Tariff Application FY 2020/21

August 2019

Transnet Mandate

Our Mandate

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

Enable economic growth; and

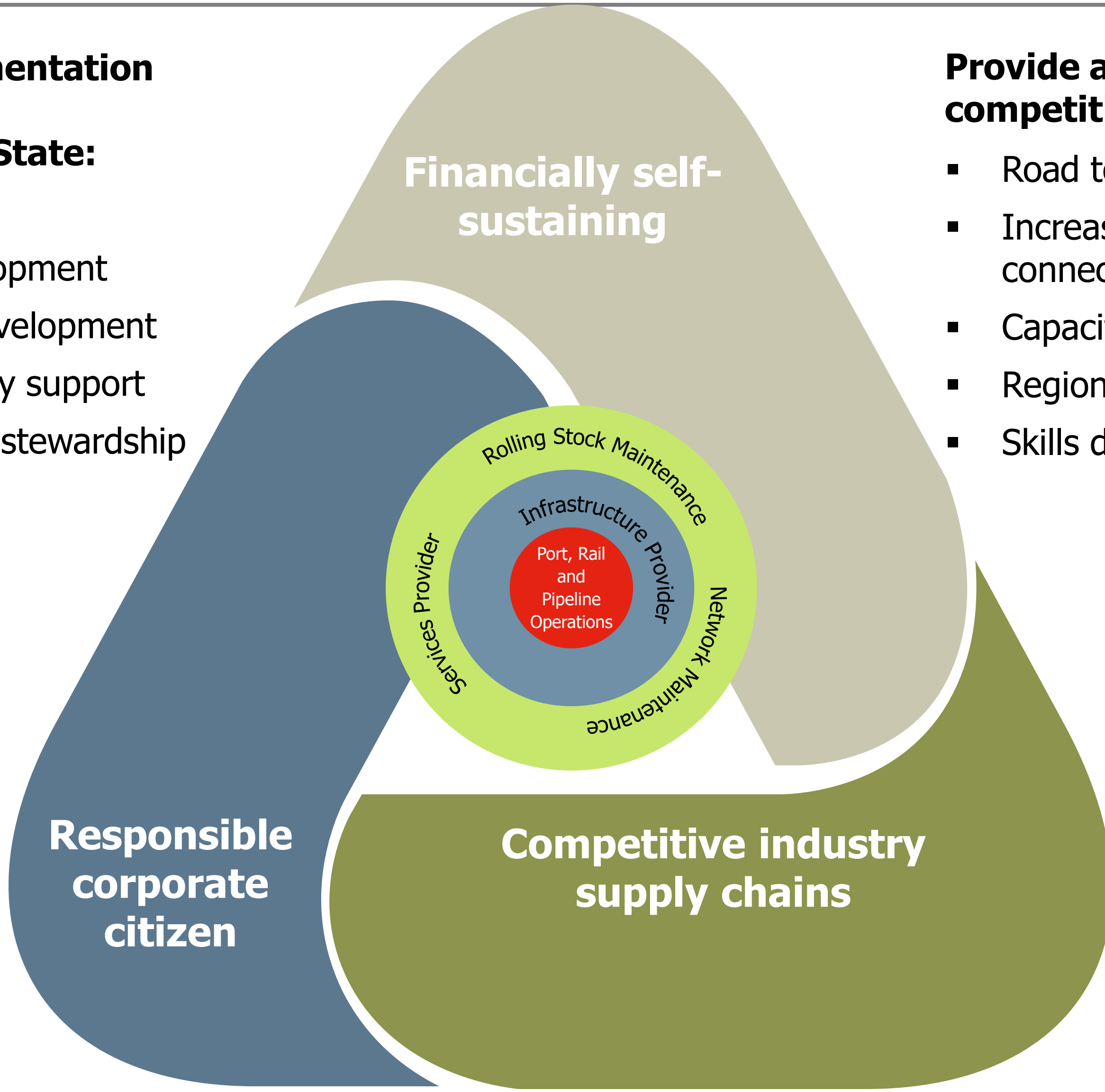
Ensure the security of supply by providing appropriate port, rail and pipelines in the most cost-effective and efficient manner, within acceptable benchmarks

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

Three primary objectives

Be a key implementation agent for the Developmental State:

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



Provide a globally competitive freight system:

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

Transnet’s core focus remains as follows:

- Satisfying customer demand, improving operating efficiencies, reliability and visibility and thus customer satisfaction in order to drive volume growth and improved financial performance.
- Improving internal governance and risk management processes; restoring the reputation of the Company; and repositioning Transnet as an integral asset to the South African economy.
- Strong emphasis on extending the Company’s footprint outside of South Africa’s borders.
- Aims to play a leading role in enhancing the connectivity of the regional freight system and in enabling growth in intra-regional trade.
- Expand beyond providing core transport and handling services and enter into new areas in the logistics value chain such as contract logistics and supply chain coordination.
- Significant growth targeted from the development of logistics hubs and clusters, natural gas midstream infrastructure, manufactured products and new digital businesses.
- Adopt a partnership-driven approach to crowd in private investment as it enters identified growth areas.

New strategic direction: Growth levers

Fix, optimise and grow the core

+

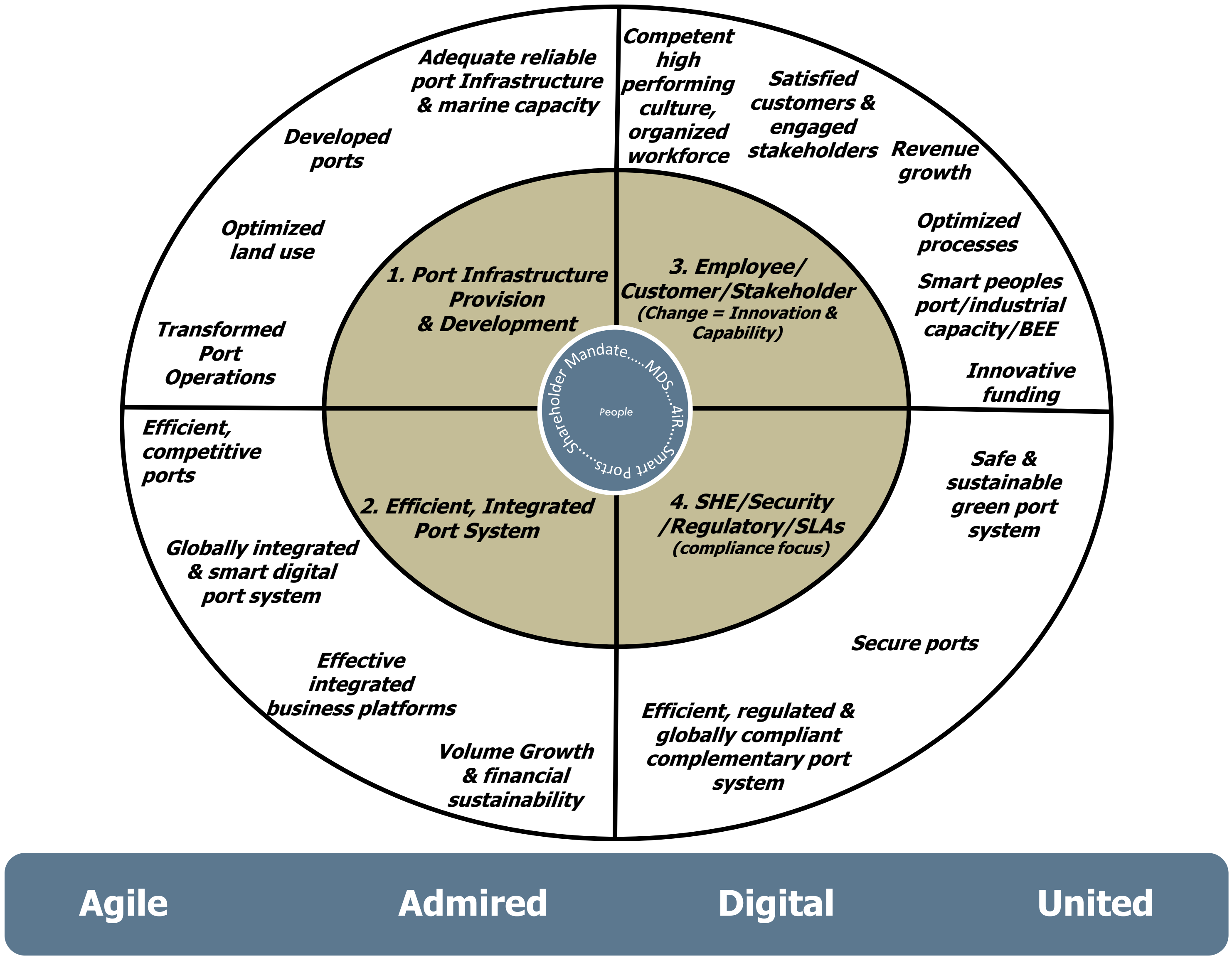
Find new growth

1. Geographic expansion: Building share in chosen markets beyond today's core

2. Adjacencies & diversification: Leveraging capabilities to enter businesses, near to or far from today's core

3. Vertical integration/value chain disruption: Increasing scope in the value chain

The Authority's Strategy FY2019/20



WEGO Results FY 2018/19

2018/19 Financial Year - WEGO Annual Report									
Port Aggregated Performance - 18_19 Annual Report	**Weight**	**Port of Richards Bay**	**Port of Durban**	**Port East London**	**Port of Ngqura**	**Port of Port Elizabeth**	**Port of Mossel Bay**	**Port of Cape Town**	**Port of Saldanha**
Anchorage Waiting Time	20%	13.3%	13.6%	10.0%	-0.4%	3.9%	-0.9%	13.3%	0.0%
Ship working Hour ave	20%	1.2%	0.8%	1.8%	-1.4%	0.7%	0.0%	-0.5%	0.5%
Berth Productivity	20%	0.1%	1.0%	4.3%	-0.9%	-1.3%	0.0%	-0.5%	-1.0%
Ship Productivity Indicator	20%	-3.8%	3.6%	-0.2%	1.1%	-0.7%	6.8%	3.6%	1.1%
Ship Turnaround Time	20%	0.3%	0.0%	-3.3%	4.1%	-0.5%	5.0%	-0.7%	1.6%
Port Efficiency Gain		**11.2%**	**19.1%**	**12.5%**	**2.5%**	**2.1%**	**10.9%**	**15.1%**	**2.2%**
Capped at 10%		**10%**	**10%**	**10%**	**2.5%**	**2.1%**	**10%**	**10%**	**2.2%**
Revenue Weighting per Port (Ports revenue only)		**14%**	**51%**	**2%**	**5.8%**	**4.7%**	**1%**	**14%**	**9%**
Weighted Port Performance		**1.35%**	**5.10%**	**0.19%**	**0.14%**	**0.10%**	**0.07%**	**1.37%**	**0.19%**
Composite Port Efficiency Gain		**8.52%**							

LEGEND:		
	White	Performance
	Green	Improvement from prior years
	Red	Decline from prior years performance

RAB FY 2018/19 (Pre-VoRAB)	**79 853**
Ke	8%
Gearing	50%
Return of Equity	**3 085**
WEGO Multiplier	8.52%
WEGO Multiplier Cap	5.00%
Gain/(loss)	**154**

Port Efficiency Gain of 8.52% achieved – however for Tariff Application purposes capped to 5% as per WEGO ROD

R3 085m * 5.00%

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;

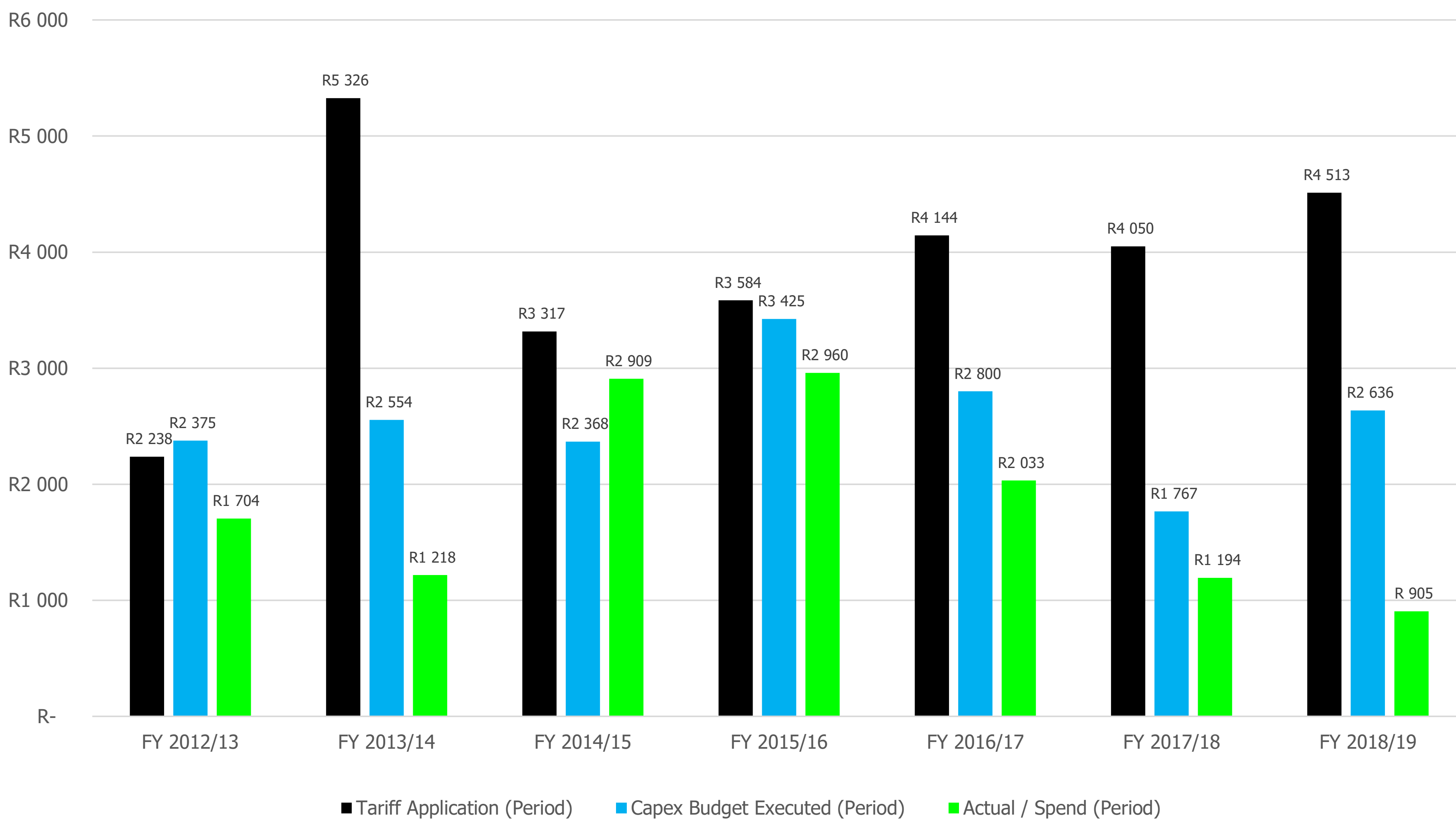
c) control land use within ports, and has the power to lease land under such conditions as the Authority may determine;

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

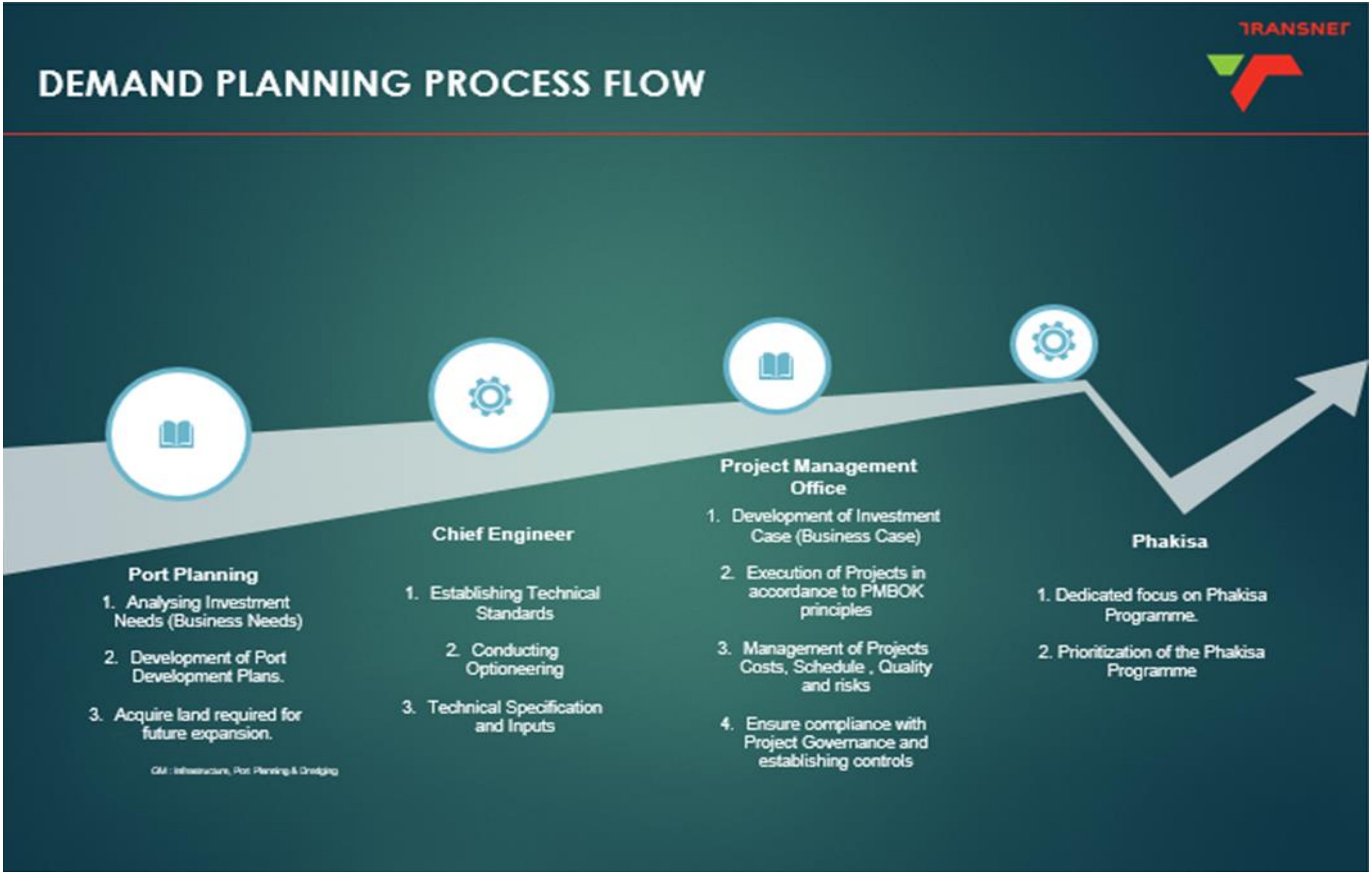
e) arrange for such services such as water, light, power and sewerage and telecommunications within ports;

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

Capital Expenditure Tariff Application vs. Budget vs. Actual FY 2012/13 - FY 2018/19



Demand Planning Process flow - Gaps



The Authority’s Game Changer Initiatives

Sourcing

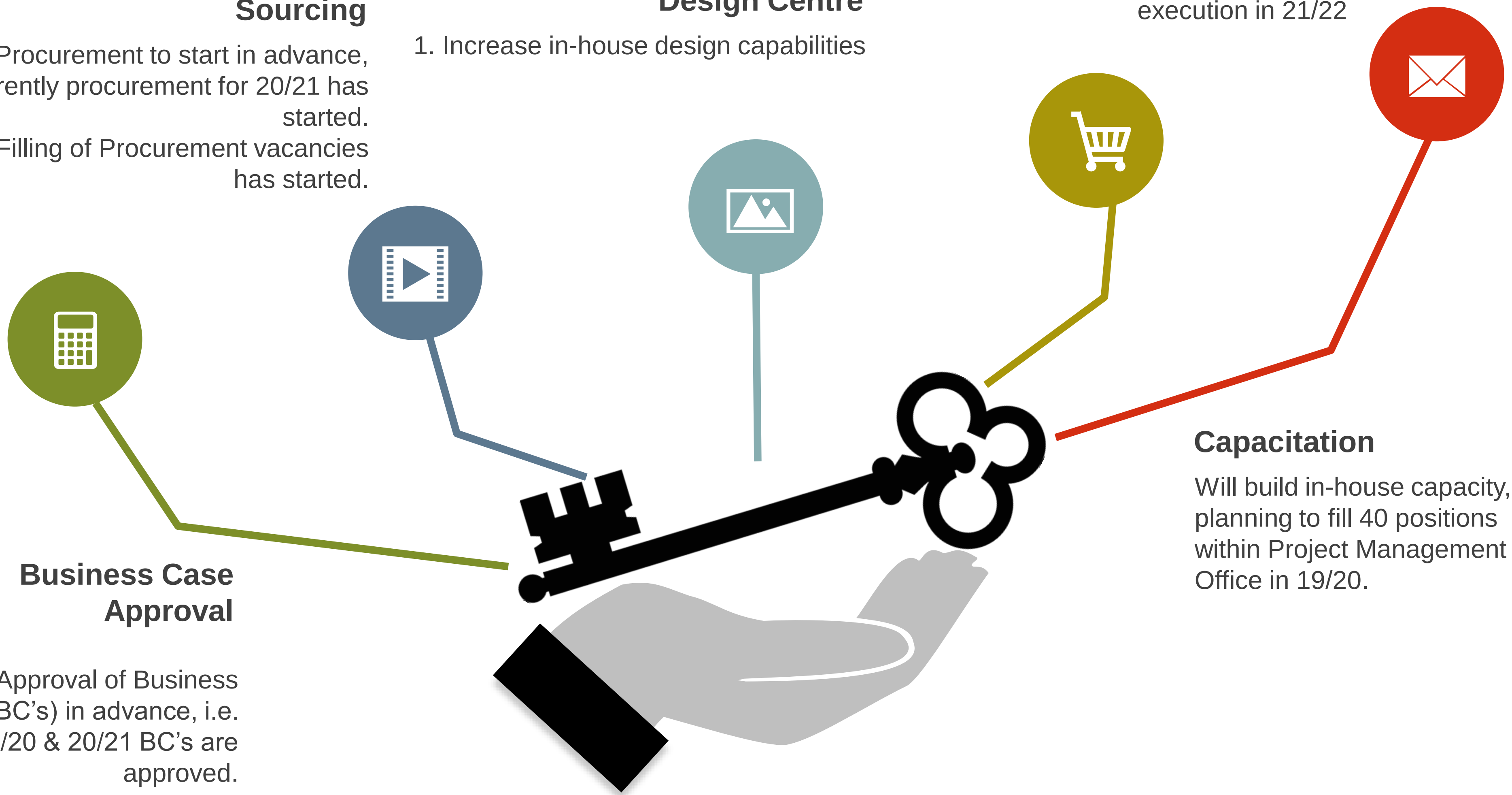
1. Procurement to start in advance, currently procurement for 20/21 has started.
2. Filling of Procurement vacancies has started.

Design Centre

1. Increase in-house design capabilities

Forward Planning

1. All ready considering our readiness for projects planned for execution in 21/22



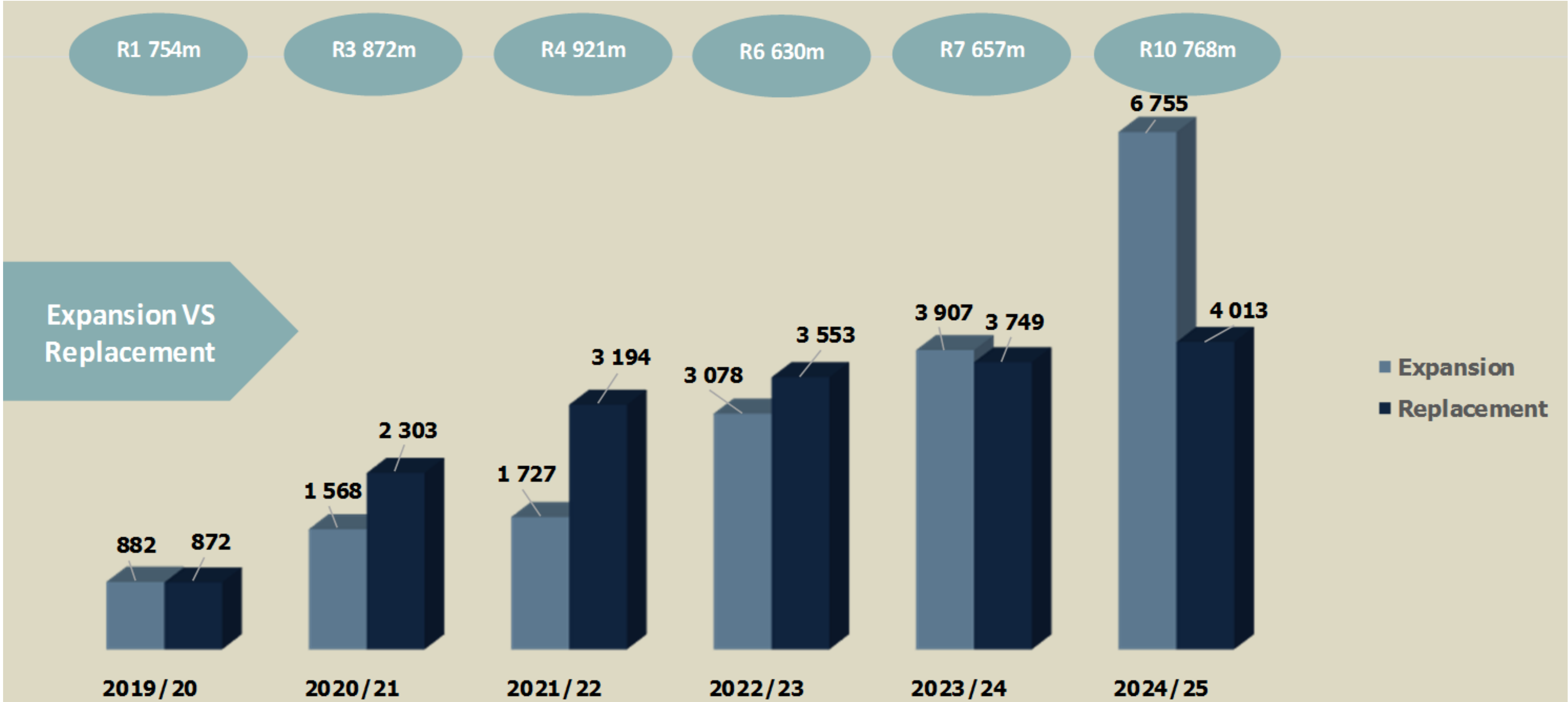
Capacitation

Will build in-house capacity, planning to fill 40 positions within Project Management Office in 19/20.

Business Case Approval

1. Approval of Business Cases (BC’s) in advance, i.e. 19/20 & 20/21 BC’s are approved.

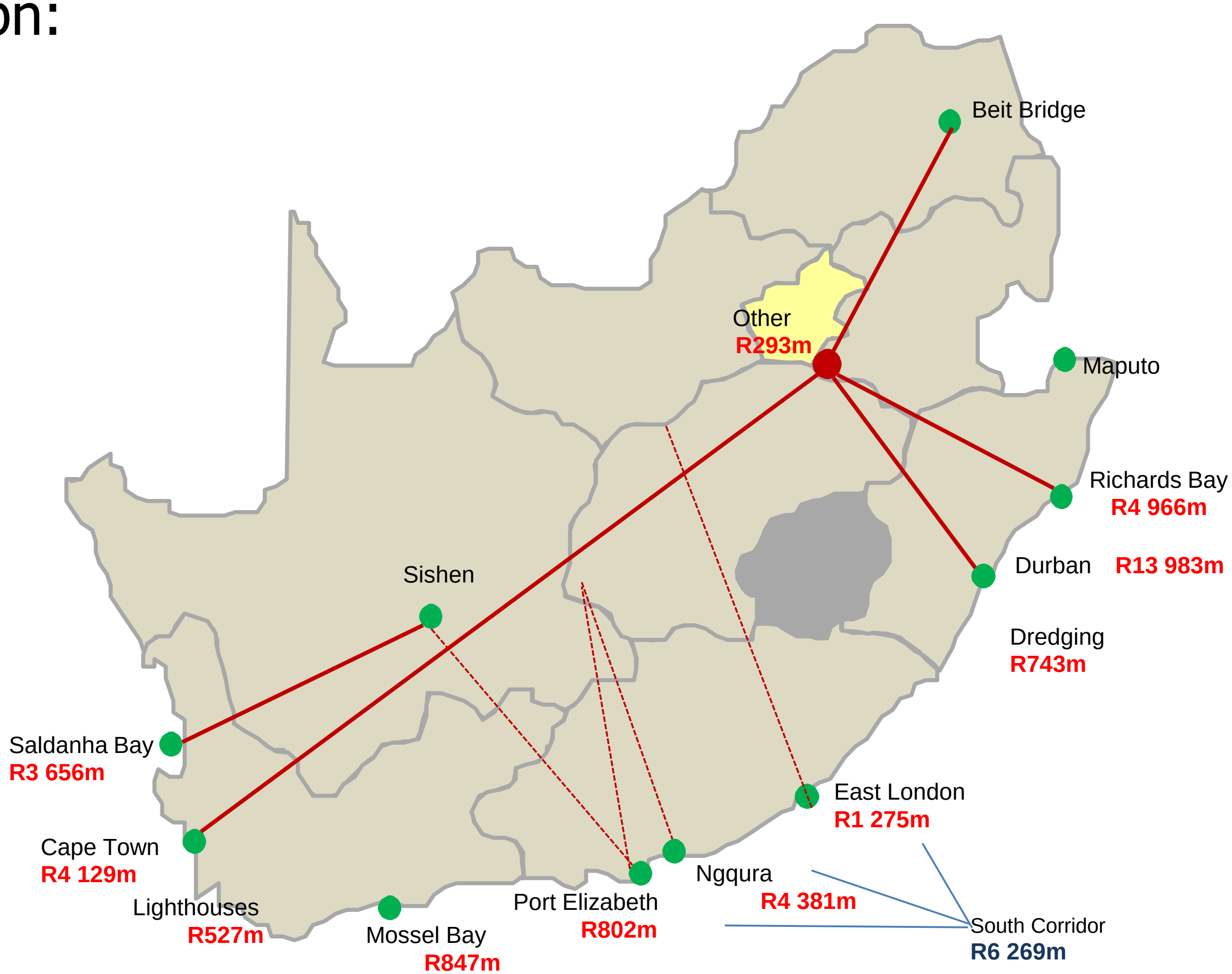
Port Investment Planning



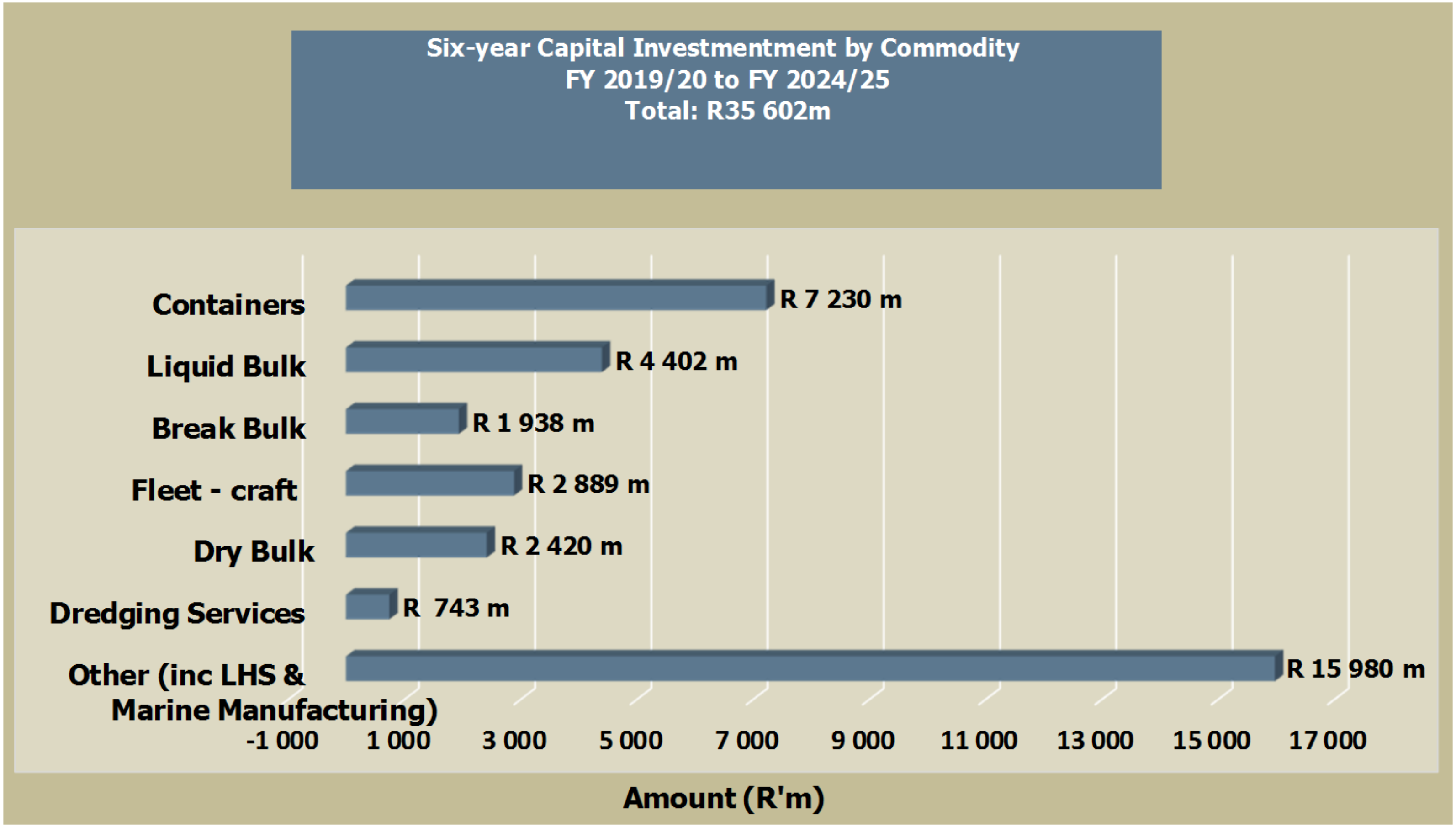
Total Expansion: R17.9	Total Replacement: R17.7	Total 6 Years: R35.6

Port Investment Planning

- The Authority's capex spending over the six year period amounts to R35.6bn:



Port Investment Planning



<u>Key projects included within Other (inc. LHS & Marine Manufacturing):</u>

- Replacement of 10 cranes for Shiprepair
- Perway Upgrade
- Replace Water Pipelines & Billing System
- Bayhead Road Civil & Electrical Infrastructure Upgrade
- Langerberg Road Civil & Electrical Infrastructure Upgrade
- Increase Electricity Supply Capacity
- Drydock Jib Cranes
- Reconstruction of Quay 3
- Slipway upgrade
- Bayvue rail yard expansion
- Dredging and construction of Marine infrastructure for Floating Dry Dock

Port Investment Planning

- Major Capital Projects FY 2019/20 to FY 2022/23

Container Terminals

- Port of Durban Execution: DCT berth deepening 203 to 205 (Status – Re-tender of Marine Contract & Expected Completion – 2026)
- Port of Cape Town Expansion of Container Terminal; CPT Phase 2B – FEL3 (Design Phase completion March 2019)
- Port of Ngqura: Automated mooring system at NCT D101 – 103 (Still on concept phase)

Bulk

- Port of Ngqura New Entrance, road and services (phase 2) (Completion November 2020)
- Port of Ngqura Manganese Project (Design Phase at 70%)
- Port of Richards Bay Bayvue rail yard expansion (Short Term - Forecast – October 2019, LTIB – 75 Wagon Train Forecast 2028, 150 Wagon Train Forecast 2031)

Fleet Management

- Port of Cape Town Three Replacement Tugs, (Completion - April 2024)
- Replacement of Richards Bay Tug (1) (Completion - June 2024)
- Port of East London Tugs (2) (Completion August 2024)
- Dredging Services 2nd Grab Hopper Dredger (August 2021)

Helicopters

- Acquisition of replacement and new helicopters for DBN, RCB & CPT (November 2021)

Operation Phakisa

- Ship repair Initiatives at RCB, DBN, PLZ, CPT, SLD, MSB (Completion - December 2022 - Forecast July 2023)

TNPA Phakisa Revised 3 Feet Plan Summary

PORT	PROJECTS		Est 2014 Rbn	TNPA Rbn	PSP Rbn	EST 2019 Rbn	TNPA Rbn	PSP Rbn	New jobs 2014 FROM 2019	New jobs 2019 from comm	Comm date
Ship Repair Ports (Initiative 5)	Upgrade TNPA Ship Repair Facilities		1.054	1.054	-	3.740	3.740	-	1500	1500	2021/22
Saldanha (Initiative 2)	Offshore Supply Base		13.200	9.600	3.600	2.046	0.156	1.890	3200	3200	2023
	Berth 205 Marine Manufacturing Facility					5.000	-	5.000			
	Mossgas Jetty					3.500	-	3.500			
Richards Bay (Initiative 7)	Install Floating Dock	Floating Dock	0.550	-	0.550	1.355	-	0.500	240	1000	2022
		Marine Works					0.855	-			
East London (Initiative 8)	Boat Building /Marine Manufacturing Leases		0.215	-	0.215	0.006	0.001	0.005	80	50	2020
TOTAL:			**15.019**	**10.654**	**4.365**	**15.647**	**4.752**	**10.895**	**5020**	**5750**	

Notes:
Total TNPA commitment = R4.752bn. Job numbers = direct and indirect jobs

- The 3 Feet Plan has been supported by the MTM Delivery Unit for discussion with DPME.

Initiative 5 - Maintain and refurbish existing Ship Repair facilities

Port	Upgrade Project	Phase	Comments
CPT	Replacement of Robinson Dry Dock Floating caisson	FEL 3	Feasibility study completed execution approvals
CPT	Sturrock Dry Dock Infrastructure Upgrade	FEL 4	Execution
CPT	Replacement of Sturrock Dry Dock Inner Caisson	FEL 3	Feasibility study completed execution approvals
CPT	Replacement of Capstans on all Docks	FEL 4	Delayed – Reissuing of tender
CPT	Synchro Mechanical Infrastructure Upgrade	FEL 4	Execution
CPT	Sturrock Dry Dock Pump System Upgrade - FEL3&4	FEL 3	Design completed, execution to follow - Turnkey
CPT	Robinson Dry Dock Pump Sytem Upgrade - FEL3&4	FEL 3	Design completed, execution to follow - Turnkey
CPT	Sturrock Dry Dock Electrical Infrastructure Upgrade (Detail Design)	FEL 3	Feasibility study
CPT	Synchro Electrical Control System Upgrade	FEL 3	Feasibility study
CPT	Synchro Civil Infrastructure Upgrade	FEL 4	Execution - tender phase
CPT	Robinson Dry Dock Electrical Infrastructure Upgrade	FEL1/3	Feasibility study
CPT	Replacement of 10 cranes for Ship Repair	FEL 3	Business Case development

Initiative 5 - Maintain and refurbish existing Ship Repair facilities

Port	Upgrade Project	Phase	Comments
DBN	Dry Dock Pump House upgrade, Civil works- Trenching and Resurfacing & Ancillary Plinths	FEL 4	Contract finalisation and MC appointment
DBN	Dry Dock Fire System upgrade	FEL 3	Main contract awarded, MC award phase
DBN	Workshop 24: Equipment upgrade & refurbishment	FEL 4	Completed
DBN	Execution : Dry Dock Capstans Upgrade	FEL 4	Delayed - Reissuing of tender
DBN	Repair of inner caisson of Dry Dock	FEL 4	Execution
DBN	Overhead Cranes replacement- Workshop 24 & Pump House	FEL 4	Completed
DBN	Replacement of 10 cranes for Ship Repair	FEL 3	Business Case development
MSB	Slipway upgrade	FEL 2	Delayed – scope changes
RCB	Dredging and construction of Marine infrastructure for Floating Dry Dock	FEL 3	FEL 3 underway with TGC
EL	Refurbishment of Graving Dock - Caisson gate	FEL 4	Execution
EL	Refurbishment of Graving Dock - Main Shut-off valve	FEL 4	Execution
EL	Refurbishment of Graving Dock - Jib Cranes	FEL 3	Execution approval phase
PE	1200 ton Slipway Cradle Project	FEL 3	Tender Phase

1. 38 projects in Ship Repair Upgrade Programme. 10 completed to date. 28 current. 1 BC approved, 1 BC to CAPIC in July, 3 projects awarded in Q1. 7 projects to be completed in 2019/20 fnl yr.
2. R25.5m spent to YTD (2019/20).
3. A PM appointed for CT.
4. Support required: Project Engineers and fast tracking of procurement events

Initiative 2 - Develop Offshore Oil and Gas / Marine Manufacturing Hub Port of Saldanha Bay

SUMMARY:

1. SALDEHCO and TNPA Conditions Precedent to be executed. (Dredging, SBIDZ Lease 20ha, Early occupation of berth)
2. Transaction Advisor resulted in non award. Recovery Plan splitting of services required into Legal Advisor and Marine Manufacturing Advisor. Schedule revised as below
3. Conclude Phase 1 b lease agreement
4. **Way forward:** Revise and issue TA RFP

Main Deliverables	Start	Finish
Transaction Advisor		
Approval for consultant	15-Jun-19	15-Aug-19
Issue RFP for TA	15-aug-19	30-Aug-19
Tender Closing	24-Sept-19	24-Sept-19
Evaluations and Review	01-Oct-19	11-Oct-19
Appoint TA	12-Oct-19	24-Oct-19
Feasibility study and RFP pack	25-Oct-19	30-Apr-20
Facility Operator		
RFP for concession	01-May-20	30-Sept-20
Appoint Operator	01-Oct-20	31-Mar-21
Operator fulfils conditions precedent	01-Apr-21	31-Dec-21
Development and Commissioning	01-Jan-22	31-Dec-23 / Jun 24

Socioeconomic impact

- Investment: PSP R8.5bn
- "Low road" 6 rigs / jobs per annum = 3200 direct and indirect jobs.
- Multiplier of 5 = 16000 indirect supply chain impact pa

Risk	Impact	Mitigation
Non award to Transaction Advisor	Not meet SHC. Schedule delays	Recovery Plan reissue revised tender (Shamina Krishnaswamy)
Shortage of New Business Resources	Non achievement of timelines and SHC	Commit and appoint resources as per Corporate Plan (Jacob Nare)
Community activism opposing developments	EIA delays	Manage through the EIA process (Vernal Jones)
Expedite development process post contract signing	Late commissioning	Project plan for TNPA and SALDEHCO development actions (Jacob Nare)

Initiative 7 - Install a Floating Dock at Richards Bay

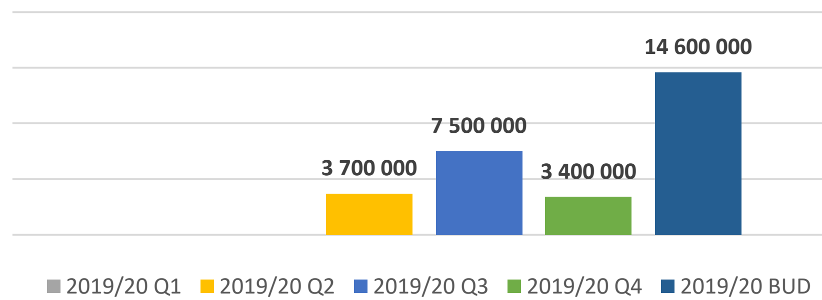
TRANSNET

SUMMARY:

1. TGC appointed at FEL 3 Service Provider (FEL 3 = R17.7m).
2. Transaction Advisor resulted in non award. Recovery Plan splitting of services required into Legal Advisor and Marine Manufacturing Advisor. Schedule revised as below
3. **Way forward:** Appoint revised TA, Issue RFP

Main Deliverables	Start	Finish
Infrastructure FEL 2 Deliverables:		
Investment Forum FEL 3	15-Feb-19	20-Feb-19
TNPA CAPIT FEL 3 approval	14-Feb-19	12-Mar-19
Infrastructure FEL 3 Deliverables:		
FEL 3 Approvals to Engineering Report (TGC)	15-Feb-19	11-May-20
FEL 4 TNPA, Group Gate Review, IF, CAPIC, GP IF, GP CAPIC	01-May-20	22-Oct-20
Infrastructure FEL 4 Deliverables:		
Procurement - Appointment of FEL 4 Contractor	26-Nov-20	24-May-21
Project Execution	25-May-21	28-Mar-22
Project Finish (Closed-Out)	23-Mar-22	25-Apr-22
Floating Dock Concession		
Approval for consultant	15-Jun-19	15-Aug-19
Issue RFP for TA	15-aug-19	30-Aug-19
Tender close, Evaluations and Review	24-Sept-19	11-Oct-19
Appoint TA	12-Oct-19	24-Oct-19
Feasibility study and RFP pack	25-Oct-19	31-Mar-20
RFP for concession	01-Apr-20	30-Aug-20
Appoint Operator	01-Sept-20	31-Dec-20
Operator fulfils conditions precedent	01-Jan-21	31-Dec-21
Commissioning	01-Jan-22	30-Apr-22

2018/19 Budget, LE and 2019/20 Draft Budget



Socioeconomic impact

- Investment: R1.35bn (TNA R855m and Private Sector R0.5m)
- 10 jobs per annum = 1000 direct and indirect jobs.
- Multiplier of 5 = 5000 indirect supply chain impact pa

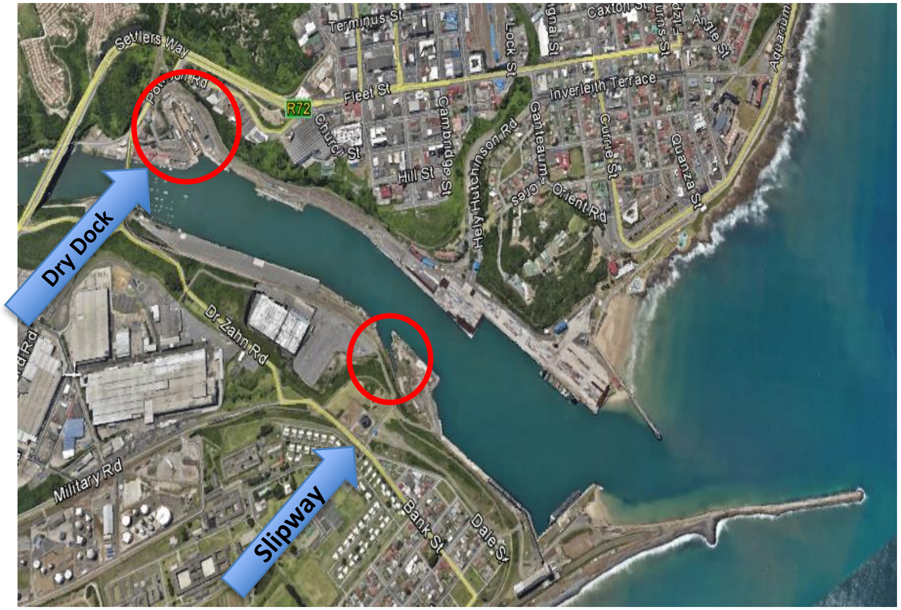
Risk	Impact	Mitigation
Unforeseen Capital Dredging Permit conditions	Increase in project cost and time	Recommendations from Dredging material disposal report to be considered during construction. (Motsomai Mohoalili)
Non award to Transaction Advisor	Not meet SHC. Schedule delays	Recovery Plan reissue revised tender (Shamina Krishnaswamy)
Project Manager Vacancy	Project progress and continuity	TGC resources to progress FEL3. Transition plan (Motsamai and Port Engineer)

TRANSNET

Initiative 8 - Develop marine manufacturing Port of East London

SUMMARY:

1. Leases advertised and submission processes underway.
2. Feasibility study / pilot for ship recycling to be initiated in Q2 2019. Discussions held with Buffalo City Maritime Cluster, AMSOL and DEDEA Eastern Cape
3. **Way forward:** Award leases. Initiate Ship Recycling feasibility study / pilot



Main Deliverables	Start	Finish
Issue Marine Manufacturing Leases		
Leasing plan for slipway area	01-Jul-18	28-Sept-18
Preparation of sites for leasing	25-Sept-18	23-Nov-18
Advertise and conclude leases	01-Nov-18	30-Aug-19
Ship Recycling		
Feasibility Study for Green Ship Breaking	01-Aug-18	30 -Jun-19
Develop and approve implementation plan	01-Jul-19	31-Sep-19
Implementation	02-Oct-19	30-Apr-20

Socioeconomic impact

- Investment: As per leases
- 50 direct jobs
- Multiplier of 5 = 250 indirect supply chain impact pa

Risk	Impact	Mitigation
Continued low investor interest due to weak supply and demand conditions for marine manufacturing in East London	Developmental approach to grow GDP and create jobs not achieved	TNPA to develop and market service offerings for marine manufacturing in East London (Jacob Nare)

Section 56 Projects

Port	Completed Section 56 agreements	Commissioning Date	Investment Amount
Port of Cape Town	• Cruise Terminal: - V&A Waterfront Section 56 agreement concluded. Development continuing parallel to operations • Green fields Liquid bulk Terminal (Burgan Cape): - Burgan Cape Section 56 agreement concluded and operational	01 December 2015 01 August 2017	R90m
Port of Durban	• Green fields Cruise Terminal: KwaZulu Cruise Terminal (KCT) Section 56 agreement has been concluded	October 2020	R285m
Port of Saldanha	• Greenfields LPG Terminal: Sunrise Energy construction concluded and facility now operational • Offshore Supply Base: Saldehco OffShore Supply Base Section 56 agreement has been concluded	15 May 2017 (Not yet commissioned)	R1 100m R1 800m
Port of Ngqura	• Greenfields Liquid Bulk Terminal – OTGC Section 56 Agreement concluded	November 2020	R 2 000m
Port of Port Elizabeth	• Brownfields Bidfreight Port Operations concluded (Shed 10 & 11)	June 2019	R20m

Section 56 Project Pipeline Projects

Port	Section 56 Project Pipeline

Port of Cape Town	• Liquid bulk Terminal: Brownfield Project x 3
	  ○ *Public process to commence in Q4 of FY 2019/20 x 2 (subject to IVS Strategy)*
	  ○ *Public process to commence in FY 2020/2021 x 1 (subject to IVS Strategy)*

Port of Durban	• Maydon Wharf Agri-Bulk Terminal: Greenfield Project
	  ○ *Public process to commence in FY 2019/2020.*
	• Maydon Wharf Entsembeni Terminal: Greenfield Project
	  ○ *Public process to commence in FY 2020/2021.*
	• Maydon Wharf High Flush Liquid Bulk Terminal:
	  ○ *Public process to commence in FY 2020/2021.*
	• Liquid Bulk (Petroleum & Chemicals) Terminal - Island View Precinct: Brownfield Project
	  ○ *Public process to commence in FY2019/2020, subject to IVS Strategy*

Port of Saldanha	• Ship Repair Facility / Floating Dock: Greenfield Project
	  ○ *Public process to commence in Q1 of FY 2020/2021.*
	• Rig Repair Facility: Greenfield Project
	  ○ *Public process to commence in Q1 of FY 2020/2021.*

Port of Richards Bay	• Liquid Bulk Terminal at South Dunes (Including Bunkering, if viable): Greenfield Project ○ *Public process to commence in FY2020/2021.* • Ship repair facility / Floating dock: Greenfield project • *Public process to be commenced in Q1 of FY2020/2021.*

Port of Ngqura	• *Energy Precinct: Greenfield / Brownfield Project*
	  ○ *Open RFI to market to solicit innovative projects (test the market for probable projects) targeted for end August 2019.*
	  ○ *RFP process and timing dependent on RFI outcome.*

TNPA challenges - where we are today

1. Record low customer satisfaction levels

2. Low stakeholder confidence (Transnet Board of Directors, Transnet leadership, Regulatory stakeholders (e.g. PRSA)and Policy ministries, employees

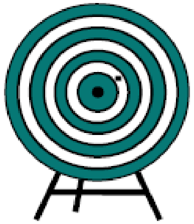
3. TNPA not delivering on expected shareholder and stakeholder value

4. Real Estate not fully unlocking its potential

5. Inefficient use of infrastructure and lack thereof to unlock economy value

6. Capacity constraints will render TNPA irrelevant in the future

Our aspiration to reposition TNPA to successfully deliver on the mandate



A vehicle of the state to facilitate trade and unlock economic growth of the country – through reducing cost of doing business and facilitating a globally competitive Transport and Logistics system

CUSTOMER CENTRED World Class Logistics and Industrial Hubs

TNPA Strategic Objectives for the next Ten years

1. Deliver a globally competitive and integrated smart port system from position 29 to 20 in the Logistics Performance Index (LPI) by 2030

2. Support and lead inter–regional development and trade through an attractive regional value proposition, aligned to African Continental Free Trade Area Agreement (ACFTA)

3. Drive socio economic development through transformation in the South African port system and community development

4. Develop a competitive and developmental pricing / tariff model to lower the cost of doing business and influence GDP growth in the provinces we play

5. Reduce cost per ton aligned to benchmarks to lower port pricing further and influence demand for SA goods

6. Grow TNPA business exponentially through recruiting investments and diversifying ports offerings, elevating property development as a core function of the authority

7. Increase TNPA market share nationally to 99%, and identify opportunities to attract significant market share regionally and globally

8. Increase customer satisfaction to 80% through driving world class better customer experience and delivering value in line with tariffs charged

9. Improve port security and efficiencies through laser focus on effective oversight, influence improvement of the transport & logistics system and industry rankings

10. Enhance employee experience, build capacity and remain the employer of choice

Tariff Application Approach

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 the Tariff Years 2018/19 – 2020/21.The indicative years FY 2021/22 and FY 2022/23 has been prepared on the basis of the 30 March 2017 Tariff Methodology as the new Methodology is not yet finalised

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.* • *Trended Original Cost Methodology*
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 on a straight line basis on the useful life of the asset* • *Capex depreciated on average useful life of 40 years.*
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: RAB

- On 29 March 2018, the Regulator issued the "Methodology for the Valuation of the National Ports Authority's Regulatory Asset Base" (VoA).
- VoA considers a hybrid approach where assets with capitalisation dates pre-1990 are valued at Historical Cost (HC), whilst assets in existence post 1990 are valued at Trended Original Cost (TOC).
- The Authority raised concerns around the financial impact of implementation of the VoA: Implementation of the VoA would have resulted in a significant reduction of the Authority's revenue base, impacting the organisation's key financial ratios and credit metrics, breaching most of the parameters in the first year of implementation.
- In its Record of Decision (ROD) on the Tariff Application for FY 2019/20, the Regulator decided to apply the TOC methodology to all assets, inclusive of assets pre-1990 and post-1990, in its application of the financial capital maintenance principle.
- The Regulator, in its ROD, further guided that it will "*finalise the specific approach of RAB valuation within the next multi-year tariff methodology (MYM3) which the Regulator will be conducting in 2019/20.*"
- The determination of the RAB for FY 2020/21 has therefore been prepared on the TOC Methodology, with each asset depreciated according to its own useful life.

Revenue Requirement Components: RAB

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

REGULATORY ASSET BASE	2020/21	2021/22	2022/23
		R'm	
Opening book value	73 170	78 388	84 773
Inflation Index	3 581	3 707	3 557
Indexed Opening Asset Base	76 751	82 095	88 330
Indexation of Capex	97	125	159
Indexed Asset Base	76 848	82 221	88 489
Add :Capex Latest Estimate	3 872	4 921	6 630
Depreciation	-2 331	-2 369	-2 465
Closing Book Value	78 388	84 773	92 653
Average Asset Base	75 779	81 581	88 713
Less :Working Capital	-2 306	-2 520	-2 787
Regulated Asset Base	**73 473**	**79 060**	**85 926**

Revenue Requirement Components: WACC

- The Vanilla WACC is determined as follows:

REAL RATE OF RETURN	2020/21	2021/22	2022/23
Inflation forecast	5.00%	5.10%	4.80%
Nominal Risk-free rate	8.79%	8.79%	8.79%
Real risk free rate	3.61%	3.51%	3.81%
MRP	5.31%	5.31%	5.31%
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)	10.85%	10.85%	10.85%
Equitable Tax rate	15.08%	15.08%	15.08%
Real Cost of equity (post-tax)	8.52%	8.42%	8.71%
Real WACD (pre-tax)	5.57%	5.47%	5.77%
Real Vanilla WACC	**7.04%**	**6.94%**	**7.24%**

Explanatory notes:

Risk Free Rate: KBP2003M, calculated over a five yearly average from June 2014 to May 2019 for FY 2020/21

MRP: Geometric mean with the use of the DMS studies over the full period available dataset (118 years)

Inflation: BER Forecasts

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

FY 2020/21 MRP figure is used as a proxy for MRP for indicative years FY 2021/22 & FY 2022/23

Revenue Requirement Components: Taxation Expense

- The equitable tax rate is determined based on Transnet OD's profit before tax contribution as follows:

Details	5 Years Total
Total Profit Before Tax	29 533
Total Profit Making Divisions	54 850
Equitable Tax = (Total Profit before tax / Total profit making divisions) * 28%	**15.08%**

- Taxation calculation is highlighted below:

Taxation	2020/21	2021/22	2022/23
Equity Return	3 128	3 327	3 743
Depreciation	2 331	2 369	2 465
Opex	6 149	6 769	7 414
Gross income	**11 608**	**12 465**	**13 623**
Depreciation	2 331	2 369	2 465
Opex	6 149	6 769	7 414
Total Deductions	**8 480**	**9 138**	**9 879**
Taxable Income	3 128	3 327	3 743
Grossup factor	0.85	0.85	0.85
Grossed up taxable income	3 684	3 918	4 408
Tax @ 15.08%	**555**	**591**	**665**

Revenue Requirement Components: Operating Expenditure

- Operating Expenditure is highlighted in the table below:

Cost Category	Actual 2018/19 R Million	LE 2019/20 R Million	Forecast 2020/21 R Million	Dev '19/20 vs 20/21 R Million	Dev '19/20 vs 20/21 Percentage	% of Opex 20/21	Forecast 2021/22 R Million	Forecast 2022/23 R Million	CAGR 2020/21 - 2022/23
Labour Costs	2 383	2 634	3 120	486	18%	55%	3 476	3 840	11%
Rates & taxes	375	392	429	37	9%	8%	475	511	9%
Maintenance	285	455	508	53	12%	9%	582	656	14%
Contract Payments	38	21	23	2	8%	0%	25	26	7%
Energy	534	603	706	103	17%	12%	777	874	11%
Professional services	29	52	54	2	5%	1%	57	61	6%
Material	82	95	117	22	23%	2%	128	142	10%
Computer & Info systems	130	215	226	11	5%	4%	247	263	8%
Rental	50	64	70	6	10%	1%	76	80	7%
Security costs	102	107	107	1	1%	2%	117	126	8%
Pre -Feasibility Studies	43	112	155	43	39%	3%	134	134	-7%
Sundry operating costs	80	133	152	19	14%	3%	171	177	8%
Total operating cost (excluding depreciation)	***4 130***	***4 883***	***5 668***	***785***	***16%***	***100%***	***6 265***	***6 890***	***10%***
Group Costs	384	487	481	(6)	-1%		503	524	4%
Total operating cost (Including Group Costs)	**4 514**	**5 370**	**6 149**	**779**	**15%**		**6 769**	**7 414**	**10%**

Revenue Requirement Components: Operating Expenditure

- 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 ahead of demand and maintaining existing and new assets; • Additional Aviation personnel required due to helicopter services being extended to the Port of Cape Town; • Meeting minimum manning levels of marine at 100% service and matching manning levels with number of tugs required per shift linked to meet the MOPS requirements; • Security personnel required to ensure CCTV monitoring/ maintenance and the overall safety within the ports; • Additional support services staff to assist with the administration within the ports system; • Manning of the port operational centres to ensure systematic views of port performance; • New business and Section 56 personnel required in order to continuously attract new business which is crucial for the sustainability of the Port system.
2. Energy	• Increase in electricity costs; and • Larger bollard pull capacity of the new craft for improved efficiencies, which results in higher fuel consumption.
3. Maintenance	• Ports handle larger container vessels than they were designed to accommodate, necessitating a higher frequency of maintenance dredging; • Ports are handling bigger, deeper ships with a very small under keel clearance. This has led to scouring of the seabed which then requires additional dredging. • Ongoing maintenance of ageing infrastructure and marine dredging fleet

Revenue Requirement Components: Operating Expenditure

- 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	• All port function activities are aggregated into a single repository creating a single source of information • It provides operations insight, digitized infrastructure and operations automation as it enables real time communication to all port operations and this assists in securing a stable network coverage for all land and sea activities • Tracking of all assets required to ensure full visibility to better manage port operations and incident management activities • Mapping of all port processes to create visualisation of all activities from the control centre
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	• Includes: Maydon Wharf channel deepening; Schoemans bridge modification; Bayhead road roads upgrades; IV berth 4 upgrade; Best Practices Marine Operations; Upgrade Of MSOE Main Campus 'Simulator Rooms; Collaboration Decision Making.
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.

Revenue Requirement Components: Clawback

- Claw-back is the difference between allowed and actual revenues.
- The re-computed RR for FY 2018/19 is R11 198m, resulting in a claw-back of -R1 252m for FY 2018/19.
- The re-computed claw-back for FY 2018/19, together with an adjustment for contract revenue and the provisional claw-back for FY 2019/20 results in a net claw-back of R1 219 m, in favour of customers.

CLAWBACK	2018/19 ROD	2018/19 Actuals
	R'm	
Return on asset	5 134	5 425
Depreciation	2 099	2 112
Opex + Group Costs	5 938	4 514
Tax	682	580
Clawback	-1 779	-1 779
ETIMC	345	345
Revenue Allowed/Actual Revenue	**12 419**	**11 198**
AFS Revenue		12 450
Clawback		-1 252
Clawback as per above		-1 252
Contract Revenue		-128
Reverse FY 2018/19 Clawback taken in FY 2019/20		136
Estimated Clawback for FY 2019/20 (50%)		115
Plus return on clawback account for FY 2019/20 @ 6.80% RoR		-89
Net Clawback		**-1 219**

Revenue Requirement Calculation

DETAILS	2019/20	2020/21	2021/22	2022/23
	ROD	Fixed Tariff Year	Indicative Tariff Years	
	R'm	R'm		
RAB	69 732	73 473	79 060	85 926
Vanilla WACC	6.55%	7.04%	6.94%	7.24%
Return on Capital	4 570	5 175	5 489	6 223
Plus: Depreciation	2 074	2 331	2 369	2 465
Plus: Operating Costs	6 291	6 149	6 769	7 414
Plus: Taxation Expense	509	555	591	665
Plus/Less: WEGO	-	154	-	-
Plus/Less: Clawback	-1 419	-1 219	115	-
Plus/Less: ETIMC	539	-	-	-
Revenue Allowed	***12 563***	***13 145***	***15 333***	***16 767***
Less: Real Estate	3 284	-3 548	-3 839	-4 132
Marine Revenue	***9 279***	***9 597***	***11 494***	***12 635***

Total Revenue Requirement of R13 145m compromising of Marine Business Revenue of R9 9597m and Real Estate Business Revenue of R3 548m for FY 2020/21

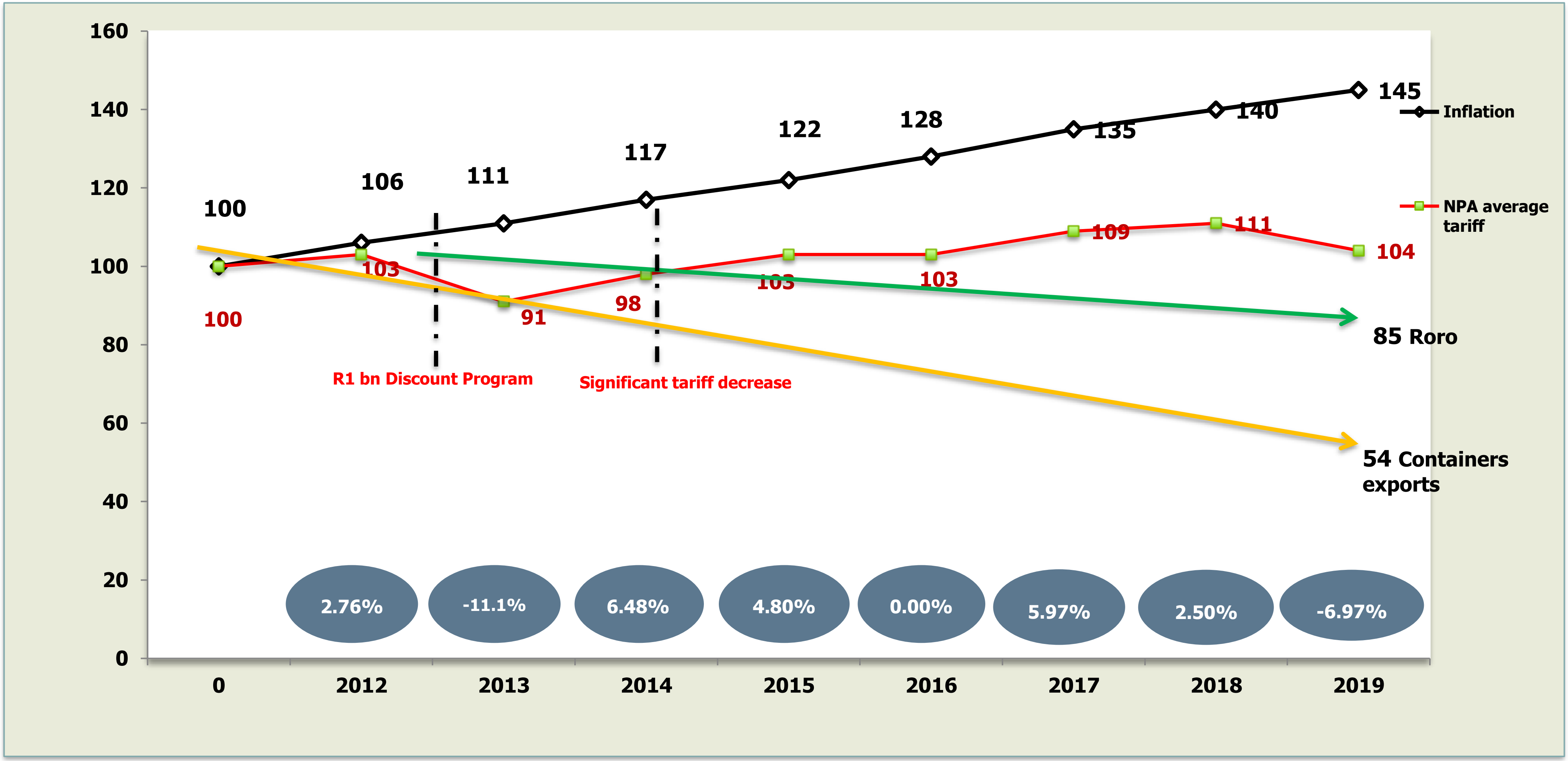
Tariff Adjustment for FY 2020/21 – FY 2022/23

MARINE REVENUE	2020/21	2021/22	2022/23
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	9 039	9 597	11 494
Estimated Volume Growth	1.31%	1.31%	1.31%
Revenue after volume growth	9 158	9 723	11 645
Required Revenue	9 597	11 494	12 635
Tariff Increase	***4.80%***	***18.22%***	***8.50%***

Total Revenue Requirement of R13 145m compromising of Marine Business Revenue of R9 597m and Real Estate Business Revenue of R3 548m for FY 2020/21 translates to a weighted average tariff adjustment of 4.80% for FY 2020/21.

Tariff Strategy & Differentiation

The Authority’s Administered Pricing



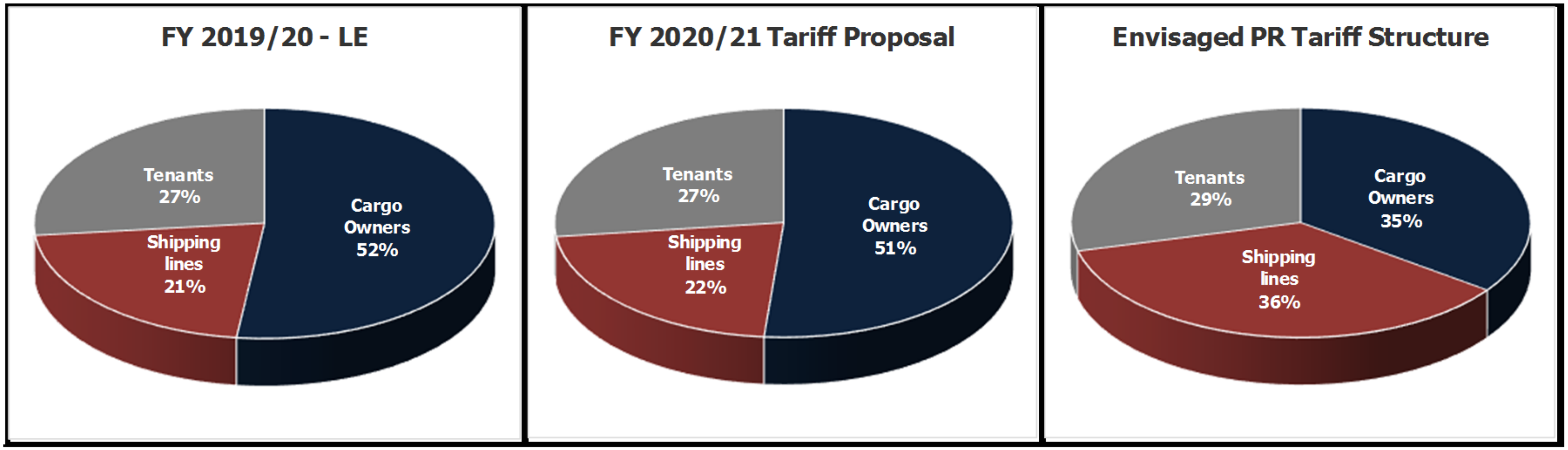
Tariff Strategy and Tariff Differentiation

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

- A tariff increase of 9.70% on Marine charges;
- An average of 2.85% increase in Cargo Dues differentiated as follows:
  - 5.00% on Liquid Bulk and Break Bulk Cargoes;
  - 1.50% on Containers;
  - 1.50% on Automotives;
  - Dry Bulk Cargoes differentiated further as follows:
    - Coal to increase by 7.40%;
    - Ores and Minerals: Magnetite to increase by 7.40%; and
    - Other Dry bulk to increase by 5.00%.
- Weighted average adjustments of the above would equate to the overall requested tariff adjustment for FY 2020/21 – 4.80%

Transition to the Regulator's Strategy

- The proposed tariff differentiation is depicted in the diagram below which sees a 1% contribution away from cargo owners to shipping lines



- The change in the valuation approach of the Authority's RAB, which commenced last year, will impact on the projected Tariff Strategy outputs.
- Whilst the end tariffs are expected to be different, the tariff trajectory directions of the various tariff categories are expected to remain the same.
- Proposed differentiated tariff adjustments therefore in accordance with the approved Tariff Strategy.

Proposed Tariff Book Changes FY 2020/21

Tariff Book Changes FY 2020/21

TRANSNET

- Digitization of Operations: For FY 2020/21 the Authority intends to publish an electronic copy of the tariff book only.
- The proposed tariff book changes for FY 2020/21 is as follows:

Issue	Current read	Proposed Changes
Tariffs		
1. Definitions "Coaster" "Coastwise cargo" ***Page DEF1***	"Coaster" refers to vessels carrying cargo exclusively between the SA ports, on a regular schedule. To qualify as a bonafide coaster, an application must be lodged and approved by the Authority. "Coastwise cargo" means cargo moving by sea between SA ports.	**Amendment** "Coaster" refers to vessels carrying cargo between SA ports and Namibia, on a regular schedule. To qualify as a bonafide coaster, an application must be lodged and approved by the Authority. "Coastwise cargo" means cargo moving by sea between SA ports and Namibia. **Rationale** To incentivise cargo flow between Namibian ports and SA ports.
2. Correction of company registration No. ***Page DEF 3***	DEF 3 – "Transnet" means Transnet SOC(Ltd) registration No. 1990/00900/06	**Amendment** DEF 3 – "Transnet" means Transnet SOC(Ltd) registration No. 1990/00900/**30** **Rationale** Update of registration number
3. Vessel Traffic Services (VTS) for bunkering vessels at anchorage ***Page 2.1***	Vessels calling all Ports under the control of the Authority……	**Amendment** Vessels calling all Ports under the control of the Authority, and performing port related services within port limits **Rationale** To provide clarity as to when VTS charges will be applicable

Tariff Book Changes FY 2020/21 (Continued)

TRANSNET

- The proposed tariff book changes for FY 2020/21 is as follows:

Issue	Current read	Proposed Changes
Tariffs		
4. Berthing Services ***Page 3.7***	For berthing staff in attendance during or outside ordinary working hours on board tanker vessels discharging oil at the Port of Mossel Bay, per hour or part thereof.	**Amendment** For berthing staff in attendance during or outside ordinary working hours on board tanker vessels, discharging crude and petroleum products (including LPG vessels) at the Port of Mossel Bay and Port of Saldanha Bay, per hour or part thereof. **Rationale** This additional service has been extended to the Port of Saldanha Bay
5. Running of Vessel Lines ***Page 3.8***	Running of vessels' lines or standing by to run lines for vessels entering, leaving or shifting per service during or outside ordinary working hours	**Amendment** Running of vessels' lines is where a launch/mooring boat is used to run the vessels' lines (steel wire lines/mooring ropes) from the ship to the bollard. Running of the vessels' lines or standing by to run lines for vessel entering, leaving or shifting; per service during or outside ordinary working hours: ***Rationale*** To give a clear understanding of the service being performed.

Tariff Book Changes FY 2020/21 (Continued)

- The proposed tariff book changes for FY 2020/21 is as follows:

Issue	Current read	Proposed Changes
Tariffs		
6. Split Account Fees (credit and re-debit) ***Page 4.10***	11. Split account fees Prior to vessel sailing per party…..339.44 Amending fee applicable on any changes on marine order Amending fee per order……331.07 Administrative fees for photocopies per page…………………..10.37	**Amendment** **11. Administrative Fees** 11.1 **Amending Fees** Amending fees will be applicable for all changes to marine order post invoicing which arise from customer initiated requests Amending Fee per request…………………..331.07 11.2 **Split Account Fees** PRIOR to vessel sailing per party…………339.44 AFTER vessel sailing will result in the split account fee being levied twice per party. Credit & Re-debit of marine invoice as per client's request after vessel sailing will result in a fee being levied twice. **Rationale** The aforementioned amendment provides a better understanding of the administrative fees applicable. Removal of admin charge for photocopies as ports no longer provide clients with hard copies. Copies available on OTC system.
7. Business Processes and documentation: Cargo Dues Order ***Page 8.1***	Cargo Dues Orders must be presented at the port where the consignment will be landed/shipped/transhipped. Overborder offices will still accept cargo dues orders for containers.	**Amendment** • Cargo Dues Orders must be presented at the port where the consignment will be landed/shipped/transhipped. **Rationale** The orders are no longer hand delivered.

Tariff Book Changes FY 2020/21 (Continued)

- The proposed tariff book changes for FY 2020/21 is as follows:

Issue	Current read	Proposed Changes
Tariffs		
8. Business Processes and Documentation: cargo Dues Order ***Page 8.1***	Any cancellations and amendments on this order will be applicable per each container on the list. Any applicable fees will be levied per container.	**Amendment** Any cancellations and amendments on this order will be applicable per each container on the list. Any applicable fees will be levied per cargo dues order. **Rationale** Certain cargo dues orders may have between 100 to 500 containers per cargo dues order.
9. Types of documentation ***Page 8.2***	Bulk and Breakbulk Imports: • Cargo Dues Order • Bill of Lading/ Delivery Order • Vessel Manifest	**Amendment** • Bulk and Breakbulk Imports: ▪ Cargo Dues Order ▪ Bill of Lading/ Delivery Order ▪ Vessel Manifest ▪ Landing Order **Rationale** Landing order documents are required in order to reconcile the volumes handled.
10. Timing of Documentation: Import Documentation ***Page 8.3 (Point 2.1)***	2.1 Manifests in respect of empties must be submitted within fourteen (14) day before vessel arrival.	**Amendment** Manifest in respect of empties must be submitted within three (3) days after vessel departure. **Rationale** The 14 day period has proven to be excessive with clients being unable to supply the manifest timeously.

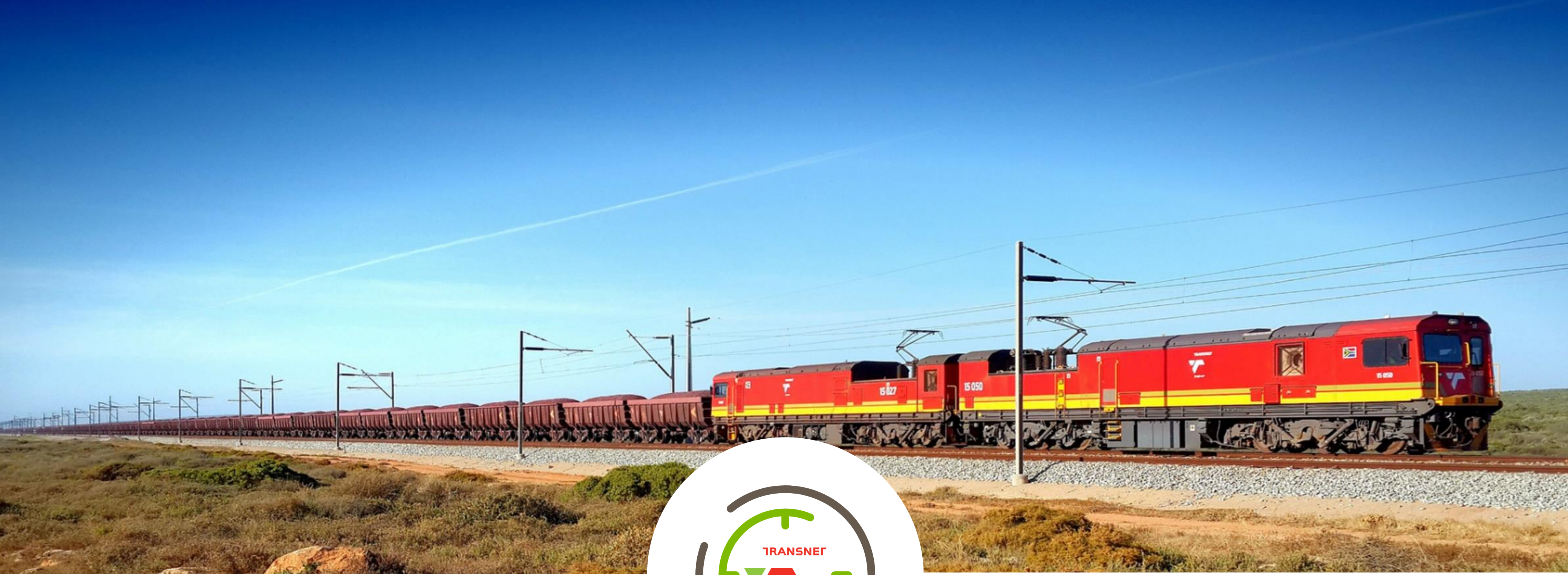
Tariff Book Changes FY 2020/21 (Continued)

- The proposed tariff book changes for FY 2020/21 is as follows:

Issue	Current read	Proposed Changes
Tariffs		
11. Late Order Fees Calculation ***Page 8.4, clause 3.1***	Total cargo dues Payable R10 338.37 (the formula supplied as an example does not result in the total given)	**Amendment** Total cargo dues Payable R10 038.37 **Rationale** Correction of print error. Tariff System was based on correct rates.
12. Non Submission of Cargo dues orders: ***Page 8.5*** Clause 3.2	Where cargo documentation is submitted, whether timeously or not subsequently amended for whatever reason and resubmitted, late order fee charges if applicable will be levied from the date of the new order in the event of under declaration, in addition to the amendment fee of R331.05 per order.	**Amendment** Where cargo documentation is submitted, whether timeously or not subsequently amended for whatever reason and resubmitted, late order fee charges if applicable will be levied from the date of the new order, on the difference in value, in addition to the amendment fee of R331.05 per order. **Rationale** The tariff book does not make mention of raising only the difference. There is no need to charge a 100% penalty. Removal of the words "in the event of under declaration" is proposed in order to adequately process incorrect orders.

Tariff Book Changes FY 2020/21 (Continued)

Issue	Current read	Proposed Changes
Tariffs		
13. Amending Orders **Page 8.5**	Incorrect orders amended within seven (7) days from the date of submission (inclusive of weekends and public holidays) will not attract an amending fee for all non-revenue items e.g. container number.	**Amendment** Incorrect orders amended within seven (7) days from the date of submission (inclusive of public holidays) will not attract an amending fee for any changes to container/engine numbers/country of origin or country of destination/Bill of lading or Mates receipt/Client Reference number/Port of loading and discharge/Terminal/Container Operator or Shipping Agent. (Note that the same order number and invoice number will be retained and an updated confirmation will be issued.) **Rationale** To provide clarity as to when the amendment fee is not applicable
14. Crew transportation section 3, **Page 4.9**, point 4 **(security services)**	Currently not in tariff book	**Amendment** **4. SECURITY SERVICES** **4.1 Crew Transportation** Port of Durban: Vehicle provided by TNPA security to crew members for vessels at Island View berths 1-8 to transport crew members from vessel to Check Point Crew Transportation per day……………………………………………R906.41 4.2 Fees for other security services are available on application **Rationale** Require inclusion in Tariff book to formalize tariffs as the service has always been available on application.



Conclusion

TRANSNET

Conclusion

- The Authority requests a Revenue Requirement of R13 145m comprising of Marine Business Revenue of R9 597m and Real Estate Business Revenue of R3 548m for FY 2020/21 equating to an average tariff increase of 4.80%.

This to be differentiated as follows:

- A tariff increase of 9.70% on Marine charges;
- An average of 2.85% increase in Cargo Dues differentiated as follows:
  - 5.00% on Liquid Bulk and Break Bulk Cargoes;
  - 1.50% on Containers;
  - 1.50% on Automotives;
  - Dry Bulk Cargoes differentiated as follows:
    - Coal to increase by 7.40%;
    - Ores and Minerals: Magnetite to increase by 7.40%; and
    - Other Dry bulk to increase by 5.00%.

- The indicative tariff adjustments for FY 2021/22 and FY 2022/23 are 18.22% and 8.50%, respectively.

The end.