Transnet SOC Limited
(Incorporated in the Republic of South Africa)
(Registration Number: 1990/000900/30)
Issuer Bond Code: BITRA
("Transnet", "the Company" or the "Issuer")

TRANSNET RELEASES AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDING 31 MARCH 2022 WITH AN UNQUALIFIED AUDIT OPINION BY THE AUDITOR-GENERAL OF SOUTH AFRICA

Noteholders are advised that the Company's unqualified audited annual financial statements for the year ended 31 March.

The annual financial statements are available for inspection, at no charge, at the registered office of Transnet, 138 Eloff Street, Braamfontein, Johannesburg ,2000 and the offices of the debt sponsor (Absa Corporate and Investment Bank (a division of Absa Bank Limited), 15 Alice Lane, Sandton, from 09:00 to 16:00 on business days.

Transnet's performance for the financial year ended 31 March 2022 exhibited aspects of resilience and intrinsic improvement as the Company is focused on returning to pre-pandemic performance levels.

Salient features of the financial performance compared to the prior financial year are as follows:

- **Revenue** increased by 1,8% to R68,5 billion;
- **EBITDA** (Earnings before interest, taxation, depreciation and amortisation) improved by 20,5% to R23,4 billion;
- **Profit for the year is** R5,0 billion from a loss of R8,7 billion in the prior year. The significant increase in profits is mainly attributable to the improvement in the EBITDA, a decrease in asset impairments and an increase in fair value adjustments related mainly to investment property (IP);
- **Cash generated** from operations after working capital changes increased by 18,1% to R29,1 billion; and
- **Gearing and cash interest cover** are within debt covenant requirements.

Performance overview

Group revenue for the year is higher than prior year mainly due to higher port and pipeline volumes, in line with improved economic conditions, despite fire-related disruptions at the ports, partially offset by lower rail volumes which were impacted by locomotive availability challenges, cable theft, vandalism and adverse weather conditions.

Transnet is encouraged by the signs of improvements achieved thus far, and especially the timeous release of this set of financial statements. It is recognized that significant efforts are required to improve the performance of our Freight Rail, Engineering and Port operations.

EBITDA supported by improved net operating expenses

The net operating expenses are below prior year mainly due to cash preservation initiatives implemented during the year, a reduction in impairments and provisions requirements as well as a third-party settlement resulting in operating cost savings. The savings were partially offset by the provision for voluntary severance packages and the increase in energy costs in line with increased activity and prices during the financial year.

Investment Property Valuation

Fair value adjustments are a major contributor to the current financial performance of Transnet.

Transnet measures its Investment Property (IP) at fair value in terms of IAS 40 Investment Property. Due to the size and dynamics of the Transnet property portfolio, IP valuations are conducted on a three-year cycle in terms of the Group accounting policy. The first year is a formal valuation exercise performed in line with industry best practice and recognised valuation methodology by independent valuation experts. The IP valuations for the remaining two years are conducted internally by Transnet, applying a desktop valuation approach.

Negotiations with coal export parties

Transnet also appreciates the importance of improving the performance of our Freight Rail operations. Therefore, Transnet has made significant progress towards concluding adjusted long-term contracts with the Coal Export Parties (CEPs) following the notices issued in April 2022, based on persistent circumstances beyond our reasonable control. Most CEPs have participated in good faith, and we have received sign-off from both major CEPs and all emerging miners. We await the full cooperation from one major CEP and its affiliates.
Notwithstanding the notices issued in April 2022, Transnet has continued to provide transport services for all CEPs while contract negotiations continue. Discussions on the new medium to long-term contracts that will replace the current agreements which expire in March 2024, have commenced with the CEPs who have signed the Deed of Amendment to the current contract.

Operational Outlook

While the first three months of the 2022/23 financial year have been characterised by further challenges (KZN floods, theft and vandalism of infrastructure) the Group remains committed to resolving operational constraints related to infrastructure, locomotives and security.

Transnet Freight Rail has recently embarked on a pilot project in partnership with the National Defence Force to look at the deployment of additional security resources to help in securing affected infrastructure. The Operating Division also continues to partner with customers on security deployment on key corridors in order to clamp down on theft and minimise operational disruption.

A number of key maintenance and infrastructure supplier contracts have been concluded which will increase the efficiency of maintenance programmes. A significant amount of work has been undertaken internally to improve procurement timeframes for key contracts which have been a significant cause for delay in the past. The finalisation of major bulk materials and on-track machine contracts has led to faster and more efficient resolution of historical and new maintenance issues as they arise.

The locomotive procurement strategy is well underway and will be introduced to market soon. Simultaneously, the Company is continuing to engage Original Equipment Manufacturers on the provision of critical spares. Transnet Engineering will continue to find innovative engineering solutions to the current shortage, with upgraded locomotives being redeployed to different corridors to close the performance gap.

Restatement of prior year financial statements

The prior year financial statements have been restated due to the following:

- *IP fair value error correction*

  In the current year, the Group performed an external valuation of IP and in assessing the change in fair value for certain port related properties, identified an error relating to the prior period fair value of these properties, which resulted in a decrease in fair value of R416 million for the financial year ended 31 March 2021, and an additional R807 million decrease in fair value in previous financial periods, with a corresponding decrease in investment property; and

- *Property plant and equipment capital work in progress (CWIP) impairment error correction*

  In the current year, the Group performed an assessment of CWIP balances to ensure the amounts are recoverable. Based on the assessment, management concluded there was evidence available in the prior year that certain amounts included in CWIP should have been impaired by R25 million for the financial year ended 31 March 2021, with

  an additional R528 million impairments relating to previous financial periods and a corresponding decrease in the CWIP balance.

Further details on the above two matters can be found in Note 39 of the annual financial statements.

Audit opinion

The Auditor-General of South Africa, the Company's independent statutory external auditor, has expressed an unqualified audit opinion on the annual financial statements for the year ended 31 March 2022.

This is a significant development from the history of qualified audit opinions received in the past four financial years related to the completeness of irregular expenditure.

Johannesburg

27 July 2022

JSE Debt Sponsor
Absa Corporate and Investment Bank (a division of Absa Bank Limited)