

Risks and opportunities

The risks and opportunities that affect the Company's ability to create value in the short- and longer-term can be grouped into three categories:

- Operational risks and opportunities that are managed proactively every day by implementing policies and process controls. Examples include regulatory compliance and fraud prevention.
- Strategic risks and opportunities that could significantly affect the Company's ability to implement its strategy, many of which can be mitigated if they are well understood and proactively addressed. Examples include market demand, spiking input costs, skills and resource scarcity and cost of funds.
- Systemic or global risks that affect nations and companies worldwide, some of which can be mitigated by collective or multilateral action as well as by localised efforts. Examples include climate change, urbanisation and social inequality.

In executing the MDS in the next seven years (2014-2020), Transnet has identified priority strategic risks and opportunities. The Company's strategic risk profile depicted here arises from Transnet's Enterprise Risk Management Strategy and Framework, based on ISO 31000: 2009. Strategic risk profiles are also developed for each operating division. These are reviewed and updated on a regular basis so that timely and appropriate mitigating plans are implemented as new risks emerge.

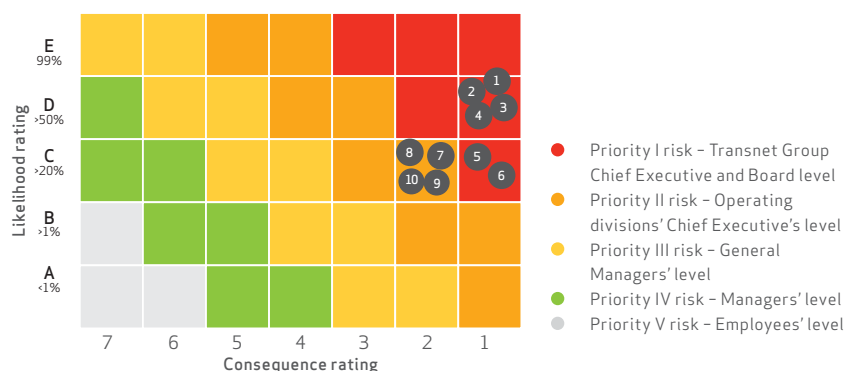
By aligning the Company's top ten strategic risks with the MDS, opportunities have been identified to build common value with stakeholders in mitigating material risks. Specific mitigating actions have been implemented to address key risks, as outlined here and also detailed further in the 'Looking Ahead' section.

IR Refer to page 16 for further information.



Crane driver at the port of Durban.

Strategic residual risks heat map



- 1 Regulatory risk:**
The risk of regulatory uncertainty and changes in the regulatory environment having an adverse effect on planning, capital spending and financial stability.
- 2 Capital projects risk:**
The risk of non-delivery of capital projects on time and within budgets and affordability.
- 3 Commercial risk (market):**
The risk of failing to safeguard existing volumes and to attract additional volumes in existing and new markets as a result of sub-optimal service and not aligning Transnet's expansion plans with customers' plans, thereby reducing revenue growth opportunities.
- 4 Business continuity risk (incident management):**
The risk of Transnet's operations experiencing interruptions due to safety and security incidents and natural disasters.
- 5 Commercial risk (funding liquidity):**
The risk of Transnet not securing funding due to turmoil in the financial markets, which includes the recalling of loans, downgrading of credit ratings and the systematic collapse of financial systems.
- 6 Business continuity risk (security of energy supply):**
The risk of uncertainty around the secure supply of energy (which includes energy unreliability and rising energy costs) resulting in operational uncertainty, business interruption, revenue loss and adverse reputational impact.
- 7 Human capital risk:**
The risk of not managing employee relations, attracting the requisite talent and skills, or developing the competencies to operate the newly acquired assets and expanded services.
- 8 Systems risk (ICT):**
The risk of deficiencies in information systems (including inadequate ICT infrastructure and poor technology utilisation) resulting in human error, reduced productivity and financial loss.
- 9 Commercial risk (counterparty):**
The risk of suppliers or customers failing to perform according to contractual terms and conditions.
- 10 Environmental management risk:**
The risk of unsustainable practices resulting in environmental degradation, increased pressure from stakeholders, increased liability and risk to reputation.

Top 10 risks aligned with stakeholders, opportunities and mitigation measures

MDS icons	Key risk issue	Stakeholders with aligned concerns	Opportunities
	1 Regulatory uncertainty	<ul style="list-style-type: none"> Government Regulators Suppliers Customers 	<ul style="list-style-type: none"> Identify common ground to create regulatory certainty for investment.
	2 Capital project on time, within budget	<ul style="list-style-type: none"> Government Customers Lenders 	<ul style="list-style-type: none"> Cost optimisation. Capital portfolio optimisation. Optimised asset utilisation. Alignment with Government and private/customer investment plans.
	3 Revenue and volume growth	<ul style="list-style-type: none"> Government Customers Lenders 	<ul style="list-style-type: none"> Customer responsiveness. Revenue diversification. New markets.
	4 Business interruption and incident management	<ul style="list-style-type: none"> Customers Employees Organised labour Communities 	<ul style="list-style-type: none"> Systems readiness for business continuity. Culture charter and employee wellness. Customer responsiveness. Corporate social investment.
	5 Funding and liquidity	<ul style="list-style-type: none"> Government Lenders Customers 	<ul style="list-style-type: none"> Diversification of funding sources. Private sector participation. Maintain financial discipline and governance.
	6 Energy security	<ul style="list-style-type: none"> Lenders Customers Government Research institutes 	<ul style="list-style-type: none"> Short-term business continuity plans. Longer-term innovative energy plan.
	7 Human Resources capability	<ul style="list-style-type: none"> Employees Organised labour 	<ul style="list-style-type: none"> Building trust with organised labour. Skills development. Staff wellness.
	8 ICT utilisation	<ul style="list-style-type: none"> Employees 	<ul style="list-style-type: none"> Skills development. Proactive talent management.
	9 Suppliers and customers	<ul style="list-style-type: none"> Lenders Suppliers Government Customers 	<ul style="list-style-type: none"> Procurement systems maturity and contract proficiency. Local supplier development effectiveness. Customer contracts.
	10 Environmental sustainability	<ul style="list-style-type: none"> Environmental agencies Government Communities NGOs 	<ul style="list-style-type: none"> Proactive and collaborative initiatives on energy, carbon, water, waste and biodiversity.



	<p>Mitigating actions</p> <ul style="list-style-type: none"> • Engaging with policymakers and regulators to align policy and strategy. • Drafting Compliance Control Plans and performing audits on priority legislation.
	<ul style="list-style-type: none"> • Establishing a Capital Excellence Programme. • Developing a Private Sector Participation strategy. • Utilising a Platinum Standard Framework for capital projects. • SWAT teams established.
	<ul style="list-style-type: none"> • Establishing resourced and mandated customer-facing business units at Freight Rail. • Developing a strategic marketing plan. • Developing an Africa strategy. • Validating demand forecasts with customers. • Entering into 'take or pay' contracts.
	<ul style="list-style-type: none"> • Implementing Lean Six Sigma. • Accelerating safety and security measures. • Implementing and reviewing business continuity plans. • Implementing consequence management protocols for safety violations in the workplace. • Performing assurance monitoring on the implementation of Boards of Inquiry (BOI) recommendations. • Results management optimisation.
	<ul style="list-style-type: none"> • Implementing funding strategies to diversify funding sources. • Controlling funding centrally at Group Treasury. • Active rating agency management.
	<ul style="list-style-type: none"> • Developing an energy security and carbon mitigation plan. • Implementing 'deviation management', if notified in advance of scheduled power outages. • Continuously engaging with Eskom.
	<ul style="list-style-type: none"> • Enhancing HR systems: including Workforce Plan implementation, performance management, labour relations, talent management, culture charter, and employee wellness.
	<ul style="list-style-type: none"> • Enhance technology systems. • Ramping up training in advance of new assets being deployed in production. • Implementing an ICT Disaster Recovery Plan. • Implementing comprehensive security and monitoring for all critical systems.
	<ul style="list-style-type: none"> • Implementing initiatives to accelerate and streamline procurement systems. • Entering into 'take or pay' contracts. • Performing supplier evaluations. • Regularly revisiting and aligning contract conditions and penalty clauses. • Contract management. • Skills enhancement.
	<ul style="list-style-type: none"> • Embedding a sustainability maturity process. Focus on energy security and carbon mitigation. • Engaging with the Department of Water Affairs and the Department of Environmental Affairs to manage the processing of licence and permit applications. • Implementing gate reviews to ensure feasible alternatives and defined scope before commencing Environmental Impact Assessments. • Engaging with stakeholders during Environmental Impact Assessments to establish common value.