TRANSNET

delivering freight reliably

2014

INTEGRATED REPORT

20 YEARS OF FREEDOM

south africa 1994 - 2014

CONTENTS

Forward-looking information

All references to forward-looking information and targets in the 2014 reports are extracted from the 2015 Transnet Corporate Plan approved by the Board of Directors.

Transnet's Integrated Report 2014, Annual Financial Statements 2014 and Sustainability Report 2014 are available in PDF on **www.transnet.net** and via this QR code on mobile devices.

Follow us on

Transnet's reporting for 2014 consists of three reports

Volume 1

The Integrated Report 2014 (IR 2014) is the Company's primary report to all stakeholders.

Volume 2

The Annual Financial Statements 2014 (AFS 2014) including reports of the independent auditors, directors and the corporate governance report.

Volume 3

The Sustainability Report 2014 (SR 2014) documents Transnet's economic, social and environmental dividends.

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

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

- CAPITAL INVESTMENT
- HUMAN CAPITAL
- VOLUME GROWTH
- GOVERNANCE
- PRODUCTIVITY AND EFFICIENCY
- ECONOMIC DIVIDENDS
- FINANCIAL SUSTAINABILITY
- SOCIAL DIVIDENDS
- REGULATORY
- ENVIRONMENTAL DIVIDENDS
- SAFETY, HEALTH, ENVIRONMENT AND QUALITY (SHEQ)

SUITE AND INTERACTION BETWEEN REPORTS

Transnet SOC Ltd's (Transnet or the Company) reporting for 2014 consists of three reports: the IR 2014, the AFS 2014 and the SR 2014. The three reports are complementary and cross references are provided throughout the reports for ease of reference.

	Volume 1	Volume 2	Volume 3	Online
	Integrated Report	**Annual Financial Statements**	**Sustainability Report**	
PURPOSE	To provide our stakeholders with a succinct view of how we respond to our context, stakeholders, risks and opportunities as well as monitor specific outcomes which constitute our focus for long-term value creation.	To report our financial performance, position, changes in equity and cash flows for the financial year ended 31 March 2014 in accordance with the Frameworks and Guidelines outlined below.	To report against the Transnet Sustainability Framework which defines our long-term developmental focus in terms of economic, social and environmental dividends.	To provide users with supplementary and/ or more detailed information to the three reports.
CONTENTS	The report presents Transnet's commitment to adding value within the developing economy of South Africa whilst addressing material company, shareholder, investor and other stakeholder matters as well as integrating economic, environmental, social and cultural sustainability across the organisation for the benefit of all stakeholders.	The AFS 2014 includes reports of the Independent Auditors, the Audit Committee, the Directors, the Annual Financial Statements and the Corporate Governance report.	The SR 2014 documents Transnet's performance against economic, social and environmental dividends.	• All three reports are available online. • Corporate Governance Report for the 2014 Financial Year. • King III Governance Register. • GRI G4 Content Index. • Broad-Based Black Economic Empowerment (B-BBEE) information. • Shareholder's Compact.
FRAMEWORKS AND GUIDELINES APPLIED	• International Integrated Reporting Council (IIRC) Integrated Reporting Framework v1.0. • The King Code of Governance for South Africa (2009) (King III).	• International Financial Reporting Standards (IFRS). • King III. • The Companies Act, No 71 of 2008 (Companies Act). • The Public Finance Management Act, No 1 of 1999 (PFMA).	• King III. • Global Reporting Initiative (GRI) G4. • United Nations Global Compact (UNGC). • Carbon Disclosure Project (CDP). • AA1000 Stakeholder Engagement Standard.	• King III. • GRI G4. • Companies Act. • PFMA.

ABOUT THE INTEGRATED REPORT

REPORTING PHILOSOPHY AND APPROACH

The IR 2014 is Transnet's primary report to stakeholders and provides an overview of performance as well as an outlook for the period 1 April 2013 to 31 March 2014.

Integrated Reporting is a powerful platform for stakeholders to assess Transnet's performance and prospects in delivering cost-effective and efficient regional rail, ports and pipeline infrastructure and services in the context of our commercial and developmental objectives. The IR 2014 focuses on reporting matters that affect our ability to create value over the short, medium and long term, and gives all stakeholders quality information that supports integrated decision-making in the Company.

Transnet has been an active participant in the IIRC Pilot Programme since its inception and therefore has been following the developments and application of the Integrated Reporting Framework. Transnet aims to further enhance reporting guided by our ongoing reporting improvement process as well as reporting best practice.

SUMMARY OF MATERIALITY AND BOUNDARY

Transnet defines materiality for its reporting as those issues that substantively affect Transnet's ability to create and sustain value over the short, medium and long term. Transnet's material issues were determined through a structured process of identifying relevant issues, evaluating their importance and prioritising which are material. For more information on the materiality determination process undertaken refer to page 33.

The boundary of this report is largely limited to the Transnet legal entity. There are instances for some of the material issues where reporting has extended to other entities or groups of entities outside of Transnet. This is disclosed in more detail for each of the material issues in this report.

As part of the SR 2014, we aligned the Transnet material issues to the Transnet Sustainability Framework which was brought forward into Transnet's application of GRI G4. For more information on this process, refer to Appendix D of the SR 2014.

APPROACH TO ASSURANCE

An integrated assurance approach has been developed which encompasses the assurances provided by management, internal specialists, internal audit, external audit and other consultants and service providers. Transnet has also commissioned additional external assurance on certain aspects of the non-financial information reported in the SR 2014 by the Company's external auditors, SizweNtsalubaGobodo. For more information on our integrated assurance approach, refer to page 24.

PERFORMANCE OVERVIEW

South Africa has achieved a historic milestone in celebrating 20 years of freedom in its burgeoning democracy. Similarly Transnet also attained a historical first by achieving R31,8 billion capital expenditure for the year; and awarding the 465 diesel and 599 electric locomotive contracts. These unprecedented achievements were realised in the context of weak economic fundamentals; however the Company continued to demonstrate financial stability during the year, enabling it to persist with its execution of the MDS.

CONDOLENCES

The Board would like to convey its heartfelt condolences to the families and friends of the seven colleagues who lost their lives during the financial year. Although this is a decrease from the previous financial year, when we lost nine of our colleagues, it is still one death too many.

The Board would also like to express its sympathies to the families of the 106 members of the public who lost their lives tragically due to Transnet's operations. This was also a decrease from the loss of 125 public lives last year and Transnet is redoubling its efforts in all areas of safety to ensure that such tragic losses have not been in vain.

APPRECIATION

The Board would like to express its deep admiration and gratitude to the former Minister of Public Enterprises, Mr Malusi Gigaba for his dedication to Transnet. His passion, hard work and commitment to a better South Africa serves as an exemplar to all. He will be sorely missed and we wish him well in his new portfolio.

The Board would also like to thank the chairperson of the Portfolio Committee on Public Enterprises, Mr Peter Maluleke, for his strategic direction and oversight in the year under review.

On a final note, the Board would like to warmly welcome the new Minister of Public Enterprises, Ms Lynne Brown to the Ministry. The Board looks forward to a long and fruitful engagement with the Minister in her challenging new role.

BOARD RESPONSIBILITY AND APPROVAL STATEMENT

The Board, assisted by its Committees, is ultimately responsible for overseeing the integrity of the IR 2014. The Board has applied its collective mind to the preparation and presentation of the IR 2014 and has concluded that the IR 2014 is presented in accordance with the International Integrated Reporting Framework v1.0.

The IR 2014 was approved by the Board and signed on its behalf by:

Mafika Mkwanazi
Chairperson

28 May 2014

Johannesburg

Brian Molefe
Group Chief Executive

28 May 2014

Johannesburg

Anoj Singh
Group Chief Financial Officer

28 May 2014

Johannesburg

ABOUT TRANSNET

WHO WE ARE

Transnet is South Africa's State-owned freight transport and logistics company and is the custodian of the country's rail, ports and pipeline networks.

In line with Government's New Growth Path (NGP) and the National Development Plan (NDP), SOCs 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 industrial capacity building through a strategic approach to procurement and operations.

Transnet has a responsibility to unlock economic, social and environmental value through the execution of its mandate whilst building a commercially viable business enterprise.

Transnet's mandate, vision and mission reflect the Ministry of Public Enterprises' 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:

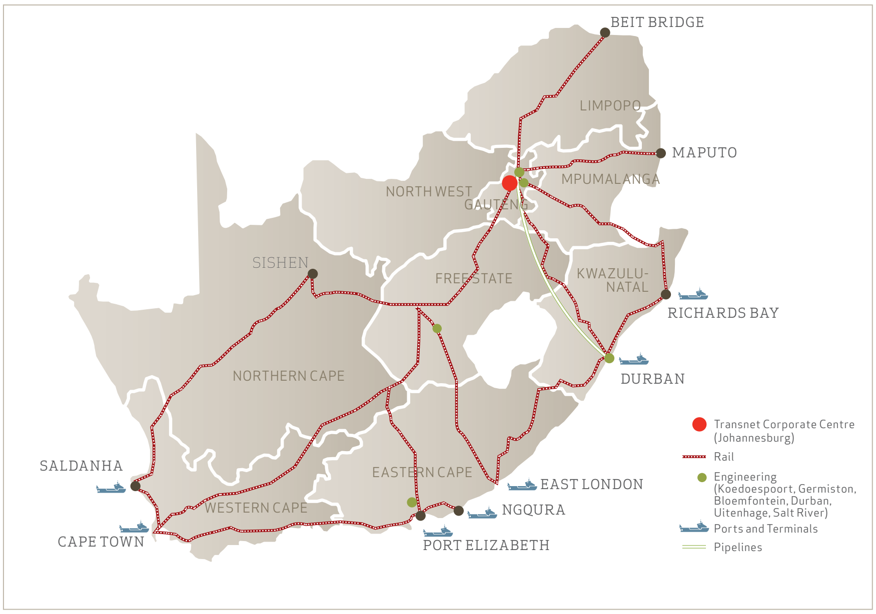
- *Fully integrating and maximising the use of its unique set of assets;*
- *Continuously driving cost efficiency; and*
- *Demonstrating a concern for sustainability in all we do.*

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.

WHERE WE OPERATE AND WHAT WE DO

Transnet has a coordinating Corporate Centre located in Johannesburg, South Africa and five Operating divisions with operations spread across the Republic of South Africa. In future, Transnet plans to expand operations further into the African continent. Currently, Transnet has four satellite offices in Africa.



Geographic location of the Transnet Corporate Centre and Operating divisions.

Transnet Freight Rail (Freight Rail), the largest of the five Operating divisions, operates a rail network across South Africa which transports bulk, break-bulk and containerised freight. The Freight Rail network and rail services provide strategic links between mines, production hubs, distribution centres and ports; and connect with the over-border railways of the region. Shifting rail-friendly freight off roads and onto rail reduces logistic costs, impacts positively on the road network and has many indirect benefits for the country, including a reduction in transport sector carbon emissions.

Transnet Engineering provides maintenance and refurbishment services of rolling stock and specialised equipment to Freight Rail, Transnet National Ports Authority (National Ports Authority), Transnet Port Terminals (Port Terminals) and Transnet Pipelines (Pipelines) and is integral to Transnet achieving optimal use of equipment in conducting its core business.

South African ports owned by National Ports Authority facilitate 98% of South Africa's global trade and services the shipping feeder network connecting the west and east coasts of Africa. Approximately 31% of South Africa's Gross Domestic Product (GDP) is derived from exports and around 33% of GDP is derived from imports[1].

Port Terminals operates all of South Africa's container and automotive port terminals and some bulk and break-bulk terminals.

Pipelines transports fuel from coastal refineries and crude oil imports to the inland market. Transnet has begun operating the New Multi-Product Pipeline (NMPP), which enables an increase in volume throughput to meet forecast market demand.





1 *The South African Reserve Bank national income and production accounts of South Africa Summary of GDP, expenditure and national disposable income. Quarterly Bulletin, March 2014.*

Transnet employs a total of 54 671 permanent employees and 8 893 contractors.

Transnet's customers are principally large mining, shipping, manufacturing, agricultural, industrial, retail and energy contributors to the South African economy.

Transnet's services are both outbound (South African businesses moving products to markets) and inbound (bringing products to South African markets). The commodities transported in the most significant volumes are: mining exports, general freight[2] and petroleum products[3]. The sectors that Transnet provides services to include:

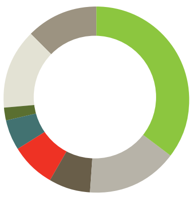
- Mining;
- Iron and steel;
- Cement;
- Agriculture;
- Automotive;
- Industrial and agri-chemicals;
- Wood and wood products;
- Petrochemicals;
- Shipping;
- Retail; and
- Intermediaries.

The way in which Transnet sources and utilises assets, people and skills, finances and natural resources carries significant responsibility. This is because the quality and sustainability of Transnet's infrastructure and services impacts the short, medium and long term prospects of thousands of companies, tens of thousands of employees, investors, all spheres of Government, and communities across the country.

OUR SUPPORT PROCESSES

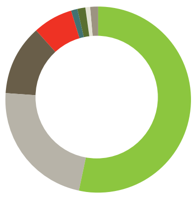
Transnet's core business is underpinned by the support process provided by Transnet Corporate Centre and the Specialist Units. These support processes respond to risks and opportunities and focus on achieving the Company's targeted outcomes. (Refer to Transnet's business model on page 10).

Transnet Engineering also houses the Company's Research and Development (R&D) unit to capture opportunities for technology innovation.



REVENUE PER COMMODITY (R BILLION)

- General freight – 19 619
- Export coal – 8 909
- Bulk – 4 171
- Export iron ore – 4 961
- Piped products – 2 862
- Break-bulk – 1 141
- Maritime containers – 7 924
- Other – 7 019



PERMANENT HEADCOUNT

- Freight Rail – 29 225
- Engineering – 12 428
- Port Terminals – 6 624
- National Ports Authority – 3 823
- Pipelines – 621
- Capital Projects – 720
- Property – 555
- Group services – 675

RAIL VOLUMES (MT)

- General Freight Business – 87,9
- Export Coal – 68,2
- Export Iron Ore – 54,3

4,6MTEUs
Total container volumes

16,6BL
Total petroleum volumes

R56,6BN
Total revenue

54 671
Total permanent headcount

210,4MT
Total rail volumes

2 *General freight includes: containerised cargo, local manganese, minerals, local coal, local iron ore, chrome and ferrochrome, agricultural products, iron and steel, fertilisers, cement, fast-moving consumer goods, bulk liquids, wood and wood products, industrial chemicals, intermediate products and automotive products.*

3 *Petroleum products include: crude oil, refined petroleum products, aviation turbine fuel and methane-rich gas products.*

Transnet Corporate Centre's main objective is to set strategic direction and to maintain and review policy development through the following support processes:

- Office of the Group Chief Executive;
- Office of the Group Chief Financial Officer, including:
  - Treasury, financial management and control, capital integration and assurance, integrated supply chain management, governance and risk, reporting and taxation;
- Strategy, planning and sustainability;
- Commercial, economic regulation and private sector participation;
- Human resources;
- Risk management;
- Legal and compliance;
- Results monitoring;
- Enterprise information management;
- Security; and
- Internal audit.

Transnet's Specialist Units are tasked with the following supporting roles:

- Transnet Capital Projects executes large infrastructure capacity expansion projects on behalf of, and with input from, the Operating divisions.
- Transnet Property manages Transnet's non-core property portfolio comprising commercial and residential properties (approximately 13% of the total Transnet property portfolio).
- Transnet Foundation implements the Company's corporate social investment projects.

CONDITIONS UNDER WHICH WE OPERATE

Transnet's mandate requires both prudent planning and bold action, particularly in volatile global and local economic conditions. Transnet's infrastructure and services are intended to benefit South Africa and the Southern African Development Community (SADC) as a whole, facilitating economic, domestic, regional and global activity.

Transnet raises debt on the capital markets without Government guarantees. Transnet pays corporate taxation under the same laws applicable to private and listed companies in South Africa.

This year saw no significant changes in the way Transnet is owned, structured or functions.

Tariffs charged by Transnet's National Ports Authority and Pipelines Operating divisions are determined by independent economic regulators, the Ports Regulator and the National Energy Regulator of South Africa (NERSA) respectively. The Company operates in compliance with over 250 regulations.

The MDS provides the strategic direction for the Company and entails deploying significant planned capital, in the short and medium term, to expand the country's freight railway, ports and pipeline infrastructure and improve operational effectiveness of the freight logistics system.

There is clear recognition by the Shareholder, Board of Directors and management that logistics productivity and reliability are determining factors shaping South Africa's ability to compete globally. Transnet must, therefore, find ways to invest counter-cyclically through the peaks and troughs of economic cycles thereby stimulating and supporting the Company's operations in periods of higher growth.

Advancing the strategic objective of further integrating South Africa into the region and the rest of the continent and improving country competitiveness, many initiatives are underway to build Transnet's organisational capability and to embed a high-performance culture. Transnet has a robust business model and business practices and harnesses its capitals to realise value for stakeholders. (Refer to page 8).

Critical challenges are recognised and are being addressed. External challenges include: regulatory uncertainty, particularly in respect of regulated tariff determination; sluggish economic growth, both global and domestic, which impacts freight volumes and revenues; volatile commodity markets; skills constraints; and energy vulnerability. Internal challenges include: operational efficiencies and customer satisfaction; skills constraints; efficiency of capital execution; and information systems enablement. (Refer to page 8).

HOW TRANSNET CREATES VALUE

INPUTS
Value deployed in 2014.

FINANCIAL CAPITAL
- Share Capital R12,7 billion.
- Long- and short-term borrowings R90,4 billion.
- Cash generated from operations R24,0 billion.

MANUFACTURED CAPITAL
- Property, plant and equipment R207,3 billion.
- Investment property R8,6 billion.

HUMAN CAPITAL
- 54 671 permanent headcount.
- Training spend R621 million.

INTELLECTUAL CAPITAL
- Custodian of the country's freight railway, ports and pipelines, infrastructure and technologies.
- R100 million invested in R&D.

SOCIAL AND RELATIONSHIP CAPITAL
- Customers.
- Government and regulators.
- Employees.
- Funders.
- Suppliers.
- Organised labour.
- Communities.
- Pensioners.

NATURAL CAPITAL
Consumed:
- 3,6TWh coal-fired electricity.
- 256 million litres diesel.
- Water, air, ecosystems.

coal
iron ore
manganese
chrome
ferrochrome
steel
cement
agricultural products
fertilis

Infrastructure investment
Volume growth
Productivity and efficiency
Volume growth
Financial stability
Regulatory
Safety, health, environment a
quality (SHEQ)
Human capital development

MDS

CONTEXT
- South Africa's National Development Pl
- Global and domestic economic conditio
- Volatile commodity markets.
- Unemployment and inequality.
- Skills shortages.
- Technology advances.
- Regulation.

RISKS
- Regulatory uncertainty.
- Capital projects on time, on budget.
- Volumes and revenue growth.
- Business interruption and incident management.
- Funding and liquidity.
- Energy security.
- Human resource capability.
- ICT utilisation.
- Suppliers and customers.
- Environmental and social sustainability

OPPORTUNITIES
- Collaboration with customers and logistics service providers.
- Small business advancement.
- Supplier development.
- Skills development.
- Regional integration.
- African markets.
- Technology applications.
- Diversification of electricity suppliers.
- Private sector partnerships.

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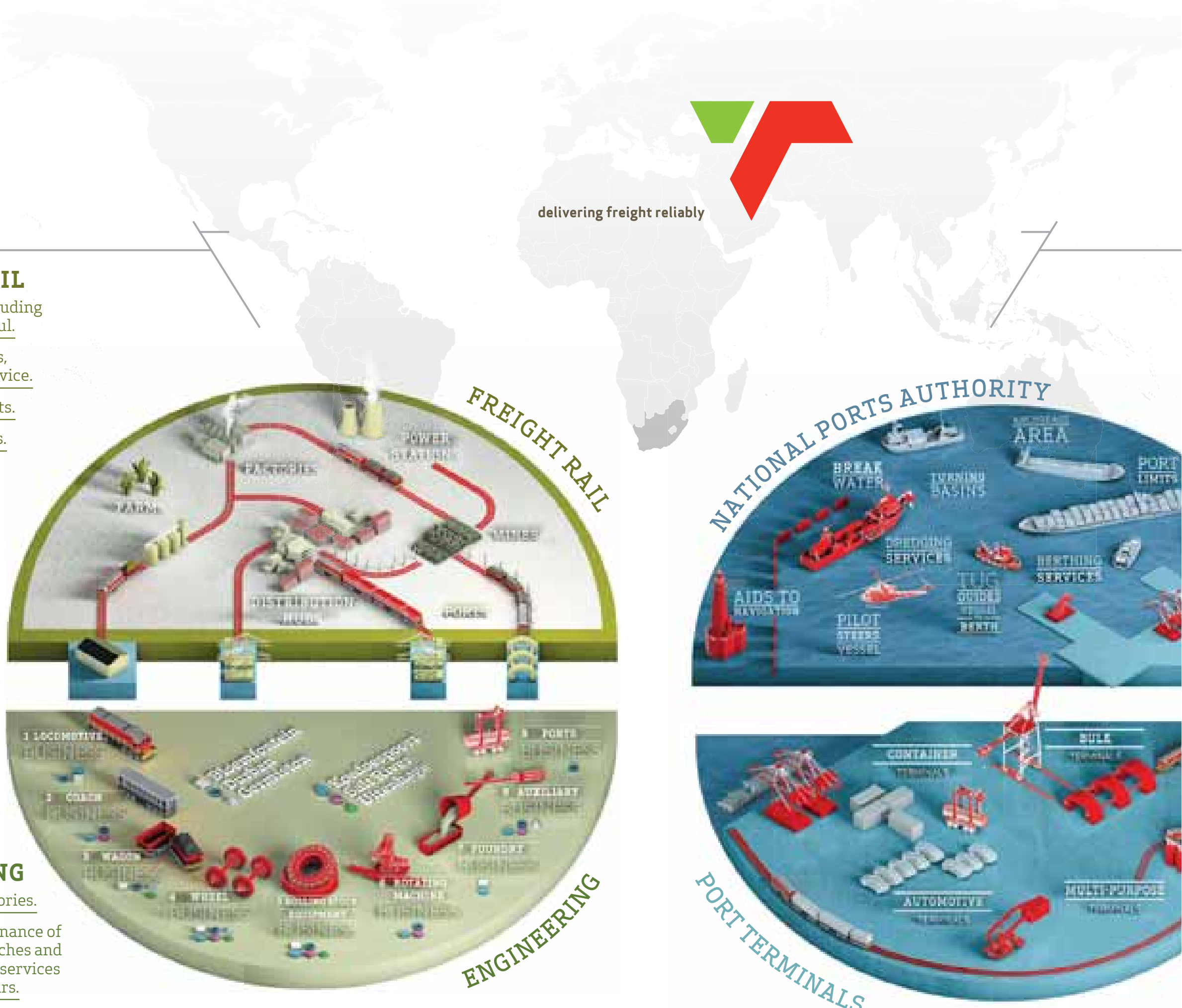


FREIGHT RAIL

20 500km railway including 1 500km heavy haul.

1 888 locomotives, 71 075 wagons in service.

R99,7bn total assets.

29 225 employees.

ENGINEERING

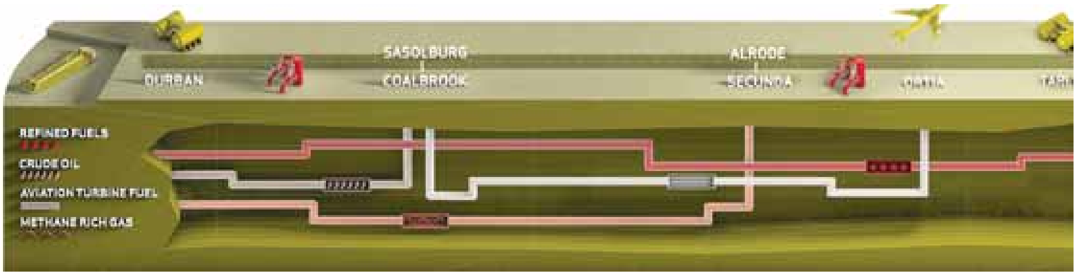
132 depots and 6 factories.

Manufacture and maintenance of locomotives, wagons, coaches and provision of engineering services to ports and harbours.

R11,2bn assets.

12 428 employees.

PIPELINES



PIPELINES

3 800km pipelines transporting refined petroleum, crude oil, jet fuel, and gas.

R32,3bn total assets.

621 employees.

sers forestry products chemicals aggregate automotives fast-moving consumer goo

NATIONAL PORTS AUTHORITY

Owns and manages 8 commercial ports.

R72,5bn total assets.

3 823 employees.

PORT TERMINALS

5 container terminals.

3 auto terminals.

3 bulk terminals.

5 break-bulk terminals.

R19,0bn total assets.

6 624 employees.

methane-rich gas

aviation turbine fuel

refined petroleum products

crude oil

ods

containerised cargo

OUTCOMES

To build sustainable value.

ECONOMIC DIVIDENDS

Capital investment R312,2 billion by 2021.

Volumes by 2021
- Rail: 343,9mt per annum.
- Ports: 6,1m TEUs per annum.
- Pipelines: 18,5Ml per annum.

Financial stability
- Gearing <50%.
- Cash interest cover >3,0 times.
- Investment grade credit ratings.

Regulatory certainty.

Productivity and efficiency
- Rail reliability – 10% improvement.
- Port efficiency – 8,5% improvement.
- Pipeline delivery to order – 95%.

Human capital by 2021
- Permanent employees 65 785.
- Skills investment 4% of payroll per annum.

Economy-wide jobs 494 891.

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 2018.

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.

2014

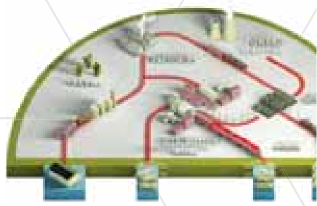
GROUP HIGHLIGHTS

Transnet has persisted in the execution of its counter-cyclical investment strategy of R312,2 billion over seven years. Despite continued economic volatility and regulatory uncertainty in 2014, the Company reports strong financial performance, purchase of new equipment, rail market share growth in general freight, skills investment, an improved safety record, black-economic empowerment and local supplier development through procurement spend, and energy efficiency gains.

- Revenue increased by 12,8% to **R56,6 billion.**
- EBITDA increased by 12,3% to **R23,6 billio**
- Cash generated from operations after working capital changes increase 11,6% to **R25,3 billio**
- Gearing at **45,9%** and c interest cover at **3,7 tir** well within targets.

OPERATING DIVISIONS HIGHLIGHTS

Transnet Operating divisions' steady results indicate resilience in the face of economic slowdown, labour unrest, inclement weather conditions, customer and own operational challenges, regulatory uncertainty, electricity outages and depressed commodity prices. Opportunities were seized by Freight Rail for volume growth in the container and automotive sectors, while Engineering increased revenue by pursuing new over-border markets. Sluggish Port and Pipeline volumes reflect the slow pace of economic activity.



FREIGHT RAIL

R34,4bn – Revenue
R25,1bn – Capital investm
1,3% – Volume growth to 2
9,7% – ROTA
0,82 – DIFR

Capital investment increased by 15,6% to **R31,8 billion.**

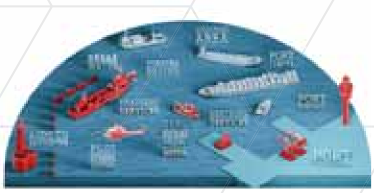
- **R13,3 billion** invested in expanding infrastructure and equipment.
- **R18,5 billion** invested to maintain capacity.
- **R50 billion**, 1 064 locomotive contract signed, **R4,9 billion** invested in current year.

- **Rail:** Freight volumes increased by 1,3% to **210,4mt.**
- **Ports:** TEU volumes increased by 5,4% to **4,64 million TEUs.**
- **Pipelines:** Petroleum product volumes increased by 4,4% to **16,6 billion litres.**

- **R621 million** invested in skills development (3% of payroll).
- **3 340 apprentices** and **483 engineering** bursars in the talent pool.

ENGINEERING

R13,4bn – Revenue
R1,0bn – Capital investment
6,4% – ROTA
0,61 – DIFR



NATIONAL PORTS AUTHORITY

R9,9bn – Revenue
R1,2bn – Capital investment
4 641 (000 TEUs) – Total container volumes
8,0% – ROTA
0,17 – DIFR

,9 billion
s value added

44,0% reinvested.

4,4% to lenders.

1,6% to employees.

gnised B-BBEE spend of
,8 billion or 94,4% of
l measured procurement
d.

,9 billion supplier
lopment contracted.

- **DIFR** performance of **0,69** – better than the target of 0,75.
- **R174 million** spent on Corporate social investment across South Africa.

- Total electricity **consumption reduced 0,2%.**
- Electricity regenerated by new locomotives: **176 185MWh** for the year.
- Traction energy efficiency **improved 2,4%.**
- Road-to-rail gains reduced transport sector carbon emissions by **835 670tCO_2e.**

ORT ERMINALS

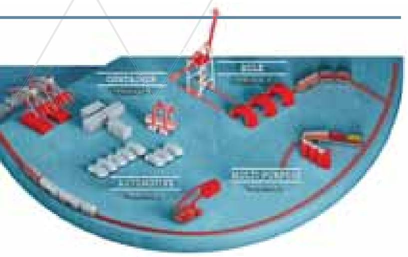
,5bn – Revenue

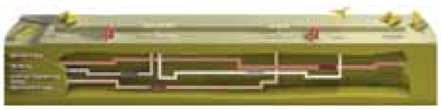
,7bn – Capital investment

503 (000 TEUs) – Total
ntainer volumes

4% – ROTA

53 – DIFR





PIPELINES

R3,1bn – Revenue

R3,4bn – Capital investment

16,6bl – Total volume of petroleum products

8,6% – ROTA

0,39 – DIFR

ABRIDGED GOVERNANCE AND ASSURANCE

Creating value through governance

Transnet views governance as a vital ingredient in operating a successful business, as well as providing assurance to stakeholders that the Company is well managed and functioning with integrity and accountability. The governance relationship with the sole Shareholder which is Government, exercised through the Ministry of Public Enterprises, is managed through the Shareholder's Compact, which sets out the requirements and expectations of the Shareholder. The Company derives its mandate from the Ministry's Statement of Strategic Intent.

The primary purpose of the Board of Directors is to ensure that the Company is sustainable, capable of fulfilling its objectives, statutory and otherwise. In order to fulfil this purpose, the Board of Directors provides strategic direction to the Company.

Leadership structure

Governance is essentially about effective leadership based on an ethical foundation. Appropriate leadership, oversight and accountability have been established through the appointment of the Board of Directors and determining its objectives. The Board of Directors and its Committees' Mandates are adequately aligned to respond to the direction of the Company, taking into consideration the risks facing the Company and its risk appetite. Appropriate governance structures at supporting levels, have been established with clear, concise and approved mandates.

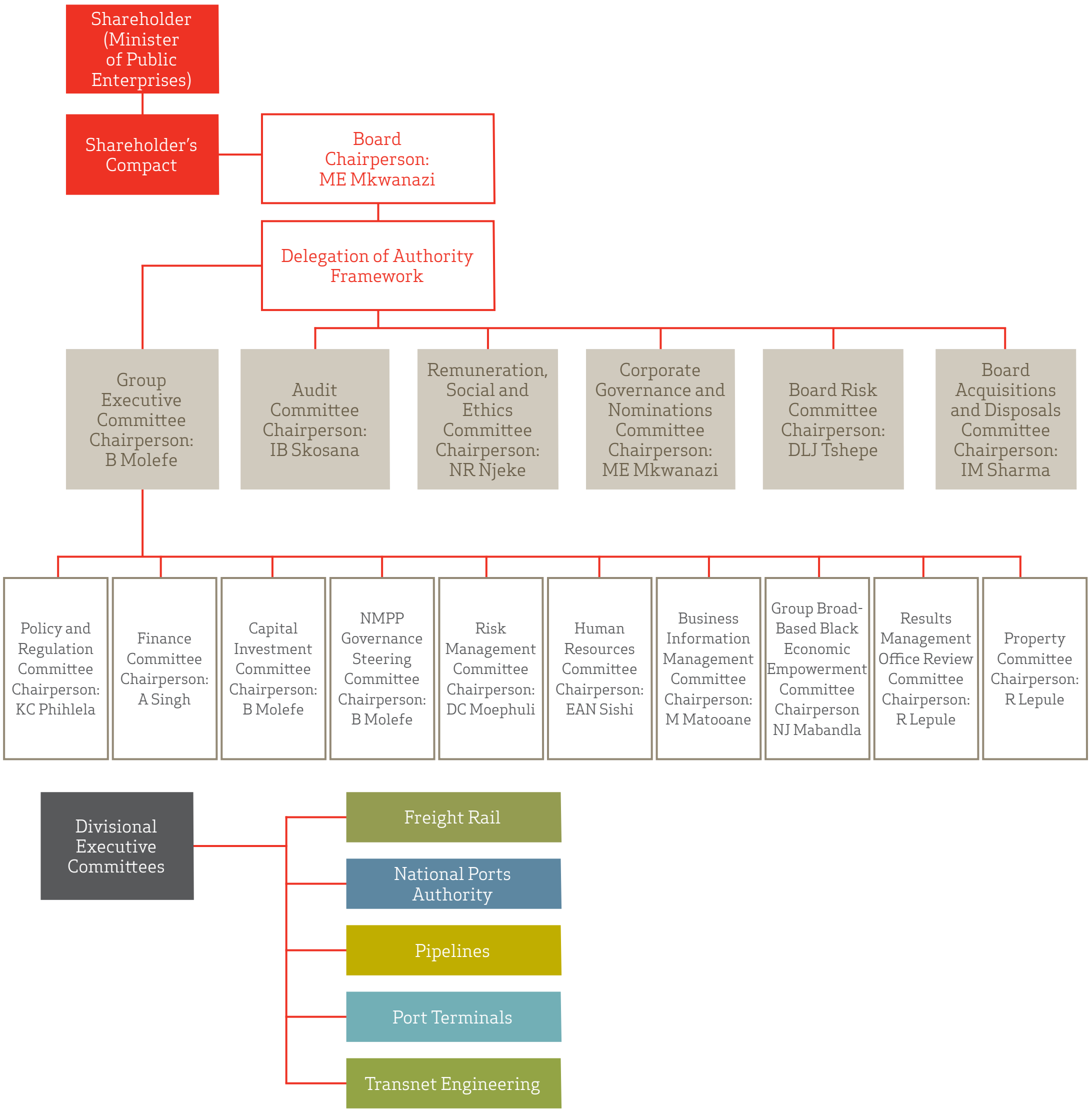
The Board of Directors delegates powers to its Committees that are specialists in appropriate areas to assist in the achievement of its objectives. The Board of Directors also delegates powers to the Group Chief Executive to strategically manage the business and provide sufficient direction to the operations to ensure that the strategy is successfully implemented. The Group Chief Executive is assisted by the Group Executive Committee with specific mandates, based on the Delegation of Authority Framework.

The Company has established the Audit Committee and the Remuneration, Social and Ethics Committee in compliance with the Companies Act.

The requirements for constitution, functioning and reporting of the Audit Committee are strictly adhered to. Further to the statutory Committees, the following Board Committees have been constituted to assist in the fulfilment of its objectives:

- Board Acquisitions and Disposals Committee.
- Board Risk Committee.
- Corporate Governance and Nominations Committee.

The governance structure of the Company is depicted in the diagram below:



BOARD OF DIRECTORS

Full CVs of the Board and Executive committee members are available on the website www.transnet.net

1

Mr Mafika Mkwanazi
(Chairperson)

Date of birth:
January 1954.

Date of appointment:
13 December 2010.

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

Area of expertise:
Operations, Corporate Governance and Strategy.

2

Mr Brian Molefe
(Group Chief Executive Officer)

Date of birth:
December 1966.

Date of appointment:
16 February 2011.

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).

Area of expertise:
Finance, Management Leadership, Economics and Investments.

3

Mr Anoj Singh
(Group Chief Financial Officer)

Date of birth:
August 1973.

Date of appointment:
6 March 2009.

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

Area of expertise:
Finance and Business.

4

Mr Mike Fanucchi

Date of birth:
May 1964.

Date of appointment:
13 December 2010.

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

Area of expertise:
Engineering, Procurement and Logistics.

5

Ms Yasmin Forbes

Date of birth:
February 1959.

Date of appointment:
24 June 2011.

Qualifications:
MA Business Administration; Diploma in Marketing; Public Relations Practitioner.

Area of expertise:
IT and Corporate Governance.

6

Mr Harry Gazendam

Date of birth:
November 1954.

Date of appointment:
13 December 2010.

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).

Area of expertise:
Legal/Compliance, Human Resources, Business Management and Corporate Governance.

7

Ms Nazmeera Moola

Date of birth:
November 1977.

Date of appointment:
13 December 2010.

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

Area of expertise:
Accounting/Finance, Strategy and Risk Management.

8

Ms Nomavuso Mnxasana

Date of birth:
September 1956.

Date of appointment:
31 January 2013.

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

Area of expertise:
Accounting/Finance and Risk Management.

9

Ms Nunu Njeke

Date of birth:
August 1963.

Date of appointment:
23 May 2006.

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

Area of expertise:
Marketing, Human Resources and Remuneration.

10

Mr Iqbal Sharma

Date of birth:
March 1967.

Date of appointment:
13 December 2010.

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

Area of expertise:
Business Management, Engineering, Strategy and Corporate Governance.

11

Mr Israel Skosana

Date of birth:
July 1953.

Date of appointment:
13 December 2010.

Qualifications:
Bachelor of Commerce (University of the North); BCompt Honours (University of South Africa); Certificate in the Theory of Accountancy (University of South Africa); Advance Management Programme (Harvard Business School) and CA(SA).

Area of expertise:
Accounting/Finance, Business Management, Risk Management and Corporate Governance.

12

Ms Ellen Tshabalala

Date of birth:
August 1958.

Date of appointment:
13 December 2010.

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

Area of expertise:
Business Management and Strategy.

13

Ms Doris Tshepe

Date of birth:
August 1973.

Date of appointment:
13 December 2010.

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

Area of expertise:
Legal/Compliance, Corporate Governance and Risk Management.

14

Ms Ayanda Ceba
(Group Company Secretary)

Date of birth:
September 1976.

Date of appointment:
1 April 2009.

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

Area of expertise:
Legal and Corporate Governance.

GROUP EXECUTIVE COMMITTEE

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: Finance 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 – Results Management Office.
Area of expertise: Economics, public administration, transport, logistics and property.

6

Ms Nonkululeko Mabandla
Year joined Transnet: 2012.
Position: Group Executive – Legal Services and Compliance.
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: Chief 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, and engineering.

11

Ms Sharla Pillay

Year joined Transnet: 2003.

Position: Chief Executive – Transnet Pipelines.

Area of expertise: Finance, information technology, procurement and strategy.

12

Ms Nonkululeko Sishi

Year joined Transnet: 2012.

Position: Group Executive – Human Resources.

Area of expertise: Human Resources and management.

13

Ms Mantsika Matooane

Year joined Transnet: 2013.

Position: Group Executive – Enterprise Information Management Systems.

Area of expertise: Information technology, management and operations.

14

Ms Mmathabo Sukati

Year joined Transnet: 2013.

Position: Chief Audit Executive.

Area of expertise: Finance, accounting, auditing, risk management, governance and management.

15

Mr Karl Socikwa

Year joined Transnet: 1995.

Position: Chief Executive – Transnet Port Terminals.

Area of expertise: Organisational development, operations and legal.

16

Mr Richard Vallihu

Year joined Transnet: 1995.

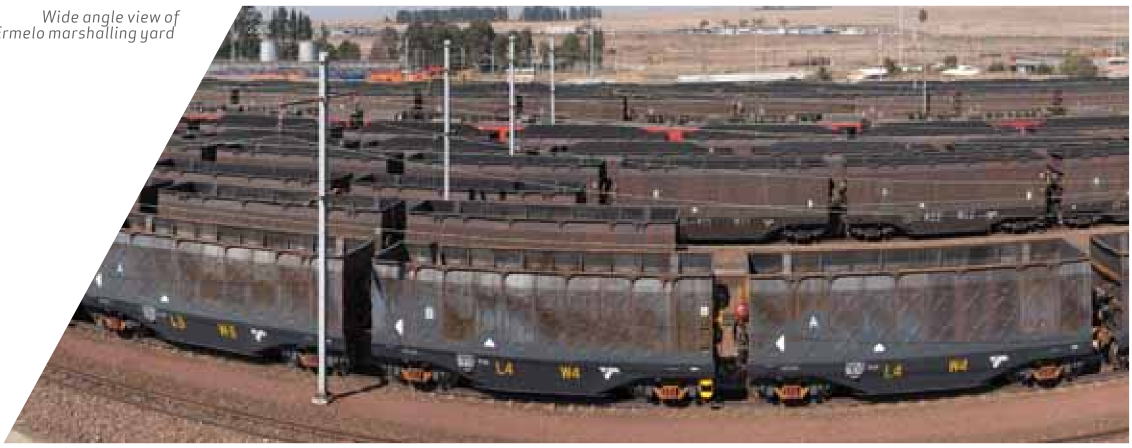
Position: Chief Executive – Transnet Engineering.

Area of expertise: Management, finance, transport and information technology.

To ensure effective management and monitoring of the business, the Board of Directors and the Group Executive Committee have established a number of Committees, that respond to the elements of its Mandate and Company Strategy. The link between Management and the Board Committees for each reporting element is indicated below:

Integrated Reporting element	Job to be done
Stakeholder engagement and relationships.	Effective stakeholder engagement and responsiveness.
Risks and opportunities.	Review the adequacy and effectiveness of the risk management function including ERM, financial risk, commercial risk, regulatory risk, technology risk, market risk, operational risk, environmental, health and safety risks. Effective identification and assessment of material issues.
Strategy and resource allocation.	Appropriate strategic response including: • Processes and controls; • Initiatives and activities; and • Resource allocation. Advise the Board of Directors on responsible corporate citizenship and sustainability.
Performance and outlook.	Appropriate financial and non-financial performance measurement and management including: • Appropriate lead and lag indicators; and • Setting of targets, ensuring accountability and determining incentives.
Remuneration.	Appropriate remuneration structured to align performance against strategy in short-, medium- and long-term incentives.
Governance.	Governance and assurance processes over financial and non-financial factors to oversee execution of strategy and structures in accordance with policy and regulation.

Wide angle view of Ermelo marshalling yard



	Committees of the Board	Committees of the Group Executive Committee
	• Remuneration, Social and Ethics Committee.	• Human Resources Committee. • Group Broad-Based Black Economic Empowerment Committee. • Capital Investment Committee.
	• Board Risk Committee. • Audit Commitee.	• Risk Management Committee. • Business Information Management Committee. • Finance Committee. • Capital Investment Committee. • NMPP Governance Steering Committee.
	• Audit Committee. • Board Acquisitions and Disposals Committee. • Remuneration, Social and Ethics Committee.	• Capital Investment Committee. • Human Resources Committee. • Finance Committee. • Policy and Regulation Committee. • Results Management Office Review Committee. • NMPP Governance Steering Committee.
	• Corporate Governance and Nominations Committee. • Remuneration, Social and Ethics Committee. • Board Acquisitions and Disposals Committee. • Audit Committee. • Board Risk Committee.	• Risk Management Committee. • Finance Committee. • Human Resources Committee. • Capital Investment Committee. • Results Management Office Review Committee.
	• Remuneration, Social and Ethics Committee.	• Human Resources Committee.
	• Corporate Governance and Nominations Committee. • Board Risk Committee. • Audit Committee.	• Policy and Regulation Committee. • Risk Management Committee. • Finance Committee. • Capital Investment Committee.

Board composition

The Company's Memorandum of Incorporation provides that there shall not be less than 10 and not more than 14 directors, of whom not less than eight shall be non-executive directors and two executive directors. As at 31 March 2014, the Board of Directors comprised 13 directors of whom the majority (11), are independent and non-executive, including the Chairperson.

Chairperson and Group Chief Executive

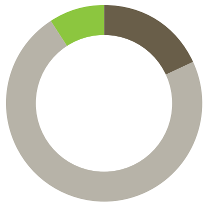
The Chairperson, Mr Mkwanazi, is an independent non-executive director. The roles of the Chairperson and the Group Chief Executive are separate with their individual responsibilities clearly defined. The Chairperson is responsible for leading the Board of Directors and ensuring its effectiveness. The Group Chief Executive is responsible for the execution of the Company's strategy and its day-to-day business, supported by the Group Executive Committee which he chairs.

Independent non-executive directors

The independent non-executive directors have diverse skills, experience and backgrounds. They are principally free from any business relationship that could hamper their objectivity or judgement in terms of the business and activities of the Company. All the independent non-executive directors have unrestricted access to information, documents, records and property of the Company in the interest of fulfilling their responsibilities. The independent non-executive directors contribute a variety of skills, business acumen, independent judgement and experience on various issues, including strategy, corporate governance, performance and general leadership, whilst the executive directors provide an operational understanding of the Company.

Directors' independence is determined according to the definition in the King III Code, which includes the number of years a director has served on the Board of Directors. A review, as provided for in the King III Code is conducted to ascertain the independence of long serving directors. None of the serving directors have been in service in that capacity for more than nine years.

The longest serving member of the Board of Directors, Ms Njeke, has been a non-executive director since May 2006. An assessment will be conducted by the Board of Directors during the 2015 financial year to ascertain her independence.



LENGTH OF TENURE OF NON-EXECUTIVE DIRECTORS AT 31 MARCH 2014

0-3 years	2
3-6 years	8
6-9 years	1

DIRECTORS' GENDER REPRESENTATION AS AT 31 MARCH 2014 (INCLUSIVE OF EXECUTIVE DIRECTORS)

Male	7
Female	6

Directors' balance of skills and expertise

The diagram below reflects the skills and expertise which are balanced to ensure effective discussions in fulfilling the Board of Directors' mandate. Details on the individual Directors skills and expertise are set out on pages 16 and 17 of this report.

Group Company Secretariat Function

The Group Company Secretary is responsible for developing systems and processes to enable the Board of Directors to discharge its functions efficiently and effectively. The Group Company Secretary prepares Annual Work Plans for the Board of Directors and its Committees in conjunction with the Chairpersons of the respective Committees. These Annual Work Plans are approved by the respective governance structures for implementation. The Group Company Secretary advises the Board of Directors on corporate governance issues and the requirements of the Companies Act. The Board of Directors has unfettered access to the services and advice of the Group Company Secretary.

In addition to various statutory functions, the Group Company Secretary provides individual independent non-executive directors and the Board of Directors with induction training as well as guidance on duties, responsibilities and powers; and the impact of regulatory developments on the business. In consultation with the Chairperson, the Group Company Secretary ensures that the contents of the agenda are relevant to Board of Directors' decision-making and the Board of Directors' resolutions are communicated throughout the Company in a timely and appropriate manner. A number of instruments have been introduced to ensure that the Board of Directors functions smoothly; eg introduction of the Resolutions Register which is communicated to line functions for execution, and a status tracker for the approved Annual Work Plans. The Group Company Secretary acts as the primary point of contact between the Board of Directors and the Company.

[SR]
Refer to
page 18

Board of Directors' Strategy and Deep Dive Sessions

As part of its Annual Work Plans, the Board of Directors and its Committees hold Strategy Workshops and Deep Dive Sessions where matters of a strategic nature are dealt with in detail to ensure thorough interrogation and analysis. During the year under review, the Board of Directors convened two Board Strategy Workshops and one Deep Dive Session.

Compliance

The Company has an established formal Compliance Function. As is the case with all Company policies, the Company's Compliance Policy is reviewed biannually or updated as and when necessary. The Compliance Policy forms the foundation of the Company's Compliance Framework.

The Company considers non-compliance with legislative requirements as a key risk, as it not only exposes the Company to fines and civil claims, but can also result in loss of operational authorisations and reputational harm.

Management of potential conflicts of interests

The Companies Act codified the fiduciary duties of directors and prohibits the use of position, privileges or confidential information for personal gain or improperly benefiting another person.

In instances where an independent non-executive director or a Prescribed Officer has any direct or indirect personal or private business interest, that independent non-executive director or Prescribed Officer must be recused from the proceedings when the matter in which he/she has interest on is considered, unless the Board of Directors, or its Committees or Group Executive Committee decides that the member's interest in the matter is trivial or irrelevant.

For all formal meetings, registers for declaration of interests and related-party disclosures are completed by the Directors and attendees. In addition, the Company requires all employees to sign confidentiality and declaration of interest forms when adjudicating on procurement contracts.

Ethics

Transnet's Code of Ethics (the Code) promotes a culture of entrenched values, principles, standards and norms that guide the behaviour of the Board of Directors, employees, service providers, suppliers and trade partners.

Transnet also concludes Integrity Pacts with all bidders and suppliers, which have replaced Transnet's Supplier Code of Conduct. The Integrity Pacts aim to enable Transnet to obtain the desired contract at a reasonable and competitive price in conformity to the defined specifications of the works, goods and services; and to deter bidders and suppliers from bribing or participating in any corrupt practice in order to secure a contract.

There is a Tip-Offs Anonymous Hotline for reporting concerns about unethical or unlawful behaviour. The hotline is managed by Internal Audit and all reported cases are investigated through an established forensics investigation process. The hotline is available 24 hours a day, seven days a week and the call centre agents are able to converse in all 11 official South African languages. Transnet employees are protected from victimisation by the Transnet Whistle Blowing Policy in so far as reporting is undertaken in line with the Protected Disclosures Act.

During the next financial year, the Company intends to undertake an Ethics Climate Survey, develop an Ethics Compliance Programme, and approve an Anti-corruption Policy.

To read more on Transnet's ethics and integrity refer to the SR 2014 page 18.

Assurance and effectiveness

Integrated assurance approach

One of the responsibilities of the Board of Directors 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 continued weak economic conditions 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, project and financial risk management.

The Board of Directors 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 Company is tightening its control frameworks around the capital investment 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.

An integrated 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. Integrated assurance provides the Audit Committee with an overview of the coverage of the critical risks, as well as the effectiveness of the critical controls that mitigates the critical risks without sifting through numerous reports from the various assurance providers.

Efforts will continue to enhance the process of integrated assurance and move to the next level of maturity. This process will not be limited to key risks only, but will be expanded to the capital planning and integration processes in the coming financial year.

The plan enables the Board of Directors and its Committees, including the Board Risk and the Audit Committee, to remain apprised 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 four lines of defence in the integrated assurance model, involving:

Management-based assurance: This is considered the first line of defence, whereby 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.

Internal assurance: As the second line of defence, 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 external assurance providers. Collectively they represent the third line of defence.

Oversight committees: Properly mandated Board Committees and Group Executive Committees oversee the adequacy and effectiveness of the risk management process as the fourth and final line of defence.

Assurance matrix:

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 9000 and 14000. • Legislative requirements. • ERM and compliance standards including Risk Management and Compliance Institute of South Africa guidelines. • Committee of Sponsoring Organisations of 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.
Selected sustainability key performance indicators.	• External audit.	Limited assurance.	• ISAE 3000. • Global Reporting Initiative (GRI) G4 Guidelines.

The responsibility for review of the IR 2014 and AFS 2014 resides with the Audit Committee. Responsibility for the SR 2014 resides with the Remuneration, Social and Ethics Committee. These Board of Directors sub-committees recommended the reports to the Board of Directors for approval. The integrated assurance approach, including consideration of additional independent assurance, is being further developed for all aspects of the reports.

Compliance including PFMA, King III, Companies Act

Transnet recognises its accountability to all its stakeholders under the regulatory requirements applicable to its business and is committed to high standards of integrity in the conduct of its business. In view of the importance of complying to the ever-increasing universe of regulatory requirements, and the increased national and international emphasis placed on the supervision thereof, the Board of Directors, Executive Committee and employees are regularly appraised of the compliance requirements, internal controls are constantly being developed and tested to ensure compliance and continuous training is implemented.

King III Compliance – Governance Assessment Instrument

The Company has utilised the Institute of Directors of South Africa (IoDSA) Governance Assessment Instrument (GAI) as the due process by which assurance is provided that every recommended practice in King III has been considered. Practices are either applied or not applied, with the latter carrying an explanation of a compensating practice, or alternatively the reason for non-application and corrective action to be taken.

Practices that support the 75 principles of King III are assessed through the GAI, which confirms the extent to which the Principles are applied by way of a rating as follows:

AAA	Highest application
AA	High application
BB	Notable application
B	Moderate application
C	Application to be improved
L	Low application

Assurance of the accuracy and validity of these results is provided by the review performed by the Group Executive Committee, the Corporate Governance and Nominations Committee and the Board of Directors.

Fuel tankers being transported by rail in Jameson Park

Below is the King III Chapter Summary.

King III governance register at: 11 April 2014

AAA *Highest application* *AA* *High application* *BB* *Moderate application*
C *Application to be improved* *L* *Low application*

Transnet SOC Ltd – 1990/000900/30	IoDSA GAI score	Applied/partially applied/not applied
– Chapter 1: Ethical leadership and corporate citizenship	AAA	Applied
– Chapter 2: Boards and directors	AAA	Applied
– Chapter 3: Audit committees	AAA	Applied
– Chapter 4: The governance of risk	AAA	Applied
– Chapter 5: The governance of information technology	AAA	Applied
– Chapter 6: Compliance with laws, rules, codes and standards	AAA	Applied
– Chapter 7: Internal audit	AAA	Applied
– Chapter 8: Governing stakeholder relationships	AAA	Applied
– Chapter 9: Integrated reporting and disclosure	AAA	Applied
Overall score	AAA	Powered by IoDSA GAI

Disclaimer:

The assessment criteria of the IoDSA web-based tool, the governance assessment instrument (GAI) have been based on the practice recommendations of the King III report. These criteria are intended to assess quantitative aspects of corporate governance only and not qualitative governance. As such, the results are proposed to serve as an indication of the structures, systems and processes in place and are not intended to include an indication of the governance culture of an entity.

The responsibility for the input of data in order to attain a result through the use of this is that of the user and the entity in respect of which the user licence has been granted (licencee). The results based on the use of the GAI may be based on the subjective opinion of the licencee or the representative user(s) and may not be a true reflection of the actual state of the governance structures, systems and processes at the entity.

The IoDSA makes no warranty or representation as to the accuracy or completeness of either the assessment criteria or the results. Neither the IoDSA nor any of its affiliates nor the software developer shall be held responsible for any direct, indirect, special, consequential or other damage of any kind suffered or incurred, as a result of reliance on the results produced through the use of the GAI.

Effectiveness of governance structures

Independent performance evaluation of the Board, its Committees and Directors

An annual independent Board of Directors evaluation is conducted to assess the effectiveness of the Board of Directors and the individual contributions of the directors. The process is managed by independent service providers. Three evaluation processes were carried out at the end of the 2013 financial year. The first evaluation sought to measure the performance of individual directors based on their general contribution and their involvement and participation in meetings, while the second aimed to review the overall functioning and performance of the Board of Directors as a unit and the third evaluation measured the effectiveness of the various Board Committees. The findings of these evaluations were considered by the Board of Directors in May 2014 and were compared to the previous year's assessment, with appropriate action plans being formulated.

There was overall satisfaction in terms of the Board dynamic and marked improvement was noted with reference to the effective role of the Company Secretary. There was notable improvement in all areas.

REMUNERATION

Remuneration philosophy and structure

The objective of the Transnet reward philosophy is to provide a framework for fair and transparent reward dispensation. Remuneration structures are engineered to incentivise the right performance within the Company and ensures that all employees are paid a fair and competitive salary. There are three elements to Transnet's remuneration structure:

- Guaranteed pay;
- Short-term incentives (STI); and
- Long-term incentives (LTI).

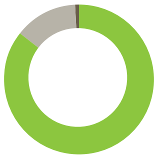
The components of the remuneration structures, by employee level, have been illustrated alongside to demonstrate the extent of variability of remuneration to Company performance. The headcount numbers are inclusive of fixed-term contractors.

EXECUTIVE COMMITTEE – 16 EMPLOYEES

Guaranteed pay	55,2%
STI – annual	24,0%
LTI	20,8%

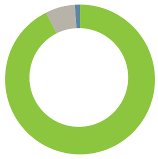
EXTENDED EXECUTIVE COMMITTEE – 105 EMPLOYEES

Guaranteed pay	61,5%
STI – annual	21,5%
LTI	17,0%



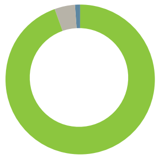
MANAGEMENT – 5 746 EMPLOYEES

Guaranteed pay	85,8%
STI – annual	13,4%
LTI	0,8%



FST* EMPLOYEES – 4 883 EMPLOYEES

Guaranteed pay	92,5%
STI – annual	6,5%
STI – gain share	1,0%



BARGAINING UNIT – 52 814 EMPLOYEES

Guaranteed pay	94,6%
STI – annual	4,4%
STI – gain share	1,0%

** First line managers, specialists and technicians.*

Containers and straddle carriers at the Cape Town Container Terminal

The objectives and overview of each structure are summarised below:

Remuneration structure	Objective
Guaranteed pay	The objective of guaranteed pay is for the employer to reward employees in terms of a fixed monetary (cash) amount that is normally determined based on the complexity of the job.
Short-term incentive scheme	The STI scheme is designed with the specific objective to drive the achievement of annual Company targets as agreed with the Shareholder in the Shareholder's Compact. In addition to the annual component of the STI scheme, a gain share incentive scheme was implemented for bargaining unit employees. The objective of the gain share is to enhance line of sight between targets and actual performance as well as to ensure internal parity. The bargaining unit employees in the Container Sector of Transnet Port Terminals are excluded from the gain share payment and participate in a Container Sector Productivity Scheme. Employees are eligible for monthly incentive payments if specific performance norms are achieved.
Long-term incentive scheme	The LTI scheme is designed with the specific objective to ensure the continued focus on execution and achievement of the Company's strategy, to attract and retain key talent, to drive long-term sustainable value creation, to encourage stretch performance and reward and recognise employees for high sustainable performance.

Overview

In general, guaranteed remuneration is based on the market median. Salary increases occur annually, based on an approved mandate obtained from the Remuneration and Social Ethics Committee of the Board and motivated by the specific analyses of relevant internal and external factors. Annual increases for management levels are also informed by individual performance ratings. Increases for bargaining unit employees are informed by the outcome of the annual wage negotiation process. Transnet does not support interim/ad hoc salary increases.

The DPE conducted a remuneration study amongst SOCs. In the last financial year, Transnet implemented a moratorium on annual salary increases for members of the Group Executive Committee and Extended Executive Committee pending the outcome of the study at that time. As a result members did not receive a remuneration adjustment to guaranteed pay in the 2013 financial year. In the current year, guaranteed remuneration of the Group Executive Committee was increased by 5%, effective 1 April 2013. The recommendations of the study will be taken into consideration in terms of the future increases.

Guaranteed pay of the next four employee categories, were adjusted, on average, in the current financial year as follows:

- Extended Executive Committee: 5%.
- Management levels: 7,3%.
- First Line Management, Specialist and Technician: 8,5%.
- Bargaining Unit (Below G): 8,5%.

The eligibility range of percentages linked to specific business performance achievement is 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%
Strategic management	C and D	16%	32%	50%
Senior management	E	10%	20%	30%
Tactical management	F	8,5%	17%	25%
First line manager, specialist and technician	G	6%	12%	Gain share
Bargaining unit	Below G	5%	10%	

STI – Annual component

The 2014 STI component was based on the EBITDA achievement of 104,7% (after adjusting for exogenous factors as approved by the Remuneration, Social and Ethics Committee of the Board) and moderated in line with Transnet's performance against Shareholder's Compact KPIs performance as well as safety targets. Individual incentive percentages are further modified with individual performance assessment ratings in terms of the rules of the incentive scheme.

STI – Gain share component

The gains share component for 2014 was based on the achievement of EBITDA, volume and operational targets as agreed for individual Operating divisions.

The LTI scheme is applicable to executive and selected senior managers. The value generated by the STI paid during a given year will generally be matched on a Rand-for-Rand basis as an LTI payable on the third anniversary of the STI payment.

The 2011 conditional award in respect of the LTI scheme vested at the end of the 2014 financial year. The value of the LTI payment is impacted by the level of achievement of specific company and individual performance objectives. The payment of these vested amounts will take place at the end of July 2014 following the conclusion of the annual financial statements.

The LTI has specific clauses dealing with company performance over the banking period and to this effect a group modifier has been introduced. The Group LTI modifier for the vesting of the 2011 conditional award is the average achievement return on average total assets (ROTA) (excluding capital work-in-progress) against the target over the three years of the banking period.

Targets are set on an annual basis and have also been included in the Transnet Corporate Plan.

[**AFS**]
Report of the Directors

Further detail regarding the application of the reward structure for 2014 as well as the independent non-executive directors' remuneration are outlined in more detail in the annual financial statements.

Individual performance management

Individual performance of managers in Transnet has a significant impact on the determination of the STI payment and the annual salary increase. Transnet has implemented the Balanced Scorecard Performance Management Methodology for the Management category as well as for First Line Managers, Specialists and Technicians.

The Company targets as per the Shareholder's Compact and the Corporate Plan are annually translated into a corporate scorecard and then cascaded to all managers across Transnet. Performance as measured against corporate and individual objectives informs the STI payments and annual individual increases.

Remuneration focus areas going forward

The MDS has resulted in a drive to review remuneration policies and practices across the business. The newly developed workforce plan will be implemented to ensure that the right skills are available at the right time to ensure the achievement of the rigorous objectives of the MDS.

The Department of Public Enterprises has released the Remuneration and Incentive Standards for SOCs early in 2014 after completing the remuneration study on all SOCs. Transnet has conducted a detailed analysis of the standards and is in process of reviewing the Transnet Remuneration Philosophy to align with the standards, where required. The alignment will focus primarily on the fee structure of the non-executive directors, the STI scheme and guaranteed pay practices. The revised Reward Philosophy will be finalised and rolled out during the 2015 financial year. The reward dispensation for the management category is also being reviewed with the objective to create a career path framework for managers, specialists and technical skills.

Teamwork is one of the values of our Culture Charter

MATERIAL ISSUES DETERMINATION PROCESS

Transnet defines materiality for its reporting as issues[4] that substantively affect Transnet's ability to create and sustain value over the long term.

Transnet's material issues were determined through a structured process of identifying relevant issues and prioritising those that are material, using a number of sources, including:

- The Statement of Strategic Intent issued to Transnet by the Minister of Public Enterprises and the annual Compact that Transnet signs with the Minister;
- Transnet's Sustainability Framework;
- Transnet's ERM process and top 10 strategic risks;
- The business environment within which Transnet operates; and
- Transnet's stakeholder engagements.

This was complemented by a review of Transnet's coverage in the external media. The material issues were reviewed in a materiality workshop of senior management. This process has informed both the SR and IR content as well as reporting boundaries (refer Appendix E for the boundary matrix).

Statement of Strategic Intent and Shareholder's Compact

The Statement of Strategic Intent issued by the Shareholder, represented by the Minister of Public Enterprises outlines five objectives for Transnet:

- 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 the social and economic impact of all interventions undertaken by the Company in the achievement of these objectives.

The annual Compact that Transnet signs with the Shareholder sets out specific annual targets to achieve the strategic outcomes required. These targets are set every year to inform Transnet's annual Corporate Plan.

Transnet's Sustainability Framework

Transnet's Sustainability Framework is aligned to the Minister's Statement of Strategic Intent and the Shareholder's Compact to ensure that Transnet accounts for long-term economic, social and environmental outcomes.

Enterprise Risk Management

The issues that affect Transnet's ability to create value in the short, medium and long term can be grouped into three categories:

- Operational risks or opportunities which are managed daily through implementing policies and process controls;
- Strategic risks or opportunities which could significantly affect Transnet's ability to implement its strategy, but could be mitigated if they are understood and proactively addressed; and
- Systemic or global risks or opportunities which affect nations and companies globally; some of which could be mitigated by localised efforts or through collective or multilateral actions.

Transnet's strategic risk profile is generated from the Transnet ERM Strategy Framework, based on ISO 31000:2009.

4 With the multitude of terms used in the IR Framework and GRI G4 guidelines guiding Transnet's reporting, Transnet uses the word 'issue' to refer to matters, topics, and aspects. Not all 'issues' will necessarily be 'material issues'.

MATERIAL ISSUES
(continued)

A strategic risk profile is generated for each Operating Division, and updated regularly for emerging risks. The output from risk assessments is held in risk registers and risk treatment plans that are stored in the risk information management system. Risks are allocated to specific risk owners for monitoring and review. The risk treatment actions are allocated to task owners to track and monitor completion thereof.

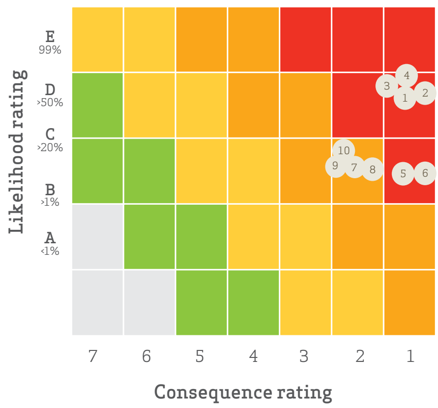
The results of the risk assessment reviews are presented to Operating divisions or Specialist Units, Risk Management Committees and to the Transnet Risk Management Committee.

Key Risk Indicators are developed for all significant and strategic risks. The potential exposure is determined in Rand value for all significant risks. The process involves relevant stakeholders and is collaborative.

Priority I risks requires management to take action to reduce residual risk or to tolerate the exposure at current residual levels, with authorisation by the Group Chief Executive and the Board of Directors. Priority II risks requires management to take action to reduce residual risk or manage risk reduction through the business plan.

The Board has delegated the quality, integrity and reliability of the Group's risk management to the Board Risk Committee.

The key medium-term issues derived from the ERM analysis, which support the material issues disclosed in the next section, are as follows:



- Priority I risk – Transnet Group CE and Board level
- Priority II risk – Operating divisions' CEO's level
- Priority III risk – General Managers' level
- Priority IV risk – Managers' level
- Priority V risk – Employees' level

1. Changes in regulatory environment (ie economic, technical and compliance) – spending on capital investment based on assumptions that may be negatively impacted by subsequent changes in regulation.
2. Inability to deliver on the capital investment plan due to the ineffective application of current capital and procurement operating methodology.
3. Inability to attract additional volumes as new capacity is created and to protect current volumes against new entrants.
4. Operational and business interruption due to derailments, safety incidents, cable theft, lack of effective application of information technology (ICT) and natural disasters.
5. Credit rating downgrade leading to funding and liquidity risks – loans being recalled.
6. Security of energy supply – inability to ensure sustainable supply.
7. People management, talent attraction and skills development to operate the newly acquired assets.
8. ICT infrastructure and technological risks to broader business enablement.
9. Counterparty risk certainty of delivery by suppliers/customers. Commodity and Concentration Risks (Third-party Supplier Risks).
10. Environmental activism increased pressure to be a sustainable organisation.

Strategic residual risks heat map.

Inbound class 18 locomotives with mixed load

Business environment

Slow rates of global and local economic growth, volatile commodity markets, widening social inequality, structural unemployment, technology advances, skills shortages, and the demand for natural resources characterise the business environment within which Transnet operates. These factors have a direct impact on Transnet's customers, funders, employees and suppliers. The freight system's ability to effectively respond to these trends is integral to Transnet's business sustainability. The MDS recognises this, positioning the Company to meet demand, pursue developmental outcomes, and build a sustainable enterprise.

South Africa's NDP, endorsed by Government in 2012, aims to eliminate poverty and reduce inequality by 2030. The long-term structural reforms outlined in the NDP are complemented by the nearer-term goals set out in the NGP; regular updates to the Industrial Development Plan; and the work of the Presidential Infrastructure Coordinating Commission (PICC). The NDP's focus areas are: the economy and employment; economic infrastructure; transition to a low-carbon economy; South Africa in the region and the world; human settlements; education, training and innovation; healthcare; social protection; safe communities; a capable state; fighting corruption and enhancing accountability; and transforming society and unifying the country.

These NDP focus areas constitute Government's framework of policy and planning priorities. They are all relevant to the scope of Transnet's mandate, highlighting the complex socio-economic challenges within which the Company operates.

Public sector investment in economic infrastructure is a key component of South Africa's economic growth path. The share of the public sector in overall fixed investment rose from under 30% of GDP in 1994 to 38% in 2013, while SOCs, especially Transnet and Eskom, accounted for approximately half of all public investment in 2013[5]. South Africa's economic infrastructure nevertheless still lags demand and much more is required to stimulate the levels of growth which are needed to create and sustain employment and to break poverty and inequality.

The key issues derived from this business environment, which support Transnet's material issues outlined later in this section, are as follows:

- Infrastructure provision ahead of demand;
- Asset utilisation;
- Skills in project management and operations;
- Operations service reliability and performance, including safety;
- Supply chain exposures; and
- Revenues required to support investment.

5 *The Presidency, Republic of South Africa, 2014: Twenty Year Review South Africa. <http://www.thepresidency-dpme.gov.za/news/Pages/20-Year-Review.aspx>.*

[SR]
Refer to
page 21

Stakeholder engagements

Our stakeholders are those individuals or groups of individuals or organisations to whom we have a legal, financial or operational responsibility; those who are directly affected by Transnet's operations; and those who are likely to directly influence Transnet's performance.

Transnet is streamlining business processes to improve shared value creation through stakeholder engagement. In 2013, we concluded a stakeholder engagement analysis to determine the quality of engagements and to identify ways to improve. A number of improvement areas were identified in respect of our policy, process controls and reporting. We undertook a number of steps to institute a more systematic approach to the management of stakeholder engagement, including:

- Undertaking a maturity assessment of stakeholder engagements;
- Developing a stakeholder engagement policy and process control framework; and
- Piloting quality assessments of stakeholder relationships.

Through the stakeholder engagement process, we have identified the following key stakeholder groups.

- Customers;
- Employees;
- Shareholder Representative – Ministry of Public Enterprises;
- Investors;
- National, Provincial and Local Government and Regulators;
- Suppliers;
- Organised Labour; and
- Public.

For a comprehensive understanding of Transnet's stakeholder engagement process, stakeholder concerns and our response, refer to page 21 of the SR 2014.

Maintenance crew performing repairs on a rail line

Stakeholder interests and concerns gleaned through the engagement process have been comprehensively considered through our material issues determination process. By applying the materiality filters, these have informed the material issues which are presented in the following section; and have also helped to shape our strategic response to those material issues. Where particular stakeholder concerns or interests are reflected in the material issues presented, these stakeholders have been linked to the respective material issues in the table below.

TRANSNET'S MATERIAL ISSUES

The material issues, context of the issues and strategic response, identified through the materiality determination process are as follows (in order or prioritisation):

Material issue	Why is this material to Transnet	Potential impact on Transnet	Strategic response
1. **Regulatory uncertainty**	• Uncertainty regarding the methodology applied in economic regulation by the Ports Regulator for the annual approval of National Ports Authority tariffs. • Uncertainty on National Energy Regulator of South Africa's annual determination of Pipelines revenue. • National Ports Act's provision for corporatisation of National Ports Authority. • Uncertainty of terminal licence duration for Port Terminals at Port of Ngqura. • Competitive process required in terms of National Ports Act for provision of new port services. • Transnet's ownership of present and future port infrastructure affixed to the seabed arising from provisions of the Integrated Coastal Management Act. • Sharp escalations in safety permit fees charged by the Rail Safety Regulator.	• Revenue uncertainty affects funding and capital investment planning. • Changes to Transnet's financial stability will affect loan covenants and future funding. • Large-scale capital plans and funding for investment are based on regulatory, revenue and cost assumptions that can change significantly though administrative action. • Uncertainty on Port Terminal licences affects deployment of resources and investment. • Uncertainty on ownership of Ports infrastructure affects investment.	Ongoing engagements with the Shareholder, Government policy departments and regulators.
	Stakeholders: Government and Regulators; Investors; Shareholder; Customers		
2. **Capital projects on time and within budget**	• Project management, engineering and technical skills and experience are needed to deliver capital projects to plan. • Complexities associated with the capital projects are prioritised and addressed based on demand projects, business cases and expected growth opportunities.	• Capital cost over-runs and delays affect revenues, reputation, funding and investment sequencing. • Impact on customers and the economy.	• Enhance and further embed project lifecycle process methodology, rigorous feasibility gate reviews and project risk management. • Optimise capital approvals.
	Stakeholders: Customers; Investors; Shareholder; Suppliers		

Material issue	Why is this material to Transnet	Potential impact on Transnet	Strategic response
3. Volume and revenue growth	• Ability to meet future demand for freight logistics services is dependent on volume and revenue growth to finance investments. • Volatility in customers' industries and import/export markets affects volumes and revenues.	• Lower-than-projected volumes and revenues affects capital allocations and timing. • Competitors attract some customers where Transnet capacity falls short. • Innovative opportunities to attract new customers.	• Focus on customer responsiveness and satisfaction. • Validating volume demand. • Rigorous capital planning and execution. • Implement marketing and Africa strategy. • Ensure take-or-pay agreements are implemented.
	Stakeholders: Customers; Investors; Shareholder; Government and Regulators		
4. Business interruption and incident management	Adverse impacts of: • Electricity disruptions; • Adverse weather conditions; • Labour unrest; • Cable theft; • Underresourcing; • Derailments; • Equipment failure; • Supplier disruptions/failures; and • Customer demand fluctuations.	• Business interruptions negatively impact on operational systems, resource allocations, volumes, revenues, reputation. • Impact on customers and the economy.	• Risk management. • Operational efficiency and productivity. • Safety systems. • Security systems. • Maintenance. • Energy management. • Contract management.
	Stakeholders: Customers; Shareholder; Investors; Employees; Organised Labour; Public		
5. Funding and liquidity	• Ability to manage liquidity and generate cash in the short, medium and long term and attract cost-effective funding.	• Inadequate liquidity can negatively impact the Company's going-concern status and impact on its credit rating, cost of funds and investment plans. • High cost of funds impacts the cash interest cover. • Credit rating downgrades for the country influence Transnet's ability to attract investors.	• Finance and funding strategy. • Engagements with providers of financial capital.
	Stakeholders: Investors; Shareholder; Customers		

Material issue	Why is this material to Transnet	Potential impact on Transnet	Strategic response
6. **Energy security**	• Transnet requires guaranteed electricity supply at a reasonable price in order to operate the railways, ports and pipelines.	• Business interruptions. • Opportunities to build resilience by improving energy management and efficiency, and adopting alternative energy solutions.	• Energy management, energy efficiency measures, investigation of alternative supplies. • Engagement with Eskom.
	Stakeholders: Suppliers; Customers; Shareholder; Investors		
7. **Human resources capability**	• Need for specific skills, experience and mature management to deliver on MDS. • Ageing workforce concern. • Transformation requirements. • Talent retention.	• Skills, experience and management constraints limit Transnet's ability to effectively deliver on infrastructure plans and operating efficiency improvements.	• Human capital strategy for performance and talent management and skills development.
	Stakeholders: Employees; Organised Labour; Customers; Shareholder		
8. **ICT utilisation**	• Third-party supplier dependency. • Legacy software not being supported. • Technology enablement to prevent asset losses and disruptions. • Ageing and inefficient ICT infrastructure. • R&D capability.	• Efficient utilisation of ICT will reduce asset losses and business disruptions. • Opportunities for deployment of new technologies to improve efficiencies.	• ICT strategy. • Investment in research and development and adoption of appropriate technology.
	Stakeholders: Suppliers; Customers		
9. **Suppliers and customers**	• Exposure to customers' and suppliers' disruptions. • Diversifying the customer portfolio to wider base of companies, including new entrants. • Volatility of export commodities.	• Exposures through supply chains and the nature of customer's operations impact on capital projects, operational systems, volumes, revenues and reputation.	• Contract management. • Customer relations. • Capital planning and execution.
	Stakeholders: Suppliers; Customers; Investors; Shareholder		
10. **Environmental and social sustainability**	• Water scarcity in areas where customers are developing new mines. • Long-term coal demand forecast uncertainty. • Infrastructure requires climate change mitigation and adaptation in design. • Environmental impact mitigation measures factored into project plans. • Social and relationship capital.	• Promoting sustainable growth is part of Transnet's mandate. • Potential of investing in infrastructure for industries which may not be sustainable. • Regulatory and reputational risk. • Communities in which Transnet invests and operates are integral to lasting business solutions.	• Sustainability strategies and risk analysis. • Feasibility gate reviews and project risk management.
	Stakeholders: Customers; Suppliers; Shareholder; Government and Regulators; Investors; Public; Employees; Organised Labour		

THE MDS IS FOCUSED ON DELIVERING KEY OUTCOMES

Enabling economic growth

Becoming a **key supplier** for thermal coal and manganese exports as well as maintaining position as a credible supplier of iron ore locally and abroad.

Position South Africa as the leading logistics hub in the region.

Improved infrastructure can **lower supply-chain costs** of businesses in South Africa.

Become the regional container **transshipment hub** for sub-Saharan Africa.

Capital investment programme

R312,2bn investment programme, over the next seven years.

Sustaining capital investment makes up **51%** of total planned capital expenditure.

Expanding **technological know-how** and grow **product offering.**

Capacity **ahead of demand.**

Continued financial stability and strength

12% per annum growth in revenue over the next seven years.

Maintain investment grade **credit rating** over the next seven years.

Hybrid capital to minimise impact on key financial ratios.

Unlock private sector investment.

To maintain gearing **<50%** and cash interest cover **>3,0 times**

Significant productivity and operational efficiency improvements

Technology and innovation. **Greater efficiency and safety.**

Ensuring **operational excellence** across the business. Upgrades and expansions will improve efficiency.

Shift from road to rail via volume growth

Rail volumes will increase from around 210,4 million tons to **343,9 million tons** per annum by 2021.

A switch from road to rail will **reduce costs**, congestion and **carbon emissions.**

Mitigate against further deterioration of the secondary road network.

Job creation, skills development, localisation, empowerment and transformation opportunities

Hundreds of thousands. The total number of jobs we will create within the South African economy.

R9 031billion, the amount we will spend on training, skills development bursaries and grants by 2021.

65 785 permanent employees by 2021.

20,3% increase in permanent employees over the seven-year period to support growth of the business.

5 735 Artisans are to be trained from the period 2015 to 2021.

B-BBEE **Level 1** by 2018.

By 2021, Transnet's total procurement spend (tmps) with black women-owned companies should account for **5%** of the budget.

Active participation in regional integration initiatives and structures

Position Transnet Engineering to become the **preferred supplier** of **rolling stock in Africa.**

Provide integrated fuel solution via pipe and rail to Botswana and Zimbabwe.

Increase over-border volumes in our rail business from 7,2mt to **18,6mt** by 2021.

Prioritising safety and security

Safety is a vital element of Transnet's operations and is managed through the Transnet Safety, Health, Environment and Quality Management system. The Transnet **seven Golden Safety Actions,** communicated to all company employees, set the benchmark for safe behaviour within Transnet.

Zero tolarance for fatalities.

DIFR consistently below 0,8.

Creating regulatory certainty and compliance with policy

Transnet will continue to support government in driving **transformation.**

Review **pricing** in order to comply with economic regulations.

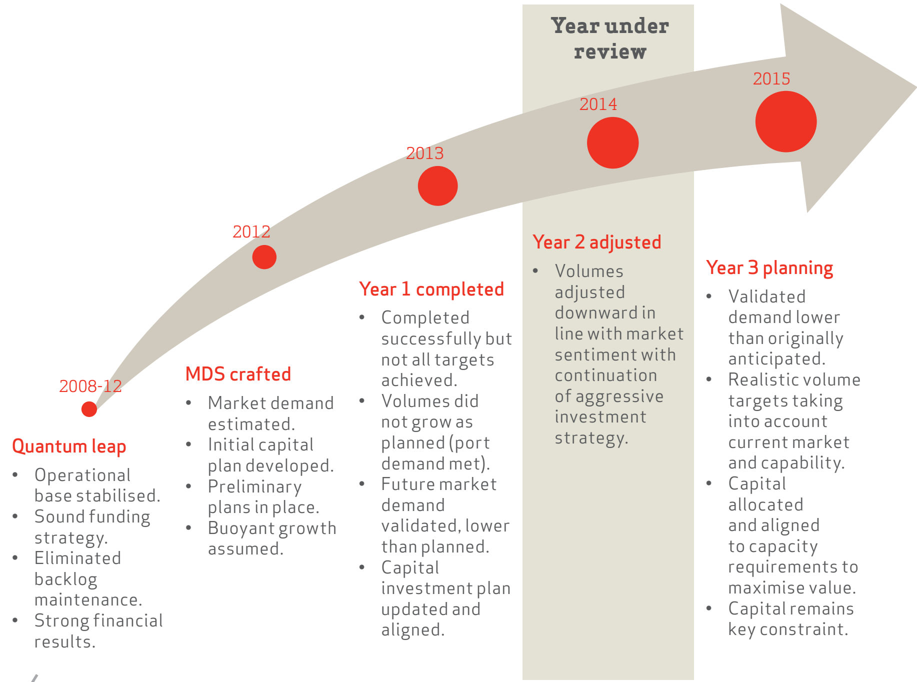
ABOUT MDS

There is clear recognition by the Shareholder, Board of Directors and Group Executive Committee 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.

In 2012, the Board of Directors responded to the Shareholder's Statement of Strategic Intent through the adoption of a new strategy, the MDS in response to these imperatives. The objectives of the MDS are aligned to the Statement of Strategic Intent issued by the Minister of Public Enterprises. The MDS implementation plan is encapsulated through six pillars and two foundational enablers as follows:

Capital Planning and execution	Volumes and customer satisfaction	Operational efficiencies and productivity	Finance and funding	Regulatory and key stakeholder engagement	Safety risk and sustainability
Human capital					
Building organisation readiness and a high performance culture					

The MDS remains the epicentre of Transnet's strategic direction, but requires ongoing attention to bring aspirations closer to economic reality. The illustration below depicts the strategy evolution thus far:



IMPLEMENTING MDS

Both the progress on MDS implementation and performance relative to MDS targets are reviewed on an annual basis, which includes an in-depth assessment of where we are as a Company, the external environment, and the risks and opportunities we face in executing our plans. The Government, through the Shareholder Representative (Minister of Public Enterprises), and the Board of Directors concludes a Shareholder's Compact on an annual basis, as required by the Public Finance Management Act. The Shareholder's Compact stipulates and defines, amongst others, the Company's mandate and strategic objectives over the medium term, which in turn forms the basis for the Corporate Plan. The Corporate Plan is prepared on an annual basis by the Group Executive Committee and is approved by the Board of Directors.

The information included in the Corporate Plan provides guidance to management on the strategic business and economic perspectives as well as the key focus areas and related targets to successfully execute the Company's mandate. It also serves as reference to all investors and funders of the sustainability of the Company. The preparation of the Transnet Corporate Plan follows a robust and structured process and flows from a culmination of activities, initiatives and processes within Transnet, including:

- The setting of strategic direction, associated objectives and targets using the requirements of the Compact with the Shareholder. This informs the plans of the Operating divisions;
- The Long-term Planning Framework, which reflects the future capacity and investment requirements, provides guidance to the Operating divisions in developing their capital investment plans;
- The alignment of volumes based on inputs from customers, financial plans, funding requirements, operational plans, capital investments and risk management strategies across the Company through a strategic planning and budgeting process;
- Various cross-divisional and cross-functional workshops, reviews and approval sessions with the key internal stakeholders including the Board of Directors and the Group Executive Committee; and
- A structured process to obtain the commitment from all internal stakeholders and to clearly define deliverables as this forms the basis for the performance agreements concluded for the 2014 financial year.

Performance information and other criteria comparing actual 2014 results to the 2014 targets, as required in terms of section 55(2) of the PFMA is set out in the Report of the Directors in the AFS 2014. Measuring the Company's entire performance against the Shareholder's Compact KPIs, we achieved 64% of targets during the 2014 financial year. Our strategic report at Company and Operating Division level is unpacked in the sections which follow in this report.

Several initiatives were launched to improve implementation and risk management processes, especially given the weak market in the current financial year and the higher level of financial risk this exposes the Company to:

- The Results Management Office Review Committee (RMO) to support the delivery of operational priorities and capability building;
- A Capital Excellence Programme (CEP) to enhance Transnet's capital execution capability, ensure delivery according to plan and create a buffer for the capital programme to manage cost and schedule overruns;
- A strategic marketing plan to capture market share and enhance revenue diversification; and
- A continuation of the cost optimisation programme which was launched in mid-2012.

The strategic focus areas for 2014 are presented in greater detail on the following pages.

Key performance area	Objectives
The expansion and maintenance of economic infrastructure	
Ensure the provision of critical logistics infrastructure and capacity over the short term, however, aligned to a long term national plan that is geared towards meeting the growing demands of the total national economy.	• Develop a long-term capacity planning framework aligned to key Government planning departments.
Oversee a sustainable capital investment approach characterised by intelligent investment decisions and financial prudence to meet industry demands and customer expectations over the medium term.	• Promote an integrated and aligned regional infrastructure network that allows for supply chain optimisation at the network and industry level. • Deliver infrastructure that creates appropriate capacity ahead of demand. • Prioritise strategic projects. • On-time and on-budget delivery of infrastructure projects. • Strengthen capabilities to deliver capital projects successfully.
Develop and implement a collaborative approach to Private Sector Participation on a case by case basis with the intention to leverage collective resources in the provision of infrastructure and transport services.	• Leverage the private sector in both operations and infrastructure provision to enhance service offerings and to improve the competitiveness of the freight logistics system.
Growing volumes and improving market share	
Transformation of the surface transport market through dedicated management with a mandate to deliver an integrated domestic intermodal transport system, industry solutions, long-term infrastructure and reliable, cost-effective services whilst aggressively growing rail's market share in those contested sectors of the economy.	• A large scale modal shift from road to rail to address costs, congestion and carbon emissions. • Ensure security of fuel supply. • Prioritise capacity allocation to junior and B-BBEE miners. • Improve customer satisfaction and enhance customer experience. • Development of commodity strategies for all key commodity channels. • Balance corridor density and increase rail market share and utilisation of port infrastructure.
Enabling regional integration	
Support Government in driving regional integration.	• Support NEPAD's regional integration agenda. • Grow footprint in the regional market in order to drive integration of the freight system to stimulate intra-regional trade and lower transport costs. • Assist in building capabilities in rail, port and pipeline infrastructure delivery and promote the adoption of certain standards to contribute to regional integration.

Key performance area	Objectives
Improving performance, productivity and operational efficiencies	
Operational excellence across the entire organisation informed by global best practise and driven by a performance culture that is firmly entrenched within the organisation.	• A commitment to 'delivering freight reliably'. • Ensure new capital investment is translated into tangible benefits and improved levels of productivity and reliability to benchmark. • Increase asset utilisation. • Drive agile enterprise performance management. • Building organisational readiness and a high performance culture. • Achieve 'platinum standard' operations in rail and ports. • Improve measurement systems to better track key performance indicators.
Promoting sustainable growth	
Sustainable growth encompassing corporate social investment and environmental responsibility. This area of focus is becoming increasingly important as Transnet becomes more prominent within the economy.	• A commitment to: 'demonstrating a concern for sustainability in everything we do'. • Identify areas of systemic vulnerability as it affects Transnet to develop opportunities for economic, social and environmental value creation.
Quantify and reliably measure Transnet's contribution to reducing the total cost of logistics as a percentage of transportable GDP.	**Economic dividends** • Support a financially sustainable business able to raise and service debt. • Improve financial value creation. • Ensure a sustainable capital investment approach whilst maintaining financial position. • Reduce total cost of logistics as a percentage of transportable GDP.
	Social dividends • Promote good governance, accountability and transparency. • Have a zero tolerance for fraud and corruption. • Target a representative workforce. • Maintain and improve Transnet's reputation. • Assist in unlocking community benefits in areas of operations. • Establish proactive stakeholder engagement for fostering mutually beneficial relationships.
	Environmental dividends • Modal shift from road to rail to achieve cleaner, safer and more efficient mobility. • Reduce energy consumption and promote renewable energy. • Develop proposals for securing medium- to long-term energy requirements and reducing carbon emissions. • Waste management optimisation. • Establish biodiversity enhancement; climate change mitigation and adoption policies.

Key performance area	Objectives
Prioritising safety, skills development and procurement	
The implementation of global best practices with respect to safety, skills development and procurement. In terms of safety, a fundamental respect for the value of human life and resources.	**Safety** • Continue commitment to employee and public safety as a vital and integrated element of operations. • Relentlessly target zero harm in all operations. • Be a caring employer by prioritising safety in the workplace and nurturing staff wellness.
In terms of skills development the need to maintain and develop the intellectual capacity of the Company.	**Skills development** • Improve capabilities and capacity building by developing a skills and talent pipeline that addresses business priorities. • Implement a youth development approach. • Provide focused training and effective delivery approach with visible return on investment.
With respect to procurement the need for transparent governance and tangible benefits for all social and economic stakeholders.	**Procurement** • Leverage procurement spend to contribute to meeting national growth and transformation targets. • Improve the quality of sourcing and coordinate supplier relationship management. • Promote effective and efficient sourcing for the timely delivery of planned capital acquisitions. • Improve savings potential on all spend. • Optimise working capital management.
Creating regulatory certainty and compliance with policy including optimising the social and economic impact of all interventions	
The ongoing compliance with the policy and regulatory environment with a view to support Government in driving regional integration, economic transformation, beneficiation, industrialisation, aggressive job creation and the development of a supplier base that meets B-BBEE criteria.	• Collaborate to contribute positively to meeting Government's objectives. • Strategic management of economic regulation to ensure fair return on investment. • Achieve certainty and predictability on future tariffs for regulated businesses. • Achieve a satisfactory B-BBEE rating.
Driving research and the deployment of new and cutting-edge technologies	
The introduction and establishment of a robust Centre of Excellence to drive research and the deployment of new and cutting-edge technologies to address the need for competitiveness, growing demand and cost savings.	**Research** • Increase revenue and reduce costs by improving products and processes. • Information Management Services. • Integrated planning, scheduling and forecasting capability to improve and enhance service delivery. • Better visibility of end-to-end value chain information and integration with partners and customers. • Standardisation and integration of processes and solutions. • Effective business performance measurement and monitoring.

EXECUTIVE PERFORMANCE REVIEW

This executive performance review provides an overview of the:

- Group financial performance and position;
- Capital investment and progress on major projects;
- Economic, social and environmental impact;
- Human capital; and
- Economic regulation.

For a full appreciation of the Company's performance and report back on its strategic imperatives please refer to the Operating Division report backs which follow where these have been covered in greater detail.

Group financial performance and position

Revenue for the year increased by 12,8% to R56,6 billion (2013: R50,2 billion), mainly as a result of mineral and chrome volumes increasing by 14,2% as well as strong growth in the containers on rail and automotive sectors of 25,2%, which performed well in excess of GDP growth of 3,8%, reflecting market share gains. Port container volumes increased by 6,3% and petroleum volumes increased by 4,4%.

Operating costs increased by 13,1% to R33,0 billion (2013: R29,1 billion) mainly due to an increase in energy costs of 10,3% as well as an increase in personnel costs of 14,6%. Energy costs increased mainly due to the higher electricity tariffs as well as fuel price increases impacted by foreign exchange volatility. Personnel costs increased to R16,6 billion (2013: R14,5 billion) mainly due to an average wage increase across the Company relating to the two-year wage agreement concluded with the recognised labour unions, as well as the filling of the MDS critical vacancies. The operating cost increase was limited primarily as a result of numerous cost-reduction initiatives implemented throughout the Company, which resulted in a R2,1 billion saving in planned costs.

Consequently, earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 12,3% to R23,6 billion (2013: R21,1 billion), while the EBITDA margin decreased slightly to 41,8% (2013: 41,9%).

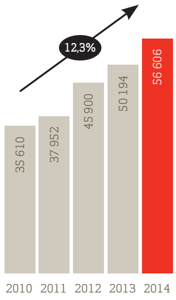
Depreciation, derecognition and amortisation of assets for the year increased by 15,7% to R10,7 billion (2013: R9,3 billion), mainly as a result of capital investments for the year as well as the depreciation of revalued port facilities and pipelines. This trend is expected to continue in line with the execution of the capital investment programme.

Profit from operations after depreciation and amortisation increased by 9,6% to R12,9 billion (2013: R11,8 billion).

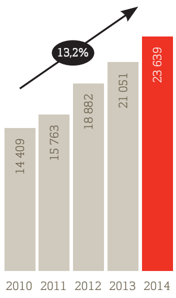
Impairment of assets, amounting to R107 million (2013: R588 million) relates primarily to the impairment of property, plant and equipment; and more specifically, to port operating assets as a result of the independent valuation performed in the current year.

Post-retirement benefit obligations are actuarially assessed in accordance with IAS 19: Employee Benefits, and adjusted accordingly. Consequently a cost of R388 million (2013: R251 million) was recognised during the year, which includes a provision of R75 million for an ex-gratia pension payment that will be made to the most disadvantaged pensioners.

Fair value adjustments amounted to R264 million (2013: R222 million). These adjustments comprise an investment property fair value gain of R647 million, recognised in terms of IAS 40: Investment Property, and a R72 million gain resulting from the 'mark to market' of derivative financial instruments for the year. More specifically, these gains arose from the 'mark to market' of foreign exchange hedges that Transnet executed to eliminate foreign currency risk, as well as those hedges that have not been 'hedge accounted' in terms of IAS 39: Financial Instruments: Recognition and Measurement. These gains were off-set by a fair value loss of R455 million raised in terms of IFRS 13: Fair Value Measurement, due to the recognition of credit risk associated with derivative instrument counter parties.



REVENUE



EBITDA

Accordingly, net profit from operations before net finance costs increased by 13,5% to R12,7 billion (2013: R11,2 billion).

Net finance costs increased by 8,0% to R5,6 billion (2013: R5,1 billion) in line with expectations, due to increased borrowings to fund the capital investment programme. Capitalised borrowing costs amounted to R1,3 billion (2013: R1,1 billion), an increase of 22,3% in line with the capital expenditure programme.

The taxation charge of R2,0 billion (2013: R1,9 billion) comprises a current taxation credit of R59 million (2013: charge of R39 million) and a deferred taxation charge of R2,0 billion (2013: R1,9 billion). The decrease in the current taxation charge arose mainly due to an increase in wear and tear allowances and deductible maintenance expenditure claimed. The effective taxation rate for the Group is 27,5% (2013: 31,3%).

Profit for the year amounted to R5,2 billion (2013: R4,1 billion), an increase of 24,9% compared to the prior year.

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 the pipeline networks; with an independent valuation being performed on port infrastructure and port operating assets.

Accordingly, the carrying value of port facilities required a revaluation adjustment of R7,8 billion (2013: R1,3 billion). The carrying value of pipeline networks required a revaluation adjustment of R467 million (2013: R423 million) in accordance with IAS 16: *Property, Plant and Equipment.*

Deferred taxation

The deferred taxation liability increased to R25,2 billion (2013: R20,5 billion), as a result of the charge of R2,0 billion for the year, together with the deferred taxation impact of R2,3 billion on the revaluation of property, plant and equipment, which has been recorded directly in equity.

Cash flows

Cash generated from operations amounted to R24,0 billion (2013: R22,6 billion), an increase of 6,4% from the prior year, evidencing the Group's ability to generate strong sustainable cash flows. Cash generated from operations (after working capital changes) increased by 11,6% to R25,3 billion (2013: R22,6 billion) following the implementation of an active programme to improve working capital management.

Loaded coal train going to Richards Bay

The cash interest cover ratio at 3,7 times (2013: 3,7 times) is significantly above the target of 3,0 times, despite an increase in net finance costs from increased borrowings to fund the capital investment programme.

Borrowings

Transnet raised R22,4 billion for the year, made up of the following funding initiatives:

- Domestic bond issue of R5,8 billion;
- GMTN bond issue of R5,0 billion;
- R4,0 billion call loans;
- R2,7 billion commercial paper issuance;
- R2,1 billion from KfW/CCB/RMB;
- R1,7 billion from the African Development Bank; and
- R1,1 billion from US Exim.

Transnet repaid borrowings amounting to R8,0 billion, which related predominantly to loans and commercial paper that matured during the year.

The gearing ratio increased to 45,9% (2013: 44,6%) due mainly to significant capital expenditure payments made in the final quarter of the 2014 financial year. This level is still well below the Group's target range of 50,0%, reflecting the significant capacity available to pursue the counter-cyclical investment strategy. The gearing ratio is not expected to exceed the target ratio in the medium term.

Derivative financial assets and liabilities

Derivative financial instruments are held by the Group 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 R7,3 billion (2013: R3,8 billion). The recent volatility of foreign exchange rates gave rise to this net asset position. Cross-currency interest rate hedges and forward exchange contracts were executed to eliminate foreign currency and interest rate risks 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 and post-retirement medical benefits, amongst others. 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 R2,3billion (2013: R1,7 billion) and R2,6 billion (2013: R2,3 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. The post-retirement medical benefit obligation is approximately R1,2 billion (2013: R1,4 billion).

In addition to the annual statutory increases, two ad hoc bonuses proposed by the TSDBF and the TTPF Board of Trustees – and approved by the Transnet Board of Directors – were paid to the beneficiaries of the TSDBF and TTPF during April 2013 and December 2013, amounting to R178 million and R167 million respectively, thereby supplementing the statutory increases. The total value of ad hoc bonuses paid by the TTPF and TSDBF to their beneficiaries amounted to R142 million and R1,9 billion respectively. Additionally, the Board of Trustees of the TTPF and TSDBF approved the payment of a further ad hoc bonus to their beneficiaries amounting to R18 million and R160 million respectively. The combined bonus amounts were paid in April 2014. These payments continue to supplement the current statutory increase for TTPF and TSDBF beneficiaries to provide pensioners with increases above CPI.

In addition to the payments by the TTPF and TSDBF, Transnet has again made an ex gratia payment to its most disadvantaged pensioners from both the TTPF and TSDBF, amounting to R70 million. The payment was made specifically 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 R448 million.

Contingencies and commitments

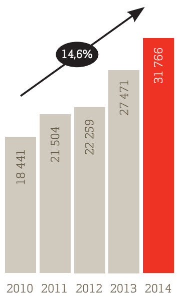
No material movements occurred in contingencies and commitments since 31 March 2013.

Guarantees

The sole Shareholder in Transnet SOC Ltd, namely the South African Government, has guaranteed certain borrowings of the Group amounting to R3,5 billion (2013: R3,5 billion) representing 4,0% of total borrowings of R86,6 billion. These guarantees were issued pre 2000.

Capital investment and progress on major projects

The Group's capital investment for the year amounted to R31,8 billion (2013: R27,5 billion) – excluding capitalised borrowing costs – representing a 15,6% increase from the prior year's investment. The increase is due mainly to capital expenditure of R4,9 billion being expended earlier than expected on the 1 064 locomotive contract before year-end. The R31,8 billion investment represents R13,3 billion invested in the expansion of infrastructure and equipment, whilst R18,5 billion was invested in maintaining capacity.



CAPITAL INVESTMENT

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 was increased to 60,0mt and port capacity to 58,0mt over the quay wall.

Phase 1A to C to increase the iron ore line capacity to 60,0mt is complete. The pre-feasibility study to expand the capacity is in progress. The business case is currently undergoing a detailed validation process from a commercial, technical and economic perspective. Phase 1D, being the addition of a third tippler and associated rail works, has been approved by the Board for approximately R1,6 billion. The third tippler will ensure that 60,0mt can be exported on a sustainable basis as the two existing tipplers currently do not allow for any down-time.

All 32 locomotives required to facilitate the increase in iron ore capacity to 60,0mt have been tested and were accepted into operations by December 2013. Transnet's investment in the iron ore expansion project and locomotive acquisitions for the year amounted to R626 million. Overall, 54,3mt in iron ore volumes were transported during the year.

Coal line expansion up to 81,0mt

The coal line is the main export channel for transporting coal, and starts at the mines in Mpumalanga and ends at the Port of Richards Bay. Plans are in place to increase rail capacity to 81,0mt in the near future and thereafter to 97,5mt. The total expansion and sustaining capital investment for the coal and mineral system programme is estimated at R45,5 billion over the next seven-year period of the MDS.

Final designs to expand capacity to 81,0mt are nearing completion and a number of work packages are already in execution. The land acquisition process is well underway for constructing substations on privately-owned land. Negotiations are underway with Eskom to ensure that the upgrading of the electrical supply between Ermelo and Richards Bay is completed according to schedule. The project is expected to be completed by the 2018 financial year.

All 110 Class 19E dual voltage locomotives have been delivered and accepted into operations. This will facilitate the planned expansion of the coal line to 81,0mt. A total of R214 million was invested in the coal line expansion to 81,0mt. Transnet transported 68,2mt of export coal during the year.

Transnet concluded a contract for the supply of 100 additional electric locomotives on 17 March 2014.

The locomotives are destined for the export coal line and will enable existing coal line locomotives to be cascaded to the general freight business (GFB). The investment in the 100 electric locomotives is intended to mitigate against the anticipated shortfall in MDS volumes resulting from the tractive capacity shortages due to the delays in the execution of the general freight locomotive acquisition programme.

General Freight Business (GFB)

R20,7 billion was invested in the GFB and relates to the upgrade and maintenance of infrastructure and rolling stock. Transnet transported 88,0mt of GFB volumes during the year.

The project to acquire 43 diesel locomotives for GFB is complete and all the locomotives were accepted into operations by July 2013. Overall R173 million was invested in the acquisition of these locomotives during the year.

The contract for the supply of 95 Class 20E electric locomotives for GFB was signed in October 2012. Nine locomotives were delivered during the year. Commissioning tests have confirmed that the quality of these locomotives is in line with expectations. Transnet invested R527 million on this acquisition during the year.

Transnet has awarded CSR Zhuzhou Electric Locomotive and Bombardier Transportation South Africa contracts for the supply of 599 electric locomotives, while General Electric South Africa Technologies and CNR Rolling Stock South Africa (Pty) Ltd will build and supply 465 diesel locomotives. The multi-billion rand acquisition is South Africa's single biggest infrastructure investment initiative by a corporate.

This marks a significant milestone in the company's history together with substantial socio-economic benefits for South Africa. The drive to modernise our fleet is intended to improve reliability and availability of locomotives. This will improve customer satisfaction, ultimately leading to our crucial goal of road-to-rail migration of cargo in line with government's objectives. These milestones will be achieved as more than half of the current locomotive fleet will be renewed with this acquisition.

In line with South Africa's commitment to boost its manufacturing capacity, all the locomotives except 70 will be built at Transnet Engineering's plants in Koedoespoort, Pretoria and Durban, driving South Africa's regional integration objectives. Transnet Engineering is the company's engineering, manufacturing and rolling stock maintenance division.

Transnet Engineering's role in the agreement has been defined to ensure that it transforms into an OEM over time. Transnet Engineering will share approximately 16% of the total build programme – about a third of which will be outsourced to local emerging engineering and manufacturing firms. This will enable it to create export capability for locomotives and related products. In total, the localisation elements are expected to contribute over R90 billion to the economy.

In terms of the agreements signed with the successful bidders, the last locomotive will roll off the production line within three and a half years. In other words, at the programme's peak, Transnet will be producing 480 locomotives per year at 48 per month. The rationale for splitting the work emanates from the suppliers ability to stick to an extremely tight delivery schedule, which was one of the key considerations in assessment of the bids. It is our view that no single supplier would have the capacity or resources to deliver within the timelines we had envisaged.

The majority of the locomotives will be deployed in Transnet Freight Rail's general freight business, which is all cargo - excluding the dedicated heavy haul lines for iron ore and coal. Freight Rail, which accounts for roughly 50% of Transnet's revenue and capital expenditure requirements, will grow its volumes to 350 million tonnes from the current 207 million tonnes. Just over 60% of the growth will be from the GFB.

In addition, the Company signed a contract for 60 class 43 diesel locomotives.

These locomotives will modernise the fleet and are intended to improve reliability and availability of locomotives, thereby improving customer satisfaction and increasing road-to-rail migration. The investment is intended to increase the capacity of Freight Rail's GFB from 80mt to 177mt.

The business case to expand manganese export capacity to 16mt through a new bulk terminal in the Port of Ngqura was completed in November 2013 and has proceeded through Transnet's approval process. The business case was submitted to the Shareholder in February 2014 as per the requirements of Section 54 of the PFMA.

A total of R3,7 billion was invested in infrastructure maintenance initiatives. Further, to keep the condition of the rolling stock at an acceptable level, Transnet invested R2,3 billion and R2,1 billion in the maintenance and overhauling of locomotives and wagons respectively.

During the year, 3 281 wagons were built as part of the MDS's wagon-build project. The total investment in the wagons built amounted to R3,3 billion.

Ngqura Container Terminal

The construction work packages forming part of the expansion of the Ngqura Container Terminal are complete, except for the construction of a new administration building for National Ports Authority, and the construction of an administration craft basin for tugs. Tenders were awarded for the first phase of the administration building, with the tender for the building and administration of the craft basin due to go to market in June 2014.

Transnet has acquired port equipment to complete the work packages required to increase capacity. The majority of the required equipment was delivered by the end of the year and R250 million was invested for this purpose.

Durban Container Terminal

The project to increase the capacity of the container terminal in Durban is complete with only a limited number of work packages outstanding. The old fuel supply point will now be decommissioned. The scour protection at South Quay is due for completion in the 2015 financial year.

Reconstruction of sheet piled berths at Maydon Wharf, Port of Durban

Transnet has commenced the reconstruction and deepening of seven steel sheet piled berths at Maydon Wharf in the Port of Durban. Construction on the first of these berths (Berth 12) was successfully completed and is fully operational. The contract for the remaining six berths has been awarded and onsite construction is expected to commence in the near future. Operational disruptions will be minimised at Maydon Wharf during the roll-out of the planned investment of R1,6 billion.

New Multi-Product Pipeline (NMPP)

The NMPP is a strategic investment to secure the long-term supply of petroleum products from the coastal terminals in Durban to the inland market (predominantly Gauteng). It is one of the largest and most complex multi-product pipelines in the world. An innovative engineering project in concept and design, the pipeline component of the NMPP system of assets is buried underground over a distance of 717 kilometres.

The 24" trunk line (555 kilometres), together with three 16" inland pipelines (162 kilometres), three trunk line pump stations and two trunk line metering stations are operational; and construction on the coastal terminal (TM1) and inland terminal (TM2) is in progress. Currently, 4 350 people are employed on the project. The trunk line was successfully commissioned in December 2011 and put into operation in January 2012. The trunk line, which is designed for multi-product service (both petrol and diesel) currently operates in diesel service only. Once TM1 and TM2 are operational, the trunk line will be used in a multi-product service capacity. The NMPP trunk line has a current capacity of approximately

4,4 billion litres per annum; and the Durban to Johannesburg pipeline's current capacity is capped at approximately 3,5 billion litres per annum, providing a total capacity of 7,7 billion litres between Durban and Gauteng.

The NMPP transported 2,3 billion litres of fuel during the year, notwithstanding certain challenges being experienced at the NMPP terminals, including unusually inclement weather, protracted industrial action and technical complications. These challenges were not initially anticipated and have necessitated a detailed review of the programme in line with Transnet's governance processes.

Overall, R21,4 billion had been invested in the NMPP project at the end of March 2014, with the investment for the year amounting to R3,1 billion.

Economic, social and environmental impact

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.

Transnet undertakes all its procurement activities in a manner that protects and advances persons, or categories of persons, who have been disadvantaged by past discrimination and ensures that procurement activities are fair, equitable, transparent, competitive and cost-effective. Transnet's procurement activities contribute directly to the economic transformation of South Africa and as such, have the ability to decrease income inequalities, whilst significantly 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 R38,8 billion or 94,4% of Total Measurable Procurement Spend of R41,1 billion as at 31 March 2014 (2013: R33,4 billion or 88,1% of R37,9 billion). During the year, Transnet spent R8,19 billion (21,1% of B-BBEE spend) on black-owned enterprises; R1,56 billion (4,0% of B-BBEE spend) on black woman-owned enterprises; R3,61 billion (9,3% of B-BBEE spend) on qualifying small enterprises; and R1,97 billion (5,1% of B-BBEE spend) on exempted micro-enterprises.

Transnet's Supplier Development programme promotes skills development and the creation and preservation of jobs. It further encourages the transfer of intellectual property and the localisation of supply; and ultimately promotes industrialisation through contractually obligated supplier development plans. Since inception of the programme, total contract value to date amounts to R29,4 billion (2013: R17,1 billion). Supplier development obligations concluded with suppliers during the year amounted to R10,9 billion or 37% of contract value (2013: R7,2 billion or 42,0% of contract value). Of these supplier development obligations, R5,9 billion or 54% were fulfilled during the year (2013: R4,0 billion or 55,5%).

The award for the 1 064 locomotives fulfilled the requirements for stringent local content, skills development and training commitments, as stipulated by the Supplier Development Programme. The OEMs exceeded the minimum local content compliance criteria for rolling stock of 60% for electric locomotives and 55% for diesel locomotives. In line with South Africa's commitment to boost local manufacturing capacity, all the locomotives – except 70 – will be built at Transnet Engineering's plants.

Further, Transnet approved various enterprise development initiatives to provide both financial and non-financial support to qualifying black-owned enterprises, black women-owned enterprises, qualifying small enterprises and exempted micro-enterprises. The Company remains committed to empowering small, medium and black-owned enterprises as well as giving effect to Government's policy on B-BBEE.

Safety

Safety performance is measured against the industry recognised rolling 12-month 'disabling injury frequency rate' (DIFR). The Company recorded a DIFR performance of 0,69 against the target of 0,75 (2013: 0,74), which is exceptional by international standards. This is the third consecutive year that the Company recorded a DIFR ratio below 0,75.

Despite considerable efforts to improve safety, the Company regrets to report seven employee fatalities during the year, compared to nine in the prior year.

A total of 106 public fatalities were reported during the year, compared to 125 in the prior year. These fatalities were due mainly to people trespassing onto operating railway lines.

The Board and management conveys its deepest condolences to the families, colleagues and friends of Transnet employees and members of the public who lost their lives, and strongly reaffirms its continued commitment to the safety of employees and the public as a vital component of the Company's operations.

Corporate social investment (CSI)

The Transnet Foundation invested R174 million (excluding capital expenditure of R2,9 million) in CSI initiatives across South Africa during the year, with approximately 75,86% 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.

The Company's flagship CSI project, encompassing the Phelophepa I and Phelophepa II Healthcare Trains, continued to provide dentistry, optometry, pharmacy and various counselling services to rural communities, accessing 288 026 patients during the year.

The Rural and Farm Schools Sport programme hosted a national sport tournament during the year, from which nine learners were selected to play for Banyana Banyana, and 14 were identified as potential qualifiers to be recruited to the SAFA/Transnet School of Excellence.

The Transnet Employee Volunteer Programme (EVP) has expanded to De Aar and the West Coast, whilst aligning with Transnet's operations. During the year, employees gave their professional, technical and 'soft' skills to support targeted community development projects in Transnet's EVP Villages.

The Container Assistance Programme (CAP), in partnership with the SAPS, continues to support Freight Rail's efforts to conduct safe rail operations and community safety awareness programmes. Further, the CAP's partnerships with various Government departments have resulted in a bouquet of previously inaccessible Government services now being available to rural communities.

Grants and donations form a substantial part of Transnet's social interventions to alleviate poverty and to help build stronger communities. To date, the Company has spent more than R22 million in strategic commercial and non-commercial donations as a demonstration of its commitment to good corporate citizenry.

Energy efficiency

Transnet recorded a 0,2% decrease in electricity consumption compared to the prior year. In terms of electric traction (which constitutes 74% of the Company's total power consumption) Freight Rail achieved a 2,4% energy efficiency gain. This was partly due to the regeneration capabilities of the new 15E and 19E locomotives on the iron ore and coal lines, which together regenerated approximately 176 185MWh during the year.

The Company's carbon emissions increased by 0,9% to 4,24mtCO_2e compared to prior year. This is due to increased use of diesel tractive power. Market share gains from road hauliers in Freight Rail's top 10 general freight commodities resulted in carbon emissions savings for the South African transport sector of 835 670tCO_2e.

Human capital

Transnet's permanent employee headcount at 31 March 2014 was 54 671. The Company spent 3,0% of its labour cost on training during the year, prioritising training for artisans, engineers, and engineering technicians. During the year, 138 full-time engineering bursaries were awarded in various disciplines and 3 699 high school learners were sponsored through the rail cadet scheme. In addition, 339 engineering technician trainees were given workplace experience opportunities; with 1 552 new apprentices joining Transnet's apprenticeship scheme; and 89 new graduates-in-training being contracted by the Company. Sector-specific skills development training continued to focus on maritime, rail and port terminal operations, with 1 569 learners participating in these programmes. Currently, the Company has access to 3 340 apprentices and 483 engineering bursars in its talent pool.

Transnet exceeded its employment equity targets across all job grades. The employee ethnic group profile for the year was 67,9% Black African, 9,8% Coloured, 3,8% Indian, and 18,5% White. Female representation now exceeds 24,4% in executive, senior, professional and skilled technical levels, including a 50,0% representation in the Group Executive Committee. Representation of people with disabilities remains a challenge, improving to 1,6% (2013: 0,8%) of the total headcount.

Economic regulation

Transnet Pipelines' tariffs are regulated by the National Energy Regulator of South Africa (NERSA), whereas National Ports Authority's tariffs are regulated by the Ports Regulator of South Africa.

Pipelines

Pipelines filed a tariff application for a revenue requirement of R3 351 million for the 2015 tariff period, translating as a 19,88% increase in revenue driven by an increase in the regulatory asset base. However, at the public hearing held on 6 February 2014, Pipelines amended its tariff application, requesting an allowable revenue increase of only 1,54% as a consequence of both the Inland Accumulation Facility and the Coastal Accumulation Facility coming into operation later than expected. The delay was largely due to labour strikes and weather-related deferrals.

On 13 March 2014 NERSA approved an allowable revenue increase of 5,08%, which included a deferment of the clawback over a period of two years.

National Ports Authority

The tariff application for 2015 has been prepared on the basis of the guidelines contained in the Interim Regulatory Manual issued by the Ports Regulator. This has been done on the premise that National Ports Authority's tariff methodology position paper is still under review by the Regulator.

In considering its role as facilitator of economic growth – and its commitment to reducing the cost of doing business in South Africa – the National Ports Authority applied for a tariff increase of 8,5% in its tariff application.

On 28 March 2014, the Ports Regulator issued its Record of Decision, which awarded the following tariff adjustments:

All cargo dues to increase by 5,90%, with the exception of:

(i) An 8,15% tariff increase in dry bulk cargo dues for coal, iron ore and manganese; and

(ii) An 8,15% tariff increase on all marine services and related tariffs.

OUTLOOK

The global economy appears to be transitioning toward a period of stable, but slower growth. As a result, prospects for the South African and regional economies are brighter. On the back of continuing investments in the natural resources sector and stronger domestic demand, GDP is estimated to grow by 3,0% in 2014 and 3,5% in 2015. This will support growth in domestic and regional freight demand.

Global container volumes are estimated to have grown by 3,2% in 2013 and are forecast to grow by an average annual rate of 5,3% to 2017. Transnet estimates average container growth of 31,0% (3,9% CAGR) over the next seven years driven by domestic GDP growth, expanding intra-regional trade and transshipment activities.

Ongoing industrialisation and urbanisation, particularly in Asia will continue to drive demand for iron ore and associated minerals. World trade of iron ore is estimated to have increased by 8,0% in 2013 and is forecast to grow at an average annual rate of 4,1% to 2018. South Africa with its high quality ore and relatively low cost production continues to present an attractive alternative to Brazilian and Australian supply into Asia.

World thermal coal trade is estimated to have increased by 1,8% in 2013 and is forecast to grow at an average rate of 2,2% over the next five years. Despite policy changes regarding coal use in response to environmental concerns, the relatively low cost and reliability of coal will continue to support its use, particularly in emerging economies. Coal is anticipated to account for between 27% to 28% of the global energy market share over the next three decades. South Africa is well positioned to supply coal into the growing coal markets of China and India.

China's industrialisation, emerging middle class and urbanisation will in the long-term remain the main drivers for demand growth. The planned MDS ramp-up in capacity will take place over a number of years after which the global recovery is expected to be assured. This will ensure that South Africa is ready to take advantage of the next upturn in the cycle.

In general, demand side risks appear to have diminished and growth opportunities for the next financial year remain positive. Despite the three-year economic slowdown, the MDS will still be achieved over the long term, albeit on a different trajectory. The aggressive investment that underpins the MDS is targeted primarily at satisfying demand that has been validated with customers seeking additional capacity.

Going forward, greater emphasis will be placed on measurement and monitoring systems and processes to enable a higher level of granularity in performance and risk management and end-to-end visibility of commodity supply chains.

'Delivering freight reliably' remains the fundamental imperative for the Company.

The strategic focus areas, key performance areas and objectives for 2015 have been refined slightly but remain largely unchanged. Volume and revenue projections have been adjusted to reflect capacity delivery constraints and lower market demand. Despite the lower market demand, key financial ratios have remained in line with approved parameters.

ZPMC tandem lift STS cranes at Port of Durban

BUSINESS OVERVIEW AND BUSINESS MODEL

The 2014 financial year marked the second year of Transnet Freight Rail's (Freight Rail's) implementation of the MDS. The business has recorded substantial successes in recent years whilst operating within a severely capacity-constrained model. The focus on efficient and customer-oriented delivery has advanced the business closer to its goal of operating a scheduled railway. Freight Rail's business model, comprising six business units, and operated on an integrated rail network, supported by the National Command Centre, has enabled it to prioritise key aspects of the business to better meet customer need.

Various global sector indicators currently rank Freight Rail at between 9th and 12th position in terms of major railways world-wide (World Bank Databank Business Monitor International). The longer-term goal is to position the business amongst the top five world railways. This positioning does not merely represent size of the network and rolling stock fleet, but also reflects efficiencies of the railway system.

Accordingly, the business is modernising the locomotive fleet, and upgrading and building new wagons to meet customer demand for specific commodity types. Freight Rail is also investing in the upgrade of the rail network and in a number of key strategic expansion projects. These include increasing capacity for transporting coal, iron ore and manganese; and developing technologies for intermodal road-to-rail solutions. Investment capital is also allocated to eliminating legacy systems and, where appropriate, introducing technology to reduce human error (such as the Yard Automation systems). Freight Rail has embarked on a major drive to improve efficiency, productivity and asset utilisation by building critical skills and operational competencies. Looking ahead, investment in the upgrade and maintenance of the rail network, together with investing in a competent and high-performing workforce will ensure safe and world-class rail operations.

Freight Rail plans to expand the rail business to include 3 300 locomotives and 85 000 wagons; and will build an additional 700 kilometres of rail network over the next five years. This includes the proposed new Waterberg network of 560 kilometres, as well as construction of additional loops sections and yards. During this time, unutilised yards will be rationalised. The export coal and iron ore lines are world-renowned heavy haul rail corridors. The upgrades to the Postmasburg – Port Elizabeth/Ngqura network corridor and the deployment of new 20E locomotives and wagons will result in the manganese export corridor operating as a new heavy haul corridor.

Freight Rail's market development initiatives target the retention and growth of traditional rail customers in mining and heavy manufacturing sectors, including companies that beneficiate mining commodities. Other major customers are active in the fuel, chemicals, agricultural and timber sectors. The business will target new customers in the FMCG, textile and light manufacturing industries, where there are opportunities for 'rail friendly' commodity types to be shifted from road to rail. Traditional customers seek reliable, cost-effective and repetitive services. New customers will require greater levels of service reliability, predictability and flexibility – general prerequisites for an intermodal service. Freight Rail's road to rail strategy aims at reducing the cost of doing business in South Africa and to create competitive supply chains by transferring the transportation of rail friendly freight on the more cost competitive rail platform.

Freight Rail will penetrate new markets by implementing new technologies and processes and by improving market positioning amongst existing customers. Further growth in the shift of traffic from road to rail requires the development of an intermodal system. Freight Rail will achieve this by partnering with road hauliers and logistics service providers. These industry partnerships will help to level the road-to-rail modal imbalance and support the manufacturing sector as well as contribute to rural development by developing skills and creating jobs. This strategy not only supports growth in South Africa but also boosts regional growth in Southern Africa. Potential customers are open to the utilisation of rail services – and are becoming more so as the awareness of environmentally friendly transport solutions become more prevalent. The potential for levying a carbon taxation further drives this trend towards rail.

Freight Rail will address the fundamental railway-related challenge of reducing operating costs by improving asset utilisation, labour productivity and service efficiencies. These improved efficiencies – and associated reductions, will be achieved by accelerating the implementation of the 'Lean' and 'Six sigma' programmes.

The continued implementation of the MDS will enable volume growth from the current 210,4mtpa to 343,9mtpa over seven years, with the resultant increase in rail market share as well as the inevitable shift of future traffic from road to rail.

Strategic initiatives to address these objectives include:

- Freight Rail's Capital Investment Programme.
- The operational efficiency and safety drive.
- Proactive market development.
- Skills development and a customer-oriented performance culture.
- The ongoing development and refinement of the organisational business model for customer-facing business units.

Routine maintenance being carried out on a railway track in Emerlo

Overview of key performance indicators

Key performance area and indicator	Unit of measure	2013 actual	2014 target	2014 actual	2015 target
Infrastructure and maintenance					
Capital expenditure[(a)(c)]	R million	18 277	19 019	**25 115**	19 555
Volume and revenue growth					
Commodity classification					
– General freight business	mt	82,60	91,22	**87,96**	95,30
– Export coal	mt	69,21	77,00	**68,19**	75,00
– Export iron ore	mt	55,91	61,50	**54,27**	58,05
Total volumes	mt	207,72	229,72	**210,42**	228,35
Operational efficiency					
Asset utilisation					
General freight business	Gtkm/Ntkm	n/a	≤1,67	**1,54**	1,70
Export coal	Gtkm/Ntkm	n/a	≤1,58	**1,57**	1,60
Export iron ore	Gtkm/Ntkm	n/a	≤1,41	**1,39**	1,40
Loco-utilisation[(b)]					
General freight business	GTK'000/locco/month	4 973,00	5 370,00	**4 786**	5 335,00
Export coal	GTK'000/locco/month	24 998,00	26 810,00	**25 925**	26 868,00
Export iron ore	GTK'000/locco/month	47 530,00	55 000,00	**51 983**	55 000,00
Cycle time					
Export coal	hours	68,00	56,00	**69,84**	56,00
Export iron ore	hours	94,00	76,00	**93,91**	76,00
Wagon turnaround time					
GFB		11,30	8,60	**10,74**	10,30
Density					
Northcor	Tonkm/Routekm	n/a	≥1,60	**1,71**	1,70
Capecor	Tonkm/Routekm	n/a	≥3,90	**4,03**	4,01
Southcor	Tonkm/Routekm	n/a	≥2,55	**2,86**	2,85
Natalcor	Tonkm/Routekm	n/a	≥6,70	**6,98**	6,97
RBaycor	Tonkm/Routekm	n/a	≥36,20	**37,37**	37,50
NWestcor	Tonkm/Routekm	n/a	≥3,80	**4,18**	4,01
Eastcor	Tonkm/Routekm	n/a	≥3,20	**3,04**	3,04
NEastcor	Tonkm/Routekm	n/a	≥5,70	**7,00**	6,78
Saldanha	Tonkm/Routekm	n/a	≥55,30	**57,32**	58,10
Sentracor	Tonkm/Routekm	n/a	≥4,30	**4,97**	5,00

(a) Excluding capitalised borrowing costs, intangible assets and includes capitalised finance leases.
(b) Excluding shunting and B-fleet locomotives.
(c) Includes R1,2 billion (R600 million each in year 1 and year 6) for TE projects not allocated to specific programmes.
n/a not applicable.

Key performance area and indicator	Unit of measure	2013 actual	2014 target	2014 actual	2015 target
Service delivery					
On-time departure (average deviation from scheduled times)					
General freight business	minutes	280,00	≤225,00	212,77	217,00
Export coal	minutes	206,00	≤120,00	42,91	90,00
Export iron ore	minutes	73,00	≤60,00	8,95	60,00
On-time arrivals (average deviation from scheduled times)					
General freight business	minutes	356,00	≤260,00	340,05	259,00
Export coal	minutes	332,00	≤240,00	133,69	180,00
Export iron ore	minutes	140,00	≤120,00	128,72	225,00
Human capital					
Employment equity	%	82,00	76,00	82,52	80,00
Training spend	% of personnel cost	3,70	2,96	1,54	2,10
Employee turnover	%	4,00	5,00	4,83	5,00
Employee headcount	permanent	29 489	34 004	29 225	33 974
Tariffs					
Average tariff increase – GFB	%	n/a	7,90	7,60	8,67
Financial value creation					
EBITDA margin	%	40,80	43,81	41,92	45,59
Operating profit margin	%	22,40	24,90	21,58	25,90
Gearing	%	49,91	53,90	46,52	49,80
Net debt to EBITDA	times	2,40	2,45	2,23	2,20
Return on average total assets – excluding CWIP	%	10,80	11,30	9,7	11,40
Asset turnover – excluding CWIP	times	0,48	0,42	0,45	0,44
Cash interest cover	times	5,30	4,90	8,75	5,67
Risk, safety, health and environment					
Cost of risk	% of revenue	4,60	5,50	5,30	5,50
DIFR	rate	0,86	1,20	0,82	1,15
Number of safety incidents	number	755,00	599,00	701,00	526,00
Number of derailments – mainline	number	85,00	85,00	116,00	75,00
Number of derailments – shunting	number	296,00	247,00	242,00	217,00

OPERATIONAL PERFORMANCE COMMENTARY

Capital planning and execution

Goals and objectives for the reporting year 2014

- Target planned capital investment expenditure in rolling stock and infrastructure at R19 019 million.
- Reprioritise investments to improve allocation for specific growth market segments.
- Invest in strategic infrastructure, standardising the network and rolling stock.
- Continue to implement the seven-year capital investment plan of R209,9 billion.

Performance against objectives

- Capital investment in rolling stock and infrastructure amounted to R25 115 million, (140,0% of re-phased target and 132,0% of original target). The variance from the original budget is mainly attributable to the acceleration of the 1 064 locomotives for the general freight business to accommodate the future expected demand in volumes. This was offset by the underspend in delayed new wagon-build programme.
- Marginal underspend resulted from the combined effects of project cost savings of R192 million; as well as materials availability and timeline adjustment for certain projects.

Export coal

- Total investment amounted to R3 235 million. Coal line expansion and sustaining programmes are nearing completion.
  - Ermelo third balloon is complete, except for drainage and final testing of the welds.
  - Infrastructure work for the 81mtpa expansion commenced and the four feeder cable projects are progressing well.
  - Construction on the Saaiwater and Blackhill yards is scheduled to start in 2015.

Export iron ore

- Total investment for export iron ore amounted to R1 015 million.
- 32 Class 15E locomotives were acquired to increase the tractive power capacity of the ore line to 60mtpa, and have been delivered and accepted into operations. The project is ahead of schedule and nearing completion.
- For the iron ore line expansion phase 1C (60mtpa), 44 Class 15E locomotives have been acquired and are in operation.
- The expansion programme to increase infrastructure capacity from 47mtpa to 60mtpa is nearing completion. Remaining projects include the Erts yard facilities and planned Eskom work.
- Environmental authorisation has been received for the tippler 3 and associated rail lines (sustained capital). The programme is currently in the appeal stage. No detrimental impact is envisaged.
- Innovative technology to improve safety and maintenance of the network are nearing completion. The WILMA (technology for testing rail stress) rollout is complete and the Ultrasonic Broken Rail Detector (UBRD) is scheduled for completion by end-June 2014.
- An upfront payment of R85 million was paid to Eskom in January 2014 for transformers to support the increase in electrical supply on the export iron ore line.

General freight

- Total investment in general freight amounted to R20 865 million.
- Capital has been invested in assets to support general freight traffic growth, with 1 064 locomotives to be procured over the next four years.
- The execution of infrastructure and maintenance projects is on track.
- Of the 95 new 20E electric locomotives on order, nine have been delivered to date. Local assembly for the remaining 86 20E electric locomotives started in February at Transnet Engineering's facility in Koedoespoort, Pretoria.
- 143 new diesel locomotives have been acquired, delivered and accepted into operations. These additions to the rolling stock fleet are key elements to increasing capacity and service delivery, as well as reducing electricity supply constraints.

- The upgrading of 180 6E to 18E locomotives is ahead of schedule due to the accelerated acquisition of on-board cameras.

LOOKING FORWARD

- Planned investment of R209,9 billion over the next seven years aims to address the continued locomotive shortages and to provide infrastructure expansionary requirements for the general freight business.
- Freight Rail will continue to prioritise the most profitable commodity haulages and advance the road-to-rail strategy. Commodities to be targeted for growth include containerised commodities, manufactured goods and domestic coal – contributing to security of supply to meet South Africa's electricity requirements.
- Expansionary projects are scheduled to create capacity ahead of demand to respond to known and validated market requirements. Rail network upgrades and replacements are planned to restore the network to world-class standards to reduce incidents, increase operational productivity and increase railed commodity tonnages.
- Funding is available for the rehabilitation of specific and prioritised branch lines earmarked for concession and increased agricultural activities. As Freight Rail enters the third year of the MDS, the Capital Investment Plan is being refined to align key strategic projects and to firm up execution timelines. During the year, the validation of market demand for freight movement formed the basis for the reprioritisation of the capital portfolio. Whilst some projects may be delayed as a result of unavoidable procurement, or contracting and other operational issues, capital optimisation and efficient asset utilisation are the main drivers for effective capital investment. Key focus areas of the capital plan are:
  - Procurement of locomotives to replace the aged fleet and additional locomotives to meet capacity requirements for general freight. This will lower the cost of doing business, resulting in an efficient and reliable fleet, with greater productivity and availability due to a standardised fleet and reduced maintenance costs.
  - The requirement for wagons is reviewed annually to meet the dynamic commodity mix. Investments in specialised wagons to service key sectors, such as automotive, containerised and intermodal business, as well as other major mining commodities (eg manganese, magnetite and domestic coal) are proceeding. The wagon build programme will be executed ahead of demand to make efficient use of Transnet Engineering's capacity.
  - The focus of the rail network remains the reduction of incidents, improved safety standards, optimal utilisation of slot capacity to execute; and a consistent focus on the modernisation of the network. Upgrades and replacements are planned for the required restoration of the network to world-class standards.
  - Key coal expansionary projects will be accelerated to meet the volume ramp-up to 97mt by 2021. The procurement of 100 additional 19E compatible heavy haul locomotives; as well as the rehabilitation and construction of a double line of the Overvaal tunnel, and all post infrastructure expansion work packages (including electrical upgrade) following the 81mtpa project, will be accelerated by approximately 12 months.
  - The iron ore industry has indicated that there is insufficient production capacity to support the planned increase from the current 60mt to 82mt in the MDS. Accordingly, the revised capital programme for expansion of the ore line corridor has been scaled down in line with the validated volume ramp up to 70mt by 2021.
- Freight Rail will continue to explore options to optimise capital expenditure by way of ongoing capital scrubbing and various operational efficiency gains.

Volumes and customer satisfaction

Goals and objectives for the reporting year 2014

- Enhance customer satisfaction.
- Shift rail-friendly traffic from road to rail.
- Transport 229,7mt of freight.
- Transport 61,5mt on the export iron ore line.
- Transport 77mt on the export coal line.
- Transport 18mt of domestic coal.
- Create capacity for junior miners.

Performance against objectives

- Freight rail has prioritised the road-to-rail shift and export lines' tonnage growth to achieve a stretched total target of 230mt. This necessitated providing capacity to meet market demand. A 'customer service culture' was further entrenched in the business, with improvements in operational efficiency to enhance customer satisfaction. Growing the rail footprint in the Southern African region with rural development as a strategic priority.
- The business achieved a record total rail tonnage growth of 210,4mt (2013: 207,7mt); and recorded 6,5% year-on-year growth for general freight traffic (82,6mt – 88,0mt), demonstrating the growing road-to-rail shift and improved performance relative to previous years, albeit in a sluggish economic climate.
- Year-on-year volume growth of 26% was recorded in the Container and Automotive Business, exceeding budget by 19%.
- The export coal line delivered 68,2mt in 2014 against the target of 77mt, executing 88% of budget. Several major incidents contributed to the deviation, including the Richards Bay Coal Terminal (RBCT) power outage in quarter 4 of 2014, resulting in an estimated 2,3mt loss followed by an Eskom power failure in March 2014; as well as derailments in September and December 2013, and also in March 2014; the prolonged scheduled occupation at the Ermelo balloon in May 2013; and a 33-day strike at Ermelo in October 2013 and at various mines in September 2013.
- Domestic coal delivered 14,9mt against the budget of 18mt, demonstrating a budget execution rate of 83%. The 3,1mt shortfall against budget was due to major incidents such as the Ressano Garcia line shutdown resulting from a collapsed rail bridge near Maputo (under repair for eight weeks) as well as Eskom tippler challenges and mining stockpile shortages.
- Freight Rail achieved 54,2mt in the iron ore portfolio with considerable effort, given the product challenges at the Kumba Kolomela mine and off-spec product at Assmang's Khumani mine. Four junior miners were successfully introduced to the export iron ore corridor.
- The budget of 8,7mt was achieved in the manganese ore portfolio, demonstrating 6% year-on-year growth. Junior miners were introduced to the manganese ore export channel by establishing the Lohatlha bulk common user facility. Currently three customers participate and a total of 196,200 tonnes were railed since June 2013. Freight Rail engaged an independent service provider to operate the Lohatlha terminal, thereby assisting junior miners with loading at the facility.
- The Agriculture and Bulk Liquids business (ABL) revised the strategy to refine operational and collaboration models linked to the diverse customer and commodity portfolio, including the strategic commodities of grain, fuel and commodities transported to the Southern African region.

- Freight Rail launched the Customer Service Charter during the year. A cross-functional team was established to develop a holistic, integrated approach to embed a customer-centric culture across the organisation. Action plans have been generated and are monitored to address service gaps identified in the annual Customer Satisfaction Surveys, as well as performing ongoing Voice of Customer Surveys. Attributes showing marginal improvement from 2012 to 2013 include:

Service delivery dimension	2013	2012	%
Reliability	4,69	4,62	0,7
Deliver on promise	5,24	4,69	5,5
Provide proactive solutions	4,81	4,59	2,2
Visibility (track and trace)	5,85	5,82	0,3

- Freight Rail collaborated with Barloworld Logistics, Imperial Logistics and Unitrans Logistics during the year. DB Schenker is likely to enter into an automotive sector-focused agreement with Freight Rail to migrate freight from road to rail.
- The branch lines network and operations are integral to the agriculture, mining and timber sectors and serve as important feeders into the broader Freight Rail business. Investment in branch lines continues in the context of the challenges of economic resuscitation of rural and small towns, food security and opportunities for road-to-rail migration.

Highlights achieved for branch lines during 2014 included:

- The Belmont – Douglas branch line in the Northern Cape (originally built to 11t/axle loading) is in the final stages of upgrading to a 20t/axle loading to create a more efficient and cost-effective operation by railing greater wagon-loads of grain. 120 construction phase jobs were created and R41 million was invested in the upgrade.
- Freight Rail commenced the reconstruction of 21 kilometres of railway line from Balfour North Station to Grootvlei Station in February 2013, this being one of several collaboration projects between Transnet and Eskom. Transnet and Eskom have committed to collaborate on growing Eskom coal volumes from less than 10mt in 2012 to 32mt in 2019. Approximately 300 jobs were created during construction.

LOOKING FORWARD

- Future efforts will be prioritised around attracting new business, particularly through the development of road-to-rail technologies and intermodal solutions.
- Grow container market share from ~25% to ~35% by 2021.
- Increase over-border rail volumes of 7,2mt in 2014 to 18,6mt in 2021.
- The Customer Interaction Centre (CiC) will expand its services from handling customer complaints to include the handling of new business enquiries.

Shunting yard at Germiston

Operational efficiency and productivity

Goals and objectives for the reporting year 2014

- Ensure continuous improvement through organisational development and performance (ODP) processes and initiatives. This involves the accelerated implementation of 'Lean' and 'Six sigma' programmes.
- Operate a Scheduled Railway for improved reliability and customer service delivery.
- Continue to improve asset utilisation and wagon turnaround times.
- Implement appropriate rail technology and systems (eg, crew management systems) to reduce human error and improve network reliability.
- Migrate train control supervision to the National Command Centre.

Performance against objectives

Continuous improvement processes and initiatives highlighting a positive trend included

- Domestic coal moved record volumes and trains as a result of continuous improvement and lean projects.
- 1 600 employees received 'lean training' and 40 were trained in 'Green Belt Six Sigma'.
- The 'overtime analysis' project yielded savings. At the beginning of the year an overspend amount of R597 million had been projected. The budget was reduced by 40% compared to the previous year's actual and did not account for operational activity and salary increases. The actual overspend was contained to R387 million, which represents a saving of 35%. Initiatives implemented to realise savings included engaging unions and first-line managers to eliminate overtime payment averages for attending training (saving of R26 million); and reducing rest-day overtime (47%), 12-hour exceedings (12%), normal overtime (25%), Sunday overtime (7%). Freight Rail will continue to ensure compliance with the Variation Agreement by not exceeding 80 hours of overtime for each employee, reducing to zero 12-hour exceedings and further reduce rest day work.
- To mature towards a process driven organisation, 23 'value chain' processes were identified for Levels 1 and 2. All activities, organisational design, metrics, decisions and initiatives are derived with the sole purpose of enhancing and optimising performance of business processes in response to the MDS targets.
- Continuous professional learning (CPL) has enabled Freight Rail to be benchmarked against global standards in terms of its crew re-certification process. The duration for the certification process has been reduced from 22 days to three days, with the focus on 'on the Job' evaluation.

Scheduled railway for improved reliability and customer service delivery

- The 'on-time departure' KPI showed year-on-year improvement for the general freight, coal and iron ore businesses, due mainly to improved planning and rescheduling capabilities, as well as adherence to pre departure countdown processes.
- On-time train departures for general freight improved significantly by 24% to 212,8 minutes while on-time arrivals improved by 4,5% to 340 minutes.
- A full in-service strategy was developed and is being implemented to improve preparation of trains to ensure on-time departures. The improvement in the departure trend benefited the 'on-time arrival' KPI.
- The three operations control centre (3OOC) project has been registered with the national business council (NBC) and the labour consultation process has been initiated. The consolidation of single man cabins into existing centralised train control areas is 34% complete.

Asset utilisation

- The wagon turnaround time KPI improved significantly year-on-year by parking off excess capacity as a result of aging fleets and improved cycles. Turnaround time improved from 11,30 days to 10,74 days.
- The cycle time for the coal line has increased marginally since the previous year, from 68 hours to 69,84 hours.

This was largely caused by incidents on the coal line. The view is that the super-efficient Shongololo wired distributed power train, once fully implemented, will reduce cycle times to about 51 hours from the current 69 hours. It will also create wagon savings of 600 units.

- The GTK/NTK ratio showed an improvement on target, demonstrating that longer, heavier and 'compliance to design' trains are meeting Freight Rail's drive to improve productivity. This is a new KPI, hence there are no results for the previous year's performance. However the performance against the targets set for 2014 indicate significant improvement.
  - General freight: actual of 1,54 against a target of 1,67.
  - Coal line: actual of 1,80 against a target of 1,58.
  - Iron ore line: actual of 1,39 against a target of 1,41.
- The deployment of the new class 19E and 15E locomotives on the coal and iron ore export lines resulted in improved energy efficiency gains. Freight Rail's regenerated electricity is used in the locomotives themselves and any excess electricity is transmitted back into the Eskom grid.

Rail technology implementation to reduce human error

- The implementation of Wayside Equipment, such as Wayside readers, hot box detectors and Wheel Profile Machines improved safety, monitoring and management of trains.
- Increased utilisation of distributed power (wired distributed power and radio distributed power) improved Freight Rail's ability to run longer safer trains, thereby increasing the capacity of limited slots.
- The Business improved its record keeping on SAP in areas such as medical history, compulsory certification and the risk profile of an area through its crew management system, promoting an improved safety culture.

LOOKING FORWARD

- The new locomotives deployment plan will be a priority to improve operational efficiency, service reliability and predictability.
- The coal line is a focus area for the future. Freight Rail intends to increase the number of wired distributed power trains with the injection of more dual powered locomotives. This will enable the coal line to remove old, unreliable and antiquated locomotives, leading to improved adherence to a scheduled railway, and improved cycle times and predictability, thereby further stabilising the coal line.
- The manganese operation provides a substantial growth opportunity for Freight Rail and with the injection of the 95 20E dual powered locomotives, the operation will yield improved reliability and efficiency going forward.
- The number of magnetite trains will increase from 56 to 70 trains per week in the year ahead as a result of the highly reliable class 43 locomotives. The increase in the number of trains to be run is based on customer contracted volumes for the year ahead.
- Over-border traffic will be increased via Beitbridge by introducing a new train route from Richards Bay using the Class 43 locomotives. Increased reliability and efficiency will further improve cycle times.
- Organisational development and performance (ODP) processes and related programmes aim to improve operational efficiency KPIs by at least 5%, including asset utilisation, wagon turnaround times and service delivery targets.

Human capital

Goals and objectives for the 2014 reporting year

- Develop and ensure that the business uses a Workforce Plan for budget purposes as well as develop plans to mitigate against future risks of the business with regard to skills shortages.
- Implement a reward and recognition programme to recognise ongoing high performance and excellence at four levels (local, business unit, Freight Rail-wide and the Transnet group)
- Continue to manage employee relations proactively.
- From an employment equity perspective, target 76% black employees, with a target of 35% female employees and a target of 2% people with disabilities (PWDs).
- Embed the new balanced scorecard methodology with particular emphasis on usage of the automated system for all employees in Grades A to G to achieve 100% compliance by year-end.

Performance against objectives

- Freight Rail successfully introduced 'Strategic Workforce Planning' based on current supply and future demand. Actual training for the 'workplace skills plan' exceeded the year-to-date targeted number of employees by 5,79%.
- Only critical vacancies were filled due to financial constraints.
- The first Chief Executive Excellence Awards ceremony was held in June 2013. The table shows the number of employees recognised in these categories in the Recognition and Rewards Scheme:

Individuals (including teams)	48
Team awards	30
Legends	31
Train drivers	25

- A 33-day strike by an unrecognised union took place in Emerlo during the year.
- A two-year wage agreement was concluded with recognised labour unions.
- Freight Rail introduced overtime management standards and controls.
- The black employment target of 76% was achieved and exceeded with 82,63% representation of black employees.
- Overall, 24,4% female employee representation was achieved against a target of 35%. Further work is required in this area.
- Representation of people with disabilities reached 1,9% against a target of 2%. The target for the 2015 financial year has been increased to 2,3%.
- The Chief Executive's 'talent nurturing' programme continued during the year.
- The mentorship and coaching programme was piloted at the ABL business and in the ODP department.
- The balanced scorecard methodology was introduced with 100% managers contracted for the review period.
- Freight Rail increased change management capacity across the business.
- Newly automated processes include recruitment, individual development planning and performance management (balanced scorecards) for levels A to F.
- Digitised human capital was introduced to improve the management of employee records.
- Various enhancements were introduced to the HC portal (ESS/MSS), including single sign-on capability from Windows access, scanned document attachment, and revised workflow escalations for leave applications.
- Work schedules for all areas were developed and configured in SAP HCM.
- A new talent management framework was implemented for levels C and D and will be implemented for Levels E and F in 2015.
- Overall 129 graduates-in-training (GIT) were trained in 2014.
- The leadership competency model was finalised.

LOOKING FORWARD

- Freight Rail will continue to inculcate a culture of high performance across the business in the year ahead.
- Job creation will remain a priority, focussing on previously disadvantaged professionals, people with disabilities and women.

- Enhanced delegation of authority processes and procedures will be implemented for supervisors.
- The introduction of an automated time and attendance system will enable employees to clock in and out at the start and end of their shifts on a biometric device that will perform automatic time and pay calculations interfacing into payroll. This would ensure that employees time is managed according to company policy and that calculations are standardised. A proof of concept is planned for Ermelo in quarter 2 of 2015.
- The Higher Education Act will be amended by Parliament to make provision for the establishment of a Rail Corporate University.
- The employee value proposition – aligned with the Leadership Brand Archetype – was developed and EVP brand engagement and 'socialisation' is due to be implemented in 2015.

Regulatory and key stakeholder engagement

Goals and objectives for the 2014 reporting year

- Refine the Rail Policy and Interim Regulatory position.

Performance against objectives

- Freight Rail greatly improved the working relationship with the shareholder on railway policy matters during the year and continued the comprehensive process of policy alignment with the Department of Public Enterprises (DPE) to engage with the Department of Transport (DoT) on the anticipated National Rail Policy and Economic Regulation. In September 2013, DoT issued the revised Green Paper on National Rail Policy and embarked on the stakeholder engagement process with various stakeholders.
- Freight Rail has cooperated with the DoT in making inputs as the DoT develops a pragmatic and implementable National Rail Policy. In particular, the business continued to engage with the DoT and DPE with respect to a Cost-Benefit-Analysis of a Standard Gauge (SG) policy proposal and Private Sector Participation (PSP) in rail.
- The DoT performed a situational analysis of the relevant transport modes (road, rail, maritime and aviation) in its Single Transport Economic Regulator (STER) development process. Freight Rail responded to a questionnaire with a view to engaging with the DoT. Transnet and Freight Rail, through the DPE, are fully engaged in this process.

LOOKING FORWARD

- Engage the DoT through the DPE on a Standard Gauge Cost Benefit Analysis and other key policy issues.
- Update the Joint Position Paper on Rail Policy together with DPE.
- Review and engage the DPE and the DoT on the second STER Bill to ensure alignment on critical aspects.
- Develop a Joint DPE/Transnet/Freight Rail 'Position Paper' on Economic Regulation.

Routine maintenance being carried out at Emerlo shunting yard

Safety, risk and sustainability

Goals and objectives for the 2014 reporting year

- Improve Freight Rail's DIFR rating to match world-class standards.
- Introduce technological initiatives to prevent accidents and acts of crime and sabotage.
- Perform benchmarking with leading railway operators to build a sustainable Safety Culture.
- Undertake environmental impact assessments (EIAs) for major capital programmes.
- Address asbestos pollution by obtaining asbestos removal waste licences for all major asbestos contaminated sites as well as the Conversion of De Aar Quarry into an asbestos landfill site, asbestos clean-up projects and the Airborne Asbestos Monitoring Project.
- Reduce carbon intensity targets and improve energy efficiency of the business by measuring the performance of the Greenhouse Gas (GHG) Inventory. GHG emissions were 0,42% higher than 2013 largely due to the increased use of locomotives in a bid to achieve volume growth (MDS) and the obligations of the road-to-rail migration strategy.
- Implement Human Factors Management Standards as per the Rail Safety Regulator's requirements.

Performance against objectives

Safety

- Freight Rail achieved an overall 7% reduction in the number of safety incidents. Shunting derailments were reduced by 17%.
- A DIFR of 0,82 was achieved, which is considered world-class performance in the rail industry. Performance has improved consistently over the past five years, demonstrating an overall improvement in the safety culture.
- The cost of risk as a percentage of turnover increased by 3%, from 4,9% to 5,1%, due to the combined effects of a 15% increase in insurance premiums, 5% increase in retained losses, 10% increase in the cost of managing risk and lower-than-expected turnover for 2014.
- Freight Rail commenced with the implementation of the Human Factors Management Standards as per the Rail Safety Regulator's (SANS 3000) requirements.

Energy, waste and environment

- Freight Rail is currently finalising an environmental impact assessment process to convert the De Aar quarry into an asbestos waste landfill site. During the year an approved asbestos inspection authority was contracted to undertake asbestos air quality assessments at 11 high risk asbestos contaminated sites. Asbestos removal waste licences have been obtained for all major contaminated sites and these sites will be cleared once the De Aar quarry landfill site is approved and operational.
- 'Handholding' and guidance on Environmental Management System (EMS) implementation is taking place in operational areas. Three sessions were held in Richards Bay, Vryheid and Nelspruit during the year.
- Freight Rail has an energy efficiency forum which meets every two months. This forum monitors performance and evaluates whether the measures adopted for energy efficiency are effective. The following significant energy efficiency gains for regeneration were recorded in Freight Rail:
  - Class 19E locomotives working on the coal line regenerated 27% of energy consumed on a round trip between Ermelo and Richards Bay, resulting in 76 682MWh (14%) energy regeneration in 2014.
  - Class 15E locomotives working on the iron ore line regenerated 28% of energy consumed on a round trip from Sishen to Saldanha, resulting in 99 502MWh (24%) energy regeneration.
- Freight Rail made a meaningful environmental contribution in the form of carbon emissions reduction in the South African transport sector by gaining market share in a number of commodity groups where there is strong competition with road hauliers. This rail tonnage gain amounts to volumes permanently taken off road.

LOOKING FORWARD

- Improve Train Control Officers' training in order to reduce human error incidents through standardisation of the Train Authorisation and Train Control systems.
- Continue to identify high activity yards that must be automated so as to reduce derailments due to human error.
- Embed the sustainable Safety Culture by applying best practice lessons from benchmarking exercises within the business.
- Continue with the implementation of the Human Factors Management Standards as per the Rail Safety Regulator's requirements until April 2016.
- Continue to reduce Freight Rail's carbon intensity and improve energy efficiency.

Building organisational readiness and a high performance culture

Goals and objectives for the 2014 reporting year

- Drive the culture change associated with the leadership brand archetype.
- Develop employee value propositions (EVP) and a brand engagement process; and embed leadership archetypes as part of the change management process, aligned with the Culture Charter and Customer Service Charter. For Freight Rail to become one of the top five in the world, it needs to ensure exceptional customer service delivery, which can only be realised through engaged, empowered and inspired employees.
- Continue to embed compliance processes (ie compliance risk identification, risk assessment, risk management, monitoring and reporting) as defined in the Compliance Framework in Rail Network and the six business units.
- Promote long-term continuous professional learning (CPL) and develop critical grades: Train Crew and Train Control. Increase the number of train drivers on the CPL programme as well as the number of employees trained on Lean Six Sigma.
- Enhance Supervisory, Management, Engineering and Technical Training and Development.
- Provide simulator training to improve train handling skills.
- Implement ODP lean processes and programmes across the organisation to promote a high performance culture.

Performance against objectives

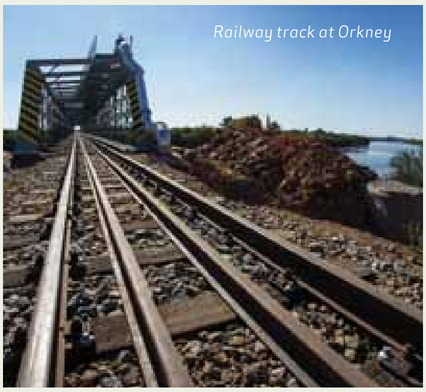
- A CE Talent Nurturing Team was identified as 'chief inspirational leaders', to drive the culture change associated with the leadership brand archetype. The latter included the change management process as part of 'Inspiring Ways'.
- Role models – both internal and external – were identified to epitomise exemplary leadership behaviours. They were exposed to senior Freight Rail's leadership to align organisational thinking, a process to be implemented across different levels.
- The employee value proposition (EVP) was developed and Human Resource project streams were established. Each 'stream' includes project plans that feed into the EVP project and align with the CVP (customer value proposition). The EVP brand engagement process will commence in the new financial year.
- During the year, Freight Rail commenced the embedding of compliance processes (ie compliance risk identification, risk assessment, risk management, monitoring and reporting) as defined in the Compliance Framework in Rail Network and the six business units. Going forward, the maturity of compliance processes in these areas will be measured against the compliance maturity model. Where regular engagement with Regulators and Government Departments is required for regulatory certainty and operational efficiencies, appropriate mandates and engagement protocols have been established and formalised.
- Continuous professional learning (CPL) for train drivers resulted in major travel and accommodation savings.
- The number of employees trained on Lean Six Sigma training exceeded the year-to-date target by 44%.
- All eight training campuses achieved full accreditation status and SGS recommended ISO 9001:2008 – Quality Management System Certification.

(Societe Generale de Surveillance SA (SGS) is a Swiss inspection, verification, testing and certification services company which conducts ISO audit inspections and verification audits). The School of Rail (SoR) achieved ISO 9001 certification and partnered with the Universities of Cape Town and Pretoria for engineering development.

- The Rail Cadet Programme exceeded the target by 0,5%, achieving an enrolment of 2 410 attendees against a target of 2 400.

LOOKING FORWARD

- Freight Rail will introduce numerous interventions for the 2015 financial year to realign with projected MDS volume projections.
- Freight Rail requires a significantly increased locomotive fleet to harness market opportunities and to continue to grow rail market share. New locomotives are in the procurement phase, however, delivery of substantial locomotive quantities are only expected from 2016 onwards. The locomotive fleet will be the major determinant of capacity and therefore is likely to inhibit volume growth for at least the next two years.
- The business units will continue to interface closely with customers and implement appropriate operating models to meet their tonnage demands and to improve service delivery.
- To ensure the appropriate deployment of resources and improved operational performance – and to manage deviations that cause delays and cancellations – operating plans will be supported by organisational development and performance (ODP); and will be strengthened by logistics integration activities and the National Command Centre (NCC).
- The Exco Scorecard Project was developed in the last quarter of 2014. The five pillars of this work include the Shareholder Compact, a high performance culture, service excellence, value-driven cost, and network velocity. The project will be rolled out during 2015 to achieve the targeted EBITDA, capture market share, enhance asset utilisation, improve customer service and empower people. It will further introduce strategic initiatives identified for PSPs.
- Process governance and data governance will be employed to maintain integrated end-to-end business processes and enabling data. The Governance Framework will empower process owners and process operators with up-to-date, readily available standardised and integrated end-to-end processes, with accountabilities, tools, and data and business rules applicable to the process.
- A crucial part of activating Freight Rail's employee value proposition (EVP) is refocusing and delivering a positive employee experience through six key themes (employee touch points), underpinned by targeted outcomes and emotional value benefits. These benefits include: team work, inspirational leadership, learning and development, understanding of 'my role', understanding of 'my responsibility', employee engagement, and reward and recognition.
- A customer service module will be implemented in Freight Rail's SoR training programmes. The customer service training will be implemented from July 2014 onwards for all levels in the organisation, with an initial focus on key customer service (commercial). Personnel recruitment was identified as one of the key processes that impact the development and employment of colleagues, thus impacting negatively on Freight Rail's employment brand. To address this and other key dependencies, a Lean Recruitment Project is scheduled to start in May 2014.


Railway track at Orkney

FINANCIAL PERFORMANCE REVIEW

Operating Division performance

Salient features		Year-ended 31 March 2014 R million	Year-ended 31 March 2013 R million	% change
Revenue		34 411	31 797	8,2
– General freight		19 619	17 125	14,6
– Export coal		8 909	8 610	3,5
– Export iron ore		4 961	4 181	18,7
– Other		922	1 881	(51,0)
Operating expenses		(19 987)	(18 835)	6,1
– Energy costs		(4 543)	(4 121)	10,2
– Maintenance costs		(1 370)	(1 294)	5,9
– Material costs		(949)	(1 005)	(5,6)
– Personnel costs		(10 732)	(9 765)	9,9
– Other costs		(2 393)	(2 650)	(9,7)
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)		14 424	12 962	11,3
Depreciation, derecognition and amortisation		(6 999)	(5 852)	19,6
Profit from operations before items listed below		7 425	7 110	4,4
Impairments and fair value adjustments		103	(62)	(266,1)
Net finance costs		(2 359)	(1 978)	19,3
Profit before taxation		5 169	5 070	2,0
Taxation		(1 528)	(1 619)	(5,6)
Profit after taxation		3 641	3 451	5,5
Total assets (excluding CWIP)	R million	82 452	70 844	16,4
Profitability measures				
EBITDA margin*	%	41,9	40,8	1,2
Operating margin**	%	21,6	22,4	(0,8)
Return on average total assets (excluding CWIP)***	%	9,7	10,8	(1,1)
Asset turnover (excluding CWIP)****	times	0,45	0,48	(6,2)
Capital expenditure^	R million	25 115	18 277	37,4
Capitalised maintenance expenditure	R million	8 155	6 861	18,9
Employees				
Number of employees (permanent)	number	29 225	29 489	(0,9)
Revenue per employee	Rand	1,18	1,08	9,2

* *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.*

^ *Capital expenditure (replacement + expansion) excluding borrowing costs, intangible assets and including capitalised finance leases.*

Volume performance was negatively affected by the economic slowdown, depressed commodity prices, labour unrest, and inclement weather conditions in the last quarter. Accordingly, volumes for the year increased marginally by 1,3% to 210,4mt (2013: 207,7mt). Despite slower than expected volume growth, revenue for the year increased by 8,2% to R34,4 billion (2013: R31,8 billion). This is mainly attributable to price inflation adjustments and revenue yield strategies focusing on commodities that provide Freight Rail with higher contribution to costs.

Coal volumes decreased to 83,1mt (2013: 84,3mt). The decline in volumes was mainly due to the impact of the economic slowdown, a series of safety incidents, traction power constraints, a slightly longer maintenance shutdown than originally envisaged occasioned by unforeseen events diagnosed during the shutdown as well as a two week power disruption at the Richards Bay Container Terminal in February 2014. These incidents negatively impacted volumes which showed signs of recovery in the second quarter of the year following the maintenance shutdown. Furthermore, planned implementation of the new operating model (project Shongololo), aimed at improving operational efficiencies and volumes railed, was negatively impacted by these incidents and thus the desired results of this project were not realised during the year.

The container and automotive business increased volumes by 25,2% to 13,4mt (2013: 10,7mt), evidencing continued success in growth of market share arising from the road-to-rail modal shift.

Despite volumes lost in the first quarter of the financial year, owing to the breakdown of a bridge in Mozambique, mineral mining and chrome volumes increased by 14,2% to 18,5mt compared to the prior year (2013: 16,2mt). Growth in volumes is mainly attributable to improved operational efficiencies, which illustrates improved customer relations and an emerging service ethic epitomising, the success of the road-to-rail strategy implemented by Freight Rail.

Iron ore and manganese volume performance declined to 62,9mt (2013: 64,3mt), as a result of operational issues at key mines as well as tippler problems at the ports.

Steel and cement volumes increased to 21,4mt (2013: 20,9mt). The marginal increase is mainly due to the slowdown in economic growth that affected demand from customers.

Agriculture and bulk liquids volumes decreased marginally to 11,1mt (2013: 11,3mt). Strategies to further reposition the value proposition of this business are continuing, the fruits of which will only begin to emerge during the latter part of the next financial year.

Net operating expenses increased by 6,1% to R20,0 billion (2013: R18,8 billion). This was driven largely by an increase of 9,9% in personnel costs; a 10,5% increase in electricity costs; an increase in fuel costs of 10,0% due to sharp increases in crude oil prices; and a deterioration in the Rand/US Dollar exchange rate. These above inflation increases were offset by cost reductions in professional fees, travel and accommodation as well as data costs as a result of implemented cost-reduction initiatives amounting to R1,2 billion. This resulted in an increase of 11,3% in EBITDA to R14,4 billion (2013: R13,0 billion).

EBITDA margin improved by 1,1% to 41,9%. The improvement is attributable to growth in revenue of 8,2% whilst year-on-year increase on operating expenses was contained at 6,1%. In view of flat volume performance, attributable to depressed economic environment, Freight Rail implemented cost saving initiatives and reduced discretionary costs in order to improve profitability margins.

Financial gearing improved to 46,5% (2013: 49,8%). The improvement is mainly due to the regearing done in the current financial year.

Despite the increase in revenue year-on-year, asset turnover deteriorated to 0,45 times (2013:0,48 times). This is attributable to the increase in asset base, which grew at a proportion higher than the increase in revenue.

Return on average total assets slightly decreased to 9,7% (2013:10,8%). This performance is attributable to lower than expected increase in profit from operations, whilst the average asset base increased by 16,7%.

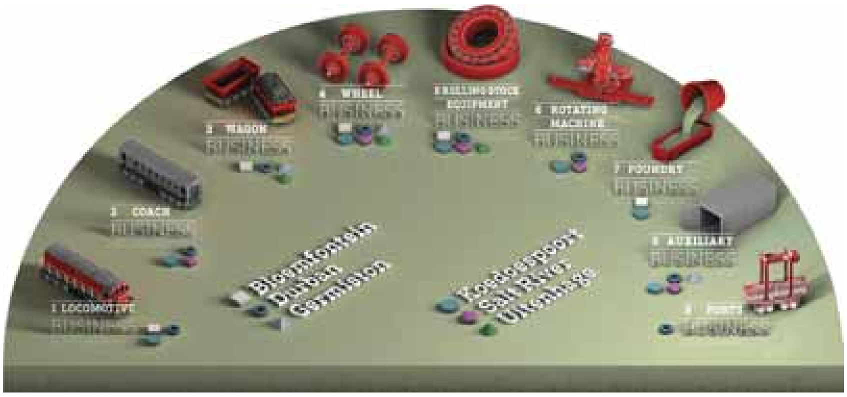
In line with an impressive 11,3% increase in EBITDA to R14,4 billion (2013: R13,0 billion), net debt to EBITDA also improved slightly to 2,2 times (2013: 2,4 times). Slight improvement in this ratio is attributable to the increase in EBITDA at a rate slightly higher than the growth in debt.

Cash interest cover increased to 8,8 times (2013: 5,3 times). The improvement is mainly attributable to a 10% increase in cash generated from operations (before working capital movement), and a favourable increase in working capital for the year. This favourable increase arose due to better working capital management and as a result of the 1 064 locomotive deal being concluded before the end of March 2014, resulting in an 84% increase in cash generated from operations after changes in working capital.

BUSINESS OVERVIEW AND BUSINESS MODEL

Transnet Engineering (Engineering) is the backbone of South Africa's Railway industry. With nine product-focused businesses, Almost 12 500 staff country-wide, 132 depots, six main factories, and over 150 years of experience in rail, Engineering is ideally positioned to service this vital sector.

Engineering



The business operates in the following service areas:

- Refurbishment, upgrade, manufacturing and maintenance of electrical Alternating Current (AC) and Direct Current (DC) diesel locomotives.
- Manufacturing and maintenance of freight wagons for various commodities.
- Overhaul, upgrading, new build and maintenance of suburban and mainline passenger rail coaches.
- The provision of engineering services to ports and harbours across the SADC region.
- The provision of components and services such as rotating machines, rolling stock equipment, cast components, wheels, tarpaulins, intermodal containers, cleaning and logistic services, as well as port and terminal equipment.

Engineering's internal structure comprises nine businesses, namely: wagon, locomotive, coach, rolling stock equipment, rotating machines, wheel, auxiliary, port equipment and foundry businesses. The wagon, locomotive, coach and ports businesses are the primary customer-facing entities and revenue generators, while the remaining five 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.

Through its six well equipped, ISO 9001:2008 certified factories and its workforce of almost 12 500 qualified personnel, Engineering extends its railway customer portfolio to Africa and the world. As a result, many of Engineering's plants have received 'centres of excellence' awards and accreditation by original equipment manufacturers (OEMs). Engineering also has more than 100 wagon and locomotive depots for in-service maintenance of rolling stock throughout South Africa.

Engineering continues to explore the African market for opportunities to provide rolling stock to other countries on the continent. Various railways and mining companies such as Vale and Rio Tinto have been engaged as part of the strategy to access this market. Several memoranda of understanding (MOUs) have been signed with regional railways for cooperation, including TransNamib, Botswana Railways, among others.

The business continues to position itself strategically to become an OEM for diesel and electric locomotives. During the year, Engineering adopted a strategy to collaborate with existing OEMs. Locomotives in Africa are supplied by major OEMs such as General Electric (GE) and Electro Motive Diesel (EMD). Accordingly, Engineering has positioned itself as an African base for refurbishing locomotives that were previously supplied by these OEMs.

Engineering is certified as a centre of excellence for the refurbishment of components for these OEMs in the African market. Such components include traction motors and engines. This strategy will position Engineering to become a contact for all refurbishment projects on the continent.

In March 2014, Engineering was awarded a subcontractor share in the country's sizeable locomotive new-build programme worth approximately R50 billion. The programme is part of Transnet's long-term MDS, geared towards investing in capital infrastructure to increase volumes and reduce the cost of doing business in South Africa. The contract was awarded to four OEMs to build 1 064 diesel and electric locomotives to be introduced into the existing Freight Rail fleet.

The first batch of 70 locomotives will be assembled in the OEM factories and the remaining batch of 994 locomotives will be assembled at the newly upgraded production lines in Engineering's Koedoespoort and Durban factories. Local engineers and production supervisors will be up-skilled in preparation for the South African production.

During the year, Engineering continued to strengthen its research and development activities to explore and integrate innovative business practices. This process yielded the following benefits for the business:

- Concluding the design and production of the 350 SCL 18 and 19 automotive wagons at the Uitenhage factory.
- Designing and testing of the rail level crossing system to reduce the number of rail accidents throughout the country. The system is now being piloted in North West and Western Cape where there are high risk sites.
- Establishing the Innovation Hub with special tools and equipment in partnership with the Council for Scientific and Industrial Research (CSIR) to enhance Engineering's scientific capability.

In terms of skills development, Engineering expanded its apprenticeship programme with the support of the Department of Higher Education and Training (DHET), by increasing the number of apprentices attending its School of Engineering from 2 000 at the beginning of the year to 3 000. R175 million was received from the DHET NSF programme.

Engineering has merged its auxilliary and ports businesses to form one formidable ports business that will expand the footprint of the business into the ports environment. This effectively reduces the number of internal businesses from nine to eight from 1 April 2014.

Engineering's strategic focus will continue to support the broader goals of the MDS to lower the cost of doing business in South Africa, and specifically, to support Freight Rail in growing volumes and improving its market share. The African market will become increasingly important to Engineering's revenue stream; as will the Passenger Rail Agency of South Africa (PRASA) through its GO upgrade programme and the anticipated fleet modernisation programme.

The maintenance depots continue to focus on improving operational efficiencies by concentrating on availability and reliability of rolling stock, particularly for the key Freight Rail corridors. Engineering will also continue to support Freight Rail in its strategic objective to become a scheduled railway by ensuring that train delays, cancellations and volumes lost due to traction delays, are minimised. The manufacturing and overhaul activities of the plants are geared to provide Freight Rail with additional capacity through new and refurbished locomotives and wagons.

PERFORMANCE REVIEW AND OUTLOOK

Core initiatives for the year

- Implement Lean Six Sigma principles.
- Strengthening partnerships with OEMs with the aim of enhancing skills and operational know how.
- Maintenance depots to focus on improving operational efficiencies by concentrating on availability and reliability of rolling stock.
- Continue to increase training of engineers, technicians and artisans.

Overview of key performance indicators

Key performance area and indicator	Unit of measure	2013 actual	2014 target	2014 actual	2015 target
Infrastructure and maintenance					
Capital expenditure[(a)]	R million	1 315,00	954,00	975,00	1 094,00
Planned maintenance	R million	309,00	288,00	261,00	254,00
Innovation					
Research and development cost	R million	n/a	150,00	79,00	80,00
Operational efficiency and productivity					
Train cancellations due to traction	%	–	6,00	4,00	6,00
Net volume lost due to traction	mt	–	7,00	2,60	7,00
Traction delays	%	–	40,00	6,40	40,00
Skills development					
Practical training 1 and 2 (P1 and P2)	headcount	n/a	100	147	100
Technician training	headcount	n/a	50	82	100
Engineers in training	headcount	n/a	15	77	50
Graduates in training	headcount	n/a	100	35	40
Rural development (youth development)	headcount	n/a	120	88	120
ABET learners	headcount	n/a	200	149	200
Women development	headcount	n/a	150	42	50
Employment equity targets					
Total blacks	%	n/a	75,00	78,70	76,00
Total females	%	n/a	22,00	20,60	35,00
Total people with disability	%	n/a	1,30	1,50	2,00
Supervisory development	headcount	n/a	500,00	430,00	200,00
Financial value creation					
EBITDA margin	%	11,30	14,10	6,60	12,60
Operating profit margin	%	9,80	12,50	4,80	10,30
Gearing	%	48,50	33,10	46,96	35,70
Net debt to EBITDA	times	2,20	1,08	3,27	1,65
Return on average total assets	%	14,70	19,40	6,40	14,50
Asset turnover	times	1,50	1,49	1,34	1,41
Cash interest cover	times	2,30	6,80	2,96	6,50
External revenue	R million	1 371,00	2 633,00	1 616,00	2 400,00
Internal revenue	R million	11 692,00	n/a	11 737,00	11 453,00
Total revenue	R million	13 063,00	n/a	13 353,00	13 853,00
Human capital					
Training spend	% of personnel cost	6,40	6,00	4,20	5,00
Employee turnover	%	18,90	6,50	6,00	6,00
Employee headcount	permanent	12 752	12 663	12 428	12 485
Revenue per employee	R million	1,02	1,10	1,07	1,11
Risk, safety, health and environment					
Cost of risk	% of revenue	2,10	2,30	5,00	5,00
DIFR	rate	0,76	0,79	0,61	1,00

(a) Excluding capitalised borrowing costs and intangible assets.
n/a not applicable.

OPERATIONAL PERFORMANCE COMMENTARY

Capital planning and execution

Goals and objectives for the 2014 reporting year

- Invest R954 million in the execution of capital projects in the 2014 financial year in lieu of replacement and maintenance expenditure as well as expansion.
- Finalise the De Aar wagon depot.
- Create assembly capacity for the production of the remaining CSR locomotives.
- Reinvest in equipment for breakdown and derailment recoveries.
- Invest in depot equipment to enable higher productivity.

Performance against objectives

- Engineering invested R538 million in the upgrade and replacement of machinery and equipment, such as the automation of the Rolling Stock Equipment Spring Shop in the Durban factory.
- The wagon depot in De Aar was finalised and all machinery commissioned to stimulate job creation for the local community.
- The old GE class 43 production line was upgraded to make provision for the assembly of the 85 remaining CSR locomotives due for production in Koedoespoort.
- Engineering implemented mechanisms to ensure the recovery of sales pricing of full economic costs to fund future capital investment and cost of capital.
- Engineering invested in new machinery for depots and factories to enhance productivity and reduce the risk of injuries.

LOOKING FORWARD

- As Engineering prepares to deliver on South Africa's substantial locomotive build programme, R100 million will be invested in the upgrade of locomotive production lines in Durban and Koedoespoort in preparation for the assembly of 994 of the 1 064 locomotives to be produced by four international OEMs.
- As part of the journey towards becoming an OEM, Engineering will design and build the TransAfrica locomotive, equipped with technical capabilities that will cater for the difficult conditions in the African market.
- Capital expenditure for 2015 is budgeted at R1,1 billion and total capital expenditure over the coming seven-year period is budged at R6,3 billion.
- Operating expenses are expected to decrease by 1,8%, from R12,3 billion to R12,1 billion from 2014 to 2015.
- Engineering intends to spend 75,7% of the capital budget on replacement and maintenance of the production assets to enhance operational efficiency. The budgeted revenue of R13,9 billion translates into R1,4 billion operating profit for 2015, yielding a return on total assets of 14,5%.

Class 34 locomotive at Koedoespoort

Volumes and customer satisfaction

Goals and objectives for the 2014 reporting year

- Provide support to Freight Rail to improve rolling stock reliability to enhance volume growth and improve customer service.

Performance against objectives

- Engineering continued to provide support to Freight Rail through the improvement of traction, train delays, cancellations and volumes lost due to traction delays. The minute delays were reduced by 14% compared to the previous year. In turn, these efforts supported Freight Rail's strategic imperative to grow volumes and ensure customer-satisfaction.
- Through Engineering's Lean Six Sigma programme, wheel-failure has been significantly reduced, and the availability and reliability of locomotives and wagons have been significantly improved. The cost of production has also been reduced. The success of the Lean Six Sigma programme can also be attributed to the delivery of the SCL 18 and 19 wagons nearly three months ahead of schedule.
- To ensure financial sustainability and diversify revenue streams, Engineering has identified the African continent as a market for the supply of rolling stock. During the year, customer contracts signed on the continent were valued at R1,1 billion.

LOOKING FORWARD

- Continue to implement initiatives that will enhance customer interfaces.
- Continue to improve the availability and reliability of rolling stock.

Operational efficiency and productivity

Goals and objectives for the 2014 reporting year

- Reduce the number and duration of locomotive and wagon failures, thereby increasing rolling stock capacity to move more volumes.
- Embed a culture of efficiency across the business through Lean Six Sigma.

Performance against objectives

- Engineering implemented Lean and Six Sigma programmes to improve maintenance turnaround time.
- Lean Six Sigma methodologies were further embedded in all Engineering's businesses.
- Revenue per employee increased by 4,9% to R1,1 million (2013: R1 million).
- 24/7 shifts were introduced to cater for production requirements in certain sections of the business.

LOOKING FORWARD

- Implement a coach concept and mentorship programme at all maintenance depots and factory facilities.
- Upgrade the Thabazimbi workshop at a seven-year spend of R30 million.
- Build a new wagon workshop in Ngqura.
- Establish a new wheels business in Richards Bay.
- Develop the Durban factory for new wagons build.

Bonginkosi Mnisi, laser cutting at Bay II, Koedoespoort

Human capital

Goals and objectives for the 2014 reporting year

- Target 95% ratio of permanent employees to fixed-term contract employees.
- Improve overall productivity.
- From an employment equity perspective, target 76% black employees, with a target of 22% female employees and a target of 1,3% people with disabilities.

Performance against objectives

- Engineering increased the ratio of permanent employees to fixed-term contract employees from 94,4% to 95%.
- Productivity improvements resulted from the multifunctional utilisation of employees through Outcome Based Modular Learning (OBML).
- The black employment target of 75% was achieved and exceeded with 78,7% representation of black employees.
- Female employees represented 20,6% of total personnel, against a target of 22%.
- Representation of people with disabilities reached 1,5% against a target of1,3%. The target for the 2015 financial year was increased to 2%.

LOOKING FORWARD

- Engineering will continue to implement the Strategic Workforce Plan.
- Operations will be 're-profiled' to ensure effective resource utilisation.
- Engineering will improve capabilities through training and development, and maintain an engineering and technical skills pipeline.

Regulatory and key stakeholder engagement

Goals and objectives for the 2014 reporting year

- Conduct risk assessment on the identified regulatory requirements applicable to Rail Engineering.
- Develop Control Compliance Plans for each critical regulatory compliance requirement.

Performance against objectives

- Engineering performed comprehensive reviews of legislation applicable to the business.
- Control Compliance Plans were developed for all major legislation impacting on Engineering's business.

LOOKING FORWARD

- Compile the regulatory universe for specific African countries aligned to the Engineering Africa strategy.
- Perform monitoring to measure the level of compliance, and update Control Compliance Plans.

Welding at Bay 20, Koedoespoort

Safety, risk and sustainability

Goals and objectives for the 2014 reporting year

- Improve Engineering's safety culture and target a reduced DIFR of 0,76.
- Intensify localised SHE Awareness to address specific trends in the regions and businesses.
- Strengthen the Behavioural Safety Programme.
- Enhance and standardise existing Hearing Conservation Programmes to address noise-induced hearing loss (NIHL) cases.
- Introduce a SHEQ management system to improve productivity.
- Continue with the implementation of the hydrocarbon pollution control as per the three-year programme.
- Develop Waste Management Plans for Bloemfontein, Uitenhage, Salt River, and Germiston in line with new legislation.
- Expand on recycling initiatives.
- Rehabilitate the contaminated sites as per the anticipated recommended remedial actions.
- Assessment of the rest of the effluent plant's efficiency in view of possible upgrades to avoid environmental pollution.
- Upgrade effluent plants where required.
- Facilitate sustainability and implementation of Climate Change Strategy.

Performance against objectives

Safety

- Engineering has significantly improved its safety culture for all employees through the effective implementation of the Internal Safety Leagues, as evidenced by the significant reduction in the DIFR from 0,76 in 2013 to 0,61 in the 2014 financial year.
- Engineering has started with the Implementation of the Hearing Conversation Programme where existing efforts are being examined for improvement. These include the ongoing medical surveillance programme and the provision of customised hearing protection devices.
- Quarterly SHE inspections were performed for all businesses and non-conformance reports and stop certificates for SHE contraventions were issued where appropriate. The Isometrix SHEQ integrated management system has been developed and will be rolled out in the next financial year.
- All Engineering's employees received SHE' re-induction' training. All new employees receive mandatory induction training prior to commencing work.
- Based on the incident trends, training and awareness on hand injuries was conducted for all operational employees.
- Engineering unfortunately experienced two fatalities at its factories in this financial year.

Energy, waste and environment

- Engineering continues to implement the sustainability initiatives such as energy and water efficiency as well as waste management.
- Engineering's research and development (R&D) commenced a fuel cell feasibility study in October 2013 to explore the use of fuel cells in locomotives. The study will be completed by the end of August 2014.
- All Engineering sites that were included as part of the Freight Rail hydrocarbon pollution programme have been cleaned. Engineering will also develop its own programme to ensure that hydrocabon pollution is well managed at all its sites.
- Waste management plans for Bloemfontein, Uitenhage, Salt River, and Germiston in line with new legislation were developed and implemented. Recycling initiatives were also rolled out as part of this programme.
- Engineering has identified contaminated sites and these were confirmed through a detailed scientific soil assessment study. Plans based on the recommendations of the study will be developed for implementation in 2015.
- The construction of the Ermelo effluent plant is currently underway.
- Environmental Management System (ISO 14001) is currently being implemented as part of the Engineering SHE IMS.

LOOKING FORWARD

- Establish a centralised Protective Plant Equipment warehouse in the Koedoespoort factory.
- Perform a detailed toxicity and decanting analysis on existing chemicals utilised in the regions.
- Facilitate the Environmental Impact Assessment process for the development of hazardous landfill sites.
- Develop level-crossing assessment data software for the management information system (MIS) for easy information referencing.

Building organisational readiness and a high performance culture

Goals and objectives for the 2014 reporting year

- Increase leadership capacity among supervisory level employees and women.
- Build technical and managerial competencies.
- Improve supervisors' skills in financial management, and manage non-performance and absenteeism.
- Introduce a programme to train 100 unskilled young people; giving them skills required in the market.

Performance against objectives

- Engineering implemented and sustained a leadership programme at supervisory level and for women.
- The intake of engineers, graduates and technicians in training was increased, especially among young women, to enhance the pool of managers, engineers and artisans in the industry.
- 1 000 additional apprentices were recruited as part of the National Skills Programme.
- A programme for the development of young people in the rural areas was implemented and 88 youths were trained.
- Engineering has a supervisory development programme focusing on the improvement of supervisors' skills in financial management, and managing non-performance and absenteeism. The programme has trained 430 supervisors in this financial year.

LOOKING FORWARD

- Create a strong succession pool of competent female managers that can assume future top leadership positions in Engineering.
- Train all employees on Lean Six Sigma principles to improve productivity and efficiency.
- Implement the B-BBEE strategy to achieve a Level 1 contribution status.

Mapule Legodi, amature winder taping coils in Koedoespoort

FINANCIAL PERFORMANCE REVIEW

Operating Division performance

Salient features		Year-ended 31 March 2014 R million	Year-ended 31 March 2013 R million	% change
Revenue		13 353	13 063	2,2
– Internal		11 737	11 692	0,4
– External		1 616	1 371	17,9
Operating expenses		(12 467)	(11 589)	7,6
– Energy costs		(221)	(228)	(3,1)
– Maintenance costs		(261)	(309)	(15,5)
– Material costs		(6 521)	(5 916)	10,2
– Personnel costs		(4 708)	(4 424)	6,4
– Other costs		(756)	(712)	6,2
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)		886	1 474	(39,9)
Depreciation, derecognition and amortisation		(246)	(193)	27,5
Profit from operations before items listed below		640	1 281	(50,0)
Impairments and fair value adjustments		3	(6)	(150,0)
Net finance costs		(393)	(253)	55,3
Profit before taxation		250	1 022	(75,5)
Taxation		(79)	(290)	(72,8)
Profit after taxation		171	732	(76,6)
Total assets (excluding CWIP)	R million	10 134	9 820	3,2
Profitability measures				
EBITDA margin*	%	6,6	11,3	(4,7)
Operating margin**	%	4,8	9,8	(5,0)
Return on average total assets (excluding CWIP)***	%	6,4	14,7	(8,3)
Asset turnover (excluding CWIP)****	times	1,34	1,50	(10,8)
Capital expenditure^	R million	975	1 315	(25,9)
Employees				
Number of employees (permanent)	number	12 428	12 752	(2,5)
Revenue per employee	Rand	1,07	1,02	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.*

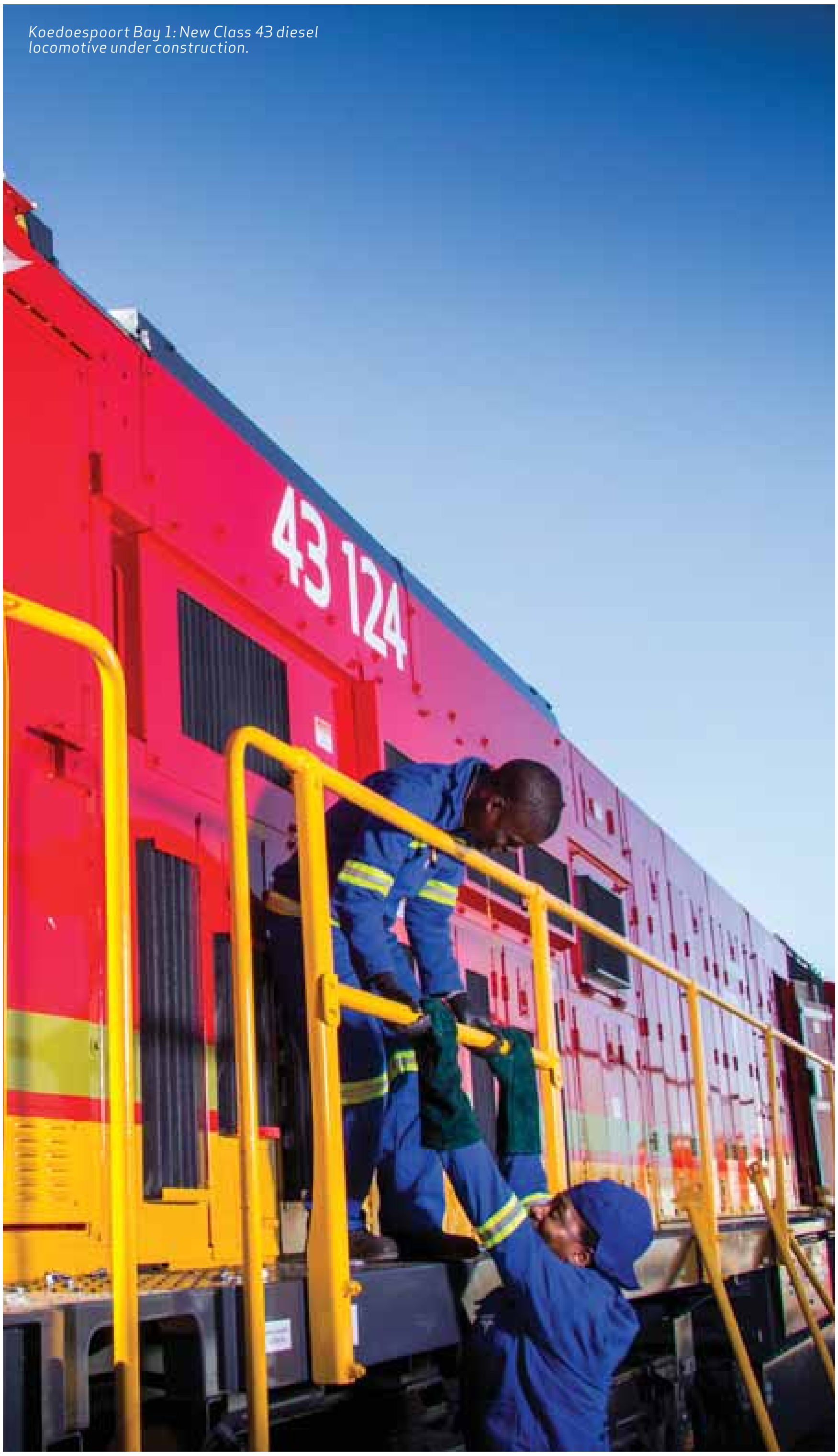
^ *Capital expenditure (replacement + expansion) excluding borrowing costs and intangible assets.*

Engineering's revenue increased by 2,2% to R13 353 million from R13 063 million recorded in the prior year. Although revenue generated from Freight Rail sales remained almost constant year on year, Engineering's continued focus on exploiting opportunities in the African market yielded results as external revenue increased by 17,9% from R1 371 million recorded in 2013 to R1 616 million in 2014, notwithstanding a 23,7% decrease in PRASA sales from R645 million in 2013 to R492 million in 2014.

There was a significant upward pressure on input costs during the year. Labour costs increased largely due to an 8,5% salary increase awarded to the bargaining employees across Transnet. Further, material costs increased by 10% mainly due to the rapid prolonged depreciation of the rand against other major currencies. Adding to Engineering's operating costs is its role in supporting the national development objectives as evidenced by R80 million spent on research and development projects and an additional R120 million spent on skills and development training. Despite these costs which increased at a rate far much higher than inflation, net operating expenses increased by only 7,6% during the year, due to effective implementation of cost-containment initiatives.

The combined effect of the input cost increases compounded by pressure on pricing of Engineering's commodities was a 40,0% decrease in EBITDA from R1 474 million in 2013 to R886 million in 2014.

Looking ahead, Engineering plans to increase revenue from R13,4 billion in 2014 to R13,9 billion in 2015.



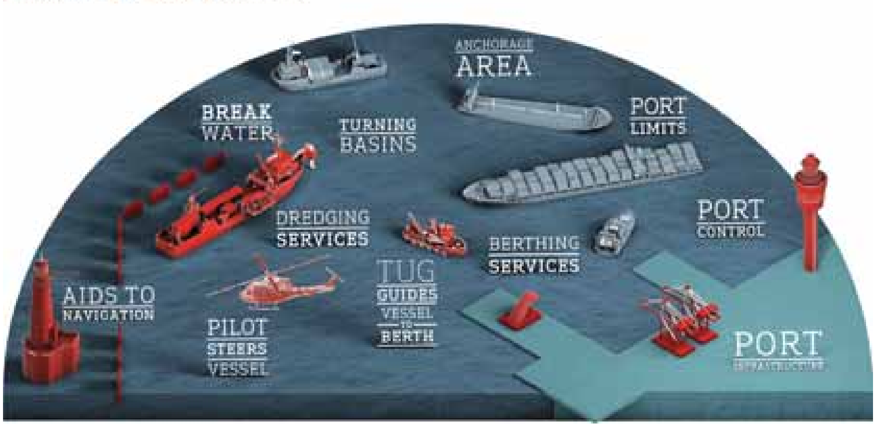
Koedoespoort Bay 1: New Class 43 diesel locomotive under construction.

[IR]
Read more on page 52 of this report.

BUSINESS OVERVIEW AND BUSINESS MODEL

Transnet National Ports Authority (National Ports Authority) operates as a landlord port authority responsible for ensuring the safe, efficient, effective and economic functioning of the national ports system. Its key business activity is to provide and manage port infrastructure and maritime services. In a broader context, the National Ports Authority promotes market collaboration to influence the development of trade and commerce for the benefit of the national economy and the region.

National Ports Authority



The National Ports Authority owns and manages eight commercial ports within South Africa. A ninth port, Port Nolloth, is primarily a fishing port and is utilised by the De Beers Group for mining-related activities. The National Ports Authority's target market comprises port users, including terminal operators, shipping lines, ship agents, cargo owners; as well as the clearing and forwarding industry.

Port infrastructure and maritime services are provided in five market segments, including containers, dry bulk, liquid bulk, break-bulk and the automotive sector. The major commodities handled at the ports include coal, iron ore, containers, automotive, steel, fruit, ferrochrome, petroleum products and manganese. Growth of these commodities is a function of global demand, logistics infrastructure capacity and supply chain efficiencies, which include port efficiencies.

The National Ports Authority's business is organised into two key operational areas, namely: port infrastructure and maritime operations. The port infrastructure segment is responsible for the integrated planning, development and maintenance of port infrastructure. These activities are executed through port development framework plans and capital investment and maintenance programmes.

The maritime business manages marine operations, lighthouse services, dredging services and navigational services. Marine operations encompass pilotage, towage and vessel berthing services, whereas the dredging component is responsible for the maintenance dredging and hydro graphic survey of all ports. The latter entails the dredging of approximately four million metres cubed material every year to ensure ports are dredged to set requirements for the safe passage and navigation of vessels.

The lighthouse and navigational services component ensures that aids to navigation, such as lighthouses and navigational systems, are optimally managed. Currently 45 lighthouses span the South African coastline.

National Ports Authority offers a combination of complementary port facilities and services. Each port has its natural geographic territory with defined markets informing the nature and scope of services, facilities and the types of cargo handled at each port. The business model of the organisation are premised on the Ports Act and the functions of a landlord Port Authority. The core functions of the National Ports Authority, in terms of section 11 of the Ports Act, are as follows:

- To plan, provide, maintain and improve port infrastructure;
- To provide or arrange marine-related services;
- To ensure the provision of port services, including the management of port activities and the port regulatory function at all South African ports; and

- To provide navigation aids to assist the navigation of vessels within port limits and along the coast.

In addition to the above, the Ports Act promotes the development of trade through market collaboration and influence for the economic benefit of the country and the region. In line with this mandate, the Ports Act therefore serves to augment the role of the National Ports Authority in the economy by partnering with all customers and stakeholders including the Ports Regulator. A key role of the Ports Regulator is to regulate port tariffs in a manner that seeks to promote the sustainability and growth of the economy and the organisation. The Ports Regulator also assumes the role of market facilitator on contentious matters relating to customers.

The National Ports Authority has adopted a three-tier strategy which aims to create port infrastructure capacity ahead of demand, improve the efficiency of the port system and enhance the position of ports as integrated gateways for trade.

PERFORMANCE REVIEW AND OUTLOOK

Core initiatives for the year

- Implement marine and terminal operations performance standards.
- Implement an Integrated Port Management System.
- Execute capital programme through the application of the PLP process.
- Execute port infrastructure and marine fleet maintenance programme.
- Execute port maintenance dredging programme for safe navigation of vessels.
- Finalise tariff methodology and pricing strategy.
- Improve customer satisfaction.
- Ensure a safe, healthy and environmentally friendly port system.

Containers being loaded and unloaded at Durban Container Terminal

Overview of key performance indicators

Key performance area and indicator	Unit of measure	2013 actual	2014 target	2014 actual	2015 target
Infrastructure and maintenance					
Capital expenditure (R million)[(a)]	R million	1 698	2 554	1 188	2 369
Volume growth					
Containers ('000 TEUs)	'000 TEUs	4 403	4 611	4 641	4 844
Break-bulk (million tons)	million tons	8,90	10,70	8,72	9,97
Liquid bulk (million kilolitres)	million kilolitres	41,80	42,20	39,28	36,28
Dry bulk (million tons)	million tons	154,60	169,40	159,46	166,97
Vehicles (units)	units	667 266	592 543	692 287	667 333
Productivity					
Anchorage waiting time					
– Durban	average hours	61,00	≤46,00	57,00	40,00
– Cape Town	average hours	53,00	≤35,00	35,00	34,00
– Port Elizabeth	average hours	56,00	≤84,00	25,00	30,00
– Ngqura	average hours	44,00	≤32,00	49,00	45,00
– Richards Bay	average hours	71,00	≤30,00	57,00	80,00
Average ship turnaround time					
– Durban	containers STAT hour	53,00	≤59,00	58,00	57,00
– Cape Town	containers STAT hour	44,00	≤30,00	29,00	30,00
– Port Elizabeth	containers STAT hour	31,00	≤26,00	26,00	26,00
– East London	containers STAT hour	n/a	≤60,00	52,00	60,00
– Richards Bay	containers STAT hour	n/a	≤110,00	70,00	109,00
– Ngqura	containers STAT hour	51,00	≤29,00	44,00	45,00
Dry bulk					
– Coal (RBCT)	hours	n/a	≤47,00	45,00	46,00
– Iron ore (Saldanha)	hours	n/a	≤55,00	47,00	54,00
– Manganese (PE)	hours	n/a	≤69,00	73,00	78,00
Berth occupancy					
– Durban	%	n/a	≤85,00	78,00	70-80
– Cape Town	%	n/a	≤70,00	67,00	60-70
– Port Elizabeth	%	n/a	≤50,00	55,00	55-65
– Ngqura	%	n/a	≤75,00	68,00	70-80

(a) Capital expenditure excludes capitalised borrowing costs and intangible assets.
n/a not applicable.

Key performance area and indicator	Unit of measure	2013 actual	2014 target	2014 actual	2015 target
Berth utilisation (%)					
– Durban	%	n/a	≤80,00	**76,00**	70-80
– Cape Town	%	n/a	≤70,00	**62,00**	50-60
– Port Elizabeth	%	n/a	≤60,00	**51,00**	55-65
– Ngqura	%	n/a	≤75,00	**70,00**	75-85
– East London	%	n/a	≤40,00	**31,00**	n/a
– Richards Bay	%	n/a	≤40,00	**73,00**	n/a
Human capital					
Training spend (% of personnel cost)	% of personnel cost	6,00	8,00	**8,30**	6,90
Employee turnover (%)	%	4,90	0,70	**4,55**	3,00
Employee headcount (permanent)	permanent	3 584	4 409	**3 823**	4 210
Revenue per employee (R million)	R million	2,33	2,50	**2,59**	2,80
Financial value creation					
EBITDA margin (%)	%	67,10	68,20	**67,36**	70,93
Operating profit margin (%)	%	51,90	56,15	**53,70**	57,52
Gearing (%)	%	43,20	32,60	**38,21**	32,07
Net debt to EBITDA (times)	times	3,70	2,20	**2,84**	2,04
Return on average total assets (%)	%	6,90	10,21	**7,97**	10,40
Asset turnover (times)	times	0,13	0,18	**0,15**	0,18
Cash interest cover (times)	times	3,90	4,00	**4,64**	4,72
Risk, safety, health and environment					
Cost of risk (% of revenue)	% of revenue	2,50	2,40	**2,20**	3,00
DIFR	rate	0,25	0,71	**0,17**	0,66

n/a not applicable.

OPERATIONAL PERFORMANCE COMMENTARY

Capital planning and execution

Goals and objectives for the 2014 reporting year

- Achieve 100% spend against the annual budget and maintenance plans for the financial year 2014. Budgeted capital expenditure for 2014 is R2,554 billion.
- Amend and finalise the National Ports Plan (NPP) and key port development action plans and strategies.
- Drive and influence joint capacity planning of ports with rail, road and other logistic partners; as well as customers and stakeholders in the total supply chain to enable optimal infrastructure solutions.
- Monitor monthly maintenance spend and project plans for infrastructure projects at all ports.
- Implement remaining useful life (RUL) initiatives, such as asset inspections. Complete RUL reports for all ports by March 2014. Complete training for RUL Phase 2 by March 2014.
- Execute PLP training to embed the Project Lifecycle Methodology (PLP) for infrastructure capital project management to enhance project quality, cost adherence and timely delivery.
- Monitor monthly maintenance spend and project plans for marine fleets for all ports.
- Conduct maintenance dredging according to planned programmes for all ports.
- Reduce procurement cycle times.

Performance against objectives

- National Ports Authority continued to implement the seven-year capital investment programme of R43 billion. Capital expenditure for the year amounted to R1,2 billion against a budget of R2,6 billion.
- Special Exco sessions were held to further support port plans. The ports of Saldanha, Mossel Bay and Cape Town signed memoranda of understanding (MOUs). Port planners are ensuring joint planning on all strategic integrated projects (SIPs) at provincial, city, and government sessions.
- Maintenance spending for the year remained on track. Actual maintenance, excluding dredging for 2014, was R292,3 million against a budget of R348 million. Dredging for 2014 was R184,2 million against a budget of R253,7 million. The new grab dredger – to be acquired in June 2014 – will increase capacity.
- Final reports were drafted on the remaining useful life (RUL) of wet assets for all ports. RUL training was not completed during the year and will be conducted internally by Group Capital. Transnet's lifting of the moratorium on training will assist the process going forward.
- Port maintenance dredging output achieved for the year was 2 670 600m^3. The new grab dredger to be acquired in June 2014 will assist in increasing capacity and improving output going forward.
- A 'continuous improvement' project was launched during the year to enhance critical internal processes, including procurement cycle times.

LOOKING FORWARD

The following mega projects are targeted for cash flow in 2015 – most span more than two years – and are in different phases of implementation and delivery.

- The Manganese 16mtpa Export Terminal at the Port of Ngqura.
- Reconstruction of the Sheet-Pile Quay walls at Maydon Wharf at the Port of Durban.
- Deepening of the Durban Container Terminal berths.
- Westbank foreshore protection at the Port of East London.
- Implementation of the Automated Mooring System in the Port of Ngqura.
- Installation of fire-fighting equipment at the Tanker Basin at the Port of Cape Town.
- Construction of the common-user berth for coal at the Port of Richards Bay.
- Acquisition of tugs and dredgers for various ports.
- Iron ore expansion Phase 2 berth construction at the Port of Saldanha.

Future initiatives include the following:

- Review and align Port Development Framework Plans (PDFPs) with the Freight Demand Model (FDM).
- Implement the remaining useful life model. Complete the first round of RUL inspections and finalise the methodology. Ensure reliable port infrastructure and record keeping.
- Deliver capital projects as per the approved programme.
- In terms of fleet acquisition, deliver the trailing suction hopper dredger, with construction due to commence in 2014.
- Commence construction on four tugs and deliver two tugs in 2014.
- Complete South African ports maintenance dredging, as per the dredging programme.
- Finalise the port-wide vessel traffic service (VTS) asset management programme. Develop the associated business case and asset management plan.
- Reduce property vacancies to <5% and conclude lease agreements with preferred bidders.

Volumes and customer satisfaction

Goals and objectives for the 2014 reporting year

- Volume targets set out for 2014 were as follows:
  - Containers: 4 611 000 TEUs.
  - Dry bulk: 169 362 000 tons.
  - Liquid bulk: 42 202 000 kilo litres.
  - Break-bulk: 10 731 000 tons.
  - Automotive: 592 543 units.
- Finalise the property portfolio optimisation programme.
- Conclude negotiations on leases with oil majors, aligned with one-year issued licences. Target rental income of R49,2 million.
- Increase the focus on business development and request for proposal (RFP) processes to create commercial and revenue capacity; and track RFP processes for key terminals.
- Promote customer satisfaction by implementing a customer survey action plan to improve the satisfaction index. Improve by 10% in all areas.
- Refine and implement market segment strategies and sector-defined value propositions.
- Develop and implement integrated key account plans for main revenue customers.

Performance against objectives

- Containers performed relatively well with an improvement of 0,65% above target; however the transshipments were below target. Container volumes reached 4 641 000 TEUs against a target of 4 611 000 TEUs.
- Dry bulk performed below target by 5,84% mainly due to a series of incidents affecting the Richards Bay coal line. These included Freight Rail's various derailments culminating in significantly reduced coal volumes and a nine-day power failure at Richards Bay Container Terminal (RBCT) in the beginning of the year, which crippled the coal industry. Further, iron ore performed below target as a result of an ore shortage from the mines and further mechanical challenges experienced at the terminal. Dry bulk volumes reached 159 464 000 tons against a target of 169 362 000 tons.
- Liquid bulk performance was hindered by maintenance shutdowns at the refineries resulting in mainly domestic requirements being serviced, and import and export trade being marginally compromised. Liquid bulk volumes reached 39 278 000 kilo litres against a target of 42 202 000 kilo litres.
- Break-bulk commodities performed below target following on from the previous financial trend, with most commodities being migrated to containerisation. Break bulk volumes reached 8 715 000 tons against a target of 10 731 000 tons.
- Automotive volumes exceeded target by 16,83% with clear indications of increased productivity as OEMs ramped up capacity to meet awarded contracts along with high domestic requirements from rental companies and government departments. Automotive volumes reached 692 287 units against a target of 592 543 units.

- Portfolio optimisation-lease commercialisation opportunities were identified, mainly in Maydon Wharf and Island View precincts, and negotiations are currently underway with tenants. Port vacancies were advertised in all the ports and are 50% filled, with the balance in process.
- Outstanding leases were concluded and updated. A lease management regime framework was developed; and a leasing strategy was completed, together with precinct plans and draft land-use plans.
- RFP processes for key terminals were tracked during the year and the most recent outcomes reflect as follows:
  - The Cape Town RFP is going through a clarification process with two bidders.
  - The RFP for Ngqura Container Terminal was suspended by the DoT and details of the process were requested for follow-up together with a list of bidders.
  - The Ngqura Manganese Terminal project is dependent on the acquisition of land from Coega Development Corporation (CDC). Negotiations are currently underway. The Group Chief Executive has approved negotiations for a 99-year lease with CDC. The RFP will be finalised once the land acquisition is concluded.
- A customer survey was completed and favourable scores were achieved on all dimensions relating to operations and service; infrastructure and capacity; customer relations; business alignment; and knowledge and skills.
- The marketing strategy was completed during the year and implementation is ongoing. The plan was shared with internal stakeholders for alignment and input. The plan was aligned with new business development initiatives and, accordingly, shared with Exco and the port manager. Currently, National Ports Authority is in the process of splitting sector-specific responsibilities amongst regional marketing managers to improve role allocation. Key account management plans are in place and are constantly reviewed and updated regularly.

LOOKING FORWARD

- A new SAP CRM solution will support customer engagement efforts by prioritising productive activity to grow and retain profitable customer relationships. The SAP CRM system is due to be fully rolled out in September 2014 and will enable National Ports Authority to support its customers in an efficient and professional manner.
- The business will continue to facilitate effective supply chain solutions and will identify new commercial opportunities within the value chains of different industries.
- Section 56 process of the National Ports Act will be applied for Ngqura Manganese Terminal (NMT). National Ports Authority will negotiate and finalise the NMT Terminal Operator Agreement and utilisation of Coega Development Corporation land as a stockpile area.
- The intention of the business is to roll out a five-year marketing communication plan and to monitor and evaluate market impact.

Operational efficiency and productivity

Goals and objectives for the 2014 reporting year

- Embed Port System operations.
- Finalise the operational strategy in pursuit of operational excellence.
- Improve safety performance.
- Implement a Port Performance Standards Framework to improve marine and terminal performance including vessel turnaround times.
- Introduce mechanisms to ensure senior oversight of compliance and ports performance, including SHEQ performance.
- Improve customer engagement and alignment.
- Pilotage, tugs and berthing services – monitor and track compliance to set operational targets with strong focus on achieving minimal or no delays.
- Implement a 'validation' exercise to measure port system capacity and efficiency processes to ensure effective and efficient operations.
- Install port operational centres to assist with terminal collaboration and performance oversight.

Performance against objectives

- Formal forums were established during the year at different time horizons to embed Port System operations. These include:
  - Twice-daily performance conferences (mornings and evenings) to assess daily port performance among the ports.
  - Weekly business review sessions, attended by port managers across the ports, to reflect on the previous week and to plan for the week ahead.
  - Monthly Exco meetings with port managers hosted by the COO and attended by port managers and their teams; these Exco meetings precede the OPCO and focus on port business management in general.
- The operational strategy was developed and tactical implementation is underway. A key strategic driver is the quest for operational excellence, with key initiatives, including the implementation of the port operational centres (POCs).
- Visible felt leadership (VFL) was introduced as a mechanism for preventing and managing risks leading to workplace safety incidents, including disabling injury accidents. VFL relies on workplace observation and behavioural correction by managers and leadership. During the year, a total of 3 406 VFL inspections were conducted across the ports. The DIFR reflected a company-wide decrease of 74%, from 0,66 in 2012 to 0,17 in 2014.
- A Port Performance Standards Framework was developed and gave expression to the Terminal Operations Performance Standards (TOPS), which have been completed and are currently being introduced into operations. Quarterly performance reviews have commenced.
- Other port performance standards are covered by the framework and are due to be completed in Quarter 3 of 2015, including:
  - Marine Operations Performance Standards (MOPS).
  - Rail Operations Performance Standards (ROPS).
  - Road Haulers Operations Performance Standards (HOPS).
- Oversight teams, led by senior operations managers, were introduced at the ports to exercise port performance oversight; and to ensure that performance standards and stipulations of operating licence agreements are adhered to. The Precincts Strategy was implemented in Durban, dividing the Port of Durban into five precincts and allocating oversight responsibilities to precinct managers (senior operations managers). Oversight teams include safety and health representatives under the leadership of port managers to monitor SHEQ performance across the ports.
- A terminal partnering initiative was introduced to align and integrate port capacity planning with customer service priorities. The initiative was started in quarter 1 of 2014 and is ongoing, enabling the ports to better position themselves to respond to customer needs. Customers already engaged include Transnet Port Terminals, Bidvest, Grinrod, MOL, Maersk and MSC.
- A capacity model has been developed for each licensed terminal operator to outline design capacity, installed and operating capacity.
  - Performance achievements: Tugs: 1,08 actual versus 1,3 target; Pilots: 0,93 actual versus 1,3 target; Berthing: 1,3 actual versus 1 target.
  - Operational Centres – port implementation plans are in place. Execution currently underway for installation of civil, electrical and IT systems. Durban has been identified as a pilot port with go-live planned for June/July 2014.

LOOKING FORWARD

- Develop and implement Marine Operations Performance Standards (MOPS).
- Finalise and implement Phase 2 of Terminal Operator Performance Standards (TOPS).
- Refine and monitor the effectiveness of capacity simulation and terminal operational oversight reviews.

Human capital

Goals and objectives for the 2014 reporting year

- From an employment equity perspective, target representation of black employees at 76%; and a target of 2% people with disabilities.
- Reduce absenteeism.
- Improve labour engagements.
- Improve B-BBEE scores for the skills development and employment equity pillars.
- Improve recruitment turnaround times.
- Finalise and implement workforce planning to increase capacity to deliver on capital expenditure commitments.

Performance against objectives

- Employment equity improved, with 81% black employee representation against a target of 76%. The target of 2% for people with disabilities was also achieved.
- Absenteeism was managed to below the 3% target.
- A B-BBEE Level 4 rating was achieved.
- The business set a target to improve labour engagements by conducting all meetings as indicated in the Recognition Agreement. Overall, 66% of the meetings were held.
- Improving scores for the skills development and employment equity pillars for B-BBEE proved challenging. The targets for black PWDs was 3%; however, only 1,4% was achieved. The employment of black females with disabilities at 0,5% also fell short of the target of 1,5%. The overall score for the skills development pillar fell short of the targeted 16 points, although the score improved to 13,55 points.
- Recruitment processes were enhanced as the target for a 90-day recruitment turnaround time was achieved with an average turnaround time of 87 days.
- Workforce resource plans based on business needs have been developed and incorporated in budgets.

LOOKING FORWARD

- In the year ahead, National Ports Authority will target the following improvements:
  - Double the pipeline for critical skills, which is currently at 168 (primarily Marine and Engineering skills), with a target of 300.
  - Improve the B-BBEE score by training and recruiting more black females and people with disabilities.
  - Reduce absenteeism to 2,5%.
  - Improve communication and training for the job evaluation process, strategic workforce planning, performance management and recognition programmes.
- The business will implement the following plans and programmes:
  - Talent management action plans and associated talent management programmes aimed at employee levels E-F.
  - On-boarding and induction programmes.
  - A leadership development programme for employee levels C-F.
  - Culture Charter and related programmes.
  - Training programmes for change management and continuous improvement.
  - Implement learnership engagement programmes.

Melvin Pillay, an electrician at Port of Richards Bay

Regulatory and key stakeholder engagement

Goals and objectives for the 2014 reporting year

- Provide professional and effective direction and support to terminal operators, tenants, stevedoring, and all other port users on all National Ports Authority's sites to achieve compliance with the requirements of the National Ports Act in terms of the licences and agreements. This includes compliance oversight audits in conjunction with the licensing teams, as well as security, facilities, maintenance, and terminal performance teams within port operations.
- Conduct Audits of all Terminal Operator Licences and all activity-based licences, which consist of port activities relating to stevedoring, waste disposal, and diving.
- Complete all ISPS audits.
- Prepare and submit the Tariff Application for the 2015 financial year to the Ports Regulator.
- Finalise the Tariff Methodology and Pricing Strategy and submit to the Ports Regulator for approval.
- Draft and finalise National Land Use Plan (LUP) for all ports.
- Finalise the SADC database and map critical stakeholders in the system.
- Finalise the Chamber of Commerce database.
- Complete the Durban Dig-Out Port (DDOP) stakeholder mapping process.
- Monitor progress for the DDOP Youth Centre; Isipingo recreational and waterfront concept; and the Durban BAT centre precinct.
- Appoint supplier development (SD) resources and ensure ongoing progress monitoring.

Performance against objectives

- Terminal operator licences and all activity-based licences are audited on an annual basis commencing on 1 April and ending on 31 March. The first cycle of comprehensive audits was performed, enabling National Ports Authority to establish a baseline for findings. A few activity-based licences were not audited for reasons such as companies' discontinuation of port operations or challenges in scheduling audits with a licencee. Overall, 262 audits were performed nationally, completing 100% of terminal audits, 89% of diving audits, 93% of waste removal audits and 90% of stevedore audits.
- On 13 September 2013, National Ports Authority submitted its tariff application to the Ports Regulator for approval, requesting required revenues of R10 493 million (to fund its capital and operating expenditure), which translated into an average tariff increase of 8,5%. The target was set to ensure this objective was achieved before the start of the new financial year.
- On 28 March 2014, the Ports Regulator made a determination on the tariff application allowing National Ports Authority to recover revenues of R10 674 million, thereby successfully completing this objective within the target framework.
- The finalised tariff methodology and pricing strategy were submitted to the Ports Regulator for approval. Stakeholder consultation was completed by the Ports Regulator. This culminated in the Ports Regulator issuing an Interim Regulatory Manual as a guideline for the preparation of the tariff application for 2015. The objective to finalise the tariff methodology and pricing strategy will be carried forward into the new financial year.
- Regulatory control frameworks (as per the compliance plan) have been created and updated.
- All ISPS audits have been completed.
- Draft Land use plans have been completed.
- The SADC data base has been finalised comprising African Port Authorities, SADC chambers. Critical stakeholders have been mapped in the system.
- The Chamber of Commerce database has been completed and is being updated continuously.
- The Durban Dig-Out Port (DDOP) stakeholder mapping process has been completed, along with FEL1 engagement. FEL2 engagement plans are in progress.

- Port city schematic drawings of the DDOP Youth Centre have been finalised and are awaiting approval. The Isipingo recreational and waterfront concept has been developed and presented to City stakeholders. The Durban BAT centre precinct is progressing well.

  An external consulting company is assisting with SD and B-BBEE progress monitoring.

LOOKING FORWARD

- All audit backlogs will be cleared by the end of April 2014. Results of audits will be followed up so that non-conformances are closed out. Non-conformances will be analysed to identify trends, thereby enabling National Ports Authority to highlight focus areas to be proactively managed.
- National Ports Authority will adopt a graduated and strategic risk-based approach to compliance and enforcement in the future. This approach recognises that breaches of the rules and standards established by the National Ports Act will be effectively and efficiently addressed. It also recognises the roles of both co-regulation, as set out in the legislation it administers; and of engaging with the regulated community to promote voluntary compliance.
- A key focus area for the year ahead, and beyond, will be the preparation of a multi-year tariff application for submission to the Ports Regulator. Submission will be targeted for end-August 2014.
- National Ports Authority will target the finalisation of the tariff methodology and pricing strategy for the end of the 2015 financial year.
- Going forward, National Ports Authority intends to achieve the following imperatives:
  - Fostering industry compliance with, and contribution to, the regulatory framework without imposing undue financial or administrative burdens.
  - Encouraging a compliance culture within the ports system and adherence to regulatory obligations.
  - Promoting a port system that is respectful of industry standards and diligent in responding to community concerns.
  - Creating regulatory certainty and ensuring compliance with regulations and policy.
  - Performing licence oversight audits for safety health and environment (SHE), as well as security and maintenance; monitoring and managing compliance with licence conditions for terminal operators and other port service providers.
  - Implementing baseline rating systems for all audits.
  - Enhancing port performance in terms of the international ship and port facility security code (ISPS).

Safety, risk and sustainability

Goals and objectives for the 2014 reporting year

- Focus on incident management by ensuring a reduced DIFR rating, supported by visible felt leadership (VFL) and behavioural improvement programmes, such as safety leagues (PSL, GSL, ISL).
- Conduct safety oversight audits. Implement a proactive environmental plan, focusing on the following:
  - The Air Quality Management Programme, prioritising the development of an emission inventory.
  - A marine water monitoring project.
  - The management of biodiversity, ballast water, and estuarine, sensitive areas.
  - Implementing ISO 14001 management systems.
  - Waste management.
  - Introducing a sustainability reporting programme.

Performance against objectives

- DIFR of 0,17 versus a target of 0,71 was achieved. Internal safety leagues have been implemented. League rankings are issued monthly and safety league performance is included in monthly reports. Continuous assistance is provided to teams and a bonus points evaluation committee has been instituted to empower teams. VFL has been implemented at all ports and is ongoing.

- 90% of terminal safety oversight audits have been completed.
- Phase 1 of National Ports Authority's Air Quality Management Programme was implemented and emissions inventories were developed and updated with findings from the associated air quality screening and monitoring process.
- The marine water monitoring reports for all ports have been completed and recommendations will be reviewed for implementation.
- National Ports Authority participated in the drafting of the Ballast Water Act. Numerous ports already have ballast water management plans. Durban Port implemented an estuarine management plan. All ports have programmes to control alien plant removal.
- Seven ports received ISO 14001 certification during the year.
- All ports have waste management strategies and plans in place. During the year, waste management plans were further refined and contamination levels were assessed for most identified sites. Numerous sites recycled oil and paper.
- All existing environmental impact assessments (EIAs) have been documented and applications for environmental authorisation were lodged with the Department of Environmental Affairs (DEA) and tracked through regular progress meetings.

LOOKING FORWARD

- Implement a risk culture improvement programme to improve risk governance and reporting.
- Roll out and embed project risk and opportunity management.
- Establish and embed an integrated assurance model.
- Achieve a better 'Cost of Risk' target of 3.
- Reduce the frequency and severity of insurance claims across all portfolios.
- Target a DIFR of 0,66 in 2015 and improve to a rating of 0,49 by 2021.
- Improve performance on golden safety league and encourage visible leadership.
- Implement a health management module at all ports. Assess National Ports Authority health environment and trends for corrective actions.
- Climate change adaptation – complete Phase 2 of climate change impact assessments for port infrastructure with action plans.
- Marine water monitoring – complete two seasons' monitoring. Evaluate results and develop a marine water report.
- Develop ports Air Quality Management Plans (AQMP). Install real-time air quality monitoring station in ports.
- Invest in strategic corporate social investment (CSI) – new South Durban Basin, Port of Mossel Bay, 10 schools in KwaZulu-Natal and North West.

New tugs at the Port of Durban

Building organisational readiness and a high performance culture

Goals and objectives for the 2014 reporting year

- Develop an integrated port management system to serve as an integrated IT platform and provide service to all port users. Implement the system in three ports during the year.
- Develop an ICT Capital Portfolio Management system; and provide appropriate training.
- Implement Management Information System (MIS), Business Intelligence (BI) and LIVE Office. Ensure close-out and post-implementation review of MIS and LIVE office.
- Develop an ICT system solution for integrated customer relations management. Implement the SAP CRM RDS and contact centre solution.
- Implement an effective talent management methodology.
- Develop skills to meet business requirements. Perform a diagnosis of training underspend. Complete 100% of all qualifications on LSO.
- Execute aviation training programmes.
- Close competency gaps through skills development; and update personal qualifications for a credible and accurate competency database. Ensure 100% user training to improve recruitment turnaround. Focus on targeted selection (i.e. at least 75% of hiring managers trained on targeted selection).

Performance against objectives

- The integrated port management system (IPMS) blueprint was completed for all ports as per the project plan, with a few weeks delay on sign-off.
- The capital portfolio system was integrated with the Transnet Group system implementation.
- A process re-work is underway on the MIS and BI reporting protocols and dashboards.
- The CRM project was launched on 11 March 2014 and a service provider was appointed. The contract for the contact centre with SCM governance is still due to be vetted. The delay in formalising the site for Port Operations' head office has delayed the installation of the contact centre.
- The capacity building department trained 57% people with disabilities (PWDs) against a target of 75%. Overall, 53 positions were allocated to graduates-in-training (GITs) against a target of 50.
- The socio-economic investment initiative, 'Technogirl', enabled 200 of an initial target of 100 female learners to receive workplace exposure.
- The new talent management methodology was introduced for employee levels A – D, with the business achieving 96% training success against its 90% training target. A talent conference was held for this group.
- Overall aviation trainees were enrolled into training programmes in February 2014. All have passed module 1 exams, with 10 helicopter pilots passing their CPLs and six engineering trainees progressing well with in-service training.
- Overall, 75% of all qualifications on LSO are complete.

LOOKING FORWARD

- Continue to roll out a fully functional integrated port management system (IPMS).
- Ensure a fully functional operational contact centre and CRM system.
- Execute the training budget and associated bursary programmes.

FINANCIAL PERFORMANCE REVIEW

Operating Division performance

Salient features		Year-ended 31 March 2014 R million	Year-ended 31 March 2013 R million	% change
Revenue		9 917	8 328	19,1
– Containers		3 475	3 319	4,7
– Break-bulk		265	250	6,0
– Dry bulk		902	820	10,0
– Liquid bulk		603	588	2,6
– Automotive		578	517	11,8
– Other		4 094	2 834	44,5
Operating expenses		(3 237)	(2 742)	18,1
– Energy costs		(399)	(353)	13,0
– Maintenance costs		(296)	(276)	7,2
– Material costs		(85)	(75)	13,3
– Personnel costs		(1 767)	(1 472)	20,0
– Other costs		(690)	(566)	21,9
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)		6 680	5 586	19,6
Depreciation, derecognition and amortisation		(1 354)	(1 266)	7,0
Profit from operations before items listed below		5 326	4 320	23,3
Impairments and fair value adjustments		446	108	313,0
Net finance costs		(1 521)	(1 723)	(11,7)
Profit before taxation		4 251	2 705	57,2
Taxation		(1 086)	(779)	39,4
Profit after taxation		3 165	1 926	64,3
Total assets (excluding CWIP)	R million	70 068	63 681	10,0
Profitability measures				
EBITDA margin*	%	67,4	67,1	0,3
Operating margin**	%	53,7	51,9	1,8
Return on average total assets (excluding CWIP)***	%	8,0	6,9	1,1
Asset turnover (excluding CWIP)****	times	0,15	0,13	15,4
Capital expenditure^	R million	1 188	1 698	(30,0)
Employees				
Number of employees (permanent)	number	3 823	3 584	6,7
Revenue per employee	Rand	2,59	2,32	11,6

* *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.*

^ *Capital expenditure (replacement + expansion) excluding borrowing costs and intangible assets.*

Revenue increased by 19,1% to R9,9 billion (2013: R8,3 billion). This increase is mainly attributable to an improvement in volume growth in the following categories:

- Container volumes increased by 5,4% to 4 641 203 TEUs (2013: 4 403 358 TEUs).
- Dry bulk tonnage increased by 3,1% to 159 464 133 tons (2013: 154 644 955 tons).
- Automotive units increased by 3,7% to 692 287 units (2013: 667 266 units).

Net operating expenses increased by 18,1% to R3,2 billion (2013: R2,7 billion), mainly as a result of a 34,0% increase in training costs. The increase in training costs by R0,03 billion is due to the introduction of training in the areas of aircraft maintenance, aircraft avionics, helicopter pilot training, and cadet training.

Energy costs increased by 13,0% to R0,40 billion (2013: R0,35 billion). The cost increase was mainly due to electricity tariff and fuel price increases.

Total labour costs increased by 20,0% to R1,77 billion (2012: R1,47 billion). This increase includes the performance bonus payout.

Direct salaries showed an increase of 12% to R0,85 billion (2013: R0,76 billion). This can be attributed to an 8,5% salary increase and permanent headcount increase of 4,0%.

Other operating costs increased by 21,9% to R0,7 billion (2013: R0,6 billion). The R0,17 billion variance can be largely attributed to rates and taxes.

Accordingly, EBITDA increased by 19,6% to R6,7 billion (2013: R5,6 billion).

National Ports Authority anticipates an increase in revenue of R1,8 billion for 2015; and operating expenses and EBITDA are expected to increase by R0,2 billion and R1,7 billion respectively in the same period.

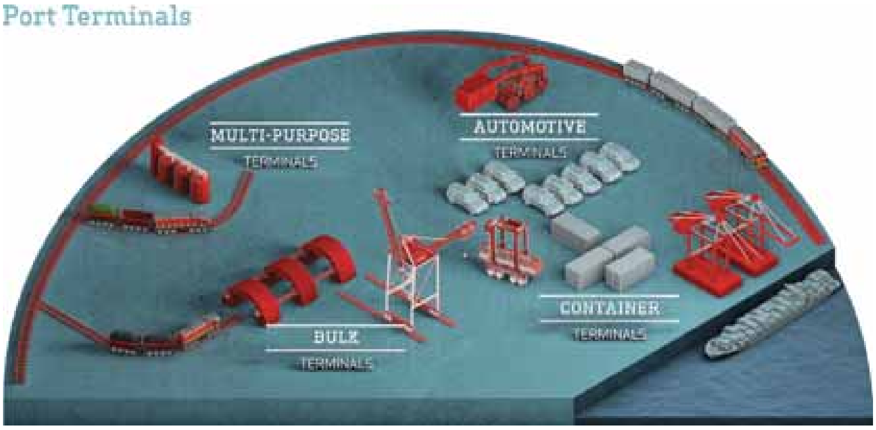
GM Mokoena and Sanele Sithole, cargo coordinators with the car loading vessel in the background

BUSINESS OVERVIEW AND BUSINESS MODEL

With more than 90% of the world's trade (in volume) being seaborne and approximately 98% of South Africa's exports being conveyed by sea, the country's commercial ports and terminals play a strategic role in facilitating trade and economic growth in the Southern African region.

Port Terminals plays an integral role in the logistics chain by providing cargo handling, storage and warehousing services to a wide range of shipping lines, freight forwarders and cargo owners. Operations are divided into four major business segments, namely Containers, Bulk, Break-Bulk and Automotive. Port Terminals manages 16 cargo terminal facilities across seven South African ports with a total staff complement of more than 6 500 employees.

Port Terminals



The South African Government has embarked on a significant infrastructure drive to boost the economy and to alleviate poverty. As part of the MDS, Port Terminals will invest R37,2 billion over the next seven years to maintain and create new terminal capacity, ensuring that its terminals can facilitate projected demand.

The container sector will see the largest expansion, with capacity increasing by 41% from 5,6 million twenty-foot equivalent units (TEUs) in 2014 to 7,9 million TEUs per annum in 2021. The bulk sector will increase its capacity from 93 million tons per annum in 2014 to 99 million tons in 2021, while break-bulk capacity will increase from 15,6 million tons per annum in 2014 to 16,6 million tons in 2021. Automotive capacity will increase by 25% from 787 000 fully built units (FBUs) in 2014 to 987 000 FBUs in 2021.

The fleet of ship-to-shore (STS) cranes in the container sector is planned to increase from 43 cranes in 2014 to 64 cranes in 2021. The number of straddle carriers will increase from 159 to 202; and there will be an increase in the number of Rubber Tyred Gantries (RTGs), from 72 to 140. In the bulk sector, the number of tipplers will increase from six to nine and the number of shiploaders/unloaders will increase from 19 to 21.

Port Terminals' role in the MDS is as follows:

- Enabling 'unconstrained' growth in line with the NGP and NDP, with particular emphasis on capacity expansion.
- Creating world-class operations through the continuous improvement of operational efficiencies.
- Expanding investments in infrastructure and equipment to facilitate growth, taking cognisance of 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 advice.
- Improving logistics for existing and new markets.
- Increasing regional integration between South Africa and Southern Africa's ports and the interconnectivity between ports and rail.
- Developing and executing the maintenance strategy to ensure equipment reliability.
- Refining performance management systems.

PERFORMANCE REVIEW AND OUTLOOK

Overview of 2014 performance

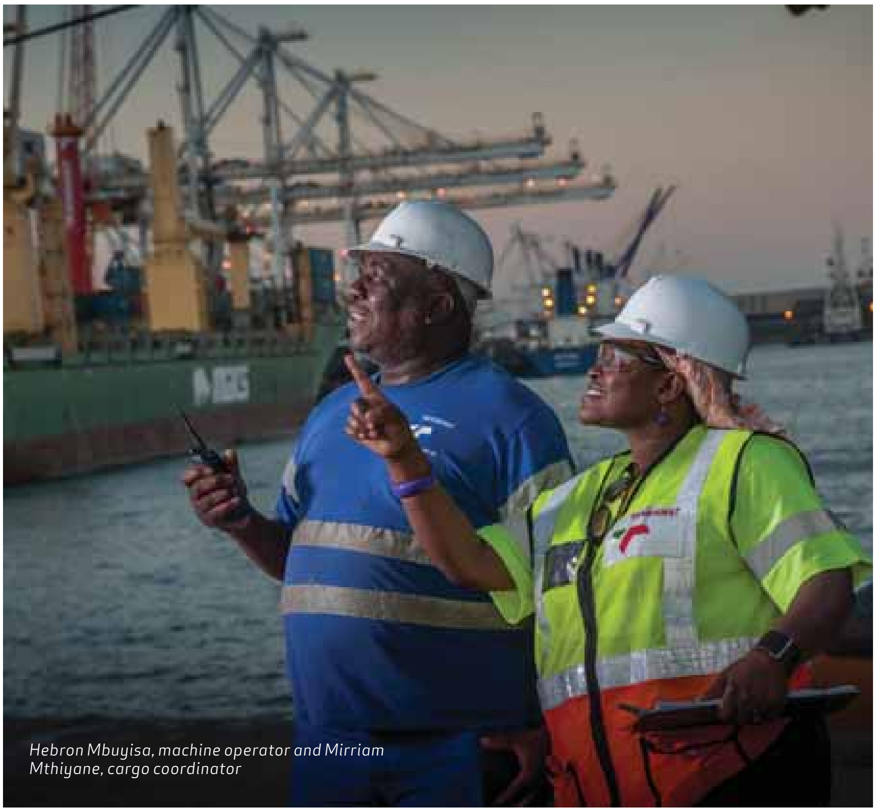
Container volumes increased by 6,3% to 4 503 425 TEUs (2013: 4 236 685 TEUs). There was a 2,0% increase in automotive volumes to 687 799 units (2013: 674 231 units) and a 3,4% increase in bulk and break-bulk volumes to 88,2mt (2013: 85,3mt).

Port Terminals' primary measure of container efficiency, average moves per gross crane hour' (GCH) across all terminals remained fairly stable overall compared to the previous year. The Cape Town Container Terminal improved its GCH from 31 in the prior year to 34 in the current year. Durban Pier 1 improved its GCH marginally from 23 to 24. The Durban Pier 2 GCH decreased from 28 to 25 due to problems experienced with the operational system, inclement weather conditions and teething problems relating to the introduction of the new tandem lift cranes. The Ngqura Container Terminal GCH decreased from 32 to 26 due to capacity constraints relating to landside equipment.

The Dry Bulk Terminal at Richards Bay improved its loading rate to 752 tons per hour from 729 tons per hour in the prior year. The loading rate at the Saldanha Iron Ore Terminal increased by 3,3% from 7 899 to 8 157 tons per hour.

Revenue increased by 15,0% to R8,5 billion (2013: R7,4 billion). Net operating expenses increased by 11,9% to R6,1 billion (2013: R5,4 billion) mainly due to increased personnel costs, energy costs and the increase in land rental and associated rates and taxes.

As a result of the above, EBITDA increased by 23,2% to R2,5 billion (2013: R2,0 billion).



Hebron Mbuyisa, machine operator and Mirriam Mthiyane, cargo coordinator

OVERVIEW OF KEY PERFORMANCE INDICATORS

Operational performance commentary

Key performance area and indicator	Unit of measure	2013 actual	2014 target	2014 actual	2015 target
Infrastructure and maintenance					
Capital expenditure[a]	R million	2 208,00	1 859,00	1 651,00	1 908,86
Volume growth					
Containers	'000 TEUs	4 237	4 600	4 503	4 888
Break-bulk	mt	9,70	10,40	11,16	14,52
Bulk	mt	75,60	84,80	77,06	81,89
Vehicles	units	674 231	593 064	687 799	662 274
Operational efficiency and productivity					
Container dwell time					
DCT – Pier 1					
Imports	days	3,00	≤3,00	2,74	3,00
Exports	days	n/a	≤5,00	4,94	5,00
Transshipment	days	n/a	≤10,00	6,26	10,00
DCT – Pier 2					
Imports	days	n/a	≤3,00	1,86	3,00
Exports	days	n/a	≤5,00	5,42	5,00
Transshipment	days	n/a	≤10,00	8,00	10,00
CTCT					
Imports	days	n/a	≤3,00	2,16	3,00
Exports	days	n/a	≤5,00	4,87	5,00
Transshipment	days	n/a	≤15,00	7,59	15,00
Moves per gross crane hour					
DCT – Pier 1	number	23,00	≥28,00	24,00	26,00
DCT – Pier 2 (prime berths – 108, 203 and 204)	number	28,00	≥30,00	25,00	28,00
CTCT	number	31,00	≥32,00	34,00	32,00
PE	number	27,00	≥27,00	24,00	25,00
Ngqura	number	32,00	≥32,00	26,00	30,00
Container moves per ship working hour					
DCT – Pier 1	number	43,00	53,00	46,00	45,00
DCT – Pier 2	number	62,00	68,00	59,00	62,00
CTCT	number	55,00	55,00	48,00	52,00
PE	number	40,00	45,00	39,00	43,00
Ngqura	number	54,00	55,00	47,00	51,00

Key performance area and indicator	Unit of measure	2013 actual	2014 target	2014 actual	2015 target
Train turnaround time					
DCT – Pier 1	hours	n/a	≤6,00	**3,40**	6,00
DCT – Pier 2	hours	n/a	≤6,00	**4,60**	6,00
CTCT	hours	n/a	≤6,00	**1,70**	6,00
Saldanha***	minutes	n/a	≤105,00	**104,00**	105,00
Richards Bay*	hours	n/a	≤12,00	**9,00**	12,00
Port Elizabeth	hours	n/a	≤12,00	**10,30**	12,00
Truck turnaround time					
DCT – Pier 1	minutes	47,00	≤35,00	**44,30**	35,00
DCT – Pier 2	minutes	32,00	≤35,00	**38,00**	35,00
CTCT	minutes	21,00	≤35,00	**19,80**	35,00
NCT	minutes	33,00	≤35,00	**35,40**	35,00
RB MPT (Bulk)	minutes	26,00	≤35,00	**21,20**	35,00
Loading rate (per hour)					
Saldanha Iron Ore Terminal	tons	7 899,00	8 094,00	**8 157,00**	8 094,00
RB DBT – Loading	tons	729,00	700,00	**752,00**	730,00
RB DBT – Offloading	tons	502,00	500,00	**478,00**	500,00
Human capital					
Training spend	% of personnel costs	2,20	3,10	**3,40**	2,80
Employee turnover	%	4,80	4,70	**3,17**	5,00
Employee headcount	permanent	6 662	7 269	**6 624**	8 340
Revenue per employee (permanent)	R million	1,11	1,20	**1,29**	1,19
Tariff increases					
Average tariff increase**	%	n/a	6,00	**4,60**	tba
Financial value creation					
EBITDA margin (%)	%	26,89	31,00	**28,81**	30,19
Operating profit margin (%)	%	7,81	11,60	**10,45**	12,33
Gearing (%)	%	37,40	42,00	**36,73**	32,05
Net debt to EBITDA (times)	times	2,34	2,41	**2,09**	1,50
Return on average total assets (%)	%	4,40	5,76	**5,35**	8,00
Asset turnover (times)	times	0,52	0,45	**0,50**	0,65
Cash interest cover (times)	times	7,30	4,80	**2,60**	7,96
Risk, safety, health and environment					
Cost of risk (% of revenue)	% of revenue	3,15	3,30	**3,05**	3,30
DIFR	rate	0,45	0,78	**0,53**	0,76

(a) Capital expenditure excludes capitalised borrowing costs, and intangible assets.
** Based on 50 wagon trains.*
*** Container sector. CPI based on BER.*
**** Rake process time inside tippler – Subject to service design review.*
TPT shall report on moves/GCH for the Ports of Richards Bay and East London on a quarterly basis.
n/a not applicable.

OPERATIONAL PERFORMANCE COMMENTARY

Capital planning and execution

Goals and objectives for the 2014 reporting year

- Capital expenditure of R1 859 million was budgeted for expansion (R790 million) and maintenance (R1 069 million) projects. The projects included the acquisition of cranes, RTGs, straddle carriers, shiploaders, surfacing projects and improving employee facilities.

Performance against objectives

- Capital expenditure for the year amounted to R1 651 million. Key infrastructure developments in this period include:
  - Acquisition of 18 RTGs to support four additional STS cranes at the Ngqura Container Terminal.
  - Acquisition of seven tandem lift cranes at Durban's Pier 2 Container Terminal, capable of servicing the latest generation vessels, with a span of 24 containers across the deck. These cranes have the ability to lift 2 x 40 foot or 4 x 20 foot containers in tandem mode.
  - Replacement of 13 straddle carriers at Durban's Pier 2 Container Terminal with the latest diesel-electric technology for improved efficiency and lower running costs.
  - Acquisition of a shiploader and unloader at the Richards Bay Terminal to support the business strategy to increase capacity from 18mtpa to 26,6mtpa over the next seven years.
  - Upgrade of the Berth 108 staff facility at Durban's Pier 2 Container Terminal to cater for additional employees.
  - Completion of Saldanha Phase 1C expansion project to increase capacity to 60mtpa.

LOOKING FORWARD

- Port Terminals will be investing R37,2 billion into port infrastructure over the next seven years from 2015 to 2021.
- In addition to maintaining the existing fleet size and terminal infrastructure, the planned expansionary projects include:
  - The Richards Bay expansion project, which is necessary to create capacity and improve efficiencies at the terminal.
  - The Durban Pier 1 Phase 2 (also known as the Salisbury Island project) expansion project will increase the terminal's capacity by 1 320 000 TEUs, from 680 000 TEUs per annum in 2014 to 2 000 000 TEUs per annum in 2022.
  - Berth 205 at Durban Pier 2 will be expanded with the objective of increasing the terminal's capacity by 400 000 TEUs.
  - The Ngqura Container Terminal will be expanded from 1 500 000 TEUs per annum to 1 850 000 TEUs per annum. This project is necessary to ensure that the terminal is able to capture the transshipment demand.
  - The Saldanha iron ore terminal will be expanded from 60mtpa to 72mtpa in 2020.
  - The Cape Town Container Terminal will be expanded from 1 000 000 TEUs per annum to 1 300 000 TEUs per annum.
  - Capacity will be expanded in the automotive sector in Durban. This investment will increase the capacity of the Durban Car Terminal by 160 000 units, from 520 000 units to 680 000 units per annum.

Volumes and customer satisfaction

Goals and objectives for the 2014 reporting year

- Provide the required capacity to deliver unconstrained demand for logistics services in Southern Africa.
- Increase transshipment volumes by engaging customers to utilise Ngqura Container Terminal as a transshipment hub.
- Develop a pricing structure to support additional capacity creation and increased volumes.
- Enter into volume commitment agreements (eg, 'take or pay' contracts) for certain sectors.

Performance against objectives

Containers

- While the container sector reflected a year-on-year growth of 6,3% on the previous year, volumes were 2,1% below budget with imports, exports and transshipments at 2,9%, 1,7% and 1,5% respectively. The year was particularly challenging for the container sector due to unfavourable global and local market conditions. Further, the weakening Rand facilitated the export market.
- Transshipment traffic to South Africa was unfavourable compared to budget, as shipping lines changed their shipping routes to direct calls to reduce their operating costs. The loss of the West Africa transshipments from a key customer at the Ngqura Container Terminal significantly impacted transshipment volumes.
- Durban volumes were negatively impacted by teething problems associated with the newly purchased tandem lift cranes, as well as the berth 108 outage, due to scour protection by the National Ports Authority. Further challenges included delays due to repairs to safety critical areas, such as stack and pavement rehabilitation; as well as the mid-life refurbishment of the Liebherr cranes at Pier 2, which commenced in quarter 4 of 2014; and the loss of a feeder service to Mozambique.
- The year started on a positive note but volumes faltered in May with delays in berthing vessels resulting from difficulties with the Navis post-upgrade system. The injection of the West Africa volumes into Ngqura Container Terminal in the first half of the financial year resulted in volumes exceeding the terminal's capacity, leading to berthing delays, particularly for feeder vessels.

Bulk

- Notwithstanding the bulk sector reflecting a growth of 1,9% on the previous year, volumes ended the financial year at 9,2% below budget with imports being 1,5% above budget and exports 10,2% below budget. Industrial unrest in the mining sector was a contributing factor to lower mineral bulk products.
- Coal budgeted for at East London did not materialise due to customer-related cash flow challenges.
- Iron ore exports were 8,4% below budget partly due to supply challenges at the mines as well as a slowdown in demand as a result of the economic recession. Eskom outages impacted volumes in the first quarter; and volumes in the Saldanha Iron Ore and Port Elizabeth Manganese terminals were adversely impacted by a slow recovery after the planned maintenance shutdown.
- The 1,3% shortfall in manganese volumes at Port Elizabeth was compensated for by 450 000 tons moving through Port Elizabeth Multi-Purpose Terminal (MPT) via a skip operation.
- Coking coal imports were 11,8% below budget due to lower demand.
- Chrome ore exports at Richards Bay Bulk Terminals were 7,6% above budget due to an increase in demand.

Break-bulk

- The break-bulk sector reflected a growth of 15,1% on the previous year. Volumes performed at 7,2% above budget with imports at 18,4% above budget and exports at 3,8% above budget.
- The manganese skip operation contributed positively to the break-bulk volumes. The import of windmills in Saldanha MPT and Project cargo at Durban MPT also had a positive impact on break bulk volumes. A manganese

skip operation was started successfully at Saldanha MPT in February 2014, with 90 000 tons handled in the last two months of the 2014 financial year.

Automotive

- The automotive sector reflected a growth of 2% on the previous year despite two strikes in the year.
- Volumes performed at 16% above budget with imports and exports being 18,3% and 14,6% above budget respectively, while transshipment volumes were 30% below budget.
- The Eastern Cape terminals made a strong recovery in quarter 4 of 2014 following the re-tooling closure of a key customer and another customer's cut in production due to lower local demand and increased global competition for distribution.

LOOKING FORWARD

- The Port Elizabeth skiptainer operation is a new export channel with 560 000 tons budgeted for the 2015 financial period, which will help boost the Port Elizabeth container volumes and revenues.
- The loss of transshipments at Ngqura Container Terminal poses a challenge in achieving the 2015 budget. Discussions with the customer are in progress to regain these volumes or secure additional alternative transshipment volumes.
- Iron ore volumes are expected to remain stable. Manganese volumes in Port Elizabeth will be constrained due to increased customer allocation; however, Port Terminals is creating capacity at the Saldanha MPT to handle manganese via skip and skiptainer operations for future years.
- Plans are in place to increase cement volumes for the new financial year by securing a national cement contract for key customers. Warehousing space constraints posed a challenge for the storage of this commodity during the year. Accordingly, back of port operations are being investigated to mitigate this risk.
- Capacity constraints at the Durban Ro-Ro terminal are impacting further growth in this sector. Growth in the auto sector is expected to slow down in 2015 due to the current economic climate. In 2017 volumes are expected to be adversely impacted by a customer's planned shutdown for re-tooling and upgrades to the plant.
- Overall, volume growth and increased market share are primary business imperatives for the year ahead in line with achieving the MDS objectives. The business has been structured towards high level performance efficiencies to improve customer satisfaction, which will in turn support anticipated economic growth.
- Innovation projects will be implemented through the use of technology to ensure that information is available for faster decision-making, thereby further enhancing service offerings.
- Through the ground-breaking value chain coordination project, a decision has been taken to develop joint operation centres (JOCs) in key commodity flow locations such as Durban, Richards Bay, Saldanha and Port Elizabeth. The JOCs will provide supply chain logistics visibility to all customers, thereby decreasing lead time from pit to port.
- The establishment of a national planning centre, with particular focus on the container sector, will ensure that South African ports continue to be attractive to all shipping lines. Port Terminals intends to promote and facilitate efficient cargo movement, thereby enabling shipping lines to save more with slow steaming and more predictable berthing schedules, resulting in decreased demurrage costs.
- Port Terminals will be establishing a fully fledged transshipment unit in 2015. A focused approach is required to provide a synchronised service to this specialised market segment. With transshipment volumes growing by 16,6% between 2012 and 2014, Port Terminals will continue to play a significant role in the repositioning of goods across the African continent and the world at large in support of the Global Strategy.
- Port Terminals will optimise port land utilisation, and deploy advanced technology and equipment in operations in order to increase capacity across all terminals. This will be a key focus area to ensure that capacity is created ahead of demand.

Operational efficiency and productivity

Goals and objectives for the 2014 reporting year

- Maintain container dwell times below targets for all terminals.
- Achieve GCH of 30 moves per hour at Durban Pier 2 and 32 moves per hour in Ngqura and Cape Town.
- Improve train turnaround times at all terminals, particularly in Richards Bay.
- Improve loading rates at Saldanha.
- Focus on DCT Pier 2 and Richards Bay to improve efficiencies.
- Implement maintenance strategies across business segments to improve productivity.
- Target average truck turnaround times to below 35 minutes for container terminals.

Performance against objectives

- Container dwell times were maintained below the targets at all terminals during the year.
- The new tandem lift cranes have not yet achieved the desired GCH at Durban's Pier 2 Container Terminal (DCT Pier 2) due to a variety of teething issues, including electronic and mechanical problems.
- Train turnaround time remained consistently below target at all terminals.
- Saldanha loading rates have improved and current norms are consistently above the targeted 8 094 tons per hour mark.
- A shortage of operational gangs[1] at DCT Pier 2 impacted the terminal's ability to operate effectively. Additional resources have been employed and are currently being trained. On completion of training, the terminal will be able to operate 13 cranes simultaneously.
- The average truck turnaround time for container terminals was 32,4 minutes.

1 *A 'gang' is a team of people who operate a crane and all its supporting equipment, including operational processes.*

LOOKING FORWARD

- An electronic system is being explored whereby a 'pre-advise' alert will be sent to the trucking company by way of an electronic data interchange short message system (EDI-SMS) to pick up a container as soon as it becomes available. This is expected to reduce dwell time.
- External engineers are being deployed on site at DCT Pier 2 to resolve the electronic and mechanical problems so that the tandem lift mode can be utilised.
- GCH is expected to be maintained above the norm of 32 moves per hour at the Cape Town Container Terminal with the addition of two new cranes in July 2014.
- Ship Working Hour (SWH) is expected to improve at the Ngqura Container Terminal when the four additional STS cranes become fully operational in June 2014.
- The average SWH will increase from 48 to 51 in 2015 and up to 55 in 2021.
- New Rail Gantry Cranes are expected to improve the train turnaround times at DCT Pier 2.
- Richards Bay and Port Elizabeth are expected to keep train turnaround times at 10 hours.
- Loading rates at Richards Bay are expected to improve significantly due to the following:
  - The capital expenditure of R100 million, which has been set aside to restore the plant.
  - New quayside equipment (ship-loader and unloader) which were commissioned in 2013.
- Truck turnaround time is expected to be maintained below the industry norm of 35 minutes. The implementation of a mandatory truck booking system in Durban and a new staging area for Pier 1 is expected to contribute towards the optimum turnaround of trucks.

Human capital

Goals and objectives for the 2014 reporting year

- Increase permanent headcount to 7 269 employees.
- Improve Port Terminals' B-BBEE scorecard rating.
- From an employment equity perspective, target 35% female employees and target of 2% people with disabilities.
- Target representation of black employees at 76%.
- Ensure that investment in critical skills is protected.
- Ensure contingency plans for important resources.
- Provide an efficient and effective recruitment service by improving recruitment turnaround times.
- Re-orientate and build stronger labour relationships with the aim to build harmonious relationships and decrease industrial action.
- Develop and implement a national Employee Care initiative.
- Establish and mobilise the People Transformation Unit to change the culture of operations by realigning employees' vision with the strategic intent and values of the organisation.
- Develop and roll out the People Transformation project (such as 'mission directed work teams').

Performance against objectives

- Headcount decreased from 6 662 to 6 624 permanent employees while revenue increased by 15,0%.
- Port Terminals obtained a B-BBEE rating of Level 3 with 84,88 points, marginally less than the Level 2 rating of 85 points.
- Female employees represented 24% of the workforce.
- People with disabilities represent 1,1% of the workforce.
- Employment equity (EE) targets were exceeded with black employees representing 81,7% of the total workforce.
- Port Terminals implemented retention plans for critical skills for 3,7% of employees, against the target of 4,7%.
- Port Terminals continued to develop succession plans for important resources during the year.
- Recruitment turnaround time, which measures the implementation of gangs[1]' recruitment and training according to plan, is currently at 84 days and within the target of 90 days.
- A National Employee Care strategy was developed in May 2013. The benefits of this initiative include improving employee morale; positioning Port Terminals as an 'employer of choice'; and creating financial awareness amongst employees. The project is expected to take two to three years, depending on construction at the various sites and comprises three pillars:
  - Infrastructure development (staff facilities).
  - Employee Assistance Programme (financial management services).
  - Value-added services to employees (eg staff uniforms).
- The infrastructure pillar of the National Employee Care Strategy will be implemented in two phases. Terminals will pursue 'FEL1' and 'FEL2' of the national strategy while Port Terminals' Capital Projects department will pursue 'FEL3' and 'FEL4' of the strategy.

LOOKING FORWARD

- Port Terminals will continue with initiatives for each B-BBEE pillar to reach a level 2 rating.
- Port Terminals will continue with its implementation of the National Employee Care project in 2015 and 2016.
- A sub-project of the National Employee Care Project, targeted for June 2014, aims to deliver inspirational initiatives to promote high levels of interest, enthusiasm and professional pride among employees (including family members) in terms of their association with Port Terminals.
- Port Terminals will develop and implement a Change Management Strategy in 2015.

Regulatory and key stakeholder engagement

Goals and objectives for the 2014 reporting year

- Roll out the Critical Control Framework and control self-assessments (CSAs) across the business.
- Port Terminals will be gearing towards a bid to operate the Ngqura Container Terminal, as well as the Manganese Terminal in the Port of Ngqura.
- Engage with key stakeholders including employees, the relevant government departments, customers and the local communities where Port Terminals operate.

Performance against objectives

- Port Terminals has developed a Critical Control Framework for the National Ports Act 12 of 2005, the enabling legislation promulgating the parameters within which the terminals operate. The Critical Control Framework and the control self-assessments have been rolled out across the business and aids as a control to ensure compliance with the National Ports Act and the Terminal Operator Licences issued to Port Terminals. Port Terminals was issued with a satisfactory report by Transnet Group Internal Control. Compliance Audits have been conducted internally and by Port Terminals, which further confirmed a satisfactory compliance status.
- Port Terminals has been issued with 19 Terminal Operator Licences with effect from 1 July 2012, except for the Ngqura Container Terminal Operator Licence, which was issued to Port Terminals pursuant to the section 79 directive issued by the Minister of Transport. 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 resuming a competitive process for the licensing of the Port of Ngqura in accordance with section 56 of the National Ports Act.
- There have been frequent and regular employee engagements through the National Business Forum and Regional Business Forums (engaging the Bargaining Units).
- There have been several interactions with the Department of Public Enterprises in agreeing the Shareholder's Compact targets.
- Port Terminals interact and engage with the local communities as and when required (eg community engagement regarding air emissions in Saldanha).

LOOKING FORWARD

- Port Terminals will continue to gear itself towards a bid to operate the Ngqura Container Terminal as a transshipment hub within Port Terminals' group of complementary container terminals, as well as preparing for the bid to operate the manganese terminal in the Port of Ngqura.
- Provide a structured communication platform to raise and track actions with key stakeholders.

Safety, risk and sustainability

Goals and objectives for the 2014 reporting year

- Embed safe practices and behaviours to promote a safety mindset.
- Reinforce a robust safety system to reduce the number and cost of incidents.
- Reduce the cost of risk to below 3,3% of revenue.
- Improve the disabling injury frequency rate (DIFR) to below 0,78.
- Improve Port Terminals' NOSA rating.
- Target 2% energy efficiency compared to the previous year for both diesel and electricity usage.

Performance against objectives

Safety

- There was one fatality in 2014.
- TPT's cost of risk as a percentage of revenue was 3,1% against a target of 3,3%.
- A DIFR of 0,53 was achieved against a target of 0,78. The management of employee health continues to remain a focal point facilitated through the onsite terminal clinics undertaking annual medicals.
- Port Terminals is audited annually by NOSA and the results this year indicated a renewed safety effort. Out of 16 audits, seven obtained a five-star status and nine terminals were rated at a four-star. The average percentage score of the audits increased marginally, from 89,24% in 2013 to 89,72% in 2014.
- Port Terminals remained ISO 14001, ISO 9001 and OHSAS 18001 certified.

Energy, waste and environment

- The electricity efficiency targets were met.
- Diesel efficiency targets were not met due to a number of variables. These include increased volumes and cross haulage earlier in the year and longer travel time for equipment as a result of the outage of berth 108 at DCT Pier 2 in the latter part of the year. These variables will be reviewed in the 2015 financial year.

LOOKING FORWARD

- Port Terminals aspires to achieve a 90% rating in the NOSA audits of 2015.
- The Environmental Management Plan will focus on aligning activities to revised environmental legislation and ensuring the Integrated Safety, Health, Environment and Quality/Railway Safety (SHEQ/RS) Management System remains compliant with international best practice.
- The strategic importance of stakeholder interaction will be explored further in the year ahead giving rise to more inclusive decisions. Compliance with air emissions licence requirements remains a strategic focus for the year ahead; and enhanced monitoring of dust emissions from port terminal activities will ensure negative environmental impacts are minimised.
- Initiatives around water use, waste management and recycling will be fully implemented in 2015 leading to cost reduction, and ensuring sustainable activities. Terminals where housekeeping requires attention will be prioritised to ensure handling practices meet environmental standards.
- In 2015, Port Terminals will work towards minimising audit findings relating to its Energy Management process and build a solid foundation for the ISO 50001 Energy Management System, planned for future implementation.
- Port Terminals will renew its focus on energy reduction, replacement of old lighting technology and reduced energy costs.

Building organisational readiness and a high performance culture

Goals and objectives for the 2014 reporting year

- Target 82,5% for preferential procurement, enterprise development and socio-economic development.
- Achieve a targeted training spend of 3,1% of total labour costs.
- Achieve 100% spend of annual bursary budget of R4,7 million for 2014.
- Target 176 learners for the Youth Development Programme.
- Target 100 learners for learnerships and workplace experience.
- Increase participation in the 'Technogirls' job-shadowing programme.
- Improve programme participation of people with disabilities.
- Transition performance assessments to electronic format (e-Performance system).
- Investigate sustainable localisation opportunities for port equipment.

Performance against objectives

- Port Terminals achieved its target for preferential procurement, enterprise development and socio-economic development.
- Port Terminals exceeded the targeted training spend of 3,1% of total labour costs. This included the training of 805 operators of lifting equipment (OLEs) in sector-specific skills and 111 cargo coordinators.
- Total part-time bursary spend of R6,5 million exceeded the 2014 target.
- A total of 346 artisans were assessed, as per the Artisan Agreement.
- The Youth Development Programme exceeded the target, achieving an overall intake of 222 learners (engineers-in-training, apprentices and technicians-in-training), including 20 graduates-in-training. Port Terminals also exceeded its targets for learnerships and workplace experience with the enrolment of 122 unemployed youth on various learning programmes and learnerships.
- A total of 52 'Technogirls' participated in the job-shadowing programme.
- Overall 61 people with disabilities participated in the learnership and graduate-in-training programmes.
- In March 2014 all management levels at Port Terminals received a qualified balanced scorecard residing in the e-Performance system, with all final year performance assessments being conducted electronically.
- Port Terminals began engaging with the Department of Trade and Industry (DTI) to investigate sustainable localisation opportunities for the fabrication of port equipment.

LOOKING FORWARD

- Plans are in place to continuously enhance skills ahead of demand by offering technical, operational and leadership skills programmes. To support capital expansion and maintenance plans, Port Terminals will enhance technical skills by training 70% of artisans; implement an accelerated artisan development programme; as well as roll out the Government Certificate of Compliance (GCC) programme.
- Relationships will be strengthened with local service delivery partners, such as the Maritime School of Excellence, as well as international partners such as APEC, Navis and the International Labour Organisation (ILO). The development of women will receive renewed focus through an additional R5 million training spend on special programmes.
- Simulator training, mentorship and on-the-job training will be enhanced through the re-licensing of operators, as required every two years. All terminal


Equipment operation at the Cape Town Container Terminal

executive managers will undergo the Advanced Operations and Productivity Management programme. Customer excellence training, Six Sigma skills and Lean principles courses will also be offered.

- Port Terminals will aim to achieve the following strategic goals in the 2015 financial year:
  - Proactively pursue initiatives geared to support the replacement of retiring employees in critical positions.
  - Accelerate the development of technical and operations skills.
  - Implement retention initiatives for critical skills.
  - Introduce a formal mentorship programme for critical skills.
  - Embed the utilisation of newly implemented automated systems (e-performance and recruitment).
  - Promote Port Terminals as an employer of choice.
  - Embed workforce planning at Port Terminals.
  - Cascade and entrench the newly introduced balanced scorecard methodology among all management cadre.
  - Train and prepare supervisory employees to utilise the automated system.
  - Equip managers to handle and address poor performance.
  - Refine existing incentive schemes to align with productivity targets.

FINANCIAL PERFORMANCE REVIEW

Operating Division performance

Salient features		Year-ended 31 March 2014 R million	Year-ended 31 March 2013 R million	% change
Revenue		8 535	7 424	15,0
– Containers		4 449	4 003	11,2
– Bulk		2 666	2 345	13,7
– Break-bulk		876	614	42,7
– Automotive		544	462	17,7
Operating expenses		(6 076)	(5 428)	11,9
– Energy costs		(520)	(439)	18,4
– Maintenance costs		(306)	(282)	8,4
– Material costs		(358)	(350)	2,3
– Personnel costs		(3 124)	(2 714)	15,1
– Other costs		(1 768)	(1 643)	7,6
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)		2 459	1 996	23,2
Depreciation, derecognition and amortisation		(1 566)	(1 416)	10,6
Profit from operations before items listed below		893	580	54,0
Impairments and fair value adjustments		(216)	(20)	980,3
Net finance costs		(443)	(342)	29,6
Profit before taxation		234	218	7,3
Taxation		(95)	(91)	4,4
Profit after taxation		139	127	9,4
Total assets (excluding CWIP)	R million	17 070	16 261	5,0
Profitability measures				
EBITDA margin*	%	28,8	26,9	1,9
Operating margin**	%	10,5	7,8	2,6
Return on average total assets (excluding CWIP)***	%	5,4	4,1	1,3
Asset turnover (excluding CWIP)****	times	0,51	0,46	12,2
Capital expenditure^1	R million	1 651	2 208	(25,2)
Employees				
Number of employees (permanent)	number	6 624	6 662	(0,6)
Revenue per employee	Rand	1,3	1,1	15,6

* *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.*

^ *Capital expenditure (replacement + expansion) excluding borrowing costs, intangible assets and including capitalised decommissioning liabilities.*

1 *Capital expenditure excludes savings of R222 million, R30 million optimisation and prior year accelerated spend of R134 million.*

The 2014 financial year reflected a positive revenue performance, growing 15% compared to the previous year.

Operating expenses grew by 11,9% year-on-year. The primary cost drivers were as follows:

- An energy cost increase of 18,4% was driven by higher volumes as well as increases in fuel and electricity prices of 21% and 12% respectively.
- Materials and maintenance costs increased by 5,1% due to unforeseen equipment breakdowns.
- Personnel costs increased by 15,1% due to wage increases, incentives and increase in training costs.
- Other operating expenses increased by 7,6%. This was primarily due to the 15,6% increase in land rental from the National Ports Authority. This was mitigated by savings attributable to aggressive cost saving measures targeting discretionary spend and tight cost reduction measures to mitigate the adverse impact of the abovementioned cost drivers.

The EBITDA margin was 28,8%, which is an increase from the previous year's margin of 26,9%.

Return on total average assets (ROTA) is currently at 5,4%. This is a significant increase on the previous year (2013: 4,1%) due to a combination of a higher operating profit and lower capitalisations in the current year.

Revenue growth of 15% exceeded that of the asset base of 4%, indicating more efficient utilisation of the existing asset base.

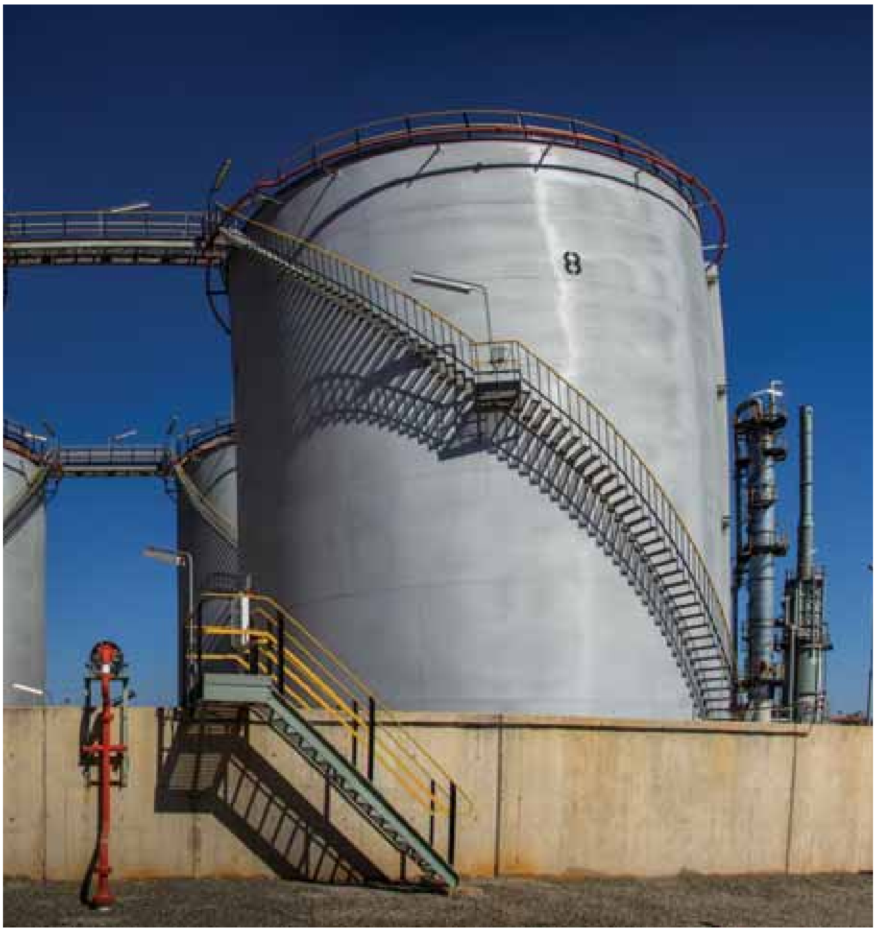
Revenue per employee improved from R1,1 million in 2013 to R1,3 million in 2014. Headcount decreased by 0,6% while revenue increased by 15,0%. This drop in headcount was as a result of the austerity measures limiting recruitment to critical skills and operational employees only.

Port Terminals set out to realise a cost savings target of R153 million through the development of achievable cost saving initiatives. This was achieved through regular tracking and monitoring to ensure effective financial management.

Port Terminals anticipates an increase in revenue of R1,4 billion for 2015; and operating expenses and EBITDA are expected to increase by R0,9 billion and R0,5 billion respectively in the same period. While this is a significant challenge, Port Terminals is committed to utilising its skills base to grow the business by attracting additional volumes.

New quay walls at Cape Town Container Terminal

ABOUT
PIPELINES

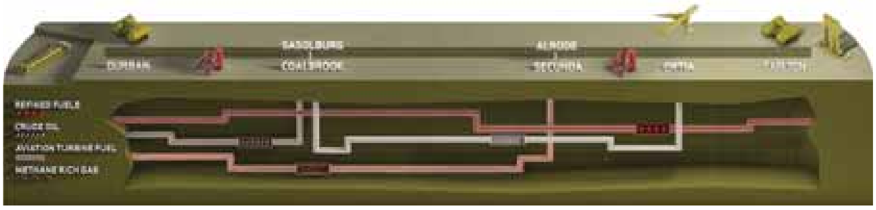


BUSINESS OVERVIEW AND BUSINESS MODEL

Pipelines manages, operates and maintains 3 800 kilometres of high pressure petroleum and gas pipeline infrastructure, traversing five provinces. This infrastructure includes depots, pump stations, workshops, a tank farm and a refractionator.

Pipelines plays a pivotal role in the logistics supply chain by ensuring the safe and efficient supply of petroleum products from coastal refineries and crude oil imports to the inland market. In providing an efficient, environmentally sensitive and reliable medium of supply, Pipelines contributes to lowering the overall cost of doing business in South Africa.

Pipelines



Pipelines' client base comprises Shell, BP, Engen, Sasol, Chevron, Total, PetroSA, AfricOil, Khulaco, GTL Petroleum and Vuyo Petroleum. Products currently transported include unleaded petrol, diesel, jet fuel, crude oil and methane-rich gas. Feasibility studies are currently under the way to assess the compatibility of biofuels with other pipeline products.

Over-border deliveries to Botswana through Freight Rail and road transportation account for 78% of product handled at Tarlton. The refractionator ensures that intermixture (interface) volumes are processed into petrol and diesel. The completion of the coastal and inland terminals will conclude Phase 1 of the New Multi-product Pipeline (NMPP), thereby enabling multi-product transportation in the trunk-line. Following the completion of Phase 1, the decommissioning of the Durban-Johannesburg Pipeline (DJP) will commence. Methane-rich gas is transmitted from Secunda to KwaZulu-Natal for use by industries along the route.

In support of Transnet's role in driving economic growth in South Africa through its Market Demand Strategy (MDS), Pipelines' value proposition will continue to promote an integrated pipeline and rail service, providing an end-to-end, reliable, efficient and cost-effective service for oil companies.

Pipelines will facilitate the Clean Fuels 2 (CF2) requirements in July 2017 and commence preparation for CF3 requirements. Depending on market growth, Phase 2 of the NMPP estimated for implementation in 2021 has the potential to increase capacity from 1 000m^3 to 1 400m^3 per hour.

Looking ahead, Pipelines intends to establish an African footprint by offering technical, operational consultancy and training services to other pipeline companies in the SADC region including Kenya. Pipelines will explore the immediate business opportunities identified in Zambia, Mozambique and Botswana. The strategic expansion of services into the continent supports the South African Government's objective of regional integration for African cooperation and development.

PERFORMANCE REVIEW AND OUTLOOK

Core initiatives for the year

- Increase refractionator utilisation at Tarlton.
- Provide additive dosing at Tarlton for clients.
- Optimise transportation of niche grades of fuel in pipeline.
- Development of personnel and the successfully increase of the headcount to 732 employees.
- Pursue intermodal integration on the three routes with Freight Rail.
- Implement value chain enhancement with clients.
- Ensuring security of supply by maintaining the DJP whilst the NMPP nears completion and successfully operate the NMPP as a full multi-products pipeline.
- Enhance the Africa strategy and use of the TPL School of Excellence.

Overview of key performance indicators

Key performance area and indicator	Unit of measure	2013 actual	2014 target	2014 actual	2015 target
Infrastructure and maintenance					
Capital expenditure[a]	R million	2 799,00	3 268,00	3 377,00	1 865
Actual versus planned maintenance	%	n/a	n/a	n/a	90
Production interruptions	number	n/a	n/a	n/a	438
Volume growth					
Total petroleum products	Mℓ	15 882	16 750	16 583	16 665
Refined	Mℓ	10 432	10 812	10 659	11 118
Crude	Mℓ	4 237	4 901	4 807	4 510
Avtur	Mℓ	1 005	1 037	1 117	1 037
Gas	million m^3	472	561	491	446
Storage	Mℓ	857	879	771	837
Operational efficiency and productivity					
Capacity utilisation (actual usage: capacity)					
DJP and NMPP	Mℓ/week	n/a	n/a	n/a	105:168
NMPP	Mℓ/week	51:84	≥48:84	51:84	n/a
DJP	Mℓ/week	66:82	≥56:68	59:68	n/a
Crude	Mℓ/week	80:134	≥94:134	92:134	87:134
Avtur	Mℓ/week	17:24	≥20:24	20:24	20:24
Gas (actual usage: capacity)	million m^3/month	39:57	39:57	41:57	37:57
Tank turns	times	33	31	27	30
Operating cost per Mℓ.km	R/Mℓ.km	89,0	≤122,0	99,3	129,0
Electricity efficiency	kWh per Mℓ.km	29,0	29,0	27,80	35,70
Service delivery					
'Off spec' volumes (litres per billion litres delivered)	litres per billion litres delivered	541 288	500 000	708 089	450 000
Number 'off spec' delivery events per thousand dockets		0,08	0,53	0,29	0,14
Ordered versus delivered volume	%	100	≥95	99	95
Planned versus actual delivery time	%	77	≥80	82	83
Human capital					
Training spend	% of personnel cost	11,50	8,60	4,93	5,90
Employee headcount	number	627,00	732,00	621,00	761
Employment equity	% of black employees	83,00	83,00	84,00	83
Female employees	% of headcount	30,00	30,00	33,00	32
People with disabilities	% of headcount	2,80	3,00	2,97	3
Employee turnover	%	6,60	6,00	7,55	5
Absenteeism index	%	1,96	1,70	1,67	1,65

Key performance area and indicator	Unit of measure	2013 actual	2014 target	2014 actual	2015 target
Financial value creation					
EBITDA margin (%)	%	76,50	71,60	74,77	68,14
Gearing	%	44,80	50,50	47,45	48,31
Operating profit margin	%	57,20	51,50	54,25	45,64
Net debt to EBITDA	times	4,20	5,53	4,97	6,34
Return on average total assets	%	8,26	6,60	8,60	6,33
Asset turnover	times	0,15	0,10	0,16	0,14
Cash interest cover	times	3,71	1,70	2,17	1,50
Risk, safety, health and environment					
Cost of risk	% of revenue	2,50	3,00	3,27	3,33
Number of petroleum spillages per 1 609km of pipeline	number	17,00	22,00	16,00	16,05
Number of storage spillages per billion litres of storage capacity	number	587,00	498,00	1 174,00	571,43
Number of gas leaks	number	Zero	Zero	Zero	Zero
DIFR	rate	0,81	0,85	0,39	0,75
Number of level 1 non-compliance incidents to operating licence per year	number	Zero	Zero	Zero	Zero
Procurement					
B-BBEE	level	–	3	4	3

(a) Capital expenditure excludes capitalised borrowing costs, intangible assets and includes decommissioning liabilities.
n/a not applicable.
– not available.

Equipment operation (Alrode manifold)

OPERATIONAL PERFORMANCE COMMENTARY

Capital planning and execution

Goals and objectives for the 2014 reporting year

- Enhance the NMPP Steering Committee's focus on monitoring progress against schedules and budgets. Target 91% completion of Terminal 1 (coastal terminal) and 90% completion for Terminal 2 (inland terminal) on the NMPP project.
- Accelerate the execution of telecontrol, security and fire upgrade projects.
- Target capital expenditure for the year at R3 268 million.

Refractor at Tarlton

Performance against objectives

- Due to various project challenges on the NMPP – such as inclement weather, strike action, as well as poor project execution and contract management – Terminal 1 (coastal terminal) achieved 83% completion against a target of 91% completion; and Terminal 2 (inland terminal) is 79% complete against a target of 90%. The preliminary ability to operate date for Terminal 2 is October 2014 and April 2015 for Terminal 1. Terminal 1 dates are dependent on the results of all the hydrotesting of the tanks.
- The Security Upgrade Project to ensure National Key Point compliance and improve security at all depots was divided into five 'clusters'. Cluster 1, comprising eight sites, was not fully completed in the year. The delays in completing cluster 1 were due to contractor performance, which has since been addressed and every endeavour is being made to complete the project. Pipelines completed the design engineering in the fire upgrade project for the first five priority sites. The next project phase will be to execute work at the first five priority sites and to design the remaining 20 sites. Delays in this project are being addressed.
- Total capital expenditure for 2014 was R3 377 million, compared to a budget of R3 268 million, and is mainly attributed to the overspend on the NMPP project.

LOOKING FORWARD

- Successfully complete the terminals within the revised schedule.
- The completion of the outstanding Cluster 1 site and the completion of the eight sites in Cluster 2 of the Security Upgrade Project.
- Execution phase of the five priority sites in the fire upgrade project to commence as well as the design of the remaining 20 sites.
- Complete the telecontrol projects.

Volumes and customer satisfaction

Goals and objectives for the 2014 reporting year

- Target 16 750 billion litres for transportation.
- Increase the transportation of refined products by 3,6%
- Target 15,7% increase in transportation of crude volumes.
- Increase jet fuel volumes by 3,2%.
- Continue to enhance customer-oriented service delivery and customer engagement.
- Liaise with the Government of Botswana to establish needs and continuity of supply at Tarlton.

Performance against objectives

- Total volumes transported were 16 583 billion litres compared to a target of 16 750 billion litres, reflecting a 1% negative deviation. This is, however, an increase of 4,4% compared to the previous year. Refined products increased by 2,2% compared to the previous year, but reflected a negative deviation of 1,4% against budget, due mainly to the slowdown in economic activity and the impact of fuel price increases during the year.
- Although crude volumes increased by 13,5% compared to the previous year, which included a Natref shutdown in October 2012, it was 1,9% below budget.
- Jet fuel increased by 11% on the previous year, and reflected an improvement of 7,6% against budget, due mainly to the batches delivered from the coast.
- A customer satisfaction rating of 81% was achieved which confirms the Company's commitment to excellent service delivery.
- All customers were visited by Pipelines' Executive Committee during the year to understand their business strategy and to present an update of the Business's strategy and progress to date.
- At the operational level, service delivery was continually enhanced through ongoing monthly customer engagements.
- Discussions were held with Botswana to discuss low volumes at Tarlton and to increase the use of this facility.

LOOKING FORWARD

- Target 16 665 billion litres for transportation.
- Increase refined products by 4,3%.
- Maintain customer satisfaction rating of above 80%.
- Implement one point of contact for clients for petroleum transportation in Transnet.
- Target the transportation of niche grade of products (50ppm and 10ppm).
- Increase gas volume throughput.
- Finalise the new conveyance agreement by June 2014.

Tanker loading at Tarlton

Operational efficiency and productivity

Goals and objectives for the 2014 reporting year

- Meet 80% of planned versus actual delivery time.
- Target 104Mℓ/w combined utilisation of the DJP and the NMPP.
- Improve labour and operating costs per Mℓ/km compared to target
- Optimise jet fuel to OR Tambo International Airport (ORTIA) at 20Mℓ/wk.
- Improve on electricity consumption

Performance against objectives

- Pipelines met 82% of all planned versus actual delivery time of orders s placed on the pipeline system.
- Combined utilisation for the DJP and the NMPP was 110Mℓ/w, exceeding the target of 104Mℓ/w
- Labour cost per Mℓ.km improved by 8,3% compared to target.
- Operating cost per Mℓ.km improved by 18,9% compared to target.
- Achieved the target of jet fuel to ORTIA
- Electricity consumption was 4,1% lower than target.

LOOKING FORWARD

- Improve combined utilisation for the DJP and the NMPP by 2,7%.
- Improve on the actual versus planned delivery time of orders by 1,2%.
- Improve on electricity efficiency.

Human capital

Goals and objectives for the 2014 reporting year

- Target an increase of employee headcount to 732.
- Ensure full accreditation for the School of Pipelines and internal courses.
- Develop a workforce plan reflective of the employment equity targets.
- Develop a mentorship and coaching programme.

Performance against objectives

- Permanent employee headcount decreased by 1,0%, from 627 employees to 621. The decrease was mainly due to delays in the recruitment process. Interventions have been implemented to address the recruitment process and to enhance the process.
- The target of 3% for people with disabilities was achieved.
- Female employees represented 33% of the workforce which is an improvement on the 30% target.
- Employment equity (EE) targets were exceeded with black employees representing 84% of the total workforce. An EE Plan has been developed and is in execution which is aligned to NEAP and provincial targets.
- The absenteeism index was on target at 1,7%.
- The School of Pipelines is now fully accredited.
- Pipelines' workforce planning has successfully been embedded informally in the business; however the workforce planning tool needs to be embedded throughout the organisation, especially as the business grows.

LOOKING FORWARD

- Increase the employee headcount to 761 employees.
- Execute training expenditure of 5,9% of personnel costs.
- Execute the Employment Equity Plan and regularly monitor compliance thereto.
- Successfully implement the time and attendance system.
- Execute and monitor the roll out of transformation projects.
- Monitor and enforce recruitment compliance and efficiency.
- Embed the strategic workforce planning tool within the business.
- Execute the skills development plan which includes the women development programme as well as programmes to upskill people living with disabilities and the youth.
- Embed the culture charter values and manage change effectively.

Regulatory and key stakeholder engagement

- Continued adherence with all licence conditions.
- Have regular stakeholder engagements with DPE and DoE.
- Interactions with the Department of Environmental Affairs, and Water Affairs.

Performance against objectives

- NERSA approved an allowable revenue increase of 5,08% for the 2015 financial year, which was lower than the Pipelines application. The difference is mainly attributable to the revised commissioning dates for the terminals. The tariff increase is in accordance with NERSA's tariff methodology.
- Pipelines adhered to all NERSA licence conditions.
- The piped gas and petroleum storage tariff was applied as per the multi-year gas and storage tariff applications approved by NERSA.
- Regular stakeholder engagements with DPE and DoE were held during the year.
- Engagements held with Department of Environmental Affairs and Water Affairs to ensure compliance to legal requirements.
- The Pipelines Air Quality Management Plan (AQMP) was developed thereafter based on the findings of the study. Actions from the AQMP are in the process of being implemented.

LOOKING FORWARD

- Continued adherence with licence conditions.
- Continued adherence with Regulatory Reporting Manuals and NERSA approved tariff methodologies in the filing of Tariff Applications.
- Interact with NERSA and customers on the proposed penalties to be phased in to change customer behaviour and create more certainty on long-term demand.
- Understand SADC regional regulatory universe to facilitate commercial opportunities.
- An air quality specialist has been contracted to undertake air quality monitoring, emissions inventory and dispersion modelling at nine depots for the 2015 period.

The XP type wagon being loaded with fuel

Safety, risk and sustainability

Goals and objectives for the 2014 reporting year

- Maintain Pipelines' four-star platinum NOSA rating.
- Reduce security and vehicle accident incidents; and improve health and safety practices.
- Target an improved DIFR rating of 0,85.
- Prevent spillages and rehabilitate contaminated sites, with a target of 22 pipeline spillages per 1 609 kilometres of pipeline.
- Target 3% cost of risk.
- Establish a biodiversity offset area around the Jameson Park fuel terminal (this area is demarcated by the Lesedi municipality as an environmentally sensitive area and it has protected species. In accordance with Pipelines' EIA approval, the biodiversity offset area must protect the species and area).

Performance against objectives

- Pipelines maintained its four-star platinum NOSA rating with an overall improvement in the effort rating.
- The DIFR rating was 0,39 due mainly to improved health and safety practices and awareness.
- Security incidents decreased from the previous year and were 28% below target.
- Vehicle incidents per million kilometres travelled decreased by 23% and no major accidents were reported.
- Overall, Pipelines reported 16 pipeline spillages per 1 609 kilometres of pipeline for the year which was lower than the target.
- No gas leaks were recorded in the year.
- Cost of risk was above target at 3,27% mainly due to the five leak incidents during the year and the associated environmental rehabilitation costs.
- The biodiversity offset programme is still under discussion with all the relevant stakeholders.

LOOKING FORWARD

- Maintain cost of risk at 3,3%.
- Target a five-star NOSA rating.
- Maintain DIFR rating of less than 0,75.
- Increase servitude awareness programmes to minimise third-party activities within the servitude area.

Manifold in operation at Jameson Park

Building organisational readiness and a high performance culture

Goals and objectives for the 2014 reporting year

- Develop a women development programme.
- Complete the OBML training Programme.
- Develop a Medical Surveillance Programme for Pipelines employees.
- Enhance employee wellbeing programme.
- Improve communication in support of Pipelines' culture charter.
- Design programmes to support employees living with disabilities to enhance their professional competencies.
- Improve capability and capacity building through training and development.
- Enhance employee wellbeing programme.

Performance against objectives

- Key training programmes, including statutory training programmes, were implemented.
- The outcome-based modular learning (OBML) training was successfully implemented during the year and the programme is now well embedded in Pipelines. A new OBML matrix is being been developed to include the NMPP pipeline requirements and is currently under discussion with all roleplayers.
- Performance management and talent management programmes were successfully embedded in the organisation.
- A Medical Surveillance Programme has been developed and implemented for Pipelines employees.
- All risk-based occupational medicals were conducted throughout Pipelines ahead of schedule.
- Health identification risk assessments were conducted throughout all Pipelines' sites.
- Biological monitoring was done for Tarlton, Alrode, Waltloo, Langlaagte, Secunda and Witbank with no abnormalities identified thus far. The programme is being rolled out at all other Pipelines' sites.
- Pipelines' Employee Health and Wellness activities for the year focused on creating ongoing awareness for health risks through the Medical Surveillance Programme, Employee Assistance Programme and Health Risk Assessments, thereby providing a supportive environment for employees to manage identified health risks.
- Employees were introduced to awareness programmes promoting healthy lifestyle conditions; and on-site professional services were provided to personnel in Head Office.
- Pipelines implemented a suggestion box initiative to encourage two-way communication and to identify areas of improvement in support of the culture charter behaviours and values.
- A curriculum was designed to up-skill all Pipeline employees living with disabilities to be more effective in their roles within the organisation. This programme will be embedded in the capacity strategy going forward and will be extended as a 'learnership' requirement for all entry level positions.
- Training expenditure amounted to 4,93% of personnel costs, mainly due to the deferment of NMPP training. All statutory training was completed.
- The ground work for the Women in Pipelines development programme was completed.

LOOKING FORWARD

- Pipelines will launch its own Women in Pipelines development programme in April 2014 and implementation will take between six to eight months.
- Improve on wellness programmes and continue roll-out of medical surveillance programmes.
- Review and embed capacity building strategy.
- OBML matrix is updated for the NMPP requirements and training is rolled out accordingly.
- Executive team to conduct depot visits in order to understand employees needs.

FINANCIAL PERFORMANCE REVIEW

Operating Division performance

Salient features		Year-ended 31 March 2014 R million	Year-ended 31 March 2013 R million	% change
Revenue		3 114	2 829	10,1
– Refined and synthetics		1 600	1 529	4,6
– Aviation fuel		60	60	(0,8)
– Crude		1 039	841	23,5
– Gas		163	86	89,4
– Handling		93	73	27,4
– Other		96	115	(16,5)
– Clawback		63	125	(49,5)
Operating expenses		(786)	(665)	(18,2)
– Energy costs		(206)	(192)	(7,1)
– Maintenance costs		(73)	(49)	(49,4)
– Material costs		(11)	(10)	(8,6)
– Personnel costs		(318)	(275)	(15,5)
– Other costs		(178)	(139)	(28,3)
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)		2 328	2 164	7,6
Depreciation, derecognition and amortisation		(639)	(547)	(16,7)
Profit from operations before items listed below		1 689	1 617	4,5
Impairments and fair value adjustments		(2)	(46)	95,7
Net finance costs		(38)	(298)	87,2
Profit before taxation		1 649	1 273	29,5
Taxation		(482)	(391)	(23,3)
Profit after taxation		1 167	882	32,3
Total assets (excluding CWIP)	R million	19 860	19 458	2,1
Profitability measures				
EBITDA margin*	%	74,8	76,5	(1,7)
Operating margin**	%	54,3	57,2	(3,0)
Return on average total assets (excluding CWIP)***	%	8,6	8,3	0,3
Asset turnover (excluding CWIP)****	times	0,16	0,15	5,6
Capital expenditure^	R million	3 377	2 799	20,7
Employees				
Number of employees (permanent)	number	621	627	(1,0)
Revenue per employee	R million	5,01	4,51	11,2

* *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.*

^ *Capital expenditure (replacement + expansion) excluding borrowing costs, intangible assets and including capitalised decommissioning liabilities.*

Overall performance

Pipelines delivered exceptional financial results for the year, with revenue increasing by 10,1% to R3 114 million from R2 829 million mainly due to an 8,53% increase in allowable revenue granted by NERSA and an increase in refined and crude volumes transported. Net operating expenses increased by 18,2% to R786 million (2013: R665 million) compared to the prior year. This increase is mainly attributable to maintenance cost on the extended NMPP servitude and environmental rehabilitation costs.

The EBITDA achievement of R2 328 million is 7,6% higher than the prior year. These results were attained in a challenging economic and operational environment, demonstrating the operating division's ability to implement most of its strategic objectives, all of which are grounded in Transnet's MDS for 2014.

This performance set the bar high in terms of stakeholder expectations, particularly Pipelines' customers. The positive results of the year's customer survey further validated the Company's commitment to operational excellence in support of the MDS. Going forward, Pipelines will continue to deliver on these expectations, especially in light of the delays in completing the NMPP project.

The objective of providing an end-to-end integrated fuel logistical service to clients is on track, albeit behind schedule due to the complexities associated with the implementation of an integrated IT platform. Accordingly, Pipelines will roll out this integration in a phased approach, with the first phase being the integration of rail services in the supply of jet fuel to ORTIA. This project has commenced and lessons learned in this phase will be applied before future phases are rolled out.

Although inland market petroleum consumption declined by 1% since 2011, Pipelines recorded a 4% improvement in market share in terms of transportation to the inland market area. This is attributed to operational efficiency and the NMPP trunkline's available capacity. Pipelines therefore successfully met its main objective for the year, which was to keep the inland market wet, resulting in no stock-outs.

A review of 20 years of democracy has shown that our volumes transported increased by 26%. Revenue increased from R442 million in 1994 to R3 114 million in the current year. Employment equity moved from 58% black employees and only 6% females to 84% black and 33% female employees in 1994 and 2014 respectively. In the senior management cadre, black employment equity increased from 0% to 100% and in the middle management cadre from 0,3% to 10,3% and supervisory from 1% to 9,5%.

Focus for coming year

In the next year the focus will be in three areas namely:

- Expansion and maintenance of economic infrastructure;
- Growing volumes and improving market share; and
- Enabling regional integration.

Volume growth will be facilitated by utilising the NMPP trunkline as a full multi-product pipeline as well as providing additional service offerings to customers, such as the additive dosing capability at the Tarlton depot; and by making the refractionator available for use by all customers. Pipelines have together with specific customers done trials and implemented the transport of fuels previously regarded as niche grades and not considered for Pipeline transport due to the volume and quality issues. These grades were transported by road and rail only until now. The volumes, although still small are expected to grow as our customers facilities are converted to receive these grades of fuel.

Pipelines and Freight Rail will develop a full supply chain solution for the National Oil Company of Botswana, thereby promoting regional integration. Further, Pipelines will continue to promote and seize opportunities to train and consult on technical and operational aspects of depots and pipelines in the region.

ANNEXURE A

CONSOLIDATED VALUE ADDED STATEMENT

for the year ended 31 March 2014

	2014 R million	Value apportioned %	2013 R million	Value apportioned %
Revenue	56 606		50 194	
Cost of materials and services	(16 338)		(14 636)	
Net operating expenses excluding depreciation, derecognition and amortisation	(32 967)		(29 143)	
– Excluding: personnel costs	16 629		14 507	
Value added by operations	40 268	98%	35 558	98%
Other income	644	2%	651	2%
– Fair value adjustments	264		222	
– Income from associates	14		24	
– Investment and other income	366		405	
Value added/created	40 912	100%	36 209	100%
Applied as follows:				
Employees	17 017	42%	14 758	41%
– Personnel costs	16 629		14 507	
– Post-retirement benefit obligation costs	388		251	
Providers of capital#	5 917	14%	5 545	15%
– Lending institutions	5 917		5 545	
Government	(55)	0%	43	0%
– South African normal taxation	(59)		39	
– Capital gains taxation	–		–	
– Foreign taxation	4		4	
Re-invested to maintain and expand operations	18 033	44%	15 863	44%
– Depreciation, amortisation and impairment	10 843		9 865	
– Deferred taxation	2 019		1 859	
– Net profit	5 171		4 139	
Value apportioned	40 912	100%	36 209	100%

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 238 million (2013: R3 261 million);
- Skills development levy (SDL) R180 million (2013: R176 million);
- Unemployment insurance fund (UIF) R203 million (2013: R184 million); and
- Value added taxation (VAT) R2 851 million (2013: R2 295 million).

Borrowing costs amounting to R1 288 million (2013: R1 053 million) were capitalised.

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

ABBREVIATIONS AND ACRONYMS
(continued)

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 passed 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

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 and reserves.

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.

CORPORATE INFORMATION

Executive directors:

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

Independent non-executive directors:

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

NK Choubey retired from the Board on 25 June 2013.

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.

MDS

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