**Our vision**
To meet customer demand for reliable freight transport and handling services by:
- Fully integrating and maximising the use of our unique set of assets;
- Continuously driving efficiency improvements; and
- Demonstrating concern for sustainability in everything we do.

**Our mission**
To enable the competitiveness, growth and development of the South African economy by delivering reliable freight transport and handling services that satisfy customer demand.

**Values**
- We have a safety mindset.
- We have good communication.
- We treat each other with dignity and respect.
- We are empowered to perform our jobs.
- We are business focused.
- We recognise and reward good work.
- We deliver on our promises.

**Governance context**
Transnet SOC Ltd is a public company, constituted in terms of the Legal Succession Act of 1989, with the South African Government being its sole Shareholder.

Owner of South Africa’s railway, ports and pipelines infrastructure.

The Company’s Memorandum of Incorporation (MoI) is aligned with the provisions of the Public Finance Management Act (PFMA), the Companies Act, and the National Ports Act, No 12 of 2005, as amended (the National Ports Act).

The MoI was approved by the Shareholder Minister on 25 June 2013. As a State-owned company (SOC), the PFMA serves as Transnet’s primary legislation.

Transnet enters into an annual Shareholder’s Compact with the Government of the Republic of South Africa, represented by the Minister of Public Enterprises.

The Shareholder’s Compact mandates the Company to deliver on numerous strategic deliverables, including sustainable economic, social and environmental outcomes.

The Board of Directors adopted the Market Demand Strategy (MDS) in response to the Statement of Strategic Intent (SSI).

**Our mandate**
Assist in lowering the cost of doing business in South Africa;

Enable economic growth, and

Ensure security of supply by providing appropriate port, rail and pipelines infrastructure in a cost-effective and efficient manner, within acceptable benchmarks.

Transnet’s mandate and strategic objectives are aligned with national plans and the Statement of Strategic Intent issued by the Minister of Public Enterprises.
Broad-Based Black Economic Empowerment (B-BBEE)

Transnet's B-BBEE verification covers six of the seven elements of the Generic Transport Public Sector Scorecard (excluding the ownership element). The Maritime, Property and Rail Charters are also applied. Transnet achieved the full points for enterprise development and socio-economic development for the 2017 financial year. We are committed to optimising our contribution to B-BBEE in the execution of our mandate and aim to be an exemplary SOC through the maximisation of our contribution to economic transformation, and by demonstrating innovation in this area. Accordingly, strategies are in place to address and maximise the scores for employment equity, preferential procurement and skills development.

Transnet's supply chain

Transnet's integrated Supply Chain Management (iSCM) function delivers economic value to the Company and provides broader strategic value to the Government of South Africa. It optimises inbound supply-chain activities, which in turn enable efficient and reliable outbound services to the end customer.

Transnet's iSCM aligns with the MDS to achieve Platinum Standard levels by capacitating under-resourced departments, standardising performance management reporting and providing automated end-to-end procurement business processes to enhance contract management.

Transnet's and supplier development (ESD)

Transnet's Supplier Development Programme is guided by Government's Competitive Supplier Development Programme. Our ESD Programme is informed by the B-BBEE Codes of Good Practice.

Transnet's ESD function aims to increase the competitiveness, capacity and capability of black-owned suppliers through financial and non-financial support services. The ESD department transforms the Company's supplier base through targeted ESD initiatives that support localisation and industrialisation, and provide opportunities for black people, youth, women, small businesses, people with disabilities and people living in rural communities.

Our culture roadmap

To become an organisation that thrives and flourishes, the Group Chief Executive has set out four strategic thrusts to drive organisational culture and business conduct:

**Agile**
To be agile in a volatile world the Company must be fit, focused and able to adapt rapidly to change.

**Efficient**

**Adaptable**

**Admired**
The Company wants to be admired by its stakeholders as leaders in customer satisfaction, operational excellence and innovation.

**Impeccable**

**Motivated by excellence**

**Digital**
The future is digital and the Company needs to add intellectual capital to create value from its substantial investment in physical capital.

**Inventive**

**Customer-centric**

**Advanced**

**United**
The Company will only succeed if it is united. This means working as one team to change Transnet with its Group Leadership Team, the Board of Directors, Shareholder, management and labour all pulling together coherently.

**Single minded**

**Tolerant of others' ideas**

**Understand our impact**

### Transnet's Group B-BBEE performance per pillar for the 2017 review period

<table>
<thead>
<tr>
<th>Element</th>
<th>Actual score</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity ownership</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Management control</td>
<td>8.33</td>
<td>11</td>
</tr>
<tr>
<td>Employment equity</td>
<td>13.59</td>
<td>18</td>
</tr>
<tr>
<td>Skills development</td>
<td>22.28</td>
<td>25</td>
</tr>
<tr>
<td>Preferential procurement</td>
<td>26.11</td>
<td>33</td>
</tr>
<tr>
<td>Enterprise development</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Socio-economic development</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>90.31</strong></td>
<td><strong>107</strong></td>
</tr>
</tbody>
</table>

**B-BBEE Level 2**
### Operating context

<table>
<thead>
<tr>
<th>Freight Rail</th>
<th>Engineering</th>
<th>National Ports Authority</th>
<th>Port Terminals</th>
<th>Pipelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Operates 30 400 km of rail track across South Africa.</td>
<td>• Provides manufacturing, maintenance and refurbishment services of rolling stock and specialised equipment to Freight Rail, the National Ports Authority, Port Terminals and external clients. Houses Transnet’s Research and Development (R&amp;D) unit to capture opportunities for technology innovation.</td>
<td>• Services eight commercial seaports in South Africa.</td>
<td>• Provides cargo handling services to a wide spectrum of customers, including shipping lines, freight forwarders and cargo owners.</td>
<td>• Transports fuel from coastal refineries and crude oil imports to the inland market.</td>
</tr>
<tr>
<td>• Transports bulk, break-bulk and containerised freight.</td>
<td></td>
<td>• Core functions include the planning, provision, maintenance and improvement of port infrastructure.</td>
<td>• Operates 16 terminals in eight ports spread along the South African coastline.</td>
<td>• Transports gas from Secunda to industrial users in Durban and Richards Bay.</td>
</tr>
<tr>
<td>• Freight Rail network and rail services provide strategic links between mines, production hubs, distribution centres and ports, and connect with cross-border railways of the region.</td>
<td>• Provides marine-related services, port services and navigation aids to assist the navigation of vessels within port limits and along the coast.</td>
<td>• Services eight commercial seaports in South Africa.</td>
<td>• Operations are divided into four major business segments, namely containers, bulk, break-bulk and automotive.</td>
<td>• The New Multi-Product Pipeline (NMPP) enables the increase in liquid fuels volume throughput to meet forecast demand.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue R39.1 billion</th>
<th>Revenue R9.4 billion</th>
<th>Revenue R10.4 billion</th>
<th>Revenue R11.2 billion</th>
<th>Revenue R4.4 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employees: 30 305</td>
<td>Total employees: 12 164</td>
<td>Total employees: 4 188</td>
<td>Total employees: 8 891</td>
<td>Total employees: 686</td>
</tr>
<tr>
<td>Permanent employees: 27 679</td>
<td>Permanent employees: 11 731</td>
<td>Permanent employees: 4 160</td>
<td>Permanent employees: 7 087</td>
<td>Permanent employees: 642</td>
</tr>
</tbody>
</table>

- 28% Female employees
- 72% Male employees
- 2.6% People with disabilities
- 26% Female employees
- 78% Male employees
- 1.4% People with disabilities
- 33% Female employees
- 67% Male employees
- 2.1% People with disabilities
- 27% Female employees
- 73% Male employees
- 1.2% People with disabilities
- 34% Female employees
- 66% Male employees
- 2.9% People with disabilities

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### Services provided

- Transnet’s services are both outbound (South African businesses moving products to international markets) and inbound (bringing products to South African markets).
- Commodities transported include mining exports, general freight and petroleum products.
- General freight includes: containerised cargo, local manganese, minerals, local coal, local iron ore, chrome and ferrochrome, agricultural products, iron and steel, fertilisers, cement, fast-moving consumer goods, bulk liquids, wood and wood products, industrial chemicals, intermediate products and automotive products.
- Petroleum products include: crude oil, refined petroleum products, aviation turbine fuel and methane-rich gas products.

### Where we operate

- Five Operating Divisions spread throughout South Africa
- Four satellite offices in Lesotho, Tanzania, Namibia and Swaziland
- Three joint operating centres in Mozambique, Botswana and Zimbabwe

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### Customer profile

Large mining, shipping, manufacturing, agricultural, industrial, retail and energy contributors to the South African economy.

### Specialist Units

- Transnet Group Capital
- Transnet Property
- Transnet Foundation
**Strategic context**
Transnet’s strategic direction is expressed through the MDS. The MDS and its implementation is guided by the SSI issued by the Minister of Public Enterprises and the Shareholder’s Compact.

The Company has adopted a new strategic blueprint, namely Transnet 4.0 – to gear the MDS to meet the challenges and opportunities of the 4th Industrial Revolution.

Main growth thrusts of Transnet 4.0 include:
• Accelerated efforts to extend Transnet’s footprint in the fast-growing regions of Africa, Middle East and South Asia.
• Product and service innovation to transform from a transport and cargo handling-focused business to an integrated, end-to-end logistics service provider; and
• Scope expansion of Transnet’s manufacturing business, with leading technologies to enhance new and existing products and improve business processes.

**Market context**
• Global growth for 2016 is estimated to have slowed to 3.1%, recovering to 3.4% in 2017.
• Partially recovered commodity prices.
• Global asset markets appear calm, equity prices are at high levels.
• Renewed capital inflows to emerging market economies.
• Subdued outlook for advanced economies, placing downward pressure on interest rates as monetary policy could remain accommodative for longer.
• Prospects for 2017 differ sharply across countries and regions, with emerging Asia and India showing robust growth.
• Sub-Saharan Africa forecast to experience overall growth of only 2.9%.
• Continuing trend of weaker gross domestic product (GDP).
• The South African ratings downgrade greatly limits the options for Government to intervene to boost economic activity through fiscal or monetary actions.
• While commodity markets could improve, demand for value-added and consumer goods could struggle to grow. Transnet’s regional demand prospects remain positive, especially if greater connectivity can be engineered.
• The 4th Industrial Revolution promises a fusion of technologies poised to disrupt almost all industries and transform systems of production, management and governance.

**Regulatory context**
The Company operates in compliance with 200 regulations. Tariffs charged by the National Ports Authority and Pipelines are determined by the Ports Regulator of South Africa (Ports Regulator) and the National Energy Regulator of South Africa (Nersa) respectively.

The Railway Safety Regulator regulates the safety of the rail operations of the Company, issues safety permits (for a fee), and conducts inspections and audits on the Company. Transnet also operates within a policy context which is determined by the Department of Public Enterprises and the Department of Transport respectively.

**Financial context**
Transnet is funded through reserves and borrowings and does not receive subsidies or guarantees from Government. It raises funds in the debt markets based on the strength of its own balance sheet, having raised funding without Government guarantees since March 1999. Legacy Government-guaranteed debt amounts to R3,5 billion comprising Eurobonds under the Euro Medium-Term Note (EMTN) Programme maturing in 2028 (R2,0 billion) and 2029 (R1,5 billion) respectively.

As an SOC, the financial strategy reflects the higher risk profile of the business. To meet long-term market demand, Transnet must invest for long-term growth prospects, but be cognisant of short- to medium-term volatility in the domestic and international markets. The Capital Investment Plan has reduced from R277.8 billion to R229.2 billion over the next seven years in response to the predicted lower-than-planned freight demand.

**Key financial interventions**
• Revenue diversification
• Stringent cost management and optimisation
• Aggressive working capital management
• Generating a return on assets commensurate with the risk
• Maintaining Transnet’s standalone investment grade credit ratings
• Structured funding at cost-effective levels
• During the year, there were no significant changes to the way in which Transnet is owned, structured or in the way it functions.

**Socio-economic context**
Transnet SOC Ltd is a freight transport and logistics company. The Company’s strategic focus is guided by the SSI issued by the Minister of Public Enterprises and the Shareholder’s Compact, which stipulate medium-term strategy and objectives, including:

Reduce the cost of logistics as a percentage of transportable GDP;

Effect and accelerate the modal shift by maximising the role of rail in the national transport task;

Leverage the private sector in the provision of both infrastructure and operations where required;

Integrate South Africa with the region and the rest of the continent, and

Optimise sustainable economic, social and environmental outcomes of all activities undertaken by Transnet.

Nine Sustainable Developmental Outcomes (SDOs) have been negotiated with the Shareholder and are aligned with the Government’s vision as per the National Development Plan and the medium-term initiatives that Government is driving to address poverty, inequality and unemployment.
Endorsement of external charters and frameworks (not limited to)

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

Memberships of associations (not limited to)

- New Partnership for Africa’s Development (NEPAD)
- South African Railways Association (SARA)
- International Union of Railways
- Association of American Railroads (AAR)
- Railroad Association (RRA)
- Union of African Railways (UAR)
- Maputo Corridor Logistics Initiatives (MCLI)
- International Association of Marine Aids to Navigation and Lighthouse Authorities (IALA-AISM)

List of awards for the 2017 financial year

- Chartered Secretaries Southern Africa Integrated Report Awards (winner: Large State-owned Company category)
- 2016 Ernst & Young Award for Excellence in Integrated Reporting
- Top Employers South Africa 2017 certification by Top Employers Institute
- CFO Awards: Transformation and Empowerment Award (winner)

Women in Transport Awards

- Best Innovation Partnership in Service Delivery (Project): Freight Rail (Maria Mzimela)
- Best Head of Department in Transport: Sylvia Siyo, National Ports Authority
- Best Skills Contributor: Khomotjo Mphahlele, Transnet Maritime School of Excellence (South Africa)
- BASA Awards for the National Arts Festival
Our operating structure

Office of the Group Chief Executive
- Group Internal Audit – Internal Audit
- Group Company Secretariat – Governance
- Group Strategy

Group Finance
- Management of critical financial parameters, including capital structure
- • Financial and capital planning
  • Treasury, funding and investor relations
  • Procurement
  • Reporting
  • Tax
  • Income statement and statement of financial position
  • Capital assurance

Group Capital
- Lead the execution of Transnet’s capital expenditure programme, project support and engineering, procurement and construction management
- • Long-term planning
  • Capital business case support
  • Capital mega project execution
  • Engineering and technical
  • Capital project support

Corporate Governance and Regulatory
- Risk and compliance aligned with legislative and regulatory requirements
- • Stakeholder relations
  • Risk
  • Compliance
  • Legal
  • Security

Group Operations
- Drive a Group-wide integrated operational philosophy. The Chief Executives of the Operating Divisions will report to this position
- • Rail operations
  • Port Terminal operations
  • Port Authority operations
  • Pipeline operations
  • TVCC and RMO

Business Development
- Support the MDS and co-create Transnet 4.0 by optimising and diversifying Transnet’s business portfolio through growth in existing and new markets
- • Customer long-term contracts
  • Product and service innovation
  • Commercial capability
  • Branding
  • Market intelligence

Advanced Manufacturing
- Four customer-facing businesses:
  • Manufacturing
  • Maintenance and services
  • Supply management
  • Trading
- • Locomotive and wagon design, manufacturing and sales
  • Research and development
  • OEM partnerships
  • Services development and sales

Information, Communication and Technology
- Transitioning Transnet from a company with high levels of operational autonomy to significantly higher levels of integrated, Group-wide orchestration
- • IT architecture
  • IT build application
  • IT infrastructure
  • Digital capability and solution delivery

Group Human Resources
- Lead Group-wide performance management, labour relations and Corporate Social Investment
- • Reward
  • Performance management
  • Talent management
  • EVP
  • CSI
  • Labour relations

Specialist Units
- Group Capital
- Freight Rail
- Engineering
- National Ports Authority
- Port Terminals
- Pipelines
- Transnet Property
- Transnet Foundation

In-house Consultancy
- Transnet Internal Holdings
- Shareholder’s Compact
- Corporate and Public Affairs
- Strategy
Our value proposition
As a State-owned Company, our overarching value proposition is founded in our Shareholder mandate and enabled through the MDS:
The modernisation and renewal of South Africa’s transport and logistics infrastructure through strategic investment in rail, ports and oil and gas pipeline infrastructure; cost-effective logistics value chains; value-added services; and advanced engineering solutions.

Value for customers
Predictable and reliable delivery of customer volumes
Customer-centric business innovations
Full value-chain service propositions
Distinctive product and service designs per market segment
Integrated cross-operating divisional customer support across the logistics value chain and ‘lifecycle of requirements’
Digital transformation across the value chain

Value for suppliers and service providers
An ethical and transparent procurement process
Fair and equitable tender processes
Fair, transparent and efficient contract management
A proactive and collaborative approach to local supplier development

Value for employees
Employer of choice
A work ethos of ‘safety in all we do’
An ‘IBelong’ culture
Opportunities to grow personally, professionally and academically
Exposure and connectivity to broader national and regional opportunities
A supportive environment in which to prosper

Our business model

Value for our Shareholder
Sustained financial returns and broad socio-economic value through sound capital investments in infrastructure ahead of demand, regulatory compliance, accountable business practices, ethical leadership and responsible corporate citizenship

Value for financial partners
A funding strategy based on strategic priorities
Capital investments that are likely to yield the best financial and social returns
A reliable and credible borrower which, albeit State-owned, issues debt on the strength of its financial position without Government guarantees

Socio-economic value and environmental stewardship
The modernisation and renewal of South Africa’s transport and logistics infrastructure
Regional integration to support South Africa’s market competitiveness
CSI initiatives that contribute meaningfully to the socio-economic well-being of communities where we operate
Activities that enhance the natural environment’s capacity to meet the resource needs of future generations

Funding sources
International and domestic capital markets
Loan market (public and private)
Development finance institutions (domestic and international)
Export credit market
Structured financing
Partial funding by customers and/or interested parties that are part of Transnet’s investment plan
Project-specific funding

Cost considerations
Fuel and electricity costs
Asset depreciation
Personnel costs
Investment in infrastructure projects and equipment
Regulatory and compliance costs
Supplier and support services
Borrowing costs
Inflation
Materials and maintenance costs
Revenue streams  Commodity-based revenue from commodities transported:

- Coal
- Iron ore
- Manganese
- Chrome
- Steel
- Cement
- Agricultural products
- Forestry products
- Aggregate
- Automotives
- Fast-moving consumer goods
- Containerised cargo and crude oil
- Refined petroleum products
- Crude oil
- Aviation turbine fuel
- Methane-rich gas

Non-commodity revenue from:

- Engineering
- Transnet Property
- Other revenue at Freight Rail, National Ports Authority, Port Terminals and Pipelines

External variables impacting our business:

- Slow rates of global and local economic growth
- Widening social inequality
- Structural unemployment
- Climate change adaptation
- Volatile commodity prices impacting freight volumes and revenue
- Energy and water supply challenges
- South Africa’s creditworthiness impacting borrowing costs

Opportunities

- Grow market share in the domestic transport market through the road-to-rail strategy
- Private-sector partnerships
- Service expansion through value-added services
- Research and development in renewable energy
- Strength of Transnet’s financial position and investment grade credit rating for domestic borrowings

Top 10 risks

- Pricing risk
- Capital investment risk
- Macroeconomic risk
- Volume growth risk
- Operational risk
- Human resources risk
- Productivity/efficiency risk
- Regulatory risk
- ICT infrastructure risk
- Sustainability risks
External environment
Our activities are influenced by various external factors:

Economic environment
• Global markets appear calm, equity prices are at high levels and renewed capital is flowing to emerging market economies.
• Stable growth performance has reduced concerns about China’s growth prospects, and commodity prices have partially recovered. The challenge of declining demand for commodities, however, has not entirely abated.
• Sub-Saharan Africa is forecast to experience overall growth of 2.9%. In South Africa, the economic situation remains challenging, with growth of around 1.0% anticipated in 2017, continuing the general trend of weaker gross domestic product (GDP) growth performance since the 2008 global financial crisis.
• In the domestic context, South Africa has been downgraded to non-investment grade BB+ from BBB-, so-called ‘junk’ status by rating agencies Standard and Poor’s and Fitch. Following on this rating agency Moody’s placed South Africa on a ratings review. The Sovereign credit rating saw the further downgrade of SOCs, including Transnet, impacting our credit rating going forward.
• Transnet’s demand picture is mixed. While commodity markets are expected to improve slightly, demand for value-added and consumer goods will struggle to grow. Transnet’s regional demand prospects remain positive, especially if greater connectivity can be engineered.

Industry trends
Rail sector
• Containerised freight traffic is increasing globally, and in developing countries, such as South Africa, the growth in port container handling is expected to be even greater over the next three decades.
• International trends indicate that one of the main drivers to increased freight forwarding is the development of mega-terminals and super-terminals in strategically located corridors.

Port sector
Key issues impacting port operations include:
• A worldwide trend towards industrialisation and specialisation, creating a need for large shipments of goods and materials over significant distances;
• An increase in free trade agreements – and an unprecedented expansion in trading volumes and widespread deregulation of many economies – has led to the private sector playing an increasingly important and profitable role in port terminal management;
• Exponential increase in vessel sizes in pursuit of economies of scale in transporting cargo;
• Restructuring of logistics networks and improvement in dealing with hinterland congestion and intermodal transport links;
• Awarding of concessions to global terminal operators to improve productivity, efficiencies and profitability of ports; and
• Ports accommodating and including infrastructure for the transport and handling of alternative forms of energy, such as liquefied petroleum gas (LPG) and liquefied natural gas (LNG).

Pipeline and gas
• South Africa’s energy resources are dominated by coal, more than 80% of electricity generated by Eskom is from coal-fired power stations. To align with the global objectives of lower greenhouse gas emissions, Government aims to diversify South Africa’s energy supply mix; doing so will improve the security of energy supply and reduce the overall carbon footprint of the country. Natural gas is a significant alternative energy source for South Africa.

Key issues that will influence long-term pipeline and terminal planning include:
• The need for sustainability in developing infrastructure solutions, as well as increased stakeholder engagement on key issues;
• Government’s Clean Fuels 2 Programme and the impact on security of supply; and
• Slowdown in local economy and lower fuel demand.

Technological innovation
• The ‘digital evolution’ is reshaping industries across the board, and the pressure to innovate is increasingly compelling transport and logistics providers to become ‘fast digital followers’ to remain competitive.
• Customer value chains are changing, with many clients already ahead of the technological curve, and evidencing ever-increasing service expectations.
• The emerging digital environment is also enabling new business models, particularly regarding collaborative solutions and modal connectivity.
• The new digital landscape is characterised by a fusion of technologies that are poised to disrupt almost all industries and transform systems of production, management and governance.
• Governance and compliance will be significantly enhanced by ‘click-of-a-button’ transparency on performance. Return on assets will be maximised by deploying tools to drive asset productivity in yards and networks, and by improving service reliability through data and advanced analytics.

Regulatory environment
• Transnet faces regulatory uncertainty, particularly regarding lower-than-required tariff escalation as determined by the Ports Regulator and the Nersa. Approximately 22.5% of Transnet’s revenue and 35.4% of its EBITDA is impacted by economic regulation. Unless relationships with regulators are proactively and strategically managed, tariff decisions could have a significant impact on investment decisions, investor confidence and ultimately on the execution of the Company’s strategy.
• Sharp escalations in safety permit fees charged by the Rail Safety Regulator is also a critical consideration for the Company’s revenue planning.
• Institutional investors have pointed out policy uncertainty as a significant factor that may result in sluggish investment growth. Furthermore, the socio-economic climate is growing increasingly precarious following the downgrade of the Sovereign credit rating. Should investment slow down, there is reduced scope, nationally, for improving employment statistics as businesses grapple with reduced spending and reduced investment. Transnet must face these challenges, not only as a corporate but also as an agent of Government’s imperatives, which include remediating the country’s challenges of poverty and inequality.

1 Bureau for Economic Research – January 2017
Natural environment

- Transnet’s business is conducted across South Africa’s diverse ecosystems where it builds infrastructure, operates equipment and handles large volumes of cargo. Our employees, contractors, suppliers and customers have an impact on the natural environment and depend on it for their livelihoods.
- Transnet recognises the potential impacts of its operations on the biodiversity of areas where it operates. The Company’s operational footprint spans across kilometres of ecosystems. Accordingly, we seek to avoid, minimise and mitigate the impacts arising from our operations and, where possible, restore the environment to maintain healthy ecosystem services for the future well-being of all South Africans.
- Transnet is one of South Africa’s largest industrial consumers of electricity. Energy and carbon management is, therefore, Transnet’s primary focus for its environmental stewardship initiatives. The Company has realised significant gains in terms of energy efficiency and reduced carbon emissions in recent years, moving more cargo with less energy.
- Transnet aims to further improve the protection and restoration of natural habitats as a critical outcome of our biodiversity management approach.

Pipelines

Transnet has identified the following environmental sensitivities for its pipelines operations:

- The Critically Endangered Vaal River is crossed by the Refined Products Pipeline;
- Biodiversity sensitivities along the Refined Products Pipeline include the Critically Endangered Blesbokspruit and Klip River Highveld Grassland Habitats;
- The Critically endangered Wilge River is crossed by the Crude Oil Pipeline; and
- Critically endangered Wetland Habitats are concentrated as the lines approach Gauteng and the coastal cities and extend along the KwaZulu-Natal coastline. Regular maintenance and monitoring must be undertaken to mitigate the risk of leaks and ensure that, when they occur, they are quickly addressed.

Ports

- Over time vessel berths experience a gradual filling of fine silt and clay sediment, known as shoaling. Excessive shoaling leads to a decrease in water depth at a berth, which in turn leads to limiting the drafts of visiting vessels. The conventional approach to mitigating shoaling is through maintenance dredging, which is expensive and has several environmental implications. As an alternative to maintenance dredging, a series of submerged jet water pumps can be installed at the berth. The pumps will periodically increase the speed of passing water currents, thus reducing the likelihood of shoaling.
- On dredging, it is commonly assumed that dredged material is contaminated waste and should, therefore, be disposed of; however, a substantial portion of dredged material is usable and untainted, with contaminated dredged material usually limited to industrial sites. Recently, the stigma of dredged material has shifted from a waste product to a beneficial resource through recycling. However, cost is a major obstacle in determining how best to manage dredged material – recycling is costlier than securing a disposal site.

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1 As per the Transnet Long-term Planning Framework SEA conducted for existing Transnet pipelines.
Our value creation model

Our capitals

Financial capital
Our financial sustainability relies on the availability and management of our own and borrowed funds. Financial capital – as a stock of value – enables value creation with all other capitals. Through the combined use of capital inputs, such as share capital, cash reserves and borrowings, we fund our infrastructure projects, build manufactured assets, such as rolling stock and wagons, enhance the productive capacity of our people through training, innovate around technology and services, and benefit our community relationships through our investment in CSI initiatives. The current business strategy, as encapsulated in the MDS, aims to create pre-emptive long-term capacity ahead of validated demand.

 Manufactured capital
Through our manufactured assets – such as our buildings, equipment and transport infrastructure – we create value for the Company in the form of revenue from operations, and create infrastructural value for the wider economy, while reducing the cost of doing business in South Africa. While our road-to-rail strategy impacts positively on natural capital by reducing carbon emissions and air pollution, new rail, ports and pipeline infrastructure projects could adversely impact ecosystems and result in contamination of the natural environment and generate a variety of outputs in the form of waste materials as by-products.

 Intellectual capital
Through our intellectual capital (e.g. intellectual property in the form of patents, copyrights and licences) and organisational capital (e.g. our tacit knowledge in the form of procedures and knowledge-based systems of governance, compliance and leadership), we create both tangible (monetised) value in the form of revenue from value-add services and new product innovations, and intangible (non-monetised) value in the form of brand value and thought leadership.

 Human capital
Exponential value is created for and on behalf of Transnet and the country through our most critical asset: our people. Through our employees’ collective accomplishments, collaborations, innovations and discipline, we are able to provide innovative solutions to infrastructural logistics challenges, foster lasting relationships with our customers, and build and maintain the infrastructure capacity required to sustain economic growth.

 Social and relationship capital
Through our social and relationship capital (e.g. relationships with commercial and academic partners, regulators, suppliers, customers, communities, labour unions, the media and more), we build both tangible and intangible value expressed through mutual trust, collaborative ventures, new innovations and value-added products and services. Positive stakeholder relations contribute to commercial stability (e.g. through strong customer and supplier relationships, and a social licence to operate) and organisational stability (e.g. healthy employee morale).

 Natural capital
Our business is conducted across diverse ecosystems where we build and maintain infrastructure, operate equipment and handle large volumes of cargo. Our employees, contractors, suppliers and customers have an impact on the natural environment and depend on it for their livelihoods. The ‘natural capitals’ in the context of our commercial activities include air, water, land, minerals and forests, as well as biodiversity and ecosystems health. Our operations generate waste, including greenhouse gases, which in turn contribute to global warming.
Value created for Transnet

Ensure long-term financial stability in a tough economy

Our efforts enable us to build financial stability in the short, medium and long term as guided by gearing and cash interest cover

Build stable, secure infrastructure
Maintain our standalone credit rating and attract funding from various sources
Promote a push for business performance without compromising on safety
Enable us to be agile in an ever-changing socio-economic environment
Promote employment equity within the Company
Promote ethical business practices as well as sound environmental stewardship within our operations

Align with regulatory requirements to maintain the required compliances within our operations
Maintain agility within a cost structure in which 80% to 90% of fixed costs and assets have lifecycle times of 30 to 100 years
Build partnerships for sustainable growth
Strengthen our credibility in terms of infrastructure reliability and our delivery of customer-centric solutions
Enhance human capabilities and productive capacity of our people – particularly in terms of scarce skills
Improve physical and mental health and safety of our employees and other stakeholders
Optimise ‘that which makes Transnet great’ by living the Transnet culture – ‘our unity shows in our shared practices’

Value created for others

Through our activities, we deliver nine Sustainable Developmental Outcomes (SDOs) for our Shareholder, the economy and our stakeholders

Employment
Create measurable direct, indirect and induced employment for South Africans

Skills development
Enhance and improve human capabilities and productive capacity within the South African job market

Industrial capability building
Promote industrial development for South Africa and improved competitiveness
Vastly improve rail and freight infrastructure
Create increased capacity at South African ports
Facilitate a new multi-product pipeline
Increase capacity for South African commodity exports
Reduce cost of logistics as a percentage of transportable GDP

Investment leveraged
Leverage private-sector investment in the country’s freight logistics system

Regional integration
Improve freight logistics connectivity on the continent

Transformation
Promote black economic empowerment within supplier entities
Promote supplier localisation

Health and safety
Improve physical and mental health, and safety of the public and communities where we operate

Community development
Measurably improve economic, social, cultural and environmental well-being of communities

Environmental stewardship
Enhance capacity of the natural environment to meet the resource needs of future generations
Promote a modal shift from road to rail in the national transport task

24TRANSNET Integrated Report 2017
**Highlights**

### Economic

- Revenue increased by 5.3% to R65.5 billion
- Operating expenses were contained at a 5.6% increase to R37.9 billion
- Profit of the year increased to R2.8 billion (2016: R393 million) more than 600% higher than the prior year
- Aggressive management of costs resulted in a R2.4 billion saving in planned costs
- SA GDP growth of 0.7% for the financial year
- Gearing at 44.4% and cash interest cover at 2.9 times
- R62.6 billion spend on SD, R38.6 million on ED

- EBITDA grew by 5.0% to R27.6 billion
- Operational efficiency at 14.9%
- Capital investment of R21.4 billion
- B-BBEE spend: % of total measured procurement spend: 103.1% R37 billion

### Social

- Skills development: Amount invested: R746 million or 3.6% of the wage bill
- Apprentice bursars in talent pool: 1 700
- Engineering bursars in talent pool: 597
- R234 million spend on SD
- DIFR rate: 0.69

### Environmental

- Electricity consumption reduction: 1.7%
- Electricity generated by new locomotives: 242 788 MWh
- Traction energy-efficiency improvement: 0.6%
- Electricity consumption: 3 207 544 MWh
- Transport sector carbon emissions avoided (road-to-rail gains): 637 152 tCO₂e
- Volume gains/ emissions avoided (road to rail): 2 857 365 tons/313 699 tCO₂e
- Total fuel consumption: 238.9 megalitres
- Total overall energy-efficiency improvement: 1.2%
- Transnet carbon emissions: 3,95 mtCO₂e
- Scope 1 emissions: 681 016 tCO₂e
- Scope 2 emissions: 3 295 208 tCO₂e
- Scope 3 emissions: 16 368 tCO₂e
- Carbon emission intensity reduction: 2.3%