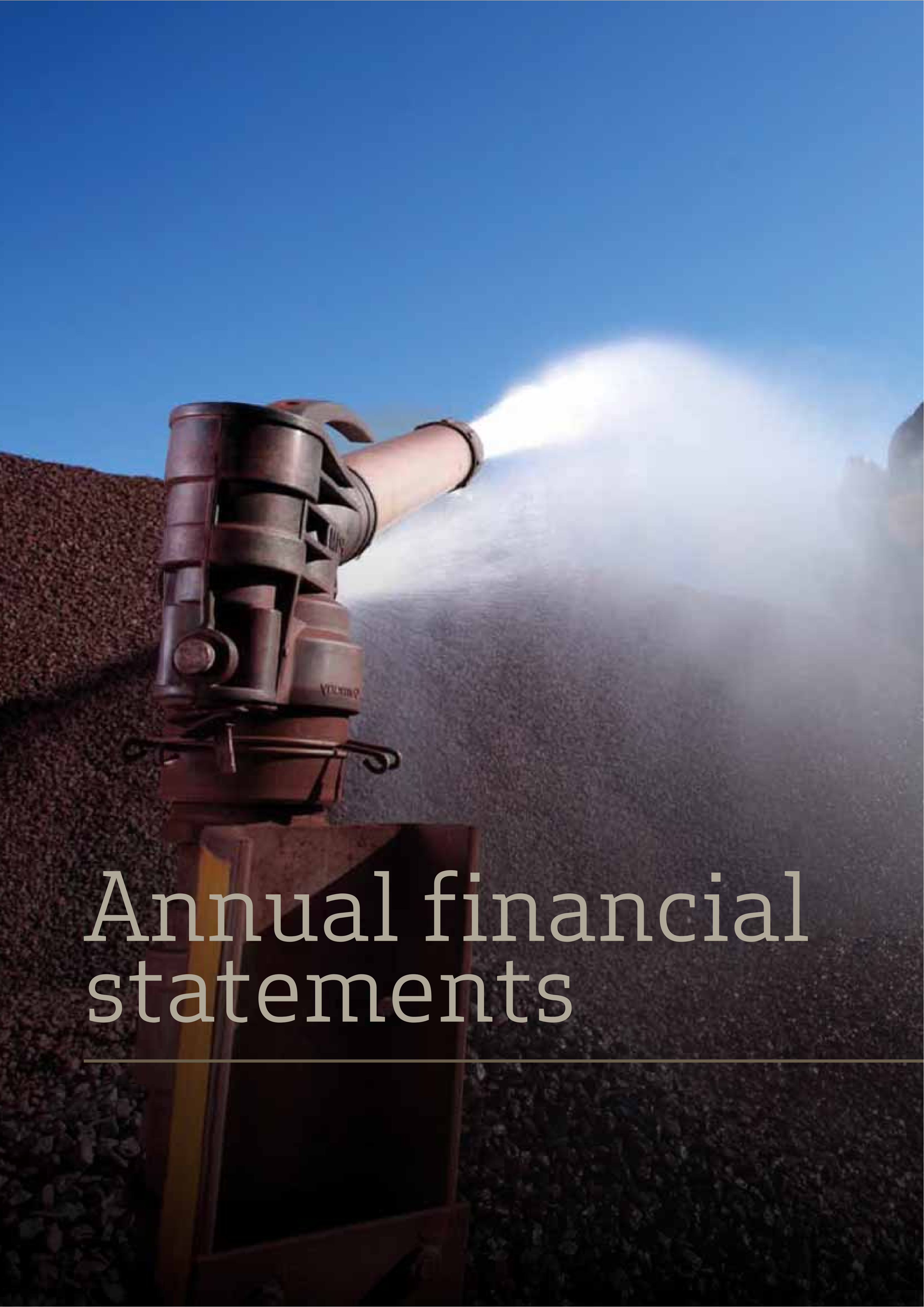


Annual financial statements

Proactive environmental management and climate change strategy. Dust mitigation at the Port of Saldanha.

Group Audit Committee report
for the year ended 31 March 2010

This Group Audit Committee report is presented as recommended by the King II Report on Corporate Governance and Regulation 27 of the Treasury Regulations. The Group Audit Committee performs its functions in accordance with section 270A (1) of the Companies Act and the PFMA. The terms of reference are set out in the Group Audit Committee mandate, which is approved by the Board and is continuously reviewed and updated for changes in legislation and corporate governance practices. The Group Audit Committee has conducted its affairs in accordance with the mandate and has discharged its responsibilities accordingly.

Composition of the Audit Committee

The Group Audit Committee comprises the following independent non-executive Directors of the Company, all of whom are financially literate:

- Prof GK Everingham (Chairman until 23 August 2009);
- Ms KC Ramon (Acting Chairman as from 24 August 2009 until 05 February 2010 – maternity leave);
- Mr PG Joubert;
- Mr MP Moyo (Acting Chairman from 10 February 2010 until 19 April 2010);
- Dr I Abedian (retired on 11 August 2009); and
- Ms NNA Matyumza (interim member as from 24 August 2009).

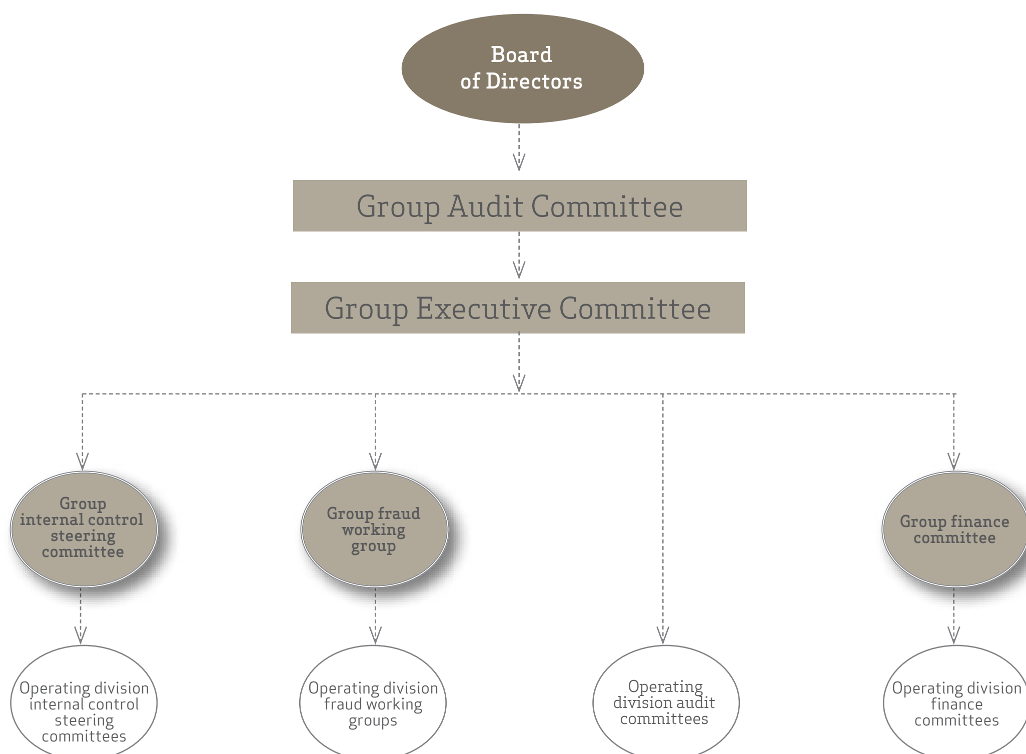
The credentials of the members are detailed in the Overview section of this annual report.

The Group Audit Committee held five scheduled meetings for the year ended 31 March 2010 and member attendance to these meetings is reflected in the Corporate Governance report.

The Acting Group Chief Executive, the Group Executive: Office of the Group Chief Executive and the Acting Group Chief Financial Officer together with the external and internal auditors are required to attend the meetings. The internal auditors and the external auditors, are also afforded separate sessions with the Group Audit Committee without the presence of management.

Audit Committee Governance structure

The Group Audit Committee relies on a strong and well functioning governance structure to support its activities as depicted below. The Operating divisions have established governance structures to manage the divisional risks in an effective and efficient manner. Matters emanating from these governance structures which are considered to be significant by either management, the internal auditors or external auditors, are reported to the Group Audit Committee.



This structure requires the appropriate "Tone at the Top" to establish and reinforce the values and ethical standards of the Company. In addition, management has introduced numerous programmes to significantly improve the organisational culture as well as the maturity of the internal control environment and standard working practices so as to drive ethical behaviour, control awareness, and personal accountability, thereby enhancing organisational performance in a sustainable manner.

Summary of the main activities undertaken by the Audit Committee during the year

In executing its duties, the Group Audit Committee performed the following noteworthy activities during the year:

External audit

- Nominated for appointment, a registered audit firm to perform external audit services for the Company who, in the opinion of the Group Audit Committee, is independent of the Company and has the required skill and competence to execute the audit in terms of International Standards on Auditing (ISA);
- Reviewed and approved the Company's audit plan with the audit firm, with specific reference to the proposed audit scope and approach, as well as and the audit fee;
- Pre-approved any proposed contract with the audit firm for the provision of non-audit services to the Company in accordance with an approved guideline;
- Considered the independence and objectivity of the external audit firm and ensured that the scope of the additional services provided do not impair the firm's independence;
- Performed an assessment of the external audit and made recommendations where required;
- Received and reviewed reports from the external auditors concerning the effectiveness of the Company's internal control environment, systems and processes;
- Reviewed the adequacy and appropriateness of management's corrective action plan as a consequence of audit findings; and
- Made appropriate recommendations to the Board regarding the corrective actions to be taken as a consequence of the audit findings.

Internal audit

- Nominated Ernst & Young for reappointment as internal auditors of the Company following the expiry of their initial term of contract;
- Considered the effectiveness of Internal Audit, which included approving the one-year operational and three-year strategic internal audit plans and monitored Internal Audit's adherence to its annual programme;
- Received and reviewed reports from internal auditors concerning the effectiveness of the Company's internal control environment, systems and processes;
- Reviewed the adequacy and appropriateness of management's corrective action plan as a consequence of audit findings;
- Considered all material forensic reports and established whether appropriate corrective action was taken by management; and
- Made appropriate recommendations to the Board regarding the corrective actions to be taken as a consequence of the audit findings.

General

- Reviewed the accounting practices adopted by the Company and found those to be appropriate;
- Reviewed the accounting policies adopted by the Company and all proposed changes in accounting policies and practices, and recommended any changes considered appropriate in terms of IFRS to the Board for approval;
- Reviewed and recommended publicly disclosed financial information for adoption by the Board, which for the year included:
  - the annual report for the year ended 31 March 2009 as well as 31 March 2010; and
  - the interim results for the six months ended 30 September 2009;
- Considered the programmes introduced to improve the overall ethics of the Company and reviewed reports from management and the internal auditors relating to material issues;
- Monitored ethical conduct by the Company, its Executives and other senior management;
- Made appropriate recommendations to the Board regarding the Global Medium-Term Note (GMTN) programme;
- Monitored the Company's compliance with all applicable legislation and regulations, including without limitation, the Companies Act, the PFMA, the Treasury Regulations and the Income Tax Act, No. 58 of 1962; and
- Reported on items of fruitless and wasteful and irregular expenditure in terms of the PFMA.

King III recommendations

The King Code of Governance for South Africa and its Code of Governance Principles (King III) was launched on 1 September 2009 and came into effect on 1 March 2010. The Group Audit Committee has reviewed its corporate governance practices with a view to fully comply with the requirements of King III. The revised mandate of the Group Audit Committee was approved in the new financial year.

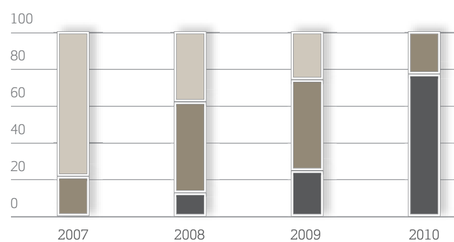
Assessment of the financial function and competence of the Acting Chief Financial Officer

As required by King III, the Audit Committee is required to assess the Company's financial function as well as the competency of the Chief Financial Officer. The Audit Committee has performed this assessment and accordingly the Audit Committee is satisfied with:

- The expertise and adequacy of the resources within the financial function of the Company;
- The experience of the senior members of management responsible for the financial function; and
- That the expertise and experience of the Acting Chief Financial Officer is appropriate to meet the responsibilities commensurate with the position.

Internal control environment

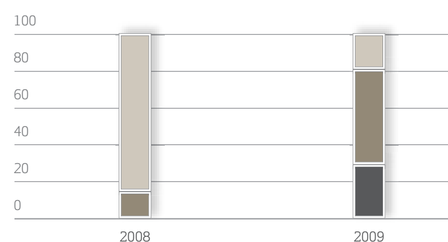
Financial process ratings (%)



Graph 1

- Reports stated as unsatisfactory
- Reports stated as requires improvement
- Reports stated as satisfactory

Operational process ratings (%)



Graph 2

- Reports stated as unsatisfactory
- Reports stated as requires improvement
- Reports stated as satisfactory

The internal control environment has been a focus area of management over the last four years and significant progress has been achieved in ensuring operating effectiveness of financial controls.

Graph 1 depicts an improvement in financial process controls over a four-year period. This is indicated by the increasing number of satisfactory audit reports that were issued by Transnet internal audit after testing the operating effectiveness of financial controls.

The number of ineffective critical financial reporting controls have also improved over the period and the objective of these controls is to reduce the risk of material misstatement of reported financial information, fraud and error.

These improvements have enabled the external auditors to adopt a control reliance approach across most of the Operating divisions of Transnet with due reliance being placed on the work performed by Transnet internal audit.

Furthermore, whilst graph 2 depicts an improvement in the operational control environment, the Group Audit Committee recognises that this area requires additional focus and attention in the short to medium term.

Accordingly the Company will seek to enhance operational controls through the Quantum Leap Strategy, and Transnet internal audit will ensure that these initiatives are incorporated into the three-year strategic internal audit plan.

In the opinion of the Group Audit Committee, the internal controls of the Company are considered appropriate in terms of:

- Meeting the strategic objectives of the Company;
- Evaluating and mitigating the key risks facing the Company;
- Ensuring compliance with applicable laws and regulations;
- Ensuring the Company's assets are safeguarded; and
- Ensuring that transactions undertaken are correctly recorded in the Company's accounting records.

Annual financial statements

The Group Audit Committee has evaluated the annual report for the year ended 31 March 2010 and considers that it complies, in all material respects, with the requirements of the Companies Act; the PFMA; the Public Audit Act, No. 25 of 2004; and IFRS.

The Group Audit Committee has, therefore, recommended the adoption of this annual report by the Board at their meeting on 9 June 2010.

KC Ramon
Acting Chairman

9 June 2010
Johannesburg

Approval of the annual financial statements

for the year ended 31 March 2010

The Directors are required, by the Companies Act, as amended, the Public Finance Management Act 1, 1999 (Act No. 1 of 1999) (PFMA), and the Public Audit Act No. 25 of 2004 to prepare annual financial statements which fairly present the state of affairs of the Company and the Group as at the end of the financial year, the profit or loss and cash flows of the Company and the Group for the year then ended. In preparing these annual financial statements,
the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the annual financial statements on the going-concern basis unless it is inappropriate to presume that the Company and/or the Group will continue in business for the foreseeable future.

The Directors of the Company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The external auditors, Deloitte & Touche, are responsible for independently auditing and reporting on the financial statements in conformity with International Standards of Auditing (ISA). Their modified report on the annual financial statements prepared in terms of the Companies Act, PFMA and the Public Audit Act appears alongside.

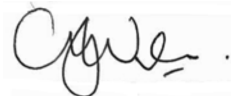
The Directors have every reason to believe that the Company and Group have adequate resources and facilities in place to be able to continue in operation for the foreseeable future. Therefore, the Directors are satisfied that Transnet is a going concern and have continued to adopt the going-concern basis in preparing the financial statements.

The Group Audit Committee has reviewed the effectiveness of the Company and Group's internal controls and considers the systems appropriate to the effective operation of the Company. The Group Audit Committee has evaluated the Group's annual financial statements and has recommended their approval to the Board. The Group Audit Committee's approval is set out on page 225.

In preparing the Company and Group annual financial statements set out on pages 229 to 246, the Company and the Group have complied with IFRS and the Companies Act. In addition, the Group has complied with the reporting requirements of the PFMA and the Public Audit Act and has used appropriate accounting policies supported by reasonable and prudent judgements and estimates. The Directors are of the opinion that these annual financial statements fairly present the financial position of the Company and the Group at 31 March 2010, and the results of their operations and cash flow information for the year then ended.

Prof GK Everingham
Acting Chairman

9 June 2010
Johannesburg

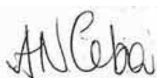


CF Wells
Acting Group Chief Executive

9 June 2010
Johannesburg

Group Company Secretary certificate

I hereby certify that in terms of section 268G(d) of the Companies Act, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies all such returns for the year ended 31 March 2010 as are required of a public company in terms of this Act, and that all such returns are true, correct and up to date.



ANC Ceba
Company Secretary

9 June 2010
Johannesburg

Report on the financial statements

Introduction
We have audited the accompanying consolidated financial statements and financial statements of Transnet Limited, which comprise, the consolidated and separate statement of financial position as at 31 March 2010, and the consolidated and separate statement of financial performance, consolidated and separate statement of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information, the Report of the Directors and the Group Audit Committee report.

Accounting authority's responsibility for the consolidated financial statements
The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in a manner required by the Companies Act, 61 of 1973 of South Africa, as amended, the Public Finance Management Act, 1 of 1999, as amended, and the Public Audit Act, 25 of 2004. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 27 and 28 of the Public Audit Act, 25 of 2004, have been complied with.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

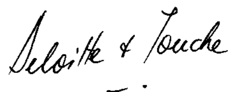
Opinion
In our opinion, these financial statements fairly present, in all material respects, the consolidated and separate financial position of Transnet Limited as at 31 March 2010, and its consolidated and separate financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 61 of 1973, of South Africa, the Public Finance Management Act, 1 of 1999, as amended, and the Public Finance Act, 25 of 2004.

Report on other legal and regulatory requirements

Compliance with the Public Finance Management Act
In accordance with our responsibilities in terms of subsections 55(2)(a) of the Public Finance Management Act 1 of 1999, we report on the performance information of Transnet Limited for the year ended 31 March 2010 as set out in the Report of the Directors. The accounting authority is responsible for the preparation and fair presentation of this performance information. Nothing has come to our attention that causes us to believe that the performance information, in all material respects, is not fairly stated.

Compliance with laws and regulations

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified certain unlawful acts or omissions committed by persons responsible for the management of Transnet Limited which constitute a reportable irregularity in terms of the Auditing Profession Act, 2005 (No. 26 of 2005), and have reported such matter to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularity has been described in the Report of the Directors in the annual financial statements.



Deloitte & Touche
Registered Auditors

Per Trushar Kalan
Partner

9 June 2010

Deloitte Place
The Woodlands
20 Woodlands Drive
Woodmead
2199

National Executive: GG Gelink Chief Executive, AE Swiegers Chief Operating Officer, GM Pinnock Audit, DL Kennedy Tax & Legal and Risk Advisory, L Geeringh Consulting, L Bam Corporate Finance, CR Beukman Finance, TJ Brown Clients and Markets, NT Mtoba Chairman of the Board, CR Qually Deputy Chairman of the Board.

A full list of partners and directors is available on request.

Introduction

The Board has pleasure in presenting its report and the audited financial statements of Transnet Limited (the Company) and its subsidiaries (the Group) for the year ended 31 March 2010.

Ownership and Shareholder's expectations

GRI 2.6

Transnet is a public company, with the Government of the Republic of South Africa as its sole shareholder. The Company is defined as a Schedule 2, major public entity as envisaged by the PFMA, and consequently reports to its Shareholder through the Minister of Public Enterprises.

Transnet's key role is to assist in lowering the cost of doing business in South Africa, enabling economic growth and ensuring the provision of appropriate ports, rail and pipeline infrastructure ahead of demand. In so doing, the Company aims to operate in a cost-effective and efficient manner within acceptable benchmark standards.

The Shareholder Compact, which is signed by the Shareholder Representative, ensures alignment between the expectations of the Shareholder and the activities of the Company. The Company's medium-term strategic objectives are set out in the Shareholder Compact and broadly relate to the following strategic imperatives:

- Volume and revenue growth;
- Capital and financial efficiency;
- Operational efficiency and effectiveness;
- Infrastructure investments;
- Developmental objectives; and
- Safety, health and environment.

Transnet is entirely self-funding and does not receive subsidies from the Government. Consequently, the Company must secure all of its funding requirements from the debt capital markets. It is, therefore, imperative that the Company earn an appropriate return on invested capital to maintain a strong financial position. One of its main objectives in this regard is to maintain its investment grade credit rating. The Company thus focuses on ensuring that the Board-approved target of three times cash interest cover and 50% gearing will not be adversely impacted. This, in turn, will provide the financial capacity for Transnet to maintain and expand its port, rail and pipeline infrastructure, which are key enablers for economic growth in the country.

Board of Directors and Succession

The composition of the Board, together with summary curricula vitae of each Director is set out in the Overview section of this annual report.

Three non-executive Directors retired from the Board on 11 August 2009. These were:

- Mr FTM Phaswana (Chairman of the Board);
- Dr I Abedian; and
- Mr BT Ngcuka.

The Chairmanship of the Board was taken over by Professor Geoff Everingham in an acting capacity on 11 August 2009. The sub-committees of the Board have also been reconstituted to take account of recent changes. More details pertaining to these changes are included in the Corporate governance report.

The Shareholder Representative is currently in the process of identifying suitable candidates to fill of the vacant positions on the Board and it is expected that these members will be appointed at the next annual general meeting of the Company to be held on 23 July 2010.

As required by the current Company's Articles of Association, the Board finalised the succession planning process for the filling of the vacancy for the Group Chief Executive in June 2009, and submitted a recommendation to the Shareholder Minister for approval. We await the appointment of the Group Chief Executive after the required approvals by the relevant governance structures of Government.

In line with the recommendations of King III, the Board has approached the Shareholder Minister to amend the Articles of Association of the Company to enable the Group Chief Executive appointment to be made by the Board in consultation with the Minister, in future.

Due to the circumstances above, the positions of Acting Chairman, Acting Group Chief Executive and Acting Chief Financial Officer, in particular, have remained effective for a period beyond what was envisaged by the Board. However, the individuals holding these positions have proven competent and committed to Transnet's continued success. The acting positions have not adversely impacted the effective management of the Company.

The remuneration of the Directors is set out in the Report of the Directors.

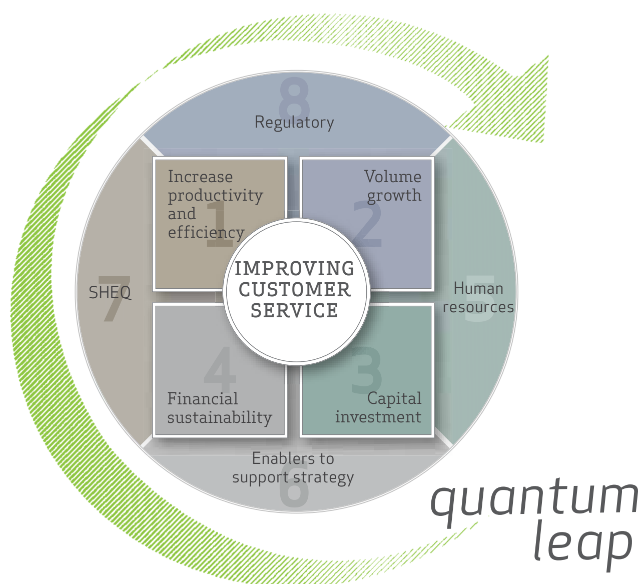
Strategy overview

GRI 1.1

The successful turnaround of the Company over the past five years laid the foundation for the Growth Strategy adopted in 2008. Given the high correlation between volumes transported by the Company and global economic activity, particularly in the commodity and container sectors, the achievement of the targeted growth in volumes as envisaged in the Growth Strategy has been adversely impacted by the onset of the global economic crisis during the third quarter of 2008.

Although steady gains have been achieved in operational performance in the recent past, the Board is not content with minor incremental improvements and aspires to reach significantly higher performance levels in the short to medium term. To exemplify this ambitious vision, the Board has initiated the Quantum Leap strategic imperative to inform all strategic initiatives across the Company. The Company aims to achieve improvements in customer service, volume growth and the provision of capacity. This will be achieved by enhancing operational efficiencies across the Company, which will in turn result in an improvement in the reliability and predictability of services whilst maintaining the financial sustainability of the Company. A summary of the key focus areas in achieving the Quantum Leap Strategy set out below. In setting the Company's strategic direction, the Board specifically identified the following key focus areas to be addressed in the medium term and in the 2011 financial year:

- Harnessing volume growth opportunities;
- Achieving substantial improvement in customer service;
- Increasing productivity and operating efficiencies;
- Implementing effective cost-control and reducing the cost base;
- Continuous improvement in safety and environmental compliance; and
- Improving asset utilisation to achieve appropriate returns.



Achieving objectives within a framework of corporate governance, internal controls, dynamic management reporting, leading environmental practices and legal compliance.

Transnet's drive to integrate commercial and operational delivery between the Operating divisions gathered pace during the year, and further integration is envisaged in the year ahead.

Transnet's cumulative infrastructure capital spend over the past five years (2006 to 2010) amounted to R71,8 billion. Significant progress has been made in the roll-out of the investment plan to create capacity on the export lines and at the ports. These include projects such as the export coal expansion to 71mt; Iron Ore Line expansion to 47mt; the expansion of container capacity at the Port of Ngqura (800 000 TEUs) and Pier 1 (720 000 TEUs); as well as the Widening and Deepening of the Durban Harbour Entrance Channel. The new wider entrance channel will ensure that the Port of Durban is able to safely accept the next generation larger vessels, including the 9 200 TEU container vessels, thereby enhancing South Africa's ability to be globally competitive.

To support the Quantum Leap Strategy, Transnet will invest a further R93,4 billion over the next five years in rolling out the investment plan. Major projects include the further increase in the capacity of the iron ore line to 60mt; the expansion of the Export coal line to 81mt; the replacement of the locomotive fleet with the acquisition of an additional 304 locomotives over the next three years; and the completion of the NMPP from Durban to Gauteng, thereby doubling the existing capacity. Refer to the Capital Investment Report for further details.

Numerous critical capital projects have been identified that will exert significant financial pressure on the affordability and funding capability of the Company. Accordingly, Transnet will pursue partnerships with the private sector on projects that are mutually beneficial. To facilitate this process, a PSP framework has been developed and approved by the Board. This framework provides guidelines in respect of the PSP models that will be pursued and can broadly be categorised as follows:

- Investments that are core to Transnet's strategy but are not affordable;
- Specialised assets that can be owned by private parties and operated by Transnet; and
- Investments that are not core to Transnet's network strategy.

The structure of PSPs will be approached in a holistic manner to avoid fragmentation in the transportation network. Key objectives remain the lowering of the cost of doing business in South Africa and the promotion of economic growth through the provision of improved capacity. The Shareholder Representative will ultimately approve any PSP initiatives due to commence in the year ahead.

The current process of concessioning the low density rail network will be accelerated during the 2011 financial year.

Increased emphasis is being placed on the development of the local supplier industry through initiatives such as the CSDP, a Government initiative to which Transnet is fully committed to. Transnet was the first SOE to have its CSDP plans approved by the Shareholder Representative and has concluded contracts containing CSDP obligations with multinational original equipment manufacturers (OEMs). In this regard, Transnet has concluded various locomotive contracts with suppliers with a localisation value of approximately R1,0 billion. These localisation transactions are designed to have a positive impact on unemployment in the country, ensuring the transfer of skills and technology with various second and third tier suppliers benefiting. In addition, capital leakage is minimised and industrial development is promoted. Transnet has also significantly ramped up its BBBEE spend over the past three years to R13,5 billion which accounts for 65,4% (2009: 59%) of the total procurement spend.

Share capital

There has been no change in the authorised or issued share capital of the Company during the year. The issued share capital of the Company is 12 660 986 310 in ordinary shares. Further details regarding the Company's share capital are contained in note 21 to the annual financial statements.

Divisions, subsidiaries and associate companies

During the year, the Company disposed of its shareholding in arivia.kom for R174 million leading to a reversal of a previously recognised impairment. The Blue Train luxury passenger rail service will be disposed of in the 2011 financial year to PRASA for R1. In addition, the Company intends selling its shares in America Latina Logistica Limitada SA, an investment held through its wholly owned subsidiary Spoornet Do Brasil Limitada (SdbL), after which it will liquidate its interest in SdbL. A detailed list of subsidiaries and associate companies are contained in annexure C and D to the annual financial statements.

Accounting policies

The accounting policies used in the preparation of the annual financial statements for the year ended 31 March 2010 are in accordance with IFRS and consistent with those used in the prior year, except as disclosed in the accounting policies to the annual financial statements.

Critical judgements and estimations made in applying the accounting policies

Judgements made by management in the application of IFRS, that have a significant impact on the financial statements are disclosed in the accounting policies.

Summary of financial performance

GRI 2.6

	March 2010	March 2009	% change
Revenue (R million)	**35 610**	33 592	6,0
EBITDA (R million)	**14 409**	13 200	9,2
EBITDA margin (%)	**40,5**	39,3	3,0
Equity attributable to Shareholder (R million)	**64 456**	58 334	10,5
Gearing (%)	**38,5**	36,2	6,4
Cash generated from operations after working capital changes (R million)	**17 571**	10 851	61,9
Cash interest cover (times)	**4,5**	4,0	12,5

The financial performance of the Company has proven resilient and robust, especially in a year characterised by the global economic downturn and its adverse impact on the local economy as well as the impact of changing economic regulation. Notwithstanding these factors, the Company reflects an increase in revenue of 6,0% and a 9,2% increase in EBITDA as compared to the previous year. The key financial metrics of gearing and cash interest cover have also been maintained within the required targets set by the Board.

Revaluation of property, plant and equipment – port infrastructure and pipeline networks

The accounting policies of the Company require port infrastructure assets and pipeline networks to be carried at revalued amounts as opposed to historic cost. A full revaluation of port infrastructure is conducted every three years with an index revaluation being performed in the intervening years.

During the current year, an index valuation was applied to both the port infrastructure and pipeline networks.

Port infrastructure

Based on the index valuation methodology, as determined by independent experts, the carrying value of port infrastructure would have been adjusted from R28,2 billion to R45,5 billion (depreciated optimised replacement cost) at 31 March 2010, a potential revaluation amount of R17,3 billion.

A discounted cash flow analysis was performed (as required by *IAS 16: Property, Plant and Equipment*) to establish whether the revaluation amount, as reflected above, would be recoverable based on future cash flows of the business. The present value of future discounted cash flows of National Ports Authority amounted to R35,3 billion. Consequently, a revaluation amount of only R3,5 billion (2009: R3,5 billion) was recorded in the accounting records.

Additional information regarding the above cash flow analysis is contained in note 9 and annexure B to the annual financial statements.

Pipeline networks

Based on the index valuation, as determined by independent experts using the modern equivalent asset methodology, a revaluation amount of R167 million (2009: R636 million) for Pipeline networks was recorded in the accounting records at 31 March 2010.

Capital expenditure and commitments

GRI 2.8

Capital expenditure commitments for the Company over the next five years amount to R93,4 billion (excluding the capitalisation of borrowing costs of R6,0 billion and possible PSP funding). The Company has spent R18,4 billion (excluding capitalisation of borrowing costs and capitalised leases) in the current year and anticipates spending a further R22,8 billion in the year ahead (excluding capitalisation of borrowing costs).

Further details regarding capital expenditure and commitments are contained in note 30 of the annual financial statements.

Dividends

There were no dividends declared for the current year. The dividend policy is reviewed annually and approved by the Board and the Shareholder Representative in a general meeting. The main objective is to utilise cash to support the Capital Investment Plan. The policy provides that dividends will be declared to the Shareholder Representative in circumstances where cash cannot be effectively utilised in the business; where retaining cash does not create Shareholder value; and provided that appropriate gearing ratios are maintained.

The Company's R7,9 billion in cash resources will primarily address priorities in the strategic plan such as funding of the R93,4 billion investment plan over the next five years.

Borrowings

The Company's borrowing powers are limited to those approved by the Company in a general meeting and subject to the PFMA.

As at 31 March 2010, the Company's borrowings amounted to R47,4 billion (2009: R37 billion), an increase of R10,4 billion compared to the previous year. This increase can be attributed to borrowings that were raised to fund the Capital Investment Plan. The Company's detailed funding strategy will enable the successful procurement of the required funds cost-effectively.

Post-retirement benefit obligations

GRI EC3

SATS Pensioners' post-retirement medical benefit obligations

Transnet has provided medical benefits to its past employees under a defined benefit plan and has recorded the actuarially determined deficit (in terms of IAS 19) of R1,6 billion (2009: R1,9 billion).

In November 2008, the Board approved a benefit restructuring proposal which was described at the time as a restructuring of the SATS post-retirement medical subsidy subject to ongoing consultations with the Transmed Board of Trustees, the Registrar of Medical Schemes, SATS pensioners and other stakeholders. Accordingly, Transnet created a provision of R500 million to fund the proposed restructuring. In November 2009, Transnet received a legal opinion from independent Senior Counsel regarding the status of the SATS pensioners. Senior Counsel concluded that Transnet had no obligation to provide benefits to SATS pensioners and none of the legislation applicable to SATS pensioners affords them any legal rights to derive or expect benefits from Transnet. Transnet is currently collaborating with all stakeholders to reach a sustainable solution in respect of the correct legal housing of the SATS pensioners that will not prejudice any of the various stakeholders. Until such time as a solution is found and a timeline is set for the implementation of this solution, Transnet will continue to record a provision for post-retirement medical benefits on its statements of financial position and consistent with its ongoing care to find responsible solutions in the interest of SATS pensioners, make the necessary contribution to the Fund. However, this contribution should not to be construed as a legal obligation.

Safety, health and environment

Safety was identified as a key operational challenge for Transnet in the previous year and a bold target was set to reduce all safety related incidents and costs by 33%. Pleasingly, the cost of safety related incidents as well as the number of incidents across the Company have reduced during the year. The cost of impairments relating to Freight Rail's rolling stock have decreased by R79 million and the number of derailments have decreased by 207, which has resulted in a positive impact on service delivery.

The disabling injury frequency rate (DIFR) is a measure used by the Group to assess the number of disabling injuries to Transnet employees whilst at work. The Group's rolling DIFR as at 31 March 2010 is 0,72 compared to 1,09 for the same period in the prior year, an improvement of 33,9%.

Although one fatality is one too many, there has been a reduction in the number of employee fatalities reducing from 13 in the prior year to eight in the current year. Overall there is an improvement in safety which is underlined by the 29,3% reduction in the Group's cost of loss for the year. Public fatalities also decreased by 12,2% to 173 for the year. Safety initiatives will be continually enhanced to achieve a further improvement in the Company's safety performance.

The extent of environmental pollution and contamination across Transnet's operations has come to the fore over the last two years and therefore environmental management is, and will continue to be, one of the key focus areas for the Company. The Company aims to be an exemplar company in terms of environmental compliance.

During the year, Transnet continued to elevate environmental compliance concerns by prioritising monthly reporting of environmental risks through the governance structures. Greater emphasis was also placed on fostering mutually beneficial relations with various affected and impacted environmental stakeholders including, amongst others, regulators and communities.

The Company continued to address environmental concerns through proactive identification of key environmental risks and the implementation of risk management systems across the Operating divisions. Furthermore, a number of initiatives to address environmental challenges have commenced and will continue to be refined during the year ahead. These include mitigation measures to address:

- Historic asbestos contamination;
- Potential air and ground water contamination at the manganese terminal in the Port of Port Elizabeth;
- Oil pollution from the Tank Farm in the Port of Port Elizabeth; and
- Potential environmental challenges in the Richards Bay Dry Bulk Terminal.

Transnet's proactive and precautionary approach to handling environmental challenges was further strengthened during the year by undertaking a Company-wide climate change study on the Company's operational impacts on climate change and the possible future impacts of environmental challenges on the Company.

Compliance with legislation

To the best knowledge and belief of the Directors, the Company has, during the year, complied, in all material respects, with all legislation and regulations applicable to it, including without limitation, the Companies Act, the PFMA, the Treasury Regulations and the Income Tax Act except as noted below.

PFMA – Compliance

Transnet has implemented and maintained sound governance structures and processes in compliance with the provisions of the PFMA. PFMA compliance is one of the key business issues that the Company manages and monitors. This monitoring function is achieved through approved PFMA policy guidelines and a materiality framework that has been established at Group-level with the support of the Shareholder Representative and cascaded throughout the Company.

Sections 51 and 55 of the PFMA impose certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; and the collection of all revenue. To comply with the PFMA's obligations, the Board has a materiality framework, which was approved by the Minister of Public Enterprises, subject to certain conditions.

As set out in the Shareholder Compact with the Shareholder Representative, Transnet obtained specific exemptions from section 54 of the PFMA, which pertains to amongst others, to the acquisition and disposal of assets, partnerships, joint ventures, shareholding and cessation of significant business activities. For the disposal and acquisition of assets, Transnet needs to apply for PFMA approval if the value of the asset exceeds 1% of the total assets. In respect of the other defined areas, a materiality level of R100 million has been set.

The Shareholder Representative has determined that the materiality limit for reporting in terms of sections 55(2) (b) (i), (ii) and (iii) of the PFMA is R25 million per transaction.

In terms of this materiality framework, no individual items of fruitless and wasteful expenditure are to be reported for the year.

However, there is an item of alleged irregular expenditure that has to be reported on in terms of the National Treasury Practice Note No. 4 2008/09, as noted below.

Reportable irregularity in terms of the Auditing Profession Act

On 15 February 2010, the Company's external auditors reported an irregularity in terms of section 45(1) of the Auditing Profession Act, 2005 (No. 26 of 2005) to the Independent Regulatory Board for Auditors.

The irregularity related to the conclusion of a locomotive contract amounting to R867 million by the Chief Executive of Freight Rail contrary to the terms and conditions determined by the Board resolution applicable to that contract. This resulted in alleged irregular expenditure, as contemplated in the PFMA, and fruitless and wasteful expenditure in the amount of R18 million. In addition, there are certain outstanding matters that could potentially increase this amount.

The Board is confident that appropriate corrective action has been taken and that the alleged irregularity is no longer taking place. The corrective action taken includes the allocation of engineering work to Rail Engineering as required by the Board resolution and also the institution of a disciplinary process against the Chief Executive of Freight Rail.

In addition, the Board is satisfied that all reasonable steps have been taken to prevent further losses to the Company.

Transnet considers its continued success to be dependent on the consistent enforcement of, and adherence to, principles of the highest standards of corporate governance and corporate ethics. The Company is committed to handling governance breaches in a firm and expeditious manner. It is regrettable that this firm position, especially Transnet's commitment to due process, has attracted considerable undue publicity for the Company.

Proposed amendments to the Articles of Association

The Board has approached the Shareholder Minister with a request to amend Article 69 and 95 of the Company's Articles of Association, to ensure that they are consistent with principles of sound corporate governance and are aligned to King III.

It is proposed that Articles 69 be revised to: *"The Board of Directors shall appoint the Managing Director of the Company who shall be referred to as the Group Chief Executive, the Chief Financial Officer and any other Executive Director, respectively and determine any terms and conditions applicable to such appointments, after consultation with the Shareholder."*

In addition, Articles 95 be amended to: *"Notwithstanding the provisions of Article 94, the Minister shall be entitled to determine the terms and conditions upon which Directors shall rotate and/or retire from office for as long as the State remains the only shareholder in the Company entitled to appoint and/or remove Directors, provided that, the Board of Directors may, after consultation with the Shareholder, remove a Director from the Board in the interest of sound corporate governance."*

Shareholder Compact – performance criteria

Transnet has agreed the key performance indicators (KPIs) for each strategic objective with the Shareholder Representative as well as targets to be achieved for the next financial year and in the medium term. The KPIs and targets are revised annually and incorporated in the Shareholder Compact following approval by the Board, which serves as a framework for the performance monitoring of the Company.

Performance information and other criteria comparing actual 2010 results to the targets, as required by section 55(2)(a) of the PFMA, have been outlined below in terms of the Shareholder Compact. In the current year, the performance information was subject to audit in terms of sections 20(2)(c) and 28(1)(c) of the Public Audit Act. The Company's auditors have reported no adverse findings on the performance against predetermined objectives.

			Group		Freight Rail		Rail Engineering		National Ports Authority		Port Terminals		Pipelines	
Key performance area	Key performance indicator	Unit of measure	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Revenue and volume growth	Volume growth (weighted)	%	≥(5)	(0,6)	≥(5)	(0,2)			≥(8)	(5,2)	≥(3)	1,3	≥(2)	4,0
	Tariff increases [a]	%	≤11	6,5	≤7,5	9,3			Determined by Regulator		≤6,0	1,1	Determined by Regulator	
Financial value creation	EBITDA margin	%	≥33	40,5	≥27	35,5	≥8	8,2	≥70,5	74,7	≥28	31,4	≥77	60
	Return on average total assets (excl CWIP) [b]	Times	≥6	7,7	≥4	8,9	≥9	8,5	≥10	11,6	≥5	9,4	≥25,5	7
	Cash interest cover	Times	≥3,4	4,5										
	Gearing	%	≤44	38,5										
Infrastructure and maintenance	Capital expenditure [c]	% of budget	>90											
	Infrastructure and maintenance expenditure (external)	R million	21 912	18 441 [e]	10 063	9 726	487	376	3 974	3 231	2 743	2 368	4 356	3 067
Operational efficiencies	Loco efficiency (general freight)	GTK per loco per month (million)			≥4,0	4,1								
	Net ton km	GFB			33 590	39 434								
		Coal			39 845	37 812								
		Iron ore			37 380	38 865								
	Wagon turnaround (GFB)	Days			≤13	14,0								
	Loco availability (Weighted)	%					≥88	89,1						
	Wagon availability (Weighted)	%					≥93	94,0						
	Average shipping delays – Tugs [f]	Hours							≤2,1	2,2				
	Average shipping delays – Berthing [f]	Hours							≤2,1	2,15				
	Total shipping delays – Port of Durban [g]	Hours							≤5,7	3,4				
	Moves per crane hour	Number of moves									DCT ≥25	22		
											CTCT ≥25	22		
											Pier 1 ≥25	21		
	Production interruptions – internal and external causes	Hours											≤750	907
Human capital	Training spend – % of personnel costs	%	3	3										
Risk and safety	DIFR [d]	Rate	≤0,87	0,72	≤1,08	0,94	≤1,00	0,81	≤1,00	1,24	≤0,80	0,71	≤1,30	0.54

a. *The tariff increase for Freight Rail and Port Terminals is measured by a weighted average revenue per unit increase (including the impact of commodity mix and tariffs negotiated with industry). The tariff increases for National Ports Authority and Pipelines are regulated and follow different tariff determination methodologies. The Group tariff increase represents the weighted average revenue per unit increase of the core Operating divisions.*

b. *Total average assets (excluding capital work in progress) comprise a combination of revalued assets and depreciated assets as per Transnet's accounting policies.*

c. *Capital expenditure excludes capitalised borrowing costs.*

d. *Average Group DIFR includes Capital Projects (0,55) and Transnet Property (0,25).*

e. *Excluding capitalised borrowing costs, includes capitalised finance leases and capitalised decommissioning liabilities.*

f. *All ports excluding the Port of Durban.*

g. *The manual processes utilised at the Port of Durban to compute the components of shipping delays has prevented the Company from being able to report on the KPIs by individual component, consequently they have been reported in aggregate. As part of the Quantum Leap initiatives the Company will enhance reporting of the individual components of the KPI at the Port of Durban. (Not in original Shareholder Compact).*

Economic regulation and regulatory reform

Economic regulation requires judicious and very careful execution as it impacts on the long-term infrastructure investments of the Company and specifically the Ports and Pipeline businesses. The current policy and economic regulation framework is not designed to facilitate the optimal development of the freight transport network. The operational and infrastructural challenges are significant, requiring a policy and regulatory environment that takes a strategic long-term view of the business and the impacts of its current decisions on future economic growth. It must incentivise large-scale infrastructure investments ahead of demand. Without this holistic view, Transnet's ability to raise affordable capital and to enter into sustainable partnerships with the private sector will be severely constrained, to the detriment of South Africa's economic growth. Establishing greater policy certainty with Government and creating certainty in the economic regulation methodologies of Nersa and the development of an appropriate regulatory methodology to be applied to Transnet National Ports Authority are therefore key areas of focus in the year ahead.

Transnet Pipelines

Petroleum levy

The Minister of Finance announced in his 2010 Budget speech that the Government has approved a petroleum levy (the levy) on consumers of 7,5 cents per litre on both diesel and petrol to help fund the construction of the NMPP. This levy has been approved to fund the additional capacity that was requested by Government to ensure security of supply to the inland market in the long term. The levy will be paid by the Government to Transnet over a three-year period at R1,5 billion per annum commencing in the 2011 financial year.

Tariffs

Pipelines submitted its 2010/11 tariff application requesting a revenue increase of 51,3%, based on Transnet's interpretation of the tariff methodology, which differed in certain respects from Nersa's interpretation of the applicable methodology, due to Transnet's application of sound technical and widely accepted regulatory principles. The requested increase was largely motivated by a consideration for new assets being commissioned in the 2010/11 financial year as well as the differences in approach in determining the equity returns for the business.

On 25 March 2010, Nersa granted Pipelines an 11,86% revenue increase for the 2011 financial year. Transnet is reviewing Nersa's reasons for the decision and assessing their implications on the business as well as the implications for the funding of the investments. The history of Nersa's tariff decisions over the past four years reflects that tariffs have not increased in real terms over the period 2008 to 2011.

The prevailing uncertainty with respect to cash flows and changing parameters negatively impacts on investment decisions and, more importantly, the funding of these infrastructure projects. It is in South Africa's interest that Nersa establishes some regulatory certainty as soon as possible as persistent changes to the applicable tariffs regulatory regime have a detrimental impact on Transnet's ability to find an appropriate funding model for the pipeline and are also impacting negatively on the Company's financial metrics, especially its cash interest cover.

Petroleum pipeline licence

Pipelines has two applications before Nersa for the amendment of its petroleum pipeline licence. The first amendment relates to Transnet Pipelines' petroleum pipeline system operating licence and seek that Transnet be permitted to include the 16-inch pipelines (as currently listed in its construction licence) in the operating licence, as these projects are expected to come into operation during July 2010. The second amendment relates to Pipelines' petroleum pipeline construction licence to accommodate the revised schedule. While the current construction licence specifies the dates of completion and operation of various components of the NMPP (such as the 16-inch Northern Network pipelines, the main 24-inch trunk line, certain terminals and an overall completion date), Transnet has proposed that the overall completion date of all projects under the construction licence be moved from 20 December 2011 to the end of December 2012.

Transnet National Ports Authority

The potential corporatisation of National Ports Authority

The National Ports Act, provides for the corporatisation of National Ports Authority. On 17 June 2008, the Government, through the former President of the Republic of South Africa, informed Transnet in writing that it would not initiate the corporatisation process and that appropriate amendments will be considered. However, appropriate amendments to the Ports Act are still outstanding at a policy level. The potential corporatisation of the National Ports Authority poses significant risks to Transnet, as it could have a material adverse impact on the Company, both financially and strategically, and could trigger default clauses in some of Transnet's funding agreements.

National Environmental Management: Integrated Coastal Management Act of 2008

The DEA prepared a Presidential Proclamation to bring the ICM Act into operation on 1 November 2009. This proclamation had the unintended effect of appropriating to Government all Transnet-owned port property situated below the high water mark, thereby affecting approximately R31 billion in asset value.

Following interventions by Transnet and the DPE, the proclamation notice was amended to exclude certain sections of the ICM Act from coming into effect. The exclusion of these sections removes the risk relating to the appropriation of the sea property and the sea-shore in the ports from Transnet in the short term. The amended proclamation, which commenced on 1 December 2009, is an interim measure, bringing about a staggered implementation of the ICM Act. Negotiations with the DEA are under way to formulate proposed amendments to the ICM Act, which can be presented to Parliament to ensure that Transnet's assets are secure in the long term and that National Ports Authority is able to fulfil its ports authority functions.

Tariffs

The Ports Regulator published directives in terms of section 30(3) of the Ports Act in Government Gazette 32480, No. 826 of 6 August 2009. As some of the directives were not conducive to the fulfilment of the required functions of the National Ports Authority, interactions with the Ports Regulator resulted in an undertaking from the Regulator to withdraw the relevant directives, which was done in January 2010.

The National Ports Authority submitted its tariff application to the Ports Regulator on 4 September 2009. A tariff increase of 4,42% was awarded in January 2010, which is significantly below the increase requested in the tariff application of 19,13% which, after taking into account the projected revenue required for 2012 and 2013, translates into a smoothed increase of 10,62% per annum over the period 2011 to 2013.

The Ports Regulator's Record of Decision, issued on 18 March 2010, leaves National Ports Authority with high levels of uncertainty about the economic regulation methodology to be applied, going forward, which may impact on the extent and nature of Transnet's capital investment programme. In these circumstances a detailed tariff methodology, which provides for reasonable cash flow certainty must be developed as a matter of urgency. Transnet has undertaken to develop a detailed tariff methodology to be approved by the Regulator after public comment.

Port of Ngqura licence

Pursuant to the Ports Act, Transnet is deemed to hold licences required to operate the terminals and facilities in each of its ports, with the exception of the container terminal at the Port of Ngqura. Section 65(5) of the Ports Act states that *"Transnet is, in respect of port services or port facilities provided or operated by Transnet Port Terminals immediately prior to the commencement of this Chapter, deemed to be the holder of a licence for the provision of port services or operating of port facilities, but must apply for such a licence within six months of the date determined by the Shareholding Minister by notice in the Gazette"* (this date has not yet been determined). Because the container terminal at the Port of Ngqura was not yet operational at the commencement of the Ports Act, Port Terminals is not in terms of the Ports Act, deemed to hold a licence to operate the container terminal at the Port of Ngqura.

Transnet built and equipped the Port of Ngqura in accordance with the mandate given to the Company in the Port of Ngqura Establishment Act, 1998 (Act No. 77 of 1998) and whilst doing so, the Ports Act came into effect in 2006. Guided by Senior Counsel, the National Ports Authority, which is deemed to be the Authority in terms of the Ports Act, decided to enter into an interim agreement with Port Terminals, whereby Port Terminals would be authorised to operate the container terminal at the Port of Ngqura on an interim basis. The interim agreement will be in place until another agreement, as contemplated in section 56 of the Ports Act, is entered into. This will follow a competitive bidding process to find an international terminal operator to partner with Port Terminals to operate the container terminal. The interim agreement has been put in place to ensure that Transnet does not breach the provisions of the PFMA by allowing for the assets which significant amounts have been expended on, to lie idle to the detriment of South Africa's port system, the domestic economy and to Transnet.

Freight Rail

The DoT has issued discussion documents on options for rail economic regulation, and is engaging stakeholders, including Transnet, organised labour and business. Given the levels of capital investment being made by Transnet in rail infrastructure and rolling stock, Transnet will continuously engage with the DoT process to establish policy certainty that will facilitate long-term investments and optimal utilisation of the rail network.

Integrated sustainability reporting and the King Report on Corporate Governance for South Africa, 2009 (King III)

Transnet prepares an integrated report on its economic, social and environmental (triple bottom-line) performance annually, in line with King lll which came into effect in March 2010. The Directors are of the view that this integrated annual report contains adequate information on the operations of the Company, the sustainability issues pertinent to its business and its financial results.

The Company initiated a process to align and implement the guidelines of King III. The Corporate Governance and Nominations Committee embarked on various initiatives to ensure that the Company is ready for the commencement of King III. In so far as Transnet is obliged to comply with the PFMA, it would not be in a position to comply fully with certain of the King lll principles. Compliance with the PFMA would, in those instances, offer an explanation for non-compliance with King lll. For further details, refer to the Corporate governance report.

Reputation management

Transnet has recognized that its reputation is an integral part of the Company's intangible asset base. This has become increasingly important in the digital age, where rumour, whisper and innuendo spread without check. As an organisation, Transnet needs to remain constantly vigilant and proactive and resist the temptation to be powerless and non-responsive.

In South Africa, Transnet operates in an environment where the credibility of SOEs is constantly under siege – sometimes deliberate, but other times as a result of the contagion effect occasioned by troubled SOEs. The threat of misperception has become as important an issue as any other risk factor affecting the organisation. During the year, the Company's reputation was subjected to a sustained and malicious campaign conducted in a highly sophisticated manner by various lobby groups. Transnet needed to counter this in a professional and effective manner if the organisation was going to succeed in ensuring that their truth was effectively communicated, thus preserving the Company's reputation.

Accordingly, during the year, the Company formulated a stakeholder engagement plan as part of its strategy to effectively manage its reputation. And this matter, which has been prioritised, is being monitored by the Board's Risk Committee.

Judicial proceedings

The annual financial statements include a best estimate of expected settlement costs for judicial proceedings entered into by Transnet, as either defendant or plaintiff, where the outcome can be assessed with reasonable certainty. These estimates take into account the legal opinions obtained for the Group.

The Company reached an out of court settlement with Umthunzi Telecoms Consortium (Pty) Limited following their initial claim of R2,2 billion which was subsequently revised to R616 million. The settlement amount was a small fraction of the initial amount claimed.

The contingent liabilities of the Group have been disclosed in note 32 to the annual financial statements.

Events after the reporting period date

There have been no events after the reporting period date that would have a material impact on reported results. However, the following should be noted:

Corporatisation of Transnet Pipelines

A request has been made by the Shareholder Minister to consider the corporatisation of Transnet Pipelines as a condition of the security of petroleum supply levy that has been granted to Transnet. In the event of such corporatisation, it is envisaged that Transnet Pipelines will be a wholly owned subsidiary of Transnet Limited.

Strike action

On 10 May 2010 organised labour embarked on a protected strike after rejecting an 11% wage increase and declaring a wage dispute with the Company. The strike ended on 27 May 2010 with the unions accepting the Company's 11% wage offer with a once-off *ex-gratia* payment to all employees. This action has affected operations and service delivery resulting in significant backlog in certain areas of the business. This is expected to take up to two months to clear.

Going concern

The successful execution of the capital expenditure programme is critical to Transnet as it forms the basis of future growth for the Company and the South African economy. Consequently, the successful execution of the borrowing strategy and the ability of the Company to meet its commitments to investors are of paramount importance. The Directors are of the opinion that the business will be a going concern for the foreseeable future. In reaching this opinion, the Directors considered the following factors:

- Transnet has adequate committed credit facilities from its lenders to fund its operations and meet its financial obligations in the normal course of business for the foreseeable future.
- A funding strategy has been developed to ensure that the Group is able to successfully fund its Capital Investment Plan without breaching the set financial parameters.
- Adequate undrawn funding facilities and funds have been raised as part of the Group's pre-funding strategy.
- The operational and financial risks of the Company have been reviewed to determine their impact on the business under various conditions, and mitigating initiatives, strategies and controls are in place as reflected in the business and risk management plans of both the Group and the operating divisions.
- The net worth of the Group has improved by 10,5% compared to the previous year.
- The gearing ratio reflected at 38,5% is below the set target of 50%.
- The cash interest cover of 4,5 times is significantly better than the target of 3,0 times.
- Cash flow forecasts indicate that the Group will be able to meet its obligations.
- There have been no contraventions of the PFMA that would significantly impact the 'going-concern' assumptions.
- After considering the robust working capital management plans, and adjusting for capital investment-related creditors (as these have dedicated funding), the current liquidity position will not impact on Transnet's ability to continue as a going concern.
- Following interventions by Transnet and the DPE, the adverse impact of the ICM Act is now mitigated.
- The pipeline tariff reduction has been mitigated by the introduction of a levy payable to Transnet.
- The impact of the strike action on the going concern ability of the Company is expected to be minimal.
- Given the dynamic management approach to achieve the agreed financial metrics, and to improve profitability based on the operating and financial indicators detailed above, the Directors are confident that the entity will be a going concern for the foreseeable future.

Executive remuneration – guaranteed

The Transnet Strategy required sustained effort and energy of the executive leadership to ensure high performance as well as a sustainable and a profitable long-term growth path. As part of the Quantum Leap Strategy, the Company designed a reward philosophy for Executive management to drive the progressive implementation of the strategy whilst ensuring that key roleplayers are retained in the Company.

The achievements of the past four years signify that the Company is well positioned to maintain stability through turbulent economic times while continuing to deliver on its mandate and the Quantum Leap Strategy.

To confirm the Company's reward approach, Transnet conducted an Executive remuneration benchmarking in the current year with the objective of:

- Ensuring that the remuneration of members of the Group Executive Committee is aligned with the market median;
- Obtaining information on predicted market movements, which in turn informs the mandate request for executive salary adjustments; and
- Ensuring that the Company remains competitive in terms of Executive remuneration and that key individuals are retained.

The benchmarking exercise was based on the national remuneration survey published annually by a highly reputable consulting agency. The survey methodology classified Transnet and its Operating divisions into applicable grid sizes in accordance with the survey guidelines. Annual turnover, annual cost of employment and pre-taxation profit were utilised to determine the comparable grid size. Transnet is a major roleplayer in terms of all the aforementioned criteria and remuneration is therefore compared with similar sizeable companies in South Africa. The Group Executive Committee and Extended Executive Committee positions were matched to survey positions and the remuneration compared to survey medians.

The findings of the survey reflected that the guaranteed pay package of Transnet executives is placed at the market median. It further indicated that the average variable pay component of the combined Group Executive Committee and Extended Executive Committee exceeds the market median. This is as a result of the fact that Transnet adopted an approach where, at the executive level, all members of the Group Executive Committee and Operating division Executive Committee qualify for the same eligibility percentage, irrespective of the actual grading of the position. This approach was predominantly focused on the achievement of the strategy.
The market norm indicates that comparable companies follow a differentiated approach in terms of short-term incentive eligibility percentages, where members of Group Executive teams qualify for a higher eligibility percentage than direct reports.

As a result of this survey, it was proposed that the eligibility percentages of all management category employees be reduced to align the variable pay elements closer to the market. This will be implemented from the 2011 financial year.

Executive salary adjustments

The remuneration of the Executive management was adjusted by an average of 5% with effect from 1 October 2009, thereby effectively providing for a 2,5% average increase for the 12-month period in the 2010 financial year. The adjustment was based on the results of the market benchmark exercise as well as taking into account individual performance ratings. In addition, certain Executives received an approved acting allowance due to the acting roles these Executives occupied during the year.

Executive remuneration – guaranteed

	Salary R thousand	Post-retirement benefit fund contributions R thousand	Other contributions R thousand	Other payments R thousand	Total 2010 R thousand	Total 2009 R thousand
CF Wells **	3 710	394	–	1	4 105	3 981
V Dunjwa	2 230	205	–	1	2 436	2 404
S Gama*	3 520	279	77	184	4 060	3 806
M Gregg-Macdonald#	2 154	228	–	1	2 383	–
VD Kahla	2 989	235	44	1	3 269	3 188
P Maharaj	3 051	237	0	131	3 419	3 206
CA Möller	2 250	216	115	1	2 582	2 469
T Morwe	2 913	228	29	138	3 308	3 092
M Moses	3 035	154	17	1	3 207	3 168
K Phihlela	2 724	211	–	117	3 052	2 863
M Ramos+	–	–	–	–	–	5 328
A Singh **	1 671	157	47	1	1 876	1 720
KXT Socikwa	2 644	280	0	99	3 023	2 852
R Vallihu	2 777	259	47	1	3 084	3 024
LL van Niekerk##	854	–	–	1	855	4 378
	36 522	3 083	376	678	40 659	45 479

** *Group Executives who are members of the Board of Directors.*
* *Mr S Gama was suspended during the year and is awaiting the outcome of a disciplinary hearing.*
# *Appointed during the year.*
+ *Resigned during the previous year.*
Resigned during the year.

In addition to the above guaranteed remuneration, the following Executives received an acting allowance during the year.

Name of Board members	Total 2010 R thousand	Total 2009 R thousand
CF Wells	401	33
M Gregg-Macdonald	90	–
T Morwe	122	–
A Singh	172	14
KXT Socikwa	112	–
	897	47

Executive remuneration – non-guaranteed

Transnet Short-Term Incentive Scheme

The Short-Term Incentive Scheme (STI) was designed with the specific objective to drive the achievement of stretch Company targets. It therefore rewards performance above target.

The following principles apply to the STI:

- Alignment and individual commitment:
  - Alignment with the Quantum Leap Strategy (Strategy centric rather than job centric); and
  - Individual strategic objectives of management employees were derived from and aligned with key performance indicators as stated in the Shareholder Compact.
- Correct measures:
  - Focus on the key value drivers of the Transnet Strategy; and
  - Alignment of measures from the strategy down to individual performance areas.
- Clear consequences and accountability;
  - Promote focus through incentivising strategic performance objectives; and
  - Ensure measurements used accurately relate to the objectives.

Management employees (grade levels A – F)

Management employees qualify for an annual STI payment provided that the strategic objectives, as agreed with the Shareholder Representative, have been achieved. Management employees qualify for different eligibility percentages linked to their specific grade level. These eligibility percentages have been extensively benchmarked and are aligned with market practice. Individual bonus percentages are further modified with individual performance assessment ratings. The eligibility range of percentages linked to individual performance ratings for 2010 are as follows:

		Qualifying percentage	
	Grade	On target	Maximum
Group Executive Committee	A	75%	80%
Extended Executive Committee	B	75%	80%
Senior management	C, D and E	25%	45%
Middle management	F and G	12%	22%

Junior employees

The annual short-term incentive scheme for bargaining unit employees employed at the Operating divisions was revised during 2008 to enhance line of sight between targets and actual performance as well as to ensure internal parity. The principle of gain share has been introduced. This provided that the majority of employees could potentially earn:

- An annual on-target bonus component, aimed at achieving performance targets with an on-target eligibility of 6%; plus
- A quarterly gain-share bonus component, dependent on the achievement of quarterly EBITDA and relevant secondary measure targets. Employees have the opportunity to gain up to a maximum of 16% per annum when super stretch targets are exceeded (120% of EBITDA); and
- This allows bargaining unit employees to earn up to a maximum of 22% of annual pensionable earnings per year.

Generation of bonus pool

The bonus pool was generated through the achievement of set EBITDA targets and determined the amount available to fund payments in terms of the incentive scheme. The pool modifier at Group level was Shareholder Value Analysis (SVA) and at Operating division level, safety was identified as the primary modifier to impact on the bonus pools of the respective Operating divisions. Apart from the generic modifiers, package category employees were also assessed in terms of their individual performance ratings which also influenced their individual bonus amounts.

Transnet Long-Term Incentive Scheme

The objective of the Long-Term Incentive Scheme (LTI) is primarily to sustain the achievement of the Quantum Leap Strategy, to retain key talent who ensure the continued implementation and success of the Quantum Leap Strategy as well as to encourage stretch performance and reward performance above target.

The principles underpinning the Long-Term Incentive Scheme and which were applied during the financial year 2010 can be summarised as follows:

- The LTI was designed on a three-year rolling basis to ensure sustained business performance and retention;
- The amount paid as a STI during the year is generally matched on a rand for rand basis as an LTI payable on the third anniversary of the STI payment. The actual matching is determined annually by the Group Remuneration Committee to ensure adherence to affordability guidelines whilst recognising retention and reward factors; and
- The talent management framework informs key talent who qualify for participation in the LTI.

The LTI Scheme applies to the Group Executive Committee, Extended Executive Committee and key employees on the levels below Extended Executive Committee. Certain employees not eligible for participation are specifically excluded as a result of the talent management process and the plotted position on the nine-box talent matrix.

Incentive payments

The table below reflects the short-term and long-term performance bonus payments for the Transnet executives.

Payments in terms of the STI scheme are higher than the previous financial year due to the financial performance of Transnet. For the 2009 financial year, the Company achieved an actual 96,4% of EBITDA against the planned target. The financial results for the 2010 financial year are substantially better with an achievement of 120,6% actual EBITDA against the planned target for the year.

Payments in terms of the LTI scheme has for the first time occurred in the 2010 financial year after the scheme was approved by the Remuneration Committee and implemented for the financial year ended 31 March 2007 based on financial performance of the Company in that year.

	LTI 2010 R thousand	STI 2010 R thousand	STI 2009 R thousand
CF Wells **	2 809	3 366	2 885
V Dunjwa	903	1 899	1 619
S Gama*	–	–	2 380
M Gregg-Macdonald#	1 066	1 950	–
VD Kahla	2 099	2 676	2 151
P Maharaj	2 153	2 692	1 971
CA Möller	1 387	2 152	1 551
T Morwe	1 918	2 556	1 438
M Moses	1 689	2 604	2 180
K Phihlela	1 755	2 301	1 779
M Ramos †[1]	1 873	–	–
A Singh **	1 115	1 612	1 188
KXT Socikwa	1 402	2 394	1 924
R Vallihu	1 969	2 524	2 119
LL van Niekerk##[1]	9 347	–	2 796
	31 485	28 726	25 981

** *Group Executives who are members of the Board of Directors.*
* *Mr S Gama was suspended during the year and is awaiting the outcome of a disciplinary hearing.*
# *Appointed during the year.*
† *Resigned during the previous year.*
1 *The payments in terms of the LTI for Ms Ramos and Mr van Niekerk are related to conditional grants that were due to them in terms of specific conditions in their employment contracts. It became due and payable in the 2010 financial year after the finalisation and audit of the 2009 financial results.*
Resigned during the year.

Non-executive Directors remuneration

Non-executive Directors are appointed by the Shareholder Representative for a three-year term. The Articles of Association of the Company, however, require that the non-executive Directors be submitted for re-election for each of the three years at the Company's annual general meeting. Among the issues considered by the Shareholder Representative prior to re-election is the individual non-executive Director's performance.

The Shareholder Representative approves, in advance, the fees payable to non-executive Directors. Fees paid to non-executive Directors vary based on their appointments to the various committees of the Board.

Name of Board members	Salary R thousand	Other payments R thousand	Total 2010 R thousand	Total 2009 R thousand
FTM Phaswana (Chairman)*	380	1	381	1 049
I Abedian*	230	–	230	614
GK Everingham (Acting Chairman)††	921	1	922	759
NBP Gcaba	494	–	494	569
MJ Hankinson	425	–	425	263
ND Haste OBE	450	–	450	450
PG Joubert	600	–	600	638
NNA Matyumza	500	–	500	484
MP Moyo	375	–	375	263
S Nicolaou+	–	–	–	125
BT Ngcuka*	206	–	206	377
NR Ntshingila	375	–	375	394
KC Ramon***	468	–	468	379
	5 424	2	5 426	6 364

* *Retired during the year.*
†† *Appointed as acting Chairman during the year.*
+ *Resigned during the previous year.*
*** *Directors fees paid to Sasol Limited.*

Registration details

GRI 2.4

The registration number of the Company is 1990/000900/06. The registered name and address of the Company are as follows:

Transnet Limited
47th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
2001

Company Secretary

Transnet Limited's Group Company Secretary is Ms ANC Ceba. Ms Ceba's business address is at:
47th Floor
Carlton Centre
150 Commissioner Street
Johannesburg
2001

Auditors

At the annual general meeting, held on 11 August 2009, Deloitte & Touche was reappointed as the Company's external audit firm. A portion of the external audit work has been subcontracted to Sizwe Ntsaluba VSP, a black-owned firm of auditors. Deloitte & Touche has its business address at:

Deloitte Place
The Woodlands
20 Woodlands Drive
Woodmead
Johannesburg.

The Group's internal audit function is outsourced to Ernst & Young. Ernst & Young has its business address at:
Wanderers Office Park
52 Corlett Drive
Illovo
Johannesburg

Transnet is a company domiciled in South Africa.

The consolidated financial statements for the year ended 31 March 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations of those standards issued by the International Financial Reporting Interpretations Committee (IFRIC) and applicable legislation.

Critical judgements and estimates made in applying the accounting policies

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of equity, assets and liabilities, revenue and expenses.

The estimates and underlying assumptions are based on historical experience, independent experts' advice and inputs and various other factors that are considered to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS, that have a significant effect on the financial statements, as well as estimates, are discussed below:

Revaluations of property, plant and equipment

Port operating assets (Port Terminals), pipeline networks (Pipelines), and port infrastructure assets (National Ports Authority) are carried at revalued amounts. Formal revaluations are performed every three years by independent experts for these asset classes.

Appropriate indices, as determined by the independent experts, continue to be applied in the intervening periods to ensure that the assets are carried at fair value at the reporting date. Judgement is applied in the selection of such indices.

Fair value as determined by the independent experts is derived by applying internationally acceptable and appropriately benchmarked valuation techniques such as depreciated optimised replacement cost or modern equivalent asset valuation methods which are dependent on the asset class being revalued.

The useful life of each asset group has been determined by independent experts based on the build quality, maintenance history, operational regime and international benchmarks relative to the assets.

IAS 16: Property, Plant and Equipment requires that the carrying value of property, plant and equipment should not exceed its recoverable amount based on future cash flows. Consequently port infrastructure assets were tested against a discounted cash flow model to ensure that the carrying value of assets is recoverable. After extensive consultation with subject matter experts, both internal and external various assumptions were made in order to derive the net present value of future cash flows. The more critical assumptions made were:

- Future cash flows were based on the five-year approved budgets and operational plans;
- The rate used to discount cash flows for the purposes of determining value in use was the post-taxation weighted average cost of capital (WACC) as this would ensure that the appropriate risk profile of the operating division was incorporated into the asset valuation.
- The WACC rates used was 11,86%.
- Identification of specific projects as sustaining capital expenditure as well as sustaining future capital expenditure of 7% of revenue into perpetuity; and
- A terminal growth rate that is based on the theoretical capacity of the underlying asset.

Investment properties

In terms of IAS 40, judgement is required to determine whether a property qualifies as investment property. The primary judgement consideration applied by Transnet is the original intention with which the asset was acquired as well as the current and intended use.

The intention in relation to back of port properties, is for the Group to hold these properties strategically for future development. Until the future strategic purpose of this property is not formalised through the relevant governance structures, it shall be held for capital appreciation.

Transnet has areas where multiple buildings are on an erf or multiple erf's, but defined as one area called a "precinct". Certain buildings may be owner occupied and others rented to third parties or vacant. For classification purposes a "precinct", station or intermodal hub is assessed in its entirety and is classified as investment property.

For valuation purposes the external rentals within the "precinct", station or intermodal hub and for back of port properties, is used as a basis to determine the fair value of these properties.

Properties which were acquired and used for administrative purposes but are vacant or occupied by an external tenant with a long-term lease in excess of five years is classified as investment property, even though there are plans to dispose of these assets. If the lease term is less than five years then the asset will not be classified as investment property. If the property meets the derecognition criteria due to pending disposal and the requirements of IFRS 5 are met then it will be classified as non-current assets held for sale.

Decommissioning liabilities

Provision for the dismantling and removal of an asset as a result of the requirement to restore the site on which the asset is located. The provision has been computed by discounting future cash flows.

Environmental liabilities

The estimation of future costs of environmental obligations relating to rehabilitation and decommissioning is particularly complex and requires management to make estimates, assumptions and judgements relating to the future. These estimates are dependent on a number of factors including assumptions around environmental legislation, extent of contamination and discount rates.

Environmental provisions for the remediation of soil contaminated areas have been raised. These include provisions for the removal of asbestos, ferromanganese, manganese, mixed soil (including chrome, sulphur and manganese) fuel and rubble. These obligations arise from environmental legislation requiring Transnet to remove this waste material and remediate the land. Transnet engaged external consultants to perform risk assessments on identified areas of contamination and the Group's related rehabilitation obligation. A number of factors were considered in determining the obligation, which included:

- The extent of the contamination;
- The cost per ton/running line kilometre of removal and disposal of the contamination;
- The cost of rehabilitation of the identified areas of contamination; and
- Costs for the removal and replacement of asbestos roof sheeting and cladding on buildings.

Post-retirement benefit obligations

Refer to note 23 and 32 for the assumptions and judgements applied.

Residual values and useful lives

Useful lives are reviewed at the end of each financial year. The following factors were considered when assessing an asset's useful life:

- Current maintenance programmes;
- Expected usage of the asset;
- Expected physical wear and tear of the asset; and
- Technical obsolescence.

Residual values are reviewed at the end of each financial year. The following factors were considered when assessing an asset's residual value:

- Expected future market conditions;
- Projected disposal values;
- Expected physical condition of the asset at the end of its useful life; and
- The extent of current profits or losses on the disposal of similar assets.

Impairments – Cash-generating units

IAS 36 requires that an enterprise should assess at each reporting date whether or not there is any indication that an asset may be impaired. If there are any such indicators, the entity is required to assess whether an impairment is required.

In order to ensure compliance with the requirements of the standard, Transnet conducted an assessment of potential indicators of impairment, with reference to those contained in IAS 36, for all Operating divisions (as single cash-generating units). After careful consideration it was concluded that no indicators are prevalent for Transnet and its Operating divisions (as single cash-generating units).

In addition to the list of indicators provided in IAS 36, the Company assessed additional issues and factors that could result in the performance of an impairment test as envisaged by IAS 36 (Discounted cash flow) for the year ended 31 March 2010. These additional issues and factors are as follows:

- The economic environment and review of the key commodity markets;
- Overall growth and Quantum Leap Strategy;
- Analysis of key volumes and revenue forecasts;
- Capital investment plan for 2011; and
- Key financial indicators including profitability, gearing and return on assets.

The economic downturn experienced during 2009, appears to have abated, with the worse seemingly over resulting in the global economic outlook continually improving. All indicators are that the 2010 year will be positive, exceeding the budgeted volumes and revenue forecasts.

Accordingly Transnet has concluded that no indicators of impairment currently exist for Transnet or its Operating divisions (as single cash-generating units).

Inventory provisions

The provision for stock obsolescence is based on a physical count and inspection of stock items which is performed at least annually and takes into account the age, condition and usage rates of the stock.

Fair values and financial instruments

Basis for determining fair values

Bonds

Bonds are fair valued by applying Johannesburg Securities Exchange (JSE) or Bond Exchange South Africa (BESA) closing rates with the SA Bond formula. This is in respect of bonds held-for-trading, and for bonds designated as held at fair value.

Other non-derivative assets and liabilities

The fair values of other non-derivative financial assets and liabilities are calculated by determining the net present value of all future cash flows, discounted at prevailing market curves of the different currencies at reporting date.

Derivatives

The fair values of derivative financial assets and liabilities are calculated by determining the net present value of all future cash flows, discounted at prevailing market curves of the different currencies at reporting date. Only observable market data is used (no estimates) when constructing the curves and basis swap adjustments are added to provide for liquidity in the market. Black-Scholes principles are used for valuing options.

Other financial instruments

The carrying amounts of financial assets and liabilities with a maturity of less than six months are assumed to approximate their fair value.

Legal claims

Judgement is based on legal opinion as to whether the claim is possible and/or probable.

Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group ("financial statements") are presented in South African rand, rounded to the nearest million. The financial statements are prepared on the historical cost basis, except for the following assets and liabilities that are stated at fair value: unlisted investments, derivative financial instruments, financial instruments held at fair value through profit or loss, financial instruments classified as available-for-sale and investment properties. Certain classes of property, plant and equipment are carried at revalued amounts. Non-current assets classified as held-for-sale and disposal groups are stated at the lower of carrying value and fair value less costs to sell.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Change in accounting policy

New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRS and IFRIC's in the current financial year:

- IFRS 7 (amendment) *Financial Instruments – Disclosures* – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on the Group's results.
- IAS 1 (revised) *Presentation of Financial Statements* – effective 1 January 2009. The revised standard introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. In addition, the revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents all owner changes in equity in the consolidated statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been represented in conformity with the revised standard. As the change in accounting policy only impacts presentation, there is no impact on the Group's results.
- Further, three interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 15: *Agreement for the Construction of Real Estate*, IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* and IFRIC 18 *Transfer of Assets from Customers*. The adoption of the above interpretations resulted in no impact on the Group's results.

Basis of consolidation

Subsidiaries

Subsidiaries (including special purpose entities, such as trusts) are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Typically, this will be where the Group has more than 50% of the voting power. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The consolidated financial statements include the results of the Company and its subsidiaries, from the effective dates of acquisition to the effective dates of disposal.

The acquisition method of accounting in terms of IFRS 3 Business Combinations is applied to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured, initially, at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Non-current assets acquired in a business combination that are classified as held-for-sale are measured in accordance with IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations* at the lower of carrying value and fair value less costs to sell. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement. The interest of the non-controlling shareholders is stated at their proportion of the fair value of the assets, liabilities and contingent liabilities recognised.

On subsequent disposal of a subsidiary, the profit or loss on disposal is the difference between the selling price and the lower of the fair value less costs to sell and carrying value of the net assets and liabilities disposed of. On disposal, the amount attributed to goodwill is included in the determination of the profit or loss on disposal.

Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that it is controlled by the Group.

Inter-company transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

Associates (equity accounted investees)

Associates are entities over which the Group exercises significant influence, but not control or joint control of the financial and operating policies of the entity. Significant influence is presumed in instances where the Group has an equity stake greater than 20% but less than 50% in an entity.

Investments in associates are equity accounted in the consolidated financial statements for the period in which the Group exercises significant influence, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations*.

Equity accounted income represents the Group's proportionate share of the post-acquisition profits of these entities and the share of taxation thereon. Losses incurred by associates (including any impairment losses) are recognised in the consolidated financial statements until the investment in such associates is written down to a nominal value. Thereafter, losses are accounted for only insofar as the Group is committed to providing financial support to such associates. The carrying amount of such investments is reduced to recognise any decline in the value of the investment.

Long-term loans to associates, which in fact are part of the long-term investment, are treated as a part of the investment in the associates.

The excess of cost of the acquisition over the fair value of the associate's net assets is recognised as goodwill and is included in the carrying value of the investment. The goodwill is assessed for impairment as part of the investment in associate where indications of impairment exist. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised immediately in profit or loss.

The Group's interest in an associate is carried on the statement of financial position at an amount that reflects the cost (including goodwill) of the investment, plus post-acquisition reserves less any accumulated impairment losses.

Where the Group transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

Investments in subsidiaries in the Company financial statements are carried at cost less accumulated depreciation.

Joint ventures (equity accounted investees)

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture agreements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interest in jointly controlled entities using the equity method except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations*.

Equity accounted income represents the Group's proportionate share of the post-acquisition profits of these entities and the share of taxation thereon, net of the Group's proportionate share of inter-group profits. Losses incurred by joint ventures (including any impairment losses) are recognised in the consolidated financial statements until the investment in such joint ventures is written down to a nominal value. Thereafter, losses are accounted for only insofar as the Group is committed to providing financial support to such joint ventures. The carrying amount of such investments is reduced to recognise any decline in the value of the investment.

The excess of cost of the acquisition over the fair value of the joint venture's net assets is recognised as goodwill and is included in the carrying value of the investment. The goodwill is assessed for impairment as part of the investment in joint venture where indications of impairment exist. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised immediately in profit or loss.

Where the Group transacts with a joint venture of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

Foreign currency

Functional and presentation currencies

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are prepared in South African rand, which is the Company and Group's functional and presentation currency.

Foreign currency transactions

Transactions in currencies other than the Group's functional currency are defined as foreign currency transactions. Transactions in foreign currencies are translated into the functional currency at exchange rates ruling on transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the reporting date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the exchange rates ruling at the original transaction date. Non-monetary assets and liabilities that are carried at fair value denominated in the foreign currency are translated into the functional currency at the exchange rate ruling when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below under "Derivative instruments and hedge accounting"); and
- exchange differences on monetary items receivable from or payable to a foreign operating entity for which settlement is neither planned nor likely to occur, which form part of the net investment in the foreign operation and are initially recognised in the foreign currency translation reserve and subsequently recognised in profit or loss on disposal of the net investment.

Financial statements of foreign entities

The financial statements of foreign entities are translated into South African rand as follows:

- Assets and liabilities, at rates of foreign exchange ruling at the reporting date.
- Income and expenses at rates approximating the foreign exchange rates ruling at the dates of the transactions or appropriate average rates.
- Equity at historical rates.

Goodwill and fair value adjustments arising on acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of foreign exchange ruling at the reporting date.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of related hedges where hedge accounting is applied are recognised in other comprehensive income and presented as a separate component of equity.

On disposal, such translation differences are reclassified through other comprehensive income into profit or loss as part of the gain or loss on disposal.

Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating inter-group transactions.

Where extended payment terms are granted by the Group, whether explicitly or implicitly, the effect of the time value of money is taken into account in the measurement of revenue irrespective of other factors such as the cash selling prices of the goods.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specific circumstances of each arrangement.

Transportation and other related services

Revenue from transportation and other related services is recognised in profit or loss by reference to the stage of completion of transactions at the reporting date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

Rental income

Revenue arising from the rental of property is recognised in profit or loss on a straight-line basis over the term of the lease in accordance with the substance of the relevant agreements. Lease incentives granted are recognised as an integral part of the total rental income.

Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable in the period in which they are incurred. An expected loss on a contract is recognised immediately in profit or loss.

Dividend income

Dividend income is recognised in profit or loss on the date the Group's right to receive payments is established, which in the case of quoted securities is usually the ex dividend date.

Finance income

Finance income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all suspensive conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset on a straight-line basis.

Transactions giving rise to adjustments to revenue/purchases

The Group accounts for cash discounts and rebates received (given) as follows:

- In the case of the Group as a seller, cash discounts and rebates given are estimated upfront and deducted from the amount of revenue recognised; and
- In the case of the Group as a purchaser, cash discounts and rebates received are estimated upfront and deducted from the cost of inventories purchased.

Property, plant and equipment

Property, plant and equipment is stated at cost, or revalued amount, less accumulated depreciation where appropriate and any accumulated impairment losses.

Recognition and measurement

Port operating assets, pipeline networks and port infrastructure assets are carried at revalued amounts. Revaluations are carried out every three years and appropriate indices are applied in the intervening periods to ensure that the assets are carried at fair value at the reporting date. Revaluation surpluses that arise are recognised in other comprehensive income are accumulated in revaluation reserves in equity, except to the extent that they reverse a revaluation decrease for the same asset previously recognised as an expense, in which case the surplus is credited to profit or loss to the extent of the decrease previously recognised. A decrease in the carrying amount arising on the revaluation of an asset is recognised as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus included in the revaluation reserve is transferred to retained earnings.

Cost includes expenditure that is directly attributable to the acquisition of the asset, borrowing costs capitalised to qualifying assets (see borrowing costs) and adjustments in respect of hedge accounting, where applicable.

Assets under construction, including capital work in progress, are stated at cost less any accumulated impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, qualifying borrowing costs, any adjustments in respect of hedge accounting and an appropriate proportion of production overheads.

Where components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and depreciated separately over their respective useful lives.

Spare parts, stand-by and servicing equipment held by the Group are classified as property, plant and equipment if they are expected to be used for more than one period. If not, they are classified as inventory. Spare parts and servicing equipment that can be used only in connection with a specific item of property, plant or equipment are also accounted for as property, plant and equipment.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred and it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as expenses when incurred.

Costs of major repairs and overhauls of those units are capitalised as separate components.

Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Land and assets in the course of construction are not depreciated. All other property, plant and equipment, including capitalised leased assets, are depreciated on a straight-line basis over their estimated useful lives or the term of the lease, if shorter. Major repairs and overhauls are depreciated over the remaining useful life of the related asset or to the date of the next major repair or overhaul, whichever is shorter. Depreciation commences when the asset is available for its intended use by management. Assets are depreciated over the following periods:

Asset class	Years
Buildings and structures	10 – 50
Buildings and structures components	5 – 25
Permanent way and works	3 – 95
Aircraft including components	8 – 15
Pipelines including network components	6 – 60
Port infrastructure	12 – 100
Floating craft including components	10 – 40
Port operating equipment including components	3 – 40
Rolling stock	30 – 60
– Rolling stock components	25 – 60
Containers	10 – 20
Vehicles	3 – 15
Machinery, equipment and furniture	3 – 50

The useful lives, depreciation methods and the residual values of assets are reviewed and adjusted annually, if appropriate. Changes resulting from this review are accounted for prospectively as changes in estimates.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds (if any) and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to either earn rentals and/or for capital appreciation (including properties under construction for such purposes) and are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains and losses arising from changes in the fair value of investment properties are recognised in profit or loss in the period in which they arise. Rental income from investment properties is accounted for as described under “Revenue” in note 2 to the annual financial statements.

Where an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is treated in the same way as a revaluation under IAS 16 *Property, Plant and Equipment* and is recognised in other comprehensive income if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising from the transfer is recognised immediately in profit or loss unless it is a reversal of a previous revaluation surplus in which case the loss is recognised in other comprehensive income and reduces the existing revaluation surplus.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of the reclassification becomes its deemed cost for subsequent accounting purposes.

Intangible assets and goodwill

Software and licences

Software and licences are recognised and measured at cost less accumulated amortisation and any impairment losses.

Costs associated with researching or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable software products controlled by the Group that will probably generate economic benefits beyond one year and for which the costs can be measured reliably, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Costs relating to the acquisition of licences are capitalised and amortised on a straight-line basis when available for use in the manner intended by management.

Research and development

Research costs, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognised in profit or loss in the period in which they are incurred. Development costs, arising from the application of the research findings to a plan or design for the production of new or substantially improved products and processes are recognised as an asset if, and only if the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and use it or sell it;
- Its ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate portion of overheads.

Capitalised development costs are stated at cost less accumulated amortisation and any accumulated impairment losses. Development assets that have finite useful lives are amortised on a straight-line basis over their useful lives. Development assets with indefinite useful lives are not amortised, but are tested for impairment at each reporting date.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation and impairment

Intangible assets with an indefinite useful life and intangible assets not yet available for use are not amortised but are tested for impairment at each reporting date.

Intangible assets with a finite useful life are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The estimated useful lives for the current and comparative periods are as follows:

Software – 5 years
Licences – term of the licence

Goodwill

Goodwill represents the excess of the cost of the acquisition of interests in subsidiaries, joint ventures and associates over the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is tested annually for impairment as well as when there is an indication of impairment. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combination for the purposes of impairment testing (refer "Impairment of non-financial assets"). Any impairment losses recognised are not subsequently reversed.

Goodwill arising on acquisition of interests in joint ventures and associates is included within the carrying amount of the investment and is not tested separately for impairment on an annual basis. Goodwill arising on the acquisition of subsidiaries is presented separately on the statement of financial position.

Gains and losses on the disposal of an entity include the carrying amount of goodwill attributable to the entity sold.

Negative goodwill

Negative goodwill represents the excess of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition of the Group's interests in subsidiaries, associates or jointly controlled entities.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss, provided that the negative goodwill is supported by the reassessment of the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the business combination.

Impairment of non-financial assets

The carrying amounts of the Group's tangible and intangible assets, other than investment property, non-current assets held-for-sale, inventories and deferred taxation assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then to reduce the carrying amount of the other assets in the cash-generating unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value-in-use. Fair value less costs to sell is determined by ascertaining the current market value of the asset and deducting any costs relating to the realisation of the asset. In assessing the value-in-use, the expected future cash flows from the asset are discounted to their net present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (and the business unit to which that asset belongs) for which the future cash flows have not been adjusted. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of goodwill, whether recognised at an interim reporting date or at year-end, is not reversed in subsequent periods.

In respect of other assets, a previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates previously used to determine the recoverable amount, to an amount not higher than the carrying amount that would have resulted, net of depreciation or amortisation had no impairment loss been recognised. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset, until such time that the asset is substantially ready for its intended use. The Group identifies a qualifying asset as one that necessarily takes six months or more to get ready for its intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the Group capitalises the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of these borrowings.

To the extent that a qualifying asset is funded via general borrowings, the Group determines borrowing costs eligible for capitalisation by applying the weighted average cost of borrowings for the period to the expenditures on that asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, amortisation of discounts on bonds and foreign exchange gains and losses, less amounts capitalised to qualifying assets.

Taxation

Income taxation on the profit or loss for the period comprises current and deferred taxation. Income taxation is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current taxation

The charge for current taxation is the amount of income taxes payable in respect of the taxable profit for the current period and any adjustment to taxation payable in respect of previous years. It is calculated using taxation rates that have been enacted or substantively enacted at the reporting date.

Deferred taxation

Deferred taxation is provided using the statement of financial position liability method on all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation bases. The following temporary differences are not provided for:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities (other than in a business combination), which affect neither accounting nor taxable profit or loss; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred taxation provided is based on the carrying amount of assets and liabilities and is calculated using the taxation rates that have been enacted or substantively enacted at the reporting date and expected to apply when the assets are realised or liabilities settled. Deferred taxation is charged or credited in the income statement, except where it relates to items charged or credited to other comprehensive income or recognised directly in equity.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available to be utilised against the associated unused taxation losses and deductible temporary differences. Deferred taxation assets are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Deferred taxation liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and joint ventures, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that it will not reverse in the foreseeable future.

Deferred taxation assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group has the legal right to and intends to settle its current taxation assets and liabilities on a net basis.

In terms of the measurement criteria set out in IAS 12 *Income Taxes*, the Group has assessed its intention at the reporting date on recovering an asset or liability to the extent that this intention influences the rate of taxation to be applied in calculating deferred taxation. In this regard, the Group has recognised deferred taxation as follows:

Land

As land is deemed to be realised through sale, there is no deferred tax effect on the difference between the tax base and the original cost of the land. Deferred taxation is calculated on the difference between the carrying amount and the capital gains taxation (CGT) base cost at the CGT rate.

Asset in respect of which no taxation allowances are granted

No deferred taxation is raised in the case where neither the accounting nor the taxation profit is affected. Where the asset is revalued, deferred taxation affects are calculated based on the intention of the division. Where the intention is to sell the asset, deferred taxation is raised at the CGT rate on the difference between the CGT base cost and the revalued carrying amount. Where the intention is to use the asset, deferred taxation is raised at the usage rate on the difference between the taxation base and the revalued carrying amount.

Asset (other than land) carried at cost

Where an asset is carried under the cost model and a taxation allowance is available to be claimed against the asset, deferred taxation is calculated on the difference between the carrying amount and the taxation base at the statutory income taxation rate.

Asset (other than land) carried at the revalued amount with the intention to use

Assets carried at revalued amounts with the intention to use, are taxed in accordance with their intention. As the future benefits expected to flow from the use of the assets, deferred taxation is calculated at the statutory income taxation rate on the difference between the taxation base and the revalued carrying amount.

Asset (other than land) carried at the revalued amount with the intention to sell

Where the intention is to recover the benefits of the asset through sale, deferred taxation is calculated at usage rate on the difference between the taxation base and the original cost, and at the CGT rate on the difference between the CGT base cost and the revalued carrying amount.

Asset (other than land) carried at the revalued amount with the intention to use and sell

Where the intention is to recover the benefits of the asset through both use and sale, deferred taxation is calculated to reflect this intention. Deferred taxation is calculated at the usage rate on the difference between the taxation base and the original cost, at the CGT rate on the difference between the CGT base cost and the future selling price (residual value), and at the usage rate on the difference between the future selling price and revalued carrying amount.

Secondary taxation on companies (STC)

STC is provided in respect of the expected dividend payments net of STC credits and is recognised as a taxation charge in the year in which the dividend is declared. STC credits on dividends received are recognised as deferred taxation assets in the period that they arise limited to the reserves available for distribution. The STC asset is only recognised to the extent that it is likely that it will be settled through the payment of dividends.

Financial instruments

Recognition

Financial assets and financial liabilities are recognised on the statement of financial position when the Group has become party to the contractual provisions of the instruments. The Group applies trade date accounting for "regular way" purchases and sales of financial assets and settlement date accounting is applied to the Group's bonds.

Classification

The Group classifies its financial assets in the following categories: *at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity*. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets specifically designated into this category on initial recognition. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term, is part of a portfolio of identical financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking or is a derivative (unless it is designated as a hedging instrument in an effective hedge or is a financial guarantee contract).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those designated on initial recognition as "at fair value through profit or loss" or as "available for sale". Loans and receivables are included in current assets, except for maturities greater than 12-months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the statements of financial position.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12-months of the end of the reporting period.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group has the positive intention and ability to hold to maturity, other than assets that are included in the other categories above.

Measurement

Financial instruments are initially recognised at fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on the basis of the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or when the financial instrument is derecognised.

Subsequent to initial recognition these instruments are measured as set out below:

Investments; including subsidiaries, jointly controlled entities and associates

After initial recognition, investments in the Group's market-making portfolios in both bonds and money market instruments, which are classified as held-for-trading, as well as those classified as available-for-sale, are measured at fair value. Fair value is the market value for listed investments or either the market value of a substantially similar investment or the present value of expected future cash flows of the net asset base for unlisted investments. Gains or losses on investments held-for-trading are recognised in profit or loss.

In the Company's financial statements, investments in unlisted subsidiaries, jointly controlled entities and associates are carried at cost less a provision for impairment where appropriate.

Other long-term investments that the Group is able to and intends to hold to maturity are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity.

Derivative instruments and hedge accounting

The Group uses derivative financial instruments, which include futures, forward exchange and currency option contracts, cross-currency and interest rate swaps and interest rate options to hedge its exposures arising from operational, financing and investment activities.

In accordance with its Financial Risk Management policy, the Group does not speculate in the trading of derivative financial instruments.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value through profit or loss. The Group assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the Group first becomes a party to the contract. Subsequent reassessment is only performed by the Group if there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

Subsequent to initial recognition, derivative financial instruments are measured at fair value. The fair value changes are recognised directly in the income statement (unless the derivative is designated as a hedging instrument in a cash flow hedge, refer below). The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of the forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price.

The Group applies fair value and cash flow hedge accounting to qualifying hedge relationships in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* by designating certain derivatives as hedges of the variability in the fair value of recognised assets, liabilities or firm commitments (fair value hedges) or hedges of the variability in cash flows attributable to particular risks associated with recognised assets, liabilities or highly probable forecast transactions (cash flow hedges). At the inception of the hedge relationship, the relationship between the hedging instrument and the hedged item is documented, along with the risk management objectives and strategy for undertaking the various hedge transactions. Also at the inception of the hedge relationship and on an ongoing basis, the Group assesses whether the hedging instrument is highly effective in offsetting changes in fair value or cash flows of the hedged item.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset, liability or firm commitment that are attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and included in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

The amounts previously included in equity are reclassified through other comprehensive income to profit or loss in the periods in which the hedged item affects profit or loss and are included in the same line as the hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial cost or other carrying amount of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Details on hedged accounting are disclosed in note 14.

Long-term loans and advances

Long-term loans and advances are measured at amortised cost, using the effective interest rate method, less any impairment recognised. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Trade and other receivables

Trade and other receivables, which generally have 30 to 90-day terms, are recognised and carried at amortised cost using the effective interest method. Allowances for irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired. The allowance is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The allowance accounts in respect of trade and loan receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount is possible. At that point, the amount is considered irrecoverable and is written off against the financial asset directly.

The Group renegotiates terms for financial assets that would otherwise be past due or impaired in instances where the debtor provides evidence of the ability to meet the obligations in terms of the renegotiated terms. The impact of the renegotiated terms is recognised by an adjustment to the allowance for impairment for these financial assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, and instruments which are readily convertible, within 90 days, to known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are measured at amortised cost.

For the purposes of the consolidated cash flow statements, cash and cash equivalents include bank overdrafts.

Financial liabilities

After initial recognition, financial liabilities other than financial liabilities at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Financial liabilities at fair value through profit or loss are measured at fair value and the resultant gains and losses are included in profit or loss. Buybacks on bonds are performed on a first-in first-out (FIFO) basis.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value plus related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit and loss over the period of the borrowings on an effective interest basis.

Financial liabilities designated as at fair value through profit or loss

The financial liabilities designated as at fair value through profit or loss represent a percentage of the Group's bonds that otherwise would have been classified as financial liabilities measured at amortised cost.

The Group makes a market in its bonds to ensure that the bonds remain attractive to investors. Positions in Group's bonds are hedged with opposite positions in Government or corporate bonds. These bonds are managed and their performance evaluated on a fair value basis in accordance with the Group's risk management strategy.

Trade payables and accruals

Liabilities for trade and other amounts payable which are settled within normal terms are stated at amortised cost.

Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of the asset is determined and an impairment loss is recognised for the difference between the recoverable amount and the carrying amount as follows:

- For financial assets held at either cost or amortised cost – the carrying amount of the asset is reduced to its discounted estimated recoverable amount (present value of estimated future cash flows, discounted at the original effective interest rate), and the resulting loss is recognised in profit and loss for the period. Receivables with a short duration are not discounted. Assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.
- For available-for-sale financial assets – where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that was previously recognised other comprehensive income is removed from equity and reclassified through other comprehensive income in profit or loss for the period even though the financial asset has not been derecognised.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed through profit or loss if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. The impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss has been recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. An impairment loss in respect of a debt instrument classified as available-for-sale is reversed through profit and loss if its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was originally recognised in profit or loss.

An impairment loss in respect of an unquoted equity instrument that is not carried at fair value because its fair value can not be measured reliably, whether recognised at an interim reporting date or at year-end, is not reversed in subsequent periods.

Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or settle on a net basis, all related financial effects are offset.

Financial liabilities and equity

Financial instruments issued by the Group are classified according to their substance and definitions of financial liabilities and equity.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recognised at the value of the proceeds received, net of direct issue costs.

Gains and losses on financial instruments

Net gains or net losses on:

Financial liabilities designated as at fair value through profit and loss represent fair value adjustments and arise as a result of the mark to market on the bonds using prices quoted on the Bond Exchange of South Africa, and as a result of derecognition. Interest is included in the fair value adjustments. These net gains or net losses are recognised in profit and loss for the period.

Financial liabilities at amortised cost represent the amortisation of discounts on or premiums given/received, interest costs as well as any derecognition gains or losses on these liabilities. Gains or losses on liabilities held at amortised cost are recognised in profit or loss for the period.

Available for sale financial assets are determined with reference to quoted share prices on the stock exchange and represent fair value adjustments that are recognised in other comprehensive income. Dividends are recognised in profit and loss when the right to receive payment is established. Impairment losses are recognised in profit or loss for the period.

Loans and receivables represent impairment losses or reversal of impairment losses, interest earned on outstanding balances, as well as gains or losses recognised on derecognition of the asset. These gains or losses are recognised in profit or loss for the period.

Financial assets and liabilities held-for-trading represent fair value adjustments and arise as a result of the mark to market of these instruments using market curves and as a result of derecognition. Interest is included in the fair value adjustments. These gains or losses are recognised in profit or loss for the period.

Derecognition

Financial assets (or a portion thereof) are derecognised when the Group's rights to the cash flow expire, or when the Group transfers substantially all the risks and rewards related to the financial asset or when the Group loses control of the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in the consolidated profit and loss.

Financial liabilities (or a portion thereof) are derecognised when the obligations specified in the contract are discharged, cancelled or expired. On derecognition, the difference between the carrying value of the financial liability, including related unamortised costs, and settlement amounts paid is included in the consolidated profit and loss.

Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and selling.

Cost is determined as follows:

- Raw materials and consumable stores are stated at weighted average cost.
- Manufactured goods and work in progress are stated at weighted average cost valued at raw material cost, plus direct labour cost, and an appropriate portion of related manufacturing overhead cost, based on normal capacity.

Write-downs to net realisable value and inventory losses are expensed in the period in which the write-downs or losses occur.

Construction contracts

Construction contracts represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade and other receivables on the statement of financial position. If payments received from customers exceed the income recognised, then the difference is presented as deferred income on the statement of financial position.

Non-current assets classified as held-for-sale and discontinued operations

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held-for-sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRS. Then, on initial classification as held-for-sale, non-current assets and disposal groups are recognised at the lower of carrying amount and the fair value less costs to sell.

Impairment losses on initial classification as held-for-sale are recognised in profit or loss, even where the assets were carried at revalued amounts. The same applies to gains and losses on subsequent measurement. A gain or subsequent increase in fair value less costs to sell may not exceed the cumulative impairment losses previously recognised in terms of IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations* or IAS 36 *Impairment of Assets.*

Non-current assets classified as held-for-sale are not depreciated or amortised whilst classified as such.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resell.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. A disposal group that is to be abandoned may also qualify as a discontinued operation.

Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of taxation, from the proceeds.

When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity. Repurchased shares are classified as treasury shares and presented as a deduction from the total equity until they are cancelled, reissued or disposed of.

Dividends are recognised as a liability in the period in which they are declared.

Employee benefits

The Group operates several defined benefit funds and a defined contribution fund. The assets of each scheme are held separately from those of the Group and are administered by the schemes' trustees. The defined benefit funds are actuarially valued for accounting purposes by professional independent consulting actuaries on an annual basis.

Defined contribution fund

The Group's contributions to the defined contribution fund are charged to profit and loss in the period to which they relate.

Defined benefit funds

The benefit costs and obligations under the defined benefit funds are determined separately for each fund using the projected unit credit method. The benefit costs are recognised in profit and loss. All actuarial gains and losses are recognised in other comprehensive income in the period in which they occur.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by the employees is recognised as an expense in profit and loss on a straight-line basis over the average period until the benefit becomes vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit and loss.

The post-retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognised past service cost plus the present value of available refunds and reductions in the future contributions to the plan.

Post-retirement medical benefits

Post-retirement medical benefits are provided by the Group to qualifying employees and pensioners. The medical benefit costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method. Actuarial gains or losses are recognised in line with the policy described above.

Short- and long-term benefits

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions is recognised during the period in which the employee renders the related service.

The Group's net obligation in respect of long-term service benefits, other than pension plans and post-retirement medical benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it has demonstrated its commitment to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Leases

Group as a lessee

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leased assets and the related liabilities recognised at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are recognised in other long-term payables.

The interest element of the finance lease payment is recognised in the income statement or capitalised to qualifying assets over the lease period if the relevant criteria are met. Any contingent rentals are charged as expenses in the period in which they are incurred. Property, plant and equipment acquired under a finance lease is depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) with fixed escalation clauses, are charged to profit and loss on a straight-line basis over the period of the lease.

The Group capitalises all leasehold improvements and depreciates them over their useful life or the remaining period of the lease (if shorter).

Group as a lessor

When assets are leased out under a finance lease, the Group derecognises the leased asset and recognises the net investment in the lease as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased to third parties under operating leases are included under property, plant and equipment (or investment property where applicable) in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to the lessee) is recognised on a straight-line basis over the lease term.

Sale and leaseback

Where a sale and leaseback agreement is classified as a finance lease, any excess of the sale proceeds over the carrying value is deferred and recognised in profit and loss over the period of the lease.

Where a sale and leaseback agreement is classified as an operating lease and the transaction took place at fair value, any excess or deficit of the sale proceeds over the carrying values of the assets sold is recognised in the income statement in the year in which it arises. If the deficit is compensated for by future lease payments at below market price, the deficit is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

Determining whether an arrangement contains a lease

The Group ensures that the following two requirements are met, in order for an arrangement transacted by the Group to be classified as a lease in terms of IAS 17 *Leases*:

- The fulfilment of the arrangement is dependent on the use of a specific asset or assets (whether explicitly or implicitly stated in the contract); and
- The arrangement conveys the right to use the asset(s); i.e. the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. This will be the case if any one of the following conditions are met:
  - The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset;
  - The purchaser has the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset; and
  - There is only a remote possibility that parties other than the purchaser will take more than an insignificant amount of the output or other utility of the asset and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit at the time of delivery.

The Group's assessment of whether an arrangement contains a lease is made at the inception of the arrangement, with reassessment occurring in the event of limited changes in circumstances as specified by IFRIC 4 *Determining whether an Arrangement* contains a Lease.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where the effect is material, provisions are determined by discounting the expected future cash flows at a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Restructuring

A provision for restructuring costs is recognised when the Group has a detailed formal plan for the restructuring and the Group has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. Restructuring provisions only include those direct expenditures which are necessarily entailed by the restructuring and not associated with the ongoing activities of the Group. Future operating costs are not provided for.

Environmental rehabilitation and environmental obligations

In accordance with the Group's environmental policy and applicable legal requirements, a provision for environmental rehabilitation in respect of clean-up costs is recognised when it meets the recognition requirements for provisions. The provision includes the estimated rehabilitation costs for the historical contamination caused by asbestos as well as costs for the rehabilitation caused by ferromanganese, manganese, mixed soil (including chrome, sulphur and manganese) fuel and rubble contamination.

Decommissioning liabilities

This is a provision for the dismantling and removal of an asset as a result of the requirement to restore the site on which the asset is located. The provision has been computed by discounting future cash flows.

Onerous contracts

A provision for onerous contracts is recognised when the unavoidable costs of meeting the Group's obligations under a contract exceed the economic benefits expected to be received under the contract.

Other provisions

Other provisions, for example, third-party claims, freight insurance, customer claims and leave pay provisions are recognised when they meet the recognition requirements as per IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Contingent liabilities

Contingent liabilities are (a) possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control, or (b) present obligations that arise from past events and it is either not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation can not be measured with sufficient reliability. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements unless the probability of occurrence is remote.

Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of the debt instrument. The Group recognises financial guarantee contracts initially at fair value. Subsequently these are recognised at the higher of:

- The amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and
- The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

Legal claims

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where the effect is material, provisions are determined by discounting the expected future cash flows at a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

Segment disclosure

Segment disclosure is reported in terms of the requirements of IFRS 8 *Operating Segments* and is based on the components of the Group that management monitors in making decisions. Such components (operating segments) are identified on the basis of internal reports that the Group's Chief Executive reviews regularly in allocating resources to segments and in assessing their performance. Reportable segments are identified based on quantitative thresholds of revenue, profit or loss and assets.

Accounting policies relating to discontinued operations

Critical judgements and estimation made in applying the accounting policies

Critical judgements made by the Group's Board of Directors in applying accounting policies and key sources of estimation uncertainty are detailed below:

IFRS 5: Criteria for recognition as a completed sale within a year from the date of classification.

Certain disposal groups were not disposed of within the one-year requirement of the standard. Management believes that the delay was caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the disposal groups. As such, an extension of the period required to complete these sales does not preclude any of these disposal groups from being classified as held-for-sale.

Significant accounting policies

Basis of preparation

Subsequent to the adoption of IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations* on 1 April 2005, non-current assets classified as held-for-sale and disposal groups are stated at the lower of their carrying amount and fair value less costs to sell.

Income statements

for the year ended 31 March 2010

Company				Group	
2009 R million	2010 R million		Notes	2010 R million	2009 R million
		Continuing operations			
33 566	**35 593**	Revenue	2	**35 610**	33 592
(20 361)	**(21 160)**	Net operating expenses excluding depreciation and amortisation	3	**(21 201)**	(20 392)
13 205	**14 433**	**Profit from operations before depreciation, amortisation and items listed below**		**14 409**	13 200
(4 779)	**(6 089)**	Depreciation and amortisation	4.1	**(6 089)**	(4 779)
8 426	**8 344**	**Profit from operations before the items listed below**	4.2	**8 320**	8 421
–	**–**	Loss on disposal of discontinued operations, net of taxation	4.3	**–**	–
(264)	**(774)**	Impairment of assets	4.4	**(778)**	(324)
3 300	**8**	Dividends received	4.5	**–**	–
(436)	**(180)**	Post-retirement benefit obligation costs	4.6	**(180)**	(436)
941	**(18)**	Fair value adjustments	5	**(18)**	941
		Income from associates and joint ventures	13	**5**	82
11 967	**7 380**	**Profit from operations before net finance costs**		**7 349**	8 684
(2 254)	**(3 018)**	Finance costs	6	**(3 014)**	(2 233)
299	**556**	Finance income	7	**578**	267
10 012	**4 918**	**Profit before taxation**		**4 913**	6 718
(1 644)	**(1 704)**	Taxation	8	**(1 722)**	(1 674)
8 368	**3 214**	**Profit for the year from continuing operations**		**3 191**	5 044
		Discontinued operations			
(604)	**(128)**	Loss from discontinued operations, including loss on disposal of discontinued operations and reversal of impairments/(impairments)	1	**(128)**	(516)
7 764	**3 086**	**Profit for the year**		**3 063**	4 528

Statements of comprehensive income

for the year ended 31 March 2010

Company				Group	
2009 R million	2010 R million		Note	2010 R million	2009 R million
7 764	3 086	**Profit for the year**		3 063	4 528
		Other comprehensive income			
–	–	Exchange differences on translation of foreign operations		4	(22)
4 419	4 049	Gains on revaluations		4 124	4 442
–	(109)	Cash flow hedges		(109)	–
(626)	135	Actuarial gains/(loss) on post-retirement benefit obligations		135	(626)
3 793	4 075			4 154	3 794
(943)	(1 076)	Taxation relating to components of other comprehensive income	8.1	(1 095)	(949)
2 850	2 999	**Other comprehensive income for the year, net of taxation**		3 059	2 845
10 614	6 085	**Total comprehensive income for the year**		6 122	7 373

Disclosure of components of other comprehensive income

for the year ended 31 March 2010

Company				Group	
2009 R million	2010 R million		Notes	2010 R million	2009 R million
3 301	2 981	**Net gains on revaluation reserve**		3 037	3 318
4 419	4 049	Gains on revaluations		4 124	4 442
636	167	– Gain on revaluation of pipeline networks	22	167	636
3 523	3 468	– Gain on revaluation of port facilities	22	3 468	3 523
193	(14)	– Decommissioning restoration liability adjustment	22	(14)	193
67	428	– Net gain on revaluation of land, buildings and structures	22	428	67
–	–	– Gain on revaluation of other investments	22	75	23
(1 118)	(1 068)	Taxation effect of revalued items		(1 087)	(1 124)
–	(79)	**Net losses on cash flow hedging reserve**	22	(79)	–
–	(109)	– Losses on cash flow hedges		(109)	–
–	30	– Taxation effect of cash flow hedge losses		30	–
–	–	**Net movement on foreign currency translation reserve**	22	4	(22)
(451)	97	**Net actuarial gains/(loss) on post-retirement benefit obligations**		97	(451)
(626)	135	Actuarial gains/(loss) related to post-retirement benefit obligations	22	135	(626)
(208)	(79)	– Actuarial loss on the Transport Pension Fund: Transnet Sub-Fund	32.1.2	(79)	(208)
(191)	(4)	– Actuarial loss on the Transnet Second Defined Pension Fund	32.1.3	(4)	(191)
3	2	– Actuarial gains on the Transnet Top Management Pension Fund	32.1.4	2	3
(93)	16	– Actuarial gains/(loss) on the Transnet Workmen's Compensation Act Pensioners	32.1.4	16	(93)
(117)	112	– Actuarial gains/(loss) on the Transnet SATS Pensioners medical benefits	32.2.1	112	(117)
(20)	88	– Actuarial gains/(loss) on the Transnet employees medical benefits	32.2.2	88	(20)
175	(38)	Taxation effect of net actuarial (gains)/losses		(38)	175
2 850	2 999	**Other comprehensive income for the year**		3 059	2 845

Statements of financial position

at 31 March 2010

Company 2009 R million	Company 2010 R million		Notes	Group 2010 R million	Group 2009 R million
		Assets			
		Non-current assets			
96 569	113 689	Property, plant and equipment	9	113 579	96 459
5 961	6 604	Investment properties	10	6 604	5 961
431	421	Intangible assets	11	421	431
246	246	Investments in subsidiaries	12		
10	10	Investments in associates and joint ventures	13	21	24
178	11	Derivative financial assets	14	11	178
77	37	Long-term loans and advances	15	37	77
138	172	Other investments and long-term financial assets	16	172	287
103 610	121 190			120 845	103 417
		Current assets			
2 589	2 048	Inventories	17	2 048	2 589
5 528	5 880	Trade and other receivables	18	5 859	5 503
335	28	Derivative financial assets	14	28	335
436	1 670	Other short-term investments	16	1 670	436
5 603	7 632	Cash and cash equivalents	19	7 918	5 880
14 491	17 258			17 523	14 743
349	267	Assets classified as held-for-sale	20	517	374
14 840	17 525			18 040	15 117
118 450	138 715	**Total assets**		138 885	118 534
		Equity and liabilities			
		Capital and reserves			
12 661	12 661	Issued capital	21	12 661	12 661
45 661	51 746	Reserves	22	51 795	45 673
58 322	64 407	**Attributable to the equity holder**		64 456	58 334
		Non-current liabilities			
2 324	2 022	Post-retirement benefit obligations	23	2 022	2 324
29 754	42 732	Long-term borrowings	24	42 736	29 758
18	366	Derivative financial liabilities	14	366	18
2 509	2 523	Long-term provisions	25	2 523	2 509
8 548	11 304	Deferred taxation liabilities	26	11 364	8 589
43 153	58 947			59 011	43 198
		Current liabilities			
6 476	7 344	Trade payables and accruals	28	7 384	6 491
7 255	4 698	Short-term borrowings	29	4 698	7 255
846	157	Current taxation liability		171	854
109	183	Derivative financial liabilities	14	183	109
2 279	2 967	Short-term provisions	25	2 967	2 279
16 965	15 349			15 403	16 988
10	12	Liabilities directly associated with assets classified as held-for-sale	20	15	14
16 975	15 361			15 418	17 002
118 450	138 715	**Total equity and liabilities**		138 885	118 534

Statements of changes in equity

for the year ended 31 March 2010

	Issued capital R million	Revaluation reserve R million	Foreign currency translation reserve R million	Actuarial gains and losses R million	Cash flow hedging reserve R million	Other R million	Retained earnings R million	Total R million
Company								
Opening balances as at 1 April 2008	12 661	17 148	–	2 849	–	250	14 800	47 708
Profit for the year	–	–	–	–	–	–	7 764	7 764
Other comprehensive income for the year	–	3 301	–	(451)	–	–	–	2 850
Transfer from retained earnings	–	4	–	–	–	–	(4)	–
Balances at 31 March 2009	12 661	20 453	–	2 398	–	250	22 560	58 322
Profit for the year	–	–	–	–	–	–	3 086	3 086
Other comprehensive income for the year	–	2 981	–	97	(79)	–	–	2 999
Transfer to retained earnings	–	(1)	–	–	–	–	1	–
Gross transfers	–	(7)	–	–	–	–	7	–
Taxation effect relating to transfers	–	6	–	–	–	–	(6)	–
Balances at 31 March 2010	12 661	23 433	–	2 495	(79)	250	25 647	64 407
Group								
Opening balances as at 1 April 2008	12 661	17 238	43	2 845	–	249	17 925	50 961
Profit for the year	–	–	–	–	–	–	4 528	4 528
Other comprehensive income for the year	–	3 318	(22)	(451)	–	–	–	2 845
Transfer to retained earnings	–	4	–	–	–	–	(4)	–
Balances at 31 March 2009	12 661	20 560	21	2 394	–	249	22 449	58 334
Profit for the year	–	–	–	–	–	–	3 063	3 063
Other comprehensive income for the year	–	3 037	4	97	(79)	–	–	3 059
Transfer from retained earnings	–	(1)	–	4	–	–	(3)	–
Gross transfers	–	(7)	–	5	–	–	2	–
Taxation effect relating to transfers	–	6	–	(1)	–	–	(5)	–
Balances at 31 March 2010	12 661	23 596	25	2 495	(79)	249	25 509	64 456

Statements of cash flows

for the year ended 31 March 2010

Company 2009 R million	Company 2010 R million		Notes	Group 2010 R million	Group 2009 R million
7 373	12 082	**Cash flows from operating activities**		12 092	7 400
13 095	16 450	Cash generated from operations	34.1	16 426	13 498
(2 334)	1 124	Changes in working capital	34.2	1 145	(2 647)
10 761	17 574	**Cash generated from operations after working capital changes**		17 571	10 851
(2 998)	(4 525)	Finance costs	34.3	(4 524)	(2 996)
299	556	Finance income		580	269
(671)	(713)	Taxation paid	34.4	(725)	(703)
(314)	(307)	Settlement of post-retirement benefit obligations		(307)	(317)
296	(503)	Derivatives settled and raised		(503)	296
(15 950)	(20 408)	**Cash flows utilised in investing activities**		(20 408)	(19 084)
(5 145)	(10 767)	*Investments to maintain operations*		(10 767)	(8 200)
(8 493)	(8 569)	Replacements to property, plant and equipment		(8 569)	(8 498)
(27)	(17)	Additions to intangible assets		(17)	(27)
(764)	(1 482)	Borrowing costs capitalised		(1 482)	(764)
7	1	Proceeds on the disposal of investment property		1	7
210	436	Proceeds on the disposal of property, plant and equipment		436	222
139	–	Net proceeds on the disposal of subsidiaries/division	34.5	–	135
–	51	Proceeds on the disposal of associates	34.6	51	–
3 300	8	Dividend income		8	19
(6)	–	Acquisition of associates		–	(6)
203	–	Net loans to subsidiaries and associates		–	426
(7)	(15)	Net advances of long-term loans and advances		(15)	(7)
293	(1 180)	(Increase)/decrease in other investments		(1 180)	293
(10 805)	(9 641)	*Investments to expand operations*		(9 641)	(10 884)
(10 805)	(9 641)	Expansions – property, plant and equipment		(9 641)	(10 884)
8 502	10 355	**Cash flows from financing activities**		10 355	11 587
30 447	19 696	Borrowings raised		19 696	30 479
(21 945)	(9 341)	Borrowings repaid		(9 341)	(18 892)
(75)	2 029	Net increase/(decrease) in cash and cash equivalents		2 039	(97)
5 678	5 603	Cash and cash equivalents at the beginning of the year		5 905	6 002
5 603	7 632	**Total cash and cash equivalents at the end of the year**	34.7	7 944	5 905
5 603	7 632	**Cash and cash equivalents at the end of the year**		7 918	5 880
–	–	**Disclosed as assets held-for-sale**		26	25
		Cash flows from discontinued operations			
(1)	–	Cash flows from operating activities		–	36
–	–	Cash flows utilised in investing activities		–	(193)
–	–	Cash flows from financing activities		–	154
(1)	–	**Net decrease in cash and cash equivalents**		–	(3)

Segment information

for the year ended 31 March 2010

Continuing operations#

	Freight Rail R million	Rail Engineering R million
For the year ended 31 March 2010		
External revenue*	20 599	1 280
Internal revenue	226	6 935
Total revenue	20 825	8 215
Energy costs	(2 198)	(117)
Maintenance	(2 532)	(149)
Material costs	(386)	(3 311)
Personnel costs	(6 214)	(3 507)
Other	(2 101)	(461)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	7 394	670
Depreciation and amortisation	(3 910)	(173)
Impairment of assets	(213)	–
Dividends received and income from associates	–	–
Fair value adjustments and post-retirement benefit obligations	(169)	(119)
Finance costs	(1 195)	(291)
Finance income	9	34
Profit before taxation	1 916	121
Total assets##	46 827	6 286
Total liabilities##	27 762	3 797
Capital expenditure***	9 726	376
Cash generated from operations after working capital changes	8 540	641
EBITDA margin (%)	35,5	8,2
Number of employees	22 571	12 677
For the year ended 31 March 2009		
External revenue*	18 427	1 405
Internal revenue	256	6 823
Total revenue	18 683	8 228
Energy costs	(2 434)	(108)
Maintenance	(2 513)	(181)
Material costs	(453)	(3 276)
Personnel costs	(5 830)	(3 370)
Other costs	(1 780)	(529)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	5 673	764
Depreciation and amortisation	(3 036)	(128)
Impairment of assets	(239)	–
Dividends received and income from associates	23	18
Fair value adjustments and post-retirement benefit obligations	(381)	(42)
Finance costs	(1 805)	(310)
Finance income	6	2
Profit before taxation	241	304
Total assets##	40 996	6 145
Total liabilities##	24 470	4 059
Capital expenditure	8 593	568
Cash generated from operations after working capital changes	3 457	341
EBITDA margin (%)	30,4	9,3
Number of employees	24 177	13 622

** Revenue from segments below the quantitative thresholds are attributable to two operating segments of Transnet. Those segments include Transnet Property that manages internal and external leases of commercial and residential property as well as Transnet Capital Projects.*

 # A reconciliation between total reportable segments measure of profit or loss and the Group profit or loss before taxation and discontinued operations is included on the face of the income statement.

*** Other adjustments include the Corporate Centre functions.*

**** Excludes capitalised borrowings costs, includes capitalised finance leases and capitalised decommissioning liabilities.*

Excludes assets and liabilities held-for-sale.

Financial and operational information pertinent to the segments are disclosed in the Operating divisional reports.

National Ports Authority R million	Port Terminals R million	Pipelines R million	Total for reportable segments R million	All other segments R million	Elimination of intersegment transactions R million	Other adjustments** R million	Total R million
6 839	5 154	1 170	35 042	524	–	44	35 610
622	2	1	7 786	2 107	(9 919)	26	–
7 461	5 156	1 171	42 828	2 631	(9 919)	70	35 610
(163)	(206)	(140)	(2 824)	(129)	–	(2)	(2 955)
(179)	(190)	(35)	(3 085)	(99)	2 741	(18)	(461)
(56)	(203)	(13)	(3 969)	(230)	2 492	(21)	(1 728)
(1 140)	(1 797)	(202)	(12 860)	(992)	2 963	(420)	(11 309)
(350)	(1 139)	(78)	(4 129)	(1 154)	1 285	(750)	(4 748)
5 573	1 621	703	15 961	27	(438)	(1 141)	14 409
(788)	(800)	(343)	(6 014)	(50)	84	(109)	(6 089)
(175)	(183)	(137)	(708)	(69)	–	(1)	(778)
–	8	–	8	–	–	(3)	5
208	18	1	(61)	53	–	(190)	(198)
(1 330)	(430)	(97)	(3 343)	(113)	7 088	(6 646)	(3 014)
6	79	–	128	147	(7 088)	7 391	578
3 494	313	127	5 971	(5)	(354)	(699)	4 913
51 110	12 830	12 301	129 354	3 908	(6 843)	11 949	138 368
26 086	7 698	8 046	73 389	311	(4 190)	4 904	74 414
3 231	2 368	3 067	18 768	92	(436)	17	18 441
5 267	1 894	955	17 297	(106)	n/a	380	17 571
74,7	31,4	60,0	37,3	1,0	n/a	n/a	40,5
3 139	5 313	499	44 199	1 247	n/a	118	45 564
6 573	5 036	1 462	32 903	629	–	60	33 592
537	1	1	7 618	2 288	(9 932)	26	–
7 110	5 037	1 463	40 521	2 917	(9 932)	86	33 592
(151)	(215)	(107)	(3 015)	(125)	–	(4)	(3 144)
(195)	(144)	(29)	(3 062)	(97)	2 909	91	(159)
(62)	(203)	(12)	(4 006)	(383)	2 645	(1)	(1 745)
(1 033)	(1 706)	(186)	(12 125)	(905)	3 144	(444)	(10 330)
(418)	(1 081)	(81)	(3 889)	(1 108)	832	(849)	(5 014)
5 251	1 688	1 048	14 424	299	(402)	(1 121)	13 200
(649)	(632)	(268)	(4 713)	(53)	68	(81)	(4 779)
(45)	24	(25)	(285)	(32)	–	(7)	(324)
–	–	–	41	7	(3 281)	3 315	82
1 120	(31)	1	667	268	–	(430)	505
(1 175)	(419)	(170)	(3 879)	(190)	9 150	(7 314)	(2 233)
10	120	4	142	221	(9 219)	9 123	267
4 512	750	590	6 397	520	(3 684)	3 485	6 718
44 686	11 088	9 183	112 098	3 636	(7 056)	9 482	118 160
22 894	6 920	5 284	63 627	235	(4 641)	965	60 186
4 237	3 144	2 772	19 314	48	(415)	339	19 286
5 446	1 768	1 428	12 440	121	n/a	(1 710)	10 851
73,9	33,5	71,6	35,6	10,3	n/a	n/a	39,3
3 254	5 569	477	47 099	1 214	n/a	465	48 778

Company 2009 R million	Company 2010 R million		Notes	Group 2010 R million	Group 2009 R million
		1. Discontinued operations			
		The loss from discontinued operations, including loss on disposal of discontinued operations and reversal of impairments/(impairments), comprises:			
(467)	(141)	Loss from discontinued operations (refer below)		(141)	(146)
(66)	–	Loss on disposal of discontinued operations, net of taxation	4.3	–	(257)
(71)	13	Reversal of impairments/(impairments) – Lower of carrying value and fair value less costs to sell, net of taxation		13	(113)
(604)	(128)			(128)	(516)
		Loss from discontinued operations			
447	41	Revenue	2	41	2 294
(915)	(182)	Net operating expenses excluding depreciation and amortisation	3	(184)	(2 348)
(468)	(141)	Loss from operations before depreciation and amortisation and items listed below		(143)	(54)
–	–	Depreciation and amortisation	4.1	–	–
(468)	(141)	Loss from operations before the items listed below		(143)	(54)
1	–	Reversal of impairment of assets	4.4	–	1
–	–	Fair value adjustments	5	–	3
(467)	(141)	Loss from operations before net finance costs		(143)	(50)
–	–	Finance costs	6	–	(19)
–	–	Finance income	7	2	2
(467)	(141)	Loss before taxation		(141)	(67)
–	–	Taxation	8	–	(79)
(467)	(141)	Net loss for the year after taxation		(141)	(146)
		(For details of discontinued operations, refer annexure C.)			
		2. Revenue			
31 803	33 561	Rendering of services		33 578	33 676
911	1 104	Rental income		1 104	911
29	24	Finance income from lending activities		24	29
1 270	945	Construction contracts (refer note 27)		945	1 270
34 013	35 634			35 651	35 886
(447)	(41)	Discontinued operations		(41)	(2 294)
33 566	35 593	Continuing operations		35 610	33 592

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million
		3. Net operating expenses excluding depreciation and amortisation		
347	321	Accommodation and refreshments	321	421
417	483	Electronic data costs	483	425
3 254	2 955	Energy costs	2 955	3 817
205	210	Health and sanitation	210	214
192	207	Insurance	207	222
577	461	Maintenance	461	656
988	562	Managerial and technical consulting fees (refer note 4.2)	562	995
1 753	1 728	Material costs	1 728	1 817
–	–	Navigation, landing and parking fees	–	86
1 364	1 345	Operating leases (refer note 4.2)	1 345	1 577
–	–	Passenger handling, rescheduling and airline costs	–	42
10 563	11 309	Personnel costs	11 309	11 000
60	53	Printing and stationery	53	65
(43)	(63)	Profit on disposal of property, plant and equipment (refer note 4.2)	(63)	(53)
115	77	Promotions and advertising	77	128
434	561	Security	561	443
224	198	Telecommunications	198	229
79	52	Transport	52	95
747	883	Other	926	561
21 276	21 342		21 385	22 740
(915)	(182)	Discontinued operations	(184)	(2 348)
20 361	21 160	**Continuing operations**	21 201	20 392

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		4.1 Depreciation and amortisation		
4 664	5 948	**Depreciation and derecognition (refer annexure B)**	5 948	4 664
4 037	5 170	*Depreciation – Owned assets at historic cost*	5 170	4 037
9	7	Aircraft	7	9
353	400	Land, buildings and structures	400	353
350	448	Machinery, equipment and furniture	448	350
417	478	Permanent way and works	478	417
2 230	2 927	Rolling stock and containers	2 927	2 230
35	39	Vehicles	39	35
563	616	*Depreciation – Owned assets revalued portion*	616	563
246	317	Pipeline networks	317	246
960	1 170	Port facilities	1 170	960
64	162	*Depreciation – Leased assets at historic cost*	162	64
48	100	Rolling stock and containers	100	48
11	23	Machinery, equipment and furniture	23	11
5	39	Permanent way and works	39	5
–	–	Discontinued operations	–	–
4 664	5 948	**Continuing operations**	5 948	4 664
115	141	**Amortisation of intangible assets (refer note 11)**	141	115
115	141	Software and licences	141	115
–	–	Discontinued operations	–	–
115	141	**Continuing operations**	141	115
4 779	6 089	**Total depreciation and amortisation – continuing operations**	6 089	4 779
		4.2 Profit from operations before impairment of assets, dividends received, post-retirement benefit obligation costs, fair value adjustments and income from associates and joint ventures		
		is stated after taking into account the following amounts:		
		Auditor' remuneration		
66	78	*Group auditors*	78	66
56	57	Audit fees	57	56
4	2	Audit fees – prior year underprovision	2	4
5	17	Fees for audit related and other services*	17	5
1	2	Expenses	2	1
		Other auditors		
–	–	Audit fees	–	2
–	–	Discontinued operations	–	(2)
66	78	**Continuing operations**	78	66

*These fees relate mainly to quarterly and Global Medium-Term Note programme reviews conducted by external audit during the year.

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		4.2 Profit from operations before impairment of assets, dividends received, post-retirement benefit obligation costs, fair value adjustments and income from associates and joint ventures (continued)		
988	562	**Managerial and technical consulting fees**	562	995
–	–	Discontinued operations	–	(7)
988	562	**Continuing operations**	562	988
1 364	1 345	**Operating lease charges**	1 345	1 577
1	1	Aircraft	1	142
633	656	Land, buildings and structures	656	650
730	688	Other	688	785
(26)	–	Discontinued operations	–	(239)
1 338	1 345	**Continuing operations**	1 345	1 338
(43)	(63)	Profit on disposal of property, plant and equipment	(63)	(53)
(1)	–	Discontinued operations	–	9
(44)	(63)	**Continuing operations**	(63)	(44)
46	73	**Research and development costs**	73	46
–	–	Discontinued operations	–	–
46	73	**Continuing operations**	73	46
87	96	**Directors' and executives' emoluments (full details are disclosed in the Report of the Directors)**	96	98
15	15	Executive Directors	15	25
6	5	Non-executive Directors	5	7
66	76	Senior executives	76	66
–	–	Discontinued operations	–	(11)
87	96	**Continuing operations**	96	87
(66)	–	**4.3 Loss on disposal of discontinued operations, net of taxation**	–	(257)
115	–	Profit on sale of interest in V&A Waterfront Holdings (Pty) Limited	–	115
(20)	–	Loss on sale of interest in South African Airways Express (Pty) Limited	–	(227)
(71)	–	Loss on sale of interest in Shosholoza Meyl	–	(71)
(58)	–	Loss on sale of interest in Autopax Passenger Services (Pty) Limited	–	(42)
(32)	–	Taxation on disposal of discontinued operations (refer note 8)	–	(32)
66	–	Discontinued operations	–	257
–	–	**Continuing operations**	–	–

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		4.4 Impairment of assets		
263	774	Impairment of assets	778	323
205	752	Property, plant and equipment (refer annexure B)	752	205
(56)	(178)	Loss-making subsidiaries and associates (reversal of impairments)	(174)	3
20	55	Loans and advances (refer note 15)	55	20
94	145	Trade and other receivables	145	95
1	–	Discontinued operations	–	1
264	774	**Continuing operations**	778	324
		4.5 Dividends received		
3 281	–	Dividends from subsidiary		
19	8	Dividends from associate		
–	–	Discontinued operations		
3 300	8	**Continuing operations**		
		4.6 Post-retirement benefit obligation costs		
(182)	(59)	Transport Pension Fund: Transnet Sub-fund	(59)	(182)
(191)	(4)	Transnet Second Defined Benefit Fund	(4)	(191)
7	7	Transnet Top Management Pension Fund	7	7
25	32	Transnet Workmen's Compensation Act pensioners	32	25
108	101	Transnet SATS pensioners' medical benefits	101	108
64	63	Transnet employees medical benefits	63	64
500	–	Transnet SATS pensioners' medical subsidy (refer note 25)	–	500
105	40	Other employer contributions (refer note 25)	40	105
436	180		180	436
		5. Fair value adjustments		
(447)	(1 074)	Derivative fair value adjustments	(1 074)	(444)
1 376	276	Fair value adjustment of investment property	276	1 376
(9)	88	Fair value adjustments to treasury bonds	88	(9)
21	692	Gains on hedging instruments	692	21
941	(18)		(18)	944
–	–	Discontinued operations	–	(3)
941	(18)	**Continuing operations**	(18)	941
		Reconciliation of fair value adjustments to note 14		
941	(18)	Fair value adjustments per above	(18)	944
(1 376)	(276)	Fair value adjustment of investment property (refer note 10)	(276)	(1 376)
9	(88)	Treasury bonds	(88)	9
408	(692)	Fair value adjustment of firm commitments	(692)	408
(16)	(6)	Other realised fair value adjustments	(6)	(19)
(34)	(1 080)	**Fair value adjustments (refer note 14)**	(1 080)	(34)

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		6. Finance costs		
45	(51)	Net foreign exchange (gains)/losses on translation	(54)	45
(25)	26	Discounts/(premium) on bonds amortised	26	(25)
12	27	Finance lease obligation	27	12
2 986	4 498	Interest cost – Financial liabilities at amortised cost	4 497	2 984
3 018	4 500	**Gross finance costs**	4 496	3 016
(764)	(1 482)	Borrowing costs capitalised*	(1 482)	(764)
2 254	3 018	**Net finance costs**	3 014	2 252
–	–	Discontinued operations	–	(19)
2 254	3 018	**Continuing operations**	3 014	2 233
		** The weighted average capitalisation rate on funds borrowed is 10,67% per annum (2009: 10,90% per annum).*		
		7. Finance income		
158	479	Interest received – Bank deposits	503	196
73	77	Interest received – Loans and receivables	77	73
68	–	Interest received from subsidiaries – Loans and receivables	–	–
299	556		580	269
–	–	Discontinued operations	(2)	(2)
299	556	**Continuing operations**	578	267
		8. Taxation		
		South African normal taxation		
716	786	– Current year	799	739
–	(762)	– Transfer to deferred taxation	(762)	–
		Deferred taxation (refer note 26)		
978	918	– Current year	918	1 057
(33)	–	– Prior year	–	(33)
–	762	– Transfer from current taxation	762	–
		Capital gains taxation		
15	–	– Current year	–	15
		Foreign taxation		
–	–	– Current year	5	7
1 676	1 704		1 722	1 785
(32)	–	Discontinued operations	–	(111)
–	–	Disclosed in note 1	–	(79)
(32)	–	Disclosed in note 4.3	–	(32)
1 644	1 704	**Continuing operations**	1 722	1 674

Company 2009 %	Company 2010 %		Group 2010 %	Group 2009 %
		8. Taxation (continued)		
		Reconciliation of taxation rate		
28,00	28,00	Standard rate – South African normal taxation	28,00	28,00
(10,25)	7,57	Adjustment for differences	7,99	0,27
(0,27)	7,62	Expenses/(income) not included for taxation purposes	7,99	0,55
0,16	–	Capital gains taxation	–	0,24
(9,79)	(0,05)	Exempt local dividends	–	–
(0,35)	–	Adjustment to prior year deferred taxation charge	–	(0,52)
17,75	35,57	**Effective rate of taxation**	35,99	28,27
(5,59)	–	Discontinued operations	–	(27,41)
16,42	35,57	Continuing operations	35,99	24,92

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		8.1. Taxation recognised in other comprehensive income		
		Arising on the taxation effect of items recognised in comprehensive income:		
(225)	(15)	Gains on revaluation of pipeline networks and decommissioning restoration liability	(15)	(225)
(885)	(970)	Gains on revaluation of port facilities and decommissioning liabilities	(970)	(885)
(8)	(83)	Gains on revaluation of land, buildings and structures	(83)	(8)
–	–	Gains on revaluation of other investments	(19)	(6)
–	30	Cash flow hedges	30	–
175	(38)	Actuarial (gains)/losses on post-retirement benefit obligations	(38)	175
(943)	(1 076)	**Total taxation recognised in other comprehensive income**	(1 095)	(949)

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		9. Property, plant and equipment (refer annexure B)		
		Property, plant and equipment is stated at historical cost except for pipeline networks and port facilities, which are stated at revalued amounts.		
96 569	113 689	**Net book value**	113 579	96 459
136 028	158 501	Gross carrying value	158 407	135 935
(39 459)	(44 812)	Accumulated depreciation and impairment	(44 828)	(39 476)
		Comprising:		
		Historical cost		
75 109	86 568	**Gross carrying value**	86 529	75 071
65	153	– Aircraft	153	65
12 117	13 286	– Land, buildings and structures	13 290	12 120
4 655	5 678	– Machinery, equipment and furniture	5 695	4 672
13 017	15 518	– Permanent way and works	15 461	12 961
24 878	30 088	– Rolling stock and containers	30 084	24 874
726	797	– Motor vehicles	798	728
19 651	21 048	– Capital work in progress	21 048	19 651
(16 071)	(19 128)	**Accumulated depreciation**	(19 138)	(16 081)
(38)	(45)	– Aircraft	(45)	(38)
(2 250)	(2 545)	– Land, buildings and structures	(2 548)	(2 251)
(2 365)	(2 750)	– Machinery, equipment and furniture	(2 759)	(2 374)
(2 850)	(3 249)	– Permanent way and works	(3 247)	(2 849)
(8 143)	(10 076)	– Rolling stock and containers	(10 076)	(8 143)
(425)	(463)	– Motor vehicles	(463)	(426)
(365)	(467)	**Accumulated impairment**	(478)	(377)
(178)	(204)	– Land, buildings and structures	(205)	(180)
(25)	(58)	– Machinery, equipment and furniture	(68)	(35)
(1)	(11)	– Permanent way and works	(11)	(1)
(94)	(107)	– Rolling stock and containers	(107)	(94)
–	(1)	– Motor vehicles	(1)	–
(67)	(86)	– Capital work in progress	(86)	(67)
58 673	66 973	**Net book value of property, plant and equipment stated at historical cost**	66 913	58 613

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		9. Property, plant and equipment (refer annexure B) (continued)		
		Revaluation		
60 919	71 933	**Gross carrying value**	71 878	60 864
13 371	12 844	– Pipeline networks	12 838	13 365
47 548	59 089	– Port facilities	59 040	47 499
(22 434)	(24 446)	**Accumulated depreciation**	(24 441)	(22 429)
(8 802)	(8 408)	– Pipeline networks	(8 407)	(8 801)
(13 632)	(16 038)	– Port facilities	(16 034)	(13 628)
(589)	(771)	**Accumulated impairment**	(771)	(589)
(82)	(219)	– Pipeline networks	(219)	(82)
(507)	(552)	– Port facilities	(552)	(507)
37 896	46 716	**Net book value of property, plant and equipment stated at revalued amounts**	46 666	37 846
96 569	113 689	**Total net book value**	113 579	96 459

Land, buildings and structures

A register of land, buildings and structures is available for inspection at the registered office of the Company.

During the year, the Group transferred R152 million (2009: R nil) from investment properties to property, plant and equipment as these properties are now owner occupied. The fair values of these properties are deemed as cost for subsequent accounting in accordance with IAS 40.

During the year the Group also transferred R520 million (2009: R85 million) from property, plant and equipment to investment properties. The carrying values of these properties were restated to fair value in accordance with IAS 16.

Rolling stock

Included in rolling stock are locomotives that were leased and leased back. The locomotives are leased to a third party, refurbished and then leased to a financier who in turn leases the assets back to the Company. This has been treated as a structured loan. The loan is secured by virtue of the lease agreements and a collateral covering bond over the refurbished locomotives.

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
1 491	1 501	The book value of the refurbished locomotives which are so encumbered amounts to	1 501	1 491
463	441	Included in rolling stock assets are capitalised leased assets with a carrying value of	441	463

These assets were part of a sale and lease back arrangement giving rise to a finance lease entered into in 1997. The present value of the lease commitments has been settled in full.

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million

9. Property, plant and equipment (refer annexure B) (continued)

Pipeline networks

The Group's policy is to perform a revaluation of its pipeline networks every three years and apply appropriate valuation indices in the intervening years. An external revaluation was performed in the current year, by Arthur D Little Inc., an independent firm of professional valuers on the basis of the modern equivalent net asset value. The current year's revaluation resulted in a net increase of R167 million (2009: R636 million) to the carrying value of the Group's pipeline networks, which has been adjusted accordingly.

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
2 267	**2 041**	The historic carrying values of these assets amount to	**2 041**	2 267

Port facilities

The Group's policy is to perform a revaluation of its port operating assets and infrastructure every three years and apply appropriate valuation indices in the intervening years. In the current year, the revaluation resulted in an increase of R3 446 million (2009: R3 148 million) for port infrastructure and an increase of R22 million (2009: R374 million) for port operating assets.

The estimated replacement cost of port infrastructure assets that are subject to revaluation amount to R45,5 billion (2009: R40,2 billion) as determined by independent valuation experts, however the revaluation was limited to the present value of future discounted cash flows, amounting to R35,3 billion (2009: R28,2 billion).

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
11 345	**17 735**	The historic carrying values of these assets amount to	**17 735**	11 345

Included in Port facilities are encumbered assets of R1 492 million (2009: R1 179 million) as security for the repayment of the finance arrangement of these assets.

Useful lives and residual values

In terms of IAS 16: Property, Plant and Equipment the useful lives and residual values of property, plant and equipment must be reviewed at each reporting date. The useful lives are estimated by management based on historic analysis, benchmarking and other available information. The residual values are based on the assessment of useful lives and other available information.

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million
		10. Investment properties		
4 470	5 961	Fair value at the beginning of the year	5 961	4 515
85	368	Transferred from property, plant and equipment	368	85
1 376	276	Recognised in income statement (refer note 5)	276	1 376
45	–	Acquired from subsidiary	–	–
(7)	(1)	Disposals	(1)	(7)
(8)	–	Transferred to assets held for sale	–	(8)
5 961	6 604	**Fair value at the end of the year**	6 604	5 961

The fair value of the Group's investment properties at 31 March 2010 was arrived at on the basis of valuations carried out at that date by Transnet Property valuers.

The valuations, which conform to the Property Valuers Profession Act, No. 47 of 2000, were arrived at by capitalising the first year's normalised net operating income at a market derived capitalisation rate.

Various assumptions were made in order to derive the net present value of future cash flows. These assumptions were arrived at after wide consultation with subject matter experts.

The more critical assumptions made were:

- Future cash flows were based on the after taxation market related rentals per investment property.
- The capitalisation rate used to discount cash flows for the purposes of determining present values was the market related return rate adjusted to reflect the appropriate risk profile of each individual property.
- Capitalisation rates were between 10% and 15% for the various properties.

In limited circumstances where the income capitalisation method was not appropriate, market related information was applied to determine the value of the respective investment property.

The gross property rental income earned by the Group from its investment properties, which are leased out under gross operating leases, amounted to R1 104 million (2009: R911 million).

Direct operating expenses arising on the investment properties during the year amounted to R296 million (2009: R245 million).

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		11. Intangible assets		
431	421	**Intangible assets**	421	431
976	1 083	Cost	1 145	1 038
(545)	(662)	Accumulated amortisation and impairment	(724)	(607)
		Comprising:		
		Finite life intangible assets		
431	421	Software and licences: carrying value	421	431
976	1 083	Cost	1 145	1 038
767	976	Balance at the beginning of the year	1 038	829
27	17	Additions	17	27
–	13	Borrowing costs capitalised	13	–
(11)	(24)	Disposals	(24)	(11)
193	101	Transfers in from property, plant and equipment	101	193
(545)	(662)	**Accumulated amortisation and impairment**	(724)	(607)
(441)	(545)	Balance at the beginning of the year	(607)	(503)
11	24	Disposals	24	11
(115)	(141)	Amortisation	(141)	(115)
431	421		421	431
		Software and licences are assessed as having a finite life and are amortised on a straight-line basis over a period of three to five years.		
		12. Investments in subsidiaries (refer annexure D)		
44	44	Shares at carrying value		
964	604	Net amounts owing by subsidiaries		
1 008	648			
(762)	(402)	Provision for impairment and losses		
246	246			
		13. Investments in associates and joint ventures (refer annexure D)		
10	10		21	24
35	10	Balance at the beginning of the year	24	48
6	–	Acquisitions	–	6
–	–	Equity accounted earnings	5	82
–	–	Dividends received	(8)	(19)
(90)	–	Repayments of loans	–	(90)
59	–	Reversal of impairments/(impairments)	–	(3)
10	10	Directors' valuation of unlisted investments in associates and joint ventures	21	24
–	–	Total income from associates and joint ventures amounted to	5	82

14. Derivative financial assets and liabilities

Both the Company and the Group use approved financial instruments, in particular forward exchange contracts, cross-currency swaps and interest rate swaps to hedge the financial risks associated with underlying business activities. All derivative financial instruments have been measured at fair value with the resulting gain or loss taken to the statement of comprehensive income.

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
513	39	**Derivative financial assets**	39	513
945	513	Opening balance	513	945
85	(162)	Income statement (debit)/credit	(162)	85
(147)	–	Transferred to property, plant and equipment	–	(147)
(370)	(312)	Derivatives raised and settled	(312)	(370)
127	549	**Derivative financial liabilities**	549	127
566	127	Opening balance	127	566
119	1 128	Income statement debit	1 128	119
–	109	Recognised in other comprehensive income	109	–
(417)	–	Transferred to property, plant and equipment	–	(417)
(141)	(815)	Derivatives raised and settled	(815)	(141)
(34)	(1 290)	**Net income statement debit**	(1 290)	(34)
(34)	(1 080)	Fair value adjustments (refer note 5)	(1 080)	(34)
–	(210)	Finance costs (net interest expense on cross currency swaps)	(210)	–
		Comprise the following financial instruments:		
178	11	**Non-current assets**	11	178
178	11	Forward exchange contracts	11	178
335	28	**Current assets**	28	335
292	27	Forward exchange contracts	27	292
43	1	Cross-currency swaps and options	1	43
18	366	**Non-current liabilities**	366	18
11	78	Forward exchange contracts	78	11
7	288	Cross-currency swaps and options	288	7
109	183	**Current liabilities**	183	109
93	160	Forward exchange contracts	160	93
16	23	Cross-currency swaps and options	23	16

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million

14. Derivative financial assets and liabilities (continued)

Fair value hedges of firm commitments

The Group entered into fair value hedges of the foreign exchange risk on firm commitments of the Group to import items of equipment (ie locomotives and equipment). The Group is settling the contract price of these items by making predetermined progress payments (in foreign currency) to the relevant suppliers as specified milestones are achieved.

At 31 March 2010, the Group held a series of forward exchange contracts as hedging instruments for this purpose. These hedges were assessed to be effective. The ineffective portion of the hedge has been recorded in profit and loss.

The fair values of these forward exchange contracts held as hedging instruments at 31 March 2010 are as follows:

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
367	(52)	Currency brought forward – Japanese yen – (loss)/gain	(52)	367
–	(4)	Currency brought forward – United States dollar – loss	(4)	–
(3)	(158)	Currency bought forward – Euro – loss	(158)	(3)

The net fair value gain recognised in profit and loss on these fair value hedges during the year was R0,4 million (2009: R22 million). This net fair value gain comprised a gain of R692 million (2009: R201 million) with respect to foreign exchange risk on the firm commitments, and a loss of R691,6 million (2009: R179 million) on the forward exchange contracts.

The nominal values of these forward exchange contracts at 31 March 2010 are as follows:

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		Currency bought forward – Rand equivalent		
2 407	3 494	Japanese yen	3 494	2 407
–	143	United States dollar	143	–
987	757	Euro	757	987
3 394	4 394		4 394	3 394

million	million		million	million
		Currency bought forward – foreign currency		
27 643	43 357	Japanese yen	43 357	27 643
–	19	United States dollar	19	–
74	76	Euro	76	74

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		14. Derivative financial assets and liabilities (continued)		
		Cash flow hedges		
		Cross-currency interest rate swaps		
		On 31 March 2010, the Group was party to two separate cross-currency interest rate swap contracts which are designated as cash flow hedges of the foreign exchange rate and interest rate risks associated with foreign currency denominated borrowings. The loans were received from the Japan Bank for International Cooperation (JBIC) for JPY23,5 billion and the American Family Life Assurance Company of Columbus, Japan Branch (AFLAC) for JPY15 billion.		
		Under the swap contract to hedge the JBIC loan, the Group pays 11,46% fixed (ZAR) and receives LIBOR +1,48% (JPY). Under the second swap contract to hedge the AFLAC loan the Group pays 12,22% fixed (ZAR) and receives 2,70% fixed (JPY).		
		The terms of the cross-currency interest rate swaps closely match those of the foreign currency denominated borrowings they hedge and they were assessed as highly effective hedges. The amount of ineffectiveness recognised in profit or loss for the period with respect to these hedges was Rnil (2009: Rnil). The amount recycled to profit and loss to offset the hedged risks was R70 million (2009: Rnil), included in finance costs.		
		The cash flows are projected to occur semi-annually in February and August until February 2021 on the JBIC hedge and semi-annually in May and November up to November 2019 on the AFLAC hedge.		
		The fair values of the cross-currency interest rate swaps at 31 March 2010 are as follows:		
–	311	**Cross-currency interest rate swaps**	311	–
		The nominal amounts of the cross-currency interest rate swaps at 31 March 2010 are as follows:		
–	3 176	South African rand	3 176	–
–	38 500	Japanese yen	38 500	–
		Forward exchange contracts		
		On 31 March 2010, the Group held a series of forward exchange contracts as hedges of highly probable forecast transactions relating to the acquisition of locomotives, spares and tools. The terms of the forward exchange contracts exactly match the terms of the highly probable forecast transactions and were assessed as highly effective hedges. No element of hedge ineffectiveness was recognised in profit or loss for the period (2009: Rnil).		
		The cash flows are projected to occur in the period between 15 April 2010 and 17 August 2011.		
		The nominal values of these forward exchange contracts at 31 March 2010 are as follows:		
–	150	Currency bought forward – Japanese yen	150	–
		Refer note 22 for details of the amounts recognised in other comprehensive income, amounts recycled to profit or loss or included in the initial cost of non-financial assets or liabilities with respect to the above hedges.		

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		15. Long-term loans and advances		
77	37		37	77
90	77	Balance at the beginning of the year	77	90
11	15	Advances	15	11
29	–	Capitalised interest	–	29
(33)	–	Repayments	–	(33)
(20)	(55)	Impairment	(55)	(20)
		Comprising:		
71	33	**Employee housing and other loans**	33	71
85	71	Balance at the beginning of the year	71	85
10	2	Advances	2	10
29	–	Capitalised interest	–	29
(33)	–	Repayments	–	(33)
(20)	(40)	Impairment	(40)	(20)
6	4	**Other loans and advances**	4	6
5	6	Balance at the beginning of the year	6	5
1	13	Advances	13	1
–	–	Repayments	–	–
–	(15)	Impairment	(15)	–
77	37		37	77
		16. Other investments and long-term financial assets		
–	–	Listed investments at market value	224	149
138	172	Other financial assets	172	138
138	172		396	287
–	–	Transferred to assets classified as held-for-sale	(224)	–
138	172	**Total long-term investments and long-term financial assets**	172	287
436	1 670	Short-term portion of other investments including market making positions held-for-trading	1 670	436
436	1 670	**Total short-term investments**	1 670	436
		17. Inventories		
		At weighted average cost		
2 175	1 556	Maintenance material	1 556	2 175
91	114	Consumables	114	91
51	44	Finished goods	44	51
135	134	Work in progress*	134	135
(443)	(363)	Provision for stock obsolescence	(363)	(443)
2 009	1 485		1 485	2 009

*Included in work in progress are costs for construction contracts in progress (refer note 27).

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		17. Inventories (continued)		
		At net realisable value		
631	601	Maintenance material	601	631
26	30	Consumables	30	26
(70)	(67)	Provision for stock obsolescence	(67)	(70)
587	564		564	587
(7)	(1)	Transferred to assets classified as held-for-sale	(1)	(7)
2 589	2 048		2 048	2 589
		18. Trade and other receivables*		
4 678	4 831	Trade receivables – net of allowances for credit losses	4 810	4 653
850	1 047	Prepayments and other amounts receivable	1 047	850
1	3	Short-term portion of loans and advances	3	1
5 529	5 881		5 860	5 504
(1)	(1)	Transferred to assets classified as held-for-sale	(1)	(1)
5 528	5 880		5 859	5 503
		Reconciliation of allowance account for credit losses (Refer annexure A)		
		Low risk		
(4)	(5)	Opening balance	(5)	(3)
(4)	(117)	Raised	(117)	(4)
3	80	Utilised	80	2
–	2	Disposal	2	–
(5)	(40)	**Closing balance**	(40)	(5)
		Medium risk		
(82)	(117)	Opening balance	(117)	(83)
(38)	(13)	Raised	(13)	(38)
1	87	Utilised	87	2
2	–	Disposal	–	2
(117)	(43)	**Closing balance**	(43)	(117)
		High risk		
(125)	(169)	Opening balance	(169)	(125)
(52)	(187)	Raised	(187)	(53)
8	29	Utilised	29	9
(169)	(327)	**Closing balance**	(327)	(169)
		Total provisions		
(211)	(291)	Opening balance	(291)	(211)
(94)	(317)	Raised	(317)	(95)
12	196	Utilised	196	13
2	2	Disposal	2	2
(291)	(410)	**Closing balance**	(410)	(291)

Included in trade receivables are amounts due from customers in respect of construction contracts (refer note 27).

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million
		19. Cash and cash equivalents		
5 603	7 632	Cash and cash equivalents	7 918	5 880
5 603	7 632		7 918	5 880
		20. Assets classified as held-for-sale and liabilities directly associated with assets classified as held-for-sale (refer annexure C)		
		Non-current assets classified as held-for-sale		
331	247	Property, plant and equipment	247	331
8	8	Investment property	8	8
–	–	Other investments	224	–
339	255		479	339
		Effect of the sale of disposal groups		
		Assets classified as held-for-sale		
82	85	Luxrail	85	82
–	–	Freight Dynamics Guardrisk	26	25
(72)	(73)	Effect of intercompany eliminations and impairment of disposal groups	(73)	(72)
10	12		38	35
349	267	**Total assets transferred to non-current assets classified as held-for-sale**	517	374
		Liabilities directly associated with assets classified as held-for-sale		
		Effect of the sale of disposal groups		
10	12	Luxrail	12	10
–	–	Freight Dynamics Guardrisk	3	4
10	12		15	14
10	12	**Total liabilities transferred to liabilities directly associated with assets classified as held-for-sale**	15	14

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		21. Issued capital		
		Authorised		
30 000	**30 000**	30 000 000 000 ordinary par value shares of R1 each	**30 000**	30 000
		Issued		
12 661	**12 661**	12 660 986 310 ordinary par value shares of R1 each (2009: 12 660 986 310).	**12 661**	12 661

The unissued share capital is under the control of the South African Government, the sole shareholder of the Company.

Capital management

The Board's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to support future growth of the business. Capital efficiency is measured in terms of returns on equity and the asset base, as well as the gearing ratio which is monitored by the Board. The capital structure of the Group consists of equity attributable to the equity holder, the South African Government, comprising issued capital, reserves and retained earnings as disclosed in notes 21 and 22. Other than loan covenants, Transnet Limited is not subject to any other externally imposed capital requirements.

Based on the significant capital investment plan of the Company, as well as its revenue generating ability, the target debt to equity ratio will remain below the 50% limit that forms part of the Shareholders Compact with the Shareholder Representative (2010: actual 38,5%).

There were no changes to the capital management approach during the year.

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		22. Reserves		
20 453	23 433	**Revaluation reserve**	23 596	20 560
3 047	3 179	***Revaluation of pipeline networks***	3 179	3 047
2 197	3 047	Balance at the beginning of the year	3 047	2 197
636	167	Revaluation during the current year	167	636
21	–	Other movements	–	21
193	(28)	Decommissioning restoration liability adjustment	(28)	193
–	(7)	Realised through disposal	(7)	–
23 440	26 922	***Revaluation of port facilities***	26 922	23 440
19 934	23 440	Balance at the beginning of the year	23 440	19 934
3 522	3 468	Revaluation during the current year	3 468	3 522
1	–	Other movements	–	1
–	14	Decommissioning restoration liability adjustment	14	–
(17)	–	Realised through disposal	–	(17)
125	553	***Revaluation of land, buildings and structures***	553	125
58	125	Balance at the beginning of the year	125	58
67	428	Fair value movement during the current year	428	67
–	–	***ALL Group Limited (refer Annexure D) – revaluation of investment to market value***	217	142
–	–	Balance at the beginning of the year	142	119
–	–	Fair value movement during the current year	75	23
(6 159)	(7 221)	***Deferred taxation impact of items relating to revaluation reserves***	(7 275)	(6 194)
–	–	**Foreign currency translation reserve**	25	21
–	–	Balance at the beginning of the year	21	43
–	–	Arising during the current year	4	(22)
–	(79)	**Cash flow hedging reserve**	(79)	–
–	(109)	*Cash flow hedging reserves*	(109)	–
–	–	Balance at the beginning of the year	–	–
–	(179)	Losses arising during the year	(179)	–
–	70	Transfer to foreign exchange differences	70	–
–	30	*Deferred taxation impact of items relating to cash flow hedging reserves*	30	–
2 398	2 495	**Net actuarial gains on post-retirement benefit obligations**	2 495	2 394
3 331	3 466	*Actuarial gains on post-retirement benefit obligations*	3 466	3 326
3 957	3 331	Balance at the beginning of the year	3 326	3 952
(626)	135	Current year movement	135	(626)
–	–	Transfer from retained earnings	5	–
(933)	(971)	Deferred taxation impact of net actuarial gains	(971)	(932)
250	250	**Other reserves**	249	249
5	5	Other transfers	4	4
245	245	Share of pension fund surplus (retained for application against pensioners)	245	245
22 560	25 647	**Retained earnings**	25 509	22 449
14 800	22 560	Balance at the beginning of the year	22 449	17 925
(4)	1	Transfers into/(from) distributable reserves	(3)	(4)
7 764	3 086	Profit for the year attributable to equity holder	3 063	4 528
45 661	51 746		51 795	45 673

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million
		23. Post-retirement benefit obligations		
2 324	2 022		2 022	2 324
2 181	2 324	Balance at the beginning of the year	2 324	2 181
(169)	140	Income statement charge/(credit)	140	(169)
(314)	(307)	Settlements during the year	(307)	(317)
626	(135)	Actuarial (gain)/loss	(135)	626
–	–	Transfers from assets held-for-sale	–	3
		Comprising:		
84	80	Transnet Top Management Pension Fund (refer note 32.1.4)	80	84
368	354	Transnet Workmen's Compensation Act Pensioners Fund (refer note 32.1.4)	354	368
1 240	1 026	Transnet SATS pensioners' medical benefits (refer note 32.2.1)	1 026	1 240
632	562	Transnet employees post-retirement medical benefits (refer note 32.2.2)	562	632
2 324	2 022		2 022	2 324

Various assumptions have been applied by management and actuaries in the calculation of post-retirement benefit obligations.

The assumptions and their sensitivities are disclosed in note 32.

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million
		24. Long-term borrowings (refer annexure A)		
29 754	42 732		42 736	29 758
16 889	29 754	Total long-term borrowings at the beginning of the year	29 758	16 890
14 592	15 137	Raised	15 137	14 595
15	(82)	Foreign exchange movement	(82)	15
(25)	26	Amortisation of discount	26	(25)
(1 717)	(2 103)	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings (refer note 29)	(2 103)	(1 717)
		Unsecured liabilities		
26 609	37 575	**Rand denominated**	37 575	26 609
19 584	29 048	Bonds at nominal value	29 048	19 584
(770)	(1 332)	Unamortised discounts	(1 332)	(770)
18 814	27 716	Bonds at carrying value#	27 716	18 814
7 795	9 859	Other unsecured liabilities*	9 859	7 795
–	3 102	**Unsecured foreign currency denominated†**	3 102	–
4 862	4 158	**Secured loans** and capitalised leases■**	4 162	4 866
4 762	4 118	Rand denominated	4 120	4 764
100	40	Foreign currency denominated▼	42	102
31 471	44 835	**Total long-term borrowings**	44 839	31 475
(1 717)	(2 103)	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings (refer note 29)	(2 103)	(1 717)
29 754	42 732		42 736	29 758

#The rand denominated secured local guaranteed bonds of which the T011 bond has been redeemed on 1 April 2010 and the rest is redeemable on 15 July 2014 and bears interest at 10,75% (refer annexure A). Rand denominated secured Eurorand bonds bear interest between 10% and 13,5% and are repayable in 2028 and 2029 (refer annexure A).

The rand denominated unsecured and non-guaranteed bonds are redeemable between 14 November 2017 and 14 November 2027 and bear interest at a rate between 8,9% and 10,8%.

**Rand denominated domestic loans bear interest at rates ranging between 7,395% and 15,33%. These liabilities are repayable over periods between 1 January 2011 and 20 December 2021.*

†Foreign currency unsecured loans are denominated in Japanese yen, bear interest at rates between 1,937% and 2,7%, and are repayable between 15 November 2019 and 20 February 2021.

***Rand denominated secured loans bear interest at rates ranging between 7,395% and 15,33%, with floating rates linked to JIBAR. These loans are repayable over periods between 15 June 2010 and 20 December 2021.*

■Rand denominated capitalised finance lease liabilities bear interest at rates ranging between 11,00% and 16,93% with all rates linked to prime. These liabilities are repayable over periods between 2010 and 2017.

▼Foreign currency secured loans are denominated in United States dollar, bear interest at 1,389% and are repayable on 24 November 2010.

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		25. Provisions		
2 509	2 523	*Comprising*	2 523	2 509
1 990	2 509	Total provisions at the beginning of the year	2 509	1 989
3 655	4 013	Provisions raised during the year and unwinding of discounts	4 013	3 684
(3 351)	(3 309)	Provisions utilised	(3 309)	(3 411)
222	(688)	Decrease/(increase) in short-term provisions classified as current liabilities	(688)	254
(7)	(2)	Transferred to liabilities directly associated with assets classified as held-for-sale	(2)	(7)
139	135	**Third-party claims**	135	139
129	139	Balance at the beginning of the year	139	129
289	428	Provisions made during the year	428	289
(279)	(432)	Utilised during the year	(432)	(279)
26	26	**Customer claims**	26	26
37	26	Balance at the beginning of the year	26	38
–	4	Provisions made during the year	4	–
(11)	(4)	Utilised during the year	(4)	(12)
1 067	1 139	**Leave pay**	1 139	1 067
971	1 067	Balance at the beginning of the year	1 067	973
686	736	Provisions made during the year	736	686
(584)	(662)	Utilised during the year	(662)	(586)
(6)	(2)	Transferred to liabilities directly associated with assets classified as held-for-sale	(2)	(6)
149	38	**Onerous contracts**	38	149
219	149	Balance at the beginning of the year	149	219
39	107	Provisions made during the year	107	39
(109)	(218)	Utilised during the year	(218)	(109)
906	1 087	**Decommissioning and environmental liabilities**	1 087	906
1 087	906	Balance at the beginning of the year	906	1 087
69	188	Provisions made during the year and unwinding of discounts	188	69
(250)	(7)	Utilised during the year	(7)	(250)
1 457	2 063	**Incentive bonuses**	2 063	1 457
1 484	1 457	Balance at the beginning of the year	1 457	1 511
1 337	1 855	Provisions made during the year	1 855	1 366
(1 363)	(1 249)	Utilised/reversed during the year	(1 249)	(1 419)
(1)	–	Transferred to liabilities directly associated with assets classified as held-for-sale	–	(1)
78	45	**Restructuring**	45	78
127	78	Balance at the beginning of the year	78	127
(49)	(33)	Utilised during the year	(33)	(49)
966	957	**Other**	957	966
437	966	Balance at the beginning of the year	966	438
1 235	695	Provisions made during the year	695	1 235
(706)	(704)	Utilised during the year	(704)	(707)
4 788	5 490	**Total provisions**	5 490	4 788

25. Provisions (continued)

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
2 279	2 967	*Less:* **Short-term provisions classified as current liabilities**	2 967	2 279
139	135	Third-party claims	135	139
26	26	Customer claims	26	26
602	621	Leave pay	621	602
149	38	Onerous contracts	38	149
63	113	Decommissioning and environmental liabilities	113	63
907	1 652	Incentive bonuses	1 652	907
23	–	Restructuring	–	23
371	382	Other	382	371
(1)	–	Transferred to liabilities directly associated with assets classified as held-for-sale	–	(1)
2 509	2 523	**Total long-term provisions**	2 523	2 509

Various assumptions are applied in arriving at the carrying value of provisions that are recognised in terms of the requirements of IAS 37: *Provisions, Contingent Liabilities and Contingent Assets*.

Management further relies on input from the Group's lawyers in assessing the probability on matters of a contingent nature. Contingent liabilities are disclosed in note 31.

Third-party claims
This provision represents the best estimate of known third-party claims together with an allowance for claims incurred but not yet reported based on historical experience.

Customer claims
This provision represents claims made by customers arising from non-performance on contracts or damage to goods in transit. Settlement of claims are expected in the following year.

Leave pay
This provision represents unutilised leave at year-end. The leave is expected to be taken over the next two financial years and is calculated based on the employee's total cost to company.

Onerous contracts
This provision is raised for maintenance and repairs of buildings and structures in terms of a lease agreement.
In addition the estimated costs for the refurbishment and general overhaul of locomotives and coaches are provided for.

Decommissioning and environmental liabilities
Provision for the dismantling and removal of an asset as a result of the requirement to restore the site on which the asset is located. The provision has been computed by discounting future cash flows.

In accordance with the Group's environmental policy and applicable legal requirements, a provision for environmental rehabilitation in respect of clean-up costs is recognised when it meets the recognition requirements for provisions. The provision includes the estimated rehabilitation costs for the historical contamination caused by asbestos as well as costs for the rehabilitation caused by ferromanganese, manganese, mixed soil (including chrome, sulphur and manganese) fuel and rubble contamination.

Environmental provisions for the remediation of soil contaminated areas have been raised. These include provisions for the removal of asbestos, ferromanganese, manganese, mixed soil (including chrome, sulphur and manganese) fuel and rubble. These obligations arise from environmental legislation requiring Transnet to remove this waste material and remediate the land. Transnet engaged external consultants to perform risk assessments on identified areas of contamination and the Group's related rehabilitation obligation. A number of factors were considered in determining the obligation, which included:

- The extent of the contamination.
- The cost per ton/per running line kilometre of removal and disposal of the contamination.
- The costs of rehabilitation of the identified areas of contamination.
- The costs estimated for the removal and replacement of asbestos roof sheeting and cladding on buildings.

Incentive bonuses
Provision for incentive bonuses in terms of the Group's incentive scheme. Refer to the Report of Directors for details.

Restructuring
Provision for restructuring costs in terms of strategic plans. The majority of this provision is expected to be settled in the next financial year.

Post-retirement and medical benefits
Included in other provisions is an amount of R500 million (2009: R500 million) for the restructuring of the SATS post-retirement medical subsidy and an amount of R40 million for a non-recurring bonus to pensioners.

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		26. Deferred taxation liabilities		
8 548	11 304	*Comprising*	11 364	8 589
6 660	8 548	Opening balance	8 589	6 695
945	918	Income statement charge (refer note 8)	918	1 024
–	762	Transfer from current taxation (refer note 8)	762	–
943	1 076	Raised in other comprehensive income	1 095	949
8 548	11 304	Total deferred taxation liability	11 364	8 668
–	–	Transferred to liabilities directly associated with assets classified as held-for-sale	–	(79)
		Analysis of major categories of temporary differences		
3 294	3 541	**Deferred taxation assets**	3 512	3 294
1 351	1 551	Provisions	1 551	1 351
650	566	Post-retirement benefit obligation	566	650
46	117	Income received in advance	117	46
1 247	1 278	Capitalised lease liability	1 278	1 247
–	29	Other	–	–
11 842	14 845	**Deferred taxation liabilities**	14 876	11 883
194	74	Deferred expenditure	74	194
11 429	14 713	Property, plant and equipment	14 713	11 429
19	24	Future expenditure allowance	24	19
80	34	Allowance for doubtful debts	34	80
120	–	Other	31	161
8 548	11 304	**Net deferred taxation liability**	11 364	8 589

No deferred taxation asset has been raised in respect of secondary taxation on companies credits available as they are unlikely to be utilised given the capital requirements of the Company and the change in regime from secondary taxation on companies to a withholding taxation on dividends, from which the Company is exempt.

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		27. Construction contracts		
		Contracts in progress at the financial position date:		
303	1 306	Construction costs incurred plus recognised profits less losses to date	1 306	303
(7)	(929)	*Less:* Progress billings	(929)	(7)
296	377		377	296
		Recognised and included in the financial statements:		
		Income statements		
1 270	945	Contract revenue (refer note 2)	945	1 270
		Statements of financial position		
240	384	Amounts due from customers under construction contracts (note 18)	384	240
33	16	Retention debtors (note 18)	16	33

Contract revenue for coaches is recognised when the completed stage has been signed off as proof of quality satisfaction by the external customer.

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million
		28. Trade payables and accruals		
1 224	1 791	**Trade payables**	1 779	1 212
5 266	5 553	**Accruals**	5 605	5 293
2 975	3 083	Accrued expenditure	3 109	3 000
42	51	Deposits received	51	42
4	3	Deferred income	3	4
1 083	1 229	Interest	1 229	1 083
378	92	Personnel costs	93	378
527	654	Public creditors	679	529
199	322	Revenue received in advance	322	199
58	119	SARS – value added taxation	119	58
(14)	–	Transferred to liabilities directly associated with assets classified as held-for-sale	–	(14)
6 476	7 344		7 384	6 491
		29. Short-term borrowings		
1 717	2 103	Current portion of long-term interest-bearing borrowings (refer note 24)	2 103	1 717
5 538	2 595	Other short-term borrowings	2 595	5 538
7 255	4 698		4 698	7 255

Other short-term borrowings relate to the market making portfolio and comprises the Group's position on bonds and other financial instruments.

The short-term borrowings bear interest at rates between 7,24% and 16,50%, repayable between April 2010 and April 2011 and are not guaranteed.

Company 2009 R million	Company 2010 R million			Group 2010 R million	Group 2009 R million
		30.	**Commitments**		
		30.1	**Capital commitments***		
53	28		Contracted for in US dollars	28	53
2 432	1 703		Contracted for in Japanese yen	1 703	2 432
1 667	463		Contracted for in euros	463	1 667
21 475	18 257		Contracted for in SA rands	18 257	21 475
7	1		Contracted for in various other currencies	1	7
25 634	20 452		Total capital commitments contracted for	20 452	25 634
54 867	72 930		Authorised by the Directors but not yet contracted for	72 930	54 867
80 501	93 382			93 382	80 501
			Total capital commitments are expected to be incurred as follows:		
21 912	22 831		Within one year	22 831	21 912
58 589	70 551		After one year, but not more than five years	70 551	58 589
80 501	93 382			93 382	80 501
			These capital commitments will be financed utilising net cash flow from operations, debt capital markets, through project finance and the use of operating leases.		
		30.2	**Operating lease commitments**		
			Future minimum rentals under non-cancellable leases are as follows:		
			Land, buildings and structures		
62	76		Within one year	79	62
157	226		After one year, but not more than five years	233	157
245	291		More than five years	291	245
464	593			603	464

Excludes capitalised borrowing costs of R5 981 million (2009: R7 068 million).

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million
		30. Commitments (continued)		
		30.2 Operating lease commitments (continued)		
		Machinery, equipment, furniture and motor vehicles		
327	408	Within one year	408	327
544	611	After one year, but not more than five years	611	544
11	7	More than five years	7	11
882	1 026		1 026	882
		Security and maintenance contracts		
77	113	Within one year	113	77
77	55	After one year, but not more than five years	55	77
154	168		168	154
		Other		
20	19	Within one year	28	20
11	14	After one year, but not more than five years	14	11
31	33		42	31

30.3 Finance lease commitments

Finance leases relate to the Kimberley De Aar transmission line, MTN Coal Line Network, computer equipment and camera security equipment. These finance leases have a lease term ranging between three to 17 years. The interest rates vary from 11,25% to 16,93%.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		Machinery, equipment and furniture		
8	28	Within one year	28	8
9	46	After one year, but not more than five years	46	9
64	80	More than five years	80	64
81	154	Total minimum lease payments	154	81
(8)	(17)	Amount representing finance charges	(17)	(8)
73	137	Present value of minimum lease payments	137	73

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		30. Commitments (continued)		
		30.3 Finance lease commitments (continued)		
		Included in the financial statements as:		
7	24	– Current borrowings	24	7
66	113	– Non-current borrowings	113	66
73	137		137	73
		30.4 Lease rentals receivable		
		Future minimum rentals under operating leases are as follows:		
		Property		
739	1 159	Within one year	1 159	739
1 957	3 222	After one year, but not more than five years	3 222	1 957
2 736	3 479	More than five years	3 479	2 736
5 432	7 860		7 860	5 432
		Other		
90	90	Within one year	114	114
360	360	After one year, but not more than five years	360	360
720	630	More than five years	630	720
1 170	1 080		1 104	1 194

31. Contingent liabilities and guarantees

Continuing operations

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
–	–	**Asbestos roofs and asbestos cladding** Transnet owns buildings with asbestos roofs and asbestos cladding. In terms of the Asbestos Regulations of 2001, Transnet is responsible for taking reasonable steps to determine the location of asbestos in the workplace for the purposes of managing the potential risk associated with such materials. The assessment for the potential risk of exposure and the cost of removal is a complex scientific process which requires the expertise of an environmental specialist. In certain cases the asbestos cladding is of low friability i.e dust fibre released is negligible/non-existent and therefore maintenance and inspection of the contamination is the preferred rehabilitation option, until the roofs and cladding is removed and replaced.	–	–
–	–	**Sub-surface fuel contamination** Transnet uses rail tank cars to transport and store diesel fuel, in large quantities, for the running of its locomotives. Equipment failures and spillages occur frequently with consequent environmental damage. Transnet needs to perform work in terms of the clean up and rehabilitation of the contaminated soil; as well as the refurbishment of the infrastructure, particularly at locomotive staging areas, fuelling and decanting points, and locomotive maintenance facilities. In the absence of an extensive physical assessment of the identified sites where environmental contamination could have occurred it is not possible to accurately determine the cost for environmental rehabilitation as there could be contamination not visible from the surface.	–	–

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million
		31. Contingent liabilities and guarantees (continued)		
		Port Elizabeth manganese plant Within the next five years, a decommissioning environmental impact assessment (EIA) will be required to determine the soil condition of the terminal at the time of potential decommissioning of the plant. Transnet will be responsible for any clean-up costs as a result of the decommissioning of the plant, including the entire berm removal and bin deconstruction.		
		To date no decision has been taken in respect of the following: • Whether the Manganese plant will be relocated to the Port of Ngqura or Saldanha and therefore the nature and timing is uncertain. • The future use of the Port Elizabeth land and whether it will be used for property development or port development once the manganese operations are relocated. • Whether the assets at the Port of Port Elizabeth will be dismantled and moved and re-assembled at the new location or whether it would be more financially viable to construct new assets for the new plant.		
–	–	Accordingly a reliable estimate could not be made for the relocation of the manganese plant.	–	–
95	227	**Various contingent liabilities where no material losses are expected to materialise**	227	95

32. Post-retirement benefit obligations

The Group offers pension benefits through two defined benefit pension funds and one defined contribution fund. The Group also offers post-retirement medical benefits to its employees. Specific retirement benefits are offered to top management and under the Workmen's Compensation Act. The following sections summarise the relevant components of the pension benefits and post-retirement medical benefits. (It should be noted that all amounts disclosed are equal for Company and Group unless otherwise stated.)

32.1 Pension benefits

Transnet has three pension funds, namely the Transnet Retirement Fund, Transport Pension Fund and Transnet Second Defined Benefit Fund. Except for the Transnet Retirement Fund, the IAS 19: *Employee Benefits* actuarial valuations for the funds are performed annually. The Transnet pension funds are governed by the Transnet Pension Fund Act, No. 62 of 1990, as amended.

With regard to the defined benefit funds, the expected return on plan assets has been calculated based on market expectations at the beginning of the period for returns over the entire life of the related obligation, except where settlements have occurred during the year. In these instances the return on assets is adjusted immediately before settlement. The estimated return is determined in conjunction with actuaries and market analysts based on the underlying asset base within each fund.

32.1.1 Transnet Retirement Fund

The fund was structured as a defined contribution fund from 1 November 2000. All employees of the Group are eligible members of the fund. There were 58 667 members at 31 March 2010 (2009: 61 407). Actuarial valuations are done at intervals not exceeding three years to determine the financial position. An actuarial valuation was performed as at 31 March 2009. The actuaries were satisfied with the status of the member's credit account then. The total contributions to this fund constitute member contributions of R714 million (2009: R677 million) and employer contributions of R1 127 million (2009: R669 million).

32. Post-retirement benefit obligations (continued)

32.1. Pension benefits (continued)

32.1.2 Transport Pension Fund: Transnet Sub-Fund

The fund is a defined benefit pension fund. The fund has been closed to new members since 1 December 2000. Members are current employees of Transnet who elected to remain as members of the fund at 1 November 2000 and pensioner members who retired subsequent to that date.

The Transnet Pension Fund Amendment Act, promulgated in the latter part of 2007, changed the name of the fund with effect from 11 November 2005 to the Transport Pension Fund. This Act restructured the Transport Pension Fund (formerly the Transnet Pension Fund) into a multi-employer pension fund. From the date this Act came into operation, all existing members, pensioners, dependant pensioners, liabilities, assets, rights and obligations, of the Transport Pension Fund, were attributable to a Sub-Fund, with Transnet as the principal employer. In terms of these Act amendments a Sub-Fund in the name of South African Airways (Pty) Limited was also established as at 1 April 2006, with South African Airways (Pty) Limited as the principal employer of that Sub-Fund, and a further Sub-Fund in the name of the South African Rail Commuter Corporation Limited was established with effect from 1 May 2006, with the South African Rail Commuter Corporation Limited as the principal employer of that Sub-Fund.

All active members and pensioner members relating to South African Airways (Pty) Limited and the South African Rail Commuter Corporation Limited have therefore been assigned to these new Sub-Funds. The Transport Pension Fund therefore comprises three independent and separate Sub-Funds, each with their own principal employer. An employer's liabilities to the Transport Pension Fund are limited to those attributable to its members, pensioners and dependant pensioners assigned to its Sub-Fund.

There were 5 449 members and pensioners at 31 March 2010 (2009: 5 583). The fund gives members the option to transfer to the Transnet Retirement Fund twice a year. 153 members opted to transfer to the Transnet Retirement Fund in the current year. The effect of this transfer is noted below.

An actuarial valuation was done as at 31 March 2010 based on the projected unit credit method. The principal actuarial assumptions used are as follows:

	Group	
	2010 R million	2009 R million
Discount rate (%)	8,89	9,03
Salary increases		
– Inflation (%)	5,24	5,77
– Promotional (%)	1,00	1,00
Expected return on plan assets (%)	9,99	9,74
Pension increases (%)	2,00	2,00
The results of the actuarial valuation are as follows:		
Benefit liability		
Present value of obligation	(2 786)	(2 957)
Fair value of plan assets	4 502	3 658
Surplus	1 716	701
Unrecognised asset	(1 716)	(701)
Net liability per the statement of financial position	–	–

The surplus was not recognised as the rules of the fund do not provide for the surpluses to be distributed.

	Group	
	2010 R million	2009 R million

32. Post-retirement benefit obligations (continued)

32.1 Pension benefits (continued)

32.1.2 Transport Pension Fund: Transnet Sub-Fund (continued)

	2010 R million	2009 R million
Credit/(charge) to the income statement		
Expected return on assets	337	499
Current service cost	(28)	(36)
Settlements	–	(18)
Interest cost	(250)	(263)
	59	182
Actual return on plan assets	1 234	(677)
Actual loss recognised in other comprehensive income	(79)	(208)
– Actuarial gain/(loss)	936	(1 239)
– Net asset not recognised	(1 015)	1 031
The cumulative actuarial losses recognised in equity	(1 157)	(1 078)
Movements in the net asset/(liability) recognised in the statement of financial position		
Opening net asset	701	1 732
Income as above	59	182
Actuarial gain/(loss) recognised in equity	936	(1 239)
Contributions paid	20	26
Surplus	1 716	701
Asset not recognised	(1 716)	(701)
Closing net asset	–	–
Reconciliation of movement in benefit liability		
Opening benefit liability	(2 957)	(3 192)
Current service cost	(28)	(36)
Contributions by members	(13)	(18)
Interest cost	(250)	(263)
Actuarial gain/(loss) recognised in equity	39	(63)
Benefits paid	277	323
	(2 932)	(3 249)
Transfer to the Retirement Fund	146	292
Closing benefit liability	(2 786)	(2 957)

	Group	
	2010 R million	2009 R million

32. Post-retirement benefit obligations (continued)

32.1 Pension benefits (continued)

32.1.2 Transport Pension Fund: Transnet Sub-Fund (continued)

Reconciliation of movement in fair value of plan assets	2010 R million	2009 R million
Opening fair value of plan assets	**3 658**	4 924
Expected return	**337**	499
Actuarial gain/(loss)	**897**	(1 176)
Contributions by employer and members	**33**	44
Benefits paid	**(277)**	(323)
	4 648	3 968
Transfer to the Retirement Fund	**(146)**	(310)
Closing fair value of plan assets	**4 502**	3 658

Summary of actuarial valuation results for past periods:

	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million
Present value of defined benefit obligation	**(2 786)**	(2 957)	(3 192)	(4 456)	(5 405)
Fair value of plan assets	**4 502**	3 658	4 924	5 610	5 568
Surplus	**1 716**	701	1 732	1 154	163
Asset not recognised	**(1 716)**	(701)	(1 732)	(1 154)	(163)
Net liability	**–**	–	–	–	–
Actuarial gain/(loss) recognised on defined benefit obligation	**39**	(63)	297	(20)	(920)
Actuarial gain/(loss) recognised on plan assets	**897**	(1 176)	(73)	1 199	1 129

The estimated contributions by both employer and members for the year beginning 1 April 2010 amount to R33 million (2009: R44 million).

	2010 %	2009 %
The major categories of plan assets as a % of total plan assets are:		
Equity – Local and international	**73**	67
Property	**1**	2
Bonds	**20**	30
Cash	**6**	1
Total	**100**	**100**

	Group	
	2010 R million	2009 R million

32. Post-retirement benefit obligations (continued)

32.1 Pension benefits (continued)

32.1.3 Transnet Second Defined Benefit Fund

The fund was established on 1 November 2000 for the benefit of existing retired members and qualifying beneficiaries. As of the current financial year, the fund includes the spouses of black pensioners who retired from Transnet between 16 December 1974 and 1 April 1986 (previously reported as the Black Widows Pension Fund – see note 32.1.5). There were 31 328 members at 31 March 2010 (2009: 32 521). This excludes widows and children of pensioners, as well as the black widows. The all inclusive membership is 75 401 at 31 March 2010 (2009: 78 780). The entire obligation relates to Transnet Limited.

The actuarial valuation was based on the projected unit credit method. The principal actuarial assumptions used are as follows:

	2010	2009
Discount rate (%)	8,67	8,49
Expected return on assets (%)	7,19	7,29
Inflation	5,38	5,42
Pension increases (%)	2,00	2,00

The results of the actuarial valuation are as follows:

	2010	2009
Benefit liability		
Present value of obligation	(16 469)	(17 550)
Fair value of plan assets	19 679	20 316
Surplus	3 210	2 766
Unrecognised asset	(3 210)	(2 766)
Net liability per the statement of financial position	–	–

The surplus was not recognised as the rules of the fund do not provide for the surpluses to be distributed.

	2010	2009
Credit/(charge) to the income statement		
Expected return on plan assets	1 400	1 703
Interest cost	(1 396)	(1 512)
	4	191
Actual return on plan assets	1 584	2 615
Actuarial loss recognised in other comprehensive income	(4)	(191)
– Actuarial gain/(loss)	440	(214)
– Net asset not recognised	(444)	23
The cumulative actuarial gains recognised in equity	4 555	4 559

Note – The movement for the previous period includes the transfer of the Black Widows Pension Fund cumulative loss of R17 million.

	2010	2009
Movements in the net liability recognised in the statement of financial position		
Opening net asset	2 766	2 772
Transfer from Black Widows Pension Fund	–	17
Income as above	4	191
Actuarial gain/(loss) recognised in equity	440	(214)
Surplus	3 210	2 766
Asset not recognised	(3 210)	(2 766)
Net asset per statement of financial position	–	–

	Group	
	2010 R million	2009 R million

32. Post-retirement benefit obligations (continued)

32.1. Pension benefits (continued)

32.1.3 Transnet Second Defined Benefit Fund

	2010 R million	2009 R million
Reconciliation of movement in benefit liability		
Opening benefit liability	**(17 550)**	(17 194)
Transfer from Black Widows Pension Fund	**–**	(59)
Interest cost	**(1 396)**	(1 512)
Actuarial gain	**256**	(1 126)
Benefits paid	**2 221**	2 341
Closing benefit liability	**(16 469)**	(17 550)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	**20 316**	19 966
Transfer from Black Widows Pension Fund	**–**	76
Expected return	**1 400**	1 703
Actuarial gain	**184**	912
Benefits paid	**(2 221)**	(2 341)
Closing fair value of plan assets	**19 679**	20 316

Summary of actuarial valuation results for past periods:

	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million
Present value of defined benefit obligation	**(16 469)**	(17 550)	(17 194)	(19 548)	(20 887)
Fair value of plan assets	**19 679**	20 316	19 966	21 477	19 259
Surplus	**3 210**	2 766	2 772	1 929	(1 628)
Asset not recognised	**(3 210)**	(2 766)	(2 772)	(1 929)	–
Net liability	**–**	–	–	–	(1 628)
Actuarial gain/(loss) recognised on defined benefit obligation	**256**	(1 126)	1 513	563	(1 255)
Actuarial gain/(loss) recognised on plan assets	**184**	912	(1 308)	3 012	3 899

The estimated contributions by both employer and members for the year beginning 1 April 2010 amount to Rnil (2009: Rnil).

	2010 %	2009 %
The major categories of plan assets as a % of total plan assets are:		
Equity	**18**	21
Property	**1**	1
Bonds	**27**	73
Cash and net current assets	**54**	5
Total assets at market value	**100**	100

	Group	
	2010 R million	2009 R million

32. Post-retirement benefit obligations (continued)

32.1. Pension benefits (continued)

32.1.4 Top Management Pension Fund and Workmen's Compensation Act Pensioners Fund

The fund was established on 1 November 2000 for the benefit of existing retired members the Top Management Pension Fund are additional benefits to top up pensions received to eliminate the effects of any early retirement and resignation penalties applied under the Group's existing pension fund schemes to management appointed prior to 1 April 1999. There were 397 members at 31 March 2010 (2009: 424). The entire obligation relates to Transnet Limited.

The Workmen's Compensation Act Pensioners Fund benefit relates to the pension benefits that the Company pays to current and former employees who were disabled whilst in service prior to the corporatisation of Transnet in 1990. There were 1 472 members at 31 March 2010 (2009: 1 537).

Actuarial valuations for both benefits were performed to determine the present value of the obligations. Similar valuations were done at the previous reporting date. The projected unit credit method was used to value the obligations. There are no plan assets held to fund these obligations.

The following summarises the components of expense and liability recognised in the financial statements together with the assumptions adopted.

Top Management Pension Fund

The principal assumptions in determining the benefits are as follows:

	2010 R million	2009 R million
Discount rate (%)	8,67	8,49
Salary increases		
Inflation (%)	5,38	5,42
Promotional (%)	1,00	1,00
Pension increase (%)	2,00	2,00
Benefit liability		
Present value of obligations	(80)	(84)
Liability recognised in the statements of financial position	(80)	(84)
Charge to the income statement		
Interest cost	(7)	(6)
Current service cost	–	(1)
	(7)	(7)
Actuarial gain recognised in other comprehensive income	2	3
The cumulative actuarial gains recognised in equity	37	35
Reconciliation of movement in benefit liability		
Opening benefit liability	(84)	(89)
Expense as above	(7)	(7)
Actuarial gain	2	3
Benefits paid	9	9
Benefit liability at year-end	(80)	(84)

Summary of actuarial valuation results for past periods:

	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million
Present value of defined benefit obligation	(80)	(84)	(89)	(113)	(116)
Deficit	(80)	(84)	(89)	(113)	(116)
Actuarial gain/ (loss) recognised on defined benefit obligation	2	3	27	4	(17)

The estimated contributions (based on current year contribution) for the year beginning 1 April 2010 amount to R9 million (2009: R9 million).

	Group	
	2010 R million	2009 R million
32. Post-retirement benefit obligations (continued)		
32.1 Pension benefits (continued)		
32.1.4 Top Management Pension Fund and Workmen's Compensation Act Pensioners Fund (continued)		
Workmen's Compensation Act Pensioners Fund		
The principal assumptions in determining the benefits are as follows:		
Discount rate (%)	8,89	9,03
Pension increase (%)	5,24	5,77
Inflation rate (%)	5,24	5,77
Benefit liability		
Present value of obligations	(354)	(368)
Liability recognised in the statements of financial position	(354)	(368)
Charged to the income statement		
Interest cost	(32)	(25)
	(32)	(25)
Actuarial gain/(loss) recognised in other comprehensive income	16	(93)
The cumulative actuarial losses recognised in equity	(139)	(155)
Reconciliation of movement in benefit liability		
Opening benefit liability	(368)	(280)
Interest cost	(32)	(25)
Actuarial gain/(loss)	16	(93)
Benefits paid	30	30
Benefit liability at year-end	(354)	(368)

Summary of actuarial valuation results for past periods:

	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million
Present value of defined benefit obligation	(354)	(368)	(280)	(238)	(247)
Deficit	(354)	(368)	(280)	(238)	(247)
Actuarial gain/(loss) recognised on defined benefit obligation	16	(93)	(43)	–	(26)

The estimated contributions (based on current year contribution) for the year beginning 1 April 2010 amount to R30 million (2009: R30 million).

32. Post-retirement benefit obligations (continued)

32.1 Pension benefits (continued)

32.1.5 HIV/Aids benefits

Transnet Group offers certain assistance to employees diagnosed with Aids. The related data is not sufficient to actuarially value any liability the Group may have in this regard.

32.2 Post-retirement medical benefits

SATS Pensioners' post-retirement medical benefits
The SATS pensioners are the retired employees of the former South African Transport Services (SATS) and their dependants. The liability is in respect of pensioners and their dependants who have elected to belong to the Transnet in-house medical scheme, Transmed, whose membership is voluntary.

Transnet employees post-retirement medical benefits
This includes the current and past employees of Transnet who are members of Transnet's in-house medical aid, Transmed Medical Fund. Membership is voluntary.

Transnet subsidises members at a flat contribution of R213 per month per member family.

To enable the Company to fully provide for such post-retirement medical liabilities, since April 2000 actuarial valuations are obtained annually. There are no assets held to fund the obligation.

Analysis of benefit expense
The following summarises the components of the net benefit expense recognised in both the statement of comprehensive income and statement of financial position as at 31 March 2010 for both SATS pensioners and Transnet employees. The projected unit credit method has been used for the purposes of determining the actuarial valuation for both the funds.

	Group	
	2010 R million	2009 R million
32.2.1 SATS pensioners		
Discount rate (%)	8,89	8,44
Benefit liability		
Present value of obligations	(1 026)	(1 240)
Liability recognised in the statements of financial position	(1 026)	(1 240)
The liability recognised for this fund relating to the Company amounts to R1 026 million (2009: R1 240 million).		
Charge to the income statement		
Interest cost	(101)	(108)
	(101)	(108)
The charge to the income statement relating to the Company amounts to R101 million (2009: R108 million).		
Actuarial gain/(loss) recognised in other comprehensive income	112	(117)

	Group	
	2010 R million	2009 R million

32. Post-retirement benefit obligations (continued)

32.2. Post-retirement medical benefits (continued)

32.2.1 SATS pensioners

	2010 R million	2009 R million
The cumulative actuarial losses recognised in equity	(87)	(199)
Reconciliation of movement in benefit liability		
Opening benefit liability	(1 240)	(1 223)
Interest cost	(101)	(108)
Company contributions	203	208
Actuarial gain/(loss)	112	(117)
Closing benefit liability	(1 026)	(1 240)

The medical inflation has no impact on the aggregate current service cost and interest cost and the benefit liability. However, the assumed discount rate has an impact. The sensitivity of the obligation to a change in the assumed discount rate of 8,89% on the present value of the obligation is as follows:

	2010 R million	2009 R million
Closing benefit liability based on changes in discount rate:		
7,89% (2009: 7,44%)	1 079	(1 304)
9,89% (2009: 9,44%)	979	(1 181)

Summary of actuarial valuation results for past periods:

	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million
Benefit liability	(1 026)	(1 240)	(1 223)	(1 369)	(1 607)
Deficit	(1 026)	(1 240)	(1 223)	(1 369)	(1 607)
Actuarial gain /(loss) recognised on defined benefit obligation	112	(117)	204	134	(82)

The estimated contribution (based on current year contribution) for the year beginning 1 April 2010 is R203 million (2009: R208 million).

32.2.2 Transnet employees

	2010 R million	2009 R million
Closing benefit liability based on changes in discount rate (%)	8,89	8,44
Benefit liability		
Present value of obligations	(562)	(632)
Liability recognised in the statement of financial position	(562)	(632)

The liability recognised for this fund relating to the Company amounts to R562 million (2009: R632 million).

	2010 R million	2009 R million
Charge to the income statement		
Current service cost	(11)	(11)
Interest cost	(52)	(53)
	(63)	(64)

The charge to the income statement relating to the Company amounts to R63 million (2009: R64 million)

	2010 R million	2009 R million
Actuarial gain/(loss) recognised in other comprehensive income	88	(20)

	Group	
	2010 R million	2009 R million

32. Post-retirement benefit obligations (continued)

32.2. Post-retirement medical benefits (continued)

32.2.2 Transnet employees (continued)

The actuarial gain/(loss) recognised in other comprehensive income relating to the Company amounts to R88 million (2009: R20 million).

	2010 R million	2009 R million
The cumulative actuarial gain recognised in equity	253	165
Reconciliation of movement in benefit liability		
Opening benefit liability	(632)	(592)
Expense as above	(63)	(64)
Member and Company contributions	45	44
Actuarial gain/(loss)	88	(20)
Closing benefit liability	(562)	(632)

The medical inflation has no impact on the aggregate current service cost and interest cost and the benefit liability. However, the assumed discount rate has an impact. The sensitivity of the obligation to a change in the assumed discount rate of 8,89% on the present value of the obligation is as follows:

	2010 R million	2009 R million
Closing benefit liability based on changes in discount rate:		
7,89% (2009: 7,44%)	(619)	(699)
9,89% (2009: 9,44%)	(514)	(575)

Summary of actuarial valuation results for past periods:

	2010 R million	2009 R million	2008 R million	2007 R million	2006 R million
Benefit liability	(562)	(632)	(592)	(720)	(812)
Deficit	(562)	(632)	(592)	(720)	(812)
Actuarial gain /(loss) recognised on defined benefit obligation	88	(20)	145	87	(37)

The estimated contribution (based on current year contribution) for the year beginning 1 April 2010 is R45 million (2009: R44 million).

33. Related party transactions

Transnet is a Schedule 2 Public Entity in terms of the Public Finance Management Act (PFMA). It therefore has a significant number of related parties including other State-owned entities, Government departments and all other entities within the national sphere of Government. The Group has utilised the database maintained by the National Treasury to identify related parties. A list of all related parties is available at the National Treasury website at www.treasury.gov.za or at the Company's registered office.

In addition, the Company has a related party relationship with its subsidiaries (see note 12). The Group and Company have related party relationships with its associates (see note 13) and with its directors and senior executives (key management).

Unless otherwise disclosed, all transactions with the above related parties are concluded on an arm's length basis.

Furthermore, neither the Group nor any of its related parties is obligated to procure from or render services to their related parties.

Transactions with related entities

Services rendered to related parties comprise principally transportation (aviation, rail and road) services. Services purchased from related parties comprised principally energy, telecommunications, information technology and property related services.

The following is a summary of transactions with related parties during the year and balances due at year-end according to Transnet's records:

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		33. Related party transactions (continued)		
		Services rendered		
1 020	944	Major public enterprises	944	1 020
112	633	Other public enterprises	633	112
1 672	1 948	National Government business enterprises	1 948	1 673
56	18	Associates	18	56
90	12	Subsidiaries	–	–
2 950	3 555		3 543	2 861
		Services received		
848	1 039	Major public enterprises	1 039	849
210	225	Other public enterprises	225	210
870	1 677	National Government business enterprises	1 677	890
203	28	Associates	28	203
69	40	Subsidiaries	–	
2 200	3 009		2 969	2 152
		Amount due from/(to)		
(249)	16	Major public enterprises	16	(249)
30	(7)	Other public enterprises	(7)	30
(6 407)	(4 983)	National Government business enterprises*	(4 983)	(6 407)
143	(1)	Associates	(1)	143
477	(68)	Subsidiaries	–	–
(6 006)	(5 043)		(4 975)	(6 483)

During the year the Group expensed R299 million (2009: Rnil) in relation to provisions and write-offs of bad debts on related parties and at year-end the Group had a provision of R170 million (2009: Rnil) against debtors pertaining to related parties.

Transactions with key management personnel

Loans to key management are included in "long-term loans and advances" (see note 15).

Details of key management compensation are set out in the Report of Directors to the annual financial statements.

None of key management has or had significant influence in any entity with whom the Group had significant transactions during the year.

** Includes R6 072 million relating to bonds issued to National Government business enterprises (2009: R6 086 million).*

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million
		34. Cash flow information		
		34.1 Cash generated from operations		
9 545	4 777	Profit before taxation	4 772	6 651
10 012	4 918	– Continuing operations	4 913	6 718
(467)	(141)	– Discontinued operations	(141)	(67)
2 998	4 525	Finance costs (refer note 34.3)	4 524	2 996
(299)	(556)	Finance income	(580)	(269)
(3 300)	(8)	Dividend income	–	–
4 151	7 712	Elimination of non-cash items	7 710	4 120
4 779	6 089	– Depreciation, amortisation and derecognition	6 089	4 779
(169)	140	– Increase in provision for post-retirement benefit obligations	140	(169)
(56)	(174)	– (Reversal of impairment)/impairment of loss-making subsidiaries and associates	(174)	3
114	200	– Impairment of trade and other receivables, loans and advances and other	200	115
205	752	– Impairment of property, plant and equipment	752	205
618	604	– Movement in provisions	603	602
9	(88)	– Fair value adjustments of Treasury bonds	(88)	9
–	–	– Earnings from associates	(5)	(82)
(34)	1 290	– Fair value adjustments on derivatives	1 290	(34)
23	(90)	– Unrealised foreign exchange (gains)/losses	(86)	1
(43)	(63)	– Profit on sale of property, plant and equipment	(63)	(53)
(45)	–	– Acquisition of Transhold Properties (Pty) Limited assets	–	–
(25)	26	– Discount/(premium) on bonds amortised	26	(25)
15	(83)	– (Release of provision)/provision for inventory obsolescence	(83)	14
138	(613)	– (Increase)/release of firm commitments	(613)	138
(1 376)	(276)	– Fair value adjustment of investment property	(276)	(1 376)
(2)	(2)	– Other non-cash items	(2)	(7)
13 095	16 450		16 426	13 498
		34.2 Changes in working capital		
(296)	630	Decrease/(increase) in inventories	630	(323)
(1 503)	(374)	Increase in receivables	(378)	(1 860)
(535)	868	Increase/(decrease) in payables	893	(464)
(2 334)	1 124		1 145	(2 647)
		34.3 Finance costs		
3 018	4 500	Total finance costs	4 496	3 016
(45)	51	Net foreign exchange losses/(gains) on translation	54	(45)
25	(26)	(Discounts)/premium on bonds amortised	(26)	25
2 998	4 525		4 524	2 996

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		34. Cash flow information (continued)		
		34.4 Taxation paid		
		Balance at the beginning of the year		
(786)	(846)	– normal taxation (net)	(854)	(803)
		Taxation as per income statement		
(731)	(24)	– normal taxation	(42)	(754)
		Balance at the end of the year		
846	157	– normal taxation (net)	171	854
(671)	(713)		(725)	(703)
		34.5 Disposal of division/subsidiary		
145	–	Property, plant and equipment	–	708
–	–	Intangible assets and goodwill	–	3
558	–	Investment in subsidiaries	–	–
7	–	Inventory	–	67
2	–	Accounts receivable and prepayments	–	668
1	–	Cash and cash equivalents	–	5
–	–	Borrowings	–	(54)
–	–	Deferred taxation liability	–	(115)
(32)	–	Provisions	–	(51)
(56)	–	Trade and other payables	–	(415)
625	–	**Net asset value**	–	816
476	–	Selling price	–	476
(1)	–	Net cash disposed	–	(5)
(336)	–	Loans repaid by subsidiary	–	(336)
139	–	**Net proceeds**	–	135
		34.6 Disposal of associate		
–	174	Selling price	174	–
–	(123)	Accrued receivable	(123)	–
–	51	**Net proceeds**	51	–
		34.7 Cash and cash equivalents		
5 603	7 632	Cash and cash equivalents for continuing operations	7 918	5 880
–	–	Cash and bank balance included in a disposal group held-for-sale	26	25
5 603	7 632	**Total cash and cash equivalents at the end of the year**	7 944	5 905

Company			Group	
2009 R million	2010 R million		2010 R million	2009 R million
		35. Headline earnings		
7 764	3 086	Profit for the year attributable to equity holder	3 063	4 528
66	–	Loss from discontinued operations, net of taxation	–	257
71	(13)	(Reversal of impairments)/impairment of discontinued operations – Lower of carrying value and fair value less costs to sell	(13)	113
7 901	3 073	Profit for the year from continuing and discontinued operations	3 050	4 898
(43)	(63)	Profit on disposal of property, plant and equipment (refer note 4.2)	(63)	(53)
(1 376)	(276)	Fair value adjustments on investment properties (refer note 5)	(276)	(1 376)
205	752	Impairment of property, plant and equipment (refer note 4.4)	752	205
(56)	(178)	(Reversal of impairment)/impairment of loss-making subsidiaries and associates (refer note 4.4)	(174)	3
6 631	3 308	**Headline earnings before taxation effects**	3 289	3 677
		Taxation effects		
12	18	Profit on disposal of property, plant and equipment	18	15
196	40	Fair value adjustments on investment properties	40	196
(57)	(204)	Impairment of property, plant and equipment (refer note 4.4)	(204)	(57)
6 782	3 162	**Headline earnings**	3 143	3 831

Introduction

The Group has a centralised treasury function which supports the Operating divisions and is tasked with the following three main objectives:

- The Group is cost-effectively and timeously funded in support of the capital investment programme;
- To ensure that all financial risks that emanate as a result of the operational and funding activities of the Group are mitigated, thereby protecting the financial stability and sustainability of the Company; and
- Lower the overall cost of doing business and add value to the overall business of Transnet.

All these objectives are performed in a professional and ethical manner in line with Transnet's governance framework.

Policies

The Financial Risk Management policies are contained in a Board approved Financial Risk Management Framework (FRMF). The objective of the FRMF is to provide clear guidelines to effective risk management by ensuring that:

- Risks are independently assessed and controlled regularly;
- Risk exposures are formally reported; and
- There are clear responsibilities allocated to the relevant persons and accountability is defined.

The FRMF is annually approved by the Board and is aligned with the Group Enterprise Wide Risk Management Framework (ERM), the Treasury Regulations, PFMA and other applicable legislation and regulations. The latest version was approved during November 2009 and is structured around the Growth Strategy and capital investment programme.

Apart from the requirements of the FRMF, Treasury must operate within the limits as contained in the Transnet Delegation of Authority Framework (DF) as approved by Group Executive Committee.

Risk philosophy

The overall risk management philosophy of Transnet is to the extent possible, avoid undue risks and manage business risks. However, given the nature of Transnet's business and its major capital investment programme, it is not always possible to avoid risks all together. In pursuit of its business, the Group is exposed to a myriad of risks including but not limited to market, credit, liquidity and operational risks. The long-term viability, continued success and reputation of Transnet are critically dependent on the credibility of risk management, and commitment to applying leading practice in risk management.

Risk profile and risk management

Financial risk assessments and analysis are disclosed on a monthly basis to the Group Chief Financial Officer, the Group Finance Committee and the Group Executive Committee and quarterly to the Group Risk Committee. The Group Executive Committee is responsible for reporting financial risk exposures to the Board.

The Group's business operations expose it to liquidity, credit, and market risk (comprising foreign currency, commodity, interest rate and other price risk), which are discussed under the headings below. Given the level of volatility in the markets, Treasury will continuously manage all risks very closely so as to implement risk mitigating initiatives timeously when required.

Liquidity risk

Liquidity risk exposures arise mainly as a result of the Group's five-year rolling capital investment and operational expenditure programmes, the redemption of loans and daily operational cash requirements. The Group has established a liquidity risk management policy with the following main objectives:

- To ensure adequate availability of funds in all currencies, to enable Transnet to meet all expected and unforeseen financial commitments cost-effectively;
- To manage the contractual maturity gap between assets and liabilities;
- To manage current and projected cash flows;
- To maintain an adequate level of cash holdings;
- To diversify funding sources and have funding programmes available to reduce reliance on particular sources to support effective liquidity risk management;
- To spread the maturity of debt issuances to reduce refinancing risk; and
- To do pre-funding of major capital redemptions to mitigate liquidity risk.

During the financial year, Transnet used the following funding programmes extensively to mitigate liquidity risk exposures; Domestic Medium Term Note programme (DMTN) R13,7 billion – Export Credit Agency (ECA) financing R0,7 billion – foreign currency loans R3,4 billion and domestic loans R8,5 billion. The DMTN issues include a new bond issue (TN20) that was issued during September 2009 and matures on 17 September 2020. Transnet has also established a US$2 billion GMTN programme that is listed on the United Kingdom Listing Authority, but no drawdowns have occurred to date.

Certain thresholds, which are a combination of available cash and unutilised credit facilities, are minimum requirements of the approved policy to further ensure effective liquidity risk management. The maximum tenor of money market investments may not exceed 120 days.

Transnet also produces a "five-year cash flow projection" as part of the annual corporate planning process. These provide Treasury with a good estimate of the Group's future cash positions.

Counterparty risk

Counterparty risk exposures arises mainly as a result of the investment of cash on hand and surplus cash due to pre-funding strategies, positive fair market values of derivative hedging instruments and the bond market making process. The Group's main objectives of its counterparty risk policy is:

- To mitigate counterparty risk exposures;
- To diversify counterparty risk exposures;
- To set limits for the different types of counterparty risk exposures; and
- To ensure that financial transactions are done with approved high credit quality counterparties.

The counterparty risk policy of the Group is fully aligned with the detailed requirements of the Treasury Regulations as referred to in the PFMA which are as follows:

- Selection of counterparties through credit risk analysis;
- Establishment of investment limits per institution;
- Establishment of investment limits per investment instrument;
- Monitoring of investments against limits;
- Reassessment of investment policies on a regular basis;
- Reassessment of counterparty credit risk based on credit ratings; and
- Assessment of investment instruments based on liquidity requirements;

Financial assets that potentially subject the Group to concentrations of credit risk consist primarily of cash, short-term deposits, Government and public corporations bonds listed on the Johannesburg Securities Exchange (JSE) and the market value of derivatives and trade receivables. The Group's exposures to counterparty risks in respect of all Treasury related transactions are confined to credible counterparties and are managed within Board approved credit limits. Limits are reviewed and approved by the Board on an annual basis. Trade receivables are presented net of impairments. It is Treasury's policy to perform ongoing credit evaluations of the financial position of its counterparties. Guarantees are issued under specific powers granted in terms of the PFMA, and in accordance with an approved DF.

Investments are only allowed with international counterparties with a minimum international long-term credit rating of A- and domestic counterparties with a minimum national long-term credit rating of A- (zaf) as rated by a recognised rating agency and approved by the Board as an approved counterparty. In addition to this the counterparty must have a minimum short-term credit rating of A-1 (F1 zaf) to qualify for cash type of investments.

Market risk

This will be discussed under the following headings: Foreign currency (FX), Commodity risk, Interest rate risk and other price risk.

Foreign currency risk

Foreign currency risk arises mainly as a result of the Group's imported capital and operational expenditure programmes, as well as the raising of funding in a foreign currency. Transnet's main objectives of its foreign currency risk policies are:

- To mitigate foreign currency risk exposures;
- To bring certainty about future rand cash flows where FX is involved; and
- To insulate the Group's income statement against exchange rate fluctuations.

Transnet does not leave foreign currency risk exposures open and all foreign currency risk exposures are hedged within the approved FRM and DF as soon as the supplier and funding agreements are signed. It is Transnet's preference to enter into rand-based supplier and funding agreements, if this can be achieved at an acceptable cost, with no FX risk recourse to Transnet. If this approach is not cost-effective, Transnet will then hedge on its own balance sheet. The net foreign currency position is monitored on a monthly basis, by obtaining the net foreign currency position in all the major currencies i.e. US dollar (USD), Euro, pound sterling (GBP) and Japanese yen (JPY) and other foreign currencies. Foreign currency risk exposures are fully hedged until maturity with vanilla hedging instruments after careful consideration and analysis of the tax, financial risk, accounting, operational and system implications. Hedge accounting is applied to all major structures to minimise income statement volatility and the performance is monitored monthly by a subcommittee of FINCO to ensure proper implementation.

Commodity risk

Commodity risk refers to the potential variability in Transnet's financial position owing to the changes in commodity prices such as brent crude oil (impact on cost of fuel), steel, iron ore and commodity related products. Only fuel risk exposures are actively monitored on a regular basis as this is the single largest commodity exposure and are hedged in terms of the approved FRMF and DF. At the reporting date, no hedges have been entered into to hedge fuel risk exposures. Major customer agreements are structured in such a way that tariffs can be adjusted to compensate for changes in fuel prices (Brent and exchange rates) and provides a relatively high natural risk offset. Only the unhedged portion will be considered for hedging purposes.

Interest rate risk

The Group's borrowings, investments in interest-bearing instruments and derivative financial instruments create interest rate risk. The Group's main objectives in managing interest rate risk are as follows:

- Manage the ratio of floating rate exposures versus fixed rate exposures;
- Reduce the weighted average cost of debt (WACD) to ensure the gap to prevailing market rates is managed;
- Take advantage of interest rate cycles;
- Minimise the negative impact of adverse interest rate movements on the Group's net income and cash flows to within an acceptable level;
- Minimise the market making cost of the Transnet bonds;
- Manage the basis risk exposure where interest rate risk is netted between investments and borrowings; and
- Manage the tenor of the debt portfolio (including derivatives) to achieve alignment between the duration of the average payback periods of assets.

The Group measures interest rate risk by calculating the impact of fair value movements on derivatives and floating rate loans and running cash flow at risk scenarios to determine the impact against the annually approved external finance cost budget.

Other price risk

The only other market risk the Company and Group is exposed to, is equity price risk. Equity price risk is the risk of fair value changes in future cash flows of a financial instrument as a result of changes in the underlying share price. Transnet does not trade in equities and the only exposure of this nature at the reporting date was an exposure in Brazil, America Latina Logistica Limitada SA (All) and Freight Logistics International, incorporated in the British Virgin Islands which is listed on the Brazilian stock exchange.

Liquidity risk

Bonds at carrying and nominal values

Domestic rand bonds

Transnet Limited issues domestic bonds listed on the Johannesburg Securities Exchange. The following rand bonds were in issue at 31 March 2010:

			2010		2009	
Bond	Redemption date	Coupon rate %	Carrying value R million	Nominal value R million	Carrying value R million	Nominal value R million
T011	1-Apr-10	16,50	**901**	**900**	1 089	1 050
T018*	15-Jul-14	10,75	**6 072**	**6 000**	6 086	6 000
TN17	14-Nov-17	9,25	**6 672**	**7 000**	4 829	5 042
TN20	17-Sept-20	10,50	**2 169**	**2 189**	–	–
TN23	6-Nov-23	10,80	**3 328**	**3 305**	1 062	1 050
TN27	14-Nov-27	8,90	**5 405**	**6 004**	2 772	2 942
			24 547	**25 398**	15 838	16 084

Eurorand bonds

The following Eurorand bonds were in issue at 31 March 2010:

			2010		2009	
Bond	Redemption date	Coupon rate %	Carrying value R million	Nominal value R million	Carrying value R million	Nominal value R million
Euro 42*	18-Apr-28	13,50	**1 953**	**2 000**	1 952	2 000
Euro 42A*	30-Mar-29	10,00	**1 029**	**1 500**	1 024	1 500
			2 982	**3 500**	2 976	3 500
Total (refer note 24)			**27 529@**	**28 898@**	18 814	19 584

* *These domestic rand bonds and Eurorand bonds are reflected on the balance sheets of both the Company and the Group. The bonds are guaranteed by the Government of the Republic of South Africa, and the Company paid R19,2 million in guarantee fees (2009: R19,2 million). The TN17, TN20, TN23 and TN27 bonds are not guaranteed. The amounts in the above tables are only in respect of bonds held at amortised cost, as the T011 bonds designated at fair value through profit and loss are disclosed elsewhere in this annexure.*

@ *These amounts are reflected after taking into account the closed out position of R150 million nominal and R37 million unamortised premium on the T011 bonds.*

Concentration of liquidity risk

The Group's sources of funding are outlined in the table below. 64% of the Group's borrowings are widely held (2009: 70%).

Company			**Group**	
2009 R million	2010 R million		2010 R million	2009 R million
4 023	**3 190**	Standard Bank London	**3 190**	4 023
–	**862**	Standard Bank Corporate Investment Bank	**862**	–
3 177	**4 421**	RMB/Division of FirstRand Bank Limited	**4 421**	3 177
–	**1 894**	Japan Bank for International Cooperation (JBIC)	**1 894**	–
1 000	**1 609**	ABSA Bank Limited	**1 609**	1 000
–	**1 209**	American Family Life Assurance Co. (AFLAC)	**1 209**	–
150	**150**	Investec Bank Limited	**150**	150
140	**640**	China Construction Bank – JHB Branch	**640**	140
250	**250**	Citibank N.A. – South Africa	**250**	250
1 775	**2 005**	Nedbank Limited	**2 005**	1 775
100	**100**	Momentum	**100**	100
650	**650**	Omsfin	**650**	650
25 619	**30 232**	Various holders of Transnet bonds and commercial paper, widely held, and traded*	**30 232**	25 619
125	**218**	Other	**222**	129
37 009	**47 430**		**47 434**	37 013

** Includes bonds held at amortised cost R27 529 million (2009: R18 814 million), bonds held at fair value R358 million (2009: R466 million) and commercial paper R2 345 million (2009: R6 339 million).*

Funding plan

As a result of the Group's capital investment plan, the funding requirements, including loan redemption of R21 088 million, over the next five years will amount to R41 395 million and no highlight is reflected below.

	Target	Projections				Total
	2011 R million	2012 R million	2013 R million	2014 R million	2015 R million	R million
Total funding requirement	(17 209)	(17 852)	(3 882)	(435)	(2 017)	(41 395)

The following schedule indicates the probable sources of funding that may be utilised by Transnet during the 2011 financial year based on Transnet's business requirements, the expected cash inflow in the market and expected demand, which will always be influenced by market conditions, investor appetite and pricing.

Probable sources of funding	R million
Commercial paper	2 209
Domestic bonds	4 000
Development finance institutions	5 000
Bank loans	2 000
International bonds	4 000
Total	17 209

Contractual maturity analysis

The following are the contractual maturities of financial liabilities, including interest payment and excluding the impact of netting arrangements for the Group and the Company:

	Carrying value 2010 R million	Contractual cash flows 2010 R million	0 to 12 months R million	1 to 2 years R million	2 to 3 years R million	3 to 4 years R million	4 to 5 years R million	More than 5 years R million
Non-derivative financial liabilities								
Bonds	27 887	62 574	4 167	2 834	2 834	2 834	8 511	41 394
Secured bank loans Group	4 162	6 852	1 417	803	835	841	430	2 526
Secured bank loans Company	4 158	6 848	1 413	803	835	841	430	2 526
Unsecured bank loans Group	12 961	16 591	1 255	9 321	649	632	598	4 136
Unsecured bank loans Company	12 961	16 591	1 255	9 321	649	632	598	4 136
Commercial paper	2 345	2 402	2 402	–	–	–	–	–
Other short-term borrowings Group	79	63	63	–	–	–	–	–
Other short-term borrowings Company	79	63	63	–	–	–	–	–
Total borrowings Group	47 434	88 482	9 304	12 958	4 318	4 307	9 539	48 056
Total borrowings Company	47 430	88 478	9 300	12 958	4 318	4 307	9 539	48 056
Trade payables and accruals Group	7 384	7 384	7 384	–	–	–	–	–
Trade payables and accruals Company	7 344	7 344	7 344	–	–	–	–	–
Derivative financial liabilities								
Cross-currency swaps and options	311	2 271	299	275	260	244	229	964
Forward exchange contracts used for hedging	237	557	234	133	38	30	40	82
– outflow	237	4 279	2 638	1 035	177	102	118	209
– inflow	–	(3 722)	(2 404)	(902)	(139)	(72)	(78)	(127)
Other forward exchange contracts	1	5	5	–	–	–	–	–
– outflow	1	107	107	–	–	–	–	–
– inflow	–	(102)	(102)	–	–	–	–	–
Total derivative financial liabilities	549	2 833	538	408	298	274	269	1 046

	Carrying value 2009 R million	Contractual cash flows 2009 R million	0 to 12 months R million	1 to 2 years R million	2 to 3 years R million	3 to 4 years R million	4 to 5 years R million	More than 5 years R million
Non-derivative financial liabilities								
Bonds	19 280	43 295	2 200	3 402	1 907	1 907	1 907	31 972
Secured bank loans Group	3 548	7 468	(190)	625	574	766	1 742	3 951
Secured bank loans Company	3 544	7 464	(194)	625	574	766	1 742	3 951
Unsecured bank loans Group	7 795	10 607	444	970	7 075	276	271	1 571
Unsecured bank loans Company	7 795	10 607	444	970	7 075	276	271	1 571
Commercial paper	6 339	7 568	6 640	76	852	–	–	–
Other short-term borrowings Group	51	49	49	–	–	–	–	–
Other short-term borrowings Company	51	49	49	–	–	–	–	–
Total borrowings Group	37 013	68 987	9 143	5 073	10 408	2 949	3 920	37 494
Total borrowings Company	37 009	68 983	9 139	5 073	10 408	2 949	3 920	37 494
Trade payables and accruals Group	6 491	6 491	6 491	–	–	–	–	–
Trade payables and accruals Company	6 476	6 476	6 476	–	–	–	–	–
Derivative financial liabilities								
Cross-currency swaps	24	29	17	12	–	–	–	–
Forward exchange contracts used for hedging	99	154	123	31	–	–	–	–
– outflow	99	1 923	1 642	281	–	–	–	–
– inflow	–	(1 769)	(1 519)	(250)	–	–	–	–
Other forward exchange contracts	4	9	9	–	–	–	–	–
– outflow	4	357	357	–	–	–	–	–
– inflow	–	(348)	(348)	–	–	–	–	–
Total derivative financial liabilities	127	192	149	43	–	–	–	–

Credit risk

Maximum exposure and analysis of exposures to credit risk

The following maximum exposures to credit risk existed at 31 March 2010 in respect of financial assets:

	2010				2009			
	Carrying value net of impairments R million	Neither past due nor impaired R million	Past due but not impaired R million	Impaired R million	Carrying value net of impairments R million	Neither past due nor impaired R million	Past due but not impaired R million	Impaired R million
Company								
Trade and other receivables:								
– Low risk	3 843	3 139	704	(40)	3 633	3335	298	(5)
– Medium risk	675	672	3	(43)	637	616	21	(117)
– High risk	290	233	57	(327)	183	154	29	(169)
– Other	–	–	–	–	197	197	–	–
Trade receivables****	4 808	4 044	764	(410)	4 650	4302	348	(291)
Miscellaneous receivables**	854	795	59	(87)	654	615	39	(167)
Investments – current	1 670	1 670	–	–	285	285	–	–
Long and short-term loans and advances*	40	40	–	–	77	77	–	–
Loans to subsidiaries and associates	222	222	–	–	222	222	–	–
Guarantees issued	2 453	–	–	–	2460	–	–	–
Investment (call and fixed deposits) and price risk***	9 744	–	–	–	7540	–	–	–
Group								
Trade and other receivables:								
– Low risk	3 845	3 141	704	(40)	3 633	3 335	298	(5)
– Medium risk	675	672	3	(43)	637	616	21	(117)
– High risk	290	233	57	(327)	183	154	29	(169)
– Other	–	–	–	–	200	200	–	–
Trade receivables****	4 810	4 046	764	(410)	4 653	4 305	348	(291)
Miscellaneous receivables**	854	795	59	(87)	654	615	39	(167)
Investments – current	1 670	1 670	–	–	285	285	–	–
Long and short-term loans and advances*	40	40	–	–	77	77	–	–
Guarantees issued	2 470	–	–	–	3 005	–	–	–
Investment (call and fixed deposits) and price risk***	9 744	–	–	–	7 540	–	–	–

*** *The high investment risk exposure for 2010 is as a result of pre-funding done to minimise liquidity risk to fund the capital investment programme.*

*	*Long term*	*R37 million (2009: R77 million)*
	Short term	*R3 million (2009: Rnil)*

Reconciliation to note 18	Company	Group
*** Miscellaneous receivables*	*R854 million (2009: R654 million)*	*R854 million (2009: R654 million)*
Prepayments	*R193 million (2009: R196 million)*	R193 million (2009: R196 million)
Total prepayments and miscellaneous receivables	**R1 047 million (2009: R850 million)**	**R1 047 million (2009: R850 million)**
*****Trade and other receivables as per above*	*R4 808 million (2009: R4 650 million)*	*R4 810 million (2009: R4 653 million)*
Group debtors	*R23 million (2009: R28 million)*	*Rnil (2009: Rnil)*
Total trade and other receivables	***R4 831 million (2009: R4 678 million)***	***R4 810 million (2009: R4 653 million)***

__Low risk:__ No guarantee is required from the customer.

__Medium risk:__ 50% – 75% guarantee required by the customer.

__High risk:__ In such instances, customers are required either to provide 100% guarantee or transact on a cash basis only.

The balances for other receivables and loans and advances are not disaggregated for internal reporting purposes.

__Price risk:__ The risk that financial derivatives and bond transactions have to be closed-out at a market value loss as a result of the unfavourable movements in market rates.

__Bond issuer risk:__ The risk that an issuer of bonds will not be able to fulfil its financial obligations on maturity date in accordance with the terms and conditions of the bond issues.

__IFRS 7 Financial Instruments:__ Disclosure, defines credit risk as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As such Transnet will suffer financial losses on guarantees issued as the Group would be required to make good the failure by a third party to discharge an obligation.

Credit enhancements in the form of title deeds and pension fund cessions for loans and advances and deposits and guarantees in respect of amounts included in trade and other receivables and loans and advances, are held by the Group. The Group took possession of some collaterals during the current financial year amounting to R1,2 million (2009: Rnil).

The following represents the ageing of the carrying value of financial assets past due but not impaired at 31 March 2010 for the Group and Company:

R million	1 – 30 days				31 – 60 days				Greater than 60 days			
	Past due	Low risk	Medium risk	High risk	Past due	Low risk	Medium risk	High risk	Past due	Low risk	Medium risk	High risk
2010												
Trade receivables Group	236	236	–	–	76	56	1	19	452	417	–	35
Trade receivables Company	236	236	–	–	76	56	1	19	452	417	–	35
Other receivables Group	34	34	–	–	12	12	–	–	13	13	–	–
2009												
Trade receivables Group	252	210	24	18	18	18	–	–	78	70	–	8
Trade receivables Company	252	210	24	18	18	18	–	–	78	70	–	8
Other receivables Group	8	8	–	–	8	8	–	–	23	23	–	–

Guarantees and deposits to the value of R95,4 million were held as collateral (2009: R91 million).

The following financial assets have been specifically impaired for the Group and Company at 31 March 2010:

	2010			2009		
	Trade receivables	Other receivables	Loans and advances	Trade receivables	Other receivables	Loans and advances
Group						
Low risk	29	32	–	267	1	–
Medium risk	72	–	–	158	–	–
High risk	203	–	–	18	–	–
Company						
Low risk	29	32	–	267	1	–
Medium risk	72	–	–	158	–	–
High risk	203	–	–	18	–	–

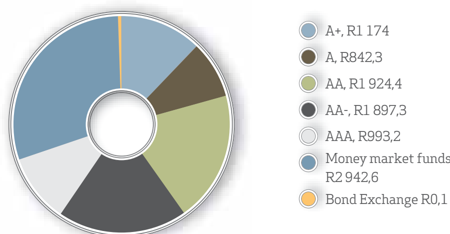
Financial assets have been impaired based on the age of the debt and the inability to recover these specified assets. Guarantees and deposits amounting to R42,7 million (2009: R119 million) are held with respect to these. Payment terms were renegotiated with certain counterparties in respect of trade receivables during the year.

Concentration of credit risk

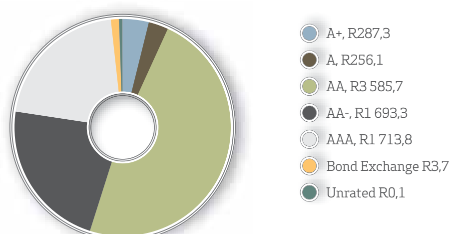
The Group's and Company's 12 most significant customers (South African industrial enterprises) comprise 38% of the trade receivables carrying amount at 31 March 2010 (2009: 46%).

The following diagram reflects the distribution of credit risk, expressed in terms of long-term credit ratings, excluding guarantees and trade receivables. The non-rated banks are financial institutions situated in Africa where rated banks are not available. These accounts are monitored on a regular basis to ensure that credit limits are not breached. The exposures below include cash investments (call and fixed deposits), price risk exposures, operational bank balances as well as long positions in bonds in the market making portfolio (bond issuer risk) as at 31 March 2010:

Risk per long-term rating – 2010 (R million)



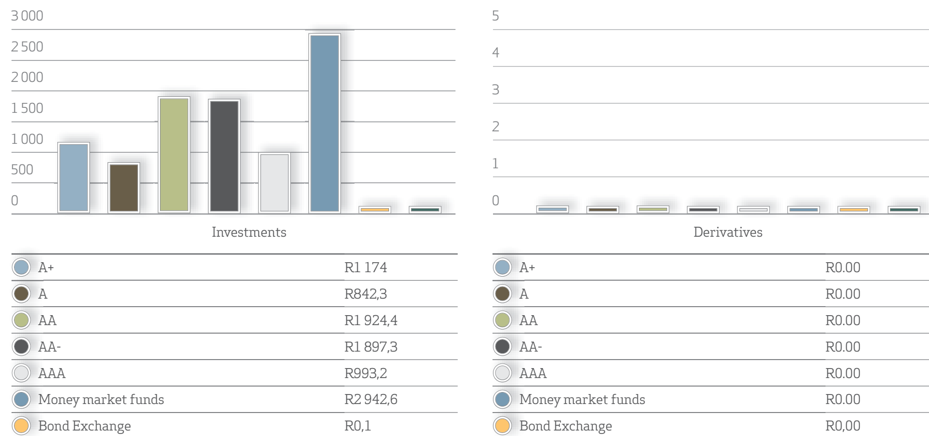
Risk per long-term rating – 2009 (R million)



Bond exchange exposures are guaranteed by the Bond Exchange of South Africa.

The graph below reflects the distribution of credit risk per financial instrument per long-term credit rating category, excluding guarantees and receivables

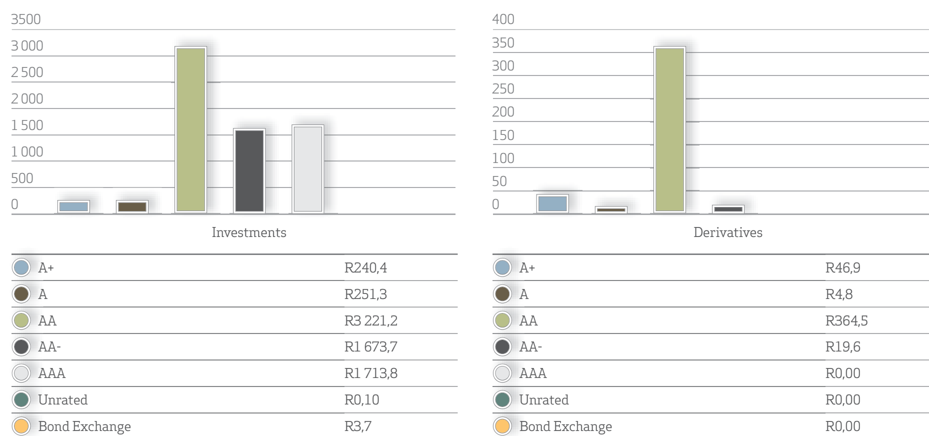
Risk per instrument per long-term rating – 2010 (R million)



Investments	
A+	R1 174
A	R842,3
AA	R1 924,4
AA-	R1 897,3
AAA	R993,2
Money market funds	R2 942,6
Bond Exchange	R0,1

Derivatives	
A+	R0.00
A	R0.00
AA	R0.00
AA-	R0.00
AAA	R0.00
Money market funds	R0.00
Bond Exchange	R0,00

Risk per instrument per long-term rating – 2009 (R million)



Investments	
A+	R240,4
A	R251,3
AA	R3 221,2
AA-	R1 673,7
AAA	R1 713,8
Unrated	R0,10
Bond Exchange	R3,7

Derivatives	
A+	R46,9
A	R4,8
AA	R364,5
AA-	R19,6
AAA	R0,00
Unrated	R0,00
Bond Exchange	R0,00

Market risk

Foreign currency risk

The Group's and Company's net long (short) foreign currency risk exposures at 31 March 2010 report date are reflected below (expressed in notional amounts):

	2010				2009			
	USD	JPY	EUR	Other currencies exp in USD	USD	JPY	EUR	AUD
	US$/m	¥/m	€m	US$/m	US$/m	¥/m	€m	AU$/m
Secured bank loans	(5)	–	–	–	(11)	–	–	–
Unsecured bank loans	–	(38 500)	–	–	–	–	–	–
Brazil equity investment	30*	–	–	–	16	–	–	–
Gross balance sheet exposure	25	(38 500)	–	–	5	–	–	–
Exposures for future expenditure	(31)	(22 557)	(94)	(4)	(25)	(27 643)	(159)	(2)
Gross foreign currency exposure	(6)	(61 057)	(94)	(4)	(20)	(27 643)	(159)	(2)
Forward exchange contracts and currency options	19	22 557	76	–	13	27 643	127	–
Cross currency swaps	5	38 500	–	–	11	–	–	–
Net uncovered exposure	18	–	(18)	(4)	4	–	(32)	(2)

** The $30 million Brazil equity investment is only applicable at Group level.*

Sensitivity analysis

The table below shows the impact on profit and loss of a stronger and weaker rand for the Group and Company, as a result of fair value movements of cross-currency interest rate swaps and forward exchange contracts.

	2010				2009			
Currency	Currency exposure in millions of currency	Fair value in R million	Impact of rand strengthening	Impact of rand weakening	Currency exposure in millions of currency	Fair value in R million	Impact of rand	Impact of rand weakening
EUR*	1	(0,5)	(1)	1	50	6	(182)	182
JPY*	–	–	–	–	9	120	(0,5)	0,5
USD	18	(4)	(26)	26	13	(23)	(55)	55

** Transactions in these currencies are designated either as fair value hedges or cash flow hedges as detailed in note 14. The sensitivity analysis above includes the impact of fair value movements on derivative instruments that are part of effective hedges for hedge accounting purposes. The sensitivity analysis was calculated using a 95% confidence interval over a 90-day horizon, and assumes all other variables remain unchanged. Basis swap adjustments have been added to the curves during the past financial year when doing the sensitivities to ensure that a more accurate market value is reflected that also take market liquidity into account.*

The table below shows the impact on profit and loss of a stronger and weaker rand for the Group and Company as a result of fair value movements of foreign currency options. The numbers for Company and Group are:

	2010				2009			
Currency	Nominal amount of options CCY/m	Fair market value R million	Impact of profit/ (loss) R million	Impact of profit/ (loss) R million	Nominal amount of options CCY/m	Fair market value R million	Impact of profit/ (loss) R million	Impact of profit/ (loss) R million
AUD	***	***	***	***	–	–	–	–
EUR	***	***	***	***	21	43	60	(61)
Total	***	***	***	***	21	43	60	(61)

*Note: * Weaker rand and higher volatilities are based on a 95% confidence level, with a 100 basis point (bp) increase in interest rates.*
*** Stronger rand and lower volatilities are based on a 95% confidence level, with a 100 basis point (bp) decrease in interest rates.*
**** The Group and Company did not hold any open option positions at 31 March 2010.*

Value at risk (fx)

The value at risk (VaR) for direct committed and uncommitted capital and operational exposures and the Brazilian equity investment is R14 million (2009: R94 million). VaR calculates the maximum pre-tax loss expected (or worst case scenario) on a position held, over a 90-day horizon given a 95% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account, inter alia, market volatilities relative to a position held. The Group uses historical simulation and the model assumes that historical patterns will repeat into the future and does not take extreme market conditions into account.

Foreign exchange rates

The mid rates of exchange against rand used for conversion purposes were:

	2010	2009
US dollar	**7,4466**	9,5187
Pound sterling	**11,1098**	13,8784
Japanese yen	**12,4105**	10,2817
Euro	**9,9359**	12,8274
Australian dollar	**6,7945**	6,6450

Interest rate risk

The Group's exposure to fixed and floating interest rates on domestic financial liabilities is as follows:

	Group		Company	
	2010 R million	2009 R million	2010 R million	2009 R million
Fixed rate liabilities	**(33 913)**	(27 764)	**(33 909)**	(27 760)
Floating rate liabilities	**(14 723)**	(10 088)	**(14 723)**	(10 087)
Total	**(48 636)**	(37 852)	**(48 632)**	(37 847)

The above table excludes liabilities held at fair value of R400 million (2009: R485 million).

The exposure to floating interest rates on foreign financial liabilities before swaps is R1 934 million (2009: R100 million) for the Group and R1 934 million (2009: R100 million) for the Company, but the full foreign currency loan portfolio has been swapped to a fixed rand interest rate risk exposure by means of cross-currency interest rate swaps and is included above under fixed rate liabilities. The Board approved a targeted range of fixed interest rates that may manage to enable management to utilise interest rate yields.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to floating interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. The analysis covers the 2011 financial year and illustrates the possible impact on finance cost and profit and (loss) as a result of changes in domestic interest rates. Similar shifts are used internally when reporting interest rate risk to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	2010					2009			
Impact	Shift - 500bp R million	Shift - 200bp R million	Shift + 100bp R million	Shift + 250bp R million	Shift + 500bp R million	Shift - 200bp R million	Shift - 100bp R million	Shift + 100bp R million	Shift + 200bp R million
Finance cost impact (increase)	**1 035**	**411**	**(213)**	**(525)**	**(1 045)**	137	68	(68)	(135)
Impact on profit and (loss) as a result of fair value movements on market making bonds, designated funding bonds and repos	**657**	**227**	**(100)**	**(234)**	**(423)**	21	10	(9)	(16)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. This category of instruments consists mainly of Transnet bonds designated for market making activities and the repo instruments, which derive their prices through the Bond Exchange of South African (BESA).
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category of instrument consists mainly of derivatives concluded for risk management purposes.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Financial assets at FVTPL				
Derivative financial assets	–	39	–	**39**
Non-derivative financial assets held for trading	1 670	–	–	**1 670**
Total	1 670	39	–	**1 709**
Financial liabilities at FVTPL				
Other derivative financial liabilities	–	549	–	**549**
Financial liabilities designated at fair value through profit or loss	400	–	–	**400**
Total	400	549	–	**949**

Note: There were no transfers between Level 1 and 2 during the period under review.

There were no Level 3 fair value movements to disclose at reporting date as all fair value calculations are done by using market observable data.

The impact on profit and loss of higher and lower foreign interest rates on the Group and Company is insignificant as all foreign debt has been swapped to a fixed rand interest rate risk.

The sensitivity analysis was performed by doing parallel shifts of the swap curve (minus 5 and 200 and plus 100, 250 and 500 basis points). The sensitivity ranges utilised are based on historical trends and extreme scenarios. The above tables assume no change in other variables.

Other price risk

The Group has an exposure to equity price risk. The risk of price movements on the Brazilian stock exchange. At year-end, the quoted value of the Group's investment in Brazil was R224 million (2009: R149 million). Management believes that the foreign exchange exposure on this investment is significantly greater than that of equity price risk and as such the sensitivity for this investment has been included in the foreign currency risk net position and VaR calculations.

Commodity price risk

The table below shows the cash flow at risk scenarios against the approved budget at various levels of Brent crude and USD/ZAR ($/R) exchange rates.

	US$/R5,96	US$/R7,00	US$/R7,45	US$/R8,93	US$/R10,00
31 March 2010					
Brent @ US$46,73	**844**	**762**	**727**	**611**	**527**
Brent @ US$79,51	**515**	**377**	**317**	**119**	**(23)**
Brent @ US$90,00	**410**	**254**	**186**	**(38)**	**(200)**
Brent @ US$112,29	**187**	**(8)**	**(92)**	**(372)**	**(574)**
31 March 2009					
Brent @ US$28,00	817	719	630	444	390
Brent @ US$53,00	612	426	259	(94)	(196)
Brent @ US$78,00	406	133	(113)	(633)	(782)
Brent @ US$100,00	223	(128)	(445)	(1 112)	(1 304)

Analysis, classification and fair values of financial instruments

Categories of financial instruments

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		Financial assets		
11 208	13 549	Loans and receivables (including bank and cash, trade and other receivables)	13 814	11 460
–	–	Available for sale financial assets	–	149
		Fair value through profit and loss		
949	1 709	Held for trading	1 709	949
		Financial liabilities		
43 000	54 374	Liabilities measured at amortised cost (including trade and other payables)	54 418	43 019
		Fair value through profit and loss		
224	591	Held for trading	591	224
387	358	Designated as at fair value through profit and loss	358	387
78	137	Other – Finance lease liabilities	137	78

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

Company					Group			
2009		2010			2010		2009	
Fair value R million	Carrying value R million	Fair value R million	Carrying value R million		Fair value R million	Carrying value R million	Fair value R million	Carrying value R million
77	77	40	40	Loans and advances	40	40	77	77
38 837	36 932	50 857	47 293	Borrowings	50 901	47 297	38 837	36 936
36	77	89	137	Finance lease obligations	89	137	36	77

Analysis, classification and fair values of financial instruments (continued)

The net gains and losses on financial instruments are detailed below:

	Company
	Net gain/ (loss) R million
2010	
Liabilities held for trading	–
Liabilities designated at fair value through profit	10
Liabilities measured at amortised cost	(4 436)
Loans and receivables	477
Available for sale financial assets	–
Assets held for trading	–
2009	
Liabilities held for trading	**
Liabilities designated at fair value through profit	(47)
Liabilities measured at amortised cost	(2 973)
Loans and receivables	214
Available for sale financial assets	23
Assets held for trading	–

	Group		
	Net gain/ (loss) R million	*Less:* Discontinued operations R million	Continuing operations R million
2010			
Liabilities held for trading	–	–	–
Liabilities designated at fair value through profit	10	–	10
Liabilities measured at amortised cost	(4 436)	–	(4 436)
Loans and receivables	477	–	477
Available for sale financial assets	–	–	–
Assets held for trading	–	–	–
2009			
Liabilities held for trading	*	**	*
Liabilities designated at fair value through profit	(47)	–	(47)
Liabilities measured at amortised cost	(2 972)	19	(2 953)
Loans and receivables	183	1	182
Available for sale financial assets	23	–	23
Assets held for trading	–	–	–

* *The net gain on Group financial assets and financial liabilities held for trading is R10 million (2009: R40 million).*
** *The net gain on Company financial assets and financial liabilities held for trading is R10 million (2009: R40 million).*
*** *The net gain on financial assets and financial liabilities held for trading pertinent to discontinued operations is Rnil (2009: Rnil).*
**** *The net loss on financial liabilities measured at amortised cost consist mainly of interest expense after offsetting against effective cash flow hedges.*

Basis for determining fair values

Bonds

Bonds are fair valued by applying JSE/BESA closing rates with the SA bond formula. This is in respect of bonds held for trading, and for bonds designated as held at fair value.

Other non-derivative assets and liabilities

The fair values of other non-derivative financial assets and liabilities are calculated by determining the net present value of all future cash flows, discounted at prevailing market curves of the different currencies at reporting date.

Derivatives

The fair values of derivative financial assets and liabilities are calculated by determining the net present value of all future cash flows, discounted at prevailing market curves of the different currencies at reporting date. Only observable market data is used (no estimates) when constructing the curves and basis swap adjustments are added to provide for liquidity in the market. Black-Scholes principles are used for valuing options.

Other financial instruments

The carrying amounts of financial assets and liabilities with a maturity of less than six months are assumed to approximate their fair value.

Reconciliation of liabilities designated at fair value through profit and loss for the Company and Group

	Contractual value payable on maturity R million	Accrued interest %	Fair value movements R million	Carrying value R million
2010	**331**	**26**	**1**	**358**
2009	333	26	30	389

There has been no element of the change in the fair value that is attributable to credit risk.

Transnet's credit rating has not changed from the previous financial year per se except the change in outlook by Standard & Poor's due to revised criteria for all Government-related entities.

Property, plant and equipment reconciliation

	Aircraft R million	Land, buildings and structures R million	Machinery, equipment and furniture R million
Company			
Balance at the beginning of the year			
Historical cost and revaluation	65	12 117	4 655
Accumulated depreciation	(38)	(2 250)	(2 365)
Accumulated impairment	–	(178)	(25)
Opening net carrying value at 1 April	27	9 689	2 265
Current year movements			
Replacements	56	331	221
Expansions	–	193	113
Acquired through lease	–	–	22
Acquired from subsidiaries	–	–	–
Disposals	–	(23)	(16)
Depreciation	(7)	(397)	(471)
Derecognition	–	(3)	–
(Devaluation)/revaluation	–	428	–
Impairment and write-offs	–	(92)	(33)
Transferred to intangible assets	–	–	–
Transfers (to)/from non-current assets classified as held-for-sale	–	(111)	7
Transfer from/(to) investment property	–	(368)	–
Transfer to inventory	–	–	–
Borrowing costs capitalised	4	23	15
Release of firm commitments to income statement	–	–	–
Capitalisation of firm commitments	–	–	–
Transfer from capital work in progress	28	867	747
	81	848	605
Closing carrying value	108	10 537	2 870
Made up as follows:			
Historical cost and revaluation	153	13 286	5 678
Accumulated depreciation	(45)	(2 545)	(2 750)
Accumulated impairment	–	(204)	(58)
Closing carrying value at 31 March	108	10 537	2 870

** Including R402 million feasibility study costs written-off during the year.*

Permanent way and works R million	Pipeline networks R million	Port facilities R million	Rolling stock and containers R million	Vehicles R million	Capital work in progress	31 March 2010 Total R million	31 March 2009 Total R million
13 017	13 371	47 548	24 878	726	19 651	**136 028**	112 256
(2 850)	(8 802)	(13 632)	(8 143)	(425)	–	**(38 505)**	(33 026)
(1)	(82)	(507)	(94)	–	(67)	**(954)**	(876)
10 166	4 487	33 409	16 641	301	19 584	**96 569**	78 354
170	–	250	75	3	7 463	**8 569**	10 789
37	–	670	–	1	8 728	**9 742**	8 484
108	–	–	–	–	–	**130**	13
–	–	–	–	–	–	**–**	12
(1)	(7)	(8)	(124)	(1)	(8)	**(188)**	(167)
(426)	(317)	(1 170)	(2 601)	(39)	–	**(5 428)**	(4 230)
(91)	–	–	(426)	–	–	**(520)**	(434)
–	167	3 468	–	–	–	**4 063**	4 225
(10)	(137)	(45)	(13)	(1)	(421)*	**(752)**	(205)
–	–	–	–	–	(101)	**(101)**	(193)
–	–	–	–	1	–	**(103)**	(350)
–	–	–	–	–	–	**(368)**	(85)
–	–	–	(6)	–	–	**(6)**	–
6	–	15	–	–	1 406	**1 469**	764
–	–	–	–	–	692	**692**	(138)
–	–	–	–	–	(79)	**(79)**	(270)
2 299	24	5 910	6 359	68	(16 302)	**–**	–
2 092	(270)	9 090	3 264	32	1 378	**17 120**	18 215
12 258	4 217	42 499	19 905	333	20 962	**113 689**	96 569
15 518	**12 844**	**59 089**	**30 088**	**797**	**21 048**	**158 501**	136 028
(3 249)	**(8 408)**	**(16 038)**	**(10 076)**	**(463)**	**–**	**(43 574)**	(38 505)
(11)	**(219)**	**(552)**	**(107)**	**(1)**	**(86)**	**(1 238)**	(954)
12 258	**4 217**	**42 499**	**19 905**	**333**	**20 962**	**113 689**	96 569

Property, plant and equipment reconciliation

	Aircraft R million	Land, buildings and structures R million	Machinery, equipment and furniture R million
Group			
Balance at the beginning of the year			
Historical cost and revaluation	65	12 120	4 672
Accumulated depreciation	(38)	(2 251)	(2 374)
Accumulated impairment	–	(180)	(35)
Opening net carrying value at 1 April	27	9 689	2 263
Current year movements			
Replacements	56	331	221
Expansions	–	193	113
Acquired through lease	–	–	22
Disposals	–	(23)	(16)
Depreciation	(7)	(397)	(471)
Derecognition	–	(3)	–
(Devaluation)/revaluation	–	428	–
Impairment and write-offs	–	(92)	(33)
Transferred to intangible assets	–	–	–
Transfers (to)/from non-current assets classified as held-for-sale	–	(111)	7
Transfer from/(to) investment property	–	(368)	–
Transfer to inventory	–	–	–
Borrowing costs capitalised	4	23	15
Release of firm commitments to income statement	–	–	–
Capitalisation of firm commitments	–	–	–
Transfer from capital work in progress to assets	28	867	747
	81	848	605
Closing carrying value	108	10 537	2 868
Made up as follows:			
Historical cost and revaluation	**153**	**13 290**	**5 695**
Accumulated depreciation	**(45)**	**(2 548)**	**(2 759)**
Accumulated impairment	**–**	**(205)**	**(68)**
Closing carrying value at 31 March	**108**	**10 537**	**2 868**

** Including R402 million feasibility study costs written-off during the year.*

Permanent way and works R million	Pipeline networks R million	Port facilities R million	Rolling stock and containers R million	Vehicles R million	Capital work in progress	31 March 2010 Total R million	31 March 2009 Total R million
12 961	13 365	47 499	24 874	728	19 651	**135 935**	112 193
(2 849)	(8 801)	(13 628)	(8 143)	(426)	–	**(38 510)**	(33 047)
(1)	(82)	(507)	(94)	–	(67)	**(966)**	(890)
10 111	4 482	33 364	16 637	302	19 584	**96 459**	78 256
170	–	250	75	3	7 463	**8 569**	10 789
37	–	670	–	1	8 728	**9 742**	8 484
108	–	–	–	–	–	**130**	13
(1)	(7)	(8)	(124)	(1)	(8)	**(188)**	(167)
(426)	(317)	(1 170)	(2 601)	(39)	–	**(5 428)**	(4 230)
(91)	–	–	(426)	–	–	**(520)**	(434)
–	167	3 468	–	–	–	**4 063**	4 225
(10)	(137)	(45)	(13)	(1)	(421)*	**(752)**	(205)
–	–	–	–	–	(101)	**(101)**	(193)
–	–	–	–	1	–	**(103)**	(350)
–	–	–	–	–	–	**(368)**	(85)
–	–	–	(6)	–	–	**(6)**	–
6	–	15	–	–	1 406	**1 469**	764
–	–	–	–	–	692	**692**	(138)
–	–	–	–	–	(79)	**(79)**	(270)
2 299	24	5 910	6 359	68	(16 302)	**–**	–
2 092	(270)	9 090	3 264	32	1 378	**17 120**	18 203
12 203	4 212	42 454	19 901	334	20 962	**113 579**	96 459
15 461	**12 838**	**59 040**	**30 084**	**798**	**21 048**	**158 407**	135 935
(3 247)	**(8 407)**	**(16 034)**	**(10 076)**	**(463)**	**–**	**(43 579)**	(38 510)
(11)	**(219)**	**(552)**	**(107)**	**(1)**	**(86)**	**(1 249)**	(966)
12 203	**4 212**	**42 454**	**19 901**	**334**	**20 962**	**113 579**	96 459

Disposal groups classified as held-for-sale

	Notes	A Luxrail ¥ R million	B Inter-company eliminations and ‡ other adjustments R million	C = A + B Disposal groups R million	D Non-current assets held-for-sale R million
Assets classified as held-for-sale					
Property, plant and equipment	a	80	(70)	10	247
Investment properties	b	–	–	–	8
Investments in associates		–	–	–	–
Other investments	c	–	–	–	–
Inventories		3	(3)	–	–
Trade and other receivables	d	2	–	2	–
Cash and cash equivalents	e	–	–	–	–
Total		85	(73)	12	255
Liabilities directly associated with assets classified as held-for-sale					
Provisions	f	3	–	3	–
Trade payables and other payables	g	9	–	9	–
Total		12	–	12	–

¥ Included in the rail segment.
‡ Included in the other segment.
Column E – Total for Company.
Column K – Total for Group.

E	F	G	H	I	J	K
= C + D				= F + G + H		= I + J
Total R million	Freight Dynamics Guard Risk ‡ R million	Luxrail ¥ R million	Inter-company eliminations and ‡ other adjustments R million	Disposal groups R million	Non-current assets held-for-sale R million	Total R million
257	–	80	(70)	10	247	257
8	–	–	–	–	8	8
–	–	–	–	–	–	–
–	–	–	–	–	224	224
–	–	3	(3)	–	–	–
2	–	2	–	2	–	2
–	26	–	–	26	–	26
267	26	85	(73)	38	479	517
3	–	3	–	3	–	3
9	3	9	–	12	–	12
12	3	12	–	15	–	15

Notes to disposal groups classified as held-for-sale

Company 2009 R million	Company 2010 R million			Group 2010 R million	Group 2009 R million
		a.	**Property, plant and equipment**		
108	339		Net carrying value at the beginning of the year	339	644
–	–		Additions	–	96
–	(185)		Disposals	(185)	(2)
–	–		Scrapping	–	(5)
(145)	–		Disposal of subsidiary/division	–	(708)
–	–		Revaluation	–	–
26	–		Impairment	–	(36)
–	–		Depreciation	–	–
–	–		Derecognition	–	–
350	103		Transferred from continuing operations (refer annexure B)	103	350
339	257			257	339
		b.	**Investment properties**		
–	8		Fair value at the beginning of the year	8	–
8	–		Transferred from continuing operations	–	8
8	8			8	8
		c.	**Other investments**		
–	–		Balance at the beginning of the year	–	–
–	–		Transferred from continuing operations	224	–
–	–			224	–

Company				Group	
2009 R million	2010 R million			2010 R million	2009 R million
2	2	d.	Trade and other receivables	2	2
–	–	e.	Cash and cash equivalents	26	25
		f.	Provisions		
23	1		Total provisions at the beginning of the year	1	30
3	–		Provisions made during the year	–	25
–	–		Provisions released/utilised	–	(10)
(32)	–		Disposal of subsidiary/division	–	(51)
7	2		Transferred from continuing operations (refer note 25)	2	7
–	–		Disposals	–	–
1	3			3	1
9	9	g.	Trade payables and accruals	12	12

Subsidiaries

	Shares issued	Effective holding		Voting power held
	Million	2010 %	2009 %	2010 %
Subsidiaries held by Transnet				
Local subsidiaries				
Transport Logistics				
KN Viamax Logistics (Pty) Ltd†		100	100	100
HSA Management Systems (Pty) Ltd *		100	100	100
Viamax Logistics (Pty) Ltd *		100	100	100
Viaren (Pty) Ltd †		100	100	100
Marine Data Systems (Pty) Ltd *		80	80	80
Owner-Driver Management (Pty) Ltd *		100	100	100
Property holdings				
Transhold Properties (Pty) Ltd *		100	100	100
Esselen Park Developments (Pty) Ltd *		100	100	100
Transite Properties (Pty) Ltd @		–	100	–
Point Waterfront (Pty) Ltd *		51	51	51
Proptrade (Pty) Ltd *		100	100	100
Construction				
Protekon (Pty) Ltd @		–	100	–
IT Procurement				
B2B Africa Holdings (Pty) Ltd *		100	100	100
Rolling stock and traction				
Transwerk Foundries (Pty) Ltd †		100	100	100
Insurance captive cells				
Spoornet Guard Risk		100	100	100
Freight Dynamics Guard Risk		100	100	100
Social responsibility				
Transnet Foundation Trust †		100	100	100
Investment holdings				
Newshelf 697 (Pty) Ltd *		100	100	100
Foreign subsidiaries				
Transport Logistics				
African Joint Air Services Ltd (Uganda) #		57	57	57
Freight Logistics International (British Virgin Islands)	23	100	100	100
Spoornet do Brasil Ltda (Brazil) **		100	100	100

* *Dormant and in the process of deregistration.*
# *Dormant.*
† *In liquidation.*
@ *Deregistered.*
** *Holds an investment in America Logistica do Brasil S.A. (ALL Group Limited).*

Shares at cost		Interest of holding company net profit/(loss)		Interest of holding company indebtedness		Accumulated impairment and losses	
2010 R million	2009 R million	2010 R million	2009 R million	2010 R million	2009 R million	2010 R million	2009 R million
–	–	–	–	–	–	–	–
16	16	–	–	–	–	16	16
1	1	–	–	–	–	1	1
–	–	–	–	–	–	–	–
–	–	–	–	–	219	–	219
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	4	–	–	10	–	10
–	–	–	–	–	–	–	–
–	–		–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	127	–	127
–	–	–	–	–	–	–	–
3	3	(18)	14	–	–	–	–
1	1	1	3	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	(8)	–	–	–	–
–	–	4	(3)	385	389	385	389
23	23	4	20	219	219	–	–
–	–	–	–	–	–	–	–
44	44	(5)	26	604	964	402	762

Associates and joint ventures

	Principal activity	Effective holding 2010 %	Effective holding 2009 %	Shares at cost 2010 R million	Shares at cost 2009 R million
Associates					
Arivia.kom (Pty) Ltd @	IT service provider	–	42	–	214
Commercial Cold Storage (Ports) (Pty) Ltd	Storage and bondage	30	30	–	–
Comazar (Pty) Ltd #	Transport logistics	32	32	13	13
Mossel Bay Waterfront Development (Pty) Ltd #	Property development and management	15	15	2	2
Cape Town Bulk Storage (Pty) Ltd	Port operations	50	50	1	1
Experience Delivery Company (Pty) Ltd	Managing agent	11	11	–	–
RainProp (Pty) Ltd	Property development and management	20	20	3	3
Transpoint Properties (Pty) Ltd *	Telecommunication	50	50	–	–
Joint ventures					
Gaborone Container Terminal	Container terminal	36	36	6	6
				25	239
Investments in associates classified as held-for-sale				–	(214)
Investments in associates for continuing operations				25	25

^ *Incorporated in the Republic of South Africa, unless stated otherwise.*
* *Dormant and in the process of deregistration.*
# *Dormant.*
@ *Disposed during the year.*

	Interest of holding company indebtedness		Accumulated impairment and losses		Share of post-acquisition reserves		Total	
	2010 R million	2009 R million	2010 R million	2009 R million	2010 R million	2009 R million	2010 R million	2009 R million
	–	–	–	219	–	5	–	–
	1	1	–	–	11	14	12	15
	8	8	21	21	–	–	–	–
	–	–	2	2	–	–	–	–
	2	2	–	–	–	–	3	3
	–	–	–	–	–	–	–	
	–	–	3	3	–	–	–	–
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	6	6
	11	11	26	245	11	19	21	24
	–	–	–	(219)	–	(5)	–	–
	11	11	26	26	11	14	21	24

New standards and interpretations issued but not yet effective

The following new or revised financial reporting standards, amendments and interpretations of those standards which are applicable to the Group are not yet effective for the year ended 31 March 2010 and were not applied in preparing these financial statements. On review of these amendments and interpretations, the impact (if any) has not yet been estimated, or is not expected to have a material impact on the Group's financial statements:

Standard or interpretation	Title	Effective date
IAS 1 (amendment)	**Presentation of Financial Statements** The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The amendment is not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2010.
IAS 1 (amendment)	**Presentation of Financial Statements** The amendment is part of the IASB annual improvements process for 2010 and clarifies certain issues relating to the Statement of Changes in Equity. The amendment will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2011.
IAS 7 (amendment)	**Statement of Cash Flows** The amendment clarifies that only expenditures that result in the recognition of an asset can be classified as cash flows from investing activities in the statement of cash flows. The amendment will not have an impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2010.
IAS 17 (amendment)	**Leases** The amendment deleted guidance from the standard which stated that a lease of land with an indefinite useful life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amended standard clarifies that when a lease includes land and building elements, an entity should determine the classification of each element separately by applying the criteria in the standard. The amendments apply retrospectively and as such, it is possible that some leases of land previously classified as operating leases may be reclassified as finance leases. The impact (if any) on the Group's financial statements has not yet been estimated.	Annual periods beginning on or after 1 January 2010.

Standard or interpretation	Title	Effective date
IAS 24 (revised)	**Related Party Disclosures** The revised standard contains an amended definition of related parties and modifies certain related party disclosure requirements for Government-related entities. The revised standard will be applied retrospectively and may result in additional related party disclosures.	Annual periods beginning on or after 1 January 2011.
IAS 27 (revised)	**Consolidated and Separate Financial Statements** The revised standard requires the effect of all transactions with non-controlling interests to be recorded in equity where there is no change in control and such transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 April 2010. The revised standard is not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 July 2009.
IAS 27 (amendment)	**Consolidated and Separate Financial Statements** The amendment is part of the IASB annual improvements process for 2010 and deals with transition requirements for amendments made to the standard when it was revised in 2008. The amendments are not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 July 2010.
IAS 34 (amendment)	**Interim Financial Reporting** The amendment is part of the IASB annual improvements process for 2010 and provides guidance on the treatment of significant events and transactions in interim financial statements. The amendment is not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2011.
IAS 36 (amendment)	**Impairment of Assets** The amendment clarifies that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8. The amendments apply prospectively and are not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2010.

Standard or interpretation	Title	Effective date
IAS 38 (amendment)	**Intangible Assets** The amendment is part of the IASB's annual improvements project published in April 2009 and the Group will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies an intangible asset that is separable only together with a related contract, identifiable asset or liability is recognised separately from goodwill together with the related item and also permits the grouping of intangible assets as a single asset if the assets within the Group have a similar useful life. The amendment is not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2010.
IAS 39 (amendment)	**Financial Instruments: Recognition and Measurement** The amendment provides the additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be accounted for separately. The amendments apply prospectively to all unexpired contracts from date of adoption. The impact (if any) on the Group's financial statements has not yet been estimated.	Annual periods beginning on or after 1 January 2010.
IFRIC 14 (amendment)	**IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** The amendments remove the unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. The amendments apply from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies the interpretation. The amendments are not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2011.
IFRIC 17 (new)	**Distribution of Non-cash Assets to Owners** The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividend. IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The interpretation is not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 July 2009.

Standard or interpretation	Title	Effective date
IFRS 3 and consequential to IAS 28, IAS 31 and IAS 32 (revised)	**Business Combinations** The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt and subsequently remeasured through profit or loss. There is a choice, on an acquisition-by-acquisition basis to measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's net identifiable assets. All acquisition-related costs will be recognised in profit or loss immediately. The revised IFRS 3 will be applied prospectively to all business combinations from 1 April 2010. The effect on the financial statements will be a function of the number, value and cost of any business combinations transacted from this date.	Annual periods beginning on or after 1 July 2009.
IFRS 3 (amendment)	**Business Combinations** The amendments are part of the IASB annual improvements process for 2010. These amendments deal with transitional requirements for contingent consideration in a business combination that occurred before the effective date of the revised IFRS 3 (revised 2008), measurement of non-controlling interests and unreplaced and voluntarily replaced share-based payment awards. The amendments are not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 July 2010.
IFRS 5 (amendment)	**Non-current Assets held-for-sale and Discontinued Operations** The amendments provide that if an entity is committed to a plan to sell a subsidiary, then it should classify all of that subsidiary's assets and liabilities as held-for-sale when the held-for-sale criteria in the standard are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary. The amended standard also specifies that disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. The amendment is not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 July 2009.
IFRS 7 (amendment)	**Financial Instruments: Disclosures** The amendment is part of the IASB annual improvements process for 2010. It provides clarification of certain disclosure requirements of the standard. The amendment is not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2011.

Standard or interpretation	Title	Effective date
IFRS 8 (amendment)	**Operating Segments** The amendment clarifies that information with respect to total assets is required only if such information is regularly reported to the chief operating decision-maker. The amendment is not expected to have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2010.
IFRS 9 (new)	**Financial Instruments** This standard forms part of the IASB's project to replace the existing standard on the recognition and measurement of financial instruments. The standard defines two measurement categories for financial assets: amortised cost and fair value. A financial asset may only be measured at amortised cost if it has basic loan features and is managed on a contractual yield basis. The standard also differs from existing requirements for accounting for financial assets in various other areas, such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income. The standard will be applied retrospectively, subject to the standard's transitional provisions. The impact (if any) on the Group's financial statements has not yet been estimated.	Annual periods beginning on or after 1 January 2013.

The financial reporting standards, amendments or interpretations listed below are currently not applicable to the Group and will have no impact on the Group's financial statements.

Standard or interpretation	Title	Effective date
IFRIC 13 (amendment)	**Customer Loyalty Programmes** The amendment provides guidance on determining the fair value of award credits.	1 January 2011.
IFRIC 19 (new)	**Extinguishing Financial Liabilities with Equity Instruments** The interpretation provides guidance on accounting for debt equity swaps.	1 July 2010.
IFRS 1 (amendment)	**First-time Adoption of International Financial Reporting Standards** The IASB amended the standard to provide additional optional exemptions for first time adopters of IFRS.	1 January 2010.
IFRS 1 (amendment)	**First-time Adoption of International Financial Reporting Standards** The amendments deal with accounting policy changes in the year of adoption, revaluation basis as deemed cost and use of deemed cost for operations subject to rate regulation.	1 January 2011.
IFRS 2 (amendment)	**Share-based Payment** The amendment deals with accounting in the separate financial statements by an entity that receives goods or services in a share-based payment transaction.	1 January 2010.

Abbreviations and acronyms

$/R	USD/ZAR
3PL	third party logistics
AFD	Agence Française de Developpement – French Development Bank
AfDB	African Development Bank
AFLAC	American Family Life Assurance Company of Columbus
AGM	annual general meeting
BBBEE	Broad-Based Black Economic Empowerment
BCA	business-critical activity
BESA	Bonds Exchange of South Africa
BOI	Board of Inquiry
bp	basis point
BRIC	Brazil, Russia, India and China
CAB	Change Control Board
CCM	continuous control monitoring
CD	chart datum
CFMA	control framework maturity assessment™
CGT	Capital gains taxation
CIPS	Chartered Institute of Purchasing and Supply
COE	Centre of Excellence
COPCO	Corridor Operations Committees
CPMF	Capital Portfolio Management Framework
CRM	Customer Relationship Management
CSA	controls self-assessment
CSDP	Competitive Supplier Development Programme
CSI	Corporate social investment
CTC	cost to company
DBT	Dry Bulk Terminal
DCT	Durban Container Terminal
DEA	Department of Environmental Affairs
DF	Delegations of Authority Framework
DFI	development finance institution
DIFR	disabling injury frequency rate
DJP	Durban to Johannesburg pipeline
DMTN	Domestic Medium Term Note
DoT	Department of Transport
DPE	Department of Public Enterprises
EBIT	Earnings before interest and taxation
EBITDA	Earnings before interest, taxation, depreciation and amortisation
ECA	Export Credit Agency
EE	Employment equity
EIA	Environmental impact assessment
ELAA	European Liner Affairs Association
ELDP	Executive Leadership Development Programme
EMC	Environmental Monitoring Committee
ERM	Enterprise Wide Risk Management
EXCO	Group Executive Committee
FDI	Foreign Direct Investment
FIFO	first-in first-out
FINCO	Group Finance Committee
FLMEP	First Line Management Engagement Programme
FRM	Financial Risk Management Framework
FSTs	first-line managers, specialists and technicians
fx	Value at risk
GBP	Pound Sterling
GCH	gross crane moves per hour
GDP	Gross domestic product
GE	General Electric
Gesat	GE South Africa Technologies
GFB	General freight business
GHG	green house gas
GIT	Graduate in Training
GMTN	Global Medium-Term Note
GRI	Global Reporting Initiative
G-role employees	first line managers, specialists and technicians
HCM	Human Capital Management
HDD	Horizontal Directional Drilling
HR	human resources
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICLM	Interim Contract Lifecycle Management
ICM Act	Integrated Coastal Management Act 2008 (Act No. 24 of 2008)
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IOT	Iron Ore Terminal
ISA	International Standards of Auditing
ITO	international terminal operator
JBIC	Japan Bank for International Co-operation
JIPSA	Joint Initiative on Priority Skills
JPY	Japanese Yen
King III	King III Report on Governance for South Africa – 2009
km	kilometer
KPI	key performance indicator
LC	Leadership Charter

LTI	long-term incentive scheme
LTMS	long-term Mitigation Scenario
MCIPS	Membership of the Chartered Institute of Purchasing and Supply
mℓ.km	million litres per kilometre
MPT	Multi-Purpose Terminal
mt	million tons
NEMA	National Environmental Management (Act No. 107 of 1998)
Nersa	National Energy Regulator of South Africa
NFTN	National Foundry Technology Network
NGO	non-governmental organisation
NIP	National Infrastructure Plan
NKP	National Key Points
NKP Act	National Key Points Act
NLDP	Navigator Leadership Development Programme
NMPP	New Multi-Product Pipeline
NRSR Act	The National Railway Safety Regulator Act (Act No. 16 of 2002)
OBML	outcomes based modular learning
OECD	Organisation for Economic Co-operation and Development
OEM	original equipment manufacturer
ORTIA	OR Tambo International Airport
OSHACT	Occupational Safety and Health Act
PAA	Public Audit Act 2004 (Act No. 25 of 2004)
PFMA	Public Finance Management Act 1, 1999 (Act No. 1 of 1999)
PMO	Programme Management Office Ports Act
Ports Act	National Ports Act (Act No. 12 of 2005)
PRASA	Passenger Rail Agency of South Africa
PSIRA	Private Security Industry Regulatory Authority
PSP	Private Sector Partnership
RBCT	Richards Bay Coal Terminal
RER	Rail Economic Regulator
ROD	Record of Decision
RSR	Railway Safety Regulator
RTG	Rubber-tyred Gantry Crane
SAFA	South African Football Association
SAPF	South African Police Force
SAPICS	Association of Operations Management of Southern Africa
SATS	South African Transport Services
SdbL	Spoornet do Brasil Limitada
SHEQ	Safety, health, environment and quality
SLA	service level agreement
SLF	Strategic Leadership Forum
SOE	State-owned Enterprise
SOP	standard operating procedure
SPO	strategic performance objective
SSM	Strategic supply management
STAT	Ship Turnaround Time
STC	Secondary taxation on companies
STI	short-term incentive scheme
SVA	Shareholder value add
SWH	Ship Working Hour
TAIMP	Transnet Absenteeism and Incapacity Management Programme
TBI	Transnet Business Intelligence
TCC	total cost to company
TCM	Terminal de Carvao De Matola L.da
TDMP	Transnet Disease Management programme
TETA	Transport Education Training Authority
TEU	twenty-foot equivalent unit
TOMS	Transnet Occurrence Management System
TOPP	Training Outside Public Practice
TPF	Transport Pension Fund
TRA	Transnet Recognition Agreement
TRRC	Transitional Rail Regulation Capacity
TSCoC	Transnet Security Code of Conduct
TSDBF	Transnet Second Defined Benefit Fund
TSM	Transnet Security Management
TVMF	Transnet Value Measurement Framework
USD	US dollar
VaR	value at risk
VCT	voluntary counselling and testing
WACC	weighted average cost of capital
WACD	weighted average cost of debt
WC2010	2010 FIFA Soccer World Cup™
ZAR	South African Rand

Glossary of terms

Asset turnover (times)
Revenue divided by total assets (total assets excluding capital work in progress).

Average total assets
Total assets, where "average" is equal to the total assets at the beginning of the reporting period plus total assets at the end of the reporting period, divided by two.

Cash interest cover (times)
Cash generated from operations after working capital changes, divided by net finance costs (net finance costs includes finance costs, finance income and capitalised borrowing costs from the cash flow statement).

Debt
Interest-bearing borrowings (short and long-term), post-retirement benefit obligations, derivative financial liabilities plus overdraft, less short-term investments and net cash and cash equivalents.

EBITDA
Profit/(loss) from operations before depreciation, amortisation, profit on sale of interest in businesses, impairment of assets, dividend received, post-retirement benefit obligation (costs)/income, fair value adjustments, income/(loss) from associates and net finance costs.

EBITDA margin
Profit/(loss) from operations before depreciation, amortisation, profit on sale of interest in businesses, impairment of assets, dividend received, post-retirement benefit obligation (costs)/income, fair value adjustments, income/(loss) from associates and net finance costs expressed as a percentage of revenue.

Equity
Issued capital, reserves and minority interests.

Gearing
Debt expressed as a % of the sum of debt and Shareholder's equity.

Headline earnings
As defined in Circular 3/2009, issued by the South African Institute of Chartered Accountants, separates from earnings all items of a capital nature. It is not necessarily a measure of sustainable earnings.

Operating profit
Profit or loss from operations after depreciation and amortisation but before profit on sale of interest in businesses, impairment of assets, dividends received, post-retirement benefit obligation (costs)/income, fair value adjustments, income/(loss) from associates and net finance costs.

Operating profit margin
Operating profit expressed as a percentage of revenue.

Profit/(loss)
Profit or loss after taxation and minority interests.

Return on average total assets (%)
Operating profit expressed as a percentage of average total assets (average total assets exclude capital work in progress).

Return on net assets
Profit before taxation expressed as a percentage of net assets.

Shareholder value add (SVA)
Earnings before interest and taxation (EBIT) less the cost of capital. Cost of capital is the average total assets, excluding capital work in progress, multiplied by WACC.

Total assets
Non-current assets plus current assets at the end of a reporting period.

Total debt
Current and non-current liabilities

Total debt-to-equity ratio
Total debt expressed as a ratio to equity.