TRANSNET ENGINEERING 2025

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CHIEF EXECUTIVE'S **OVERVIEW**

> "Transnet Engineering is committed to unlocking planned revenue streams, enhancing operational efficiency, and delivering sustainable long-term value to its stakeholders."

Transnet Engineering (TE) demonstrated a resilient financial performance, with revenue increasing 9% year-on-year to R10,7 billion (2024: R9,8 billion). This growth was supported by a 12% increase in internal revenue, driven by a R900 million uplift from Transnet Freight Rail (Freight Rail) and a R200 million contribution from Transnet Port Terminals (TPT) and Transnet National Port Authority (TNPA). External revenue declined by 43% to R238 million. This was due to a R196 million shortfall in cross-border and a R128 million reduction in local domestic revenue. These declines were offset somewhat by the R86 million in revenue generated from the Alstom locomotive new build activities.

INITIATIVES AND INNOVATION

TE's engineering division plays a pivotal role in translating conceptual designs into market-ready, high-performance solutions. This leverages advanced research, innovative design, leading technology development, and robust testing methodologies to deliver scalable, sustainable and high-performing products.

A key milestone was positioning TE's locomotive division as an original equipment manufacturer (OEM) with the successful design and construction of three Trans-Africa locomotives.
These locomotives, currently deployed on the Ore Line at the Saldanha terminal as tippler shunting units, achieved an availability rate of 93%.
This project reflects TE's capability in delivering mission-critical assets supporting Transnet's volume targets.

Significant progress has been made in terms of resolving performance issues relating to the CRRC fleets. Notable engineering and depot interventions have resulted in the repair and replacement solutions for critical sub-systems that impacted locomotive functionality which has resulted in the release of 41 long standing locomotives. In terms of addressing the challenges relating to the lack OEM support and obsolescence management for the Legacy fleets, the team has also developed replacement and repairable solutions for the 18E, Toshiba (15E/19E), and older Diesel fleets which has contributed to the improved reliability of these legacy fleets.

HIGHLIGHTS

- Revenue improved by 9% to R10,7 billion (2024: R9,8 billion)
- Operating expenses increased by 20% to R12 billion (2024: R10,0 billion)
- EBITDA declined to R1,3 billion (2024: R187 million)
- Return on invested capital (ROIC) declined to -17,0% (2024: -4,4%), primarily due to a higher EBITDA loss and a R2,9 billion increase in long-term borrowings

The Command Centre recorded the following achievements:

- Release of 111 long-standing locomotives, with 86 new stops leading to a reduction in long-standing locomotives from 393 to 368;
- 80% to 90% of CRRC roof equipment re-engineered by TE, contributing to the release of 41 long-standing China Railway Rolling Stock Corporation (CRRC) locomotives;
- 23E assembly in Durban delivered 43 new-built locomotives, the highest since inception, with a record of seven locomotives released in February 2025; and
- CR wagon new build programme target of 211 was achieved.

PLANT, EQUIPMENT AND TOOLING

TE has high capital requirements due to the ageing infrastructure across its depots and plants. Although sustaining capital requirements exceed R2 billion over the next five years, due to budgetary constraints, only R148 million was allocated for the 2025 financial year.

For 2026, R496 million in capital expenditure has been approved. This funding will facilitate the acquisition of essential tools and the upgrade of obsolete equipment and machinery. A comprehensive five-year capital expenditure plan has been compiled, and corresponding budget requests will be submitted to support the plan's execution.

STRATEGIC SOURCING AND OEM RELATIONSHIP MANAGEMENT

The high number of out-of-service locomotives and wagons is due to extended supply chain lead times and limited OEM support. These challenges stem from a previous tactical and fragmented approach to demand planning and procurement.

A detailed diagnostic exercise led to the adoption of a strategic sourcing framework, underpinned by improved contract management and robust supplier relationship management practices. By applying strategic sourcing principles and enhancing demand planning processes, TE secured comprehensive support from OEMs. This will include the establishment of local OEM warehouses for long-lead item stockholding, improving both part availability and responsiveness. OEMs will also provide technical support, including certifying TE's Centres of Excellence and facilitating training programmes for technical employees to ensure maintenance activities align with OEM standards.

Further, OEMs will contribute to revitalising the rail industry through localisation efforts, identifying local suppliers and supporting the transfer of intellectual property. This will strengthen the resilience, efficiency and sustainability of TE's supply chain.

A cornerstone of this partnership model is the collaborative management of obsolescence and legacy systems. By working closely with OEMs, TE will be better positioned to manage end-of-life materials, assess system integration impacts, and access critical engineering knowledge for sustained fleet maintenance. These engagements will also support testing protocols and systems interoperability, reinforcing operational resilience.

Enhanced contract and supplier management principles now define clear roles and collaborative mechanisms to address macroeconomic supply dynamics, reduce lead times, and consistently meet fleet availability and reliability key performance indicators (KPIs).

CLIMATE CHANGE IMPACT

The Eastern Cape experienced floods in June 2024, impacting our operations. Our facility in Uitenhage experienced water flooding and many employees could not travel to work safely due to road closures. The lost productivity for the Manufacturing business was R21,28 million.

LOOKING AHEAD

The South African rail industry is poised for significant change and growth in the coming decade, driven by the rail reforms and a projected increase in rail volumes. Given its extensive and top-tier maintenance and manufacturing expertise and facilities, TE is positioned to capture a substantial portion of the market, aiming for approximately 80% to 85% of all maintenance, repairs (including wrecks) and overhaul business in the country.

Bessie Mabunda
Chief Executive

> Legislative changes and growth present an opportunity for TE to significantly grow and establish itself as the preferred partner for OEMs supplying innovative solutions for locomotives, wagons, coaches and port equipment.

BUSINESS **OVERVIEW**

Renowned for its critical role in manufacturing and maintaining assets crucial to Transnet operations, TE is a cornerstone of South Africa's railway and ports industry.

TE's core business activities cover the entire lifecycle management of critical assets from designing, manufacturing, remanufacturing, assembly, and maintenance of railway rolling stock, including locomotives, freight wagons, passenger coaches and port equipment. The Operating Division's specialised engineering proficiencies include robust capabilities in research, design, testing and validation. These technical capabilities enable the division to uphold the highest standards and drive innovation across its services and products to meet market demand.

With 163 years of expertise in rail operations, TE is an independent African OEM, renowned for its pioneering work in wagon production. TE has advanced its OEM status by designing and manufacturing the customised and groundbreaking Trans-Africa locomotive. Its Engineering division is a specialist subcontractor to some of the world's largest OEMs to manufacture various locomotive classes. The Operating Division's research, design and build capabilities are showcased by the Transnet port hauler undergoing rigorous testing.

TE's primary customers are Transnet's Operating Division, but other customers include rail logistics companies in South Africa, Botswana, Tanzania, Zambia and the Democratic Republic of Congo. TE has developed a regional presence to leverage its extensive legacy and strategic location.

CHALLENGES AND RESPONSES

The division faces notable weaknesses and threats that challenge its operations and market position.

- A high dependence on a primary customer;
- A cultural misalignment for transformation;
- Financial challenges, including high debt;
- Increasing global competition in African markets;
- Regulatory constraints;
- Distress within the local railway industry ecosystem; and
- Limitations in converting research and development (R&D) into commercial products.

Engineering began executing the 18-month Tactical Recovery plan in September 2023, which focused on improving operational efficiencies. Execution was bolstered by the Command Centre, established in MONTH 2024/2025 to realise the objectives of the Tactical Recovery Plan. The centre comprises multidisciplinary teams whose primary focus is the coordinated planning, execution, delivery and timely reporting on specific projects.

STRATEGIC OBJECTIVES

The Reinvent for Growth Strategy (R4G Strategy) now focuses on strategic growth to revitalise the Operating Division's financial health and operational effectiveness.

TE is positioning itself as the preferred technical service provider for the rolling stock leasing company, which Transnet will establish in 2026. To achieve this and to capitalise on other opportunities offered by the rail reform agenda, TE will streamline and enhance its operations to ensure competitiveness and consistent service delivery. This will be enabled by the following:

CUSTOMER FOCUS

- Improving customer service for Freight Rail and other customers;
- Growing the ports business;
- Broadening the market for its products and services to support new train operating companies and other State-owned companies; and
- Attaining global competitiveness informed by timely market intelligence and best practice benchmarks.

OPERATIONS FOCUS

- Consolidating the businesses to optimise resources;
- Streamlining product offerings and focusing on profitable product lines; and
- Exploring private sector participation (PSP) to capacitate super depots (mainly on the Ore Corridor and North Corridor) to run 24/7 operations.

SUPPLY CHAIN FOCUS

Securing long-term contracts with OEMs and critical suppliers to critical suppliers to improve material availability, minimise production delays whilst driving cost effectiveness.

CAPITAL INPUTS AND OUTCOMES: SUPPORTING VALUE CREATION

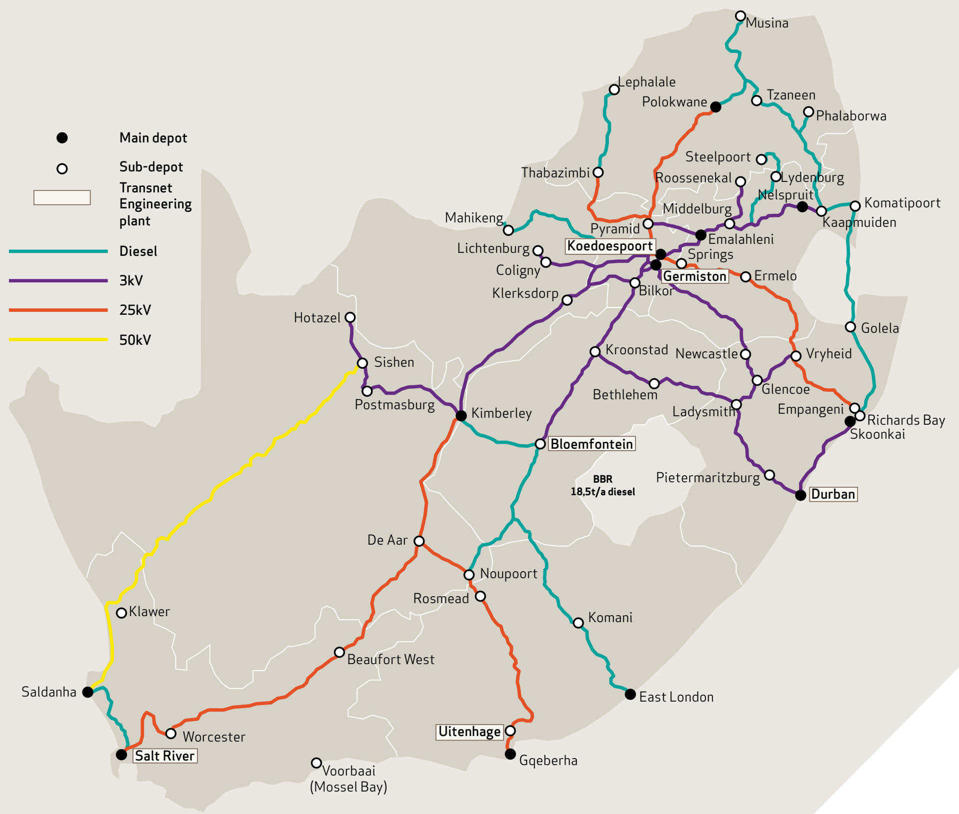
Transnet Engineering's business model is underpinned by the effective use of multiple capitals—financial, manufactured, human, intellectual, social, and natural. These capitals represent the key resources and relationships TE draws on to deliver value to its stakeholders. The following table illustrates how these inputs are transformed through TE's operations into tangible and intangible outcomes that support long-term sustainability, operational resilience, and inclusive growth.

A summary of our capital inputs and outcomes for the 2024/25 year is as follows:

INPUTS	Core business activities	OUTCOMES
Financial Capital		
Capital investment: R60,3 billion (▼39,9%)		**Revenue:** R10,7 billion (▲8,5%) **Operating expenses:** R12,0 billion (▲19,6%) **EBITDA:** -R 1,3 billion (▼>100%) **Return on invested capital:** -17% (▼>100%)
Manufactured Capital	**1** Designing, manufacturing, assembling and maintaining locomotives, wagons, coaches, and port equipment	
Investment in new equipment, machinery, and ICT systems. **R&D spend of R51 million** to support innovation and OEM capabilities		**43 new locomotives delivered** (highest since inception) **211 wagons built** under the CR programme **Trans-Africa locomotives** achieved 93% availability **Enhanced infrastructure** (e.g. emission stacks, port haulers)
Human and intellectual Capital	**2** Providing engineering services including remanufacturing, testing, and validation for rail and port assets.	
Workforce of 7 478 permanent employees. **Training spend** at 2,6% of labour cost **Skills pipeline:** 705 apprentices, 35 technician trainees, 32 engineering trainees		**LTIFR:** 1,07 (higher than target of 0.70) **Transformation:** 88% Black employees, 26% female **Employee turnover:** 6,0% (▲66,7%)
Social and Relationship Capital		
Stakeholder engagement: 17 categories, EXCO-led **Community development:** education, career expos, infrastructure support **PSP initiatives:** Trans Africa Locomotive Commercialisation, Legacy Fleet refurbishments and Foundry	**3** Supporting regional rail operators through mobile maintenance, OEM partnerships, and technical services	**50%** stakeholder issues resolved **Strengthened** community trust and local economic participation **Enhanced** supplier and enterprise development
Natural Capital		
Environmental compliance systems **Water audits and air quality monitoring**		**24 332,,88 tonnes** of waste generated **21 509,20 tonnes** recycled (≈83,4%) **Emission stack installed** at KDS Foundry **Water audits completed and efficiency plans implemented**

WHERE WE OPERATE

TE operates across six main plants and 143 maintenance depots throughout South Africa. Its distribution network spans the rail corridors, ports and terminals to ensure a comprehensive reach for servicing continuous logistics operations.



REGULATORY ENVIRONMENT

In 2025, several pieces of legislation affecting Transnet's operations were passed by Parliament. TE has established internal control plans, including training for execution in 2026 to support compliance.

THE RAILWAY SAFETY ACT, NO 30 OF 2024

The Railway Safety Act, a new legislation that will replace the National Railway Safety Regulator Act 16 of 2002, is not yet effective. While it was passed into law in December 2024 and published in the Government Gazette, the act will become effective on a date fixed by the President.

The Act provides for the following:

- The regulation of railway safety in South Africa;
- The continued existence of the Railway Safety Regulator;
- Railway safety permits;
- Railway safety critical grades and safety management systems;
- A national railway safety information and monitoring system;
- A legal framework to enforce compliance with the Act and to deal with railway safety incidents; and
- An appeal mechanism for fines and penalties.

The Railway Safety Bill, which gives effect to the Railway Safety Act 30 of 2024, was published by the Department of Transport in 2016. Therefore, TE is aware of the provisions of the Act, the extent of required compliance, and is ready to implement the required controls.

THE PUBLIC PROCUREMENT ACT, NO 24 OF 2024

The Public Procurement Act was approved by the President and published in the Government Gazette in July 2024. The provisions of the Act are not yet effective and await a proclamation by the President in the Government Gazette. The Act has been developed to enable the President to bring different provisions into operation on different dates.

This Act aims to improve transparency and integrity in the procurement process by establishing a single framework that regulates public procurement across all organs of State, including public entities and Government departments.

This Act establishes a Public Procurement Office to oversee procurement activities to prevent corruption and ensure public funds are used effectively. It also includes provisions for establishing a Public Procurement Tribunal, which will regulate the procurement process for goods and services while ensuring compliance with preferential procurement policies.

CLIMATE CHANGE ACT, NO 22 OF 2024

The Climate Change Act came into effect in March 2025. However, not all provisions were implemented on that date, with some key sections deferred until later, pending the development of necessary secondary legislation, regulations and consultations.

The Climate Change Act aims enable the development of an effective climate change response and a transition to a low-carbon, climate-resilient economy and society.

LICENCES CRITICAL FOR OPERATIONS

TE has 221 critical permits and licences, which TE regularly monitors for compliance. These include environmental licences such as effluent/wastewater discharge permits and atmospheric emission licences (AELs), and operational licences such as EN15085 for welding standards and AAR5000 for wagon quality.

OVERVIEW OF KEY PERFORMANCE **INDICATORS**

Key performance area and indicator	Unit of measure	2023 Actual	2024 Actual	2025 Target	2025 Actual	2026 Target
Financial sustainability						
EBITDA margin	%	(24,9)	(1,9)	(17,0)	**(12,3)**	(13,7)
Operating profit margin	%	(27,7)	(5,1)	(21,1)	**(16,9)**	(18,9)
Gearing	%	91,7	101,3	139,7	**128,2**	161,2
Net debt to EBITDA	times	(5,7)	(40,4)	(5,3)	**(7,9)**	(9,5)
Return on Invested Capital (ROIC)	%	(12,1)	(4,4)	(24,0)	**(17,0)**	(17,1)
Asset turnover	times	0,5	0,7	1,1	**1,0**	0,9
Cash interest cover	times	(4,2)	4,8	(3,2)	**(2,2)**	(1,0)
Total revenue	R million	8 045	9 817	12 512	**10 650**	10 272
– External		210	553	2 019	**315**	830
– Internal		7 835	9 264	10 493	**10 335**	9 442
Capacity creation and maintenance						
Capital expenditure	R million	21	100	148	**60**	496
Planned maintenance	R million	172	172	200	**194**	329
Operational excellence						
Train cancellations due to traction			6,22	≤6	**6,62**	
Cape Corridor	%	2,58	10,48	≤6	**8,98**	≤6
Central Corridor	%	0,64	0,97	≤6	**1,72**	≤6
Container Corridor	%	1,23	2,87	≤6	**1,59**	≤6
North Corridor	%	4,07	6,37	≤6	**7,27**	≤6
Northeast Corridor	%	5,76	6,51	≤6	**9,10**	≤6
Ore Corridor	%	10,88	15,99	≤6	**20,98**	≤6
Net volume lost due to traction			13,30	≤7	**11,70**	
Cape Corridor	%	2,70	9,8	≤7	**6,90**	≤7
Central Corridor	%	0,90	1,4	≤7	**1,80**	≤7
Container Corridor	%	1,30	3,4	≤7	**1,50**	≤7
North Corridor	%	9,30	12,8	≤7	**12,40**	≤7
Northeast Corridor	%	7,20	13,8	≤7	**10,50**	≤7
Ore Corridor	%	10,20	19,3	≤7	**18,00**	≤7
Traction delays			58,7	40	**52,3**	
Cape Corridor	%	65,9%	64,1	40	**52,5**	40
Central Corridor	%	54,0%	78,5	40	**53,5**	40
Container Corridor	%	70,8%	61,8	40	**66,0**	40
North Corridor	%	47,1%	58,8	40	**64,1**	40
Northeast Corridor	%	65,9%	54,4	40	**69,4**	40
Ore Corridor	%	36,1%	34,8	40	**40,4**	40

Key performance area and indicator	Unit of measure	2023 Actual	2024 Actual	2025 Target	2025 Actual	2026 Target
Human capital						
Employee turnover	%	3,6	4	6,0	**5,4**	6
Employee headcount	permanent	8 128	7 773	7 400	**7 478**	7 553
Revenue per employee	R million	1,0	1,3	1,7	**1,4**	1,4
Transformation						
Total blacks	%	87	87	92	**88%**	92%
Total females	%	27	28	35	**26%**	35%
Total people with disabilities	%	1,9	1,8	3	**1,7%**	3,0%
Skills development						
Apprentice trainees	headcount	691	510	200	**706**	150
Technician trainees	headcount	1	0	35	**35**	22
B. Engineering trainees	headcount	2	0	36	**32**	10
Sector specific	headcount	2 940	4 641	250	**4 883**	250
Training spend	% of personnel cost	2,7	4,8	2,5%	**2,6%**	2,5%
Risk, safety and health						
Cost of risk	% of revenue	N/A	N/A	4,3%	**4,1%**	4,3%
LTIFR	rate	0,85	0,93	0,70	**1,07**	0,8
Regional integration						
Cross-border sales revenue	R million	106	261	1 277	**65**	86
Industrial capability building						
R&D costs	R million	76	58	100	**51**	93

OPERATIONAL PERFORMANCE **REVIEW**

OPERATIONAL EFFICIENCY

TE's Rolling Stock Maintenance Department (RSM) failed to meet most KPIs. The subpar performance was caused by continuous capacity and material scarcity constraints, resulting in delays or deferrals in planned maintenance and change-out programmes, impacting locomotive reliability. The North, Ore, Northeast and Cape corridors consistently underperformed negatively due to traction delays, resulting in volumes lost and train cancellations.

NORTH CORRIDOR

The lack of OEM support on the CRRC fleet negatively impacted the corridor. TE's procurement and Engineering departments are working on long-term strategies to resolve this.

ORE CORRIDOR

The corridor was impacted by the backlog in rolling stock maintenance due to capacity and material constraints. Technical employees were temporarily redeployed to address the labour shortage, with recruitment efforts for more skilled resources underway. Initiatives are in progress to address the material shortages.

NORTHEAST CORRIDOR

The locomotives were significantly affected by a shortage of critical spare parts. This will be mitigated by entering into long-term parts agreements and material and technical support agreements.

CAPE CORRIDOR

The new locomotives were affected by the corridor's environmental conditions, particularly salt from seawater, damaging insulators and roof busbars. The solution involves cleaning salt off components and implementing a material reliability and support agreement to support the fleet.

FINANCIAL PERFORMANCE
REVIEW

Key metrics		Year ended 31 March 2025 R million	Year ended 31 March 2024 R million	% change
Revenue		**10 650,2**	9 816,9	8,5
– Internal		**10 335,2**	9 263,8	11,6
– External		**315,0**	553,1	(43,0)
Operating expenses		**(11 961,5)**	(10 003,5)	19,6
– Energy costs		**(246,5)**	(69,9)	252,6
– Maintenance		**(194,4)**	(172,1)	13,0
– Materials		**(4 098,2)**	(3 445,3)	19,0
– Personnel costs		**(5 903,3)**	(5 578,7)	5,8
– Other		**(1 519,1)**	(737,5)	106,0
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)		**(1 311,3)**	(186,6)	602,6
Depreciation, derecognition and amortisation		**(488,3)**	(318,2)	53,4
Profit from operations before items listed below		**(1 799,5)**	(504,9)	256,4
Impairments and fair value adjustments		**(23,9)**	(94,7)	(74,8)
Net finance costs		**(1 002,7)**	(892,0)	12,4
Profit before taxation		**(2 826,1)**	(1 491,6)	89,5
Taxation		**738,3**	265,3	178,3
Profit after taxation		**(2 087,8)**	(1 226,3)	70,3
Total assets (excluding CWIP)		**11 757,3**	10 782,1	9,0
Profitability measures				
EBITDA margin*	%	**(12,1)**	(1,8)	566,4
Operating margin**	%	**(16,7)**	(4,9)	238,1
Return on average total assets (excluding CWIP)***	%	**(16)**	(3,8)	322,5
Asset turnover (excluding CWIP)****	times	**1**	0,7	30,4
Capital investments^		**60,3**	100,3	(38,8)
Employees				
Number of employees (permanent)	number	**7 478**	7 770	2,1
Revenue per employee		**1,4**	1,3	3,2

* *EBITDA expressed as a percentage of revenue.*
** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of revenue.*
*** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of average total assest excluding capital work in progress.*
**** *Revenue divided by average total assets excluding capital work in progress.*
^ *Actual capital expenditure (replacement + expansion) excluding borrowing costs.*

TE generated revenue of R10.7 billion during the year under review which is higher than the R9.8 billion recorded in 2024. This reflects a 8,5% increase equal to R0.8 billion compared to the previous year.

TE recorded a 11,6% increase in internal revenue. This growth was supported by growth in TFR, TPT and TNPA revenue. However, overall external revenue declined by 43,0% due to a reduction in cross border revenue of R196 million and a decrease in domestic revenue of R128 million. This was partly balanced by an increase in Alstom revenue of R86 million.

Additional revenue streams that were expected did not materialise. These include R0.7 billion in Rail Operation Support revenue R0.4 billion in LeaseCo revenue and R0.5 billion in CRRC revenue. The absence of these streams had a significant negative impact on external revenue generation in the current financial year.

Net operating expenses rose by 19,6% to R12,0 billion (2024: R10,0 billion) as a result of increased material costs which is in line with the heightened business activity that led to improved revenue generation. The 0,8 billion increase in other operating expenses was driven by higher in intra group charges and personnel costs due to annual wage increases.

Consequently, an EBITDA loss of R1,3 billion was recorded against a prior year EBITDA loss of R0,2 billion.

Return on invested capital (ROIC) declined to -17.0% (2024: -4,4%), primarily due to a higher EBITDA loss and a R2,9 billion increase in long-term borrowings.

In 2025, TE had a budget allocation of R148 million and was further topped up by R79 million additional funding received from the Group. This capital expenditure was allocated for high-priority projects to support the recovery plans, mainly replacing plant equipment, machinery and tooling required to support the increase in TFR volumes. These projects aim to grow the customer base, optimise operational efficiency, provide greater customer value and generate new revenue streams. Capital investment decreased by 40% to R60,3 million (2024: R100,3 million).

OUTLOOK

TE is strategically positioned to strengthen its market presence through key Transnet PSP initiatives, including the LeaseCo and Rail Operation Support (ROS). These initiatives could enhance its long-term revenue streams.

LeaseCo operations are expected to contribute R9,6 billion in revenue in the next five years, starting at R2.3 billion in 2027. ROS is expected to contribute R1,3 billion revenue over a similar period, beginning with R80 million in 2028.

The maritime business is also set to expand TE's revenue mix significantly. TE anticipates generating R3,6 billion in TPT and R1,0 billion in TNPA revenue over the next five years.

LEASECO

Transnet is establishing a leasing company, LeaseCo, with a private partner. TE will act as a preferred (potentially exclusive) service provider, providing critical new-build, maintenance, and refurbishment services for its locomotives and wagons. TE is enhancing its commercial processes and operational efficiencies to become a strong technical partner to the LeaseCo, ensuring a reliable, ongoing income stream.

ROS

Non-Transnet rail operators require fair, reasonably priced, and dependable access to rolling stock as South Africa opens its rail infrastructure to third-party access or other train operating companies (TOCs). TE is well-positioned to create a Rail Operation Support (ROS) unit using its vast experience in the design, construction, refurbishment, and maintenance of rail equipment.

The core mandate of the TE ROS is to:

- Lease locomotives and wagons to third-party operators at competitive commercial rates;
- Ensure availability and reliability of rolling stock assets through structured maintenance programmes;
- Lower entry barriers for new operators by reducing the capital requirement to own fleets;
- Support transformation in the rail sector by enabling access to smaller and emerging rail freight businesses; and
- Stimulate modal shift from road to rail through improved accessibility and service reliability.

SADC OPPORTUNITIES

TE will leverage its rolling stock capabilities to support cross-border SADC operations. This includes providing technical, supervisory, and engineering support to regional rail operators through structured leasing and maintenance agreements. TE will deploy mobile maintenance teams, offer training and skills development, and establish regional maintenance partnerships to ensure asset availability and reliability. There are also opportunities for deploying joint training programmes with OEMs to build regional capacity in digital diagnostics, overhaul procedures and manufacturing excellence.

ROLLING STOCK SYSTEMS DIGITISATION

Investing in digital systems such as track and trace and condition-monitoring platforms enables real-time visibility and reliability improvements essential to sustain TOCs' operations and reduce idle time. Furthermore, introducing innovative solutions, such as rolling stock track and trace systems and rolling stock condition monitoring systems, will significantly enhance operational visibility and reduce inefficiencies. This integrated, partnership-driven approach is central to enabling a competitive, reliable, and future-ready rail system that supports national growth ambitions and regional trade imperatives.

STRATEGIC EXPANSION INTO MARITIME SERVICES

TE now provides comprehensive maintenance services for port handling equipment and manufactures new equipment tailored specifically for port operations. As part of its commitment to supporting the development of South Africa's port infrastructure, TE plays a proactive role in infrastructure upgrades and repair projects. Leveraging advanced technologies developed through its in-house R&D units, the Company delivers innovative, technology-driven solutions to meet the evolving needs of this sector.

SECURITY STRATEGY

In response to the growing security threats, TE has intensified its security interventions, improving response times, enhancing surveillance and business intelligence capabilities, and strengthening collaboration with law enforcement agencies. This includes enhancing the access control system, installing CCTV cameras at identified locations, deploying task teams, and engaging with other Transnet Operating Divisions, other State-owned companies and security agencies. The Operating Division also prioritises the security personnel's safety, recognising the increasingly hostile environment in which they operate. TE conducts security vetting of the security and forensics teams to ensure that individuals are trustworthy.

CAPITAL EXPENDITURE

TE's approved capital budget allocation for 2026 is R496 million earmarked to address the tooling, equipment and machinery availability and reliability issues, upgrading dilapidated infrastructure, compliance and security initiatives, alternative water supply provision, and ICT initiatives. Although the budget appears high, due to current TE affordability concerns, it is necessary to achieve budgeted revenue targets and minimise risks.

PSP INITIATIVES

TE is developing strategic PSP transactions to foster collaboration in mutually beneficial areas. These initiatives aim to broaden the market for its products and services, support rail reform and improve material availability and sustainability for rolling stock maintenance. These include:

- Commercialising the Trans-Africa Locomotive to improve the availability of light locomotives in the African market;
- OEM partnership for legacy fleet spares and refurbishment opportunities to extend the life of assets; and
- PSP partnerships for foundries to secure a sustainable supply of casting components to support rolling stock and port equipment.

KEY RISKS AND MITIGATING ACTIVITIES

Top risks	Mitigating activities
1 Inability to achieve targeted, reliable locomotive and wagon availability for Freight Rail due to unfunded planned rolling stock maintenance and operational inefficiencies, resulting in unrealised targeted volumes	• Secure a three-year Freight Rail rolling stock maintenance budget for long-term planning; • Implement and monitor the multi-year master services agreement and service level agreements to meet and exceed rolling stock availability and reliability monthly, including the implementation of speedy decision making on technical matters; • Implement the revised and approved TE/Freight Rail business model to improve integration from planning, budgeting and execution to support the volume ramp-up; and • Commence the refurbishment of the B-fleet by September 2025.
2 TE cannot recover all operational costs within the current operational and financial framework, impacting financial sustainability.	• Develop and implement a strategy for revenue diversification, focusing on expanding the internal (ports) and external offerings.; • Develop a completely integrated single pricing model applicable to internal and external clients; • Maintain financial discipline by enforcing cost containment measures; • Explore PSP to secure funding; • Undertake a market study focusing on potential opportunities for TE by December 2025; • Implement a customer service function by September 2025; and • Develop and implement business development strategies based on the market study by March 2026.
3 Inability to ensure timely material availability for operations due to onerous legislative requirements and inefficient supply chain management processes, resulting in delays and operational inefficiencies	• Operationalise exemptions received from National Treasury, provide training on the revised manual and implement revenue-generating supply chain policy and guidelines to improve material delivery times; • Develop and implement material and technical support agreements for four new-generation fleets by June 2025; • Appoint OEMs for maintenance and repair of machinery and equipment by June 2025; • Finalise the long-term parts agreements for the legacy fleet by March 2026; and • Improve demand planning by ensuring that approved demand plans are aligned with budgets and submitted during the budgeting cycle.
4 A lack of critical skills due to scarcity in the marketplace and financial constraints, resulting in operational inefficiencies	• Align training needs to long-term strategic goals and future skills by March 2026; • The learning management system was implemented in June 2025; • Implement a skills development/strategic workforce planning dashboard by September 2025; • Prioritise critical and specialised skills appointments to address critical operational requirements and improve productivity; and • Review and implement skills retention and attraction strategy to meet the needs of a changing operational environment.
5 Ineffective asset management resulting in the unavailability of critical equipment and machinery required for operations, leading to delays and poor customer service	• Identify and assess the condition of critical equipment to prioritise funding for the replacement and repair of old and damaged equipment; • Complete business cases for the replacement and refurbishment of critical equipment to expedite the execution of the budgeted capital expenditure; • Secure maintenance contracts with OEMs to ensure that critical equipment is serviced and maintained as required, improving availability and productivity; • Conclude long-term contracts by November 2025.
6 Increased violent security incidents resulting in increased exposure to the safety and security of employees and the loss of company assets	• Secure funding for the phased implementation of the security strategy to implement security initiatives; • Operationalise a joint security war room with Freight Rail to analyse security incidents and combine efforts to implement mitigating actions; and • Prioritise increased security measures in identified hotspot areas to improve the safety and security of employees based in those businesses.
7 Increase safety-related incidents resulting in injuries and disruption to operations	• Critical occurrences are presented at the operational level to ensure safety improvement and share lessons learned; • TE's annual SHEQ-aligned safety proficiency programme was implemented; • Reporting and management of near misses to prevent reoccurrences are in place; and • TE's top ten high-risk activities trends analysis was concluded, and standard operating procedures (SOPs) have been developed. SOPs for TE high-risk activities will be implemented in 2026.
8 Inadequate resilience to extreme weather events and disruptions to energy and water supply, leading to prolonged disruptions to operations	• Revive the environmental, social and governance (ESG) and business continuity management functions to improve awareness, accountability, and performance; and • Implement water supply backup and invest in electricity substations and backup generators to improve supply security.
9 Legacy information technology infrastructure and failure of ICT equipment, leading to increased cyberthreat exposure and disruption to operations and financial systems	• Procurement of vulnerability systems via Transnet to improve monitoring and threat assessment capacity; • Secure funding for the replacement of legacy systems and migrate to newer systems; • Conduct cyber awareness and training sessions to improve employee awareness and minimise exposure to cyber threats; and • Migrate the SAP environment to Microsoft Azure's cloud-based environment by March 2026.
10 Lack of competitiveness due to process inefficiencies results in poor customer service and a loss of potential business opportunities	• Develop strategic partnerships with OEMs to secure business and create new revenue streams; • Streamline TE's commercial business processes to improve responsiveness, agility, and competitiveness in the open market; and • Develop a marketing strategy to promote TE's service offering in the local and regional markets.

Most material climate change risks	Mitigating activities
Lack of resilience to extreme weather events resulting in: • Disruption to operations leading to a loss of productivity and revenue; • Inability to meet contractual obligations leading to potential litigation; and • Long lead times for repair and replacement of damaged infrastructure.	• Review of business continuity plans for prioritised critical plants and depots; • Conduct scenario simulations and business impact assessments for identified high-risk areas; • Management of invoked business continuity plans together with operations; and • Implementing ESG initiatives to improve carbon footprint and water and power usage management.

ESG PERFORMANCE

HUMAN CAPITAL MANAGEMENT

5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES

Employment and transformation

As part of its ongoing commitment to transformation and inclusive growth, TE continues to make steady progress in aligning its workforce with its Employment Equity and ESG objectives. By the end of the reporting period, the company had a permanent employee headcount of 7 478, slightly exceeding the target of 7 400. This reflects TE's continued investment in job preservation and stability, even in a challenging operating environment.

Black employees represented 88% of the total workforce, just below the target of 92%. While this indicates there is still work to be done, it also demonstrates a strong foundation upon which TE is building its transformation agenda. The company remains focused on targeted recruitment and development initiatives to close this gap and ensure broader representation across all occupational levels.

Female representation stood at 26% against a target of 35%. TE acknowledges this shortfall and has already implemented several initiatives aimed at accelerating gender diversity. These include leadership development programmes for women, mentorship opportunities, and inclusive recruitment practices designed to attract and retain female talent in technical and leadership roles.

Employees with disabilities accounted for 1.7% of the workforce, compared to the target of 3%. TE recognises the importance of creating an inclusive and accessible workplace and is actively working to improve representation through partnerships with disability advocacy organisations, awareness campaigns, and workplace accommodations that support diverse abilities.

An integrated culture plan that addressed gaps identified through the culture survey to improve employee morale and build a high-performance organisation. The plan also focused on improving employee performance by resuscitating the balanced scorecard and performance review process. 96% of employees that have signed performance contracts and conducted performance reviews. Measures to manage absenteeism and incapacity such as policy awareness, reviving the absence and incapacity management panel, have reduced absenteeism costs by 17% to R52,6 million (2024: R63,5 million).

Overall, while some targets have not yet been fully met, TE remains firmly committed to its ESG and transformation goals. The division continues to embed equity and inclusion into its culture and operations.

4 QUALITY EDUCATION

Skills development

During the reporting period, training spend reached 2.6% of total labour costs, exceeding the target of 2.5%. This reflects the organisation's ongoing investment in building a capable and future-ready workforce as skills development is a key pillar in TE's human capital strategy.

A total of 4 052 employees received training during the year. While this was below the target of 5 613, TE remains focused on expanding access to learning opportunities and is actively refining its training delivery models to improve reach and impact.

The division made significant strides in artisan development with 705 apprentices trained. This is well above the target of 200. This achievement underscores TE's role in addressing critical skills shortages in the rail and engineering sectors. Technician training also met expectations, with 35 trainees completing the programme in line with the set target.

Engineering trainee numbers reached 32, slightly below the target of 36. TE is working to strengthen its engineering pipeline through targeted recruitment and partnerships with academic institutions to attract top talent into the programme.

A standout achievement was recorded in sector-specific training, where 4 883 individuals were trained – far surpassing the target of 250.

Overall, these outcomes demonstrate TE's strong commitment to workforce development and its broader ESG goals.

3 GOOD HEALTH AND WELL-BEING

Health and safety

TE assists Transnet in retaining its railway operator safety permit. The Rail Safety Regulator (RSR) granted Transnet a safety permit, valid until the end of August 2025, with two special conditions. One condition required addressing the transportation and management of dangerous goods, which TE has managed. The second condition required the filling of safety-critical positions, which is in progress. Of the vacant 115 roles, 89 were filled. TE has not filled the remaining vacancies due to its financial constraints, but will continue to prioritise the filling of the remaining safety critical vacancies in the new financial year.

The LTIFR safety performance was 1,07 (2024: 0,93). This performance is below the tolerance level of 0,7. More operational controls and safety reinforcements are required to reduce the number of lost time injuries for Rolling Stock Maintenance depots and Maritime services. These challenges were escalated to TE's Executive Committee for prioritisation in 2026.

The SHEQ-aligned safety proficiency programme focuses on occupational safety, health, environmental promotion and quality requirements. TE prioritises this programme as part of Transnet's 10-point Safety Plan. This programme monitors both leading and lagging indicators to ensure employee safety and health in the workplace.

TE conducts safety trends analysis to identify high-risk, recurring operational activities. Operational Standards Procedures were revised to ensure standardised processes and prevent the recurrence of similar incidents. Occurrence recalls are conducted weekly at the operational leadership level for the most significant safety incidents and lessons are shared across operations.

Visible felt safety leadership and near-miss reporting were also implemented, and deviations or observations are tracked through an application developed for monitoring purposes. The aim is to proactively identify non-conformances before an incident and improve SHE performance. Corrective actions are being monitored to address adverse findings.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 17 PARTNERSHIPS FOR THE GOALS

Industrial capability building

In the 2025 financial year TE invested R51 million in research and development. This was below the R100 million target and lower than the R58 million spent in the previous year. Despite this shortfall TE remained focused on innovation to support long-term growth and sustainability. The investment supports TE's ambition to grow as an Original Equipment Manufacturer in port and rail technologies. It also aligned with Transnet's R4G Strategy. Key areas of focus included big data analytics machine learning and the Internet of Things. These technologies were used to improve maintenance efficiency enhance customer experience and expand product offerings. Key products delivered in the financial year include:

- Alternating current (AC) traction motor testing capability;
- High site monitoring allowing remote monitoring of telecommunication towers (GSM, Fibre, Ethernet); and
- Acoustic cracked wheel detector (ACWD) to identify cracked wheels and prevent potential derailments.

TE is exploring new opportunities in alternative energy automation and wagon innovation. These initiatives are designed to support operational resilience and contribute to a more sustainable transport system. Through these efforts. TE continues to show its commitment to ESG principles by investing in safer smarter and more efficient technologies.

ENVIRONMENTAL STEWARDSHIP

6 CLEAN WATER AND SANITATION | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION | 15 LIFE ON LAND

Environmental policy

TE complies with the Transnet Integrated Management System (IMS) Policy and Environmental and Sustainability Policy Framework.

Legal contraventions

TE reported the following non-compliance conditions due to various operational challenges:

- Koedoespoort (KDS) Foundry operates without an AEL, contravening the National Air Quality Act. This is due to air quality monitoring not taking place; and this needs the installation of the emission stack which is currently being installed;
- Germiston Wagon Effluent Plant received a non-compliance notice for the effluent discharge that was complying to the Municipal permissible limits and a penalty of R91 534. The root cause was a non-functional skimmer which has been repaired. There is on-going daily and monthly effluent monitoring to ensure effluent discharged to the municipal sewer is compliant.
- KDS Diesel incurred a Level 2, NEMA Section 30 Hydrocarbon pollution. The blockage of the drainage system caused this, and the blockage has since been cleared.

Pollution management

TE is committed to managing the environmental impacts of past and present activities and actively identifies and remediates contaminated sites.

In line with the issued remediation order, the remediation activities for the SLD lead-contaminated site were completed. The last soil samples indicate that the results meet environmental compliance standards. The final report was submitted to the Department of Forestry, Fisheries and the Environment (DFFE) for approval and site sign-off in May 2025.

The Komatipoort contaminated site assessment was conducted to determine pollution levels. The preliminary report indicated no significant pollution; however, it recommended installing a monitoring well downstream to assess pollution migration. The final report will be submitted to the DFFE to issue a remediation order or an order for groundwater monitoring.

The KDS asbestos remediation project has not commenced due to delays in receiving a water use licence from the Department of Water and Sanitation (DWS), which was only issued in November 2023, and issues with the appointed service provider. TE has begun appointing a new service provider and allocating funds to the project.

Germiston's ground and soil monitoring is ongoing per the issued order. A remediation order for Ermelo Diesel Depot has been issued but has not yet been implemented, as the cause of pollution still needs to be established. TE received the remediation order for KDS Diesel Depot in June 2025.

Waste management

TE is implementing its waste management improvement plan to enhance its waste management practices. This plan has diverted some waste streams from landfills through reuse or recycling initiatives. Engagement with service providers emphasises waste minimisation over waste disposal. Data analysis for waste generated, recycled and disposed will be the focus going forward.

Water management

TE monitors ground, surface, drinking water, and industrial effluent to ensure compliance with municipal by-laws and discharge permits. Most results showed a high level of compliance within established parameters. Abnormalities, such as elevated copper, iron, boron, oil, or grease levels at some depots, are continuously investigated and addressed.

Water audits for all six plants were completed to understand water usage and identify opportunities to improve water efficiency. The recommendations informed implementation plans, which were developed for tracking purposes.

Air quality monitoring

TE monitors air quality in its foundry operations to comply with relevant environmental laws. The KDS Foundry is operating without an AEL since the provisional AEL expired in January 2025. A new application, together with the project plan for the emission stack installation, was submitted to the Tshwane municipality. A service provider completed the stack installation in June 2025. This installation was one of the critical conditions of the previously issued licence.

Bloemfontein Foundry's AEL, which was secured from Mangaung in July 2023, is still valid. The team continues to oversee the adherence to the licence's conditions, including the required air quality monitoring activities. The air quality service monitoring provider for Bloemfontein Foundry was appointed, and some compliance issues were identified and will be rectified in 2026.

No formal air quality complaints were received in 2025.

Physical Security

Security-related incidents declined 17% to 217 (2024: 260). There were 84 (38%) cable theft cases, which had a severe impact. TE experienced a total direct loss of R10,3 million, similar to the previous year. However, through our security team's swift and coordinated efforts, over R2,2 million worth of stolen assets were recovered (21%), and 67 suspects were apprehended. Other incidents with an operational impact included the theft of locomotive components, traction motor cables, and other cables supplying critical infrastructure, leading to downtime.

TE experienced a marked escalation in criminal activity, with an alarming increase in violent and organised crime. This included armed attacks, especially in the Eastern Cape and Gauteng, on security personnel, placing our employees at significant risk and posing a threat to our infrastructure and operations.

COMMUNITY DEVELOPMENT AND CORPORATE SOCIAL INVESTMENT

1 NO POVERTY | 2 ZERO HUNGER | 10 REDUCED INEQUALITIES | 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

TE is dedicated to improving the well-being of vulnerable communities near its operations. TE's Corporate Social Investment (CSI) strategy aligns with the Transnet Foundation's objectives, aiming for a measurable impact through sustainable projects that empower these communities. The focus areas are health, sports, employee volunteerism, social infrastructure and education.

In 2025, TE implemented several impactful initiatives:

- Donated food parcels to 10 registered shelters across the country;
- As part of its winter drive, TE donated 44 blankets to Siphokazi Disability Home in Witbank;
- Installed ablution facilities for 13 early childhood development centres in Bloemfontein as a Mandela month initiative, led by Transnet Foundation;
- Collected 1 000 school shoes from employees to donate to learners and participated in the Group Chief Executive-led 'Shoe on feet' campaign and delivered 300 school shoes to two Pretoria schools; and
- Hosted two workshops facilitated by skilled therapists in Koedoespoort and Salt River plants, empowering 200 women and girls who were victims of gender-based violence with skills and knowledge.

ACRONYMS

AEL	Atmospheric Emission Licence
CSI	Corporate social investment
DFFE	Department of Forestry, Fisheries, and the Environment
EBITDA	Earnings before interest, taxes, depreciation and amortisation
IoT	Internet of Things
KPI	Key performance indicator
LTIFR	Lost Time Injury Frequency Rat
OEM	Original equipment manufacturer
PSP	Public sector participation
PM	Particulate material
R&D	Research and Development
ROS	Rail Operations Services
RSR	Rail Safety Regulator
SHEQ	Safety, health, environment and quality
TE	Transnet Engineering
TNPA	Transnet National Ports Authority
TOC	Train operating company
TPT	Transnet Port Terminals
TFR	Transnet Freight Rail

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