

Figure 4



## Our value creation model

### Our capitals

### Inputs



#### Financial capital

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

- Share capital and reserves
- Cash and cash equivalents
- Long- and short-term borrowings
- Investment in infrastructure, expansion and maintenance



#### Manufactured capital

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

- Property, plant and equipment
- Investment property
- Rail and branch-line networks
- Multi-cargo ports
- 3 800 km of petroleum and gas pipeline infrastructure
- Locomotives and rolling stock
- Port terminals



#### Intellectual capital

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

- 'Project factory' support of large and complex programmes
- Continuous enhancements on project lifecycle programme methodologies
- Research and development (Engineering research and development unit)
- Standard operating procedures
- Policies, frameworks and processes
- Responsible leadership



#### Human capital

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

- Responsible leadership
- 64 467 skilled and motivated employees as at 1 April 2016 year-end
- Remuneration philosophy and process
- Responsible leadership structure



#### Social and relationship capital

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

- Relationship with customers and suppliers
- Constructive and equitable dealings with Government and regulators
- Positive relationship with employees and organised labour
- Proactive interaction with communities, citizens, institutions, media and pensioners
- Collaborative relationships with the Shareholder and funders



#### Natural capital

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

- Water
- Air
- Land
- Biodiversity and ecosystem health

## Activities

### Port Terminals

Flow of imports, exports and transshipments through cargo terminals



### Engineering

Engineering solutions to support rail and port operations



### Freight Rail

Integrated rail transportation flow of various goods and commodities from inland customers to ports and from ports to inland customers



### Pipelines

Integrated rail and pipeline solution to ensure reliable and safe transportation of gas and petroleum products



### National Ports Authority

Oversight of the total port system and logistics chain



## Key outputs of our business

### Positive outputs

Transportation of a range of general bulk and containerised freight commodities

Provision of in-service maintenance, repair, upgrade, conversion and manufacture of various types of wagons, coaches, locomotives, as well as equipment, machines and services

Capacity through new and refurbished locomotives and wagons

Provision of cargo-handling services to a range of customers

Secure inland petroleum product supply

An organisational culture to drive health and safety of our people and the public in and around our operations

Rail Engineering R&D initiatives: Such as a traction motor for rugged conditions; a control system for diesel and electric locomotives; and a new diesel locomotive

### Adverse outputs

Waste materials as by-products of our infrastructure projects in the form of asbestos and hydrocarbon waste

Pipeline spills and marine pollution (e.g. plastics entering marine water at ports)

## Outcomes

- Cost-effective funding
- Continued financial stability and strength
- Investment-grade credit rating
- Cash interest cover of 2,9 times
- Gearing at 44,4%

- A modern, integrated freight and logistics system for South Africa
- Mega- and critical projects, such as the New Multi-Product Pipeline, Durban Container Terminal Expansion and extension of Saldanha Tipler 3
- Business continuity
- Large-scale shift from road to rail
- Infrastructure reliability
- Operational efficiencies and improved productivity
- Ability to avail analytics to end-users through multiple digital platforms

- Global operational standards
- Strong governance structure and oversight
- Agile digital technologies and capabilities
- A knowledge-based organisation
- World-class technological innovations
- Integrated planning and resourcing
- Enhanced transparency through advanced, integrated digital platforms

- A skilled and representative workforce
- A safe working environment which promotes diversity and equal opportunity as well as training and education
- Responsible leadership
- An 'employer of choice'

- Retain social licence to operate
- Collective agreements with organised labour
- Partnerships with customers and other logistics providers along the value chain
- Proactive interaction with our stakeholders
- Positive contribution to the socio-economic well-being and health of the communities in which we operate
- An ethos of tolerance and respect

- Environmental stewardship
- 1,2% improvement in energy efficiency
- Identifying opportunities for improving water consumption
- Cost saving from recycling

## Value created for Transnet

### Ensure long-term financial stability in a tough economy

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

Build stable, secure infrastructure	Align with regulatory requirements to maintain the required compliances within our operations
Maintain our standalone credit rating and attract funding from various sources	Maintain agility within a cost structure in which 80% to 90% of fixed costs and assets have lifecycle times of 30 to 100 years
Promote a push for business performance without compromising on safety	Build partnerships for sustainable growth
Enable us to be agile in an ever-changing socio-economic environment	Strengthen our credibility in terms of infrastructure reliability and our delivery of customer-centric solutions
Promote employment equity within the Company	Enhance human capabilities and productive capacity of our people - particularly in terms of scarce skills
Promote ethical business practices as well as sound environmental stewardship within our operations	Improve physical and mental health and safety of our employees and other stakeholders
	Optimise 'that which makes Transnet great' by living the Transnet culture - 'our unity shows in our shared practices'

## Value created for others

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

### Employment

Create measurable direct, indirect and induced employment for South Africans



### Skills development

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



### Industrial capability building

Promote industrial development for South Africa and improved competitiveness

Vastly improve rail and freight infrastructure

Create increased capacity at South African ports

Facilitate a new multi-product pipeline  
Increase capacity for South African commodity exports

Reduce cost of logistics as a percentage of transportable GDP



### Investment leveraged

Leverage private-sector investment in the country's freight logistics system



### Regional integration

Improve freight logistics connectivity on the continent



### Transformation

Promote black economic empowerment within supplier entities

Promote supplier localisation



### Health and safety

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



### Community development

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



### Environmental stewardship

Enhance capacity of the natural environment to meet the resource needs of future generations

Promote a modal shift from road to rail in the national transport task

