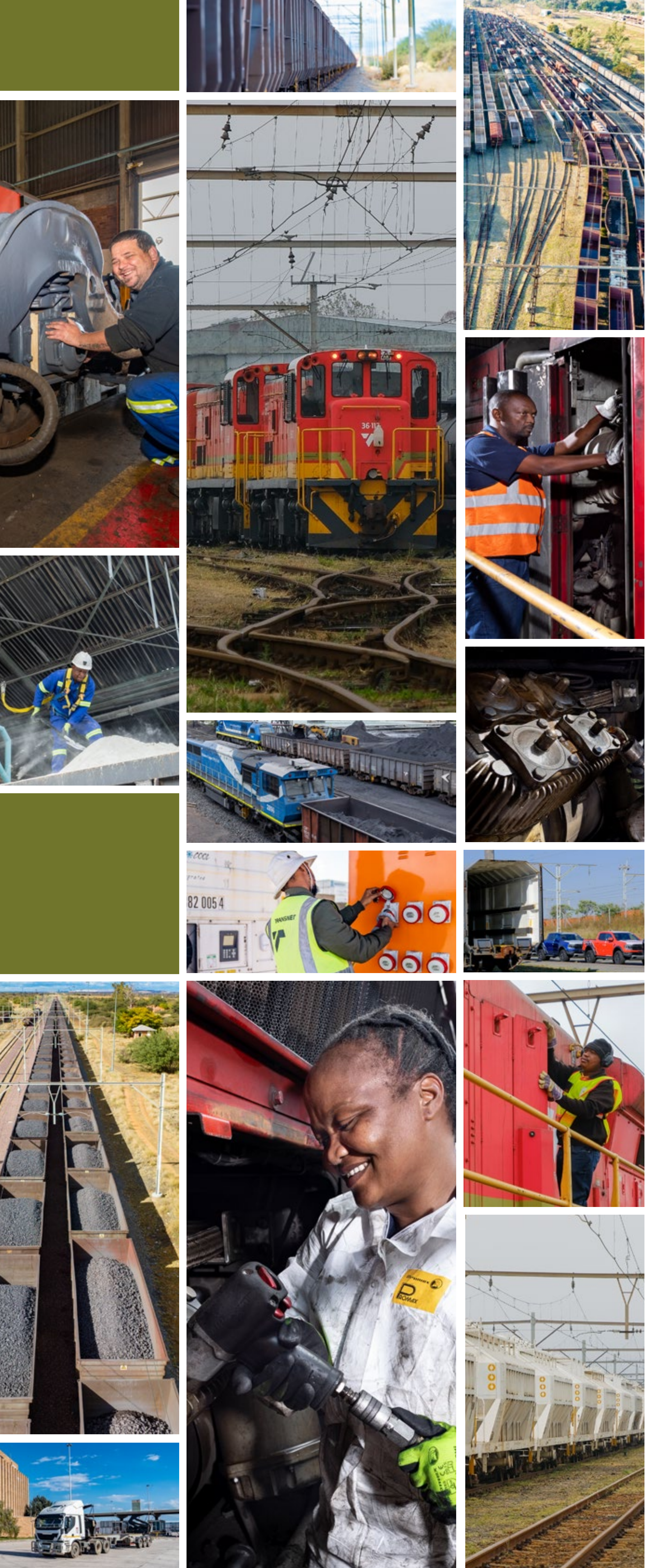
TRANSNET

freight rail

TRANSNET FREIGHT **2024**



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TRANSNET

delivering freight reliably   freight rail

HIGHLIGHTS

Freight Rail is currently navigating the complexity of a business recovery programme which coincides with the Rail Reform transformation programme. These programmes are being managed with diligence to reposition the business for growth. Freight Rail's recovery programme has given immediate attention to certain key challenges and positions the business as a key value driver for Southern Africa's growth and economic development.

The strategic initiatives and key partnerships aimed at enhancing Freight Rail's operational efficiency and supporting growth are:

Locomotive Restoration:

- Freight Rail has awarded contracts to three Original Equipment Manufacturers (OEMs) for the refurbishment of long-standing locomotives. Additionally, efforts are underway to bring more locomotives back into service. This will result in increased available capacity;

Strategic Partnerships

- Freight Rail has promoted key strategic partnerships to support transformation and recovery programmes:
  - Established a Mutual Cooperation Agreement with Richards Bay Coal Terminal (RBCT) in November 2023, expediting the resolution of the operational constraints, including maintenance and procurement processes for vital operations;
  - Implemented a strategy to support emerging miners across the various commodities, including export coal and manganese, increasing allocated rail capacity in the export manganese sector from 12,5% to 25%;
  - Partnered with Kalagadi Manganese, that provided its advanced rapid-loading station to the emerging miners. Onboarded six additional emerging miners in 2023, aligning to Freight Rail's strategy of creating an inclusive and participative Manganese sector; and
  - Developed a customer-led solution where Sasol invested in the maintenance of wagons to address volume retention and growth.

Capacity enhancement initiatives:

Manganese export:

- Freight Rail has significantly improved CapeCor's Manganese export rail capacity from Hotazel in the Northern Cape to the Port of East London. The first train was dispatched in July 2023, transporting 130 000 tonnes of Manganese by the end of the financial year. This development has enhanced access to the Port of East London and facilitated the transport of maize commodities.

Container Corridor – Infrastructure repair and recovery:

- Freight Rail completed some of repairs on the Container Corridor and reopened the mainline which was affected by the devastating floods of 2022; and
- Recovered 106 000 tonnes of General Freight coal from road to rail, resulting in traffic decongestion of 3 100 truckloads from road.

Security enhancements:

- Introduced an Outcomes-Based Security solution to reduce security incidents that hinder smooth freight rail operations. The solution leverages enhanced intelligence gathering and the latest technology to mitigate high levels of theft and vandalism to infrastructure.

Community empowerment:

- Identified key corridors along railway infrastructure as job creation hubs, serving as catalysts for community development.

Sustainable procurement models:

- Introduced sustainable procurement models to improve operational efficiency within the supply chain and strengthen partnerships.

Alternative energy exploration:

- Initiated the exploration of alternative energy sources to power our traction, aligning with global efforts to reduce greenhouse gas emissions and promote clean energy adoption.

Digitalisation:

- As part of our digitalisation programme, Freight Rail has onboarded a service provider for the Integrated Train Planning solution.

  These initiatives reflect our commitment to operational excellence, strategic growth, and fostering inclusive partnerships within the industry. Freight Rail looks forward to furthering these efforts and achieving our strategic objectives.

Rail reform progress

- The changing rail regulatory landscape (the National Rail Policy and the ERT Bill) will result in a major transformation of the rail industry in South Africa. The liberalisation of the rail sector through a regulated access regime will allow private freight operators on the rail network, subject to meeting defined access conditions and criteria. The Department of Transport (DoT) has established the Interim Rail Economic Regulatory Capacity (IRERC) to prepare the frameworks for the implementation of the ERT Bill.

  In preparation for the National Rail Policy, Freight Rail advanced several important initiatives in 2024, including:
- Completing preparatory steps for the accounting separation of Transnet Freight Rail Operating Company; and
- Appointing an interim Transnet Rail Infrastructure Manager in November 2023. The infrastructure Manager will oversee operations, maintenance, renewal, and network advancement, with organisational autonomy and decision-making authority over train path allocation. Responsibilities also include defining and evaluating availability, assigning train paths, and managing infrastructure costs, including setting and collecting access tariffs.

Access framework and stakeholder consultation:

- Developing the access framework for phase two: third-party access;
- In November 2023 the Interim Infrastructure Manager submitted a draft Network Statement, access agreement and proposed tariff methodology for consultation with the IRERC; and
- Consulting key stakeholders, including the National Logistics Crisis Committee, on the Infrastructure Manager implementation roadmap.

These initiatives are critical steps in aligning with the upcoming National Rail Policy and ensuring a smooth transition to a liberalised rail sector. We are committed to fostering a collaborative business approach and an efficient rail network that meets the evolving needs of the Freight Rail industry.

BUSINESS OVERVIEW

Transnet Freight Rail, the largest Operating Division of Transnet, manages an extensive rail network spanning six pivotal corridors: the North (Coal), Northeast, Cape, Ore, Central, and Container Corridors. These networks transport commodities for export, regional, and domestic markets.

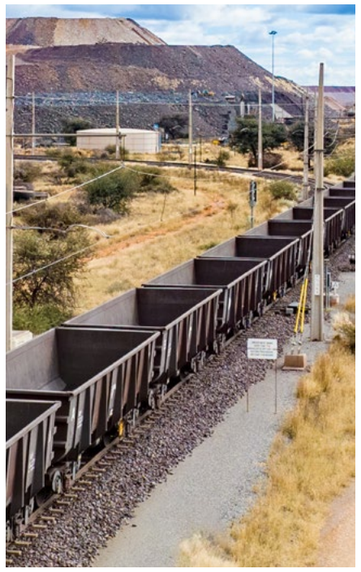
Operating world-class heavy haul coal and iron ore export lines, Freight Rail also extends its services to export manganese via the iron ore and Port Elizabeth lines. The division handles a diverse range of bulk and general freight, including mining, agricultural, manufacturing goods, bulk liquids, containerised freight, and automotive spare parts and components.

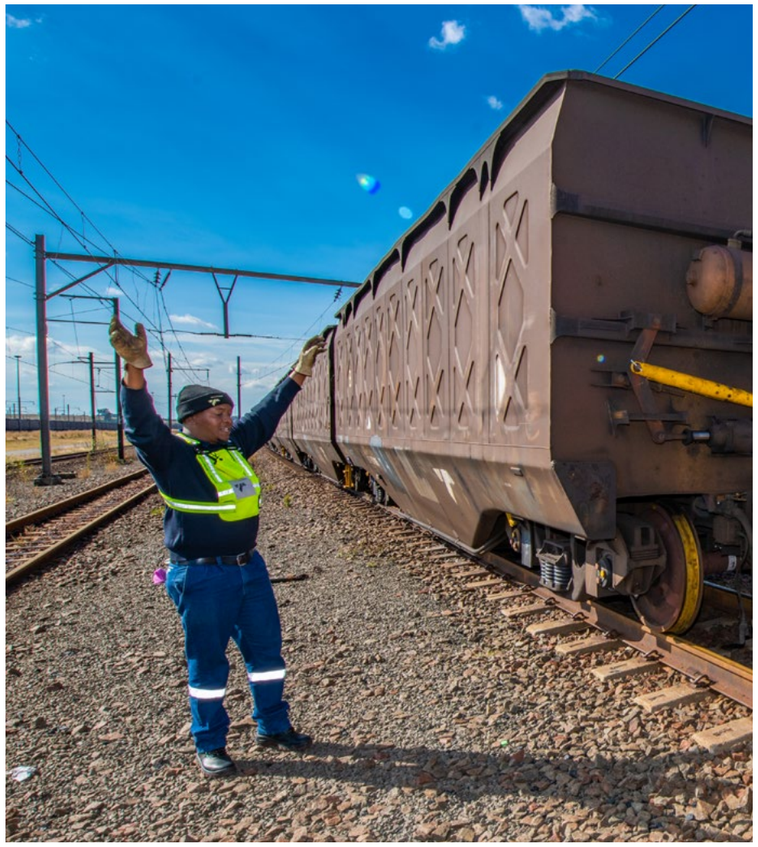
Freight Rail provides strategic rail links between ports, freight terminals, production hubs, and the Southern African Development Community (SADC) railways, enhancing regional integration. This infrastructural connectivity, along with close collaboration between Transnet's Operating Divisions and key customers and industry players, ensures efficient delivery of freight volumes across various logistics supply chains.

Freight Rail's growth in general freight has been hindered by past rail network capital maintenance constraints, the recent increase in theft, vandalism, sabotage, and contractual negotiations over locomotive maintenance. These issues have exacerbated the reliance on an aging fleet, an inability to meet current demand, and substantial maintenance costs.

To boost commercial viability and sustainability, Freight Rail has evaluated each route's performance, identifying ways to enhance logistics services and revenue on viable routes. A renewed pricing strategy aims for full cost recovery on all routes and segments, continuing into the new financial year. Freight Rail is committed to working with all private sector industry players and customers to explore and implement alternative treatment models and value propositions for underperforming routes.

Structural reforms are underway to create a more efficient logistics system.





WHERE WE OPERATE

The map below provides a comprehensive view of Transnet Rail network across the rail corridors. This management encompasses condition monitoring, maintenance, and protection of the rail infrastructure. It also involves developing rail network designs, managing network access and fleet, and overseeing the Freight Rail real estate portfolio.

RAIL NETWORK

- CapeCor
- OreCor
- ContainerCor
- CentralCor
- NorthCor
- NorthEastCor
- Closed lines
- Lifted lines
- Branch lines

Rail infrastructure

- ±30 400km of track
- 20 953 route km
- Core network: 12 801 route km
- Network traction
  - 50kV AC (861 route km)
  - 25kV AC (2 516 route km)
  - 3kV DC (4 650 route km)
  - Diesel (12 955 route km)
- Axle loading
  - Main lines at 20t/axle
  - Ore line at 30t/axle
  - Coal line at 26t/axle
- Bridges/structures
  - Bridges: 2 696
  - Tunnels: 198
- Train authorisation systems
  - Signalling basic stations: 2 146
- Traction substations
  - 3kV DC: 346
  - 25kV AC: 99
  - 50kV AC: 7

WHERE WE OPERATE CONTINUED

ASSET BASE AND RESOURCES

Freight Rail's intricate network spans 30 400 track kilometres (20 953 route kilometres), with a core network of 12 801 route kilometres. The main lines and core network can handle 20 tonnes per axle or more. The heavy haul lines, Sishen to Saldanha and Ermelo to Richards Bay, support 30 tonnes per axle and 26 tonnes per axle, respectively. Branch lines typically accommodate less than 20 tonnes per axle. Various commodities are transported across this extensive rail infrastructure.

The Rail Network asset base also includes complex civil structures such as bridges and tunnels. The rail infrastructure is managed according to the same six corridors as listed under "Rail Operations" above. Every corridor contains several maintenance depots, primarily responsible for daily maintenance of the rail network infrastructure.

The following table reflects the rail network's asset base and key resources:

Asset Type	General Freight	Export Coal	Export Iron Ore
Rail network (route km)	19 395	697	861
Infrastructure axle loading (tonnes per axle)	Main lines: 20 Branch lines: 18	26	30
	25kV AC: 2 063 3kV DC: 4 316 Diesel: 12 955	25kV AC: 453 3kV DC: 334	

kV = kilovolt
AC = Alternating current
DC = Direct current

TRAIN OPERATIONS

Freight Rail implemented the "Corridor Model" as a key element of its Turnaround Strategy. The model aimed to improve decision-making, responsiveness to customer requirements, and integrated problem-solving. By acknowledging the distinct characteristics of each corridor, this model was designed to enhance corridor efficiencies and optimise integrated supply chains, driving growth in key Transnet commodity sectors.

The changing rail regulatory landscape which will allow private freight operators on the rail network necessitates the review of the current corridor model. Freight Rail is currently redesigning the business and execution model in support of rail reform.

FREIGHT RAIL'S CORRIDORS

NORTH CORRIDOR (NORTHCOR)

NorthCor, transporting over 40% Freight Rail's total volumes, features a diverse mix of line types and capacities, serving both domestic and export markets. The most prominent section is the heavy haul export line between Ermelo-South and Richards Bay, servicing the Mpumalanga coalfields through a feeder network known as the "coal backbone". This system also serves the Waterberg coalfields via the Waterberg line and the Gauteng freight ring. The primary flow direction is from Lephalale towards Pyramid South and Richards Bay, with top commodities including export coal, domestic coal, Eskom coal, chrome, ferrochrome and cement.

Chrome and ferrochrome flows originate between Phokeng and Pendoring and are mainly transported to Richards Bay for export. Domestic coal originates from Mpumalanga and Lephalale and is transported to various destinations country wide. The North corridor prioritises asset efficiencies to optimise coal flows, while simultaneously fostering opportunities for the expansion of other mining commodities.

ORE CORRIDOR (ORECOR)

The OreCor, one of South Africa's two main heavy haul routes, spans 861km from Sishen in the Northern Cape to Saldanha on the Western Cape coast. This iron ore corridor features a world-class platform with a heavy haulage capacity of 30 tonnes per axle, utilising advanced technologies and operational efficiencies and contributes 35% to the overall volumes of Freight Rail.

The iron ore export operation is optimised with 348 CR13/14 wagon ore trains, reflecting the corridor's commitment to efficiency and productivity. Over time, it has become an international contender, offering a wide range of heavy-duty logistics solutions for both local and international markets. Since 2014, it has also successfully managed manganese exports, further solidifying its role in global trade.

The 375 CR17 wagon manganese train, the longest production train in the world, primarily transports iron ore and manganese. To meet rising customer demands amid fluctuating global commodity prices, OreCor focuses on minimising logistics costs. Prioritising economies of scale and maximising density are pivotal strategies to enhance operational efficiency and effectiveness.

Currently, the Oreline is limited to transporting 60 million tonnes of iron ore due to air emission licence restrictions. Ongoing negotiations seek to secure a new licence, allowing the Sishen-Saldanha line to handle 67 million tonnes. Achieving this requires expanding the locomotive and wagon fleet on the OreCor and making collaborative capital investments across the pit-to-port system. The success of these efforts depends on the long-term outlook for the iron ore market and the validation of projected volumes.

NORTH-EAST CORRIDOR (NORTHEASTCOR)

NorthEastCor runs through various provinces, it stretches from Beitbridge in Limpopo province through Mpumalanga province to Komatipoort, where it splits to Maputo in Mozambique and through Eswatini to Richards Bay on the eastern coast of KwaZulu-Natal province. It also connects Pyramid South in Gauteng, with the rest of Mpumalanga through Rayton, Emalahleni, Steelpoort, Belfast, and Nelspruit to Komatipoort.

The NorthEastCor rail network strategically connects South African ports with multiple Southern African Development Community (SADC) countries, including Botswana, Eswatini, the Democratic Republic of Congo, Mozambique, Zambia, and Zimbabwe. Commodities are transported through various border posts or gates of entry, such as Komatipoort, Golela, Beitbridge, Livingstone and Sakania.

The corridor contributed 11% in volumes transported in the previous financial year.

The corridor has three prominent linear flows:

- A mini heavy haul operation from Phalaborwa to Maputo and Richards Bay, mostly transporting magnetite and rock phosphate, consisting of 80 wagon trains. In pursuit of efficiencies and slot optimisation, the corridor has begun to run 160 wagon trains in this regard;
- Emalahleni and Steelpoort to Maputo and Richards Bay, mainly transporting chrome, ferrochrome and coal; and
- Intermodal (reefers) originating from Tzaneen, Musina and Bela-Bela, destined for Durban.

This corridor provides excellent rail connectivity within Sub-Saharan Africa, facilitating regional integration and collaboration across its operating divisions, thus improving service along integrated pit-to-port flows. Initiatives on this corridor focus on facilitating flows along the North-South Corridor, which traverses Zambia, Mozambique, and South Africa, presenting opportunities for revitalisation investments.

CAPE CORRIDOR (CAPECOR)

CapeCor covers the largest area within Transnet Freight Rail, stretching from Warrenton in the northeast to Cape Town in the south, and from Hotazel in the northwest to Port Elizabeth in the southeast and its rail volume contribution is about 9%. This corridor serves as the natural hinterland for the ports of Cape Town, Mossel Bay, Port Elizabeth, Ngqura, and East London.

Connecting key mining areas around Hotazel to the ports of Port Elizabeth and Ngqura, CapeCor is the main export route for South Africa's manganese. It also presents growth opportunities for the agricultural sector, particularly for refrigerated goods like fruit and grain destined for domestic and export markets. Additionally, the corridor offers potential growth in transporting grain, cement, lime, and automotive goods.

Key commodities include manganese, domestic iron ore, lime, cement, grain, containers, and automotives. Export manganese to Port Elizabeth and domestic iron ore accounted for 79,7% of the corridor's budgeted revenue, with manganese contributing 58,2% and domestic iron ore 21,4%.

CONTAINER CORRIDOR (CONTAINERCOR)

The ContainerCor is the backbone of South Africa's rail freight network, crucial for promoting economic growth. It connects the port of Durban to the hinterland and inland freight terminals serving the Gauteng area and neighbouring countries. Key commodities include containers, fuel, grain, motor vehicles, and general cargo, serving about 70 customers contributing to 3% of Freight Rail volumes. These high-value industrial sectors significantly contribute to South Africa's economy and Gross Domestic Product (GDP).

The port of Durban, now a regional container hub, has seen substantial growth in container volumes. Efficient rail solutions ensure efficient evacuation and handling of these containers, with an estimated 69 trains per day in 2023. ContainerCor reduces rail transport logistics costs and carbon emissions while alleviating traffic on national roads and within the port area.

A dependable and streamlined rail service is essential for unlocking further economic benefits. The corridor handles a variety of cargo, including low-density, high-value, low-margin, and time-sensitive industrial goods from diverse origins. However, intermodal cargo incurs extra costs for road-to-rail transfers. Most cargo categories are highly time-sensitive and face competition from road transport pricing.

The corridor has faced challenges such as poor cost recovery, insufficient infrastructure investment, a growing maintenance backlog due to funding constraints, and the impact of theft, vandalism, and past floods. These issues have deteriorated service along the corridor. In response, Freight Rail is seeking alternative solutions and partnerships to redevelop the corridor within the current financial year.

WHERE WE OPERATE CONTINUED

CENTRAL CORRIDOR (CENTRALCOR)

CentralCor contributes 1% towards total volumes for Freight Rail. CentralCor is critical for the business as it is located at the centre of the Freight Rail network, connecting five other corridors and spans Gauteng, Free State, and the North West provinces. This corridor is crucial for the north-south interface through landlocked Botswana via the Mafikeng to Krugersdorp and Vryburg rail lines, supporting regional integration. It feeds into the ports of Maputo, Richards Bay, Durban, Port Elizabeth, and Cape Town.

CentralCor interfaces with the Passenger Rail Agency of South Africa (PRASA) along key lines in Vereeniging, Pretoria, and Krugersdorp. It includes an 18-tonne per axle branch line network serving the maize triangle in the North West province, encompassing Klerksdorp, Lichtenburg, Coligny, and Vryburg. Additionally, it supports the manufacturing industry, particularly the automotive sector, by providing rail links and services to the automotive hub and container terminal in Pretoria.

The corridor faces major spatial planning challenges requiring close cooperation among stakeholders, including industry, PRASA, municipalities, and community forums. Informal settlements near Transnet operations pose challenges such as illegal electricity connections, unauthorised waste dumping, and the inappropriate use of railway reserves for ablution purposes. These activities create operational and safety risks and disrupt Transnet's operations. Collaborative efforts with local authorities, community leaders, and Transnet are essential to ensure safety and operational well-being.

Notable settlement encroachments include Sentrarand, Krugersdorp cluster, Leeuhof cluster, and Isando cluster. To address these challenges, Transnet Freight Rail has partnered with customers to enhance security through the Central Hub security initiative, promoting knowledge sharing and positive collaboration. Additionally, Transnet is building constructive relationships with surrounding communities to address concerns and foster mutual understanding and cooperation.

REGULATORY ENVIRONMENT

The National Rail Policy and South Africa's regulatory environment is geared towards liberalising the rail sector by regulating access, opening opportunities for private operators to run freight trains that meet specific criteria. The Department of Transport (DoT) established the Interim Rail Economic Regulator Capacity (IRERC) to prepare the frameworks for the implementation of the ERT Bill.

Freight Rail has started separating its accounting for rail infrastructure management from its rail operations to create transparency and visibility required for regulation by the Economic Regulator. Understanding cost elements is crucial for developing access tariffs, aligning with economic regulation principles and current government policy requirements.

The Interim Infrastructure Manager is defining an interim access regime and fees model based on current practices to expedite access and gather business improvement insights. The Portfolio Committee on Transport held public hearings on the draft ERT Bill and the White Papers on the National Transport and National Rail Policy. Some changes are expected during the Parliamentary processes.

Freight Rail evaluates applicable legislation annually to remain relevant in the changing regulatory environment. The following legislation is interpreted as having a strategic impact how the division conducts its business.

The relevant legislation, impact and mitigating actions are set out in the table below:

Regulation	Impact	Extent of compliance	Mitigation/action plans
White Paper on National Rail Policy	• Policy proposals relating to the restructuring of Freight Rail, vertical separation, third-party access and roll-out of a standard gauge network will likely have major impacts on Freight Rail's operations and institutional structure • A vertically separated rail network division of Transnet could face significant liabilities from penalty claims by third-party operators for network non-performance and potential legal action if Transnet fails to implement a comprehensive investment plan to address maintenance backlogs and sustain new capacity	• Transnet endeavours to ensure compliance with the White Paper on National Rail Policy as gazetted on 12 May 2022 • The ongoing general impact analysis is based on outcomes of engagements with the DoT • The DoT is developing frameworks for implanting the Rail Policy • Implement accounting and commercial separation of Freight Rail's operations and rail infrastructure businesses to create transparency and enablement for third-party access to the network	• Continued and intensified engagement with the DoT, the Department of Public Enterprises and Government departments, seeking amendments to current policy proposals in the White Paper, and to inform the proposed framework for implementation to minimise negative impacts on Transnet • Investment in terms of rail network, upgrades and maintenance is required, especially on the general freight portion of the network • Embed outcomes-based security solutions, contracting with service providers to provide agile and optimal security solutions, including community involvement programmes, to reduce security-related incidents • Independent operations of third-party access by Transnet Rail Infrastructure Manager
Economic Regulation of Transport (ERT) Bill	• Should the draft Bill be enacted as is, Freight Rail will face challenges in both its operations and network businesses, as the ERT Bill refers to the regulation of any service or facility on the rail network. Train operations or the functioning of depots and other facilities could be interrupted at any time due to powers vested in inspectors by the ERT Bill • Freight Rail could also face the following impacts: a. Additional operating costs to pay for the costs of the Regulator; b. Loss of projected revenue due to regulatory methodology and/or decisions of the Regulator; c. Impact on earnings; and d. Curtailment of the division's asset base • The Economic Regulator could also impose third-party access to the Freight Rail network and regulate terms and conditions of such access • Regulation of Freight Rail in the above manner will likely reduce the division's competitiveness with road freight transport	• Transnet is currently engaging with the IRERC • Transnet will comply once the ERT Bill is passed into law, but analysis of proposed provisions will ensure that Transnet understands the impact on its business is ongoing • Compliance is not required at this stage	• The window for direct engagement on the draft Bill with the DoT is closed. Transnet will robustly engage the Portfolio Committee on Transport and other Parliamentary processes with a view to amending the nature and scope of the ERT Bill to minimise the potential negative impacts on Transnet • Transnet Rail Infrastructure Manager is to finalise the pricing structure in a regulated environment, and the impact of access on its rail network and infrastructure

REGULATORY ENVIRONMENT CONTINUED

The relevant legislation, impact and mitigating actions are set out in the table below:

Regulation	Impact	Extent of compliance	Mitigation/action plans
Railway Safety Legislation	• The National Railway Safety Regulator Act, 2002, is being reviewed by the DoT and a Draft Railway Safety Bill, B7-2021 was published for public comment • The Bill may result in overregulation of the railway industry in a manner that would restrict the ability of railway operators to manage their operations on sound business principles. Such overregulation will increase the cost of doing business in South Africa • The applicant of a safety permit will be required to pay an application fee which will be determined by the Minister and any applicable levy to be provided in terms of the envisaged Rail Levies Act. Currently, Transnet interacts directly with the Railway Safety Regulator in this instance. Should the Bill come into effect, the protocols in this regard would change • No person, whether a safety permit holder or not, may appoint any person to, or require the performance of work in a safety-critical grade position, unless he or she is in possession of a licence issued by the accredited training institution. The Faculty of Rail is empowered to provide accreditation as a training institution • The Railway Safety Regulator will accredit training institutions and monitor the licensing of safety-critical grade employees • This means that the Faculty of Rail will need to further be accredited by the Regulator	• Transnet will comply once the draft Bill is passed into law, but is currently assessing the potential impact of the Bill on its operations • No compliance is required at this stage	• Transnet submitted comments on the Draft Railway Safety Bill in October 2021 • Transnet is awaiting feedback on the comments submitted, as well as for an updated version of the Bill, based on comments from all stakeholders

The relevant legislation, impact and mitigating actions are set out in the table below:

Regulation	Impact	Extent of compliance	Mitigation/action plans
Public Finance Management Act, No. 1 of 1999 (as amended) (PFMA)	• The PFMA has had a significant impact on how Freight Rail manages procurement of services and contracts, and this has had a severe impact on Freight Rail's service delivery • Non-compliance with this legislation as well as the supporting National Treasury Regulations and Instructions may lead to adverse findings raised by the Auditor-General which will impact negatively on the audit opinion issued to Transnet, and lead to reputational damage • The Preferential Procurement Policy Framework Act, No. of 2000, and the Department of Trade, Industry and Competition's local content requirements must also be complied with, impacting procurement process turnaround times	• Training employees on the requirements of the PFMA has been completed • PFMA forums are in place • Continuous controls, monitoring, and internal audits are conducted to ensure adherence	• A PFMA Improvement Project has been established company-wide • Application of controls and implementation of actions as per the Compliance Control Plan • Monthly meetings relating to condonations and disciplinary status • Training of employees on the PFMA • Implementation and review of the Delegation of Authority Framework • Appointment of PFMA champions
Competition Act, No. 89 of 1998	• The Competition Act provides for various prohibitions on anti-competitive conduct, restrictive practices and the abuse of dominance • This legislation has a significant impact on Freight Rail considering that it is a major operator within South Africa	• Training on the Competition Act has been provided to employees as a Group-wide initiative and at Operating Division level	• Application of controls and implementation of actions as per the Compliance Control Plan to mitigate risks of non-compliance • The Transnet Corporate Centre has embarked on a Competition Act compliance review and the development of a framework. • Key deliverables include: a. The review of all business-related policies, pricing processes and methodologies and contracting practices to identify actual or potential non-compliance; b. Model contract per category in compliance with the Competition Act; c. Pricing policies in compliance with the Competition Act; d. Facility Policy for all private sector partnership (PSP) concessions, including unsolicited bids; and e. Training material and training to drive a culture of compliance

REGULATORY ENVIRONMENT CONTINUED

ENVIRONMENTAL IMPACT PLAN

In the 2023/24 Corporate Plan, Freight Rail prioritises environmental sustainability across its network and operations, emphasising the safety and security of its employees and the public. Given South Africa's complex environmental landscape, Freight Rail minimises its impact through conscientious practices.

Adapting to South Africa's evolving environmental laws, Freight Rail integrates environmental practices to comply with regulations and fulfil its duty of care. The division also seeks and implements innovative solutions to reduce its environmental footprint, addressing future impacts responsibly.

The table below depicts key focus areas for the 2023/24 financial year, including preventing and minimising compliance exposures from past operations, ensuring current and future activities comply with mitigation plans.

Environmental aspect/ exposure	Legislative requirement	Extent of compliance	Mitigation/action plans
Asbestos land contamination	• National Environmental Management: Waste Act, No. 59 of 2008	• High-risk asbestos-contaminated land has been declared to the Minister of the Department of Forestry, Fisheries and the Environment • An ad hoc asbestos programme has been implemented to remove exposed asbestos	• Continuous ad hoc removal and safe disposal of exposed asbestos ores to minimise occupational health exposures • Conduct risk assessments to confirm contaminated asbestos quantities
Hydrocarbon land contamination	• National Environmental Management: Waste Act, No. 59 of 2008	• Bio-remediation orders for refueling facilities were obtained	• Bio-remediation of hydrocarbon-polluted land in refueling depots • Supply of absorbent mats across depots and yards
Air emissions and dust pollution	• National Environmental Management: Air Quality Act, No. 39 of 2004.	• The Environment Protection Agency Tank Model is used to calculate emissions at refueling facilities and reports are submitted to authorities via the National Atmospheric Emission Inventory System • Four air emissions licences have been received and one provisional air emissions license is in place	• Scientific monitoring and reporting of emissions from refueling facilities and multi-user facilities • Continuous monitoring of compliance requirements of air emissions licenses
Discharge of industrial effluent	• National Water Act, No. 36 of 1998	• Monitoring regime comprehensively determined	• Ground, surface, effluent, and potable water monitoring and reporting
Climate change mitigation and adaptation	• Climate Change Bill and National Environmental Management: Air Quality At, No. 39 of 2004	• Greenhouse gas emissions (Scope 1, 2 and 3) are monitored and reported in the Integrated Report as well as reporting in terms of the National Greenhouse Gas Emissions Reporting Regulations, 2016	• Develop a climate change action plan • Conduct climate change risk and vulnerability assessments and develop resilience plans as part of the climate change action plan
Green Freight Strategy	• National Environmental Management Act, No. 107 of 1998 • Climate Change Bill and National Environmental Management: Air Quality Act, No. 39 of 2004	• Transnet has committed to net zero emissions by 2040	• Continue to collaborate with the Group in respect of the Just Energy Transition Strategy, which is a partnership with the World Bank, to provide a detailed programme to Achieve net zero emissions by 2040

OPERATIONAL CONTEXT

Freight Rail has experienced declining volumes over the last few years which has adversely impacted its sustainability. This state of business has been the direct result of the ongoing challenges, including significantly increased crime and vandalism, locomotive shortages, declining infrastructure quality and inconsistent energy supply. Management is implementing short, medium, and long-term initiatives to improve operations.

The first goal is to improve rolling stock availability, a key factor in increasing capacity and volume across strategic flows. This will involve implementing fast-tracked initiatives to return long-standing locomotives to service, improving contract management, and fostering collaborative relationships with rolling stock OEMs through long-term maintenance agreements.

To enhance equipment and rolling stock availability, Freight Rail has sought qualified OEMs to support maintenance and the provision of spare parts supply for the locomotive fleet. This initiative is intended to help in returning more locomotives to service.

Secondly, the strategy focuses on rehabilitating network infrastructure to support capacity development, service delivery and volume recovery. This involves improving maintenance practices, such as better planning and execution of maintenance shutdowns, and enhancing the capability and capacity of maintenance teams.

The increase in security-related incidents has significantly impacted operating performance. An overhaul of the security approach is crucial to improve performance. Freight Rail has implemented a comprehensive strategy to address this issue, including collaboration with law enforcement, customers, and local communities. Cutting-edge technology is also deployed to detect and deter potential criminals at critical infrastructure points.

External providers have been engaged, focusing on outcome-based models. These models utilise the unique human capital, area knowledge, and specialised skills of each provider to maximise security effectiveness.

Collaboration with industry has reduced cable theft incidents in the corridors, though incidents still occur. We have started to see the green shoots from the OBS programme.

Progress is underway to optimise commercial returns and reduce losses in the Container Corridor. This includes innovative approaches like off-balance sheet financing through operating leases to attract private skills and expertise, part of the effort to collaborate with the private sector.

CORE INITIATIVES

The business has developed key strategic Turnaround initiatives to either optimise the business to drive efficiencies or transform the business. The key focus in fixing and optimising the business is to eliminate the binding constraints: theft and vandalism, asset performance and availability, network performance, optimise capital investment, manual processes through digitalisation and improve commercial orientation of the business.

The North Corridor leadership secured a formal partnership with the Export Coal industry to expedite the supply of critical locomotive spares to Transnet Engineering and address other operational constraints. Formal partnerships to collaborate in the areas of mutual interest was secured for amongst other initiatives the sourcing of critical supplies such as locomotive batteries and increased security resources to protect the network.

These initiatives, among others, led to a significant improvement in execution tempo in the final quarter, with the corridor delivering 29,8mt in the second half and a total volume performance of 57,6mt for the full year, surpassing the turnaround volume target of 57,2mt.

In the FY2022/23 Freight Rail also negotiated with Caminhos de Ferro de Mozambique (CFM) to allow chrome carrying trains to run through to Maputo without stopping. This initiative increased weekly train performance from an average of four trains per week to a peak of 14 trains in week 44 of FY2023/24.

The Railway Safety Regulator has granted a permit to implement a 160 wagon Radio Distributed Power (RDP) train, running from Phalaborwa to Komatipoort. Driver certification for these RDP trains is in progress, which will boost capacity and volume for the NortheastCor in the coming year. This model, a beacon for regional cooperation, is being extended to other traffic flows and commodities.

The Container Corridor was heavily affected by the devastating floods in KwaZulu-Natal on 11 and 12 April 2022. The main line between Durban and Cato Ridge was closed until June 2022, significantly reducing the corridor's capacity, and impacting its 2023/24 budget. Despite the challenges, the corridor showed resilience, surpassing its turnaround strategy budget with increased rail volumes in the 2023/24 financial year.

Given its pivotal role as a connecting hub, the Central Corridor has prioritised collaboration with customers, increased community engagement, and secured municipal and local government support for safety services. Efforts also include partnering with local business forums and other associations to create job and training opportunities. These initiatives have reduced the number of security incidents and cable thefts, but challenges persist, with security issues accounting for 20% to 32% of all incidents.

The Cape Corridor focuses on boosting rail activity for general freight and attracting private sector investment in its branch line and rail siding network to increase volumes. In August 2023, the Outcomes Based Security Contract (OBS) was awarded to reduce security incidents and their impact on train movements. The Security Service Provider (SSP) began the rollout on 1 August 2023 with a 274% commitment to Tactical deployment in hotspot areas, resulting in an immediate reduction of incidents on the Port Elizabeth main line.

The iron ore corridor implemented the new back-of-port offloading facility, which resulted in leaner shunting operations. Trans Africa locomotives (TAL) were introduced in Saldanha to support the corridor with yard processing to the tipplers.

The Ore Corridor is in the process to secure a formal partnership with the Ore Users Forum (OUF) to expedite the supply of critical spares to Transnet Engineering and rail network materials to fast track the restoration of our infrastructure. The Ore Corridor increased the iron ore capacity through Saldanha by 4 mtpa by re-routing emerging miner slots to higher axle loading sites. This initiative resulted in additional slot capacity on the Manganese segment to Saldanha.

Collaborative efforts with the South African Police Services (Infrastructure Task Teams) and key industry stakeholders have led to a significant increase in arrests and convictions across all corridors.

Commercial teams are dedicated to finding collaborative solutions to boost rail volumes in the coming year. A notable development is the signing of a pioneering agreement with Sasol for the maintenance and repair of 128 ammonia tankers. This strategic partnership facilitates volume growth and optimised operations.

OVERVIEW OF KEY PERFORMANCE INDICATORS

Table 1: Financial performance against key performance indicators (KPIs)

Key performance area and indicator	Unit of measure	2022 Target	2022 Actual	2023 Target	2023 Actual	2024 Target	2024 Actual
Financial sustainability							
EBITDA margin	%	40,7	29,9	37,2	19,3	33,0	20,4
Operating profit margin	%	22,2	6,5	17,6	(10,6)	12,9	(8,4)
Gearing	%	61,5	60,0	63,6	65,6	62,5	74,9
Net debt to EBITDA	Times	3,9	6,5	4,6	11,5	4,5	9,7
Return on invested capital	%	5,3	1,0	5,5	(2,5)	4,3	(2,3)
Asset turnover – excluding CWIP	Times	0,34	0,26	0,31	0,24	0,33	0,27
Cash interest cover	Times	3,0	2,8	1,8	1,8	2,9	0,6
Capital expenditure	R million	8 100	10 037	10 755	11 288	12 334	12 268
Year-on-year weighted average R/tonne change – General Freight business	%	9	11	12	14	12	14

FINANCIAL PERFORMANCE REVIEW

Table 2: Financial performance review

Salient features		Year ended 31 March 2024 R million	Year ended 31 March 2023 R million	% change
Revenue		**39 104**	34 810	12.3
General freight		**20 407**	16 941	20.5
Export coal		**8 947**	9 208	(2.8)
Export iron ore		**8 250**	7 270	13.5
Other		**1 500**	1 391	7.8
Operating expenses		**(31 135)**	(28 088)	10.8
Energy costs		**(6 638)**	(6 009)	10.5
Maintenance		**(3 173)**	(2 793)	13.6
Materials		**(440)**	(799)	(44.9)
Personnel costs		**(13 233)**	(12 398)	6.7
Other costs		**(7 650)**	(6 089)	25.6
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)		**7 969**	6 722	18.6
Depreciation, derecognition and amortisation		**(11 247)**	(10 420)	7.9
Profit (Loss) from operations before items listed below		**(3 278)**	(3 698)	(11.4)
Impairments and fair value adjustments		**(572)**	2 610	(121.9)
Net finance costs		**(2 706)**	(6 308)	(57.1)
Loss before taxation		**(6 556)**	(7 396)	(11.4)
Total assets (excluding CWIP)	R million	**146 878**	144 387	1.7
Profitability measures				
EBITDA margin *		**20.4**	19.3	5.7
Operating margin **		**(8.4)**	(10.6)	(20.8)
Return on invested capital***	%	**(2.3)**	(2.5)	(8.0)
Asset turnover (excluding CWIP)****	times	**0.27**	0.24	12.5
Capital investments ^	R million	**12 268**	11 288	8.7
Employees				
Number of employees (permanent)	number	**22 307**	22 993	(3.0)
Revenue per employee	R million	**1 753**	1 513	15.9

* *EBITDA expressed as a percentage of revenue.*

** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of revenue.*

*** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of average total assets, excluding capital work in progress.*

**** *Revenue divided by average total assets, excluding capital work in progress.*

^ *Actual capital expenditure (replacement plus expansion), excluding borrowing costs and including capitalised finance leases.*

PERFORMANCE COMMENTARY

FINANCIAL SUSTAINABILITY

Rail volumes increased from 149,5mt in 2023 to 151.8mt. Freight Rail's revenue increased by 12,3% from R34,8 billion to R39,1 billion driven by a 29% volume increase in the NorthEast Corridor and stabilised performance in the export businesses in North and Ore Corridors. **Revenue** from General Freight increased by 20.5% compared to the prior year, Export Coal revenue reduced by 2,8% and Export Iron Ore by 13,5%.

Operating expenses rose by 10,8% to R31,1 billion (2023: R28,1 billion) in line with increased business activities and inflation-related increases.

Net operating expense contributions (by category)

Personnel costs, which represent the largest expense category, have reduced to 42,5% of our net operating expenses, down from 44.1% in 2023. Cost compression and cost management principles are embedded in the business and the organisation is continuously looking at ways to reduce the cost base without negatively impacting service delivery to the customers. Freight Rail is focusing on workforce management and exploring opportunities to enhance roles without an increase in headcount.

Energy Costs rose by 10,5% to R6,6 billion (2023: R6,0 billion) due to the higher business activity.

Maintenance Costs rose by 13,6% for the year (2023: 10%) – with the increase in Rand value amounting to R380 million compared to prior year. This increase is linked to essential spending to bring back locomotives into services despite contractual challenges with new generation locomotives spares supply.

Other Operating Expenses as a percentage of total expenses increased to 25,6% (2023: 22,0%) with security costs rising due to our Outcome Based Security (OBS) initiative and associated spending. The benefit of the increase in costs will materialise through a reduction in volumes lost due to incidents. This would ultimately improve revenue in the long term.

Freight Rail's efforts to control operating costs have been hindered by incidents of business interruptions, which not only slow down our operations, but also result in unbudgeted expenditures. Cable theft remains a national crisis that burdens the South African economy. To combat this, Transnet is working closely with stakeholders, law enforcement agencies, and communities.

Our partnership with industry stakeholders has resulted in a reduction in cable theft incidents on several corridors, though sporadic incidents continue. Transnet is intensifying security measures to further mitigate cable theft and infrastructure vandalism.

Freight Rail's **EBITDA** increased by R 1,2 billion (18,6%) from the previous year, though volumes delivered fell below expectations, impacted by challenges related to security, locomotive availability and reliability. Network reliability have also hampered Freight Rail's performance and management has implemented several initiatives in the short, medium and long term, to drive operational performance.

Depreciation and Amortisation Costs increased by 7,9% to R11,3 billion (2023: R10,4 billion) due to higher capital expenditure and infrastructure spend. **Impairment** for the year reduced by R3,2 billion (due to a reversal of R572 million related to the return on long-standing locomotives as noted on the spend in maintenance.

Net Finance Costs were reduced by 57,1% to R2,7 billion from R6,7 billion in 2023. The sharp decrease in net finance costs is due to an increase in finance income for the period.

Investment in Capital Expenditure increased by 8,7% from a spend of R11,3 billion to a spend of R12,3 billion. Capitalised maintenance expenditure for the year was R9,8 billion, of which 36% was spend on Infrastructure maintenance.

These initiatives and results underscore our commitment to overcoming challenges and enhancing operational efficiency. Freight Rail remains focused on positioning the business as a key driver of Southern Africa's economic growth through innovative services and solutions.

OPERATIONAL MANAGEMENT AND PERFORMANCE

STRATEGIC PROJECTS

Project	High level focus
Rolling stock 1. Return to service of long standing OEM locomotives. Confined tender for the repairs. 2. OEM long standing locomotives ("Step in" OEM). Open tender process.	Volume improvement for key commodities Secure locomotives to prevent theft; allowing for the use of diesel locomotives in high-theft areas to maintain service where there are electricity shortages
OEM long-standing locomotives ("step-in" OEM) open tender	Ensure that 120 locomotives are back in service for coal/chrome flows and iron ore volumes Lead to overall volume improvements and additional revenue for the year
Strategic segment projects	
MANGANESE	
Manganese Export Capacity Allocation (MECA III)	Facilitate the meaningful and sustainable entry of new participants into the global manganese export markets by reducing logistics costs from expensive road charges to more cost-effective rail transport
East London Manganese	Transnet is set to launch a new service to export manganese ore through the Port of East London, marking an historic move for the industry
Mamathwane Loop extension	To boost manganese export capacity, Freight Rail continues to explore alternative channels and fast-track key long-term expansion projects
Magnetite: Longer trains to Richards Bay and Maputo	Freight Rail is extending loops and re-signalling on the Selati line, increasing magnetite and rock phosphate volumes by an additional 6,4mtpa
Container: ContainerCor	Post-flood refurbishment and replacement of stolen overhead traction equipment cables in the Ladysmith area will increase slots from 15 to 42 on the Johannesburg-Durban line for containers and automotive movement
Iron Ore	Freight Rail plans to increase iron ore capacity via Saldanha by 4mtpa by re-routing emerging miner slots to higher axle loading sites
Coal: Restore eroded infrastructure capacity	In collaboration with the industry, Freight Rail will restore slot capacity previously eroded by deteriorated geo-technical conditions on the heavy haul export coal routes
	Restore slot capacity by reducing processing times of loaded trains in Ermelo yard by replacing the Tubular track with a conventional ballast line

Despite the challenges faced in the 2022/23 financial year, Freight Rail remains resilient, focusing on recovery initiatives to support strategic goals, improve operational efficiency, and enhance customer service.

2024/25FY Recovery Plan includes:

- Capacity restoration and operational improvement: re-base pricing;
- Recovery of volumes;
- More effective allocation of existing equipment;
- Focus on highest margin traffic;
- Sustained growth: drive innovation, control costs, and aim for profit growth;
- Increase reliability and performance of rolling stock and infrastructure assets; and
- Build positive brand equity that will enhance safety and lead to objective decision-making across the operational value chain.

Overview of operational KPIs

Table 3: Operational performance against KPIs

Key performance area and indicator	Unit of measure	2022 Actual	2023 Actual	2024 Target	2024 Actual	2025 Target
Operational excellence						
Asset utilisation						
General Freight business	Gtkm/Ntkm	1.35	1.33	**1. 35**	**1.33**	1.36
Export coal	Gtkm/Ntkm	1.26	1.25	**1. 25**	**1.25**	1.25
Export iron ore	Gtkm/Ntkm	1.2	1.21	**1.20**	**1.20**	1.20
Loco utilisation						
General Freight business	GTK'000/loco/ month	3 446	3 196	**4 023**	**3 497**	4 277
Export coal	GTK'000/loco/ month	14 161	15 519	**22 503**	**15 540**	13 915
Export iron ore	GTK'000/loco/ month	42 735	41 717	**38 002**	**40 478**	30 054
Cycle time						
Export coal	Hours	70.83	88.24	**75.00**	**98**	63
Export iron ore	Hours	90.37	112.51	**88.80**	**104**	68
Export manganese	Hours	187.88	180.19	**135**	**171**	145
Wagon turnaround time						
General Freight business	Days	13.79	15.04	**11.17**	**12.53**	8.06
Density						
General freight	GTK/Route km	3.22	2.9	**3.55**	**3.01**	3.36
Natcor (ContainerCor)	GTK/Route km	4.4	2.41	**2.87**	**3.14**	2.42
Capecor	GTK/Route km	3.64	3.89	**4.43**	**3.66**	6.06
Southcor (part of CapeCor)	GTK/Route km	4.9	5.69	**6.12**	**5.60**	5.00
Service delivery						
On time departure (average deviation from scheduled times)						
General Freight business	Minutes	336	430.24	**96.96**	**133.89**	96.96
Export coal	Minutes	327	363	**26.24**	**(40.21)**	26.24
Export iron ore	Minutes	42	(9.57)	**36.45**	**(46.04)**	36.45
On-time arrivals (average deviation from scheduled times)						
General Freight business	Minutes	336	430.24	**108.62**	**888.35**	108.62
Export coal	Minutes	327	363	**52.49**	**334.13**	52.49
Export iron ore	Minutes	42	(9.57)	**121.74**	**320.29**	121.74
Rail network availability	%	86.63	84.47	**92**	**85**	92
Market segment competitiveness						
Volume and revenue growth						
Commodity classification						
General Freight business	Mt	60.05	49.58	**60.68**	**52.33**	58.41
Export coal	Mt	58.10	48.81	**63.09**	**48.55**	56.01
Export iron ore	Mt	54.50	51.10	**60.00**	**50.90**	55.60
Total volumes	**Mt**	172.65	149.49	**183.77**	**151.78**	170.03

OPERATIONAL MANAGEMENT AND PERFORMANCE CONTINUED

Locomotive utilisation

Locomotive utilisation declined over a three-year period, as many locomotives remained idle due to lack of maintenance parts, derailments, and vandalism during outages caused by cable theft. However, the overall number of active locomotives has remained steady at around 1 900.

Cycle times and wagon turnaround times

The cycle time for export coal increased to 98 hours in 2024 (from 88 hours in 2023), missing the target of 75 hours. This increase is due to the high number of system disruptions from theft and vandalism, numerous speed restrictions, and derailments on the network.

The cycle time for the iron ore line was 104,08 hours in 2024, up from the target of 88,8 hours. However, there was a year-on-year reduction, indicating a gradual improvement in operational efficiency.

The turnaround time for general freight wagons improved from 14 days in 2023 to 12,53 days in 2024, despite a higher number of speed restrictions on the network caused by underinvestment, cable theft and vandalism.

Density

Overall network density decreased in the current year for General Freight and Container. Container density saw a significant decline due to reduced traffic following network washaways during floods. The Corridor is now recovering from prolonged traffic curtailment. Density and performance improved significantly on the CapeCor (specifically areas called Port Elizabeth, Bloemfontein and East London).

On-time departures (OTD) and on-time arrivals (OTA)

Delayed arrivals and train re-plans were mainly due to security incidents, locomotive failures, power outages, derailments, speed restrictions and long customs processes (in Maputo). Significant minute delays were observed, especially in general freight and Iron Ore.

Commercial performance for the period ended 31 March 2024

General Freight business volumes increased by 5,55% to 52,33mt railed in 2024, compared with 49,58mt in 2023. This increase is attributed to recovery initiatives, collaborative projects with major customers, and a focus on enhancing security.

Positive results

Sector	Increase (%)	2024 (mt)	2023 (mt)	Additional Details
Intermodal Wholesale	34,14	3,77	2,81	On-boarding of several new customers. Freight Rail: 294 449 TEUs (2024) vs. 247 735 TEUs (2023)
Automotive	10,85	0,13	0,12	Introduction of new motor vehicle models. Imported: 15 361 units, Exported: 65 472 units (2024) vs. Imported: 13 752 units, Exported: 49 644 units (2023)
Mineral Mining	23,44	11,73	9,21	Increase in demand and execution for export Magnetite and domestic Rock Phosphate
Chrome	3,25	4,73	4,58	Increase in demand and execution for export Chrome
Iron and Steel	3,72	4,30	4,14	Increased demand and execution of Iron Ore from Beeshoek to New Castle and Bijlkor, as well as pool iron from Bijlkor to Mandlazini for export
Consolidation (ABL)	82,67	0,69	0,38	Increase in demand from neighbouring countries and optimised traffic throughput

Negative results

Sector	Decline (%)	2024 (mt)	2023 (mt)	Additional Details
Fast Moving Consumer Goods (FMCG)	(43,15)	0,29	0,52	FMCG experienced the highest decline among negative sectors at -43.15%. The Agri segment (grain and timber), cement and fertiliser showed a decline in volume. Negative performances were primarily due to product unavailability, adverse weather conditions, equipment failures, operational issues, infrastructure-related crimes, and derailments.
Timber, Paper and Publishing	(36,81)	0,47	0,74	
Grain, Stockfeed and Milling	(20,95)	0,45	0,57	
Cement and Lime	(11,99)	1,92	2,18	
Fertiliser	(20,00)	0,12	0,15	

- **Intermodal Wholesale** showed the highest increase among positive sectors at **34.14%**
- **Consolidation (ABL)** showed the most significant growth rate among all sectors at **82.67%**
- Overall, increases were driven by new customer acquisitions, new product models, and increased demand for exports, while declines were noted in consumer goods, publishing, and agricultural inputs.

For the 2023/24 financial year actual volumes were 13,76% (8,35mt) below the target of 60,68mt. This shortfall was driven by operational issues, including network, manning, and resource challenges, as well as the weak economic climate influenced by the following market factors:

- Load-shedding and poor logistics performance, including rail and port bottlenecks, hindered South Africa's economic growth in 2023 negatively impacting the business environment.
- Rising wages, higher oil prices, and increasing costs of consumables resulted in higher production costs compared to the previous year.
- The anticipated reopening of the Chinese economy in 2023 did not meet expectations due to the ongoing challenges in the property sector, leading to weaker than expected demand for most mining commodities.

Looking ahead

Freight Rail plans to enhance its operational efficiency through the following measures:

- Implementing results-oriented security solutions, leveraging technology, and improving information gathering to safeguard assets and operations;
- Addressing the 1 064 contract disputes with the OEM to streamline operations and improve efficiency;
- Prioritising the allocation of locomotives to economically viable flows to maximise revenue generated from the operation and financing of the network;
- Procuring new locomotives to replace the aging fleet, with a focus on improving performance in key segments such as manganese;
- Negotiating and implementing long-term Maintenance and Repair Service Agreements (MRSAs) with OEMs to ensure fleet reliability and availability;
- Bringing long-standing locomotives back into service to meet customer demand in key corridors;
- Ensuring the timely establishment of long-term contracts for the successful integration of decommissioning, rail network, and construction crews into the corridors for improved maintenance execution;
- Prioritising the limited capital expenditure budget to enhance network capacity by reducing speed restrictions and improving authorisations on key profitable routes; and
- Priority digitalisation initiatives currently underway are the Integrated Train Plan, the commercial customer system and the rail operations asset management system.

SUSTAINABLE DEVELOPMENTAL OUTCOMES

Table 4: Overview of sustainable development outcomes against KPIs

Key performance area and indicator	Unit of measure	2022 Actual	2023 Actual	2024 Target	2024 Actual	2025 Target
Human capital						
Employment equity	%	92,80	93,20	**92,00**	**93,78**	92,00
Female employees	%	31,70	32,04	**35,00**	**31,11**	33,00
People with disabilities	%	2,78	2,73	**3,0**	**2,75**	3,00
Training spend	% of personnel cost	0,97	1,60	**2,16**	**1,63**	2,5
Employee turnover	%	7,78	3,04	**5,00**	**2,85**	5,00
Employee headcount	permanent	23 465	22 993	**24 360**	**22 307**	23 100
Risk, safety and health						
Cost of risk	% of revenue	7,7	18,9	**6,2**	**13,6**	6,2
Disabling injury frequency rate	rate	0,81	0,77	**0,88**	**0,74**	0,72
Safety incidents	number	217	227	**191**	**203**	186
Mainline derailments	number	70	78	**62**	**85**	81
Shunting derailments	number	122	121	**107**	**92**	81

SUSTAINABLE DEVELOPMENTAL OUTCOMES CONTINUED

People management (employment and transformation)

- Revenue per employee was R1,826 million compared to R1,513 million per employee in 2023 (20% improvement from the previous year).
- Freight Rail ended the 2023/24 with a permanent headcount of 22 307.
- The permanent headcount reduced from 22 993 in 2023 to 22 307 in the year under review, indicating a 3,0% reduction from the previous year and a 9,2% reduction against the target (2023: 24 360). This reduction in headcount is attributed to the implementation of the people optimisation measures aligned to the recovery plan and strategic workforce planning.
- Transnet Freight Rail maintains a stable employee turnover rate of 2,9%, remaining below the target of 5,0%, highlighting the effectiveness of efforts in employee retention.
- The employment equity targets have been consistently met with Black employees representing 93,8% of the total workforce, exceeding the designated target of 92,0% and indicating an improvement from the previous year's performance (2023: 93,2%). Categories where transformational targets have not been fully achieved will be addressed through the the Equity, Diversity, Inclusion, and Transformation (EDIT) transversal agenda.
- People with disabilities represent 2,8% of the total employee base, marginally higher than the previous year.
- Training spend accounts for 1,6% of personnel costs which is below the target of 2,2%.

Skills development

Table 5: Number of engineers and technicians on the Employment Equity Performance

Training area	Actual 2023	Target 2024	Actual 2024
Young professionals	142	**23**	**140**
Technicians	147	**66**	**138**
Interns (TETA funded)	–	**200**	**129**
Engineers	120	**69**	**61**

Table 6: Youth employment and development strategy

Employment/development	Actual 2023	Target 2024	Actual 2024
Youth employed as % of total employees	24.9	**20,0**	20,8
Youth developed as % of all employees trained	77.5	**26,0**	27,0

RISK, SAFETY AND HEALTH

Cost of risk

The cost of risk was 13,6% compared to 18,9% in the previous year. The target of 6,2% was not achieved.

Lost time injuries frequency rate (LTIFR)

Freight Rail improved its LTIFR by 4%, reducing it from 0,74 in 2023 to 0,71 in 2024, surpassing the global industry benchmark of 1. Performance was within the tolerance limit of 0,88 and a stretch tolerance of 0,75.

Number of safety-related incidents

Rail safety incidents recorded in the Balanced Scorecard (BSC) decreased by 8%, from 203 to 186 occurrences, but was slightly below the tolerance limit of -12%. Train collisions dropped by 67%, shunting derailments by 13% and running line derailments by 5%. The shortcoming was the Signal Passed at Danger (SPAD). Although there is a notable decrease in the number of occurrences, the cost of damages has increased.

Railway safety occurrences have consistently declined over the last four years. Continued improvement requires addressing issues such as insufficient maintenance budgets and combating theft and vandalism, which hinder planned maintenance.

Number of mainline derailments

Mainline derailments decreased by 5%, from 85 in 2023 to 81 in 2024. The performance is below the tolerance limit of 75. Mainline derailments were primarily caused by the poor condition of the tracks due to inadequate maintenance, and lack of replacement components and maintenance contracts.

Number of shunting derailments

Derailments in shunting operations decreased by 13% from 93 in 2023 to 81 in 2024. The performance is below the tolerance limit of 81. Most shunting derailments happened at the points due to non-compliance with rules for operating hand-operated points, and trains running through points not set for intended movement.

Train-on-train collisions

Train-on-train collisions decreased by 67% from three in 2023 to one in 2024. The performance is below the tolerance limit. The collision resulted from failure to follow verbal authorisation protocols (such authorisations are often due to cable theft and service restoration challenges).

Signals passed at danger (SPADs)

The number of SPADs increased by one, from 22 in 2022 to 23 in 2023.

To achieve better performance, the focus will remain on adhering to maintenance schedules, implementing rail replacement programmes, repairing degraded infrastructure, and deploying technology to reduce derailments on the line.

Security

Security-related incidents increased by 5,4% year-on-year, from 7 335 to 7 733 incidents, cable theft remains the primary security issue accounting for 57% of the reported incidents and is among the factors affecting train cancellations and tonnage losses. The increase in security incidents is owing to a spike in incident levels during the transition phase of Outcome-Based Security (OBS) Solutions.

Outcome Based Security (OBS) initiatives and results:

OBS Services: Implemented in five corridors, excluding the Container corridor due to Third-Party Access initiatives.

Technology Installation: OBS providers began setting up systems to prevent theft and vandalism, aiming to reduce operational disruptions. Completion and commissioning are expected in the fiscal year 24/25.

Customer Partnerships: Collaborations in the North and Central corridors led to decreased security incidents in strategic areas even though there is still a lot of work to be done to stabilise the corridors in their entirety.

State Security Collaboration: The partnership with the National Logistics Crisis Committee (NLCC) was formalised to develop strategies against metal theft, supported by policy and governance.

Inter-Entity Cooperation: Engagement with State-Owned Entities through forums like NFMCCC and EITT to combat copper theft.

Arrests and Convictions: The 2023/2024 financial year saw 852 arrests and 105 convictions.

Notable sentences:

A 27-year sentence in the Central Corridor for infrastructure tampering and illegal residency.

Combined sentences of 30 and 28 years in the Container Corridor for two groups of suspects for infrastructure theft.

Internal Vigilance: An employee was dismissed for illegal copper possession, and an ex-employee was sentenced to 20 years for copper theft and assault. Ongoing internal proceedings emphasise zero tolerance for criminality at Transnet.

This challenge stems from the organised nature of cable theft, compounded by socio-economic factors such as high levels of crime and unemployment. Freight Rail will continue with community engagements and collaborate with stakeholders and industry partners to reduce the number of security-related incidents and address the root causes of cable theft.

Environmental sustainability

Freight Rail operates across South Africa's diverse ecological landscape, which poses various environmental challenges. In response to evolving environmental laws and Freight Rail's sustainability needs, the division is committed to implementing eco-friendly practices. This includes complying with legislation, innovating to reduce environmental impact, and proactively addressing future challenges.

Freight Rail achieved the following sustainability objectives:

Asbestos land contamination

In the past, Freight Rail transported asbestos ore and asbestos-containing products from mines to various destinations, resulting in spills along main lines and in marshalling yards, leading to environmental contamination. Some asbestos fibres are buried underground as a result.

To address this, Freight Rail has engaged competent asbestos abatement contractors to remove exposed asbestos. The division continues to assess risks and develop remediation plans while seeking sustainable solutions for asbestos removal. In 2024, 5 tonnes of asbestos waste was removed from Kimberly and Postmasburg.

These efforts align with legal requirements such as the National Environmental Management: Waste Act, No. 59 of 2008, and the Asbestos Abatement Regulations, November 2020 under the Occupational Health and Safety Act, No. 85 of 1993.

Hydrocarbon land contamination

At Freight Rail, there are 47 fuel depots where diesel spillages during locomotive refueling have caused contamination over time. All affected sites have been reported to the Department of Forests, Fisheries, and the Environment (DFFE) in accordance with the requirements of the National Environmental Management: Waste Act, No. 59 of 2008. (DFFE). DFFE has reviewed the submissions, including the site assessment reports, and issued remediation orders.

To comply with these orders, two contractors have been appointed to conduct bio-remediation at the refueling locations.

During 2024, 37 sites were remediated: Millsite, Germiston, Komatipoort, Ermelo, Lydenburg, Newcastle, Nelspruit, Bethlehem, Ground Zero, Beaconsfield, Polokwane, Klawer, Bellville, Saldanha, Springs, Insezi, Vryheid, Wentworth, Masons Mill, Phalaborwa, Witbank, Tzaneen, Kaserne, Koedoespoort, Sentrarand, Bloemfontein, Beaufort, De Aar, Swartkops, Upington, Humewood, Voorbaai, Worcester, Queenstown, Skoonkaai, Sasolburg and Klerksdorp.

Remediation Orders for Waterval Boven, Ogies, Cambridge, Thabazimbi and Sishen were applied for and decisions on the applications are expected in the next financial year. Kroonstad and Rustenburg have received Remediation Orders and will be remediated in 2025.

Alien and invasive plant species control plans

All organs of state in all levels of government must develop plans to monitor and control invasive species on their land, as mandated by Section 76 of the National Environmental Management: Biodiversity Act, 10 of 2004, and the Alien and Invasive Species Regulations of 2014.

To meet these requirements, Freight Rail has identified alien and invasive plant species in its operational areas and submitted five-year control plans to DFFE, in accordance with Section 75 of the National Environmental Management: Biodiversity Act, No. 10 of 2004.

Out of 5 172 hectares identified under the control plan, 1 650 hectares of alien and invasive land has been cleared and managed.

Air pollution

Freight Rail operates multiple sidings for handling materials like coal, manganese, and iron ore, which can generate dust particles. These particles contribute to air pollution. Additionally, Freight Rail has five fuel depots and monthly monitoring of diesel storage tank emissions is necessary to comply with the National Environmental Management: Air Quality Act, No. 39 of 2004 (NEMAQA).

Freight Rail appointed a contractor to conduct monthly dust and air monitoring at six multi-user facilities, namely: Rustenburg, Pendoring, Steelpoort, City Deep (Kaserne), Bloemcon and Newcon; and five refueling sites, namely: Millsite, Masons Mill, Wentworth, Ermelo and iNsezi Depots.

Ongoing monitoring of these facilities is required to comply with the National Dust Control Regulations (GN R827, published in GG 36974 of 1 November 2013), under the National Environmental Management: Air Quality Act, No. 39 of 2004 (NEMAQA). These regulations prescribe the general measures taken to control dust pollution throughout the country.

Ballast waste

Ballast, the crushed granite rock supporting railway tracks, generates significant waste during track maintenance, where impurities are removed through screening. This process, known as ballast screening, removes crushed stones to maintain the correct aggregate sizes.

SUSTAINABLE DEVELOPMENTAL OUTCOMES CONTINUED

An average of 1 400m² and 1 600m² of new ballast is replaced per kilometre of track, 40% of which is waste that is removed during ballast screening. This waste, called ballast spoils, falls under the National Environmental Management: Waste Act, No. 59 of 2008 and requires removal to approved landfills.

Freight Rail has engaged a contractor to assess the risk of excluding ballast waste from the waste definition, with the application submitted to the DFFE in 2024, for a decision expected in 2025. If approved, Freight Rail can use uncontaminated ballast waste for service road maintenance, railway embankment stabilisation, or sell it for construction purposes.

Water consumption (kl)

Freight Rail receives most of its water supply from municipalities. In 2023, approximately 5 911 818 kilolitres of water were consumed in the operational areas.

Despite the implementation of water conservation and management initiatives, the increase in water consumption can partly be attributed to the increase in operational activities, due to many employees returning to their workstations (offices).

Freight Rail remains committed to raising awareness of the importance of freshwater resources and advocating for its sustainable management. The impact of these efforts will help reduce water wastage within the company.

Energy use and carbon emissions

Electrical Traction Consumption: Freight Rail traction actual electricity efficiency is 68,82 GTK/kWh YTD January 2024, against the previous year's target of 67.16 GTK/kWh. This is a 2,47% improvement in performance.

Traction Diesel Fuel: Actual fuel efficiency is 293,7 GTK/litre YTD January 2024, against a previous year's target of 300,4 GTK/litre. This is a 2,27% decrease in performance.

Carbon Emissions: Freight Rail's Scope 1 and 2 carbon emissions from rail for year-to-date January 2024 were 313 181 and 1 291 385 TonneCO_2e respectively.

Energy Efficiency Performance: Freight Rail has not fully achieved its energy targets year-to-date until January 2024, as shown in the table below:

Table 7: Energy Efficiency Performance

	Measure-ment	Target on PY (2023)	YTD Target 2024	YTD Actual 2024	Energy Efficiency Gain on PY	Target Achieved
TFR Traction Electrical	GTK/kWh	0,3%	**67,16**	**68,82**	2,47%	Yes
TFR Traction Diesel	GTK/litre	0,5%	**300,4**	**293,7**	2,24%	No

KEY RISKS AND MITIGATING ACTIVITIES

Enterprise risk management at Freight Rail involves identifying and managing strategic and operational risks, as well as identifying and exploiting opportunities. The table below outlines the strategic risks identified during the year and the actions taken to mitigate them:

	Key risks	Mitigating activities
1	**Funding risk: Freight Rail's inability to generate sufficient cash to fund its Capital Programme and meet its financial obligations, thereby impacting on its financial sustainability.**	• Freight Rail prioritised operational turnaround initiatives to boost volumes and cash flow from operations. • To address funding constraints, Freight Rail explored alternative options like PSPs (Sale of Slots, Container Corridor Lease, Sale and Leaseback of wagons) with limited success. • Effective working capital management included rigorous reviews of the Top 20 debtors, tracking overdue amounts, and reporting at the EXCO level. • Engaged with development financing institutions to secure funding. • Reallocated unspent COPEX from other Operating Divisions for infrastructure maintenance.
2	**Rolling stock risk: Unavailability and unreliability of rolling stock (locomotives) to ensure safe, reliable, and sustainable provision of services.**	• Continued efforts to ensure the delivery of the long-standing locomotives for the next four years. • Finalisation and implementation of the Material, Reliability, and Support Agreement with service providers, to ensure supply of material and technical support for rolling stock maintenance.
3	**Security Risk: Increase in security incidences leading to TFR's inability to secure its assets and deliver a reliable service to customers.**	• OBS Contracts have been awarded and are being implemented, with initial issues being resolved to address the efficiency of operations. • To prevent battery theft from locomotives, vandal-proof mechanisms are being installed.
4	**Rail network infrastructure risk: Inability to provide a reliable and safe infrastructure for the passage of trains, threatening Freight Rail's ability to achieve volumes and its financial sustainability.**	• TFR prioritises infrastructure renewal programmes, conducting detailed condition assessments and using global benchmarks. • Long-term contracts for strategic critical commodities are being awarded to ensure timely provision of necessary material and resources.
5	**Procurement and contract management risk: Lack of a coordinated approach in the management of procurement processes, impacting the effective delivery of services.**	• Key strategic commodities are being targeted to secure long-term contracts that align with business demands, while short-term contracts are implemented to close the gap. • A contract management office has been established to ensure continuous and effective rollout of contract management across the business, eliminating non-compliances.

KEY RISKS AND MITIGATING ACTIVITIES CONTINUED

Key risks		Mitigating activities
6	People risk: Low employee engagement and ineffective performance management, negatively impacting the overall efficiency, and decline in productivity and non-achievement of organisational objectives.	• Transnet's Culture Transformation Journey is being embedded to promote employee engagement, foster a conducive working environment, and increase leadership visibility. • Freight Rail continues to implement change initiatives to boost employee morale, optimise performance management, and prioritise employee wellness and capacity building for improved productivity.
7	Information system risk: Outdated legacy systems and infrastructure, resulting in inability to digitally transform TFR business and operations to achieve its objectives.	• Freight Rail is implementing the Digital Transformation Programme to support business operations and ensure a safe, secure, relevant, and resilient infrastructure, with advanced digital platforms and technologies. • Key strategic initiatives with concluded procurement and commenced execution include: – Integrated Train Planning Tool – Rail Operations Asset Management (ROAM) – Commercial Systems • The Interim Train Scheduling Solution is in the final stages of procurement.
8	Rail reform risk: Freight Rail readiness for the implementation of the Rail Reform Policy	• The Interim Rail Infrastructure Manager has been established, and transitional plans are currently underway. • The Freight Logistics Roadmap, approved by Cabinet in December 2023, is now in execution. • Business and financial models are being developed to ensure clear separation. • The Network Statement was published on 15 March 2024. • The TFROC Steering Committee and multidisciplinary workstreams have been established, with high-level deliverables agreed upon.
9	Revenue contract risk: Poor contract management leading to revenue leakage and inadequate billing management.	• A contract revenue management office is being established to oversee all contract-related matters for Freight Rail and liaison with business. • Partnering with Information and Communication Technology (ICT) to digitise all commercial contract management processes, eliminating manual work.
10	Operational efficiency risk.	• Freight Rail continues implementing the operational turnaround plan to improve efficiencies. • Capacity is continuously reprioritised to support key performing flows. • Enhancing the inter-working relationship between Operating Divisions is a primary focus to improve rolling stock availability. • Improving track conditions remains a key focus to enhance slot capacity and reduce derailment risk.
11	Energy supply risk: Uncertainty regarding the supply of energy by Municipality/Eskom.	• A curtailment agreement with Eskom is in place to manage load reduction. • The Freight Rail Renewable Power Purchases programme is in the feasibility stage. • A cost-benefit analysis model for Centralised Train Traffic Control is being developed to optimise backup power investment decisions.

ABBREVIATIONS

CFM	Caminhos de Ferro de Mozambique
COPEX	Capitalised Maintenance
CPI	Consumer Price Index
CRRC	CRRC Corporation
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortisation
ERT	Economic Regulation of Transport
GTK	Gross Ton Kilometre
ICT	Information Communication Technology
IDC	Industrial Development Corporation
KPI	Key Performance Indicators
KZN	KwaZulu-Natal
LTIFR	Lost time injuries frequency rate
OEM	Original equipment manufacturers
OTD	On-time Departures
PFMA	Public Finance Management Act
PRASA	Passenger Rail Agency of South Africa
PSP	Private sector participation
RDP	Radio Distributed Power
SADC	Southern African Development Community
SARB	South African Reserve Bank
SARS	South African Revenue Services
SPAD	Signal Passed at Danger
TE	Transnet Engineering
TFR	Transnet Freight Rail
YTD	Year to date

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