TRANSNET

national ports authority

National Ports Authority

Ship at the Port Elizabeth Container Terminal.

Revenue

12% to **R6,9** billion

EBITDA

12% to **R5,2** billion

Five-year capital expenditure plan

R17,4 billion

Business overview

Transnet National Ports Authority is responsible for the safe, efficient and effective economic functioning of the national ports system which it manages, controls and administers on behalf of the State. The division's core services include the following:

- The planning, provision, maintenance and improvement of port infrastructure[1].
- The provision and coordination of marine[2]-related services.
- The provision of port services, including the management of port activities and the port regulatory function at all South African ports.
- The provision of navigation aids to assist the navigation of vessels within port limits and along the coast.

National Ports Authority aims to create a ports system that will lead economic growth for South Africa. To achieve this, the division has adopted a three-tier strategy:

- creating infrastructure capacity ahead of demand;
- improving port efficiency; and
- enhancing the ports' positions as gateways for trade.

As the custodian of the country's primary trading hubs, National Ports Authority manages the most vital conduits of the country's imports and exports by providing services to port users. Users of port services include terminal operators, shipping lines, ship agents, cargo owners and the clearing and forwarding industry.

National Ports Authority offers a combination of integrated port infrastructure facilities and services. Each port has a natural hinterland with defined markets, which drives the nature of services, facilities and the types of cargo handled at each port. Hence, each port operates and develops its own specialised services within a complementary port system to support a defined customer base.

National Ports Authority manages seven ports within South Africa: Saldanha Bay, Cape Town, Mossel Bay, East London, Port Elizabeth, Durban and Richards Bay. The Port of Ngqura, when operational, will become the eighth port managed by the division.

Following the enactment of the Ports Act in November 2006, National Ports Authority reengineered some of its existing business processes to render the division both a 'regulator' and a 'regulated entity'.

The Ports Act introduces the following:

- The act introduces new port rules to ensure the proper control and management of ports. This includes approaches to ports and the maintenance of safety, security and good order in ports. It also includes the protection of the environment.
- The act implements guidelines for agreements, licences and permits.
- The act requires the conversion of deemed licences at all the ports.
- Economic regulation promulgated through the act impacts National Ports Authority's tariff structures as tariffs are now approved by the Ports Regulator.

Performance highlights

- The operating profit for 2007/08 is R4 671 million (2006/07: R4 210 million).
- The bulk of the scheduled 2007/08 dredging works has been completed.
- The first version of *PortsOnline* has been released at all ports. The second release is being piloted at Port Elizabeth.
- A marine capacity analysis has been completed and implementation has commenced with the intention to create adequate marine capacity.
- Of the 12 marine pilot trainees in the division's cadet programme, eight have qualified as first licence pilots and the programme is progressing well.
- The knowledge migration approach performed in collaboration with Shipping and Transport College (STC-SA) is entering its third year and the transfer of skills to local trainers is continuing.
- Marine Services has achieved vessel changeover targets of 85 minutes at the Durban container terminal.
- Talent-management programmes have been implemented to promote staff retention and skills enhancement.
- National Ports Authority's capital programme has progressed well, with the following highlights:
  - Significant progress has been made with the Durban harbour entrance widening and deepening project. Dredging works and the construction of the new northern breakwater are in progress.
  - Construction of Berth 306 at the RBCT coal terminal in Richards Bay was completed by Transnet Capital Projects ahead of schedule, within budget and on specification and has been commissioned.
  - At Ngqura, the paving at the container terminal is complete, and the construction of the additional quays has commenced.
  - The replacement helicopter for Richards Bay has been delivered.
  - Received approval from the Transnet Board to construct an additional bulk liquid berth in Richards Bay.
  - Tug acquisitions for Port Elizabeth, Durban and Richards Bay have been approved.
  - A tender for the supply of a new 4 200m^3 trailing suction hopper dredger has been awarded.

[1]Port infrastructure means the basic structure of a port, including breakwaters, seawalls, channels, basins, quay walls, jetties, roads, railways and infrastructure used for the provision of water, lights, power, sewerage and similar services.
[2]Pilotage, tug services and berthing.

National Ports Authority continued

Financial overview

Key performance indicators (KPIs) – National Ports Authority

		2008 Target	2008 Actual	Performance	2009 Target	% change versus actual
Financial						
Revenue	R million	6 754	**6 843**	Achieved	7 534	10,1
EBITDA	R million	5 035	**5 198**	Achieved	5 614	8.0
Infrastructure						
Capital expenditure	R million	3 949	**2 506**	Not achieved	3 477	38,8
Efficiency						
Berth occupancy	%	66	**45**	Achieved	44	(2,2)
Volume						
Containers	'000 TEUs	3 673,2	**3 738,0**	Achieved	3 989,4	6,7
Break-bulk	mt	11,6	**10,4**	Not achieved	10,5	1,0
Liquid bulk	mt	42,7	**43,9**	Achieved	47,0	7,1
Dry bulk	mt	130,4	**122,0**	Not achieved	129,8	6,4
Automotive	000 units	634,7	**580,4**	Not achieved	620,1	6,8

	March 2008 R million	March 2007 R million	% change
Salient features			
Revenue	**6 843**	6 107	12
EBITDA	**5 198**	4 628	12
Depreciation and amortisation	**527**	418	26
Operating profit	**4 671**	4 210	11
Profit before taxation	**4 862**	4 351	12
Net asset value	**22 140**	18 296	21
Managed assets	**33 420**	17 981	86
Profitability measures			
Operating margin (%)	**68,3**	68,9	(1)
Return on net assets (%)	**22,0**	23,8	(8)
Return on managed assets (%)	**14,0**	23,4	(40)
Capital expenditure			
Total	**2 506**	1 026	144
Employees			
Number of permanent employees	**3 173**	3 251	(2)
Revenue per employee	**2,16**	1,88	15

National Ports Authority achieved revenue of R6 843 million during the year, indicating an overall improvement of 12% compared to the previous year while EBITDA increased by 12% to R5 198 million.

National Ports Authority has managed to contain cost increases to 12% before depreciation and amortisation. This amount includes an additional cost of R45,7 million for dredging maintenance.

Profit before taxation increased by R511 million despite an increase of 26,2% and 47,6% in depreciation and finance costs respectively. The increase in depreciation and finance costs is attributable to the execution of the investment plan and the restructuring of the division's balance sheet.

Strategic direction

National Ports Authority's strategic intent is to enable the safe, efficient and effective economic functioning of the port system.

The division has developed a three-part strategy with an emphasis on providing port infrastructure capacity, efficient port and port operations management and enhancing the ports' positions as leading gateways for trade. The strategy aims to meet growth demands of the South African port system. To achieve this, the division has adopted a three-tier strategy:

Creating infrastructure capacity ahead of demand:

- It is part of National Port Authority's vision to anticipate and create capacity and embark on expansion of port infrastructure before it is required.

Improving port efficiency

- An efficient port system attracts and grows trade. Efficient ports unlock additional infrastructure capacity through the effective utilisation of ports infrastructure, which in turn results in capital investment optimisation.
- Efficient ports also meet port user requirements for rapid vessel turnaround and the delivery of efficient cargo handling and marine services, all within a safe, secure and risk-controlled port environment.

Enhancing the ports' positions as gateways for trade:

- South African ports need to be enhanced to become internationally recognised as leading gateways for trade with South Africa. This creates customer focus and ensures that customer needs are identified and delivered.

An efficient port system attracts and grows trade

The strategy is driven through six primary goals:

National Ports Authority goals	Key focus area
Improve vessel and cargo turnaround	• Improving the efficiency and quality of port services to meet port demands. • Enhancing competitiveness of port service delivery as well as related services.
Provide port infrastructure ahead of demand	• Providing timely port infrastructure to meet cargo growth demand.
Improve the productive use of assets	• Utilising port assets optimally. • Achieving a regulated and controlled port environment. • Achieving volume and revenue growth. • Retaining key customers and industries.
Ensure responsible Enterprise-wide Risk Management	• Achieving safe and secure ports. • Ensuring port-related risks are well managed and mitigated.
Develop human capital and skills	• Building an appropriately skilled workforce.

National Ports Authority will focus on the following three areas in the year ahead:

- Improving service levels in the areas of marine services, dredging, regulatory obligations, and enforcing port rules.
- Optimising capital expenditure for the creation of infrastructure capacity ahead of demand.
- Increasing revenue and containing costs with an emphasis on volume growth to drive revenue and an increase in real-estate revenue.

Risk management

National Ports Authority acknowledges that as a commercial enterprise, it must engage in undertakings of risk reward. The division's enterprise risk management (ERM) process is focused on achieving an appropriate balance between realising opportunities for growth through 'upside' risks while minimising any adverse impacts through 'downside' risks. Risk management is an integral part of good management practice and an essential component of good corporate governance.

National Ports Authority has adopted the Transnet ERM framework to create a structure and process for implementing the enterprise risk management process. The framework is based on current international leading practice and is ISO 31000 accredited.

Key successes achieved to date:

- Conducting in-depth training of risk champions in all operational areas, which further enhances the division's ERM capabilities;
- Enhancing and aligning existing risk management governance structures at operational as well as strategic levels;
- Moving away from viewing risks purely as negative events but, rather as sources of uncertainty and therefore, opportunity;
- Improving the division's overall risk-management maturity; and
- Implementing a risk-management information system (CURA).

Key risks at National Ports Authority	National Ports Authority's planned response
Failure to provide infrastructure capacity, which will negatively affect current and future revenue streams.	• Approving port development framework plans (PDFP). • Approving and implementing a five-year capital investment plan. • Developing a land-use planning strategy. • Expediting the execution of capital projects. • Replacing and maintaining dredging and marine fleet. • Maintaining infrastructure according to the requirements and standards of the National Ports Authority guidelines. • Optimising the procurement process, to prevent any potential delays during the execution infrastructure expansion activities.
Failure to comply with the legislative requirements as prescribed by the National Ports Act, which could result in the authority not being able to manage, control and administer the ports in an efficient manner.	• Implementing and enforcing port rules. • Implementing Ports Act guidelines for agreements, licences, permits. • Converting deemed licences – appropriate licensing of existing port users as required by the Ports Act. • Operating within a regulatory system for tariff approvals. • Operating according to benchmarked targets for cargo-handling and marine services.

National Ports Authority continued

Key risks at National Ports Authority	National Ports Authority's planned response
Safety related incidents impacting on the safety of NPA employees and stakeholders.	• Obtaining applicable safety accreditation and certification across ports; • Embedding risk management throughout National Ports Authority; • Focusing on the regulatory universe and legislative compliance, which will ensure effective operational controls are implemented; • Rolling-out a national security policy; • Adhering to financial operating procedures and practices to foster an effective and efficient control environment; and • Embarking on a number of safety initiatives to ensure the embedding of a safety culture throughout the division.
Lack of adequate skills and resources to achieve NPA goals.	• Ensuring optimum marine resources capacity at all ports; • Building capacity and managing talent; and • Designing training programmes for pilots, tug masters, chief marine engineer officers, port engineers and port planners.
Impact of business disruption on operations caused by load-shedding.	• Implementation of the TNPA Electrical Power Action Plan, which will reduce the effects of load-shedding or power cuts by introducing energy-saving measures, the use of alternative equipment and consumables, and the provision of back-up power facilities where merited.

Capital investment

Capital expenditure increased from R1 026 million in the previous year to R2 506 million, an increase of 144%.

Planned capital expenditure for the next year includes:

Projects	R million
Provision of additional bulk liquid berthing capacity Richards Bay	67,8
Acquisition of tugs for Richards Bay, Durban and Port Elizabeth	266,5
Durban port development	98,4
Widening and deepening of Durban entrance channel	755,1
Pier 1 resurfacing (including berth deepening): Durban	68,4
Reengineering of DCT: Durban	121,0
Reconstruction of sheet-pile quay walls at Maydon Wharf: Durban	41,4
Purchase of two tugs for Durban	84,0
Additional two tugs – linked to Vulindlela project	59,5
Construct new Port of Ngqura	236,4
Operationalise Ngqura for containers	647,8
Expansion of container terminal: Cape Town	361,5
Saldanha IOT execution Phase 1B expansion (41 to 47mtpa)	72,9
Provision of new trailing suction hopper dredger	86,2
Security national: Phase 2 – all ports	37,6
Other projects	472,3
Total	**3 476,8**

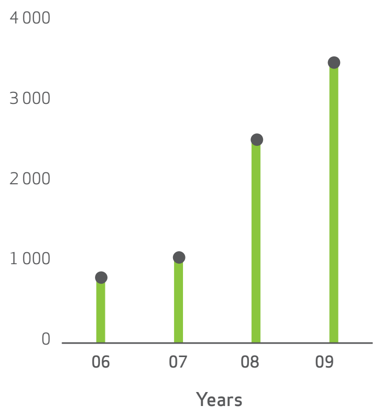
The projected increase in capital expenditure over the past three years increased by 220%, while the projected spending for 2009 reflects an increase of 39% to ensure port capacity to facilitate future growth.

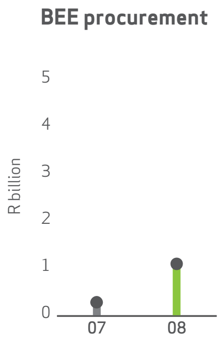
Planned major capital expenditure per port for the next five years:

Projects	R million
Richards Bay	1 132,9
Durban	7 497,3
East London	18,0
Ngqura	4 216,9
Port Elizabeth	299,8
Mossel Bay	12,2
Cape Town	2 914,7
Saldanha Bay	160,9
Dredging services	938,3
Lighthouse services	62,6
Other projects	174,8
Total	**17 428,4***

Includes capitalised borrowing costs.

Capital expenditure (R million)





National Ports Authority manages eight South African ports.

Sustainability performance at National Ports Authority

BEE procurement

	2008 R billion	2008 %	2007 R billion	2007 %
BEE procurement	1,17	39	0,33	32
Non-BEE procurement	1,86	61	0,70	68
Total	3,03	100	1,03	100

Disabled employees

	2008
Female	1
Male	5
Total	6

Public fatalities

	2008	2007	2006
Fatalities on premises (criminal activity and suicide excluded)	4	3	1
Total	4	3	1

Training as a % of total personnel costs

Skills development	2008 R million	2007 R million
Training, bursaries and grants	32,1	29,0
% of personnel costs	3,9	3,7

National Ports Authority continued

SHEQ performance

Indicator	Target 2009 %	Actual 2008 %	Target 2008 %	Actual 2007 %	Actual 2006 %
Cost of risk as % of revenue	1,45	1,62	1,50	1,66	1,90
DIFR	1,00	2,17	1,00	1,11	1,10
SHE performance audit rating	93	87	90	86	89

Employment equity

	Indian (A)		African (B)		Coloured (C)		Black (A+B+C)		White		Total		Total
Permanent employees	F	M	F	M	F	M	F	M	F	M	F	M	F+M
Management	23	71	110	112	21	53	154	236	16	273	170	509	679
Non-managerial	46	120	285	991	112	308	443	1 419	85	547	528	1 966	2 494
Total – 2008	**69**	**191**	**395**	**1 103**	**133**	**361**	**597**	**1 655**	**101**	**820**	**698**	**2 475**	**3 173**
% make-up	**2%**	**6%**	**12%**	**35%**	**4%**	**11%**	**18%**	**52%**	**3%**	**26%**	**22%**	**78%**	**100%**
Management	28	89	134	161	31	91	193	341	16	358	209	699	908
Non-managerial	38	107	228	939	102	260	368	1 306	85	584	453	1 890	2 343
Total – 2007	66	196	362	1 100	133	351	561	1 647	101	942	662	2 589	3 251
% make-up	2%	6%	11%	34%	4%	11%	17%	51%	3%	29%	20%	80%	100%

F = Female M = Male

Disciplinary action

	Designated									Non-designated	
	Male				Female					White male	
Occupational levels	A	C	I	Sub-total	A	C	I	W	Sub-total	W	Total
Disciplinary action	105	7	9	121	10	3		2	15	25	161

Although the economic prospects for the year ahead remain challenging, volume growth is anticipated in all sectors

Prospects: Committing to stakeholder value

Volumes in the bulk mining sector will continue to grow moderately despite the run-down in the mines inventories. This is due to the high demand in 2007/08 to satisfy exports, with export prices benefiting from a revival of commodity prices. Real imports are expected to move sideways in the financial year 2008/09. This is similar to the fourth quarter of 2007/08, with average import prices rising slightly, reflecting the higher price of crude oil, which will translate in lower volumes given the weakening of the rand against major foreign currencies.

Moderate growth is expected for break-bulk and bulk commodities in the year ahead and somewhat higher growth is anticipated for containerised cargo. Despite the anticipated moderate growth, the nominal effective exchange rate of the Rand, which has depreciated vehicle export orders, will be strong and is anticipated to improve only slightly during the final quarter of 2008/09. The challenges of the local economic climate – and more specifically higher interest rates and fuel tariffs – are expected to affect automotive imports. However, exports may continue to experience growth based on the industry's international agreements.

Future prospects and market activities are summarised below:

- Although the economic prospects for the year ahead remain challenging, volume growth is anticipated in all sectors.
- The division is committed to growing real estate revenue in the year ahead.
- National Ports Authority will implement a new regulatory environment through the port rules and the requirements of the act with regards to port agreements, licences and permits.
- The setting of future tariffs will be subject to the Ports Regulator approval.
- The division will continue to implement its ship-repair strategy and ship-repair feasibility studies will be completed for the existing repair facilities in the year ahead.
- National Ports Authority will deliver capital projects to provide port infrastructure capacity ahead of demand.
- Port efficiency will be improved through enhanced service levels for marine and dredging as well as optimised marine resource capacity at the port.
- The division will continue to build human capital through talent management and training.

Durban's container handling facilities.