

PRESENTATION TO THE MINTTEK @ 75 CONFERENCE

QUEST FOR A HIGH PERFORMING FREIGHT LOGISTICS SYSTEM

Mmete Petrus Fusi
Public Policy and Economic Regulation
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INTRODUCTION

Shareholder Mandate

- Transnet's key role is to assist in lowering the cost of doing business in South Africa and enabling economic growth through providing appropriate ports, rail and pipeline infrastructure and operations in a cost effective and efficient manner and within acceptable benchmark standards.
- Transnet is self-funded and does not receive subsidies from the State.

Vision and Mission

- Transnet is a focused freight transport company, delivering integrated, efficient, safe, reliable and cost-effective services to promote economic growth in South Africa.
- This is to be achieved through increasing our market share, improving productivity and profitability and by providing appropriate capacity to our customers ahead of demand.

Values

We would like our customers:

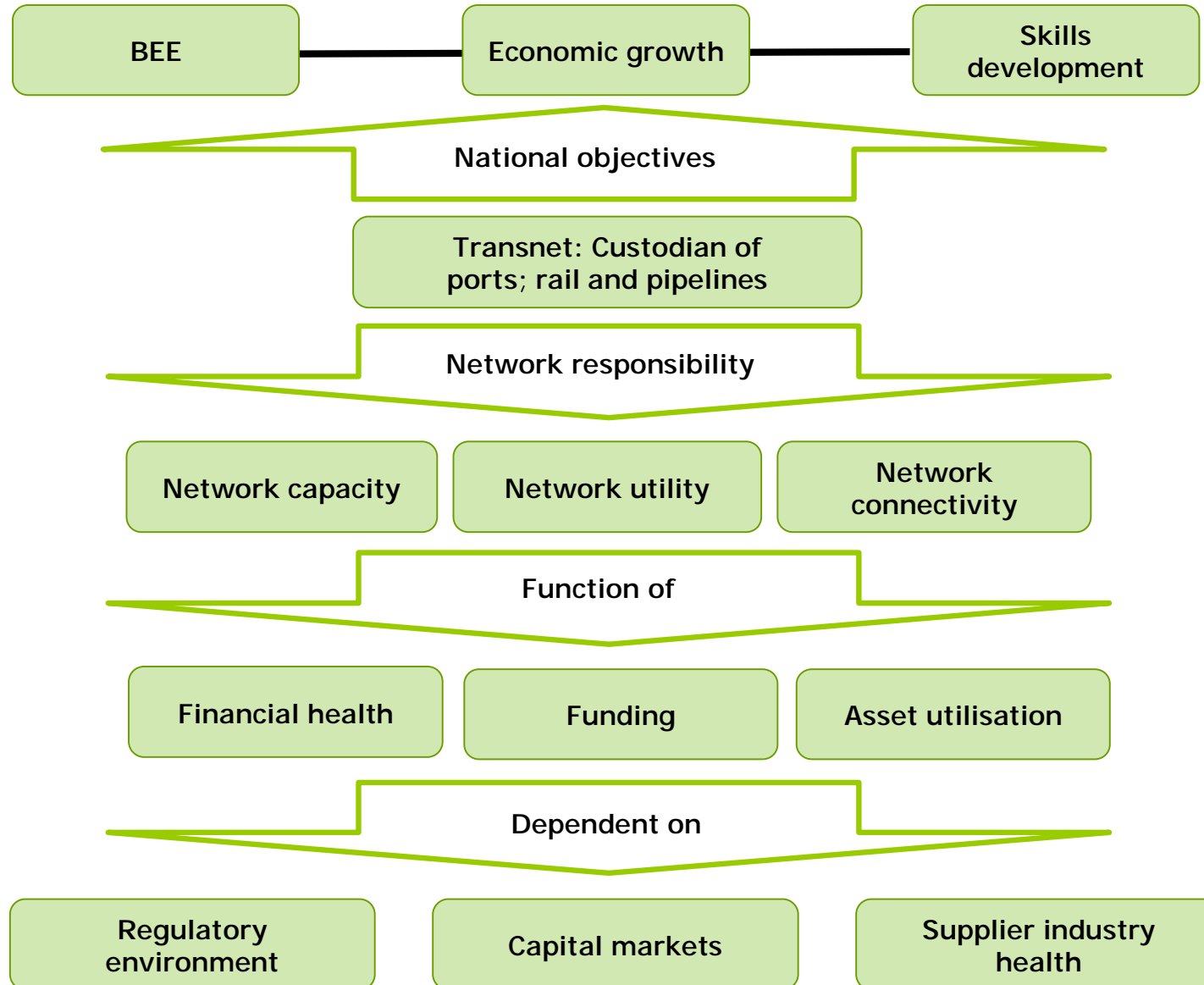
- to prefer us because we are reliable, trustworthy, responsive and safe;

and because:

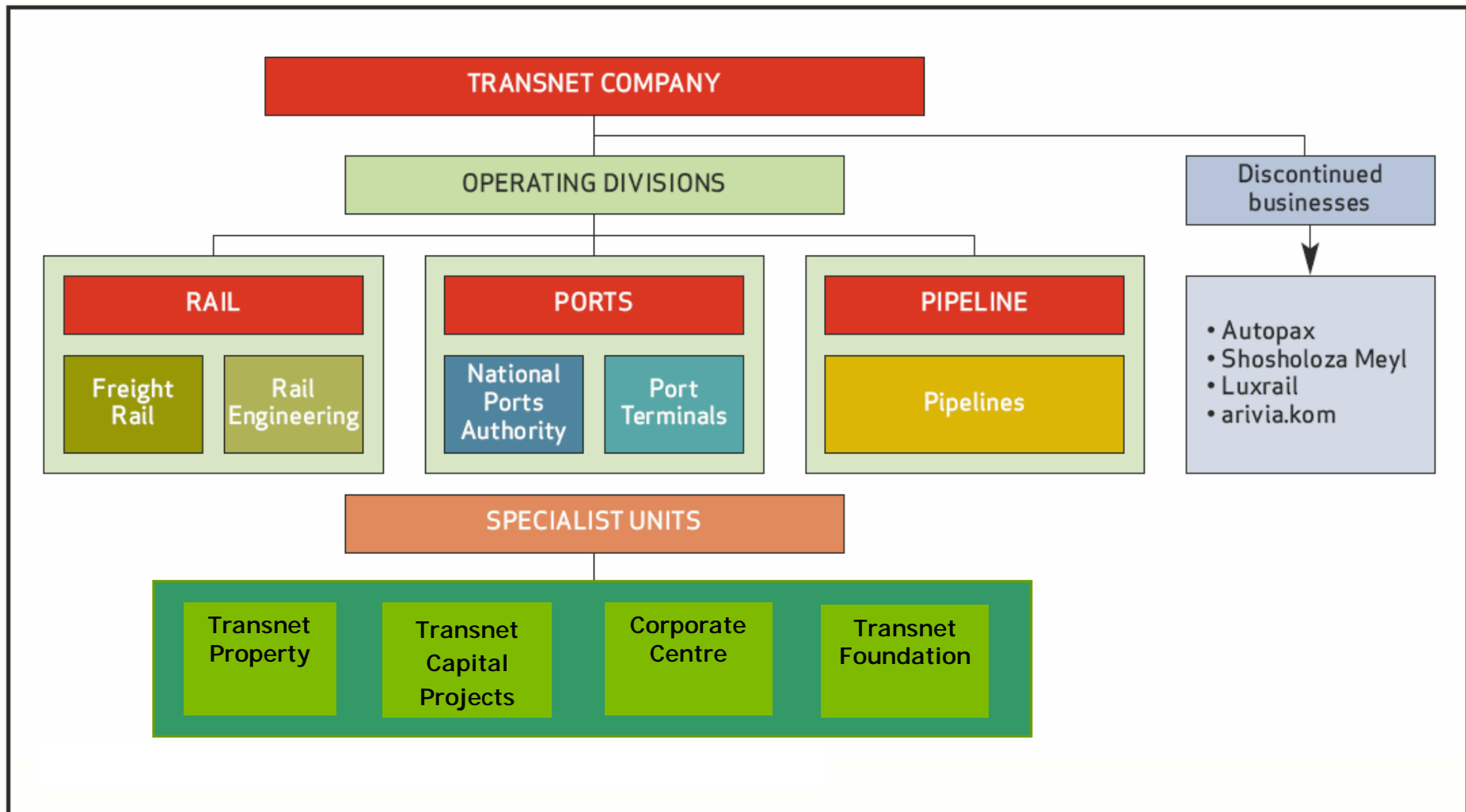
- our employees are committed, safety conscious, accountable, ethical, disciplined and results orientated



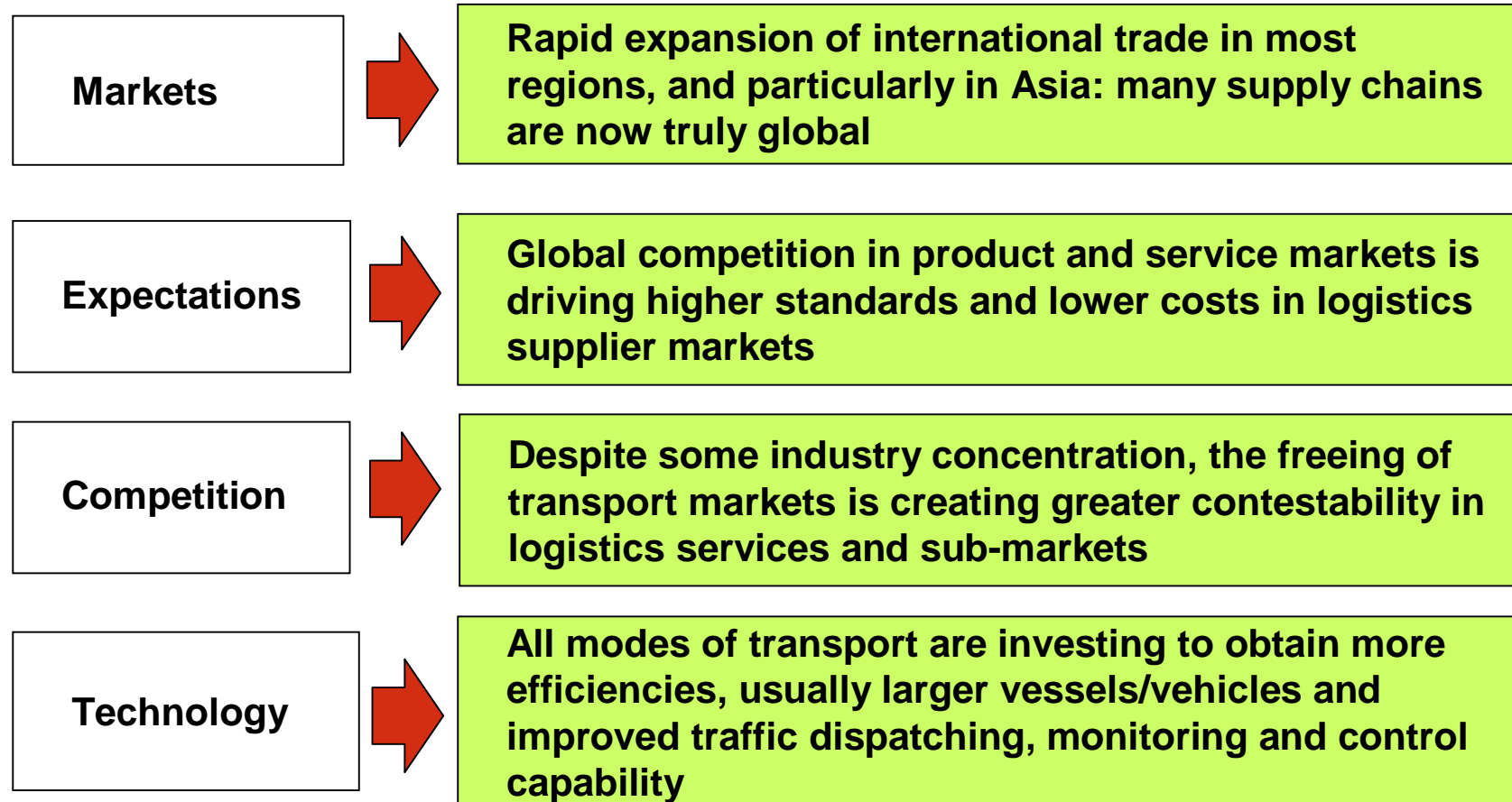
TRANSNET'S MANDATE



TRANSNET STRUCTURE



THE GLOBAL LOGISTICS INDUSTRY IS EXPERIENCING GREAT CHANGES



“By 2025, 80% of goods traded will be produced in countries different than where they are consumed.” (McKinsey and Company)

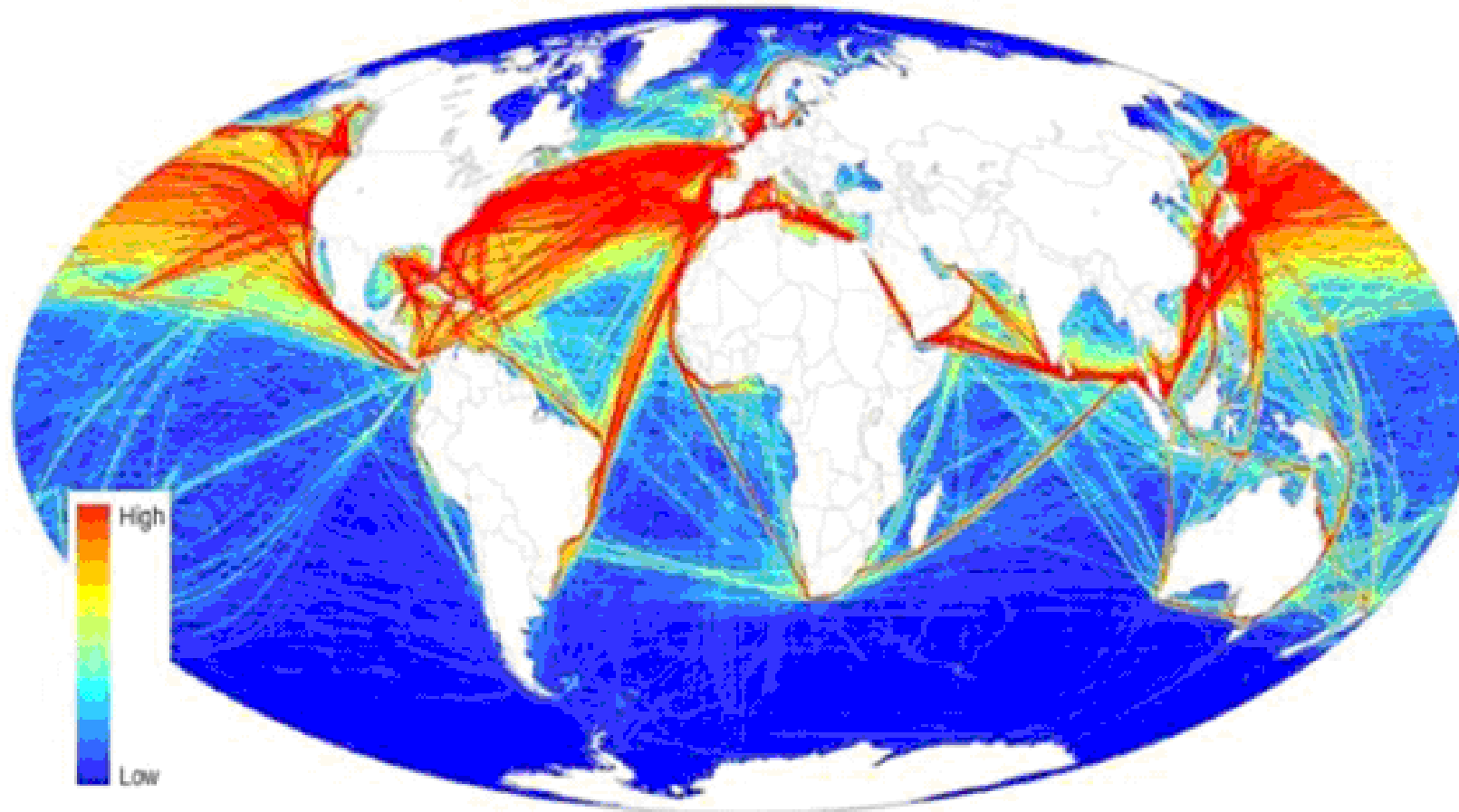
THE STRATEGIC IMPORTANCE OF NATIONAL FREIGHT SYSTEMS IS GROWING

- The increase in global production sharing, the shortening of product lifecycles and the intensification of global production all highlight logistics as a strategic source of competitive advantage.
- With effective logistics, new global markets can be accessed for economic growth; decent job creation and poverty reduction.
- Improving logistics performance has become an important development policy objective.
- Being able to connect to what is referred to as the “Physical Internet” is a key determinant of a country’s economic competitiveness.

For those countries able to connect, the physical internet creates access to vast new markets; but for those whose links to the global logistics web are weak, the costs of exclusion are large and growing. (World Bank)



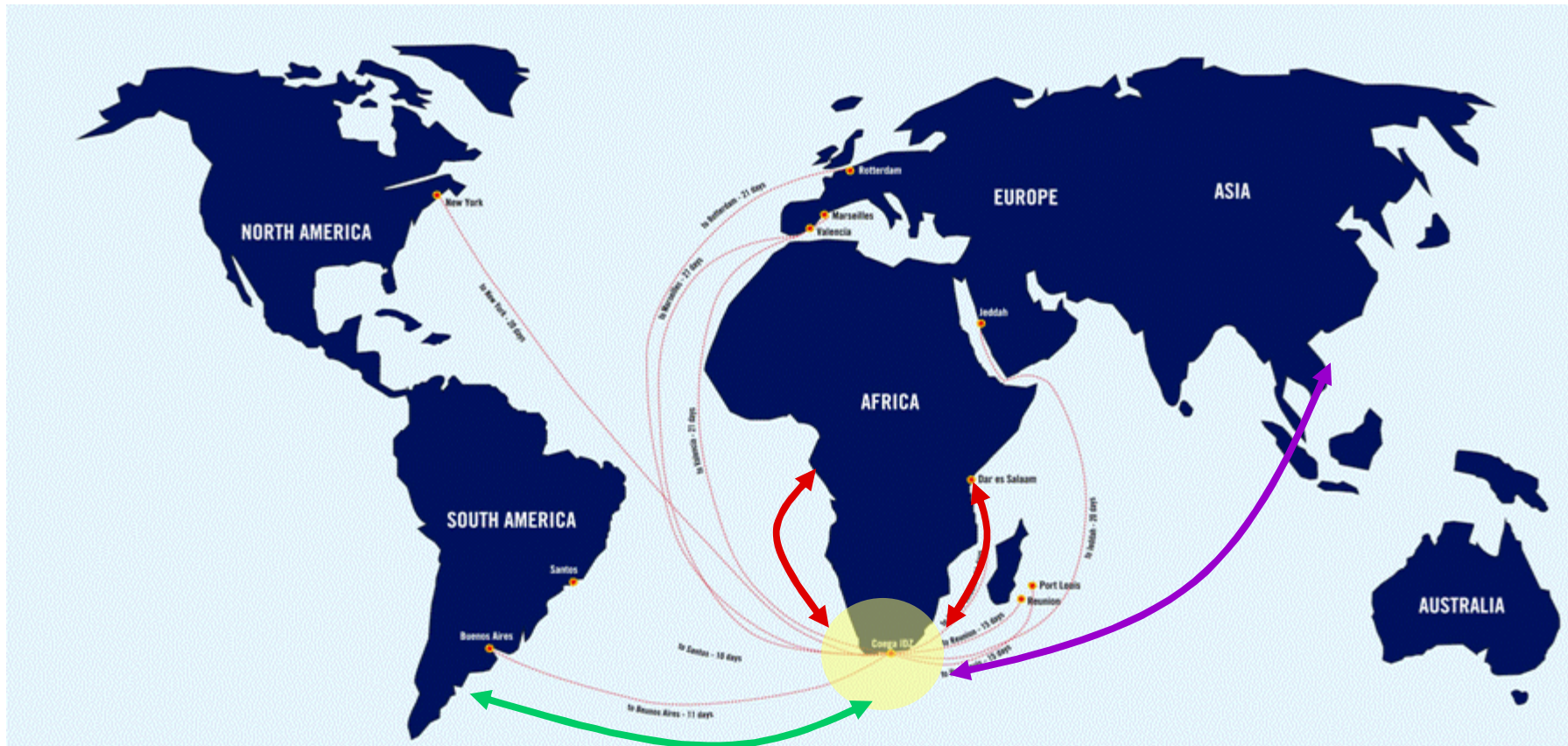
CONNECTIVITY NEEDED FOR SUCCESS IN GLOBAL ECONOMY







Africa's share of global trade has been declining for decades: from nearly 4% in 1960s to under 2% today.



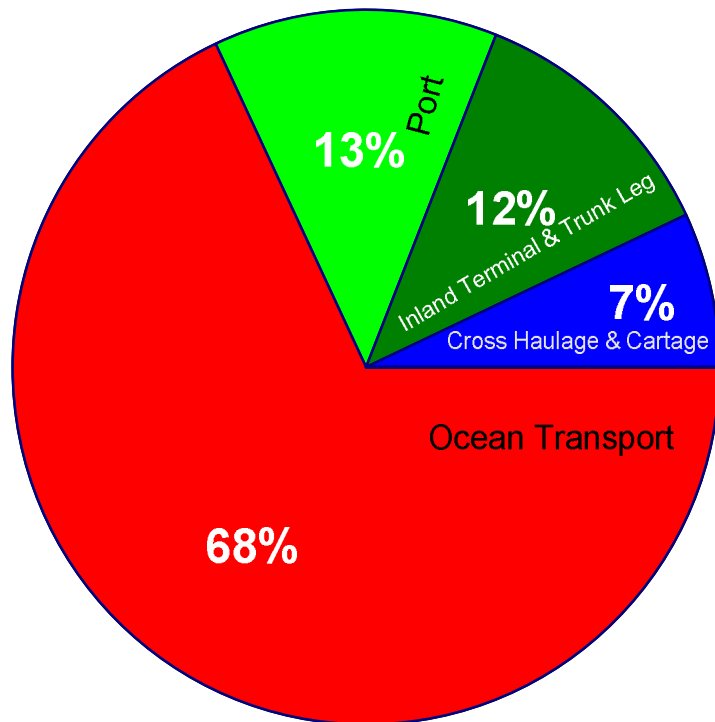
LOGISTICS CHALLENGE FOR SOUTH AFRICA



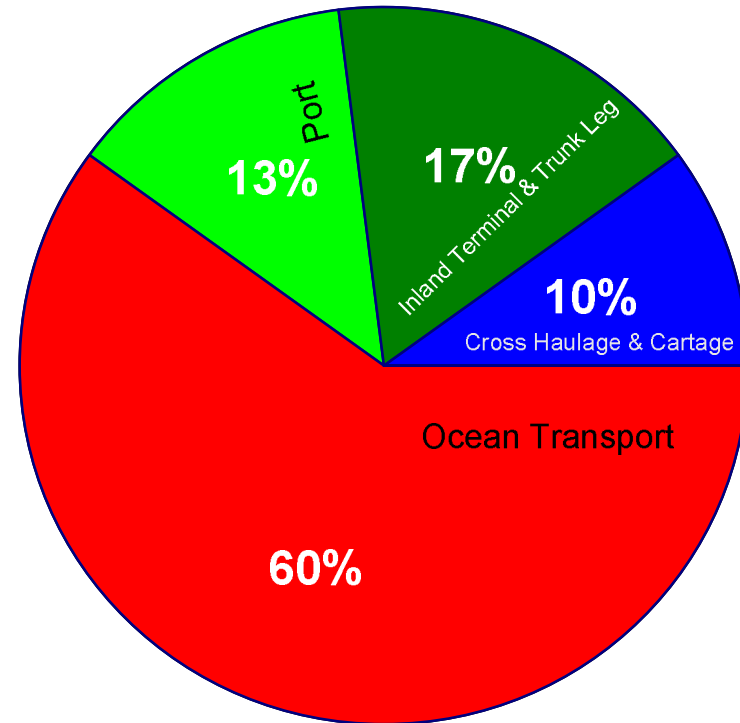
-  South Africa is distant from its key trading partners
-  Maritime transport costs is a significant component of total transport costs
-  South Africa is strategically placed to service Southern African, Asian and South American trade routes
-  SA can establish itself as a global transshipment hub focused on certain trade routes

OCEAN FREIGHT COST IS THE LARGEST DETERMINANT OF SOUTH AFRICAN SUPPLY CHAIN COMPETITIVENESS

IMPORTS



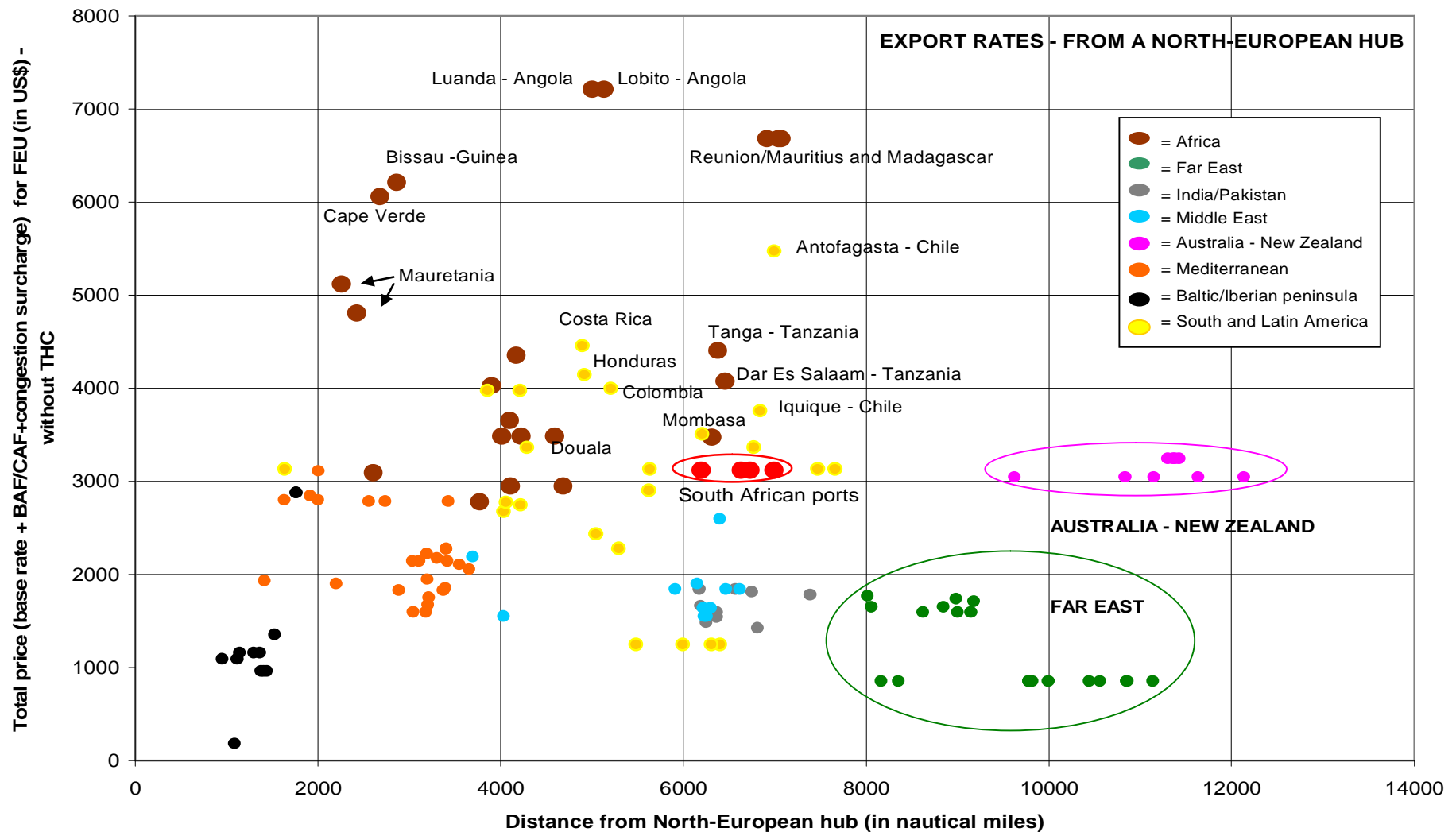
EXPORTS



Note: Based on case studies

Sources: Industry interviews, Moving South Africa Analysis

LOW VOLUMES AND INEFFICIENT SHIPPING MARKETS LEAD TO HIGH FREIGHT RATES FOR SOUTH AFRICA AND THE REGION

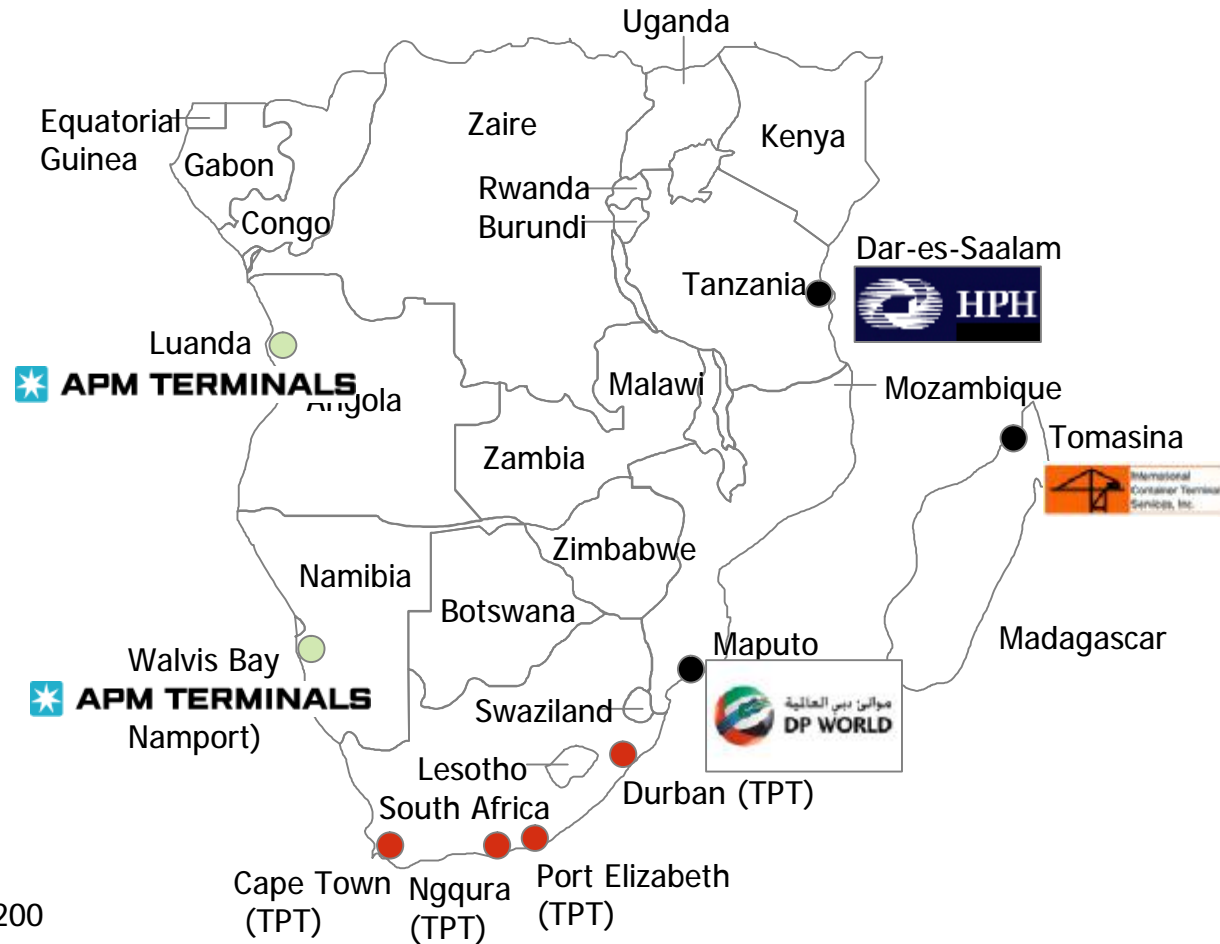
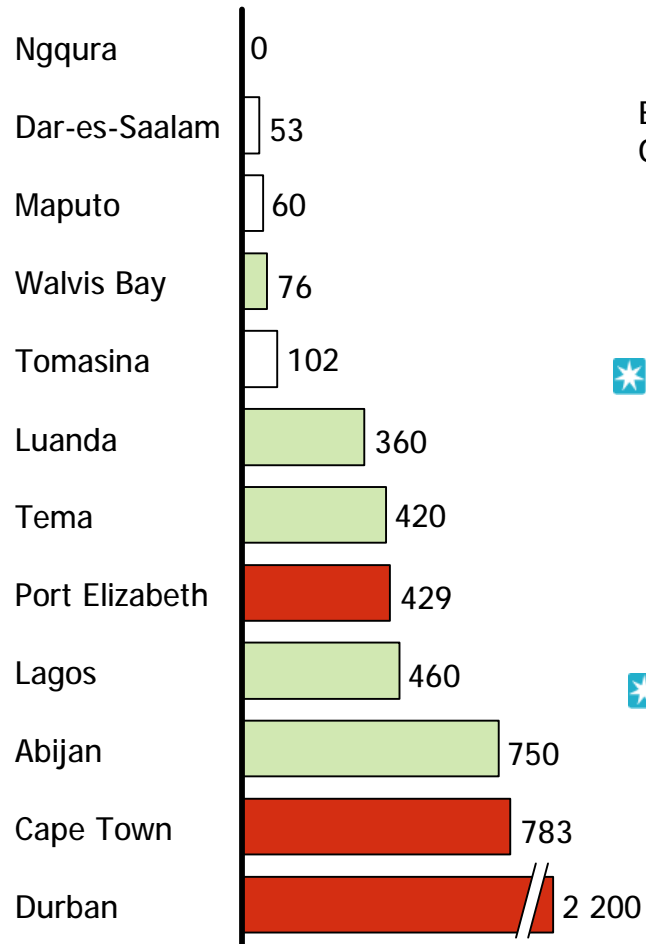




THE REGIONAL PORT SYSTEM IS FRAGMENTED

✦ **APM TERMINALS**
● TPT


Million TEUs

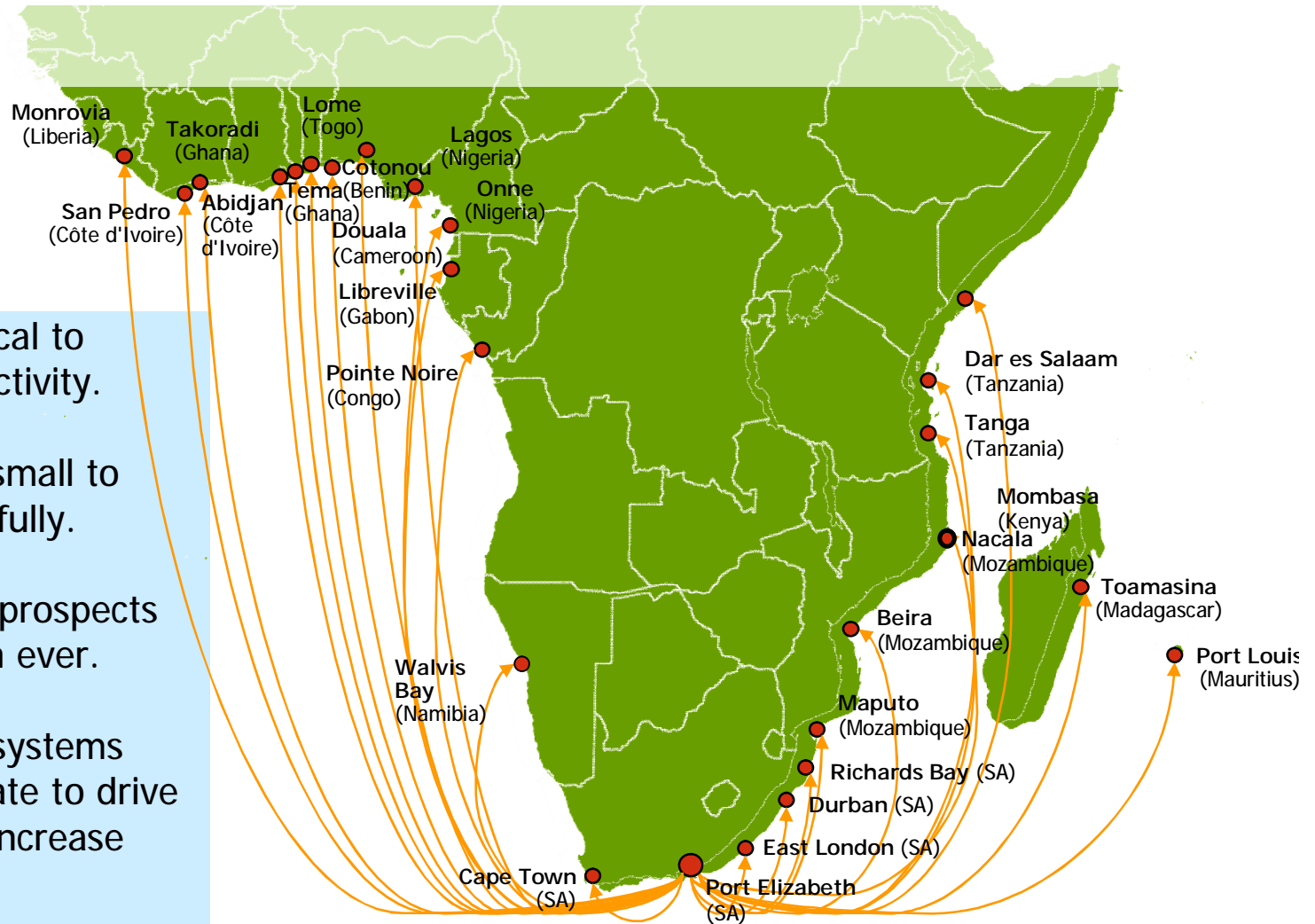


Source: Dynamar



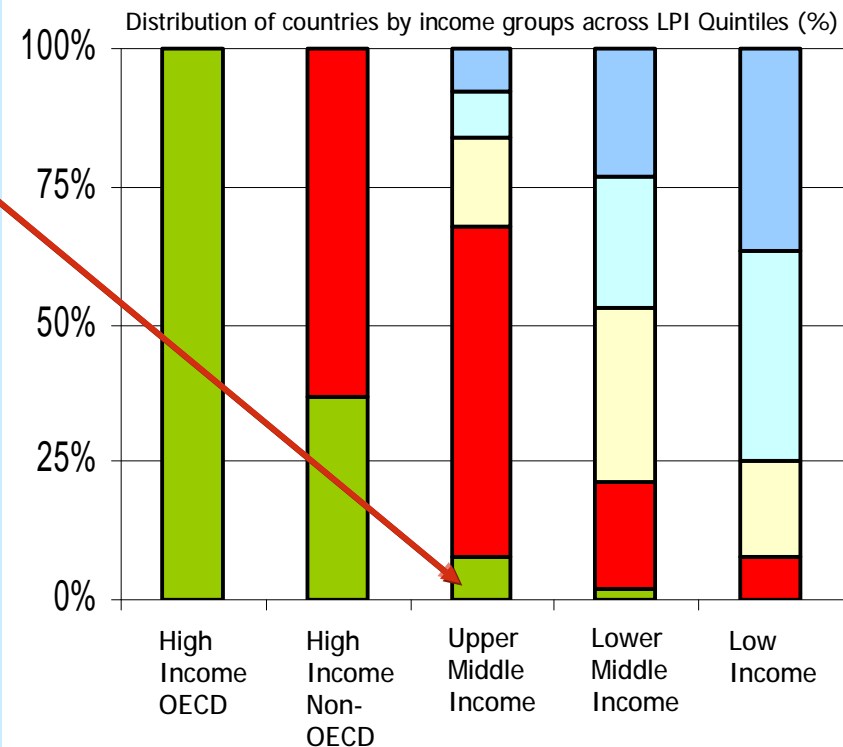
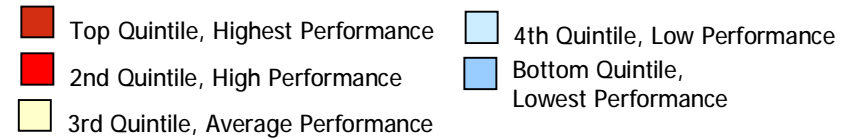
A REGIONAL APPROACH IS REQUIRED TO BUILD ECONOMIES OF SCALE AND DRIVE TRANSPORT SYSTEM EFFICIENCIES

-  Volumes are critical to increasing connectivity.
-  SA's market too small to compete successfully.
-  Regional growth prospects are stronger than ever.
-  Regional freight systems need to consolidate to drive down costs and increase connectivity.
-  Feeder system opportunities for BEE



SOUTH AFRICA FREIGHT SYSTEM PERFORMING RELATIVELY WELL (World Bank, 2007)

-  High income countries are generally top performers but there are big differences between countries at other income levels.
-  South Africa placed 24th out of 150 countries and is the highest ranked middle income country in a list which includes Malaysia (27), Chile (32), Turkey (34) and Hungary (35).
-  Singapore, Netherlands and Germany are the top 3 ranked countries respectively.
-  China (30) is the top performer amongst lower middle income countries.
-  India (39) is the top performer amongst low income countries.



KEY CHALLENGES THAT NEED TO BE ADDRESSED

- High ocean freight costs.
- Poor regional connectivity.
- Investment backlog in the national network.
- Traffic demand likely to double (or triple) in the next 20 years.
- Rail's market share in General Freight is declining.
- Limited intermodal solutions in inland distribution.
- Skills shortage throughout the sector.
- Limited black private sector participation.

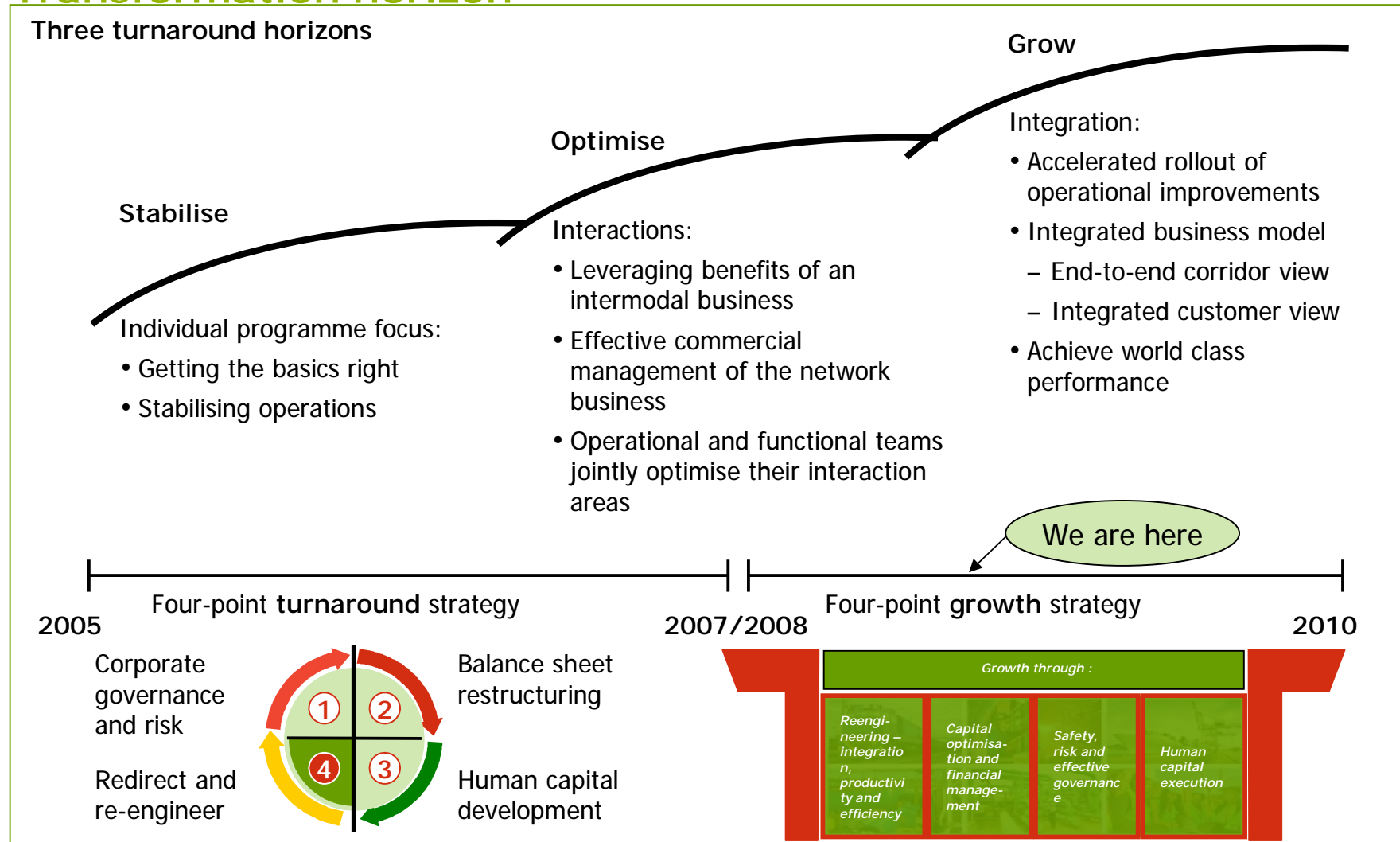
TRANSNET'S STRATEGY IS DESIGNED TO MEET THESE CHALLENGES BY:

- ✔ Operating the ports in a complementary manner to make the port system more efficient, increase maritime connectivity and reduce ocean freight rates.
- ✔ Implementing a high performance corridor backbone for the country that will alleviate cargo congestion and provide the capacity to meet long- term demand for freight in the economy.
- ✔ Integrating physical, financial and information flows along the supply chain to ease the administrative burden of trade and create greater visibility and responsiveness within industry supply chains.
- ✔ Formulating and implementing integrated service strategies for key customer segments to realise the synergies of the port, rail and pipeline systems.
- ✔ Enhancing the connectivity of the South African freight system with the regional freight system.
- ✔ Growing the skills base and supplier base for the broader industry.
- ✔ Identifying opportunities for black economic empowerment.



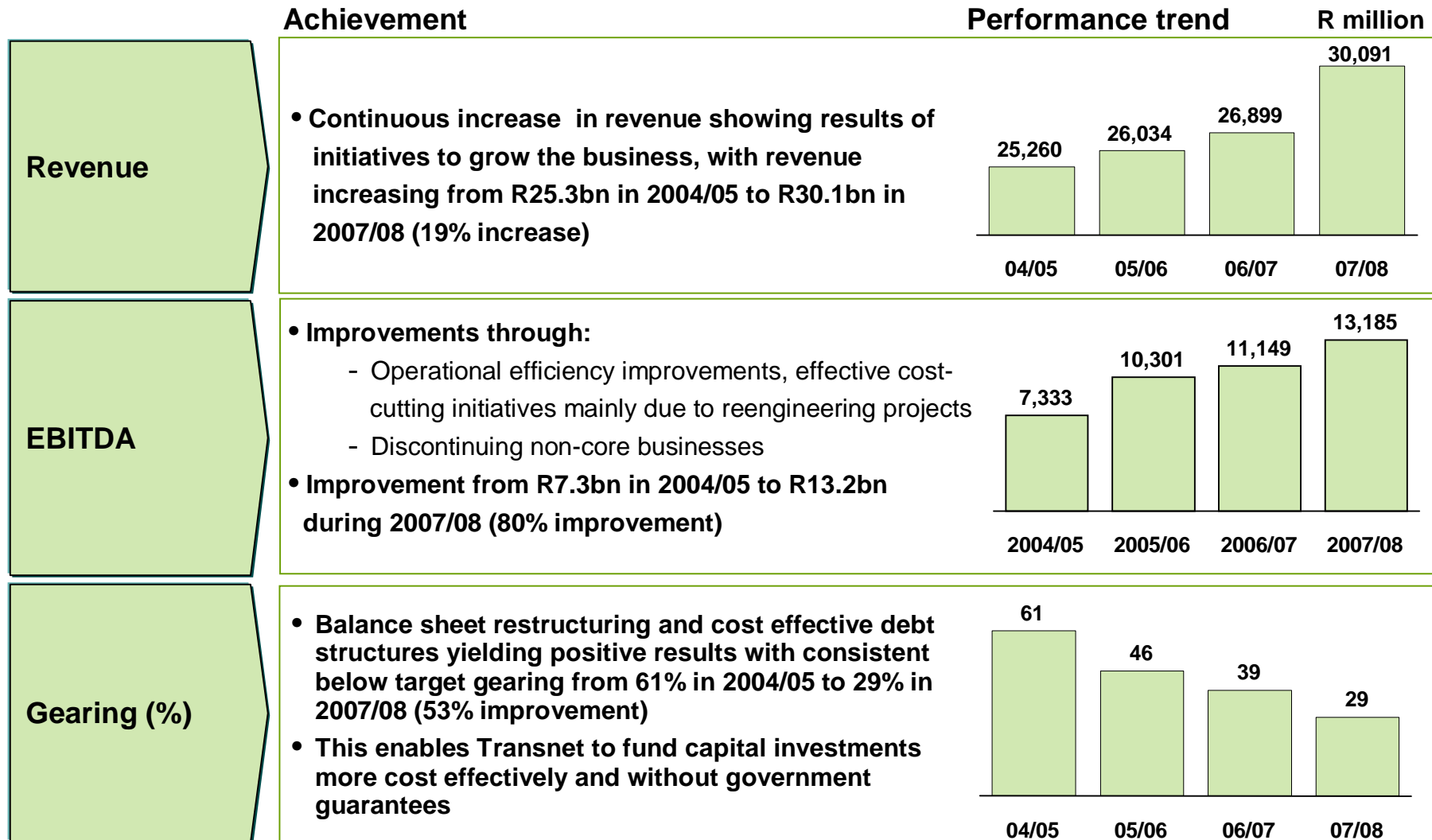
GROWTH STRATEGY: THE NEXT HORIZON OF THE TRANSFORMATION PROCESS

Transformation horizon



Positioning the Company for growth in the future

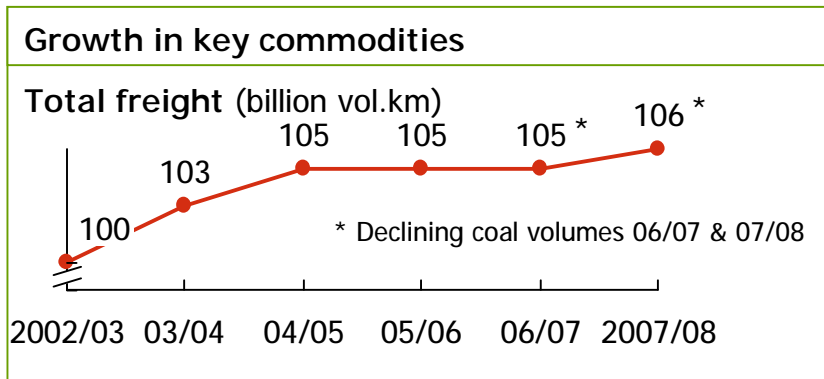
TRANSNET HAS EFFECTED A SUCCESSFUL FINANCIAL AND OPERATIONAL TURNAROUND OVER THE PAST FOUR YEARS (1/2)



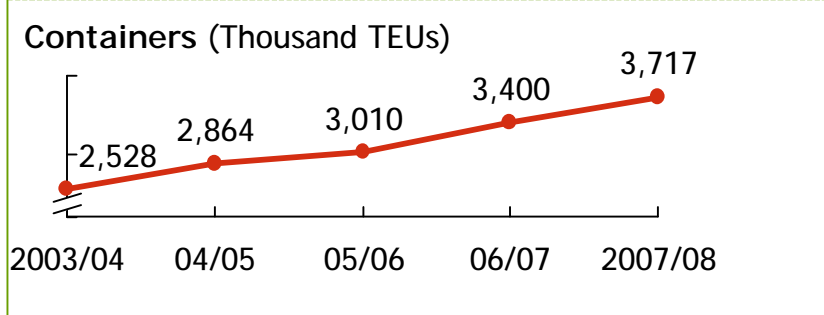
TRANSNET HAS EFFECTED A SUCCESSFUL FINANCIAL AND OPERATIONAL TURNAROUND OVER THE PAST FOUR YEARS (2/2)



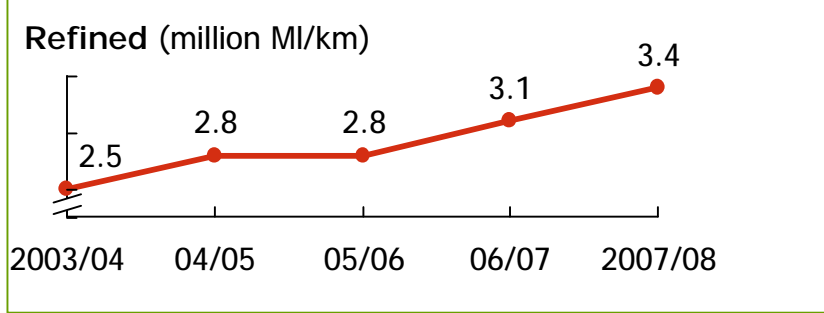
Rail



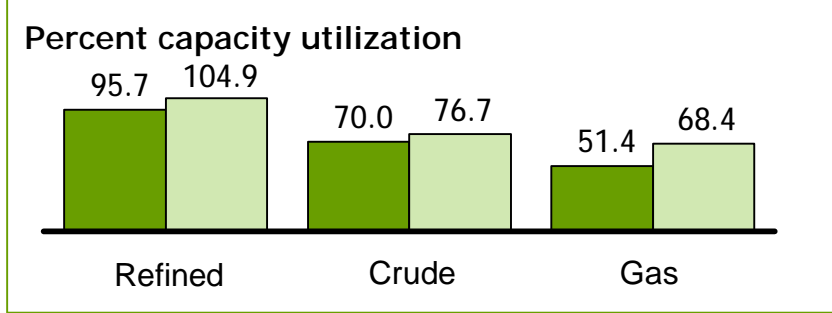
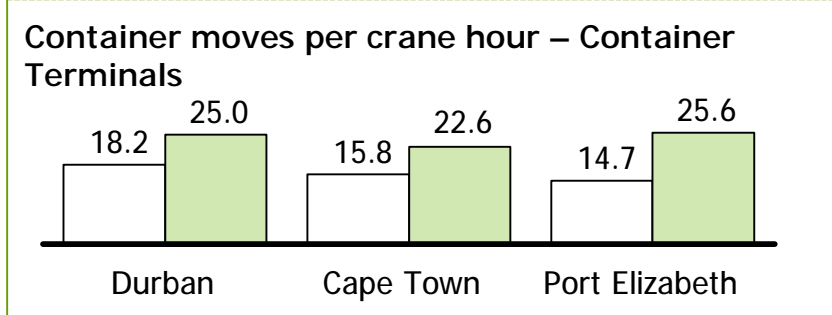
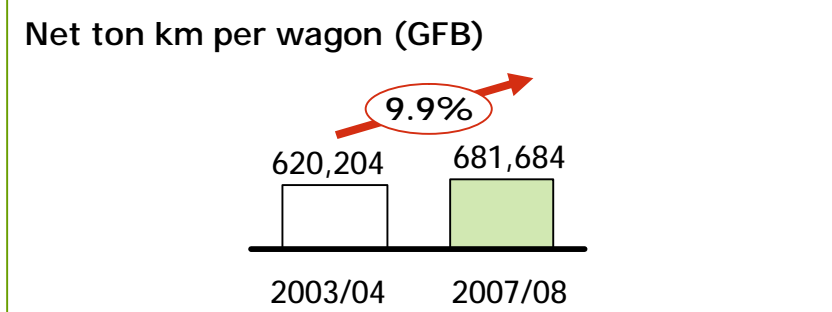
Ports



**Pipe-
lines**

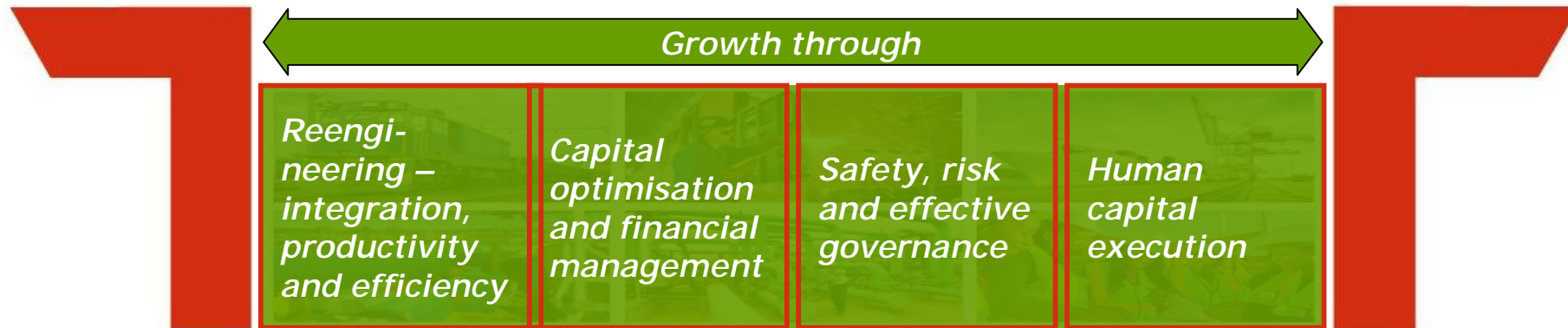


Key Performance Indicators





THE GROWTH STRATEGY IS BASED ON FOUR PILLARS



*Reengi-
neering –
integration,
productivity
and efficiency*

- Integration in priority corridors
- Efficient asset utilisation
- Planned maintenance in all divisions
- Cost effective procurement
- Shared services

*Capital
optimisation
and financial
management*

- Integrated capital, operations, and financial customer planning
- Strategic asset/liability management
- Funding strategy

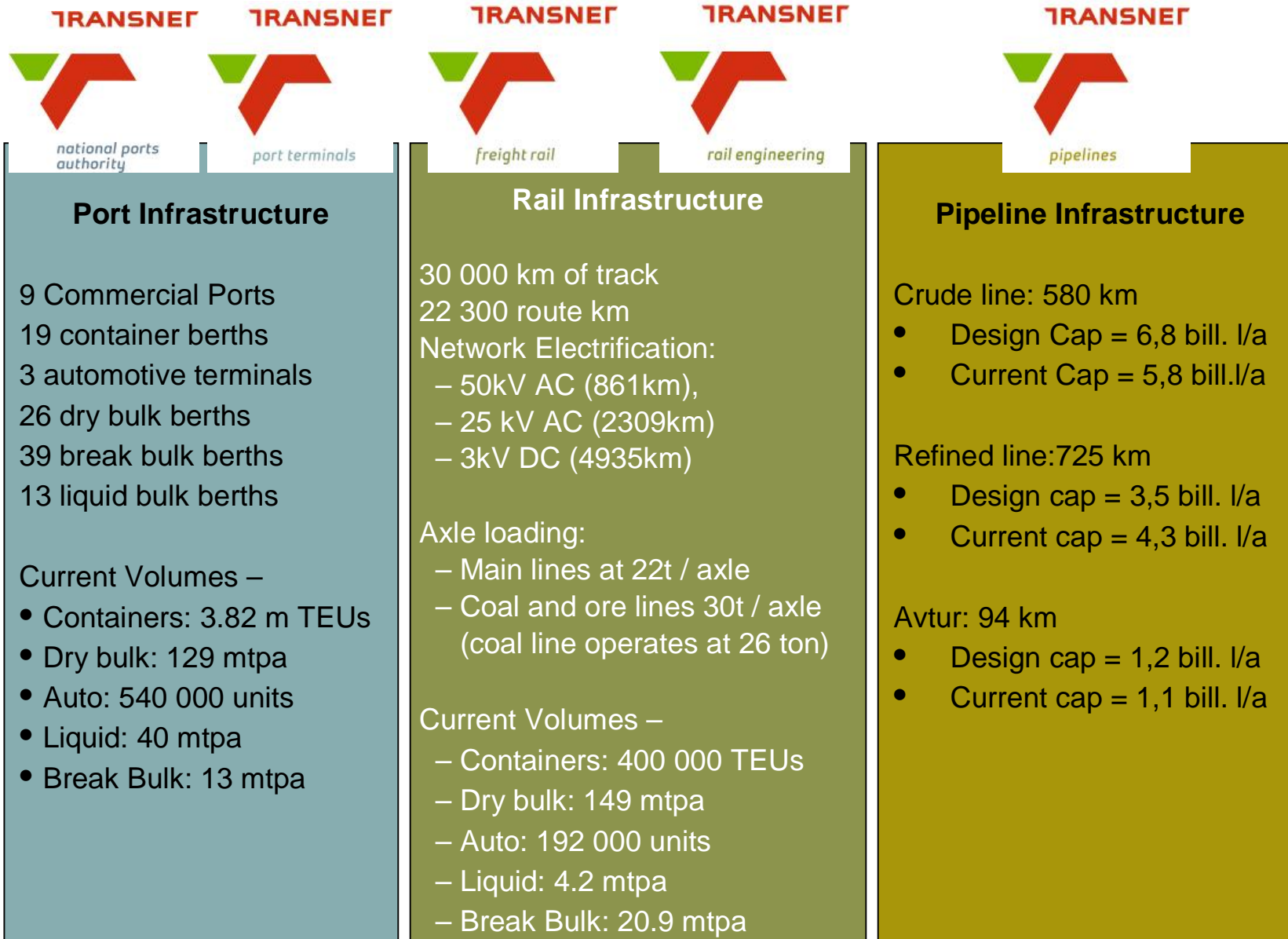
*Safety, risk
and effective
governance*

- Delivery on safety performance
- Complying to the highest standards of corporate governance
- Enterprise risk management
- Enterprise performance management

*Human
capital
execution*

- Accelerate implementation of HC strategy
- Strengthen values and culture

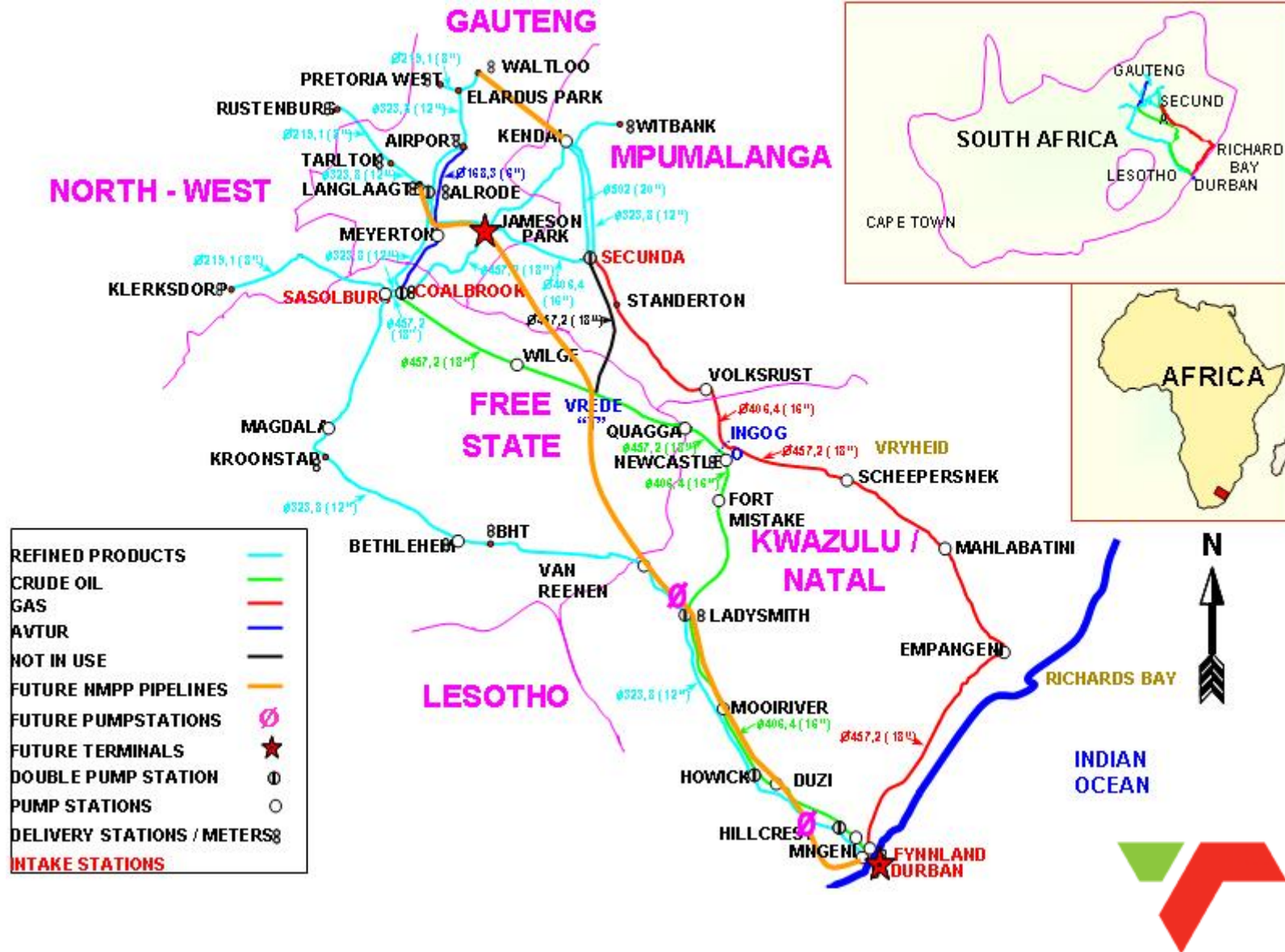
TRANSNET MANAGES AN EXTENSIVE INTEGRATED NETWORK



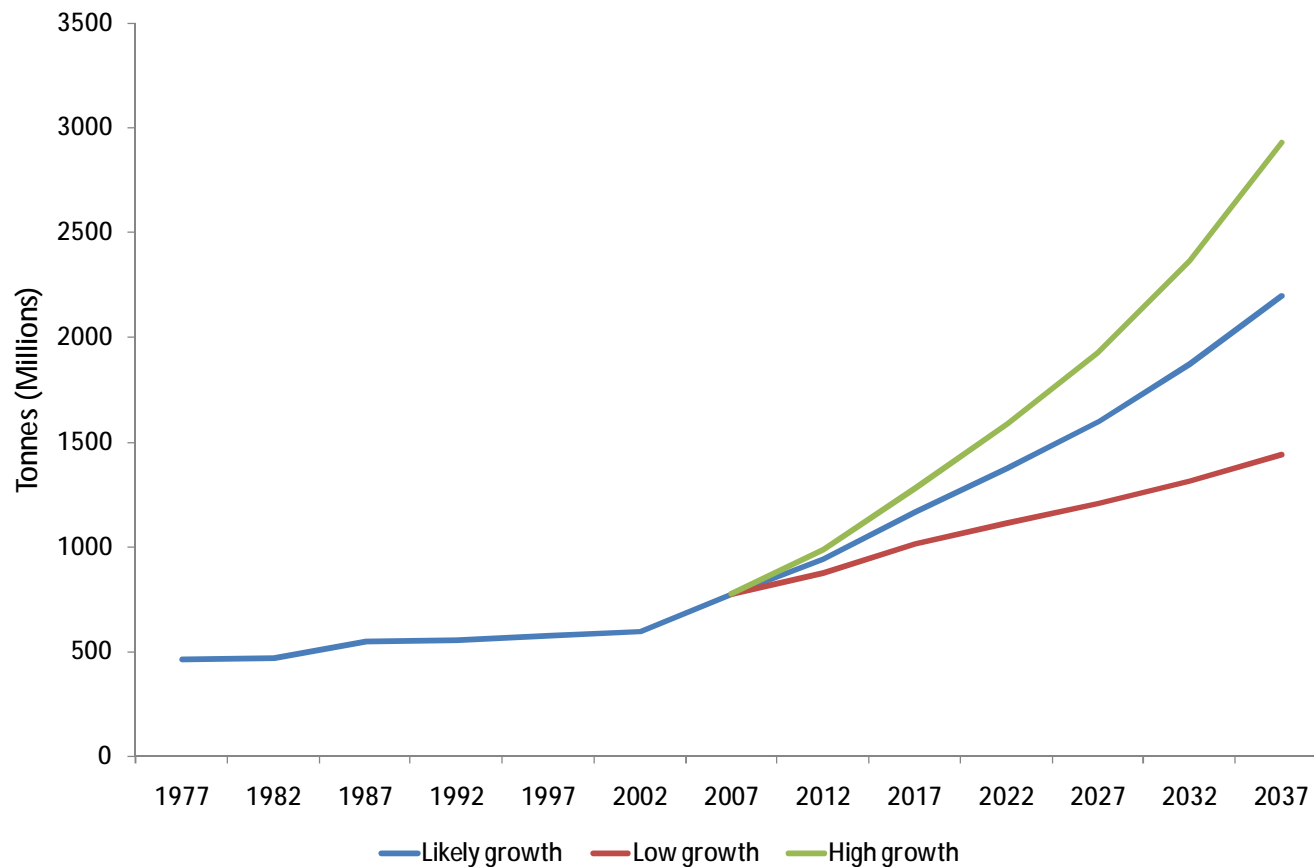
NATIONAL RAIL AND PORT INFRASTRUCTURE



TRANSNET PIPELINES' NETWORK



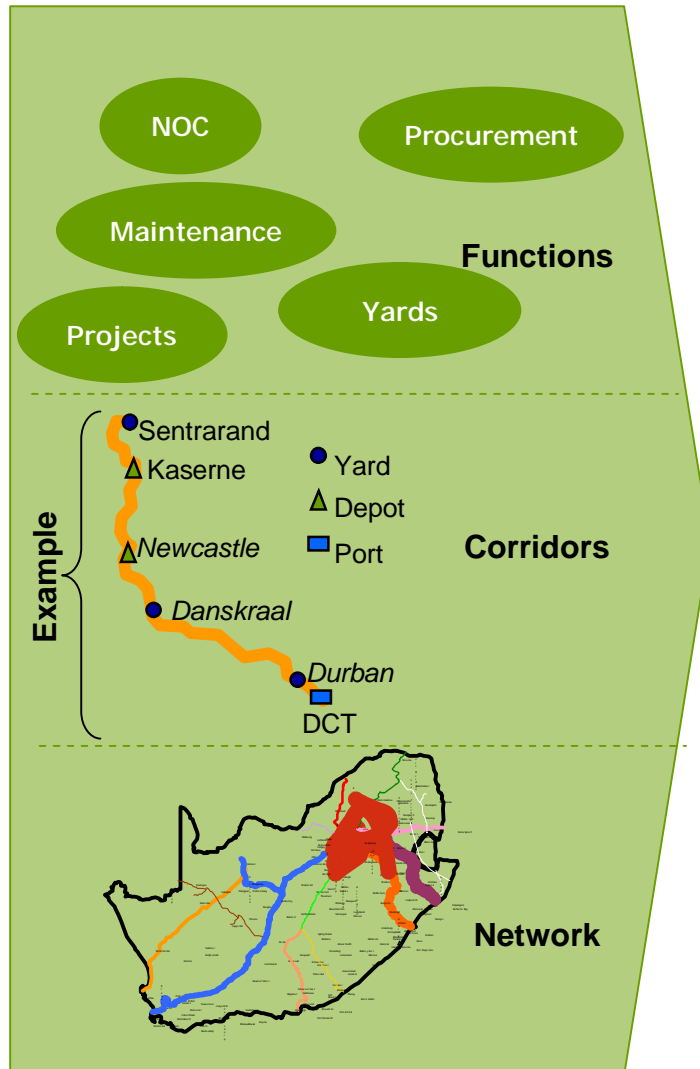
FREIGHT DEMAND IS LIKELY TO DOUBLE WITHIN THE NEXT TWENTY YEARS



Freight will concentrate on a limited number of corridors centred on Gauteng. Even a low growth scenario means that continued modal balance is impossible



STRATEGY IMPLEMENTATION THROUGH CORRIDOR APPROACH



Benefits of corridor approach

- ✔ Transnet as a network business needs to operate in an integrated manner throughout the logistics corridor
- ✔ Provide a common transformation and long-term planning backbone
- ✔ Maximise growth opportunities across all operating divisions (rail, port, pipeline)
- ✔ Capture operational and functional synergies across operating divisions through integrated solutions
- ✔ Improve efficiency and effectiveness of logistics supply chain
- ✔ Provide optimal capital base for network infrastructure evolution
- ✔ Focus on key commodities and aligning capital investment to high-growth potential corridors



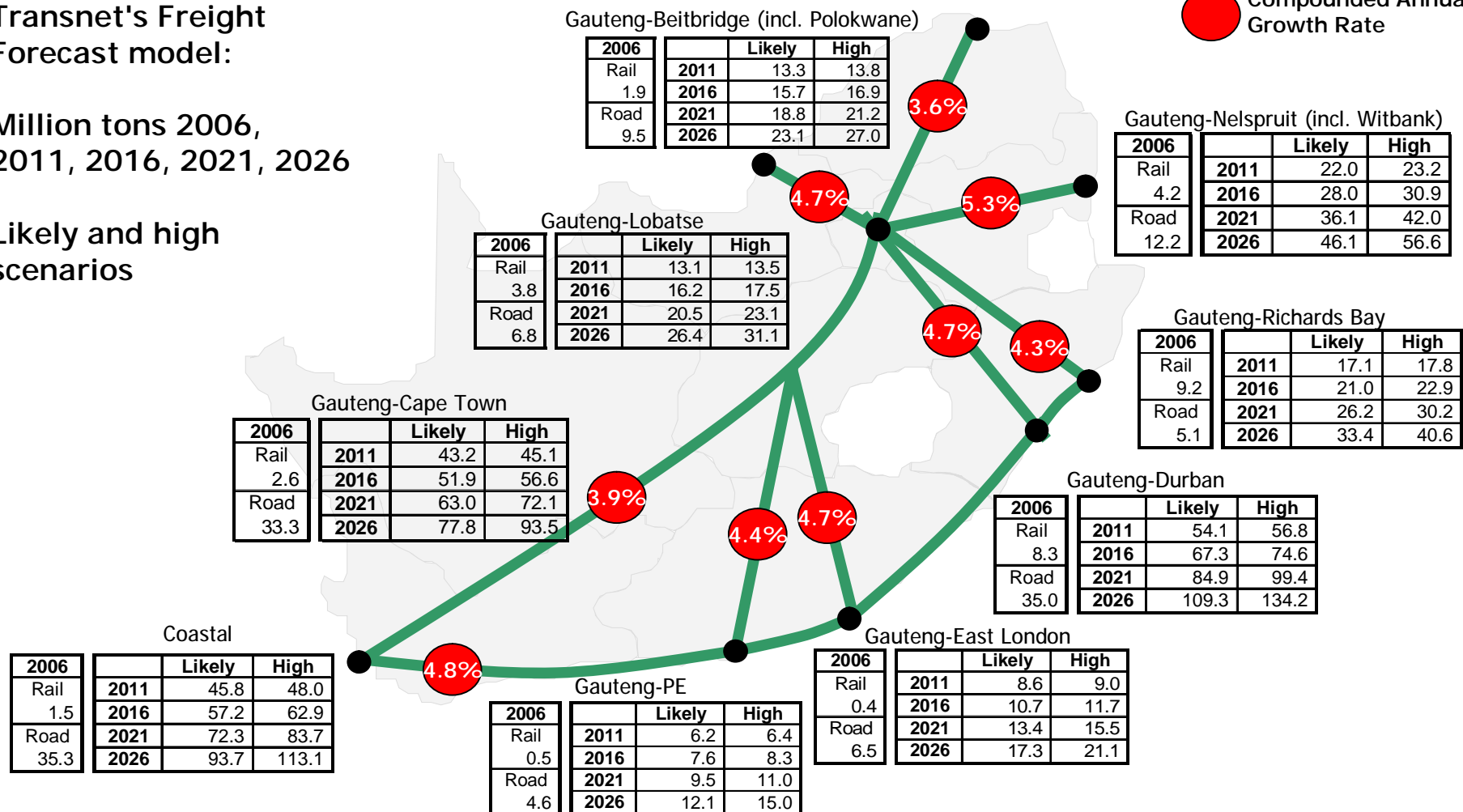
INTERMODAL SOLUTIONS: THE ONLY SUSTAINABLE WAY TO MEET FUTURE DEMAND FOR FREIGHT TRANSPORT

Transnet's Freight Forecast model:

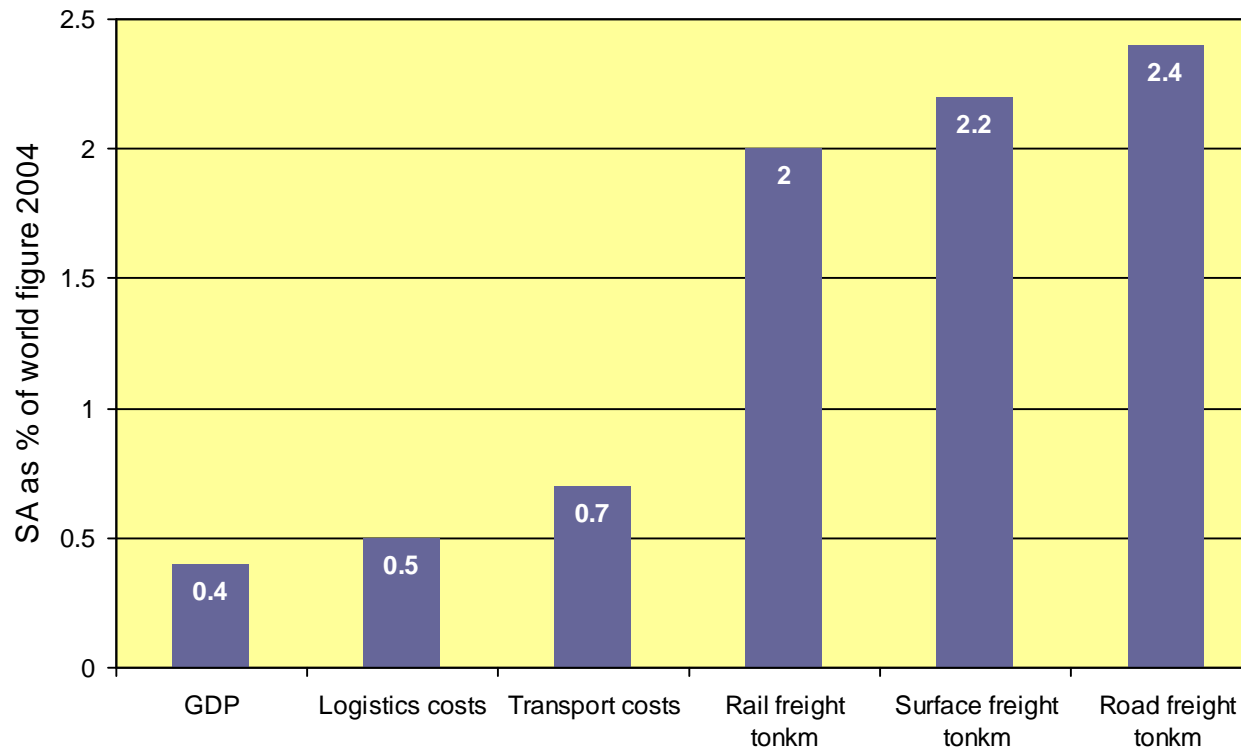
Million tons 2006, 2011, 2016, 2021, 2026

Likely and high scenarios

● Compounded Annual Growth Rate



SOUTH AFRICA IS A TRANSPORT INTENSIVE ECONOMY



Our long transport corridors is the key reason behind this abnormal demand. Transport needs to be especially efficient to overcome this challenge

THE SOUTH AFRICAN FREIGHT SYSTEM MUST NEVERTHELESS CONFRONT MANY CHALLENGES

- ❑ Large infrastructure backlogs across all modes.
- ❑ An overall deterioration in the quality of transport infrastructure.
- ❑ A skills shortage.
- ❑ A lack of integrated planning.
- ❑ As a very transport intensive economy, South Africa contributes less than 0.5% to the world GDP but more than 2% of surface freight ton.kilometres.

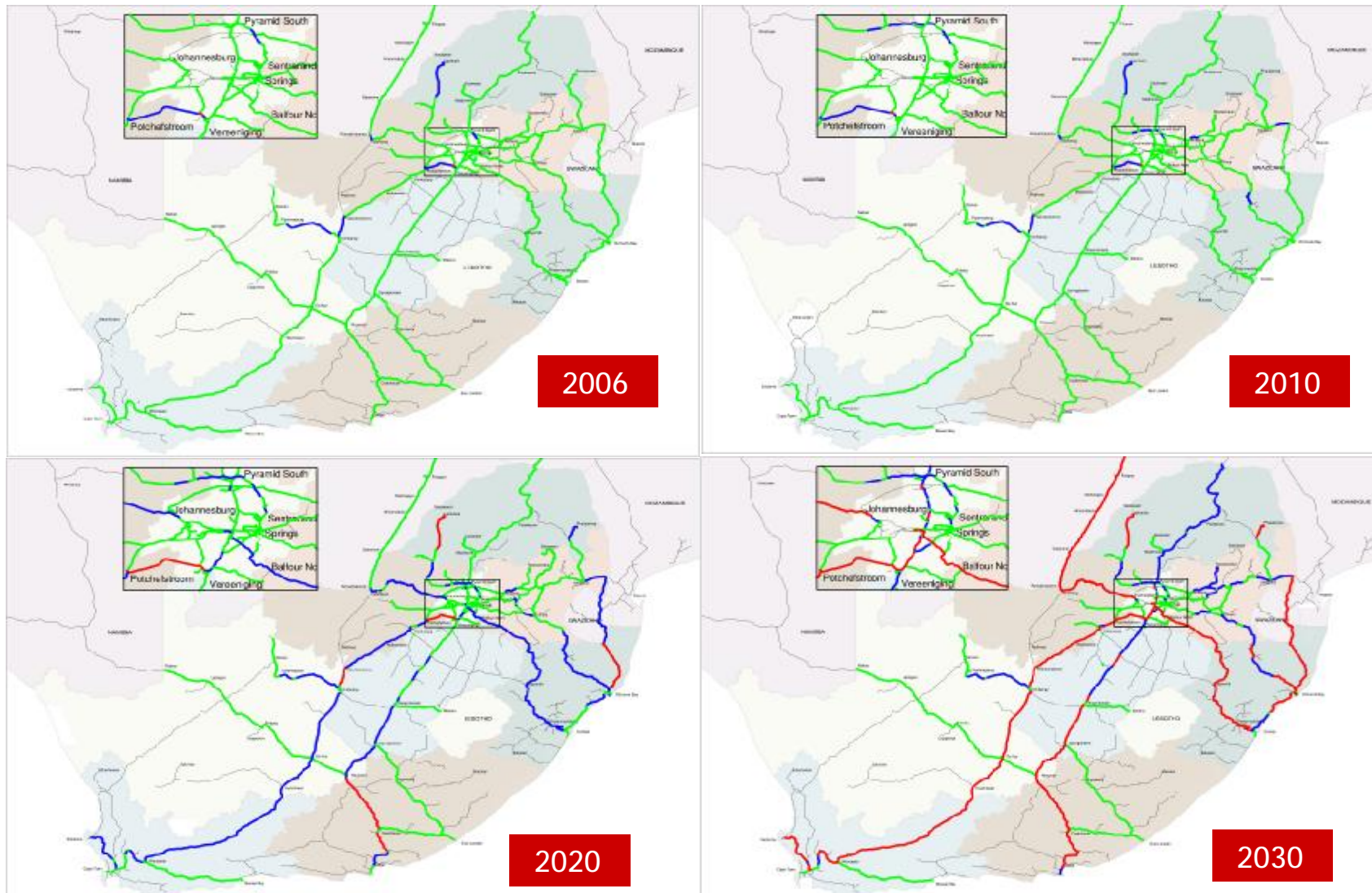
Transnet is focused on delivering a world class integrated freight logistics system that will provide local firms with a competitive advantage



SIGNIFICANT SUSTAINED INVESTMENT IS REQUIRED

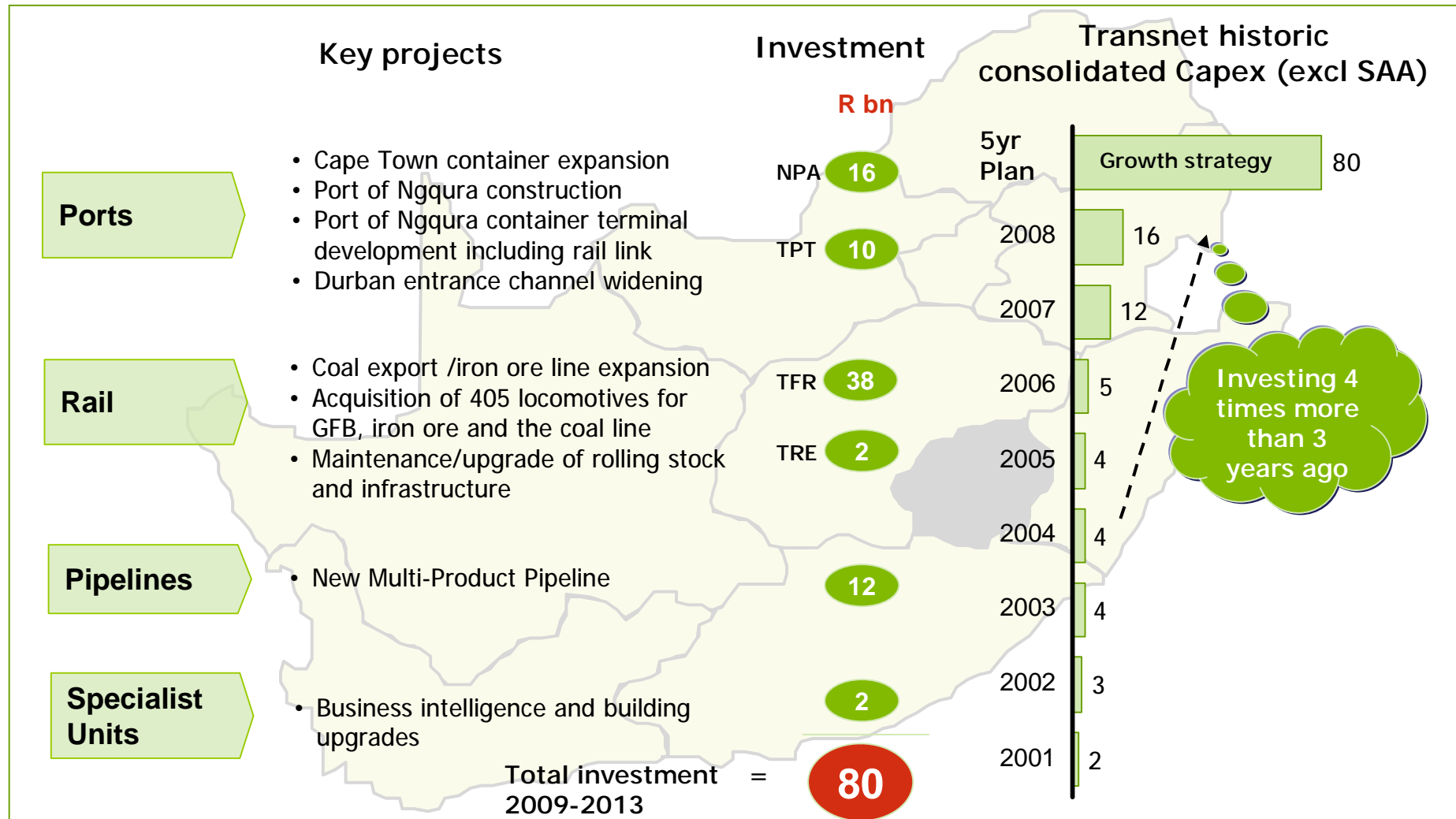
Rail network demand vs installed capacity

— Operational capacity limit
 — Physical capacity limit





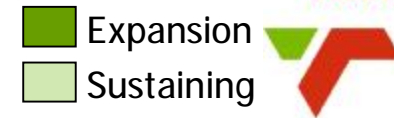
SIGNIFICANT INVESTMENT ACROSS ALL DIVISIONS TO REPLACE ASSETS AND CREATE CAPACITY



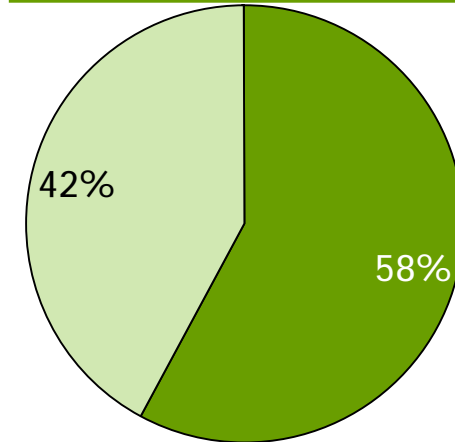
OVERVIEW OF 5 YEAR INVESTMENT PLAN

- ✔ The 5 year capital investment plan approved in 2008/09 amounted to R80.3bn and, including additional projects and increases in ETC during 2008, amounts to R89bn.
- ✔ Latest 5-Year Investment Plan amounts to R80.5bn.
 - ✔ Projects in plan have been reviewed and re-prioritised and cash flows have been rescheduled over 5 years to remain within the financial parameters
- ✔ Of the planned Capital Investment of R80.5bn, spending will be as follows:
 - ✔ 32% in rolling stock (R25.8bn)
 - ✔ 59% in Infrastructure related projects (R47.5bn)
 - ✔ 9% in Acquisition of machinery & equipment and floating craft (R7.2bn)
- ✔ The capital expenditure over the next three years of R57.7bn will be funded by borrowings and cash from operations maintaining the targeted gearing ratio

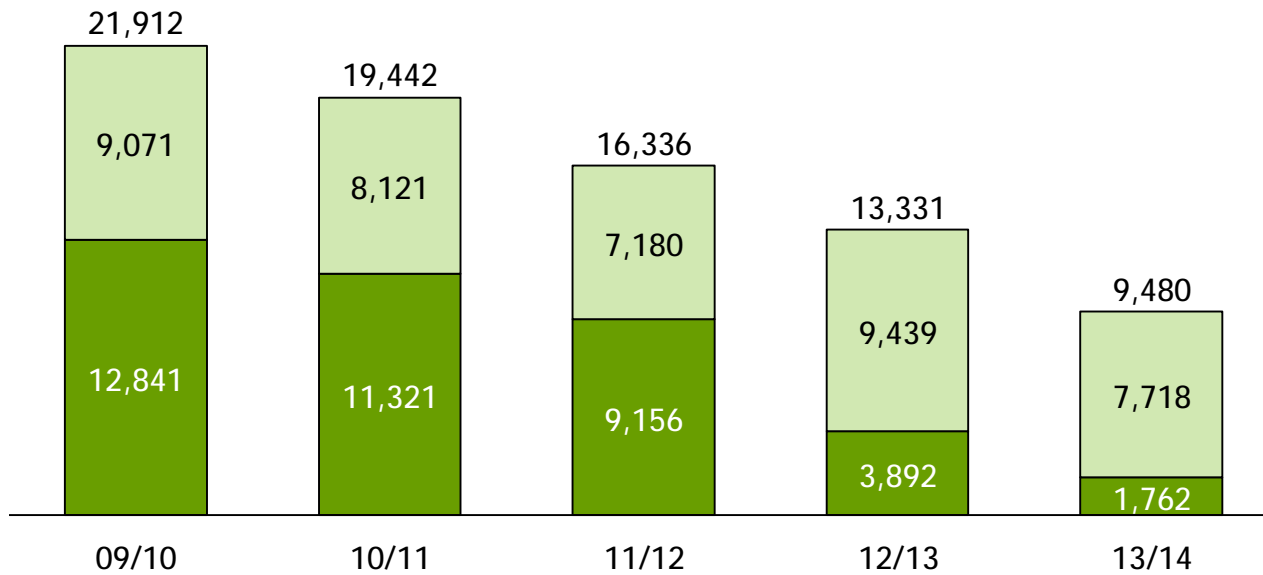
CAPITAL INVESTMENT: 5-YEAR PLAN R80.5bn



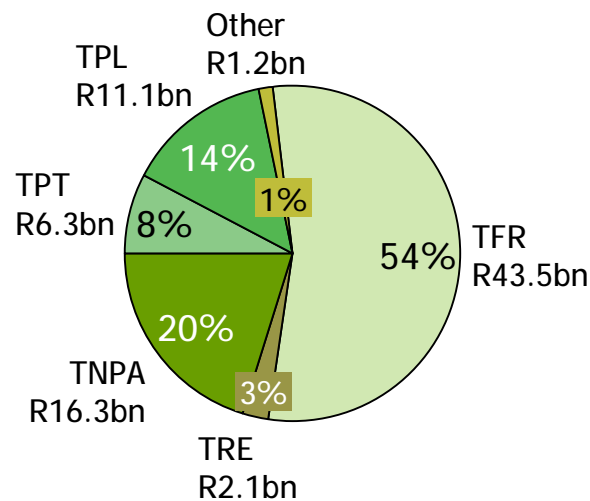
Sustaining vs Expansion (3 year view)



Annual Capex (Rbn)



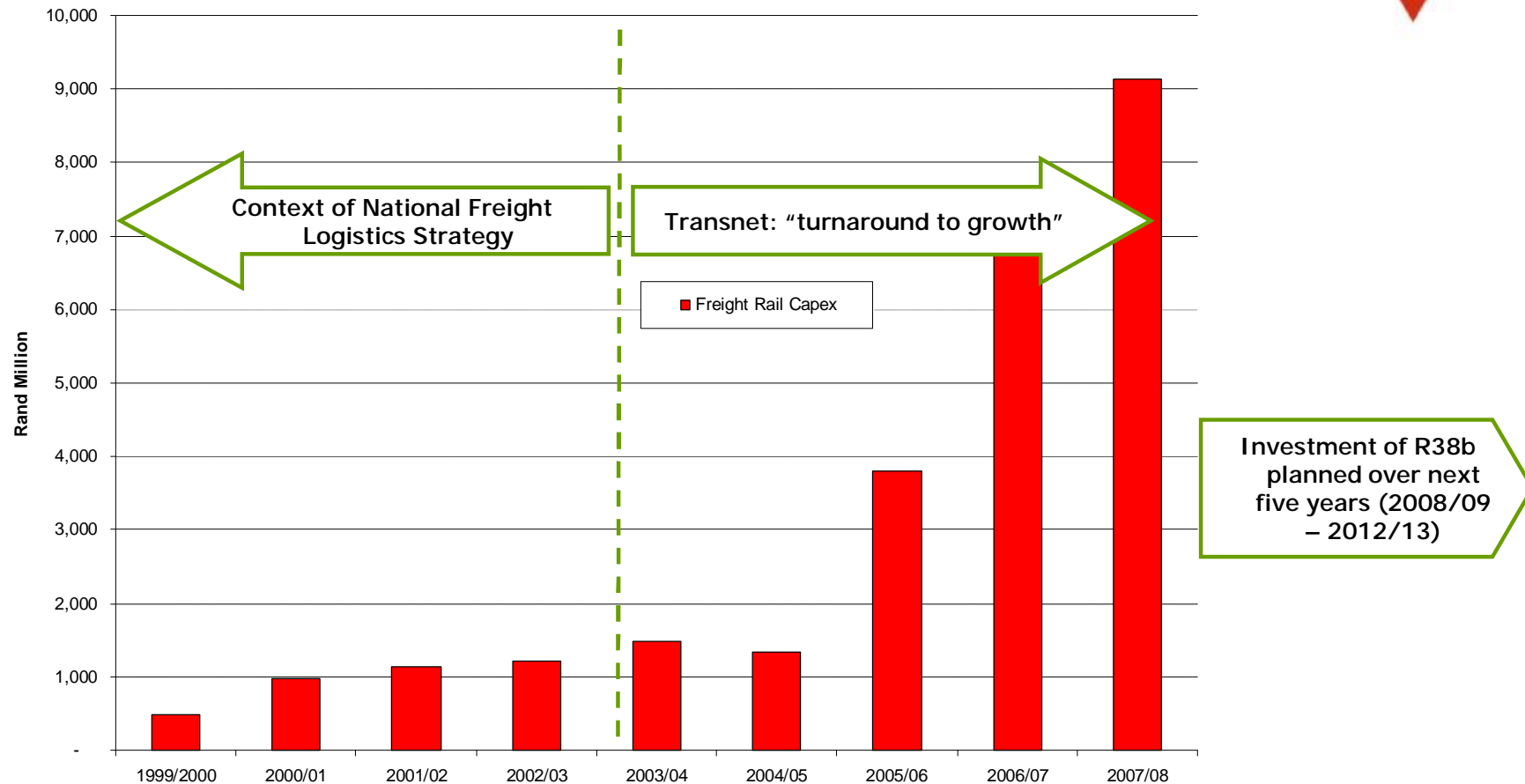
Capex per Division



Capital spending is being closely monitored and aligned with capacity requirements.



RAIL CAPITAL INVESTMENT



- Capital expenditure was extremely low since 1999 – a situation which persisted until 2005 resulting in ageing assets and a maintenance backlog legacy
- The majority of capital has been spent on sustaining the system with growth in allocations for expansions in recent years only

Based on American benchmarks, railways should invest 18% of turnover in capital. Freight Rail has historically invested $\pm 10\%$ per annum and only in the last three years exceeded these thresholds to rectify the legacy of under-investment



CHANGES IN ECONOMIC ENVIRONMENT

The financial crisis could spark the worst worldwide recession since the Great Depression.

- Expectations of a quick resolution to the credit crisis have not been realised
- The IMF has revised its global GDP 2009 forecast to 0.5%, from 2.2% in November 2008

The global recession is projected to cause both commodity prices and inflation to ease further on the back of weak demand

- Commodity prices have fallen sharply since September 2008.
- Oil has fallen more than 60% from its peak and is forecast to average \$50/barrel in 2009.
- Iron Ore had declined by almost 70% before recovering slightly.
- Thermal coal has fallen by more than 50% since July

International trade is projected to decelerate sharply, with global trade volumes falling by 2.8% in 2009.

- The BDI has fallen over 90% in the past 6 months
- Drewry forecasts container growth of only 2.8% in 2009
- Container volumes through US ports have been negative for 17 consecutive months
- Lower ocean freight rates benefit SA


Transnet's short term focus will shift towards sustaining the business

- Transnet is well equipped to weather the storm
- The growth strategy will continue to provide the strategic framework
- The timing of the implementation of the growth strategy will be delayed as a result of revisions to volume forecasts
- The short term focus is on protecting volumes and preserving cash




A MORE CHALLENGING ENVIRONMENT LIES AHEAD

Global growth

 to -1.3%

- Synchronised global recession
- Pronounced slowdown in developing economies
- World trade to decline

South African growth

 to -0.8%

- Mining, manufacturing, retail in recession
- Exports decline by 9.1%
- Imports decline by 5.7%%

Inflation

 to 6.8%


- Reweighting of the index
- Oil price decline
- Declining investment and consumption

Oil/commodity prices

 to 50\$/barrel

- Declines of more than 60% from peak
- Risks are to the downside

Interest rates

 To 11.92%

- Many sectors in recession
- Sharp decline in inflation
- Extent of decline limited by CAD

Current account deficit



- Significant outflow of portfolio funds since September 2008
- Currency will weaken further

* Transnet estimate

Source: IMF, World Economic Outlook, Stellenbosch University Bureau of Economic Research



GLOBAL ECONOMIC CRISES

Cost of crises: Stimulus packages

- United States cumulative spending to date \$4.28 trillion
- Final estimates \$10 trillion (18% of global GDP)A skills shortage.
- The cost to date (\$4.2 trillion) equals the total cost of World war II (inflationary adjusted)

Impact on South Africa

- First quarter GDP -6.4% q/q worst since 1984 q3 (-6.5%)
- Manufacturing value add decline by 22%
- Mining sector decline by 33%

Recovery will be slow and could take significantly longer than expected

THANK YOU