TRANSNET

delivering freight reliably

Transnet Market Demand Strategy

10 April 2012

delivering freight reliably

Contents

TRANSNET

delivering freight reliably

Market Demand Strategy

- **R300bn** capital investment programme
- Expanding **rail, port and pipeline infrastructure**
- **Increase** in capacity to meet market demand
- Continued **financial stability** and strength
- Significant **productivity and operational efficiency** improvements
- **Shift from road to rail** – reducing the cost of doing business and carbon emissions
- Enabling **economic growth**
- **Job creation**, skills development, **localisation**, empowerment and transformation opportunities

Based on Transnet's solid foundations, it aims to capture identified growth opportunities over the next 7 years

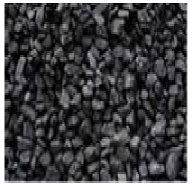
TRANSNET

delivering freight reliably

		Last 7 years (2011/12 LE)	Next 7 years (2018/19)	Total growth
Enablers	Capital investment (Rbn)	118	300	+154%
	Personnel ('000 FTEs)	59	74	+25%
Volume Highlights	TFR Export coal (mt)	68	98	+44%
	TFR Export iron ore (mt)	53	83	+57%
	TFR GFB (mt)	80	170	+113%
	Maritime Containers ('000 TEUs)	4,344	7,646	+76%
Financial Highlights	Revenue (Rbn)	46	128	+178%
	EBITDA (Rbn)	19	68	+258%
	Cashflows from operating activities (Rbn)	16	51	+219%

X% Total growth   2011/12 Latest estimate

MDS will enable growth in key commodities and will position South Africa globally as…



…a key thermal **coal exporter**

…an increasingly important 4th **largest supplier of iron ore to China**

…the **leading manganese exporter** globally

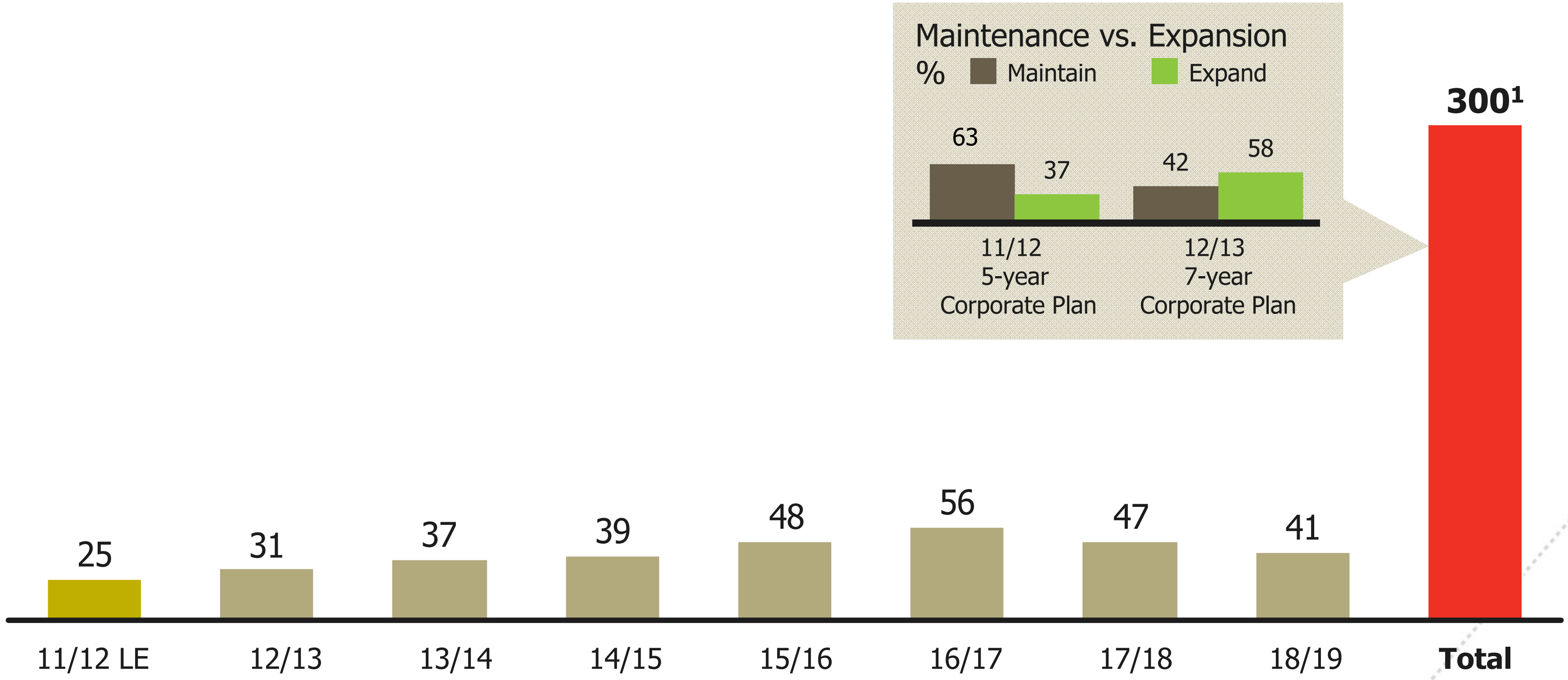
…the **leading logistics hub** for sub-Saharan Africa

…a **globally recognised benchmark** for container and heavy haul operations

Transnet's capital investment over the next 7 years will be a significant step up…

TRANSNET
delivering freight reliably

Capital investment
Rbn



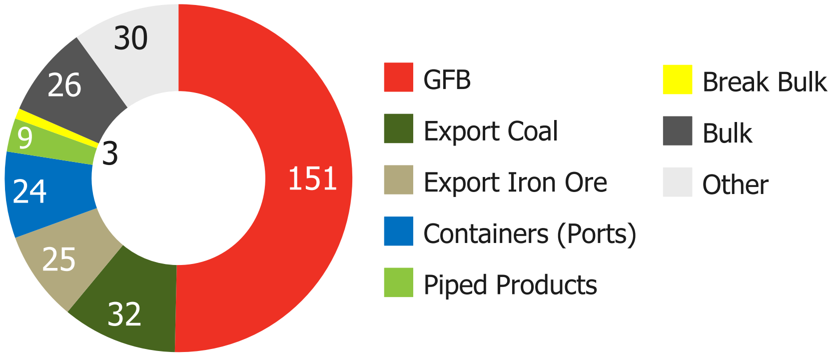
[1] Includes PSP initiatives of ~R5bn

TRANSNET

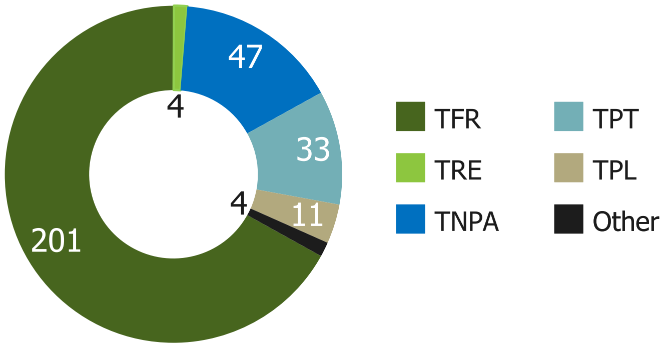
delivering freight reliably

The majority of the investments will be in General Freight and Freight Rail

Commodity split (Rbn)



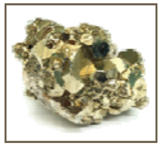
Divisional split (Rbn)



Major programmes

GFB rail capacity growth to meet market demand volumes from 79,7mt to 170,2mt

Increase export coal to 97,5mt – including Waterberg



Increase export iron ore to 82,5mt

Increase export manganese to 12mt

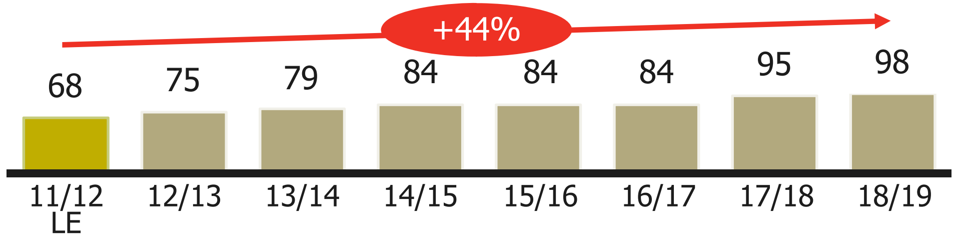
Increase in fleet and improvement to the infrastructure

Completion of the New Multi-Product Pipeline (NMPP)

This will result in additional capacity across all commodities

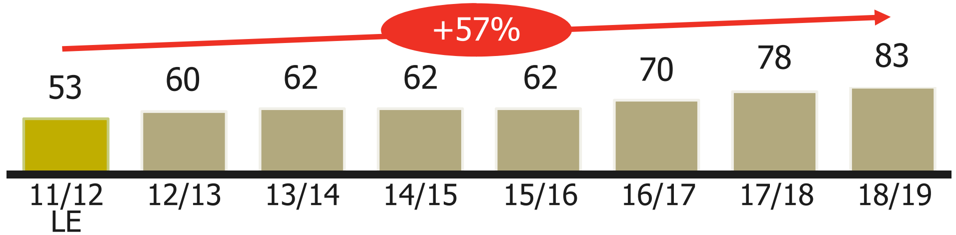
TRANSNET
delivering freight reliably

Export coal (mt)



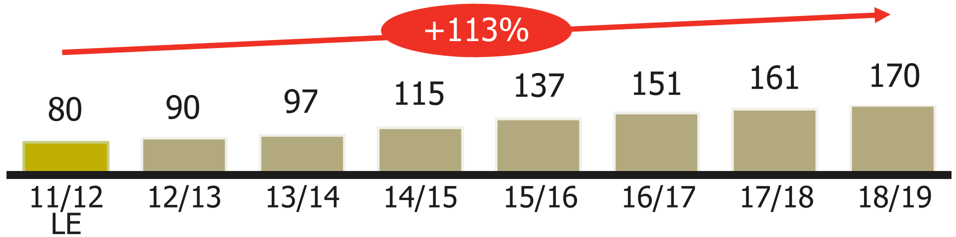
- Capacity expansion between 2015 – 2017
- Rail capacity from 2018 in line with market demand

Export iron ore (mt)



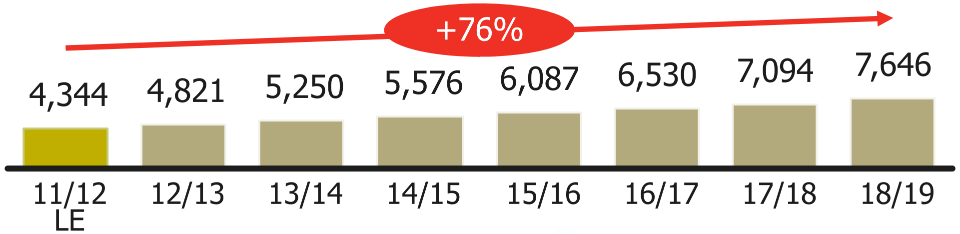
- Port capacity expansion between 2014 – 2016
- Capacity from 2019 in line with market demand

GFB (mt)



- Progressive increase YoY to meet market demand
- Market demand met in 2017

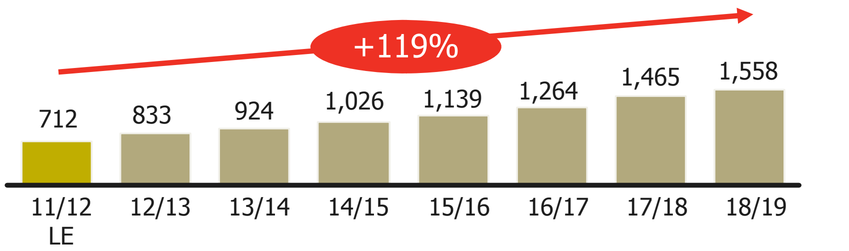
Maritime containers ('000 TEUs)



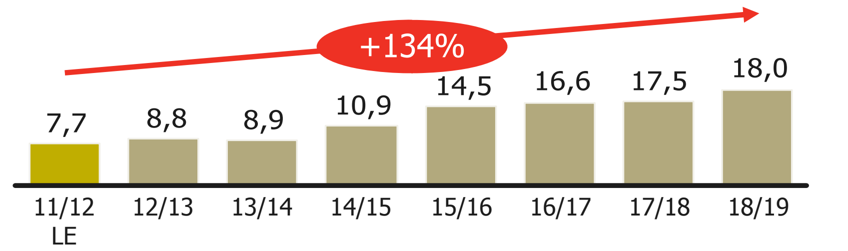
- Container growth of 76% expected as capacity at ports exceeds demand

There will be strong growth in General Freight

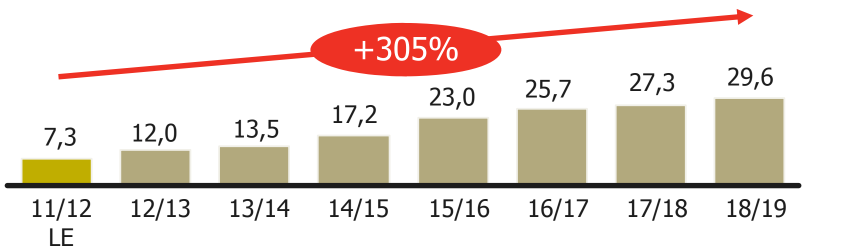
Containers on rail ('000 TEUs)



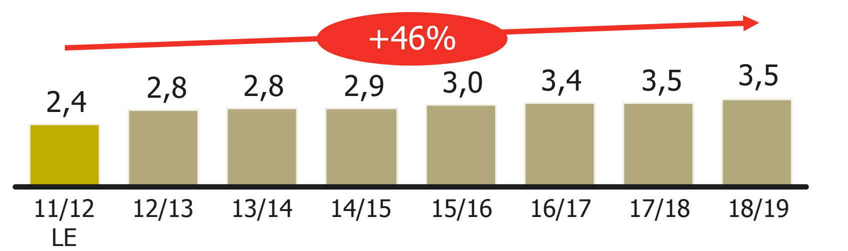
Domestic iron ore (mt)



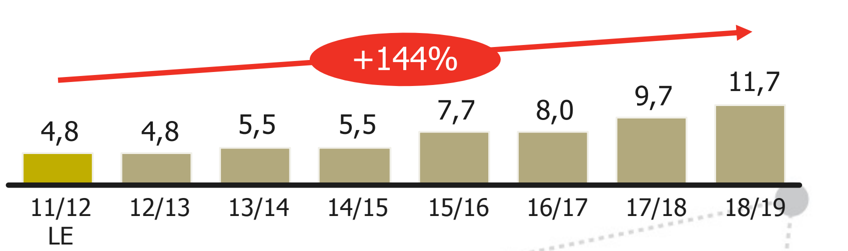
Eskom coal (mt)



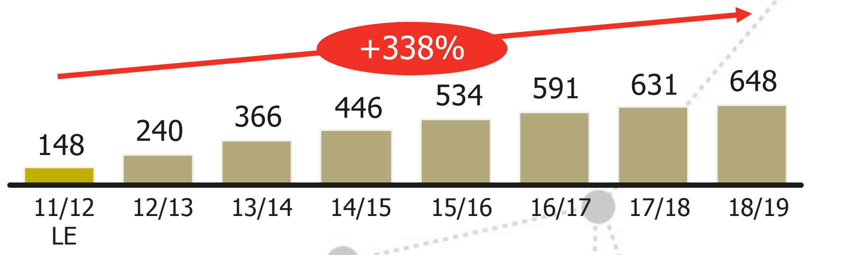
Liquid bulk (mKℓ)



Manganese (mt)



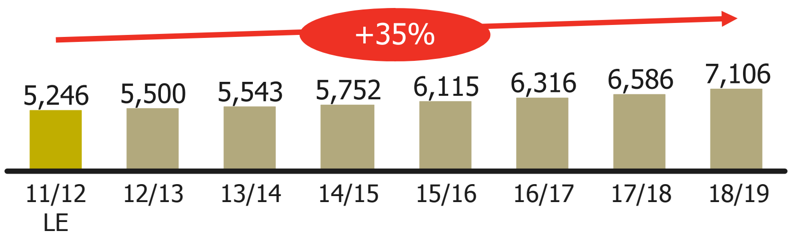
Automotives ('000 units)



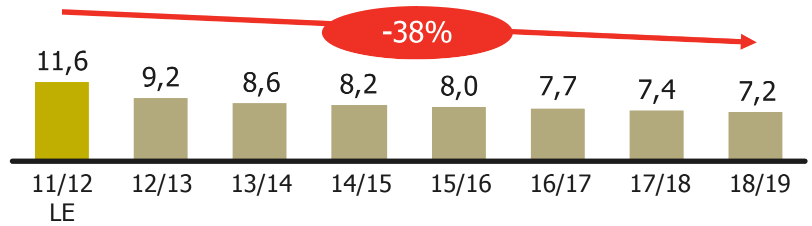
Significant improvement in rail operational performance will be achieved

TRANSNET
delivering freight reliably

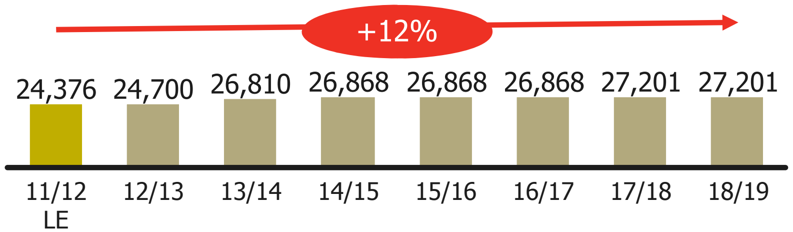
General Freight – Loco efficiency ('000 GTK/loco/month)



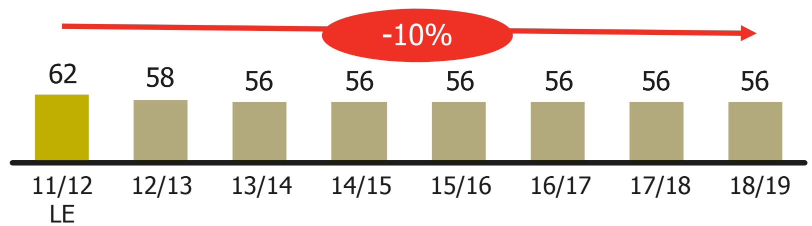
General Freight – Wagon turnaround time (days)



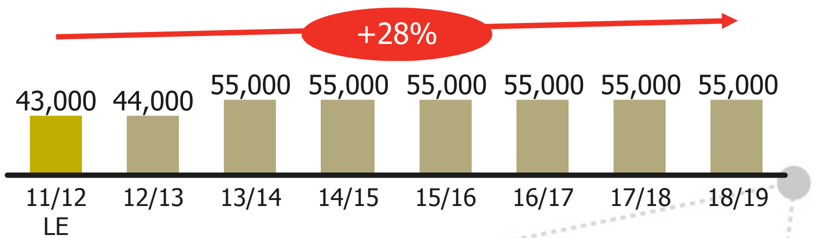
Export coal – Loco efficiency ('000 GTK/loco/month)



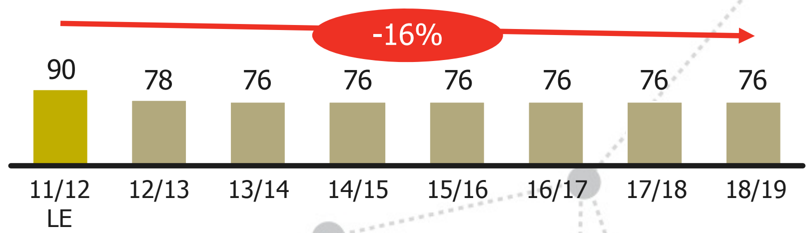
Export coal – Wagon cycle time (hours)



Export iron ore – Loco efficiency ('000 GTK/loco/month)



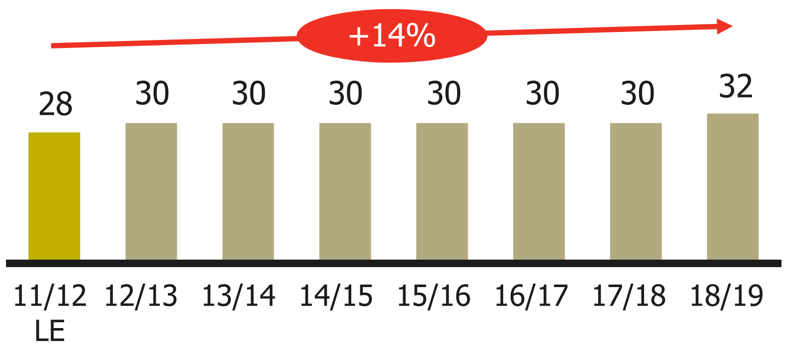
Export iron ore – Wagon cycle time (hours)



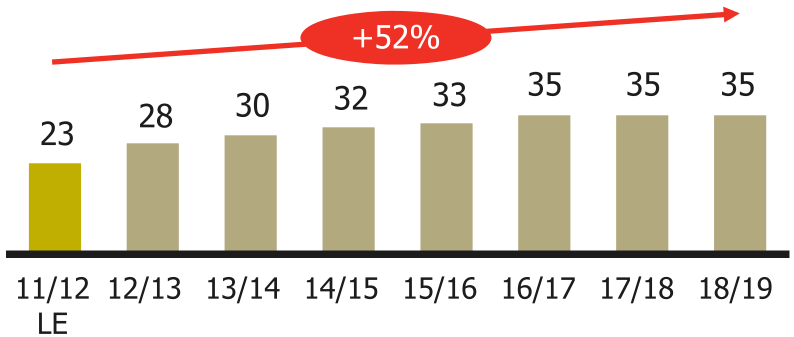
Productivity improvements and improved asset utilisation is expected at the Ports

delivering freight reliably

Moves per gross crane hour (GCH) – DCT Pier 1

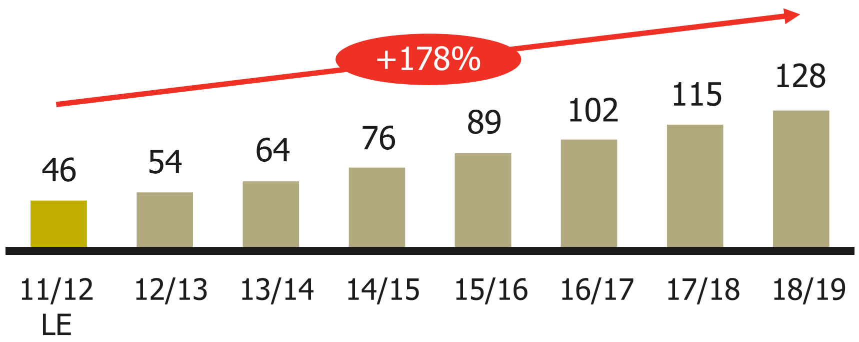


Moves per gross crane hour (GCH) – DCT Pier 2

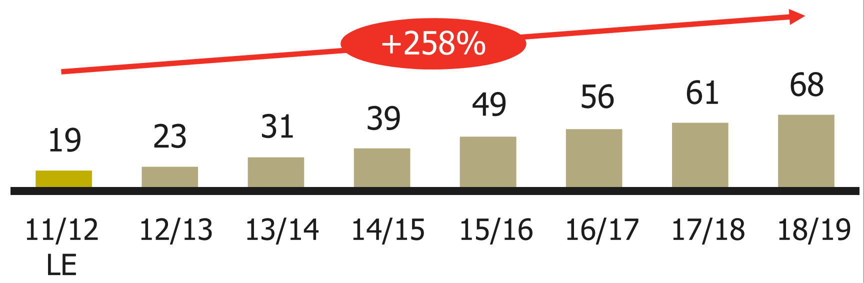


The Market Demand Strategy will build on Transnet's strong financial performance…

Revenue* (Rbn)

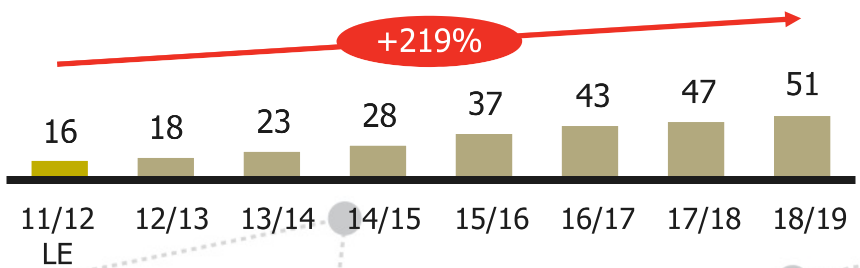


EBITDA (Rbn)



*Tariff increases on average are limited to CPI +2%

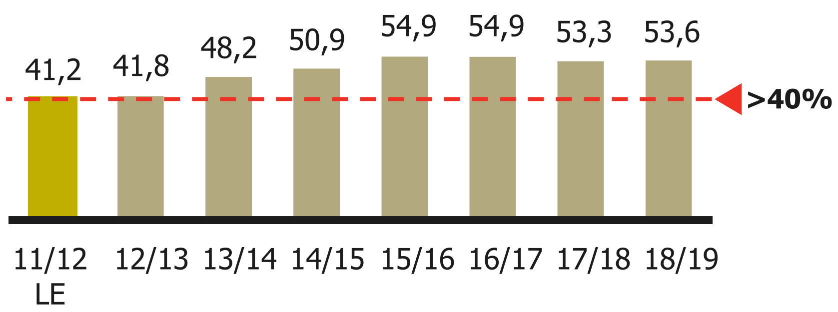
Cashflows from operating activities (Rbn)



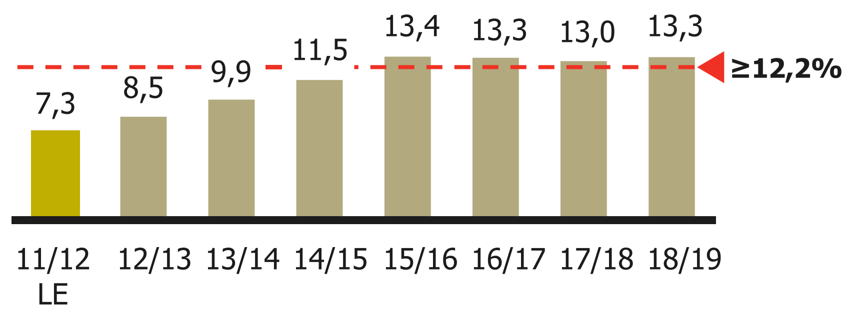
Transnet will maintain a solid financial position and credit rating

TRANSNET
delivering freight reliably

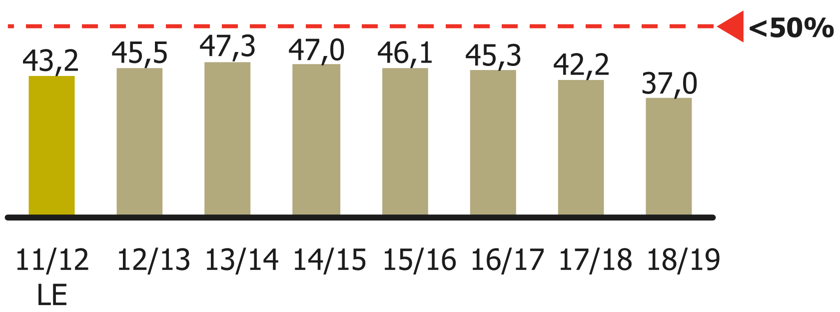
EBITDA margin (%)



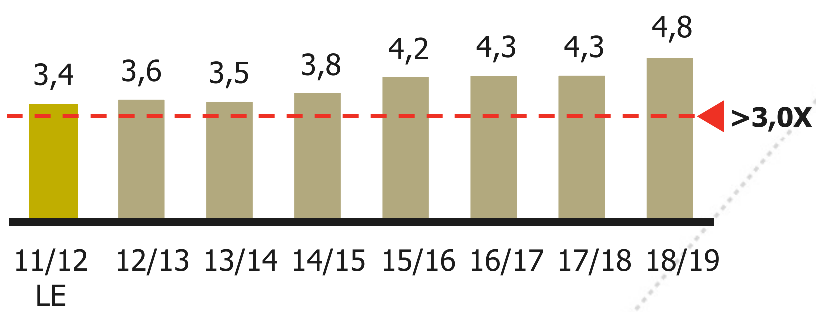
ROTA (%)*



Gearing (%)*



Cash interest cover (times)



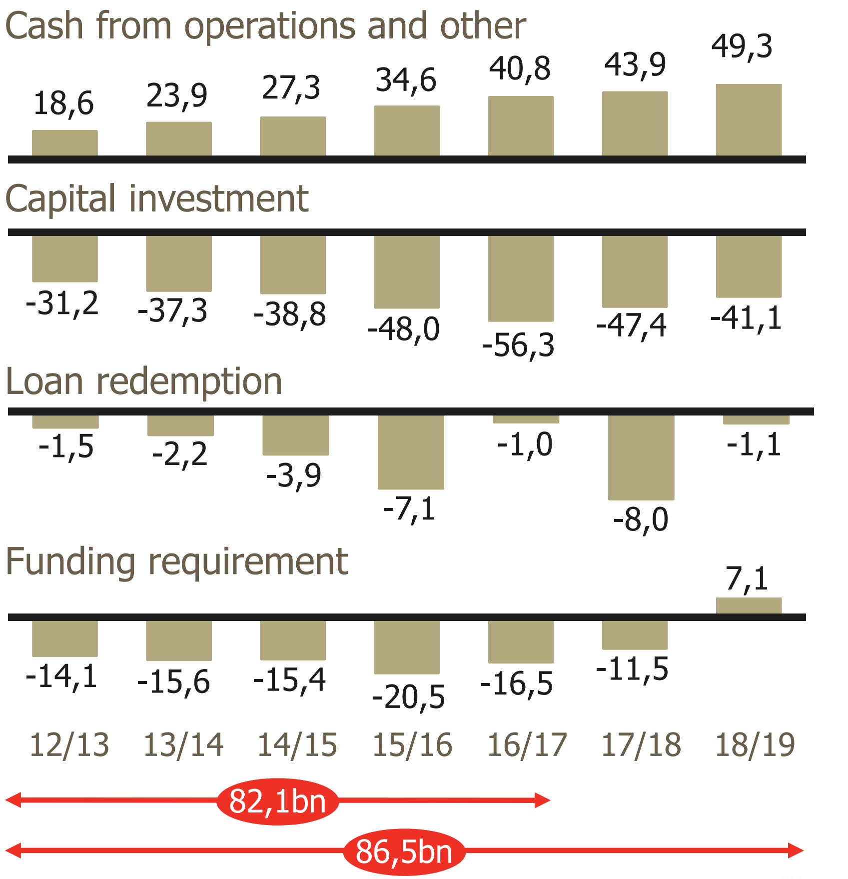
* Excludes Ports Regulator Clawback

~70% of capital investment will be funded from operating cashflows – Transnet is confident it can raise the balance externally

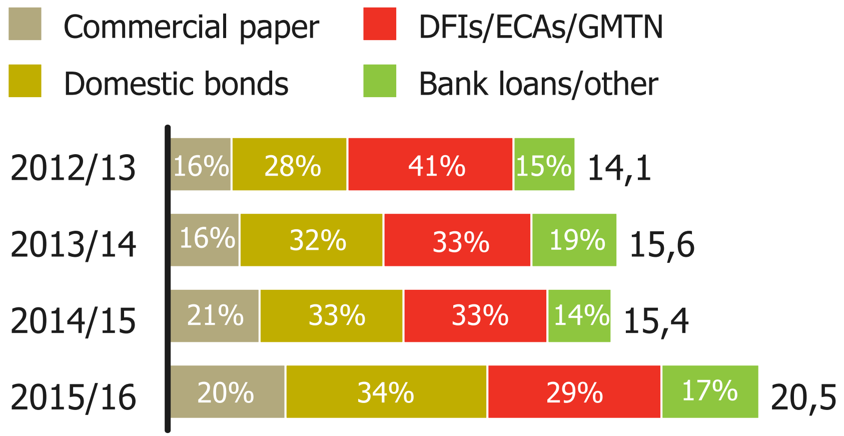
TRANSNET

delivering freight reliably

Funding cashflows (Rbn)



Probable sources of funding (Rbn)



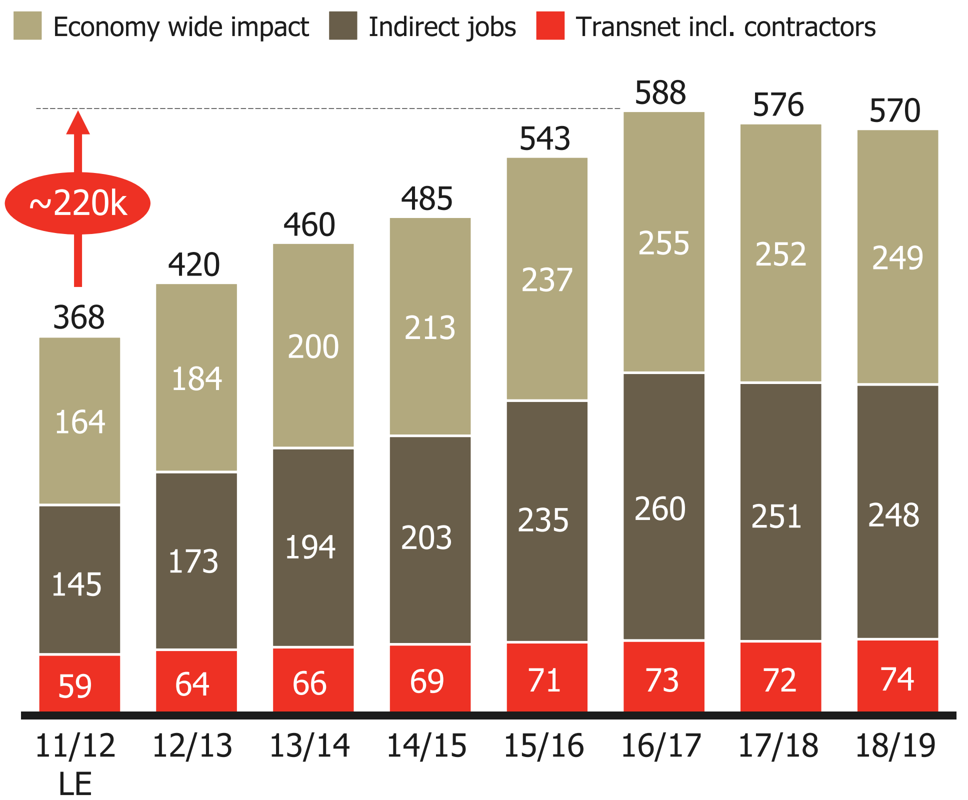
Potential further sources of funding

- Second issuance – GMTN
- Private placements
- Further funding with ECAs
- Syndicated loan market
- Asset-backed financing
- Bonds in other markets (e.g. Yen, USD, Sukuk)

MDS is expected to create 588,000 job opportunities at its peak with a large focus on skills and capacity building

TRANSNET
delivering freight reliably

Job creation impact of MDS on South Africa
'000 people



R7,6bn to be spent on training over the next 7 years

Additional **15,000 direct jobs**

Increased intake in **schools of excellence**

- **R4,6bn** spent on **bursaries** and **grants**
- **317 technicians in training** by 2018/19

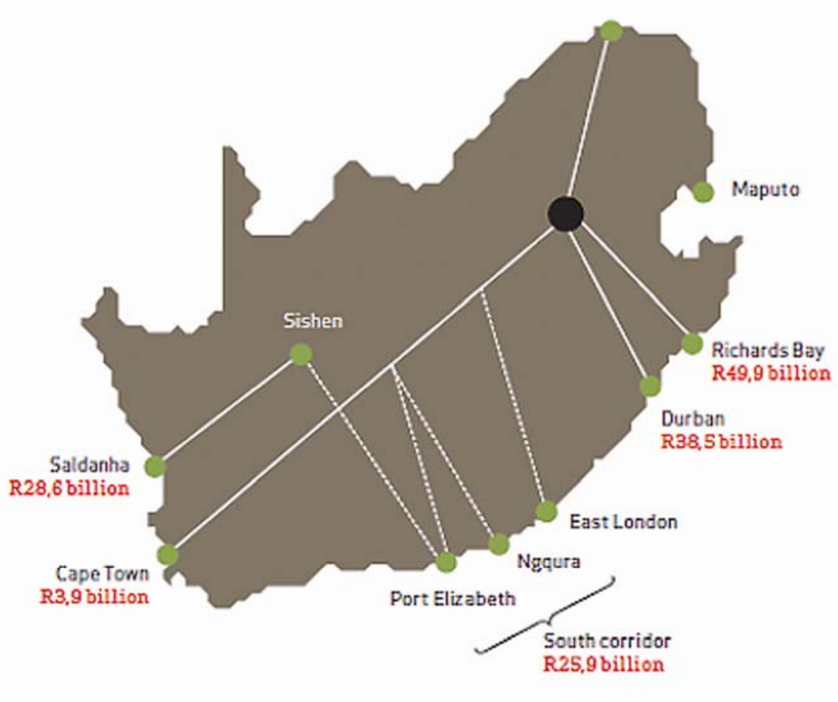
Step up **recruitment in critical skills** and expand annual intake

- **2,000** apprentices at all times
- Increase **engineering bursar** intake to **543** students in 2018/19

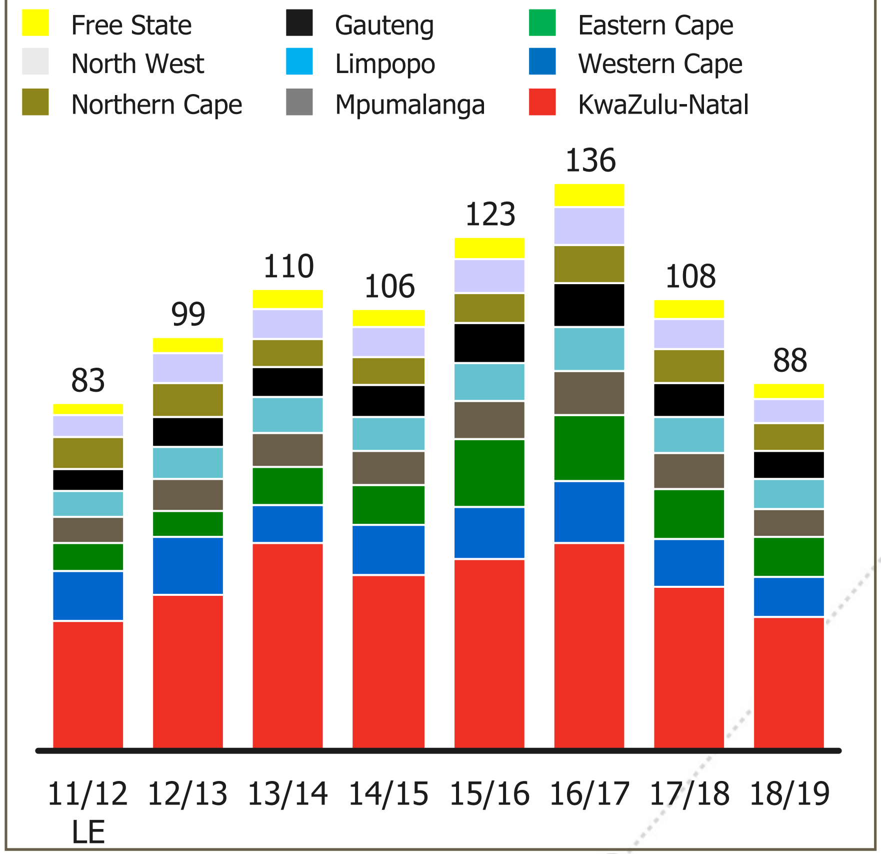
The impact of infrastructure development will be felt nation-wide

TRANSNET
delivering freight reliably

7 year capital investment by region[1]



Provisional contribution to direct and indirect jobs ('000)

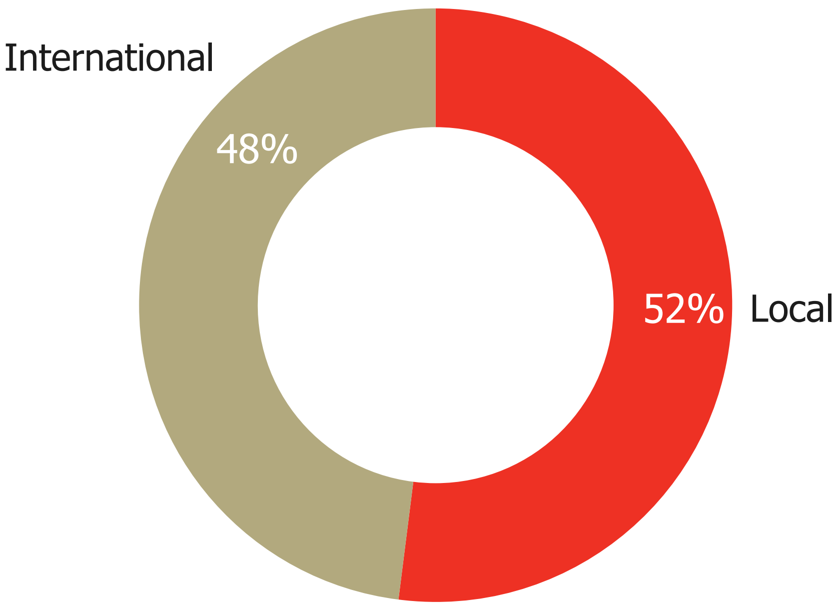


[1] National – countrywide investments – R153,3bn

MDS will promote localisation, transformation and empowerment

delivering freight reliably

Potential local content commitment for locomotives (%)



Localisation initiatives:

- **R2,9bn** already spent on local content by international suppliers
- International suppliers to **transfer knowledge and expertise** to up-skill local suppliers
- **On-the-job training and apprenticeships** will be built into international supplier contracts
- Provision of **jobs and procurement opportunities to rural areas** where facilities are located
- Assistance will be provided to small business to foster innovation and create jobs
- **~R4,2bn** expected to be spent over the next 7 years on small business promotion

Transformation initiatives:

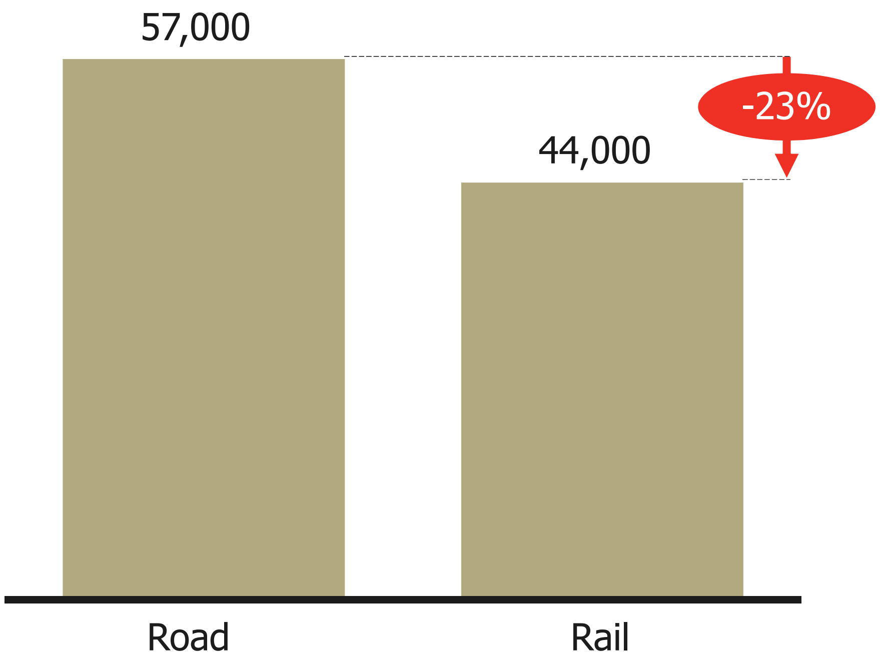
- Collaboration with **suppliers** to meet Government's **transformation** and **empowerment** objectives

MDS will reduce the cost of doing business by promoting a shift from road to rail

TRANSNET
delivering freight reliably

A shift from road to rail…

Total supply chain cost[1]
ZAR/TEU



…will lower the cost of doing business

- **Reduction in logistics costs** due to the lower factor costs of rail (0,5% of GDP)
- Additional reduction from **efficiency improvements** and **coastal transshipments**
- Preliminary **achievements** to lowering the cost of business:
  - Eskom road to rail migration
  - New Multi-Product Pipeline (NMPP)
  - Moving containers on rail

[1] Container with vehicle engines imported from Shanghai to Gauteng

MDS will position South Africa as the integrated hub into sub-Saharan Africa

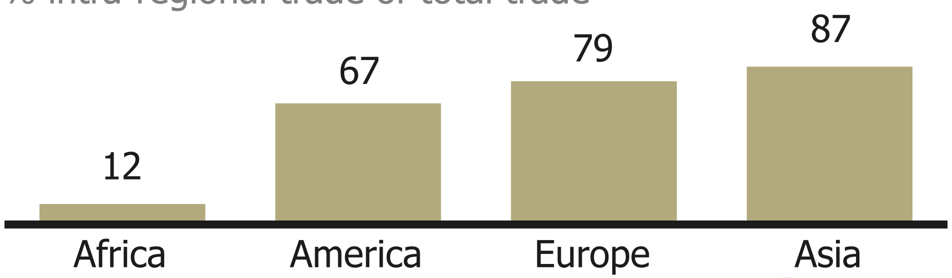
South Africa's commitment

*"As regional leaders, we carry a particular responsibility to serve as champions in **driving industrial and infrastructure development** both at the **regional and continental levels.**"*

– President Jacob Zuma, June 13, 2011

Regional integration potential

Africa's intra-regional trade is low
% intra-regional trade of total trade



Transnet's Africa strategy initiatives in progress

Rail

- Export of **wagons, locomotives** and **rail maintenance services**
- Develop the **North-South corridor**
- Growth of the **Maputo Corridor**
- **Increase** collaboration: Swaziland rail link

Ports

- Promote SA as a **regional trans-shipment hub** (Port of Ngqura)

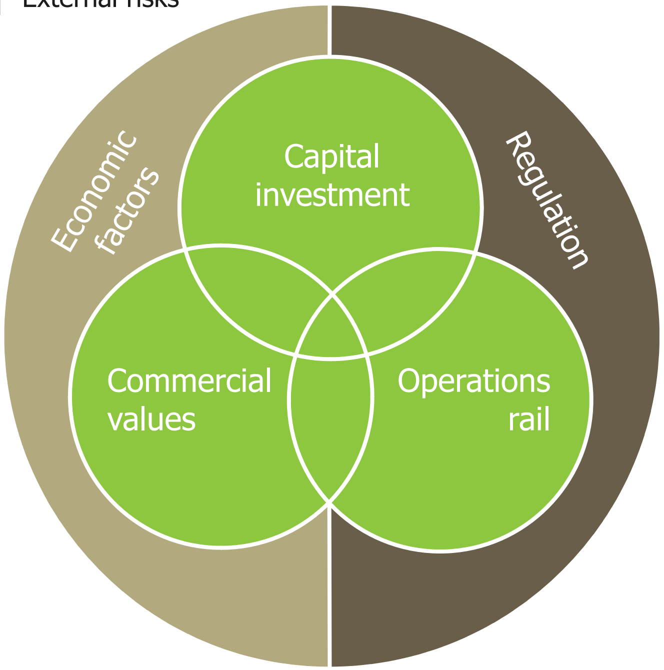
Pipelines

- Provision of **advisory services** Group
- Position SA as a skills development hub for the rest of Africa

MDS execution risks have been identified and mitigating actions have been developed

MDS faces both internal and external risks

Internal risks
External risks



External and internal risks that could potentially impact MDS have been identified and assessed

Mitigating Actions

Step-up capital execution capabilities	▪ Improved capital allocation ▪ Portfolio optimisation ▪ Improved capital execution ▪ Improve procurement process
Increase operational efficiencies	▪ Build operations **centre of excellence** at Rail and Ports ▪ Scheduled rail; revised fleet plan and improved network ▪ Develop **continuous improvement** teams to capture operational efficiencies ▪ Freight Rail restructured into customer focused business units that will drive accountability
Secure volumes and customer satisfaction	▪ Enhance key account management capabilities ▪ Develop **robust tariff methodology** and align with regulators ▪ **Secure volumes** through concluding **Take-or-Pay** contracts with key customers

Success ultimately depends on a broader South African partnership and support – SA citizens will reap benefits

TRANSNET

delivering freight reliably

Transnet

Performance

Government departments

Greater collaboration thereby creating and enabling environment for successful execution of MDS

Regulators

Alignment on tariff methodology and regulatory policy to create regulatory certainty

Investors

Continued support and access to cost effective funding to meet requirements

Suppliers

Partner with Transnet to deliver capital spend and achieve localisation and empowerment objectives

Key customers

Alignment and collaboration on growth and expansion plans and conversion to Take-or-Pay contracts

Employees

Increase in labour productivity to deliver on volume growth and MDS targets

Labour unions

Labour stability to support execution and competitiveness of SA freight logistics system

In conclusion, MDS is not only Transnet's, but also key to South Africa's growth strategy

TRANSNET

delivering freight reliably

The potential for South Africa is massive…	▪ Contribute to New Growth Path aspirations: expected to create up to **588,000 job opportunities** across the economy ▪ **Reduce the cost of doing business** (0,5% of GDP) ▪ Drive **regional integration** ▪ Localisation programme **supports local products and skills development**
It is financially sound	▪ Majority of the growth will be **funded internally** from operations ▪ **Gearing and cash interest cover** will maintain **investment grade credit rating**
We can execute…	▪ Execution risks will be **mitigated** through robust **implementation plans** ▪ **In partnership with its stakeholders, Transnet** can successfully realise the growth that MDS will bring to the country
It will improve Transnet's position…	▪ …as a **top-tier logistics provider** and SA's employer of choice ▪ Infrastructure development plans will create **world class freight infrastructure**

TRANSNET
delivering freight reliably

Thank You

Questions?