

TRANSNET SOC EMERGING MINERS WORKSHOP:

ESTABLISHING A NEW CONTRACTING REGIME

**PRESENTATION BY: TRANSNET
SOC**

DATE: 30 MAY 2022

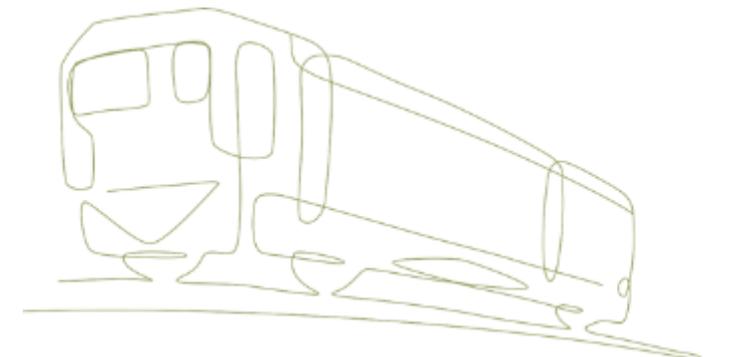
PORTIA DERBY: GROUP CHIEF EXECUTIVE

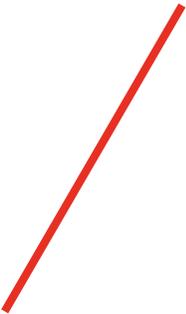




Purpose of the Emerging Miner Capacity Allocation Criteria & Process

Transnet SOC seeks to build direct relationships with Emerging Miners and open a direct line of communication in matters relating to capacity allocation and contracting.





BONGINKOSI MABASO:
EXECUTIVE MANAGER – COMMERCIAL
TRANSNET FREIGHT RAIL

TIM KEIT:
HEAD, BUSINESS DEVELOPMENT,
TRANSNET PORT TERMINALS

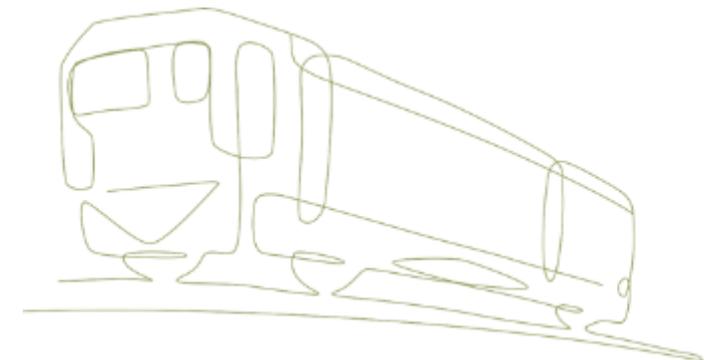


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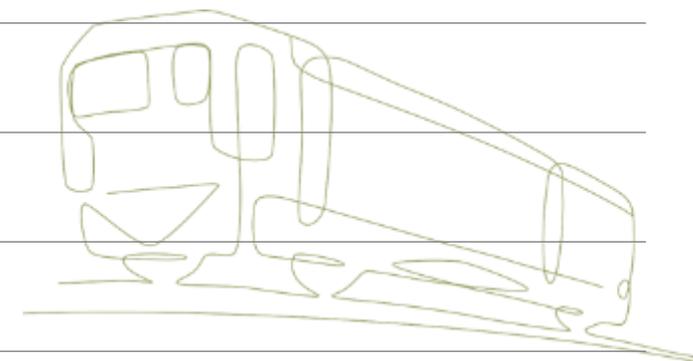
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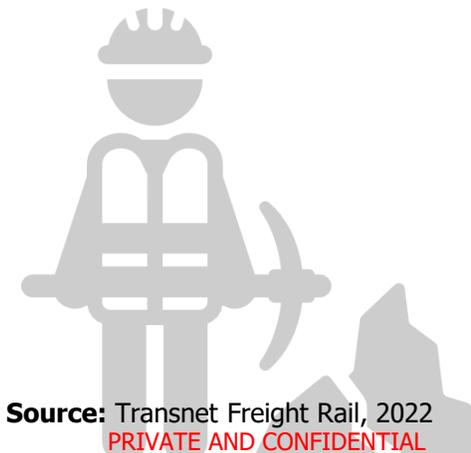
Classification of Miners

Emerging and Major Miners



		Coal (Export)	Iron Ore (Export)	Manganese (Export)	Chrome (Export)	Magnetite (Export)
Emerging Miners	Volume Threshold to be considered an Emerging miner.	<ul style="list-style-type: none"> Min: 100 ktpa Max: 2 mtpa 	<ul style="list-style-type: none"> Min: 510 ktpa Max: 2 mtpa 	<ul style="list-style-type: none"> Min: 240 ktpa Max: 1 mtpa 	<ul style="list-style-type: none"> Min: 100 ktpa Max: 1 mtpa 	<ul style="list-style-type: none"> Min: 100 ktpa Max: 1 mtpa
	Volume Threshold to be considered a Major miner.	>= 2mtpa	>= 2mtpa	>= 1mtpa	>= 1mtpa	>= 1mtpa
		<i>* Coal minimum based on 4 shipments of 25ktpa</i>	<i>* Iron Ore minimum based on 3 shipments of 170ktpa</i>	<i>* Manganese minimum based on 6 shipments of 40ktpa</i>		<i>* Magnetite for new mines and dump processing operations</i>

6 **Maximum threshold based on industry size*
**KTPA: kilo tonnes per annum*



Capacity Allocation Requirements

Minimum requirements to qualify for capacity allocation (Rail and Port)



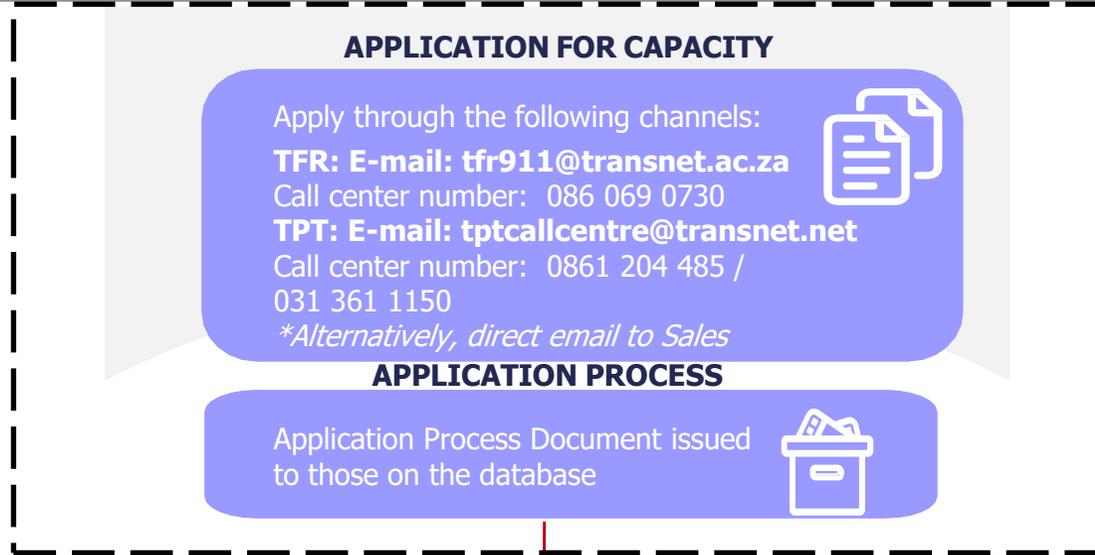
		Coal	Iron Ore	Manganese	Chrome	Magnetite
1. Valid Mining Rights	<ul style="list-style-type: none"> Operational requirements from emerging miners is for parcels of 30kt and above, and Each emerging miner/mining right holder is offered the ability to apply and export their own production. Alternatively, the applicant needs to be formally appointed to represent the entity with the mining right. 	√	√	√	√	
2. Validated Mining Activities	<ul style="list-style-type: none"> Support of the above, and due to capacity constraints, each mine that qualifies for capacity needs to be in production in order to minimise brokerage of rail and port capacity. 	√	√	√	√	√
3. Ownership of commodity to be exported	<ul style="list-style-type: none"> The emerging miner needs to demonstrate ownership of the commodity to be exported. The commodity must come from own mining right production. 	√	√	√	√	√
4. Credit Management and Legal Requirements	<ul style="list-style-type: none"> The emerging miner needs to be legally compliant to enter into a take/pay agreement. Emerging miner needs to be financially sound to operate on a pre-paid account or a valid bank guarantee*. 	√	√	√	√	√
5. Access to port capacity	<ul style="list-style-type: none"> The emerging miner needs to have access to port capacity aligned with rail, second option for allocation is via road (aligned with back of port facility/inland terminal) 	√	Part of Transnet Allocation		√	√
6. Access to loading siding	<ul style="list-style-type: none"> The emerging miner needs to have access to a siding that can accommodate loading a train. 	√	√	√	√	√

* Refer to Credit Management Slide

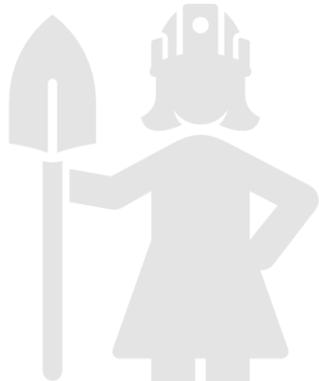


Process followed from application to contracting

Customer Process
(*To be digitized)

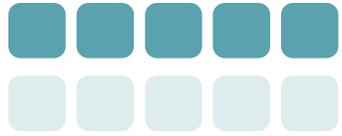


*NB: *Open market application process to be followed at end of the contracting period of a segment.*



Capacity Allocation Mechanism

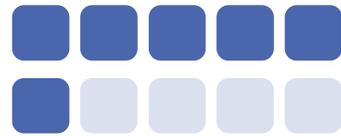
1st qualifier: Volume on **rail** into TPT terminal, Then 2nd qualifier: Volume on **road** into TPT terminal



BASE ALLOCATION

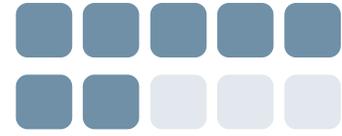
All new entrant emerging miners to be allocated a base of:

- Manganese -240kt pa
- Iron ore - 510kt pa
- Coal - 100kt pa
- Chrome – 100 ktpa
- Magnetite – 100 ktpa



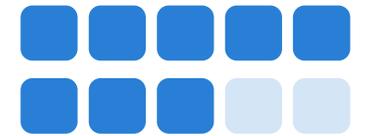
TRANSFORMATION ALLOCATION

- BBBEE
- Community Development
- Job Creation
- Women empowerment



INVESTMENT IN LOADING FACILITY

Additional capacity will be allocated to emerging miners upon investment in load out station. For TPT, additional allocation for adequate parcel sizes.



EXISTING EMERGING MINER RAMP UP

Emerging miner allocation to be reviewed as and when capacity becomes available for ramp up.

Size of vessels to be loaded for export (55 000 Tons)+2% (CT and SLD), Port Elizabeth will be min of 40 000 tons;
 Richards Bay coal min: 50 000 tons;
 Richards Bay Chrome min: 50 000 tons.
 Richards Bay Magnetite min: 80 000 tons - max 160 000 tons.
 Minimum parcel sizes can be changed at the Terminal's discretion

TRANSNET



**MANGANESE
&
IRON ORE**



Demand vs Contracted Volumes

Export Manganese (mtpa) Rail Only

Between the years 2012 - 2022

- Since 2012, 8 emerging miners have been enabled through MECA
 - 4 emerging miners migrated to major miners

Year-to-Date (YTD)

- Allocation is to 6 major miners and 4 emerging miners

Figure 1: Demand for major and emerging miners (mpta)

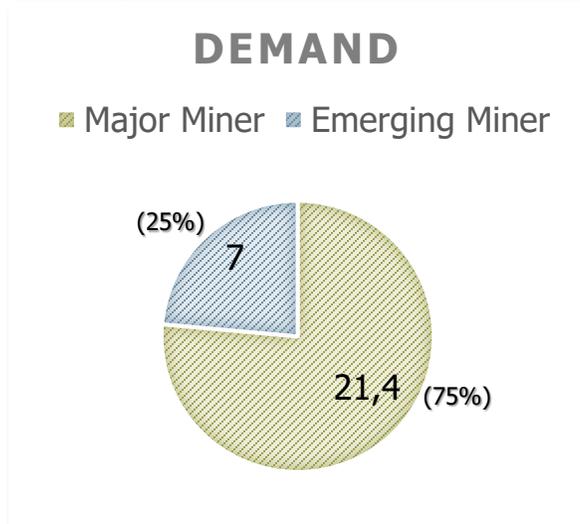
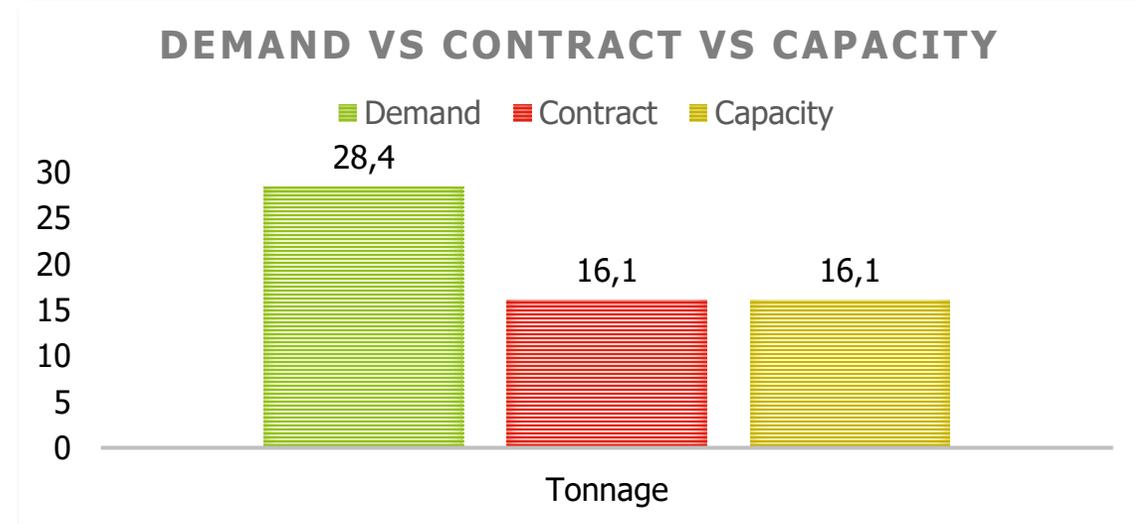


Figure 2: Contract allocation for major and emerging miners (mpta)



Figure 3: Demand compared to contract and capacity requirements (tonnage)



- Total demand from manganese industry is 28,4mtpa, including current and prospective customers.
 - This demand will be reached by 2027/28.
 - Demand excludes domestic manganese.

Demand vs Contracted Volumes

Export Manganese (mtpa) Including Road (TPT)

2012 - 2022

- Since 2012, 8 emerging miners have been enabled through MECA
 - 4 emerging miners migrated to major miners
 - 4 more emerging miners assisted with loading

YTD

- Allocation is to 6 major miners and 4 emerging miners on rail, and 4 on road

Figure 4: Demand for major and emerging miners (mtpa)

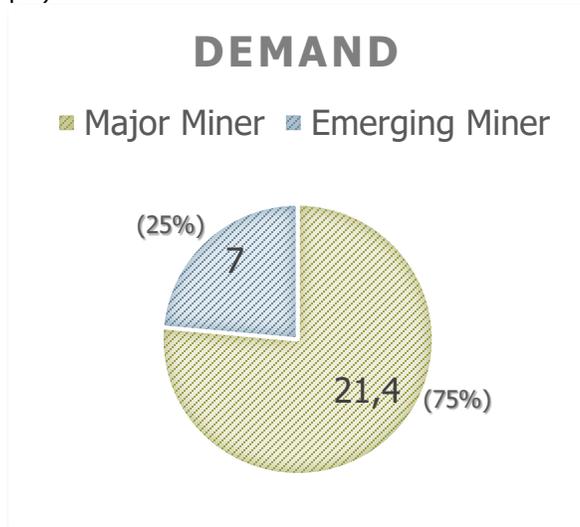


Figure 5: Contract for major and emerging miners (mtpa)

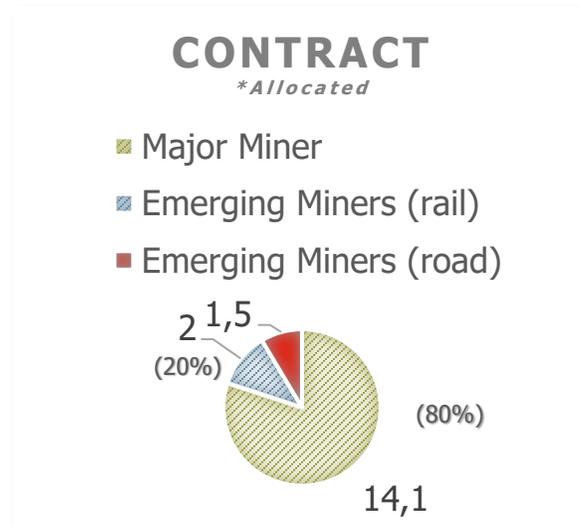
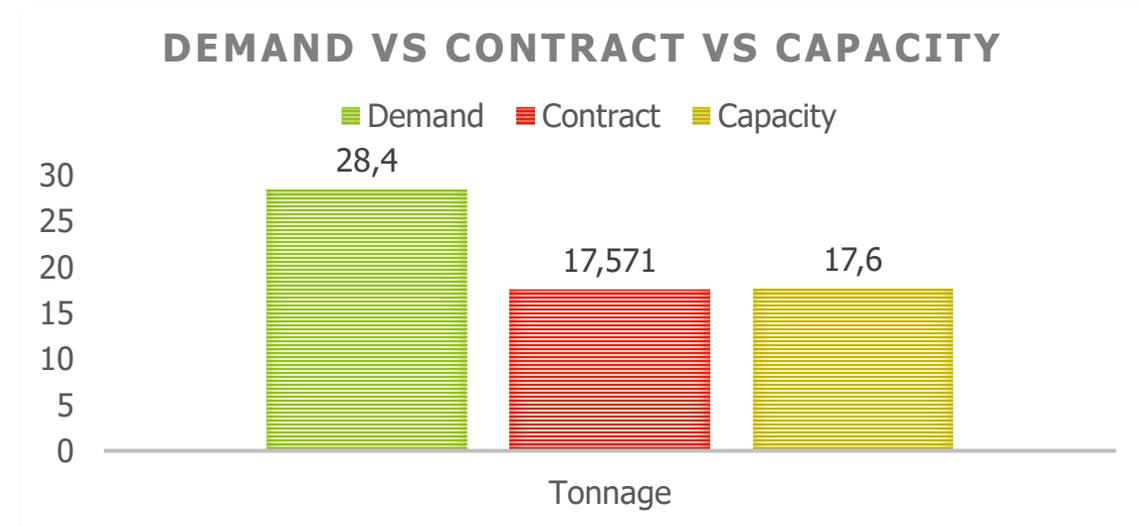


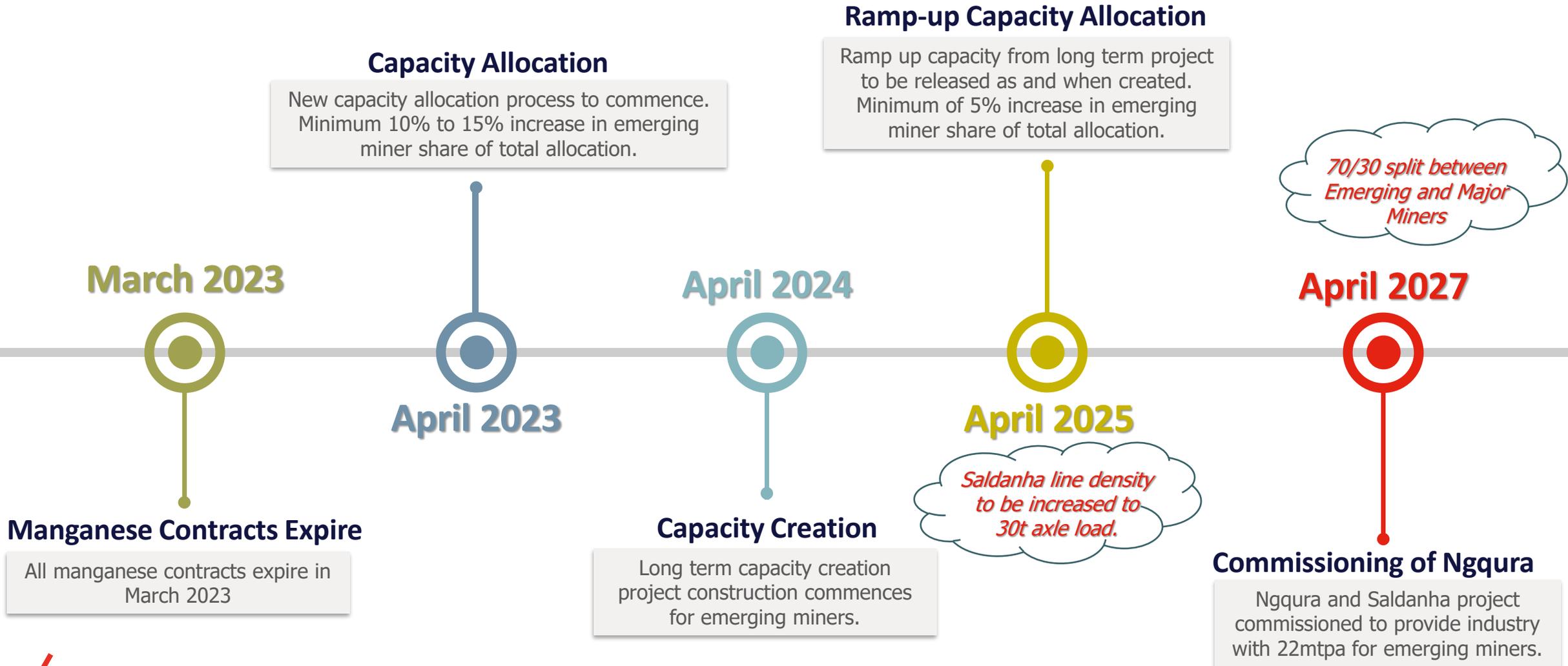
Figure 6: Demand compared to contract and capacity requirements (tonnage)



- Total demand from manganese industry is 28,4mtpa, including current and prospective customers.
 - This demand will be reached by 2027/28.
 - Demand excludes domestic manganese.

Migration Path: Emerging Miner Capacity Creation

Manganese



Demand vs Contracted Volumes

Export Iron Ore (mtpa)

2012 - 2022

- 2 Emerging miners enabled since 2012 on the Corridor
 - 2 Emerging miners assisted with loading facilities
- 2,7 mtpa capacity allocated to Emerging Miners on the Corridor

Figure 7: Demand for major and emerging miners (mtpa)

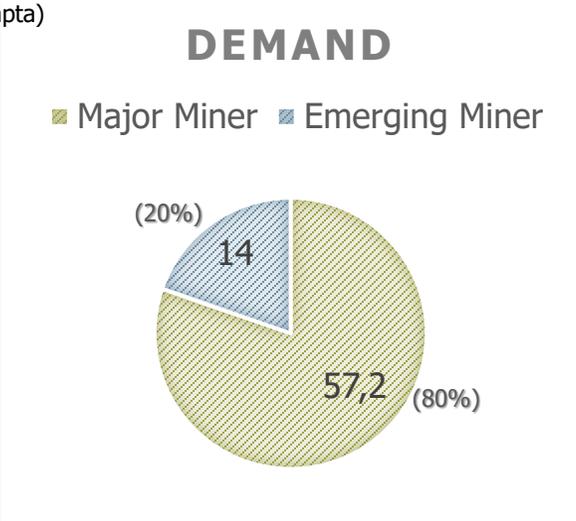
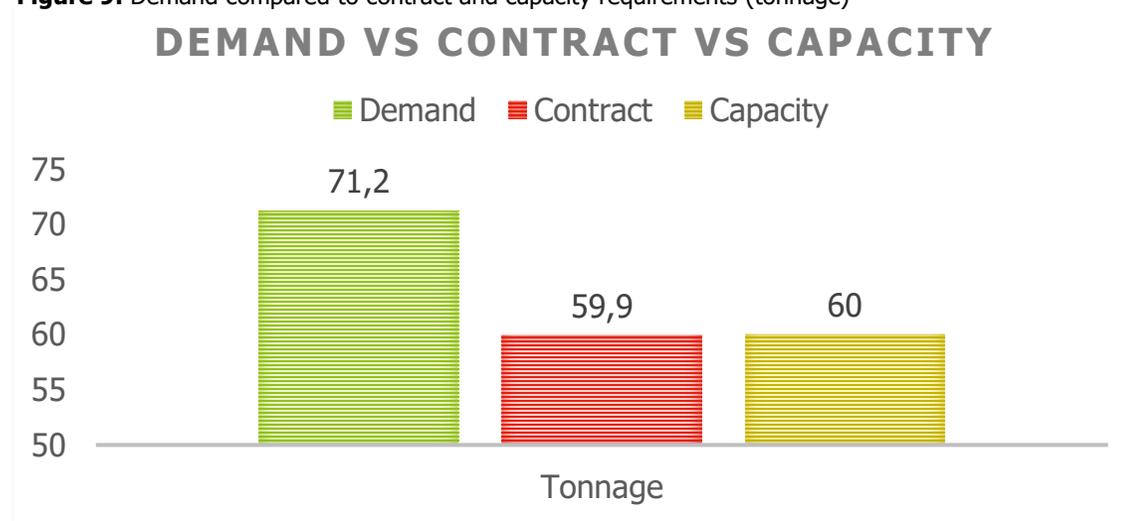


Figure 8: Contract for major and emerging miners (mtpa)



Figure 9: Demand compared to contract and capacity requirements (tonnage)



- Total demand from the Iron Ore industry is 71,2 mtpa, including current and prospective customers.
- 8 million tonnes from the emerging miners is immediately available from mines that are already operational.
 - This demand will be reached by 2030/31.
- Demand figures excludes domestic Iron Ore (3mtpa).

Migration Path: Emerging Miner Capacity Creation

Iron Ore



Potential 7mtpa through increasing air emissions license

Major Miner Contract Expires

A major miner contract will expire in March 2027. This presents an opportunity for capacity to be made available to new entrants. Minimum 10% increase in emerging miner share of total allocation

Long term expansion capacity

Expansion project to 76mtpa to be commissioned in 2031. Major expansion at the Port of Saldanha which includes a new berth and a new stockyard enabled by industry funding models.

March 2025



Emerging Miner Contracts Expire

Emerging Miner contract expires.

March 2027



March 2031



Major miner contract expires

The final major miner contract expires in March 2031. Subject to ramp up project, capacity will be made available to emerging miners.

70/30 split between Emerging and Major Miners

December 2031



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COAL



Demand vs Contracted Volumes

Total Export Coal (mtpa)

2012 - 2022

- Since 2012 the coal sector has enabled 18 currently operational loading facilities for export and domestic coal
 - These Sidings provide approximately 20% of the coal volumes

Figure 10: Demand for major and emerging miners (mpta)

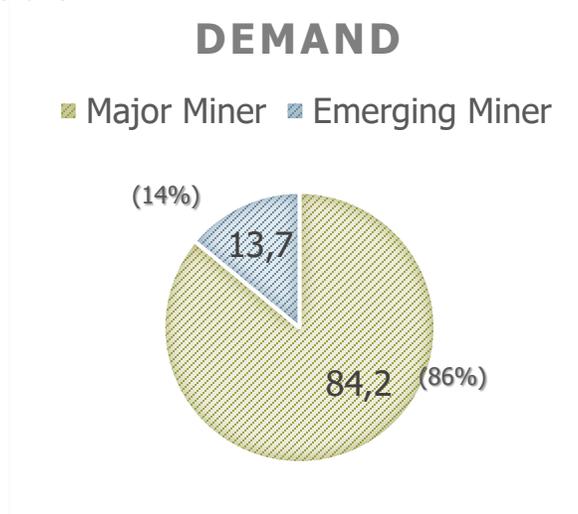
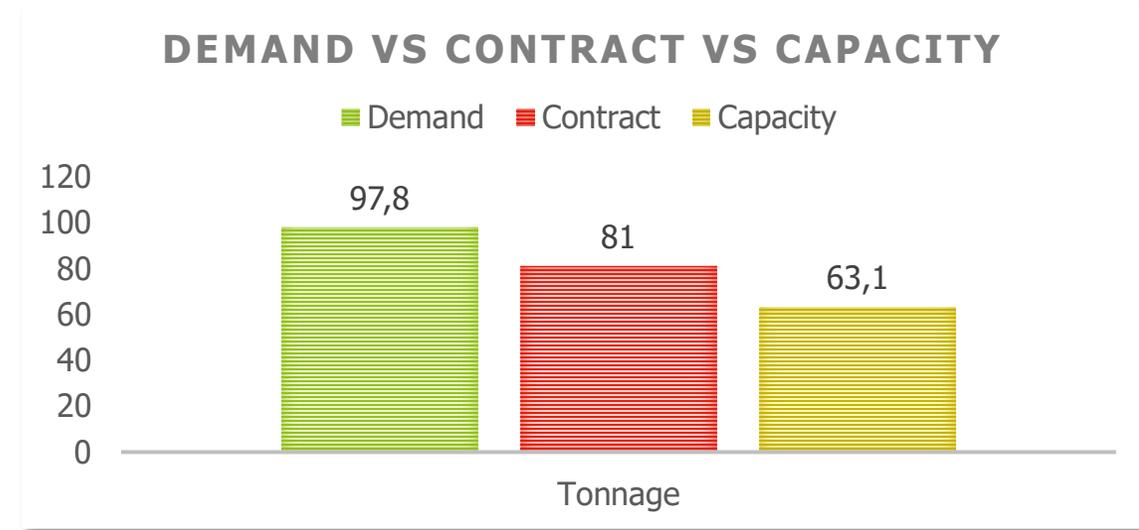


Figure 11: Contract for major and emerging miners (mpta)



Figure 12: Demand compared to contract and capacity requirements (tonnage)



- Export coal includes all the coal exports i.e. RBCT, RBTG, MPT, TCM

- Prices for Coal from Richards Bay are at record levels fluctuating at around \$300pt increasing demand for capacity
 - Current demand for Logistics is very high with the challenge being throughput capacity
- Emerging miners are 7% of total export coal and currently dominate through RBTG, MPT and TCM at 71%

- Some emerging miners are tied through shareholding and ownership to majors and this creates a challenge in the attempt to assist emerging miners

Demand vs Contracted Volumes

Total Export Coal (mtpa), All TPT volumes received on road (TPT)

Figure 12: Demand for major and emerging miners (mpta)

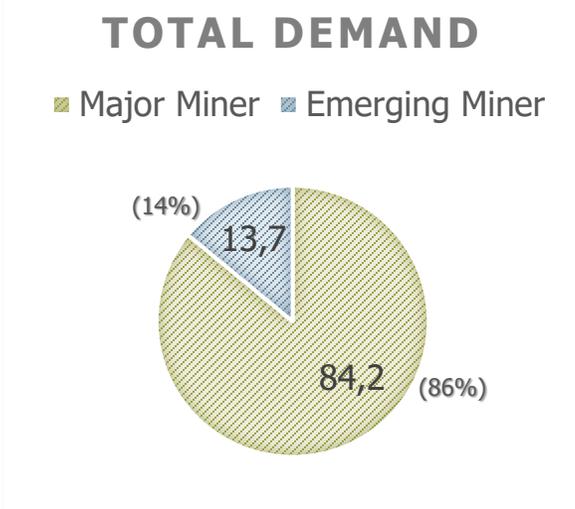


Figure 13: Contract for major and emerging miners (mpta)

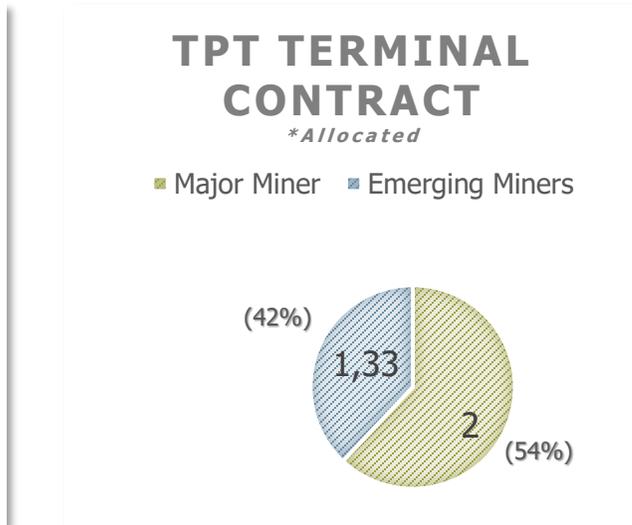
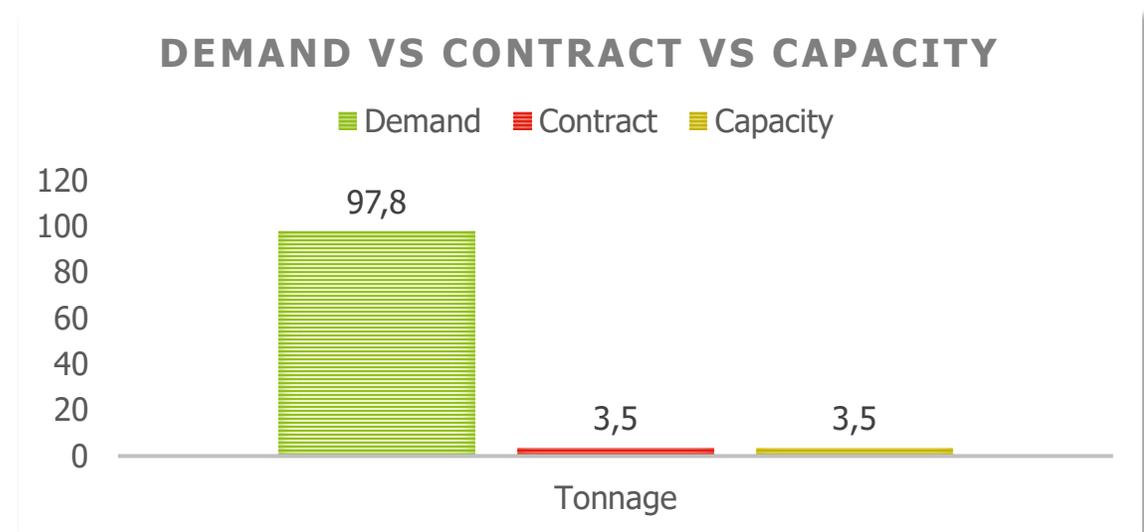


Figure 14: Demand compared to contract and capacity requirements (tonnage)



Migration Path: Emerging Miner Capacity Creation

Export Coal



Non-RBCT Contracts negotiation to long term

Annual Non-RBCT contracts to be negotiated to long term agreements of minimum 5 years, up to 10 years.

Coal Contracts Expire (Capacity)

The current LTA will expire governing the flow will have run its 10years Including the Quattro allocation.

April 2022



RBCT LTA Contracts Negotiations begin

June 2022



December 2022



Final Non-RBCT Export Contracts Expire

Final 0,5mt contract expires to TCM. These will also be negotiated to long term agreements of minimum 5 years up to 10 years.

March 2024



April 2024



New Contracting Regime

New contracts to be entered into and negotiations with RBCT to increase Quattro Allocation for emerging miners.

Demand vs Contracted Volumes

Domestic Coal (mtpa)

2012 - 2022

- There are currently 10 sidings that cater for the domestic coal excl Eskom
- The currently existing coal sidings will be able to load for this Traffic

Figure 14: Demand for major and emerging miners (mpta)

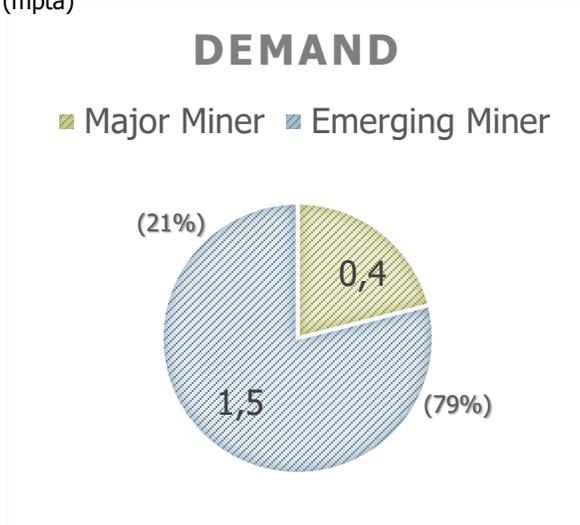


Figure 15: Contract for major and emerging miners (mpta)

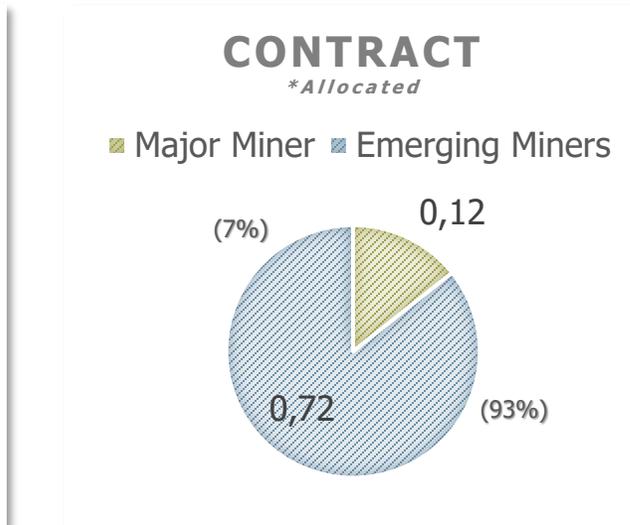
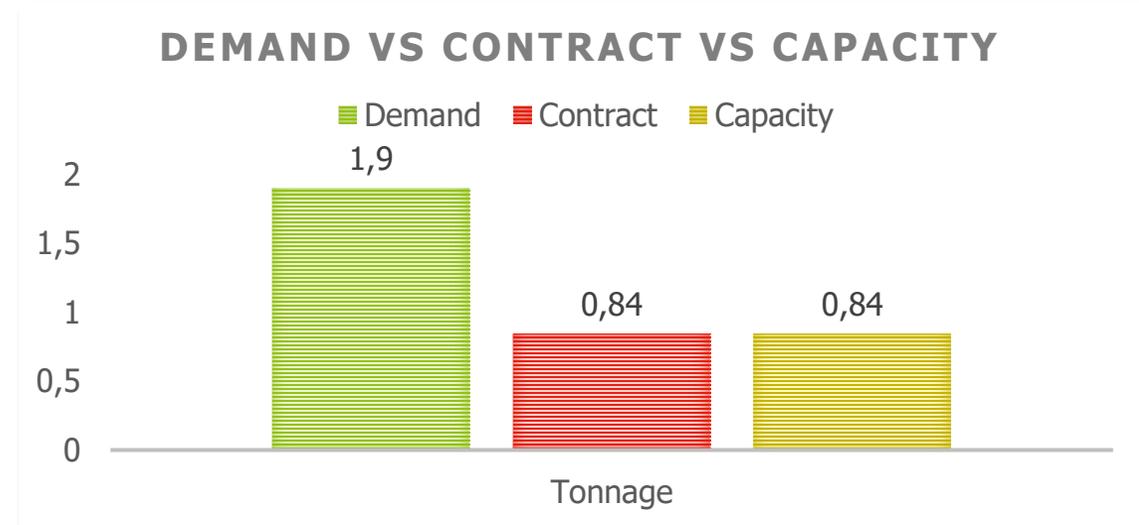


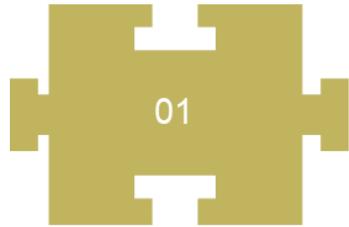
Figure 16: Demand compared to contract and capacity requirements (tonnage)



- The coal that is not moved by rail is moved by truck to the mills
- And many of them have not kept up the maintenance of their sidings, increasing their relative barriers to revert back to a rail service ...

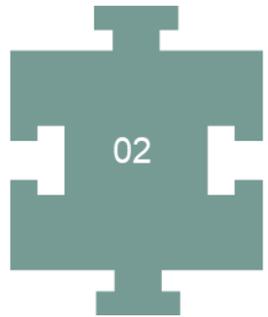
Quattro Capacity Allocation

Overview



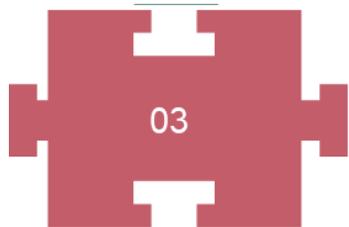
The Role of the DMRE

- The Minister is the overarching authority on the development of the mining industry in South Africa and thus holds the custodianship of the Quattro scheme.
- The execution has been delegated to an Allocation Committee that looks after the interests of Exporting BEE emerging coal miners in South Africa.



Members of Allocation Committee

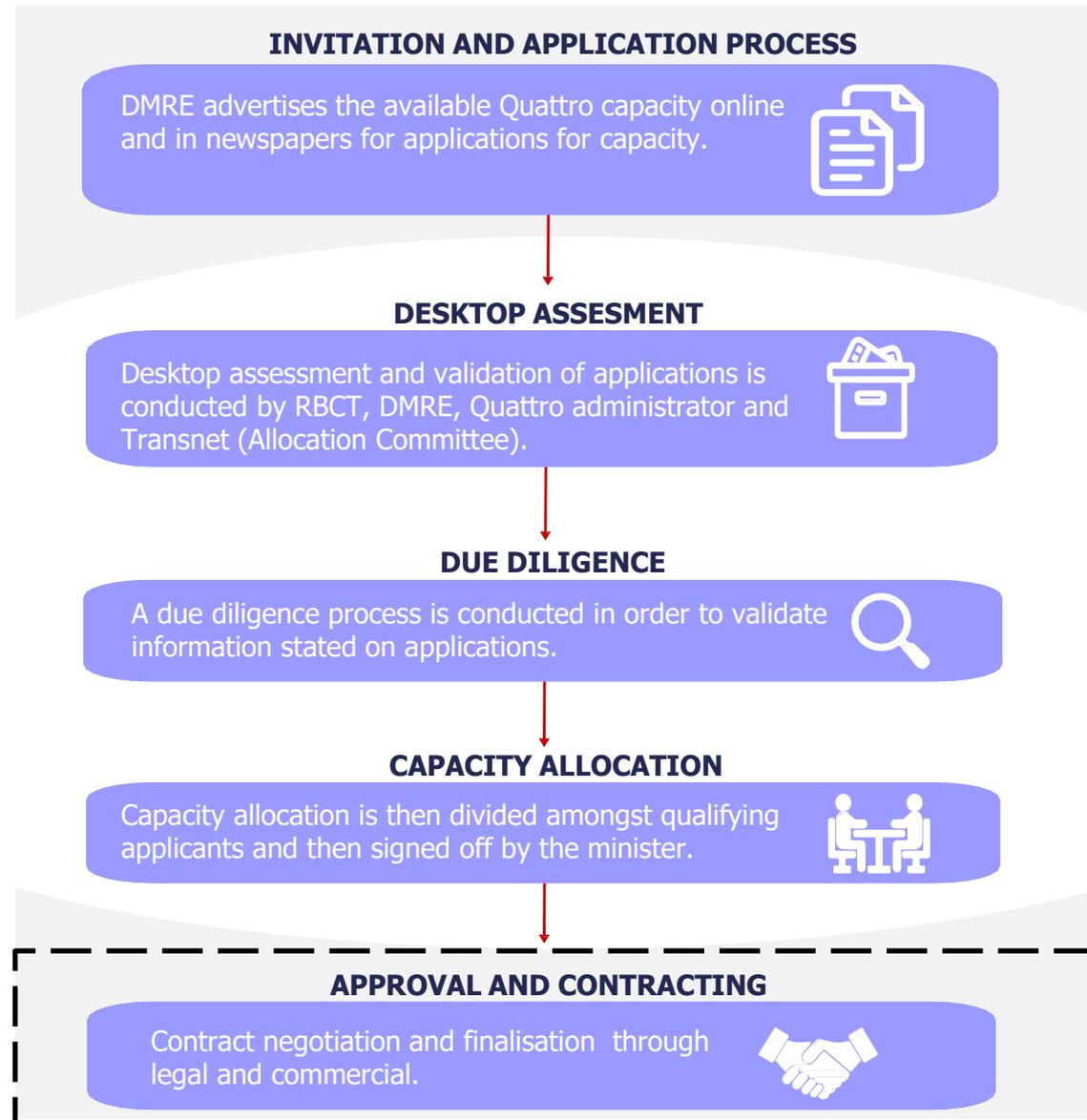
- DMRE,
- Transnet,
- Richards Bay Coal Terminal (RBCT),
- Quattro Administrator



Current Key Requirements

- Minimum SANAs level 3 BEE Rating
- Female Ownership
- Valid Mining Right
- Currently Operating Mine
- Export Quality Coal i.e. RB1 or RB3
- **Requirements may change as process is owned by the DMRE*

Quattro Application Process



TRANSNET



CHROME AND MAGNETITE



Demand vs Contracted Volumes

Total Export Chrome (mtpa), with all volumes received on road (TPT)

Figure 17: Demand for major and emerging miners (mpta)

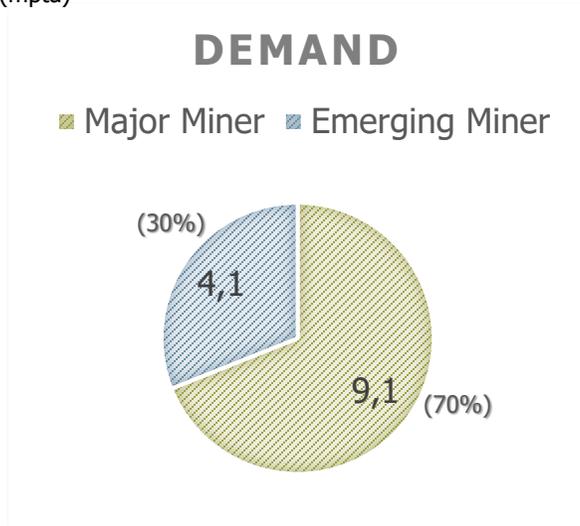


Figure 18: Contract for major and emerging miners (mpta)

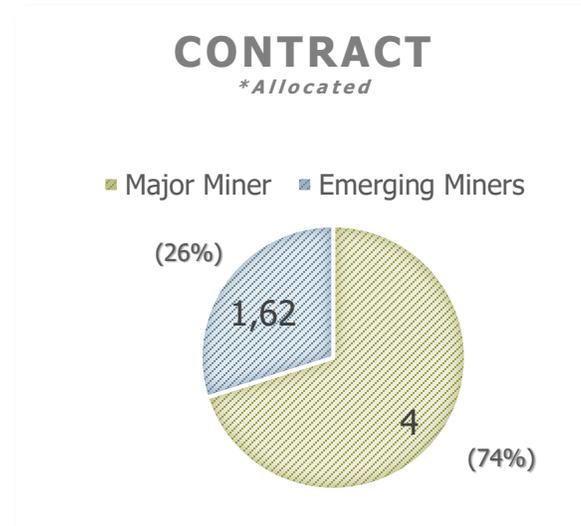
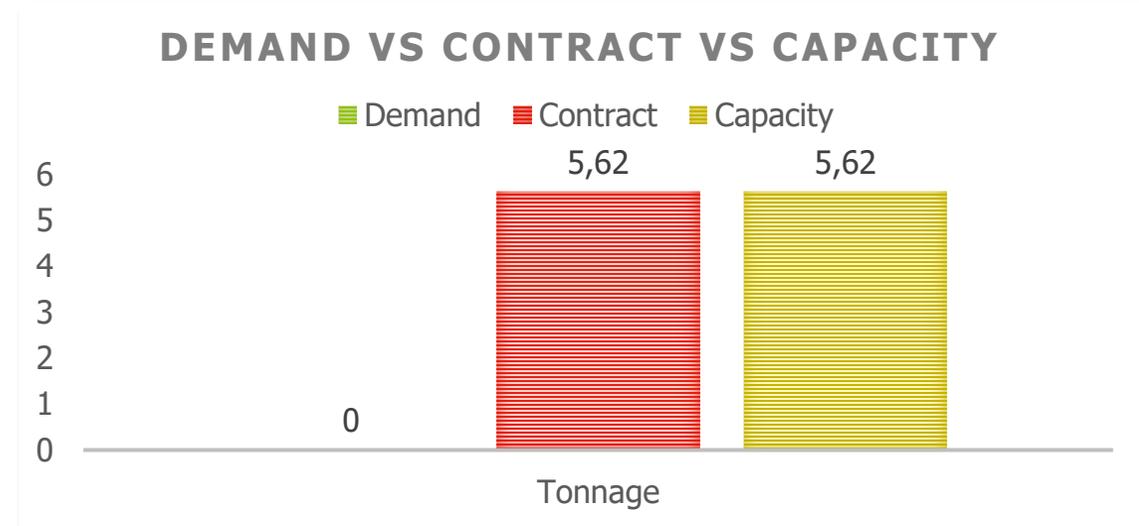


Figure 19: Demand compared to contract and capacity requirements (tonnage)



From a rail perspective, majority of the volumes come through traders and Logistics Service Providers, and therefore this is a space that needs to be developed in order to enable direct relationships with Transnet SOC.

Demand vs Contracted Volumes

Total Export Magnetite (mtpa), with all volumes received on road (TPT)



Figure 20: Demand for major and emerging miners (mpta)

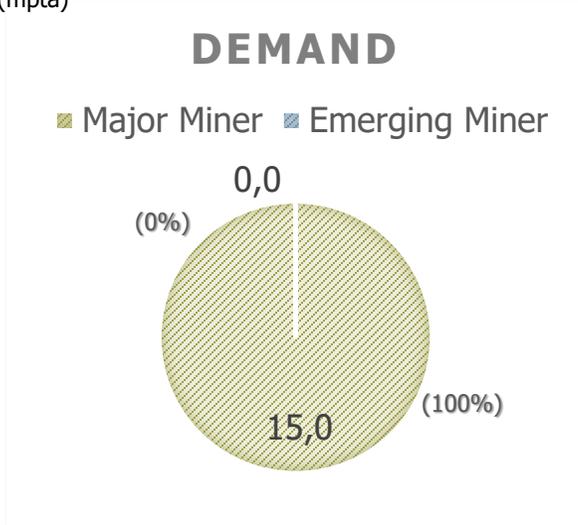
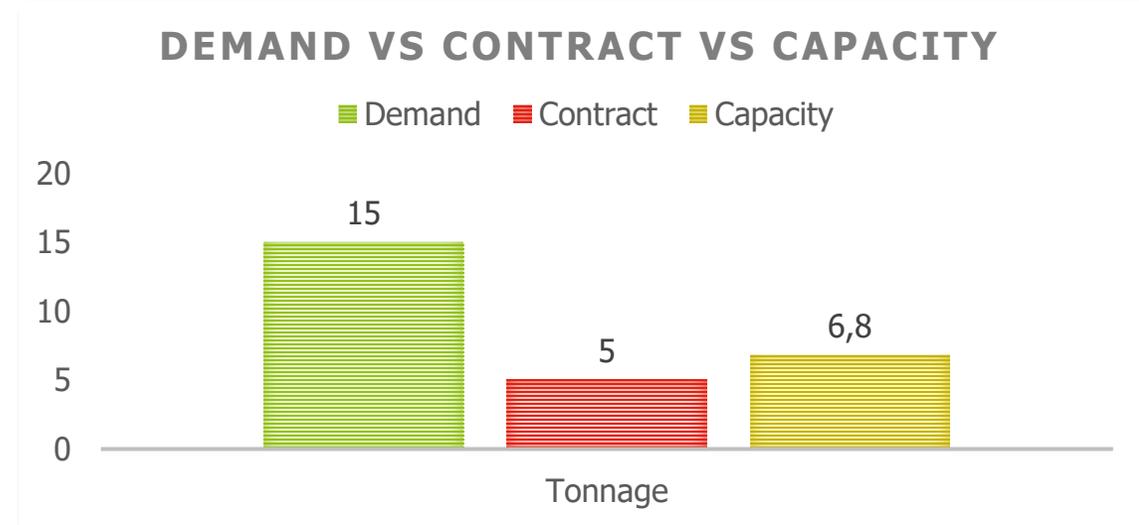


Figure 21: Contract for major and emerging miners (mpta)



Figure 22: Demand compared to contract and capacity requirements (tonnage)



From a rail perspective, majority of the volumes come through traders and Logistics Service Providers, and therefore this is a space that needs to be developed in order to enable direct relationships with Transnet SOC.

PHUMZILE SITHOLE:
GENERAL MANAGER – COMMERCIAL
TRANSNET FREIGHT RAIL



TRANSNET



**EMERGING MINER
VALUE
PROPOSITION**



Revised Credit Management for Emerging Miners



Current Transnet Process

Transnet allows for **R2 million unsecured credit facility** if the customer is in business for two (2) years or less subject to customers providing:

- Latest audited and signed financial statements
- Valid tax clearance certificate,
- Business plan (Including details on how the Transnet service will assist the business),
- Shareholding certificates, CVs of the directorate and senior management, Current and/or prospective contracts with customers , BBBEE Certificate



Revised Process with the assistance of Insurers

Insurers will cover 50% of the credit cover whilst Transnet covers 50% subject to the following:

- Emerging miner must be trading for at least 12 months.
- Emerging miner must provide at least 1-year trading results with completed application form.
- Clean credit report with no prior record of involvement in Companies that have undergone debt counselling or liquidation.
- Client Visit will need to be done by Insurer.
- Successful client visit and signing of standard security documents will need to be signed.
- Annual Risk review and bi-annual visits to be done.



In Summary – Our revised value proposition for emerging miners

FROM

TO



- Current unencumbered guarantee of R2 million



- 50% risk sharing facility, underwritten by insurer. 50% absorbed by Transnet.



- Limited capacity allocation to emerging miners
- Full participation in equitable losses



- Target of 30% of capacity allocated to Emerging Miners by 2027.
- Will be exempted from participating in downside equity for up to 30% of contracted volumes.



- Undifferentiated take/pay principles
- Short term Transnet services agreements
- Third party commercial relationship



- Relaxed Take or Pay regime of 5-10% less than majors for the first year for new entrants.
- Long term agreements for emerging miners, i.e. Non-RBCT Coal contracts.
- Contract directly with Transnet as a Emerging Miner (vs contracting via 3rd party)



- Shortage of loading facilities to enable new entrants



- Creation of a multi user facility at WRO for emerging miner to enable coal consolidation strategy by 13 June 2022
- Offering Transnet coal sidings on open market by 01 June 2022.
- All sidings to be multi user facilities. Fair and equitable allocation of loading will be managed via rail capacity allocation, through NWB processes.



- Stockpiling within port premises only



- Allowing flexible stockpiling space including back of ports



Contact List



		Coal	Iron Ore	Manganese	Chrome	Magnetite
Transnet Freight Rail	Corridor Managing Executive	Mr. Ali Motala Ali.Motala@transnet.net 083 283 3647	Mr. Theo Johnson Theo.Johnson@transnet.net 083 389 3624	Mr. Russell Baatjies Russell.Baatjies@transnet.net 083 324 9722	Ms. Thozama Mokoena Thozama.Mokoena@transnet.net 083 727 4799	Ms. Thozama Mokoena Thozama.Mokoena@transnet.net 083 727 4799
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GLOSSARY OF TERMS

- **MECA:** Manganese Export Capacity Allocation
- **RBCT:** Richards Bay Coal Terminal
- **RBTG:** Richards Bay Grindrod Terminal
- **MPT:** Multipurpose Terminal
- **TCM:** Grindrod's Terminal de Carvão da Matola

Coal Overview (Flow Definitions)

