PRESENTATION TO PORTFOLIO COMMITTEE ON PUBLIC ENTERPRISES
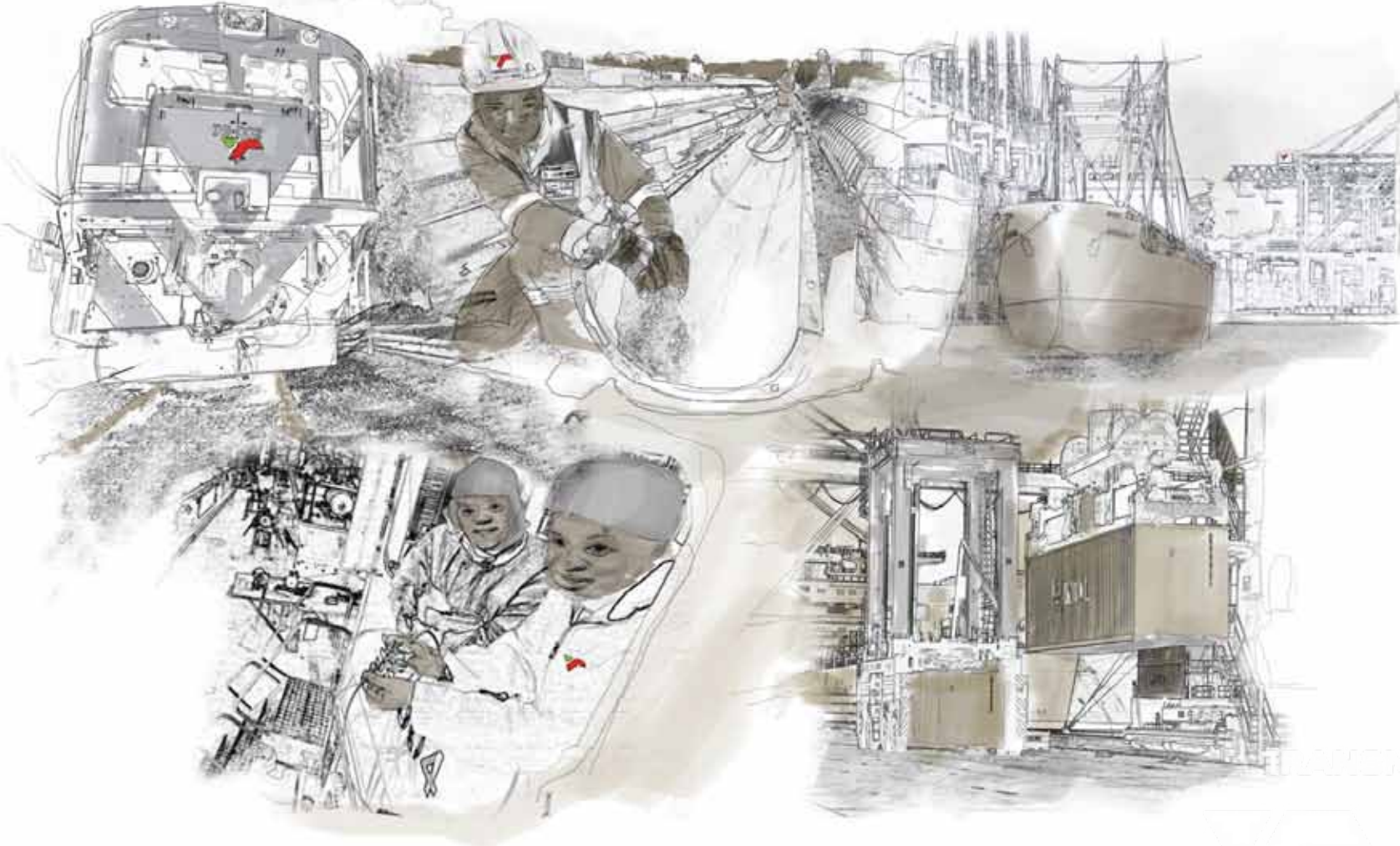# TRANSNET RISK MANAGEMENT PLAN

TRANSNET

delivering on our commitment *to you*

14 October 2010

§ Risk Management remains a key focus area to the attainment of Transnet's business objectives

§ The Company continues to consolidate and embed its Enterprise Risk Management (ERM) Framework across all levels of the organisation

§ Developing and sustaining a risk management culture will bring about the desired/envisaged ERM maturity in the business

§ In developing the 20110/11 Risk Management plan, Transnet's Quantum Leap strategy has been taken into consideration

§ Changes in regulatory environment and leading practices have also been considered (King III, ISO 31000:2009 Risk Management Standard)

§ The ERM Strategy and Framework has been reviewed for ongoing relevancy and adequacy in the business

§ The benefit of ERM process in strong governance oversight, management, reporting and escalation of business critical risks to the appropriate governance levels, e.g. the Board and the Shareholder

§ Key priorities and deliverables for 2010/11 have been determined

Board of Directors

Drive is for "world-class" controls, currently the controls are assessed as "good"

Internal Audit

| Group Audit Committee | Group Risk Committee | Remuneration Committee | Corporate Governance and Nominations Committee |

Group Executive Committee

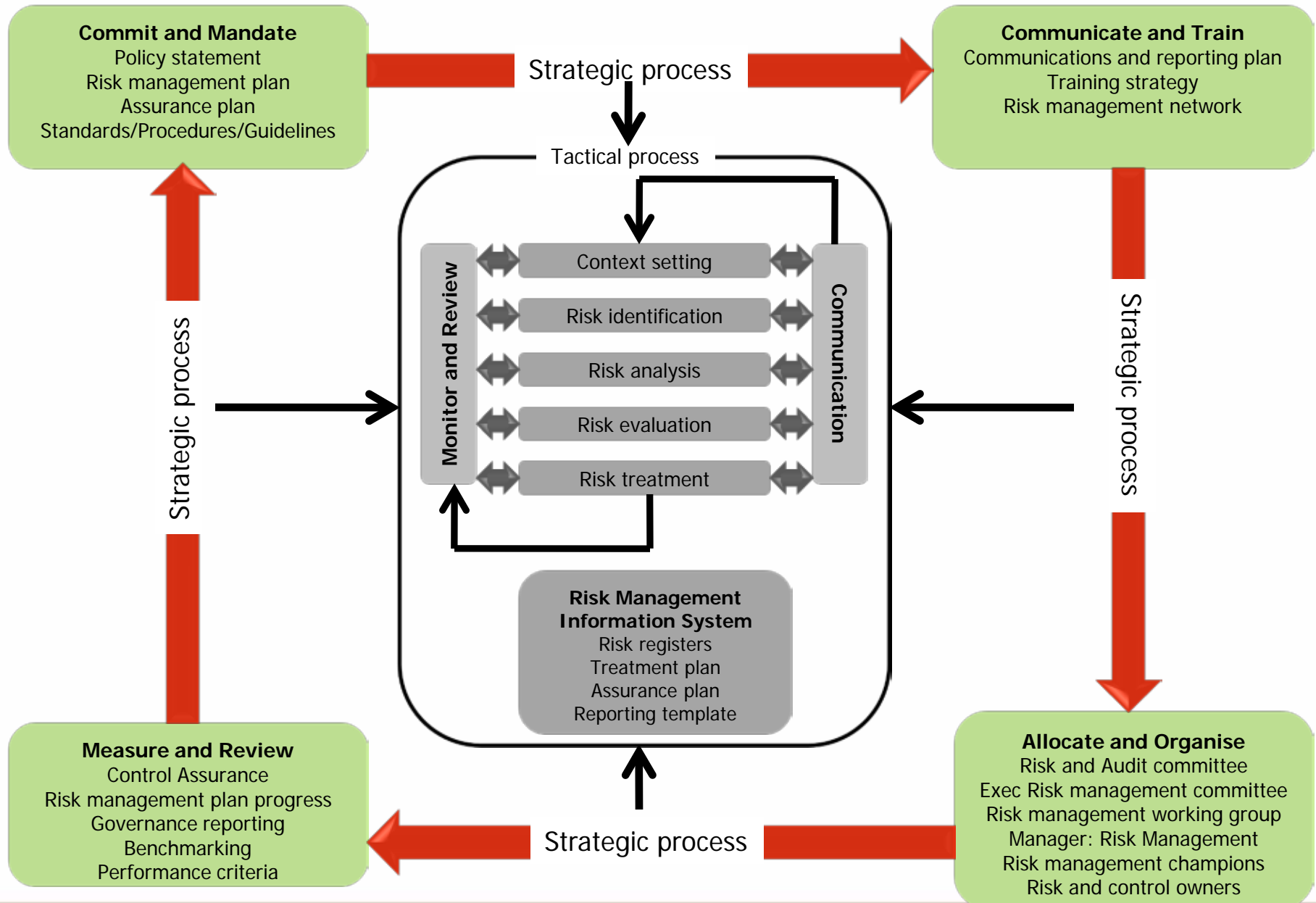| Public Policy & Regulatory Committee | Finance Committee | Operations Committee | Capital Investment Committee | Risk Management Committee | Human Resources Committee | Commercial Committee |

Legislative focus
- Companies Act / King III
  Increased board responsibility and potential director liability (personal liability in relation to having knowledge of prohibited practices or information)

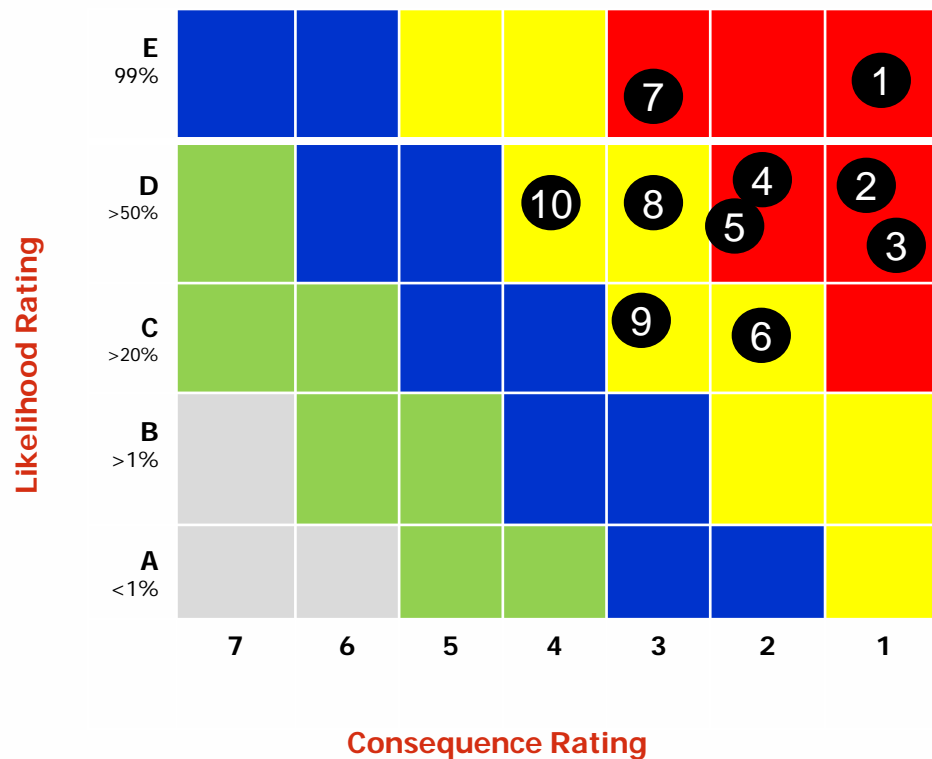# 3. Transnet Enterprise Risk Management (ERM) Framework

Commit and Mandate
Policy statement
Risk management plan
Assurance plan
Standards/Procedures/Guidelines

Strategic process

Communicate and Train
Communications and reporting plan
Training strategy
Risk management network

Tactical process

Strategic process

Strategic process

Monitor and Review

Context setting

Risk identification

Risk analysis

Risk evaluation

Risk treatment

Communication

Risk Management Information System
Risk registers
Treatment plan
Assurance plan
Reporting template

Measure and Review
Control Assurance
Risk management plan progress
Governance reporting
Benchmarking
Performance criteria

Strategic process

Allocate and Organise
Risk and Audit committee
Exec Risk management committee
Risk management working group
Manager: Risk Management
Risk management champions
Risk and control owners

1	Revenue and volume growth
2	Non-delivery of capital projects on time and within budgets and affordability
3	Economic regulation *(Ports and Pipelines)*
4	Non-compliance with safety and standard operating procedures (SOPs)
5	Environmental risks
6	Funding and liquidity risk
7	Input costs – energy (electricity and fuel), steel, pricing and supply
8	Asset performance and maintenance regime
9	Human resources capability to deliver on growth strategy
10	Commodity and concentration risks

Labour strike during May 2010, has significantly affected operations and service delivery, exacerbating volume & revenue risks. Environmental risks / stakeholder pressure persisting - PE Directive. Other external risks – e.g. possible SWC protests and other service (government) delivery protests

Strategic residual risks heat map

Likelihood Rating (vertical axis):
- E 99%
- D >50%
- C >20%
- B >1%
- A <1%

Heat map placements:
- 7 — E row, consequence 3
- 1 — E row, consequence 1
- 10 — D row, consequence 4
- 8 — D row, consequence 3
- 4 — D row, consequence 2
- 2 — D row, consequence 1
- 5 — D row, consequence 2
- 3 — D row, consequence 1
- 9 — C row, consequence 3
- 6 — C row, consequence 2

Consequence Rating (horizontal axis): 7, 6, 5, 4, 3, 2, 1

Legend:
- Priority I risk – Transnet Group CE and Board level
- Priority II risk – Operating Divisions' CEOs level
- Priority III risk – General Managers' level
- Priority IV risk – Managers' level
- Priority V risk – Employees' level

5. Transnet High Risk Legislation aligned to Top 10 Risks

	2010/2011 Transnet Top 10 Regulatory Risks*	2010/2011 Top 10 Risks (Risk Position indicated in brackets)
1	National Environmental Management Act, 1998	Environmental risks (5) & Revenue and volume growth (1)
2	Occupational Health & Safety Act, 1993	Non-compliance with safety and standard operating procedures (SOPs) (4) ; Revenue and volume growth (1) & Input costs – energy (electricity and fuel), steel, pricing and supply (7)
3	Public Finance Management Act, 1999 ; King Code of Governance for South Africa, 2009 & Companies Act, 1973	Non-delivery of capital projects on time and within budgets and affordability (2)
4	National Ports Act, 2005	Economic regulation (Ports and Pipelines) (3) & Non-compliance with safety and standard operating procedures (SOPs) (4)
5	National Environmental Management: Waste Management Act, 2008[#] & Air Quality Act, 2004[#]	Environmental risks (5)
6	National Railway Safety Regulator Act, 2002	Non-compliance with safety and standard operating procedures (SOPs) (4)
7	National Environmental Management: Integrated Coastal Management Act, 2008	Economic regulation (Ports and Pipelines) (3); Asset performance and maintenance regime (8) & Funding and liquidity risk (6)
8	Hazardous Substances Act, 1973	Environmental risks (5)
9	Broad-based Black Economic Empowerment Act, 2003; Employment Equity Act, 1998[#]; Basic Conditions of Employment, 1997 & Labour Relations Act, 1995	Human resources capability to deliver on growth strategy (9)
10	Prevention and Combating of Corrupt Activities Act, 2004 & Promotion of Administrative Justice Act, 2000	Non-delivery of capital projects on time and within budgets and affordability (2)

* In order of priority   # New inclusions to 2010/11 Top 10

6. Risk Management Plan - Focus Areas and Progress

Strategic Focus Areas: Risk Management and Compliance

Initiatives

Progress

Risk Management

Initiatives
- Embedding ERM process
- Extending the risk management process to focus on key risks and on emerging risks – reputational risks, change risks
- Promoting integrated sustainable development in Transnet
- Enhancing insurability of assets at optimal cover
- Leveraging on risk information systems management

Progress
- Reviewed ERM strategy and Framework for ongoing adequacy and relevance. Aligned to Quantum Leap strategy
- Identification, tracking of emerging risks and implementation of mitigations
- Two major operational site visits conducted by Board RiskCo
- Implementation of Transnet sustainability platform
- Insurance market, now putting reliance on ERM process, optimal cover secured
- Reviewing of data and continuous updating of information in the system - follow up audit to take place in September 2010

ERM

Compliance

Initiatives
- Performing compliance assurance on controls
- Monitoring regulatory environment for applicable and high-risk regulatory requirements
- Managing regulator relationships
- Embedding Compliance Framework to achieve the desired maturity status

Progress
- Establishing and implementing a combined assurance plan for risk management processes and risk controls
- Regulatory Risk Universe updated , compiled and issued to the entire company for 2010/11
- Reviews for environmental compliance underway
- Implementing approved Regulatory Protocol for engagement with Regulators
- A comprehensive audit scope being finalised to assess compliance maturity in the business

Top Ten Regulatory Risk initiatives

Legend		Not started		On-track		Behind schedule		Completed

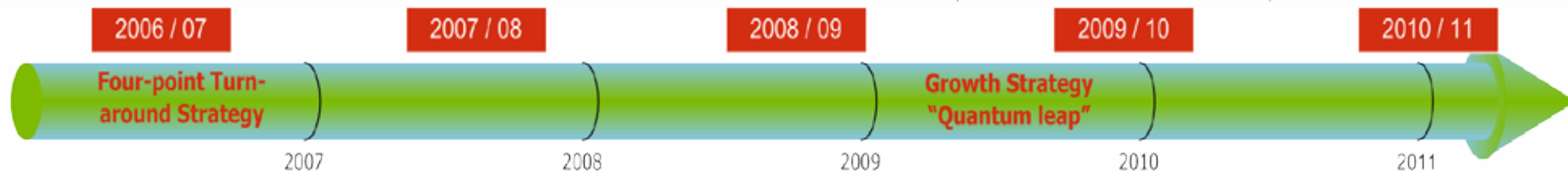| No	Top regulatory risks	Top ten risks (Risk Position indicated in brackets)	Deliverable	Status	Comments
1	National Environmental Management Act, 1998	Environmental risks (5) & Revenue and volume growth (1)	• Assessment and communication of relevant regulatory requirements and policies and their impact on the business. • Identification and assessment of high-risk environmental regulatory items as they relate to Transnet. • Participate in risk assessments for environmental compliance. • Risk based monitoring in relation to a combined assurance plan as prepared by Internal Audit, Group Risk Management and Group Compliance. Tracking of corrective actions.		Contractual reviews. Monitoring across all Operating Divisions.
2.	Occupational Health & Safety Act, 1993	Non-compliance with safety and standard operating procedures (SOPs) (4) ; Revenue and volume growth (1) & Input costs – energy (electricity and fuel), steel, pricing and supply (7)	• Provide assistance in the development of controls/safety programmes to meet minimum safety regulatory items as per Transnet's regulatory profile. • Skills and input for safety initiatives. • Risk based monitoring in relation to a combined assurance plan as prepared by Internal Audit, Group Risk Management and Group Compliance. • Tracking of corrective actions.		Coordinated the first Transnet submission on silica exposure. Developing safety critical controls. Monitoring at Operating Divisions. Tracking findings.
3.	Public Finance Management Act, 1999 ; King Code of Governance for South Africa, 2009 & Companies Act, 1973	Non-delivery of capital projects on time and within budgets and affordability (2)	• Keep track of Regulator engagements in line with Transnet's Regulator Engagement protocol. • Tracking of corrective actions.		Development of controls. Review training material.
4.	National Ports Act, 2005	Economic regulation (Ports and Pipelines) (3) & Non-compliance with safety and standard operating procedures (SOPs) (4)	Monitoring of licence / permit conditions.		Contractual reviews.
5.	National Environmental Management: Waste Management Act, 2008 + & Air Quality Act, 2004+	Environmental risks (5)	• Assessment and communication of relevant regulatory requirements and policies and their impact on the business. Identification and assessment of high-risk environmental regulatory items as they relate to Transnet. • Participate in risk assessments for environmental compliance. • Risk based monitoring in relation to a combined assurance plan as prepared by Internal Audit, Group Risk Management and Group Compliance. Tracking of corrective actions.		Contractual reviews. Monitoring across Operating Divisions. Tracking findings.

Top Ten Regulatory Risk initiatives

Legend		Not started		On-track		Behind schedule		Completed

No	Top regulatory risks	Top ten risks (Risk Position indicated in brackets)	Deliverable	Status	Comments
6.	National Railway Safety Regulator Act, 2002	Non-compliance with safety and standard operating procedures (SOPs) (4)	Risk based monitoring in relation to a combined assurance plan as prepared by Internal Audit.		Monitoring at operating divisions.
7.	National Environmental Management: Integrated Coastal Management Act, 2008	Economic regulation (Ports and Pipelines) (3); Asset performance and maintenance regime (8) & Funding and liquidity risk (6)	Regulator Engagement		Continued engagement with Regulators.
8.	Hazardous Substances Act, 1973	Environmental risks (5)	Risk based monitoring in relation to a combined assurance plan as prepared by Internal Audit.		Contractual reviews. Monitoring at Ports.
9.	Broad-based Black Economic Empowerment Act, 2003; Employment Equity Act, 1998 +; Basic Conditions of Employment, 1997 & Labour Relations Act, 1995	Human resources capability to deliver on growth strategy (9)	• Establish a working group to define initiatives to drive compliance to the grass root levels of the operation. • Tracking of corrective actions.		Development of controls. Management of project.
10.	Prevention and Combating of Corrupt Activities Act, 2004 & Promotion of Administrative Justice Act, 2000	Non-delivery of capital projects on time and within budgets and affordability (2)	Risk based monitoring in relation to a combined assurance plan as prepared by Internal Audit.		Monitoring of controls.

2006 / 07	2007 / 08	2008 / 09	2009 / 10	2010 / 11
- Group Compliance established - GM: Group Compliance appointed - Evaluation of the status of Compliance across Transnet and the development of a Compliance framework, processes and structure - Establish Group Compliance team - Compliance Forum established - Compliance Policy approved - Compliance Manual: which includes high level standards - Risk based approach adopted	- PFMA project roll-out - National Credit Act Project and training - Launch BBBEE implementation - Compliance function aligned to ERM Framework - High risk compliance requirements identified and analysed - Mitigation plans developed - Focus on control self assessments and assurance - Embedding of compliance into day to day activities	- Compliance Manual: Compliance framework including principles and standards - Competency Guide approved - Alignment with Transnet Internal Audit and Risk - Safety legislation and National Credit Act project roll-out - Promotion of Access to Information Act Manual approved - Assessment of compliance training and awareness needs - Regulatory relationship register	- Risk treatment activities to ensure compliance - Input / support on environmental strategic initiatives - Embedding framework to achieve desired maturity status - Increased engagement with Regulators - Focus on integrated risk reporting - Monitoring safety and environment - Drafted Port limit descriptions -DoT - Board induction on King III and Companies Act - Compliance Maturity Assessment - Approved regulator engagement protocol	- Combined assurance plan relating to safety controls developed - Monitoring environmental risks - Complied with request from Department of Labour to submit biannual report on silica exposure within Transnet - 2010/11 regulatory universe and bills universe update distributed - Reviewed Transnet Top Ten regulatory risks - Active engagement with Regulators - Tracking corrective actions on monitoring reviews - Development controls around Top Ten regulatory items

Four-point Turn-around Strategy → **Growth Strategy "Quantum leap"**

2007 — 2008 — 2009 — 2010 — 2011

HIGHLIGHTS

- 'Establish Group Compliance structure'
- 'Aligned with Risk and Internal Audit'
- 'Compliance principles & standards'
- 'Analyse 500 pieces of legislation'
- 'Alignment of assurance providers – safety environment'

- ' PFMA and National Credit Act roll-out across Transnet'
- 'Competency Guide for Compliance Professionals approved'
- '' Regulator engagement protocol'
- 'Focus safety and environmental compliance'
- 'Active engagement with Regulators'

Strategic Focus Areas: Safety management

INITIATIVES

PROGRESS

Zero tolerance to safety incidents

Initiative	Progress
Reduction of incidents and costs by 33%	§ Disabling injuries: 98 year-to-date compared to 116 the previous year (16% improvement) § Cost of Loss: R192,952,046 year-to-date (ceiling of R290,581,513)
A review of the application of safe working practices and Standard Operating Procedures (SOPs) in the day to day operations at identified "hot spots"	§ Monitoring progress of SOP review § Checking evidence on training of employees on SOPs
Entrench consequence management for safety violations in the workplace	§ Data gathering, analysis of safety related cases, categorisation/tending § Company disciplinary process followed
The verification of the implementation of Board of Inquiry (BOI) recommendations	§ Verification commenced with Level1 (serious) incidents and ongoing § Learnings shared
The implementation of a strategy and actions to reduce level crossing incidents	§ Strategy developed, hotspots identified § Review of level crossings and roll out of interventions underway (humps, traffic signal system, signage, awareness campaigns, law enforcement)
Joint partnership with Eskom, Telkom and other key stakeholders to introduce measures to reduce cable theft	§ Sharing of learnings on cable theft trends § Installation of alarms, CCTV, etc. at hotspots underway § Drafting plan to involve community at large
§ Embedment of the safety culture § The implementation of a safety scorecard which measures the safety culture at each location and determines management commitment towards a safe environment	§ Roll out of the safety culture underway across the business § Training of safety culture champions § Golden safety actions agreed § Criteria determined; composition of teams determined § Focus area for internal audit
Vehicle safety (both technical and behavioural aspects)	§ Installation of speed governors § Installation of tracking devices § Dedicated fleet managers § Developed Use of Cellphones whilst Driving Policy

INITIATIVES

PROGRESS

Ensure environmental risk management

INITIATIVES	PROGRESS
National Environmental Management Act (NEMA) Group Compliance Project	Controls developed and currently being implemented across the Group
Clean-up of historic asbestos contamination	Country wide risk assessment completed for depots, yards and mainlines (TFR). TRE , TFR and Transnet Property assessment of sites/buildings underway, plans developed and in some cases clean-up commenced.
Address environmental concerns through Transnet's governance structures and do comprehensive risk and exposure assessment	Group EXCO, Group OPCO and RiskManco oversight and monitoring. Environmental compliance included as Strategic Planning Objective in scorecards of Group Executives. A comprehensive environmental risk and exposure assessment to be carried out across the Company as per Internal Audit Plan and treatment plans put in place.
Plan to address environmental challenges in Port of Port Elizabeth	Internal task team under the leadership of Group Executives have overseen the cleaned-up of Humewood Rail Station; ongoing dust and ground water monitoring programmes; oil contained by booms and wall soon to be built until leak is located. Standard Operating Procedures updated.

INITIATIVES

PROGRESS

Sustainability: Pursue best practice environmental risk management

Develop a Climate Change strategy for Transnet to reduce carbon footprint

Phase 1: (end April 2010)
1A: Identify the overall climate change context for Transnet.
1B: Perform a climate change risk and vulnerability assessment. (Completed in May 2010)

Phase 2:
2A: Determine Transnet's carbon footprint (End September 2010)
2B: Develop a Carbon Management Plan for Transnet (End Nov 2010)
2C: Explore opportunities and link to NIP and capital expansion plan (End Dec 2010)

Phase 3:
3A: Implement a climate change strategy for Transnet (End March 2011)
3B: Recommend further research and innovation (End April 2011)

Phase 1 of the Project has been completed , which included a Risk and Vulnerability Assessment for the Group.
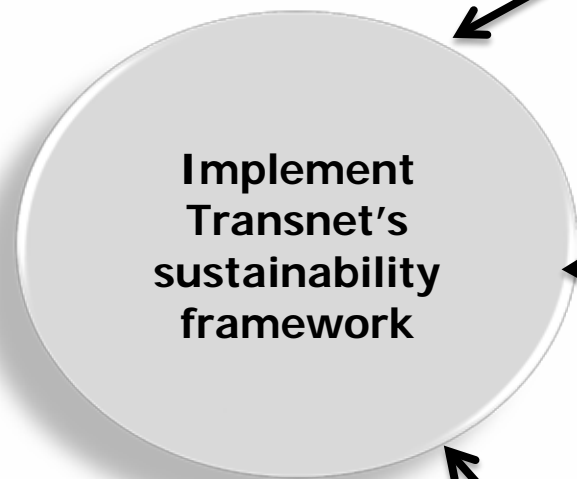Currently reviewing results to enhance Phase 2 scope of work.

ISO 14001 implementation at operational level

5 of the 8 TNPA ports have implemented ISO 14001.
All 15 TPT terminals have been re-certified ISO 14001 compliant.
All 6 main TRE business centres have implemented ISO 14001 and certification audits are in progress. TFR and TCP in process of putting system in place.

Strategic Focus Areas: Sustainability Framework

INITIATIVES

PROGRESS

Implement Transnet's sustainability framework

Awareness raising

- § Various Executive members of Transnet have attended training courses in Sustainability Management.
- § Transnet is a sponsor also of the University of Cambridge Sustainability programme.
- § Awareness raising re environment has been done and include the full sustainability concept as well.

Framework to measure sustainability indicators

The framework to measure the sustainability indicators is informed by the Climate Change study currently underway and will be in place by December 2010.
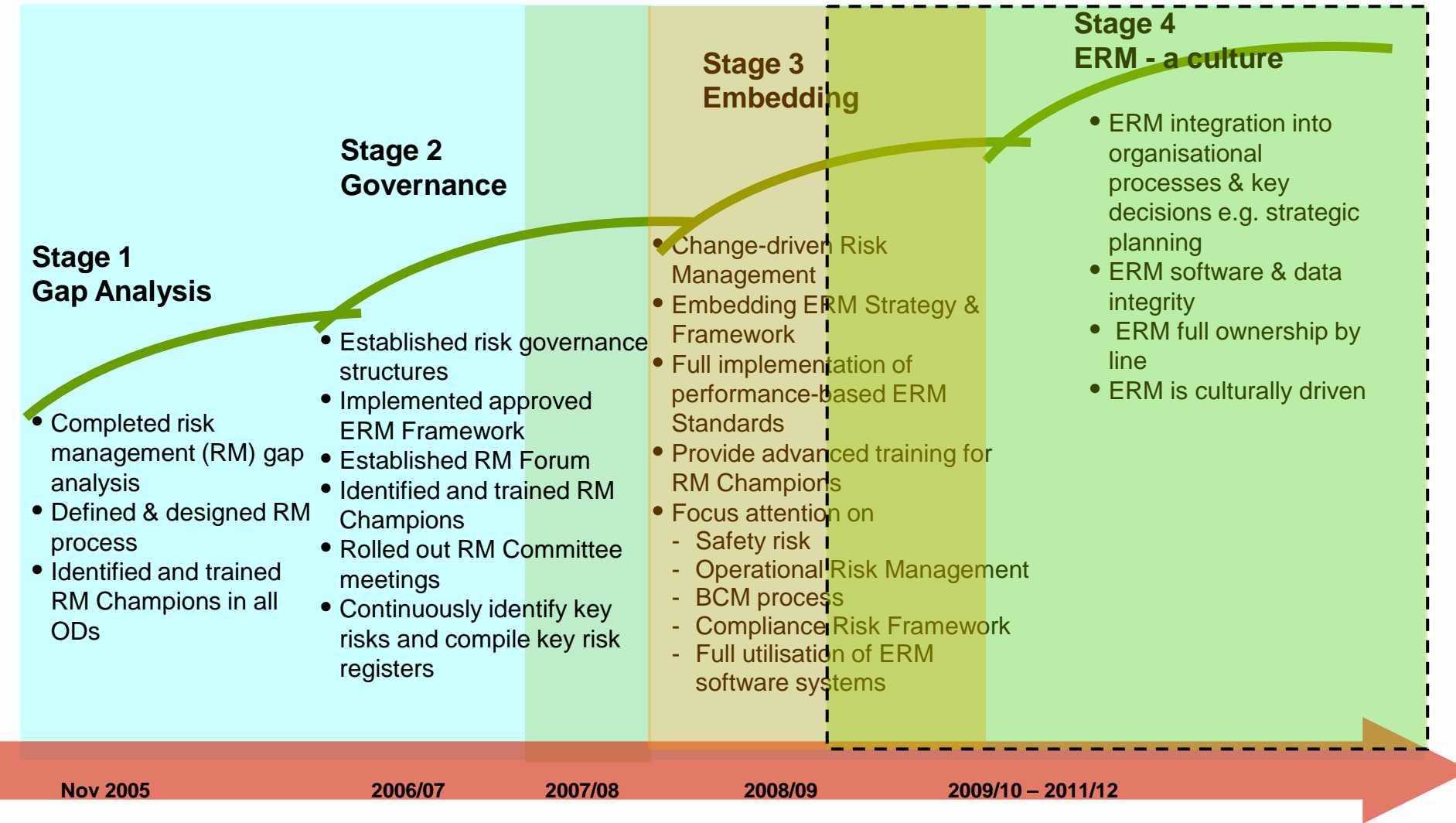
Reporting

Reporting on sustainability issues in an integral part of the Annual Report for Transnet and will be done for the 2010/2011 year.
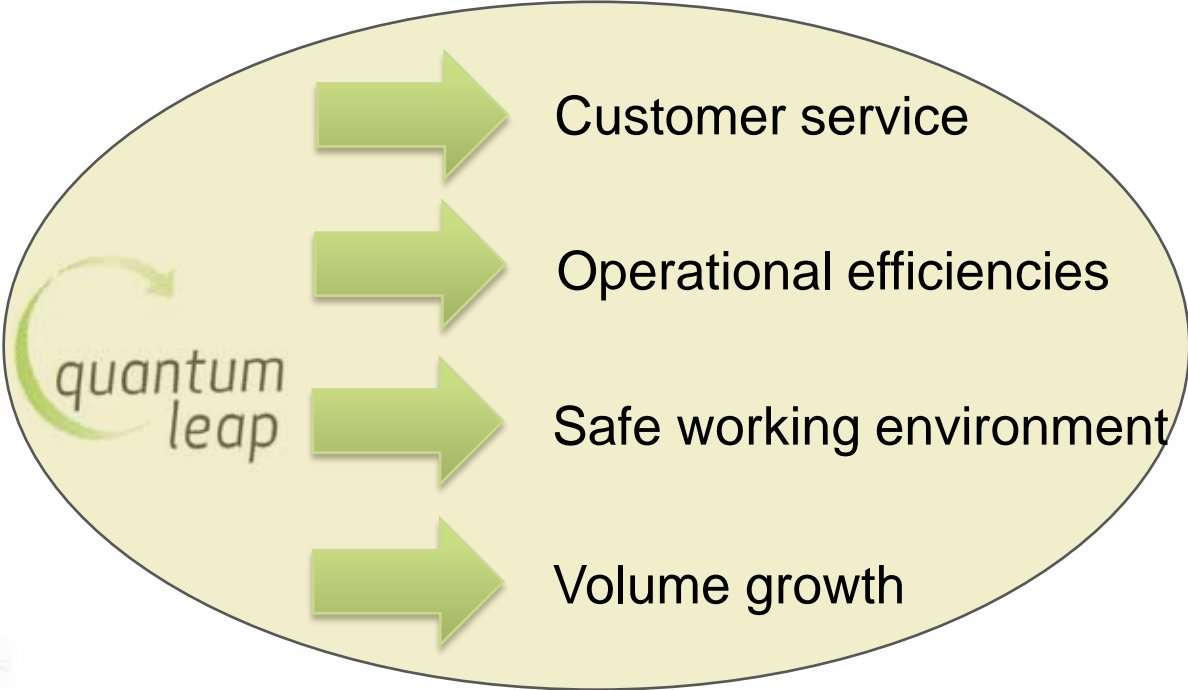
Stage 1
Gap Analysis

- Completed risk management (RM) gap analysis
- Defined & designed RM process
- Identified and trained RM Champions in all ODs

Stage 2
Governance

- Established risk governance structures
- Implemented approved ERM Framework
- Established RM Forum
- Identified and trained RM Champions
- Rolled out RM Committee meetings
- Continuously identify key risks and compile key risk registers

Stage 3
Embedding

- Change-driven Risk Management
- Embedding ERM Strategy & Framework
- Full implementation of performance-based ERM Standards
- Provide advanced training for RM Champions
- Focus attention on
  - Safety risk
  - Operational Risk Management
  - BCM process
  - Compliance Risk Framework
  - Full utilisation of ERM software systems

Stage 4
ERM - a culture

- ERM integration into organisational processes & key decisions e.g. strategic planning
- ERM software & data integrity
- ERM full ownership by line
- ERM is culturally driven

| Nov 2005 | 2006/07 | 2007/08 | 2008/09 | 2009/10 – 2011/12 |

8. Conclusion

§ Continue to implement 2010/11 key priorities as per the Risk Management plan

§ Consolidate efforts to identify 'hot spots' for incidents for proactive management

§ Ensure ongoing compliance with various legislative requirements

§ Develop and drive a sound risk management culture in the business

§ Further enhance risk management practices and tools / includes systems

§ Ensure independent reviews and audits are carried out to provide assurance.

Customer service

Operational efficiencies

Safe working environment

Volume growth

quantum leap

Thank you