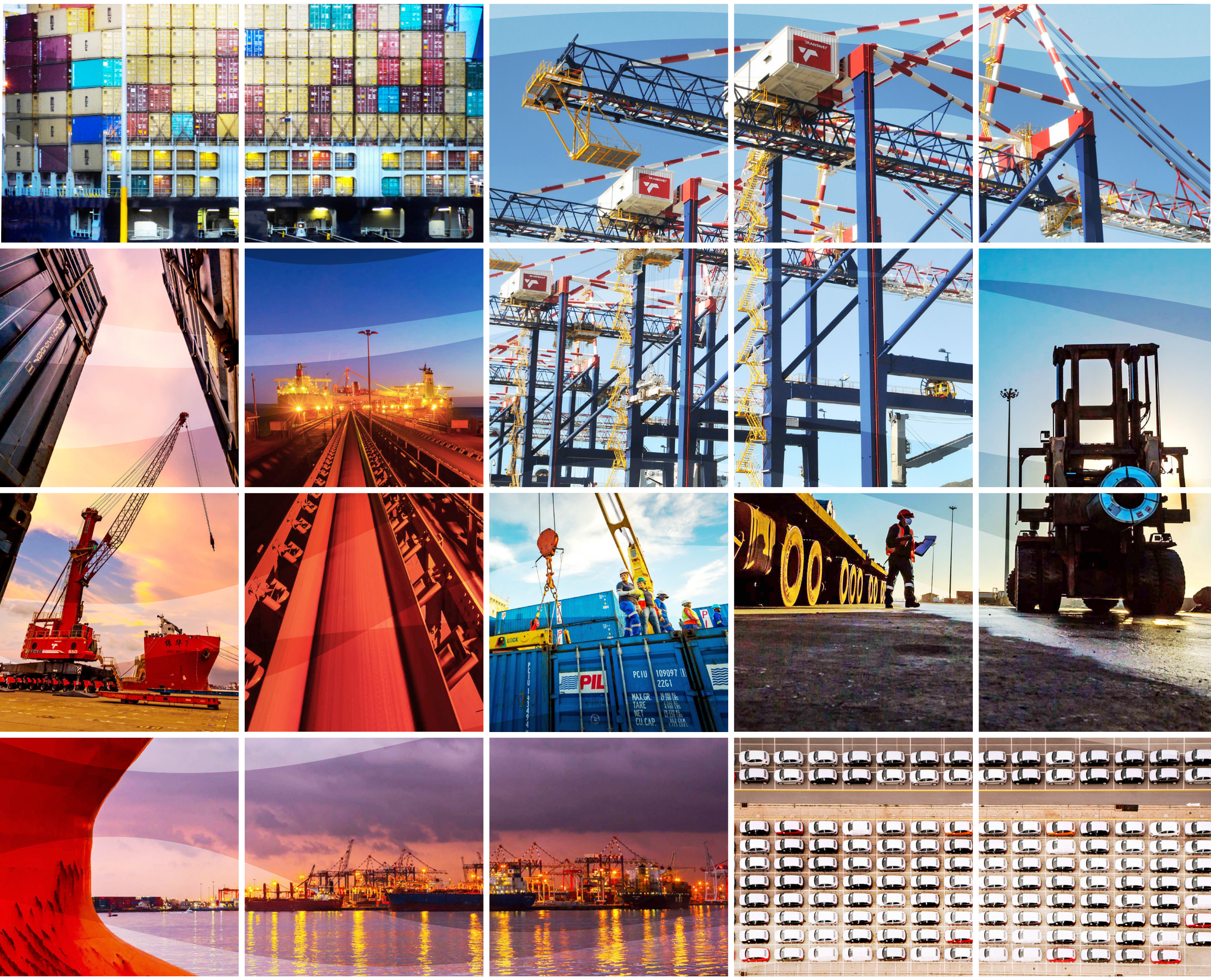
TRANSNET

PORT TERMINALS REPORT **2022**



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Highlights

Revenue increased by 11% to R14,5 billion.

EBITDA increased by 15,8% to R4,2 billion.

Container, break-bulk and automotive volumes increased by 4,4%, 20,1% and 48,2%, respectively.

The Durban Car Terminal and the Durban Container Terminal's Pier 1 both handled the **highest volumes** on record.

Business overview

Transnet Port Terminals (Port Terminals) enables the efficient flow of imports, exports and transshipments through its cargo terminal operations. Through its strategic role in the management of these key trading hubs, Port Terminals ensures year-round connectivity of the South African economy with key trading partners in the region and the rest of the world. As a vital enabler of trade between South Africa and the global market, Port Terminals strives to improve the reliability and efficiency of its operations through holistic business innovation to reduce business costs.

Port Terminals provides cargo handling services to a wide spectrum of customers including shipping lines, freight forwarders and cargo owners. Operations comprise four business segments, namely containers, dry bulk, break-bulk and automotive. The Division operates 16 terminals with 68 berths across seven ports spread along the South African coastline.

Containers

Port Terminals operates container terminals in the ports of Durban, Ngqura, Port Elizabeth and Cape Town. The Division currently has a cumulative annual capacity of 5,7 million twenty-foot equivalent units (TEUs). The Durban and Cape Town container terminals are operating close to capacity, however, plans are in place to increase the capacity in these ports.

Dry bulk

Operations within the bulk sector are characterised by handling dry bulk commodities through a network of conveyor belts, tipplers, stackers, reclaimers, and ship loading and unloading equipment. Port Terminals handles mineral bulk commodities at the ports of Richards Bay, Port Elizabeth and Saldanha, and handles agricultural bulk commodities at the ports of Durban and East London.

Break-bulk

Port Terminals handles steel, timber, granite, abnormal and project cargo, and other commodities through its break-bulk operations in multi-purpose terminals in Richards Bay, Durban, East London, Port Elizabeth, Cape Town and Saldanha. In some instances, traditional bulk cargo is handled at break-bulk facilities utilising a skip operation.

Automotive

Port Terminals operates automotive terminals at the ports of Durban, East London and Port Elizabeth. These facilities handle a variety of vehicles driven onto and off the vessel.

Port Terminals' strategy is to be a world class terminal operator interfacing with rail and other logistics supply chains. A key enabler of this transition to a logistics service provider is a high-performance culture that enables Port Terminals to achieve:

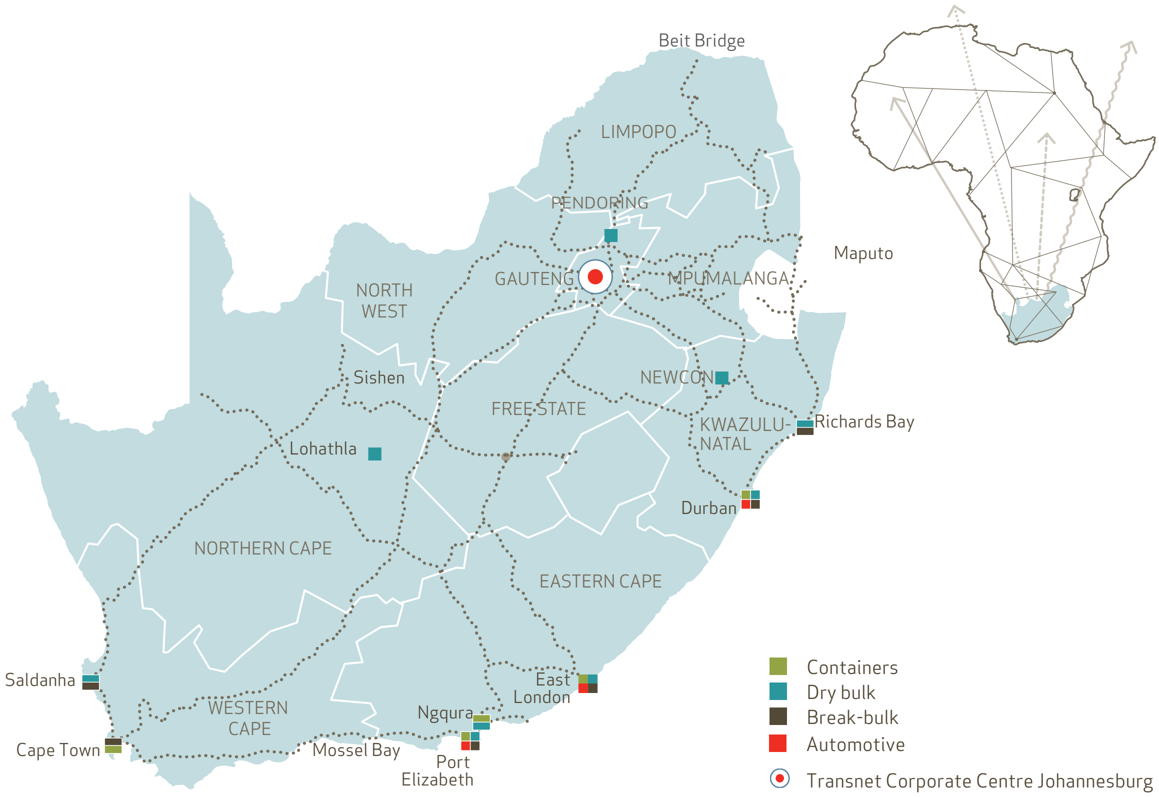
- Financial sustainability and growth;
- Operational excellence supported by predictable, reliable and efficient terminal-handling services;
- A cohesive port ecosystem that is integrated, sustainable and customer focused; and
- Proactive planning across the ecosystem to achieve operational excellence.

Port Terminals' vision is to maximise shareholder value by:

- Improving the efficiency, cost-effectiveness and viability of current port operations;
- Leveraging a portfolio of world-class infrastructure assets;
- Strengthening global supply chains;
- Growing the revenue base by entering into global strategic partnerships to exploit new business opportunities;
- Generating sustainable economic growth; and
- Promoting regional integration.

Where we operate

Figure 1: Port Terminals' geographic locations



Regulatory environment

The National Ports Act, No 12 of 2005 (Ports Act) is the enabling legislation for Port Terminals and promulgates the parameters within which terminals operate in South Africa. With 21 terminal operator licences across South Africa, Port Terminals has developed a Compliance Risk Management Plan to ensure compliance with the Ports Act and terminal operator licences. Port Terminals submits annual reports on operations, performance, finance, SHEQ and competition to Transnet National Ports Authority, which then conducts mandatory annual audits on all the terminals to ensure continuous compliance and improvement.

Operational performance

The 2021/22 financial year was positive for Port Terminals as the Division demonstrated a strong recovery from the prior year. Revenue increased by 11% while EBITDA increased by 15%, largely driven by strong volume performance. Container volumes increased by 4,4% to 4 131 468 TEUs having 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. Automotive volumes increased by 48,2% to 719 114 units due to higher imports as demand increased. Break-bulk volumes increased by 20,1% to 24,2 million tons due to favourable market conditions. Bulk volumes decreased by 2,1% to 72,7 million tons mainly due to equipment breakdowns and adverse weather conditions.

Despite the upbeat financial and volume performance, Port Terminals faced several significant challenges during the year, including the unrest in KwaZulu-Natal and the cyberattack in July 2021 as well as a few fire incidents in Richards Bay and Durban in October 2021. Operational performance remained below expectations as ageing infrastructure and equipment, deteriorating weather conditions and low employee morale hampered the Division's ability to achieve significant improvements in service delivery. However, there are signs that the tide is turning with the focus on equipment refurbishment and replacement as well as the introduction of a new employee incentive scheme. Port Terminals expects improvements in operational performance in the year ahead.

Core initiatives

- Increase revenue by 8,1% in the 2022 financial year.
- Focus on operational efficiency and unlocking new business initiatives while cultivating a high-performance culture across the Division to mitigate the impact of the COVID-19 pandemic.
- Volume targets for the 2022 financial year were as follows:
  - Containers: 4 million TEUs;
  - Bulk cargo: 82,2 million tons;
  - Break-bulk cargo: 21,4 million tons; and
  - Automotive units: 535 621 units.
- Increase the volume (moves/tons/units) per ship working hour (SWH) to turn vessels around faster and attract shipping lines to South Africa's ports.
- Implement the turnaround strategy to improve the reliability of the current fleet of equipment across all terminals by replacing equipment that had passed its useful life, recruiting additional gangs, filling existing vacancies and addressing employee concerns to improve staff morale.
- Facilitate operational efficiencies across all sectors by improving the reliability and availability of equipment through the implementation of a preventative maintenance strategy as well as the investment of R2 billion in new and existing equipment

Overview of key performance indicators

Key performance area and indicator	Unit of measure	2020 Actual	2021 Actual	**2022 Target**	**2022 Actual**	2023 Target
Financial sustainability						
Revenue	R million	13 809	13 094	**14 242**	**14 536**	15 711
EBITDA	R million	4 788	3 631	**4 234**	**4 208**	4 330
Operating profit margin	%	24,1	14,5	**17,1**	**18,0**	15,9
Return on average total assets	%	18,0	8,7	**12,1**	**9,7**	11,8
Revenue per employee	R million	1,7	1,6	**1,7**	**1,9**	1,9
Capacity creation and maintenance						
Capital expenditure[1]	R million	2 109	2 108	**2 026**	**1 518**	2 273
Operational performance						
Volume growth						
Containers	'000 TEUs	4 424	3 959	**4 059**	**4 131**	4 218
Bulk	mt	79,1	74,3	**82,2**	**72,7**	97,6
Break-bulk	mt	21,0	20,1	**21,4**	**24,2**	6,9
Vehicles	units	791 647	485 375	**535 621**	**719 114**	737 476
Operational efficiency and productivity						
Container dwell time						
DCT – Pier 1						
Imports	days	3,2	3,0	**3,0**	**3,0**	3,0
Exports	days	5,5	5,0	**5,0**	**5,4**	5,0
Transshipment	days	6,2	6,5	**10,0**	**5,9**	10,0
DCT – Pier 2						
Imports	days	2,9	2,4	**3,0**	**2,9**	3,0
Exports	days	6,0	6,8	**5,0**	**6,4**	5,0
Transshipment	days	7,4	8,1	**10,0**	**8,1**	10,0
Cape Town Container Terminal (CTCT)						
Imports	days	2,7	2,6	**3,0**	**2,6**	3,0
Exports	days	6,1	7,0	**5,0**	**6,8**	5,0
Transshipment	days	7,0	8,4	**15,0**	**8,6**	15,0
Moves per gross crane hour						
DCT – Pier 1	moves per hour	24	20	**25**	**19**	25
DCT – Pier 2 (prime berths[2])	moves per hour	18	18	**26**	**18**	26
CTCT	moves per hour	17	17	**24**	**17**	24
Port Elizabeth Container Terminal (PECT)	moves per hour	21	18	**22**	**17**	20
Ngqura Container Terminal (NCT)	moves per hour	18	18	**26**	**17**	25
Container moves per ship working hour						
DCT – Pier 1	moves per hour	41	38	**48**	**38**	48
DCT – Pier 2 (prime berths[2])	moves per hour	46	49	**60**	**46**	60
CTCT	moves per hour	38	36	**50**	**34**	50
PECT	moves per hour	24	26	**36**	**23**	35
NCT	moves per hour	37	35	**50**	**37**	50
Train turnaround time[3]						
DCT – Pier 1	hours	2,7	2,7	**4,0**	**2,9**	4,0
DCT – Pier 2	hours	2,3	1,8	**4,0**	**2,4**	4,0
CTCT	hours	2,6	2,4	**4,0**	**3,1**	4,0
NCT	hours	5,9	5,3	**4,0**	**3,7**	4,0
Saldanha Iron Ore Terminal[4]	minutes	110	111	**109**	**115**	111
Richards Bay Bulk Terminal	hours	8,5	9,0	**11,0**	**11,7**	11,0
Port Elizabeth Bulk Terminal	hours	7,6	8,3	**12,0**	**9,2**	12,0

Key performance area and indicator	Unit of measure	2020 Actual	2021 Actual	**2022 Target**	**2022 Actual**	2023 Target
Truck turnaround time						
DCT – Pier 1	minutes	49	69	**40**	**74**	40
DCT – Pier 2[5]	minutes	102	78	**65**	**88**	65
CTCT	minutes	52	45	**35**	**44**	40
NCT	minutes	41	45	**35**	**38**	35
Richards Bay MPT	minutes	34	36	**35**	**44**	35
Loading rate						
Saldanha Iron Ore Terminal	tons per hour	8 227	8 001	**8 100**	**8 214**	8 100
RB DBT – Loading – Magnetite	tons per hour	1 081	1 241	**1 100**	**938**	1 100
RB DBT – Loading – Chrome	tons per hour	866	845	**950**	**618**	900
RB DBT – Loading – Coal	tons per hour	703	718	**800**	**563**	700
RB DBT – Offloading – Coking Coal	tons per hour	630	561	**650**	**374**	650
Sustainable development outcomes						
Employment						
Employee headcount (permanent)	number	8 115	8 332	**8 381**	**7 595**	8 285
Health and safety						
DIFR	rate	0,54	0,48	**0,70**	**0,70**	0,70

1 *Capital expenditure excludes capitalised borrowing costs.*
2 *Prime berths for 2020/21 are berths 108, 203 and 204.*
3 *Based on 50 wagon trains for all container terminals, except CTCT which is based on 40 wagon trains.*
4 *Rake process time inside tippler – subject to service design review.*
5 *Targets based on historical operational methodology.*

Financial performance review

Salient features		Year ended 31 March 2022 R million	Year ended 31 March 2021 R million	% change
Revenue		**14 536**	13 094	11
– Containers		**7 306**	6 574	11
– Dry bulk		**3 743**	3 795	(1)
– Break-bulk		**2 507**	2 084	20
– Automotive		**979**	635	54
– Other		**0**	6	(95)
Operating expenses		**10 328**	9 463	9
– Energy costs		**855**	672	27
– Maintenance		**445**	386	15
– Materials		**608**	531	14
– Personnel costs		**5 597**	5 211	7
– Other		**2 824**	2 633	7
Profit from operations before depreciation, derecognition, amortisation, short-term incentives and items listed below (EBITDA)		**4 208**	3 631	16
Depreciation, derecognition and amortisation		**1 597**	1 731	(8)
Profit from operations before items listed below		**2 611**	1 900	37
Impairments and fair value adjustments		**242**	784	(69)
Net finance costs		**(273)**	(216)	26
Profit before taxation		**2 642**	1 336	98
Total assets (excluding CWIP)		**15 066**	15 822	(5)
Profitability measures				
EBITDA margin[1]	%	**28,9**	27,9	1
Operating margin[2]	%	**18,0**	14,5	4
Return on total average assets (excluding CWIP)[3]	%	**16,9**	85,0	(68)
Asset turnover (excluding CWIP)[4]	times	**0,6**	0,8	(24)
Capital investments^	R million	**1 518**	2 108	(28)
Employees				
Permanent employees	number	**7 595**	8 332	(9)
Revenue per employee	R million	**1,91**	1,60	20

1 *EBITDA expressed as a percentage of revenue.*

2 *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of revenue.*

3 *Profit from operations before impairment of assets, fair value adjustments, net finance costs and taxation expressed as a percentage of average total assets, excluding capital work-in-progress (CWIP).*

4 *Revenue divided by average total assets, excluding CWIP.*

^ *Actual capital expenditure (replacement plus expansion), excluding borrowing costs and including capitlalised decommissioning liabilities.*

Performance commentary

Financial sustainability

- Revenue for the year under review increased by 11% to R14,5 billion (2021: 13,1 billion). The positive revenue performance was largely driven by strong volume recovery in the container, break-bulk and automotive sectors.
- Net operating expenses increased by 9,4% to R10,3 billion (2021: R9,5 billion) and was 3% above budget. The increase in cost is mainly due to inflation-related growth across most categories, voluntary severance package pay-outs as well as asset write-offs for the Durban Container Terminal and the Saldanha Iron Ore Terminal. There were savings in training costs and other discretionary costs primarily due to the impact of COVID-19 and cost-control initiatives implemented in these areas.
- The resultant impact on Port Terminals' EBITDA is an increase of 15,8% to R4,2 billion (2021: R3,6 billion).
- Return on invested capital is below budget as a result of an increase in long-term borrowings.

Looking ahead

- Port Terminals has budgeted for an 8,1% increase in revenue to R15,7 billion in the 2023 financial year and a 2,9% increase in EBITDA to R4,3 billion in 2023.
- The year ahead will focus on cost optimisation initiatives to reduce the overall impact on Port Terminals' bottom line.
- There will be a strong focus on improving operational efficiencies and unlocking new business initiatives while cultivating a high-performance culture across the Division.

Capacity creation and maintenance

The following projects contributed to the R1,5 billion invested in capital expenditure in 2022:

- The acquisition of 45 replacement straddle carriers for Pier 2 at Durban Container Terminal (DCT) to ensure sustained capacity and improved operational efficiency.
- Refurbishment of ship-to-shore cranes at DCT Pier 2 to improve equipment reliability and sustain capacity.
- Replacement of haulers and trailers at the Ngqura Container Terminal to improve equipment reliability and sustain capacity.
- Further execution of Saldanha Iron Ore Terminal's Tippler 3 and associated infrastructure project to ensure sustained tippler capacity while the existing tipplers undergo major refurbishment.
- Major refurbishment for stacker reclaimers 1, 2 and 4 as part of the Saldanha Iron Ore Terminal's plant refurbishment programme following the completion of the shiploader refurbishments in prior years.
- Replacement of conveyor belts at the Saldanha Iron Ore and Richards Bay Bulk Terminals as wear and tear replacements are required for sustained terminal performance.
- Replacement of two VIGAN ship unloaders at Durban's Agriport Terminal in Maydon Wharf.
- The acquisition of a multi-purpose shiploader at Richards Bay to provide new functionality and improve terminal efficiency.
- Completion of the Tippler 1 and 2 capacity upgrade project to sustain capacity and improve reliability at the Richards Bay Bulk Terminal.
- An upgrade of rail infrastructure at Cape Town's container and multi-purpose terminals to improve safety and efficiency of port rail operations.
- Capital spares provision at various terminals required to sustain equipment performance and improve operational reliability.
- Renewal and upgrade of Terminal Operating Systems and related hardware, IT equipment and other IT costs required for terminal operating efficiency improvements.

Budgeted capital expenditure for the year of ~R508 million was not realised for various reasons, including legal objections to procurement processes, contractual disputes, project deferments and savings on completed projects.

Looking ahead

In the short term, the following projects are planned to sustain and create capacity:

- The expedited design and construction of the Richards Bay infrastructure and equipment damaged by the fires in October 2021.
- The refurbishment of stacker reclaimer 3 at the Saldanha Iron Ore Terminal.
- Completion of various environmental upgrade projects at the Saldanha Iron Ore Terminal, required for compliance with the conditions of its Air Emissions Licence.
- The procurement of the replacement rubber-tyre gantry (RTG) cranes for Pier 1 at DCT.
- The completion of the feasibility study of the phase 2B project at Cape Town Container Terminal (CTCT), which will increase the terminal's capacity from 1,0 million TEUs to 1,4 million TEUs and enable a modal shift of containers from road to rail to increase the rail market share.
- The procurement of a replacement ship-to-shore crane for the Port Elizabeth Container Terminal (PECT).
- The acquisition of replacement equipment for CTCT and for Pier 1 and Pier 2 at DCT to support the sector's turnaround strategy.
- The design and execution of the semi-automation projects at DCT Pier 1 and CTCT.
- Security and CCTV upgrades at the container and multi-purpose terminals in Cape Town.
- The execution of various IT projects and terminal operating system upgrades.

Operational performance

Volume performance across all sectors shows an improvement year on year due to the recovery from COVID-19, which negatively impacted the financial performance in the previous year. Container volumes increased by 4,4% to 4 131 468 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. Automotive volumes increased by 48,2% to 719 114 units. The automotive sector has been positively impacted by higher imports as demand increased. Break-bulk volumes increased by 20,1% to 24,2 million tons due to favourable market conditions. Bulk volumes decreased by 2,1% to 72,7 million tons mainly due to equipment breakdowns and adverse weather conditions.

Containers

- Volumes in the container sector were 1,8% above budget in 2022, increasing 4,4% from the prior year.
- Export containers were 6,5% above budget while imports and transshipments were 0,3% and 4,3% below budget, respectively.
- Volume performance for the year was impacted by a number of factors such as:
  - The unrest in KwaZulu-Natal in July 2021;
  - The group-wide cyberattack in July 2021;
  - Deteriorating weather conditions across the South African coastline;
  - The impact of COVID-19 and national lockdown regulations which impacted both volumes and manning levels in the earlier part of the year;
  - Rail supply challenges due to ongoing cable theft;
  - Poor equipment availability and reliability, which negatively affected the optimal deployment of equipment to support operational efficiencies; and
  - Shipping line omissions and cancellations caused by supply and demand constraints created in the shipping line sector.
- Pier 1 and Pier 2 at DCT were 0,2% and 10,8% above budget, respectively, due to improved operational efficiencies.
- PECT was 55% above budget due to a new service and an increase of empty imports in preparation for the reefer season.
- The Durban Multi-Purpose Terminal was 17,6% above budget due to the increase in ad hoc shipments and the handling of additional bi-weekly services.
- Ngqura Container Terminal, Cape Town Container Terminal and Cape Town Multi-Purpose Terminal were 3,7%, 5,3% and 3,1% below budget, respectively, due to equipment breakdowns and adverse weather conditions.

Bulk

- Volumes in the bulk sector were 11,6% below budget, declining 21% from the prior year.
- Iron ore volumes ended the year 7% below budget primarily due to various port and rail challenges. Port challenges included adverse weather conditions, equipment breakdowns and low stockpile levels due to rail challenges such as derailments, loco failures, speed restrictions and damaged infrastructure. As a result of the challenges experienced on the Sishen to Saldanha corridor, customers requested to export cargo via other terminals to take advantage of the positive prices. This resulted in additional iron ore volumes being exported through Richards Bay and Durban's Maydon Wharf terminals which assisted in mitigating some of the volumes lost.
- Manganese volumes through the Port Elizabeth Bulk Terminal ended the year 15% below budget due to rail challenges which affected the flow of cargo to the port and equipment-related challenges due to ageing infrastructure. Adverse weather conditions also impacted the export of manganese through the terminal. Manganese volumes were exported via multi-purpose terminals to mitigate the shortfall from the bulk terminal.
- Magnetite and chrome volumes were 29% and 23% behind budget, respectively, due to two fire incidents in Richards Bay that led to vessel congestion, adverse weather conditions, poor equipment availability and reliability due to the ageing infrastructure, rail challenges and the unrest in KwaZulu-Natal. The impact of rail challenges was partially mitigated using road trucks to bring cargo to the terminal.
- The Durban Agriport was 17% above budget mainly due to the favourable export programme driven by high demand for local grains.

Break-bulk

- Break-bulk volumes were 13% above budget, increasing 20% from the prior year.
- The Richards Bay Multi-Purpose Terminal (MPT) was 18% above budget as a result of increased demand for coal exports that were driven by favourable commodity prices and the migration of volumes from the bulk terminal following the fire incidents.
- The Durban MPT was 60% above budget due to increased project cargo and steel volumes. Demand for steel has increased in line with the recovery of the automotive sector; and steel exports were also boosted by the local government initiative to protect local steel manufacturers.
- The Port Elizabeth MPT was 53% above budget due to the migration of skiptainer volumes from PECT as well as recovery initiatives to mitigate the shortfall in the bulk terminal.
- The Saldanha MPT was 2% above budget due to favourable steel volumes. Manganese volumes through the terminal were 4% below budget due to rail supply challenges and adverse weather conditions.
- The Cape Town MPT was 61% below budget having handled lower volumes of manganese, cement and maize.

Automotive

- Port Terminals handled 719 114 automotive units in 2022, which is 34,3% above budget and a 48,2% increase from the prior year.
- Imports increased by 88%, exports increased by 16% and transshipments increased by 96%.
- This performance was primarily driven by a significant increase in imported units as Asian automotive manufacturers ramped up production and began fulfilling the backlog of orders from 2020.
- Local demand, particularly for entry level cars, increased as a result of lower interest rates and from car rental companies as local travel increased in 2021.
- Despite the positive growth in export volumes, the global chip shortages negatively affected production in 2021 and the beginning of 2022.

Looking ahead

- **Volume targets for the 2023 financial year:**
  - Containers: 4,22 million TEUs
  - Bulk cargo: 82,48 million tons
  - Break-bulk cargo: 23,49 million tons
  - Automotive units: 737 476 units
- **Container sector outlook:**
  - Port Terminals' focus will remain on improving productivity and operational efficiencies; recoveries on complementary line services; enhancing services to customers to maximise real-time recovery from stoppages; improving strategic customer value propositions to attract volume; and fortifying the transshipment strategy.
  - The effects of the global shipping crisis are expected to continue for the foreseeable future as terminal congestion and delays impact the sector. A global increase in demand for containers has flooded many terminals beyond their capabilities to service the vessels.

- Terminals, especially in Asia, have been impacted by rigorous control over continued COVID lockdowns. Due to the size of these terminals in Asia, there is a massive domino effect on the rest of the global ports. The global supply chain will remain impacted with these ongoing shocks, and the Russia-Ukraine war is expected to exacerbate the situation.
- Shipping line schedules are also becoming less reliable. They have no surplus vessels and a delay in one port has knock-on effects elsewhere. In addition, fuel costs have increased drastically, leading to vessels reducing their speed with further ripple effects as they do not make their slots and cause further delays.
- Omissions to ports are made by the shipping lines, resulting in double volume calls; the port systems were not designed for these troughs and peaks which have further congested the terminals.

- Bulk sector outlook:
  - In the bulk sector, demand is high for all commodities and exceeds capacity in some cases, which means that improving operational efficiencies and creating additional export channels are crucial to achieving volume growth.
  - In the iron ore segment, demand from China is expected to remain strong in 2022 and 2023 on the back of the government's renewed stimulus of the infrastructure sector in the face of slowing economic growth. After embarking on a longstanding surge since mid-2020, and the exceptional rally in the first half of 2021, prices started dropping sharply from July 2021. However, continued supply constraints and the growing demand from China led to prices reversing course from December 2021.
  - In the manganese segment, demand is consistent and is currently in excess of the available capacity. Port Terminals is receiving more requests for capacity allocation from existing customers. Therefore, capacity creation initiatives will remain a key focus.
  - The demand for magnetite is expected to sustain and grow as that country continues to recover from effects of the pandemic. Magnetite producers based in Phalaborwa have opened a third beneficiation plant, which has strengthened production capacity and demand for logistics services. There is also an initiative to ensure that all trains are fully tarped in order to mitigate the impact of rains and wet cargo.
  - Demand from China, the biggest consumer of chrome ore, is expected to intensify as it continues to implement economic recovery plans that are underpinned by the consumption of steel and stainless steel in the manufacturing process.
  - Demand from India, the biggest consumer of SA coal, is expected to increase as it recovers from the pandemic and as the ban on Russian coal increases demand for SA coal into Europe and other markets.
- Break-bulk sector outlook:
  - Initiatives in the break-bulk sector are focused on pursuing opportunities to handle new commodities and to increase volumes of existing commodities.
  - The demand for most commodities is expected to grow as the world ramps up production and recovers from the pandemic.
  - The break-bulk sector faces a more challenging recovery and requires additional volumes and new customers.
- Automotive sector outlook:
  - The outlook for imports is positive as dealerships and manufacturers still have orders to fulfil. Car rental companies and government departments are also expected to drive demand in 2022 and 2023. The relatively low interest rates are also expected to enable consumers to purchase new cars.
  - The impact of the Russia-Ukraine conflict has resulted in one of the customer orders destined for those markets being cancelled. Furthermore, Ukraine manufactures a large portion of wiring harnesses, and because of the conflict those components are either not being produced or cannot be exported. The German manufacturers are highly affected by this shortage and it is causing significant production interruption.
  - Over and above the parts supply, the shortage of raw material sourced from the countries affected by the war could affect the production of parts like catalytic convertors and semi-conductors that use material and gases from Russia and Ukraine.
  - The floods in KwaZulu-Natal affected the manufacturing and shipping of exports for a major local automotive manufacturer, which will impact their export volumes in 2022 and 2023.
  - The destruction of rail network could affect the volumes emanating from the manufacturers in Gauteng if the road network is unable to close the gap as companies could shift production to other plants.

Operational excellence

Container moves per ship working hour

- Port Terminals' primary measure of operational efficiency is average moves per ship working hour (SWH). This measure has varied across the container terminals compared to last year:
  - The Ngqura Container Terminal improved its SWH performance from 35 to 37 moves per hour in 2022.
  - DCT Pier 1 maintained its average SWH performance at 38 moves per hour in 2022, while the performance at Pier 2 declined from 49 moves per hour in 2021 to 46 moves per hour in 2022.
  - The performance at CTCT has declined to 34 moves per hour from 36 moves per hour achieved in the prior year.
- Productivity across the terminals has largely been affected by deteriorating weather conditions and poor equipment availability and reliability. The newly purchased straddle carriers for DCT Pier 2 have been plagued with teething problems that are being addressed with the original equipment manufacturers. The long-term effects of the COVID-19 pandemic on global supply chains have also adversely impacted the availability and delivery of spares. Lessons learned from the first and second waves of COVID-19 infections assisted the terminals to manage the operational impact of the third and fourth waves.

Moves per gross crane hour

- The average moves per gross crane hour (GCH) remained stable at 18 moves, still falling short of the 2022 targets across the container terminals. Similar to SWH, GCH was impacted by significant adverse weather conditions over the past year and the poor reliability and availability of key operating equipment.

Train turnaround time

- All container terminals maintained their train turnaround times below the targeted four hours in 2022 while the Port Elizabeth Bulk Terminal maintained its train turnaround time below the targeted 12-hour threshold.
- The Saldanha Iron Ore Terminal exceeded its targeted rake turnaround time of 109 minutes due to the increase in rake length from 114 wagons to 116 wagons, as well as equipment and rail challenges.
- The Richards Bay Bulk Terminal exceeded its train turnaround time of 11 hours due to equipment challenges and adverse weather conditions.

Truck turnaround time

- The average truck turnaround time was 58 minutes against a target of 42 minutes, showing a slight increase from the 55 minutes achieved in 2021. Increased volumes, equipment challenges and adverse weather conditions resulted in delays in turning around trucks inside the terminals.
- The implementation of the mandatory truck booking system was extended to Cape Town to manage the flow of traffic to the terminal.

Looking ahead

Port Terminals will:

- Seek to increase SWH to 49 moves on average in the 2023 financial year by:
  - Resourcing gangs and supporting equipment to maximise crane deployment across vessels by replacing or refurbing key equipment;
  - Adopting terminal partnership initiatives with shipping lines to improve productivity and efficiency from ship arrival to departure; and
  - Implementing ICT systems to enable improved responsiveness to business and operational challenges.
- Maintain truck turnaround time below the target of 42 minutes.
- Maintain train turnaround times below four hours at the container terminals, 12 hours at the Port Elizabeth Bulk Terminal, 11 hours at the Richards Bay Bulk Terminal and 111 minutes at the Saldanha Iron Ore Terminal.
- Introduce a new employee incentive scheme to drive improved operational efficiencies in the year ahead.

Sustainable development outcomes

Human capital (employment and transformation)

- Port Terminals has a permanent employee headcount of 7 595 (2021: 8 332) against a budget of 8 381.
- Black employees represented 92,26% (2021: 90,87%) of the total employee base against a target of 88,5%.
- Female employees represented 31,68% (2021: 29,93%) of the total employee base against a target of 35%.
- People with disabilities represented 1,66% (2021: 1,17%) of the total employee base against a target of 1,5%.
- Port Terminals achieved its objective of maintaining its Level 2 B-BBEE rating.

Skills development

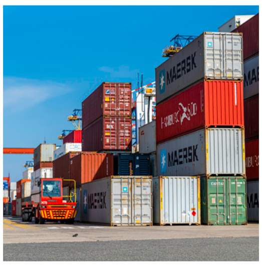
- Port Terminals spent 2,2% (direct, indirect and skills levies cost) of its total labour bill on employee training and skills development.
- Against a target of 500, Port Terminals trained 716 employees on sector-specific training, such as Operator Lifting Equipment, Operator Bulk Handling Equipment and Cargo Co-ordinators.

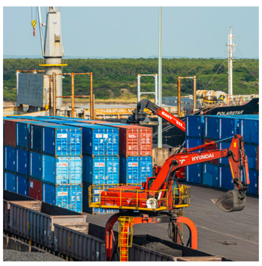
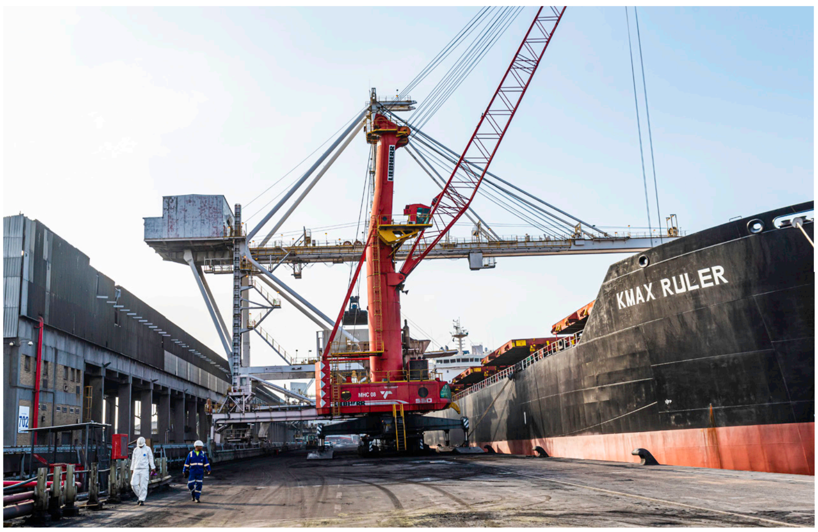
Health and safety

- Port Terminals achieved its DIFR target of 0,70.

Community development (social accountability)

- Port Terminals donated sewing equipment and a converted container to Zimele-Mama Cooperative in Chesterville, KwaZulu-Natal.
- Employees donated food and volunteered services to a crèche feeding scheme in Cape Town.
- Donations of food and vegetables by employees and from Port Terminals' own gardens to a child youth care centre in East London.




Risks and mitigating activities

The top five risks were identified during the year under review with appropriate mitigating plans:

Key risks	Mitigating activities
Inability to achieve operational targets, leading to customer dissatisfaction	• Implemented a maintenance strategy and completed critical equipment refurbishment and replacement projects • Implemented strategic partnerships with Transnet Engineering and original equipment manufacturers to improve maintenance • Implemented training programmes to improve skills of equipment operators • Filled critical vacancies in the operations and technical areas
Non-achievement of volume targets leading to erosion of EBITDA	• Implemented robust performance improvement plans to ensure that the committed customer volumes are executed • Improved equipment availability and reliability to enable volume execution • Implemented volume recovery initiatives to mitigate revenue at risk
Safety incidents leading to injuries, fatalities and damage to equipment	• Implemented the approved Safety Strategy and the Fire Prevention Programme to reduce safety incidents and instil a safety culture • Implemented the Board of Inquiry findings to prevent the reoccurrence of safety incidents • Provided assurance on the safety critical controls
Inefficiencies in the supply chain process leading to procurement delays and loss of productivity	• Implemented the Transnet Procurement Process Automation Project to reduce delays and streamline the procurement process • Filled critical vacancies within the supply chain management function • Implemented the revised Transnet Procurement Manual to strengthen governance of goods and services • Developed a standard operating procedure for end users and supply chain management employees, with roles and responsibilities for demand planning, and to ensure alignment to Transnet's strategic objectives
Breach of regulatory requirements leading to material irregularities, qualification of audited financial statements, etc.	• Trained end users on contract management to prevent non-compliance with the Public Finance Management Act (PFMA) • Conducted regular compliance audits • Monitored non-compliance as well as the implementation of corrective actions through the PFMA forum

Opportunities

- Leverage economies of scale and efficiencies through integrated service offerings across the transport value chain.
- Develop back-of-port and regional integration to leverage and grow current demand and attract new markets.
- Support Transnet's regional aspirations by applying strengths and capabilities to countries in Africa.
- Leverage private sector participation and investment to create win-win opportunities for Transnet to reduce its debt, improve capabilities and attract new volumes to benefit Transnet and the economy as a whole.
- The Port Terminals and Freight Rail Productivity Efficiency Forum facilitates improvements in operational efficiencies and logistics integration with Freight Rail, which creates opportunities to shift more cargo from road to rail.
- Offer tailor-made solutions to original equipment manufacturers in the automotive industry.
- Partner with government departments (e.g. the Department of Trade, Industry and Competition) to attract new original equipment manufacturers and develop the industry.

Abbreviations and acronyms

B-BBEE	Broad-Based Black Economic Empowerment
CTCT	Cape Town Container Terminal
DCT	Durban Container Terminal
DIFR	Disabling Injury Frequency Rate
EBITDA	Earnings before interest, taxation, depreciation and amortisation
GCH	Moves per gross crane hour
ICT	Information and communications technology
MPT	Multi-Purpose Terminal
NCT	Ngqura Container Terminal
PECT	Port Elizabeth Container Terminal
PSP	Private Sector Participation
RB DBT	Richards Bay Dry Bulk Terminal
SHEQ	Safety, Health, Environment and Quality
SWH	Moves per ship working hour
TEU	Twenty-foot equivalent unit