Port Terminals

One of Transnet Port Terminals 5 395 employees.

Revenue

18% to
R4,8
billion

EBITDA

16% to
R1,8
billion

Five-year capital expenditure plan

R10,3
billion

Business overview

Transnet Port Terminals (Port Terminals) manages 15 cargo terminal operations situated across six South African ports, with a permanent staff complement of 5 395. Port Terminals provides an efficient and reliable cargo service to a wide spectrum of customers, including shipping lines and cargo owners. Operations are divided into four cargo sectors, namely containers, bulk, break-bulk and automotive. The business has experienced steady growth in revenue and operating profits in recent years and this trend has continued into the current year, driven mainly by the 9,3% year-on-year volume growth in the container sector.

A core challenge for the division at present is to grow the business and to create capacity ahead of demand. More than 60% of the division's 2008/09 capital expenditure targets expansion in capacity which includes the new container terminal in the Port of Ngqura, the expansion of the Durban and Cape Town container terminals and the upgrade of bulk handling facilities in Richards Bay and Saldanha.

Performance highlights

The following operational achievements were recorded during the year:

- The new Pier 1 container terminal in Durban became fully operational in November 2007, a month ahead of schedule. The new terminal has an annual capacity of 700 000 TEUs (20 foot equivalent unit) and has expanded operational performance from 10 moves per gross crane hour (GCH) in November 2007, to 20 moves per hour in March 2008. We anticipate that GCH performance will improve to 28 moves by March 2009.
- Average moves per GCH at Durban container terminal (DCT) increased from 18 moves in March 2007 to 22 moves in March 2008. This terminal achieved the target of 6 000 moves per day on several occasions, and annual throughput exceeded 2,1 million TEUs.
- DCT and Pier 1, collectively handled 2,4 million TEUs during the year, which represents a 14% increase on the previous year.
- The Port Elizabeth container terminal improved performance to achieve 26 moves per GCH in March 2008.
- The Cape Town container terminal achieved a monthly average of 23 moves per GCH.
- Port Terminals commenced the building of a fifth container terminal at the Port of Ngqura. Phase 1 of the terminal will be operational by October 2009, with an annual capacity of 700 000 TEUs.
- The division is in the process of creating an additional 4 000 slots at the Durban car terminal. On completion, this terminal's capacity will have grown from one berth and 6 500 parking slots in 2006, to three berths and 14 000 parking slots. This solution also maximises rail connectivity to and from the terminal.
- The reengineering project at DCT is expected to increase capacity of the terminal from 2,3 million TEUs per annum to 2,9 million TEUs per annum.
- The Cape Town expansion project will double capacity from the existing 700 000 TEUs per annum to 1,4 million TEUs per annum.
- In March 2008 the Saldanha Bulk Terminal loaded a record 160 204 tons over a 24-hour loading period due to the introduction of dual loading at the terminal. Two ship loaders now service a vessel instead of one. Five vessels were loaded utilising dual loading and all achieved rates well above the contractual requirement of 5 000 tons per hour.
- Richards Bay MPT recently commissioned a new mobile crane. The crane has achieved loading rates of 250 tons per hour as opposed to the norm of 120 tons per hour. This has resulted in a 50% improvement in vessel turnaround time for vessels on which the mobile crane was used.
- Implementation of the 5-"S" programme has assisted in consistently maintaining the disabling injury frequency rate (DIFR) below the 1% target. The DIFR rating for 2007/08 is 0,93%.
- The division has launched a new Port Academy, geared towards the training and development of skills within Port Terminals.

Container handling at the Port Elizabeth Terminal.

Port Terminals continued

Financial overview

Key performance indicators (KPIs) – Port Terminals

		2008 Target	2008 Actual	Performance	2009 Target	% change versus actual
Financial						
Revenue	R million	4 740	**4 843**	Achieved	5 421	11,9
EBITDA	R million	1 756	**1 810**	Achieved	2 156	19,1
Infrastructure						
Capital expenditure*	R million	3 136	**2 082**	Not achieved	2 726	30,9
Efficiency						
Moves per crane hour (DCT)		22	**22****	Achieved	28	27,3
Moves per crane hour (CTCT)		20	**23**	Achieved	27	17,4
Moves per ship working hour (DCT)		35	**42**	Achieved	45	7,1
Moves per ship working hour (CTCT)		33	**43**	Achieved	45	4,7
Tons loaded/discharged per hour						
– Saldanha IOT (Export)		4 900	**4 400**	Not achieved	5 500	25,0
– Richards Bay DBT (Export)		750	**612**	Not achieved	750	22,5
– Richards Bay DBT (Import)		525	**417**	Not achieved	650	55,9
Volume						
Containers	'000 TEUs	3 673,0	**3 717,0**	Achieved	3 989,4	7,3
Break bulk	mt	12,3	**10,9**	Not achieved	12,2	11,9
Bulk	mt	53,0	**49,0**	Not achieved	54,8	11,8
Automotive	000 units	634,7	**541,7**	Not achieved	621,4	14,7

**Capital expenditure includes capitalised borrowing costs.*
***Now averaging 25 moves per crane hours.*

	March 2008 R million	March 2007 R million	% change
Salient features			
Revenue	**4 843**	4 098	18
EBITDA	**1 810**	1 561	16
Depreciation and amortisation	**500**	336	49
Operating profit before finance costs*	**1 308**	1 352	(3)
Profit before taxation	**1 149**	1 347	(15)
Managed assets	**6 304**	4 707	34
Net asset value	**3 222**	4 138	(22)
Profitability measures			
Operating margin before finance costs (%)*	**27,0**	33,0	(18)
Return on net assets (%)	**35,7**	32,6	10
Return on managed assets (%)	**20,7**	28,7	(28)
Capital expenditure (includes capitalised borrowing costs)			
Total	**2 082**	1 764	18
Employees			
Number of permanent employees	**5 395**	5 049	7
Revenue per employee	**0,90**	0,81	11

**Operating profit includes a favourable fair value adjustment of R135 million for 2006/07 in respect of FEC contracts covering the purchase of ship-to-shore cranes, rubber tyre gantries (RTGs) and straddle carriers. The fair value adjustment for 2007/08 amounts to R13 million.*

Financial performance

The following financial performance highlights were recorded during the year:

- All Port Terminals business units, with the exception of the Cape Town Multi-Purpose Terminal, posted an operating profit.
- Revenue was assisted by an increase in storage revenue at Durban container terminal and the Durban Car Terminal.
- Container volumes increased by 9,3%, driven by a strong fruit harvest as well the export of empty containers.
- Bulk volumes increased by 3%, driven by continuing demand in the Far East.
- Break-bulk volumes declined by 10% primarily due to a reduction in steel exports as a result of increased local consumption and domestic production interruptions. Increased competitive activity remains robust with private operators targeting all the major commodities.
- Automotive volumes declined by 3%, mainly due to a delay in the commencement of the export programmes of two major manufacturers.
- Personnel costs increased by 14% which was attributable to increases in head-count at the new Pier 1 Container Terminal, as well as the Durban and Cape Town Container Terminals as a result of current expansion.
- Fuel and energy costs increased by 34% due to escalating fuel prices and higher electricity tariffs, coupled with increased consumption due to increased container volumes.
- Depreciation increased by 49% year on year. This is primarily due to the capital expansion at the container and bulk handling terminals.

Port Terminals' strategic objectives includes growing strategic partnerships and optimising corridor synergies

Strategic direction

Port Terminals' strategic objectives include the following:

- Growing the revenue base by harnessing new business opportunities, growing strategic partnerships and optimising corridor synergies.
- Understanding customer requirements and translating their needs into consistent and personalised service delivery that exceeds their expectations.
- Creating capacity ahead of demand in line with Transnet's commitments.
- Growing the market position by ensuring that Port Terminals is recognised as an efficient, safe, reliable and cost-competitive operator.
- Containing increases in operating costs per unit of volume to less than CPIX.
- Creating a performance management culture and skills base that enables the execution of the business plan.

The Port Terminals management team has developed clear interventions that will deliver on these objectives and ensure that the business is fully aligned to, and supportive of, Transnet's overall vision and goals as outlined in the Corporate Plan.

Risk management

Port Terminals has implemented an Enterprise-wide Risk Management (ERM) Framework at strategic and operational levels. The framework provides discipline and structure for risk management within the business and aims to improve performance by monitoring key risk indicators and managing risk treatment plans.

Key risks at Port Terminals	Port Terminal's planned response
Country-wide volatility in Eskom electricity supply resulting in reduced customer volumes and interruption to port operations.	• Enhancing existing business continuity plans; • Optimising energy usage and installation of generator sets as appropriate across the business; and • Implementing various short- and long-term initiatives to ensure optimum energy utilisation.
Poor corridor performance, resulting in the failure to realise desired growth volumes and profitability targets.	• Enhancing integration and joint planning between all relevant Transnet operational divisions at a strategic and operational level.
Capital expansion and refurbishment projects not completed in time to meet customer demand, due to inadequate engineering and project management skills and capacity, resulting in loss of market share and customer dissatisfaction.	• Recruiting priority skills, such as engineering and project management resources; • Intervention of Transnet Capital Projects, which provides additional project management capacity in managing expansion and refurbishment projects; and • Establishing a dedicated capacity planning, sales and commercial unit, to better understand and manage customer demand expectations.
A changing regulatory and policy environment resulting in Port Terminals experiencing a constraint on growth plans, commercial activities and future business models.	• Enhancing employees' understanding of and compliance with the National Ports Act, through various awareness campaigns; workshops and the development of Company-wide policies and procedures; and • Retaining senior counsel and a competition law specialist to provide legal advice on the implications of the changes in the regulatory framework for Port Terminals. This will allow the division to make business decisions, which are within prescribed legislation.
Non-compliance with safety and environmental legislation, policies and procedures resulting in fatalities, disabling injuries, damage to the environment, adverse publicity and negative reputation.	• Improving the division's safety and environmental standards and practices through various initiatives such as: – Implementation of the 5-"S" safety programme across Port Terminals to monitor substance abuse, speeding in operational areas, signs of sleepiness by employees while on duty and adequacy of signage and supervision; – Recruitment of skilled safety and environmental personnel; and – Implementation of environmental management systems.
Lack of skilled people resources and the inability to retain skilled employees resulting in the inability to achieve overall business objectives.	• Establishing a Port Terminals Learning Academy and a graduate development programme; • Implementing talent retention and performance management systems linked to incentive schemes; and • Offering ongoing supervisory and management training programmes.
Increased competition resulting in loss of market-share and growth.	• Performing economic analyses to determine market dynamics and competitive trends; and • Developing sector-specific customer strategies, inclusive of appropriate pricing models to meet customer expectations.

Port Terminals continued

Capital investment

Capital spending for the year amounted to R2 082 million, including capitalised borrowing costs, compared to R1 764 million in the previous year.

Significant areas of expenditure for the year included:

- The refurbishment and expansion of the iron ore export facility in Saldanha Bay.
- The construction of a new container terminal in Durban at Pier 1 and the procurement of terminal equipment such as ship-to-shore cranes and rubber-tyre gantry cranes.
- The construction of a new container terminal at the Port of Ngqura.
- The expansion of equipment capacity at the Cape Town and Durban container terminals.
- The refurbishment of the manganese export facility in Port Elizabeth.

Planned capital expenditure for the next year:

Port Terminals will implement a robust capital expenditure programme over the next five years to ensure that capacity is created ahead of demand and that productivity is improved. Approved capital expenditure for 2008/09 is R2 726 million:

Projects	R million
Ngqura Container Terminal	401
Saldanha Iron Ore Terminal Phase 1B expansion	330
Durban Container Terminal Reengineering project	294
Cape Town capacity expansion	292
Port Elizabeth manganese terminal Phase 3 expansion	181
Richards Bay Dry-bulk Terminal plant refurbishment and expansion	138
Other projects	1 090
Total	**2 726**

Planned major capital expenditure for the next five years:

Projects	R million
Ngqura Container Terminal	1 220
Saldanha Iron Ore Terminal Phase 1B expansion	241
Durban Container Terminal Reengineering project	742
Cape Town capacity expansion	1 198
Port Elizabeth manganese terminal Phase 3 expansion	393
Richards Bay Dry-bulk Terminal plant refurbishment	472
Richards Bay Multi-Purpose Terminal equipment upgrade	587
Other projects	5 431
Total	**10 284**

Sustainability performance at Port Terminals

BEE procurement

	2008		2007	
	R billion	%	R billion	%
BEE procurement	0,88	40	0,71	44
Non-BEE procurement	1,32	60	0,91	56
Total	2,20	100	1,62	100

Disabled employees

	2008
Female	1
Male	21
Total	22

Employee fatalities

Fatalities on premises *(suicide excluded)*	2008	2007	2006
Injuries	1	5	4
Road traffic (public roads)	–	–	1
Total	1	5	5

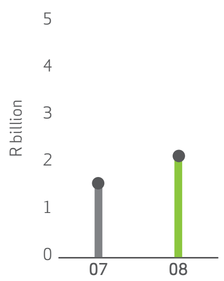
Public fatalities

	2008	2007	2006
Fatalities on premises (criminal activity and suicide excluded)	–	1	2
Total	–	1	2

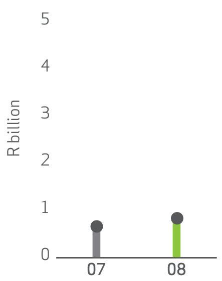
Training as a % of total personnel costs

Skills development	2008 R million	2007 R million
Training, bursaries and grants	65,0	38,0
% of personnel costs	4,3	2,9

Capital expenditure



BEE procurement



SHEQ performance

Indicator	Target 2009 %	Actual 2008 %	Target 2008 %	Actual 2007 %	Actual 2006 %
Cost of risk as % of revenue	2,10	2,83	2,20	2,70	1,30
DIFR	0,93	0,93	1,00	1,20	1,70
SHE performance audit rating	93	87	90	84	81

Employment equity

Permanent employees	Indian (A) F	Indian (A) M	African (B) F	African (B) M	Coloured (C) F	Coloured (C) M	Black (A+B+C) F	Black (A+B+C) M	White F	White M	Total F	Total M	Total F+M
Management	12	37	48	70	15	25	75	132	19	85	94	217	311
Non-managerial	40	391	407	2 566	96	425	543	3 382	120	1 039	663	4 421	5 084
Total – 2008	**52**	**428**	**455**	**2 636**	**111**	**450**	**618**	**3 514**	**139**	**1 124**	**757**	**4 638**	**5 395**
% make-up	**1%**	**8%**	**8%**	**49%**	**2%**	**8%**	**11%**	**65%**	**3%**	**21%**	**14%**	**86%**	**100%**
Management	20	35	34	68	13	24	67	127	21	77	88	204	292
Non-managerial	48	352	352	2 448	94	397	494	3 197	119	947	613	4 144	4 757
Total – 2007	68	387	386	2 516	107	421	561	3 324	140	1 024	701	4 348	5 049
% make-up	1%	8%	8%	50%	2%	8%	11%	66%	3%	20%	14%	86%	100%

F = Female M = Male

Disciplinary action

	Designated									Non-designated	
Occupational levels	Male A	Male C	Male I	Sub-total	Female A	Female C	Female I	Female W	Sub-total	White male W	Total
Disciplinary action	543	76	35	654	29	12	0	8	49	96	799

Prospects: Committing to stakeholder value

Port Terminals' overall outlook for the year ahead is favourable, with specific growth in the container and bulk sectors. The automotive and break-bulk sectors will remain under pressure due to a slow down in economic conditions. The division is currently focusing on cost curtailment through the launch of a dedicated cost-cutting unit, geared towards reducing the cost per unit handled. The capital expenditure plan provides for the expansion of container handling facilities at the ports of Durban, Ngqura and Cape Town as well as the expansion of the bulk-handling facilities in Richards Bay and Saldanha Bay.

Port Terminals faces the significant challenge of growing the business within the context of a changing commercial environment, with the introduction of the National Ports Act; increased exposure to competition and the dependence on Eskom as the primary source of power for much of the plant. These risks can be mitigated through the planned responses highlighted in the risk management table above.

Projected financial performance is positive with increasing profitability margins and returns on investment.