About this report

Reporting philosophy and approach
Transnet SOC Ltd (“Transnet” or “the Company”) has been an active participant in the International Integrated Reporting Council (IRC) Pilot Programme since its inception and has followed the developments and application of the Integrated Reporting Framework. Our reporting is evolving as the Company’s strategic focus, operational priorities and organisational thinking become more integrated, thereby enabling us to remain strategically aligned with and responsive to stakeholders’ concerns.

Reporting boundary
The 2018 Integrated Report covers the financial reporting period from 1 April 2017 to 31 March 2018. The boundary of this report (Figure 1) encompasses the Transnet Group, its Operating Divisions and Specialist Units. The boundary further extends to include factors that impact Transnet’s ability to create value.

Factors impacting Transnet’s ability to create value
Statement of Strategic Intent
Transnet’s business context and operating environment
Stakeholder concerns
Material risks

Reporting frameworks and guidelines
Primary framework
This report was prepared according to the guidance of the International Integrated Reporting – IR Framework, as adopted by the Transnet Board.

Secondary frameworks, guidelines and standards
This report – read together with the accompanying detailed Annual Financial Statements and Sustainability Outcomes Report – was further informed by:
• The King IV Report on Corporate Governance for South Africa (2016) (King IV);
• The Global Reporting Initiative (GRI-G4) – [General Standard Disclosures];
• The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard prescribed by the Carbon Disclosure Project;
• AA1000 Stakeholder Engagement Standard, and
• Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice.

Integrated approach to assurance
The Board and management have applied Transnet’s Integrated Assurance Plan to the integrated reporting process to enhance the value-creation narrative, and to provide an independent perspective on the transparency and accountability of our disclosures. Our Integrated Assurance Plan encompasses the assurance provided by management, external specialists, internal audit, external audit, external advisers and service providers. The Board serves as the last line of defence.

Statement of stakeholder commitment
We strive to communicate with our stakeholders regularly. Our core values – expressed in our Culture Charter – guide us in our interactions with stakeholders.

To meet stakeholder commitments, we continue to strive for:
• An organisational culture that views change as an opportunity to improve quality in all we do;
• A safe working environment, and an iBELONG culture;
• Customer-centric business innovations, and reliable service offerings presented to customers as ‘One Transnet’;
• Fair, equitable and transparent supply chain tender processes;
• Integrity, communication, diversity, continuous learning, accountability and excellence in everything we do;
• Support for communities where we operate;
• Collaborative relationships with policymakers and regulators;
• Demonstrable sensitivity and care for the environment; and
• Superior returns to our investors as a reliable and credible borrower which, albeit state-owned, issues debt on the strength of its financial position without any Government guarantees.

Transnet Group
Specialist Units
Transnet Group Capital
Transnet Property
Operating Divisions
Freight Rail
Engineering
National Ports Authority
Ports Transnet
Pipelines

Factors impacting Transnet’s ability to create value
Staff
Shareholders
Employees
Customers
Investors and commercial partners
Rating agencies and financial institutions
Suppliers and service providers
Regulators
Government
Media and the general public
Academia and research institutions
NGOs*
International bodies
Communities
Organised labour

*Department of Public Enterprises
**Non-Governmental Organisations
Integrated Reporting Assurance framework

Content
Annual Financial Statements (consolidated and summary)
The review of the annual financial statements identified no matter of material significance.

Assurance providers
- SizweNtsalubaGobodo
- PwC
- KPMG
- Companies Act
- Shareholder’s Compact

Outcome
- Internal Integrated Reporting IRF-Framework

Framework/Standard
- PwC
- KPMG
- Companies Act
- Shareholder’s Compact

Review of internal controls and risk management
The review of internal controls and risk management identified no material matters.

Assurance providers
- Transnet Internal Audit (TIA)
- National Occupational Safety and Health Association (NOSA)
- International Standards Organisation (ISO) accreditation bodies
- Legal firms

Outcome
- Financial controls: Requires improvement
- Operational controls: Requires improvement
- Legislative assessment: Functional risk management and compliance maturity assessment

Framework/Standard
- Committee of Sponsoring Organisations
- ISO 9000
- NDSA standards
- ISO 14001
- Legislative requirements
- Enterprise risk management
- ISO 31100 Standard

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Integrated Reporting (in full)
- Transnet Board
- Audit Committee
- Remuneration, Social and Ethics Committee
- Directors’ approval

Outcome
- International Integrated Reporting IRF-Framework

Materiality in our reporting
The 2018 Integrated Report provides information that we consider to be of material significance in creating short-, medium- and long-term value. We have identified 24 material aspects for the 2018 reporting year and have organised these into six clusters. We are confident that the report provides information that is material and transparent, and includes all stakeholders’ interests and requirements for making informed assessments of our performance and our ability to create and sustain long-term value.

Read more
- The impact and relevance of material issues
- Process for identifying, validating and approving material aspects

Qualified opinion
The external auditors issued a qualified opinion relating to the completeness of the identification and reporting of irregular expenditure, including a material uncertainty relating to the Company’s going concern status in the year under review.

Going-concern status
The Board reviewed the Group’s performance for the year and considered the robustness of budgets and business results, cash flow projections for the 15 months ending 30 June 2018, cost-saving opportunities, the cost of capital projects and related optimisation opportunities, the funding plan and loan covenants

the prevailing difficult economic conditions. Transnet will continue to aggressively pursue specific available project funding areas that are within the parameters of its funding strategy and continue to optimise capital expenditure spend.

Further, the Board does not expect the actions by both rating agencies against Transnet and the sovereign to negatively impact the ability of the Company to access the debt capital markets as both rating agencies have assigned a stable outlook for the Company. Transnet has managed to maintain an investment grade stand-alone credit profile amidst a series of rating downgrades.

Integrating sustainability reporting
The 2018 Integrated Report aims to communicate the full value of the Group and its diverse interdependencies between financial and non-financial information. We have integrated performance information relating to Transnet’s commercial outcomes with that of the nine Sustainable Development Outcomes (SDOs) in our discussion on value creation (p18) and our performance disclosers (p72).

The Board has reviewed Transnet’s sustainability performance disclosures in the 2018 Integrated Report for the year ended 31 March 2018, and the external auditor’s assurance statement issued to the directors on the subject matters contained in the online Sustainability Outcomes Report 2018 available at www.transnet.net.

Read more
- Transnet Sustainability Outcomes Report online at www.transnet.net

Statement of precautionary approach
Our operating context is industrial- and infrastructure-driven, and necessitates occupationally specific training, as well as comprehensive policies and procedures to safeguard our employees, communities within and around our operations, and the public.

Balancing stakeholder interests
We recognise that our keystone expansion projects – such as our large-scale port infrastructure improvement project at the Port of Durban – need to balance the economic benefits for the Shareholder Minister and the country with the social and environmental concerns raised by surrounding communities. Adverse impacts on local communities include the possibility of social and small business displacement and extensive waste generation during the construction phase. We continue to engage project stakeholders to support the most reasonable, responsible and effective implementation of all projects.

Environmental health
- Water
- Waste

Water
South Africa’s water availability and usage is a major challenge for the country. We continue to ensure that water is used efficiently and effectively. Our water resources are carefully managed to maintain the health and productivity of the environment and to support sustainable economic growth.

Waste
Our operations generate a variety of waste materials as by-products and we strive to implement the principles of responsible waste management, i.e. avoidance, reduction, recovery, recycling and disposal. No other use can be found in accordance with the requirements of section 136 of the National Environmental Management: Waste Act. No 59 of 2008, we continue to identify contaminated areas in our operations using scientific methods and visual site assessments. Management plans are developed for areas contaminated by asbestos and hydrosol

Pipeline spills present a challenge for the Company and surrounding communities, and we continue to educate property owners and contractors on safe and responsible work procedures. Remedial activities include re-investigation of sites, excavation of contaminated soil, monitoring of groundwater and back-filling of soil.

Governance and ethics
As a logistics state-owned company, our large infrastructure development projects pose a risk in terms of ethical and transparent procurement practices and rent-seeking behaviour. Our mandate relies on domestic and foreign investment and perceptions of anti-competitive behaviour and corruption negatively impact our reputation, brand and investment sentiment. Given the challenges during the reporting period, we will continue to work towards greater transparency and accountability, enhancing our procurement practices and stakeholder relationships, and refining our Code of Ethics to ensure the protection of all stakeholders’ rights. Refining our governance framework to accurately track and address ethical transgressions remains a priority for Transnet.

Directors’ approval
The Board has applied its collective mind to ensure the integrity of the 2018 Integrated Report and any supplementary information referenced in the report. The Board has considered the completeness of the material aspects addressed in the report, and the reliability of reported performance information presented, based on the integrated assurance process followed.

The Board is satisfied that the 2018 Integrated Report provides a fair representation of the integrated performance of the Company during the year. Further, it has concluded that the report is presented in accordance with the International Integrated Reporting Framework and aligns with the King IV guidelines.

The report also contains Standard Disclosures from the GRI Sustainability Reporting Guidelines.

The 2018 Integrated Report was approved by the Board and signed on its behalf by:

P S Molefe
Chairperson
10 August 2018
Johannesburg

PS Molefe
Chairperson
10 August 2018
Johannesburg

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