goals. Your success is our success, and we will continue to try harder and do better to deliver on our promises. Keep holding us to account – that is the only way for us to avoid getting lost again.

With our new strategic outlook and renewed emphasis on our five key pillars (People, Safety, Customer Service, Asset Utilisation, and Cost Control) we believe Transnet is well-placed to deliver the shared value to help build an efficient business, to be a trustworthy commercial partner and ultimately, to contribute to the collective restoration of the South African economy.

P P J Derby

Ms Portia Derby
Group Chief Executive

29 September 2020
Johannesburg

We are well advised to consider the multifaceted dimensions of our long-term sustainability as a company, and as 'South Africa Inc.'

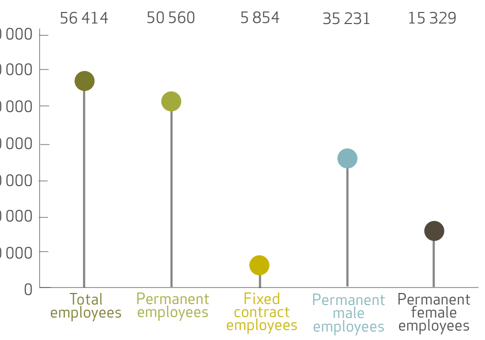
Organisational overview

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 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. The Shareholder's Compact mandates the Company to deliver on numerous strategic deliverables, including sustainable economic, social and environmental outcomes.

Total employees represented by collective bargaining as a % of total headcount:	88,78%
Permanent employees represented by collective bargaining as a % of total headcount:	87,80%
People with disabilities	2,20%

Employee profile

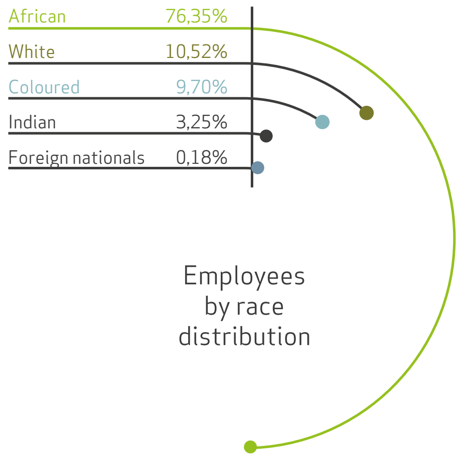


Transnet achieved full points for enterprise development and socio-economic development

Broad-Based Black Economic Empowerment (B-BBEE)

Transnet's B-BBEE verification covers six of the seven elements of the Generic Transport Public Sector Scorecard (excluding the ownership element). The Maritime, Property and Rail Charters are also applied.

Transnet achieved full points for enterprise development and socio-economic development for the 2020 financial year.



Enterprise and supplier development (ESD)

Transnet's ESD initiatives are key elements of South Africa's developmental agenda.

As such, our ESD is:

- Guided by the DPE's Competitive Supplier Development Programme (CSDP);
- 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 to our Black Industrialists Programme and our regional and global exporting and trade programmes.

Gross value add resulting from Transnet capital and operating expenditure

Transnet defines value add as the financial value created by the activities of the Company and its employees. Transnet's gross value add was R58,221 billion (2019: R60,3 billion).

Element	2018	2019	2020
Value added	R56,7 billion	R60,3 billion	R58,221 billion
Employees	42%	40%	38%
Capital providers	18%	19%	19%
Reinvested	40%	40%	43%

Transnet's B-BBEE performance per pillar for the 2020 review period

Element	Actual score	Target
Equity ownership	N/A	N/A
Management control	9,53	11
Employment equity	13,92	18
Skills development	20,72	25
Preferential procurement	29,85	33
Enterprise development	15,00	15,00
Socio-economic development	5,00	5,00
Total	90,52	107
B-BBEE Level 2		

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
- International Union of Railways
- PMEASA

Endorsement of external charters and frameworks (not limited to)

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

Operating environment

SUSTAINABLE DEVELOPMENT GOALS

Socio-economic 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 socio-economic developmental outcomes (SDO) framework as a mechanism to advance the achievement of the Sustainable Development Goals (SDGs) as espoused in the 2030 Agenda.

During the 2020 financial year – and at the time of publishing this report – the Covid-19 pandemic presented the most crucial global health calamity of the century. Pandemics in general are not merely serious public health concerns, rather they trigger disastrous socio-economic and political crises in the infected countries. With the pandemic impacting our society at its core, Transnet's developmental mandate has been brought into stark focus. As such our operations need to consider the added dimension of the pandemic's economic, social and political impacts, particularly as it applies to the transport and logistics environment, with our developmental outcomes strongly oriented to remedy and mitigate negative impacts.

Our Stakeholder Engagement chapter provides a deeper perspective on our responses to the pandemic on pages 65 to 67.

65 to 67

Regulatory context

Transnet complies with the PFMA provisions for Schedule 2 companies as well as more than 200 regulatory requirements. Tariffs charged by the National Ports Authority and Pipelines are determined by independent economic regulators, namely the Ports Regulator of South Africa (Ports Regulator) and the National Energy Regulator of South Africa (Nersa) respectively. The Railway Safety Regulator regulates the safety of Transnet's rail operations, issues safety permits (for a fee), 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.

Transnet complies with the PFMA as well as more than 200 regulatory requirements

Operating context

Three joint operating centres

Botswana
Mozambique
Zimbabwe

Four satellite offices

Lesotho
Namibia
Eswatini (Swaziland)
Tanzania

Five Operating Divisions

Transnet Property (previously a Specialist Unit of Transnet) is now a separate Operating Division from 1 April 2020. As a future focus area, it offers significant potential to unlock value from our extensive property assets.

Services provided

Outbound services

South African businesses moving products to international markets

Inbound services

Bringing products to South African markets

Commodities transported

Mining exports, general freight and petroleum products

General freight

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

Petroleum products

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

Permanent · Fixed-term contract · Total headcount

SCAN TO DOWNLOAD OPERATING DIVISIONS' REPORTS

Freight Rail

Heavy haul and mainline rail corridors connecting ports, inland terminals, branch lines and Regional railways

Employees				Revenue
26 053	70%	30%	2,51%	R44,6 billion
3 661				
29 714				

Engineering

Bloemfontein
Durban
Germiston
Koedoespoort
Salt River
Uitenhage

Employees				Revenue
9 851	76%	24%	2,00%	R11,9 billion
477				
10 328				

National Ports Authority

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

Employees				Revenue
4 155	63%	37%	2,16%	R12,2 billion
10				
4 165				

Port Terminals

Cape Town
Durban
East London
Ngqura
Port Elizabeth
Richards Bay
Saldanha

Employees				Revenue
8 063	70%	30%	1,18%	R13,8 billion
1 533				
9 596				

Pipelines

Durban
Johannesburg

Employees				Revenue
674	66%	34%	1,97%	R5,7 billion
37				
711				

Our Executive leadership

Ms Portia Derby
Group Chief Executive

Date of birth: December 1969

Year of appointment: 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

2 6 11 15 19

Mr Khayalethu Ngema
Chief of People

Date of birth: October 1970

Year of appointment: 2017

Qualifications: MA (Public Policy and Administration) – Dissertation outstanding (Institution of Social Studies – Erasmus University); BA (Law and Industrial Sociology) (University of the Witwatersrand); Postgraduate Diploma in Management (Public Policy and Development Administration) (University of the Witwatersrand); Senior Executive Programme (Wits Business School/Harvard Business School); Senior Executive Programme – Africa (Harvard Business School)

2 3 10 11 14

Adv Michelle Phillips
Chief Executive: Transnet Pipelines

Date of birth: December 1970

Year of appointment: 1999

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

2 3 4 20

Adv Sandra Coetzee
Chief Legal Officer

Date of birth: April 1962

Year of appointment: 2020

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)

1 2 3 7 9 12 13

Mr Velile Dube
Chief Executive: Transnet Port Terminals

Date of birth: May 1961

Year of appointment: 2009

Qualifications: BA (Hons) English Literature (University of Fort Hare); BA Communications (University of Fort Hare); Programme Leadership Certificate (Wharton School of Business, USA); Certificate in Leadership (GIBS); Diploma in Education (Bethel College, Butterworth)

2 5 13 20

Mr Vuledzani Nemukula
Chief Procurement Officer

Date of birth: January 1968

Year of appointment: 2020

Qualifications: MBA (University of Wales); BSc (OT) (University of Cape Town); Post Graduate Diploma in Purchasing & Materials Management (University of Cape Town); Advanced Business Programme (University of Johannesburg); Advanced Management Programme (INSEAD); Oxford Executive Leadership Programme (Oxford University – Said Business School)

1 2 3 4 16

Dr Andrew Shaw
Chief Officer: Strategy and planning

Date of birth: May 1967

Year of appointment: 2020

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

2 4 6 11 14 17 19 20

Mr Khomotso Phihlela
Chief Executive: Transnet National Ports Authority (Acting)

Date of birth: July 1961

Year of appointment: 2003

Qualifications: MBA (Wits Graduate School of Business); BSc Engineering (University of Cape Town); Advanced Management Programme (Harvard Business School); Executive Development Programme (Kellogg Graduate); Diploma in Packaging and Project Management (Confederation of British Industries)

2 4 5 11 17 18 20

Mr Pandelani Munyai
Chief Information Officer

Date of birth: January 1961

Year of appointment: 2020

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)

2 5 6 8 13 16 17 20

Mr Ralph Mills
Chief Executive: Transnet Engineering

Date of birth: January 1964

Year of appointment: 2020

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)

2 8 11 20

Ms Sizakele Mzimela
Chief Executive: Transnet Freight Rail

Date of birth: May 1965

Year of appointment: 2020

Qualifications: BA Economics and Statistics (University of Swaziland); Certificate in Management (Henley College); Transnet Executive Development Programme (GIBS)

2 4 6 11 19 20

Ms Yolisa Kani
Chief Business Development Officer

Date of birth: September 1975

Year of appointment: 2020

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

2 5 14 17 19 20

Mr Brian Kgomo
Chief Audit Executive

Date of birth: October 1967

Year of appointment: 2020

Qualifications: Certified Internal Auditor (CIA) (Institute of Internal Auditors); MPhil in Internal Audit (University of Pretoria); BCom Accounting (University of Limpopo)

1 3 12 13 15

Ms Nonkululeko Dlamini
Group Chief Financial Officer

Date of birth: October 1973

Year of appointment: 2020

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

2 6 15

Mr Mark Gregg-Macdonald
Group Treasurer

Date of birth: February 1960

Year of appointment: 2001

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

2 4 6 9 11 12 13

Mr Kapei Phahlamohlaka
Chief Executive: Transnet Property

Date of birth: April 1976

Year of appointment: 2020

Qualifications: MBA (Regent Business School); LLB (University of South Africa); BA (Hons) (Vista University)

2 3 6 21

For more information

Cessation of executive committee membership and departures of executives are detailed on page 136 of the Abridged Governance chapter of this report

Executive Committee 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

Priority issues impacting our operations

Priority issues impacting Transnet's operations during the 2020 financial year broadly relate to the historical operational issues and socio-economic impacts outlined below. The impacts of the Covid-19 pandemic relate predominantly to the fourth quarter of the 2020 financial year, both in its effects on global markets and its impact on Transnet's operations and stakeholders. As we consider the integrated report to provide a forward-looking strategic perspective, our responses to these impacts straddle the 2021 financial year up to the time of publishing this report.

Historical investment mismatch under the Market Demand Strategy (MDS)

Transnet's historical growth projections have been overly optimistic. A more rigorous evaluation of future demand projections and existing capacity will ensure that capital is better allocated.

Impact on value	Strategic responses	Key driver/enablers
• High investment in locomotives and wagons under the MDS was not matched by the investment needed in rail network, terminals and general maintenance • Large cost overruns on major capital projects • Expected efficiencies and capacity expansions from the accelerated capital programme were not realised, resulting in service unreliability and customer dissatisfaction • Volume performance was significantly below anticipated levels	• Capital investment will favour maintenance and improvement of existing asset capacity over spending on expansion. The aim is to address security of supply concerns and restore the nameplate capacity of existing infrastructure and channels • Expansion initiatives will be scaled back while long-term economic growth rates do not warrant the expansions previously anticipated	• Cost control • Asset utilisation

Irregular expenditure relating to contract management

The Company's 2020 financial results reflected significant irregular expenditure relating to procurement contracts entered into in prior financial years. Such expenditure does not inherently refer to fraudulent or wasteful behaviour. It is an indicator of process non-compliance. Management needs to determine whether expenditure was unintended, negligent or done with intentional action to counter legislative requirements.

Impact on value	Strategic responses	Key driver/enablers
• Reported expenditure negatively impacted corporate reputation, stakeholder trust and employee morale	• Guiding contract management principles were instituted across Operating Divisions • Contract Management Office has taken over procurement data management • The SAP CLM workflow module allows for procurement-related transactions to be loaded and approved by delegated authority to ensure accountability • Platform for registering requests for contract amendments and tracking progress will provide greater visibility in contractual amendments	• All contract owners to be made 'risk aware' • Cost-control measures

Impact of the Coronavirus (Covid-19) on Transnet's commercial sustainability

Covid-19 has brought into focus the vulnerability of global supply chains to disruption, and exacerbates already deep economic challenges.

Impact on value	Strategic responses	Key driver/enablers
• Containment efforts involved quarantines, border closures and restrictions on labour mobility and travel, resulting in supply chain delays and shutdowns • Output contractions are felt in global trade, travel and commodity markets	• In reprioritising maintenance-related capital, the preliminary outcome of the capital optimisation process is a R7,4 billion reduction in 2020/21 planned capex (including the impact of the Covid-19 shutdown) • Developing a risk response plan to mitigate potential disruptions from 'black swan' events • Using impact modelling to determine customer-based supplier materials constraints, production constraints, global and local economic factors and legislative factors to forecast appropriately	• Flexible risk identification and mitigation • Scenario planning • Business continuity and crises management • Capital optimisation and prudent cost management • Proactive client communication

Impact of Covid-19 on people: employees, customers, suppliers and communities

Covid-19 is a fundamentally social and societal event. Failing to identify and address social impacts of the pandemic opens the way for devastating social damage and loss of life – for society and for Transnet as a microcosm of the South African society. These social impacts will leave a legacy long after the virus itself is eventually brought under control.

Impact on value	Strategic responses	Key driver/enablers
• R200 million spent on PPE at the time of publishing this report • Tested 2 799 employees for Covid-19, of which 2 740 tested positive, 41 Covid-related deaths as at 29 September 2020 • Disruptions to the work environment	**Employees** • Enhanced health management programme for high-risk occupations, with trace-tracking of immediate contacts with the Department of Health • Employee Assistance Programme is issuing mother-tongue communications and tailored directives and procedures • Providing tools and equipment for some staff to work from home • Distributing care packages for Transnet's 48 000 pensioners **Customers** • Establishing a specialised customer centre as a single point of contact • Engaging with customers daily to remap volume projections • Engaging with business associations to improve our mutual support of customers • Assessing registered requests for customer discounts and payment plans and deciding appropriate responses **Small business suppliers** • Assessing suppliers' financial stability to avoid business disruptions • Engaging Absa Value Chain Banking on ringfenced funding for working capital support • Electronic tender submission tool to reduce supplier risk **Communities** • Accommodation to support recovery and providing alternative housing • Mobilising two Phelophepa Health Trains for Covid-19 testing • Donating food parcels through nine NPOs to the value of R45 million • Delivering medical grade PPE to the Chris Hani Baragwanath Hospital (value of R5,2 million) • Developing container-based isolation rooms for field hospitals	• Engaged and committed staff • Strong governance foundation to support changing work practices • Ensuring current and future critical skills availability • Fostering a strong health and safety culture • Maintaining productivity standards amidst mobile work • Developing appropriate technology strategies and governance to support changing work practices (e.g. cyber hygiene and data management and protection)

Impact of Covid-19 on Transnet's operations

Covid-19 negatively impacted global trade and the transport and infrastructure sector. Supply chains have been disrupted, with restricted movement of goods and people nationally and internationally. Many industrial-related jobs involve on-site work and cannot be carried out remotely. Slowed economic activity has reduced demand for industrial products globally, and with it demand for many commodities.

Impact on value	Strategic responses	Key driver/enablers
• An initial 50% reduction in level of operations that has recovered as lockdown restrictions were eased • Constraints on customer-based supplier materials and production • Movement of essential containerised cargo threatened to clog ports and terminals	• Covid-19 Command Centre implemented for optimal business continuity • Prioritised essential services in domestic coal transportation • Joint demand-planning with Eskom • Limited capacity operations (e.g. container logistics system and heavy haul rail and ports export system from Northern Cape to Port of Saldanha), domestic and export coal and general freight business cargo through the Port of Richards Bay • ICT and virtual enablement for remote workforce • Proactive national contribution and crisis support and disaster recovery • Focus on risks in customers' supply chains and proportionate responses	• Intelligent operations management • Data-driven interoperable operations • Engaged and committed staff • Flexibility in risk identification and scenario planning • Strong governance to support changing practices • Critical skills availability • Health and safety culture • High productivity amidst mobile work • ICT enablement and governance

Rating agencies

Transnet is officially rated by Moody's and S&P. During the year under review, Transnet, its Sovereign and various other corporations faced credit rating downgrades. We provide a more comprehensive perspective on our credit rating status in the chapter on Our performance and outlook on page 76.

Impact on value	Strategic responses	Key driver/enablers
• Rating downgrades increase the cost of borrowing and may limit access to domestic and foreign capital markets	• All foreign currency debt and contracted foreign currency obligations are 100% hedged • Financial plan incorporates stringent management principles and capital investment optimisation to limit increased debt • Adequate reinvestment to maintain, grow and diversify operations	• Prudent funding strategy • Cash flow monitoring • Cost control • Deep knowledge of investment needs • Revenue integrity • Value-engineering of key capital projects

Moving in the right direction

Our strategic context

As a transport-intensive economy, South Africa accounts for near 0,4% of global GDP but only 2,2% of world land ton-kilometres and 6% of maritime ton-kilometres. The domestic transport intensity results from the large distances between the country and its main trading partners as well as large distances between the main economic nodes in the country. The country, therefore, requires a far more efficient freight transport system than is the norm to overcome the disadvantages of transport intensity.

When compared to most other developing countries, South Africa's logistics efficiency positions it relatively well despite its transport intensity. South Africa's logistics cost as a percentage[5] of GDP is 11,2% against a global average of 13%, and 5% to 8% for the most efficient countries. The least efficient countries average between 23% to 25%.

For Transnet, the high levels of capital investment in the recent past were poorly coordinated and unbalanced. As an example, the high level of investment in locomotives and wagons was not matched by the necessary investment in the rail network and terminals, and in maintenance in general. Large cost overruns on major capital projects, including the 1 064 locomotive programme and the New Multi-Product Pipeline (NMPP), compounded the problem. Consequently, expected efficiencies and capacity expansions arising from the accelerated capital programme were not realised and volume performance was significantly below anticipated levels.

In contrast to prior years, Transnet's core focus of capital investment will be on maintenance and improvement of existing asset capacity rather than on expansion capital. Transnet's historical growth projections have been overly optimistic. This is a key challenge we need to address and the starting point is a more rigorous evaluation of future demand projections and a more accurate assessment of existing capacity to ensure that capital is more effectively allocated. Key learnings include the importance of GDP as a macroeconomic indicator to inform capital expenditure, as well as the need for a review of the capital allocation process across the Group. Specifically, improvements should be made with respect to overspending, validation of business cases, and incentivising capital efficiency.

Our current priority, therefore, is to address security of supply concerns and to restore the nameplate capacity of existing infrastructure and logistics channels. Infrastructure expansion initiatives will be scaled back, underpinned by management's consensus that the long-term economic growth rates do not warrant the aggressive capacity expansions previously anticipated.

South Africa can use its relatively high-performing logistics sector to capitalise on the vulnerabilities exposed by the over-concentration of global manufacturing in China. Events like the Covid-19 pandemic will likely lead to a reconfiguration of global supply chains to create more redundancies and alternate supply channels.

South Africa can become an intermediate manufacturing hub for the export of manufactured goods. This would require increasing connectivity, particularly maritime connectivity, within existing global trade routes and the regional port system. Going forward, Transnet will continue to play a critical role in this regard.

A recent and major opportunity has developed in the form of the African Continental Free Trade Area (AfCFTA). The AfCFTA presents a substantial opportunity to stimulate regional trade and GDP growth. This is especially true for South Africa as it is the largest contributor to intra-Africa trade, accounting for over 24,9%. Since 2008, Africa, along with Asia, is one of the only two regions with a rising trend in intraregional trade with intra-Africa trade growing by 17% in 2018 to reach US$159 billion[6]. Despite this strong growth, intraregional trade is low at 17% compared to 69% in Europe, 59% in Asia and 55% in North America.

The sub-Saharan African region is characterised by small and constrained markets and few competitive alternatives in value chains. South Africa has thus become the default global gateway to several effectively landlocked countries in the region whose export competitiveness is contingent on the country's national logistics system. In addition to the opportunities presented by the AfCFTA, there is a further responsibility to support the region to ensure the design and operations of our mutual logistics interests are as efficient and cost-effective as possible.

Accordingly, Transnet's response to its mandate and the way it strategically positions itself for growth will become increasingly critical, particularly for regional growth. We intend to drive a diversified growth path across three planning horizons, as depicted in the diagram that follows. Current growth initiatives at various stages of the commercialisation process include natural gas networks, steel rail manufacturing, upgrading the Carlton Centre, liquid fuels infrastructures and agriport terminals, and the concessioning of rail branch lines to private investors and operators.

Transnet's core focus of capital investment will be on maintenance and improvement of existing asset capacity

[5] *A widely used indicator to gauge logistics efficiency.*
[6] *The African Trade Report 2019: African Trade in a Digital World.*

Figure 3: Strategic planning context

Three strategic planning horizons		
Core growth	Adjacent growth	New growth
Optimise Transnet's rail, ports and pipelines freight logistics systems through investment and operating partnerships with the private sector. Strategic equity partnerships will enhance our global competitiveness and regional integration.	Growth prospects will look to regional expansion of the rail, ports and pipelines logistics systems. Underperforming core assets and capabilities will be deployed into our new business. Disposal of non-core assets.	Transnet will venture into diversified business spaces, such as providing integrated logistics infrastructure, manufacturing, spatial development, and digital and disruptive technologies.

The increase in over-border rail volumes is the largest revenue driver of the Transnet International Strategy

Positioning for growth in the region

Transnet's regional growth mandate is twofold. Firstly, to play our part in support of South Africa's commitment to regional integration; and secondly, to unfold Transnet's geographic expansion strategy to ensure sustainable growth for the Company. The most expedient route to the geographic expansion of rail, port, oil and gas infrastructure operations is through concession agreements, and operations and management contracts with appropriate partners and service providers.

Our geographic expansion strategy is based on positioning Transnet as a regional pioneer in the rail, port and pipeline businesses. In executing its regional growth mandate, Transnet will leverage its broad experience, capabilities and unique expertise across the logistics supply chain. The Company is presently seeking capital partners to unlock regional strategic investment opportunities in rail, ports and pipelines.

Regional port concessions

Although port concessions are limited, with Transnet Port Terminals handling approximately 20% of the continent's container moves per annum, TIH is well positioned to participate commercially in this area. Port concessions remain very lucrative in the region with leading global terminal operators being well represented. Excluding South Africa, approximately 69% of all containers shipped to or from the continent are shipped through terminals operated by the private sector.

Rail

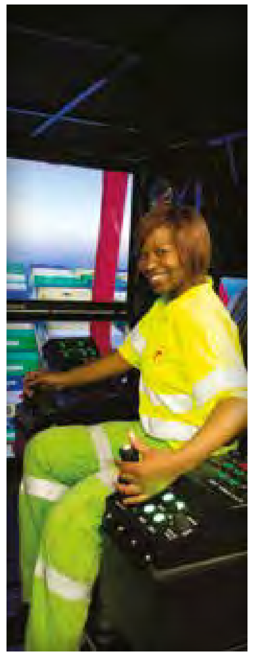
The increase in over-border rail volumes is the largest revenue driver of the Transnet International Strategy. Transnet Freight Rail provides TIH's regional rail capabilities, with a presence in Maputo, Gaborone, Bulawayo and Ndola, focusing on the following three corridors:

- **Maputo Corridor** linking South Africa, Swaziland and Mozambique
- **East-West Corridor** linking South Africa, Namibia, Botswana and Lesotho
- **North-South Corridor** that links South Africa, Zimbabwe, Zambia, the Democratic Republic of Congo and Tanzania

Joint Operating Centres (JOCs) have been established in Maputo (Mozambique), Mahalapye (Botswana) and Bulawayo (Zimbabwe) with the further intention of establishing a JOC in Lubumbashi (Democratic Republic of the Congo). The JOCs promote, track and monitor operational alignment between logistics service providers and various rail, terminal and port entities that operate on these corridors. The value of the JOCs lies in coordinating rail operators to represent a single, unified, seamless railway system per corridor, as if no boundaries exist between the countries involved.

Transnet Engineering

As the growth in Africa unfolds, the need for a modal shift in freight transportation from road to rail will become more urgent and the demand will increase for new or refurbished rolling stock, together with associated maintenance services.



Transnet Engineering is already operating in this space and is well positioned to take advantage of the increased demand; and to deliver on the African Union's declaration that South Africa will be the country that manufactures rolling stock for the rest of the continent. The division has substantial manufacturing facilities that are suitably scalable to increase future capacity. Further, the TransAfrica Locomotive, introduced in 2017, is expected to meet market requirements at a competitive price.

Pipelines

The ongoing discovery of new oil and gas reserves in the region has resulted in a significant demand in the required capacity for refining, storage and pipeline infrastructure, which has led to many possible new-build opportunities. We envisage that some of these opportunities will be issued to the private sector on a build, operate and transfer concession basis. TIH is well positioned to participate in these concessions given the sound operational and recent new-build experience that resides within Pipelines and Group Capital. Until now, Pipelines has not considered any involvement in operations outside of South Africa. Accordingly, this market is now being thoroughly investigated, with a specific emphasis on opportunities to operate facilities through concessions or management contracts.

Pipelines is working closely with Freight Rail to offer Botswana the required security of fuel supply via an integrated pipeline and rail solution as an alternative to the volume presently transported by road. This model can be replicated to service other neighbouring countries such as Zimbabwe. Pipelines has further identified Kenya, Mozambique and Tanzania as potential markets.

Technical advisory and training services

In addition to its ability to provide port, rail and oil and gas infrastructure training, Transnet is also able to offer a number of other services, which includes, but is not limited to, a range of technical advisory services (rail service design, equipment fleet planning, port consulting), infrastructure master planning, proprietary terminal operations software (General Cargo Operational System), hydrographic surveys, dredging (spare capacity).

Figure 4: Key Transnet Group projects across Africa

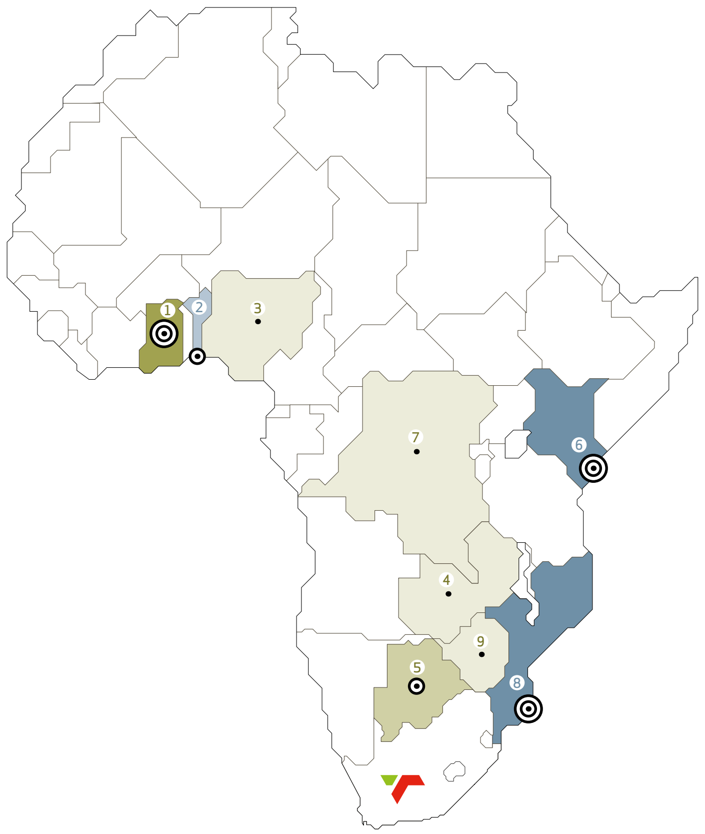
1. Ghana
Rehabilitation of existing railway line (Takoradi – Kumasi)

2. Benin
Potential extension of current relationship with SOBEMAP (a material handling equipment supplier) on joint operations of the North Quay Concession

3. Nigeria
Rehabilitation of existing railway lines (Lagos – Kanu, Port Harcourt – Maiduguri)

4. Zambia
Rehabilitation of existing railway line and joint operations with Zambia Railways Limited

5. Botswana
Existing partnership with Botswana Railways – Inland Container Terminal (Gaborone)



Interim solutions including rolling stock provision in Zimbabwe and Zambia

6. Kenya
Potential concession for operations of first three berths in Lamu Port

7. DRC
Eastern DRC logistics supply chain solutions (North South Corridor)

8. Mozambique
Collaboration on optimal use of capacity with the three port terminals in Port of Maputo and Matola Port

9. Zimbabwe
Rehabilitation of existing railway line and joint operations with National Railways of Zimbabwe

- Planned
- Implemented
- Advanced stages
- Railway line
- Port Terminals

Building globally competitive logistics value chains

Our volume growth strategy

The Covid-19 pandemic has brought into stark focus the vulnerability of global supply chains to business disruption. Transnet intends to develop a more acute understanding of the emerging risks inherent in customers' supply chains and to respond more decisively and proportionately to such disruptions.

Transnet plays an important role in the mining sector for both export focused and domestic mineral flows. We have a very high concentration of volumes in mining, which accounts for 85% of Transnet volumes, and in particular coal mining which accounts for approximately 39% of total rail volumes. Efficient logistics is critical to support mining, agriculture and manufacturing, and also to spur domestic and regional economic growth. There is a need for South Africa to embed globally competitive and high-performance logistics value chains and networks for these sectors. At a macro level, freight demand is expected to rise steadily and to continue to concentrate along existing economic and transport corridors. Converting long distance freight from road to rail remains a priority for the national freight system.

Containers sector

Poor connectivity of the regional freight system coupled with high international ocean freight rates pose particular challenges for the container sector. To increase connectivity, Transnet intends to establish South Africa as a shipping and industrial hub by improving container terminal efficiency, reliability and predictability; developing stronger logistics clusters at the critical nodes of the networks (the ports); promoting a road-to-rail shift through the development of inland hubs; and stimulating coastal and regional shipping. Transnet has prioritised investment to restore design capacity through operational improvements as well as to expand the capacity through additional investment in infrastructure. Investment in port and rail equipment maintenance will be increased, as well as investment in expanding infrastructure capacity, particularly at the Port of Durban and the rail line between Durban and Johannesburg.

Automotive sector

Prior to the pandemic, motor industry employment and annual vehicle production were projected to more than double to 240 000 people and 1,2 million units, respectively. However, inbound and outbound logistics costs have long been a concern of South African vehicle manufacturers. Opportunities exist to take advantage of the current automotive clusters in KwaZulu-Natal, the Eastern Cape and Gauteng, and to leverage economies of scale through greater original equipment manufacturer (OEM) cooperation in logistics. These economies of scale can enable more rail-based inbound logistics by removing the last mile challenge that often confronts intermodal solutions in South Africa. For the transport of fully built-up vehicles, cooperation between OEMs and shared use of inland and port terminals will allow for better asset utilisation, particularly automotive wagons, allowing them to run fully in both directions and to use a multi-port strategy to alleviate current capacity constraints at ports.

Coal sector

Between 70% to 75% of coal production is used domestically, with 25% to 30% being exported, mostly to India and China. Despite its importance to the local economy, exports and investment in the sector have been stagnant since 2008. The industry faces major challenges, including environmental risks, rising costs, lower investment levels and water and rail infrastructure challenges. Efforts to reduce greenhouse gas emissions and fierce competition from renewable energy have pushed coal producers into their deepest crisis ever. Investor sentiment towards coal is also waning. While export industry decline will not happen overnight or even in the next few years, there is a need for stakeholders to prepare for the coming energy transition.

Transnet is capping the capacity of the export coal line from Ermelo to Richards Bay to 81 mt. We are exploring the creation of new channels to enable coal fields in neighbouring Botswana to access the global market. The channel to Mozambique will also be strengthened to enable South Africa to satisfy regional demand for thermal coal. Domestic coal contributes almost 15% of Transnet's general freight volumes. Significant growth opportunities exist, particularly with respect to coal supply to Eskom. An agreement with Eskom aimed at closer collaboration on coal logistics will facilitate a significant shift of domestic coal from road to rail and will see Transnet expanding into new areas in the coal logistics value chain, including supply chain coordination. Increasing competitiveness in the coal trading market opens the door for new entrants and provides further growth opportunities (at least in the near term), especially to enable better access to market for junior miners.

This strategy aligns with the South African Government's 2019 Integrated Resource Plan, which supports a diversified energy mix, with coal continuing to play a significant role in electricity generation as the country has the resource in abundance. However, Government intends new investments to be directed towards more efficient coal technologies with high efficiency and low emissions, underground coal gasification and the development of Carbon Capture and Storage to promote environmentally responsible use of coal resources. As a SOC, we must support a Just transition towards less carbon-emitting technologies, with workers and communities in affected areas not being left worse off. This perspective also aligns with

Our coal strategy aligns with the South African Government's 2019 Integrated Resource Plan, which supports a diversified energy mix

our strategy to shift more cargo from road to rail, which will increase volumes and also ease congestion on the roads and reduce carbon emissions.

Iron ore

Chinese domestic demand for steel is expected to slow from 2020 onwards as construction and infrastructure projects start to taper off with the easing of Government's fiscal support, which could lead to an easing of steel prices and, by extension, production. South Africa remains highly competitive given its high-quality ore-grade (Kumba's 64% grade). CRU, a specialist commodity analyst group, forecasts South Africa's iron ore exports to grow at a CAGR of 0,5% over the next five years to 2024. CRU also forecasts that South Africa's share of the market will remain at the 4% level. Transnet's export iron ore line is a global benchmark for efficient and effective heavy haul rail. While market demand is greater than the 60 mt currently transported, environmental licence restrictions place a cap on export volumes. Transnet is exploring options to lift the current 60 mt volume limit. Investment priorities for export iron ore include increased maintenance on the rail track and port handling equipment to reduce the risks of operational disruption.

Manganese

As with iron ore, demand is primarily driven by China where domestic supply of manganese ore has fallen sharply. This lower output in China is mostly due to reducing reserves, falling quality, and safety restrictions. CRU predicts that South African manganese ore supply will be limited by capacity restrictions at ports. In the nine months to September 2019, exports have been trending at an annualised rate of ~20 mt meaning that they have been exceeding what analysts believe is the current maximum level. Transnet has adopted a multichannel strategy to increase manganese export capacity. Supply chain solutions for manganese exports include both bulk and containerised exports for maximum flexibility. Solutions will involve private partnerships in terminals, particularly inland terminals. Investment in rail network maintenance and port equipment is being prioritised to ensure operational reliability and increased capacity and to encourage private sector investment.

Transnet's export iron ore line is a global benchmark for efficient and effective heavy haul rail

Fuel sector

The fuel sector contributes about 6% to the country's GDP and provides critical energy inputs to the economy. Currently South Africa produces 5% of its fuel needs from gas, 35% from coal and 50% from local crude oil refineries. The domestic downstream refined product market has seen a gradual shift from being a net export market to a net import market in the last 15 years. According to the South African Petroleum Industry Association about 20% of the country's fuel needs are being met by refined product imports. These are expected to continue to increase, unless significant investments are made in the country's existing refineries or in new refineries. That said, a new refinery will almost certainly lead to retirement of existing capacity given the high cost of converting the existing refineries to meet the requirements of clean fuel specifications. It will also require changes to the current fuel distribution infrastructure in the country and potentially a new pipeline to either connect to the NMPP or direct to Gauteng, which accounts for 35% of the country's liquid fuel demand.

Digital strategy

Transnet's digital strategy aims to promote various 'shared' online, platform-based digital logistics innovations with strategic industry partners, and to establish a mutual culture of digital ideation and collaboration with sector leaders. To this end, the Company will form strategic partnerships to develop new technological products and services, and to enhance digital skills and capabilities in line with industry trends while commercialising new digital products and services to add business value for customers. These solutions will be jointly owned with an arrangement to split revenue earnings.

'Smart ports' solution

Our 'smart ports' development is well underway, with the design of an integrated logistics online platform cutting across different modes of transport. The platform will use big data to enable cargo owners to connect with freight logistics service providers for services such as cargo movements, visibility, scheduling, routing and pricing options, alerts and notifications. The system will ultimately provide cost benefits and transparency for customers while providing improved progress visibility for customers.

Rolling stock tracking solution

Our rolling stock and tracking online application will give rail operators the ability to track and trace the location of rolling stock assets. The application will be created through the convergence of existing subsystems to achieve multiple benefits, including near real-time tracking and monitoring of assets; optimisation of rolling stock capacity; improved customer service; management of wagon demurrage; increased operational efficiency; and condition-based maintenance.

Material matters impacting our strategy

Changes in reporting on material aspects

Our reporting on material matters for 2020 are clustered according to the five strategic levers that will govern our strategic intent and activities for the next five years. While the material matters for 2020 remain constant from the prior year in most respects, they are further informed by the added socio-economic impacts of the Covid-19 context and the economic downgrades by rating agencies during the year.

Table 3: Material matters impacting our strategy

Strategic levers	Material matters	Influencing factors
Customer service	1. Greater customer centricity and integration 2. Improve operational efficiency and effectiveness 3. Link capabilities and services to offer competitively priced end-to-end customer solutions 4. Restore stakeholder confidence and trust in the Company 5. Fix, optimise and grow the core business 6. Leverage private sector partnerships in the provision of infrastructure and operations 7. Promote regional integration 8. Volume growth	• Operational constraints due to maintenance backlog in the network and equipment • Blocked customer supply chains due to Covid-19 and other emerging risks due to the pandemic • Financial constraints on customers due to the pandemic and credit rating downgrades • Historical high levels of customer dissatisfaction • Poor reputation among key stakeholders • Institutional infrastructure for partnering along the supply chain needs improvement • Evolving supply chain trends due to the 4th Industrial Revolution (e.g. need to locate production closer to customers, involving customers in product and process designs, need for shortened delivery and planning cycles, new business models unthinkable without digitalisation)
People	9. Build a representative workforce 10. Build a high-performance organisation with the right skills at the right time 11. Create shared stakeholder value through Transnet's CSI initiatives 12. Keep employees informed 13. Address employee morale and high rate of absenteeism 14. Ensure leadership stability	• Impact of Covid-19 on work practices and employee well-being – changing work practices, skills shortages and absenteeism • Impact of Covid-19 on the well-being (health and financial impacts) of communities and suppliers, especially small businesses • Low employee morale resulting from state capture-related issues and appearances of Company representatives before the Zondo Commission of Inquiry into allegations of state capture • Need to effect consequence management measures for employees found guilty of fraud and corruption • Actions required in terms of suspensions and appointments of senior executives given widespread corruption allegations • People risks of the 4th Industrial Revolution (e.g. new work/production models, human job security, legal and ethical concerns of robots near human workers)

Strategic levers	Material matters	Influencing factors
Asset utilisation	15. Optimise business continuity following business disruption (mainly Covid-19) 16. Enable access to network infrastructure – particularly with new remote work practices 17. Proactive use of Transnet assets and resources during and after the pandemic 18. Optimise data management, analytics and scenario planning	• Business disruptions and operational shutdown due to Covid-19 • Emergence of new operational and remote work patterns • Maintenance backlog, derailments and the impact of low volume targets • Crisis infrastructure support (e.g. ICT infrastructure and data management) • Security risks to assets (theft, vandalisation) • Emerging risks and impacts of the 4th Industrial Revolution, e.g. changing skills sets, changing technologies (AI, advanced robotics, distributed manufacturing)
Safety	19. Strengthen safety and environmental governance 20. Minimise exposure to Covid-19 21. Codify new safety rules and ways of working to adapt to 'new normal'	• Health and safety of employees and other stakeholders due to Covid-19 • Incidents of derailments and other safety incidents leading to employee and public injuries and fatalities • Regulatory compliance with safety and environmental regulations
Cost control	22. Financial self-sustainability (liquidity and funding) 23. Drive cost efficiency across all spheres of the business 24. Reprioritise maintenance-related capital 25. Procurement transparency and fair process	• Impacts of credit rating downgrades, with the Rand significantly weakening against the US Dollar impacting on the procurement of goods not yet contracted • Historical underinvestment in infrastructure maintenance • Declining trade volumes due to Covid-19 economic trade impacts • High dependency on mining revenue – especially coal • Historical high investment in capacity expansion not balanced by volume increases • Reduced levels of operations due to Covid-19 • Significant investment in assets (and commensurate debt) are not generating the required returns • The potential impact of National Ports Authority's corporatisation on the Company's balance sheet

Table 4: Levels of accountability for determining material aspects

Stage 1 Identification	Stage 2 Validation	Stage 3 Prioritisation	Stage 4 Approval
Accountability			
• Transnet Sustainability Department • Group Finance	• Transnet Sustainability Department • Group Finance • Corporate Governance and Nominations Committee • Operating Divisions	• Transnet Sustainability Department • Group Finance	• Remuneration, Social and Ethics Committee • Audit Committee • Risk Committee • Corporate Governance and Nominations Committee • Transnet Board of Directors
Material determinants			
• Frequency of aspect being raised • Relevance of topics to multiple stakeholders • Applicability to Transnet's mandate, strategy and SDOs • Efficacy of the Transnet control environment in mitigating associated risks • Emerging risks	• Actual incidents arising during the year • Continuing applicability from the prior year • Stakeholder inclusivity • Management assessment, discussion and approval • Appropriateness of the range of aspects to be covered in Transnet's integrated reporting process • Severity of impact on the business[7] • How and where material issues occur and their impact in terms of Transnet's reporting boundary • Relevance within the 2020 reporting period	• Align relevance of material aspects with boundary context • Management perspective on impact and likelihood on Transnet's business context and strategy • Alignment with top 10 risks • Consideration of relevance both in terms of challenges and opportunities (i.e. overall impact on the Company's ability to create sustainable value)	• Governance terms of reference for the integrated report (Annexure A) • Alignment to Board and Board Committee mandates and priorities

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

Figure 5: The scope and boundary of our materiality determination process

Contexts for deriving Transnet's most material matters

- Statement of Strategic Intent
- Issues arising from Transnet's business context and operating environment
- Issues arising from stakeholder concerns
- Transnet's top 10 risks
- Issues arising from the Board and Board committee meetings during the year
- Key issues arising from the external environment
- Material issues relating to SDOs

Directors' approval of material matters

The Board of Directors 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 oversight Board committees.

Material risks and opportunities

Opportunities arising from material matters

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Strategic lever: Customer service

- Optimise key operational processes using digital technology to create real-time visibility for customers – with a 'one Transnet view' aggregated for the customer – enabling customers to track and trace commodities across the Transnet value chain (i.e. determining whether assets are in transit or in storage).
- Create an e-commerce customer platform for easy onboarding and transacting. This platform could offer a service catalogue, spot quoting, service level agreements, contracting options and other value-added services such as crypto currency options.
- Explore opportunities for 'back-of-port' services to offer warehousing and value-add services in the container, mineral bulk and automotive segments.
- Develop technologies to build operational capability to best utilise slot capacity; and to enable connectivity, visibility of information, data and assets for real-time tracking of customer trains, decision-making, reporting and billing systems.

Strategic lever: People

- Leverage virtual learning models and capabilities available in the market to provide remote training opportunities.
- Develop guidelines for voluntary mentoring opportunities for senior and retired employees to improve competencies and experience of 'youth' employees.
- Transnet's Succession Planning Strategy will meet various interdependent needs: Improve employee commitment and career development aspirations while reducing costs of recruiting externally.

Strategic lever: Asset utilisation

- Monetise spare capacity on Transnet's optic fibre network to extend wireless network services.
- Exploit connectivity and computing power for real-time asset monitoring across capital programmes.
- Develop inland capacity through new growth initiatives.
- Explore alternative uses for the Durban to Johannesburg Pipeline (DJP), e.g. fibre and gas.
- Diversify the property portfolio to maximise returns.

Strategic lever: Safety

- The Transnet Covid-19 Command Centre will continue to lead scenario planning and dedicated risk mitigation around safety and security.
- The new 'digital railway' will use technology to improve safety, maintenance practices and increase track situational awareness.
- Institute new remote and mobile work practices emerging under Covid-19 to support safety of people working in non-industrialised jobs and reduce costs associated with office-bound jobs.

Strategic lever: Cost control

- Service scalability and an operating expenditure-based consumption model can control costs.
- 'Paperless governance' will reduce cost, risk and inefficiencies while improving audit trails.
- Utilise data analytics and intelligence to optimise resource planning and predictive maintenance.
- Property lifecycle management and safety programmes will reduce costs and improve working conditions.
- Leverage property portfolio to increase revenue.

Transnet's risk management process and architecture

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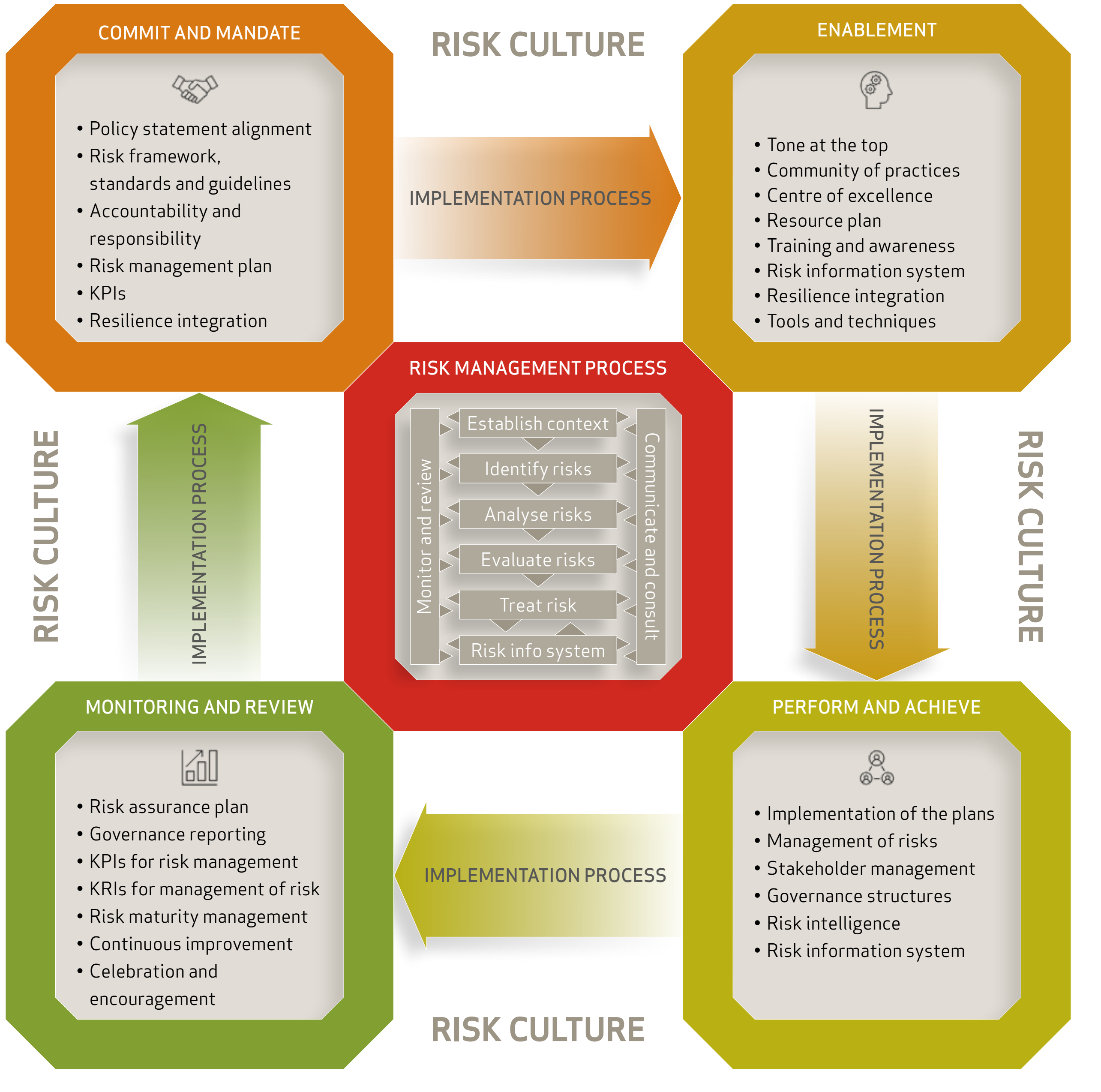
In line with Transnet's strategy to fix, optimise and grow the core business, we have assessed and reaffirmed our risk management framework and planning. This is to ensure they remain 'fit for purpose' in an increasingly volatile macroeconomic and operational context, which is exacerbated by the cascading impacts of Covid-19. Our assessment identified the need for more vigilant risk governance, and a more active risk management culture which responds appropriately to organisational dynamics. The assessment also determined that the need to reset the risk management base must take effect at a much faster pace, which would require the organisation to be resilient and proactive rather than reactive in responding to present and emerging risks. To this end, Transnet has crafted and embarked on a journey to enhance our risk management framework and risk management maturity level. Progress made on our journey will be monitored and reported to the various risk governance structures in the organisation and to our stakeholders.

The new risk management framework drives the required principles, concepts and common language through five key components (as outlined in Figure 6). The figure shows two cycles. The innermost cycle is at the core of the risk management process and is an iterative tactical process for managing risks on a day-to-day basis in a business. Surrounding the tactical process is the strategic envelope ensuring commitment and mandate for risk management from the Executive Committee and the Board.

The framework, which remains premised on international best practices, aligns the Company's risk management process with Transnet's strategy and business objectives, stakeholder needs, desired risk culture, organisational structure, combined assurance process and governance principles. Overall, the framework is designed to enable agility in decisions around risk identification, prioritisation and control, and to ensure risk-related initiatives and tasks are clearly defined, owned and maintained within acceptable levels.

Figure 6: Transnet's Risk Management Framework



With the advent of Covid-19, Transnet acted with extreme agility by setting up a dedicated Command Centre to ensure centrally coordinated continuity of our operations

SCAN TO DOWNLOAD THE ONLINE RISK REPORT

Root causes of risks and risk movements

Table 5 outlines the top 10 risk clusters for 2020 while Figure 7 reflects the risk movements from the prior year. The root causes for each risk cluster and mitigation controls are provided for each risk cluster, together with the overarching reasons for risk movements. Further, the table links the risk clusters to material aspects impacted and shows the 'residual' risk rating relative to the 'inherent' risk rating after mitigations are in place.

Significant risk movements have resulted from the combined and cascaded effects of the following multidimensional factors:

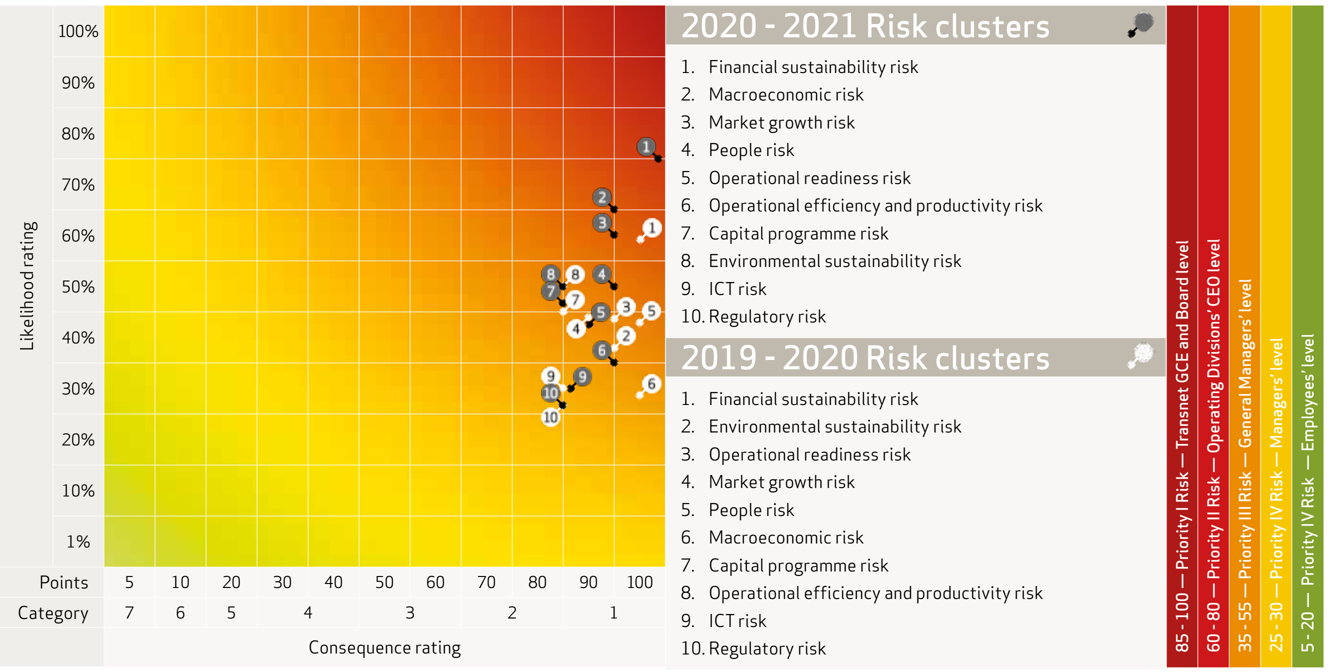
- The historical underinvestment in infrastructure maintenance leading to equipment failures and lower productivity.
- The lingering impacts on employee morale of state capture-related issues, appearances of Company representatives before the Zondo Commission of Inquiry, and the resulting temporary instability of our executive leadership structure.
- The impacts of climate change on weather, which affect operational efficiency and reliability.
- Intensifying global geopolitical and macroeconomic changes and their impacts on global trade, supply chains and commodity markets.
- The intensifying impetus towards digitalisation of aspects of our business (and the need for new skills sets), both as a result of the pressures to adopt digital solutions as we moving rapidly towards the 4th Industrial Revolution, and the need to improve administrative control over aspects of the supply chain to enhance transaction visibility, and ultimately to improve customer satisfaction.
- The commercial, human and financial impacts of Covid-19.

It is important to note that, given the unpredictable nature of the pandemic and the many unknowns associated with its spread and treatment, some of the Covid-related root causes were not fully mitigated at the start of the pandemic. However, Transnet acted with extreme agility by setting up a dedicated Command Centre to ensure centrally coordinated continuity of our operations, as well as to facilitate extensive scenario planning for various aspects of the business moving forward. Programme management included the following key functions:

- People management (health and safety, work conditions, productivity tools)
- Audit facilitation and reporting
- Central budget management
- Tracking of progress and remedial actions
- Data management, analytics and scenario planning
- Governance process facilitation
- Coordination and integration of workstreams (operations, procurement and logistics, people, financial sustainability and risk, ICT enablement, stakeholder management, Covid-19 crisis support, and proactive national contributions)
- 'War room' set up and management

The movement of risks from the prior year can also be attributed to new root causes adding to the high likelihood and severity of impacts associated with these risk clusters materialising.

Figure 7: Transnet's key strategic risk cluster movements



Risk impacts and management strategies

Table 5: Top 10 risk clusters: 2020 – 2021

1. Financial sustainability risk

Inherent risk
Residual risk

Root causes	Value impacted
• Non-regulated pricing models and methods not flexible enough to be competitive • Regulated pricing – tariff guidelines not supportive of volume growth	• Not meeting planned volume growth • Impacting adversely on financial results • Slowing down the road-to-rail strategy

Activities to manage risk

- Take-or-pay contracts (certainty around price per volume for major customers, including iron ore, manganese and coal segments)
- Integrated Pricing Committee at Group level to coordinate and streamline all pricing strategies and methodologies
- Predictive pricing models as a benchmarking tool
- New business development initiatives bridge the revenue generation deficit gap
- Continuous working capital management (debtors and creditors management, monitoring of customers with high credit risk exposures)
- Sustainable cost-compression measures
- Feasibility studies of diversified revenue streams

Reason for risk increase ▲

- Market liquidity/global financial crisis
- Lower than expected world and South African economic growth rates
- Risks associated with being cash positive
- Impact on revenue generation due to lower than expected market growth, global logistic chain disruptions as a result of Covid, and economic contraction
- Elevated credit exposure due to customer payment defaults
- Customers going into business rescue
- Slow revenue diversification
- Credit rating agencies' assessments and their impact on the Company's funding requirements – refinancing risks

2. Macroeconomic environment risk

Inherent risk
Residual risk

Root causes	Value impacted
• Global economic slowdown and slow recovery • Local economic policy uncertainty • Weakening of local currency • Volatile economic/political climate impact on world trade influences demand and commodity prices	• Increases in capital cost due to fluctuating foreign exchange rates • Capital projects becoming non-viable • Increased cost for the replacement of current assets and acquisition of spares • Possible sovereign credit rating downgrades

Activities to manage risk

- Generate business development strategies, and business cases to drive diversification and market development
- Corporate planning and budgeting processes provide flexibility to adjust investment strategies and reprioritise capital
- Include economic prospects in the planning and budgeting processes to stay abreast of economic developments
- Guidelines to minimise funding risks through the Financial Risk Management Framework

Reason for risk increase ▲

- Global economic slowdown
- Decline in economic activity in the primary, secondary and tertiary sectors
- Volatile oil prices
- Decline in the world economic growth rate
- High dependency on mining commodities
- Decrease in the export market due to volatile commodity prices impacting demand and supply, high stockpiles and weak exchange rates
- Global demand erratic due to changing consumption patterns

3. Market growth risk

Inherent risk
Residual risk

Root causes	Value impacted
• Ineffective value chain coordination • Ineffective rail and port planning • Asset availability and reliability concerns • Credit rating downgrade risk • Slow domestic economic growth that negatively affects volumes • Lack of customer demand validation • Protracted capital projects process • Customer dissatisfaction	• Lower volumes • Financial instability • Reduced asset performance • Adversely affecting service delivery levels

Activities to manage risk

- Strategic customer engagement plans, including onboarding of new customers with greater speed
- Integrated key account management and customer relationship management system
- Commercial contract management dashboard to monitor adherence to contract obligations
- Accelerate back-to-rail strategy for rail-friendly cargo to increase rail transport market share
- Revenue diversification initiatives
- Geographical expansion strategy

Reason for risk increase ▲

- Inability to attract and sustain additional volumes
- Impact of regulated pricing on volumes
- Lower than anticipated market demand for freight
- Road tariff competitiveness threatens rail volume growth
- Ability to offer competitive rates
- Ability to penetrate the fast-moving consumer goods market
- Covid impact on global supply chains

4. People risk

Inherent risk
Residual risk

Root causes	Value impacted
• Operational staff not skilled for future operations • Lack of scarce skills in the job market • Employee safety risks – coupled with poor safety and health culture including Covid-19 • Low employee morale leading to low productivity • Unstable leadership structures • Ageing workforce and unbalanced gender representation	• Delayed benefits realisation of new technologies • Retraining of current employees • Reliance on external skills • Lower productivity • Increase in safety incidents

Activities to manage risk

- Workforce plan methodology determines long-term resources and skills – will improve gender and age representation
- Integrated talent management methodology inclusive of performance management to enhance employee performance
- Incentive programme aligned to business performance
- Training and development initiatives aligned to employees' roles and personal development needs
- Improved facilities management to improve working conditions
- Employee wellness initiatives
- Virtual learning and training solutions
- Integration of Transnet healthcare clinics to ensure equitable and efficient service

Reason for risk increase ▲

- Impact of Covid on workforce availability affecting operational performance
- Impact of the unexpected and isolating nature of the lockdown on employees without the remote working strategy and management
- Lack of adequate scenario planning on impact of the pandemic on people
- Inadequate organisational design
- Potential strikes/go slows
- Shortage of career pipelines
- Change fatigue, mental fatigue and poor 'work-life' balance due to remote working conditions under lockdown
- Community unrest

5. Operational readiness risk

Inherent risk
Residual risk

Root causes	Value impacted
• Operations not ready to operate newly acquired assets • Poor alignment across the value chain between Operating Divisions and Specialist Units • Inadequate funding to address maintenance backlog leading to disruptions • Theft, vandalism and security risks • Energy security risks	• Delays in the deployment of newly acquired rolling stock • Reduced availability of rolling stock • Lower productivity

Activities to manage risk

- Locomotive Execution Strategy – Four-tier governance structure to deliver and deploy locomotives on schedule
- Operational readiness plans in preparation for locomotive deployment
- 1 064 Locomotive Steering Committees oversight of risk mitigation measures
- Integrated capital project planning between Group Capital and Operating Divisions
- Programme Management Office at Transnet Engineering to ensure project delivery
- Accelerate investment in infrastructure to align maintenance requirements with investment in locomotives

Reason for risk remaining static =

- Delays in maintenance regime as a result of lockdown
- Covid impact on global supply chains
- Long lead times to procure specialised components for maintenance
- Impact of the 1 064 rail renegotiations on the deployment of assets
- Bridging the maintenance backlog gap

6. Operational efficiency and productivity risk

Inherent risk
Residual risk

Root causes	Value impacted
• Ineffective value chain coordination • Ineffective rail and port planning • Asset availability and reliability concerns • Risk and vulnerability of infrastructure and operations (Covid-19)	• Lower volumes • Financial instability • Reduced asset performance • Adversely affecting service delivery levels

Activities to manage risk

- 'Capacity' versus 'demand' model for rail and ports to address holistic operations of ports
- Integrated planning between the Operating Divisions and industry to create contingent capacity
- Terminal efficiency improvement initiatives
- Tools to ensure planned and verified tonnages are railed and delivered as per order book
- Transnet Value Chain Co-ordination Framework to address operational efficiencies and bottlenecks in the value chain
- Flexible and innovative security interventions to protect the network, equipment and mitigate against community unrest

Reason for risk remaining static =

- Impact of lockdown resulting in low volumes from customers
- Stack occupancies – road haulers non-collection of cargo resulting in congestion and inefficiencies
- Absenteeism as a result of infections
- Safety incidents impacting people and assets
- Rising security incidents, increased vandalism and theft
- Community unrests

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

7. Capital programme risk

Inherent risk

Residual risk

Root causes	Value impacted
• Expected market demand not sufficiently validated • Lower economic activity locally and globally leading to lower market demand • Delays in executing capital projects • Project risk and opportunity management risks • Long and unsuccessful procurement processes • Insufficient capital funding for major upgrades	• Not generating adequate cash flows to contribute to future capital expenditure • Stranding and underutilisation of newly acquired assets

Activities to manage risk

- Business case templates and processes to inform investment decisions by the Investment Forum
- Capital Investment Plan
- Capacity creation investment programmes for specific sectors
- Validate the business needs of projects by validating demand based on take-or-pay agreements with customers
- Informed capital allocation, with clear guidelines for replace/repair/refurbish decisions
- Expanded role of the Capital Planning Committee: Early project registration, capital portfolio development and capital monitoring
- Capital Programme Governance Framework to track benefits realised

Reason for risk remaining static =

- Not utilising funds for capital investments optimally
- Delays in lead times

8. Environmental sustainability risk

Inherent risk

Residual risk

Root causes	Value impacted
• Absence of sufficient substations along the network • Water shortage in certain geographical areas • Adverse weather patterns resulting in strong winds and torrential rain • Limited budget for remediation (e.g. asbestos)	• Operational disruptions • Handling of certain commodities adversely affected (i.e. sawdust at Port of Richards Bay) • Safety incidents: Loss of life and damage to equipment • Financial impacts of climate change factors

Activities to manage risk

- Energy strategy and business continuity plans for enhanced recovery
- Water strategy to provide strategic guidelines and direction on water utilisation in the business
- Approved Climate Change Position Paper: Communication Strategy and Stakeholder Engagement Plan to increase awareness of weather patterns and extremes related to seasonal exposure
- Infrastructure risk and vulnerability framework to identify impacts of extreme weather phenomena on equipment
- Adherence to climate-related financial disclosure framework

Reason for risk remaining static =

- Certain commodity sectors impacted by unpredictable weather patterns due to climate change, e.g. grain, agriculture and mining (wet products)
- Increased environmental regulation met by lower compliance rate
- Environmental concerns driving renewable energies leading to a decline in coal volumes

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

9. ICT risk

Inherent risk

Residual risk

Root causes	Value impacted
• Organisation not ready to embrace disruptive technologies • Current ICT solutions not integrated • Delays in automation of critical processes resulting in non-integrated systems • ICT governance and cyber risks	• Business processes • Operational productivity and skills availability • Customer service delivery • Knowledge management and integration • Poor systems analytical capability lead to poor scenario planning and trend analysis

Activities to manage risk

- Disaster recovery programme including the review and approval of the ICT continuity strategy
- Transnet ICT continuity test methodology to test the adequacy and efficiency of ICT systems and infrastructure
- Cybersecurity Improvement Plan as well as the Transnet Security Information and Event Management solution to mitigate potential cyber risks
- IT training and change management to introduce technologies prior to new assets being deployed
- On-time adoption of digital technologies to manage the risk of obsolescence
- Network upgrade strategy and planning and Digital Transformation Framework

Reason for risk remaining static =

- Ageing ICT infrastructure and technology (inadequate network connectivity)
- Cyber security and slow adoption of the 4th Industrial Revolution
- Funding constraints
- Delays in the automation of critical business processes
- Delayed commercialisation of digital solutions
- Remote working conditions (Covid-19 lockdown period)

10. Regulatory risk

Inherent risk

Residual risk

Root causes	Value impacted
• National policy changes anticipated in terms of economic regulation • National Treasury increasing procurement controls to contain uneconomical spend and opportunities for fraud • Regulatory and compliance accountability not clearly defined	• Spending on capital expenditure based on assumptions may be negatively impacted by subsequent changes in regulation • Compliance requirements becoming more onerous • Local policy uncertainty

Activities to manage risk

- Regular engagements with government department/regulators, e. g. DPE, Department of Transport, Nersa, National Treasury, the Rail Safety Regulator and the Ports Regulator of South Africa on a risk-based approach to ensure strategic alignment
- Develop position papers to influence sector policy developments, economic and safety regulation approaches and methodologies, sector and regulatory legislation
- Finalise the monitoring framework to ensure that conditions attached to regulatory decisions regarding permits, licences and tariff applications are implemented
- The National Ports Authority to apply the Ports Regulator of South Africa's approved multi-year tariff methodology to ensure regulatory and revenue certainty
- Pipelines to apply Nersa's approved annual tariff methodology for its petroleum pipeline tariffs to ensure compliance

Reason for risk remaining static =

- Rapid changes in the regulatory environment impacting costs of operations
- High costs of licensing obligations (Railway Safety Regulator)

Risks taken outside tolerance levels

The desired control effectiveness is decided by risk sponsors/owners, assuming that all additional mitigation has become effective at some planned future date. The level of desired control effectiveness is based on considerations such as the extent to which the root causes, consequences or likelihood of the risk materialising can be controlled. Due consideration is also given to the cost benefit analysis when deciding on the scope for further control and risk treatment.

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

The governance of risk

Our internal risk assurance process and methodology provide the 'checks and balances' within our governance and risk frameworks by identifying the gaps between the ideal risk state versus the risk in real terms.

Our integrated risk assurance activities happen across three types of risks:

Risk types	Assurance objectives
Preventable risks	Provide assurance on the management of risks, as well as the associated processes, controls and compliance
Strategic risks	Provide assurance on decision governance processes and the execution of approved plans to actualise intended benefits
Extraneous risks	Provide assurance on the resilience of business processes and market intelligence processes

Our integrated control assurance process provides a clearly defined, documented approach for integrating and aligning Transnet's assurance processes and control systems to facilitate appropriate risk and governance oversight. Four levels of oversight provide comfort to stakeholders that relevant controls are in place, with the added oversight of internal support functions; that the control environment has both internal and external independent assurance oversight; and that the Company's executive structure has ultimate management control of the risk management environment through the continued oversight of governance committees.

Our integrated control assurance process provides a clearly defined, documented approach for integrating and aligning Transnet's assurance processes and control systems

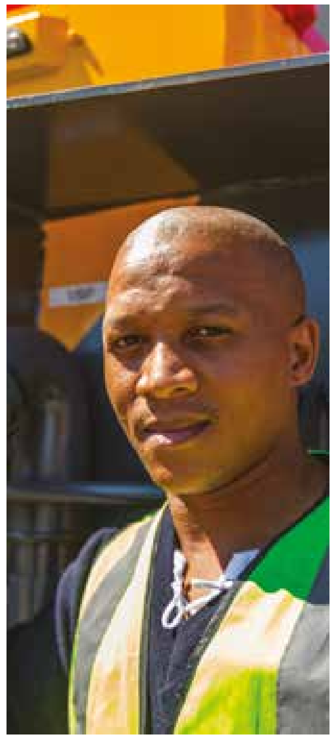
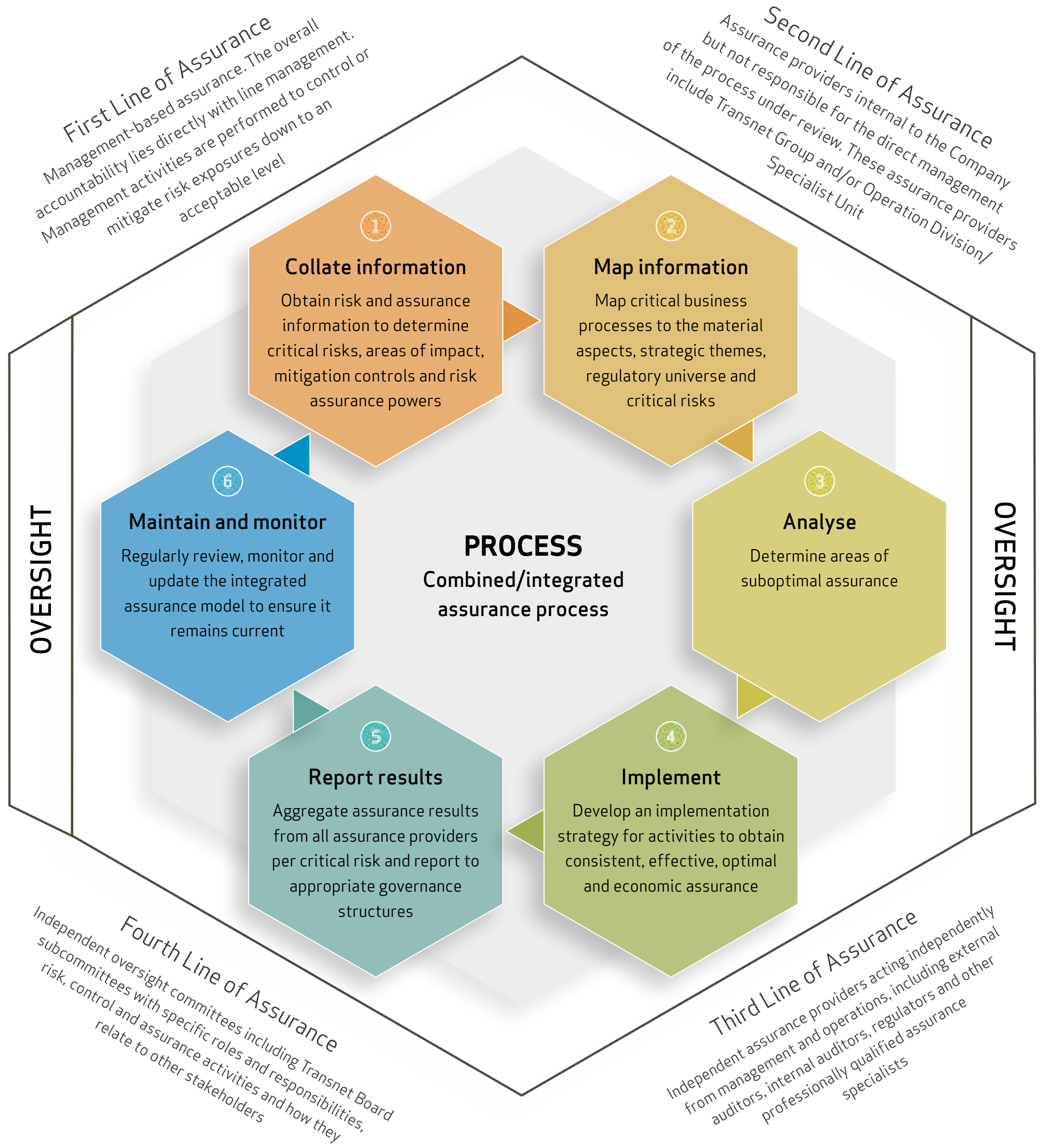


Figure 8: Risk management in the context of integrated assurance



Assurance oversight: 2020 and beyond

More complex risks, a more rigorous compliance landscape and increased regulatory scrutiny have significantly increased the challenges for the Company's risk and assurance functions. Accordingly, Transnet's integrated assurance process and oversight will continue to respond to these challenges by integrating the key risk and assurance concepts in an innovative and practical manner.

Accountability for the implementation of integrated assurance within the organisation has been transferred from Group Risk Management to Transnet Internal Audit (TIA). Among others, TIA will be responsible for implementing and embedding integrated assurance as defined in the Transnet Integrated Assurance protocols.

Accountability for the implementation of integrated assurance has been transferred from Group Risk Management to Transnet Internal Audit

Emerging risks

King IV. P11 & 12

Transnet faces various strategic, operational and sustainability-related emerging risks which are likely to impact the organisation going forward. These risks relate in part to environmental and market factors that fall outside of Transnet's locus of control, such as climate-change events, community unrest and unforeseen disruptive technological developments in the freight and logistics sector. The cascading impacts of Covid-19 on markets, people and operations further exacerbate potential impacts, requiring Transnet to establish a firm approach to business continuity, readiness and resilience.

Table 6: Emerging sustainability risks for 2020

Short to medium-term emerging risks

1. Adapting to the 'new normal'

Risk description	Anticipated impact
• Adapting Transnet's operations, culture and strategic execution to a changed business environment following the first wave of Covid-19 and beyond	• Impact on resource planning and strategic execution • Impact on people's health, safety and well-being

Mitigation strategies

- Transnet's Covid Command Centre continues to manage administrative functions, risk management, planning and reporting
- Solidifying new communication protocols established by the Command Centre during the first wave of Covid between divisions and functional areas
- Clear conceptual roadmap with defined roles and capacitated accountability
- Continue to refine operational practices to make Transnet increasingly resilient to respond to similar human/operational events – scenario planning, trend analysis
- Continue to adapt to new remote working paradigm

2. Digitalisation impacts on operations

Risk description	Anticipated impact
• Understanding and effectively mitigating cyber vulnerabilities • Speed of disruptive innovation and the potential impact on business models and processes • The emergence of new digital logistics platforms may pose a threat to Transnet's ability to enter new markets as a logistics service provider • Business-to-business digitalisation enabling new direct logistics outsourcing business models leads to the disintermediation of service providers such as Transnet	• Potential loss in digital revenues • Potential loss in diversified revenues by not offering logistics services on digital platforms • Other players in the industry will take greater ownership of the transportation ecosystem • Risk exacerbated by Covid-19 impacts on remote work practices – cyber and data security

Mitigation strategies

- Transnet's integrated digital transformation strategy outlines approach to ICT governance, big data analytics, tracking and tracing technology and the Internet of Things
- Develop a logistics platform to support a digital transformation strategy
- Partner with industry players such as shipping lines to build smart contracting digital platforms and develop alternative digital platform solutions
- Establish administrative control over supply chain processes using digital capabilities – especially for systems containing critical data
- Risk-based ICT strategy to manage cascading Covid-19 risks impacting on systems, people and productivity

Medium to long-term emerging risks

3. Geopolitical uncertainty and possible changes to trade agreements impact on industrial manufacturing and flows of goods

Risk description	Anticipated impact
• World trade volumes decreasing as the notable decline in the export volumes of emerging markets reflect the impact of ongoing international trade tensions	• Low freight demand • Lower volumes • Risk exacerbated by Covid-19 impacts leading to possible border closures, while the inward resource focus of countries may reduce import/export trade

Mitigation strategies

- Diversified growth and diversification strategy
- Strategy to promote growth of road-to-rail business
- Market development through regional integration
- Improve demand-side scenario planning
- Risk-based market strategy to manage cascading Covid-19 risks impacting on global and regional markets and geopolitical factors

4. Exacerbating energy supply risk

Risk description	Anticipated impact
• Security of energy supply compromises ability to effectively meet customer requirements	• Loss of revenue • Loss of customer confidence

Mitigation strategies

- Energy strategy to improve energy resilience through diversification and programmatic approach to energy diversification options and energy transition

5. Social activism and sporadic community unrest

Risk description	Anticipated impact
• Amplifying community discontent due to Transnet not meeting community demands in respect of job and business opportunities	• Operational disruptions • Security-related incidents • Destruction to property • Loss of revenue • Risk to our social licence to operate

Mitigation strategies

- Community Investment Plan to ensure a structured, integrated and focused approach that proactively responds to community needs and expectations
- Scenario planning to identify emerging social-related risks and opportunities
- Implementation of the community grievance mechanism through a toll-free hotline

6. New competencies required to navigate 4th Industrial Revolution

Risk description	Anticipated impact
• Risk of inadequate skills and competencies to fully respond to 4th Industrial Revolution business models	• Long-term business sustainability • Business and market growth • Risk exacerbated by Covid-19 impacts on employee skills training, work methodologies and productivity

Mitigation strategies

- Centres of excellence being established to respond to 4th Industrial Revolution prerequisites
- Risk-based people and ICT strategies to manage cascading Covid-19 risks impacting on people, safety and productivity

7. Drought and water restrictions increasing in frequency

Risk description	Anticipated impact
• Impact on operations, employees, health and hygiene, customers and supply chain • Ports of Saldanha, Port Elizabeth and Richards Bay at risk	• Interrupted water supply • Risks to health and hygienic work environment • Security of supply for Transnet at risk • Risk exacerbated by Covid-19

Mitigation strategies

- Water strategy that ensures security of supply and leveraging alternative water sources
- Risk-based people and resourcing strategies to manage cascading Covid-19 risk impacts on people, health and safety

8. Climate change adaptation: Extreme weather events and weather volatility

Risk description	Anticipated impact
• Damage to infrastructure and safety of employees due to extreme weather events	• Reduced revenue and lower productivity and efficiency • Increased safety incidents • High costs of infrastructure maintenance (e.g. ports' equipment)

Mitigation strategies

- Understand the risk and vulnerability of the business and develop resilience and adaptation responses

Long-term emerging risks

9. Global transition to low-carbon economy impacting on key commodity revenue streams

Risk description	Anticipated impact
• Global decrease in thermal coal, iron ore and petroleum demand due to international agreements to reduce carbon emissions thereby impacting on revenue	• Decline in revenue • Market growth • Stranding of capacity and assets

Mitigation strategies

- Implement recommendations of the Transnet Climate Change Position Paper, specifically to understand implications of low-carbon transition on thermal coal export and changing petroleum and diesel demands

10. Transition risk of global vessel fleets to zero emission fuels by 2050

Risk description	Anticipated impact
• Our ports may be unable to adequately service customer requirements if we do not synchronise our energy supply to vessels at a commensurate rate to the global vessel fleets	• Stressed revenues • Stranded assets • Stranding of capacity and assets

Mitigation strategies

- Quantify the risk and develop scenarios for solutions

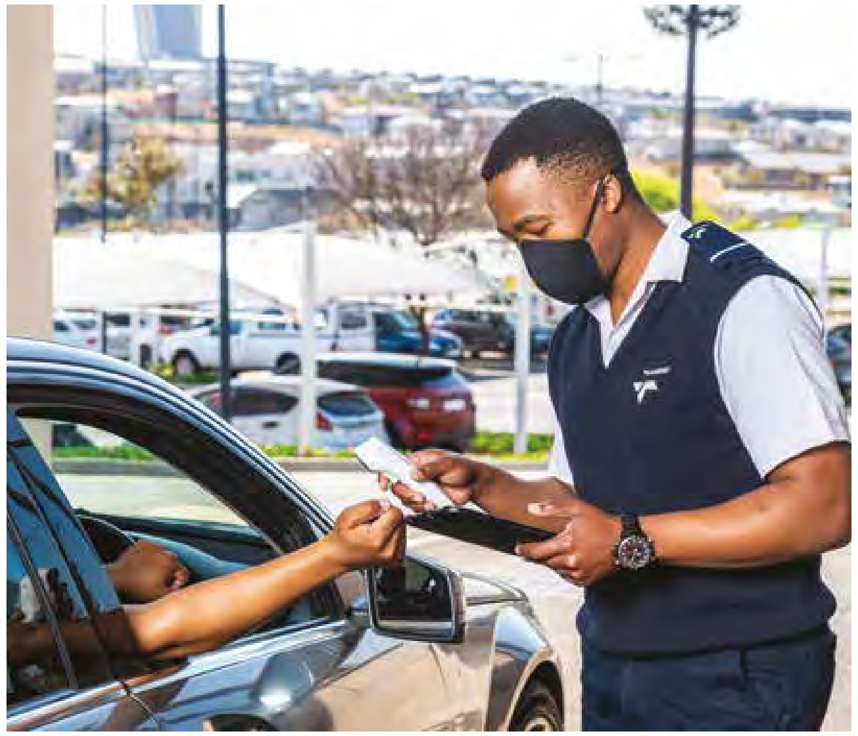
11. Autonomous road freight systems

Risk description	Anticipated impact
• Negative impact of autonomous road freight systems on road-to-rail modal shift	• Impact on market growth and market competitiveness • Impact on revenue generation

Mitigation strategies

- Research and development into possible technology solutions to mitigate risk of autonomous trucks displacing rail

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



Sustainability risks and opportunities
2020
2025
2030
2040
2050
SUSTAINABLE DEVELOPMENT GOALS
Energy transformation
Biodiversity
Circular economy
Climate change
Water scarcity
Disruptive technology
Continuing acceleration of circular economy means less energy requirements for the same level of output
Scale-up rooftop solar PV
Renewable energy at price parity with fossil fuel options
Energy system transformation
Coastal wind energy supports 'Green Port'
Fuel switching behaviour observed across value chains, especially for primary energy usage and energy-intensive industries
Global emissions reduction agreements lead to a global carbon price and subsequently reduce demand for fossil fuel-based energy
Waste to energy
Cap placed on carbon emissions drives disinvestment in fossil fuels and thus more focus on renewables
Gas pipelines
LNG import terminals
Gas bunkering
Covid-19 increases awareness of air quality impacts in cities, resulting in further acceleration of energy system transformation and environmental regimes
Price volatility for thermal coal due to competitiveness created by convergence of renewable energy; smart grid technology driven by the 4th Industrial Revolution; and agreement on a global carbon price
Habitat loss caused by land use change, leading to the decline of wetlands
48% of South African wetland ecosystem critically endangered
Rapidly evolving environmental regime
Emergence of Monitoring and Evaluation Accounting System (payment for loss of biodiversity instituted)
Unsustainable fishing continues to reduce global fish populations, amplifying food security concerns
Widespread implementation of biodiversity offsets
Challenges in finding land to offset for the business, leading to increased project costs and monitoring costs over the business lifecycle due to stringent offsetting requirements
Covid-19 amplifies historical inequality leading to social stresses
Study of biomimicry for design and resilience
Strain on infrastructure and social services
Increase in bioenergy demand impacting the demand of fossil fuel
Catalyse biofuels industry
Global shift to a circular economy underway. Affordable renewable energy and climate change agreements expected to scale up adoption of renewable energy, resulting in a declining demand for fossil fuel energy
Advanced manufacturing
Rising social activism
Increasing political polarisation and social unrest result in increasing large-scale involuntary migration across countries
Declining global demand for thermal coal impacting on thermal coal value chain (including mining and logistics)
Thermal coal export volumes expected to decline due to accelerating transition to cleaner energy
High carbon price impacts thermal coal demand on a global scale, stranding rail capacity and future revenue streams
Decline in thermal coal demand
Deepening income inequality eroding social contracts within and between countries
Limited progress on global consensus to implement measures to mitigate climate change
Possible second wave of Covid-19
Increasing likelihood of large-scale weather events shifting global action towards strong mitigation and adaptation measures
Damage to infrastructure and safety risk to employees under extreme weather events
Amplifying response to mitigation with high price placed on carbon
Scaling up of adaptation requirements to build resilience to the environment, society and economic systems
Community unrest due to inability to respond to all expectations
Thermal coal mining declines due to reduced demand driven by high carbon price
Extreme weather events directly impact South African economy
Impact of water scarcity and weather events on business continuity
Water tariffs and restrictions on domestic and industrial usage
Impacting business continuity in affected regions and health and hygiene of employees
Volume increase at ports from food imports
Water security across business addressed through innovative water solutions
Water stress amplifying and increasing volatility to catchments and water supply
Food production impacted, resulting in inflationary increase on food prices and increase in imports
Social unrest emerging as a result of persistent job losses due to service delivery, lack of accessibility and automation
Desalination facilities
Increased water stress in Waterberg region impacting access to water use licensing for coal mining
Coal production impacted, resulting in stranded rail capacity and negative impact on revenue
Water scarcity in the Western Cape and other regions addressed through innovative water solutions
Water pipelines
Narrow AI and big data analytics accelerating disruption across multiple sectors of the global economy
Digital mass media manipulation
Increased unemployment due to disruptive technologies
Embedding narrow AI into business processes accelerates automation, having a negative impact on jobs
Increased efficiency in upstream and downstream markets, creating risks and displacing traditional jobs
Artificial intelligence
Covid-19 accelerates adoption of disruptive technologies
Drone pilot training
Automation impacts job opportunities
New competencies
Augmented reality
Road-to-rail modal shift
Convergence of AI-driven technology platforms disrupting existing logistics business models and displacing existing jobs
Renewable energy
Sustainable Development Goals lead to transformation and resilience of business models, industries and countries
Hydrogen economy emerges as potential response to SDGs
SDGs drive innovation and repurposing of assets and competencies
Increased confidence in electric vehicle drives renewable energy and smart grid technology, displacing petroleum as dominant energy source for mobility system
Electric vehicle recharge infrastructure
Petroleum demand decreases as electric vehicles dominate mobility energy mix
Decline in petroleum demand
Hydrogen economy begins to disrupt and transforms energy systems
Increase in bioenergy demand possibly creating an export opportunity while promoting fuel switching away from fossil fuels
Thermal coal export volumes expected to decline due to accelerating transition to cleaner energy
Waste management optimisation presents opportunity for recycling and transportation of recycled materials
Increased steel recycling is expected to pose a threat to iron ore demand
Waste stream optimisation and upcycling
Waste trading digital platform
Adoption of digital factories and 3D printing emerging globally
Iron ore mining will be impacted due to increased efficiency gains in recycling of steel and a decline in demand due to material substitution related to disruptive technology
Increasing intensity of weather events requiring increased resilience and adaptive capacity of society and business
Meteorological big data analytics
Increasing volatility of weather systems amplifying impacts on business
Desalination
'Uberisation' of mobility system
Autonomous road freight system
Disruptive technology in the mobility system impacts road-to-rail market share
Road-to-rail modal shift well advanced
Predictive analytics provide new avenues of revenue generation and adaptive capacity, increasing business resilience
Advancements in electric vehicle technology begin to reduce demand for petroleum products
Broad AI begins disrupting business models and reducing embedded waste (time and resources) in the economy
Concentrated solar power
Renewable energy smart grid
Zero emission vessel fleets
E-highway
Wave energy
Biodiversity ecosystem services
Decline in bee population, thus impacting food production and presenting opportunities to leverage rail and pipeline corridors as pollination-rich zones
Manufacturing at point of use: 3D printing technologies expected to increase production efficiencies
Iron ore export volumes expected to decline due to increase in steel recycling and new materials
Industrial-scale 3D printing
Decline in iron ore demand
High price placed on carbon drives adaptation at scale, including geoengineering
Integrated into satellite
Synchromodality
AI addresses system-level challenges such as social inequality, economic progress and environmental challenges, however, AI creates risks in respect of human ingenuity
Drone freight system
3D printing technology at industrial scale reduces quantum of goods to be transported. Opportunities to adapt through new products and logistics services
Hyperloop mobility
Risks
Plausible event triggers
Red flags
Other risks
Scan for UN SDGs

Climate change response: Navigating to a 1.5 degree ambition

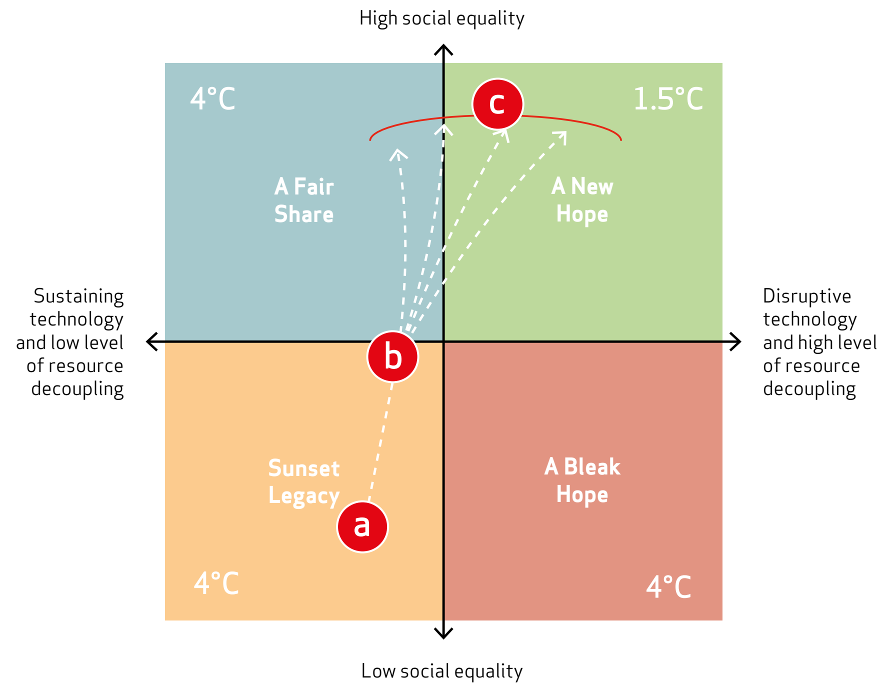
The global climate change agenda is rapidly approaching a tipping point that has implications for the long-term sustainability of Transnet and South Africa.

In this infographic we outline Transnet's response to climate change and to making a material contribution towards the 'Just' transition to a low-carbon economy and a climate-resilient and adaptive South Africa.

The transition to a low-carbon economy and climate-resilient and adapted business ecosystem will require significant changes to our business over the coming decades.

Transnet's role has five material implications in respect of climate-related transitional and physical risks:

1. In transporting freight throughout its logistics network, Transnet uses electricity (from coal-fired power generation) and liquid fuels, producing approximately 1% of South Africa's national annual greenhouse gas (GHG) emissions, and approximately 10% of the country's annual transport sector GHG emissions.
2. Transnet's railways and pipelines offer opportunities to reduce the transport sector's carbon emissions by moving more freight by rail and pipeline, because railways and pipelines have significantly lower energy intensity than road transport.
3. Coal sector customers comprise a high proportion of Transnet's revenue, arising from both export and domestic coal demand. Transnet thus invests in long-term rail and port infrastructure for coal. Any global and local reduction in coal demand will impact Transnet's revenue and asset utilisation. Similarly, Transnet's pipelines cater for South Africa's reliance on the importation of liquid fuels and any displacement of imported liquid fuels will impact on Transnet's business.
4. The global energy transformation is underway, resulting in the increasing availability of cost-effective renewable energy technologies and natural gas sources, which offers opportunities for Transnet to adopt new energy systems and also expand its range of service offerings for rail, port and pipeline customers, with the potential to be a catalyst for the development of South Africa's green economy.
5. Transnet's rail, port and pipeline infrastructure and operations are vulnerable in various localities to the impacts of climate change over time, particularly in respect of sea level rises, droughts, floods, food security, water security, settlement patterns and extreme weather events.



A Fair Share

Mitigation efforts for climate change have been successful as most sustaining technology was already financially viable by 2020.

Economics has driven emissions downward as the marginal cost of renewable energy across the world approaches zero, catalysing social development and education.

However, the rate of the transition was too slow to cap emissions to the required levels to avoid global warming, resulting in warming exceeding 4°C.

Sunset Legacy

Climate change has resulted in a world of volatile weather systems, resulting in the large-scale migration of people within and across countries, leading to cultural and social disarray.

Stratifying of society increases social inequality. The potential of AI has not been realised, and very few locations across the world still experience weather as it was experienced prior to the twentieth century.

'Elysium' societies exist as islands of wealth and well-being, fortified megacities where the fortunate prosper while the vast majority face harsh conditions that over a few decades become the norm.

A Bleak Hope

The inability to reach consensus on climate change mitigation has resulted in a breach of the 4°C limit resulting in large-scale volatility in the weather systems, causing damage and suffering across the globe.

The potential of AI has been tightly controlled and focused on geoengineering on a planetary scale, resulting in geographic areas of sustainable weather conditions where cities and farms can thrive.

The majority of society must adapt as best they can to avoid high levels of suffering and damage.

A New Hope

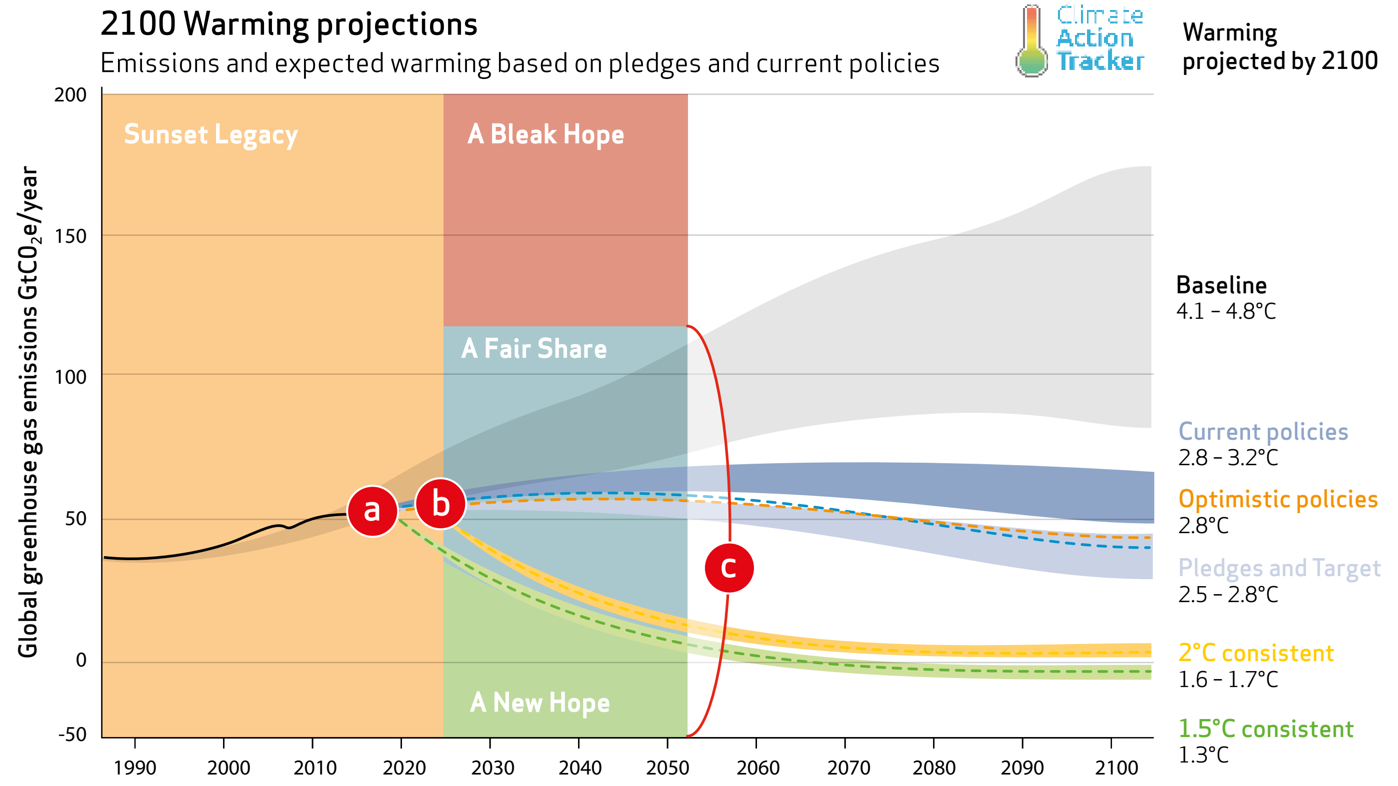
The achievement of limiting climate change to below 1.5°C has been achieved through unprecedented collaboration across countries despite their differences.

This lays the foundation for collaboration on broader social and environmental issues, enabled by breakthrough technologies driven by exponential advancements in AI.

The 4th Industrial Revolution has significantly enhanced the quality of human life, and the foundations for humanity's expansion beyond earth has been firmly established.

2100 Warming projections

Emissions and expected warming based on pledges and current policies



12 – 18 months (a)

At present we find ourselves embedded in the 'Sunset Legacy' scenario, heading somewhere above 3.1°C warming, which translates into a minimum of 6.2 °C warming in South Africa.

At 6.2°C warming, South Africa becomes a net importer of food, biomes become mostly semi-arid desert, discomfort index impacts productivity of business as well as health and well-being of employees and society.

While the transition risks facing Transnet are minimal, the physical risks in the form of increasing catastrophic weather events and chronic risk exposure to drought conditions across South Africa and rising sea levels will increase cost of capital and operating costs.

5 years (b)

Point (b) is a tipping point in the climate change mitigation dilemma, because it represents the point at which transitions to a low-carbon economy can be managed to ensure the transition is 'Just'.

Technically a transition could occur at later points on the curves, however, later transitions present significant transition and physical risks. In the case of transition risks, it is plausible that a shock event in the global financial system could wipe out significant financial capital resulting in instantaneous divestment in fossil fuels, stranding of Transnet capacity and assets, impacting on our financial health and credit rating.

At the end of the current five-year window, it is plausible that we can transition out of the 'Sunset Legacy' scenario as multiple pathways emerge.

30 years (c)

Plane (c) represents the pathways that lead to the plausible scenarios, 'A Fair Share' and 'A New Hope' with warming projections between 4°C and 1.5°C respectively.

The window of transition for (c) is a 30-year time horizon, a significant amount of time to realise any long-term investment that is locked into a carbon-intensive product such as thermal coal or petroleum.

The long-term time horizon is critical to ensure that any transition is 'Just' and risks are mitigated through broad collaboration and with policy instruments that ensure a soft landing through incentives that shape a 'Just' transition.

Transition risks

			Impact	Actions
Policy and legal risks	Governance	Director liability	Exposure to litigation resulting in increased costs from fines and judgments. Requiring constant monitoring on an annual basis.	Assess implications and develop mitigation measures for robust response.
		Climate Change Bill	Increasing operating cost for compliance and insurance premiums. Potential asset impairment and early retirement due to policy changes and reduced demand for thermal coal export and petroleum.	Engagement to pre-empt requirements and ensure the timing of the transition is just and minimises the impact on job creation, especially where the business model is susceptible.
		National GHG emissions reporting regulations	Enhanced emissions-reporting obligations increasing compliance costs and pricing of GHG emissions may impact on customers and cost of electricity. Non-compliance can result in penalties. Design changes and adjustments are expected in the next few years, especially as global commitments are agreed.	Engagement to pre-empt enhancement requirements and ensure compliance with requirements to avoid penalties.
	Targets and metrics	Carbon Tax Act	Enhanced emissions-reporting obligations increasing compliance costs and pricing of GHG emissions may impact on customers and cost of electricity. The first phase of the carbon tax is in effect. Design changes and adjustments are expected in the next few years, especially as global commitments are agreed.	Monitor carbon pricing mechanisms to understand interplay between carbon tax and carbon budgets. Investigate the science-based targets framework to develop low-carbon transition plans in alignment and response to evolving carbon pricing landscape.
Reputational risks	Governance	Climate change social activism campaigns	Social activism related to climate change action and inaction is increasing in scale and momentum across the world. The impact on Transnet may be financial.	Understand stakeholder landscape and develop engagement plan.
		Transparent disclosure	Disclosure on climate-related risks are shifting from voluntary to mandatory mechanisms. Inadequate transition may impact on ability to raise funding and on risk rating.	Identify globally recognised mechanisms to demonstrate commitment.
Market risks	Strategy	Thermal coal export	Market signals directing low-carbon transitions (1.5°C world), reinforced by a global energy transformation from coal to renewables, which are expected to impact export markets for thermal coal resulting in a decline in financial performance. Timing of the decline of thermal coal exports is likely to align to the low-carbon transitions of South Africa and primary export markets.	Understand implications of low-carbon transition on sectors of the business ecosystem that are part of the global thermal coal markets.
		Mobility transition internal combustion engines (ICEs) and electric vehicles (EVs)	Market signals directing low-carbon transitions (1.5°C world), reinforced by a global energy transformation from ICEs to EVs are expected to impact on demand for petroleum pipeline products, petroleum storage and bunkering fuel, resulting in a decline in financial performance. Timing of the decline of petroleum products and services is likely to align to global low-carbon transition pathways.	Understand implications of low-carbon transition on parts of the business ecosystem that are involved in the global mobility system.
		Liquefied natural gas (LNG) demand	Demand for LNG may offset demand for domestic thermal coal. Infrastructure lead time and Integrated Resource Plan projections make earliest demand by 2026.	Significant effort in place to participate in the LNG value chain.
		Iron ore export	Market signals directing a low-carbon transition (1.5°C world), reinforced by a transition from a linear economy to a circular economy, are expected to mpact on the global demand for iron ore due to substitution driven by low-carbon technology switching. The result will be a gradual decline in the growth of iron ore export volumes impacting financial performance. Timing of the decline of iron ore exports is likely to align to the global low-carbon transition.	Understand implications of low-carbon transition on sections of the business ecosystem that are part of the global steel market.
		Water supply	Water supply is covered under chronic risks below.	Understand implications of water scarcity for the business, including the value chain.
		Industrial scale 3D printing	Industrial scale 3D printing has the potential to substitute rail services, resulting in loss of revenue. Insufficient research on the technology makes it difficult to estimate the timing of the potential commercialisation impact of the technology.	Investigate technology development, commercialisation potential and likelihood and impact of technology.

Physical risks

			Impact	Actions
Acute and chronic risks	Risks and opportunities	Acute	Risk and vulnerability of infrastructure, operations and value chain suppliers and customers. Acute weather events have begun to impact on port and rail infrastructure. The impacts have resulted in financial losses.	Understand the risk and vulnerability of the business and develop a resilience and adaptation framework.
		Chronic	Water scarcity impacting business. Water scarcity (specifically in the Western Cape) has in the recent past impacted on operations. The impacts have resulted in financial losses. It is expected that water scarcity will repeat in the medium term and persist into the long term across our operations.	Understand the implications of water scarcity for the business including the value chain.
		Chronic	Sea level rise impacting on integrity of port infrastructure. The range and volatility related to sea level rise is dependent on low-carbon transition pathways.	Understand the risk and vulnerability of the business and develop a resilience and adaptation framework.

Focus areas to navigate a Just transition towards a 1.5°C ambition

- Enhance governance of climate-related risks
- Integrate implications of a low-carbon transition into strategic planning processes
- Assess implications of climate-related risks and opportunities and set targets to drive action

What matters to our stakeholders

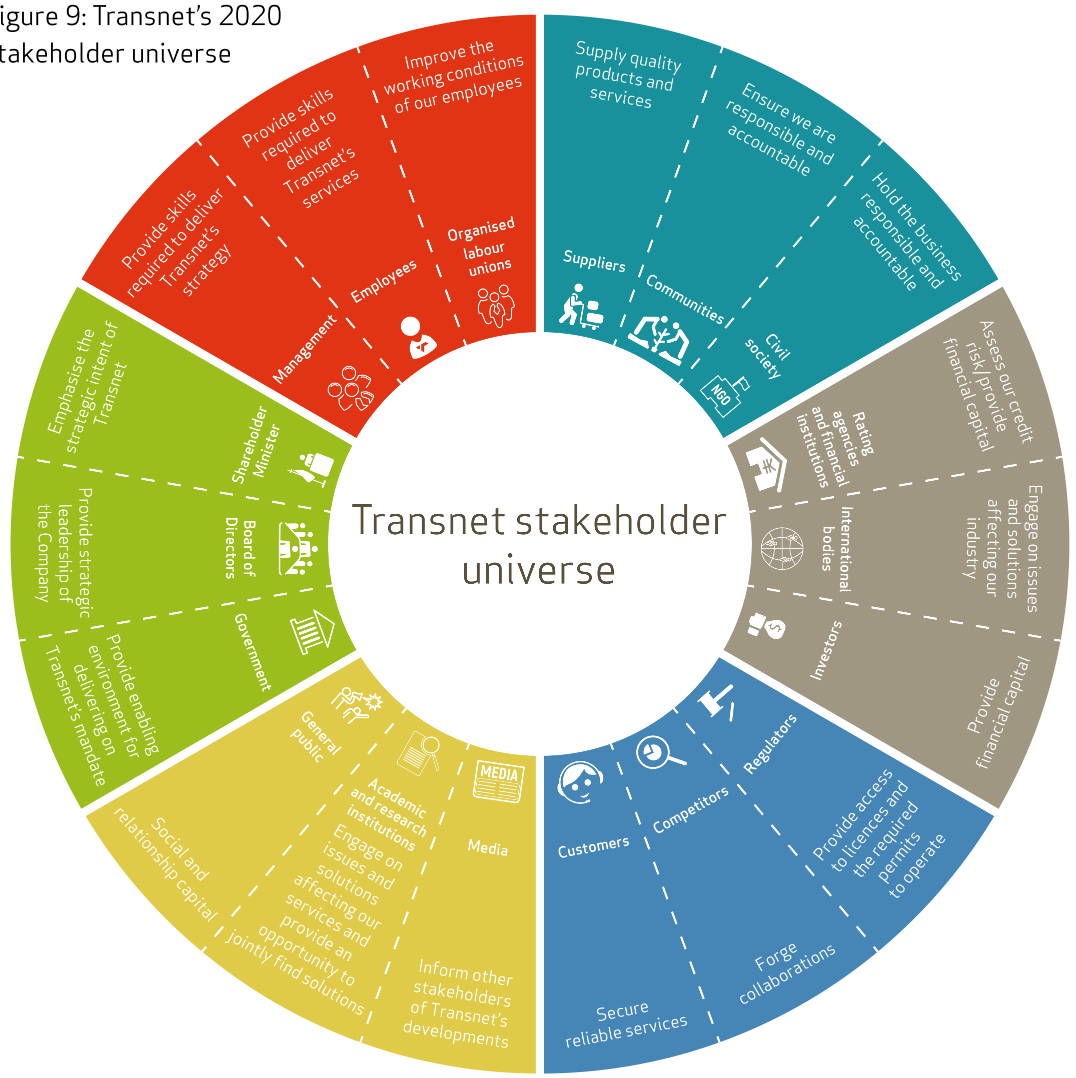
Engaging our stakeholders

During the year, we strengthened the capabilities of our functional stakeholder engagement personnel, and held our first-ever stakeholder engagement workshop to reposition our stakeholder engagement strategy and plans as a business imperative and a source of competitive advantage. The latter requires that we improve the maturity of our stakeholder relations across the business. The workshop revealed a fragmented approach to stakeholder engagement across the Company and we undertake to significantly improve this function in the year ahead. Proactive stakeholder engagement has never been more critical for Transnet, as we now find the new 'business normal' in the context of the Covid-19 pandemic that emerged in the latter part of the 2019 financial year. An immediate, proactive and agile response was required to ensure optimum business continuity.

In consultation with our various stakeholders, we scaled down some of our operations during lockdown, while prioritising nationwide essential services to support critical customer service requirements. As our operations also traverse the most remote areas, with the most vulnerable communities, we have been able to play a key support role in Government's efforts to provide critical healthcare services to these stakeholders during the Covid-19 pandemic. We outline our various responses to Covid-19 below as they pertain to our customers, suppliers, employees, communities and other SOCs.

During the year, the Board of Directors introduced changes designed to rebuild, regain and enhance stakeholder confidence. We aim to continuously enhance the quality of our relationships with stakeholders and are guided by Part 5.5 of the King IV Report on Corporate Governance in our stakeholder engagement practices. The Stakeholder Engagement Policy and stakeholder engagement and management procedure provide us with a systematic approach to our engagement efforts, while the International Integrated Reporting Council, Global Reporting Initiative (standard general disclosures) and AA1000 AccountAbility Standard inform our reporting.

Figure 9: Transnet's 2020 stakeholder universe



For more information

SCAN TO DOWNLOAD THE ONLINE STAKEHOLDER ENGAGEMENT REPORT

Transnet's detailed Stakeholder Engagement Report for the 2020 financial year is available online at www.transnet.net. The report provides the following perspectives:

- A synopsis of our engagement principles
- An overview of the stakeholder ecosystem
- The results of the Stakeholder Maturity Assessment
- A summary of issues raised during the reporting year ended 31 March 2020 as well as the responses
- Progress on the implementation of the Stakeholder Engagement Plan 2019 – 2021
- A stakeholder ranking and brief list of key focus areas for 2021

Our stakeholder universe

Our stakeholder engagement practices actively support the Company's strategy and business operations while building social and relationship capital. Proactive and meaningful stakeholder engagement practices yield various business benefits, including improved risk management, enhanced reputation and sustained business value. Understanding stakeholder needs enables us to meet reasonable and material stakeholder expectations when they arise. Importantly, issues raised by stakeholders during the 2020 Stakeholder Engagement Survey informed our process for determining material matters that drive disclosures in the Integrated Report.

Our response to Covid-19

In January 2020, a response team was established to conduct preliminary risk assessments pertaining to the impacts of Covid-19 on the South African context and to plan Transnet's response, which included introducing formal communication protocols, educating employees and distributing specialised PPE. The immediate period following the WHO's declaration of a global pandemic on 11 March 2020 and the announcement of a national lockdown on 23 March 2020 represented an extremely agile and proactive period in Transnet's response to Covid-19, which signified an extreme deviation form 'business as usual'. The Company acted swiftly to support the national Government's disaster management imperatives while protecting and assisting employees and steadying the business.

As a priority, we established the Transnet Covid-19 Command Centre (CCC) headed by an executive sponsor, with participation from each Operating Division's chief executive. At the time of publishing this report, the CCC continues to be fully operational. The CCC has retained overall accountability for coordinating and integrating nine workstreams across the business (outlined in Figure 10), as the Company has progressed through the pre-lockdown, staged lockdown, and eventually post-lockdown phases. Programme management encompasses auditing and reporting functions; central budget management; progress tracking and remedial actions; data management, analytics and scenario planning; and the overall facilitation of governance processes.

Essential activities to support economic activity

Transnet initially focused operations on compliance with essential cargo regulations operationalising container terminals and ports as well as essential rail corridors, such as NatCor between Gauteng and Durban. At first, practicalities around the movement of essential containerised cargo threatened to clog the ports and terminals, requiring amendments to allow for non-essential containers to be relocated. We operationalised additional commodity flows, notably the manganese and iron ore line to Saldanha and the export line to Richards Bay, thereby maintaining movement of coal, chrome and magnetite. The aforementioned operationalisation took place within a severely constrained environment, as we moved from Quarter 4 into the new financial year and subsequent lockdown period, with a dedicated focus on employees' health and safety and within the legislative parameters of current regulatory requirements. We engaged with regulators and government agencies to ensure legislative compliance throughout the lockdown period.

Going forward, the primary focus for the CCC is the consolidation and alignment of efforts to develop a post-lockdown operational environment. The CCC's principal interest is to aggregate and align inputs from Operating Divisions to create an integrated Transnet response to the pandemic as it takes its course, and the post-lockdown way of doing business.

Contributing to social health and well-being imperatives

Transnet has actively contributed to Government's efforts to support social health and well-being in the context of Covid-19. Our contributions have included financial donations and non-monetary contributions such as food parcels, alternative housing for displaced citizens, helping rural schools to connect to distance-learning facilities using spare fibre optic network capacity, distributing medical grade PPE equipment and mobilising our two Phelophepa Health Trains to provide Covid-19 testing and general medical support to remote communities. Table 7 on page 67 outlines these contributions in more detail.

Transnet engaged with regulators and government agencies to ensure legislative compliance throughout the lockdown period

39 to 41 Read more
Our responses in the context of the Covid-19 pandemic in our chapter relating to Priority issues impacting our operations on pages 39 to 41

96 and 97 Additional measures taken in Our performance and outlook section on pages 96 and 97

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Figure 10: Transnet Covid-19 Command Centre structure

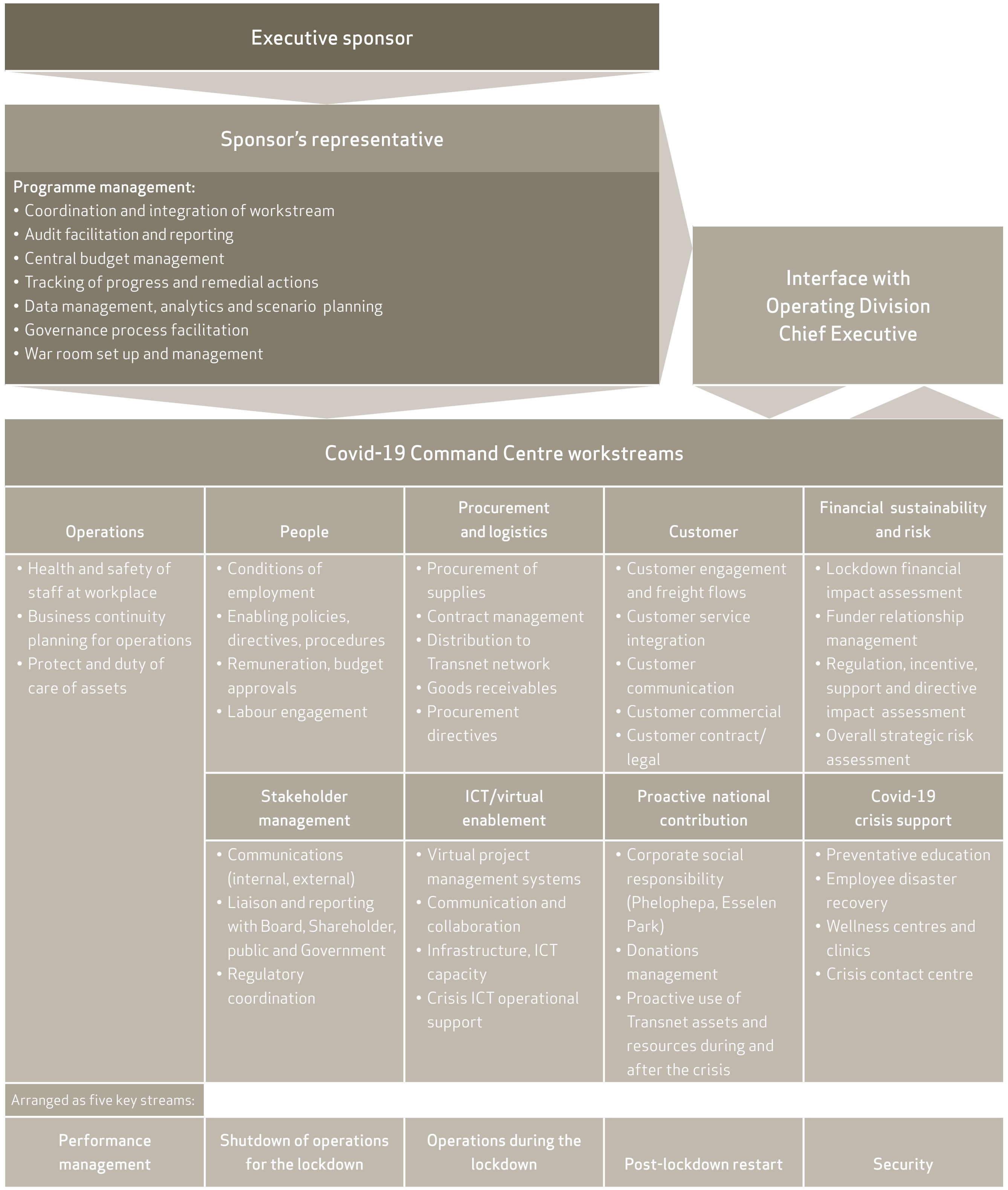


Table 7: Monetary and non-monetary contributions made by Transnet in support of Government's efforts

Type	Receiver	Purpose	Status	Amount
Property	• Department of Health: Deputy Director-General: Specialised services and clinical support	• Montclair Lodge (Durban) – Quarantine	• 41 occupants	• Ongoing monitoring of holding costs
	• Acting City Manager Msunduzi Municipality	• 60 Mayors Walk (Pietermaritzburg) – Homeless citizens	• 220 occupants	• Ongoing monitoring of holding costs
	• Gauteng Province: Department of Health	• Esselen Park (Tembisa) – Quarantine	• 54 under observation, 14 tested positive, 116 screened and cleared • Extension request received	• Ongoing monitoring of holding costs
	• Gauteng Province: Department of Health	• Parkhill Lodge (Germiston) – Quarantine	• Not occupied yet	• Ongoing monitoring of holding costs
	• Premier of the Free State	• Naval Hill Lodge (Bloemfontein) – Homeless	• 21 occupants	• Ongoing monitoring of holding costs
Phelophepa	• Department of Health	• Conduct screening and communication of the virus	• The two Phelophepa trains were deployed in partnership with the Solidarity Fund in the Eastern Cape, KwaZulu-Natal, Gauteng and North West	• Non-monetary contribution
Baragwanath	• Baragwanath Hospital	• Provide PPE for health workers	• Delivery for the PPE completed, handover done	• R5,2 million
Transnet pensioners	• Transnet pensioners	• Provide care packages and communication of important information	• Communication sent out. Care packages are available for collection. Receiving many queries from pensioners, some not related to care packages	• R5,38 million
Food relief	• Destitute communities	• Provide food parcels to destitute communities through identified NPOs	• All payments made, food parcel delivery initiated, 300 parcels delivered in KwaZulu-Natal	• R4,5 million
ICT	• Department of Basic Education • Department of Health	• Partnership of SOCs, network operators and fibre providers to connect schools, hospitals and quarantine sites	• Assessments of which schools, hospitals and quarantine sites are in close proximity to available infrastructure	• Non-monetary contribution

We are exceedingly grateful for support received from external stakeholders to augment our efforts, as outlined in the table below. An appropriate reporting framework has been established for such donations aligned to relevant governance protocols. No customer will receive preferential treatment as a result of their donations.

Table 8: Donations received by Transnet

Operating Divisions	Donor	Item	Quantity/value
Port Terminals	Maersk	PPE	R10 million
Group	Huawei	Surgical masks	10 000

Addressing key stakeholder concerns during 2020

Key issues arising from our 2019/20 multistakeholder engagement process are outlined in Table 9 below.

Table 9: Key issues arising from our 2019/20 multistakeholder engagement process

Shareholder Minister – Department of Public Enterprises (DPE)

Engagement channel:

- **Frequency:** As and when required, weekly, monthly, quarterly and annually
- **Vehicles:** Meetings, telecons, emails, site visits, quarterly review sessions, ad hoc sessions, project briefs, letters and Memorandum of Understanding (MOU)

Key engagements in 2020

- Negotiations and agreement on the 2020/21 Shareholder's Compact
- Monthly, bilateral and quarterly meetings to update the DPE on Transnet's performance against the Shareholder's Compact targets
- Reporting of interim results for the 2020 financial year
- Engaged the Shareholder on the Covid-19 pandemic and the national lockdown

Key issues/areas of interest

- Performance against the Shareholder's Compact
- Financial and operational sustainability
- Mitigating actions implemented to improve performance
- Concerns with respect to the effectiveness of mitigating actions
- Governance and leadership issues
- Strategic focus areas for the 2020/21 financial year based on the Statement of Strategic Intent
- Inclusion of strategic initiatives relating to the structural alignment of the Company
- The potential impacts of the Covid-19 pandemic and the national lockdown

Our responses

- The Board has started a process to track the Shareholder's Compact KPIs at the various subcommittees of the Board to continuously monitor and evaluate performance
- The Board's review of the Shareholder's Compact methodology focused on strategic KPIs and aligned the Shareholder's Compact to the Statement of Strategic Intent
- The Board is implementing measures to focus the Shareholder's Compact on initiatives that are central to the structural reform of the organisation
- The Board will strengthen KPIs to balance the focus so that it is more inclusive and reflective of Transnet's overall outcomes

Board of Directors

Engagement channel:

- **Frequency:** Weekly, monthly, quarterly and ad hoc
- **Vehicles:** WhatsApp, scheduled meetings, telephone calls and emails

Key engagements in 2020

- Annual meeting with the Board to discuss and approve this financial year's Corporate Plan
- Strategic Board workshops on strategic planning, and reviewing the Corporate Plan as well as the strategy which incorporates a capital programme and budgets
- Biannual deep dive sessions to extensively review specific topics and strategic projects for adequacy and completeness
- Regular Board and committee meetings as prescribed to interrogate matters within their respective mandates
- Site visit to NMPP in Heidelberg

Key issues/areas of interest

- The approval of the Shareholder's Compact
- The approval of the Company's Annual Financial Statements and integrated report
- The approval of the Annual Strategy, the Corporate Plan and the KPIs
- Review of the organisation's performance
- The approval of the Company's Delegation of Authority Framework
- To deliver on the Company's respective mandates
- Accountability
- Vacancies on the Exco
- Governance and corruption issues within the Company

Our responses

- The Board has started engaging and addressing stakeholders on the new changes in the organisation's leadership
- The Board has prioritised information sharing on employee and operational matters
- The Board has approved the negotiations on the new productivity incentive schemes for bargaining unit employees with the support of the labour union
- The Board has appointed a new Group Chief Executive to stabilise the organisation and also to provide strategic direction
- The Board has supported management with respect to safety and occupational awareness and campaigns on the Covid-19 pandemic
- The Board has acted decisively in dealing with executives who have been implicated in acts of corruption and malfeasance

Government

Engagement channel:

- **Frequency:** As and when required, weekly, monthly, quarterly and annually
- **Vehicles:** Meetings, telecons, emails, site visits, quarterly review sessions, ad hoc sessions, project briefs, letters and MOU

Key engagements in 2020

- Engagements to align our health initiatives to both national and provincial spheres of government
- Discussions with local, provincial and national government on compliance portfolios for Transnet projects
- Engagements on our education and sports interventions with the Department of Basic Education and sporting bodies
- Approval of the MOU between the Transnet Foundation and students funded by the foundation
- Engagements on procurement and treasury regulations
- Engagements with law enforcement authorities regarding incidents of cable and petroleum theft and vandalism

Key issues/areas of interest

- Job opportunities for local communities
- Adherence to procurement policies and treasury regulations
- Licensing, compliance, environmental authorisation and issues
- Undertake a social needs analysis in communities and schools to identify beneficiaries
- Leveraging partnerships and resources to deepen the impacts on community services
- Engagements on community health and safety awareness and workshops
- Awareness on the plans and commitment for the Whole School Development Programme (WSDP) in the 2020/21 financial year
- Business opportunities worth pursing within the region for the Transnet International Holdings (TIH) collaboration
- Infrastructure development challenges and issues experienced across the organisation
- Establishment of sports development across the nine provinces and the rollout of the teacher's development programme
- Security incidents contributed to service disruptions

Our responses

- We have prioritised our engagement and collaboration with Government to the Africa Steering Committee and within TIH
- We have engaged with government institutions through regular workshops and awareness to reinforce our relationship
- We have partnerships with healthcare service providers to advance our contributions to the community and schools
- We have expanded the footprint of our WSDP into all nine provinces to offer opportunities to schools and pupils across the country
- We have regular engagements to ensure seamless compliance and regulatory alignment to all promulgated legislation

Employees and management

Engagement channel:

- **Frequency:** Periodically, monthly and ad hoc
- **Vehicles:** Face to face, campaigns, emails, letters, newsletters, roadshows, workshops and surveys

Key engagements in 2020

- The acting GCE shared the interim financial results to inform the employees of the organisation's overall performance
- The acting GCE held leadership engagement sessions to afford a platform for leaders to provide strategic insights on organisational challenges and a way forward
- Our newly appointed GCE held several engagement sessions across the organisation with employees to discuss and understand eminent issues that are affecting productivity and employee morale
- The GCE hosted International Women's Day to deal with organisational cultural issues affecting women in general and those who fall within designated groups (particularly the LGBTQI and people with disabilities communities)
- Campaigns and awareness on bullying at work, safety, occupational health, national and international commemoration days
- Our senior management teams shared knowledge and mentored young professional graduates

Key issues/areas of interest

- Employee morale and underutilisation of resources
- Job security
- Operational and infrastructure issues affecting productivity
- Human resources and labour-related matters such as uniform application of HR procedures and lack of consequence management
- Leadership instability
- Safety and occupational health concerns
- Bullying and intimidation in the workplace
- The Covid-19 pandemic and the national lockdown

Our responses

- We are relocating employees to areas where there are projects in order to fully absorb underutilised employees
- We have initiated a process to create an integrated people management team
- We have established programmes and an anonymous hotline to give employees a platform to report bullying and intimidation at the workplace to proactively implement the harassment and intimidation policies
- We have finalised the new organisational structure and are filling vacant top management positions
- We have identified a Transnet-wide project team to focus on Covid-19 awareness and communication
- We have collaborated with external healthcare service providers to provide case management, medical advice, counselling, education and awareness support in order to contain the spread of Covid-19
- We have ensured that our 24-hour Employee Assistance Programme is always available to assists employees with telephonic counselling to managing any form of mental, physical and emotional wellness challenges that Covid-19 has caused
- We have partnered with institutions of higher learning to advance the GCE's talent nurturing programmes to provide opportunities for our employees' career growth

Organised labour unions

Engagement channel:

- **Frequency:** As and when required, monthly and quarterly
- **Vehicles:** Meetings, emails, telecons and formal letters

Key engagements in 2020	Key issues/areas of interest
• Monitoring and evaluating Transnet's Employment Equity Plan from 2017/18 to 2019/20 • Consultations regarding Transnet's 2018/19 employment equity report to the Department of Labour • Consultations regarding the S19 Analysis and the new Transnet Employment Equity Plan from 2020/21 to 2022/23 • Terms of reference for National Employment Equity Forum and diversity forums • Quarterly national employment equity forums • Quarterly OD employment equity forums • Engagement with labour on the Transnet annual results	• Forums must be representative of the constituencies as per legislation • Transnet must abide by the Employment Equity Plan and targets • Lack of ownership and accountability on matters relating to employees • Lack of consequence management

Our responses

- Workforce transformation is a national and Company imperative and we have therefore developed a transformation strategy that will form part of the strategic objectives contained in the Corporate Plan
- We continue to engage organised labour unions through the National Employment Equity Forum
- We have approved the conclusion of the negotiations on the new productivity incentive schemes for bargaining unit employees with the support of the labour unions

Communities

Engagement channel:

- **Frequency:** As and when required, monthly, quarterly, annually
- **Vehicles:** Meetings, telecons, emails, site visits, career exhibitions, breakfast sessions, roundtable discussions, workshops and MOUs

Key engagements in 2020	Key issues/areas of interest
• Community awareness on upcoming projects to create job opportunities • Engagements with business forum leaders to outline the organisation's vision • Public participation for various projects • Engagements on community unrests • Engagements held with the West Coast (Saldanha Bay), Mossel Bay Municipality and community to provide feedback on matters raised, discuss future opportunities and to build sustainable partnerships	• Job opportunities for communities in close proximity to our operations • Small business development opportunities for local businesses • Whole School Development Programme for both teachers and learners (education and sports) • Development of community infrastructure

Our responses

- We have embarked on a process to prioritise budgets for the supplier development initiatives and monthly targets for the monitoring and evaluation process
- We are exploring options to address ongoing business-related matters to improve our products and social footprint
- We have distributed and facilitated career exhibitions to raise awareness on bursaries and career opportunities available in the organisation to empower the youth
- We engage with communities on upcoming projects that will provide jobs and business opportunities for the locals
- We hold sessions with communities in close proximity to our operations to address pressing issues
- As part of our efforts to contain and minimise the spread of Covid-19, Transnet has designated some of its properties across Gauteng, KwaZulu-Natal and the Free State provinces to be used as temporary shelters for the homeless and also as quarantine sites
- We are rolling out the Transnet-Yes Hub, with the first hub under construction in Saldanha Bay

Suppliers

Engagement channel:

- **Frequency:** Ad hoc
- **Vehicles:** Meetings, telecons, tender briefing sessions, letters, emails and panel discussions

Key engagements in 2020	Key issues/areas of interest
• Due diligence site visits • Ad hoc email requests to various Group Strategic Sourcing (GSS) contracted suppliers, e.g. issuing of non-conformance letters to suppliers who have not complied with their supplier development contractual commitments • Responses to Promotion of Access to Information Act and Promotion of Administrative Justice Act requests for bid information (including pricing) • Held a Transnet Supplier Summit	• Ombudsman complaints for Executive Search Request for Proposal for unfair process (Ombudsman found no substance in the complaint and ruled in favour of Transnet) • Alleged tender irregularities for the refined bulk fuel tender • Lack of access to enterprise and supplier development Initiatives

Our responses

- The procurement process followed by GSS fully complied with the principles of the Constitution and PFMA of using a procurement system which is fair, equitable, transparent, competitive and cost effective
- Refined bulk fuel tender is under forensic investigation due to alleged tender irregularities
- Launched a Transnet Supplier Summit incorporating both existing small and medium suppliers and emerging and potential customers, as a platform to interact and gain first-hand experience on the challenges and ease of doing business with Transnet
- Prioritising enterprise and supplier development as a key lever to display our genuine commitment to addressing the economic transformation challenges and building a strong responsible local sourcing supply chain

Investors and credit agencies

Engagement channel:

- **Frequency:** Continuous as and when required
- **Vehicles:** Letters, meetings, emails and telecons

Key engagements in 2020	Key issues/areas of interest
• Engagements to explain the causes of the qualified audit opinion on the 2019 Annual Financial Statements and to negotiate for waivers • Engagements with ratings agencies to seek clarity to understand their downgrade action and to put mitigation plans in place for financial stability purposes • Engagements to request waivers or to negotiate margin increases as a result of the ratings downgrade • Discussions with Development Finance Institutions to discuss Transnet's Environmental, Social and Governance (ESG) Framework	• Credit downgrades • Liquidity and funding • Governance • Audit qualification • Adequacy of Transnet's ESG Framework

Our responses

- We have started raising long-term funding to address rating agencies' issues
- We have started carving out the PFMA-related audit qualification on all new loans
- We have engaged with our investors to discuss and provide input on the draft overview of Transnet's ESG Framework, as part of the investor relations requirements
- We have shared our quarterly interim financial results to provide transparency to our stakeholders that we are putting effort into servicing our debts
- We regularly provide progress updates on where the organisation stands with regard to issues of state capture to reassure our stakeholders that we seek to improve our governance processes

Regulators

Engagement channel:

- **Frequency:** Ad hoc, periodically, quarterly and annually
- **Vehicles:** Meetings, emails and letters

Key engagements in 2020	Key issues/areas of interest
• Engaged the Rail Safety Regulators to seek approval of a three-year valid Railway Safety Permit • Quarterly meetings with the Department of Environment, Forestry and Fisheries and the Department of Human Settlements, Water and Sanitation to discuss pending permits and licences as well as compliance with existing authorisations • Engagements on tariff applications across Operating Divisions • Engagements on the application for amendment to the NMPP project construction licence and assets acquisition, and the gas transmission from 2020 to 2023	• Compliance with special conditions of special permits • Prioritisation of prohibition notices issued by the regulator • Compliance with Record of Decision and tariff methodologies • Compliance with legal and other requirements including permit and licence conditions

Our responses

- We have received the closure of the two special conditions attached to our Railway Safety Permit, namely Human Factors Management and Prasa/Transnet Safety Interface Management Agreement
- We have started to use the Transnet Regulator Engagement Protocol to guide the engagements that we have with stakeholders to align with regulations
- We have collaborated with government entities to advance partnership on railway safety to improve initiatives across the organisation
- We have embarked on a process to develop the legislated safety permit application process for a period of three years
- We are engaging stakeholders to discuss the Reasons for Decision and Record of Decision tariff methodologies

Customers

Engagement channel:

- **Frequency:** Monthly, biannually, annually and ad hoc
- **Vehicles:** Meetings, telecons, emails, letters, workshops, events and surveys

Key engagements in 2020	Key issues/areas of interest
• Engaged with customers to build and improve relations and service offerings • Participated in national events as a platform to facilitate engagements with stakeholders • Regular engagements with provincial governments like the Western Cape and Eastern Cape to facilitate growth in these regions • Engagements with the Durban Chamber of Commerce and related parties to provide progress reports on measures to address and reduce congestion at the Port of Durban • The newly appointed GCE spoke at the African Mining Indaba where she shared the Company's long-term vision to facilitate an integrated freight logistics system in Africa • Export coal forum with Richards Bay Coal Terminal and export iron ore channel meetings with Sishen-based mines	• Customer concerns with project pricing and service offerings • Quick-win turnaround to improve turnaround times • Management of decongestion at the Port of Durban • Building and improving relationships with stakeholders • Competitive pricing • Convert business enquiries into freight solutions across all Operating Divisions • Reduce the cost of logistics • Customer service • Regional economic growth • Road-to-rail migration

Our responses

- We held various engagements to address traffic congestion at the Port of Durban and to explore proposed solutions and mitigation plans that could be used to resolve this issue
- We are focusing on integrated initiatives to increase volume growth by providing customer-centric, end-to-end freight solutions with improved service delivery to current and new customers
- We are exploring new business opportunities that will reduce the cost of doing business, migrate traffic from road to rail and increase economic growth in the southern African region
- The Customer Nerve Centre serves as a centralised touchpoint that will facilitate the understanding, internal alignment, drive and ownership required to fulfil customers' desires and resolve issues timeously
- We continue to conduct customer engagements such as industry meetings, commodity steering committees and site visits to identify customer needs to service execution
- We continue to foster a customer-centric culture in the entire value chain to enhance customer service and in turn achieve the desired customer satisfaction levels
- The Board continues to pursue cross-border opportunities emanating from engagements with our African counterparts

Media

Engagement channel:

- **Frequency:** Ad hoc
- **Vehicles:** Media updates, media briefings, publications, press releases, holding statements and interviews

Key engagements in 2020	Key issues/areas of interest
• Interim results • Annual results • Launch of the longest manganese train in the world in Saldanha Bay (375 wagon train) • Announcement of the preferred bidder for the Tambo Springs Intermodal Terminal • Transnet's bilateral loan agreement with international investor, German KfW Ipex-Bank • Cost-sharing agreement between Transnet and International Finance Corporation	• Suspension of Exco members • Update on the Durban Berth Deepening project following suspension of the contract • Response to the impact of heavy rain on the organisation, particularly in the KwaZulu-Natal area • Appointment of the new Transnet executives • Access to information • Transnet's response to strike actions • Public safety incidents in and around rail and pipeline infrastructure

Our responses

- We are amplifying OD stories through OD communication teams
- We are reactivating Transnet's visibility through Parliamentary committees
- Defining a Pipelines engagement strategy and subsequent awareness campaign across various media platforms

General public

Engagement channel:

- **Frequency:** Ad hoc and annually
- **Vehicles:** Media updates, media briefings, annual reports, mass and social media platforms, exhibitions

Key engagements in 2020	Key issues/areas of interest
• Year-end results announcement • Half-year results announcement • Investing in African Mining Indaba	• Suspension of Exco members • Update on the Durban Berth Deepening project following suspension of the contract • Response to the impact of heavy rain on the organisation, particularly in the KwaZulu-Natal area • Tender and job scams • Appointment of the new Transnet GCE • Access to information • Transnet's response to strike actions • Bursaries

Our responses

- We are implementing the recommendations of the Fundudzi Report, MNS and Werksmans' report related to acts of malfeasance
- We are developing awareness campaigns to create visibility of the brand

Our performance and outlook

Joint review of the Group Chief Financial Officer and Group Treasurer

"Ultimately, Transnet's investments should lower the cost of doing business as well as improve the ease of doing business for companies in South Africa."

For more information

SCAN TO DOWNLOAD THE 2020 ANNUAL FINANCIAL STATEMENTS

Introduction

Transnet's revenue is directly affected by both global macroeconomic trends and trade flows as well as the level of economic activity in South Africa (see page118 of Outlook).

GDP growth for the 2019 calendar year was flat at 0,2% and is expected to contract by 9,5% in 2020. Despite various economic and operational challenges, the Company achieved solid results for the 2020 financial year, realising an increase in earnings before interest tax and depreciation (EBITDA) of 0,7% and a net profit of R3,9 billion for the year. While positive, these results are below the prior year earnings, primarily due to the fair value adjustments, relating to investment property, that added to the prior year earnings.

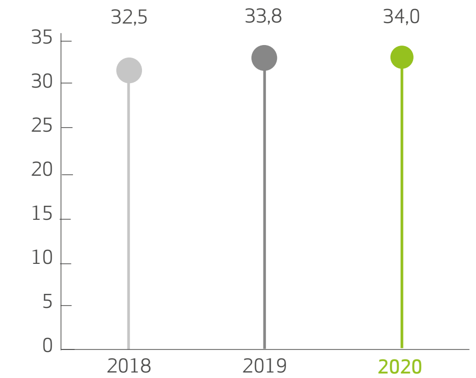
Overview

Group revenue posted a marginal increase of 1,3% to R75,1 billion, primarily due to a weighted average tariff increase of 2,9%, which was partially offset by a 1,3% decline in rail volumes and a 2,4% decline in port container throughput.

We are pleased with the outcome of our cost-containment efforts, with net operating expenses increasing by 1,9% to R41,1 billion during the year under review. Numerous cost-optimisation initiatives implemented throughout the Company aided cost containment and resulted in a R4,7 billion saving against planned costs. All the above resulted in a slight EBITDA increase of 0,7% to R34,0 billion and a decrease in the EBITDA margin to 45,3% (2019: 45,6%).

There is still margin for further cost compression across the Group and this is particularly critical considering the economic outlook.

EBITDA (R billion)



As a result of efforts to source more cost-effective funding, as well as a reduction in the funding requirement due to the optimisation of capital expenditure, net finance costs decreased by 0,4% to R11,17 billion.

Cash generated from operations increased by 2,1% to R35,9 billion (2019: R35,2 billion). The cash interest cover ratio at 2,9 times (2019: 2,9 times) reflects Transnet's strong cash-generating capability. This is also comfortably above loan covenant triggers. Furthermore, at 47,6% our debt to equity ratio remains within the 50% limit agreed to with the Shareholder. While working capital remains constrained, we are satisfied that we can meet our short-term debt redemption obligations.

The tax charge is R2,1 billion (2019: R2,5 billion), all of which is deferred tax. The effective tax rate for the Group is 35,2%.

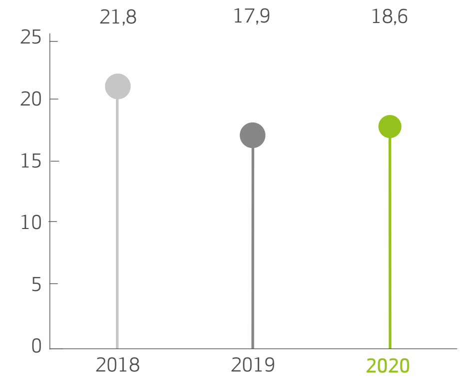
Profit after tax decreased by 34,9% to R3,9 billion (2019: R6,0 billion). The reduction is primarily due to the fair value adjustments of R762 million (2019: R3 271 million) being significantly lower than that of the prior year.

Capital expenditure

As a large infrastructure and logistics company, planned and methodical capital investment is periodically required, be that for sustaining or expansionary goals. Ultimately, Transnet's investments should lower the cost of doing business as well as improve the ease of doing business for companies in South Africa. Breakdowns due to maintenance backlogs can cause bottlenecks in the supply chains of our suppliers, which can either cost them in business opportunities or reputation.

Capital investment for the year increased by 3,5% to R18,6 billion, with R3,5 billion invested in the expansion of capacity and R15,1 billion invested to maintain capacity.

Capital investment (R billion)



Cash generated from operations increased 2,1% to R35,9 billion

Among the Company's most significant investments is the acquisition of locomotives, and the refurbishment of infrastructure and rolling stock to modernise its fleet in anticipation of increased freight volumes and the solidifying of the road-to-rail strategy. As at 31 March 2020, the cumulative expenditure incurred on the 1 064 locomotive contract amounts to R34,9 billion, with R1,7 billion invested in the current year. In total, 571 locomotives have been accepted into operations.

Funding

During the year Transnet raised R10,4 billion in funding through bond and commercial paper issuance and the execution of two bilateral loans. Transnet continues to raise funding without the support of government guarantees and the funding plan does not envisage the need for this in the future.

As at the reporting date, in addition to the cash on hand, Transnet has R2,0 billion in undrawn funding from a long-term loan facility and R12,8 billion in unutilised short-term call and overdraft facilities.

Credit ratings

Transnet has two officially recognised rating agencies: S&P and 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
Foreign currency rating	Ba1/negative outlook	BB-/stable outlook
Local currency rating	Ba1/negative outlook	BB-/stable outlook
National scale rating (NSR) – long and short term	Aa2.za/P-1.za	zaAA/zaA-1+
BCA/SACP	ba2/negative outlook	bb-/stable outlook

We are satisfied that Transnet will remain a going concern for the foreseeable future

Going-concern assessment

Management performed a going-concern assessment as at 31 March 2020, which included a review of financial performance and projections; current economic factors; funding considerations; solvency and liquidity considerations; contingent liabilities and post-balance sheet events; and counterparty risk. We are satisfied that Transnet will remain a going concern for the foreseeable future.

Audit opinion

Management has, over the past two years, exerted significant effort to create awareness and understanding of the interpretation of the National Treasury Regulations which, read in conjunction with the PFMA, govern the practices to be followed to avoid incurring irregular expenditure. This effort is evident from the year on year reduction in irregular expenditure arising from new contracts entered into in the year under review:

- irregular expenditure in 2018 arising from contracts entered into in FY2018 – R3 427 million;
- irregular expenditure in 2019 arising from contracts entered into in FY2019 – R1 618 million;
- irregular expenditure in 2020 arising from contracts entered into in FY2020– R394 million.

While the avoidance of new incidents of irregular contracts is the primary aim, it is also necessary to have the necessary processes in place to ensure all irregular expenditure, in prior periods and in the year under review, is identified and captured in the irregular expenditure register. This is an enormous task and is largely a manual process as thousands of procurement events over the past eight years need to be reviewed to ensure complete accuracy. Management was not able to satisfy the external auditors that the irregular expenditure reported in note 39 to the Annual Financial Statements is complete and accurate. This is the basis for the external auditors having issued a qualified audit opinion.

Prospects

We are pleased with the results of our cost-containment efforts and the flexibility we showed in providing critical services to the country following the shutdown of non-essential economic activity to curb the spread of Covid-19.

The consequences of the pandemic means that in the 2021 financial year we will see a decline in revenue, partially offset by a reduction in variable operating costs and finance costs, due to the lower interest rate environment.

The negative impact on cash is expected to be limited due to a reduction in capital expenditure and targeted working capital interventions, and is not expected to translate to the need for increased borrowings.

In these uncertain times, liquidity is being closely monitored and we are comfortable that the Company has the means to meet its working capital and debt redemption obligations.

N. S. Dlamini

Ms Nonkululeko Dlamini

Group Chief Financial Officer

Mr Mark Gregg-Macdonald

Group Treasurer

29 September 2020
Johannesburg

We are pleased with the results of our cost-containment efforts and the flexibility we showed in providing critical services to the country

Operating Divisions' review

KPIs

Freight Rail

KPIs			2020	2019
Revenue (R million)	↑	o	44 627	43 582
EBITDA (R million)	↓	o	18 795	19 506
Operational expenditure (R million)	↓	o	25 832	24 076
ROTA (%)	=	o	6,6	6,6
Capex (R million)		o	13 932	14 818
Volumes (mt)	↓	o	212,4	215,1
% black employees	↑	✓	89,8	88,74
Training spend (% of personnel cost)	↓	o	2,81	2,97
DIFR	↑	✓	0,88	0,90
% of energy efficiency improvement on prior year (electricity)	↑	✓	68,4	65,2
Regional integration: Cross-border (R million)	↑	o	204	180

Engineering

KPIs			2020	2019
Revenue (R million)	↑	o	11 879	10 524
EBITDA (R million)	↑	✓	805	(737)
Operational expenditure (R million)	↑	✓	11 074	11 261
ROTA (%)	↑	✓	(1,0)	(6,5)
Capex (R million)		o	306	301
Volumes (mt)	n/a	n/a	n/a	n/a
% black employees	↑	o	82	81,7
Training spend (% of personnel cost)	↑	✓	2,52	2,4
DIFR	↓	o	0,82	0,66
% of energy efficiency improvement on prior year (electricity)	↑	✓	7,9	7
Regional integration: Cross-border (R million)	↑	✓	356	166

National Ports Authority

KPIs			2020	2019
Revenue (R million)	↓	o	12 172	12 450
EBITDA (R million)	↓	✓	7 866	8 317
Operational expenditure (R million)	↓	✓	4 306	4 133
ROTA (%)	=	✓	7,0	7,0
Capex (R million)		o	1 626	941
Volumes (mt)	↓	o	4 538 ('000 TEUs)	4 682 ('000 TEUs)
% black employees	↑	✓	90	88
Training spend (% of personnel cost)	↑	✓	1,7	1,5
DIFR	↑	✓	0,25	0,41
% of energy efficiency improvement on prior year (electricity)	↑	✓	1,53	1,46
Regional integration: Cross-border (R million)	↓	o	60,2	69,8

Port Terminals

KPIs			2020	2019
Revenue (R million)	↑	✓	13 809	13 086
EBITDA (R million)	↑	✓	4 788	4 541
Operational expenditure (R million)	↓	✓	9 021	8 545
ROTA (%)	↑	✓	23,2	20,5
Capex (R million)		✓	2 224	1 515
Volumes (mt)	↓	✓	4 424 ('000 TEUs)	4 534 ('000 TEUs)
% black employees	↑	✓	90	88
Training spend (% of personnel cost)	↓	✓	3	3,2
DIFR	↑	✓	0,50	0,52
% of energy efficiency improvement on prior year (electricity)	↓	✓	6	8,3
Regional integration: Cross-border (R million)	↑	✓	7,8	6,7

Pipelines

KPIs			2020	2019
Revenue (R million)	↑	✓	5 732	5 262
EBITDA (R million)	↓	o	3 810	3 996
Operational expenditure (R million)	↓	o	1 922	1 266
ROTA (%)	↓	o	6,5	7,5
Capex (R million)		o	412	326
Volumes (mt)	↓	✓	17 764	17 825
% black employees	↑	✓	91	90
Training spend (% of personnel cost)	↑	✓	2,7	3
DIFR	↓	o	0,70	0,18
% of energy efficiency improvement on prior year (electricity)			n/a	n/a
Regional integration: Cross-border (R million)			n/a	n/a

Performance key

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

For more information

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Freight Rail

Revenue R44,6 billion

Revenue increased by 2,4% to R44,6 billion (2019: R43,6 billion), due to a 4,2% increase in the average R/ton to R204,86 (2019: R196,55).

The R/ton increase was partially offset by a decline in volumes.

Notwithstanding cost-containment and cost-saving measures, operating expenses increased by 7,3% to R25,8 billion (2019: R24,1 billion).

Lower than planned revenue growth (below the rate of cost increase) led to the EBITDA margin declining to 42,1% (2019: 44,8%).

Return on average total assets (ROTA) remained constant at 6,6% (2019: 6,6%) with the decline in operating profit offset by the lower asset base as a result of devaluations of infrastructure assets during the year.

Cross-border revenue, comprising medium to long-term leasing of rolling stock and short-term wagon interchange, increased by 13,3% to R204 million (2019: R180 million).

Opportunities in the short to medium term

- Collaborate with the Private Sector in the provision of infrastructure, rolling stock and operations activities where required or feasible.
- Further integrate South Africa with the region and the rest of the world.
- Optimise the social and economic impact of all interventions.
- Drive operational efficiencies and asset utilisation to improve margins.
- Improve returns on invested capital, while ensuring financial liquidity and sustainability.

Engineering

Revenue R11,9 billion

Revenue increased by 12,9% to R11,9 billion (2019: R10,5 billion) mainly due to the increase in rolling stock supply and maintenance demand, which was coupled with an increase in cross-border revenue to R356 million (2019: R166 million).

Attributed to stringent cost-control strategies applied by Engineering and despite the above inflationary increases in products and services costs, a marginal decrease of 1,7% in operating costs to R11,0 billion (2019: R11,3 billion) was realised.

These cost-control efforts resulted in an increase in EBIDTA to R805 million (2019: R737 million loss).

Opportunities in the short to medium term

- Enhancing revenue streams through intensified efforts to improve cross-border sales, commercialisation of already developed innovative products such as port equipment, locomotive condition monitoring systems, energy-saving systems and further diversification of maintenance services streams (such as rail maintenance) will offer sustainable growth in the near future.
- Employee safety and security measures will be further reinvigorated through various interventions, including awareness campaigns.

National Ports Authority

Revenue R12,2 billion

Revenue decreased by 2,2% to R12,2 billion (2019: R12,5 billion) due to an 8,8% decrease in cargo dues revenue to R6,2 billion (2019: R6,8 billion). Decreased cargo dues revenue is mostly because of reduced tariffs and volumes on containers.

Net operating expenses increased by 4,2% to R4,3 billion (2019: R4,1 billion), mainly due to increased personnel costs in line with the negotiated wage agreement increase, and energy costs.

Owing to the decrease in revenue and the increase in operating expenses EBITDA decreased by 5,4% to R7,9 billion (2019: R8,3 billion).

ROTA remained constant at 7,0% (2019: 7,0%).

Cross-border revenue declined to R60,2 million (2019: R69,8 million).

Opportunities in the short to medium term

- Creation of an energy hub to enhance security of supply and to support industrial development.
- Promotion of the Port of Ngqura as a regional transshipment hub in sub-Saharan Africa.
- Promotion of the South African port system globally to attract investments and optimise industrial development zones.
- Increase revenue and employment through Operation Phakisa projects.
- Expansion of the South African port system (e.g. Durban Dig-out Port).
- Operationalisation of the Maydon Wharf and Agribulk Terminal in Durban.

Port Terminals

Revenue R13,8 billion

Revenue increased by 5,5% to R13,8 billion (2019: R13,1 billion). Volume performance varied across the sectors, with the container and bulk sectors reflecting a year-on-year decline due mainly to operational challenges, with volume gains noted in the break-bulk (higher manganese volumes and livestock exports) and automotive sectors (higher export volumes).

Net operating expenses increased by 5,6% to R9,0 billion (2019: R8,5 billion), mainly due to Port Terminals' fixed cost composition as well as higher energy prices and inflation-related increases, with a decrease in discretionary and other operating costs as a result of cost-control initiatives implemented in these areas.

EBITDA increased by 5,4% to R4,8 billion (2019: R4,5 billion).

Opportunities in the short to medium term

- There is growing demand for Port Terminals' current services, as well as opportunities to expand service offerings across the transport value chain. Back-of-port opportunities to offer warehousing and value-add services in the container, mineral bulk and automotive segments are being explored.
- Support of Transnet's International Strategy by applying strengths and capabilities to countries in Africa.
- Private sector participation opportunities may reduce funding and operational requirements and leverage the capabilities of partners for mutual benefit.
- Offering tailor-made solutions to original equipment manufacturers (OEMs) in the automotive industry.
- Partnering with government departments, e.g. Department of Trade, Industry and Competition (DTIC) in order to attract new OEMs.

Pipelines

Revenue R5,7 billion

Revenue increased by 8,9% to R5,7 billion (2019: R5,3 billion) mainly due to the increase in petroleum allowable revenue of 7,69% granted by Nersa.

The petroleum volumes transported for the year decreased by 0,3% to 17 764 million litres (2019: 17 825 million litres). The negative deviation relates mainly to a marginal decrease in transported crude volumes given the partial shutdown of the Natref refinery from October to November 2019.

Net operating expenses increased by 51,8% to R1,9 billion (2019: R1,3 billion). The significant deviation is due to an increase in environmental remediation and rehabilitation costs as a result of an unprecedented increase in pipeline theft incidents during the current financial year.

EBITDA decreased by 4,7% to R3,8 billion (2019: R4,0 billion).

Opportunities in the short to medium term

- Initiative to secure a direct import terminal at the Port of Durban to enable new market participants in line with the Liquid Fuels Charter, emphasising B-BBEE and sector transformation.
- Enable road and rail distribution from Jameson Park Terminal.
- Alternative use of DJP assets.
- Optimise current pipeline network utilisation.

Financial sustainability: performance

King IV. P5

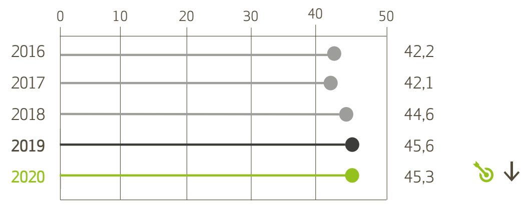
Transnet persevered amidst various economic challenges and achieved solid results for the 2020 financial year, realising an increased EBITDA of 0,7% and a net profit of R3,9 billion for the year.

Performance commentary on key ratios

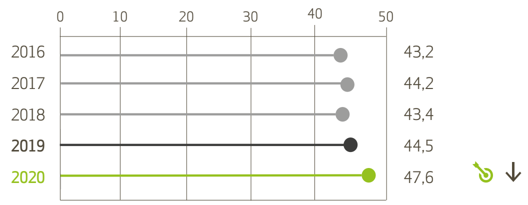
The gearing ratio increased to 47,6% (2019: 44,5%), due mainly to the impact of the devaluations raised in the financial year. This level is within the Group's target range of <50,0%, and is within the triggers in loan covenants, reflecting the available capacity to continue with its investment strategy, aligned to validated market demand. The gearing ratio is expected to remain within the target ratio over the medium term.

Five-year review: Key profitability ratios and statistics

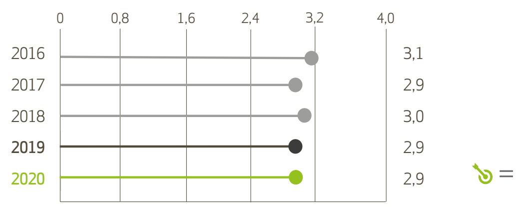
EBITDA margin (%)



Gearing (%)



Cash interest cover (times)



Performance key

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

REVENUE FOR THE YEAR INCREASED BY

1,3%

TO R75,1 BILLION

A Revenue for the year increased by 1,3% to R75,1 billion (2019: R74,1 billion), due mainly to a weighted average tariff increase of 2,9%, and was supported by a 6,5% volume increase in the container automotive sector.

B Net operating expenses increased by 1,9% to R41,1 billion, (2019: R40,3 billion) with personnel costs increasing by 1,7%; and energy costs increasing by 4,8%. Numerous cost-optimisation initiatives implemented throughout the Company aided our cost- control measures. These initiatives included rationalising overtime, reducing professional and consulting fees; rolling out programmes to measure the execution of condition-assessment versus time-based maintenance; and limiting discretionary costs relating to travel, printing, stationery and telecommunications.

C Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 0,7% to R34,0 billion (2019: R33,8 billion) with a decrease in the EBITDA margin to 45,3% (2019: 45,6%).

D Impairment of assets amounting to R2,3 billion (2019: R2,7 billion) was primarily due to the impairment of property, plant and equipment relating to locomotives, wagons, rolling stock and rotables after a physical verification, as well as a useful life assessment, partially offset by the net reversal of port operating assets impairment resulting from the related valuation applied as per the Group accounting policy, and impairments on trade and other receivables.

E Fair value adjustments gains amounted to a R762 million (2019: R3,3 billion gain). These adjustments are mainly due to investment property fair value gains, recognised in terms of IAS 40: *Investment Property*; and the fair value gains on interest rate swaps from the impact of the downward shift in the forward interest rate curves in terms of IFRS 13: *Fair Value Measurement* and IFRS 9: *Financial Instruments*.

F Net finance costs decreased by 0,4% to R11,3 billion (2019: R11,6 billion) resulting from the decision to utilise more cost-effective sources of funding, as well as a reduction in the funding requirement due to the optimisation of capital expenses.

G Profit for the year decreased by 34,9% to R3,9 billion (2019: R6,0 billion) primarily due to fair value adjustments in the prior year being R2,5 million higher than in the current year.

Income statement

for the year ended 31 March 2020

		Audited	
	(in R million)	31 March 2020	31 March 2019
A	**Revenue**	75 065	74 070
B	Net operating expenses excluding depreciation and amortisation	(41 081)	(40 320)
C	**Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA):**	33 984	33 750
	Depreciation, derecognition and amortisation	(14 955)	(14 274)
	Profit from operations before items listed below:	19 029	19 476
D	Impairment of financial assets	(799)	(444)
	Impairment of non-financial assets	(1 544)	(2 244)
	Post-retirement benefit obligation expense	(221)	(287)
E	Fair value adjustments	762	3 271
	Income from associates and joint ventures	19	19
	Profit from operations before net finance costs	17 246	19 791
F	Finance costs	(11 337)	(11 597)
	Finance income	171	387
	Profit before tax	6 080	8 581
	Tax	(2 142)	(2 534)
G	**Profit for the year**	3 938	6 047

Statement of comprehensive income

for the year ended 31 March 2020

	Audited	
(in R million)	31 March 2020	31 March 2019
Profit for the year	3 938	6 047
Other comprehensive (loss)/income	(22 246)	(18 616)
Loss on revaluations	(31 055)	(25 897)
Cash flow hedges	(140)	806
Actuarial gain on post-retirement benefit obligations	121	90
Tax relating to components of other comprehensive income	44	(211)
Other comprehensive loss for the year, net of tax	(22 342)	(18 021)
Total comprehensive loss for the year	(18 404)	(11 974)

Headline earnings

for the year ended 31 March 2020

	Audited	
(in R million)	31 March 2020	31 March 2019
Profit for the year attributable to equity holder	3 938	6 047
Loss/(profit) on sale of property, plant and equipment	1	(54)
Fair value adjustments on investment property	(681)	(3 160)
Impairment of non-financial assets	1 544	2 244
Headline earnings before tax effects	4 802	5 077
Tax effects		
(Loss)/profit on sale of property, plant and equipment	—	15
Fair value adjustments on investment property	153	708
Impairment of non-financial assets	(432)	(628)
Headline earnings	4 493	5 172

Condensed statement of financial position

as at 31 March 2020

	Audited	
(in R million)	31 March 2020	31 March 2019
Non-current assets	317 982	339 422
Current assets	18 243	16 078
Total assets	336 225	355 500
Capital and reserves	130 227	148 631
Non-current liabilities	168 971	173 782
Current liabilities	37 027	33 087
Total equity and liabilities	336 225	355 500

Statement of cash flows

for the year ended 31 March 2020

H Cash generated from operations increased by 2,1% to R35,9 billion (2019: R35,2 billion). The cash interest cover ratio at 2,9 times (2019: 2,9 times) reflects Transnet's strong cash-generating capability. This is also comfortably above loan covenant triggers.

I A well-defined funding strategy enabled Transnet to raise R9,3 billion long-term funding from development finance institutions and bonds for the year on the strength of its financial position, without government guarantees. Transnet also repaid net short-term facilities of R1,7 billion.

	Audited	
(in R million)	31 March 2020	31 March 2019
Cash flows from operating activities	21 946	21 930
Cash generated from operations	35 911	35 165
Changes in working capital	(2 493)	(1 633)
Cash generated from operations after changes in working capital	33 418	33 532
Finance costs	(10 968)	(10 968)
Finance income	171	387
Tax paid	(11)	(7)
Settlement of post-retirement benefit obligations	(155)	(144)
Derivatives settled and raised	(509)	(870)
Cash flows utilised in investing activities	(20 145)	(20 124)
Investment to maintain operations	(15 338)	(15 318)
Investment to expand operations	(4 807)	(4 806)
Changes in investments, loans, advances and other investing activities	(46)	(297)
Cash flows utilised in financing activities	(1 701)	(2 030)
Borrowings raised*	11 357	8 387
Borrowings repaid	(13 058)	(10 417)
Net increase/(decrease) in cash and cash equivalents	100	(244)
Cash and cash equivalents at the beginning of the year	4 156	4 380
Total cash and cash equivalents at the end of the year	4 256	4 156

** Borrowings raised excludes deferred interest of R453 million (2019: R702 million), refer note 34.3; and for the prior year also excludes the IFRS 16 lease liability transitional adjustment of R777 million.*

Segment information

for the year ended 31 March 2020

	Transnet Freight Rail		Transnet Engineering		Transnet National Ports Authority		Transnet Port Terminals		Transnet Pipelines		Total reportable segments		Other[1]		Total Transnet	
(in R million)	Audited 31 March 2020	Audited 31 March 2019	Audited 31 March 2020	Audited 31 March 2019	Audited 31 March 2020	Audited 31 March 2019	Audited 31 March 2020	Audited 31 March 2019	Audited 31 March 2020	Audited 31 March 2019	Audited 31 March 2020	Audited 31 March 2019	Audited 31 March 2020	Audited 31 March 2019	Audited 31 March 2020	Audited 31 March 2019
External revenue[2]	43 611	42 650	875	1 657	10 300	10 755	13 809	13 073	5 727	5 258	74 322	73 393	743	677	75 065	74 070
Internal revenue	1 016	932	11 004	8 867	1 872	1 695	—	13	5	4	13 897	11 511	1 281	1 599	—	—
Total revenue	44 627	43 582	11 879	10 524	12 172	12 450	13 809	13 086	5 732	5 262	88 219	84 904	2 024	2 276	75 065	74 070
EBITDA	18 795	19 506	805	(737)	7 866	8 317	4 788	4 541	3 810	3 996	36 064	35 623	(2 078)	(1 338)	33 984	33 750
Total assets[4]	166 531	176 443	18 901	19 883	76 399	93 077	18 784	16 970	43 210	43 515	323 825	349 888	28 515	21 918	335 951	355 327
Total liabilities	120 691	120 912	20 669	20 390	28 093	35 399	3 356	4 508	19 302	21 100	192 111	202 309	25 364	15 925	205 998	206 869
Capital expenditure[3]	13 932	14 818	306	301	1 626	941	2 224	1 515	412	326	18 500	17 901	61	40	18 561	17 941
Cash generated from operations after changes in working capital	16 956	17 491	(255)	891	7 461	8 040	4 701	4 160	4 336	3 545	33 199	34 127	219	(595)	33 418	33 532

[1] Other adjustments include the Corporate Centre functions.

[2] Revenue from segments below the quantitative thresholds are attributable to two Specialist Units, namely Transnet Property, which manages internal and external leases of commercial and residential property and Transnet Group Capital which manages the Group's large capital projects.

[3] Excludes capitalised borrowing costs; includes capitalised finance leases and capitalised decommissioning liabilities.

[4] Excludes assets held-for-sale.

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 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 respectively.

Pipelines

On 26 February 2020, Nersa made a decision to set Pipelines' 2021 financial year tariffs as per sections 4(f) and 28(1) of the Petroleum Pipelines Act, No 60 of 2003. The Regulator increased Pipelines' allowable revenue by 9,01%. This translates into an 11,60% increase in the Durban to Alrode tariff from 45,69 cents per litre to 51,00 cents per litre for the 2021 financial year.

In its decision, the Regulator highlighted the following:

- In line with the 2014 financial year decision, Transnet's corporate overhead costs will continue to be escalated by the CPI.
- In the 2017 financial year decision, Nersa placed a hold on the New Multi Product Pipeline (NMPP) assets at a value of R26,21 billion. Nersa will lift this hold upon completion of the NMPP project (June 2023) and the Regulator's prudency exercise.
- The Regulator resolved to implement the Transnet NMPP imprudent amount of R3,16 billion, pending the finalisation of the Nersa NMPP prudency review.

National Ports Authority

On 29 November 2019, the Ports Regulator granted the National Ports Authority a weighted average tariff increase of 0,3% for the 2021 financial year.

The Ports Regulator published the draft multi-year tariff methodology version 3 (MYT3) on 29 November 2019 for public consultation. On 6 March 2020, the Ports Regulator, after consultation with the port users and Transnet, published the approved MYT3 applicable to the 2022, 2023 and 2024 tariff periods.

The Ports Regulator also stated that it would monitor the progress of the National Ports Authority corporatisation implementation. If the National Ports Authority is corporatised, the Ports Regulator will consider the valuation of both pre-1990 assets and post-1990 assets using the Theory of Constraints method to ensure that the National Ports Authority remains financially sustainable.

Increase in capital investment to R18,6 billion, with R3,5 billion invested in the expansion of capacity and R15,1 billion invested to maintain capacity

Transnet previously raised concerns with the DPE regarding the use of Valuation of Assets by the Ports Regulator as an instrument of corporatisation, and the implications thereof on the National Ports Authority's required revenues, given that this is not a provision of the Ports Act, but rather an element of pricing and tariff determination.

Railway Safety Regulator (RSR)

On 31 May 2019, Transnet submitted its Railway Safety Permit application for 2020 to the RSR. On 30 August 2019, the RSR issued Transnet with a three-year Railway Safety Permit, with an expiry date of 30 June 2022, free from special conditions.

On 12 April 2019, the Minister of Transport published a notice setting out the safety permit fees payable to the RSR for the 2020 financial year. Transnet paid a non-refundable application fee of R56 333 and a permit fee of R104,9 million.

Capacity creation and maintenance

King IV. P5

Performance commentary on capital investment

Transnet Group continued to execute its asset investment programme. The capital investment for the year represents a 3,5% increase to R18,6 billion (R17,9 billion). R3,5 billion has been invested in the expansion of capacity, while R15,1 billion was invested to maintain capacity.

Among the Company's most significant investments is the acquisition of locomotives, and investment in infrastructure and rolling stock to modernise its fleet to create capacity for general freight volumes and to advance the road-to-rail strategy. As at 31 March 2020, the cumulative expenditure incurred on the 1 064 locomotive contract amounts to R34,9 billion, with R1,7 billion invested in the current year. In total, 571 locomotives have been accepted into operations. Two of the three contracts are currently suspended.

Freight Rail and Engineering continued programmes to build rail wagons with 478 CR13 (iron ore) wagons to be manufactured and commissioned. A total of 400 wagons have been manufactured and delivered, representing an investment of R528 million for the financial year.

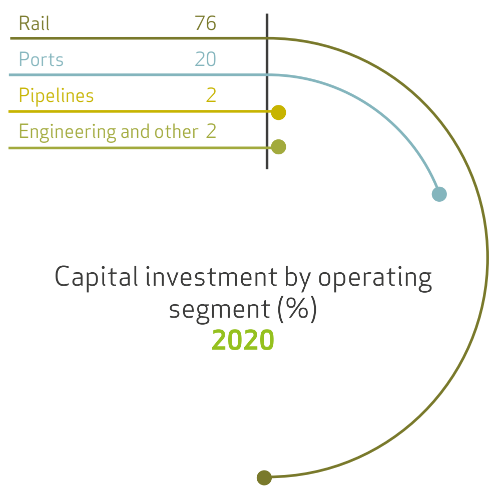
Other infrastructure investment highlights for the financial year include:

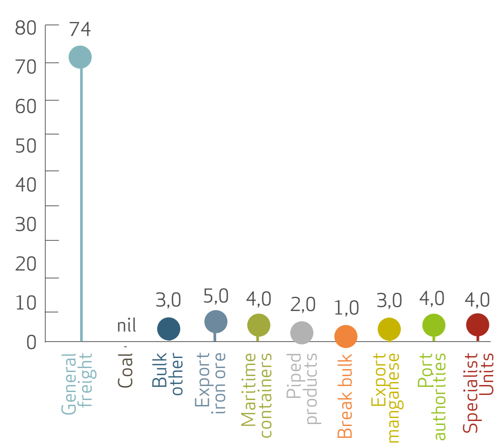
- R3,0 billion invested in rail infrastructure;
- R6,8 billion invested to maintain the condition of rolling stock;
- R501 million invested in the wagon fleet renewal and modernisation programme;
- R788 million for the construction of the new tippler in Saldanha and all the related bulk electric power supply;
- R489 million invested in the manganese project mainly for the acquisition of land from Coega Developmental Corporation;
- R303 million invested towards the upgrade of yards, lines and electrical equipment under the coal line investment programmes;
- R187 million invested in the roads, port entrance and other services for the Tank farm in the Port of Ngqura;
- Approximately R2,5 billion invested in the acquisition and maintenance of port equipment and infrastructure, including cranes, helicopters, tugs, dredgers, straddle carriers; and
- A R333 million investment in the pipeline networks.

571
LOCOMOTIVES ACCEPTED INTO OPERATIONS

Table 10: Five-year investment perspective

	2016	2017	2018	2019	2020	Target 2021
Capital investment (R million)	29 561	21 438	21 781	17 941	**18 561**	26 270
Total assets (R million)	356 393	351 635	369 823	355 500	**336 225**	347 551
Total borrowings (R million)	134 517	124 780	122 550	127 666	**133 266**	126 733





SDO: Investment leveraged and private sector participation

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. Through private sector partnerships (PSPs) and Section 56 (S56) projects (as per the National Ports Act, No 12 of 2005) we are able 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. The S56 agreements create opportunities for new operators to enter the port system, thereby enabling Transnet to advance South Africa's transformation agenda.

Transnet has implemented numerous projects through concessions and S56 agreements since the approval of our PSP policy in 2013.

Operation Phakisa project

Operation Phakisa focuses on unlocking the economic potential of South Africa's coastline, which could contribute up to R177 billion to the GDP by 2033. Country growth and expansion of the economy is dependent on port capacity, the Oceans economy will serve as a "new" driver for economic growth and job creation. The Oceans economy will provide the opportunity for private sector investments in the development of new port facilities. National Ports Authority has committed R4,7 billion (utilised for the upgrading of ship repair facilities and floating docks), realising 5 000 jobs (indirect as well as direct) currently for Phakisa projects across the port system.

Our 2019 Operation Phakisa project performance in brief:

- R1,8 million invested by National Ports Authority towards engineering prefeasibility studies for the Richards Bay floating dock project. This project demonstrates positive market appetite and is being progressed for a combination of public and private sector investment. The Port of Richards Bay will be issuing an Request for Proposal for a Floating Dock Operator in the first quarter of 2021
- East London boat-building facility has not as yet attracted investors due to a lack of demand in a weak economic climate. The port will go out with an Expression of Interest for the market to indicate what alternative uses the site could be used for
- Berth 205: The process of acquiring a transaction advisor will commence in July 2020 for this project
- Mossgas Quay: The procurement process for a transaction adviser will commence in July 2020 for this project

Table 11: S56 project investments in 2020

2020 – S56 project investments

	Location of the project	Section 56 projects	Amount invested	Progress to date	Outcomes (number of direct and indirect jobs created/skills development/ localisation of labour/% black ownership)
1	Port of Saldanha in Western Cape	Sunrise Energy liquefied petroleum gas project	R1,1 billion	Site is fully operational	31 permanent jobs created
2	Port of Saldanha in Western Cape	Offshore Supply Base	R1,9 billion	Dredging 80% complete; currently managing other conditions precedent to commence with construction	1 300 jobs in construction phase and 300 permanent jobs in operational phase
3	Cape Town in Western Cape	Burgan Cape Liquid Bulk Terminal	R650 million	Site is fully operational	21 full-time direct jobs created
4	Cape Town in Western Cape	Cape Town Cruise Terminal	R178 million	Project of phase 3 underway and due for completion in August 2020 – likely to change due to Covid-19	1 153 direct and indirect jobs (tenant occupation and ancillary service providers)
5	Port of Durban in KwaZulu-Natal	Durban Cruise Terminal	R258 million	In construction phase	Construction phase (estimated): 2 000 indirect jobs in 2020 Operational phase (estimated): 200 direct jobs by 2021 in the tourism and hospitality sector
6	Port Elizabeth in Eastern Cape	Sheds 10 and 11	R17,7 billion committed but R11,7 billion spent to date	Awaiting delivery of equipment to complete the full committed investment	A total of 33 jobs have been created (direct and indirect)
7	Port of Durban in KwaZulu-Natal	Maydon Wharf Agri Terminal (new)	Projected investment value R400 million (estimate)	The project progress impacted by the current Covid-19 lockdown	No feedback

Operational excellence: performance

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Performance commentary on revenue from operation and volumes productivity

Table 12: Five-year review: Business growth through volume performance

Revenue and volume performance	2016	2017	2018	2019	Target 2020	Actual 2020
Revenue (including clawback)	62 167	65 478	72 887	74 070	83 670	75 065
General freight (GFB) (mt)	84,0	88,1	90,8	84,7	96,6	80,99
Export coal (mt)	72,1	73,8	77,0	72,0	77,4	72,5
Export iron ore (mt)	58,1	57,2	58,5	58,4	60,0	58,8
Total rail	214,2	219,1	226,3	215,1	234,0	212,3
Containers (Port Terminals) ('000 TEUs)	4 366	4 396	4 664	4 534	4 863	4 424
Petroleum (Ml)	17 426	16 978	16 345	17 825	17 204	17 764

FREIGHT RAIL RAILED 72,5 MT OF EXPORT COAL,

0,7%

MORE THAN THE PRIOR YEAR

Freight Rail

Freight Rail's operational and financial performance was below expectations. The financial year was characterised by systemic challenges and economic conditions that hampered projected volume growth. The second quarter of the financial year was particularly challenging, and reflected deteriorating economic conditions contributing to commercial challenges in many market segments, mainly those serving the construction and manufacturing industries. Operational performance was further impeded by power supply challenges; the poor rail network condition on certain key corridors due to maintenance backlogs; increased security incidents; challenges in timely procurement of critical components required for maintenance; adverse weather patterns; and the early impact of the Covid-19 pandemic. The combination of these factors contributed to a decline of 1,3% in volumes railed to 212,3 mt when compared to the prior year (2019: 215,1 mt). Revenue increased by 2,4% from R43,6 billion to R44,6 billion. The average revenue per ton improved year on year by 4,2%, driven by inflationary price increases and product mix.

General freight business

General freight business volumes decreased by 4,4% to 81,0 mt (2019: 84,7 mt) mainly due to the weak economic climate as well as various operational issues. However, positive volume performance was noted with an 8,3% increase in manganese volumes and a 17,5% increase in mineral mining volumes.

Domestic coal volumes decreased by 7,9% to 13,9 mt (2019: 15,1 mt); iron steel and scrap decreased by 20,6% to 7,7 mt (2019: 9,7 mt); and cement and lime volumes decreased by 24,6% to 4,3 mt (2019: 5,7 mt). Reduced volumes were due to customer issues such as product unavailability and plant breakdowns. Other factors influencing performance included extreme weather conditions, community unrest hampering train operations, and the impact of infrastructure-related crimes on the Freight Rail network.

The container and automotive business sector decreased by 8,2% to 8,9 mt (2019: 9,7 mt), primarily due to the Covid-19 pandemic, which affected volumes at the end of the financial year and caused the closure of private sidings in the Gauteng area.

Export coal line

Freight Rail railed 72,5 mt of export coal (2019: 72,0 mt), 0,7% more than the prior year. Export coal wagon cycle times also improved to 62,39 hours when compared to the prior year (2019: 64,22 hours). The performance improvement was as a result of the successful implementation of continuous improvement initiatives at Ermelo Yard and a reduction of wagons in the active fleet.

Export iron ore line

Export iron ore volumes increased by 0,9% to 58,9 mt (2019: 58,4 mt) given strong customer demand and improved operational efficiencies. The export iron ore line cycle time rose to 94,96 hours (2019: 91,73 hours). The longer cycle time is attributed to tippler challenges and an increase in the number of speed restrictions placed on the northern part of the iron ore line due to infrastructure condition challenges.

Despite efforts to contain costs through cost-control measures implemented during the year, operating expenses increased by 7,3% to R25,8 billion (2019: R24,1 billion) in line with the negotiated wage agreement increase of 7,5%. Cost savings were offset by increased haulage (due mainly to increased over-border activity), insurance and security expenses (due to an increase in related incidents).

EBITDA for the year decreased by 3,6% to R18,8 billion (2019: R19,5 billion).

12,9%
INCREASE IN ENGINEERING'S REVENUE TO R11,9 BILLION

Engineering

Engineering's financial performance improved during the year. While the Group focused on enhanced asset utilisation to support volume growth, Engineering responded by making more rolling stock available while redressing backlog maintenance, resulting in a 12,9% increase in revenue to R11,9 billion (2019: R10,5 billion).

In recent years, Engineering has reviewed and refined its operating model towards improved flexibility to address a fluctuating revenue order book. Cost-control measures have reduced Engineering's cost base over time and include the internal redeployment of resources, natural attrition without the filling of vacancies, continued management of cost drivers and other measures. Headcount reduced by over 700 employees mainly as a result of retirements, resignations and natural attrition, which helped to reduce the effects of high personnel costs. Net operating expenses reduced by 1,7% to R11,1 billion (2019: R11,3 billion).

The overall improved revenue performance, supported by robust cost-control mechanisms, improved Engineering's EBITDA performance significantly to R805 million for the year (2019: R737 million loss).

National Ports Authority

Revenue decreased by 2,2% to R12,2 billion (2019: R12,5 billion) due to a 9% decrease in cargo dues revenue to R6,2 billion (2019: R 6,8 billion), partially offset by increased rental income. Decreased cargo dues revenue is mostly due to reduced tariffs and volumes on containers.

Net operating expenses increased by 4,2% to R4,3 billion (2019: R4,1 billion), mainly due to increased personnel costs, in line with the negotiated wage agreement increase, and energy costs in line with tariff increases.

Accordingly, EBITDA decreased by 5,4% to R7,9 billion (2018: R8,3 billion).

Port Terminals

Volume performance varied across the sectors, with the container and bulk sectors reflecting year-on-year decline due mainly to operational challenges. In the last two months of the financial year, the negative impacts of Covid-19 affected performance across the container sector and certain commodities in the bulk and breakbulk sectors. Container volumes decreased by 2,4% to 4 423 894 TEUs (2019: 4 534 341 TEUs). The container sector was further impacted by deteriorating weather conditions, poor reliability of ageing port equipment, human resource limitations and poor productivity at the ports. Bulk volumes decreased by 4,0% to 79,1 mt (2019: 82,4 mt). Bulk performance was negatively impacted by poor market conditions, low commodity prices for coal, woodchips and other commodities, coupled with maize and wheat volumes not materialising as anticipated. Break-bulk volumes increased by 6,1% to 21,0 mt (2019: 19,8 mt) mainly due to higher manganese volumes and livestock exports. The automotive sector increased by 6,5% to 791 647 units (2019: 743 350 units) as a result of higher export volumes.

Net operating expenses increased by 5,6% to R9,0 billion (2019: R8,5 billion), mainly due to Port Terminals' fixed cost composition, as well as higher energy prices and inflation-related increases, with a decrease in discretionary and other operating costs as a result of cost-control initiatives implemented in these areas.

Port Terminal's EBITDA increased by 5,4% to R4,8 billion (2019: R4,5 billion).

Port – container volumes

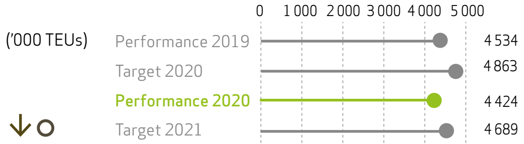


Table 13: Port volumes productivity

Volumes	2019	Target 2020	Actual 2020	Performance	Percentage increase/ decrease %
Bulk and break-bulk volumes (mt)	102,7	107,3	100,1	↓	2,5
Container volumes (000 TEUs)	4 534	4 863	4 424	↓	2,4
Total automotive volumes (units)	743 350	724 141	791 647	↑	6,5
Liquid bulk (million kilolitres)	40,4	40,1	40,1	↓	0,7

8,9%
INCREASE IN PIPELINES' REVENUE TO R5,7 BILLION

Pipelines

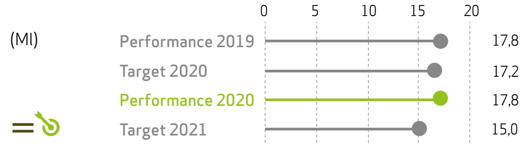
Revenue increased by 8,9% to R5,7 billion (2019: R5,3 billion), mainly due to the increase in petroleum allowable revenue of 7,69% granted by Nersa.

The petroleum volumes transported for the year decreased by 0,3% to 17 764 million litres (2019: 17 825 million litres). The negative deviation relates mainly to a marginal decrease in transported crude volumes given the partial shutdown of the Natref refinery from October to November 2019.

Net operating expenses increased by 51,8% to R1,9 billion (2019: R1,3 billion). The significant deviation is due to an increase in environmental remediation and rehabilitation costs as a result of an unprecedented increase in pipeline theft incidents during the current financial year.

Consequently, EBITDA of R3,8 billion (2019: R4,0 billion) is 4,7% lower than the prior year.

Pipelines – volumes



Pipelines – productivity and efficiency

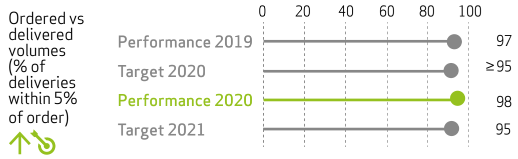


Table 14: Pipelines volumes productivity

Volumes	2019	Target 2020	Actual 2020	Performance	Percentage increase/ decrease %
Transported petroleum volumes (Ml)	17 825	17 204	17 764	↓	0,3
Gas volumes (million m^3)	511	509	511	=	0,0
Storage (Ml)	597	553	634	↑	6,2

Performance key

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

Five-year review: business growth through volume performance

Operational efficiency

Rail efficiency

General freight wagon turnaround time marginally declined from 9,68 to 9,75 days when compared to the prior year. The combined negative impact of reduced volumes, locomotive reliability issues and network condition on key corridors significantly influenced general freight wagon efficiency.

General freight business

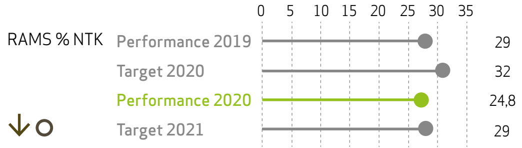
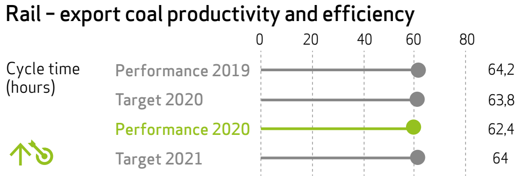


Table 15: Rail operations efficiency: density

KPIs	2019	Target 2020	Actual 2020	Target 2021	Improvement/ decline on prior year or equivalent performance	Target achieved/ not achieved/ partially achieved
General freight (GTK/Route km)	4,88	≥5,74	4,71	≥4,82	↓	O
Natcor (GTK/Route km)	8,90	≥10,14	7,97	≥8,69	↓	O
Capecor (GTK/Route km)	5,77	≥6,93	5,09	≥4,97	↓	O
Southcor (GTK/Route km)	5,97	≥6,67	6,18	≥6,08	↑	O

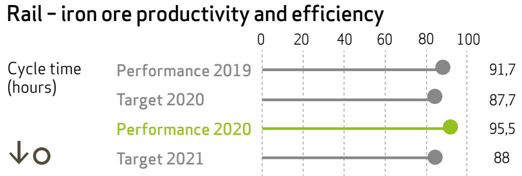
Export coal wagon cycle time improved by 2,8% to 62,4 hours (2019: 64,2 hours).

Rail – export coal productivity and efficiency



The export iron ore wagon turnaround time increased by 3,6% to 95,0 hours (2019: 91,7 hours).

Rail – iron ore productivity and efficiency



Port efficiency

Port Terminals' primary measure of operational efficiency, average moves per ship working hour (SWH), has declined across all container terminals compared to the prior year due to a significant worsening in weather conditions as well as reduced people resources and limited equipment uptime, exacerbated by the go-slow in July 2019. The average SWH performance at Pier 1 Container Terminal in Durban decreased from 47 to 41 moves in 2020, while SWH at Pier 2 Container Terminal decreased from 54 to 46 moves. The Cape Town Container Terminal SWH has declined to 38 moves from 45 moves in the prior year, and the Ngqura Container Terminal's SWH has decreased from 46 to 37 moves. Port Terminals has since ramped up operational port teams and equipment as part of its operations turnaround plan and improved productivity in the last quarter of the 2020 financial year.

The Richards Bay Dry Bulk Terminal's loading rate remained stable, moving from 849 tons per hour in 2019 to 848 tons per hour in 2020. The discharge (offloading) rate declined from 462 tons per hour in 2019 to 428 tons per hour in 2020 due to challenges experienced with ageing equipment and port infrastructure. The average tons dual loaded per hour at the Saldanha Iron Ore Terminal was maintained above the target of 8 100 tons per hour.

2,8%
IMPROVEMENT IN EXPORT COAL WAGON CYCLE TIME TO 62,4 HOURS

Table 16: Port efficiency: anchorage waiting time

Port – efficiency		2019	Target 2020	Performance 2020	Target 2021	Performance	Target
Anchorage waiting time (average hours)	Durban Pier 1	33	≤25	64	30	↓	O
	Durban Pier 2	66	≤30	80	40	↓	O
	Cape Town	34	≤25	49	40	↓	O
	Ngqura	29	≤28	53	35	↓	O

Table 17: Port efficiency: average ship turnaround time

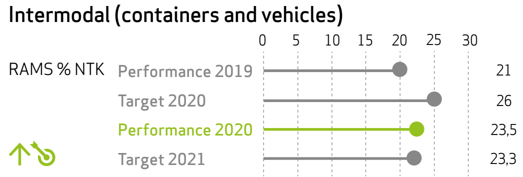
Port – efficiency		2019	Target 2020	Performance 2020	Target 2021	Performance	Target
Average ship turnaround times (containers STAT hour)	Durban Pier 1	56	≤55	74	55	↓	O
	Durban Pier 2	60	≤63	79	53	↓	O
	Cape Town	33	≤32	37	50	↓	O
	Ngqura	31	≤30	37	30	↓	O

Table 18: Port efficiency: average moves per ship working hour (SWH)

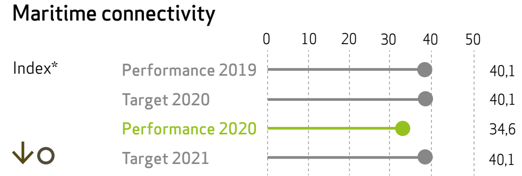
Port – containers productivity and efficiency		2019	Target 2020	Performance 2020	Target 2021	Performance	Target
Moves per SWH	Durban Pier 1	47	≥50	41	≥48	↓	O
	Durban Pier 2	54	≥65	46	≥60	↓	O
	Cape Town	45	≥56	38	≥50	↓	O
	Ngqura	46	≥56	37	≥50	↓	O
	Port Elizabeth	33	36	24	36	↓	O

Port Terminals ramped up operational port teams and equipment, and improved Quarter 4 productivity

Intermodal (containers and vehicles)



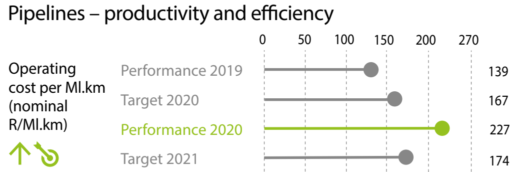
Maritime connectivity



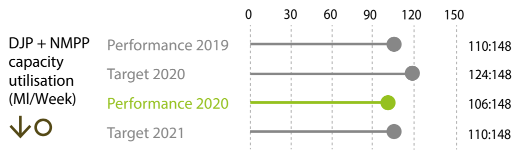
** Definition: The Liner Shipping Connectivity Index captures how well countries are connected to global shipping networks. It is computed by the United Nations Conference on Trade and Development (UNCTAD) based on five components of the maritime transport sector: Number of ships, their container-carrying capacity, maximum vessel size, number of services, and number of companies that deploy container ships in a country's ports. For each component a country's value is divided by the maximum value of each component in 2004, the five components are averaged for each country, and the average is divided by the maximum average for 2004 and multiplied by 100. The index generates a value of 100 for the country with the highest average index in 2004. The underlying data come from Containerisation International Online.*

Pipelines efficiency

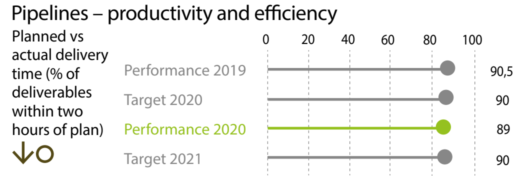
Pipelines – productivity and efficiency



Pipelines – productivity and efficiency



Pipelines – productivity and efficiency



SDO: Regional integration

Aggressive expansion of trade and investment in the southern African region, on the continent and globally, as espoused in the National Development Plan 2030 vision, continues to be a necessity for Africa. Likewise, it is Transnet's strategic priority to enhance connectivity of the regional freight system to advance intra-African trade.

Regional integration presents opportunities on infrastructure backlogs, which remain a key challenge facing the continent. We view the establishment of the African Continental Free Trade Area as a much-needed vehicle to jointly build industrial capabilities, garner investment for large-scale development and advance socio-economic development in Africa.

Our most material outcomes in respect of regional integration are to:

- Improve freight logistics connectivity on the continent;
- Grow our revenue;
- Increase opportunities in skills and expertise transfer;
- Increase opportunities to improve regional cooperation; and
- Improve intra-African trade.

We intend to leverage our extensive knowledge, expertise and experience in the logistics value chain to provide value-added training services across Africa. Our passion for skills transfer in countries of concessions remains a priority in all our cross-border concession agreements.

Transnet continues to establish Joint Operating Centres and inter-rail agreements to improve corridor efficiencies across all our regional partnerships. Our cross-border activities include extended lifecycles on port and rail equipment through maintenance and equipment supply; property lifecycle management and safety programmes to reduce costs and improve working conditions; and in-service maintenance, upgrades, manufacturing and supply of new rolling stock.

Our 2020 regional integration performance in brief:

- Cross-border revenue from Transnet Engineering is well above budget due to precise planning in the current financial year: R363 million (2019: R166 million)
- Inter-Africa transshipment deteriorated compared to the previous year: R264 million (2019: R798 million)
- Freight Rail cross-border revenue increased marginally: R2 270 million (2019: R2 152 million)
- Our cross-border revenue amounted to R3 002 million

Table 19: Cross-border revenue performance by Operating Division

	2018/19			2019/20			2020/21
Operating Divisions (R million)	Budget	Actual	Variance %	Budget	Actual	Variance %	Budget
Freight Rail (Zimbabwe and Zambia interim solutions included)	2 924	2 152	-26	3 001	2 366	-21	2 908
Engineering	2 100	166	-92	254	363	+43	104
National Ports Authority Transshipment	69	70	+1	52	60	+15	47
Port Terminals Transshipment	853	728	-15	313	204	-35	274
Port Terminals Consulting	6	6	-6	7	8	+14	6
Cross-border rail revenue	3 785,0	2 152,0	-43	2 833	2 270	-20	2 807

CROSS-BORDER REVENUE FROM TRANSNET ENGINEERING IS WELL ABOVE BUDGET AT

R363 MILLION

SDO: Health and safety

Safety performance

Our safety practices are guided by a 'zero-harm' safety culture and Transnet's health and wellness policies and procedures, which align to regulatory requirements and global best practices. Key safety legislation includes the Occupational Health and Safety Act, No 85 of 1993 (OHS), and the safety requirements of the Railway Safety Regulator and the Labour Relations Act, No 66 of 1995. Our management approach is informed by our Integrated Management System Policy and associated procedures, supported by regular safety audits to drive continuous improvements in our highly industrialised facilities and infrastructure, while maintaining the highest safety standards for our employees, contractors, business partners, customers and communities.

We encourage our stakeholders to abide by our rigorous safety procedures and interventions, which include level-crossing blocks, safety billboards, public awareness campaigns and awareness campaigns at schools.

We recorded a DIFR of 0,73 (2019: 0,71) against a tolerance of 0,75 in the year under review. Regrettably, we lost six colleagues and 109 members of the public to fatal accidents.

In respectful memory of our late colleagues:

- Mr Sifiso Enock Ngcobo
- Mr Monwabisi Lingela
- Mr Phineas Mokgokong
- Mr Gavin van Staden
- Mr Alistar Vusumuzi Sibiya
- Mr Simphiwe Ernest Mdluli

Our 2020 safety performance in brief:

- Disabling injuries: 518 (2019: 509)
- Public fatalities: 109 (2019: 134)
- Running line derailments: 88 (2019: 65)
- Shunting derailments: 147 (2019: 153)

Our safety practices are guided by a 'zero-harm' safety culture

Table 20: Operating Divisions' DIFR performance

Operating Division/ Business	Disabling Injuries (DIs)		Disabling Injuries Frequency Rate (DIFR)	
	2019/20	2018/19	**2019/20**	2018/19
Freight Rail	339	342	0,88	0,90
Engineering	97	82	0,82	0,66
Port Terminals	59	61	0,50	0,52
National Ports Authority	12	20	0,25	0,41
Pipelines	8	2	0,70	0,18
Transnet Group Capital	1	1	0,10	0,09
Transnet Corporate Centre	—	1	0,00	0,19
Transnet Property	2	—	0,09	0,00
Group	518	509	0,73	0,71

Employee wellness

During the latter part of the reporting year, the Covid-19 crisis introduced a situation without precedent in our lifetime, and our way of doing business globally has changed, possibly forever. Our primary concern continues to be the health, wellness and safety of our employees and the communities near our operations. Accordingly, we introduced immediate measures to support those who remained active in essential services at the front lines of our business, while also supporting those who needed to acclimatise to new ways of working remotely.

Prior to the onset of Covid-19, we had realigned our Occupational Health and Employees Wellness Policy with current business priorities. With chronic disease management being our greatest challenge, we are standardising the risk assessment process for occupational diseases to mitigate possible health risks affecting the workforce. Further, we revised our clinics' operating hours to improve turnaround times for emergency medical assistance, which has placed us in good stead to support our people as Covid-19 runs its course. Our Employee Assistance Programme continues to provide 24-hour assistance to employees and their immediate family members, a service which has become increasingly more critical under the present circumstances. Beyond the immediate physical health crises facing our people during Covid-19, it is even more critical that we pay attention to the mental well-being of employees, many working remotely and many returning to a changed work environment with new rules and requirements that further emphasise the necessity for cultivating work-life balance in our daily work practices.

Our response to Covid-19

Since the onset of Covid-19 in March 2020, Transnet has implemented appropriate protective measures and communication protocols, which include, inter alia:

- Increasing daily awareness of Covid-19 through communication in all languages;
- Halting the use of biometric access temporarily in favour of employee access cards as a form of admittance into our facilities;
- Installing thermometer scanners at our entrances as an additional control measure, where people with temperature of 37,3 °C or higher will be referred to the respective occupational health clinics for further screening and assistance;
- Restricting the number of employees in face-to-face meetings;
- Providing employees with effective PPE;
- Strengthening our 24-hour Employee Assistance Programme (EAP) to support employees' mental health and physical well-being through telephonic counselling; and
- Collaborating with external healthcare providers for case management, medical advice and counselling support; and to assist with educational health and safety programmes to ensure employees take precautionary measures to contain the spread of Covid-19.

Our 2020 wellness performance in brief:

- We recorded 3,58% increase in the unplanned absenteeism rate (2019: 3,49%) against an anticipated target of 2, 9%
- The sick absenteeism rate was 2,94% against a target of 2,5%, indicating an increase compared to 2,86% reported in 2019
- We held 210 wellness awareness sessions for employees, and 300 hours were allocated to health and education training engagements
- 18 046 cases of chronic disease management registered for HIV, hypertension, diabetes, hyperlipidaemia and asthma
- We provided 7 111 (2019: 15 814) face-to-face counselling sessions
- 3 977 calls were made by employees to the EAP service provider (2019: 9 538)

Table 21: Wellness performance

Health and wellness performance	2020	2019
Unplanned absenteeism rate (%)	3,58	3,49
Sick absenteeism rate (%)	2,94	2, 86
Overall unplanned leave cost (R million)	701,2	614,3
Chronic disease management	(cases registered) 18 046	(R million spend) 3,5
EAP: Face to face (number)	7 111	15 814
EAP: Telephonic (number)	3 977	9 538
Sick leave cost (R million)	372, 6	353,8

SDO: Environmental stewardship

Water consumption in operations decreased to 28 189 517 kl

Transnet aims to protect and enhance environmental assets and natural resources through its environmental stewardship, which is guided by national regulatory requirements including the National Environmental Management Act, No 107 of 1998 and its associated regulations, international standards as well as internal policies and frameworks. Our most material outcomes in respect of environmental stewardship include improved water management, combatting climate change, improved protection and restoration of natural habitats, prevention of pollution, and environmental compliance.

Water stewardship

We define water stewardship in terms of our ability to continuously improve water usage and reduce the water-related impacts of both our internal and external value chain operations, as advocated in our Water Policy 2017 (as revised). We view our water conservation efforts as forming part of the collective action of businesses, governments, NGOs and communities in the sustainable management of shared water resources in the public interest. Transnet's long-term profitability – and indeed its viability as a going concern business – depends on the availability of suitable water resources at the right time and place to meet the needs of our people, business and ecosystems. Accordingly, we regularly measure and quantify the broader water-related risks and opportunities across our operations and supply chains as well as consumer and customer markets to safeguard future water security. During the year we implemented a water reticulation management programme as well as other small-scale portable water-saving initiatives, which reduced water consumption in our operations.

Transnet achieved a 'B' score in the Carbon Disclosure Project for Water in 2019, an improvement from the 'C' score obtained in 2018; thereby further underscoring the Company's efforts to understand its water risks in various catchments and to implement measures to achieve water conservation and stewardship.

Our 2020 water stewardship performance in brief:

- Water consumption in operations: 28 189 517 kℓ (2019: 33 080 882 kℓ)
- Water recycled: 396 578 kl (2019: 1 267 477 kℓ)
- Water discharged from operational processes (of the total water abstracted): 88 508 kℓ (2019: 50 637 kℓ)

Waste management

Transnet's operations generate numerous waste streams, which require responsible handling. We acknowledge the care required to ensure responsible consumption and production patterns as espoused in the UN SGD 12, relating to resource efficiency, waste prevention and minimisation, and waste reuse and recovery in alignment with the waste hierarchy.

Over the years, Transnet has focused its efforts on addressing historical contamination. During the year, the Company improved the clearing of buried asbestos from historical contamination by implementing remediation orders for contaminated sites as per the requirements of section 36 of the National Environmental Management: Waste Act, No 59 of 2008 (Waste Act). We were recognised by the DEFF at Waste Khoro 2019: Asbestos and Land Remediation Summit for our devoted implementation of land remediation and asbestos management activities.

Our 2020 waste management performance in brief:

- Total waste disposed: 40 761 tons (2019: 65 773 tons)
- Rebates generated from general waste recycling: R19 693 967 from 11 908 tons (2019: R210 965 355)
- Asbestos remediation and rehabilitation from historical contamination: 63,18 tons (2019: 49,2 tons)
- Hazardous waste disposed: 48 141 tons (2019: 35 855 tons)
- Recycled used oil: 970 kl (2019: 140,9 kl)

Biodiversity enhancement

Responsible biodiversity management forms the foundation of ecosystem services and is intricately linked to the well-being of people and businesses. There is increasing evidence that biodiversity increases the stability of ecosystem functions over time. Transnet aims to conserve biodiversity for future generations through the sustainable use of biological resources and the rehabilitation of natural areas adversely affected by our operations. Any negative impact on biodiversity reduces the ability of communities to gather biological resources, produce biomass, and to decompose and recycle essential nutrients. Our social licence to operate – and our future sustainability as a business – is acutely driven by our ability to ensure resource sustainability in the communities where we operate. Accordingly, as an environmental risk to the business, we strive to address any negative impacts that our operations may cause to the environment. We apply the mitigation hierarchy as a critical anchor of our biodiversity conservation efforts, which is based on a series of essential, sequential steps that must be taken throughout a project's lifecycle to limit any negative impacts on biodiversity.

Our 2020 biodiversity management performance in brief:

- Alien and Invasive Species eradicated: 1 413 Ha at the Port of Durban and Richards Bay (2019: 1 158 Ha)

Environmental incidents

We recorded 36 Section 30 incidents[8], a 58% increase compared to 2019. These incidents refer mainly to pipeline spillages due to product theft. All spillages were contained as per our Emergency Response Plan and we are rehabilitating sites at the affected areas. Transnet works untiringly with law enforcement agencies to address the theft issues to prevent future spillages and related impacts on the environment.

The table that follows summarises the nature of environmental incidents and the Operating Divisions' responses.

We were recognised by the DEFF at Waste Khoro 2019 for our devoted implementation of land remediation and asbestos management activities

[8] *As per the National Environmental Management Act, No 107 of 1998.*

Table 22: Summary of environmental incidents for 2020

Operating Division	Description	Receiving environment	Response
Pipelines	26 Section 30 incidents: • 26 Hydrocarbon spillages due to: – Third party tampering with the pipeline; and – Product theft (various locations: 13 in Mpumalanga, five in Gauteng, five in the Free State and three in KwaZulu-Natal)	Soil, wetland and water	• Emergency spill plan was activated to contain the spillages • Incidents investigated and root cause analysis was undertaken • Site rehabilitation commenced • Security measures implemented • All incidents reported to environmental authorities as per section 30 of NEMA
Freight Rail	Nine Section 30 incidents: • Chemical spillage due to tanker valve failure (Shallcross Train Station) • Transformer oil spillage due to train derailment (Piet Retief, Mpumalanga) • Magnetite spillage due to train derailment (Cottondale) • Jet fuel spillage due to a derailment at Newcastle Station • Diesel spillage due to a head-on collision involving two trains (Matlabas Interloop) • Iron ore spillage due to a derailment at Saldanha • Sewage spillage from a manhole overflow polluting storm water channels and nearby wetland at Ermelo Depot • Oil spillage due to vandalism of transformer at Weltevrede • Oil spillage due to vandalism of transformer at Luttig Railway Station	Soil and water	• Emergency spill contract was activated to contain the spillages • Incidents investigated and root cause analysis performed • Site rehabilitation commenced • Continuous monitoring of all sites • All incidents reported to environmental authorities as per section 30 of NEMA
Engineering	• Oil spill into storm water channel (Koedoespoort) • Thick oil plume visible on the small stream that receives water from Ermelo Depot's storm water drainage system	Water and wetland	• Emergency spill plan was activated • Incidents investigated and root cause analysis performed • Site rehabilitation activities • Continuous monitoring of all sites • All incidents reported to environmental authorities as per section 30 of NEMA

We manage and implement the conditions of Air Emissions Licences in all our operations

Air quality management

The South African Government has introduced stringent air quality regulations, with air pollution fast becoming one of the most pressing global environmental concerns. Transnet handles large quantities of various commodities, which may adversely affect air quality. As a logistics company, which is also State-owned, we recognise our duty of care to prevent, as far as possible, pollution resulting from our handling of these commodities.

We continue to manage and implement the conditions of Air Emissions Licences (AELs) in all our operations that may trigger listed activities as per the NEM: Air Quality Act, No 39 of 2004. Accordingly, the Company aims to mitigate air quality contraventions and to operate within legal and environmentally sustainable limits. During the year we received five AELs consisting of two AELs for our Multi-Purpose Terminal and Iron Ore Terminal at the Port of Saldanha; and three renewals for our Pipeline operations at the Tarlton, Rustenburg and Kroonstad depots.

Managing our environmental impact through legal compliance

With a regulatory risk 'universe' profile of more than 200 primary regulatory requirements impacting Transnet, we regularly review legislative changes to safeguard compliance and assess the impact these changes pose to our operations. Compliance Officers within each Operating Division assist management with the assurance that operations are compliant with regulations and report to the Board of Directors on the effectiveness of the control environment. The Company's licence to operate is firmly rooted in legislative compliance, which extends to applicable environmental laws.

We aim to minimise our impact on the environment and strive to eliminate unplanned events, such as unsanctioned effluent discharges, derailments, non-compliance to air emissions standards and pipeline leaks. We have established multilateral relationships with the national, provincial and local environmental authorities to ensure alignment on a broad range of environmental issues and continue to monitor our legal compliance. During the year, Transnet recorded 11 operational visits by authorities across the business and five legal contraventions.

Compliance with applicable environmental legislation during 2020 appears in the table that follows.

Our licence to operate is firmly rooted in legislative compliance, which extends to applicable environmental laws

Table 23: A summary of regulatory contraventions in our operations

Operating Division	Classification	Nature of contravention	Issuing authority	Financial implication
Freight Rail	Air quality	Contravention of section 22A of the National Environmental Management: Air Quality Act, No 39 of 2004	Gert Sibande District Municipality, Mpumalanga	R200 000
Freight Rail	Biodiversity	Section 7 of the Conservation of Agricultural Resources Act, No 43 of 1983	Department of Environment, Forestry and Fisheries (DEFF)	Directive
Engineering	Water pollution	Contravention of City of Cape Town by-laws	City of Cape Town	Notice of contravention
Engineering	Water pollution	Contravention of eThekwini Metropolitan Municipality by-laws	eThekwini Metropolitan Municipality Water and Sanitation Department	Notice of contravention
Port Terminals	Waste management	National Environmental Management Act, No 107 of 1998 and National Environmental Management: Waste Act, No 59 of 2008	DEFF	Pre-compliance notice

11,2%
DECREASE IN CARBON EMISSIONS SINCE 2014

Energy management

The energy sector in South Africa is coal dominated and contributes approximately 80% of the total carbon emissions in the country. Transnet continues to implement the Energy Security and Carbon Mitigation Strategy in support of the South African Government's initiatives to curb carbon emissions, manage electricity consumption and reduce our carbon footprint.

With the global energy system beginning the transformation to renewable energy, we continue to adapt and align our energy outlook to maintain resilience in a changing energy landscape. As a role player in the energy ecosystem, we are strengthening our approach to energy management by exploring the implications of the hydrogen economy and the electrification of the mobility system. We continue to investigate alternative means of energy efficiency and exploring alternative fuel sources for hybrid-type locomotives, which include biofuels, natural gas and producer gas. In addition, we are currently developing small-scale renewable energy projects for the Company's use in lieu of reducing our carbon footprint.

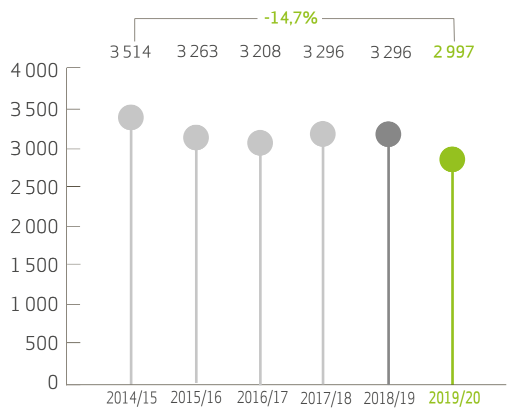
Natural gas is a key energy source for South Africa's growth and transition to a low-carbon economy and requires enabling logistics infrastructure. Transnet has planned for liquefied natural gas (LNG) to be imported through the ports of Richards Bay, Ngqura and Saldanha Bay. Commercial and regulatory preparation is underway for the Company to partner with the private sector and other SOCs to establish common-user midstream natural gas networks. This will include integrated port terminal facilities, pipelines and LNG-loading facilities for the import, storage and regasification of LNG, and the transmission of natural gas and containerised LNG to customers in the industrial, power generation, transport and domestic sectors.

Historical performance

Electricity consumption [GWh]

Our carbon emission intensity has decreased by 8% from 2014 to 2020, while our energy efficiency has improved by 10% for the same period. Transnet's total electricity consumption over the period 2014 to 2020 decreased by 14,7% from 3 514 GWh in 2014 to 2 997 GWh in 2020.

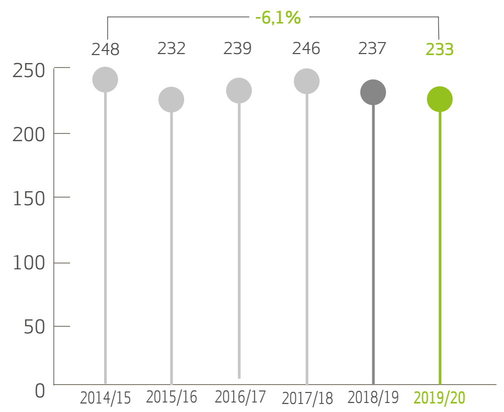
Electricity consumption (GWh)



Fuel consumption [Mℓ]

Transnet's total fuel consumption over the period 2014 to 2020 decreased by 6,1% from 248 Mℓ in 2014 to 233 Mℓ in 2020.

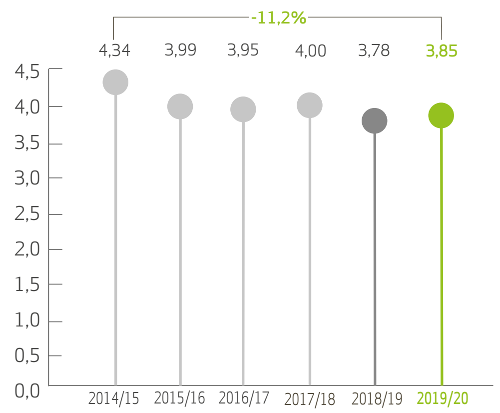
Fuel consumption (Ml)



Carbon footprint

Transnet's total carbon emissions (mtCO_2e) over the period 2014 to 2020 decreased by 11,2% from 4,34 mtCO_2e in 2014 to 3,85 mtCO_2e in 2020.

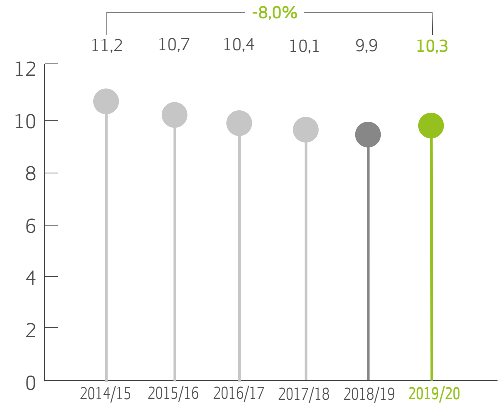
Carbon footprint (mtCO_2e)



Emissions intensity [kgCO_2/ton]

Transnet's carbon emissions intensity over the period 2014 to 2020 decreased by 8,0% from 11,2 kgCO_2/ton in 2014 to 10,3 kgCO_2/ton in 2020.

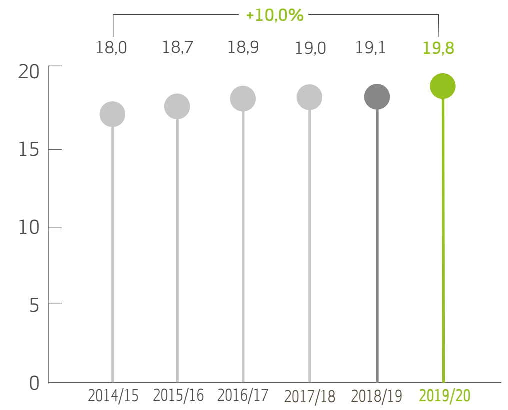
Emissions intensity (kgCO_2/ton)



Energy-efficiency performance [ton/GJ]

Transnet's overall energy efficiency (ton/GJ) over the period 2014 to 2020 improved by 10,0% from 18,0 ton/GJ in 2014 to 19,8 ton/GJ in 2020.

Efficiency (ton/GJ)



Road-to-rail carbon emission saved cumulatively [tCO_2e]

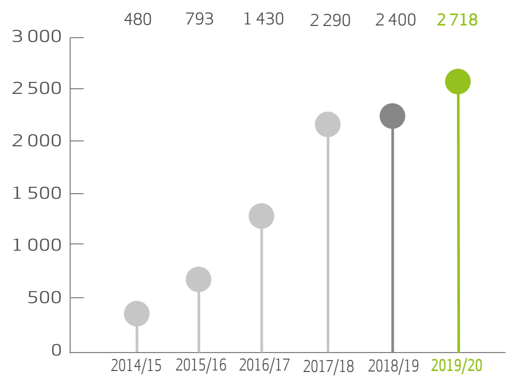
Our 2020 road-to-rail performance in brief:

- Road-to-rail volume amounted to 6 428 742 tons
- Carbon emissions reduction for the South African transport sector in 2020 amounted to 318 217 tCO_2e

Business unit	Road-to-rail volumes (tons)	Carbon emission savings (tCO_2e)
Agriculture and bulk liquids	0	0
Coal	2 385 587	55 938
Containers and automotive	127 761	7 071
Iron ore and manganese	46 309	5 501
Mineral mining and chrome	3 501 676	234 304
Steel and cement	367 409	15 402
	6 428 742	318 217

Carbon emission reduction for the South African transport sector from road to rail over the period 2014 to 2020 totalled 2 718 022 tCO_2e.

Road-to-rail carbon emission saved collectively (tCO_2e)

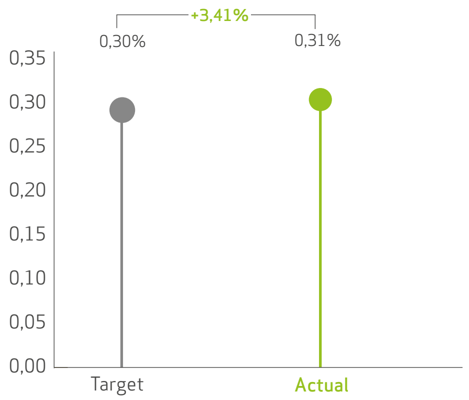


Our 2020 energy performance in brief:

- Energy consumption: 2 996 775 MWh, which is 57% of our energy needs from Eskom and municipalities. The overall weighted energy-efficiency performance for 2020 recorded a 3,4% improvement above the Shareholder's Compact target (each operation's energy-efficiency performance against own target measured per weight contributed of total energy)

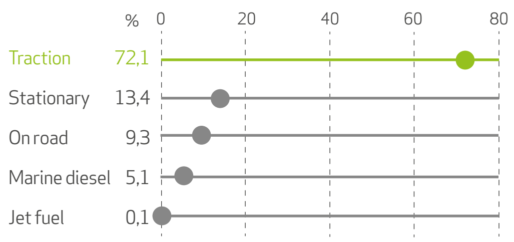
ENERGY EFFICIENCY IMPROVED BY
10%
FROM 18,0 TON/GJ IN 2014 TO 19,8 TON/GJ IN 2020

Group weighted energy efficiency



- Diesel consumption: 232,9 Mℓ, accounting for 43% of the total energy consumption. Of the total fuel consumption figure, 72,1% was used for Freight Rail diesel traction, 13,4% on home-based fuel, 9,3% on road vehicles, 5,1% on marine diesel and 0,1% on jet fuel.

Fuel distribution (%)



- Carbon emission intensity: With respect to the Transnet Shareholder's Compact agreement on the total carbon emissions intensity (kgCO2e/ton), we recorded a 3,1% decline in performance in 2019.

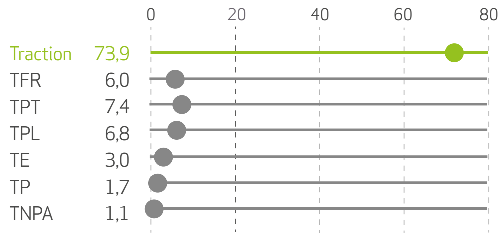
Emissions intensity (kgCO_2/ton)

73,9%

OF ELECTRICITY WAS USED FOR FREIGHT RAIL TRACTION

- Electricity distribution: 73,9% of electricity was used for Freight Rail traction and the remainder for Transnet's properties, ports, pipelines and engineering operations.

Electricity distribution (%)



SDO: Skills development

Transnet's approach to skills development is guided by the Skills Development Act, No 97 of 1998 and the sector education and training authority (SETA). Our skills development initiatives are aligned with the performance targets contained in the Shareholder's Compact, as contracted annually with the Department of Public Enterprise. We work collaboratively with various government institutions and use a feeder training pipeline to prioritise critical skills requirements to respond to skills gaps in the broader economy. In this epoch of disruptive and emergent technologies, we continue to prioritise evolving industry skills in response to the impact of the 4th Industrial Revolution. Accordingly, we have established an in-house talent assessment centre to prioritise skills gaps resulting from disruptive technologies and to harness new opportunities to remain relevant in the market. We have also benchmarked our skills development programmes against international best practice programmes to ensure that we have the right skills at the right time.

Our skills and competency profiling helps to measure and record the skills, knowledge and behavioural attributes of our people (individuals and groups) against the business's needs and job functions. Our most material outcomes in respect of skills development is to create and sustain jobs to advance transformation, empowerment and inclusivity.

In response to the National Integrated Youth Development strategy, we continue to invest in Transnet's schools of Engineering, Rail, and Pipelines and the Maritime School of Excellence to provide sector-specific training, thereby empowering young professionals and increasing their employability. We also provide opportunities for workplace experience through a Young Professionals-in-Training programme across various fields.

During the year, we enrolled employees across different grading levels in various career development programmes, and embarked on an initiative to provide on-the-job training, mentoring and coaching opportunities for unemployed youth with disabilities, with a specific focus on the Technical and Vocational Education and Training Colleges.

Our 2020 skills development performance in brief:

- Sector-specific training was 2,7% – a 0,2% increase compared to the previous year (2019: 2,5%), with an intake of 2 088 (2019: 1 902)
- Engineers-in-Training students receiving workplace training: 216 (2019: 230)
- Young Professionals-in-Training appointed: 238 (2019: 250)
- Non-technical and national diploma technical bursars: 65 (2019: 41)
- Full-time Engineering bursaries awarded in various disciplines: 60 (2019: 60)
- Number of Engineering bursars in Transnet's talent pool: 403 (2019: 477)

We have an in-house talent assessment centre to prioritise skills gaps resulting from disruptive technologies

Table 24: Skills development programmes

Programmes	KPI	2019 Performance	2019 Input (ZAR spent) 2019	2019 Annual target	**2020 Performance**	**2020 Annual target**	**2020 Spent**
Training spend	% of training spend	2,5%	R667 894 883	2,5%	**2,7%**	**2,5%**	**R764 000 000**
Apprentices programme A work-based learning under the supervision and guidance of a skilled, qualified artisan with an employer	Number of new trainees	223	R25 185 529	200	**288**	**200**	**R18 311 910**
	Number of artisans who completed training	368			**399**		
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	129	R97 561 996	N/A	**79**	**70**	**R91 362 803**
Engineers-in-Training (EITs) Graduates who have completed an Engineering degree at a university, undergoing a two-year structured development programme	Number of EITs	230	R126 740 088	N/A	**216**	**150**	**R114 355 649**
Young Professionals-in-Training (YPTs) Young graduates in non-technical fields receiving workplace experience and skills	Number of YPTs	250	R47 404 807	N/A	**238**	**150**	**R47 896 064**
Chartered Accountants Training Programme Individuals who have successfully completed an accounting degree at a university, undergoing a three-year chartered accountant programme	Number of chartered accounting trainees	17	R6 257 395	N/A	**7**	**8**	**R3 932 637**
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	200	R14 265 045	200	**200**	**200**	**R13 930 631**
	Number of technician learners completed	181			**207**		

Table 25: Bursar and learnership development programmes

Programmes	KPIs	2019 Performance	2019 Input (ZAR spent) 2019	2019 Annual target	**2020 Performance**	**2020 Target**	**2020 Spent**
Engineering bursars Individuals who are registered for a four-year BEng/BSc Eng degree to which a full-time bursary has been awarded	Number of new bursars	60	R36 752 645	60	**60**	**60**	**R33 609 275**
	Number of bursars in the system	477			**403**		
Other bursaries • Non-technical bursar Individuals who are registered for a non-technical degree • National Diploma technical bursar This includes trainees across Operating Divisions, i.e. Engineering, Rail, Pipelines and Ports	Number of other bursars	41		40	**65**	**40**	
Learnership Development Programmes Call centre, professional driving, health and safety, POS, youth unemployment programme	Number of youth enrolled in the programme	50	R2 153 459	N/A	**20**	**20**	**R453 997**
Sector-specific training	Number of trainees who completed training (Engineering)	1 902	R2 818 014	1 002	**2088**	**1 002**	**R70 134 200**
	Number of trainees who completed training (Rail)						
	Number of trainees who completed training (Pipelines)						
	Number of trainees who completed training (Port)						

SDO: Industrial capability building (ICB)

Enterprise and supplier development (ESD)

Transnet's industrial development endeavours are guided by Government's Competitive Supplier Development Programme (CSDP) and enterprise development programmes as well as the Preferential Procurement Policy Framework Act (PPPFA). Through these vehicles, we focused on improving meaningful B-BBEE participation in our procurement opportunities.

We recognise that ESD is essential in growing our economy to curb unemployment and inequality while providing business opportunities to SMMEs. Our incubation hubs provide much-needed financial and business support as well as entrepreneurship training to small businesses and potential suppliers.

Transnet's supplier development (SD) programme promotes skills development to create and preserve jobs in our economy. It further encourages the transfer of intellectual property and the promotion of local suppliers and ultimately promotes industrialisation through contractually obligated SD plans. SD spend amounted to R840,4 million (3%* of TMPS), with the following category breakdown: skills development of R18,7 million (0,06% of TMPS), investment in plant of R1,04 million (0,004% of TMPS); and technology transfer of R10,5 million (0,03% of TMPS). R49,2 million was spent on training incubator supplier hubs while 18 incubation graduates were integrated into Transnet's supplier value chain.

Table 26: Industrial capability-building performance

Key performance area Industrial capability building	Unit of measure	2019/20 Target	March 2019 YTD	**March 2020 YTD**
CSDP (SD value)	% of TMPS	>10	17,65	**3***
CSDP (SD value) Excluding spend on contract post June 2018	% of amended TMPS	>10	17,65	**4,75****
Technology transfer/IP	% of TMPS	>1,25	0,74	**0,03**
Investment in plant	% of TMPS	>5	0,18	**0,004**
Rand value spent on training incubator suppliers at the hubs	R million	20	65,5	**49,2**
Number of incubation graduates integrated into the Transnet supplier value chain***	Number	16	—	**18**

18
INCUBATION GRADUATES INTEGRATED INTO OUR SUPPLIER VALUE CHAIN

* *The SD value has decreased due to the removal of the SD reported on the locomotive contracts as they have been suspended.*
** *TMPS adjusted to exclude spend on contracts entered into post June 2018 when the directive to not include SD as a prequalification criteria in request for Proposals was issued.*
*** *This is a new KPI.*

Table 27: Building and transforming our economy through enterprise and supplier development

Programme	Description	Amount invested R million	Type of programme	Beneficiaries	Outcomes
CVC Africa	Develops entrepreneurship and innovation for the transport and logistics industry	23,7	Enterprise development	Military veterans based in KwaZulu-Natal and Eastern Cape	• 181 jobs created • 162 beneficiaries
Mtiya Dynamics	Enterprise and skills development and research for black-owned business	3,5	Enterprise development	Black industrialist incubation	• 23 jobs created • 20 SMME black industrialists incubated
Youth Employment Services (YES) Programme	Aims to create work opportunities for unemployed black youth	20,4		In construction phase	
Shanduka Black Umbrellas	A non-financial support service aimed at incubating 100% black-owned SMMEs, which can meet Transnet's supply chain needs	1,5	Enterprise development	Black-owned SMMEs through incubation	• 91 jobs created • 11 incubates received business incubation and mentorship
TOTAL 2019/20		49,2			• 295 jobs created • 193 incubates

R15,65 BILLION
SPENT ON BLACK-OWNED ENTERPRISES

SDO: Transformation – ICB

B-BBEE spend

Transnet's B-BBEE verification covers six of the seven elements of the Generic Transport Public Sector Scorecard, excluding the ownership element. The Rail Charter, Maritime Charter and Property Charter are also applied. Transnet's total recognised B-BBEE spend for the year, as per the Department of Trade and Industry Codes (the Codes), is R31,31 billion or 111,82% of TMPS spend of R28 billion for 2020. Transnet spent R15,65 billion (55,89% of TMPS spend) on black-owned enterprises; R10,43 billion (37,25% of TMPS spend) on black women-owned enterprises; R3,57 billion (12,75% of TMPS spend) on exempted micro-enterprises (EME); and R3,03 billion (10,84% of TMPS spend) on qualifying small enterprises (QSE). Spend on black youth enterprises accounts for R756 million (2,70% of TMPS). Enterprise spend relating to black people living with disabilities accounts for R66 million (0,24% of TMPS).

Table 28: Local procurement

Key performance area	Unit of measure	2019/20 target	2018/19 (% of TMPS)	**2019/20 (% of TMPS)**
B-BBEE	% of TMPS	>70	92,62	**111,82**
Black women-owned	% of TMPS	>5	28,50	**37,26**
Black-owned	% of TMPS	>15	42,14	**55,89**
Black youth-owned	% of TMPS	>2	1,11	**2,70**
EME	% of TMPS	>7	8,41	**12,78**
QSE	% of TMPS	>5	10,12	**10,84**
People living with disabilities	% of TMPS	>0,125	0,13	**0,24**
B-BBEE status level	Certification level	6	2	**2**

SDO: Employment

The United Nations' Sustainable Development Goal 8 advocates for the promotion of sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. While this has been a great challenge globally, it is worse in South Africa where the overall unemployment rate was 29,1% in the last quarter of 2019, with youth unemployment at 58,1%[9]. This is expected to worsen over the immediate to long term, especially with the advent of Covid-19 and the persisting economic downturn.

Transnet's Human Capital Strategy guides our approach to employment. 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 also integral to our succession plans for critical positions.

Our 2020 performance relating to employment in brief:

- Transnet's total headcount for the year under review is 56 414 (2019: 55 946). This shows a marginal increase in headcount compared to the previous year.

Table 29: Summary of employee headcount by Operating Division

	2020	2019
Transnet Corporate Centre	609	550
Transnet Freight Rail	29 714	28 868
Transnet Engineering	10 328	10 866
Transnet National Ports Authority	4 165	4 199
Transnet Port Terminals	9 596	9 357
Transnet Pipelines	711	706
Transnet Group Capital	879	963
Transnet Property	412	437
Total headcount	56 414	55 946

The table below reflects that 35,2% of our employees are in the youth category (< 35 years); 53,8% are in the 36 to 55 category; and 11% are 56 to 63 years old. Our most material outcome in respect of employment is to continue to create and sustain jobs. 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.

Table 30: Employee by age distribution

	2020 Actual number of category employees	% of the overall workforce	2019 Actual number of category employees	% of the overall workforce
63 years	98	0,2	15	0,03
61 – 62 years	1 592	2,8	1 718	3,1
56 – 60 years	4 489	8,0	4 801	8,6
46 – 55 years	9 671	17,1	9 303	16,6
36 – 45 years	20 707	36,7	19 308	34,5
26 – 35 years	18 646	33,1	19 540	34,9
18 – 25 years	1 211	2,1	1 261	2,3

TOTAL EMPLOYEE HEADCOUNT IS
56 414

[9] *https://tradingeconomics.com/south-africa/youth-unemployment-rate*

SDO: Transformation – employment equity

Employment equity

Inequality remains a major challenge in Africa. We recognise that inequalities based on race and gender – and the consequent barriers to employment opportunities – have barred the majority of the population from full and equal participation in the economy.

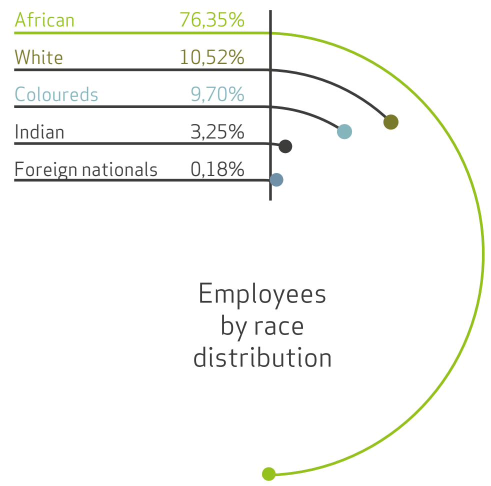
From a business and ethical perspective, it is important to entrench a transformation agenda that will continue to address the issues of employment equity, diversity and inclusion in the workplace and ensure compliance with all requirements of South Africa's employment legislation. Our principles on employment equity, inclusion, diversity and transformation are 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 customers and the communities in which we operate.

Transnet upholds the principles of the United Nations Global Compact (UNGC) on equity and anti-discrimination and seeks to create an organisation that reflects the diversity of our society. Our priorities include:

- Creating a gender-balanced workforce by increasing the representation of women across all levels of employment (gender);
- Embracing differences and creating an inclusive culture (LGBTQI);
- Embracing each generation to reach its full potential (multigenerational);
- Promoting and celebrating a multicultural work environment; and
- Holding each other accountable on diversity, inclusion and transformation.

Employees by race distribution

We strive to reach an employee race profile that reflects the demographics of our country. Our African employee representation increased marginally to 76,35% (2019: 75,10%).



We continue to pursue gender equality and the empowerment of all women, as espoused in SDG 5

Gender equality

Transnet continues to pursue gender equality and the empowerment of all women, as espoused in SDG 5. The table below reflects an increase in the number of women at executive level and below extended executive level, while a marginal decrease was noted at the extended executive level.

Table 31: Gender equality performance across designated leadership categories

Designated categories	2020 %	2019 %
Black	89,5*	88,2
Females at executive level	43,8	38,2
Females at extended executive level	42,5	44,4
Females below extended executive level	29,5	28,9

* *Including contract employees.*

We also note the overall disparity in respect of black female versus male employees across all employment levels, with black female representation at 28% for the reporting period.

Table 32: Employees by race

Employees by race	2020 %	2019 %
African	76,35	75,10
White	10,52	11,80
Indian	3,25	3,30
Coloured	9,70	9,80
Foreign nationals	0,18	–

Black employees	2020		2019	
	Male	Female	Male	Female
Top management	62	50	70	58
Senior management	501	270	505	274
Professional	2 689	1 793	2 628	1 727
Skilled	12 131	7 230	11 730	6 905
Semi-skilled	13 202	4 748	13 301	4 718
Unskilled	6 221	1 577	5 957	1 462

People with disabilities

Employment of people with disabilities and youth remains at the forefront of our transformation agenda. During the year, we established National Disability Forums across our Operating Divisions, which serve as consultation mechanisms for people with disabilities. Our performance in respect of people with disabilities was poor, at 2,2% against a target of 3,2%, and it therefore remains an immediate priority to increase employment in this category.

Table 33: Performance in respect of people with disabilities

	2020 %	2019 %
People with disabilities	2,2	2,3

PHELOPHEPA HEALTHCARE TRAINS PROVIDED HEALTHCARE SERVICES TO

105 565

PATIENTS

SDO: Community development

Transnet's community development portfolio is a vehicle to measurably improve the economic, social, cultural and environmental well-being of the communities within which we operate, 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 United Nations' SDGs and the NDP's developmental outcomes.

We continue to experience incidents of community discontent and recognise that these are a symptom of much deeper social inequality challenges plaguing the country. We are committed to strengthening our community development interventions, which include a responsive social protection system, by providing some relief in primary healthcare and supporting education, sports and the national socio-economic infrastructure.

Healthcare

We prioritise healthcare services to rural and semi-rural communities through two healthcare programmes, namely the Phelophepa Healthcare Trains I and II and our teenage health programmes.

Phelophepa Healthcare Trains I and II

Our Phelophepa Healthcare Trains I and II extend the reach of primary healthcare services and healthcare education to enable individuals along Transnet's national corridors to receive healthcare that they would not otherwise have access to. During the year under review, we provided healthcare services to 105 565 patients.

Our 2020 healthcare services performance in brief:

- Investment in the Phelophepa Healthcare Trains: R78,15 million (2019: R88,44 million)
- Patients registered for healthcare services: 105 565 (2019: 131 865)
- Patients receiving medication through the on-board pharmacies: 39 531 (2019: 55 468)
- Patients receiving health clinic services: 49 985 (2019: 66 913)
- Patients receiving dental clinic services: 21 095 (2019: 24 264)
- Patients receiving eye clinic services: 37 477 (2019: 46 712)
- Patients receiving counselling: 1 478 (2019: 1 894)
- Individuals assisted through outreach: 357 323 (2019: 452 866)
- Volunteers trained on preventative healthcare at edu-clinics: 6 339 (2019: 6 591)

Teenage health programmes

Disappointingly, due to budgetary constraints and our decision to prioritise the operations of the Phelophepa Health Trains, we could not deliver on the mandate of our teenage and youth health programmes. We informed stakeholders of these challenges through various engagements to safeguard the integrity of our stakeholder relations, which is crucial to our wider business operations. Notwithstanding these challenges, our accredited youth health worker training did yield positive impacts in Ermelo, Port Elizabeth, Bellville and the Free State. Through the experimental workplace training offered in this programme, we empowered 45 unemployed and unskilled youth who have since qualified as community home-based caregivers.

Education and sport

Transnet's Whole School Development Programme (WSDP) aims to 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. We have made great strides since launching the programme in 2018 and have positively impacted those from underprivileged backgrounds. We continue to invest in the Orphaned Youth Programme, which aims to socially uplift vulnerable youth and to offer them access to quality education. We also continued to invest in sports across schools in all nine provinces.

Our orphaned youth education development beneficiaries in grade 12 obtained a 100% pass rate with Bachelor's degree exemption, and 20 distinctions. We hosted one life-skill camp during the year and continued to monitor beneficiaries' development during the lockdown period to help them stay on par with the syllabus as prescribed.

We continue to invest in Transnet's School of Excellence, focusing on youth sports development across South Africa, with our learners achieving a 95% pass rate. We delivered provincial and national sport tournaments across the nine provinces and provided sports kits, apparel and equipment.

We also helped to enhance teachers' teaching skills through various training interventions and conducted a classroom teacher support workshop across three provinces as part of our teacher development programme.

Transnet recognises that the Covid-19 pandemic has impacted adversely on our national school programmes. We continued to monitor the learning progress of our pupils to ensure that they maintained momentum in their schoolwork during the lockdown period.

Our 2020 education and sport performance in brief:

- Investment in the WSDP and the South African Football Association (SAFA/Transnet) School of Excellence: R42,24 million (2019: R48,89 million)
- Number of provinces enrolled in the programme: 9 (2019: 9)
- Schools forming part of the programme: 147 – target was 110 (2019: 287)
- Number of schools selected to participate in the provincial and national sports tournaments: 133 (2019: 50)
- Learners participating in the provincial and national sports tournaments: 5 500 – target was 4 500 (2019: 25 000)
- Vulnerable and orphaned youth receiving assistance: 35 (2019: 37)
- Graduates participating in international football teams: 4 (2019: 4)
- Graduates participating in national football teams: 62 (2019: 62)
- Learners enrolled in the WSDP programme: 120 (2019: 119)

357 323

PEOPLE ASSISTED THROUGH OUTREACH PROGRAMMES

Table 34: Corporate social investment (CSI)

Focus area	Budget 2019/20	Actuals (as at 15 March 2020)
Transnet teenage and youth health programmes	R11,8 million	R6,8 million (R1,98 million spent on a sponsorship and R4,82 million utilised to pay Phelophepa invoices)
WSDP	R36 million	R24 million
Transnet/SAFA School of Excellence	R20,4 million	R20,4 million
Employee Volunteerism	R9,2 million	R8,85 million
Socio Economic Infrastructure Development	R3,1 million	R3,1 million
Phelophepa	R100,87 million	R100,2 million
Total	**R181,37 million**	**R163,35 million**

Total CSI for the year amounted to R163,35 million.

Employee volunteerism (EV)

Given Transnet's diverse skills sets across the business, we have adopted an integrated community development approach by creating a formal employee volunteerism (EV) programme. As a SOC, we encourage a culture of giving back, and our EV programme offers employees an opportunity to volunteer their wealth of skills and knowledge to help address communities' needs. To spread the spirit of Ubuntu we also allow our employees to nominate an organisation of their choice for accreditation. In 2020, we implemented the Volunteer-a-thon Pledge programme that permits employees to volunteer their working hours between Wednesday, Thursday or Friday wherein 19 800 hours were pledged for volunteerism activities. During the year under review, we invested R8,85 million in EV shared value (2019: R9,6 million).

Socio-economic and infrastructure development (SEID)

Transnet's SEID programme aims to improve the social welfare in vulnerable and disadvantaged communities. We have converted old freight containers into community centres, enterprise incubation hubs, police stations, schools and clinics using a specialised mix of buildings and containers. We reach out to the communities in partnership with the private and public sectors and collaborate with other government social services institutions to promote access to basic community services. By engaging unemployed youth graduates in innovative ways – especially in economics, engineering and construction vocations – we have observed very positive returns in the areas where we operate.

Disappointingly, our SEID performance did not meet our targets due to a rise in criminal activities in communities near our operations, which were exacerbated by incidents of civil unrest, land development clearance processes and disputes.

Our 2020 SEID performance in brief:

- People benefiting from SEID initiatives along our servitudes: 39 859 (2019: 37 261)
- Investment in the SEID programme: R7,98 million (2019: R6,61 million)
- Non-financial beneficiaries (SMME development, safety, health, social and education):
  - SMMEs established: Nil (2019: 2)
  - SMME members trained: 14 (2019: 21)
  - Food distribution programme beneficiaries: 59 (2019: 162)
  - Adult Basic Education and Training (ABET) beneficiaries: Nil (2019: 2)

39 859
PEOPLE BENEFITED FROM SEID INITIATIVES

Legislative compliance

King IV. P5 & 13

Pending legal matters

Pension and post-retirement benefit obligations

The Group provides various post-retirement benefits to its active and retired employees, including pension and post-retirement medical cover. 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 R2,9 billion (2019: R3,5 billion) and R3,2 billion (2019: R3,1 billion) respectively. Transnet has not recognised any portion of the surplus on these funds, as the present 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 R433 million and R3,5 billion respectively.

Following the certification of the pensioners' class action proceedings on 31 July 2015, Transnet was served with a summons on 11 June 2015 issued out of the Pretoria High Court. While the class action litigation was proceeding, the attorneys for the plaintiffs and the attorneys for Transnet and for the two funds were in regular engagement to find a settlement that would dispose of the class action litigation. Accordingly in June 2019 Transnet's attorneys concluded a joint memorandum of agreement (JMoA) with plaintiffs' attorneys recording matters that are resolved on the essential financial arrangements for the settlement of the litigation, which was also accepted by the boards of the funds. The JMoA formed the basis for a comprehensive settlement agreement that was negotiated and signed by the class legal representative, the class representative plaintiffs, Transnet and both funds, and was ultimately concluded on 11 December 2019.

The settlement agreement was presented to the High Court on 18 February 2020 by the parties acting jointly, requesting permission to present it to the class for their consideration. An order to that effect was obtained and the settlement agreement was advertised nationally in newspapers, on websites and by direct mail for two months, after which the parties returned to court on 17 June 2020 seeking confirmation of the settlement agreement and the disposal of the class action proceedings.

Judgment was handed down on 22 June 2020, where it was duly ordered that:

- The settlement agreement of 11 December 2019 be made an order of court;
- The settlement agreement is binding on all the members of the class, and on all the parties to the settlement agreement; and
- The class action litigation against the two funds and Transnet is settled and concluded among the parties and the members of the class on the terms of the settlement agreement.

This judgment and order, therefore, put an end to the class action litigation.

The settlement agreement provides for specified, enhanced pension increases and specified bonus lump sum payments to pensioners of the two funds. The enhancements are fully funded from the existing actuarial surpluses in the funds and Transnet is not required to inject any monies into either of the funds. Transnet has agreed to pay a once-off amount of R18 million in settlement of the plaintiffs' legal and actuarial costs. The funds are, in terms of the judgment and order, required to merge into one and this process is underway and expected to be effective from 31 March 2021.

The post-retirement medical benefit obligation is approximately R445 million (2019: R545 million).

Incidents relating to irregularities and fraud

We have identified fraud and corruption as significant threats to the sustainability of the organisation.

As such, our anti-corruption and fraud policies seek to facilitate the disclosure of unlawful activities and to protect employees who report unethical conduct. Our Whistle-blowing Policy and Code of Ethics further guide us in protecting our employees from victimisation. We recognise that integrity and ethical behaviour require collaborative effort to raise awareness and to enable our employees to identify corruption, procurement irregularities and fraudulent activities. We continue to ensure that irregularities are reported in line with the Protected Disclosures Act, No 26 of 2000.

The Company uses different communication platforms to raise awareness within our communities for ongoing scams. Our stakeholders have access to an independent and free Tip-Offs Anonymous Hotline operated by an external third party to ensure impartial investigations. Transnet acknowledges that it has a diverse number of stakeholders, and as such the Hotline is operated by call centre agents using 11 official South African languages and is available 24 hours a day, seven days a week. Investigations into incidents of corruption and fraud take time to resolve, and we continue to work closely with law enforcement and independent agencies.

During the year, 3 276 incidents of irregularities and scams were reported (2019: 2 064). A total of 1 690 of these incidents of irregularities included corruption, fraud, procurement irregularities, misuse of resources and non-compliance with policy or legislation, while 1 580 constituted scams related to human resources where unsuspecting members of the public are promised jobs at a fee. Transnet continues to educate the public about these scams across multiple media.

Stakeholders have access to an independent and free Tip-Offs Anonymous Hotline

Table 35: Reported incidents of irregularities

Operating Divisions	Investigations in progress	Reported incidents unfounded	Reported incidents founded	Reported incidents partially founded	Total
2020					
Transnet Corporate Centre	61	34	26	—	121
Transnet Freight Rail	268	298	82	—	648
Transnet Engineering	133	94	9	—	236
Transnet National Ports Authority	61	29	9	—	99
Transnet Port Terminals	207	181	64	—	452
Transnet Pipelines	21	5	4	—	30
Transnet Group Capital	49	—	2	—	51
Transnet Property	26	31	2	—	59
Total	826	672	198	—	1 696
2019					
Transnet Corporate Centre	15	32	1	1	49
Transnet Freight Rail	311	56	39	—	406
Transnet Engineering	70	43	10	1	124
Transnet National Ports Authority	30	18	4	4	56
Transnet Port Terminals	68	29	26	2	125
Transnet Pipelines	9	1	1	—	11
Transnet Group Capital	28	2	—	—	30
Transnet Property	7	6	—	—	13
Total	538	187	81	8	814

Table 36: Reported incidents of scams

Operating Divisions	Investigations in progress	Reported incidents unfounded	Reported incidents founded	Reported incidents partially founded	Total
2020					
Transnet Corporate Centre	69	428	—	—	497
Transnet Freight Rail	503	36	362	—	901
Transnet Engineering	37	1	22	—	69
Transnet National Ports Authority	6	4	—	—	10
Transnet Port Terminals	30	5	—	—	35
Transnet Pipelines	18	43	—	—	61
Transnet Group Capital	2	—	—	—	2
Transnet Property	4	1	—	—	5
Total	669	527	384	—	1 580
2019					
Transnet Corporate Centre	16	519	—	—	535
Transnet Freight Rail	152	7	518	1	678
Transnet Engineering	6	3	—	—	9
Transnet National Ports Authority	2	1	—	—	3
Transnet Port Terminals	12	3	—	—	15
Transnet Pipelines	6	—	—	—	6
Transnet Group Capital	1	—	—	—	1
Transnet Property	3	—	—	—	3
Total	198	533	518	1	1 250

PFMA reporting in 2020

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. To comply with the PFMA's obligations, the Board has a significant Materiality Framework, which was approved by the Shareholder Representative, subject to certain conditions.

During the current year audit process, external audit determined that the use of the tender pre-qualification criteria was inconsistent with the legislation from as far back as 2012, after the release of the Preferential Procurement Regulations, 2011. Management disagrees with this finding and maintains that the practice was aimed at implementing Government-approved policy and was not precluded by legislation. Management obtained Senior Counsel Opinion which concludes that, prior to the release of the Preferential Procurement Regulations, 2017, the use of tender pre-qualifying criteria did not contravene any legislation.

External audit maintains the view that it is irregular as there is no legislation that specifically provides for the use of the tender pre-qualification criteria. Accordingly, the disagreement was referred to the National Treasury for a ruling on the interpretation of the legislation. National Treasury has, in September 2020, confirmed an interpretation that supports the view held by external audit.

Management has made every effort to identify all contracts arising from tenders that included the pre-qualifying criteria after the release of the Preferential Procurement Regulations, 2011, and to measure the expenditure arising from such contracts, resulting in the following adjustments to the irregular expenditure register:

- An increase of R40,1 billion in the 2019 reported irregular expenditure opening balance;
- An increase of R7,4 billion in the 2019 reported irregular expenditure; and
- An increase of R3,6 billion in the current year irregular expenditure.

We would like to stress that the abovementioned irregular expenditure is due to a historic issue of misinterpretation that has only now, for the first time, been identified as irregular. Given that the intention of management was to comply with Government policy – and the Company achieved value for the expenditure incurred – an application is underway to National Treasury to condone such expenditure.

The Directors continue to address and close out many past issues of non-compliance at Transnet. Similarly, the vast majority of the irregular expenditure concerns relates to non-compliance and interpretation issues in the past. This is evidenced by the fact that, in the current year, only R394 million of the R9 965 million reported irregular expenditure arose from contracts entered into in the current year.

More detailed disclosure on non-compliance with the PFMA and the associated consequence management is set out in note 39 of the Annual Financial Statements.

131 to 133
Read more
Annual Financial Statements online at www.transnet.net

Outlook

Economic considerations

Covid-19 has had devastating impacts on human life and the world's economies. At the time of publishing this report, global Covid cases have surpassed the 29 million mark, with more than 900 000 fatalities worldwide. In South Africa, confirmed cases have reached 650 000, with large-scale infections placing strain on the national healthcare system. While protection measures are necessary to safeguard human life, these measures have and will continue to severely impact international economic activity. Accordingly, the World Bank has given a baseline forecast of 5,2% contraction in global GDP in 2020. In the current climate, both global and domestic economic forecasts are presented under highly uncertain conditions, particularly with regard to macroeconomic recovery and the spread and containment of Covid-19, not to mention the associated stresses on financial and commodity markets.

Given the enduring severity of the impact of Covid-19, previous expectations of global growth have had to be revised. Prior to the pandemic outbreak, global growth was projected to rise marginally to 2,5% in 2020, from a post-crisis low of 2,4% in 2019[10]. Estimates from both the IMF and World Bank indicate that a deep global recession is likely to take root in advanced economies[11]. Global growth for 2021 is projected at 5,4 percent. Overall, this would leave 2021 GDP some 6,5 percentage points lower than in the pre-Covid-19 projections of January 2020[12]. Concurrently, growth in emerging and developing countries is also expected to slow sharply.

Even before downward revisions to economic growth, there were several downside risks, such as financial disruptions in emerging markets and developing economies. Transnet, essentially a freight forwarding operator of rail, port and pipeline infrastructure, is directly exposed to global macroeconomic trends and trade flows. As such, the global contractions referred to above will continue to adversely affect revenue growth in the near term.

Prior to the negative effects of Covid-19 on sub-Saharan economies, growth was expected to increase from 2,4% in 2019 to 2,9% in 2020 before strengthening to 3,2% in 2021/22. More recent estimations suggest that economic growth in sub-Saharan Africa will decline from 2,4% in 2019 to between -2,1% and -5,1% in 2020, the first recession in the region in 25 years[13]. Economic revision in 2020 reflects macroeconomic risks arising from the sharp decline in output growth among the region's key trading partners, including China and the Euro area, the fall in commodity prices, reduced tourism activity in several countries, as well as the effects of measures to contain the global pandemic[14]. The weak external demand, the accompanying sharp fall in commodity prices, and the disruption in tourism that Covid-19 is causing will continue to negatively impact economic activity in sub-Saharan Africa.

In South Africa, growth remained anaemic in 2019 as it fell to 0,2%. Weak momentum in growth reflects several overlapping constraints, including persistent policy uncertainty, a constrained fiscal space, subdued business confidence, infrastructure bottlenecks – especially in electricity supply – and weakening external demand. Further, at the end of the 2019 financial year Moody's rating agency downgraded South Africa's sovereign credit rating to sub-investment grade at Ba1 and maintained a negative outlook for the country. Another downgrade could follow in the foreseeable future.

In response to challenges facing the country, the South African Reserve Bank announced interest rate cuts and quantitative easing aimed at supporting consumer spending and encouraging lending and investment. However, combined low commodity prices, capital outflows (mainly portfolio investment), reduced tourism activity, and a major slowdown in key trading partners are expected to further hamper economic activity. In light of the aforementioned, South Africa's economy suffered a significant contraction from April to June 2020, when the country operated under widespread lockdown restrictions in response to Covid-19. Compounding this already encumbered scenario was the return of load shedding (power cuts) in early January 2020. As at 17 September 2020, the South African Reserve Bank (SARB) expected the national economy to shrink by 8,2% in 2020.

10 *https://www.worldbank.org/en/publication/global-economic-prospects#outlook*
11 *http://pubdocs.worldbank.org/en/558261587395154178/CMO-April-2020-Special-Focus-1.pdf*
12 *https://www.imf.org/en/Publications/WEO*
13 *(see both: IMF World Economic Outlook, The great lockdown; April 2020; and Commodity Markets Outlook: Implications of Covid-19 for Commodities, World Bank).*
14 *https://openknowledge.worldbank.org/bitstream/handle/10986/33541/9781464815683.pdf?sequence=18&isAllowed=y World Bank*

Commodity outlook

The impact of Covid-19 and the resultant containment measures have adversely affected commodity markets and supply chains. Prices for most commodities had already fallen in 2019 – reflecting a deterioration in the outlook for the year and weaker-than-expected demand. Since January 2020, prices of most major commodities have fallen further. The performance of industrial supply chains both influences and is influenced by the broader macroeconomic environment.

Transnet will continue to cautiously navigate through depressed growth in the economic environment. The persistent challenges in growing general freight business volumes, lower than expected container volumes and lack of external sales orders in Transnet Engineering remain key challenges. Revenue projections are continuously updated in the context of actual volume trends.

Funding outlook

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

Five-year capital investment outlook

Transnet plans to spend R127,7 billion on capital investment over the next five years, of which 75,7% (R96,7 billion) will be spent on sustaining capital. This projection is a downward revision from that stated in the 2019 Integrated Report and is expected to be further reduced due to persistently low GDP growth and the economic impact of Covid-19.

The downward revision also speaks to ongoing efforts to more effectively align capital investment with anticipated returns on investment. In an environment where volumes and revenue are under pressure, it would be imprudent not to reduce capital investment in the near term.

A significant portion of sustaining capital (R51,7 billion) will be spent on permanent ways and rolling stock (locomotives and wagons) while the remainder is planned for port fleet and pipeline equipment.

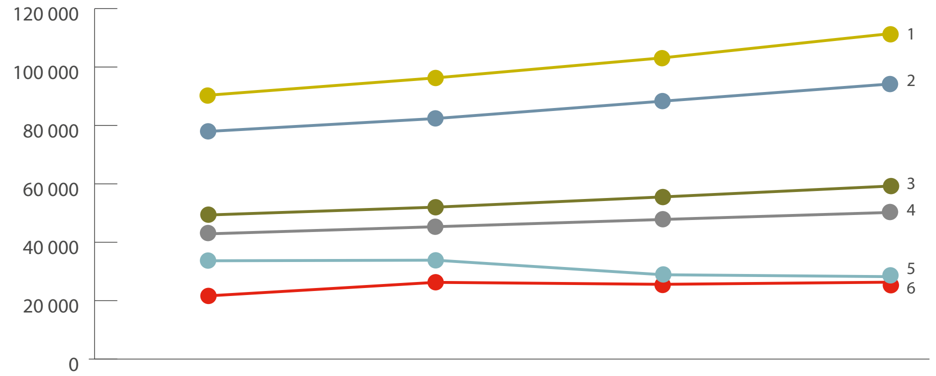
A graphic representation of the envisaged investment per functional portfolio over the next five years appears on pages 118 and 119. Figure 11 below provides a perspective of revised income and capital expenditure projections from the 2019 Integrated Report.

R51,7 BILLION

TO BE INVESTED IN PERMANENT WAYS AND ROLLING STOCK

118 and 119

Figure 11: Revised revenue, operating costs and capital expenditure projections 2019 vs 2020



R million	2021	2022	2023	2024
1 Revenue 2019	90 345	96 280	103 150	111 424
2 Revenue 2020	77 953	82 363	88 315	94 191
3 Operating cost 2019	49 336	52 014	55 525	59 236
4 Operating cost 2020	42 979	45 320	47 804	50 210
5 Capital expenditure 2019	33 659	33 861	28 877	28 225
6 Capital expenditure 2020	21 647	26 270	25 598	26 331

Five-year investment

Large-scale sustaining investment over the next five years is due to a significant backlog in infrastructure and rolling stock, coupled with planned mid-life and cyclical maintenance on fleet and port equipment.

Transnet will continue to create additional capacity on the rail network and increase global and regional maritime connectivity and competitiveness[15].

Total value

R127,7 billion

Sustaining 75,7% | 24,3% Expansion

R96,7 billion

Sustaining the value of our manufactured capital per asset type

Permanent ways	R22,6 billion
Port facilities	R19,4 billion
Wagons	R18,5 billion
Locomotives	R10,5 billion
Machinery and equipment	R10,1 billion
Land, building and structures	R7 billion
Floating craft	R2 billion
Pipeline networks	R1,7 billion

R31,0 billion

Expanding the value of our manufactured capital per sector

R6,5 billion	Rail infrastructure 755 locomotives
R4,5 billion	2 732 wagon build
R2,1 billion	Port infrastructure
R6,1 billion	Pipeline infrastructure
R12,1 billion	Engineering infrastructure
R130 million	Other

Value to be invested in Transnet's operations per functional portfolio

Freight Rail	R70,8 billion
National Ports Authority	R21,9 billion
Port Terminals	R20,7 billion
Pipelines	R6,3 billion
Engineering	R2,1 billion
Group Capital	R2,5 billion
Property	R1,9 billion
Corporate Centre	R1,2 billion

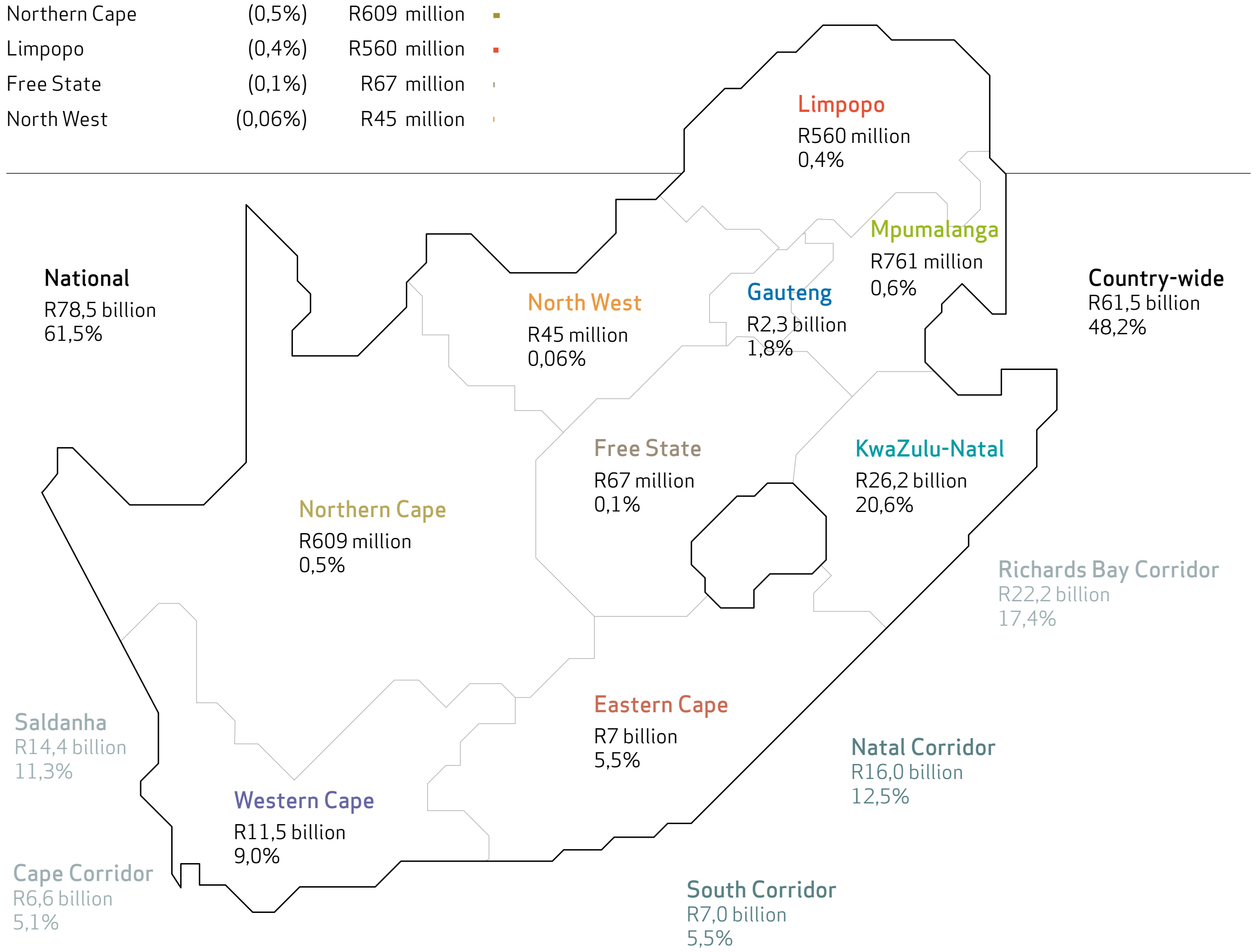
Value to be invested per commodity

General freight	R46,7 billion	(36,5%)
Maritime containers	R14,6 billion	(11,4%)
Export coal	R14,0 billion	(11,0%)
National Ports Authority – other	R13,5 billion	(10,6%)
Export iron ore	R13,4 billion	(10,5%)
Specialist Units	R7,8 billion	(6,1%)
Bulk – other	R7,0 billion	(5,5%)
Piped products	R6,4 billion	(5,0%)
Break-bulk	R2,2 billion	(1,7%)
Export manganese	R1,3 billion	(1,0%)
Port Terminals – other	R0,9 billion	(0,7%)

Value for South Africa

Estimated national value outcomes per province: R1,3 billion

National	(61,5%)	R78,5 billion
KwaZulu-Natal	(20,6%)	R26,2 billion
Western Cape	(9,0%)	R11,5 billion
Eastern Cape	(5,5%)	R7 billion
Gauteng	(1,8%)	R2,3 billion
Mpumalanga	(0,6%)	R761 million
Northern Cape	(0,5%)	R609 million
Limpopo	(0,4%)	R560 million
Free State	(0,1%)	R67 million
North West	(0,06%)	R45 million



Value to be invested per corridor

Country-wide	(48,2%)	R61,5 billion
Richards Bay Corridor	(17,4%)	R22,2 billion
Natal Corridor	(12,5%)	R16,0 billion
Saldanha	(11,3%)	R14,4 billion
South Corridor	(5,5%)	R7,0 billion
Cape Corridor	(5,1%)	R6,6 billion

[15] The corporate planning process started before the global Covid-19 outbreak and has since been revised in line with the March 2020 Bureau for Economic Research report issued post the first breakout in South Africa. The corporate planning process assumes that Transnet operates in a stable economic environment in line with the March 2020 macroeconomic parameters used in the budget planning process. While the macroeconomic outlook was issued post the Covid-19 breakout, the impact of the nationwide 21-day lockdown (announced on 23 March 2020) has not been incorporated in the Financial Plan. The rippling impact of lockdowns implemented by other trading countries on imports and exports, as well as the gradual easing of South Africa's 5-level lockdown process on performance targets will be assessed in the 2021 financial year. A high-level scenario is provided here.

Abridged governance

Creating value through governance

King IV. P1

In accordance with the Treasury Regulations 29.2.1, Transnet – together with the DPE Shareholder Minister, Mr Pravin Gordhan – negotiates and concludes an annual Shareholders' Compact. The diagram below summarises the DPE's Statement of Strategic Intent (SSI) as contained in the Compact, together with Transnet's five strategic levers to enable the anticipated outcomes of Transnet's overall mandate as a SOC; and it also reflects the governance instruments in place to support Transnet's value-creation process as mandated through the SSI. The Shareholder's Compact for the 2020 financial year is effective from 1 April 2019 to 31 March 2020.

Figure 12: Creating shared value through governance

Statement of Strategic Intent

Ensure commercial growth and financial sustainability	**Reduce the total cost of logistics; effect and accelerate modal shift**	**Leverage the private sector in the provision of both infrastructure and operations where required**	**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**

Strategic levers

Safety	Cost control	Asset utilisation	People	Customer service

Governance oversight and strategic enablement

Compliance with internal and external policy frameworks and guidelines	Leadership structures	Key internal and external charters
• Compliance with rules and legislation (200+ legislative requirements) • Financial governance and policy frameworks (IFRS) • Risk management and combined assurance framework	• Transnet Board of Directors • Board committees • Executive committee structures	• Internal: Transnet Culture Charter, IT Governance Charter, Customer Charter and Internal Audit Charter • External: Generic Transport Public Sector Charter, Maritime Charter, Property Charter, Rail Charter and Liquid Fuels Charter
Performance monitoring and evaluation	**SOC Governance**	**Other governance instruments**
• Corporate Plan target setting and monitoring • Asset management and valuation • Integrated asset planning and budgeting • Growth portfolio management	• DPE's Statement of Strategic Intent • Transnet's commercial and developmental mandates • Annual Corporate Plan aligned to the Shareholder's Compact • Significance and Materiality Framework	• Partnerships, governance and assurance • ICT governance • Internal Audit function • Enterprise risk management • Integrated procurement governance • Ethics and fraud management

Key outcomes of the SSI

Commercial self-sustainability	Globally competitive freight supply and chain network	Growing developmental mandate

Leadership, oversight and accountability

King IV. P1 & 6 & 11

The Board sets the tone for ethical leadership and institutes ethical oversight and accountability through its strategic and operational objectives:

- The Board should ensure the appointment of a competent and ethical Executive Committee and prescribed officers.
- The Board ensures that a succession planning process is in place and understands that it is of crucial importance in the sustainability of the business.
- Monitoring of the Shareholder's Compact by the Corporate Governance and Nominations Committee.
- Segregation of the roles of the Chairperson and Group Chief Executive.
- Implementing a formal induction and training programme for the Board.
- Ensuring appropriate disclosure of directors' remuneration in the 2020 Integrated Report.
- Being assisted by a competent, suitably qualified and experienced Group Company Secretariat.
- Instituting appropriate risk and governance frameworks and methodologies.

Structures supporting effective governance

King IV. P6

The Company's governance structures operate within the approved Board and committee mandates, with clear authority and delegation levels. The performance of the governance structures is assessed annually through the Board of Directors' independent evaluation process and through self-assessments.

Effective meetings

King IV. P6

The Board and its committees meet as prescribed by their respective mandates. The meetings are facilitated by the Group Company Secretariat, who ensures timely, accurate and relevant information is provided ahead of meetings. The digitisation of meeting packs has introduced real-time availability of information in preparation for meetings.

Special meetings may be convened at the request of the Chairperson or any member, when necessary and within the limits set by the Board. All meetings are managed by the respective Chairpersons. The minutes of the Board and committee meetings are circulated for comment in accordance with the mandates and accordingly approved in subsequent meetings. The meeting attendance of the Group Executive Committee and the Board is reported to the Shareholder every quarter, together with decisions taken by the Board and its committees.

Monitoring control effectiveness and performance against objectives

King IV. P1 & 12 & 13 & 15

The Board monitors the implementation of the Company's revised strategy and ensures that corrective action is taken as required. Monitoring activities include:

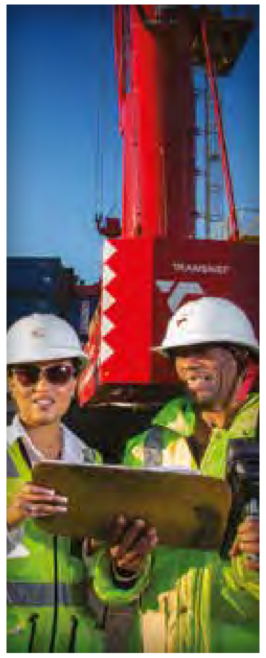
- Monitoring performance against key performance indicators outlined in the Shareholder's Compact;
- Assessing the effectiveness of internal controls according to a risk-based audit function, with Internal Audit providing a written assessment of the Company's system of internal controls and risk management in the Integrated Report;
- Performing annual enterprise risk assessments, which include strategic, financial, operational and sustainability risks. New risk sets are emerging from the Covid-19 context, requiring additional vigilance and scenario planning;
- Monitoring technology assets, IT governance and information security, particularly as the organisation addresses technology and data management risks presented by new work practices resulting from Covid-19;
- Monitoring adherence to Transnet's compliance framework and applicable legislative and regulatory requirements; and
- Evaluating significant investments and expenditure to ensure appropriate cost control.

Stakeholder engagement

King IV. P6

Management is tasked with communicating relevant and accurate information within the Company's governance structures and to relevant stakeholders through approved stakeholder communication guidelines, which include the approved Annual Financial Statements and Integrated Report.

The Board sets the tone for ethical leadership



Governance framework

The Board governs and directs compliance with applicable laws and adopts non-binding rules, codes and standards.

Transparency, accountability and integrity

King IV. P1 & 13

The PFMA, Companies Act and Protection of Personal Information Act, No 4 of 2013 (POPI Act) provide specific requirements pertaining to the Company's records management practices, such as interim financial results and Annual Financial Statements that satisfy the International Financial Reporting Standards, and for the audited Annual Financial Statements to be prepared within five months following the financial year-end. To that end, the Company finalises its Annual Financial Statements within the first quarter in as far as is possible of the new financial year, and ensures that the Shareholder Minister has timely access to those audited Annual Financial Statements. The Company has developed procedures and systems to ensure early adoption of the POPI Act.

Governance of a SOC

The Shareholder's rights are represented according to the stipulations of the PFMA and the Companies Act, and associated procedures are in place to govern the activities of the Board. The Board holds meetings in accordance with stipulations of the Companies Act and the National Ports Act for its deemed Board activities on behalf of the National Ports Authority.

Specific governance requirements

King IV. P6 & 11 & 13

The Board of Directors governs and directs compliance with applicable laws, namely the PFMA and Companies Act, and adopts non-binding rules, codes and standards. The Company has adopted the King IV principles in conjunction with regulatory provisions to achieve the overarching principles of sound governance, namely responsibility, accountability, fairness and transparency. The Company will do so substantively and not simply in form, so that its decisions and actions impact positively on the Company and its stakeholders, which include its employees, the communities in which it operates, suppliers, customers and the public at large.

The Shareholder's rights are represented according to the stipulations of the PFMA and the Companies Act

Risk governance

The Board has approved the Risk Management and Compliance Programme (RMCP) in terms of section 42 of the Financial Intelligence Centre Act, 2001 (FICA), which places an obligation on the Company to develop, document, maintain and implement a RMCP.

As Transnet SOC Ltd is an interested rate member of the JSE Limited, it is an Accountable Institution under FICA.

Public Finance Management Act (PFMA)

The PFMA outlines the fiduciary duties and responsibilities of the Board and requires that it serves as the Company's accounting authority. The Company is identified as a major business entity and is listed under Schedule 2 of the PFMA. The Board ensures that the Company adheres to the requirements for the assessment of risk and annual budget submissions, and the annual conclusion of a Shareholder's Compact. The Board also ensures that the Company adheres to all procedures for quarterly reporting to the executive authority through the submission of quarterly PFMA reports to the Shareholder Minister. PFMA requirements for the composition and election of the Audit Committee are strictly observed.

Companies Act

Registration

As a SOC, Transnet complies with the specific requirements of the Companies Act, namely sections 88(2)(e) and (f) in relation to filing the required returns and notices and to ensure that the audited Annual Financial Statements are made available to the Shareholder Minister.

Reporting

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

Remuneration and ethics

The Remuneration, Social and Ethics Committee is a committee of the Board in compliance with the Companies Act. The committee's activities align with the regulations as outlined in section 72(4) of the Companies Act. A report is submitted to the Companies and Intellectual Property Commission (CIPC) to account for the activities undertaken by the committee for the period under review, as and when required.

Audit Committee

The Company continued to comply with the Companies Act for the functioning and reporting of the Audit Committee during the year.

Prescribed officers

The Company has defined its prescribed officers as Exco members. These individuals (see Group Executive Committee members for brief profiles) are deemed to exercise or regularly participate in the executive control of the Company as contemplated in the Companies Act and its regulations. The recruitment of prescribed officers has been elevated to the Board for approval with the engagement of the Remuneration, Social and Ethics Committee. The Shareholder must view the role description of executive directors before advertisement for information purposes. The disclosure on the remuneration of prescribed officers is set out in the Abridged Remuneration Report on pages 140 to 145.

King IV

The Company has adopted the King IV governance principles in conjunction with regulatory provisions to achieve the overarching principles of sound governance, namely an ethical culture, good performance, effective control as well as operational and social legitimacy.

The Governance Assessment Instrument is used to monitor the level of application of the King IV principles. Transnet has adhered to some of the King IV principles and recommendations as evidenced in the 2020 Integrated Report, Remuneration Report and Stakeholder Engagement Report.

A table of Transnet's King IV governance outcomes is included in the full Governance Report at www.transnet.net.

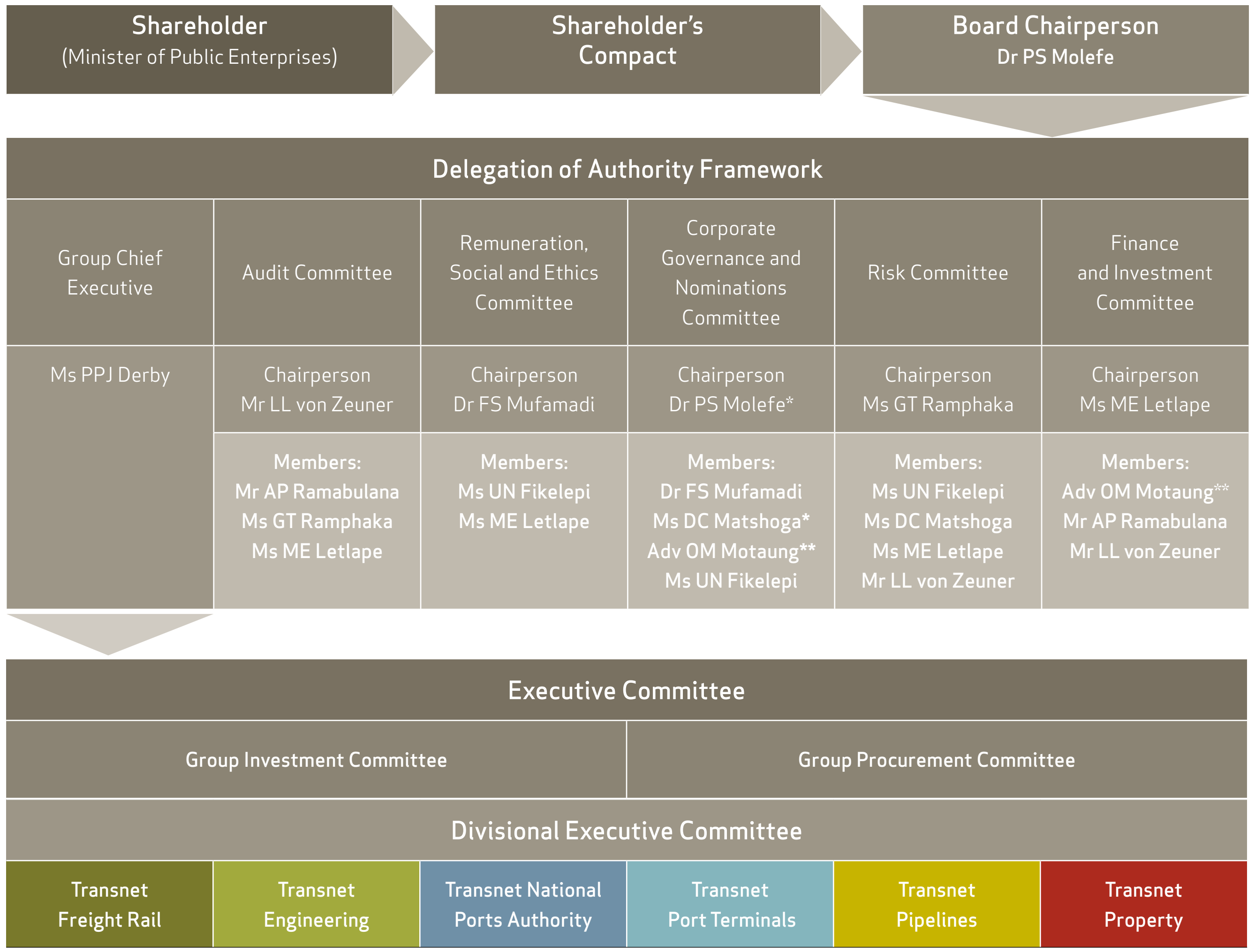
Governance structures

King IV. P6

The Company's governance structures operate in accordance with their respective mandates, powers and authority, and in accordance with the Delegation of Authority (DOA) Framework approved by the Board. The Board delegates powers to its committees whose members are specialists in their respective fields. The Group Chief Executive is assisted by the Group Executive Committee to deliver on specific mandates based on the DOA Framework. The Company further carries out its mandate through its Operating Divisions, which receive their respective delegations from the Group Chief Executive. The Group Chief Executive is supported by the Group Executive Committee.

The Board delegates powers to its committees whose members are specialists in their respective fields

Figure 13: Governance structure



* Ms DC Matshoga was Chair until 15 March 2020.

** Adv Oupa Motaung passed away subsequent to year-end.

Governance instruments

King IV. P7 + 13

The Company's governance instruments:

- The Memorandum of Incorporation (MOI) contains matters that are specifically reserved for the Board's decision-making, in line with the provisions of the Companies Act.
- The Board-approved DOA Framework is reviewed annually for adequacy and completeness (or as required) and contains Board-reserved matters, and matters delegated to committees and the Group Chief Executive.
- Mandates of the Board and its committees align with the MOI, the Companies Act, and the DOA Framework.
- Mandates of the Group Executive Committee and its subcommittees align with the current DOA Framework and the mandates of the Board and its committees.
- The Board-approved policies and procedures.
- The Corporate Governance Framework.

Board composition and independence

King IV. P7

The Company's existing MOI provides that the Board shall consist of a minimum of six and a maximum of 14 directors, comprising not less than four non-executive directors and two executive directors, provided that the Board shall at all times consist of a majority of non-executive directors. As at 31 March 2020, the Board comprised 12 directors, 10 of whom are non-executive, including the Chairperson.

The non-executive directors are free from any business relationship that could hamper their objectivity or judgement in terms of the business and activities of the Company in as far as is possible. Any potential conflict is effectively managed through systems and processes which are in place. All non-executive directors have unrestricted access to the Company's information, documents, records and property in the interest of fulfilling their fiduciary duties and responsibilities. The non-executive directors contribute a variety of skills, business acumen, independent judgement and experience on various issues, including strategy, corporate governance, performance and general leadership, while the executive directors provide an operational understanding of the Company's strategies and management skills.

Our non-executive directors contribute a variety of skills, business acumen, independent judgement and experience

Non-executive directors are always required to act in the best interest of the Company and to avoid potential political connections or exposures using a range of governance instruments in the execution of their fiduciary duties.

The non-executive directors have access to:

- The Company's employees, by submitting a written request to the Chairperson of the Board and the Group Chief Executive, to engage with an employee;
- External auditors;
- Internal auditors; and
- Professional advisers.

In accordance with the King IV Code, the Board is satisfied that the non-executive directors of the Company are independent.

See pages 12 to 15 of the Integrated Report for non-executive directors' competencies.

Roles of the Chairperson and Group Chief Executive

King IV. P10

The roles of the Chairperson and the Group Chief Executive are separate, with their individual responsibilities clearly defined. The Chairperson is an independent non-executive director and is responsible for leading the Board and ensuring its effectiveness. The Group Chief Executive, Ms Portia Derby is responsible for the execution of the Company's strategy and the day-to-day management of the business. She is supported by the Group Executive Committee, of which she is the Chairperson.

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

Appointment of directors and succession planning

King IV. P13

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

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

Ms RJ Ganda has resigned as a non-executive director of the Company with effect from 1 April 2020.

Management of potential conflicts of interest

King IV. P13

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

Where a director or a prescribed officer has any direct or indirect personal or private business interest in a particular matter, that director or prescribed officer must be recused from the proceedings when the matter is considered, unless the Board, Board committee or Group Executive Committee and its subcommittees, as the case may be, decides that the member's interest in the matter is trivial or irrelevant. The declaration of interest and related-party disclosures registers are signed by the members and attendees at all formal meetings of the Board and the Group Executive Committee and its subcommittees. These registers are maintained by the Group Company Secretariat. In addition, non-executive directors, the Group Executive Committee members, Extended Executive Committee members, line management (levels C to F) and any employee who has an interest in a company, either directly or indirectly, are required to file an annual declaration of interest form with the Group Company Secretariat at the beginning of each financial year or within 30 days from date of appointment. Any changes in interests during the year necessitate the filing of a revised declaration of interest form, which are formally noted by the relevant governance structures.

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

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

Group Company Secretariat function

King IV. P10

The Group Company Secretariat is responsible for developing systems and processes to enable the Board to discharge its functions efficiently and effectively. The Group Company Secretariat prepares Annual Work Plans for the Board and its committees as informed by the strategic direction of the Company. The Corporate Governance and Nominations Committee reviews the Board and its committees' Annual Work Plans and makes recommendations for implementation. These Annual Work Plans are recommended to the Board for approval for implementation by the respective Board committees and are continually tracked to assess progress. The Group Company Secretariat also advises the Board on corporate governance issues, the requirements of the Companies Act and other relevant legislation, both collectively and individually. The Board has unfettered access to the

The Group Chief Executive is supported by the Group Executive Committee, of which she is the Chairperson

services and advice of the Group Company Secretariat and the Group Company Secretariat acts as the primary point of contact between the Board and the Company.

In addition to various statutory functions, the Group Company Secretariat provides individual non-executive directors and the Board with induction, guidance on duties, responsibilities and the impact of regulatory developments. In consultation with the Chairperson, the Group Company Secretariat ensures that the contents of the agenda are relevant to the Board's decision-making and communicates the Board's resolutions throughout the Company in a timely and appropriate manner.

Several instruments have been introduced to ensure that the Board functions efficiently in executing its mandate as well as the set targets. Some of the instruments include:

- A resolutions register that sets out the decisions that have been taken by each governance structure; these are communicated to line functions for execution; and
- A transfer register that details cross-functional areas as referred by one governance structure to another for execution.

The Group Company Secretariat is qualified to perform its duties in accordance with applicable legislation.

The Board is satisfied that the Group Company Secretariat maintains an arm's length relationship with the Executive Committee, the Board and the individual non-executive directors.

Following the resignation of Ms Komilla Naicker as the Acting Group Company Secretary, with effect from 30 April 2020, the Board appointed Ms Makwena Pertunia Mohlabi as the Group Company Secretary with effect from 1 May 2020.

Transnet placed its Group Company Secretary on precautionary suspension on 21 August 2020 pending an investigation, which is in progress. The Annual Financial Statements are being signed by the Interim Group Company Secretary, Ms Shokie Bopape.

Several instruments have been introduced to ensure that the Board functions efficiently

Benchmarking

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

The role of the Board of Directors

King IV. P1 & 9

The Board of Directors is principally responsible for directing and overseeing the affairs of the Company, balancing the interests of stakeholders, and ensuring the Company's long-term economic, social and environmental sustainability. This responsibility includes it being the deemed Board of the Transnet National Ports Authority in terms of the National Ports Act, No 12 of 2005, as amended. The Board, through its Chairperson, also serves as the Shareholder of Transnet International Holdings SOC Ltd, a wholly owned subsidiary of Transnet SOC Ltd, incorporated on 29 August 2017; it is currently dormant. As a SOC reporting to the Minister of Public Enterprises (Shareholder Minister), the Company's performance is monitored against targets outlined in the annual Shareholder's Compact, which mandates the Company to deliver on numerous strategic deliverables, a process which the Board oversees. The Board leads the Company in its achievement of strategic objectives by directing and approving the Company's overall strategy and associated operational objectives. The Board ensures that adequate processes are in place for budget planning and allocation to advance the Company's mandate, which includes oversight of the Company's socio-economic programmes. The Board is tasked with ensuring that the Company can achieve its statutory, developmental and commercial objectives.

The Board is accountable for leading the organisation both ethically and effectively. The qualities of integrity, competence, responsibility, fairness and transparency are cultivated and exhibited through Board members' compliance with legislation, applicable policies, rules and binding codes, underscoring the Company's responsibilities as a good corporate citizen. The Board is committed to the implementation of the outcomes-based King IV principles and leading practices of sound corporate governance in the execution of its strategy. As such, the Board recognises that good corporate governance acknowledges that the organisation does not operate in a vacuum, but is an integral part of the society and natural environment in which it exists, and therefore has accountability towards current and future stakeholders in the way it makes use of the six capitals in creating shared value.

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

Independent performance evaluation of the Board, its committees and directors

King IV. P 9

The Board ensures the evaluation of its own performance and that of its committees, Chairperson and individual directors, and provides support for continued improvement in its performance and effectiveness. The Board compares the findings of the evaluation to the prior year's assessment and formulates appropriate action plans, which are monitored through the Corporate Governance and Nominations Committee.

During the year, the committee introduced a 'hybrid' self-evaluation process, in which self-assessments are conducted through a programme linked to the Company's Governance Assessment Instrument. In keeping with the directive from the Shareholder Minister, biannual reviews will be conducted going forward. The Board conducted an internal self-assessment in the second quarter of the year and shared findings with the Shareholder Minister.

Board induction and continuous development

King IV. P1 & 9

As part of enhancing the directors' skills, the Group Company Secretariat develops an Annual Board Training Plan which identifies training requirements for the Board and its committees. Individual directors are also encouraged to identify any governance-related training events they may wish to attend through recognised training institutions. The induction of directors is ongoing to acquaint the Board with the business of the Company. During the year, the following training activities were conducted by internal and external training service providers:

Table 37: Board training for the year ended 31 March 2020

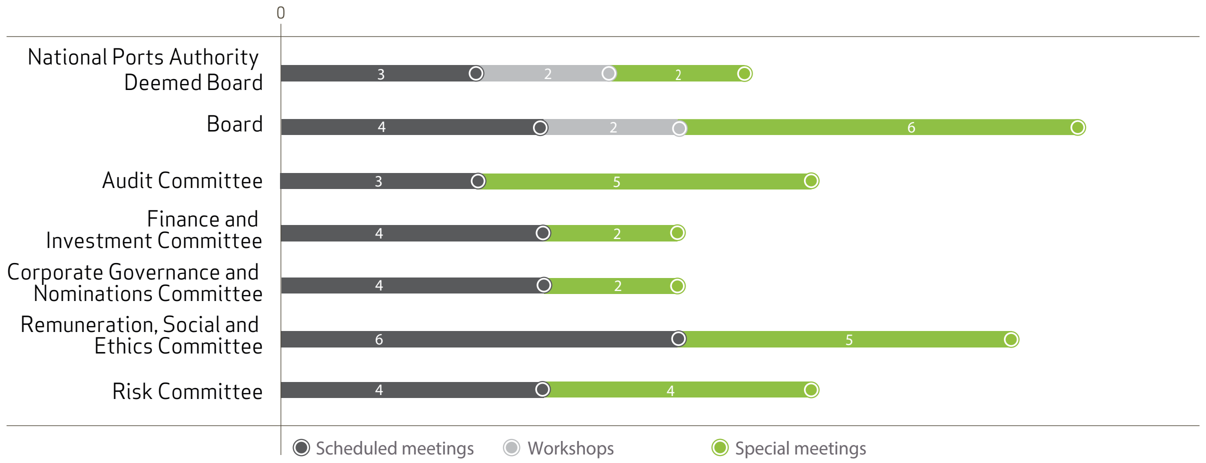
Governance structure	Training provided	Service provider	Date	Attendees
Corporate Governance and Nominations Committee	King IV as it relates to the Corporate Governance and Nominations Committee	Fluidrock Governance Academy (Pty) Ltd	22 May 2019	Ms UN Fikelepi Ms RJ Ganda Ms DC Matshoga Dr PS Molefe Adv OM Motaung* Dr FS Mufamadi
Audit Committee	Integrated Reporting	FirstRand	28 May 2019	Ms RJ Ganda Ms ME Letlape Mr AP Ramabulana Ms GT Ramphaka Mr LL von Zeuner
Finance and Investment Committee	Project Lifecycle Process (PLP) and Capital Operating Model Training	Transnet Group Capital	9 July 2019	Ms RJ Ganda Ms ME Letlape Adv OM Motaung* Mr AP Ramabulana Ms GT Ramphaka Mr LL von Zeuner
Individual director development	International Risk Management of South Africa (IRMSA) Annual Conference	Institute of Directors of Southern Africa	2 October 2019	Ms UN Fikelepi Ms DC Matshoga
Corporate Governance and Nominations Committee	Protection of Personal Information Act	Diale Mogashoa Attorneys	3 March 2020	Ms UN Fikelepi Ms DC Matshoga Dr PS Molefe Adv OM Motaung* Dr FS Mufamadi

* *Adv Oupa Motaung passed away subsequent to year-end.*

Board and committee meetings

King IV. P6

The graph below indicates the number of scheduled and ad hoc meetings held during the year.



The table below discloses the number of meetings held during the year and the attendance of the respective directors for the financial year ended 31 March 2020.

Table 38: Schedule of directors' attendance at Board and committee meetings*

Board/Committee	Board	Audit Committee	Corporate Governance and Nominations Committee	Risk Committee	Finance and Investment Committee	Remuneration, Social and Ethics Committee	National Ports Authority Deemed Board
Number of meetings held	**12**	**8**	**6**	**8**	**6**	**11**	**7**
Dr PS Molefe *(Chairperson)*	12	—	4	—	—	—	7
Ms PPJ Derby[1]	1	—	—	—	—	—	—
Ms UN Fikelepi	7	—	5	8	—	10	5
Ms RJ Ganda	9	6	—	—	3	—	4
Mr MD Gregg-Macdonald[2]	7	—	—	—	—	—	6
Prof EC Kieswetter[3]	—	—	—	—	—	1	—
Ms ME Letlape	11	8	—	8	—	11	6
Mr MS Mahomedy[4]	7	—	—	—	—	—	5
Ms DC Matshoga	8	—	5	7	—	—	5
Adv OM Motaung[5]	7	—	5	—	5	—	5
Dr FS Mufamadi	7	—	1	—	—	11	3
Mr AP Ramabulana	9	6	—	—	4	—	6
Ms GT Ramphaka	10	8	—	8	—	—	6
Mr LL von Zeuner	6	5	—	7	6	—	4

* *Each scheduled Board meeting is preceded by a closed session attended by non-executive directors.*
1 *Appointed as the Group Chief Executive and Executive Director of the Company with effect from 1 February 2020.*
2 *Reappointed as the designate Acting Group Chief Financial Officer and Executive Director of the Company with effect from 1 April 2020 following the termination of the appointment of the Acting Group Chief Financial Officer and the resignation as an Executive Director of the Company with effect from 1 February 2020.*
3 *Resigned with effect from 6 May 2019.*
4 *Reappointed as the Acting Group Chief Financial Officer with effect from 1 February 2020 until 31 March 2020.*
5 *Adv Oupa Motaung passed away subsequent to year-end.*

Executive directors are not members of the Board committees.

Main undertakings and considerations of our Board and Board committees

Board

King IV. P6 & 8

Table 39: Summary of Board's main undertakings and considerations during the year*

Board		
• Total number of meetings held during the year: 12 • Directors' attendance at Board meetings denoted by ( )	• Executive director^ • Independent non-executive director‡	
Chairperson: Dr PS Molefe‡ (12)	**Members:** • Ms UN Fikelepi‡ (7) • Ms ME Letlape‡ (11) • Ms DC Matshoga‡ (8) • Adv OM Motaung‡[6] (7) • Dr FS Mufamadi‡ (7) • Mr AP Ramabulana‡ (9) • Ms PPJ Derby[1]^ (1)	• Ms RJ Ganda[2]‡ (9) • Mr MD Gregg-Macdonald[3]^ (7) • Prof EC Kieswetter[4] (0) • Mr MS Mahomedy[5]^ (7) • Ms GT Ramphaka‡ (10) • Mr LL von Zeuner‡ (6)
Main considerations for 2020	**Main undertakings for 2021**	
• Appointments to fill Board vacancies • Finalise amendments to the MOI • State capture-related issues and appearances of Company representatives before the Zondo Commission of Inquiry into Allegations of state capture • Increasing PFMA reportable issues and media allegations against Transnet • Collaboration with law enforcement agencies • Maintenance backlog, derailments and the impact on low volume targets • Audit qualification due to interpretation of the law. The Company has engaged National Treasury to assist with the interpretation of PPPFA • Non-performance of executives • Transgression of procedures and the Code of Ethics by executives • Protracted suspensions of executives • Appointment of key executives and Group Company Secretariat	• Monitor PFMA violations • Strengthen internal control measures • Focus on consequence management and close-out of protracted matters • Investigate all media allegations • Appoint additional Board members and ensure their induction • Improve operational performance • Reduce irregular expenditure • Instil sound governance and compliance practices • Structure a post Covid-19 Business Recovery Strategy (financial, people, operations) • Review the DOA Framework to align with the strategic intent of the new leadership • Ensure continuous Stakeholder engagements	

** A more detailed table of key activities and outputs for the 2020 financial year is contained online in the full Governance report available at www.transnet.net*
[1] Appointed as the Group Chief Executive and Executive Director of the Company with effect from 1 February 2020.
[2] Resigned with effect from 31 March 2020.
[3] Reappointed with effect from 1 April 2020 as the designate Acting Group Chief Financial Officer and Executive Director of the Company following the termination of his appointment as Acting Group Chief Financial Officer and resignation as an Executive Director of the Company with effect from 31 January 2020.
[4] Resigned with effect from 6 May 2019.
[5] Reappointed as the Acting Group Chief Financial Officer with effect from 1 February 2020 until 31 March 2020.
[6] Adv Oupa Motaung passed away subsequent to year-end.

Audit Committee

King IV. P6 & 8

The Audit Committee comprises independent non-executive directors who are duly elected by the Shareholder Minister at the Annual General Meeting in line with legislative requirements. The Audit Committee provides the following support functions to the Board:

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

Table 40: Summary of main undertakings and considerations during the year*

Audit Committee	
• Total number of meetings held during the year: 8 • Directors' attendance at Audit Committee meetings denoted by ( )	• Executive director^ • Independent non-executive director‡
Chairperson • Mr LL von Zeuner[1]‡ (5) • Ms RJ Ganda[2]‡ (6)	**Members** • Ms ME Letlape‡ (8) • Mr AP Ramabulana‡ (6) • Ms GT Ramphaka‡ (8) No external advisers attended committee meetings during the year.
Main considerations for 2020	**Main undertakings for 2021**
• The impact and risk of breaching the loan covenants • The Integrated Assurance Plan and Transnet Internal Audit findings • Lack of contract management and the Company's exposure to recurrence of irregular expenditure transactions	• Assess and address financial risks as a result of Covid-19 • Assess full extent of the impact of Covid-19 on financial sustainability and revenue growth • Improve the internal control environment • Embed the integrated/combined assurance model

** A more detailed table of key activities and outputs for the 2020 financial year is included in the full Governance Report at www.transnet.net.*
[1] Appointed as the Chairperson with effect from 15 June 2020.
[2] Resigned with effect from 31 March 2020.

Corporate Governance and Nominations Committee

King IV. P6 & 8

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

- Ensures that the Board's composition and structure enable it to fulfil the obligations of the Board mandate and advance and maintain the Company's corporate governance policies and the Corporate Governance Framework.
- Sets criteria for the nomination of directors to be recommended to the Board for appointment to the 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 Annual General Meeting or through a written resolution.
- Ensures that best practice succession planning policies are implemented in respect of executive directors and independent non-executive directors.
- Administers and manages the selection process of the Company's Chief Executive on behalf of the Board and makes recommendations on the top three candidates – in order of priority – to the Board by complying with the 'Guidelines for the appointment of a Group Chief Executive for a State-Owned Enterprise'.

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

Corporate Governance and Nominations Committee	
• Total number of meetings held during the year: 6 • Directors' attendance at Corporate Governance and Nominations Committee meetings denoted by ( )	• Executive director^ • Independent non-executive director†
Chairperson Dr PS Molefe[1]† (4)	**Members** • Ms DC Matshoga† (5) • Ms UN Fikelepi† (5) • Mr OM Motaung†[2] (5) • Dr FS Mufamadi† (1) No external advisers attended committee meetings during the year.
Main considerations for 2020	**Main undertakings for 2021**
• DOA Framework • Director development and continuous Board improvement • Board composition and evaluation • Shareholder's Compact monitoring • Review cross-cutting matters from other committees • Governance processes/instruments • Appointment of key executives and Group Company Secretariat	• Ensure DOA Framework remains fit for purpose – enhance accordingly • Structure plan for Director Development with clear monitoring criteria • Define the Role of the Director in the Covid-19 context • Monitor the execution of the revised Shareholder 's Compact • Perform governance assessments and review state of governance • Strengthen Corporate Governance Frameworks

* *A more detailed table of key activities and outputs for the 2020 financial year is included in the full Governance Report at www.transnet.net.*
[1] *Dr PS Molefe was reappointed as the Chairperson of the committee in accordance with the Company's Memorandum of Incorporation with effect from 16 March 2020.*
[2] *Adv Oupa Motaung passed away subsequent to year-end.*

Risk Committee

King IV. P6 & 8

The Risk Committee provides the following support to the Board of Directors:

- 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 pertaining to risk management with the internal and external auditors, the Audit Committee, the Board, management and regulators.
- Contributes to a climate of discipline and control to reduce the risk of fraud and other operational losses.
- Assesses any significant risk control failings or weaknesses and their potential impact, and confirms that appropriate action has been (or is being) taken.

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

Risk Committee	
• Total number of meetings held during the year: 8 • Directors' attendance at Corporate Governance and Nominations Committee meetings denoted by ( )	• Executive director^ • Independent non-executive director†
Chairperson Ms GT Ramphaka† (8)	**Members** • Ms UN Fikelepi† (8) • Ms ME Letlape† (8) • Ms DC Matshoga† (7) • Mr LL von Zeuner† (7) No external advisers attended committee meetings during the year.
Main considerations for 2020	**Main undertakings for 2021**
• An increasing trend in derailments has been addressed across the Company and visible leadership strategies implemented, such as regular engagement with employees on a range of matters, including safety • Credit rating agencies' assessments and their impact on the Company's funding requirements Mitigation plans to improve the Company's rating while taking cognisance of the link with the sovereign, which included reducing and deferring capital spend and instituting alternative funding models until a stable position is achieved • Fraud risks which included forensic management briefings on consequence management implementation and ensuring expedited management of cases through forensic investigations • Status of ongoing forensic investigations • The committee held focused meetings to ensure that it received regular updates on the forensic investigations and consequence management implementation The forensic portfolio was further moved from Transnet Internal Audit to the Risk portfolio • Reputational risks • The committee has further streamlined risk reporting through integrated risk reporting across the business to ensure effective oversight of the Company's business risks	• Finalise forensic and other investigations into acts of malfeasance and implement consequence management, where necessary • Embed integrated risk management principles across the business • Manage the ICT, procurement and insurance risks in a prudent manner • Assess and address residual risks resulting from the Covid-19 context • Address ICT risks, particularly cyber security • Address contract management risks • Address people-related risks • Address security risks • Improve company-wide risk maturity levels • Strengthen risk governance policies and protocols

* *A more detailed table of key activities and outputs for the 2020 financial year is included in the full Governance Report at www.transnet.net.*

Finance and Investment Committee

King IV. P6 & 8

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

- Advances and maintains the Company's financial and investment policies, thereby ensuring 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 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 for assurance purposes.
- Considers property lease agreements in line with the DOA Framework.

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

Finance and Investment Committee	
• Total number of meetings held during the year: 6 • Directors' attendance at Finance and Investment Committee meetings denoted by ( )	• Executive director^ • Independent non-executive director‡
Chairperson Mr LL von Zeuner‡ (6)	**Members** • Ms RJ Ganda‡ (3) • Adv OM Motaung‡[1] (5) • Mr AP Ramabulana‡ (4) No external advisers attended committee meetings during the year.
Main considerations for 2020	**Main undertakings for 2021**
• Improve procurement governance • Governance issues regarding the Company's subsidiaries, associates and joint ventures • Concern over the procurement governance, including management of confinement and emergency procurement transactions • Concern about the debt owed by Prasa, and SA Express • The challenges experienced in optimising the property portfolio and the delays in finalising the Property Strategy • The impact of National Ports Authority's corporatisation on the Company's balance sheet	• Exercise oversight of the Company's revenue performance, including the financial ratios and funding requirements • Implement cost-containment and cash preservation measures to offset liquidity risks due to the Covid-19 pandemic • Resolve the external audit issues arising from the PFMA violations • Optimise the performance of the property portfolio • Assess and address financial sustainability post Covid-19 • Assess and address revenue growth and diversification

* *A more detailed table of key activities and outputs for the 2020 financial year is included in the full Governance Report at www.transnet.net.*
[1] *Adv Oupa Motaung passed away subsequent to year-end.*
Prof EC Kieswetter resigned as a non-executive director of the Company with effect from 6 May 2019.

Remuneration, Social and Ethics Committee

King IV. P6 & 8

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

The Remuneration, Social and Ethics Committee provides the following support to the Board:

- Advises the Board regarding responsible corporate citizenship and the ethical relationship between the Company and its stakeholders, both internally and externally. The committee manages the Company's legal and moral obligations for its economic, social and natural environment, including the objectives and standards of the Company's conduct and activities.
- Manages and monitors the Company's activities to achieve and maintain world-class standards in the Company's social and ethics environment, with due regard to all relevant legislation, policies, legal requirements and codes of best practice.
- Oversees the ethics management programme implemented by management.
- Ensures that competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high-performance staff at all levels to meet corporate objectives and to safeguard Shareholder 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 Transnet's subsidiaries and approves the remuneration policies and practices recommended by them.
- Develops and implements a remuneration philosophy for disclosure to enable a reasonable assessment of reward practices and governance processes to be made by stakeholders.
- Recommends the level of independent non-executive directors' fees to the Board.
- Ensures compliance with applicable laws and codes.
- Considers and makes recommendations on all human capital matters related to the:
  - Restructuring of Transnet;
  - Disposal of assets/part of Transnet's business;
  - Acquisition of assets/new business; and
  - Development of human resources issues.
- Approves succession planning policy and procedures for the Group Executive Committee (other than executive directors) and the Extended Group Exco Members.

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

Remuneration, Social and Ethics Committee	
• Total number of meetings held during the year: 11 • Directors' attendance at Remuneration, Social and Ethics Committee meetings denoted by ( )	• Executive director^ • Independent non-executive director‡
Chairperson Dr FS Mufamadi‡ (11)	**Members** • Prof EC Kieswetter‡[1] (1) • Ms ME Letlape‡ (11) • Ms UN Fikelepi‡ (10) No external advisers attended committee meetings during the year.
Main considerations for 2020	**Main undertakings for 2021**
• Non-executive directors' remuneration • Actions required in terms of suspensions and appointments of senior executives in light of widespread corruption allegations • Measures to address employee and public safety and fatalities incidences • Need to effect consequence management measures for employees found guilty of fraud and corruption • Recruiting and finalising permanent executive appointments	• Implement the Lifestyle Audit Policy • Create capacity at executive level to ensure execution of strategy • Implement a reward model and philosophy to reward best performance • Assess and address CSI participation during and post-Covid-19 • Assess and address the impact of Covid-19 on the post-pandemic remuneration philosophy

* *A more detailed table of key activities and outputs for the 2020 financial year is included in the full Governance Report at www.transnet.net.*
[1] *Prof EC Kieswetter resigned as a non-executive director of the Company and Chairperson of the Remuneration, Social and Ethics Committee with effect from 6 May 2019.*

Executive Committee

King IV. P6 & 8

Group Executive Committee members attend Board meetings by invitation.

The mandates of the Group Executive Committee and its subcommittees align with the current DOA Framework and the mandates of the Board and its committees. For the year under review, the Group Executive Committee reviewed and restructured its subcommittees in order to provide clear mandates and ensure they are strategically aligned to the committees of the Board and the overall strategic intent of the Company. Group Executive Committee members attend Board meetings by invitation. The current Executive Committee is represented in full on pages 36 and 37 in the Integrated Report. The tables below reflect the cessation of Executive membership and departures of Executives during the year.

Table 45: The cessation of Executive Committee membership

Name	Job Title	Date
Ms R Madiba	Chief Information Officer (Acting)	1 April 2020
Mr T Majoka	Chief Officer: Advanced Manufacturing	1 April 2020.
Ms XB Mpongoshe	Chief Legal Officer (Acting)	1 May 2020
Mr K Reddy	Chief Strategy Officer (Acting)	30 June 2020
Mr L Tobias	Chief Executive: Transnet Freight Rail (Acting)	1 April 2020
Mr R Vallihu	Chief Operating Officer (Acting)	28 February 2020
Ms N Sithole	Chief Executive: Transnet Port Terminals	30 April 2020
Mr S Kathi	Chief Executive: Transnet Pipelines (Acting)	19 July 2020
Mr MD Gregg-Macdonald	Group Chief Financial Officer (Acting)	30 June 2020
Ms X Ntshingila	Chief Audit Executive (Acting)	31 May 2020
Ms L Sesoko	Chief Executive: Transnet Property (Acting)	30 June 2020

Table 46: The departure of Executive Committee members

Name	Job Title	Reason for departure	Date
Mr MS Mahomedy	Group Chief Financial Officer (Acting)	Resigned	31 March 2020
Mr G de Beer	Chief Business Development Officer (Acting)	Resigned	1 June 2020
Ms S Vorster	Chief Human Resources Officer (Acting)	Retired	29 February 2020
Mr LM Moodley	Chief Executive: Transnet Pipelines	Dismissed	1 May 2020
Ms S Qalinge	Chief Executive: Transnet National Ports Authority	Resigned	4 June 2020
Ms N Mdawe	Chief Executive: Transnet National Ports Authority (Acting)	Dismissed	23 August 2020
Ms N Sishi	Chief Human Resources Officer	Mutual separation	31 March 2020
Mr M Fanucchi	Chief Customer Officer	Mutual separation	1 June 2020

Group Executive Committee members attend Board meetings by invitation

Our control environment in brief

Transnet's governance control environment comprises eight key areas:

1. **Integrated procurement management**

- Appointment of Group Chief Procurement Officer from 1 April 2020.
- New procurement operating model – planned completion on 31 March 2021.
- Procurement employee skills assessments – planned completion on 31 March 2021.
- Demand Planning and Demand Management – planned for completion on 31 March 2021.
- Centralised database for specifications/scope of works – planned completion on 31 March 2021.
- Supply Chain Management (SCM) training – planned completion 31 March 2021.
- Procurement/SCM performance management – planned completion 31 March 2021.
- Functional Contract Management office – planned completion on 31 March 2021.
- E-tendering – planned completion 31 March 2021.
- E-tender submissions in response to Covid-19.
- Procurement Procedural Manual training.
- Revised Supply Chain Management Policy, effective from 1 April 2020.
- Revised Procurement Procedures Manual, effective from 1 April 2020.
- Construction Procurement Manual, effective from 1 April 2020.
- Revised RFX templates, effective from April 2020.
- Revised CIDB* and NEC** templates, effective from May 2020.
- Embedding of Enhanced Procurement Checklist, effective from 05 February 2020.
- Establishment of the Governance Centre of Excellence.
- Construction Procurement Manual, CIDB, SFU and NEC3 Templates training.
- Contract management system enablement and enhancement – Real time reporting.
- SAP ERP configured not to accept purchase orders creation without referencing a contract.

2. **Internal Audit**

- Appointment of Chief Audit Executive from 1 June 2020
- Accords with section 51 of the PFMA.
- Governed by the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (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 – approved annually by the Audit Committee.
- Internal Audit is a fully outsourced function operating under the strategic leadership of the Chief Audit Executive, who is a permanent employee and a Group Leadership Team member.
- Internal Audit implements the approved Strategic Audit Plan, and the panel of forensic firms assists with forensic investigations.
- Develops and executes a risk-based audit plan.

3. **Enterprise risk management (ERM) and integrated assurance**

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

4. **Strategic execution and performance management**

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

Transnet's performance targets are confirmed in the annually negotiated Shareholder's Compact

* Construction Industry Development Board.
** National Executive Committee.

5. **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 Secretariat 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 meetings for information purposes.
   - All irregularities reported through external and internal reporting channels are investigated through a forensics investigation process.

6. **Governance of stakeholder management and engagement**
   - The Board delegates authority to the Group Chief Executive who reports to the Board on all material stakeholder issues and takes responsibility for incorporating these into Transnet's strategy and risk management.
   - Stakeholder engagement practices align with the Company's Culture Charter and supporting values.
   - Engagement norms include inclusivity, accountability and responsiveness.
   - Stakeholder engagement performance is measured as a 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).

The Code of Ethics (the Code) enables a culture of entrenched values, principles, standards and norms

7. **ICT management and governance**
   - Appointment of Chief Information Officer on 1 April 2020
   - The Board (supported by the Corporate Governance and Nominations Committee, Audit Committee and Risk Committee) is responsible for IT governance and oversight and has delegated responsibility for the implementation of IT governance to management, with the mandate to implement effective ICT and Digital strategy, structures, principles, processes and practices that will enable effective governance within Transnet.
   - ICT and Digital is governed by the Executive Committee subcommittee and the CIO Council, which is responsible for directing, controlling and measuring overall ICT and Digital strategic definition and implementation.
   - ICT Strategy, ICT Governance Framework and the IT Governance Charter are added to the Board agenda for review, approval and effectiveness assessment as part of the work plan for the year.
   - In aligning to the IT governance practices, Transnet continuously monitors ICT governance following King IV – Principle 12 and its subcomponents.
   - ICT has focused on the improvement of the integrated assurance approach, in addition to optimising the assurance coverage on ICT and Digital following feedback from external and internal assurance as well as risk management.
   - Transnet ICT continues to monitor its strategic risk – inadequate ICT infrastructure and technology to enable business to achieve its objectives – through the strengthening of effective controls in domains of contract and vendor management, strategy and architecture, data management and asset management.
   - Transnet business resilience is strengthened through ICT's disaster recovery plans, tests and reports are regularly submitted to the Board for review and assessment for effectiveness.
   - Transnet has conducted a Business Impact Analysis to improve the ICT Disaster Recovery Strategy which will follow approval and implementation.
   - The ethical and responsible use of ICT and compliance with applicable laws, is the overall responsibility of the Board, which is provided with insight on ICT's updated annual regulatory universe.
   - ICT has elevated cybersecurity to critical priority and provides feedback to the Board on a regular basis. It also guards against negative publicity and reputational damage resulting from social media risks.
   - Focus has been on protecting Transnet's security posture through the initiated cybersecurity assessments and improvement initiative, e.g. a cyber virus started at Transnet Group and spread throughout the entire organisation. The hijacking of the National Ports Authority website (www.transnetnationalportsauthority.net) that was used illegally by hackers as a gambling website during the year required enhanced monitoring capabilities and incident response process as well as ICT continuity management strategies.
   - Value engineering processes enforce monitoring and evaluation of the value delivered from ICT investments following Transnet's project delivery process for ICT.

8. **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 Operating Divisions and Corporate Centre functions.
   - The Compliance function independently monitors and reports on compliance controls relating to high-priority regulatory requirements.
   - The Compliance function assists and supports the Board and management to discharge their compliance responsibilities.
   - A Transnet Protection of Personal Information (POPI) Steering Committee has been established to ensure that all specialist functional areas comply with the requirements of the POPI Act that has come into effect. These include HR, Integrated Supply Chain Management, ICT, Security Business Development, Foundation, Insurance and Internal Audit. Each functional area has developed compliance control plans which detail the controls required to ensure compliance with the Act. Further, POPI training has been conducted across the business.

More than 200 primary regulatory requirements impact Transnet

Abridged Remuneration Report

Remuneration philosophy

The overall remuneration philosophy is designed to create an environment in which teams are challenged to achieve targets and sustained stretch performance. The approach to remuneration aims to encourage and reward performance that aligns to Transnet's business strategy and creates shareholder value.

Linking reward to the strategic intent of Transnet

The table below provides an overview of the different reward elements and the link to the strategic intent of Transnet.

Table 47: Reward linked to strategy

Reward element	Management (grade levels A to F)	First-line management, specialists and technicians (grade level G)	Junior employees (grade levels H to L)	Link to the Statement of Strategic Intent
Guaranteed pay	• Total cost to company • Salary increases based on mandate and individual performance • 13th cheque can be structured as part of package • Travel allowance structured, if required, to conduct business travel	• Cost to company package • Excludes medical subsidy • 13th cheque is structured as part of package • Negotiated increases, partially based on individual performance	• Basic salary • Service bonus (13th cheque) • Increases negotiated	• Ensure that talented individuals are attracted and retained • Reward superior performance
Other benefits	• Cell phones (tool of trade) • Computers (tool of trade) • Based on a risk assessment, Transnet executives and other employees are sometimes provided with personal security/drivers	• Medical subsidy if employee is the principal member of a recognised medical aid • Cell phones (tool of trade), if job requirement • Computers (tool of trade), if job requirement	• Housing allowance • Medical subsidy if employee is a member of a recognised medical aid • Cell phones (tool of trade), if job requirement • Computers (tool of trade), if job requirement	• Ensure that employees are able to perform their role efficiently, thereby increasing productivity
Short-term Incentive Scheme	• All eligible employees • Support and reinforce the desired behaviour to ensure the delivery and performance against the financial, non-financial, operational and strategic metrics that have been agreed, and to reward employees when these targets have been achieved and/or exceeded • Increased line of sight for bargaining unit employees with more frequent payments • Management – annual scheme			• Manage and facilitate the performance of employees through a results-driven approach
Long-term Incentive Scheme	• Applicable to grade levels A, B and C based on individual performance and talent cluster • Attract and retain the required talent to sustain business performance	• Not applicable	• Not applicable	• Ensure long-term sustainability of the business
Recognition Programme	• All eligible employees • Support a culture where success is celebrated and employees feel valued for their contribution to the business			• Improve employee engagement, productivity and quality of work

Annual salary increases

Remuneration increases occur once annually, in April, or in the event of a promotion. Transnet does not allow ad hoc salary increases. Annual increases for management levels are informed by individual performance ratings.

Annual salary increase mandates are approved by the:

- Shareholder Minister for executive directors and prescribed officers;
- Remuneration, Social and Ethics Committee of the Board for employees in the management category; and
- 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.

The 2019/20 annual increase process for management and executives was based on a directive dated 12 March 2019, as issued by the office of the Minister of Public Enterprises, instructing all SOCs to comply with the decision on salary adjustments. Transnet concluded a three-year wage agreement with the recognised labour unions, which expires at the end of the 2020/21 reporting period. This agreement provides stability, giving us the opportunity to focus on achieving Transnet's strategic objectives. During the 2020/21 financial period, Transnet will commence with the wage negotiation process in order to conclude a new wage agreement.

The graph below depicts the increases differentiated between executive management and bargaining unit employees compared to CPI for the past three years.

There were no annual increases for executive management in 2020. Increases for management employees and bargaining unit employees are detailed below:

- Management employees earning more than R1,49 million per annum did not receive an increase for 2019/20.
- Management employees earning between R1 million and R1,49 million per annum received an increase of 2,8%.
- Management employees earning less than R1,0 million per annum received an annual increase of 3%.
- In addition to the above, management employees on grade level F received a structural remuneration correction subject to predetermined criteria.
- Bargaining unit employees received an annual increase of 7,1% as per the wage agreement.

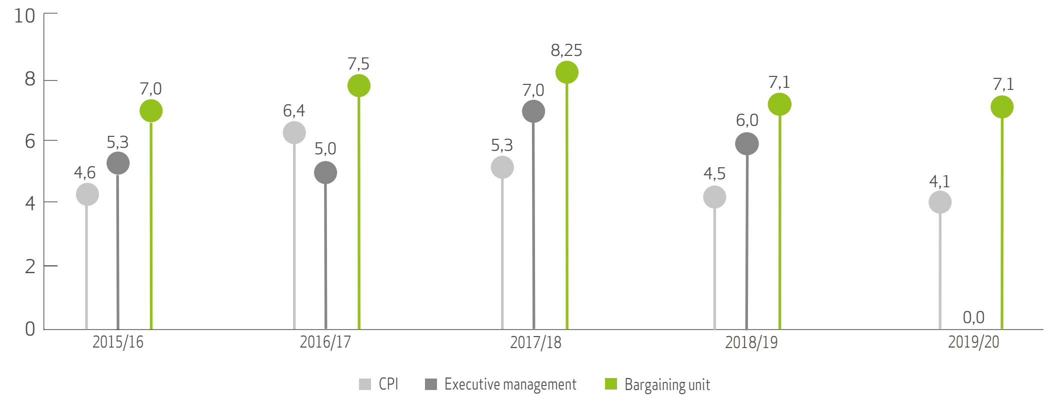
Short-term and long-term incentive schemes

Short-term Incentive Scheme

Transnet reviewed its Short-Term Incentive (STI) Scheme with the aim of replacing it with an incentive scheme that rewards the achievement of productivity targets. This resulted in the introduction of a new Container Incentive Scheme for bargaining unit employees in the Transnet Port Terminals container sector and a new Productivity Incentive Scheme for the remainder of bargaining unit employees across Transnet. The Remuneration, Social and Ethics Committee recommended both incentive schemes, which the Transnet Board approved. The new Container Incentive Scheme provides for monthly payments and the Productivity Incentive Scheme provides for quarterly payments to eligible employees, which will be based on actual achievement of productivity targets.

There were no annual increases for executive management in 2020

Annual increase vs CPI (%)



These new schemes for bargaining unit employees were implemented with effect from 1 October 2019.

The revised STI Scheme for management employees was designed to drive the achievement of stretch business targets and alignment with the Department of Public Enterprises' (DPE) Remuneration Guide. It was implemented with effect from 1 April 2020.

Long-term Incentive Scheme

The Transnet Long-Term Incentive (LTI) Scheme was implemented to ensure the realisation of the strategy, continuously meet stretch targets and be rewarded for performance above target; to retain key talent who ensure the success of the strategy; to continuously encourage stretch performance; and to reward performance above target. The LTI conditional award to eligible participants is banked and earns interest over a three-year period, which ensures the realisation of the strategy, continuously meeting stretch targets and being rewarded for performance above target. Participation in the scheme is informed by level of seniority, such as grade level in the organisation, individual performance as well as results from the talent management framework. At the end of the banking period, the vesting payment takes into consideration individual performance rating and talent cluster criteria. The LTI Scheme has specific clauses dealing with the Company's performance over the banking period; and to this effect a group modifier has been introduced, which measures the total average assets (ROTA) (excluding capital work in progress) used as the group modifier. Transnet reviewed the LTI Scheme to align it with the DPE Remuneration Guide for implementation in the new financial year from 1 April 2020. However, the current LTI Scheme still has two payments of conditional awards issued for the 2016/17 financial year (payable in 2020) and for the 2017/18 financial year (payable in 2021).

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 Group Chief Executive, and then cascaded to all managers. 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 Operating Divisions.

Leadership plays a critical role in achieving the Company's mission to deliver outstanding sustainable value to stakeholders

Both corporate and individual scorecards form the basis for the determination of annual increases and incentive payments.

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 and the individual component of the performance score impact on the value of the STI payment. This groundbreaking intervention is in line with Transnet's drive to create a high-performance culture.

Remuneration of the Transnet 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 is committed to encouraging 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.

The Board has approved a mutual separation settlement framework for selected executives who may be exiting Transnet as a result of changes in the organisation's structure.

The table below depicts the guaranteed pay of the prescribed officers for the 2019/20 financial period.

Table 48: Guaranteed pay of the Transnet Group Executive team

Exco member	Salary R'000	Retirement benefit fund contributions R'000	Other contributions R'000	Other payments R'000	**Total 2020 R'000**	Total 2019 R'000
TC Morwe[2, 3]	804	—	—	—	**804**	3 667
S Gama[2, 4]	—	—	—	—	**—**	4 740
MM Buthelezi[4, 8]	—	—	—	—	**—**	17 216
EAN Sishi[5, 8]	4 480	443	2	2 762	**7 687**	5 000
MMA Mosidi[4]	—	—	—	—	**—**	1 721
GJ Pita[2, 4]	—	—	—	—	**—**	290
T Jiyane[4]	1 369	164	1	—	**1 534**	5 025
GJE de Beer[5]	5 031	534	2	—	**5 567**	5 565
KV Reddy	4 045	430	2	—	**4 477**	4 476
XB Mpongoshe	3 526	274	2	—	**3 802**	1 763
M Mahomedy[2, 3, 6, 8]	6 791	206	2	5 178	**12 177**	4 480
SA Vorster[3, 6]	2 943	275	2	—	**3 220**	195
R Madiba[6]	2 259	167	2	—	**2 428**	1 074
T Majoka[6]	3 119	213	2	—	**3 334**	1 591
GLN Sithole	4 288	306	2	—	**4 596**	744
S Qalinge[5]	4 186	411	2	—	**4 599**	745
N Mdawe[6]	2 544	209	2	—	**2 755**	153
LM Moodley[5]	3 134	263	2	—	**3 399**	549
R Nair[4, 8]	—	—	—	—	**—**	13 358
LL Tobias[6]	4 163	276	2	—	**4 441**	234
MA Fanucchi[5, 9]	4 117	437	2	—	**4 556**	806
PPJ Derby[1, 7]	1 298	119	—	—	**1 417**	—
M Phillips[6]	2 041	104	1	—	**2 146**	—
K Phihlela[6]	2 254	144	1	—	**2 399**	—
S Khathi[6]	2 399	140	2	—	**2 541**	—
MD Gregg-Macdonald[1, 6]	3 798	327	2	—	**4 127**	—
Total	68 589	5 442	35	7 940	**82 006**	73 392

1 *Group executives who are members of the Board of Directors.*
2 *Group executives who were members of the Board of Directors.*
3 *Contract terminated during the year.*
4 *Contract terminated during the prior year.*
5 *Contract terminated after year-end.*
6 *Acted as Exco member.*
7 *Appointed as Group Chief Executive on 1 February 2020.*
8 *Includes settlement in respect of service termination.*
9 *Member of Exco for 11 months of the financial year.*

Variable pay for executive directors and prescribed officers

The 2016/17 conditional award in respect of the Transnet LTI Scheme vested at the end of the 2020 financial period and payment was made on 26 July 2020. The value of the LTI payment is impacted by the level of achievement of specific company and individual performance objectives.

Transnet did not pay a short-term incentive in respect of the 2019/20 financial period.

The table below reflects the STI and LTI payments for the Transnet executives:

Table 49: Short and long-term incentive payments for Transnet executives

Exco member	**Long-term incentive 2020 R'000**	Long-term incentive 2019 R'000	**Short-term incentive 2020 R'000**	Ex gratia incentive 2019 R'000
TC Morwe[2, 3]	**—**	—	**—**	—
S Gama[2, 4]	**—**	—	**—**	—
MM Buthelezi[4, 8]	**—**	—	**—**	—
EAN Sishi[5, 8]	**—**	—	**—**	—
MMA Mosidi[4]	**—**	—	**—**	—
GJ Pita[2, 4]	**—**	—	**—**	—
T Jiyane[4]	**—**	—	**—**	—
GJE de Beer[5]	**—**	—	**—**	232
KV Reddy	**1 006**	237	**—**	186
XB Mpongoshe	**—**	—	**—**	70
M Mahomedy[2, 3, 6, 8]	**—**	221	**—**	187
SA Vorster[3, 6]	**—**	15	**—**	8
R Madiba[6]	**210**	—	**—**	41
T Majoka[6]	**402**	97	**—**	64
GLN Sithole	**594**	36	**—**	31
S Qalinge[5]	**—**	—	**—**	—
N Mdawe[6]	**—**	—	**—**	6
LM Moodley[5]	**—**	—	**—**	—
R Nair[4, 8]	**—**	—	**—**	—
LL Tobias[6]	**574**	16	**—**	10
MA Fanucchi[5, 9]	**—**	—	**—**	34
PPJ Derby[1, 7]	**—**	—	**—**	—
M Phillips[6]	**373**	—	**—**	—
K Phihlela[6]	**934**	—	**—**	—
S Khathi[6]	**405**	—	**—**	—
MD Gregg-Macdonald[1, 6]	**899**	—	**—**	—
Total	**5 397**	622	**—**	869

1 Group executives who are members of the Board of Directors.
2 Group executives who were members of the Board of Directors.
3 Contract terminated during the year.
4 Contract terminated during the prior year.
5 Contract terminated after year-end.
6 Acted as Exco member.
7 Appointed as Group Chief Executive on 1 February 2020.
8 Includes settlement in respect of service termination.
9 Member of Exco for 11 months of the financial year.

Fee structure for non-executive directors

The Shareholder Representative appoints non-executive directors for a three-year term. However, the Memorandum of Incorporation requires that the non-executive directors be submitted for re-election for each of the three years at the Company's Annual General Meeting. Among the issues considered by the Shareholder Representative prior to re-election is the individual non-executive director's performance. The Shareholder Representative approves, in advance, 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.

The DPE issued the Remuneration and Incentives Guide for SOCs as approved by Cabinet. The respective SOCs have been requested to share implementation plans with the DPE. Transnet received the approved Guide in August 2018 and has since been involved in discussions with the DPE to ascertain the interpretation and implications of the Guide for Transnet and the implementation thereof.

A remuneration policy for non-executive directors was developed based on the DPE guidelines. The policy will be submitted to the Shareholder Minister as part of the integrated reward philosophy and policies.

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

The table below depicts the actual remuneration for the Transnet non-executive directors for the financial period.

Table 50: Guaranteed pay of Transnet non-executive directors

Board member	Fees R'000	Other payments R'000	**Total 2020 R'000**	Total 2019 R'000
LC Mabaso (Chairperson)[1]	—	—	**—**	112
Y Forbes[1, 3]	—	—	**—**	62
PEB Mathekga[1]	—	—	**—**	67
ZA Nagdee[1]	—	—	**—**	67
VM Nkonyane[1]	—	—	**—**	60
AC Kinley[1]	—	—	**—**	91
SM Radebe[1, 3]	—	—	**—**	121
P Molefe (Chairperson)	1 276	2	**1 278**	1 078
LL von Zeuner	777	—	**777**	647
EC Kieswetter[2]	62	—	**62**	566
R Ganda[2]	671	—	**671**	566
DC Matshoga	671	—	**671**	566
UN Fikelepi	675	—	**675**	485
GT Ramphaka	656	—	**656**	472
OM Motaung[4]	575	—	**575**	472
FS Mufamadi	671	—	**671**	550
AP Ramabulana	575	—	**575**	472
ME Letlape	671	—	**671**	517
V McMenamin[1]	—	—	**—**	278
Total	7 280	2	**7 282**	7 249

1 Resigned during the prior year.
2 Resigned during the current year.
3 Trustees' fees included.
4 Adv Oupa Motaung passed away subsequent to year-end.

Annexure A: Governance terms of reference for the report

Audit Committee Terms of Reference for the Integrated Report <IR>	
Purpose in relation to integrated reporting	• Recommend the annual <IR> for approval by the Board. • Oversee and monitor the quality and integrity of the Integrated Report – incorporating the Annual Financial Statements, sustainability reporting (nine SDOs), and public announcements in respect of the financial results. • Assess the overall integrity of the <IR> project programme – this includes transparency and balance of <IR> information. • Anticipate and understand how regulatory and reporting developments in the areas of financial, sustainability reporting and integrated reporting may affect the Company in terms of the six capitals (financial, manufactured, intellectual, human, social and relationship, and natural).
Accountability and responsibilities and Terms of Reference (ToR)	• Evaluate factors and risks that may impact on the accuracy of the <IR> and other external reporting. This includes factors that may predispose management to present misleading information or display significant poor judgement in the provision of information for the collation of the <IR>. • Oversee the governance of the reporting processes and relevance of the related accounting policies and frameworks for the <IR>, Annual Financial Statements, preliminary results announcements and interim reports. • Assess and give guidance on the application of the principles of comparability (to prior year), balance (address material stakeholder issues), transparency (particularly in terms of PFMA reporting) and reliability (internal and external assurance) insofar as it relates to disclosures contained within the <IR>. • Confirm that material issues relating to sustainability have been ratified/approved by the Remuneration, Social and Ethics Committee.
Accountability and responsibilities and ToR	• Ensure that remuneration disclosures have been approved by the Remuneration, Social and Ethics Committee before recommending the <IR> to the Board. • Provide internal assurance of the factual accuracy of performance data contained within the <IR> and that the achievement of strategic objectives is based on sound and reasonable judgement. • Jointly, with the Risk Committee, approve the Corporate Governance Report to be contained as part of the <IR> suite.
Frequency of meetings and manner of call	• As set out in the corporate calendar. Where necessary, however, special meetings will be called for the explicit intention of monitoring and giving guidance on the production of the <IR>.
Quorum	• As set out in the Audit Committee's overall ToR.
<IR> resources	• Approved the <IR> governance process. • The Board to provide support to the Audit Committee in the production of the <IR> at Audit Committee meetings.
Reporting	• The <IR> Forum Steering Committee, as represented by the General Manager: Group Reporting and Taxation, will report to the Audit Committee on progress and structure as well as content contained within the <IR>. • The Audit Committee will report to the Board on the <IR> programme.

Annexure B: Independent Auditor's Assurance Report on selected key performance indicators

To the Directors of Transnet SOC Ltd

Report on selected key performance indicators

We have undertaken an assurance engagement on selected key performance indicators (KPIs), as described below, and presented in the 2020 Integrated Report of Transnet SOC Ltd (Transnet) for the year ended 31 March 2020 (the Report). This engagement was conducted by a multidisciplinary team including assurance specialists with relevant experience in providing assurance on sustainability reporting.

Subject matter

We have been engaged to provide a reasonable assurance opinion on the KPIs listed in table (a) and a limited assurance conclusion on the KPIs listed in table (b) below. The selected KPIs described below have been prepared in accordance with Transnet's reporting criteria that accompanies the sustainability information on the relevant pages of the Report.

(a) Reasonable assurance on the following key performance indicators		
Category	**Key performance indicators**	**Coverage**
Employment	Transnet total headcount of employees	Total number of Transnet employees
	Gross Value Add from Transnet capital and operating expenditure	Gross Value Add from Transnet capital and operating expenditure (R'm)
Skills development	Total spend on skills development	Total amount spent on skills development (R'm) by Transnet
	The number of bursaries on the Transnet training and engineering bursary programme	Total number of bursaries on the Transnet training and engineering bursary programme
	Actual number of training participants per category	Total number of training participants per category
Industrial capability building	Research and Development expenditure	Total spend on Research and Development (R'm)
Regional integration	Total cross-border revenue	Total amount of crossborder revenue (R'm)
Transformation	B-BBEE Policy	B-BBEE Policy for Transnet
	Employment equity: black employees, females and people with disabilities as a percentage of the workforce	Percentage number (%) of black employees, females and people with disabilities to the total workforce of Transnet
	Employment equity: black female employees per occupational level, black male employees per occupational level and actual black employees	Total number of black female employees, black male employees and actual black employees per occupational level for Transnet
	B-BBEE spend	Total Transnet B-BBEE spend with empowering supplier (R'm)
(b) Limited assurance on the following key performance indicator		
Stakeholder engagement	Stakeholder issues and response	Number of stakeholder issues and responses

Directors' responsibilities

The directors are responsible for the selection, preparation and presentation of the selected KPIs in accordance with the accompanying Transnet reporting criteria. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues, commitments with respect to sustainability performance and design, implementation and maintenance of internal control relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error. The directors are also responsible for determining the appropriateness of the measurement and reporting criteria in view of the intended users of the selected KPIs and for ensuring that those criteria are publicly available to the Report users.

Inherent limitations

Non-financial information is subject to more inherent limitations than financial information, given the characteristics of the subject matters and the methods used for determining, calculating, sampling and estimating such information. The absence of a significant body of established practice on which to draw allows for the selection of certain different but acceptable measurement techniques, which can result in materially different measurements and can impact comparability. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements. The precision thereof may change over time.

Further, because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some, even material, misstatements may not be detected, even though the audit is properly planned and performed in accordance with the International Standard on Assurance Engagements, ISAE 3000 (revised).

Where the information relies on the factors derived by the independent third parties, our assurance work would not include an examination of the derivation of those factors and other third-party information.

Our independence and quality control

We have complied with the independence and other ethical requirements of sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (revised January 2018) and parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (revised November 2018) (together the IRBA Codes), which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

SizweNtsalubaGobodo Grant Thornton applies the International Standard on Quality Control 1, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express either a reasonable assurance opinion or limited assurance conclusion on the selected KPIs as set out in sections (a) and (b) of the Subject Matter paragraph, based on the procedures we have performed and the evidence we have obtained. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements ISAE 3000 (revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform our engagement to obtain the appropriate level of assurance about whether the selected KPIs are free from material misstatement.

The procedures performed in a limited assurance engagement vary in nature and timing and are less in extent than for a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

(a) Reasonable assurance

A reasonable assurance engagement in accordance with ISAE 3000 (revised) involves performing procedures to obtain evidence about the measurement of the selected KPIs and related disclosures in the Report. The nature, timing and extent of procedures selected depend on the auditor's professional judgement, including the assessment of the risks of material misstatement of the selected KPIs, whether due to fraud or error.

In making those risk assessments we have considered internal control relevant to Transnet's preparation of the selected KPIs. A reasonable assurance engagement also includes:

- Evaluating the appropriateness of quantification methods, reporting policies and internal guidelines used and the reasonableness of estimates made by Transnet;
- Assessing the suitability in the circumstances of Transnet's use of the applicable reporting criteria as a basis for preparing the selected information; and
- Evaluating the overall presentation of the selected sustainability performance information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our reasonable assurance opinion.

(b) Limited assurance

A limited assurance engagement undertaken in accordance with ISAE 3000 (revised) involves assessing the suitability in the circumstances of Transnet's use of its reporting criteria as the basis of preparation for the selected KPIs, assessing the risks of material misstatement of the selected KPIs whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the selected KPIs. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Accordingly, for the KPIs where limited assurance was obtained, we do not express a reasonable assurance opinion about whether Transnet's selected KPIs have been prepared, in all material respects, in accordance with the accompanying Transnet reporting criteria.

The procedures we performed were based on our professional judgement and included inquiries, observation of processes followed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above, we:

- Interviewed management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the sustainability reporting process;
- Inspected documentation to corroborate the statements of management and senior executives in our interviews;
- Tested the processes and systems to generate, collate, aggregate, monitor and report the selected KPIs;
- Performed a controls walkthrough of identified key controls;
- Inspected supporting documentation on a sample basis and performed analytical procedures to evaluate the data generation and reporting processes against the reporting criteria;
- Evaluated the reasonableness and appropriateness of significant estimates and judgements made by the directors in the preparation of the selected KPIs; and
- Evaluated whether the selected KPIs presented in the Report are consistent with our overall knowledge and experience of sustainability management and performance at Transnet.

Reasonable assurance opinion and limited assurance conclusion

(a) Reasonable assurance opinion

In our opinion and subject to the inherent limitations outlined elsewhere in this report, the selected KPIs set out in section (a) of the Subject Matter paragraph above for the year ended 31 March 2020 are prepared, in all material respects, in accordance with the accompanying Transnet reporting criteria.

(b) Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained and subject to the inherent limitations outlined elsewhere in this report, nothing has come to our attention that causes us to believe that the selected KPIs as set out in section (b) of the Subject Matter paragraph above for the year ended 31 March 2020 are not prepared, in all material respects, in accordance with the accompanying Transnet reporting criteria.

Other matters

The maintenance and integrity of Transnet's website is the responsibility of Transnet management. Our procedures did not involve consideration of these matters and, accordingly, we accept no responsibility for any changes to either the information in the Report or our independent assurance report that may have occurred since the initial date of its presentation on Transnet website.

Restriction of liability

Our work has been undertaken to enable us to express either a reasonable assurance opinion on the selected KPIs to the directors of Transnet in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than Transnet, for our work, for this report, or for the conclusion we have reached.

Fikile Zwane CA(SA)
SizweNtsalubaGobodo Grant Thornton Inc.
Registered Auditor

5 August 2020

20 Morris Street East
Woodmead
2191

Abbreviations and acronyms

AI	Artificial intelligence
B-BBEE	Broad-Based Black Economic Empowerment
Capex	Capital expenditure
CEO	Chief Executive Officer
CPI	Consumer price index
CSI	Corporate social investment
DCT	Durban Container Terminal
DIFR	Disabling injury frequency rate
DJP	Durban to Johannesburg Pipeline
DOA	Delegation of Authority
DPE	Department of Public Enterprises
EBITDA	Earnings before interest, taxation, depreciation and amortisation
ESG	Environmental, social and governance
GCE	Group Chief Executive
GDP	Gross domestic product
GFB	General freight business
GRI	Global Reporting Initiative
ICT	Information and communications technology
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
ISO	International Standards Organisation
IT	Information technology
King IV	King Report on Corporate Governance for South Africa, 2016
KPI	Key performance indicator
LNG	Liquefied natural gas
LTI	Long-term Incentive
Mℓ	Megalitres
Mℓ/km	Million litres per kilometre
MOI	Memorandum of Incorporation
MOU	Memorandum of Understanding
mt	Million tons
Nersa	National Energy Regulator of South Africa
NGO	Non-governmental organisation
NMPP	New Multi-Product Pipeline
NPO	Non-profit organisation
NSR	National scale rating
NTK	Net ton kilometre
OD	Operating Division
OEM	Original equipment manufacturer
PFMA	Public Finance Management Act, No 1 of 1999
PPE	Personal protective equipment
PPPFA	Preferential Procurement Policy Framework Act
Prasa	Passenger Rail Agency of South Africa
R&D	Research and development
RAMS	Rail Addressable Market Share
ROTA	Return on total average assets
S&P	S&P Global Ratings
SD	Supplier Development
SDGs	Sustainable Development Goals
SDOs	Sustainable Developmental Outcomes
SMMEs	Small, medium and micro enterprises
SOC	State-owned Company
STI	Short-term Incentive
TEU	Twenty-foot equivalent unit
TMPS	Total Measured Procurement Spend
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.