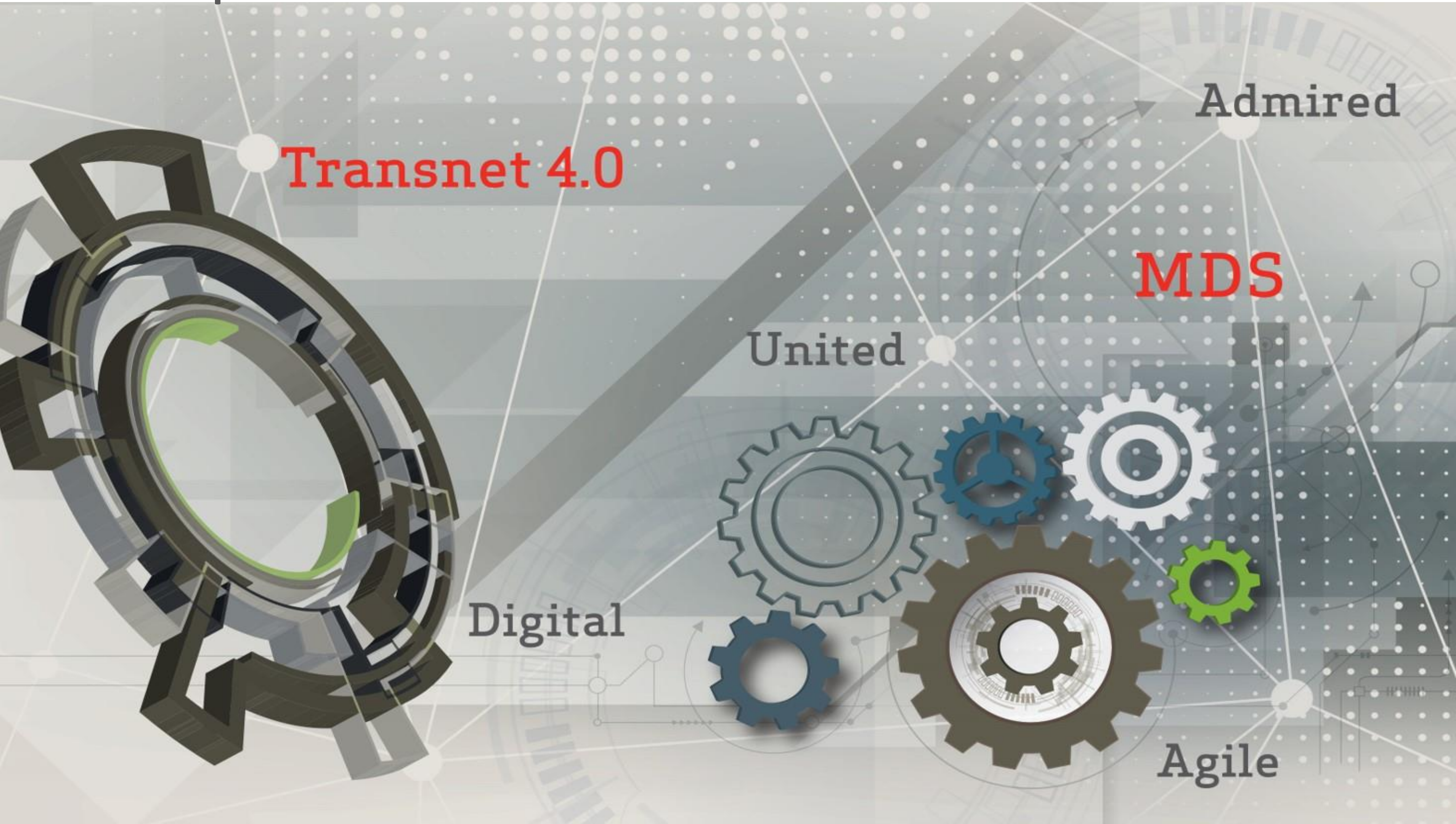
Ports Regulator Roadshows

Tariff Application for FY 2019/20

14 – 19 September 2018



Transnet Mandate

Our Mandate

Assist in lowering the cost of doing business in South Africa;

Enable economic growth; and

Ensure the security of supply by providing appropriate port, rail and pipelines in the most cost-effective and efficient manner, within acceptable benchmarks

Mandate and strategic objectives are aligned with national plans and the Statement of Strategic Intent.

Effective custodianship requires the fulfillment of three core mandates

Financially self-sustaining

Key implementing agent of the Developmental State

- Transformation
- Supplier development
- Community development
- Industrial policy support
- Environmental stewardship

Transnet is the anchor of the regional freight system

Globally competitive freight system

- Road to rail shift
- Increased maritime connectivity
- Capacity ahead of demand
- Regional integration
- Skills development

Responsible corporate citizen

Competitive industry supply chains

Current Transnet challenges and additional external factors

Current Transnet challenges

Economic growth	• Slow rates of global and local economic growth
Volatile commodity prices	• Volatile commodity prices impacting freight volumes and revenue
Sovereign credit rating	• South Africa's creditworthiness impacting cost of capital and access to capital
Capital investments	• Return on capital investments made during the commodity super cycle is under pressure

Emerging external factors

- **Major trends affecting the local and global logistics industry**
- **Development of African logistics networks**
- **Regional changes transhipment market**
- **Changes in the global energy mix**
- **Impact of 4th Industrial Revolution**

The broadening range of potential disruptions will require a more dynamic and pragmatic response by Transnet

Institutional revitalisation and modernisation is required to entrench Transnet 4.0 – Key priorities have been identified

TRANSNET

Theme 1

Cultural transformation

Agile | Admired | United | Digital

Culture eats Strategy for breakfast

Theme 2	Theme 3	Theme 4	Theme 5	Theme 6
Operations management	**Customer management**	**Innovative products**	**Geographic expansion**	**Social Impact**
"Offer High Quality Service"	"Increase Revenue per Customer"	"Product Portfolio Renewal"	"Grow Transnet footprint"	"Exemplary corporate citizenship"
• Increase volumes • Increase connectivity • Increase capacity • Improve predictability and reliability • Improve energy efficiency	• Improve customer satisfaction • Improve account management • Improve supply chain visibility • Automate customer processes • Reduce customers supply chain costs	• Enhance product development process • Focus on partnerships to enhance product offerings	• Embed SA Inc. approach • Develop financing solutions • Improve business development processes	• Improve safety • Contribute to radical economic transformation: 1. Employment equity 2. Procurement 3. Community engagement 4. Enterprise development

Transnet of Tomorrow – Solutions delivered

Transnet's mandate, vision, and mission

Mandate

- Assist in lowering the cost of doing business in South Africa, enabling economic growth and ensuring security of supply through providing appropriate (port, rail and pipeline infrastructure in a cost-effective and efficient manner
- Strategic objectives are aligned with national plans and the SSI

Vision

- **Fuelling Africa's growth and development as the leading provider of innovative supply chain solutions**

Mission

- **Linking economies; connecting people; growing Africa!**

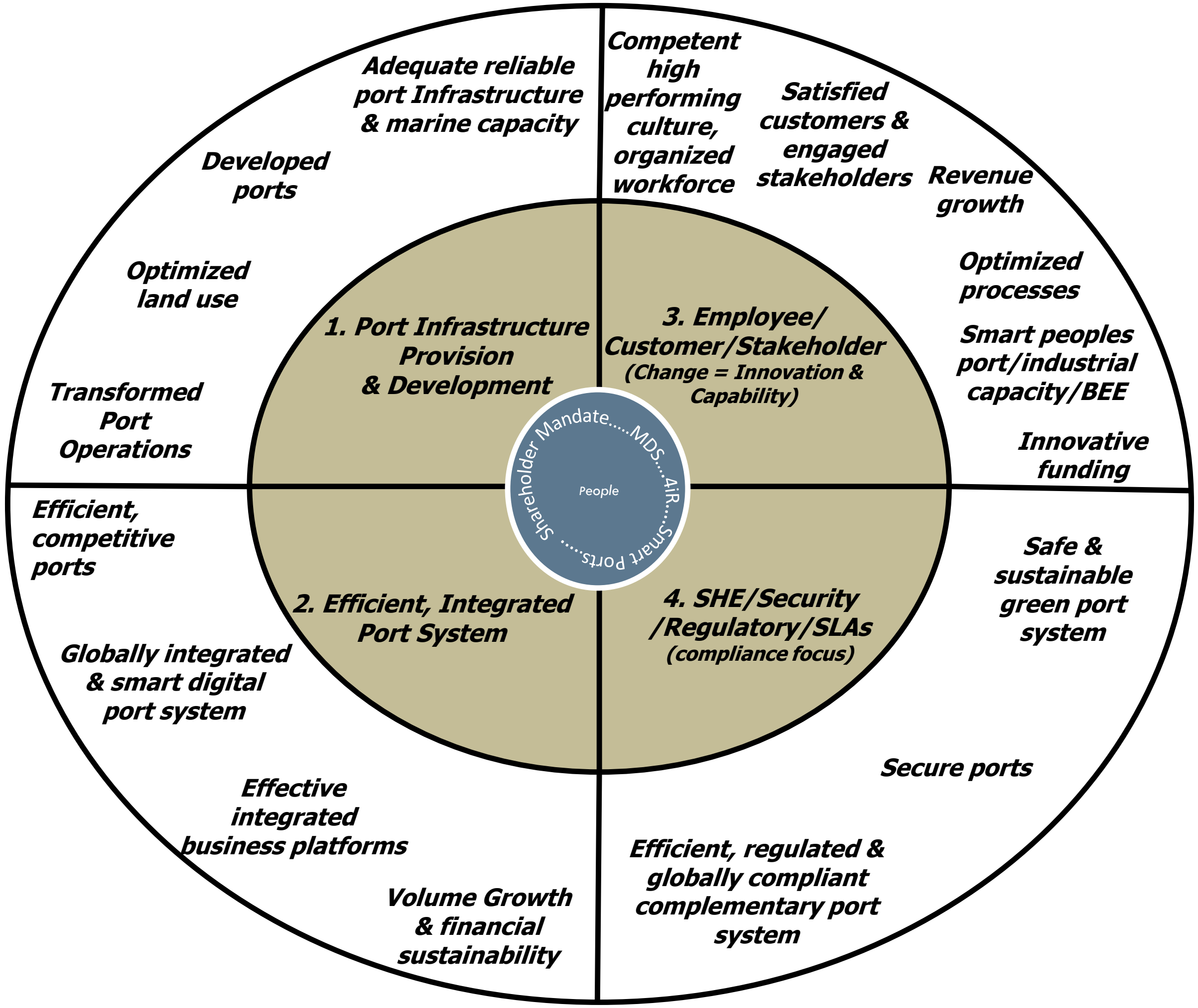
Public value creation

- SOEs have to balance economic, social and other objectives by remaining financially sustainable, while creating value for citizens and society
- The "Inclusive wealth" of a country includes the sum of three kinds of assets:
  - manufactured capital (e.g. roads, machinery, buildings)
  - human capital (people's health and skills)
  - natural capital (e.g. forests and fossil fuels)
- Creating public value is linked to Transnet's mandate

In response, Transnet is actively refreshing its brand as it moves into new markets, expands its service offering, and redefines its market position

SSI = Statement of Strategic Intent, SOE = State-owned Enterprise

Authority's Strategy



Agile | Admired | Digital | United

Authority's Core Functions: The Ports Act

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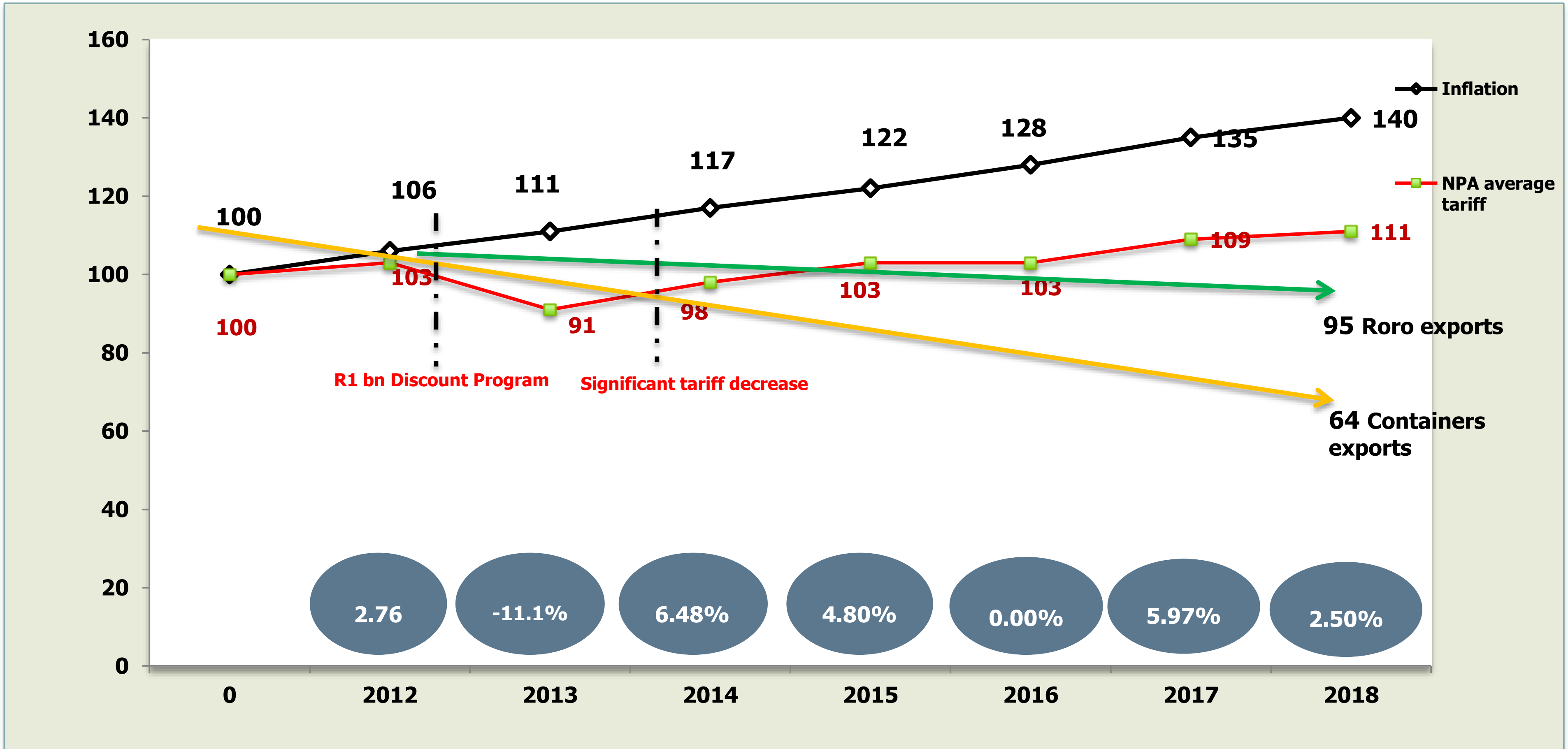
Landlord	**Promote the use, improvement and development of ports, and control land use within the ports, having the power to lease port land under conditions it determines**
Master planner	**Plan, improve, develop and maintain port infrastructure**
Regulator and Controller	**Make and apply rules to control navigation within port limits and approaches, ensure protection of the environment and ensure safety and security within port limits**
Controller of ports services & facilities	**Ensure that port services and facilities are provided, and may enter into agreements or license other parties to provide these**
Marketer & administrator	**Ensure that adequate, affordable, equitable and efficient port services and facilities are provided for port users**
Change agent	**Ensure non-discriminatory, fair, transparent access to port services and facilities; advancement of previously disadvantaged people; promotion of representivity and participation in terminal operations; enhanced transparency in port management**
Coordinator with other state agencies	**Advise on all matters relating to the port sector, and liaise with all stakeholders**

The Authority's Administered Pricing

- The graph below illustrates the Authority's average tariff increase & differentiated container & automotive tariffs



1. Port Infrastructure provision and development

- **Refurbishment of Graving Dock EL**
- **West bank foreshore protection (Feasibility and Execution)**
- **Tank farm Berth B100, roads, port entrance and services (Phase 1) NGQ**
- **Acquisition of four replacement tugs**
- **Reconstruction of Sheet Pile quay walls at DBN Maydon Wharf (Berths 1, 2, 13 & 14)**
- **Improving early weather warning systems in all ports (3 day forecast commenced)**
- **Weather warning system alerts on SMS & e-mail commenced**
- **7 Helicopter Trainee Pilots achieved their Commercial Pilot License (CPL)**

2. Operational efficiencies

- **Improvement over the past 3 years. Ship Turnaround Time (STAT) improved between 15/16 – 16/17 by 12.3%. During 16/17 – 17/18 it was impacted negatively by 6% by the storm experienced in DBN during October 2017 and the high swells in CT.**
- **Roll out of a collaborative decision-making (CDM) platform to support the Joint Operations Centres (JOCs)**
- **Evolving digital culture is being embedded within JOCs - IPMS**
- **Embedding TOPS to provide supply chain visibility and performance targets**
- **Terminal, Rail and Marine performance assessments are active**
- **JOC's in the ports operationalized with the Port of Durban JOC operating 24/7. Ngqura constructed and ICT hardware fitted.**
- **Automated Mooring System (AMS) has yielded improved performance for berth D100 - Port of Ngqura.**

Supplier Development

Current Supplier Development Obligations

- Contracted Value: **R 2 008 220 302.32**
- SD Initiatives Value: **R 962 438 679.62**
- SD commitment as % of contract value: **47.92%**
- Actual Cumulative SD achieved to date: **54%**

- From FY 2014/15 Cumulative SD commitment achieved to date:
  R 1 084 521 049
  - Skills development: R 5 352 178
  - Job preservation: R 18 400 000
  - Job creation: R 202 266 016
  - Small business promotion: R 157 094 673
  - Localisation: R 43 550 000
  - Investment in plant: R 1 450 733
  - Rural development: R 639 301 452
  - Other: R 17 105 997

Section 56 Projects

Port	Completed Section 56 agreements
Port of Cape Town	• Cruise Terminal: - Section 56 agreement concluded with the V&A Waterfront. development continuing parallel to operations • Green fields Liquid bulk Terminal (Burgan Cape): - Section 56 agreement concluded with the facility at operational stage
Port of Durban	• Green fields Cruise Terminal: - Section 56 agreement has been concluded with KwaZulu Cruise Terminal (KCT)
Port of Saldanha	• Greenfields LPG Terminal:- Sunrise Energy construction concluded and is now operational • Offshore Supply Base: - Section 56 agreement has been concluded with Saldehco
Port of Ngqura	• Greenfields Liquid Bulk Terminal – Section 56 Agreement concluded with OTGC

MDS/ Transnet 4.0 - FY 2018/19 & 2019/20

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Operations management **“Quality Port Service”**	• **Transformation of port operations :** grow volumes through new agreements • **Port capacity :** deliver capital projects • **Volume growth:** through section 56 projects • **Marine & Dredging fleet:** maintenance and replacement programmes to improve the availability • **Performance standards**: terminal, marine and rail performance oversight to improve efficiencies - WEGO • **Terminal capacities**: alignment with port capacity
Customer management **“Customer Satisfaction”**	• **Digital solutions:** enabling supply chain visibility • **Port tariff structures:** rationalisation and reduce cross-subsidisation between port services • **Customer engagement:** programme alignment between Operating Divisions • **Customer issues:** Timeous identification and resolution
Innovative products **“Partnerships & Land Optimization”**	• **IDZ’s/SEZ’s:** Integrated planning & investments • **Port land optimization:** Increase return on property portfolio • **Environmental Compliance:** Embed a safety culture and ensure environmental compliance.
Geographic expansion **“Grow Transnet footprint”**	• **Operation Phakisa** • **Africa Opportunities –** Dredging, Digital capabilities, Training, Ngqura transhipment hub
Social Impact **“Exemplary corporate citizenship”**	• **Safety:** secure and compliant port system • **Climate change:** weather forecast and warning system • **Training:** Marine, continuous improvement and other training • **Community:** Promote a ‘People’s Port’ theme through port festivals and various community programmes

Section 56 Project Pipeline

Port	Section 56 Project Pipeline
Port of Cape Town	• 2 x Liquid bulk Terminal: - Brownfield Project • Green Ship Recycling: - Greenfield Project
Port of Durban	• Maydon Wharf Agri-Bulk Terminal: - Greenfield Project (RFP to be issued = 2018) • Floating Dock Facility: - Brownfield Project • Liquid Bulk (Petroleum & Chemicals) Terminal - Island View Precinct: - Brownfield Project
Port of Saldanha	• Marine Manufacturing Facilities - Phakisa Project: - Greenfield Project
Port of Port Elizabeth	• Port Elizabeth Waterfront: - Greenfield Project
Port of Richards Bay	• Liquid Bulk Terminal at South Dunes (Including Bunkering, if viable): - Greenfield Project • Ship repair facility / Floating dock: - Greenfield project
Port of East London	• Liquid Bulk Facility for Heavy Fuel Oils (HFO): - Greenfield / Brownfield Project • Shipyard Facility - Slipway to be utilized for movement of craft during boat building and ship repair: - Brownfield project
Port of Mossel Bay	• Waterfront Development - Greenfield Project
Port of Ngqura	• Multi-Purpose Terminal: - Greenfield / Brownfield Project (This Project has been temporarily placed on hold)

Port Investment Planning

- The main functions of the Authority is to **own, manage, control** and **administer** ports to ensure their **efficient and economic** functioning, and in doing so the Authority must

  a) *plan, provide, maintain and improve port infrastructure;*

  b) *prepare and periodically update a port development framework plan for each port, which must reflect the Authority's policy for port development and land use within such port;*

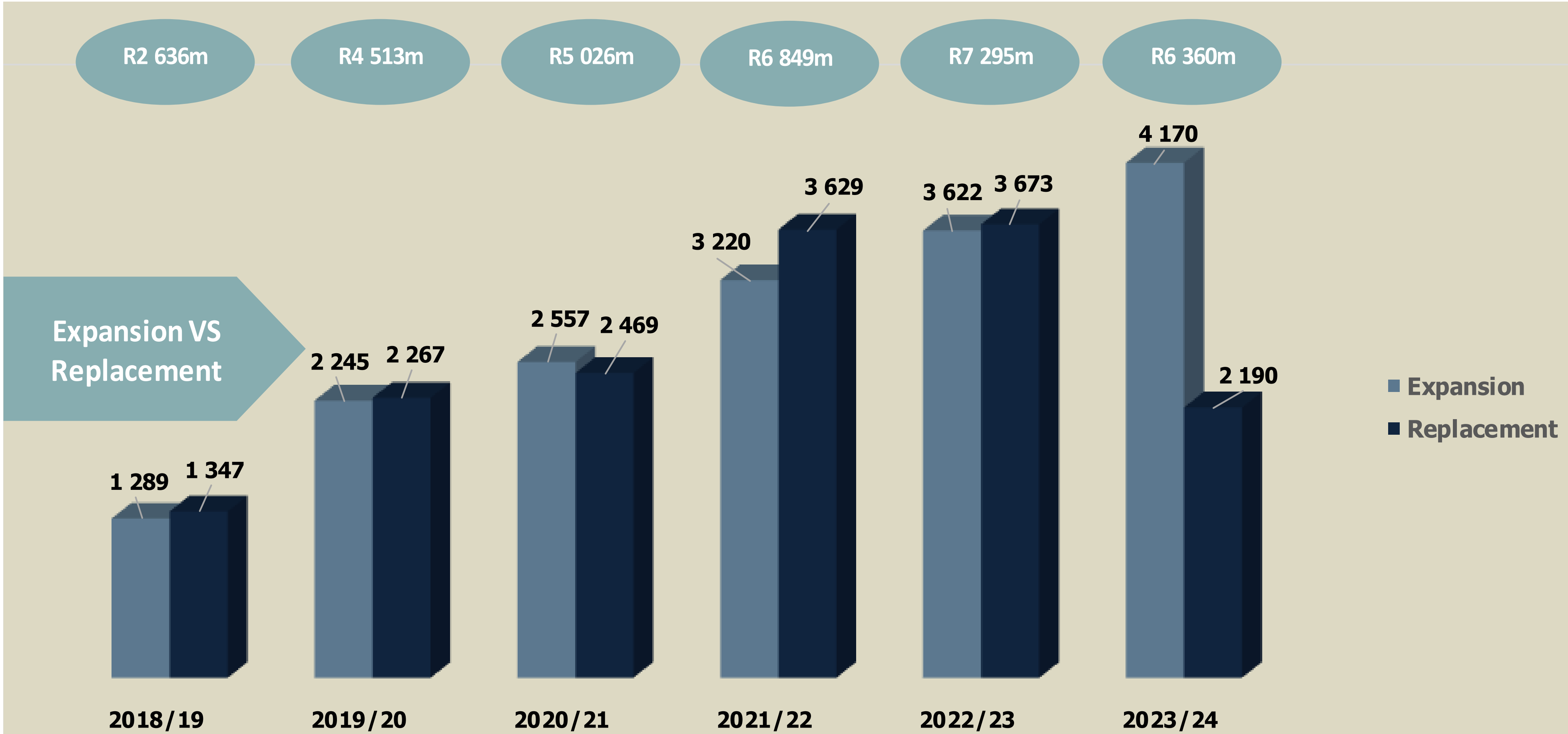
  c) *control land use within ports, and has the power to lease land under such conditions as the Authority may determine;*

  d) *provide or arrange for road and rail access within ports;*

  e) *arrange for such services such as water, light, power and sewerage and telecommunications within ports;*

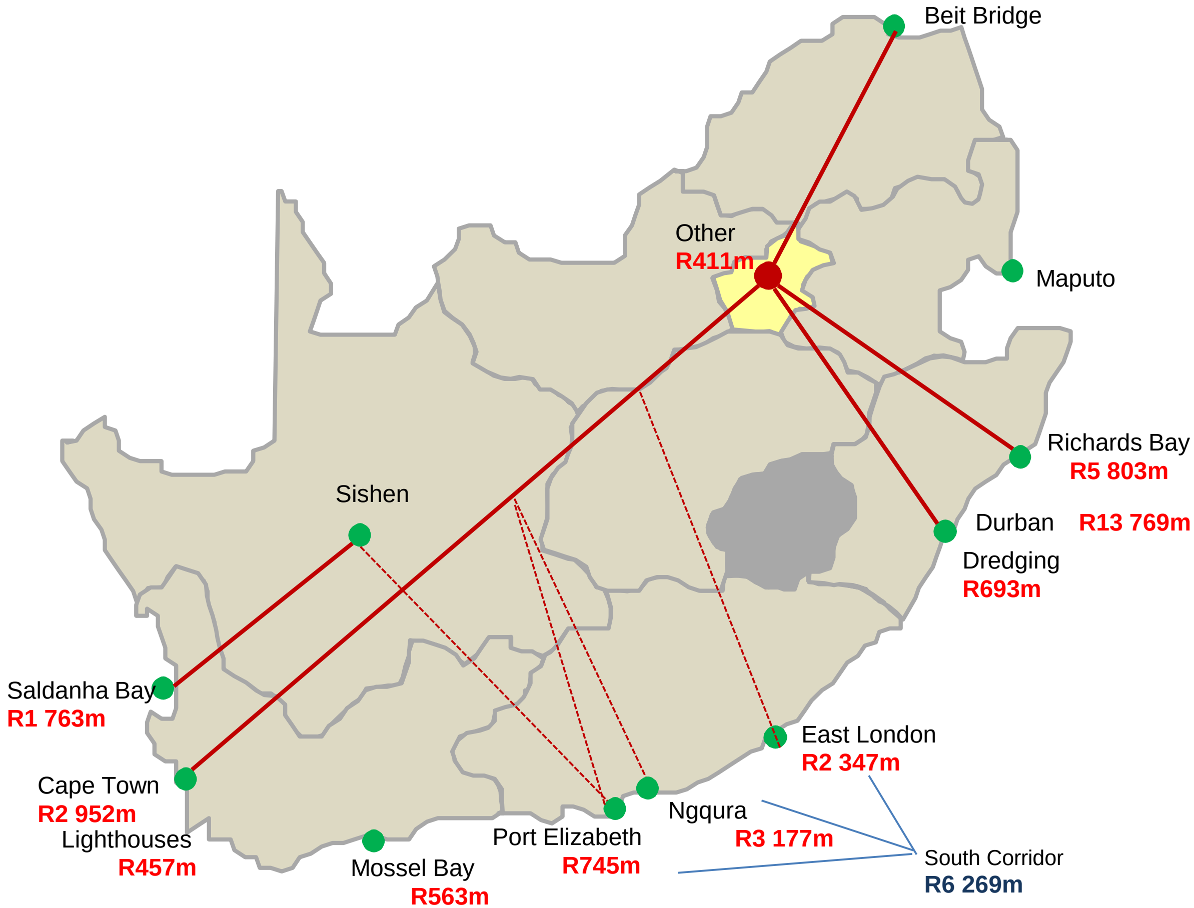
  f) *maintain the sustainability of the ports and their surroundings;*

Port Investment Planning

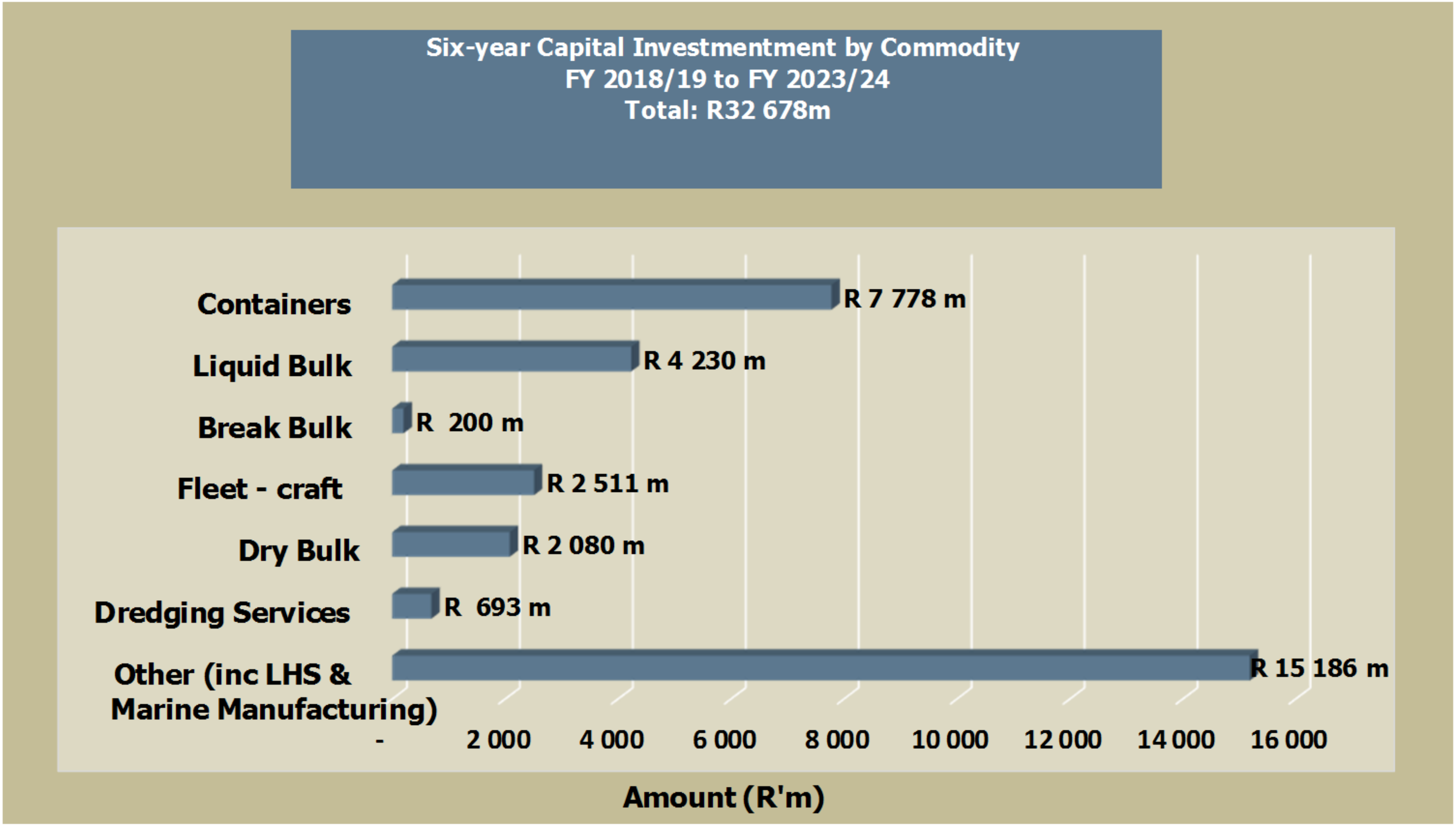


Total Expansion: R17.1 | Total Replacement: R15.6 | Total 6 Years: R32.7

- The Authority's capex spending over the six year period amounts to R 32.7bn:



Port Investment Planning



Port Investment Planning

- Major Capital Projects FY 2018/19 to FY 2021/22

Container Terminals

- Port of Durban Execution: DCT berth deepening 203 to 205
- Port of Durban Execution: Pier 1 Phase 2 (Salisbury Island)
- Port of Cape Town Expansion of Container Terminal; CPT Phase 2B – FEL3

Bulk

- Port of Ngqura New Entrance, road and services (phase 2)
- Port of Ngqura Manganese Project
- Bayvue rail yard expansion RCB

Fleet Management

- Port of Cape Town Two Replacement Tugs
- Dredging Services 2nd Grab Hopper Dredger

Helicopters

- Acquisition of replacement and new helicopters for DBN & RCB

Operation Phakisa

- Ship repair Initiatives at RCB, DBN, EL, PLZ, CPT, SLD

EXISTING SHIP REPAIR FACILITIES

Project	Objective	Estimated investment required	Estimated Jobs created	Estimated GDP Contribution
Maintain and refurbish existing facilities	**Refurbish existing ship repair facilities at all ports to effectively service current and future demand**	**R2.7bn**	**Target 20 000 created and sustained (incl. multiplier)**	**R1.5bn**

JOBS, INVESTMENT, TRANSFORMATION

INVESTMENTS TO DATE:
Private Sector: The PSP processes are still in execution
Government: R401m spent to date. The Authority plans to spend R2.1bn for the 2017/18 to 2019/20 financial years (3-feet plan to Dec 2019).

JOB CREATION TO DATE*: Total direct jobs created & sustained = 602*
Disaggregated jobs:
Women - 68 (Temp and permanent)
Youth - 124 (Temp and permanent)
People with Disabilities - 38 (Temp and permanent)

TRANSFORMATION*:
SMMEs – 13 (Created and sustained)
BBBEE – 19 (Created and sustained)

Note*: Based on completed projects – SLD OSSB Berth, Durban Outer Caisson, Durban Concrete Repairs and PE Boat Hoist plus Lead In Jetties.

Operation Phakisa: Overview of Ship Repair Facility Upgrades

Total Budget (Initiative 5)	Total spent to June 2018
R2.7bn	R549m (spending continued to 2019 with a few "big ticket items" extending to 2020)

Completed projects:

DBN:
- Outer Caisson Refurbishment
- Dry Dock Concrete Repairs
- Shop 24 Equipment

EL:
- Crane Rails
- Switchgear

PE:
- Boat Hoist
- Slipway and Lead In Jetties

CPT:
- Recirculating Pumps
- Robinson Dry Dock Upgrade Phase 1
- Stabilisation of the Robinson Dry Dock Caisson
- Synchrolift Traverser

SLD:
- OSSB Berth (GMQ)

In tender phase:

DBN:
- Shop 24 Overhead Cranes
- Dry Dock Pumps
- Pumphouse Upgrade
- Fire Protection Upgrade

CPT:
- Sturrock and Robinson Dry Dock Pumps (Turnkey)
- Robinson Dock Caisson New FEL 3
- SDD Concrete Upgrade
- SDD Infra Upgrade
- RDD Caisson Gate FEL 3
- Synchrolift mechanical upgrade

DBN & CPT:
- 3 x Facilities Capstans Upgrade (Turnkey)

EL:
- Dry Dock Main Shut Off Valve
- Caisson Gate Refurbishment (Turnkey)

Execution:

DBN:
- Inner Caisson refurbishment (Turnkey)

CPT:
- Phakisa Training Centre

Feasibility and design phase:

MSB:
- Designs and EIA for Slipway expansion underway

CPT:
- Electrical upgrade all docks
- Synchrolift civil
- SDD New Inner Caisson FEL 3

PE:
- Slipway cradle redesign

RCB:
- Marine works - Floating Dock

Note: Comprehensive plan for cranage will be implemented

Tariff Application Approach

- The Port Directives were approved on 13 July 2009 (gazetted on 06 August 2009) and amended on 29 January 2010.
- Directives require the Regulator to ensure that the Authority's tariffs allows it to:

  - **recover its investment;**
  - **recover its costs;**
  - **make a profit commensurate with the risk.**

Tariff Application Approach

- On 30 March 2017 the Ports Regulator issued a new Tariff Methodology applicable for a period of 3 years, starting from FY 2018/19 to FY 2020/21.
- The Tariff Methodology considered a multi-year approach and prescribed the following Require formula:

Revenue Requirement

= Regulatory Asset Base (RAB) x Weighted Average Cost of Capital (WACC) + Operating Costs + Depreciation + Taxation Expense ± Excessive Tariff Increase Margin Credit (ETIMC) ± Weighted Efficiency Gains from Operations (WEGO)

- The RR approach is as per the Tariff Methodology for Tariff Year 2018/19 – 2020/21.The indicative year FY 2021/22 has been calculated on the assumption that the Tariff Methodology will not change.

Key Principles of the Tariff Methodology

Component	Details
Regulatory Asset Base (RAB):	• *The RAB represents the value of assets that the Authority is allowed to earn a return on.*
Vanilla Weighted Average Cost of Capital (WACC)	• *A real WACC is applied, given that the RAB is indexed by inflation.*
Operating Costs	• *The Authority is required to provide a detailed and complete motivation for each of the expenses applied for.*
Depreciation	• *The depreciation of the assets in the RAB will be calculated as a straight line 40 year on the average balance of the RAB.*
Taxation Expense	• *The RR formula considers the tax expense on an equitable basis assumption based on the Transnet OD's profits before tax contribution.*
Claw-Back	• *The Regulator will spread the total impact of over/under recovery of revenue over a period of two tariff determinations.*
Excessive Tariff Increase Margin Credit (ETIMC)	• *The Regulator considers it prudent to avoid future tariff spikes by retaining and increasing the Authority's ETIMC.*
Weighted Efficiency Gains from Operations (WEGO)	• *It is an agreed efficiency gain through operations, excluding the effect of market driven volume growth.*

Revenue Requirement Components

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- Valuation of the RAB takes into consideration Depreciation, Inflation Trending, Capex and Working Capital:

REGULATORY ASSET BASE	2019/20	2020/21	2021/22
		R'm	
Opening book value	84 473	91 131	98 380
Inflation Index	4 308	4 557	5 017
Indexed Opening Asset Base	88 782	95 687	103 398
Indexation of Capex	115	126	175
Indexed Asset Base	88 897	95 813	103 572
Add :Capex (Corporate Plan)	4 513	5 026	6 849
Depreciation	-2 279	-2 458	-2 675
Closing Book Value	91 131	98 380	107 746
Average Asset Base	87 802	94 755	103 063
Less :Working Capital	-2 205	-2 363	-2 640
Regulated Asset Base	**85 597**	**92 392**	**100 423**

Revenue Requirement Components (continued)

- The Vanilla WACC is determined as follows:

REAL RATE OF RETURN	2019/20	2020/21	2021/22
Inflation forecast	5.10%	5.00%	5.10%
Nominal Risk-free rate	8.58%	8.58%	8.58%
Real risk free rate	3.31%	3.41%	3.31%
MRP	5.30%	5.30%	5.30%
Asset beta	0.50	0.50	0.50
Equity beta (using Hamada)	0.92	0.92	0.92
Gearing	50.00%	50.00%	50.00%
Debt/equity ratio	100.00%	100.00%	100.00%
Nominal Weighted Average Cost of Debt (WACD)	10.78%	10.78%	10.78%
Equitable Tax rate	15.42%	15.42%	15.42%
Real Cost of equity (post-tax)	8.20%	8.30%	8.20%
Real WACD (pre-tax)	5.40%	5.50%	5.40%
Real Vanilla WACC	**6.80%**	**6.90%**	**6.80%**

Explanatory notes:

Risk Free Rate: KBP2003M, calculated over a five yearly average from June 2013 to May 2018 for FY 2019/20

MRP: Geometric mean with the use of the DMS studies over the full period available dataset (117 years)

Inflation: BER Forecasts

Cost of Debt: NPA's actual, embedded (adjusted for an effective weighting) debt costs

FY 2019/20 MRP figure is used as a proxy for MRP for indicative years FY 2020/21 & FY 2021/22

Revenue Requirement Components (continued)

- Taxation is calculated on an equitable basis assumption based on Transnet OD's profit before tax contribution as per the 2018/19 RoD. The calculation of the equitable tax is as follows:

Details	5 Years Total
Total Profit Before Tax	28 087(R'm)
Total Profit Making Divisions	50 988(R'm)
Equitable Tax = (Total Profit before tax / Total profit making divisions) * 28%	**15.42%**

- Taxation calculation is highlighted below:

Taxation	2019/20	2020/21	2021/22
Equity Return	3 511	3 835	4 119
Depreciation	2 279	2 458	2 675
Opex	6 291	6 853	7 446
Gross income	**12 081**	**13 146**	**14 239**
Depreciation	2 279	2 458	2 675
Opex	6 291	6 853	7 446
Total Deductions	**8 570**	**9 311**	**10 121**
Taxable Income	3 511	3 835	4 119
Grossup factor	0.85	0.85	0.85
Grossed up taxable income	4 151	4 534	4 870
Tax @ 15.42%	**640**	**699**	**751**

Revenue Requirement Components (continued)

TRANSNET

- Operating Expenditure is highlighted in the table below:

Cost Category	Actual 2017/18 R Million	Budget 2018/19 R Million	Forecast 2019/20 R Million	Dev '18/19 vs 19/20 R Million	Dev '18/19 vs 19/20 Percentage	% of Opex 19/20	Forecast 2020/21 R Million	Forecast 2021/22 R Million	CAGR 2019/20 - 2021/22
Labour Costs	2 551	2 777	3 142	365	13%	54%	3 440	3 697	8%
Rates & taxes	341	375	395	20	5%	7%	417	440	6%
Maintenance	410	459	504	45	10%	9%	625	801	26%
Contract Payments	42	80	85	4	5%	1%	89	94	5%
Energy	509	575	623	48	8%	11%	684	731	8%
Professional services	19	105	120	15	14%	2%	128	137	7%
Material	83	92	102	10	11%	2%	112	119	8%
Computer & Info systems	161	226	249	23	10%	4%	263	278	6%
Rental	209	186	203	16	9%	3%	213	225	5%
Security costs	97	100	107	7	7%	2%	114	122	7%
Pre -Feasibility Studies	43	96	116	19	20%	2%	105	109	-3%
Sundry operating costs	36	177	181	4	2%	3%	185	193	3%
Total operating cost (excluding depreciation)	***4 499***	***5 250***	***5 826***	***575***	***11%***	***100%***	***6 375***	***6 946***	***9%***
Group Costs	526	458	466	8	2%		478	500	4%
Total operating cost (Including Group Costs)	**5 025**	**5 708**	**6 291**	**584**	**10%**		**6 853**	**7 446**	**9%**

Revenue Requirement Components (continued)

- Key Drivers for the increase in Operating Expenditure is as follows:

Cost Driver	Details
1. Labour	• Employment of port engineering personnel in order to create adequate port infrastructure capacity ahead of demand and maintaining existing and new assets • Increase in minimum manning levels of marine to 100% service and matching manning levels with the number of tugs required to meet MOPS requirements; • Trainers required for marine engineering schools in the Port; • Manning of port operational centres; • Security personnel to assist with CCTV monitoring, access control and overall safety within the Ports; and • The key operation functions filled with personnel include Artisans, chief marine engineering personnel, Electricians, Tug Master
2. Energy	• Electricity tariff increases and crude oil prices and new craft.
3. Maintenance	• Frequent dredging of berths resulting in increased and additional maintenance of dredgers; • Maintenance of infrastructure; • Maintenance of marine crafts; • Repairs of cranes, pumps and values at dry-dock; and • Increase in the maintenance of electrical network (high masts and substation).

Revenue Requirement Components (continued)

- Key Drivers for the increase in Operating Expenditure is as follows:

Cost Driver	Details
4. Rates and Taxes	• Rates and taxes relates to municipal rates.
5. Computer and Information Systems	• These include network costs, software licences, information system support, development cost, computer consumables and on-going maintenance.
6. Rental	• Rental costs relates to the short term hiring of internal and external land buildings, leasing of vehicles, equipment, computers and furniture.
7. Pre-Feasibility Studies / Professional Fees	• Other projects include; the Richards Bay expansion, increased power supply in the Port of Durban; roads study interlinked with metro; Point and Bayhead precinct development plans; wind and long wave mitigation studies; the Cape Town container terminal expansion; Port Elizabeth investigation for passenger liner terminal and a car terminal, Island View Berth 4, Port of Ngqura Precinct Plans and Conveyor belt corridor for cement and clinker; and • Studies related to the future capital programme.
8. Sundry Operating Costs	• Sundry Costs include expenses relating to insurance, stationery and printing, transport, promotions and advertising as well as other miscellaneous operating expenditure.

Clawback

- Claw-back is the difference between allowed and actual revenues.
- The re-computed RR for FY 2017/18 is R11 174m, resulting in a claw-back of -R1 029m and determined as follows.

CLAWBACK	FY 2017/18 ROD	FY 2017/18 Actuals
	R'm	
Return on asset	4 417	4 897
Depreciation	2 031	2 026
Opex + Group Costs	5 961	5 025
Tax	1 050	500
Clawback	-681	-681
ETIMC	-593	-593
Revenue Allowed/Actual Revenue	**12 185**	**11 174**
AFS Revenue		12 203
Clawback		-1 029
Clawback as per above		-1 029
Contract Revenue		-109
Reverse FY 2017/18 Clawback taken in FY 2018/19		-6
Estimated Clawback for FY 2018/19 (50%)		-136
Plus return on clawback account for FY 2018/19 @ 6.38% RoR		-73
Net Clawback		**-1 353**

Revenue Requirement Calculation

DETAILS	2018/19 ROD R'm	2019/20 Fixed Tariff Year R'm	2020/21 Indicative Tariff Years R'm	2021/22 Indicative Tariff Years R'm
RAB	80 474	85 597	92 392	100 423
Vanilla WACC	6.38%	6.80%	6.90%	6.80%
Return on Capital	5 134	5 824	6 378	6 832
Plus: Depreciation	2 099	2 279	2 458	2 675
Plus: Operating Costs	5 938	6 291	6 853	7 446
Plus: Taxation Expense	682	640	699	751
Plus/Less: Clawback	-1 779	-1 353	-136	-
Plus/Less: ETIMC	345	-	-	-
Revenue Allowed	***12 419***	***13 681***	***16 253***	***17 704***
Less: Real Estate	-3 025	-3 284	-3 580	-3 849
Marine Revenue	***9 394***	***10 398***	***12 673***	***13 854***

Total Revenue Requirement of R13 681m compromising of Marine Business Revenue of R10 398m and Real Estate Business Revenue of R3 284m for FY 2019/20

Tariff Adjustment for FY 2019/20

MARINE REVENUE	2019/20	2020/21	2021/22
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	9 706	10 398	12 673
Estimated Volume Growth	2.80%	2.80%	2.80%
Revenue after volume growth	9 977	10 689	13 028
Required Revenue	10 398	12 673	13 854
Tariff Increase	***4.21%***	***18.57%***	***6.34%***

Total Revenue Requirement of R13 681m compromising of Marine Business Revenue of R10 398m and Real Estate Business Revenue of R3 284m for FY 2019/20 translates to a weighted average tariff adjustment of 4.21% for FY 2019/20.

Tariff Strategy and Tariff Differentiation

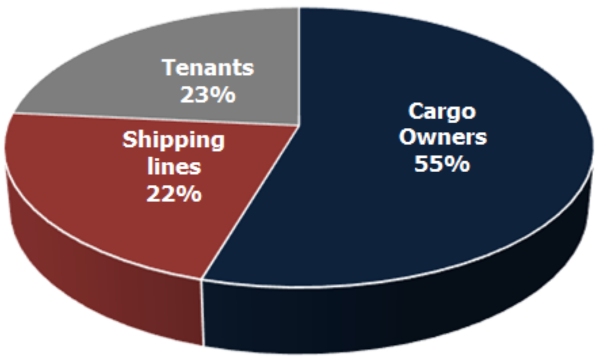
Guided by the Tariff Strategy, the Authority is proposing the following tariff differentiation:

- A tariff increase of 8.00% on Marine charges;
- An average of 2.74% increase in Cargo Dues differentiated as follows:
  - 5.00% on Liquid Bulk and Break Bulk Cargoes;
  - 1.79% on Containers;
  - 0.00% on Automotives;
  - 5.00% on Dry Bulk Cargoes differentiated further as follows:
    - Coal to increase by 8.00%;
    - Ores and Minerals: Magnetite to increase by 8.00%; and
    - Other Dry bulk to increase by 3.75%.
- Weighted average adjustments of the above would equate to the overall requested tariff adjustment for FY 2019/20 – 4.21%

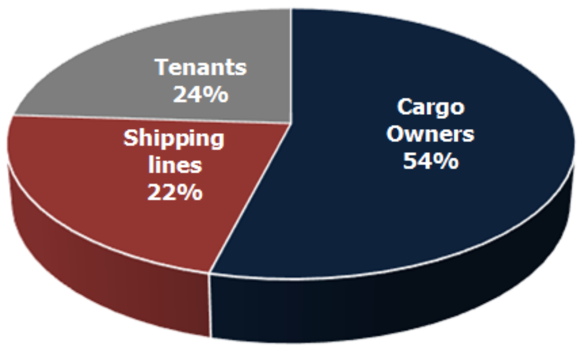
Transition to the Regulator's Strategy

- The proposed tariff differentiation is depicted in the diagram below which sees a 1% decrease in cargo dues in line with the Tariff Strategy.

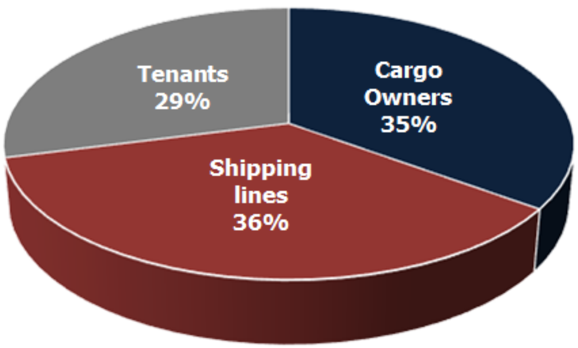
FY 2018/19 - LE



FY 2019/20 Tariff Proposal



Envisaged PR Tariff Structure



TRANSNET

The proposed Tariff Book changes for FY 2019/20 are as follows:

Issue	Current read	Suggestion
Tariffs		
1. Floating Crane **Page 3.6**	For handling loads, per hour or part thereof: At the Port of Durban ....R13 706,01 At the Port of Cape Town..................R.27 412,01	For handling loads, per hour or part thereof: At the Port of Durban ....R13 706,01 ***Rationale*** No Floating Crane available in Cape Town.
2. Fresh Water ***Page 4.9***	Fees for the supply of fresh water are available on application.	Fees for the supply of fresh water when available on application. ***Rationale*** Fresh water may not always be available due to water restrictions from Municipalities.
3. Penalties ***Page 6.2***	Should the booking not be taken up or cancelled within 21 consecutive days prior to the booked date, the deposit will be forfeited. If the booking is cancelled greater than 21 days, a full refund will be given.	Should the booking not be taken up or cancelled within 60 consecutive days prior to the booked date, the deposit will be forfeited. If the booking is cancelled greater than 60 days, a full refund will be given. ***Rationale*** To incentivise a more robust booking system.
4. Crane 206 – Port of Cape Town ***Page 6.8***	**8.3 Crane 206 — Port of Cape Town** Working Hours Rate per hour...............R2 092.86 Overtime Rate per hour........................R2 511.46 Public Holidays and Sunday Rate per hour. R2 930.03	**Remove** ***Rationale*** No Crane 206 available in Cape Town.

Weighted Efficiency Gain Operations (WEGO)

- A basket of five KPI's of equal weighting were selected in FY 2017/18 (as per March 2018 RoD).
- These include the following:
  - Ship Turnaround Time (20%)
  - Ship Productivity (20%)
  - Vessel Delays at Anchorage (20%)
  - Berth Productivity (20%)
  - Ship Working Hours (20%)
- Performance in FY 2017/18 will be the starting baseline and increases / decreases in performance in FY 2018/19 will determine the WEGO profit / loss multiplier for FY 2019/20.
- WEGO profit / loss multiplier for FY 2019/20 will be shared / recovered from the parties involved.

Port Tariff Incentive Programme (PTIP)

- The Authority received a PTIP application from Regulator in February 2018:
- Applications involving industrial trade, require DTI's accreditation;
- The application did not meet the minimum requirements for accreditation as set out by the DTI and was therefore not endorsed; and
- As a result of non-endorsement by the DTI in accordance with the PTIP framework, application was not included as part of the FY 2019/20 Tariff Application.

Conclusion

- In conclusion, the Authority requests a Revenue Requirement of R13 681m compromising of Marine Business Revenue of R10 398m and Real Estate Business Revenue of R3 284m for FY 2019/20 equating to an average tariff increase of 4.21%.

This to be differentiated as follows:

- A tariff increase of 8.00% on Marine charges;
- An average of 2.74% increase in Cargo Dues differentiated as follows:
    - 5.00% on Liquid Bulk and Break Bulk Cargoes;
    - 1.79% on Containers;
    - 0.00% on Automotives;
    - 5.00% on Dry Bulk Cargoes differentiated further as follows:
        - Coal to increase by 8.00%;
        - Ores and Minerals: Magnetite to increase by 8.00%; and
        - Other Dry bulk to increase by 3.75%.

Thank You