

A circular collage of various industrial and construction scenes, including workers on a ship, a train, a factory floor, a storage tank, and a port with shipping containers and a locomotive.

Repair and
Grow

ANNUAL RESULTS ANNOUNCEMENT

For the year ended
31 March 2021



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OVERVIEW

PORTIA DERBY

GROUP CHIEF EXECUTIVE

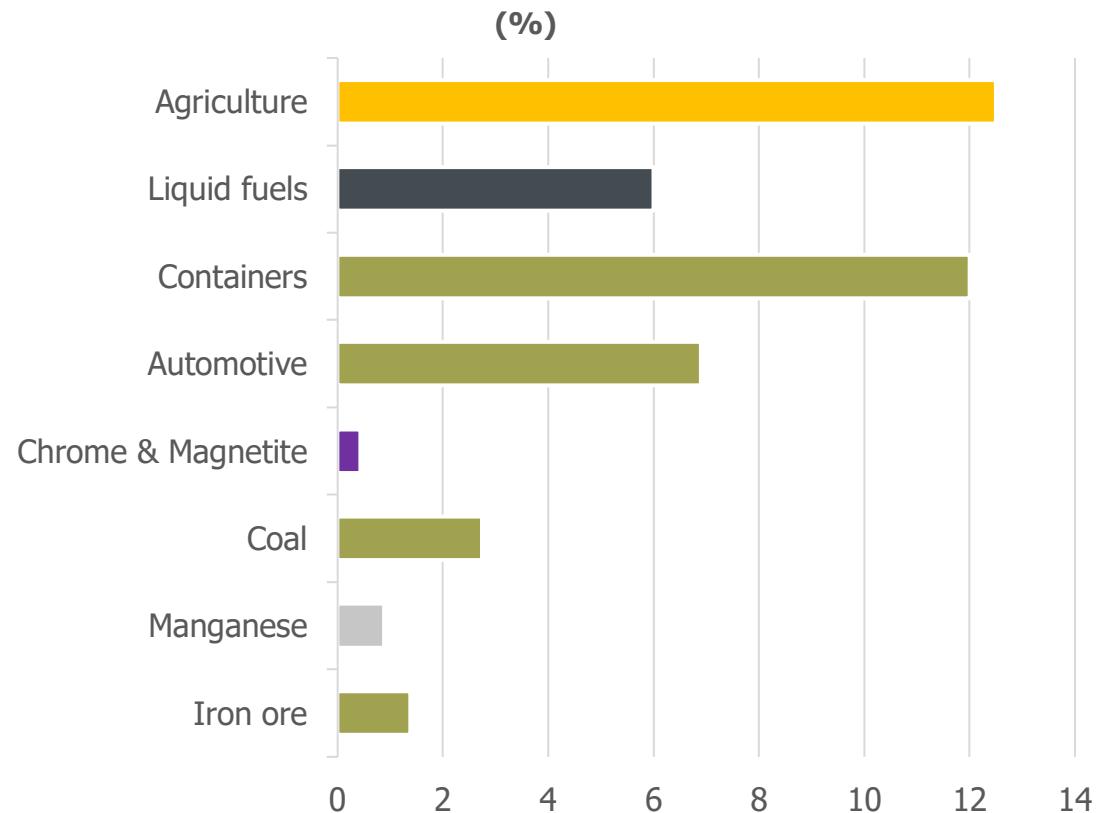
- Operational context
- Year in review
- Developmental outcomes



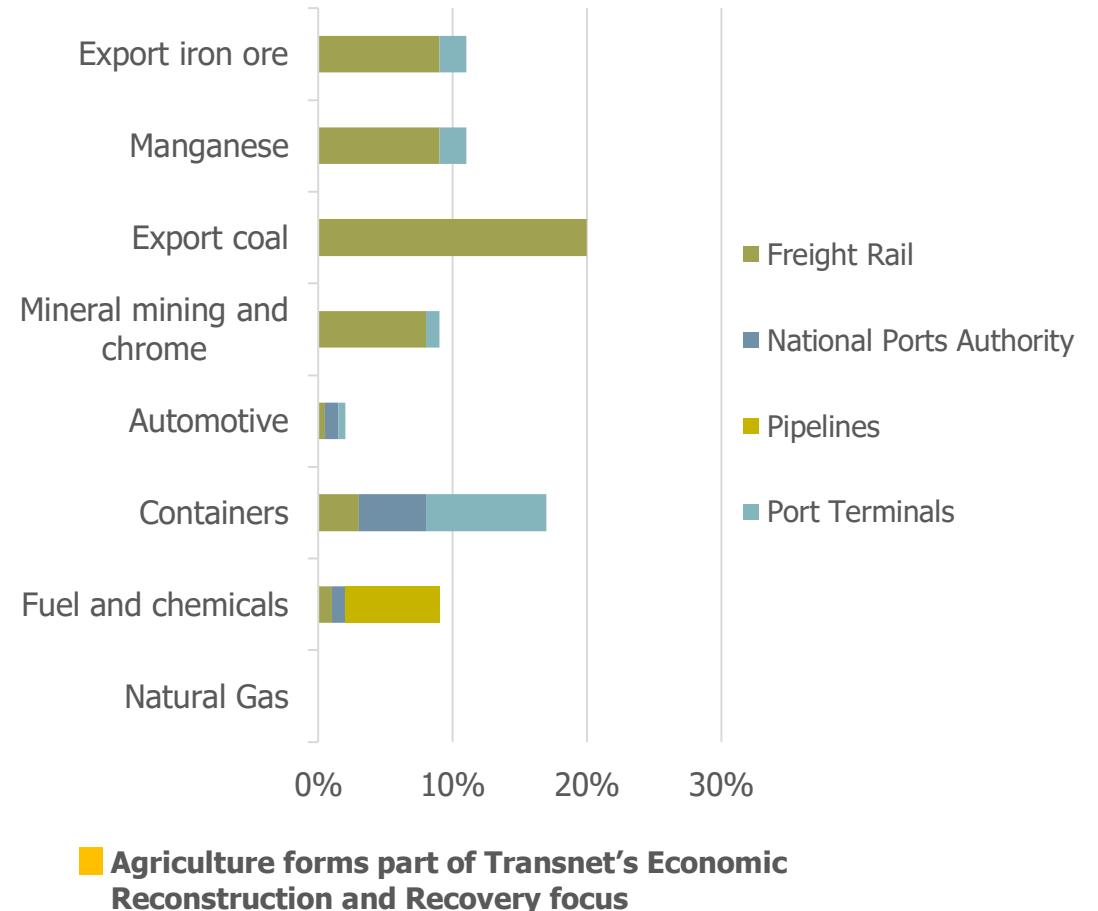


Operational context

**Nine commodities contribute
~42,9% to total national GDP**



...and contribute to 80% of Transnet revenue (%)



Year in review: Our commercial environment



Global context



After **contraction of 3,5%** in 2020, the **global economy** is projected to **grow 5,6% in 2021**.



World economy expected to benefit from the **large government stimulus programmes** announced by some **advanced economies**.



Global Economic recovery is envisioned to continue into 2022, with **global growth** moderating to **4,3%**.

South African context



April 2020, **S&P further downgraded the sovereign's long-term foreign currency rating**. November 2020, **Moody's downgrades SA** sovereign credit rating to **junk status**.



SA economy contracted by ~7,2 per cent in 2020.



National unemployment reached unprecedented **32,5%** in Q4 of 2020.



SA's manufactured exports **fell by 5%**, lower exports of motor vehicles, basic iron and steel and petroleum products.



Total volume of SA's transported goods decreased by 11,6%.



Domestic lockdowns had a severe **impact on economic activity** as the country's **GDP declined by 7%**.

Transnet context



Transnet's revenue is directly affected by the **combined influences of global macro-economic trends and trade flows** as well as the **level of economic activity** in South Africa.

Volume output adversely impacted by regulations that prohibited mines from operating at full capacity in the interest of '**flattening the curve**' and **protecting the safety of employees**.



Year in review: How we responded to external events





PERFORMANCE

PORTIA DERBY

GROUP CHIEF EXECUTIVE

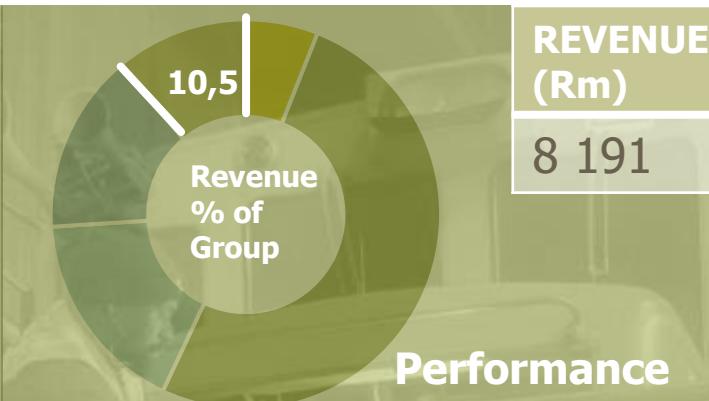
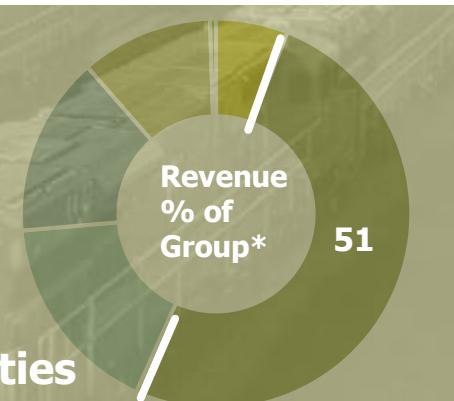
- Operating Division performance
- Developmental Outcomes





Divisions: Freight Rail and Engineering

REVENUE (Rm)	OPEX (Rm)	CAPEX (Rm)
39 448	25 145	11 926



REVENUE (Rm)	OPEX (Rm)	CAPEX (Rm)
8 191	9 665	222

Performance

- Reopening the **Leeufontein link improved speed of service delivery to the automotive industry, reducing the route by 60 km.**
- **Thornwood rehabilitation complete on the Container Corridor** (restored 27 train slots p/d after embankment collapsed due to flooding).

Opportunities

- **Collaborative supply chain solutions, e.g. back-of-port facilities and improved terminal utilisation.**
- **Growth enabling partnerships and customer ownership of selected wagon fleets.**
- **A more efficient process for TFR Sidings and Branch Lines - partnerships to unlock investments.**
- Reform of the **Container Corridor to shift to a modern logistics enabler.**

Performance

- **Port Hauler vehicle 1 (V1) prototype** being commissioned - Assembly of **Port Hauler vehicle 2 (V2)** commenced.
- **Contract valued at R360 million** concluded with **CFM (Mozambique)** to deliver **300 High Sided Wagons**.
- **Built new Transvaco train to transport the bulk of the COVID-19 vaccines to SA's remote areas.**

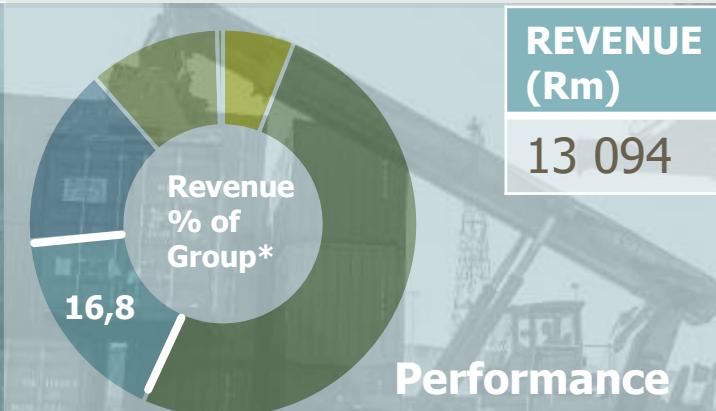
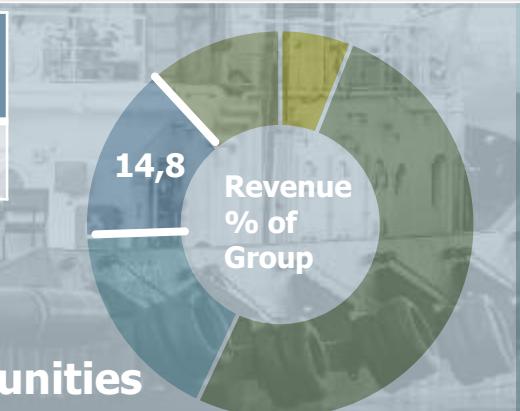
Opportunities

- **Potential demand from regional bulk commodity mines and mining companies purchasing own rolling stock.**
- Rolling stock turnkey solutions and maintaining port equipment.
- Demand for rolling stock overhauls and upgrades.

Divisions: National Ports Authority and Port Terminals



REVENUE (Rm)	OPEX (Rm)	CAPEX (Rm)
11 558	4 856	684



REVENUE (Rm)	OPEX (Rm)	CAPEX (Rm)
13 094	9 463	2 324

Performance

- Joint planning of container terminal operations** – DBN, CT and PE.
- Increased rail utilization** at Port of Durban from 1 train every 2 weeks to 4 trains p/week
- Increased parcel sizes for Manganese at PE (from **42,000 tons** to **54,000 tons**) and NCT (from **50,000 tons** to **60,000**)

Opportunities

- Richards Bay:** LNG and petrochemicals
- Durban:** Point Container Terminal expansion
- Cape Town:** Truck staging
- Saldanha:** Expansion for Manganese (Mn) and Iron Ore (Fe)
- East London:** Gately Site RFP
- Ngqura:** Liquid Bulk Operator
- Port Elizabeth:** Automotive (Medium Term)

Performance

- Mandatory truck booking systems** at DCT Pier 1 and Pier 2 and the Durban MPT **improved traffic flow to the terminals**.
- During **hard lock down**, DCT was **restricted to a single berth operation** with **2 gangs**. TPT **worked to recover** and **ramped up to 60% (8 gangs)** relatively quickly, and finally **restored its 12 gang operation**.

Opportunities

- Pursue growth enabling partnerships** to maximise productivity.
- Increase gangs to 14 in DCT.
- Create a pool of **OLE across the port system**.
- Partnering with **OEMs for MSA and consignment stock**.
- Back-to-basics** in operations.



Divisions: Pipelines and Property

REVENUE (Rm)	OPEX (Rm)	CAPEX (Rm)
4 892	6 944	499



REVENUE (Rm)	OPEX (Rm)	CAPEX (Rm)
1 013	779	166

Performance

- **Exceeded target** for Execution of Ordered vs Delivered Volumes at **98% vs target of 95 %.**
- Technological interventions to **monitor and manage vandalism on the pipelines.**
- **Expedited R&D studies** to repurpose the existing **pipeline network and associated infrastructure.**

Opportunities

- Provide greater **efficiency/reliability/cost** incentives for the market to use **MPP-installed assets.**
- Develop a **fuel import terminal and accumulation facility** at the Port of Durban.
- Enter into the **Gas Storage and Transportation Market.**

Performance

- **New property strategy** approved by the Board, paving a way for the **optimisation** of the returns from **Transnet's vast property portfolio.**
- Implementing the **move** of Transnet into **own buildings.**
- Became a **hub for Transnet's immovable property needs.**

Opportunities

- Addressing **housing needs** of Operating Divisions at **strategic sites.**
- Disposal of **non-core residential properties.**
- Partner with the **private sector** to develop the **Gqeberha Waterfront, Carlton Centre Precinct Development Plan, and 1 Adderley Square.**
- Reconfigure old **DIA** into a **logistics hub.**

Developmental outcomes



Transformation BBBEEE	Employment	Skills Development	Health and safety	Additional Transformation
<ul style="list-style-type: none"> B-BBEE spend: R23,39 billion <ul style="list-style-type: none"> Black-owned businesses: R12,9 billion Black women-owned businesses: R7,99 billion Spend on EMEs: R4,06 billion. Transnet is rated a Level 2 B-BBEE contributor. 	<ul style="list-style-type: none"> 55 827 Employees <ul style="list-style-type: none"> Permanent: 49 642 Contract: 6 185 Transnet has implemented various changes to its organisational structure and to improve agility and speed of decision-making and ensure dedicated focus on the core business. 	<ul style="list-style-type: none"> 1,6% of personnel costs amounting to (R462,7 million) invested in training artisans, engineers, young professionals and technicians. Internal skills development initiatives such as GCE Talent Nurturing Programme and Levelled Leadership Development Programme. 	<ul style="list-style-type: none"> Colleagues lost in our operations: 4 LTIFR: 0,61, below tolerance of 0,75% Disabling injuries: 424 Public fatalities: 95 Running line derailments: 70 Shunting derailments: 122 	<ul style="list-style-type: none"> Black employees: 90,3% of total base. Women in Exco: 40%. People with disabilities 2,2% of base employee base. Professional cadre Black employees: 3 219. Skilled cadre Black employees: 14 606.

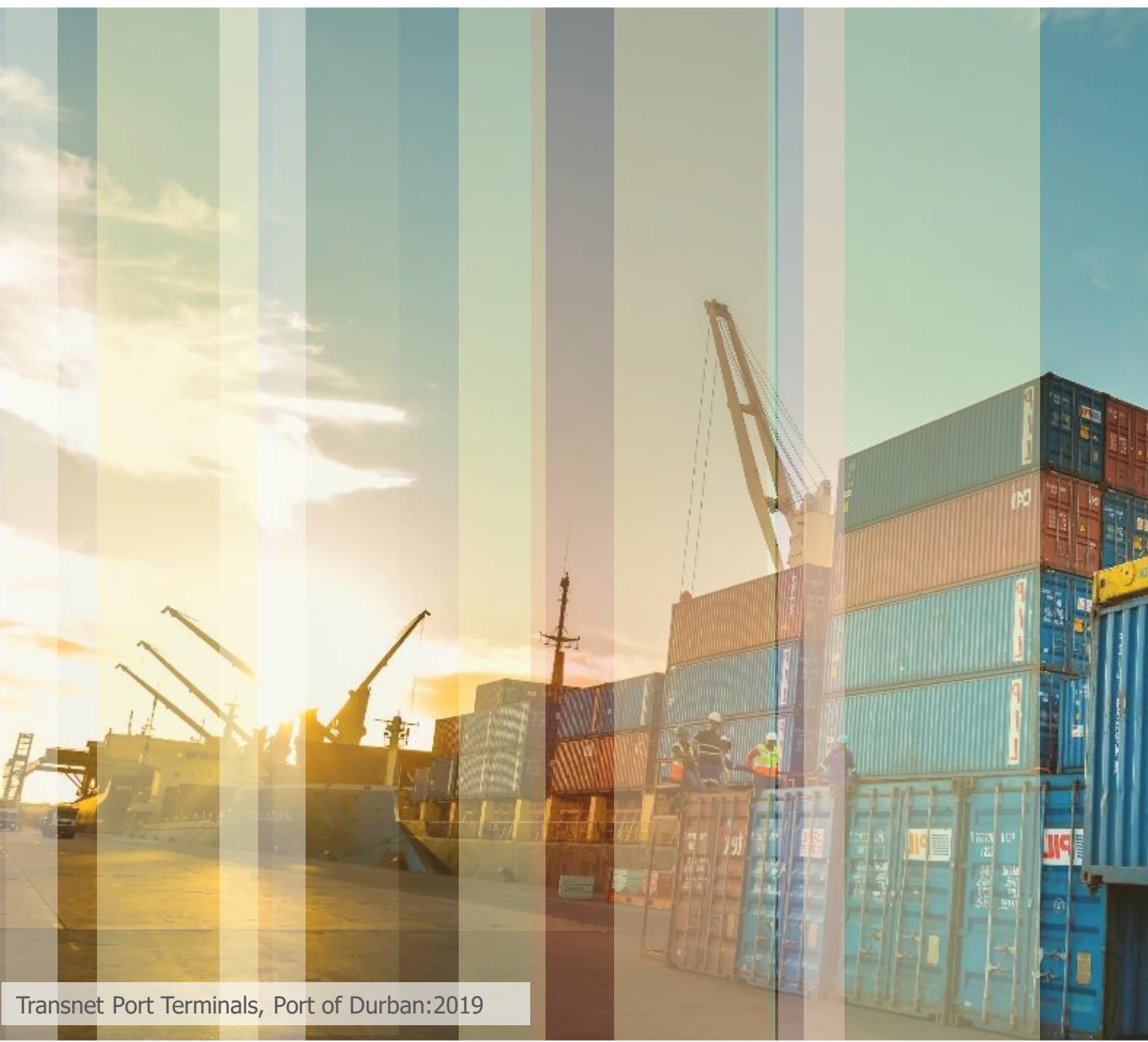


PERFORMANCE

NONKULULEKO DLAMINI

GROUP CHIEF FINANCIAL OFFICER

- Financial performance summary
- Transnet's recovery journey
- Revenue and volume performance
- Operating expenses
- Net loss reconciliation
- Balance sheet
- Capital investment





Financial performance summary



REVENUE: Down **10,5%** to **R67,3 billion**, due mainly to impact of COVID-19 lockdown restrictions on volumes



NET OPERATING EXPENSES: Up **16,2%** to **R47,8 billion**, due mainly to third party claims and environmental provisions



NET LOSS: **R8,4 billion**, compared to 2020: R2,9 billion profit



CASH GENERATED FROM OPERATIONS*: Down **26,8%** to **R24,4 billion**



** Including working capital changes.*



EBITDA: Down **42,8%** to **R19,5 billion**, with the EBITDA margin decreasing to 28,9%.



CAPITAL INVESTMENT: Down **14,3%** to **R15,9 billion**.



GEARING: **48,7%**



CASH INTEREST COVER:* at **2,0 times**



** Including working capital changes.*



TRAINING COSTS: **1,6%** of **personnel costs** invested in training artisans, engineers, and technicians.



B-BBEE SPEND: **98,1%** of total measured procurement spend, totalling **R23,39 billion**

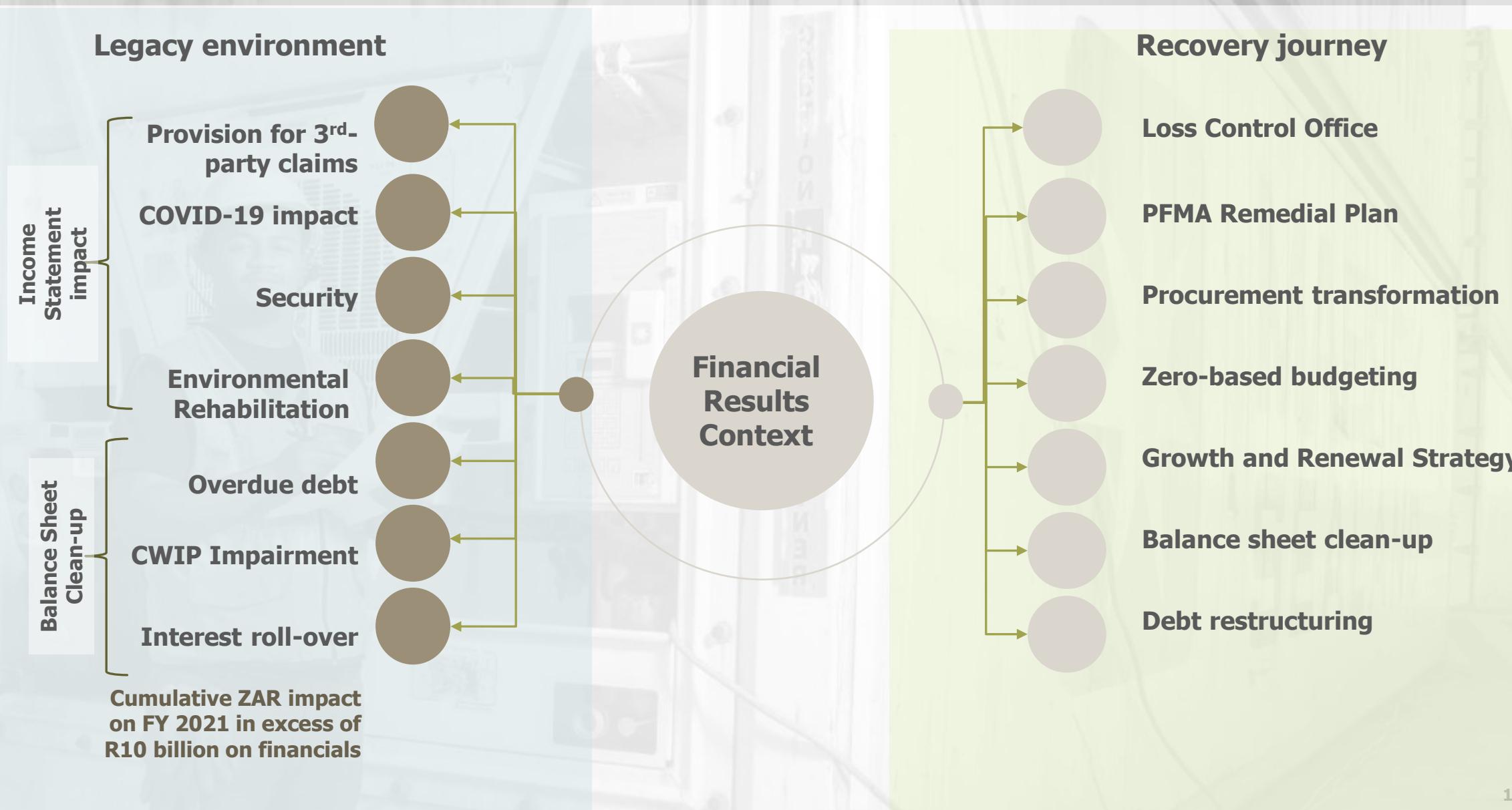


LTIFR: Performance of **0,61**, which is below that of the tolerance of **0,75%**





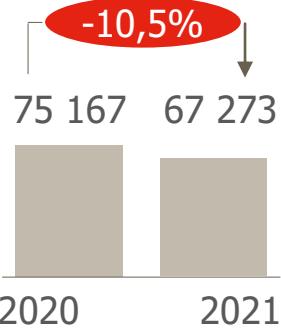
Transnet's recovery journey



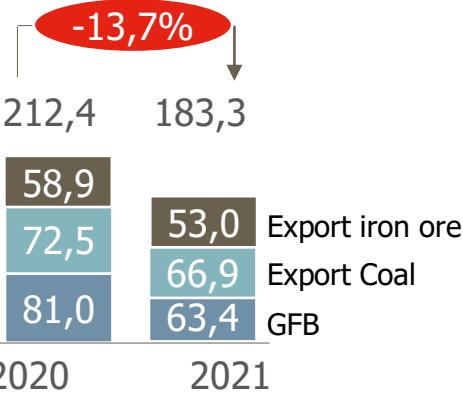


Revenue and volume performance

Revenue (Rm)

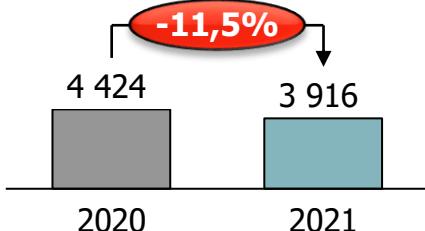


Rail Volumes (mt)

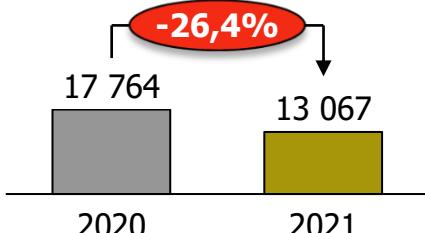


- Rail Volumes** reduced due to constrained demand, cable theft, power failures, vandalism, adverse weather, and derailments.
- Bulk and container terminals** operated at reduced capacity during the initial hard lockdown.
- Pipeline volumes** were 26,4% lower than the prior year due to imposed travel restrictions, and the negative impact of fuel theft incidents.

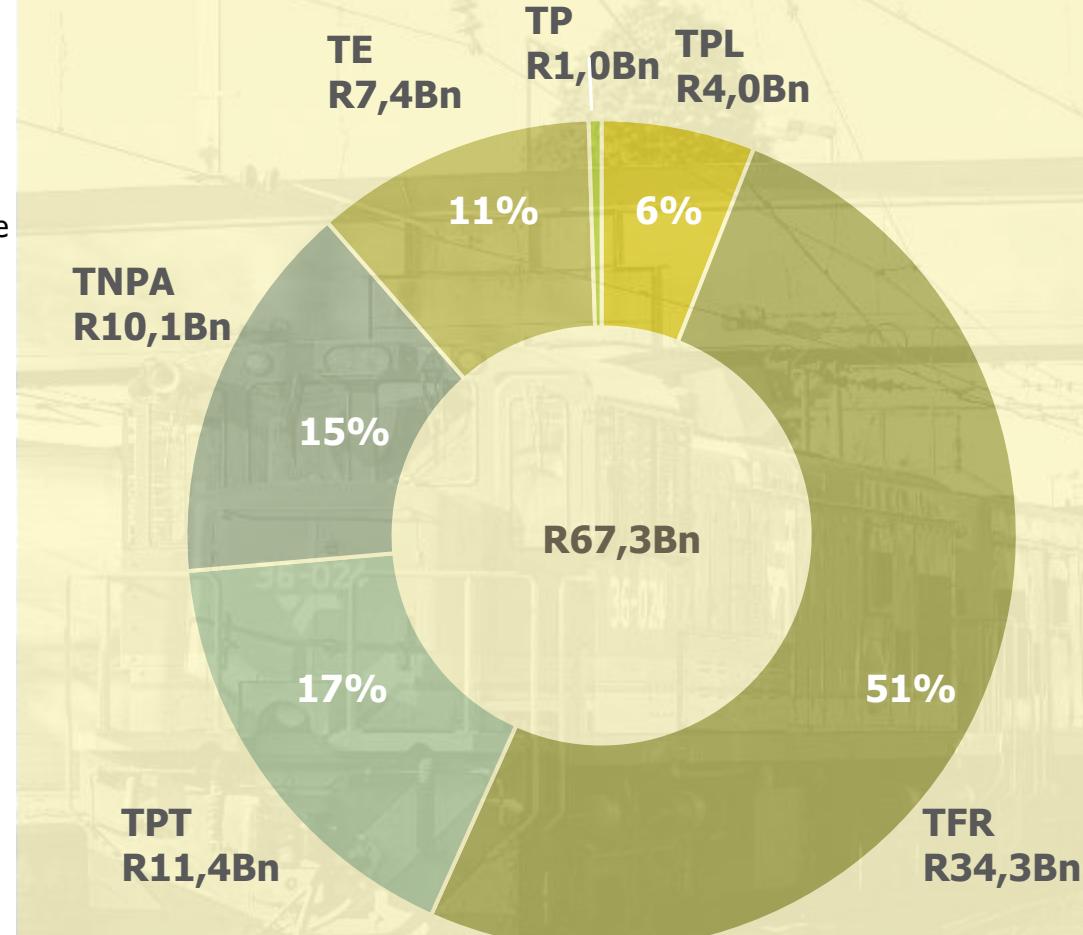
Port containers ('000 TEUs)



Petroleum (ml)



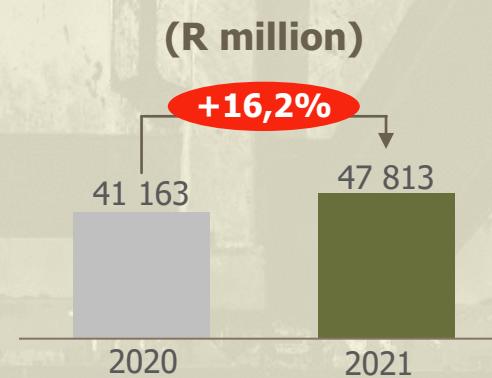
Revenue contribution by Operating Division (%)



** Excludes specialist units and inter-company eliminations.



Operating expenses



% Contribution by cost element

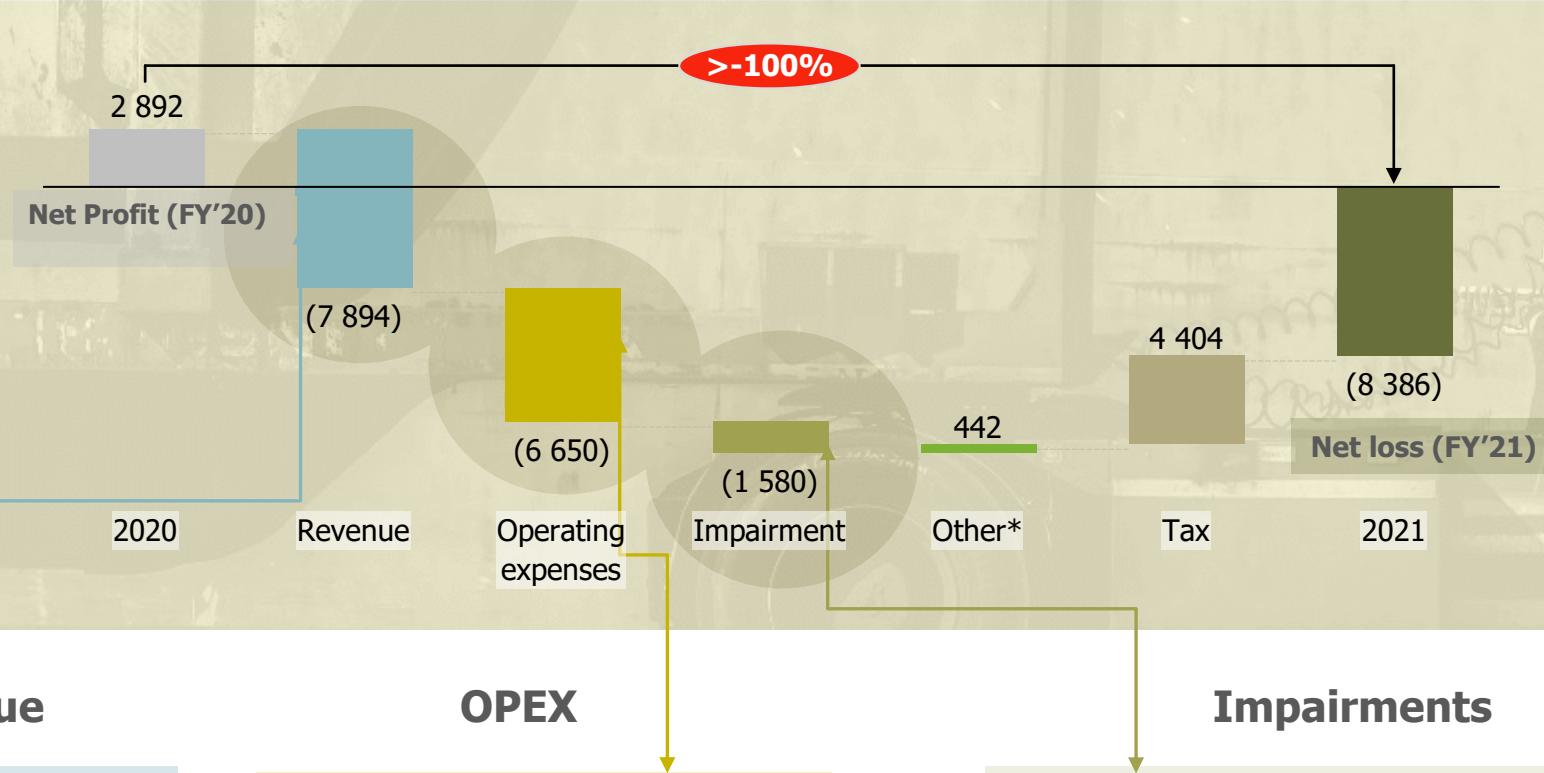


Commentary

- **Fixed costs:** mostly **Personnel costs, maintenance and security costs.**
- **Other cost savings** were offset by unexpected costs
- **14,64% increase in external, non-core operational expenses, amounting to R5,6 billion.**



Net loss reconciliation



Revenue

- Unachieved **revenue** targets relates to:
 - **Lower demand.**
 - **COVID-19** related commercial restrictions.
 - **Operational challenges.**

OPEX

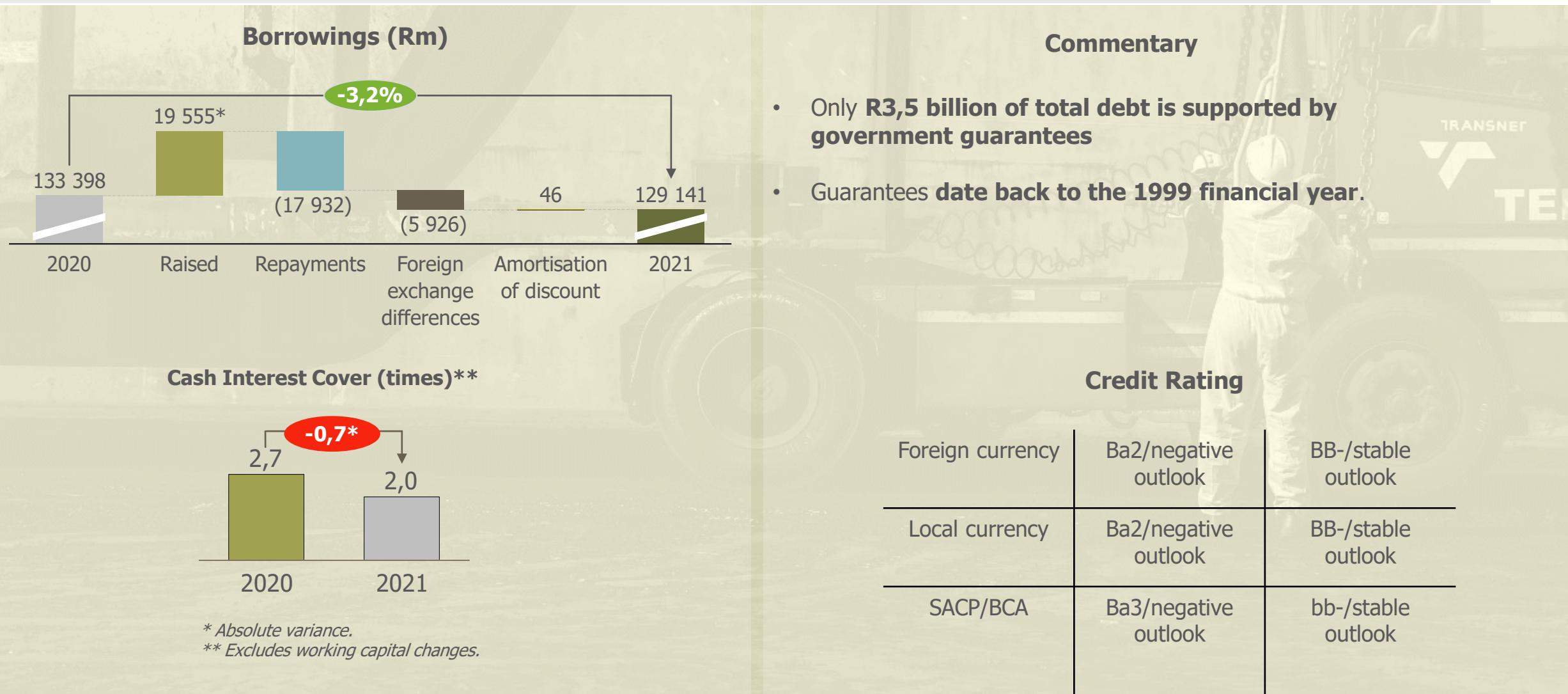
- Third party claims increased by **R3,6 billion**.
- **Environmental management expense** increased by **R1,2 billion**
- Maintenance costs increased by **R1,0 billion**.
- Unbudgeted **COVID-19 costs of R232 million**.

Impairments

- **Impairment** increased mainly on non-financial assets, as a result of:
 - **Vandalised locomotives** not being able to be repaired due to the **suspension of the 1 064 OEM contracts**.
 - The impact of **derailments**.
 - **Capital work in progress** assessment that resulted in a further impairment, mainly at the ports (balance sheet clean-up).

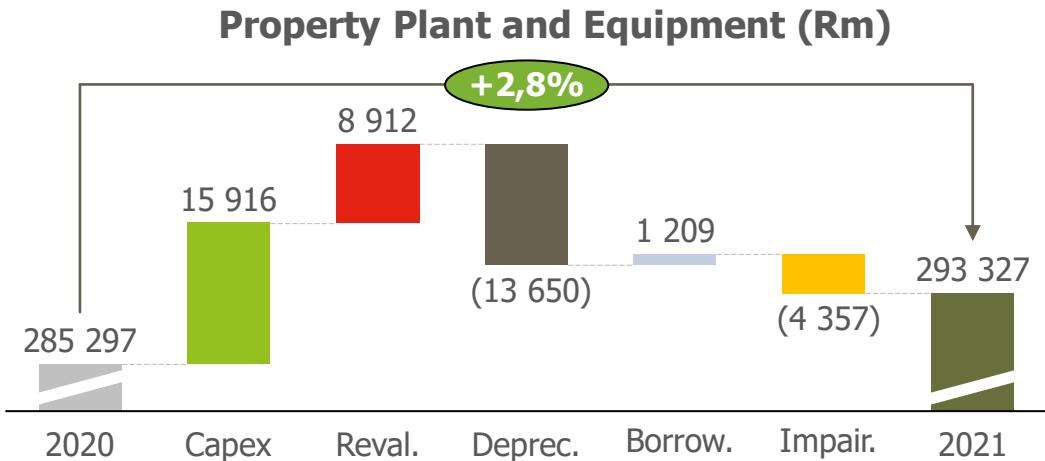


Balance sheet

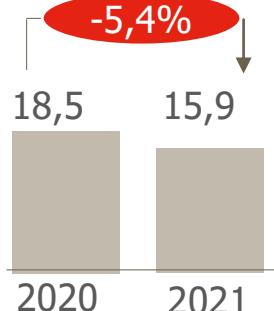




Capital investment



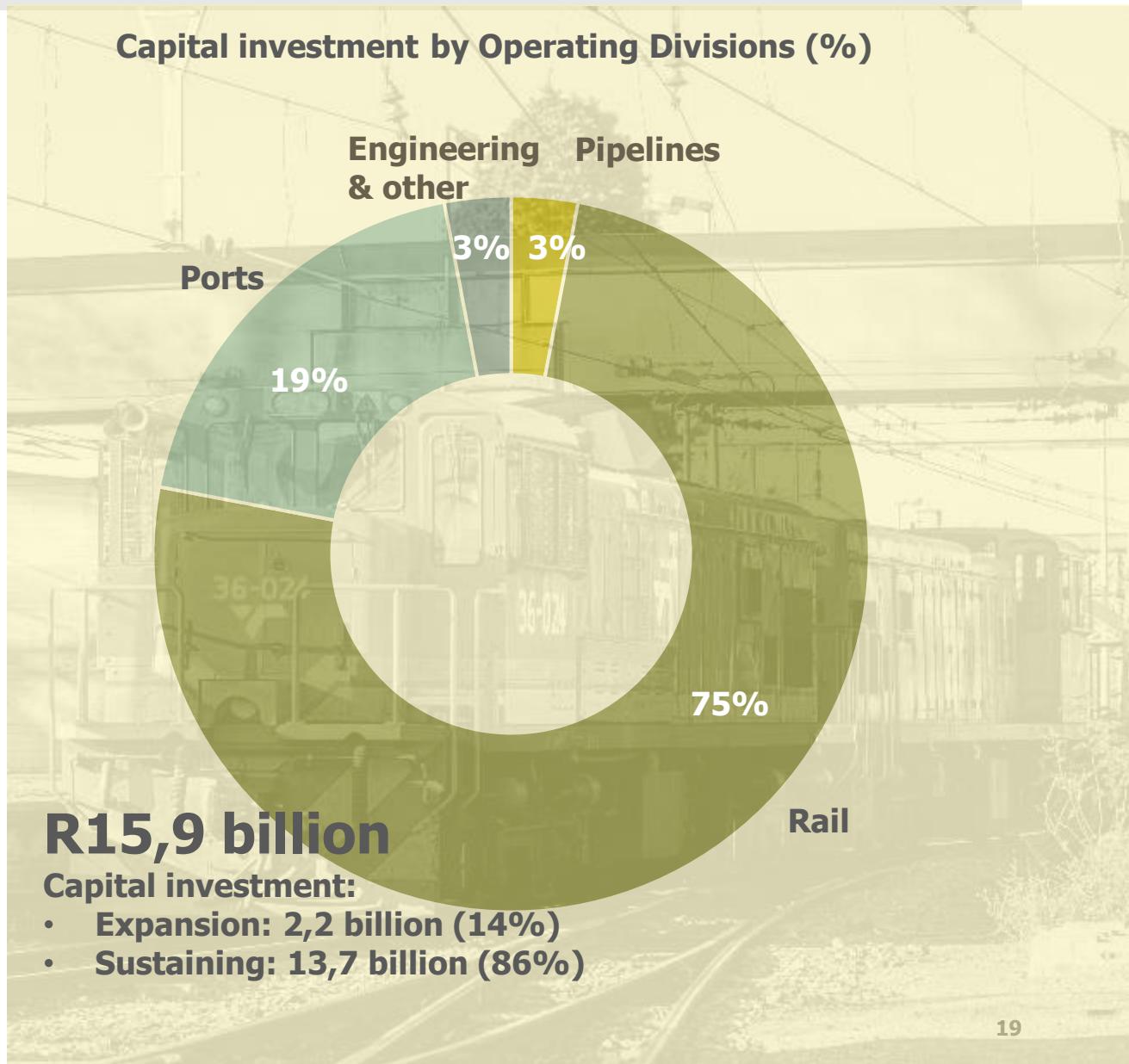
Capital investment (Rbn)



**PPE: 2,8% Increase to
R293,3 billion**

**PPE Impairment
Increase by 70,7%
to R3,4 billion**

Capital investment by Operating Divisions (%)





COMPLIANCE

NONKULULEKO DLAMINI

GROUP CHIEF FINANCIAL OFFICER

- PFMA compliance
- Irregular expenditure



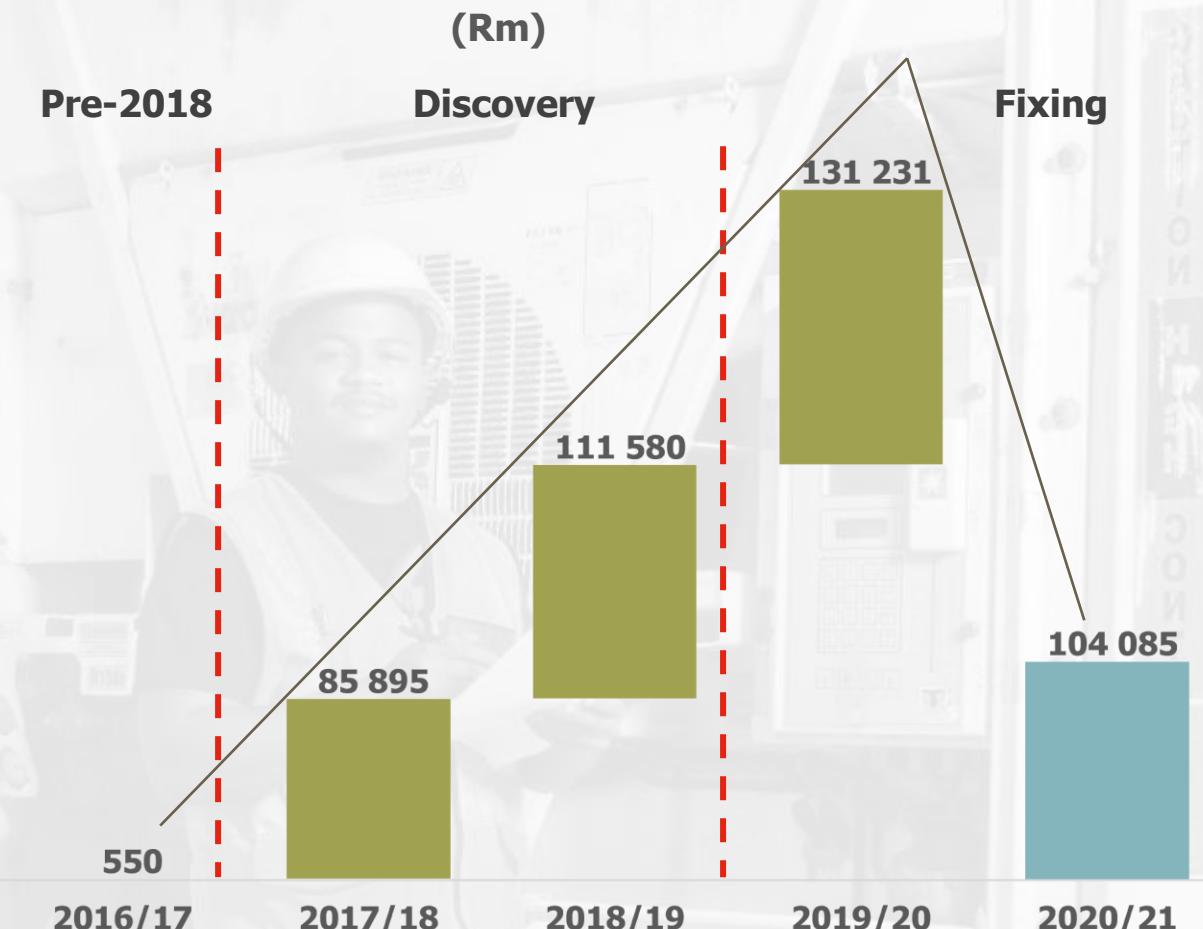


PFMA Compliance: Historical analysis shows iterative improvements in controls, yet poor PFMA reflection due to take-on of historical non-compliance events in audits

Pre - 2018	Historical context	Clean audits, without qualification.	No irregular expenditure reported.	Significant number of instances of PFMA non-compliance.	Independent, External audit firms performed audits.
2018 - 2020	Overall SOE landscape	State capture related legacy.	AGSA took on SOE audits, guiding on PFMA-related audits.	NT issues enhanced PFMA related frameworks with key focus on PFMA reporting, incl. SOE requirements.	Stringent PFMA disclosure requirements embedded in SOEs.
2021	Transnet deep dives	Significant PFMA shortcomings identified. New Board implements remedial PFMA improvement Plan.	PFMA focused teams appointed and assembled.	Procurement events' population segmented, identified: high value to low value tenders and missing documents.	PFMA governance tightened through policies and processes, PFMA training initiated across the Group.
Current	Positive outcomes	Improvements on investigations and closing out of PFMA-related cases.	Numerous individuals implicated in non-compliances held to account.	Approval of SD related condonation from NT: total contract value of R59 bn. SCM Transformation project initiated.	NT approves partial ring-fencing of historical (pre-2021) low value procurement events and missing documents.



Irregular expenditure



Low value tenders

- 408 000 were impractical to test
- Approval granted for ~ 339 000 historical
- 69 000 relate to 2021 – not rendered impractical

High value tenders

- R59 billion of SD contracts condoned by National Treasury
- R183,5 billion tested for irregular expenditure
- Locomotives contracts at R42,9 billion were all found to be irregular.
- Of R62,4 billion worth of reviewed tenders, R28 billion was identified as irregular.

FY2021 Current year IE Split	
Contracts entered into 2021 R3,9 billion	Contracts entered Prior 2021 R10,3 billion



STRATEGY AND OUTLOOK

PORTIA DERBY
GROUP CHIEF EXECUTIVE

- Repositioning the business
- Events subsequent to reporting date
- Back to basics Programme





Repositioning the business

Immediate tactical response

Repair & Grow

-  Improve **current asset utilisation**.
-  Contain **costs in operations**.
-  Enhance **employee operational skills**.
-  Improve and **simplify** business processes.
-  Meet **customer service expectations**.

Benefits derived from tactical interventions

Reconstruct & Transform

-  **Reposition** the organisation to enable growth within **core segments** (based on revenue and operational capability).
-  Transform **core commodity segment supply chains** through partnerships, operational reform and **targeted infrastructure investment**.

Optimization responses

Grow & Expand

-  Enhance **operational focus** and performance in areas where we have comparative advantage.
-  Form **partnerships that enable growth** in key industry-focused areas.
-  Support the **transformation of supply chains**.
-  Implement **market segment strategy for focused growth**.



Events subsequent to reporting date

National Ports Authority Subsidiarisation	Unrest in KZN and Gauteng	Cyber attack	Voluntary severance packages	Fire damage at Richards Bay Bulk Terminal
<ul style="list-style-type: none"> 22 June 2021: Transnet National Ports Authority announced as a separate, wholly-owned subsidiary of Transnet with its own Board of Directors. Transnet collaborating with DPE to determine the process to transfer National Ports Authority's business to the new subsidiary. Impact on the Company's financial statements is still to be determined. 	<ul style="list-style-type: none"> 8 July 2021, social unrest causes South Africa's economy to contract. Impacts include disruption of key services, shortages of food, fuel, and essential medical supplies. Transnet's operational and financial performance negatively impacted, with Company declaring a Force Majeur. 	<ul style="list-style-type: none"> 22 July 2021, a cyber-attack, security intrusion and sabotage, result in the disruption of normal processes and functions. Transnet implemented all available and reasonable mitigation measures to limit disruptive impacts. Company fell back on manual systems to handle incoming and outgoing ships and the moving of containers. 	<ul style="list-style-type: none"> 12 August 2021: voluntary severance packages offered to all employees expressing interest. COVID-19 impacts on Transnet's financial position has necessitated a decrease in the fixed labour costs to sustainable levels. Critical positions are being retained for operational efficiency and business continuity. 	<ul style="list-style-type: none"> October 2021, two separate fire incidents caused damage to conveyor belts at the Richards Bay Dry Bulk terminal. Incidents caused disruption to operations. Transnet fire forensic experts and insurance companies are investigating cause and extent of damage.

Transnet 'Back to Basics' Programme: How Transnet gets back on track



- **'A Duty of Care'** - clean, safe & functional facilities and available tools of trade (Depot clean-ups, PPE availability, housekeeping, basic equipment availability).
- **Safety focused culture** – the cardinal rule is **SAFETY**.
- Recognition of **excellent employee performance**.
- **Fill key vacancies**.



- **Enhanced duty of care programmes** focusing on effective maintenance approaches for equipment and infrastructure.
- **Long-term contracts** for equipment, spares and contractors (incl. skills transfer from OEMS/ specialists)
- **Immediate return of equipment to safe and reliable service** – access to critical components



- Implement a **targeted network renewal programme** that strictly adheres to **best practice asset maintenance principles and standards** on key delivery infrastructure
- **Management to adopt a proactive approach to assessing the safe and reliable condition of assets**, and **monitoring adherence to planned maintenance standards** across operations (e.g. corridor or terminal walkabouts)



- **Continuous improvement to optimise planning, configuration of operations and performance monitoring** to **improve asset turnaround times** –
 - Embed **continuous operational planning** in our **DNA**.
 - Identify and **remove 'bottlenecks'** from various key interfaces (e.g. port terminals and rail yard) to support **key client and industry requirements**.
 - **Responsive, customer centric planning and design**



- Accelerate **standardisation and implementation of innovative security safety solutions** (e.g. big data analytics) to support the roll-out of a proactive approach to protecting assets.
- Improve **security ecosystem collaboration through cooperation with neighbouring communities and government security cluster**.



- Prioritisation of **servicing rail dependent customers and critical facilities**
- Allocate **operating assets** (e.g. rolling stock) and **capacity** (e.g. terminal space) to **support security of supply**.



THANK YOU

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Disclaimer

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By their nature, forward-looking statements are inherently predictive, speculative and involve inherent risks and uncertainties, because they relate to events and depend on circumstances that may or may not occur in the future. If one or more of these risks materialise, or should underlying assumptions prove incorrect, our actual results may differ either marginally or materially from those anticipated.

A number of factors could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including, but not limited to: changes in economic or political conditions and changes to the associated legal, regulatory and tax environments; lower than expected performance of existing or new services or products, and the impact thereof on the Company's future revenue, cost structure and capital expenditure; the Company's ability to expand its portfolio; skills shortage; changes in foreign exchange rates and a lack of market liquidity which could, in turn, impact expected customer growth and customer retention; acquisitions and divestments of businesses and assets and the pursuit of new, unexpected strategic opportunities; the extent of any future write-downs or impairment charges on the Company's assets; the impact of legal or other proceedings against the Company; uncontrollable increases to legacy defined benefit liabilities and higher than expected costs or capital expenditures.

Forward-looking statements apply only as of the date on which they are made, and we do not undertake any obligation to update or revise them, whether as a result of new information, future events or otherwise.