



# Integrated Report 2021

## Directors' approval: Statement of responsibility



In accordance with the King IV Report, the Transnet Board of Directors ("the Board"), as the body charged with overall governance oversight, actively leads the Company's value creation process. As the integrated report is used to assess Transnet's ability to create value over time, the Board oversees the overall quality and accuracy of the report as well as process-related disclosures as outlined in the Transnet «IR» Terms of Reference (see Annexure A). Accordingly, the Board has satisfied itself that the 2021 Integrated Report demonstrates the Company's ongoing journey towards integrating elements of strategy, risk, opportunities, performance and sustainable development.

The Board has assessed the 2021 Integrated Report to ensure the:

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

The Board is satisfied that the 2021 Integrated Report provides a fair representation of the integrated performance of the Company during the year and enables the reader of the report to make an informed assessment of the Company's performance and its ability to create value in a sustainable manner.

The Board has further concluded that the report is presented in accordance with the International «IR» Framework published by the International Integrated Report Council (IIRC) and aligns with the King IV guidelines on integrated reporting. The Integrated Report contains disclosures from Transnet's sustainability reporting criteria as well as Standard Disclosures from the GRI Sustainability Reporting Guidelines.

A summary of the key frameworks and standards adhered to in our reporting is contained in Table 1: Integrated Reporting Assurance Framework (see page 5).

The 2021 Integrated Report was approved by the Board of Directors and signed on its behalf by:

*P.S. Molefe*  
**Dr PS Molefe**  
(Chairperson)

*D.C. Matshoga*  
**Ms DC Matshoga**

*P.P.J. Derby*  
**Ms PPJ Derby**  
(Group Chief Executive)

*F.S. MUFAMADI*  
**Dr FS Mufamadi**

*N.S. Dlamini*  
**Ms NS Dlamini**  
(Group Chief Financial Officer)

*A.P. Ramabula*  
**Mr AP Ramabulana**

*UN Fikelepi*  
**Ms UN Fikelepi**

*A. Ramphaka*  
**Ms GT Ramphaka**

*M.E. Letlape*  
**Ms ME Letlape**






*L.L. von Zeuner*  
**Mr LL von Zeuner**

25 October 2021  
Johannesburg









# Navigating this report

## ICONS KEY






### Material clusters

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






### Sustainable Development Outcomes

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




### The capitals

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

### Performance key

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

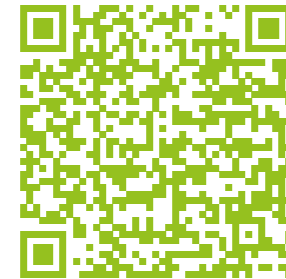
### Read more

-  Full HTML report
-  Available in print format
-  Available online in PDF format

United Nations Sustainable Development Goals (SDGs)



King IV Report on Corporate Governance for South Africa 2016<sup>1</sup>



### Download Transnet QR reader



### Android users

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

### Using the app

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

### iPhone users

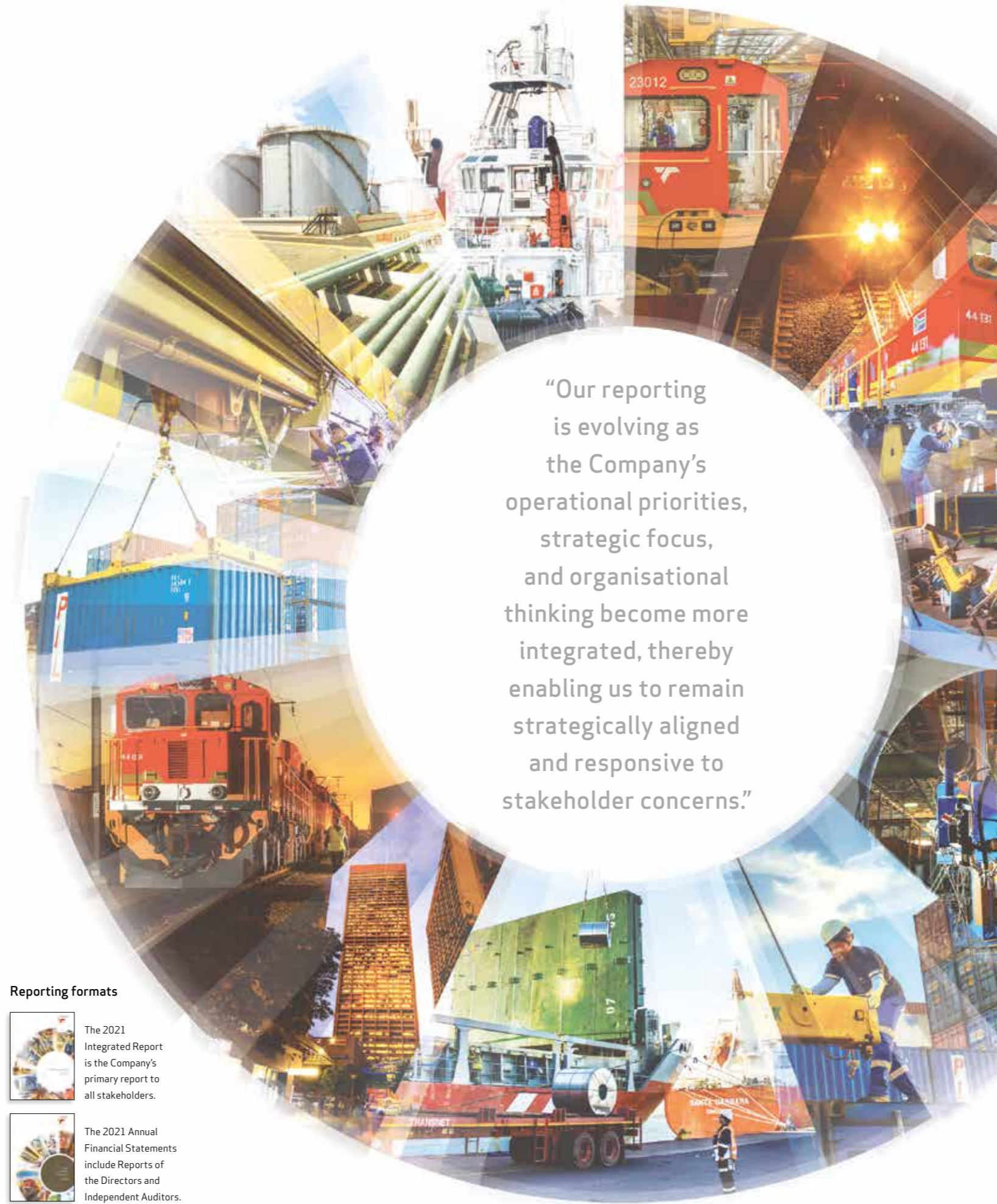
The iPhone camera is enabled to scan QR codes so there is no need to download an app. Simply hover the camera over the QR Code. A notification will appear stating 'Website QR code'. Click on it. It will open your phone's default browser and take you to that specific article.

### Forward-looking information

All references to forward-looking information and targets in the 2021 reports are extracted from the 2020/21 Transnet Corporate Plan approved by the Board.

### Feedback on this report

We welcome feedback on our 2021 Integrated Report. Please provide written feedback to Kilford Gondo Kilford.Gondo@transnet.net



### Reporting formats

The 2021 Integrated Report is the Company's primary report to all stakeholders.

The 2021 Annual Financial Statements include Reports of the Directors and Independent Auditors.

# Corporate information

## Transnet SOC Ltd

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

PO Box 72501  
Parkview  
Johannesburg  
South Africa  
2122

## Interim Group Company Secretary

S Bopape  
138 Eloff Street  
Braamfontein  
Johannesburg  
2000

PO Box 72501  
Parkview  
Johannesburg  
South Africa  
2122

## Auditors

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

## Executive directors

Ms PPJ Derby  
(Group Chief Executive)

Ms NS Dlamini  
(Group Chief Financial Officer)

## Independent non-executive directors

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

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# About this report

Figure 1: Reporting boundary

## Transnet Group Operating Divisions (ODs)

Freight Rail (TFR)

Engineering (TE)

National Ports Authority (TNPA)

Port Terminals (TPT)

Pipelines (TPL)

Property (TP)

## Factors impacting Transnet's ability to create value

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

Employees
Shareholder (DPE <sup>1</sup> )
Customers
Investors and commercial partners
Rating agencies and financial institutions
Suppliers and service providers
Regulators
Government
Media and the general public
Academia and research institutions
NGOs <sup>2</sup>
International bodies
Communities
Organised labour

<sup>1</sup> Department of Public Enterprises  
<sup>2</sup> Non-governmental organisations

## Reporting philosophy and approach



Our internal and external reporting processes comply with the South African Companies Act, No 71 of 2008, as amended (Companies Act), the King IV Report on Corporate Governance (King IV) and the Listings Requirements of the Johannesburg Stock Exchange (JSE) as a debt issuer. As such, we document the Company's internal control and risk management procedures and policy. Similarly, details of our Audit Committee are provided in our abridged governance report (pages 66 to 84) and in our supplementary Governance report online. Details provided include the members of the committee and the actual frequency of meetings of the committee during the year.

Further, in this Integrated Report, Transnet intends to adhere to both the letter and spirit of the JSE's 'General Principles' and 'main body' requirements as they relate to the Company's debt-listing information as observed in all its corporate actions and also in all submissions pertaining to (i) the registration of a debt listing programme and (ii) debt securities listed and to be listed.

In line with King IV recommendations, our integrated reporting adheres to the principles and requirements of the IIRC's International <IR> Framework and the draft framework issued in March 2020. For ease of access to our King IV disclosures, we include a King IV disclosure checklist as Annexure D. Financial information is extracted from the audited consolidated annual financial statements (AFS) for the year ended 31 March 2021, which is prepared on an International Financial Reporting Standards (IFRS) basis, unless otherwise specified.

Our external auditors, the Auditor-General of South Africa, has issued a qualified audit opinion on the AFS, due to occurrence, accuracy and completeness of misstatements identified in the irregular expenditure disclosed in note 42 of the annual financial statements available online. Selected non-financial information included in this report, such as our Governance report, Operating Division reports and our Stakeholder Engagement report are included online as supplementary reports.

The Board acknowledges that reference to 'value creation' in this report includes the concepts of 'value preservation' and 'value diminution/erosion'.

## Reporting boundary



Transnet SOC Ltd is a state-owned company (SOC), with the Department of Public Enterprises (DPE) being its sole shareholder. The 2021 Integrated Report covers the financial reporting period from 1 April 2020 to 31 March 2021. The reporting boundary (Figure 1) encompasses the Transnet Group, its Operating Divisions, and extends to include factors that impact Transnet's ability to create value.

The Transnet Integrated Report is published annually and approved by the Board of Directors. The previous Integrated Report for the period 1 April 2019 to 31 March 2020 was approved by the Board of Directors on 26 September 2020.

## Materiality in our reporting



The 2021 Integrated Report provides information that we consider to be of material significance in creating and preserving short, medium and long-term value. To observe the IIRC's principles of 'Materiality', 'Connectivity' and 'Conciseness', we have considerably simplified our materiality reporting to align with Transnet's Performance Framework within the Company's Shareholder's Compacts for 2020/21 and 2021/22. Accordingly, we emphasise five overarching material clusters for the 2021 reporting year, which we unpack throughout this report and reference by way of icons and page citations.

Additionally, given the critical nature of reporting according to the Shareholder's Compact, we have opted to include our entire Directors' Report as a consolidated performance report attached as Annexure A, with a summary of our operational performance provided by Group Chief Financial Officer, Ms Nonkululeko Dlamini on pages 86 to 92 as well as performance highlights for our Operating Divisions (ODs) on pages 94 and 95, and abridged financials for the 2021 reporting year on pages 96 to 99.

This year, we report in greater detail on the sustainable development outcomes (SDOs) of our Growth and Renewal Strategy as a significant component of Material Cluster 5: *Optimise the social and economic impact of all interventions in the achievement of these objectives.* As a SOC, the SDOs are a meaningful measure of our strategic outcomes as mandated in our dual Commercial and Developmental Mandate from the DPE.

[Read more](#)  
 Please see page 30 for Transnet's material aspects for the process for identifying, validating and approving material aspects



## Integrated approach to assurance and the integrated reporting process

King IV. P2, 5, 8, 11 & 13

Transnet's Integrated Assurance Plan has been applied to the process of preparing the integrated report to provide an independent perspective on the transparency and accountability of our disclosures. The Integrated Assurance Plan encompasses the assurance provided by management, internal specialists, internal audit, external audit, external advisers and service providers. The Board serves as the last line of defence.

More complex risks, a more rigorous compliance landscape and increased regulatory scrutiny have significantly increased the

challenges for the Company's risk and assurance functions. Accordingly, Transnet's integrated assurance process and oversight will continue to respond to these challenges by integrating the key risk and assurance concepts in an innovative and practical manner.

Accountability for the implementation of integrated assurance within the organisation has been transferred from Group Risk Management to Transnet Internal Audit (TIA). Among others, TIA will be responsible for implementing and embedding integrated assurance as defined in the Transnet Integrated Assurance protocols. The integrated nature of our assurance framework is being embedded in all activities of the organisation, including our reporting frameworks, which include our annual integrated reporting process and terms of reference, included as Annexure B.

Figure 2: Risk management in the context of integrated assurance

King IV. P11

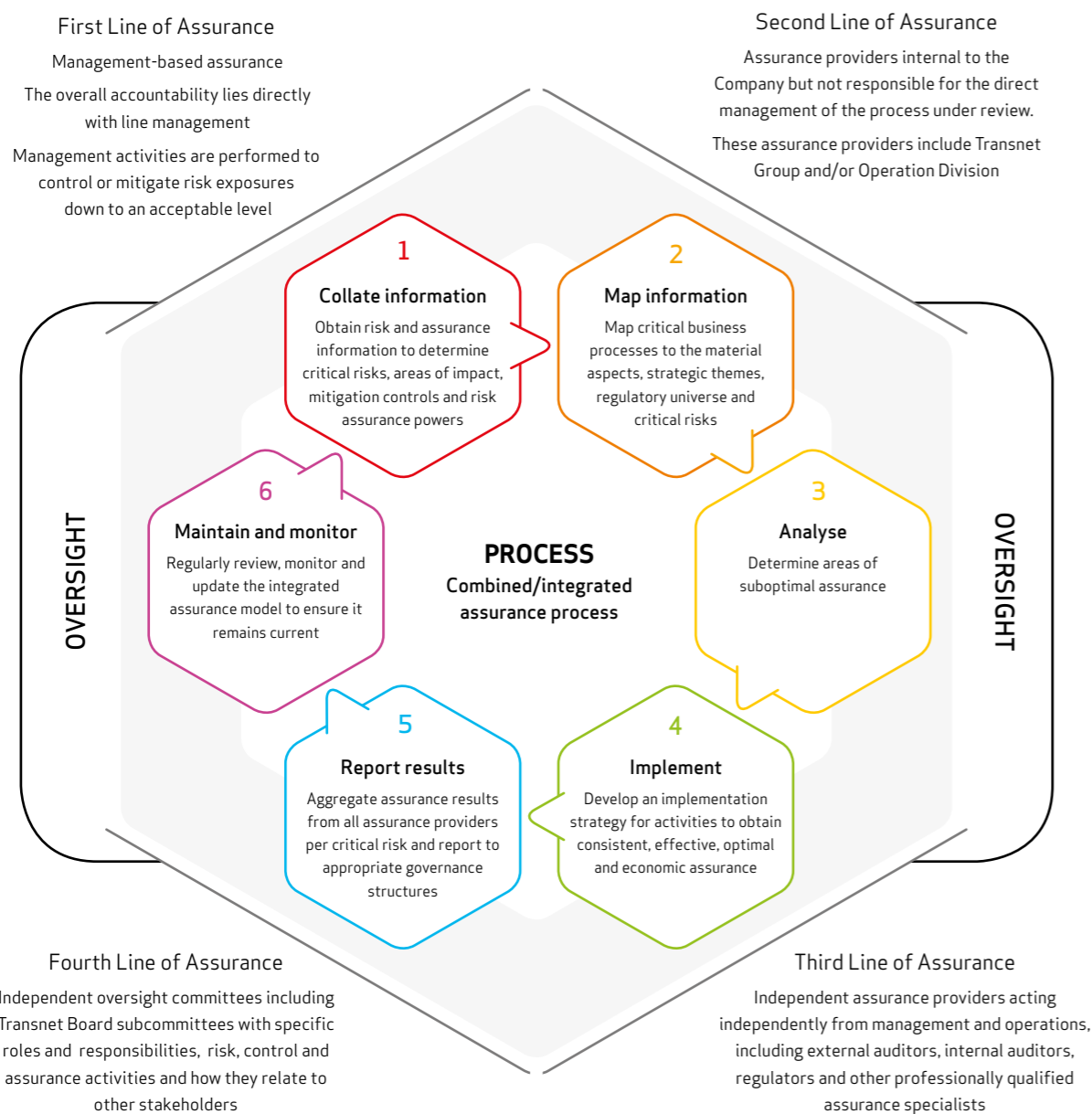


Table 1: Integrated Reporting Assurance Framework

King IV. P8 & 15

Content	Assurance providers	Outcome	Framework/Standard
<b>Integrated Report (in full)</b>	<ul style="list-style-type: none"> <li>Transnet Board and Board committees oversight</li> <li>Auditor-General of South Africa oversight</li> <li>DPE oversight</li> <li>Parliamentary oversight</li> </ul>	<ul style="list-style-type: none"> <li>Review and commentary</li> <li>Approval</li> </ul>	<ul style="list-style-type: none"> <li>International Integrated Reporting &lt;IR&gt; Framework</li> <li>Audit Committee's Governance Terms of Reference for the report (Annexure B)</li> <li>Corporate Governance Committee</li> <li>King IV</li> <li>Public Finance Management Act, No 1 of 1999 (PFMA)</li> <li>Companies Act</li> </ul>
<b>Annual Financial Statements (consolidated and summary)</b>	<ul style="list-style-type: none"> <li>Transnet Board and Board committees oversight</li> <li>Auditor-General of South Africa oversight</li> <li>DPE oversight</li> <li>Parliamentary oversight</li> </ul>	<ul style="list-style-type: none"> <li>Qualified audit opinion due to due to material misstatements identified by external auditors. For more detail refer to Note 42 in the AFS</li> <li>Review and commentary</li> <li>Approval</li> </ul>	<ul style="list-style-type: none"> <li>PFMA</li> <li>Companies Act</li> <li>IFRS</li> </ul>
<b>Selected information relating to Transnet's SDOs contained in this report</b>	<ul style="list-style-type: none"> <li>Transnet Board and Board committees oversight</li> <li>Auditor-General of South Africa oversight</li> <li>DPE oversight</li> <li>Parliamentary oversight</li> </ul>	<ul style="list-style-type: none"> <li>Review and commentary</li> <li>Selected Sustainability information has been prepared in all material respects in accordance with Transnet's reporting criteria</li> <li>Approval</li> </ul>	<ul style="list-style-type: none"> <li>Transnet's sustainability reporting criteria</li> <li>Standard General Disclosures from the GRI</li> </ul>
<b>Review of internal controls and risk management</b>	<ul style="list-style-type: none"> <li>Transnet Board and Board committees oversight</li> <li>Transnet Internal Audit</li> </ul>	<ul style="list-style-type: none"> <li>Review and commentary</li> <li>Assess and address residual risks</li> <li>Strengthen risk governance policies and protocols</li> <li>Internal audit outcome: risk management requires improvement</li> <li>Approval</li> </ul>	<ul style="list-style-type: none"> <li>Committee of Sponsoring Organisations (COSO)</li> <li>PFMA</li> <li>ISO standards relating to safety and environment, including ISO 9000 and ISO 14000</li> <li>Legislative requirements</li> <li>Enterprise risk management ISO 31000 standard</li> </ul>
<b>Broad-Based Black Economic Empowerment (B-BBEE) contributor level</b>	<ul style="list-style-type: none"> <li>Beever Verification Agency cc</li> </ul>	<ul style="list-style-type: none"> <li>Level confirmed as Level 2</li> </ul>	<ul style="list-style-type: none"> <li>Broad-Based Black Economic Empowerment Act, No 53 of 2003 and charters</li> <li>Rail subsector scorecard</li> <li>Marine subsector scorecard</li> </ul>
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>Transnet Board and Board committees oversight</li> <li>Transnet Internal Audit</li> </ul>	<ul style="list-style-type: none"> <li>Review and commentary</li> <li>Internal audit outcome: internal control environment requires improvement</li> <li>Approval</li> </ul>	<ul style="list-style-type: none"> <li>King IV</li> <li>PFMA</li> <li>Companies Act</li> </ul>



## Going concern status



In adopting the going concern assumption, the Board reviewed the Group's performance for the year and considered the robustness of budgets and business results, cash flow projections for the 15 months ending 30 June 2022 (which included the impact of COVID-19), cost-saving opportunities, the cost of capital projects and related optimisation opportunities and the Funding Plan.

The impact of the prior year audit qualification on loan agreements has been resolved with all affected funders having provided a waiver to Transnet. Similarly, all lenders that became entitled to guarantees or accelerated repayment of loans due to credit rating downgrades and the current year cash interest cover loan covenant breach have agreed to waive such right.

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

Please see page 124 in the Directors' Report included in full as Annexure A.

## Our commitment to stakeholders



As a people-focused organisation, we strive to communicate with stakeholders early and often. Our core values guide us in our interactions with stakeholders. To meet and improve on our stakeholder commitments, we continue to strive for:

- A safe and healthy working environment;
- Clear communication, the right tools, training, appropriate recognition, rewards and the right to be treated with dignity and respect;
- An organisational culture that views change as an opportunity to improve quality in all we do;
- Customer-centric business interactions and reliable service offerings;
- Fair and equitable tender processes;
- Accountability and excellence in everything we do;
- Support for communities where we operate;
- Collaborative relationships with policymakers and regulators;
- Demonstrable sensitivity to and care for the environment; and
- Superior returns to our investors, as a reliable and credible borrower which, albeit state-owned, issues debt on the strength of its financial position.

## Governance context



- Transnet SOC Ltd is a public company (constituted in terms of the Legal Succession to the South African Transport Services Act, No 9 of 1989), with the South African Government as the sole shareholder.
- Transnet owns South Africa's railway, ports and pipelines infrastructure.
- The Company's Memorandum of Incorporation (MOI) – approved by the Shareholder Minister on 25 June 2013 – aligns with the provisions of the PFMA, the Companies Act and the National Ports Act, No 12 of 2005, as amended (the National Ports Act).
- As a SOC, the PFMA serves as Transnet's primary legislation.
- Transnet signs an annual Shareholder's Compact with the Government of the Republic of South Africa, represented by the Minister of Public Enterprises. The Shareholder's Compact mandates the Company to deliver on numerous strategic deliverables, including sustainable economic, social and environmental outcomes.

## Regulatory context

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

## Endorsement of external charters and frameworks (not limited to)

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

## Membership of associations (not limited to)

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

## Broad-Based Black Economic Empowerment (B-BBEE)

Transnet's B-BBEE verification covers six of the seven elements of the Generic Transport Public Sector Scorecard (excluding the ownership element). The maritime, property and rail charters are also applied.

Transnet achieved the full points for enterprise development and socio-economic development for the 2021 financial year.

## Enterprise and Supplier Development

Transnet's Enterprise and Supplier Development (ESD) initiatives are key elements of South Africa's developmental agenda.

As such, our ESD is:

- Guided by Government's Competitive Supplier Development Programme;
- Informed by the B-BBEE Codes of Good Practice;
- Intended to increase the competitiveness, capacity and capability of black-owned suppliers through financial and non-financial support; and
- Targeted at ESD initiatives that support localisation and industrialisation, and provide opportunities for black people, youth, women, small businesses, people with disabilities and people living in rural communities.

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

Table 2: Transnet's Group B-BBEE performance per pillar for the 2021 review period

### B-BBEE Level 2 status

Element	Actual score	Target
Equity ownership	n/a	n/a
Management control	9,53	11
Employment equity	13,92	18
Skills development	20,72	25
Preferential procurement	29,85	33
Enterprise development	15,00	15,00
Socio-economic development	5,00	5,00
<b>Total</b>	<b>90,52</b>	<b>107</b>



# Highlights of our value creation for 2021



## Capital inputs

### Human and intellectual

- Remuneration philosophy and process
- Project lifecycle programme methodologies
- Research and development
- Standard operating procedures
- 56 414 employees at the beginning of the financial year

### Financial

- Profit after tax in 2020 of R2,9 billion
- Cash generated from operations in 2020: R36,1 billion (restated)
- Cash interest cover at 2,9 times for 2020
- Structured financing

### Manufactured

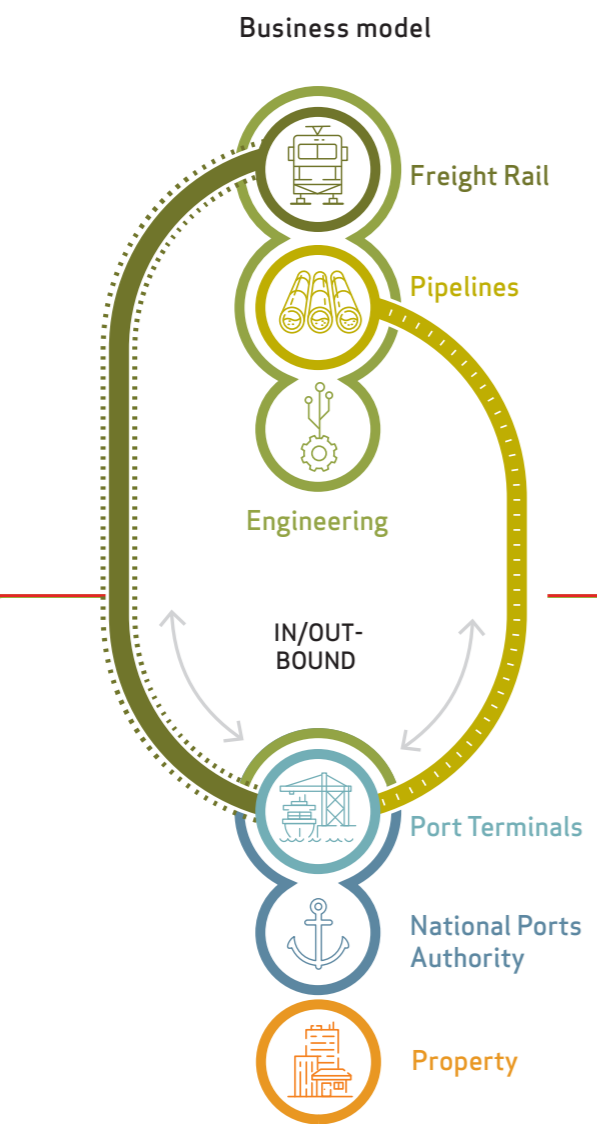
- Property, plant and equipment
- Investment property
- Rail and branch-line networks
- Locomotive rolling stock
- Approximately 3 800 km of petroleum and gas pipeline infrastructure
- Multi-cargo ports
- Port terminals

### Social and relational

- Shareholders and funders
- Communities, citizens, institutions, media and pensioners
- Customers: Large mining and shipping
- Government and regulators

### Natural

- Air, water, land and minerals
- A healthy and biodiverse eco-environment



## Key outputs for 2021

### Human and intellectual

- 55 827 employees at financial year end
- 1,6% of personnel costs invested in training artisans, engineers and technicians
- Employees by race distribution reflect South Africa's demographics, with representation of African employees decreasing marginally to 76,9% (2020: 76,35%)
- R141,96 million invested in R&D (2020: R234,3 million), approximately R1,96 million above the targeted expenditure of R140 million for 2021

See pages 117 to 119 regarding employment and transformation

### Financial

- 2021 revenue: R67,3 billion, due mainly to the impact of the COVID-19 lockdown restrictions on rail, port and pipeline volumes (2020: R75,1 billion)
- EBITDA: R19,5 billion (2020: R34,0 billion)
- EBITDA margin decreased to 28,9% (2020: 45,2%)
- Cash generated from operations: R24,4 billion (2020: R36,1 billion)
- Net loss for the period of R8,4 billion
- Gearing of 48,7% (2020: 47,1%)
- Cash interest cover\* at 2,0 times (2020: 2,9 times)
- Revenue from regional integration: R2,6 billion

See pages 121 to 123 for detail on investment leveraged and regional integration

\* Including working capital changes

### Manufactured

- Return on invested capital (ROIC) of 0,2%
- Robust business continuity during COVID-19 lockdown period
- Contract to supply 300 wagons to CFM Mozambique (value: R400 million) of which 115 wagons (value: R148,9 million) were delivered in FY2020/21

### Social and relational

- An unplanned, but critical amount of R4,5 million was invested in COVID-19 food relief efforts
- Invested R112,2 million (2020: R163,35 million) in community development initiatives across South Africa
- R85,56 million was invested in primary healthcare services to an estimated 237 762 patients (2020: 105 565) from communities along the rail corridor through the Transnet Phelophepa I and II Healthcare Trains
- Phelophepa I and II Healthcare Trains created 4 845 temporary jobs during the reporting period
- More than 15 000 households provided with essential food hampers

See pages 109 to 112 regarding socio-economic development and community development

### Natural

- Total electricity consumption from 2015 to 2021 decreased by 29,2% to 2 488 GWh (2015: 3 514 GWh)
- Carbon emissions intensity from 2015 to 2021 decreased by 11,8% to 9,9 kgCO<sub>2</sub>/ton (2015: 11,2 kgCO<sub>2</sub>/ton)
- Overall energy efficiency (ton/GJ) from 2015 to 2021 improved by 8,9% to 19,6 ton/GJ (2015: 18,0 ton/GJ)
- Carbon emissions (tCO<sub>2</sub>e) over the period 2015 to 2020 decreased by 25,7% from 4,34 tCO<sub>2</sub>e in 2015 to 3,22 tCO<sub>2</sub>e in 2021
- 274,34 tons of asbestos removed from historical contamination (2020: 63,18 tons)
- 30 723 tons in recycled waste

**Remediation of TPL significant incidents:**

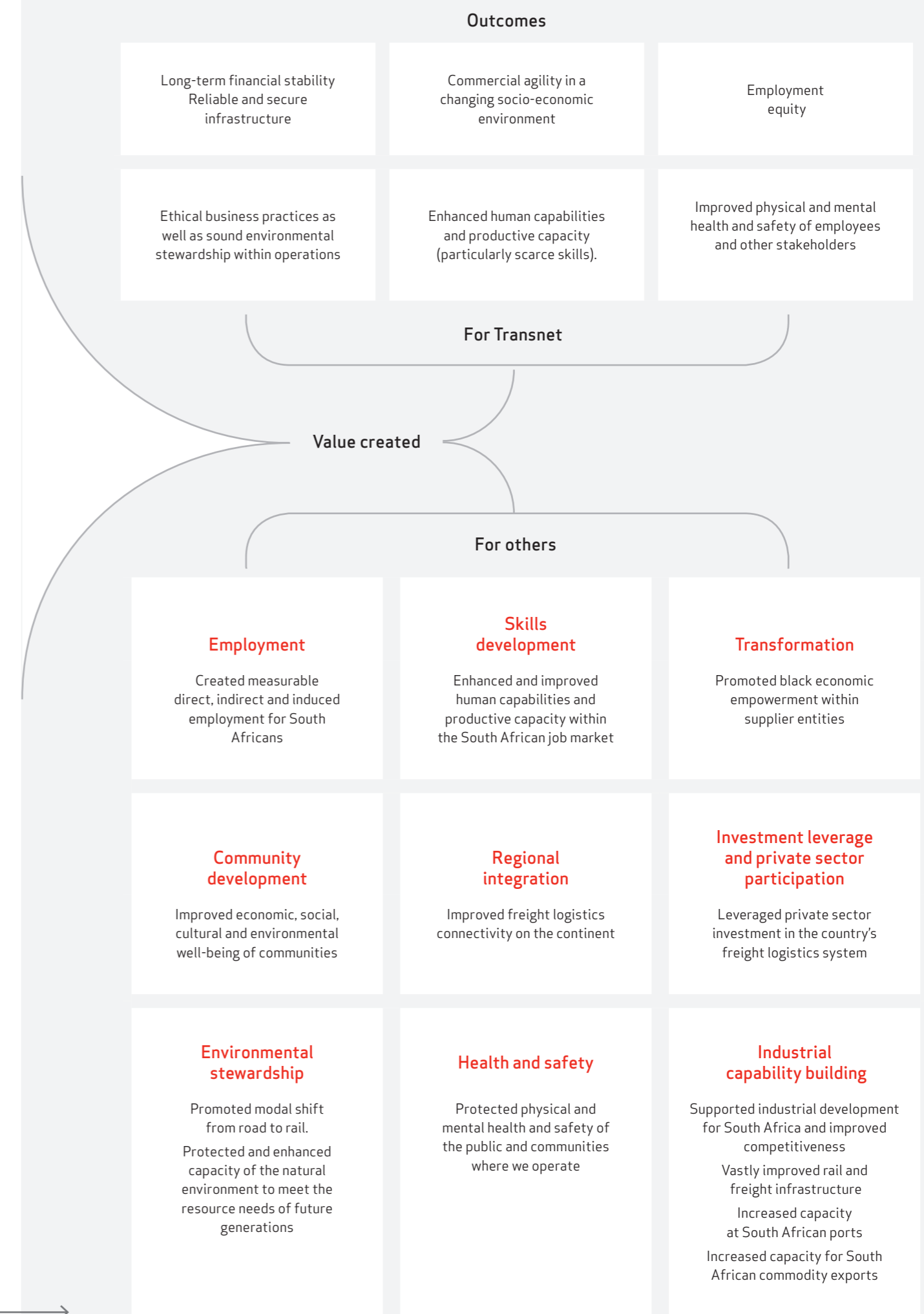
- Containment and recovery completed for 70 sites (damage from theft)
- Ongoing remediation at one site and 69 of 70 sites currently undergoing risk assessments to determine remedial actions

See pages 103 to 105 regarding our environmental stewardship

- An integrated, logistics value chain with a wide range of transported general bulk and containerised freight commodities
- A culture that drives health and safety
- Cargo-handling services to a wide range of customers
- Secure inland petroleum product supply
- In-service maintenance, repair, upgrade, conversion and manufacture of various types of wagons, coaches, locomotives as well as equipment, machines and services
- Transnet Engineering (TE) R&D unit continues to develop a successful pipeline and to bring innovative, scalable products to market

- Positive outputs**
- Waste materials as by-products of infrastructure projects (e.g. asbestos and hydrocarbon waste)
  - 80 significant incidents in terms of section 30 of the NEMA and section 20 of the NWA. Five non-monetary sanctions (directives) for non-compliance with environmental laws and regulations were received; R400 000 in monetary fines for commencing with activities that require Air Emission Licences (AELs).
  - Running line derailments: 70 (2020: 88)
  - Shunting derailments: 122 (2020: 147)
  - Disabling injuries: 424 (2020: 518)
  - LTIFR: 0,61 against tolerance of 0,75 (2020: 0,73)
  - Fatalities resulting from level-crossing accidents reduced by 13% to 95 fatalities (2020: 109)
- Adverse outputs**

Value creation, preservation or erosion over time



# Our operating context



## Chairperson's review



“We are moving beyond the traditional balancing act of our ‘dual mandate’ as our commercial mandate becomes our developmental mandate.”

The progress we as South Africans have made in reducing poverty in recent years continues to be subverted by structural challenges, weak growth and the continuing impacts of COVID-19. Unemployment reached an unprecedented 32,5% in the fourth quarter of 2020, with the highest unemployment rate being among youths aged between 15 and 24, at around 63%. The World Bank estimates that, with Government implementing critical containment measures to help lower the curve of COVID-19 infections during the year, South Africa's economy contracted by 7,0% in 2020, with the pandemic weighing heavily on both external demand and domestic activity<sup>1</sup>. This economic contraction was the second-largest annual contraction since 1920, when real GDP fell by 11,9%, and was also about five times larger than the contraction of 1,5% that followed the global financial crisis in 2009. This severe contraction is estimated to have exacerbated the country's poverty by increasing the number of people living below the breadline by almost 2 million.

<sup>1</sup> <https://www.worldbank.org/en/country/southafrica/overview>

To add salt to our socio-economic wounds, we moved into the pandemic after several years of low growth. In 2019, the economy grew by 0,2% while in 2018 it was 0,8%, caused partially by the resurgence of load shedding coupled with various pre-existing structural constraints, some relating to our own transport infrastructure as Transnet.

### Operational performance

As Transnet, we have performed below our potential, not surprising given the extraordinary circumstances of the protracted pandemic, which has continued to impact productivity, placing severe strain on our financial position, even with the recovery measures we put in place. Notwithstanding the severe effects of the pandemic on our people and operations, we have not sufficiently self-corrected in terms of our declining levels of customer service and our performance with regard to safety and systems reliability. Disappointingly, we underestimated the quantum of the required recovery measures and only met three of our Shareholder's Compact targets, namely maritime connectivity, number of indirect jobs created and Enterprise and Supplier Development.

Our volume targets were severely impacted by backlog maintenance, ageing infrastructure, inclement weather, as well as scourges of cable theft and derailments, so much so that when volumes did pick up later in the year, we lost much of our market share to road freight, which was deemed safer and more reliable, and additionally offered more competitive rates due to lower oil prices. It is, however, important to acknowledge the work we have done together with law enforcement and other stakeholders to curb theft and security issues in our operations. As such, I wish to acknowledge the sterling work done by our law enforcement agencies, especially the Serious Organised Crime Investigation units in Mpumalanga and Gauteng in arresting individuals responsible for cable and fuel theft. Law enforcement agencies should treat these crimes seriously because they hamper our economy.

Additionally, I would like to acknowledge the work done in our Freight Rail division in the deployment of technology innovations to curb and/or deter the criminal activities on our railway network. Some of these solutions include eliminating avoidable train stops during operations and, in cases where trains need to stop, establishing safe zones to allow them to stop in secure areas. Freight Rail is also forming cooperative technical teams with customers in each corridor, as well as other forums and industry bodies, together with the South African Police Service and law enforcement agencies to help fight crime on our rail networks. Further, we are taking assertive action to improve the security of wagons in transit to limit access to cargo and are investing in technology to ensure that incidents such as copper theft are eradicated, particularly on the Natal Corridor and Central Corridor. Importantly, we are improving visibility of Freight Rail's network through new sensing and lighting technology that detects incidents before they happen. We have also established a Security Nerve and Command Centre to safeguard rail infrastructure; and have introduced an early warning system to prevent criminal activities on the rail network. With rail safety and reliability being critical factors in ensuring customers trust their rail cargo to reach their intended destinations, we cannot neglect efforts to ensure volumes are transported safely and reliably on our networks.

Railway crossings also present critical safety challenges for people living adjacent to our rail operations, especially given our vast

national rail footprint, with our network spanning some 31 000 km. The encroachment of the railway reserves requires vigilance from all stakeholders. We have made safety a strategic priority for the Company and hold our people to account for any acts of negligence as part of our drive to improve consequence management throughout our operations. We recognise that the quality of our operations and the strength of our reputation are only as prized as our safety record.

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

We also wish to convey our sympathies to the families of the members of the public who lost their lives in and around our operational activities.

### Financial performance

The combined impact of the existing and external challenges resulted in the year's revenue decreasing by 10,5% to R67,3 billion as we moved 13,7% lower than budgeted rail tonnages (at 183,3 mt); handled 11,5% lower than budgeted port container volumes (at 3 916 million TEUs); and transported 26,4% lower than budgeted pipeline volumes (at 13 067 million litres). In addition, net operating expenses increased by 16,2% to R47,8 billion, albeit this was due mainly to external factors including the impact of third-party claims and environmental provisions amounting to R5,6 billion which related to pipeline spills caused by product theft incidents, which also resulted in higher security costs, as well as COVID-19 related expenses of R232 million, and lower operating income due to the lower sale of scrap, lease recoveries and Passenger Rail Agency of South Africa (Prasa) recoveries. Notwithstanding these expenses, our cost-optimisation and cash-preservation measures stood us in good stead as our own inherent operational costs only increased marginally as unpacked in GCF0's review on page 86.

More detail on our financial performance is contained on pages 86 to 92, and the Directors' Report included as Annexure A.

### Review of judicial proceedings



#### 1 064 review application

On 9 March 2021, Transnet and the Special Investigating Unit (SIU) jointly launched a substantive application in the High Court to review and set aside the locomotive supply agreements concluded with four original equipment manufacturers (OEMs), namely China South Rail, China North Rail, Bombardier Transport and General Electric. While Transnet seeks specific relief from each OEM, we intend to ensure that all contracts are set aside and for the court to award a just and equitable remedy, which will include firstly, that Transnet retains possession of the locomotives for which the OEMs were contracted, and secondly, that the Company receives compensation for overpayments.

Notwithstanding all the OEMs serving notice of intention to defend the application, Transnet and the SIU are proceeding with the application.



## Investigation by the Competition Commission

Transnet received a summons from the Competition Commission to respond to areas of concern relating to potential exclusionary commercial conduct of our rail and port operations. We have responded to the summons by providing the requisite documentation as well as additional financial and accounting information to support our own findings, including information on Freight Rail's asset register.

During December 2019, the Commission's preliminary findings indicated that Transnet National Ports Authority (TNPA) and Transnet Port Terminals (TPT) had charged excessive pricing and had engaged in exclusionary conduct/preferential treatment on the part of both ODs.

Given that the NPA is a creation of statute, Transnet has made every effort to ensure there are clear lines of accountability, group-level oversight, and mutual transparency between the two divisions. As such, any summation to the contrary needs to be evidenced with factual findings.

Transnet's legal counsel met with the Commission on 27 July 2020, wherein the Commission advised that it was amenable to settlement of all the investigations against Transnet and requested Transnet to present a settlement proposal for all matters. Transnet submitted a revised settlement proposal on all the Competition Commission investigations on 29 January 2021 and is currently awaiting feedback.

## Investigation by the Zondo Judicial Commission of Inquiry and tribunal outcomes

Transnet appointed a firm of attorneys to represent the Company during the investigations and sittings of the Commission. We continue to provide our full co-operation and meet with the Commission on a weekly basis, with the Commission investigators actively working from Transnet's premises.

Please see further detail on a special Tribunal outcome relating to former Transnet Group Executive, Mr Herbert Msagala, on page 129 of the Directors' Report, included as Annexure A.

## Total SA and Sasol Oil v Transnet Pipelines

Total SA brought an action against Transnet relating to tariffs charged by the Company given an agreement containing the so-called 'Neutrality Principle' to transport crude from the coast to the inland Natref Refinery, and the advent of the National Regulator and the Petroleum Pipelines Act, which impacted tariffs charged under the Neutrality Principle. Notwithstanding the subsequent promulgations by the National Regulator and the Petroleum Pipelines Act, the action brought against Transnet declares that the Neutrality Principle remains valid and binding upon the Company. The monetary sum sought per the initial claim was estimated by Total to be in the sum of R430 million and R1,1 billion by Sasol. These action dates back to 2016.

Both the Gauteng High Court and the Supreme Court of Appeal (SCA) found the agreement to be valid and have upheld the Neutrality Principle. On 9 October 2020 the court delivered judgment against Transnet, dismissing all its defences. An application by Transnet for leave to appeal was also dismissed.

Transnet then petitioned the SCA for leave to appeal, which was rejected on 21 November 2020 and a special leave to appeal was also declined on 15 March 2021. Parallel to the litigation, Transnet has lodged a formal complaint to Nersa regarding the Neutrality Agreement, in which it alleges that the agreement does not accord with the Petroleum Pipelines Act (PPA).

Transnet's petition to the Constitutional Court for leave to appeal has since been granted and the matter is scheduled to be heard on 16 November 2021. Nersa has accepted Transnet's complaint and has requested both Sasol and Total to respond.

## McKinsey and Transnet

In November 2020 McKinsey approached Transnet with an offer to return the fees earned by McKinsey in respect of projects contracted with Transnet (where McKinsey was associated with Regiments Capital) in full and final settlement of all and any claims that Transnet may have had against McKinsey. Transnet and McKinsey entered into a settlement agreement on 21 May 2021 in terms of which McKinsey paid Transnet R870 million on 31 May 2021. The settlement represents a significant achievement for Transnet.

## Outcome of the external audit



In addition to the recovery measures implemented to mitigate the impacts of the pandemic on our operations, we also embarked on a meticulous governance journey to improve internal controls by implementing a rigorous PFMA improvement programme. The programme has both short-term and longer-term initiatives to tighten up our control environment, with stronger divisional leadership accountability to guard against recurring audit qualifications. Going forward, process automation will play a large part to ensure our governance interventions remain intact and functional, together with longer-term reform measures for our procurement processes.

However, despite the significant strides made in addressing the PFMA compliance matters, Transnet is once again qualified on the basis of misstatements identified in the irregular expenditure disclosed in note 42 of the annual financial statements.

Our Group Chief Financial Officer, Ms Nonkululeko Dlamini provides more information on our PFMA compliance and financial performance in her review in the chapter relating to our performance on page 90.

## Where to from here?

Each morning, 55 827 Transnet employees wake up within the industrial sectors that pump the lifeblood of our country's economy. However, before we are Transnet employees, we are mothers, fathers, sisters and brothers to our families. We are members of communities, we are colleagues to each other, and we are South Africans. As such, we have felt first-hand what the loss of hope, pride and morale can do to a nation, as we sympathised with the wide-spread distresses felt by fellow South Africans at the passing of loved ones, the loss of jobs, and the closure of businesses due to one of the worst pandemics in our history as a country and as a company. Within Transnet, we have also come to understand that despite the physical healthcare effects of the

pandemic, low employee morale can lead to safety incidents, poor productivity and increased absenteeism. To respond to the disruptions and healthcare challenges of the pandemic, we established the Transnet COVID-19 Command Centre at the behest of the Group Chief Executive and in compliance with the National Disaster Management Act, No 57 of 2002 to introduce immediate measures to support and protect our people at the forefront of our essential services to customers. Further, our Employee Assistance Programme was extended to add service offerings in all 11 official South African languages and to operate continuously for 24 hours to provide COVID-19 testing, as well as mental health and trauma-related assistance to employees and their immediate family members.

As we move forward in the context of the dire economic and social circumstances of the reporting year, with the lingering healthcare effects of COVID-19 being exacerbated by violent acts of anarchy and looting in July 2021, might there be a way to envision a future trajectory that brings hope and, dare I suggest, prosperity? In 2020 Government reached out to industry and the private sector to come together to help save lives and to protect our economy through joint initiatives such as the national Solidarity Fund. Transnet was a key contributor to the fund, and many within the private sector stepped forward to assist with financial support. Now Transnet, an enterprise organ of the State, calls on industry and the private sector to work together with us to improve lives and to grow and renew our economy through private sector and multistakeholder initiatives.

## Our Growth and Renewal Strategy

Rebuilding our economy through collaborative multistakeholder initiatives is the foundation of Transnet's new cooperative Growth and Renewal Strategy, based on a private sector participation (PSP) model. As such, our PSP model aligns with our Shareholder Minister's Statement of Strategic Intent which mandates Transnet to leverage the private sector in the provision of both infrastructure and operations where required. To date, we have achieved significant economic and developmental outcomes through various PSP initiatives nationally, and have leveraged investment through numerous concessions and Section 56 National Ports Authority (NPA) agreements. In fact, the PSP model has, over time, enabled Transnet to help remove many historical barriers to entry for new participants in the ports, rail and pipeline business (see page 36 for progress on developmental outcomes of our PSP model). This said, we are working hard to improve the timing with which these transactions can gain traction. In some instances, we are completely revamping the vehicles for introducing PSP, even considering auction models to ensure that we have swift transactions.

We have 8 000 km of rail system defined as branch lines and we are looking to ensure that there are economic opportunities in the system for those industry participants looking to cooperate with us to build more efficient value chains within the country's key commodity sectors. Investing in more efficient logistics solutions has become a critical focus as we move into a post-COVID world. Corporates, financiers and equity investors seek to invest in capabilities that serve new ways of being and doing business. South Africa's logistics performance is reasonable, but we have fallen behind our regional and international peers in the last decade. There is a need for us to enhance our logistics sector's competitiveness as it has a direct impact on South Africa's regional and global trade competitiveness.

At Transnet, we intend to leverage private sector capital and other resource capabilities to revitalise our port and rail logistics solutions. Private partnerships in certain instances will help to leverage synergies between our ODs and move us towards a more integrated operating model. To restore our intrinsic value, Transnet requires investment in three fundamental areas:

1. **Repairing core aspects of the business** such as enhancing operational competencies and modernising infrastructure to ensure we provide reliable services to our customers. We intend to play a critical role in stimulating both direct and indirect trade competitiveness and overall economic development as well as enabling other derived sustainable development outcomes, such as broad-scale job creation. In some instances, customers have moved from rail to road because of rail and port constraints (e.g. chrome exporters). Accordingly, the Growth and Renewal Strategy's portfolio lens aims to reverse this trend by ensuring our renewed road-to-rail strategy achieves more integrated, safer and reliable delivery of our value chain services. Additionally, our road-to-rail strategy will result in 'green economy' interventions, as directed by Government's Programme of Action captured in the Economic Reconstruction and Recovery Plan.
2. **Expanding and scaling the logistics distribution network** by using owned assets and third-party logistics partnerships and private investments to ensure a sustainable funding model.
3. **Investing in new services to expand and support the rail, port and pipeline value chains**, thereby acting as a supply chain coordinator while pursuing new business in over-border geographic markets by following existing and new customers' footprints into the continent. Specifically, we intend to expand Transnet's own footprint into Africa by being a regional trade hub and transshipment hub for clean commodities in the automotive and container segments.

Transnet's new Growth and Renewal Strategy aims to crowd in PSP in a structured yet dynamic way by collaborating in the top eight commodity value chains the Company presently serves, and which represent 80% of the business's revenue. The strategy demonstrates a deep appreciation for the unique requirements of each commodity segment (as detailed on pages 37 to 46 of the Strategic risks and opportunities section in our Strategy and planning chapter), and provides a view of the required assets, operations, and current and future investment pipeline that will culminate in new opportunities within each sector's value chain. Sector initiatives need to be market appropriate and span the various levels of required infrastructure repair and modernisation, as well as renew and transform critical value chain services.

The strategy's segment investment channel will provide a private investor with the opportunity to invest in a specific commodity value chain, individual projects within a single value chain or across multiple value chains, thereby enabling transparent opportunities and shared risk assessments. Additionally, Transnet will undertake stringent governance processes for each capital project investment, with group-level oversight to confirm transactions are strategically aligned and to ensure our transaction steering committees include our strategic private sector partners. Capital investments are likely to yield good financial and social returns for investors in exchange for the reduction of Transnet's own capital outlays. Accordingly, we will maintain our Capital Investment Plan at sustainable levels, focusing on core maintenance initiatives and on attracting suitable private sector and industry partners to

undertake key expansion projects and programmes. Both Transnet's sustaining and expansion capital investments will be sharply aligned to accelerate our segmental strategies to improve operational productivity and efficiency, maximise asset utilisation and to optimise returns on our assets, for the Company and for our private sector partners.

Notwithstanding the far-reaching commercial benefits of the above PSP model, in line with Government's Recovery Plan, private sector financial investment is only one pillar of Transnet's broader call for multisector resource mobilisation, as private investments can also take the form of other resource investments, such as the provision of capacity, distribution channels, skills and training, infrastructure ownership or maintenance, or technology investments. The latter perspective creates a platform for multipurpose, multistakeholder private sector resource investments from a cooperative spread of large, medium and smaller market participants. This model follows an authentically cooperative value chain strategy aligned to Government's Economic Reconstruction and Recovery Plan, and intends to result in strategic sustainable development outcomes aligned to the United Nations' 17 Sustainable Development Goals (SDGs), most specifically SDG 17: Partnership for the goals<sup>1</sup>. Ultimately, South Africa as a country and developing economy becomes the overall beneficiary of both the direct and derived investment outcomes of the Growth and Renewal Strategy.

There is extraordinary inherent value in such a large-scale growth and renewal strategy, both commercial and developmental. For the first time in our history as Transnet, we can say with confidence that we are moving beyond the traditional balancing act of our dual mandate as our commercial mandate becomes our developmental mandate, and conversely our developmental mandate is our commercial mandate.

## Appreciation

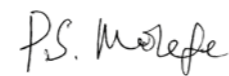
I would like to acknowledge the people of Transnet for your commitment to ensuring our Company remained resilient and operational under near impossible socio-economic conditions during the reporting year. I also wish to call on our people to look to the future now, difficult as it seems, and to consider how we can support each other to move beyond this time in our country and Company's history. It is easy to say: "this time too shall pass", but as South Africans we are inherently resilient, deliberately positive, and by our very nature, intent on thriving. Can we afford to be anything less? We have an opportunity, through our new Growth and Renewal Strategy to lead an industrial march to prosperity, together with customers, industry and private sector partners. But only, if we, the people of Transnet, renew pride in ourselves and in our Company, which includes committing to the highest standards of ethics and customer service. Nothing short of our very best efforts will suffice.

Thank you to the Minister of Public Enterprises, Mr Pravin Gordhan, who represents our Shareholder and the people of South Africa, for your enduring support and guidance. On behalf of the Transnet Board, our Executive leadership and the people of Transnet, I would like to assure you of our sincere commitment to enabling the industrial capability, economic prosperity and developmental outcomes that the Department of Public Enterprises continues to envision for South Africa, particularly as we enter a post-COVID world. We are confident that our Growth and Renewal Strategy will have far-reaching, sustainable impacts for our economy; and together, we look forward to reaping the deep and vast rewards of a strategy that views our Commercial and Developmental Mandate through a single lens.

Thank you to our customers and commercial partners for your continued confidence in our abilities, albeit we have in many respects fallen short of our promises to you, particularly in not keeping you appropriately informed of our operational challenges. It is our sincere intention to do better and to regain trust where we have underperformed.

Thank you to the leadership of organised labour for your willingness to share in our continued journey. On behalf of the Board, I would like to acknowledge the positive value that organised labour has added to our operations in advising and guiding our people and leadership towards ever-greater understanding and cooperation during a challenging year.

Thank you to the Transnet Board for your care, guardianship and agility during a difficult year. We need resilient leadership at this time, and I am proud to serve beside you.



**Dr Popo S Molefe**  
Chairperson

25 October 2021  
Johannesburg

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



# Our Board members



**Dr Popo Molefe**  
Chairperson

Date of birth: April 1952

Date of appointment: May 2018



1 2 9 11

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

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



**Ms Portia Derby**  
Group Chief Executive

Date of birth: December 1969

Date of appointment: February 2020



2 6 11 15 19

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

- Directorship/Shareholding/Trusteeship:**
- JoyAnanda Investments (50% holding)
  - LPA Properties (50% holding)
  - Pholela Trust
  - Tandimanzi (Pty) Ltd
  - Ubu Investment Holdings (60% holding)



**Mr Aluwani Ramabulana**  
Independent non-executive director

Date of birth: October 1971

Date of appointment: May 2018



1 2 4 5 6 9 11

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

- Directorship/Shareholding/Trusteeship:**
- Balxores - 100%
  - Bono Lithihi Investment Holdings (Pty) Ltd - 100%
  - DataQwip Rentals (60% holding)
  - Lateospace (49% holding)
  - MDZ Capital (100% holding)
  - MDZ Fleet Solutions (100% holding)
  - MDZ Holdings Trust - 100%
  - MDZ Logistics (100% holding)
  - Mudzi Palfinger JV (51% holding)
  - Sabanoscope - 33%
  - Timeless Moments - 100%

**BOARD COMMITTEES**

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



**Ms Mpho Letlape**  
Independent non-executive director

Date of birth: March 1959

Date of appointment: May 2018



2 8 10 11 18

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

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

**BOARD MEMBERS' COMPETENCIES**

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



**Ms Ursula Fikelepi**  
Independent non-executive director

Date of birth: January 1973

Date of appointment: May 2018



1 2 3 6 7 11

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

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

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



**Ms Dimakatso Matshoga**  
Independent non-executive director

Date of birth: May 1978

Date of appointment: May 2018



1 2 11 13 17 18 19

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

- Directorship/Shareholding/Trusteeship:**
- Atafala Enterprises t/a Atafala Consulting (100%)
  - Atafatsa Foundation (non-profit company) (33,3% holding)
  - ATISSA Engineering and Environmental (in deregistration process)
  - Isa-Stra Tech Solutions (20% holding)
  - Sustainable Heating Holding Company (withdrawal in progress)
  - Sustainable Heating 7 (withdrawal in progress)
  - SAtion SA Digital (NPC) - (Director)

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

# Our Board members



**Dr Fholisani Mufamadi**  
*Independent non-executive director*

Date of birth: February 1959

Date of appointment: May 2018



2 9 10 14

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

Directorship/Shareholding/Trusteeship:  
• Absa Bank Mozambique  
• Adcorp Holdings Ltd  
• Implats Holdings Ltd  
• Muendanyi Consulting (100% holding)  
• Luthuli Peace & Development Institute  
• Public & Environmental Economics  
Research Centre (0%)  
• Zimplats (Chairman of the Board)

**Ms Gratitude Ramphaka**  
*Independent non-executive director*

Date of birth: August 1979

Date of appointment: May 2018



6 12 15

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

Directorship/Shareholding/Trusteeship:  
• Mbabo Transport Services cc  
(dormant - being deregistered)

**Mr Louis von Zeuner**  
*Independent non-executive director*

Date of birth: June 1961

Date of appointment: May 2018



1 2 3 6 7 12

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

Directorship/Shareholding/Trusteeship:  
• FirstRand Bank Ltd  
• FirstRand Ltd  
• Mahela Group Holdings (Pty) Ltd  
• Telkom SA SOC Ltd  
• Tongaat Hulett Ltd  
• University of the Free State (Council)  
• Wildeklawer Investments (Pty) Ltd

**Ms Nonkululeko Dlamini**  
*Group Chief Financial Officer*

Date of birth: October 1973

Date of appointment: July 2020



2 6 15

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

Directorship/Shareholding/Trusteeship:  
• Coalition Trading 363 (AR final  
deregistration)  
• Melody Hills Trading 127 (AR final  
deregistration)  
• Rosherville Properties

**Adv Oupa Motaung<sup>1</sup>**  
*Independent non-executive director*

Date of birth: August 1970

Date of appointment: May 2018



3 6 17

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

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

<sup>1</sup> Adv Motaung passed away in  
September 2020.

**Ms Shokie Bopape**  
*Interim Group Company Secretary*

Date of birth: May 1969

Date of appointment: September 2020



1 3

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

## Gender representation

**50%** male

**50%** female

Excluding executive directors and Company Secretary.

## Race representation

**87,5%** (7 African)

**12,5%** (1 White)

## BOARD COMMITTEES

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

## BOARD MEMBERS' COMPETENCIES

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



## Group Chief Executive's review



“We are not the ‘builders’ of the capacity for our key industrial value chains, we are the *enablers* of the capacity required for industrial sectors to build themselves and to achieve sustainable development outcomes.”

### Remaining resilient

As a SOC, our success should be measured by our ability to ensure the economic prosperity of all South Africans by enabling the industrial capability of core commodity sectors. Our ability to provide enabling infrastructure will have a material benefit to South Africa's regional and global competitiveness. Admittedly, the COVID-19 pandemic has caused disruptions to all sectors of industry – changing the world as we know it.

During the year, we witnessed a decline in global trade with plunging oil prices and financial markets as well as severely constrained demand. Our operations and volume performance were negatively impacted by these same economic constraints, while we also lost volumes due to incidents of cable theft, vandalism and derailments on our rail network as well as other adverse interruptions to our port and pipeline infrastructure, such as power failures and severe weather conditions.

The quantum of losses due to the combined impacts of these external events and disruptions cannot be known until we are able to better define the nature and causes of these human and environmental acts on the business. Further, businesses in our key commodity sectors continue to face critical financial and operational challenges from loss of income and reduced skills capacity affected by the sustained COVID-19 lockdowns and the loss of lives. Restrictions on movement and the adverse effects of working from home impacted productivity in some instances, and also reduced human capital and skills capabilities for many businesses. Time consumed by isolation, quarantine and family responsibility for those infected with the virus and other complications caused by the pandemic all affected Transnet's overall productivity. As a SOC, and the backbone of the South African economy, we cannot turn our attention away from the need to remain a resilient and active employer of the thousands of Transnet employees who diligently enable and support our segmental customer supply chains.

Notwithstanding the above challenges, our cost-saving and cost-optimisation measures enabled us to stabilise the core of our operations from a financial perspective. This is testament to our leadership's single-minded approach to align our present financial position to critical operational requirements. Accordingly, we are pleased to report that, our inherent operational costs remained largely stable during the year, with a marginal 0,49% increase from R41,2 billion in the prior year to R41,4 billion in 2021.

We are also pleased to report that, despite the negative impact of the pandemic on both the global and domestic economy, Transnet generated R26,8 billion in cash flows from its operations during the year ended 31 March 2021, sufficiently funding interest payments, working capital and netting a favourable R12,1 billion from operating activities to fund the capital investment programme.

### Performance against our Shareholder's Compact

As the COVID-19 restrictions began to ease and global demand began to recover in the latter part of 2020, the Company recorded month-to-month performance improvements across our key indicators, as measured by our Shareholder's Compact. Notably, we performed to target in terms of maritime connectivity, the number of indirect jobs created in the economy and ESD.

Our commitment is to ensure that the private sector participation (PSP) strategy improves financial performance and, that we are able to increase the number of direct and indirect jobs in the South African economy while continuing to co-develop small and medium-sized enterprises. Page 36 of our section on Strategy and planning expands on the positive outcomes of our PSP collaborations across South Africa to date. A combined estimate of 2 838 direct and indirect jobs have been created, and a further 2 200 combined direct and indirect jobs are anticipated in the next two to five years.

The pandemic's impact on our economy, with resulting job losses and business closures emphasised that we cannot under-value the importance of sustaining and creating jobs in our country. However, we must also look at our internal capabilities to ensure we have the skills, expertise and core operational capacity and competencies to provide our services reliably, securely and efficiently. Most importantly, security incidents on our rail infrastructure have been the biggest contributors to lost volumes on rail, causing a steady migration of goods to road transport, which has also become less costly due to lower oil prices during the year<sup>1</sup>.

As indicated by the Chairperson on page 13, we have made great strides in improving security on our rail track infrastructure through partnerships with law enforcement agencies and investment in technological solutions. In some instances, we have resorted to manually guarding our assets to ensure security of volumes transported, which can now be replaced by our investment in best-in-class technological advancements. However, with no part of our national rail infrastructure being immune to what has become systemic theft and vandalism, we would need to partner customers to implement sustainable solutions. Accordingly, we will apply a security surcharge per wagon over a three-year period to enable the investment.

### Preparing for a post-lockdown business landscape

Since creating the Transnet COVID-19 Command Centre (CCC) in January 2021, our priorities were to support our people through dedicated primary healthcare services and to align commercial inputs from our ODs. As such, we worked to create an integrated Transnet response to the pandemic as it took its course, and to plan for the post-lockdown way of doing business. Accordingly, we closely aligned our Occupational and Employee Wellness Policy with the Company's COVID-19 management interventions during the year. The policy prioritises chronic disease management in light of the high risks of exposure to COVID-19. It was saddening to observe a relatively high increase in chronic conditions amongst our employees due to the pandemic.

In addition to supporting our own staff through the pandemic, we also reached out to distressed communities through the Transnet Foundation. Our contributions ranged from a donation of personal protective equipment to Africa's largest hospital, Chris Hani Baragwanath in Soweto, to expanding the services of our Phelophepa Healthcare Trains to include COVID-19 testing and vaccinations. Overall, R85,6 million was invested in comprehensive primary healthcare services to an estimated 237 762 patients from communities along our rail corridor through the use of the Phelophepa Healthcare Trains. We recorded 197 215 instances of COVID-19 community screening and testing.

Apart from the work being done by the Phelophepa I and II Healthcare Trains, Transnet Engineering has built the new Transvaco train specifically to support the COVID-19 relief work of the Transnet Foundation by transporting the bulk of the COVID-19 vaccines to remote areas of South Africa.

<sup>1</sup> *Crack Transport and Freight Index: Crack & economists.za*

## Financial performance

Our financial performance was well below our internal targets set at the beginning of the financial year. The decline should be viewed in the context of the devastating impacts of the COVID-19 pandemic on the South African economy, which contracted by 7% in 2020, as well as the external social and environmental factors indicated above. That said, Transnet's revenue decreased by 10,5% to R67.3 billion. Accordingly, our gearing level increased to 48,7% (2020: 47,1%), which is well below the triggers in loan covenants. Although not as healthy as we would like to see overall, our gearing ratio is expected to remain within the target ratio over the medium term, thereby proving Transnet's ability and capacity to progress its investment strategy.

## Operational performance

Our operational performance has been on the decline in recent years, and our financial position remains marginally constrained. This means we cannot make the required infrastructure investments to grow the freight system for the benefit of the economy from the strength of our own balance sheet alone. To respond appropriately to these challenges, we have adopted a new approach to renew the business. Our new Growth and Renewal Strategy aims to reposition Transnet to capture growth opportunities through new partnerships and collaborations, which necessitates the optimum use of our assets for broader economic development.

Policy alignment is a key requirement for implementing the strategy. In response to the public private partnership policy, we will partner with the private sector – including our customers and competitors – to help us to unlock new growth and renewal opportunities. The strategy is not about privatisation and Transnet remains a state-owned company. As such, we are not selling off key assets or exiting any of our core functions. Rather, we are crowding in private sector investment in areas where we may not have the requisite competencies or commercial appetite so that those partners who are better positioned, experienced and capacitated, can assist us to deliver on our mandate.

## Credit rating

The most critical market risk for Transnet in moving forward with our Growth and Renewal Strategy is that our growth is closely linked to the broader economic growth rate. Transnet's credit rating is linked directly to that of the country; as such, the current credit ratings by Moody's and Standard & Poor's (S&P) reflect a downgrade of Transnet's credit rating from the prior year. Despite our concerns pertaining to the impact on the cost of future borrowings given Transnet's liquidity compression, the downgrade will not impact Transnet's existing loans, and we continue to engage the ratings agencies on approaches to avoid further downgrades.

## Our regulatory environment

The corporatisation of Transnet National Ports Authority, has been an ongoing narrative for us in recent years and, as such, is not entirely unexpected, albeit it occurred after our 2021 financial year end. On 22 June 2021, President Cyril Ramaphosa announced the establishment of the Transnet National Ports Authority as a separate, wholly owned subsidiary of Transnet with its own Board of Directors. As Transnet, we do not expect the establishment of the new subsidiary to impact the Group in any adverse way.

However, we cannot as yet determine the full impact of the corporatisation on the Company's asset base and financial position. We will continue to report on the status and impacts of the corporatisation in subsequent integrated reports.

The Chairperson has provided a more detailed account of other regulatory and judicial proceedings on page 13.

## Outcome of the external audit



The Auditor-General of South Africa (AGSA) is now Transnet's sole external auditor, effective from the 2021 financial year. Albeit the AGSA has been involved in the audit process with SizweNtsalubaGobodo Grant Thornton Inc. over the last two financial years, the 2021 financial year was the AGSA's first major external audit of a Group the size of Transnet. The external audit was, therefore, understandably performed through an extended process due to numerous changes, including a revised audit methodology and materiality determination process, and an audit of take-on balances, which would not have been necessary had there been a continuation of auditors.

Additionally, the delays on the audit process were exacerbated by the cyberattack that impacted Transnet from the third week of July 2021. As a result, the Company's systems were completely shut down given the need to reactivate critical business continuity processes. Although our systems are gradually being reinstated, and in certain cases rebuilt, it has taken longer than we had anticipated to get all users reconnected to the network in compliance with our revised IT protocols. The delay in finalising the audit required that we approach numerous regulatory bodies to inform them of the potential for not meeting critical submission deadlines. We are extremely grateful that our lenders and funders who have been affected remain supportive and engaged in our future vision.

## Governance environment and audit qualification

Our corporate governance environment requires moderate, and in some areas, significant improvement. Our supply chain management (SCM) remains problematic. Although we, as management, are making a concerted effort to address negligence and malfeasance in this area, we remain exposed to the negative effects of people not adhering to processes, procedures and policies. In understanding that our procurement processes are still reliant on manual processes to identify and report irregular expenditure, we have initiated a procurement reform programme to address all SCM-related activities in a more sustainable manner to contend with the root causes of PFMA non-compliance. However, because we still rely on manual reporting processes, the completeness, accuracy and occurrence of the reported irregular expenditure in note 42 of the Annual Financial Statements has resulted in the external auditors issuing a qualified audit opinion for the year.

Although the qualification does not relate to any IFRS and accounting policy matters, it has led to a breach of loan commitments. Transnet will, in turn, need waivers from affected lenders to waive their right to accelerating debt repayment. Accordingly, Transnet engaged the market during March 2021 to alert lenders to the indicative results,

which were further impacted by the combined effects of the COVID-19 pandemic and various operational challenges, which included derailments and security incidents.

## Irregular expenditure

Notwithstanding the positive progress we have observed in instituting stringent remedial action plans to curb irregular expenditure, we once again recorded irregular expenditure of R183,5 billion, with 80% (R148,2 billion) of these being irregular.

In understanding the impact of irregularities identified in our procurement environment, we are now able to target our practices and processes to ensure responsible and ethical stewardship of our Company's resources. We acknowledge the role that we play in building the strength and capacity of the South African economy and, therefore, aspire to build an identity of ethics and integrity within Transnet; that identity will drive a holistic view of our mandate and accountability towards the country and the communities impacted by our conduct and business activities, and how we create accountable measures to reduce wastage, corruption and irregularities linked to Transnet's own resource usage.

## Moving forward

### Critical drivers

The Growth and Renewal Strategy should be seen in the context of our Shareholder's Statement of Strategic Intent (SSI), which specifically directs Transnet, as a SOC, to leverage the private sector in the provision of both infrastructure and operational services where required. In addition to this directive, the SSI further directs Transnet to act as an enabling vehicle to deliver certain strategic outcomes for the people of South Africa. These outcomes include:

- A reduction in the total cost of logistics as a percentage of transportable GDP;
- An accelerated modal shift by maximising the role of rail in the national transport task;
- The integration of South Africa with the region and the rest of the world; and
- The optimisation of both the social and economic impacts of all our interventions as a SOC.

Our financial sustainability depends on our ability to deliver on our mandate, which requires us to participate in and enable the core value chain services, operations and infrastructure within the country's key commodity supply chains. Our delivery depends both on our own core operational capabilities and our ability to crowd in private sector partnerships, where appropriate, to optimise the strategic economic and developmental outcomes expressed in the SSI. As such, our strategic capital investments must lead and complement our PSP investments to raise the level of the overall multistakeholder partnership investments in the freight system. This is also a commitment to improve the systemic standards of service delivery within our major industrial value chains, while enabling specific sustainable development outcomes.

## Strategic outcomes

Our overall performance has been measured as a SOC, in terms of our achievement of nine economic, social and environmental sustainable development outcomes (SDOs)<sup>2</sup>. These outcomes are not Transnet's outcomes as a business, they are the outcomes we

need to achieve for and on behalf of the people of South Africa. It is incumbent on us to remember that we are custodians of the Department of Public Enterprises' aspirations for the country and the vehicle through which these aspirational outcomes are enabled. Said differently, we are not the 'builders' of the capacity for our key industrial value chains, we are the *enablers* of the capacity required for industrial sectors to build themselves and to achieve sustainable development outcomes for our wider society.

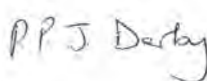
That means, we need to invest in appropriate skills and assets, not only in the short term, but in the long run. As a self-funding SOC, Transnet already reinvests approximately 70% of its revenue back into the business to ensure we do not need assistance from the fiscus, with about 41% accounting for personnel costs and 21% reinvested into maintenance and materials. In addition, our Capital Investment Plan will also be maintained at sustainable levels to ensure we prioritise core maintenance initiatives and are able to attract suitable private sector and industry partners to undertake co-operative expansion projects.

## Conclusion

The best strategies will fail if we do not consider how our culture, values and personal aspirations might impact our achievement of strategic objectives. The question we must ask ourselves is whether we can pull together as an organisation and push in one direction to deliver on our strategy. More than being about Transnet as a company alone, our new Growth and Renewal Strategy is about South Africa's future prosperity and well-being.

In devising our strategy, we did not simply rely on the meeting of minds at the level of leadership, we travelled throughout the country to meet as many of our people as possible to get their inputs, hear their concerns and objections and to assess their capabilities to ultimately deliver on our strategic vision. Our ability to deliver operationally as "one Transnet" remains leadership's biggest challenge given the complex internal and external challenges that have affected our operations. The task ahead requires that we take a critical look at where we stand and what our own core abilities can achieve to deliver on our new strategy.

In closing, I would like to venture that we have great opportunity ahead of us to carry, uphold, and develop a Transnet that can reflect the heart of South Africa, which is its people who have been resilient in a time of great uncertainty in the past 18 months. We drive our strategy, we effectively capacitate our operational structures, and we are custodians of a great number of resources to bring social and economic strength, growth and renewal to our country. We carry this vision at Transnet as our guide and bear the immense responsibility of this stewardship because, as a SOC, we understand the value and weight of our industrial-enabling custodianship role. as a SOC. This is our most poignant guide for our way forward.



Ms Portia Derby  
Group Chief Executive

25 October 2021  
Johannesburg

<sup>2</sup> Transnet's nine SDOs include: Industrial capability building, Investment leverage and private sector participation, Regional integration, Transformation, Employment, Skills development, Health and safety, Community development and Environmental stewardship.

# Our Executive leadership



**Ms Portia Derby**  
Group Chief Executive

Date of birth: December 1969

Year of appointment: 2020

2 6 11 15 19

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

**Adv Michelle Phillips**  
Chief Executive: Transnet Pipelines

Date of birth: December 1970

Year of appointment: 1999

2 3 4 20

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

**Mr Velile Dube**  
Chief Executive: Transnet Port Terminals

Date of birth: May 1961

Year of appointment: 2009

2 5 13 20

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

**Dr Andrew Shaw**  
Chief Strategy and Planning Officer

Date of birth: May 1967

Year of appointment: 2020

2 4 6 11 14 17 19 20

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

**Mr Pandelani Munyai**  
Chief Information Officer

Date of birth: January 1969

Year of appointment: 2020

2 5 6 8 13 16 17 20

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

**Ms Sizakele Mzimela**  
Chief Executive: Transnet Freight Rail

Date of birth: May 1965

Year of appointment: 2020

2 4 6 11 19 20

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

**Mr Brian Kgomo<sup>1</sup>**  
Chief Audit Executive

Date of birth: October 1967

Year of appointment: 2020

1 3 12 13 15

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

<sup>1</sup> Mr B Kgomo passed away in July 2021.

**Mr Thandwayinkosi Siyaya**  
Acting Group Treasurer

Date of birth: May 1985

Year of appointment: 2009

2 6 15

Qualifications: Bachelor of Accounting (University of KwaZulu-Natal); BCom (Hons) (Accounting) (University of KwaZulu-Natal); Bachelor of Accounting Science (Hons) (Unisa); Advanced Certificate in Financial Management (Accounting Professional Training); Senior Leaders Development Programme (Wits Business School); CA (SA)

## Gender representation

**62,5%** male

**37,5%** female

## Race representation

**75%** (12 African)

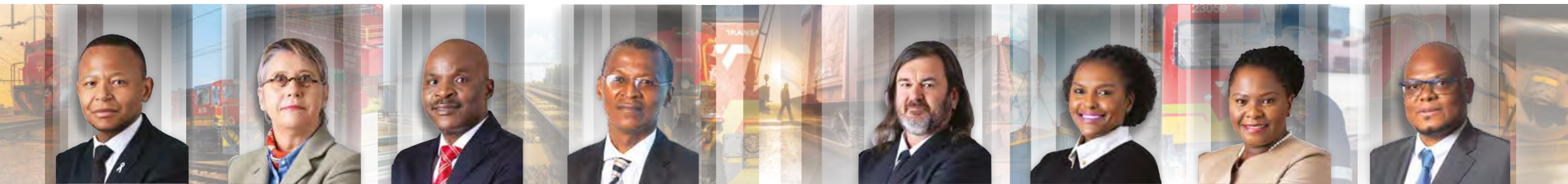
**19%** (3 White)

**6%** (1 Coloured)

## COMPETENCIES

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

# Our Executive leadership



**Mr Khayaletu Ngema**  
Chief of People Officer

Date of birth: October 1970

Year of appointment: 2017

**Adv Sandra Coetzee**  
Chief Legal Officer

Date of birth: April 1962

Year of appointment: 2020

**Mr Vuledzani Nemukula**  
Chief Procurement Officer

Date of birth: January 1968

Year of appointment: 2020

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

Date of birth: December 1964

Year of appointment: 2020

**Mr Ralph Mills**  
Chief Executive: Transnet  
Engineering

Date of birth: January 1964

Year of appointment: 2020

**Ms Yolisa Kani**  
Chief Business Development  
Officer

Date of birth: September 1975

Year of appointment: 2020

**Ms Nonkululeko Dlamini**  
Group Chief Financial Officer

Date of birth: October 1973

Year of appointment: 2020

**Mr Kapei Phahlamohlaka**  
Chief Executive: Transnet  
Property

Date of birth: April 1976

Year of appointment: 2020

2 3 10 11 14

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

1 2 3 7 9 12 13

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

1 2 3 4 16

Qualifications: MBA (University of Wales); BSc (University of Cape Town); Advanced Business Programme (University of Johannesburg); Advanced Management Programme (INSEAD); Oxford Executive Leadership Programme (Oxford University - Said Business School)

2 10 17 18

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

2 8 11 20

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

2 5 14 17 19 20

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

2 6 15

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

2 3 6 21

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

## COMPETENCIES

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



# Material matters impacting our strategy



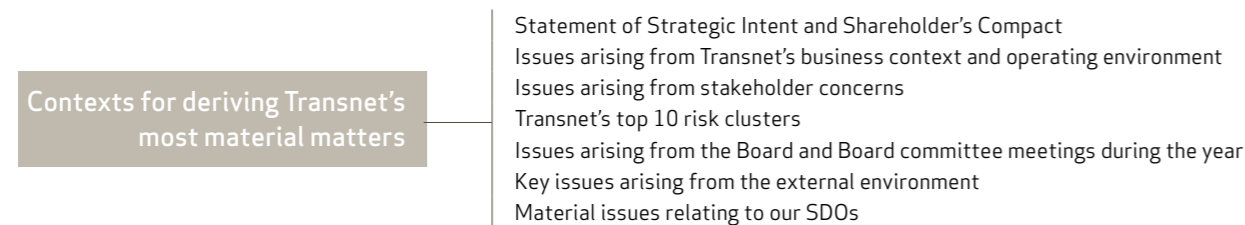
## Changes in reporting on material aspects

Our reporting on material matters for 2021 is clustered according to the Shareholder's Compact. While the material matters for 2021 remain constant from the prior year in most respects, they are further informed by commercial priorities, operational concerns and socio-economic impacts during the year.

Table 3: Material matters impacting our strategy

Material clusters	
<p><b>Ensure financial sustainability</b></p>	<ul style="list-style-type: none"> <li>Harness the value of capital allocation and deployment to ensure financial self-sustainability while ensuring derived commercial and developmental value creation for South Africa</li> <li>Reinvest Transnet's revenue growth sufficiently into the business to ensure self-sustainability</li> <li>Drive cost efficiencies and cost-optimisation across all spheres of the business</li> <li>Optimise business continuity following business disruption (mainly COVID-19)</li> </ul>
<p><b>Reduce the total cost of logistics, effect and accelerate modal shift in strategic growth segments</b></p>	<ul style="list-style-type: none"> <li>Prioritise repair and reform of business assets to ensure service efficiency and infrastructure reliability within Transnet's core business</li> <li>Partner with the private sector to reduce inherent costs within key commodity sectors</li> <li>Harness volume growth within commodity sectors to move freight from road to rail</li> <li>Pursue strategies to build maritime connectivity for South Africa's trade competitiveness in the region</li> </ul>
<p><b>Leverage private sector in the provision of both infrastructure and operations for strategic growth segments</b></p>	<ul style="list-style-type: none"> <li>Crowd in private sector partners to cooperate in funding and mobilising key strategic resources – infrastructure and other resources – within South Africa's key commodity value chains to deliver on Transnet's mandate</li> </ul>
<p><b>Integrate South Africa with the region and the rest of the world</b></p>	<ul style="list-style-type: none"> <li>Optimal mobilisation of Transnet's strategic and tactical resources (core competencies, key infrastructure and appropriate strategic partnerships) to grow over-border revenue from existing and new customers to increase trade competitiveness for South Africa in the region</li> </ul>
<p><b>Optimise the social and economic impact of all interventions in the achievement of these objectives</b></p>	<ul style="list-style-type: none"> <li>Ensure direct and derived commercial and developmental outcomes from all Transnet's activities:                             <ul style="list-style-type: none"> <li>Employment</li> <li>Skills development</li> <li>Industrial capability building</li> <li>Investment leverage and private sector participation</li> <li>Regional integration</li> <li>Transformation</li> <li>Health and safety</li> <li>Community development</li> <li>Environmental stewardship</li> </ul> </li> </ul>

Figure 3: The scope and boundary of our materiality determination process



## Directors' approval of material matters

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

# Our investment case



## Strategic filters

In its 2020 suite of reports, Transnet expressed the vision to support customers more fully in their supply chains and to respond more decisively and proportionately to changes in the freight and logistics industry. These changes include digital transformation, new market entrants, changing customer expectations, and new evolving business models. This is the beginning of a long journey for the logistics industry and also for Transnet as a value chain participant. Transnet has taken its first step: the Company has determined decisively where its own core strengths lie, and where it needs to build partnerships to mobilise appropriate cooperative resources to meet the approaching industrial change and renewal head-on.

The core purpose of the business as a SOC is to enable a globally competitive freight system that will create large-scale industrial capability building for South Africa's key economic sectors. This enablement means the reduction of the cost of doing business in South Africa and the creation of the requisite capacity and efficiencies to promote trade competitiveness for both South Africa's large and small industrial players through enabling efficient export and import corridors.

A SWOT analysis per segment has revealed growth opportunities in all the segments (other than coal and liquid fuels) where Transnet's competitive strength as a heavy haul freight bulk carrier is unparalleled. Additionally, South Africa's exports and imports collectively represented approximately 60% of gross domestic product in 2018, and as South Africa is endowed with an abundance of natural resources, Transnet's extensive and modern infrastructure network is strategic for the country's economic renewal and recovery.

Transnet's segment strategies are a change from the business's historical divisional, modal service offering; and it will enable the Company to participate in numerous integrated commodity value chains, work together with the private sector to rethink, reimagine and grow Transnet's portfolio in a financially sustainable manner. Transnet's SMART (segmented, market appropriate, renewal and transformation) approach seeks to provide the selective focus to:

- Fulfil its mandate as custodian of the country's ports, rail and pipelines infrastructure;
- Adapt to the logistics needs of a multinodal world and steer capital deployment accordingly; and
- Improve the competitive environment in port operations and the rail ecosystem.

Customers will benefit from increased competition in rail and port operations. A key driver of Transnet's own success is the derived success of its commodity mining customers with whom it has longstanding relationships.

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

Transnet intends to leverage private sector capital and resource capabilities to revitalise its port and rail logistics solutions. Private partnerships in certain instances will help to leverage synergies between the divisions and move towards a more supply chain oriented operating model.

## Integrity Statement: Capital value generated and trade-offs



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

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

Our own value is eternally dependent on three principles:

- Our ability to create shared value by understanding our relationship with all stakeholders in the value chain, along with the inherent and combined value contributed by our stakeholders is a particularly critical aspect of our Growth and Renewal Strategy.
- Our ability to authentically assess our impact on all aspects of and on all participants in our commercial environment is reported in our chapter on Sustainable Development Outcomes (page 102).
- We understand that our core value as a SOC is commensurate with the direct and derived value we can create through our Growth and Renewal Strategy for the key commodity sectors within which we operate, and for the country at large. Accordingly, all people working and thriving within those sectors – including our own employees and vulnerable communities – share in the consumption of our natural and manufactured resources and should, therefore, also share in the positive value created within the sectors' value chains, as produced through our joint operations with private and public sector partners.

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

# Operating context



## Our mission

Linking economies;  
connecting people; growing Africa!

## Our mandate

To assist in lowering the cost of doing business in South Africa, enabling economic growth and ensuring security of supply through providing appropriate port, rail and pipeline infrastructure in a cost-effective and efficient manner, within acceptable benchmarks. Transnet's mandate and strategic objectives are aligned with national plans and the Statement of Strategic Intent issued by the Minister of Public Enterprises.



## Our unique assets:

- › Over 55 000 employees
- › 30 400 km of railway track – general freight and two heavy-haul export lines
- › 143 engineering depots
- › Eight Commercial ports along 2 798 km of coastline
- › 16 Cargo terminals operating across seven South African ports
- › 3 800 km of pipelines
- › 2 454 locomotives
- › 71 075 wagons
- › Six rail and port manufacturing and maintenance factories

## Services provided

### Inbound services

Bringing products to South African markets

### Outbound services

South African businesses moving products to international markets



### General freight

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

### Commodities transported

Mining exports, general freight and petroleum products

### Petroleum products

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

## Our value propositions

### Value for the economy

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

### Socio-economic value and environmental stewardship

Transnet's socio-economic development initiatives combine specifically targeted economic activities to achieve net positive impacts on society. We contribute towards the national agenda of ensuring that society's progress does not stagnate or regress by introducing a mix of interventions in the following socio-economic developmental parameters:

- › Safety
- › Poverty/social exclusion
- › Life satisfaction
- › Access to facilities
- › Quality of education, skills and training
- › Surrounding environment
- › Social relationships
- › Health
- › Level of income
- › Employment
- › Material welfare
- › Quality of work
- › Housing and tenure status
- › Living conditions

Going forward, we will hold ourselves accountable for our contribution towards these socio-economic developmental parameters by using a comprehensive macroeconomic impact estimation model, namely the Transnet Social Accounting Matrix (SAM). The updated SAM model will align Transnet's socio-economic performance reporting mechanisms with the Government-wide Monitoring and Evaluation System, as spearheaded by the Presidency. We aim to fully embed SAM in the business and our project planning to ensure reliable evidence of our social impact portfolio, thereby using the SAM model to monitor the socio-economic impacts and outcomes of all our investments.

### Value for domestic and regional customers

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

### Value for suppliers and service providers

- › An ethical and transparent procurement process
- › Fair and equitable tender processes
- › Fair, transparent and efficient contract management
- › A proactive and collaborative approach to local supplier development

### Value for employees

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

### Value for our Shareholder

- › Sustained financial returns and broad socio-economic value
- › Regulatory compliance, accountable business practices, ethical leadership and responsible corporate citizenship
- › Investment priorities closely aligned with Government's infrastructure programme

### Value for financial partners

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

## EMPLOYEES

Permanent Fixed-term contract Total

Freight Rail	Engineering	National Ports Authority	Port Terminals	Pipelines	Property
25 617	9 660	4 239	8 332	679	412
4 335	233	10	1 381	30	23
29 952	9 893	4 249	9 713	709	435
69% 31% 2,5%	74% 26% 2,1%	62% 38% 2,1%	69% 31% 1,2%	63% 37% 2,1%	51% 49% 5,3%

## REVENUE

R39,4 billion	R8,2 billion	R11,6 billion	R13,1 billion	R4,9 billion	R1,1 billion
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Heavy haul and mainline rail corridors connecting ports, inland terminals, branch lines and regional railways	Bloemfontein Durban Germiston Koedoespoort Salt River Uitenhage	Cape Town Durban East London Mossel Bay Ngqura Port Elizabeth Richards Bay Saldanha	Cape Town Durban East London Ngqura Port Elizabeth Richards Bay Saldanha	Johannesburg Durban	<p>SCAN TO DOWNLOAD OPERATING DIVISIONS' REPORTS</p>
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## Revenue drivers

### Commodity-based revenue from commodities transported

Coal	20,7%	Forestry products	0,5%
Iron ore	13,4%	Aggregate automotive	1,6%
Manganese	10,2%	Fast-moving consumer goods	3,5%
Chrome	3,3%	Containerised cargo	16,5%
Steel	2,9%	Agricultural products	0,6%
Cement	1,1%		

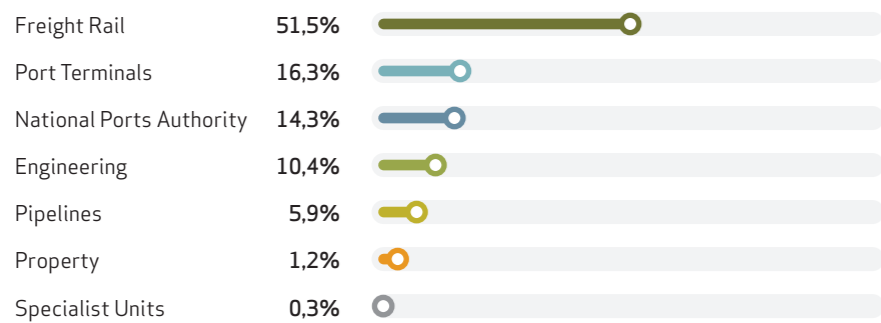
### Non-commodity revenue

Refined petroleum products	4,3%	Maintenance and engineering services provided by Transnet Engineering	0,3%
Crude oil	2,6%	Other revenue from Freight Rail, National Ports Authority, Port Terminals and Pipelines	R11 499m
Aviation turbine fuel	0,0%	Property rentals from Transnet Property	1,1%
Methane-rich gas	0,2%		R726m

## Financial sustainability drivers

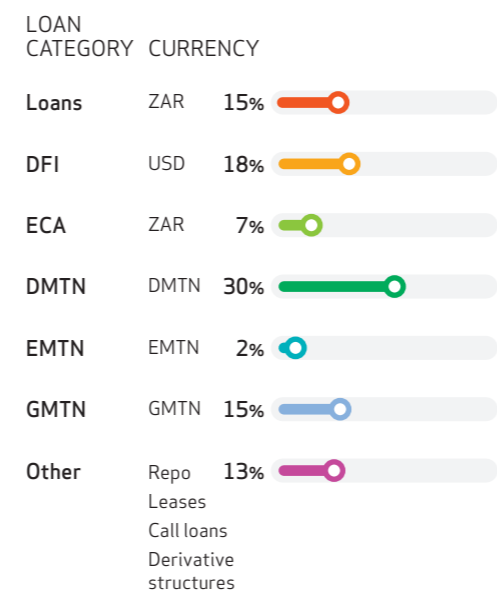
	Key performance indicator	2021 Target	2021 Actual	2022 Target
Liquidity	Cash interest cover	2,5x	2,0x	2,7x
	EBITDA margin	45,3%	28,9%	44,9%
Profitability	Return on invested capital	5,2%	0,1%	4,8%
	Debt to equity ratio	50,0%	48,7%	45,8%
Gearing	Debt to equity ratio	50,0%	48,7%	45,8%
Debt coverage	Net debt to EBITDA	4x	6,3x	3,51x

## Operating Divisions' contribution to Transnet's revenue

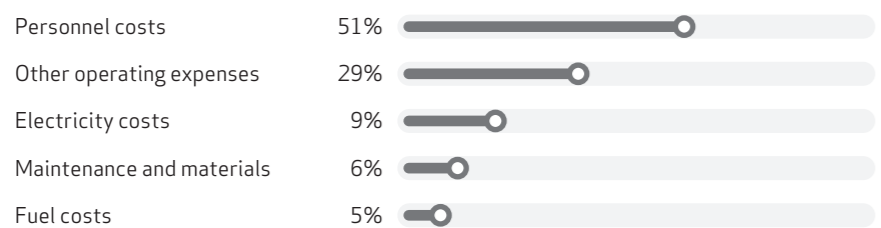


## Funding sources

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



## % of current Group cost per major cost driver



## External variables impacting value

The global trading environment was adversely affected by the COVID-19 pandemic and related lockdown measures, especially over the first half of 2020. A gradual lifting of restrictions in the second half of the year resulted in a strong rebound in the country's merchandise exports (IDC: 2021<sup>1</sup>).

Overall, the year's exports increased by 7,5% in nominal terms, underpinned largely by a 24% (or R112,5 billion) rise in mining exports, particularly gold, platinum and iron ore (IDC: 2021).

Agricultural exports rose by 24,4% (+R17,3 billion), boosted by a strong increase in citrus and accounted for 6,3% of exports (IDC: 2021).

A worsening economic performance globally saw demand for South Africa's manufactured exports falling by 5%, mainly due to sharply lower exports of motor vehicles, basic iron and steel and petroleum products (IDC: 2021).

The manufactured export basket is highly concentrated, dominated by motor vehicles (17,6% share in 2020); iron and steel (9,5%); and basic non-ferrous metal products (5,7%) (IDC: 2021).

Rail freight is currently in a downward trend, due to the theft of rail infrastructure and a continued exodus towards road freight, which can offer competitive rates due to low oil prices, being the biggest factors<sup>2</sup>.

### Slow rates of global and local economic growth

The global supply chain is yet to fully recover, and the Suez Canal blockage added to the concerns. Most high-end products are back to normal, but the transport of bulk commodities is still not flowing smoothly as shipping schedules remain disrupted<sup>3</sup>.

The automotive industry remains under pressure as reflected by low confidence levels in the motor vehicles, parts and transport equipment sector, as well as among new vehicle dealers. Manufacturers are expecting operating conditions to still remain challenging during 2021, although the export market is anticipated to show a modest recovery.

<sup>1</sup> <https://www.idc.co.za/wp-content/uploads/2021/04/IDC-RI-publication-Key-Trends-in-the-South-African-Economy-31-March-2021-FINAL.pdf>

<sup>2</sup> Ctrack Transport Index (2021)

<sup>3</sup> Ctrack Transport (2021)

## Enabling strengths

### Our financial stability

- ✓ A strong balance sheet
- ✓ Our ability to generate cash flow to support further investments in sustaining both the direct and derived commercial and developmental value generated by our operations
- ✓ A sustainable capital and cost management approach to address volatile volume growth, underpinned by investment decisions

Market-appropriate private sector partnerships

Discerning asset care

Priority focus on repair and maintenance of infrastructure

Rephrasing of expansion capital investments to ensure optimal value generation and preservation

Agility of execution

### Our strategy linked to national and regional sustainable commercial and developmental outcomes

Transnet intends to leverage private sector capital and resource capabilities to revitalise its port and rail logistics solutions in the key commodity sectors within which it operates.

Where market appropriate, private partnerships will help to leverage synergies between the divisions and move towards a more integrated operating model.

Our commercial mandate is our developmental mandate. As such our Growth and Renewal Strategy outcomes relate to nine SDOs in line with the United Nations' 17 SDGs.

### Sector expertise and partnerships

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

### Our resilience under pressure

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

### The JSE requirements for debt-listed companies

We aim to adhere to the JSE 'General Principles' and 'main body' requirements for debt-listed companies as they relate to the Company's debt-listing information as observed in all our corporate actions and also in all submissions pertaining to (i) the registration of a debt listing programme and (ii) debt securities listed and to be listed.

### Our adherence to King IV principles

The Board of Directors acknowledges that King IV considers good corporate governance to be a holistic and interrelated set of arrangements to be understood and implemented in an integrated manner.

As such, King IV requires mindful application of the King IV Code and

that its recommended practices be interpreted and applied in a way that is appropriate for the organisation and the sector in which it operates.

Accordingly, as a SOC, Transnet aims to uphold King IV principles within both its commercial and developmental

activities, and King IV principles have been encoded in our segmental strategy in terms of direct and derived outcomes as part of our Integrity Statement on page 31.

We include a King IV checklist (see Annexure D).

# Strategy and planning



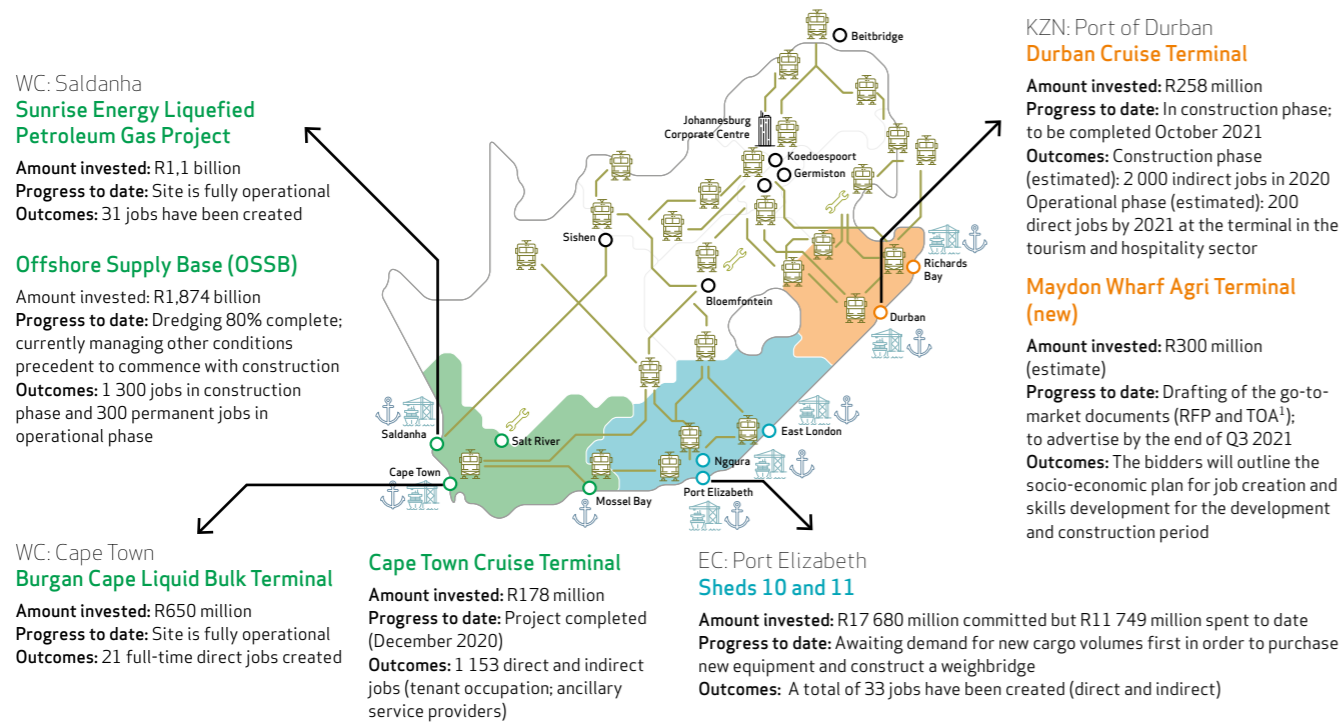
## Partnerships to drive economic development

As a developmental state, South Africa's Government is inherently and expressly a developmental government. Its organs of state, such as the DPE, are also expressly part of a developmentally oriented sphere of government. The Office of Public Enterprises was established in 1994 to champion and direct the restructuring of SOCs and to ensure their optimal economic and developmental impacts. The DPE, as a shareholder representative for Government, is therefore mandated by the Executive to oversee numerous SOCs that operate in core sectors of the economy such as mining, defence, energy, logistics and others.

Investments in infrastructure development have been widely accepted key drivers of economic development and for supporting the socio-economic development of the country. Transnet, as a custodian of network infrastructure, has a responsibility to maximise investment in the freight system, using its own capital and strategic positioning to crowd in additional private investment. The Company has advanced this mandate through the facilitation of private-sector partnerships (PSP), as well as leveraging investment through various concessions and Section 56 NPA agreements.

Numerous projects have been implemented across different provinces through concessions and Section 56 agreements since the approval of our PSP Policy in 2013.

Figure 4: Transnet's PSP collaborations across South Africa

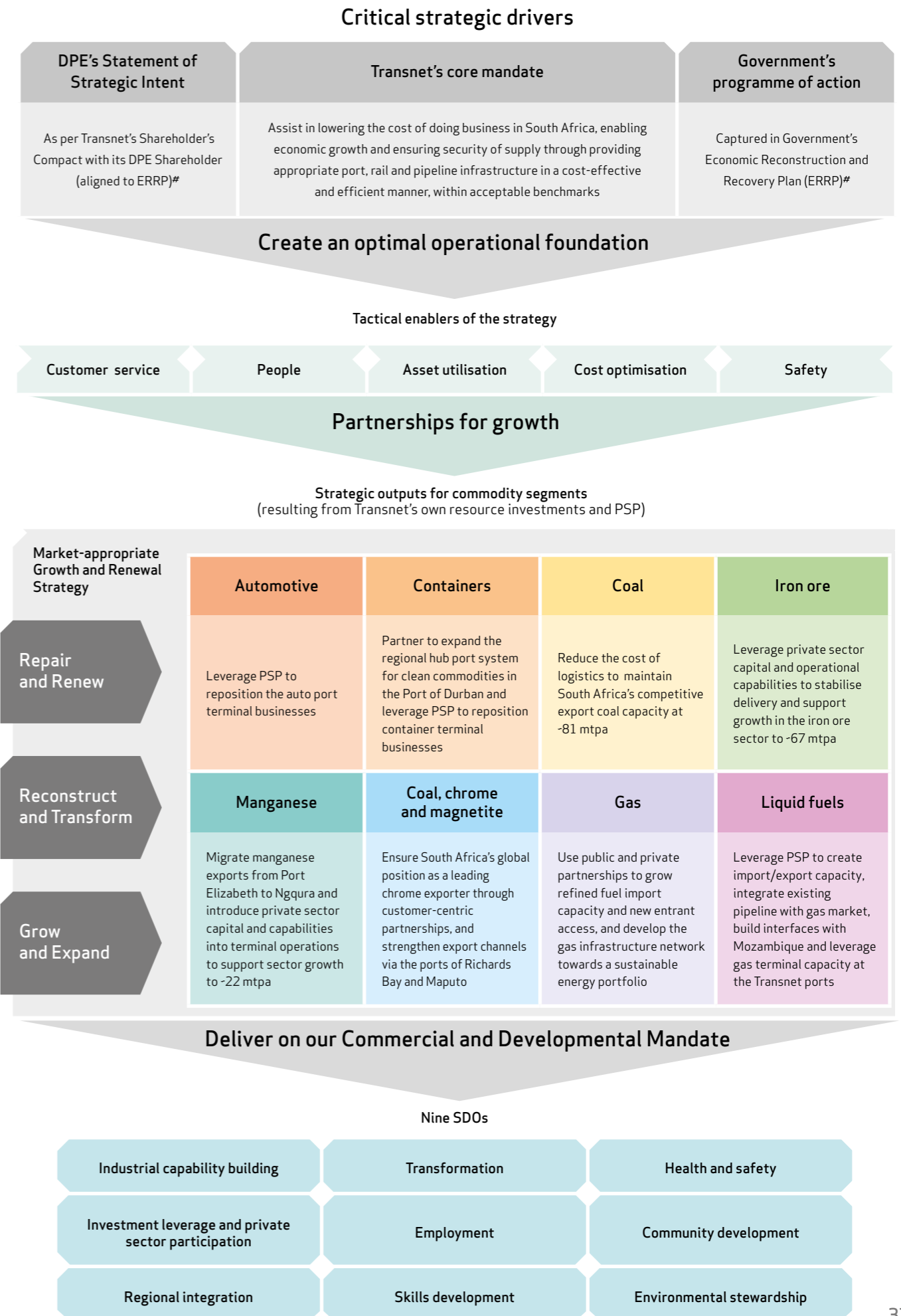


<sup>1</sup> Request for Proposal (RFP) and Terms of Agreement (TOA)

Transnet has benefited greatly from the PSP model by broadening the available finance pool and expediting infrastructure renewal and modernisation. The use of partnerships to increase capacity and improve supply chain competitiveness is set to take a big leap forward with the implementation of Transnet's segment strategies. Over time, the PSP model has enabled Transnet to help remove historical barriers to entry for new participants in the ports, rail and pipeline businesses.

Going forward, Transnet's Capital Investment Plan will be maintained at sustainable levels with a strong focus on core maintenance initiatives and attracting suitable private-sector and industry partners to undertake key expansion projects and programmes. Both Transnet's sustaining and expansion capital investments will be sharply aligned to accelerate the implementation of the segment strategies to repair core assets, increase capacity, improve operational productivity and efficiency, maximise asset utilisation and optimise returns on assets for the Company and for its private-sector partners.

## Transnet's cooperative Growth and Renewal Strategy for South Africa's global trade competitiveness



## Critical strategic drivers

Transnet's strategy should be seen in the contexts of the DPE's Statement of Strategic Intent (page 25), the Company's mandate, and the Government's Economic Reconstruction and Recovery Plan. The latter considers the maintenance, modernisation and expansion of network infrastructure as a central pillar of the plan for South Africa's recovery in a post-COVID world. For Transnet, its strategic capital investments must lead and complement private-sector investment to raise the level of overall multistakeholder partnership investments in the freight system.

Transnet's Growth and Renewal Strategy is not simply a vehicle for ensuring the Company's own growth and expansion, but rather a strategy for improving the competitiveness of South Africa's freight logistics system to ensure long-term growth and global competitiveness for the country. Transnet's financial self-sustainability depends on its ability to deliver the core value chain services, operations and infrastructure within South Africa's key commodity supply chains. This delivery depends firstly, on its own core capabilities (capacity and abilities) and secondly, its ability to crowd in private-sector partnerships, where appropriate, to enable strategic economic and developmental outcomes required for improved logistics competitiveness for customers.

## Creating an optimal operational foundation

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

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

## Partnerships for growth

Transnet's ethos of engaging in collaborative initiatives with the private sector aims to enable capacity to grow and renew the country's rail, ports and pipeline network infrastructure under Transnet's purview and custodianship. Partnership strategies have been developed to grow Transnet's most important market segments.

These partnerships can take multiple forms depending on the aspect of enablement required and where such enablement is required. Transnet will maintain and enhance its services where it already does well, which includes moving high volumes of freight, and will partner in order to increase capacity and market share and to improve the competitiveness of industry supply chains. Partnerships include investments of funds, but also investments of tactical resources such as capacity, skills, advisory services, distribution channels, regulatory components, R&D and other intellectual, human, manufactured or natural capital. In some instances, Transnet will own infrastructure while partners maintain the infrastructure. The goal is to create an efficient system to

leverage the strengths of the public and private sectors to improve supply chain competitiveness and achieve the required economic and developmental outcomes for South Africa. A reliable, effective freight system is one that enables competitive and profitable value chains. This is where Transnet's key focus is, particularly with respect to its top eight commodities that account for more than 80% of its revenue.

The segment strategies, which articulate Transnet's strategic positioning and partnership approach in each of its top eight segments, form the basis for its Growth and Renewal Strategy. It is, therefore, fitting to consider what might be termed a SMART approach to achieving the inherent economic and developmental objectives sought.

- **S** = Segmented
- **MA** = Market appropriate
- **R** = Repair / Renewal
- **T** = Transformation / Turnaround

## Delivering on our Commercial and Developmental Mandate

Transnet is required to achieve a number of objectives to position the South African freight system for long-term competitiveness. Principal among these, is to ensure that customers are able to access globally-competitive transport and handling services. Transnet is also required to go about its business in a financially sustainable manner that maximises both its own developmental outcomes, but more importantly, those of the key sectors that it supports. Transnet's nine sustainable development outcomes (SDOs) encapsulate the core of Transnet's dual 'Commercial and Developmental Mandate' and bring it into focus to provide synergistic value for South Africa's commodity sectors, and ultimately for the country as a whole. As such, only when we have helped to create a firm platform for South Africa's long-term trade competitiveness in the region and globally, can Transnet as a SOC, measure its progress in delivering on its mandate. Accordingly, the nine SDOs propose derived value for each of the segments where large-scale, collaborative partner interventions are delivered to grow the national freight system, and also for Transnet, as a financially self-sustainable company. In brief, they include:

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

There is extraordinary inherent value in such a large-scale growth and renewal strategy, both commercial and developmental. For the first time in the SOC's history, Transnet moves beyond the traditional balancing act of its dual mandate. By focusing on supply-chain competitiveness - and appropriately positioning Transnet in the various industry supply chains - a more developmental orientation is inherently built into Transnet's plans.

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

## Strategic risks and opportunities



The tables below outline the various segmental contexts for Transnet's Growth and Renewal Strategy, while considering the key opportunities and risks within each sector. The table also details Transnet's short-term priorities and anticipated outcomes.

Table 4: Segmental contexts: risks, opportunities, priorities and outcomes

Segmental context	Key opportunities for Transnet	Priorities for 2021/22	Anticipated outcomes	
<b>Containers</b>	<ul style="list-style-type: none"> <li>• Greater volume consolidation by connected hubs and feeder ports can attract larger vessels</li> <li>• Global hub ports attract larger volumes of trade as the unit costs of moving containers decrease</li> <li>• Countries with hub ports benefit extensively as they don't bear the cost of feeder services</li> <li>• Hub ports tend to predominate east-west trade, but this is changing as volumes develop in the south</li> <li>• Durban is well positioned to take advantage of this as it represents 60% of South Africa's trade volume</li> <li>• Creating a hub status port has the opportunity to substantially increase the handling of transshipment volumes destined for ports in the broader SADC region</li> </ul>	<ul style="list-style-type: none"> <li>• Repositioning Durban Port as a global container shipping hub port</li> <li>• Significantly improve rail performance between Durban Port and Gauteng</li> <li>• Create a significantly more efficient mechanism to move containers between domestic ports</li> <li>• Enhance the capacity and capabilities of trade entry points</li> <li>• Support attractiveness of Gauteng as an industrial base with increased locations for intermodal transfers, e.g. Sentraraand</li> <li>• Promote rail freight to South Africa's northern neighbours</li> <li>• Develop a dedicated Durban Precinct Container Terminal</li> <li>• Reposition the NatCor rail container business as a hook-and-haul operation, creating space for partnerships to grow the sector</li> <li>• Build Ngqura's connectivity as a regional transshipment hub</li> <li>• Build efficient connecting sub-systems to handle mega industrial and agri complexes<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Request for proposal (RFP) to establish a dedicated container terminal at the Point Precinct in Durban with capacity of circa 1, 7 million TEUs</li> <li>• RFP to enhance Durban Container Terminal Pier 2 by partnering with an international terminal operator (ITO) - including incorporating the terminal into the ITO's partner network</li> <li>• RFP to partner with an ITO and/or shipping line to establish Ngqura as an international transshipment hub with installed capacity of 2 million TEUs</li> <li>• RFP for Transnet Freight Rail to partner with a suitable operator for the City Deep inland rail terminal</li> </ul>	<ul style="list-style-type: none"> <li>• Significantly lower maritime shipping costs</li> <li>• Efficient and reliable container terminals</li> <li>• Assets operating at designed capacity</li> <li>• A container intermodal service that effectively competes with and is a viable alternative to road supply chains</li> <li>• Optimised network design to drive rail freight density</li> <li>• Ability to harness private sector skills and capabilities by mobilising joint resources in the segment's value chain</li> <li>• An ecosystem of specialist service providers collaborating to develop, manage and operate the container supply chain</li> <li>• Enhance ports' and container terminals' positioning for greater maritime connectivity</li> <li>• Attract competition to the Port of Durban as a modernised internationalised container hub port</li> <li>• Build regional and global container shipping connectivity</li> <li>• Include Port of Ngqura into a global network of ports and terminals and develop and operate associated industrial development zoned value-added services</li> <li>• Create greater visibility and accountability in the financial management of the NatCor line business and create a rail-enabled industrial and logistics cluster to increase rail market share</li> </ul>
<b>Key segmental risks directing Transnet's strategic responses</b>	<b>Transnet's strategic responses</b>			
<ul style="list-style-type: none"> <li>• Misaligned investment could result in either over- or under-capacity</li> <li>• Terminals run by ITOs could gradually erode existing Transnet terminals' business if the latter do not keep pace</li> <li>• Labour erroneously perceiving the proposed transactions as privatisation rather than industry mobilisation of joint resources or private sector partnerships (in line with Government's Economic Reconstruction and Recovery Plan) and hence as a potential threat to job security</li> <li>• Lack of engagement with environmentalists who raise concerns regarding expansion plans at the Port of Durban could result in significantly delayed environmental approvals and/or onerous environmental requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Clearly define the role of the anticipated hub ports (Durban and Ngqura) both regionally and to international stakeholders to align strategic expansion plans and joint commercial aspects</li> <li>• Develop a strategy to attract and secure sustainable demand by ensuring Transnet is aligned with the medium- to long-term needs and expected deliverables from various customer segments in the container sectors</li> <li>• Ensure an iterative, phased approach to developing additional capacity to align Transnet's plans with the pace and potential of sector growth</li> <li>• Ensure Transnet invests with discernment where its own capacity and capabilities are already proving efficient, with potential for improvement, and crowd in private sector investment to augment the resource requirements in the medium- to long-term expansion of the container sector's value chains</li> <li>• Develop a robust stakeholder engagement and communications strategy to clarify Transnet's segmental strategy as one of joint segmental growth and industrial enablement, as aligned with the Government's Economic Reconstruction and Recovery Plan to ease stakeholder tensions, particularly labour concerns</li> <li>• Ensure Transnet's PSP transactions incorporate the Company's existing labour policies and adjust policies where required to remain inclusive and sensitive to labour's concerns, particularly in a post-COVID-19 and post-2021 unrest economic context</li> </ul>			

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

Segmental context	Key opportunities for Transnet	Priorities for 2021/22	Anticipated outcomes
<b>Automotive</b>	<ul style="list-style-type: none"> <li>Expand automotive export and import parking capacity at Port of Durban, Port of Port Elizabeth and Port of East London as PSP property BOOT transactions</li> <li>Improve automotive supply chain integration at the Kaalfontein terminal through a lease or concession to support the road-to-rail strategy</li> <li>Migrate Ford auto flows to the Port of Port Elizabeth by increasing the SouthCor rail corridor capacity and port capacity</li> <li>Boost automotive wagon availability, utilisation and suitability - revise the automotive wagon ownership through possible PSP and operating model for a hook-and-haul philosophy</li> </ul>	<ul style="list-style-type: none"> <li>Undertake a feasibility study to define the scope, time and magnitude of investments - and the sourcing of co-investments - to relocate the import and export of certain automotive segment supply chains for fully built-up units through the SouthCor to the Port of Port Elizabeth</li> <li>Potential partnership to develop the automotive export and import capacity at the Port of Port Elizabeth, Port of Durban and Port of East London</li> <li>Consider disposing of Transnet's current automotive wagon fleet to a wagon-owning logistics service provider, while partnering one or more wagon operators to collaborate with OEMs to ensure adequate wagon configurations for growth</li> <li>Develop and implement a hook-and-haul operating methodology</li> </ul>	<ul style="list-style-type: none"> <li>Economies of scale create opportunities for more rail-based inbound and outbound logistics by removing "last mile" challenges to intermodal solutions</li> <li>A range of co-sourcing port and rail investments and partnerships to support the automotive segment for growth</li> <li>Changing automotive model configuration needs are constructively addressed by suitable wagon structures</li> <li>The mitigation of significant operating expenses, risk and capacity constraints imposed by the existing limited wagon fleet and inland terminal constraints</li> <li>Sustainable risk sharing of investments due to the high volatility of automotive demand</li> </ul>
<b>Key segmental risks directing Transnet's strategic responses</b>	<b>Transnet's strategic responses</b>		
<ul style="list-style-type: none"> <li>The high unpredictability, volatility and fluctuations of global demand in the automotive sector may result in export volumes not materialising, thereby rendering investments in the segment's supply chain infrastructure unsustainable in the short to medium term</li> <li>Due to the laggard nature of the South African automotive industry in the transition to smart electric vehicles and hybrid technology readiness, there is a risk that local South African OEMs could miss out on the manufacturing contracting of electric and sustainable hybrid vehicle types, hence a reduction in export volumes and stranded assets</li> </ul>	<ul style="list-style-type: none"> <li>Promulgate and gazette the anticipated project for expanding capacity on the SouthCor rail for the accommodation of automotive volumes as a strategic infrastructure project within the Presidential Infrastructure Commission. Further, apply for Government subsidy and financing support to co-fund the project</li> <li>Monitor global, regional and domestic automotive demand and trend capital investments to the most prudent investments on a "Just in Time" basis</li> <li>Share investment risk with industry participants across the value chain</li> <li>Influence Government's policy planning and effect policy change in the APDP and the SAAM masterplan to support the incentivisation of OEMs to start building capacity infrastructure, technology and skills to embrace the smart electric vehicle production capability</li> <li>Innovative wagon designs that are flexible can be tailored and modified seamlessly as the priority in the manufacture of wagons</li> </ul>		

Segmental context	Key opportunities for Transnet	Priorities for 2021/22	Anticipated outcomes
<b>Coal</b>	<ul style="list-style-type: none"> <li>Sustain the export coal channel to restore nameplate operations</li> <li>Consolidate coal exports on the supply chain to reduce costs</li> <li>Partnerships with the private sector for logistics services to increase flows and provide a holistic mine-to-furnace solution to Eskom</li> </ul>	<ul style="list-style-type: none"> <li>Determine the mix of investment projects to improve efficiency of the export coal channel with associated sources of funding</li> <li>Investigate a shared investment scheme for customers to contribute to a centrally managed Infrastructure Fund expressly for work required to reinstate the coal channel to nameplate design</li> <li>Explore a tripartite partnership between Transnet, Eskom and a logistics service provider to provide full logistics planning and a coordination function in support of Eskom's coal requirements</li> </ul>	<ul style="list-style-type: none"> <li>Outcomes relate mostly to consolidation of activities, efficiency improvements, cost reduction and maintaining current capacity</li> <li>Consolidation of coal exports will increase opportunities for new entrants, especially for junior miners as well as free up capacity for exports of other mineral mining commodities</li> <li>A tripartite agreement with Eskom will see the sourcing of correct coal grades from local mines, coordinate the logistics to deliver coal to respective power stations and maintain adequate reserves at each station</li> </ul>
<b>Key segmental risks directing Transnet's strategic responses</b>	<b>Transnet's strategic responses</b>		
<ul style="list-style-type: none"> <li>Insufficient investment to ensure structural modifications to Richards Bay Container Terminal (RBCT) operations to handle general freight trains - and the inability to acquire additional heavy-haul rolling stock for general freight coal - may ultimately prevent the consolidation at RBCT</li> <li>With waning investment appeal for coal as a commodity sector globally, alternative sources of funding to sustain and improve the existing export channel to the Port of Richards Bay may not materialise</li> <li>The change in global supply dynamics and/or slower transition to renewable energy sources may lead to a spike in export coal demand from South Africa, resulting in insufficient rail capacity on the export channel</li> </ul>	<ul style="list-style-type: none"> <li>Undertake cost benefit analysis to determine the potential return on investment on the RBCT project to prioritise investments</li> <li>Structure financing transactions with coal exporters to secure joint capital resources to sustain RBCT operations</li> <li>Assess the viability of various operational initiatives to improve efficiencies of Freight Rail's rolling stock fleet to free up heavy-haul rolling stock for general freight coal</li> <li>Validate customer commitments on an annual basis to verify if expansion is ultimately viable and sustainable</li> </ul>		

Segmental context	Key opportunities for Transnet	Priorities for 2021/22	Anticipated outcomes
<b>Chrome and magnetite</b>			
<ul style="list-style-type: none"> <li>Export of chrome, ferrochrome and magnetite generates around R5.8 billion revenue for Transnet</li> <li>South Africa and Zimbabwe hold 84% of global chromite reserves and resources</li> <li>South Africa produced in excess of 23 mt in 2019, the majority of which was exported to China for steel production</li> <li>Post-COVID predictions see global chrome and ferrochrome export markets growing at around 6% per annum</li> <li>Demand for magnetite (used in steel making) is expected to increase to a peak of 15 mtpa</li> <li>Chrome and ferrochrome are exported via Maputo, Durban and Richards Bay, with the majority exported (&gt;70%) via the Port of Richards Bay</li> <li>Magnetite exports are shared between the ports of Maputo and Richards Bay</li> <li>Transnet and CFM, Mozambique's national railway operator, currently cooperate to provide export services for chrome and magnetite mined in South Africa through the Port of Maputo</li> </ul>	<ul style="list-style-type: none"> <li>Collaborate with CFM to strengthen the Maputo link</li> <li>Equity stake in MPDC<sup>1</sup> to increase flows to the Port of Maputo</li> <li>Revise terminal operations at the Port of Richards Bay to reduce focus on coal to free up capacity to export more chrome and magnetite</li> <li>Partnerships with the private sector for operational interventions and funding to first sustain existing business operations in the sector and thereafter expand the value chain</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration with CFM to include the cooperation of the respective national governments and customs authorities</li> <li>Completion of phase 1 of the business turnaround plan at port terminals in the Port of Richards Bay to improve the performance of terminal operations</li> <li>Approved strategy and roadmap for the partnership with the private sector for phase 2 of the business turnaround strategy, which will see the mobilisation of additional partner resources to improve terminal operations in the long term</li> </ul>	<ul style="list-style-type: none"> <li>Development and optimisation of a second chrome and magnetite export channel through the Port of Maputo</li> <li>Shared utilisation of rail networks and streamlined customs process to improve regional integration</li> <li>Improved margins and export volumes by substituting coal with chrome and magnetite and involving the private sector for increased productivity and capital investments</li> </ul>
<b>Key segmental risks directing Transnet's strategic responses</b>		<b>Transnet's strategic responses</b>	
<ul style="list-style-type: none"> <li>Political instability in Mozambique may result in lower investment returns for Transnet</li> <li>Insufficient testing of private sector appetite to invest in the Transnet-operated terminals in the Port of Richards Bay</li> <li>Freight Rail may not be adequately equipped to sustain and expand operations to feed the Transnet-operated terminals in the Port of Richards Bay</li> </ul>		<ul style="list-style-type: none"> <li>Undertake an assessment of Maputo's political and economic landscape to determine the likelihood of Transnet's returns being compromised by volatilities in terms of: <ul style="list-style-type: none"> <li>New leadership in Maputo's government;</li> <li>Expropriation of assets by Maputo's government; and</li> <li>Changes in law by the Maputo government</li> </ul> </li> <li>The transaction strategy will consider varying shareholding percentages and associated benefits to partners (i.e. quantum of returns) to increase private sector's investment willingness and appetite</li> <li>The transaction strategy will consider the benefits of single versus multiple private sector partnerships per project</li> <li>Structure financing transactions together with customers to acquire the necessary capital</li> <li>Consider extending the private sector partnerships planned for the port terminals to include the entire value chain from 'pit to port', thereby increasing overall trade competitiveness for the sector</li> </ul>	

<sup>1</sup> Maputo Port Development Company (MPDC).

Segmental context	Key opportunities for Transnet	Priorities for 2021/22	Anticipated outcomes
<b>Iron ore</b>			
<ul style="list-style-type: none"> <li>China remains a key market for the global iron ore industry accounting for 69% of the global share of iron ore imports in 2019. Increasingly, iron ore demand from China and the broader Asian market will be met by seaborne iron ore imports. In addition to lower Chinese domestic supply, there is growing preference by domestic steel mills for imported higher quality ore</li> <li>Notwithstanding South Africa's position as the sixth largest producer of iron ore, the country remains highly competitive given its high-quality ore. CRU forecasts South Africa's iron ore exports to grow at a compounded annual growth rate of 0.5% over the next five years. CRU also forecasts that South Africa's share of the market will remain at the 4% level</li> <li>Transnet's export iron ore line is a global benchmark for efficient heavy-haul rail operations</li> <li>Constraints to increasing exports beyond 60 mtpa to support growth can be attributed to infrastructure and environmental authorisation limitations</li> <li>Infrastructure reliability of the iron ore line has deteriorated due to insufficient maintenance spend brought about by Transnet's capital constraints</li> </ul>	<ul style="list-style-type: none"> <li>Introduce private sector capital and capabilities to ensure security of supply and future growth of the Sishen-Saldanha export channel</li> <li>Various private sector transaction structures will be considered in the rail corridor to: <ul style="list-style-type: none"> <li>Support asset maintenance and renewal;</li> <li>Restore operations to design capacity;</li> <li>Develop and install new assets in line with future expansions;</li> <li>Develop and install enabling infrastructure to support emerging miners; and</li> <li>Implement digital technologies across the operations systems.</li> </ul> </li> <li>Port terminal capacity will be increased to 67 mtpa via private investments in back-of-port facilities, port feeder systems, vessel berthing and loading capacity</li> </ul>	<ul style="list-style-type: none"> <li>Increase maintenance on the Sishen-Saldanha rail track and port handling equipment to reduce the risks of operational disruptions</li> <li>Complete the necessary feasibility studies to optimise the structuring of private sector investment funding to sustain and grow the iron ore rail corridor</li> <li>Prepare an RFP to increase port handling capacity in Saldanha to 67 mtpa</li> </ul>	<ul style="list-style-type: none"> <li>Reduce Transnet capital burden while increasing PSP with a view to market-appropriate, financially viable joint resource mobilisation in the sector</li> <li>Restore the condition of infrastructure assets and improve operational performance to deliver on contracted volumes while improving overall customer satisfaction</li> <li>Modernise current assets and invest in new assets to grow and transform the sector</li> <li>Retain South Africa's cost-curve trade competitiveness in this sector</li> </ul>
<b>Key segmental risks directing Transnet's strategic responses</b>		<b>Transnet's strategic responses</b>	
<ul style="list-style-type: none"> <li>The risk of non-viability of investments in the iron ore segment based on industry cost-curve competitiveness changes. This specifically relates to forecasts from agencies such as Fitch which have projected iron ore averaging US\$180 a tonne in 2021, US\$100 in 2022 and US\$85 in 2023, US\$75 in 2025 and US\$63 by 2030. As reported in the forecast: "This price decline will be driven by a combination of weaker demand growth and stronger supply loosening the market"</li> <li>This is particularly relevant to emerging miners who are forecast to be the primary growth drivers. These miners typically are more exposed to negative commodity price movements due to having lower margins and higher cost structures</li> <li>Deteriorating operational performance due to asset condition can affect the transaction values</li> </ul>		<ul style="list-style-type: none"> <li>In recognising affordability challenges, Transnet will explore PSP opportunities to attract investment funding to sustain and grow the iron ore sector</li> <li>Investments will prioritise increased maintenance of the rail network and rolling stock and port handling equipment to improve operational performance</li> <li>Close monitoring of market conditions and commodity price movements to stay ahead of the curve on projected market volatilities and changes</li> <li>Develop investment and operational risk-sharing models through PSP and attractive long-term commercial contracting methodologies</li> <li>Monitor adherence and quality of execution against approved maintenance plans, including delivery on annual shutdown plans</li> </ul>	

Segmental context	Key opportunities for Transnet	Priorities for 2021/22	Anticipated outcomes
<b>Manganese ore</b>			
<ul style="list-style-type: none"> <li>South Africa has the largest reserves of high-grade manganese ore globally</li> <li>South Africa has a dominant position in the global manganese ore market and is positioned to benefit from growth in seaborne trade</li> <li>China is the largest consumer of manganese ore and drives the demand/supply balance underpinning the global price for the commodity</li> <li>Established and emerging manganese ore miners are currently competitive on the global cost curve</li> <li>South African exporters can maintain global market dominance should current logistics challenges be addressed</li> <li>Exports are currently capped by port capacity and rail capacity. To stay competitive and meet the exponential growth in demand, Transnet needs to increase port and rail capacity in various export channels</li> </ul>	<ul style="list-style-type: none"> <li>Commence with the phased decommissioning of Port Elizabeth bulk ore terminal (PE BOT) to conclude by end December 2021</li> <li>Introduce a dual channel strategy consolidating exports via Saldanha (6 mtpa) and Ngqura (16 mtpa) to meet demand of 22 mtpa</li> <li>Introduce a PSP transaction to develop a new 16 mtpa bulk manganese export terminal at the Port of Ngqura</li> <li>Introduce a PSP transaction to supply the necessary back-of-port terminal and berth capacity in Saldanha for the increase in manganese ore exports to 6 mtpa</li> </ul>	<ul style="list-style-type: none"> <li>Optimise funded investment in rail network maintenance, rolling stock and port equipment to ensure efficient transportation of manganese ore in current channels</li> <li>PE BOT volume migration plan with first phase commencing end December 2021</li> <li>Pursue key initiatives to partner the manganese industry to help sustain and grow the manganese sector in the short term</li> <li>Issue RFP for the PSP transaction to develop a new 16 mtpa manganese export terminal in Ngqura in line with the dual channel strategy</li> </ul>	<ul style="list-style-type: none"> <li>Improve operational performance with greater operational reliability and flexibility</li> <li>Meet stakeholder expectations to migrate manganese ore exports from PE BOT to Ngqura</li> <li>Increase capacity to meet current contracted demand</li> <li>Increase capacity to meet short-to-medium-term demand growth to 22 mtpa</li> <li>Migrate volumes from road to rail</li> <li>Increase customer service satisfaction</li> <li>Increase contribution to the fiscus</li> <li>Reduce burden on Transnet's balance sheet</li> <li>Share risk with the private sector where market appropriate</li> </ul>
<b>Key segmental risks directing Transnet's strategic responses</b>		<b>Transnet's strategic responses</b>	
<ul style="list-style-type: none"> <li>Long-term depressed price due to new global capacity causing oversupply below US\$4/dmtu will introduce margin pressures for South African producers at the higher end of the cost curve</li> <li>Most domestic producers will not be able to absorb tariff increases associated with capital investments</li> <li>Issuing of mining licences without adequate market analysis to ensure the sustainability of the industry may result in oversupply and a negative adjustment to the commodity base price, placing the vulnerable emerging miners at risk</li> </ul>		<ul style="list-style-type: none"> <li>Transnet will implement a dual-channel export strategy to optimise investments and asset utilisation, achieve maximum operational flexibility and achieve desired volume targets</li> <li>Close monitoring of the market conditions and commodity price movements to ensure Transnet adjusts its activities accordingly</li> <li>Due to current financial constraints, Transnet will partner with the private sector, including manganese ore exporters, to fund investments in rail infrastructure and rolling stock, inland loading terminals as well as port terminals</li> <li>Ensure risk-sharing is fair and market appropriate and considers the strengths and weaknesses of all partner participants in long-term transaction projects</li> <li>In structuring the private partnership transactions, include tariffs in line with Manganese Export Capacity Allocation (MECA) principles as transparent provisions of each transaction</li> <li>Coordinate engagements with relevant regulatory authorities through the manganese value chain</li> </ul>	



Segmental context	Key opportunities for Transnet	Priorities for 2021/22	Anticipated outcomes
<b>Liquid fuel</b>			
<ul style="list-style-type: none"> <li>Shift in domestic downstream refined product market, from a net export market to a net import market in the past 15 years</li> <li>20% of domestic fuel needs met by refined product imports</li> <li>Gauteng accounts for 35% of domestic liquid fuel demand</li> <li>Urgent need for investment in South Africa's existing refineries or new refineries</li> <li>Better access to competitive fuel import and storage facilities for historically disadvantaged individuals – a key priority for the sector</li> <li>Growth in transport demand for liquid fuels may slow down post 2025, with increased efficiency as gas and electric vehicles gain market share; natural gas is the fastest growing alternative (6,8% p.a. – predicted to reach 7% of transport market by 2035)</li> <li>High-cost implications to convert existing refineries to meet clean fuel specifications</li> <li>A proposed US\$10 billion, 300 000 barrel per day crude oil refinery, although still with a high degree of uncertainty, is expected to come on online by 2028, making it the largest regional refinery – expected to service both domestic and regional demand and could lead to retirement of existing refining capacity to cater for an imported finished product</li> <li>Changes required to current fuel distribution infrastructure and potentially a new pipeline to connect to the New Multi-Product Pipeline (NMPP) or directly to Gauteng</li> <li>Road-to-rail market share is being targeted for non-Gauteng inland markets and for fuel supply to neighbouring countries</li> </ul>	<ul style="list-style-type: none"> <li>Explore options for lease renewals at the Island View Precinct in the Port of Durban, which directly links to the operation of fuel pipelines and nearby oil refineries Engen and SAPREF</li> <li>Provide greater efficiency/reliability/cost incentives for the market to use NMPP-installed assets</li> <li>Develop a Transnet fuel import terminal and accumulation facility at the Port of Durban</li> </ul>	<ul style="list-style-type: none"> <li>Progress the liquid fuels segment strategy to secure supply to the inland region, ensure optimal asset utilisation and secure access to market for new entrants</li> <li>Increase independent operator participation – and participation of historically disadvantaged companies – in Transnet's Island View Precinct is a priority as a significant developmental outcome</li> <li>Continue to develop a parallel solution revolving around the phased development of a Transnet fuel import and accumulation facility in partnership with a consortium of industry players</li> </ul>	<ul style="list-style-type: none"> <li>Short-term: A multipronged approach to growing market share in the current assets Transnet operates – mainly NMPP – and the targeted augmentation and optimal use of Transnet's current asset base</li> <li>Long-term: The inevitable transformation of the sector and Transnet's environmental stewardship role as a SOC in the sector moving away from pipeline and associated infrastructure towards a broader and cleaner energy portfolio</li> <li>Improved operational efficiencies and risk mitigation for supply security in developing the Island View Precinct accumulation facility as well as a fuel import facility to accommodate new entrants into the market</li> <li>Development of a sustainable energy portfolio in support of the decarbonisation transformation agenda of the South African Government</li> </ul>
<b>Key segmental risks directing Transnet's strategic responses</b>		<b>Transnet's strategic responses</b>	
<ul style="list-style-type: none"> <li>Due to the vandalism and fuel theft on the Durban to Johannesburg (NMPP) pipeline, the major customers may not be keen to enter into long-term, volume-related contracts, resulting in further pipeline volumes being lost to road transport, which further increases road traffic incidents and the national carbon footprint</li> <li>The decrease in volumes is due to liquid fuels being a declining market due to competing energy technologies</li> <li>New entrants into the import market do not have the financial capacity and stability to co-invest in additional import capacity and associated infrastructure</li> <li>If the existing pipeline network and associated infrastructure cannot be repurposed for long-term sustainability within a green energy portfolio, Transnet may need to commence with a strategy to disinvest from the pipeline business to limit long-term financial exposure</li> </ul>		<ul style="list-style-type: none"> <li>Various market-appropriate interventions and leading-practice monitoring technology have been adopted to monitor and manage vandalism on the pipelines</li> <li>Leverage the tariff to the maximum to incentivise the use of the pipeline over road transport</li> <li>Apply for concessions to the pipeline tariff to drive the decarbonisation initiative</li> <li>Engage Government to intervene by providing financial support to previously disadvantaged organisations wishing to participate as bona fide partners in the value chain</li> <li>Prioritise and expedite new value chain opportunities to grow the import market within Transnet's operations and ensure appropriate competencies and infrastructure tools and assets to support new tasks in the value chain</li> <li>Expedite R&amp;D studies to repurpose the existing pipeline network and associated infrastructure given our knowledge of the competing energy technologies and international trends</li> </ul>	



Segmental context	Key opportunities for Transnet	Priorities for 2021/22	Anticipated outcomes
<b>Gas</b>			
<ul style="list-style-type: none"> <li>Despite an uncertain macro environment, the global outlook for gas markets is positive as the energy transition towards cleaner fuels (gas and renewables) is rapidly accelerating</li> <li>By 2040 the natural gas demand is projected to grow by -1.5% p.a.<sup>1</sup> and make up 25% of the global energy mix by 2040</li> <li>Gas currently makes up only 3% of South Africa's energy mix<sup>2</sup>, and until recently the domestic gas industry has been dominated by Sasol and PetroSA</li> <li>Sasol produces natural gas from its Temane/Pande fields, and processes it at the central processing unit and the gas is transmitted through the ROMPCO<sup>3</sup> pipeline to Maputo and Secunda</li> <li>Sasol transports 18 million gigajoules p.a. of methane-rich gas from Secunda to KwaZulu-Natal using the Lily pipeline</li> <li>Temane/Pande fields are expected to start declining by 2024 and PetroSA has communicated a significant reduction in gas reserves</li> <li>Sasol approached the market in 2019/20 for the sale of its gas infrastructure assets. These are its share in the ROMPCO pipeline and all its transmission and distribution assets in South Africa (serving industrial gas users in Mpumalanga, Gauteng, KwaZulu-Natal and Free State provinces)</li> <li>The International Group of Liquefied Natural Gas Importers (GIIGNL) indicates that global gas supply is rapidly increasing, with liquefied natural gas (LNG) trade anticipated to grow at &gt;4% p.a. over the next decade</li> </ul>	<ul style="list-style-type: none"> <li>Engagement with Sasol on the renewal of the LNG import into South African ports: This is the development of the LNG Terminal, LNG road/rail loading, and gas transmission pipelines infrastructure at key ports (Ngqura, Richards Bay and Saldanha Bay)</li> <li>Transnet BD/Pipelines actively involved in the Port of Richards Bay and Ngqura LNG Terminal and pipeline (physical and virtual) projects</li> </ul>	<ul style="list-style-type: none"> <li>Completion of pre-feasibility study for the RB-NGN LNG terminal and gas connection from terminal to Lily pipeline and Eskom's 3000 MW site at the RB-IDZ</li> <li>Review of gas strategy to ensure optimal asset utilisation and cost optimisation</li> <li>Ensure Pipelines (TPL) is capacitated with resources and competencies in the gas sector</li> <li>Thorough and in-depth market analysis to ensure Transnet is fully abreast of gas market volatilities and able to respond appropriately</li> </ul>	<ul style="list-style-type: none"> <li>Establishment of a gas department in the TPL Operating Division, in anticipation of TPL's involvement in delivering gas initiatives</li> <li>A new gas-oriented business within TPL's will ensure diversified income streams for Transnet</li> </ul>
<b>Key segmental risks directing Transnet's strategic responses</b>		<b>Transnet's strategic responses</b>	
<ul style="list-style-type: none"> <li>Natural Gas Networks: Gas demand is dispersed all around South Africa while the gas supply infrastructure is limited to certain parts of the country (certain parts of Mpumalanga, Gauteng, KwaZulu-Natal and Free State). The gas pipeline infrastructure development will therefore take long to implement and will be expensive</li> </ul>		<ul style="list-style-type: none"> <li>Develop a domestic LNG Terminal Infrastructure at the three key ports (Ports of Ngqura, Richards Bay and Saldanha Bay) as a critical contribution to South Africa's economic development</li> <li>Create a virtual pipeline infrastructure to enable the supply of gas to areas far from the pipeline, which will help accelerate gas market development in South Africa</li> </ul>	

<sup>1</sup> International Energy Agency, 2020

<sup>2</sup> BP Energy Outlook 2019

<sup>3</sup> Republic of Mozambique Pipeline Company (ROMPCO) – owned by Sasol, iGAS (South African Gas Company Limited) and CMG (Campanhia Limitada de Gasoduto)

## Enterprise risks impacting our strategy and planning



The South African freight and logistics industry performs one of the most vital services of the modern globalised and interconnected world. The COVID-19 pandemic affects almost every dimension of economic activity as well as employees. As a consequence of the pandemic, important supply chains in the logistics and transportation industry have been hampered. For Transnet, which is the custodian of rail, ports and pipelines, it has brought multiple strategic and operational challenges as well as meta-uncertainty on the lasting impacts of the pandemic. The unique context of this local and global crisis is that it is both a business and humanitarian crisis.

Transnet has showed the value of risk management in action as it proactively planned for the potential impact of COVID-19 on the business through the creation of the COVID-19 Command Centre. Our multidisciplinary team identified the key risks to our business and employees, which resulted in the immediate and proactive implementation of systems to manage the risks to the best of Transnet's ability. Transnet has been unable to fully mitigate the impact of this pandemic, however, the integrated risk approach to navigating the crisis significantly reduced the severity for the organisation. Although the pandemic was not the only risk faced during this time, it created a situation where all other risks needed to be managed using an integrated systems-thinking approach to link the risk management process to Transnet's COVID-19 response and strategies as well as its strategic vision going forward.

The success of this process highlights the purpose of risk management, which is to 'create and preserve value for Transnet'. The Risk Management function has partnered with the full spectrum of executive leadership to discuss the lessons learnt out of the COVID-19 risk response and how the concept of risk-in-action or agile risk management can be implemented throughout the organisation. These valuable inputs – through discussions and comprehensive surveys – created the perfect platform to create an enterprise risk management (ERM) architecture that is built on the principles agreed with Transnet's leadership. Furthermore, incorporating these inputs into the ERM architecture ensures executive buy-in and will lead to effective and efficient risk management throughout the business.

Notably, the COVID-19 pandemic honed Transnet's ability to mobilise at short notice a multidisciplinary and real-time business continuity risk management deployment, irrespective of root cause. To ensure alignment and integrate lessons learnt, the Risk Management function reviewed risk management governance documents and changed the risk approach as required to ensure appropriate building blocks for new and agile risk management in the Company.

The most important principle of the new ERM approach is to enable the business to make proactive and informed decisions. All the elements of the risk architecture, transformation, governance and assurance areas are designed and implemented with this principle in mind.

## Transnet's risk management process and planning



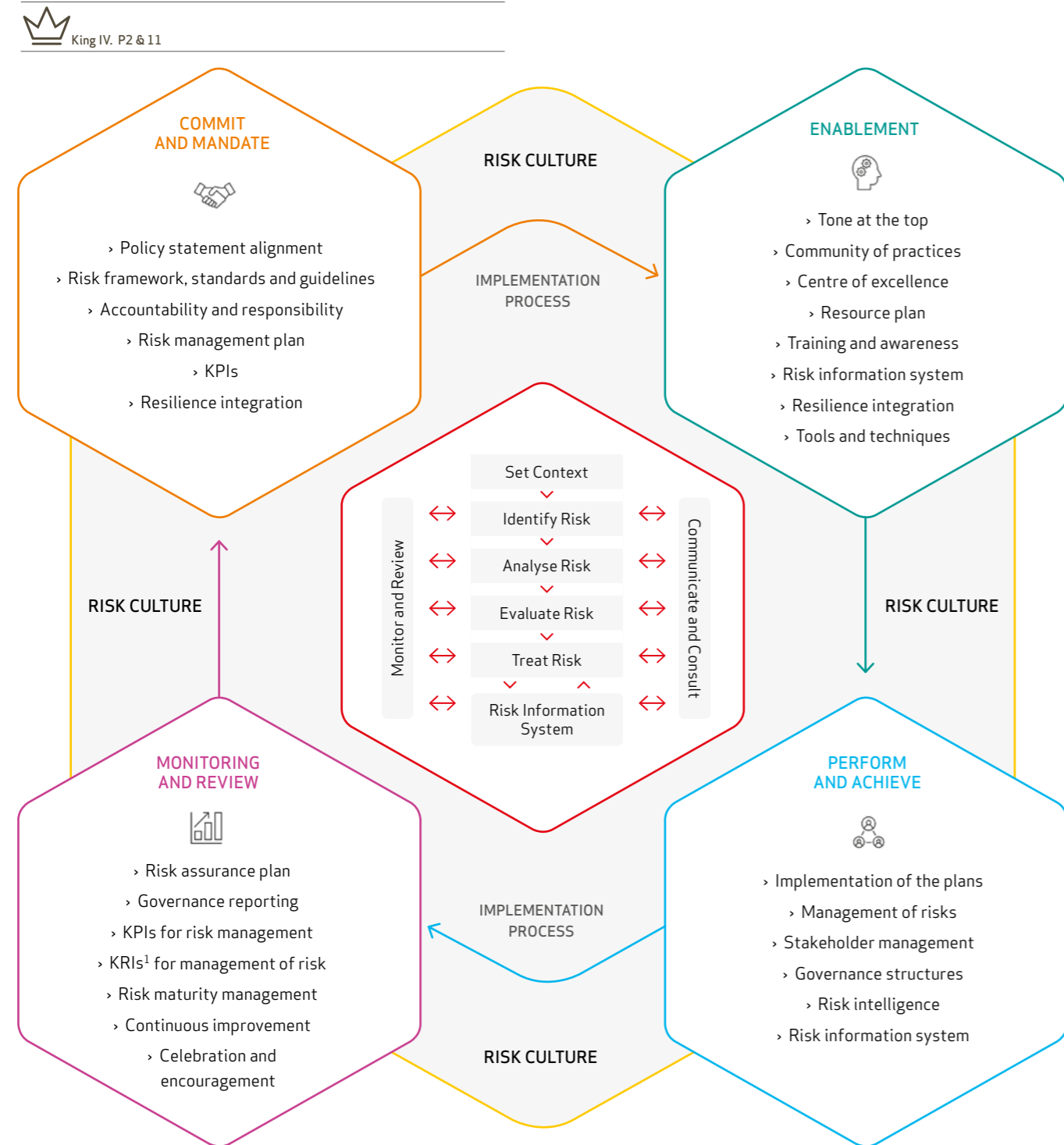
Transnet's Risk Management Plan (RMP) drives the required principles, concepts and common language through five key components (as outlined in Figure 5). The figure shows two cycles. The innermost cycle is at the core of the risk management process and is an iterative tactical process for managing business risks on a day-to-day basis. Surrounding the tactical process is the strategic envelope ensuring commitment and mandate for risk management from the Board and the Executive Committee.

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

The focus areas of the RMP, now in its second year of implementation, has oversight from executives who are operationally involved in the business as opposed to the Risk Management function only.



Figure 5: Transnet's Risk Management Plan framework



<sup>1</sup> Key risk indicators

## Our strategic enterprise risk clusters for 2021



Ten strategic risk clusters guide the level of management attention required to harness opportunities and address and mitigate challenges within the business. Each risk cluster has a set of associated risks, which is managed on an individual basis. Although the risk clusters mostly remain static, the individual risks, key risk indicators, appetite and tolerance levels are dynamic and managed accordingly. The strategic risk clusters and associated risks are reviewed, updated and reported on a quarterly basis. Although risks in each cluster are controlled individually, Transnet's governance structure is alive to and monitors the combined impact on risk movements or deficiency in control.

Our top 10 risk clusters are detailed in the table below, showing the interrelated nature of internal and external risk causes. Transnet's mitigating responses to each cluster are detailed in the table.

Table 5: Transnet top risk clusters and risk causes

Risk cluster	Internal risk causes	External risk causes
<b>Financial sustainability</b>	<ul style="list-style-type: none"> <li>Low liquidity due to not raising affordable funding to meet scheduled debt redemptions and business needs</li> </ul>	<ul style="list-style-type: none"> <li>Negative impact of COVID-19 on volumes, operations and revenue</li> <li>Tax regulation changes lead to additional tax liability</li> <li>Loss of market share as escalating tariffs lead to increased competition</li> </ul>
<b>Customers/markets/segments</b>	<ul style="list-style-type: none"> <li>Rail turnaround times uncompetitive with road transport</li> <li>High levels of customer dissatisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Negative impact of subdued markets</li> <li>Slow adaptability to trade routes due to COVID-19</li> <li>Natural disaster risks impacting local and global markets</li> </ul>
<b>Developmental/industrialisation</b>	<ul style="list-style-type: none"> <li>Not realising the benefits from PSP and cross-border investments</li> <li>Commercially complex agreements with suppliers</li> <li>Inability to contract with private sector partners while remaining compliant with PFMA and other regulations</li> </ul>	<ul style="list-style-type: none"> <li>Inability to attract suitable private sector partners to develop key infrastructure requirements</li> <li>Inability to reduce the cost of doing business</li> <li>Inability to find local partners with the will and capacity to develop local manufacturing and beneficiation requirements</li> </ul>
<b>Commercial</b>	<ul style="list-style-type: none"> <li>Cancelled procurement events damage Transnet's reputation</li> <li>Fee structures regulated for pipeline and port infrastructure are uncompetitive</li> <li>Margins/profitability subdued due to high fixed cost structure and inefficient operations</li> </ul>	<ul style="list-style-type: none"> <li>Complex disputes with suppliers and customers resulting in loss of key customers and market share</li> <li>Competition Commission investigating Transnet due to complaints</li> <li>Pricing risk due to the high cost of rendering freight services</li> </ul>
<b>Stakeholder engagement</b>	<ul style="list-style-type: none"> <li>Poor engagement and/or inadequate participation processes reduce the ability to attract critical skills</li> <li>Challenges in delivering reliable customer service</li> <li>Relationship with labour not optimal resulting in lack of buy-in from labour partners as critical stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Adverse media coverage impacting on reputation</li> <li>Complaints by stakeholders to DPE about disputes</li> <li>Ineffective community involvement and relations due to encroaching, safety and operational risks</li> </ul>
<b>Infrastructure/asset creation</b>	<ul style="list-style-type: none"> <li>Key projects not aligned to strategy or not optimised for value creation</li> <li>Business, financial and technical due diligence not optimally managed</li> <li>Costly and inefficient project delivery lead to time and cost overruns</li> </ul>	<ul style="list-style-type: none"> <li>Natural disasters (e.g. climate-change events) impact infrastructure quality and efficiency especially at ports</li> <li>Theft and derailments impact the road-to-rail strategy, with road gaining market share</li> </ul>
<b>People</b>	<ul style="list-style-type: none"> <li>Lack of skills to address current and future business demand</li> <li>Culture of power and unethical conduct resulting in disengaged and unhappy employees</li> </ul>	<ul style="list-style-type: none"> <li>Negative impact of COVID-19 pandemic on people resulting in unavailability of teams to deliver to internal and external customers</li> <li>Disruptive technologies (e.g. at Port Terminals' container operations) resulting in slow delivery of technologically advanced services</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>Uneconomical spend and increasing procurement lead times</li> </ul>	<ul style="list-style-type: none"> <li>Policy and regulatory uncertainty</li> </ul>
<b>Safety, security, health and environment</b>	<ul style="list-style-type: none"> <li>Regulatory contraventions and fines due to environmental incidents and transgressions</li> <li>Safety incidents in a highly industrialised operational environment</li> </ul>	<ul style="list-style-type: none"> <li>Security and vandalism of infrastructure and assets</li> <li>Adverse weather conditions impacting operations</li> <li>Negative impact of COVID-19 pandemic on people's health and wellness</li> <li>Resurgence of COVID-19 impacting on people and business</li> </ul>
<b>Operational sustainability and efficiency</b>	<ul style="list-style-type: none"> <li>Poor condition of rail and port infrastructure leading to incidents and business disruptions resulting in adverse impact on delivery of volumes</li> <li>Inefficiency in the value chain (operational efficiency bottlenecks unidentified and unresolved), leading to lower volumes and reduced revenue</li> </ul>	<ul style="list-style-type: none"> <li>Uncertainty in supply of energy by Eskom resulting in business disruptions</li> <li>Adverse weather conditions affecting the asset base</li> </ul>



Table 6: Risk mitigation responses

### Financial sustainability

- Identify and implement earnings before interest, taxation, depreciation and amortisation (EBITDA) initiatives, capital optimisation as well as improved working capital management to limit the impact on the additional funding requirements
- Continue to reshape the cost base and instilling permanent cost discipline
- Refine and embed technology solutions and driver-based/zero-based budgeting
- Improve negotiated and benchmarked prices following the review of the Procurement function
- Implement segment strategies and leverage the private sector through PSPs to improve financial health
- Establish an integrated pricing committee at group level to coordinate and streamline all pricing strategies and methodologies and their application thereof in an integrated way
- Continue with productivity and efficiency improvements, maximising asset utilisation and optimising returns on assets
- Implement new business development initiatives to bridge the revenue-generation deficit gap
- Continue sourcing new funding and ensure adequate short-term facilities

### Customers/markets/segments

- Conduct regular customer and industry meetings to address customer needs and concerns
- Implement annual volume demand validation process to support growth and customer demands
- Enter into long-term take-or-pay contracts with customers to protect volumes and revenue
- Conduct regular customer satisfaction surveys to assess satisfaction levels
- Apply network-based costing model for pricing models to determine correct pricing for commodities
- Implement the Transnet Transversal Project to help craft new pricing guidelines to suit changing Competition Commission landscape (project currently underway)

### Commercial

- Conclude take-or-pay contracts (certainty around price per volume for major customers, including iron ore, manganese and coal segments)
- Establish an integrated pricing committee at group level to coordinate and streamline all pricing strategies and methodologies and their application thereof in an integrated way
- Develop and use predictive pricing models as benchmarking tools to deliver more competitive tariffs
- Manage revenue at risk and implement recovery plans for sectors at risk to sustain and grow revenue
- Implement new business development initiatives to bridge the revenue-generation deficit gap

### Infrastructure/asset creation

- Enhance business case templates and processes to inform investment decisions by the Investment Forum
- Roll out investment initiatives as determined by the Capital Investment Plan for the management of capital and funding requirements to deliver benefits
- Strictly adhere to the Company's Maintenance Strategy (infrastructure, locomotives, wagons, port and pipeline assets) to ensure availability of rolling stock and asset care and to be able to deliver to customers
- Roll out capacity-creation investment programmes for specific sectors
- Develop the Port of Durban as a regional hub port through partnering, e.g. with an international terminal operator
- Validate the business needs of projects by determining greater certainty of demand based on take-or-pay agreements with customers
- Provide assurance and review asset maintenance strategies for the Company's assets to inform capital allocation, including clear principles and guidelines around replace/repair/refurbish decisions
- Expand the role of the Capital Planning Committee to include early project registration and capital portfolio pipeline development as well as the monitoring of all types of capital
- Review and approve the Capital Programme Governance Framework to track benefit realisation
- Roll out all Oracle Primavera modules across the Company to facilitate improved project governance, controls and reporting

### Operational sustainability and efficiency

- Implement the capitalised operating and operating expenditure programme recommended by Deutsche Bahn to address backlog and sustain the network to 'A' maintenance standard
- Streamline procurement processes (short-, medium- and long-term procurement plans) to improve the turnaround time for the acquisition of material and services on critical commodities
- Design and install extreme weather drainage system suitable for extreme weather conditions (culverts, embankments and formation stabilisation) to prevent business disruptions during extreme weather events

- Fully implement the Security Improvement Plan (inclusive of security technologies) to address the rampant theft of cable in the railway environment
- Set aside of 1 064 locomotive procurement with retention of non-defective locomotives and enforcing warranty obligations and where possible reaching just and equitable settlements with OEMs. Commencing of new procurement for sustainable fleet
- Engage with National Treasury regarding the localisation requirements and request for National Infrastructure Protection Plan requirements in respect of unavailability of material for non-suspended 1 064 locomotive fleet and newer fleet
- Implement the Transnet Freight Rail/Transnet Engineering Master Services Agreement inclusive of a long-term parts agreement to ensure availability of parts when needed for maintenance
- Finalise the implementation of the Port Terminals' operational turnaround plan, i.e. sourcing of equipment, training of operators, implementation of a truck booking system, etc. to improve efficiencies in the port environment
- Develop operational capability by coaching and mentoring planners at the terminals by international experts
- Engage in strategic partnerships with OEMs and Transnet Engineering to increase life span of equipment and technology
- Implement the manganese multichannel strategy to create additional capacity
- Application process for the handling of 76 mpta in Saldanha and renewal of the 60 mpta to fulfil environmental obligations in preparation for increased volumes
- Implement a medium-term strategy for the provision of equipment in Richards Bay, i.e. second-hand equipment for a period of 18 months
- Implement a long-term strategy for big contracts, e.g. stevedoring to prevent procurement disruptions
- Sign curtailment agreements with Eskom to exclude terminals from load shedding
- Ensure alignment of maintenance plans with procurement plans by instructing the implementation of Maintenance Forums at port level
- Craft and include climate change terms, conditions and KPIs in terminal operator agreements to mitigate the climate change risks in the agreements
- Implementation of Ship Repair Strategy to address maintenance requirements for asset availability

### Safety, security, health and environment

#### Mitigating actions: Environmental

- Implement the Energy Strategy and business continuity plans for enhanced recovery in the event of energy shortages
- Implement the compliance control recommendations of the Air Quality Transversal Project
- Implement the Corporate Environmental Legal Training covering all environmental specialists throughout the organisation
- Implement recommendations of the Climate Change Position Paper to address the climate change risk

#### Mitigating actions: Security

- Establish an integrated task team across all service providers that will act as an intervention team to stabilise all security hotspot areas
- Install appropriate technologies in hotspot areas, Transnet buildings and within yards and allow the redeployment of these personnel to rail reserves
- Solicit support from external law enforcement agencies to conduct disruptive operations in hotspot areas through National Joint Operations
- Consequence management on both internal and external resources
- Identify bucket shops and unscrupulous scrap metal dealers with the intention of charging them in terms of the Criminal Matters Amendment Act
- Use of aerial surveillance (choppers and drones) to protect the infrastructure from criminal activities
- Deploy resources on the rail network: Current resources have been reallocated to ensure all available resources are focused on the rail network and movement of trains
- Establish the Freight Rail 10111 centre to ensure rapid response capability to possible theft incidents (pilot project)
- Security service providers deployed to the Operations Control Centre to improve reaction
- Implement intelligence-driven operations – Daily analysis of incidents at the Freight Rail 10111 centre to direct operational deployments as well as the deployment of the drone teams
- Engage the intelligence community, technology (cameras, Internet of Things devices, seismic detection, etc), visible felt leadership and honesty testing
- Integrated planning, mobile response security teams and specialised tasks teams; remotely piloted aircraft systems (drones and choppers), special operations and stakeholder engagement
- Ongoing community engagement, including engagements with Amakhosis/traditional leaders and farm owners

#### Governance

- Apply the Ports Regulator of South Africa's approved multiyear tariff methodology to ensure regulatory and revenue certainty for the National Ports Authority
- Apply the Nersa-approved tariff methodology annually for Pipelines' petroleum pipeline tariffs to ensure compliance thereto

## People

- Strategic workforce plan to predict the current and future skills requirements for the business
- Transnet Academy to meet the current and future training, skills and capability requirements for the business
- Review and remodel the values and ethical behaviour of employees by embedding the Culture Code and iBELONG programme
- Implement a workforce resource and cost-planning solution
- Design frameworks of reorganisation, migration, redeployment, retraining and exit principles
- Conduct a skills audit and invest in training people in new skills
- Optimise HR system processes and digital solutions to support strategic HR initiatives
- Design the virtualisation of learning solutions to maximise access and enable employees to engage in personalised learning
- Enable employees with mobile tools of trade for remote working
- Maximise current HR digital platforms such as the Employee Self-Service and Manager Self-Service (ESS/MSS) applications and adopt a staggered approach for implementation of HR automation
- Encourage relationship-building sessions between management and organised labour
- The Silver-Fox Programme - transfer of skills to the younger cohort

## Stakeholder engagement

- Implement a fully functional grievance mechanism that is culturally appropriate, free and readily accessible for efficient governance reporting
- Review, design and implement an effective stakeholder engagement system to establish stakeholder needs, interests and level of impact for each group
- Introduce an effective feedback mechanism with proactive regular industry engagement supplemented by one-on-one engagements for stakeholders and written communication to discuss challenges and collaboration, and co-create solutions
- Establish roles of Community Liaison Officers
- The Community Investment Committee to tackle socio-economic challenges

## Developmental/industrialisation

- Conduct extensive market research, vetting and background search to identify suitable private sector partners and local partners
- Identify commercial risks early in the investment case preparation and change plans decisively if required to prevent costly mistakes
- Implement effective contract management with measurable KPIs that are closely monitored to manage contractor performance
- Ensure effective contract management with pre-agreed prices that are cost effective to Transnet
- Undertake stakeholder engagement with policy departments and regulators to ensure policy alignment and agreement on scheduling to reduce delays

## Risks taken outside tolerance levels



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

The risk sponsors/owners consider closing the gap (if any) between the actual control effectiveness and the desired control effectiveness when deciding on risk response strategies. Risk clusters with high residual risk impacts are, tolerated for being outside the generic tolerance levels. This is largely due to the influence of external factors materialising as the root causes within the top 10 risk clusters.



## Emerging risks



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

Table 7: Emerging risks

Emerging risk description	Risk mitigation
<b>Geopolitical uncertainty and possible changes to trade agreements and their impact on industrial manufacturing and flows of goods</b>	<ul style="list-style-type: none"> <li>• Diversification and market penetration - implement diversified growth and diversification strategies</li> <li>• Execute strategy to promote growth of road-to-rail business</li> <li>• Implement new business development initiatives to bridge the revenue-generation deficit gap, including regional integration</li> <li>• Improve demand-side scenario planning to predict market demand</li> <li>• Develop a risk-based market strategy to manage cascading COVID-19 risks impacting on global and regional markets and geopolitical factors</li> </ul>
<b>Digitisation impacts on operations</b>	<ul style="list-style-type: none"> <li>• Develop a Transnet integrated digital transformation strategy that outlines the approach to information and communications technology (ICT) governance</li> <li>• Big data analytics, tracking and tracing technology and the Internet of Things to compete in the digital economy</li> <li>• Develop a logistics platform to support a digital transformation strategy</li> <li>• Partner with industry players such as shipping lines to build smart contracting digital platforms and develop alternative digital platform solutions</li> <li>• Establish administrative control over supply chain processes using digital capabilities - especially for systems containing critical data to mitigate supply chain risks</li> <li>• Execute a risk-based ICT Strategy to manage cascading COVID-19 risks impacting systems, people and productivity</li> </ul>
<b>Climate change adaptation: Extreme weather events and weather volatility</b>	<ul style="list-style-type: none"> <li>• Implement a climate change adaptation strategy to respond to the impact of climate change</li> <li>• Quantify revenue at risk in order to develop mitigation measures</li> </ul>
<b>Global transition to a low carbon economy impacting key commodity revenue streams</b>	<ul style="list-style-type: none"> <li>• Investigate and understand the implications of low carbon transitions on:                             <ul style="list-style-type: none"> <li>- Thermal coal export business</li> <li>- Capital investments for coal exports</li> <li>- Planned capital investments for coal exports</li> <li>- Changing petroleum and diesel demand</li> <li>- Capital investments in petroleum pipelines</li> <li>- Storage and bunkering businesses</li> <li>- Planned capital investments in storage and bunkering businesses</li> </ul> </li> <li>• Include an assessment of credit rating sensitivity with multiple future scenarios to assess the impact on commodity revenue streams</li> </ul>
<b>Transition risk of global vessel fleets to zero emission fuels by 2050</b>	<ul style="list-style-type: none"> <li>• Quantify the risk, develop scenarios for solutions to align with the Energy Strategy to respond to the transition to a low carbon economy</li> </ul>

# Outlook

Transnet is a strategic player in the reconstruction of the South African economy, specifically to lower the cost of doing business in the country. South Africa relies, to a large degree, on commodity exports which means the economy is intrinsically linked to the global outlook.

With this as background, the economic outlook is a key driver to Transnet's business.

## Economic considerations

It's just over a year of dealing with the COVID-19 pandemic and people, governments and corporations across the world have all felt the effects of this unprecedented time. After an estimated contraction of -3,5% in 2020, the global economy is projected to grow at 5,6% in 2021, moderating to 4,3% in 2022. In South Africa the pandemic and resultant domestic lockdowns had a severe impact on economic activity as the country's GDP declined by 7% in 2020, the largest fall in this metric since World War II. We actively monitor COVID-19 trends and the developments and we have actively participated in the rollout of the vaccine to employees and host communities.

Substantial uncertainty surrounds the global economic outlook, which depends on the rollout of effective vaccines and additional policy support. The World Bank forecasts a slow recovery, and the upturn will be led by the large, advanced economies like the United States (US) and some of the developing economies, with China continuing with the fastest growth. Stimulatory measures on the monetary and fiscal fronts will be key determinants of the recovery across different economies. The World Bank forecasts global GDP to rise by 6% in 2021<sup>1</sup> as vaccines contain the spread of the virus and allow governments around the world to ease lockdowns and encourage a return to normal economic activity. The world economy is further expected to benefit from the large government stimulus programmes announced by a few advanced economies, notably the US. There are expectations that the US would once again play a coordinating role on a global scale following the inauguration of US President Joe Biden. The USD1,9 trillion US stimulus programme is expected to support the global economy. In sub-Saharan Africa most countries are likely to emerge from the crisis with large budget deficits. The new African Continental Free-Trade Area (AfCFTA) will serve as a framework for the region's economic recovery and a World Bank report estimates that the region could receive a US\$450 billion boost from the trade pact by 2035<sup>2</sup>. In the short term, the World Bank expects a muted recovery in sub-Saharan Africa, with growth forecast to rebound by 2,8% in 2021<sup>3</sup>.

South Africa's struggling economy can benefit from the accommodative monetary policy in advanced economies where excess global liquidity and "search-for-yield" may support capital inflows. The commodity cycle and specifically strong demand for mineral exports to emerging markets like China are positive. Risks to the economy are the structural challenges, the growing debt of the country and ongoing energy constraints. South Africa's National Treasury expects gross national debt to rise from 80,3% of GDP in 2020/21 to 87,3% of GDP by 2023/24. It is essential that

Government follows the path to deficit reduction as set out in the National Budget to avoid any further sovereign risk rating downgrades and the resultant ripple effect. Economic recovery will depend on how quickly South Africa can achieve herd immunity as the phased COVID-19 vaccine programme races against new variants of the virus.

Nevertheless, the outlook for the South African economy is more promising, with the recovery supported by firmer consumer spending, the rebuilding of domestic inventories and stronger commodity prices and export growth. The World Bank June 2021 Global Economic Prospects report sees growth of 3,5% in 2021 for South Africa and 2,1% in the following year.

South Africa's monetary policy continues to support growth and it is anticipated that the Reserve Bank will leave the policy rate unchanged this year. Inflation expectations remain moderate, with the Bureau of Economic Research's latest forecasts indicating that CPI will remain comfortably below the targeted 6% until 2026.

## Transnet's mandate

The Government's Economic Reconstruction and Recovery Plan aims to implement structural reforms that will enable a significant expansion in the delivery of public infrastructure. This is put together as Operation Vulindlela meaning "open the way" – a joint initiative of the National Treasury and President's Office to unlock economic growth and transformation. Transnet's own mandate is to make freight transport more competitive and efficient and in so doing lowering the cost of doing business in South Africa while enabling trade competitiveness for the country both regionally and globally.

The following reforms are under way:

- At the time of publishing this report, TNPA has become a subsidiary of Transnet, as required by the National Ports Act. It is intended to increase the competitiveness of South Africa's ports by separating its functions from other divisions within Transnet<sup>4</sup>.
- Improved competitiveness and efficiency of ports<sup>5</sup>. Reducing costs and improving the efficiency of South Africa's ports is crucial to the competitiveness of exports and the overall functioning of the economy. The aim is to enhance port operations, including concessions, where appropriate, and to ensure better coordination between agencies involved in facilitating trade.
- The establishment of a Transport Economic Regulator is necessary to facilitate greater private sector involvement in the rail sector on terms that are fair, transparent and well-regulated in the public interest<sup>6</sup>.
- Transnet Freight Rail (TFR) is due to implement the commercial separation of rail operations and rail infrastructure, which will enable third-party access to the TFR network and the accurate costing of slots for third-party operators. Transnet is developing enabling policies and access to authorities for branch line operators to operate on the TFR network. These are crucial steps to move freight from road to rail and increase the competitiveness of the rail system.

- Extensive reform of the rail sector is required. The draft White Paper on National Rail Policy comprehensively sets out Government's remedial interventions to make rail a competitive mode of freight and commuter transport. South Africa's rail network currently represents about 20% of the general freight market share.

To meet these challenges, Transnet's strategy development has shifted from OD-centric to supply/value chain-centric, with the objective of opening cross-divisional opportunities to ensure greater competitiveness for key industry value chains and to support the growth of Transnet's key market segments.

## Commodity outlook

Overall, global commodities are expected to perform well in 2021 supported by the global economic recovery, expansionary monetary policy and fiscal stimulus being provided by several governments. The rebound, particularly in Chinese manufacturing, has resulted in strong demand for exports. The United Nations Conference on Trade and Development (November 2020) indicated considerable vulnerability in trade and commodity pricing, however, the strength of the Chinese economy sustains prices and drives demand. The World Bank reported a Chinese GDP expansion of 2,3% in 2020, and as vaccines are rolled out worldwide, it is likely that 2021 will see continued sustainability in commodity demand and pricing. Given Transnet's exposure to iron ore, coal, manganese, ferrochrome, magnetite and other mining exports, this is a positive trend that will support Transnet's structural reforms and growth over the next five years. Revenue projections are continuously updated in the context of actual volume trends and in discussions with customers.

Risks to commodity demand trends are also linked to the need to reduce carbon emissions demand for coal for example, and behavioural changes set in motion by COVID-19 (i.e. demand for fuel).

## Funding outlook

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

PSP will be pursued where investments are either unaffordable to Transnet alone or are complementary to Transnet's strategy; or where business opportunities within ports, rail and pipelines are non-core to Transnet's strategy. This Funding Strategy is to ensure that Transnet is able to fund its Capital Investment Plan successfully within the set financial metrics, while mitigating possible funding, foreign exchange and interest rate risks. The cash interest cover is expected to improve from 2,0 times in 2021/22 to 4,3 times by 2025/26<sup>7</sup>.

Based on the detailed cash flow forecasts, the forecast funding requirement for the five-year period is R43,3 billion. The Funding Plan seeks to establish Transnet as a reliable and credible borrower, which, albeit a SOC, secures debt on the strength of its financial position without any government guarantees. There are significant debt maturities in the next three financial years and Transnet must raise sufficient long-term funding to meet its debt obligations and fund its capital expenditure programme.

The potential funding mix over the five-year period is foreseen below:

DMTN programme	R18 billion
DFI/ECA and GMTN	R14,9 billion
Bank loans	R10,4 billion

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

## Five-year capital investment outlook

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

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

Transnet plans to spend R99,8 billion on capital investment over the next five years of which 85% (R84,8 billion) will be spent on maintenance and sustaining capital. The high level of investment in sustaining capital investment is due to a significant backlog in infrastructure and rolling stock, coupled with planned mid-life and cyclical maintenance on fleet and port equipment. A significant portion of this capital (R40,7 billion) will be spent on maintaining and sustaining permanent ways and rolling stock (locomotives and wagons), while the remainder is planned for port fleet and pipeline equipment. On the expansion side R5,7 billion of the R15 billion is earmarked for expansion of the freight business.

<sup>1</sup> Source: World Bank report – July 27, 2020. The African Continental Free Trade Area

<sup>2</sup> Nedbank Group Ltd Integrated Report

<sup>3</sup> Source: SA Minister of Finance Speaking notes • 25 April 2021 referring to IMF report

<sup>4</sup> Source: Section 3(2) of the National Ports Act of 2005

<sup>5</sup> Source: Economic Reconstruction and Recovery Plan

<sup>6</sup> Source: Treasury growth document

<sup>7</sup> Transnet's Corporate Plan (2021).

# Five-year investment

Transnet plans to spend R99,8 billion on capital investment over the next five years. R40,7 billion (85%) will be spent on maintaining and sustaining permanent ways and rolling stock (locomotives and wagons), while the remainder is planned for port fleet and pipeline equipment.

Transnet projects growth of R30,3 billion (9,3%) in total assets from R324,7 billion to R355,0 billion over the five-year period. This growth is mainly due to the projected R99,8 billion Capital Investment Plan. From 2021 to 2026, the return on invested capital is planned to increase from 1,7% to 6,8%.

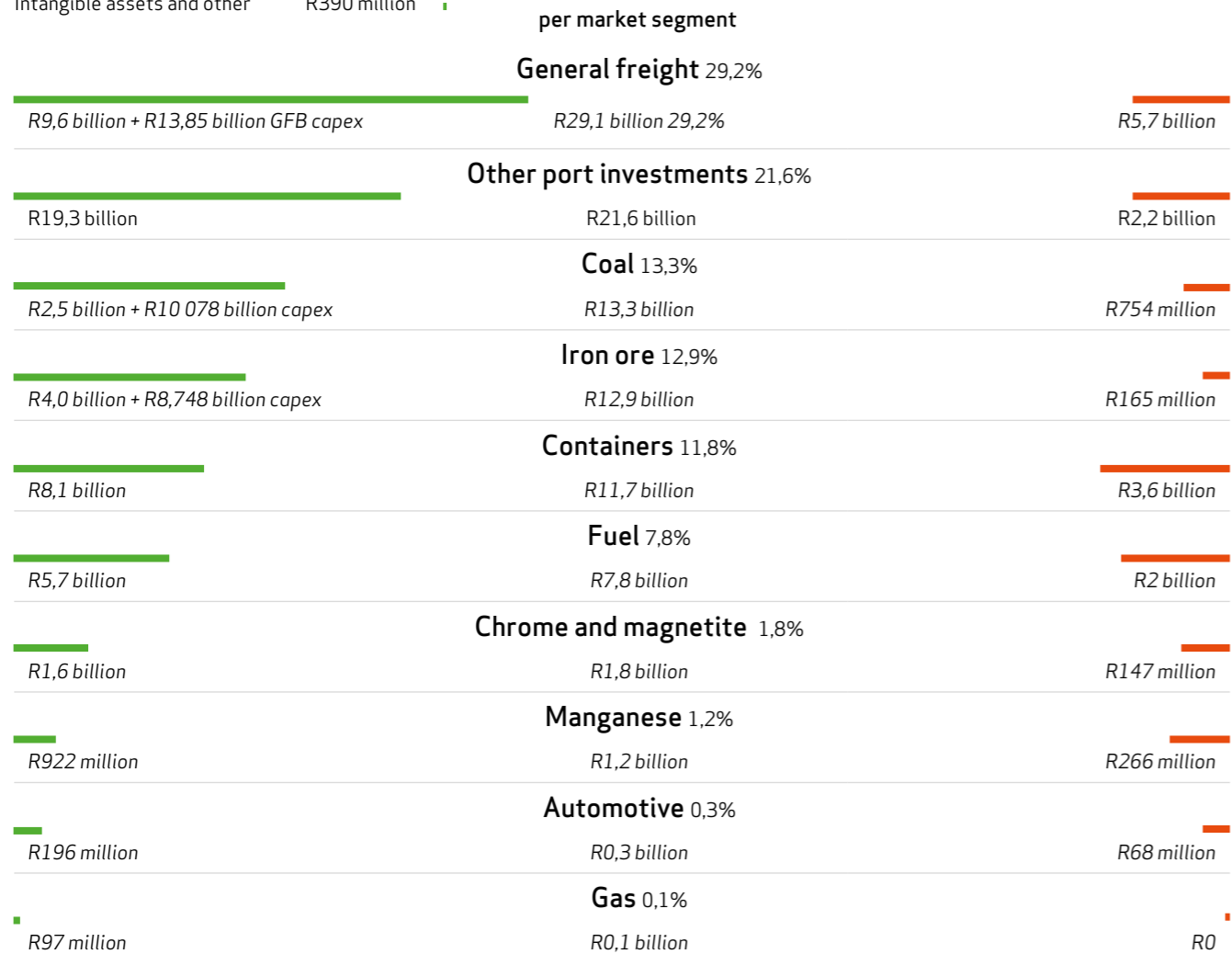
**Total value R99,8 billion**

**Sustaining 85%** **15% Expansion**

**R84,8 billion** **R15,0 billion**

**Sustaining the value of our capital per asset type** **Expanding the value of our capital per sector**

Asset Type	Value	Sector	Value
Port facilities	R19,4 billion	Rail infrastructure	R4,1 billion
Permanent ways	R18,2 billion	1 064 locomotives	R1,6 billion
Machinery and equipment	R13,3 billion	Wagon builds/renewals	R22 million
Wagons	R12,3 billion	Other	
Locomotives	R10,2 billion		
Land, building and structures	R6,6 billion		
Pipeline networks	R3,0 billion		
Floating craft	R1,3 billion		
Intangible assets and other	R390 million		



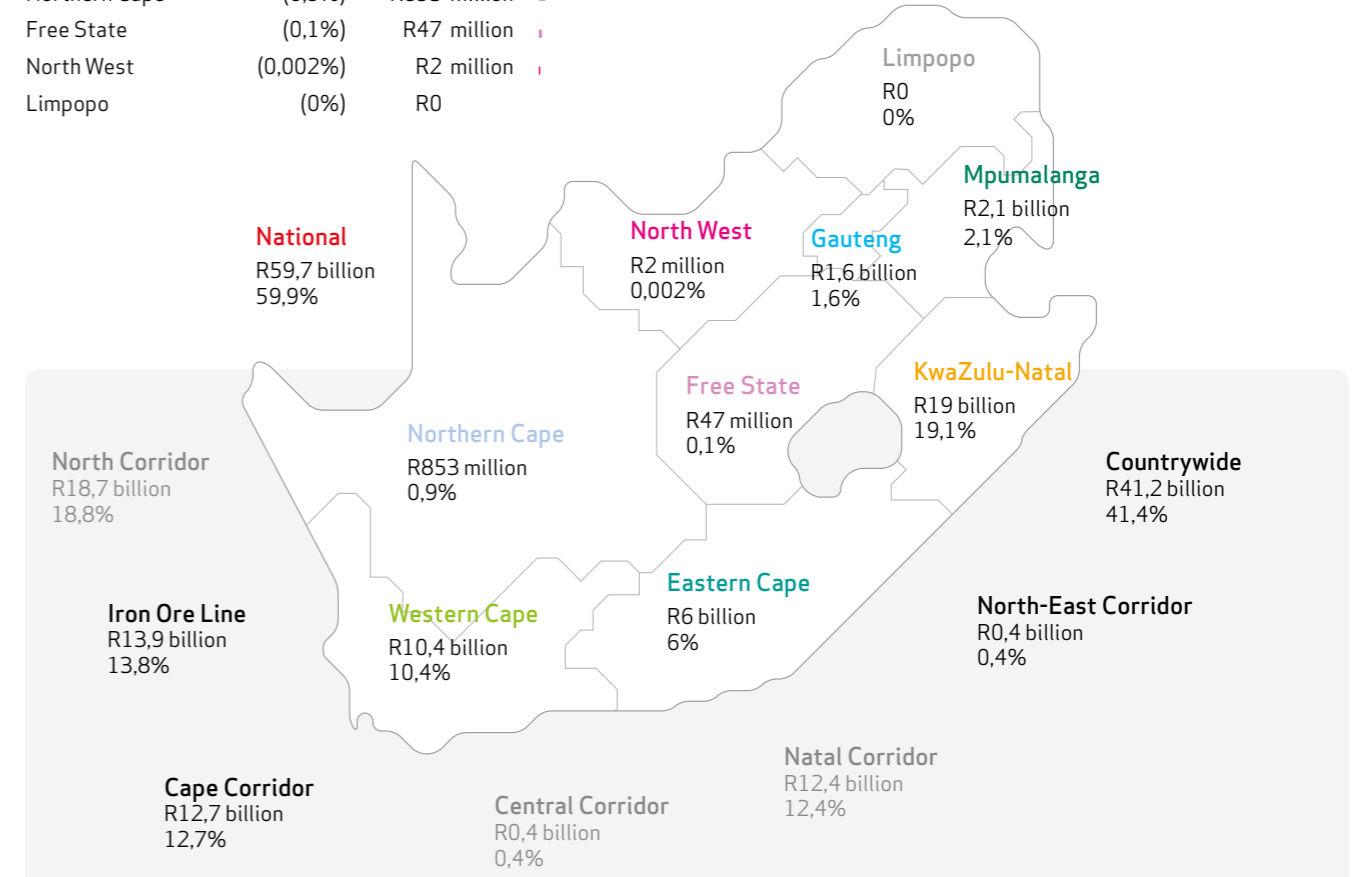
## Value to be invested in Transnet's operations per functional portfolio over next five years

Freight Rail	R55,7 billion
National Ports Authority	R16,456 billion
Port Terminals	R16,456 billion
Pipelines	R7,9 billion
Engineering	R395 million
Property	R1,2 billion
Corporate Centre	R1,6 billion

## Value created for South Africa

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

National	(59,9%)	R59,7 billion
KwaZulu-Natal	(19,1%)	R19 billion
Western Cape	(10,4%)	R10,4 billion
Eastern Cape	(6%)	R6 billion
Mpumalanga	(2,1%)	R2,1 billion
Gauteng	(1,6%)	R1,6 billion
Northern Cape	(0,9%)	R853 million
Free State	(0,1%)	R47 million
North West	(0,002%)	R2 million
Limpopo	(0%)	R0



## Value to be invested per corridor

Countrywide	(41,4%)	R41,2 billion
North Corridor	(18,8%)	R18,7 billion
Iron Ore Line	(13,8%)	R13,9 billion
Natal Corridor	(12,4%)	R12,4 billion
Cape Corridor	(12,7%)	R12,7 billion
Central Corridor	(0,4%)	R0,4 billion
North-East Corridor	(0,4%)	R0,4 billion

# Addressing stakeholder interests



Transnet, a SOC with the DPE as the Shareholder representative on behalf of Government, is mandated to:

- Assist in lowering the cost of doing business in South Africa;
- Enable economic growth; and
- Ensure security of supply by providing appropriate port, rail and pipeline infrastructure.

In the past year, South Africa's macroeconomic environment has been characterised by fundamental structural shifts as a result of the COVID-19 pandemic. The decline in global trade, plunging oil prices and unstable financial markets presented a moment for the collective reimagining of the global economy and Transnet's own operations. It was within this context that Transnet had to develop a forward-looking strategic plan, which supports Transnet's position as an enabler of economic growth by improving South Africa's manufacturing competitiveness.

## Our approach to stakeholder engagement

Stakeholder relations within the Company are informed by the King IV Code, the International Integrated Reporting Framework issued by the IIRC, the Global Reporting Initiative, the AA1000 Stakeholder Engagement Standard, and the UN Global Compact legislation and best practices. The 2021 Stakeholder Engagement Report encompasses the Transnet Group and its ODs.

In the year under review, Transnet instituted a research project to better understand the challenges in communities where it operates, which have been identified as hotspot areas as a result of increased volatility and unrest over the past year. The purpose of the research was to examine the challenges faced in these communities, and to review whether Transnet's interventions could be better tailored to ensure they are aligned and responsive to the most pressing needs in these communities. The study was conducted in the following areas: Witbank, Ogies, Ba-Phalaborwa, Warrenton, Saldanha Bay, and Richards Bay. The main findings were:

- Lack of prompt feedback to communities after engagement;
- Lack of focused local economic development;
- Skills development gaps (especially for youth and disabled people); and
- Lack of inter-OD engagement and communication.

In the same period, a study was commissioned by the DPE to look at the impact of corporate social investment (CSI) projects on our beneficiaries, and to determine whether SOCs were getting a social return on investment. The study was done in three of the SOCs in the DPE portfolio: Transnet, Eskom and the South African Forestry Company Limited (SAFCOL). For Transnet, it highlighted the lack of monitoring and evaluation of CSI projects undertaken by the Transnet Foundation to assess the social return on investment.

The Company engages with internal and external stakeholders that include Government, investors, funders and credit rating agencies, Board and management, employees, organised labour, regulators, customers, suppliers, communities and the media.

Through the Foundation, the Company made an immense contribution to reach out to distressed communities during the COVID-19 pandemic, ranging from a donation of personal protective equipment to Africa's largest hospital, Chris Hani Baragwanath, in Soweto to the Phelophepa Healthcare Trains expanding services to include COVID-19 testing and vaccination.

The reality of the COVID-19 pandemic has been challenging to everyone across the world. As a result, operations have been disrupted, and everyone has had to adapt to the new reality imposed by the pandemic on our lives and business processes. In response to the pandemic, Transnet has revised its engagement plans and devised new ways of engaging with key stakeholders in

order to adhere to the restrictions on gatherings and movement. Our Stakeholder Engagement Report, available in full on our website at [www.transnet.net](http://www.transnet.net), is limited to stakeholders that have been engaged during the national lockdown and focuses on high-level engagements with key stakeholders and the management of issues they raised.

## Measuring our progress

The effectiveness of relations with our stakeholders is critical to our operations, and we measure our stakeholder relationship management maturity (SRMM) every three years. The SRMM helps with our management processes, practices and improvement plans to ensure we engage our stakeholders effectively. The previous years' gains made in the SRMM levels were eroded over a period of time.

Developments in national policy, stakeholder sentiment, declining operational performance and a constrained balance sheet have all contributed to the reimagining of Transnet operations and how critical infrastructure will be delivered in future. Transnet needs to be responsive to the calls of the broader industry and cannot, off the strength of our balance sheet alone, make the infrastructure investments necessary to grow the freight system.

## Remaining agile amidst challenges

Our Corporate Plan and associated Transnet Strategy are reflective of the current environment and provide a sense of direction to our operations and for the various industries that we serve. To respond accordingly to the current challenges, we have adopted a new approach to renew the business, anchored on eight major commodities, which include:

- Iron ore
- Manganese
- Coal
- Chrome and magnetite
- Automotive
- Containers
- Liquid fuel
- Natural gas

## Strategic repositioning of Transnet

Our new strategy is aimed at repositioning Transnet to be able to capture growth opportunities through new partnerships and collaboration, and the optimally using of our assets for broader economic development. Policy alignment is a key requirement for implementing the strategy. In response to the government policy directive, we will partner with the private sector (including our customers and competitors) to help us unlock growth opportunities.

## Robust relationships with stakeholders

We acknowledge that the success of our operations relies on robust and beneficial relationships with our stakeholders. Transnet defines the stakeholder as an individual or organisation who is directly or indirectly affected by the Company's activities, and also includes those who may have an interest in the Company or an ability to influence business outcomes either positively or negatively.

Transnet strives to manage ways that best meet both the reasonable needs and expectations of our stakeholders, as well as our business objectives. We are dedicated to:

- Constructive engagements with our stakeholders so as to understand their issues and concerns;
- Managing and responding timeously to stakeholders' issues and concerns;
- Integrating stakeholder input into business plans and processes to create alignment and a shared vision; and
- Using stakeholder input in decision making for our mutual benefit.

## A systematic approach to maximise value

The Company has developed policies, frameworks and controls that guide engagements with our stakeholders. The stakeholder engagement and management procedure provides a systematic approach to stakeholder engagement practices and processes across Transnet to maximise value for both stakeholders and the Company. This approach entails the following:

### Being inclusive

Stakeholders participate in developing and achieving an accountable, strategic response to sustainability. We accept our accountability to those we impact and those who have an impact on us.

### Materiality

Topics and indicators that reflect key economic and sustainability impacts or that may substantively influence stakeholder assessments and decisions.

### Consistency

Maintain regular and consistent communication to ensure continuity.

### Responsiveness

Our response to stakeholder issues that affect our sustainability performance is realised through decisions, actions, performance and communication.

## Accountability

Being accountable for and transparent about the impacts of our policies, decisions, actions, products and performance.

The process is structured around:

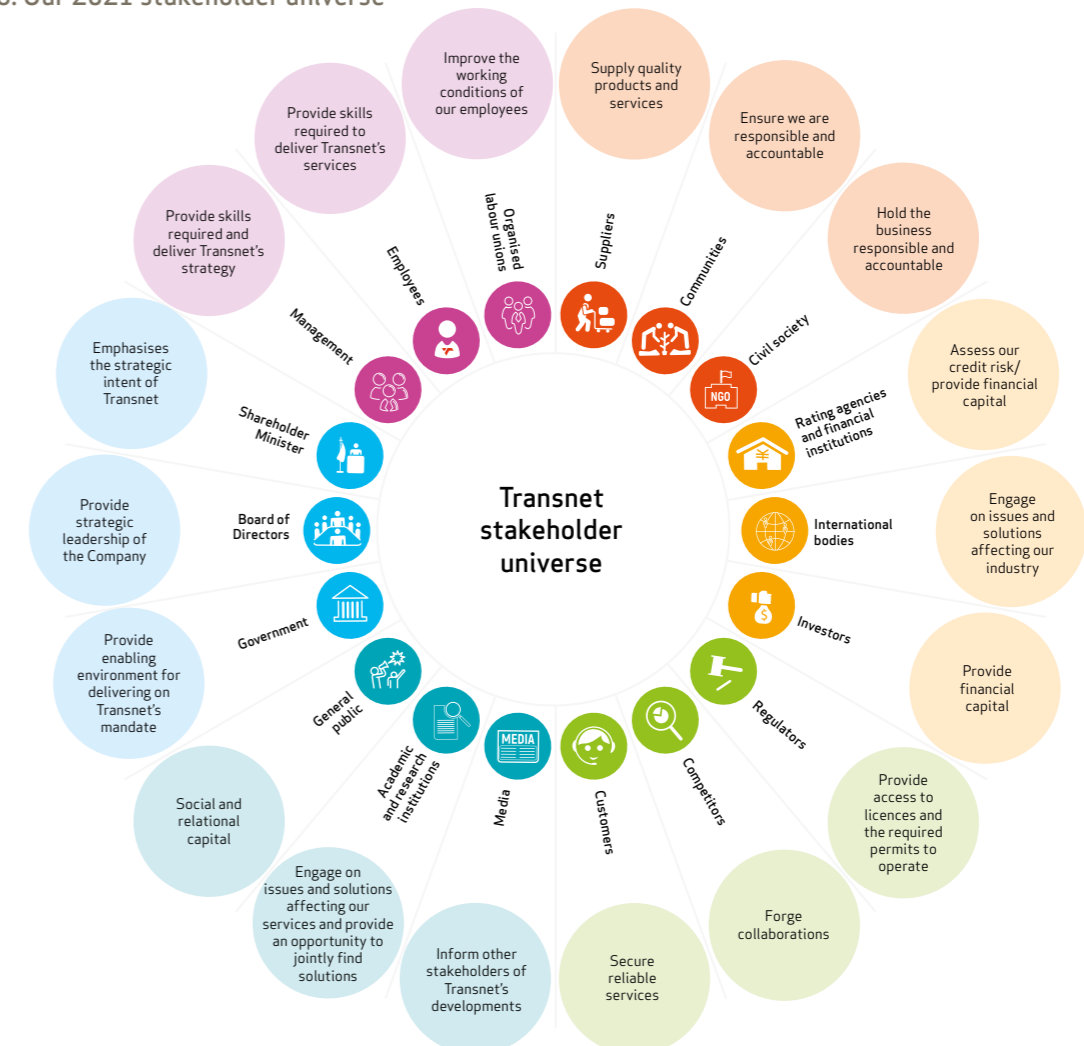
- Identifying stakeholders;
- Engaging with them;
- Understanding their issues and expectations; and
- Aligning these to Transnet's strategic objectives and operational targets.

## Addressing key stakeholder concerns during 2021



Transnet operates within a complex landscape involving multiple stakeholders, both internal and external, with varying needs and expectations that are engaged through various platforms. However, this report is limited to stakeholders that have been engaged during the different levels of the national COVID-19 lockdown. Mapping relevant stakeholders is vital to the process to improve continuous engagement. These stakeholders are categorised in the diagram below:

Figure 6: Our 2021 stakeholder universe



# Stakeholder issues impacting our strategy and operations



Key stakeholder issues raised during the year are outlined in the tables that follow:

Table 8: Key issues arising from our 2020/21 multistakeholder engagement process

Shareholder Minister – DPE	
<b>Key issues/areas of interest</b>	<b>Strategic responses</b>
<ul style="list-style-type: none"> <li>Performance against the Shareholder’s Compact</li> <li>Financial and operational sustainability</li> <li>Mitigating actions implemented to improve performance</li> <li>Concerns with respect to the effectiveness of mitigating actions</li> <li>Governance and leadership issues</li> <li>Strategic focus areas for the 2020/21 financial year based on the Statement of Strategic Intent</li> <li>Inclusion of strategic initiatives relating to the structural alignment of the Company</li> </ul>	<ul style="list-style-type: none"> <li>We have started a process to track the Shareholder’s Compact KPIs at the various subcommittees of the Board to continuously monitor and evaluate performance</li> <li>Our review of the Shareholder’s Compact methodology focuses on strategic KPIs and aligning the Shareholder’s Compact with the Statement of Strategic Intent</li> <li>We are implementing measures to focus the Shareholder’s Compact on initiatives that are central to the structural reform of the organisation</li> <li>We will strengthen KPIs to balance the focus so that it is more inclusive and reflective of Transnet’s overall outcomes</li> </ul>
Board of Directors	
<b>Key issues/areas of interest</b>	<b>Strategic responses</b>
<ul style="list-style-type: none"> <li>The approval of the Shareholder’s Compact</li> <li>The approval of the Company’s annual financial statements and integrated report</li> <li>The annual approval of the strategy, Corporate Plan and KPIs</li> <li>Review of the organisation’s performance</li> <li>To deliver on the Company’s respective mandates</li> <li>Accountability</li> <li>Vacancies on the Exco</li> <li>Governance and corruption issues within the Company</li> <li>Resolution as the Board to participate in the Company’s lifestyle audit process</li> </ul>	<ul style="list-style-type: none"> <li>The Board has started engaging with stakeholders on the new changes in the organisation’s leadership</li> <li>The Board has prioritised information-sharing on employee and operational matters</li> <li>The Board has approved negotiations on the new productivity incentive schemes for bargaining unit employees, with the support of the labour union</li> <li>A new Group Chief Executive (GCE) and Executive team were appointed to stabilise the organisation and provide strategic direction</li> <li>The Board has supported management with respect to safety and occupational awareness campaigns on the COVID-19 pandemic</li> <li>The Board has issued precautionary suspension letters to executives implicated in reports related to various acts of malfeasance and corruption</li> </ul>
Government	
<b>Key issues/areas of interest</b>	<b>Strategic responses</b>
<ul style="list-style-type: none"> <li>Job opportunities for local communities</li> <li>Capital project compliance in terms of the Preferential Procurement Policy Framework Act, No 5 of 2000 (PPPFA), PFMA and Treasury regulations</li> <li>Licensing, compliance, environmental authorisation and issues</li> <li>Undertaking a social needs analysis in communities and schools to identify beneficiaries</li> <li>Leveraging partnerships and resources to deepen the impacts on community services</li> <li>Engagements and workshops on community health and safety awareness</li> <li>Awareness on the plans and commitment for Whole School Development Programme (WSDP) for the 2020/21 financial year</li> <li>Business opportunities worth pursuing in different regions</li> <li>Infrastructure development challenges and issues experienced across the organisation</li> <li>Establishment of sports development across all nine provinces, and the rollout of the teachers’ development programme</li> </ul>	<ul style="list-style-type: none"> <li>We have prioritised our engagement and collaboration with Government to the Africa Steering Committees and within TIH</li> <li>We have engaged with government institutions through regular workshops and awareness campaigns to reinforce our relationship</li> <li>We have partnerships with healthcare service providers to advance our contributions to communities and schools</li> <li>We have expanded the footprint of our whole school and sports programmes into all nine provinces to offer opportunities to schools and pupils across the country</li> <li>We have regular engagements to ensure seamless compliance and regulatory alignment with all promulgated legislation</li> </ul>



## Employees and Management



Key issues/areas of interest	Strategic responses
<ul style="list-style-type: none"> <li>Employee morale and underutilisation of resources</li> <li>Job security</li> <li>Employees reminded to remain vigilant and continue to adhere to COVID-19 protocols – washing of hands/ sanitising, wearing a mask, maintaining a safe physical distance, and staying at home if unwell</li> <li>Development and execution of the Transnet Value Chain Training Programme that will be the flagship of the Transnet Academy, and basis of training for all Transnet employees</li> <li>Operational and infrastructure issues affecting productivity</li> <li>Human resources and labour-related matters, such as uniform application of HR procedures and lack of consequence management</li> <li>Leadership instability</li> <li>Safety and occupational health concerns</li> <li>Bullying and intimidation in the workplace</li> <li>The COVID-19 pandemic, and the national lockdown</li> <li>Communicating subsidiarisation of TNPA</li> <li>Compliance with the Debt Listings Requirements</li> </ul>	<ul style="list-style-type: none"> <li>We are relocating employees to areas where projects are to fully absorb underutilised employees</li> <li>We have initiated a process to create an integrated People Management team</li> <li>We have established programmes and an anonymous hotline to provide employees with a platform to report bullying and intimidation at the workplace to proactively implement the harassment and intimidation policies</li> <li>We have finalised the new organisational structure and are filling vacant top management positions</li> <li>We have identified a Transnet-wide project team to focus on COVID-19 awareness and communication</li> <li>We have collaborated with external healthcare service providers to provide case management, medical advice, counselling, education and awareness support in order to contain the spread of COVID-19</li> <li>We have ensured that our 24-hour Employee Assistance Programme is always available to assist employees with telephonic counselling to manage any form of mental, physical and emotional wellness challenges caused by COVID-19</li> <li>We have partnered with institutions of higher learning to advance the Group Chief Executive’s talent nurturing programmes to provide opportunities for our employees’ career growth</li> <li>We have distributed SENS announcements regarding the subsidiarisation of TNPA and engaged lenders, rating agencies, and investors on the matter</li> </ul>

## Organised labour unions



Key issues/areas of interest	Strategic responses
<ul style="list-style-type: none"> <li>Forums must be representative of the constituencies as per legislation</li> <li>Transnet must abide by the Employment Equity Plan and targets</li> <li>Lack of ownership and accountability on matters relating to employees</li> <li>Lack of consequence management</li> </ul>	<ul style="list-style-type: none"> <li>Workforce transformation is a national and Company imperative, and we have therefore developed a transformation strategy that will form part of the strategic objectives outlined in the Corporate Plan</li> <li>We continue to engage organised labour unions through the national employment equity forums</li> <li>We have approved the conclusion of the negotiations on the new productivity incentive schemes for bargaining unit employees, with the support of the labour unions</li> </ul>





## Communities



Key issues/areas of interest	Strategic responses
<ul style="list-style-type: none"> <li>Job opportunities for communities near our operations</li> <li>Small business development opportunities for local businesses</li> <li>WSDP for both teachers and learners (education and sports)</li> <li>Development of community infrastructure through ESD and CSI programmes</li> </ul>	<ul style="list-style-type: none"> <li>We have embarked on a process to prioritise budgets for supplier development initiatives, and we are setting monthly targets for the monitoring and evaluation process</li> <li>We have explored options to address ongoing business-related matters to improve our community engagement with stakeholders</li> <li>We have facilitated career exhibitions to raise awareness on bursaries and career opportunities available within the organisation to empower the youth</li> <li>We engage with communities on upcoming projects that will provide jobs and business opportunities for locals</li> <li>We hold sessions with communities near our operations to address pertinent issues</li> <li>As part of our efforts to contain and minimise the spread of COVID-19, Transnet has designated some of its properties across Gauteng, KwaZulu-Natal and the Free State provinces to be used as temporary shelters for the homeless and as quarantine sites</li> </ul>

## Suppliers



Key issues/areas of interest	Strategic responses
<ul style="list-style-type: none"> <li>Ombudsman complaints for Executive Search Request for Proposal for unfair process. (Ombudsman found no substance in the complaint and ruled in favour of Transnet)</li> <li>Alleged tender irregularities for the refined bulk fuel tender</li> <li>Lack of access to ESD initiatives</li> <li>Suppliers hold the view that business opportunities are given to people outside their area and that there are very limited local business development initiatives, such as skills development</li> <li>Various investment initiatives on socio-economic infrastructure development. Procurement - identifies possible opportunities from expiring contracts and to share the list with stakeholders</li> <li>Workshops to be arranged by Transnet to educate potential small, medium and micro enterprises (SMMEs) on procurement guidelines and requirements</li> <li>Transnet will standardise its tender process and ensure opportunities are shared by all</li> </ul>	<ul style="list-style-type: none"> <li>The procurement process followed by GSS fully complied with the principles of the Constitution and PFMA of using a procurement system which is fair, equitable, transparent, competitive and cost effective</li> <li>Refined bulk fuel tender is under forensic investigation due to alleged tender irregularities</li> <li>We launched a Transnet Supplier Summit incorporating both existing small and medium suppliers and emerging and potential customers as a platform to interact and gain first-hand experience on the challenges and ease of doing business with Transnet</li> <li>We are prioritising ESD as a key lever to display our genuine commitment to addressing the economic transformation challenges, and building a strong and responsible local sourcing supply chain</li> </ul>

## Investors and Credit Rating Agencies



Key issues/areas of interest	Strategic responses
<ul style="list-style-type: none"> <li>Credit rating downgrades and related covenant breaches</li> <li>Liquidity and funding, and financial market instruments</li> <li>Governance issues</li> <li>Cash interest cover and audit qualification covenant breaches</li> <li>2020 AFS qualified audit opinion</li> <li>Rationale for rating actions</li> <li>Update on state capture and 1 064 locomotives legal action</li> <li>Transnet's new strategy</li> </ul>	<ul style="list-style-type: none"> <li>We have raised long-term funding to address rating agencies' liquidity concerns</li> <li>We are implementing a remedial plan to address matters leading to qualified audit opinions</li> <li>We have conducted a roadshow to take our investors through the new strategy, key risk areas, and operational and financial performance</li> <li>We responded to ad hoc credit-related questions from lenders and investors</li> <li>We have also started with carving out PFMA-related audit qualifications on all new loans</li> <li>We have distributed SENS announcements regarding the subsidiarisation of TNPA and engaged lenders, rating agencies, and investors on the matter</li> <li>We crafted a remedial plan to address matters leading to a qualified audit opinion</li> <li>We continue to engage with rating agencies to share Transnet's latest strategy and liquidity update (including cash flow projections) in the COVID-19 environment</li> <li>We are currently updating the DMTN Programme documents to reflect the latest Debt Listings Requirements</li> <li>We are continuously monitoring Debt Listings Requirements</li> </ul>

## Regulators



Key issues/areas of interest	Strategic responses
<ul style="list-style-type: none"> <li>Compliance with conditions of special permits</li> <li>Prioritisation of prohibition notices issued by the regulator</li> <li>Compliance with Record of Decision and tariff methodologies</li> <li>Compliance with legal and other requirements, including permit and licence conditions</li> </ul>	<ul style="list-style-type: none"> <li>We have received the closure of the two special conditions attached to our Railway Safety Permit, namely Human Factors Management, and Prasa/Transnet Safety Interface Management Agreement</li> <li>We have started to use the Transnet Regulator Engagement Protocol to guide the engagements we have with stakeholders to align with regulations</li> <li>We have collaborated with government entities to advance partnership on railway safety to improve initiatives across the organisation</li> <li>We have embarked on a process to develop the legislated safety permit application process for a period of three years</li> <li>We are engaging stakeholders to discuss the conditions for the Reasons for Decision and Record of Decision tariff methodologies</li> </ul>



## Customers



Key issues/areas of interest	Strategic responses
<p><b>General</b></p> <ul style="list-style-type: none"> <li>Customer concerns with project pricing and service offerings</li> <li>Building and improving relationships with stakeholders</li> <li>Competitive pricing</li> <li>Convert business inquiries into freight solutions across all ODs</li> <li>Reduce the cost of logistics</li> <li>Customer service</li> <li>Regional economic growth</li> <li>Road-to-rail migration</li> <li>Overall rail performance remains an issue, with the cited shortages of locomotives, wagons and crews. This has had a significant impact on volume delivery and has put contract volumes at take/pay risks</li> <li>The enablement of new entrants remains a significant challenge due to capacity constraints</li> </ul> <p><b>Coal and mineral mining industry</b></p> <ul style="list-style-type: none"> <li>Customer concerns with unreliable rail service</li> <li>Major concerns with theft of cables and general security of customers' cargo across the rail network</li> </ul> <p><b>Manganese and iron ore industry</b></p> <ul style="list-style-type: none"> <li>Customers currently feel left out because they were not consulted regarding long-term plans and strategy for the manganese business</li> <li>Capacity constraints remain a key challenge for the manganese industry. To date, there are several manganese producers who qualify but do not have access to rail and port capacity due to capacity constraints, thus relying on roads to service their markets. Currently available capacity does not support other mine business plans, such as Kalagadi whose business plan was based on 2,4 mtpa, but they have only been allocated 1,2 mtpa. Generally, no manganese producer is currently allocated its full production's worth of export capacity</li> <li>The Kamfers Dam incident remains a challenge for the manganese industry. Significant volumes were lost as a result of this disruption</li> <li>Extended iron ore commodity price boom</li> <li>Reliability of key rail and port infrastructure</li> <li>Iron ore and manganese segment strategy</li> </ul> <p><b>Container and auto industry</b></p> <ul style="list-style-type: none"> <li>Poor rail service has led to a decline in automotive and container rail market share</li> <li>Improvement of rail service levels will unlock volume growth opportunities in the FMCG time-sensitive industries</li> </ul>	<p><b>General</b></p> <ul style="list-style-type: none"> <li>We continue to enforce a one-touch-point approach for customer relationships to eliminate the frustration of having to engage at different levels for our customers</li> <li>We are focusing on integrated initiatives to increase volume growth by providing customer-centric, end-to-end freight solutions with improved service delivery to current and new customers</li> <li>We are exploring new business opportunities that will reduce the cost of doing business, migrate traffic from road to rail, and increase economic growth in the southern African region</li> <li>The Customer Nerve Centre serves as a centralised touchpoint that will facilitate the understanding, internal alignment, drive and ownership required to fulfil customers' desires and resolve issues timeously</li> <li>We continue to conduct customer engagements such as industry meetings, commodity steering committees and site visits to identify customer needs for service execution</li> <li>We continue to pursue cross-border opportunities emanating from engagements with our African counterparts</li> </ul> <p><b>Manganese and iron ore industry</b></p> <ul style="list-style-type: none"> <li>We continue to engage customers with updates on the Kamfers Dam project</li> <li>Two new entrants are currently being engaged, with a view to bring them on board within the export manganese business. Capacity has been identified and ring-fenced for these producers. Due diligence processes are currently underway to finalise and conclude this process</li> <li>We continue to work closely with the Minerals Council of South Africa to create socio-economic value for iron ore and manganese exporters, to support emerging mines as part of the developmental mandate, including Transnet's ultimate undertaking to environmental stewardship by successfully implementing all environmental projects linked to the 60 mt AEL in the Port of Saldanha</li> </ul>

## Media

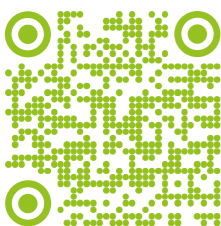


Key issues/areas of interest	Strategic responses
<ul style="list-style-type: none"> <li>Update on the Durban berth deepening project following suspension of the contract</li> <li>Access to information</li> <li>Transnet's response to strike actions</li> <li>Encouraging foreign direct investment in South Africa, thereby enabling Transnet to access globally competitive technology</li> <li>Continued attacks on Transnet infrastructure such as railway and pipelines (cable and fuel theft)</li> <li>Continued train derailments</li> <li>Erection of shack on Transnet properties</li> <li>The subsidiarisation of TNPA</li> <li>Recent strike action in KwaZulu-Natal and Gauteng</li> <li>The cyberattack on Transnet's IT system</li> </ul>	<ul style="list-style-type: none"> <li>We have launched two mass media campaigns supporting our frontline workers during lockdown and encouraging the nation to register for COVID-19 vaccinations</li> <li>We have developed a brand strategy and creative that will launch a 360-degree media campaign, repositioning Transnet as a key role player and enabler of the South African and regional economies</li> <li>We are implementing the recommendations of the Zondo Commission, Fundudzi Report, MNS and Werksmans' report related to acts of malfeasance and corruption</li> <li>We are intensifying collaboration with OD communication teams to ensure consistency in messaging</li> <li>We are reactivating Transnet's visibility through Parliamentary committees, business chambers and operational visits by the President</li> </ul>

## General public



Key issues/areas of interest	Strategic responses
<ul style="list-style-type: none"> <li>Update on the progress of the Durban berth deepening project following suspension of the contract</li> <li>Tender and job scams</li> <li>Access to information</li> <li>Transnet's response to strike actions</li> <li>Bursaries</li> <li>Impact of looting on the Transnet business</li> <li>Impact of the continued attacks on Transnet infrastructure such as railway and pipelines (cable and fuel theft)</li> <li>Impact on continued train derailments</li> <li>Erection of shack on Transnet properties</li> <li>The subsidiarisation of TNPA</li> <li>Recent strike action in KwaZulu-Natal and Gauteng</li> <li>The recent cyberattack on Transnet</li> <li>Level-crossing incidents</li> <li>Level-crossing road traffic management initiatives</li> <li>Community safety</li> <li>Emergency and disaster management</li> </ul>	<ul style="list-style-type: none"> <li>We are implementing the recommendations of the Fundudzi Report, MNS and Werksmans' report related to acts of malfeasance</li> <li>We are developing awareness campaigns to create visibility of the brand</li> <li>The continued attacks on the Company's infrastructure have a negative financial impact on the Company's revenue</li> <li>The Company spending a vast amount of money to clean up fuel spillages from attempted theft incidents, and the Company's security fees have also increased</li> <li>The Transnet Academy established, to integrate all ODs' schools into one to strengthen the impact on both employees and communities</li> <li>We have developed a level-crossing working group</li> <li>We have developed partnership agreements</li> <li>We have developed awareness campaigns and a training needs analysis</li> <li>We have expert working groups with multistakeholders after the Beirut disaster</li> </ul>



Please see the detailed online Stakeholder Engagement Report to read more on:

- Measuring stakeholder relationship management
- The analysis of the results of our stakeholder relationship management maturity (SRMM) assessment
- The establishment of stakeholder engagement forums
- Strengthening monitoring and evaluation on community development

# Abridged governance

## Ethical, effective leadership and corporate citizenship

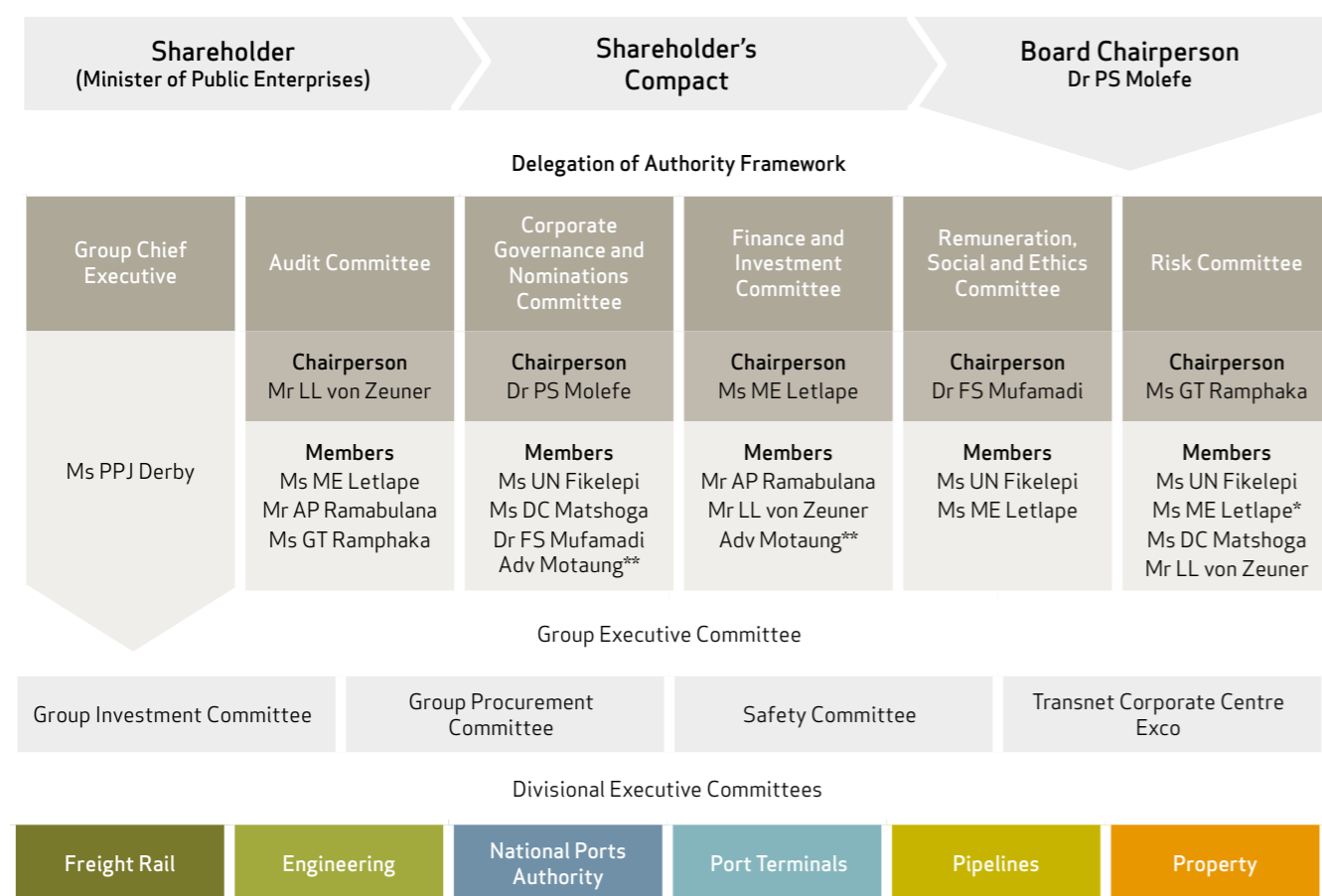


The Board of Directors (the Board), as the Accounting Authority, reports to the Minister of Public Enterprises as the Executive Authority/Shareholder Minister. The Shareholder's rights are represented according to the stipulations of the PFMA and the Companies Act, and associated procedures are in place to govern the activities of the Board. The Board is responsible for approving, directing and overseeing the overall Company strategy as well as the associated operational, commercial and statutory objectives of

Transnet SOC Ltd (the Company). During this process, the Board balances the interests of stakeholders and ensures that the Company's long-term economic, social and environmental sustainability is achieved. Transnet complies with the requirements of the Companies Act, namely sections 88(2) (e) and (f) in relation to filing the required returns and notices.

Pursuant to National Treasury Regulation 29, the Company annually enters into a Shareholder's Compact with the Shareholder Minister documenting mandated key performance measures and indicators and the Board approves the annual Corporate Plan. The Board oversees and monitors the Company's performance against the targets and ensures that adequate processes are in place for budget planning and allocation to advance the Company's mandate.

Figure 7: Governance structure



\* Ms ME Letlape was removed as a Risk Committee member effective 1 April 2021.  
 \*\* Adv Motaung passed away on 22 September 2020



## Appointment of directors



The Company, through the Shareholder Minister, adheres to the prescribed requirements in the MOI for the Board's composition and the election, appointment and remuneration of the Board members. The Corporate Governance and Nominations Committee is responsible for the succession planning of the Board (based on the related skills requirements and skills matrix) for recommendation to the Shareholder Minister. The Company continues to provide indemnification and insurance for directors and prescribed officers, the extent and adequacy of which is reviewed annually.

Pursuant to the announcement made by President Cyril Ramaphosa on the corporatisation of Transnet National Ports Authority as an independent subsidiary of Transnet, in line with the National Ports Act of 2005, the Company is preparing for and introducing governance alignment in accordance with the instructions of the president. In the intervening period, an Interim TNPA Board was appointed effective 1 July 2021 while DPE and Transnet are putting governance systems in place. The Company is also the Shareholder of a wholly owned subsidiary, namely Transnet International Holdings SOC Ltd, incorporated on 29 August 2017 which is currently dormant.

## Non-executive directors



A non-executive director shall hold office for a term of three years from the date of appointment, subject to confirmation of appointment at the annual general meeting (AGM). The appointment of the current non-executive directors has been extended until further notice after having served one term in office from May 2018 to May 2021. In terms of the Company's MOI, no person can be appointed as a non-executive director for more than three consecutive terms. The Board comprises eight non-executive directors and two executive directors. The vacancies on the Board negatively impact the directors in effectively discharging their duties. The Company has however been reassured that the Shareholder Minister is attending to the vacancies.

## Executive directors



Ms Portia Penelope Joy Derby who was appointed as the Group Chief Executive and an executive director of the Company on 1 February 2020, remains in office.

Ms Nonkululeko Sylvia Dlamini was appointed as the Group Chief Financial Officer and an executive director of the Company, effective 1 July 2020.

## Board committees



The Board established the following committees to assist it in achieving the Company's objectives as required by the Companies Act, No 71 of 2008 (the Companies Act):

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

The Group Executive Committee members attend Board meetings as standing attendees or by invitation.

The Board delegated some of its authority to these committees through the Delegation of Authority (DOA) Framework and the committee charters to ensure that delegation within the Board's own structures promotes independent judgement and assists with the balance of power and effective discharge of its duties. The charters set out the terms of reference of the Board and its committees and are achieved through the execution of the Annual Work Plans, effective meetings, periodic Board strategy workshops, operational site visits and deep dive sessions.

## Governance framework



Governance is underpinned by effective leadership, oversight and management accountability based on a sound ethical foundation. The Board continuously strives to ensure adherence to good governance principles when executing the Company's mandate in line with the approved strategy, taking into consideration the Company's opportunities and risks in accordance with its risk appetite. In overseeing the implementation of the Company's strategy, the Board ensures that the recommended corrective actions appropriately address identified challenges. The Board sets the tone for ethical leadership which forms the foundation for good corporate governance. Sound governance principles and processes define and steer the responsibilities of the Board and actively promote a sustained governance culture throughout the organisation. The Company has adopted the King IV principles in conjunction with regulatory provisions to achieve the overarching principles of sound governance, namely responsibility, accountability, fairness and transparency.

## Effective meetings



The Board and its committees meet frequently and as prescribed by business requirements. The meetings are facilitated by the Group Company Secretariat and are planned for the financial year in the approved Annual Work Plans and Corporate Calendar. Special meetings may be convened at the request of the Chairperson or any member, when necessary and after appropriate consultation. All meetings are managed by the respective Chairpersons and are well attended. Timely, relevant and accurate information is provided to the Board and its committees to enable proper deliberation of matters by the Board and its committees.

The minutes of the Board and committee meetings are circulated to the committee chairpersons and members for comment and are approved at the next meeting. The digitisation of meeting packs has introduced real-time availability of information in preparation for meetings. Key governance matters including Board attendance and decisions taken by the Board and its committees are reported quarterly to the Shareholder, and as and when required.

## Specific governance requirements



King IV. P13

### PFMA

The PFMA outlines the fiduciary duties and responsibilities of the Board and requires that it serves as the Company's Accounting Authority. The Company is identified as a major business entity and is listed under Schedule 2 of the PFMA. The Board ensures that the Company adheres to the requirements of the PFMA for the assessment of risk, the annual budget submissions, and the conclusion of the annual Shareholder's Compact. In addition, the Board also ensures that the Company adheres to all procedures for quarterly reporting to the Executive Authority through the submission of quarterly PFMA reports to the Shareholder Minister.

### Companies Act

The Company reports on the extent of its compliance with the Companies Act in the Directors' Report in the annual financial statements.

### Prescribed officers

The Company has defined its prescribed officers as Executive Committee members (see Group Executive Committee members for brief profiles set out on pages 26 to 29). They are deemed to exercise or regularly participate in the executive control of the Company as contemplated in the Companies Act and its regulations. The recruitment of prescribed officers is elevated to Board level for noting, with the involvement of the Remuneration, Social and Ethics Committee. The disclosure on the remuneration of prescribed officers is set out on page 79 of the integrated report.

### King IV

The Company has adopted the King IV principles in conjunction with regulatory provisions to achieve the overarching outcomes of sound governance, namely an ethical culture, good performance, effective control as well as operational and social legitimacy. The Company attempts to do so substantively and not simply in form to achieve the above outcomes. Transnet adheres to a majority of the King IV principles and recommendations as herein outlined and reported.

The PFMA, Companies Act and Protection of Personal Information Act, No 4 of 2013 (POPIA) provide specific requirements pertaining to the Company's records management practices. These include interim financial results and annual financial statements that satisfy the International Financial Reporting Standards, and the audited annual financial statements to be submitted to the relevant authorities as required. To that end, the Company finalises its annual financial statements within the set timelines and ensures that the Shareholder Minister has timely access to those audited annual financial statements, however COVID-19 has had an impact on the set timelines.

The Company's governance instruments include the:

- **Memorandum of Incorporation (MOI):** In line with the provisions of the Companies Act, the MOI contains matters that are specifically reserved for the Board's decision;
- **Delegation of Authority (DOA) Policy and Framework:** The DOA Framework is reviewed annually, or as and when required in line with business requirements, for adequacy and completeness as approved by the Board. The review takes cognisance of the Company's strategic objectives and related business model. The DOA Policy was approved by the Board of Directors in a meeting held on 11 May 2021. The purpose of this policy is to guide, outline and document a structured decision-making framework for the Board of Directors and management to promote effective and efficient governance in accordance with the approved Company structure. The DOA Framework, which is an Annexure that forms part of the policy, was approved by the Board on 17 August 2021. The framework outlines Board-reserved matters, matters delegated to Board committees, the Group Chief Executive and Executive Committee members;
- **Charters of the Board and its committees:** These charters are regularly reviewed to ensure alignment with the MOI, the provisions of the Companies Act and the DOA Framework, as well as any other changing business requirement. Similarly, the charters of the Group Executive Committee and its subcommittees are aligned with the DOA Framework and the charters of the Board and its committees;
- Board-approved policies and procedures; and
- Corporate Governance Framework.

## Management of potential conflicts of interest



King IV. P7 &amp; 13

The Companies Act codifies the fiduciary duties of directors and prohibits the use of position and/or confidential information for personal gain or to benefit another person improperly. The Board continuously reviews and improves governance instruments to ensure continued adherence to the prescribed standards of ethical and professional conduct. In this regard, various policies are reviewed and developed. In the year under review, the Domestic Prominent Influential Persons (DPIP) and Foreign Prominent Public Officials (FPPO) and Related Parties Policy was approved and the declaration of interest and related party disclosure policies for directors and employees were reviewed and amended for implementation.

Where a director or a prescribed officer has any direct or indirect personal or private business interest in a particular matter, that director or prescribed officer must be recused from the proceedings when the matter is considered, unless the Board, Board committee or Group Executive Committee and its subcommittees, as the case may be, decide otherwise after consideration.

Members and attendees of the Board and its committees declare their interests at the commencement of all its formal meetings. Similarly, members and attendees of the Group Executive Committee and its subcommittees declare their interests prior to or at the commencement of its formal meetings. These declarations are maintained by the Group Company Secretariat. In addition, non-executive directors and all Transnet employees are required to file an annual declaration of interest form with the Group Company Secretariat at the beginning of each financial year or within 30 days from date of appointment. Any changes in interests during the year necessitate the filing of a revised declaration of interest form. The declaration of interest and related-party disclosure policies for directors and employees are revised every five years, or as required, in line with the Company policy framework. In addition, the Company requires all employees to sign confidentiality and declaration of interest forms when adjudicating on procurement contracts, and this practice is strictly enforced.

The Board and the Group Executive Committee note their respective annual declarations of interest and related-party disclosure registers. The Corporate Governance and Nominations Committee and the Remuneration, Social and Ethics Committee conduct annual reviews of the filed declaration of interest forms of the Board and Group Executive Committee members for oversight purposes.

## Board composition



King IV. P1, 7 &amp; 10

The Company's MOI stipulates that the Board shall consist of a minimum of six and a maximum of 14 directors, comprising not less than four non-executive directors and two executive directors, provided that the Board shall at all times consist of a majority of non-executive directors. As at 31 March 2021, the Board comprised 10 directors, eight of whom are non-executive, including the Chairperson.

The non-executive directors have diverse qualifications, skills, experience and competencies. They are principally free from any business relationship that could hamper their objectivity or judgement in terms of the business and activities of the Company. All the non-executive directors have unrestricted access to the Company's information, documents, records and property in the interest of fulfilling their fiduciary duties and responsibilities. The non-executive directors contribute their skills, business acumen, independent judgement and experience on various matters, including strategy, corporate governance, performance and general leadership, while the executive directors provide an operational understanding of the Company's strategies and management requirements.

## Roles of the Chairperson and Group Chief Executive



King IV. P1 &amp; 10

The Board ensures that the appointment of and delegation to management contribute to role clarity and effective exercise of authority and responsibility. The roles of the Chairperson and the GCE are separate, with their individual responsibilities clearly defined. The Chairperson is an independent non-executive director and is responsible for leading the Board and ensuring its effectiveness. The GCE is an executive director and is responsible for the execution of the Company's strategy and the day-to-day management of the business of the Company. The GCE is supported by the Group Executive Committee.

The Board is satisfied that the DOA Framework clearly records the nature and extent of the authorities delegated by the Board to the GCE and specified governance structures and/or, in turn, by the GCE to the members of the Group Executive Committee in order to implement certain decisions by or on behalf of the Company. It includes, to the extent necessary and/or incidental thereto, the authority to discharge all the duties, obligations and powers imposed upon the deemed authority under the National Ports Act.

## Core responsibilities of the Board



King IV. P7

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

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

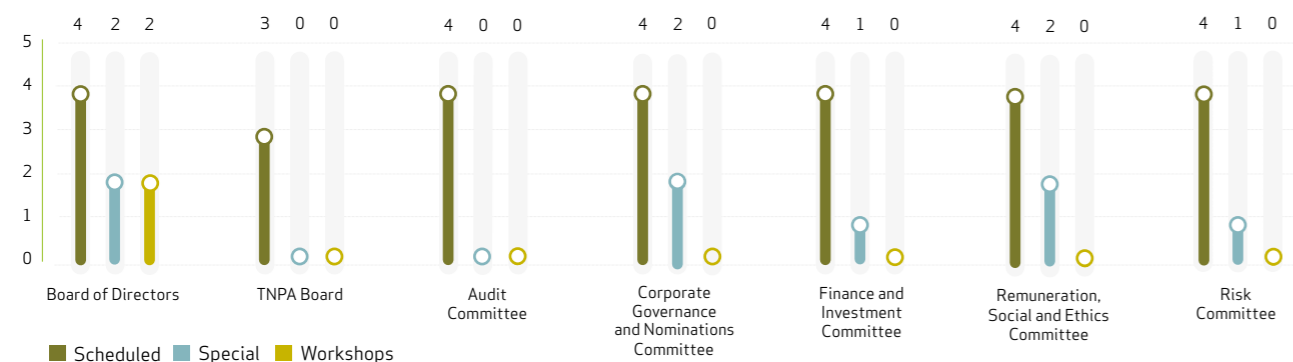
There are procedures in place for management to present documents to the Board so that informed decisions can be made. Within its mandate for the year under review, the Board attended to various matters and is satisfied that it has fulfilled its obligations. The Board comprises an appropriate balance of knowledge, skills, experience, diversity and independence, enabling it to objectively and effectively discharge its duties. The Board is satisfied that the Non-Executive Directors of the Company are independent, in accordance with Principle 7 of the King IV code.

## Board and committee meetings



The graphs below indicate the number of scheduled and ad hoc meetings held during the year under review.

Graph 1: Schedule of directors' attendance at Board and committee meetings



The table below discloses the number of meetings held during the year and the attendance of the respective directors for the financial year ended 31 March 2021.

## Governance instruments



Table 9: Schedule of directors' attendance at Board and committee meetings\*

Board/Committee	Board	TNPA Deemed Board	Audit Committee	Corporate Governance and Nominations Committee	Finance and Investment Committee	Remuneration, Social and Ethics Committee	Risk Committee
<b>Number of meetings held</b>	<b>6</b>	<b>3</b>	<b>4</b>	<b>6</b>	<b>5</b>	<b>6</b>	<b>5</b>
Dr PS Molefe (Chairperson)	6	3	—	6	—	—	—
Ms PPJ Derby	4	2	—	—	—	—	—
Ms NS Dlamini <sup>1</sup>	5	3	—	—	—	—	—
Ms UN Fikelepi	6	3	—	6	—	5	5
Mr MD Gregg-Macdonald <sup>2</sup>	1	1	—	—	—	—	—
Ms ME Letlape	6	3	4	—	5	6	5
Ms DC Matshoga	6	3	—	6	—	—	5
Adv OM Motaung <sup>3</sup>	3	1	—	1	1	—	—
Dr FS Mufamadi	6	3	—	6	—	6	—
Mr AP Ramabulana	6	3	4	—	5	—	—
Ms GT Ramphaka	6	3	4	—	—	—	5
Mr LL von Zeuner	6	3	4	—	5	—	4

\* Each scheduled Board meeting is preceded by a closed session attended by non-executive directors.  
<sup>1</sup> Appointed as the Group Chief Financial Officer and executive director of the Company with effect from 1 July 2020.  
<sup>2</sup> Reappointed as the Acting Group Chief Financial Officer from 1 April 2020 until 30 June 2020.  
<sup>3</sup> Adv Motaung passed away on 22 September 2020.

## Meetings of the Board of Directors



The Board's primary mandate is to ensure the sustainable and successful continuation of business activities by providing strategic direction to the Company. Non-executive directors are appointed to the Board by the Shareholder Minister on a three-year term. The appointments are confirmed at the AGM. The Chairperson of the Board engages continuously with the Shareholder Minister who is the final arbiter on the Board's succession plans and approval of transaction applications in accordance with the provisions of section 54 of the PFMA.

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

Table 10: Summary of Board's main undertakings and considerations during the year\*

Board	Chairperson	Members
<b>6 meetings held during the year</b> Directors' attendance at Board meetings denoted by ( ) ^ Executive director † Independent non-executive director	Dr PS Molefe† (6)	› Ms PPJ Derby^ (4) › Adv OM Motaung <sup>3</sup> (3) › Ms N Dlamini^1 (5) › Dr FS Mufamadi† (6) › Ms UN Fikelepi† (6) › Mr AP Ramabulana† (6) › Mr MD Gregg-Macdonald^2 (1) › Ms GT Ramphaka† (6) › Ms ME Letlape† (6) › Mr LL von Zeuner† (6) › Ms DC Matshoga† (6)
Most material considerations in 2021	Main undertakings for 2022	
› Filling Board vacancies › Ongoing state capture-related activities › Achieving objectives in the Shareholder's Compact › Business turnaround › Impact of locomotive-related challenges on revenue › Capacity of the Group Company Secretariat › Long existing vacancies affecting capacity of the Board	› Successful reorganisation of the business › Strengthen internal control measures › Emphasis on consequence management and close-out of protracted matters › Improve operational performance › Post COVID-19 Business Recovery Strategy covering finances, people and operations	

\* A more detailed table of key activities and outputs for the 2021 financial year is contained online in the full Governance Report available at [www.transnet.net](http://www.transnet.net)

<sup>1</sup> Appointed as the Group Chief Financial Officer and executive director of the Company with effect from 1 July 2020.

<sup>2</sup> Reappointed as the Acting Group Chief Financial Officer from 1 April 2020 until 30 June 2020.

<sup>3</sup> Adv Motaung passed away on 22 September 2020.

## Audit Committee



The Audit Committee comprises independent non-executive directors who are duly elected by the Shareholder Minister at the AGM in line with legislative requirements. The Audit Committee provides the following support to the Board:

- Assists the Board in discharging its duties to safeguard assets and the evaluation of internal control frameworks
- Reviews and assesses the integrity and effectiveness of the accounting and financial compliance and other control systems
- Considers the internal and external audit process, accounting principles and policies
- Strengthens the independence of the internal and external audit functions to ensure their effectiveness
- Ensures effective communication between the internal auditors, external auditors, the Board, management and regulators
- Ensures compliance with adherence to applicable legal, regulatory and accounting requirements
- Contributes to a climate of discipline and control to reduce the opportunity for fraud
- Assists the Board in discharging its duties as it pertains to ICT governance

Table 11: Summary of main undertakings and considerations during the year\*

Audit Committee	Chairperson	Members
<p><b>4</b> meetings held during the year</p> <p>Directors' attendance at Audit Committee meetings denoted by ( )</p> <p>^ Executive director † Independent non-executive director</p>	Mr LL von Zeuner <sup>1</sup> (4)	<ul style="list-style-type: none"> <li>› Ms ME Letlape<sup>†</sup> (4)</li> <li>› Mr AP Ramabulana<sup>†</sup> (4)</li> <li>› Ms GT Ramphaka<sup>†</sup> (4)</li> </ul> <p><b>No external advisers attended committee meetings during the year.</b></p>
Most material considerations in 2021	Main undertakings for 2022	
<ul style="list-style-type: none"> <li>› The risks of breaching the Company's loan covenants</li> <li>› The Integrated Assurance Plan and TIA findings remain sources of concern</li> <li>› Lack of contract management and the Company's exposure to recurrence of irregular expenditure transactions</li> <li>› Liquidity and funding challenges</li> </ul>	<ul style="list-style-type: none"> <li>› Monitor the financial risks as a result of COVID-19</li> <li>› Assess the impact of COVID-19 on the Company's sustainability</li> <li>› Increase internally generated revenue</li> <li>› Improve the internal control environment</li> </ul>	

\* A more detailed table of key activities and outputs for the 2021 financial year is contained online in the full Governance Report available at [www.transnet.net](http://www.transnet.net)

<sup>1</sup> Appointed as the Chairperson of the committee with effect from 15 June 2020.

## Corporate Governance and Nominations Committee



The Corporate Governance and Nominations Committee provides the following support to the Board:

- Ensures that the Board's composition and structure enable it to fulfil the obligations of the Board mandate, and advance and maintain the Company's corporate governance policies and the Corporate Governance Framework
- Sets criteria for the nomination of directors to be recommended to the Board for appointment to the committees of the Board, other than the Audit Committee
- Nominates potential Audit Committee members for appointment by the Shareholder Minister
- Nominates potential Remuneration, Social and Ethics members for approval by the Board and confirmation by the Shareholder Minister at the AGM or through a written resolution
- Ensures that best practice succession planning policies are implemented in respect of executive directors and independent non-executive directors
- Administers and manages the selection process of the GCE on behalf of the Board and makes recommendations on the top three candidates, in order of priority, to the Board by complying with the "Guidelines for the appointment of a Group Chief Executive for a State-owned Enterprise"

Table 12: Summary of main undertakings and considerations during the year\*

Corporate Governance and Nominations Committee	Chairperson	Members
<p><b>6</b> meetings held during the year</p> <p>Directors' attendance at Corporate Governance and Nominations Committee meetings denoted by ( )</p> <p>^ Executive director † Independent non-executive director</p>	Dr PS Molefe <sup>†</sup> (6)	<ul style="list-style-type: none"> <li>› Ms UN Fikelepi<sup>†</sup> (6)</li> <li>› Ms DC Matshoga<sup>†</sup> (6)</li> <li>› Adv OM Motaung<sup>†1</sup> (1)</li> <li>› Dr FS Mufamadi<sup>†</sup> (6)</li> </ul> <p><b>No external advisers attended committee meetings during the year.</b></p>
Most material matters in 2021	Main undertakings for 2022	
<ul style="list-style-type: none"> <li>› Alignment of governance instruments</li> <li>› Directors' development and continuous Board improvement</li> <li>› Board composition and evaluation</li> <li>› Capacity of Company Secretariat</li> </ul>	<ul style="list-style-type: none"> <li>› Alignment of governance instruments</li> <li>› Improved directors' development amid COVID-19</li> <li>› Role of a director during the COVID-19 pandemic</li> </ul>	

\* A more detailed table of key activities and outputs for the 2021 financial year is contained online in the full Governance Report available at [www.transnet.net](http://www.transnet.net)

<sup>1</sup> Adv Motaung passed away on 22 September 2020.

## Risk Committee



The Risk Committee provides the following support to the Board:

- Reviews and assesses the integrity of the risk control processes and systems
- Ensures that the risk policies are managed effectively and in accordance with the Enterprise Risk Management Framework approved by the Board from time to time
- Ensures effective communication pertaining to risk management with the internal and external auditors, the Audit Committee, the Board, management and regulators on risk management
- Contributes to a climate of discipline and control which will reduce opportunities for fraud and other operational losses
- Assesses any significant risk control failings or weaknesses and their potential impact, and confirms that appropriate action has been (or is being) taken

Table 13: Summary of main undertakings and considerations during the year\*

Risk Committee	Chairperson	Members
<p><b>5</b> meetings held during the year</p> <p>Directors' attendance at Risk Committee meetings denoted by ( )</p> <p>^ Executive director † Independent non-executive director</p>	Ms GT Ramphaka <sup>†</sup> (5)	<ul style="list-style-type: none"> <li>› Ms UN Fikelepi<sup>†</sup> (5)</li> <li>› Ms ME Letlape<sup>†1</sup> (5)</li> <li>› Ms DC Matshoga<sup>†</sup> (5)</li> <li>› Mr LL von Zeuner<sup>†</sup> (4)</li> </ul>
Most material matters in 2021	Main undertakings for 2022	
<ul style="list-style-type: none"> <li>› Reputational risks</li> <li>› Funding and capital investment-related risks</li> <li>› Alignment of committee mandate to risk-specific functions</li> <li>› Risk related to locomotive maintenance and the effect on the business and revenue</li> <li>› Integration of COVID-19 on people and business risks</li> </ul>	<ul style="list-style-type: none"> <li>› The committee has further streamlined and integrated risk reporting to ensure effective oversight</li> <li>› ICT and information-related risks</li> <li>› Address people-related risks</li> <li>› Address security and safety risks</li> <li>› Oversee procurement transformation</li> </ul>	

\* A more detailed table of key activities and outputs for the 2021 financial year is contained online in the full Governance Report available at [www.transnet.net](http://www.transnet.net)

<sup>1</sup> Ms ME Letlape was removed as a member of the Risk Committee with effect from 30 March 2021.

## Finance and Investment Committee



The Finance and Investment Committee provides the following support to the Board:

- Advances and maintains the Company's financial and investment policies, thereby ensuring its financial sustainability
- Approves investment transactions within the committee's delegated authority
- Oversees trends in supplier development and localisation spend in line with B-BBEE plans and monitors progress on plans
- Considers strategic growth investments and partnerships and makes recommendations to the Board
- Monitors the implementation of strategic growth investments and partnerships against the approved plans
- Recommends divestments (disposals) to the Board in line with the DOA Framework
- Approves procurement strategies and oversees related awards in line with the DOA Framework
- Considers property lease agreements in line with the DOA Framework

Table 14: Summary of main undertakings and considerations during the year\*

Finance and Investment Committee	Chairperson	Members
<p>5 meetings held during the year</p> <p>Directors' attendance at Finance and Investment Committee meetings denoted by ( )</p> <p>^ Executive director * Independent non-executive director</p>	Ms ME Letlape* (5)	<ul style="list-style-type: none"> <li>› Adv OM Motaung<sup>1</sup> (1)</li> <li>› Mr AP Ramabulana* (5)</li> <li>› Mr LL von Zeuner* (5)</li> </ul>
Most material matters in 2021	Main undertakings for 2022	
<ul style="list-style-type: none"> <li>› Procurement transformation as it impacts the business</li> <li>› Collection of debts</li> <li>› Optimising the various portfolios to improve the financial situation</li> </ul>	<ul style="list-style-type: none"> <li>› Assess and address financial sustainability post COVID-19</li> <li>› Assess and address revenue growth and diversification</li> <li>› The impact of TNPA's subsidiarisation on the Company's balance sheet</li> </ul>	

\* A more detailed table of key activities and outputs for the 2021 financial year is contained online in the full Governance report available at [www.transnet.net](http://www.transnet.net)

<sup>1</sup> Adv Motaung passed on 22 September 2020.



## Remuneration, Social and Ethics Committee



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

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

The committee provides the following support activities to the Board:

- Advises the Board regarding responsible corporate citizenship and the ethical relationship between the Company and its stakeholders, both internally and externally. The committee manages the Company's legal and moral obligations for its economic, social and natural environment, including the objectives and standards of the Company's conduct and activities
- Manages and monitors the Company's activities to achieve and maintain world-class standards in the Company's social and ethics environment, with due regard to all relevant legislation, policies, legal requirements and codes of best practice
- Oversees the ethics management programme implemented by management
- Ensures that competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high-performance employees at all levels in support of realising corporate objectives and to safeguard the Shareholder's interests
- Reviews the design and management of salary structures, policies and incentive schemes and ensures that they motivate sustained high performance and are linked to corporate performance
- Reviews the mandates of the remuneration committees of Transnet's subsidiaries and approves their recommended remuneration policies and practices
- Develops and implements a remuneration philosophy for disclosure to enable a reasonable assessment of reward practices and governance processes to be made by stakeholders
- Recommends the independent non-executive directors' fees to the Board
- Ensures compliance with applicable laws and codes
- Considers and makes recommendations on all human capital matters related to the:
  - Restructuring of Transnet;
  - Disposal of assets/part of Transnet's business;
  - Acquisition of assets/new business; and
  - Development of human resources issues.
- Approves succession planning policy and procedures for the Group Executive Committee (other than executive directors) and the Extended Executive Committee members

Table 15: Summary of main undertakings and considerations during the year\*

Remuneration, Social and Ethics Committee	Chairperson	Members
<p>6 meetings held during the year</p> <p>Directors' attendance at Remuneration, Social and Ethics Committee meetings denoted by ( )</p> <p>^ Executive director * Independent non-executive director</p>	Dr FS Mufamadi* (6)	<ul style="list-style-type: none"> <li>› Ms UN Fikelepi* (5)</li> <li>› Ms ME Letlape* (6)</li> </ul>
Most material matters in 2021	Main undertakings for 2022	
<ul style="list-style-type: none"> <li>› Non-executive directors' remuneration</li> <li>› Finalisation of disciplinary processes for all employees, especially senior employees in light of widespread corruption allegations</li> <li>› Measures to address employees and public safety and fatal safety incidences</li> <li>› Need to effect consequence management measures in accordance with PFMA for employees found guilty of fraud and corruption</li> </ul>	<ul style="list-style-type: none"> <li>› Implement energy-efficient initiatives</li> <li>› Reorganisation initiatives amid COVID-19 pandemic</li> <li>› Establish a stronger collaboration with labour</li> </ul>	

\* A more detailed table of key activities and outputs for the 2021 financial year is contained online in the full Governance Report available at [www.transnet.net](http://www.transnet.net)

# Abridged Remuneration Report



King IV. P14

## Remuneration policy and approach



King IV. P1 & 14

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

Employees are compensated in line with seniority and grade level in the organisation.

**Table 16: Remuneration strategy linked to the Shareholder's Statement of Strategic Intent and Transnet's business objectives**



King IV. P14

Reward element	Management (grade levels A to F)	First-line management, specialists and technicians (grade level G)	Junior employees (grade levels H to L)	Link to the Statement of Strategic Intent
<b>Guaranteed pay</b>	<ul style="list-style-type: none"> <li>Total cost to company (TCE), inclusive of medical aid, pension fund and UIF contributions</li> <li>Salary increases based on mandate and combined with individual performance</li> <li>13th cheque can be structured as part of the package</li> <li>Travel allowance structured, if required, to conduct business travel</li> </ul>	<ul style="list-style-type: none"> <li>TCE package</li> <li>Excludes medical subsidy</li> <li>13th cheque is structured as part of the package</li> <li>Negotiated increases, partially based on individual performance</li> <li>Pension fund contributions, inclusive of risk benefits and administration expenses, are funded from the TCE package</li> </ul>	<ul style="list-style-type: none"> <li>Basic salary</li> <li>Service bonus (13th cheque)</li> <li>Increases negotiated</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that talented individuals are attracted and retained to provide critical core services, particularly where skills are scarce in the market</li> <li>Reward superior performance</li> </ul>
<b>Other benefits</b>	<ul style="list-style-type: none"> <li>Cell phones (tool of trade)</li> <li>Computers (tool of trade)</li> <li>Members of the Group Executive Committee are eligible for drivers and personal security based on risk assessment</li> </ul>	<ul style="list-style-type: none"> <li>Medical subsidy if employee is the principal member of a recognised medical aid</li> <li>Cell phones (tool of trade), if a job requirement</li> <li>Computers (tool of trade), if a job requirement</li> <li>Funeral benefit</li> </ul>	<ul style="list-style-type: none"> <li>Employer portion of pension fund contributions, inclusive of risk and administration expenses</li> <li>Housing allowance</li> <li>Medical subsidy if employee is a member of a recognised medical aid</li> <li>Cell phones (tool of trade), if a job requirement</li> <li>Computers (tool of trade), if a job requirement</li> <li>Funeral benefit</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that employees are able to perform their role efficiently thereby increasing productivity. This requires the relevant tools and assets to ensure our people can improve on aspects where they need support and can excel where they are already competent</li> </ul>
<b>Circumstantial allowances</b>		<ul style="list-style-type: none"> <li>Overtime</li> <li>Standby allowance</li> <li>Night shift allowance</li> <li>Call-out allowance</li> </ul>	<ul style="list-style-type: none"> <li>Overtime</li> <li>Standby allowance</li> <li>Night shift allowance</li> <li>Call-out allowance</li> <li>Travel concessions</li> </ul>	<ul style="list-style-type: none"> <li>Provide incentives for our people to go the extra mile for our customers</li> </ul>
<b>Short-term Incentive (STI) Scheme</b>	<ul style="list-style-type: none"> <li>All eligible employees</li> <li>Support and reinforce the desired behaviour to ensure the delivery and performance against the financial, non-financial, operational and strategic metrics that have been agreed, and to reward employees when these targets have been achieved and/or exceeded</li> <li>Increased line of sight for bargaining unit employees with more frequent payments. Bargaining unit employees are paid on a quarterly basis, except for those in the container terminals who are paid on a monthly basis</li> <li>Management - payment made on an annual basis</li> </ul>			<ul style="list-style-type: none"> <li>Manage and facilitate the performance of employees through a results-driven approach, and encourage positive safety attitudes to labour-intensive and monotonous work practices</li> </ul>

Reward element	Management (grade levels A to F)	First-line management, specialists and technicians (grade level G)	Junior employees (grade levels H to L)	Link to the Statement of Strategic Intent
<b>Long-term Incentive (LTI) Scheme</b>	<ul style="list-style-type: none"> <li>Applicable to grade levels A, B and C based on individual performance and talent cluster</li> <li>Attract and retain the required talent to sustain business performance</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that executives are rewarded for their strategic and operational contributions towards the long-term sustainability of the business</li> </ul>
<b>Recognition Programme</b>	<ul style="list-style-type: none"> <li>All eligible employees</li> <li>Support a culture where success is celebrated and employees feel valued for their contributions to the business</li> </ul>			<ul style="list-style-type: none"> <li>Improve employee engagement, productivity and quality of work, and hence improving overall organisational morale during difficult socio-economic conditions</li> </ul>

## Annual salary increases

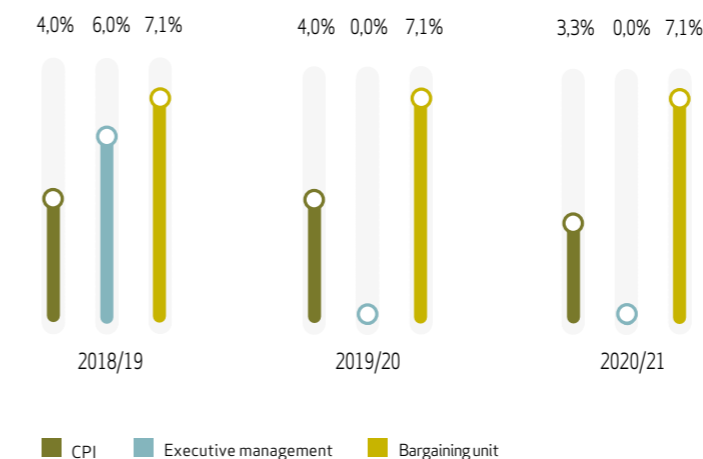


King IV. P2 & 14

- Remuneration increases occur once annually, in April, or in the event of a promotion. Transnet does not support ad hoc salary increases.
- Annual increases for management levels are informed by individual performance ratings.
- Annual salary increase mandates are approved by:
  - The Shareholder Minister for executive directors and prescribed officers;
  - The Remuneration, Social and Ethics Committee for employees in the management category; and
  - The Remuneration, Social and Ethics Committee for bargaining unit employees, and then negotiated in the Transnet Bargaining Council; the outcomes of the negotiations are detailed in a wage agreement. Transnet entered into a three-year wage agreement with the recognised labour unions and this agreement expired at the end of this reporting period. In terms of the conditions of the agreement, bargaining unit employees were entitled to an increase of 7.1%, effective 1 April 2020. Transnet commenced with negotiations for a new wage agreement for the 2021 wage increase cycle.
- Employees in the management category did not receive an annual remuneration adjustment for the reporting period, based on the directive issued by the Shareholder Minister.

The graphs below depict the increases differentiated between executive management and bargaining unit employees compared to the consumer price index (CPI) for the past three years.

**Graph 2: Annual increase per employment category vs CPI**





## Short-term Incentive Scheme



King IV.P14

- Transnet reviewed the STI Scheme with the aim of replacing it with an incentive scheme that rewards the achievement of productivity targets.
- This resulted in the introduction of a Container Incentive Scheme for bargaining unit employees in the Transnet Port Terminals' container sector and a new Productivity Incentive Scheme for the remainder of bargaining unit employees across Transnet. The Remuneration, Social and Ethics Committee recommended both incentive schemes, which the Board approved.
- The new Container Incentive Scheme provides for monthly payments while the Productivity Incentive Scheme provides for quarterly payments to eligible employees, which will be based on actual achievement of productivity targets.
- The revised STI Scheme for management employees was designed to drive the achievement of stretch business targets and alignment with the DPE's Remuneration Guide.

## Long-term Incentive Scheme



King IV.P14

- The LTI Scheme was implemented to sustain the achievement of the organisation's strategy; to retain key talent who ensure the success of the strategy; to continuously encourage stretch performance; and to reward performance above target. The scheme is being revised and no conditional awards have been made for the reporting period.
- The LTI conditional award to eligible participants is banked over a three-year period to ensure sustained business performance and the retention of key talent over the banking period. Participation in the scheme is informed by level of seniority, such as grade level in the organisation, individual performance as well as results from the talent management framework. Following the completion of the three-year banking period, the vesting payment is also subject to individual performance and talent rating criteria. The banked LTI amounts accrue interest over the three-year banking period.
- The LTI Scheme has specific clauses dealing with the Company's performance over the banking period and to this effect a group modifier has been introduced. The return on total average assets (ROTA) (excluding capital work in progress) is used as the group modifier.
- Transnet reviewed the LTI Scheme to align it with the DPE's Remuneration Guide for implementation in the new financial year from 1 April 2021.
- In terms of the current LTI Scheme, the payment of one conditional award is outstanding in relation to the conditional awards issued for the 2017/18 financial year that are payable in the 2021/22 financial year.

## Individual performance management



King IV.P14

- Transnet has an overall performance framework that is aligned to the Statement of Strategic Intent and the Shareholder's Compact. Every year, the framework is translated into a Transnet scorecard, the scorecard of the GCE, and then cascaded to all managers.
- The Balanced Scorecard Performance Management Methodology is established across the business and is utilised for the management category as well as for first-line managers, specialists and technicians.

- The individual performance ratings of managers are ratified annually to ensure alignment of individual performance with the overall performance of Transnet and the ODs.
- Both corporate and individual scorecards form the basis for the determination of STI payments and annual increases.
- Transnet has also successfully implemented individual performance management for junior employees, which is based on business and team performance objectives and measurements as well as an individual component focusing on behavioural factors within the employee's control such as attendance, discipline and safety. This approach ensures that employees have clear visibility of their contribution to business drivers within the value chain.
- The performance management score informs the annual salary progression payment and the individual component of the performance score impact on the value of the STI payment. This groundbreaking intervention is in line with Transnet's drive to create a high-performance culture. Progression payment based on the performance criteria took place at the end of October 2020 as per the collective agreement.

## Succession management



King IV.P14

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

## Remuneration of executive directors and prescribed officers



King IV.P14

- Leadership plays a critical role in achieving the Company's mission to deliver outstanding sustainable value to stakeholders. The goal for every employee at Transnet is to develop a challenging career with opportunities for growth, competitive rewards and a balance between work and home life.
- The successful execution of the Transnet Strategy requires persistent effort and the executive leadership's energy to ensure high performance as well as a sustainable and profitable long-term growth path.
- As part of the Transnet Strategy, the Company designed a reward philosophy for executive management to drive the implementation of the strategy while ensuring that key role players are retained in the Company. This is also aligned with the DPE's Remuneration Guide.
- Transnet is committed to encouraging diversity in the workplace and in society. It practises equal opportunity in all recruitments and promotions, and aims to increase employment opportunities within South Africa. As an organisation, Transnet is also committed to promoting the equality of all South Africans.

The table below depicts the guaranteed pay of the prescribed officers for the 2020/21 financial period.

Table 17: Guaranteed pay of the Transnet Group Executive Team



King IV.P14

Exco member	Salary R 000	Retirement benefit fund contributions R 000	UIF contributions R 000	Other payments* R 000	Total 2021 R 000	Total 2020 R 000
TC Morwe <sup>2,6</sup>	—	—	—	—	—	804
EAN Sishi <sup>3,6</sup>	—	—	—	—	—	7 687
T Jiyane <sup>6</sup>	—	—	—	—	—	1 534
GJE de Beer <sup>8</sup>	—	—	—	—	—	5 567
KV Reddy <sup>10</sup>	2 022	215	1	—	2 238	4 477
Xoliswa Mpongose <sup>4</sup>	294	23	—	—	317	3 802
M Mahomed <sup>2,3,6</sup>	—	—	—	—	—	12 177
SA Vorster <sup>6,7</sup>	—	—	—	—	—	3 220
R Madiba <sup>7</sup>	—	—	—	—	—	2 428
T Majoka <sup>5,10</sup>	211	18	—	251	480	3 334
GLN Sithole <sup>7</sup>	—	—	—	—	—	4 596
S Qalinge <sup>8</sup>	—	—	—	—	—	4 599
N Mdawe <sup>7,8</sup>	—	—	—	—	—	2 755
LM Moodley <sup>8</sup>	—	—	—	—	—	3 399
LL Tobias <sup>7</sup>	—	—	—	—	—	4 441
MA Fanucchi <sup>8</sup>	—	—	—	—	—	4 556
PPJ Derby <sup>1</sup>	7 784	714	2	—	8 500	1 417
M Phillips <sup>5,7,11</sup>	3 539	243	2	839	4 623	2 146
K Phihlela <sup>5,7</sup>	1 675	119	1	605	2 400	2 399
S Khathi <sup>5,7</sup>	716	51	1	674	1 442	2 541
MD Gregg-Macdonald <sup>2,3,9</sup>	2 550	272	1	8 574	11 397	4 127
K Ngema <sup>5,11</sup>	4 007	390	2	358	4 757	—
P Munyai <sup>11</sup>	3 137	243	2	—	3 382	—
BL Kgomo <sup>11,12</sup>	2 996	252	2	—	3 250	—
V Nemukula <sup>11</sup>	3 570	328	2	—	3 900	—
N Dlamini <sup>1,11</sup>	3 374	—	1	—	3 375	—
A Shaw <sup>11</sup>	3 456	367	1	—	3 824	—
S Coetzee <sup>11</sup>	4 948	—	2	—	4 950	—
B Kani <sup>11</sup>	3 486	271	2	—	3 759	—
S Mzimela <sup>11</sup>	6 098	—	2	—	6 100	—
R Mills <sup>11</sup>	3 607	351	2	—	3 960	—
V Dube <sup>11</sup>	3 767	268	2	—	4 037	—
M Silinga <sup>11</sup>	2 688	261	1	—	2 950	—
K Phahlamohlaka <sup>11</sup>	2 489	193	1	—	2 683	—
L Sesoko <sup>5,10</sup>	840	60	1	429	1 330	—
X Ntshingila <sup>5,10</sup>	308	33	—	480	821	—
T Siyaya <sup>5</sup>	562	44	1	36	643	—
<b>Total</b>	<b>68 124</b>	<b>4 716</b>	<b>32</b>	<b>12 246</b>	<b>85 118</b>	<b>82 006</b>

\* Includes acting allowances and termination benefits.

<sup>1</sup> Group executives who are members of the Board of directors.

<sup>2</sup> Group executives who were members of the Board of directors.

<sup>3</sup> Includes settlement in respect of service termination.

<sup>4</sup> Member of Exco for 1 month of the financial year.

<sup>5</sup> Acted as Exco member.

<sup>6</sup> Contract terminated during the prior financial year.

<sup>7</sup> Acted as Exco member in the prior financial year.

<sup>8</sup> Contract terminated during the financial year.

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

<sup>10</sup> Left Exco during the financial year.

<sup>11</sup> Appointed as Exco member during the financial year.

<sup>12</sup> Mr BL Kgomo passed away in July 2021.

## Variable pay for executive directors and prescribed officers



King IV. P14

The 2017/18 conditional award in respect of the Transnet LTI Scheme will vest in 2021 and this is the final payment in terms of the current LTI Scheme. The value of the LTI payment is impacted by the level of achievement of specific company and individual performance objectives. The members of the Group Executive Committee are eligible for payment in respect of the LTI Scheme based on the ground rules of the scheme.

The table below reflects the STI and LTI payments for the Transnet executives.

Table 18: Short and long-term incentive payments for Transnet executives

Exco member	Long-term incentive* 2021 R 000	Long-term incentive* 2020 R 000	Short-term incentive* 2021 R 000	Ex Gratia incentive* 2020 R 000
TC Morwe <sup>2,6</sup>	—	—	—	—
EAN Sishi <sup>3,6</sup>	—	—	—	—
T Jiyane <sup>6</sup>	—	—	—	—
GJE de Beer <sup>8</sup>	—	—	—	—
KV Reddy <sup>10</sup>	—	1 006	—	—
Xoliswa Mpongoshe <sup>4</sup>	—	—	—	—
M Mahomed <sup>2,3,6</sup>	—	—	—	—
SA Vorster <sup>6,7</sup>	—	—	—	—
R Madiba <sup>7</sup>	—	210	—	—
T Majoka <sup>5,10</sup>	—	402	—	—
GLN Sithole <sup>7</sup>	—	594	—	—
S Qalinge <sup>8</sup>	—	—	—	—
N Mdawe <sup>7,8</sup>	—	—	—	—
LM Moodley <sup>8</sup>	—	—	—	—
LL Tobias <sup>7</sup>	—	574	—	—
MA Fanucchi <sup>8</sup>	—	—	—	—
PPJ Derby <sup>1</sup>	—	—	—	—
M Phillips <sup>5,7,11</sup>	—	373	—	—
K Phihlela <sup>5,7</sup>	—	934	—	—
S Khathi <sup>5,7</sup>	—	405	—	—
MD Gregg-Macdonald <sup>2,3,9</sup>	—	899	—	—
K Ngema <sup>5,11</sup>	—	—	—	—
P Munyai <sup>11</sup>	—	—	—	—
BL Kgomo <sup>11,12</sup>	—	—	—	—
V Nemukula <sup>11</sup>	—	—	—	—
N Dlamini <sup>1,11</sup>	—	—	—	—
A Shaw <sup>11</sup>	—	—	—	—
S Coetzee <sup>11</sup>	—	—	—	—
B Kani <sup>11</sup>	—	—	—	—
S Mzimela <sup>11</sup>	—	—	—	—
R Mills <sup>11</sup>	—	—	—	—
V Dube <sup>11</sup>	—	—	—	—
M Silinga <sup>11</sup>	—	—	—	—
K Phahlamohlaka <sup>11</sup>	—	—	—	—
L Sesoko <sup>5,10</sup>	—	—	—	—
X Ntshingila <sup>5,10</sup>	—	—	—	—
T Siyaya <sup>5</sup>	—	—	—	—
<b>Total</b>	<b>—</b>	<b>5 397</b>	<b>—</b>	<b>—</b>

\* Included in trade payables, accruals and contract liabilities (refer note 28 in the Annual Financial Statements).

<sup>1</sup> Group executives who are members of the Board of Directors.

<sup>2</sup> Group executives who were members of the Board of Directors.

<sup>3</sup> Includes settlement in respect of service termination.

<sup>4</sup> Member of Exco for one month of the financial year.

<sup>5</sup> Acted as Exco member.

<sup>6</sup> Contract terminated during the prior financial year.

<sup>7</sup> Acted as Exco member in the prior financial year.

<sup>8</sup> Contract terminated during the financial year.

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

<sup>10</sup> Left Exco during the financial year.

<sup>11</sup> Appointed as Exco member during the financial year.

## Fee structure for non-executive directors



King IV. P1 & 14

The Shareholder Representative appoints non-executive directors for a three-year term. However, the MOI requires that the non-executive directors be submitted for re-election for each of the three years at the Company's AGM. Among the issues considered by the Shareholder Representative prior to re-election is the individual non-executive director's performance.

The Shareholder Representative approves, in advance, the fees payable to non-executive directors. The non-executive directors are paid an annual retainer as well as an additional fee for committee membership.

Transnet engaged with the DPE from 2018 to 2020 to ensure compliance with the DPE's Remuneration Guide in the development of the remuneration policy.

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

The table below depicts the actual remuneration for the Transnet non-executive directors for the financial period.

Table 19: Fees paid to non-executive directors

Board member	Fees R 000	Other payments R 000	Total 2021 R 000	Total 2020 R 000
PS Molefe (Chairperson)	1 276	2	<b>1 278</b>	1 278
LL Von Zeuner	840	—	<b>840</b>	777
EC Kieswetter <sup>1</sup>	—	—	—	62
R Ganda <sup>1</sup>	—	—	—	671
DC Matshoga	575	—	<b>575</b>	671
UN Fikelepi	671	—	<b>671</b>	675
GT Ramphaka	671	—	<b>671</b>	656
OM Motaung <sup>2</sup>	287	—	<b>287</b>	575
FS Mufamadi	671	—	<b>671</b>	671
AP Ramabulana	575	—	<b>575</b>	575
ME Letlape	834	—	<b>834</b>	671
<b>Total</b>	<b>6 400</b>	<b>2</b>	<b>6 402</b>	<b>7 282</b>

<sup>1</sup> Resigned during the prior year.

<sup>2</sup> Advocate OM Motaung passed away in September 2020.

# Our control environment in brief



King IV. P1, 2, 6, 12 & 13

## Integrated procurement management

- Optimally regulated infrastructure-related procurement and delivery management with the Finance and Investment Committee's terms of reference
- Developed the Infrastructure Procurement and Delivery Management Framework with procurement rules, procedures and processes
- Procurement Ombudsman
- Up-to-date compliance assurance for high-value tender processes
- Transnet DOA Framework
- Efficient and effective contract management, with SCM Contract Management Procedure Manual and Procurement Procedure Manual
- SCM Policy and robust, independent complaints handling
- Adherence to strict set of laws, codes, rules and standards, including but not limited to:
  - Section 217(1) of the Constitution and section 51(1)(a)(iii) of the PFMA;
  - Promotion of Administrative Justice Act, No 3 of 2000 that was issued in terms of section 33 of the Constitution;
  - The Construction Industry Development Board Act, No 38 of 2000 (CIDB Act), and the regulations thereto;
  - The Promotion of Access to Information Act, No 2 of 2000;
  - The Preferential Procurement Policy Framework Act, No 5 of 2000 (PPPFA), and the regulations thereto (PPPFA regulations); and
  - Instruction notes are also issued by National Treasury, which regulate Transnet's procurement processes

## Internal audit



King IV. P8

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

## Enterprise risk management and integrated assurance



King IV. P8

- The Board delegates the Risk Management function to the Risk Committee
- The strategic risk profile is generated from the Transnet Enterprise Risk Management Strategy Framework, based on ISO 31000: 2009
- Transnet's Integrated Assurance Model manages risks and controls, and encompasses the assurances provided by management, internal specialists, internal audit, external audit as well as external advisers and service providers
- First line of defence: Assurances provided by direct line management, which is blanket assurance across the full scope of risks and controls
- Second line of defence: Assurance providers who are internal to the Company, but not directly responsible for the management of the process under review
- Third line of defence: Assurance providers who act independently from management and the Company's operations
- Fourth line of defence: Independent oversight committees with specific responsibilities pertaining to the risk, control and assurance of Transnet's activities and the impact of these activities on stakeholders

## Strategic execution and performance management

- Transnet's performance targets are confirmed in the annually negotiated Shareholder's Compact
- Transnet manages the execution of its strategic imperatives through the Company's Strategic Execution Framework, which is designed to achieve:
  - Visibility of strategic execution to identify and close execution gaps;
  - Group-wide integration and alignment of strategic initiatives and critical processes;
  - Problem-solving and analytical tools, and follow through with solutions-driven actions;
  - A risk-based execution process to monitor strategic outcomes; and
  - A platform for collaboration and seamless execution of strategic initiatives

## Ethics and fraud management

- The Code of Ethics (the Code) enables a culture of entrenched values, principles, standards and norms
- All employment contracts refer to the Code, committing employees and leadership (executive and non-executive directors) to the highest standards of ethical behaviour
- Integrity pacts are concluded with all bidders and suppliers
- Fraud and corruption awareness training is provided annually to all employees
- Service providers, suppliers and trade partners are also subject to the Code, which is revised every five years or as required
- The Group Company Secretary is responsible for policy development, review, and Chief Legal Officer/Chief Security is responsible for the implementation of the Code
- Aspects of the Code are included in fraud and corruption awareness training and are accessible to all employees on the Company's intranet
- The Fraud and Corruption Risk Management Strategy provides mechanisms for the prevention, early detection and investigation of irregularities
- A Tip-Offs Anonymous Hotline (the Hotline) enables employees, customers and trade partners to report concerns about unethical or unlawful behaviour
- All irregularities reported through external and internal reporting channels are investigated through a forensics investigation process

## Governance of stakeholder management and engagement

- The Board delegates authority to the GCE who reports to the Board on all material stakeholder issues and takes responsibility for incorporating these into Transnet's strategy and risk management
- Stakeholder engagement practices align with the Company's Culture Charter and supporting values
- Engagement norms include inclusivity, accountability and responsiveness
- Stakeholder engagement performance is measured as a KPI in the balanced scorecards of stakeholder relationship owners
- Stakeholder engagement is decentralised, but the Board has overall responsibility for stakeholder engagement
- The monitoring and evaluation of stakeholder engagement is reported to the Remuneration, Social and Ethics Committee and to the Board
- Transnet has adopted guidelines from the AA1000 standards (Accountability Principles Standard 2008 and the AA1000 Stakeholder Engagement Standard 2011)

## ICT management and governance



King IV. P12

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

- *Monitor and evaluate value delivered from technology investments and projects*  
Apply Benefits Realisation Management to plan for, monitor and track benefits realisation throughout the project delivery process:

**Pre-Execution Planning:**

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

**Execution Phase (and closeout):**

**Benefits Realisation**

- Benefits Realisation report
- Benefits review health check

**Post Implementation:**

User adoption change management reports

- *Management of the disposal of obsolete technology and information*

Governed by the Acquisition Committee of the Board

- *The ethical and responsible use of ICT and compliance with applicable law*

Board has requested and been provided with insight on the ICT's regulatory universe

**4. Oversee management of information (including use information architecture, protection of privacy and security)**

- ICT analyses information used by the organisation
- ICT tracks and enforces regulatory compliance (POPI Act) and conformance to regulatory policies, standards, architecture and procedures

**5. Oversee arrangements governing and managing technology and information**

- The ICT Executive Committee has been established as a structure that provides feedback to the Group Executive Committee on matters pertaining to ICT Strategy, Corporate Plan and digital initiatives
- Development and implementation of data and information architecture that supports confidentiality, integrity and availability of information

**6. Areas of current and future focus**

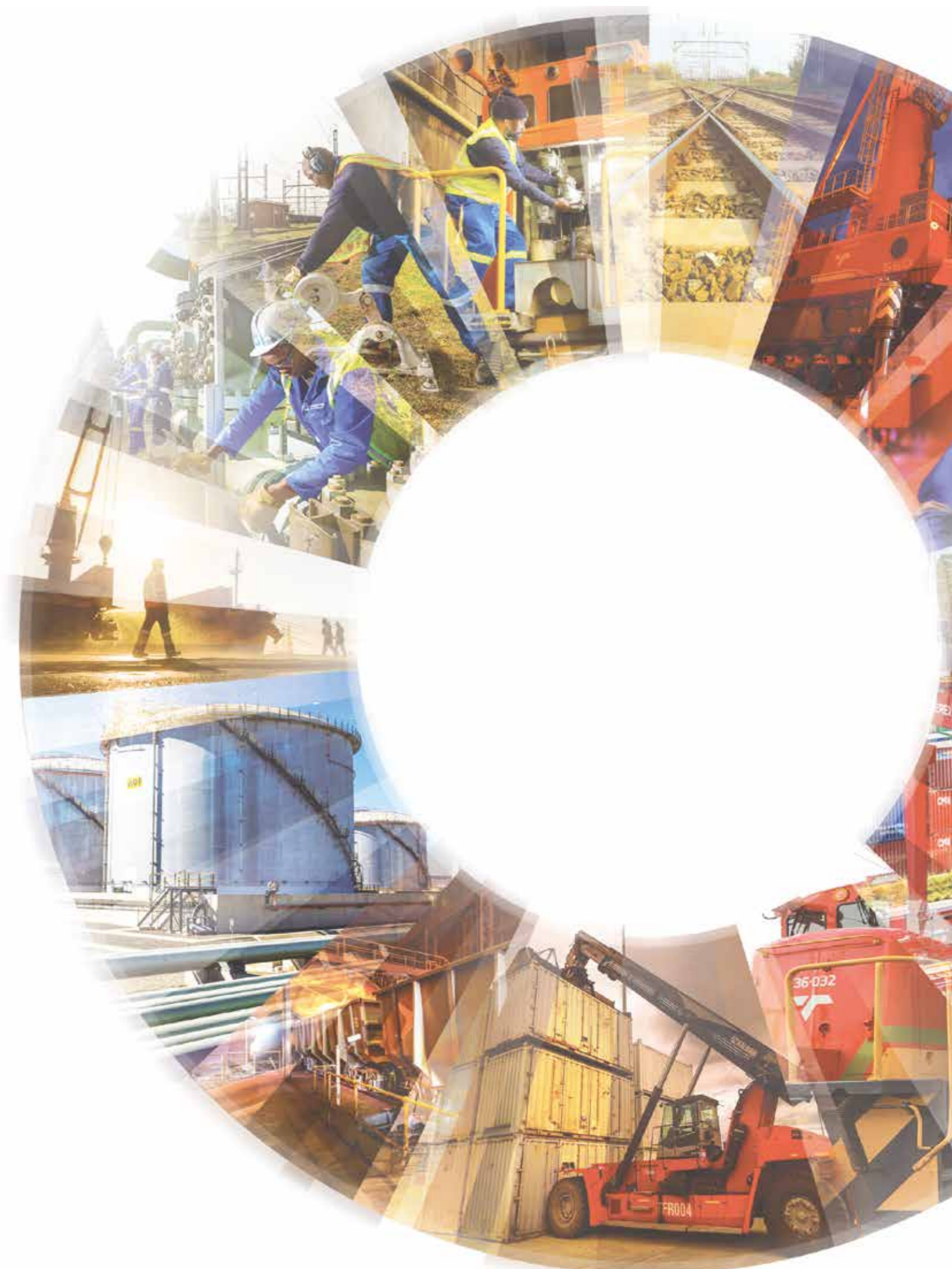
- ICT aims to employ a digital-first culture to digitise both existing and next-generation products and services
- The digital-first approach is enabled by the provision of digital platforms as well as disruptive and enabling technologies to support digital transformation which underpins a strong digital backbone
- Leveraging an ecosystem that includes strategic partnerships to ensure that ICT provides agile and innovative services

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

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

## Regulatory compliance

- Group Regulatory and Compliance ensures that the outcome of its plan is aligned with the mandates of the Audit Committee and Risk Committee and executes its areas of focus from an annual Board-approved Compliance Plan
- Managers are responsible for ensuring compliance as it relates to their areas of accountability
- More than 200 primary regulatory requirements impact Transnet
- Compliance is implemented through a risk-based approach using a decentralised model, with Compliance Officers appointed within ODs and Corporate Centre functions
- The Compliance function independently monitors and reports on compliance controls relating to high-priority regulatory requirements
- The Compliance function assists and supports the Board and management to discharge their compliance responsibilities



# Our performance

## Group Chief Financial Officer's review



### Introduction

Transnet remained resilient in the context of the COVID-19 pandemic, which negatively impacted operations and financial performance. Notwithstanding the varied direct and derived impacts of the pandemic on global and domestic economic activity, the Company generated R27,2 billion cash flows from its operations during the year ended 31 March 2021, sufficiently funding interest payments, working capital and netting a favourable R12,1 billion from operating activities to fund the capital investment programme.

While positive, these results are well below the internal targets set at the beginning of the 2021 financial year as well as the prior year's performance. This was driven largely by the debilitating impact of the pandemic on the global economy, which contracted by 3,5% in the 2020 calendar year.

**Given the critical requirement for Transnet to report according to the Shareholder's Compact, we have opted to include our entire Directors' Report as a consolidated performance report attached as Annexure A.**

"During this period, Transnet supported the economy by focusing operations on moving essential cargo, decongesting the ports, and operationalising container terminals and ports as well as essential rail corridors."

According to the World Bank, the global economy is experiencing a strong but uneven recovery, which is, however, not assured given the potential of additional COVID-19 waves, together with vaccination delays, mounting debt levels and rising inflationary pressures which may cause setbacks.

The South African economy contracted by 7% in the 2020 calendar year. During the initial months of the lockdown, import and export demand disruptions harshly affected the movement of commodities across the globe.

Following a sharp recession in 2020, the World Bank forecasts growth at 3,5% in 2021 and 2,1% in 2022, with the recovery benefiting from a gradual relaxation of COVID-19 restrictions and stronger commodity prices. Although expansionary monetary and fiscal policies have buoyed activity, GDP will remain well below its 2019 level through 2022.

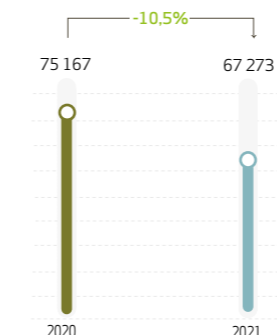
The introduction of the national lockdown in April 2020 severely constrained demand for port, pipeline, and rail services, particularly during the period when restrictions applied to all non-essential goods, although Transnet was declared an essential service provider. According to Stats SA, the total volume of goods transported (payload, road, and rail) in South Africa decreased by 11,6% for the 2020 calendar year compared to 2019, with the corresponding income decreasing by 10,2% over the same period.

### Overview

Due to the nature of Transnet's business as a freight logistics company and operator of rail, port and pipeline infrastructure, Group revenue is directly affected by the combined influences of global macroeconomic trends and trade flows as well as the level of economic activity in South Africa.

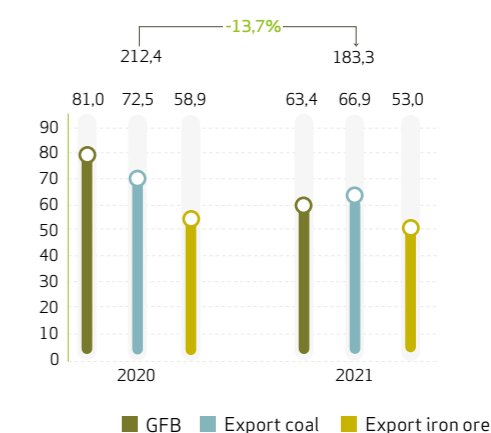
Accordingly, Transnet's revenue for 31 March 2021 decreased by 10,5% to R67,3 billion (2020: R75,2 billion).

### Revenue (R million)



Total rail volumes are 13,7% lower than that of the prior year at 183,3 mt, from 212,4 mt as at 31 March 2020.

### Rail volumes (mt)



In addition to the constrained demand, Transnet's rail network and rail operations experienced incidents of cable theft, power failures, vandalism, adverse weather conditions, derailments, defective railway lines, permanent ways and signalling in certain areas of the network. These constraints resulted in locomotive failure and train cancellations, which impacted volume and service delivery.

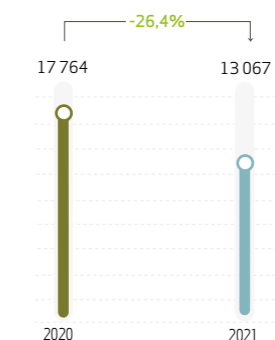
Port container volumes are 11,5% lower than the prior year at 3 916 ('000 TEUs), from 4 424 ('000 TEUs) as at 31 March 2020.

Bulk and container terminals were operating at reduced capacity during the initial hard lockdown of 2020, which weighed heavily on the container business, impacting exports of iron ore, manganese and chrome.

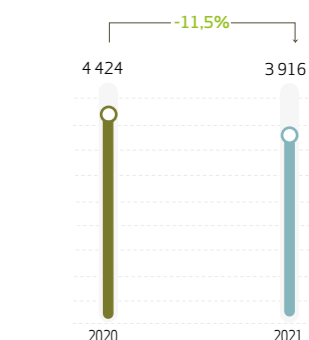
After the initial hard lockdown, output was adversely impacted by regulations that prohibited mines from operating at full capacity in the interest of 'flattening the curve' and protecting the safety of employees.

Pipeline volumes are 26,4% lower than the prior year at 13,1 billion litres, from 17,8 billion litres at 31 March 2020, mainly due to the total shutdown of airports, imposed travel restrictions, and the negative impact of fuel theft incidents.

### Petroleum (mℓ)



### Port container ('000 TEUs)

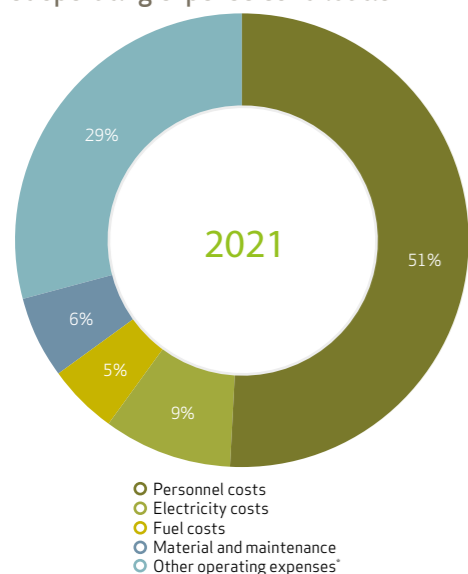


As restrictions began to ease and demand rebounded, Transnet experienced month-to-month improvements in performance across key indicators.

During this period, Transnet supported the economy by focusing operations on moving essential cargo, decongesting the ports and operationalising container terminals and ports as well as essential rail corridors.

Net operating expenses increased by 16,2 % to R47,8 billion (2020: R41,2 billion) mainly due to once-off costs as well as personnel, maintenance and security costs being predominantly fixed in nature, which consequently have not decreased in line with the reduced activity.

### Net operating expense contribution



The safety of employees remained a priority since the onset of COVID-19. Accordingly, Transnet incurred COVID-19 related expenses of R232 million. Furthermore, as the pandemic continues to affect humans and economies in staggering ways, management has taken a resolute decision not to force employees to take leave or to institute salary reduction measures. Accordingly, the provision for leave pay increased by 14,3% to R2 621 million compared to March 2020.

Other cost savings were partially offset by once-off external costs, which included the impact of the following:

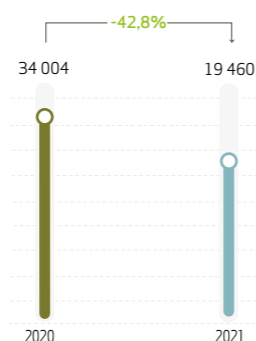
- Third-party claims and environmental provisions; environmental provisions related to pipeline spills and higher security costs arising from product theft incidents
- Loss on disposal of property, plant and equipment related to capital work in progress write off

Adjusting for these once-off costs reflects the sustainable cost base which has increased marginally year on year by 0,7% to R41,4 billion, well below the increase in inflation and is reflective of Transnet's financial resilience, as detailed below.

Description	Amount million
Net operating expenses	(47 813)
Add back:	
• Third-party claims, environmental provisions and related costs (security and clean-up expenses due to pipeline spills arising from theft incidents)	5 601
• COVID-19 related expenses	232
• Disposal of property, plant and equipment related to capital work in progress write-off	585
<b>Adjusted net operating expenses</b>	<b>(41 395)</b>

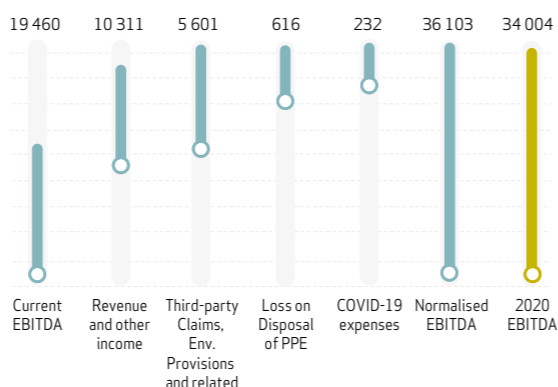
Earnings before interest, tax, depreciation, and amortisation (EBITDA) decreased by 42,8% to R19,5 billion (March 2020: R34 billion) with a resultant decrease in the EBITDA margin to 28,9% (March 2020: 45,2%).

### EBITDA (R million)



However, on a normalised basis, adjusting for the once-off items of R6,4 billion, EBITDA decreased by 24,1% to R25,8 billion (March 2020: R33,9 billion).

### Normalised EBITDA (R million)



Depreciation, derecognition and amortisation decreased by 7,1% to R13,9 billion (2020: R15,0 billion) due mainly to the impact of the devaluation of rail and port infrastructure in March 2020 as well as the revised useful life assessment conducted during the financial year.

As part of the process to de-risk Transnet's statement of financial position, impairments for the year increased by 57,1% to R4,4 billion (2020: R2,8 billion (restated)). This included an assessment of capital work in progress (CWIP) in line with our commodity segment strategies. Furthermore, the increase is also attributable to the impairment of locomotives and wagons, the impact of the physical verification of assets as well as useful life assessments of assets. This was partially offset by an impairment reversal relating to the pipeline of R161 million, as a result of the current year revaluation process.

A number of derailed and vandalised locomotives could not be repaired due the unavailability of spares following the suspension of the 1 064 OEM contracts.

As a result of efforts to utilise more cost-effective sources of funding, together with the lower interest rate environment and a reduction in funding requirement due to the optimisation of capital expenses, net finance costs decreased marginally by 0,8% to R11,0 billion (2020: R11,1 billion).

Cash generated from operations after working capital changes decreased by 26,8% to R24,4 billion (2020: R33,4 billion). The cash interest cover ratio (including working capital changes) at 2,0 times (2020: 2,9 times) reflects the difficult operating environment and is below loan covenant requirements. Accordingly, Transnet pre-empted this result and arranged for an early engagement with affected lenders, thereby resolving this matter with no recall of the related debt, having concluded waivers with all affected lenders.

Transnet's overall compliance to loan covenants continue to play a significant role in the raising of new funding.

The tax credit for the year is R2,4 billion (2020: R2,2 billion tax charge) and the effective tax rate for the Group is 22,8%.

As a result of the above and fair value losses in the financial year being R1,2 billion higher than the prior year's gain, the net loss for the year is R8,4 billion.

However, the adjusted net loss for the year is R1,9 billion loss after the effects of taxation (March 2020: R3,6 billion profit), having adjusted for the once-off items noted above of R6,4 billion as well as CWIP impairments of R1,4 billion.

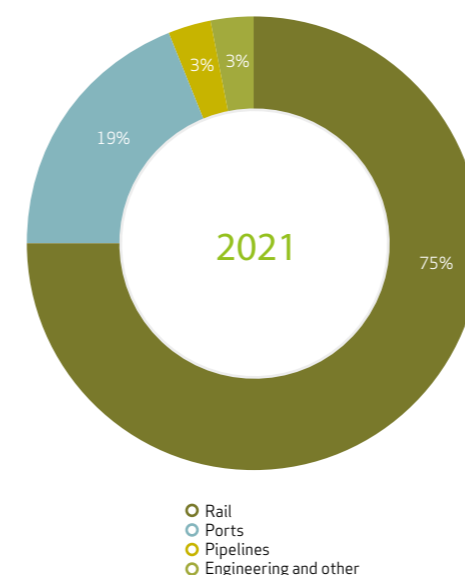
## Capital expenditure

The Company continued to execute its infrastructure investment programme, spending R15,9 billion for the year (2020: R18,6 billion).

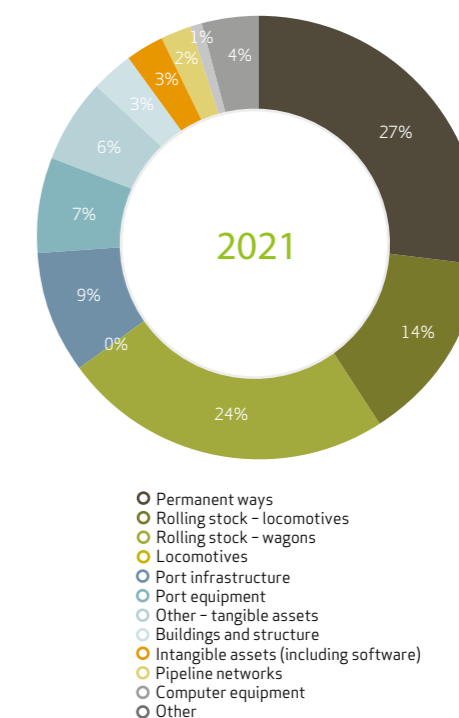
The decrease is mainly due to the underspend in capital projects and capitalised maintenance following the impact of COVID-19 lockdown restrictions.

The capital investment for the year comprised R2,0 billion (2020: R3,5 billion) invested in the expansion of infrastructure and equipment and R12,9 billion (2020: R15,1 billion) invested to sustain capacity in the rail, pipelines, and port operations.

### Capital investment by operating segment



### Capital investment by asset group



## Funding

As at 31 March 2021, the Company's total borrowings amounted to R129,1 billion (2020: R133,4 billion), a decrease of R4,3 billion compared to the prior year, due to foreign exchange rate movements, partially offset by net debt raised. The decrease in the value of debt arising from movements in exchange rates was offset by a corresponding decrease in net derivative financial assets, as the exposure to foreign currency is fully hedged.

In the period under review, the Group raised funding of R12,3 billion (2020: R10,4 billion) through the issuance of bonds and commercial paper (under the Domestic Medium-Term Note (DMTN) programme) and the execution of bank loans.

The gearing level increased to 48,7% (2020: 47,1%), mainly due to the loss in the current year partially offset by revaluations. This level is well below the triggers in loan covenants, reflecting the available capacity to continue with our investment strategy. The gearing level is expected to remain within the target over the medium term.

Part of Transnet's Funding Strategy is to enter into longer-term funding agreements to match the tenor of the funding with the useful lives of its asset base.

Going forward, the Company will limit future capital expenditure to 80% of available cash before capital investment and align to the expected cost compression through improved procurement processes, which will ensure a reduction in future debt levels and an improved cash interest cover.

Furthermore, the Company has commenced with the implementation of cash preservation measures to safeguard financial performance and cash flows over and above the plan.

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

## Credit rating

Transnet has two officially recognised credit rating agencies: Standard & Poor's (S&P) and Moody's Investors Service (Moody's). Transnet's credit rating as at 31 March 2021 is depicted in the table below.

Rating category	Moody's	S&P
Foreign currency rating	Ba2/negative outlook	BB-/stable outlook
Local currency rating	Ba2/negative outlook	BB-/stable outlook
National scale rating (NSR) – long and short term	Aa2.za/P-1.za	zaAA/zaA-1+
BCA/SACP	ba3/negative outlook	bb-/stable outlook

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

## Going-concern assessment

Management performed a going-concern assessment as at 31 March 2021, which included a review of financial performance and projections; current economic factors; funding considerations; solvency and liquidity considerations; contingent liabilities and post-balance sheet events; and counterparty risk. Transnet is satisfied that it will remain a going concern for the foreseeable future.

- Poor contract management
- Misalignment between the interpretation of legislation and Instruction Notes by the external auditors and management
- Lack of skills due to a lack of training and change management
- Poor reporting and visibility on end-to-end supply chain systems
- Weak first line of defence
- The scourge of corruption.

During the year the Company made significant progress in implementing remedial action plans to address these challenges, however, substantial effort is still required to embed these plans and to ensure we strengthen and build a sustainable control environment in the supply chain environment.

The remedial action plans were not fully embedded due to the challenges of the pandemic affecting our operations and the long-term nature of the interventions. Accordingly, the Company undertook a manual process in the current year to identify and report all irregular expenditure by reviewing the procurement population. This approach was necessary, although management was fully cognisant of the susceptibility and risk of reporting inaccuracies due to the manual nature of the exercise.

Accordingly, the procurement population was segmented into various categories (collectively referred to as procurement events):

- High value procurement events (PE) from 1 April 2017 to 31 March 2021
- Low value procurement (PE) from 1 April 2017 to 31 March 2021
- Contracts with supplier development (SD) as a pre-qualification from 1 April 2011 were also reviewed
- Locomotives contracts were reviewed

The review entailed a manual process which meant deploying a combination of 310 internal and external resources with appropriate competencies (at an additional cost of R27,6 million for the external resources) to review the procurement events and contracts, as noted below, against an end-to-end procurement checklist with over 100 compliance items.

Component	R billion	% population	Resulting irregular expenditure R billion	% of irregular expenditure
High value PE tested	62,4	30	28,0	19
PE with SD tested	75,1	36	75,1	51
Locomotives contracts	42,9	21	42,9	29
Low value PE tested	3,1	1	2,2	0
<b>Total</b>	<b>183,5</b>	<b>100</b>	<b>148,2</b>	<b>100</b>

Approximately 22 685 of all procurement events were reviewed amounting to R183,5 billion with 80% (R148,2 billion) of these being irregular.

Given a more thorough assessment of our control environment compared to previous years, we identified irregular expenditure amounting to R18,3 billion relating to prior years that were not previously reported. As such, of the irregular expenditure of R14,1 billion reported in the current year, R10,3 billion (73%) relates to contracts entered into in prior years, with only R3,9 billion relating to the 2021 financial year. While it is encouraging to note that the current year's amount is far reduced, it is also indicative that our SCM challenges have not been fully arrested.

By segmenting the population on this basis, we developed a deeper and more comprehensive understanding of the effort required to ensure PFMA compliance. For instance, we established that, to date, Transnet had entered into -426 611 procurement events for purchases below R2 million, amounting to R21,4 billion since 2017/18. Once this trend had been established, management acknowledged the impracticality of attempting to review each transaction within this population due to:

- The quantum of contracts involved;
- The manual process, time and effort required to determine the extent of irregular expenditure;
- Poor document management controls and inadequate record keeping;
- Many employees involved in these transactions leaving the employ of Transnet; and
- Resources required to complete the determination test and the additional effort required by National Treasury to consider the condonation requests in this regard in the future.

Accordingly, the Company engaged with both the National Treasury and the Department of Public Enterprises on various occasions with regard to the potential exemption of reporting and disclosure of irregular expenditure, given the impracticable efforts required to assess both the causes and quantum of individual transactions below the R2 million mark, as noted above.

During these engagements management informed the National Treasury and the DPE of the absence of approximately 534 documents relating to transactions amounting to R10,0 billion, which could not be immediately located. Consequently, the documentation could not be reviewed to ascertain PFMA compliance, and to identify and disclose potential irregular expenditure.

While the National Treasury acknowledged and accepted the implications of the disclosure dilemma and consequences, it could not accede to the request for an exemption to limit disclosures given the lack of a readily-available formal instrument and mechanism that could enable such an exemption. Additionally, Transnet's new external auditors, as represented by the Auditor General of South Africa's (AGSA), declined to accept Transnet's rationale for the impracticability of assessing the procurement events leading to the R10,0 billion in light of the missing documents and the quantum of procurement events below R2 million.

Notwithstanding the AGSA's decisions, Transnet is unable to quantify the quantum of irregular expenditure due to any potential PFMA non-compliances included in the -408 418 procurements events of transactions below R 2 million. Further, the missing documents will be classified as a limitation of scope by the external auditors.

During the year the condonation process was significantly streamlined and the consequence management process has subsequently been enhanced:

- Condonation of irregular expenditure relating to supplier development with a total contract value of R59,3 billion (60,9% of the condonation requests submitted) was approved.
- With improved consequence management mechanisms now in place, disciplinary actions were taken against certain former senior executives. The latter lead to dismissals and the reporting of these cases to law enforcement agencies.
- Overall, 1 324 cases of consequence management were finalised and closed by 31 March 2021.

While management has made good progress in implementing remedial action plans and reporting irregular expenditure of R104,3 billion (2020 restated R131,2 billion) in note 42 of the Annual Financial Statements (AFS), the legacy procurement events included in the opening balance of the reported irregular expenditure has once again proven to be Transnet's 'Achilles heel'.

Furthermore, the inability to quantify the quantum of potential irregular expenditure that could be inherent in the -426 611 procurements events of less than R2 million, together with the missing documents – which will be classified as a limitation of scope – has resulted in the external auditors issuing a qualified opinion on the AFS of Transnet on the basis of the accuracy, occurrence and completeness of the reported irregular expenditure.

As such, the implementation and embedding of the PFMA remediation plan remains a key priority, with the understanding that Transnet, as an industrially oriented organisation with more than

55 000 employees and a vastly complex range of procurement events, will always be challenged by a certain quantum of irregular expenditure, whether through the inexperience of procurement officers within our operations, the underestimation of the full spectrum of required services in relation to overall cost parameters in a transaction or the deliberate ill intentions of individual employees.

That said, the remedial plan intends to address the root causes of irregular expenditure and to recommend the appropriate remedial actions to create sustainable solutions around people, processes and systems in our SCM environment. Accordingly, management is confident that the remediation plan will, radically reduce the occurrence of irregular expenditure over time as well as improve completeness and accuracy of Transnet's PFMA reporting.

The challenges that prevented the Company from achieving an unqualified audit opinion for the 2021 financial year are clearly defined and understood. Given the lessons learnt in the process, management commits to the following compliance improvements going forward:

- Ensuring a comprehensive review of all legacy procurement events included in the opening balance, dating back to 2017/18 – and in certain cases 2011 – where supplier development (SD) was used as a pre-qualification in our contracts.
- Prioritising the process of:
  - Automating supply chain management practices to address legislative non-compliances;
  - Automating the reporting of breaches of internal procurement policies, processes and procedures;
  - Digitally enabling standardised procurement processes; and
  - Improving procurement efficiency including improved document management and control.
- Accelerating the e-tender submission project.
- Finalising group-wide Supply Chain Management (SCM).
- Finalising group-wide SCM structures to ensure adequate capacity, capabilities and skills.
- Strengthening the control environment and improving the various lines of assurance.
- Enhancing compliance monitoring and reporting.
- Implementing PFMA and related policies, as well as a revised delegation of authority in line with our Procurement Procedure Manual.
- Embedding enhanced contract life-cycle management controls and monitoring.
- Embedding measures to identify, assess and report on PFMA non-compliances, including an enhanced reporting tool.

## Audit qualification

The qualified audit opinion for the financial year is on the basis that Transnet could not satisfy the AGSA on the accuracy, occurrence and completeness of the reported irregular expenditure.

Although the qualification does not relate to any IFRS matters, it has resulted in a breach of loan covenants. Accordingly, Transnet will request waivers from affected lenders to waive their rights attached to the audit qualification in loan agreements.

The Company is confident that it will receive the required waivers from affected lenders given the supportive relationship Transnet enjoys with its lenders.

The 2021 financial year was the AGSA's first year of auditing Transnet following the rotation of external auditors. As such, the audit was executed through an extended process as a result of numerous changes, including a revised audit methodology and extended scope, as well as changes in the materiality determination process. Additionally, an audit was performed of take-on balances, which would have been unnecessary had there been a continuation of the same auditors from the prior year.

## Prospects and outlook

As part of its longer-term transformation, Transnet has undertaken a fundamentally new approach to strategy development, with its new Growth and Renewal Strategy harnessing the manifold benefits already demonstrated in the Company's private-sector participation (PSP) methodology and focusing on our major commodity supply chains. Notwithstanding the vast benefits anticipated from the strategy, its implementation will unfold in the context of the continued impacts of COVID-19 on financial performance, as demand is unlikely to recover to pre-pandemic levels for the next three to five years. Accordingly, Transnet will continuously evaluate its business cash flow profile and proactively manage the associated operational and financial risks to preserve the long-term financial sustainability of the Company by:

- Improving internal financial controls and compliance, thereby encouraging unqualified audits going forward;
- Providing insight and analytics to enable strategic decision-making, with increased visibility of our Enterprise Performance Management;
- Managing and reducing the inevitable financial risk exposures associated with our new strategy within a dynamic business environment;
- Implementing cost control measures and reshaping the cost base while instilling permanent cost discipline. The latter will incorporate cost savings from newly-revised procurement strategies and will adopt 'zero-based' and 'driver-based' budgeting approaches where appropriate;
- Improving liquidity and reducing our debt level by:
  - Limiting capital investments to 80% of cash flows before capital investment; and
  - Repaying existing loans by utilising funds generated from operations.
- Leveraging private partnership opportunities to reduce funding and operational requirements for mutual benefit;
- Streamlining transactional processes and back-office functions by introducing a shared-services function and leveraging the benefits of automation; and
- Ensuring adequate capacity, capabilities, and skills within the finance environment.

*N. S. Dlamini*

**Ms Nonkululeko Dlamini**  
Group Chief Financial Officer

25 October 2021  
Johannesburg

"As part of its longer-term transformation, Transnet has undertaken a fundamentally new approach to strategy development, focusing on commodity supply chains. COVID-19 will continue to have a negative impact on financial performance, as demand is unlikely to recover to pre-pandemic levels for the next three to five years."



# Operating Divisions' review



	Revenue (R million)	EBITDA (R million)	Operational expenditure (R million)	ROTA (%)	Capex (R million)
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Freight Rail	2020	44 729	18 795	25 832	4,7	13 932
	2021	○ ↓ 39 448	○ ↓ 14 303	○ ↓ 25 145	○ ↓ 2,8*	○ ↓ 11 822

\* KPI has been replaced by ROIC (return on invested capital).

Engineering	2020	11 879	805	11 074	(1)	306
	2021	○ ↓ 8 191	○ ↓ (1 474)	○ ↓ 9 665	○ ↓ (12,3)	○ ↓ 191

National Ports Authority	2020	12 172	7 866	4 306	7	1 626
	2021	○ ↓ 11 558	○ ↓ 6 702	○ ↑ 4 856	○ ↓ 5,2	○ ↓ 684

Port Terminals	2020	13 809	4 788	9 021	18,0	2 109
	2021	○ ↓ 13 094	○ ↓ 3 650	🎯 ↑ 9 443	○ ↓ 8,7	○ ↑ 2 324

Pipelines	2020	5 732	3 810	1 922	6,5	412
	2021	○ ↓ 4 892	○ ↓ (2 052)	○ ↑ 6 944	○ ↓ (8,6)	○ ↑ 499

Property	2020	1 077	309,2	768	2,1	165,4
	2021	○ ↓ 1 013	○ ↓ 234,9	○ ↑ 778	○ ↓ 1,4	○ ↑ 166,2

Volumes	% black employees	Training spend (% of personnel cost)	DIFR
---------	-------------------	--------------------------------------	------

212,4mt	89,8	2,8	0,88
○ ↓ 183,3mt	🎯 ↑ 90,6	○ ↓ 2,1	🎯 ↓ 0,77

n/a	82	2,5	0,82
n/a	○ ↑ 84	○ ↓ 2,2	🎯 ↓ 0,66

n/a	90	1,7	0,25
n/a	🎯 ↑ 91	○ ↓ 0,2	🎯 ↓ 0,21

4 424 TEUs	90	3,0	0,54
○ ↓ 3 916 TEUs	🎯 ↑ 91	🎯 ↓ 2,3	🎯 ↓ 0,48

17 764	91	2,7	0,70
○ ↓ 13 067	🎯 ↑ 92	○ ↓ 1,5	🎯 ↓ 1,5

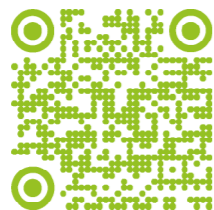
n/a	*	*	0,10
n/a	87,2	1,4	🎯 ↓ 0,04

\* The 2020 information for TP is not available.



For more information

SCAN TO DOWNLOAD OPERATING DIVISIONS' REPORTS

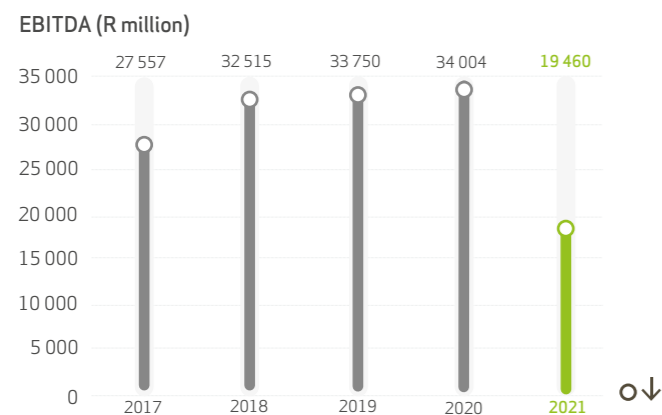


### Performance key

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

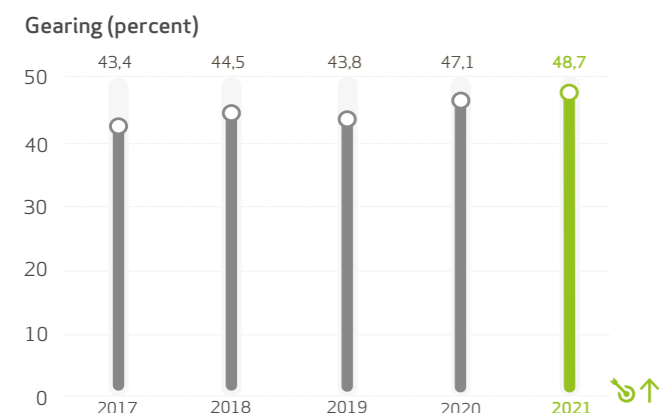
# Financial sustainability: performance

## Five-year review: Key profitability ratios and statistics



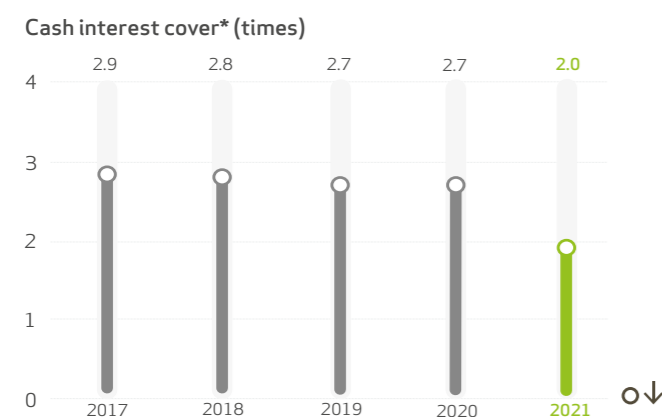
Transnet's revenue decreased by 10,5% to R67,3 billion (2020: R75,2 billion), due to a 13,3% decline in rail freight volumes, a 26,7% decline in pipeline volumes and a 10,5% decline in port container throughput mainly as a result of the nationwide lockdown. **A**

Net operating expenses increased by 16,2% to R47,8 billion (2020: R41,2 billion) due mainly to the largely fixed cost nature of Transnet's cost base relating to personnel, maintenance, and security costs. Other cost savings were offset by unexpected costs including the impact of third-party claims and environmental provisions relating to pipeline spills arising from product theft incidents which also resulted in higher security costs (R5,6 billion), COVID-19 related expenses of R232 million, and lower operating income due to the lower sale of scrap, lease recoveries and Passenger Rail Agency of South Africa (Prasa) recoveries. **B**



Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 42,8% to R19,5 billion (2020: R34,0 billion) with the EBITDA margin decreasing to 28,9% (2020: 45,3%). **C**

Impairment for the year increased by 56,8% to R4,4 billion (2020: R2,8 billion (restated)) due mainly to the impairment of locomotives and wagons arising from the unavailability of spares following the suspension of the 1 064 OEM contracts, derailments and the impact of the physical verification and useful life assessments. An assessment of CWIP in line with segment strategies at the ports also resulted in impairments. This was partially offset by an impairment reversal relating to the pipeline from the revaluation process. **D**



Net finance costs decreased marginally by 0,8% to R11,0 billion (2020: R11,1 billion) due mainly to interest rate cuts during the year. **E**

As a result of the above, and fair value losses in the financial year being R0,8 billion higher than the prior year, the net loss for the year is at R8,4 billion (2020: R2,9 billion profit restated) **F**

\* Including working capital changes.

### Performance key

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

## Income statement

for the year ended 31 March 2021

(in R million)	Audited	
	31 March 2021	31 March 2020
<b>A Revenue</b>	67 273	75 167
<b>B Net operating expenses excluding depreciation and amortisation</b>	(47 813)	(41 163)
<b>C Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA):</b>	19 460	34 004
Depreciation, derecognition and amortisation	(13 872)	(14 954)
<b>Profit from operations before items listed below:</b>	5 588	19 050
<b>D Impairment of financial assets</b>	(987)	(799)
Impairment of non-financial assets	(3 374)	(1 982)
Post-retirement benefit obligation expense	(202)	(221)
Fair value adjustments	(827)	(74)
Income from associates and joint ventures	13	8
<b>Profit from operations before net finance costs</b>	211	15 982
<b>E Finance costs</b>	(11 296)	(11 300)
Finance income	256	171
Profit before tax	(10 829)	4 853
Tax	2 443	(1 961)
<b>F Profit for the year</b>	(8 386)	2 892

## Statement of comprehensive income

for the year ended 31 March 2021

(in R million)	Audited	
	31 March 2021	31 March 2020
<b>Loss/(profit) for the year</b>	(8 386)	2 892
<b>Other comprehensive income/(loss)</b>	6 141	(22 218)
Profit/(loss) on revaluations	8 618	(31 019)
Loss on cash flow hedges	(97)	(104)
Actuarial (loss)/gain on post-retirement benefit obligations	(50)	121
Tax relating to components that may be reclassified subsequently to profit or loss	15	44
Other comprehensive income/(loss) for the year, net of tax	6 082	(22 314)
<b>Total comprehensive loss for the year</b>	(2 304)	(19 422)

## Headline earnings

for the year ended 31 March 2021

(in R million)	Audited	
	31 March 2021	31 March 2020
(Loss)/profit for the year attributable to equity holder	(8 386)	2 892
Loss on disposal of property, plant and equipment	617	1
Fair value adjustments on investment property	354	155
Impairment of non-financial assets	3 374	1 982
<b>Headline earnings before tax effects</b>	<b>(4 041)</b>	<b>5 030</b>
<b>Tax effects</b>		
Profit on disposal of property, plant and equipment	(9)	—
Fair value adjustments on investment property	(79)	(35)
Impairment of non-financial assets	(551)	(432)
<b>Headline earnings</b>	<b>(4 680)</b>	<b>4 563</b>

## Condensed statement of financial position

as at 31 March 2021

(in R million)	Audited	
	31 March 2021	31 March 2020
Non-current assets	321 296	319 926
Current assets	14 530	18 369
<b>Total assets</b>	<b>335 826</b>	<b>338 295</b>
Capital and reserves	128 082	130 102
Non-current liabilities	135 370	167 110
Current liabilities	70 840	39 119
<b>Total equity and liabilities</b>	<b>334 292</b>	<b>338 295</b>

## Segment information

for the year ended 31 March 2021

(in R million)	Transnet Freight Rail		Transnet Engineering		Transnet National Ports Authority		Transnet Port Terminals		Transnet Pipelines		Total reportable segments		Other <sup>1</sup>		Total Transnet	
	Audited 31 March 2021	Audited 31 March 2020	Audited 31 March 2021	Audited 31 March 2020	Audited 31 March 2021	Audited 31 March 2020	Audited 31 March 2021	Audited 31 March 2020	Audited 31 March 2021	Audited 31 March 2020	Audited 31 March 2021	Audited 31 March 2020	Audited 31 March 2021	Audited 31 March 2020	Audited 31 March 2021	Audited 31 March 2020
External revenue <sup>2</sup>	38 757	43 713	230	875	9 579	10 300	13 094	13 809	4 887	5 727	66 547	74 424	726	743	67 273	75 167
Internal revenue	691	1 016	7 961	11 004	1 979	1 872	—	—	5	5	10 636	13 897	469	1 281	—	—
Total revenue	39 448	44 729	8 191	11 879	11 558	12 172	13 094	13 809	4 892	5 732	77 183	88 321	1 195	2 024	67 273	75 167
EBITDA	14 303	18 795	(1 474)	805	6 702	7 866	3 631	4 753	(2 052)	3 810	21 110	36 029	(1 650)	(2 078)	19 460	33 949
Total assets <sup>3</sup>	167 416	167 173	16 671	18 901	86 404	76 399	21 053	18 784	41 871	42 772	333 415	324 029	15 821	28 417	335 550	336 057
Total liabilities	122 090	120 835	11 917	20 669	27 900	28 093	4 895	3 375	21 784	19 302	188 586	192 274	26 932	25 432	206 503	206 229
Capital expenditure <sup>4</sup>	11 926	13 932	222	306	684	1 626	2 324	2 224	499	412	15 655	18 500	261	61	15 916	18 561
Cash generated from operations after changes in working capital	13 283	16 956	1 302	(255)	6 512	7 461	3 586	4 701	2 992	4 336	27 675	33 199	(3 226)	222	24 449	33 421

<sup>1</sup> Other adjustments include the Corporate Centre functions.

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

<sup>3</sup> Excludes assets held-for-sale.


<sup>4</sup> Excludes capitalised borrowing costs; includes capitalised finance leases and capitalised decommissioning liabilities.

## Statement of cash flows

for the year ended 31 March 2021

(in R million)	Audited	
	31 March 2021	31 March 2020
<b>Cash flows from operating activities</b>	<b>12 103</b>	<b>21 939</b>
Cash generated from operations	27 150	36 101
Changes in working capital	(2 701)	(2 703)
<b>Cash generated from operations after working capital changes</b>	<b>24 449</b>	<b>33 398</b>
Finance costs	(11 072)	(10 955)
Finance income	256	171
Tax paid	(9)	(11)
Settlement of post-retirement benefit obligations	(143)	(155)
Derivatives settled and raised	(1 378)	(509)
<b>Cash flows utilised in investing activities</b>	<b>(15 345)</b>	<b>(20 122)</b>
Investment to maintain operations	(12 250)	(15 315)
Investment to expand operations	(3 140)	(4 807)
<b>Cash flows from/(utilised) in financing activities</b>	<b>1 159</b>	<b>(1 717)</b>
Borrowings raised*	18 086	11 341
Borrowings repaid	(17 932)	(13 058)
Net (decrease)/increase in cash and cash equivalents	(3 088)	100
Cash and cash equivalents at the beginning of the year	4 256	4 156
<b>Total cash and cash equivalents at the end of the year</b>	<b>1 168</b>	<b>4 256</b>

\* Borrowings raised excludes deferred interest of R464 million (2020: R453 million), refer note 34.3 in the Annual Financial Statements.

 [Read more](#)  
Please see Annexure A:  
Director's report on page 124

# Legislative compliance



King IV P13

## Pending legal matters

### Pension and post-retirement benefit obligations

#### Incidents relating to irregularities and fraud

Transnet's approach to eradicating fraud and corruption is guided by the Protected Disclosures Act No 26 of 2000 (PDA), the Transnet Whistle-blowing Policy and Transnet Code of Ethics 2017, and the Anti-Fraud and Anti-Corruption Policy 2017. As a SOC, Transnet values the importance of demonstrating strong ethical and moral principles in all our decision making and interactions with our stakeholders.

We remain cognisant of the legislated requirements to protect the identity of whistle-blowers in accordance with the PDA. The 24/7

Fraud Hotline encourages stakeholders to report incidents with the choice to remain anonymous, while providing pertinent information to assist law enforcement. To promote the integrity and reliability of anti-fraud and corruption undertakings, Transnet outsourced its whistle-blowing platforms to an independent external service provider. In 2021, 3 166 tip-offs were received (2020: 3 276), of which 1 292 are attributed to alleged incidents of irregularities (2020: 1 645). Although this depicts a decrease in the number of incidents and scams, Transnet's target is zero incidents in the short to medium term.

During the reporting year, the Board of Directors approved a No Gifts and Hospitality Policy as part of ensuring the highest standards of ethics and integrity for the Company.

The table below provides an overview of the incidents of irregularities reported in 2021:

Table 20: Reported incidents of irregularities in 2021

Operating Divisions	Investigations in progress		Reported irregularities unfounded		Reported irregularities founded		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Corporate Centre	110	61	64	34	16	26	190	121
Freight Rail	255	268	230	298	36	82	521	648
Engineering	57	133	57	94	8	9	122	236
National Ports Authority	78	61	41	29	8	9	127	99
Port Terminals	151	207	89	181	21	64	261	452
Pipelines	36	21	5	5	3	4	44	30
Property	12	26	11	31	4	2	27	59
<b>Total</b>	<b>699</b>	<b>777</b>	<b>497</b>	<b>672</b>	<b>96</b>	<b>198</b>	<b>1 292</b>	<b>1 645</b>

The majority of allegations reported for investigation are closed at preliminary investigation stages and are generally unfounded. The reasons for the high number of unfounded matters vary, but include instances where:

- The allegations are vague or do not contain sufficient information to test the allegations. In the majority of these cases, the whistle-blower is anonymous and cannot be contacted for further information. In other cases, the caller dropped the call before sufficient information could be obtained.
- The allegation has no merit as the evidence uncovered refutes the allegations. These are sometimes attributed to a lack of understanding of Transnet policies and procedures.

In the same reporting period, a total of 1 874 scams were reported.

Table 21: Reported incidents of scams during 2021

Operating Divisions	Investigations in progress		Reported irregularities unfounded		Reported irregularities founded		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Corporate Centre	383	69	175	428	16	0	574	497
Freight Rail	645	503	365	36	36	362	1 046	901
Engineering	54	37	21	1	8	22	83	60
National Ports Authority	7	6	3	4	8	0	18	10
Port Terminals	26	30	6	5	21	0	53	35
Pipelines	65	18	4	43	3	0	72	61
Property	15	4	9	1	4	0	28	5
<b>Total</b>	<b>1 195</b>	<b>667</b>	<b>583</b>	<b>518</b>	<b>96</b>	<b>384</b>	<b>1 874</b>	<b>1 569</b>

To a large degree, the substantial number of scams and incidents of irregularities are attributed to the following:

- Allegations of irregularities: Transnet widely encourages its stakeholders to report knowledge or suspicion of wrongdoing by either employees, customers or suppliers. Accordingly, the Company sees a far-reaching interest in reporting, which in certain instances turns out to be either unfounded or without merit to progress to further investigations. The Transnet fraud hotline is well established through ongoing awareness campaigns over the years. It is also well entrenched in Supplier Integrity Pacts found in Transnet tender documents. Some reported scams and/or incidents of irregularities are referred by other stakeholders, such as Internal Audit, Internal Control, Risk Management and self-detection initiatives by Investigations and Fraud Risk Management (formerly Forensics).
- Scams: There is a high number of syndicated fraudsters targeting new opportunities to defraud small business (procurement scams) and unemployed members of the public (recruitment scams). Categorisation of scams reported during the year include:
  - Procurement scams (including phishing scams aimed at diverting payments to/from customers/suppliers): 1 414
  - Recruitment scams: 460

Going forward, Transnet will continue to explore alternative solutions to curtail incidents of irregularities and scams.

## PFMA reporting

Sections 51 and 55 of the PFMA impose certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure, as well as irregular expenditure and losses through criminal conduct.

Continuing from the past year, 2021 remained a strenuous and challenging year, with our supply chain management and PFMA reportable items being an enduring challenge for Transnet, notwithstanding numerous improvement initiatives being implemented during the past two years, including a changed

leadership structure; an enhanced control environment; and a dedicated PFMA improvement programme. Regrettably, despite these initiatives to respond to the past audit qualifications, the Company's annual financial statements were once again qualified due to misstatements of irregular expenditure.

Review controls were strengthened, which resulted in additional misstatements being picked up in the review process and adjusted for. However, the limitations posed by the manual recording of reportable items prevented us from disclosing an error-free note 41. The irregular expenditure amounted to R105,1 million (2020: restated R131,4 million). The prior year's rested irregular expenditure amount emanated from the testing review conducted for the opening balance to ensure integrity, accuracy and completeness of the data utilised in the current period.

The procurement population was segmented into various categories. Accordingly, procurement events and contracts from 1 April 2017 were manually reviewed by management for completeness and compliance to the PFMA requirements. The review included the testing of contracts with supplier development as a pre-qualification from 2011 against an end-to-end procurement checklist with more than 100 items.

A number of condonation applications were made to the National Treasury in the 2021 financial year. An approval of condonations of irregular expenditure resulting from the use of supplier development with a total contract value of R59,3 million was granted, which resulted in the reduction of irregular expenditure by R41,1 million.

There were several engagements with the National Treasury to request an exemption or partial exemption from disclosing the PFMA reportable items in the AFS, as required by the PFMA. The exemption was not granted and the AGSA was then approached to consider the items that Transnet considered impractical to disclose as irregular expenditure as part of note 41 of the AFS. These relate to the procurement events below R2 million, amounting to R20,1 million, as well as 534 missing documents with a rand value of R10 010 million.



# Sustainable Development Outcomes for 2021

## Introduction



King IV, P3 & 16

The Transnet strategic roadmap is anchored on eight segment strategies, which are collectively woven by five tactical enablers, namely People, Customer service, Asset utilisation, Cost control and Safety. The outcomes of these tactical enablers are reported respectively as part of the nine Transnet SDOs which intrinsically represent targeted outcomes for Transnet's contribution towards the global achievement of the sustainable development trajectory as set out in the SDGs.

Over the years, Transnet has deliberately inculcated and operationalised the SDOs, both as key philosophies and orthodox performance drivers, measures and indices. While FY2020/21 saw the world plunge into an unprecedented era characterised by uncertainty, global supply chain disruptions and heightened risk to corporate financial sustainability, it was the very foundational principles underlying the SDOs that provided a basis for the strategic manoeuvres which were marshalled to steer the organisation towards not only financial sustenance but also a balanced management of the people-and-planet aspects of our operations. Accordingly, we continue to deliver value to our Shareholder, customers and wider society, and stand resolute in our long-standing commitment to contribute to sustainable development. During the 2020/21 financial year, we report mainly positive outcomes despite businesses and governments around the world facing a disruptive global pandemic. In instances where we have seen a decline in performance against the SDO, we continue to investigate, benchmark and fine-tune responsive sustainable development pathways aimed at positively enhancing the respective KPIs. We continuously monitor, profile and manage sustainability risks while seeking opportunities to drive long-term competitiveness, value creation and net positive contribution towards our people and environment.

Actions for sustainable development during the year ahead will pivot around strengthening our governance tools by developing and

implementing additional policies (in areas where gaps exist); improving regulatory compliance; and setting the trend for voluntary transitions towards a carbon-neutral, state-owned freight rail, port and pipeline company.

The summary SDO disclosures that follow are comparable to the disclosures in our prior years' reports. In 2021, we successfully reviewed the Transnet Sustainability Strategy, developed the Energy Management Roadmap and the Transnet environmental social and governance (ESG) tracking tool, which provides a high-level overview of ESG requirements from funders/investors, a high-level assessment of compliance with the International Finance Corporation's Performance Standards and Equator Principles, and also establishes ESG funding risks to prioritise action plans.

## Transnet Integrated Management System (TIMS)



King IV, P8

The TIMS was initiated as an enterprise-wide programme that aims to align and integrate governance-related processes and system elements within our ODs and Specialist Units where common implementation is present, particularly within the compliance environment. The programme seeks to synergise the objectives carried in the five tactical enablers, SDOs and ultimate integration with the SDGs. The development of the TIMS in 2016 sought to standardise and integrate duplicated efforts, reduce the cost of risk control, improve records management and increase the speed of decision making through a digital platform in a manner that is aligned to internationally renowned practices. This integrated approach enables Transnet, in view of its size and complexity, to simplify and standardise processes across its operations, allowing it to work as a single unit with unified objectives, thereby enhancing business efficiency and guaranteeing improvements in measuring and monitoring the performance of the entire organisation. To date, 18 core procedures have been developed, signed off and are currently being implemented across all ODs.

through which Transnet pursued a nationwide certification process in 2021, among other things. Cost control is one of Transnet's tactical enablers. The transversal certification process enabled us to reduce the existing certification cost of R22 184 564,67 to R6 659 323,00, a saving which accounts for approximately 69% of certification costs. Subsequently, Transnet was successfully certified on ISO 45001, ISO 14001 and ISO 9001, repositioning it as a global player.

We will continue on the TIMS journey to further unify and strengthen our digital transactional tools, enabling efficiency in decision making that is targeted at eliminating risks while strengthening our control environment. This will further be substantiated by TIMS' transversal projects that are aimed at simplifying and strengthening safety, health, environment, quality, risk, security and compliance among other business and governance processes in a cost-effective manner that supports our reorganisation journey and long-term strategic initiatives.

December 2021 marks the 12-month anniversary of TIMS certification. Going forward, we will periodically conduct ongoing surveillance audits of our three standards by the certification body. Our critical focus for the year ahead will be on continuous improvement and ensuring that we continue to comply with the ISO standards. An audit plan, which identifies sites to be audited, has been confirmed between Transnet and the certification body and will be rolled out going forward.

## SDO: Environmental stewardship



Transnet's Growth and Renewal Strategy is based on sound SDOs. As such, the Company aims to comply with and surpass regulatory requirements enshrined in the Constitution of South Africa of 1996, National Environmental Management Act, No 107 of 1998 and its associated regulations, international standards as well as internal policies and frameworks. We are guided by the objectives set out in the SDGs and the National Development Plan to reduce global water insecurity and climate change impacts, to prevent pollution, minimise waste and restore natural habitats, which could have been impacted by our operations.

### Water stewardship

Transnet strives to continuously improve its water usage and to reduce water-related impacts from both our internal and external value-chain operations. Accordingly, our water conservation efforts are directed by our Water Policy of 2017.

The Transnet Water Policy is key in managing our shared use of water resources with key stakeholders. Our long-term sustainability is premised on the positive development of our host communities and the protection of surrounding ecosystems. We continue to adopt a risk-based approach to drive water stewardship programmes. COVID-19 posed a critical risk to our water conservation initiatives in the increased requirement for hand hygiene protocols, which increased the Company's water usage.

### Our 2021 water stewardship performance in brief

- Water consumption from operations: 29 578 873 kℓ (2020: 28 189 517 kℓ)
- Water recycled: 351 375 kℓ (2020: 396 578 kℓ)

We continue to investigate innovative approaches to water demand and conservation management with the view to developing a Water Management Strategy and accounting system to guide operations and account for our water usage in a more structured manner. Accordingly, Transnet is currently implementing the following initiatives:

- Smart meter installation
- Implementation of leak detection programmes
- Augmenting municipal water supply with groundwater sources where possible
- Water audits
- Installation of low-flow shower heads with timers
- Rainwater harvesting
- Water recycling
- Waterless pressure testing

### Waste management

We continue to strive to reduce waste generation patterns across our operations, as espoused in SDG 12 and the National Waste Management Strategy 2020. Our current waste management priorities are centred around addressing historical contamination; the recovery of waste; recycling and reusing waste materials; and most importantly, the avoidance and minimisation of waste where possible. By its very nature, Transnet is a highly industrialised company and generates volumes of waste materials of different types and classifications. Regrettably, we have seen an increase in the quantity of general waste disposed at 53 829 tons (2020: 40 761 tons), and an increase of hazardous waste to 82 082 tons (2020: 48 141 tons).

Transnet continues to improve strategies to manage historical contamination within our operational areas. In alignment with the requirements of Part 8 of the National Environmental Management: Waste Act, No 59 of 2008 (Waste Act) and other applicable legislative requirements, we assess and carefully manage the risks of contamination to human health and the environment. Known and suspected contaminated sites are investigated and continuously monitored to manage potential impacts. In 2021, we received 25 Remediation Orders from the Department of Environment, Forestry and Fisheries (DEFF), which remediation orders direct and guide our remediation activities at the respective sites.

### Our 2021 waste stewardship performance in brief

- Asbestos removed from historical contamination: 274,34 tons (2020: 63,18 tons).
- Recycled waste: 30 723 tons
- Recycled used oil and fluorescent tubes:
  - a. Used oil: 340 kℓ
  - b. Fluorescent tubes: 1492,09 tons

### Biodiversity management

Transnet actively participates in biodiversity management initiatives to boost ecosystem productivity in environments where we operate. A draft Biodiversity Management Framework is currently under development.

### Our 2021 biodiversity management performance in brief

- Alien and invasive species eradicated: 2 338,65 Ha (2020: 1 413 Ha)

Table 22: 18 core procedures of the TIMS

001: Leadership	002: Policy	003: General Requirements
004: Operational Risk Management	005: Compliance Obligations	006: Objectives, Targets Programmes
007: Stakeholder Engagement & Management	008: Competencies Awareness & Training	009: Operational Planning and Control
010: Document, Data & Record Management	011: Product Lifecycle Management	012: Interface Management
013: Occurrence & Non-Conformance Management	014: Contractor Management	015: Integrated Assurance
016: Business Continuity Management	017: Human Factors Management	018: Continual Improvement

These procedures are guided by the International Organization for Standardization (ISO) standards requirements to which Transnet subscribes, which include ISO's Occupational Health and Safety Management System (ISO 45001:2019), Environmental Management System (ISO 14001:2015) and Quality Management System (ISO 9001:2015).

TIMS remains the flagship enabler for Transnet to manage risks from a unified approach and to identify transversal initiatives

Table 23: Eradication of alien and invasive species at Operating Divisions

Operating Division	Location	Benefits achieved (Ha)
National Ports Authority	Port of Durban	2 015
Freight Rail	Port Elizabeth depot	100,1
	Ladysmith depot	25
	Durban depot	124,1
	East London depot	63,5
	Kimberly South depot	11

### Environmental incidents

The National Environmental Management Act holds landowners and development proponents responsible for taking the required steps to control, remedy and/or rehabilitate areas where sudden and uncontrolled release of hazardous substances has occurred, which may cause harm to the environment, human lives and property.

### Our 2021 management of environmental incidents in brief

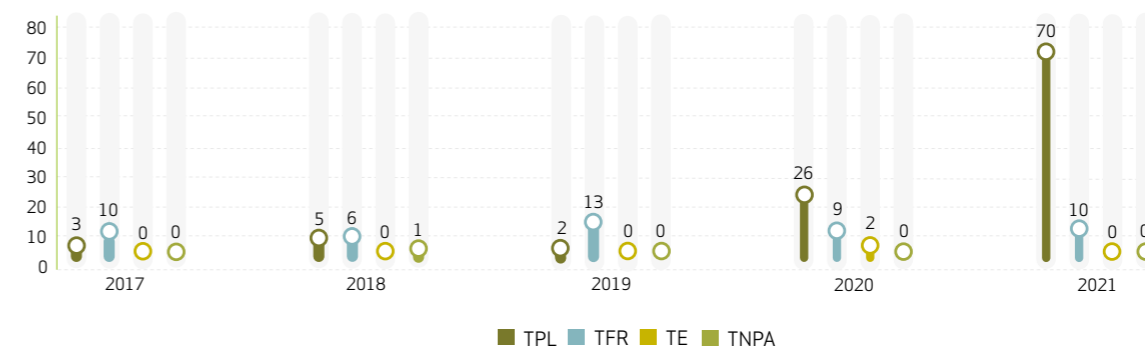
Over the past year, Transnet witnessed an unprecedented siege on its national assets, most predominantly the pipeline. The table below details the types of incidents, the receiving environments and the Company's responses.

Table 24: Summary of significant environmental incidents for 2021

Operating Division	Description	Receiving environment	Response
<b>Pipelines</b>	70 Section 30 incidents: <ul style="list-style-type: none"> <li>70 hydrocarbon spillages due to:                             <ul style="list-style-type: none"> <li>Third-party tampering with the pipeline; and</li> <li>Product theft in various locations in Mpumalanga, Gauteng, Free State and KwaZulu-Natal provinces.</li> </ul> </li> </ul>	Soil, wetland and water	<ul style="list-style-type: none"> <li>Emergency spill contract was activated to contain and recover the product from the spillages</li> <li>Incidents investigated and root cause analysis undertaken</li> <li>Site rehabilitation commenced</li> <li>Security measures implemented to prevent reoccurrence of the incidents</li> <li>All incidents were reported to environmental authorities, namely DEFF and affected municipalities as per section 30 of the National Environmental Management Act as well as to the Department of Water and Sanitation (DWS) as per section 20 of the National Water Act where required.</li> </ul>
<b>Freight Rail</b>	10 Section 30 incidents: <ul style="list-style-type: none"> <li>7 train derailments in Loliwe, Springs and Ermelo;</li> <li>1 transformer oil spillage in Springs;</li> <li>1 sewer spill in Ermelo; and</li> <li>1 diesel spillage in Queenstown.</li> </ul>	Soil and water	<ul style="list-style-type: none"> <li>Emergency spill contract was activated to contain the spillages</li> <li>Incidents investigated and root cause analysis performed</li> <li>Site rehabilitation commenced</li> <li>Continuous monitoring of all sites was undertaken</li> <li>All incidents reported to environmental authorities, namely the DEFF and affected municipalities as per section 30 of the National Environmental Management Act as well as to the DWS as per section 20 of the National Water Act where required.</li> </ul>
<b>Details of TPL Section 30 incidents</b>			
Number of spillage sites (due to theft or attempted theft)		• 70 (containment and recovery have been completed on all 70 sites)	
Number of sites where remediation is currently taking place		<ul style="list-style-type: none"> <li>1 site is being actively remediated</li> <li>69 of the 70 sites currently undergoing risk assessments to determine appropriate remedial actions</li> </ul>	

The graphs below reflect the radical increase in pipeline incidents from 2017.

Graph 3: Section 30 incidents on TPL's assets from 2017 to 2021



Transnet's responses to ongoing pipeline incidents include the following:

- Working persistently with law enforcement agencies and environmental authorities to finalise a multidisciplinary and multistakeholder security strategy to reduce ongoing thefts, acts of vandalism and to minimise related impacts on the environment and the business.
- Implementing of a risk-based strategy to manage the rate and quantum of spend on environmental remediation, as approved by the DEFF.
- Engaging with landowners who have been affected by spills to determine appropriate solutions to reduce the impact of spills. We provide opportunities for local communities to take part in the remediation work.
- Regular compliance audits identify and address non-compliance with standard operating procedures intended to safeguard the pipeline and rail network.
- Transnet's Environmental Management System is being embedded as a tool to prevent and enhance our compliance across all ODs.

### Air quality management

The main objective of the National Environment Management: Air Quality Act, No 39 of 2004 is to protect the environment and human health in a sustainable manner through the introduction of reasonable measures of air pollution control.

A number of Transnet business activities trigger the need to obtain Air Emission Licences (AELs). The application and renewal of an AEL is dependent on a number of factors, including Transnet's past non-compliance and adherence to licence conditions. Relevant Transnet business activities including, but not limited to the storage and handling of petroleum products; foundry operations; and storage, handling and transportation of iron ore, manganese and coal. Operating without a licence will draw a potential fine or imprisonment.

During this reporting year, we received three new AELs for Freight Rail's Ermelo Refuelling Facility in Mpumalanga and Masons Mill Refuelling Facility in KwaZulu-Natal as well as Pipelines' Tarlton Depot in Gauteng. For the existing AELs, we have air quality monitoring programmes that continually measure emissions from our operations. The data is made available as required to authorities and other stakeholders through our stakeholder engagement forums/platforms.

### Our 2021 air-quality management performance in brief

The AELs impose upon Transnet the requirement to monitor the air quality to ensure it does not exceed certain mandatory pollutant thresholds. We received 50 air quality-related complaints from communities, especially in and around the Saldanha Bay area. As part of our commitment to ensuring appropriate mitigation and adherence to the health-based ambient air quality standards, we acquired two additional dust suppressors in the Saldanha terminals, which will complement existing dust control equipment such as tippler sprayers, dust extraction systems, wetting sprays on the conveyor belts and water cannons.

Transnet has prioritised the adoption of an Air Quality Management Plan and the rollout of specific actions, which includes partnerships with research institutions to develop technologies to enable better measuring and control of air emissions within our operations.

### Managing our environmental impact through legal compliance

Transnet's ecological footprint extends across the nine provinces, and traverses various types of ecosystems, some of which are pristine or provide ecological functions that support surrounding communities. Given the extent of Transnet's operational footprint, and the evolving conditions and obligations of the progressive national legislative framework for environmental management, the Company's activities trigger numerous primary regulatory requirements. We continue to track and monitor our compliance with these regulatory requirements.

### Our 2021 environmental management performance in brief

- Five non-monetary sanctions (directives) for non-compliance with environmental laws and regulations were received.
- R400 000 in monetary fines for commencing with activities that require AELs.
- Our manganese AEL in the Saldanha operations was set aside by the Minister of Environment, Forestry and Fisheries after an appeal was lodged by interested and affected parties regarding the requirement for an environmental authorisation for the storage warehouse that was constructed. Transnet has commenced with the rectification process to obtain the environmental authorisation for the manganese operation warehouse. Further details will be reported in the 2022 reporting period.

## Climate and energy management



The Paris Agreement on Climate Change was adopted in December 2015. Countries, including South Africa, committed to keeping global temperature increases below 2 °C above pre-industrial levels while trying to limit temperature increases to 1.5 °C. The Intergovernmental Panel on Climate Change (IPCC) assessment of how the impacts of a 1.5 °C temperature limit differs from 2 °C, in addition to the differences between emissions pathways for achieving these two temperature goals found that the world will face severe climate impacts even with 1.5 °C of warming, and the effects get significantly worse with 2 °C.

The world has already witnessed approximately 1 °C temperature rise and is on track to exhaust the carbon budget associated with the 1.5 °C by 2030. With the accelerating risk of exceeding the 1.5 °C thresholds, efforts to reach a Net Zero Emissions (NZE) future have fast become critical for businesses, governments and non-governmental sectors. While several initiatives are underway to respond to this acceleration in South Africa, two critical initiatives lead the Just Transition discourse, namely the government-led Presidential Climate Change Commission and the business-led

National Business Initiative (NBI)/Business Unity South Africa (BUSA). Transnet is an active participant in both initiatives.

Transnet's Climate Change Transition Plan is categorised according to the following areas:

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

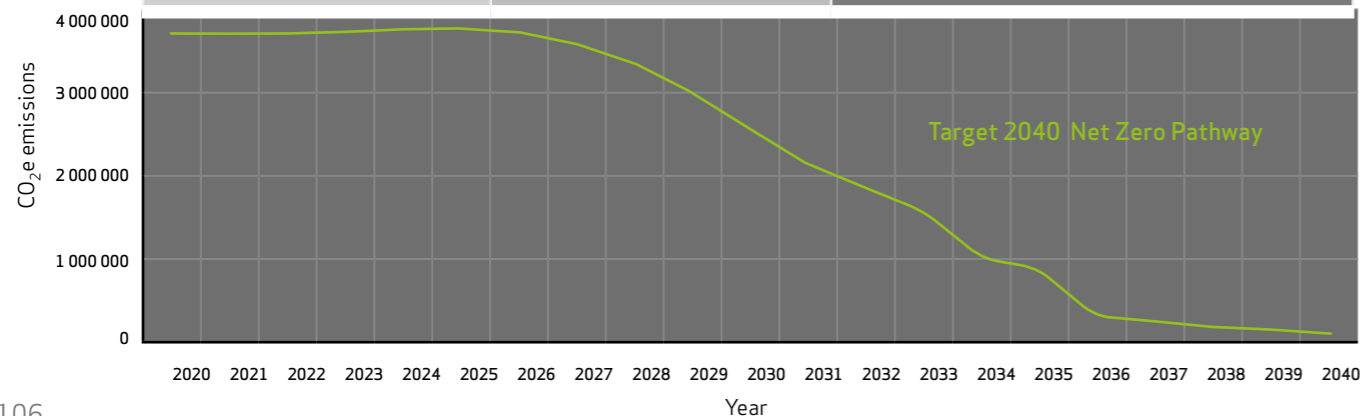
### Transnet Net Zero Pathway 2040

In its own efforts to contribute meaningfully to a net zero future, Transnet has set an ambitious target to reach NZE by 2040 (please see the NZE pathway graphic below). To achieve this far-reaching goal, the pathway will require significant transformation of Transnet's own energy landscape and that of the South African Just Transition journey to reach the global NZE target by 2050. Our focus will henceforth be on collaborating with the private and public sectors to catalyse biofuels and green hydrogen as primary mitigation measures for Transnet's Scope 1 emissions and to support new energy industries in the country. Further, Scope 2 emissions will be addressed by supporting the national transformation of the energy sector as well as the significant scaling up of renewable energy within the Transnet energy system. The transformation of the business operations in response to a Just Transition will be shaped by the Transnet segment strategies and PSPs approach as envisioned by Transnet's Growth and Renewal Strategy.

### Target 2040 Net Zero Pathway

Support the decarbonisation efforts of the national grid to achieve a Just Transition

2020	2025	2030	2040
Building capacity and capabilities to roll out <b>energy management</b> across the business	Implementation of <b>energy management</b> contributes 5% of emissions reduction	Implementation of <b>energy management</b> contributes 20% of emissions reduction	
Establish institutional linkages, procurement and delivery mechanisms for <b>renewable energy</b> rollout	Roll out of Rooftop Solar PV reaching maturity <b>Large-scale renewables</b> programme in planning	<b>Large-scale renewables</b> rollout including ground-mounted Solar PV, Onshore Wind, Offshore Wind with co-benefits to communities, hydrogen economy and desalination facilities	
Market studies to be conducted to understand the dynamics of a future <b>biofuel</b> industry	Collaborate to catalyse a <b>biofuel</b> industry	Offtake agreements in place to meet net zero targets of 5% <b>biofuel</b> drop in the locomotive fleet in 2039	
Market studies to be conducted to understand the dynamics of a future <b>hydrogen economy</b>	Collaborate to catalyse a green <b>hydrogen economy</b>	Offtake agreements in place to meet net zero targets of 20% green hydrocarbon drop in the locomotive fleet in 2039	



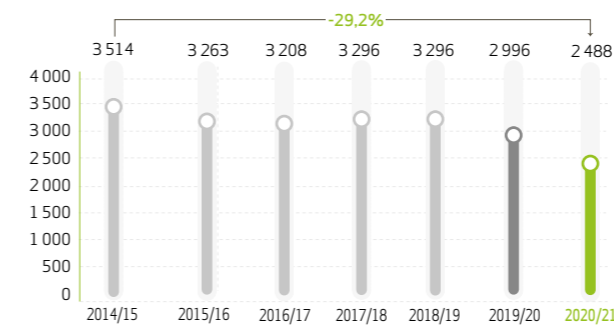
Energy costs in South Africa have escalated by more than 300% over the past decade as the country struggles with significant load shedding challenges and a new-generation capacity expansion build programme, which together have caused serious energy security concerns for the country and for Transnet. As such, we continue to develop our renewable portfolio with storage for backup purposes as well as to reduce dependence on grid electricity. Transnet will continue to play a pivotal role in converting natural gas to electricity as this requires enabling logistics infrastructure through the port terminals. As such, the Company has planned for liquefied natural gas (LNG) to be imported through the ports of Richards Bay, Ngqura and Saldanha Bay.

### Our 2021 climate and energy management performance in brief

#### Electricity consumption

Transnet's total electricity consumption over the period 2015 to 2021 decreased by 29,2% from 3 514 GWh in 2015 to 2 488 GWh in 2021. Please note marginal changes in the previous year's performance due to an update in the GHG emissions factors.

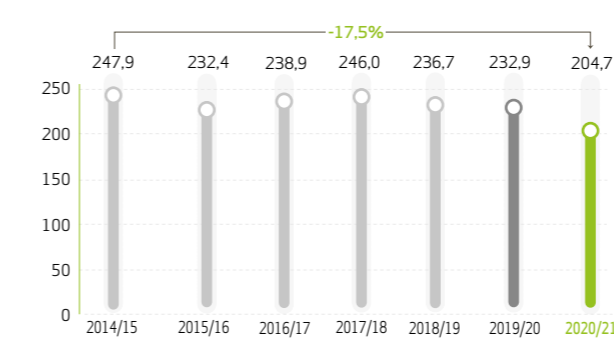
Graph 4: Electricity consumption [GWh]



#### Fuel consumption

Transnet's total fuel consumption over the period 2015 to 2021 decreased by 17,5% from 247,9 megalitres in 2015 to 204,7 megalitres in 2021.

Graph 5: Fuel Consumption [Mlitres]



### Carbon footprint

Transnet's total carbon emissions (tCO<sub>2</sub>e) over the period 2015 to 2021 decreased by 25,7% from 4,34 tCO<sub>2</sub>e in 2015 to 3,22 tCO<sub>2</sub>e in 2021.

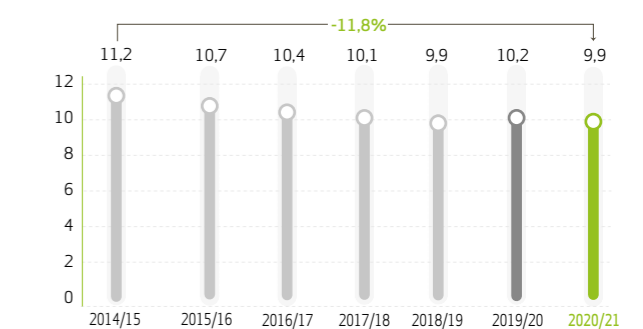
Graph 6: Carbon footprint [tCO<sub>2</sub>e]



### Emissions intensity

Transnet's carbon emissions intensity over the period 2015 to 2021 decreased by 11,8% from 11,2 kgCO<sub>2</sub>/ton in 2015 to 9,9 kgCO<sub>2</sub>/ton in 2021.

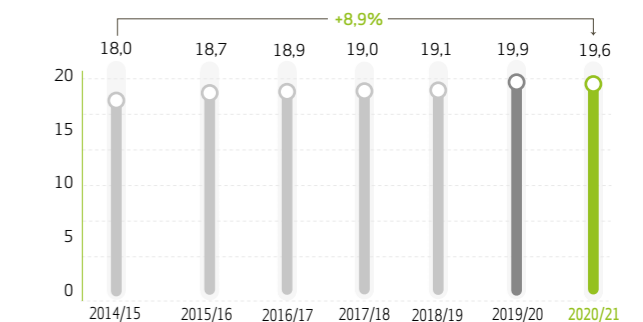
Graph 7: Emissions intensity [kgCO<sub>2</sub>/ton]



### Energy-efficiency performance

Transnet's overall energy efficiency (ton/GJ) over the period 2015 to 2021 improved by 8,9% from 18,0 ton/GJ in 2015 to 19,6 ton/GJ in 2021.

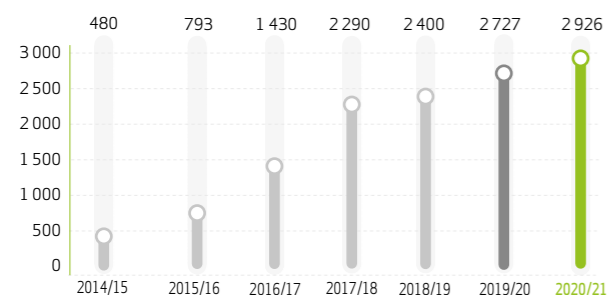
Graph 8: Energy efficiency [ton/GJ]



### Road-to-rail carbon emissions saved collectively

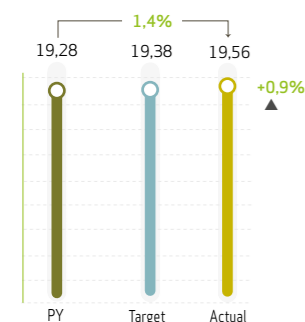
Transnet's cumulative carbon emission savings from road to rail over the period 2015 to 2021 was 2 926 tCO<sub>2</sub>e.

Graph 9: Road-to-rail carbon emissions saved [tCO<sub>2</sub>e]



The overall group energy-efficiency performance for 2021 recorded a 1,4% improvement against the previous year and 0,9% improvement above the Shareholder's Compact target.

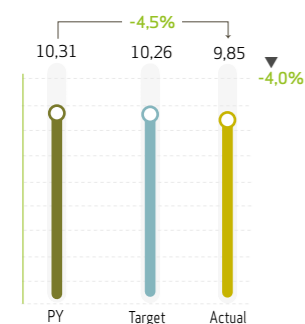
Graph 10: Group energy efficiency for 2021 [ton/GJ]



### Carbon emission intensity

When assessed against the Transnet Shareholder's Compact agreement on the total carbon emissions intensity (kgCO<sub>2</sub>e/ton), we recorded a 4,5% decrease against the previous year and 4,0% above the Shareholder's Compact target for 2021.

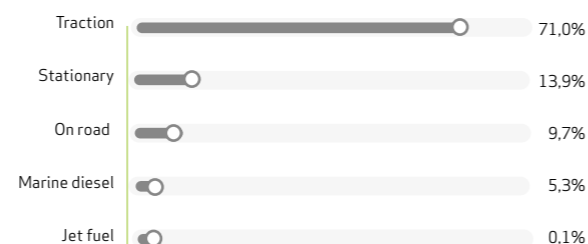
Graph 11: Carbon emissions intensity for 2021



### Diesel consumption

A total of 204,7 megalitres of diesel consumption has been recorded in the FY2020/21. This accounts for 46% of the total energy consumption. Of the total fuel consumption, 71,0% was used for Freight Rail diesel traction; 13,9% on home-based fuel; 9,7% on road vehicles; 5,3% on marine diesel; and 0,1% on jet fuel.

Graph 12: Fuel distribution for 2021



### Electricity consumption

A total of 2 488 172 MWh of electricity consumption has been recorded for this reporting period. This consumption makes up to 54% of Transnet's energy needs from Eskom and municipalities.

### Electricity distribution

We have recorded that 72,9% of electricity was used for Freight Rail traction and the remainder of Transnet's properties, ports, pipelines and engineering operations.

Graph 13: Electricity distribution



### Socio-economic development



Transnet, as a SOC, was incorporated in terms of the Companies Act, 2008 to accelerate sustainable socio-economic development and to improve the quality of life of the people of the Southern African Development Community. This mandate is mainly carried out by driving financial and non-financial investments in the social and economic infrastructure sector. As part of Transnet's new Growth and Renewal Strategy, private sector partnerships will help to escalate positive socio-economic development outcomes for South Africa.

Transnet has rolled out various capital investment projects and programmes in support of Government's growth strategy. Investment in infrastructure is a key enabler of the New Growth Path's targets. The quantum of our infrastructure capital expenditure, which was mainly geared at initiatives such as Operation Phakisa, Section 56 PSPs and Corridor Expansion Projects, was used as a key input into estimating the Company's macroeconomic impact in the South African economy and regionally. Transnet's macroeconomic impact was evaluated using a general equilibrium economic impact model, with the Social Accounting Matrix (SAM) as a basis.

The SAM forecasts various socio-economic impact parameters to be realised through the implementation of projects as follows:

- Job opportunities for the unskilled and skilled sectors of the economy
- Estimations of financial impact on households in the respective project areas
- Per capita GDP contributions
- Skills development potential
- Enterprise and Supplier Development through localisation targets as one of the approaches

Through the use of the SAM model, Transnet's socio-economic benefits were realisable through the creation of employment and enterprise opportunities in various regions across South Africa. An estimated total of 46 360 job opportunities were to be induced as part of the overall impact of the capital injection into the economy. While we boast the achievements realised through our capital injection into the economy, we also recognise that there are areas of improvement required to embed monitoring capability into the SAM model to enable continuous tracking of the benefits across individual projects. This will strengthen our ability to report factual and verifiable statistics going forward. One of the key initiatives in the year ahead will be to review and improve the SAM model. This will assist us to use the model for project performance evaluation and monitoring of the immediate and residual impacts of our initiatives.

### SDO: Community development



At the core of the SDGs is the ultimate objective of ensuring the long-term transformation, improvement and continuous betterment of the livelihoods of all people. The nexus and interrelatedness of all 17 SDGs with people and social emancipation are evidence of this aspirational SDO.

The Transnet Foundation is the custodian of all the Company's CSI initiatives. We take careful precautions when selecting beneficiaries under our community development programmes. Selection is based on a comprehensive needs analysis undertaken within and in collaboration with the different communities. The basis of this approach is the appreciation that initiatives aimed at stabilising social challenges should be carried out with an in-depth appreciation of the respective social contexts. In 2021, Transnet invested R112,2 million (2020: R163,35 million) in community development initiatives across South Africa. The investment constituted R107,7 million in planned initiatives in the areas of health, education, sport, employee volunteerism and socio-economic infrastructure development. An unplanned, but critical amount of R4,5 million was invested in COVID-19 food relief efforts.

Given the challenges of COVID-19, Transnet expanded its commitment to community healthcare by extending the reach of its Phelophepa I and II Healthcare Trains into the Gauteng province, with the trains now servicing all nine provinces. We also collaborated closely with the Department of Health to temporarily join with the provincial governments of KwaZulu-Natal and the Eastern Cape to scale up their COVID-19 screening and testing efforts. The experience of reaching communities located in remote areas that ordinarily have limited access to healthcare facilities remains ever humbling. Our lessons learnt will be used as critical input for future considerations for expanding the healthcare train service to those who reside in remote areas of our country.

We recognise that the ravaging impacts of COVID-19 are far from over. As such, the Phelophepa I and II Healthcare Trains are going into 2022 armed with plans to support Government's COVID-19 vaccine implementation plans. In addition to its normal health services, the Phelophepa I and II Healthcare Trains will add COVID-19 vaccine administration to their service offerings. Through Transnet Engineering's R&D, two coaches will be retrofitted into vaccine storage facilities, which will be added onto the existing Phelophepa I and II Healthcare Trains. The two coaches will have the added capability of storing and transporting vaccines, even those requiring ultra-low temperature storage conditions. Collectively, these initiatives are an indicator of Transnet's commitment to partnership with Government to restore the state of good health in South Africa.

Notwithstanding the Phelophepa I and II Healthcare Trains, the Transnet Foundation is poised to receive a new train called Transvaco. This newly built train was specially designed and built by Transnet Engineering to further strengthen the transportation of bulk COVID-19 vaccines to far flung and remote areas. Transvaco was modelled on the existing Phelophepa I and II Healthcare Trains to provide fully fledged vaccination services.



### Our 2021 community development performance in brief

Notable material outcomes have been realised across the Company's CSI portfolio's focus areas as follows:

#### Healthcare

##### Phelophepa Healthcare Trains I and II

- R85,56 million was invested in comprehensive primary healthcare services to an estimated 237 762 (2020: 105 565) patients from communities along the rail corridor through the use of the Transnet Phelophepa I and II Healthcare Trains.
- Phelophepa I and II Healthcare Trains created 4 845 temporary jobs during the reporting period.

Table 25: Beneficiaries reached by Transnet's Phelophepa I and II Healthcare Trains in 2021

Phelophepa Healthcare	2021	2020	2019
Investment in the Phelophepa Healthcare Trains	R85,6 million	R100,2 million	R88,4 million
Patients registered for healthcare services	237 762	105 565	131 865
Patients receiving medication through the on-board pharmacies	7 953	39 531	55 468
Patients receiving health clinic services	11 368	49 985	66 913
Patients receiving dental clinic services	4 631	21 095	24 264
Patients receiving eye clinic services	9 069	37 477	46 712
Patients receiving counselling	567	1 478	1 894
Individuals assisted through outreach	12 674	357 323	452 866
Volunteers trained on preventative healthcare at Edu-clinics	361	6 339	6 591
COVID-19 community screening and testing	197 215	-	-

#### Funding of NGOs to support the national food relief efforts during COVID-19

- More than 15 000 households were provided with essential food nutrition hampers across all provinces in the country.
- Through collaboration with Sasol, Transnet facilitated the donation of over 27 000 litres of hand sanitising liquid to distressed health facilities across the country.
- Approximately 17 000 health packs, comprising multivitamins and a 500 ml hand sanitising liquid were distributed by Transnet to various individuals in impoverished communities.

#### Teenage health programmes

The vulnerability of South African youth and teenagers remains one of South Africa's most debilitating social sustainability challenges. Unabated youth vulnerability could mean a protracted economic crises risk to South Africa and may nullify efforts to build a resilient future generation. As such, the Transnet Teenage and Youth Health and Development Programme provides an integrated and streamlined basket of health and developmental services for the younger populace.

Although the programme is intended for a much wider service offering, we recorded the following rollout activities for teenage boys and girls during the 2021 reporting period:

Table 26: Teenage and Youth Health and Development Programme beneficiaries

	2021
Number of adolescents receiving integrated basket of health and developmental services	974
Teenage health spending (R million)	0*

\* Nil saving was due to use of mainly donations.

#### Educational initiatives

##### Transnet Whole School Development Programme (WSDP)

Transnet continues to lead key educational initiatives that improve academic outcomes for South Africa's youth. Outcomes include, but are not limited to, the provision of bursaries, supporting technical colleges, teacher development, infrastructure development, learner support, and providing comprehensive support to academically deserving, financially needy and vulnerable orphaned youth.

The Transnet WSDP is an integrated programme focusing on a holistic approach to develop schools to become optimal functioning institutions in respect of general administration, good governance, an enabling environment for both teachers and learners, improved academic performance and learner well-being.

Table 27: Performance of Transnet's WSDP in 2021

WSDP	2019	2020	2021**
Investment in the WSDP	R48,9 million	R24 million	R16 500 (includes orphaned and vulnerable children)
South African Football Association (SAFA/Transnet) School of Excellence		R20,4 million	R15 million
The number of provinces enrolled in the programme	9	9	9
Schools forming part of the programme	287	110	180
The number of schools selected to participate in the provincial and national sports tournaments	50	133	None
Learners participating in the provincial and national sports tournaments	25 000	4 500	None (focus is on chess due to COVID-19 regulations; beneficiary schools were provided with chess equipment)
Vulnerable and orphaned youth receiving assistance	37	35	38 (5 new beneficiaries from sports portfolio)
Graduates participating in international football teams	4	4	None
Graduates participating in national football teams	62	62	2
Learners enrolled in the WSDP programme	119	120	120

\*\* KPIs not met due to contact sport/activities put on hold due to COVID-19 restrictions.

#### Transnet Foundation Orphaned Youth Education Programme

This programme targets academically gifted students: 50 young people benefitted from the programme during 2021.

While the programme focuses on providing youth with educational support, it also aims to empower well-rounded individuals who can make informed decisions, have a solid work ethic and who are optimistic about the future. From the first group of Grade 9 learners initially selected for the programme, nine have since completed their tertiary studies and four are part of the Transnet Young Professionals in Training Programme.

In total, 37 young people remain in the programme, with 32 enrolled for studies in different disciplines ranging from Accounting, Biotechnology, Physics and Chemistry, ICT Programming, and Education. They are enrolled in 15 institutions of higher learning spread across five provinces, namely Eastern Cape, Gauteng, KwaZulu-Natal, North West and Western Cape.

#### Education Development Trusts

Transnet participates in Education Development Trusts, which are legal entities in partnerships with the Provincial Departments of Education. The Trusts are situated in six provinces (i.e. Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo and Mpumalanga) and deliver educational initiatives aligned to the provincial departments' mandates on education. Initiatives include supporting Science Centres and Education Resource Centres, the

development of school infrastructure, various district improvement programmes, online learning and teaching, and teacher development. The advent of COVID-19 shifted the Trusts' focus towards providing COVID-19 relief programmes and infrastructure development. However, the easing of the National Disaster Management Act regulations has allowed us to continue providing material development for early childhood development (ECD) initiatives and tertiary sponsorships.

#### Employee volunteerism (EV)

The Transnet EV programme enables Transnet employees to use their specific skills to contribute in meaningful ways to our CSI mandate and developmental outcomes. The EV programme aims to support developmental needs of communities and to empower civil society organisations through skills transfers and the provision of labour, thereby offsetting the costs of doing business by these organisations.

Material outcomes of the EV programme include:

- Creating shared value between communities and Transnet;
- Leveraging employee skills and human capital;
- Creating sustainable communities through direct skills transfer to beneficiaries; and
- Enhancing Transnet's reputation as a good corporate citizen.

Transnet is currently creating a Virtual Volunteering Platform (VVP) (website) where accredited NGOs/NPOs can promote their needs and invite volunteers to respond.

## Our 2021 EV performance in brief

Table 28: 2021 EV programmes and impacts

Initiative	Location	Economic and social impact	Rand value
Motherwell Lifestyle Boxes	Motherwell Township - Gqeberha (Eastern Cape)	37 entrepreneurship opportunities created for direct and indirect beneficiaries through direct and online trading. EV in collaboration with the Nelson Mandela Bay provided business skills, mentorship and training	R1 828 694 (Spend allocation for a period of three financial years)
Voluntary COVID-19 Payroll Giving Campaign	National	Transnet employees contributed half a million rand towards COVID-19	R608 991
Itumeleng Recreational Grounds	Jagersfontein (Free State)	Provided conducive and dignified soccer field for young people	R1 228 596
Relebogile Recreational Grounds	Luckhof (Free State)	Recreational facility to provide constructive and healthy recreational activities for young people	R1 707 166
Mapoteng Soup Kitchen	Kathu: Sishen (Northern Cape)	Improved the facility to provide meals for at least 500 citizens daily	R307 154

In addition to the above initiatives, the EV programme volunteered services to the De Aar Youth Precinct in the Northern Cape. Social impact realised included development of educational and recreational facilities for young people as well as a registered Child and Youth Care Centre. The programme further provided educational and social programmes aimed at drawing young people away from engaging in self-destructive behaviour and channelling them towards becoming economically and socially productive and responsible citizens. In total, 13 young boys who were formally living on the streets have been successfully reintegrated with their families as a result of this programme.

### Socio-economic and infrastructure development (SEID)

The development of quality, sustainable and resilient infrastructure as espoused in SDG 9 forms one of the centrepieces of the Transnet SEID portfolio. As such, we aim to provide infrastructure for social, health, safety and entrepreneurial programmes to contribute towards resilient communities where we operate. Priority is given to areas that are rural and historically disadvantaged.

Table 29: SEID initiatives for 2021

SEID	2021	2020	2019
People benefiting from SEID initiatives along our servitudes	28 000	39 859	37 261
Investment in the SEID programme	R4,8 million	R3,1 million	R6,6 million
SMMEs established	10	0	2
SMME members trained	0	14	21
Food distribution programme beneficiaries	47	59	162
Adult Basic Education and Training (ABET) beneficiaries	0	0	2

COVID-19 impacted two of the above key performance areas (i.e. SMMEs established and ABET beneficiaries). The success of these initiatives is premised on contact training, which was prohibited during the national lockdown period. Notwithstanding these challenges through strategic partnerships the SEID programme reached more than 500 community members, strengthened our relationships with local stakeholders, and improved our referrals and response turnaround times. Complex cases are continuously being referred to partner municipalities' social workers for further handling.

Accordingly, we have set up functional and community-operated support centres to facilitate community engagement and to render a wide range of social services to the beneficiary communities. We aim to expand our services to identify local businesses that can be channelled to receive support via the Transnet Enterprise and Supplier Development. We are pleased to report that the Thokoza Centre has shown much success since it was established in December 2020, now targeting 150 community members and realising the following material outcomes:

- Khuma Community Centre: Food garden cooperatives donate monthly produce to indigent families
- Thokoza Food Garden: Food garden cooperatives donate produce to indigent and bereaved families
- Thokoza and Springs Centres: Centres provide work spaces for the Department of Correctional Services to conduct parole administration - 45 parolees have been assisted

Our key focus for 2021 was the provision of social welfare services, as well as COVID-19 awareness and Gender-Based Violence programmes. During the year, we rolled out the following initiatives:

## SDO: Skills development



Transnet continuously assesses the Company's current organisational skills and competencies against the required "skills for the future" in order to understand and respond to gaps and to harness new opportunities. As a SOC, we take guidance from the National Skills Development Act, No 97 of 1998; the Sector Education and Training Authority (SETA); and the National Skills Development Strategy.

Recent reports from Stats SA show that a staggering 55,75%<sup>1</sup> of South Africa's youth are unemployed. With the COVID-19

pandemic, youth unemployment is set to rise much higher than these statistics suggest, presenting one of the most intractable challenges that South Africa as a whole is and will continue to face, unless all role players join in efforts to play a part towards reducing this national scourge. We are proud to report that in 2021, Transnet's investments yielded 1 072 opportunities for on-the-job training, mentoring and coaching for unemployed youth with disabilities through targeted training via TVET Colleges (Technical and Vocational Education and Training). Further, Transnet exceeded its overall target for sector-specific training despite the COVID-19 pandemic.

### Our 2021 skills development performance in brief

- Transnet Schools provided training to 1 396 trainees, surpassing the annual target of 1 002.
- A total of R695 820 218 was spent on skills development.
- Full 25 points of B-BBEE skills development points achieved, which assisted the organisation to be on Level 2.

Table 30: Skills development programme performance

Programmes	KPI	2020		2021		
		Performance	Input (ZAR spent)	Performance	Annual target	Input (ZAR spent)
Training spend	% of training spend	2,7%	R764 000 000,00	1,6%	2,5%	R462 682 639,00
<b>Apprentice programme</b> A work-based learning under the supervision and guidance of a skilled, qualified artisan with an employer	Number of new trainees	288	R18 311 910,38	200	200	R18 786 031,06
	Number of artisans who completed training	399		163		
<b>Technicians-in-Training</b> Individuals who have successfully completed a National Diploma in Engineering studies at a university of technology, undergoing an 18-month structured development programme	Number of new trainees	79	R91 362 802,77	53	70	R106 062 060,68
<b>Engineers-in-Training</b> Graduates who have completed an Engineering degree at a university, undergoing a two-year structured development programme	Number of graduates	216	R114 355 649,08	253	150	R110 106 023,85
<b>Young Professionals-in-Training</b> Young graduates in non-technical fields receiving workplace experience and skills	Number of graduates	238	R47 896 063,76	276	150	R52 800 056,89
<b>Chartered Accountants Training Programme</b> Graduates who have successfully completed an accounting degree at a university, undergoing a three-year chartered accountant programme	Number of chartered accounting trainees	7	R3 932 636,83	7	8	R2 115 661,80

<sup>1</sup> <http://www.statssa.gov.za/>

Programmes	KPI	2020		2021		
		Performance	Input (ZAR spent)	Performance	Annual target	Input (ZAR spent)
<b>Technical learner</b> Individuals who are participating in a practical technical learnership (P1, P2), work-integrated learning in order to obtain a qualification, who have been awarded a stipend from Transnet	Number of new technician learners	200	R13 930 631,00	180	200	R16 243 531,00
	Number of technician learners completed	207		15		
<b>Engineering bursars</b> Individuals who are registered for a four-year BEng/BSc Eng degree to which a full-time bursary has been awarded; and other bursaries	Number of new bursars	60	R33 609 275,00	60	60	R28 592 937,00
	Number of bursars in the system	403		402		
<b>Non-technical bursars</b> Individuals who are registered for a non-technical degree						
<b>Other bursaries</b> • Non-technical bursar • National Diploma technical bursar This includes trainees across ODs, i.e. Engineering, Freight Rail, Pipelines and Ports	Number of other bursars	65		66	40	
<b>Learnership development programmes</b> Call centre, professional driving, health and safety, POS, youth unemployment programme	Number of youth enrolled in the programme	20	R453 997,10	43	20	R1 890 330,47
<b>Marine Cadet*</b> Individuals who are participating in a practical learnership in the marine field	Number of marine cadets trained			149	**	R17 316 102,58
<b>Sector-specific training</b>	Number of trainees who completed training (Engineering)	2 088	R70 134 200,06	1 396	1 052	R30 236 744
	Number of trainees who completed training (Rail)					
	Number of trainees who completed training (Pipelines)					
	Number of trainees who completed training (Port)					

\* New approach for target setting being developed and will be effected in the next reporting period.

## SDO: Health and safety



### Safety

The five key tactical enablers position safety as a business imperative, which is a notable transition from a historical context where Transnet lacked a formal safety strategy. The adoption of the Transnet Safety Strategy 2020 is a key step to remedying the historically reactive safety culture, and to transition Transnet towards safety maturity. To this effect, a Safety Department has been established at Corporate Centre with the mandate to develop an operating model and an appropriate structure, establish

governance principles and recruit resources to enable the Safety Strategy.

We continue to encourage our stakeholders to abide by our rigorous safety procedures and safety interventions, which include level-crossing blocks, safety billboards, public awareness campaigns and awareness campaigns at schools. Regrettably, Transnet has to report the unfortunate loss of four of our colleagues and 95 members of the public to fatal operational accidents.

### Our 2021 safety performance in brief

- Disabling injuries: 424 (2020: 517)
- DIFR: 0,61 against tolerance of 0,75 (2020:0,73)
- Fatalities resulting from level-crossing accidents reduced by 13% to 95 fatalities (2020: 109)
- Running line derailments: 70 (2020: 88)
- Shunting derailments: 122 (2020: 147)

Table 31: DIFR figures were recorded per Operating Division:

Operating Division/ Business	Disabling injuries			DIFR		
	2020/21	2019/20	2018/19	2020/21	2019/20	2018/19
Freight Rail	286	339	342	0,77	0,88	0,90
Engineering	72	97	82	0,66	0,82	0,66
Port Terminals	55	59	61	0,48	0,54	0,52
National Ports Authority	10	12	20	0,21	0,25	0,41
Pipelines	0	8	2	0,00	0,70	0,18
Transnet Corporate Centre	0	0	1	0,00	0,00	0,19
Transnet Property	1	2	0	0,04	0,09	0,00
Group	424	517	508	0,61	0,73	0,71

Transnet intends to continue to improve its safety record. In the year ahead, we intend to implement the following safety initiatives to improve safety performance in a structured and measurable way:

- A Safety Framework to guide the organisation on how to manage safety within an ever-changing work environment
- A level-crossing working group focusing on a multistakeholder approach to mitigating community level-crossing accidents
- An Emergency and Disaster Management system to identify and mitigate safety risks associated with disaster events
- A Safety Executive subcommittee of Group Exco to encourage leadership to collaborate across all Transnet operations in instilling safety vigilance and preventative actions
- A formal Visible Felt Leadership programme to ensure leadership participation in safety discussions, processes and monitoring, and to inspire an attitude of 'Zero harm to self and others'
- A review of the occurrence management processes to be more proactive, predictive and holistic

These conditions included:

- High blood pressure
- HIV
- Non-insulin dependent diabetes (type 2)
- Hyperlipidaemia
- Clotting disorders
- Asthma
- Ischemic heart disease
- Hyperthyroidism
- Depression
- Bipolar disorder
- Cardiac failure
- Epilepsy
- Schizophrenia

In response, our Employee Assistance Programme (EAP) has been extended to add service offerings across all 11 official South African languages. The EAP operates continuously for 24-hours, providing assistance to employees and their immediate family members. The number of employees taking up the service has grown substantially over the 2020/2021 reporting period. To a large degree, this has been attributed to the COVID-19-related engagements. Most support services related to either employees or their family members testing positive for COVID-19.

### Employee wellness

The Transnet Occupational and Employee Wellness Policy is closely aligned with the Company's COVID-19 management interventions during the year. The policy prioritises chronic disease management in light of the high risks of exposure to COVID-19. It was disappointing to observe a relatively high increase in chronic conditions amongst the Transnet workforce.

Graph 14: Top-presenting wellness matters resulting from COVID-19, as revealed by the EAP

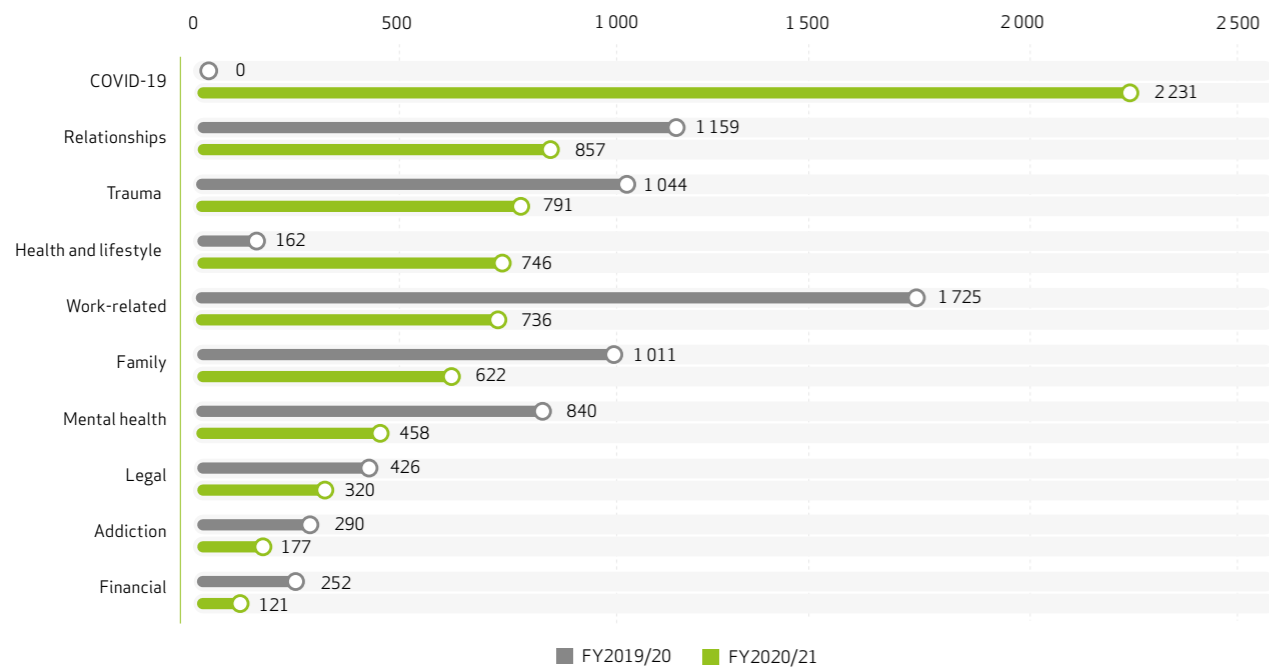


Table 32: Rollout of screening and testing of Transnet employees

Free testing	SARS-CoV-2 PCR tests	Number of tests conducted	Cost of testing to Company	Reputable laboratories	Confidentiality of medical information
Free COVID-19 testing to employees, including facilitation of primary healthcare, wellness support and related logistics that enabled testing	Employees were tested when: <ul style="list-style-type: none"> <li>Presenting with COVID-19 symptoms</li> <li>Identified as primary contacts for people who had tested positive, be it at work or at home</li> <li>Following cross-border travelling</li> </ul>	Up to 6 429 SARS-CoV-2 PCR tests were conducted in the period ending 31 March 2021	The combined cost of COVID-19 tests by service providers amounted to R3,6 million  Allocated cost: <ul style="list-style-type: none"> <li>R5 million</li> <li>Lancet: R3 million</li> <li>Ampath: R591 536</li> </ul>	Lancet laboratories and Ampath laboratories were contracted to provide testing services at their labs (mobile services were availed for onsite testing)	Transnet's occupational medical practitioners played an oversight role to ensure confidentiality of medical information as required by the POPIA

Transnet endured significant productivity losses due to COVID-19. These losses were coupled by a reduction in the Company's revenue base due to numerous market factors over and above those caused by the impacts of lockdown restrictions, such as an increase of volumes from rail to road and other rail challenges including theft and derailments. The cost and quantum of productivity losses will be closely monitored and remediated to mitigate the impact on the organisation's revenue generation.

Transnet's health and wellness performance for the 2021 year relative to the previous year is detailed in the table below.

Table 33: Transnet's health and wellness performance for 2021

Health and wellness performance	2021	2020
Unplanned absenteeism rate	3,22%	3,58%
Sick absenteeism rate	2,73%	2,94%
Overall unplanned leave cost	R632,2 million	R701,2 million
EAP: Face to face (number)	9 585	7 111
EAP: Telephonic	7 802	3 977
Sick leave cost	R526,4 million	R372,6 million
Wellness awareness sessions for employees	18	210
Hours allocated to health and education training engagements	300	300

### SDO: Employment



As South Africa continues to grapple with a number of sustainability issues including inequality, poverty and unprecedented levels of unemployment, Transnet is undoubtedly one of the critical stakeholders to adopt a holistic approach to dealing with these sustainability issues while manoeuvring to retain its competitiveness and relevance in the future of South Africa. Our holistic approach encapsulates the objectives contained in the National Development Plan, National Strategic Framework for Sustainable Development and SDG 8, both of which seek to transform the socio-economic landscape like creating and sustaining jobs and introducing new employment opportunities. The essence of these frameworks is sacrosanct in the Transnet Human Capital Strategy of 2020. Our renewed approach to how we deliver our mandate and build resilience in a post-COVID-19 world put emphasis on private sector partnerships. We are confident that our collaboration through our segment strategies will continue to enhance the critical developmental outcomes including employment in the country.

### Our 2021 employment performance in brief

Total headcount has reduced from 56 414 in 2020 to 55 827 for the year under review. This shows a 1,04% reduction which is attributable to the leadership changes and reorganisation to drive the new Transnet Strategy. The numbers also reflect a sad reality of employees who succumbed to COVID-19. We remain committed to the ongoing safety of our employees in the fight against this pandemic.

Table 34: Summary of employee headcount by OD

	2021	2020
Transnet Corporate Centre	882	609
Transnet Freight Rail (TFR)	29 964	29 714
Transnet Engineering (TE)	9 893	10 328
Transnet National Ports Authority (TNPA)	4 249	4 165
Transnet Port Terminals (TPT)	9 707	9 596
Transnet Pipelines (TPL)	709	711
Transnet Group Capital (TGC)	0*	879
Transnet Property (TP)	435	412
<b>Total headcount</b>	<b>55 827</b>	<b>56 414</b>

\* Note: Following the reorganisation of the business, all TGC employees were migrated to other ODs so as to build capacity within the respective ODs.

Of the total headcount, an estimated 32,6% of our workforce falls within the youth category (<35 years), 57,2% are in the 36 to 55 category and 10,2% are 56 to 63 years old as reflected below:

Table 35: Employee by age distribution

	2021		2020	
	Actual number of category employees	% of the overall workforce	Actual number of category employees	% of the overall workforce
63 years	12	0,0	98	0,2
61 - 62 years	1 558	2,8	1 592	2,8
56 - 60 years	4 144	7,4	4 489	8,0
46 - 55 years	10 143	18,2	9 671	17,1
36 - 45 years	21 793	39,0	20 707	36,7
26 - 35 years	17 003	30,5	18 646	33,1
18 - 25 years	1 174	2,1	1 211	2,1

Promotion of sustainable employment, job security, skill and talent retention remain our most material outcomes of our Human Capital Strategy. We will continue to ensure our matured workforce mentors and grooms Young Professionals-in-Training for knowledge and skills transfer leveraging initiatives such as the Silver Foxes Mentorship Programme. A total of 200 young mentees have been retained in our employment.

### SDO: Transformation - employment equity



Transnet adopted the Equity, Diversity, Inclusion and Transformation (EDIT) Strategy in 2021 to anchor the Company's employment directives in the Transnet Growth and Renewal Strategy and Corporate Plan. The strategy is informed by business needs and encompasses the entire lifecycle of employees. It is founded in a healthy workplace framework and integrated across all the corporate and operational functions. The Company approved a five-year implementation plan for the rollout of the EDIT Strategy and will embed it into the business by encoding its principles and measurements into the performance plans of all staff.

### Our 2021 employment equity performance in brief

Transnet employees by race distribution reflect the demographics of our country, with representation of African employees marginally increasing to 76,9% in 2021 (2020: 76,35%) as per below.

Table 36: Employees by race distribution in 2021

Employees by race	2021 %	2020 %
African	76,9	76,35
White	9,7	10,52
Indian	3,2	3,25
Coloured	10,1	9,70
Foreign nationals	0,17	0,18

Five EDIT forums have been established to drive a transversal agenda in: (i) female leadership and development, (ii) inclusivity of people living with disabilities, (iii) Lesbian, Gay, Bisexual, Transgender, Queer, Intersex (LGBTQI) flagship programmes, (iv) youth development and (v) male empowerment.

The table below depicts the gender equality performance across designated leadership categories within Transnet.

Table 37: Gender equality performance across designated leadership categories

Designated categories	2021 %	2020 %
Black (African, Indian and Coloured)	90,3*	89,5
Females at executive level	40,0	43,8
Females at extended executive level	46,6	42,5
Females below extended executive level	30,1	29,5

*Including contract employees (permanent headcount of 49 642).  
\* Black employees target: 89%.*

We also note the overall disparity in respect of black female employees compared to male employees across all employment levels.

Table 38: 2021 gender equality performance across designated operational categories

	2021		2020	
	Male	Female	Male	Female
<b>Black employees</b>				
Top management	76	63	62	50
Senior management	545	297	501	270
Professional (qualified and experienced specialists and mid-management)	3 219	1 975	2 689	1 793
Skilled (technical and academically qualified workers, junior management, supervisors, foremen, and superintendents)	14 606	7 566	12 131	7 230
Semi-skilled (discretionary decision making)	11 520	4 406	13 202	4 748
Unskilled (defined decision making)	4 214	1 163	6 221	1 577

Table 39: 2021 performance in respect of people with disabilities

	2021 %	2020 %	Target
People with disabilities	2,2	2,2	3,1%

Transnet Property has been challenged by the Company's leadership to ensure that our facilities are universally accessible for people with disabilities. Going forward, the organisation will improve efforts to create a safe, healthy and inclusive environment through an integrated approach to organisational design, which will cut across ICT, property, fleet management and people management.

### SDO: Transformation - B-BBEE



As a SOC, Transnet has to comply with section 5 of the PPPFA, which is intended to assist with the implementation of the PPPFA Regulations. We continue to embrace the B-BBEE legislation of creating a balanced society through providing equal opportunities for all who are economically disadvantaged.

This includes black youth, women, people with disabilities and black-owned enterprises. We believe this legislation would permit us to contribute effectively towards empowering communities and growing the South African economy.

We continue to increase participation of SMMEs that are black-owned, black youth-owned, black women-owned and people with disabilities by developing their capabilities to be competitive and self-sustaining.

Transnet is currently rated as a Level 2 B-BBEE contributor. However, with the transition to new sector-specific B-BBEE codes, Transnet's B-BBEE could potentially be affected due to the regression of most of the suppliers' status when verified using these new codes.

### Our 2021 B-BBEE spend performance in brief

Table 40: 2021 B-BBEE spend

Key performance area	Unit of measurement	2019/20 target	2019/20 (% of TMPS)	Spend for 2019/20	2020/21 (% of TMPS)	Spend for 2020/21	% Variance
B-BBEE	% of TMPS	>70	111,82%	R31,31 billion	98,09%	R22,94 billion	-13,73%
Black women-owned	% of TMPS	>5	37,26%	R10,43 billion	34,18%	R7,99 billion	-3,08%
Black-owned	% of TMPS	>15	55,89%	R15,65 billion	55,31%	R12,94 billion	-0,58%
Black youth-owned	% of TMPS	>2	2,70%	R756 million	5,66%	R1,32 billion	2,96%
EMEs*	% of TMPS	>7	12,78%	R3,57 billion	17,36%	R4,06 billion	6,52%
QSEs**	% of TMPS	>5	10,84%	R3,03 billion	12,06%	R2,82 billion	1,22%
People living with disabilities	% of TMPS	>0,125	0,24%	R66 million	0,72%	R169 million	0,48%
B-BBEE status level	Certification level	6	2		2	2	2

\* Exempted Micro Enterprises.

\*\* Qualifying Small Enterprises.

## SDO: Industrial capability building



### Enterprise and Supplier Development

The Government's B-BBEE Act and the accompanying Codes of Good Practice, which include Enterprise and Supplier Development (ESD) and the PPPFA, direct Transnet's industrial development efforts. We aim to enhance positive participation in our procurement opportunities across these vehicles by increasing opportunities owned by designated groups.

Table 41: Breakdown of ESD KPIs

Industrial capability building				
Key performance indicator	Unit of measurement	2020/21 Target	March 2021 YTD	March 2020 YTD
Local content	% of TMPS	70	9,4*	—
Indirect jobs created	Number	300	337**	—
ESD	% of NPAT	3	3,01***	—

\* Local content target has been erroneously set at 70% of TMPS. This was due to a misinterpretation of Local Spend vs Local Content. TMPS is inclusive of top spend on items that are not designated, i.e. Fuel, ICT, Security, Advisory Services, etc. As part of the new strategy, some of these sectors will be self-designated in order to drive local capability and capacity. It is estimated that the 10% will remain an achievement at year end. In June 2018, Transnet issued a directive not to include SD CSDP as a prequalifying criteria in all RFPs which was necessitated by the introduction of regulation 4 and regulation 9 on the PPPFA of 2017. The only prequalifying criteria Transnet is allowed to implement related to transformation is the B-BBEE Level, company size and subcontracting requirement as stated in the PPPFA of 2017 regulations 4 and 9. Consequently, Transnet and the DPE agreed to omit SD CSDP out of the Shareholder's Compact. Technology transfer/IP and Investment in plant are pillars of SD CSDP. As result of omitting SD from the Shareholder's Compact, they were also omitted.

\*\* New KPIs for FY2020/21.

\*\*\* In 2020 and 2021, Transnet agreed with the DPE to focus and measure its ESD spend in line with the B-BBEE Codes of Good Practice under the CSD programme. Accordingly, Transnet's 2021 ESD spend translates to a target of 3% of the NPAT. A measure of the value attributed to transformation, of the Transnet Total Measured Procurement Spend (TMPS) where Transnet leveraged its procurement spend in order to meet the transformation objectives.

### Research and development

Fierce innovation is creating a new wave of threats, opportunities and risks for businesses around the world. To remain a globally relevant business, Transnet must keep pace with the resulting demands and make significant investments in Research and Development (R&D) in areas that drive continued competitive advantage and industry transformation. In this regard, the organisation's leadership has acted decisively and made investments of R141,96 million (2020: R234,3 million) in R&D. This is approximately R1,96 million above the targeted expenditure of R140 million for 2021.

Transnet Engineering's R&D unit continues to perform extensive work in developing a successful pipeline and bringing innovative, scalable products to market. Among its numerous accomplishments, this proudly South African team conceptualised, designed and built the first African-built locomotive, the Trans-Africa Locomotive (TAL). Three of these TALs were built, with two currently in a testing phase and one being tested for use as a COVID-19 vaccination train.

### 2021 ESD performance in brief:

- ESD spend amounted to R52,1 million, 3,01% of Net Profit After Tax (NPAT) and R70,1 million early payments to qualifying ESD beneficiaries. The early payments were made to black-owned EMEs and QSEs within 3% of the value counts towards ESD points.
- Local content accounted for R2,2 billion (9,4% of TMPS), 337 indirect jobs were created as result of leveraging Transnet sourcing events.
- Although the ESD Hubs were closed from April to August 2020 due to lockdown regulations, from September 2020 to March 2021, the ESD Hubs assisted 312 walk-ins of which 212 were males, 100 females and 138 youth (both male and female). In total, 218 walk-ins were assisted with CIPC-related services, 64 were assisted with Central Supplier Database (CSD) registration and 31 were assisted with training on public procurement. A total of 84% of the walk-ins were aged between 18 and 44 years, with 99% having attained some high school education or higher.

Engineering's R&D unit has identified the need for data-driven services, such as predictive maintenance and data-driven fleet optimisation to ensure continuous support for our rail network. The Locomotive Condition Monitoring System (LCMS) will enable the collecting of locomotive condition data, advanced analytics transmission and data display for the maintenance business. This system, of which Transnet will own the intellectual property, will pave the way for future predictive maintenance studies. Its tough design and a special selection of electronic components enable it to operate in temperatures as high as 70°C without the need for active cooling. Further, its modular design allows the subsystems to be easily adapted to fit the customer's specific needs and to be used across many locomotives. The LCMS demonstrates Engineering's ability to provide valuable predictive maintenance services to its clients. Going forward, the LCMS will be deployed on all Transnet locomotives while we identify additional opportunities for rolling out this technology in Africa.

With approximately 80% of global trade being carried by sea, there has been significant growth in container traffic, creating substantial opportunities for the design of technologies to improve port performance and to reduce logistics costs. Accordingly, Transnet has created the first locally manufactured port hauler, which is used to transport both trailer-based or containerised cargo. The vehicle is designed for inland and on-shore port performance. The port hauler,

which is currently in testing, has already demonstrated significant benefits as a solution to unlock logistics performance and, in the long run, to enable economic growth and domestic industrialisation.

The table below details various initiatives undertaken in the FY2021 to build and transform the South African economy through ESD.

Table 42: Building and transforming our economy through ESD

Programme	Description	Amount invested	Type of programme	2020		2021	
				Beneficiaries	Outcomes	Spend	Outcomes
CVC Africa	Develops entrepreneurship and innovation for the transport and logistics industry	R23,7 million	Enterprise development	Military veterans based in KwaZulu-Natal and Eastern Cape	• 181 jobs created • 162 beneficiaries	Programme ended	
Youth Employment Services (YES) Programme	Aims to create work opportunities for unemployed black youth	R20,4 million		In construction phase	N/A	R20,4 million	• Construction completed • ESD Hub operational since September 2020 • Various modules are presented (e.g. Drones, culinary, SME support) • Total students: 62 receiving stipends • Total students: 70 on Vodacom 4IR programme not receiving stipends
Shanduka Black Umbrellas	A non-financial support service aimed at incubating 100% black-owned SMMEs, which can meet Transnet's supply chain needs	R1,5 million	Enterprise development	Black-owned SMMEs through incubation	• 91 jobs created • 11 incubates received business incubation and mentorship	• The contract for this programme came to and end during the year under review	
<b>Total</b>		R45,6 million			• 272 jobs created • 173 incubates	• 132 students benefited • Black-owned SMMEs participated	

## SDO: Investment leverage and private sector participation



Transnet facilitates private sector investment in the country's freight logistics system to lower the cost of doing business, advance inclusive growth and create jobs. Through private sector partnerships and Section 56 projects (as per the National Ports Act, No 12 of 2005) we are able to widen the available finance pool, remove barriers to entry for private investment and operations in the port and rail environments, expedite infrastructure development, mitigate risks for large-scale infrastructure projects, and increase capacity and efficiencies in the ports, pipelines and rail environments. The S56 agreements create opportunities for new operators to enter the port system, thereby enabling Transnet to advance South Africa's transformation agenda.

See page 36 for more detail on PSP outcomes for 2021.

### Operation Phakisa

Since 2014, Operation Phakisa has been earmarked as one of the radical change agents for unlocking the ocean's economy to a wider group of South Africans. With an estimated R177 billion potential contribution to GDP by 2033, Transnet was identified as one of the pioneering enablers to accelerate this programme. Transnet, through National Ports Authority – as a custodian of national ports and related infrastructure – has committed R4,7 billion (utilised for the upgrading of ship repair facilities and floating docks).

The investment has realised 5 000 jobs (direct and indirect) currently for Phakisa projects across the port system. The status of the current Operation Phakisa initiatives under Transnet's stewardship, as shown below, reflects the economic climate of the country due to various factors, such as the downgrade of the investment status of the country and the advent of the COVID-19 pandemic during 2020. We remain committed to the strategic national objectives of reviving and fast-tracking the implementation of Operation Phakisa and have inculcated these objectives in our strategic roadmap going forward.

Table 43: 2021 status of the current Operation Phakisa initiatives

Ports	Operation Phakisa
Saldanha	Mossgas Jetty and Berth 205 projects incorporated into new joint development strategy between National Ports Authority's Port of Saldanha and the Saldanha Bay Industrial Development Zone. Rollout plan to be shared once master planning process is complete (end June 2021).
East London	East London boat-building facility not yet attracting investors due to a lack of demand in the weak economic climate. An Expression of Interest to be sent to market to indicate alternative uses. Berth 205 project deferred due to redirected strategy and port development plans.
Mossel Bay	Mossgas Quay procurement process for a Transaction Advisor commenced in July 2020, but placed on hold until Group provides further guidance.

### SDO: Regional integration



Transnet has extensive freight transport and logistics capabilities in ports, rail and pipelines, and is ideally positioned to play a catalytic role in providing expertise and support to expedite infrastructure development across the continent. Africa is still experiencing significant infrastructure gaps and annual national public spending on transport infrastructure remains exceedingly low relative to the exponential population growth. As such, development in the currently constrained infrastructure system of rail, roads, ports, electricity and ICT is key to economic development. Infrastructure development within the major transport corridors in Africa will promote intra-Africa trade. These corridors will allow the flow of economic value to global markets, and more critically within the continent, thereby leveraging the Africa Continental Free Trade Agreement to achieve its desired objectives. Transport corridors are also key enablers of regional integration with an increased probability of forging critical mass for certain economic activities. These opportunities are, however, being delayed by slow infrastructure development and the reduced value exchange between markets and suppliers.

Aligned with Transnet's regional integration mandate, four key revenue drivers underpin the Company's regional transactions:

- Geographic expansion
- Over-border volumes
- Export sales of rolling stock
- Transshipment volumes (intra-Africa)

Transnet will focus on the Southern African Development Community (SADC) subregion but will continue to evaluate other regional opportunities on a case-by-case basis. The SADC target market consists of 16 countries with a population of over 364 million. The key target countries will include Zambia, Zimbabwe, the Democratic Republic of the Congo, Mozambique, Botswana, Angola and Namibia. Transnet has existing assets and joint rail operating centres in some of these countries.

In collaboration with neighbouring rail operators, great strides are being made in expanding and improving operations across regional freight corridors. In addition, the ports businesses have signed port cooperation agreements, which promote maritime linkages and allow access to revenue opportunities in maritime training, dredging, terminal operations and port consulting.

Growth and diversification regional initiatives for 2022 include the:

1. Maputo Corridor development
2. East-West Corridor
3. North-South Corridor to the Democratic Republic of the Congo from Durban and Richards Bay
4. The promotion of the Port of Ngqura as a transshipment hub for the region

Transnet's approach to financing its regional transactions will largely be supported by development and commercial banks with respect to the debt requirements of the transactions. The equity requirements may largely be fulfilled by institutional investors, private equity funds as well as sovereign wealth funds. Alongside equity investors, Transnet will be the primary project sponsor jointly developing these transactions with partners to reach financial closure.

The closure of borders during 2020 due to COVID-19 Disaster Management Regulations introduced unforeseen disruptions into our regional integration operations. However, despite these disruptions, regional integration achieved R2,6 billion, although this revenue is approximately 26,7% lower than budgeted at R3,3 billion.

Year to date March 2021 Transnet Engineering recorded R172,7 million worth of cross-border revenue against a budget of R104 million.

During the course of the financial year, Transnet Engineering secured a contract to supply 300 wagons to CFM Mozambique to the value of R400 million of which 115 wagons to the value of R148,9 million were delivered in the current financial year.

### 2021 Regional integration performance in brief

Table 44: Cross-border revenue performance by Operating Division

	2019/20			2020/21			2021/22
	Budget R million	Actual R million	Variance %	Budget R million	Actual R million	Variance %	Budget R million
<b>Regional revenue</b>							
TFR cross-border revenue	2 833 078 721	2 269 957 890*	(20)	2 806 785 867	2 105 686 670	(25)	2 534 819 550
TE export revenue	254 400 000	363 452 739	43	104 000 000	172 657 966	66	165 000 000
TNPA Africa revenue (transshipments)	52 121 652	59 864 495	15	47 129 769	45 532 427	(3)	37 195 698
TPT Africa revenue (transshipments)	313 000 000	204 000 000	(35)	274 157 077	187 000 000	(32)	176 667 493
<b>Total regional revenue</b>	<b>3 452 600 373</b>	<b>2 897 275 124</b>	<b>(16)</b>	<b>3 232 072 713</b>	<b>2 510 877 063</b>	<b>(22)</b>	<b>2 913 682 741</b>
<b>Geographic expansion</b>							
Zimbabwe	125 527 500	67 179 792	(46)	76 500 000	79 397 720	4	82 067 039
Benin (Benisa 1)	6 850 802	7 830 002	14	6 165 722	5 989 704	(3)	632 000
Zambia	41 842 500	29 374 508	(30)	24 480 000	35 980 864	47	37 487 147
<b>Total geographic expansion</b>	<b>174 220 802</b>	<b>104 384 302</b>	<b>(40)</b>	<b>107 145 722</b>	<b>121 368 288</b>	<b>13</b>	<b>120 186 147</b>
<b>Total revenue</b>	<b>3 626 821 175</b>	<b>3 001 659 426</b>	<b>(17)</b>	<b>3 339 218 435</b>	<b>2 632 245 351</b>	<b>(21)</b>	<b>3 033 868 888</b>
<b>Africa volumes</b>							
Freight Rail – over-border freight (mt)					8 343 572		10 282 029
Transshipments ('000 TEUs)					296 112		181 543

\* 2019/20 performance had included the Zambia and Zimbabwe interim solution in the previous year's report.



# Annexure A: Directors' report

## Introduction

The directors submit their report, together with the Company and Group annual financial statements, for the year ended 31 March 2021.

## Nature of business

Transnet is a public company, wholly owned by the Government of South Africa, and is the custodian of the country's rail, ports and pipelines. Transnet is responsible for enabling the competitiveness, growth and development of the South African economy by delivering reliable freight transport and handling services that satisfy customer demand.

As the custodian of ports, rail and pipelines, Transnet has a responsibility to ensure the optimal development of the national freight system. Furthermore, as a responsible corporate citizen and key implementing agent of the developmental state, Transnet conducts its activities in order to optimise developmental outcomes, such as job creation, skills development, economic transformation, regional integration and industrial capability building.

## Board of directors

The composition of the Board of Directors at 31 March 2021, summary curricula vitae of the directors, key activities and decisions of the Board and its committees and performance evaluations are set out in the 'abridged governance' section of the integrated report. A separate, unabridged version of the governance report is also available online.

The remuneration and fees paid to directors are set out in note 38 of the annual financial statements.

## Performance for the reporting period

Transnet's performance for the financial year ended 31 March 2021 was against the backdrop of the compounded impact of subdued economic growth (due mainly to the COVID-19 lockdowns) and challenges in the operational environment.

For the 2020 calendar year, South Africa's real gross domestic product (GDP) contracted by a substantial 7,0% after a marginal increase of only 0,2% in 2019. The national lockdown-induced contraction in 2020 was the second largest annual contraction since 1920, when real GDP fell by 11,9% and was also about five times larger than the contraction of 1,5% that followed the global financial crisis in 2009. The recovery in domestic economic activity was commensurate with the easing of lockdown restrictions following the sharp contraction in the second quarter of 2020.

The impact of these external and internal challenges resulted in Transnet's revenue decreasing by 10,5% to R67,3 billion (2020: R75,2 billion) with lower volumes recorded across Transnet's key operations. Rail volumes at 183,3mt (2020: 212,4mt) decreased by 13,7% and port containers handled at 3 916 million TEUs, were 11,5% lower than the 4,424 million TEUs in the prior year. Pipeline volumes declined 26,4% to 13 067 million litres (2020: 17 764 million litres).

- Net operating expenses increased by 16,2 % to R47,8 billion (2020: R41,2 billion) due mainly to the largely fixed cost nature of Transnet's cost base relating to personnel, maintenance, and

security costs. Other cost savings were offset by unexpected costs including the impact of third-party claims and environmental provisions relating to pipeline spills arising from product theft incidents, which also resulted in higher security costs (R5,6 billion), COVID-19 related expenses of R232 million, and lower operating income due to the lower sale of scrap, lease recoveries and Passenger Rail Agency of South Africa (PRASA) recoveries.

- Depreciation, derecognition and amortisation decreased by 7,2% to R13,9 billion (2020: R15,0 billion) due mainly to the impact of the devaluation of rail and port infrastructure in March 2020 as well as the useful life assessment conducted during the financial year.
- Impairment for the year increased by 56,8% to R4,4 billion (2020: R2,8 billion (restated)) due mainly to the impairment of locomotives and wagons arising from the unavailability of spares following the suspension of the 1 064 original equipment manufacturer (OEM) contracts, derailments and the impact of the physical verification and useful life assessments. An assessment of capital work in progress (CWIP) in line with segment strategies at the ports also resulted in impairments. This was partially offset by an impairment reversal relating to the pipeline, from the revaluation process.
- Net finance costs decreased marginally by 0,8% to R11,0 billion (2020: R11,1 billion) due mainly to interest rates cuts during the year.
- As a result of the above, and fair value losses in the financial year being R0,8 billion higher than the prior year, the net loss for the year is at R8,4 billion (2020: R2,9 billion profit restated).

Detailed commentary on the performance for the year is contained in the integrated report on pages 86 to 99.

## Accounting policies

The accounting policies applied in the preparation of the annual financial statements for the year ended 31 March 2021 are in accordance with IFRS and are consistent with those applied in the prior year.

Judgements made by management in the application of IFRS that have a significant impact on the annual financial statements are disclosed in the accompanying notes to the annual financial statements.

## Share capital

There has been no change in the authorised or issued share capital of the Company during the year. The issued share capital of the Company is 12 660 986 310 ordinary shares of R1 each. Further details pertaining to the Company's share capital are contained in note 21 of the annual financial statements.

## Dividend

Distributions to the Shareholder are governed by paragraph 28 of the Company's Memorandum of Incorporation in line with the requirements of section 46 of the Companies Act.

In determining the declaration of dividend, the Transnet Board of Directors considered the environment in which the business operates over the current, short and medium term, taking into account the following:

- Shareholder expectations
- Future funding requirement and reinvestment opportunity
- Solvency and liquidity
- Going concern assessment
- Changes in government and regulatory policies
- Company's cash generation ability
- Economic environment

Further, the value to be paid as a dividend is informed by the availability of excess cash from operating activities after allowing for:

- Debt servicing (interest and principal)
- Funding a sustaining capital investment
- Financial flexibility

The Company has assessed the following factors in arriving at the decision to not declare a dividend:

- Transnet has reported a loss in the 2021 financial year
- Certain loan covenant requirements were not met in the 2021 financial year
- Based on the 2022 Corporate Plan, Transnet will have no excess cash until financial year 2025
- The Company has an intensive capital investment programme given its strategy and operational requirements
- The funding of strategic priorities in the Corporate Plan, including but not limited to, enterprise development and social investments
- Transnet's current sub-investment grade credit rating may increase the cost of borrowings
- The Company has limited headroom to absorb cash shortfalls following the COVID-19 nationwide lockdown

The declaration of a dividend is reviewed annually and is subject to the approval of the Shareholder Representative at the annual general meeting. These dividends are declared in terms of the approved dividend policy.

## Divisions, subsidiaries and associate companies

A detailed list of subsidiaries and equity-accounted investees is contained in note 37 of the annual financial statements.

## Revaluation of property, plant and equipment

The Group performs revaluations of its rail infrastructure, port infrastructure and pipeline networks in accordance with its accounting policy, which requires an independent valuation every three years, as well as index or discounted cash flow valuations in the intervening years where appropriate.

At 31 March 2021, the rail infrastructure assets were revalued based on the discounted cash flow method. An external valuation of the pipeline network was performed by an independent firm of professional valuers on the basis of the depreciated replacement cost methodology. Port infrastructure was revalued based on the depreciated optimised replacement cost (performed by external valuers) and the discounted cash flow methods, while port operating assets were revalued based on an index valuation.

## Rail infrastructure

The carrying value of rail infrastructure was devalued by R1,3 billion (2020: R14,9 billion devaluation) in line with the lower projections of revenue in the 2022 Corporate Plan due to the subdued recovery following the impact of COVID-19 on operations.

## Port facilities

The carrying value of port infrastructure was revalued by R10,5 billion (2020: R17,0 billion devaluation) in line with revenue projections and port operating assets were devalued by R59,4 million (2020: R328 million revaluation).

## Pipeline networks

The carrying value of pipeline networks was devalued by R257 million (2020: R427 million revaluation).

## Fair valuation of investment property

The Group determines the fair value of its investment property on an annual basis in accordance with IAS 40 *Investment Property*. The valuation of the Group's investment properties at 31 March 2021 was performed by qualified internal property valuers and was arrived at by capitalising the first year's normalised net operating income at market-derived capitalisation rates.

The valuation resulted in a fair value increase in investment property of R354 million (2020: R155 million increase) due mainly to the impact of COVID-19. The fair value gain was substantially less than the prior year due mainly to the general decline in the property market brought on by the COVID-19 pandemic.

## Capital expenditure and commitments

The Company continued to execute its infrastructure investment programme, spending R15,9 billion for the year (2020: R18,6 billion).

The decrease is mainly due to the underspend in capital projects and maintenance, following the impact of COVID-19 lockdown restrictions and capital optimisation.

The capital investment for the year comprised R2,2 billion (2020: R3,5 billion) invested in the expansion of infrastructure and equipment and R13,7 billion (2020: R15,1 billion) invested to maintain capacity in the rail, pipelines and ports divisions.

Further details regarding capital commitments are contained in note 30 of the annual financial statements.

## Prior year restatements

The prior year results required restatement due mainly to reclassification issues, management's assessment of CWIP balances and the recognition of investment property. These errors were identified and corrected to maintain the comparability and accuracy of the annual financial statements. For further detail in this regard, please refer to note 39 of the annual financial statements.



# Annexure A: Directors' report

## Passenger Rail Agency of South Africa (Prasa)

Prasa owed Transnet R2,3 billion at 31 March 2021 (2020: R2,0 billion), of which R396 million (2020: R522 million) related to services provided during the year.

Given the long-term nature of the amounts outstanding, the settlement of these amounts has been escalated to the Departments of Transport, Public Enterprises and National Treasury for resolution. Transnet and Prasa ensure that their records reconcile on a monthly basis and have no material disputes.

The Group, through its Freight Rail division, did not recognise R265,3 million (2020: R411,9 million) of revenue billed to Prasa in accordance with IFRS 15 *Revenue from Contracts with Customers* as the collectability requirement was not met due to a history of late and non-payment by Prasa.

However, Transnet remains committed to working with Prasa in providing passenger rail services in South Africa.

## Going concern

In adopting the going concern assumption, the Board reviewed the Group's performance for the year and considered the robustness of budgets and business results, cash flow projections for the 15 months ending 30 June 2022 (which included the impact of COVID-19), cost-saving opportunities, the cost of capital projects and related optimisation opportunities and the Funding Plan.

The impact of the prior year audit qualification on loan agreements has been resolved with all affected funders having provided a waiver

Issuer rating	Moody's	S&P
Foreign currency rating	Ba2/negative outlook	BB-/stable outlook
Local currency rating	Ba2/negative outlook	BB-/stable outlook
National scale rating (NSR) – long and short term	Aa2.za/P-1.za	zaAA/zaA-1+
BCA/SACP	Ba3/negative outlook	bb-/stable outlook

Further details in this regard are provided in note 36 of the annual financial statements.

## Post-retirement benefit obligations

### Benefit funds

The Group provides various post-retirement benefits to its active and retired employees, including post-retirement medical pension.

The two defined benefit funds, namely the Transnet sub-fund of the Transport Pension Fund (TTPF) and the Transnet Second Defined Benefit Fund (TSDBF) are fully funded with actuarial surpluses of R1 186 million (2020: R479 million) and R3,4 billion (2020: R1,9 billion), respectively. Transnet has not recognised any portion of the surplus on these funds, as the fund rules presently do not allow for the distribution of a surplus.

The post-retirement medical benefit obligation is approximately R456 million (2020: R445 million).

to Transnet. Similarly, all lenders that became entitled to guarantees or accelerated repayment of loans due to credit rating downgrades and the current year cash interest cover loan covenant breach have agreed to waive such right.

## Funding

As at 31 March 2021, the Company's total borrowings amounted to R129 billion (2020: R133,3 billion), a decrease of R4,3 billion compared to the prior year, due to foreign exchange rate movements, partially offset by net debt raised. The decrease in the value of debt arising from movements in exchange rates is offset by a corresponding decrease in net derivative financial assets, as the exposure to foreign currency is fully hedged.

In the period under review, the Group raised funding of R12,3 billion (2020: R10,4 billion) through the issuance of bond and commercial paper (under the Domestic Medium-Term Note (DMTN) programme) and the execution of bilateral loans without the provision of government guarantees.

The decision to limit future capital expenditure to 80% of cash generated from operations, together with the expected cost compression through improved procurement processes, will ensure a reduction in forward-looking debt levels.

## Credit ratings

Transnet has two officially recognised rating agencies: S&P Global Ratings (S&P) and Moody's Investors Service (Moody's). Transnet's credit rating at the date of issuing this report is depicted in the table below.

## SATS pensioners' post-retirement medical benefit obligations

Transnet is committed to identifying a sustainable long-term solution for the provision of medical scheme benefits to SATS pensioners and their dependants.

## Events subsequent to the reporting period date

### Transnet National Ports Authority

On 22 June 2021, President Cyril Ramaphosa announced the establishment of the Transnet National Ports Authority (TNPA), a current division of Transnet, as a separate, wholly owned subsidiary of Transnet with its own Board of Directors. Transnet does not expect the establishment of the new subsidiary to have any effect on the Group (i.e. consolidated) financial position, financial performance and cash flows.

Transnet and the Department of Public Enterprises are working on the process by which the business of TNPA, including all assets, liabilities, rights and obligations of Transnet relating thereto, shall be transferred to the new subsidiary. This process will determine the impact of TNPA's corporatisation on the assets, liabilities, performance and cash flows in the Company's separate financial statements. Therefore, the impact on the Company financial statements is still to be determined. The segmental report (refer pages 98 to 99) provides a summary of TNPA's revenue, expenses, assets, liabilities, capital expenditure and cash generated from operations after working capital changes.

## Civil unrest

In July 2021, Transnet operations in two provinces were impacted by civil unrest and riots. As a consequence, the South African economy became severely constrained. This led to the disruption of key services, shortages of food, fuel and essential medical supplies and therefore had a negative impact on Transnet's operational and financial performance for the upcoming 2022 financial year as force majeure was declared by the Company during this period. Transnet, however, has endeavoured to ensure the safe and efficient movement of goods in and out of the country. Transnet has overcome this period with hopes that no further disruptions of that nature will occur for the remainder of the financial year.

## Cyber attack

Transnet was affected by a cyber attack during the third week of July 2021. As a result, systems were completely shut down and management had to activate its business continuity processes. Systems were reinstated and in certain cases rebuilt and all users were reconnected in line with revised information technology protocols. Manually processed transactions documented during the period were accurately captured once all systems were fully operational. As the cybersecurity threat was successfully isolated and contained, none of Transnet's raw data was compromised, affirming that the integrity of all financial and operational information has been maintained.

## Voluntary severance packages

On 12 August 2021, the GCE announced that Transnet would be providing voluntary severance packages to all employees who would be interested in the offering. Due to the negative impact of the COVID-19 pandemic on Transnet's financial position and performance, it has become imperative to decrease the cost of fixed labour to a sustainable level.

Qualifying criteria has been set for the process as it is important to retain employees who are in positions that are critical for operational efficiency and business continuity. In light of this, VSP's will only be awarded to employees who are in areas that are overcapacitated to ensure that critical skills are still retained within the organisation. The VSPs will be awarded to qualifying employees by the end of September 2021 and are not expected to have a significant financial or operational effect.

## Fire damage – Richards Bay

In October 2021, two separate fire incidents resulted in damage to conveyor belts at the Richards Bay Dry Bulk terminal, which caused some disruption to operations. The investigation by

Transnet, fire forensic experts and insurance companies into the cause of the fires and extent of the damage is ongoing, with initial estimate of the damage around R1 200 million.

## Compliance and legislation

To the best knowledge and belief of the directors, the Company has, during the year, complied, in all material respects, with all legislation and regulations applicable to it, except as disclosed in the annual financial statements.

The Company has a dedicated Compliance function to assist directors with the management of compliance obligations. Compliance utilises a risk-based methodology and approach to ensure that Transnet's high risks are treated and/or eliminated.

## PFMA compliance

The Public Finance Management Act (PFMA) imposes certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; losses through criminal conduct; and the collection of all revenue.

The Company's focus on increasing its efforts in complying with the PFMA yielded some notable achievements. Condonations were submitted to the National Treasury, and resulted in a condonation of irregular expenditure relating to supplier development with a total contract value of R59,3 billion. There were 1 324 consequence management cases that were finalised and closed by 31 March 2021. PFMA reportable items are now a standing agenda point at monthly executive committee meetings.

Notwithstanding progress made in the implementation of the remedial plan, the supply chain management transformation process, improving the PFMA environment and compliance thereof, Transnet unfortunately received another audit qualification. This was due to occurrence, accuracy and completeness of misstatements identified in the irregular expenditure disclosed in note 42 of the annual financial statements.

Furthermore, Transnet, in its process of identifying, assessing and quantifying irregular expenditure to be disclosed in the annual financial statements, has classified, as permitted by the National Treasury prescripts, two items as impractical to disclose as part of the R104,3 billion irregular expenditure. These related to 408 418 procurement events below R2 million amounting to R20,1 billion and 534 missing documents amounting to R10,0 billion as impractical to disclose as irregular expenditure.

The manual procurement processes remain a major challenge in the recording, identifying and processing of accurate and complete irregular expenditure. Transnet is prioritising the process of automating its procurement practices.

The enhancement of the PFMA remediation plan remains a key priority for the Company. The lessons learned and challenges that prevented it from achieving an unqualified audit outcome have been clearly defined and places the organisation in a much better position to speedily implement these initiatives.

More detailed disclosure on non-compliance with the PFMA and the associated consequence management is set out in note 42 of the annual financial statements.

## Annexure A: Directors' report

### Audit qualification

The qualified audit opinion for the current financial year is on the basis that Transnet could not satisfy the AGSA on the completeness of irregular expenditure. In determining the quantum of irregular expenditure, procurement events from 1 April 2017 were reviewed for completeness and compliance to the PFMA requirements. In some cases, for contracts where supplier development (SD) was used as a pre-qualification criteria, contracts from 2011 were also reviewed.

The qualification does not relate to any IFRS matters and has resulted in a breach of loan covenants. Accordingly, Transnet will have to receive waivers from affected lenders to waive their right to accelerating debt repayment consistent with the prior year, as the qualification is as a result of the occurrence, accuracy and completeness of irregular expenditure reported in note 42 of the annual financial statements. Management is confident that it will receive the required waivers from affected lenders, as in prior years.

### Material irregularity

The AGSA implemented the material irregularity in line with the Public Audit Act. This has resulted in Transnet being issued with a number of material irregularities. For further details please refer to note 43 of the annual financial statements.

### Economic regulation and regulatory reform

The tariffs of two Operating Divisions, namely Transnet Pipelines (Pipelines) and Transnet National Ports Authority (National Ports Authority) are regulated by the National Energy Regulator of South Africa (Nersa) and the Ports Regulator of South Africa (Ports Regulator), respectively. The railway safety permit fees are determined by the Department of Transport and are payable to the Railway Safety Regulator (RSR).

The Company operates within a policy context determined by the Department of Public Enterprises (DPE) and the Department of Transport (DoT), respectively.

With approximately 21.5% of Transnet's external revenue impacted by economic regulation, it is critical that relationships with regulators are managed proactively and strategically as their decisions could have a significant impact on operating results, capital investment decisions and investor confidence.

### Pipelines

On 30 September 2020 Transnet Pipelines submitted its 2021/22FY tariff application to Nersa. In determining the allowable revenue for the petroleum pipeline system, Pipelines has been guided by "Nersa's Tariff Methodology for the Setting of Tariffs in the Petroleum Pipelines Industry, 7th Edition" approved on 29 October 2015; and "Frequently Asked Questions: Tariff Methodology for the Setting and Approval of Tariffs in the Petroleum Pipelines Industry", approved on 29 October 2015; and previous Nersa decisions.

Pipelines applied for an allowable revenue (AR) decrease of 11,15% from the 2020/21FY decision. This decrease is

predominantly due to the lower weighted average cost of capital (WACC) (7,89% vs 6,36%) caused by a lower beta and market risk premium which resulted in a real post-tax cost of equity of 7,82% (as per the application) compared to 9,90% (as per the 2020/21 decision). Expenses for the 2021/22FY have increased by 11,31% from the 2020/21FY decision.

As per Nersa's instruction, the prudence adjustment has been included in the 2021/22FY application. The prudence adjustment amounts to R3,02 billion, although the final prudence outcome was not available at the time of this application, and therefore an asset clawback will be factored in the 2022/23FY tariff application when the actual audited results are available.

The Energy Regulator, at its meeting of 25 February 2021, set the TPL tariffs that will allow the licensee to realise an 11,15% decrease in AR as per the tariff application. This translates to a 2,39% tariff increase (of approximately 1,22 cents per litre) for the Durban-to-Alrode (JHB) route.

### National Ports Authority

On 6 March 2020, the Ports Regulator (after consultation with the port users and Transnet) published the approved Multi-Year Tariff Methodology Version 3 applicable to the 2022, 2023, and 2024 tariff periods. On 31 July 2020, the National Ports Authority 2021/22FY tariff application was submitted to the Ports Regulator based on the Multi-Year Tariff Methodology Version 3. The TNPA's application resulted in a weighted average tariff adjustment of 19,74% for the 2021/22FY.

Given the current economic conditions and the objective of lowering the cost of doing business in South Africa, the TNPA requested the Ports Regulator to consider an inflationary tariff adjustment (3,80%) for the 2021/22FY, using levers available to it, such as the Excessive Tariff Increase Margin Credit (ETIMC).

On 29 November 2020, the Ports Regulator published the National Ports Authority 2021/22FY tariff application decision determining a weighted average tariff adjustment of 0,0%.

### Freight Rail

On 30 October 2020, Transnet presented its views on the Economic Regulation of Transport (ERT Bill) to the Parliament Portfolio Committee on Transport. The Company requested harmonised Economic Regulation Methodologies for an integrated network of Rail, Ports and Pipelines to be established in the ERT Bill to enable full economic cost recovery across the network.

### Application for Transnet Single Entity Railway Safety Permit for the period 2019 to 2022

On 31 May 2020, Transnet submitted its Annual Safety Improvement Plan (ASIP) to the Railway Safety Regulator. The ASIP submission to the Railway Safety Regulator is a condition for Transnet to sustain the current three-year Safety Permit (2019 to 2022) issued by the Railway Safety Regulator on 31 August 2019.

Based on the ASIP assessment outcome, Transnet met all the requirements to sustain its current three-year Railway Safety Permit without any special conditions. The next ASIP submission to the Railway Safety Regulator is due on 31 May 2021. Transnet met the deadline.

### Railway Safety Permit Fees 2022 financial year determination

The Minister of Transport has in terms of the National Railway Safety Regulator Act, 2002 published the Determination of Permit Fees for the 2021/22FY, with effect from 1 April 2021 to 31 March 2022. The formulae specified in the Notice do not apply to Transnet, however Transnet is required to pay the total permit fee of R114 691 868,00 translating into a 4,2% increase on the 2020/21FY permit fee of R110 068 971,00. The permit fee consists of a non-refundable application fee and permit fee which is R61 575,00 and R114 630 293,00 respectively.

### Judicial proceedings

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

### 1 064 review application

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

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

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

### Investigation by the Competition Commission

Transnet received two summonses issued by the Competition Commission to produce certain information and documents. One summons relates to rail operations and the other relates to port operations.

Transnet submitted all the information and documents requested by the Competition Commission per the summons, as well as additional financial and accounting data information requested by the Commission.

During December 2019, the Commission communicated its preliminary findings against TNPA and Transnet Port Terminals (TPT) on excessive pricing and exclusionary conduct/preferential treatment on the part of both Operating Divisions. On 29 January 2020, Transnet representatives met with the Commission for an in-depth discussion on the preliminary findings. The Commission indicated that with regard to TNPA, it will advocate for the unbundling of TNPA in line with the National Ports Act, instead of

imposing a fine. The economics team provided a report on the profitability analysis on 6 October 2020, and Transnet is currently in the process of reviewing the report.

With regard to Transnet Freight Rail (TFR), a meeting was convened with the Commission on 22 June 2020 wherein queries raised by the Commission were attended to and resolved. A further request for information (RFI) was received on 8 July 2020 for clarity on TFR's asset register. The legal team has provided the Commission with a response to the RFI and is currently awaiting further feedback from the Commission.

The legal team held a meeting with the Commission on 27 July 2020 wherein the Commission advised that it was amenable to settlement of all the investigations against Transnet and requested Transnet to present a settlement proposal for all matters. Transnet submitted a revised settlement proposal on all the Competition Commission investigations to the Commission on 29 January 2021 and is currently awaiting feedback.

TNPA investigation: Transnet has requested the Commission to reconsider its intended referral as TNPA is a creation of statute and this is a departure from the previous position to advocate for its divestiture from Transnet.

### Investigation by the Zondo Judicial Commission of Inquiry

The appointment of a judicial commission of inquiry by Proclamation No 3 of 2018 published in Government Gazette No 41403 dated 25 January 2018 poses significant financial and reputational risks to Transnet should the award of major procurement events and payments be found to have been tainted by improper conduct and/or corruption.

Transnet appointed a firm of attorneys to represent Transnet during the conduct of investigations and sittings of the Commission. Full co-operation with the Commission has been monitored through weekly meetings with the Commission investigators housed at Transnet premises and Transnet continues to provide the Commission with all information requested by it in conducting the investigations.

### Special tribunal outcome

Transnet and the SIU successfully launched proceedings against Herbert Msagala, a former Group Executive of Transnet. In a judgment delivered on 31 August 2021, the SIU special tribunal ordered Msagala to pay back to Transnet R26,4 million after which he was found guilty of disgorgement of secret profits while employed by Transnet. Delivering judgment in this matter, Judge Lebogang Modiba found that between January 2015 and December 2016 Msagala awarded contracts in excess of R160 million to a company IGS, and that documentary evidence indicated that Msagala had in turn received R26,4 million from IGS in secret profits. Msagala, and the various trusts he established and controls, IGS and Siphon Sithole (the primary shareholder of IGS) were ordered to jointly and severally refund R26,4 million to Transnet.

In March 2019, the SIU delivered an investigation report to Transnet which demonstrated wrongdoing by Msagala. Transnet suspended Msagala, who was then employed as a Group Executive, Business Development and following a disciplinary hearing, chaired by an independent senior counsel, dismissed Msagala in July 2020.

## Annexure A: Directors' report

### Total SA and Sasol Oil v Transnet Pipelines

An action was brought by Total against Transnet in which it has sought from the high court a declaration that the agreement incorporating the so-called 'Neutrality Principle' under which crude is transported from the coast inland to the Natref Refinery remains valid and binding upon Transnet notwithstanding the advent of the National Regulator and the Petroleum Pipelines Act. In the event that such agreement is declared to remain so valid, monetary compensation is claimed. The money sum sought per the initial claim was estimated by Total to be in the sum of R430 million and R1,1 billion by Sasol. Such compensation is claimed as damages that arose from charging Total and Sasol at the tariff set by the Regulator and not the tariff determined under the agreement.

The Gauteng High Court and the SCA both found the agreement to be valid and have upheld the 'Neutrality Principle'.

An application by Pipelines for special leave to appeal against the judgment of the SCA in favour of Total was dismissed by the Constitutional Court on 9 November 2016, with costs. The Gauteng High Court had to decide on the issues previously separated from the issue of the validity of the tariff agreement. Transnet has put up a defence on the remaining issues that were separated from the issue of the validity of the neutrality agreement.

Trial of the consolidated matter proceeded from 14 to 17 September 2020 where issues previously separated from the issue of the validity of the neutrality agreement were heard. On 9 October 2020 the court delivered judgment against Transnet, dismissing all its defences. An application by Transnet for leave to appeal was also dismissed.

Transnet then petitioned the SCA for leave to appeal, which was rejected on 21 November 2020, and a special leave to appeal was also declined on 15 March 2021.

Transnet's petition to the Constitutional Court for leave to appeal has been granted and the matter is scheduled to be heard on 16 November 2021.

#### Key Performance Area 1: Ensure financial sustainability

Key performance indicator	Unit of measurement	2021 target	2021 actual
Cash interest cover (excluding working capital changes)	times	≥2,7	2,3
EBITDA margin	%	≥44,9	28,9
Return on invested capital	%	≥4,8	0,1
Operating ratio	%	≤55,0	71,1

Parallel to the litigation, Transnet has lodged a formal complaint to Nersa regarding the neutrality agreement, in which it alleges that the agreement does not accord with the Petroleum Pipelines Act (PPA). Nersa has accepted Transnet's complaint and has requested both Sasol and Total to respond thereto.

### Shareholder's Compact – performance criteria

The 2020/21FY Shareholder's Compact was approved by the Minister of the Department Public Enterprise at the AGM held in October 2020.

The Shareholder's Compact KPIs that the Board and the Shareholder Representative agree on serves as the performance-monitoring framework for the Company. Performance against the Shareholder's Compact targets are outlined in the tables that follow. The performance information contained therein has been subjected to independent audit review, and the auditors have reported their findings in the independent auditor's report.

Transnet's performance for the 2020/21FY was against the compounded impact of the low economic growth from the previous financial year and the adverse impact of lockdown restrictions that resulted in lower activity levels in operations.

To mitigate the severe impact of lower demand and activity in freight (rail, port and pipeline) services, management identified and implemented recovery initiatives at the end of quarter 1 to reduce the risk of not achieving the Shareholder's Compact targets. However, the recovery initiatives did not yield the required result. This impacted on the overall performance against the compact where, of the 17 compacted measures, only two (2) KPIs (maritime connectivity and number of indirect jobs) achieved their targets.

The parameters for the volumes on this document are not the same. The budget volumes are based on a 26 March to 25 March parameter, while the actual volumes for the current year are based on a 1 April 2020 to 31 March 2021 parameter, following a change in the cut-off date by the Group.

#### Key Performance Area 2: Reduce the total cost of logistics, effect and accelerate modal shift in strategic growth segments

Key performance indicator	Unit of measurement	2021 target	2021 actual
Container port volumes	TEUs	≥4 625	3 916
General freight market share	%	≥28,4	22,1
Intermodal market share	%	≥23,5	14,8
Maritime connectivity	Index %	≥34,6	41,2
Cost of logistics as a percentage of transportable GDP	Measurement Instrument	Finalise measurement instrument	The methodology was not finalised at the end of the reporting period

#### Key Performance Area 3: Leverage private sector in the provision of both infrastructure and operations for strategic growth segments

Key performance area	Key performance indicator	Unit of measure	2021 target	2021 actual
Number of milestones completed for targeted branch line transactions	PE – Humewood narrow gauge	Number	3	0
	George – Knysna	Number	3	0
	Cookhouse – Blaney	Number	3	0
	Mthatha to Amabele	Number	1	0
Private sector participation	Private partnership transactions approved for commercialisation	Number	3	0
	Private partnership transactions achieving commercial close	Number	3	0

#### Key Performance Area 4: Integrate South Africa with the region and the rest of the world

Key performance indicator	Unit of measurement	2021 target	2021 actual
Cross-border revenue	R million	≥3 446	2 632

#### Key Performance Area 5: Optimise the social and economic impact of all interventions in the achievement of these objectives

Key performance area	Key performance indicator	Unit of measure	2021 target	2021 actual
Number of milestones completed for targeted branch lines transactions	Trainees	Number	≥1 500	477
	Indirect jobs	Number	≥300	336
	Local content	%	≥70	10,7
	Enterprise and supplier development	%	≥3	2,9

### Remuneration report

Details of directors' remuneration are included in note 38 of the annual financial statements. A detailed remuneration report is included in the integrated report, on pages 76 to 81.

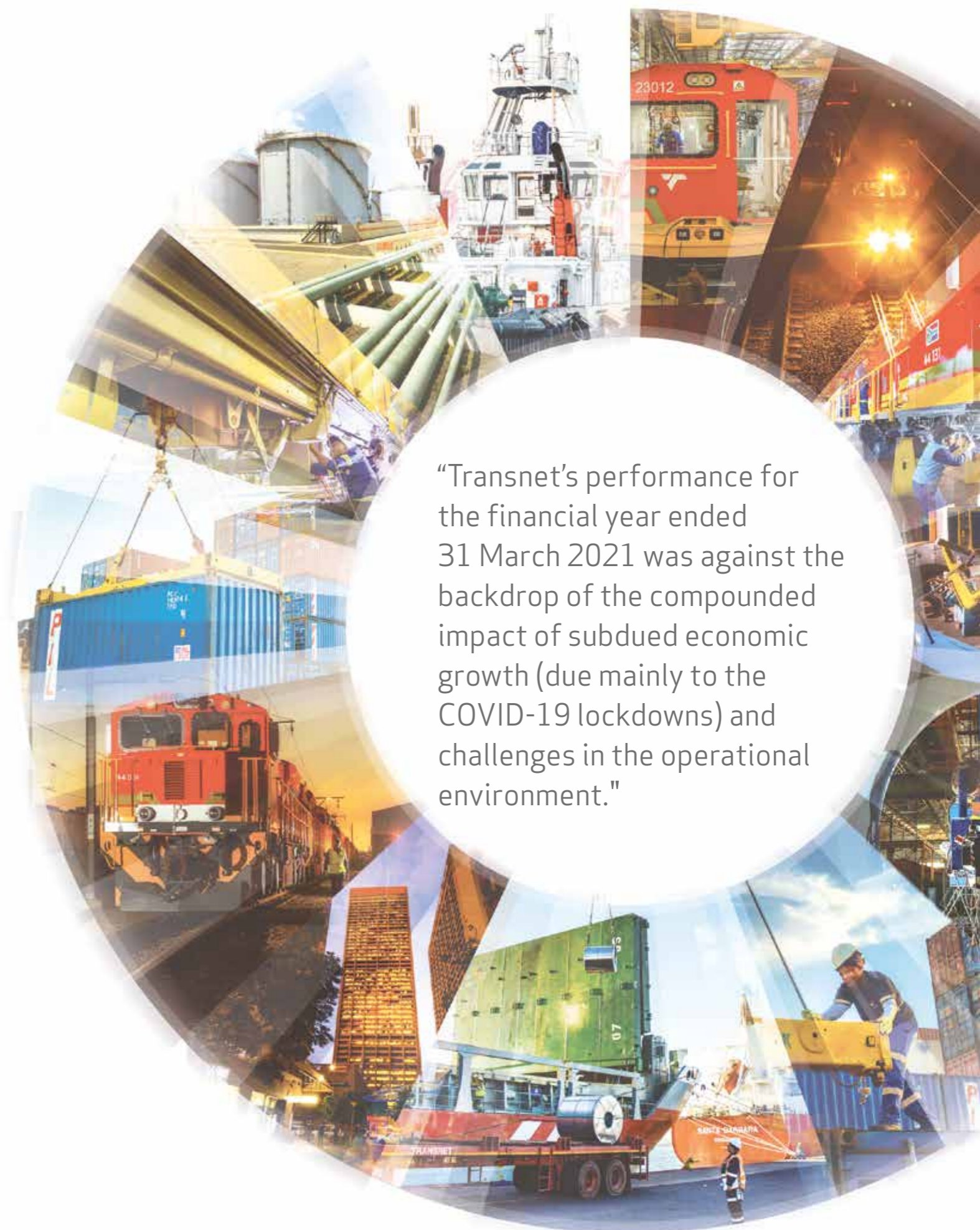
## Annexure B: Governance terms of reference for the report



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### Audit Committee Terms of Reference for the integrated report <IR>

<p><b>Purpose in relation to integrated reporting</b></p>	<ul style="list-style-type: none"> <li>• Recommend the annual &lt;IR&gt; for approval by the Board</li> <li>• Oversee and monitor the quality and integrity of the integrated report - incorporating the annual financial statements, sustainability reporting (nine SDOs), and public announcements in respect of the financial results</li> <li>• Assess the overall integrity of the &lt;IR&gt; project programme - this includes transparency and balance of &lt;IR&gt; information</li> <li>• Anticipate and understand how regulatory and reporting developments in the areas of financial, sustainability reporting and integrated reporting may affect the Company in terms of the six capitals (financial, manufactured, intellectual, human, social and relational, and natural)</li> </ul>
<p><b>Accountability and responsibilities and terms of reference (ToR)</b></p>	<ul style="list-style-type: none"> <li>• Evaluate factors and risks that may impact on the accuracy of the &lt;IR&gt; and other external reporting. This includes factors that may predispose management to present misleading information or display significant poor judgement in the provision of information for the collation of the &lt;IR&gt;</li> <li>• Oversee the governance of the reporting processes and relevance of the related accounting policies and frameworks for the &lt;IR&gt;, Annual Financial Statements, preliminary results announcements and interim reports</li> <li>• Assess and give guidance on the application of the principles of comparability (to prior year), balance (address material stakeholder issues), transparency (particularly in terms of PFMA reporting) and reliability (internal and external assurance) insofar as it relates to disclosures contained within the &lt;IR&gt;</li> <li>• Confirm that material issues relating to sustainability have been ratified/approved by the Remuneration, Social and Ethics Committee</li> <li>• Ensure that remuneration disclosures have been approved by the Remuneration, Social and Ethics Committee before recommending the &lt;IR&gt; to the Board</li> <li>• Provide internal assurance of the factual accuracy of performance data contained within the &lt;IR&gt; and that the achievement of strategic objectives is based on sound and reasonable judgement</li> <li>• Jointly, with the Risk Committee, approve the Corporate Governance Report to be contained as part of the &lt;IR&gt; suite</li> </ul>
<p><b>Frequency of meetings and manner of call</b></p>	<ul style="list-style-type: none"> <li>• As set out in the corporate calendar. Where necessary, however, special meetings will be called for the explicit intention of monitoring and giving guidance on the production of the &lt;IR&gt;</li> </ul>
<p><b>Quorum</b></p>	<ul style="list-style-type: none"> <li>• As set out in the Audit Committee's overall ToR</li> </ul>
<p><b>&lt;IR&gt; resources</b></p>	<ul style="list-style-type: none"> <li>• Approved the &lt;IR&gt; governance process</li> <li>• The Board to provide support to the Audit Committee in the production of the &lt;IR&gt; at Audit Committee meetings</li> </ul>
<p><b>Reporting</b></p>	<ul style="list-style-type: none"> <li>• The &lt;IR&gt; Forum Steering Committee, as represented by the General Manager: Group Reporting and Taxation, will report to the Audit Committee on progress and structure as well as content contained within the &lt;IR&gt;</li> <li>• The Audit Committee will report to the Board on the &lt;IR&gt; programme</li> </ul>



“Transnet’s performance for the financial year ended 31 March 2021 was against the backdrop of the compounded impact of subdued economic growth (due mainly to the COVID-19 lockdowns) and challenges in the operational environment.”

## Annexure C: Details of investments in subsidiaries and associates

	Effective holding		Voting power held	Shares at cost		Interest of holding company net profit/(loss)		Interest of holding company indebtedness		Accumulated impairment and losses	
	2021 %	2020 %	2021 %	2021 R million	2020 R million	2021 R million	2020 R million	2021 R million	2020 R million	2021 R million	2020 R million
<b>Subsidiaries<sup>1</sup></b>											
<b>Environmental responsibility</b>											
Transnet Pipelines Rehabilitation Trust <sup>2</sup>	100	100	100	—	—	8	43	—	—	—	—
<b>International business activities</b>											
Transnet International Holdings SOC Ltd (TIH) <sup>3</sup>	100	100	100	—	—	—	—	—	—	—	—

<sup>1</sup> Incorporated in the Republic of South Africa, unless stated otherwise.

<sup>2</sup> During the reporting year, the National Energy Regulator of South Africa (Nersa) approved the use of a financial security alternative to the Transnet Pipelines Rehabilitation Trust (the Trust) resulting in the trustees passing a resolution to terminate the Trust. The Trust is therefore in the process of dissolution.

<sup>3</sup> Dormant.

	Principal activity	Effective holding		Shares at cost		Interest of holding company indebtedness		Accumulated impairment and losses		Share of post-acquisition reserves		Total	
		2021 %	2020 %	2021 R million	2020 R million	2021 R million	2020 R million	2021 R million	2020 R million	2021 R million	Restated 2020 R million	2021 R million	Restated 2020 R million
<b>Equity-accounted investees<sup>1</sup></b>													
<b>Associates</b>													
Commercial Cold Storage (Ports) (Pty) Ltd	Storage and bondage	30	30	—	—	1	1	—	—	26	13	27	14
Comazar (Pty) Ltd <sup>2</sup>	Transport logistics	32	32	13	13	8	8	21	21	—	—	—	—
RainProp (Pty) Ltd	Property development and management	20	20	—	—	1	1	—	—	43	51	44	52
<b>Joint ventures</b>													
Gaborone Container Terminal <sup>3</sup>	Container terminal	36	36	6	6	—	—	—	—	31	23	37	29
Cytobix (Pty) Ltd (Godisa supplier development fund)	Supplier development	50	50	—	—	55	55	55	55	—	—	—	—
				19	19	65	65	76	76	100	87	108	95

<sup>1</sup> Incorporated in the Republic of South Africa, unless stated otherwise.

<sup>2</sup> Dormant.

<sup>3</sup> Incorporated in Botswana.

### Summarised financial information of significant equity-accounted investees

	Commercial Cold Storage (Ports) (Pty) Ltd R million	Gaborone Container Terminal R million	RainProp (Pty) Ltd R million
<b>Financial position</b>			
Total assets	98	115	1 014
Total liabilities	9	9	391
<b>Results of operations</b>			
Revenue	55	22	165
Net profit	11	—	59

## Annexure D: Application of King IV Principles

### Principle 1: Leadership

The Accounting Authority should lead ethically and effectively

**Governance outcome:**

- Ethical Culture



Planned Actions	Status Update	Narrative Statement
<b>Enhancement of the Declaration of Interest (DOI)</b>	Complete	<ul style="list-style-type: none"> <li>All Transnet employees (including consultants and fixed-term contracts) are required to declare annually on the automated DOI system and the non-executive directors are required to declare manually</li> <li>The GCE has delegated powers to the Chief of Security to oversee and monitor the DOI</li> <li>In March 2021 the Board of Directors reviewed and approved the DOI and related-party disclosures policies for directors and Transnet employees</li> <li>The DOI is a standing item on the agenda of all Board and committee meetings as well as Exco and committee meetings</li> <li>The DOIs for directors are presented to the Board for noting</li> <li>The Corporate Governance and Nominations Committee and the Remuneration, Social and Ethics Committee conduct annual reviews of the filed DOI forms of the members of the Board and Group Executive Committee for oversight purposes</li> </ul>
<b>Establishment of ethics-related policies</b>	Complete	<ul style="list-style-type: none"> <li>The Company has established a No Gifts and Hospitality Policy, The Non-Executive Directorship and Trusteeships Policy, Transnet Whistle-blowing Policy and Anti-bribery and Anti-corruption and Lifestyle Audit Policy in support of the Company's Code of Ethics</li> </ul>

### Principle 2: Organisational ethics

Govern the ethics of the organisation in a way that supports the establishment of an ethical culture

**Governance outcomes:**

- Ethical Culture
- Effective Control



Planned Actions	Status Update	Narrative Statement
<b>Appointment of an Ethics Officer</b>	In progress	<ul style="list-style-type: none"> <li>The Chief Legal Officer, as delegated by the GCE, is in the process of appointing an Ethics Officer</li> <li>The Ethics Officer shall lead the institutionalisation of a mature and sustainable Ethical Culture within Transnet and spearhead ethics and integrity programmes to promote ethical conduct and emphasise managerial responsibility for ethical behaviour</li> </ul>
<b>The Remuneration, Social and Ethics Committee (REMSEC)</b>	Complete	<ul style="list-style-type: none"> <li>The committee is responsible for the governance of ethics and ensures that the Company's ethical performance is assessed, monitored, reported and disclosed in the Company's integrated report</li> <li>A social and ethics-focused meeting is held on an annual basis</li> <li>The Company's Code of Ethics, which applies to the directors and employees of the Company, is reviewed every three years or as and when necessary</li> </ul>
<b>Ethics Management Programme</b>	Complete	<ul style="list-style-type: none"> <li>The Board has an approved Code of Ethics which is published on the Transnet website and incorporated into contractual arrangements with suppliers, and integrity pacts are concluded with all bidders and suppliers</li> <li>The Chief Legal Officer is responsible for the Ethics Management Programme</li> <li>Aspects of the Code are included in fraud and corruption awareness training and are accessible to all employees on the Company's intranet</li> <li>The Board, has in support of its Ethics Management Programme, has approved the Transnet Lifestyle Audit Policy which is applicable to all employees. The Board further resolved to participate in the Lifestyle Audit process to set the tone at the top</li> </ul>
<b>The Code of Ethics (the Code)</b>	Complete	<ul style="list-style-type: none"> <li>The Code includes the Company's values, guidelines and the process for external directorships for executive and non-executive directors</li> <li>The purpose of the Code is to set out ethical standards for business practice, individual business conduct and to assist all employees and non-executive directors with their ethical deliberations, choices, decisions and conduct</li> </ul>

### Principle 3: Responsible corporate citizenship

Ensure that the organisation is and is seen to be a responsible corporation citizen

**Governance outcome:**

- Ethical Culture



Planned Actions	Status Update	Narrative Statement
<b>Good Corporate Citizenship</b>	Complete	<ul style="list-style-type: none"> <li>The Board ensures that the Company is a responsible corporate citizen by complying with all national and international laws, standards, and adherence to its own codes of conduct and policies in which the Company operates</li> <li>The Company is a signatory to the UN Global Compact and has extensive corporate social investment (CSI) programmes in place</li> <li>The Transnet Foundation is responsible for driving the Company's socio-economic development agenda to benefit communities</li> <li>The Company's community investment programmes are underpinned by its commitment to uplifting and empowering communities through health interventions, promoting education, enabling effective asset utilisation to provide much needed infrastructure solutions, developing rural sports and employing our employees' skills and competencies to effect positive change in the communities</li> <li>Socio-economic initiatives form part of the Shareholder's Compact targets</li> <li>The CSI Activities Report is tabled for noting at the REMSEC on a quarterly basis</li> <li>The Board reports on its CSI activities in the integrated report</li> </ul>

### Principle 4: Strategy and performance

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

**Governance outcome:**

- Good Performance



Planned Actions	Status Update	Narrative Statement
<b>Shareholder's Compact</b>	Complete	<ul style="list-style-type: none"> <li>The Company annually enters into a Shareholder's Compact with the Shareholder Minister. The Shareholder's Compact mandates the Company to deliver on numerous strategic deliverables, a process which the Board oversees. It monitors the Company's performance against the targets outlined in the Shareholder's Compact and ensures that adequate processes are in place for budget planning and allocation to advance the Company's mandate</li> </ul>
<b>Corporate Plan</b>	Complete	<ul style="list-style-type: none"> <li>The Corporate Plan was approved by the Board and submitted to National Treasury and the DPE</li> <li>The Corporate Plan is prepared on an annual basis by the Exco and is approved by the Board. The Corporate Plan outlines the Company's strategy, objectives and plans, and details the initiatives and associated KPIs that will be implemented to achieve the Company's strategic objectives</li> </ul>
<b>Board strategic session and the deep dive</b>	Complete	<ul style="list-style-type: none"> <li>The Board holds strategy workshops and deep dive sessions where matters of a topical and strategic nature are discussed in detail. Initiatives and recommendations from these sessions are then formulated into strategies and plans and submitted to the Board for formal consideration</li> </ul>
<b>Risk identification assessment and going concerns</b>	Complete	<ul style="list-style-type: none"> <li>Transnet has adopted an Integrated Risk Management Policy and Framework, Enterprise Risk Management (ERM) Strategy and Framework. The GM: ERM performs regular risk identification assessments and these are reported to the Risk Committee</li> <li>The Audit Committee assesses the going concern assertion of the Company on a regular basis and makes a statement to that effect in the Company's financial statements</li> </ul>
<b>DOA Framework</b>	Complete	<ul style="list-style-type: none"> <li>The Board approved the DOA Policy in May 2021, which outlines and documents a structured decision-making framework for the Board of Directors and management in order to promote effective and efficient governance in line with the approved Company structure; and to devolve the powers that vest with the Transnet Board as the Accounting Authority to various appointed functionaries and established governance structures to enable the business strategy and define the limits of authority designated by the Board</li> <li>The current DOA Framework is in the process of being approved by the Board (26 July 2021) to align with the new structure of the business</li> </ul>
<b>Company strategy</b>	Complete	<ul style="list-style-type: none"> <li>Transnet has revised its strategy which was approved by the Board in February 2021</li> </ul>

## Annexure D: Application of King IV Principles

### Principle 5: Reporting

The Accounting Authority should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects

**Governance outcomes:**

- Effective Control
- Legitimacy



King IV, P5

Planned Actions	Status Update	Narrative Statement
Department of Public Enterprise Quarterly Report	Complete	<ul style="list-style-type: none"> <li>• The Board ensures that the Company adheres to all procedures for quarterly reporting to the Executive Authority through the submission of quarterly reports to the Shareholder Minister</li> <li>• Decisions taken by the Board and its committees are reported quarterly to the Shareholder</li> </ul>
Integrated report	Complete	<ul style="list-style-type: none"> <li>• The integrated report provides information of material significance in creating short, medium and long-term value</li> <li>• To ensure the integrity of the reporting, the integrated report is compiled and reviewed by management first, and relevant sections are tabled at the appropriate Board committees before being tabled to the Board for final approval. Assurance on accuracy and reliability of financial matters is provided by the External Audit</li> <li>• Decisions taken by the Board and its committees are reported in the integrated report</li> </ul>
Annual financial statements	Complete	<ul style="list-style-type: none"> <li>• The Company issues audited interim and annual financial statements in line with applicable legislation. The Company also reports on the extent of its compliance with the Companies Act in the Directors' report in the Annual Financial Statements</li> </ul>

### Principle 6: Primary roles and responsibilities of the Accounting Authority

The Accounting Authority should serve as the focal point and custodian of the corporate governance in the organisation

**Governance outcomes:**

- Ethical Culture
- Good Performance



King IV, P6

Planned Actions	Status Update	Narrative Statement
Annual review of the committee charters	Complete	<ul style="list-style-type: none"> <li>• The Board and its committees have approved charters which are reviewed for adequacy on an annual basis</li> </ul>
Access to Company information	Complete	<ul style="list-style-type: none"> <li>• The Board has unrestricted access to all Company information, records, documents and property subject to following a Board-approved internal control</li> </ul>
Board of Directors' meetings	Complete	<ul style="list-style-type: none"> <li>• The Board meets at least six times a year. The number of meetings held and attendance thereof, together with decisions taken by the Board and its committees, are reported quarterly to the Shareholder and in the integrated report</li> <li>• The Board is satisfied that it has fulfilled its duties and responsibilities in accordance with its charter for the reporting period</li> </ul>

### Principle 7: Composition of the Accounting Authority

The Accounting Authority should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively

**Governance outcomes:**

- Effective Control
- Ethical Culture
- Good Performance
- Legitimacy



King IV, P7

Planned Actions	Status Update	Narrative Statement
Composition of the Accounting Authority	Complete	<ul style="list-style-type: none"> <li>• The Board of Directors, members of the Audit Committee and REMSEC are appointed by the Shareholder Minister</li> <li>• The Board is elected by the Shareholder on a three-year term renewable at the next AGM. The executive directors are appointed on a five-year contract</li> <li>• The committee compiles a Board skills matrix for consideration by the Shareholder Minister as part of non-executive directors' succession planning activities</li> <li>• The Corporate Governance and Nominations Committee through the Board of Directors recommends the appointment of executive directors to the Shareholder</li> </ul>
The MOI of the Company provides that the Board shall at all times consist of a majority of independent non-executive directors	Complete	<ul style="list-style-type: none"> <li>• The Board of Directors currently comprises 10 directors, eight of whom are independent non-executive directors, including the Chairperson</li> <li>• The Board has a minimum of two executive directors, consisting of the Group Chief Executive and Group Chief Financial Officer</li> </ul>
The Board should comprise appropriate knowledge, skills, experience, diversity and independence	In progress	<ul style="list-style-type: none"> <li>• In terms of the Company's MOI, the minimum number of directors is six (6) and the maximum number is fourteen (14) comprising not less than four (4) non-executive directors, and currently we have 10 directors, of whom eight are independent non-executive directors</li> <li>• Vacancies on the Board led to some of the skills and competencies being compromised</li> </ul>

### Principle 8: Committees of the Accounting Authority

The Accounting Authority should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and effective discharge of its duties

**Governance outcomes:**

- Effective Control
- Ethical Culture
- Good Performance
- Legitimacy



King IV, P8

Planned Actions	Status Update	Narrative Statement
The Board and its committees	Complete	<ul style="list-style-type: none"> <li>• The Board of Directors established the Audit Committee and the REMSEC as statutory committees as well as the Corporate Governance and Nominations Committee, Risk Committee, and Finance and Investment Committee as non-statutory committees</li> <li>• The Board committees have a minimum of three members. The respective Board committee charters make provision for the minimum number of members required for each committee</li> <li>• The Board is accountable to the Shareholder Minister on all the decisions taken by any Board committee and by any member of the Board authorised on its behalf. The Board of Directors has a duty to ensure that the Company complies with all legislative and regulatory requirements, including the provisions of the Companies Act, the PFMA, and the King IV Report</li> <li>• Information on Board committees is disclosed under the Governance Report in the integrated report</li> </ul>
DOA Framework	Complete	<ul style="list-style-type: none"> <li>• The Board approved the Delegation of Authority Policy in May 2021, which outlines and documents a structured decision-making framework for the Board of Directors and management in order to promote effective and efficient governance in line with the approved Company structure; and to devolve the powers that vest with the Transnet Board as the Accounting Authority to various appointed functionaries and established governance structures to enable the business strategy and define the limits of authority designated by the Board</li> <li>• The draft DOA Framework which aligns to the new structure of the business is on the Board Agenda (26 July 2021) for approval</li> </ul>
The Board committee charters	In progress	<ul style="list-style-type: none"> <li>• With the exception of the Risk Committee and REMSEC, all Board committee charters were approved by the Board</li> <li>• The charters also clearly set out the composition, quorum and responsibilities of the committees</li> </ul>

## Annexure D: Application of King IV Principles

### Principle 9: Evaluation of the performance of the Accounting Authority

The Accounting Authority should ensure that the evaluation of its own performance and that of its own committees, its chair and its individual members support continued improvement in its performance and effectiveness

**Governance outcomes:**

- Effective Control
- Ethical Culture
- Good Performance
- Legitimacy



King IV.P9

Planned Actions	Status Update	Narrative Statement
External Board evaluation	In progress	<ul style="list-style-type: none"> <li>• The annual Board evaluation including its committees, Chairperson and individual members was conducted by an external service provider, appointed through an approved procurement process. The Board Evaluation Report will be tabled for noting at the AGM</li> </ul>
Internal Board evaluation	Complete	<ul style="list-style-type: none"> <li>• The Board conducted an internal online self-assessment during the FY2020/21 through a Governance Assessment Instrument used by the Company, in line with the directive issued by the Shareholder Minister to conduct six-monthly self-assessments</li> </ul>
Board Performance Evaluation Policy	Complete	<ul style="list-style-type: none"> <li>• The Board has approved a Board Performance Evaluation Policy to set out the principles that guide the performance and effectiveness of the Transnet Board, Board committees and individual directors</li> </ul>
Evaluation of Group Company Secretary	Complete	<ul style="list-style-type: none"> <li>• The Performance of the Group Company Secretary was evaluated by the Board through the internal and external evaluations</li> <li>• The Board is satisfied with the performance of the internal and external evaluation of the Company Secretary</li> </ul>

### Principle 10: Appointment and delegation to management

The Accounting Authority should ensure that the appointment of, and delegation to, management contribute to role clarity and effective exercise of authority and responsibilities

**Governance outcomes:**

- Effective Control
- Ethical Culture
- Good Performance
- Legitimacy



King IV.P10

Planned Actions	Status Update	Narrative Statement
Appointment of the Group Chief Executive	Complete	<ul style="list-style-type: none"> <li>• The Board of Directors recommends the preferred candidates for the appointment of the Group Chief Executive to the Shareholder Minister who makes the final appointment</li> </ul>
Delegation of power	Complete	<ul style="list-style-type: none"> <li>• Through the DOA Framework, the Board of Directors delegates powers to the Group Chief Executive to direct the business strategically and provide adequate direction to the Company's operations to ensure that the strategy is successfully implemented. The Group Chief Executive is assisted by members of the Group Executive Committee to deliver on specific mandates</li> <li>• The Board reserved matters are outline in the DOA Framework</li> </ul>
Annual review of the DOA Framework	Complete	<ul style="list-style-type: none"> <li>• The Board approved the Delegation of Authority Policy in May 2021, which outlines and documents a structured decision-making framework for the Board of Directors and management in order to promote effective and efficient governance in line with the approved Company structure; and to devolve the powers that vest with the Transnet Board as the Accounting Authority to various appointed functionaries and established governance structures to enable the business strategy and define the limits of authority designated by the Board</li> <li>• The draft DOA Framework, which aligns with the new structure of the business, is on the Board Agenda (26 July 2021) for approval</li> </ul>
Appointment of the Group Company Secretary	Complete	<ul style="list-style-type: none"> <li>• The appointment of a Group Company Secretary is a statutory requirement for the Company. The Interim Group Company Secretary was appointed by the Board within the prescribed timeframe as per the Companies Act</li> </ul>
Independent advice	Complete	<ul style="list-style-type: none"> <li>• The Board and committee charters provide for authority to seek independent advice and to consult with specialists or consultants, facilitated through the Group Company Secretary's office</li> </ul>

### Principle 11: Risk governance

The Accounting Authority should govern risk in a way that supports the organisation in setting and achieving its strategic objectives

**Governance outcomes:**

- Effective Control
- Ethical Culture
- Good Performance
- Legitimacy



King IV.P11

Planned Actions	Status Update	Narrative Statement
Integrated Risk Management Policy	Complete	<ul style="list-style-type: none"> <li>• The Board has approved the Integrated Risk Management Policy which paved the way for a more cohesive approach to risk management in the organisation at three levels: strategic, tactical and operational</li> <li>• The purpose of the Integrated Risk Management Policy is to outline Transnet's policy directive and commitment to risk governance, implementation of risk management processes, risk monitoring and risk reporting</li> <li>• The Board of Directors have established a Risk Committee which is responsible for oversight of risk related matters within the Company which include: <ul style="list-style-type: none"> <li>- Enterprise Risk Management Strategy and Framework and Enterprise Risk Management Standards</li> <li>- Integrated Risk Management Plan</li> <li>- Risk Appetite and Tolerance Framework</li> <li>- Enterprise Risk Management Methodology</li> <li>- Risk Maturity Surveys</li> <li>- Business Continuity Management Plans</li> <li>- Risk-based Transnet Internal Audit Plan</li> </ul> </li> </ul>

### Principle 12: Technology and information governance

The Accounting Authority should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

**Governance outcomes:**

- Good Performance
- Effective Control
- Legitimacy



King IV.P12

Planned Actions	Status Update	Narrative Statement
ICT Governance Framework and IT Governance Charter	Complete	<ul style="list-style-type: none"> <li>• The ICT Governance Framework and IT Governance Charter are communicated to the Board for review, approval and assessment for effectiveness</li> <li>• The purpose of the ICT framework is to define the requirements for implementing effective ICT structures, principles, processes and practices that will enable effective IT and digital governance within Transnet. The framework sets out the foundation to effectively evaluate, direct and monitor ICT within Transnet</li> <li>• The purpose of this charter is to define, assign and communicate roles and responsibilities for IT governance to relevant stakeholders within Transnet in order to: <ul style="list-style-type: none"> <li>- Ensure clear accountability and responsibility for IT governance within the Transnet Group</li> <li>- Implement an IT governance structure that allows ICT to operate cohesively throughout Transnet and facilitate the achievement of strategic business objectives</li> <li>- Align IT governance with group-wide governance practices</li> <li>- Adopt IT governance good practices across the Group</li> <li>- Ensure that all ICT decisions are business case driven to the maximum benefit of the Group</li> <li>- Develop understanding and support of the practices driving the success of the individual ODs</li> <li>- Attain and maintain the buy-in of the CIOs for transversal initiatives</li> </ul> </li> </ul>



## Annexure D: Application of King IV Principles

### Principle 12: Technology and information governance

The Accounting Authority should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

**Governance outcomes:**

- Good Performance
- Effective Control
- Legitimacy

Planned Actions	Status Update	Narrative Statement
Delegation to management to implement, executive effective technology and information management	Complete	<ul style="list-style-type: none"> <li>• The ICT delegation from the Board to management is addressed in the DOA Framework, which is approved by the Board</li> <li>• The Risk Committee is delegated with the responsibility of exercising ongoing oversight of ICT risk management</li> <li>• In particular, the Risk Committee oversees the establishment and implementation of a business continuity arrangement that allows Transnet to operate under conditions of instability and to withstand and recover from any serious risk issues</li> </ul>
ICT integration	Complete	<ul style="list-style-type: none"> <li>• There is integration of people, technologies, information and processes across the organisation. There is ethical and responsible use of technology and information, and compliance with relevant laws</li> </ul>
ICT role in ensuring business resilience	Complete	<ul style="list-style-type: none"> <li>• ICT's challenges on disaster recovery plans, tests and reports were communicated to the Board and its subcommittees</li> </ul>
Ensuring responsiveness to cybersecurity and social media risks	Complete	<ul style="list-style-type: none"> <li>• Board seeks feedback on the Transnet cybersecurity posture and plans. Transnet IT positions cybersecurity as a top priority and guards against negative publicity and reputational damage</li> </ul>

### Principle 12: Technology and information governance

The Accounting Authority should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

**Governance outcomes:**

- Good Performance
- Effective Control
- Legitimacy

Planned Actions	Status Update	Narrative Statement
Monitoring of third-party and outsourced service provider risks	Complete	<ul style="list-style-type: none"> <li>• Transnet calculates the potential risks or vulnerabilities by completing a service provider assessment for each third-party engagement and also conducts thorough due diligence before the relation commences</li> </ul>
Monitor and evaluate value delivered from technology investments and projects	Complete	<ul style="list-style-type: none"> <li>• Apply Benefits Realisation Management to plan for, monitor and track benefits realisation throughout the project delivery process:                             <ul style="list-style-type: none"> <li>- Pre-Execution Planning</li> <li>- FEL 1 - Identify and Quantify Benefits</li> <li>- FEL 2 - Value and Appraise Benefits</li> <li>- FEL 3 - Value and Appraise Benefits</li> <li>- FEL 4 - Benefits Planning</li> <li>- Execution Phase (and Closeout)</li> <li>- Benefits Realisation</li> <li>- Benefits Realisation Report</li> <li>- Benefits Review Health Check</li> <li>- Post Implementation</li> <li>- User Adoption Change Management reports</li> </ul> </li> </ul>

### Principle 12: Technology and information governance

The Accounting Authority should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

**Governance outcomes:**

- Good Performance
- Effective Control
- Legitimacy

Planned Actions	Status Update	Narrative Statement
Management of the disposal of obsolete technology and information	Complete	<ul style="list-style-type: none"> <li>• Governed by Transnet Acquisition Council</li> </ul>
The ethical and responsible use of ICT and compliance with applicable laws	Complete	<ul style="list-style-type: none"> <li>• Board has requested and been provided with insight on the ICT's regulatory universe</li> </ul>
Oversee management of information (including use of information architecture, protection of privacy and security)	Complete	<ul style="list-style-type: none"> <li>• ICT analyses information used by the organisation</li> <li>• ICT tracks and enforces regulatory compliance (POPI Act) and conformance to regulatory policies, standards, architecture and procedures</li> </ul>
The overview of arrangements governing and managing technology and information	Complete	<ul style="list-style-type: none"> <li>• The ICT Executive Committee has been established as a structure that provides feedback to the Group Executive Committee on matters pertaining to ICT Strategy, Corporate Plan and Digital initiatives</li> <li>• Development and implementation of data and information architecture that supports confidentiality, integrity and availability of information</li> </ul>

### Principle 12: Technology and information governance

The Accounting Authority should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

**Governance outcomes:**

- Good Performance
- Effective Control
- Legitimacy

Planned Actions	Status Update	Narrative Statement
Areas of current and future focus	Complete	<ul style="list-style-type: none"> <li>• ICT aims to employ a digital-first culture to digitise both existing and next-generation products and services</li> <li>• The digital-first approach is enabled by the provision of digital platforms as well as disruptive and enabling technologies to support digital transformation which underpins a strong digital backbone</li> <li>• Leveraging an ecosystem that includes strategic partnerships to ensure that ICT provides agile and innovative services</li> </ul>
Significant changes, acquisitions, incident management and remedial action	Complete	<ul style="list-style-type: none"> <li>• This is the primary role of the ICT leadership (ManCo and Operating Divisions) in conjunction with the IT service providers</li> <li>• The Change Advisory Board delivers support to a change management team by advising on requested changes, and assisting in the assessment and prioritisation of changes</li> <li>• Acquisitions are concluded by the Transnet Acquisition Council facilitated by the Supply Chain Management Department</li> <li>• Incident management, problem management and remedial actions are managed by the ICT Service Management team reporting to the Enterprise Technology Services functional unit</li> </ul>

## Annexure D: Application of King IV Principles

### Principle 13: Compliance governance

The Accounting Authority should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that it supports the organisation being ethical and a good corporate citizen

**Governance outcomes:**

- Ethical Leadership
- Ethical Culture
- Good Performance
- Legitimacy



King IV.P13

Planned Actions	Status Update	Narrative Statement
<b>Compliance management</b>	Complete	<ul style="list-style-type: none"> <li>• Transnet has a dedicated Compliance function to assist the Board and management with discharging their compliance responsibilities</li> <li>• The Compliance function provides advice, risk management support, independent monitoring and reporting on compliance controls for high-priority regulatory requirements</li> <li>• Accountability for the implementation of compliance controls lies with management</li> <li>• Approximately 191 primary pieces of legislation impact Transnet, inclusive of 45 strategic pieces of legislation</li> <li>• Compliance is implemented through a risk-based approach using a decentralised model, with Compliance Officers appointed within Operating Divisions and Corporate Centre functions</li> <li>• Compliance Maturity Plan for FY2021/22 was approved by the Risk Committee</li> <li>• Compliance standards and frameworks are in place and improvements to adapt to our changing environments are constantly effected</li> <li>• The Compliance Policy is currently under review to be finalised by July 2021</li> <li>• Inspections by environmental regulators are tracked, monitored and reported in the integrated report</li> </ul>

### Principle 14: Remuneration governance

The Accounting Authority should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in short, medium and long term

**Governance outcomes:**

- Ethical Culture
- Effective Control
- Legitimacy



King IV.P14

Planned Actions	Status Update	Narrative Statement
<b>Remuneration, Social and Ethics Committee</b>	Complete	<ul style="list-style-type: none"> <li>• The REMSEC considers the non-binding advisory vote of the Shareholder on the Company's remuneration policy, and assists the Board in setting and administering such remuneration policy and applicable practice standards which must be aligned to the strategy of the Company on an annual basis</li> <li>• The REMSEC recommends the level of independent non-executive directors' fees to the Board for approval by the Shareholder Minister at the AGM. The Board and the REMSEC continuously assess the effectiveness of remuneration policies</li> </ul>
<b>Remuneration policy</b>	In progress	<ul style="list-style-type: none"> <li>• The remuneration policy for management is in the process of review and finalisation</li> <li>• The policy will be submitted to the REMSEC and Board for recommendation to the Minister in August 2021. The work plan for the finalisation of the remuneration policy was submitted to the DPE</li> <li>• The remuneration policy/philosophy addresses organisation-wide remuneration and includes provisions to attract, motivate, reward and retain human capital</li> <li>• Remuneration policies and practices are both aligned with entity strategy and linked to individual performance</li> <li>• The remuneration elements and design principles informing the remuneration arrangements for management employees will be included in the remuneration policy</li> <li>• Remuneration elements for bargaining unit employees are contained in collective agreements</li> <li>• Details of obligations in executive employment contracts of leave pay entitlement for executives are included in the relevant policies as prescribed by the Companies Act</li> <li>• The remuneration and implementation report is tabled annually for separate non-binding advisory votes by shareholders at the AGM</li> </ul>
<b>Remuneration report</b>	Complete	<ul style="list-style-type: none"> <li>• The remuneration report includes details of all fees paid to non-executive directors, and remuneration awarded to executive directors and prescribed officers during the reporting period</li> <li>• The remuneration report includes all remuneration including short and long-term incentive amounts for the current and prior years for executive directors and prescribed officers</li> </ul>

### Principle 15: Assurance

The Accounting Authority should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and of the organisation's external reports

**Governance outcomes:**

- Effective Control
- Legitimacy
- Ethical Culture



King IV.P15

Planned Actions	Status Update	Narrative Statement
<b>Combined assurance</b>	Complete	<ul style="list-style-type: none"> <li>• A Combined Assurance Model, which aims to streamline collective assurance effort in order to enable senior management, the Audit Committee and the Board to obtain a comprehensive, holistic view of the effectiveness of internal controls over the organisation's governance and risk management, is in the process of being rolled out. The Combined Assurance Model sets out the roles and responsibilities of the three lines of assurance</li> <li>• The Combined Assurance Plan for FY2021/22 is presented to the Audit Committee for approval</li> <li>• Internal Audit's assurance responsibilities are defined in the Internal Audit Charter</li> <li>• Combined assurance reports as well as reports from Internal Audit and External Audit are submitted to the Audit Committee to enable them to form their opinion on the integrity of information and effectiveness of the control environment</li> </ul>
<b>Assurance of external Reports</b>	Complete	<ul style="list-style-type: none"> <li>• As a statutory requirement, External Audit provides assurance on the Transnet financial statements and integrated report</li> <li>• As part of the Risk-based Audit Plan, Internal Audit provides assurance on the Corporate Plan and Shareholder's Compact performance targets, amongst other reviews</li> </ul>

### Principle 15: Assurance

The Accounting Authority should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and of the organisation's external reports

**Governance outcomes:**

- Effective Control
- Legitimacy
- Ethical Culture

Planned Actions	Status Update	Narrative Statement
<b>Internal Audit</b>	Complete	<ul style="list-style-type: none"> <li>• The Audit Committee, a subcommittee of the Transnet Board, is delegated the responsibility to provide oversight on Internal Audit and External Audit activities</li> <li>• The Internal Audit Charter which details Internal Audit's purpose, status, authority and responsibilities is approved by the Audit Committee. The Internal Audit Charter is continuously reviewed and updated. The Chief Audit Executive (CAE) ensures that Internal Audit has sufficient and adequate skills for the performance of the Internal Audit function</li> <li>• To ensure independence of the Internal Audit function, the CAE reports functionally to the Audit Committee and administratively to the Group Chief Executive</li> <li>• Appointment of the CAE was approved by the Audit Committee and there are mechanisms in place for continuous performance assessment and monitoring. The Audit Committee reviews TIA's performance of its responsibilities on an annual basis</li> <li>• The CAE has direct access to the Chairperson of the Audit Committee</li> <li>• The CAE is a permanent Transnet employee and a member of the Executive Committee</li> <li>• Annually, Internal Audit prepares and submits a risk-based plan to Audit Committee for approval. The FY2021/22 Audit Plan has been approved</li> <li>• An annual statement on the effectiveness of the governance, risk management and controls is submitted to the Audit Committee. The 2020/21 Internal Audit Assessment has been noted by the Audit Committee</li> <li>• As part of Internal Audit's Quality Assurance and Improvement Programme, internal quality assurance is conducted continuously and an external independent review is conducted every five years</li> <li>• Annually, all Internal Audit staff complete a declaration confirming conformance to the Code of Ethics</li> </ul>

## Annexure D: Application of King IV Principles

### Principle 16: Stakeholder

In the execution of its governance roles and responsibilities, the Accounting Authority should adopt a stakeholder-inclusive approach that balance the needs, interests and expectation of material stakeholders in the best interests of the organisation over time

**Governance outcomes:**

- Ethical Culture
- Ethical Leadership



King IV.P16

Planned Actions	Status Update	Narrative Statement
Stakeholder relationships	Complete	<ul style="list-style-type: none"> <li>• Stakeholder engagement practices are aligned with the Delegation of Authority Framework</li> <li>• A Grievance mechanism is established for communities</li> <li>• A Group Stakeholder Engagement Forum (GSE Forum) has been established</li> <li>• The Memorandum of Incorporation sets out the rules governing the conduct of the company</li> <li>• The Board delegates authority to the Group Chief Executive who reports to the Board on all material stakeholder issues and takes responsibility for incorporating these into Transnet's strategy and risk management</li> <li>• Stakeholder engagement practices align with the Company's Culture Charter and supporting values</li> <li>• Engagement norms include inclusivity, accountability and responsiveness</li> <li>• Stakeholder engagement performance is measured as a key performance indicator in the Balanced Scorecards of Stakeholder Relationship Owners</li> <li>• Stakeholder engagement is centralised with Corporate Affairs being responsible for coordination of this function, but the Board has overall responsibility for stakeholder engagement</li> <li>• The monitoring and evaluation of stakeholder engagement is reported to the Remuneration, Social and Ethics Committee and to the Board</li> <li>• Transnet has adopted guidelines from the AA1000 standards (Accountability Principles Standard 2008 and the AA1000 Stakeholder Engagement Standard 2011)</li> <li>• The Stakeholder Engagement Report incorporates the measurement of the quality of material stakeholder relationships and appropriate responses to the outcomes. The Stakeholder Engagement Policy and Procedure are approved at Board level</li> </ul>
Shareholder relationship, including the AGM	Complete	<ul style="list-style-type: none"> <li>• There is continuous engagement with the Shareholder Minister and the DPE</li> <li>• The AGM notice was published on the Company's website</li> <li>• Both SizweNtsalubaGobodo GT and the Auditor-General South Africa were present at the Company's 30th AGM held on 23 October 2020</li> </ul>

## Abbreviations and acronyms

<b>AEL</b>	Air Emission Licence	<b>NGO</b>	Non-governmental organisation
<b>AGSA</b>	Auditor-General of South Africa	<b>NMPP</b>	New Multi-Product Pipeline
<b>B-BBEE</b>	Broad-Based Black Economic Empowerment	<b>NPO</b>	Non-profit organisation
<b>Capex</b>	Capital expenditure	<b>NTK</b>	Net ton kilometre
<b>CIPC</b>	Companies and Intellectual Property Commission	<b>OD</b>	Operating Division
<b>CPI</b>	Consumer price index	<b>OEM</b>	Original equipment manufacturer
<b>CSI</b>	Corporate social investment	<b>PFMA</b>	Public Finance Management Act, No 1 of 1999
<b>CWIP</b>	Capital work in progress	<b>POPIA</b>	Protection of Personal Information Act, No 4 of 2013
<b>DIFR</b>	Disabling injury frequency rate	<b>PPPFA</b>	Preferential Procurement Policy Framework Act, No 5 of 2000
<b>DOA</b>	Delegation of Authority	<b>Prasa</b>	Passenger Rail Agency of South Africa
<b>DPE</b>	Department of Public Enterprises	<b>PSP</b>	Private sector participation
<b>EAP</b>	Employee Assistance Programme	<b>R&amp;D</b>	Research and development
<b>EBITDA</b>	Earnings before interest, taxation, depreciation and amortisation	<b>REMSEC</b>	Remuneration, Social and Ethics Committee
<b>ECA</b>	Export credit agency	<b>ROTA</b>	Return on total average assets
<b>ESD</b>	Enterprise and Supplier Development	<b>S&amp;P</b>	S&P Global Ratings
<b>ESG</b>	Environmental, social and governance	<b>SD</b>	Supplier development
<b>EV</b>	Employee volunteerism	<b>SDGs</b>	Sustainable Development Goals
<b>GCE</b>	Group Chief Executive	<b>SDOs</b>	Sustainable Development Outcomes
<b>GDP</b>	Gross domestic product	<b>SMMEs</b>	Small, medium and micro enterprises
<b>GFB</b>	General freight business	<b>SOC</b>	State-owned company
<b>GRI</b>	Global Reporting Initiative	<b>STI</b>	Short-term Incentive
<b>ICT</b>	Information and communications technology	<b>TE</b>	Transnet Engineering OD
<b>IFRS</b>	International Financial Reporting Standards	<b>TEU</b>	Twenty-foot equivalent unit
<b>IIRC</b>	International Integrated Reporting Council	<b>TFR</b>	Transnet Freight Rail OD
<b>ISO</b>	International Standards Organisation	<b>TIA</b>	Transnet Internal Audit
<b>IT</b>	Information technology	<b>TMPS</b>	Total Measured Procurement Spend
<b>King IV</b>	King Report on Corporate Governance for South Africa, 2016	<b>TNPA</b>	Transnet National Ports Authority OD
<b>KPI</b>	Key performance indicator	<b>TPL</b>	Transnet Pipelines OD
<b>LNG</b>	Liquefied natural gas	<b>TP</b>	Transnet Property OD
<b>LTI</b>	Long-term Incentive	<b>TPT</b>	Transnet Port Terminals OD
<b>MOI</b>	Memorandum of Incorporation	<b>TSDBF</b>	Transnet Second Defined Benefit Fund
<b>mt</b>	Million tons	<b>TTPF</b>	Transnet Sub-fund of the Transport Pension Fund
<b>Nersa</b>	National Energy Regulator of South Africa	<b>WSDP</b>	Whole School Development Programme

# Glossary of terms

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## Asset turnover (times)

Revenue divided by total assets (total assets excluding capital work in progress).

## Cash interest cover (times)

Cash generated from operations after working capital changes, divided by net finance costs (net finance costs include finance costs, finance income and capitalised borrowing costs from the cash flow statement).

## Debt (for gearing calculation)

Long-term borrowings, short-term borrowings, employee benefits, derivative financial liabilities plus overdraft, less other short-term investments, less derivative financial assets and less cash and cash equivalents.

## EBITDA

Profit/(loss) from operations before depreciation, derecognition, amortisation, impairment of assets, dividend received, post-retirement benefit obligation (costs)/income, fair value adjustments, income/(loss) from associates and net finance costs.

## EBITDA margin

EBITDA expressed as a percentage of revenue.

## Equity

Issued capital and reserves.

## Gearing

Debt expressed as a percentage of the sum of debt and Shareholder's equity.

## Headline earnings

As defined in Circular 2/2013, issued by the South African Institute of Chartered Accountants, all items of a capital nature are separated from earnings (by headline earnings).

## Operating profit

Profit/(loss) from operations after depreciation, derecognition and amortisation but before impairment of assets, dividends received, post-retirement benefit obligation (expense)/income, fair value adjustments, income/(loss) from associates and net finance costs.

## Operating profit margin

Operating profit expressed as a percentage of revenue.

## Return on total average assets

Operating profit expressed as a percentage of total average assets (total average assets exclude capital work in progress).

## Total assets

Non-current and current assets.

## Total average assets

Total assets, where average is equal to the total assets at the beginning of the reporting year, plus total assets at the end of the reporting year, divided by two.

## Total debt

Non-current and current liabilities.