REINVENT
FOR GROWTH

TRANSNET ENGINEERING **2023**

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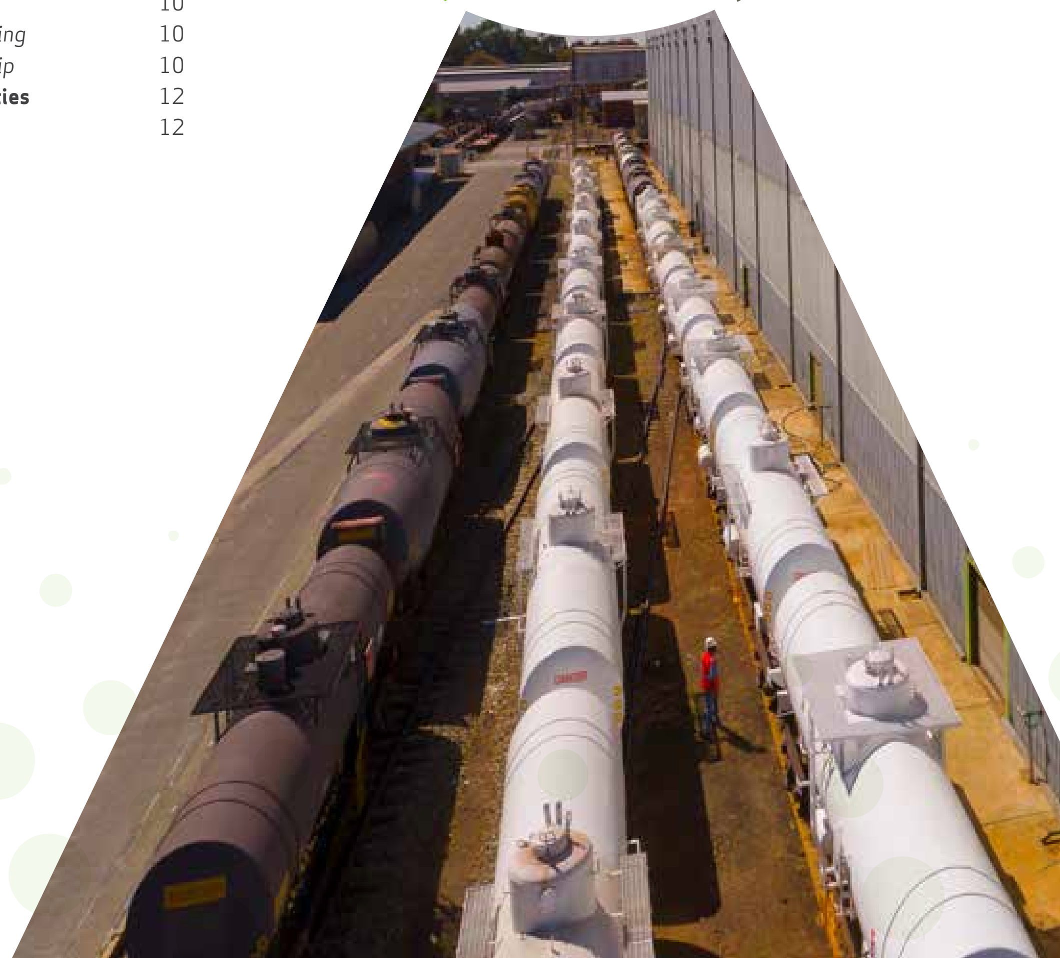


HIGHLIGHTS

Revenue decreased by 9,6% to R8,0 billion

(2022: R8,9 billion)

EBITDA loss widened by 32,9% to an EBITDA loss of R1,98 billion

(2022: R1,49 billion EBITDA loss)

Transnet Engineering performance against the Shareholder's Compact targets on train reliability and efficiency as summarised below:

Key performance indicator	Target 2023	Actual 2023
Volume lost due to traction (%)	≤7,0	7,7
Train delays due to traction (faults per million kilometres travelled)	≤40,0	55,5
Train cancellations due to traction (%)	≤6,0	3,36

BUSINESS OVERVIEW

Transnet Engineering (TE), an Operating Division (the Division) of Transnet SOC Ltd, is the largest engineering concern in South Africa, with a rich and proud heritage spanning more than 150 years, and with a national footprint and horsepower to provide:

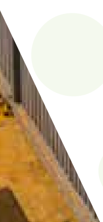
- Engineering services (research, design, development, qualification and certification, condition monitoring, system integration);
- Manufacturing;
- Refurbishment;
- After sales support/maintenance; and
- Fleet leasing and management of rail rolling stock and ports equipment, to Transnet, other State-Owned Entity's, and private sector operators according to certified international and local standards.

TE uses its capabilities to assist Transnet in achieving its mandate of lowering the cost of doing business in South Africa. This is achieved through offering maintenance and services to Transnet Operating Divisions for rolling stock-, port-, and pipeline-related equipment.

TE's maintenance depots are strategically located to enable the Division to improve operational efficiencies along the key corridors of Freight Rail. The maintenance performance approach prioritises reliable rolling stock to reduce delays, cancellations, and volume losses whilst ensuring availability. With the capacity to maintain approximately 70 000 wagons and 2 500 locomotives annually, TE has established a maintenance philosophy that meets world standards. Operational performance is hindered by a reduced maintenance budget from Freight Rail, the cost recovery process, and difficulty sourcing spares and materials. Engineering is investigating a new commercially driven operating model as Freight Rail remains a key customer. It will also strive to make procurement more agile, removing it as a constraint to TE operations.

TE's Manufacturing business has six plants located across the country which manage Major Overhaul Programmes (MOPs), new rolling stock builds and assembly of new and remanufactured wheel sets for locomotives, wagons, and coaches for Freight Rail. With its vast capabilities in manufacturing, re-manufacturing, and assembly, this unit has enabled TE to provide products and services to customers located outside of the Republic of South Africa, including Tanzania, Zambia, and the Democratic Republic of Congo. Currently, the focus for this mature business is restructuring for steady state demand and improving efficiencies. Potential opportunities for the business include collaboration with other State-Owned companies, expansion onto the continent and extension into adjacent industries.

TE's Ports Business, soon to be rebranded as Maritime Business, has established several services to Transnet Port Terminals (TPT) and Transnet National Ports Authority (TNPA). To facilitate efficient maintenance services for TPT, the Ports business has set up strategic sites for this purpose. During the 2022/23FY period, the business is being equipped to provide services effectively and efficiently, and partnerships with Original Equipment Manufacturers (OEMs)



are being negotiated. Furthermore, the unit has supported TNPA with general engineering services, such as the refurbishment of the mooring system at NCT, which had not been operational for some time. As a start-up business, Maritime Services aims to solidify out-of-service capabilities for ports and explore opportunities in the in-service arena, providing services to port operators and shipbuilders.

TE has experienced several challenges during the 2022/2023 period, including reduced orders from Freight Rail, severe weather events causing floods and severely impacting Durban operations, ongoing electricity challenges, and difficulties in supply chain's ability to deliver material and spares in the right time, quality, and quantities. These challenges have exacerbated the already weakened state of TE, which has a history of excess capacity against demand, a cost structure of payroll comprising 70% to 80% of total cost, a weak financial performance with a declining order book while increasing debt, and an operating environment heavily regulated in procurement which compromises sourcing turnaround times and the Division's agility to be competitive. These issues limit the Division's ability to carry out the activities necessary to operate efficiently, modernise operations and effectively service the market.

TE is continuing to implement its turnaround strategy to address the challenges faced. Phase 1 of the strategy involves a reorganisation of the Division to optimise operations and address procurement limitations. Following this, Phase 2 will focus on restructuring existing businesses to match the steady state demand and growth through diversification, with the aim of increasing TE's offerings to Transnet's Operating Divisions and other State-Owned companies. This includes expanding the Maritime Business offering and providing manufacturing and engineering services to adjacent industries. Additionally, a Joint Venture leasing company is in the process of being established.

The future Engineering business model will include/exclude the following:

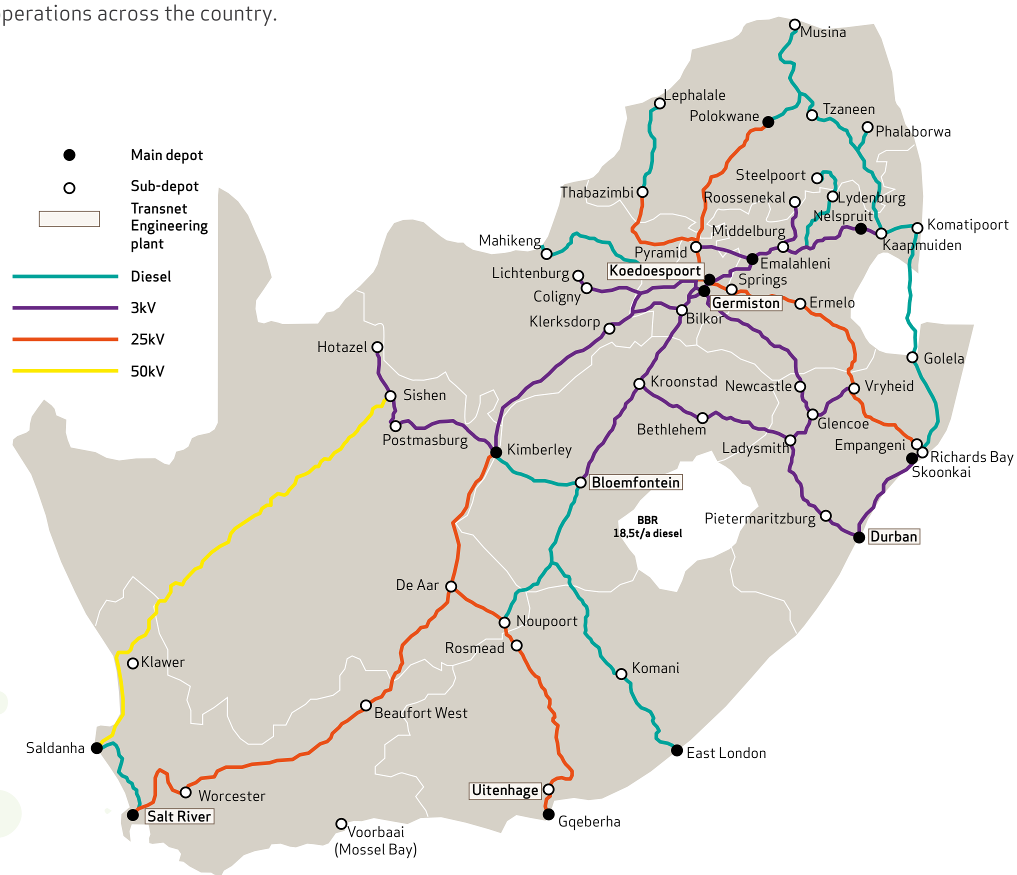
- Transition the current Engineering Services unit in TE to a customer-facing business unit which generates revenue. Leveraging the potential within the Transnet Group and other State-Owned companies to offer engineering services could be a viable option;
- Introduction of Rolling Stock Leasing – Additionally, the establishment of a rolling stock leasing business unit could provide the platform for diversifying revenue streams, as well as increasing demand for Transnet Engineering's manufacturing, re-manufacturing, and engineering services; and
- Rolling Stock Maintenance and Services – Under its Renewal and Growth Strategy, Transnet is considering the 'lift and shift' of the maintenance function from Transnet Engineering to Transnet Freight Rail, meaning Transnet Engineering would no longer be responsible for rolling stock maintenance. The business case and recommendation for this development will be presented to the Transnet Board in 2023/24FY.

In the short to medium term, TE will remain reliant on its manufacturing and maritime services businesses for revenue. To mitigate risks, the engineering management team will deploy strategies which focus on competitiveness in the external market, increased effectiveness and efficiency of the supply chain, a shift in organisational culture to prioritise customer service, diversification initiatives to reduce revenue risk, and a strategic re-alignment with Freight Rail to create a more commercially viable arrangement.

Transnet Engineering is resiliently striving to restore and preserve its well-established legacy. Our vision is to maintain our heritage, expand our business, and become the leading engineering firm in South Africa.

WHERE WE OPERATE

Transnet Engineering has plants and depots throughout South Africa, creating a network of sites that serve the main rail corridors and ports. The six main plants (referred to as centres) are in Cape Town, Durban, Germiston, Bloemfontein, Pretoria, and Uitenhage. The following map depicts TE's operations across the country.

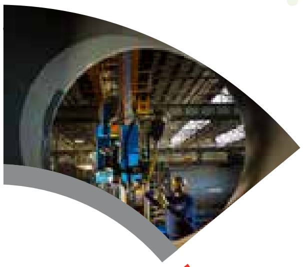


REGULATORY ENVIRONMENT

TE continues to comply with all applicable regulatory requirements, and it evaluates applicable legislation on an annual basis to remain relevant in a changing regulatory environment. It was anticipated that two critical Bills, namely the Railway Safety Bill and the Railway Levies Bill, would come into effect during the 2022/23FY following public comment. These two Bills were initially published by the Department of Transport in 2016 and they are now expected to come into effect during 2023/24FY.

Railway Safety Bill provide for the following amongst others; Railway safety permits, critical grades, and safety management systems; a national railway safety information and monitoring system; a legal framework to enforce compliance with the Act and to deal with railway occurrences; and an appeal mechanism, transitional arrangements, and the repeal of the National Railway Safety Regulator Act, No 16 of 2002. The Railway Levies Bill on the other hand provide for the imposition of levies, penalties, and interest by the Rail Safety Regulator.

The impact of the two Bills is that, if passed, will add unnecessary administrative requirements and high operational costs to TE.



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OPERATIONAL PERFORMANCE

During the 2022/23 financial year TE's Strategic Outlook is summed up as follows: In line with the current business model, initiatives to improve and restructure Engineering were being implemented. The Supply Chain Optimisation project was and remains at the forefront of these efforts and is essential for the success of the overall strategy. Additionally, initiatives to facilitate Engineering's growth and long-term sustainability, such as the implementation of a Leasing Business and a Maritime Business, have commenced and are progressing well. A Request for Proposals has been issued to the market to attract partner(s) to co-develop the Lease Business, and the Maritime Business is currently exploring and negotiating partnership opportunities with Original Equipment Manufacturers in the Ports Maritime space. Other initiatives in phase 2 of Engineering's strategy are in their early stages of implementation. Challenges with execution are being addressed with robust mitigating measures.

TE has achieved several key strategic objectives that are aligned with Transnet's strategic focus areas. These objectives include, but are not limited to:

Customer service

- Optimising the North-Corridor was prioritised to improve the availability and reliability of rolling stock for Freight Rail to consistently move targeted volumes. Various initiatives were implemented to improve service levels and supply the corridor; and
- Enter into Government-approved, strategically selected supplier agreements to reduce lead-times in the supply chain. A draft Policy has been developed, which is undergoing vetting by external Stakeholders, including the National Treasury. Strategic partnerships and agreements have been established with relevant Government departments to ensure successful implementation.

People

- TE has initiated the Reorganisation project (Phase 2) to successfully enact the new organisational design and delayering process; and
- Engineering continued to develop technical and functional skills to drive performance and ensure business continuity, surpassing the target of training spend as a percentage of labour. The achieved figure of 2.7% was higher than the 2.5% target.

Asset utilisation

- Engineering has been actively working to drive the return of 100 staged locomotives to service through the project 224 initiative. As a result, the number of locomotives on the 224 long-standing list has decreased, while other locomotives have been placed on hold outside of the 224 project date. Consequently, the number of long-standing and staged locomotives is steadily increasing, largely due to the influx of CRRC locomotives.

Safety perspective

- Engineering is committed to helping Transnet maintain its Safety Permit as a railway operator, ensuring safe rail operations and compliance with the Safety Permit. On 31 August 2022, the Rail Safety Regulator approved and issued Transnet a Safety Permit, effective from 29 August 2022. The permit comes with two special conditions and TE's role in adhering to these special conditions is the appointment of safety critical and safety related vacancies. To date, Engineering has filled four of the 115 and will continue in the 2023/24FY; and
- Engineering continued to prioritise safety, health, and environmental protection in the workplace by implementing the Back-to-Basics Programme during the reported period. The Back-to-Basics Plan was 70% achieved, and Engineering will continue to prioritise this safety initiative in the 2023/24 period to embed an effective safety mindset and culture amongst the workforce. This initiative is designed to ensure that all employees remain safe, healthy, and free from harm in the workplace.

Engineering has identified that a number of strategic objectives were not achieved during the given period due to budget cuts and inadequate planning of strategic objectives. To address this, Engineering has initiated the establishment of an Enterprise Projects and Programmes Management Office to oversee the project lifecycle process including project scoping and project controls. Cost control initiatives were negatively affected by the October wage increase agreement, resulting in higher costs than budgeted for in the period. Further to this, there were budget cuts implemented in Transnet that resulted in underfunding of most capital projects.

New initiatives introduced during the period

Transnet is evaluating the implementation of a 'lift and shift' initiative for the maintenance of its rolling stock, wherein the responsibility for the in-service and out-of-service maintenance of rolling stock would be transferred from TE to TFR. This move is part of Transnet's Growth and Reinvention Strategy and is expected to be presented to the Transnet Board in the 2023/24FY.

CORE INITIATIVES

Considering these developments, TE will focus its efforts on implementing these initiatives to ensure continued success and growth.

- TE/TFR – investigate new operating model and implement and reach a steady state with TFR to improve operational performance;
- Entrench Directed Procurement and Procurement for Revenue-Generating Contracts to enable TE to be competitive in the market;
- Rationalise Transnet Engineering plants and depots according to the steady state demand. Consolidate critical capacity in Koedoespoort and Bayhead (Durban) – wheels, rotating machines. Close Kilnerpark Head-Office, consolidate in Koedoespoort – sell/lease the property;
- Improve TE's commercial offering and business sustainability by solidifying the Maritime Maintenance business capability and capacity to create an additional source of revenue for the Division;
- Diversify TE's revenue streams and exploit opportunities in the market by establishing a rolling stock and port equipment leasing company with a partner;
- Collaborate and deepen relationships with other State-Owned companies for business opportunities to reduce the risk of having one major customer (Freight Rail);
- Redefine the TE value proposition to internal and external customers to clearly outline what it takes to make the product and service offering attractive to customers and to drive a more commercial business;
- Review the Foundry business strategy and start with the implementation thereof to improve the utilisation of foundry assets;
- Improve TE's service delivery to its customers by enhancing Supply Chain Management's ability to provide the right material at the right time for operations;
- Review and improve TE's pricing model to establish quicker turnaround times of customer enquiries and the commercial process;
- Enhance customer confidence and satisfaction through continued implementation of TE quality management principles, processes and plans while improving assurance in the control environment;
- Continue to improve the performance management process to ensure the Division's strategic objectives are met;
- Embed the new Transnet culture, values, and behaviours to help establish a high-performance organisation;
- Develop technical and functional skills to drive performance and ensure business continuity;
- Continue to implement the Back-to-Basics Programme with a specific focus on safety, health and the environment to ensure all employees are safe, healthy and free from harm in the workplace; and
- Developing and implementing cost-control initiatives to effectively control costs.

OVERVIEW OF KEY PERFORMANCE INDICATORS

Key performance area and indicator	Unit of measure	2022 Actual	2023 Target	2023 Actual	2024 Target
Financial sustainability					
EBITDA margin	%	(16,8%)	(7,7%)	**(24,7%)**	0,0%
Operating profit margin	%	(25,8%)	(13,2%)	**(29,2%)**	(7,4%)
Gearing	%	80,4%	79,9%	**91,7%**	119,4%
Net debt to EBITDA	times	(6,7)	(10,2)	**(5,7)**	N/A
Return on Invested Capital (ROIC)		(12,9%)	(7,9%)	**(12,1%)**	(5,3%)
Asset turnover	times	0,5	0,6	**0,5**	0,7
Cash interest cover	times	(3,8)	6,6	**(4,2)**	1,1
Total revenue	R million	8 901	8 733	**8 045**	10 839
– External		459	101	**210**	419
– Internal		8 442	8 633	**7 835**	10 420
Capacity creation and maintenance					
Capital expenditure	R million	53	105	**21**	148
Planned maintenance	R million	155	158	**172**	168
Operational excellence					
Train cancellations due to traction					
Capecor	%	2,79	≤6,0	**2,58**	≤6,0
Central	%	2,01	≤6,0	**0,64**	≤6,0
Container	%	6,43	≤6,0	**1,23**	≤6,0
Northcor	%	11,89	≤6,0	**4,07**	≤6,0
Northeastcor	%	5,74	≤6,0	**5,76**	≤6,0
Oreline cor	%	0	≤6,0	**10,88**	≤6,0
Net volume lost due to traction					
Capecor	%	2,1	≤7,0	**2,7**	≤7,0
Central	%	0,8	≤7,0	**0,9**	≤7,0
Container	%	5,4	≤7,0	**1,3**	≤7,0
Northcor	%	10,7	≤7,0	**9,3**	≤7,0
Northeastcor	%	6,8	≤7,0	**7,2**	≤7,0
Oreline cor	%	26,3	≤7,0	**10,2**	≤7,0

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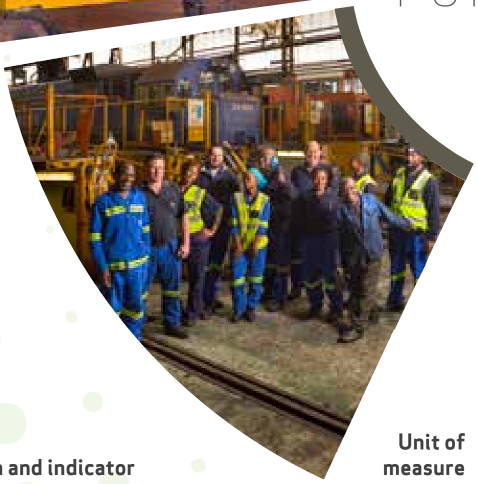


Key performance area and indicator		Unit of measure	2022 Actual	2023 Target	2023 Actual	2024 Target
Train delays due to traction						
Capecor		Faults per million kilometers travelled	69,00	≤40	**65,9**	≤40
Central		Faults per million kilometers travelled	57,00	≤40	**54**	≤40
Container		Faults per million kilometers travelled	67,00	≤40	**70,8**	≤40
Northcor		Faults per million kilometers travelled	55,00	≤40	**47,1**	≤40
Northeastcor		Faults per million kilometers travelled	76,00	≤40	**65,9**	≤40
Oreline cor		Faults per million kilometers travelled	40,00	≤40	**36,1**	≤40
Human capital						
Employee turnover		%	16	6	**4,3**	6
Employee headcount (permanent)		permanent	8 392	8 549	**8 126**	7 281
Revenue per employee (permanent)		R million	1,1	1,0	**1,0**	1,5
Transformation						
Total blacks		%	86,1%	90%	**86,8%**	90%
Total females		%	26,8%	39%	**27,5%**	39%
Total people with disabilities		%	1,9%	2,5%	**1,9%**	2,5%
Skills development						
Apprentice trainees		headcount	199	200	**200**	200
Technician trainees		headcount	22	0	**4**	30
Engineering undergraduate trainees		headcount	30	0	**13**	21
Sector specific		headcount	184	250	**2 940**	250
Training spend (%)		% of personnel cost	2,64%	2,50	**2,7**	2,50
Risk, safety and health						
Cost of risk		% of revenue	N/A	N/A	**N/A**	N/A
DIFR		rate	0,63	0,7	**0,85**	0,7
Regional integration						
Africa sales revenue		R million	262	24	**106**	265
Industrial capability building						
R&D costs		R million	98	79	**76**	83

FINANCIAL PERFORMANCE REVIEW

Salient features		Year ended 31 March 2023 R million	Year ended 31 March 2022 R million	% change
Revenue		**8 045**	8 901	(9,6)
– Internal		**7 835**	8 442	(7,2)
– External		**210**	459	(54,3)
Operating expenses		**(10 034)**	(10 398)	(3,5)
– Energy costs		**(253)**	(190)	32,8
– Maintenance		**(172)**	(155)	11,1
– Materials		**(3 227)**	(3 406)	(5,2)
– Personnel costs		**(5 242)**	(5 779)	(9,3)
– Other		**(1 139)**	(868)	31,3
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)		**(1 989)**	(1 497)	32,9
Depreciation, derecognition and amortisation		**(361)**	(799)	(54,8)
Profit from operations before items listed below		**(2 349)**	(2 295)	2,4
Impairments and fair value adjustments		**294**	26	1 049,6
Net finance costs		**(946)**	(549)	72,3
Profit before taxation		**(3 001)**	(2 819)	6,5
Taxation		**1 531**	628	143,8
Profit after taxation		**(1 470)**	(2 191)	(32,9)
Total assets (excluding CWIP)	R million	**15 932**	16 883	(5,6)
Profitability measures				
EBITDA margin*	%	**(24,7)**	(16,8)	47,0
Operating margin**	%	**(29,2)**	(25,8)	13,2
Return on average total assets (excluding CWIP)***	%	**(14,3)**	(14,0)	2,1
Asset turnover (excluding CWIP)****	times	**0,5**	0,5	0,0
Capital investments^	R million	**21**	53	(60,8)
Employees				
Number of employees (permanent)	number	**8 126**	8 392	(3,1)
Revenue per employee	R million	**1,0**	1,1	(6,7)

* *EBITDA expressed as a percentage of revenue.*

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

*** *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.*

**** *Revenue divided by average total assets excluding capital work in progress.*

^ *Actual capital expenditure (replacement + expansion) excluding borrowing costs.*

PERFORMANCE COMMENTARY

Financial sustainability

Revenue for the year under review decreased by 9,6% to R8,0 billion (2022: R8,9 billion). This is due to budgeted volumes not executed in full, although Engineering benefited from an inflationary increase of 4,3% from our main customer, Transnet Freight Rail (Engineering recorded a 7% year on year decrease in Freight Rail revenue from R8,4 billion to R7,8 billion). External revenue decreased by 54% from R459 million to R210 million due to significant challenges faced by Engineering (e.g., the tightening of belts by potential customers in a constrained global economic environment) in securing both cross border and Domestic external revenue.

Net operating expenses decreased by 3,5% to R 10,0 billion (2022: R10,4 billion). Engineering has achieved this decrease against the backdrop of a 4,6% inflationary (CPI) increase, in addition to approximately R270 million worth of non-budgeted salary increases incurred in the current financial year.

Despite efforts in containing net operating expenses, these efforts were not enough, resulting in TE incurring an EBITDA loss of R1,98 billion, a 32,9% higher EBITDA loss than the prior year (2022: EBITDA loss of R1,49 billion).

Looking ahead

Engineering is committed to implementing core activities that will enhance its financial sustainability. More activities include:

- Continued focus to successfully land profitable external revenue contracts;
- Continue to right size TE by aligning its people, facilities, and infrastructure to support available customer demand;
- Move from traditional business lines dedicated to coaches, wagons, and locomotives to multi-product manufacturing lines to improve infrastructure, machinery, and people utilisation;
- Continue to drive cash preservation and cost control initiatives to improve cash flow and financial sustainability;
- Contain the costs of absenteeism and overtime in TE; and
- Implement supply chain management initiatives to reduce expenditure through contract price negotiations, the use of alternative suppliers and continuous improvement projects.

Operational performance

Volumes lost due to traction (7,7% against a threshold of 7%) and train delays due to traction (55,5 against a threshold of 40 faults per million kilometres travelled) are not performing as desired. Train cancellations due to TE account for 3,36% of all cancellations, this is below the threshold of 7%.

Looking ahead

To turn these Key Performance Indicators around, TE will continue to seek new solutions and technologies that can help to improve the current KPIs to ensure that any faults and issues are addressed quickly and efficiently so that trains can continue to run without disruption.

Capacity creation and maintenance

The Division aims to spend R83 million in the 2023/24FY on its balanced portfolio of projects that cover R&D initiatives that aim to grow its customer base for maintenance and services, optimise its operational efficiency, create more value for customers and increase its revenue streams.

Looking ahead

While capital expenditure of R148 million for 2023/24FY is not in line with affordability levels, this is a necessary spend to minimise the risk of the non-execution of budgeted revenue.

Sustainable developmental outcomes

Human capital (employment and transformation)

- Engineering achieved a permanent employee headcount of 8 126 against a target of 8 549;
- Black employees represented 86,8% against a targeted 90%;
- Female employees represented 27,5% as opposed the targeted 35%; and
- People with disabilities represented 1.9% against 2,5%.

Skills development

- Training spend as a percentage of labour costs: 2,7% against 2,5%;
- Artisan (apprentices) trainees: 200 against 200;
- Engineering trainees: 13 against 0;
- Technician trainees: 4 against 0;
- Sector-specific training: 2 940 against 250; and
- Employees trained against the Annual Training Plan (IDP): 3 840 against 2 202.

Regional integration

The Division recorded cross border revenue of R106 million (2022: R262 million) against a target of R24 million.

Industrial capability building

Research and development expenditure of R76 million (2022: R98 million), against a target of R79 million. Looking ahead, in the research space TE will investigate options to support green energy e.g., port opportunities for equipment utilising green energy to stay abreast of global trends in alternative energy solutions in the logistics and transportation industry. Furthermore, focus on enabling the commercialisation of the technology ready research projects, that is the Trans Africa Locomotive, the Locomotive Condition Monitoring Sensor, and TE Port Hauler will be prioritised.

Environmental stewardship

TE continues to ensure environmental compliance and minimises adverse impacts on the environment in which it operates. This is facilitated by implementing and monitoring various environmental initiatives such as waste management, energy efficiency, water management, air quality monitoring and pollution management.

Waste management

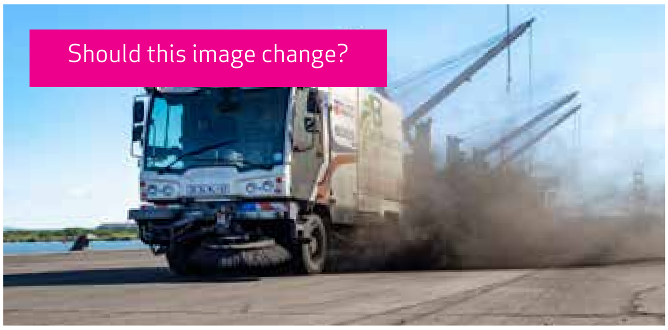
Engineering's Waste Management Improvement Plan is being implemented with the primary objective of improving waste management practices across the organisation. To date, successful waste streams have been diverted away from landfill and directed towards more sustainable treatment options such as reuse and recycling. The Plan is also ensuring robust engagements with service providers to ensure that waste minimisation is the focus, rather than waste disposal. The implementation of the Plan will be closely monitored until significant changes are achieved.

Water management

TE continues to monitor ground, surface, and potable water, as well as industrial effluent, as part of its operational activities to ensure compliance with municipal by-laws and discharge permits. Most results have demonstrated a high level of compliance and are within the set parameter limits. Any abnormalities have been investigated and addressed promptly. General authorisations for boreholes and evaporation ponds have been obtained for the Salt River plant, and the application process for a Koedoespoort asbestos-contaminated site water use licence is currently underway.

Air quality monitoring

TE is actively monitoring air quality to ensure compliance with applicable legislation in its foundry operations. The status of compliance is as follows: – Koedoespoort has received a provisional atmospheric emissions licence from Tshwane Municipality on 7 September 2022, with conditions to be met before the final licence can be issued. An implementation plan to address these conditions has been established. Bloemfontein is awaiting feedback on its application from Mangaung Municipality and is actively following up. All necessary monitoring is being conducted as per the licence conditions.



Pollution management

TE is committed to ensuring that past and current pollution is managed in an effective and responsible manner, and that contaminated sites are identified and appropriately remediated. Notifications were sent to the Department of Forestry, Fisheries and Environment on the contaminated sites of TE. Site assessments were conducted in Germiston and Salt River to determine the extent and level of pollution. Following the submission of the Germiston report, a remediation order has been issued to monitor the site. Salt River has also received a remediation order and a service provider has been appointed to remediate the lead-contaminated site. Additionally, a service provider has been appointed to remediate the asbestos-contaminated site in Koedoespoort, with the process set to be undertaken in phases, in accordance with the remediation order.

Community development (social accountability)

At the heart of Engineering's Corporate Social Investment (CSI) philosophy is the commitment to make conditions and life better for vulnerable communities around our operations. The divisions' approach is that impactful social investment has the ability to contribute positively to nation-building and to drive positive change in communities. Engineering's CSI plan is well aligned with that of Transnet Foundation, underpinned by a need to make a measurable impact through sustainable projects that empowers communities we operate in. The Company achieves its CSI intent through five focus areas: health, sports, employee volunteerism, social infrastructure, and education.

KEY RISKS AND MITIGATING ACTIVITIES

The top three risks below were identified during the year under review with appropriate mitigating plans as follows:

	Top enterprise risks	Planned mitigation focus areas	
1	**Lack of steady state baseline with Freight Rail, TE's main customer**	• **Be Competitive:** Being competitive is core to TE's future as it shifts from a largely internal market (inside Transnet) to a more externally focused business. Its ability to compete commercially with other similar organisations in terms of price, quality and delivery time becomes critical, as does its agility to respond to opportunities and client requests • **Effective Supply Chain:** The speed at which TE get materials to the floor, and the price it pays for those materials, are at the heart of being competitive, and so Engineering will focus on having a sustainable, reliable supply chain that is matched by an agile procurement system – speed is everything • **Cultural Shift:** For Transnet to adapt to its new reality will not be easy nor comfortable, requiring a strong cultural shift, where a sense of urgency must complement higher levels of productivity • **Strategic Re-alignment with Freight Rail:** Freight Rail will remain Engineering's dominant source of income, therefore the operating model between both operating divisions should be commercially based • **Diversify:** Faced with a decreasing need for our goods and services within Transnet, diversification into other areas to replace that demand will be crucial. Engineering will focus on finding work in the other State-Owned Entities and cross border work	**Risks realised**
2	**Uncertainty of demand for the products and services of TE**		
3	**Inadequate competitiveness as an organisation**		

OPPORTUNITIES

TE is exploring the following opportunities for growing revenue and improving business sustainability:

- New rail corridors are being developed within sub-Saharan Africa;
- New discoveries of bulk commodity mines in Africa;
- Mining companies purchasing their own rolling stock and not relying on traditional railway operators;
- Rolling stock overhauls, upgrades and leasing are in demand in Africa;
- The ability to offer turnkey products and service solutions for locomotives, wagons, and maintenance to customers;
- Improving technical skills for both manufacturing and maintenance and servicing port equipment;
- Access to broader markets and resources through establishing strategic partnerships;
- Expanding TE's offering to adjacent industries in South Africa;
- Exploiting TE's multi-faceted roles (maintainer, customer to OEMs, OEM) within the rail sector to create revenue streams;
- State-owned company collaboration to find synergies and ways to uplift business activities and ultimately economic activities for the country;
- The leasing of rolling stock and port equipment to potential customers such as Freight Rail, Port Terminals, and third-party access operators;
- Access to the B-fleet, as donor fleet, to establish the TE leasing company; and
- Adopting a revenue-generating contract procurement model that enables competitive sourcing of material for revenue-generating contracts.