

# MATERIAL ASPECTS IMPACTING OUR STRATEGY



## Changes in reporting on material aspects

We continue to report on topics that are material to the business, the Shareholder Minister and other key stakeholders. While we manage a wider array of commercial and sustainability topics, our 'materiality' focus helps to direct our reporting content according to aspects that are of material relevance and importance to Transnet and its key stakeholders.

There were marginal changes to the aspects we consider 'material' from the prior year, as represented by the table on the next page. Further, the 2017 Integrated Report clusters material aspects according to five material themes to simplify connectivity to other sections in the report, such as those relating to strategy and performance (see figure 12).

### Directors' approval of material aspects

The Board of Directors has signed off on the Company's material aspects. During the materiality determination process, material issues derived from the business context were validated, prioritised and approved by the relevant oversight Board committees. The materiality determination process is described in more detail in the section that follows.

### Determining material aspects

Transnet defines materiality with respect to the Company's long-term sustainability in terms of aspects that substantively impact Transnet's ability to create and sustain value over the short, medium and long term. This definition includes those issues pertaining to Transnet's significant economic, social and environmental impacts.

Transnet's material aspects were determined through a structured process of identifying relevant issues and prioritising those that are most material to the organisation's commercial, social and environmental contexts.

Figure 10 summarises the levels of accountability for identifying, validating and approving material issues within Transnet, as well as the criteria used during each stage of the process.

Build social trust

Unlock organisational value



### Levels of accountability for determining material aspects

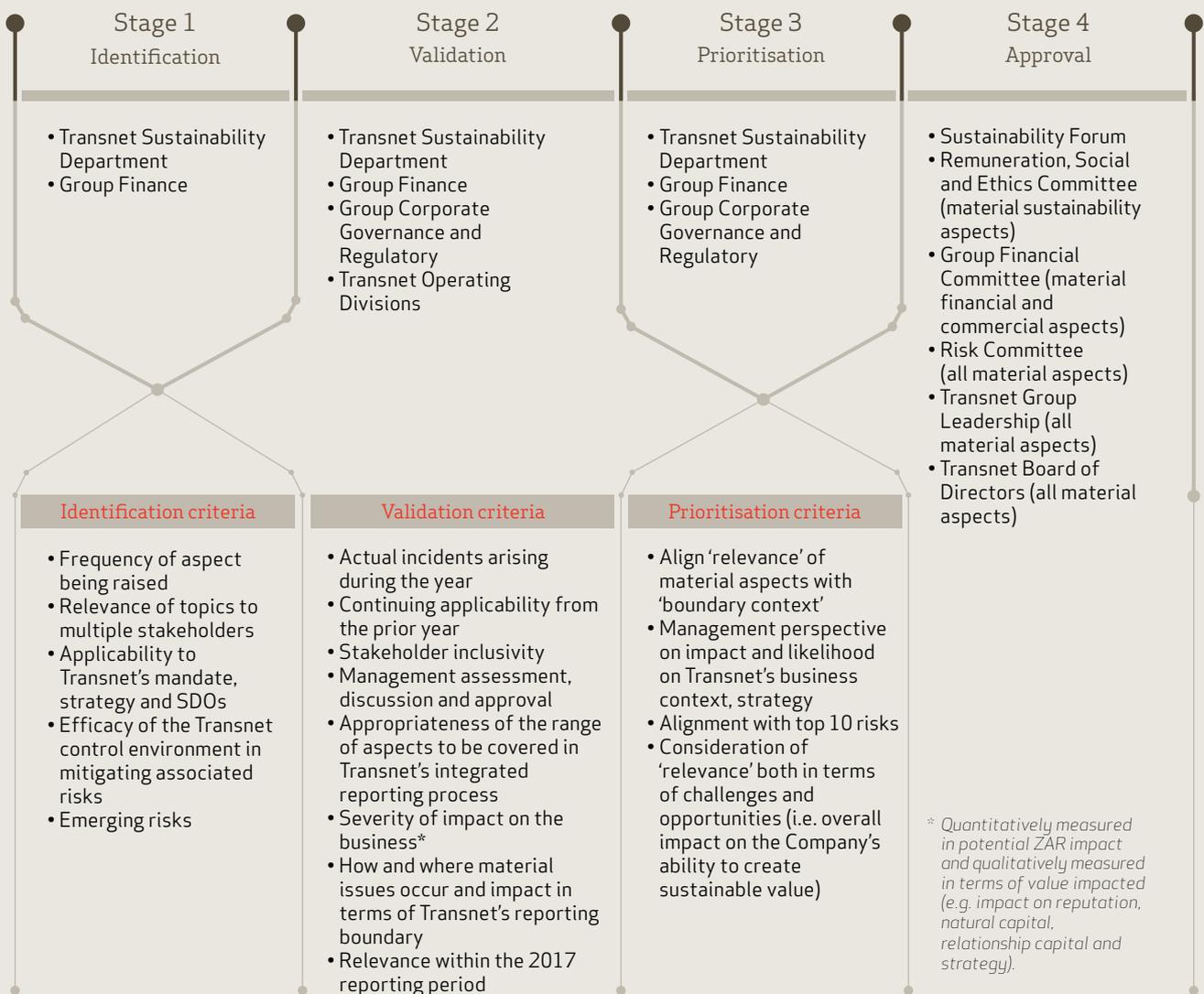


Figure 10

### The scope and boundary of our materiality determination process is shown below:

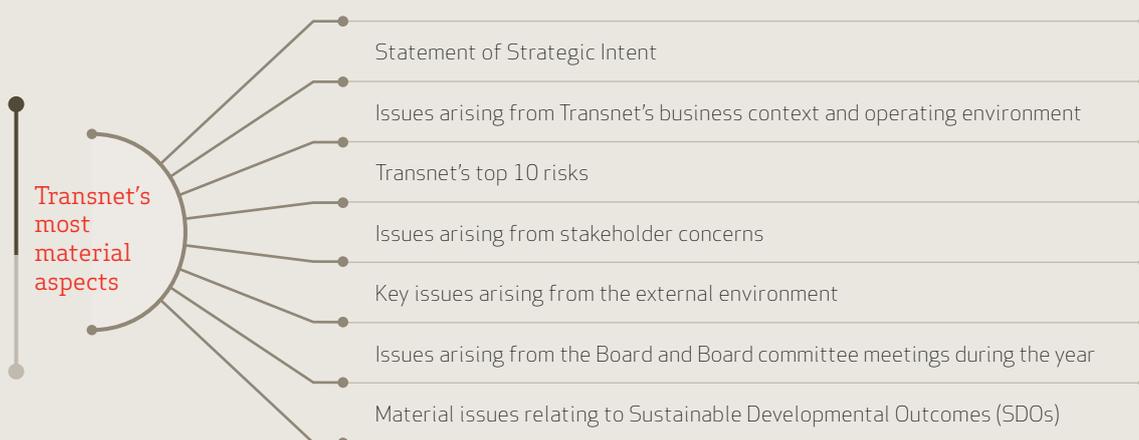
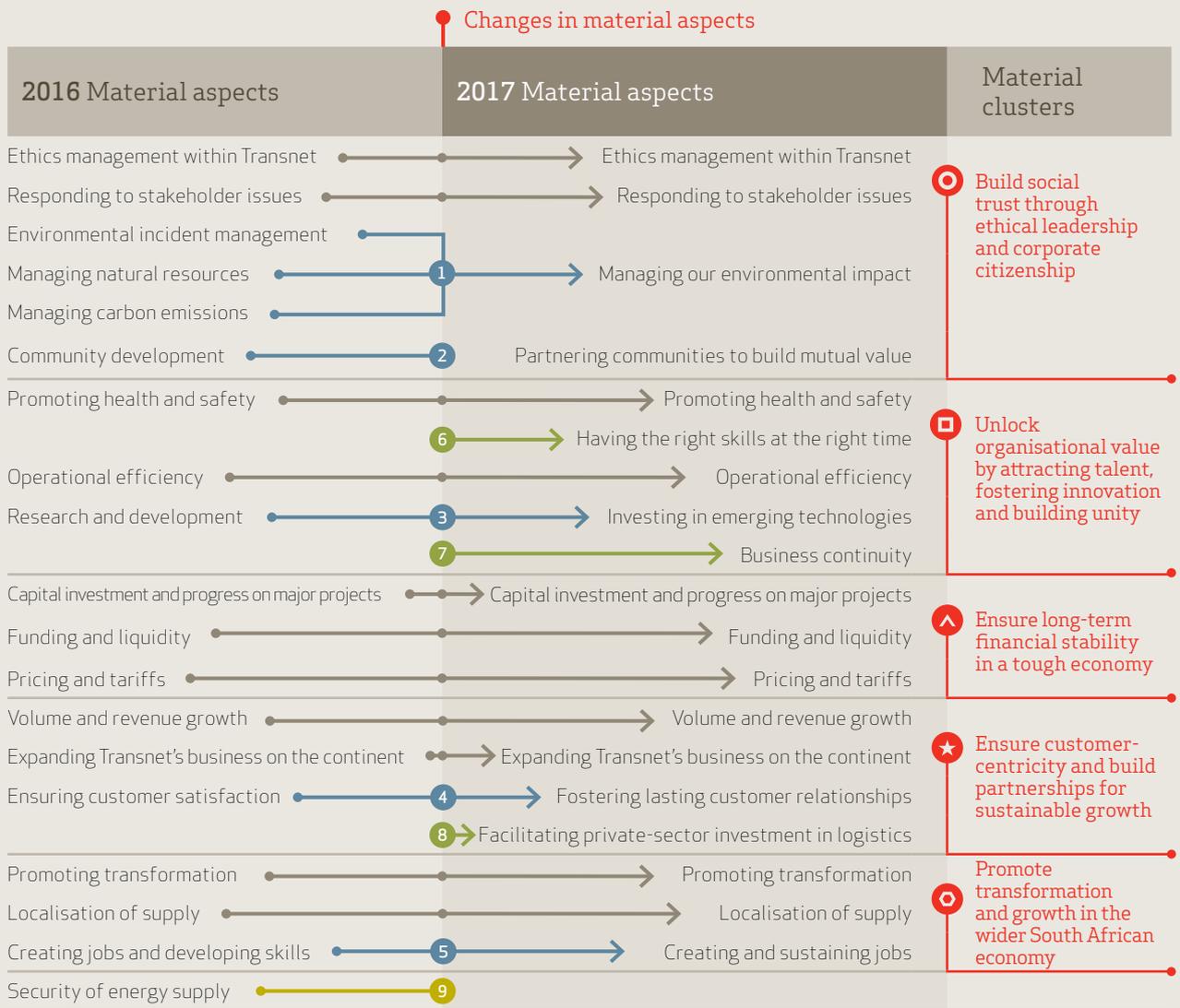


Figure 11

Figure 12

### Changes in reporting on material aspects continued



- Remains constant
  - Marginal change in focus
  - New material aspect for 2017
  - Not a material aspect for 2017
- Build social trust through ethical leadership and corporate citizenship
  - Unlock organisational value by attracting talent, fostering innovation and building unity
  - Ensure long-term financial stability in a tough economy
  - Ensure customer-centricity and build partnerships for sustainable growth
  - Promote transformation and growth in the wider South African economy

## Reasons for material aspect change in 2017

### Marginal change in focus

- 1 Our 10th highest risk for 2017 – “Environmental risk – energy supply, water shortage and adverse weather patterns” – considers multiple levels of environmental impacts. The risk relates both to impacts from the Company’s activities on the environment, and extends to external environmental impacts on the Company’s activities.
- 2 Through our engagements with communities residing in and around our operational areas, we are increasingly aware of the social and also economic value inherent in creating positive, mutually beneficial long-term partnerships with communities. This ethos moves beyond an essentially one-sided perspective of the Company creating value for and on behalf of communities, to one where communities themselves become collaborative partners in the value-creation process. Transnet has identified more than 20 emerging opportunities for collaboration with communities.
- 3 While research and development remains a major strategic focus for the Company, Transnet 4.0 emphasises the future dependence on ‘digital’ innovation. This new paradigm is characterised by a fusion of technologies that are poised to disrupt almost all industries and transform systems of production, management and governance. Transnet’s research and development going forward will be increasingly geared towards new digital service platforms and commercial solutions.
- 4 Transnet 4.0 – the Company’s strategic drive gearing the MDS to meet challenges and opportunities of the 4th Industrial Revolution – calls for a move beyond ‘satisfying’ customers to fostering lasting customer relationships through authentic understanding of customer needs, sincere commitment to meeting those needs and the insight to harness the value of long-term customer loyalty and partnerships to build resilient, sustained market presence.
- 5 Reworded to reflect the emphasis on ‘sustaining’ jobs in the economy, which goes beyond simply creating jobs and developing skills.

### New material aspect for 2017

- 6 Transnet currently competes in the local job market for scarce technical skills which are in high demand from other engineering firms and SOCs such as Eskom and Telkom. Our fourth highest risk for 2017 is “People management – inadequately skilled staff in operations, not skilled for future operations”. Moving into the 4th Industrial Revolution, Transnet will operate as a manufacture-driven, service-led organisation. It is reasonable to assume that some of our existing, already scarce, competencies may become obsolete in this new paradigm, while other, as yet unknown, competencies will be required.
- 7 Business continuity in Transnet’s materiality context relates to multiple scenarios: a) having the correct ICT infrastructure in place to meet future digital demands of the 4th Industrial Revolution, b) having appropriate cybersecurity and data protection mechanisms in place, and responding appropriately in terms of disaster management.
- 8 Transnet 4.0 calls for a greater emphasis on private-sector partnerships to provide collaborative, end-to-end business solutions throughout the supply chain. These partnerships will become increasingly critical as Transnet moves from its current status as a third-party logistics (3PL) service provider to fourth-party logistics (4PL) service provider. The new Group Business Development function within Transnet’s new operating model will be responsible for leveraging private-sector collaboration and PSPs to enhance and increase Transnet’s logistics service offerings.

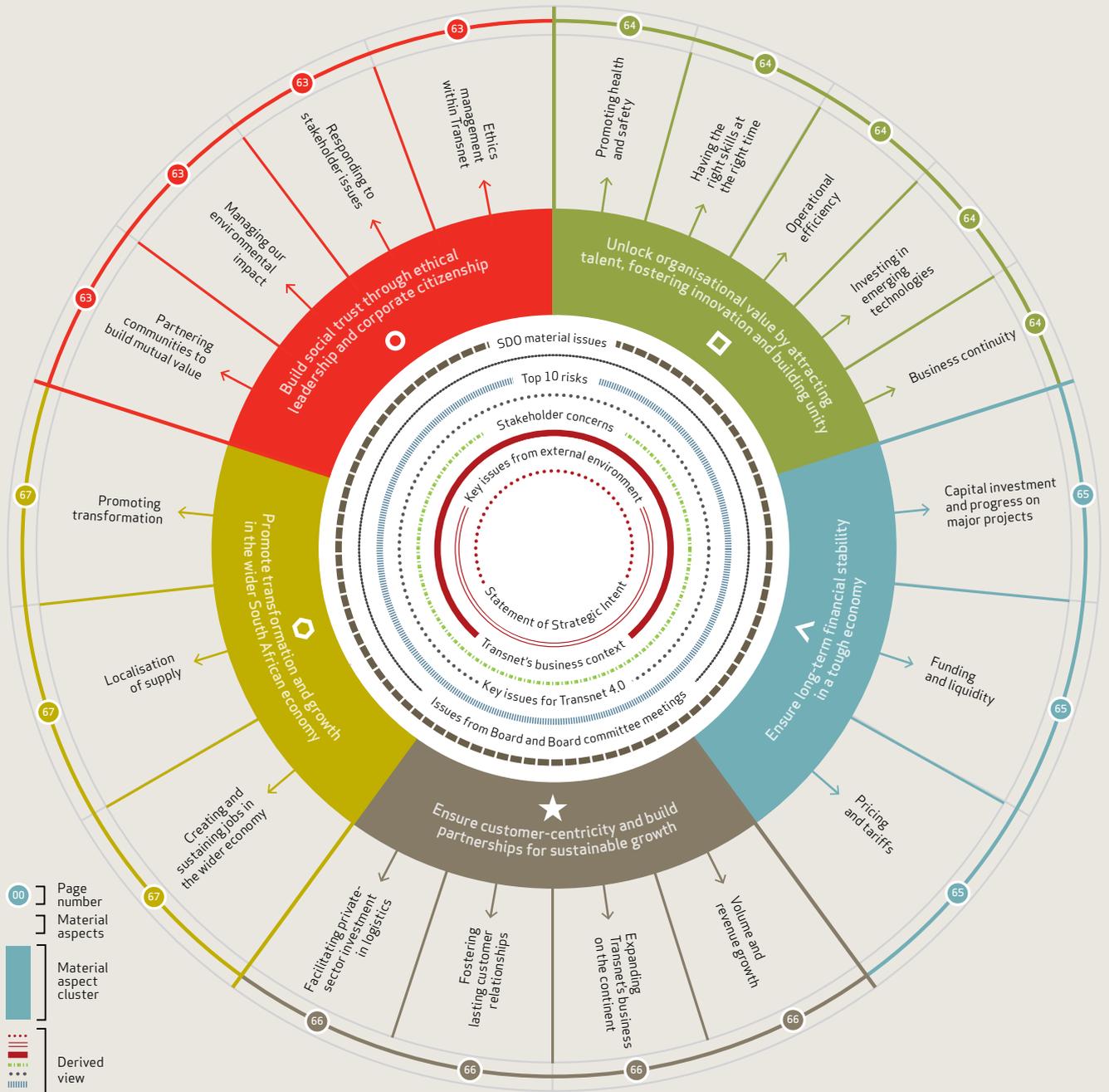
### Not a material aspect for 2017

- 9 Energy security is at the core of current and future industrial and technological advancement. The secure supply of energy is encapsulated in Transnet’s ‘Environmental risk’ and therefore still top of mind for the organisation. However, as a material aspect, it is also encapsulated in the material aspects of ‘Managing our environmental impact’ and that of ‘Business continuity’. The National Development Plan (NDP) envisages that by 2030 South Africa will have an energy sector that promotes economic growth and development through adequate investment in energy infrastructure. The plan envisages that by 2030 South Africa will have an adequate supply of electricity and liquid fuels to ensure that economic activity and welfare are not disrupted, and that at least 95% of the population will have access to grid or off-grid electricity. Other renewable resources, like wind, solar and hydro-electricity, will be viable alternatives to coal and could supply at least 20 000 MW of the additional 29 000 MW of electricity needed by 2030.

Figure 13

### Materiality universe aligned with strategy

Transnet's 'materiality universe' is presented graphically below and provides a holistic view of our MDS themes and associated material aspects:



**THE 'MATERIALITY UNIVERSE' IS STRUCTURED AS FOLLOWS:**

**Derived view:** The innermost circle considers how material aspects were derived. This perspective includes Transnet's business context and strategy, the SSI and Shareholder's Compact, stakeholder groups and the Company's risk environment.

**Material aspect clusters:** The second circular level provides 'umbrella' classifications to cluster material aspects.

**Material aspects:** The outermost layer shows the material aspects and denotes those topics that are most significant to Transnet achieving its overall commercial outcomes and SDOs. Page numbers are included to reference sections in this report where the material aspects are discussed in more detail.

- MDS**
- STRATEGIC IMPERATIVES**
- Financial sustainability
  - Capacity creation and maintenance
  - Market segment competitiveness
  - Operational excellence
- BUSINESS ENABLERS**
- Organisational readiness
  - Sound governance and ethics
  - Constructive stakeholder relations
  - Human capital management

- DERIVED VIEW**
- Statement of Strategic Intent
  - Key issues arising from the external environment
  - Key issues in Transnet's business context and operating environment
  - Stakeholder concerns
  - Key issues for Transnet 4.0: Gearing the MDS to meet the 4th Industrial Revolution
  - Top 10 risks
  - Material issues arising from Board and Board committee meetings during the year
  - SDO material issues
- MATERIAL CLUSTERS**
- Build social trust through ethical leadership and corporate citizenship
  - Unlock organisational value by attracting talent, fostering innovation and building unity
  - Ensure long-term financial stability in a tough economy
  - Ensure customer-centricity and build partnerships for sustainable growth
  - Promote transformation and growth in the wider South African economy

## Identifying and managing material aspects

 Material aspect cluster  
 **Build social trust through ethical leadership and corporate citizenship**

P4



Ethics management within Transnet  
 Responding to stakeholder issues  
 Managing our environmental impact  
 Partnering communities to build mutual value

### How is it material to value creation?

To be sustainable, corporate ethics must align with the desire for profitability. In this way, ethics management becomes a source of value creation. Without social trust, Transnet cannot guarantee its social licence to operate. Visibly ethical leadership is, therefore, fundamental to building social trust and extends to fostering ethical relationships with our stakeholders and ensuring ethical stewardship of the natural environment within which we operate. Our stakeholder engagement practices are key to enabling our strategy and the quality of our relationships impact our ability to generate revenue, grow brand equity, ensure reliable service delivery, maintain positive community relations and build employee morale. Our mandate is to be an influential, long-term partner in broad economic value creation for the entire country, partnering with Government, local suppliers, private-sector partners and the communities to build mutual value.

### Key elements of our management approach

- A robust governance framework and practices to guide ethical behaviour in executing our business, cultivating positive stakeholder relationships and managing our environmental footprint.
- The Shareholder’s Compact provides a monitoring framework for our strategic planning, and sets annual and long-term performance targets. Importantly, our performance against the nine SDOs is monitored through this framework. Transnet’s main tool of engagement with the Shareholder is quarterly reports, which reflect our performance against the Shareholder’s Compact.
- The Board of Directors has delegated the leadership for ethics performance and sustainability-related matters to the Remuneration, Social and Ethics Committee, which advises the Board of Directors on responsible corporate citizenship and sustainability.
- Sections 51 and 55 of the PFMA impose certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; losses through criminal conduct; and the collection of all revenue. To comply with the PFMA’s obligations, the Board of Directors has a materiality framework, which is approved by the Shareholder Representative, subject to certain conditions.
- As signatories to the UN Global Compact, Transnet undertakes initiatives to promote greater environmental responsibility, i.e. mapping biodiversity hotspots to ensure future projects’ ecological sustainability.
- Our commitment to community development is expressed through the Transnet Foundation, with a strong focus on rural communities and investment in projects with strong community impact.

### Key measures for tracking our performance

Adherence to PFMA provisions and monitoring irregular expenditure

Stakeholder surveys and customer satisfaction ratio

Percentage improvement in our Group weighted Energy efficiency (electricity and fuel)

Our ability to reduce our carbon emission intensity (kgCO<sub>2</sub>/ton)



## Identifying and managing material aspects continued

**Material aspect cluster**  
**Unlock organisational value by attracting talent, fostering innovation and building unity**

Promoting health and safety  
 Having the right skills at the right time  
 Operational efficiency  
 Investing in emerging technologies  
 Business continuity

### How is it material to value creation?

The continuing success of the MDS – and our long-term sustainability as an organisation – depends on our ability to unlock organisational value to meet the rapidly emerging paradigm of the 4th Industrial Revolution. This new paradigm will require new skills competencies in the context of emerging technologies and new business models to enhance our operational efficiency and service reliability, while also opening new avenues for generating revenue. Critical to our success will be our ability to protect our people and to guard the integrity of our intellectual capital. Data-centricity is a major feature of the new industrial paradigm, which brings both opportunities and risks in the common usage of the internet environment. Our ability to protect our data and our privacy as an institution and as individuals will play a vital role in growing the business and competing globally in years to come. The 4th Industrial Revolution will require a new type of employee and we must attract talent suited to the tasks set by long-term expansion goals and the emerging realities of the times. This includes building a culture of unity to sustain a shared, positive vision of our collective future.

### Key elements of our management approach

- Transnet’s talent management and development programme aims to retain top talent and to ensure robust succession plans for priority and critical positions. Leadership programmes target specific management levels, while coaching and mentoring programmes are also provided.
- Health and safety committees offer employees a platform for engagement on health and safety issues. Approximately 247 formal joint management-worker health and safety committees have been established, with 1 611 representatives. Recognition agreements with trade unions also ensure a safe working environment, while various policies and internationally recognised safety systems are implemented to improve safety across the business.
- The Transnet Value Chain Coordinator (TVCC) co-ordinates oversight of operational activities within the value chain and streamlines task flows. Business continuity interventions are in place in the event of energy disruptions or cyber threats.
- A pillar of the four MDS strategic thrusts is ‘Unity’ – we will work together to build a unified culture, through a unified vision of our future, a single-minded approach to our goals, care and responsibility for ourselves, our colleagues and all our stakeholders that travel this exciting journey with us.

### Key measures for tracking our performance

Tracking our training spend and the number of artisans, engineers and technicians trained

**<0,75**  
 Maintaining a DIFR below 0,75 to maintain global leading standards



Tracking our performance in terms of volume growth, rail efficiency, container moves, train turnaround times, average anchorage waiting time and ship turnaround times

Our investment in new technologies, and our spend on research and development

## Material aspect cluster

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

Capital investment and progress on major projects

Funding and liquidity

Pricing and tariffs



#### How is it material to value creation?

Our strategic commercial imperatives and developmental outcomes rely on our financial stability, agility and intelligent approach to market fundamentals. We must adapt to – and thrive within – the external economic, regulatory and socio-political contexts within which we operate. As new risks and opportunities within these contexts impact our business, we need to adjust our spending and project investment expectations accordingly. Insufficient liquidity will negatively impact the Company's going-concern status and its credit rating, which, in turn, affects the cost of funds and our investment plans. Approximately 21% of our revenue is impacted by economic regulation. If not well managed, tariff decisions could have a significant negative impact on investment decisions, investor confidence and ultimately on the execution of the Company's strategy. Exorbitant and unpredictable escalation in Railway safety permit fees charged by the Railway Safety Regulator are critical considerations for the Company's revenue-planning activities.

#### Key elements of our management approach

- We constantly review our finance and funding strategy and aim to respond deftly to business and market conditions. We continue to maintain our standalone investment-grade credit rating.
- Positive engagement with financial capital providers ensures that our good borrowing track record, robust strategy and sound corporate governance reflect a responsible and profitable organisation. Transnet has facilities from various sources for bridging finance to meet short-term maturing obligations, while long-term funding is being concluded.
- Transnet has introduced a capital governance framework, in line with its new operating model and integrated assurance framework, to assist oversight authorities within the appropriate internal governance structures to 'challenge' project, programme and portfolio delivery; to provide assurance to the Board of Directors and the Shareholder that corporate plans are being successfully achieved. The chief purpose of a governed capital environment is to provide a structure for the leadership and management to be directed and held to account.
- Transnet's Group Commercial function has developed a pricing strategy for its non-regulated entities to ensure that pricing methodologies, tools, governance and performance measures inform business decisions.
- Ongoing engagements with the Shareholder, Government policy departments and Regulators for the development of national sector policies and regulatory approaches.
- Revenue risk management strategies mitigate policy, and economic and reputational risks in the regulatory environment.
- Proactive engagement with Government policy departments and Regulators facilitate common understanding and impact of national sector policies, tariff risks and market requirements.
- We actively manage national sector policy processes, tariff modelling and tariff benchmarking to ensure a fair return on investment, cash flow and to minimise Railway safety permit fees.
- We ensure monitoring prudence in regulated activities and potential anti-competitive business practices.

#### Key measures for tracking our performance

Investment in sustaining and expanding infrastructure requirements, e.g. the acquisition of locomotives and wagons

Capital investment in key capacity-creation projects, e.g. the New Multi-Product Pipeline (NMPP), manganese expansion programme, coal line investment programmes, port infrastructure, equipment and floating crafts, and the lengthening and deepening of DCT Berths 203 to 205 at Durban Container Terminal (DCT)

Financial ratios, such as EBITDA, cash interest cover (CIC), gearing, ROTA and average tariff increases

## Identifying and managing material aspects continued

★ Material aspect cluster:  
**Ensure customer-centricity and build partnerships for sustainable growth**

Volume and revenue growth  
 Expanding Transnet’s business on the continent  
 Fostering lasting customer relationships  
 Facilitating private-sector investment in logistics

### How is it material to value creation?

Transnet’s ability to meet future demand for freight logistics services is dependent on volume and revenue growth to finance investments. Enhanced connectivity of the regional freight system will promote volume growth, and is a strategic priority for long-term business sustainability. Enhanced regional connectivity will boost investment on the continent, and will open new commercial horizons for Transnet and its customers and partners. By understanding and attending responsibly to the commercial needs of our customers, we will build lasting customer relationships, a key source of relationship value in tough economic conditions, and a strong contributor to market sector competitiveness, both for Transnet and the broader economy.

### Key elements of our management approach

Key elements of our management approach to ensuring customer-centricity and building partnerships for sustainable growth include the following:

- We base our volumes targets and alignment on inputs from customers, financial plans, funding requirements, operational plans, capital investments and risk management strategies across the Company;
- Transnet’s Africa expansion strategy outlines the intention to extend our business beyond the South African borders and become the leading logistics service provider in sub-Saharan Africa. Transnet International Holdings will direct all activities outside the borders of South Africa;
- Strategic commercial partnerships will play a crucial role in enabling our regional integration strategy. In one instance, Transnet is pursuing agreements with various port authorities to develop regional shipping services, thus boosting inter-Africa trade. Concession opportunities are also being pursued;
- Engineering continues to strengthen partnerships with original equipment manufacturers to enhance existing know-how and create new market opportunities. Engineering intends to increase its external revenue by extending its advanced manufacturing capabilities in Africa, the Middle East and South America;
- To maintain a customer-centric focus, we are enhancing key account management abilities and implementing integrated customer planning through innovative digital platforms. We are also designing transparent capacity allocation processes. Our long-term strategy requires collaboration with customers and private-sector partners that supports end-to-end logistics service solutions; and
- Transnet aims to contain price increases to our customers through efficiency improvements in all areas of operations which will be practically enabled by the Transnet Value Chain Co-ordinator (TVCC).

### Key measures for tracking our performance

Tracking volume growth, e.g. general freight railed volumes, export coal and iron ore railed volumes, and container and automotive volumes handled through the ports

Cross-border revenue from our regional integration initiatives and Africa operations

The number of regional integration projects in selected African corridors

Achieving key operational targets to meet customer expectations

Number of PSP transactions concluded

Material aspect cluster

Promote transformation and growth in the wider South African economy



- Promoting transformation
- Localisation of supply
- Creating and sustaining jobs

How is it material to value creation?

A transformed economy is an inclusive economy, with growth and economic opportunities available to the entire population. As one of South Africa's largest single employers, Transnet supports Government initiatives aimed at addressing the socio-economic legacy of the past. Our long-term social value success lies in being committed to the transformation of our society through employment equity and black economic empowerment. We commit to upholding the principles of the UNGC with respect to equity and anti-discrimination, and seek to create an organisation that reflects the diversity of South African society.

Transnet's Supplier Development (SD) aims to develop skills, create jobs, transfer intellectual property, and localise supply and industrialisation through contractually obligated SD plans. Our Enterprise Development (ED) interventions assist and accelerate the development, sustainability and independence of small, medium and micro-businesses in the country.

Key elements of our management approach

- Transnet's Employment Equity Policy supports the Employment Equity Act, No 55 of 1998. In the wider South African context, we have implemented a B-BBEE policy and strategy to address economic transformation. Additionally, Transnet adheres to the following Acts:
  - Promotion of Equality and Prevention of Unfair Discrimination Act, No 4 of 2000;
  - Labour Relations Act, No 65 of 1995; and
  - Skills Development Act, No 97 of 1998.
- Apropos the wider transformation agenda of Government, our broad Supplier Development Plan is guided by Government's Competitive Supplier Development Programme with a monitoring unit checking its operations.
- Our Human Capital Strategy approaches job creation within the framework of strategic workforce planning to ensure the recruitment and retention of the top-quality employees in all employment groups.
- Transnet has established ED hubs in Johannesburg, De Aar, Saldanha Bay and Mdantsane which provide a 'one-stop' facility for potential suppliers. The hub provides resources relating to business development and registration, procurement advisory services, tax registration and compliance, financial support and guidance on black economic empowerment.

Key measures for tracking our performance

Tracking performance against transformation targets, e.g. employee equity targets, broad-based black economic empowerment (B-BBEE), and enterprise and supplier development

Procurement of local content through local suppliers

Fair and competitive remuneration and reward of employees

