Annexure A

for the six months ended 30 September 2018

TRANSNET

solutions delivered

Classification, fair values and analysis of financial instruments

Categories of financial instruments:

	R million
September 2018	
Financial assets	
At amortised cost (including bank and cash, trade and other receivables and other short-term investments)	16 595
Fair value through profit or loss	
– Derivatives	7 763
– Government bonds	313
Financial liabilities	
At amortised cost (including trade payables and accruals*)	145 687
Fair value through profit or loss	
– Derivatives	1 277
March 2018	
Financial assets	
Loans and receivables (including bank and cash, trade and other receivables, long-term loans and advances and other short-term investments)	14 048
Fair value through profit or loss	
– Derivatives	2 856
Financial liabilities	
Liabilities measured at amortised cost (including trade payables and accruals*)	139 320
Fair value through profit or loss	
– Derivatives	2 455
September 2017	
Financial assets	
Loans and receivables (including bank and cash, trade and other receivables, long-term loans and advances and other short-term investments)	13 967
Fair value through profit or loss	
– Derivatives	7 944
Financial liabilities	
Liabilities measured at amortised cost (including trade payables and accruals*)	141 853
Fair value through profit or loss	
– Derivatives	2 444

** Trade payables and accruals excluding employee and tax-related accruals.*

Fair values of financial instruments

The table below 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 of market observability of the inputs of the fair value:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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; and
- 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
September 2018				
Financial assets at FVTPL*				
Derivative financial assets used for hedging (Company and Group)	-	7 763	-	7 763
Government bonds	-	313	-	313
Financial liabilities at FVTPL*				
Derivative financial liabilities used for hedging (Company and Group)	-	1 277	-	1 277
March 2018				
Financial assets at FVTPL*				
Derivative financial assets used for hedging (Company and Group)	-	2 856	-	2 856
Financial liabilities at FVTPL*				
Derivative financial liabilities used for hedging (Company and Group)	-	2 455	-	2 455
September 2017				
Financial assets at FVTPL*				
Derivative financial assets used for hedging (Company and Group)	-	7 866	78	7 944
Financial liabilities at FVTPL*				
Derivative financial liabilities used for hedging (Company and Group)	-	2 444	-	2 444

* *FVTPL – Fair value through profit and loss.*

Measurement of fair values

The table below shows the valuation techniques used in measuring level 2 and level 3 fair values, as well as the significant unobservable inputs used:

Financial instruments measured at fair value	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Cross-currency and interest rate swaps and forward exchange contracts used for hedging[1]	Discounted cash flow method using market yield curves to project and discount cash flows. The Monte Carlo simulation model is used, incorporating market inputs that were observable, probabilities of default, recovery rates and expected future exposures per counterparty.	Not applicable.	Not applicable.
Credit contingent default swap (CCDS)[2]	The CCDS is a level 3 fair value instrument and will not only be a function of the ZAR/USD exchange rates, applicable interest rates and swap spreads, but also a function of the creditworthiness of Transnet.	The USD/ZAR quanto applied to calculate the fair market value of the CCDS are not market observable.	The quanto adjustments have a direct and significant impact on the fair market values. Quanto adjustments were calculated by solving for a zero fair market value for the CCDS on day one.
Interest rate options	Standard JSE formula for pricing South African bond options.	Not applicable.	Not applicable.
Issued bonds[3]	Bonds were priced at fair values using quoted market prices.	Not applicable.	Not applicable.
Other financial liabilities[3, 4]	Loans were valued using risk free yield curves adjusted for credit risk of counterparties.	Not applicable.	Not applicable.

[1] *Fair values include market observable credit valuation adjustments (CVA).*
[2] *An additional credit event is applicable in an event of default by Transnet whereby both the credit default swap and cross- currency swap will settle at a zero market value should such an event occur. Five cross-currency swaps were affected by the Contingent Credit Risk Swaps (CCDS), which were closed out during the 2018 financial year.*
[3] *Fair values include market observable debit valuation adjustments (DVA).*
[4] *Other financial liabilities include borrowings and finance lease obligations.*

Transfers between level 1 and 2

There were no transfers in either direction between level 1 and 2 in both the current financial year and in 2018.

Level 3 fair values

There were neither level 3 inputs nor transfers in either direction in both the current financial year and in 2018.

Day-one gain or loss on financial instruments not yet recognised in profit and loss

	September 2018 R million	March 2018 R million	September 2017 R million
Loss at the beginning of the period	**1 108**	1 212	1 212
Day one loss recognised	**–**	–	–
Amortised to profit and loss	**(53)**	(104)	(53)
Loss at the end of the period	**1 055**	1 108	1 159