

Abridged governance

Foreword by the Chairperson: Corporate Governance and Nominations Committee

Ms Dimakatso Matshoga

Chairperson: Corporate Governance and
Nominations Committee



Transnet is on a continuous improvement journey with respect to its corporate governance, compliance and risk management. Accordingly, the Board of Directors (the Board) and management are resolute in their efforts to restore trust and confidence in the Company. The web of fraud and wrongdoing that gradually unravelled during the reporting year in the wake of state capture allegations – and the roles that some external parties and Transnet employees had played in this alarming phenomenon – demanded urgent governance attention. The appointment of a new Board in May 2018 served as the first step in embarking on the challenging journey to restore stability to the largest and most crucial part of South Africa's freight logistics chain.

Reform of State-owned Companies is one of the major themes that President Cyril Ramaphosa underlined in his 2019 State of the Nation Address. He emphasised the need for decisive measures to improve governance, strengthen leadership and restore stability in strategic entities. It is the current Board's duty to usher in the necessary changes to create a more robust, responsive and effective system of governance to support Transnet's new strategic direction, that is intended to restabilise an operational core and create a strategy, which has been thrown off course from its core mandate. It is the Board's firm undertaking to re-establish a firm governance foundation, which can monitor performance, enable clear and transparent communication relating to that performance, and ultimately hold our people to account for their actions, regardless of their positions within the organisation.

The first steps we took as a new Board on this governance journey included:

1. Overhauling all the Board subcommittees and disbanding the Acquisitions and Disposals subcommittee – which had the Board involved in procurement awards – and establishing the Finance and Investment subcommittee, with the Board providing strategic oversight and guidance in the procurement process;

“Our governance function needs to reflect our broader evolutionary journey – in spirit and in practice to acknowledge the needs of all our stakeholders.”

2. Initiating the implementation of the Werksmans and MNS report recommendations, e.g. suspending several senior managers;
3. Instigating the requisite corrective measures and consequence management;
4. Issuing multiple summonses in lieu of civil recoveries, as well as entering into contractual negotiations with the OEM suppliers of the 1 064 locomotives;
5. Launching criminal complaints against key individuals as investigations progress;
6. Working with the Zondo Commission, the Special Investigating Unit and the Directorate of Priority Crimes Investigations to support their investigation processes;
7. The Board, together with management undertook numerous roadshows with Transnet's broad base of stakeholders to address challenges and to share Transnet's strategic objectives;
8. Stabilising the executive management echelon by taking steps to appoint executive officers, starting with the Group Chief Executive, Group Chief Financial Officer, Chief Procurement Officer and Group Treasurer; and

9. Establishing a Forensic Committee as a subcommittee of the Executive Committee to perform various forensic tasks aligned with ongoing investigations.

Further, during its strategic planning session in November 2018 the Board resolved to review the Company's operating model while also reviewing the Delegation of Authority Framework, which defines the parameters within which individuals can make financial decisions on behalf of the Company. These reviews necessitated an update of the Ccommittee mandates, which is currently underway. As the business concretises Transnet's strategic vision, and as we strengthen our core operations and governance structures in the short to medium term, the new operating model will start coming into effect.

In gearing up for commercial growth, our governance function needs to reflect our broader evolutionary journey – in spirit and in practice – to acknowledge the needs of all our stakeholders, and to ultimately create the broader economic and developmental value for society demanded by our national mandate. To this end, the Board intends to establish a governance platform that embodies the core values of professional ethics, leadership, accountability, inclusivity, and responsiveness – and to ensure that when we act, we do so decisively, ethically, and with fair regard for those impacted.

D. Matshoga

Ms DC Matshoga
Chairperson

26 September 2019
Johannesburg

How our improved governance function will support our strategy and operations

 King IV. P2, 12 & 13

Monitor the implementation of strategic acquisitions and disposals against approved plans.

Develop key performance indicators to monitor sustainability performance.

Monitor reward practices and promote competitive reward strategies to recruit and retain high-performing people.

Ensure the Board's composition and structure enables it to fulfil its mandate and obligations, aligned to strategy.

Ensure appropriate skills represented on the Board and appoint competent executive management.

Manage legal and moral obligations for economic, social and natural environments and set standards for ethical conduct.

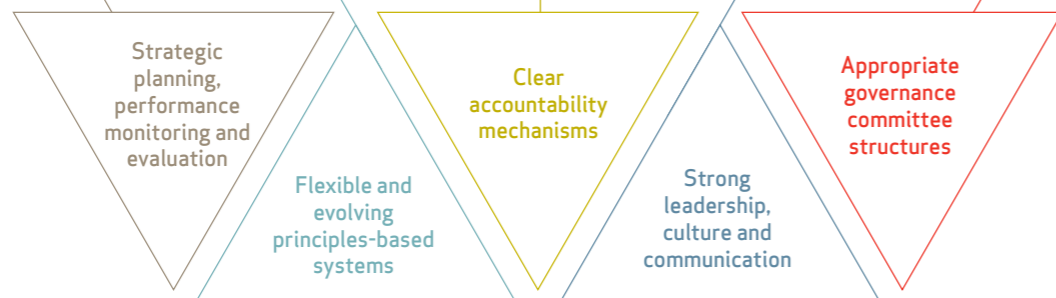
As custodians of governance, set an ethical tone and enforce sound ethical principles.

Ensure integrity of accounting and financial control system.

Inform the overall 'control consciousness' of employees without restricting performance or innovation.

Set the tone for Transnet's value system (filtered into corporate culture).

Maintain highest standards in the social and ethics environment (policies, legal requirements and codes of best practice).



Principles Transnet's governance structure aspires to uphold

Balance financial accountabilities, organisational performance and strategic priorities.

Monitor trends in supplier development spend and progress against targets.

Assess private sector participation models to support project funding and economic growth.

Ensure that intellectual property created (e.g. ICT and advanced manufacturing innovations) is protected.

End-to-end visibility of key financial control.

Ensure the Company's strategy, risk compliance, performance and sustainability are inseparable.

Provide assurance on governance-related processes and controls applied by the Board to support strategy.

Meet Transnet's strategic objectives while mitigating risks.

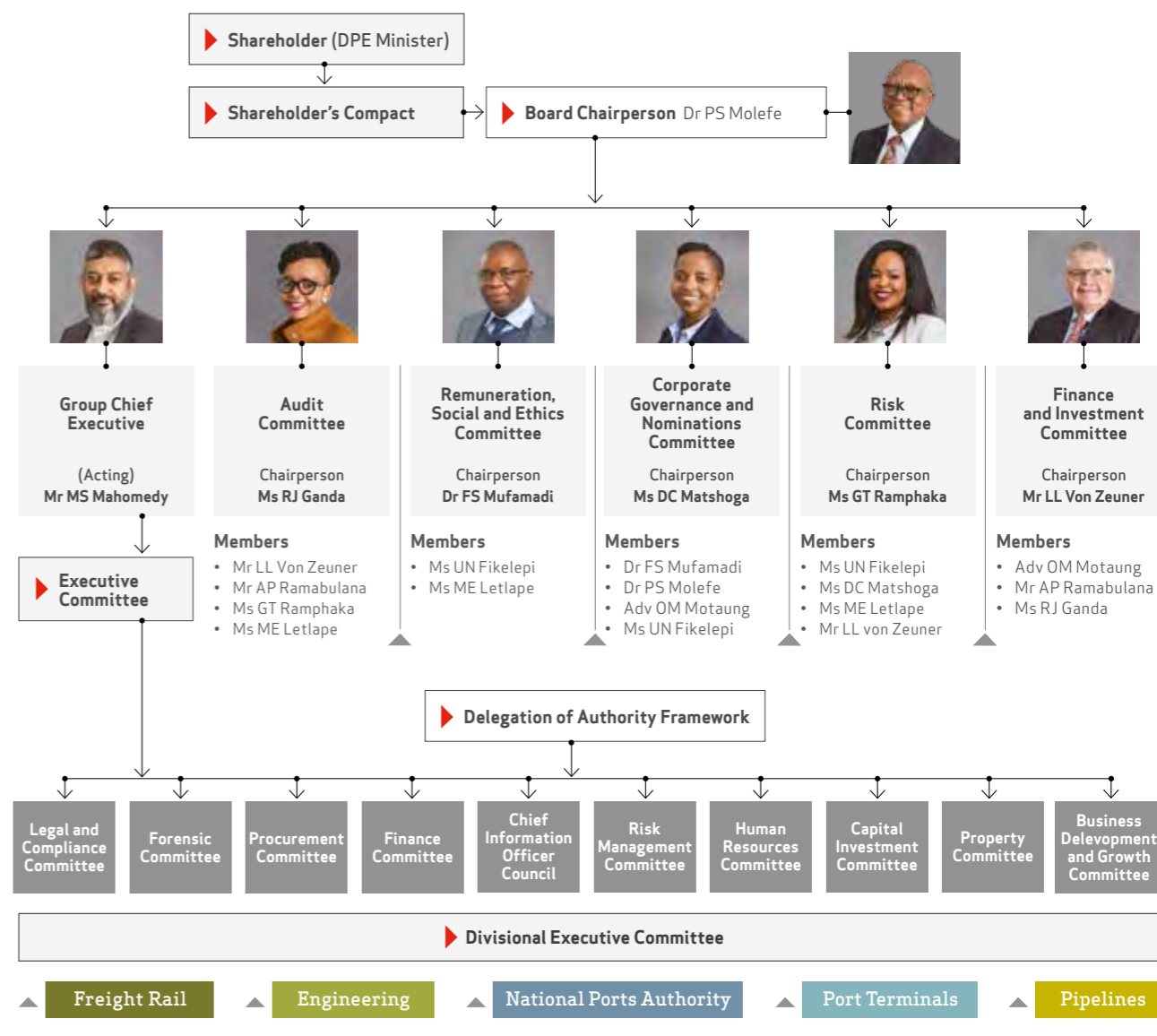
Safeguard manufactured assets.

Manage ICT architecture and mitigate digital risks.

Integrate and align assurance processes and control systems to enable risk and governance oversight.

Adhere to legal, compliance and accounting requirements, and contribute to climate of discipline to reduce fraud and losses.

Figure 12: Company structure and governance committees



Abridged governance follow on text

Governance in action during the 2019 reporting year



King IV. P6, 11 & 12

Ethical leadership, oversight and accountability are instituted through the appointment of the Board and the determination of the Board's strategic and operational objectives. The following oversight deliverables were achieved during the year:

- The roles of the Chairperson and Group Chief Executive remained separate as recommended by King IV.
- A formal induction and training programme for the Board was implemented. Training and development needs identified by the Board and its Committees were incorporated into training programmes.
- Appropriate disclosure of the remuneration of directors has been made in the 2019 Integrated Report, in line with applicable laws and regulations.
- The Board continued to be assisted by a competent, suitably qualified and experienced Group Company Secretary during the period under review. The mandatory duties of the Group Company Secretary are formalised and adequately defined in accordance with the provisions of the Companies Act.
- The Board continues 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 reviewed the IT strategy and its associated risks.

Transparency, accountability and integrity



King IV. P1, 12 & 13

The PFMA, Companies Act and Protection of Personal Information Act, No 4 of 2013 (POPI Act) provide specific requirements pertaining to the Company's records management practices, such as interim financial results and annual financial statements that satisfy the International Financial Reporting Standards, and for the audited annual financial statements to be prepared within five months following the financial year end. To that end, the Company finalises its annual

financial statements within the legislated timelines and ensures that the Shareholder Minister has timely access to those audited annual financial statements.

The Company has developed procedures and systems to ensure early adoption of the POPI Act once it is promulgated. More detail on section 9 on page 100.

Compliance with laws, codes, rules and standards



King IV. P13

The Board governs and directs compliance with applicable laws:

Public Finance Management Act (PFMA)

The Company is identified as a major business entity and is listed under Schedule 2 of the PFMA. The Board 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 the submission of quarterly PFMA reports to the Shareholder Minister.

King IV

The Company has adopted the King IV principles in conjunction with regulatory provisions to achieve the overarching principles of sound governance, namely responsibility, accountability, fairness and transparency. The Company attempts to do so substantively and not simply in form, so that its decisions and actions impact positively on the Company and its stakeholders, which include its employees, the communities in which it operates, suppliers, customers and the public at large.

The Governance Assessment Instrument is utilised to monitor the level of application of the King IV principles. Transnet has adhered to some of the King IV principles and recommendations as evidenced in the 2019 Integrated Report, Remuneration Report and the Sustainably Outcomes Report.

Companies Act

The Company reports on the extent of its compliance with the Companies Act in the Directors' Report in the 2019 Annual Financial Statements.

Governance instruments



King IV. P7, 10 & 13

The Company's governance instruments include:

- Memorandum of Incorporation (MOI), as lodged with the Companies and Intellectual Property Commission (CIPC); and
- Delegation of Authority Framework, approved by the Board and cascaded Company-wide.

Memorandum of Incorporation

The MOI was revised and filed with the CIPC on 19 December 2017. The mandates of the Board of Directors and its committees are aligned with the Company's MOI. The Company has since embarked on the MOI amendment process to include the changes introduced by the new Board, such as disbanding of the Acquisitions and Disposals Committee, and subsequent establishment of the Finance and Investment Committee, as well as the appointment of a Board member as a chairperson of the Corporate Governance and Nominations Committee.

Board composition

The amendment to the MOI provides that the Board shall consist of a minimum of six and a maximum of 14 directors, comprising not less than four non-executive directors, from whom the Chairperson of the Company shall be appointed. The Board is, therefore, adequately resourced in line with the MOI. The Board composition is, however, under continuous review to ensure adequate resourcing of the Board and its committees.

Non-executive directors

A non-executive director shall hold office for a term of three years from the date of his appointment, subject to confirmation of his appointment at the annual general meeting, provided that no person is appointed as a non-executive director for more than three consecutive terms. The Board shall consist of not less than two executive directors who shall include the Group Chief Executive and the Group Chief Financial Officer. The Board shall at all times consist of a majority of non-executive directors.

Ms V McMenamin and Prof EC Kieswetter resigned as non-executive directors of the Company with effect from 28 February 2019 and 6 May 2019, respectively.

Delegation of Authority Framework

The Company reviewed its Delegation of Authority Framework which was approved by the Board of Directors on 29 January 2019. The objective of the review was to craft and implement a Delegation of Authority Framework which defines the parameters within which individuals can make financial decisions on behalf of the Company. This approach would ensure that there are checks and balances in the decision-making process and that there is no one individual with superior powers which results in abuse of authority, particularly in acquisition or procurement-related transactions.

The review of the Delegation of Authority Framework takes cognisance of the Company's strategic objectives. The framework is reviewed annually for adequacy and completeness and approved by the Board.

All the Operating Divisions and Specialist Units are required to sub-delegate authority according to the latest DOA Framework to their respective executive committees (Extended Executive Committee) within a period of 30 days from the date of signature by the Group Chief Executive.

The mandates of the Board of Directors and its committees are aligned with the provisions of the Companies Act and the DOA. Similarly, the mandates of the Group Executive Committee and its subcommittees are aligned with the current DOA and the mandates of the Board and its committees.

The role of the Board of Directors



King IV. P1 & 9

The Board is principally responsible for directing and overseeing the affairs of the Company, balancing the interests of stakeholders, and ensuring the Company's 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, No 12 of 2005, as amended.

The Board, through its Chairperson, also serves as the Shareholder of Transnet International Holdings SOC Ltd, a wholly owned subsidiary of Transnet SOC Ltd, incorporated on 29 August 2017 which is currently dormant.

The Board leads the Company in its achievement of strategic objectives by directing and approving the Company's overall strategy and associated operational objectives. It monitors the Company's performance against targets outlined in the Shareholder's Compact and ensures that adequate processes are in place for budget planning and allocation to advance the Company's mandate. This includes oversight of the Company's socio-economic programmes. The Board is tasked with ensuring that the Company can achieve its statutory and commercial objectives.

The Company has incurred severe damage due to procurement governance failures which have tainted the good image that the Company held for decades. During the year, the implementation of the investigation outcomes and the ongoing investigations as well as various governance interventions have kept the Board engaged in extensive meetings with various stakeholders ranging from law enforcement agencies to lenders, customers and employees.

Independent performance evaluation of the Board, its committees and directors

The Board ensures the evaluation of its own performance and that of its committees. The Chairperson and individual directors provide support for continued improvement in the Board's efficiency and effectiveness. An annual independent evaluation is conducted to assess the effectiveness of the Board, its committees, the Chairperson and the individual contributions of the directors.

The findings of the evaluation are considered by the Board and compared to the prior year's assessment, with appropriate action plans being formulated. The Board tracks progress against those plans through the Corporate Governance and Nominations Committee.

The Committee considered a self-evaluation programme for use in the Company and, in keeping with the directive from the Shareholder Minister, six-monthly reviews will be conducted going forward. A hybrid approach has been implemented where a self-assessment will be conducted during the interim financial year through a programme that is linked to the Company's Governance Assessment Instrument.

As the Board was still fairly new during the 2019 financial year – having been appointed in May 2018 – no annual independent Board Evaluation assessment was conducted for the year. An independent evaluation will be considered for the 2019/20 financial year and the process to appoint an independent evaluator will be initiated by September 2019.

Directors' induction and continuous development



King IV. P1 & 9

As part of enhancing the directors' skills, the Group Company Secretary develops an Annual Board Training Plan, which identifies training requirements for the Board and its committees. Individual directors are also encouraged to identify any governance-related training events they may wish to attend through recognised training institutions.

Board and committee induction sessions (including site visits) were held between May and July 2018 for the newly appointed directors. The induction of directors is ongoing to acquaint the Board with the business of the Company. In the year under review, the following training activities were conducted by both internal and external training service providers:

Table 37: Board and committee induction sessions

Governance structure	Training provided	Service provider	Date	Attendees
Remuneration Social and Ethics Committee	Short Term Incentive (STI) Ground Rules	In-House: Transnet Group Human Resources/Group Finance	12 June 2018	Dr FS Mufamadi Ms ME Letlape Mr SI Gama Mr MS Mahomedy
	Social and Ethics as per Companies Act	Institute of Directors of Southern Africa	4 February 2019	Dr FS Mufamadi Ms ME Letlape Prof EC Kieswetter
Corporate Governance and Nominations Committee	The Role of the Committee	iThemba Governance and Statutory Solutions	26 July 2018	Ms DC Matshoga Dr PS Molefe Ms UN Fikelepi Adv OM Motaung Dr FS Mufamadi Mr MS Mahomedy
Risk Committee	Transnet Risk Management Approach	In-House: Group Risk and Compliance	2 August 2018	Mr LL von Zeuner Ms UN Fikelepi Ms DC Matshoga Ms GT Ramphaka Mr SI Gama Mr MS Mahomedy
Audit Committee	Role of the Audit Committee	Institute of Directors of Southern Africa	23 August 2018	Ms RJ Ganda Ms ME Letlape Mr AP Ramabulana Ms GT Ramphaka Mr LL von Zeuner Mr SI Gama Mr MS Mahomedy
	Integrated Assurance	FirstRand	12 February 2019	Ms RJ Ganda Ms ME Letlape Mr AP Ramabulana Ms GT Ramphaka Mr LL von Zeuner Mr TC Morwe Mr MS Mahomedy
Finance and Investment Committee	PLP, Capital Operating Model and Indicative Capital Budgets for the 2018/19FY	In-House: Transnet Group Capital	8 November 2018	Prof EC Kieswetter Mr AP Ramabulana Mr TC Morwe Mr LL von Zeuner Mr MS Mahomedy
Board of Directors	National Ports Act	In-House: TNPA	21 February 2019	Dr PS Molefe Ms UN Fikelepi Ms RJ Ganda Prof EC Kieswetter Ms ME Letlape Mr MS Mahomedy Ms DC Matshoga Mr TC Morwe Dr FS Mufamadi Adv OM Motaung Mr AP Ramabulana Mr LL von Zeuner
Individual director development	Technology and Information Governance	Institute of Directors of Southern Africa	27 March 2019	Ms UN Fikelepi

Board independence



The Board comprises an appropriate balance of knowledge, skills, experience, diversity and independence, enabling it to objectively and effectively discharge its duties. In accordance with the King IV Code, the Board is satisfied that the non-executive directors of the Company are independent.

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.

Core responsibilities of the Board

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

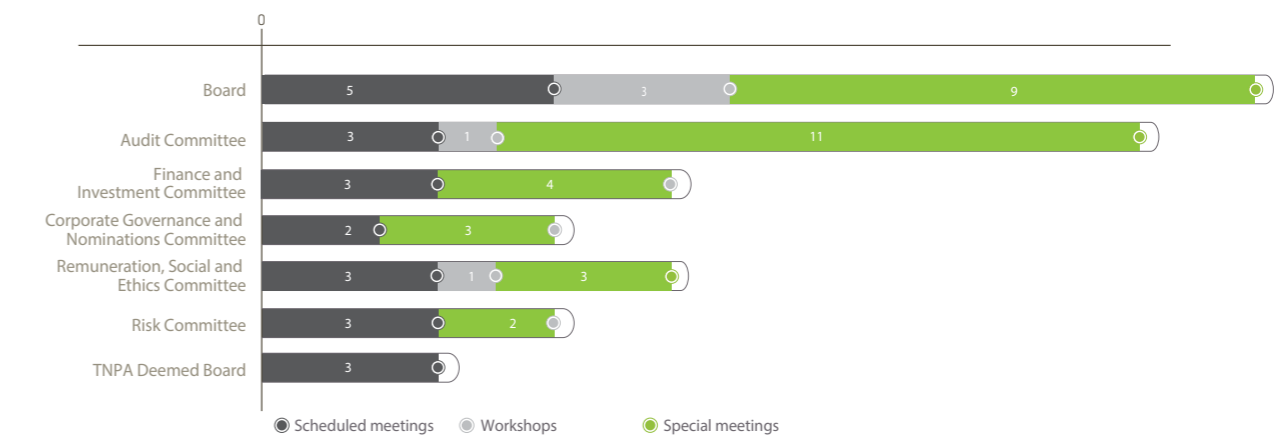
The Board has interrogated matters within its mandate and those relating to the year under review and is satisfied that it has discharged its responsibilities.

Board and committee meetings



The diagram below indicates the number of scheduled and ad hoc meetings held during the year under review.

Status of meetings convened during the 2019 financial year



Board and committee meetings held during the period 1 April – 13 May 2018

Board and committee meetings were held and attended by the previous non-executive directors prior to the appointment of the current Board on 14 May 2018, whose appointment was confirmed on 23 May 2019. The table below disclose the number of meetings held and attended by the former directors during the period 1 April – 13 May 2018.

Table 38: Board and committee meetings held during the period 1 April – 13 May 2018

Board/committee	Board	Audit Committee	Risk Committee	Acquisitions and Disposals Committee
Number of meetings held	1 (CS)	1 (SP)	1	1
Ms LC Mabaso# (Chairperson)	✓	—	—	✓
Mr SI Gama ¹	—	—	✓	✓
Ms Y Forbes#	✓	—	✓	—
Ms AC Kinley#	✓	✓	—	✓
Ms PEB Mathekga#	✓	✓	—	—
Mr ZA Nagdee#	✓	—	—	✓
Mr VM Nkonyane#	✓	—	—	—
Mr GJ Pita ²	—	—	—	—
Mr SM Radebe#	✓	✓	✓	—

¹ Mr SI Gama's contract of employment was terminated with effect from 28 October 2018.

² Mr Pita resigned with effect from 19 April 2018.

Ms LC Mabaso, Y Forbes and AC Kinley resigned with effect from May 2018 and Ms PEB Mathekga and Messrs VM Nkonyane, ZA Nagdee and SM Radebe were removed with effect from May 2018.

CS Closed session.

SP Special meeting.

The table below discloses the number of meetings held during the year and the attendance of the respective directors from 23 May 2018 to 31 March 2019.

Table 39: Schedule of directors' attendance at Board and committee meetings*

Board/Committee	Board	Audit Committee	Finance and Investment Committee	Corporate Governance and Nominations Committee	Remuneration, Social and Ethics Committee	Risk Committee	TNPA Deemed Board
Number of meetings held	17	15	7	5	7	5	3
Dr PS Molefe (Chairperson)	17	—	—	5	—	—	3
Ms UN Fikelepi	16	—	—	5	—	5	3
Ms RJ Ganda	15	14	5	—	—	—	2
Mr SI Gama ¹	6	—	—	—	—	—	1
Prof EC Kieswetter ⁴	15	—	7	—	2	—	1
Ms ME Letlape	16	14	—	—	7	2	3
Mr MS Mahomed ⁵	15	—	—	—	—	—	2
Ms DC Matshoga	16	—	—	5	—	4	2
Ms V McMenamin ³	4	—	—	—	2	—	—
Mr TC Morwe ²	7	—	—	—	—	—	1
Adv OM Motaung	11	—	2	4	—	—	3
Dr FS Mufamadi	14	—	—	5	7	—	1
Mr AP Ramabulana	15	14	7	—	—	—	3
Ms GT Ramphaka	16	13	—	—	—	5	3
Mr LL von Zeuner	16	10	7	—	—	5	3

* Each scheduled Board meeting is preceded by a closed session attended by non-executive directors

¹ Mr SI Gama's contract of employment was terminated with effect from 28 October 2018.

² Mr TC Morwe was appointed with effect from 1 November 2018. His contract of employment expired with effect from 30 April 2019.

³ Ms V McMenamin resigned with effect from 28 February 2019.

⁴ Prof EC Kieswetter resigned with effect from 6 May 2019.

Mr MS Mahomed was appointed Acting Group Chief Executive in May 2019.

Mr MD Gregg-Macdonald was appointed Acting Group Chief Financial Officer with effect from 13 May 2019.

Mr LL von Zeuner attended two days of the three-day workshop held in November 2018.

Ms UN Fikelepi was appointed a member of the Remuneration, Social and Ethics Committee with effect from 15 March 2019.

Executive Directors are not members of the Board Committees.

Table 40: Summary of critical matters during 2018/19*



Board	
• Total number of meetings held during the year: 17	• Executive director [^] • Independent non-executive director [†]
Chairperson: Dr PS Molefe [†]	Members: <ul style="list-style-type: none"> • Ms UN Fikelepi[†] • Ms RJ Ganda[†] • Prof EC Kieswetter^{†1} • Ms ME Letlape[†] • Ms DC Matshoga[†] • Dr FS Mufamadi[†] • Mr LL von Zeuner[†] • Ms V McMenamin^{†2} • Mr SI Gama^{†3} • Mr TC Morwe^{†4} • Mr MS Mahomed^{†5} • Adv OM Motaung[†] • Mr AP Ramabulana[†] • Ms GT Ramphaka[†]
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> • Dissolution of the Acquisitions and Disposals Committee • New Board composition and amendment to the MOI • Executive directors' fees • Pension Funds' bonus payments • Going concern status • State capture issues • PFMA matters • Contract management • Forensic investigations and cooperation with law enforcement agencies • Derailments • Low volumes 	<ul style="list-style-type: none"> • Dissolved the Acquisitions and Disposals Committee. • Established the Finance and Investment Committee. • Recommended the amendments in the MOI to the Shareholder Minister for approval. • Approved the going concern assertion. • Recommended the executive directors' fees to the Shareholder Minister for approval. • Approved the Transnet Transport Pension Fund (TTPF) Sub-Fund 2019 ad-hoc bonus payment. • Approved the Transnet Second Defined Benefit Fund (TSDBF) ad-hoc bonus payment. • Considered state capture related issues and appearances before the Zondo Commission of Inquiry by Company representatives. • Considered increasing PFMA reportable issues, media allegations against Transnet and issues raised by the Standing Committee on Public Accounts (SCOPA). • Under took to SCOPA to reduce instances of contract variations through deviations and extensions. As such, reporting on contracts is a standing matter at the Finance and Investment Committee meetings to ensure proactive review of contracts and effective management of contracts. • The Company has also instituted independent forensic investigations to address the alleged corporate governance breaches on contracts concluded between 2004 and 2018 and the prevailing media allegations. Some of the recommendations from the forensic investigation have been implemented while further investigations have been commissioned. • Collaborated with law enforcement agencies. • Considered root causes of derailments and low volumes, and the related remedial plans.

* A more detailed table of key activities and outputs for the 2019 financial year is online in the full Governance Report at www.transnet.net

¹ Prof EC Kieswetter resigned as a non-executive director of the Company with effect from 6 May 2019.

² Ms V McMenamin resigned as a non-executive director of the Company with effect from 28 February 2019.

³ Mr SI Gama's contract of employment was terminated with effect from 28 October 2018.

⁴ Mr TC Morwe was appointed with effect from 1 November 2018. His contract of employment expired with effect from 30 April 2019.

⁵ Mr MS Mahomed was appointed Acting Group Chief Executive in May 2019.

Chairperson and Group Chief Executive



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 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 Executive Committee, 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 to the Group Chief Executive and specified governance structures and/or, in turn, by the Group Chief Executive to the members of the Group Executive Committee 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 the duties, obligations and powers imposed upon the deemed authority under the National Ports Act.

Appointment of directors and succession planning



The Company, through the Shareholder Minister, adheres to the prescribed requirements for the composition, election, appointment and remuneration of the Board. The Corporate Governance and Nominations Committee is responsible for the succession planning of the Board (based on the related skills requirements and skills matrix) for recommendation to the Shareholder Minister. The Company has provided indemnification and insurance for directors and prescribed officers, the extent and adequacy of which is reviewed annually.

The Transnet Board terminated the employment of the Group Chief Executive (GCE), Mr Siyabonga Gama, with effect from 23 October 2018.

It is critical that Transnet fulfils its economic and developmental mandates, and the Board considers it both a business and governance imperative that a new executive head be appointed to ensure this outcome.

Mr Tau Morwe was appointed Acting GCE with effect from 1 November 2018 for a six-month period. When his contract expired on 30 April 2019, Mr Mohammed Mahomed was appointed as Acting Group Chief Executive, effective from 1 May 2019.

Management of potential conflicts of interest



The Companies Act codified the fiduciary duties of directors, and prohibits the use of position, privileges and/or confidential information for personal gain or to benefit another person improperly. The Board continuously improves the governance instrument to ensure continued adherence to the prescribed standards of ethical and professional conduct.

Where it has been established that 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, Board committee or Group Executive Committee and its subcommittees, as the case may be, decides that the member's interest in the matter is trivial or irrelevant.

The declaration of interest and related-party disclosures registers are signed by the members and attendees at all formal meetings of the Board and the Group Executive Committee, and their committees. These registers are maintained by the Group Company Secretary. In addition, non-executive directors, the Group Executive Committee members, Extended Executive Committee members, line management (levels C to 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 at the beginning of each financial year 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 and the Group Executive Committee note their respective annual declarations of interests registers. The Corporate Governance and Nominations Committee and the Remuneration, Social and Ethics Committee conduct annual reviews of the filed declaration of interest forms of the members of the Board and Group Executive Committee for oversight purposes.

The declaration of interest process is conducted through an electronic 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. The declaration of interest and related-party disclosure policies for directors and employees are revised every five years, or as required, in line with the Company Policy Framework.

Group Company Secretariat function



The Board has appointed a competent and qualified Group Company Secretary who is responsible for developing systems and processes to enable the Board to discharge its functions efficiently and effectively. The Group Company Secretary prepares Annual Work Plans for the Board and its committees as informed by the strategic direction of the Company. The Corporate Governance and Nominations Committee reviews the Annual Work Plans and makes recommendations to the respective Board committees for consideration. These Annual Work Plans are recommended to the Board for approval by the respective Board committees for implementation and are continually tracked to assess progress.

The Group Company Secretary also advises the Board on corporate governance issues, the requirements of the Companies Act and other relevant legislation, both collectively and individually. The Board has unfettered access to the services and advice of the Group Company Secretary, and the Group Company Secretary acts as the primary point of contact between the Board and the Company.

In addition to various statutory functions, the Group Company Secretary provides individual non-executive directors and the Board with induction, guidance on duties, responsibilities 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's decision-making and communicates the Board's resolutions throughout the Company in a timely and appropriate manner.

The Group Company Secretary is qualified to perform duties in accordance with applicable legislation and is considered by the Board 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 is satisfied that the Group Company Secretary maintains an arm's length relationship with the Executive Management Committee, the Board and the individual non-executive directors.

Ms Nokuthula Khumalo resigned from the role of the Group Company Secretary with effect from 30 June 2019. The Board of Directors appointed Ms Komilla Naicker as the Acting Group Company Secretary with effect from 16 July 2019.

Benchmarking

The Group Company Secretariat continues to conduct benchmark exercises with other SOCs and private companies, while sharing knowledge gained in the corporate governance sphere with other SOCs, with the objective of enhancing uniformity, standardisation and alignment of best practice across the SOCs. This exercise mutually benefits the participants.

Board committees

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. PFMA requirements for the composition and election of the Audit Committee are strictly observed.

The Audit Committee comprises independent non-executive directors who are duly elected by the Shareholder Minister at the annual general meeting in line with legislative requirements. Two

scheduled meetings were held during the year and all quorum requirements were met. The Audit Committee provides the following support activities to the Board:

- Assists the Board in discharging its duties to safeguard assets and evaluate internal control frameworks.
- Reviews and assesses the integrity and effectiveness of the accounting, financial, compliance and other control systems.
- Considers the internal and external audit process, accounting principles and policies.
- Strengthens the independence of the internal and external audit functions to ensure their effectiveness.
- Ensures effective communication between the internal auditors, external auditors, the Board, management and regulators.
- Ensures compliance with and adherence to applicable legal, regulatory and accounting requirements.
- Contributes to a climate of discipline and control which will reduce the opportunity for fraud.
- Assists the Board in discharging its duties as it pertains to ICT governance.

Table 41: Summary of main undertakings and considerations during the year*

Audit Committee	
<ul style="list-style-type: none"> • Total number of meetings held during the year: 15 • Executive director[^] • Independent non-executive director⁺ 	
<p>Chairperson: Ms RJ Ganda⁺</p>	<p>Members:</p> <ul style="list-style-type: none"> • Ms ME Letlape⁺ • Mr AP Ramabulana⁺ • Ms GT Ramphaka⁺ • Mr LL von Zeuner⁺ <p>No external advisers attended committee meetings during the year.</p>
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> • Integrated report material aspects • Tightening of internal controls • Contract deviations and extensions • Irregular expenditure • Qualified audit report • Company's loan covenant 	<ul style="list-style-type: none"> • The committee approved the <IR> material topics and matters and the <IR> terms of reference. • The Company has reinstated assurance committees at the Operating Divisions' level to deal with PFMA transgressions as they arise. • A step-up programme was introduced to tighten internal controls and to give more emphasis on consequence management. • Considered irregular expenditure. • Considered a remedial plan to deal with weak governance environment. • Considered the threat to the Company's loans covenants.

* A more detailed table of key activities and outputs for the 2019 financial year is in the full Governance Report at www.transnet.net

Corporate Governance and Nominations Committee



King IV. P6 & 8

The Corporate Governance and Nominations Committee provides the following support activities to the Board:

- Ensures that the Board's 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.

- Sets criteria for the nomination of directors to be recommended to the Board for appointment to the Board committees.
- Nominates potential Audit Committee members for appointment by the Shareholder Minister.
- Nominates potential Remuneration, Social and Ethics Committee members for approval by the Board and confirmation by the Shareholder Minister at the annual general meeting or through a written resolution.
- Ensures that best practice succession planning policies are implemented in respect of executive directors and independent non-executive directors.
- Administers and manages the selection process of the Group Chief Executive on behalf of the Board and makes recommendations on the top three candidates - in order of priority - to the Board by complying with the 'Guidelines for the appointment of a Group Chief Executive for a State-Owned Enterprise'.

Table 42: Summary of the main undertakings and considerations during the year*

Corporate Governance and Nominations Committee	
Total number of meetings held during the year: 5	Executive director^ Independent non-executive director^
Chairperson: Ms DC Matshoga [†]	Members: <ul style="list-style-type: none"> • Dr PS Molefe[†] • Ms UN Fikelepi[†] • Adv OM Motaung[†] • Dr FS Mufamadi[†] No external advisers attended committee meetings during the year.
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> • Delegation of Authority (DOA) Framework • Board composition and Board evaluation • Transnet Transport Pension Fund (TTPF) matters • Transnet Second Defined Benefit Fund (TSDBF) matters • Shareholder's Compact monitoring • Review cross-cutting matters from other committees • Director development and Board continuous improvement 	<ul style="list-style-type: none"> • Recommended to the Board the approval of the DOA Framework. • Recommended to the Board the Board's committees composition. • Approved the Internal Board Evaluation Scope. • Recommended to the Board the (TTPF) ad hoc bonus payment. • Recommended to the Board the TSDBF proposed rule amendment 11.

* A more detailed table of key activities and outputs for the 2019 financial year is in the full Governance Report at www.transnet.net

Risk Committee



King IV. P6 & 8

The Risk Committee provides the following support activities to the Board:

- Reviews and assesses the integrity of the risk control processes and systems.

- Ensures that the risk policies are managed effectively and in accordance with the Enterprise Risk Management Framework approved by the Board from time to time.
- Ensures effective communication with the internal and external auditors, the Audit Committee, the Board, management and regulators on risk management.
- Contributes to a climate of discipline and control which will reduce the opportunity for fraud and other operational losses.
- Assesses any significant risk control failings or weaknesses identified and their potential impact and confirms that appropriate action has or is being taken.

Table 43: Summary of the main undertakings and considerations during the year*

Risk Committee	
Total number of meetings held during the year: 5	Executive director^ Independent non-executive director^
Chairperson: Mr LL von Zeuner [†]	Members: <ul style="list-style-type: none"> Ms UN Fikelepi[†] Ms ME Letlape[†] Ms DC Matshoga[†] Ms GT Ramphaka¹ Mr SI Gama² No external advisers attended committee meetings during the year.
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> • An increasing trend in derailments • Credit rating agencies' assessments, and their impact on the Company's funding requirements • Fraud risks and consequence management • Status of ongoing forensic investigations • Ensuring regular updates on forensic investigations • Integrated risk reporting within Transnet • Reputational risks 	<ul style="list-style-type: none"> • Considered an increasing trend in derailments - addressed across the Company and visible leadership strategies implemented, which include individual executive members being allocated specific work areas to visit regularly to engage employees on different matters, including safety. • Considered credit rating agencies' assessments, and their impact on the Company's funding requirements. Mitigation plans to improve the Company rating while acknowledging the link with the sovereign - included reducing and deferring capital spend and instituting alternative funding models until a stable position is achieved. • Considered fraud risks and forensic management briefings on consequence management and expediting the management of cases through forensic investigations. • Held meetings dedicated to ensuring that the committee receives regular updates on the forensic investigations and consequence management implementation. The forensic portfolio was transferred from the Chief Audit Executive to the Chief Corporate and Regulatory Officer. • Considered reputational risks. • Streamlined risk reporting through Integrated Risk Reporting to ensure effective oversight of the Company's complicated business.

* A more detailed table of key activities and outputs for the 2019 financial year is in the full Governance Report at www.transnet.net.

¹ Ms GT Ramphaka was appointed Chairperson of the Risk Committee with effect from 29 May 2019.

² Mr SI Gama attended once between 1 April 2018 to 13 May 2018. His employment contract was terminated with effect from 28 October 2018.

Finance and Investment Committee



The Finance and Investment Committee provides the following support activities to the Board:

- Advances and maintains the Company's financial and investment policies to ensure its financial sustainability.

- Approves investment transactions within the committee's delegated authority.
- Oversees trends in supplier development and localisation spend in line with Broad-Based Black Economic Empowerment plans and monitors progress on these plans.
- Considers strategic growth investments and partnerships and makes recommendations to the Board.
- Monitors the implementation of strategic growth investments and partnerships against the approved plans.
- Recommends divestments (disposals) to the Board in line with the Delegation of Authority (DOA) Framework.
- Approves procurement strategies and oversees related awards in line with the DOA Framework for assurance purposes.
- Considers property lease agreements in line with the DOA Framework.

Table 44: Summary of the main undertakings and considerations during the year*

Finance and Investment Committee	
<ul style="list-style-type: none"> • Total number of meetings held during the year: 7 	
<ul style="list-style-type: none"> • Executive director[^] • Independent non-executive director⁺ 	
Chairperson: Prof EC Kieswetter ^{*1}	Members: <ul style="list-style-type: none"> • Ms RJ Ganda⁺ • Adv OM Motaung⁺ • Mr AP Ramabulana⁺ • Mr LL von Zeuner^{*2} No external advisers attended committee meetings during the year.
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> • Eskom Long-Term Transportation Agreement • Improved procurement governance 	<ul style="list-style-type: none"> • Recommended to the Board the Eskom Long-Term Transportation Agreement. • In line with its mandate, the committee provided guidance and oversight on procurement-related matters to assure that tender awards are issued to bidders who meet the criteria and have adequate capabilities to execute the contracts. This assurance will proceed until such time that there is assurance that corrupt activities have been eradicated and that good governance prevails.

* A more detailed table of key activities and outputs for the 2019 financial year is in the full Governance Report at www.transnet.net.

¹ Prof EC Kieswetter resigned as a non-executive director of the Company with effect from 6 May 2019.

² Mr LL von Zeuner was appointed Chairperson of the Finance and Investment Committee with effect from 29 May 2019.

Remuneration, Social and Ethics Committee



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, and as a committee of the Board in respect of all other duties assigned to it by the Board in terms of its mandate.

The committee provides the following support activities to the Board:

- Advises the Board regarding responsible corporate citizenship and the ethical relationship between the Company and its stakeholders, both internally and externally. The committee manages 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.
- Manages and monitors 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.
- Oversees the ethics management programme implemented by management.
- Ensures 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 the Shareholder's interests.
- Reviews the design and management of salary structures, policies and incentive schemes and ensures that they motivate sustained high performance and are linked to corporate performance.

- Develops and implements a remuneration philosophy for disclosure to enable a reasonable assessment of reward practices and governance processes to be made by stakeholders.
- Recommends the level of independent non-executive directors' fees to the Board.
- Ensures compliance with applicable laws and codes.
- Considers and makes recommendations on all human capital matters related to the:
 - Restructuring of Transnet;
 - Disposal of assets/part of Transnet's business; and
 - Acquisition of assets/new business.
- Development of human resources issues.
- Approves succession planning policy and procedures for the Group Executive Committee (other than executive directors) and the Extended Executive Committee members.

Table 45: Summary of the main undertakings and considerations during the year*

Remuneration, Social and Ethics Committee	
Total number of meetings held during the year: 7	
<ul style="list-style-type: none"> • Executive director[^] • Independent non-executive director⁺ 	
Chairperson: Dr FS Mufamadi ⁺	Members: <ul style="list-style-type: none"> • Ms UN Fikelepi⁺³ • Prof EC Kieswetter^{*1} • Ms ME Letlape⁺ • Ms V McMenamin^{*2} No external advisers attended committee meetings during the year.
Most material matters arising during the year	Main undertakings and considerations
<ul style="list-style-type: none"> • Non-executive directors' remuneration • Actions required in terms of suspensions and appointments of senior executives in light of widespread corruption allegations • Measures to address employee and public safety and fatalities • Improvement of employment equity across the organisation • Need to improve consequence management in terms of fraud and corruption matters 	<ul style="list-style-type: none"> • Recommended to the Board and Shareholder Minister the review of the non-executive directors' fees. • Recommended consequent management of the Group Chief Executive and other executives. • Recommended the extension of the Acting Group Chief Executive's contract. • Considered Human Resources policies for review. • Considered suspensions and terminations. • Considered Executive Committee vacancies. • Considered skills and capacity building, including management skills. • Reviewed the remuneration and reward philosophy. The committee called for the revision of the Company's balanced scorecards and related reward schemes (Short Term and Long-Term Incentive Schemes Ground Rules). • Considered ethics matters, such as fraud and corruption matters and the need to improve efficiencies in consequence management. 2019 saw more decisive action being taken to institute consequence management. • More transparent reporting regarding remedial actions taken to eradicate corruption and sharing positive and constructive news have impacted positively on media reporting.

* A more detailed table of key activities and outputs for the 2019 financial year is in the full Governance Report at www.transnet.net

¹ Prof EC Kieswetter resigned as a non-executive director of the Company with effect from 6 May 2019.

² Ms V McMenamin resigned as a non-executive director of the Company with effect from 28 February 2019.

³ Ms UN Fikelepi was appointed a member of the Remuneration, Social and Ethics Committee with effect from 15 March 2019.

Our control environment in brief

King IV. P2, 4, 8, 11, 12, 13 & 16

Transnet's governance control environment comprises eight key areas:

1. Integrated procurement management

- Optimally regulated infrastructure-related procurement and delivery management with Finance and Investment Committee Terms of Reference.
- Infrastructure Procurement and Delivery Management Framework with procurement rules, procedures and processes.
- Procurement Ombudsman.
- Up-to-date compliance assurance for high-value tender processes.
- Transnet Delegation of Authority.
- Efficient and effective contract management, with SCM Contract Management Procedures Manual and Procurement Procedure Manual.

- Supply Chain Management Policy and robust, independent complaints handling.
- Adherence to a strict set of laws, codes, rules and standards, including (but not limited to):
 - Section 217(1) of the Constitution and section 51(1)(a) (iii) of the PFMA;
 - Promotion of Administrative Justice Act, No 3 of 2000, which was issued in terms of section 33 of the Constitution;
 - The Construction Industry Development Board Act, No 38 of 2000, and the regulations thereto;
 - The Promotion of Access to Information Act, No 2 of 2000;
 - The Preferential Procurement Policy Framework Act, No 5 of 2000, and the regulations thereto; and
 - Instruction notes are also issued by National Treasury, which regulate Transnet's procurement processes.

74 PFMA compliance

2. Internal audit

- Accords with section 51 of the PFMA.
- Governed by the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA standards).
- An independent assurance function that is functionally accountable to the Transnet Audit Committee.
- The mandate and terms of reference are included in the Internal Audit Charter – approved annually by the Transnet Audit Committee.
- Transnet Internal Audit was a fully outsourced function operating under strategic leadership of the Chief Audit Executive – a Transnet permanent employee. Transnet is considering increasing the internal capacity.
- Develops and executes a risk-based audit plan.

3. Enterprise risk management and integrated assurance

- The Board delegates the Group's risk management function to the Risk Committee.
- The strategic risk profile is generated from the Transnet ERM Strategy Framework, based on ISO 31000: 2009.
- Transnet's Integrated Assurance Model manages risks and controls, and encompasses the assurances provided by management, internal specialists, internal audit, external audit, and external advisers and service providers.
- First line of defence: Assurances provided by direct line management, which is blanket assurance across the full scope of risks and controls.
- Second line of defence: Assurance providers that are internal to the Company, yet not directly responsible for the direct management of the process under review.
- Third line of defence: Assurance providers that act independently from management and the Company's operations.
- Fourth line of defence: Independent oversight committees with specific responsibilities pertaining to the risk, control and assurance of Transnet's activities and their impact on stakeholders.

32 Material matters, opportunities and risks

4. Strategic execution and performance management

- Transnet's performance targets are confirmed in the annually negotiated Shareholder's Compact.
- Transnet manages the execution of its strategic imperatives through the Company's Strategic Execution Framework.
- The framework is designed to achieve:
 - Visibility of strategic execution to identify and close execution gaps;
 - Group-wide integration and alignment of strategic initiatives and critical processes;
 - Problem-solving and analytical tools, and follow through with solution-driven actions;
 - A risk-based execution process to monitor the MDS; and
 - A platform for collaboration and seamless execution of strategic initiatives.

32 Material matters, opportunities and risks

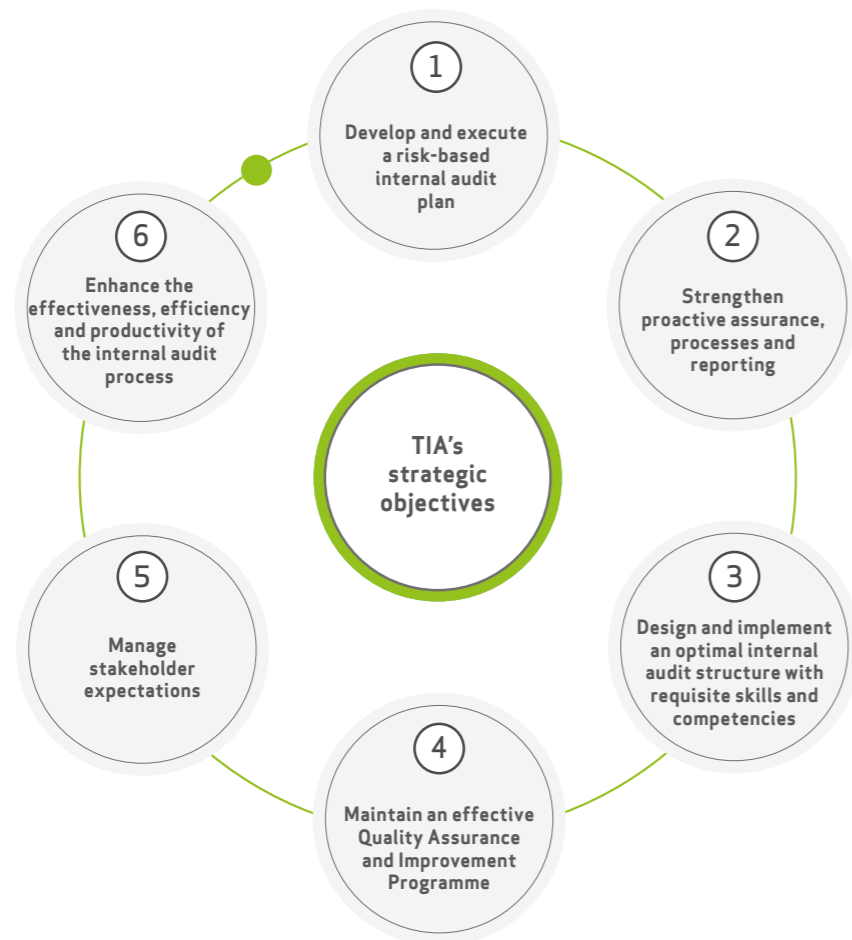
5. Ethics and fraud management

- The Code of Ethics ('the Code') enables a culture of entrenched values, principles, standards and norms.
- Integrity pacts are concluded with all bidders and suppliers.
- Fraud and corruption awareness training is conducted annually with all employees.

- Service providers, suppliers and trade partners are also subject to the Code.
- The Code is revised every five years or as required.
- The Group Company Secretary is responsible for the Code development, review, and Human Resources is responsible for the implementation of 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 Tip-Offs Anonymous Hotline is outsourced to a third party to ensure independent, seamless investigation without prejudice. The Hotline is available 24 hours a day, seven days a week and call centre agents converse in all 11 official South African languages. All irregularities, whether reported through external or internal reporting channels, are investigated through an established forensics investigation process.
- The Transnet Whistle-blowing Policy is aligned with the Protected Disclosures Act, No 26 of 2000, and helps to protect employees from various forms of victimisation.
- The fraud and corruption risk management strategy provides mechanisms for the prevention, early detection and investigation of irregularities.

46 Our performance and outlook

Figure 12: Transnet Internal Audit (TIA) strategic objectives



Fraud and corruption risk management strategy

Figure 13: Key themes of the fraud and corruption risk strategy

Financial capital	Manufactured capital	Intellectual capital	Social and relation capital	Human capital
Forensic data analytics	Capital programmes	Tone at the top Asset management	Fraud and corruption risk assessments	Recruitment and selection
Revenue generation	Anti-corruption compliance programme	Forensic data analytics Time and attendance	Declaration of interest	Anti-bribery, fraud and corruption awareness
Rail sidings	Lease management	Fraud and corruption risk assessments Tender management	Declaration of gifts	Whistle-blowing mechanism
Treasury transactions	Verification of vacant/illegal properties	Contract management Three-quote process	Recruitment and selection	Ethics Compliance Programme
Inventory	Scrap sales	Payroll Procurement to pay	Ethics management	Legislative compliance reviews
		High Value Tender (HVT) reviews		

6. Governance of stakeholder management and engagement

- The Board delegates authority to the Group Chief Executive who reports to the Board on all material stakeholder issues and takes responsibility for incorporating these into Transnet's strategy and risk management.
- Stakeholder engagement practices align with the Company's Culture Charter and supporting values.
- Engagement norms include inclusivity, accountability and responsiveness.
- Stakeholder engagement performance is measured as a key performance indicator in the balanced scorecards of stakeholder relationship owners.
- Stakeholder engagement is decentralised, but the Board has overall responsibility for stakeholder engagement.
- The monitoring and evaluation of stakeholder engagement is reported to the Remuneration, Social and Ethics Committee and to the Board.
- Transnet has adopted guidelines from the AA1000 standards (Accountability Principles Standard 2008 and the AA1000 Stakeholder Engagement Standard 2011).

and compliance with applicable laws, is the overall responsibility of the Board, which is provided with insight on ICT's updated regulatory universe each year.

- In aligning of IT Governance practices within Transnet, ICT has focused on the improvement of the integrated assurance approach; in addition to optimising the assurance coverage on the ICT and Digital following feedback from both external and internal assurance as well as risk management.
- With the proliferation of technology in this digital era, Transnet ICT has elevated cybersecurity to a top priority and provides feedback to the Board on a regular basis. It further guards against negative publicity and reputational damage resulting from social media risks.
- Focus has been on protecting Transnet's security posture through the initiated Cyber Security Improvement initiative.
- Incidents such as ransomware outbreak and cloning of the Transnet.net website have occurred during the course of the year, necessitating the strengthening of our incident response process and ICT continuity management.
- Transnet ICT continues to monitor its strategic risk-"Inadequate Information and Communication Technology (ICT) Infrastructure and Technology to enable Business to achieve its Objectives" through the strengthening of effective controls in domains of contract and vendor management, strategy and architecture, data management and asset management.
- Business value engineering processes enforce the monitoring and evaluating the value delivered from ICT investments following Transnet's project delivery process for ICT; to principles to plan for, monitor and track benefits throughout the project delivery process.
- Transnet has implemented a King IV-aligned governance framework to achieve continuous improvements and to achieve the following:
 - Improved delivery on Transnet's strategic goals and outcomes.
 - Improved ICT business enablement.
 - Improved stakeholder communication.
 - Effective service delivery through ICT-enabled services.
 - Lower costs.
 - Increased alignment of investment towards strategic goals.
 - Improved return on ICT-enabled investment.
 - ICT risks managed in line with the priorities and Transnet's risk appetite.
 - Appropriate security measures to protect Transnet and employee information.

- Improved management of business-related ICT projects.
- Improved information management.
- ICT executed in line with legislative and regulatory requirements.

8. Regulatory compliance

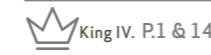
- Group Risk and Compliance ensures that the outcome of its plan is aligned with the mandates of the Audit Committee and Risk Committee and executes its areas of focus from an annual Board-approved Compliance Plan.
- Managers are responsible for ensuring compliance as it relates to their areas of accountability.
- More than 200 primary regulatory requirements impact Transnet.
- Compliance is implemented through a risk-based approach using a decentralised model, with Compliance Officers appointed within Operating Divisions and Corporate Centre functions.
- The compliance function independently monitors and reports on compliance controls relating to high-priority regulatory requirements.
- The compliance function assists and supports the Board and management to discharge their compliance responsibilities.
- A Transnet POPI Steerco, sponsored by the CHRO, has been established to ensure that all specialist functional areas comply with the requirements of POPI. These include HR, iSCM, ICT, Security, Business Development, Foundation, Insurance and Internal Audit. Each functional area has developed Compliance Control Plans which details the controls required to ensure compliance to the Act. Further, POPI training was also conducted across the business. A review process is currently underway in order to determine the adequacy of the controls implemented.

42 Addressing stakeholder concerns

7. ICT management and governance

- The Board, supported by the Corporate Governance, Audit Committee and Risk Committee, is responsible for IT governance and oversight.
- The Board has delegated the responsibility for the implementation of the IT governance framework to management with the mandate to implement effective ICT and digital structures, principles, processes and practices that will enable effective ICT and Digital governance within Transnet.
- ICT and Digital is governed by the CIO Council, responsible for directing, controlling and measuring of overall ICT and Digital strategic definition and implementation within Transnet.
- As part of the work plan for a new year, various artefacts, such as the ICT Governance Framework and the IT Governance Charter, are added to the Board agenda for review, approval and assessment for effectiveness. To ensure business resilience, ICT's disaster recovery plans, tests and reports are regularly submitted to the Board for review.
- The ethical and responsible use of ICT,

Remuneration



Remuneration philosophy

The King IV Code Principle 14 emphasises that remuneration practices should be equitable, responsible and transparent, linked to Transnet's strategy, and should result in continued shareholder value creation. In this regard, Transnet aims to ensure that remuneration is commensurate with the roles and responsibilities of executives and also linked to the achievement of our

strategic objectives, to promote Transnet's long-term sustainability.

Transnet's remuneration philosophy supports the strategic goals and objectives of the organisation and creates an environment in which teams are challenged and rewarded to achieve targets and to sustain superior performance. This approach to remuneration aims to encourage and reward performance that is aligned to the business strategy.

Management is responsible for delivering against the mandate set by the Transnet Board and the Shareholder and to

manage the business on a day-to-day basis to achieve the stated objectives. The performance of Transnet as a Company, and individual performance against a set of broadly predetermined metrics form part of the remuneration cycle.

Linking reward to the strategic intent of Transnet

The table below provides an overview of the different reward elements and the link to the strategic intent of Transnet.

Table 46: Reward linked to strategy

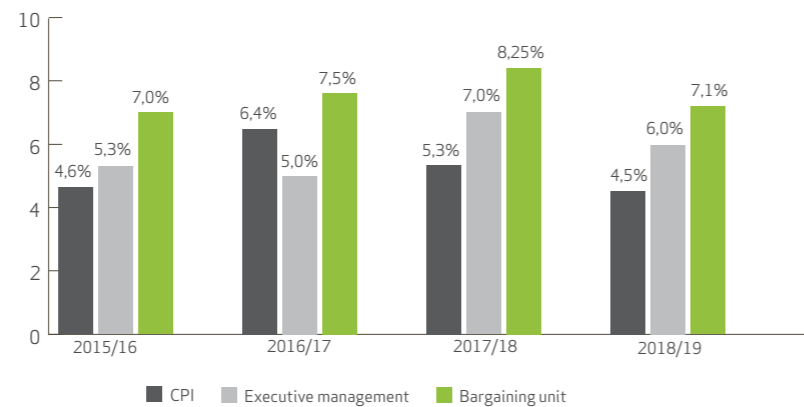
Reward element	Management (Grade level A to F)	First line management, specialists and technicians (Grade level G)	Junior employees (Grade level H to L)	Link to strategic intent
Guaranteed pay	<ul style="list-style-type: none"> • Total cost-to-company • Salary increases based on mandate and individual performance • 13th cheque can be structured as part of package • Travel allowance structured if required to conduct business travel 	<ul style="list-style-type: none"> • Cost-to-company package • Excludes medical subsidy • 13th cheque is structured as part of package • Increases negotiated, partially based on individual performance 	<ul style="list-style-type: none"> • Basic salary • Service bonus (13th cheque) • Increases negotiated 	<ul style="list-style-type: none"> • Ensure that talented individuals are attracted and retained • Reward superior performance
Other benefits	<ul style="list-style-type: none"> • Cell phones (tool of trade) • Computers (tool of trade) • Members of the Executive Committee are eligible for drivers and personal security based on risk assessment 	<ul style="list-style-type: none"> • Medical subsidy if employee is principal member of recognised medical aid • Cell phones (tool of trade) if job requirement • Computers (tool of trade) if job requirement 	<ul style="list-style-type: none"> • Housing allowance • Medical subsidy if employee is member of recognised medical aid • Cell phones (tool of trade) if job requirement • Computers (tool of trade) if job requirement 	<ul style="list-style-type: none"> • Ensure that employees can perform their role efficiently thereby increasing productivity
Short-term incentive (STI) scheme	<ul style="list-style-type: none"> • All eligible employees • Support and reinforce the desired behaviour to ensure the delivery and performance against the financial, non-financial, operational and strategic metrics that have been agreed, and to reward when these targets have been achieved and exceeded. 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Manage and facilitate the performance of employees through a results-driven approach
Long-term incentive (LTI) scheme	<ul style="list-style-type: none"> • Applicable to grade levels A, B and C based on individual performance and talent cluster • Attract and retain the required talent to sustain business performance 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Ensure long-term sustainability of the business
Recognition Programme	<ul style="list-style-type: none"> • All eligible employees • Support a culture where success is celebrated and employees feel valued for their contribution to the business 			<ul style="list-style-type: none"> • Improve employee engagement, productivity and quality of work

Annual salary increases

Annual increases for management levels are informed by individual performance ratings. Increases occur once annually or in the event of a promotion. Transnet does not allow interim or ad hoc salary increases.

Transnet concluded a three-year wage agreement with the recognised labour unions which expires at the end of the 2020/21 reporting period. The three-year wage agreement provides labour stability during the period and allows an opportunity for employees to focus on the achievement of the Transnet strategic objectives.

The graph on the right depicts the increases differentiated between executive management and bargaining unit compared to CPI for the past three years.



seniority, such as grade level in the organisation, individual performance as well as results from the talent management framework. Following the completion of the three-year banking period, the vesting payment is also subject to individual performance-rating and talent-rating criteria. The banked LTI amounts accrue interest over the three-year banking period.

The LTI scheme has specific clauses dealing with the company's performance over the banking period. Accordingly, a group modifier has been introduced. The measure of total average assets (ROTA) (excluding capital work in progress) is used as the Group LTI modifier.

Transnet will review both the STI and LTI schemes during the 2019/20 financial period to align with the DPE Remuneration Guide.

Individual performance management

Transnet's overall performance framework aligns to the Statement of Strategic Intent and the Shareholder's Compact. Each year, the framework is translated into a Transnet Scorecard, as well as the scorecard of the Group Chief Executive and then cascaded to all managers. The Balanced Scorecard Performance Management Methodology is well-entrenched across the business and is utilised for the management category as well as for first line managers, specialists and technicians.

Each year, managers' individual performance ratings are ratified to align individual performance with the overall performance of Transnet and its Operating Divisions. Both corporate and individual scorecards inform the determination of STI payments and annual increases.

Individual performance management for junior employees provides employees with clear visibility of their contribution to business drivers in the value chain and is based on both business and team performance objectives and measures. Individual behavioural aspects within an employee's control, such as attendance, discipline and safety, are also considered.

The performance management score informs the annual salary progression payment and the individual components of the performance score impact on the value of the STI payment. This groundbreaking intervention is in line with Transnet's drive to create a high-performance culture.

Remuneration of the Transnet prescribed officers

The successful execution of the Transnet strategy requires sustained effort and energy of the executive leadership to ensure high performance as well as a sustainable and profitable long-term growth path. As part of the Transnet strategy, the Company designed a reward philosophy for executive management to drive the implementation of the strategy while ensuring that key role players are retained in the Company. This is also aligned with the Remuneration Guide as issued by the Department of Public Enterprises.

Transnet is committed to the creation, facilitation and development of an organisation that supports the equality of all South Africans.

The Executive Directors and Prescribed Officers will not receive salary increases for the 2019/20 financial period, based on the directive issued by the office of the Minister of Public Enterprises.

Table 47: Guaranteed pay of Transnet Exco

The table below depicts the guaranteed pay of the Transnet Group Executive team for the reporting year:

Exco member	Salary R'000	Retirement benefit fund contributions R'000	Other contributions R'000	Other payments R'000	Total 2019 R'000	Total 2018 R'000
TC Morwe ^{1,9}	3 666	—	1	—	3 667	—
S Gama ^{1,2}	4 297	442	1	—	4 740	8 108
MM Buthelezi ⁶	5 225	446	2	11 543	17 216	5 401
EAN Sishi ⁷	4 555	443	2	—	5 000	4 591
DC Moephuli ¹²	—	—	—	—	—	2 484
MMA Mosidi ¹²	1 597	123	1	—	1 720	3 443
GJ Pita ^{1,12}	261	29	—	—	290	5 406
T Jiyane ¹²	4 578	445	2	—	5 025	4 748
GJE de Beer	5 029	534	2	—	5 565	5 258
KV Reddy	4 044	430	2	—	4 476	4 212
XB Mpongoshe ⁵	1 635	127	1	—	1 763	—
N Silinga ⁴	—	—	—	—	—	1 399
M Mahomed ^{1,3,10}	4 272	206	2	—	4 480	—
SA Vorster ³	178	17	—	—	195	—
R Madiba ³	990	83	1	—	1 074	—
T Majoka ³	1 472	118	1	—	1 591	—
GLN Sithole ⁸	694	50	—	—	744	—
S Qalinge ⁷	679	66	—	—	745	—
N Mdawe ³	141	12	—	—	153	—
LM Moodley ^{8,11}	506	43	—	—	549	—
R Nair ⁶	806	69	—	12 483	13 358	—
LL Tobias ³	216	18	—	—	234	—
MA Fanucchi	729	77	—	—	806	—
Total	45 570	3 778	18	24 026	73 392	45 050

¹ Group executives who are members of the Board of Directors.

² Contract terminated during the year.

³ Acted as Exco member.

⁴ Acted as Exco member from 1 November 2017 to 31 March 2018.

⁵ Hired in October 2018.

⁶ Settlement in respect of service termination - 31 March 2019, included in other payments.

⁷ On suspension.

⁸ Appointed as Exco member during the year.

⁹ Hired during the year. Contract expired after year end.

¹⁰ Appointed acting Group Chief Executive after year end. Mr MD Gregg-Macdonald was appointed acting Chief Financial Officer after year end.

¹¹ Suspended after year end.

¹² Services terminated in August 2019.

In the 2019/20 financial period Transnet will review the DOA Framework in respect of separation benefits to align with the DPE Remuneration Guide.

Variable Pay for Prescribed Officers

Ex-Gratia Payment for 2018/19

Transnet did not pay a Short-Term Incentive (STI) for the 2018/19 financial year. The rationale for the non-payment was based on the ground rules of the STI scheme, where payment is subject to compliance with specific gatekeepers. The payment of an incentive bonus, in terms of the STI scheme rules, requires the following conditions to be present:

1. A year-on-year improvement in actual EBITDA (before provision for incentives);

2. The payment must not result in the group breaching key debt covenant ratios;
3. The payment must not place the Group in financial distress; and
4. The payment must not result in a net loss after tax for the financial period.

EBITDA, before incentives, for the 2018/19 financial period is 1,7% lower than that achieved in the prior year. In terms of the incentive scheme rules, the bonus pool for 2018/19 is therefore Zero (no year on year improvement). Having considered the risks of a non-payment of a STI, the Transnet Board approved an ex-gratia payment to employees to the value of 50% of a thirteenth cheque, translated as 4,167% of guaranteed earnings.

Table 48: Short and long-term incentive payments for Transnet Executives

Transnet Executive	LTI 2019 R'000	LTI 2018 R'000	Ex-Gratia 2019 R'000	STI 2018 R'000
TC Morwe ¹	—	—	—	—
S Gama ^{1,2}	—	1 881	—	—
MM Buthelezi ⁶	—	980	—	3 658
EAN Sishi ⁷	—	1 145	—	3 086
DC Moephuli ²	—	—	—	—
MMA Mosidi ²	—	—	—	2 261
GJ Pita ^{1,2}	—	896	—	—
T Jiyane ⁷	—	607	—	—
GJE de Beer	—	—	232	3 452
KV Reddy	237	716	186	2 766
XB Mpongoshe ⁵	—	—	70	—
N Silinga ⁴	—	947	148	2 012
M Mahomed ^{1,3}	221	—	187	—
SA Vorster ³	15	—	8	—
R Madiba ³	—	—	41	—
T Majoka ³	97	—	64	—
GLN Sithole	36	—	31	—
S Qalinge ⁷	—	—	—	—
N Mdawe ³	—	—	6	—
LM Moodley ⁷	—	—	—	—
R Nair ⁶	—	—	—	—
LL Tobias ³	16	—	10	—
MA Fanucchi	—	—	34	—
Total	662	7 172	1 016	17 235

¹ Group Executives who are members of the Board of Directors.

² Contract terminated.

³ Acted as Exco member.

⁴ Acted as Exco member from 1 November 2017 to 31 March 2018.

⁵ Hired in October 2018.

⁶ Settlement in respect of service termination - 31 March 2019.

⁷ Services terminated.

Long-Term Incentive

The 2015/16 conditional award in respect of the Transnet Long-Term Incentive (LTI) scheme vested at the end of the 2018 financial period and payment will take place on 26 July 2019. The value of the LTI payment is impacted by the level of achievement of specific company and individual performance objectives.

The members of the Transnet Executive Committee were eligible for payment in respect of the LTI Scheme based on the ground rules of the scheme. The table below reflects the short- and long-term incentive payments for Transnet executives.

Fee structure for non-executive directors

The fee structure for non-executive directors will be aligned with the Shareholder Remuneration guidelines and the strategic intent of Transnet in the 2019/20 reporting period. Non-executive directors are appointed by the Shareholder Representative for a three-year term. Transnet's Memorandum of Incorporation, however, requires that the non-executive directors be submitted for re-election for each of the three years

at the Company's annual general meeting. Among the issues considered by the Shareholder Representative prior to re-election is the individual non-executive director's performance. The Shareholder Representative approves the fees payable to non-executive directors in advance. The non-executive directors are paid an annual retainer as well as an additional retainer fee for committee membership. They are, however, not paid for attendance of meetings. Fees paid to non-executive directors are differentiated based on

their appointments to the various committees of the Board.

The Executive Directors and Prescribed Officers will not receive salary increases for the 2019/20 financial period, based on the directive issued by the office of the Minister of Public Enterprises.

The table below depicts the actual remuneration for the Transnet non-executive directors for the reporting year:

Table 49: Guaranteed pay of Transnet non-executive directors

Name of Board member	Fees R'000	Other payments R'000	Total 2019 R'000	Total 2018 R'000
LC Mabaso (Chairperson) ²	112	—	112	1 350
Y Forbes ^{2,4}	62	—	62	656
PEB Mathekga ⁷	67	—	67	550
GJ Mahlalela ⁵	—	—	—	642
ZA Nagdee ⁷	67	—	67	581
VM Nkonyane ²	60	—	60	642
BG Stagman ¹	—	—	—	625
AC Kinley ²	91	—	91	160
SM Radebe ^{4,7}	121	—	121	192
P Molefe (Chairperson) ³	1 076	2	1 078	—
LL Von Zeuner ³	647	—	647	—
EC Kieswetter ³	566	—	566	—
R Ganda ³	566	—	566	—
DC Matshoga ³	566	—	566	—
UN Fikelepi ³	485	—	485	—
GT Ramphaka ³	472	—	472	—
OM Motaung ³	472	—	472	—
FS Mufamadi ³	550	—	550	—
AP Ramabulana ³	472	—	472	—
ME Letlape ³	517	—	517	—
V McMenamin ^{2,3}	278	—	278	—
Total	7 247	2	7 370	5 398

¹ Resigned during the prior year.

² Resigned during the year.

³ Hired in May 2018.

⁴ Trustees fees included.

⁵ Deceased during the prior year.

⁶ Directors' fees paid to Integrated Capital Management (Pty) Ltd (ICM).

⁷ Removed during the year.

Annexure A: Audit Committee Terms of Reference for Integrated Reporting

Audit Committee Terms of Reference for Integrated Report (IR)	
Purpose in relation to integrated reporting	<ul style="list-style-type: none"> Recommend the annual IR for approval by the Board. Oversee and monitor the quality and integrity of the integrated report IR: incorporating the financial statements sustainability reporting (nine SDOs), and public announcements in respect of the financial results. Assess the overall integrity of the IR project programme – this includes transparency and balance of IR information. Anticipate and understand how regulatory and reporting developments in the areas of financial, sustainability reporting and integrated reporting may affect the company in terms of the six capitals (financial, manufactured, intellectual, human, social and relationship and natural).
Accountability and responsibilities and Terms of Reference (ToRs)	<ul style="list-style-type: none"> Evaluate factors and risks that may impact on the accuracy of the IR and other external reporting. This includes factors that may predispose management to present misleading information or display significant poor judgement in the provision of information for the collation of the IR. Oversee the governance of the reporting processes and relevance of the related accounting policies and frameworks for the IR, annual financial statements, preliminary results announcements, and interim reports. Assess and give guidance on the application of the principles of comparability (to prior year), balance (address material stakeholder issues), transparency (particularly in terms of PFMA reporting) and reliability (internal and external assurance) insofar as it relates to disclosures contained within the IR. Confirm that material issues relating to sustainability have been ratified/approved by the Remuneration, Social and Ethics Committee.
Accountability and responsibilities and ToRs	<ul style="list-style-type: none"> Ensure that remuneration disclosures have been approved by the Remuneration, Social and Ethics Committee before recommending the IR to the Board. Provide internal assurance of the factual accuracy of performance data contained within the IR and that the achievement of strategic objectives is based on sound and reasonable judgement. Jointly, with the Risk Committee, approve the Corporate Governance Report to be contained as part of the IR suite.
Frequency of meetings and manner of call	<ul style="list-style-type: none"> As set out in the corporate calendar. However, where necessary, special meetings will be called for the explicit intention of monitoring and for giving guidance on the production of the IR.
Quorum	<ul style="list-style-type: none"> As set out in the Audit Committee's overall ToRs.
IR resources	<ul style="list-style-type: none"> Approved the IR governance process. Project Board to provide support to the Audit Committee in the production of the IR at Audit Committee meetings.
Reporting	<ul style="list-style-type: none"> The IR Forum Steering Committee, as represented by the General Manager: Group Reporting and Taxation, will report to the Audit Committee on progress and structure as well as content contained within the IR. The Audit Committee will report to the Board on the IR programme.

Abbreviations and acronyms

AGM	Annual General Meeting	LTI	Long-term incentive
B-BBEE	Broad-Based Black Economic Empowerment	MCLI	Maputo Corridor Logistics Initiatives
Capex	Capital expenditure	MDS	Market Demand Strategy
CEO	Chief Executive Officer	MI/km	Million litres per kilometre
CIDB	Construction Industry Development Board	MOI	Memorandum of Incorporation
CIPC	Companies and Intellectual Property Commission	MOU	Memorandum of Understanding
CMS	Condition Monitoring System	mt	Million tons
CPI	Consumer price index	mtpa	Million tons per annum
CSI	Corporate social investment	NEAP	National Economically Active Population
CSIR	Council for Scientific and Industrial Research	Nersa	National Energy Regulator of South Africa
DCT	Durban Container Terminal	NGO	Non-governmental organisation
DIFR	Disabling injury frequency rate	NMPP	New Multi-Product Pipeline
DOA	Delegation of authority	NTK	Net ton kilometre
DPE	Department of Public Enterprises	OEM	Original equipment manufacturer
EBITDA	Earnings before interest, taxation, depreciation and amortisation	PAIA	Prevention of Access to Information Act
ED	Enterprise Development	PFMA	Public Finance Management Act
ERM	Enterprise risk management	PPPFA	Preferential Procurement Policy Framework Act
ESD	Enterprise and supplier development	Prasa	Passenger Rail Agency of South Africa
EVP	Employee Value Proposition	PSP	Private-sector partnerships
FEL	Front-end loading	R&D	Research and Development
FRMP	Fraud Risk Management Programme	RAMS	Rail Addressable Market Share
GDP	Gross domestic product	RBCT	Richards Bay Coal Terminal
GFB	General Freight Business	RFP	Request for Proposal
GLT	Group Leadership Team	RMO	Results Management Office
GRI	Global Reporting Initiative	ROCE	Return on capital employed
ICPAF	Integrated Capital Projects/Programme Assurance Framework	ROTA	Return on total average assets
ICT	Information and communications technology	S&P	Standard & Poor's
IFRS	International Financial Reporting Standards	Satawu	South African Transport and Allied Workers Union
IIA	Institute of Internal Auditors	SCM	Supply Chain Management
IR	Integrated Report	SD	Supplier Development
IRIS	Intelligent Real-time Information Services (Advanced Data Analytics and Machine Learning platform)	SDOs	Sustainable Developmental Outcomes
iSCM	Integrated Supply Chain Management	SOC	State-owned company
ISO	International Standards Organisation	STI	Short-term incentive
IT	Information technology	TAL	TransAfrica Locomotive
King III	King Report on Corporate Governance for South Africa, 2009	TEU	Twenty-foot equivalent unit
King IV	King Report on Corporate Governance for South Africa, 2016	TIA	Transnet Internal Audit
KPI	Key performance indicator	TIH	Transnet International Holdings
LNG	Liquefied natural gas	TMPS	Total Measured Procurement Spend
		TSDBF	Transnet Second Defined Benefit Fund
		TTPF	Transnet Sub-fund of the Transport Pension Fund
		TVCC	Transnet Value Chain Co-ordinator
		UNTU	United National Transport Union