ABRIDGED
GOVERNANCE

**Board of Directors’ perspective on corporate governance**

The Transnet Board of Directors views good governance as a vital component in operating a successful and sustainable business, as well as providing assurance to stakeholders that the Company is well managed. Our formal governance structures oversee the Company’s ethical performance through codes, policies and processes, and ensure that structural accountability and principled behaviour are promoted throughout the organisation. We acknowledge, however, that good governance is ultimately about good decision-making, which is dependent on transparency and the availability of accurate information – particularly as it pertains to the Company’s financial well-being and the quality of its relationships with all stakeholders.

Achieving good corporate governance is a multi-faceted and ongoing process. It requires deep understanding of the interplay of strategy, value creation, the organisation’s socio-economic and political environment, and the fundamentals of human nature. As we move into the new and exciting paradigm of the 4th Industrial Revolution, we need to ask ourselves whether our existing governance structures remain ‘fit for purpose’ considering current financial and economic conditions, emerging digital platforms, industry disruptions, and the need to upskill and adapt accordingly.

We should also consider how these frameworks have functioned in practice over the last two decades and whether our corporate culture is enabling our governance codes, structures and processes. A healthy corporate culture and sound governance structures cannot be mutually exclusive if we are serious about driving long-term sustainability for Transnet. Therefore, the Board of Directors must focus on the economic, social and environmental well-being of the Company.

As a State-owned Company, our governance function supports the Company’s ability to achieve the commercial and developmental imperatives set out in the MDS. To this end, the Board of Directors ensures that programmes to create value for all stakeholders are developed and monitored. Visible good governance – ‘good governance in action’ – can create value as it helps us to build social trust, maintain investor credibility, and promote institutional integrity, as this action is undertaken by people. As the Board of Directors, we acknowledge our responsibility to hold our people accountable for their actions, and vice versa. As we gear up for growth, our governance should reflect our evolution by enhancing existing compliance structures and practices, regardless of how mature we consider them to be. This requires a mutually designed and agreed system of ethical behaviour by all our people that collectively support Transnet’s long-term vision for value creation. In a nutshell, ‘governance’ should not just be about how we do things at Transnet, but how we actively live the Transnet brand.

LC Mabaso
Chairperson
Creating value through Transnet’s governance structure

Transnet’s governance structure supports the Company’s ability to create value in the short, medium and long term by creating an enabling environment within which to achieve strategic objectives.

Characteristics of an enabling environment

Financial accountability

- A mature Audit function enables us to review and assess the integrity and effectiveness of our accounting and financial control systems.
- A Group-wide Step-up Programme on the critical financial reporting controls environment managed within the office of the Chief Financial Officer ensures the end-to-end adequacy of key financial control processes.
- The Board of Directors annually approves the Financial Risk Management Framework (FRMF). The FRMF is a financial risk management policy that provides a framework within which Transnet Treasury operates and aids in meeting the Company’s objectives while mitigating the associated risks.
- The Board of Directors and Group Leadership Team (GLT) hold periodic strategic planning workshops where, among others, the Financial Results, Corporate Plan, Shareholder’s Compact and Company Performance are reviewed to ensure balance and information integrity.

Performance monitoring

- The Acquisitions and Disposals Committee monitors the implementation of strategic acquisitions against approved plans. The committee is also responsible for decision-making on economic and social impacts. It ensures that procurement and provisioning policies are fair, equitable, transparent and cost-effective.
- The Acquisitions and Disposals Committee approves tenders and contracts up to the maximum of the investment decision. It also monitors trends in supplier development spend and progress on plans including support of the Government’s economic policies, Competitive Supplier Development Programme, Local Supplier Development and Preferential Procurement and Enterprise Development.
- The Internal Audit function conducts annual audits on the Company’s corporate governance structures to provide assurance that governance-related processes and controls are consistently applied by the Board of Directors to support MDS performance.
- The Internal Audit Plan is aligned to the MDS and continues to focus on the key risks and challenges faced by the Company. The Plan further considers the overall control consciousness of employees, including contract personnel, and addresses factors that could influence the satisfactory realisation of Transnet's goals and objectives.

The safeguarding of resources and the limitation of undesirable outcomes

- Our Internal Audit function assists the Board of Directors to safeguard the Company’s manufactured assets through acquisition and disposal policies and by approving procurement transactions within a stringent delegated authority framework.
- Our ICT Governance function manages Transnet’s ICT architecture and drives effective measures to minimise adverse business impacts of digital risks through systems recovery and Information security.
- The Acquisitions and Disposals Committee monitors strategic acquisitions and disposals and makes recommendations to the Board of Directors.
- The Audit Committee assesses any significant risk-control failings or weaknesses identified and their potential impact, and confirms that appropriate action has been or is being taken.
- Our Risk Management function contributes to a climate of discipline and control which reduces opportunities for fraud and other operational losses.
- The Audit Committee ensures compliance with and adherence to applicable legal, regulatory and accounting requirements, and contributes to a climate of discipline and control which will reduce the opportunity for fraud.
- The Risk Management function monitors environmental outcomes relating to energy, climate and water, and helps to mitigate the risks relating to non-compliance with environmental legislation.
- Transnet has an established, principles-based Integrated Assurance Model (IAM) that provides a clearly defined, documented approach for integrating and aligning Transnet’s assurance processes and control systems, thereby enabling appropriate risk and governance oversight.

An integrated mindset regarding the business’s inseparable elements

- By embracing King III – and now King IV – the Board of Directors ensures that the Company’s strategy, risk compliance, performance and sustainability are inseparable.
- The Sustainability Forum meets quarterly and is tasked with developing key performance indicators (KPIs) in relation to analysing sustainability performance.
- The Board of Directors approves the Company’s Integrated, Financial and Sustainability Reports and ensures that all material aspects are covered.
- The Risk Committee reviews the Company’s risks on a quarterly basis, and an annual review is performed by the Board of Directors. The Integrated Report, which is approved by the Board of Directors, aligns risks with strategy, operations and the Company’s most material aspects.
Ethical leadership and an ethical organisational culture

- Our Remuneration, Social and Ethics Committee helps to maintain world-class standards in the social and ethics environment, with due regard to all relevant legislation, policies, legal requirements and codes of best practice.
- Our governance framework enables the value system set by the Board of Directors and top management to filter into the organisation’s corporate culture, allowing them to lead by example – ‘tone at the top’.

Ethical, inclusive stakeholder relations to promote social trust (corporate citizenship)

- Our Remuneration, Social and Ethics Committee advises the Board of Directors in regard to responsible corporate citizenship and the ethical relationship between the Company and its stakeholders, both internally and externally.
- The committee manages the Company’s legal and moral obligations for its economic, social and natural environment, including the objectives and standards of the Company’s conduct and activities.
- The Acquisitions and Disposals Committee recommends potential private-sector participation models to the Board of Directors.
- The Acquisitions and Disposals Committee monitors trends in supplier development spend and progress.

The ability to attract and retain the right skills

- Our remuneration philosophy and policy environment monitors reward practices and ensures that competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high-performance staff at all levels.
- Our Corporate Governance and Nominations Committee ensures that the Board to the Board of Directors’ composition and structure enables it to fulfil its mandate and obligations in the context of Transnet’s strategic mandate.
- The Board of Directors’ skills matrix monitors its mix of skills. The Board of Directors’ skills currently include Legal/Compliance, Accounting/Finance, IT, HR, Business Acumen, Operations, Engineering, Risk, Corporate Governance, Procurement, Strategy, Logistics and Marketing.

A culture of innovation

- Data will become the currency for the digital economy, and the collection and dissemination of data will become a critical baseline for revenue diversification through innovative service solutions. ICT governance plays a critical role in securing the organisation’s data assets and intellectual capital as it moves into the new digital economy. The ICT Governance function manages Transnet’s interactions with cyberspace, identifies vulnerabilities, assesses risks and acts to mitigate them at a reasonable cost with technology and processes that minimise cost and effort. Beyond risk management, ICT governance manages cybersecurity to ensure organisational resiliency and strategies for business continuity in the event of a cyberattack.
The Board of Directors is principally responsible for directing the activities of the Company and ensuring its long-term economic, social and environmental sustainability.

The Board of Directors has delegated management accountability to the Company’s Group Chief Executive through the Delegation of Authority Framework.

- Delegates powers to its committees, of which committee members are specialists in their respective fields and areas of governance;
- Ensures that the Company can fulfil its statutory and commercial objectives by directing and approving strategic and operational objectives;
- Assesses the Company’s performance against the targets outlined in the Shareholder’s Compact; and
- Ensures that adequate budget planning processes are in place.

The Group Chief Executive directs the business strategically, and provides direction to operations to ensure strategic implementation.

The Group Chief Executive is assisted by the Group Leadership Team.

The Group Leadership Team (GLT) delivers on specific mandates, based on the Delegation of Authority Framework.

GLT: composed of the prescribed officers of the Company and exercises executive control.

Pipelines

Operating Divisions and Specialist Units

Five Operating Divisions

Freight Rail
Engineering
National Ports Authority
Port Terminals

Three Specialist Units

Transnet Group Capital
Transnet Property
Transnet Foundation
The Company operates within the following control objectives:

<table>
<thead>
<tr>
<th>Control objectives</th>
<th>Aspects of Transnet’s control objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ethical leadership, oversight and accountability</strong></td>
<td>• The appointment of the Board of Directors and the determination of the Board of Directors’ strategic and operational objectives.</td>
</tr>
<tr>
<td><strong>Active and informed direction of the Company</strong></td>
<td>• Board direction includes approving the Company’s strategy and KPIs in line with the Shareholder’s Compact; providing input into the Corporate Plan; identifying critical risks and overseeing appropriate risk mitigation strategies; determining the Company’s Risk Appetite; and reviewing the Enterprise Risk Management Framework annually.</td>
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<tr>
<td><strong>Progress monitoring of organisational strategy</strong></td>
<td>• The Board of Directors monitors the implementation of the MDS through Annual Work Programmes and is kept abreast of the achievements and risks associated with achievement of the strategy. Long-term sustainability is a key focus of the Board of Directors and it monitors economic, social and environmental outcomes on a continuous basis. • Economic benefits, such as cost efficiencies, reliable services, local supplier industry development, job creation, rural development and financial stability, are monitored by the Acquisitions and Disposals Committee. • Social outcomes include good governance, accountability and transparency, zero tolerance of fraud and corruption, a representative workforce, safety, employee wellness, Broad-Based Black Economic Empowerment, community benefits and proactive stakeholder engagement, which are closely monitored by the Remuneration, Social and Ethics Committee (REMSEC). • Environmental outcomes relating to energy, climate and water. Risks relating to non-compliance with environmental legislation are monitored by the Risk Committee.</td>
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<tr>
<td><strong>Appropriate governance structures</strong></td>
<td>• Governance structures are underpinned by clear mandates that fulfil the Board of Directors’ responsibilities in line with the Companies Act and PFMA requirements.</td>
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<tr>
<td><strong>Enhanced internal governance processes</strong></td>
<td>• Internal governance processes are enhanced through: • The Transnet Value Chain Co-ordinator (TVCC), an interdependent forum to ensure business optimisation and integration of the value chain service offerings; • The Group Capital Integration and Assurance Unit, tasked with reviewing the capital (mega) projects business cases between the different front-end loading (FEL) stages to ensure project readiness before consideration by the respective governance structures; and • The Capital Investment Forum, responsible for reviewing business cases and making recommendations to the Capital Investment Committee.</td>
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<tr>
<td><strong>An impeccable governance framework</strong></td>
<td>• The Company’s governance framework complies with specific requirements of the Companies Act and ensures that the Audited Financial Statements are made available to the appropriate stakeholders. • It promotes transparency, accountability and integrity with respect to Transnet’s management practices. • It adheres to the prescribed requirements for the composition, appointment, remuneration and the election of directors.</td>
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<tr>
<td><strong>Embedding a culture of entrenched ethical values, principles, standards and norms</strong></td>
<td>• Ethical values, standards and norms guide both employee and supplier behaviour through the Company’s Code of Ethics (the Code) and Integrity Pacts with suppliers. • The Code aims to instill a culture of honesty, respect, integrity and overall ethical behaviour in terms of employees’ engagements with internal and external stakeholders. • The Code is revised every five years or as and when required.</td>
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</table>
### Control objectives

**Adopting a ‘zero tolerance’ approach to fraud and corruption**

- The Company’s fraud and corruption preventative methodology enables it to identify and mitigate the occurrence of fraud and corruption through risk assessments and compliance checks. These are performed annually across the Company.
- The top-three areas at risk of fraudulent activities for the 2016 financial year were procurement, human resourcing and resource management (i.e. the potential misuse of resources). Mitigating controls and action plans are in place to reduce risks of fraud and corruption in these areas.
- Transnet’s fraud investigation methodology actively addresses fraud and corruption by responding to allegations of fraud and corruption in a timely manner. Investigations have numerous outcomes, including disciplinary action, and criminal and/or civil action. Subsequent to an investigation, all internal control weaknesses or breakdowns in processes are rectified to prevent future repetition of the irregularity.
- During the year, the Company’s Anti-fraud Policy was amended to include elements of anti-corruption.
- Formal fraud and corruption awareness training is conducted on an annual basis with all employees, including both bargaining and non-bargaining council employees.
- Transnet’s tip-offs anonymous hotline enables employees and the public to report unethical behaviour. The hotline is managed by Transnet Internal Audit and all reported cases are investigated through an established forensics investigation process. Cases reported are managed through an automated case-management system and allocated to the relevant Operating Division for investigation. Operating Divisions’ fraud working groups are mandated to monitor the investigation of reported allegations. The hotline is available 24 hours a day, seven days a week and the call centre agents are able to converse in all 11 official South African languages.
Ethical and effective leadership and corporate citizenship

The Board of Directors is principally responsible for directing and controlling the business of the Company, and ensuring its long-term economic, social and environmental sustainability. This responsibility includes it being the deemed Board of the National Ports Authority in terms of the National Ports Act. The Board of Directors offers leadership that results in the achievement of the strategy by directing and approving the Company’s strategic and operational objectives, and by monitoring the Company’s performance against the targets outlined in the Shareholder’s Compact. It further ensures that adequate budget planning processes are in place to advance the Company’s mandate by providing an oversight role over the Company’s socio-economic programmes. The Board of Directors is further tasked with ensuring that the Company is able to achieve its statutory and commercial objectives by directing and approving the Company’s strategic and operational objectives, and by assessing its performance against targets outlined in the Shareholder’s Compact.

The Board of Directors remains accountable for leading the organisation ethically and effectively. The qualities of integrity, competence, responsibility, fairness and transparency are cultivated and exhibited through compliance with legislation, rules and binding codes, underscoring its responsibilities as a good corporate citizen.

The Board of Directors is committed to the early implementation of the King IV Code on Corporate Governance.

Compliance with laws, codes, rules and standards

The Board of Directors governs, and directs compliance with applicable laws and adopted, non-binding rules, codes and standards. The responsibility for implementing a compliance function is delegated to management. To this end, the Company has an established Compliance function. As is the case with all the Company policies, the Compliance Policy is reviewed every five years in accordance with the Company Policy Framework, or updated as and when required. The Compliance Policy forms the foundation of the compliance framework.

The Board of Directors considers non-compliance with legislative requirements a key risk, as it not only exposes the Company to fines and civil claims, but can also result in loss of operational authorisations and reputational harm. The PFMA requires the Board of Directors to ensure that the Company and its employees comply with the provisions applicable to Schedule 2 Companies, as well as any other legislation applicable to the Company. The Compliance function therefore identifies, assesses and monitors critical controls associated with regulatory requirements, statutory licences, codes and standards applicable to the Company. Compliance issues are reviewed both at the Corporate Centre and within the Operating Divisions and Specialist Units.

The Board of Directors oversees compliance management and has delegated the review and approval of the Company’s Compliance Plan to the Risk Committee. The Compliance Plan details procedures for identifying regulatory risks and monitoring compliance with applicable regulatory requirements. The Compliance Plan is aligned with the MDS to mitigate compliance risk exposures emerging from the execution of the strategy.

PFMA

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

Companies Act

The Company reports on the extent of its compliance with the Companies Act in the Directors’ Report.

King III and IV

The Board of Directors is committed to the application of King III governance principles in conjunction with regulatory provisions to achieve the overarching principles of sound governance, namely responsibility, accountability, fairness and transparency. King IV was launched on 1 November 2016 and early implementation is envisaged. The Board of Directors is committed to this process and will assess and report on implementation for the 2018 financial year. The Company is, however, already complying with the majority of the King IV principles. Application of the King III principles is monitored through the Governance Assessment Instrument (GAI).
The Company maintained its AAA status during the 2017 financial year, and complied with applicable aspects of King III, with the following exceptions:

<table>
<thead>
<tr>
<th>Main category</th>
<th>Sub-category</th>
<th>All 'Not Applied' exception(s) sorted by significance</th>
<th>Reference No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 2</td>
<td>Principle 2.18</td>
<td>When determining the number of directors to serve on the board, the entity (or the Minister as applicable) does not adequately consider the knowledge, skills and resources that are necessitated by the size and nature of its business.</td>
<td>29-848-5929</td>
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<td><strong>Report comment</strong></td>
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<td></td>
<td>The Corporate Governance and Nominations Committee compiles a Board skills matrix for consideration by the Shareholder Minister as part of non-executive directors' succession planning activities.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.16</td>
<td>There is no succession planning in place for the chairperson.</td>
<td>29-852-5954</td>
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<td><strong>Report comment</strong></td>
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<td></td>
<td>This is conducted by the Shareholder Minister and not the Company.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.18</td>
<td>Non-executive directors that are classified as 'independent' are not subjected to an annual evaluation of their independence by the chairman and the board.</td>
<td>29-848-5933</td>
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<td><strong>Report comment</strong></td>
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<td>Consideration is being made to include this aspect as part of the peer reviews.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.18</td>
<td>The nominations committee does not make recommendations for appointment as director or, if it does, does not base its recommendations on all of the following: knowledge and experience gap on the board; integrity of the candidate; and skills and capacity of the candidate.</td>
<td>29-873-6202</td>
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<td><strong>Report comment</strong></td>
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<td></td>
<td>The Shareholder appoints the Board members.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.19</td>
<td>Procedures for appointments to the board are not all of the following: formally set out in a policy; transparent; a matter for the board as a whole (although the board may be assisted by the nomination committee) or the Minister as applicable.</td>
<td>29-848-5918</td>
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<td><strong>Report comment</strong></td>
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<td></td>
<td>The Board of Directors is appointed by the Shareholder Minister.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.17</td>
<td>The board does not appoint the CEO or, if required by legislation, the Minister does not appoint.</td>
<td>29-853-5955</td>
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<td><strong>Report comment</strong></td>
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<td>The Board of Directors recommends the appointment of the Group Chief Executive and the Shareholder Minister makes the final appointment.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.22</td>
<td>The nomination for re-appointment of a director does not occur only after an evaluation of the performance of the director.</td>
<td>29-877-6219</td>
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<td><strong>Report comment</strong></td>
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<td>Generally, the results of the evaluation are reported to the Shareholder Minister. The appointment of the Board of Directors is at the discretion of the Shareholder Minister.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.25</td>
<td>Non-executive directors’ fees do not comprise both a base fee and an attendance fee per meeting.</td>
<td>29-850-5946</td>
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<td><strong>Report comment</strong></td>
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<td></td>
<td>The Company pays a retainer for the Board and its committees on a quarterly basis.</td>
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<tr>
<td>Chapter 3</td>
<td>Principle 3.3</td>
<td>The chairman of the audit committee is not selected by the board.</td>
<td>29-870-6164</td>
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<td><strong>Report comment</strong></td>
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<td></td>
<td>The Board nominates a potential appointee and the Shareholder Minister elects the nominee by means of a formal resolution.</td>
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<tr>
<td>Main category</td>
<td>Sub-category</td>
<td>All 'Not Applied' exception(s) sorted by significance</td>
<td>Reference No</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.16</td>
<td>The chairperson is not appointed by the board every year or, if required by legislation, the Minister does not appoint.</td>
<td>29-852-5951</td>
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<td>Report comment</td>
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<td></td>
<td>In line with the Memorandum of Incorporation, the Chairperson is appointed by the Shareholder Minister and not the Board. The appointment is renewable annually at the AGM.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.19</td>
<td>The nominations committee does not do one or both of the following: establish procedures for appointments to the board; ensure that these procedures are properly carried out.</td>
<td>29-873-6203</td>
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<td>Report comment</td>
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<td></td>
<td>The Shareholder appoints the Board members.</td>
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<tr>
<td>Chapter 3</td>
<td>Principle 3.9</td>
<td>The audit committee has not defined a policy for non-audit services provided by the external auditor.</td>
<td>29-870-6150</td>
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<td>Report comment</td>
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<td>Non-audit Services are approved as part of the Annual Internal Audit Plan.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.19</td>
<td>Before candidates are nominated for board appointments, there are no procedures in place to investigate the candidates’ backgrounds or legal exclusions from membership inspected and applied.</td>
<td>29-848-5919</td>
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<td>Report comment</td>
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<td>The fit and proper test is conducted by the Shareholder Minister.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.19</td>
<td>The nominations committee does not ensure that new directors have not been declared delinquent or are not serving probation in terms of section 162 of the Companies Act, 2008.</td>
<td>29-873-6204</td>
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<td>Report comment</td>
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<td></td>
<td>The fit and proper test of directors is conducted by the Shareholder Minister.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.19</td>
<td>The nominations committee does not identify and participate in selecting board members.</td>
<td>29-873-6200</td>
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<td>Report comment</td>
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<td>The Shareholder Minister appoints the Board members.</td>
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<tr>
<td>Chapter 2</td>
<td>Principle 2.23</td>
<td>The names and details of all external advisers who regularly attend or are invited to attend committee meetings are not disclosed.</td>
<td>29-868-6108</td>
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<td>Report comment</td>
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<td>External advisers are generally not invited to committee meetings.</td>
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<tr>
<td>Chapter 3</td>
<td>Principle 3.2</td>
<td>If vacancies on the audit committee arise, the board will not elect a replacement as and when the need arises.</td>
<td>29-870-6162</td>
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<td>Report comment</td>
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<td>Vacancies on the Audit Committee are filled by the Shareholder. The election is considered at the next AGM or as and when necessary.</td>
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</tbody>
</table>
Board composition

The Company’s current Memorandum of Incorporation provides that there shall not be less than 10 and not more than 14 directors, of whom not less than eight shall be non-executive directors and two executive directors. As at 31 March 2017, the Board of Directors comprises 10 directors, of whom the majority, eight in total, are independent non-executive, including the Chairperson. The Board of Directors currently has four vacancies, due to the passing of Mr Peter Williams on 15 March 2017. The Chairperson continues to engage the Shareholder Minister on the matter.

Governance instruments

The Company’s governance instruments include:

Memorandum of Incorporation

The Company has a Memorandum of Incorporation in place which was lodged with the Companies and Intellectual Property Commission (CIPC).

Delegation of Authority Framework

The Company’s Delegation of Authority Framework is reviewed annually for adequacy and completeness. The existing Delegation of Authority Framework was approved by the Board of Directors on 31 August 2016, and came into effect on 1 September 2016. All the Operating Divisions and Specialist Units cascaded the latest edition of the Delegation of Authority Framework timeously.

The respective governance structures will commence with the review of the proposed Delegation of Authority Framework in May 2017.

Matters reserved for decision by the Board of Directors

Certain aspects relating to approvals and recommendations of financial, statutory and administrative matters, and matters relating to regulatory, human resources, policies and procedures, and Board and Board committee mandates are specifically reserved for decisions by the Board of Directors. This Board-level decision-making function is subject to the Memorandum of Incorporation of the Company, the PFMA and such other applicable legislation, on the basis of any recommendation as may be made from time to time by the Group Chief Executive.

Directors’ gender representation as at 31 March 2017 (incl. executive directors)

- 27% Female
- 73% Male

Directors’ representation by race as at 31 March 2017 (incl. executive directors)

- 5 Black
- 2 Coloured
- 1 Indian
- 3 White

Length of tenure of independent non-executive directors as at 31 March 2017

- 28% 0 – 3 years
- 72% 3 – 6 years
Independent performance evaluation of the Board of Directors, its committees and directors

The Board of Directors ensures the evaluation of its own performance and that of its committees. An annual independent evaluation is conducted to assess the effectiveness of the Board of Directors, its committees, the Chairperson and the individual contributions of the directors. The process is managed by an independent service provider.

2017 Board evaluation

The 2017 Board evaluation was conducted by an external service provider, appointed in October 2015. Areas for improvement included:

- Requirement for engineering skills, with construction expertise and industry-specific experience, namely, transport and logistics, and accounting and/or economic skills, for example, a Chartered Accountant (SA) and/or an economist or entrepreneur; and
- The non-alignment of the remuneration of non-executive directors and related Company activities.

Action plans are being developed to address the gaps, while the Shareholder Minister will be engaged on filling of vacancies, taking cognisance of the skills requirements for the Company’s activities. The Board Evaluation Report is tabled for noting at the Annual General Meeting.

Directors’ induction and continuous development

As part of enhancing the directors’ skills, the Group Company Secretary develops an Annual Board Training Plan. The Board Training Plan identifies training requirements for the Board of Directors and its committees. Individual directors are encouraged to identify any training events they may wish to attend through recognised training institutes. In the year under review, the following training activities were conducted by external training service providers.

### Directors’ training for the year ended 31 March 2017

<table>
<thead>
<tr>
<th>Training provided</th>
<th>Date</th>
<th>Attendees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Remuneration, Social and Ethics Committee</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value Creation and Executive Pay</td>
<td>17 May 2016</td>
<td>Mr VM Nkonyane, Ms Y Forbes, Mr ZA Nagdee</td>
</tr>
<tr>
<td>Social and Ethics Committee responsibilities</td>
<td>6 October 2016</td>
<td>Mr VM Nkonyane, Mr SD Shane, Ms Y Forbes, Mr ZA Nagdee</td>
</tr>
<tr>
<td><strong>Risk Committee</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective Enterprise Risk Management: Role of the Board of Directors</td>
<td>4 August 2016</td>
<td>Mr PG Williams, Mr GJ Pita, Mr GJ Mahalela, Mr BG Stagman</td>
</tr>
<tr>
<td>Role of the Risk Committee vis-à-vis other committees of the Board of Directors</td>
<td>2 February 2017</td>
<td>Mr GJ Mahalela, Mr BG Stagman, Ms Y Forbes, Mr SI Gama, Ms PEB Mathekga</td>
</tr>
<tr>
<td><strong>Audit Committee</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud-related matters²</td>
<td>23 August 2016</td>
<td>Mr BG Stagman, Ms PEB Mathekga, Ms Y Forbes, Mr GJ Mahalela, Mr SI Gama, Mr PG Williams, Mr GJ Pita</td>
</tr>
<tr>
<td><strong>Board: Strategy Workshop</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Railway Safety Regulator Act, 2000 Overview of the Procurement Procedure Manual</td>
<td>29 - 30 August 2016</td>
<td>Ms LC Mabaso, Mr GJ Mahalela, Mr VM Nkonyane, Mr BG Stagman, Ms Y Forbes, Ms PEB Mathekga, Mr SI Gama, Ms PEB Mathekga, Mr SI Gama, Mr ZA Nagdee, Mr SD Shane</td>
</tr>
<tr>
<td><strong>Corporate Governance and Nominations Committee</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Governance in the Public Sector</td>
<td>10 October 2016</td>
<td>Ms LC Mabaso, Ms Y Forbes, Ms PEB Mathekga, Mr VM Nkonyane</td>
</tr>
</tbody>
</table>

¹ Mr PG Williams passed away on 15 March 2017
² Global Trends, National Trends, Fraud Risk Management, Ethics, the role of the Audit Committee and what to expect from Transnet Internal Audit.
**Directors’ balance of skills and expertise**

The graphic below reflects the skills and expertise which are balanced to ensure effective discussions in fulfilling the Board of Directors’ mandate:

**Directors’ strengths**

- Management
- Oversight strengths
- Governance
- Leadership
- Operations and organisational development
- Management
- Policy development
- Accounting and auditing
- Finance
- HR and industrial relations
- Communications and marketing
- Stakeholder relations and marketing
- Investment
- Project management and planning
- Legal
- Information technology
- Risk management
- Business and organisational strengths

**Board independence**

The Board of Directors comprises an appropriate balance of knowledge, skills, experience, diversity and independence, enabling the objective and effective discharge of its duties. Directors’ independence is determined according to the definition in the King III Code, which includes the number of years a director has served on the Board of Directors. A review, as provided for in the King III Code, is conducted to ascertain the independence of long-serving directors. None of the current independent non-executive directors have served in that capacity for more than nine years.
Core responsibilities of the Board of Directors

The Board of Directors serves as the focal point and custodian of corporate governance in the Company. The protocol for exercise of its leadership role is outlined in the approved mandates of the Board of Directors and committees. The mandates clearly define the procedures for the Board of Directors and committees to obtain professional advice, and the procedures for submission of documentation from management for the Board to make informed decisions.

The Board is satisfied that it has discharged its responsibilities in relation to its mandate.

Board and committee meetings

The graph below indicates the number of scheduled and ad hoc meetings held during the period under review:

![Status of meetings convened in the 2017 financial year](image)

Summary of critical issues during the year

<table>
<thead>
<tr>
<th>Board of Directors</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson</td>
<td>Ms LC Mabaso (Independent non-executive director)</td>
</tr>
<tr>
<td></td>
<td>Ms Y Forbes Mr GJ Pita</td>
</tr>
<tr>
<td></td>
<td>Mr SI Gama Mr SR Seleke</td>
</tr>
<tr>
<td></td>
<td>Mr GJ Mahlalela Mr SD Shane</td>
</tr>
<tr>
<td></td>
<td>Ms PEB Mathekga Mr BG Stagman</td>
</tr>
<tr>
<td></td>
<td>Mr ZA Nagdee Mr PG Williams Mr VM Nkonyane</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main undertakings and considerations</th>
<th>Leadership response</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Diversification of revenue sources and the implementation of the Africa Strategy</td>
<td>• Management is currently developing a diversification strategy and will establish Transnet International Holdings, a special-purpose vehicle, to execute the Africa Strategy.</td>
</tr>
<tr>
<td>• The status of the Company’s credit rating and the impact on its funding initiatives</td>
<td>• Credit rating agencies were engaged on the Company’s plans to increase revenue and to reduce operational expenditure.</td>
</tr>
</tbody>
</table>

A summary table of key activities and outputs for the 2017 financial year is contained in Annexure A.

Mr Gama was appointed as a member of the:
- Acquisitions and Disposals Committee, effective from 31 August 2016; and
- Corporate Governance and Nominations Committee and the Risk Committee, effective from 31 August 2016.

Mr PG Williams passed away on 15 March 2017.

Material clusters

- Build social trust through ethical leadership and corporate citizenship
- Unlock organisational value by attracting talent, fostering innovation and building unity
- Ensure long-term financial stability in a tough economy
- Ensure customer-centricity and build partnerships for sustainable growth
- Promote transformation and growth in the wider South African economy
Chairperson and Group Chief Executive

The roles of the Chairperson and the Group Chief Executive are separate, with their individual responsibilities clearly defined. The Chairperson is an independent non-executive director and is responsible for leading the Board of Directors and ensuring its effectiveness. The Group Chief Executive is responsible for the execution of the Company’s strategy, and the day-to-day business of the Company. He is supported by the GLT of which he is the Chairperson. The Board of Directors is satisfied that the Delegation of Authority Framework clearly records the nature and extent of the authorities delegated by the Board of Directors to the Group Chief Executive and specified governance structures, and/or, in turn, by the Group Chief Executive to the members of the GLT, in order to implement certain actions by or on behalf of the Company.

Succession planning

Non-executive directors are appointed to the Board of Directors by the Shareholder Minister, on a three-year term, renewable annually. The Chairperson of the Board of Directors engages continuously with the Shareholder Minister, who is the final arbiter on the Board of Directors’ succession plans and approval of transaction applications in accordance with the provisions of section 54 of the PFMA.

Declarations of interest

The Companies Act codified the fiduciary duties of directors and prohibits the use of position, privileges or confidential information for personal gain, or to improperly benefit another person. In instances where an independent non-executive director or a prescribed officer has any direct or indirect personal or private business interest in a matter, that independent non-executive director or prescribed officer must be recused from the proceedings when the matter is considered, unless the Board of Directors, committee or Group Leadership Team (GLT) decides that the member’s interest in the matter is trivial or irrelevant.

For all formal meetings, registers for Declarations of Interest and Related Party Disclosures are completed by the independent non-executive directors, attendees at meetings of the Board of Directors, and members of the GLT and its attendees. These registers are maintained by the Group Company Secretary. Declarations of Interest and Related Party Disclosures are signed by committee members participating in meetings of the various governance structures, in relation to the contents of the meeting packs. Further, independent non-executive directors, Group Leadership and Extended Leadership Team members are required to complete an annual Declarations of Interest form declaring their financial and contractual interests, and to file it with the Group Company Secretary prior to 1 April each year. Should the interest change during the year, revised Declarations of Interest forms are filed and formally noted within various governance structures.

The Board of Directors and the GLT note their respective annual Declarations of Interest and Related Party Disclosures. For adequacy and proper monitoring, the Corporate Governance and Nominations Committee, as well as the Remuneration, Social and Ethics Committee perform annual reviews of the filed Declaration of Interest forms for the Board of Directors and GLT members. Quarterly reports are drawn from the electronic Declarations of Interest and Related Party Disclosure, and the Electronic Gifts and Hospitality Registry Systems, and tabled at the Remuneration, Social and Ethics Committee meetings for information purposes. In addition, the Company requires all employees to sign confidentiality and Declaration of Interest forms when adjudicating on procurement contracts. The Declaration of Interest and Related Party Disclosure Policies for directors and employees respectively, are revised every five years or as required.

Independent non-executive directors

The independent non-executive directors have diverse skills, experience and backgrounds. They are principally free from any business relationship that could hamper their objectivity or judgement in terms of the business and activities of the Company. All the non-executive directors have unrestricted access to the Company’s information, documents, records and property in the interest of fulfilling their fiduciary duties and responsibilities.

The non-executive directors have direct, unfettered access to the Company’s employees, external auditors, professional advisers and internal auditors. The non-executive directors continue to act in the best interest of the Company at all times.

Group Company Secretariat function

The Board of Directors adheres to the requirement of the Companies Act and has appointed a competent and qualified Group Company Secretary. The Group Company Secretary is responsible for developing systems and processes to enable the Board of Directors to discharge its functions efficiently and effectively. The Group Company Secretary prepares Annual Work Plans for the Board of Directors as informed by the strategic direction of the Company. These Annual Work Plans are approved by the respective governance structures for implementation and are continually tracked to assess progress. The Group Company Secretary advises the Board of Directors on corporate governance issues, the requirements of the Companies Act and other relevant legislation. The Board of Directors has unfettered access to the services and advice of the Group Company Secretary.

The Group Company Secretary is qualified to perform duties in accordance with applicable legislation, and is considered by the Board of Directors to be fit and proper for the position. The Group Company Secretary does not fulfil an executive management function and is not a director. Therefore, the Board of Directors is satisfied that the Group Company Secretary maintains an arm’s length relationship with the Executive Management Team, the Board of Directors and the individual non-executive directors.

Ms Ayanda Ceba resigned from the role of Group Company Secretary with effect from 31 August 2016. The Board of Directors, at its meeting held on 31 August 2016, appointed Ms Nokuthula Khumalo, formerly Deputy Group Company Secretary, as the Group Company Secretary with effect from 1 September 2016.

Benchmarking

The Group Company Secretariat has shared the knowledge it has gained in the corporate governance sphere with other SOCs, with the objective of uniformity, standardisation and alignment of best practice across the SOCs.
Our Board members

1. Ms Linda Mabaso
   Chairperson
   Date of birth: December 1964
   Year of appointment: December 2014
   Qualifications: BProc (University of Pretoria).
   Area of expertise
   Corporate Governance, Management, Leadership, Law and Strategy.

2. Mr Siyabonga Gama
   Group Chief Executive
   Date of birth: May 1967
   Year of appointment to the Board of Directors: October 2015
   Qualifications: BCom (University of Swaziland); Certificate in Port Management (IHE, DELFT); Advanced Executive Programme (CUNY); Advanced Certificate in Port and Operations Management (Singapore Private Institute); Postgraduate Diploma in Company Direction; Banking Diploma Institute of Bankers (CAIB); Executive Development Program (Wharton); MBA (Stern NYU).
   Area of expertise

3. Mr Garry Pita
   Chief Financial Officer
   Date of birth: May 1979
   Year of appointment to the Board of Directors as Chief Financial Officer: October 2015
   Qualifications: BCom (University of the Witwatersrand); BAcc (Hons) (University of the Witwatersrand) CA(SA); the Global Executive Development Programme (Gordon Institute of Business Science); Accounting and Auditing Professional Training Specialist Course.
   Area of expertise
   Finance, Auditing, Management, Logistics, Strategy and Supply Chain.

4. Mr Brett Stagman
   Date of birth: September 1973
   Year of appointment: December 2014
   Qualifications: BCompt, BCompt (Hons) (University of South Africa); CA(SA).
   Area of expertise

5. Ms Potso Mathekga
   Date of birth: March 1976
   Year of appointment: December 2014
   Qualifications: MBL (University of South Africa); Programme in Business Leadership (University of South Africa); BTech (Chemical Engineering) (Pretoria Technikon); Diploma (Chemical Engineering) (Technikon Northern Gauteng).
   Area of expertise
   Finance, Strategy, Business Management, Engineering and Leadership.

6. Mr Gideon Mahlalela
   Date of birth: July 1950
   Year of appointment: December 2014
   Qualifications: Honorary Doctorate (Philosophy) (University of California, USA); BA (Liberal Studies Arts) (Antioch University, USA); Leadership Programme (Burlington Northern Railway Leadership Centre, USA); Helsinki School of Economics Certificate (Helsinki School of Economics); Pricing and Costing of Transport Services Certificate (Eastern and Southern African Management Institute Arusha); Diploma (Accounting and Finance) (Seneca College of Applied Arts and Technology, Canada).
   Area of expertise

7. Mr Vusi Nkonyane
   Date of birth: August 1956
   Year of appointment: December 2014
   Qualifications: BA (Social Science) (University of the North); Diploma (Education) (University of the North); Certificate Programme in Industrial Relations (Wits Business School); MAP (Wits Business School); Master of Management (Human Resources) (Wits Business School).
   Area of expertise
   Leadership, Human Resources, Financial Management, Strategy and Industrial Relations.

8. Mr Stanley Shane
   Date of birth: February 1971
   Year of appointment: December 2014
   Qualifications: BCom (Finance) (University of the Witwatersrand); Overseas Leadership Programme (MTA) Israel; Regulatory Examinations – Key Individual and FSP – Financial Services Board (FSB) (SA); Member SA Institute of Stockbrokers (SA).
   Area of expertise
   Investment, Finance, Management, Strategy and Leadership.

9. Ms Nokuthula Khumalo
   Group Company Secretary
   Date of birth: September 1970
   Year of appointment: 2016
   Area of expertise

10. Ms Yasmina Forbes
    Date of birth: February 1959
    Year of appointment: June 2011
    Qualifications: MBA (Bond University); Diploma (Marketing Management) (Damelin College); Public Relations (Damelin College).
    Area of expertise
    Information Technology, Corporate Governance, Marketing and Sales, Leadership and Strategy.

11. Mr Zainul Nagdee
    Date of birth: May 1949
    Year of appointment: December 2014
    Qualifications: MAP (Wits Business School).
    Area of expertise
9. Ms Nokuthula Khumalo
Group Company Secretary
Date of birth: September 1970
Year of appointment: 2016
Qualifications: Admitted Attorney; BProc; LLM (Environmental Law) 1995.
Directors’ active memberships of other boards

1. Ms Linda Mabaso
   Chairperson
   Membership/Directorship
   Mabaso Attorneys
   The Ark Foundation
   Trustee of the Transnet Retirement Fund

2. Mr Siyabonga Gama
   Group Chief Executive
   Directorship
   Maputo Corridor Logistics Initiative
   Italtile Limited
   Mafumbuka Investment Holdings (Pty) Ltd
   Pony Lane Country Estate Homeowners Association
   Chairperson
   Selope Thema Foundation
   Trustee
   Phithikeza Trust (Property owning family Trust)
   Italtile Foundation Trust
   Shareholder
   Various JSE Entities

3. Mr Garry Pita
   Chief Financial Officer
   Directorship
   SASDC
   Shareholder
   OPP Investments CC

4. Mr Brett Stagman
   Directorship
   Bluchip Retail Solutions (Pty) Ltd
   Blu’s Brothers (Pty) Ltd
   Shareholder
   Mobifin Nigeria Ltd

5. Ms Potso Mathekga
   Directorship
   Lizbridge Trading Enterprise
   Kgari Trading Solutions (Pty) Ltd
   Lisaphase (Pty) Ltd
   Mmule Julia Kgari Foundation NPC
   Shareholder
   Grapeseed Trading CC

6. Mr Gideon Mahlalela
   Directorship
   African Alliance Securities (Pty) Ltd
   African Alliance Swaziland Ltd
   Orchard Insurance Ltd
   Commonwealth Mastership for Technology Management
   Union Consultants (Pty) Ltd

7. Mr Vusi Nkonyane
   Directorship
   Prime Portfolio Investment A
   Prime Portfolio Investment B
   Mphephethe Projects
   Circle Seven Trading 533
   Nkonyane Minerals and Energy
   Black Aurum Commodities
   Empumelelo Investment and Management Services
   Yakani Black Aurum Commodities
   Platinum Hospitality Holdings
   Kerastyle
   Ex triforce Investments
   Vexiscore
   Lanzidex

8. Mr Stanley Shane
   Directorship/Trustee
   Integrated Capital SA (Pty) Ltd
   Integrated Capital Management (Pty) Ltd
   Aquiprox (Pty) Ltd
   Integrated Capital Investments (Pty) Ltd
   Integrated Investments (SICAV – SIF)
   Integrated Strategic Fund Limited
   Integrated Multi-Strategy Fund Limited
   Integrated Alternative Investments Limited
   Cross Point Trading 109 (Pty) Ltd
   Aerton Investments (Pty) Ltd
   Aerton Properties (Pty) Ltd
   Walenstein Investments (Pty) Ltd
   Newshelf 172 CC
   Indenture Requirements (Pty) Ltd
   Amalgamated Electronic Corporation Ltd
   New Wheels Underwriting Agency (Pty) Ltd
   Biggest SA Trading (Pty) Ltd
   Glenhazel Community Security Initiative NPC (Non-profit)
   Bnei Akiva Bayit (Pty) Ltd
   United Mizrahi Organisation of South Africa (Non-profit)
   Transnet Sub-fund of the Transport Pension Fund
   Transnet Second Defined Benefit Fund

9. Mr Zainul Nagdee
   Directorship
   Lechabile Technology KZN
   Digital Energy Solutions
   Shareholder
   Hadzambe

10. Ms Yasmina Forbes
    Directorship/Trustee
    University of the Western Cape
    RESAF Nutrition (Pty) Ltd
    YF & Associates
    Pegasus Trust
    Transnet Second Defined Benefit Fund
Board committees

In line with the requirements of the Companies Act, and to ensure that delegation within the Board of Directors' own structures promotes independent judgement and assists with the balance of power and effective discharge of its duties, the Board of Directors established the Audit Committee and the Remuneration, Social and Ethics Committee as statutory committees. The Audit Committee's constitution, functioning and reporting adhere strictly to the PFMA requirements. In addition to the statutory committees, the following committees have been constituted to assist in the achievement of the Company's objectives:

• Acquisitions and Disposals Committee;
• Risk Committee; and
• Corporate Governance and Nominations Committee.

Audit Committee

During the year, the Company continued to comply with the Companies Act and PFMA requirements for the functioning and reporting of the Audit Committee.

The Audit Committee comprises independent non-executive directors who are duly elected by the Shareholder Minister at the Annual General Meeting in line with legislative requirements.

A total of four meetings were held during the year and all quorum requirements were met accordingly. The Audit Committee provides the following support activities to the Board of Directors:

• Assists the Board of Directors in discharging its duties relating to the safeguarding of assets and the evaluation of internal control frameworks within the Company;
• Reviews and assesses the integrity and effectiveness of the accounting, financial, compliance and other control systems;
• Considers the internal and external audit processes and the accounting principles and policies;
• Strengthens the independence of the internal and external audit functions to ensure their effectiveness;
• Ensures effective communication between the internal auditors, the external auditors, the Board of Directors, management and regulators;
• Ensures compliance with and adherence to applicable legal, regulatory and accounting requirements; and
• Contributes to a climate of discipline and control which will reduce the opportunity for fraud.

Summary of the main undertakings and considerations during the year

Audit Committee

<table>
<thead>
<tr>
<th>Chairperson</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr BG Stagman</td>
<td>Mr GI Mahialela (Independent non-executive director)</td>
</tr>
<tr>
<td>(Independent non-executive director)</td>
<td>Ms PEB Mathekga (Independent non-executive director)</td>
</tr>
<tr>
<td></td>
<td>Mr PG Williams* (Independent non-executive director)</td>
</tr>
<tr>
<td></td>
<td>No external advisers attended committee meetings during the year.</td>
</tr>
</tbody>
</table>

Main undertakings and considerations

• The requirement of an additional Board member with a Chartered Accounting qualification to enhance the Committee.

Leadership response

• One of the vacancies on the Board of Directors should be filled by a Chartered Accountant. The Shareholder is being engaged accordingly.

The Acquisitions and Disposals Committee

The Acquisitions and Disposals Committee provides the following support activities to the Board of Directors:

• Advances and maintains the Company's acquisition and disposal policies;
• Approves procurement transactions within the committee's delegated authority;
• Monitors trends in supplier development spend and progress on plan;
• Considers strategic acquisitions and disposals and makes recommendations to the Board of Directors;
• Considers, for recommendation to the Board of Directors, potential private-sector participation models;
• Reviews quarterly capital expenditure reports, and monitors the execution of approved projects;
• Monitors the implementation of strategic acquisitions against the approved plans; and
• Approves procurement strategies for proposed acquisitions and disposals to the Board of Directors in line with the Delegation of Authority Framework.

* Mr PG Williams passed away on 15 March 2017.
Summary of the main undertakings and considerations during the year

The Acquisitions and Disposals Committee

Chairperson
Mr SD Shane
(Independent non-executive director)

Members
Mr SI Gama (Executive director)
Ms LC Mabaso (Independent non-executive director)
Ms PEB Mathekga (Independent non-executive director)
Mr ZA Nagdee (Independent non-executive director)

No external advisers attended committee meetings during the year.

Main undertakings and considerations

Leadership response

- Continuously striving to attain targets for black youth-owned businesses, black women-owned businesses and people with disabilities.
- The Company has introduced B-BBEE improvement plans as part of the requirements in the assessment criteria. Furthermore, the Company has established Enterprise Development hubs in various provinces to strengthen its Supplier Development component.

Corporate Governance and Nominations Committee

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

- Ensures that the Board of Directors’ composition and structure enables it to fulfil the obligations of the Board mandate and advance and maintain the Company’s corporate governance policies and the Corporate Governance Framework.
- Sets criteria for the nomination of directors to be recommended to the Board for appointment to the committees of the Board, other than the Audit Committee.
- Nominates potential Audit Committee members for appointment by the Shareholder Minister.

Summary of the main undertakings and considerations during the year

Corporate Governance and Nominations Committee

Chairperson
Ms LC Mabaso
(Independent non-executive director)

Members
Ms Y Forbes (Independent non-executive director)
Mr SI Gama (Executive director)
Ms PEB Mathekga (Independent non-executive director)
Mr VM Nkonyane (Independent non-executive director)

No external advisers attended committee meetings during the year.

Main undertakings and considerations

Leadership response

- The Shareholder’s Compact targets were adversely impacted by the economic downturn and the decline in volumes.
- The adequacy of the skills mix at Board level due to directors’ resignations.
- The committee recommended that the target-setting process should be realistic and reflective of the prevailing economic circumstances as well as Transnet’s strategic trajectory towards a more diversified business.
- The Company continues to engage the Shareholder Minister on the preferred skills when filling the vacancies.

Risk Committee

The Risk Committee provides the following support activities to the Board of Directors:

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

1 A summary table of key activities and outputs for the 2017 financial year is contained in Annexure A.
2 Member since 31 August 2016.
Remuneration, Social and Ethics Committee
The Board of Directors has established the Remuneration, Social and Ethics Committee (REMSEC) to assist in discharging its responsibilities, consistent with King III and general corporate governance best practice. The mandate outlining the authority delegated to it by the Board of Directors includes the purpose of the Remuneration Committee, composition, reporting responsibilities, terms of reference and the right of any member to seek and be provided with independent advice at the Company’s expense, if such member considers that necessary for the effective execution of his/her fiduciary duties to the Company.

The committee has an independent role, operating as an overseer and a maker of recommendations to the Board of Directors for its consideration and final approval. The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

Summary of the main undertakings and considerations during the year

Remuneration, Social and Ethics Committee

<table>
<thead>
<tr>
<th>Chairperson</th>
<th>Ms Y Forbes1 (Independent non-executive director)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>Mr SI Gama1 (Executive director)</td>
</tr>
<tr>
<td></td>
<td>Mr GJ Mahlailela (Independent non-executive director)</td>
</tr>
<tr>
<td></td>
<td>Mr BG Stagman (Independent non-executive director)</td>
</tr>
</tbody>
</table>

No external advisers attended committee meetings during the year.

Main undertakings and considerations

<table>
<thead>
<tr>
<th>Leadership response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Leadership Team (GLT) has introduced safety awareness roadshows to engage employees on safety governance and practices.</td>
</tr>
<tr>
<td>‘Visible leadership’ strategies have been implemented, which include individual GLT members being allocated specific operations work areas, which they visit regularly to engage employees on different matters, including safety.</td>
</tr>
</tbody>
</table>

1 A summary table of key activities and outputs for the 2017 financial year is contained in Annexure A.
2 Member of the Risk Committee until 31 August 2016.
Our Group Leadership Team (GLT)

1. **Mr Siyabonga Gama**  
   Group Chief Executive  
   Date of birth: May 1967  
   Year of appointment: 1994  
   Qualifications: BCom (University of Swaziland), Certificate in Port Management (IHE, DELFT), Advanced Executive Programme (City University of New York), Advanced Certificate in Port and Operations Management (Singapore Private Institute), Postgraduate Diploma in Company Direction, Banking Diploma Institute of Bankers (CAIB), Executive Development Program (Wharton), MBA (Stern, NYU).  
   Area of expertise  

2. **Mr Garry Pita**  
   Chief Financial Officer  
   Date of birth: May 1959  
   Year of appointment: 2006  
   Qualifications: BCom (University of the Witwatersrand), BAcc (Hons) (University of the Witwatersrand), CA(SA), Global Executive Development Programme (Gordon Institute of Business Science), Accounting and Auditing Professional Training Specialist Course.  
   Area of expertise  
   Finance, Auditing, Management, Logistics, Strategy and Supply Chain.

3. **Mr Mlamuli Buthelezi**  
   Chief Operating Officer  
   Date of birth: June 1971  
   Qualifications: BSc (Mechanical Engineering); Higher Diploma Mechanical Engineering; MBL (UNISA).  
   Area of expertise  
   Operations, Engineering and Leadership.

4. **Ms Disebo Moephuli**  
   Chief Corporate and Regulatory Officer  
   Date of birth: April 1964  
   Year of appointment: 2006  
   Qualifications: BA (Economics); MBA.  
   Area of expertise  
   Management, Finance, Investment and Funding, and Risk Management.

5. **Ms Nonkululeko Sishi**  
   Chief Human Resources Officer  
   Date of birth: June 1968  
   Year of appointment: 2012  
   Qualifications: BAdmin, Certificate in Labour Law, Postgraduate Diploma in Business Management; Certificate in Human Resources Management; Management Advanced Program (Harvard).  
   Area of expertise  
   Human Resources and Management.

6. **Ms Mmathabo Sukati**  
   Chief Financial Officer  
   Date of birth: May 1974  
   Year of appointment: 2016  
   Area of expertise  
   Information Technology.

7. **Mr Krishna Reddy**  
   Chief Capital Officer  
   Date of birth: June 1971  
   Year of appointment: 1990  
   Qualifications: BSc Civil Engineering; BCom (Logistics).  
   Area of expertise  
   Engineering and Project Management.

8. **Ms Shulami Qalinge**  
   Group Executive: Strategy  
   Date of birth: 4 January 1971  
   Year of appointment: 1994  
   Qualifications: MBA (De Montfort University), Diploma in Industrial Engineering (Nelson Mandela University of Technology), Strategic Leadership Programme (Gordon Institute of Business Science), Breakthrough Programme for Senior Executives (International Institute for Management Development), Senior Executive Programme Africa (SEPA) (Harvard Business School).  
   Area of expertise  
   Operations, Strategic Planning, Performance Monitoring and Diagnostic and Project Management.

9. **Ms Nokuthula Khumalo**  
   Group Company Secretary  
   Date of birth: September 1970  
   Year of appointment: 2016  
   Area of expertise  
Remuneration philosophy

Transnet's reward philosophy provides a framework for a fair and transparent reward dispensation that:

- Supports MDS objectives;
- Ensures long-term business sustainability;
- Ensures fair and competitive salaries for all employees;
- Attracts and retains critical skills; and
- Rewards high performance.

The remuneration philosophy considers three different employment levels informed by complexity, decision-making responsibility and judgement (based on a wide range of competencies, i.e. skills-sets, experience, qualifications, sector-expertise, etc.):

1. Executive management.
2. First-line managers, specialists and technicians (grade level G) form part of the bargaining unit.
3. Junior employees (grade levels H to L) form part of the bargaining unit.

Transnet's Remuneration Strategy follows an integrated approach to Group-wide remuneration management to attract, motivate, engage and retain the talent required to achieve business objectives. Remuneration practices are aligned with Transnet’s business strategy, thereby ensuring that the remuneration practices support the business objectives.

Performance Management for Group Leadership Team (GLT)

The individual performance targets for the members of the GLT are cascaded from the Corporate Plan and the Shareholder Compact. Quarterly performance assessments ensure that progress against targets is monitored and managed.

The graph below depicts the performance ratings of the members of the GLT over the past three financial periods compared to the overall performance rating of the Company.
Remuneration for Group Leadership Team (GLT)

Transnet designed and implemented a new operating model during the reporting period with significant changes to the executive leadership team. The previous executive committee was restructured and reduced from 20 members to the newly constituted GLT, consisting of nine members.

Transnet strives to remunerate the members of its executive teams at the market median. Annual guaranteed pay increases for the members of the Transnet executive teams are largely informed by market benchmarks.

Transnet conducts an annual executive remuneration benchmark exercise to compare the remuneration of the executive teams with the external market. Transnet utilises the Deloitte “SA Guide to Executive Remuneration and Reward”, a national remuneration survey published annually by Deloitte Consulting.

In addition to the annual increases for the Group Executive members, a remuneration adjustment was effected for specific members of the GLT whose remuneration was substantially below the comparable market.

The graph below depicts the actual guaranteed remuneration of the GLT against the market median. The graph reflects that the remuneration of the GLT is lagging the market median. Transnet is following a phased approach to ensure that the guaranteed remuneration will align with the market median in time.

Executive remuneration – variable

The members of the GLT are eligible for payments in respect of the Short-term Incentive (STI) Scheme provided that the strategic objectives, as agreed with the Shareholder Representative, have been achieved. Individual bonus percentages are further modified with individual performance assessment ratings.

Short-term Incentive (STI) and Long-term Incentive (LTI) payments

The STI payment for the 2017 financial year was based on the actual achievement of the annual EBITDA, as well as the productivity and safety modifiers at Group and Operating Division levels.

The 2014 conditional award in respect of the Transnet LTI scheme vested at the end of the 2017 financial period. The value of the LTI payment is impacted by the level of achievement of specific Company and individual performance objectives.

The members of the GLT were eligible for payment in respect of the LTI scheme based on the ground rules of the scheme. The payment of the vested LTI amounts took place at the end of April 2017.

Remuneration structure for non-executive directors

Non-executive directors are appointed by the Shareholder Representative for a three-year term. The Memorandum of Incorporation of the Company, however, requires that the non-executive directors be submitted for re-election for each of the three years at the Company’s AGM.

Among the issues considered by the Shareholder Representative prior to re-election is the individual non-executive director’s performance. The Shareholder Representative approves, in advance, the fees payable to non-executive directors. The non-executive directors are paid an annual retainer as well as an additional retainer fee for committee membership.

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

Read more

Transnet’s full Remuneration Report is contained in Annexure B.
Our control environment

The Board of Directors, management and all employees of the Company are responsible for establishing and maintaining the internal control environment of the Company. All employees play a role in either strengthening or weakening the Company’s internal control system.

Strategic implementation of the MDS requires Transnet to meet – as far as possible – financial and operational targets within the context of good corporate governance, risk management, control effectiveness and compliance.

The Transnet Internal Control function aims to provide reasonable assurance that the Company’s strategic objectives and initiatives will be achieved while complying with policies, processes, legislation and optimally applying technology.

Internal Control enables members of the Audit Committee and management to gain better visibility into key business processes and ensure a high level of reliability in financial statement reporting. It also assists financial stakeholders and business process owners with extensive reporting capabilities, automated control testing and monitoring of business processes using predefined and configurable business rules.

The Control Framework Maturity Assessment is used to measure the strength of the control environment. The components of the framework are depicted below:

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**The Control Framework Maturity Assessment**

- **Governance**
  - Do we have the right oversight?
    - Establishing effective oversight across the organisation, functional activities and business processes

- **People**
  - Do we have the right people to deliver against our goals and objectives?
    - Having the right people to deliver against the goals and objectives of the Company

- **Methods and practices**
  - Do our methods and practices support our business in the most efficient and effective way possible?
    - Building methods and practices (systems and processes) to support efficient and effective ways of doing business

- **Environmental factors**
  - What is the impact of the external environment on our business?
    - Continuously monitoring environmental factors and their impact on the business

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**Governance functions within Transnet’s control environment**

- Transnet’s control environment encompasses various governance functions and operational management practices, including (but not limited to):
  - Integrated procurement management
  - Internal Audit
  - Enterprise Risk Management (ERM) and integrated assurance

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**Strategic execution and performance management**

- Governance of sustainability
- Governance of stakeholder engagement and management
- Information technology (IT) management and ICT governance
- Ethics and fraud risk management
- Regulatory compliance (including the tariffing process)
Our control environment

- **Integrated procurement management**
  - Acquisition Council Terms of Reference.
  - Optimally regulated infrastructure-related procurement and delivery management with Acquisitions and Disposals Committee Terms of Reference.
  - Infrastructure Procurement and Delivery Management Framework with procurement rules, procedures and processes.
  - Procurement Ombudsman.
  - Up-to-date compliance assurance for High-value Tender (HVT) processes.
  - Transnet Delegation of Authority.
  - SCM Policy and robust, independent complaints handling.
  - Adherence to strict set of laws, codes, rules and standards, including (but not limited to):
    - Section 217(1) of the Constitution and section 51(1)(a)(iii) of the PFMA.
    - Promotion of Just Administrative Action Act, No 3 of 2000, which was issued in terms of section 33 of the Constitution.
    - The Construction Industry Development Board Act, No 38 of 2000 (CIDB Act), and the regulations (CIDB regulations) thereto.
    - The Promotion of Access to Information Act, No 2 of 2000 (PAIA).
    - The Preferential Procurement Policy Framework Act, No 5 of 2000 (PPPFA), and the regulations thereto (PPPFA regulations), and
    - National Treasury (NT) also issues Instruction Notes which regulate Transnet’s procurement processes.

- **Internal Audit**
  - Accord with section 51 of the Public Finance Management Act (PFMA).
  - Governed by the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA standards).
  - An independent assurance function that is functionally accountable to the Transnet Audit Committee.
  - The mandate and terms of reference are included in the Internal Audit Charter – approved annually by the Transnet Audit Committee.
  - TIA is a fully outsourced function operating under strategic leadership of the Chief Audit Executive – a Transnet permanent employee and a Group Leadership Team member.
  - The internal audit consortium of firms assists with the implementation of the approved Strategic Audit Plan, and the panel of forensic firms assists with forensic investigations.
  - Develops and executes a risk-based audit plan.
  - Zero tolerance for fraud, theft, corruption and other economic crimes.

- **Enterprise Risk Management (ERM) and integrated assurance**
  - The Board of Directors delegates the Group’s Risk Management function to the Risk Committee.
  - Transnet’s Integrated Assurance Model manages risks and controls, and encompasses the assurances provided by management, internal specialists, internal audit, external audit, and external advisers and service providers.
  - The Integrated Assurance Model is based on three perspectives:
    - Confidence through:
      - Combination of multiple assurance providers
      - Various types of assurance activities performed
      - Frequency of assurance activities performed
    - Cost-effective assurance by balancing:
      - Lines of defence
      - Nature of assurance activities performed
      - Frequency of assurance activities performed
    - Minimised management burden through:
      - Spread of assurance activities through the year to ensure a manageable distribution of assurance tasks
      - The first line of defence is based on the assurances provided by direct line management, which is blanket assurance across the full scope of risks and controls.
      - The second line of defence encompasses assurance providers that are internal to the Company, yet not directly responsible for the direct management of the process under review.
      - The third line of defence relates to assurance providers that act independently from management and the Company’s operations. This implies that management has no influence over the outcomes, opinions and conclusions emanating from the assurance activities performed by the third-line assurance providers.
      - The fourth line of defence relates to independent oversight committees with specific roles and responsibilities pertaining to the risk, control and assurance of Transnet’s activities and their impact on other stakeholders.

Continues
Our control environment

Strategic execution and performance management

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

Ethics and fraud management

- The Code of Ethics (the Code) enables a culture of entrenched values, principles, standards and norms.
- Integrity Pacts are concluded with all bidders and suppliers.
- Fraud and corruption awareness training is conducted annually with all employees – bargaining and non-bargaining council employees.
- The Company’s service providers, suppliers and trade partners are also subject to the Code.
- The Code is revised every five years or as required.
- The Group Company Secretary is responsible for the development, and Human Resources is responsible for the implementation of the Code.
- Aspects of the Code are included in fraud and corruption awareness training, and are accessible to all Employees on the Company’s intranet.
- The Fraud and Corruption Risk Management Strategy provides mechanisms for the prevention, early detection and investigation of irregularities.

Governance of stakeholder engagement and management

- The Board of Directors delegates authority to the Group Chief Executive who reports to the Board of Directors on all material stakeholder issues, and takes responsibility for incorporating these into Transnet’s strategy and risk management.
- Stakeholder engagement practices align with the Company’s Culture Charter and supporting values.
- Engagement norms include inclusivity, accountability and responsiveness.
- Stakeholder engagement performance is measured as a key performance indicator in the Balanced Scorecards of Stakeholder Relationship Owners.
- Stakeholder engagement is decentralised but the Board of Directors has overall responsibility for stakeholder engagement.
- The monitoring and evaluation of stakeholder engagement is reported to the Remuneration, Social and Ethics Committee and to the Board of Directors.
Information technology (IT) management and ICT governance

The Board of Directors, supported by the Audit Committee and Risk Committee, is responsible for information technology governance and oversight.

ICT governance is exercised through the approved governance and minimum controls frameworks – which are based on the Control Objectives for Information and Related Technologies (CoBIT) principles.

The Board of Directors has delegated the responsibility for the implementation of the IT governance framework to the Risk Committee, which has further delegated to management.

The Minimum Control Framework for ICT risks includes the following critical resources:

- Appropriately skilled staff;
- Enterprise Architecture management;
- Effective education programmes;
- Effective measures to minimise business impact through systems recovery;
- Information security; and
- IT vendor relationship management.

The IT risk management framework is aligned to, and cascaded from, the Group Enterprise-wide Risk Management (ERM) framework, which includes disaster recovery and business continuity measures.

Regulatory compliance

Group Regulatory and Compliance ensures that the outcome of its plan is aligned with the mandates of the Audit Committee and Risk Committee, and executes its areas of focus from an annual Board-approved Compliance Plan.

Managers are responsible for ensuring compliance as it relates to their areas of accountability.

More than 200 primary regulatory requirements impact Transnet.

Compliance is implemented through a risk-based approach using a decentralised model, with Compliance Officers appointed within Operating Divisions and Corporate Centre functions.

The Compliance function independently monitors and reports on compliance controls relating to high-priority regulatory requirements.

The Compliance function assists and supports the Board of Directors and management to discharge their compliance responsibilities.

Governance of sustainability

A Company-wide Sustainability Forum comprises representatives from the Corporate Centre functions, Operating Divisions and Specialist Units.

The Sustainability Forum meets quarterly and is tasked with developing KPIs in relation to analysing sustainability performance.

Sustainability committees in the Operating Divisions add impetus to sustainability initiatives.
Regulatory compliance universe
Aligning the Market Demand Strategy (MDS) to Transnet’s regulatory context

Compliance management focus areas are defined by the Regulatory Universe, with outputs reflecting risk-based legislation of priority impacts on Transnet. The Regulatory Universe is consolidated across the Company. Additionally, the compliance focus is defined by understanding which critical business processes and priority regulatory requirements are required to achieve the Company’s strategic objectives.

The illustration reflects the alignment between the MDS, the developmental outcomes and material aspects identified through various stakeholders.

The regulatory items reflected are key to ensure ongoing operations and sustainability.

Group Risk and Compliance ensures that the outcome of its annual Compliance Plan is aligned with the Audit Committee and Risk Committee mandates, and informs the following key aspects contained within the Board mandate:

- It provides an opinion on the state of compliance to applicable regulatory requirements impacting Transnet, and
- The implementation of controls in management.

How to read the regulatory compliance universe
Each segment of the wheel refers to specific MDS strategic imperatives, business enablers and Sustainable Developmental Outcomes (SDOs).

Reading the wheel from the inside outwards, the first level of interpretation is the regulations.

These are related to a specific strategic imperative or business enabler as per the segment they fall under. The layer beyond the regulations depicts the strategic imperatives and business enabler segments of the wheel.

The outermost layers show the material aspects related to each segment.