TRANSNET

delivering freight reliably

MDS

Integrated Report 2013


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Contents

Commentary on the Market Demand Strategy focus areas and sustainability outcomes are indicated by these icons:

CAPITAL INVESTMENT

VOLUME GROWTH

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REGULATORY

SAFETY, HEALTH, ENVIRONMENT AND QUALITY (SHEQ)

HUMAN CAPITAL

GOVERNANCE

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SOCIAL DIVIDENDS

ENVIRONMENTAL DIVIDENDS

Transnet's Integrated Report 2013, Annual Financial Statements 2013 and Sustainability Report 2013 (reports) are available in PDF on **www.transnet.net** and via this QR code on mobile devices.

Feedback on the reports is encouraged.

Forward looking information

All references to forward looking information and targets in the 2013 reports are extracted from the 2013/14 Transnet Corporate Plan approved by the Board of Directors.

Throughout the reports, readers are referred to places where they can find more detail on particular topics, using these pointers:

IR Refers to Volume 1 for further information.

AFS Refers to Volume 2 for further information.

SR Refers to Volume 3 for further information.

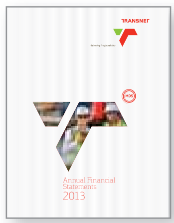
About the Integrated Report

The Integrated Report 2013 (IR 2013) provides an overview of the performance and prospects of Transnet SOC Ltd (Transnet or the Company) for the period 1 April 2012 to 31 March 2013. The IR 2013 presents the Company's mandate, business model, strategy, governance, performance review and future outlook. It demonstrates how Transnet responds to its context, stakeholders, risks and opportunities in order to create sustainable value for the economy, society and the environment.

Transnet's IR 2013, Annual Financial Statements 2013 (AFS 2013), and Sustainability Report 2013 (SR 2013) (the Reports) are complementary. Cross-references are provided throughout the reports for ease of reference.

Volume 1

Volume 2



Volume 3

	Volume 1	Volume 2	Volume 3
CONTENTS	The IR 2013 is Transnet's primary report to all stakeholders.	The AFS 2013 include reports of the independent auditors, the audit committee, the directors, the annual financial statements and the corporate governance reports.	The SR 2013 documents Transnet's economic, social and environmental dividends.
FRAMEWORKS APPLIED	International Integrated Reporting Council (IIRC) Integrated Reporting Framework Consultation Draft, 2013. The King Code of Governance for South Africa (2009)(King III).	International Financial Reporting Standards (IRFS). King III. The Companies Act, Act No. 71 of 2008 (Companies Act). The Public Finance Management Act, Act No. 1 of 1999 (PFMA).	King III. Global Reporting Initiative (GRI) G3. United Nations Global Compact (UNGC). Carbon Disclosure Project (CDP). AA 1 000 stakeholders engagement standard.

Concepts, principles and contents of integrated reporting

This is Transnet's third year of integrated reporting, applying King III. As a member of the IIRC Pilot Programme since 2012, Transnet has participated in developing the IIRC Integrated Reporting (IR) Framework which was published globally for comment in April 2013. Transnet will continue to adopt best practice in integrated reporting as the discipline evolves.

The IR 2013 applies the IR Framework's fundamental concepts, guiding principles, content elements and presentation guidance. While the IR Framework suggests that the Integrated Report is primarily for investors, Transnet's aim, as a State-owned company, is to communicate to all stakeholders, the factors that materially affect Transnet's ability to create value.

The guiding principles of the IR Framework, adopted in the IR 2013, are:

- Strategic focus and future orientation;
- Connectivity of information;
- Stakeholder responsiveness;
- Materiality and conciseness;
- Reliability; and
- Comparability and consistency.

Issues have been identified as material where they are of such importance and impact that they could substantially influence the assessments and decisions of the Company and its stakeholders.

Risk management and assurance

One of the responsibilities of the Board is effective risk management for the attainment of Transnet's objectives and thus is a key focus area for the Company.

Against the backdrop of the economic crisis that equally affected the volumes and revenue growth of Transnet, there was a need to ensure vigilant risk management with a specific focus on regulatory compliance, health, safety, environmental compliance, organisational reputation, business processes, and the credit environment.

The Board continued to demonstrate its support and commitment to the enterprise risk management (ERM) framework and recognise the importance of a strong control environment in managing risks, improving performance, enhancing governance, instilling stakeholder confidence and strengthening the reputation of the Company.

The Board and management's persistent and concerted effort to have a strong control environment provides growing evidence that the culture of control is taking root as evidenced by the sustained improvement in the internal control environment, particularly financial controls.

Koedoespoort Bay 1: New Class 43 diesel locomotive under construction.

In the year ahead, the Company is tightening its control frameworks around the capital programme as well as controls aimed at mitigating the key MDS risks and other emerging risks inherent in major change initiatives.

Transnet's control framework encompasses a range of governance and operational components comprising:

- Internal audit;
- Internal controls (financial, capital and operational);
- Enterprise risk management;
- Enterprise performance management;
- Enterprise information management;
- Regulatory compliance;
- Fraud prevention, detection and investigation; and
- Continuous control monitoring.

Values and ethics form the keystone of an effective control environment and strong emphasis is placed on applying the Transnet Code of Ethics and Culture Charter.

A combined assurance plan has been designed to emphasise high-risk areas. It encompasses the assurances provided by management, internal specialists, internal audit, external audit and other consultants and service providers. The plan enables the Board and its sub-committees, including the Board Risk and the Board Audit Committees, to remain appraised of management efforts to mitigate risks to an acceptable level and to improve the control environment. Collectively the activities performed from which assurance is provided by various role players are referred to as the integrated combined assurance model, involving:

- **Executive Management-based assurance:** Transnet management reviews and monitors risks and their related controls. This includes oversight of strategy implementation, performance measures, control self-assessments and the continuous monitoring of mechanisms and systems. Management oversight aims to establish and maintain a sound control environment for managing risk and governance.
- **Oversight committees:** Properly mandated Board sub-committees and Executive subcommittees oversee the adequacy and effectiveness of the risk management process.
- **Internal assurance:** Internal assurance functions within Transnet provide assurance on the adequacy and effectiveness of controls. Risk management, legal, compliance, health and safety, and quality assurance factors are included.
- **Independent assurance:** Independent assurance functions provide independent and objective assurance on the overall adequacy and effectiveness of controls, governance and management of critical risks. This is predominantly the role of internal audit, external audit and other credible assurance providers.

IR Refer to page 19 for further information.

AFS Refer to page 12 for further information.

Assurance overview

Content	Assurance providers	Outcome	Framework/standard
Annual financial statements.	• External audit – SizweNtsalubaGobodo Inc.	• Unmodified audit opinion.	• IFRS. • Companies Act. • PFMA. • International Standards on Auditing (ISA).
Review of internal controls and risk management.	• Transnet Internal Audit. • National Occupational Safety Association (NOSA). • International Standards Organisation (ISO) accreditation bodies. • Legal firms. • External audit.	• Financial controls: satisfactory rating. • Operational controls: requires improvement. • Legislative assessment: satisfactory rating. • Functional risk management: requires improvement rating.	• PFMA. • NOSA standards. • ISO standards relating to safety and environment including ISO 9 000 and 14 000. • Legislative requirements. • ERM and compliance standards including Risk Management and Compliance Institute of South Africa guidelines. • Committee of Sponsoring Organisations of the Treadway Commission (COSO) . • Control Objectives for Information and Related Technology (COBIT).
Broad-based black economic empowerment (B-BBEE) contributor level.	• Transnet Internal Audit. • Beever Agency CC.	• Verified Level 3.	• B-BBEE Act and Charters: – Generic Transport Public Sector Charter. – Rail Charter. – Maritime Charter. – Property Charter.
Corporate governance.	• Transnet Internal Audit.	• Maturity assessment: established. • Assessment of controls: satisfactory rating.	• King III. • PFMA. • Companies Act.

The Company has not commissioned additional external assurance of the non-financial information provided in the IR 2013 and SR 2013. The responsibility for review and approval of the IR 2013 and AFS 2013 resides with the Board Audit Committee. Responsibility for the SR 2013 resides with the Board Remuneration, Social and Ethics Committee. These Board sub-committees recommended the reports to the Board and the reports were approved by the Board. The combined assurance approach, including consideration of additional independent assurance, is being further developed for all aspects of the reports.

Condolences

The Board deeply regrets the loss of nine employees' lives in the course of the year: five to motor vehicle accidents, three to violent criminal acts and one to a health condition. The sincere condolences of the Company go to their families, colleagues and friends. Every effort continues to be made to bolster safety, security and wellness in Transnet.

The Board also conveys its deepest condolences to the families and friends of 125 members of the public who lost their lives on Transnet property. The largest single contributor to these tragedies occurred in Hectorspruit on 13 July 2012, when a truck carrying 48 farmworkers collided with a goods train. Notwithstanding increased public awareness and proactive training campaigns, level crossing accidents accounted for 23,0% of the public fatalities, with the balance due mainly to people trespassing onto operating railway lines. Management is proactively seeking solutions to reduce the number of level crossing incidents.

Appreciation

The Board would like to express its appreciation to the Minister of Public Enterprises, Mr Malusi Gigaba, the Minister of Transport, Mr Ben Martins and their respective deputy Ministers, the Director-General of the Department of Public Enterprises, Mr Tshediso Matona, the various officials under the leadership of the Director-General, and the Chairperson of the Portfolio Committee on Public Enterprises, Mr Peter Maluleke, for their strategic direction and oversight in the year under review. Thanks also go to the industry and economic regulators for their oversight responsibilities. Special thanks go to the members of the Executive and Extended Executive, employees and labour union partners who, together, drive Company performance. Transnet's investors, bond holders and financiers are acknowledged for the continued confidence shown in the strategy and management of the Company. The gratitude of the Company as a whole goes to the communities in which Transnet operates and to the customers and suppliers who work with Transnet staff every day to ensure that the rail, ports and pipelines deliver the quality of service needed to support the growth prospects of the South African economy.

Approval of the Integrated Report

The Board acknowledges its responsibility to ensure the integrity of the IR 2013. The Board confirms that it has collectively reviewed the contents and that the IR 2013 addresses the material issues and provides a fair representation of the performance and prospects of the Company.

The IR 2013 was approved by the Board and signed on its behalf by:

Mafika Mkwanazi
Chairperson

29 May 2013
Johannesburg

Brian Molefe
Group Chief Executive

29 May 2013
Johannesburg

Anoj Singh
Group Chief Financial Officer

29 May 2013
Johannesburg

About Transnet

How Transnet creates value

Transnet is wholly owned by the Government of the Republic of South Africa and is the custodian of the country's freight railway, ports and pipelines infrastructure. In line with Government's New Growth Path, State-owned companies are required to contribute to economic growth through the provision of world-class infrastructure and technologies, expansion of economic infrastructure, job creation and skills development as well as and industrial capacity building through a strategic approach to procurement and operations.

The Minister of Public Enterprises, articulated his Statement of Strategic Intent (SSI) for Transnet in November 2012 as follows:

- Reduce the cost of logistics as a percentage of transportable GDP;
- Effect and accelerate 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 social and economic impact of all interventions undertaken by the Company in the achievement of the above objectives.

Transnet's specific mandate, vision and mission reflect the Minister's objectives:

MANDATE

To assist in lowering the cost of doing business in South Africa, enabling economic growth and ensuring security of supply through providing appropriate port, rail and pipeline infrastructure in a cost-effective and efficient manner, within acceptable benchmarks.

VISION

To meet customer demand for reliable freight transport and handling through:

- *fully integrating and maximising the use of its unique set of assets;*
- *continuously driving cost efficiency; and*
- *demonstrating a concern for sustainability in all we do.*

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.

Transnet's complex mandate involves a balance between commercial and developmental objectives which requires prudent planning and bold action, particularly in a volatile global and local economic context.

Transnet is making strides in catching up on decades of under-investment in South Africa's freight system and in driving operating efficiencies to match world best practice. There is clear recognition by the Shareholder, Board and management that the Company must find ways to invest counter-cyclically – through the peaks and troughs of economic cycles – in order to both stimulate and support periods of higher growth. There is also recognition that logistics productivity and reliability are determining factors shaping South Africa's ability to compete in global trade. The Market Demand Strategy (MDS) is Transnet's response to these imperatives articulated in the Minister's SSI.

Transnet adopted the MDS in 2012, committing the Company to invest R300,1 billion in infrastructure to support a ramp up in freight volumes, operational efficiencies, jobs and skills while championing transformation and delivering sustainable economic, social and environmental outcomes. The MDS capital investment target was raised further in 2013, committing Transnet to invest R307,5 billion by 2020.

Transnet's unique assets include:

FREIGHT RAIL:

- *20 500km of freight railway network;*
- *Over 2 255 locomotives; and*
- *71 036 wagons.*

PORTS:

- *Eight commercial ports; and*
- *16 port terminals.*

PIPELINES:

- *3 800km of pipelines.*

ENGINEERING:

- *132 engineering depots; and*
- *Seven factories manufacturing and maintaining rail and port equipment.*

PEOPLE:

- *Employs 54 726 permanent staff.*

The way in which Transnet deploys these assets, people and skills, along with its use of financial and natural resources, carries significant responsibility. This is because the quality and sustainability of Transnet's freight infrastructure and services directly affects both the short- and long-term prospects of thousands of companies, tens of thousands of employees, all spheres of Government, and hundreds of communities across the country.

Transnet's sustainability framework sets out the economic, social and environmental dividends that the Company aims to deliver from the MDS. This framework enables Transnet to drive and monitor specific outcomes from its business practices, showing every year, where long-term, sustainable value is being created for the economy, society and the environment. Transnet's sustainability performance and prospects are reported in the SR 2013 and summarised in the Performance Review section of this IR 2013.

The Company faces a number of risks and opportunities in the execution of the MDS. The risks must be mitigated and the opportunities to create value must be adopted into business practice. The quality of a company's relationships with its stakeholders plays a major part in how these risks are mitigated and how these opportunities are seized. Transnet recognises that enhanced shared value can be built from finding common purpose with its stakeholders. Stakeholders' material issues and the Company's approach to strategic risk assessment and mitigation is summarised in the sections that follow.

Transnet's value proposition is depicted on the next page of the IR 2013. The Company deploys the valuable inputs it owns into the business (freight rail, ports, pipelines infrastructure and operations) to deliver outputs every year (investment, volumes, efficiencies, financial stability, skills and jobs), targeting to create sustainable economic, social and environmental outcomes for future generations.

How Transnet creates value[1]

INPUTS: VALUE DEPLOYED IN 2013

FINANCIAL CAPITAL

- Share capital R12,6 billion.
- Long- and short-term borrowings R73,1 billion.
- Cash generated from operations R22,6 billion.

MANUFACTURED CAPITAL

- Property, plant, equipment R176,9 billion.
- Investment property R7,9 billion.

HUMAN CAPITAL

- 54 726 permanent employees.

INTELLECTUAL CAPITAL

- Custodian of the country's freight railway, ports and pipelines infrastructure and technologies.

STAKEHOLDER RELATIONSHIPS CAPITAL

- Customers.
- Government and regulators.
- Employees.
- Funders.
- Suppliers.
- Organised labour.
- Communities.
- Pensioners.

NATURAL CAPITAL

Consumed:

- 3,7TWh coal-fired electricity.
- 230 million litres diesel.
- Water, air, ecosystems.

MDS 2013 HIGHLIGHTS

Capital investment: R27,5 billion (23,4% increase).

Volumes: 91,8% of target.
Rail: 207,7mt (3,3% increase).
Ports: 4,4m TEUs (1,2% increase).
Pipelines: 15,9 billion litres.

Revenue: R50,2 billion (9,4% increase).
EBITDA: R21,1 billion (11,5% increase).
Gearing: 44,6%.
Cash interest cover: 3,7 times.
Investment grade ratings: maintained.

DCT Pier 2: 28 GCH (21,7% improvement).
Ngqura terminal: 32 GCH (6,6% improvement).
Cape Town terminal: 31 GCH (10,7% improvement).
Durban: TEUs/STAT hour improved 18,7%.
Pipelines: delivered 100% to order.

New employees: 3 804 (7,5% increase).
Indirect jobs: 24 689.
Skills investment: R846 million (4,4% of payroll).
Trained 2 042 apprentices: awarded 122 engineering bursaries.

IN THE TRANSNET BUSINESS

FREIGHT RAIL

20 500km railway including 1 500km heavy haul.

2 255 locomotives, 71 036 wagons in service.

R80,0 billion total assets.*

29 489 employees.

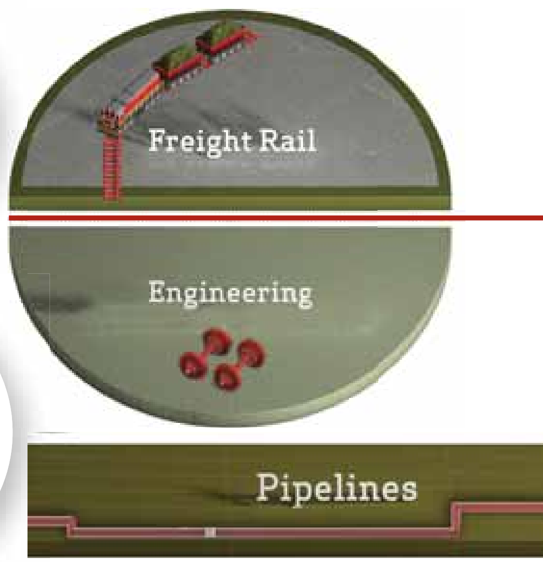
ENGINEERING

132 depots and 7 factories.

Manufacture and maintenance of locomotives, wagons, coaches, port equipment.

R10,8 billion total assets.*

12 752 employees.



[1] *Adapted from International Integrated Reporting Council Integrated Reporting Framework Consultation Draft, April 2013*
* *Excludes assets held-for-sale.*

Gross value added: R36,2 billion
- 44,6% reinvested.
- 15,3% to lenders.
- 40,0% to employees.
- 0,1% to Government.

Recognised B-BBEE spend: R33,4 billion (88% to black suppliers).
Supplier development contracted: R5,4 billion.

Corporate Social Investment: R132 million.
Two Phelophepa health care trains reach 360 000 rural patients pa.

DIFR of 0,74, below target of 0,80.

Total electricity consumption reduced 3,4%.
Electricity regenerated by new locomotives: 151 139 MWh.
Traction energy efficiency improved 2,0%.

Road-to-rail gains reduced transport sector carbon emissions by 206 540tCO_2e.

TO BUILD SUSTAINABLE VALUE LOOKING AHEAD – OUTCOMES:

MDS Market Demand Strategy (2014–2020).

ECONOMIC DIVIDENDS

Capital investment R307,5 billion by 2020.

Volumes by 2020
- Rail: 360mt pa.
- Ports: 6,5m TEUs pa.
- Pipelines: 31,6 billion litre capacity.

Financial stability
- Gearing <50%.
- Cash interest cover >3 times.
- Investment grade ratings.

Regulatory certainty.

Productivity and efficiency
- Rail reliability – 10% improvement.
- Port efficiency – 8,5% improvement.
- Pipeline delivery to order – 100%.

Human capital by 2020
- Employees 66 750.
- Skills investment 4% of payroll pa.

Economy-wide jobs 220 000.

Local supplier industry development.

Private sector participation.

Rural development support.

Regional logistics integration.

SOCIAL DIVIDENDS

Mature governance.

Zero tolerance for fraud and corruption.

Zero harm: safety and security vigilance to protect employees, customers, communities and assets.

Employment equity, with focus on women and people with disabilities.

B-BBEE Level 1 by 2017.

Corporate social investment.

Proactive stakeholder engagement to build common value.

ENVIRONMENTAL DIVIDENDS

Modal shift from road-to-rail (35% market share), lowering transport sector carbon emissions.

Energy efficiency.

Climate change mitigation.

Climate change adaptation.

Water use efficiency.

Waste management optimisation.

Biodiversity enhancement.

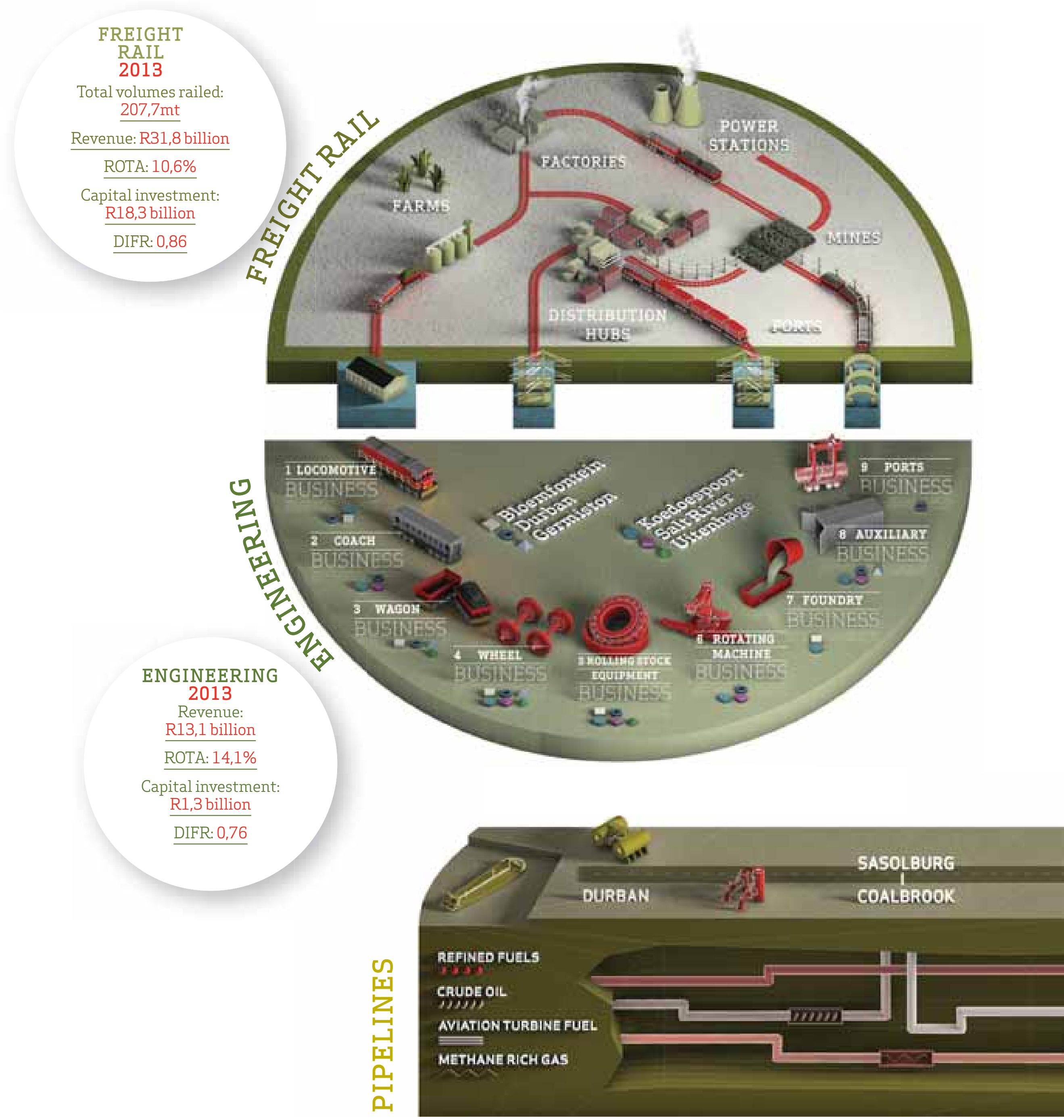
NATIONAL PORTS AUTHORITY
- 8 commercial ports.
- R66,1 billion total assets.*
- 3 584 employees.

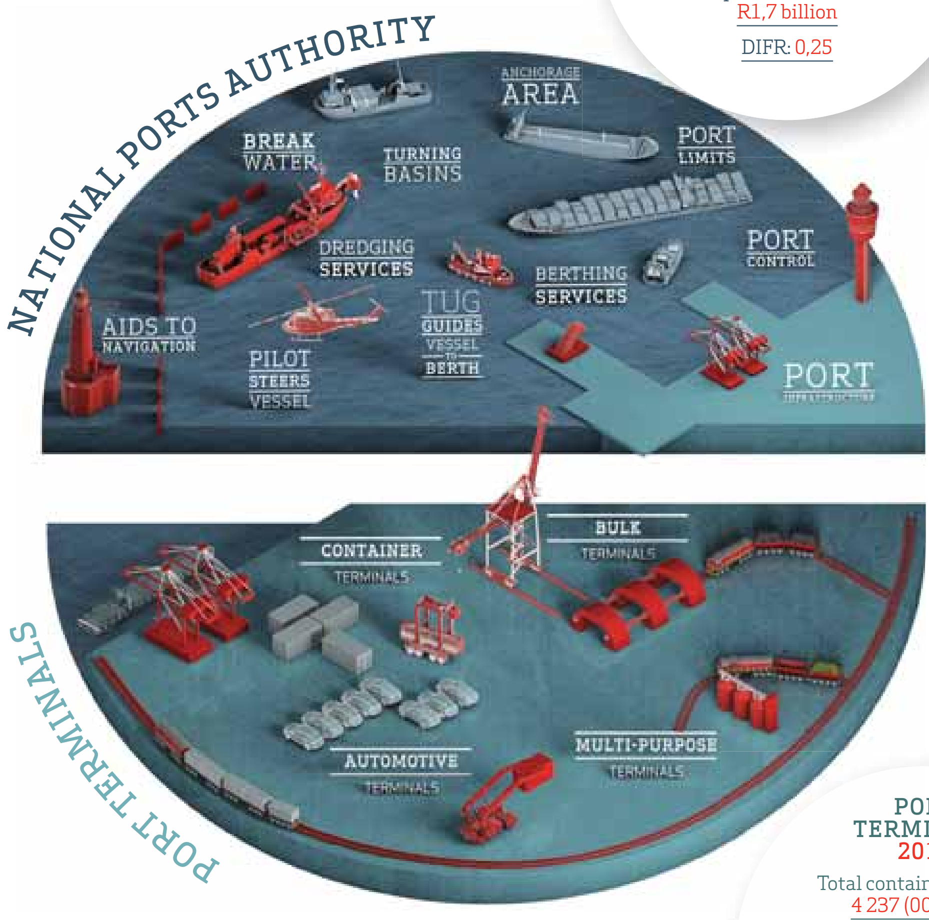
PORT TERMINALS
- 5 container terminals.
- 3 automotive terminals.
- 3 bulk terminals.
- 5 break-bulk terminals.
- R18,4 billion total assets.*
- 6 662 employees.

PIPELINES
- 3 800km pipelines transporting refined petroleum, crude oil, jet fuel, and gas.
- R28,1 billion assets.*
- 627 employees.

Business model

Transnet's five Operating divisions that drive business value creation are: Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority, Transnet Port Terminals, and Transnet Pipelines. There are three specialist units: Transnet Property, Transnet Capital Projects, and the Transnet Foundation. The Company's corporate centre is responsible for Finance, Planning and Monitoring, Human Resources, Risk, Commercial and Corporate Affairs.





NATIONAL PORTS AUTHORITY 2013

Total container volumes: 4 403 (000 TEUs)

Revenue: R8,3 billion

ROTA: 6,9%

Capital investment: R1,7 billion

DIFR: 0,25

PORT TERMINALS 2013

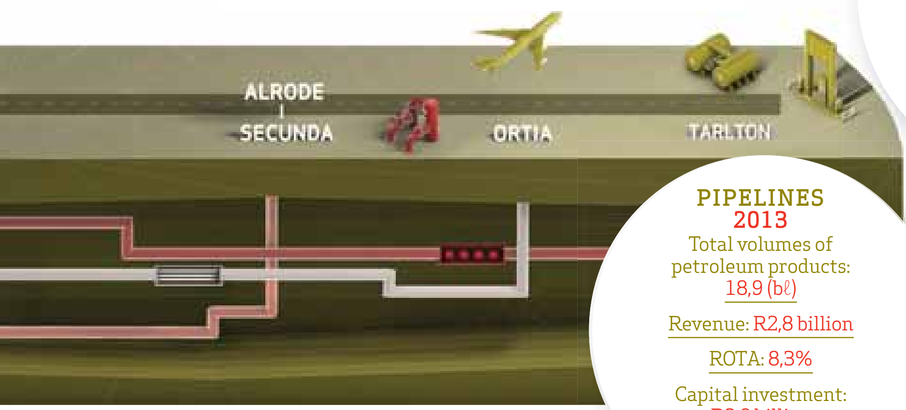
Total container volumes: 4 237 (000 TEUs)

Revenue: R7,4 billion

ROTA: 3,7%

Capital investment: R2,2 billion

DIFR: 0,45



PIPELINES 2013

Total volumes of petroleum products: 18,9 (bℓ)

Revenue: R2,8 billion

ROTA: 8,3%

Capital investment: R2,8 billion

DIFR: 0,81

Koedoespoort School of Engineering (Mechanical):
Left to right 1. Given Mtileni (Student) 2. Basetsana Biwebo (Student) 3. Ezekiel Putuka (Senior Training Officer) receiving instructions.

Stakeholders' key issues

Transnet's stakeholders are in many locations and parts of civil society, Government, the private sector and the Company itself. The SR 2013 includes an analysis of Transnet's stakeholder engagement in the year under review and outlines the Company's plans to mature stakeholder engagement processes in the years ahead. A table listing Transnet's stakeholders, engagement platforms and relationships, issues of concern, responses and value propositions is provided in the SR 2013.

SR Refer GCE statement on page 3 for further information.

SR Refer to pages 41 and Appendix A for further information.

The most material issues, concerns and expectations arising from Transnet's engagements with stakeholders in 2013 are summarised below.

Transnet's key stakeholders' material issues 2013

Shareholder
- Supplier development.
- Corporate social investment.
- Economic growth and jobs created.
- Financial stability.
- Governance and PFMA compliance.
- Align infrastructure investment with Government policy.
- Pricing.
- Lower the cost of logistics.
- Modal shift from road-to-rail and pipelines.
- Leverage private sector investment.
- Integrate with the region
- Localisation.
- Ability to deliver on capital plan.
- Improve productivity and efficiencies.
- Skills development.
- Optimise social, economic and environmental impact.

Parliament, regulators and policy making Government departments
- Accountability and compliance.
- Execution of Shareholder mandate.
- Tariff methodologies.
- Efficiency of asset utilisation.
- Competition in rail and port terminals.
- Safety.
- Environmental compliance.
- Climate change mitigation.
- Infrastructure capacity creation.

Non-government organisations
- Community benefits.
- Climate change mitigation.
- Biodiversity enhancement.
- Waste management.

Funders
- Policy and regulatory uncertainties.
- Credit ratings.
- Financial performance and stability.
- Impact of global economic downturn.
- Commodity demand forecast.
- Capital prioritisation.
- Social unrest and strikes.
- Electricity supply.

Employees
- Safety.
- Supervisory managers skills.
- Dignity and respect.
- Recognition and reward.
- Skills development.
- Fair remuneration.

Provinces, municipalities and communities
- Alignment of freight investments with local plans and priorities.
- Creation of local jobs and skills.
- Local procurement.
- Social welfare support.
- Youth development.
- Skills.
- Safety.
- Consultation on project plans.
- Environmental protection.

Customers
- Operational efficiencies and service reliability.
- Sharing of investment plans for alignment with private investment.
- Infrastructure capacity to meet demand.
- Competitive pricing
- Ability to deliver on .capital plan.
- Electricity supply.
- Social unrest and strikes.
- Private sector participation.

Suppliers
- Fair procurement.
- Localisation of procurement.
- Black economic empowerment.
- Local skills development.
- Transformation requirements for international suppliers.

Research institutions
- Research and development collaboration.

Pensioners
- Pension and medical benefits.

Organised labour
- Transparency and trust.
- Higher wages.
- Skills development.
- Safety.
- New unions recognition.

The common and most material issues arising from Transnet's engagements with stakeholders in 2013 align directly with the focus areas of the MDS and can be summarised as follows:

- 'Provide infrastructure capacity ahead of demand in support of economic growth.'
- 'Be responsive to customers, improve efficiencies and reliability.'
- 'Create opportunities for local suppliers, develop skills and create jobs.'
- 'Recognise and reward employees.'
- 'Be financially stable.'
- 'Be socially and environmentally responsible.'

Risks and opportunities

The risks and opportunities that affect the Company's ability to create value in the short- and longer-term can be grouped into three categories:

- Operational risks and opportunities that are managed proactively every day by implementing policies and process controls. Examples include regulatory compliance and fraud prevention.
- Strategic risks and opportunities that could significantly affect the Company's ability to implement its strategy, many of which can be mitigated if they are well understood and proactively addressed. Examples include market demand, spiking input costs, skills and resource scarcity and cost of funds.
- Systemic or global risks that affect nations and companies worldwide, some of which can be mitigated by collective or multilateral action as well as by localised efforts. Examples include climate change, urbanisation and social inequality.

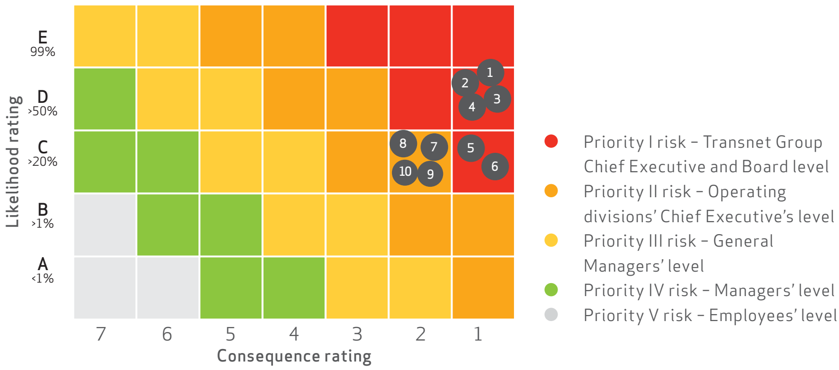
In executing the MDS in the next seven years (2014–2020), Transnet has identified priority strategic risks and opportunities. The Company's strategic risk profile depicted here arises from Transnet's Enterprise Risk Management Strategy and Framework, based on ISO 31000: 2009. Strategic risk profiles are also developed for each operating division. These are reviewed and updated on a regular basis so that timely and appropriate mitigating plans are implemented as new risks emerge.

IR Refer to page 16 for further information.

By aligning the Company's top ten strategic risks with the MDS, opportunities have been identified to build common value with stakeholders in mitigating material risks. Specific mitigating actions have been implemented to address key risks, as outlined here and also detailed further in the 'Looking Ahead' section.

Crane driver at the port of Durban.

Strategic residual risks heat map



1 **Regulatory risk:**
The risk of regulatory uncertainty and changes in the regulatory environment having an adverse effect on planning, capital spending and financial stability.

2 **Capital projects risk:**
The risk of non-delivery of capital projects on time and within budgets and affordability.

3 **Commercial risk (market):**
The risk of failing to safeguard existing volumes and to attract additional volumes in existing and new markets as a result of sub-optimal service and not aligning Transnet's expansion plans with customers' plans, thereby reducing revenue growth opportunities.

4 **Business continuity risk (incident management):**
The risk of Transnet's operations experiencing interruptions due to safety and security incidents and natural disasters.

5 **Commercial risk (funding liquidity):**
The risk of Transnet not securing funding due to turmoil in the financial markets, which includes the recalling of loans, downgrading of credit ratings and the systematic collapse of financial systems.

6 **Business continuity risk (security of energy supply):**
The risk of uncertainty around the secure supply of energy (which includes energy unreliability and rising energy costs) resulting in operational uncertainty, business interruption, revenue loss and adverse reputational impact.

7 **Human capital risk:**
The risk of not managing employee relations, attracting the requisite talent and skills, or developing the competencies to operate the newly acquired assets and expanded services.

8 **Systems risk (ICT):**
The risk of deficiencies in information systems (including inadequate ICT infrastructure and poor technology utilisation) resulting in human error, reduced productivity and financial loss.

9 **Commercial risk (counterparty):**
The risk of suppliers or customers failing to perform according to contractual terms and conditions.

10 **Environmental management risk:**
The risk of unsustainable practices resulting in environmental degradation, increased pressure from stakeholders, increased liability and risk to reputation.

Top 10 risks aligned with stakeholders, opportunities and mitigation measures

MDS icons	Key risk issue		Stakeholders with aligned concerns	Opportunities
	1	Regulatory uncertainty	• Government • Regulators • Suppliers • Customers	• Identify common ground to create regulatory certainty for investment.
	2	Capital project on time, within budget	• Government • Customers • Lenders	• Cost optimisation. • Capital portfolio optimisation. • Optimised asset utilisation. • Alignment with Government and private/customer investment plans.
	3	Revenue and volume growth	• Government • Customers • Lenders	• Customer responsiveness. • Revenue diversification. • New markets.
	4	Business interruption and incident management	• Customers • Employees • Organised labour • Communities	• Systems readiness for business continuity. • Culture charter and employee wellness. • Customer responsiveness. • Corporate social investment.
	5	Funding and liquidity	• Government • Lenders • Customers	• Diversification of funding sources. • Private sector participation. • Maintain financial discipline and governance.
	6	Energy security	• Lenders • Customers • Government • Research institutes	• Short-term business continuity plans. • Longer-term innovative energy plan.
	7	Human Resources capability	• Employees • Organised labour	• Building trust with organised labour. • Skills development. • Staff wellness.
	8	ICT utilisation	• Employees	• Skills development. • Proactive talent management.
	9	Suppliers and customers	• Lenders • Suppliers • Government • Customers	• Procurement systems maturity and contract proficiency. • Local supplier development effectiveness. • Customer contracts.
	10	Environmental sustainability	• Environmental agencies • Government • Communities • NGOs	• Proactive and collaborative initiatives on energy, carbon, water, waste and biodiversity.

Mitigating actions
• Engaging with policymakers and regulators to align policy and strategy. • Drafting Compliance Control Plans and performing audits on priority legislation.
• Establishing a Capital Excellence Programme. • Developing a Private Sector Participation strategy. • Utilising a Platinum Standard Framework for capital projects. • SWAT teams established.
• Establishing resourced and mandated customer-facing business units at Freight Rail. • Developing a strategic marketing plan. • Developing an Africa strategy. • Validating demand forecasts with customers. • Entering into 'take or pay' contracts.
• Implementing Lean Six Sigma. • Accelerating safety and security measures. • Implementing and reviewing business continuity plans. • Implementing consequence management protocols for safety violations in the workplace. • Performing assurance monitoring on the implementation of Boards of Inquiry (BOI) recommendations. • Results management optimisation.
• Implementing funding strategies to diversify funding sources. • Controlling funding centrally at Group Treasury. • Active rating agency management.
• Developing an energy security and carbon mitigation plan. • Implementing 'deviation management', if notified in advance of scheduled power outages. • Continuously engaging with Eskom.
• Enhancing HR systems: including Workforce Plan implementation, performance management, labour relations, talent management, culture charter, and employee wellness.
• Enhance technology systems. • Ramping up training in advance of new assets being deployed in production. • Implementing an ICT Disaster Recovery Plan. • Implementing comprehensive security and monitoring for all critical systems.
• Implementing initiatives to accelerate and streamline procurement systems. • Entering into 'take or pay' contracts. • Performing supplier evaluations. • Regularly revisiting and aligning contract conditions and penalty clauses. • Contract management. • Skills enhancement.
• Embedding a sustainability maturity process. Focus on energy security and carbon mitigation. • Engaging with the Department of Water Affairs and the Department of Environmental Affairs to manage the processing of licence and permit applications. • Implementing gate reviews to ensure feasible alternatives and defined scope before commencing Environmental Impact Assessments. • Engaging with stakeholders during Environmental Impact Assessments to establish common value.

Governance

Sound corporate governance underpins Transnet's ability to function with integrity and accountability; to systematically and independently review risks and opportunities; and to make decisions that will build sustainable value. To this end, the Board is rigorous in its application of King III, the Companies Act and the PFMA. It operates within the Company's Memorandum of Incorporation and upholds the principles of the United Nations Global Compact.

The Companies Act gave entities until 1 May 2013 to file revised corporate constitutions, failing which the existing constitution will apply subject to the provisions of the Companies Act, which will prevail in the event of misalignment. Transnet's revised draft Memorandum of Incorporation was recommended by the Board to the Minister of Public Enterprises for approval on 29 May 2013.

AFS Refer to page 30 for further information.

The Transnet Board of Directors is appointed by the Minister of Public Enterprises in terms of the Company's Memorandum of Incorporation which provides that there shall be no less than 10 and no more than 14 directors, of whom no less than eight shall be non-executive directors and two shall be executive directors. As at 31 March 2013, the Board comprised 14 members of whom 12 are independent and non-executive directors, including the Chairperson. The Group Chief Executive (GCE) and the Group Chief Financial Officer (GCFO) are executive directors of the Board. The roles of Chairperson and Group Chief Executive are separate. The Board has direct, unfettered access to all Company records, external and internal auditors and professional advisors. The Board has five Committees, each chaired by a non-executive director and working according to a defined mandate, reporting to the Board.

The GCE is appointed by the Shareholder Minister from a shortlist of candidates who have been identified, nominated and evaluated by the Board. The GCFO is identified, nominated, evaluated and appointed by the Board with the approval of the Shareholder Minister. Group Executive Committee members are appointed by the GCE in consultation with the Board. General Managers make up the Extended Executive in the Company's Operating divisions, Specialist Units and Corporate Centre. Delegations of Authority prescribe levels of authority and accountability between the Board, the Executive and the Extended Executive.

Six scheduled meetings of the Board were held for the year ended 31 March 2013 and one unscheduled meeting was held on 1 March 2013. Member attendance and reports of the Board Committees are detailed in the Corporate Governance report in the AFS 2013.

AFS Refer to page 164 for further information.

Mr A Singh, who had been in an acting position, was confirmed as GCFO on 1 July 2012. Ms NP Mnxasana was appointed as an independent, non-executive director on 31 January 2013. Mr MP Malungani, appointed on 13 December 2010, resigned from the Board with effect from 1 April 2012. The following independent non-executive directors retired from the Board with effect from 6 July 2012:

- Ms NBP Gcaba (appointed on 27 August 2004),
- Mr BD Mkhwanazi (appointed on 13 December 2010),
- Mr MP Moyo (appointed on 25 July 2008), and
- Ms T Mnyaka (appointed on 13 December 2010).

Governance structure

Transnet Board of Directors

COMMITTEES OF THE BOARD

- Corporate Governance and Nominations Committee
- Audit Committee
- Remuneration, Social and Ethics Committee
- Board Risk Committee
- Board Acquisitions and Disposals Committee

Group Executive Committee

COMMITTEES OF THE EXECUTIVE COMMITTEE

- Policy and Regulation Committee
- Finance Committee
- Capital Investment Committee
- NMPP Governance Steering Committee
- Risk Management Committee
- Human Resources Committee
- Business Information Management Committee
- Group Broad Based Black Economic Empowerment Forum

Delegation of Authority Framework

Operating division Executive Committees

Richards Bay: Fully loaded coal train approaching Richards Bay Coal Terminal.

Board of Directors

[1]Mr Mafika Mkwanazi
(Chairperson)

Date of birth:
January 1954.

Date of appointment:
13 December 2010.

Area of expertise:
Corporate governance, engineering and strategy.

Qualifications:
Bachelor of Science in Mathematics and Applied Mathematics (University of Zululand); Bachelor of Science in Electrical Engineering (University of Natal).

Directorship/Trusteeship:
- Before the Wind Investments 53.
- Marble Gold 237 (Pty) Ltd.
- MLZZ Family Trust.
- Mkwanazi Investment Holdings (Pty) Ltd.
- Ukhamba Bricks and Quarry (Pty) Ltd.
- Born Free Investments 402.
- Stefanutti & Stocks Holdings.
- Eskom SOC Ltd.

Chairpersonship:
- Hulamin Ltd.

[2]Mr Brian Molefe
(Group Chief Executive Officer)

Date of birth:
November 1966.

Date of appointment:
17 February 2011.

Area of expertise:
Financial, management and leadership.

Qualifications:
Masters of Business Leadership (University of South Africa); Postgraduate Diploma in Economics (London University); School of Oriental and African Studies; Bachelor of Commerce (University of South Africa).

Directorship/Trusteeship:
- B & PPJ Trust.
- Karibu Holdings (Pty) Ltd.
- Karibu Capital (Pty) Ltd.
- Karibu Real Estate Investments (Pty) Ltd.
- Lion of Africa Fund Managers.

[3]Mr Anoj Singh
(Group Chief Financial Officer)

Date of birth:
August 1973.

Date of appointment:
March 2009.

Area of expertise:
Financial and strategy.

Qualifications:
Bachelor of Accounting; Postgraduate Diploma in Accountancy (University of Durban-Westville) and CA (SA).

Directorship/Trusteeship:
- Comazar (Pty) Ltd.
- Crosskeys Security Services (Pty) Ltd.
- Transhold Properties (Pty) Ltd.
- Transnet Retirement Fund.

[4]Mr Nishikant Choubey

Date of birth:
June 1948.

Date of appointment:
24 June 2011.

Area of expertise:
Warehousing and multi-model logistics.

Qualifications:
MA in Economics; Diploma in Inter-model management.

[5]Mr Mike Fanucchi

Date of birth:
May 1964.

Date of appointment:
13 December 2010.

Area of expertise:
Logistics, supply chain management, packaging, gases and engineering industries.

Qualifications:
Graduate Diploma in Engineering; Bachelor of Science in Engineering (Mech) Industrial and Masters of Science in Engineering Management (University of Witwatersrand).

[6]Ms Yasmin Forbes

Date of birth:
February 1959.

Date of appointment:
24 June 2011.

Area of expertise:
ICT and corporate governance.

Qualifications:
MA Business Administration; Diploma in Marketing (First Class); Public Relations Practitioner.

Directorship/Trusteeship:
- YF & Associates.
- Transnet Second Defined Benefit Fund.

[7]Mr Harry Gazendam

Date of birth:
November 1954.

Date of appointment:
13 December 2010.

Area of expertise:
Labour relations, HR management, remuneration and corporate governance.

Qualifications:
Bachelor of Administration (University of Pretoria); BProc (University of South Africa); Diploma in Labour Relations (University of South Africa); EDP (UCLA California) and AEDP (Wharton Business School, University of Pennsylvania, New York).

Directorship/Trusteeship:
- Toyota SA.

Chairpersonship:
- Transnet Second Defined Benefit Fund.

[8]Ms Nazmeera Moola

Date of birth:
November 1977.

Date of appointment:
13 December 2010.

Area of expertise:
Economics and strategy.

Qualifications:
Bachelor of Business Science (University of Cape Town); and CFA Charter holder.

Directorship/Trusteeship:
- Mercedes-Benz South Africa.

[9]Ms Nomavuso Mnxasana

Date of birth:
September 1956.

Date of appointment:
31 January 2013.

Area of expertise:
Accounting and risk management.

Qualifications:
Bcompt (Honours) University of South Africa; CA (SA).

Directorship/Trusteeship:
- Awca Investment Holdings.
- Landbank Insurance Service SOC Limited.
- Nedbank Group.
- Noma Namuhla Trading and Projects.
- Pareto.
- Winhold Limited Group.
- JSE Limited.

Other dormant companies:
- Blythendale Hotel.
- Dream Finders.
- New Capital Investment Holdings.
- Tamarron Trading 181.
- Umgobho Logistics.

Chairpersonship:
- Landbank Insurance Service SOC Limited.

[10]Ms Nunu Njeke

Date of birth:
August 1963.

Date of appointment:
23 May 2006.

Area of expertise:
Business, marketing and advertising.

Qualifications:
Bachelor of Administration (University of Swaziland); MBA (Morgan State University, Maryland, USA) and Diploma in Advertising (AAA School of Advertising).

Directorship/Trusteeship:
- Awca Investment Holdings.
- Kantar South Africa (Pty) Ltd.
- Ntinta Investment.
- Ogilvy & Mather.
- Ogilvy South Africa.

Chairpersonship:
- Ogilvy South Africa.

[11]Mr Iqbal Sharma

Date of birth:
March 1967.

Date of appointment:
13 December 2010.

Area of expertise:
Strategy, business, international trade, management and global economy.

Qualifications:
Bachelor of Science and Bachelor of Science (Honours) University of Wisconsin, Oshkosh, USA).

Directorship/Trusteeship:
- GMT Concepts.
- Issar Capital.
- Nulane Investments 204.

Chairpersonship:
- Issar Investment Holdings.

[12]Mr Israel Skosana

Date of birth:
July 1953.

Date of appointment:
13 December 2010.

Area of expertise:
Financial, strategy, business and leadership.

Qualifications:
Bachelor of Commerce (University of the North); B Compt (Honours) (University of South Africa); Certificate in the Theory of Accountancy (University of South Africa).

Directorship/Trusteeship:
- ATC South Africa Investment Holdings (Pty) Ltd.
- BDO Risk Advisory Services (Pty) Ltd.
- BDO South Africa Advisory Services (Pty) Ltd.
- CQS Investment Holdings (Pty) Ltd.
- CQS Performance Solutions (Pty) Ltd.
- CQS Technology Holdings (Pty) Ltd.
- FDB Eiendomsbeleggings cc.
- Leaf International Communication (Pty) Ltd.
- Pelta (Pty) Ltd.
- University of Pretoria.
- XON Systems (Pty) Ltd.

Chairpersonship:
- Kapela Investments Holdings (Pty)Ltd.
- Kapela Holdings (Pty)Ltd.

[13]Ms Ellen Tshabalala

Date of birth:
August 1958.

Date of appointment:
13 December 2010.

Area of expertise:
Procurement, business and strategy.

Qualifications:
International Licentiate Diploma of Banking (Institute of Bankers); Bachelor of Commerce (University of South Africa); and Postgraduate Diploma in Labour Relations (University of South Africa).

Directorship/Trusteeship:
- African Academy for CADD training.
- Moral Regeneration Movement.
- Presidential Advisory Council on BEE.
- Transnet Second Defined Benefit Fund.

Chairpersonship:
- Port Shepstone Harbour Development Company.
- South African Broadcasting Corporation *(Interim).*

[14]Ms Doris Tshepe

Date of birth:
August 1973.

Date of appointment:
13 December 2010.

Area of expertise:
Legal, corporate governance and risk management.

Qualifications:
BProc (University of the North); LLB (University of Natal) and Masters in Tax Law (University of Witwatersrand).

Directorship/Trusteeship:
- Cheadle Thompson & Haysom Inc.
- Cheadle Thompson & Haysom Legal Administration Trust.
- Boardroom Alliance (Pty) Ltd.
- Boardroom Alliance Black Equity Trust.
- National Children's Rights Committee.

[15]Ms Ayanda Ceba

(Group Company Secretary)

Date of birth:
September 1976.

Date of appointment:
1 April 2009.

Area of expertise:
Legal and corporate governance.

Qualifications:
BProc (University of Durban-Westville); LLB (University of Durban-Westville).

Group Executive Committee

1 2 3 4 5 6 7

[1]Mr Brian Molefe
Year joined Transnet:
2011.
Position:
Group Chief Executive.
Area of expertise:
Finance, management, leadership, economics and investments.

[2]Mr Anoj Singh
Year joined Transnet:
2003.
Position:
Group Chief Financial Officer.
Area of expertise:
Financial and business.

[3]Mr Siyabonga Gama
Year joined Transnet:
1994.
Position:
Chief Executive – Transnet Freight Rail.
Area of expertise:
Management, transport, logistics, operations and finance.

[4]Mr Mark Gregg-Macdonald
Year joined Transnet:
2001.
Position:
Group Executive – Planning and Monitoring.
Area of expertise:
Manufacturing, construction, cellular communications, management and finance.

[5]Ms Raisibe Lepule
Year joined Transnet:
2012.
Position:
Group Executive: Transnet Property.
Area of expertise:
Economics, public administration, transport, logistics and property.

[6]Ms Nonkululeko Mabandla
Year joined Transnet:
2012.
Position:
Group Executive: Legal Services.
Area of expertise:
Legal, management and governance.

[7]Ms Disebo Moephuli
Year joined Transnet:
2006.
Position:
Chief Risk Officer.
Area of expertise:
Management finance and risk management.

[8]Mr Charl Möller
Year joined Transnet:
1975.
Position:
Group Executive – Transnet Capital Projects.
Area of expertise:
Engineering, management and finance.

[9]Mr Tau Morwe
Year joined Transnet:
1997.
Position:
Chief Executive – Transnet National Ports Authority.
Area of expertise:
Transport, logistics and management.

[10]Mr Khomotso Phihlela
Year joined Transnet:
2003.
Position:
Group Executive – Commercial.
Area of expertise:
Management, operations, finance and engineering.

[11]Ms Sharla Pillay
Year joined Transnet:
2003.
Position:
Chief Executive: Transnet Pipelines.
Area of expertise:
Financial, information technology, procurement and strategic leadership.

[12]Ms Nonkululeko Sishi
Year joined Transnet:
2012.
Position:
Group Executive – Human Resources.
Area of expertise:
Human Resources and management.

[13]Mr Karl Socikwa
Year joined Transnet:
1995.
Position:
Chief Executive – Transnet Port Terminals.
Area of expertise:
Organisational development, operations and legal.

[14]Mr Richard Vallihu
Year joined Transnet:
1995.
Position:
Chief Executive – Transnet Engineering.
Area of expertise:
Management, finance, transport and information technology.

[15]Mr Rodney Wolfenden
Year joined Transnet:
2010.
Position:
Chief Audit Executive: Ernst & Young.
Area of expertise:
Management and finance.

The first year of MDS execution

- Shareholder's Compact performance review.
- Economic regulation, legislation and policy matters.
- Public Finance Management Act (PFMA) compliance.
- Human capital.
- Remuneration aligned to performance.
- Corporate social investment (CSI).

Looking ahead

MDS

THE FIRST YEAR OF EXECUTING THE SEVEN-YEAR MDS HAS RESULTED IN STRONG FINANCIAL RESULTS WITH REVENUE OF

R50,2 BILLION,

AND A RECORD LEVEL OF

R27,5 BILLION

CAPITAL INVESTMENT.

IR Refer Operating divisions on page 48 for further information.

The first year of MDS execution

The year ended 31 March 2013, marks the first year of executing the seven-year MDS to enable economic growth in South Africa. It has been a year in which the Company's resilience has helped it weather the effects of challenging economic and operating conditions while still delivering volume growth of 3,3%, driven by a revised operating philosophy at Freight Rail, strong financial results with revenue of R50,2 billion, and a record level of R27,5 billion capital investment.

These results were achieved in the face of depressed global and local economies reducing demand for transport services; by strikes that affected key customers' mining outputs; and by steep increases in the costs of labour and energy. These adverse market conditions together with operating challenges which included lower than anticipated volumes, customer cancellations, rolling stock inefficiencies and infrastructure failures, meant that we could not achieve 49% of the demanding productivity and efficiency targets that we set for ourselves this year.

Despite these difficulties, there are notable areas of operating performance excellence in every part of Transnet with productivity improvements in key port container terminals, iron ore rail services, pockets of GFB rail services and in pipeline deliveries which has enabled Transnet to achieve 91,8% of the ambitious MDS volume targets for the year. There are reasons for the efficiency challenges – some within our control and some not – and they are specific to each set of circumstances which we monitor and manage daily. Clear plans are in place to remove bottlenecks and meet the productivity and efficiency targets we have set for the year ahead.

Transnet has exceptionally hard-working, skilled and dedicated people managing our complex systems across the Company. In partnership with organised labour, we are instilling a performance culture where every person, no matter how big or small their task, goes the extra mile to put the customer first and get each job done perfectly, the first time, on time, every time.

Financial stability, measured by cash interest cover and gearing, has enabled the Company to successfully raise the funding required for its capital investment programme for the year, notwithstanding the rating downgrade from Standards and Poor's and Moody's in line with the downgrade of the sovereign of the Republic of South Africa. Both rating agencies nevertheless confirmed Transnet's strong standalone credit profile, with Moody's holding Transnet's rating a notch above the sovereign.

The Company's commitments in support of sustainable growth has already begun to bear fruit in terms of job creation, enhancing local supplier development through procurement spend, developing skills, championing transformation, improving energy efficiency and delivering tangible social benefits in many poverty-stricken communities.

Our ongoing engagements with a wide range of stakeholders continues to focus our attention and direct the execution of the MDS. The 2012 stakeholder perception survey indicated a positive trend in perceptions, with a majority view that Transnet provides an essential service to the country and that the Company's business strategy and customer service practices are sound. We take very careful note of the feedback we receive and the Company will continue to engage with all stakeholders in its efforts to improve service delivery.

The Company conducted its annual customer satisfaction survey to measure customer perceptions and experiences with the service provided by Transnet. The Board is pleased to report that, while the results indicate that there remain areas where effort is required to achieve sustained improvement, the year 2013 marked a significant turnaround in the previous year's results evidencing the progress made in terms of service reliability and predictability, customer relations and communication, infrastructure capacity creation, skills and innovation as well as instilling a culture of efficiency. The Board will continue to utilise the benchmarks provided by customers in developing short term and longer-term service targets aimed at improving Transnet's service culture.

Transnet's greatest sadness this year, is that despite the Company's efforts to improve safety, nine colleagues lost their lives on duty: five from injuries sustained in motor vehicle accidents; three from violent criminal acts; and one to a health condition. We also deeply regret that 125 members of the public were killed when walking on or driving onto active railway lines. Our heartfelt condolences go to all their affected family members and friends. Our efforts to bolster safety and security in Transnet operations continue to receive priority attention.

Shareholder's compact performance review

Every year, the Minister of Public Enterprises enters into a Shareholder Compact with the Transnet Board, in which he sets out his specific targets for Transnet's performance. These key performance indicators (KPIs) become the basis for performance monitoring at all levels of the Company. The KPIs are revised annually.

Performance information and other criteria comparing actual 2013 results to the 2013 targets, as required in terms of section 55(2) of the PFMA is set out in the Directors' report in the AFS 2013.

AFS Refer to page 20 for further information.

The table on the next page covers performance against the Group-level Shareholder Compact KPIs while the Operating divisions' performance KPIs targets are reported in the Operating divisions' performance review section of this IR 2013. The adverse market and operating conditions, including lower than anticipated volumes, customer cancellations and areas of rolling stock inefficiency and infrastructure failure during the year, meant that many of the volume and operating efficiencies targets for the year were not realised. Measuring the Company's entire performance against the Shareholder Compact KPIs, only 52,9% of targets were achieved during the 2013 financial year.

IR Refer to page 26 for further information.

This performance information has been subjected to audit review and the Company's auditors have reported no adverse findings on the performance against predetermined objectives.

Key performance area	Key performance indicator	Unit of measure	2013 Target	**2013 Actual**	Target achieved	2014 Target
Financial value creation	Operating expenditure as a % of revenue[(a)]	%	≤56	**56,1**	X[(b)]	≤57,1
	Return on Total Average Assets[#(a)]	%	≥8,5	**7,7**	X[(c)]	≥8,0
	Cash interest cover	Times	≥3,6	**3,7**	✓	3,3
	Gearing[(a)]	%	≤45,5	**44,1**	✓	≤46,6
Human capital	Training spend	% of personnel costs	≥4,0	**4,4**	✓	4,6
Skills development	Engineering trainees	Number of learners	≥120	**122**	✓	132
	Technician trainees	Number of learners	≥300	**315**	✓	330
	Artisan trainees	Number of learners	≥500	**866**	✓	1 550
	Sector specific trainees	Number of learners	≥1 800	**2 160**	✓	1 980
Safety	DIFR	Weighted average	≤0,80	**0,74**	✓	≤0,75
	Employee fatalities	Number of fatalities	Zero	**9**	X[(d)]	Zt
Employment creation	Direct jobs created (Transnet employees)	Number of jobs	≥4 048	**3 804**	X[(e)]	4 336
Productivity	Revenue per employee[(a)]	R million	≥0,98	**0,95**	X[(f)]	≥0,98

✓ *Target achieved.*

x *Target not achieved.*

\# *Revenue divided by average total asset excluding capital work in progress.*

(a) *Excluding Port regulator claw back.*

(b) *Major contributing factor was the non-achievement of volume targets despite rigorous cost-cutting initiatives implemented by the Company throughout the year.*

(c) *Non-achievement of targeted operating profit resulting from depressed revenues following the shortfall in volumes.*

(d) *Transnet continues to emphasise the culture of 'zero tolerance' with regard to fatalities. Each fatality is treated on a case-by-case basis.*

(e) *Marginally down on target as a result of the economic slowdown in the latter half of the financial year.*

(f) *Increase in direct jobs not yet commensurate with increase in revenue.*

zt *Zero tolerance.*

Economic regulation, legislation and policy matters

Pipelines and National Ports Authority revenues

The tariffs of two Operating divisions', namely that of Pipelines and National Ports Authority, are determined by economic regulators. The National Energy Regulator of South Africa (NERSA) regulates the tariffs of the petroleum pipeline system, storage facility at Tarlton and gas transmission pipeline. The Ports Regulator approves the tariffs charged by the National Ports Authority.

With approximately 20,4% of Transnet's external revenue and 36,8% of its EBITDA affected by economic regulation, the decisions of the regulators could have a significant impact on investment decisions, investor confidence and the execution of the MDS. Transnet believes that a detailed understanding of regulatory issues is a prerequisite, not only for anticipating risks and opportunities, but also for building mutually beneficial relationships with the regulators, based on trust and transparency. Significant progress has been made between Transnet and the regulators in this regard.

Economic regulation remains a key risk for Transnet. In the absence of an appeal mechanism, there is limited recourse by regulated entities. Credible appeals mechanisms need to be put in place and attention needs to be paid to monitoring the performance and decision of regulators in line with international best practice and benchmarks.

IR Refer to page 44 for further information.

New Multi-Product Pipeline (NMPP)

Due to the cost increase and schedule delays on the NMPP, the Shareholder Minister launched an independent investigation into the construction of the new pipeline. A summary of the findings was released in a press statement on 29 November 2012 by the Shareholder Minister. Overall, the review team found that there were systemic failures that compromised the intended outcomes.

The Review Team pointed out that the State's security of supply imperative was a dominant driver of decision-making on the NMPP. This was based on a concern that a breakdown of the existing Durban to Johannesburg Pipeline whilst the NMPP was not completed, would have a significant negative impact on the South African economy. The outcome of the Ministerial review has been communicated to Transnet. Transnet acknowledges the findings and lessons learned will be applied to ensure successful delivery of the MDS.

Potential corporatisation of National Ports Authority

The National Ports Act, No. 12 of 2005 (Ports Act) provides for the corporatisation of the National Ports Authority which could have material adverse impacts on the Company, both financially and strategically, and could trigger default clauses in Transnet's funding agreements. On 17 June 2008, the Government, through the President of the Republic of South Africa, informed Transnet in writing that it would not initiate the corporatisation process and that appropriate amendments to the Ports Act would be considered. On 10 January 2013 Transnet requested the Minister of Public Enterprises to take the process of legislative review forward.

The National Environmental Management: Integrated Coastal Management Act No. 24 of 2008 Amendment Bill

The Integrated Coastal Management (ICM) Act contains a number of sections detrimental to Transnet which the current Bill, still fails to address satisfactorily. The main issue for Transnet revolves around section 11 of the Act (not yet in operation) which provides that coastal public property vests in the citizens of South Africa and is held in trust by the State. The effect of this provision would be to deprive Transnet of its ownership of the assets in the sea, on the seashore and on the seabed within ports (estimated at R46,0 billion as at 31 March 2013).

Port of Ngqura container terminal licence

The Cabinet of the Republic of South Africa decided on 9 November 2011, to direct National Ports Authority to licence Port Terminals to operate the Ngqura container terminal for a limited period of three years, subject to the National Ports Authority beginning a competitive process for the licensing of the Port of Ngqura in accordance with section 56 of the Ports Act. On 27 January 2012, the Minister of Transport gave effect to the Cabinet decision by issuing a section 79 Directive in terms of the Ports Act, enabling Port Terminals to operate the terminal for three years (until 26 January 2015).

Public Finance Management Act (PFMA) compliance

The Company remains committed to the letter and spirit of good corporate governance as outlined in King III, the Companies Act and the PFMA. The PFMA requires that the Board acts with fidelity, honesty, integrity and in the best interest of the Company in managing its affairs.

During the year, one instance of non-compliance with the Company's procurement procedures was reported relating to container handling equipment. Accordingly, the Company continues to enhance the monitoring of PFMA violations and is in the process of implementing more stringent consequence management to reduce financial misconduct. In addition, the Company has implemented a PFMA awareness and accreditation process to improve compliance to the requirements of the PFMA, encourage employees to apply the delegation of authority entrusted to them in a responsible manner and to improve compliance with the procurement processes to strive towards zero PFMA reportable violations.

AFS Refer to page 26 for further information.

Alrode workshop: Samuel Mokoena (Mechanical artisan) and Sifiso Nkosi (Trade assistant) assembling a four way valve.

Human capital

Transnet has intensified its focus on improved skills, wellbeing and productivity of its employees. The Company will not deliver on its strategy and mandate if it fails to recognise the crucial importance of its people in achieving commercial success. While economic challenges remain, the Company's attempts to maximise productivity and contain costs will continue.

Transnet's development of skills, both within Transnet and in the broader economic environment, is yielding positive results. The Company invests significant resources in the recruitment, development, deployment and retention of key operational, technical and managerial skills to facilitate growth. Transnet has embarked on focused strategic workforce planning to enable delivery of an overall headcount growth aligned to skills required.

Specific emphasis is placed on developing and training engineers, technicians and artisans.

SR Refer to page 44 for further information.

Remuneration aligned to performance

The execution of MDS requires a sustained effort and energy of all employees to ensure high performance as well as a sustainable and profitable long-term growth while ensuring that key employees are retained in the Company.

During the 2013 financial year, members of the Group Executive Committee did not receive a remuneration adjustment to guaranteed pay pending the outcome of the Department of Public Enterprises remuneration study (the study). The outcome of this study has not yet been published. Transnet is reviewing its reward approach aiming to establish an integrated reward philosophy aligned with the MDS and with the outcomes of the study.

There are three elements to Transnet's remuneration structure: guaranteed pay; short-term incentives (STI); and long-term incentives (LTI).

The STI scheme was designed with the specific objective to drive the achievement of Company targets and to reward achievement of annual results. The members of the Group Executive Committee and Extended Executive qualify for an annual STI payment provided that the strategic objectives, as agreed with the Shareholder, have been achieved. Individual bonus percentages are further modified with individual performance assessment ratings.

The eligibility range of percentages linked to specific business performance achievement is as calculated as follows:

		Qualifying percentage		
Employment category	Grade Level	Threshold	On-target	Maximum
Group Executive Committee	A	25%	50%	100%
Extended Executive Committee	B	20%	40%	80%

In the current financial year, the STI was based on the EBIDTA achievement of 93,5% and approved by the Board after taking into consideration Transnet's volume achievement of 91,8% against the target. The bonus payment occurred in terms of the general rules of the scheme.

The LTI scheme was designed to sustain the achievement of the Company's strategy, to retain key talent, to encourage 'stretch' performance and to reward performance above target. The future of the LTI is subject to the outcome of the study.

Further detail regarding the application of the reward structure for 2013 as well as the non-executive directors' remuneration are outlined in more detail in the annual financial statements.

AFS Refer to page 31 for further information.

Corporate social investment (CSI)

Transnet has spent R132 million through the Transnet Foundation on CSI during the year, demonstrating the Company's commitment to the wellbeing of the communities where it operates.

During the year, Transnet also contributed to improving the wellbeing of its past employees and their dependants who are members of the Company's pension funds. Over the last few years, the Company has worked with trustees of these independent funds to restructure and position them for the benefit of members and their families. As a result of this initiative, the funds, which were once plagued by financial difficulties, are all now in a financially stronger position. In the past few years, the funds paid bonuses to members and their dependants. Beneficiaries of the Transnet Second Defined Benefit Fund (TSDBF) received increases of at least 70,0% of inflation since 2007. Beneficiaries of the Transnet Sub-fund of the Transport Pension Fund (TTPF) received total payments since 2011 equivalent to the TSDBF payments on a proportionate basis.

AFS Refer to page 26 for further information.

IR Refer to page 39 for further information.

SD Refer to page 51 for further information.

The total value of ad hoc bonuses paid by the TTPF and the TSDBF to their beneficiaries amounts to R105,3 million and R1,765 billion respectively.

In addition to the payments by the TTPF and TSDBF, Transnet has again made an ex gratia payment to its most disadvantaged pensioners of both the TTPF and TSDBF, amounting to R143 million in October 2012. The payment has been made in particular to those pensioners with very low pensions and long service. At 31 March 2013 Transnet has again made provision for an ex gratia payment of R70 million for these pensioners.

Following the recommendations made by the Parliament Portfolio Committee on Public Enterprises on 2 November 2010 bonuses amounting to five months' pension have been paid by the TSDBF since November 2010. The TTPF has paid five months' pension as back pay, as well as additional bonuses to TTPF pensioners in line with historic TSDBF bonuses. Prospective pension increase policies have been developed by the TSDBF and TTPF targeting additional increases that will not vest, and are with the Minister of Public Enterprises for approval, together with the concurrence of the Minister of Finance.

Educating the youth at KZN.

Looking ahead

The Board and management continue to keep a close watch on economic trends and risks, to identify opportunities to forge ahead with the MDS. Rail and port capacity still lags behind validated demand, and the imperative remains for Transnet to provide freight infrastructure and services that will both stimulate and support future economic growth. This tests our ability to ride the waves of economic cycles and we do so balancing ambition and responsibility.

The global economy continues to struggle, with high income countries experiencing flat and low-level growth. Developing economies are still the drivers of global growth, averaging between 5,5% and 5,8% between 2013 and 2015, but their output has slowed compared with the years prior to the global financial crisis. World Bank estimates are for global growth of 2,4% in 2013, 3,1% in 2014 and 3,3% in 2015.

For sub-Saharan Africa, strong domestic demand, an accommodative policy environment, increasing foreign direct investment flows, relatively high commodity prices, and increased export volumes in countries with new mineral output are expected to underpin a return to the region's pre-crisis growth rate of 4,9% in 2013 and 5,1% in 2014. Slower growth in China and protracted fiscal constraints in the Eurozone and the United States could dampen regional growth prospects.

In the near term, South Africa will be directly affected by international trade and investment trends, and is vulnerable to slowing global demand. The country's growth outlook was downgraded by the World Bank to 2,7% in 2013, 3,2% in 2014 and 3,3% in 2015 due to the gloomy prognosis for South Africa's major trading partners in Europe, flat growth outlook for the United States, a slowdown in China, investor risk aversion in the light of strikes and social unrest, and credit ratings downgrades.

The adoption by Government in September 2012 of the National Development Plan (NDP) brought with it increased levels of domestic and international business confidence. The 2030 structural reforms outlined in the NDP are complemented by the near-term goals of the New Growth Path, the Industrial Policy Action Plan, and the projects of the Presidential Infrastructure Coordinating Commission. The NDP provides a framework of policy and planning priorities and a phased implementation approach, to which Transnet's MDS is aligned.

In spite of the challenging economic environment, the outlook for Transnet's key commodities remains positive. The infrastructure development that underpins the MDS is targeted at satisfying demand that has been validated with key customers for export coal, iron ore and manganese as well as for domestic coal, magnetite, iron ore, cement and agricultural products. China's industrialisation, emerging middle class and urbanisation will, in the long term, be the main drivers for steel. Growth in maritime containers is closely linked to recovery in global and domestic demand for manufactured goods. Growth in liquid fuels is directly associated with the pace of domestic economic activity.

THE SUCCESSFUL EXECUTION OF THE MDS WILL RESULT IN AN

INCREASE

IN RAIL, PORT AND PIPELINE CAPACITY AHEAD OF MARKET DEMAND.

IR Refer to Appendix A for MDS focus areas 2014–2020.

TRANSNET TO SHIFT FREIGHT FROM ROAD TO RAIL BY INCREASING RAIL VOLUMES TO

360,3MT

BY 2020.

The marked decline in economic activity both domestically and internationally has negatively impacted the achievement of Transnet's initial MDS volume targets and these conditions seem likely to continue in the next financial year. However, macro-economic indicators and business sentiment going forward are cautiously positive, global recovery is expected and South Africa's membership of BRICS (Brazil, Russia, India, China and South Africa) should begin to open new trade and investment options.

While there is no doubt that conditions will be difficult over the short term, Transnet is in a strong position to weather the storms and is poised to harness the benefit from the potential upswing in the economy. The gains realised in the last few years have transformed the Company into a more agile and resilient business.

Accordingly, the Board reviewed the Company's strategic course in 2013 and has concluded to continue with the MDS, on the back of a strong financial position and sound governance enabling it to adopt a 'counter-cyclical' investment strategy of R307,5 billion over the next seven years revised from R300,1 billion in 2012. The Board is confident that Transnet's ability to sustain its MDS path, which is aligned to macro-economic variables and prevailing conditions, will enable the Company to take advantage of an economic upturn and yield economic, social and environmental dividends for South Africa in the years to come.

Based on the strength of its current financial position and its unique role as a catalyst to enable economic growth, Transnet has a higher risk appetite than many corporates which are curtailing spending or deferring spending on major capital projects to shield their financial position in the face of economic uncertainty.

The successful execution of the MDS will result in an increase in rail, port and pipeline capacity ahead of market demand. There is a strong focus within Transnet to shift freight from road to rail by increasing rail volumes to 360,3mt by 2020, reducing the cost of doing business and supporting important social and environmental objectives.

Elevated view of new tandem lift ship-to-shore cranes in DCT at the Port of Durban.

During the current year the following challenges were encountered:

Challenges

GDP slowed to 2,5% directly affecting all freight and commodity volumes, negatively impacting the achievement of revenue targets.
Lower than estimated tariffs allowed by regulators for ports and pipelines.
Customer constraints and labour strikes negatively impacted mining output.
Locomotive efficiency (measured through average gross ton kilometre per locomotive per month) and wagon efficiency (measured by wagon turnaround time) for GFB, were below targeted levels.
Above CPI increases for electricity, labour and fuel.
The downgrading of South Africa's sovereign credit rating resulting in an increase in the cost of debt.
DCT Pier 1 negatively impacted by unauthorised labour action, resulting in a decrease to 23 GCH.
Skills constraints in engineering, project management and technical.
Nine employee fatalities (five in vehicles accidents, three to violent criminal acts, and one from a health condition). 125 public fatalities on railway lines.
Safety remains a priority in all operations at all times. While standards have improved, they still fall short of aspiration.
Policy and regulatory uncertainty persists in respect of regulated tariffs, the Ports Act, rail reform and coastal management legislation.

To address the challenges experienced over the last year the emphasis in the year ahead will remain on the following:

- Proactive capital investment to support the growth;
- Accelerated volume growth;
- Significant productivity and operational efficiency improvements;
- Continued financial stability;
- Policy engagement to provide regulatory certainty;
- Human capital development and job creation; and
- Enhanced economic, social and environmental value creation.

IR Refer to page 120 for further information.

An overview of the MDS key focus areas for the period 2014-2020 is contained in Appendix A.

The Company has developed a comprehensive implementation plan to ensure successful delivery of the MDS. Specific initiatives include:

- **An Execution Support Office**, headed up by a Group Executive Committee member, to support the achievement of volume and revenue targets, mitigate cash flow at risk, drive priorities on operational efficiencies, and support capability building. The focus is on:
  - Strengthening MDS governance through cross-functional transparency and continuous prioritisation of critical initiatives;
  - Supporting Operating divisions and Corporate Centre process owners; and
  - Building high quality execution capabilities, including effective early warning, risk mitigation and decision-making.
- **A Capital Excellence Programme** to enhance capabilities for delivery to plan and manage costs and schedules. The focus is on:
  - **Portfolio optimisation**. Building capabilities and implementing methodologies to more effectively optimise the capital project portfolio and capital allocation process, based on proven, quantitative methods. This will ensure a focus on the capital projects that deliver on MDS objectives.
  - **Organisational design and governance**. Revised integrated capital controls and assurance framework in terms of the Project lifecycle process. Derisking Transnet's capital project delivery by building capabilities and methodologies; robust business cases; optimisation for economic, social and environmental outcomes; and improved execution readiness. This approach is to systematically scale limited resources to cover a broader range of projects through increased efficiency, cross-functional teams and improved collaboration and sharing across projects.
  - **Procurement acceleration**. Streamlining capital procurement processes with specific focus on items that are critical for large projects to ensure that capital procurement is not a bottleneck to project delivery. This includes demand management processes and contract management capabilities while simultaneously filling vacant procurement administration positions to avoid delays to critical path initiatives.
  - **Platinum standard organisation**. Building long-term capability for sustained levels of capital investment beyond the MDS, creating required positions, improved gate review processes, and securing the right capability mix for project lifecycle management.

- **A strategic marketing plan to capture market share and enhance revenue diversification**;

  Expand freight services in intermodal, fast-moving consumer goods, transshipment containers and gas. In addition, Transnet is investigating and targeting rail and port opportunities in other countries.

- **Human capital development**
  A comprehensive Workforce Plan focusing on:
  - Maintaining sufficient depth in the pipeline, to ensure that the right talent is available in critical areas of the business at the required time;
  - Training and development to support capital execution;
  - Improving productivity and efficiencies and developing effective performance and reward strategies for all levels of staff;
  - Change management initiatives to facilitate delivery on targets;
  - Headcount growth based on a detailed analysis of business needs, skills profile and organisational requirements; and
  - Efficient organisational development, training and recruitment.
- **Private sector participation**
  To meet the country's freight transport needs and share risk with Transnet, it is essential to lower the barriers to entry for the private sector to participate in logistics supply chain infrastructure investments and operations. Transnet is investigating a number of opportunities to achieve this.
- **Diversifying funding sources**
  Transnet continues to explore new funding solutions, investors and markets, including:
  - Issuing bonds in other markets either as public or private placements – such as the Yen, US Dollar, Euro, Australian Dollar, Swiss Franc, Sukuk markets;
  - Issuing a Global ZAR Bond in the international debt capital markets;
  - Project bonds and project finance;
  - Extending the duration of existing domestic bonds, as well as the issuance of new types of bonds to build the yield curve;
  - Expand DFI and ECA financing; and
  - Managing liquidity risk by:
    - Increasing the guaranteed borrowing facilities available within 24 hours.
    - Managing current and projected cash flows.
    - Maintaining an adequate level of cash holdings for daily and future cash requirements.
- **Active ratings management**
  - Maintain Transnet standalone credit profile – gearing cash interest cover ratio and liquidity ratio targets; and
  - Assess and mitigate any impact of a downgrade on existing loan agreements.
- **Energy security and carbon mitigation**
  A plan is in preparation for Transnet's short- and long-term energy security and proactive carbon mitigation initiatives.

THE COMPANY HAS DEVELOPED A COMPREHENSIVE **IMPLEMENTATION PLAN** TO ENSURE SUCCESFUL DELIVERY OF THE MDS.

Performance review

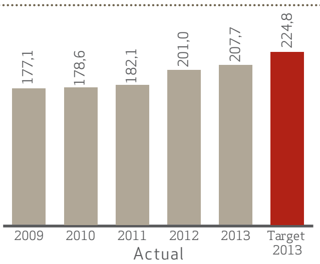
Group performance

- Financial performance.
- Financial position.
- Capital investment.
- Human capital.
- Economic regulation.
- Economic, social and environmental impact.

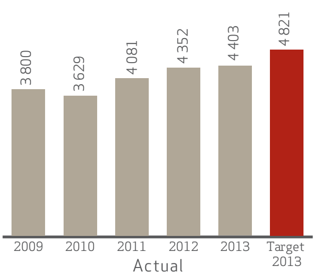
Operating divisions' performance

- Transnet Freight Rail.
- Transnet Engineering.
- Transnet National Ports Authority.
- Transnet Port Terminals.
- Transnet Pipelines.

Total Freight Rail volumes (mt)



Containers through ports ('000 TEUs)



The Performance Review of the IR 2013 is divided into two parts: Group performance and Operating divisions' performance.

Group performance

Financial performance

Revenues and profitability

Revenue for the year increased by 9,4% to R50,2 billion (2012: R45,9 billion), mainly as a result of a 3,3% increase in total volumes railed to 207,7mt (2012: 201,0mt), which is higher than the GDP growth rate of 2,5%. The poor economic conditions affected volumes handled by the ports with container volumes increasing by a marginal 1,2%, whilst petroleum volumes declined mainly as a result of supply constraints at a major refinery. Despite these challenges, and in the context of the global macro-economic environment, Transnet achieved 91,8% of the ambitious MDS volume targets for the year.

Price increases will continue to be driven by aggressive investment in infrastructure, enabling the Company to earn a fair return on invested capital so that long-term infrastructure investments can be made in a sustainable manner. Transnet Pipelines' tariffs increased in line with the Record of Decision received from the National Energy Regulator of South Africa (NERSA). Further, Transnet National Ports Authority's tariffs (determined by the Ports Regulator of South Africa) were impacted by the R1,0 billion discount programme implemented by the Company to promote beneficiated export container cargo and to support South African automotive sectors.

Numerous cost-reduction initiatives were implemented by the Company during the year in response to the uncertain economic environment. This response resulted in cost savings of R2,2 billion, mainly through procurement and lean six sigma activities, a moratorium on the filling of non-critical vacancies and a reduction in discretionary spend, which offset increases in input costs. Operating costs increased by 7,9% to R29,1 billion (2012: R27,0 billion) mainly due to an increase in material costs of 12,4%, an increase in personnel costs of 3,2% as well as increased energy costs of 23,0%. Material costs increased due to higher steel prices as well as due to the increased levels of maintenance incurred to support the growth in rail volumes. Personnel costs increased to R14,5 billion (2012: R14,1 billion) due to an 8,4% average wage increase during the year, as well as an increase in headcount and training costs related to the MDS execution, offset by a decrease in performance related incentive payments. Energy costs increased due to higher electricity tariffs as well as fuel price increases.

Consequently, earnings before interest, taxation, depreciation, derecognition and amortisation (EBITDA) increased by a credible 11,5% to R21,1 billion (2012: R18,9 billion), resulting in an EBITDA margin of 41,9%. This represents real growth in EBITDA as it exceeds inflation and is almost five times domestic GDP growth.

Depreciation, derecognition and amortisation of assets for the year increased by 11,0% to R9,3 billion (2012: R8,4 billion), as a result of the significant ramp-up in capital investments over the last seven years, as well as the depreciation of revalued port facilities and pipelines. This trend is expected to continue in line with the execution of the capital investment programme.

Profit from operations after depreciation and amortisation increased by 11,8% to R11,8 billion (2012: R10,5 billion).

Impairment of assets, amounting to R588 million (2012: R342 million), increased compared to the prior year due to an increase in impairments of trade and other receivables.

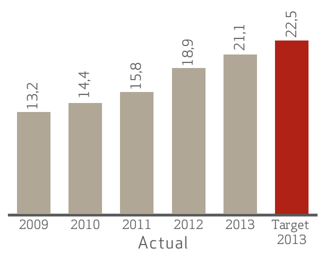
Post-retirement benefit obligations are actuarially assessed on a quarterly basis in accordance with IAS 19: *Employee Benefits*, and adjusted accordingly. Consequently a net interest income on pension assets of R28 million (2012: R31 million) was recognised during the year.

The fair value adjustment results mainly from the investment property fair value gain of R274 million, recognised in terms of IAS 40: *Investment Property*. This gain was slightly offset by losses of R52 million in 'mark to market' of derivative financial instruments for the year. More specifically, these losses arose from the 'mark to market' of foreign exchange hedges that Transnet executed to eliminate foreign currency risk and those hedges which have not been 'hedge accounted' in terms of IAS 39: *Financial Instruments: Recognition and Measurement*.

Accordingly, profit from operations before net finance costs increased by 14,5% to R11,5 billion (2012: R10,0 billion).

Finance costs increased by 30,3% to R5,5 billion (2012: R4,3 billion) in line with expectations, due to increased borrowings to fund the capital investment programme. Capitalised borrowing costs amounted to R1,1 billion (2012: R1,6 billion), a decrease of 36,0% compared to the prior year, due to the lower costs capitalised to the New Multi-Product Pipeline (NMPP) assets.

EBITDA (R billion)

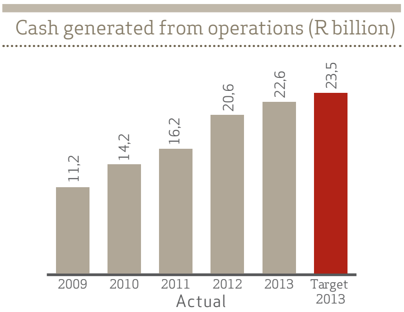


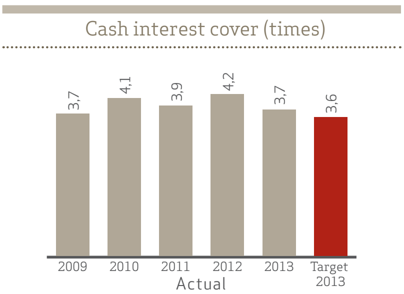
PROFIT FROM OPERATIONS BEFORE NET FINANCE COSTS

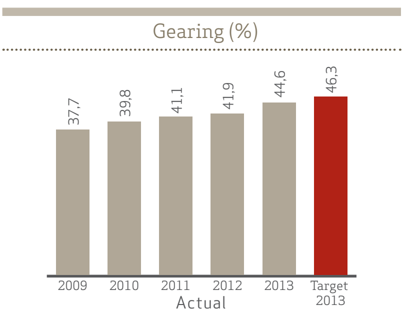
INCREASED BY 14,5%.

R8,2 BILLION

WAS RAISED FROM THE SECOND GLOBAL MEDIUM-TERM NOTE ISSUANCE IN THE CURRENT YEAR.







The taxation charge for the year amounted to R2,0 billion (2012: R2,1 billion), comprising a current taxation charge of R39 million (2012: R189 million) and a deferred taxation charge of R1,9 billion (2012: R1,9 billion). The marginal increase in the deferred taxation charge arose mainly due to an increase in claimed wear and tear allowances and maintenance expenditure. The effective taxation rate for the Group at 31,3% (2012: 34,0%) is higher than the corporate taxation rate, primarily due to depreciation on assets not qualifying for taxation allowances.

Profit for the year amounted to R4,3 billion (2012: R4,1 billion), an increase of 5,4% compared to the prior year.

Financial position

Revaluation of property, plant and equipment

The Group assesses the revaluation of its pipeline networks and port infrastructure in line with its accounting policy, which requires an independent valuation every three years as well as index valuations in the intervening periods. During the year, an index valuation was performed on pipeline networks and port facilities.

Consequently, the carrying value of port facilities required a revaluation adjustment of R1,3 billion in accordance with IAS 16: Property, Plant and Equipment (2012: R2,7 billion).

In addition, a revaluation of the carrying value of the pipeline network of R423 million was also recognised (2012: R166 million).

Deferred taxation

The deferred taxation liability increased to R20,5 billion (2012: R18,1 billion), as a result of the current year's charge of R1,9 billion, together with the deferred taxation impact on the revaluation of property, plant and equipment amounting to R474 million (2012: R868 million), which has been recorded directly in equity.

Cash flows

Cash generated from operations amounted to R22,6 billion (2012: R20,6 billion), an increase of 9,6% from the prior year, evidencing the ability of the Group to generate strong sustainable cash flows. Working capital was negatively impacted by slower collections relating to the PRASA debtor as well as an increase in inventory at Transnet Engineering following lower than anticipated locomotive, coach and wagon external sales. Accordingly, cash generated from operations after working capital changes decreased marginally by 0,3% to R22,6 billion (2012: R22,7 billion).

The Government-approved security of supply petroleum levy for the NMPP of 7,5 cents per litre for the NMPP to ensure the long-term security of supply of petroleum products to the inland market – also contributed to cash generated from operations by R1,3 billion. This levy has ceased as of 31 March 2013.

The cash interest cover ratio remains strong at 3,7 times (2012: 4,2 times) and the decrease from the prior year is in line with expectations. Furthermore, the cash interest cover is above the target of 3,6 times despite an increase in net finance costs, resulting from increased borrowings to fund the capital investment programme. It is expected that the cash interest cover ratio will not fall below the target.

Borrowings

Transnet successfully raised the funding required for its capital investment programme for the year, notwithstanding the rating downgrade from Standard and Poor's in line with the downgrade of the sovereign of the Republic of South Africa. However, both rating agencies confirm Transnet's strong stand-alone credit profile, with Moody's holding Transnet's rating a notch above the sovereign. The funding required for the year was estimated at R14,1 billion. Transnet has raised R14,6 billion (excluding R3,5 billion from the African Development Bank and R1,7 billion short-term financing, which was included in the 2012 financial year funding requirement), which comprises the following funding initiatives:

- R8,2 billion from the second Global Medium Term Note (GMTN) issuance;
- R0,6 billion from the African Development Bank;
- R2,1 billion of domestic bonds;
- R1,8 billion from Export Credit Agencies;
- R1,1 billion of commercial paper issuance; and
- R0,8 billion from Development Finance Institutions.

A highlight of the year was the second GMTN bond issuance to US and non-US investors. This issuance was the largest order book ever achieved by a South African corporate issue, resulting in the lowest ever 10-year US$ bond coupon of 4,0% by a South African issuer. This implied a zero new issuer premium.

The gearing ratio deteriorated marginally to 44,6%. This level is well below the Group's target range of 50%, reflecting the significant capacity available to fund future capital expenditure. The gearing ratio is not expected to exceed the target ratio in the medium term.

Transnet repaid borrowings amounting to R7,9 billion, which related predominantly to domestic loans, commercial paper and foreign loans that matured during the year.

Funding requirements for the next financial year amount to R15,6 billion and will be raised through a number of sources including the domestic debt capital market (bonds and commercial paper), Global Medium Term Note programme, Export Credit Agencies, Development Finance Institutions and other financial institutions. Further, the Company has R5,0 billion committed facilities available on demand and a R1,7 billion facility with the African Development Bank.

Derivative financial assets and liabilities

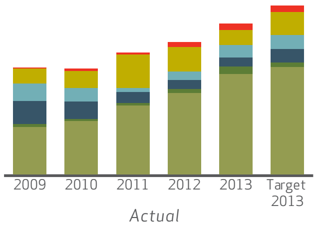
The Group holds derivative financial instruments to hedge financial risks associated with its capital investment and borrowing programmes. The 'mark to market' of these derivative financial instruments resulted in a net derivative financial asset of R3,8 billion (2012: R358 million). The recent volatility of foreign exchange rates gave rise to this net asset position. Cross-currency interest rate swaps and forward exchange contracts were executed to eliminate foreign currency and interest rate risk on borrowings. These hedges have been hedge accounted for in terms of IAS 39: *Financial Instruments: Recognition and Measurement*.

Pension and post-retirement benefit obligations

The Group provides various post-retirement benefits to its active and retired employees, including pension, post-retirement medical and other benefits. The two defined benefit funds, namely the Transnet sub-fund of the Transport Pension Fund (TTPF) and the Transnet Second Defined Benefit Fund (TSDBF), are fully funded with actuarial surpluses of R1,7 billion (March 2012: R1,7 billion) and R2,3 billion (March 2012: R2,9 billion) respectively. Transnet has not recognised any portion of the surplus on these funds, as the fund rules at present do not allow for the distribution of a surplus to the Group.

The Board of Trustees of the TTPF and TSDBF approved the payment of ad hoc bonuses to their beneficiaries amounting to R17 million and R161 million respectively, and paid these amounts in November 2012. The Board of Trustees of the TSDBF has also approved the payment of a further ad hoc bonus to its beneficiaries amounting to R160 million, and paid this amount in April 2013. In addition, the Board of Trustees of the TTPF approved the payment of a further ad hoc bonus to its beneficiaries amounting to R16,3 million, which was paid in June 2013. These payments continue to supplement the current statutory increase of the beneficiaries of the TTPF and TSDBF to provide pensioners with increases above inflation.

Proportional capital investment spend between Operating divisions (R billion)

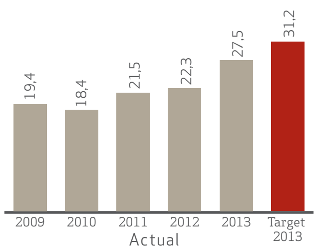


2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2013 Target
8,6	9,7	12,5	14,8	18,3	19,5
0,6	0,4	0,5	0,7	1,3	0,9
4,2	3,2	2	1,7	1,7	2,4
3,1	2,4	0,7	1,5	2,2	2,6
2,8	3,1	6,1	4,5	2,8	4,2
0,1	(0,4)	(0,3)	(0,9)	1,2	1,6

- Transnet Freight Rail
- Transnet Engineering
- Transnet National Ports Authority
- Transnet Port Terminals
- Transnet Pipelines
- Other*

** Includes Group eliminations.*

Historical capital investment (R billion)



The total value of ad hoc bonuses paid by the TTPF and TSDBF to their beneficiariesamounts to R105,3 million and R1,765 billion respectively, and has resulted in the beneficiaries of the TSDBF receiving increases of at least 70% of inflation since 2007, while the beneficiaries of the TTPF have received total payments equivalent to the TSDBF payments on a proportionate basis since 2011.

Transnet has again made an ex gratia payment to its most disadvantaged pensioners of both the TTPF and TSDBF, amounting to R143 million during October 2012. The payment has been made in particular to those pensioners with very low pensions despite long service. This brings the total amount of ex gratia payments made by Transnet to beneficiaries of the defined benefit funds to R378 million.

In addition, Transnet has again made provision for an ex gratia payment to its most disadvantaged pensioners of both the TTPF and TSDBF of R70 million.

The post-retirement medical benefit obligation is approximately R1,4 billion (March 2012: R1,5 billion) as at 31 March 2013.

Contingencies and commitments

There were no material movements in contingencies and commitments since 31 March 2012.

Guarantees

The sole Shareholder in Transnet SOC Ltd, namely the South African Government, has guaranteed certain borrowings of the Company amounting to R3,5 billion (2012: R3,5 billion) representing 4,8% of total borrowings of R73,1 billion.

Capital investment

The Group's capital investment for the year ended 31 March 2013 amounted to R27,5 billion (excluding capitalised borrowing costs), a 23,4% increase from the prior year's investment of R22,3 billion. R11,3 billion was invested in the expansion of current infrastructure and equipment, while R16,2 billion was invested in maintaining existing capacity. The Group has achieved 88,1% of the R31,2 billion capital expenditure budget for the year.

Progress on major projects

Iron ore line expansion up to 60,0mt

The iron ore line is the main export channel for iron ore from the mines in the Northern Cape to the Port of Saldanha. Rail capacity will increase to 60,0mt and port capacity to 58,0mt over the quay wall, resulting in targeted export iron ore volumes increasing to 59,5mt for the 2014 year. The execution of the MDS will result in port capacity eventually increasing to 82,5mt by the 2020 financial year.

All baseline scope required to increase port capacity to 60,0mt has effectively been completed with only ancillary works underway. Recently completed work includes the demolition of the old sampling building at the Port of Saldanha, the completion of a rail triangle to enable the more efficient handling of trains at Salkor Yard and the installation of electrical equipment to reduce electrical consumption at the Port of Saldanha.

16 of the additional 32 locomotives needed to facilitate the increase in iron ore capacity to 60,0mt have been delivered during the year. 14 locomotives have been tested and accepted into operations with two locomotives undergoing commissioning and acceptance testing.

Transnet's investment in the iron ore expansion project and locomotive acquisitions for the year amounted to R920 million.

Coal line expansion up to 81,0mt

The coal line is the main export channel for transporting coal and starts from the mines in Mpumalanga and ends at the Port of Richards Bay. Plans are in place to increase capacity to 81,0mt and thereafter to 97,5mt. The total including both the expansion and sustaining capital investment is estimated to be R31,6 billion over the next seven years.

The Company is undertaking geotechnical investigations on several work packages, and engineering design is underway. The land acquisition process has commenced for substations that need to be built on privately-owned land. Eskom is being engaged to ensure that the upgrading of the electrical supply between Ermelo and Richards Bay is completed in line with the project's schedule. The project is expected to be completed by the last quarter of 2018.

All 110 Class 19E dual voltage locomotives have been delivered and accepted into operations. Together with the wagon build programme and upgraded infrastructure, the locomotives facilitate increased throughput on the Richards Bay corridor.

A total of R1,3 billion was invested in the coal line expansion and the acquisition of the Class 19E locomotives during the year.

General Freight Business (GFB)

An amount of R13,0 billion was invested in GFB and relates to the upgrade and maintenance of infrastructure and rolling stock.

All of the 100 Class 43 new diesel electric mainline locomotives have been delivered and accepted into operations. The project was accelerated resulting in the delivery of locomotives two months earlier than initially planned. The project to acquire an additional 43 diesel locomotives for GFB is progressing ahead of schedule. 20 locomotives have been delivered and accepted into operations. The delivery of locomotives is expected to continue for the next six months. To date, R1,1 billion has been invested on the acquisition of these locomotives.

During the year, the Company concluded a contract for the supply of 95 electric locomotives for GFB at a cost of R2,7 billion which will further support operational performance, reliability and overall energy efficiency of the rail service. The delivery of locomotives is estimated to commence in February 2014. The capital investment on the acquisition of these locomotives amounted to R269 million for the year.

R13,0 BILLION

WAS INVESTED IN GFB AND RELATES TO THE UPGRADE AND MAINTENANCE OF INFRASTRUCTURE AND ROLLING STOCK.

TRANSNET COMPLETED BUILDING 2 235 OF THE 2 346 WAGONS APPROVED FOR THE YEAR AT A COST OF

R1,8 BILLION.

Transnet completed building 2 481 wagons for the year at a cost of R1,8 billion. The specifications of these wagons, which are required to support the MDS volume growth, included automotive wagons, flatbed wagons to rail containers and CR type wagons for transporting mineral and mining products which include manganese, coal for domestic consumption and chrome.

A total of R3,1 billion was invested on interventions to sustain the company's infrastructure. In addition, to keep the condition of the rolling stock at an acceptable level, the company invested R3,8 billion in the upgrade and overhauling of wagons and locomotives.

Durban Container Terminal (DCT)

The Durban Container Terminal, is one of the busiest container facilities in the southern hemisphere. The project to re-engineer the terminal through reconfiguration and equipment replacement will increase terminal capacity to 2,9 million TEUs, compared to the current capacity of 2,1 million TEUs.

A total of R44 million was invested in the DCT re-engineering project during the year. The project is nearing completion with only minor outstanding issues remaining. Commissioning of the refuelling facility is in progress and the decommissioning of the old facility is yet to commence. No lost-time injuries were experienced and the safety record has improved to 717 000 lost-time injury free hours.

All seven of the fully assembled tandem-lift ship-to-shore cranes were delivered during the year at a cost of R502 million. Construction of the associated infrastructure costing R89 million for the new container cranes is nearing completion and 174 000 lost-time injury free hours were recorded.

A total of R894 million has been invested in container handling equipment for DCT, Maydon Wharf and the Point for the year.

Cape Town Container Terminal

The expansion of the Cape Town Container Terminal will increase capacity to 1,4 million TEUs (Phase 2) to address the growth in demand for containers, enabling it to become the second largest container port in the country.

The first phase of the project is nearing completion with only ancillary works in progress. These include the truck entrance paving area, new cables from the Harbour Main substation to the 600 series substations, tunnel roof repairs and quayside anti-trip panels remaining to be completed. The quay wall was handed over and operationalised on 15 December 2012.

Capital invested in the Cape Town Container Terminal for the year amounted to R228 million.

Ngqura Container Terminal

The Ngqura Container Terminal paving was completed on time in December 2012.

The construction of the building for the Ports and the administration craft basin for the tug boats remain the only outstanding items. Plans for the new buildings, which are based on the Green Building concept for efficient energy management are well developed and will be presented for approval before the detail design phase commences.

Transnet invested R292 million to acquire equipment for the Ngqura Container Terminal Phase 2A expansion. 30 haulers have been delivered and the remaining 18 were scheduled for delivery between April and May 2013. All 48 trailers have been delivered as at the end of March 2013.

The total capital invested at the Ngqura Container Terminal for the year amounts to R444 million.

New Multi-Product Pipeline (NMPP)

The NMPP is a strategic investment to secure the supply of petroleum products to the inland market over the long term. It is one of the largest and most complex multiproduct pipelines in the world. An innovative engineering project in concept, design and implementation, the pipeline component of the NMPP system of assets is buried underground over a distance of 555 kilometres.

The 24-inch trunk-line from Durban to Jameson Park was operationalised in January 2012 and transported over 2,7 billion litres of diesel for the year.

The construction on the Inland Terminal (TM2) and the Coastal Terminal (TM1) is in progress with 2 363 people on site and about 395 people off site on engineering, systems and automation, and management. TM2 reported one lost-time injury and has exceeded 3,4 million lost-time injury free hours. Inclement weather has caused disruption to the schedule of the coastal terminal.

R2,5 billion was invested in the NMPP during the year and R18,2 billion since the commencement of the project in 2006. The NMPP project is expected to be completed within the estimated total cost of R23,4 billion.

Durban International Airport (DIA) site

The DIA site acquisition from the Airports Company of South Africa SOC Ltd (ACSA) was concluded during the year at a total cost of R1,85 billion. Final payment of R650 million was made in September 2012 as per the sale agreement with ACSA. The DIA site is proposed to be developed into a dig-out port to address demand requirements in the container, liquid bulk and automotive sectors up to 2040. Various funding models and the execution strategy for the development are currently being investigated.

The port development concept study is nearing closure and will proceed to the gate-review phase in early May 2013. Out of an initial 19 layout options evaluated in a multi-criteria analysis, three layout options have been recommended for further development in the prefeasibility stage.

The landside geotechnical investigations are progressing well and will soon move into the beach area for drilling.

Human capital

In line with the MDS workforce plan, Transnet employed an additional 3 804 new employees during the year (a 7,5% increase from prior year) bringing the Company's permanent staff complement to 54 726 (2012: 50 922). The majority of new recruits addresses critical skills requirements. Turnover rate for the year averaged 5,1%. The current average age of a Transnet employee is 39 years old, recording a steady increase in younger recruits.

SR Refer to page 44 for further information.

The Company spent 4,4% of its labour cost on training during the year, focusing on artisans, engineers, and engineering technicians. 122 full-time engineering bursaries were awarded in various disciplines, 200 high school learners were sponsored through the rail cadet scheme, and 315 engineering technician trainees were given workplace experience opportunities. 866 new apprentices joined the Company's apprenticeship scheme, and 119 new graduates-in-training were contracted. Sector-specific skills development continued to focus on maritime, rail and port terminal operations, with 2 160 learners participating in these programmes. Currently, the Company has access to 2 042 apprentices and 433 engineering bursars in its talent pool.

As part of training resource enhancements, Transnet consolidated its School of Ports and School of Port Terminals into the Transnet Maritime School of Excellence this year, and in July 2012, launched the Transnet School of Security from which 815 security officials graduated this year.

Transnet achieved and exceeded its employment equity targets across all job grades. The employee race profile for the year was 67,1% black, 9,6% coloured, 3,8% indian, 19,5% white. Female representation now exceeds 25,0% in executive, senior, professional and skilled technical levels. Representation of people with disabilities remains a challenge, improving marginally to 1,4% of the total headcount (2012: 0,8 %)

Economic regulation

The tariffs for Transnet Pipelines are regulated by the National Energy Regulator of South Africa (NERSA) and those of National Ports Authority are regulated by the Ports Regulator of South Africa.

Pipelines

The decision by NERSA to grant Transnet an 8,53% increase in allowable revenue is welcomed, although Transnet Pipelines applied for a 22,58% increase in revenue. The major reason for the difference relates to the capitalisation value of assets changing during the year. This negatively affected Transnet's ability to qualify for an F-Factor allowance in terms of the regulatory methodology, which had been included in the tariff application. In essence, this amounts to a deferral of revenue into future years rather than disallowance of revenue. The tariff increase granted by NERSA will not negatively impact Transnet's delivery of its Market Demand Strategy.

National Ports Authority

Transnet has noted the Ports Regulator's decision in response to the National Ports Authority's tariff application for the 2014 financial year. The Ports Regulator has granted the National Ports Authority its requested reductions in cargo dues tariffs of full containers and automotive exports which is aligned to the National Ports Authority's proposed pricing strategy. All other tariffs are to remain at current levels. Transnet is currently awaiting the Record of Decision from the Ports Regulator in order to understand and assess the tariff determination outcome.

Tarlton Refractionator Plant: Mpho Sehlako (Admin Officer, Refractionator Plant) and Douglas Mthimkhulu (Depot Manager and Tarlton operator) inspecting the new methane gas pipeline.

Freight Rail

The Department of Transport's (DoT) Draft Green Paper on Rail Reform was issued to various stakeholders in April 2012 for comment. Transnet, supported by the Department of Public Enterprises, presented its position to DoT and engagements are ongoing to ensure alignment before the Draft Green Paper is submitted to Cabinet in 2013.

Key legislation is covered in the Report of Directors under the heading 'Economic regulation and economic reform'.

AFS Refer to page 27 for further information.

Economic, social and environmental impact

Transnet's economic, social and environmental impact in the year under review is provided in the Sustainability Report 2013. The material issues are summarised here.

Gross value added

Transnet's gross value added resulting from capital and operating expenditure in the year amounted to R36,2 billion. 44,6% of this sum was reinvested in expansion of the business; 40,0% was paid in wages and retirement benefits to employees; 15,3% was paid to the providers of financial capital and 0,1% was paid to Government in the form of taxation. The full value added statement is provided in Appendix B.

IR Refer to page 129 for further information.

Broad-based black economic empowerment (B-BBEE) and supplier development

As a State-owned Company, Transnet's B-BBEE verification covers six of the seven elements of the Generic Transport Public Sector Scorecard, excluding the ownership element. The Rail Charter, Maritime Charter and Property Charter are also applied. Transnet was rated a Level 3 B-BBEE contributor in 2013 and is on track to achieving its Level 1 target.

Transnet's procurement activities are an important enabler in decreasing income inequalities and increasing the number of previously disadvantaged individuals who manage, own and control businesses. Transnet's total recognised B-BBEE spend – as per the Department of Trade and Industry Codes – is R33,4 billion or 88,0% of Total Measurable Procurement Spend of R37,9 billion as at March 2013 (2012: R25,8 billion or 80,0% of R32,2 billion). Transnet has spent R5,54 billion (16,5% of B-BBEE spend) on black-owned enterprises, R2,01 billion (6,0% of B-BBEE spend) on black woman-owned enterprises, R3,29 billion (9,8% of B-BBEE spend) on qualifying small enterprises and R2,2 billion (6,6% of B-BBEE spend) on exempted microenterprises for the year.

Transnet's Competitive Supplier Development Programme (CSDP) focuses on the localisation of suppliers and Original Equipment Manufacturers through contractually obligated supplier development plans. Since inception of the CSDP, total contract value amounts to R17,1 billion, with CSDP obligations concluded with suppliers of R7,2 billion (42,0% of contract value). To date, R4,0 billion or 55,5% (2012: R3,0 billion or 55,0%) of these supplier development obligations have been met. During the year, the new Transnet Supplier Development Plan was approved by the Minister of Public Enterprises.

Transnet created approximately 24 689 new jobs in supplier related industries through its procurement expenditure during the year.

Additionally, Transnet approved various Enterprise Development Initiatives for financial and non-financial support to the value of R200 million for black-owned enterprises, black woman-owned enterprises, qualifying small enterprises and exempted micro-enterprises.

Transnet's carbon emissions for the year

decreased by 2,0%

to 4,32mtCO_2e from an adjusted 2012 baseline of 4,41mtCO_2e.

Since 7 December 2012, Transnet is required to comply with the Preferential Procurement Policy Framework Act (PPPFA) and Regulations, from which it was previously exempted. This places statutory limits on Transnet's ability to drive empowerment and supplier development outcomes from its procurement activities.

Safety

Despite considerable efforts to improve safety, the Company regrets to report nine employee fatalities in the year, compared to seven in the previous year. Five of these resulted from motor vehicle accidents and four from criminal acts. The Board conveys its deepest condolences to the families, colleagues and friends of the employees who lost their lives and reiterates its continued commitment to the safety of employees and the public as a vital component of the Company's operations.

During the year a total of 125 public fatalities were reported on Transnet property compared to 100 in the previous year. The largest single contributor to these tragedies occurred in Hectorspruit on 13 July 2012, when a truck carrying 48 farm workers crossed with a goods train. Notwithstanding increased public awareness and proactive training campaigns, level crossing accidents accounted for 23,0% of the public fatalities, with the balance due mainly to people trespassing onto operating railway lines. Management is proactively seeking solutions to reduce the number of level crossing incidents.

Safety performance is measured against the industry recognised rolling 12-month 'disabling injury frequency rate' (DIFR). The Company recorded a DIFR performance of 0,74 versus the target of 0,80 in the 2013 financial year, and whilst this achievement is impressive it still falls short of Transnet's aspirations.

Corporate social investment (CSI)

The Transnet Foundation invested R132 million (excluding capital expenditure) in CSI across South Africa during the year, with approximately 55,93% spent on healthcare, education, sports development, container assistance and employee volunteer programmes. Whilst the Transnet Foundation remains the custodian of the Company's CSI initiatives, the operating divisions respond proactively to the needs of vulnerable communities surrounding their operations.

SR Refer to page 51 for further information.

The Company's flagship CSI project, the Phelophepa Healthcare Train, traverses the country throughout the year, providing dentistry, optometry, pharmacy and various counselling to rural communities. Owing to its success a second train, Phelophepa II, was launched last year, effectively doubling the scale and reach of the award-winning service to approximately 360 000 beneficiaries per annum.

The Rural and Farm Schools Sport Programme provides training and infrastructure to help impoverished rural youth reach their sporting potential, targeting 13 to 17 year-old leaners in the Free State, KwaZulu-Natal, Limpopo, North West, Northern Cape and Eastern Cape. Since its inception in 2001, more than 100 000 learners have benefited and approximately 3 000 teachers have been trained and accredited as coaches, umpires and referees. During the year, 5 000 learners participated and 600 teachers were trained.

Transnet recently launched the Orphan Youth Programme to provide school and tertiary education support to qualifying orphaned youngsters from KwaZulu-Natal, Mpumalanga and North West; and the Teenage Health programme to provide feminine hygiene support to indigent girl leaners in Northern Cape and North West schools.

Energy efficiency and carbon mitigation

Energy efficiency gains were made in the year across all operations and property portfolios following the adoption of specific targets, technology improvements, and the introduction of focused energy management and monitoring systems. Energy efficiency is measured against targets per Operating Division and Property portfolios and against prior year.

Transnet's total electricity consumption for the financial year 2013 was 3,7TWh. This is 3,4% lower than the previous year.

Traction electricity (which is 71% of Transnet's total electricity consumption) improved energy efficiency by 2,0% (traction volumes increased by 3,4% while electricity use increased by 1%). Traction diesel efficiency deteriorated by 5% against prior year.

Energy constituted 18,5% of total costs (R3,0 billion on electricity and R2,5 billion on fuel), an increase of 23,0% in energy costs on the prior year. The cost increase was due to high electricity and fuel price increases.

Freight Rail was able to achieve notable electrical energy regeneration gains from the new Class 19E locomotives deployed on the coal line and the new Class 15E locomotive deployed on the iron ore line of 14,0% and 18,0% respectively. This amounted to 151 139MWh of regenerated electricity for transmission back to the Eskom grid where no immediate user is within the traction circuit of the train.

Transnet's carbon emissions for the year decreased by 2,0% to 4,32mt$C0_2$e from an adjusted 2012 baseline of 4,41mt$C0_2$e. The decreased carbon footprint can be ascribed to the Company's energy efficiency efforts, low GDP growth affecting volumes, and improved carbon measurement systems. Scope 2 emissions (from purchased coal-fired electricity generation) amounted to 84,7% of Transnet's total emissions, and Scope 1 emissions (from direct use of fuels and refrigerants) amounted to 15,03% of total emissions. Transnet is a voluntary reporter to the Carbon Disclosure Project.

Freight Rail's top 10 general freight commodities market share gains from road hauliers this year resulted in a carbon emissions savings to the South African transport sector of 206 540t$C0_2$e.

Water conservation

Port Terminals' R70 million reverse osmosis plant (which converts seawater into fresh water) at the Port of Saldanha was brought into full operation. It provides 36 000kl of the 41 000kl of fresh water used per month to wet down the iron ore stockpiles to reduce the effects of iron ore dust on the Saldanha environment and community. Port Terminals also completed a detailed audit of its water use in all ports, recording 1 017 198kl used in the year, 98 567kl of which was recycled.

Waste management

R23 million was spent on initiatives to clean up sites contaminated by asbestos from historic spills, mostly in rail areas in the vicinity of old asbestos mines in the Northern Cape and historic illegal dumping in the vicinity of Koedoespoort. R60,3 million was spent in the clean-up of historic asbestos spills at Kings Rest Yard in Durban.

Hydrocarbon pollution elimination was concluded at 36 rail yard fuel depots and 541 slop tanks were fitted to diesel locomotives. Pipeline reported a 0,003% of volumes transported spilled. However, approximately 60% of this was recovered.

Biodiversity enhancement

Transnet invested in a number of biodiversity initiatives in 2012. These include drainage systems which protect wetland breeding sites of the Lesser Flamingos at Kamfersdam Pan and Langleg Pan in the Northern Cape; rail speed restrictions to limit disturbance to endangered monitor lizards on the Vierfontein-Orkney railway line; protection measures for the Blespokspruit wetland in Gauteng; and enhanced educational facilities at the protected 54ha Echwebeni Site of Conservation Significance at the Port of Richards Bay which is supported by floating pontoons installed by Transnet to protect the mangrove swamps.


TRANSNET

FREIGHT RAIL

Freight Rail

New locomotive at Koedoespoort.

BUSINESS OVERVIEW

Transnet Freight Rail (Freight Rail) is the largest of Transnet's Operating divisions and transports bulk and containerised freight by rail. The network and rail services provide strategic links between ports and production hubs and connect with the railways of the SADC region. Freight Rail's strategic advantage lies in the movement of heavy haul and bulk commodities over long distances where flow densities provide economies of scale thereby lowering unit costs.

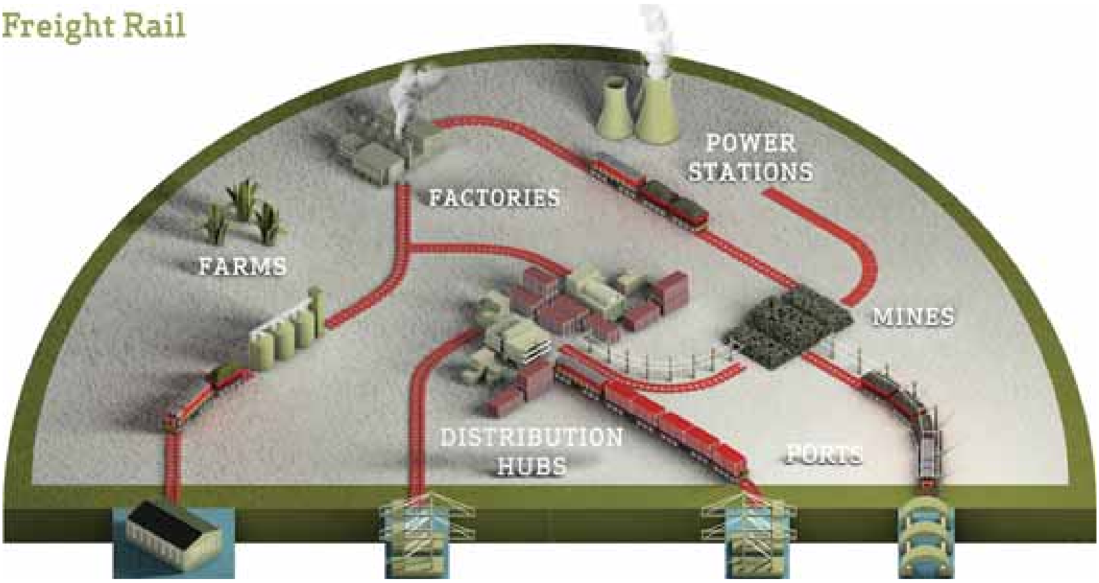
Freight Rail's key objective is to shift rail-friendly freight traffic from road to rail by creating capacity ahead of demand and offering a reliable rail service. This will enable Freight Rail to meet its mission of transporting large parcel size commodities over longer distances in Southern Africa.

The Rail network unit manages Freight Rail's rail infrastructure and focuses on the maintenance, modernisation and expansion of the approximately 20 500 route kilometre (31 000 track km) rail network. Approximately 1 500 kilometres comprises heavy haul lines for export coal and export iron ore. The network includes 3 928 kilometres of branch lines.

Freight Rail's operations were reorganised during the year to improve operational efficiencies and to tailor service delivery to specific customer segments.
The seven newly established customer-facing business units are:

- Agriculture and bulk liquids business;
- Coal business;
- Containers and automotive business;
- Iron ore and manganese business;
- Mineral mining and chrome business;
- Steel and cement business; and
- International business.

A process is underway for the reinstatement of under-utilised and closed branch lines as well as concessioning of branch lines or clusters of branch lines to interested private operators. Freight Rail will continue to implement plans for the growth of commodities (typically agricultural and timber commodities) on these lines, and where possible implement programmes that contribute to rural economic development and revitalisation of small towns.



Freight Rail also provides the network for long distance passenger rail services as well as haulage capacity for other private passenger services. The division does not operate passenger services, with the exception of The Blue Train luxury passenger service, which is operated in support of South Africa's strategic position as a preferred tourism destination.

Transport volumes are directly influenced by economic and industry conditions which impact the levels of freight offered by customers for transport. The slow economic growth in South Africa – especially since the second half of 2012 – in conjunction with external factors such as declining commodity prices, as well as labour unrest in the mining, road and agricultural sectors, have negatively impacted freight available for transport and, in certain sectors, have increased competition from road. Further, rising fuel and electricity prices have placed cost pressures on all operators in the industry.

The development of a National Rail Policy, which is likely to incorporate elements of rail reform and economic regulation, is a lengthy and challenging process. Various stakeholders, including the Department of Public Enterprises (DPE) and the Department of Transport (DoT) are aiming to improve the functioning of the land transport system in South Africa.

Key strategic MDS imperatives for Freight Rail include:

- Pursuing strategies to shift traffic from road to rail in the interests of reducing the country's externality costs (damage to roads, congestion, road safety, carbon emissions) in the quest to contribute to the reduction of logistics costs and increasing the country's competitiveness.
- Optimising operational performance, reliability and overall energy efficiency of the rail service.
- Collaborating with various stakeholders, including DPE and DoT to establish viable policy to improve the railway and land transport system.

PERFORMANCE AT A GLANCE

1. Finance and funding

- Revenue for the year increased by 15,0% to R31,8 billion. The increase is mainly attributable to a 3,3% increase in freight moved by Freight Rail, at 207,7mt for the year (2012: 201,0mt), despite the impact of the economic slowdown and economy-wide negative circumstances.
- Net operating expenses increased by 10,0% to R18,8 billion (2012: R17,1 billion). This was due mainly to an increase in personnel costs of 30,4% – attributable to an increase in headcount due to the ramp up for MDS execution – as well as an 8,4% average wage increase.
- Energy costs increased by 26,7% mainly due to a 21,2% electricity tariff increase, and an increase in fuel costs of 33,1% due to increases in crude oil prices as well as increased volumes railed.
- The year's increased operating expenses resulted in an EBITDA of R13,0 billion (2012: R10,5 billion), up 23,0% from the prior year in line with MDS expectations.
- The EBITDA margin improved by 2,7% to 40,8% (2012: 38,1%), whereas the operating margin improved by 3,7% to 22,4% (2012:18,7%). Improved performance is attributable to growth in revenue of 15,0% while operating expenses increased year-on-year by 10,0%. In view of lower than expected volumes railed during the year, Freight Rail implemented cost-saving initiatives and reduced discretionary costs to improve profitability margins.
- Return on average total assets increased to 10,8% (2012: 9,2%). Improved performance is attributable to a 37,4% increase in operating profit flowing from the increase in revenue, whilst the asset base increased by 15,5%.
- Despite the year-on-year increase in revenue, asset turnover deteriorated slightly to 0,48 times (2012: 0,49 times). Below par performance is attributable to the increase in asset base, which grew at a proportionally higher rate than the increase in revenue, due to less than targeted volumes achieved.

Germiston: Londiwe Zulu (Wagon Fitter) busy working a new wagon.

2. Optimising capital investments

- Capital investment in rolling stock and infrastructure amounted to R18 277 million, reflecting a 95,5% achievement of the re-phased target of R19 130 million (original planned expenditure was R19 512 million). The main variances from the original budget include the new locomotive procurement programmes and the delayed new wagon-build programme. At half-year, these programmes – initially anticipated to commence within the current year – were deferred and other critical projects were accelerated to arrive at the re-phased target.
- Marginal underspend was due to a combination of project cost-savings, amounting to R200 million, materials availability and adjustment to timelines of certain projects. Long lead times in procuring components of certain wagons resulted in R721 million underspend in wagon acquisitions.

Export coal

- Total investment for export coal amounted to R3 303 million.
- The coal line programme to expand to 81mtpa is in the final front-end loading stages '2' and '3', with some work packages already in execution.
- The 110 Class 19E dual voltage locomotives have been delivered and accepted into operations. This addition to the rolling stock fleet is a key element of the planned expansion of the coal line to 81mtpa.
- The locomotives, together with the 696 wagons built during the year (at a cost of R779 million), and the upgraded infrastructure, are expected to contribute to the increased throughput of export coal on the Richards Bay corridor.
- Infrastructure upgrades included the replacement of 129 kilometres of rail, 52 215 sleepers, 30 turnouts and 90 kilometres of ballast screening.

Export iron ore

- Total investment in export iron ore amounted to R2 011 million.
- The iron ore line project to expand to 60mtpa is operational with infrastructure, locomotives and wagons. Only minor activities are still outstanding, including the completion of the Kolomela link line between Postmasburg and loop 18 on the iron ore line. This constitutes the first network addition of 32 kilometres.
- The initial 44 15E locomotives contracted have all been absorbed into operations and the final delivery of spares is expected in June 2013. Further, 16 of the additional 32 locomotives required to facilitate the increase in iron ore capacity to 60mt were delivered during the year. A total of 14 locomotives have been tested and accepted into operations with two locomotives undergoing commissioning and acceptance testing.
- The Rail Replacement programme has been executed as planned with 302 kilometres of track replaced. This has contributed to a reduction of more than 60,0% in rail breaks compared to the previous year.
- Infrastructure upgrades also included the replacement of 51 243 sleepers and 67 kilometres of ballast screening.

PERFORMANCE AT A GLANCE

- Rail stress management will continue and all thermite welds will be x-rayed for defects. Thermite welds older than eight years will be removed and replaced as a precautionary measure.

General Freight

- In accordance with the MDS and the aim of shifting traffic from road to rail, significant capital has been invested in assets to support General Freight traffic growth:
- Total investment amounted to R13,0 billion.
- All of the 100 Class 43 new diesel electric mainline locomotives have been delivered and accepted into operations. The project was accelerated, resulting in the delivery of locomotives two months earlier than planned. The programme to acquire an additional 43 diesel locomotives is progressing ahead of schedule, with 20 locomotives having been delivered and accepted into operations. To date, an amount of R3,2 billion has been invested in the acquisition of the Class 43 locomotives.
- Freight Rail concluded a contract for the supply of 95 electric locomotives for General Freight at a cost of R2,7 billion, which will further support operational performance, reliability and overall energy efficiency of the rail service. The delivery of locomotives is estimated to commence in February 2014. The capital investment for the acquisition of these locomotives amounted to R269 million for the year.
- The acquisition of wagons to support MDS volume growth projections was approved at a total cost of R2,1 billion and required the building of 2 481 wagons during the year. Wagon types built included automotive wagons, flatbed wagons to rail containers, and CR type wagons for transporting mineral and mining products such as manganese, chrome and coal for domestic consumption.
- A total of R3,1 billion was invested in interventions to sustain the Company's infrastructure. Upgrades to the General Freight network included the replacement of 284 kilometres of rail and 403 kilometres of ballast screening. In addition, 383 661 sleepers and 167 turnouts were replaced. To maintain the condition of existing rolling stock at acceptable levels, R3,7 billion was invested in the upgrade and overhauling of wagons and locomotives.
- Additional investment in rolling stock was allocated to the port of Port Elizabeth and numerous infrastructure projects have been completed to enable the growth of export manganese through this port.
- The Yard Safety Automation projects at Bayhead, Ermelo and Beaconsfield yards have been completed with a view to using technology to reduce human error and improve efficiency, setting the scene for further rollout of this technology in 14 other yards.
- The Orkney-Vierfontein branch line, linking the North West and the Free State, was reinstated.

3. Market growth and penetration

- Freight Rail achieved a historical record in the transportation of 207,7mt of freight in 2013, despite the impact of the economic slowdown, strikes in the mining industry and customer related issues.
- Overall freight tonnage growth of 3,3% is in excess of GDP growth of 2,5%, and reflective of the country's initial expected growth rate. This higher growth in freight volumes evidences the success of the Freight Rail 'market growth' and 'road-to-rail' strategies.
- To improve customer satisfaction and further support the volume growth strategy, the division modified its organisational model by establishing six customer-facing business units. The business units align with customer requirements and promote operational efficiency while continuing to roll out Freight Rail's scheduled railway operating philosophy.
- Growth in transportation of key commodities aimed at shifting traffic from road to rail included increases of fast moving consumer goods 12,0%, intermodal 11,0%, chemicals 11,0%, and chrome/ferrochrome 10.0%.
- The Blue Train experienced a 2,0% growth in the number of guests and was again awarded Africa's Leading Luxury Train by the World Travel Awards.

Coal business

- Volumes increased by 1,9% to 84,3mt (2012: 82,7mt) mainly due to planned improvements in operational efficiencies following the deployment of new 19E locomotives and executing scheduled infrastructure maintenance.
- Growth was limited to a modest 1,9%, due to a decline in the coal price and poor economic conditions. A depressed coal export pricing economy led to customers in the spot market holding back exports, leading to subdued growth in the second half of the year.
- Tonnages of coal railed for Eskom were negatively impacted by loading equipment breakdown and the unavailability of certified coal for rail loading from mines. Despite these challenges, Eskom's railed coal volumes increased by 20,0%.

Iron ore and manganese business

- The business transported 64,3mt, a 7,3% increase compared to the previous year (2012: 59,9mt).
- Growth is attributable to higher than expected demand for manganese exports, which exceeded budget by 16,0% and surpassed the previous year's flows by 14,0%.
- Improvements in operational efficiency increased the number of trains on manganese export flows through the port of Durban.
- The completion of infrastructure projects contributed to a less constrained Kimberley-De Aar section, which positively impacted trains on flows of manganese exports through the port of Port Elizabeth.
- The performance of iron ore exports were lower than projected due mainly to depressed commodity prices, industrial action and a 'section 54' mine shutdown experienced by a key mining entity, resulting in a loss of approximately 2,5mt.

PERFORMANCE AT A GLANCE

- Post-commissioning teething problems were experienced in some of the new mines served by this business unit. This further contributed to lower than planned volumes being made available for transport.
- The operational philosophy, "Concept 42" – all systems in place for the creation of slots to run 42 trains per week – was successfully implemented.
- Notwithstanding external and operational challenges, the export iron ore channel increased volume throughput by 6,9% to 55,9mt (2012: 52,3mt), although 6,1% below the target of 59,5mt.

Containers and automotive business

- The business posted an impressive increase of 21,6% to 10,7mt (2012: 8,8mt), evidencing market share growth and affirming that the road-to-rail strategy is gaining momentum, particularly during the last quarter of the financial year.
- Growth in the fourth quarter was largely attributed to demand in the chrome export market and the entry of new customers.
- The business commenced the Lohatla service of transporting containerised manganese, which yielded a noticeable growth in the Bloemfontein flows.
- The rollout of the Eskom road-to-rail strategy contributed significantly to volume growth where solutions were implemented to transport containerised coal to certain power stations.
- The business celebrated the successful implementation of the first fully integrated port rail container terminal system solution, Navis, at City Deep.
- A record high of 857 000 TEUs on rail was achieved and 15,0% growth was reported in the automotive sector (2013: 266 000 tons; 2012: 231 000 tons). This growth was largely due to the entry of new Original Equipment Manufacturers (OEMs) as well as the positive outcomes of efficiency and collaborative projects.

Mineral mining and chrome business

- Volumes increased by 3,2% to 16,2mt (2012: 15,7mt). The marginal growth in volumes is mainly due to depressed chrome prices and the resultant lower production by customers.

Sentrarand shunting yard at night.

- A Hematite rail project was implemented during the year, with product flows from Swaziland to the Port of Richards Bay.
- The closure of certain smelters to bolster electricity supply to other parts of the grid constrained more robust growth in the Business.
- Labour unrest in mining and transport sectors, and the collapse of the Maputo Tenga Bridge in February 2013 negatively impacted mineral mining and chrome flows to Maputo.

Steel and cement business

- Business unit volumes declined slightly to 20,9mt (2012: 22,0mt), reflecting a 5,0% decrease due mainly to the slowdown in economic growth, which severely impacted growth in the steel and construction industry.
- The economic slowdown was evident in the reduced demand for rail transport from key customers in the steel industry, lowering production significantly.
- Industrial action at customers' plants, along with production problems and the truckers' strike (road haulage forms an integral part of the supply chain) further exacerbated the low volume demand.
- Despite this adversity the business was resilient and displayed agility during the year and was able to recapture rail friendly freight from road into the rail system.

Agriculture and bulk liquids business

- Volumes decreased marginally by 5,0% to 11,3mt (2012: 11,9mt) mainly as a result of the Durban-Johannesburg Pipeline (DJP) not being decommissioned as planned and the migration of some fuel-sector customers to the 24-inch multiproduct pipeline.
- Lower volumes were also experienced as a result of the slow start to the grain season, which peaked later than projected.
- Market share of deep-sea grain exports improved from 50,0% to 70,0%, due to the establishment of grain hubs in Bethlehem and Kroonstad.
- Additional road tonnages were attracted for the sugar industry by transporting refined sugar in addition to raw materials only.
- The business reported a record week of 20,3 million litres of transported jet fuel delivered and helped ORTIA stay wet during trying times when a regular supplier experienced difficulties.
- New bulk liquid volumes were attracted on flows from Mossel Bay to Bloemfontein, traditionally conveyed by road.
- The business successfully penetrated the market for bulk liquid volumes from South Africa to Zambia and Zimbabwe.
- Timber performance improved, with actual tonnages exceeding budget by 14,0% as a result of customer collaboration and the management of flows for specific customers in the timber industry.

PERFORMANCE AT A GLANCE

4. Improving operational efficiencies

Locomotive efficiency

- The introduction of new and more powerful energy-efficient 15E and 19E locomotives to the export lines, as well as the cascading of designated 7E and 10E locomotives to General Freight flows contributed to improvements in locomotive efficiency on the heavy haul lines.
- General Freight took delivery of the Class 43 diesel locomotives, which are being deployed to specific corridors as part of the standardisation of locomotives to corridors. The process will yield positive results in terms of increased volumes and efficiency gains as already evidenced by the 60,0% efficiency improvement of the Class 43 diesel locomotives (from 5 000 000 to 8 000 000 GTK/loco/month) deployed on the Phalaborwa-Richards Bay corridor. The cascading and commissioning of locomotives has, however, led to an increased fleet size and a reduced level of activity per locomotive, thereby giving the appearance of less efficient locomotive performance.
- General Freight locomotive efficiency targets were not met and lower performance was experienced compared to the previous year. This is set to improve as older locomotives are retired from the fleet.
- Several infrastructure-related incidents occurred at Overvaal Tunnel on the coal line, leading to disruptions in train services, causing poor resource utilisation. Despite these challenges, the coal and ore lines showed improved locomotive efficiencies, exceeding set targets for the year.

Wagon turnaround and cycle times

- Various port offloading-related challenges led to poor volumes and increased dwell and turnaround time of wagons.
- Wagon turnaround and cycle times were negatively influenced by escalating Yard Dwell times and longer-than-required loading and offloading times.
- Expected improvements in wagon cycle times on the export iron ore line did not materialise as unmet volume targets resulted in available wagons not being fully utilised.
- Cycle times on the coal line were affected by poor weather conditions causing wash-aways, derailments and hook-ups.
- The coal and ore lines' cycle times increased compared to the previous year, but did not meet set targets.
- Wagon turnaround times for General Freight flows improved by 2,0% due to an improved business focus on assets. Initiatives such as the Lean Programme and the development of diagnostics tools aim to improve wagon utilisation and efficiency as well as on-time departures and arrivals.

Service delivery

- On-time performance aims for the best balance between delivering a reliable service to customers, optimising slot capacity and improving rolling stock capacity. The en-route operation of trains is still hampered by the unreliability of equipment, interruptions in power supply, vandalism, cable theft, and poor weather conditions.

Despite improved volume performance for the year, increased loading and offloading times challenged on-time departures and increased dwell times, which hampered on-time arrivals. Customer loading and offloading challenges resulted in delayed departures. Notwithstanding these challenges, General Freight and coal line on-time performance recorded slight improvements, although targets were not met.

Energy efficiency

- Energy efficiency improvement of 2,0% in traction.
- Electricity regeneration from new 15E and 19E locomotives: 151 139Mwh.
- Energy efficiency improvement of 5,0% in Freight Rail real estate.

Infrastructure maintenance

- The age of rolling stock continued to be a challenge in certain parts of the network resulting in unplanned downtime and additional maintenance expenditure.
- Increased infrastructure maintenance was carried out to ensure capacity and required line closures or shutdowns. Simultaneously, operational plans were being executed to convey greater volumes over the network, which presented planning challenges.
- With maintenance shutdowns completed and operational improvements implemented, Freight Rail achieved record weekly tonnages on the Heavy Haul Export lines of:
  - Export coal: 1,76mt in week 49.
  - Export iron ore: 1,31mt in week 51.

5. Regulatory

- The Department of Transport (DoT) Draft Green Paper on Rail Policy was issued in April 2012 for stakeholder comment. A process has been underway for DPE and the Company to provide a joint position on the Draft Green Paper for alignment with the DTI, National Treasury and DoT.
- Freight Rail engaged with the DoT to provide inputs to their development of a National Road Freight Strategy, much of which focuses on an increased role for freight on rail and greater combined transportation solutions between road and rail.

6. Safety

- Freight Rail achieved a 6,1% improvement in the cost of risk. This reflects a 0,6% improvement against the target of 5,5%.
- A significant improvement of 4,4% in DIFR was achieved compared to the previous year, reflecting a 31,0% improvement against the set target.
- The number of safety incidents decreased by 1,9%, from 770 to 755 incidents against a background of higher activity levels.
- Of the 755 incidents, only 10 were categorised as ‘Level 1’ and ‘Level 2’.
- Of the 755 incidents, a total of 208, or 27,5%, of the incidents were attributable to private (customer and port) shunting incidents. This reflects a modest improvement of 3,0% following initiatives led by Freight Rail to improve operations and the network condition of private sidings.

PERFORMANCE AT A GLANCE

6. Safety

- Incidents of Signals Passed at Danger (SPAD) contributed only 10,0% of the number of incidents and reflected an improvement of 13,0%, evidencing the success of initiatives implemented to reduce incidents of this nature.
- It is particularly regrettable that the number of level crossing incidents increased from 83 to 87, despite numerous public campaigns.
- Freight Rail recorded zero employee fatalities as a result of train operations. There were three fatalities of on duty employees as a result of criminal activity and four employees perished on the country's roads.
- Recruiting 220 additional security guards to safeguard employees, assets and customer consignments and prevent the theft of copper, overhead cable and goods in transit.
- Implementing numerous interventions, including the Road Map 2 Safety Programme, to improve and sustain safety performance. However, this area of the business remains a challenge.

7. Human capital

- Permanent employee headcount increased by 9,8% due to the incorporation of employees from Rehabilitation and Construction (R&C), In-Service and Fuel Solutions. The approximated 1 560 In-Service and Fuel Solutions employees did not form part of the 2013 target. The increase in employee headcount was required for the planned ramp-up of freight volumes and the need to stabilise the business units where resource gaps were identified, especially in management cadres.
- Black employees represented 81,6% of the total workforce against a target of 75,0%.
- People with disabilities (PwD) represented 1,5% of the workforce against a target of 1,3%. This is an increase of 0,64% from the prior year.
- Women represented 23,7% of the total workforce, against a target of 30,0%.
- Employee turnover has declined and is lower than the South African market benchmark of between 8,0% and 13,0%. Of total exits, retirements accounted for 40,0%, with voluntary exits accounting for 24,0%, and deaths 17,0%. Employer-initiated separations accounted for 11,0% of total exits.
- Training spend amounted to 3,7% of personnel costs. This reflects a 2,6% improvement on the previous year and also exceeded the target of 2,9%.
- Developing a Human Capital Development Programme and aligning it with leading practices. Thus far, 70 trainers in the School of Rail were accredited as trainers, followed by HC Executive Leadership, who are attending Extraordinary Leadership Conversations training.
- Implementing Phase 1 of the Rail Corporate University in cooperation with the University of Johannesburg and Glasgow Caledonian University (GCU), focusing specifically on qualifications in the rail operational environment.
- Implementing management development programmes, including the Rail Operations Qualification Programme, Logistics Programme, Business Simulation and Lean Six Sigma.

- Enhancing the skills pipeline by implementing the Rail Cadet Scheme and Techno Girl programmes.
- Launching the CE Talent-Nurturing Programme with 50 high performing management members being trained and developed.
- Participating in a project to develop a Strategic Workforce Plan (SWP) focusing on critical, priority, and scarce skills, as well as efficiency improvements. The SWP includes the projection of the required human resources to deliver the MDS strategy. The project is at its final stage.

8. Governance, building organisational readiness and a high performance culture

- The new organisational model establishing Business Units and the Rail Network unit was successfully implemented and resulted in improved business performance.
- Freight Rail continued to refine its compliance framework, which comprises compliance risk management, 'regulatory universe assessments', monitoring and reporting of compliance exposures.
- Additional initiatives to promote a high-performance professional ethos included:
  - The Large Scale Transformation Journey, which aims to create awareness and understanding for the magnitude of the strategic change required by all employees.
  - A programme to transfer change management skills across the organisation by creating a Change Agent Network.
  - The adoption of a unique leadership archetype – 'Execution through Inspirational Leadership' – to support the MDS's strategic vision. This archetype consists of five priority practices, namely: Operational Discipline, Inspirational Leadership, People Performance and Review, Strategic Clarity and Openness and Trust.
  - The Chief Executive's Talent Nurturing Programme aimed at employees demonstrating consistent high performance. To date, 11 programme participants have been promoted, with three being appointed to General Management level.
  - An Employee Value Proposition (EVP) designed to encourage employees to deliver exceptional customer service in support of the MDS strategy. The Freight Rail EVP campaign is due to be launched in May 2013.

9. Sustainable economic, social and environmental impact

- Freight Rail made strides in embedding sustainability into operations in 2013. In addition to performance noted above, these developments are reflected in the SR 2013.

Operating Division performance

Salient features		Year ended 31 March 2013 R million	Year ended 31 March 2012 R million	% change
Revenue		31 797	27 658	15,0
– General freight		17 125	15 660	9,4
– Export coal		8 610	7 629	12,9
– Export iron ore		4 181	3 440	21,5
– Other		1 881	929	102,5
Operating expenses		(18 835)	(17 117)	10,0
– Energy costs		(4 121)	(3 252)	26,7
– Maintenance		(1 294)	(3 438)	(63,4)
– Materials		(1 005)	(459)	119,0
– Personnel costs		(9 765)	(7 488)	30,4
– Other costs		(2 650)	(2 480)	6,9
Profit from operations before depreciation, derecognition and amortisation and items listed below (EBITDA)		12 962	10 541	23,0
Depreciation, derecognition and amortisation		(5 852)	(5 368)	9,0
Profit from operations before items listed below		7 110	5 173	37,4
Impairments and fair value adjustments		(62)	(51)	21,6
Net finance costs		(1 978)	(1 569)	26,1
Profit before taxation		5 070	3 553	42,7
Taxation		(1 619)	(1 108)	46,1
Profit after taxation		3 451	2 445	41,1
Total assets (excluding CWIP)	R million	70 844	61 351	15,5
Profitability measures				
EBITDA margin *	%	40,8	38,1	2,7
Operating margin **	%	22,4	18,7	3,7
Return on average total assets (excluding CWIP)***	%	10,8	9,2	1,6
Asset turnover (excluding CWIP)****	times	0,48	0,49	(2,0)
Capital expenditure^	R million	18 277	14 792	23,6
Capitalised maintenance expenditure	R million	6 861	5 715	20,1
Employees				
Number of employees (permanent)	number	29 489	26 850	9,8
Revenue per employee	R million	1,08	1,03	4,9

* *EBITDA expressed as a percentage of revenue.*

** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of revenue.*

*** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of average total assets excluding capital work in progress.*

**** *Revenue divided by average total assets excluding capital work in progress.*

^ *Actual capital expenditure (replacement + expansion) excluding borrowing costs and including capitalised finance leases.*

Performance indicators

Key performance area and indicator	Unit of measure	2011 Actual	2012 Actual	2013 Target	**2013 Actual**	2014 Target
Volume growth						
Commodity classification						
General freight business	mt	73,7	81,0	90,3	**82,6**	91,2
Export coal	mt	62,2	67,7	75,0	**69,2**	77,0
Export iron ore	mt	46,2	52,3	59,5	**55,9**	61,5
Total volumes	mt	182,1	201,0	224,8	**207,7**	229,7
Financial value creation						
EBITDA margin	%	36,0	38,1	44,9	**40,8**	43,8
Operating profit margin	%	15,7	18,7	27,6	**22,4**	24,9
Gearing	%	nm	nm	49,9	**49,91**	53,9
Net debt to EBITDA	times	nm	nm	2,1	**2,4**	2,5
Return on average total assets	%	7,7	9,2	13,9	**10,8**	11,3
Asset turnover	times	0,49	0,49	0,45	**0,48**	0,42
Cash interest cover	times	nm	nr	6,8	**5,3**	4,9
Infrastructure						
Capital investments (a)	R million	12 542	14 792	19 512	**18 277**	19 019
Operational efficiency						
General freight business						
Locomotive efficiency	GTK 000/locomotive/month	5 121	5 167	5 500	**4 973**	5 370
Wagon turnaround time	days	12,6	11,5	9,2	**11,3**	8,6
Average loaded trains per week	number	nm	nm	923	**nr**	na
Export coal						
Locomotive efficiency	GTK 000/locomotive/month	13 505	23 845	24 700	**24 998**	26 810
Wagon cycle time	hours	72	66	58	**69**	56
Trains per day	number	nm	nm	28	**nr**	na
Export iron ore						
Locomotive efficiency	GTK 000/locomotive/month	38 866	43 110	44 000	**47 530**	55 000
Wagon cycle time	hours	85	93	78	**94**	76
Trains per day	number	nm	nm	12	**nr**	na
Service delivery						
General freight						
On-time departures (deviation from scheduled time)	minutes	350	284	225	**280**	225
On-time arrivals (deviation from scheduled time)	minutes	434	357	260	**356**	260
Export coal						
On-time departures (deviation from scheduled time)	minutes	234	209	160	**206**	120
On-time arrivals (deviation from scheduled time)	minutes	468	375	325	**332**	240
Export iron ore						
On-time departures (deviation from scheduled time)	minutes	161	67	60	**73**	60
On-time arrivals (deviation from scheduled time)	minutes	285	133	120	**140**	120
Human capital						
Employment equity	%	78	80	79	**82**	80
Training spend	% of personnel cost	2,2	2,6	2,9	**3,7**	3,4
Employee turnover	%	5	5	5	**4**	5
Number of Employee (permanent)	number	23 665	26 850	28 857	**29 489**	34 004
Safety, health and environment						
Cost of risk	% of revenue	7,0	4,9	5,5	**4,6**	5,5
DIFR	rate	1,22	0,90	1,25	**0,86**	1,20
Number of safety incidents	number	558	103	683	**755**	599
Number of derailments – Mainline	number	125	87	71	**85**	85
Number of derailments – Shunting	number	363	294	205	**296**	247

(a) *Excluding capitalised borrowing costs.*
nm *not measured.*
nr *not reported.*
na *not applicable.*

LOOKING AHEAD

1. Finance and funding

- Financial value creation targets set for the year ahead will be achieved by ensuring effective review and report back of business initiatives and financial performance evaluation on a monthly basis.

2. Optimising capital investments

- Continue to implement the R194 billion seven-year capital investment programme.
- Modernise the rolling stock fleet by maintaining and procuring new locomotives for General Freight and building new wagons.
- Adopt and execute the updated Project Lifecycle Process (PLP) methodology.
- Roll out the supplier development and localisation strategy.
- Finalise the PSP framework and create institutional capacity to implement PSP projects.

3. Market growth and penetration

- Volume growth is projected at an estimated 20 million tons in the year ahead, dependent on economic growth and increased demand for commodities.
- Develop and build a Customer Service Culture.
- Position the rail brand as the preferred freight transport mode in Africa.
- Implement a rural development growth strategy to complement the Branch Lines strategy and enhance community development.
- Create junior miner rail capacity.

4. Improving operational efficiencies

- Launch and implement operational development and performance initiatives to improve operational efficiency.
- Entrench the Scheduled Railway philosophy towards continuous improvement in operations and customer service delivery.
- Improve efficiency and reduce human error through rail technology utilisation, such as the use of on-board computers and cameras on locomotives as well as the Crew Management System.
- Improve network reliability through infrastructure upgrades, rail break reduction initiatives and increased network inspections.

5. Regulatory

- Continue to collaborate with the Departments of Public Enterprises and Transport on initiatives to establish policy certainty on rail reform.

6. SHEQ and sustainability

Safety and health

- Revitalise the level crossing policing campaign.
- Embed a safety oriented culture through the Road Map to Safety intervention.
- Implement consequence management practices as well as programmes that recognise and reward safe work action.
- Increase training interventions to promote adherence to Train Working Rules and standard operating procedures (SOPs) supported by supervisory skills training.

Environment

- Perform environmental impact assessments for major capital programmes and rehabilitate areas affected by rail operations.
- Ensure asbestos remediation and Hydrocarbon Pollution Elimination (HPE).
- Include 'carbon footprint' and 'climate change' initiatives in business operations and the logistics supply chain.
- Promote energy efficiency through the use of regenerative locomotive technology and driver training.
- Implement cradle-to-grave waste management processes.
- Implement the ISO 14001 Environmental Management System.

7. Human capital

- Create 4 379 jobs in the year ahead and 7 615 over seven years.
- Continue to promote operations capability and skills development by embedding long-term talent management programmes.

8. Governance, building organisational readiness and a high performance culture

- Further entrench the new Business Unit model by improving asset allocation and utilisation, enhancing turnaround times and efficiencies, and streamlining the integration of Transnet Engineering into the business units and R&C into the Rail network.
- Further embed compliance within the Rail network and the six business units, and measure compliance through a dynamic 'compliance maturity model'.
- Entrench the chosen Leadership archetype.
- Refine and embed the large-scale Organisation Health and Transformation Programme.
- Develop a 'leadership brand' and Employee Value Proposition (EVP).
- Embed sustainability into operations, targets, risk management and performance.


ANGER
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ENGINEERING

Engineering

Koedoespoort: Outside Bay 1 – Mandla Mabena (Electrician) and Fuluphelo Mwnonoe (Electrician) doing inspection on Class 43 Locomotive.

BUSINESS OVERVIEW

Transnet Engineering provides maintenance, repair, upgrade, manufacturing and support services to Freight Rail in South Africa and to other rail and terminal operators both regionally and internationally.

Services are provided for the following rail components:

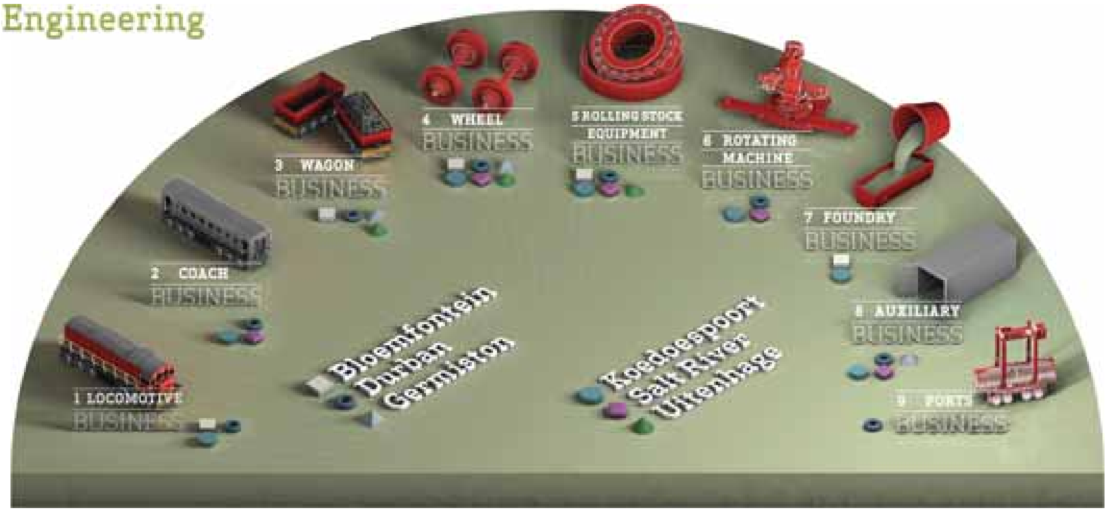
- Electric alternating current (AC), direct current (DC), and diesel locomotives.
- Wagons for various commodities, including coal, iron ore and fuel.
- Coaches for main-line, luxury and suburban passenger rail.
- Associated components and services (including cleaning and logistics services) for rotating machines, rolling stock equipment, cast components, wheels, tarpaulins, intermodal containers, and port and terminal equipment.

Transnet Engineering comprises nine businesses:

- Wagon business;
- Locomotive business;
- Coach business;
- Rolling stock equipment business;
- Rotating machines business;
- Wheel business;
- Auxiliary port equipment business;
- Foundry business; and
- Port business.

The wagon, locomotive and coach businesses are the primary customer-facing entities and revenue generators, while the other six operational businesses provide a supportive role within the organisation, with the exception of the auxiliary business, which focuses a substantial portion of its activity directly on serving Freight Rail. Transnet Engineering continues to grow its external revenue by focusing on major clients, particularly the Passenger Rail Agency of South Africa (PRASA).

Engineering



Key strategic MDS imperatives for Engineering include:

- Improving operational efficiencies and creating a safe working environment by implementing Lean Six Sigma principles, as well as targeted safety and environmental initiatives.
- Growing external revenue by diversifying operations into other markets, primarily the ports sector and African and South American markets, as well as enhancing regional integration.
- Strengthening partnerships with original equipment manufacturers (OEMs) to enhance existing skills and know-how and to create new market opportunities.
- Increasing research and development activities to expand technological capabilities and grow the product offering, including the development of a locomotive for the African market.
- Increasing the training of engineers, technicians and artisans.
- Implementing programmes for semi-skilled employees to create a pool of competent technical workers to replace the ageing workforce.
- Implementing an integrated port management system (IPMS).

PERFORMANCE AT A GLANCE

1. Finance and funding

- Transnet Engineering's internal revenue increased by 19,4% to R11,7 billion compared to R9,8 billion in the prior year. The increase was due to Freight Rail's increased demand for maintenance as well as the upgrade of locomotives and wagons to support volume growth in line with the MDS. Transnet Engineering's external revenue decreased by 7,2% to R1,4 billion (2012: R1,5 billion) mainly due to a reduction in coach sales to the Passenger Rail Agency of South Africa (PRASA).
- Net operating expenses increased by 13,4% to R11,6 billion (2012: R10,2 billion) mainly due to a 15,2% increase in energy costs, as well as a 32,6% increase in maintenance expenditure and a 27,0% increase in material costs resulting from increased activity levels.
- EBITDA increased by 41,5% to R1 474 million (2012: R1 042 million).
- Revenue per employee increased by 13,3% to R1 million (2012: 0,90 million).

2. Optimising capital investments

- Capital expenditure amounted to R1,3 billion for the year against a target of R890 million.
- Approximately 60,0% of the capital target was spent on expansion to assist Freight Rail in achieving its MDS objectives of increased volumes, improved reliability and availability.
- Transnet Engineering achieved a level 3 contributor B-BBEE rating.
- B-BBEE spend amounted to 80,7% against an annual target of 80,0%.
- Implementing SAP capital planning functionality to ensure improved efficiency.
- Investing in infrastructure equipment and green-technology energy, such as energy efficient lights, heat pumps and an oven control system.
- Investing in modern machinery to expedite the machinery processes.

Koedoespoort Bay 1: Vincent Coetzee (engine/alternator alignment) moving new Class 43 locomotive into position.

3. Growing volumes and market share

- Intensifying marketing activities in the African market to expand the organisation's regional footprint and enhance regional integration.
- Performing market research for the 1 067mm locomotive gauge market in Africa, Asia and South America with the aim of accessing markets and areas with growth opportunities.
- Increasing volumes for Freight Rail by creating additional capacity and optimising processes.
- Increasing OEM/COE certification for all major components to further improve fleet performance.
- Increasing capacity for suppliers.

4. Improving operational efficiencies

- Except for coal line locomotive availability, Transnet Engineering achieved all its operational key performance indicators (KPIs). This is an exceptional achievement in view of the fact that the heavy haul availability and reliability KPIs are based on world benchmarks.
- The reliability of the wagons on the ore line is becoming a new world benchmark for heavy haul lines, with average wagon reliability reaching 0,05 faults per million kilometres compared to the world benchmark of 0,2 faults per million kilometres.
- Coal line locomotive availability for the year was 89,2%. This was marginally below the target of 89,5% mainly as result of the sudden failure and extended repair time of a number of 11E transformers. Failure of the G30 inverters also negatively impacted on the availability of the 11E fleet. These inverters are now being replaced with modern state of the art inverters. Further, coal line locomotive availability was negatively impacted by a targeted programme to repair and maintain the unreliable locomotives on this line.
- Creating increased maintenance flexibility through satellite maintenance facilities.
- Implementing Lean Six Sigma practices in the organisation resulted in increased employee productivity.

5. Regulatory and key stakeholder engagement

MDS aligned stakeholder engagement initiatives included:

- Establishing a formal CSDP structure and aligning it to business and product development initiatives and procurement practices.
- Developing and implementing a communication strategy (MDS) to optimise internal stakeholder engagement.

PERFORMANCE AT A GLANCE

6. SHEQ

Safety

- Although a DIFR of 0,76 was achieved against a target of 1,00, the increase in confirmed and accepted 'noise-induced hearing loss' cases attributed to the increase in disabling injuries from 114 in the previous year to 120.
- The cost of risk was 2,1% against a target of 2,3%.
- 680 safety stations were established.
- There were no fatal injuries during the year – a 100,0% improvement compared to the previous year when one fatal injury was recorded.
- Five out of nine businesses, namely, coach, wheels, RSE, RM and auxiliary were recommended for OHSAS 18 001 Certification. The remaining businesses will be audited in the new contract.

Environment

- There were no level 1 environmental incidents.
- Level 2 environmental incidents were due to the malfunctioning of the effluent plant system in Kroonstad Diesel Locomotive depot.
- Conducted an assessment to determine the extent of the asbestos contamination in Koedoespoort.
- Increasing safety training and awareness programmes to accommodate new employees.

7. Human capital

- Employee headcount reached 12 752 against a target of 12 546 (2012: 12 572).
- A total of 2 481 vacancies were filled against a target of 2 339.
- Training spend (as a % of personnel cost) exceeded the target of 6,0% by 0,4%.
- Employee turnover increased compared to the previous year. Of total exits, retirements accounted for 2,0%, with voluntary exits accounting for 1,9%, and deaths 0,6%. Transfers to other divisions accounted for 11,5% of total exits whereas involuntary exits accounted for 1,8%.
- Training achievements were as follows:
  - 116 technicians were trained against a target of 100.
  - 428 qualified artisans were enrolled against a target of 200.
  - 45 engineers were trained against a target of 100.
- Collaborating with various Institutions of Higher Learning (FETs and Innovation Hub) through signed memoranda of understanding (MOUs) to enhance the pool of skilled engineers, artisans and technicians.

8. Governance, building organisational readiness and a high performance culture

- A SAP HCM System was developed, configured and finalised to enhance Performance Management.
- A performance enhancement plan was implemented for managers performing below a 2-rating.
- A change management strategy and plan were developed to ensure the organisation realises its project benefits.
- An e-recruitment system (ESS/MSS) was implemented.

9. Sustainable economic, social and environmental impact

- Engineering made strides in embedding sustainability into operations in 2013. In addition to the performance noted above, these developments are reflected in the SR 2013.

Operating Division performance

Salient features		Year ended 31 March 2013 R million	Year ended 31 March 2012 R million	% change
Revenue		13 063	11 266	16,0
– Internal		11 692	9 789	19,4
– External		1 371	1 477	(7,2)
Operating expenses		(11 589)	(10 224)	13,4
– Energy costs		(228)	(198)	15,2
– Maintenance		(309)	(233)	32,6
– Materials		(5 916)	(4 657)	27,0
– Personnel costs		(4 424)	(4 514)	(2,0)
– Other		(712)	(622)	14,5
Profit from operations before depreciation, derecognition and amortisation and items listed below (EBITDA)		1 474	1 042	41,5
Depreciation, derecognition and amortisation		(193)	(169)	14,2
Profit from operations before items listed below		1 281	873	46,7
Impairments and fair value adjustments		(6)	(19)	(68,4)
Net finance costs		(253)	(166)	52,4
Profit before taxation		1 022	688	48,5
Taxation		(290)	(194)	49,5
Profit after taxation		732	494	48,2
Total assets (excluding CWIP)	R million	9 820	7 597	29,3
Profitability measures				
EBITDA margin*	%	11,3	9,2	2,1
Operating margin**	%	9,8	7,7	2,1
Return on average total assets (excluding CWIP)***	%	14,7	12,5	2,2
Asset turnover (excluding CWIP)****	times	1,50	1,61	(6,8)
Capital expenditure^	R million	1 315	722	82,1
Employees				
Number of employees (permanent)	number	12 752	12 572	1,4
Revenue per employee	R million	1,02	0,90	13,3

* *EBITDA expressed as a percentage of revenue.*

** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of revenue.*

*** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of average total assets excluding capital work in progress.*

**** *Revenue divided by average total assets excluding capital work in progress.*

^ *Actual capital expenditure (replacement + expansion) excluding borrowing costs.*

Performance indicators

Key performance indicator	Unit of measure	2010 Actual	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target
Financial value creation							
EBITDA margin	%	8,2	12,3	9,2	13,2	**11,3**	14,1
Operating profit margin	%	6,0	10,5	7,7	11,7	**9,8**	12,5
Gearing	%	na	na	na	27,5	**48,5**	33,1
Net debt to EBITDA	times	na	na	na	0,9	**2,2**	1,08
Return on average total assets	%	8,5	15,8	12,5	19,6	**14,7**	19,4
Asset turnover	times	1,40	1,50	1,61	1,57	**1,50**	1,49
Cash interest cover	times	na	na	na	7,2	**2,3**	6,8
Infrastructure							
Capital expenditure[(a)]	R million	376	532	722	890	**1 315**	954
Operational efficiency							
General freight business							
Locomotive availability (active)	%	89,3	89,6	90,5	89,5	**90,8**	na
Locomotive reliability	faults per million km	16	28	25	25,0	**19,6**	na
Wagon availability (active)	%	93,7	93,8	94,2	94,0	**94,1**	na
Wagon reliability	faults per million km	0,88	0,79	0,62	0,60	**0,55**	na
Export coal							
Locomotive availability (active)	%	90,4	90,2	90,6	89,5	**89,2**	na
Locomotive reliability	faults per million km	36,11	44	33	45,0	**30,0**	na
Wagon availability (active)	%	97,0	97,6	98,0	97,5	**97,9**	na
Wagon reliability	faults per million km	0,14	0,13	0,18	0,17	**0,17**	na
Export iron ore							
Locomotive availability (active)	%	88,4	88,2	90,5	89,5	**91,7**	na
Locomotive Reliability	faults per million km	31,22	18	14	15,0	**9,6**	na
Wagon availability (active)	%	97,8	98,1	98,0	97,5	**98,3**	na
Wagon reliability	faults per million km	0,02	0,01	0,03	0,07	**0,05**	na
Human capital							
Training spend	% of personnel cost	4,2	3,5	5,8	6,0	**6,4**	6,0
Employee turnover	%	na	5,0	6,7	3,8	**18,9**	6,5
Employee Headcount (permanent)	number	12 677	13 001	12 572	12 546	**12 752**	12 633
Revenue per employee	R million	0,65	0,70	0,90	0,80	**1,02**	1,10
Safety, health and environment							
Cost of risk	% of revenue	na	1,8	1,6	2,3	**2,1**	2,3
DIFR	rate	0,81	0,93	0,73	1,00	**0,76**	0,79

(a) *Capital expenditure excludes capitalised borrowing costs.*

na *Not applicable.*

LOOKING AHEAD

1. Finance and funding

- Financial value creation targets set for the year ahead will be achieved by ensuring effective review and report back of business initiatives and financial performance evaluation on a monthly basis.

2. Optimising capital investment

- Pursue a capital investment target of R979 million for the year ahead, including R25 million for borrowing costs.
- Invest R166 million in the Trans-Africa Locomotive project, thereby enabling Transnet Engineering to be the first African country to design and manufacture a locomotive.
- Invest R72 million in an Ablution Upgrades project in line with the objectives of the culture charter to promote employee satisfaction and to provide a safe and healthy work environment.
- Invest R57 million in the CSR95 project to set up a new production line for manufacturing a new class of locomotives.
- Invest R57 million in the RSE Spring Shop project to improve the current method of manufacturing, thereby decreasing costs and increasing capacity in the long term.
- Invest R30 million to set-up a De Aar wagons maintenance facility, which aims to improve reliability and availability of locomotives and supports the national growth plan.

3. Growing volumes and market share

- Increase revenue and reduce the cost of doing business by improving existing products and processes.
- Increase revenue by developing new products for the local, African and international markets.
- Innovate around the design and development of forward-looking methods and technologies that would impact the next generation of products and processes.

4. Improving operational efficiencies

- Enable the Ports business to provide engineering services to ports and harbours across the SADC region.
- Increase the availability and reliability of equipment in support of Freight Rail's MDS requirements.

5. Regulatory

- Provide training on emerging regulation to the relevant internal stakeholders to facilitate regulatory compliance.
- Develop control plans for each critical regulatory compliance stipulation and monitor operational compliance with high-impact regulatory requirements.

6. SHEQ

Safety and health

- Continue to provide safety training and awareness programmes to ensure a reduction of incidents and an increase in systems efficiency.
- Develop programmes for new employees to mitigate SHEQ risks.
- Perform trend analyses on occupational illnesses and implement relevant interventions.
- Implement integrated SHEQ management software.
- Perform SHEQ related business impact assessments and standardise standard operating procedures (SOPs) across the business.
- Improve operational capability to respond adequately to operational disruptions and crises while protecting the safety and welfare of employees.

Environment

- Develop and implement waste management plans for all regional operations and implement recycling initiatives.
- Develop and implement the ISO 14001 environmental management system (EMS) and work towards certification.
- Ensure Transnet Engineering's industrial effluent plants comply in terms of treatment methods and discharge requirements.
- Continue to implement hydrocarbon pollution controls as per the three-year programme.
- Sustainability Working Committee enhancement and implement climate change initiatives.

7. Human capital

- Accelerate the development of female managers through the WIRE Programme.
- Increase the number of apprentices from 2 000 to 3 000.
- Continue to build supervisory capacity through the accredited Transnet Engineering Customised Programme and expand the pool of supervisors, especially women.
- Increase the representation of women to 30,0% of the total workforce.
- Increase the representation of people with disabilities (PwDs) to 2,0% of the total workforce.

8. Governance, building organisational readiness and a high performance culture

- Create functional alignment between internal audit practices and the operational management of compliance risk.
- Implement the approved Rail Engineering combined assurance plan.
- Implement strategic workforce planning, which includes a balanced scorecard performance management approach.
- Embed sustainability into operations, targets, risk management and performance.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NATIONAL PORTS AUTHORITY

National Ports Authority

Elevated view of new tandem lift ship-to-shore cranes in DCT at the Port of Durban.

BUSINESS OVERVIEW

Transnet National Ports Authority (National Ports Authority) operates as the landlord port authority responsible for the safe, efficient and effective economic functioning of the South African ports system, which it manages, controls and administers on behalf of the State. National Ports Authority owns and operates eight commercial ports situated in Durban, Richards Bay, Cape Town, Port Elizabeth, Ngqura, Mossel Bay, Saldanha and East London.

The business is divided into two key operational areas: port infrastructure and maritime operations. The port infrastructure segment is responsible for the planning, development and maintenance of port infrastructure. The maritime business manages marine operations, lighthouse services and dredging services. Marine operations encompass pilotage, towage and vessel berthing services, whereas the dredging component ensures that port and entrance channel depths are maintained. The lighthouse component ensures that aids to navigation, such as lighthouses and navigational systems, are optimally managed.

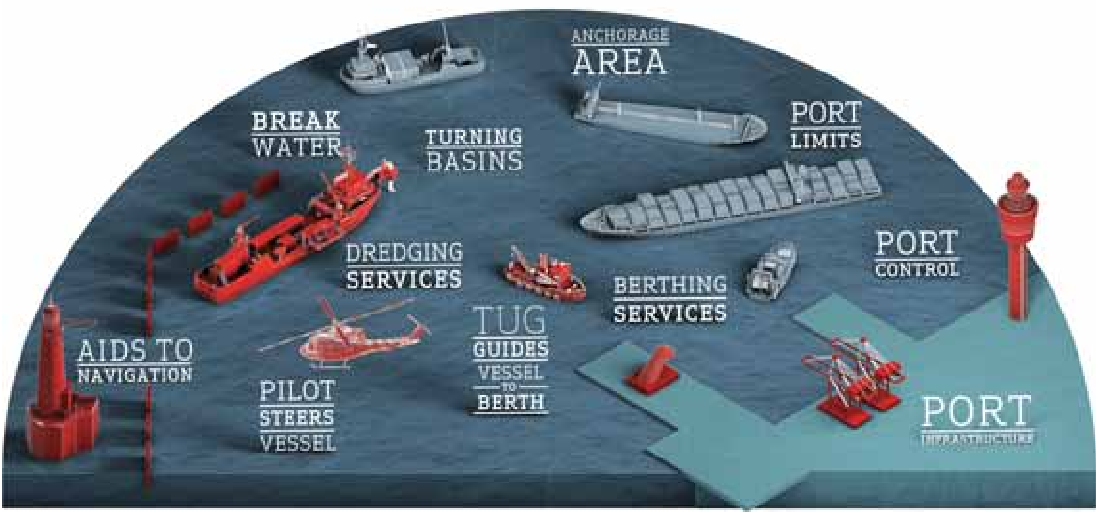
The major commodities handled at the ports include coal, iron ore, containers, automotives, steel, fruit, ferrochrome, petroleum products and manganese. Growth of these commodities is a function of local and global demand and supply, logistics infrastructure, capacity and supply chain efficiencies, which include port efficiencies.

On a wider economic front, National Ports Authority seeks to continually enhance its role in pursuing large scale market collaboration by partnering with customers and stakeholders, including the Ports Regulator, for the benefit of the national economy.

National Ports Authority operates within a national and international regulatory environment. Acts related specifically to the ports and maritime environment include, but are not limited to:

- National Ports Act;
- Inter Coastal Management Act;
- Merchant Shipping (Maritime Security) Regulations Act;
- International Code for the Security of Ships and Port Facilities; and
- International Maritime Dangerous Goods Code.

National Ports Authority



Key strategic MDS imperatives for National Ports Authority include:

- Delivering capital and infrastructure maintenance projects.
- Providing and influencing optimal solutions for market segments through the integrated commercial management of customer needs, whilst monitoring and responding to national and regional market trends and developments.
- Promoting joint capacity planning with all customers and stakeholders in the logistic supply chain to drive and provide integrated infrastructure solutions.
- Growing volume and revenue through strategic business development.
- Implementing an integrated port management system (IPMS).
- Improving land and port asset utilisation.
- Finalising the tariff model and pricing strategy.
- Ensuring financial sustainability by meeting volume demand through operational and infrastructure provision, and maintaining committed debt service coverage ratios.
- Improving total port operational performance through greater oversight and collaboration with marine and terminal operators.
- Implementing and monitoring licences for all port services and facilities.
- Improving and maintaining safety, health and environmental compliance.
- Developing human capital and targeting recruitment from succession pools.
- Improving procurement cycle times and proactively developing the supplier base.

PERFORMANCE AT A GLANCE

1. Finance and funding

- Revenue increased marginally by 0,9% to R8,3 billion (2012: R8,3 billion) mainly due to the negative impact of the automotive and container export rebate programme of R1,0 billion as well as relatively slow volume growth. This was offset by a decrease in the clawback provision to R729 million (2012: R1,4 billion) resulting from the Record of Decision issued by the Ports Regulator.
- Net operating expenses increased by 9,5% to R2,7 billion (2012: R2,5 billion), mainly due to a 28,8% increase in energy costs in line with electricity tariff increases and fuel price increases.
- Material costs increased by 11,9% to R75 million (2012: R67 million), mainly due to an increase in perway material.
- Total labour cost increased by 2,2% to R1 472 million (2012: R1 440 million) which was in line with the target for the year.
- Training cost increased by R33,7 million, mainly as a result of the introduction of the following training programmes:
  - Helicopter pilot training;
  - Cadet training;
  - Aircraft maintenance and aircraft avionics training;
  - Practical ship handling training; and
  - The MSC Shipping in Transport-Rotterdam training programme.
- Other operating costs increased by 26,3% to R566 million (2012: R448 million). The R118 million variance can be largely attributed to cost increases in the following operational areas:
  - Research and development: R15,9 million;
  - Information technology: R12,6 million;
  - Environmental management: R26,8 million;
  - Rental: R18,2 million;
  - Rates and taxes: R7,9 million; and
  - Internal audit fees: R9,4 million.
- EBITDA decreased by 2,9% to R5,6 billion (2012: R5,8 billion).

Ophelia Shabane (left) and Sipho Mnisi (right) both Tug masters, during the mooring process of a vessel at the Durban harbour.

- Implementing a port financial turnaround strategy; and tracking and measuring performance.

2. Optimising capital investments

- Capital investment of R1 698 million for the year.
- ACSA land was acquired for the development of the future Durban Dig-out Port (DDOP).
- All ports have been dredged to designed depths.
- Two Durban launches and one workboat were delivered for Saldanha Bay.
- 72,0% B-BBEE spend was achieved against a budget of 70,0%.
- Implementing the Asset Management Lifecycle Strategy to ensure assets are maintained in optimal condition.
- Revising all ports development framework plans (PDFPs) and aligning them with regional, town, and city planning directives as well as inputs from the Port Consultative Committee.

3. Growing volumes and market share

- Transshipment volumes were exceeded across the port system.
- Container volumes increased by 1,2% to 4 403 358 TEUs (2012: 4 352 278 TEUs).
- Dry bulk tonnage increased by 2,3% to 154 644 955 tons (2012: 151 173 612 tons).
- Break-bulk increased by 4,4% to 8 933 935 tons (2012: 8 559 299 tons).
- Developing a marketing plan to explore dredging opportunities across African ports.
- Targeting Ngqura as a transshipment hub for the SADC region as well as a provider of import/export services. Its strategic positioning will reduce the burden of transshipments at the key gateway port (Durban) for Southern Africa.
- Developing an 'Africa strategy' with key focus on driving regional integration, development and co-operation.
- Completing a CRM blueprint as a basis for segmenting customer account plans.
- Refining the organisation's value proposition in line with customer segments.
- Completing a new strategic business development plan to drive future volume growth.
- Finalising the marketing strategy which focuses primarily on market segmentation, positioning and ports development.

PERFORMANCE AT A GLANCE

4. Improving operational efficiencies

TEUs per STAT hour

- Productivity targets were exceeded by 20,0% on average for the ports of Ngqura and Durban, and fell 10,0% short of budget for the ports of Port Elizabeth and Cape Town. The below-target performance was primarily due to intemperate weather conditions (strong winds) slowing loading operations and ageing infrastructure (Port of Port Elizabeth) resulting in increased crane breakdowns.
- TEU/TON STAT hour targets achieved were as follows:
  - Durban containers increased by 2,0%;
  - Ngqura containers increased by 20,0% ; and
  - Saldanha iron ore increased by 2,0%.

Vehicle units per STAT hour

- All vehicle productivity targets were favourably exceeded at all ports, with the exception of the port of Port Elizabeth. This was due to longer ship turnaround times caused by intemperate weather.

Tons per STAT hour

- Loading rate targets were favourably exceeded for dry bulk cargo and specifically for iron ore at Saldanha. However, coal loading performance at Richards Bay Coal Terminal was 8,0% below budget. The unfavourable performance was due to the failure of loading equipment as well as the impact of intemperate weather throughout the year.

Anchorage waiting time

- Four out of the eight commercial ports performed favourably against set targets.
- Performance at Richards Bay, Durban, Port Elizabeth and Cape Town fell short of performance targets due to the following inhibiting conditions:
  - Adverse weather conditions.
  - Vessels arriving earlier or later than scheduled.
  - The failure of terminal loading equipment.
  - Berth outages due to construction activities at high productivity berths (Durban).
  - Industrial action by labour (Durban).
- Developing a ‘Holistic Operations Strategy’ to enable the business to focus on efficiencies across the port system and to promote a systematic way of achieving operational objectives.
- Concluding the criteria for terminal operators’ performance and norms, including the implementation of a daily/weekly productivity review, and a review of efficiencies and operational readiness. This enables operations to perform reliable deviation analysis when assessing and addressing port efficiency issues.
- Establishing Pilot Port Operations Centres (POC) in Durban and at Head Office to promote the adoption of a ‘systems view’ of total logistics in analysing port performance.

5. Regulatory and key stakeholder engagement

- The Ports Regulator engaged stakeholders on matters relating to the port tariff methodology and pricing strategy. Significant progress has been made on these issues with the support of the Ports Regulator.
- National Ports Authority issued terminal operators deemed licenses as required by the National Ports Act (2005). This process was completed on 17 July 2012.
- 'S57' licences issued to port service providers were audited to test compliance.

6. SHEQ

Safety

- A DIFR of 0,25 was achieved against a target of 0,77.

Environment

- A 16,0% saving was achieved on electricity consumption against a target of 4,0%.
- Biodiversity enhancement.

Social investment

- A key focus of the CSI strategy is the improvement of Mathematics, Physical Science and English at high school level to promote a solid academic foundation for future marine engineers. Accordingly, seven schools were 'adopted' in Cape Town, Port Elizabeth, East London, Johannesburg and Saldanha Bay. The schools' laboratories and libraries were refurbished and new desks and smart boards were provided. In addition, Saturday classes were offered for Mathematics, Science and English.
- Performing safety, health and environment (SHE) induction programmes according to schedule.
- Performing proactive terminal/tenant oversight audits as per the annual schedule and continuing to develop environmental sustainability awareness to assist with oversight procedures and audits.
- Undertaking new oversight procedures and performing SHE auditors training to achieve standardisation across all ports.
- Embedding a visible 'felt leadership' to create awareness for a safe working environment.

PERFORMANCE AT A GLANCE

7. Human capital

- 81,0% employee equity (EE) was achieved against a target of 76,0%.
- People with disabilities (PwD) represented 1,8% of the workforce against a target of 1,3%.
- Training spend (as a % of personnel cost) exceeded the target of 4,0% by 2,0%.
- Of total exits, retirements accounted for 43,3%, with voluntary exits accounting for 31,5%, and deaths 14,0%.
- There was a marked increase in the resignations of employees with critical skills. However, all critical positions have been filled.
- Finalising the 'job grading and remuneration' model.
- Aligning the training budget and training content to individual development plans (IDPs).
- Conducting various training programmes for marine, engineering, port planning, real estate and supply chain practices at the School of Ports.
- Completing talent management reviews.
- Aligning IDPs with critical skills development objectives and closing competency gaps in line with IDPs.
- Managing succession planning pipelines for strategic and critical positions via the talent management process.
- Establishing the African Maritime Training School of Excellence.
- 'In-sourcing' 18 helicopter cadet pilots to commence training and to enable the organisation to provide its own pilots for its helicopter fleet.

Port of Durban at night.

8. Governance, building organisational readiness and a high performance culture

- Shop floor audits were performed on schedule.
- Business continuity management (BCM) training and awareness programmes were conducted at all ports.
- Annual risk assessments were completed on schedule and recommendations implemented.
- The Enterprise Performance Management Office unit implemented and tracked strategic capital projects to promote timely delivery.
- The terminal operator concession model was completed and a guiding framework is in place.
- Action plans were developed following completion of the culture charter scoring and implementation is ongoing.

9. Sustainable economic, social and environmental impact

- National Ports Authority made strides in embedding sustainability into operations in 2013. In addition to performance noted above, these developments are reflected in the SR 2013.

Operating Division performance

Salient features		Year ended 31 March 2013 R million	Year ended 31 March 2012 R million	% change
Revenue		8 328	8 257	0,9
– Containers		3 319	4 027	(17,6)
– Break-bulk		250	244	2,5
– Dry bulk		820	821	(0,1)
– Liquid bulk		588	579	1,6
– Automotive		517	559	(7,5)
– Other		2 834	2 027	39,8
Operating expenses		(2 742)	(2 504)	9,5
– Energy costs		(353)	(274)	28,8
– Maintenance		(276)	(275)	0,4
– Materials		(75)	(67)	11,9
– Personnel costs		(1 472)	(1 440)	2,2
– Other		(566)	(448)	26,3
Profit from operations before depreciation, derecognition and amortisation and items listed below (EBITDA)		5 586	5 753	(2,9)
Depreciation, derecognition and amortisation		(1 266)	(1 248)	1,4
Profit from operations before items listed below		4 320	4 505	(4,1)
Impairments and fair value adjustments		108	255	(57,6)
Net finance costs		(1 723)	(1 427)	20,7
Profit before taxation		2 705	3 333	(18,8)
Taxation		(779)	(1 124)	(30,7)
Profit after taxation		1 926	2 209	(12,8)
Total assets (excluding CWIP)	R million	63 681	60 659	5,0
Profitability measures				
EBITDA margin*	%	67,1	69,7	(2,6)
Operating margin**	%	51,9	54,6	(2,7)
Return on average total assets (excluding CWIP)***	%	6,9	7,7	(0,8)
Asset turnover (excluding CWIP)****	times	0,13	0,14	(7,1)
Capital expenditure^	R million	1 698	1 749	(2,9)
Employees				
Number of employees (permanent)	number	3 584	3 422	4,8
Turnover per employee	R million	2,32	2,41	(3,7)

* *EBITDA expressed as a percentage of revenue.*

** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of revenue.*

*** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of average total assets excluding capital work in progress.*

**** *Revenue divided by average total assets excluding capital work in progress.*

^ *Actual capital expenditure (replacement + expansion) excluding borrowing costs.*

Performance indicators

Key performance indicator	Unit of measure	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target
Volume growth						
– Containers	000 TEUs	4 081	4 352	4 821,4	**4 403,3**	4 611
– Break-bulk	mt	8,7	8,6	11,5	**8,9**	10,7
– Liquid bulk	million kilolitres	41,9	42,6	40,2	**41,8**	42,2
– Dry bulk	mt	140,3	151,2	162,0	**154,6**	169,4
– Vehicles	Units	617 592	674 776	609 618	**667 266**	592 543
Financial value creation						
EBITDA margin	%	72,8	69,7	64,7	**67,1**	68,2
Operating profit margin	%	60,4	54,6	48,6	**51,9**	56,1
Gearing	%	nr	42,1	35,4	**43,2**	32,6
Net debt to EBITDA	times	nr	nr	3,3	**3,7**	2,20
Return on average total assets	%	9,6	7,7	6,8	**6,9**	10,2
Asset turnover	times	0,16	0,14	0,14	**0,13**	0,18
Cash interest cover	times	nr	4,2	3,1	**3,9**	4,0
Infrastructure						
Capital expenditure[(a)]	R million	2 031	1 749	2 376	**1 698**	2 554
Operational efficiency						
TEUs per STAT hour						
– Durban	TEUs/STAT hour	40	45	40	**53**	na
– Cape Town	TEUs/STAT hour	26	46	46	**44**	na
– Port Elizabeth	TEUs/STAT hour	36	32	37	**31**	na
– Ngqura	TEUs/STAT hour	nr	41	42	**51**	na
Vehicle units per STAT hour						
– Durban	Vehicles/ STAT hour	46	53	44	**53**	na
– East London	Vehicles/ STAT hour	67	73	72	**75**	na
– Port Elizabeth	Vehicles/ STAT hour	78	80	74	**66,0**	na
Tons per STAT hour						
– Richards Bay (RBCT)	Tons/STAT hour	2 237	2 377	2 440	**2 243**	na
– Saldanha (IOT)	Tons/STAT hour	3 316	3 453	3 550	**3 609**	na
Service delivery						
Anchorage waiting time (average hours)						
– Richards Bay	average hours	nr	48	30	**71**	30
– Durban	average hours	nr	63	46	**61**	46
– Port Elizabeth	average hours	nr	33	35	**56**	84
– Ngqura	average hours	nr	29	52	**44**	32
– Cape Town	average hours	nr	17	35	**53**	35
– Saldanha	average hours	nr	85	98	**30**	na
Human capital						
Training spend	% of personnel cost	4,0	4,3	4,0	**6,0**	8,0
Employee turnover	%	5,4	0,7	0,7	**4,9**	0,7
Employees headcount (permanent)	number	3 535	3 422	4 044	**3 584**	4 409
Revenue per employee	R million	2,3	2,4	2,1	**2,3**	2,5
Safety, health and environment						
Cost of risk	% of revenue	nr	2,0	1,9	**2,5**	2,4
DIFR	rate	0,80	0,66	0,77	**0,25**	0,7

[(a)] *Capital expenditure excludes capitalised borrowing costs.*

[nr] *Not reported.*

[na] *Not applicable.*

LOOKING AHEAD

1. Finance and funding

- Financial value creation targets set for the year ahead will be achieved by ensuring effective review and report back of business initiatives and financial performance evaluation on a monthly basis.

2. Optimising capital investment

- Implement the seven-year capital investment programme of R57,6 billion.
- Deepen the Durban Container Terminal berth 203, 204 and 205. Environmental authorisation is expected in August 2013, and the final design and execution business case is to be tabled with the Transnet Board in the 2014 financial year.
- Pursue the acquisition of adjacent sites to complement the development of the new dug out port. The approval for the acquisition of the supporting sites will allow further critical design and environmental work to commence before planned capital investment can begin.
- Continue the expansion of Cape Town Container Terminal to complete minor outstanding obligations.
- Finalise funding for FEL3 of the ore expansion project-phase 2 berth constructions, and commence same thereafter.
- Finalise the case for the development of the Ngqura Manganese Terminal and target operations by the 2018 financial year.
- Improve delivery of infrastructure and fleet maintenance by enhancing the implementation of the Asset Management Procedures and by improving the efficiency of the procurement of maintenance materials and services. Additional port inspections will be done to check the development of maintenance plans on SAP.

3. Growing volumes and market share

- Implement and review a new business development strategy.
- Promote integrated key account management so as to mitigate fragmented customer solutions.
- Market the national port system globally through effective promotional campaigns and improved market engagements.
- Pursue 's56' processes in the appointment of suitable operators for new terminals and repair facilities.

4. Improving operational efficiencies

- Enhance terminal oversight performance reviews.
- Continue to roll out and utilise operational centres to enable operational visibility of the port system supply chain.
- Adopt a systemic view of operational performance through operational centres and the analysis of the total impact of logistics on port performance.

5. Regulatory

- Finalise the tariff methodology and pricing strategy.
- Perform legislative oversight reviews for safety, health and environment (SHE).
- Monitor licence conditions for port services and facilities.

6. SHEQ

Safety and health

- Acquire additional tugs and dredgers for the marine fleet to mitigate safety risk and enhance energy management.
- Maintain the current good safety performance record and aim for zero tolerance for safety incidents.
- Strengthen the internal drive to improve staff participation in the annual health surveillance and management processes.

Environment

- Continue to improve sustainability reporting by implementing a reporting information system.
- Audit operational compliance with the Waste Act and update port waste management plans whilst standardising waste management procedures across all operations.
- Progress the implementation of Ports Air Quality Management Plans.
- Continue to implement plans to address contaminated land across all properties.
- Continue to perform tenants SHE audits as part of the Ports Act Terminal Oversight obligation.

7. Human capital

- Promote the recruitment of pilots and develop in-house pilotage skills.
- Increase training and development of staff, especially in critical areas such as technical, engineering, safety, operations, projects and ICT.
- Introduce measures to reduce employee turnover for the year ahead and to retain professionals with critical skills.
- Benchmark the retention strategies of other successful companies.
- Improve succession planning and management practices.
- Analyse and review exit documents to gauge key drivers and patterns for employee resignations and implement retention strategies accordingly.

8. Governance, building organisational readiness and a high performance culture

- Embed the values and behaviour encompassed in the culture charter by introducing change management initiatives across the organisation.
- Embed sustainability into operations, targets, risk management and performance.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PORT TERMINALS

Port Terminals

View of containers and new tandem lift ship-to-shore cranes at the Port of Cape Town.

BUSINESS OVERVIEW

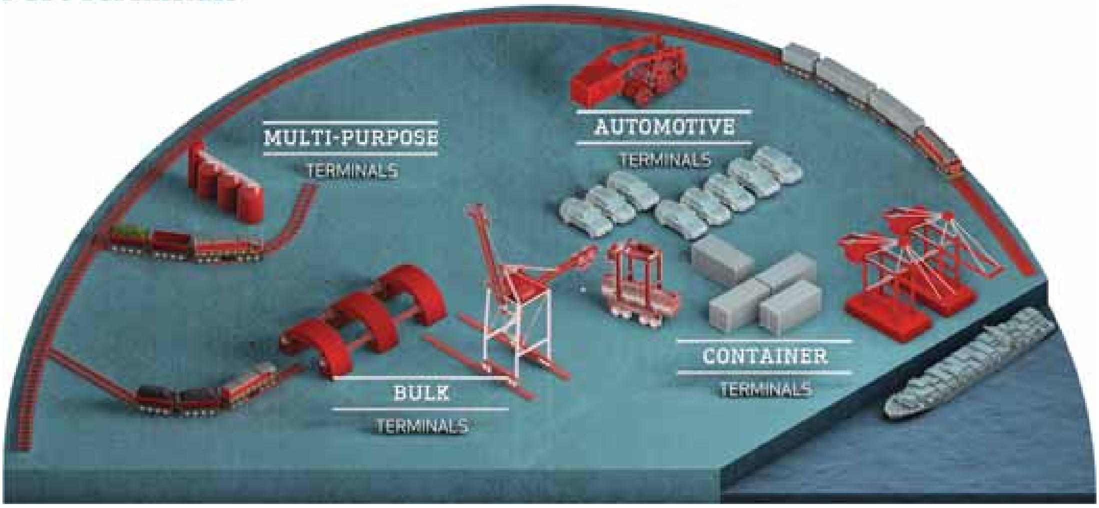
Transnet Port Terminals (Port Terminals) provides cargo handling services to a wide spectrum of customers from across the economy, including the shipping industry, vehicle manufacturers, and the agricultural and mining industries. Customers include shipping lines, freight forwarders and cargo owners.

Port Terminals manages 16 cargo terminal facilities across seven South African ports with a staff complement of 6 662. Its operations target four major market sectors, namely the automotive sector, containers, bulk and break-bulk, organised according to their respective geographical regions.

With more than 90,0% of the world's trade volumes being seaborne and approximately 98,0% of South Africa's exports conveyed by sea, the country's commercial ports play a strategic role by facilitating trade and helping to shape the economic growth and development of the entire southern African region.

The National Ports Act, No. 12 of 2005 promulgates the parameters within which the terminals operate.

Port Terminals



Key strategic MDS imperatives for Port Terminals include:

- Investment of R36,9 billion over the next seven years to create new capacity for terminals to meet projected demand.
- Enabling unconstrained growth in line with the NGP and NDP, with particular emphasis on capacity expansion.
- Creating world-class operations by continuously improving operational efficiencies.
- Expanding investments in infrastructure and equipment to facilitate growth, while harnessing supplier development and skills transfer strategies.
- Increasing Port Terminals' footprint in the rest of the world by operating terminals and offering operational, technical and systems guidance.
- Improving logistics for existing and new markets.
- Increasing the regional interconnectivity between the ports and rail of South Africa and Southern Africa.
- Developing and executing the maintenance strategy to ensure equipment reliability.
- Refining performance management systems.

PERFORMANCE AT A GLANCE

1. Finance and funding

- Revenue for the year increased by 5,2% to R7 424 million (2012: R7 055 million).
- The container sector's revenue increased by 5,4% to R4 003 million (2012: R3 799 million), albeit R882 million below target. The increase was primarily due to tariff increases as volumes were 1,6% below that of the previous year. Container performance fell short of targets as a result of lacklustre volumes in the wake of the European financial crisis as well as transshipments being 11,0% below target. Low transshipment volumes resulted mainly from shipping lines changing their routes to favour direct shipments as part of their austerity measures in the wake of the Euro zone crisis.
- Bulk sector revenue increased by 14,3% to R2 345 million (2012: R2 051 million) and exceeded the target of R2 337 million by R8 million. This was due to an increase in volumes as well as a favourable price variance against target for iron ore shipped through the bulk plant at Saldanha.
- Revenues in the Break-bulk sector reduced by 13,6% to R614 million (2012: R711 million) due to lower than expected demand. Revenue was, moreover, R123 million below the target of R737 million. The general international trend showed a decline in break-bulk volumes.
- Automotive volumes reflected marginal growth and faired favourably compared to the target for the year. Revenue, however, declined by 6,5% to R462 million (2012: R494 million) due to an unfavourable mix and was R40 million below the target of R501 million.
- Operating expenses were 12,1% up from the previous year but reflected a R268 million saving against the 2013 target. The year-on-year increase was mainly due to higher fuel and electricity costs, salary and wage increases and additional spend resulting from an increased focus on maintenance.
- Operating expenses further included supplier development (SD) spend of R43 million and enterprise development (ED) spend of R6 million respectively.

Richards Bay, Pier 608, Promise Mbuyazi operational supervisor (left) and Khanyi Mkhize cargo coordinator (right), next to new reach stacker and forklift.

- Despite upward pressure on costs, Port Terminals saved R268 million through stringent cost saving measures aimed at mitigating the adverse impact of the sluggish economic climate.
- The net impact on EBITDA was a 9,7% decrease to R1 996 million (2012: R2 211 million). This was also 24,2% below the target of R2 634 million. As a result, the EBITDA margin declined from 31,3% to 26,9%.
- Additional depreciation was primarily due to the focus on capital investment to create capacity ahead of demand. Furthermore, R2 billion worth of infrastructure assets were transferred to Port Terminals from the National Ports Authority in order to comply with the provisions of the National Ports Act. The decision to transfer was made after the completion of the 2013 target and had an unplanned impact on depreciation for the year.
- The operating profit margin decreased to 7,8% (2012: 15,3%).
- Cash interest cover was 7,3 times, compared to the target of 8,1 times due to the lower cash generated from operations after working capital changes. The target for cash generated from operations after working capital changes was R2 775 million, compared to the actual for the year of R3 602 million.

2. Optimising capital investments

- Capital investment increased by 50,0% to R2 208 million (2012: R1 472 million). This was largely due to the implementation of the MDS to create capacity ahead of demand.
- R501 million was invested at the Durban Container Terminal Pier 2 for seven tandem lift cranes. Of the seven, three were commissioned in 2013 and the remaining four are in the process of being commissioned.
- R304 million was invested at the Durban Maydon Wharf RoRo terminal for container handling equipment.
- Shiploader/unloader equipment accounted for a R149 million investment at Richards Bay.
- R438 million was invested in container handling equipment (mobile cranes, trucks, trailers and reach stackers).
- Orders were placed for four Ship-to-Shore (STS) Cranes and 18 Rubber Tyred Gantries (RTGs) for the Ngqura container terminal.

3. Growing volumes and market share

Automotive sector

- Automotive sector volumes increased by 0,3%.
- Volumes were 10,6% above target, with imports being 7,5% above and exports being 19,4% above target.

PERFORMANCE AT A GLANCE

Container sector

- It was a challenging year for the container sector, with global and local market conditions impacting heavily on both imports and exports.
- Container volumes for the year were 13,5% below target, with imports at 10,3% below, exports at 11,2% below, and transshipments at 22,3% below target.
- Transshipment traffic to South Africa reduced due to shipping lines changing their shipping routes to direct calls so as to reduce their operating costs.
- Durban volumes were hampered by berth outages at Pier 2 and low employee morale at Pier 1.

Bulk sector

- Overall the bulk sector reflected positive growth of 2,1% compared to the previous year. However, the recent unrest in the mining sector had an adverse effect on the delivery of bulk commodities to the ports, which has resulted in reduced bulk volumes.
- Bulk volumes were 6,5% below target, with imports at 15,1% below and exports at 6,4% below target.
- Iron ore exports were 7,6% below target partly due to strikes at the mines. Further, equipment failures and poor weather conditions impacted loading rates and volume throughput.
- Manganese exports were 6,8% above target due to increased demand from China.
- Chrome ore exports at Richards Bay were 10,3% above target due to an increase in demand as a result of the closure of ferrochrome furnaces (Eskom electricity buy-back).
- Coking coal imports were 8,7% below target due to lower demand.
- Port Elizabeth manganese volumes increased by 6,2%.

Break-bulk sector

- Break-bulk volumes reflected a negative growth of 9,0%, ending the year at 6,7% below target, with imports being 25,4% above target and exports 24,0% below target.
- Despite global economic factors impacting many of the major export commodities at Richards Bay, export volumes increased by 20,0%.
- Ferrochrome was significantly below target as a result of the Eskom electricity buy-back.
- Saldanha MPT steel exports were above target as a result of bumper mineral ore exports and the import of pellets was boosted by the 6,6% increase in iron ore exports.

4. Improving operational efficiencies

- Performance rates (units moved per hour) exceeded targets at the terminals of Durban, Port Elizabeth and East London, with Durban achieving 136 moves per hour against a target of 100; and Port Elizabeth and East London achieving 172 and 177 moves per hour respectively, both against a target of 150.
- Richards Bay Dry Bulk Terminal's (DBT) loading rate increased by 8,0%, from 678 tons per hour to 729 tons per hour. Further, a project to optimise the tippler process at DBT terminal enabled Port Terminals to achieve its 12-hour wagon tipping target per train.
- At the Saldanha Iron Ore Terminal the average tons loaded per hour improved by 6,0%, from 7 158 tons per hour to 7 558 tons per hour.
- Moves per Gross Crane Hour (GCH) and Ship Working Hour (SWH) were sluggish at Durban Container Terminal's Pier 1 due to challenges arising from insufficient planning and low employee morale. These issues have since been addressed and an improvement in performance is expected in the year ahead. These challenges resulted in a decrease to 23GCH for the year.
- Despite suffering the loss of two berths for most of the year (due to crane rail construction to accommodate the commissioning of seven new tandem lift Ship-to-Shore (STS) cranes), Pier 2 achieved a 21,7% improvement in GCH.
- The port of Ngqura achieved a 6,6% improvement in GCH.
- Cape Town Container Terminal achieved a 10,0% improvement in GCH.
- Implementing a Truck Appointment System at Durban Container Terminal's Pier 2.
- Launching a customer satisfaction drive with 'March' being labelled as "Customer Focus" month. This included performing customer perception surveys and implementing corrective plans.

5. Regulatory

- Port Terminals applied for 19 terminal operator licences and has been issued with all its terminal operator licences with effect from 1 July 2012, except for the Ngqura Container Terminal.
- A Container Terminal Operator Licence has been granted for Ngqura in terms of section 57 of the National Ports Act, pursuant to the Minister of Transport issuing a section 79 directive. Port Terminals is to operate the Port of Ngqura for a limited period of three years, with effect from 3 October 2012, subject to the National Ports Authority beginning a competitive process for the licensing of the Port of Ngqura in accordance with section 56 of the National Ports Act.
- Current legislation posed a challenge during the year, in that the National Commercial Ports Policy and the National Ports Act do not adequately address the role of a State-owned Company in a developmental state. The legislation further promotes inter- and intra-port competition rather than promoting a complementary system of ports, which is critical to support a single call strategy for the shipping lines to reduce the sea freight cost.

PERFORMANCE AT A GLANCE

6. SHEQ

Safety

- Port Terminals achieved a DIFR of 0,45, which was below the target of 0,80.
- The cost of risk was limited to 3,1%, and below the target of 3,24%.

Environment

- Zero environmental incidents occurred during the year.
- All terminals are certified ISO 14001 Environmental Management System compliant.
- Promoting value-driven and proactive safety leadership to improve safety awareness and behaviour. This includes monitoring three key performance indicators, namely: number of safety incidents; the cost of risk as a percentage of revenue; and the disabling injury frequency rate (DIFR).
- Embedding the Five Ss Programme (systems, surveillance, sharing of lessons learned, sanitation and self-care) to support ‘fitness for duty’, and to prevent uncontrolled, unplanned absenteeism.
- Refining and embedding the integrated SHEQ/RS management system for all elements, namely: safety, health, environment, quality and railway safety management.
- Undertaking external safety audits to ensure sustained assurance. NOSA undertook 16 Safety audits nationally.
- Embedding the ‘19 critical safety controls’ by implementing the OHSAS 18001 safety and health programme.
- Performing historical reviews of electrical consumption and engaging specialists to guide the Business in reducing usage. This included installing 468 electricity meters across the port terminals.
- Improving fuel consumption through the straddle carrier replacement programme.
- Undertaking water usage reviews and initiating a process whereby water meters are being installed at all facilities to ensure water usage remains in line with sustainability objectives.
- Placing environmental management emphasis on bulk terminals (Saldanha, Richards Bay and Port Elizabeth), where environmental challenges are prevalent.

7. Human capital

- Black professionals represented 81,4% of the total workforce against a target of 75,0%.
- People with disabilities (PwD) represented 1,4% of the workforce against a target of 1,3%.
- Women represented 23,0% of the workforce compared to the target of 30,0%.
- Training expenditure amounted to 2,2% of personnel costs, exceeding the target of 2,8%.

- Employee turnover as at 31 March 2013 was 4,8% (280 employees) compared to the 7,6% target.
- Of total exits, retirements accounted for 31,4% (88 employees); voluntary exits accounted for 24,3% (68 employees); deaths accounted for 17,5% (49 employees); employer-initiated separations accounted for 16,4% (46 employees) of total exits; and secondments accounted for 2,1% of total exits (six employees).
- Employee permanent headcount increased by 7,3%, albeit the poor economic climate prevented the expected 32,0% increase in employee numbers.
- 141 apprentices were recruited against a target of 139; 59 Artisans qualified against a target of 46; 89 Technical employees were recruited against a target of 70; and 96 PwD were recruited against a target of 70.
- A total of 4 216 employees were trained during the year, which included:
  - Registering seven women on the Port Terminals Women in Operations Programme.
  - Enrolling 54 learners on GIT, EIT and TIT programmes.
  - Enrolling 30 unemployed learners on the Certificate in Freight Handling Learnership Programme.
  - Enrolling 26 PwD learners on the Business in Administration Learnership Programme.
- Implementing temporary staff facilities at Durban Pier 1, with permanent facilities under construction and due for completion in 2014.
- Introducing internal employee mentoring to foster 'business case development' skills. Fifteen planner mentors were trained and are now able to deliver both basic and advanced training.
- Operator training was conducted for the ship unloader in Richards Bay.

8. Governance, building organisational readiness and a high performance culture

- Operational readiness projects were introduced for new tandem lift cranes.
- The People Transformation Unit was established and mobilised to realign employees' personal visions with the strategic intent of the MDS as well as promoting the values of the organisation.
- Separate and distinct incentive schemes were aligned into a single Container Sector Productivity Scheme (CSPS). Previously each container terminal had a separate collective agreement governing its container incentive scheme. Following consultations with labour, the new scheme was implemented on 1 November 2012 and is subject to a review after six months.

9. Sustainable economic, social and environmental impact

- Port Terminals made strides in embedding sustainability into operations in 2013. In addition to the performance noted above, these developments are reflected in the SR 2013.

Operating Division performance

Salient features		Year ended 31 March 2013 R million	Year ended 31 March 2012 R million	% change
Revenue		7 424	7 055	5,2
– Containers		4 003	3 799	5,4
– Bulk		2 345	2 051	14,3
– Break-bulk		614	711	(13,6)
– Automotive		462	494	(6,5)
Operating expenses		(5 428)	(4 844)	12,1
– Energy costs		(439)	(379)	15,8
– Maintenance		(282)	(248)	13,7
– Materials		(350)	(316)	10,8
– Personnel costs		(2 714)	(2 519)	7,7
– Other		(1 643)	(1 382)	18,9
Profit from operations before depreciation, derecognition and amortisation and items listed below (EBITDA)		1 996	2 211	(9,7)
Depreciation, derecognition and amortisation		(1 416)	(1 133)	25,0
Profit from operations before items listed below		580	1 078	(46,2)
Impairments and fair value adjustments		(20)	2	(>100,0)
Net finance costs		(342)	(315)	8,6
Profit before taxation		218	765	(71,5)
Taxation		(91)	(221)	(58,8)
Profit after taxation		127	544	(76,7)
Total assets (excluding CWIP)	R million	16 249	12 299	32,1
Profitability measures				
EBITDA margin*	%	26,9	31,3	(4,4)
Operating margin**	%	7,8	15,3	(7,5)
Return on average total assets (excluding CWIP)***	%	4,1	8,8	(4,7)
Asset turnover (excluding CWIP)****	times	0,52	0,57	(8,8)
Capital expenditure^	R million	2 208	1 472	50,0
Employees				
Number of employees (permanent)	number	6 662	6 211	7,3
Revenue per employee	R million	1,11	1,14	(2,6)

* *EBITDA expressed as a percentage of revenue.*

** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of revenue.*

*** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of average total assets excluding capital work in progress.*

**** *Revenue divided by average total assets excluding capital work in progress.*

^ *Actual capital expenditure (replacement + expansion) excluding borrowing costs and including capitalised decommissioning restoration liabilities.*

Performance indicators

Key performance indicator	UoM	2011 Actual	2012 Actual	2013 Target	**2013 Actual**	2014 Target
Volume growth						
Containers	'000 TEUs	4 017	4 305	4 897	**4 237**	4 600
Break-bulk	mt	10,3	8,9	10,3	**9,7**	10,4
Bulk	mt	67,5	74,0	82,0	**75,6**	84,8
Vehicles	units	617 588	672 536	609 618	**674 231**	593 064
Financial value creation						
EBITDA margin	%	34,5	31,3	32,0	**26,9**	31,0
Operating profit margin	%	18,7	15,3	17,4	**7,8**	11,6
Gearing	%	na	na	35,1	**37,4**	42,0
Net debt to EBITDA	times	na	na	1,5	**2,3**	2,4
Return on average total assets	%	10,5	8,8	11,6	**4,1**	5,8
Asset turnover (excluding CWIP)	times	0,56	0,57	0,64	**0,52**	0,45
Cash interest cover	times	na	na	8,1	**7,3**	4,8
Infrastructure						
Capital investments[(a)]	R million	866	1 472	2 551	**2 208**	1 859
Operational efficiency						
Moves per gross crane hour						
– DCT Pier 1[#]	number	26	27	30	**23**	28
– DCT Pier 2 (prime berths)[#]	number	23	23	28	**28**	30
– CTCT[#]	number	25	28	32	**31**	32
– PE	number	25	27	25	**27**	27
– Ngqura[#]	number	24	30	32	**32**	32
Containers moves per ship working hour						
– DCT Pier 1	number	40	44	53	**43**	53
– DCT Pier 2 (prime berths)	number	47	42	55	**62**	68
– CTCT	number	46	57	48	**55**	55
– PE	number	37	38	38	**40**	45
– Ngqura	number	40	47	50	**54**	55
Container dwell time						
DCT Pier 1 and 2 (average)[(c)]	days	na	na	4	**3**	3
Truck turnaround time						
DCT Pier 1[#]	minutes	45	43	35	**47**	35
DCT Pier 2[#]	minutes	46	44	35	**32**	35
CTCT[#]	minutes	na	na	35	**21**	35
Ngqura[#]	minutes	na	na	35	**33**	35
RB MPT(Bulk)[#]	minutes	na	na	20	**26**	35
RB MPT(Containers)[#]	minutes	na	na	35	**18**	35
Loading rate (per hour)						
– Saldanha Iron Ore Terminal	tons	6 959	7 242	7 880	**7 899**	8 094
RB DBT – loading	tons	660	678	700	**729**	700
RB DBT – offloading	tons	425	445	500	**502**	500
Service delivery						
Container terminal berthing delays (hour-contractual)[(b)]	hours	na	na	16	**22,4**	na
Human Capital						
Training spend	% of personnel costs	3,7	4,7	2,8	**2,2**	3,1
Employee turnover	%	5,5	5,1	7,6	**4,8**	7,5
Employee headcount(permanent)	number	5 867	6 211	8 183	**6 662**	7 269
Revenue per employee	(R million)	1,08	1,14	1,17	**1,11**	1,23
Safety, health and environment						
Cost of risk	% of revenue	na	3,04	3,24	**3,15**	3,30
DIFR	rate	0,51	0,62	0,80	**0,45**	0,78

[(a)] *Excluding the capitalisation of borrowing costs and including capitalised decommissioning restoration liabilities.*
[(b)] *Container terminal average.*
[(c)] *Target refers to imports.*
[#] *Shareholder Compact 2013.*
[na] *Not applicable.*

LOOKING AHEAD

1. Finance and funding

- Financial value creation targets set for the year ahead will be achieved by ensuring effective review and report back of business initiatives and financial performance evaluation on a monthly basis.

2. Optimising capital investment

Invest R36,9 billion in port infrastructure over the next seven years (from 2014 to 2020). Strategic investments planned for the period include:

- Richards Bay Expansion Project: R6,3 billion.
- Expansion of Ngqura Container Terminal by 700 000 TEUs per annum: R1,1 billion.
- Expansion of the Saldanha Iron Ore Terminal from 60mtpa to 82mtpa: R3,5 billion.
- The creation of a two-berth manganese facility at the Port of Ngqura to create capacity of 12mtpa: R7,2 billion.
- Capacity creating projects at Richards Bay terminals: R0,9 billion.
- Various projects aimed at creating capacity to meet the projected demand (80,0% of total investment is focused on expansion projects).

3. Growing volumes and market share

- Continue to develop a customer-centred culture to support and sustain superior customer service delivery within Port Terminals' existing market.
- Create innovative strategies to deliver planned volumes under evolving market conditions. This could lead either to steady incremental improvements or radical change in productivity, process efficiency and service delivery.
- Increase the scope of Port Terminal's operations by including other components of the logistics supply chain as well as exploring terminal operations outside of South Africa. Opportunities will be explored for moving beyond a concentration of Port Terminals' ship-to-shore activities (and vice versa) and quayside storage activities.

4. Improving operational efficiencies

- Continue to improve operational efficiencies with respect to moves per gross crane hour (GCH) and ship working hour in light of increased competition resulting from the provisions of the National Ports Act. Port Terminals anticipates a 32 average GCH at both Ngqura Terminal and Cape Town Container Terminal in the year ahead, with Durban Container Terminal's Pier 2 averaging 30 GCH for its prime berths.
- Improve GCH at Durban Container Terminal's Pier 2 with the introduction of the seven tandem lift ship-to-shore cranes, which can lift up to four six-metre containers simultaneously. The full potential of these cranes will only be realised in future years when operational planning and vessel stows are enhanced to use its tandem lift functionality.

- Maintain truck turnaround time below the industry norm of 35 minutes. The implementation of a mandatory truck booking system at Durban Container Terminal and a new staging area for Pier 1 will contribute towards the optimum turnaround of trucks.
- Continue to address existing operational processes to improve rail turnaround times.

5. Regulatory

- Gear towards a bid to operate the Ngqura Container Terminal as a transshipment hub within its group of complimentary container terminals.
- Prepare for the bid to operate the manganese terminal in the Port of Ngqura.

6. SHEQ

Safety and health

- Continue to promote a value-driven and proactive safety leadership ethos and embed a progressive approach to change human factors to improve safety and behaviour.

Environment

- Continue to roll out the environmental plan to strengthen and support the strategy and direction for the integrated SHEQ/RS Management System (an integrated system to manage safety, health, environment and quality/railway safety).
- Prioritise the monitoring and management of air emissions as a result of Port Terminals' activities to minimise environmental impacts.
- Continue to implement environmental plans at the bulk terminals where environmental challenges are prevalent and ensure legal compliance as a minimum standard for all environmental aspects.
- Maintain the ISO 14001 Environmental Management Systems at all terminals to control, minimise and reduce environmental impacts.
- Commission the Reverse Osmosis Plant in Saldanha.
- Continue to improve fuel consumption with the straddle carrier replacement programme.

Quality

- Maintain the ISO 9001 Quality Management system at all terminals and continually improve performance against quality parameters.

7. Human capital

- Increase permanent headcount from 6 662 in 2013 to 7 268 in the year ahead, with a projected increase of 8 297 by 2020.
- Increase expenditure in the recruitment of women and PwD.
- Finalise a workforce plan (aligned with the MDS) which informs recruitment targets.
- Increase skills development, and target training spend at 3,1% of personnel cost.
- Implement a benchmarked talent management tool and retention strategy to retain critical, priority and scarce skills.
- Continue to build ever-stronger labour relations by adhering to the formal engagement strategy document; continuing with informal social sessions; and sharing sustainability reports with labour/union representatives.

8. Governance, building organisational readiness and a high performance culture

- Continue to safeguard corporate governance by ensuring statutory compliance with the National Ports Act across the Business through Port Terminals' Compliance Risk Management Plan and Minimum Control Framework.
- Embed sustainability into operations, targets, risk management and performance.


GEA
GEA

PIPELINES

Pipelines

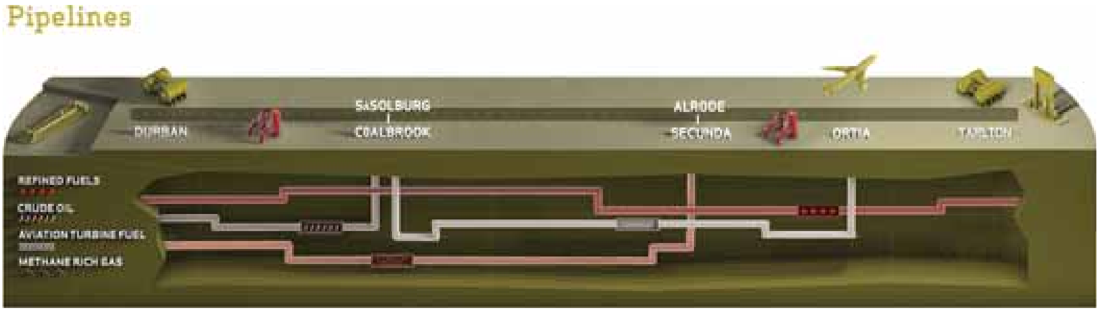
Storage tank for refractionator at Tarlton.

BUSINESS OVERVIEW

Transnet Pipelines (Pipelines), established in 1965, performs a strategic role in the petroleum products supply-chain by ensuring the security of product supply to the inland market area on behalf of its clients. This is achieved through petroleum and gas pipeline infrastructure spanning 3 800 kilometres traversing five provinces. This infrastructure includes depots, pump stations, workshops, a tank farm and a Refractionator.

The pipeline system is the most efficient, environmentally sensitive, reliable and preferred mode of transport for bulk petroleum products.

The business is regulated by the National Energy Regulator of South Africa (NERSA) and is governed by the Petroleum Pipelines Act, No 60 of 2003 (Petroleum Pipelines Act), and the Gas Act, No 48 of 2001 (Gas Act).



Key strategic MDS imperatives for Pipelines include:

- Completing Phase 1 of the New Multi-Product Pipeline (NMPP), thereby enabling an increase in volume throughput in the NMPP to meet market demand for the next decade.
- Providing an efficient and reliable end-to-end logistics service to the South Africa and the southern African oil industry.
- Developing the unregulated side of the business to ensure growth and economic sustainability. This entails exploring opportunities in Africa and utilising the 50 newly acquired rail tank cars to increase over-border traffic to Botswana to support regional integration.
- Exploring new technology and operating philosophies to address the operational efficiency of the pipeline. The new motors installed on the NMPP pump stations are showing visible operational improvements as well as enhancing Pipelines' sustainability drive.
- Continuing Pipelines' focus on safety, risk and environmental sustainability. Various projects have been initiated to ascertain the carbon emissions footprint, water and electricity usage and the impact of the business on the environment. This footprint will be used to set improvement targets.
- Ensuring adherence to all regulatory and legislative requirements and promoting a pervasive culture of sound controls and governance throughout the organisation.
- Contributing to the development of core skills for the pipeline and petrochemical industry through the Transnet Academy.

PERFORMANCE AT A GLANCE

1. Finance and funding

- Revenue for the year increased by 35,0% to R2 829 million after clawback (2012: R2 096 million).
- The R733 million revenue increase is mainly due to a 31,58% increase in petroleum revenue granted by NERSA in its 2013 financial year tariff determination as well as the net positive clawback of R83 million and the unwinding of the levy of R42 million. The year's net positive clawback of R83 million (based on the application of the NERSA Petroleum Pipelines Tariff Methodology) is due to the unwinding of the previous year's clawback of R483 million, which has been partially offset by the clawback of R400 million recognised in the current year.
- The year-on-year cost increase in operating expenditure of 12,0% is driven by the 24,7% increase in energy costs (higher Eskom tariffs) as well as the NMPP trunk-line being in operation for the full financial year. The operation of the NMPP trunk-line for the year resulted in an increase in other operating costs, such as servitude maintenance, insurance and telecommunication costs.
- EBITDA increased by 44,1% compared to the previous year. EBITDA after clawback amounted to R2 164 million (before clawback – R2 039 million) compared to the previous year of R1 502 million (2012: before clawback – R1 554 million).
- The return on average total assets declined by 0,7% due to the higher average NMPP asset balance in the current year.
- Cash generated from operations after changes in working capital (excluding the levy) increased by 6,0% from the previous year, due mainly to an improvement in operating profit, which was partially offset by a reduction in working capital from the previous year.
- Pipelines received a R1,5 billion levy inclusive of VAT (R4,5 billion, inclusive of VAT over a three year period) from the Department of Energy (DoE) in line with the grant funding agreement with the DoE. The receipt for the current year constitutes the final payment as per the grant funding agreement with the DoE.
- All key financial value-creation KPIs were exceeded by successfully aligning the tariff methodology, cost containment practices and effective financial controls.

Amanda Apleni (Mechanical engineering technician) de-pressurising at Alrode.

2. Optimising capital investments

- Pipelines achieved R2,8 billion of the R11,4 billion seven-year capital investment plan.
- The 66,0% annual achievement of the target in the 2013 financial year is mainly due to the inclement weather delays experienced in the NMPP project.
- To date, the construction of the coastal and inland terminals is 68,0% complete. Completion will culminate in the finalisation of Phase 1 of the NMPP.
- The Telecontrol projects progressed well during the year, with one depot being completed and three depots scheduled for completion in the 2014 financial year.
- The prefeasibility studies for the fire upgrade of 25 sites have been completed and the engineering, procurement and construction management (EPCM) contract for the feasibility phase has been awarded. The execution phase has been approved and will commence in the 2014 financial year.
- The security upgrade project is on track according to the planned schedule.

3. Growing volumes and market share

- Refined products transported increased by 3,1% mainly as a result of the NMPP trunk-line coming into operation.
- Volumes transported from the coast increased by utilising the Durban-Johannesburg pipeline (DJP) with drag reducing agent (DRA) concurrently with the New Multi-Products Pipeline (NMPP).
- The total petroleum volumes transported in the system were 15,9 billion litres compared to the target of 18,0 billion litres.
- The 18,0% decrease in crude volumes is attributed to the extended Natref shutdown.
- Pipelines met 99,0% of all planned orders placed on the pipeline system for delivery.
- Total petroleum volumes transported decreased significantly compared to the previous year due to the combined impact of the economic downturn and the extended Natref shutdown.
- The substandard quality, unreliability and poorly timed delivery of imported products negatively impacted the scheduling of the pipelines and ultimately resulted in volumes lost.
- The lack of appropriate client infrastructure prevented niche grades of fuel to be transported in the pipeline.
- The volatile fuel price affected market demand, which together with supply challenges negatively impacted volume targets.
- Regular customer interaction ensured a good understanding of customers' long-term strategic requirements, which are being factored into Pipelines' long-term commercial plan.

PERFORMANCE AT A GLANCE

4. Improving operational efficiencies

- The 24" NMPP trunk-line was operational for the full financial year.
- Operating cost per Mℓ.km improved by 16,0% against the target of R106 Mℓ.km, mainly due to an improvement in energy efficiency as well as effective cost management.
- Labour cost per Mℓ.km improved by 8,1%.
- Combined utilisation for the DJP and NMPP was 117Mℓ/w, exceeding the target of 112Mℓ/w.

5. Regulatory and key stakeholder engagement

- NERSA approved an 8,53% increase in allowable revenue for the 2014 financial year petroleum pipelines tariff application.
- NERSA's final decision on the 2014 to 2016 multi-financial year storage facility and piped gas applications are pending.
- A preliminary assessment of the piped-gas application from NERSA reflected allowable revenue that is marginally higher compared to that applied for by Pipelines.
- Pipelines delayed the filing of a multi-financial year petroleum pipeline tariff application due to the uncertainty of the capitalisation of key NMPP assets, as well as the requirement to validate engineering on the NMPP project.
- The delay in removing the incremental inland transport levy to compensate oil companies for the differential between pipeline tariffs and other transport modes to pipeline-fed areas during the NMPP construction, has resulted in a loss of volumes.

6. SHEQ

Safety

- The DIFR rating was 0,81 compared to a target of 0,80. No serious injuries or fractures were recorded.
- Vehicle incidents per million kilometres travelled increased by 22,9% against target. There were no major injuries associated with these incidents.
- 66 security incidents were reported compared to a target of 54, mainly due to an increase in cable theft incidents. Concrete encasing of cables where possible are being investigated.

Environment

- Four spill incidents occurred during the year and remediation of the sites is in progress.
- No gas leaks were recorded in the year.
- The protected biodiversity offset area to be established around the Jameson Park fuel Terminal (in accordance with Pipelines' NMPP EIA approval), is still under review. The area is demarcated by the Lesedi municipality as an environmentally sensitive area with protected species.

- Performing audits of emergency plans at all sites. Findings were satisfactory.
- Performing the 2013 financial year NOSA audit. Results are imminent.
- Conducting site-specific SHEQ risk assessments and implementing appropriate controls.
- Establishing sustainability baselines and developing improvement plans.
- The Environmental Management Plan and associated training were rolled out during the year.

7. Human capital

- Employment equity (EE) targets were exceeded with black employees representing 83,0% of the total workforce against a target of 80,0%.
- People with disabilities (PwD) represented 2,8% of the workforce against a target of 1,0%.
- Women represented 30,0% of the workforce compared to a target of 27,0%.
- Training expenditure amounted to 11,5% of personnel costs against a target of 9,2%.
- Employee turnover has increased by 35,8% compared to the previous year, mainly as a result of retirements and transfers.
- Employee permanent staff headcount has decreased by 0,6% from 631 to 627.
- Uploading the Strategic Workforce Plan tool and rolling out training.
- Commencing the accreditation of all training programmes at the School of Pipelines.
- Achieving 90,0% completion of the Outcomes Based Modular Learning (OBML) artisan training programme.
- Aligning the recruitment plan with the NMPP project execution plans and dates.
- Implementing training programmes identified through the talent management process.

8. Governance, building organisational readiness and a high performance culture

- Pipelines delivered value and service excellence by aligning resources and behaviours to its stated strategic objectives in line with the MDS.
- The values of the Transnet Culture Charter were further embedded during the year with targeted awareness and training programmes.

9. Sustainable economic, social and environmental impact

- Pipelines made strides in embedding sustainability into operations in 2013. In addition to the performance noted above, these developments are reflected in the SR 2013.

Operating Division performance

Salient features		Year ended 31 March 2013 R million	Year ended 31 March 2012 R million	% change
Revenue		2 829	2 096	35,0
– Refined and synthetics		1 529	1 023	49,5
– Aviation fuel		60	38	57,9
– Crude		841	837	0,5
– Gas		86	121	(28,9)
– Handling		73	63	14,3
– Other		115	66	74,2
– Clawback and levy		125	(52)	(340,4)
Operating expenses		(665)	(594)	12,0
– Energy costs		(192)	(154)	24,7
– Maintenance		(49)	(44)	11,4
– Materials		(10)	(12)	(16,7)
– Personnel costs		(275)	(266)	3,4
– Other		(139)	(118)	17,8
Profit from operations before depreciation, derecognition and amortisation and items listed below (EBITDA)		2 164	1 502	44,1
Depreciation, derecognition and amortisation		(547)	(383)	42,8
Profit from operations before items listed below		1 617	1 119	44,5
Impairments and fair value adjustments		(46)	13	(461,5)
Net finance costs		(298)	150	(298,7)
Profit before taxation		1 273	1 282	(0,8)
Taxation		(391)	(374)	4,5
Profit after taxation		882	908	(2,9)
Total assets (excluding CWIP)	R million	19 458	19 285	0,9
Profitability measures				
EBITDA margin*	%	76,5	71,7	4,8
Operating margin**	%	57,2	53,4	3,8
Return on average total assets (excluding CWIP)***	%	8,3	9,0	(0,7)
Asset turnover (excluding CWIP)****	times	0,15	0,17	(11,8)
Capital expenditure^	R million	2 799	4 507	(37,9)
Employees				
Number of employees (permanent)	number	627	631	(0,6)
Turnover per employee	R million	4,51	3,32	35,8

* *EBITDA expressed as a percentage of revenue.*

** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of revenue.*

*** *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of average total assets excluding capital work in progress.*

**** *Revenue divided by average total assets excluding capital work in progress.*

^ *Actual capital expenditure (replacement + expansion) excluding borrowing costs and including capitalised decommissioning restoration liabilities.*

Tarlton storage tanks at night.

Performance indicators

Key performance indicator	Unit of measure	2010 Actual	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target
Volume growth							
– Refined	Mℓ	10 864	10 997	10 119	11 976	**10 432**	10 812
– Crude	Mℓ	5 108	5 457	5 171	4 927	**4 237**	4 901
– Synthetics[(a)]	Mℓ	616	422	376	na	**208**	n/a
– Avtur	Mℓ	1 163	1 149	1 075	1 118	**1 005**	1 037
Total petroleum products	Mℓ	17 751	18 025	16 741	18 021	**15 882**	16 750
Gas	million m^3	455	470	494	492	**472**	561
Storage	Mℓ	na	na	na	898	**857**	879
Financial value creation							
EBITDA margin	%	60,0	61,7	71,7	72,0	**76,5**	71,6
Operating profit margin	%	30,7	32,5	53,4	52,7	**57,2**	51,5
Gearing	%	na	na	na	51,1	**44,8**	50,5
Net debt to EBITDA	times	na	na	na	5,5	**4,2**	5,5
Return on average total assets	%	7,0	7,0	9,0	6,8	**8,3**	6,6
Asset turnover	times	0,23	0,22	0,17	0,13	**0,15**	0,1
Cash interest cover	times	na	na	na	2,9	**3,7**	1,7
Infrastructure							
Capital expenditure[(b)]	R million	3 067	6 077	4 507	4 208	**2 799**	3 268
Integrity repairs and replacements (Rand/Mℓ.km) (nominal)[(e)]	Rand/Mℓ.km	na	na	na	5,4	**0,7**	3,0
Normal maintenance costs (Rand/Mℓ.km) (nominal)[(e)]	Rand/Mℓ.km	na	na	na	9,7	**6,8**	13,9
Operational efficiency							
Capacity utilisation – (actual usage: capacity) (Mℓ/week)							
– NMPP[(c)]	Ratio	na	na	40%	56:84	**51:84**	48:84
– DJP[(d)]	Ratio	101%	102%	93%	56:68	**66:82**	56:68
– Crude	Ratio	83%	85%	78%	95:134	**80:134**	94:134
– Avtur	Ratio	87%	89%	83%	22:24	**17:24**	20:24
– Gas(actual usage: capacity)	Ratio	na	na	na	41:57	**39:57**	39:57
Tank turns[(e)]	times	na	na	na	36	**33**	31
Operating cost per Mℓ.km (Nominal: Real)[(f)]	R/Mℓ.km	na	na	na	106:101	**89**	122
Labour cost per Mℓ.km (Nominal: Real)[(f)]	R/Mℓ.km	na	na	na	37:35	**34**	42
Electricity consumption[(e)]	kWh/Mℓ.km	230 231[(g)]	236 117[(g)]	31	32	**29**	29
Service delivery							
'Off spec' volumes (delivered)	l/bnl	na	na	na	500 000	**541 288**	500 000
Number 'off spec' delivery events	no/1 000 dockets	na	na	na	0,53	**0,08**	0,53
Ordered versus delivered volumes	%	na	na	na	93	**100**	95
Planned vs actual delivery time (% of deliverables within two hours of plan)	%	na	na	na	91	**77**	80

Key performance indicator	Unit of measure	2010 Actual	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target
Human capital							
Training spend (% of employee cost) (incl NMPP)	%	5,2	5,1	12,6	9,2	**11,5**	8,6
Training man-days per employee (days)[e]	number	na	na	na	15	**10**	15
Employee headcount (permanent)	number	570	567	565	660	**627**	732
Employment equity (% of black employees)	%	76,0	77,0	81,0	80,0	**83,0**	83,0
Female employees (% of headcount)	%	na	na	na	27,0	**30,0**	30,0
Physically challenged Employee (% of headcount)	%	na	na	na	1,0	**2,8**	3,0
Employee turnover[e]	%	3,9	4,0	5,9	6,0	**6,6**	6,0
Absenteeism index[e]	%	1,60	1,20	1,60	1,70	**1,96**	1,70
Safety, health and environment							
Cost of risk[e]	% of revenue	na	na	2,2	3,0	**2,5**	3,0
Number of petroleum spillages per 1 609 kilometres of pipeline[e]	number	5[h]	6[h]	3[h]	62	**17**	22
Number of storage spillages per billion litres of storage capacity[e]	number	na	na	na	2	**587**	498
Number of gas leaks	number	na	na	na	Zero	**Zero**	Zero
Number of security incidents	number	na	72	61	54	**66**	69
Number of safety incidents							
– Number of vehicle incidents per million kms travelled[e]	number	109	76	22	3,58	**4,40**	3,58
– Number of health and safety incidents	number	na	na	na	31	**31**	30
DIFR	rate	0,54	0,33	0,21	0,80	**0,81**	0,85
Number of level 1 non-compliance incidents to operating licence per year	number	na	na	na	Zero	**Zero**	Zero

[a] *Transfer of synthetic components done by customer using own pipeline from the 2013 financial year.*

[b] *Capital expenditure excludes capitalised borrowing costs and includes capitalised decommissioning restoration liabilities.*

[c] *NMPP partially operational from last quarter of the 2012 financial year (January 2012).*

[d] *DJP will be withdrawn from petroleum service from the 2015 financial year.*

[e] *International and national benchmark KPIs.*

[f] *Base financial year 2012.*

[g] *Measured in these years in ZAR terms, not kWh/Mℓ.km.*

[h] *Measured in these years without regard to distance (ie 1 609 kilometres).*

[na] *Not applicable.*

LOOKING AHEAD

1. Finance and funding

- Financial value creation targets set for the year ahead will be achieved by ensuring effective review and report back of business initiatives and financial performance evaluation on a monthly basis.

2. Optimising capital investment

- Aim to complete the tele-mechanical control projects in the 2015 financial year.
- The decision on the future use of the DJP will determine the timing of the NMPP Phase 2 investment.
- Prioritise the security and fire upgrade projects going forward.
- Manage the completion of the NMPP project by continuing to enhance and prioritise progress against schedules and budgets.

3. Growing volumes and market share

- Provide clients with an end-to-end logistical service, which will include other modes of transport (rail and road).
- Explore the operation and management of terminals and depots not owned by Pipelines.
- Perform a feasibility study to establish an import terminal.
- Identify opportunities in Africa to transfer the requisite skills to manage, operate and maintain pipelines in Africa.

4. Improving operational efficiencies

- Develop a long-term solution for transporting jet-fuel in the multi-products pipeline system to comply with the future clean fuels specification.
- Utilise the terminals on the NMPP trunk-line to improve the operational efficiency and flexibility of the system.
- Explore the introduction of penalties or alternative measures to improve capacity utilisation of the pipeline system.
- Continue to monitor and benchmark efficiencies, using the findings of a formal benchmark study to identify areas for improving efficiencies.

5. Regulatory

- File the 2015 financial year petroleum pipelines application on 1 August 2013 and investigate the feasibility of filing a multi-year application.
- The NMPP prudency review being conducted by NERSA will commence in the 2014 financial year.
- The 2013 financial year petroleum pipelines and piped gas annual regulatory financial reports will be filed at the end of July 2013.
- Meet the construction licence conditions for the commissioning of the terminals, as non-achievement will impact the 2015 financial allowable revenue.

6. SHEQ

Safety and health

- Establish site-specific safety programmes to address and mitigate the increase in injuries.
- Continue to promote the Transnet Safety Culture Charter.
- Strive for an overall NOSA 5-star rating in Pipelines.
- Adopt the Business Continuity Management (BCM) ISO 2301 standard.
- Establish and implement an effective medical surveillance programme to identify and mitigate risks to individuals and the Company.

Environment

- Continuously improve energy efficiency and other sustainability measures.
- Engage regulatory authorities in terms of air emission licences and permits for spill-basin waste water discharge.
- Finalise the process for establishing the biodiversity offset at Terminal 2.
- Fully implement waste management procedures in Pipelines.

7. Human capital

- Successfully complete the OBML programme for all Pipelines artisans.
- Ensure that the workforce plan meets and aligns with the market demand strategy.

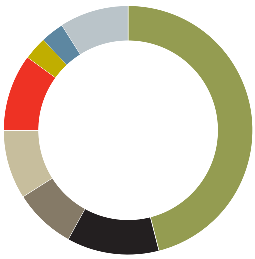
8. Governance, building organisational readiness and a high performance culture

- Establish a fully accredited School of Pipelines for the local and African petrochemical industry.
- Embed sustainability into operations, targets, risk management and performance.

Appendix A

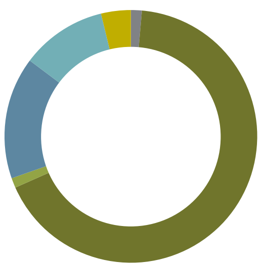
IR Refer to Looking Ahead on page 31 for further information.

Seven-year capital investment plan commodity split (R billion)



- General Freight 46,4%/R142,7 billion
- Export coal 11,6%/R35,7 billion
- Bulk 8,5%/R26,0 billion
- Export iron ore 9,0%/R27,6 billion
- Other 8,6%/R26,5 billion
- Piped products 3,1%/R9,6 billion
- Break-bulk 3,0%/R9,2 billion
- Maritime containers 9,8%/R30,2 billion

Seven-year capital divisional split (R billion)



- Freight Rail R194,4 billion
- Engineering R5,3 billion
- National Ports Authority R57,6 billion
- Port Terminals R36,9 billion
- Pipelines R9,6 billion
- Specialist units R3,7 billion

Market Demand Strategy (MDS) key focus areas 2014-2020

The operating and financial performance of the Company for the financial year ending 31 March 2013 in the first year of the Market Demand Strategy – provides Transnet with a stable base to continue execution of the MDS. The emphasis in the year ahead will remain on:

- Proactive capital investment to support the growth;
- Accelerated volume growth;
- Significant productivity and operational efficiency improvements;
- Continued financial stability;
- Policy engagement to provide regulatory certainty;
- Human capital development and job creation; and
- Enhanced economic, social and environmental value creation.

Highlights

Capital investment plans

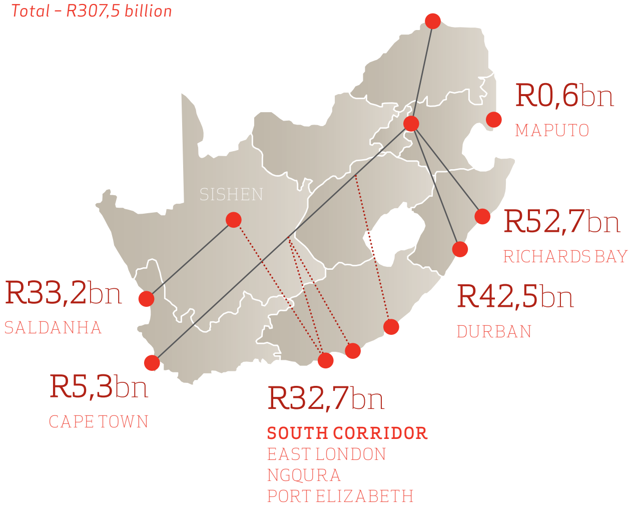
Total capital investment for the period 2013-2020 is targeted at R307,5 billion, distributed per commodity group, Operating Division, asset type, corridor, and expansion/replacement capital as depicted alongside.

Priority projects

Capital investments by major project over seven-year period to 2020.	R billion
Export coal line investment to grow to 97,5mt.	32,4
Export iron ore line to increase capacity to 82,5mt.	19,3
General Freight Business investment to increase capacity to 180,3mt.	142,7
Maritime containers investment to increase capacity at ports to 8,4m TEUs.	30,2
Bulk investment to increase capacity at ports to 232mt and terminals to 127mt.	37,6
Break-bulk investment to sustain capacity at ports at 31mt and terminals at 15mt.	9,2
NMPP investment to increase capacity to 8,7blpa.	6,6

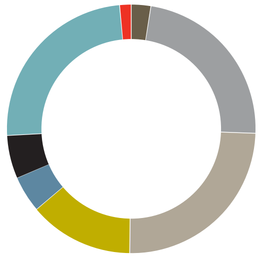
Investment plan viewed by allocation to strategic corridors

National – countrywide investments – R140,5 billion
Location-specific investment – R167,0 billion
Total – R307,5 billion

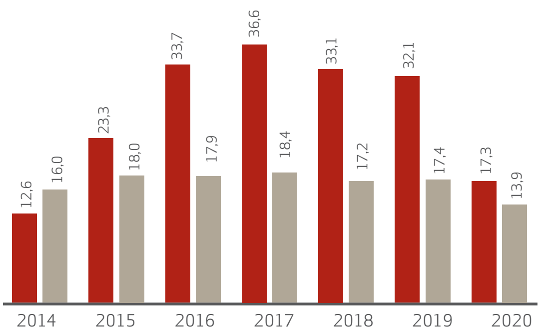


Freight Rail, Corporate Centre and General Freight investments (wagons, infrastructure and locomotives) have been classified as national investments (which cut across all corridors) except for R10,6 billion for Freight Rail manganese expansion to 16mt which is allocated to the south corridor.

Seven-year capital investment plan by asset type (R billion)



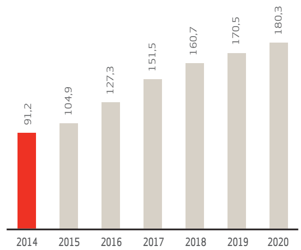
Expansion versus replacement (R billion)



Volume targets

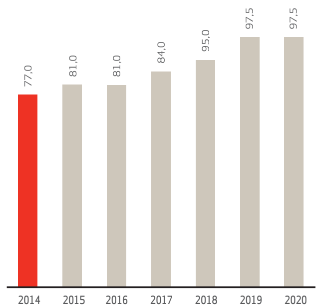
The Company plans to grow volumes by increasing market share, thus enabling it to allocate capacity to emerging miners, deliver demand for port services, and ensure security of fuel supply. These plans will be supplemented by an integration of systems across all Operating divisions in order to allow for a seamless customer service.

General freight (mt)



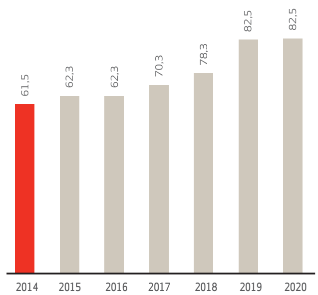
Six-year CAGR: 12,0%

Export coal (mt)



Six-year CAGR: 4,0%

Export iron ore (mt)



Six-year CAGR: 5,0%

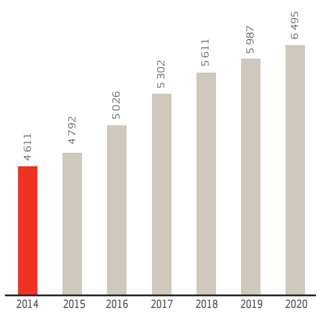
Freight Rail restructured its general freight business during the 2013 financial year to create the following focused business units which are now operational:

- Agriculture and bulk liquids business;
- Coal business;
- Containers and automotive business;
- Iron ore and manganese business;
- Mineral mining and chrome business;
- Steel and cement business; and
- International business.

- A number of 'take-or-pay' commercial agreements and service level agreements are targeted for completion in 2014 with the RBCT coal exporters.
- Capacity for junior B-BBEE coal miners is being created in various port and rail initiatives, including rail-serviced centralised coal loading terminals in designated locations.
- Mining of Waterberg reserves is expected by 2015 with initial tonnages of 18,6mtpa.
- A coal corridor could emerge in the Eastern Cape if mining in Indwe and Molteno proceed.
- Reviews of tariffs and operations to make Maputo/Navitrade viable for junior B-BBEE coal miners.

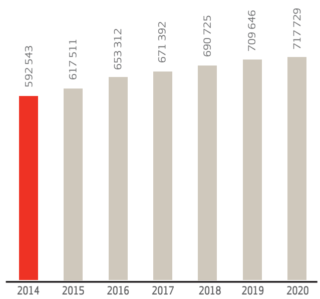
- The Assmang 14mt contract was concluded and signed in October 2012.
- Two junior miners, Burk Mining and Tata Steel, received an allocation in 2013. This is additional to Kumba and Assmang volumes.
- Further allocation of capacity for other smaller mines is being assessed, but is largely dependent on dedicated access for small scale miners.
- Negotiations are underway to free up capacity from major miners for more junior miners.
- The development of a multi-user loading facility has been included into the iron ore line expansion study.
- The iron ore line will standardise the locomotive fleet with additional 15Es to increase efficiency and volumes.
- South Africa will continue to hold its world market share of 5,0% of seaborne iron ore.

Containers through ports
('000 TEUs)



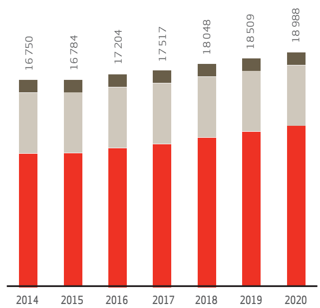
Six-year CAGR: 5,9%

Automotives through ports
(units)



Six-year CAGR: 3,2%

Petroleum products though pipelines
(billion l)



Six-year CAGR: 2,1%

Refined Crude Avture

- Commodity strategies for containers will be concluded in 2014.
- Focus on customer experience management.
- Roll-out of Transnet integrated contracts encompassing rail and port Operating divisions.
- Capacity creating projects are planned for the DCT (Pier 1 and Pier 2), NCT and CTCT.
- By 2020, the container handling capacity (at dedicated container terminals) will be 8,4 million TEUs (versus current capacity of 7,4 million TEUs) based on a simulated productivity of 28 moves per gross crane hour.

- Engagements ongoing with all major manufacturers to design and optimise integrated logistics solutions to integrate commercial contracts and Service Level Agreements.
- East London to Gauteng port and rail corridor has opened an alternate channel for the auto sector to the Gauteng market.
- Integrated rail-port pricing with a single Transnet-wide tariff.
- Key trial runs have been successful on the Gauteng to Port Elizabeth rail service.
- Industry export sales are expected to increase by 30% or 83 000 vehicles during 2014.

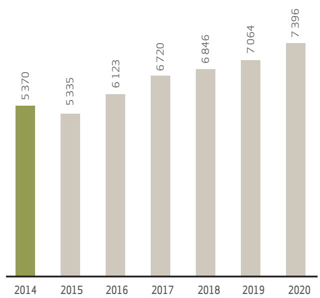
- An integrated liquid bulk strategy and roll-out plan for Freight Rail, Pipelines and National Ports Authority is due for implementation in 2014.
- Licensing of terminal operators at ports has been completed with emphasis on new B-BBEE entrants for new facilities, especially at the ports of Durban and Richards Bay.

Productivity and efficiency priorities

Freight Rail

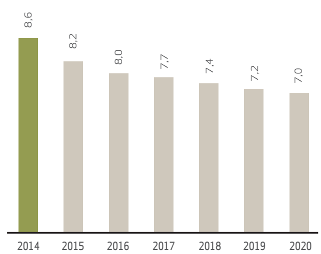
- Freight Rail will operate as a scheduled railway – operating to a train plan that is appropriately resourced to optimise capacity and deployment of assets to extract efficiencies.
- Locomotive and wagon standardisation, allocation and deployment to flows and corridors.
- Utilise planning tools such as Plato Rail and new train planning and resourcing system.
- Continue to build operational skills capacity.
- Implement Lean Six Sigma principles of problem solving and variability reduction in operations.
- Embark on a turnaround programme, partnering with all stakeholders to focus on reducing dwell times.
- Implement a service design review.
- Utilise technology to improve efficiency and reduce human error viz Integrated Asset Trading Management System, hand held devices, on-board computers and telemetre tracking.
- Roll out an operational process audit to encourage discipline, governance and adherence to procedures including order-to-execution workflows.
- Implement rail break reduction initiatives and increased network inspections.
- Migrate from copper co-axial to fibre optic cables.
- Continue the implementation of crew management systems.

General freight – locomotive efficiency ('000 GTK/loco/month)



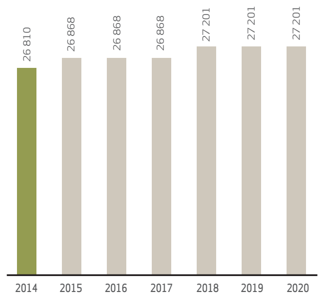
Six-year CAGR: 5,5%

General freight – wagon turnaround time (days)



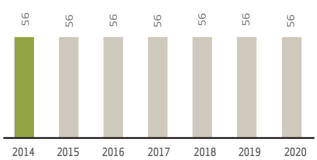
Six-year CAGR: (3,4%)

Export coal – locomotive efficiency ('000 GTK/loco/month)



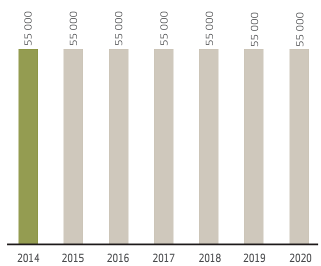
Six-year CAGR: 0,2%

Export coal – wagon cycle time (hours)



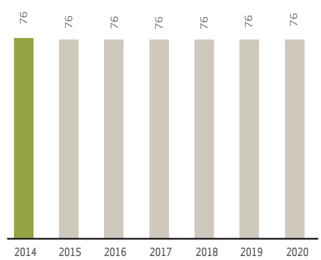
Six-year CAGR: 0,0%

Export iron ore – locomotive efficiency ('000 GTK/loco/month)



Six-year CAGR: 0,0%

Export iron ore – wagon cycle time (hours)

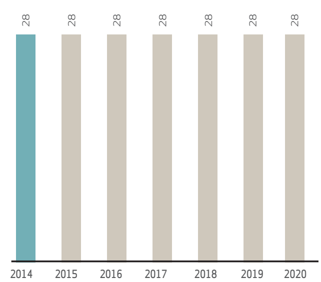


Six-year CAGR: 0,0%

Port Terminals and National Ports Authority

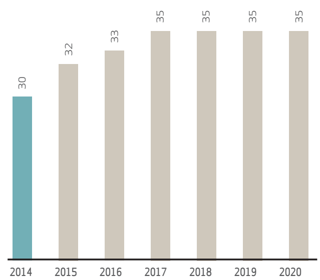
- Optimise container operations at Durban Container Terminal (DCT):
  - Increase moves per gross crane hour at Pier 1 and 2; and
  - Optimise gate processes to reduce truck turnaround time at Pier 1 and Pier 2.
- Roll out productivity improvement drive to focus on operations, safety, health and environmental standard operating procedures (SOPs).
- Host formal engagement sessions with stakeholders and operators on performance issues, targets and interventions.
- Implement marine information system to enable automated resource scheduling and allocation of marine resources.
- Conduct behaviour-based safety awareness and develop, pilot and roll out an operational resource model through the organisation structure.
- Roll out of port operational centres.
- Establish integrated audit teams comprising SHE, security, operations and maintenance expertise to conduct audits.

Moves per gross crane hour (GCH) – DCT – Pier 1



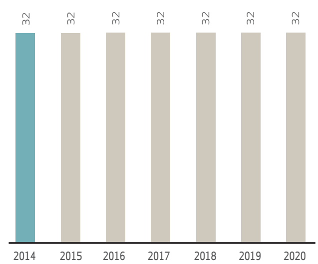
Six-year CAGR: 0,0%

Moves per gross crane hour (GCH) – DCT – Pier 2 (prime berths)



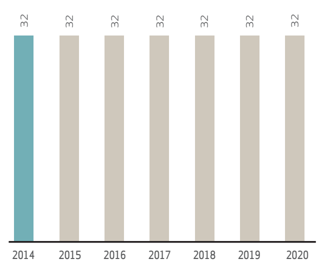
Six-year CAGR: 2,6%

Moves per gross crane hour (GCH) – Ngqura



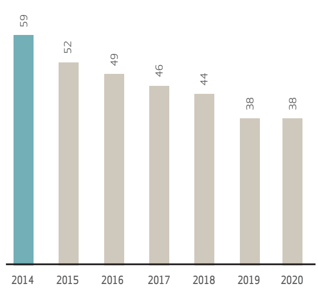
Six-year CAGR: 0,0%

Moves per gross crane hour (GCH) – Cape Town



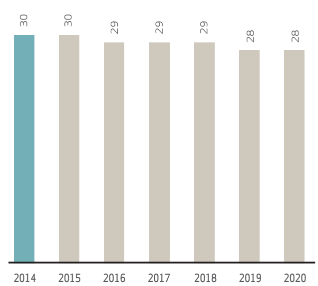
Six-year CAGR: 0,0%

Average ship turnaround time – Durban (containers)



Six-year CAGR: (7,1%)

Average ship turnaround time – Cape Town (containers)

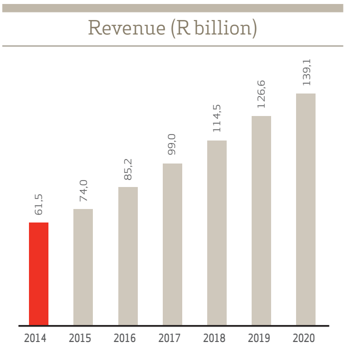


Six-year CAGR: (0,6%)

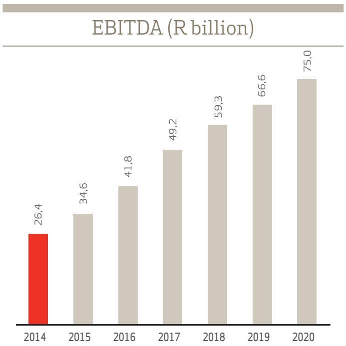
Financial and funding plan

Financial and funding plan requirements for the period to 2020 are as follows:

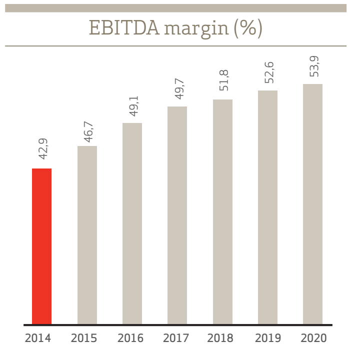
Financial highlights

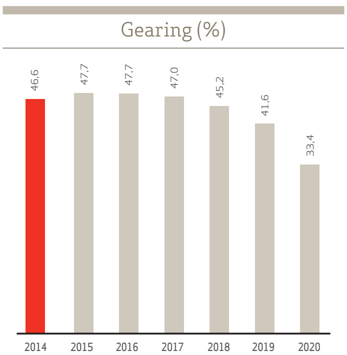


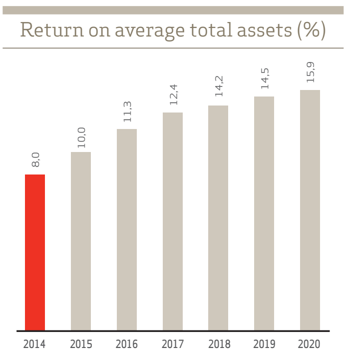
Six-year CAGR: 14,6%

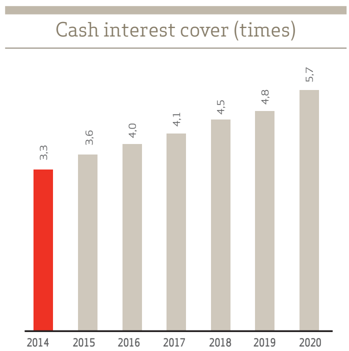


Six-year CAGR: 19,0%









Funding plan

The funding plan objective is to ensure that the Company has sufficient liquidity to meet all its requirements, without breaching the key financial ratios and to maintain the Company's investment grade credit rating. The 2014 funding plan builds on the success of the past six years by continuing to diversify sources of funding and explore innovative funding solutions that seek to minimise any constraint the aggressive capital investment plan may have on Transnet's financial position.

- The Company's net funding requirements for the next seven years amounts to R67,87 billion, which will be funded from diverse funding sources, driven largely by the Company's business requirements, market liquidity, appetite and pricing. New funding solutions, investors and markets will be sought as follows: Issuing bonds in other markets either as public or private placements – such as the Yen, US Dollar, Euro, Australian Dollar, Swiss Franc, Sukuk markets;
- Issuing a Global ZAR Bond in the international debt capital markets;
- Project bonds and project finance;
- Extending the duration of existing domestic bonds, as well as the issuance of new types of bonds to build the yield curve; and
- Expand DFI and ECA financing.

Human capital focus areas

Transnet will develop and maintain a skills and talent pipeline that addresses business priorities through its integrated value chain from secondary educational institutions, through tertiary educational institutions and into the workplace. This will be informed by the demand and supply of Transnet's skills requirements for the next seven years and based on the skills targets.

The current consolidation of schools under the Transnet Academy will ensure focused training and effective delivery approach with visible return on Human Capital investment.

Employment equity targets will continue to receive attention, particularly in respect of women and people with disabilities.

4,0% of payroll is targeted per annum for skills development. Employee numbers are targeted to reach 66 750 by 2020.

Economic, social and environmental impact focus areas

Long-term planning

Transnet's Long-Term Planning Framework (LTPF) will be further developed to accurately forecast freight demand and to plan ahead for rail, port and pipeline capacity expansions as economic conditions evolve. The LTPF is being enhanced to include an energy plan and a strategic environmental assessment tool and climate change adaptation planning.

Local supplier development

Transnet will leverage its procurement spend to drive specific local supplier development initiatives and generate economic value through optimising sourcing strategies in support of industrial development, job creation and black economic empowerment.

Safety and security

Safety and security will continue to take priority in all Transnet operations, creating an organisational culture of 'zero harm' to self, colleagues and the environment. Performance is measured against industry recognised indicators such as the disabling injury frequency rate (DIFR), loss incidents, fatalities and derailments.

Good governance and zero tolerance of fraud and corruption

Transnet will remain vigilant in maintaining high standards of corporate governance and systems to prevent and prosecute fraud and corruption wherever it occurs, without fear or favour. Integrity Pacts are being introduced in all customer contracts and procurement processes.

Broad-based black economic empowerment

B-BBEE Level 1 will be achieved by 2017 for Transnet.

Corporate social investment

The Transnet Foundation will continue to focus on rural health care (the Phelophepa trains), education, rural sports development, containerised assistance, and employee volunteer programmes.

Proactive stakeholder engagement

Policies, process controls, maturity measures, reporting and risk management integration are being enhanced, with emphasis on finding ways to optimise common value opportunities with stakeholders.

Energy security and carbon mitigation

Plans are being developed to secure Transnet's required energy (electricity and fuel) and to do so in a manner that also reduces the Company's carbon impact. Energy efficiency targets will continue to be pursued throughout the business to reduce costs, demand and carbon emissions.

Modal shift from road-to-rail

Market share growth in GFB will continue to be measured to reflect the social and environmental benefits associated with higher use of rail in the transport sector.

Appendix B

Consolidated five-year review

	March 2013 R million	March 2012 R million	March 2011 R million	March 2010 R million	March 2009 R million
Income statements					
Continuing operations					
Revenue	50 194	45 900	37 952	35 610	33 592
Earnings before interest, taxation, depreciation, derecognition and amortisation (EBITDA)	21 051	18 882	15 763	14 409	13 200
Depreciation, derecognition and amortisation	(9 277)	(8 355)	(7 184)	(6 089)	(4 779)
Operating profit	11 774	10 527	8 579	8 320	8 421
Impairment of assets	(588)	(342)	(537)	(778)	(324)
Post-retirement benefit obligation income/(costs)	28	31	625	(180)	(436)
Fair value adjustments	222	(202)	(155)	(18)	941
Income/(loss) from associates and joint ventures and dividends received	24	(6)	58	5	82
Net finance costs	(5 140)	(3 767)	(2 878)	(2 436)	(1 966)
Profit before taxation	6 320	6 241	5 692	4 913	6 718
Taxation	(1 980)	(2 122)	(1 508)	(1 763)	(1 492)
Profit for the year	4 340	4 119	4 184	3 150	5 226
Statement of financial position					
Non-current assets	189 882	165 380	146 243	120 845	103 417
Current assets	13 914	12 625	20 827	18 040	15 117
Total assets	203 896	178 005	167 070	138 885	118 534
Equity	84 954	79 421	73 666	63 347	57 276
Non-current liabilities	98 543	78 946	72 660	60 179	44 256
Current liabilities	20 399	19 638	20 744	15 359	17 002
Total liabilities	118 942	98 584	93 404	75 538	61 258
Equity and liabilities	203 896	178 005	167 070	138 885	118 534
Capital investments*	27 471	22 259	21 504	18 441	19 382
Statement of cash flows					
Cash flows from operating activities	16 776	17 910	13 159	12 092	7 400
Cash flows utilised in investing activities	(27 241)	(24 661)	(23 018)	(20 408)	(19 084)
Cash flows from/(utilised in) financing activities	11 874	(2 936)	12 791	10 355	11 587
Net increase/(decrease) in cash and cash equivalents	1 409	(9 687)	2 932	2 039	(97)

** Capital expenditure excludes the effects of borrowing costs, includes capitalised finance leases and decommissioning restoration liabilities.*

Consolidated value added statement

	2013 R million	Value apportioned %	2012 R million	Value apportioned %
Revenue	50 194		45 900	
Cost of materials and services	(14 636)		(12 955)	
Net operating expenses excluding depreciation, derecognition and amortisation	(29 143)		(27 018)	
– Excluding: Personnel costs	14 507		14 063	
Value added by operations	35 558	98,2	32 945	99,2
Other income	651	1,8	280	0,8
– Fair value adjustments	222		(202)	
– Income/(loss) from associates and joint ventures	24		(6)	
– Investment and other income	405		488	
Value added/created	36 209	100,0	33 225	100
Applied as follows:				
Employees	14 479	40,0	14 032	42,2
– Personnel costs	14 507		14 063	
– Post-retirement benefit obligation income	(28)		(31)	
Providers of capital#	5 545	15,3	4 255	12,8
– Lending institutions	5 545		4 255	
Government	43	0,1	189	0,6
– South African normal taxation	39		173	
– Capital gains taxation	–		9	
– Foreign taxation	4		7	
Reinvested to maintain and expand operations	16 142	44,6	14 749	44,4
– Depreciation, derecognition, amortisation and impairment	9 865		8 697	
– Deferred taxation	1 937		1 933	
– Net profit	4 340		4 119	
	36 209	100,0	33 225	100,0
Value apportioned				

In addition to value apportioned to Government the following amounts were paid to the South African Revenue Services (SARS):
– Pay as you earn (PAYE) R3 261 million (2012: R2 680 million);
– Skills development levy (SDL) R176 million (2012: R141 million);
– Unemployment insurance fund (UIF) R184 million (2012: R158 million); and
– Value added taxation (VAT) R2 295 million (2012: R2 691 million).
 # Borrowing costs amounting to R1 053 million (2012: R1 645 million) were capitalised.

Abbreviations and acronyms

ACSA	Airports Company South Africa SOC Ltd
AFD	Agence Française de Developpement – French Development Bank
AfDB	African Development Bank
AFS	Annual financial statements
Aids	Acquired immune deficiency syndrome
B-BBEE	broad-based black economic empowerment
BCM	business continuity management
bp	basis point
BRICS	Brazil, Russia, India, China and South Africa
CD	chart datum
CDP	Carbon Disclosure Project
CFRC	critical financial reporting controls
CGT	Capital gains taxation
COE	Centre of Excellence
COPEX	Capitalised operating expenditure
CPI	Consumer price index
CSDP	Competitive Supplier Development Programme
CSI	Corporate social investment
CWIP	Capital work-in-progress
DBT	Dry Bulk Terminal
DCT	Durban Container Terminal
DEA	Department of Environmental Affairs
DFI	Development Finance Institution
DIA	Durban International Airport
DIFR	disabling injury frequency rate
DJP	Durban to Johannesburg pipeline
DMTN	Domestic Medium-Term Note
DoT	Department of Transport
DPE	Department of Public Enterprises
DTI	Department of Trade and Industry
EAP	Employee Assistance Programme
EBIT	earnings before interest and taxation
EBITDA	earnings before interest, taxation, depreciation, derecognition and amortisation
ECA	Export Credit Agency
ED	Enterprise development
EE	employment equity
EIA	environmental impact assessment
EIMS	enterprise information management services
ERM	Enterprise-wide Risk Management
FEL	front-end loading
FINCO	Group Finance Committee
GBP	Pound Sterling
GCH	gross crane moves per hour
GE	General Electric
GHG	greenhouse gases
GIT	Graduate-in-Training
GMTN	Global Medium-Term Note
GRI	Global Reporting Initiative
HCM	Human Capital Management
HCT	HIV/Aids Testing and Counselling
HIV	human immunodeficiency virus
HR	Human Resources

IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICM Act	Integrated Coastal Management Act, No 24 of 2008
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IR	Integrated Report
iSCM	integrated Supply Chain Management
JBIC	Japan Bank for International Cooperation
JPY	Japanese Yen
King III	King III Report on Governance for South Africa – 2009
LTI	long-term incentive scheme
LTPF	long term planning framework
MDS	Market Demand Strategy
mℓ/km	million litres per kilometre
mt	million tons
NEMA	National Environmental Management Act, No 107 of 1998
NGP	New Growth Path
NIHL	noise-induced hearing loss
Ports Act	National Ports Act, No 12 of 2005
PP	preferential procurement
PRASA	Passenger Rail Agency of South Africa
PSP	Private Sector Participation
ROD	Record of Decision
ROTA	return on total average assets
RTG	Rubber tyred gantry crane
SADC	Southern African Development Community
Satawu	South Africa Transport and Allied Workers Union
SATS	South African Transport Services
SD	Sustainable Report
SHEQ	Safety, health, environment and quality
SMME	Small, medium and micro-enterprise
SOC	State-owned company
SOP	standard operating procedure
SPAD	Signals past at danger points
SPO	strategic performance objective
SRAB	starting regulatory asset base
SSI	Statement of Strategic Intent
STAT	ship turnaround time
STI	short-term incentive scheme
STS	ship-to-shore
SVA	Shareholder value add
TEU	twenty-foot equivalent unit
TSDBF	Transnet Second Defined Benefit Fund
TWR	Train working rules
UKLA	United Kingdom Listing Authority
USA	United States of America
US$	US Dollar
Utatu	United Transport and Allied Trade Union
WACC	weighted average cost of capital
ZAR	South African Rand

Glossary of terms

Asset turnover (times)

Revenue divided by average total assets (total assets excluding capital work-in-progress).

Average total assets

Total assets, where 'average' is equal to the total assets at the beginning of the reporting period plus total assets at the end of the reporting period, divided by two.

Cash interest cover (times)

Cash generated from operations after working capital changes, divided by net finance costs (net finance costs includes finance costs, finance income and capitalised borrowing costs from the cash flow statement).

Debt

Interest-bearing borrowings (short and long-term), post-retirement benefit obligations, derivative financial liabilities plus bank overdraft, less short-term investments and net cash and cash equivalents.

EBITDA

Profit/(loss) from operations before depreciation, amortisation, profit on sale of interest in businesses, impairment of assets, dividend received, post-retirement benefit obligation income/(costs), fair value adjustments, income/(loss) from associates and net finance costs.

EBITDA margin

Profit/(loss) from operations before depreciation, amortisation, profit on sale of interest in businesses, impairment of assets, dividend received, post-retirement benefit obligation income/(costs), fair value adjustments, (loss)/income from associates and net finance costs expressed as a percentage of revenue.

Equity

Issued capital, reserves and minority interests.

Debt (for gearing calculation)

Long-term borrowings, short-term borrowings, employee benefits, derivative financial liabilities plus bank overdraft less other short-term investments, less derivative financial assets and less cash and cash equivalents.

Gearing

Debt expressed as a % of the sum of debt and Shareholder's equity.

Headline earnings

As defined in Circular 3/2009, issued by the South African Institute of Chartered Accountants, separates from earnings all items of a capital nature. It is not necessarily a measure of sustainable earnings.

Operating profit

Profit or loss from operations after depreciation and amortisation but before profit on sale of interest in businesses, impairment of assets, dividends received, post-retirement benefit obligation income/(costs), fair value adjustments, income/(loss) from associates and net finance costs.

Operating profit margin

Operating profit expressed as a percentage of revenue.

Profit/(loss)

Profit or loss after taxation.

Return on average total assets

Operating profit expressed as a percentage of average total assets (average total assets exclude capital work-in-progress).

Return on net assets

Profit before taxation expressed as a percentage of net assets.

Shareholder value add

EBIT less the cost of capital. Cost of capital is the average total assets, excluding capital work-in-progress, multiplied by WACC.

Total assets

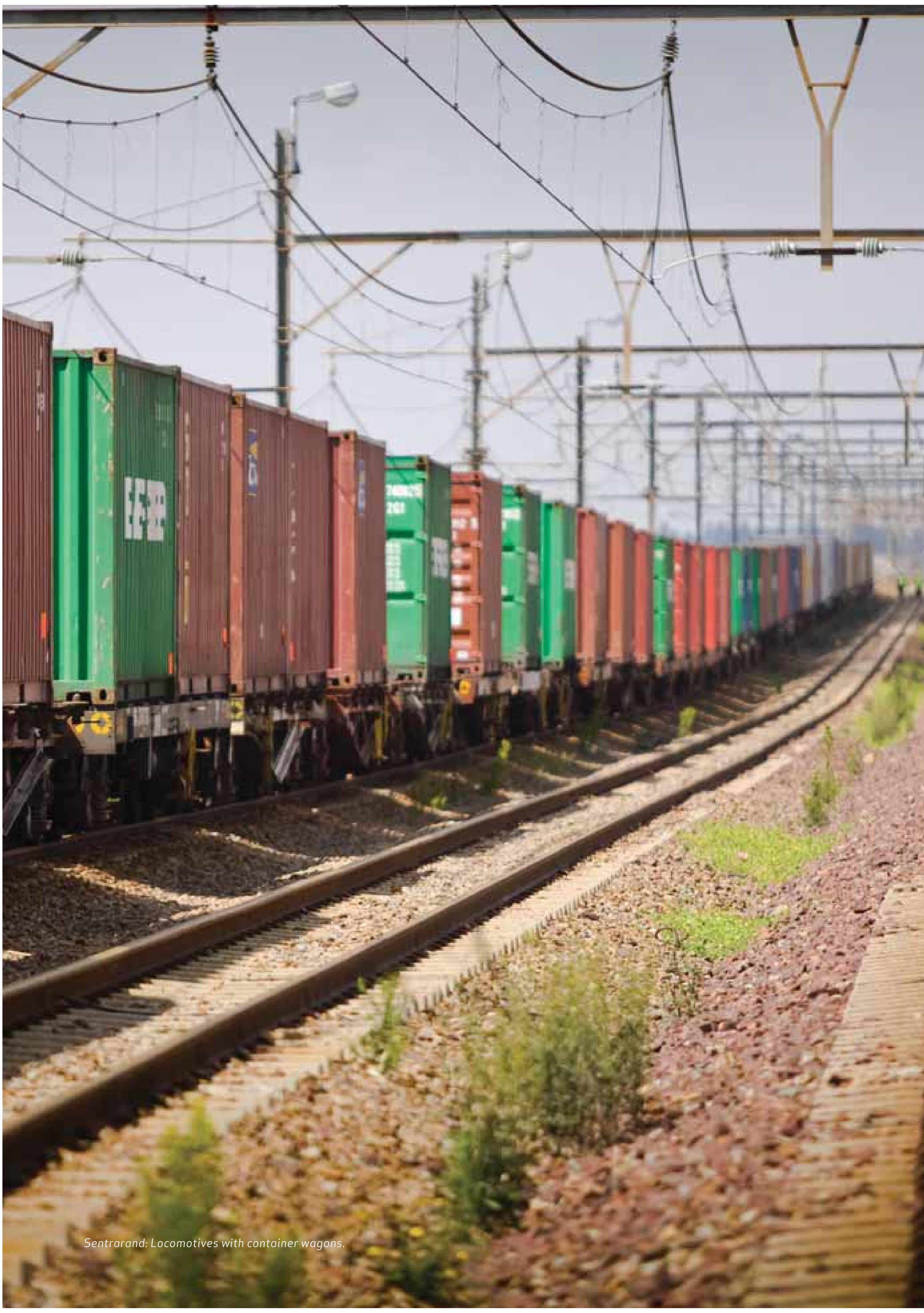
Non-current and current assets.

Total debt

Non-current and current liabilities.

Total debt-to-equity ratio

Total debt expressed as a ratio to equity.



Sentrarand: Locomotives with container wagons.

Corporate information

Executive directors:

B Molefe (Group Chief Executive),
A Singh (Group Chief Financial Officer).

Independent non-executive directors:

ME Mkwanazi (Chairperson), NK Choubey#, MA Fanucchi, Y Forbes, HD Gazendam, NP Mnxasana*, N Moola, NR Njeke, IM Sharma, IB Skosana, E Tshabalala, DLJ Tshepe.

Indian national.

* Appointed on 31 January 2013.

The following independent non-executive directors resigned/retired with effect from:

Mr MP Malungani	1 April 2012 (resigned)
Mr MP Moyo	6 July 2012
Ms NBP Gcaba	6 July 2012
Mr BD Mkhwanazi	6 July 2012
Mr TZ Mnyaka	6 July 2012

Group Company Secretary:

Ms ANC Ceba

47th Floor, Carlton Centre,
150 Commissioner Street, Johannesburg, 2001.
PO Box 72501, Parkview, 2122, South Africa.

Auditors:

SizweNtsalubaGobodo Inc., 20 Morris Street East, Woodmead, Johannesburg, 2191.

With effect from 1 August 2013, the Company's internal audit function has been outsourced to SekelaXabiso (Pty) Ltd, Nkonki Inc and KPMG Services (Pty) Ltd.

SekelaXabiso (Pty) Ltd has its business address at:

1st Floor Building 22B
The Woodlands Office Park
20 Woodlands Drive
Woodmead
Johannesburg

Nkonki Inc has its business address at:

3 Simba Road
Sunninghill
Johannesburg

KPMG Services (Pty) Ltd has its business address at:

85 Empire Road
Parktown
Johannesburg

Transnet SOC Ltd:

47th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
2001

Incorporated in the Republic of South Africa.

Registration number 1990/000900/30.

TRANSNET

delivering freight reliably