Creating value through the capitals

**Financial capital**

The necessary financial resources are identified and raised, and the financial viability and the appropriateness and cost-effectiveness of the capital are ensured. This includes the availability and management of cash and cash-equivalents, financial risk management, and the maintenance of financial discipline. Financial capital is a scarce, valuable, mobile resource that can be allocated to different opportunities. Through the creation of value propositions, we enhance the value of our capital, which can be measured by economic performance指标 such as returns on capital employed, returns on assets, and returns on equity. This is achieved through the implementation of strategy, as exemplified by the Group’s focus on cost control, strategic capital allocation, and the avoidance of non-core business activities.

**Manufactured capital**

We ensure that manufactured capital is available to support the implementation of the strategy. This includes the value creation through infrastructure development, equipment acquisition, and the maintenance of operational capacity. Manufactured capital is also created through the effective management of logistics and transportation systems, ensuring the timely delivery of goods and services.

**Intelectual capital**

The value created for others. Creating value through the capitals

Natural capital

We manage our natural resources, ensure adherence to international and local environmental legislation, and promote sustainable practices. This includes the reduction of waste, the conservation of biodiversity, and the enhancement of ecosystem health. We are committed to promoting the health and wellbeing of our employees, customers, and local communities, and to adopting responsible procurement practices.
**Financial capital**

1. **Inputs**

- Cash and cash equivalents: R5.4 billion
- Share capital and reserves: R14.1 billion
- Long-, and short-term borrowings: R66.2 billion
- Revenue from commodity sales: R18.8 billion
- Non-recurring revenue: R14.4 billion
- Engineering, Property and other revenue: R124.8 billion
- Port Terminals and Pipelines: R122.9 billion
- Value from tariffs: R13.7 billion
- Negative regulatory clawback: R203 million

2. **Structuring our capital**

- Measures acceptable capital and debt structure parameters.
- Optimum utilisation of working capital.
- Measures maximum capital to debt structure (expressed at 10x).
- Maintain cash interest cover of at least 3 times.

3. **Approaches to managing financial capital outcomes**

- Diversify revenue sources.
- Strengthen cost management and cost application (balance capital expenditure).
- Aggressive capital management.
- Generate a return on assets equal to the risk.
- Maximise cost-effective structured funding.
- Take-out or contracts with customers.
- Maintain credit ratings.
- Attract funding for off-balance sheet.

4. **Influences/stakes**

- Risk modelling and management
- Align with the overall capital portfolio (particularly co-dependencies).

5. **Mitigation strategies**

- De-risk capital projects.
- Ensure positive revenue returns (even under market pressure).

6. **Financial value created**

- **Value creation**
  - Sales revenue
  - CAPM 0.6.
  - 6.0% increase of 2018
  - Paramount share price:
  - R86.03

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**Creating value through the capitals**

Our definition of ‘value creation’ is multifaceted. We believe that our performance in the current reporting period is a result of taking a holistic view of all the capitals in order to create value. As we accelerate into the 4th Industrial Revolution, new measures will be required in our decision making. As we comprehend and articulate the ‘trade-offs’ differently, the degree to which we can fully understand, and articulate the upsides and downsides of our choices; stated for others. A measure of the maturity of our organisation.

**Tangible and intangible assets to create and sustain value**

As we aim to share how we connect to and use these assets to create value, broadly speaking, by lowering the cost of business in South Africa. We do not believe in competitive advantage but in leveraging our commitments for the benefit of the country. Through an investment, and expenditure on the continent, in addition to the value generated, it is pertinent that we share how our development of the country through an investment, and expenditure on the continent, in addition to the value generated, it is pertinent that we share how our development of the country.

**Through our integrated reporting, we share our integrated reporting plan**

To share how we connect our capital to the other capitals. Our approach to reporting is to provide a meaningful explanation of the value generated and the outcomes of our strategies in the integrated reporting plan. The report will provide a meaningful explanation of the value generated and the outcomes of our strategies. The report aims to share our commitments, and investment in the country.

**Innovation doesn’t mean much if it doesn’t matter to our customers.**

Disruptive innovation is about doing more for customers than anyone else will.”

Mr Manzi Sithole,
Chief Operating Officer.
Manufactured capital continue

1. Inputs

- Property, plant and equipment R313,4 billion
- Rail tracks 30,400 km
- Petroleum and gas pipelines infrastructure 3,800 km
- Port, rail and pipelines infrastructure
- ICT systems, digital platforms and cloud services
- Information and communications technology (ICT)

2. Key factors impacting manufactured capital

- Capital projects: Deterioration in the macroeconomic environment renders certain infrastructure capital projects unviable. Repurposing capital projects to ensure capital investment affordability
- Delivering rolling stock: Market challenges - Freight Rail to review delivery of rolling stock in line with validated demand
- The current aged fleet is being retired - reduces locomotive capitalised maintenance
- ICT infrastructure: Adapt to rapid advancements in digitisation - explore 3D printing, drone technology, big data and advanced analytics
- Future security models - move from a ‘closed loop’ system to an interconnected networked system with other cloud data centres

3. Approaches to managing manufactured capital outcomes

- A ‘cradle-to-grave’ solutions Specialist Unit (Group Capital) advises Transnet and clients on capacity solutions
- Integrated Capital Projects/Programme > integrated view of the capital portfolio
- TVCC > transparency of projects in the capital pipeline
- Robust business case validation > test project viability
- The Assurance Framework (ICPAF) > augments the assurance and control framework around capital projects
- Programme prioritisation > allocates resources to programmes best aligned with strategy

4. Manufactured value created

- Critical logistics infrastructure to meet national economic growth demands
- Freight Rail - world-class heavy-haul ore export lines transporting a range of general bulk and containerised freight commodities
- Engineering - original equipment manufacturer (OEM) for wagons and becoming a locomotive OEM (in-service maintenance, repair, upgrade, conversion, design and manufacture of various types of wagons, coaches, locomotives as well as equipment, machines and services)
- Port Terminals - operates major port container terminals as critical facilitator of international cargo trade
- Pipelines - strategic in the petroleum products supply chain, ensuring capacity anticipates demand, thus securing inland product supply
- ICT - Electronic enclosures and certain mechanical sub-components - Track-and-trace technology to track port assets, (e.g. tugs and dredgers)

5. Trade-offs manufactured capital impacts on other capitals

- Value
  - Generated from operations
  - infrastructure-intense environment
  - ongoing value in operations
  - revenue from business and equipment usage
  - R89,4 million
  - Total value of revenue generated through waste management initiatives
  - salariat scrap metal
  - responsible corporate citizenship
  - biophenological rehabilitation through waste removal

- 80
  - Running line derailments
  - damage to infrastructure (e.g. trains)
  - loss of revenue on rail paths of coinciding trains
  - cost of infrastructure and equipment maintenance

- 140
  - Shunting derailments
  - damage to infrastructure (e.g. trains)
  - cost of infrastructure maintenance

- 61
  - Safety incidents in operations
  - safety incidents and possible public fatalities
  - safety incidents and possible public fatalities + reputational damage

6. Key outputs

- Transnet concluded a locomotive acquisition contract in 2014 which resulted in the acquisition of 1,064 new locomotives for General Freight and Coal businesses.
- 402 locomotives accepted into operations in the acquisition of 1,064 new locomotives acquired contract in 2014 which resulted in the acquisition of 1,064 new locomotives.
- Transnet concluded a locomotive acquisition contract in 2014 which resulted in the acquisition of 1,064 new locomotives.
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Human capital

1. Inputs
- Skilled and motivated employees as at 1 April 2017 year-end: 58,828
- Responsible governance structure (Governance and Ethics) – Leadership structure

2. Approaches to managing human capital outcomes
- Training and development: improve capability and capacity
- Policies and procedures: improve HR service delivery
- Establish solid labour relationships
- Performance and talent management within Transnet: reward excellent performance
- Embed desired culture and safety behaviours (policies, systems, roadshows, procedures): safety-conscious and responsive workforce
- Develop critical skills and succession planning: achieve long-term strategic objectives

3. Key factors impacting human capital
- Two recognised trade unions represent 81.4% of bargaining unit employees: United National Transport Union (UNTU) and the South African Transport and Allied Workers Union (Satawu)
- Due to recent high retirement rates*, Transnet has improved its race and gender profile: black, coloured and Indian employees represent 86.1% of the Transnet workforce as compared to the NEAP average of 87.7%
- Transnet has a disproportionately high representation of male employees (71.6%) relative to female co-workers (28.4%)
- Female employees have more than doubled in the past 10 years
- Female employees have more than doubled in the past 10 years
- Our remuneration philosophy and framework underpins the human resources strategy

4. Human capital value created
- Total headcount: 55,666 (2017: 58,828)
- Permanent employees: 51,324 (2017: 53,661)
- Non-permanent employees: 4,342 (2017: 5,167)
- Labour cost on skills development: R741 million (2017: R746 million)

5. Trade-offs – Human capital impacts on other capitals
- Training and development: build competencies and collective values around safety, operational excellence and innovation
- Remuneration and rewards strategies: entrench a performance-driven culture which supports productivity and cost optimisation

6. Key outputs
- “Transnet 4.0 offers exciting opportunities to reskill our people, to give them the skills that the future requires of them.”
  Ms Nonkululeko Sishi Chief Human Resources Officer

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*Recent high retirement rates refers to the high number of employees who retired in recent years, affecting the workforce demographics.
Intellectual capital

1. Inputs
   - Research and development (Engineering)
     - Research
   - Standard operating procedures
     - Procedures
   - Policies, frameworks and processes
     - Frameworks
   - Responsible leadership principles and practices
     - Leadership

2. Approaches to managing intellectual capital outcomes
   - Research and development + emerging digital technologies as a key enabler of innovation – Digital Transnet
   - Attract and retain key skills to enable our strategy and add value through innovation
   - Create customer-centric business solutions to enhance customer relationship management and business intelligence
   - Partner with academic institutions to empower growth-oriented entrepreneurs (business education and mentorship)
   - Ensure protection of intellectual capital + copyrights and patents

3. Key factors impacting intellectual capital
   - Rapid decline in revenue from traditional markets
     - invest heavily in achieving OEM status in passenger trains (Engineering)
   - Large investments remain critical in research and business intelligence development + increase revenue in niche markets

4. Intellectual value created
   - Engineering (internationally acclaimed OEM of freight wagons) > our research and innovation hub – expanding its offerings to narrow-gauge operators worldwide
   - Our investment in research and development > leads to an expanding range of rolling stock products designed to suit various area-specific conditions

5. Trade-offs – Intellectual capital impacts on other capitals
   - Learning from the traction motor prototype used to manufacture full-scale prototypes
     - New infrastructure equipment
     - Building and selling new product lines
     - Developing learning and innovation
     - Explores more skills as production grows
   - The Condition Monitoring System (CMS) tracks stationary and mobile assets
     - Improved maintenance of equipment
     - Saving on repair and maintenance
     - Better diagnostics
     - Improved decision-making
   - Our real-time Advanced Data Analytics and Machine Learning platform (IRIS) enables predictive maintenance, which improves reliability and productivity
     - New infrastructure equipment
     - New products and services + new revenue streams
     - New skills and innovation
     - Repositioning as world-class rolling stock OEM

6. Key outputs
   - Transnet’s first in-house designed traction motor
   - Transnet’s first in-house designed CMS using satellite, 3G, WiFi and GPS for real-time condition monitoring of stationary and mobile assets
   - Transnet’s first in-house designed IRIS
   - Transnet’s first standard gauge wagon bogie – currently undergoing manufacturing
   - Transnet’s own port hauler, which is a truck-like vehicle for the ports
   - Deployed an in-house developed commissioning tool for locomotives (TransAfrica Locomotive) – an application to connect to Transnet’s in-house designed control system for advanced diagnostics and monitoring

“Even with the best infrastructure, if our people and our thinking are not aligned, the customer will not reap the benefits.”

Mr Gert de Beer
Chief Business Development Officer

Operate as a multi-faceted, manufacture-driven, service-led Company in the 4th Industrial Revolution + our research and innovation hub – expanding its offerings to narrow-gauge operators worldwide

Some existing skills may be replaced by technological innovations + balance our requirement for specialist technical advancements and our mandate to create and sustain broad-based employment for the Company and the wider economy + maintain this balance by investing in upskilling of people and appropriate redeployment of skills

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Social and relationship capital

1. Inputs
- Transaction relationships with customers and suppliers
- Constructive and equitable engagements with Government and regulators
- A positive relationship with employees and organised labour
- Proactive interaction with communities, citizens, institutions, media and pensioners
- Collaborative relationships with the Shareholder and funders

2. Approaches to managing social and relationship capital outcomes
- Reputational value and market visibility
  - Attract vital competencies at all levels of operations
- CSI programmes
  - Provide support for communities within and around operations
- Transnet's supply chain
  - Support manufacturing and services sectors of South Africa
  - Quality of supplier relationships impact customer service
- Overall responsibility for stakeholder engagement rests with the Board
  - Delegates authority to the Group Chief Executive
- Consistent and transparent investor engagements
  - Align collective understanding of value creation and expectations around long-term targets

3. Key factors impacting social and relationship capital
- Our large infrastructure development projects pose a risk in terms of ethical and transparent procurement practices and 'rent-seeking' behaviour
- Transnet relies heavily on foreign investment, and perceptions of anti-competitive behaviour and corruption negatively impact international foreign direct investment
- Sound and ethical corporate governance can attract local and foreign investment and deter unethical business practices that hamper the image of SOCs

4. Social and relationship value created
- Private-sector participation
  - Provide investment into South Africa's freight logistics system beyond levels already committed by Transnet
- Integrated Supply Chain Management (iSCM)
  - Support much-needed national ED
- Transnet Foundation's socio-economic programmes
  - Empower South Africa's rural communities
- CSI initiatives from Operating Divisions
  - Respond proactively to the needs of vulnerable communities surrounding our operations

5. Trade-offs - Social and relationship capital impacts on other capitals
- Partner with private-sector logistics partners
  - Create end-to-end infrastructure logistics solutions for customers and new revenue streams
- Community investment
  - Goodwill created through sound community relationships + responsible corporate citizenship
- Supplier and enterprise development
  - Develop new entrepreneurs in the wider economy
- Transparent and ethical reporting
  - Good corporate citizen + sound reputation management

6. Key outputs
- Total CSI spend R219 million (2017: R234 million)
  - Committed Supplier Development: R63.4 billion (2017: R62.6 billion)
  - Enterprise Development spend: R41 million (2017: R38.6 million)
  - 50 black-owned SMMEs incubated and provided with entrepreneurial skills over a three-year period
- Health and hygiene workshops implemented in seven provinces (2017: nine provinces)
- Ongoing academic support was provided for 52 vulnerable youth (2017: 52 enrolled in our programmes)
- Patients treated at the health, dental, eye, psychology and pharmacy clinics: 157,418 (2017: 173,016)
- Individuals who benefited from community outreach services: 435,332 (2017: 438,807)
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Biodiversity: Mitigate, as far as possible, the adverse impacts of operations on surrounding biodiversity. Where viable, we seek to restore the environment and natural habitats.

Extreme weather conditions: Flash floods lead to washaways and mudslides on major routes, which can increase the severity of rail safety-related incidents (resulting in derailments, asset losses, and even employee fatalities).

Some of our operations have already achieved certification in terms of the EMS ISO 14001:2015 and ISO 14001:2004.

Energy consumption (2018: Increased by 2.9% from 2017)

Energy efficiency improved by 0.9% compared to prior year.

Freight rail traction (constitutes >70% of total Company power consumption) Electrical traction energy efficiency decreased by 1.4%. Diesel traction achieved 2.6% energy efficiency gain compared to prior year.

Energy generated by new locomotives: 262,016 MWh

Asbestos Remediation and Rehabilitation: 929.88 tons of asbestos removed

Used oil reclamation: 202 KL used oil sold

Waste recycling (Inyanda Precinct): 87.7 tons of waste recycled

Safety Waste Management (Port of Durban): 213.59 tons of waste removed

Recycled Waste Management: 336.28 tons removed

Port Terminals Waste Management: 2,872 tons of waste removed

Energy and carbon management is Transnet’s primary focus in its environmental stewardship. The Company has realised significant gains in energy efficiency and reduced carbon emissions in recent years.

Accelerating the modal shift from road to rail is a flagship carbon mitigation programme for South Africa. As owner and operator of the country’s rail freight network, Transnet commits to increasing rail market share to 35% by 2019, and to demonstrate the carbon emissions savings achieved annually through its growing market share.

We need early-warning systems to monitor emerging risks, particularly ecosystem health and, by extension, impacts on human health. We owe this to our staff, communities and future generations.”

Ms Nonkululeko Sithi Chief Human Resources Officer

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