Reviewed condensed consolidated financial results

for the six months ended 30 September 2021

TRANSNET

Salient features

Revenue increased by **10,5%** to **R35,4 billion** in line with increased petroleum and container volumes due mainly to improved economic conditions.

Net operating expenses decreased by **0,4%** to **R22,1 billion**, due mainly to the impact of the third-party settlement received partially offset by fixed cost increases.

EBITDA of **R13,3 billion**, with the EBITDA margin increasing to **37,5%**.

Cash generated from operations after working capital changes increased by **43,8%** to **R18,5 billion**.

Capital investment spend increased by **15,5%** to **R5,7 billion**.

B-BBEE spend amounted to **R11,31 billion** with Transnet retaining its **Level 2** B-BBEE contributor status.

1,9% of labour costs were spent on training, focusing on artisans, engineers, and engineering technicians.

LTIFR performance of **0,73** against a tolerance of **0,75**, which is within the global benchmark of **1,0**.

Gearing of **46,6%** and rolling cash interest cover at **2,6 times**.

Income statement

for the six months ended

(in R million)	Reviewed 30 Sept 2021	Restated reviewed 30 Sept 2020	Audited 31 March 2021
Revenue	**35 361**	32 012	67 273
Net operating expenses excluding depreciation and amortisation	**(22 096)**	(22 188)	(47 813)
Profit from operations before depreciation, derecognition, amortisation and items listed below (EBITDA)	**13 265**	9 824	19 460
Depreciation, derecognition and amortisation	**(7 399)**	(7 004)	(13 872)
Profit from operations before items listed below:	**5 866**	2 820	5 588
Impairment of assets	**(820)**	(538)	(4 361)
Post-retirement benefit obligation expense	**(50)**	(58)	(202)
Fair value adjustments	**76**	(1 129)	(827)
Income from associates and joint ventures	**5**	2	13
Profit from operations before net finance costs	**5 077**	1 097	211
Finance costs	**(5 144)**	(5 781)	(11 296)
Finance income	**58**	176	256
Loss before tax	**(9)**	(4 508)	(10 829)
Tax	**(69)**	1 156	2 443
Loss for the period	**(78)**	(3 352)	(8 386)

Statement of comprehensive income

for the six months ended

(in R million)	Reviewed 30 Sept 2021	Restated reviewed 30 Sept 2020	Audited 31 March 2021
Loss for the period	**(78)**	(3 352)	(8 386)
Other comprehensive income/(loss) for the period, net of tax	**4 141**	(2 569)	6 082
Other comprehensive income/(loss)	**5 727**	(3 591)	8 494
Gain/(loss) on revaluations	**5 529**	(3 021)	8 641
Cash flow hedges	**221**	(526)	(97)
Actuarial loss on post-retirement benefit obligations	**(23)**	(44)	(50)
Tax relating to components of other comprehensive (income)/loss	**(1 586)**	1 022	(2 412)
Total comprehensive income/(loss) for the period	**4 063**	(5 921)	(2 304)

Headline earnings summarised reconciliation

for the six months ended

(in R million)	Reviewed 30 Sept 2021	Restated reviewed 30 Sept 2020	Audited 31 March 2021
Loss for the period attributable to the equity holder	**(78)**	(3 352)	(8 386)
Loss on the disposal of property, plant and equipment	**66**	4	617
Total remeasurements	**843**	(464)	3 728
Investment property fair value adjustments	**43**	(533)	354
Impairment of non-financial assets	**800**	69	3 374
Total tax effects of adjustments	**(252)**	99	(639)
Headline earnings/(loss)	**579**	(3 713)	(4 680)

Statement of financial position

as at

(in R million)	Reviewed 30 Sept 2021	Restated reviewed 30 Sept 2020	Audited 31 March 2021
Assets			
Non-current assets	**325 423**	312 647	321 296
Property, plant and equipment	**296 505**	280 802	293 327
Investment property	**18 061**	17 705	17 729
Intangible assets	**778**	800	889
Investments in associates and joint ventures	**108**	97	108
Derivative financial assets	**8 760**	11 974	8 080
Long-term loans and advances	**—**	—	—
Other financial assets	**1 211**	1 269	1 163
Current assets	**18 496**	17 848	14 530
Inventory	**3 549**	3 287	3 334
Trade and other receivables	**8 537**	8 530	8 850
Contract assets	**735**	615	634
Derivative financial assets	**30**	13	20
Short-term investments	**64**	230	248
Cash and cash equivalents	**5 300**	4 891	1 168
Assets classified as held-for-sale	**281**	282	276
Total assets	**343 919**	330 495	335 826
Equity and liabilities			
Capital and reserves	**133 386**	125 706	129 323
Issued capital	**12 661**	12 661	12 661
Reserves	**120 725**	113 045	116 662
Non-current liabilities	**140 802**	167 377	135 850
Employee benefits	**890**	884	878
Long-term borrowings	**81 186**	115 710	77 626
Derivative financial liabilities	**2 072**	3 137	2 363
Long-term provisions	**9 603**	4 340	9 597
Deferred tax liability	**43 363**	39 577	41 714
Other non-current liabilities	**3 688**	3 729	3 672
Current liabilities	**69 731**	37 412	70 653
Contract liabilities	**1 442**	1 513	1 817
Trade payables and accruals	**21 068**	20 459	16 465
Short-term borrowings	**46 573**	14 508	51 515
Current tax liability	**1**	8	1
Derivative financial liabilities	**16**	6	64
Short-term provisions	**631**	918	791
Total equity and liabilities	**343 919**	330 495	335 826

Statement of cash flows

for the six months ended

(in R million)	Reviewed 30 Sept 2021	Restated reviewed 30 Sept 2020	Audited 31 March 2021
Cash flows from operating activities	**12 563**	6 865	12 103
Cash generated from operations	**14 148**	10 709	27 150
Changes in working capital	**4 336**	2 149	(2 701)
Cash generated from operations after changes in working capital	**18 484**	12 858	24 449
Finance costs	**(5 016)**	(5 560)	(11 072)
Finance income	**58**	176	256
Tax paid	**—**	(6)	(9)
Settlement of post-retirement benefit obligations	**(38)**	(70)	(143)
Derivatives settled and raised	**(925)**	(533)	(1 378)
Cash flows utilised in investing activities	**(5 757)**	(4 532)	(15 345)
Investment to maintain operations	**(4 513)**	(4 212)	(12 890)
Investment to expand operations	**(1 379)**	(1 054)	(3 140)
Changes in investments, loans, advances and other investing activities	**135**	734	685
Cash flows (utilised in)/from financing activities	**(2 674)**	(1 698)	154
Borrowings raised	**7 758**	11 710	18 086
Borrowings repaid	**(10 432)**	(13 408)	(17 932)
Net increase/(decrease) in cash and cash equivalents	**4 132**	635	(3 088)
Cash and cash equivalents at the beginning of the period	**1 168**	4 256	4 256
Cash and cash equivalents at the end of the period	**5 300**	4 891	1 168

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 2020	12 661	44 583	2 526	(501)	249	72 109	131 627
Restated total comprehensive loss for the period (net of tax and transfers to retained earnings)	—	(2 178)	(32)	(380)	—	(3 331)	(5 921)
Total comprehensive loss for the period (net of tax and transfers to retained earnings) as previously reported	—	(2 178)	(32)	(380)	—	(2 983)	(5 573)
Recognition of investment property (net of tax)	—	—	—	—	—	(345)	(345)
Omission of overtime accruals	—	—	—	—	—	(21)	(21)
Associate earnings correction due to error in Rainprop financial results (net of tax)	—	—	—	—	—	18	18
Balances as at 30 September 2020	12 661	42 405	2 494	(881)	249	68 778	125 706
Total comprehensive income/(loss) for the period (net of tax and transfers to retained earnings)	—	8 334	(4)	310	—	(5 023)	3 617
Balances as at 31 March 2021	12 661	50 739	2 490	(571)	249	63 755	129 323
Total comprehensive income/(loss) for the period (net of tax)	**—**	**3 999**	**(17)**	**159**	**—**	**(78)**	**4 063**
Balances as at 30 September 2021	**12 661**	**54 738**	**2 473**	**(412)**	**249**	**63 677**	**133 386**

Segment information

for the six months ended

(in R million)	Transnet Freight Rail Reviewed 30 Sept 2021	Transnet Freight Rail Restated reviewed 30 Sept 2020	Transnet Engineering Reviewed 30 Sept 2021	Transnet Engineering Restated reviewed 30 Sept 2020	Transnet National Ports Authority Reviewed 30 Sept 2021	Transnet National Ports Authority Restated reviewed 30 Sept 2020	Transnet Port Terminals Reviewed 30 Sept 2021	Transnet Port Terminals Restated reviewed 30 Sept 2020
External revenue*	**19 505**	18 988	**339**	36	**5 124**	4 471	**7 408**	5 999
Internal revenue	**312**	331	**3 669**	2 898	**1 124**	1 016	**—**	—
Total revenue	**19 817**	19 319	**4 008**	2 934	**6 248**	5 487	**7 408**	5 999
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**6 261**	6 560	**(1 113)**	(1 436)	**3 867**	3 384	**2 340**	1 272
Total assets**	**167 334**	160 993	**16 208**	15 898	**88 469**	77 933	**22 884**	19 602
Total liabilities	**120 930**	117 673	**12 648**	10 272	**26 142**	26 725	**5 664**	3 504
Capital expenditure***	**4 122**	3 325	**44**	56	**337**	306	**793**	1 047
Cash generated from operations after changes in working capital	**11 082**	4 173	**(2 555)**	1 476	**4 151**	3 385	**3 046**	1 431

(in R million)	Transnet Pipelines Reviewed 30 Sept 2021	Transnet Pipelines Restated reviewed 30 Sept 2020	Total reportable segments Reviewed 30 Sept 2021	Total reportable segments Restated reviewed 30 Sept 2020	Other* Reviewed 30 Sept 2021	Other* Restated reviewed 30 Sept 2020	Total Transnet Reviewed 30 Sept 2021	Total Transnet Restated reviewed 30 Sept 2020
External revenue*	**2 594**	2 135	**34 970**	31 629	**391**	383	**35 361**	32 012
Internal revenue	**3**	2	**5 108**	4 247	**(5 108)**	(4 247)	**—**	—
Total revenue	**2 597**	2 137	**40 078**	35 876	**(4 717)**	(3 864)	**35 361**	32 012
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**2 277**	959	**13 632**	10 739	**(367)**	(915)	**13 265**	9 824
Total assets**	**41 564**	42 582	**336 459**	317 008	**7 179**	13 205	**343 638**	330 213
Total liabilities	**20 475**	19 063	**185 859**	177 237	**24 674**	27 552	**210 533**	204 789
Capital expenditure***	**193**	165	**5 489**	4 899	**223**	45	**5 712**	4 944
Cash generated from operations after changes in working capital	**2 236**	1 475	**17 960**	11 940	**524**	918	**18 484**	12 858

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.*

Commentary

Introduction

South Africa's economy has continued to recover from the initial economic shock of the COVID-19 pandemic with economic growth of 1,2% being recorded in the 2nd quarter (April, May and June 2021). Despite the growth, real GDP is 1,4% less than pre-COVID-19 levels.

2021 quarter 2, was the fourth consecutive quarter in which economic growth has been reported. It is indicative of South Africa's road to economic recovery which has a direct impact on the financial position and performance of Transnet as one of the key role players in supporting economic growth.

The rate of COVID-19 infections amongst employees has slowed down significantly, similar to national trends. As at 2 November 2021, the total number of infections was 8 171 and most of these were registered in Transnet Freight Rail, Transnet Engineering and Port Terminals respectively. In terms of geographic distribution, higher prevalence was in the Western Cape and Gauteng respectively.

Performance overview

Revenue for the period increased by 10,5% to R35,4 billion (2020: R32,0 billion), in line with increased petroleum and container volumes and increased revenue at freight rail due to the volume mix, which benefited from higher yielding volumes relating to the general freight business.

The mining sector has recorded growth of 1,9% in the second quarter of 2021. A marked improvement from the 73,1% contraction in the prior period. The agricultural sector has shown a 6,2% growth, which is less than the 15,1% growth in quarter 2, 2020. This shows a gradual increase in economic activity in South Africa which has had a positive impact on Transnet revenue.

Net operating expenses decreased by 0,4% to R22,1 billion, (2020: R22,2 billion), due mainly to the impact of the third-party settlement received in lieu of all future claims against this party, partially offset by fixed cost increases which were contained by cost-saving initiatives.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 35,0% to R13,3 billion (2020: R9,8 billion) with a resultant increase in the EBITDA margin to 37,5% (2020: 30,7%).

Depreciation, derecognition and amortisation of assets increased by 5,6% to R7,4 billion (2020: R7,0 billion), due mainly to the impact of revaluation adjustments at 31 March 2021 and capital expenditure in the current financial period.

Profit from operations after depreciation and amortisation more than doubled to R5,9 billion (2020: R2,8 billion), a marked improvement from the September 2020 results.

Impairment of assets, amounting to R820 million (2020: R538 million), is primarily due to the impairment of property, plant and equipment, mainly from derailments and the valuation exercise carried out on port operating assets.

Post-retirement benefit obligations are actuarially assessed in accordance with IAS 19: *Employee Benefits* and adjusted accordingly. The Company recognised a cost of R50 million (2020: R58 million) during the period.

Fair value adjustments amounted to a R76 million gain (2020: R1 129 million loss). These adjustments are mainly due to derivative fair value gains as a result of the deterioration in foreign exchange rates that are hedge accounted for, in terms of IFRS 13: *Fair Value Measurement*, partially offset by the loss on investment property valuation recognised in terms of IAS 40: *Investment Property*.

Profit from operations before net finance costs increased significantly to R5,1 billion (2020: R1,1 billion).

Net finance costs decreased by 9,3% to R5,1 billion (2020: R5,6 billion) resulting from the decision to utilise cost-effective short-term facilities, while longer-term funding is being negotiated.

The tax expense of R69 million (2020: R1,2 billion income) relates to deferred tax. The increase in the deferred tax expense arose mainly due to the Company's reduced calculated tax loss.

This resulted in a loss after tax of R78 million (2020: R3,4 billion loss), a 97,7% decrease from the prior period, and a sign of recovery from COVID-19 disrupted operations, although the third and fourth wave impact of the virus is expected to affect this recovery further in the second half of the financial year.

Commentary on operating divisions

Transnet Freight Rail (Freight Rail)

The commencement of the 2022 financial year continued to be characterised by some level of disruption as the country battled with the third wave of COVID-19 infections and the associated restrictions on economic activities. Operationally, Freight Rail was negatively impacted by the significant increase in cable theft (resulting in approximately 1 190 train cancellations, as a result of security-related incidents), nationwide unrest and the cyber-attack in July 2021, rolling stock unavailability and safety incidents, which ultimately resulted in total rail volumes declining by 1,8% to 89,8mt (2020: 91,4mt).

General freight business

The general freight business increased volumes by 2,6% to 31,9mt (2020: 31,1mt), compared to the prior period.

The main commodity contributors to increased volumes were manganese, iron steel and scrap, cement and lime mainly driven by a recovery in the market conditions due to international economies rebounding from the COVID-19 pandemic, and commensurate improved demand.

Export coal line

The business railed 29,2mt of export coal (2020: 33,8mt), 13,6% 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 ageing infrastructure.

Export iron ore line

Export iron ore volumes transported increased by 8,3% to 28,7mt (2020: 26,5mt). This was primarily attributed to a recovery in demand based on international markets rebounding from the effects of the COVID-19 pandemic.

This resulted in revenue increasing by 2,6% to R19,8 billion (2020: R19,3 billion) due mainly to the volume mix, in line with the increase in higher yielding volumes relating to the general freight business.

Operating expenditure increased by 6,2% to R13,6 billion (2020: R12,8 billion) largely due to the increase in personnel, energy, materials and maintenance costs. Although there was a decrease in headcount, personnel costs increased by 3,4% mainly due to salary adjustments to eligible employees earning below particular thresholds, as approved by the Transnet board. Energy costs increased by 19,4% despite the decline in volume performance relative to the prior period primarily owing to tariff increases on both fuel and electricity supplies. Material and maintenance costs reflected an increase of 12,5% attributable to an increase in maintenance activities, due to the more severe impact of COVID-19 on the prior period and in line with the division's drive to continuously 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.

Owing to positive results from divisional efforts to contain discretionary costs during a difficult trading period, other operating costs decreased by 3,2%.

This resulted in a 4,6% decline in EBITDA to R6,3 billion (2020: R6,6 billion).

Transnet Engineering (Engineering)

Transnet Engineering's business is directly affected by the macro-economic environment in the country as well as the global business environment which is severely affected by the COVID-19 pandemic. As the macro-economic environment has improved with the relaxed lockdown regulations in the current year, Engineering has managed to increase revenue by 36,6% to R4,0 billion (2020: R2,9 billion).

Cost-control interventions have been continually enhanced to mitigate business sustainability risks associated with COVID-19 related disruptions. Internal redeployment of resources, natural attrition without the filling of vacancies, continued focus on managing cost drivers and other cost control measures have assisted in reducing Engineering's cost base over the past few reporting periods. The headcount reduced by over 200 employees which resulted in the reduction of personnel costs and all other operating expenses decreased by 3% compared to the prior period.

These efforts however still resulted in an EBITDA loss of R1,1 billion for the period (2020: R 1,4 billion loss). Engineering recognises that the business requires a fundamental review in order to turn it around for financial sustainability and self-funding, which is in progress.

Transnet National Ports Authority (National Ports Authority)

Revenue increased by 13,9% to R6,2 billion (2020: R5,5 billion). This is mainly attributable to a 20,0% increase in cargo dues revenue resulting from increased volumes and tariffs.

Net operating expenses increased by 13,2% to R2,4 billion (2020: R2,1 billion), mainly due to increased personnel costs, energy costs, material costs and maintenance costs as a result of increased activity arising out of higher volumes.

Accordingly, EBITDA has increased by 14,3% to R3,9 billion (2020: R3,4 billion).

Transnet Port Terminals (Port Terminals)

Revenue increased by 23,5% to R7,4 billion (2020: R6,0 billion).

Volume performance across all sectors shows an improvement due to the recovery from COVID-19 disruptions which negatively impacted the prior period's financial performance. Container volumes increased by 14,6% to 2 112 199 TEUs (2020: 1 843 049 TEUs). The container sector has been positively impacted by the mix of imported empty containers used during the reefer season. The ramp-up strategy which focuses on efficiencies, productivity and equipment availability in some terminals has also contributed to the positive results reported by this sector. Automotive volumes increased by 105,3% to 355 546 units (2020: 173 181 units).

The automotive sector has been positively impacted by Ford ramping up volumes prior to their one-month plant shutdown and an increase in imports due to importers starting to stockpile in anticipation of the festive season. Bulk volumes increased by 5,2% to 36,5mt (2020: 34,7mt) mainly due to operations returning to normal post COVID-19 resulting in high productivity. Break-bulk volumes increased by 28,4% to 11,3mt (2020: 8,8mt) due to favourable market conditions.

Port Terminals' primary measure of operational efficiency, average moves per ship working hour (SWH), has varied across the container terminals compared to the prior period. In Durban, the Pier 2 Container Terminal improved its SWH from 47 moves per hour in 2020 to 48 moves per hour in 2021 while the Pier 1 Container Terminal has decreased its average SWH performance from 40 to 39 moves per hour in 2021. The Cape Town Container Terminal (CTCT) SWH has declined to 33 moves per hour from 35 moves per hour achieved in the prior period. The Ngqura Container Terminal's SWH has also declined from 38 to 34 moves per hour in 2021.

Productivity across the terminals has largely been impacted by adverse weather conditions and poor equipment availability/reliability. The newly purchased straddle carriers for Durban's Pier 2 have been plagued with teething problems which are being addressed with the original equipment manufacturers. Other interventions to improve equipment reliability include continuous conditional monitoring and planned maintenance as well as the retention of critical spares to aid the turnaround of maintenance in the event of breakdowns. Furthermore, Port Terminals are also focussing on business improvement initiatives to improve the overall equipment effectiveness across all terminals, which will have a positive impact on operational efficiencies.

The Richards Bay Dry Bulk Terminal's loading rate declined from 880 tons per hour in 2020 to 701 tons per hour in 2021 and the discharge (offloading) rate declined from 404 tons per hour in 2020 to 320 tons per hour in 2021. Richards Bay has been plagued by poor reliability of ageing equipment; however, these are being addressed through a full conditional assessment of the plant which will inform the immediate focus areas and ongoing maintenance requirements to ensure the sustainability of the plant. The average tons dual 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 7,2% to R5,1 billion (Sept 2020: R4,7 billion). The increase in cost is mainly due to higher energy and overtime costs in line with higher volumes and repairs and maintenance due to aging equipment. This was offset by savings in discretionary and other operating costs primarily due to cost control initiatives implemented in these areas.

The resultant impact on EBITDA is an increase of 84,0% to R2,3 billion (Sept 2020: R1,3 billion).

Transnet Pipelines (Pipelines)

Revenue for the period increased by 21,5% to R2,6 billion (2020: 2,1 billion) mainly due to the increase in petroleum volumes transported for the period.

Petroleum volumes transported increased by 33,6% to 7 609 million litres (2020: 5 695 million litres). The prior year volumes were significantly affected by the COVID-19 impact on fuel demand due to the slowdown of the economy during the lockdown.

Net operating expenses decreased 72,8% to R320 million (2020: R1,2 billion). The significant decrease in costs is predominantly as a result of a re-assessment of the environmental provision in the current period based on the remediation activities to be undertaken on site, partially offset by third party claims.

EBITDA for the period is R2,3 billion (2020: R959 million).

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, and applies the depreciated optimised replacement cost, modern equivalent asset value and discounted cash flow methods, as applicable to revalue certain assets with an independent valuation performed every three years. During the six-month period, 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 adjustment of R2,3 billion (March 2021: R1,3 billion revaluation).
- The carrying value of port facilities required a revaluation adjustment of R2,9 billion (March 2021: R10,5 billion revaluation).
- A decommissioning restoration liability adjustment (reduction) of R70 million to the carrying value of pipeline networks (March 2021: R257 million devaluation and R294 million decommissioning restoration liability adjustment (reduction)).

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

Deferred tax

The deferred tax liability increased to R43,4 billion (March 2021: R41,7 billion), mainly as a result of the deferred tax impact on revaluations recorded directly in equity.

Cash flows

Cash generated from operations after working capital changes increased by 43,8% to R18,5 billion (2020: 12,9 billion). Rolling cash interest cover (including working capital changes) at 2,6 times (2020: 2,5 times), an improvement from the prior period, due mainly to the inflow from working capital changes driven by debtors discounting of R4,0 billion.

Borrowings

A well-defined funding strategy enabled Transnet to raise R5,2 billion long-term funding from bond issuances under the domestic medium term note programme, and through development finance institutions (DFIs), granted on the strength of its financial position.

The gearing ratio decreased to 46,6% (March 2021: 48,7%). This level is within the Group's target range of <50,0%, and is well within the triggers in loan covenants, reflecting the available capacity to continue with its investment strategy, aligned to validated market demand. The gearing ratio is expected to remain within the target ratio over the medium term.

The 31 March 2021 audit qualification was an event of default for certain loan covenants, but all waivers were received from affected lenders in this regard.

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 R6,7 billion (March 2021: R5,7 billion). The increase from March 2021 is mainly due to the weaker rand. 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 Group provides various post-retirement benefits to its active and retired employees, including pension, and post-retirement medical cover. The two defined benefit funds, namely the Transnet sub-fund of the Transport Pension Fund (TTPF) and the Transnet Second Defined Benefit Fund (TSDBF) are fully funded with actuarial surpluses of R1,2 billion (March 2021: R1,2 billion) and R3,3 billion (March 2021: R3,4 billion) respectively. Transnet has not recognised any portion of the surplus on these funds, as the present 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 R515 million and R4,4 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 R460 million (March 2021: R456 million).

Contingencies and commitments

There were no material movements in contingencies and commitments since 31 March 2021.

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 2021: R3,5 billion), representing 2,7% of total borrowings of R127,8 billion. No Government guarantees have been issued since 1999.

Capital investment

The Transnet Group continued to execute its asset investment programme. Capital investment increased by 15,5% to R5,7 billion (2020: R4,9 billion), with R0,9 billion invested in the expansion of capacity while R4,8 billion was invested to maintain capacity.

Infrastructure investment highlights for the interim period include::

- R1,1 billion invested in rail infrastructure;
- R2,0 billion invested to maintain the condition of rolling stock;
- R113 million invested in wagon fleet renewal and modernisations;
- R264 million invested in the acquisition of new locomotives;
- R162 million for the construction of the new tippler in Saldanha and related bulk electric power supply;
- R56 million invested in the roads, port entrance and other services for the tank farm in the Port of Ngqura;
- R206 million invested in the acquisition of 45 straddle carriers; and
- R77 million investment in the NMPP programme.

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 and continues to be 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. 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 2000.

Transnet procurement initiatives also seek to empower small, medium and micro-sized enterprises (SMMEs) that are black owned, black youth owned, black female owned and people with disabilities owned by developing their capabilities in order to be competitive.

As a State-owned Company (SOC), Transnet's 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 the current financial period. 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 SOC.

Transnet's total recognised B-BBEE 30 September 2021 spend, as per the Department of Trade and Industry Codes (the Codes), is R11,31 billion or 78,4% of total measured procurement spend (TMPS) of R14,43 billion on B-BBEE spend. Transnet spent R5,18 billion (35,9% of TMPS spend) on black-owned enterprises; R3,2 billion (22,2% of TMPS spend) on black women-owned enterprises; R2,0 billion (13,9% of TMPS spend) on exempted micro-enterprises (EME); and R955 million (6.6% of TMPS spend) on qualifying small enterprises (QSE). Black youth enterprises spend accounts for R905 million (6.3% of TMPS). Enterprise spend relating to black people living with disabilities accounts for R7 million (0,05% 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 with the cardinal rule being safety and this focussed safety culture will be led at the highest levels within the organisation. The basics include clean, safe and functional facilities, the provision of tools of trade, ensuring that assets are safe and reliable to operate, and to capacitate the safety fraternity both in terms of resources and mastery to effect their mandate.

Sadly, two 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 0,73 compared to the tolerance of 0,75. It is unfortunate that public fatalities have increased by 44% and are attributed to factors such as level crossing accidents, the encroachment of the rail 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 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 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 CSI initiatives continued to be impactful in the 2022 interim financial period, focussing on health, education, sport development; socio-economic infrastructure development and employee volunteerism, underpinned by the principle of creating shared value between operations and communities. Despite difficult economic conditions, CSI spend for the six-month period was R108 million.

Health

Transnet's flagship "Phelophepa" health care trains provided comprehensive, high-end primary health care services to 129 000 patients from communities situated along the rail corridors. Services included general health, screening for a range of health conditions, the provision of dental, optometry and psychology services. Additionally, Phelophepa provided a range of medicines and manufactures and distributes spectacles to those in need. With COVID-19, still very much a reality in communities, Phelophepa I and II intensified their efforts to try to do more to curb the spread of COVID-19, with 20 000 patients being vaccinated. The Phelophepa trains were retrofitted with state-of-the-art vaccine facilities by Transnet Engineering, who customised this in-house solution for the safe transport and storage of vaccines.

Transnet also commissioned a vaccine train in the middle of August, with just over 6 500 citizens being vaccinated, and numerous education and awareness campaigns implemented and administered to communities.

Transnet teenage and youth health and development programme

Food hampers were provided to 16 700 learners and their families, providing a three-month supply of groceries to the neediest of families in communities throughout the country.

In addition, the mandate of 'bringing dignity to women and girls' which is core to the programme deliverables, resulted in the delivery of SABS approved, reusable sanitary towels to over 13 000 girl learners in various schools in impoverished communities.

Education development

Transnet's orphaned youth programme continued to provide much needed financial and psycho-social support to 38 orphaned youth, that Transnet helps in the quest to provide them with access to a quality education. These learners are placed at various high schools and at tertiary institutions.

Sport development

Transnet continued with its support of the Transnet/SAFA Football School of Excellence, providing the 120 learners at the school with an education to achieve academic goals and, the opportunity to nurture their soccer talent through a rigorous soccer coaching programme.

Socio-economic infrastructure development (SEID)

The SEID portfolio continued to provide a basket of social services through Transnet's four community centers located in Springs, Thokoza, Ireagh and Khuma. The infrastructure provided by Transnet in these communities enabled the implementation of CSI projects focusing on community health, safety and social development helping over 16 460 community members during the six-month period.

In addition, the Thokoza center implemented several gender-based violence awareness programmes in response to the high incidences of domestic violence that the country recorded during lockdown.

Employee volunteerism programme

Employee volunteerism initiatives implemented during the period provided various relief measures in communities including support to a soup kitchen facility in the Northern Cape, to better provide meals for at least 500 citizens daily. As part of Transnet's Mandela Day commemoration, over 330 households in Warrenton, Saldanha Bay, Richards Bay, Emelahleni and Mamelodi were provided with food hampers for a six-month period.

Employee volunteerism also continued to provide entrepreneurship opportunities for 7 direct beneficiaries through direct trading and for 30 indirect beneficiaries through online trading in Motherwell, and Gqeberha. In addition, these beneficiaries also received business skills training through employee mentorship provided by Transnet employees.

Energy efficiency and carbon emissions reduction

Transnet recorded a 19,4% decrease in energy consumption for the period ended 30 September 2021 compared to the prior period, whilst energy efficiency declined by 0,4%. In Freight rail traction (which constitutes more than 70,0% of total Company power consumption), electrical traction energy efficiency increased by 2,5% and diesel traction energy efficiency decreased by 0,01% compared to the prior period. Traction electrical locomotive classes 15E, 19E, 20E, 21E, 22E and 23E with regenerative capabilities collectively regenerated 86 634MWh for the period.

The Company's carbon emission intensity decreased by 0,4%, compared to the prior period. The achievement of 881 835 tons of back to rail volume opportunities in the interim period, resulted in carbon emissions savings in the South African transport sector of 64 863 tCO_2e.

Human capital

Transnet's permanent employee headcount as at 30 September 2021 was 53 914 with 1,9% of its labour cost spent on training during the period. Specific focus was placed on the training of artisans, engineers, and engineering technicians. Overall, Transnet gave 261 engineering technician trainees workplace experience opportunities, with 50 new young professionals-in-training contracted.

Sector-specific skills development continued to focus on maritime, rail and port terminal operations, with 609 learners participating in these programmes. Currently, the organisation has access to 690 apprentices and 336 engineering bursars in its talent pool.

Transnet did not achieve its employment equity targets across all job grades. The employee race profile for the year was 77,3% african, 10,0% coloured, 3,3% indian and 9,4% white.

Female representation now exceeds 39,5% in executive, senior, professional and skilled technical levels, including a 42,9% representation in the Group Exco Team. Representation of people with disabilities remains a challenge, at 2,2% of the total headcount (2020: 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 year. 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 (DOT) respectively.

Pipelines

On 30 September 2021, Pipelines submitted its 2022/23 financial year (FY) tariff application to NERSA. Based on the application of the methodology, the application resulted in a request for an 83,15% increase in tariffs, due mainly to a higher weighted average cost of capital and clawback. If the Durban to Alrode tariff is used, such will increase from 52,2 cents per litre (c/l) to 95,6 c/l.

Transnet will be filing for a volume estimate based on a 5% growth rate in line with the optimistic views from the Energy Information Administration that global oil consumption will increase from the first quarter of the 2022/23FY.

National Ports Authority

On 16 August 2021, the National Ports Authority submitted its tariff application as prescribed by the tariff methodology, resulting in a tariff adjustment of 23,96% for the 2022/23FY. Estimated volume growth of 5,24% and inflation at 4,35% was used in arriving at the 23,96% increase in tariffs.

The National Ports Authority proposed an alternative to the 2022/23FY tariff application by utilising the excessive tariff increase margin credit (ETIMC) facility to smooth the tariff trajectory. The Ports Regulator will make its determination on the National Ports Authority's 2022/23FY tariff application in December 2021.

Railway Safety Regulator (RSR)

On 8 October 2021 the Minister of Transport published and invited public comments on the draft notice for the determination of permit fees for the 2022/23FY. Notably, there is a zero percent increase on Transnet SOC Ltd's permit fee for the 2022/23FY.

The rail safety permit fee methodology was last revised in the 2012/13FY specifically to coincide with the implementation of the RSR's 5-year strategic plan which was implemented from the 2014/15FY to the 2018/19FY. Over the years, Transnet has consistently questioned the legality and appropriateness of the rail safety permit fees methodology. The primary contention being that the implementation thereof is also not consistent with the formula as promulgated by the DOT.

The RSR has embarked on a process to revise the safety permit fee methodology. Deloitte has been appointed to review and develop an appropriate methodology. The Company has given input and will continue to participate in this process, which will be approved by the DOT and is envisaged to become effective in the 2023/24FY.

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 2021.

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 2021 annual financial statements as detailed in note 39, updated if applicable to 30 September 2020.

Events after reporting period date

Voluntary severance package

In October 2021, the voluntary severance package process was concluded, with approximately 2 800 employee applications being approved. The related cost of this process of R1,8 billion will be recognised in the second half of the financial year. This process will aid in the containment of personnel costs regarding related redundancies and will therefore result in future personnel cost savings.

Fire damage – Richards Bay

In October 2021, two separate fire incidents resulted in damage to conveyor belts at the Richards Bay Dry Bulk terminal, which caused some disruption to operations. The investigation by Transnet, fire forensic experts and insurance companies into the cause of the fires and extent of the damage is ongoing, with initial estimate of the damage around R1,2 billion.

Credit rating update

On 3 November 2021, Moody's downgraded Transnet's stand-alone credit rating to Ba3 from Ba2, with a negative outlook citing continued pressure on the Company's liquidity profile and that weaknesses in corporate governance, particularly delays in financial reporting and compliance irregularities, will make it more difficult to raise the substantial amount of new financing required to meet upcoming debt maturities. The reasons for the downgrade are understood by management and initiatives to improve the credit rating are underway and will be continuously monitored. This is not expected to have a significant impact on Transnet's borrowing ability as the Company has maintained a good relationship with its lenders. Transnet remains positive of it's ability to improve its liquidity position and monitor the health of its financial position through rigorous structural and operational reforms.

The rating downgrade affected certain loans with a capital balance of R30,2 billion, but all required waivers were received.

On 26 November 2021, S&P Global Ratings (S&P) placed Transnet's current ratings on CreditWatch Negative, citing that liquidity is more strained than a year ago. Transnet has the next three months (until S&P's next rating review) to resolve the situation and make significant progress on its refinancing plans.

External auditor's review conclusion

The Group's independent auditors, the Auditor-General of South Africa (AGSA), reviewed the condensed financial information for the period ended 30 September 2021. The review was conducted in accordance with ISRE 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. A copy of their unmodified review report is available for inspection at the Company's registered office. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Group's external auditors.

Prospects

Transnet has clearly demonstrated its financial and operational resilience as evidenced by the positive financial results for the 6-month period. This improvement in performance in a tumultuous environment in which the Company has experienced threats to it's operational activities in the form of the cyber-attack and the civil unrest that led to the declaration of a Force Majeure is impressive, but the third and fourth wave of COVID-19 is expected to temper this recovery in the second half of the financial year.

Initiatives to restructure the Company and contain labour costs which make up a significant portion of net operating expenses are in the process of being completed, including the voluntary severance package (VSP) offering, which was approved in October 2021. It is expected that the labour cost will eventually decrease to a more sustainable level in line with the reduction in labour relating to redundancies, without compromising operational efficiency within the Company and focusing effort in line with the Group's operating segment strategy.

The aforementioned approach by Transnet, is expected to contribute to the overall efficiency and growth of the South African logistics environment to which the Company is a key player and ultimately will have a positive impact on the economic growth of the country.

Approved by the Board of Directors

Management and the Board of Directors declares that in terms of Article 4(2)(c) of the Transparency Law of 2008, to the best of their knowledge, the 30 September 2021 reviewed condensed consolidated interim financial results have been prepared in accordance with IFRS and give a true and fair view of the assets, liabilities, financial position and profit or loss of Transnet SOC Ltd. The 30 September 2021 reviewed condensed consolidated interim financial results include a fair review of the development and performance of the business and the position of Transnet SOC Ltd, together with a description of the principal risks and uncertainties that Transnet SOC Ltd faces.

Signed on behalf of the Board of Directors.

Ms PPJ Derby	**Ms NS Dlamini**
Group Chief Executive	*Group Chief Financial Officer*
9 December 2021	9 December 2021

Corporate information

Transnet SOC Ltd
Incorporated in the Republic of South Africa
Registration number 1990/000900/30

Directors

Executive directors
Ms Portia Derby *(Group Chief Executive)*
Ms Nonkululeko Dlamini *(Group Chief Financial Officer)*

Non-executive directors
Dr PS Molefe *(Chairperson)*,
Ms UN Fikelepi, Ms DC Matshoga, Mr LL von Zeuner, Ms ME Letlape,
Ms GT Ramphaka, Mr AP Ramabulana, Dr FS Mufamadi.

Acting Group Company Secretary
Ms S Bopape
138 Eloff street, Braamfontein, Johannesburg, 2000

Auditors
Auditor-General of South Africa
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