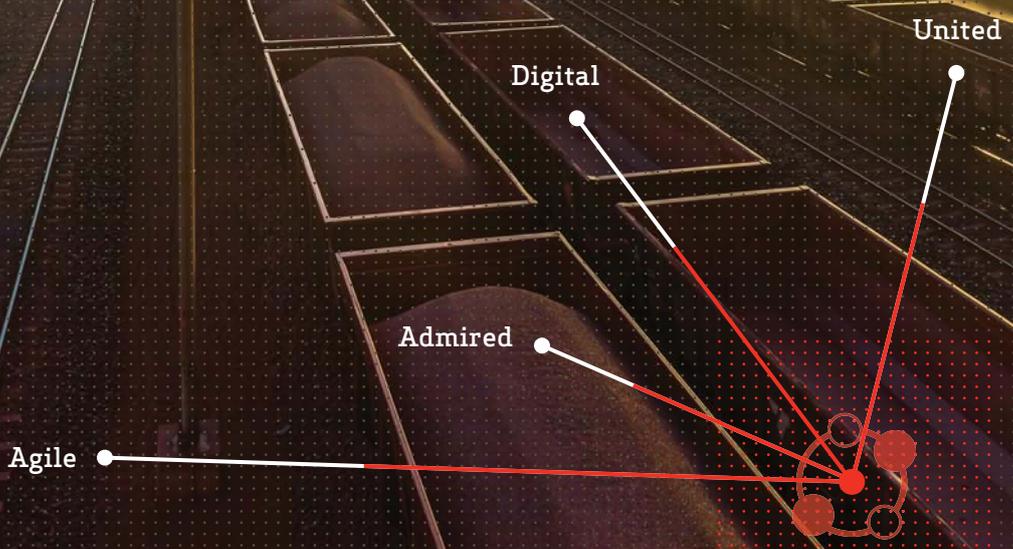
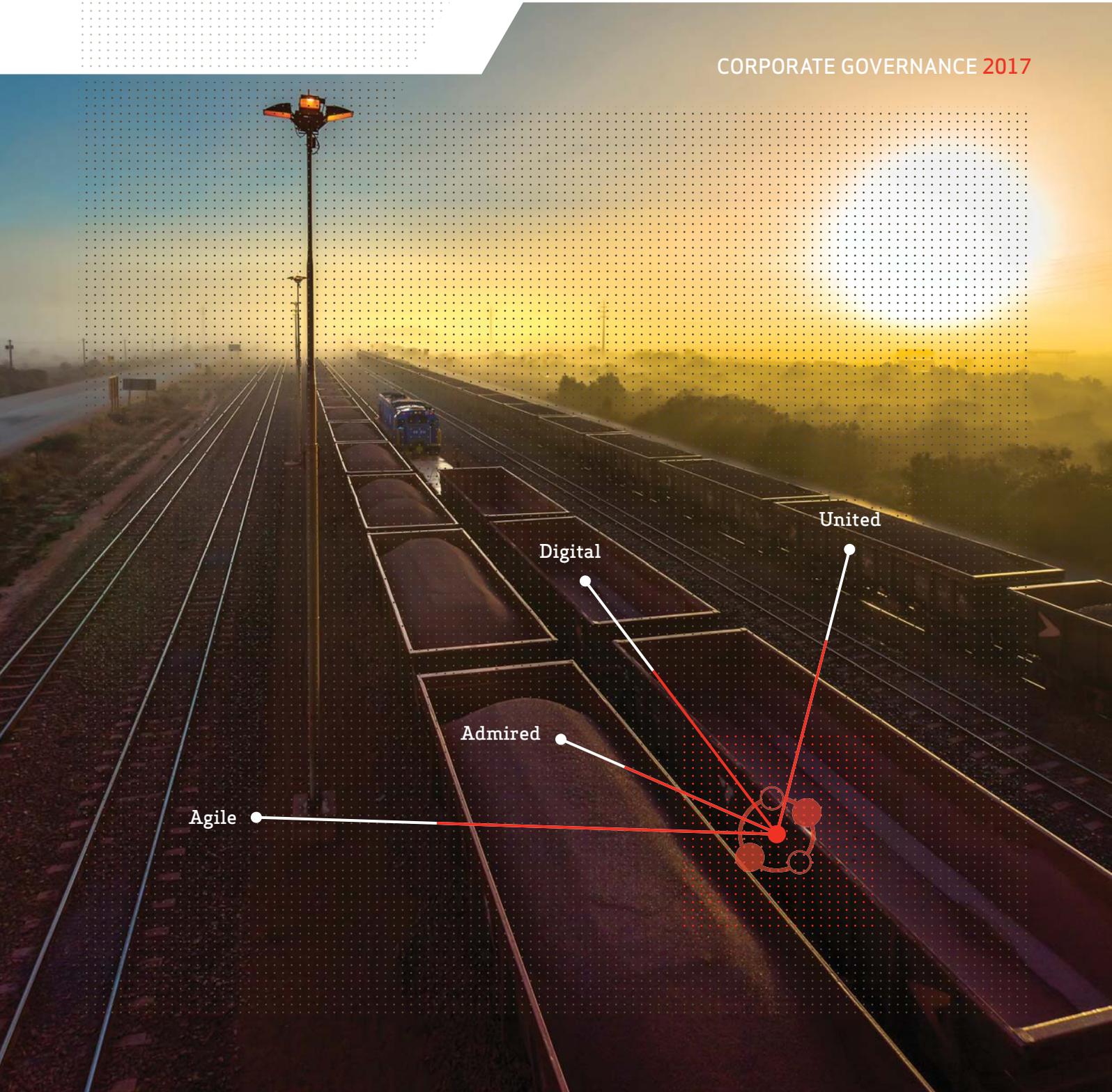


TRANSNET



delivering freight reliably

CORPORATE GOVERNANCE 2017



CORPORATE GOVERNANCE

Purpose and functions of governance within Transnet

Transnet SOC Ltd is a public company, constituted in terms of the Legal Succession Act to the South African Transport Services Act, No 9 of 1989, with the South African Government being its sole Shareholder. The Company's mandate is to reduce the cost of doing business in South Africa, to enable economic growth and ensure the security of supply through the provision of appropriate port, rail, pipeline and related infrastructure in a cost-effective and efficient manner within acceptable productivity and pricing benchmarks.

The Company's Memorandum of Incorporation (MOI), approved by the Minister of Public Enterprises (Shareholder Minister) on 25 June 2013, is aligned with the provisions of the Public Finance Management Act, No 1 of 1999 as amended (PFMA), the Companies Act, No 71 of 2008, as amended (Companies Act) and the National Ports Act, No 12 of 2005, as amended (the National Ports Act). As a State-owned Company (SOC), the PFMA serves as Transnet's primary legislation. Details of the Company's PFMA compliance are included on pages 4 and 23.

The Company views good governance as a vital component in operating a successful and sustainable business, as well as providing assurance to stakeholders that the Company is well managed.

In 2012, the Board of Directors responded to the Shareholder's Statement of Strategic Intent by adopting the Market Demand Strategy (MDS). The MDS is in its fifth year of implementation.

How governance supports strategy

Through its annual work programmes, the Board of Directors monitors the implementation of the MDS, and is kept abreast of the achievements and risks associated with achievement of the strategy. Long-term sustainability is a key focus of the Board of Directors, therefore it continuously monitors economic, social and environmental outcomes. Social outcomes include good governance, accountability and transparency, zero tolerance of fraud and corruption, a representative workforce, safety, employee wellness, Broad-Based Black Economic Empowerment, community benefits and proactive stakeholder engagement, which are closely monitored by the Remuneration, Social and Ethics Committee (REMSEC), as are environmental outcomes relating to energy, climate, and water. Risks relating to non-compliance with environmental legislation are monitored by the Risk Committee. Economic benefits, which include, amongst others, cost efficiencies, reliable services, local supplier industry development, job creation, rural development and financial stability are monitored by the Acquisitions and Disposals Committee.

The role of the Board of Directors

Ethical and effective leadership

The Board of Directors is principally responsible for directing and controlling the business of the Company, and ensuring its long-term economic, social and environmental sustainability. This responsibility includes it being the deemed Board of the Transnet National Ports Authority in terms of the National Ports Act. The Board of Directors offers leadership that results in the achievement of the strategy by directing and approving the Company's strategic and operational

objectives, and by monitoring the Company's performance against the targets outlined in the Shareholder's Compact. It further ensures that adequate budget planning processes are in place to advance the Company's mandate by providing an oversight role over the Company's socio-economic programmes. The Board of Directors is further tasked with ensuring that the Company is able to achieve its statutory and commercial objectives by directing and approving the Company's strategic and operational objectives, and by assessing its performance against targets outlined in the Shareholder's Compact.

The Board of Directors remains accountable for leading the organisation ethically and effectively. The qualities of integrity, competence, responsibility, fairness and transparency are cultivated and exhibited through compliance with legislation, rules and binding codes. The Board of Directors is committed to the early implementation of the King IV Code on Corporate Governance.

Board committees

In line with the requirements of the Companies Act, and to ensure that delegation within the Board's own structures promotes independent judgement and assists with the balance of power and effective discharge of its duties, the Board established the Audit Committee and the Remuneration, Social and Ethics Committee as statutory committees. The Audit Committee's constitution, functioning and reporting adhere strictly to the PFMA requirements. In addition to the statutory committees, the following committees have been constituted to assist in the achievement of the Company's objectives:

- Acquisitions and Disposals Committee;
- Risk Committee; and
- Corporate Governance and Nominations Committee.

The committees' mandates set out the roles and responsibilities of the Board and its committees, and are achieved through execution of the Annual Work Plans, effective meetings, and periodic Board Strategy Workshops and 'Deep Dive' sessions. The Annual Work Plans set out the areas for consideration by the Board and are based on the mandates, including areas of focus for the financial year. The Board Strategy Workshops focus on strategic planning and review of the Corporate Plan, which incorporates capital programmes and budgets. Board 'Deep Dive' sessions are scheduled twice a year where specific strategic projects are extensively reviewed for adequacy and completeness.

The Group Company Secretary co-ordinates site visits to various operational areas to enable the Board of Directors to monitor progress in operations as part of induction and/or Board Development and Training and to interact with various stakeholders relevant to the specific location, who are identified in advance to engage on topical matters and to address whatever concerns they might have.

Governance context

Governance is underpinned by effective leadership, oversight and management accountability based on a sound ethical foundation. The Board of Directors and its committees execute the Company's mandate according to the strategic direction of the Company, taking into account the opportunities and risks facing the Company, and its overarching risk appetite. The Board of Directors

assesses the Company's strategic implementation twice a year through workshops, and ensures that the recommended corrective action is implemented to address identified challenges. Appropriate, timely and accurate information is communicated to relevant stakeholders within the governance structures.

The Board of Directors has a duty to ensure that the Company complies with all legislative requirements, including the provisions of the Companies Act, the PFMA, and the King III Report on Corporate Governance for South Africa (King III Report). These rules, laws, codes and standards cannot be read in isolation, but should be interpreted in the context of the whole compliance universe applicable to the Company. Where required, the Board of Directors needs to determine legislative priorities and, in instances of conflicts in legislation, the PFMA prevails.

As a State-owned Company, the Company enters into an annual Shareholder's Compact with Government, represented by the Shareholder Minister. The Shareholder's Compact mandates the Company to deliver on numerous strategic deliverables, which process is overseen by the Board. Accordingly, the Board approves an annual budget that covers a rolling seven-year period to align with the MDS, which is now supported by Transnet 4.0. The Corporate Plan addresses changing commercial and operational circumstances, and evolving economic conditions. As the sole Shareholder, the Government requires investment returns and other economic, developmental and infrastructural deliverables that are in the interest of the country as a whole. The Company further supports the implementation of Government policies and the delivery of socio-economic imperatives.

Frameworks and governance philosophy

The Board of Directors sets the direction for good corporate governance, including compliance with laws and congruence with the Company's purpose, strategy and conduct. Sound governance principles define and direct the responsibilities of the Board of Directors. The Board of Directors applies governance principles through implemented governance processes, and ensures that sound governance practices are instituted by actively driving a sustained governance culture throughout the Company based on associated norms and standards. The Company operates within the following control objectives:

Leadership, oversight and accountability

Appropriate leadership, oversight and accountability is instituted through the appointment of the Board of Directors, and the determination of the Company's strategic and operational objectives. The following oversight deliverables were achieved during the year under review:

- The Board of Directors continued to act as the custodian and focal point of corporate governance for the Company, and therein, continued to act in the best interests of the Company.
- The Shareholder's Compact was finalised prior to the commencement of the 2016/17 financial year, and was strictly monitored by the Corporate Governance and Nominations Committee during the year.
- The Board of Directors' structure complied with all relevant legislation and regulations:
 - The Board of Directors reviewed and approved the mandates to align with the Delegation of Authority Framework for the period under review.
 - The roles of the Chairperson and Group Chief Executive were adhered to, as recommended in the King III Report, and these

roles remain separate.

- A formal induction and training programme for the Board of Directors was implemented. The training programme incorporated the training and development needs identified during the annual Board Evaluation process.
- The Board of Directors continued to ensure that the Company's ethical environment was effectively managed during the year. The Code of Ethics is reviewed every five years or as and when required for adequacy and appropriateness.
- Appropriate disclosure of the remuneration of directors was made, in line with applicable laws and regulations, in the Integrated Report.
- The Board of Directors was assisted by a competent, suitably qualified and experienced Group Company Secretary during the year. The mandatory duties of the Group Company Secretary are formalised and adequately defined according to the role description provided for in the Companies Act.
- The Board of Directors continued to ensure that appropriate risk and governance frameworks and methodologies are in place to enhance the Company's ability to anticipate and respond to unpredictable risks and identified opportunities.
- The Board of Directors reviewed the IT strategy and associated risks.

Direction

The Board of Directors determines the direction of the Company in accordance with its mandate. During the year, the Board of Directors performed the following key activities in determining the Company's direction:

- Approved the Company's strategy, key business focus areas and key performance indicators in line with the Shareholder's Compact;
- Approved the Corporate Plan for the 2017/18 financial year for onward submission to the Shareholder Minister, and the Minister of Finance by 28 February 2017;
- Identified critical risks that could impact the Company's key business areas, and oversaw management's mitigation strategies to manage the identified risks;
- Approved the Risk Appetite Statement as part of its annual review; and
- Approved the Enterprise Risk Assessment Framework as part of its annual review.

Further key activities performed by the Board of Directors are set out in the Board and Committees section.

Structure

The Board of Directors has identified and implemented appropriate governance structures to assist in fulfilling its responsibilities in line with the Companies Act, the PFMA, and the King III Report recommendations. The Board committees operate within the Board of Directors' approved mandates, with clear authority and delegation levels. The Committees' mandates are aligned with the requirements of the Companies Act, the PFMA and the King III Report. The performance of the governance structures is assessed annually through the Board's evaluation process, and through self-assessment conducted by the respective governance structures at least twice a year.

Effective meetings

The Board of Directors and its committees meet regularly as prescribed by the respective mandates. The meetings are facilitated by the Group Company Secretary, and are planned for the financial year in the approved corporate calendar at least six months in advance. However, special meetings may be convened at the request of the Chairperson, or any independent non-executive director when necessary. All meetings are managed by effective chairpersons, and are well attended. Timely, relevant and accurate information is provided to the Board of Directors and its committees. The minutes of the Board of Directors and committee meetings are circulated for comment in accordance with the mandates, and accordingly approved in subsequent meetings. The digitisation of meeting packs has introduced real-time availability of information in preparation for meetings. The meeting attendance of the Group Leadership Team and the Board is reported to the Shareholder on a quarterly basis.

Monitoring

The Board of Directors monitors the implementation of the Company's strategy, and ensures that corrective action is taken as required. Monitoring of performance includes:

- Monitoring approved KPIs for each strategic objective in relation to the Shareholder's Compact.
- Monitoring actual performance against the Shareholder's Compact.
- Obtaining assurance that internal control systems are effective.
- Performing regular risk identification assessments.
- Ensuring that the Company complies with all legislative requirements, and adheres to non-binding rules, codes and standards.
- Delegating the implementation of an effective compliance framework and process to management.
- Ensuring that there is an effective risk-based internal audit function. Internal Audit provides a written assessment of the Company's system of internal controls and risk management in the Integrated Report.
- Providing oversight on Information Technology (IT) governance.
- Investing in adequate IT infrastructure.
- Evaluating significant investments and expenditure.
- Ensuring that information security and assets are effectively managed.

Communication

Management ensures that relevant and accurate information is communicated within the governance structures and to relevant stakeholders. This is achieved through, among others:

- Defined and approved information flow within the governance structures.
- Approved stakeholder communication guidelines.
- Approved Annual Financial Statements and the Integrated Report.

Governance framework

The Board of Directors ensures compliance with applicable laws and adopted, non-binding rules, codes and standards, thereby supporting the Company in being ethical and a good corporate citizen.

Registration

As a State-owned Company, Transnet has to comply with the specific requirements of the Companies Act, namely sections 88(2)(e) and (f), in relation to filing the required returns and notices and to ensure that the Audited Financial Statements are made available to the Shareholder by the Board of Directors.

Transparency, accountability and integrity

The Companies Act and the PFMA have specific requirements pertaining to the Company's records management practices, such as the requirement for the Annual Financial Statements to satisfy the International Financial Reporting Standards (IFRS), and for the audited financial statements to be prepared within five months following the financial year end. In real terms, the Annual Financial Statements are finalised within the first quarter of the new financial year, and the Board ensures that the Shareholder Minister has access to the Annual Financial Statements. Further, in terms of section 55 of the PFMA, the Company submitted its draft financial statements to the National Treasury by 31 May 2017.

Governance of a State-Owned Company

The Shareholder's rights are represented according to the stipulations of the Companies Act and the Board ensures that associated procedures are in place. Shareholder meetings are held in accordance with the Companies Act. The Shareholder's Statement of Strategic Intent dated 20 May 2016 provides guidance and a mandate for the Company.

Appointment of directors

The Board adheres to the prescribed requirements for the composition, appointment, election, and remuneration of directors. The Board of Directors holds meetings in terms of the stipulations of the Companies Act, and adheres to the prescribed standards of ethical and professional conduct. The Board of Directors further considers the extent and adequacy of indemnification and insurance provided for directors and prescribed officers.

Specific governance requirements

PFMA

The PFMA outlines the fiduciary duties and responsibilities of the Board of Directors, and requires that it serves as the Company's accounting authority. The Company is identified as a major business entity and is listed under Schedule 2 of the PFMA. The Board of Directors ensures that the Company adheres to the requirements for the assessment of risk and annual budget submissions, and the annual conclusion of a Shareholder's Compact. The Board also ensures that the Company adheres to all procedures for quarterly reporting to the Executive Authority through submission of quarterly PFMA reports to the Shareholder Minister.

Companies Act

The Company reports on the extent of its compliance with the Companies Act in the Compliance Report, as set out on page 23.

Prescribed officers

The Company has defined its prescribed officers as the Group Leadership Team members. These individuals (see Group Leadership Team management for brief profiles) are deemed to exercise or

regularly participate in the executive control of the Company as contemplated in the Companies Act and its Regulations.

Social and Ethics Committee

The Company has a Social and Ethics Committee (the Remuneration, Social and Ethics Committee) which is a committee of the Board in compliance with the Companies Act. The committee's activities are in line with the Regulations outlined in section 72(4) of the Companies Act. An annual report is submitted to the Companies and Intellectual Property Commission (CIPC) to account for the activities undertaken by the committee for the period under review.

Audit Committee

During the year, the Company continued to comply with the Companies Act's requirements for the functioning and reporting of the Audit Committee. Furthermore, the PFMA requirements relating to the composition and election of the Audit Committee are strictly observed.

King III

The Board is committed to the application of King III governance principles in conjunction with regulatory provisions to achieve the overarching principles of sound governance, namely responsibility, accountability, fairness and transparency. It does so substantively and not simply in form, so that its decisions and actions impact positively on the Company and all its stakeholders, including its employees, the communities where it operates, suppliers, customers and the public at large. The Governance Assessment Instrument is utilised to monitor the level of application of the King III principles.

King IV

King IV was launched on 1 November 2016 and early implementation is envisaged. The Board is committed to this process and will assess and report on implementation for the 2017/18 financial year. The Company is, however, already complying with the majority of the King IV principles.

Governance instruments

The Company has a number of governance instruments in place, namely:

Memorandum of Incorporation

The Company has a Memorandum of Incorporation (Mol) in place which was lodged with the CIPC.

Delegation of Authority Framework

The Company's Delegation of Authority Framework is reviewed annually for adequacy and completeness. The existing Delegation of Authority Framework was approved by the Board of Directors on 31 August 2016, and came into effect on 1 September 2016. All the Operating Divisions and Specialist Units cascaded the latest edition of the Delegation of Authority Framework timeously.

The respective governance structures will commence with the review of the proposed Delegation of Authority Framework in May 2017.

Matters reserved for Board decision

The following matters shall be reserved for decision by the Board,

subject to the Memorandum of Incorporation of the Company, the PFMA and such other applicable legislation, on the basis of any recommendation as may be made from time to time by the Group Chief Executive:

Financial

- (i) Approval of the strategy, Corporate Plan, annual budgets, the borrowing strategy and any subsequent material changes in strategic direction
- (ii) Approval of annual financial statements and interim reports, Going Concern Assertion, as well as the declaration of dividends
- (iii) Approval of any significant changes in accounting policies or practices
- (iv) Recommendation to the Shareholder Minister of any increase, reduction or alteration to the share capital of the Company and the allotment, issue or other disposal of the Company's shares (except for shares allotted under the group share incentive scheme, if any)
- (v) Recommendation for the Shareholder Minister's approval of the establishment or participation in the establishment of a company
- (vi) Recommendation for the Shareholder Minister's approval of any participation in a significant partnership, trust, unincorporated joint venture or similar arrangement
- (vii) Recommendation for the Shareholder Minister's approval of the acquisition or disposal of a significant shareholding in a company or a significant asset
- (viii) Recommendation for the Shareholder Minister's approval of the commencement or cessation of a significant business activity
- (ix) Recommendation for the Shareholder Minister's approval of a significant change in the nature or extent of the Company's interest in a significant partnership, trust, unincorporated joint venture or similar arrangement
- (x) Recommendation for the Shareholder Minister's approval to commit the Company or its subsidiaries to borrowings which confer rights to a lender to convert debt into shares of any kind
- (xi) Recommendation for the Shareholder Minister's approval to dispose of moveable assets (excluding scrap) of a value exceeding limits prescribed by the Shareholder's Compact or the SMF
- (xii) Recommendation for the Shareholder Minister's approval to enter into any transaction which exceeds or falls outside the limits prescribed by the Shareholder's Compact or the SMF
- (xiii) Recommendation for the Shareholder Minister's approval to declare dividends, or make any distributions, subject to and in accordance with the provisions of the Mol.

Statutory and administrative

- (i) Recommend amendments to the Company's Mol to the Shareholder
- (ii) Enter into a Shareholder's Compact
- (iii) Ensure that the proposed Shareholder's Compact for the following financial year is submitted to the Shareholder by 30 September of each year
- (iv) Ensure that the Company's annual budget and the Corporate Plan are presented and/or submitted to the Shareholder Minister prior to 28 February each year
- (v) Ensure that the Company discloses to the Shareholder Minister all changes to terms and conditions of trade which may result in material impact on the Company
- (vi) Recommend to the Shareholder Minister the appointment, removal or replacement of the Company's external auditor

- (vii) Make recommendations to the Shareholder Minister on the appointment of the Group Chief Executive
- (viii) Make recommendations to the Shareholder Minister on the appointment of the Group Chief Financial Officer
- (ix) Appoint responsible persons as may be required in terms of any statute in South Africa or elsewhere in respect of the Company
- (x) Approve the rules and amendments to pension and provident funds having a material effect on the actuarial liabilities of those funds
- (xi) Grant general signing authorities pursuant to the Mol of the Company
- (xii) Appoint and remove the Company Secretary
- (xiii) Procure detailed management accounts for the Company and its subsidiaries, inclusive of progress made against the Corporate Plan. Management accounts shall be prepared on a quarterly basis and submitted to the Shareholder Minister within the month after the end of the quarter in respect of which such accounts are being prepared. Such management accounts shall be circulated on a quarterly basis to each director of the Board and the Shareholder Minister
- (xiv) Recommend the Supplier Development Plan for the Shareholder Minister's approval
- (xv) Overall responsibility for the governance and functioning of ICT systems

Regulatory

The Company shall not perform the following duties, without the prior written approval of the Shareholder Minister:

- (i) Approve terms and conditions of the Company's rights issues, public offers, capital issues or issues of convertible securities including shares or convertible securities issued for acquisitions
- (ii) Approve authority to issue circulars
- (iii) Approve authority to issue prospectuses, or to place documents, listing particulars, rights offers or takeover or merger documents
- (iv) Recommend the approval of any ordinary or special resolutions in respect of the Company
- (v) Any decision to list the Company's shares on any stock exchange or to terminate any such listing

The Shareholder Minister may, after consultation with the Board, issue directives to the Board regarding the mandate and objectives of the Company if it is reasonably necessary to do so.

Human resources

- (i) Appointments to and removals from the boards of subsidiary or associate entities of members of the Board of Directors in terms of the policy to be agreed from time to time
- (ii) Appointment to and changes in the composition of Board committees, other than the Audit Committee, from time to time
- (iii) Implementation of any changes in directors' fees and benefits as recommended by the Remuneration, Social and Ethics Committee, and approved by the Shareholder Minister
- (iv) Approval of any share or other incentive scheme, the rules applicable to any such scheme and any amendment to such rules as recommended by the Remuneration, Social and Ethics committee for submission to the Shareholder Minister, if applicable
- (v) Recommend nominees for appointment to the Audit Committee for approval by the Shareholder Minister

- (vi) Recommend members to the Remuneration, Social and Ethics Committee for confirmation by the Shareholder Minister
- (vii) Approve the Company's organogram resulting from restructuring

The Shareholder Minister may, after consultation with the Board of Directors, issue directives to the Board of Directors regarding the mandate and objectives of the Company, if it is reasonably necessary to do so.

Board and its committees' mandates

The Board of Directors and its committees' mandates are aligned with the Mol, the provisions of the Companies Act and the Delegation of Authority Framework. The current mandates were approved by the Board on 31 August 2016. The governance structures will commence with the annual review of the mandates in November 2017.

Similarly, the mandates of the Group Leadership Team and its sub-committees (Teams) will be reviewed to align with the Delegation of Authority Framework and the mandates of the Board of Directors and its committees.

Policies and procedures

The approval of policies has been delegated to the Human Resources Team where members of the Group Leadership Team are represented. The Company Policy Framework sets out the process for approval of policies. In line with the Delegation of Authority Framework, certain policies are reserved for approval by Board committees and the Board of Directors. Policies are reviewed every five years or as and when required. Compliance to approved policies is monitored by Internal Audit and reported to the Board.

Compliance

The Board governs and directs compliance with applicable laws and adopted, non-binding rules, codes and standards. The responsibility for implementing a Compliance function is delegated to management. To this end, the Company has an established Compliance function. As is the case with all the Company policies, the Compliance Policy is reviewed every five years in accordance with the Company Policy Framework, or updated as and when required. The Compliance Policy forms the foundation of the Compliance Framework.

The Board considers non-compliance with legislative requirements a key risk, as it not only exposes the Company to fines and civil claims, but can also result in loss of operational authorisations and reputational harm. The PFMA requires the Board of Directors to ensure that the Company and its employees comply with the provisions applicable to Schedule 2 Companies, as well as any other legislation applicable to the Company. The Compliance function therefore identifies, assesses and monitors critical controls associated with regulatory requirements, statutory licences, codes and standards applicable to the Company. Compliance issues are reviewed at the Corporate Centre and within the Operating Divisions and Specialist Units.

The Board oversees compliance management and has delegated the review and approval of the Company's Compliance Plan to the Risk Committee. The Compliance Plan details procedures for identifying regulatory risks and monitoring compliance with applicable regulatory requirements. The Compliance Plan is aligned to the MDS to mitigate compliance risk exposures emerging from the execution of the strategy.

Management of potential conflicts of interests

The Companies Act codified the fiduciary duties of directors, and prohibits the use of position, privileges or confidential information for personal gain or to improperly benefit another person.

Where a director or a prescribed officer has any direct or indirect personal or private business interest in a particular matter, that director or prescribed officer must be recused from the proceedings when the matter is considered, unless the Board of Directors, Board committee or Group Leadership Team, as the case may be, decides that the member's interest in the matter is trivial or irrelevant.

For all formal meetings of the Board of Directors and the Group Leadership Team, registers for declaration of interests and related-party disclosures are signed by the members and attendees. These registers are maintained by the Group Company Secretary. In addition, non-executive directors, group executives, extended executive committee members, line management (Levels C – F) and any employee who has an interest, either directly or indirectly, are required to file an annual declaration of interest form with the Group Company Secretary by 30 April or within 30 days from date of appointment. Any changes in interests during the course of the year necessitate the filing of revised declaration of interest forms, which are formally noted by the relevant governance structures.

The Board of Directors and the Group Leadership Team note their respective Annual Declarations of Interests Registers. For adequacy and proper monitoring, the Corporate Governance and Nominations Committee reviews the filed declaration of interest forms of the Board of Directors and Group Leadership Team on an annual basis, and as and when necessary.

The Company implemented an electronic Declaration of Interests filing system. In addition, the Company requires all employees to sign confidentiality and declaration of interest forms when adjudicating on procurement contracts and this practice is strictly enforced.

Ethics

The Board of Directors sets the direction for the management of ethics in the Company. In this regard, the Company's Code of Ethics (the Code) was implemented. The Code promotes a culture of entrenched values, principles, standards and norms that guide the behaviour of the Company's employees. The Code aims to instil a culture of honesty, respect, integrity and overall ethical behaviour in terms of employees' engagements with internal and external stakeholders. All employment contracts make reference to the Code and thereby commit employees to the highest standards of ethical behaviour. The Code also binds non-executive directors to the highest standards of ethical behaviour. The Company's service providers, suppliers and trade partners are also subject to the

Code. Aspects of the Code are included in fraud and corruption awareness training, and are accessible to all employees on the Company's intranet. The Code formed the basis of the recently approved Anti-Corruption and Anti-Bribery Policy. The Code is reviewed every five years or as and when required.

In addition to the Code, the Company concludes Integrity Pacts with all bidders and suppliers. Integrity Pacts have replaced Transnet's Supplier Code of Conduct. Each party agrees to avoid all forms of dishonesty, fraud and corruption, including practices that are anti-competitive in nature, negotiations made in bad faith and underpricing. As part of ethics management, the Company introduced an Electronic Gifts Registry System, replacing the manual reporting system. Reports are drawn from the Electronic Gifts Register and presented to the Remuneration, Social and Ethics Committee for information purposes twice a year.

The Company's Tip-Offs Anonymous Hotline (the Hotline) enables employees, customers and trade partners to report concerns about unethical or unlawful behaviour. The Hotline is independently managed by Deloitte and investigations are conducted by Transnet Internal Audit and Operating Divisions/Specialist Units, dependent on the nature of the matter. All cases reported to management or to the Hotline are investigated through an established forensics investigation process.

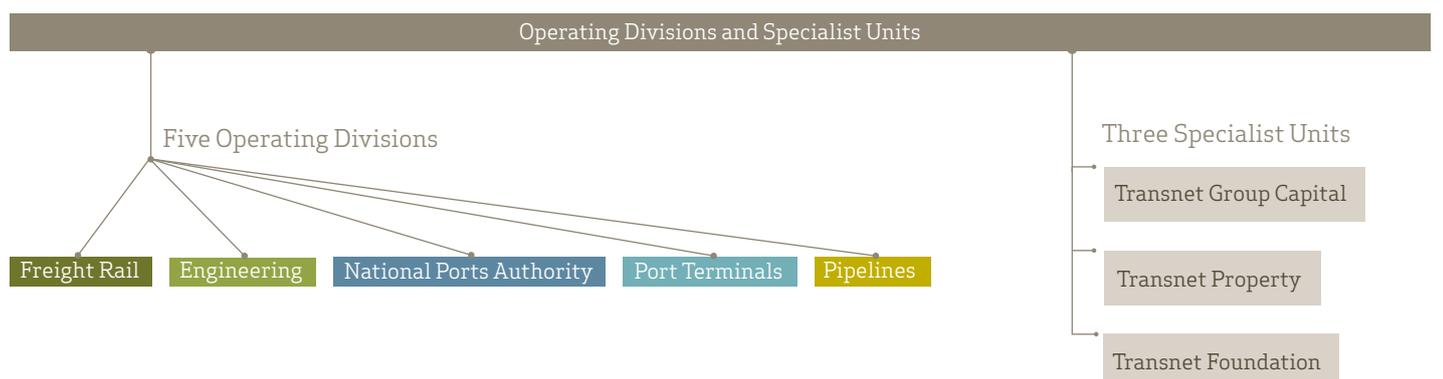
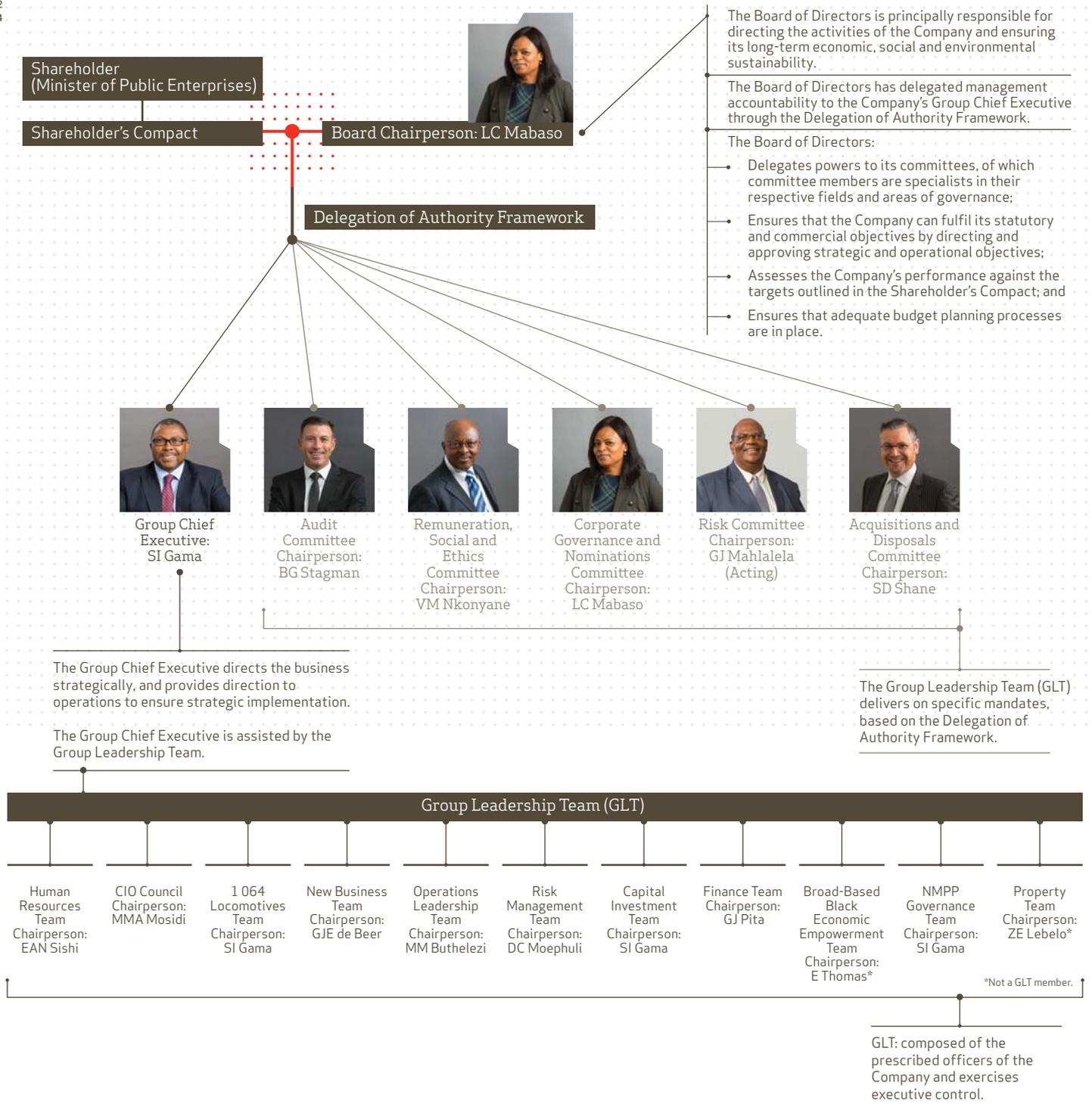
Structure and composition of governance committees

The Board of Directors comprises the appropriate balance of knowledge, skills, experience, diversity and independence in order to discharge its governance role and responsibilities objectively and effectively. The Company's governance structure is derived from its mandate. The Board of Directors is tasked with ensuring that the Company is sustainable and capable of delivering on its objectives for the socio-economic growth of the country.

The Board of Directors ensures that its arrangements for delegation within its own structures promotes independent judgement, and assists with the balance of power and effective discharge of its duties. The Board of Directors delegates powers to its committees, of which committee members are specialists in their respective fields and areas of governance. The Board of Directors also delegates powers to the Group Chief Executive to direct the business strategically and to provide adequate direction to the Company's operations to ensure that the strategy is successfully implemented. The Group Chief Executive is assisted by the Group Leadership Team to deliver on specific mandates, based on the Delegation of Authority Framework. The Company further carries out its mandate through Operating Divisions and Specialist Units, which receive delegations from the respective Group Leadership Team member.

Governance structure

P.1
P.2
P.4



Integrated Report elements:

The Board of Directors and the Group Leadership Team have respectively established committees and teams to ensure effective management and monitoring of the business, and to respond to the elements of the Company's mandate and strategy. The link between management and the various governance structures is indicated below:

Integrated Reporting element	Required activities	Group Leadership Team governance structures	Committee of the Board
Stakeholder engagement and relationships	Effective stakeholder engagement and responsiveness Complaints Desk	<ul style="list-style-type: none"> Human Resources Team Broad-Based Black Economic Empowerment Team 	<ul style="list-style-type: none"> Remuneration, Social and Ethics Committee
Risks and opportunities	Effective identification and assessment of material issues	<ul style="list-style-type: none"> Risk Management Team CIO Council New Business Team 	<ul style="list-style-type: none"> Risk Committee Audit Committee
Strategy and resource allocation	Appropriate strategic response including: <ul style="list-style-type: none"> Processes and controls Initiatives and activities Resource allocation 	<ul style="list-style-type: none"> Capital Investment Team Human Resources Team Operations Leadership Team 	<ul style="list-style-type: none"> Audit Committee Acquisitions and Disposals Committee Remuneration, Social and Ethics Committee
Performance and outlook	Appropriate performance measurement and management including: <ul style="list-style-type: none"> Appropriate lead and lag indicators. Setting of targets, accountability and incentivisation 	<ul style="list-style-type: none"> Risk Management Team Finance Team Human Resources Team Capital Investment Team Operations Leadership Team 	<ul style="list-style-type: none"> Corporate Governance and Nominations Committee Remuneration, Social and Ethics Committee Acquisitions and Disposals Committee
Remuneration	Appropriate remuneration structure to align performance against strategy in short, medium and long-term incentives	<ul style="list-style-type: none"> Human Resources Team 	<ul style="list-style-type: none"> Remuneration, Social and Ethics Committee
Governance	Governance and assurance processes to oversee execution of strategy and structures in accordance with policy and regulation	<ul style="list-style-type: none"> Risk Management Team Finance Team 	<ul style="list-style-type: none"> Corporate Governance and Nominations Committee Risk Committee Audit Committee

Board composition

The Company's current Memorandum of Incorporation provides that there shall not be less than 10 and not more than 14 directors, of whom not less than eight shall be non-executive directors and two executive directors. As at 31 March 2017, the Board of Directors comprise 10 directors, of whom the majority, eight in total, are independent non-executives, including the Chairperson. The Board currently has four vacancies, due to the passing of Mr Peter Williams on 15 March 2017. The Chairperson continues to engage the Shareholder Minister on the matter.

The Board of Directors comprises the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively. The non-executive directors have diverse skills, experience and backgrounds. They are principally free from any business relationship that could hamper their objectivity or

judgement in terms of the business and activities of the Company. All the non-executive directors have unrestricted access to the Company's information, documents, records and property in the interest of fulfilling their fiduciary duties and responsibilities. The non-executive directors contribute a variety of skills, business acumen, independent judgement and experience on various issues, including strategy, corporate governance, performance and general leadership, while the executive directors provide an operational understanding of the Company and management skills.

The non-executive directors have direct, unfettered access to the Company's employees, external auditors, professional advisors and internal auditors. The non-executive directors continue to act in the best interest of the Company at all times, and avoid potential political connections or exposures through the use of a range of governance instruments in the execution of their fiduciary duties.

Chairperson and Group Chief Executive

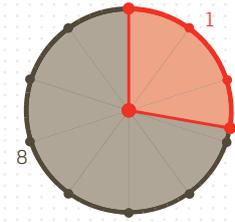
The Board of Directors ensures that the appointment of and delegation to management contribute to role clarity and effective exercise of authority and responsibility. The roles of the Chairperson and the Group Chief Executive are separate, with their individual responsibilities clearly defined. The Chairperson is an independent non-executive director and is responsible for leading the Board of Directors and ensuring its effectiveness. The Group Chief Executive is responsible for the execution of the Company's strategy, and the day-to-day business of the Company. He is supported by the Group Leadership Team, of which he is the Chairperson. The Board is satisfied that the Delegation of Authority Framework clearly records the nature and extent of the authorities delegated by the Board of Directors to the Group Chief Executive and specified governance structures, and/or in turn by the Group Chief Executive to the members of the Group Leadership Team, in order to implement certain actions by or on behalf of the Company. It includes, to the extent necessary and/or incidental thereto, the authority to discharge all of the duties, obligations and powers imposed upon the deemed Authority under the National Ports Act.

Independent non-executive directors

The Board of Directors comprises an appropriate balance of knowledge, skills, experience, diversity and independence, enabling the objective and effective discharge of its duties. Directors' independence is determined according to the definition in the King III Code, which includes the number of years a director has served on the Board of Directors. A review, as provided for in the King III Code, is conducted to ascertain the independence of long-serving directors. None of the current independent non-executive directors has served in that capacity for more than nine years.

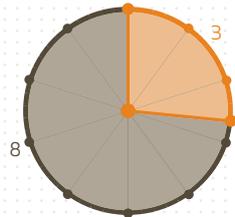
Length of tenure of independent non-executive directors as at 31 March 2017

28% 3 - 6 years
72% 0 - 3 years



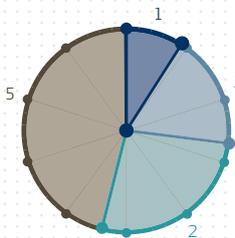
Directors' gender representation as at 31 March 2017 (incl. executive directors)

27% Male
73% Female



Directors' representation by race as at 31 March 2017 (incl. executive directors)

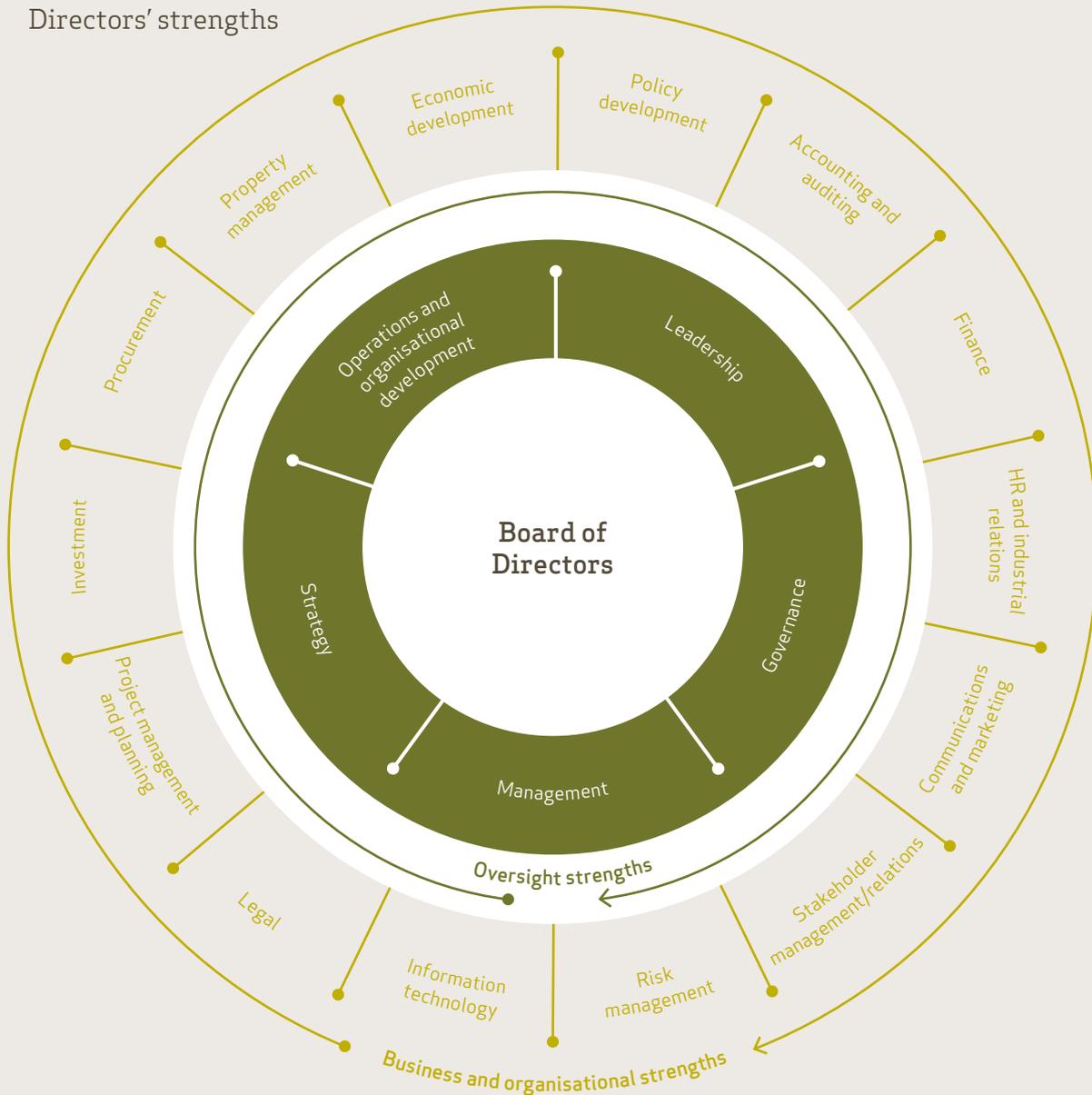
5 Black
2 Coloured
1 Indian
3 White



Directors' balance of skills and expertise

The graphic below reflects the skills and expertise which are balanced to ensure effective discussions in fulfilling the Board of Directors' mandate. Details on the individual directors' skills and expertise are set out on page 117 of the Integrated Report.

Directors' strengths



Independent performance evaluation of the Board, its committees and directors

The Board of Directors ensures the evaluation of its own performance and that of its committees, Chairperson and individual directors, and provides support for continued improvement in its performance and effectiveness. An annual independent evaluation is conducted to assess the effectiveness of the Board of Directors, its committees, and the individual contributions of the directors. The process is managed by an independent service provider.

Previous evaluation processes identified, amongst others, gaps in the oversight on implementation and management of compliance and implementation of ethical structures at all levels of the Company. This is being addressed through a number of initiatives presently underway in various Operating Divisions and Specialist Units.

The evaluation further identified a shortage of engineering and project management skills as well as lack of international exposure. Addressing skills shortages at Board level is at the discretion of the Shareholder Minister during the appointment of non-executive directors. The Shareholder Minister has undertaken to enhance the accounting skills set of the Board in the immediate future.

2016/17FY Board evaluation

The 2016/17FY Board evaluation was conducted by an external service provider, appointed in October 2015 through a transparent procurement process. The following areas, among others, were identified as areas for improvement from the 2015/16FY evaluation:

- Consideration should be given to expediting the filling of the three vacancies in the Board.
- Acquisition of engineering skills, with construction expertise and industry-specific experience, namely, transport and logistics and accounting and/or economic skills, for example a Chartered Accountant (SA) and/or an economist or entrepreneur. The additional expertise will add further value to the deliberations of the Board.
- The non-alignment of the remuneration of non-executive directors and related Company activities.

Action plans are being developed to address the gaps identified, whilst the Shareholder Minister will be engaged on the filling of the vacancies, taking cognisance of the skills requirements for the Company's activities. The Board Evaluation Report is tabled for noting at the Annual General Meeting.

Directors' induction and continuous development

As part of enhancing the directors' skills, the Group Company Secretary develops an Annual Board Training Plan. The Board Training Plan identifies training requirements for the Board, and its committees. Individual directors are encouraged to identify any related training events they may wish to attend through recognised training institutes. In the year under review, the following training activities were conducted by external training service providers:

Board of Directors development training schedule for the period 1 April 2016 to 31 March 2017: Board members

Governance structure	Training provided	Service provider	Date	Attendees
Remuneration, Social and Ethics Committee	Value Creation and Executive Pay	Institute of Directors of Southern Africa	17 May 2016	Mr VM Nkonyane Ms Y Forbes Mr ZA Nagdee
	Social and Ethics Responsibilities	iThemba Governance and Statutory Solutions	6 October 2016	Mr VM Nkonyane Ms Y Forbes Mr ZA Nagdee Mr SD Shane
Risk Committee	Effective Enterprise Risk Management: Role of the Board of Directors	Institute of Directors of Southern Africa	4 August 2016	Mr PG Williams Mr GJ Mahlalela Mr BG Stagman Mr GJ Pita
	Role of the Risk Committee vis-à-vis other committees of the Board	Institute of Directors of Southern Africa	2 February 2017	Mr GJ Mahlalela Ms Y Forbes Mr GJ Pita Mr B Stagman Mr SI Gama Ms PEB Mathekgga
Audit Committee	Fraud related matters: Global Trends, National Trends, Fraud Risk Management, Ethics, the role of the Audit Committee and what to expect from TIA	Transnet Internal Audit	23 August 2016	Mr BG Stagman Mr GJ Mahlalela Mr PG Williams Ms PEB Mathekgga Mr SI Gama Mr GJ Pita Ms Y Forbes

Board of Directors development training schedule for the period 1 April 2016 to 31 March 2017: Board members

Governance structure	Training provided	Service provider	Date	Attendees
Board: Strategy Workshop	National Railway Safety Regulator Act, 2000	Chief Compliance Regulatory Office	29 August 2016	Ms LC Mabaso Ms Y Forbes Mr SI Gama Mr GJ Mahlalela Ms PEB Mathekga Mr ZA Nagdee Mr VM Nkonyane Mr GJ Pita Mr SD Shane Mr BG Stagman Mr PG Williams
	Overview of the Procurement Procedures Manual	iSCM		
Corporate Governance and Nominations Committee	Corporate Governance in the Public Sector	iThemba Governance and Statutory Solutions	10 October 2016	Ms LC Mabaso Ms PEB Mathekga Mr VM Nkonyane Ms Y Forbes

Individual director development training

Attendance	Training	Date	Service provider
Ms PEB Mathekga	Introduction to Audit Committee Effectiveness	6 July 2016	Institute of Directors of Southern Africa
Mr VM Nkonyane	Mastering Chairmanship	21 July 2016	Institute of Directors of Southern Africa
Mr VM Nkonyane	Being a Director Parts 1 - 4	25 - 28 July 2016	Institute of Directors of Southern Africa
Ms PEB Mathekga	Being a Director Parts 1 - 4	25 - 28 July 2016	Institute of Directors of Southern Africa
Mr PG Williams	Financial insights for Non-Financial Directors	2 August 2016	Institute of Directors of Southern Africa
Ms PEB Mathekga	IT Governance	24 August 2016	Institute of Directors of Southern Africa
Mr VM Nkonyane	Social and Ethics Committees	7 September 2016	Institute of Directors of Southern Africa

Group Company Secretary function

The Board of Directors adheres to the requirement of the Companies Act and has appointed a competent and qualified Group Company Secretary. The Group Company Secretary is responsible for developing systems and processes to enable the Board of Directors to discharge its functions efficiently and effectively. The Group Company Secretary prepares Annual Work Plans for the Board of Directors as informed by the strategic direction of the Company. These Annual Work Plans are approved by the respective governance structures for implementation and are continually tracked to assess progress. The Group Company Secretary advises the Board of Directors on corporate governance issues, the requirements of the Companies Act and other relevant legislation. The Board of Directors has unfettered access to the services and advice of the Group Company Secretary.

In addition to various statutory functions, the Group Company Secretary provides individual non-executive directors and the Board of Directors with induction, guidance on duties, responsibilities and powers, and the impact of regulatory developments. In consultation with the Chairperson, the Group Company Secretary ensures that the contents of the agenda are relevant to the Board of Directors' decision-making, and communicates the Board of Directors' resolutions throughout the Company in a timely and appropriate manner.

A number of instruments have been introduced to ensure that the Board of Directors functions efficiently in executing its mandate, as well as the set targets for MDS activities. Some of the instruments include a Resolutions Register that sets out the decisions that have been taken by each governance structure, and is communicated to line functions for execution, and a Transfer Register that details cross-functional areas as referred by one governance structure to another for execution. The Group Company Secretary acts as the primary point of contact between the Board of Directors and the Company.

The Group Company Secretary is qualified to perform duties in accordance with applicable legislation, and is considered by the Board of Directors to be fit and proper for the position. The Group Company Secretary does not fulfil an executive management function and is not a director. Therefore, the Board of Directors is satisfied that the Group Company Secretary maintains an arm's length relationship with the Executive Management Team, the Board of Directors and the individual non-executive directors.

Ms Ayanda Ceba resigned from the role of Group Company Secretary with effect from 31 August 2016. The Board of Directors, at its meeting held on 31 August 2016, appointed Ms Nokuthula Khumalo, formerly Deputy Group Company Secretary, as the Group Company Secretary with effect from 1 September 2016.

Benchmarking

The Group Company Secretary has shared the knowledge gained in the corporate governance sphere with other SOCs, with the objective of uniformity, standardisation and alignment of best practice across the SOCs. The exercise is of mutual benefit to all parties.

Purpose of the Board and Board committees and report back

The purpose of the Board of Directors is to ensure that the Company is sustainable and capable of fulfilling its statutory, strategic and operational objectives. To fulfil this purpose, the Board of Directors must direct and control the business of the Company. Directors owe a fiduciary duty to the Company under both common law and statute, more particularly the PFMA and the Companies Act, and are accountable to the Shareholder, the Government of the Republic of South Africa, represented by the Minister of Public Enterprises (the Shareholder Minister).

Directors are also responsible, within the structures of corporate law and legislation, to the other stakeholders of the Company. Directors are required to exercise due care, skill and utmost good faith in the performance of their duties.

As part of its Annual Work Plans, the Board of Directors holds Strategy Workshops and ‘Deep Dive’ sessions where matters of a strategic nature are addressed in detail to ensure thorough interrogation.

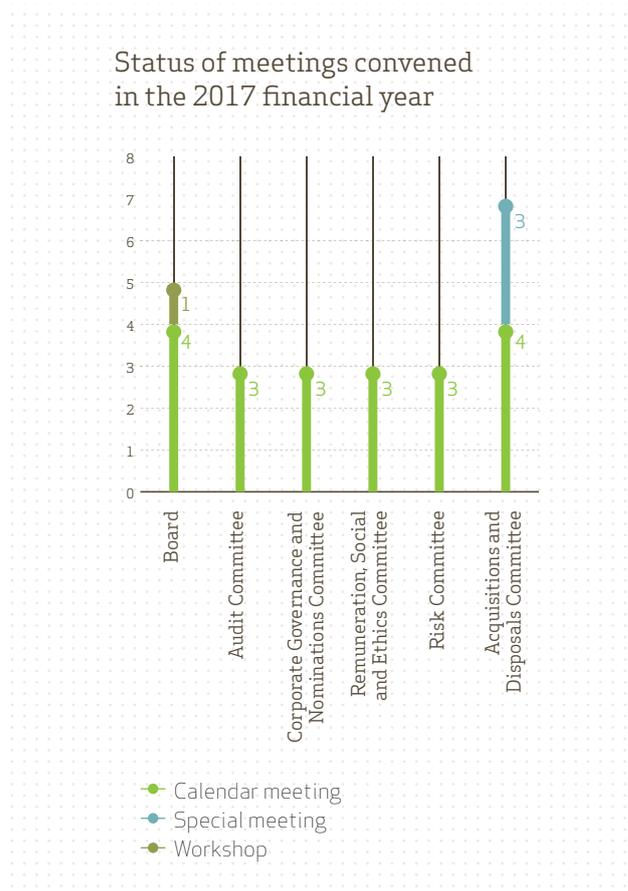
Primary roles and responsibilities of the Board of Directors

The Board of Directors serves as the focal point and custodian of corporate governance in the Company. The protocol for exercise of its leadership role is outlined in the approved Board and committees’ mandates. The mandates clearly define the procedures for the Board and committees to obtain professional advice and the procedures for submission of documentation from management in order for the Board to make informed decisions.

The graphs and tables below disclose the number of meetings held and directors’ attendance during the year. The Board is satisfied that it has discharged its responsibilities in relation to its mandate.

Board and Committee meetings

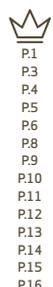
The graph below indicates the number of scheduled and ad hoc meetings held during the period under review:



Schedule of directors’ attendance at Board of Directors’ and committee meetings

Board/committee	Board	Audit Committee	Corporate Governance and Nominations Committee	Remuneration, Social and Ethics Committee	Risk Committee	Acquisitions and Disposals Committee
Number of meetings held	7	4	3	5	4	7
Ms LC Mabaso (Chairperson)	6	-	3	-	-	5
Ms Y Forbes ¹	7	-	3	4 ¹	1 ¹	-
Mr SI Gama ²	7	-	-	-	-	-
Mr GJ Mahlalela	6	4	-	-	4	-
Ms PEB Mathekga	7	3	3	-	-	-
Mr ZA Nagdee	7	-	-	5	-	7
Mr VM Nkonyane	6	-	3	5	-	-
Mr GJ Pita	7	-	-	-	-	-
Mr SD Shane	7	-	-	3	-	7
Mr BG Stagman	7	4	-	-	3	-
Mr PG Williams ³	5	3	-	-	3	-

¹ Member of REMSEC until 21 January 2017, and member of Risk Committee effective 22 January 2017.
² Mr Gama was appointed as a member of the non-statutory Board committees, namely Acquisitions and Disposals, Corporate Governance and Nominations and Risk committees, effective from 31 August 2016.
³ Mr PG Williams passed away on 15 March 2017.



Board	Summary of Board of Directors' mandate
Chairperson Ms LC Mabaso	<p>The Board of Directors' primary mandate is to ensure the sustainable and successful continuation of business activities by providing strategic direction to the Company. Non-executive directors are appointed to the Board of Directors by the Shareholder Minister on a three-year term. The appointments are confirmed annually at the Annual General Meeting. The Chairperson of the Board of Directors engages continuously with the Shareholder Minister, who is the final arbiter on the Board of Directors' succession plans and approval of transaction applications in accordance with the provisions of section 54 of the PFMA. King III – and now King IV – imposes specific responsibilities on the Board of Directors. The non-executive directors embrace these and acknowledge that the Board of Directors is primarily responsible for ensuring that the Company's strategy, risk compliance, performance and sustainability are inseparable. The Board of Directors provides effective leadership based on an ethical foundation of responsibility, accountability, fairness and transparency.</p>
Members Ms Y Forbes	
Mr SI Gama	
Mr GJ Mahlalela	
Ms PEB Mathekga	
Mr ZA Nagdee	
Mr VM Nkonyane	
Mr GJ Pita	
Mr SD Shane	
Mr BG Stagman	
Mr PG Williams ¹	

¹ Mr PG Williams passed away on 15 March 2017.

Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year

The Board of Directors held seven meetings during the year under review where it considered, among others, the following:

- Approved the Global Medium-term Note Programme financial results for the year ended 31 March 2016;
- Approved the Directors' Valuation of Unlisted Investments and movements in the Impairment Provisions for the year ended 31 March 2016;
- Approved the integrated sourcing strategy for Durban Container Terminal Berths 203 to 205 reconstruction, deepening and lengthening, including the main works package;
- Approved the Transnet Second Defined Benefit Fund (TSDBF) and Transnet Sub-fund of the Transport Pension Fund (TTPF); 2016 ad hoc bonus payment;
- Approved the Dividend Policy as contained in the Report of the Directors as part of the 2016 financial year Annual Financial Statements;
- Approved the proposed GCE's 2017 financial year Performance Agreement, and delegated authority to the Chairperson to submit same to the Shareholder Minister for information purposes prior to 30 June 2016;
- Approved the formation of the Intellectual Property Committee, and delegated authority to the Chairperson to submit same to the Shareholder Minister for approval;
- Approved the Maintenance Agreement for Locomotives;
- Approved the Reviewed Property Disposal Strategy;
- Approved the award of contract for delivery of steel for a period of five years;
- Approved the 2017 financial year Board committees' composition;
- Approved the Delegation of Authority Framework, subject to the proposed amendments;
- Approved the Delegation of Authority to the GCE;
- Approved the proposed amendments to the existing Board and Board committee mandates;
- Approved the Risk Appetite Statement for the 2017 financial year, subject to the proposed amendments;
- Approved the 2018 financial year Shareholder's Compact;
- Approved the Amendment to the Rules of the Transnet Retirement Fund;
- Approved the appointments to the Pension Fund;
- Approved the increase in ETC and change in ATO date for the NMPP project;
- Approved the Corporate Governance Policy Framework;
- Approved the Memorandum of Incorporation of Transnet International Holdings SOC Ltd (TIH);
- Adopted the resolutions from the Strategy Workshop;

Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year

- Approved the Shareholder's Agreement and Memorandum of Incorporation to be entered into between Transnet SOC Ltd and CRRC Zhuzhou - Group SA (Pty) Ltd;
- Approved the Transnet and General Electric Digital Initiative (Project Zakiya);
- Approved the proposed Corporate Calendar for the 2018 financial year;
- Approved the proposed submission in preparation for the forthcoming AGM scheduled to be held on 29 June 2017;
- Approved the amended Policy on Non-executive Directorship and Trusteeship of Transnet Employees with effect from 1 January 2017;
- Approved the proposed Annual Work Plan for the 2018 financial year;
- Approved the compensation clause in the Agreement between TNPA and OTGC;
- Approved the IT Data Services contract extension;
- Approved the Fleet Heavy Commercial Vehicles Strategy;
- Approved the Godisa Supplier Development Fund: Appointment of a Director;
- Approved the amended targets of the draft 2018 financial year Shareholder's Compact for submission to the Shareholder Minister, subject to the proposed amendments;
- Approved the volume and financial budget, capital investment plan and funding requirements for inclusion in the 2018 financial year Corporate Plan, which will be submitted for approval at the forthcoming Board meeting; Approved the Mergers and Acquisitions Framework to serve as a guiding principle for the Company's best practice in undertaking mergers and acquisitions activity;
- Approved the amended targets of the draft 2018 financial year Shareholder's Compact for submission to the Shareholder Minister, subject to the proposed amendments;
- Approved the volume and financial budget, capital investment plan and funding requirements for inclusion in the 2018 financial year Corporate Plan, which will be submitted for approval at the forthcoming Board meeting of 22 February 2017;
- Approved that Ms Forbes be appointed as a member of the Risk Committee and removed as a member of the Remuneration, Social and Ethics Committee;
- Approved the revised Audit Committee mandate;
- Approved the Treasury Financial Risk Management Framework;
- Approved the following:
 - The Company's 2018 financial year Corporate Plan as required in terms of section 52 of the Public Finance Management Act, No 1 of 1999, as amended; and
 - The Company's 2018 financial year Borrowing Plan (included in the Corporate Plan) as required in terms of section 66(7)(a) of the Public Finance Management Act, and the Financial Plan.

Key challenges (response and continuing challenges)

- Diversification of revenue sources and the implementation of the Africa Strategy were extensively deliberated by the Board. Management is currently developing a Diversification Strategy and will establish Transnet International Holdings, a special purpose vehicle to execute the Africa Strategy.
- Lack of review mechanisms to deal with Regulatory tariff applications continues to be a challenge and management continues to identify effective strategies to respond to this.
- The status of the Company's credit rating on its funding initiatives. This was addressed by engaging the credit rating agencies on the Company's plans to increase revenue and reduce operational expenditure.

Focus areas for the 2018 financial year

- New revenue stream creation, and successful implementation of the Cross Border Strategy.

Audit Committee	Summary of committee mandate
Chairperson Mr BG Stagman	<p>The Audit Committee (the committee) is constituted as a statutory committee of Transnet SOC Ltd in respect of its statutory duties in terms of Treasury Regulation 27.1, executed under section 76 (4)(d) of the Public Finance Management Act, No 1 of 1999 (the PFMA), section 77 of the PFMA and section 94(7) of the Companies Act, 2008, and as a committee of the Board of Directors in respect of all duties assigned to it by the Board of Directors in terms of its mandate. The purpose of the committee is to:</p> <ul style="list-style-type: none"> • Assist the Board of Directors in discharging its duties relating to the safeguarding of assets and the evaluation of internal control frameworks within the Company; • Review and assess the integrity and effectiveness of the accounting, financial, compliance and other control systems; • Consider the internal and external audit processes and the accounting principles and policies; • Strengthen the independence of the internal and external audit functions to ensure their effectiveness; • Ensure effective communication between the internal auditors, the external auditors, the Board of Directors, management and regulators; • Ensure compliance with and adherence to applicable legal, regulatory and accounting requirements; • Contribute to a climate of discipline and control which will reduce the opportunity for fraud; and • Assist the Board of Directors in discharging its duties as pertains to ICT Governance.
Members Mr GJ Mahlalela Ms PEB Mathekga Mr PG Williams ¹	

Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year

- The committee held four meetings during the year under review where it considered, among others, the following:
- Recommended that the Board of Directors approves the Committee Evaluation Report and the Action List for the 2016 financial year;
 - Recommended that the Board of Directors approves the Integrated Report, Annual Financial Statements and Press Announcement for the 2016 financial year;
 - Recommended that the Board of Directors approves the Going-concern Assessment as at 31 March 2016;
 - Recommended that the Board of Directors approves the GMTN financial results for the period ended 31 March 2016;
 - Recommended that the Board of Directors approves the Audit Committee Report for the year ended 31 March 2016;
 - Recommended that the Board of Directors approves the Sustainability Report for the 2016 financial year;
 - Recommended that the Board of Directors approves the directors' valuation and impairment provision of unlisted investments for the period ended 31 March 2016;
 - Recommended that the Board of Directors approves the Annual Financial Statements and Management Representation Letter of TNPA and TPL for the 2016 financial year;
 - Recommended that the Board of Directors approves the following for inclusion in the Annual Financial Statements:
 - There were no reportable PFMA items exceeding R25 million for Q4 of the 2016 financial year;
 - Results of the online PFMA Accreditation Assessment as at 31 March 2016; and
 - Status update on the PFMA initiatives undertaken to prevent and reduce PFMA violations.
 - Approved the assessment of the Chief Financial Officer;
 - Approved the assessment of the Finance function;
 - Approved the assessment of the Chief Audit Executive;
 - Recommended that the Board of Directors approves the proposed amendments to the existing Audit Committee mandate;
 - The committee approves the change in the Company's internal definition of the Cash Interest Cover ratio;
 - Recommended that the Board of Directors approves the proposed amendments to the Delegation of Authority Framework;
 - Recommended that the Board of Directors approves the GMTN Interim Financial Results, Going-concern Assessment, Management Representation Letter and Draft Press Release for the period ended 30 September 2016;
 - Recommended that the Board of Directors approves the proposed Corporate Calendar for the 2017 financial year;
 - Approved the Audit Planning Memorandum for the period ending 31 March 2017;
 - Approved the Audit Committee Annual Work Plan for the 2018 financial year, subject to the proposed amendments;
 - Recommended that the Board of Directors approves the proposed amendments to the existing Audit Committee mandate, subject to proposed amendments;
 - Recommended that the Board of Directors approves the proposed submission in preparation for the forthcoming AGM scheduled to be held on 29 June 2017;
 - Recommended that the Board of Directors approves the updated Financial Risk Management Framework;
 - Approved the GMTN Financial Results for the period ended 31 December 2016;
 - Approved the Going-concern Assessment for the period ended 31 December 2016;
 - Approved the Transnet Internal Audit Charter for the 2018 financial year; and
 - Approved the three-year rolling Strategic Internal Audit Plan for the 2018 financial year to the 2020 financial year and the Transnet Internal Audit budget for the 2018 financial year, subject to proposed amendments.

¹ Mr PG Williams passed away on 15 March 2017.

Key challenges (what were they and response and continuing challenges)

- The requirement of an additional Board member with a Chartered Accounting qualification to address its concerns. One of the vacancies on the Board should be filled with a Chartered Accountant.

Remuneration, Social and Ethics Committee	Summary of committee mandate
Chairperson Mr VM Nkonyane	The Remuneration, Social and Ethics Committee is constituted as a statutory committee of Transnet SOC Ltd in respect of its statutory duties in terms of section 72(4) and Regulation 43 of the Companies Act, 2008, and as a committee of the Board of Directors in respect of all other duties assigned to it by the Board of Directors in terms of its mandate. The purpose of the committee is to:
Members Ms Y Forbes ² Mr ZA Nagdee Mr SD Shane	<ul style="list-style-type: none"> • Advise the Board of Directors in regard to responsible corporate citizenship and the ethical relationship between the Company and its stakeholders, both internally and externally. The committee will manage the Company's legal and moral obligations for its economic, social and natural environment, including the objectives and standards of the Company's conduct and activities; • Manage and monitor the Company's activities to achieve and maintain world-class standards in the Company's social and ethics environment, with due regard to all relevant legislation, policies, legal requirements and codes of best practice; • Oversee the ethics management programme implemented by management; • Ensure that competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high-performance staff at all levels in support of realising corporate objectives and to safeguard Shareholder interests; • Review the design and management of salary structures, policies and incentive schemes and to ensure that they motivate sustained high performance and are linked to corporate performance; • Review the mandates of the remuneration committees of the subsidiaries of Transnet and to approve the remuneration policies and practices recommended by them; • Develop and implement a remuneration philosophy for disclosure to enable a reasonable assessment of reward practices and governance processes to be made by stakeholders; • Recommend the level of independent non-executive directors' fees to the Board of Directors; • Ensure compliance with applicable laws and codes; • Consider and make recommendations on all human capital matters related to the: <ul style="list-style-type: none"> - Restructuring of Transnet; - Disposal of assets/part of Transnet's business; - Acquisition of assets/new business; and - Development of human resources issues. • Approve succession planning policy and procedures for the Group Leadership Team (other than executive directors) and Extended Leadership Team.

Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year

The committee held five meetings in the year under review where it considered, among others, the following:

- Recommended that the Board of Directors approves the Committee Evaluation Report for the 2016 financial year, subject to the proposed amendments;
- Approved the Short-term Incentive payment for the 2016 financial year;
- Approved the Remuneration Report for inclusion in the Directors' Report for the 2016 financial year Integrated Report;
- Recommended that the Board approves the Sustainability Report for the 2016 financial year, subject to proposed amendments;
- Approved the Principles of the Short-term Incentive Scheme;
- Approved the Company's Ethics Management Programme, strategy and plan for the period of 2017 financial year to 2019 financial year;
- Approved the following:
 - High-level guiding principles that will inform the review of the Company's incentive schemes;
 - The design of the sales incentives; and
 - To obtain approval for the high-level principles to inform the modelling approach.
- Approved the Company's Ethics Management Programme, strategy and plan for the period of 2017 financial year to 2019 financial year;
- Approved the following:
 - The principles and salient features of the revised Company's Incentive Scheme.
 - Commencement of labour consultation, with a view to plan for the termination and withdrawal of current agreed incentive schemes across the business; and
 - The proposed way forward with regard to a phased-in implementation approach.
- Approved the proposed committee Annual Work Plan for the 2017/18 financial year, subject to proposed amendments;
- Recommended that the Board of Directors approves the Corporate Calendar for 2018 financial year;
- Approved the proposed amendments to the Ground Rules of the Transnet Long-term Incentive Scheme;
- Approved the payment of the 2014 financial year conditional awards on 26 April 2017 based on the Ground Rules of the Long-term Incentive Scheme;
- Approved the allocation of the Long-term Incentive grants for eligible participants for the 2016 financial year;
- Approved the Communication Plan for the 2017/18 financial year;
- Approved the Whistle-blowing Policy;
- Approved the Anti-bribery and Anti-corruption Policy;
- Recommended that the Board of Directors approves the Structure and Materiality for the Sustainability Report for the 2017 financial year; and
- Recommended that the Board of Directors approves the amendment of clause 2.1 of the mandate, to state that "The committee shall, at all times, have at least three non-executive directors of the Company elected as members".

² Member of REMSEC until 21 January 2017, and member of the Risk Committee effective 22 January 2017.

Key challenges (what were they and response and continuing challenges)

- Alignment of remuneration policies to the proposed DPE Remuneration Standards and Incentive Guidelines. Numerous engagements with DPE were convened to ensure that the DPE proposed remuneration model is adequate for the Company's environment.

Corporate Governance and Nominations Committee

Summary of committee mandate

Chairperson

Ms LC Mabaso

Members

Ms Y Forbes

Ms PEB Mathekga

Mr VM Nkonyane

The Corporate Governance and Nominations Committee is constituted as a committee of Transnet SOC Ltd in respect of all other duties assigned to it by the Board of Directors in terms of its mandate. The purpose of the committee is to:

- Ensure that the Board of Directors' composition and structure enables it to fulfil the obligations of the Board mandate and advance and maintain the Company's corporate governance policies and the Corporate Governance Framework;
- Set criteria for the nomination of directors to be recommended to the Board of Directors for appointment to the committees of the Board of Directors, other than the Audit Committee;
- Nominate potential Audit Committee members for appointment by the Shareholder Minister;
- Nominate potential Remuneration, Social and Ethics members for approval by the Board and confirmation by the Shareholder Minister at the Annual General Meeting or through a written resolution.
- Ensure that best practice succession planning policies are implemented in respect of executive directors and independent non-executive directors; and
- Administer and manage the selection process of the Company's Chief Executive on behalf of the Board of Directors and make recommendations on the top-three candidates, in order of priority, to the Board of Directors, by complying with the "Guidelines for the appointment of a Chief Executive for a State-owned Enterprise".

Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year

The committee held three meetings during the year under review where it considered, among others, the following:

- Recommended that the Board of Directors approves the Board Evaluation Report and Action Plan for the 2016 financial year;
- Recommended that the Board of Directors approves the Committee Evaluation Report and Action List for the 2016 financial year;
- Recommended that the Board of Directors approves the proposed AGM arrangements and statutory authorisation applicable to the proposed agenda;
- Recommended that the Board of Directors approves the Integrated Report, subject to the minor amendments;
- Recommended that the Board of Directors approves the Transnet Second Defined Benefit Fund (TSDBF) and Transnet Sub-fund of the Transport Pension Fund (TTPF) 2016 ad hoc bonus payments to the respective pensioners;
- Recommended that the Board of Directors approves the Draft Sustainability Report for the 2016 financial year, subject to proposed amendments;
- Approved the proposed Acquisitions and Disposals Committee training programme;
- Recommended that the Board of Directors notes the outcome on the adoption of King III principles based on the Governance Assessment Instrument (GAI), and the inclusion of the GAI Report in the Integrated Report for the 2016 financial year;
- Recommended that the Board of Directors approves the 2017 financial year Board committees' composition;
- Recommended that the Board of Directors approves the Corporate Governance Policy Framework, subject to the proposed minor amendments;
- Recommended that the Board of Directors approves the proposed amendments to the Rules of the Transnet Retirement Fund;
- Recommended that the Board of Directors approves the proposed Trustees for the Pension Funds;
- Recommended that the Board of Directors approves the amended Policy on Non-executive Directors and Trusteeship of Transnet Employees;
- Recommended that the Board of Directors approves the proposed amendments to the Delegation of Authority Framework, subject to proposed amendments;
- Recommended that the Board of Directors approves the Corporate Calendar for the 2017/18 financial year, subject to minor amendments;
- Recommended that the Board of Directors approves the proposed submission in preparation for the forthcoming AGM and notes the matters arising list from the previous AGM; and
- Approved the committee's Annual Work Plan for the 2018 financial year, subject to the proposed amendments.
- Recommended that the Board approves the proposed November 2016 ad hoc bonus payments of by the TSDBF and TTPF to the respective Pensioners.

Key challenges (what were they and response and continuing challenges)

- The Shareholder's Compact targets were adversely impacted by the economic downturn and the decline in volumes. The Committee recommended that the target setting process should be realistic and reflective of the prevailing economic circumstances.
- The adequacy of the skills mix at Board level due to Directors' resignations. The Company continues to engage the Shareholder Minister on the preferred skills when filling the vacancies.

Risk Committee**Summary of committee mandate****Chairperson**Mr PG Williams¹ (Acting)**Members**Ms Y Forbes²

Mr GJ Mahlalela

Mr BG Stagman

Risk Management is, as set out in King III and the PFMA, ultimately the responsibility of the Board of Directors. The Risk Committee is constituted as a committee of Transnet SOC Ltd in respect of all other duties assigned to it by the Board of Directors in terms of its mandate. The purpose of the committee is to:

- Review and assess the integrity of the risk control processes and systems;
- Ensure that the risk policies are managed effectively and in accordance with the Enterprise Risk Management Framework (ERM Framework) approved by the Board of Directors from time to time;
- Ensure effective communication with the internal and external auditors, the Audit Committee, the Board of Directors, management and regulators on risk management;
- Contribute to a climate of discipline and control which will reduce the opportunity for fraud and other operational losses; and
- Assess any significant risk control failings or weaknesses identified and their potential impact, and confirm that appropriate action has been or is being taken.

Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year

The committee held four meetings during the year under review and considered, among others, the following:

- Approved the Committee Evaluation Report for the 2016 financial year;
- Approved the Committee Evaluation Action List for the 2016 financial year;
- Approved the proposed Annual Work Plan for the 2018 financial year;
- The committee approved the Risk Assessment on the 1 064 Locomotives and related mitigation measures;
- Approved the proposed changes to the Annual Insurance Renewal Limits for the 2018 financial year, subject to the final negotiations with the insurers, which will be reported upon conclusion; and
- Approved the Compliance Plan for the 2018 financial year.

¹ Mr PG Williams passed away on 15 March 2017.

² Member of REMSEC until 21 January 2017, and member of the Risk Committee effective 22 January 2017.

Key challenges (what were they and response and continuing challenges)

- Increasing trend in Employee fatalities, derailments, have been addressed by Group Leadership Team road shows across the Company and visible leadership strategies implemented, which include individual GLT members being allocated specific work areas which they visit regularly to engage employees on different matters including safety.

Acquisitions and Disposals Committee

Summary of committee mandate

Chairperson
Mr SD Shane

The Acquisitions and Disposals Committee is constituted as a committee of Transnet SOC Ltd in respect of all other duties assigned to it by the Board of Directors in terms of its mandate. The purpose of the committee is to:

Members
Ms LC Mabaso
Mr ZA Nagdee

- Advance and maintain the Company's acquisition and disposal policies;
- Approve procurement transactions within the committee's delegated authority;
- Monitor trends in supplier development spend and progress on plan;
- Consider strategic acquisitions and disposals and make recommendations to the Board of Directors;
- Consider, for recommendation to the Board of Directors, potential private-sector participation models;
- Review quarterly capital expenditure reports, and monitor execution of approved projects;
- Monitor the implementation of strategic acquisitions against the approved plans; and
- Approve procurement strategies for proposed acquisitions and disposals to the Board of Directors in line with the Delegation of Authority Framework.

Summary of key activities and key outputs (decisions, approvals, policies and procedures) for the 2017 financial year

The committee held seven meetings during the year under review where it considered, among others, the following:

- Approved its Committee Evaluation Report for the 2016 financial year;
- Approved its Committee Evaluation Report Action List for the 2016 financial year;
- Approved the non-award for the Request for Proposal (RFP) No TE14-KLP-09T-0005 for the supply of critical spare parts and components to Transnet Engineering for the maintenance of the TFR GM/Electric Motor Diesel Locomotive fleet over a period of five years;
- Approved the Annual Work Plan for the 2018 financial year;
- Approved that the Annual Procurement Plan be submitted to National Treasury by the Group Chief Executive;
- Approved the Company's Infrastructure Framework for Infrastructure Procurement and Delivery Management;
- Approved the Enterprise and Supplier Development Initiatives for the 2017 financial year;
- Recommended that the Board of Directors approves the proposed Corporate Calendar for the 2018 financial year;
- Recommended that the Board of Directors notes the revised Corporate Plan and approves the 2018 financial year Budget and Progress Report;
- Approved the revised Company Procurement Ombudsman Terms of Reference; and
- Approved the Procurement and Transformation Targets as discussed with the Department of Public Enterprise for inclusion in the 2018 financial year Shareholder's Compact.

Key challenges (what were they and response and continuing challenges)

- Continuous striving to attain targets for Black Youth owned businesses, Black Women owned businesses and People Living with Disability. The Company has introduced B-BBEE improvement plans as a requirement in the assessment criteria. Furthermore, the Company has established Enterprise Development Hubs in various provinces to strengthen its Supplier Development component.

Group Leadership Team (GLT) meetings

Schedule of members' attendance at GLT meetings held during the period under review:

Meetings held	11
Mr SI Gama (Chairperson)	10
Mr MM Buthelezi	6
Mr GJE de Beer	7
Ms S Chetty ¹	1
Mr M Gregg-Macdonald ¹	2
Mr T Jiyane	11
Ms NE Khumalo ³	5
Mr ZE Lebelo ¹	2
Ms R Lepule ¹	2
Ms DC Moephuli	10
Ms MA Mosidi	8
Mr LMH Msagala ¹	2
Mr R Nair ¹	2
Mr K Phihlela ²	5
Mr GJ Pita	10
Ms S Qalinge ³	10
Mr K Reddy	9
Mr N Silinga ¹	2
Ms EAN Sishi	10
Mr KXT Socikwa ¹	
Ms MA Sukati	1
Mr R Vallihu	2

¹ Messrs Gregg-Macdonald, Lebelo, Msagala, Nair, Silinga and Socikwa, and Mss Chetty and Lepule were members of the GLT meeting until 30 April 2016 prior the change in the corporate structure.

² Mr Phihlela was acting as Chief Business Development Officer until Mr de Beer's appointment on 1 August 2016.

³ Ms Khumalo and Ms Qalinge are attendees at the GLT meetings.

Compliance including PFMA, Companies Act and King III

The Board of Directors recognises the Company's accountability to all its stakeholders under the regulatory requirements applicable to its business and is committed to high standards of integrity in the conduct of its business. In view of the importance of complying with the ever-increasing universe of regulatory requirements, and the increased national and international emphasis placed on the supervision thereof, the Board of Directors, Group Leadership Team and employees are regularly apprised of the compliance requirements.

Further, internal controls are constantly being developed and tested to ensure compliance, and continuous training is implemented.

PFMA

Refer to the PFMA reports, page 4.

Companies Act

The Company continues to comply with the Companies Act and satisfies related governance and compliance requirements.

King III compliance – Governance Assessment Instrument

The Company utilises the Governance Assessment Instrument (GAI) as the due process to provide assurance that every recommended practice in the King III Report has been considered. Practices are either applied or explained, with the latter carrying an explanation of a compensating practice, or alternatively the reason for non-application and corrective action to be taken. Practices that support the '75 Principles' of the King III Report are assessed through the GAI, confirming the extent to which the principles are applied by way of the following rating:

- AAA Highest application;
- AA High application;
- BB Notable application;
- B Moderate application;
- C Application to be improved; and
- L Low application.

The Company continues to maintain its AAA status.

The following table represents a high level assessment of principles that are not applied, or have been explained, as at 31 March 2017:

Main category	Sub-category	All 'not applied' exception(s) sorted by significance	Report comment
Board composition	Board composition	When determining the number of directors to serve on the Board, the entity (or the Minister as applicable) does not adequately consider the knowledge, skills and resources that are necessitated by the size and nature of its business.	The Corporate Governance and Nominations Committee compiles a Board skills matrix for consideration by the Shareholder Minister as part of non-executive directors' succession planning activities.
		Procedures for appointments to the Board are not all of the following: - formally set out in a policy; - transparent; - a matter for the board as a whole (although the board may be assisted by the nominations committee) or the Minister as applicable.	The Board of Directors is appointed by the Shareholder Minister.
		Before candidates are nominated for Board appointments, there are no procedures in place to investigate the candidates' backgrounds or legal exclusions from membership inspected and applied.	The fit and proper test is conducted by the Shareholder Minister.
	Audit Committee	The Chairperson of the Audit Committee is not selected by the board.	The Board nominates a potential appointee and the Shareholder Minister elects the nominee by means of a formal resolution.
	Nominations Committee	The Nominations Committee does not make recommendations for appointment as director or if it does, does not base its recommendations on all of the following: - knowledge and experience gap on the board; - integrity of the candidate; and- skills and capacity of the candidate.	The Shareholder Minister appoints the Board members.
		The Nominations Committee does not do one or both of the following: - establish procedures for appointments to the board; - ensure that these procedures are properly carried out.	The Shareholder appoints the Board members.
		The Nominations Committee does not ensure that new directors have not been declared delinquent or are not serving probation in terms of section 162 of the Companies Act, 2008.	The fit and proper test of directors is conducted by the Shareholder Minister.
		The Nominations Committee does not identify and participate in selecting Board members.	The Shareholder Minister appoints the Board members.

Main category	Sub-category	All 'not applied' exception(s) sorted by significance	Report comment
Board composition	Risk Committee	One or both the following statements are untrue: - Membership of the Risk Committee includes executive and non-executive directors; - Members of senior management and independent risk management experts are invited to attend, if necessary.	The composition of the Risk Committee is made up of independent non-executive directors only. The executive directors and executive management are permanent attendees.
Performance assessment	Performance assessment	The nomination for reappointment of a director does not occur only after an evaluation of the performance of the director.	Generally, the results of the evaluation are reported to the Shareholder Minister. The appointment of the Board of Directors is at the discretion of the Shareholder Minister.
Remuneration	Remuneration	Non-executive directors' fees do not comprise both a base fee and an attendance fee per meeting.	The Company pays a retainer for the Board and its committees on a quarterly basis.
Accountability	Integrated reporting and disclosure	The names and details of all external advisors who regularly attend or are invited to attend committee meetings are not disclosed.	External advisors are generally not invited to committee meetings.
Governance office bearers	Chairperson	There is no succession planning in place for the Chairperson.	This is conducted by the Shareholder Minister and not the Company.
	CEO	The Board does not appoint the CEO or if required by legislation the Minister does not appoint.	The Memorandum of Incorporation details the process and the role of the Board of Directors in the recruitment process for the Group Chief Executive.
	Chairperson	The Chairperson is not appointed by the Board every year or if required by legislation the Shareholder Minister appoints the Chairperson of the Board.	In line with the Memorandum of Incorporation, the Chairperson is appointed by the Shareholder Minister and not the Board. The appointment is renewable annually at the AGM
The detailed King III Governance Register is available on this link: www.transnet.net/GAI			

