



Reviewed condensed consolidated financial results for the six months ended 30 September 2022

TRANSNET



Salient features

Revenue of R36,1 billion, increased by **2,0%**, in line with increased petroleum and container volumes.

Net operating expenses increased by 4,6% (below inflation) to **R23,1 billion**.

EBITDA of R12,9 billion, with the EBITDA margin decreasing to **35,9%**.

Cash generated from operations after working capital changes of **R11,9 billion**.

Capital investment increased by 4,8% to **R6,0 billion**.

B-BBEE spend amounted to **R11,88 billion** or **102,96%** of total measured procurement spend.

2,0% of labour costs were spent on training, focusing on artisans, engineers, and engineering technicians.

LTIFR performance of **0,66** against a tolerance of **0,75**, which is within the global benchmark of **1,0**.

Gearing of 43,7% and rolling cash interest cover at **2,1 times**.

Statement of changes in equity

for the six months ended

(in R million)	Issued capital	Revaluation reserve	Actuarial gains and losses	Cash flow hedging reserve	Other	Retained earnings	Total
Opening balance as at 1 April 2021	12 661	50 772	2 490	(571)	249	62 220	127 821
Total comprehensive income/(loss) for the period (net of tax and transfers to retained earnings)	—	3 999	(17)	159	—	(78)	4 063
Restated* balances as at 30 September 2021	12 661	54 771	2 473	(412)	249	62 142	131 884
Total comprehensive income/(loss) for the period (net of tax and transfers to retained earnings)	—	6 637	117	(171)	—	5 311	11 894
Balances as at 31 March 2022	12 661	61 408	2 590	(583)	249	67 453	143 778
Total comprehensive income for the period (net of tax)	—	6 197	34	208	—	159	6 598
Transfer to retained earnings (net of tax)	—	(28)	—	—	—	28	—
Balances as at 30 September 2022	12 661	67 577	2 624	(375)	249	67 640	150 376

* Restated balances at 30 September 2021 are due to restatements of the 31 March 2021 balances as reported in the 31 March 2022 annual financial statements, detailed in note 39.

Segment information

for the six months ended

(in R million)	Transnet Freight Rail		Transnet Engineering		Transnet National Ports Authority		Transnet Port Terminals		Transnet Pipelines		Total reportable segments		Other*		Total Transnet	
	Reviewed 30 Sept 2022	Reviewed 30 Sept 2021	Reviewed 30 Sept 2022	Reviewed 30 Sept 2021	Reviewed 30 Sept 2022	Restated reviewed 30 Sept 2021	Reviewed 30 Sept 2022	Reviewed 30 Sept 2021	Reviewed 30 Sept 2022	Restated reviewed 30 Sept 2021	Reviewed 30 Sept 2022	Restated reviewed 30 Sept 2021	Reviewed 30 Sept 2022	Reviewed 30 Sept 2021	Reviewed 30 Sept 2022	Restated reviewed 30 Sept 2021
External revenue*	18 505	19 505	45	339	5 557	5 124	8 780	7 408	2 840	2 594	35 727	34 970	326	391	36 053	35 361
Internal revenue	220	312	3 807	3 669	1 172	1 124	—	—	2	3	5 201	5 108	(5 201)	(5 108)	—	—
Total revenue	18 725	19 817	3 852	4 008	6 729	6 248	8 780	7 408	2 842	2 597	40 928	40 078	(4 875)	(4 717)	36 053	35 361
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	4 580	6 261	(775)	(1 113)	3 958	3 867	3 051	2 340	2 660	2 277	13 474	13 632	(541)	(367)	12 933	13 265
Total assets**	180 676	167 334	15 754	16 208	97 400	87 246	26 778	22 884	40 664	41 011	361 272	334 683	2 861	7 179	364 133	341 862
Total liabilities	126 630	120 930	14 619	12 648	24 924	25 868	6 602	5 664	17 461	20 475	190 236	185 585	23 843	24 674	214 079	210 259
Capital expenditure***	4 891	4 122	(3)	44	570	337	495	793	45	193	5 998	5 489	(13)	223	5 985	5 712
Cash generated from operations after changes in working capital	2 137	11 082	426	(2 555)	3 050	4 151	3 357	3 046	1 937	2 236	10 907	17 960	1 039	524	11 946	18 484

* Revenue from segments below the quantitative thresholds are attributable to Transnet Property and the corporate centre function. Transnet Property manages internal and external leases of commercial and residential property and the Transnet corporate centre function performs an administration function for the Group.

** Excludes assets held-for-sale.

*** Excludes capitalised borrowing costs, includes capitalised finance leases and capitalised decommissioning liabilities.

Income statement

for the six months ended

(in R million)	Reviewed 30 Sept 2022	Reviewed 30 Sept 2021	Audited 31 March 2022
Revenue	36 053	35 361	68 459
Net operating expenses excluding depreciation and amortisation	(23 120)	(22 096)	(45 010)
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)	12 933	13 265	23 449
Depreciation, derecognition and amortisation	(7 586)	(7 399)	(14 847)
Profit from operations before items listed below:	5 347	5 866	8 602
Impairment of assets	(97)	(820)	(2 534)
Post-retirement benefit obligation expense	(44)	(50)	(190)
Fair value adjustments	914	76	10 175
Income/(loss) from associates and joint ventures	11	5	(6)
Profit from operations before net finance costs	6 131	5 077	16 047
Finance costs	(5 690)	(5 144)	(10 684)
Finance income	15	58	126
Profit/(loss) before tax	456	(9)	5 489
Tax	(297)	(69)	(441)
Profit/(loss) for the period	159	(78)	5 048

Statement of comprehensive income

for the six months ended

(in R million)	Reviewed 30 Sept 2022	Reviewed 30 Sept 2021	Audited 31 March 2022
Profit/(loss) for the period	159	(78)	5 048
Other comprehensive income for the period, net of tax	6 439	4 141	10 909
Other comprehensive income	8 776	5 727	13 718
Gains on revaluations	8 444	5 529	13 640
Cash flow hedges	286	221	(5)
Actuarial loss on post-retirement benefit obligations	46	(23)	83
Tax relating to components of other comprehensive income	(2 337)	(1 586)	(2 809)
Total comprehensive income for the period	6 598	4 063	15 957

Headline earnings summarised reconciliation

for the six months ended

(in R million)	Reviewed 30 Sept 2022	Reviewed 30 Sept 2021	Audited 31 March 2022
Profit/(loss) for the period attributable to the equity holder	159	(78)	5 048
Loss on the disposal of property, plant and equipment	80	66	137
Total remeasurements	57	843	(7 695)
Investment property fair value adjustments	(92)	43	(9 814)
Impairment of non-financial assets	149	800	2 119
Total tax effects of adjustments	(42)	(252)	1 511
Headline earnings	254	579	(999)

Statement of financial position

as at

(in R million)	Reviewed 30 Sept 2022	Restated reviewed 30 Sept 2021	Audited 31 March 2022
Assets			
Non-current assets	343 601	323 647	332 636
Property, plant and equipment	308 366	295 952	300 738
Investment property	29 053	16 838	29 112
Intangible assets	649	778	740
Investments in associates and joint ventures	93	108	93
Derivative financial assets	4 179	8 760	787
Long-term loans and advances	—	—	—
Other financial assets	1 261	1 211	1 166
Current assets	20 854	18 496	22 882
Inventory	3 677	3 549	3 615
Trade and other receivables	8 194	8 537	7 816
Contract assets	818	735	651
Current tax asset	2	—	2
Derivative financial assets	95	30	6 494
Short-term investments	54	64	61
Cash and cash equivalents	7 692	5 300	3 936
Assets classified as held-for-sale	322	281	307
Total assets	364 455	342 143	355 518
Equity and liabilities			
Capital and reserves	150 376	131 884	143 778
Issued capital	12 661	12 661	12 661
Reserves	137 715	119 223	131 117
Non-current liabilities	130 060	140 528	152 951
Employee benefits	727	890	776
Long-term borrowings	67 757	81 186	92 301
Derivative financial liabilities	443	2 072	1 458
Long-term provisions	10 126	9 603	10 007
Deferred tax liability	47 315	43 089	44 680
Other non-current liabilities	3 692	3 688	3 729
Current liabilities	84 019	69 731	58 789
Contract liabilities	1 259	1 442	1 259
Trade payables and accruals	22 212	21 068	19 945
Short-term borrowings	59 807	46 573	36 537
Current tax liability	—	1	—
Derivative financial liabilities	30	16	49
Short-term provisions	711	631	999
Total equity and liabilities	364 455	342 143	355 518

Statement of cash flows

for the six months ended

(in R million)	Reviewed 30 Sept 2022	Reviewed 30 Sept 2021	Audited 31 March 2022
Cash flows from operating activities	15 211	12 563	17 534
Cash generated from operations	10 710	14 148	25 601
Changes in working capital	1 236	4 336	3 457
Cash generated from operations after changes in working capital	11 946	18 484	29 058
Finance costs	(4 781)	(5 016)	(9 980)
Finance income	15	58	126
Tax paid	—	—	(13)
Settlement of post-retirement benefit obligations	(46)	(38)	(120)
Derivatives settled and raised	8 077	(925)	(1 537)
Cash flows utilised in investing activities	(6 403)	(5 757)	(13 115)
Investment to maintain operations	(5 503)	(4 513)	(10 293)
Investment to expand operations	(909)	(1 379)	(3 019)
Changes in investments, loans, advances and other investing activities	9	135	197
Cash flows utilised in financing activities	(5 052)	(2 674)	(1 651)
Borrowings raised	26 300	7 758	18 411
Borrowings repaid	(31 352)	(10 432)	(20 062)
Net increase in cash and cash equivalents	3 756	4 132	2 768
Cash and cash equivalents at the beginning of the period	3 936	1 168	1 168
Cash and cash equivalents at the end of the period	7 692	5 300	3 936

Commentary

Introduction

The global economy has entered a period of persistently high inflation and weaker economic growth in the wake of the heightened geo-political tensions and the economic activity slowdown in China. The domestic economy contracted by 0,7% in the second quarter of 2022 caused by the flooding in Kwa-Zulu Natal (KZN) and power cuts across the country. Transnet's rail operations had to endure operational challenges that with the KZN flood impact and economic pressures has resulted in a decline in rail volumes that minimized the increase in Group revenue and has driven the decline in EBITDA when compared to the prior period.

Performance overview

Revenue for the period increased by 2,0% to R36,1 billion (2021: R35,4 billion), in line with positive operational performance from the pipeline and port businesses which resulted in increased petroleum (+4,9%) and container volumes (+3,3%). Rail volumes decreased by 9,2%, adversely affected by the KZN floods, cable theft, vandalism of infrastructure, equipment challenges and operational inefficiencies, relating mainly to the general freight and export coal businesses.

Net operating expenses increased by 4,6% to R23,1 billion, (2021: R22,1 billion) due mainly to the impact of the third-party settlement received in the prior period in lieu of all future claims against this party (which was once off) as well as increased fuel and maintenance costs for the period.

Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 2,5% to R12,9 billion (2021: R13,3 billion) with a resultant decrease in the EBITDA margin to 35,9% (2021: 37,5%).

Depreciation, derecognition and amortisation of assets increased by 2,5% to R7,6 billion (2021: R7,4 billion), due mainly to the revaluation of rail and port infrastructure in March 2022 and capital expenditure in the current financial period.

Profit from operations after depreciation and amortisation decreased by 8,9% to R5,3 billion (2021: R5,9 billion).

Impairment of assets, amounting to R97 million (2021: R820 million), is primarily due to property, plant and equipment impairments, resulting from the flooding in KZN and derailments, partially offset by a positive index valuation on port operating assets, and the reversal of the impairment of trade and other receivables..

Post-retirement benefit obligations are actuarially assessed in accordance with IAS 19: *Employee Benefits* and adjusted accordingly. The Company recognised a cost of R44 million (2021: R50 million) during the period.

Fair value adjustments amounted to a R914 million gain (2021: R76 million gain). These adjustments are mainly due to derivative fair value gains as a result of interest rate swaps that are hedge accounted for, in terms of IFRS 13: *Fair Value Measurement*, as well as a gain on investment property valuation recognised in terms of IAS 40: *Investment Property*.

Profit from operations before net finance costs increased by 20,4% to R6,1 billion (2021: R5,1 billion).

Net finance costs increased by 11,6% to R5,7 billion (2021: R5,1 billion) resulting mainly from the interest rate hikes from the prior period.

The tax charge of R297 million (2021: R69 million) consists of a deferred tax expense. The increase in the deferred tax charge arose mainly due to the profit for the period. The effective tax rate for the Group is 65,1%.

This resulted in a profit for the period of R159 million (2021: R78 million loss).

Commentary on operating divisions

Transnet Freight Rail (Freight Rail)

Operationally, Freight Rail was negatively impacted by continued challenges relating to security related incidents, rolling stock unavailability and safety incidents. This resulted in a slower than expected recovery from the constrained volume base of the prior financial period. These trading conditions negatively impacted rail volume performance as evidenced by a decline in operational and financial results relative to the prior period. Volume performance was lower than the prior period, reflecting a decrease of 9,2% to 81,5 million tons (mt) (2021: 89,8mt).

Revenue for the period under review decreased by 5,5% to R18,7 billion (2021: R19,8 billion). The decrease in revenue is largely attributable to the 9,2% decrease in rail volumes, partially offset by an increased average Rand/Ton to R226,75 (2021: R210,78). The increase in average Rand/Ton reported at 7,6% is in line with the inflation rate which peaked to reach 7,61% in August 2022 (latest official inflation data) but lower than the PPI which reached 16,6% in the same period.

General freight business

The general freight business volumes reflected a decline of 15,4% to 27,0mt (2021: 31,9mt), compared to the prior period, with the primary contributors to the decline arising from the container, mineral mining and steel and scrap businesses.

The poor performance was attributable to the KZN floods, security challenges in the form of cable theft, vandalism, network deterioration and resource constraints. The average turnaround times did however reflect a marginal decrease from 13,8 days to 13,6 days (1,4%), in spite of the aforementioned operational challenges.

Export coal line

The business railed 26,2mt of export coal (2021: 29,2mt), 10,3% less than the prior period. The deterioration in performance was mainly due to an increase in derailments, security related challenges, unavailability of resources and an unreliable rail network. Average wagon cycle times were negatively impacted owing to the factors mentioned and declined from an average of 70,8 hours to 86,5 hours (22,2%).

Export iron ore line

Export iron ore volumes transported declined by 1,4% to 28,3mt (2021: 28,7mt). The deterioration in performance was mainly due to an increase in derailments, tippler reliability at the harbours, unavailability of resources and an unreliable rail network. In spite of these challenges, average wagon cycle times decreased by 1,7% from an average of 90,4 hours to 88,9 hours.

Operating expenditure increased by 4,3% to R14,1 billion compared to the prior period (2021: R13,6 billion), largely due to an increase in fuel, security and maintenance costs. Fuel costs increased by 39% to R1,5 billion (2021: R1,1 billion) despite the decline in volume performance relative to the prior period primarily owing to tariff increases and use of diesel locomotives in lines where the organisation faced challenges of cable theft on electricity lines. Maintenance costs reflected an increase of 34,9% to R1,6 billion (2021: R1,2 billion). The rise in costs can be attributable to an increase in maintenance activities as well as repairs linked to the KZN flood damage. The increase in maintenance costs is furthermore in line with the division's drive to improve the state of the rolling stock and the rail network to address some of the backlog maintenance that has led to persistent operational challenges.

Driven by the decline in volumes and on the back of an increase in operating costs, EBITDA deteriorated by 26,8% to R4,6 billion.

Transnet Engineering (Engineering)

Revenue for the period decreased by 3,9% to R3,9 billion (2021: R4,0 billion), driven by a reduction in cross border sales due to significant transactions completed in the prior period that were not matched in the current, partially offset by increased sales to Freight Rail in line with their maintenance programme drive.

Net operating expenses decreased by 9,6 % to R4,6 billion (2021: R5,1 billion). This is mainly attributable to the decrease in personnel costs as a result of the voluntary severance package offering that took place in quarter 4 of the 2021 calendar year.

Consequently, an EBITDA loss of R775 million (2021: R1,1 billion loss) has improved by 30,4% in comparison to the prior period.

Transnet National Ports Authority (National Ports Authority)

Revenue increased by 7,7% to R6,73 billion (2021: R6,25 billion) due mainly to increased marine, container and bulk revenue.

Net operating expenses increased by 16,4% to R2,77 billion (2021: R2,38 billion), due mainly to increased maintenance, energy (higher electricity and fuel costs) and material costs as a result of increased activity arising from higher volumes moved.

Accordingly, EBITDA has increased by 2,4% to R3,96 billion (2021: R3,87 billion).

Transnet Port Terminals (Port Terminals)

Revenue increased by 18,5% to R8,8 billion (2021: R7,4 billion).

Volume performance across all sectors shows an improvement with continued recovery from COVID-19 which negatively impacted the prior year's financial performance. Container volumes increased by 3,3% to 2 182 948 TEUs (2021: 2 112 199 TEUs). The container sector has been positively impacted by the mix of imported empty containers used during the reefer season. This sector was further positively impacted by the ramp-up strategy which focuses on efficiencies, productivity and equipment availability in some terminals, however performance in Durban was hampered in Q1, by adverse weather (storm and excess flooding). Automotive volumes increased by 22,0% to 433 828 units (2021: 355 565 units). The automotive sector has been positively impacted by MBA SA ramping up volumes in East London prior to their three-week plant shutdown in August and an increase in volumes in Durban and Port Elizabeth due to improved production of parts. Bulk volumes increased by 5,5% to 38,5mt (2021: 36,5mt) despite equipment challenges in Saldanha, rail supply issues and capacity issues at Richards Bay following the fire incidents. Break-bulk volumes increased by 32,7% to 15,0mt (2021: 11,3mt) due to favourable market conditions, and the diversion of volumes in Richards Bay to the multi-purpose terminal.

Port Terminals' primary measure of operational efficiency, average moves per ship working hour (SWH), has improved across the container terminals compared to the prior period. The Durban Pier 1 Container Terminal has improved its average SWH performance from 39 moves per hour in 2021 to 40 moves per hour in 2022. Ngura Container Terminal has improved from 34 to 42 moves per hour in 2022 and the Cape Town Container Terminal (CTCT) has improved from 33 to 35 moves per hour in 2022. Durban's Pier 2 Container Terminal has decreased from 48 moves per hour in 2021 to 44 moves per hour in 2022 having largely been impacted by adverse weather conditions and poor equipment availability or reliability.

The Richards Bay Dry Bulk Terminal's loading rate has marginally improved from to 708 tons per hour in the reporting period (2021: 701 tons per hour) and the discharge (offloading) rate improved to 345 tons from 320 tons in the prior period. The average tons dald loaded per hour at the Saldanha Iron Ore Terminal has been maintained above the target of 8 100 tons per hour.

Net operating expenses increased by 13,0% to R5,7 billion (2021: R5,1 billion). The increase in cost is mainly due to price related increases in fuel costs, repairs and maintenance due to aging equipment.

The resultant impact on Port Terminal's EBITDA is an increase of 30,4% to R3,1 billion (2021: R2,3 billion).

Transnet Pipelines (Pipelines)

Revenue for the period has increased by 9,4% to R2,8 billion (2021: R2,6 billion) due to the volume and regulatory tariff increase.

The petroleum volumes transported increased by 4,9% to 7 997 million litres (2021: 7 609 million litres) as a result of improved economic activity.

Net operating expenses decreased by 43,1% to R182 million (2021: R320 million). The decrease in cost is predominantly as a result of an assessment of the environmental provision in the current period based on the remediation activities to be undertaken on site.

Consequently, EBITDA for the period has increased by 16,8% to R2,7 billion (2021: R2,3 billion).

Group financial position

Revaluation of property, plant and equipment

The Group assesses the revaluation of its rail infrastructure, port infrastructure and pipeline networks in line with its accounting policy, which requires an independent valuation every three years, as well as index valuations in the intervening periods. During the period, index valuations were performed on rail infrastructure, port infrastructure, as well as port operating and pipeline assets.

- The carrying value of rail infrastructure required a revaluation of R7,6 billion (March 2022: R6,6 billion).
- The carrying value of port facilities required a revaluation of R885 million (March 2022: R4,1 billion).
- The carrying value of pipeline networks did not require a revaluation adjustment (March 2022: R905 million).

These revaluation adjustments are performed in accordance with IAS 16: *Property, plant and equipment*.

Deferred tax

The deferred tax liability increased to R47,3 billion (March 2022: R44,7 billion), mainly as a result of the deferred tax impact on revaluations recorded directly in equity and the impact of the net profit for the period.

Cash flows

Cash generated from operations after working capital changes decreased by 35,4% to R11,9 billion (2021: R18,5 billion) due mainly to the rail business performance affected by the impact of the KZN floods and other operational challenges. The rolling cash interest cover (CIC) ratio at 2,1 times (2021: 2,6 times) is mainly as a result of the decreased cash generated from operations after working capital changes and the higher net finance costs. This has resulted in a breach in certain loan covenants, with all the required waivers received from the affected lenders.

Borrowings

A well-defined funding strategy enabled Transnet to raise R26,3 billion debt (including the Deutsche Bank syndicated loan and a GMTN bridge facility) during the interim period without Government guarantees. Transnet also made debt repayments of R31,4 billion (including the TNUMS22 bond redemption in July 2022 and net call loan repayments) during the reporting period.

The gearing ratio decreased to 43,7% (March 2022: 45,5%), within the Group's target range of <50,0%, and is well within the triggers in loan covenants. The improvement is mainly as a result of the revaluation adjustments made to rail and port infrastructure in the interim reporting period.

Derivative financial assets and liabilities

Derivative financial instruments are held by the Group to hedge financial risks associated with its capital investment and borrowing programmes. The ‘mark-to-market’ of these derivative financial instruments resulted in a net derivative financial asset of R3,8 billion (March 2022: R5,8 billion). The decrease from March 2022 is mainly due to the settlement of foreign borrowings (mainly the TNUMS22 bond) that were hedged, closing out the derivative financial asset position. Cross-currency interest rate hedges and forward-exchange contracts were executed to eliminate foreign currency and interest rate risk on borrowings. These hedges have been hedge accounted for in terms of IFRS 9: *Financial Instruments*.

Pension and post-retirement benefit obligations

The two defined benefit funds, namely the Transnet sub-fund of the Transport Pension Fund (TPFF) and the Transnet Second Defined Benefit Fund (TSDBF) are fully funded with actuarial surpluses of R1 565 million (March 2022: R1 381 million) and R4 671 million (2022: R4 013 million) respectively. Transnet has not recognised any portion of the surplus on these funds, as the fund rules do not allow for the distribution of a surplus.

The total value of ad hoc bonuses paid to beneficiaries by the TTPF (since December 2011) and TSDBF (since November 2007) amounts to R553 million and R4,8 billion respectively. These payments continue to supplement the current statutory increase of the beneficiaries of the TTPF and TSDBF to provide pensioners with increases above CPI.

The post-retirement medical benefit obligation is approximately R326 million (2022: R368 million).

Contingencies and commitments

There were no material movements in contingencies and commitments since 31 March 2022.

Guarantees

The sole Shareholder in Transnet SOC Ltd, namely the South African Government, has guaranteed certain borrowings of the Group amounting to R3,5 billion (March 2022: R3,5 billion), representing 2,7% of total borrowings of R127,6 billion. No Government guarantees have been issued since 1999.

Capital investment

The Transnet Group continued to execute its capital investment programme. Capital expenditure for the interim period amounted to R6,0 billion with R324 million invested in the expansion of capacity while R5,7 billion was invested to maintain current capacity.

The infrastructure investment highlights for the interim period included:

- R2,1 billion invested to maintain the condition of rail infrastructure;
- R2,1 billion invested to maintain the condition of rolling stock;
- R217 million invested in the acquisition of new locomotives;
- R212 million invested in the construction of the new tippler in Saldanha and all the related bulk electric power supply;
- R93 million invested in wagon fleet renewal and modernisation;
- R86 million invested in the replacement of conveyor belts;
- R19 million invested in the NMPP programme;
- R17 million invested in the roads, port entrance and other services for the Tank farm in the Port of Ngqura; and
- R4 million invested on the acquisition of 45 straddle carriers.

Economic, social and environmental impact

Broad-based black economic empowerment (B-BBEE) enterprise and supplier development

Transnet embraces transformation through alignment with the B-BBEE legislation in order to realise South Africa's full economic potential. The Group is guided the Enterprise Development programme informed by the Broad-Based Black Economic Empowerment Act, No 53 of 2003, as amended (Act 46 of 2013), as well as the B-BBEE Codes of Good Practice. As a SOC, Transnet is also guided by section 5 of the Preferential Procurement Policy Framework Act (PPPFA) which is intended to assist with the implementation of the PPPFA Regulations 5 of 2020. Transnet remains focused on broadening and improving meaningful B-BBEE participation in the economy and extensively increasing its participation through the involvement of communities in the Company's procurement opportunities to drive ownership and control of enterprise and supplier development.

As a state-owned company, Transnet's Broad-Based Black Economic Empowerment (B-BBEE) verification covers six of the seven elements of the Generic Transport Public Sector Scorecard, excluding the ownership element. The Rail Charter, Maritime Charter and Property Charter are also applied. Transnet maintained and retained a level 2 B-BBEE status for 2021/2022. Transnet acknowledges the importance of B-BBEE as a critical component of achieving sustainable and inclusive economic growth. The Company will, therefore, continue to optimise its contribution to B-BBEE in the execution of its mandate as a State-owned Company.

Transnet's total recognised B-BBEE YTD September 2022 spend, as per the Department of Trade and Industry Codes (the Codes), is R11,88 billion or 102,96% of total measured procurement spend (TMPS) of R11,53 billion. Transnet spent R6,28 billion (54,47% of TMPS spend) on black-owned enterprises; R3,75 billion (32,52% of TMPS spend) on black women-owned enterprises; R2,32 billion (20,12% of TMPS spend) on exempted micro-enterprises (EME) and R1,38 billion (11,97% of TMPS spend) on qualifying small enterprises (QSE). Black youth enterprises spend accounts for R274 million (2,38% of TMPS) and enterprise spend relating to black people living with disabilities accounts for R18,58 million (0,16% of TMPS).

Safety

An integrated safety strategy has been developed for Transnet, with the aim of getting Transnet back to basics. Safety must be inculcated within the organisation driven by leadership with the cardinal rule being safety. A safety 10-point plan has been developed to assist the organisation in achieving its safety performance objectives as well as ensuring that basic safety practices are reinforced. The safety 10-point plan encompasses leadership mobilisation, operational safety, workplace safety, personal protection equipment, cardinal safety rules, occurrence and emergency management, public safety, training and awareness, reinforcements and safety visibility.

Sadly, five colleagues lost their lives in work-related incidents during the current period. Transnet extends its deepest condolences to the families, friends and colleagues of these late employees. In-depth investigations have taken place and it is through these, that Transnet can create a learning environment to prevent any future loss of life.

Transnet's rolling lost time injury frequency rate (LTIFR) is 0,66 compared to the tolerance of 0,75. Public fatalities have decreased by 44,4% and are attributed to factors such as level crossing accidents, the encroachment of the rail and fuel reserve by informal settlements, as well as trespassing. It is imperative that more focus is placed on community safety. Transnet continues to work in collaboration with local municipalities, schools, the South African Police Services and the Railway Safety Regulator to create community awareness about the dangers of living near railway lines.

Transnet acknowledges that its safety performance requires a significant improvement. The focus is concentrated around critical risk areas such as emergency and disaster management, recurring operational incidents and important programmes such as occupational hygiene and human factors. Safety performance is reported to the highest levels, including the Board. The improvement of Transnet's safety performance is a continuous process that will remain at the core of the organisation's strategic initiatives.

Corporate social investment (CSI)

Transnet's commitment to uplifting and contributing to the development of communities across the country, despite current economic conditions, underpins the CSI initiatives implemented for the period. In spite of the expected constrained budgets due to economic conditions the Group has made a concerted effort to ensure that CSI remains a key priority to create shared value between communities and the organisation, as a commitment to serving South Africa as a good corporate citizen.

The Company implemented services in five core focus areas of health, education, sport development; socio-economic infrastructure development and employee volunteerism. Extensive efforts were dedicated to exploring potential partnerships that will deepen CSI impacts to inculcate long-term, sustained development in communities and resulted in an estimated R50 million investment.

Health

Transnet's flagship "Phelophepa" health care trains provided comprehensive, high-end primary health care services to communities situated along the rail corridors. Service offerings to the most vulnerable and marginalised included general health check-ups, screening for a range of health conditions, the provision of dentistry, optometry, and psychology services. Additionally, Phelophepa provided a range of medicines and manufactured and distributed 470 pairs of spectacles to those in need. This resulted in the trains assisting 324 600 patients, the provision of training to 2 750 community volunteers in basic healthcare and the creation of 3 120 temporary jobs.

Education

Transnet's orphaned youth programme continued to provide much needed financial and psycho-social support to 23 orphaned youth, that Transnet helps in the quest to provide them with access to a quality education. Additionally, schools in the Free State (Xhariep) and Limpopo (Ba-Phalaborwa) have been identified to be recipients of ICT centres, sponsored by Transnet.

Sport development

Through the sponsorship of the Transnet/SAFA Football School of Excellence, 120 talented potential professional soccer players attend the school. Transnet provides the means for the learners at the school to receive a quality education and professional soccer coaching, in the hope of contributing to professional football talent development in South Africa.

Socio-economic infrastructure development (SEID)

Through its SEID portfolio, the Group completed a new community centre in Idondotha in the King Cetshwayo District Municipality of Kwa-Zulu Natal. This centre will open its doors shortly to enable socio-economic development activities in the area in collaboration with the local municipality.

Employee volunteerism

This portfolio has aimed at harnessing the skills and experience of Transnet employees to make a difference in communities. Through volunteerism activities as well as considerable resource investment by Transnet, creches in the communities of Marikana and Rustenburg were provided with much needed repairs and refurbishments to enable a more conducive environment for children to develop in. In addition, Transnet also 'greened' a sport field of a local high school in Saldanha.

Energy efficiency and carbon emissions reduction

Transnet's energy efficiency and carbon emissions reduction has improved generally due mainly to the lower activity as a result of the impact of the floods in KZN and rail related operational challenges. Transnet's total electricity consumption for the period is 933 GWh compared to 1 032 GWh in the prior period, a decrease of 9,6%. The decrease in consumption is attributed to a 6,4% reduction in overall Transnet volumes. Transnet's total fuel consumption for the period is 77,9 megalitres compared to 87,2 megalitres in the previous period, a decrease of 10,7%. The decrease in megalitres is attributed to a 10,6% decrease in traction volumes. Transnet's total carbon emissions for the period is 1,21 mtCO₂e compared to 1,34 mtCO₂e in the prior period, a decrease of 9,7%. The decrease in carbon emissions is attributed to a 10,1% decrease in overall Transnet energy consumption, which is in line with reduced volumes. Transnet's total energy efficiency recorded 20,49 ton/GJ compared to 19,67 ton/GJ in the prior period, an improvement of 4,2%.

Transnet's carbon emissions intensity recorded 9,36 kgCO₂e/ton compared to 9,67 kgCO₂e/ton in the prior period, an improvement of 3,2%.

Human capital

Transnet's permanent employee headcount as at 30 September 2022 was 45 877. The Company spent 2,0% of its labour cost on training during the period, focusing on artisans, engineers, and engineering technicians. Overall, Transnet awarded 2 full-time engineering bursaries in various disciplines and 35 engineering technician trainees were given workplace experience opportunities. One new apprentice joined the Company's apprenticeship scheme and 57 new young professionals-in-training were contracted.

Sector-specific skills development continued to focus on maritime, rail and port terminal operations, with 658 learners participating in these programmes. Currently, the Company has access to 797 apprentices and 267 engineering bursars in its talent pool.

Transnet did not achieve its employment equity targets across all job grades. The employee race profile for the period was 79,6% african, 9,6% coloured, 3,1% indian and 7,7% white. Female representation now exceeds 36,9% in executive, senior, professional and skilled technical levels, including a 47,1% representation in the Group Exco team. Representation of people with disabilities remains a challenge, at 2,2% of the total headcount (2021: 2,2%).

Legislative compliance

To the best knowledge of the directors, the Company has complied, in all material respects, with all legislation and regulations applicable to it during the period. This includes, without limitation, the Companies Act, 71 of 2008 (as amended), the Public Finance Management Act, No 1 of 1999 (as amended), the Treasury Regulations and the Income Tax Act, No 58 of 1962 (as amended). The status quo remains since March 2012 as it relates to the National Environmental Management: Integrated Coastal Management Act, No 24 of 2008 and the National Ports Act, No 12 of 2005.

Economic regulation

The tariffs for Pipelines are regulated by the National Energy Regulator of South Africa (NERSA), while the National Ports Authority's tariffs are regulated by the Ports Regulator of South Africa (the Ports Regulator). The Railway Safety Regulator (RSR) charges railway safety permit fees to the Company. Transnet also operates within a policy context which is determined by the Department of Public Enterprises and the Department of Transport, respectively.

Pipelines

On 01 September 2022, Pipelines submitted its 2023/24 financial year (FY) pipelines tariff application to NERSA. Based on the application of the methodology, Pipelines applied for a 75,51% increase in tariffs. The increase is due mainly to deferred allowable revenue from the 2022/23FY decision and the deferral of the revenue clawback relating to the 2020/21FY. NERSA is currently reviewing the tariff application.

National Ports Authority

On 01 August 2022, National Ports Authority submitted its tariff application for the 2023/24FY to the Ports Regulator for approval. The tariff application was determined in accordance with the prescribed tariff methodology and on the basis of National Ports Authority becoming an independent subsidiary by 01 April 2023. The application translated into a weighted average tariff adjustment of 9,24%.

It is anticipated that the Ports Regulator will issue a determination on the tariff application by 01 December 2022.

Railway Safety Regulator (RSR)

The Department of Transport (DOT) requested public comments on the determination of the railway safety permit fees that the National Regulator may charge in terms of section 23(2)(a) read with section 23(2)(b) of the National Safety Regulator Act, 2002.

The proposed safety permit fee for the 2023/24FY that will apply to Transnet is R120 017 916,77. The previous safety permit fee for the 2022/23FY was R114 630 293,00. This translates to a 4,7% increase. The DOT will make a final determination on the permit fee once all public comments (including Transnet comments) have been considered. A new methodology for determining safety permit fees is yet to be finalised by the RSR and DOT.

Group accounting policies

The condensed financial information has been prepared in compliance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and contains the information required by the International Accounting Standard (IAS) 34: *Interim Financial Reporting*, and the requirements of the Companies Act, No 71, 2008 of South Africa.

Financial information presented has been prepared using accounting policies that comply with International Financial Reporting Standards (IFRS). The accounting policies are consistent with those applied in the annual financial statements for the year ended 31 March 2022.

New standards and interpretations issued by the International Accounting Standards Board, effective for the period under review, did not have a significant impact on the Group's financial results.

Restatements

Restatements to the prior period financial results were made in accordance with those disclosed in the 31 March 2022 annual financial statements as detailed in note 39, updated if applicable to 30 September 2021.

Events after reporting period date

Industrial action

On 3 October 2022, the United National Transport Union (UNTU) served Transnet with a notice of commencement of industrial action. This action by the majority union followed extensive wage negotiations with recognised unions which had deadlocked when parties could not reach agreement on the terms for a settlement. Industrial action by UNTU commenced on 6 October 2022, with SATAWU joining the action on 10 October 2022. The industrial action lasted for 11 days, during which the South African economy suffered, with certain customers declaring force majeure due to Transnet's inability to service them adequately. On 17 October 2022, Transnet signed a three-year wage agreement with UNTU, bringing an end to the industrial action. This agreement is extended to all employees in the bargaining unit. Transnet is confident that with this resolution, improved morale will enable employees to work efficiently and effectively together in recovering the revenue lost by the Group during the strike period.

Credit ratings update

On 14 October 2022, Moody's affirmed Transnet's corporate family ratings (long-term local and foreign currency) at Ba3, the national scale rating (NSR) senior unsecured medium-term note ratings at A2,za and NSR short-term rating at P-1,za and the baseline credit assessment at b2. A negative outlook was assigned.

This was at a backdrop of the improved liquidity position. Moody's also confirmed that the liquidity pressures remain as Transnet will need to meet the debt maturities in the next 12 months.

On 29 November 2022 S&P Global Ratings affirmed Transnet's issuer ratings at BB- and the outlook remains negative. The BB- issuer ratings on senior unsecured debt and the NSR at za.AA/za.A-1+ were also affirmed. However, Transnet's standalone rating was revised down by one notch to b+ from bb-. This action was supported by the very high likelihood