

MANAGING OUR STAKEHOLDER RELATIONSHIPS

Engaging our stakeholders

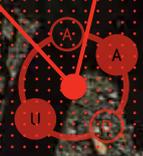


Our stakeholder engagement practices are key success factors in achieving our strategy, and form part of the boundary and scope of our Enterprise Risk Management Framework. Our stakeholders influence our brand equity, and they work collaboratively alongside us through shared and sustainable values.

Our first priority in creating value through (and in partnership with) our stakeholders is to ensure that we manage our stakeholder relationships ethically and accountably. We do so through various governance mechanisms, including our Stakeholder Engagement Policy and Process Control Framework.

The Stakeholder Engagement Policy specifies the norms and values that guide Transnet's stakeholder relations and establishes a systematic approach to the management of Transnet's stakeholder engagements across the Company.

30% improvement in customer satisfaction



Material stakeholder interests impacting value creation

The Shareholder: The Department of Public Enterprise (DPE)

- Our Shareholder mandates us to deliver on the National Infrastructure Plan through responsible capital investment, thereby enabling the competitiveness, growth and development of the South African economy. We achieve this through the reliable delivery of transport logistics infrastructure and handling services.
- As Transnet's sole shareholder, the DPE is concerned with Transnet meeting its performance targets, as agreed in the annual Shareholder's Compact, which relate to commercial and developmental performance outcomes as enabled through the MDS. These outcomes span all six capitals.

How we engage

- Regular scheduled engagements between the Minister and the Board Chairperson.
- Quarterly bilateral and issue-specific meetings between the DPE and Transnet's executive management.
- Detailed quarterly reports submitted to the DPE on the Company's performance against targets.
- DPE is involved in Transnet's annual infrastructure capacity planning.
- Strategic engagements between the DPE and Transnet management inform the development of the annual Corporate Plan.

Material interests

- Outcome-based approach – risk management, performance management
- Policy and regulatory uncertainty
- Shareholder's Compact
- Strategy execution
- Reduction of cost of logistics
- TE sustainability
- Transnet integrated approach
- Jobs and community development
- Supplier and Enterprise Development
- Engagements with communities and Government
- Disposal of properties in line with Government policies
- Timeliness of reporting
- Health and environmental hazards
- Reduction of safety incidents

Investors, commercial partners and credit rating agencies

- Key sources of funding to support Transnet's business activities.
- The global economic situation is putting increasing pressure on public-sector funding. Innovation through commercial partnerships is an essential mechanism for maintaining the quality and scope of services while reducing costs.
- Credit rating agencies assess Transnet's creditworthiness. Transnet has a standalone investment grade and raises funds on the strength of its balance sheet and receives no funding or guarantees from the fiscus.

How we engage

- Quarterly investor briefings
- Roadshows
- Bi-annual reporting
- Commercial networks and business interactions

Material interests

- Liquidity and sustainability
- Capital project execution
- Volumes and efficiencies
- Impact on the community
- Policy and regulatory uncertainties

Customers

- Contribute to our revenue through their use of Transnet's rail infrastructure to transport volumes.
- Impacted by pricing and tariff structures agreed with regulatory bodies.
- Expect service value commensurate with tariff increases.
- Value is provided in the form of infrastructural enablement and transport infrastructure as well as service support.

How we engage

- Customer-specific operational meetings
- Roadshows
- Seminars and conferences
- Industry networks

Material interests

- Operational efficiency and productivity
- Sharing of long-term plans
- Competitive pricing
- Development of small, medium and micro-enterprises
- Security of goods and services

Material stakeholder interests impacting value creation continued

Employees

- The principal human capital needed by Transnet to enable its business.
- Transnet remunerates employees commensurate with industry remuneration standards and invests in their upskilling and development.

How we engage

- Regular staff meetings and roadshows
- Newsletters
- Staff communiques
- Team building
- Strategic planning sessions

Material interests

- Changes in terms and conditions of service
- Standardisation of processes and operating procedures
- Health and safety of employees
- Involvement in community upliftment projects

Suppliers and service providers

- Provide products and services that span the various capitals.
- Suppliers both impact and are impacted by Transnet's procurement processes and supplier development programmes as well as the contracting terms contained in procurement agreements.
- Ethical conduct.

How we engage

- Monthly and quarterly meetings
- Scheduled supplier summits
- Supplier contracting process
- Electronic supplier communication to assess ease of engagement with Transnet and priority concerns

Material interests

- Transparency of procurement processes
- Information about tendering and contracting
- Information about enterprise and supplier development programmes
- Operational inefficiencies within supply chain management – contract management

Organised labour

- Transnet engages with organised labour through recognition agreements.

How we engage

- Engagement through recognition agreements which provide for monthly and/or quarterly meetings
- Collective bargaining takes place regularly through the bargaining council

Material interests

- Compliance with employment equity
- Increase in wages aligned with inflation
- Problem of unrecognised labour unions
- Gender representation

Communities

- Transnet's activities impact the lives of communities in and around our operations. We actively promote community well-being in and around our operations through the Transnet Foundation.

How we engage

- Regular meetings and workshops
- Communication and engagement campaigns
- Roadshows
- Career expos
- Implementation and management of CSI projects

Material interests

- Socio-economic impact on communities
- Relationships with community representatives
- Cable theft
- Level-crossing safety
- Criminal activities

Regulators

- Tariffs for two of our divisions, the National Ports Authority and Pipelines, are set by the Ports Regulator of South Africa (the Ports Regulator) and the National Energy Regulator of South Africa (Nersa) respectively. Freight Rail is free to set market-related tariffs without economic regulation.
- Sharp escalations in safety permit fees charged by the Rail Safety Regulator are a critical consideration for the Company's revenue planning.

How we engage

- The annual applications processes
- Ongoing meetings and joint planning sessions
- Scheduled strategic planning sessions
- Written comments and workshops

Material interests

- Company performance and pricing strategy
- Security of supply of goods and services
- Regulatory uncertainty
- Impact on the economy
- Payment of permit fees

Government

- Transnet collaborates with both National and Provincial Government departments in the planning and management of freight infrastructure.
- Provincial and national priorities extend to the upliftment of local communities and businesses. Government is invested in Transnet's ability to facilitate employment and business opportunities, particularly for historically disadvantaged South Africans.
- Local Government is concerned with Transnet's management of the Company's property and equipment and the impact of these capitals on surrounding communities and the public. Impacts include the safety within the proximity of Transnet property and equipment, e.g. accidents at level crossings and the theft of equipment, such as cables and other assets.

How we engage

- Regular issue-specific meetings
- Joint planning sessions
- Strategic Integrated Programme co-ordination structures
- Written comments and workshops
- Meetings with a variety of local structures
- Joint planning sessions
- Regular feedback to the relevant Parliamentary Portfolio Committees
- Annual presentation to the Parliamentary Portfolio Committee on Public Enterprises on Transnet's results and Shareholder's Compact performance

Material interests

- Collaboration in planning of freight management
- Alignment with provincial programmes and objectives
- Community development, jobs and supplier development
- Environmental compliance
- Alignment between Government infrastructure plans and Transnet's planning
- Transnet's servitude agreements with landowners
- Crime in and around Transnet properties
- Utilisation of unused Transnet property
- Municipal rail siding infrastructure
- Access to Transnet land, assets and facilities

Non-Governmental Organisations (NGOs) and international bodies

- Transnet partners well-established NGOs to further common conservation or developmental goals through financial, human or infrastructural support for existing initiatives. Other NGOs include those concerned with broad environmental stewardship, animal and biodiversity conservation, and community upliftment in and around Transnet's operations.

How we engage

- Engagement through various associations
- Environmental Impact Assessments consultation processes
- Local CSI projects

Material interests

- Transnet's impact on the environment
- Transnet's impact on the communities where operations are located

Media and the general public

- The print, broadcast and electronic social media are concerned with transparent access to information relating to Transnet's performance, including large-scale economic and developmental achievements and potential failures.

How we engage

- Group and Operating Division media relations
- Online archive of Transnet press articles
- Regular media briefings and press releases
- Communication and engagement campaigns
- Media roadshows
- Participation in sector-specific and trade publications
- When required, engaging through written comments

Material interests

- Perceived lack of transparency and information availability

Academic institutions

- Important contributors to Transnet's research and development initiatives, as well as adding a body of technical skills and capacity to augment the Company's own engineering and project management capabilities.
- Partnerships include joint environmental monitoring activities and projects to address significant techno-disciplinary challenges, such as developing a feeder stream of highly qualified and contributing engineers.

How we engage

- Engagements with academic and scientific institutions based on project interests and requirements
- Formal partnerships with key academic institutions

Material interests

- Collaboration on research, technology and innovation
- Community development

2017 Multi-Stakeholder Perception Survey

During the year, we engaged our stakeholders in a Multi-Stakeholder Perception Survey. The survey was performed telephonically with 150 participants. The sample was collected across six stakeholder clusters: influencers, governing bodies and regulators, investors, organised labour, suppliers and enterprise development. Overall the quality of our stakeholder engagement has improved, with respondents scoring our quality of engagement at 60% (out of 100%), with our ability to meet stakeholder needs at 83%, and our responsiveness to stakeholder concerns at 79%.

Overall strengths identified by participants included:

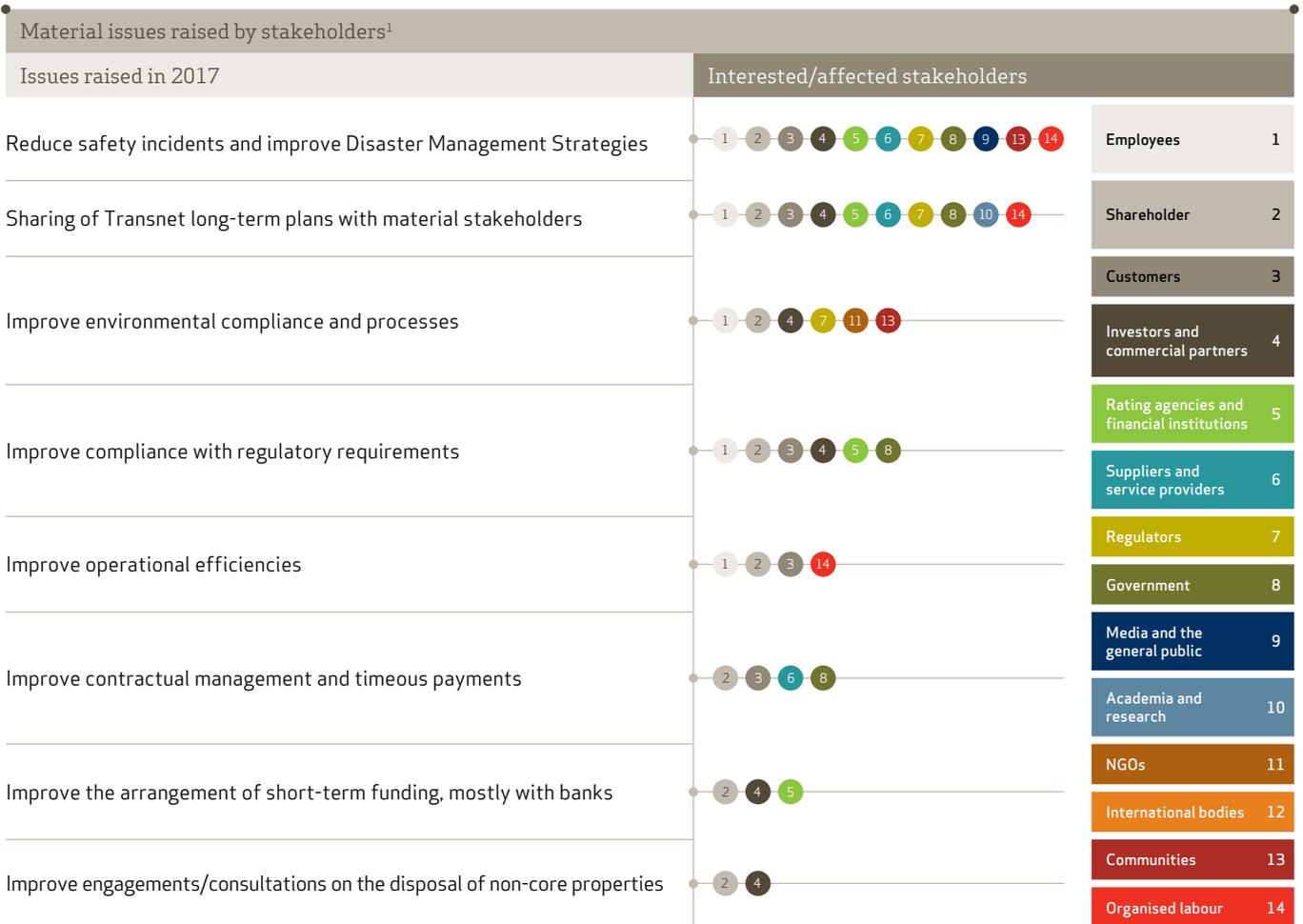
- Good communication;
- Responsive (address key issues and concerns);
- Consistency (deliver promises despite being late);
- Strong brand;
- Use diverse tools to engage, e.g. social media;
- Eagerness to improve;
- Ethical values (honesty, transparency and openness);
- Strong leadership; and
- Efficiency and productivity.

Main areas for improvement included:

- More balanced and evenly distributed information to stakeholders;
- Improve involvement of staff in crucial decision-making;
- Improve transparency – particularly with regard to long-term planning; and
- Improve ‘out of the box’ thinking.

Going forward, we will perform additional studies to validate the above engagement perceptions and to gauge further improvements and weaknesses. The survey process provides a meaningful perspective of the quality of Transnet’s relationships with its material stakeholders.

Our 2017 engagement with stakeholders across diverse functional disciplines revealed several material issues common to multiple stakeholders. The importance and relevance of material issues varied between stakeholder groups.



¹ Based on the combined perspective of ‘relevance’ and ‘importance’ of material issues to our stakeholders, the top eight shared material issues above were identified for discussion in the Integrated Report.

Key issues/concerns impacting stakeholders during the 2017 reporting period

Sharing of Transnet long-term plans with material stakeholders

Transnet's response

- Producing an annual Integrated Report, online Sustainability Report and Annual Financial Statements to a) report on performance, and b) to share information on the Company's strategy and goals.
- Publishing Transnet's Long-term Planning Framework online for public consumption and documenting (in detail) how Transnet plans for future growth opportunities and accompanying risks.
- Aligning Transnet's plans and MDS with Local and Provincial Government plans and sharing these in a timely manner with Local, Provincial and National Government representatives.
- Engaging with relevant stakeholders to enable projects to move forward as planned.
- Ensuring that our quarterly reports are prepared and signed off in time - as stipulated by the Shareholder - demonstrating our progress on and alignment with programmes and plans.

Reduce safety incidents and improve Disaster Management Strategies

Transnet's response

- Ensuring that the Company embeds sustainability criteria into all material decision-making, to set sustainability targets and to measure and report on performance against these targets.
- Our Safety League Models have been revised with a new proposed safety-culture operating model. The model drives long-term sustainability; ensures maturity of the existing safety league programme and operating model; promotes the 'safest site' vision; and integrates our safety efforts with the Group Risk Strategy.
- Partnering with various stakeholders (e.g. Anglo American) to ensure that a safety mindset is embedded.
- Conducting safety awareness campaigns for the public at level-crossing areas.
- Conducting door-to-door campaigns at identified hotspots where safety and crime pamphlets are issued.
- Facilitating presentations to Regulators through the Environmental Monitoring Committee and the Environmental Liaison Committee.
- Facilitating interventions in areas that are polluted in the ports to curb further pollution.
- Work done by academics in ports have assisted us to better understand issues identified by external research (e.g. plastics that enter marine water, including ports, pose a threat to marine life).
- RCB working group made up of DAFF¹, KZN Ezemvelo, provincial environmental affairs, and KZN Water Affairs to discuss biodiversity in the port of Richards Bay, development requirements and potential solutions to balance the two.

Improve operational efficiencies through regular updates on overall performance, new projects and service improvement initiatives

Transnet's response

- Transnet's Operating Divisions continue to collaborate to increase port efficiencies, including improvements from newly acquired capital investments.
- Engaging in round-table discussions to address customers' complaints and concerns around service delivery and efficiencies.
- Implementing integrated Service Level Agreements (SLAs) management and embarking on TVCC initiatives to improve service offerings, including on-time delivery.
- Implementing Terminal Operation Performance Standards (TOPS), and Integrated Port Management System (IPMS) for tracking and tracing operation.
- Conducting detailed schedule workshops and interactions in the drafting of feeder line agreements.
- Ensuring the uniform implementation of policies and guidelines, as well as processes and standard operating procedures to improve operational efficiencies.

Improve compliance with regulatory requirements

Transnet's response

- Embed risk management and compliance principles that are aligned with legislative, regulatory and statutory requirements.
- Ongoing engagement with Regulators to facilitate common understanding of pricing risks and market requirements.
- Requesting Shareholder intervention on National Ports Act section 56 and 79 provisions, and requesting clarity on National Ports Authority and Pipelines corporatisation.
- Keeping the Regulators informed as to construction progress of the New Multi-Product Pipeline (NMPP) through the six-monthly construction progress report.
- Submitting all outstanding regulatory compliance requirements and completing requisite tariff applications.
- Conducting joint presentations with Pipelines as per the licence conditions.

¹ Department of Agriculture, Forestry and Fisheries.

Key issues/concerns impacting stakeholders during the 2017 reporting period continued

Improve contractual management and timeous payments

Transnet's response

- The Contract Management office provides practical guidance on the implementation of contract management frameworks for effective contract management activities during the lifecycle of contracts.
 - Contract Management aims to ensure that we operate within the ambit of the agreed terms set out in the signed agreement. Our Contract Management Policy and frameworks collectively form an integral part of business for effective and efficient management of contracts within Transnet.
 - The Contract Management and Security Governance offices ensure that all active contracts are valid and contractual spend and revenue management is within the parameters, terms and conditions of the contracts.
 - Contract lifecycle management systems are being embedded in the business to facilitate streamlined contract management.
- The key elements of Transnet's Contract Management function include:
 - **Risk** - The early identification of risks, together with managing the mitigating actions throughout the contract lifecycle ensures that the risk realisation is minimised;
 - **Planning** - Contract deliverables are identified and plans are designed to manage the contract throughout the contract;
 - **Delivery Management** - Ensuring active delivery against contract milestones in terms of the agreement;
 - **Relationship Management** - Every major contract must be managed in line with a relationship management plan for the effective achievement of Supplier Development and Enterprise Development;
 - **Contract Administration** - The centralised location of all contracts on one electronic platform; and
 - **Contract review and close-out activities** - Contracts must be closed out prior to the expiry of the contract. The overall management of the contract is reviewed holistically to ensure that Transnet learns from mistakes and builds on successes.

Improve engagements/consultations on the disposal of non-core properties

Transnet's response

- According to Transnet's Significance and Materiality Framework (as determined by the Shareholder), the Shareholder is presented with detailed notifications for all acquisitions and disposals of assets above R2 billion.
- Transnet Property continues to engage National, Provincial and Local Government on any new property transactions.

Improve environmental compliance and processes

Transnet's response

- Transnet continues to engage the Department of Water and Sanitation (DWS) and the Department of Environmental Affairs (DEA) with the aim of ensuring alignment of our plans with those of regulators and to streamline processes.
- Issues of environmental non-compliance are also discussed at bi-monthly meetings with the key governmental departments (DEA and DWS).
- During the 2017 financial year, Transnet, together with DWS, held a workshop to further unpack and understand the requirements of water-use authorisations and compliance monitoring.
- Workshops were held with the DEA throughout the country to further unpack the requirements of Part 8 of the Waste Act.

Improve the arrangement of short-term funding, mostly with banks

Transnet's response

- Transnet has raised sufficient funding up to 31 March 2017 and hence there are no concerns in terms of our short-term funding.
- Transnet consistently meets with rating agencies and shares Company plans relating to capex optimisation to respond to the weak economic environment and to share all other cost-saving initiatives that are being implemented. Rating agencies are comfortable with Transnet's plans to optimise capex, in response to the weak economic environment and all other cost-saving initiatives that are being implemented.
- Transnet has facilities from various sources for bridging finance and to meet short-term maturing obligations, while long-term funding is being concluded.

