Reviewed condensed consolidated financial results

for the six months ended 30 September 2020

Overview

Transnet's half year results are on the back of the South African economy suffering a significant contraction during April, May and June of 2020, when the country operated under nation-wide lockdown restrictions in response to Covid-19.

- **Revenue** decreased by **17,3%** to **R32,0 billion**, due mainly to the impact of the Covid-19 lockdown restrictions on rail, port and pipeline volumes.
- **Net operating expenses** increased by **4,4%** to **R22,1 billion**, due mainly to the high proportion of fixed costs in the cost structure.
- **EBITDA** decreased by **43,7%** to **R9,8 billion**, with the EBITDA margin decreasing to **30,8%**.
- **Cash generated from operations** after working capital changes decreased by **22,1%** to **R12,6 billion**.
- **Capital investment** decreased by **37,5%** to **R4,9 billion** compared to the prior period, due to lockdown restrictions.
- **B-BBEE spend** amounted to **R10,75 billion** or **102%** of total measured procurement spend.
- **1,4%** of **labour costs** was spent on training, focusing on artisans, engineers, and engineering technicians.
- **DIFR performance** of **0,63** – against a tolerance of **0,75** – remains exceptional by international standards, and it is the tenth consecutive year that a ratio below 0,75 has been achieved with the global benchmark being **1,0**.
- **Gearing** of **48,7%** and rolling cash interest cover including working capital changes at **2,5 times**, are within loan covenant requirements.

Income statement

for the six months ended

(in R million)	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Audited 31 March 2020
Revenue	**31 963**	38 667	75 065
Net operating expenses excluding depreciation and amortisation	**(22 119)**	(21 186)	(41 081)
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)	**9 844**	17 481	33 984
Depreciation, derecognition and amortisation	**(7 009)**	(7 177)	(14 955)
Profit from operations before items listed below:	**2 835**	10 304	19 029
Impairment of assets	**(537)**	(410)	(2 343)
Post-retirement benefit obligation expense	**(58)**	(58)	(221)
Fair value adjustments	**(680)**	(1)	762
(Loss)/income from associates and joint ventures	**(22)**	—	19
Profit from operations before net finance costs	**1 538**	9 835	17 246
Finance costs	**(5 781)**	(5 671)	(11 337)
Finance income	**176**	105	171
(Loss)/profit before tax	**(4 067)**	4 269	6 080
Tax	**1 063**	(1 321)	(2 142)
(Loss)/profit for the period	**(3 004)**	2 948	3 938

Statement of comprehensive income

for the six months ended

(in R million)	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Audited 31 March 2020
(Loss)/profit for the period	**(3 004)**	2 948	3 938
Other comprehensive (loss)/income for the period, net of tax	**(2 569)**	3 749	(22 342)
Other comprehensive (loss)/income	**(3 591)**	5 196	(31 074)
(Losses)/gains on revaluations	**(3 021)**	5 293	(31 091)
Cash flow hedges	**(526)**	(81)	(104)
Actuarial (loss)/gain on post-retirement benefit obligations	**(44)**	(16)	121
Tax relating to components of other comprehensive loss/(income)	**1 022**	(1 447)	8 732
Total comprehensive (loss)/income for the period	**(5 573)**	6 697	(18 404)

Headline earnings summarised reconciliation

for the six months ended

(in R million)	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Audited 31 March 2020
(Loss)/profit for the period attributable to the equity holder	**(3 004)**	2 948	3 938
Loss/(profit) on the disposal of property, plant and equipment	**4**	(8)	1
Total remeasurements	**(4)**	43	863
Investment property fair value adjustments	**(72)**	(137)	(681)
Impairment of property, plant and equipment	**68**	180	1 544
Total tax effects of adjustments	**(4)**	(17)	(279)
Headline (loss)/earnings	**(3 008)**	2 966	4 523

Statement of financial position

as at

(in R million)	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Audited 31 March 2020
Assets			
Non-current assets	**311 155**	348 117	317 982
Property, plant and equipment	**281 510**	320 713	285 877
Investment property	**15 274**	14 655	15 202
Intangible assets	**800**	691	961
Investments in associates and joint ventures	**171**	175	193
Derivative financial assets	**11 974**	9 918	13 963
Long-term loans and advances	**—**	261	—
Other financial assets	**1 426**	1 704	1 786
Current assets	**17 691**	14 498	18 243
Inventory	**3 287**	2 476	2 997
Trade, other receivables and contract assets	**8 988**	10 381	9 996
Derivative financial assets	**13**	40	117
Short-term investments	**230**	579	603
Cash and cash equivalents	**4 891**	862	4 256
Assets classified as held-for-sale	**282**	160	274
Total assets	**328 846**	362 615	336 225
Equity and liabilities			
Capital and reserves	**124 654**	155 328	130 227
Issued capital	**12 661**	12 661	12 661
Reserves	**111 993**	142 667	117 566
Non-current liabilities	**168 241**	167 184	168 971
Employee benefits	**2 123**	2 863	2 330
Long-term borrowings	**115 745**	105 394	116 515
Derivative financial liabilities	**3 137**	2 039	1 505
Long-term provisions	**4 340**	2 580	3 654
Deferred tax liability	**39 167**	50 603	41 250
Other non-current liabilities	**3 729**	3 705	3 717
Current liabilities	**35 951**	40 103	37 027
Trade payables, accruals and contract liabilities	**20 678**	19 243	19 067
Short-term borrowings	**14 341**	19 392	16 751
Current tax liability	**8**	21	2
Derivative financial liabilities	**6**	12	26
Short-term provisions	**918**	1 435	1 181
Total equity and liabilities	**328 846**	362 615	336 225

Statement of cash flows

for the six months ended

(in R million)	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Audited 31 March 2020
Cash flows from operating activities	**6 865**	10 022	21 946
Cash generated from operations	**10 737**	18 356	35 911
Changes in working capital	**1 859**	(2 191)	(2 493)
Cash generated from operations after changes in working capital	**12 596**	16 165	33 418
Finance costs	**(5 298)**	(5 529)	(10 968)
Finance income	**176**	105	171
Tax paid	**(6)**	(5)	(11)
Settlement of post-retirement benefit obligations	**(70)**	(79)	(155)
Derivatives settled and raised	**(533)**	(635)	(509)
Cash flows utilised in investing activities	**(4 779)**	(8 618)	(20 145)
Investment to maintain operations	**(4 425)**	(6 638)	(15 086)
Investment to expand operations	**(1 088)**	(2 027)	(4 807)
Changes in investments, loans, advances and other investing activities	**734**	47	(252)
Cash flows utilised in financing activities	**(1 451)**	(4 698)	(1 701)
Borrowings raised*	**11 957**	1 172	11 357
Borrowings repaid*	**(13 408)**	(5 870)	(13 058)
Net increase/(decrease) in cash and cash equivalents	**635**	(3 294)	100
Cash and cash equivalents at the beginning of the period	**4 256**	4 156	4 156
Total cash and cash equivalents at the end of the period	**4 891**	862	4 256

** Includes call loans reflected on a net basis.*

Statement of changes in equity

for the six months ended

(in R million)	Issued capital	Revaluation reserve	Actuarial gains and losses	Cash flow hedging reserve	Other	Retained earnings	Total
Opening balance as at 1 April 2019	12 661	66 832	2 439	(426)	249	66 876	148 631
Total comprehensive income/(loss) for the period (net of tax and transfers to retained earnings)	—	3 793	(12)	(54)	—	2 970	6 697
Balances as at 30 September 2019	12 661	70 625	2 427	(480)	249	69 846	155 328
Total comprehensive (loss)/income for the period (net of tax and transfers to retained earnings)	—	(26 220)	99	(21)	—	1 041	(25 101)
Balances as at 31 March 2020	12 661	44 405	2 526	(501)	249	70 887	130 227
Total comprehensive loss for the period (net of tax)	**—**	**(2 157)**	**(32)**	**(380)**	**—**	**(3 004)**	**(5 573)**
Transfer to retained earnings	**—**	**(21)**	**—**	**—**	**—**	**21**	**—**
Balances as at 30 September 2020	**12 661**	**42 227**	**2 494**	**(881)**	**249**	**67 904**	**124 654**

Segment information

for the six months ended

	Transnet Freight Rail		Transnet Engineering		Transnet National Ports Authority		Transnet Port Terminals		Transnet Pipelines		Total reportable segments		Other[1]		Total Transnet	
(in R million)	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019	Reviewed 30 Sept 2020	Reviewed 30 Sept 2019
External revenue	**18 939**	22 331	**36**	586	**4 471**	5 223	**5 999**	7 136	**2 135**	3 000	**31 580**	38 276	**383**	391	**31 963**	38 667
Internal revenue	**331**	485	**2 898**	4 858	**1 016**	964	**—**	—	**2**	2	**4 247**	6 309	**(4 247)**	(6 309)	**—**	—
Total revenue	**19 270**	22 816	**2 934**	5 444	**5 487**	6 187	**5 999**	7 136	**2 137**	3 002	**35 827**	44 585	**(3 864)**	(5 918)	**31 963**	38 667
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**6 560**	9 682	**(1 436)**	319	**3 384**	4 009	**1 292**	2 590	**959**	2 596	**10 759**	19 196	**(915)**	(1 715)	**9 844**	17 481
Total assets[2]	**160 346**	181 644	**15 898**	19 093	**76 419**	95 208	**19 602**	16 952	**43 020**	43 317	**315 285**	356 214	**13 279**	6 241	**328 564**	362 455
Total liabilities	**117 528**	122 184	**10 272**	20 246	**26 386**	34 086	**3 464**	3 351	**19 063**	19 874	**176 713**	199 741	**27 479**	7 546	**204 192**	207 287
Capital expenditure[3]	**3 325**	6 202	**56**	97	**306**	528	**1 047**	762	**165**	140	**4 899**	7 729	**45**	186	**4 944**	7 915
Cash generated from operations after changes in working capital	**4 173**	8 068	**1 476**	631	**3 385**	3 781	**1 431**	2 529	**1 475**	2 301	**11 940**	17 310	**656**	(1 145)	**12 596**	16 165

[1] Other includes other segments, inter-unit eliminations and consolidation adjustments.
[2] Excludes assets held-for-sale.
[3] Capital expenditure excludes the effects of borrowing costs, includes capitalised finance leases and capitalised decommissioning liabilities.

Commentary

Introduction

The South African gross domestic product fell by 51,7% between the first and second quarters of 2020, mainly due to the impact of Covid-19. These economic conditions contributed to Transnet's below-par performance for the six-month period ending 30 September 2020, albeit with improved month-on-month performance during the period. Group revenue was 28,3% below the prior period in quarter 1 of the current financial period, but ultimately recovered to 17,3% below the prior period's performance.

The rate of Covid-19 infections amongst employees has slowed down significantly, in line with national trends. As at 30 September 2020, the total number of recorded infections was 2 749, with the majority being registered in Transnet Freight Rail and Port Terminals. According to geographic distribution, the higher prevalence was recorded in the Western Cape and Gauteng.

Performance overview

Revenue for the period decreased by 17,3% to R32,0 billion (2019: R38,7 billion), with a 16,4% decrease in rail volumes, as well as a 20,7% decrease in port container volumes, and a 38,0% decrease in petroleum volumes, mainly due to lower customer demand resulting from the broad-based effect of restricted economic activity, with output declining sharply in the primary, secondary and tertiary sectors.

The mining sector contracted sharply in the second quarter of 2020, affected by subdued global demand, due to global lockdowns amid the pandemic and restricted activity levels at the ports, which weighed heavily on the export of iron ore and chrome. After the initial hard lockdown, output was still impeded by regulations that prohibited mines from operating at full capacity in the interest of 'flattening the curve' and protecting workers. The agricultural sector was the only growth sector in the second quarter of 2020, reflecting the essential-goods-provider status of this sector during the national lockdown. The production of field crops, as well as horticultural and animal products was supported by favourable weather conditions and increased foreign demand.

Net operating expenses increased by 4,4% to R22,1 billion (2019: R21,2 billion). Cost-containment initiatives implemented throughout the Company limited this increase, in spite of unforeseen Covid-19 related expenses of R174 million, and a R594,5 million provision relating to the remediation and rehabilitation of pipeline spill sites following theft incidents.

Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 43,7% to R9,8 billion (2019: R17,5 billion) with a resultant decrease in the EBITDA margin to 30,8% (2019: 45,2%).

Depreciation, derecognition and amortisation of assets decreased by 2,3% to R7,0 billion (2019: R7,2 billion), due to the devaluation of rail and port infrastructure in March 2020, as well as lower capital investment compared to the prior period.

Profit from operations after depreciation and amortisation decreased by 72,5% to R2,8 billion (2019: R10,3 billion).

Impairment of assets, amounting to R537 million (2019: R410 million) is primarily due to the impairment of trade and other receivables from leased property debtors as well as property, plant and equipment, resulting from derailments partially offset by a positive index valuation on port operating assets.

Post-retirement benefit obligations are actuarially assessed in accordance with IAS 19: *Employee Benefits* and adjusted accordingly. The Company recognised a cost of R58 million (2019: R58 million) during the period.

Fair value adjustments amounted to a R680 million loss (2019: R1 million loss). These adjustments are mainly due to the fair value losses on fixed-rate derivatives from the impact of lower interest rates, in terms of IFRS13: *Fair Value Measurement* and IFRS9: *Financial Instruments*; partially offset by investment property fair value gains, recognised in terms of IAS 40: *Investment Property*.

Profit from operations before net finance costs decreased by 84,4% to R1,5 billion (2019: R9,8 billion).

Net finance costs increased marginally by 0,7% to R5,61 billion (2019: R5,57 billion) following a decision to utilise cost-effective short-term facilities, as well as a reduced funding requirement resulting from the optimisation of capital expenses.

The tax credit of R1,1 billion (2019: R1,3 billion charge) consists of a deferred tax credit of R1,1 billion. The decrease in the deferred tax charge from the prior period arose mainly as a result of the current period's loss before tax. The effective tax rate for the Group is 26,1% (2019: 30,9%) which was impacted by the loss before tax and a decrease in capitalised repairs and maintenance and capital allowances that are deductible, partially offset by the expenses that are non-deductible for tax purposes.

This resulted in a loss after tax of R3,0 billion (2019: R2,9 billion profit).

Commentary on operating divisions

Transnet Freight Rail (Freight Rail)

Freight Rail's operational and financial performance for the period ended 30 September 2020 was below expectations owing mainly to the negative impact of the Covid-19 global pandemic. As a result, volumes railed decreased by 16,4% to 91,4mt as at 30 September 2020 (2019: 109,3mt). Freight rail revenue for the six month period decreased by 15,5% to R19,3 billion (2019: R22,8 billion), which was in line with the volume deficit. Although volumes were significantly impacted, a favourable R/ton increase of 0,9% was achieved (R205,5/ton compared to R203,6/ton in the prior period), mainly due to the prioritisation of high-yield commodities.

General freight business

The general freight business' volumes decreased by 26,7% to 31,1mt (2019: 42,4mt).

The main commodity contributors were domestic coal, which reduced by 39,7% to 4,7mt (2019: 7,8mt); iron steel and scrap, which reduced by 50,0% to 2,1mt (2019: 4,2mt), with manganese volumes down by 21,1% to 6,0mt (2019: 7,6mt), and cement and lime reducing by 45,8% to 1,3mt (2019: 2,4mt). Infrastructure-related crimes on the Freight Rail network also impacted volume performance.

The container and automotive business sector decreased by 36,2% to 3,0mt (2019: 4,7mt), primarily due to the lockdown restrictions on the movement of non-essential goods due to the Covid-19 pandemic.

Some commodities performed well, such as grain, stockfeed and milling, which increased by 4,0% to 0,647mt (2019: 0,622mt) given that they formed part of the allowed essential services.

Export coal line

Freight Rail railed 33,8mt of export coal (2019: 35,9mt), 5,8% lower than the prior period. The negative performance was mainly due to the negative impact of the global pandemic on the mining industry during the initial stages of the lockdown, and the prohibition of mines operating at full capacity during subsequent stages of the lockdown.

Export iron ore line

Export iron ore decreased by 14,5% to 26,5mt (2019: 31,0mt) following the closure of the mines due to the global pandemic.

Operating expenses decreased by 3,2% to R12,7 billion compared to the prior period (2019: R13,1 billion). Austerity measures implemented to mitigate the financial and operational impacts of the global pandemic resulted in significant cost savings, which were realised mainly in fuel, material, leases, overtime expenses and electricity costs.

Influenced strongly by the impacts of the global pandemic, EBITDA decreased by 32,2% to R6,6 billion (2019: R9,7 billion).

Transnet Engineering (Engineering)

The six-month period has been difficult as the hard lockdown affected most of Engineering's customers. The demand for rolling stock plummeted in accordance with low commodity movements along the various railway lines. Revenue decreased by 46,1% to R 2,9 billion (2019: R5,4 billion).

Engineering continued to enhance its cost control interventions to mitigate against the Covid-19 related business sustainability risks. Targeted interventions were implemented across the organisation to enable the business to operate at optimal levels. These interventions will continue for the rest of the financial year. Despite spending nearly R50 million on Covid-19 related prevention and control interventions, Engineering reduced its operating costs by R755 million compared to the prior period.

Accordingly, Engineering recorded an EBITDA loss of R1,4 billion for the six-month period ended 30 September 2020 (2019: R319 million profit).

Transnet National Ports Authority (National Ports Authority)

Revenue decreased by 11,3% to R5,5 billion (2019: R6,2 billion), mainly attributable to a 21,9% decrease in cargo dues revenue resulting from reduced volumes and tariffs.

Net operating expenses decreased by 3,4% to R2,1 billion (2019: R2,2 billion), mainly due to decreased fuel, maintenance, travel and external property valuation costs, which were partially offset by an increase in personnel and security costs.

Accordingly, EBITDA decreased by 15,6% to R3,4 billion (2019: R4,0 billion).

Transnet Port Terminals (Port Terminals)

Revenue decreased by 15,9% to R6,0 billion (2019: R7,1 billion).

Volume performance across the sectors show a decline from the prior period due to Covid-19, which negatively impacted financial performance. Container volumes decreased by 20,7% to 1 843 049 TEUs (2019: 2 325 329 TEUs). The container sector has been primarily affected by the impact of the Covid-19 national lockdown. As a result, berthing schedules were amended. This sector was further impacted by deteriorating weather conditions, poor reliability of ageing equipment and human resource limitations. Automotive volumes decreased by 60,2% to 173 181 units (2019: 435 236 units). The automotive sector was impacted by the industry shut down during level 5 of the lockdown, as well as limited operations post-level 5 lockdown and lower demand and production challenges due to Covid-19. Bulk volumes decreased by 11,7% to 34,7mt (2019: 39,3mt), mainly due to limited operations, which resulted in low productivity levels and agri-bulk volumes not materializing. Break-bulk volumes decreased by 17,8% to 8,8mt (2019: 10,7mt).

Port Terminals' primary measure of operational efficiency, average moves per ship working hour (SWH), varied across the container terminals compared to the prior period. The Ngqura Container Terminal's SWH improved from 36 to 38 moves per hour. The Pier 1 Container Terminal in Durban decreased its average SWH performance from 42 to 40 moves, while the Pier 2 Container Terminal maintained its SWH at 47 moves per hour. The Cape Town Container Terminal (CTCT) SWH declined from 38 to 35 moves. Performance across the terminals was largely impacted by the national lockdown, which reduced the terminals' operational capacities. Additionally, positive Covid-19 cases resulted in both infected employees and close contacts being unavailable for two weeks at a time. These challenges had a significant impact on Port Terminals' ability to operate at optimal levels, particularly during lockdown levels 5 and 4, and as the virus 'hot spots' migrated from one province to another. CTCT was the most severely affected, requiring a concerted effort to contain the infection rate and to mitigate the impact of reduced resources on ship waiting time. These efforts included the deployment of operators from Durban terminals to the CTCT. The backlog has since been eliminated and operational performance stabilised with a ramp-up in operational resources in accordance with all Covid-19 protocols as lockdown levels eased. Productivity was also negatively impacted by adverse weather conditions as well as the unavailability and unreliability of equipment due to resource challenges relating to technical employees.

The Richards Bay Dry Bulk Terminal's loading rate declined to 800 tons per hour for the six-month period (2019: 828 tons per hour) and the discharge (offloading) rate declined to 416 tons per hour (2019: 459 tons per hour). The average tons dual loaded per hour at the Saldanha Iron Ore Terminal was maintained above the target of 8100 tons per hour. Similar to the container terminals, the bulk operations were also impacted by the limited availability of operational resources and the effects of positive Covid-19 cases. The terminals have since ramped up to over 90% of operational capacity while continuing to adhere to Covid-19 protocols.

Net operating expenses increased by 3,5% to R4,7 billion (2019: R4,5 billion). The cost increase is mainly due to the fixed cost composition and additional Covid-19 related costs. This increase has been partially offset by a reduction in energy costs, contract payments and discretionary costs as a result of decreased activity and cost control initiatives.

The resultant impact on Port Terminals' EBITDA is a decline of 50,1% to R1,3 billion (2019: R2,6 billion).

Transnet Pipelines (Pipelines)

Revenue for the period decreased by 28,8% to R2,1 billion (2019: R3,0 billion). This is attributable to the negative impact of the Covid-19 lockdown and fuel theft incidents on overall volumes transported.

Transported petroleum volumes of 5 695 million litres are 38,01% lower than the prior period (2019: 9 187 million litres) as a result of the Covid-19 impact on demand, and the impact of fuel theft incidents on operations.

Net operating expenses increased significantly to R1,2 billion (2019: R406 million). The significant deviation is due to the environmental provision of R594,5 million to remediate and rehabilitate pipeline spill sites affected by continued fuel theft incidents around pipeline infrastructure in the current financial period. It has further been established that highly organised syndicates are behind the fuel theft. Accordingly, Transnet has sought assistance from various law enforcement agencies to curb fuel theft incidents. Pipelines has implemented numerous interventions to address this matter, which resulted in increased security costs for the period.

Consequently, Pipelines' EBITDA of R959 million (2019: R2,6 billion) is 63,1% lower than the prior period

Group financial position

Revaluation of property, plant and equipment

The Group assesses the revaluation of its rail infrastructure, port infrastructure and pipeline networks in line with its accounting policy, and applies the depreciated optimised replacement cost, modern equivalent asset value and discounted cash flow methods, as applicable to revalue certain assets with an independent valuation performed every three years. During the six-month period, valuations were performed on rail infrastructure, port infrastructure, as well as port operating and pipeline assets.

- The carrying value of rail infrastructure required a devaluation of R3,9 billion (March 2020: R14,9 billion devaluation).
- The carrying value of port facilities required a revaluation adjustment of R817 million (March 2020: R16,6 billion devaluation).
- The carrying value of pipeline networks did not require a revaluation adjustment (March 2020: R427 million revaluation).

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

Deferred tax

The deferred tax liability decreased to R39,2 billion (March 2020: R41,3 billion), mainly as a result of the deferred tax impact on net devaluations recorded directly in equity and the deferred tax income statement credit of R1,1 billion for the period.

Cash flows

Cash generated from operations after working capital changes decreased by 22,1% to R12,6 billion (2019: 16,2 billion). Working capital changes include debtors discounting of R3,9 billion (2019: R2,8 billion). The rolling cash interest cover ratio, including working capital changes at 2,5 times (2019: 2,7 times*), is mainly as a result of decreased EBITDA.

* *Rolling cash interest cover including working capital changes.*

Borrowings

A well-defined funding strategy during the period enabled Transnet to raise R11,1 billion in long-term funding for the period from bank loans, development finance institutions and bonds, on the strength of its financial position without Government guarantees.

The gearing ratio increased to 48,7% (March 2020: 47,6%), mainly due to the impact of net property, plant and equipment devaluations for the period. This level is within the Group's target range of <50,0%, and is within the triggers in loan covenants.

Derivative financial assets and liabilities

Derivative financial instruments are held by the Group to hedge financial risks associated with its capital investment and borrowing programmes. The 'mark-to-market' of these derivative financial instruments resulted in a net derivative financial asset of R8,8 billion (March 2020: R12,5 billion). The decrease from March 2020 is mainly due to the stronger rand impact on forward exchange contract hedges, and the impact of lower interest rates on fixed interest rate swaps. Cross-currency interest rate hedges and forward-exchange contracts were executed to eliminate foreign currency and interest rate risk on borrowings. These hedges have been hedge accounted for in terms of IFRS9: *Financial Instruments*.

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 R394 million (March 2020: R479 million) and R1,5 billion (March 2020: R1,9 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 R483 million and R4,0 billion respectively. These payments continue to supplement the current statutory increase of the beneficiaries of the TTPF and TSDBF to provide pensioners with increases above CPI.

The post-retirement medical benefit obligation is approximately R457 million (March 2020: R445 million).

Contingencies and commitments

There were no material movements in contingencies and commitments since 31 March 2020.

Guarantees

The sole Shareholder in Transnet SOC Ltd, namely the South African Government, has guaranteed certain borrowings of the Group amounting to R3,5 billion (March 2020: R3,5 billion), representing 2,7% of total borrowings of R130,1 billion. No Government guarantees have been issued since 1999.

Capital investment

Transnet's capital investment for the six months ended 30 September 2020 amounted to R4,9 billion (2019: R7,9 billion). This was predominantly due to the impact of the Covid-19 nation-wide lockdown resulting in the closure of construction sites and causing disruptions to procurement supply chains. Of the R4,9 billion invested, R0,5 billion was invested in the expansion of capacity, while R4,4 billion was invested to maintain capacity, mainly in the rail and ports divisions.

The Company is currently reviewing its strategy for its main commodity segments, which will inform investments in the future. The focus will be on private sector partnerships, and on prioritising investments in segments with greater revenue certainty.

A profile of the investments for the six-month period include:

- R1,1 billion invested in rail infrastructure;
- R1,3 billion invested to maintain the condition of rolling stock;
- R150 million invested in wagon fleet renewal and modernisations;
- R103 million invested in the procurement of 478 new CR-13 and 14 wagons;
- R102 million invested in the construction of the tank farm equipment berth B100 roads port entrance and related services;
- R95 million invested in the multi-product pipeline towards the construction of tanks; and
- Approximately R1 billion invested in the maintenance and acquisition of port facilities, which includes cranes, tipplers, dredgers, tugs, helicopters, straddle carriers and other port marine and terminal equipment.

Economic, social and environmental impact

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

Transnet undertakes all its procurement activities in a manner that protects and advances persons, or categories of persons, who have been disadvantaged by past discrimination, and ensures that procurement activities are fair, equitable, transparent, competitive and cost-effective. Transnet's procurement activities contribute directly to the growth and economic transformation of South Africa and as such, can decrease income inequalities, while significantly increasing the number of previously disadvantaged individuals who manage, own and control businesses. As such, Transnet seeks to empower small, medium and micro-sized enterprises (SMMEs) that are black-owned, black youth-owned, black female-owned and owned by people with disabilities. As a state-owned company (SOC), Transnet recognises that ongoing weak economic conditions and high levels of unemployment in South Africa significantly impact the job market. Accordingly, the Company aims to encourage entrepreneurship, innovation and transformation through enterprise and supplier development programmes.

Transnet embraces transformation through alignment with the B-BBEE legislation to realise South Africa's full economic potential and is guided by the enterprise development programme informed by the Broad-Based Black Economic Empowerment Act, No 53 of 2003, as amended (Act 46 of 2013), as well as the B-BBEE codes of good practice. As a SOC, Transnet is also guided by section 5 of the Preferential Procurement Policy Framework Act (PPPFA) which is intended to assist with the implementation of the PPPFA Regulations 5 of 2000. The focus remains on broadening and improving meaningful B-BBEE participation in the economy to substantively increase participation from designated groups through the involvement of communities in the Group's procurement opportunities to drive ownership and control of enterprise and supplier development.

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

Transnet's total recognised B-BBEE spend for the period ending 30 September 2020, as per the Department of Trade and Industry Codes (the Codes), is R10,75 billion, or 102% of total measured procurement spend (TMPS) of R10,53 billion. Transnet spent R5,58 billion (53,0% of TMPS spend) on black-owned enterprises; R3,41 billion (32,4% of TMPS spend) on black women-owned enterprises; R1,68 billion (16,0% of TMPS spend) on exempted micro-enterprises (EME); and R1,12 billion (10,6% of TMPS spend) on qualifying small enterprises (QSE). Black youth enterprises spend accounts for R583 million (5,5% of TMPS). Enterprise spend relating to black people living with disabilities accounts for R65 million (0,6% of TMPS).

Safety

Transnet's leadership has heightened its oversight role of safe operational performance in particular through site-visits, safety awareness campaigns and by instituting an integrated management systems approach to ensure the various levels of safety performance are clearly understood and appreciated within the organisation. To this end, the Company continues to analyse and review its current safety performance and efficiency, while proactively striving 'towards zero harm'.

Notwithstanding a range of initiatives, regrettably, two Transnet employees were fatally injured for the period ended 30 September 2020, indicating that greater efforts are still required to ensure that the Company improves its safety performance. This is in line with a Group-wide consensus that employee safety should be considered the Company's highest operational priority and that safety efforts at all levels of the organisation should receive the required support and commitment from management; particularly line management, who bear first-level accountability for safety performance. The employee fatalities resulted mainly from a combination of causal factors such as train derailments and non-adherence to standard operating procedures (human behaviour).

Overall, 40 public fatalities were reported for the period 1 April 2020 to 30 September 2020 compared to 60 in the prior period. These fatalities were due mainly to the encroachment of the rail reserve by informal settlement communities. During the interim reporting period Transnet, in collaboration with local municipalities, schools, the South African Police Services and other relevant stakeholders, extended its community campaigns to include level-crossing awareness campaigns to alert communities to the dangers of living close to railway lines.

Incidents impacting safety will continue to be elevated to the Transnet Board of Directors, while a stronger sense of responsibility will be inculcated across the business by intensifying discipline and consequence management, and ensuring that the relevant policies are consistently applied. Furthermore, the focus will be on setting more stringent performance targets, with additional weight accorded to safety as a modifier.

The Board conveys its deepest condolences to the families, colleagues and friends of the employees and members of the public who lost their lives. The Board further reiterates its continued commitment to the safety of employees and the public as a vital component of the Company's operations.

Overall safety performance is measured against the industry-recognised rolling 12-month 'disabling injury frequency rate' (DIFR). The Company recorded a DIFR performance of 0,63 as at 30 September 2020 against a target of 0,75, which is still exceptional by international standards.

The Company continues to identify operational areas that require prioritisation through comprehensive risk and trend analysis of safety incidents. The timely implementation of recommendations from the investigation processes, combined with the sharing of "lessons learned" will assist in reducing and/or preventing the repetition of preventable incidents.

Corporate social investment (CSI)

The Transnet Foundation remains the Corporate Social Investment (CSI) arm of Transnet and aims to contribute meaningfully to the developmental needs of communities residing close to its operations across South Africa. As such, Transnet applies the principle of creating shared value between the Company and surrounding communities. Despite tough economic conditions, and the devastating impact of Covid-19, the Company continues to deliver critical CSI outreach programmes across the length and breadth of the country.

Phelophepa health care trains I & II

Transnet's flagship "Phelophepa" health care trains provide comprehensive, high-end primary health care services to communities situated along the rail corridor. Well over 550 000 South Africans received quality primary healthcare services during the six-month period.

Socio-economic infrastructure development (SEID)

The SEID portfolio continued to provide a basket of social services through Transnet's four community centres located in Springs, Thokoza, Ireagh and Khuma. The infrastructure provided by Transnet in these communities enabled the implementation of CSI projects targeting community health; safety and social development. Transnet's four centres assisted more than 39 000 community members during the period.

Employee volunteerism programme

Transnet employees returned to two schools where they commemorated Mandela Day. Volunteer activities included installing alarm sensors and assisting with much-needed repairs and renovations.

Energy efficiency and carbon emissions reduction

Transnet recorded a 17,7% decrease in energy consumption for the period ended 30 September 2020 compared to the prior period, whilst energy efficiency increased by 0,7%. In Freight rail traction (which constitutes more than 70% of total Company power consumption), electrical traction energy efficiency increased by 2,3% and diesel traction energy efficiency increased by 1,2% compared to the prior period. Traction electrical locomotive classes 15E, 19E, 20E, 21E, 22E and 23E with regenerative capabilities collectively regenerated 86 634MWh for the period.

The Company's carbon emission intensity decreased by 0,9%, compared to the prior period. The achievement of 881 835 tons of back-to-rail volume opportunities in the interim period, resulted in carbon emissions savings in the South African transport sector of 64 863 tCO_2e.

Human capital

Transnet's permanent employee headcount as at 30 September 2020 was 50 211. The Company spent 1,4% of its labour cost on training during the period, focusing on artisans, engineers, and engineering technicians. Overall, 25 new young professionals-in-training were contracted.

Sector-specific skills development continued to focus on maritime, rail and port terminal operations, with 542 learners participating in these programmes. Currently, the Company has access to 680 apprentices and 407 engineering bursars in its talent pool.

Transnet did not achieve its employment equity targets across all job grades. The employee race profile for the period was 76,7% black, 9,8% coloured, 3,3% Indian and 10,2% white. Female representation now exceeds 34,8% in executive, senior, professional and skilled technical levels, including a 41,2% representation in the Group executive committee. Representation of people with disabilities remains a challenge, at 2,2% of the total headcount (March 2020: 2,2%).

Legislative compliance

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

Update on judicial proceedings

There are various investigations related to "State Capture" that are underway. Transnet continues to co-operate with the investigation by the Zondo Judicial Commission of Inquiry as well as law enforcement agencies.

Transnet continues to assess the impact of the various investigations on the presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the PFMA and the Companies Act of South Africa. Where necessary, appropriate action is taken.

Economic regulation

The tariffs for Pipelines are regulated by the National Energy Regulator of South Africa (NERSA), while the National Ports Authority's tariffs are regulated by the Ports Regulator of South Africa (the Ports Regulator). The Railway Safety Regulator (RSR) charges railway safety permit fees to the Company. Transnet also operates within a policy context determined by the Department of Public Enterprises and the Department of Transport, respectively.

Pipelines

Pipelines submitted its 2022 financial year tariff application to NERSA on 30 September 2020. Pipelines applied for an allowable revenue (AR) decrease of 11,15% from the 2021 decision. This decrease is predominantly due to the lower weighted average cost of capital (WACC).

As per NERSA's instruction, the prudency adjustment has been included in the 2022 financial year application.

National Ports Authority

The National Ports Authority's 2022 financial year tariff application was submitted on 31 July 2020 to the Ports Regulator.

The National Ports Authority applied for a weighted average tariff adjustment of 19,74% for the 2022 financial year. Given the current economic conditions and the objective of lowering the cost of doing business in South Africa, the National Ports Authority requested the Ports Regulator to consider an inflationary tariff adjustment of 3,8% for the 2022 financial year using the levers available to it, such as the Excessive Tariff Increase Margin Credit (ETIMC).

Railway Safety Regulator (RSR)

On 30 August 2019, the RSR issued Transnet with a three-year valid railway safety permit expiring on 30 June 2022, free from special conditions. To maintain the validity period for this permit, Transnet is required to submit its annual safety improvement plan (ASIP) and to pay the yearly safety permit fee as determined by the Minister of Transport.

On 30 June 2020, Transnet submitted its ASIP to the RSR. The RSR has assessed the ASIP and made no recommendation for the special conditions to be attached to the current permit. On 23 September 2020, Transnet paid R110 million in permit fees for the 2021 financial year.

Group accounting policies

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

The financial information presented has been prepared using accounting policies that comply with IFRS. The accounting policies are consistent with those applied in the annual financial statements for the year ended 31 March 2020.

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

Events after reporting period date

No events have occurred after the reporting date that would have a material impact on reported results. With regards to the "Neutrality Principle" claim, the high court on 9 October 2020 declared the agreement to remain. Actual proven losses to be compensated are still to be determined. Transnet has filed an application for leave to appeal.

On 26 November 2020 Moody's downgraded Transnet's long-term local and foreign currency issuer ratings to Ba2 with a negative outlook as a direct consequence of the sovereign's downgrade on 20 November 2020. The Baseline Credit Assessment (BCA) of Ba2 was affirmed. The financial impact of this rating downgrade cannot be estimated at this stage.

On 25 November 2020 S&P affirmed all Transnet's ratings following a similar rating action on the sovereign on 20 November 2020. The long-term local and foreign currency issuer ratings are BB- with a stable outlook. The standalone credit profile (SACP) is bb-.

The 2019/20 external audit qualification impacted loans with a capital balance of R13,2 billion, in which the qualified audit opinion constitutes an event of default. These lenders have confirmed that they are not going to call the related balance and waived the event of default.

External auditor's review opinion

The Group's independent auditors, the Auditor General of South Africa, reviewed the condensed financial information for the period ended 30 September 2020, which comprise of the statement of financial position as at period end date, the income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the period ended. The review was conducted in accordance with ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A copy of their unmodified review report is available for inspection at the Company's registered office. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Group's external auditors.

Prospects

Transnet will navigate into the unknown as the world endures a very difficult period – from both an economic and social perspective – following the initial onset and global spread of the Covid-19 pandemic. With the possible emergence of a second Covid-19 wave, Transnet will persevere to ensure its employees operate in a safe and well-equipped work environment, its customers are adequately supported and served, and to make the best of any available opportunities to progress the country's economic and developmental imperatives. The Company's operational, financial and governance bedrock will be reinforced by its five key strategic pillars (People, Safety, Customer Service, Asset Utilisation, and Cost Control) to contribute to the overall stabilisation of the South African economy, and by extension, the regional economy.

Approved by the Board of Directors

Signed on behalf of the Board of Directors.

Dr PS Molefe	**Ms PPJ Derby**
Chairperson	*Group Chief Executive*
10 December 2020	10 December 2020

Corporate information

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

Directors

Executive directors
Ms PPJ Derby *(Group Chief Executive)*
Ms NS Dlamini *(Group Chief Financial Officer)*

Non-executive directors
Dr PS Molefe *(Chairperson)*,
Ms UN Fikelepi, Ms DC Matshoga, Mr LL von Zeuner, Ms ME Letlape,
Ms GT Ramphaka, Mr AP Ramabulana, Dr FS Mufamadi.

Interim Group Company Secretary
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