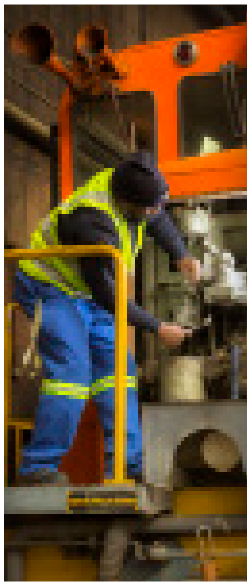
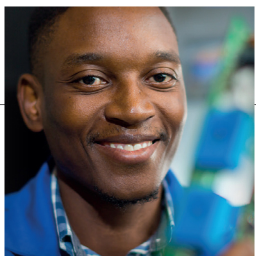


RISK REPORT 2020



Navigating this report

ICONS KEY

Strategic focus areas

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

Socio-economic developmental outcomes

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

The capitals

- Financial capital
- Manufactured capital
- Human and Intellectual capital
- Social and relationship capital
- Natural capital

King IV™[1] references

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

P = Principle

[1] King IV Report on Corporate Governance for South Africa 2016

Contents

Our new risk management approach

State Capture undoubtedly harmed Transnet's reputation as a State-Owned Company. Inconsistent 'tone at the top' and poor enforcement of an ethical culture has weakened the early detection and control of risks related to the circumvention of controls around procurement and consequential contract management. Whereas the 2019/20 Financial Year called for an emphasis on investigations and consequence management, the emphasis of the 2020/21 Financial Year is to fast-track corrective action, commencing with an unequivocal ethical tone from the top. This will set standards of ethical conduct and facilitate a return to effective controls, thereby enabling risk- and opportunity-based decision-making.

New Executive Leadership, guided by the Board of Directors, has swiftly reset the tone and baseline for consistent, predictable and reliable risk management practices across Transnet. Core to this approach is the creation and preservation of value for Transnet and its wider stakeholder community, shifting Transnet's future trajectory toward pro-active and informed decision-making. Immediate action introduces a zero tolerance to gifts and hospitality gratuity. Further, top management life-style audits have been instituted and a critical assessment has been performed of Transnet's current risk management maturity, recognising lessons learnt from managing business continuity risks during the "Brace Period" of the Covid-19 pandemic.

A company-wide risk management maturity assessment conducted across a multi-disciplinary spectrum of the principal business owners and risk practitioners highlighted key break-down points to be addressed to restore Transnet's advanced risk management framework. The principal focus will be on ensuring a sustained ethical tone at the top, visibility of the Company's risk appetite, the continuous testing of Transnet's risk tolerance levels; and the ongoing assessment of the adequacy and effectiveness of controls on a company-wide basis.

Despite visible failures in managing risk in the past, pockets of excellence have emerged to embed an integrated risk management approach as an integral component of combined assurance. In addition to structuring an auditable risk management plan, which plots the process journey towards advanced maturity, risk management governance has prominence in both strategic and tactical operational responses and associated reforms. Notably, a review of the delegations of authority (DoA) is alive to cumulative or aggregated quantitative and qualitative risk and opportunity adjusted decision-making. As a result, aggregated transversal/systemic operational risks will be given visibility and agile tactical responses.

In short, Transnet's forward-looking reporting methodology is different to prior years' reporting in its emphasis on the aggregated visibility of risk trends as opposed to a static quantification of risk exposures. Our risk reporting methodology for the 2020 financial year follows the spirit set by our new risk management framework, which is to consider the priority positioning of the top 10 clusters of material risks rather than narrowly focusing in on the top 10 individual risks, as has been the practice in prior years. The size and scale of Transnet as an organisation and the complexities associated with our dual commercial and developmental mandates require us to consider the qualitative interdependencies of root causes – their origins, their impacts and their direct and indirect influences on adjacent risks. Notably, the focus is on the aggregated emerging inter-dependent pressures on risk clusters affecting Transnet's sustainability as a strategic national asset. This dynamic and multi-dimensional approach to risk management and, by extension, our risk reporting also considers the increasingly resilient control environment required to mitigate risks, not simply where they impact directly, but where they intersect and exacerbate (or balance) other root causes. This is particularly relevant for emerging risks, especially for those originating from our external environment. A case in point for the latter part of the 2020 financial year relates to the cascading risks associated with Covid-19 as well as climate change related risks.

Viewed from the perspective of managing 'hybrid risk impacts' resulting within and between material risk clusters, we are better equipped to design the early warning mechanisms and triggers to alert us to the likelihood and consequences of risks materialising. Accordingly, we outline our top 10 material clusters for the reporting year in Table 1 below and the heatmap that follows, while summarising the root causes encapsulated by each risk cluster. The reasons for the positioning of risk clusters in the heatmap – and the movement of risks from the prior year – are provided in brief.

Below, we consider key risk areas and their material impacts in contributing to the positioning of our 2020 top 10 risk clusters.

Procurement

Supply chain risks are reviewed and assessed on an annual basis to identify significant risks that could affect the achievement of strategic objectives and value drivers. Immediate measures have been introduced to address demand planning, enhanced security around the receipt and safekeeping of tenders, and to mitigate policy and statutory breaches. Additionally, a comprehensive review of the Transnet procurement function is underway to address risks related to fraud and corruption, non-compliance, available specialist skills, effective contract management and cost effective security of supply. Current strategic interventions include prioritising procurement events that will accelerate maintenance backlogs and expand capacity in Transnet's rail and port operations.

Safety

Overall, 109 public fatalities were reported for the period 01 April 2019 to 31 March 2020, compared to 134 in the prior period. These fatalities were due mainly, to encroachment of the rail reserve by informal settlements communities. During this period, Transnet, in collaboration with Local Municipalities, Schools, the South African Police Services (SAPS) and other relevant stakeholders, extended its community awareness campaigns, which includes a Level Crossing Awareness Campaign to educate communities about the dangers of living in close proximity to the railway lines.

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

A dedicated Safety Project team has been instructed by the new leadership team to particularly focus on encroachment risks, safe employee environments as well as an employee learning culture which encourages reporting of unsafe activities /and environments.

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

Security risks and mitigation strategies

Over the past 11 months, Transnet Security Management has seen a sharp increase in the number of security incidents across the different operating divisions mainly affecting Transnet Pipelines (TPL) and Transnet Freight Rail (TFR). At the forefront are security incidents relating to product theft, (diesel in particular) and cable theft respectively.

To mitigate these criminal activities, Transnet's Security Management, in collaboration with relevant law enforcement agencies, has arrested over 100 suspects, impounded 30 trucks and over 30 tankers. Paramount in solving this problem, a communication strategy is in place to inform, educate and deter citizens from further crippling the organisation. Without the assistance and involvement of South African Farmers, all these initiatives will not manifest the desired results. For this reason, Transnet has involved the farming community extensively. Further, cable theft is not a new phenomenon in the organisation and Freight Rail continues to be challenged by criminal activities relating to theft and vandalism. While there is no particular trend of criminality relating to the Freight Rail network, where Transnet shares rail lines with Passenger Rail Agency of South Africa (PRASA), Freight Rail operations have been adversely affected.

At the forefront of solving the Freight Rail's challenges, management has engaged with law enforcement agencies to form joint operations and, importantly, has included PRASA to identify solutions that will serve both organisations moving forward. Security officers are deployed on a continuous basis, which serves as a deterrent, and helicopters have also been deployed. It is worth noting that it is not uncommon for Freight Rail to arrest suspects on a daily basis, with cable being recovered from various parts of the country.

Ethics risk and disciplinary processes

Transnet's immediate focus is to ensure swift and effective consequence management in respect of prior years' investigations conducted in collaboration with relevant law enforcement agencies, and to unequivocally instil an ethical employee culture.

Noting the slow pace of consequence management in prior years, Transnet introduced deliberate governance measures to enhance its effectiveness in consequence management. These include: (a) establishing a forensic function as an independent unit with specific emphasis on investigating fraud, corruption and dishonesty, (b) introducing an independent consequence management unit in the office of the Chief Legal Officer (CLO) that will be a nodal point for disciplinary action, recovery of losses and criminal prosecution, and (c) establishing a labour law unit in the CLO Office responsible for high profile disciplinary cases, particularly where wrong-doing is found in forensic reports. At the core of the success of these interventions is the continued interface and collaboration with relevant law enforcement agencies, including the Special Investigative Unit (SIU).

Since May 2020, Transnet has successfully:

- disciplined four executives in relation to charges of fraud, corruption, non-compliance and dishonesty;
- disciplined senior employees in Transnet Pipelines relating to attempts to circumvent Transnet procedures in the sale of fuel; and
- obtained an interim order in the SIU Special Tribunal (in collaboration with the SIU) for an attachment and forfeiture of a former Executive's assets.

Brand and reputational risks

Over the past three years, Transnet has been subject to various media reports on corruption and malfeasance. As a result, Transnet has suffered major brand and reputational damage. This has had a significant impact on stakeholder perceptions, including customer satisfaction, customer growth potential, investor confidence, and employee morale. To this end, several initiatives will be implemented to rebuild the company's reputation, by repositioning the brand and employee engagement as part of the Company's proactive Communication and Marketing Strategy. Similarly, initiatives will be undertaken through the Transnet Foundation to create sustainable communities.

Transnet's Corporate Affairs Department has undertaken numerous initiatives to rebuild the Company's brand and reputation in alignment with the 'zero tolerance' tone from its Board and Executive in respect of unethical conduct. Among these, is the current development of a robust stakeholder management programme, the completion of the Brand Audit project as well as proactive media engagement, including the establishment of the Newsroom initiative. The latter highlights positive aspects of Transnet's operations and recognises outstanding efforts of our employees in the normal course of doing business.

Through these programmes, public sentiment is slowly changing for the better. Transnet, through its media-monitoring tools, is starting to experience a change of tone in how the media views the organisation. However, negative coverage related to past acts of corruption and malfeasance remains, and has the effect of diluting the Company's current positive sentiments.

Corporate Affairs will continue to build, protect and enhance Transnet's reputation through proactive communication of the Company's plans and key projects, profiling its leadership, implementing awareness campaigns, and broadly communicating social investment initiatives undertaken through the Foundation, and engaging targeted stakeholders in an effective, timely, simple, consistent and transparent manner.

Material risks and opportunities

Opportunities arising from material matters

King IV. P11 & 12

Strategic lever: Customer service

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

Strategic lever: People

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

Strategic lever: Asset utilisation

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

Strategic lever: Safety

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

Strategic lever: Cost control

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

Transnet's risk management process and architecture

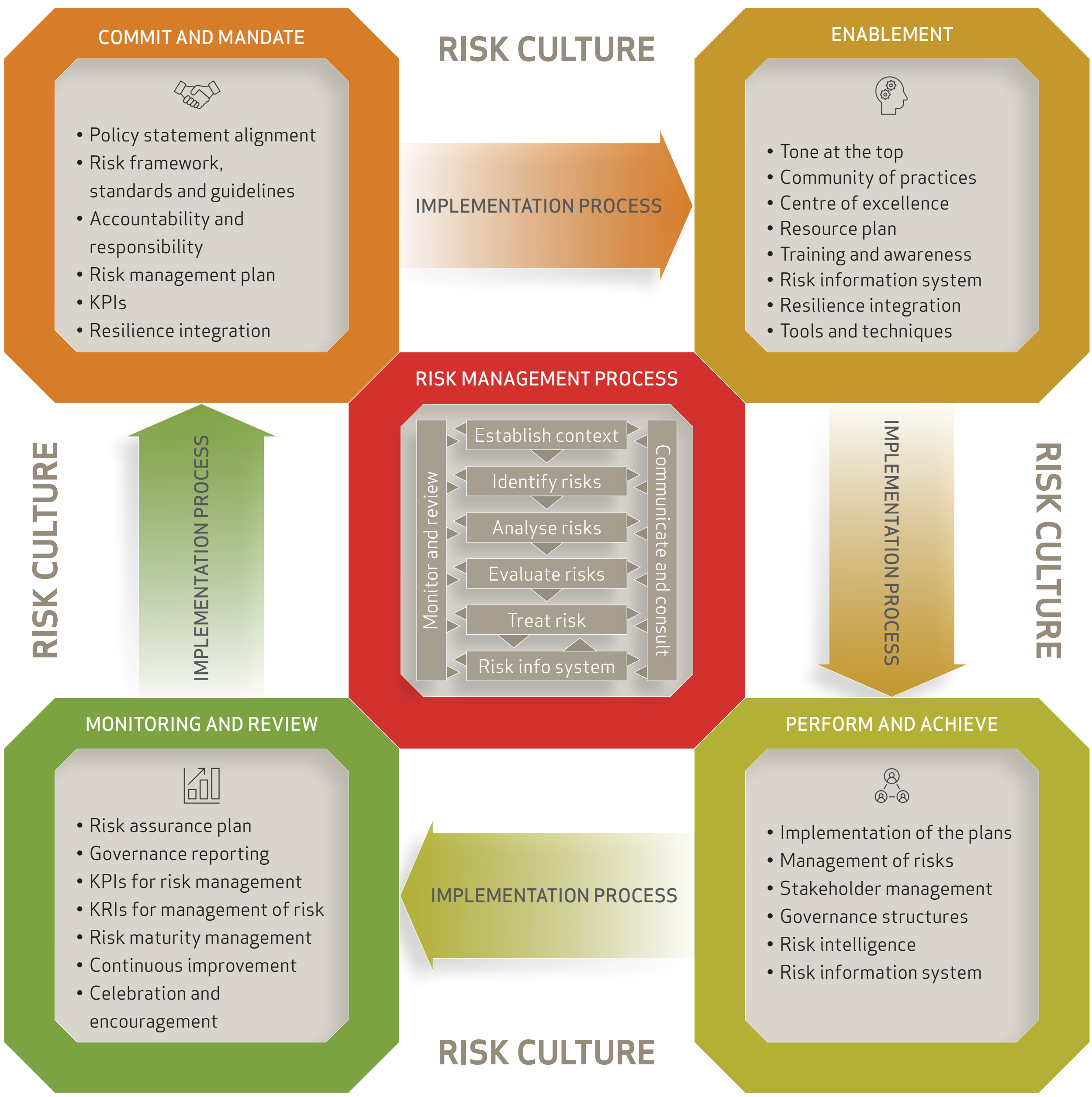
King IV. P11 & 12

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

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

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

Figure 6: Transnet's Risk Management Framework



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

SCAN TO DOWNLOAD THE ONLINE RISK REPORT

Root causes of risks and risk movements

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

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

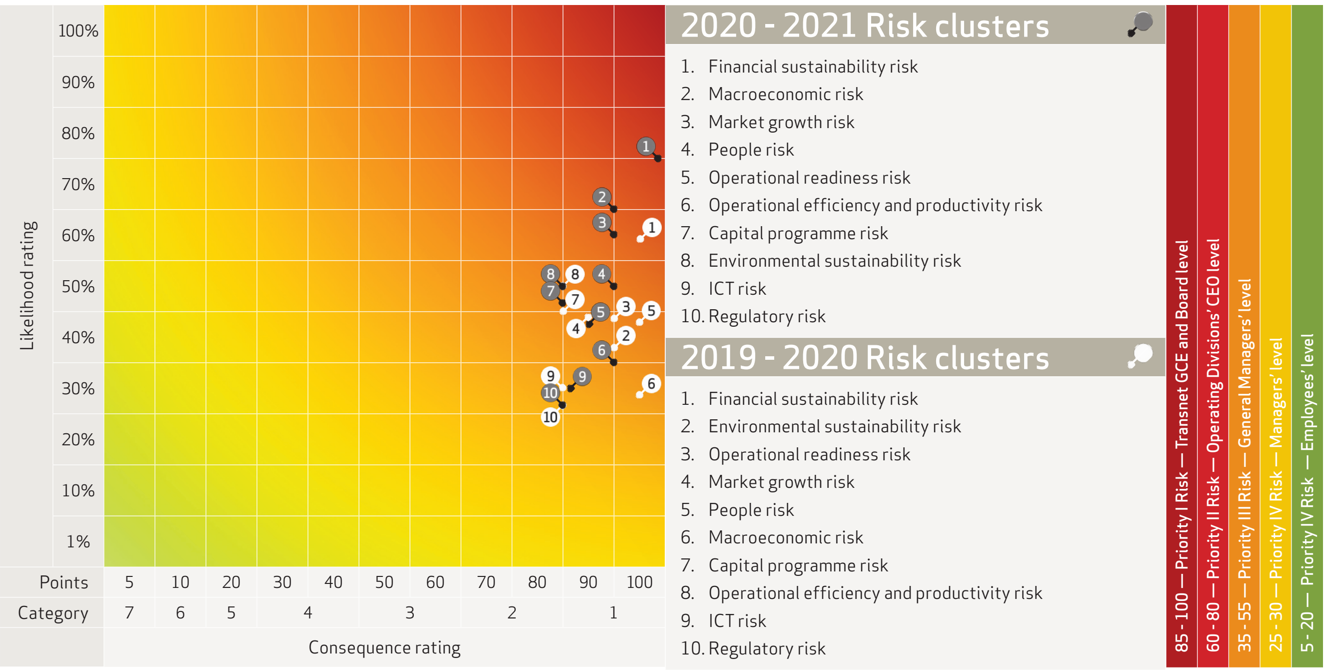
- The historical underinvestment in infrastructure maintenance leading to equipment failures and lower productivity.
- The lingering impacts on employee morale of state capture-related issues, appearances of Company representatives before the Zondo Commission of Inquiry, and the resulting temporary instability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

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

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

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

Figure 7: Transnet's key strategic risk cluster movements



Risk impacts and management strategies

Table 5: Top 10 risk clusters: 2020 – 2021

1. Financial sustainability risk

Inherent risk

Residual risk

Root causes

- Non-regulated pricing models and methods not flexible enough to be competitive
- Regulated pricing – tariff guidelines not supportive of volume growth

Value impacted

- Not meeting planned volume growth
- Impacting adversely on financial results
- Slowing down the road-to-rail strategy

Activities to manage risk

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

Reason for risk increase ▲

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

2. Macroeconomic environment risk

Inherent risk

Residual risk

Root causes

- Global economic slowdown and slow recovery
- Local economic policy uncertainty
- Weakening of local currency
- Volatile economic/political climate impact on world trade influences demand and commodity prices

Value impacted

- Increases in capital cost due to fluctuating foreign exchange rates
- Capital projects becoming non-viable
- Increased cost for the replacement of current assets and acquisition of spares
- Possible sovereign credit rating downgrades

Activities to manage risk

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

Reason for risk increase ▲

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

3. Market growth risk

Inherent risk

Residual risk

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

Activities to manage risk

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

Reason for risk increase ▲

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

4. People risk

Inherent risk

Residual risk

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

Activities to manage risk

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

Reason for risk increase ▲

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

5. Operational readiness risk

Inherent risk

Residual risk

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

Activities to manage risk

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

Reason for risk remaining static =

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

6. Operational efficiency and productivity risk

Inherent risk

Residual risk

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

Activities to manage risk

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

Reason for risk remaining static =

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

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

7. Capital programme risk

Inherent risk

Residual risk

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

Activities to manage risk

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

Reason for risk remaining static =

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

8. Environmental sustainability risk

Inherent risk

Residual risk

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

Activities to manage risk

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

Reason for risk remaining static =

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

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

9. ICT risk

Inherent risk

Residual risk

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

Activities to manage risk

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

Reason for risk remaining static =

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

10. Regulatory risk

Inherent risk

Residual risk

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

Activities to manage risk

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

Reason for risk remaining static =

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

Risks taken outside tolerance levels

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

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

The governance of risk

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

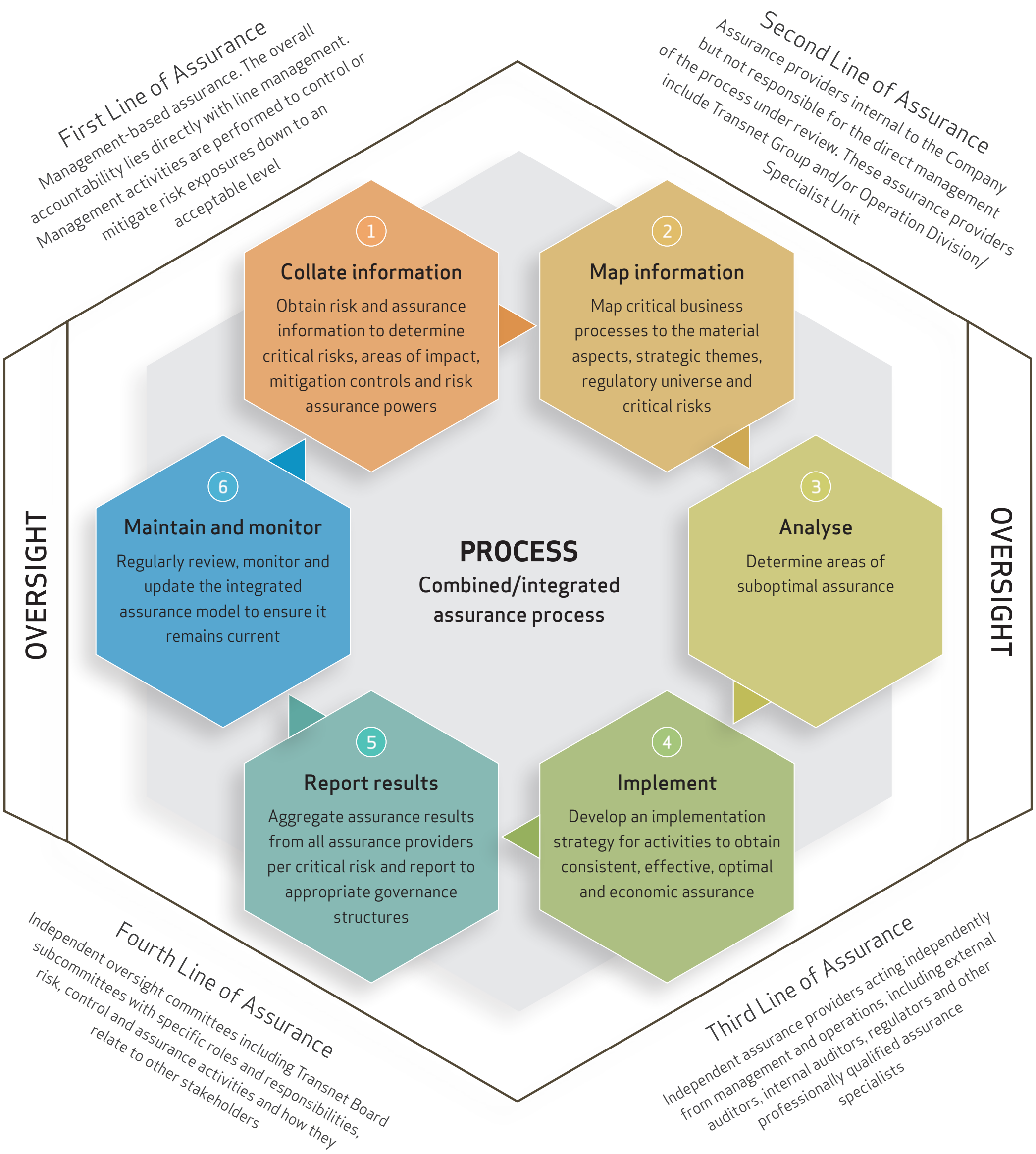
Our integrated risk assurance activities happen across three types of risks:

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

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

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

Figure 8: Risk management in the context of integrated assurance



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

Assurance oversight: 2020 and beyond

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

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

Emerging risks

King IV. P11 & 12

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

Table 6: Emerging sustainability risks for 2020

Short to medium-term emerging risks

1. Adapting to the 'new normal'

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

Mitigation strategies

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

2. Digitalisation impacts on operations

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

Mitigation strategies

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

Medium to long-term emerging risks

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

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

Mitigation strategies

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

4. Exacerbating energy supply risk

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

Mitigation strategies

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

5. Social activism and sporadic community unrest

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

Mitigation strategies

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

6. New competencies required to navigate 4th Industrial Revolution	
Risk description	**Anticipated impact**
• Risk of inadequate skills and competencies to fully respond to 4th Industrial Revolution business models	• Long-term business sustainability • Business and market growth • Risk exacerbated by Covid-19 impacts on employee skills training, work methodologies and productivity
Mitigation strategies	
• Centres of excellence being established to respond to 4th Industrial Revolution prerequisites • Risk-based people and ICT strategies to manage cascading Covid-19 risks impacting on people, safety and productivity	

7. Drought and water restrictions increasing in frequency	
Risk description	**Anticipated impact**
• Impact on operations, employees, health and hygiene, customers and supply chain • Ports of Saldanha, Port Elizabeth and Richards Bay at risk	• Interrupted water supply • Risks to health and hygienic work environment • Security of supply for Transnet at risk • Risk exacerbated by Covid-19
Mitigation strategies	
• Water strategy that ensures security of supply and leveraging alternative water sources • Risk-based people and resourcing strategies to manage cascading Covid-19 risk impacts on people, health and safety	

8. Climate change adaptation: Extreme weather events and weather volatility	
Risk description	**Anticipated impact**
• Damage to infrastructure and safety of employees due to extreme weather events	• Reduced revenue and lower productivity and efficiency • Increased safety incidents • High costs of infrastructure maintenance (e.g. ports' equipment)
Mitigation strategies	
• Understand the risk and vulnerability of the business and develop resilience and adaptation responses	

Long-term emerging risks

9. Global transition to low-carbon economy impacting on key commodity revenue streams	
Risk description	**Anticipated impact**
• Global decrease in thermal coal, iron ore and petroleum demand due to international agreements to reduce carbon emissions thereby impacting on revenue	• Decline in revenue • Market growth • Stranding of capacity and assets
Mitigation strategies	
• Implement recommendations of the Transnet Climate Change Position Paper, specifically to understand implications of low-carbon transition on thermal coal export and changing petroleum and diesel demands	

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

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

Mitigation strategies
• Quantify the risk and develop scenarios for solutions

11. Autonomous road freight systems

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

Mitigation strategies
• Research and development into possible technology solutions to mitigate risk of autonomous trucks displacing rail

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