

Transnet SOC Limited
(Incorporated in the Republic of South Africa)
(Registration Number: 1990/000900/30)
Issuer Bond Code: BITRA
("Transnet", "the Company" or the "Issuer")

VOLUNTARY BUSINESS UPDATE FOR THE NINE MONTHS ENDED 31 DECEMBER 2020 AND OUTLOOK FOR THE 12 MONTHS ENDING 31 MARCH 2021

Introduction

Transnet is wholly-owned (100%) by the Government of the Republic of South Africa. The company provides logistics solutions for its customers in the bulk, agricultural and manufacturing sectors. Transnet's mandate is to reduce the cost of doing business, ensure security of supply and enable economic growth.

Transnet has six Operating Divisions:

Transnet Freight Rail (TFR) – is the largest operating division of Transnet. It provides rail network infrastructure and operates services over major rail corridors to transport commodities for export in regional and domestic markets. Freight Rail operates world-class heavy-haul coal and iron-ore export lines, and in recent years, manganese exports. It also transports general freight commodities including mining, agricultural, manufacturing goods, bulk liquids, containerised freight and automotive.

Transnet Engineering (TE) – is the manufacturing and maintenance division of Transnet. It has established extensive core capabilities for research, design, test, manufacture, remanufacture, assembly and maintenance of railway rolling stock including locomotives, freight wagons, passenger coaches and port equipment.

Transnet National Ports Authority (TNPA) – is responsible for the safe, efficient, and economic function of the national ports system. TNPA manages eight commercial seaports in a landlord capacity, on behalf of the State. These are: Cape Town, Durban, East London, Mossel Bay, Ngqura, Port Elizabeth, Richards Bay, and Saldanha. The ninth port, Port Nolloth, does not handle any commercial cargo and is leased to De Beers Consolidated Diamond Mines. TNPA is regulated by the Ports Regulator of South Africa (PRSA).

Transnet Port Terminals (TPT) - plays a strategic role in the South African economy by enabling the efficient flow of imports, exports and trans-shipments through its cargo terminal operations. It enables connectivity of the South African economy with other key trading partners in the region and the rest of the world.

TPT provides cargo handling services to customers including shipping lines, freight forwarders and cargo owners. It operates across four main segments: containers, dry bulk, break-bulk and automotive. The division operates 16 terminals with 68 berths across seven ports spread along the South African coastline.

Transnet Pipelines (TPL) – is the largest multi-product pipeline operator in Southern Africa, operating and maintaining the country's 3 114km high-pressure petroleum and gas pipeline network. TPL's mandate is to ensure security of supply of petroleum and gas. It is strategically positioned to enable regional integration from pipeline to other modes of transport. The division is regulated by the National Energy Regulator of South Africa (NERSA).

Transnet Property (Property) - manages the company's vast commercial and residential property portfolio and also provides specialised property services to other Transnet Operating Divisions and the Corporate Centre.

Performance overview for the nine months to 31 December 2020

Transnet's revenue and volume performance is directly driven by the performance of the domestic economy and export markets.

Transnet has remained resilient, although the COVID-19 pandemic has impacted operational and financial performance. Despite the negative impact of the pandemic on global and domestic economic activity, the company generated in excess of R18.6 billion cash flows from its operations as at 31 December 2020, sufficiently funding finance costs and working capital, and netting a favourable R4.3 billion from operating activities to fund the capital investment program.

The lockdown introduced in March 2020 severely constrained demand for port, pipeline, and rail freight services, particularly during the period when restrictions applied to all non-essential goods.

Stats SA data indicates that the total volume of goods transported (payload, road and rail) in South Africa decreased by 39.7% year-on-year (y/y) in April 2020. The corresponding income decreased by 42.1% over the same period. Volumes transported in May 2020 and June 2020 remained significantly lower at 22.5% and 18.6%, respectively. Recovery has been observed in subsequent months with goods transported in November 2020 being 4.6% lower (y/y). Volumes transported in South Africa for the period ended November 2020 were 12.8% lower than the previous year and the corresponding income 11% lower, with the most impact being in containers, automotive, mining minerals and petroleum.

Transnet's revenue and volume performance is in line with the national trend.

Volumes moved by Transnet for the period ended 31 December 2020 are significantly lower year-on-year, primarily as a result of the impact of COVID-19.

- Total rail volumes are 13.9% lower than the previous year at 137.9mt (160.2mt).
In addition, rail network and operations continue to experience high incidents of cable theft, power failures, vandalism, adverse weather conditions and deteriorating infrastructure conditions, impacting volumes and delivery.
- Pipeline volumes are 30.9% lower than the prior year at 9.3 billion litres (13.5 billion litres); and
- Container volumes are 14.9% lower, at 2 875 (000TEUs), from 3 378 (000TEUs) at 31 December 2019.

For the nine months ended 31 December 2020, revenue decreased by 13.7% to R49.3 billion, on the back of lower volumes.

Operating expenditure increased by 2.7% to R32.2 billion (R31.3 billion). Cost-containment initiatives implemented throughout the company limited this increase, despite unexpected COVID-19 related expenses of R218 million, and a R594.5 million provision relating to the remediation and rehabilitation of pipeline spill sites following theft incidents.

Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 33.7% to R17.1 billion (R25.8 billion) with a resultant decrease in the EBITDA margin to 34.7% (45.2%).

Limited access to construction sites as well as disruptions in procurement supply chains during the lockdown slowed progress on capital projects.

Furthermore, Transnet recognises that the impact of the COVID-19 pandemic will result in long-term socio-economic shifts and structural changes to the economy and business in general.

The company continues to focus on its five priority areas: customer service, employees, asset utilisation, safety and cost control in response to the immediate challenges.

Maintenance of infrastructure and equipment, as well as cash generation, remain imperative.

Outlook

For the year ending 31 March 2021, Transnet expects to report revenue of 11% to 15% less than that reported for the previous year, mainly driven by a decline in volumes in the same range. Lower volumes, unplanned COVID-19 costs and pipeline incidents are expected to result in a decline in EBITDA of about 30% to 42% in comparison to the prior year, while earnings before interest and tax (EBIT) for the year will consequently decline by 65% to 95%.

Transnet and the Special Investigating Unit (SIU) have launched an application in the High Court of South Africa to review, set aside and determine a just and equitable remedy in respect of four contracts - with a total value of R54,4 billion - concluded by Transnet in 2014 with Original Equipment Manufacturers (OEMs) to acquire 1 064 locomotives. The financial outlook excludes any possible impact of the legal action regarding the 1 064 locomotive contracts.

As part of its longer-term transformation initiatives, Transnet has undertaken a fundamentally new approach to strategy development, focusing on commodity supply chains. The strategy articulates Transnet's strategic position and tactical response for each of the key commodity supply chains, to improve performance and competitiveness.

The financial information on which this business performance update is based, has not been reviewed, reported on or audited by the company's External Auditors. This document is also available on the Transnet SOC Ltd website on the following link <https://www.transnet.net/InvestorRelations/Pages/SENS-Announcements.aspx>

Transnet will be engaging lenders on Monday, 15 March 2021 on this update.

Johannesburg

12 March 2021

Debt Sponsor: The Standard Bank of South Africa Limited