10 July 2012

Transnet impresses with record rail volumes, adds over 3 000 new employees

HIGHLIGHTS

- 10,4% growth in rail volumes to an unprecedented 201 million tons
- Operational efficiencies and productivity up 18,0%
- Revenue up 20,9% to R45,9 billion
- EBITDA up 19,8% to R18,9 billion
- Capital investment up to a record R22,3 billion (excluding DIA acquisition)
- Safety performance up, disabling injury frequency rate down from 0,82 to 0,65
- 3 159 new jobs created

Transnet SOC Ltd today announced an impressive set of results for the financial year to March 2012, driven by strong volume growth across all commodity segments, higher productivity and improved efficiency levels, particularly at Freight Rail -Transnet's biggest operating division.
Freight Rail moved an unprecedented 201 million tons (mt) of freight, a 10,4% increase compared to the previous year –- the highest tonnage moved in Transnet's history. This performance includes a significant improvement in the number of trains operated per day. In October 2011, we ran the highest number of trains per day at 1 444, from about 800 trains per day in the previous period.

General freight volumes rose 9,9% to 81,0mt from 73,7mt in the previous financial year, while containers on rail increased 21,5% to 762 760 twenty-foot equivalent units (TEUs) from 627 825 TEUs, indicating a growth in market share and significant strides in taking rail-friendly cargo off our roads.

Export coal volumes increased by 8,8% to 67,7mt from 62,2mt, while iron ore volumes jumped by an impressive 13,2% to 52,3mt from the previous year's 46,2mt. Both heavy haul lines achieved record weekly throughput (productivity) levels of 1,7mt and 1,2mt, respectively. Our new railways operating strategy is beginning to pay off, with on-time departures and arrivals for General Freight Business improving by 18,9% and 17,7%, respectively, compared to the previous year.

Freight Rail's performance during the year confirms the effectiveness of our focused interventions, including revising the operating division's philosophy, reinstating scheduled railway, introducing more certainty at top leadership levels and boosting employee morale.

Group revenue for the year increased by 20,9% to R45,9 billion from R38,0 billion in the previous period, mainly due to growth in volumes in the general freight, export coal, export iron ore and container volumes as well as an 18,0% improvement in productivity.

Elsewhere in the business, our rolling stock maintenance and manufacturing unit, Rail Engineering's external revenue was up by an impressive 123,4% to R1,5 billion from R661 million previously. The increase was due to higher sales of coaches to the Passenger Rail Agency of South Africa (PRASA) as well as growth in locomotive and wagon sales into the African market, where we expect significant growth opportunities.

The operating division, which recently completed the manufacturing of 200 wagons for Rio Tinto's Mozambique operations, offers the best opportunities for us to expand into the rest of the African continent.

At the ports, Port Terminals continued to boost its efficiency levels with average moves per gross crane hour (GCH) increasing by 8,1% to 26,6 GCH from 24,6 GCH in the previous period. In addition, average tons loaded per hour at the Saldanha iron ore terminal improved by 4,1% to 7 242 tons per hour, and the Richards Bay dry bulk terminal's loading rate was up 2,7% to 678 tons per hour.

We also celebrated the official opening of the Port of Ngqura, just outside Port Elizabeth in the Eastern Cape. This, we plan to develop into a transshipment hub for the Southern Africa region.

Pipelines celebrated the successful commissioning of the Kendal – Waltloo, Jameson Park – Alrode and Alrode – Langlaagte sections of the New Multi-Product Pipeline on 31 May 2011. During the year, the southern portion of the 16-inch pipeline network transported in excess of 990 million litres of fuel, while over 275 million litres were moved in the northern section.

The 24-inch trunk-line from Durban to Jameson Park started operating in January 2012 and carried over 348 million litres of diesel for the year ended March 2012. All construction activity on the NMPP is expected to be completed by December 2013.

As a consequence of the solid operational performance across the company, our key measure of profitability, earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 19,8% to R18,9 billion from last year's R15,8 billion. This was in spite of a 21,8% increase in operating costs to R27,0 billion from R22,2 billion in the previous period.

The main drivers of the higher expenses were a 46,4% increase in material costs, an 18,8% increase in personnel costs as well as a 31,4% jump in energy prices. These increases were in line with our rising activity levels accompanied by higher maintenance costs to support volume growth, costs of improving safety in the workplace – a key priority – as well as higher electricity tariffs and fuel price increases.

Encouragingly, improved operational performance in our operations was accompanied by increased employment – a key priority in Government's economic growth objectives. During the period, we increased our employee numbers by 3 159 people mainly to support Transnet's investment and operational activities. In addition, our activities resulted in the creation of 27 964 new jobs in supplier-related industries across the economy.

One of the key focus areas for the year was safety, especially of our colleagues. In that respect, Transnet has recorded significant improvements. The disabling injury frequency rate (DIFR) – an internationally accepted standard of measuring safety in operations – improved to 0,65 from 0,82 during the previous period. The focus on safety of our assets resulted in a 35,8% reduction in the number (and severity) of loss incidents from 1 652 to 1 060. The total cost of these incidents was reduced by a significant 60,3% to R432 million compared with R1,1 billion in the previous period.

Sadly, we lost seven colleagues in our operations during the year – four of these colleagues were lost as a result of road accidents. We are encouraged by the drop in these numbers, but it is still way below our self-imposed target of zero fatalities. Most of these incidents can be avoided and we have in place several awareness initiatives to ensure adherence to standard operating procedures.

Capital investment for the year increased to a record R22,3 billion (excluding capitalised borrowing costs) with R11,6 billion being invested in capacity expansion and R10,7 billion in maintenance of existing capacity. The year's investment lifts the total amount spent over the last seven years to R115,5 billion. Including the R1,2 billion part payment for the acquisition of the former Durban International Airport site from the Airports Company of South Africa, the total capital investment for the year is R23,5 billion – a 9,3% improvement on last year's R21,5 billion.

Capital investment highlights include, amongst others, the following:

- Invested R4,2 billion in the New Multi-Product Pipeline during the year, taking the total to R15,8 billion since commencement of the project.
- Invested R3,8 billion in expansion projects and acquisition of locomotives to increase capacity to 60mt on the iron ore line and 81mt on the coal line.
- Spent R10,3 billion on the upgrade and maintenance of infrastructure and rolling stock.
- Approved the accelerated acquisition of an additional 43 diesel locomotives.
- Issued a tender to acquire 95 electric locomotives for GFB.
- Invested R70 million in the reengineering of the Durban Container Terminal.
- Bought 33 hauler trailer sets, six additional mobile harbour cranes, and eight reach stackers for Maydon Wharf and Point (Ro-Ro) terminals at a total cost of R438 million.
- Invested R652 million in the Cape Town Container Terminal.
- Spent R257 million on the Ngqura Container Terminal which was officially opened by President Jacob Zuma in March 2012.

Transnet has committed to invest R31,2 billion in the current financial year as part of its Market Demand Strategy – the company's R300,1 billion investment programme over the next seven years. This includes the acquisition of more than 1 200 locomotives for Freight Rail, 1 064 of these locomotives are to be deployed in GFB.

Transnet's capital investment programme is supported by a comprehensive funding strategy and over the year under review, the company raised R11,1 billion from various funding sources including commercial paper, domestic bonds, the French Development Bank and bank loans.

We are confident that the company will be able to raise the R14,1 billion funding requirement for the current year. The gearing ratio was up to 42,1% at year-end compared to 41,1% over the same period last year, but still comfortably within the 50% ceiling which we do not expect to breach. It is even more encouraging that the cash interest cover ratio improved to 4,2 times from last year's 3,9 and significantly above our target of three times, thanks to our operations' strong and sustainable cash generating ability. The latter rose by 27,6% to R20,6 billion, aided by better collections and inflows due to improved working capital management and a 7,5 cents a litre security of supply levy for Pipelines.

Transnet's total recognised broad-based black economic empowerment (B-BBEE) spend as per the Department of Trade and Industry Codes, rose to R25,8 billion or 80% of total measurable procurement spend of R32,2 billion.

We view Transnet's massive operational and capital expenditure spend as our biggest contributor to empowerment. To that end, we insist on compliance to the Department of Public Enterprises-led Competitive Supplier Development Programme (CSDP) which focuses on skills development and job creation among others, as it drives localisation of manufacturing of heavy equipment and machinery.

During the year, Transnet acquired 43 locomotives from the United States' General Electric. The agreement included CSDP obligations of 65% of the total value of the contract – up from 25% in the previous agreement for the purchase of 100 locomotives from the same supplier.

Transnet has since shifted to include port-handling equipment in its CSDP programme. The following key port-handling equipment transactions were concluded during the year: Seven tandem lift cranes; six mobile harbour cranes; 28 straddle carriers; one pneumatic ship un-loader; one ship loader; 33 haulers and eight reach stackers. The total contract value since the inception of the CSDP amounts to R14,1 billion. To date, R3,0 billion or 55,0% of total supplier development obligations have been executed.

Issued on behalf of Brian Molefe, Group Chief Executive.

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NOTES TO EDITORS

DIVISIONAL HIGHLIGHTS

Transnet Freight Rail

Revenue for the year increased by 22,3% to R27,7 billion compared to R22,6 billion in the previous year.

Transnet Rail Engineering

Rail Engineering's internal revenue increased by 13,0% to R9,8 billion compared to R8,7 billion in the previous year.

Transnet National Port Authority

Revenue increased by 2,4% to R8,3 billion compared with R8,1 billion in the 2010/11 financial year on the back of an improvement in volumes.

Transnet Port Terminals

Revenue was up by 11,1% to R7,1 billion against R6,4 billion previously as a result of higher volumes handled and improved operational efficiencies. Container volumes increased by 7,2% to 4 305 066 TEUs from 4 016 564 TEUs; bulk and break-bulk volumes rose 6,6% to 82,9mt against 77,8mt previously; and automotive volumes improved by 8,9% to 672 536 units compared with 617 588 units in the previous year.

Transnet Pipelines

Revenue for the year increased by 85,7% to R2,1 billion compared with R1,1 billion in the previous year. This is mainly due to the 59,0% increase in allowable revenue including the F-factor granted by the National Energy Regulator of South Africa in its 2011/12 Tariff Determination. Volume performance is 7,1% below the prior year. The combination of supply and demand challenges contributed significantly to the underperformance for the year. However, Pipelines met 98% of all orders placed on the pipeline system for delivery.