2019
INTEGRATED REPORT
VOLUME 1

Building
SOUTH AFRICA
THROUGH BETTER ROADS

SANRAL

BUILDING SOUTH AFRICA
THROUGH BETTER ROADS

Integrated Report 2018/19

The South African National
Roads Agency SOC Limited

Reg no: 1998/009584/30

The South African National Roads Agency SOC Limited

Integrated Report 2018/19

About the Integrated Report

The 2019 Integrated Report of the South African National Roads Agency (SANRAL) covers the period 1 April 2018 to 31 March 2019 and describes how the agency gave effect to its statutory mandate during this period.

The report is available in printed and electronic formats and is presented in two volumes:

- **Volume 1:** Integrated Report is a narrative and statistical description of major developments during the year and value generated in various ways.
- **Volume 2:** Annual Financial Statements contains the corporate governance report in addition to the financial statements.

In selecting qualitative and quantitative information for the report the agency has striven to be concise but reasonably comprehensive and has followed the principle of materiality – content that shows the agency's value-creation in the short, medium and long term.

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Chairperson's Report

SANRAL was one of the first state-owned entities established by the democratically elected government and was given the mandate to manage the country's extensive national road network.

The value of a well-planned and well-maintained world-class primary road system was clearly realised at the time. It remains a major catalyst for inclusive growth with an impact on every sector of the country's economy - from agriculture and manufacturing to tourism and small business development.

Twenty-five years later SANRAL manages a primary road network of 22 214km. In our long-term strategy – Horizon 2030 – we identify one of the greatest challenges to the sustainability of the agency as balancing the gradual expansion of the national road network within a constrained funding envelope. Funding constraints for road construction worsened during the past financial year because of a downturn in the global economy and a stagnant South African economy, both of which have also dampened the overall outlook of the construction and related sectors.

Additionally, low levels of payment of e-tolls have led to the National Treasury approving the reallocation of R5.75bn from the non-toll portfolio to the toll portfolio. This resulted in a 27% reduction on expenditure in the construction of road infrastructure. The consequential slowdown in road construction has been further exacerbated by delays in the process of securing clarification of National Treasury's supply chain reform processes related to the PPPFA.

The resolution of the e-toll non-payment impasse is therefore absolutely critical and crucial for the future of our roads and the country's economy. Our Minister's commitment to chart a firm way forward on e-tolls is thus comforting to all who recognise the centrality of adequately funded roads for real and sustainable socio-economic growth and development.

The future challenge is to manage – and expand – the current network and ensure that it continues to contribute to balanced growth throughout the country. Both urban and rural communities are dependent on the quality of the national road system to facilitate the movement of people and products and ensure the efficient delivery of vital government services to communities.

The importance of SANRAL will continue to grow, but only if the network growth is capped, at 25 000km according to our objective assessment, and the funding of roads is resolved. In this regard, the agency can simply not rely solely on taxpayer funding. Toll must

remain on the table as an option if SANRAL is to achieve its stated purpose of delivering a safe, efficient, reliable and resilient national road transport system for the benefit of all the people of South Africa.

SANRAL sets an example of what government wants to achieve in the transformation of state-owned entities and the creation of a capable state. The governance of SANRAL was again a highlight in the year under review with a record 15th unqualified audit report achieved.

During the year, SANRAL incurred irregular expenditure of R179m following the purchase of a building for the accommodation of staff. The Assets and Liabilities Committee (ALCo) of the Board approved the purchase, which was subsequently ratified by the Board.

The Auditor-General (AG) deemed that the Charter of ALCo which details its functions did not explicitly state that ALCo was authorised to approve the purchase of property with improvements, and the transaction should have been approved by the Board. We acknowledge the fact that ALCo's decision was based on the Board's mistaken view that its delegation to ALCo went as far as allowing the latter to approve the acquisition of property, for Board ratification.

The Board notes the AG's concern and has undertaken to replicate, in greater detail, the powers it has delegated to ALCo. It has also undertaken to ensure that transactions of key implications are specifically and explicitly approved by the Board rather than broadly ratified with the minutes of SANRAL's committees. With specific reference to the said transaction itself, the Board has further advised the AG that it will conduct an internal audit thereon, with a view to seeking National Treasury condonation.

Finally, while the Board is disappointed at this irregular expenditure as identified by the AG, it is encouraged by the lessons it has learnt therefrom, and by the fact that had it not been for that lapse, this year's irregular expenditure would have been lower at R240m, than last year's R334m.

This signifies some progress towards our stated mission to take SANRAL to a clean audit opinion by 2020/21.

The unqualified audit is by no means the only highlight. Another major highlight is that 201 SMMEs benefited from our community development projects. That is 23% more than the previous year. All of these are black-owned.

While we celebrate this, our long-term plan is that every project will have community development sub-projects which will be executed by SMMEs from the surrounding community. The intention is to reach out to communities and create platforms to train, mentor and develop new businesses across the spectrum, including suppliers of materials, contractors and consultants. The development of contractors will not be confined to lower CIDB grades, but include those up to grade 9. As these contractors move up the ladder, the type of development initiatives will be different – from basic business training to strategy setting and the positioning of their entities on growth trajectories.

Beyond transformation and empowerment through skills development, SANRAL has decided to ensure greater participation and ownership by the previously disadvantaged throughout the road construction value chain. In line with government's programme of producing black-industrialists the Board has, therefore, mandated management to evolve a special project for the targeted development of black industrialists in those areas of the road construction value chain where black people are currently un- or under-represented.

SANRAL also continues to take the lead in transforming the industry from within its own walls. Of the 127 engineers in the organisation's

employ, 52 – 41% - are black. Together with coloured and Indian engineers, this number increases to just under 60%, or 76. Greater focus must now be paid to the magnitude of the projects led and managed by these engineers.

This shows that continuous strides are made towards diversity to better reflect the demographics of our country in the sector. This is done within a context where staff turnover has been limited to a rate of just 5.44%, balancing the experience and wisdom of long service with the innovation and energy of younger employees. SANRAL remains committed to skills transfer at every level of the organisation. For that to continue effectively, it is paramount that skilled and experienced specialists are assigned mentorship and coaching roles across various portfolios in the organisation.

Transformation is also being driven by SANRAL's Technical Excellence Academy where over 50 candidate engineers, technologists and technicians have been assisted since 2014. In 2018/19 there were 35 candidate engineers and technologists. The number included several who had held bursaries from SANRAL and the Department of Transport for their university studies.

However, gender parity is not yet where it needs to be with 81% of the candidates being male. It bodes well for transformation in SANRAL that 75% of the total is African, 9% coloured, 9% Indian and 6% white as these bursars constitute part of the skills supply pipeline for the company.

As the focus of country turns towards the massive investment in infrastructure championed by the President, our national road network will continue to be the catalyst for growth and socio-economic transformation. As SANRAL we are poised to continue our sterling contribution towards this national priority.

I would like to convey our thanks and appreciation to the previous and current Board, the CEO (Mr Skhumbuzo Macozoma), our executives, management and staff for their dedication to qualitatively deliver on the mandate and work of SANRAL.

On behalf of the Board, I would also like to thank the former Minister of Transport, Dr Bonginkosi Blade Nzimande, MP and his then deputy, Ms Sindisiwe Chikunga, MP and their staff for their steadfast support and guidance during their tenure as the executive authority of SANRAL. In the same breath I would like to welcome the recently appointed Minister of Transport, Mr Fikile Mbalula, MP, and his deputy, Ms Dikeledi Magadzi, MP, and thank them for the clear path they are charting for us.

Without the support of the Department of Transport, the National Treasury, the Auditor-General and Parliament we cannot achieve our objectives and fulfil our mandate. Their invaluable contribution to our success is therefore also highly appreciated.

Themba Mhambi
CHAIRPERSON

Chief Executive Officer's Report

The social and economic climate prevailing in 2018/19 presented numerous challenges to SANRAL in its pursuit of its mandate to preserve, improve and develop the network of national roads that are so critical to our country's growth prospects.

With a reduced allocation of R12 369m from the fiscus and continued financial pressure on the toll portfolio due to the sustained under-collection of the Gauteng Freeway Improvement Project's (GFIP) e-toll fees, SANRAL's executive management had to consider carefully how to utilise existing resources during this relatively lean period. We were aware that our decisions during this time would determine how well we would be positioned to take advantage of opportunities when the financial situation recovers.

Our first concern was to keep our programme of construction on toll and non-toll roads moving steadily forward with as little delay as possible and to protect our road assets by sustaining essential road maintenance work. How we did so is described in more detail below.

It was also imperative to resist sacrificing or putting "on hold" our commitment to social justice and economic transformation simply because redistribution may be harder to implement when the economic pie is shrinking. It was equally important to continue our investment in human capital for a future construction sector, in road safety and in the physical development of rural communities, and to honour our obligations to minimise the impact of roads on the natural environmental.

In accordance with Horizon 2030, we prioritised the building of our business around a sturdy pillar of respectful stakeholder relations. We are committed to consensus-building in the planning and construction of roads and to facilitating economic participation in an open and inclusive manner.

The sporadic (sometimes violent) protests we have witnessed at a number of our construction sites in the recent past have been driven by demands for access to SANRAL contracts and work opportunities. Like other popular protests, they have several dimensions. There is at times an element of corrupt coercion, while in other instances we appear to be witnessing burning frustration with a deeply unequal society.

At SANRAL we will fight corruption and the erosion of honest tender administration at all costs. But we willingly play our part in creating a more inclusive, just and equal country – which is also, ultimately, a more stable country. We must

help create the conditions for our own long-term sustainability – we cannot sit back and expect others to do the job.

Outlined below are some features of the agency's work during the course of the last year:

Our **investment in road development, improvement and maintenance** for the year was R12 680m – 19% lower than the preceding year. This reduction was partly planned due to constrained income. But it was also affected by tender delays attributable to the combined effect of supply chain reforms initiated by National Treasury and the introduction of the Preferential Procurement Policy Framework Act (PPPFA) in 2017, as well as project interruptions due to financial difficulties of contractors.

The imperative of safeguarding the **solvency of the toll road portfolio** had an impact on funding available for non-toll roads. An amount of R5.75bn was transferred from the agency's government grant to the toll portfolio to offset the shortfall due to non-payment of tolls by many users of Gauteng freeways. Servicing of loans for the GFIP is a non-negotiable responsibility. Good management of toll roads is equally imperative given the massive traffic volumes they carry and their critical contribution to economic activity.

We accorded high priority to the **protection of existing road assets**. Our spending on routine road maintenance remained roughly consistent with amounts spent in the last two years as these mundane activities are critical in preventing premature deterioration of roads. The average condition of the pavement – measured across the whole national road network – was 72.37% in 2018/19, only marginally lower than the scores for 2017/18 (73.32%) and 2016/17 (72.7%).

We strove to achieve a balance between contributing to **rural development** and greasing the wheels of the **urban economy**.

On the one hand, we maintained and improved urban freeway management systems in Cape Town, Gauteng and KwaZulu-Natal that kept traffic flowing and saved lives by attending to more than 77 000 incidents and 10 600 collisions.

On the other hand, three-quarters of spending on capital projects and road maintenance was devoted to non-toll roads, which tend to carry less traffic and traverse more remote rural areas. The green fields section of N2 Wild Coast Route will go where no road has gone before, drawing isolated and impoverished parts of the Eastern Cape into the economic mainstream. Work on this section got going in earnest in 2018/19, with one mega-bridge under construction and work on the second initiated.

The current reporting year also saw the first measures to implement the **Transformation Policy** launched in 2017.

SANRAL has always used its contracting power to enable black contractors to participate in the construction industry. The black empowerment agenda adopted by SANRAL had the advantage of affording emerging contractors active involvement in the construction sector (rather than the mere acquisition of shares). It was also broadly based, favouring small businesses, often from rural areas. But it had limits: black contractors encountered solid barriers to securing major contracts for complex projects – a lack of access to capital and difficulties in purchasing equipment and building the expertise required.

At SANRAL we decided to **leverage partnerships** with important role players in the construction industry to overcome these barriers – if you like, to break the asphalt ceiling that black contractors had hit. We are pleased to say the first four partnerships in the form of MoUs were concluded during the year and systems have been created within our offices to enable contractors to utilise the facilities created by these partnerships for

the purchasing equipment and provision of mentorship.

At the same time, our existing policy of **affirming black contractors** through the tendering system delivered more opportunities than in previous years. About 71% of contracts, representing 61% of total contract value, were awarded to black-owned companies. We were especially encouraged to note how black women have cast aside the gender bias of this industry: fully 25% of total contract value was secured by companies owned by black women.

However, the value of actual work performed by SMMEs and the number of **work and training opportunities** were affected by the number of work projects available on the ground at the time. About 10 000 fewer work opportunities were created than in the previous year and work periods were of shorter duration. The human impact of a reduced activity in national road construction stretches way beyond road users to impoverished households in many hidden villages.

Other aspects of the agency's social investment fared better. We allocated the highest amount yet – nearly R25m – to bursaries for staff members and university students studying engineering and related fields and **scholarships** for high school learners performing well in maths and science. This programme is strongly geared to the goal of improving racial and gender equity in the sector. Our **road safety** education programme reached approximately 200 000 learners and we continued to fund mass media campaigns to improve road safety.

Developments during the year highlighted a number of concerns and risks.

Chief among these was a sense of urgency about developing the **Integrated Funding Model** that will diversify sources of income and be more resilient than the present twin-track approach of a government-funded non-toll road portfolio and a road user-funded toll road network. The existing arrangement will continue to feature prominently in the Integrated Funding Model but other options will be introduced. Talks with important lending institutions were held during 2018/19 and SANRAL initiated activities to generate income from its assets, including its expertise in road construction and management, and its land and property holdings.

Without sufficient and sustainable funding it is inevitable that the quality of the national road network will suffer and, given the dominance of road transportation in this country, this would have an adverse economic impact. In addition, SANRAL's ability to play a dynamic role in the construction industry and the transformation of this industry depends directly on its power to drive its core mandate.

The financial difficulties experienced during the year by some outstanding construction companies raised the possibility of their demise and an associated loss to the sector of high-level expertise.

Similarly, the traditional role of the construction sector as a generator of jobs for unskilled and semi-skilled work seekers has been seriously eroded in recent times. Until 2018/19 SANRAL was able to swim against the prevailing tide and expand work opportunities, especially in rural areas and for young people. The agency's reversal in work creation in 2018/19 takes a particularly serious meaning when viewed in the context of South Africa's perilous unemployment rate.

The introduction of the long-awaited carbon tax was a timely reminder that SANRAL has a leadership role to play in improving industry practices in terms of emissions and exploitation of non-renewable natural resources. This is a pressing duty that cannot be postponed.

The final major challenge I wish to mention is the building of **consensus about supply chain management** and the opportunities it offers for **inclusive economic growth**. As the model for black economic empowerment has grown more

sophisticated, there have been differences of opinion on the interpretation of the regulations in the PPPFA.

As a result, SANRAL has engaged with National Treasury to clarify ambiguities underlying these differences. Currently the majority of issues raised by National Treasury affecting our tender processes have been resolved and the agency proceeded with advertising of tenders from April 2019.

SANRAL also took significant internal measures to manage this, and related challenges. Much of the growth in our staff establishment in recent years has been precisely to expand and deepen our supply chain management capacity. We have strengthened our stakeholder engagement processes and sustained a vigorous communication programme. Our management team has been available to help calm the waters wherever storms over contracts have erupted. But clearly more work remains to be done and the agency will continue to invest our efforts in this area in the years to come.

The role of the national roads agency is very meaningful, especially in light of its broader economic and developmental contribution. The achievements of SANRAL are tangible and the employees take pride in their work. But our work is often complex and demanding and, with this in mind, I extend my sincere appreciation to everyone concerned.

We are grateful to the former Minister of Transport, Dr Blade Nzimande, and his former deputy, Ms Sindisiwe Chikunga, for their insight and support during the reporting period.

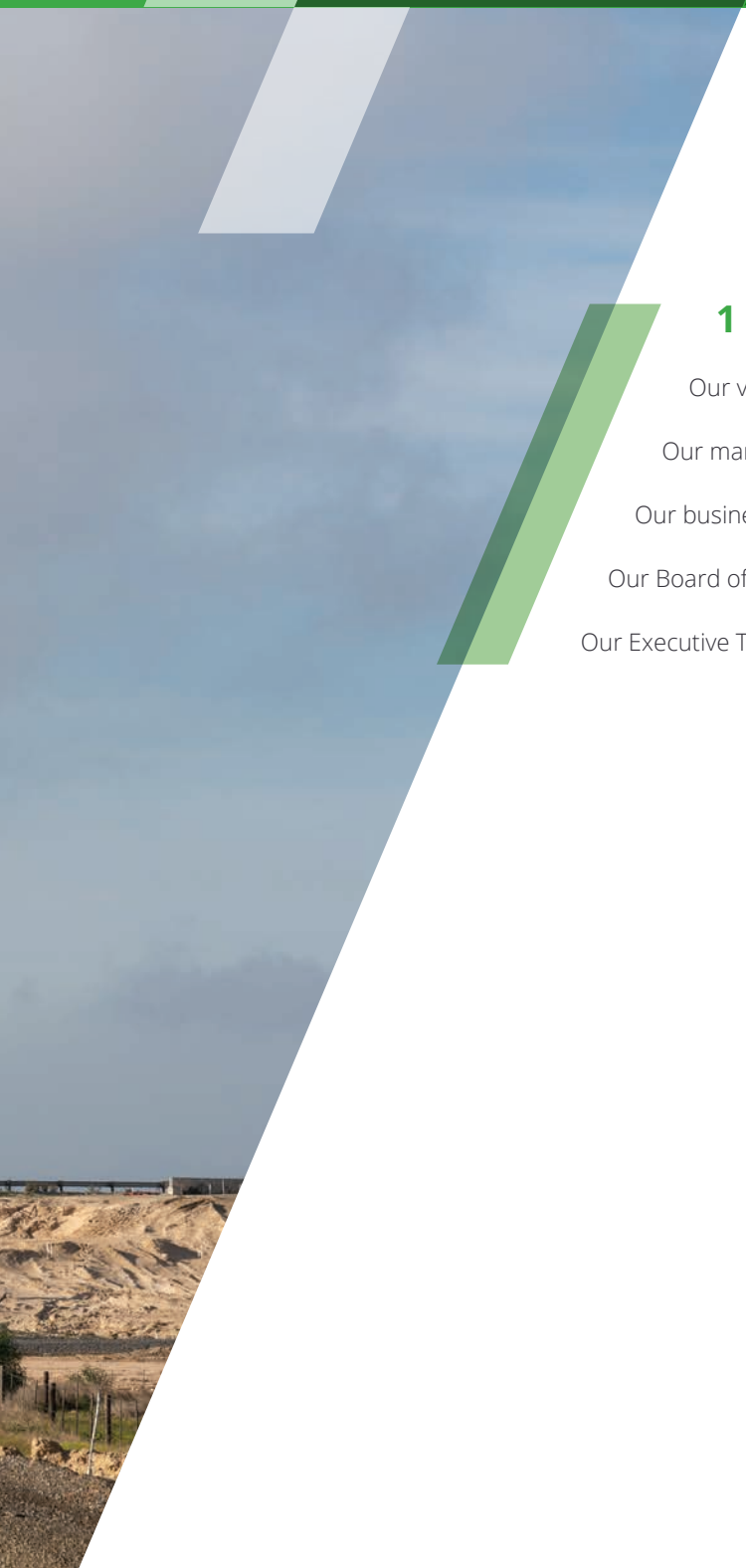
I am thankful to the Chairperson and members of the board and its committees for the time and attention they devote to the agency. In periods of change, collective wisdom plays an unusually important role.

We look forward to working with the recently appointed Minister of Transport, the Honourable Mr Fikile Mbalula, and his deputy, Ms Dikeledi Magadzi.

Finally, to our managers and staff members who are ultimately custodians of the agency's reputation and track record of performance: thank you for yet another year of service with integrity.

Skhumbuzo Macozoma
CHIEF EXECUTIVE OFFICER

SECTION ONE



1

Company Overview

VISION

Ensuring our national road transport system delivers a better South Africa for all.

MISSION

Our purpose is to deliver a safe, efficient, reliable and resilient national road transport system for the benefit of all the people of South Africa.

PRINCIPAL TASKS

- Plan, design, construct, operate, maintain and rehabilitate South Africa's national roads.
- Generate revenue from the development and management of assets.
- Undertake research and development to advance knowledge in the design and construction of roads and related fields.
- Advise the Minister of Transport on matters relating to South Africa's roads.

Business pillars

SANRAL's long-term strategy, Horizon 2030, defines four business pillars which serve to integrate its operations. These are:

The Roads Pillar	This consolidates all functions pertaining to the financing, planning, development, improvement and maintenance of national roads. This area of business includes the management of toll roads and the road engineering and maintenance aspects of road safety. There is an emphasis on road solutions that embrace innovative technology.
The Road Safety Pillar	This embraces a holistic approach to road safety, including research and data collection on collisions, public awareness and road safety education, improved road incident management systems, development of engineering standards for safe roads, and strengthening of partnerships for law enforcement.
The Stakeholders Pillar	This pillar focuses on communication activities to build partnerships, manage community expectations of major road projects, and influence public opinion in relation to SANRAL. The pillar lays the foundation for economic participation of small businesses and rural communities in construction projects.
The Mobility Pillar	The focal point is on road infrastructure to enable public transport and inter-modal transport solutions, increase access to strategic locations, integrate regions and facilitate seamless cross-border movement, and enhance urban planning.

The four pillars serve to integrate activities across the agency and deliver different forms of value, as set out in the graphic representation on pages 22 and 23.

Implementation of Horizon 2030: the start of the roads less travelled

The role envisaged for SANRAL in Horizon 2030 is an extension of the role it has played for two decades, with important new emphases and opportunities. It is therefore impossible to isolate a moment when implementation began but important processes unfolded from 1 April 2018.

These included the establishment of a Strategy Implementation Monitoring Committee (SIMC), comprising a cross-section of staff who are well placed to review progress and report to the Executive Committee and the Board.

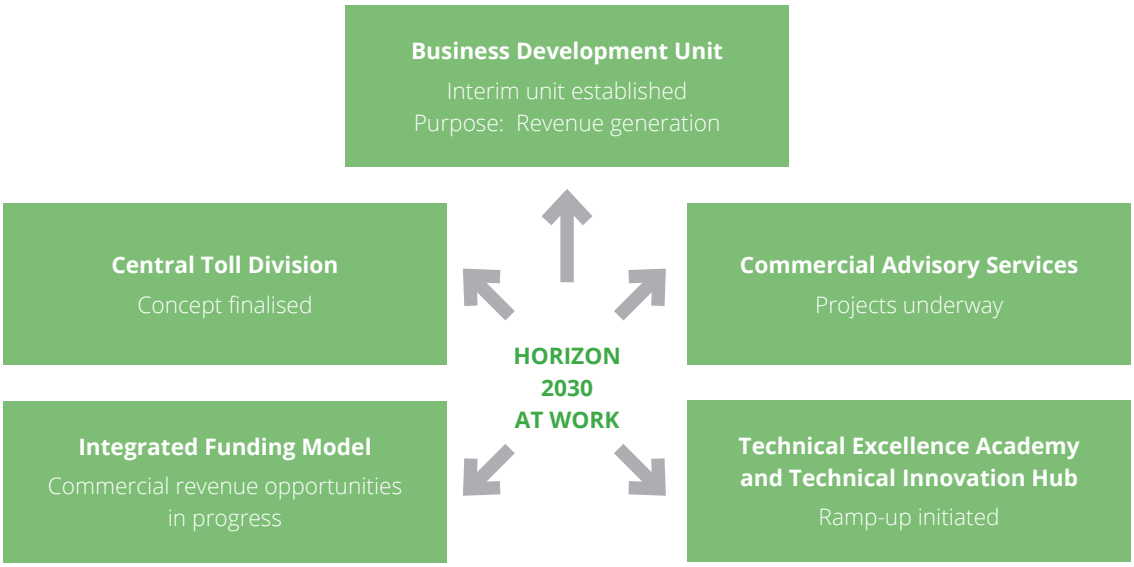
During the reporting period, the five-year Information and Communication Technology (ICT) strategy was finalised.

An interim Business Development Unit was set up to drive the generation of revenue for the agency. One of its first tasks was to revise the agreement covering the installation of telecommunications infrastructure within the road reserve of national roads in order to improve the financial benefit to SANRAL.

SANRAL envisages the establishment of a Central Toll Division to consolidate its toll road management and engineering expertise and utilise this more effectively. In the reporting year, the concept document for this new division was completed.

The agency also aims to accelerate the development of professional capacity for road construction in South Africa and the wider African region, and is using its Technical Excellence Academy as an instrument to achieve this. The academy offers outstanding facilities for young graduates to complete the practice requirements for professional registration. In 2018/19 its intake was boosted considerably by the inclusion of engineers from provincial transport departments and plans are in place for two Namibian engineers to enrol in July 2019.

Horizon 2030 directs the agency to explore international business opportunities and this new direction is expressed through its Africa and Beyond initiative. This led to a partnership with the DBSA to pursue opportunities in Africa.



LOOKING AHEAD: Execution of Horizon 2030

PRIORITISED INITIATIVES AND NEXT STEPS

- Finalise the Community Development strategy - ramp up community development projects and enhanced approach
- Finalise the Roads Plan 2030
- Finalise the Business Development strategy - generate revenue and sweat SANRAL assets
- Road safety interventions through technology and education
- Public transport enablement for the national road network
- Implement major projects that are drivers of regional or the national economy and will have a substantial impact on communities
- Streamline toll functions through the Central Toll Division
- Advance transformation through inclusive participation
- Continue stakeholder engagement to prepare communities before projects are implemented
- Build strong partnerships in Africa and beyond for the provision of commercial services

INTEGRATION OF VALUE THROUGH FOUR BUSINESS PILLARS

	Manufactured Capital	Funding Capital	Intellectual Capital
ROADS PILLAR	• Plan, develop, manage and maintain national road system, extending over 22 214km and valued at R413bn	• Finance maintenance and development of national roads • Manage Treasury grant to SANRAL • Mobilise capital for toll road projects • Manage national toll roads and toll road concessions	• Commission innovative road design, construction and management
ROAD SAFETY PILLAR	• Design and build safe roads • Upgrade roads for enhanced safety • Maintain roads in safe condition	• Invest in evidence-based road safety campaigns	• Apply international best practice in promoting road safety
STAKEHOLDERS PILLAR	• Consult communities on proposed road projects affecting them	• Account to public for use of tax monies • Consult with public on declaration of new toll roads • Utilise spending power to advance equity	
MOBILITY PILLAR	• Develop road infrastructure to enable public and inter-modal transport, optimise mobility, and reduce urban congestion	• Form funding partnerships for joint road construction projects	• Sponsor academic activity in transport planning

Human Capital

- Recruit and retain highly skilled staff and. ensure continuous learning
- Develop SMMEs and construction skills pool through roads contracts
- Sponsor education and training of civil engineers and relevant professionals

- Develop skills for conducting road safety education in public schools and communities

- Facilitate participation of local companies and work seekers in road construction projects

- Invest in mobility research and training of transportation professionals

Social & Relationship Capital

- Utilise contracts to promote social equity and economic transformation
- Engage local companies and work seekers on roads projects
- Undertake community development projects to improve local mobility and safety

- Develop road incident management systems
- Participate in national road safety initiatives
- Collaborate with relevant role-players

- Use variety of media and communication platforms to present and discuss SANRAL's work

Natural Capital

- Undertake environmental impact studies
- Implement environmental off-set requirements
- Introduce use of less resource-intensive road building methods

- Maintain roads to minimise incidents involving wildlife

- Consult parties representing environmental interests when planning roads
- Form partnerships to manage off-set activities

- Support development of transport options with lower carbon footprint

Board of Directors (From 1 September 2018)*

Non-executive directors

THEMBA MHAMBI

Chairperson
Senior Secondary Teachers' Certificate (English, History, Guidance) BA (English, Education, History), BA (Hons) (English) MA (English, Creative Writing concentration)

ROB HASWELL

BA BA (Hons) (Geography) MSc (Geography)

CHRISTOPHER HLABISA

BTech (Civil) MDP
Pr Tech Eng MSAICE

AVRIL HALSTEAD

BCom (Hons) (Mathematics) MBA MA (Advanced Organisational Consulting) MSc (Economic Policy)

LUNGILE MADLALA

N Dip (Civil Engineering) B Tech (Civil Engineering) BSc (Applied Science) (Hons) Civil Engineering, Transportation Engineering

THAMSANQA PIET MATOSA

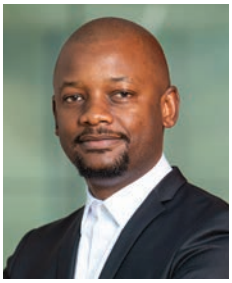
Executive Leadership Development Programme – Municipal Manager's Certificate

NKARENG MBOPANE

B Com (Economics)

(Board member from 1 September to 2 November 2018 only)

Executive Director



SKHUMBUZO MACOZOMA

Chief Executive Officer
BSc (Civ Eng) MSc (Civ Eng)

Company Secretary

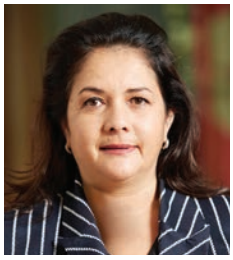
ALICE MATHEW

BSc MBA FCIS

Executive Management

INGE MULDER

Chief Financial Officer
BCompt (Hons) CTA
CA (SA)



HEIDI A HARPER

Corporate Services Executive
B.Soc Sci MBA PGDip Leadership Development
Cum Laude
Pr CHRP (SABPP)
IPMSP (IPM)

LOUW KANNEMEYER

Engineering Executive
BEng (Civ) MEng (Transportation) Cum Laude Pr Eng Pr CPM

Regional Management

DUMISANI NKABINDE

Eastern Region
BSc (Civ Eng) Pr Eng Diploma Project Management MBA MSAICE

PROGRESS HLAHLA

Northern Region
BSc Civil Eng (Hons) MSc (Civil) Adv Diploma Mgt Pr Eng MBA candidate

MBULELO SIMON PETERSON

Southern Region
BSc (Maths and Applied Maths) BSc (Civ Eng) MSc (Strategic Planning) MBA Pr Eng MSAICE

RANDALL CABLE

Western Region
BSc (Civ Eng) MEng (Civ Eng) Pr Eng

**The following board members' term ended on 31 August 2018:*

Mr Roshan Morar
Dr Allyson Lawless
Mr Matete Matete
Ms Daphne Mashile-Nkosi
Ms Zibusiso Kganyago

SECTION TWO

2

1 Manufactured Capital

SANRAL is responsible for the development, improvement, maintenance and management of the national road network, which currently comprises 22 214km and has been described as South Africa's largest infrastructural asset with a notional value of R413bn.

The immense economic significance of the national road network can be gauged from just two figures:

- Road freight constitutes about three-quarters of South Africa's total freight.
- National roads carry more than 70% of all road freight.

The national road network is not a static system. Its length alters as provincial roads are occasionally incorporated and as new sections of road are developed, usually to accommodate increased traffic flows and improve safety.

About 87% of roads in the system are non-toll roads, funded entirely by a grant from Treasury, and the remaining 13% comprises toll roads, about half of which are managed directly by SANRAL and half by private companies granted concessions for the construction and management of these roads.

Constant maintenance is critical to preserving the lifespan of roads and maximising the return on capital investment. Road maintenance is supported by active road management which involves regular inspection of roads, bridges and slopes. It also involves the management and servicing of road users, with activities ranging from overload control to the sophisticated management systems offered on some of the country's busiest urban freeways, where information technology assists in incident response.

NATIONAL TOLL ROADS

Managed by SANRAL

- Sections of N1 in Western Cape, Free State, Gauteng and Limpopo
- R30 near Brandfort, Free State
- Sections of N2 in Eastern Cape and KwaZulu-Natal
- N3 Marianhill (KwaZulu-Natal)
- N4 just west of Pretoria
- N17 from Gauteng to Ermelo, Mpumalanga
- Gauteng freeway system (N1, N3, N12 and R21)

Toll roads under concession

- N4 eastward from Pretoria to Maputo (concession holder is Trans African Concessions [TRAC])
- N3 between Cedara, KwaZulu-Natal and Heidelberg, Gauteng (concession holder is N3 Toll Concession (NF) Pty Ltd [N3TC])
- N1 between Pretoria and Bela Bela and N4 westward from Pretoria to Botswana border, Skilpadshek (concession holder is Bakwena Platinum Corridor Concessionaire [Bakwena])

1.1 Overview of road development and maintenance

Expenditure on road development, improvement, strengthening and maintenance declined in 2018/19 for the second consecutive year. The total amount spent, R12 680m, was 19% lower than the previous year. 51% was allocated to capital projects while the balance secured routine and periodic maintenance.

National Road Network = 22 214km

Non-toll roads = 87%
Built and maintained by annual grant from Treasury

Toll roads = 13%

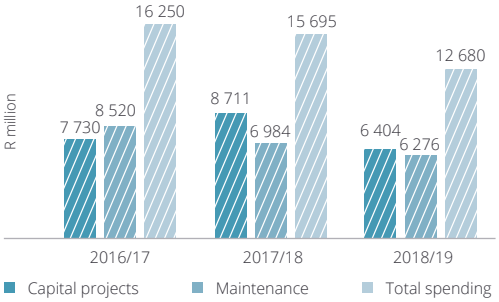
7% managed by SANRAL

6% managed under concession

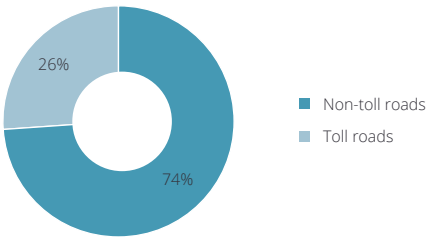
The majority of capital projects involve multi-year contracts and these proceeded mainly as scheduled, with some noteworthy delays which are detailed later in this section. Significant new construction projects were initiated during 2018/19.

Spending on routine road maintenance was consistent with recent years, and the decrease in total maintenance spending mainly affected periodic road maintenance. As in previous years, about three-quarters of total road expenditure related to the non-toll road portfolio.

Trend in spending on road projects and maintenance



Share of capital and maintenance spending by type of road



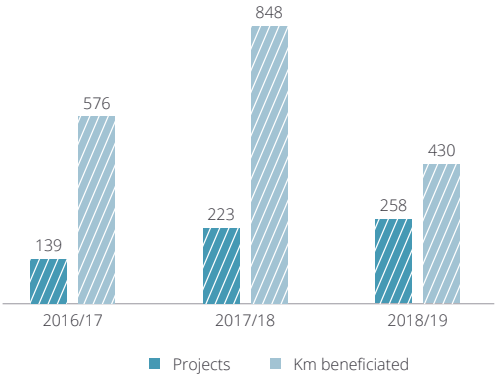
Types of road projects	Frequency	Cost
CAPITAL PROJECTS		
Strengthening: Increases structural capacity of pavement through recycling of existing layers or addition of new granular layers or structural asphalt layers	Every 20 - 25 years	R2m - R3m a kilometre
Improvement: Improves roads with unacceptable quality of service. Examples: addition of passing lanes, addition of paved shoulders, improved intersections. Is often combined with rehabilitation of pavement	Every 20 - 25 years	R12m – R18m a kilometre
New facilities: Improve capacity to accommodate traffic and expands road network. Examples: greenfields roads, upgrades from single to dual carriageway, new bridges, replacement of intersections with interchanges	Every 20 - 25 years	R20m - R40m a kilometre
ROAD MAINTENANCE		
Routine maintenance: Cleaning drains and culverts, cutting vegetation, repainting road markings, repairing guard rails and signs, patching and sealing cracks	Ongoing	R0.1m a kilometre a year
Periodic maintenance: Scheduled waterproofing of roads by application of surface seals and thin functional asphalt layers	8 - 12 years	R2m - R3m a kilometre

1.2 Road strengthening, improvement and development

In 2018/19, on non-toll roads and toll roads directly under its management, SANRAL undertook 258 projects to build new roads and strengthen and improve existing roads. While the number of projects exceeded the previous year's figure, there was a downturn in both project spending and the length of road beneficiated.

The construction of new roads predominated in the toll road network, but it comprised only 29% of projects undertaken in the non-toll portfolio.

Projects in process and length of road beneficiated



Capital projects and length of road beneficiated 2018/19

Type of capital project	Non-toll roads		Toll roads	
	Projects	Km beneficiated	Projects	Km beneficiated
Strengthening and improvement	160	255	12	5.5
New facilities	64	136	22	33.7
Total	**224**	**391**	**34**	**39.2**

1.2.1 Major projects initiated during 2018/19

Contracts were awarded for several major projects during the year, including:

- The strengthening of the R511 between Brits and Beestekraal in North West. This R172m contract was awarded to NZK Footprint Engineering. The commencement date was January 2019 and completion is scheduled for July 2020.
- The construction of the cable-stayed bridge across the Msikaba River on the green fields section of the N2 Wild Coast road in the Eastern Cape. This challenging 36-month engineering project – the 580-m bridge will be the second longest main span bridge in Africa – was awarded to the Moto Engil/Concor Joint Venture. Valued at R1.9bn, the project is scheduled to be completed in January 2022.
- The design review and supervision contract for an upgrade of the N11 from the Newcastle industrial area through to Madadeni, east of Ladysmith in KwaZulu-Natal. The upgrade will improve road alignment, making it more direct, and will double the capacity of the road to a dual carriageway of freeway standard. The estimated construction cost is R531m and the consultant is BVI Consulting Engineers Western Cape.
- Construction of pedestrian facilities on the N2 between Umlaas Canal and Wandsbeck Road in eThekwini, KwaZulu-Natal. The project seeks to eliminate hazardous use of the road shoulder by large numbers of pedestrians and provide safer crossing facilities. It is valued at R29.7m and was awarded to GNS Civils.
- The location of and prospecting for new sources of road building materials located within 50km of national roads in KwaZulu-Natal. The contract, valued at R22.6m, has been awarded to FDKL Engineering Consultants.

1.2.2 Major construction and rehabilitation projects in progress 2018/19

Section of road	Percent complete	Value of work done 2018/19	Scope of work	Main contractor
N7 at Malmesbury, Western Cape	99%	R149m	Upgrading to dual carriageway Large interchange linking town to N7	Power/ Stefanutti Stocks
N7 at Leliefontein, Western Cape	75%	R295m	Upgrading to dual carriageway freeway	Triamic
N7 at Atlantis South, Western Cape	80%	R311m	Upgrading to dual carriageway freeway	Triamic
N7 at Hopefield, Western Cape	80%	R179m	Construction of dual carriageway and new interchange with three bridges and a large agricultural underpass	Triamic
N7 at Trawal, Western Cape	99%	R54m	Widening of bridge over Olifants River	Stefanutti Stocks
N1 at De Doorns, Western Cape	64%	R43m	Provision of pedestrian facilities	Ruwavcon
N2 at Caledon, Western Cape	50%*	R166m	Road improvement	Group 5
N2 at George, Western Cape	99%	R21m	Construction of pedestrian bridge	Civils 2000
N2 at George, Western Cape	30%*	R49m	Construction of new bridge over Gwaing River	KPMM
N14 between Kathu and Olifantshoek, Northern Cape	70%	R39m	Improvement of three intersections	KPMM
R67 from Whittlesea to Queenstown, Eastern Cape	95%	R202m	Provision of safety features such as pedestrian walkways and crossings, guardrails, fencing, improved intersections	Concor
R72 from Port Alfred to Fish River, Eastern Cape	85%	R110m	Widening of road, asphalt overlay in Port Alfred and reconstruction of two bridges	Concor
R72 from Birah River to Openshaw, Eastern Cape	75%	R270m	Widening of road, reconstruction of two bridges and community development project	Triamic
R61 from Misty Mount to Mafini, Eastern Cape	75%	R 190m	Improvement of intersections Construction of eight agricultural under/overpasses, two bridges and two pedestrian bridges	Triamic
N2 from Grahamstown to Fish River, Eastern Cape	90%	R178m	Widening of road and resealing of main road in Grahamstown	WBHO Construction

R573 from Siyabuswa to Marble Hall, Limpopo	56%*	R103m	Addition of shoulders Rehabilitation New roundabout at N11 junction	KPMM-CBE JV
R505 from Wolmaransstad to N14, North West	95%	R273m	Partial reconstruction	Power Construction
N4 from Pampoennek to R512, North West	40%*	R163m	New dual carriageway Extra climbing lanes Partial clover leaf interchange	Aveng-Lubocon JV
N11 from Hendrina to Hendrina Power Station, Mpumalanga	87%	R170m	Provision of paved shoulders Strengthening of existing road	Power Construction
N3 Hammarsdale Interchange, KwaZulu-Natal	87% *	R100m	Upgrading of diamond interchange to partial clover leaf free-flow interchange, including new bridge and six on/off ramps	Stefanutti Stocks Civils KZN
N5 at Senekal, Free State	74%*	R42m	Construction of a traffic control centre	Ruwacon
N6 between Rouxville and Smithfield, Free State	61%*	R120m	Rehabilitation and upgrading	WBHO Construction
N2 Mtentu Bridge, Eastern Cape	7%*	R224m	Reinforced concrete viaduct bridge with total length of 1 132m. Main span is 260m long and 223m high	Aveng Strabag JV
R61 from Baziya to Mthatha Airport, Eastern Cape	80%*	R8m	Widening of road and reconstruction of two major bridges	Basil Read. Contractor is in business rescue which may affect future of contract

***** Indicates a time delay on project with probable cost increase

1.2.3 Major projects completed during 2018/19

Section of road	Percent complete	Value of work done 2018/19	Scope of work	Main contractor
R31 entering Kimberley in Northern Cape, at intersections with N12, N8 and R357	100%	R115m	Conversion of three major intersections to traffic circles	Taupele Construction
N7 at the Olifants River, Western Cape	100%	R161m	Construction of 96-m bridge comprising 11 spans and a large central arch	Stefanutti Stocks/ Aurecon
N12 bridges outside Hopetown, Northern Cape	100%	R105m	Refurbishment of two 12-span bridges over the Orange River	H&I
R34 near Schweizer-Reneke, North West	100%	R122m	Widening of road and addition of shoulders. Improved alignment and drainage	Edwin Construction
N2/M41 Mount Edgecombe Interchange, KwaZulu-Natal	100%	R61m	Upgrading of signal- controlled interchange to a four-level free-flow system	CMC di Ravenna SA

Significant construction delays were experienced on a number of projects.

In several instances, progress was set back by cash flow difficulties experienced by contractors, including some long-established construction companies. The affected projects were:

- The improvement of the R573 from Siyabuswa to Marble Hall in Limpopo.
- The N2 upgrade at Caledon, Western Cape.
- The construction of a new bridge over the Gwaiing River at George, Western Cape.

The upgrade of the R61 from Baziya to Mthatha in the Eastern Cape was interrupted when contractor Basil Read went into business rescue in June 2018. The appointed business rescue practitioner was unable to finance completion of the project by Basil Read and the process of appointing a replacement contractor was at an advanced stage at the end of the financial year.

The number of projects delayed by financial difficulties of contractors was larger than usual in 2018/19.

Two projects were delayed due to modifications in the scope of work:

- On the N6 between Rouxville and Smithfield in the Free State poorer than expected ground conditions caused time and cost over-runs.
- Modifications were made to the foundation design of the traffic control centre being built on the N5 near Senekal, Free State.
- Generally slow progress, sometimes compounded by work stoppages and protests, also caused project delays.
- Work on the N2/M41 Mount Edgecombe Interchange near Durban progressed slower than scheduled.
- There were work stoppages at the Hammarsdale Interchange on N3 which exacerbated other delays.
- The contractor abandoned work on the Mtentu River Bridge – part of the N2 Wild Coast Project – when community unrest disrupted an already-delayed project. SANRAL instituted court action aimed at securing resumption of work by the contractor.

CASE STUDY

A bridge to the economic mainstream

Well-designed road infrastructure can contribute to the spatial transformation of South Africa, affording historically marginalised areas access to the social and economic mainstream and serving as a catalyst for growth.

The Mt Edgecombe Interchange, at the intersection of the N2 and M41 north of Durban, is an excellent example of how new and expanded road infrastructure can unlock economic value and create opportunity.

Opened during Transport Month 2018, this SANRAL project was hailed as an engineering masterpiece. Its potential to support development is equally impressive.

The immediate value of the four-level interchange to the eThekwini metro was quite obvious, as it eased severe traffic congestion caused by population growth and new residential developments in the Umhlanga and La Lucia Ridge areas.

Its wider importance lies in the fact that the M41 links coastal development in the north of Durban to areas near Verulam, Tongaat and kwaGingindlovu. Important economic activity in the fields of agriculture, agriprocessing and tourism depends on the quality of the M41 and its linkages to the primary freeway network.

Equally significant is the convenient connection of these areas to King Shaka International Airport and the adjacent Dube Cargo Terminal with its facilities for exporting fresh produce.

The relocation of Durban's main airport to the north of the city has elevated the importance of the N2 in respect of the tourism, leisure, hospitality and commercial sectors.

Through its successful delivery on the Mt Edgecombe project SANRAL has demonstrated that quality roads, with safe access points and an interface with ports and markets, can make a critical contribution to social integration, economic growth and balanced development.

1.2.3 Major projects on toll roads managed by SANRAL 2018/19

Section of road	Percent complete	Value of work done 2018/19	Scope of work	Main contractor
N1 at Polokwane, Limpopo	65%*	R50m	Upgrading of Polokwane ring road to a dual carriage freeway	Basil Read
N1 at Musina, Limpopo	60%*	R26m	Construction of new ring road to facilitate flow of cross-border traffic	Basil Read
N1 at Erasmusrand, Gauteng	50%	R15m	Construction of new pedestrian bridge to replace a damaged bridge	Teichman/ Ndungane
N1 from Ventersburg to Holfontein, Free State	95%	R89m	Upgrading of a single carriage road to a dual carriage freeway	Aveng Grinaker-LTA
N1 from Holfontein Interchange to Kroonstad, Free State	98%*	R96m	Upgrading of a single carriage road to a dual carriage freeway	Hillary Construction
N1 at Kroonstad, Free State	95%	R83m	Upgrading of traffic control centre including a new monitoring office	Raubex
N2 from Mtunzini Toll Plaza to junction with R102 near Empangeni, KwaZulu-Natal	95%	R355m	Upgrading of a single carriage road to a dual carriage freeway	Concor
N1 from Winburg Interchange to Winburg Station, Free State	100%	R439m	Upgrading of a single carriage road to a dual carriage freeway	WBHO

***** Indicates a time delay on project with probable cost increase

Significant delays were experienced on three toll road projects:

- The completion of the Polokwane and Musina ring road projects were delayed due to Basil Read experiencing cash flow problems and applying in June 2018 for voluntary business rescue.
- There was slow progress on the N1 upgrade between Holfontein Interchange and Kroonstad and penalties were imposed in May 2018 at a rate of R30 000 a day.

1.2.4 Toll roads under concession

The quality and adequacy of roads that are being managed under concession are monitored similarly to roads directly under SANRAL's management. Concessionaires periodically initiate capital projects to strengthen and improve the roads for which they are responsible. TRAC and N3TC awarded six new construction contracts to the value of R1 257m during the course of 2018/19.

The total value of construction work done in 2018/19 on projects initiated in previous years on toll roads under concession was R1 017m. Six projects were completed during the year, while the remainder were ongoing as at March 2019.

New construction and rehabilitation contracts on concessioned toll roads in 2018/19

Project	Start and end date	Value of contract	Scope of work	Main contractor
TRAC				
N4 Schoemanskloof (Machadodorp Crossroads to R36 intersection), Mpumalanga	July 2018 to May 2019	R86m	Rehabilitation of carriageway: milling and replacement	Tau Pele Construction
N4 Montrose to Schagen, Mpumalanga	January 2019 to May 2020	R115m	Rehabilitation of carriageway: milling and replacement	Tau Pele Construction
N4 Karino Interchange near Nelspruit, Mpumalanga	February 2019 to February 2021	R350m	Upgrading of intersection to split level interchange	Raubex Construction
N3TC				
N3 from Cedara to Mooi River, KwaZulu-Natal	November 2018 to June 2020	R413m	Rehabilitation and overlay	Roadmac Surfacing
N3 Van Reenen's Pass, KwaZulu-Natal	March 2018 to December 2018	R286m	Rehabilitation and overlay	Roadmac Surfacing
N3 Estcourt area, KwaZulu-Natal	Apr 2018 - Nov 2018	R7m	Special maintenance: drainage works	US Alan

Ongoing construction and rehabilitation projects on concessioned toll roads in 2018/19

Section of road	Percent complete	Value of work done 2018/19	Scope of work	Main contractor
TRAC				
N4 from Bronkhorstspruit to Bossemanskraal, Gauteng	95%	R130m	Rehabilitation of carriageway: milling and replacing	Roadmac Surfacing
N4 from Belfast to Machadodorp, Mpumalanga	2%	R13m	Upgrading: lane additions	WBHO/ Motheo JV
N3TC				
N3 from Cedara to Mooi River, KwaZulu-Natal	15%	R38m	Rehabilitation and overlay from Cedara to Mooi River	Roadmac Surfacing
N3 at Van Reenen's Pass, KwaZulu-Natal	15%	R44m	Rehabilitation and overlay on Van Reenen's Pass	Roadmac Surfacing
Bakwena				
N4 from Garankuwa to R512 near Brits, North West	20%	R217m	Construction of a new carriageway	Raubex Construction
N4 from Swartruggens to Zeerust, North West	95%	R120m	Rehabilitation	G4 Civils

CASE STUDY

Roads draw neighbours closer

Road transport rules in Southern Africa: more than 85% of commercial transportation flows along the roads of the region. SANRAL's network is a vital part of this and the agency is committed to its role in strengthening regional integration.

SANRAL is a founding member of the Association of Southern African National Roads Agencies – ASANRA – which facilitates the sharing of information and knowledge, and has prioritised the improvement of road safety standards across the Southern African Development Community (SADC).

SANRAL's roads themselves are arguably its most valuable contribution to the drive for integration. They enable countless individuals and companies to trade and travel and build cross-border relationships.

The national road network provides linkages to Botswana, Lesotho, Namibia, Mozambique, eSwatini and Zimbabwe.

One of SANRAL's concessionaires, TRAC, operates and maintains the N4 freeway from Emalahleni in Mpumalanga to Maputo in Mozambique. This high-quality road benefits the agricultural and mining sectors and has contributed to the growth of tourism on both sides of the border.

Similarly, the N4 is the most important transport link between Gauteng and Botswana while the N1 is the gateway to Zimbabwe and the rest of the African continent. Significant upgrades have been undertaken in recent years to accommodate the strong growth in cross-border traffic, including the ring road by-passing Musina near the Zimbabwe border and the building of a new bridge over the Notwane River on the border with Botswana.

Horizon 2030 recognises the importance of regional integration to the economic growth of individual countries and the key contribution of the road network to the strengthening of integration. The aim is to ensure the national road network keeps pace with the regional agenda set by political, business and social role players.

Completed construction and rehabilitation projects on toll roads under concession

Section of road	Percent complete	Value of work done 2018/19	Scope of work	Main contractor
TRAC				
N4 from Malagen Hotel to Montrose Waterfall junction, Mpumalanga	100%	R90m	Upgrading: additional lane and reconstruction of road	Raubex Construction
N4 from Highveld Steel Interchange to OR Tambo Interchange, Mpumalanga	100%	R110m	Upgrading: additional lanes and reconstruction of existing road	Raubex Construction
N3TC				
N3 from Vaal River to Malanskraal, KwaZulu-Natal	100%	R93m	Rehabilitation and resealing	Roadmac Surfacing
N3 from Estcourt to Frere, KwaZulu-Natal	100%	R7m	Special maintenance and drainage works	US Alan
BAKWENA				
N4 between R512 and the Buffelspoort Interchange, North West	100%	R100m	Base layer repairs and asphalt overlay	Roadmac
N4 at R511 Interchange, North West	100%	R55m	Provision of west- facing ramps	Raubex Construction

1.3 Road network management and maintenance

Maintenance of the national road system is underpinned by constant surveillance of the network by means of automated systems and human observation. This data facilitates the rational allocation of the maintenance budget and enables SANRAL to meet internationally recognised standards for pavement quality.

As indicated in the graphic, a very high percentage of the national road network complies with international benchmarks.

Percent of travel on SANRAL roads meeting international standards in 2018/19

ROAD ROUGHNESS: Under 4.2m/km

Ensures a smooth ride and limits wear and tear

96.4%

RUT DEPTH: Less than 20mm

Safeguards against accumulation of water and risk of aquaplaning

99.5%

MACRO-TEXTURE: Over 0.4mm

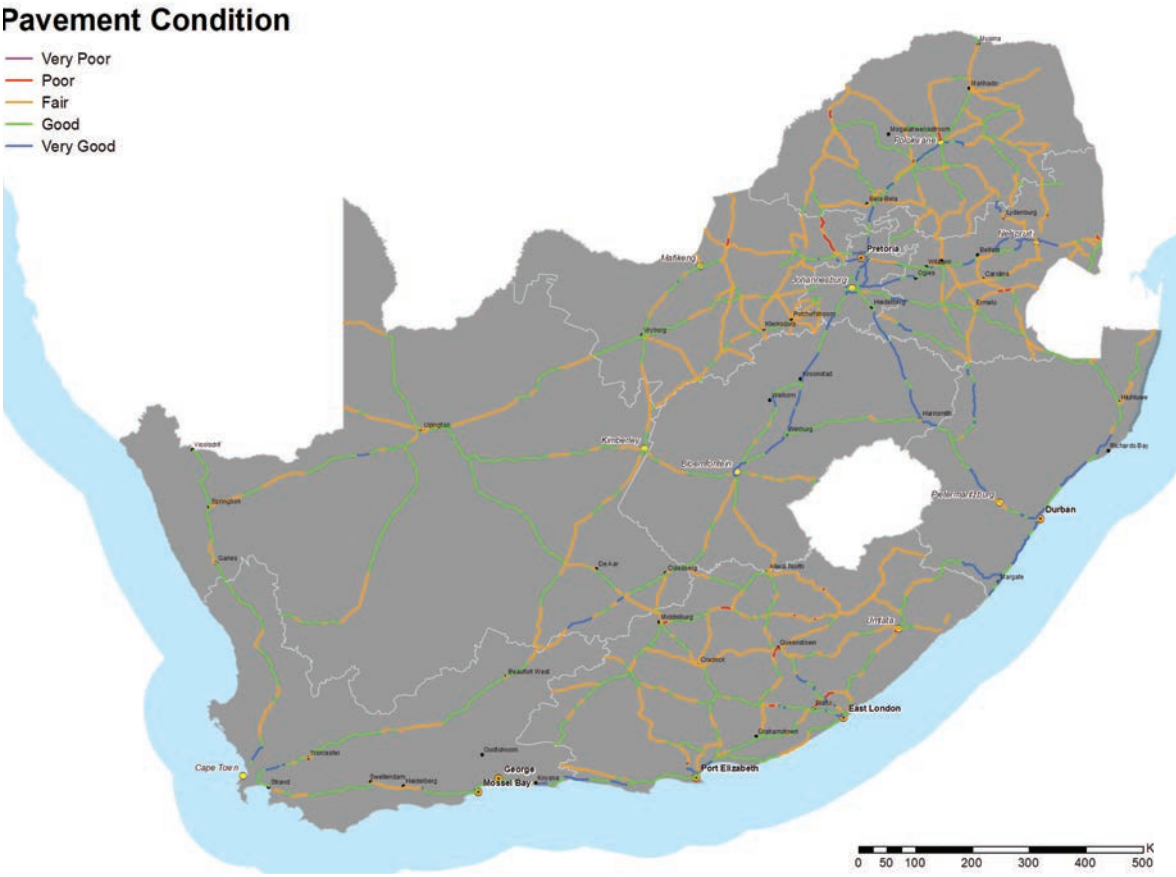
Ensures friction for safer wet weather travel at speeds exceeding 60km/h

99.1%

In 2018/19, the pavement condition of about 60% of national roads was in good to very good condition and about 36% in fair condition. Just over 4% was rated as poor to very poor.

There have been small fluctuations in pavement condition over the last three years. Compared to 2016/17, the pavement condition in 2018/19 shows a slight downward drift, with marginally lower percentages in the good and very good categories, and a small increase in fair ratings. However the differences are so small that they could be normal fluctuations and do not necessarily indicate deterioration.

Pavement condition of national roads 2018/19



Trend in pavement condition of national roads

	2016/17	2017/18	2018/19
Very good	14.74%	15.71%	14.71%
Good	46.12	47.81	44.90
Fair	35.03	32.69	35.80
Poor	3.59	3.34	4.00
Very poor	0.08	0.09	0.10
No data	0.43	0.37	0.49

1.3.1 Bridge management

In 2018/19 the national road system included 9 912 bridges and culverts large enough to require inspection every five to six years by inspectors accredited by the Committee of Transport Officials (COTO) Structures Sub-committee in order to establish their condition. The above figure includes 3 803 bridges and major culverts on routes managed by concession holders.

The majority of bridges and culverts were inspected in the period 2015 to 2017. Wherever road upgrades include new bridges and culverts, inspectors ensure that these structures meet the specified flood capacity standards.

Overall, 93% of travel on national roads in 2018/19 involved bridges considered to be in good condition. This figure has remained virtually constant for several years.

Bridge condition exposure measurements

	2016/17	2017/18	2018/19
Percentage of travel over or under bridges in good condition*	94%	93%	93%

*Bridges scoring 70% or more on a standard index are deemed to be in good condition

1.3.2 Slope management

Proactive management of unstable slopes abutting roads is an essential aspect of road management. In 2018/19 there were no serious slope-related incidents along the national road network.

Slope assessments were undertaken in the Southern and Western Regions and the results are reflected below.

Condition of slopes in Southern and Western Regions 2018/19

Region	No of slopes assessed	Stable	Minor problems	Major problems
Southern	3 842	33%	51%	16%
Western	945	79%	19%	2%

In the Western Region 16 slopes were identified for more detailed investigation and stability analysis to determine if any remedial or stabilisation works are required. An anchor monitoring contract was completed in this region in January 2019 and found that all anchors tested at 14 sites performed within specification.

In the Southern Region 16 sites were initially identified for more detailed investigation and 15 for possible survey monitoring.

1.3.3 Road maintenance

Routine road maintenance (RRM) is an unremitting task involving activities such as cleaning drains and culverts, vegetation control, line marking, guard rail repair, road sign repair and road patching. Periodic maintenance occurs at intervals of eight to 12 years on a given stretch of road, and includes the application of surface seals and light asphalt overlays.

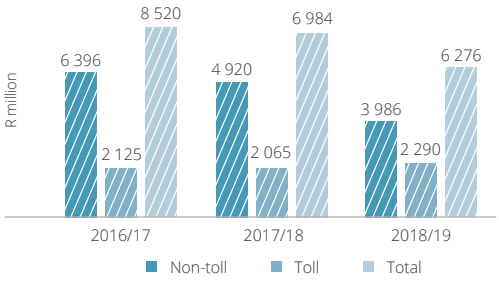
Expenditure on routine and periodic maintenance of the national road system decreased 0.1%, from R6 984m in 2017/18 to R6 276m in the current reporting year. The reduction was entirely related to non-toll roads: investment in maintenance of toll roads actually rose by 10%.

Despite the overall reduction in maintenance spending, the value of RRM performed varied only slightly from the previous two years.

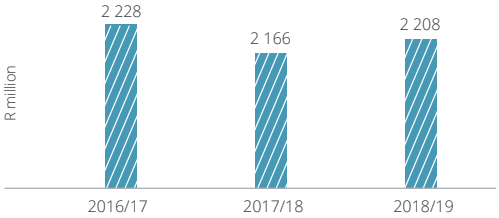
The share of RRM funding allocated to regions is based somewhat on their share of the road network but also on the condition of roads in the region. Severe weather events or the incorporation of poorly maintained provincial roads into a region would increase the allocation to the affected region.

RRM offers inexperienced SMMEs a point of entry into the sector because capital and equipment requirements are modest, as are most of the skills needed.

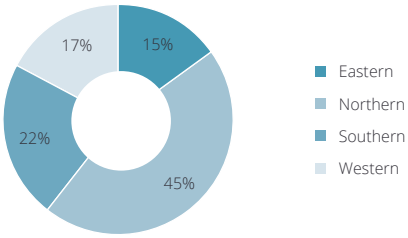
Trend in total road maintenance spending



Trend in value of routine road maintenance work



Regional share of 2018/19 RRM expenditure



In respect of toll roads under concession, the responsible companies collectively spent about R145m on RRM.

- TRAC's expenditure was nearly R57m, distributed across 11 SMME contracts.
- N3TC spent R50m on RRM. It had 26 contracts, 94% of which were held by SMMEs.
- Bakwena allocated all its routine road maintenance contracts to SMMEs and spent a total of R38m.

1.3.4 Urban freeway management

Information and communication technology have become an integral part of the management systems of busy freeways in Cape Town, Gauteng and the N3 between Durban and Pietermaritzburg.

Networks of CCTV cameras and vehicle detector stations, with a 24-hour traffic management centre at their heart, create the conditions for rapid emergency responses to all kinds of incidents, saving lives where collisions occur, and saving congestion and commuter time in almost all instances. The ability to communicate about traffic conditions from the control centres to the public, via electronic messaging boards on the freeways, social media platforms and radio stations, assists road users to avoid areas of congestion and plan their routes.

In all three areas, the freeway management system has enhanced the safety of road users by detecting and verifying incidents promptly, alerting emergency services more speedily and providing real-time warnings to road users.

Freeway management systems also facilitate sophisticated analysis of traffic and incident data, enabling management teams to identify high risk areas and plan accordingly.

Gauteng Freeway Management System 2018/19

THE CHALLENGE

Incidents
38 019
27%

Crashes
5 500
6%

THE SYSTEM

CCTV cameras	**293**
Vehicle detector stations	**111**
Messaging boards	**59**

THE RESPONSE

Average incident response time
2 min 57 sec

Note: arrows denote year-on-year increase/decrease in number of incidents and crashes

The Gauteng FMS has the largest network of cameras, vehicle detector stations and messaging boards. The number of incidents is substantially greater than in the other urban areas and the ratio of crashes to other incidents is particularly high.

Most incidents are detected via CCTV monitoring (although there is significant reporting from on-road services (ORS) patrol vehicles and callers to the 0800 number) and the number of operators at the traffic management centre was increased by 12 to reduce the number of cameras each operator observes.

Other improvements to the system were:

- Installation of 13 static cameras on the busiest section, between Buccleuch and Proefplaas on the N1.
- Introduction of hand-held radios for back-up communication between the traffic management centre and patrollers on the freeway.

The Gauteng FMS contributes to task teams set up to improve safety and security on the N1/N12 and R21/R24 in the vicinity of the OR Tambo Airport. The primary objective is to undertake intelligence gathering and ensure a rapid law enforcement response to any stationary vehicle or pedestrian activity on the freeway. This is supported by a dedicated 24/7 joint operations centre coordinated by relevant metro departments and located in the Gauteng traffic management centre.

Cape Town Freeway Management System 2018/19

THE CHALLENGE		THE SYSTEM		THE RESPONSE
Incidents **26 607**	27%	CCTV cameras	**239**	Average incident response time **2 min 54 sec**
Crashes **3 400**	6%	Vehicle detector stations	**82**	
		Messaging boards	**49**	

Note: arrows denote year-on-year increase/decrease in number of incidents and crashes

Like Gauteng, the Cape Town FMS encountered a year-on-year increase in both incidents and collisions. It continued to deploy the mobile 360° CCTV system on an experimental basis and made several technological enhancements including:

- Extending the fibre-optic link to the N7 system.
- Development of a data warehouse.
- Introduction of Tableau data visualisation software. This presents complex data gathered by the devices along the freeway in a manner that is immediately understandable to operational staff and enables them to make well-informed decisions swiftly.

KwaZulu-Natal N3 Freeway Management System 2018/19

THE CHALLENGE		THE SYSTEM		THE RESPONSE
Incidents **12 673**	27%	CCTV cameras	**156**	Average incident response time **2 min 45 sec**
Crashes **1 700**	6%	Vehicle detector stations	**59**	
		Messaging boards	**26**	

Note: arrows denote year-on-year increase/decrease in number of incidents and crashes

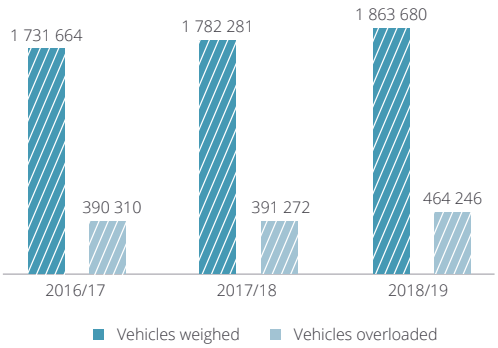
There was also an increase in incidents and crashes on the N3 highway between Durban and Pietermaritzburg. In the face of this increased demand for emergency services, the FMS was able to maintain an excellent response time.

1.3.5 Combatting vehicle overloading

Overloading of heavy vehicles is a major problem on South African roads and takes a toll in terms of damage to roads and risks to road safety. SANRAL has set up weighbridges on national routes across the country and works with local law enforcement authorities to impose penalties for overloading.

In 2018/19 approximately 7.2m vehicles were screened using weigh-in-motion devices at weighbridges. A total of 1.86m vehicles that were possibly overloaded were directed for weighing on the static scale and 25% of these were found to be overloaded. About 7% of drivers of overloaded vehicles were charged.

Vehicles weighed at SANRAL weighbridges and number overloaded



Penalities for overloading 2018/19

	Fines imposed **R32.5m**	Fines paid **R8.3m**
	Drivers charged **34 540**	Drivers arrested **986**

Overloading on concessioned toll roads

At Bakwena weighbridges fines to the value of R7m were imposed during the year and fines totalling R2.4m were collected. At TRAC weighbridges fines to the value of R8.7m were imposed and an amount of R672 000 in fines was collected. Two traffic control centres on the N3 concession route reported imposing fines to the value of R5.1m and collecting R1.9m during the year.

Numbers of vehicles weighed and overloaded

	TRAC	N3 traffic centres	Bakwena
Total number of vehicles weighed	851 215	252 222	362 577
Overloaded but within grace limit	197 018	57 097	92 724
Overloaded	8 740	5 568	7 018

1.3.6 Vehicle safety inspections

SANRAL has six vehicle inspection facilities at major weighbridges which tested 9 115 vehicles in 2018/19. Of these, 49% failed to meet road safety standards. Traffic police on site either issued fines to the drivers or removed the vehicles from the road. Fines to the value of R5m were imposed.

1.3.7 Traffic monitoring

Traffic monitoring assists SANRAL to understand traffic volumes and changes in traffic patterns over time. This data is essential in planning the development and improvement of roads. Traffic counts have been performed on 91% of the SANRAL road network within the last three years.

During the 2018/19, there were 945 long-term traffic monitoring stations in operation and 952 short-term traffic monitoring counts were conducted.


STOP
CAUTION
TRAFFIC BOOM AHEAD
SPEED LIMIT 20
PLEASE WAIT FOR BOOM TO OPEN
CML

1.4 Transformation of construction sector

The agency's Transformation Policy, launched in 2017 and formally approved by the Board in May 2018, commits to using procurement processes to transform the construction industry and to maximise the participation of black contractors, professionals and suppliers in its commissioned projects beyond the statutory minimum.

Among the commitments set out in the Transformation Policy are:

- The breaking down of monopolies in supply chains for construction materials, equipment, technologies and systems, in order to facilitate participation by black individuals and companies.
- Creating structural development programmes and partnerships within the industry in order to promote the rapid development and growth of black entities.

1.4.1 Implementing the policy

A few clauses of the policy require Cabinet approval but implementation of other aspects gained momentum in 2018/19. These included the establishment of strategic partnerships to enable small contractors – owned mainly by women and black entrepreneurs – to surmount barriers to participation in the industry. Read more about this on page 51.

Contractors are able to leverage these partnerships through an online help desk that connects them to the SANRAL Transformation Unit which will direct them to the relevant partner. The agreement with Bell Equipment has already enabled a black contractor, Boitshoko, to purchase equipment worth R40m for use on a SANRAL project.

SANRAL also initiated a process of restructuring its work packages to create more project opportunities for smaller contractors. The agency is creating a sliding scale model which will assist small enterprises to develop and progress from sub-contracting to tendering for more complex projects.

The agency has decided in principle to increase the number of community development projects it undertakes in small towns and villages adjacent to its road network. These projects enable SANRAL to train, develop, mentor and nurture new black contractors in rural towns and villages. They have the potential to provide an entry point into the mainstream construction sector.

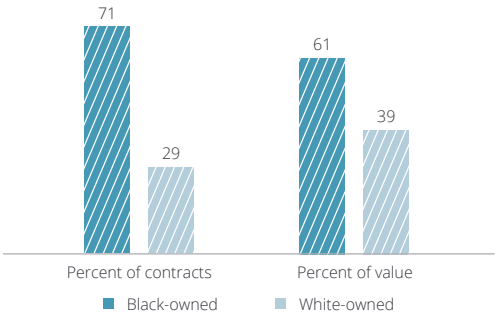
1.4.2 Equity of contracting companies

In 2018/19, contracts to the value of R5 206m were awarded to black-owned companies while white-owned entities secured projects valued at R3 322m. This represented a strengthening of participation by black contractors in the construction and maintenance of national roads, as the proportion of contracts awarded to them increased to 71% (from 64% the previous year) and the share of value to 61% (from 53% in 2017/18).

The presence of black women among emerging construction contractors is particularly encouraging: no less than 25% of total contract value was secured by companies owned by black women.

However, the figures show that black contractors still tend to cluster around tenders that demand a lower level of capital, equipment and professional expertise – for example, they have a much higher share of maintenance work than capital projects.

Share of contracts and value by company ownership 2018/19



CASE STUDY

Creating conditions for competitive black contractors

It takes more than preferential access to tenders for black-owned businesses to break into the construction industry on a meaningful scale. In recognition of this, SANRAL has begun to drive in the first pilings for the support structure that will help new entrants to the industry compete for major contracts.

In its strategic vision, Horizon 2030, SANRAL positions itself as a progressive roads management agency capable of delivering a national road network that benefits all South Africans.

This vision is backed by a far-reaching Transformation Policy which commits SANRAL to maximising the participation of black contractors and enterprises owned by women, young people and people with disabilities in the construction industry.

A primary objective is to break down monopolies in supply chains for construction materials, equipment and technologies so that these no longer represent a barrier to the participation of black entrepreneurs.

Another commitment is to create structural development programmes and partnerships within the industry in order to promote the rapid growth of black entities. The technical requirements of many construction projects present obstacles to new contractors that, for historical reasons, have not acquired the experience required for large-scale projects.

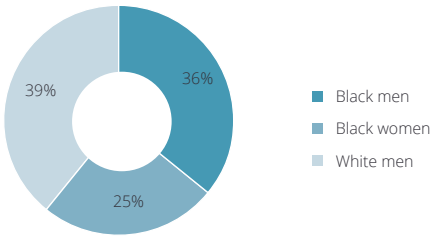
In 2018/19 SANRAL entered into agreements with top tier companies involved in the manufacture and provision of earthmoving and construction equipment for them to provide access to equipment for emerging contractors who are unable to purchase such expensive machinery.

The partners in these initial agreements are sector leaders Barloworld, the Wirtgen Group and Bell Equipment.

A fourth agreement, with the National African Federation for the Building Industry (NAFBI) focuses on offering small contractors quality mentorship and coaching to enable them to bid successfully for tenders and manage contracts effectively.

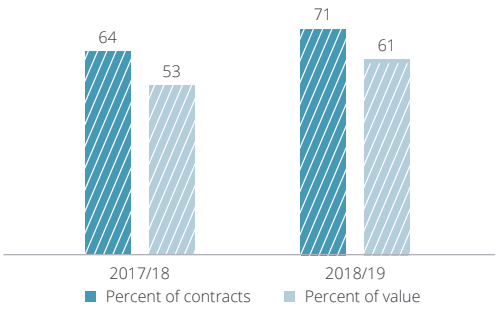
These partnerships are just a start: the agency will continue to mobilise collaboration within the construction and engineering sector to promote fair competition and ensure black-owned contractors have options for financing their businesses, securing materials at good prices and leasing essential equipment.

Details of share of contract value by company ownership 2018/19



Note: The categories comprising companies owned by black and white youth and white women each held less than 1% of the total

Trend in contracting of black-owned companies



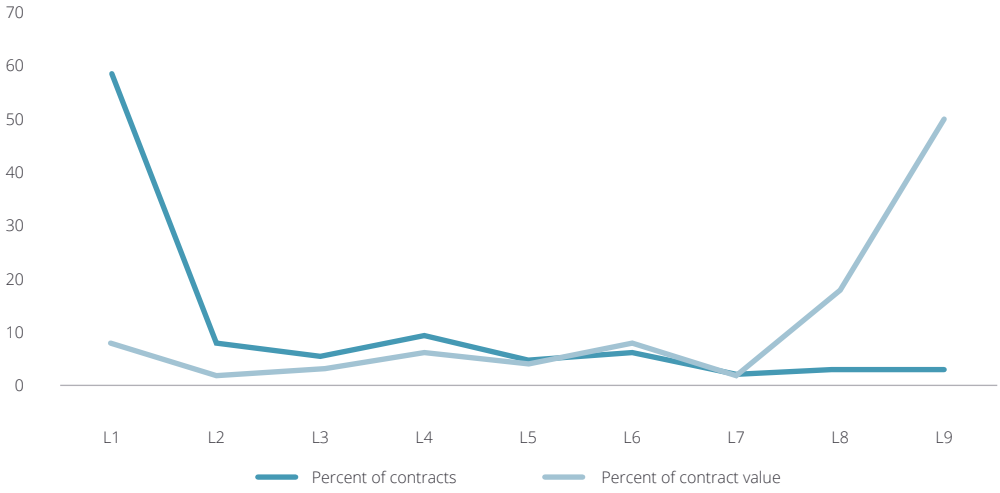
An analysis of contractors according to the level of their Construction Industry Development Board (CIBD) accreditation indicates that a large number of companies with low CIBD grading share a pool of contracts with relatively small collective value, while a small number of contractors scoring at the top end of the scale, CIBD levels 8 and 9, are able to contend for much more substantial projects. This is illustrated in the line graph below.

The Transformation Policy – with its development of facilities for access to capital and equipment, its reconfiguration of contract packages, and its emphasis on skills development and mentorship – aims to bridge these two ends of the scale. This is what is implied when SANRAL pledges to move beyond participation of black contractors to a restructured sector.

Record number of construction work packages

Some 85 work packages will be awarded to local Targeted Enterprises (TE) during the rehabilitation of the R75 dual carriageway between Port Elizabeth and Despatch - possibly the highest number on a SANRAL project in the Southern Region.

Distribution of contractors and contract value by CIBD ranking



Note: L1 indicates level 1 CIBD grading, L2 is level 2 and so on.

The nature of the work packages is such that all TEs will have the opportunity to upgrade their CIDB grading.

- Aim of the project: The project involves, inter alia, the rehabilitation of pavement layers; geometric improvements at six intersections; additional bus stops; installing anti-climb fencing and guardrails; signalised crossings; upgrading the street lighting; and constructing concrete walkways.
- Cost of the project: +/- R380m
- Progress: the project is currently in construction phase. As at 30 April 2019, the total expenditure was at 75% and total completion of work at 80%.
- Number of SMMEs: it is envisaged that a total of some 85 work packages will be awarded to local TEs. Value earned is about R91m.

Targeted Enterprises employed to date (excl. street lighting contract):

	CIDB Grade 1	CIDB Grade 2	CIDB Grade 3	CIDB Grade 4	CIDB Grade 5	Total
Number	44	10	7	6	2	69
Percent	28.02%	17.00%	25.08%	22.80%	7.10%	100%
Amount	R25 488 665.43	R15 458 23.64	R22 807 49.52	R20 744 598.27	R6 455 353.91	R90 954 890.78

Opportunities for SMMEs

The drive by SANRAL to transform the construction industry not only means new opportunities for SMMEs – and then mostly black- and women-owned – but also creates the opportunity to upgrade their respective CIDB grading.

For the project to upgrade the R573 Moloto Road the number of TEs with work packages presently stands at 55.

From the Gauteng/Mpumalanga border to Mpumalanga/ Limpopo border

The current project phase is the upgrading of the three intersections to roundabouts and one intersection to a butterfly interaction. The project is located in Nkangala District Municipality.

The aim of the project is to increase traffic capacity and improve the safety levels. This will mean upgrading the road to a four-lane dual carriageway road divided, and to upgrade the intersections with roundabouts/butterfly intersections. Bus bays and formal pedestrian crossings will also be provided.

Total cost is R106m with TEs earning R23m of that amount.

Targeted Enterprises employed to date (incl. street lighting contract):

	CIDB Grade 1	CIDB Grade 2	CIDB Grade 3	CIDB Grade 4	CIDB Grade 5	CIDB Grade 6
Number	28	4	5	1	5	3
Percent	39%	4%	30%	1%	8%	18%
Amount	R9 189 922.96	R871 143.00	R6 978 254.66	R266 533.45	R9 925 274	R4 149 848

From the Limpopo/Mpumalanga border to Marble Hall

The current phase commences at Siyabuswa and ends at the junction of the N11 and R33 in Marble Hall, and the objective is to upgrade the road to address safety issues and improve traffic and structural strength capacity.

The estimated final contract value will be R214 419 452.60. As at 31 March 2019, the total expenditure is at 63.4% and total completion of work at 56.0%.

Earnings by TEs

	Male	Female	Total
Number	8	2	10
Percent	64%	36%	100%
Amount	R14 492 216.00	R871 143.00	R23 380 976

2 Funding Capital

As a state-owned company incorporated under the Companies Act and a national public entity in terms of the PFMA, SANRAL's financial management must meet the requirements of both statutes. Details of the agency's finances and governance appear in Volume 2 of this report. The following summary serves to indicate how SANRAL's management of funding capital complements other aspects of its value creation.

SANRAL has two distinct areas of business, the operation of toll roads and the operation of non-toll roads, which are funded in different ways.

- An annual grant from the national fiscus, under Budget Vote 35, funds the development, upgrading, repair and maintenance of national roads that are not subject to tolling. These comprise 87% of the national road network.
- Toll levies and borrowings on commercial markets have been the main sources of finance for the development, upgrading, repair, maintenance and operation of national toll roads managed directly by SANRAL. These constitute some 7% of the national road network. However, due to the under-collection of e-tolls on the GFIP, government grants have become a significant supplementary source of funding for the toll portfolio.

In addition to this, there are toll roads – comprising the remaining 6% of the national road network – for which 30-year concessions have been granted to private companies. These companies, TRAC, N3TC and Bakwena, have concluded public-private partnerships with SANRAL for the construction, maintenance and operation of the relevant routes.

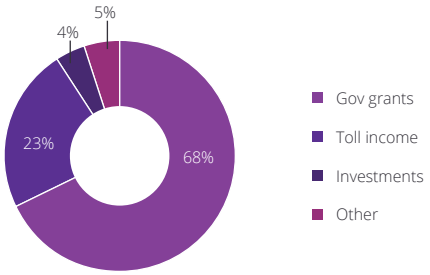
Under these arrangements, the concession holders are responsible for raising capital for road construction, servicing this debt and funding all upgrades, rehabilitation and maintenance as well as operational costs.

Toll revenue on these routes accrues to the concession holders. At the end of the concession period the roads are to be handed back to SANRAL and must comply with specified standards at the time of transfer.

Annual income

SANRAL recorded total revenue of R16 661m in 2018/19. Overall, across the non-toll and toll portfolios, government grants constitute the largest source of revenue for SANRAL, followed by toll fees collected from road users.

Main sources of SANRAL revenue 2018/19



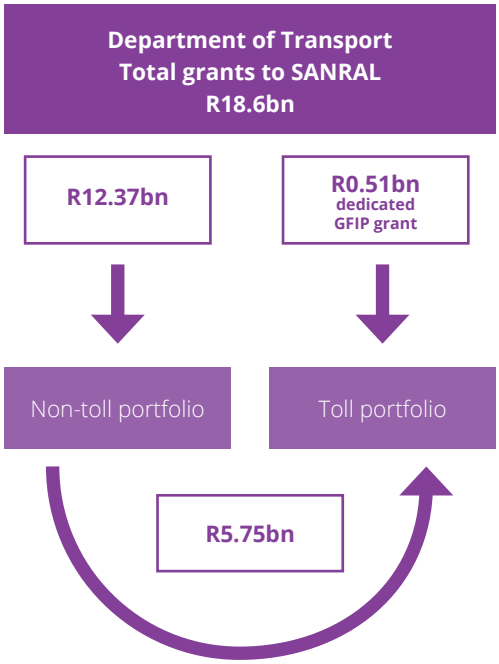
The annual government grant for the non-toll portfolio amounted to R12.4bn.

For the second consecutive year, the authorities permitted SANRAL to transfer part of this grant (R5 750m, VAT inclusive) to the toll portfolio to off-set the substantial under-recovery of toll fees on the GFIP. Government continued to make a special allocation for GFIP, amounting to R505m inclusive of VAT in 2018/19.

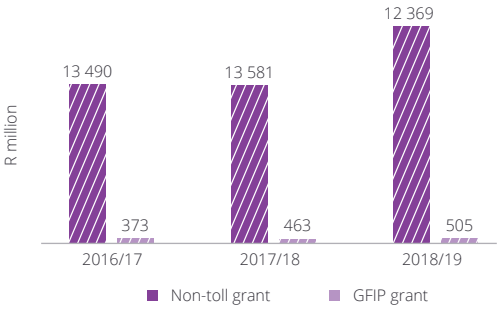
A portion of the non-toll government grant is capitalised and deferred for future spending on multi-year road development projects. In 2018/19, this amount was R5 745m. Conversely, a portion of amounts capitalised in previous years becomes available for capital projects each year and in 2018/19 this amount totalled R1 921m.

Revenue from toll collections decreased by 18%. The tariff adjustment on all toll roads, which is guided by the Consumer Price Index, was 5.58% for the year.

Distribution of 2018/19 government grants by portfolio

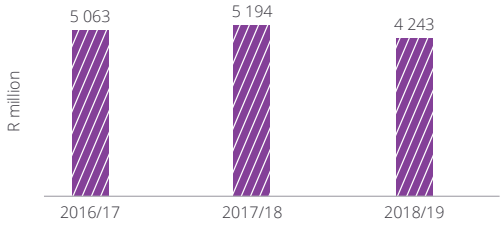


Trend in government grants to SANRAL



Grant amount transferred from non-toll to toll portfolio
2017/18 – R1 900m / 2018/19 – R5 750m
(VAT inclusive)

Trend in revenue from toll collection on routes managed by SANRAL



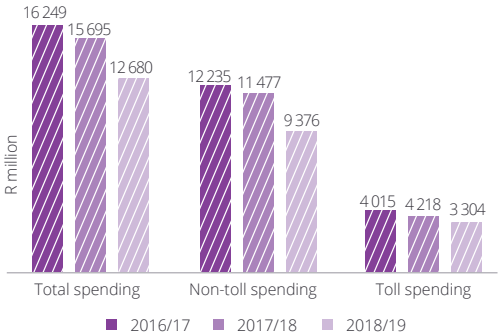
Annual expenditure

The effective reduction of the non-toll grant as a result of the transfer of a large portion of the grant to the toll portfolio had a marked effect on patterns of spending on the development and maintenance of the road network.

Overall spending on capital projects and road maintenance decreased by 19% in 2018/19 from the previous year, and by a total of 22% over a two-year period. Non-toll spending saw a modest 6% year-on-year decline in 2017/18 with a larger drop (18%) in the current reporting period. This impacted especially on maintenance contracts for non-toll roads.

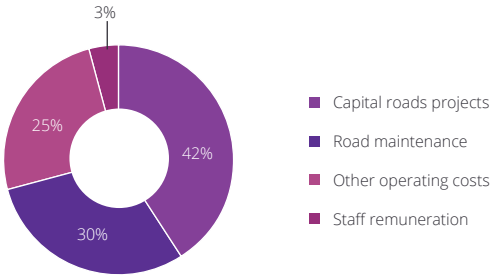
Spending on toll roads increased by 5% year-on-year in 2017/18, but decreased by 22% in the current reporting period. Maintenance spending for toll roads remained constant while capital spending declined.

Trend in spending on road construction, rehabilitation and maintenance

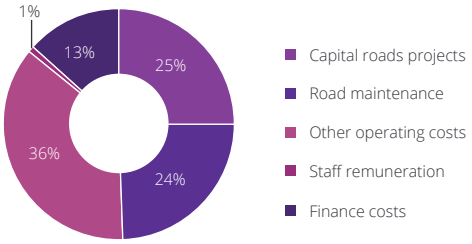


The main categories of expenditure in the non-toll and toll portfolios present contrasting profiles. While road construction and maintenance represent nearly two-thirds of non-toll expenditure, these activities account for about one-third of spending in the toll portfolio. Three out of every 10 Rands in the toll portfolio are committed to servicing debt raised to develop toll roads.

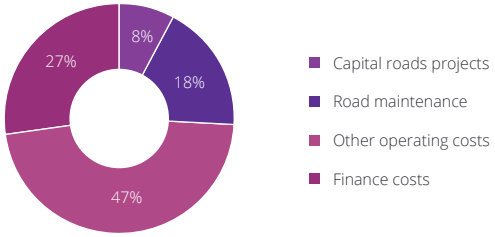
Main categories of expenditure 2018/19: non-toll portfolio



Main categories of expenditure 2018/19



Main categories of expenditure 2018/19: toll portfolio



Profit/loss before taxation

As an entity, SANRAL recorded a profit of R2.4bn in 2018/19. Due largely to the transfer of R5 750m from the non-toll to the toll portfolio, the latter showed a profit for the year, while the non-toll portfolio recorded a deficit of R96m.

Trend in profit/loss before taxation

Year	Non-toll operations	Toll operations	Total
2016/17	-R380m	-R4 582m	-R4 962m
2017/18	+R1 104m	-R1 521m	-R418m
2018/19	-R96m	+R2 517m	+R2 421m

Toll roads under concession

Toll road concessions are a form of public-private partnership in which concessionaires undertake the responsibility of raising finance for developing specific roads and managing the construction and maintenance of these roads. In return they have the right to realise revenue from these public assets in the form of toll levies.

Details of the national toll roads under concession and the companies granted 30-year concessions can be found in the section on Manufactured Capital.

All three companies – Bakwena, N3TC and TRAC – are non-listed entities purpose-built for toll road development and management. They all include among their shareholders the Public Investment Company (PIC), which manages investments for the Government Employees Pension Fund and the Unemployment Insurance Fund.

Revenue from toll collection for the three concessionaires totalled R5 001m in 2018/19. This figure represented an increase of 6.5% on toll revenue for the previous year. The CPI-linked increase in toll tariffs (5.58%) accounted for part of this increase, while overall growth in traffic also played a part.

The companies' total investment in road construction, rehabilitation and maintenance declined markedly from R1 667m in 2017/18 to R1 117m in 2018/19.

Initial capital for the construction of toll roads under concession was raised by the respective concessionaires by shareholder contributions and borrowings on capital markets. Debt servicing continues to be a major cost for all concessionaires, totalling some R1 358m in 2018/19.

While all routes have an electronic payment option for tolls, conventional toll plazas are universally available. The combined cost of operating these roads – including personnel costs, office costs and overheads – was in the region of R754m in 2018/19.

TOLL ROUTES UNDER CONCESSION

Income from tolls **R5 001m**	**Spending on roads*** **R1 117m**
Spending to service loans **R1 358m**	**Spending to operate roads** **R754m**

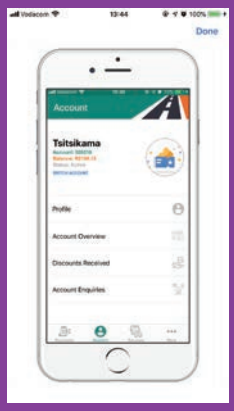
*Refers to construction, rehabilitation and maintenance

Strategic Objective7: Pursue adequate Government funding to sustainably operate and maintain the national road network. In addition, explore, develop and implement a diversified funding strategy and exploit opportunities for the use of private finance and own revenue

CASE STUDY

Diversified funding way to go

SMAR+ SUMS:
FINANCING ROAD INFRASTRUCTURE



One of SANRAL's challenges is to balance the need for good quality roads with the public's ability to pay. To address this, the roads agency is promoting an integrated funding model that includes public tax-based funding from the Treasury, toll revenue, own revenue and private capital for public roads while constantly seeking new funding streams. (Please see page 18 and 19 for more on this.)

This diversified strategy takes onto account the prevailing funding policies of National Treasury and SANRAL's shareholder, the Department of Transport. These work within the constraints of competing socio-economic priorities and limited funding from the fiscus. The reality is that the need for good quality roads has to be balanced against demands for higher spending on pressing matters like education, health, housing and job creation.

This means that funding through the public purse remains the main source for the financing of the national road network - but that has to be supplemented from the private sector and the roads agency's own revenue.

Private finance is government policy and it is important when it comes to infrastructure development. It comes in the form of state tolls and public-private partnerships, and both have broadened the funding envelope and helped SANRAL achieve more than were it to solely rely on the non-toll fiscal allocations.

Possibilities for own revenue generation do exist as SANRAL has a diversified revenue base and extraction of embedded value is now possible. During the reporting period it started to explore opportunities in the area of advisory services, training and development programmes, exploiting its land portfolio, wayleaves, outdoor advertising and property development and management.

3 Intellectual Capital

The intellectual value that vests in SANRAL is directly related to the breadth of experience its professional engineers accumulate while managing contracts for the planning, development, maintenance and operation of a major road network. The pool of knowledge within the institution is enriched by the sheer number of projects SANRAL commissions, the variety of these projects, and the innovative solutions that leading contractors employ.

The agency can also claim considerable expertise in the operation of toll roads and freeway management systems.

Through collaborations with universities and research institutes SANRAL contributes to knowledge generation in fields as diverse as transportation planning, road materials development, and environmental conservation.

3.1 Geotechnical solutions

Managing the risk of sinkhole occurrence in karst dolomite terrain is one of the challenges faced by developers of transport infrastructure (and other structures). In a natural process of erosion over the course of millions of years, dolomite rock has been dissolved by a combination of water and carbon dioxide to form underground cavities and caves. A sinkhole occurs when surface layers collapse into a cavity, leaving an open hole, which may vary in depth from a few centimetres to many metres.

SANRAL's engineering geologist has developed expertise in detecting and managing sinkhole risk and is frequently consulted.

During 2018/19 SANRAL's engineering geologist:

- Participated in the dolomite risk management forum of the Dr Kenneth Kaunda District Municipality and assisted the Department of Public Works to revive its working group on dolomite.
- Continued the development of algorithms that had proved effective in demarcating dolerite materials in respect of the Ermelo Ring Road and N2 Wild Coast projects.
- Assisted Gautrans, through shallow ground-based geophysics, to predict the existence of a dolomite receptacle on the R55 in Laudium and to manage the associated risk – which was confirmed by a subsequent collapse in the area.
- Used a combination of satellite imagery, regional airborne geophysical maps and field geology maps to assist TRAC to identify alternative materials sources for works near Machadodorp, Mpumalanga.

3.2 Innovative road design

In the interests of road safety, the widening of the bridge over the Olifants River on the N7 near Clanwilliam was non-negotiable. However, the width of the original structure could not be increased and the only workable solution was the construction of a second bridge running parallel to the existing structure.

SANRAL awarded the contract for this project to Aurecon and Stefanutti Stocks Coastal. The result was a 166-m bridge that rested partly on an arch measuring 93m in length. The Concrete Society of Southern Africa recognised the "unique design features and construction techniques" embodied in the project by naming it the winner of a 2019 Fulton Award. They commended the innovative use of the ancient structural form of the arch.

3.3 Engineering expertise

The mountainous terrain of the Eastern Cape has tested the engineering expertise of companies undertaking the construction of the N2 Wild Coast road, which will eventually join Buffalo City and Port Edward. Before work on the greenfields section of the highway (between Port St Johns and Port Edward) had even started, contractors were struggling with the challenges of upgrading of the old N2 and the R61 between Mthatha and Port St Johns. The steepness of the inclines and the instability of the ground made the realignment of the road – that is, the redesign and re-engineering of curves and slopes – especially difficult. For example:

- On the 17km stretch of the N2 between Dutywa and Mthatha, road realignment called for deep cuttings and high fills. Cuttings went through layers of soft mud and sandstone as well as decomposed dolerite and this called for design adaptation and extra safety measures. The road had to be shifted away from the cut face and drop zones added for safety reasons.
- The R61 between Mthatha and Port St Johns traverses very hilly terrain and lies on the watershed. Any improvement to road alignment called for extensive road works. In 12 locations the fill embankment extended right to the bottom of the valley, sometimes to a depth of 50m. Design proposals for stabilisation went through many drafts before it was finally decided to construct eight engineered fills and four mechanically stabilised earth walls. The engineered fills utilised geosynthetic reinforcement and enhanced sub-surface and surface drainage. The mechanically stabilised walls involved the careful vertical placement of reinforced concrete panels, supported behind the wall by horizontal strips. These extraordinarily complex earth structures were carefully monitored to establish their efficacy.

3.4 Integrated laboratory complex

In a unique research and training collaboration, SANRAL, the University of Pretoria (UP) and the Council for Scientific and Industrial Research (CSIR) are jointly developing an integrated laboratory facility situated partly at UP and partly at the CSIR. This facility will comprise a training laboratory, the national road materials reference laboratory, a concrete research laboratory (on the UP campus), and upgraded bitumen and asphalt research laboratories at the CSIR. At UP, the laboratory is part of the Engineering 4.0 initiative under construction at Hillcrest campus and due to be completed in 2020. Operational procedures are being developed in parallel with the physical facility so that researchers, trainers and technicians can get to work as soon as the facilities are ready. The advance training of technicians will utilise virtual reality to simulate their future work environment.

3.5 Automated Electronic Toll Payment

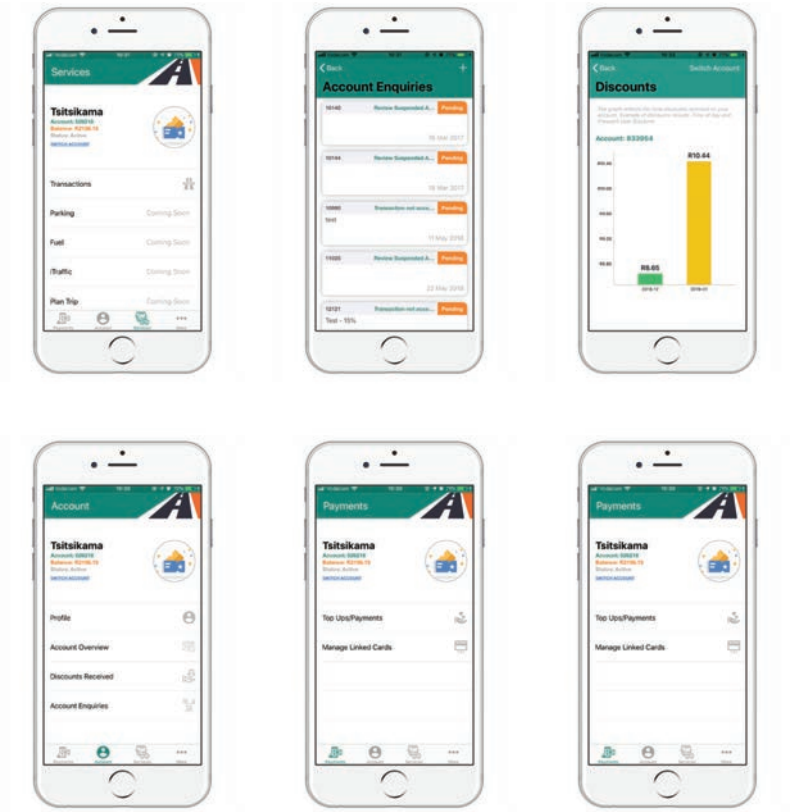
The interoperable system of electronic toll payment, which enables motorists to use a single electronic tag at conventional toll plazas across the country, has been running at scale for the last two years.

The efficiency of the system – one of the most extensive electronic systems in operation anywhere – holds benefits for road users and toll road operators alike. At peak traffic periods, an automated lane can deal with about 1 000 vehicles an hour, compared to 250 in a lane with manual payment. If electronic payment were to be widely adopted more compact toll plazas could be designed, with fewer lanes and fewer kiosks for cashiers.

However, 2018/19 saw little growth in the number of electronic toll transactions compared to the previous year and electronic transactions actually represented a smaller share of total transactions at conventional toll plazas than a year earlier.

Consumers seldom adopt innovation spontaneously and sustained marketing may be needed to persuade road users of the benefits.

	Total traffic	Electronic transactions	Electronic transactions as % of total	Revenue from electronic payments
2017/18	256 007 192	48 306 484	18.9%	R2 038m
2018/19	260 993 629	48 379 961	18.5%	R2 191m



The SANRAL app – which allows electronic toll customers to view their transaction record and top up their credit on the go – became available to the public in beta version in August 2018. By October the full version was available in both Android and iOS stores.

By March 2019, there had been more than 20 000 downloads of the app, 9 184 people had logged in, and 2 501 had linked their credit cards to the app. Transactions totalling R12m had been made via the app.

While account management is the primary function of the app, it also facilitates the logging of inquiries and allows users to make suggestions on customer service or product improvement.

3.6 Technical Innovation Hub

The Technical Innovation Hub (TIH), located in the Western Region, provides an environment for graduates in the fields of electrical, electronic, mechatronic and computer engineering, to explore the application of technology to engineering problems. This innovative work forms part of their practical professional training.

In 2018/19, there were five students at the hub and work progressed on the following pilot projects and feasibility studies:

- Testing the use of drones to perform geotechnical inspection of the stability of cuts at Sir Lowry's Pass.
- Investigation of the benefits of solar road studs on a stretch of the N1.
- Experimental use of a robotic flagger in conditions hazardous to human flaggers.
- Evaluating the use of camera technology to understand patterns of pedestrian movement.

CASE STUDY

Technology makes roads safer

Road users can rightfully expect to travel on safe surfaces and in safe circumstances. One of the ways in which this is achieved is by utilising technology, research and innovation.

This is the case on the national roads managed by SANRAL with only some of the many examples shared below from the reporting period.

Wanton destruction of electrical installations at some intersections along the N2 in KwaZulu-Natal was rampant - until SANRAL installed intelligent monitoring systems. Millions of rands worth of transformers, electrical distribution boxes and street light poles were destroyed or stolen.

The sabotage of electrical equipment is to get hold of copper cabling which is then sold to scrap metal dealers.

The agency is committed to the safety of motorists and pedestrians, but this vandalism endangered its approach - particularly at night.

Counter-measures include the placing of sensors in transformers and electrical distribution boxes to pick up any unusual vibration. A signal is then sent to the Traffic Management Centre (TMC) which will dispatch security personnel to apprehend the thieves.

This was initially done at the Umgeni Road and Umdloti interchanges.

Vandal-proof light poles replaced those cut down by cable thieves. Here closed-circuit television cameras will assist the TMC to act against any potential theft.

A different kind of safety approach was evident on the N1 between Johannesburg and Pretoria. Earlier this year the vehicle in which a mother and daughter travelled broke down in the middle lane, with fast-moving traffic making this terrifying situation even worse.

They were rapidly saved because SANRAL could detect the incident immediately and send out a rescue vehicle.

The Gauteng Freeway Improvement Project includes on-road services such as tow trucks and medics on motorbikes for exactly this kind emergency. The system attends to some 750 incidents every month - from fatal crashes, broken down trucks and the kind of problem that mother and daughter encountered.

Godfrey Makhubela was the SANRAL flatbed driver who pitched up in his reflective clothing. He was sent out by the agency's central operations centre at Samrand. He directed the traffic away from the stranded vehicle, placed beacons all around it, then moved the car off the road to the nearest e-toll gantry where there is a wide concrete section to park on. The freeway was again flowing freely.

4 Social and Relationship Capital

4.1 Introduction

As a state-owned enterprise, SANRAL's corporate ethic is strongly influenced by government policy and strategy. This is reflected particularly in the manner the agency seeks to build and consolidate its social and relationship capital.

SANRAL leverages road construction and maintenance contracts to help address South Africa's most pressing social and economic challenges: widespread poverty that is compounded by and rooted in historic patterns of inequality, high unemployment especially in rural areas and among young people and women, and skills deficits among the most disadvantaged sections of society.

In addition, SANRAL strives to contribute to a democratic culture by following consultative practices in the development of roads. The agency seeks to ensure that the members of the public appreciate how it fulfils its mandate and to balance the various interests that are affected by the processes of road construction.

This section of the report provides details of performance in several areas that contribute to the above, namely:

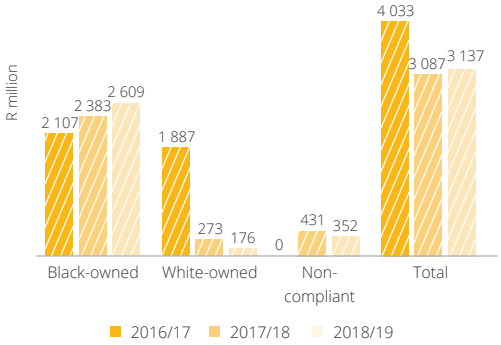
- SMME development, work opportunities and skills training generated by our road construction, rehabilitation and maintenance projects.
- Community development projects undertaken to improve road safety and mobility in selected residential areas close to the national road network. These, too, have an economic impact.
- Road safety initiatives pursued in collaboration with a wide range of stakeholders.
- Various communication and stakeholder initiatives undertaken to facilitate many aspects of the agency's work, to account for its use of public funds, and to improve understanding of SANRAL's mandate.

4.2 Empowerment, job creation and skills building

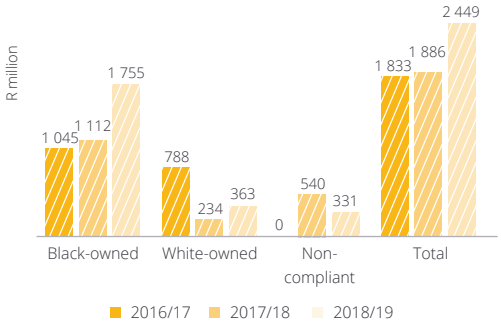
In the face of the slowdown in activity on SANRAL's construction projects in the past year, total value of work undertaken by SMMEs in 2018/19 increased modestly year-on-year (1.6%), while the number of contracts grew significantly - by nearly 30%.

The drive for empowerment of black-owned SMMEs was sustained in the current reporting year, with 72% of contracts and 83% of the value of work accruing to black-owned SMMEs. The relevant figures for 2017/18 were 59% and 77% respectively.

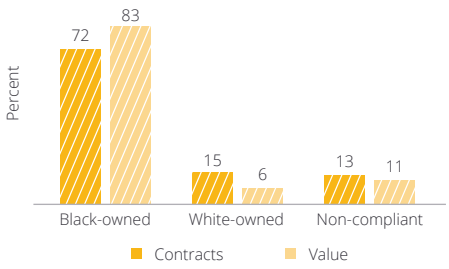
Trend in total value of SMME contracts awarded



Trend in number of SMME contracts awarded



Percentage share of 2018/19 SMME contracts and value of work

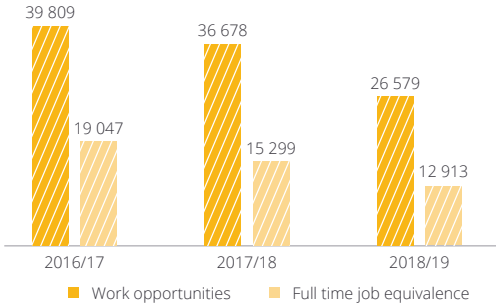


There was a decrease in the number of work opportunities afforded through SANRAL contracts in 2018/19. About 10 000 fewer work opportunities were available than in the previous year – a decrease of 27%. However, work opportunities created in 2018/19 were, on average, of longer duration.

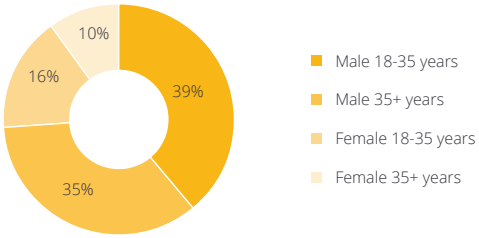
As a consequence of the drop in work opportunities, there was also a major decrease in training offered to workers employed on SANRAL contracts.

This situation is attributable to delays in the awarding of tenders for planned construction projects.

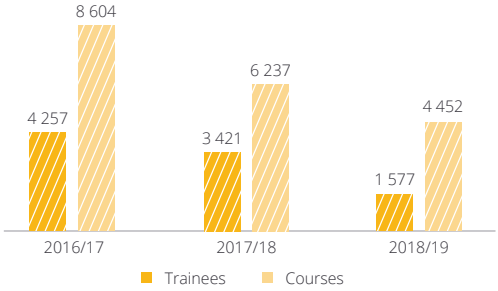
Trend in work opportunities created



Composition of workers employed on 2018/19 contracts



Trend in training provided through contracts



Concessionaires building small business and creating jobs: 2018/19

	TRAC	N3TC	Bakwena
Value of work by SMMEs	R23.7m	R174.8m	R52.5m
Jobs created	583	1 345	1 006


BONGUMUSA

4.3 Community development projects

SANRAL's community development projects seek to counter the sentiment that rural towns and villages are being bypassed by progress: there are major improvements to nearby national roads while local roads are in a poor state. SANRAL improves an aspect of local road infrastructure in selected localities and thereby creates opportunities for local SMMEs and residents to work on these projects.

Increasingly, community development projects are being positioned as the first stepping stone in a process of development and transformation within the construction sector.

Typically these projects involve the building of pedestrian walkways, surfacing of gravel roads, improving drainage, and upgrading layby facilities for taxis and buses. These improvements are suited to labour-intensive construction methods and generate a relatively large number of temporary work opportunities.

In 2018/19 total expenditure on community development amounted to approximately R221m, a decrease of 40% on the amount of R367m spent in 2017/18. Seventeen (17) projects were in construction during the year, this includes new projects and projects that commenced in prior years, eight (8) of these projects were completed during the year.

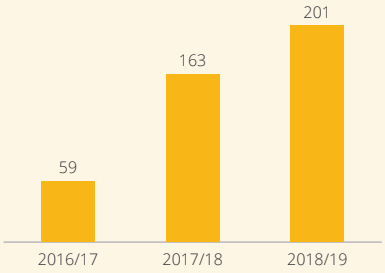
Although the number of SMMEs participating in these projects increased by 21% to 201 entities in 2018/19 and the training of workers expanded, the economic benefits to local companies and residents were reduced. The total value of work performed by SMMEs declined by 23%, the number of work opportunities by 12%, and the total earnings of workers on projects by 35%.

All SMMEs contracted under the community development initiative were black-owned.

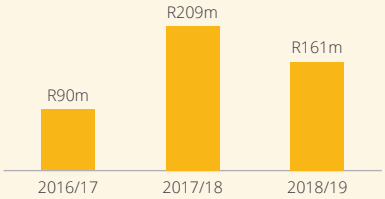
The 1 537 work opportunities created were equivalent to 1 024 full-time jobs.

Benefits to SMMEs

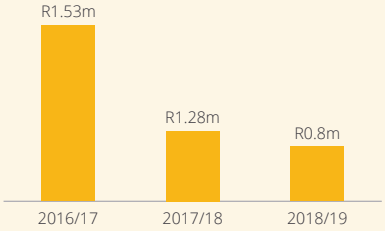
Number of SMMEs contracted



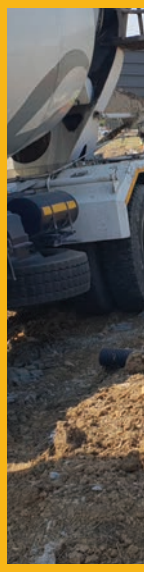
Value of SMME work performed



Average value of earnings per SMME



Strategic Objective 5: Ensure relevance and grow the footprint and impact of SANRAL by
5.1 Positively impacting on communities where we work
5.2 Build co-operative relationships with other road authorities and departments for effective delivery
5.3 Develop the capability and capacity of other roads authorities
5.4 Enhance job creation.



CASE STUDY

Rural development is in our DNA

The urban-rural divide is a neglected aspect of inclusive growth, but for SANRAL peri-urban and rural development are natural areas of activity as road construction and maintenance takes us across the periphery of cities to quiet towns and remote villages.

In the Western Cape, for example, the upgrading of a critical section of the N7 freeway has had a positive impact on local communities beyond the initial construction activity.

Near Malmesbury SANRAL undertook intense rehabilitation of the existing road and improved the layout of the freeway's ramps to enhance traffic movement in and around the town. The project has made its mark on the economy of an area which has high unemployment, although it is just 65km north of Cape Town.

Since construction started in 2015, the project has generated more than 500 work opportunities for residents. This has been accompanied by training and supplier development programmes. For residents of small villages, such as Wesbank, access to jobs meant inclusion in the regional economy.

"Many of our local residents are now able to put food on the table for their families," says the project liaison officer Lilian Leukes. "Others have used it as a launchpad to improve their skills and expand career opportunities."

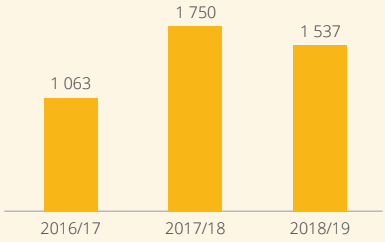
The multi-year project affected local traffic patterns and movement of pedestrians. But close liaison between contractors and communities resolved initial challenges that arose. Residents have shown patience and cooperation during the construction period.

The project has also contributed to closer working relationships between SANRAL, provincial and local road authorities and private sector contractors. This is a legacy of empowerment that will remain long after construction has been completed.

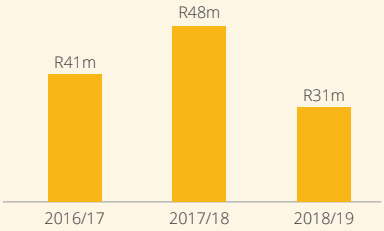
"This project demonstrates the value that road infrastructure can add to local and regional economic growth in an important part of our country," says Steph Bredenhann, SANRAL project manager.

Job creation and poverty alleviation

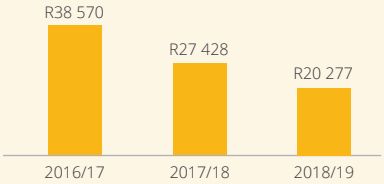
Number of work opportunities



Total earnings of workers

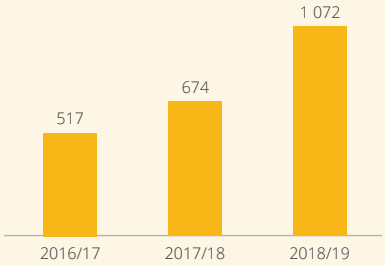


Average earning per work opportunity

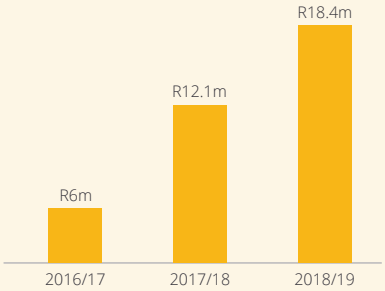


Skills development

Number of workers trained



Spending on training of workers



4.4 Road safety programme

Road safety is inseparable from SANRAL's statutory mandate of developing and managing national roads. The improvement and good maintenance of roads invariably contribute to road safety. But SANRAL has elected to go the extra mile in promoting road safety in a country with one of the highest road death rates. This is reflected in the identification of road safety as one of the agency's four business pillars in its long-term strategy, Horizon 2030.

Engineering for road safety

Engineering plays an important role in road safety and all SANRAL road development and upgrading projects take account of safety to a greater or lesser extent. Effective interventions may be extremely simple – such as quality control of paint used for road markings, adequate lighting, the erection of roadside fences, or the creation of pedestrian sidewalks – or they may involve intricate design to achieve optimal traffic flows and reduce opportunities for collisions.

The short list below highlights the safety features of just a few recent projects:

- The construction of a dual carriageway and new intersection on the R71 in Limpopo at the turning to Moria, headquarters of the Zion Christian Church and the venue for massive religious gatherings and special festivals.
- Improvements to four intersections on the N12 near the dense residential areas of Jouberton and Alabama in Klerksdorp, North West.
- Completion of the magnificent Mount Edgecombe Interchange on the N2 north of Durban, where directional ramps reduce the need for traffic lights, not only relieving congestion but also ensuring safer free flow of traffic.
- Upgrading of the N2, between the Mtunzini toll plaza and Empangeni T-junction, where several fatal crashes have occurred. Transformation into a dual carriage highway will accommodate increasing traffic volumes more safely.
- The major overhaul of the infamous Moloto Road through traffic calming features, closing of illegal access routes, proper fencing and new pedestrian walkways.

CASE STUDY

A tale of chicanes and roundabouts

Kathu may be far away and in the middle of nowhere, but when the good people of this Northern Cape town decided the N14 going to Olifantshoek was a bit too much, SANRAL listened . . . agreed . . . and did something about it.

The problem started when development came to Kathu, now known as the iron ore capital of the Northern Cape. Development meant residential and industrial expansion – more jobs, more people and more traffic.

Roads in the area had not been built for this kind of growth and road safety suffered.

For example, truck drivers and other motorists travelling to Kathu from Olifantshoek had to come to a complete standstill at the T-junction with the R325 before turning left to Kathu or right to Postmasburg. Most drivers do not exactly expect to stop on a highway and there were occasions when drivers were caught by surprise and just went straight ahead, ending up in the veld.

SANRAL set about improving road safety in the area with a combination of chicanes, roundabouts and sidewalks.

Chicanes are S-curves deliberately incorporated into a road to slow down traffic. Here they were particularly aimed at slowing down heavy trucks approaching the intersections.

Special attention was given to pedestrian safety by incorporating sidewalks for safer access.

Roundabouts were also installed, again to slow down traffic and regulate its flow.

These are simple tried-and-tested methods. Nothing flashy or ground-breaking. But they have made a world of difference in Kathu.

Contributing to road safety policies

The Roads Policy for South Africa sets benchmarks on all matters relating to road regulation, road infrastructure, road safety, road funding and non-motorised transport. SANRAL has played a significant role in updating the road safety component of the roads policy by integrating aspects relating to engineering, education and enforcement.

In 2018/19 a particular focus for the agency was contributing to guidelines for Public Transport and Non-Motorised Transport to address accessibility, mobility and safety of all road users, including pedestrians and cyclists. For the majority of people in rural areas, walking is the only available option, even for transporting goods, yet their needs have been largely overlooked.

The guidelines will contribute to addressing hazards that pre-date our democratic era, including poor pedestrian management and spatial planning that has permitted location of "pedestrian generators" close to freeways. There are almost 9 500 schools located within five kilometres of SANRAL's national roads.

The guidelines outline how to achieve a better balance between freeway mobility, public transport and pedestrian road use. More than 40% of fatalities on our roads involve vulnerable road users such as pedestrians, wheelchair users and cyclists, and the guidelines aim to reduce their vulnerability.

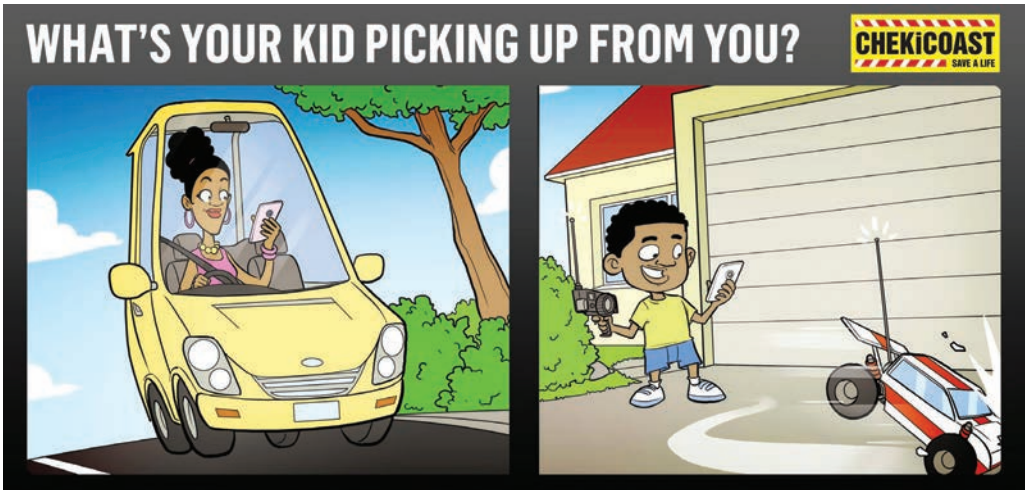
Educating on road safety

SANRAL's road safety education programme is run in partnership with schools and focuses on equipping teachers to deliver relevant content in a way that is likely to impact on the behaviour of learners. It is based on a three-year study that SANRAL commissioned to establish "what works" when trying to persuade young people to adopt safe road-use practices.

2018/19 was a hugely productive year for the programme. A total of 88 train-the-trainer workshops were conducted at 39 sites and these were attended by 1 569 teachers from 116 schools. The well-established programme experienced a dip in 2017/18 but the more recent figures suggest it has come back stronger than ever.

Participation in SANRAL road safety education programme

	2016/17	2017/18	2018/19
Schools in road safety programme	334	116	867
Teachers attending workshops	614	207	1 569
Teachers equipped with teaching resources	2 473	853	4 891
Learners at participating schools	185 529	38 462	209 631



Mobilising effective incident response

Road incident management systems (RIMS) exist for national roads and other roads that support economic development zones and areas of strategic importance to particular provinces. They serve to coordinate the efforts of law enforcement, emergency and medical services in responding to incidents. The objective is to detect incidents early, respond rapidly and utilise resources efficiently in order to save lives and minimise traffic disruption.

SANRAL has been mandated by the Minister of Transport as the RIMS implementing authority. This role includes the planning and establishment of systems, training, project management, and monitoring and evaluation.

A national RIMS policy and national operating procedures ensure standardisation across various RIMS and encourage best practice.

SANRAL supports RIMS in various provinces by advocating for their development to stakeholders at management level and collaborating to provide training for staff members. An accredited RIMS training programme has been developed by SANRAL and is offered to all emergency services that respond to road incidents.

Concession holders' road safety initiatives

TRAC, N3TC and Bakwena make a contribution to road safety on the national toll routes that they manage. (See table on page 80 and 81.) In various ways, they address the challenges of creating safer roads, modifying the behaviour of road users, and responding effectively to road incidents, including crashes.

Road safety on toll routes under concession

	TRAC	N3TC	Bakwena
Safer roads	Reduction of speed limit on N4 at Schoemanskloof; new limit painted boldly on asphalt	Measures to address hazardous locations Improved signage and road markings Rapid removal of road debris and lost loads Additional guardrail protection of light poles, bridges, culverts CCTV monitoring and messaging for road users Preparedness for snow falls and fires Average speed enforcement	Surveys, site visits and design proposals for non-motorised transport facilities in Bapong and Majakaneng, North West
Safer road users	Launch of youth-focused 'No Drinking and Driving' campaign at Innibos arts festival in Mbombela, Mpumalanga. Campaign utilised flashmob activities in bar areas, malls and high schools, conveying its messages through song, dance and recorded messages Awareness campaigns along route during Easter and December peak traffic periods	Road safety awareness and education projects in partnership with law enforcement agencies and emergency services, including: • Driver wellness campaigns • Roadworthy tests • Pedestrian education • Alcohol and narcotics screening Law enforcement in relation to driver vision, registration plate display, transport of dangerous goods	Sponsorship of Safe to School Project, including: • Surveys among learners in Bapong, Majakaneng and Segwaelane in North West to identify issues and guide education activities • Organisation of volunteers to assist learners to cross busy intersection

	TRAC	N3TC	Bakwena
Prompt and effective incident response	Collaboration between TRACAssist, ER services and law enforcement authorities to ensure swiftest possible response to incidents during Easter and December peak travel periods Operation of 24-hour helpdesk that received 12 275 calls during 2018/19 and attended to 2 122 incidents and 1 140 crashes	Ongoing support to RIMS: • Improved response times • Post-incident assessments • Enhanced 24-hour route patrol • Agreements with service providers to boost traffic and emergency support during peak traffic periods	Participation in RIMS in cooperation with law enforcement and emergency rescue services in 3 provinces and four districts as well as at NTC (National Technical Committee). Operation of 24 hour helpdesk

4.5 University partnerships

SANRAL's partnerships with universities centre on a shared interest in:

- Increasing relevant research and post-graduate study in engineering and related fields.
- Enhancing undergraduate teaching in civil engineering.
- Promoting the learning and teaching of science and mathematics at school level with the aim of ensuring a strong flow of talented young people into the engineering professions.

The partnerships increase the public visibility of SANRAL, help the agency meet its own demand for engineering professionals and relevant research, and contribute to a dynamic engineering sector with world class expertise in road design, construction and management.

SANRAL has endowed three specialised chairs at universities which are described below.

The SANRAL Chair in Pavement Engineering at Stellenbosch University (SU)

This Chair has a dual teaching and research function. It has played a strong role in empowering black professionals and a significant proportion of post-graduate students are drawn from other African countries. The Chair has headed up an initiative to stimulate the interest of students in asphalt engineering. This takes the form of the Annual Asphalt Briquette Competition – with a healthy cash prize – that integrates classroom and practical learning with students' competition projects.

The SANRAL Chair in Transport Planning at the University of Cape Town (UCT)

The Chair is also the Director of Undergraduate Studies in Civil Engineering and is driving a process of reform in the civil engineering curriculum as part of UCT's broader commitment to decolonisation. The research places a strong emphasis on the potential impact of transport planning on social equity and alleviating poverty.

In addition, the UCT SANRAL Chair is working with SANRAL to establish a computer laboratory at the university with a link to Cape Town's Freeway Management System (FMS). This will enable state-of-the-art research in the field of freeway transportation planning and engineering.

The Chair is part of an international consortium aiming to establish a Centre for Sub-Saharan Leadership in Transportation, which will probably be hosted by Kwame Nkrumah University of Science and Technology in Ghana. It will target mid-career professionals and focus both on management and advanced engineering studies.

The SANRAL Chair in Mathematics, Natural Science and Technology Education at the University of the Free State (UFS)

The Chair directs its energies at post-graduate research on the teaching of maths, science and technology and the training of teachers for these subjects. It recently achieved its extremely ambitious target of producing 25 PhD graduates in a five-year period.

4.6 Science programmes for learners, parents and teachers

SANRAL sponsors programmes offered by two universities to primary and secondary school learners in order to encourage their interest and strengthen their performance in science and mathematics. It also supports programmes to enhance the teaching of these subjects.

Science-for-the-Future

This programme is an initiative of the UFS and it has three distinct components:

- The ICT Laboratory for Science is geared to the needs of learners in grades 9 - 12 who show promise in maths and science. Over two or three years, the programme offers learners about 30 laboratory sessions at the Bloemfontein and QwaQwa campuses of the university. Content from the science curriculum is presented to them in novel ways, utilising information technology.
- Key Concepts in Science covers the grade 8 and 9 natural science curriculum and seeks to enhance school teachers' ability to present and explain scientific principles.
- The Family Math and Family Science Programme seeks to excite interest in maths and science among younger school children and build their confidence in studying these subjects. It does so through a triangular strategy that trains and equips teachers to adopt novel teaching methods which they then use in the classroom and in special workshops with parents of learners. The design and supply of learning materials and activities is central to the strategy. The programme now operates in five provinces.

Cumulative reach of UFS science programmes 2009 - 2018

	Learners	Teachers	Student teachers	Parents of learners	Subject advisers
ICT Laboratory	3 228	-	1 717	-	-
Key concepts in Science	2 329	46	-	-	4
Family Math/ Science	104 654	2 330	3 838	38 268	168

Nelson Mandela University (NMU)

NMU runs the STEM in ACTION programme which aims to promote maths and physical science among grade 10 -12 learners in the Nelson Mandela Bay metro, improve their performance in these fields, and encourage them to take up careers in the fields of science, maths, engineering and technology. It also seeks to empower teachers to improve the quality of science and maths education.

The ICT Laboratory developed by UFS is now also offered at NMU's Missionvale campus.

The STEM in ACTION initiative catered for a total of 2 295 learners in 2018, nearly 90% of whom were black. Its activities were constrained by limited financing and renovations to the facilities in which they conduct sessions.

A feature of the NMU programme is the GATE project which aims to boost the science and maths performance of selected learners in grade 10 – 12 to the extent that they will be eligible for science-related tertiary studies. Learners are drawn from disadvantaged areas and selected on merit. They are offered academic support sessions on the university campus as well as career guidance. About 20% of the 2018 grade 12 participants achieved a science mark of 70% of higher.

GATE programme in 2018

Grade	No of learners	No of academic support sessions
10	43	7
11	31	8
12	38	18

Concessionaires' support for education, health and social development

TRAC	N3TC	Bakwena
Education E-learning project: enables 8 260 learners at eight schools along the N4 to access online maths and sciences classes in specially equipped classrooms Thanda Primary School, Hectorspruit: major upgrading of overcrowded non-fee-paying school to accommodate 880 enrolled earners and provide ablution facilities Penreach Asifundze Literacy and Numeracy Programme: improving numeracy and literacy through teacher training and reading camps for learners **Bursaries:** • An MSc student and a BTech student working on EWT's reducing Roadkill Project • 45 healthcare workers undergoing practical training at SAVF Middelburg Old Age Home • Two staff members at Penreach undergoing early childhood development training • Two high school children sponsored through Innibos Meridian Educational Trust • Four final year students at University of Pretoria **Social development** Sports development – R890 000.00 TRAC supports the RCL Selati & TRAC Matsulu Cups – in partnership with RCL. Social upliftment to community sports clubs and needy schools along the N4 with sports kits. Participation in sports bring the youth pride in their teams and creates social upliftment with a poor community and as well as a sense of purpose. Canoeing, hockey, rugby, soccer, netball and cricket	**Education** Investment ranges from early childhood development (ECD) initiatives to primary school learner support and tertiary student bursaries With its partners, additional maths and science development programmes for secondary students are offered A number of literacy programmes, educator skills development projects and environmental education initiatives are supported **Health** With many communities along its route in sparsely populated areas, lack of resources and infrastructure often contribute to abject poverty. As a result, the focus is on support for community projects and feeding schemes; the creation of food gardens, small scale farming initiatives and partnering with Meals on Wheels Trucking and driver wellness is supported with regular wellness clinics with a range of primary healthcare services such as HIV, cholesterol and glucose screening, and basic eye tests During the reporting period primary healthcare services were provided to 2 290 patients of which 495 were community members **Social development** The flagship Touching Lives programme is focused on sustainable enterprise development and job creation through investment in initiatives aimed at achieving clear commercial and development goals to generate household incomes, stimulate community spend and promote economic growth Last year 90 248 people (mostly <18) benefitted with 405 full-time jobs and 604 part-time jobs created	**Education** Functional Schools Projects: career education for teachers and learners and life skills support for learners, teachers and parents **Health** Cancer screening: cancer screening, tests and education conducted by Pink Drive in Bapong and Hammanskraal, North West HIV/AIDS awareness: activities to educate public on prevention and treatment of HIV and combat stigma Visual and audial screening of learners: in support of the Integrated School Health Policy **Social development** First Responders Projects: first aid training for learners, teachers and community members Drama for Change Project: training to develop learners' ability create and perform dramas about various social issues including road safety Small Business Development Project: entrepreneur training and support to small business sector in Groot Marico

4.6 Communication and stakeholder relations

SANRAL's ability to communicate to the public and engage purposefully with stakeholders is increasingly important to the agency attaining its business goals. The new Transformation Policy has set in motion a process of fundamental change in the industry, creating expectations among those previously excluded and affecting established interests. It is vital that SANRAL continue to engage with all concerned groupings.

In recent years South Africa has witnessed powerful responses by various interest groups to road development, which is perceived (and often misperceived) to present particular opportunities and threats. These include:

- Early opposition in the Eastern Cape to the construction of the N2 Wild Coast road because the road development was misguidedly conflated with the introduction of mining in the area. This opposition to the highway has abated as SANRAL has continued to engage with affected communities, although opposition to mining in the area continues.
- The rise of what the media call the "construction mafia" who want road contracts at all costs and do not respect the reality that black economic empowerment cannot be divorced from sound procurement practice and good governance of state-owned enterprises. Communication with stakeholders plays a critical role in efforts to contain and hopefully eliminate this dangerous dynamic.
- Continued opposition to the tolling of urban freeways in accordance with the user pays principle. SANRAL consistently explains the rationale for the policy of financing certain roads through tolling, and the trade-offs that would have to be made in terms of road quality should the policy be abandoned.

In addition to the kinds of challenges outlined above, stakeholder engagement and mass communication contribute to the agency's road safety programmes, enhance the transparency of SANRAL as a publicly funded entity, and convey useful information to the public to make road travel more convenient.

CASE STUDY

Talking and listening helps build roads

Roads change lives in complex ways. There are always benefits but these often come along with some costs – and people may view these costs in different ways. Because of this, SANRAL takes the public participation aspect of planning any new road seriously.

A case in point was the N2 Wild Coast road, part of which would pass through pristine terrain between Port St Johns and Port Edward in the Eastern Cape.

Extensive public consultation was undertaken during environmental impact assessments conducted in 2001 and 2008. The Department of Environmental Affairs approved the road in 2010 and the Minister upheld this decision in an appeal in 2011. Later, representatives of several communities launched court action in a bid to reverse these decisions. They believed the road would facilitate the mining of sand dunes in the area.

Meanwhile, work to upgrade the existing N2 and R61 began – and SANRAL continued to listen and talk to residents on new 'greenfields' section of the route.

In 2015 the agency commissioned the Human Sciences Research Council to conduct a survey in Pondoland to establish residents' attitudes to the new road. Members of more than 1 800 households were interviewed and researchers concluded the vast majority – some 98% – supported the road development. About 50% were unemployed and believed the road would stimulate tourism and create jobs. But they were worried that the beauty of their area would be harmed and that high-speed traffic would be dangerous.

SANRAL continued to consult stakeholders – provincial, district and local officials, business chambers, traditional leaders and others – and attend community meetings. The agency took local advice on matters like access roads and pedestrian facilities. When it came to land acquisition for the road, SANRAL was joined by the Department of Rural Development and Land Reform in negotiating with the owners and occupants. Project liaison committees were established in towns and villages.

Over the years, most plaintiffs abandoned the legal battle against the road. When the matter was finally considered by the North Gauteng High Court, Government's approval of the route was upheld and Judge Cynthia Pretorius described SANRAL's engagement with residents as "one of the most comprehensive participation processes undertaken in this country".

Stakeholder engagement activities

SANRAL undertakes two broad categories of stakeholder engagements: targeted meetings that are linked to specific construction projects or issues – such as implementing the new Transformation Policy – and broader engagement with the public to explain the agency's role more broadly.

The flagship programme, Taking SANRAL to the People, includes both a targeted element and outreach to the general public.

SANRAL convened a total of 39 targeted stakeholder events, including 10 within the Taking SANRAL to the People model and nine meetings with municipalities. The remaining 20 involved a range of stakeholders, such as business organisations, labour federations, and faith-based organisations.

Because roads and the road construction industry play a key role in building the country's economy, *Business Day* is a compatible media partner with events that offer access to the business community. SANRAL joined with the newspaper to host three *Business Day* Dialogues in 2018/19, in Mthatha, Cape Town and Mbombela.

Outreach to the general public

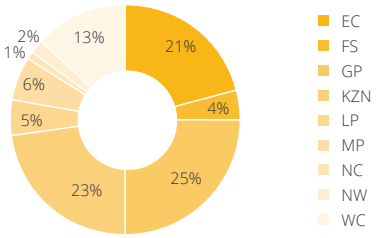
SANRAL organised a total of 112 events designed to interact with the public in all provinces. The 20th anniversary of SANRAL's establishment was marked with four cocktail events for external stakeholders and exhibitions in 25 shopping malls around the country.

Other important events were the signing of memoranda of understanding that underpin the implementation of our Transformation Policy. The official opening of the Mt Edgecombe Interchange in eThekwini was the closing activity in Transport Month and was organised in partnership with the SABC television programme, *Morning Live*.

Internal stakeholders

Every effort is made to keep staff across the agency abreast of new developments and to build positive corporate energy. A total of 47 staff events were organised during the year, including SANRAL's 20th anniversary celebrations, observation of commemorative days, wellness days, and a screening of a short film made by the agency, *The Invitation.*

Provincial distribution of SANRAL staff and public events 2018/19



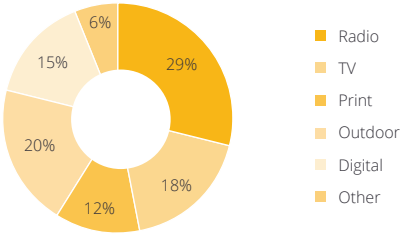
Advertising and marketing campaigns

In 2018/19, SANRAL flighted nine diverse media campaigns, aimed at raising awareness of road safety, explaining the agency's role and showing the impact of investment in national roads.

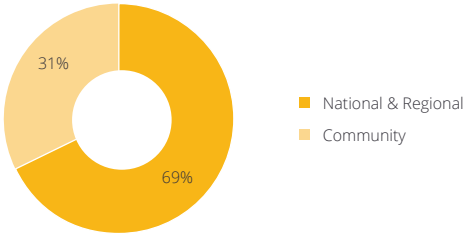
Total spending on marketing and advertising amounted to R158m, compared to R152m in 2017/18. This was spread across television, radio, print media, digital media, outdoor media and airtime voucher advertising.

As with all other contracts, in communication there is a strong emphasis on support for local business – in this instance, purchasing advertising airtime and space from community media.

Share of media spend by media type 2018/19



Ratio of national to community media advertising spend 2018/19



Summary of SANRAL multimedia interventions 2018/19

Campaign	Mass media	Purpose
'Family Reunion' brand campaign	TV Radio Print Outdoor	The campaign spoke to the value of SANRAL by associating the brand with connection to loved ones and jobs, and exploring South Africa. It showcased the safety and good maintenance of SANRAL roads.
'Whoa' road safety campaign	TV Radio Print Outdoor Airtime Vouchers	Comprehending risk is fundamental to adopting safer behaviour. The campaign aimed to help people recognise their "whoa" moments (when they are exhausted or have had too much to drink) and do the safe thing (take a rest or call a cab) rather than get behind the wheel. The campaign was developed for the Easter and Festive periods.
'Do as I Do' road safety 365 campaign	TV Radio Print	The campaign aimed to encourage safe road use in adults by appealing to their desire to be good role models for their children. It emphasised that children learn more from adults' actions than their words.
'Overloading' road safety campaign	Print	This campaign highlighted the dangers of vehicle overloading and the damage this causes to roads. It targeted car, taxi and fleet drivers, as well as vehicle owners, including those in taxi and trucking industries.
'For the Love of Cars' campaign on toll roads	Print	The intention was to shift attitudes to toll roads in a positive direction by showing how toll income is spent and the value road users get on well-maintained roads.
Mandela, OR Tambo and Albertina commemorative campaigns	Print Outdoor	SANRAL is a state-owned enterprise and, as such, celebrated the courageous and principled leadership of Nelson Mandela, OR Tambo and Albertina Sisulu in their centenary years.
Women's Month campaign	Print	Women's Month represented an opportunity for SANRAL to assert its commitment to gender equality in what remains a male-dominated sector.
Youth Month campaign	Radio Print	This focused on young people who have benefited from SANRAL's internship and bursary programme and highlighted the agency's contribution to youth development.
'Coffee' Business campaign	TV Cinema Radio Print Outdoor	The 'Coffee' campaign used a product that we value and use every day to show how interconnected our lives are and how our vast system of national roads sustains this connection. It brought home the value of SANRAL's work.

Advertising and marketing achievements

In 2018 SANRAL commissioned Kantar Millward Brown to undertake a brand health survey to establish the impact of its communication campaigns. This focused on the 'Coffee' campaign and indicated that brand awareness had improved significantly from 44% in 2013 to 68% in 2018. (See page 96.)

Almost every measure of brand impact showed upward movement. This suggests that the negative SANRAL brand awareness from previous years is declining and recent advertising initiatives are generating positive perceptions. Brand building is an on-going journey and needs to be continuous in order to secure the reputation of the SANRAL brand.

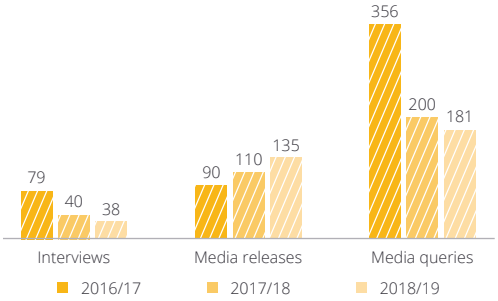
Media relations and editorial coverage

Equally valuable to campaigns is SANRAL's engagement with editors and other journalists to ensure its voice is heard clearly in the news pages of newspapers, and the news and current affairs programmes of TV and radio. It is in the editorial space (rather than advertising space) that matters of major public interest are reported and debated.

During 2018/19, the agency featured in national, regional and community media at least 8 444 times. This is largely due to SANRAL's willingness and ability to share information with journalists on a daily basis. During the year, a total of 135 media releases were distributed and 181 queries from journalists were answered. There has been a shift in how the agency relates to the media, with pro-active distribution of media releases gaining ground and journalist-initiated queries declining.

The total value of editorial coverage devoted to SANRAL in 2018/19 was about R313m, measured at advertising value equivalence (AVE). This was a threefold increase on the value of coverage in the previous year. The monetary value is, however, merely a proxy measure for the level of media and public interest in the work that SANRAL does – and how it does it.

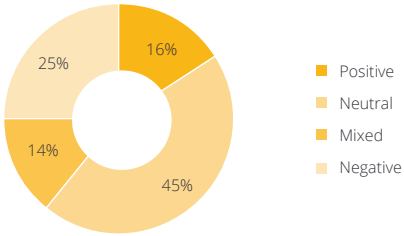
Measures of media engagement



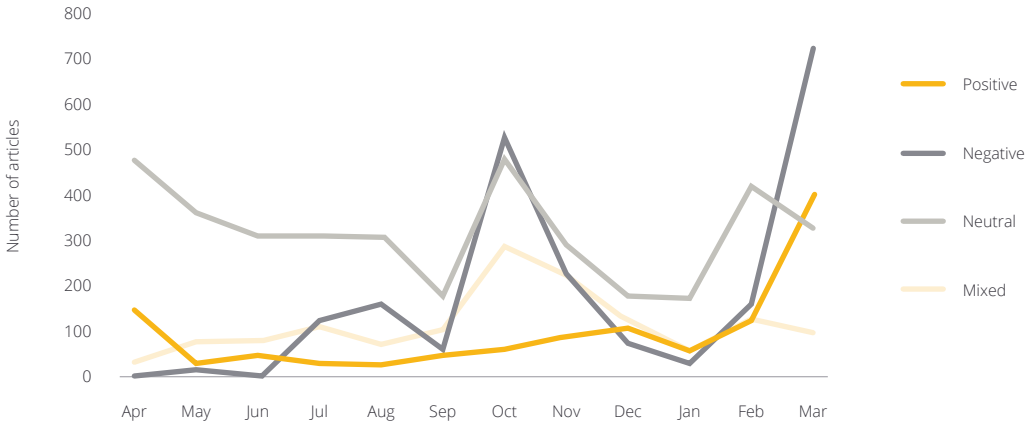
Note: media releases exclude the 140 traffic advisories issued in 2018/19

When it comes to tone and sentiment of reporting in 2018/19, across the year about 59% of reports were neutral in tone or contained mixed views on SANRAL. While 16% expressed a positive view of the agency, 25% were negative in tone. There were two major spikes in negative reporting in October and March. These related to reporting on irregular expenditure in the 2017/18 Integrated Report and differences in perspective among major state role players on action to be taken in respect of e-toll defaulters.

Sentiment of media coverage 2018/19



Trend in sentiment of media coverage articles on SANRAL in 2018/19



PUBLICATIONS

In-house publications

SANRAL produces a range of printed and digital publications for the general public, various stakeholders and its own staff members. Most of these are regular publications, distributed on a monthly, quarterly or annual basis.

The print format publications are distributed either as supplements inserted in community, regional and national newspapers, or made available directly to selected communities and toll plazas through the agency's regional offices and service providers.

Numerous leaflets and electronic mailers are also produced and distributed.

Most publications are uploaded to SANRAL's corporate website (www.nra.co.za). Live traffic information, including details of road construction and deviations, is available on a second SANRAL site, www.i-TRAFFIC.co.za

Details of regular SANRAL publications in 2018/19

	Audience	Frequency	Number printed/ distributed per edition
NATIONAL PUBLICATIONS			
By the Way A free magazine covering all aspects of SANRAL's work	General public	Six per year	300 000 per edition
People's Guide Popular version of the annual integrated report	General public	Annual	2 000 000 inserted in various newspapers
Investing in . . . series Each edition focuses on a different pillar of delivery	General public	Two per year	1 500 000 & 2 000 000 (Road Safety Pillar)
PROVINCIAL PUBLICATIONS			
Hello . . . series Each edition describes work in a different province	General public within province	Nine per year	500 000 per edition
PUBLICATIONS FOR INTERNAL AND EXTERNAL STAKEHOLDERS			
N-Route Keeps external stakeholders informed of developments	Stakeholders in government, finance, industry	Four per year	Limited distribution
Youth Month Digital Highlights SANRAL's interventions for youth	Stakeholders in government, finance, industry	Annual	Limited distribution

InRoads Content of interest to staff, including lifestyle features	SANRAL employees	11 per year	About 400
On the Road Interesting engineering and environmental articles	SANRAL employees	Ad hoc	About 400
QUARTERLY PUBLICATIONS			
Booklets on Moloto Road and N2 Wild Coast road projects	Communities in affected areas	Quarterly	15 506 (Moloto) 21 722 (Wild Coast)
OCCASIONAL PUBLICATIONS			
Transformation Policy	Stakeholder	Once-off	10 000
Horizon 2030 summary	Stakeholder	Once-off	20 000
Mt Edgecombe booklet	Stakeholder	Once-off	600
Roads & Mobility	General public	Once-off	1.5 million
Roads & Mobility booklet	Stakeholder	Once-off	35 000
N2 Wild Coast Guide	Stakeholder	Once-off	250 000

Social media

There was increased interest in all SANRAL's social media properties in 2018/19 and the agency strove to sustain this through a constant flow of fresh, relevant content. Literally thousands of items were posted during the course of the year.

Summary of SANRAL social media following and activity

	Total followers/ fans/ subscribers 31 March 2019	Annual growth in followers/ fans/ subscribers	SANRAL posts/ tweets/ uploads	Engagement
Facebook	196 510	74%	803	1 869 641
Twitter	33 116	103%	1 917	160 237
YouTube	544	41%	55	1 600 000 views
Instagram	4 301	117%	370	419 603
Linked	9 348	176%	133	19 696

CASE STUDY

Bringing home the value of roads

SANRAL operates from the premise that, if members of the public appreciate the value of high-quality roads – in terms of making their lives safer, more convenient and more pleasant – they will come to value the agency as well.

This approach has underpinned several creative communication campaigns and appears to be bearing fruit.

A brand health study conducted in 2018 by the global market research firm, Kantar Millward Brown, showed that consumers associated SANRAL with "building the South African economy" and "world-class infrastructure".

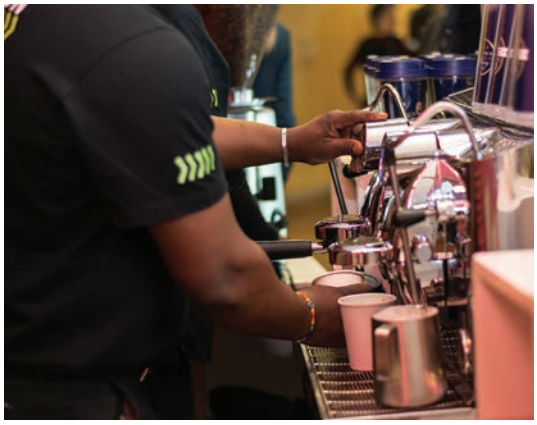
The research was conducted partly to measure the impact of a media campaign which used the everyday luxury of coffee to show how SANRAL's roads help to meet our daily needs while linking producers to markets

The study surveyed 600 people in Johannesburg, Pretoria, Durban, Cape Town and Port Elizabeth and found that 68% of respondents recognised the SANRAL brand, compared to 44% five years earlier. However, many respondents were unaware that the national roads on which they travel are developed and maintained by SANRAL.

The emotional appeal of the 'Coffee' campaign improved SANRAL's brand equity, the study found. It recommended that the agency continue "demonstrating likeability and consumer centricity (which) will bring the brand closer to consumers".

It also recommended that SANRAL should display its branding more prominently so that the public associates the agency with the roads it manages. A further recommendation was more extensive use of digital media to increase audience exposure to SANRAL messaging.


COFFEE MENU
HOT CHOCOLATE
TEA
SYRUP
SANRAL




SANRAL


More than
A THOUSAND
KILOMETRES


SANRAL

5 Natural Capital

Road construction is inherently a resource-hungry industry that disrupts the natural environment – yet roads and road transportation are central to the economy and social development of South Africa. SANRAL's approach to maintaining a balance between environmental, economic and social imperatives is to strive to reduce the environmental impacts involved in road building and to compensate for disruption of the natural environment through carefully planned off-set projects.

The government has enacted legislation that requires environmental impact assessments and the issuing of environmental authorisations for all major road development projects. SANRAL's core road building function is, therefore, directly dependent on its willingness and ability to undertake the environmental management measures stipulated by the environmental authorities.

However, on many occasions, the agency goes beyond the minimum requirements and makes a valuable contribution to securing our country's biodiversity.

Environmental laws, regulations and policies are constantly evolving as the existential threat to planet Earth becomes more evident to decision-makers. In 2018/19, there were some important developments that will impact on the industry.

The agency intends to pay increasing attention to providing leadership in the road construction sector in respect of curtailing carbon emissions and using natural resources more efficiently.

Statutory developments

In June 2018 the Minister of Environmental Affairs published the Climate Change Bill for public comment. The bill aims to deliver a nationally-driven integrated response to climate change and represents an opportunity to establish a legislative foundation for the country's climate change policies. SANRAL expressed its support for the bill and submitted comments on various aspects of it.

Government's concern about climate change and greenhouse gas emissions was also reflected in the revised Carbon Tax Bill, tabled in parliament in November. The legislation gives effect to the "polluter pays" principle and imposes a carbon tax on any person or entity that engages in activities that generate greenhouse gases above the prescribed threshold. SANRAL will review the carbon tax legislation and associated thresholds to determine their implications.

Green Transport Strategy

SANRAL contributed to the Department of Transport's Green Transport Strategy for South Africa: 2018 – 2050 (GTS) which was published during the year. The GTS focuses strongly on road transport as the mode that generates most greenhouse emissions and therefore offers the greatest opportunity for intervention. Not only does the GTS deal with energy efficiency and emission control, but also with the resilience and sustainability of transport modes in the face of climate change.

SANRAL's Environmental Policy

The Climate Change Bill, the GTS and SANRAL's long-term strategy, Horizon 2030, all informed a comprehensive review of the agency's Environmental Policy. Updating of the policy was also an opportunity to consider industry norms and standards.

The new policy provides more explicitly for efficient use of natural resources and the pursuit of alternative materials to reduce risks and build resilience, especially in relation to climate change. It emphasises monitoring of the impacts of SANRAL activities and continual improvement of environmental performance.

Landmark judgment on environmental authorisation

In March 2019 the Gauteng Division of the High Court upheld the issuing of an environmental authorisation by the Department of

Environmental Affairs for SANRAL to construct the N2 Wild Coast road and confirmed the Minister of Environmental Affairs' decision by dismissing appeals to the authorisation.

The applicants in the case argued that the decision to issue the environmental authorisation should be set aside because:

- The socio-economic impacts of tolling had not been considered.
- There had been inadequate public participation in relation to the road project.
- Alternative routes to the proposed highway were not adequately explored.

The court found in favour of the Minister of Environmental Affairs on all the above grounds, confirming that the Minister had considered all the facts before authorising the proposed highway. The court noted that the socio-economic impacts of tolling were a matter for the Minister of Transport and not within the authority of the Minister of Environmental Affairs.

The court further concurred with counsel for the respondents (the DEA, SANRAL and others) that the public participation exercise undertaken by SANRAL for the project "must be one of the most comprehensive public participation processes undertaken in this country". On the consideration of alternative routes, the court relied on expert opinion and held that the DEA and SANRAL had considered alternative routes.

The outcome was significant for SANRAL as this was the first High Court challenge it had encountered to an environmental impact assessment and a different finding could have had serious implications for the continued construction of the N2 Wild Coast road.

Conservation in relation to major roads projects

The table on the next page summarises some important activities undertaken to conserve biodiversity and natural resources on construction projects during 2018/19.

The prolonged drought in parts of the country spurred contractors to apply more resource-efficient construction methods. While the restrictions have been relaxed in the Western Cape, conservation practices generally remain in place at the SANRAL regional office.

Intervention	Benefits
Proposed P166, Mbombela, Mpumalanga SANRAL plans to construct a new road, running parallel to the R40 through Mbombela towards White River. The environmental impact assessment found this would affect a population of aloe simii, a critically endangered species. As a condition of granting permission for construction through the affected aloe habitat, the Minister of Environmental Affairs required SANRAL to undertake propagation trials on *Aloe simii*. This three-year study commenced in January 2019 under the stewardship of South African National Biodiversity Institute and Mpumalanga environmental authorities.	The off-set project has the potential to increase significantly the number of *Aloe simii* growing in the wild and improve its conservation status. The trials will increase knowledge about the propagation of the species in the wild, which is currently not well understood.
Construction of ring road, Musina, Limpopo The construction project has been interrupted but environmental monitoring of the baobab trees which were relocated continues.	All the baobab trees continue to survive.
Upgrade of Hammarsdale Interchange, KwaZulu-Natal SANRAL has harvested stem cuttings from naturally-growing, rare tree species found near the N2/N3 intersection. These will be used for vegetative propagation and planted at specific locations near the national road.	Conservation of a range of indigenous and protected plants.
N2 Wild Coast road project, Eastern Cape Controls on waste and the consumption of water have been imposed for this project. Weekly water monitoring is undertaken upstream and downstream of the Mtentu River Bridge.	There is evidence that the project has so far had no adverse effect on water quality. All water quality variables have been well within expected fluctuations.
N2 Wild Coast road project, Eastern Cape A plant rescue has been underway on this project for several years. This involves the identification, removal and, where possible, rescue or relocation of threatened or protected plant species. Botanical surveys, involving numerous field trips, were undertaken in the demarcated areas.	By March 2019, 29 300 plants had been rescued from grassland, forest and wetland ecosystems in the areas around Mtentu North and South. In addition, almost 3 000kg of grass seed was harvested to ensure seed stock is available for the rehabilitation phases of the project. In a second area, Msikaba South and North, 11 500 plants have been rescued. A comprehensive plant rescue database is being maintained which includes information on localities and traditional usage of these Pondoland plants.

Upgrade of Gwaing Bridge on N2 near George, Western Cape Permits were obtained for relocation of protected species affected by the bridge building, including 35 trees which are temporarily housed in the George Herbarium until replanting is possible.	This project has been temporarily suspended due to financial constraints of contractor.
Resurfacing of N2 between Riviersonderend and Swellendam, Western Cape Vegetation was relocated to just outside the development area, essentially in the same habitat.	The project, including plant relocation and rehabilitation of disturbed areas, was completed during the year.
N7 projects at Kalbaskraal, Abbotsdale and Trawal and from Malmesbury to Hopefield, Western Cape The projects made maximum use of water sources other than the municipal supply, including groundwater and treated effluent.	Although mandatory restrictions on water use were relaxed due to increased rainfall, SANRAL's contractors maintained their water conservation measures.
N7 between Atlantis South and Kalbaskraal The off-set plan entails restoration of degraded habitat to counterbalance land acquired for the road from the Kalbaskraal Nature Reserve. A comprehensive search and rescue of plants of conservation value was undertaken, phasing activities across the seasons and collecting bulbs, stem cuttings and seeds.	More than 28 000 plants were replanted into similar habits and rehabilitation of the habitat is progressive. There is a significant contribution to biodiversity and conservation as several species were found, including the critically endangered protea odorata. Maintenance and monitoring continue.
Special maintenance on N2 from Teleni to Ibika, Eastern Cape SANRAL assisted a school in Idyaba to eliminate the safety and environmental risk posed by a disused septic tank that was left open after ablution facilities were upgraded. Decommissioning the tank in accordance with the National Environmental Waste Management Act entailed sludge removal and transport to a waste disposal depot, earthworks and backfilling, and revegetation using indigenous plants.	The school environment was safer for hundreds of learners and teachers and SANRAL had demonstrated its concern for the wellbeing of a community adjoining the national road network.
Various projects	In-situ recycling of material is being implemented wherever possible on road strengthening and improvement projects. Roll-out of revised pavement design methods will be done through the South African Road Design System (SARDS).

Contributing to toolkit for business

SANRAL has gained invaluable experience in the field of environmental conservation and is hoping that several of its case studies will be included in the Biodiversity Disclosure Project of the Endangered Wildlife Trust (EWT). The objective of this project is to "build the capacity of businesses to better recognise, measure, value, and responsively manage their direct and indirect dependencies and impacts on biodiversity". At its heart is an online toolkit that serves as a resource to business. SANRAL is in discussion with EWT about the inclusion of its case studies.

Concessionaires' environmental initiatives

TRAC	N3TC	Bakwena
TRAC undertook two significant plant search-and-rescue projects: Along the Belfast-Machado section of the N4, a total 1 141 plants representing 14 species were rescued At the Karino Interchange, 445 plants drawn from 14 species of conservation significance were rescued It demolished old railway houses along the N4 near Karino with permission from the South African Heritage Resource Agency (SAHRA) It submitted applications for closure of disused borrow pits and was awaiting responses at year end	N3TC planted vetiver and other grasses and applied topsoil and fertiliser to prevent erosion of slopes adjoining roads It applied additional erosion control measures, including gabions, earth berms and grouted stone pitching The company removed alien vegetation from road reserves and improved fire breaks by ploughing	Bakwena sponsored an eco-schools project for environmental education and development of "green" practices among learners. This involved: Ten schools in Hammanskraal, Gauteng, where EWT managed the project and learners recycled 30 000kg of waste Ten schools in Kgetleng and Ramotshere Moiloa, North West, where Wessa managed the project and schools earned R4 000 from recycling Bakwena also supported: Conservation education – training of six field guides in the Magaliesberg Biosphere Carnivore conservation – placement of four guard dogs to minimise conflict between carnivores and livestock farmers

6 Human Capital

6.1 Introduction

SANRAL's human capital strategy is shaped by its statutory mandate and the fact that, as a state-owned enterprise, it has a responsibility to uphold cross-cutting policies of government.

In effect this means:

- Helping to drive the social transformation of the road construction sector.
- Striving for equity among its own employees.
- Ensuring high levels of professional competence and sound judgment that are non-negotiable on projects of the magnitude that SANRAL routinely manages.

There is a tension between SANRAL's need for highly experienced engineers, on the one hand, and transformation of the organisation, on the other. The agency has attempted to resolve this by:

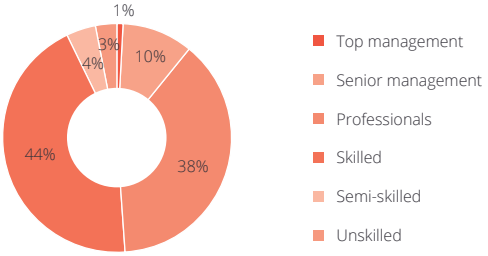
- Growing our own talent by sponsoring the studies of promising black and female students in civil engineering and built environment disciplines, employing them and mentoring them within the SANRAL corporate culture.
- Retaining professional staff – whether recruited from elsewhere or nurtured within the agency – by creating a positive working environment with attractive conditions of employment.

6.2 Profile of our workforce

SANRAL's staff establishment has expanded considerably in the past few years, becoming more diverse in terms of gender and racial composition.

The agency's ability to plan and manage the development and maintenance of national roads rests on the professional expertise of its managers and technical staff. Consequently, the composition of SANRAL's staff is weighted towards senior managers, experienced professionals and middle managers who comprised 48% of the total staff complement of 423 employees in 2018/19.

Employees by occupational category



SANRAL seeks to attract and retain talent through good working conditions, skilled human resources management and growing its own talent. It does the last through a system of study grants at school and university level and its Technical Excellence Academy and Technical Innovation Hub for young engineering graduates. (See page 106 to 109.)

The agency's staff turnover rate doubled to 5.44% in the 2018/19 financial year. This was largely due to long serving employees reaching retirement age and some young engineers not being absorbed by SANRAL.

SANRAL's sound human resources management is reflected in its repeated recognition as a Top Employer by the international Top Employers Institute and its certification across 13 standards by the South African Board of People Practices.

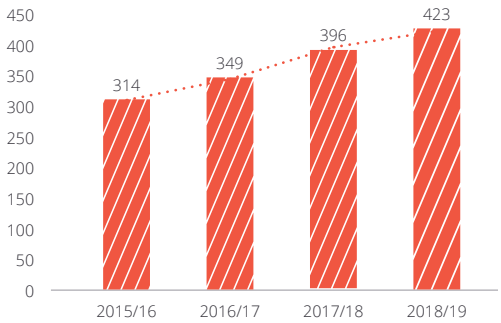
6.2.1 Growth and diversity

The staff establishment of SANRAL totalled 423 in March 2019, representing an increase of 6.8% year-on-year. While this growth was lower than the 13.5% growth recorded in the previous year it represents a sustained trend which has seen a 35% increase in the staff establishment over the course of four years.

This increase in the staff complement reflects SANRAL's concern with strengthening its capacity for policy compliance, particularly in the areas of supply chain management, procurement and finance. It was partly a response to changes in Treasury regulations and involved the establishment of a completely new department within SANRAL.

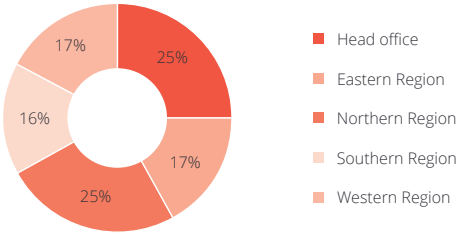
In addition, Transformation and Stakeholder Departments were created to ensure implementation of Horizon 2030 and the Transformation Policy and the Risk, Legal and Engineering Departments were expanded.

Four-year growth in SANRAL staffing



The growth in employees has been strongest at head office, yet three-quarters of SANRAL employees are still located in regional offices where the hands-on management of construction and maintenance contracts takes place.

Distribution of employees across offices



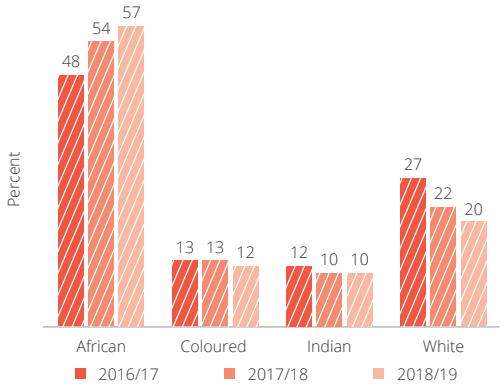
SANRAL has worked steadily to create a more diverse body of employees and 2018/19 contributed to this objective:

- By the end of the year, 79.3% of employees were black (compared to 78% in 2017/18), with African staff members comprising 57.7% of the total establishment (54% in 2017/18).
- Male employees continued to slightly outnumber female employees.

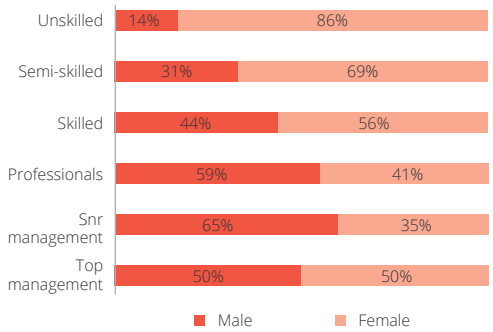
Women and black employees are still under-represented at senior management level, while women have also not achieved parity in the experienced professional/middle management occupational category. The situation reflects the historic lack of diversity among professionals in the engineering and road transport sectors. This is changing as more female and black candidates enter these fields as students and young engineers, but the effect has yet to percolate strongly into the senior ranks.

The predominance of African women in unskilled and semi-skilled jobs is marked.

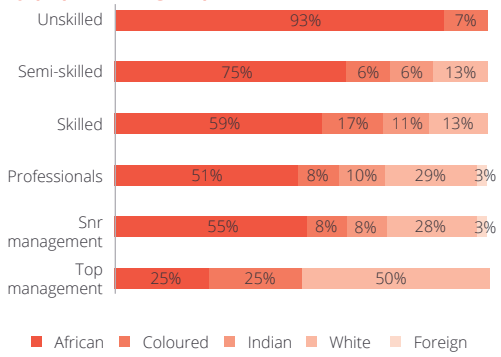
Distribution of employees by population group



Male: Female ratio in main occupational categories



Breakdown of main occupational categories by population group



6.2.2 Employee development

SANRAL encourages the development of knowledge and skills of employees at all levels throughout their careers. Avenues for personal growth range from on-the-job learning, to e-learning, participation in short courses, workshops, international knowledge and skills exchange, and study for diplomas and degrees at undergraduate and post-graduate levels.

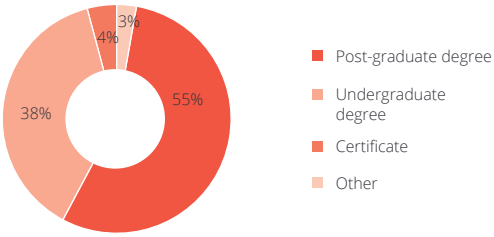
A total of 133 SANRAL middle, senior and top managers from all offices participated in a leadership development programme during 2018/19. SANRAL invested about R2.1m in this programme.

The agency also invested R2m in the training of 200 employees in fields including accounting, human resources management and engineering. Training involved short courses for skills-building, participation in international conferences and other courses contributing to mandatory continuing professional development (CPD).

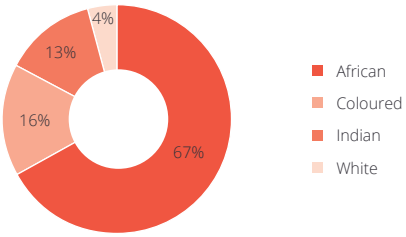
	Expenditure	Participants		Percentage change
	2018/19	2017/18	2018/19	
Leadership development	R2.1m	135	133	1%
General training	R2m	106	200	89%
Internal bursaries	R3.4m	72	107	49%

In 2018/19 SANRAL awarded bursaries for tertiary studies to the value of R3.4m to 107 employees, including 47 new applicants. More than half of bursary recipients were engaged in post-graduate studies. African employees, both men and women, constituted a high proportion of internal bursary recipients.

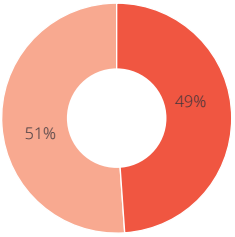
2018/19 internal bursary recipients by course of study



2017/18 internal bursary recipients by population group



2017/18 internal bursary recipients by gender



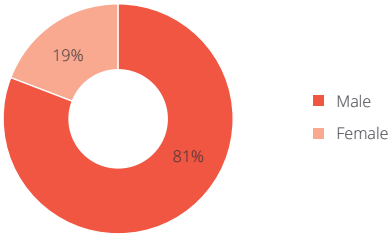
6.3 Building the engineering pipeline

The Technical Excellence Academy

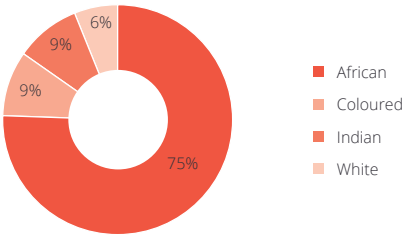
The SANRAL Technical Excellence Academy (TEA), housed in SANRAL's Southern Region Office in Port Elizabeth, is a facility providing specialist training and mentoring to engineering graduates to enable them to fulfil the practical experience in road design required for professional registration with the Engineering Council of South Africa (ECSA). Candidates are exposed to a wide range of work and enjoy access to all the tools necessary for skills development – from specialised software to laboratory facilities. The aim is to enable young graduates to attain registration in an accelerated time frame.

In 2018/19, the TEA served 35 candidate engineers and technologists, including some who had held SANRAL and Department of Transport bursaries.

Composition of 2018/19 TEA candidates by gender



Composition of 2018/19 TEA candidates by population group



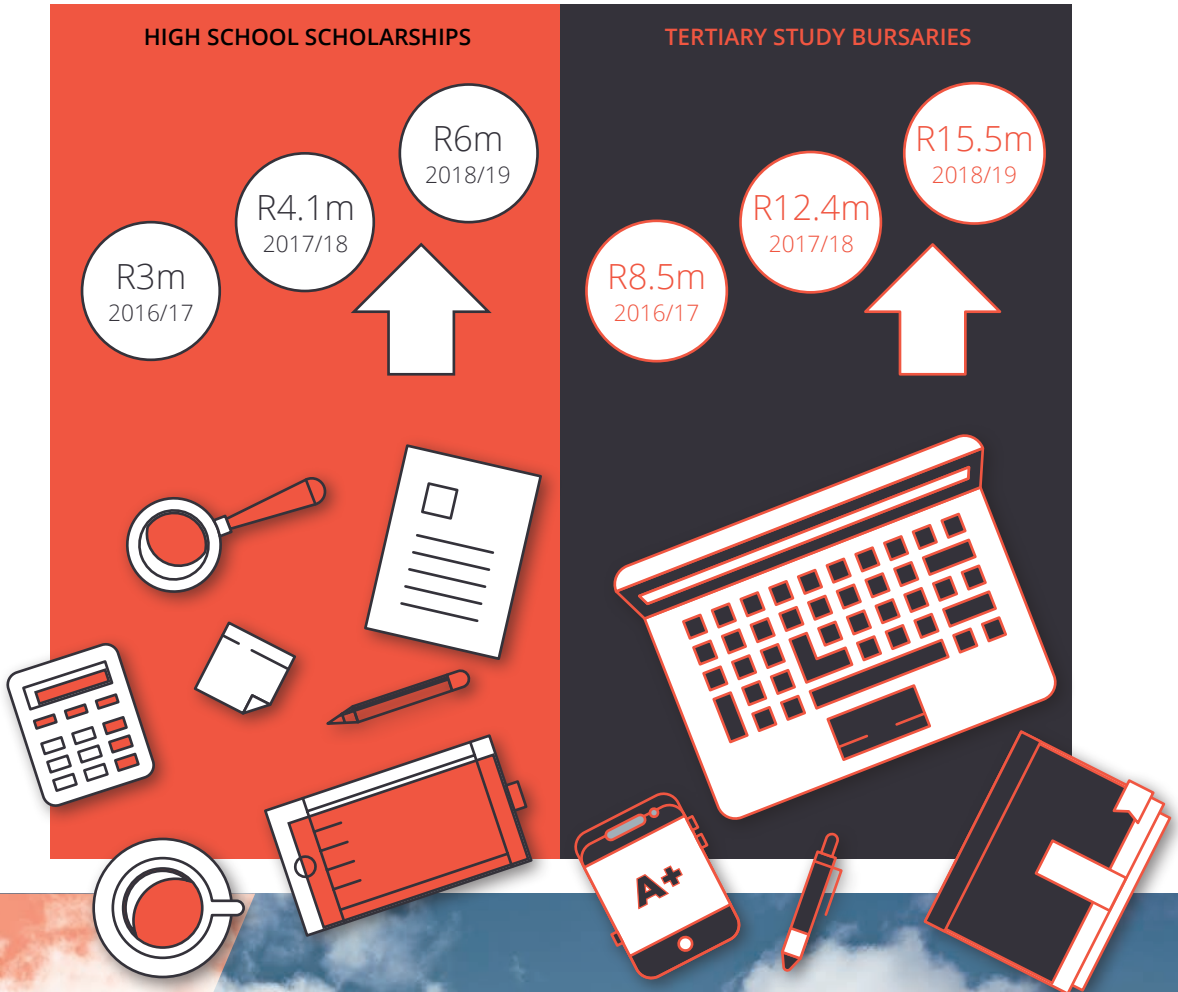
The Technical Innovation Hub

The Technical Innovation Hub (TIH), based at the SANRAL Western Region Office in Cape Town, provides practical training for five graduates in the field of electrical, electronic, mechatronic and computer engineering in 2018/19. They experiment with a variety of advanced technologies, including the application of virtual and augmented reality in road development and management, the use of drones in surveys and three-dimensional modelling. Secondments to specialist engineering firms are negotiated to provide candidates with work exposure and training in their fields of interest.

Scholarships and external bursaries

SANRAL awards scholarships to learners in grades 10, 11 and 12 who are performing well in English, science and maths, and bursaries for tertiary study to promising young matriculants intending to study civil engineering or another degree relevant to SANRAL's core business. The idea is not only to develop the agency's future employees but to contribute more generally to the depth of talent in the construction industry and ensure that disadvantaged young people can access professional careers.

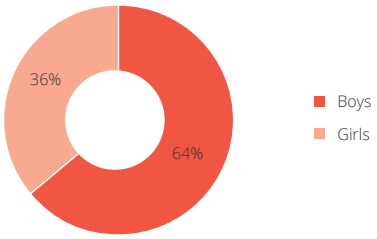
SANRAL's growing investment in talent



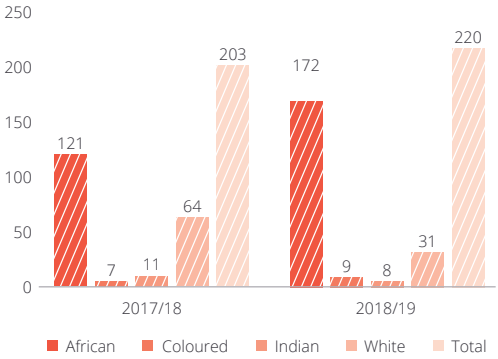
Scholarships

In 2018/19 scholarships were awarded to 220 learners drawn from 64 schools. Nearly two-thirds of the group were girls and the proportion of African learners has increased to 78%. The annual number of scholarships has varied only slightly in recent years, but the sum invested has increased considerably and amounted to R6m in 2018/19.

2018/19 scholarships by gender of recipients

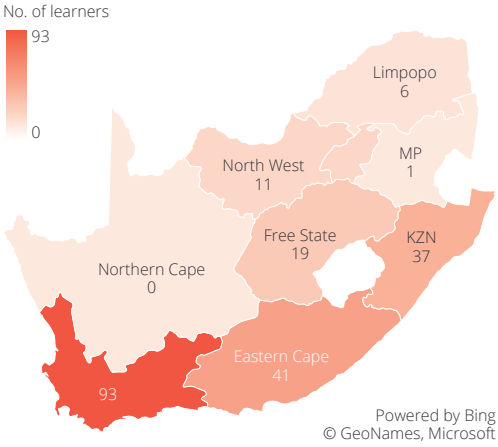


Number of scholarships awarded by population group of recipients



A pilot project was launched in KwaZulu-Natal during the year in an attempt to strengthen the contribution of the scholarship scheme to the transformation objectives envisaged in Horizon 2030. The new approach is not simply to fund the studies of talented high school learners, but to place them at schools that provide excellent tuition. Furthermore, learners are recruited from particularly disadvantaged areas. They are offered special support after placement at their new schools to bridge the academic gap and help them thrive socially and psychologically. Five bright learners from rural KwaMbonambi were selected in 2018/19 and their progress is being monitored to assess the viability of the approach.

Distribution of 2018/19 scholarship recipients by province



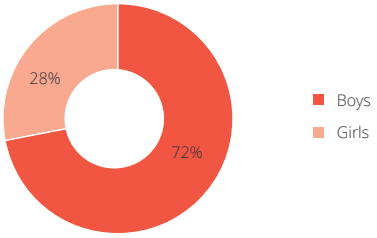
External bursaries

In 2018/19 SANRAL awarded external bursaries to151students attending 11 tertiary institutions and studying in the fields of engineering and general science at undergraduate and postgraduate level. The total investment was almost R15.5m.

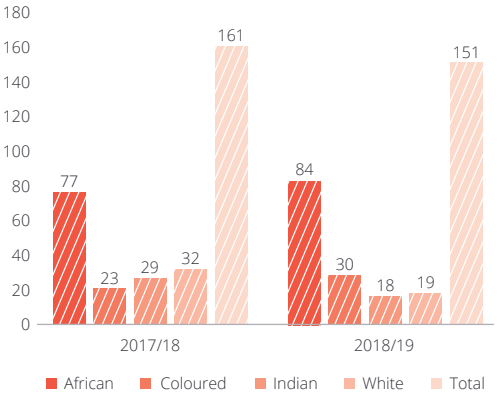
SANRAL regards this scheme as a tool to achieve an industry that closely reflects the demographic profile of the country. In 2018/19 the proportion of African recipients rose to 56% from 48% in the preceding year. The gender ratio is still far from SANRAL's target of parity. The selection process seeks to include students from different backgrounds, especially from disadvantaged and rural areas.

External bursary holders have the benefit of the company wellness programme, mentorship, and vacation work.

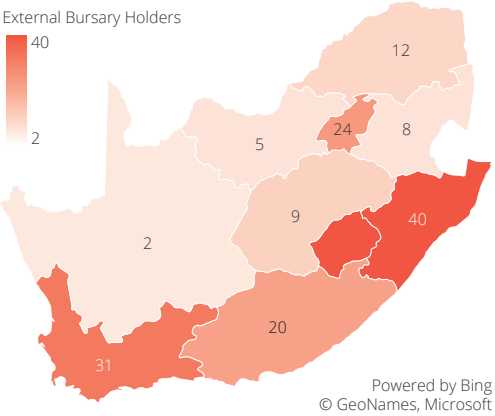
Gender ratio of external bursary recipients



Distribution of bursaries by population group



Distribution of 2018/19 bursary holders by province

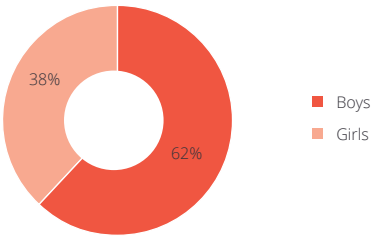


Internships

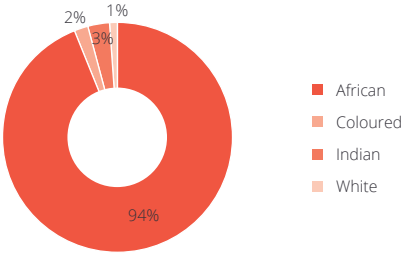
SANRAL facilitates work-integrated learning for students and graduates in various fields. These opportunities are created through contractors that are awarded SANRAL projects and in 2018/19 a total of 165 interns were placed. The composition of this group by population group speaks to a strong concern with employment equity, although gender representation is not as equitable.

Expenditure on the training of interns slightly exceeded R9.6m in 2018/19.

2018/19 interns by gender for 2018/19



2018/19 interns by population group



6.4 Employee wellness programme

SANRAL's employee wellness programme, Ekhaya Wellness, offers a comprehensive counselling service and access to health information to SANRAL employees and members of their direct families. The counselling service deals with emotional, relationship and financial issues and is offered both by telephone (on a 24/7 basis) and in face-to-face sessions. Utilisation of the service trebled in 2018/19, largely because of the introduction of eCare, a digital service which gives employees access to health-related advice from professionals and includes an interactive mobile app. Most users of Ekhaya Wellness (82%) are employees, although family members also take advantage of the facility.

Utilisation of Ekhaya Wellness

	2017/18	2018/19
Individual counselling	64	111
Group interventions	28	6
eCare digital service	0	184
Total	**92**	**301**

SANRAL supports an HIV and TB prevention and treatment programme for road maintenance workers and their families. It includes health education, HIV testing and TB screening, plus referral of workers to relevant facilities for HIV treatment.

Occupational health and safety

SANRAL complies with occupational health and safety (OHS) legislation in all respects and has trained safety officers in all its regions as well as an Occupational Health and Safety Committee that convenes quarterly. The total number of OHS Committee members is 86 and many attended courses in fire response, first aid, incident investigation and the role of OHS representatives.

SANRAL recorded six injuries on duty during the year.

6.5 Information and Communication Technology Systems

During 2018/19 the Information Technology Department finalised a five-year strategy designed to support Horizon 2030. The strategy focuses not only on the potential of ICT to make the agency more efficient – by automating processes – but also to take its work to a new level through the unprecedented data gathering, sharing and analysis capabilities that technology offers.

The investment of the agency in "mission-critical" ICT infrastructure and systems are the foundation on which this expanded plan for ICT rests. The early years of the strategy focus strongly on building this foundation, along with governance and security aspects.

Implementation of the strategy began to unfold in 2018/19, with activities in the following areas:

- The data centre upgrade: Phase 2 was virtually complete and included the development of a business continuity strategy for the centre (to deal with possible disasters) and the migration of historic back-up data to the new environment.
- The refresh of GFIP ICT systems including back office and roadside systems, the transaction clearing house and the centre for processing payment by untagged vehicle. This too was 99% finished.
- Improvement of the National Freeway Management System's traffic management and traveller information solutions.

Governance

ICT governance is an important aspect of the overall governance of SANRAL and, while it is ultimately the responsibility of the board, it is managed very actively by the ICT Governance Committee comprising several senior managers.

ICT governance is not the simple setting and application of a set of rules. Because threats to ICT integrity are constantly evolving, governance needs to be an ongoing activity that requires a commitment from the top of the organisation and a mentality that values continuous improvement and responsiveness to a fast-changing environment

Annual audits of ICT governance and security are performed by a contracted service provider, Business Innovation Group (BIG), and verified by the Auditor-General. As in the previous year, the overall ratings for 2018/19 were mainly good. Fewer audit findings were noted on the GFIP project due to the improvement of governance and controls.

Corporate ICT audit outcomes

	2017/18	2018/19
IT general controls	Good	Good
ICT governance	Good	Good
Information security	Satisfactory	Satisfactory
ERP (SAP Basis)	Good	Good

**Findings for 2018/19 subject to review by the Auditor-General.*

Business enablers

SANRAL ICT recognises the need to deploy technology to streamline processes and drive up productivity. This implies that users of technology will be empowered to use the capabilities of the tools provided and that ICT architecture is sufficiently agile to enable business process improvement.

The following 2018/19 projects have contributed to objective of business enablement:

- Provision of self-service solutions.
- Expansion of the video-conferencing facility.
- Installation of Wi-Fi.
- Improvement of internet capacity.

The status of these projects is indicated in the table below.

Planning, design and procurement

The capital projects below were undertaken in 2018/19. Most were completed during the financial year, while a few will reach fruition later in 2019.

Capital projects

Description	Planning	Design	Procurement
National wide area network (WAN): • Corporate WAN • Enterprise systems - Toll operations - Overload control	Completed	Completed	2019
SAP digital transformation	Completed	Completed	2019
Active directory self-services	Completed	Completed	Completed
Wi-Fi installation	Completed	Completed	Completed
Additional video-conferencing stations	Completed	Completed	Completed
Internet capacity upgrade	Completed	Completed	Completed
Office 365	Completed	Completed	Completed
GFIP network refresh	Completed	Completed	Completed

Modernisation and growth

The ICT Department is on a continuous drive to modernise and grow its systems. In 2018/19 it engaged other departments to assess the maturity of the agency's electronic information management system. The results of this assessment will inform the design of an improved electronic document management system in 2019/20.

Another area undergoing improvement is an integrated approach to business continuity and ICT service continuity in case of a major event with serious potential to disrupt the functioning of the agency. The goal is to produce a comprehensive business continuity plan, aligned with ISO 22301, during the course of 2019/20.

KEY PROJECTS FOR 2019/20

Development of 10-Gbps WAN

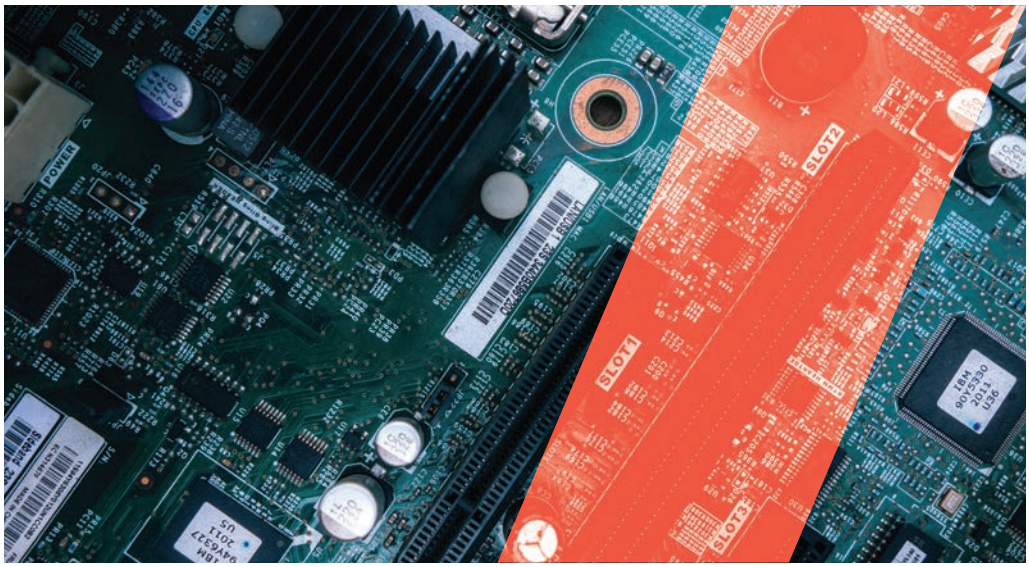
The agency will initiate a project to provide fibre infrastructure for a WAN connecting all SANRAL offices, toll plazas and traffic control centres, as well as other transport-related services. This will be achieved by repurposing telecommunications infrastructure installed by telecommunications partners who utilise SANRAL servitudes in the road reserve.

From technical and economic perspectives, the envisaged WAN will provide SANRAL with unlimited transmission capacity. As demand changes, capacity can be added extremely economically, either by simple equipment upgrades or by increasing the number of wavelengths on the fibre.

Digital transformation

The realisation of SANRAL's ICT vision is partly hampered by its fragmented infrastructure, resulting from use of legacy systems and a lack of key insights. Through a series of workshops, the ICT team established key challenges and priorities for the SANRAL Enterprise Resource Planning System (ERP) and explored the innovations in recent SAP versions. This facilitated the identification of short-term opportunities to drive its digital transformation agenda, including:

- Simplifying the existing IT landscape and introducing consistent business processes across different lines of business.
- Applying best-of-breed human capital management technology to source and cultivate talent.
- Harnessing analytics technology to obtain a holistic and real-time view of operations.



ACRONYMS AND ABBREVIATIONS	
AGSA	Auditor-General of South Africa
ALCo	Assets and Liabilities Committee
ARC	Audit and Risk Committee
ASANRA	Association of Southern African Roads Agencies
AVE	Advertising value equivalency
Bakwena	N1-N4 Bakwena Platinum Corridor Concessionaire Pty Ltd
BBBEE	Broad-based black economic empowerment
BEE	Black economic empowerment
bn	billion
CDP	Community development project
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CCTV	Closed circuit television cameras
CIDB	Construction Industry Development Board
CIPC	Companies and Intellectual Property Commission
COTO	Committee of Transport Officials
CPD	Continuing professional development
CPI	Consumer price index
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa
DEA	Department of Environmental Affairs
DOT	Department of Transport
ECSA	Engineering Council of South Africa
EE	Employment Equity
EEI	Expenditure Efficiency Index
EIA	Environmental impact assessment
EME	Emerging micro-enterprise
EMP	Environmental management plan
ETC	Electronic Toll Collection Ltd
EWT	Endangered Wildlife Trust
FMS	Freeway management system
GDP	Gross domestic product
GFIP	Gauteng Freeway Improvement Project
GTS	Green Transport Strategy for South Africa: 2018 - 2050
HSRC	Human Sciences Research Council
IAS	International Accounting Standard
ICT	Information communication technology
IDP	Integrated development plan
IFRS	International Financial Reporting Standards
km	kilometres
KPI	Key performance indicator
m	million
MoU	Memorandum of understanding
N3TC	N3 Toll Concessions (RF) Proprietary Limited
NDB	New Development Bank

NMT	Non-motorised transport
NMU	Nelson Mandela University
NT	National Treasury
OCI	Overall condition index
OHS	Occupational health and safety
ORS	On-road services
PFMA	Public Finance Management Act
PIARC	World Road Association
PPE	Property, plant and equipment
PPP	Public-private partnerships
PPPFA	Preferential Procurement Policy Framework Act
PSII	Public Sector Investment Index
PT	Public transport
QSE	Qualifying small enterprise
RIMS	Road incident management system
RRM	Routine Road Maintenance
RSE	Road Safety Education
SABPP	South African Board of People Practices
SADC	Southern African Development Community
SAHRA	South African Heritage Resource Agency
SANBI	South African National Biodiversity Institute
SANRAL	South African National Roads Agency SOC Limited
SARDS	South African Road Design System
SCM	Supply chain management
SETC	Social, Ethics and Transformation Committee
SIMC	Strategy Implementation Monitoring Committee
SIP	Strategic Integrated Project
SMME	Small, medium and micro-enterprise
SOC	State-owned company
SOE	State-owned enterprise
STEM	Science, technology, engineering and mathematics
STIS	Short-term incentive scheme
SU	Stellenbosch University
TE	Targeted Enterprise
TEA	Technical Excellence Academy
TIH	Technical Innovation Hub
TMC	Traffic management centre
TRAC	Trans African Concessions Pty Ltd
UCT	University of Cape Town
UFS	University of the Free State
UP	University of Pretoria
VAT	Value Added Tax
VMS	Variable message signs
WAN	Wide area network

NOTES

SANRAL
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Reg.No.1998/009584/30
BUILDING SOUTH AFRICA
THROUGH BETTER ROADS

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2019
INTEGRATED REPORT
VOLUME 2

Building
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SANRAL

BUILDING SOUTH AFRICA
THROUGH BETTER ROADS

Integrated Report 2018/19

The South African National Roads Agency SOC Limited

Reg no: 1998/009584/30

The South African National Roads Agency SOC Limited

Integrated Report 2018/19

The 2019 Integrated Report of the South African National Roads Agency (SANRAL) covers the period 1 April 2018 to 31 March 2019 and describes how the agency gave effect to its statutory mandate during this period.
The report is available in printed and electronic formats and is presented in two volumes:

- **Volume 1**: Integrated Report is a narrative and statistical description of major developments during the year and value generated in various ways.
- **Volume 2:** Annual Financial Statements contains the corporate governance report in addition to the financial statements.

In selecting qualitative and quantitative information for the report the agency has striven to be concise but reasonably comprehensive and has followed the principle of materiality – content that shows the agency's value-creation in the short, medium and long term.

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SECTION THREE

3

Section 3: Corporate Governance

1. King IV Declaration

SANRAL subscribes to applicable governance legislation and guidelines including King IV principles which guide good corporate governance practices within any organisation.

SANRAL prides itself on its commitment to good governance as it delivers on its mandate of providing an effective national road network using state and investor funding. The tone for ethical business practice is set by the accounting authority (the Board) and it filters through every level of the organisation.

SANRAL believes that it applies the first 16 principles of King IV, which are relevant to the agency, in the conduct of its business, striving to ensure efficient service delivery and to achieve the governance outcomes of an ethical culture, good performance, effective control and legitimacy. The intent of the Board and the management team is to run business ethically and efficiently. This section explains the application of each of the 16 principles and illustrates the quality of governance practice in SANRAL.

1.1 Leadership, ethics and corporate citizenship

Leadership

Principle 1: The accounting authority (Board) should lead ethically and effectively.

The functioning and conduct of the Board and its committees are guided by Board and committee charters and the Board Code of Conduct, which are reviewed and approved annually.

The importance of acting in the best interests of SANRAL is understood by all Board members. The avoidance of conflicts of interest is proactively managed by the annual disclosure of interests in writing and additionally by disclosures at every Board and committee meeting. In terms of the Board Charter and Code of Conduct, Board members may not contract for any services with SANRAL in their individual capacities.

The Board is provided with training, as required, with respect to governance and the core functions of SANRAL. This is to enable it to set strategic direction, monitor implementation and performance and to oversee ongoing, effective risk management to ensure adequate, responsible disclosure of performance within the triple context of society, the economy and the environment.

Organisational ethics

Principle 2: The accounting authority should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

The Board approves SANRAL's suite of human resources policies, which include the code of conduct for employees. Important principles of conduct include the annual declaration of interests, with a requirement to provide updates as and when there may be a potential conflicts of interest. Such declaration of interests is required of the Board, employees and suppliers (as part of the tender process). The maintenance of confidentiality, transparency, independence of decisions and clean procurement processes are part of the code of conduct which becomes binding on signature of the employment contract. There is, in addition, a SANRAL supply chain practitioners' code of conduct which all supply chain practitioners sign on an annual basis. Board members and employees are also required to sign their disclosures drawn from the CIPC website annually.

Induction presentations to employees and the annual governance, risk and compliance roadshows to all employees reinforce the importance of ethical behaviour.

The Board approves all policies annually, including the Anti-Fraud and Corruption Policy and Risk Management Policy. SANRAL has an independently monitored fraud hotline for use by employees and external parties, including service providers, to report suspected fraud anonymously. SANRAL has a zero-gifts policy – employees may not accept any gifts offered to them by virtue of being SANRAL employees by service providers. This is to ensure that there is no compromise of independence and transparency in decision-making. Should any clause of the code of conduct or policies affecting conduct be breached, consequence management, which may include disciplinary action, is mandatory.

All supplier contracts include the need to disclose any conflicting interests. Employees serving as bid specification, evaluation and adjudication committee members for the evaluation and award of bids are also required to disclose any conflict of interest and recuse themselves from any further involvement. The same goes for any directors involved in the award of major contracts.

The recruitment and appointment of employees is preceded by the necessary checks on personal credentials, criminal history, credit standing, qualifications and references.

Interpersonal respect, loyalty to the organisation, and respect for diversity are values which are defended vigorously by the SANRAL team.

Corporate citizenship

Principle 3: The accounting authority should ensure that the organisation is, and is seen to be, a responsible corporate citizen.

SANRAL's mandate to manage South Africa's national road network offers it opportunities to contribute to the well-being, development and empowerment of the country and its citizens through internal and external transformation initiatives. Internally, these include the practice of and respect for equity in diversity and the provision of skills development opportunities to employees. External initiatives include the development of SMMEs and communities through job creation, enterprise development opportunities and skills development programmes. SANRAL also sponsors scholarships, bursaries and partnerships with universities and facilitates internships. Site or contractor staff are provided project-related training in business management and technical skills. Community development projects ensure the enhancement of access and mobility in rural communities and road safety related projects improve the safety on roads through pedestrian bridges, access roads and other features. SANRAL's efforts as a corporate citizen can be assessed by its contribution in the following areas:

(a) **Employees** - SANRAL endeavours to be an employer which values its employees.

Employment equity: SANRAL has a three-year Employment Equity Plan, the implementation of which is monitored by the Social, Ethics and Transformation Committee (SETC). The achievement of targets is reported to the Board and the Minister of Transport annually.

Fair remuneration: Measures to ensure fair remuneration include a yearly salary review process, when an external company does an industry comparison to ensure that SANRAL's remuneration structure is in line with the market. The SETC and Board approve yearly remuneration adjustment levels. Another measure is the evaluation and grading of positions to ensure that incumbents within a particular scope of work are remunerated fairly, based on experience and skills.

Safety, health and dignity: SANRAL subscribes to a wellness programme in the interests of employees.

Development of employees: A work skills plan, which is derived from each individual's development plan, determines the career development path for each employee. There are other benefits, such as internal bursaries, offered to staff who wish to further their education.

(b) **Economy** - SANRAL endeavours to provide the nation with an effective network of highways and freeways.

SANRAL ensures that contracts valued above R40m are registered with the Department of Labour. An occupational health and safety practitioner is appointed to oversee the site and ensure that all plans comply with safety regulations.

All contracts stipulate a minimum percentage of local employment which helps in the development of communities. Contractors are encouraged to use local SMMEs. They must comply with the legal wage and adhere to the basic conditions of employment. Moreover, SANRAL provides opportunities to SMMEs and small contractors to work on the agency's projects. SANRAL's community development projects empower communities with mobility and access through pedestrian bridges, access roads, and other safety features. The national road network is critical for the mobility of people and goods across the nation and the infrastructure must be maintained in optimal condition to service the South African economy.

SANRAL's draft Transformation Policy was launched by the Minister of Transport in September 2017. It was debated and consulted with various stakeholders prior to implementation. The document was also canvassed with government stakeholders for their recommendations and views. Several measures have been implemented to fast-track transformation within the construction industry, with more under consideration for implementation. Some of these require government's buy-in.

(c) **Environment** - Integrated thinking and practice have been entrenched in SANRAL for years. SANRAL has adopted the principle of continual improvement from the ISO 14000 series of environmental standards. With specific reference to sustainability and environmental management, SANRAL reports on environmental management and sustainability, in line with its corporate strategies, environmental policy and objectives. The reporting includes compliance with legislative requirements, as well as other material topics that fall within the realm of business goals and sustainability.

These topics typically cover legislation and policy, research and its applications, cooperative governance, environmental impact assessments for key road projects, and national priorities such as skills development and climate change mitigation. This entails highlighting the links between governance and risk management, as well as performance in terms of environmental compliance and impact management. It also encompasses the setting and meeting of suitable sustainability goals and targets.

(d) **Society** - SANRAL provides scholarships, external bursaries and internships as a contribution to national skills development. SANRAL also supports the Chair in Maths, Natural Science and Technology Education at the University of the Free State, the Chair in Pavement Engineering at the University of Stellenbosch and the Chair in Transport Planning at the University of Cape Town. SANRAL's Technical Excellence Academy in Port Elizabeth provides the required training to accelerate professional engineering registration.

The impact of SANRAL's projects on society is carefully monitored and discussed with the communities they affect through regular, planned stakeholder engagements. Every project, whether a large multi-billion rand highway or modest community development road, has a developmental impact on society. Roads provide access, mobility, employment opportunities, business opportunities and general upliftment of the quality of life.

Targets pertaining to some of the above performance areas have been included in the Annual Performance Plan and performance against the plan is monitored on a quarterly basis.

1.2 Strategy, Performance and Reporting

Strategy and performance

Principle 4: The accounting authority should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value chain.

The Board is responsible for setting strategic direction. In 2017/18, the Board approved SANRAL's strategy framework, Horizon 2030. It was launched by the Minister of Transport in September 2017. All of SANRAL's efforts are aimed at achieving the strategic objectives set out in this framework. The Board also reviews the risks which could influence the achievement of strategic objectives and is accountable for risk management.

The strategic objectives are backed by key performance indicators with annual targets, most of which are monitored quarterly, or else semi-annually or annually. These key performance indicators (KPIs) are also linked to the individual performance agreements of employees. The KPIs measure performance of important aspects of SANRAL's business, such as road asset performance, road safety, transformation efforts, financial efficiency, research, stakeholder relations and environmental management. The performance report for 2018/19 can be found on pages 26 - 33.

The ultimate aim is for SANRAL to deliver against its mandate and to make a real contribution to the lives and businesses of stakeholders affected by its activities. Stakeholders include employees, road users and communities along the national network.

Reporting

Principle 5: The accounting authority should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short-, medium- and long-term prospects.

SANRAL's Integrated Report, which includes the annual financial statements, is published on the SANRAL website.
The Integrated Report includes governance disclosures with respect to the King IV Code, as recommended under each principle.

The Integrated Report provides information on SANRAL's contribution to the national road infrastructure, transformation and empowerment, performance with respect to pre-determined targets in key performance areas and financial performance.

1.3 Governing Structures and Delegation

Primary role and responsibilities of the accounting authority

Principle 6: The accounting authority should serve as the focal point and custodian of corporate governance in the organisation.

The Board's role and responsibilities are detailed in the Board Charter. Its functions include the setting of strategic direction, the approval of policy, the oversight of implementation, and accountability through appropriate disclosure in the Integrated Report and through performance management and reporting. The Board is comfortable that it has fulfilled its responsibilities in line with the Board Charter and the Board Code of Conduct, and has served as the custodian of corporate governance within the organisation.

The Board has also been actively involved in engaging with the shareholder representative, the Minister of Transport, and with other government and political stakeholders to deal with various challenges, such as the funding crisis being faced by SANRAL due to non-payment of e-tolls on the GFIP. Another matter of concern has been the protest action on project sites and the resultant disruption of work, which is being dealt with by management, the Board and relevant provincial authorities.

The Board held six meetings during the year, with attendance as indicated in the table below:

Board meetings held between April and August 2018

Director	Position	29 May 2018	21 Aug 2018
Mr R Morar	Chairperson, non-executive	A	A
Mr C Hlabisa	Non-executive	√	A
Ms Z Kganyago	Non-executive	√	√
Ms A Lawless	Non-executive	A	√
Ms Mashile- Nkosi	Non-executive	A	-
Mr M Matete	Non-executive	√	√
Ms A Halstead	Non-executive	√	√
Mr S Macozoma	CEO, executive	√	√

Board meetings held between September 2018 and March 2019

Director	Position	25 Sep 2018*	6 Nov 2018	29 Jan 2019	26 Mar 2019
Mr T Mhambi	Chairperson, non-executive	√	√	√	√
Mr R Haswell	Non-executive	√	√	√	√
Mr C Hlabisa	Non-executive	A	A	√	A
Ms L Madlala	Non-executive	√	√	√	A
Ms N Mpobane	Non-executive	√	-	-	-
Ms A Halstead	Non-executive	√	√	√	√
Mr T Matosa	Non-executive	√	√	√	√
Mr S Macozoma	CEO, executive	√	√	√	√

*: Special meetings
√: Present
A: Absent
-: Resigned

The shareholder meeting (AGM) for 2018 was held on 12 October 2018.

Composition of the accounting authority

Principle 7: The accounting authority should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

SANRAL's sole shareholder is the state, represented by the Minister of Transport. Most Board members are appointed by the Minister of Transport in terms of the SANRAL Act, No 7 of 1998, as amended.

The Minister appointed a new Board which commenced its term on 1 September 2018. Members whose terms ended on 31 August 2018, included Mr R Morar (the previous Chairperson), Mr M Matete, Ms Z Kganyago and Ms A Lawless. Ms D Mashile-Nkosi resigned on 29 June 2018.

The Board as at 31 March 2019 comprised seven members, as listed on page 24 in Volume 1. The Chairperson, Mr T Mhambi, Ms L Madlala, Mr T Matosa, Ms N Mpobane and Mr R Haswell were new appointees. They are all independent, non-executive members.

Those who continued from the previous term were:

- Ms Avril Halstead, a non-executive member representing National Treasury and nominated by the Minister of Finance.
- Mr Chris Hlabisa, who represented the Department of Transport until 31 March 2019. (Mr Prasanth Mohan succeeded him on 1 April 2019).
- The CEO, who is the only executive member.

Ms Nkareng Mpobane resigned from the Board on 2 November 2019 and the Minister has yet to appoint a replacement. All non-executive board members serve for a maximum of two terms of three years, in terms of section 13(1)(a) of the SANRAL Act.

Board members include three engineers, two public sector specialists, an employee relations expert and a finance and governance professional. This is considered to be a good mix of skills that are relevant to SANRAL. The gender composition of the Board as at 31 March 2019 was 71% men and 29% women.

Board members from 1 September 2018

Director	Position in SANRAL	Age	Length of service on Board	Other significant board membership, shareholdings and/or professional positions
Mr T Mhambi	Chairperson, non-executive and independent	56	7 months	Akha-Aga Strategic Support & Advisory Services Group, ECM Trading Solutions, Penpoint Trading and Deliciano
Mr Mhambi has experience in the fields of education, public administration and policy and strategy development for organisations in a variety of sectors, including education, development, government and insurance. After long service as a civil servant, Mr Mhambi moved into private sector business and consulting in the areas of corporate strategy development and corporate governance. He has served on other public and private sector boards.				
Mr R Haswell	Non-executive, independent	75	7 months	Umgugundlovu Economic Development Agency, Ezemvelo KZN Wildlife
Mr Haswell has a strong background in academia, local government administration, and town and regional development, and as an activist on socio-economic matters. He has lectured locally and internationally and continues his writing career. He drives the message that business must improve the quality of life of communities and must nurture the environment.				
Ms L Madlala	Non-executive, independent	45	7 months	Mzuzu Group
Ms Madlala has a civil engineering background with corporate governance experience in both the public and private sectors. She has served on private and public sector boards and has more than 20 years' experience as a civil engineer. Her core competencies include infrastructure development and project and programme management. She currently heads her own group of companies.				
Mr T Matosa	Non-executive, independent	51	7 months	Construction Education and Training Accounting Authority (CETA), Chitepata Enterprise (Pty) Ltd
Mr Matosa held leadership positions in various trade unions and has extensive experience in labour economics, local government administration, and governance of national and international unions.				
Ms N Mpobane	Non-executive, independent	39	2 months (Resigned in Nov 2018)	Ashburton Fund Managers, Motjodi Investment
Ms Mpobane has more than 15 years' experience in the investment industry and was involved in both local and offshore investment processes. She was a Board member for just two months and resigned to avoid a potential for conflict of interest.				
Mr S Macozoma	CEO, executive	42	2 years and 4 months	None
Following 10 years at the Council for Scientific and Industrial Research – five as a trainee engineer and five as a research engineer – Mr Macozoma joined the Department of Transport in 2002. As Chief Director from 2005, he was responsible for road, rail and aviation infrastructure. He served on the 2010 FIFA World Cup Organising Committee, where he was responsible for transport, logistics, accommodation and hospitality. He then served as MD of the Johannesburg Roads Agency for three years and for a short while at the Electronic Toll Concession Ltd as CEO. He joined SANRAL as CEO in December 2016. Mr Macozoma's experience in the management of transport authorities combined with his engineering, strategy development and implementation background are invaluable in his role as CEO of SANRAL.				
Ms A Halstead	Non-executive	42	3 years	None
For 11 years, Ms Halstead was a Chief Director at National Treasury, where she was responsible for overseeing approximately 40 large state-owned enterprises. Ms Halstead was seconded by National Treasury to the Department of Public Enterprises and oversees SOEs in the transport and defence sectors. Prior to joining government, she worked for McKinsey & Company, Old Mutual and Wipcapital, a subsidiary of Wiphold. Her expertise is in the areas of developing policy and legislation and the financing of infrastructure investment.				

Mr C Hlabisa	Non-executive	57	6 years and 6 months	Roadside Abarttoir (Pty) Ltd, Amangotsha Enterprises CC
As Acting Director General (ADG) Roads Transport in the Department of Transport, Mr Hlabisa's role encompasses responsibility for road engineering standards, road infrastructure and industry development, road regulation, driving license card entity oversight, public entity oversight and Strategic Integrated Projects (SIPS). Prior to his appointment to the DoT in 2013, he was Head of Department at the KZN Department of Transport. His expertise is in the area of management of transport authorities for which his engineering background is an asset.				

Board members whose terms ended on 31 August 2018:

Mr R Morar	Chairperson, non-executive and independent	52	6 years and 9 months	Capital Appreciation Ltd, Morar Incorporated, Harith Fund Managers
As a chartered accountant and certified fraud examiner, Mr Morar has extensive experience in financial management, advisory business services, and audit and forensic assignments in both the public and the private sector. He has served on various public and private sector boards, including as chair of audit committees and boards.				
Ms Z Kganyago	Non-executive, independent	52	3 years and 6 months	Tsogo Sun Gaming, Hospitality Property Fund, Arctograph Investments (Pty) Ltd
Ms Kganyago's experience and expertise are in the areas of property planning, property development and general management.				
Dr A Lawless	Non-executive, independent	66	3 years and 6 months	SAICE Professional Development and Projects, Allyson Lawless and Associates (Pty) Ltd, Tortoise Investments (Pty) Ltd
As MD of the South African Institution for Civil Engineering's Professional Development and Projects Division since 2004, Dr Lawless has launched many engineering skills development initiatives. She has served on numerous national structures concerned with engineering qualifications, skills and innovation. Her early career was in consulting. With the emergence of desktop computers, she became a pioneer in developing the local civil engineering software market.				
Ms D Mashile-Nkosi	Non-executive, independent	60	3 years and 4 months	Kalagadi Manganese (Pty) Ltd, Temoso Telecommunications, Women's Development Bank Investment Holdings (Pty) Ltd, Eyesizwe Mining (Pty) Ltd
Ms Mashile-Nkosi has a strong development background as an activist on human rights and gender issues. She encourages business to improve the quality of life of poor communities and to nurture women entrepreneurs and business leaders. She resigned on 29 June 2018.				
Mr M Matete	Non-executive, independent	50	3 years and 6 months	3M Consulting
Mr Matete has been in business since 2001 and has more than seven years' experience as a non-executive member of boards. He has been involved in the civil and transportation engineering field for around 21 years. He has experience in business establishment and development.				

Experience of external advisors to the Audit and Risk Committee:

Advisor	Position in SANRAL	Age	Length of service as advisor	Other significant board membership, shareholdings and/or professional positions
Mr Akhter Hoosen Moosa	Advisor – Audit and Risk Committee	65	2 years and 5 months	Pitlake Investments (Pty) Ltd, Taycar Property Investments (Pty) Ltd, South African Airways, Mango Airlines (SOC) Ltd, Competition Tribunal, SAA Technical (Pty) Ltd, Encha (PMB) (Pty) Ltd, Distribution and Warehousing Network (Pty) Ltd, Manzanilla (Pty) Ltd (until 31 July 2018)
Mr Moosa's considerable experience in auditing and accounting was of value to the ARC.				

Mr Mhleli Papama Nkukwana	Advisor	49	11 months	None
Mr Nkukwana has more than 26 years of experience in the information and communications technology field both in South Africa and abroad, focusing on the use of ICT to enhance the performance of organisations.				

The Chairperson of the Board:
The Chairperson is an independent, non-executive member of the Board. A lead independent member has not been appointed. The Board appoints another member to serve as chair, if the Chairperson is absent from any meeting.

Committees of the accounting authority
Principle 8: The accounting authority should ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with balance of power and the effective discharge of its duties.
Section 16 (1) of the SANRAL Act states that "the Board may from time to time appoint one or more committees to assist the Board in performing its functions".

The Board has established four committees to assist it in discharging its duties relating to the control and oversight of operations, as governed by legislation and policies approved by the Board. These are the Contracts Committee, the Audit and Risk Committee, the Social, Ethics and Transformation Committee and the Assets and Liabilities Committee.

The committees do not assume any management or operational responsibilities but have oversight of the functions they monitor and the implementation of their recommendations. All committees also have the responsibility of monitoring the management of risks within their area of oversight.

The Board has also agreed that a Nominations Committee may be established on an ad-hoc basis as per need.

All committees function in accordance with the mandate and delegations determined by the Board, as detailed in their respective charters. The charters are reviewed annually by the respective committees and approved by the Board.

The Board appoints the members of committees based on the skills required to fulfil the functions of the committees. The tenure of the committees is concurrent with that of the Board.

The Board may appoint external, independent members or advisors to committees should their skills be required for the effective functioning of the committees. Such appointments are always subject to legal prescripts.

Contracts Committee
The Contracts Committee is responsible for the award of major contracts with a value exceeding R300m, on the recommendation of the Management Bid Adjudication Committee. It also has oversight of SANRAL's transformation initiatives in the construction industry and the empowerment of SMMEs and small contractors.

As at 31 March 2019, the committee comprised two non-executive members, Ms Avril Halstead (chair) and Mr Chris Hlabisa, and the CEO. Ms L Madlala was a member until 2 November 2018, when she resigned due to being provisionally assigned to the Audit and Risk Committee, following the resignation of Ms Mpobane. Members' qualifications and experience are detailed in the table on page 12 - 13.

The Committee has not had external advisors or invitees who attended committee meetings regularly. The Committee Secretary attends committee meetings, as do the Engineering Executive, the Contracts Manager, the Legal Advisor, the CFO and the Company Secretary, by invitation.

Key areas of focus during the year have been the communication and implementation of the Transformation Policy and the provision of opportunities for smaller contractors.

Four meetings were held during the year and attendance at these is indicated in the tables.

Committee meetings until 31 August 2018

Director/member	Position	10 Apr 2018	18 Jun 2018	7 Aug 2018
Mr M Matete	Chair, non-executive	√	√	√
Mr C Hlabisa	Member, non-executive	√	√	A
Mr R Morar	Member, non-executive	√	√	-
Mr S Macozoma	Member, non-executive	√	√	√

√: Present
A: Absent
-: Not a member

The qualifications and experience of the members are as listed on page 12 - 13.

The committee is satisfied that it fulfilled its responsibilities in accordance with its charter during 2018/19.

Audit and Risk Committee

The Audit and Risk Committee (ARC) functions in terms of its charter which details the functions of the committee as:

- Independent oversight of the Annual Integrated Report and the annual financial statements.
- Independent oversight of combined assurance, including external audit.
- Oversight of internal financial controls and internal audit function.
- IT governance.
- Oversight of compliance, risk management and anti-fraud, and corruption measures.
- Other functions such as oversight of the annual performance plan, performance report, annual budget, public liability claims and other relevant documents.

The three committee members serving as at 31 March 2019 were: Mr R Haswell, chair, Mr T Matosa and Ms L Madlala. All are independent, non-executive directors. Ms Madlala was provisionally appointed following the resignation of Ms Mpobane on 2 November 2018. Their qualifications and experience are detailed on page 12 - 13.

One committee member appointed in November 2018, Ms L Madlala, had been an employee of SANRAL from January 2015 to June 2015. The last three months of her employment, from 1 April 2015 to 30 June 2015, fell within the three-year period prior to her appointment on the committee. As a result, she was not considered as independent in terms of the Companies Act. However, the Board had no other option other than appointing her, as the Companies Act requires three members and the only other non-executive, independent member was the Chairperson of the Board, who could not be a member of the committee, as per King IV's recommendations.

The previous Board had appointed two advisors to the committee. Mr Moosa supported and strengthened the committee's financial and auditing literacy skills and experience. Mr Nkukwana provided the necessary IT advisory and support. Their terms ended on 31 August 2018, along with that of the previous Board. A new advisor, Mr Thamsanqa Zikode, was appointed from 12 April 2019 and will provide the needed financial and audit support to the committee.

The committee met, as required, with the internal and external auditors, without management present, to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum.

The internal audit team and the external audit team attend all ARC meetings by invitation and the Committee Secretary attends every meeting. The CEO, CFO, the Management Accountant, the Engineering Executive, the Risk Manager, Company Secretary and the Chief Audit Executive attend by invitation, as do other managers who have matters on the agenda. Key areas of focus during the year included the oversight of the internal audit function, audits related to GFIP, risk management, IT governance and the management and follow-up of audit findings by operational teams.

Five meetings were held during the year and the attendance of those meetings is shown in the tables below.

Committee meetings to 31 August 2018

Director/member	Position	22 May 2018*	17 Aug 2018
Ms A Lawless	Chairperson, non-executive and independent	√	√
Ms Z Kganyago	Member, non-executive and independent	A	√
Ms D Mashile-Nkosi	Member, non-executive, and independent	A	-
Mr R Morar	Member, non-executive and independent	-	A
Mr A Moosa	Advisor	√	√
Mr P Nkukwana	Advisor	√	√

√: Present
A: Absent
-: Not a member
* - As there was no quorum, the minutes were approved by round robin resolution of the committee prior to any actions being implemented.

Committee meetings after 1 September 2018

Director/member	Position	5 Nov 2018	17 Jan 2019	14 Mar 2019
Mr R Haswell	Chairperson, non-executive and independent	√	√	√
Ms L Madlala	Member, non-executive, and independent	√	√	A
Mr T Matosa	Member, non-executive and independent	√	√	√

√: Present
A: Absent

The qualifications and experience of the members are as listed on page 12 - 13.

The Report of the Audit and Risk Committee, included in the Integrated Report on page 33 - 35, provides detailed information on the committee's activities and its governance responsibilities.

The committee is satisfied that it fulfilled its responsibilities in accordance with its charter during 2018/2019.

Internal auditor
The internal audit function was outsourced for the past three years and the contract with the service provider ended on 28 February 2019. The in-house internal audit team commenced on 1 March 2019 to complete the financial year 2019 (FY19) internal audit plan. More than 90% of the FY19 internal audit plan was completed giving assurance to ARC. ARC approved the FY20 Internal Audit Charter, methodology and three-year rolling internal audit plan. Most of the vacant positions (75%) on the approved internal audit structure have been filled.

External auditor
In terms of the SANRAL Act and the PFMA, the Auditor-General of South Africa (AGSA) is the appointed external auditor. The committee is satisfied that the external auditor is independent of the organisation. The external auditor did not provide any non-audit services.

The ARC has considered the quality of the external audit done by the AGSA and is satisfied with the process.

The AGSA is mandated by the Public Audit Act No 25 of 2005 to conduct the audits in accordance with the International Standards on Auditing. The AGSA adopted the International Federation of Accountants' Code of Ethics and International Organisation of Supreme Audit Institutions' Code of Ethics to ensure that the audits are conducted in an ethical manner and in accordance with the standards. These codes require the firm to identify the threats to independency and put forward mitigating factors.

The AGSA rotates engagement managers whenever a familiarity threat to independence is identified. The rotation policy stipulates that an engagement manager should be rotated on a five-year basis and this is monitored by the risk and ethics unit within the AGSA. However, if conditions suggest a significant threat to independence, the rotation can be done earlier than five years.

Committee responsible for risk governance
The ARC oversees risk governance within SANRAL. It reviews reports on the strategic risk register and the fraud hotline at least once every quarter.

The committee leads an annual risk session for the Board. This is an opportunity for Board members to identify new risks and review the performance of internal controls implemented in the previous financial period.

Further details relating to the committee are provided on page 33 - 35.

Committee for nomination of members of accounting authority
The Board has approved that a Nominations Committee be appointed as and when required and the charter of this committee has been approved.

The appointment of the Board is the responsibility of the Minister of Transport, as legislated in the SANRAL Act. The representative from National Treasury on the Board is nominated by the Minister of Finance.

Social, Ethics and Transformation Committee
SANRAL has a Social, Ethics and Transformation Committee (SETC) which is also responsible for remuneration. It functions in terms of its charter and its responsibilities are governed by Regulation 43 of the Companies Act. These include oversight of:

- Labour and employment matters, including the review of the remuneration policy and annual remuneration adjustments.
- Social and economic development functions, including transformation, skills development, employment equity and good corporate citizenship endeavours.
- Customer and stakeholder relationships.
- Environmental, health and safety matters.

The activities of the SETC and key areas of focus are guided by an annual work plan to ensure that all the responsibilities are monitored effectively.

The committee consisted of three non-executive members as at 31 March 2019: Mr T Matosa, chair, Mr R Haswell and Ms L Madlala. Their qualifications and experience are detailed on page 12 - 13.

The committee held four meetings during 2018/19 and attendance is indicated below.

Meetings to 31 August 2018

Director/member	Position	8 Aug 2018
Mr M Matete	Chairperson, non-executive	√
Mr R Morar	Member, non-executive	√
Mr C Hlabisa	Member, non-executive	A

√: Present
A: Absent

Meetings after 1 September 2018

Director/member	Position	18 Oct 2018	18 Jan 2019	25 Mar 2019
Mr T Matosa	Chair, non-executive	√	√	√
Mr R Haswell	Member, non-executive	√	√	√
Ms L Madlala	Member, non-executive	√	√	A

√: Present
A: Absent

The committee does not have any advisors or invitees who attend the committee meetings regularly. However, SANRAL has a remuneration service provider, which advises on employee remuneration and rewards, including annual salary adjustments for various employee grades, in October/November each year. The remuneration and adjustments are based on an annual remuneration survey.

The Committee Secretary attends every meeting. The CEO, the Corporate Services Executive, the Company Secretary and other managers with matters on the agenda attend by invitation.

The committee provides a report on its functions and activities to the annual shareholder meeting.

The committee is satisfied that it fulfilled its responsibilities in accordance with its charter during the financial year 2018/19.

The Assets and Liabilities Committee
The Assets and Liabilities Committee (ALCo) monitors the implementation of policies and controls governing SANRAL's financial risk management activities with respect to liquidity, investments, interest rates, and credit. The committee, which operates in terms of a charter, sets risk management parameters for each risk category and reviews the performance of the Treasury Function. Provisions of the Treasury Policy and Control Manual regulate the activities of the Treasury Function. ALCo also reviews the relevance and validity of these controls periodically. Any proposed amendments are subject to approval by the Board.

As at 31 March 2019, the committee had two non-executive members: Ms A Halstead, chair, and Mr T Mhambi, and the CEO. Ms N Mpobane was a member until November 2018 when she resigned and was replaced by Mr Mhambi. Members' qualifications and experience are detailed on page 12 - 13.

The committee had no external advisors or regular invitees to its meetings. The Committee Secretary attended all meetings and the Treasurer, the Financial Risk Manager, the CFO and the Company Secretary attended by invitation.

The main areas of focus were SANRAL's borrowing plan and liquidity management.

The committee held four meetings during 2018/19 and the attendance is listed below.

Meetings to 31 August 2018

Director/member	Position	24 May 2018	3 Aug 2018
Ms A Halstead	Chairperson, non-executive	√	√
Ms Z Kganyago	Member, non-executive	A	A
Mr S Macozoma	CEO, executive member	√	√

√: Member, present
A: Member, absent
-: Not appointed, resigned

Meetings after 1 September 2018

Director/member	Position	24 May 2018	3 Aug 2018
Ms A Halstead	Chairperson, non-executive	√	√
Ms N Mpobane	Member, non-executive	√	---
Mr T Mhambi	Member, non-executive	-	√
Mr S Macozoma	CEO, executive member	√	A

√: Present
A: Absent
-: Not appointed
---: resigned

The committee is satisfied that it fulfilled its responsibilities in accordance with its charter during the financial year 2018/19

Evaluation of performance of the accounting authority
Principle 9: The accounting authority should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.
The performance of the Board and its committees during 2018/19 was self-evaluated by the newly constituted Board.

The self-evaluation included areas such as setting strategy, board relationships, board skills, meetings and information provided, committees, and stakeholder management. The conclusion of the evaluation was that internal board relationships, communication and information provided were good. It was felt, however, that the Board was too small and this affected the

skills set represented to the Board and the proper constitution of the committees. SANRAL's founding legislation restricts the board to a maximum of eight members. Areas identified for improvement were stakeholder management, the Board's role in developing strategy and succession planning. The Board was satisfied that the evaluation had added value to its functioning and had increased members' awareness of their oversight role and fiduciary responsibilities.

Management appointments and delegations

Principle 10: The accounting authority should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

Chief Executive Officer

The CEO commenced duties on 1 December 2016 on a five-year contract, as per the SANRAL Act. The CEO reports to the Board. The Board is responsible for the performance evaluation of the CEO and also for the recommendation of his annual salary adjustment to the Minister of Transport.

The CEO is accountable for the implementation and execution of approved strategy, policy and for oversight of operational planning and implementation, and serves as the chief operational link between the Board and management.

The CEO's major contractual responsibilities include delivering the KPAs captured in the Annual Performance Report, managing business operations, driving company strategy, maintaining technical excellence in delivery and addressing key company challenges.

The CEO's succession plan is overseen by the Board with delegation to the Social, Ethics and Transformation Committee to maintain appropriate monitoring.

The CEO has no other professional commitments.

Delegation of powers

The Board has approved a delegation of authority framework, guided by the requirements of relevant legislation and general governance principles. This ensures adequate control and oversight on the part of the Board and at the same time ensures that the CEO has the authority to implement and execute Board-approved strategy. The CEO has sub-delegated powers to the executive and the management teams. Delegations of powers are reviewed annually, and also when statutory changes necessitate their revision.

The Board is satisfied that the SANRAL delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities.

Company Secretary

The Board has appointed a Company Secretary, as required by the Companies Act. The position is at arms-length with the Board, and the Company Secretary is not a member of the Board. Her performance and independence are reviewed and evaluated by the Board every year.

The Company Secretary is responsible for providing support to the Board and for developing systems and processes to enable the Board to function effectively. She provides guidance and support with regard to the powers, roles and responsibilities of the Board and its committees, as entities, and to individual members. She guides the Board on corporate governance matters, the Companies Act and other governance-related legislation. The Company Secretary is considered by the Board to be fit and proper for the position and is qualified to perform the duties which are required of the role. She reports to the Board functionally, and to the CEO administratively.

1.4 Functional areas of governance

Risk governance

Principle 11: The accounting authority should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

The Board has approved the Risk Management Policy and Framework, which is reviewed annually.

SANRAL has a Risk Focus Group, the establishment of which has been delegated by the Board to SANRAL's management. The Risk Focus Group meets quarterly and it reviews the strategic risk profile and the associated progress report, as well as the operational risk profile of the organisation.

SANRAL uses the ISO31000 risk management methodology in assessing both strategic and operational risks. The key risks are listed in the strategic risk register and they include:

- Uncertainty relating to the funding of key national road projects.
- Negative public perceptions caused by factors, including anti-toll sentiments.
- The slow rate of transformation in the construction industry.
- The risk that SANRAL may not be able to maintain its going concern status.

The strategic risk progress report is monitored by the ARC and the Board tracks the progress and effectiveness of risk management by the business.

Internal Audit is risk-based and monitors the effectiveness of the risk management function.

Areas of future focus are determined annually during the Board risk workshop.

The annual governance, risk and compliance roadshow to all SANRAL's offices provides a reminder to employees about SANRAL's anti-fraud and corruption philosophy and its approach to risk management. The roadshow It is also an opportunity to highlight the new risks and recent failures in risk management in order to improve the response.

The Board is ultimately accountable for risk management and the ARC monitors risk management on an ongoing basis on behalf of the Board.

Technology and information governance

Principle 12: The accounting authority should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives.

ICT governance

Governance is a key predictor of value generated by ICT. The ICT Governance Steering Committee represents the interests of the Board in delivering sustainable and enabling services to the organisation. The committee is mandated to and accountable for governing ethical and effective management of SANRAL's information technology resources with which it aims to achieve strategic outcomes and create value for stakeholders.

Five-year ICT strategy

During 2018/19, the ICT department concluded the development of a five-year ICT strategy which was approved by the Board. The strategy aims to ensure that the ICT function enables the agency to achieve its strategic objectives as set out in Horizon 2030.

ICT has the potential not simply to make the business of SANRAL less laborious and more efficient – by automating many processes – but also to take the agency's work to a new level, thanks largely to the unprecedented data gathering, sharing and analysis potential and capabilities that ICT offers.

This strategy therefore outlines a role for ICT that is inherently strategic as well as operational and service-oriented.

The ICT strategy sets out a process to prepare SANRAL for emerging technology that is relevant to the organisation. In 2018 SANRAL embarked on major technology upgrades and these were at an advanced stage by March 2019. These upgrades included the following:

Description	Planning	Design	Procurement

National DWDM wide area network (WAN) which will service the following business areas and key projects:
• Corporate WAN
• Enterprise systems
  • Toll operations
  • Overload control
  • Freeway management system
	Done	Done	2019/20

SAP digital transformation	Done	Done	2019/20
Enterprise information management upgrade, support and maintenance	In progress	In progress	2019/20
Transversal agreement – printers upgrade	Done	Done	2019/20
Enterprise-wide toll solution	2019	2019	2019/20
Active directory self-services	Done	Done	Done
WiFi	Done	Done	Done
Additional video conference stations	Done	Done	Done
Internet capacity upgrade	Done	Done	Done
Office 365	Done	Done	Done
GFIP network refresh	Done	Done	Done
Telephony software and backend equipment upgrade (Avaya)	Done	Done	Done
Oracle and Microsoft database operating system upgrades	Done	Done	Done

Compliance governance

Principle 13: The accounting authority should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

Compliance is a non-negotiable part of SANRAL's collective character and is integral to every activity or operation of the organisation. The annual governance, risk and compliance roadshow to all employees informs staff of the importance of compliance in every function. A Compliance Policy has been adopted. It reiterates SANRAL's commitment to comply not only with legislation but also with codes, standards and best practice.

The identification of legislation is one of the processes to ensure compliance. Compliance with procurement legislation is closely monitored through SANRAL's Supply Chain Management Unit, which is required to convey and implement any legislative changes and/or manage challenges immediately in each SANRAL office.

A particular area of focus is compliance in relation to procurement. Strict adherence to SCM regulations is critical, as is the avoidance of any real or perceived conflict of interest.

There have been no regulatory penalties, sanctions or fines for non-compliance or contravention of statutory obligations by the Board or senior management since SANRAL was established.

Remuneration governance

Principle 14: The accounting authority should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

SANRAL's remuneration philosophy supports its business strategy, namely delivering value for South Africa in a responsible and sustainable manner.

The Remuneration Policy guides the determination of remuneration of employees. The policy is updated annually and approved by the Board, on the recommendation of the SETC. It is also tabled and approved at the shareholder meeting, most recently on 12 October 2018.

The purpose of the SANRAL Remuneration Policy and implementation strategy is to attract, retain, motivate and reward high-performing employees who constructively contribute to the achievement of SANRAL's objectives.

On an annual basis, SANRAL engages the services of a specialist service provider, with a unique combination of technical capabilities, market intelligence and analytics. The service provider's role is to help SANRAL with a range of emerging reward issues, including: senior executive rewards and governance, tax and regulatory compliance, a "total" reward strategy and analytics, competitive benchmarking and the development of reward structures, and incentive design and linkage to performance management. The SETC was satisfied with the independence of the service provider.

The annual research undertaken by the service provider provides information on comparator groupings in the industry and the state-owned environment which allows SANRAL to develop market-related remuneration scales for all employee grades. Salary adjustments must always be within the limits approved by the Board. Executive remuneration is determined and approved by the CEO and is influenced by the organisation's performance as well as movement in the external environment. Annual adjustments to SANRAL salary scales assist in the determination of remuneration packages which are needed to attract, retain and motivate effective employees and specialist staff.

The remuneration adjustment for each employee is based on the individual performance rating agreed to by line managers and employees at the conclusion of the annual review cycle. Performance targets are agreed through a performance contract with each employee at the start of a financial year and appraisals are done twice a year. This rating, combined with performance ratings for each region, focus group and SANRAL's organisational performance score, form the basis of the short-term incentive calculation. These incentive calculations are audited prior to payment. The short-term incentive scheme is fully performance-based.

The Minister annually approves the scale of remuneration for the Chairperson and the members of the Board. The Board is then remunerated at a daily rate for every day spent on SANRAL business.

The remuneration of the Board and senior management is published in the Integrated Report.

Components of remuneration

SANRAL has two components of remuneration:

- Total cost to company, which is a guaranteed-package (including benefits).
- Short-term incentives in the form of its STI scheme.

The details of these two components are outlined below:

Total cost to company guaranteed package

The guaranteed package is the total annual guaranteed cost to a company of employing an individual.

The guaranteed package includes components such as cash salary, travel allowance and the company's contributions towards retirement funding and the medical scheme. All guaranteed benefits are funded from the total guaranteed package.

Retirement funding contributions range from 20.5% to 27.5% of the pensionable emolument and the key features of the retirement fund are as follows:

- Retirement savings component with member investment options and a trustee default option.
- Insured death and disability.
- Preservation options when exiting the fund.

Membership of a medical scheme and contributions for employees are funded from their total guaranteed package. All employees are eligible for membership of the Discovery Health Medical Scheme, and employees can choose any option available on the scheme annually. These options aim to accommodate the different healthcare needs and levels of affordability of all employees.

Under specific circumstances, SANRAL also offers employees post-retirement medical benefits. Details in this regard are disclosed in the annual financial statements.

Only employees who are required to travel for business purposes receive travel allowances, which are funded from their total guaranteed packages.

Guaranteed packages are benchmarked against the 50th percentile of the market for comparable companies utilising independent salary surveys. SANRAL currently uses the PwC REM channel's national survey, engineering circle and state-owned data for the annual salary surveys.

The Board approves the increase percentage on total guaranteed packages for the organisation on an annual basis. Adjustments to total guaranteed packages depend upon the employee's salary grade, average performance, overall percentage granted to the employee's respective grade and his/her overall performance. The CEO, who attends all committee meetings by invitation, can propose increases to the guaranteed remuneration packages, excluding his own, during such review meetings.

SANRAL is committed to the principle of fair and responsible remuneration for the whole company. Actions in this regard include:

- Assessment of remuneration conditions among employees at the same level, in accordance with the principle of "equal pay for work of equal value", to identify and address any unjustifiable remuneration disparities.
- Initiatives to invest in its people, including: talent management, development opportunities for all employees, various training courses as per identified needs, and an employee value proposition aligned with corporate values and culture.

Variable pay: short-term incentive scheme

Employees are eligible for variable pay in the form of a short-term incentive scheme (STIS) bonus in accordance with the approved STIS rules. The organisation-wide STIS:

- Gives concrete support to organisational objectives and operates according to objective and transparent rules.
- Is measurable and ties in with the performance management process.
- Has the "buy-in" of the majority of participants.
- Is consistent in that rules are respected and applied consistently.
- Is clearly defined in terms of rules and quantum and is part of the annual budgeting cycle.
- Attracts, retains and motivates employees.
- Drives organisational strategy, specifically in the areas of cash flows and employment equity.
- Embeds an entrepreneurial spirit.
- Changes the focus from process to outputs.
- Aligns employee behaviour with shareholder expectations.
- Has pay-outs which are meaningful and address the issue of SANRAL remuneration lagging behind the market with respect to bonuses.

Grades A-G are eligible and performance criteria are summarised in the SANRAL Annual Performance Plan. STI bonuses are only be paid out after the AGSA has signed off the SANRAL financial statements, normally in September.

Employees who are under investigation or have pending disciplinary action are not eligible for a performance bonus. Only after the finalisation of the investigation and/or disciplinary action proceedings will the performance bonus pay-out be considered and a retrospective payment may be made (with the addition of interest).

The payment is driven by performance and the particular performance measures (company, team and/or individual) vary in accordance with the grading of the individual and his/her particular influence and line of sight.

The STI is calculated using the annual guaranteed pay x STI % x performance score. The STIS percentage (%) is targeted at the median of the market. These amounts are capped at twice the market median for any given financial year.

SANRAL employees earn guaranteed pay for doing what is expected and should only earn variable pay such as STIS bonuses for exceeding performance expectations. The performance thresholds at each level were:

- SANRAL – 100%. If not achieved, can still score on other three levels.
- Region – 100%. If not achieved, can still score on other three levels.
- Cluster – 100%. If not achieved, can still score on other three levels.
- Individuals – exceed "meets requirements" rating in performance management. If basic objectives of the role are not achieved, individuals will not benefit from the STI for that financial year. It is therefore critical that each individual's objectives must be formalised in a performance agreement and communicated on time.

In the event of resignation before financial year-end or dismissal for just cause, all STI will be forfeited.

SANRAL's Internal Auditors review the calculations done for the STI bonus, prior to payment.

The responsibility of monitoring the implementation of the policy rests with the SETC which ensures:
- The remuneration policy and system are appropriate for the achievement of business objectives.
- Interests of all stakeholders are aligned.
- The entity adheres to good corporate governance practice and all applicable regulations.

The setting of remuneration of the CEO is the responsibility of the Board. The CEO's remuneration adjustment must be approved by the Minister of Transport with the concurrence of the Minister of Finance.

Executive employment contracts
All employees other than the CEO have permanent contracts and are employed in terms of the company's standard contract of employment. The notice period for termination of service ranges from one to three months and the normal retirement age is 65 years.

Upon termination of employment, any payments made to employees will be as required in terms of legislation. The payment of the STI will be governed by the rules of the STI scheme based on the reasons for the termination of employment.

Assurance
Principle 15: The accounting authority should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.
Internal Audit has confirmed to the ARC that, for 2018/19, there was no material breakdown in the functioning of the systems, procedures and controls, which could lead to material losses, contingencies or uncertainties or require disclosure in the financial statements. Any control deficiencies identified by the internal and external auditors were brought to the attention of the ARC and management implemented corrective action. Where internal controls did not operate effectively throughout the year, compensating controls or corrective action or both were used to eliminate or reduce risks.

With regard to this Integrated Report, the internal and the external audit (AGSA) are key assurers of the financial statements and performance reports. Management provides assurance for the veracity of the other sections of the report. Project-specific information is often vetted by project consultants, project managers and management. The Board is satisfied with the integrity of the information provided in the Integrated Report 2019. Please also refer to the Report of the Audit and Risk Committee's on page 33 - 35.

1.5 Stakeholder relationships

Stakeholders
Principle 16: In the execution of its governance role and responsibilities, the accounting authority should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.
Stakeholder engagement is at the heart of SANRAL's operations. Stakeholders across the spectrum of SANRAL's activities are brought into the mainstream through pro-active, constructive and ongoing communication.

Effective engagement with key stakeholders requires an understanding of their needs, expectations, interests and motivations.

SANRAL's success in the reporting period is reflected in the number and nature of engagements undertaken, particularly at project flashpoints and in implementing its Transformation Policy. Engagements included interactions with local and district municipalities, chambers of commerce and information sessions with communities affected by SANRAL's projects.

Significant strides were made in taking the Transformation Policy from paper to implementation through a number of Memoranda of Understanding agreed to with major industry players such as Bell Equipment, Barloworld, Wirtgen Group South Africa and the National African Federated Building Industry (Nafbi). The aim of these MoUs are to assist SMMEs to get access to construction equipment, financing, training, information and mentoring which will enable them to participate more fully in SANRAL projects.

Adherence to good governance is also required of SANRAL's concession holders. In January 2019 an MoU was signed between the eMakhazeni Local Municipality, TRAC and the WBHO/Motheo construction joint venture to facilitate the ending

of a work stoppage and ensure local communities benefit from such projects.

Stakeholder engagements spanned the spectrum from national to community level. In October 2018, the Minister of Transport, opened the Mount Edgecombe interchange on the N2 north of Durban, which was constructed through combined funding by the province, the metro and SANRAL. The Deputy Minister of Transport reached out to stakeholders in Manguzi, KwaZulu-Natal, and Oshoek, Mpumalanga to raise awareness about economic opportunities through SANRAL, and also to drive home the importance of road safety.

Communities were reached through SANRAL's flagship stakeholder outreach programme: Taking SANRAL to the People. More than 40 engagements were held with various municipalities during the reporting period.

There are instances where extensive engagements to resolve issues are still in progress. An example of this relates to work on the Mtentu Bridge as part of the N2 Wild Coast road project which was suspended in October 2018 due to community protests. The Political Oversight Committee chaired by the Eastern Cape Transport, Safety and Liaison MEC led negotiations with all affected stakeholders to find a solution to the issues. After protracted negotiations with the community, the petitioners and other local stakeholders, it was resolved that progress on the bridge construction could resume unhindered from mid-January 2019. The contractor has since abandoned the site and work remains suspended.

However, stakeholder liaison will continue on the N2 Wild Coast road project where SANRAL works extensively with the communities and other key stakeholders in the area. Several structures were put in place to liaise with communities and stakeholders at various levels. These include project liaison committees, quarterly stakeholder forums, project specific community meetings and an overarching Political Oversight Committee.

2. Corporate Performance Information

Programme 1 – Strategic objective 1: Manage the national road network effectively and efficiently

Performance indicator		Reporting period	Actual 2017/18	Annual Target 2018/19	Achieved 2018/19	Variance	Comments
1.1	Smooth travel exposure (STE)	Quarterly	96.73%	≥ 95%	96.43%	+1.43%	Latest updated condition data combined with traffic data used. The performance exposure measures change year on year. The statistics capture the effect of maintenance on the network and their impact in improving the road users' experience. As such, there are many factors that can influence the results. Factors that improve performance are the impact in improved road conditions due to maintenance and the effectiveness thereof. Deterioration of the infrastructure will lead to a decrease in the score. The rate of deterioration can be affected by temperature, rainfall and other environmental effects, amount of traffic on the road and the distribution of the traffic between heavy vehicles and passenger vehicles, and particularly the number of overloaded vehicles. Due to the nature of the infrastructure deterioration, such deterioration will not be immediately apparent but will accelerate over time if maintenance is not done.Therefore, the work conducted in previous years will continue to have a positive effect in subsequent years. Finally, the statistic will also be affected by continuing changes in traffic volumes and the distribution of this traffic across the network.
1.2	Low rut exposure (LRE)	Quarterly	99.47%	≥ 95%	99.46%	+4.46%	
1.3	High texture exposure (HTE)	Quarterly	99.22%	≥ 95%	99.11%	+4.11%	
1.4	Bridge condition exposure (BCE)	Quarterly	92.81%	≥ 90%	92.93%	+2.93%	

							(Refer also to the 2019 Integrated Report Volume 1 Section 2: Capitals and Performance.)
1.5	Routine maintenance (km)	Quarterly	22 214km	22 214km	22 214km	0%	Latest network proclamations and survey data used
1.6	Network resurfaced (km)	Annual	1 631km	1 200km	490km	-59.16%	Delayed contract implementation
1.7	Roads strengthened, improved and newly built (CAPEX) km	Annual	601km	400km	430km	+7.5%	More work performed on current projects than anticipated which were still in construction
1.8	SIP-1 annual maintenance of N1, N4, R33, R510, R511 and R520 to Lephalale (km) and R573 to Moloto	Annual	885km	885km	885km	0%	Active routine road maintenance on all routes
1.9	SIP-4 annual maintenance of national roads in North West (km)	Annual	2 598km	2 598km	2 598km	0%	Active routine road maintenance on all routes
1.10	Traffic information collection and dissemination of information on freeway management system (FMS) network	Annual	Agreement for traffic monitoring in place with Tolcon	Establish centre-to-centre links with two additional strategic stakeholders	New link with City of Cape Town: Traffic Services	-50%	One of the agreements was signed after the financial year-end resulting in the underperformance

Note 1.5: The length of the SANRAL road network may be changed (increased or decreased) during a financial year by means of declaration notices gazetted by the Minister of Transport. The impact of additions or reductions will be reflected in quarterly targets and performance.
Note 1.5, 1.6 and 1.7: As in SANRAL roadworks classification document and under construction.
Note 1.10: Collection and dissemination of information on 100% of FMS network continues. Strategic stakeholders that SANRAL interacts with include: SAPS, eThekwini Transport Authority, N3TC, ACSA, metro police, and fire, disaster management and emergency services. All these can impact directly on improving operations and coordination of services.

Note: In August 2018, National Treasury approved the un-earmarking of R5.75bn from the non-toll portfolio to the toll portfolio. Since these funds are spent purely on financing costs it resulted in a 27% reduction on expenditure in the construction of road infrastructure. In turn, this resulted in a material underperformance for various KPIs that includes resurfacing (KPI 1.6) and job creation (KPI 3.3). In addition, the delays experienced with the clarification of National Treasury's Supply Chain reform processes related to the PPPFA also adversely affected the appointment of service providers for new projects.

Programme 2 – Strategic objective 2: Provide safe roads

Performance indicator		Reporting period	Actual 2017/18	Annual Target 2018/19	Achieved 2018/19	Variance	Comments
2.1	Identify, investigate and propose remedial measures for 12 locations hazardous to pedestrians	Quarterly	12 hazardous locations identified and investigated, and remedial measures proposed	Identify, investigate and propose remedial measures at 12 locations hazardous to pedestrians	12 locations hazardous to pedestrians identified and investigated. Remedial measures proposed	0%	Emphasis on road safety projects
2.2	Conduct Road Safety audits on at least 8 projects	Quarterly	8 road safety audits completed	8 road safety audits to be completed	10 road safety audits completed	+25%	Emphasis on road safety audits at project design stage
2.3	Road safety education and awareness programmes at selected educational sites in a 5km radius of the national network and linked to SANRAL construction projects	Semi-annual	25 sites	15 sites	39 sites	+160%	Additional sites identified through SANRAL's routine road maintenance programme

Programme 3 – Strategic objective 3: Carry out Government's targeted programmes

Performance indicator		Reporting period	Actual 2017/18	Annual Target 2018/19	Achieved 2018/19	Variance	Comments
3.1	Percentage of routine road maintenance (RRM) expenditure performed by black-owned SMMEs and contractors (based on black ownership of main contractor)	Quarterly	75%	>67.5%	73.6%	+6.1%	Progress due to SANRAL's focus on transformation and improved BEE ownership credentials of main contractors
3.2	Percentage of non-RRM expenditure performed by black-owned SMMEs and contractors (based on black ownership of main contractor)	Quarterly	48.8%	>37.5%	57.1%	+19.6%	Progress due to SANRAL's focus on transformation and improved BEE ownership credentials of main contractors

3.3	Jobs created on projects (full-time)	Quarterly	15 299 Male = 75.9% Female = 24.1% Youth = 56.8%	17 000	12 913 Male = 74.6% Female = 25.4% Youth = 55.23%	-24.04%	Non-toll budget allocation for projects for 2018/19 reduced by R5.75bn due to GFIP transfer, resulting in less projects
3.4	Number of SMMEs working for SANRAL	Quarterly	1 886	1 800	2 449	+36.05%	Increased community participation goals stipulated in SANRAL tenders
3.5	Number of internships (practical experience for under-graduate studies)	Quarterly	198	200	165 Female = 38% Number of learners per region: ER: 58 SR: 44 WR: 22 NR: 41	-17.5%	Due to the delay in the approval of pro-formas for all regions, there was a general challenge with a shortage of sites to allocate students due to no construction tenders being released/awarded
3.6	Number of external bursaries for tertiary study	Quarterly	161	135	151 Female = 27.8% Male = 72.2%	+11.85%	One of the goals of the 2018/19 intake was to increase the candidates that meet targets as set out in SANRAL's Employment Equity Plan, therefore further support for learners that will represent SA population was made
3.7	Number of scholarships	Quarterly	203	220	220 Female = 64.09% Male = 35.91%	0%	Emphasis was on identifying applicants that meet the minimum requirements for entry to the programme
3.8	Employment Equity Plan (EE Plan)	Annual	EE Plan completed and 100.38% of the annual target achieved	Annual targets as per 2017 – 2020 EE Plan submitted to Dept of Labour	105% of annual targets	+5%	Assisted by accelerated employee intake

3.9	Community development infrastructure projects	Annual	29	12 projects in construction	17 projects in construction	+41.6%	Construction of some projects continued from previous year and new construction where the design phase was completed

Note 3.1 and 3.2: As in SANRAL roadworks classification.
Note 3.1, 3.2 and 3.3: Beneficiary data is based on unskilled and semi-skilled. There may be cases where skilled is included.
Note 3.3: Refers to full time equivalent.
Note 3.4: The number includes SMMEs counted more than once when providing services on different project types (routine maintenance, special maintenance, strengthening, toll and non-toll projects). The total number of unique SMMEs is 2 003.
Note 3.8: EE Plan Cycle Oct 2017 to September 2020. Additional information was requested by Department of Labour which was subsequently resubmitted.
Note 3.9: Includes all community development projects in construction and completed during the financial year. Eight projects of the 17 were completed during the year.

Summary breakdown of SMME by category and number

Category	Number (Instances)
Black EME	1 260
Black QSE	224
White EME	225
White QSE	43
Non-Compliant	251
Total	**2 003**

*Exempted micro-enterprises which are entities with an annual turnover of R10m or less.
** Qualifying small enterprises which have an annual turnover of between R10m and R50m

Programme 4 – Strategic objective 4: Co-operative working relationships with all spheres of government and SADC member countries

Performance indicator		Reporting period	Actual 2017/18	Annual Target 2018/19	Achieved 2018/19	Variance	Comments
4.1	Minimum of two meetings of each COTO sub-committee chaired by SANRAL	Annual	2	2 meetings	2 meetings per year	0%	Required meetings held as scheduled
4.2	Revision of TRH/TMH guidelines by COTO sub-committees and submission to COTO for approval	Annual	0 (delayed by SANAS test procedure finalisation and approval)	TRH3 and TRH4	0	-100%	Delayed due to dependence on finalisation of SARDS software
4.3	Revision of COTO standard specifications for road and bridge works	Annual					Closed
4.4	Construction of bridge on Notwane River at Botswana border	Annual					Closed
4.5	Sittings of National Technical Committee for RIMS and submission of annual report to COTO	Quarterly	4 IMS reports produced for COTO	4 sittings Submission of annual report	4 sittings Submission of annual report	0%	Required sittings held as scheduled and annual report submitted to COTO

Programme 5 – Strategic objective 5: Maintain good governance practice

Performance indicator		Reporting period	Actual 2017/18	Annual Target 2018/19	Achieved 2018/19	Variance	Comments
5.1	Investigation of reports to the fraud hotline	Quarterly	All reported incidents were investigated. Most were finalised	Reported incidents to be investigated and appropriate action taken	86 alleged fraud incidents reported 77 closed 2 in progress 7 pending. Only 17 of the 86 reported incidents were fraud related. The rest were non-fraudulent matters reported via the fraud hotline	-8.13%	There was a spike in incidents reported in 2018/19 leading to a small number of pending matters. There are ongoing efforts to prevent and reduce fraudulent and corrupt activity

Programme 6 – Strategic objective 6: Maintain financial sustainability

Performance indicator		Reporting period	Actual 2017/18	Annual Target 2018/19	Achieved 2018/19	Variance	Comments
6.1	Private Sector Investment Index (PSII)	Quarterly	26.36%	> 20%	26.25%	+6.25%	Reduced expenditure on non-toll projects due to community action and delays in project roll-out
6.2	Expenditure Efficiency Index (EEI)	Quarterly	7%	< 10%	5.11%	+4.89%	Emphasis on effort to reduce overheads

Programme 7 – Strategic objective 7: Pursue research, innovation and best practice

Performance indicator		Reporting period	Actual 2017/18	Annual Target 2018/19	Achieved 2018/19	Variance	Comments
7.1	Development and testing of the SARDS (SA Road Design Software) portal (% complete)	Annual	90%	100%	93%	-7%	Delays in required tendering processes, delivery of specialised hardware by the Original Equipment Manufacturer (OEM) to supply the required hardware for complex processing

							Pilot hardware required subject to legal vetting of the loan agreements before delivery
7.2	Number of training courses presented on SARDS and users certified	Annual	0 courses	1 course	0 courses	-100%	Delays in required tendering processes, delivery of specialised hardware by the Original Equipment Manufacturer (OEM) to supply the required hardware for complex processing. Pilot hardware required subject to legal vetting of the loan agreements before delivery
7.3	Three-year longitudinal study to determine knowledge and behaviour of road users in selected areas	Annual	Research completed and used to develop materials for learners. Grades R - 3 content development completed, and stakeholder meetings and workshops with specialists continued until end June 2018. Grades 4 - 6 completed and in test and consultation phase	Start new three-year study on road safety knowledge and behaviour of preschool children and parents	RFI process to procure researchers finalised. Workshop to finalise the research proposal to take place in May 2019, with field work scheduled to start in August 2019	0%	On target

Programme 8 – Strategic objective 8: Safeguard SANRAL's reputation

Performance indicator		Reporting period	Actual 2017/18	Annual Target 2018/19	Achieved 2018/19	Variance	Comments
8.1	Promote awareness of SANRAL's mandate and its contribution to society	Quarterly	An average of 21 positive stories a month in various media	At least 12 positive news items a month in national/ regional print, broadcast or online media	An average of 37 positive stories a month in various media	+208.33%	Online and digital media are dynamic and allow for more positive stories to be profiled

8.2	Number of external publications produced	Semi-annual	Six issues published	Publication of at least 8 editions/issues on content relating to SANRAL	18 publications published during the year	+125%	Publication volume increased due to having a dedicated publications manager
8.3	Number of stakeholder engagement events	Semi-annual	62 round table discussions/ stakeholder events	12 round table discussions with stakeholders	39 round table discussions or other stakeholder events	+225%	The target was exceeded because there was a dedicated team to manage stakeholder activities

Programme 9 – Strategic objective 9: Pursue and maintain environmental sustainability and best practice

Performance indicator		Reporting period	Actual 2017/18	Annual Target 2018/19	Achieved 2018/19	Variance	Comments
9.1	Undertake at least six environmental authorisations in-house for the 3-year period (10 over the 5-year period), and submitted for external review and/or decision	Annual	4 authorisations undertaken in-house and decisions received: Durban Metropolitan Open Space System (D'MOSS); Tree permit in terms of the National Forestry Act, 1998; Biodiversity permit in terms of the Northern Cape Nature Conservation Act, 2009; and appeal process against P166 environmental authorisation – new authorisation in terms of the National Environmental Management Act, 1998	2 authorisations undertaken and submitted	5 authorisations received: 4 permits from Dept of Agriculture and Forestry • N2 Nanaga to King William's Town • N10 Nanaga to Middleton • R72 from Nanaga to East London • R335, 336, 342 Motherwell to Addo; Addo to R75 and Addo to Patterson 1 appeal decision from Dept of Environmental Affairs (DEA) for the N11 between R101 and R501	+125%	Environmental team strove to match 2017/18 achievement. Additional opportunities arose in the form of two appeals against DEA decisions, but only one was decided in the reporting period

Note 9.1: Undertake environmental applications is placed under Strategic Objective 9: Pursue and maintain environmental sustainability and best practice.

3. Report of the Audit and Risk Committee

In compliance with Treasury Regulation 27(1) of the Public Finance Management Act of 1999 (PFMA), as amended, the Audit and Risk Committee (ARC) reports as follows for the financial year ended 31 March 2019:

3.1 Audit and Risk Committee members and meetings

The ARC consisted of three independent non-executive directors. During the reporting year, five meetings were held. The Chief Executive Officer, Chief Financial Officer, Corporate Services Executive, Chief Audit Executive, Chief Risk Officer, ICT Manager, Internal Audit, the Company Secretariat and External Auditors attended meetings by invitation.

The Committee members were as follows until 31 August 2018:

Dr Allyson Lawless	Chairperson (Independent non-executive Board member)
Ms Daphne Mashile-Nkosi	Member (Independent non-executive Board member
Mr Matete Matete	Member (Independent non-executive Board member)

The Committee was assisted by Mr Akhter Moosa as an independent advisor and Mhleli Nkukwana as an IT governance advisor. They served until 31 August 2018.

The Minister appointed a new Board effective 1 September 2018, following which the ARC was reconstituted by the Board with the following members:

Mr Robert Haswell	Chairperson (Independent non-executive Board member)
Mr Thamsanqa Matosa	Member (Independent non-executive Board member
Ms Nkareng Mpobane	Member (Independent non-executive Board member)

Ms Mpobane resigned from the Board on 2 November 2018 and was replaced on the ARC by Ms Lungile Madlala as a member (Independent, non-executive Board member).

3.2 Responsibilities of the ARC

The ARC is constituted in terms of the Companies Act, No 71 of 2008, as amended, as a statutory Board committee. The ARC has adopted the Audit and Risk Committee Charter, which has been confirmed by the Board. The charter sets out the mandate of the committee.

During the reporting year the ARC conducted its affairs with integrity, impartiality and objectivity. It complied with its roles and responsibilities as stated in the act and its charter.

In executing its duties during the reporting period, the ARC:

- Reviewed and considered the Integrated Report and Financial Statements.
- Monitored and supervised the effective operation of the internal control and internal audit functions.
- Oversaw the external audit process and the review of the report of the Auditor-General.
- Ensured that an effective, efficient and transparent system of risk management was maintained.
- Fulfilled an oversight role, ensuring compliance with laws and regulations, by reviewing reports from Internal and External Audit and the internal risk function.
- Assisted the Board in carrying out its IT governance responsibilities.
- Assisted the Board with the following:
  - Reviewing the strategic plan and annual performance plan prior to Board approval.
  - Reviewing the annual budget prior to Board approval.
  - Reviewing the summary of public liability claims and other legal actions prior to Board approval.
  - Considering the concerns raised with regard to SANRAL's going concern status as a result of the low collection of tolls on GFIP and proposing actions to the Board to mitigate this risk.
  - Performing such other oversight functions as were determined by the Board.

3.3 Adequacy of internal controls

SANRAL's system of internal control is designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital are efficiently managed.

The ARC is pleased to report that nothing came to its attention suggesting that any material breakdown had occurred in the functioning of the systems, procedures and controls that could lead to material losses, contingencies or uncertainties that would require disclosure in the financial statements.
Any control deficiencies identified by the internal and external auditors were brought to the attention of the committee and management implemented corrective action. Where internal controls did not operate effectively throughout the year, compensating controls or corrective action or both were used to eliminate or reduce risks.

For GFIP, a specific risk-realisation process concluded that no material errors or breaches materialised as a result of the control weaknesses identified. Additional substantive tests were performed to ensure that reported financial results were materially accurate.

The committee has further reviewed the written assessment from Internal Audit on the design, implementation and effectiveness of the internal financial controls. Based on the results of this review, the committee is of the opinion that the internal financial controls form a sound basis for the preparation of reliable financial statements.

3.4 Internal audit

The internal audit function was outsourced for 11 months during 2018/19. The appointed service provider for three years, from 1 March 2016 to 29 February 2019, was Business Innovation Group (BIG). The committee has considered and reviewed the performance of the service provider on a continuous basis and has also been kept informed by the Chief Audit Executive.

The in-house Internal Audit team has been appointed as per the approved structure, by the committee. The Chief Audit Executive has reported functionally to the ARC and administratively to the CEO since appointment. In the last month of the financial year, the in-house team completed the internal audit plan.

The ARC reviewed and amended the Internal Audit Charter, which stipulates the terms of reference for the Internal Audit function. The Internal Audit function's annual operational and three-year-plans were considered and approved by the ARC. All internal audit work performed, internal audit reports and progress reports were reviewed by the ARC on a quarterly basis.

The Internal Audit function also participated as observers in SANRAL's Risk Cluster which has the role of identifying and assessing risks.

3.5 Expertise and effectiveness of Chief Financial Officer and finance function

The ARC examines and reviews the competence of the CFO and the Finance function annually. It is satisfied that the CFO and the Finance function have the appropriate expertise and experience. It further considered and satisfied itself of the overall appropriateness of the expertise and adequacy of resources of the finance function.

Accordingly, the committee considered the CFO and the finance function to be sufficiently effective to:

- Ensure and maintain effective, efficient and transparent systems of financial and risk management and internal control.
- Manage available working capital efficiently and economically.
- Manage and safeguard the assets of the agency and manage its revenue, expenditure and liabilities.
- Comply with any tax, levy, duty, pension and audit commitments as required by legislation.

3.6 Evaluation of annual financial statements

The committee has:

- Reviewed and discussed with the Auditor-General and the Board of Directors the audited financial statements to be included in the report.
- Reviewed the Auditor-General's management and audit reports.
- Reviewed changes in accounting policies and practices.
- Reviewed significant adjustments resulting from the audit.
- Reviewed the Integrated Report and recommended it to the Board for approval.

The ARC concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited financial statements be accepted and read together with the report of the Auditor-General.

3.7 Risk management

The ARC has oversight of fraud and information technology risks. The committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud and information technology risks as they relate to financial reporting.

3.8 Going concern

The committee assessed the going concern premise of SANRAL, for the foreseeable future, and confirms this status to the Board.

Rob Haswell
On behalf of the Audit and Risk Committee as at 31 March 2019
Date: 21 May 2019

SECTION FOUR

4

Section 4: Annual Financial Statements

1. Report of the auditor-general to parliament on the South African National Roads Agency (SOC) Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

1. I have audited the financial statements of the South African National Roads Agency (SOC) Ltd (SANRAL) set out on pages 56 to 160, which comprise the statement of financial position as at 31 March 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of SANRAL as at 31 March 2019, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Public Finance Management Act of South Africa, 1999 (Act no. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act no. 71 of 2008) (Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

4. I am independent of the public entity in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes), and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified audit opinion.

Key audit matters

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on these matters.

Key audit matters	How the matter was addressed in the audit
Revaluation of road network and road structures	
SANRAL applies the depreciated replacement method in the revaluation of road network and road structures. The carrying value of the combined road network and road structures was R356,7 billion and the fair value adjustment recorded in other comprehensive income for the combined road network and road structures is R22,2 billion.	I assessed the design and the operating effectiveness of internal controls relating to the revaluation of road network and road structures. I performed the following audit procedures to confirm the validity, accuracy and completeness of the data used to perform the valuation: • Input data was compared to the ITIS (Road Network Survey) system for completeness; • manual uploading of data from the ITIS system to the financial records was verified for accuracy and completeness; • verified control totals of values in the financial records through reconciliation and compared to values in ITIS system.

Inputs applied in the revaluation of road network and road structures include amongst others: • Age of the road network and road structure; • overall condition index; and • material unit rates. The disclosure relating to revaluation of road network and road structures is set out the following notes: • note 1.2 - significant judgements and sources of estimation uncertainty • note 4 - property, plant and equipment under concession • note 5 - property, plant and equipment • note 13 - revaluation reserve • note 42 - fair value information Due to the significance of the value of the road network and road structures to the financial statements as a whole, combined with the judgement and assumptions associated with determining the fair value, I considered this to be a key audit matter in my audit.	I assessed the appropriateness of the subsequent measurement basis against the requirements of the International Accounting Standard 16 (IAS 16) – *Property, plant and equipment* and International Financial Reporting Standard 13 (IFRS 13) - *Fair value measurement.* I engaged an auditor's expert to assess the appropriateness and reasonableness of management's judgements to determine the value of road network and road structures. Before I placed reliance on the work of an auditors' expert, I satisfied myself with its independence, objectivity and competency in line with the requirements of ISA 620. The procedures performed by the expert included: • evaluating the appropriateness and reasonableness of the revaluation method • and parameters applied; • assessing the appropriateness of the valuation method against international standards on valuation; • performing a visual inspection of a sample of road network and road structures to gauge the represented accuracy of the depreciated replacement cost; • assessing the reasonableness of the material unit rates to market data and entity-specific information to confirm the appropriateness of these judgements; • assessing the reasonability of the adjustment rate applied in computing the asset replacement value unit rate; and • re-computing the revaluation calculation. I reviewed the work performed by the auditor's expert to confirm that the conclusion reached was in line with the work performed and my understanding of the auditee. I further considered whether the disclosures related to road network and road structures in the annual financial statements are appropriate. Based on the procedures performed I am satisfied that the revaluation of road network and road structures is appropriate, reasonable, is fairly valued and appropriately disclosed in the annual financial statements.
Expected credit losses on e-toll trade and other receivables	
SANRAL adopted IFRS 9 *Financial instruments* with effect from 1 April 2018. This standard replaces the requirements of IAS 39 – *Financial instruments – recognition and measurement.* IFRS 9 introduced a new impairment model. The public entity measures the loss allowance for trade and other receivables by applying the simplified approach prescribed by IFRS 9. The value for expected credit losses on e-toll trade and other receivables was R10,04 billion on 31 March 2019. The disclosure relating to expected credit losses is set out in the following notes: • note 1.2 - significant judgements and sources of estimation uncertainty	My audit procedures included the assessment of the appropriateness and the reasonableness of the expected credit losses for the e-toll trade and other receivables. These audit procedures included the following: • assessing the design and testing the operating effectiveness of controls related to trade and other receivables; • evaluating the appropriateness and reasonableness of key assumptions and judgements such as the default rate by comparing these to historical data; • I evaluated the change in accounting policy and satisfied myself that it was consistent with the requirements of the standard; • I also considered the appropriateness of forward looking factors (macroeconomic) used to determine ECL; • testing the accuracy and completeness of the underlying data used in the model and the arithmetic accuracy of the computation of ECL; • applying computer assisted audit techniques (CAATs) to confirm the completeness of transactions from a gantry pass to when a transaction is recognised in the financial records of SANRAL; • I further considered the adequacy of the disclosure of the key sources of estimation of uncertainty in the accounting policy; and. • assessing the appropriateness of transitional disclosures to ensure that they are consistent with the requirements of IFRS 9. Based on the procedures performed above, I was satisfied that the expected credit losses on e-toll trade and other receivables were reasonable, in line with my expectation and appropriately disclosed.

• note 9 - Trade and other receivables • note 41 - financial instruments and risk management The assessment and calculation of expected credit losses (ECL) require management to make significant estimations and use of significant judgements. Due to the subjectivity of the estimations and judgement, I considered the calculation of ECL for e-toll trade and other receivables to be a key audit matter.	
E-toll revenue	
SANRAL adopted IFRS 15 *Revenue from contracts with customers* with effect from 1 April 2018. This standard replaces the requirements of IAS 18 – *Revenue – recognition and measurement*. IFRS 15 introduced a more specific requirement for the probability assessment which now requires the public entity to consider both the ability and intention of customers to pay the consideration due. The probability assessment on e-toll revenue is a matter that requires significant judgement. Furthermore, there is a high degree of complexity involved in the application of the IFRS 15 to determine whether a contract exists with a road user before revenue is recognised. The amount of e-toll revenue recognised in the current year is R687,7 million as disclosed in note 24. The disclosure relating to e-toll revenue is set out in the following notes: • note 1.2 - significant judgements and sources of estimation uncertainty; and • note 24 – revenue. Based on the above, I considered the accounting of revenue from Gauteng Open Road Tolling revenue in terms of IFRS 15 to be a key audit matter.	My audit procedures included assessing the design and testing the operating effectiveness of controls related to Gauteng Open Road Tolling revenue and performing substantive procedures including: • reviewing SANRAL's accounting policy to confirm that it is consistent with the requirements of IFRS 15; • reviewing and discussing the entity's accounting policy to confirm whether the method for recognition of revenue is relevant and consistent with IFRS 15; • evaluating management's assessment of probability of collecting e-toll revenue, taking into account historic cash flows and account status of road users to confirm the reasonability of management's assumption; • testing the reasonableness of management's assumptions of the probability to collect e-toll revenue; • evaluating management's disclosure for revenue to confirm that it is in accordance with IFRS 15; • reviewing the disclosure of significant judgements and sources of estimation of uncertainty in line with the requirements of the standard; • re-computing the amount of revenue recognised; • I applied CAATs to confirm the accuracy of the categories and account status of road users applied in management's probability assessment; and • I applied CAATs to the confirm completeness of transactions from a gantry pass to when a transaction is recognised in the financial records of SANRAL. Based on the results of work performed, I was satisfied that e-toll revenue is recognised and accounted for in line with the requirements of IFRS 15 and appropriately disclosed in the annual financial statements.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material uncertainty relating to going concern

8. As disclosed in note 46 to the financial statements, the public entity's funding strategy for the next 12 months relating to toll operations is dependent on positive developments to resolve the e-toll impasse and the public entity raising funding either from government grants or further borrowings. These events or conditions, along with other matters as set forth in note 46, indicate that a material uncertainty exists that may cast significant doubt on the public entity's ability to continue as a going concern.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments – trade and other receivables

10. As disclosed in note 9 to the financial statements, material impairments of R10.32 billion were recognised as a result of expected credit losses. A total of R10.04 billion of this impairment relates to the impairment of e-toll trade and other receivables.

Irregular expenditure

11. As disclosed in note 45 to the financial statements, irregular expenditure of R419.19 million was incurred in the current year, due to non-compliance with prescribed procurement prescripts.

Responsibilities of the accounting authority for the financial statements

12. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the PFMA and the Companies Act and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

13. In preparing the financial statements, the accounting authority is responsible for assessing SANRAL's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

17. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2019:

Objectives	Pages in the annual performance report
Objective 1 – Manage the national road network effectively and efficiently	26 - 27
Objective 2 – Provide safe roads	28
Objective 3 – Carry out government's targeted programmes	28 - 30
Objective 6 – Maintain financial sustainability	31

19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

20. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Objective 3 - Carry out government's targeted programmes

Indicator 3.1 - Percentage of RRM (Routine Road Maintenance) expenditure performed by black owned SMMEs and Contractors (Based on black ownership of main contractor)

21. The achievement for target of > 67,5%, reported in the annual performance report was 73,6%. However, the supporting evidence obtained did not agree to the reported achievement and indicated an achievement of 83%. In some instances, sufficient appropriate audit evidence was not provided while in other cases supporting evidence provided did not agree to the reported achievement; therefore, I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

Indicator 3.2 - Percentage of Non RRM (Routine Road Maintenance) expenditure performed by black owned SMMEs and Contractors (Based on black ownership of main contractor)

22. The achievement for target of > 37,5%, reported in the annual performance report was 57.1%. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 52%.

23. I did not raise any material findings on the usefulness and reliability of the reported performance information for these objectives:

- Objective 1: Manage the national road network effectively and efficiently
- Objective 2: Provide safe roads
- Objective 6: Maintain Financial Sustainability

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. Refer to the annual performance report on pages 26 to 33 for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 21 to 22 of this report.:

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of *Objective 1- Manage the national road network effectively and efficiently, Objective 2 – Provide safe roads and Objective 3 - Carry out government's targeted programmes.* As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

27. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

28. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

29. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (b) of the PFMA. Material misstatements of trade and other receivables, revenue, operating expenses, statement of cash flows and disclosure items identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

30. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R419 185 000 as disclosed in note 45 to the annual financial statements, as required by section 51(1) (b) (ii) of the PFMA. The majority of the irregular expenditure was caused by expenditure not approved by duly delegated authority.

31. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R2 677 000, as disclosed in note 45 to the annual financial statements, as required by section 51(1) (b) (ii) of the PFMA. The majority of the fruitless and wasteful expenditure was caused by interest charged as a result of non-payment of invoices within due dates.

Procurement and contract management

32. Some of the contracts were awarded to bidders based on evaluation criteria that differed from those stipulated in the original invitation for bidding in contravention of treasury regulations 16A6.3 (a).

33. Some contracts were extended or modified without the approval of a properly delegated official, as required by section 56 of the PFMA and paragraph 9.1 and 9.2 of the National Treasury Instruction note 3 of 2016/17. Similar non-compliance was also reported in the prior year.

34. Some of the goods and services of a transaction value above R500 000 were procured without inviting competitive bids and a deviation was not approved by National Treasury as required by paragraph 8 of the National Treasury instruction note 3 of 2016/17. Furthermore, the approval of the procurement was not approved by the accounting authority as required by section 56 of the PFMA. This non-compliance was identified in the procurement process for the administrative building.

Consequence management

35. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1) (e) (iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure..

OTHER INFORMATION

36. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the directors' report, the audit and risk committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

37. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

38. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

39. If based on the work I have performed, I conclude that there is a material misstatement in this other information; I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

40. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

41. There has been a slow response by senior management to address previously reported deficiencies relating to oversight regarding the financial reporting process, including detailed reviews of the financial reports by delegated officials, compliance and related internal controls. Although an action plan to address audit findings was compiled by management, the plan was ineffective in timeously addressing the reported control deficiencies, as an appropriate level of management and governance structures did not adequately monitor the status of addressing the findings and did not ensure that the lack of progress was escalated for further intervention.

OTHER REPORTS

42. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

43. The Directorate for Priority Crime Investigation is currently investigating offences perpetrated by various construction companies against SANRAL. This investigation has been ongoing since 2013.

Audit-related services

44. At the request of the public entity, a limited assurance engagement was conducted during the year under review on the compliance review relating to the proposed issues by SANRAL (the 'issuer') of guaranteed promissory notes (the 'Notes') under its government guarantee of ZAR6 000 000 000 (Money and Capital Market Instruments guarantee), dated 16 November 1999, with the relevant provisions of the commercial paper regulations (Government Notice 2172 published in Government Gazette No. 16167 of 14 December 1994) issued by the registrar of banks (the 'notice'), as required by paragraph 3(5)(j) of the notice. This report was issued on 30 November 2018 as requested by the accounting authority.

Auditor-General

Auditor-General
Pretoria
2 September 2019

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

   - obtain an understanding of internal control relevant to the audit 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 public entity's internal control

   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority

   - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on SANRAL's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the public entity to cease continuing as a going concern

   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

5. From the matters communicated to those charged with governance, I determine those matters that were of the most significance in the audit of the financial statements of the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

2. Directors' Report

31 March 2019

Introduction

The directors present their annual report as part of the audited annual financial statements of SANRAL for the year ended 31 March 2019.

SANRAL is incorporated as a state-owned company in South Africa in terms of the Companies Act (No 71 of 2008) and is listed as a national public entity in schedule 3A of the Public Finance Management Act (No 1 of 1999) (PFMA), as amended.

The Board of Directors acts as the accounting authority, in terms of section 49(2)(a) of the PFMA.

Principal activities

The principal activities of SANRAL are the financing, management, control, planning, development, maintenance and rehabilitation of South Africa's proclaimed national road network, as prescribed by the South African National Roads Agency Limited and National Roads Act (No 7 of 1998).

The declared national road network on 31 March 2019 was 22 214km. Non-toll roads comprise 87% of the total and toll roads constitute 13%. The non-toll roads are fully funded from the fiscus through an annual grant.

Although national roads account for 3.6% of the proclaimed road network in South Africa, they carry about 34.5% of all vehicle kilometres travelled and more than 70% of long-distance road freight. Travel density measured in vehicle kilometres increased by 1.8% in 2018 on the SANRAL network.

During 2018/19, R3 318m (2018: R3 654.8m) was spent directly on toll roads. This comprised R1 013m for capital projects and R2 305m for maintenance. During the same period, R9 592.2m (2018: R12 025.5m) was spent directly on non-toll roads, with capital works absorbing R5 531m and maintenance R4 062m.

SANRAL's long term strategy, known as Horizon 2030, has formally seen its first-year anniversary in the public domain and, having been approved by the Board, this year marked its first year of implementation.

This year also saw the establishment of an interim Business Development Unit tasked with developing new revenue-generating opportunities for SANRAL. With the support of the Legal Division, the unit was able to complete the revision of the standard agreement for the installation of telecommunications infrastructure alongside SANRAL roads, which will boost SANRAL's income in future. SANRAL has developed a central division which is aimed at leveraging SANRAL's revenue collection and engineering expertise. The drafting of the 2030 Roads Plan is in progress and the implementation of flagship projects is underway. The intake for the Technical Excellence Academy (TEA) has shown growth and, in line with Horizon 2030, the plan is to further grow capacity for the country and the region. The doors of the TEA have been opened to engineers in the provincial road authorities, with the KwaZulu-Natal Department of Transport sending six engineers and a further 15 from the Eastern Cape Department of Transport due to join in July. Two engineers from the Namibian Roads Authority are also scheduled to join the TEA.

As part of its Africa and Beyond strategic initiative, SANRAL signed an agreement with the Development Bank of South Africa (DBSA) for the provision of engineering advisory services for a project in Kenya. This strategic partnership with the DBSA will no doubt yield more opportunities for SANRAL, as a leading provider of road infrastructure, to assist and build the capacity of other road authorities on the continent by providing commercial engineering advisory services. This will contribute to better connectivity and integration within the region. However, opportunities will be thoroughly assessed to determine fit, ensure they are within suitable risk parameters and ensure sustainability.

The implementation of the Integrated Funding Model is also progressing well. There have been positive engagements with the New Development Bank (NDB) and Multilateral Insurance Guarantee Agency (MIGA) and there is interest in reopening discussions with the African Development Bank.

The implementation of the 14 Point Plan that addresses community participation in projects has assisted in ensuring projects provide business and work opportunities for locals. It also enables residents to express their needs.

Work continued on the R573 Moloto Road project which is intended to improve road safety and is a SIP 1 project, one of 20 infrastructure projects prioritised for accelerated implementation and reported at Cabinet level. The road was transferred

to SANRAL in 2015/16 and Phase I of the multi-year project, which involves capital expenditure works for the Limpopo and Mpumalanga sections, commenced construction in January 2017. The Mpumalanga portion was completed in October 2018 and these works included the upgrading of intersections, with the incorporation of bus bays and pedestrian crossings. In Limpopo the works include upgrading of the existing single carriageway, surfaced shoulders, upgrading of intersections, installation of drainage structures, guardrails and fencing where required. The contractor encountered financial difficulties from December and was not able to proceed with further work in 2019. SANRAL is following procedures to appoint a replacement contractor.

SANRAL and the Minister of Transport conducted several stakeholder engagement sessions in order to facilitate smooth implementation of the Moloto Road project and the creation of work opportunities for local communities. The planning and design of latter phases of the project are at an advanced stage.

The enormous demands for employment and participation by small, micro and medium enterprises (SMMEs) has resulted in over-subscription. This, together with misunderstanding of the 30% sub-contracting requirement, has led to site disruptions, threats to staff, unsafe working conditions and an inability to implement critical work. The situation has been exacerbated by slow economic growth and a struggling construction industry. This is an ongoing risk and SANRAL's 14 Point Plan stipulates principles concerning project liaison, sub-contracting and labour sourcing on all SANRAL projects. This along with the Transformation Policy will seek to further mitigate the unrest and stabilise the construction environment.

The site for the Mtentu Bridge, one of two mega-bridges on the N2 Wild Coast, was handed over to the contractor in January 2018. But work came to a stop on the 22 October 2018 due to violent community protest actions. Numerous engagements followed with the complainants during January 2019 and they agreed that the contractor could resume work. However, having been advised that the suspension had been lifted, the contractor did not return to work, instead issuing a notice of termination. SANRAL disputed the matter, which was heard in the Gauteng High Court in February 2019. The judgment, issued on 22 March 2019, was in favour of SANRAL. The contractor was subsequently granted leave to appeal the judgment. In the meanwhile, SANRAL has initiated the process to appoint a replacement contractor.

Construction of the Msikaba Bridge was re-tendered. The tender closed in April 2018 and was awarded in September 2018. Official site handover occurred in January 2019, with a three-month ramp-up period. Five community development projects have been undertaken on the Wild Coast route and three had been completed by the end of this reporting period. These projects are meant to capacitate, develop and empower local communities and SMMEs.

SANRAL continued with its efforts to improve collections of outstanding toll payments from the Gauteng Freeway Improvement Project (GFIP). A task team on this matter, established by the President, concluded its work and has submitted its recommendations to the Presidency. SANRAL awaits the outcome of this process and finalisation of the way forward.

During the year under review, SANRAL grew and strengthened its internal capacity in line with the Horizon 2030. The staff component grew from 396 to 423. Inter alia, a total of 21 new staff were employed to strengthen professional skills in the organisation in the areas of procurement and supply chain management. The implementation of the Employment Equity Plan has progressed well and SANRAL remains committed to building a competent skills base in South Africa. The internal policy framework was reformed by consolidating and updating policies and the associated procedures. The workforce planning model was adjusted and realigned to ensure uniformity, continuity and standardisation among offices.

SANRAL continued its established practice of investing in the youth. The goals of SANRAL's internal and external bursary programme and the scholarship programme were met. Seven recipients of SANRAL bursaries completed their studies and joined the agency during the period under review. A total of 205 employees benefited from a variety of training interventions during the period under review. These included employee relations training which was completed by 126 staff members and included management of disciplinary and labour relations practices.

The newly developed and extensively consulted Transformation Policy is a critical enabler contained in Horizon 2030, the strategy framework which articulates the SANRAL agenda for development and transformation. Horizon 2030 calls for SANRAL to intensify its community development programme in order to increase the agency's relevance in the lives of rural and urban South Africans.

Organisational structure

The Executive of SANRAL consists of Chief Executive Officer Mr S Macozoma, Engineering Executive Mr L Kannemeyer, Chief Financial Officer Ms I Mulder and Corporate Services Executive Ms H Harper.

They are supported by Mr I Essa – Head of Transformation, Mr T Malahlehla – Head of Strategy, Ms B Mgqibi – Risk Officer, and Ms L Pitse – Chief Audit Executive.

SANRAL is further divided into four regional offices and a corporate office. The regional managers are: Mr P Hlahla (Northern Region – Pretoria), Mr R Cable (Western Region – Cape Town), Mr M Peterson (Southern Region – Port Elizabeth) and Mr D Nkabinde (Eastern Region – Pietermaritzburg).

Mr K van der Walt was appointed as the Head of the Technical Excellence Academy.

Financial results

In terms of legislation, funding for toll roads and non-toll roads respectively is ring-fenced. SANRAL separates the business activities and accounting records into toll operations and non-toll operations. Non-toll roads are financed through parliamentary appropriations under the vote of the National Department of Transport.

For toll roads, the debt used to finance the initial construction of the road is repaid over a period of around 30 years using the proceeds collected through tolling.

The financial statements on pages 56 to 160 set out fully the financial position, results of operations, changes in equity and cash flows of SANRAL for the financial year ended 31 March 2019. The discussion that follows sets out some of the highlights.

Review of profit and loss

Revenue

- Revenue for the year from non-toll operations was R6 979m, which is a 23% decrease on the previous year. This is mainly as a result of the transfer of R5 750m to the toll portfolio. To comply with International Financial Reporting Standards (IFRS), the portion of the government grant which is utilised for capital projects, is capitalised and only recognised as revenue over the life of the asset. The total government grant allocated in terms of Vote 35 was R18 624m, of which R6 255m was allocated to GFIP. Of the R12 369m allocated to non-toll, R5 745m was capitalised for the year as it was allocated to capital projects. The portion of previously deferred grants, which was realised in the current year, amounted to R1 921m.

- The toll revenue from operations for the year was R4 243m, which is a 18% decrease on the previous year amount of R5 194m.

  GFIP revenue decreased by 63% from the year before (2018: R1 870m). The main contributor of the decrease was as a result of the effect of IFRS 15 on revenue from contracts with customers. The inflation-related tariff adjustment was 5.58%. The alternative higher tariff for non-payers was not recognised as revenue due to the probability that a discount would be granted. Revenue is therefore net of the alternative tariff of R2 801m. An amount of R439m (VAT exclusive) was received from government as a grant as well as a R5 750m (VAT inclusive) portion of the non-toll grant, in order to address the shortfall as a result of the low payment rate.

  Revenue from conventional toll routes increased by 7% from R3 327m to R3 556m, and the same inflationary tariff adjustment of 5.58% was applied.

- On conventional “boom down” SANRAL-funded toll roads, the comprehensive toll road operations and maintenance (CTROM) contract model consolidates responsibility for operational activities and risks. Under this arrangement, the main contractor is responsible for the total operation of the specific toll route, together with assuming the associated risks. The operator pays the actual gross income (tariff x vehicles) to SANRAL and then claims discounts, concessions and violations as a cost, based on an agreed cost matrix. In essence the operator assumes the risk of collection.

- For the GFIP toll route, a service provider was appointed to manage the operations and collection. The operator is paid for services rendered to operate the tolling system and collect the toll on behalf of SANRAL. The risk of non-payment remains with SANRAL. The agreement with the operator includes performance clauses, as well as a performance guarantee in favour of SANRAL.

Finance charges

Net finance charges (finance costs less investment income) in 2019 was R3 496m which is an increase of 7% on the previous year. This was due to a reduction in cash holdings and debt refinancing. All finance costs relate to toll operations.

Profit before taxation

- The profit after deducting finance costs amounted to R2 421m (2018: a loss of R418m).

- The non-toll operating loss after finance charges, for the year ended 31 March 2019 was R96m (2018: a profit of

R1 104m). Income, mainly comprising the grant received from government, decreased by 23.9% as a result of the transfer of R5 750m (incl VAT) to toll. Expenditure reduced by 12%, mainly as a result of delays in maintenance projects on roads, which reduced the expenditure by R934m. The continuous capital spending on roads, involving rehabilitation and strengthening projects, resulted in resulted in a 9% increase of depreciation to R1 829m.

- The toll operating profit after finance charges for the year ended 31 March 2019 was R2 517m. There was a 56.1% increase in income for toll operations, mainly as a result of the grant transferred from non-toll. Repairs and maintenance decreased by R708m (10%) to R2 290m. Depreciation (including concession assets) increased by 8% to R1 708m, due to the increased spending on completed capital works in the toll portfolio.

Irregular expenditure
During the year under review additional irregular expenditure increased by 25% from R334m to R419m. However, R117m was for irregular contracts identified in prior years but the expenditure on the contracts remain as irregular until it is condoned by the relevant authority

During the year under review two issues were declared as irregular expenditure, amounting to R282m of the total of R419m, as disclosed in note 45. This was as a result of additional expenditure which could not be avoided on an existing road construction project, which was submitted to National Treasury for approval in time, but such approval was delayed by nine months and the site could not be left unattended. The other was for the acquisition of a building for administration purposes adjacent to the road reserve. In this instance the approval for the acquisition was given by the Assets and Liabilities Committee (ALCo), a Board subcommittee. Due to the ALCo's Charter not being clear on this delegation, the expenditure was ruled as Irregular by the AGSA, even though the Board ratified ALCo's decision.

Taxation
SANRAL was exempted from income tax in the Government Gazette of 22 December 2003 (Revenue Laws Amendment Act, 2003 section 1(l) and 2(d)). This exemption was backdated to the inception of the entity, and therefore no provision is made for income tax or deferred tax.

Dividends
No dividends have been declared by SANRAL.

Review of financial position

Share capital
The shareholding for the current year has remained unchanged. The Government, represented by the Minister of Transport, holds all shares issued by SANRAL.

Land
SANRAL's property management is undertaken by a service provider that has the skills and resources required to manage and maintain our large land portfolio consisting of road reserve and adjacent severed properties. The service provider is a single entity that delivers all aspects of land surveying, property valuation, maintenance and management services. The service provider is managed by a team of SANRAL staff located in our regional and head offices.

The contractual targets with the property management company include a requirement that 50% of all work be sub-contracted. This provides opportunities for small and previously disadvantaged firms to obtain property work from SANRAL. The property management company has complied with contractual requirements related to provision of training, promotion of economic development, addressing skills shortages and making work available to targeted groups.

In line with the SANRAL Act, SANRAL ensures that all land acquired by it or its predecessors, whether inside or outside of the road reserve, is identified and transferred into SANRAL's name. All land acquired by SANRAL since its inception has been so transferred. The land identification process and the transfer of land to SANRAL will continue where further roads are added to the network.

Land outside of road reserves is categorised as investment property or "other" land if it has insignificant or no investment value. The road reserve consists of 34 024 properties, while investment property comprises 2 084 properties.

Property, plant and equipment
Road assets are valued on a depreciated replacement cost basis. The revaluation gain on road network and structures was reviewed at year-end and decreased by 3% to R22 244m.

The increase in road network and structures increase was as a result of:
- Unit rates increasing by 7.80%, mainly due to material prices increasing by 4.4% and fuel by 7% over the period.

- An increase in traffic volume of 1.8%, mostly due to updated traffic data on previously incorporated roads.

The value of land within the road reserve was reviewed at year-end and increased to R1 482m because:
- The average strip value increased from R518 412 to R522 110 (0,7%). The value of property is significantly influenced by the economic activity in the surrounding area.
- The total area of land increased by 307,9 ha (0,29%) as a result of updated data on previously incorporated roads and the declaration of some of the roads by co-ordinates, providing a more accurate measurement of properties that were previously only declared as national roads by description.

The remaining life of these assets is considered when determining their depreciated replacement cost, taking the condition of the pavement into account. In the financial year the average condition of national roads improved due to the completion of capital strengthening projects, as well as lower rainfall. Further information is available in notes 4 and 5 of the financial statements.

SANRAL currently applies the benchmark treatment of International Accounting Standard (IAS) 16 on “property, plant and equipment”, which allows for the valuation of assets at fair value. SANRAL has adopted this principle as opposed to depreciated cost. Fair value in this instance represents the depreciated replacement cost, due to the special nature of these assets. This methodology takes the unit cost for road bed, layers and structures into account, as well as the condition or remaining life of the road asset.

In terms of IAS 36, assets must be assessed annually and impairments recorded if their income generating potential is estimated to be less than the carrying value. Non-toll assets have been identified as a non-cash generating unit. IFRS does not prescribe the impairment of non-cash generating units and allows other standards to apply in such instances. SANRAL has elected to apply the International Public Sector Accounting Standard 21 to determine the carrying amount of a non-cash generating unit.

Investments
No significant acquisitions or disposals occurred in the period under review.

Financial instruments in the market-making portfolio are used to manage the risks that SANRAL is exposed to in the capital markets.

Trade and other receivables
Trade receivables, consisting of toll receivables of R10 964m, were impaired in terms of the new IFRS 9 to the cumulative value of R10 318m which resulted in a remaining balance of R1 149m. Even though the debtor is not written off, the impairment is a reflection of the probability of collection based on historic trends and the new standard.

Cash and cash equivalents
At 31 March 2019, cash and cash equivalents held were R8 740m (2018: R7 646.5m). In the normal course of business, SANRAL limits liquidity risk by maintaining a healthy liquidity buffer equivalent to three times the agency’s estimated monthly expenditure. The weighted average investment rate for the current financial year was 7.77% (2018: 7.88%).

Going concern
The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern as management does not intend to liquidate the company, or cease trading, and management is also not in a position where it has no realistic alternative but to do so.

Assets
SANRAL’s assets, totaling R413bn, are significant contributors to facilitating the movement of goods and services in the South African economy. Government is the sole shareholder of SANRAL and has given no indication that any part of SANRAL’s assets is to be sold off or privatised. These factors, together with the statutory requirement that any liquidation of the company is to be done by an Act of Parliament, means that the probability of any liquidation of SANRAL’s assets is highly unlikely.

SANRAL’s current assets do not cover its current liabilities at 31 March 2019. Current assets of R9.99bn include cash and cash equivalents of R8.7bn. Current liabilities of R18.31bn include financial liabilities of R4.9bn and trade accounts payable of R5.61bn. The shortfall of R8.32bn needs to be met through further borrowing or funding from government.

Cash flow forecasts project that additional funding will be required by August 2019.

Liquidity

SANRAL receives an annual grant from the fiscus to fund the non-toll road portfolio. During the year under review the initial allocation was R15.6bn. A further R3bn was allocated to the non-toll portfolio in January 2019 by the Department of Transport to reimburse the non-toll portfolio for the amount transferred to the toll portfolio. The total allocation was therefore R18.6bn, an increase on the R15.9bn allocated in 2017/18. This amount covers operational and capital expenditure on non-toll roads which comprise 87% of the national road network. In the 2019/20 financial year the Budget Vote 35 allocation is set to increase by 14% to R21.2bn. The 2020/21 allocation is expected to further increase to R21.8bn. Projected cash flows indicate sufficient funds will be available to meet projected operational and capital expenditure until 31 March 2020.

Toll road portfolio income for the year under review amounted to R6.4bn. Of this amount, conventional toll routes collected R3.56bn and an amount of R505.1m (inclusive of VAT) was received by way of an annual GFIP grant from government which increases every year. The remaining income (inclusive of VAT) came in the form of grants from government: R5.75bn during the 2011/12 financial year, R1.9bn during the 2017/18 year, and R5.75bn in 2018/19. The last two amounts were both transfers from the grant initially earmarked for the non-toll portfolio. Government has indicated its preparedness to provide further support for the GFIP, while a solution is found, through a budgetary allocation (inclusive of VAT) of R2.53bn, in each of the financial years 2019/20, 2020/21 and 2021/22. While the un-earmarking of the funds to allow them to be applied to the toll portfolio rather than the non-toll portfolio is yet to be finalised, this will provide significant additional liquidity.

SANRAL has continued to meet its repayment obligations. During the year under review, the NRA018 unguaranteed bond of R2.4bn matured. The promissory notes under the R6bn guarantee, PN01, PN02 and PN03, amounting to R1.224 bn, were successfully refinanced in PN04 and PN05, amounting to R1.196bn. SANRAL plans that these notes will be rolled over in February 2020 when they mature, most likely with the same investors.

SANRAL is considering resuming borrowing, using its non-guaranteed DMTN. Meanwhile, SANRAL has received unsolicited enquiries to take up paper, indicating there is potential appetite. Moreover, SANRAL is at an advanced stage in negotiations with several international financial institutions to secure loans. Any positive developments toward resolving the e-tolling issues and improving the collection rate are expected to increase the appetite for SANRAL debt.

Furthermore, the government issued guarantees for R31.91bn and R6bn (R37.91bn in total), of which R24.30bn and R5.2bn respectively had been utilised as at 31 March 2019.

Taking into account the expected R2.53bn per annum government allocation budgeted for the toll portfolio and current funding requirements, it is forecast that these guarantees will be fully utilised by March 2021.

A request to increase the total guarantee to R48bn and the borrowing limit to R68bn (from R47.91bn) was submitted in May 2019. A previous request had been placed on hold pending resolution of the GFIP funding model.

Additional considerations

SANRAL may not be placed under judicial management or in liquidation except by an act of Parliament (Section 10 of the South African National Roads Agency and National Roads Act). Furthermore, a significant portion of SANRAL's debt is explicitly guaranteed by government. government has elected on several occasions to provide funding to SANRAL to address liquidity challenges, pending the e-toll decision by the Presidency. As indicated, government has budgeted to provide funding allocations to SANRAL over the next three years. It is therefore fair to assume that government will continue to do so in the foreseeable future, if required.

The current cash and cash equivalents added to the budgeted reallocation of R2.53bn from non-toll to toll and borrowings that the company is in the process of securing will ensure that SANRAL is able to meet all its debt obligations for the next three years.

The Board of Directors therefore supports management's assessment that SANRAL will remain a going concern in the foreseeable future.

The Board of SANRAL is fully aware of the liquidity risk it faces in the short-term and is actively engaging with government to resolve the matter.

Auditors

The Auditor-General (AGSA) is the external auditor of SANRAL, as prescribed in section 36(3)(a) of the SANRAL Act.

Materiality framework

A materiality framework has been developed for reporting losses through criminal conduct, irregular, fruitless and wasteful expenditure or significant transactions that require ministerial approval, as envisaged in section 54(2) of the PFMA. The framework was finalised by SANRAL after consultation with external and internal auditors, and formally approved by the Board on 25 May 2004. The framework was updated in March 2019 to incorporate the latest approved budget, resulting in a materiality value of R70m.

Contingent liabilities

The potential liability arising from the levying of municipal rates on SANRAL's land is estimated at R19.96m (2018: R114.3m). These rates have not yet been introduced and the large reduction in liability is due to the phasing out of rates on public sector infrastructure.

In addition, potential claims may arise due to failure by law enforcement agencies to take steps to protect the road pavement on concession routes from damage by overloaded vehicles. The value of such claims is estimated at R319.1m. In addition, potential claims may arise due to the failure of Mozambican government to implement overload control measures and increase tolls as stipulated in the contract with the concessionaire on the Maputo development corridor. The value of such claims related to the Mozambique section of the road is estimated at R64.3m.

Credit rating

SANRAL's debt mainly comprises bonds that are listed and traded on the Johannesburg Stock Exchange (JSE), although there are a few unlisted instruments. The borrowing limit approved by Government is approximately R47 910m (depending on CPI assumptions). Up to R37 910m of this amount can be guaranteed.

To facilitate investment in debt related to its toll portfolio, SANRAL has been rated by the international credit rating agency, Moody's, since March 2007. Global Credit Ratings (GCR) won the tender to provide a rating for SANRAL at the end of the contract with Moody's in 2018, but Moody's chose to continue to provide SANRAL with a rating without compensation. The credit rating enables SANRAL to raise non-guaranteed and guaranteed debt competitively. SANRAL is awaiting the first rating from GCR while still enjoying the benefit of a rating from Moody's.

In its credit opinion of 18 October 2018, Moody's regards as positive the high degree of government support and supervision of SANRAL and the likelihood that this support will continue because of SANRAL's critical role in South Africa's infrastructure development. This view is supported by: the once-off grant of R5.8bn in 2012, changes to SANRAL's government guarantee in April 2014 to the benefit of noteholders, a pledge in May 2015 to pay SANRAL R390m per year for 22 years (indexed to CPI), and the un-earmarking of an amount of R1.9bn to fund GFIP in March 2018 and a further amount of R5.75bn in August 2018.

Moody's considered as negative the weak cash flow from GFIP, high capital spending pressure for existing toll roads, and the very high debt level as a result of GFIP.

The rating, as at 31 March 2019, is as follows:

National Scale Issuer Ratings:
Long-Term: A1.za
Short-Term: P-1.za

Global Scale Issuer Ratings:
Long-Term: Ba2
Short-Term: NP

Outlook: Negative

Public-private partnerships

In addition to its parliamentary appropriation, SANRAL has implemented public-private partnerships (PPPs) as an alternative means of financing and operating the national road network, with the costs recovered through user charges. PPPs allow SANRAL to leverage funding available from the private sector to meet identified infrastructure and service delivery needs in a manner that is cost-effective and appropriate to each project. Furthermore, they ensure that financing is set aside for the improvement and preservation of the country's road assets for periods well beyond Government's three-year expenditure horizon. Annually the benefit is reflected in the increased values under property, plant and equipment (PPE) under concession, as the concessionaires upgrade roads which belong to SANRAL.

The agreement with Trans African Concessions (Pty) Ltd (TRAC) became effective on 6 February 1998 and terminates on 5 February 2028. This includes the extension of the N4 as agreed during the 2005 financial year.

The agreement with N3 Toll Concessions (RF) Proprietary Limited (N3TC) became effective on 2 November 1999 and terminates on 1 November 2029.

The agreement with the N1N4 Bakwena Platinum Corridor Concessionaire (Pty) Ltd (Bakwena) became effective on 28 August 2001 and expires on 27 August 2031.

SANRAL has considered the implications of International Financial Reporting Interpretation Code 12 and the Accounting Standards Board's guideline in terms of accounting for assets under concessions, and has decided to account for these assets by recording these as property, plant and equipment. In the absence of clear accounting guidance from these guidelines, SANRAL has set out its interpretation in note 4.

Subsequent events

ALCo has passed a resolution on 31 May 2019. The resolution required management to raise funds as follows:

- Raise R4bn from private placements – which has been achieved by issuing R3.65bn 3-year notes and R350m HWAY35 notes. Additionally, a commercial bank has committed to buy three-year paper to the value of R1bn and provide a facility of R750m.
- Pursue a guarantee from the Multilateral Investment Guarantee Agency (MIGA), a division of the World Bank, to support a loan for R7bn of which up to R4bn can be used for refinancing. A tender will be issued in August 2019 to determine the lender.
- Conclude a loan with the New Development Bank (NDB) for R7bn for new capital projects on existing toll routes.
- Apply to the Minister of Transport, with concurrence of the Minister of Finance, to increase both the borrowing and guarantee limits.

Directors and Secretary

Since 1 March 2015, the Board, as appointed by the Minister, has comprised the following individuals:

- **Executive Director**
  S Macozoma (Chief Executive Officer)

- **Non-Executive Directors**
  R Morar (Chairperson)
  A Halstead (Public official)*
  C Hlabisa (Public official)**
  Z Kganyago
  A Lawless
  D Mashile-Nkosi
  M Matete

* Ms Halstead is the appointed representatives of the Minister of Finance and is an employee of National Treasury.
** Mr Hlabisa is the appointed representative of the Minister of Transport and is an employee of the Department of Transport.

On 1 September 2018 the Minister of Transport appointed five new, independent non-executive Directors to the Board:

Mr T Mhambi (Chairperson)
Mr R Haswell
Ms L Madlala
Mr T Matosa
Ms N Mpobane

On 2 November 2018 Ms N Mpobane resigned from the Board. The vacancy has not yet been filled.
For the year under review Ms A Mathew held the position of Company Secretary.

Directors' interests in contracts

All directors and officers of SANRAL have confirmed that they had no interest in any contract of significance with SANRAL which could have resulted in a conflict of interest during the current year.

Addresses

SANRAL's business, postal and registered addresses are as follows:

Business address	Postal address	Registered address
48 Tambotie Avenue	P.O. Box 415	48 Tambotie Avenue
Val de Grace	Pretoria	Val de Grace
Pretoria, 0184	0001	Pretoria, 0184
0184		0184

3. Statement of Responsibility by the Board of Directors

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 March 2020 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on pages 38 to 45.

The annual financial statements set out on pages 56 to 160, which have been prepared on the going concern basis, were approved by the board on 30 May 2019 and were signed on their behalf by:

Signed on behalf of the Board of Directors By:

Mr TB Mhambi (Chairperson)
Director
30 May 2019

4. Certificate of the company Secretary

I hereby confirm in terms of Companies Act, (Act No. 71 of 2008), as amended, that for the year ended 31 March 2019, the South African National Roads Agency SOC Limited has lodged with the Companies and Intellectual Property Commission, all returns as are required in terms of this Act, and that all such returns are true, correct and up to date.

Alice Mathew
Company Secretary

20 May 2019

Statement of Financial Position as at 31 March 2019

	Note(s)	2019 R '000	2018 Restated * R '000
Assets			
Non-Current Assets			
Property, plant and equipment under concession	4	49,428,536	47,024,292
Property, plant and equipment	5	351,082,370	325,916,458
Investment property	6	1,776,215	1,810,430
Intangible assets	7	170,767	186,030
Financial assets	8	429,432	402,562
		402,887,320	**375,339,772**
Current Assets			
Trade and other receivables	9	1,149,804	4,800,745
Financial assets	8	109,470	42,800
Cash and cash equivalents	11	8,740,108	7,646,576
		9,999,382	**12,490,121**
Non-current assets held for sale	10	34,460	30,940
Total Assets		**412,921,162**	**387,860,833**
Equity and Liabilities			
Equity			
Share capital	12	1,091,044	1,091,044
Reserves	13	308,845,821	285,118,787
Accumulated Loss	13	(16,125,716)	(14,697,182)
		293,811,149	**271,512,649**
Liabilities			
Non-Current Liabilities			
Financial liabilities	14&15	42,515,133	45,908,214
Employee benefits	16	49,014	48,038
Deferred income	17	49,942,069	46,429,543
Provision for rehabilitation costs	18	2,742	3,477
Deferred exchange consideration	20	8,290,793	8,093,289
		100,799,751	**100,482,561**
Current Liabilities			
Financial liabilities	14&15	4,936,523	4,200,963
Employee benefits	16	1,877	1,162
Deferred income	17	6,542,993	4,723,320
Provision for overload control	19	321,366	323,068
Deferred exchange consideration	20	633,594	548,238
Trade and other payables	21	5,610,765	5,787,265
Third party funding	23	263,144	281,607
		18,310,262	**15,865,623**
Total Liabilities		**119,110,013**	**116,348,184**
Total Equity and Liabilities		**412,921,162**	**387,860,833**

* See note 2 & 40

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2019

	Note(s)	2019 R '000	2018 Restated * R '000
Revenue	24	16,661,278	16,285,005
Other income	25	943,495	1,059,242
Other operating gains	26	140,151	-
Operating expenses	27	(11,824,918)	(14,486,664)
Operating profit (loss)	27	**5,920,006**	**2,857,583**
Finance income	28	740,542	1,097,919
Finance costs	28	(4,236,536)	(4,356,741)
Fair value adjustments on investment properties and assets held for sale	6&10	(2,844)	(17,231)
Profit (loss) for the year		**2,421,168**	**(418,470)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements on net defined benefit liability/asset		4,638	(110)
Gains on revaluations	13	23,727,033	22,816,301
Total items that will not be reclassified to profit or loss		**23,731,671**	**22,816,191**
Other comprehensive income for the year		**23,731,671**	**22,816,191**
Total comprehensive income for the year		**26,152,839**	**22,397,721**

* See note 2 & 40

Statement of Changes in Equity for the year ended 31 March 2019

	Share Capital R '000	Share premium R '000	Total share capital R '000	Revaluation reserve R '000	Retained income R '000	Total equity R '000
Restated* Balance at 1 April 2017	**4**	**1,091,040**	**1,091,044**	**262,302,486**	**(14,278,602)**	**249,114,928**
Restated loss for the year	-	-	-	-	(418,470)	(418,470)
Other comprehensive income	-	-	-	22,816,301	(110)	22,816,191
Total comprehensive loss for the year	**-**	**-**	**-**	**22,816,301**	**(418,580)**	**22,397,721**
Opening balance as previously reported	4	1,091,040	1,091,044	284,748,043	(14,539,072)	271,300,015
Adjustments						
Prior period errors	-	-	-	370,744	(158,110)	212,634
Balance at 31 March 2018 as restated	**4**	**1,091,040**	**1,091,044**	**285,118,787**	**(14,697,182)**	**271,512,649**
Impact of IFRS 9 adoption on 1 April 2018**	-	-	-	-	(3,854,340)	(3,854,340)
Balance at 1 April 2018 as restated	**4**	**1,091,040**	**1,091,044**	**285,118,787**	**(18,551,522)**	**267,658,309**
Profit for the year	-	-	-	-	2,421,168	2,421,168
Other comprehensive income	-	-	-	23,727,034	4,638	23,731,672
Total comprehensive income for the year	**-**	**-**	**-**	**23,727,034**	**2,425,806**	**26,152,840**
Balance at 31 March 2019	**4**	**1,091,040**	**1,091,044**	**308,845,821**	**(16,125,716)**	**293,811,149**
Note(s)	12	12	12	13		

** R3.854bn relates to the adjustment of opening balance which was processed at the beginning of the current year when IFRS 9 was initially adopted, therefore did not change the prior year accumulated loss.

* See note 2 & 40

Statement of Cash Flows for the year ended 31 March 2019

	Note(s)	2019 R '000	2018 Restated * R '000
Cash flows from operating activities			
Cash receipts from customers	30	16,221,710	13,226,758
Cash paid to suppliers and employees	31	(9,205,566)	(8,719,882)
Cash generated from operations	32	7,016,144	4,506,876
Interest income received		740,542	851,144
Finance costs		(3,870,534)	(4,088,591)
Net cash from operating activities		**3,886,152**	**1,269,429**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(5,489,274)	(8,919,760)
Proceeds from sale of investment property	6	27,891	33,118
Purchase of intangible assets	7	(9,752)	(5,572)
Disposal of other intangible assets	7	-	2
Purchase of financial assets		(93,540)	-
Proceeds from investments		-	188,322
Net cash from investing activities		**(5,564,675)**	**(8,703,890)**
Cash flows from financing activities			
Repayment of borrowings	33	(2,931,863)	-
Movement in third-party funding	33	(41,540)	(84,092)
Capital portion of government grant	24&34	5,745,458	6,360,912
Proceeds from borrowings		-	2,234,217
Net cash from financing activities		**2,772,055**	**8,511,037**
Net increase/(decrease) in cash and cash equivalents for the period		**1,093,532**	**1,076,576**
Cash and cash equivalents at the beginning of the period		7,646,576	6,570,000
Total cash and cash equivalents at end of the period	11	**8,740,108**	**7,646,576**

* See note 2 & 40

Significant Accounting Policies

Corporate information

South African National Roads Agency SOC Limited is a not-for-profit state-owned entity incorporated and domiciled in South Africa.

The company's primary business is the construction and maintenance of the South African national road network and structures.

1. Basis of preparation

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 Statement of compliance

The annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these annual financial statements, the Public Finance Management Act 1 of 1999 (PFMA), the South African National Roads Agency Limited and National Roads Act 7 of 1998 and the Companies Act 71 of 2008 of South Africa, as amended.

The annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in South African Rands, which is the entity's functional currency and are rounded to the nearest thousand.

Going Concern

The Board of Directors has, at the time of approving the annual financial statements, a reasonable expectation that the entity will have adequate resources to continue operating and settle its debts when they become due for the foreseeable future. Thus, the going concern basis of accounting principles has been adopted in the preparation of annual financial statements. More details are contained in the directors report and note 46.

These accounting policies are consistent with the previous period, except for the changes set out in note 2.

Directive 12 issued by Accounting Standard Board

Directive 12 issued by ASB requires SANRAL, as a schedule 3A, to apply the standards of Generally Recognised Accounting Practice (GRAP) as a reporting framework from 1 April 2018. SANRAL applied to be exempted from applying GRAP (to continue applying IFRS as its reporting framework). An exemption was granted by National Treasury for SANRAL to prepare its annual financial statements in accordance with IFRS. The reasons for exemption are contained in the application letter of exemption. The exemption was gazetted on 12 April 2019 and is valid until the 2020/21 financial year end.

1.2 Significant judgments and sources of estimation uncertainty

The preparation of annual financial statements in conformity with IFRS requires management, from time to time, to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed 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 estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies

The critical judgments made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Significant Accounting Policies

1.2 Significant judgments and sources of estimation uncertainty (continued)

Revenue recognition

SANRAL derives revenue from conventional toll and e-toll fees charged on road users passing through the toll gates and e-toll gantries. Revenue from toll transactions is recognised when control of the services is transferred to the customer at an amount that reflects the consideration to which SANRAL expects to be entitled in exchange for those services.

Revenue is recognised only when it is probable, on transaction date, that the entity will collect the transaction price. As a practical expedient, the entity opted to assess the revenue collection threshold on portfolio basis rather than on individual contract with customers. Thus GFIP revenue (e-tolls) is assessed separately from conventional toll plaza revenue.

In making their judgments, management considered the detailed criteria for the recognition of revenue set out in IFRS 15 and, in particular, whether the entity had transferred control of the services to the customer or had completed a contractual performance obligation.

Revenue is only recognised when and/or as the entity satisfies the performance obligation in contract. The transaction price is the toll tariff per vehicle type as approved by the Minister.

When the entity satisfies the performance obligation, the entity recognises the transaction price as revenue. Revenue excludes amounts collected on behalf of third parties, exempt transactions, foreign transactions.

Critical judgments in recognising revenue

Contracts with customers are assumed. There are no written contracts with road users. Once a motorist has passed through the toll gate or gantry on national tolled roads, it is assumed that the customer has entered into a contract with SANRAL and is aware of entity's performance obligation and the transaction price (tariff payable) as it is advertised a distance before on and off-ramps and before approaching the toll gate or gantry. The customer is deemed to have accepted the terms therefore the entity has completed its performance obligations for that transaction. The road user is therefore liable for the amount payable. Non-registered users have seven days to settle their accounts from dates of transaction while registered users have a 31 days grace period.

In identifying contracts with customers management assesses the probability of collection by considering the ability and intention of customers to pay the consideration on the transaction date. Management evaluates the compliance rate of customers using available historical data to determine the probability of collection and to identify valid contracts with customers for revenue recognition. Revenue form contracts with customers that do not meet the criteria above are continually monitored and will be recognised when paid.

Revenue from contracts with customers is recognised over a period of time as the entity provide services to the road users by allowing them access to the road until they pass a gantry or toll gate. However, the nature of this services does not take a substantial amount of time to complete a performance obligation. Thus, revenue is recognised as if it is at a point in time rather than over a period of time.

The payment terms are 31 days, less than 12 months between performance and payment therefore there is no significant finance component.

Other assumptions

The entity does not incur significant or material costs to obtain contracts with customers.

Road users qualify for discounts if they settle their accounts within seven days and 31 days for non-registered and registered users respectively. If the account is not settled within the required timeframe, the transaction price reverts back to full price. Thus the transaction price involves variable consideration. For completed contracts that have such variable consideration, the entity determines the transaction price by using the expected value method based on past trends. The entity assumes that e-toll customers would take advantage of the discounts at recognition of revenue and the accounts revert back to full amount when unpaid transactions are transferred to the Violations Processing Centre (VPC).

Key sources of estimation uncertainty

Significant Accounting Policies

1.2 Significant judgments and sources of estimation uncertainty (continued)

Expected credit losses on financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected credit loss rates. The entity uses judgments in making these assumptions and selecting the inputs to the impairment calculation, based on the entity's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, refer to the individual notes addressing financial assets below.

Trade and other receivables

Trade and other receivables are recognised initially at the transaction price as per IFRS 15 provisions. Trade and other receivables do not contain a significant financing component in accordance with IFRS 15 as customers are expected to settle their accounts within a period of less than 12 months. Subsequently, trade and other receivables are measured at amortised cost using the effective interest method, less the lifetime expected credit loss allowance. The entity assesses its trade and other receivables for credit loss at the end of each reporting period using the simplified approach. A loss allowance is recorded in profit or loss.

The lifetime credit loss is calculated based on historical loss ratios/trends, adjusted for any other available information and other indicators present at the reporting date that correlate with defaults on collective basis.

In assessing toll debtors for impairment, significant judgments and assumptions are considered based on the current prevailing conditions, forward-looking factors and historical trends. There is uncertainty with regard to the future of e-tolls due to interventions by political parties and other civil organisations against e-tolls. This had a significant impact on the expected credit loss allowance and the assessment of the probability of revenue recognition.

Capped insurance receivable at amortised cost

Based on past experience, management has assessed that the risk of credit losses as low because the deposit is held with institutions that have a national scale credit rating of A1 and above. This asset earns interest on a monthly basis which the debtor has been servicing without fail. Thus the value of the asset has been increasing on an annual basis. Consequently there is no expected credit loss allowance was made. Refer to note 8.

Fair value estimation

Assets and liabilities of the entity are either measured at fair value or disclosure is made of their fair value. Investment properties (note 1.3) and certain financial assets and liabilities (note 1.6) of the entity are measured at fair value and/or disclosure is made of their fair value.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the entity is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The entity uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows and amortised cost, are used to determine fair value for the remaining financial instruments. Observable market data is used as inputs to the extent that it is available. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs where appropriate.

The fair value of financial liabilities, trade receivables and trade payables for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the entity for similar financial instruments where appropriate.

The entity obtains independent valuations for its investment properties and for owner-occupied land at the end of each financial year. Road network and structures are valued at depreciated replacement cost as described in note 4 and note 5. The entity information about the specific techniques and inputs of the various assets and liabilities is disclosed in note 41 and note 42.

Significant Accounting Policies

1.2 Significant judgments and sources of estimation uncertainty (continued)

Impairment of non-financial assets

The entity assesses assets for impairments annually. When impairment indicators exist, management determines the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash generating unit to which the asset belongs.

Property, plant and equipment, including those under concession and wayleaves, are assessed annually for impairment using the loans supported by revenue (LSR) method excluding office furniture, vehicles and equipment. Refer to notes 1.11, 4, 5 and 7 for estimates and assumptions made for impairment of specific classes of assets.

Useful lives of property, plant and equipment and intangible assets

Management assesses the appropriateness of the useful lives of property, plant and equipment at the end of each reporting period. The useful lives of motor vehicles, furniture and computer equipment are determined based on entity's replacement policies and considering the commercial and economical forecasts. Refer to note 1.4 for the estimated useful lives for property, plant and equipment and note 1.5 for intangible assets.

Provisions

Provisions are inherently based on assumptions and estimates using the best information available to management. The entity uses the weighted average cost of capital rate on the decommissioning liability. Additional disclosure of these estimates of provisions are included in note 18 and 19.

Contingent liabilities

Management applies its judgment to the facts, patterns and advice it receives from its attorneys, advocates and other advisors in assessing if an obligation is probable or remote. This judgment is used to determine if the obligation is recognised as a liability or disclosed as a contingent liability (note 36).

Commitments

Items are classified as commitments when an entity has committed itself to future actions that result in cash outflows. Commitments comprise estimated capital expenditure (contract amounts less capital expenditure already recognised) as approved by the board of directors or delegated authority and minimum lease payments relating to operating leases which are measured in terms of IAS 17. Refer to note 35.

Post-employment benefit obligations

In applying its judgment to defined benefit plans, management consulted with independent external experts to determine the fair value of employee benefits. The critical estimates as used in each benefit plan are detailed in note 16 to the financial statements. The actuarial gains and losses on employees' benefits are calculated in terms of three main components, namely: the effect of changes to the economic assumptions, number of members, and changes in the experience compared to what was expected as at the previous valuation.

1.3 Investment property

SANRAL's primary responsibility relates to the construction and maintenance of national roads, but in execution of its normal responsibilities SANRAL may also become the owner of surplus land (outside road reserve). Although such land is often alienated, SANRAL does not, per se, hold it for sale as part of its ordinary course of business. All surplus land that is not "owner occupied" is considered to be investment property taking into account the company policy (R10 000 threshold).

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the entity, and the cost of the investment property can be measured reliably. Investment property is held either to earn rental income or for capital appreciation or for both purposes.

Significant Accounting Policies

1.3 Investment property (continued)

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. Subsequent to initial measurement, investment properties are carried at fair value which is considered to be market value at reporting date. The fair value on investment properties is determined by independent external valuers at the end of each reporting period. The fair value of investment properties was determined using the widely accepted "comparable sales method", taking into consideration the size, shape, accessibility and existing rights of the property.

In certain circumstances it is difficult to distinguish investment property from owner-occupied property. In those circumstances the criteria used to distinguish investment property is based on the use. Where property within road reserve is leased together with a portion outside the road reserve, the whole lease property will be regarded as investment property. When the use of investment property changes such that it is reclassified as property, plant and equipment, its carrying value/cost is the fair value on the date of reclassification for subsequent accounting. Investment property classified as held for sale is measured in terms of IFRS 5. Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected. When investment property is derecognised, the carrying value is eliminated from the statement of financial position and the gains or losses arising from the disposal is recognised in profit or loss in the year of disposal.

Fair value

Subsequent to initial measurement, investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net profit or loss for the period in which it arises.

There are no property interests held under operating leases which are recognised as investment property.

1.4 Property, plant and equipment including PPE under concession

Property, plant and equipment are tangible assets which the entity holds for its own use or for rental to others and which are expected to be used for more than one year.

Recognition and measurement

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the entity, and the cost of the item can be measured reliably. SANRAL has assets measured under the cost model and some under the revaluation model.

Property, plant and equipment are initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the entity and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Subsequent to initial recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses, except for land, buildings, road structures and road networks which are stated at revalued amounts.

Land, road structures and road networks are subsequently stated at revalued amount at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. An overall priority index and overall condition index are applied to calculate the depreciation on the revaluation gain. This cost model is used to calculate depreciation on historical cost of the revalued assets as well. Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity.

Revaluations are made annually so that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting date.

When an item of property, plant and equipment is revalued, the gross carrying amount is adjusted consistent with the revaluation of the carrying amount. The accumulated depreciation at that date is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

Significant Accounting Policies

1.4 Property, plant and equipment including PPE under concession (continued)

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is recognised in other comprehensive income and accumulated in the revaluation reserve in equity. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current year. The decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in the revaluation reserve in equity.

Non-toll assets are non-cash-generating assets. Non-toll assets do not create cash flows from their use, and a market for non-toll roads does not exist. IFRS does not specifically cover the impairment of non-cash-generating assets, and in such cases it allows other sources such as pronouncements of other standard setting bodies to be considered. Therefore, the use of IPSAS is not a departure from IFRS. The determination of the carrying amount of non-cash-generating assets is guided by the International Public Sector Accounting Standard (IPSAS 17). IPSAS 17 par 14 states that, "The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost or fair value of the item can be measured reliably."

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as deemed appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance costs are recognised in profit or loss during the reporting period in which they are incurred.

Depreciation and useful lives

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the entity. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Useful life
Buildings	Straight line	50 years
Equipment, vehicles and furniture	Straight line	3 - 30 years
Road network - road beds	Straight line	50 years
Road network - pavement layers	Straight line	20 years
Road structures	Straight line	50 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate except where its regarded as a prior period error.

Road beds are initially assumed to have a useful life of 50 years, and for road layers and structures the associated depreciation rate is related to condition indexes calculated from detailed condition assessments. The frequency of these condition assessments is related to the deterioration trend of the asset component, and ranges from one to five years.

For roads that are still in use, the road beds will have minimum remaining life of three years. This limit is introduced to prevent anomaly of road sections that are in daily use, yet roadbed is valued at zero.

Land is not depreciated.

The depreciation charge for each year is recognised in profit or loss.

Impairment assessment

Significant Accounting Policies

1.4 Property, plant and equipment including PPE under concession (continued)

Impairment loss is determined on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.5 Intangible assets

An intangible asset is recognised when:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost including directly attributable costs. SANRAL has two types of intangible assets; computer software and wayleaves.

Computer software arising from internal development is recognised when:

- It is technically feasible to complete the asset so that it will be available for use or sale.
- There is an intention to complete and use or sell it.
- There is an ability to use or sell it.
- It will generate probable future economic benefits.
- There are available technical, financial and other resources to complete the development and to use or sell the asset.
- The expenditure attributable to the asset during its development can be measured reliably.

A wayleave is a right of access to a property. All wayleave agreements are with respective landowners.

SANRAL has two types of wayleave agreements:

- Finite wayleave agreements: Wayleaves that have a finite period as per the contract. Finite agreements are as a result of SANRAL needing rights to access for a defined period, which is called the contract period. The landowners make the required part of their premises available to SANRAL for an agreed period of time in return for an agreed upon amount. The contract amount is then capitalised and amortised over the contract period.
- Indefinite wayleave agreements: Wayleaves that have an indefinite contractual period. Indefinite agreements are entered into where SANRAL reserves the right to access the property but not the ownership of the property (e.g. communal/tribal land that cannot be transferred back to the landowner). The contract amount is capitalised and the wayleaves are not amortised.

Amortisation commences when the intangible assets are available for their intended use.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at the end of reporting period.

Subsequent expenditure on capitalised intangible assets is capitalised only when it is probable that additional future economic benefits embodied within the wayleave will flow to the entity and the cost of such items can be measured reliably. All other expenditure is expensed as incurred.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Significant Accounting Policies

1.5 Intangible assets (continued)

Item	Useful life
Computer software	10 - 15 years
Wayleave agreements (finite)	Contract period
Wayleave agreements (indefinite)	Not amortised

Intangible assets are derecognised:

- on disposal, or
- when no future economic benefits are expected from their use or disposal.

1.6 Financial instruments

Financial instruments held by the entity are classified in accordance with the provisions of IFRS 9 Financial Instruments.The classification depends on the entity's business model for managing the financial instruments and contractual terms of the cash flows.

Financial assets

The entity classifies its financial assets in the following measurement categories:

- Those subsequently measured at amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or
- Those subsequently measured at fair value through profit or loss. (This classification automatically applies to all financial instruments which do not qualify as at amortised cost.

Recognition

Purchases of financial assets are recognised on trade date, which is the date on which the entity signs the contract to purchase the asset.

Measurement

Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets carried at fair value through profit or loss where the transaction costs are expensed.

Subsequently, financial assets measurement in line with their classification, which depends on the business model for managing the assets and cash flows characteristic of the financial assets, as explained above on each category.

For financial assets measured at amortised cost, interest income from these financial assets is calculated using effective interest rate method and included in finance income. Any gain/losses on derecognition is recognised directly in profit or loss. Impairment losses are presented separately.

For financial assets measured at fair value, gains and losses will either be recognised in profit in the period in which it arises and presented net with other gains and losses. The entity reclassifies financial assets only when its business model for managing that class of assets changes.

Impairment

The entity assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost.

Financial liabilities

Classification

The entity classifies its financial liabilities in the following measurement categories:

- Amortised cost; or
- Mandatorily at fair value through profit or loss. (This applies to market-making liabilities which are defined in IFRS 9 as held for trading); or

Significant Accounting Policies

1.6 Financial instruments (continued)

- Designated at fair value through profit or loss. (This classification option is applied to eliminate a possible accounting mismatch; the liability forms part of a group of financial instruments managed on a fair value basis). The effects of credit risk for both market making financial assets and liabilities (held-for-trading) are recognised in profit or loss to ensure no mismatch effect on profit or loss rather than other comprehensive income (OCI).

Refer to notes 8,14, 15 and 41.

Measurement and recognition

Financial liabilities are initially recognised at fair value and subsequently in accordance with their classification above or measurement categories.

Note 41 Financial instruments and risk management presents the financial instruments held by the entity based on their specific classifications.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the entity are presented below.

Significant Accounting Policies

1.6 Financial instruments (continued)

Trade and other receivables

Classification

Trade receivables are amounts due from customers for services performed in the ordinary course of business of the entity (toll fees). They are generally due for settlement within 31 days, therefore are classified as current. Trade receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets, are initially recognised at a consideration that is unconditional. The entity holds trade receivables to collect contractual cash flows and therefore they are subsequently measured at amortised cost using the effective interest rate method (note 9).

Recognition and measurement

Trade and other receivables are recognised when the entity becomes a party to the contractual provisions of the receivable. They are measured, at initial recognition, as per the revenue policy (IFRS 15) and they are subsequently measured at amortised cost. No interest income is recognised on trade receivables.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Fair value

The fair value of trade receivables is considered to be the same as the carrying amount due to the short-term nature of the current trade receivables.

Impairment/expected credit losses

The entity recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

Measurement and recognition of expected credit losses

The entity makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

Default rates are determined using the ageing analysis, thus, the loss allowance is calculated on a collective basis per portfolio for all trade and other receivables. Details of the provision matrix is presented in note 9.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in operating expenses in profit or loss as a movement in credit loss allowance (note 27).

Bad debts write off policy

The entity writes off a receivable when there is information indicating that the debtor is in severe financial difficulties and there is no realistic prospect of recovery, for example, when the counterpart is deceased or has entered into bankruptcy proceedings. Any recoveries made are recognised in profit or loss.

Credit risk

Details of credit risk are included in the trade and other receivables note (note 9) and the financial instruments and risk management note (note 41).

Significant Accounting Policies

1.6 Financial instruments (continued)

Trade and other payables

Classification

These amounts represent liabilities for unpaid goods and services provided to the entity before financial year end. These amounts are unsecured and are usually settled within 30 days of receipt of an invoice or recognition. Therefore they are presented as current. Trade and other payables (note 21), excluding VAT and amounts received in advance, are classified as financial liabilities.

Recognition and measurement

They are recognised when the entity becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

Their carrying amount is considered to be the fair value at reporting date due to the short-term nature of the current trade and other payables.

Trade and other payables expose the entity to liquidity risk and possibly to interest rate risk. Refer to note 41 for details of risk exposure and management thereof.

Third party funding

Third-party funds are monies received in advance from other entities which relate to projects managed by SANRAL, including assets owned by the other entities. They contribute their proportionate share to the projects.

Third-party funding is measured at amortised cost as it does not have a fixed maturity date.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial liabilities at fair value through profit or loss

Classification

Financial liabilities which are held for trading are mandatorily classified as financial liabilities at fair value through profit or loss. Refer to note 14.

The entity, has designated certain financial liabilities as at fair value through profit or loss. The reason for the designation is to reduce or significantly eliminate an accounting mismatch which would occur if the instruments were not classified as such; or if the instrument forms part of a portfolio of financial instruments which are managed and evaluated on a fair value basis. IFRS 9 permits the entire contract to be measured at fair value through profit or loss. Refer to note 14 for details.

Recognition and measurement

Financial liabilities at fair value through profit or loss are recognised when the entity becomes a party to the contractual provisions of the instrument. They are measured, at initial recognition and subsequently, at fair value. Transaction costs are recognised in profit or loss.

For financial liabilities designated at fair value through profit or loss, the portion of fair value adjustments which are attributable to changes in the company's own credit risk, are recognised in other comprehensive income and accumulated in equity in the reserve for valuation of liabilities, rather than in profit or loss. However, if this treatment would create or enlarge an accounting mismatch in profit or loss, then that portion is also recognised in profit or loss.

Interest paid on financial liabilities at fair value through profit or loss is included in finance costs.

Significant Accounting Policies

1.6 Financial instruments (continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost are initially recognised at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Interest is recognised as finance cost in the profit or loss in the period incurred.

Cash and cash equivalents

Cash and cash equivalents are initially recognised at fair value and subsequently accounted for at amortised cost which approximates its fair value. Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash.

Bank overdrafts

The entity does not have bank overdraft but negative bank balances at reporting date which are netted off against cash and cash equivalents on the statement of financial position.

Derecognition

Financial assets

The entity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the entity recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the entity continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The entity derecognises financial liabilities when, and only when, the entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Significant Accounting Policies

1.7 Financial instruments: IAS 39 comparatives

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss - held for trading.
- Loans and receivables.
- Financial liabilities at fair value through profit or loss - held for trading.
- Financial liabilities at fair value through profit or loss - designated.
- Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

The company has classified the following financial assets as at fair value through profit or loss financial assets, as they are held-for-trading:

- Market-making investments (consisting of approved listed non-SANRAL bonds to create a market in order to reduce the cost of funding).

The company has classified the following as loans and receivables:

- Money market instruments (callable loans, cash deposits, cash on hand and current bank accounts).
- Receivables (trade and other receivables as well as accrued income).

Financial liabilities not classified as at fair value through profit or loss are classified at amortised cost. Financial liabilities are measured at amortised cost using the effective interest method.

The company has classified the following financial liabilities as financial liabilities at amortised cost:

- SANRAL bonds included in the funding portfolio.
- CPI-linked loan.
- Repurchase transactions where SANRAL is the initial seller of assets.
- Interest-bearing loans and borrowings (such as the European Investment Bank (EIB) loan).
- Trade and other payables.

Initial recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Net gains or losses on the financial instruments at fair value through profit or loss exclude dividends and interest.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Significant Accounting Policies

1.7 Financial instruments: IAS 39 comparatives (continued)

Derecognition

Financial assets (or, where applicable, parts of financial assets, or parts of a group of similar financial assets) are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset.

In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

On derecognition, the difference between the carrying amount of the financial asset, proceeds receivable and any prior adjustment to reflect the fair value which has been reported in other comprehensive income and accumulated in equity, are included in profit or loss for the period.

Financial liabilities (or portions thereof) are derecognised when the obligation specified in the contract is discharged, cancelled or expired. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and the amount paid for it, are included in profit or loss for the period.

Impairment of financial assets

The company assesses carrying amounts of financial assets carried at amortised cost at each reporting date to determine whether there is any indication of impairment. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant individual financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment of trade receivables is recognised when there is objective evidence that SANRAL will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the trade receivable is impaired.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss.

Gains and losses

Gains and losses (realised and unrealised) resulting from changes in market yields and realisation of financial instruments at fair value through profit or loss are included in profit or loss for the period in which they arise. Unrealised gains/losses equate to the difference between the fair value (clean price) at the previous valuation period and the fair value (clean price) at valuation date. Realised gains/losses comprise proceeds of the carrying amount.

Gains and losses due to impairment are recognised as stated in the paragraph dealing with impairment.

Significant Accounting Policies

1.7 Financial instruments: IAS 39 comparatives (continued)

Sale and repurchase agreements

A repurchase agreement is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial asset at a future date for an amount equal to the cash or other consideration exchanged plus interest, effectively providing the transferee with a lender's rate of return. Repurchase agreements are utilised to place or borrow short-term cash with different institutions. The difference between the amount paid for the purchase of financial assets and the amount received for the sale of financial assets represents interest.

SANRAL entered into repurchase (repo) agreements as part of its trading activities.

When entering a repo transaction, SANRAL either becomes the outright owner (borrowing stock, investing cash), or fully transfers ownership (lending stock, borrowing cash) of the bonds to the counterpart. There are no restrictions on the bonds during the period of the repo transaction for either party, other than that the second leg of the repo transaction has to be honoured by both parties.

Securities purchased under agreements to resell are recognised under "receivables" as "repurchase agreements". The underlying securities purchased under repurchase agreements are not recognised by the company. Likewise, underlying securities sold under repurchase agreements are not derecognised by the company. A payable is recognised for the repurchase transaction, and recognised as "repurchase obligations" under "payables".

The risk that the company is exposed to is discussed in note 41.

The differences between the purchase and sale prices are treated as interest and are accrued using the effective interest method.

Offset

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans to shareholders, directors, managers and employees

These financial assets are classified as loans and receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Third-party funding

Third-party funds are moneys received in advance from other entities which relate to projects managed by SANRAL, including assets owned by the other entities. They contribute their proportionate share to the projects.

Third-party funding is measured at cost as it does not have a fixed maturity date. The fair value of such items approximates their carrying value.

1.8 Tax

Tax expenses

SANRAL was exempted from income tax in the Government Gazette of 22 December 2003, in terms of S10(1)(t)(iii) of the Income Tax Act of 1962. This exemption was backdated to the inception of the company.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Significant Accounting Policies

1.9 Leases (continued)

Operating leases - lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed as other income in profit or loss.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset/liability. This asset/liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.10 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through 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. Due to the nature of land or property sales at SANRAL, the sale is regarded as highly probable and it is likely that the sale will be completed when there is a non-cancelable offer or the transaction has been transferred to an appointed conveyancer.

Non-current assets (or disposal groups) held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Investment property held for sale continues to be measure at fair value model after classification as non current assets held for sale thus is not assessed for impairment as this is considered in the fair value model.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale or while it is part of a disposal group classified as such.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in profit or loss.

1.11 Impairment of non-financial assets

Impairment of toll assets (road construction assets self-funded through toll fees)

At each reporting date, the company reviews the carrying amounts of its toll assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount of toll assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment of non-toll assets (state-funded through government grants)

Significant Accounting Policies

1.11 Impairment of non-financial assets (continued)

The recoverable amount of non-toll assets is the greater of an asset's fair value less cost to sell and value in use. Non-toll assets are non-cash-generating assets. Non-toll assets do not create cash flows from their use, and a market for non-toll roads does not exist. IFRS does not specifically cover the impairment of non-cash-generating assets, and in such cases allows other sources such as pronouncements of other standard setting bodies to be considered. The determination of the carrying amount of non-cash-generating assets are discussed in International Public Sector Accounting Standard 21 (IPSAS 21). In accordance with IPSAS 21 value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using depreciated replacement cost. The company measures its non-toll assets (road network, structures and land) on the revaluation model, based on depreciated replacement cost. Therefore the company's valuation already takes any impairment effect into consideration, and no further specific impairment test is performed on non-toll assets. The remaining assets (equipment, vehicles, furniture, buildings and assets under construction) are measured on the cost model.

Impairment loss

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its long term recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Revalued assets

Impairment loss on revalued assets are recognised as a decrease in the revaluation reserve in other comprehensive income. A reversal of impairment loss is recognised as an increase in the revaluation reserve in other comprehensive income, limited to the assets' revalued amount.

1.12 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Currently the company has normal issued share capital and share premium accounted for as equity instruments. Directly attributable costs with issuing of equity instruments are deducted against equity.

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care) are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

The company operates a defined contribution plan, the assets of which are held in a separate trustee-administered fund. The provident fund is funded by payments from the company, taking into account the recommendations of independent qualified actuaries. The company's contributions to the defined contribution plans are recognised in profit or loss account as an employee benefit expense in the year to which they relate.

The company has employees who are members of the Government Employees' Pension Fund (GEPF). Contributions to the GEPF are recognised in profit or loss account in the year to which they relate as part of cost of employment. The company has no legal or constructive obligation to pay further contributions if the GEPF does not hold sufficient assets to pay all employees their benefits relating to employee service in the current and prior periods.

Significant Accounting Policies

1.13 Employee benefits (continued)

Defined benefit plans

For defined benefit plans (post-retirement medical aid) the cost of providing the benefits is determined using the projected unit credit method.

Separate actuarial valuations are conducted for this plan on an annual basis by independent actuaries.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In profit or loss, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.14 Provisions

Provisions are recognised when:

- The entity has a present obligation as a result of a past event.
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- A reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Where the effect of discounting to present values is material, provisions are adjusted to reflect the time value of money, and where appropriate, the risk specific to the liability. The unwinding of such discount is recognised as finance cost.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

Provision for rehabilitation costs

Provision for rehabilitation costs is based on the contractual agreement signed with the contractors maintaining or constructing the road networks and increased over the life span of the project. Once the project is complete, the provision for rehabilitation costs is reversed as the actual cost has been incurred and recognised appropriately.

Provision for rehabilitation costs for projects that are capital in nature is capitalised to the respective assets. Rehabilitation costs for projects that are operational in nature are expensed in profit or loss when incurred.

Significant Accounting Policies

1.14 Provisions (continued)

Provision for overload control

Provision for overload controls is based on the contractual agreement signed with the concessionaires regarding control of overloading on the road network operated by concessions. SANRAL expects concessionaires to claim amounts due within a year, as they rehabilitate the road network.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

1.15 Government grants

The entity receives a significant amount of income from National Treasury as a government grant. The grant is unconditional and it is for capital and operating expenditure. Government grants are recognised when there is reasonable assurance that:

- the entity will comply with any conditions attached to them; and
- the grants will be received.

Government grants received to compensate the company for capital expenditure (the cost of an asset) are included in non-current liabilities as deferred income and are released to income on a systematic basis in subsequent years over the estimated life of the related assets. Government grants received as compensation for acquisition of land are recognised as income when received, because land is not deferred.

Government grants to compensate the company for expenses incurred are recognised in profit or loss immediately. The unspent portion of a grant is included in non-current liabilities as deferred income.

1.16 Revenue from contracts with customers

Revenue has been disaggregated using existing segments and presentations are regularly reviewed by management and decision makers.

In recognising revenue from toll transactions the following five steps were applied:

- Identify contract with customers.
- Identify the performance obligation in contract.
- Determine the transaction price.
- Allocate transaction price to performance obligation in contract.
- Only recognise revenue when or as the entity satisfies the performance obligation in contract.

Revenue is measured based on the consideration specified in a contract with a customer. When the entity satisfies the performance obligation, the entity recognises the transaction price as revenue. Transaction price is initially the toll tariff per vehicle type as approved by the Minister in a published gazette. Transaction price is adjusted to reflect the amount that the entity expects to be entitled in exchange for goods and services. Transaction price excludes amounts collected on behalf of third-parties, payables to customer, contingent amounts, exempt transactions, discounts and foreign transactions as SANRAL does not expect to receive any income from these transactions. Transaction price includes estimated variable consideration. Accumulated experience or trend analysis is used to estimate and provide for the discounts using the expected value method. Thus revenue that relates to variable consideration is only recognised to the extent that it is highly probable and that no significant reversals will occur.

Contract liability

Income received in advance (prepaid) is regarded as a contract liability. A contract liability is the obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the entity transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue only when the entity performs its contractual obligation. Revenue received in advance is measured at the amount of consideration received from the customer. Contract liabilities are disclosed in the notes as trade and other payables.

Contract assets

The entity do not have any contrat assets.

Refer to critical judgments and assumptions in the recognition and measurement of revenue in note 1.2.

Significant Accounting Policies

1.17 Irregular and fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of the PFMA. Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. Irregular, fruitless and wasteful expenditure is recorded in the year that it was incurred (accrual basis). An investigation should be conducted and if it is found that an official was negligent, income should be recognised in profit or loss with a corresponding debtor.

1.18 Public private partnerships (PPPs)

PPPs entail private entities taking substantial risks for financing a project's capital and operating costs, designing and building a facility, and managing its operations to specified standards, normally over a significant period of time. In a PPP, the land typically belongs to the public institution, not to the private party, and the property, plant and equipment developed in terms of the PPP are thus state property.

Concession Income

Where concessionaires have the right to charge and collect tolls, the company does not recognise any revenue. In circumstances where the concessionaire is required to pay a fee to the company, this amount is recognised as concession income and included in other income.

Assets and depreciation

Toll concessions give the concessionaire the right to use the toll assets, while the company retains the title and ownership of the assets. Items of property, plant and equipment under concession agreements are recognised and measured in accordance with policies for property, plant and equipment.

Guarantees

Concessionaires are required to obtain guarantees in the form of performance bonds in favour of the company, relating to construction work, operation and maintenance activities of the concessionaire.

1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- Expenditures for the asset have occurred.
- Borrowing costs have been incurred.
- Activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as finance cost in the period in which they are incurred.

1.20 Other income

Other income includes contributions from other spheres of government and the private sector. For managing projects this includes assets owned by other entities and they contribute their proportionate share to the projects for SANRAL's management.

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease accordance with applicable standard.

Significant Accounting Policies

1.20 Other income (continued)

Concession income is recognised on a straight-line basis over the term of the concession contract; as and when the performance obligations are satisfied. Refer to note 1. 18 on PPPs.

All other sundry income is recognised at fair value of consideration receivable or in accordance with any other applicable standard.

Interest income from these non-financial assets is included in other income.

1.21 Investment income and finance cost

Investment or finance income comprises interest income on funds invested in financial assets measured at amortised cost and those measured at fair value through profit or loss. Finance cost comprise interest expenses on funds borrowed and changes in fair value of financial liabilities.

Interest income and expenses are recognised on a time proportion basis, taking account of the principal outstanding and the effective interest rate over the period to maturity. Interest income and expenses are recognised in profit or loss for all interest bearing instruments on an accrual basis using the effective interest method, except for market-making financial assets and liabilities.

The coupon interest of bonds included in market-making financial assets and liabilities is included under interest income and expense respectively. The remaining difference between interest calculated on amortised cost based on the effective interest and coupon interest is disclosed as part of held-for-trading gains and losses. Where financial assets have been impaired, interest income continues to be recognised on the impaired value, based on the original effective interest rate.

Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest method basis.

Net changes in fair value adjustments from financial assets at fair value through profit or loss are included in net fair value gains/(losses) presented in profit or loss.

Significant Accounting Policies

1.22 Segment information

Operational segment identification

For management purposes, SANRAL is currently organised into two divisions: toll and non-toll operations. These business segments' operating results are regularly reviewed by the entity's chief operating decision maker, and used to make decisions about resources to be allocated to the segments, as well as to assess their performance.

SANRAL considered the following factors during the identification of the reportable segments:

- Nature of the products/services rendered by the segment
- Nature of revenues generated by the segment
- Nature of expenses incurred by the segment
- Nature of the funding used to finance segment activities.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise investments (other than investment properties) and related revenue, loans and borrowings and related expenses, corporate assets (primarily head office) and head office expenses. There are no transactions between the business segments. Segment assets consist primarily of land, buildings, roads and equipment. Segment liabilities comprise deferred income and long-term liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill and is directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Source of segment revenue

The toll operating segment derives its revenue from levying toll fees from toll road users, as well as from concession fees from the concession contracts entered into with the concessionaires of certain national roads in South Africa. Specific grants from government for toll funding are also recognised as revenue, to the extent they have been realised. The balance is deferred.

The non-toll operating segment derives its revenue from government funding in the form of government grants.

Measurement of items reported in segment reporting

The amount of each segment item reported is the measure reported to the chief operating decision-maker for the purposes of making decisions about allocating resources to the segments and assessing their performance.

1.23 Contingent liabilities and assets

Contingent liabilities and assets are not recognised in statement of financial position and statement of financial performance but rather included in the notes to the financial statements when it is probable that an inflow or outflow of economic benefits will flow to or from the entity.

Notes to the Annual Financial Statements

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Application of IFRS 9 Financial Instruments

In the current year, the entity has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS's. IFRS 9 replaces IAS 39 Financial Instruments and introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the entity's financial statements are described below.

The entity has applied IFRS 9 without restating comparatives in accordance with the transition provisions set out in IFRS 9.

Classification and measurement of financial assets

The date of initial application (that is, the date on which the entity has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 April 2018. Accordingly, the entity has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 April 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. Comparatives in relation to instruments that have not been derecognised as at 1 April 2018 have not been restated. Instead, cumulative adjustments to retained earnings have been recognised in retained earnings as at 1 April 2018. (beginning of the current financial year).

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The measurement requirements are summarised below:

Financial assets that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are subsequently measured at amortised cost.

All other financial assets are subsequently measured at fair value through profit or loss.

Management reviewed and assessed the entity's existing financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the company's financial assets as regards to their classification and measurement:

Financial assets and financial liabilities at amortised cost have not been reclassified since the adoption of IFRS 9. Financial assets and liabilities at fair value through profit and loss and held-for-trading have also not been reclassified. The carrying amounts, which remain unchanged from IAS 39, are reported in notes 8, 11, 14 and 15 respectively.

The entity has changed the presentation of net gains/(losses) in the statement of financial performance to align to the principles of IFRS 9 and IFRS 7. Net gains/(losses) from financial assets were previously included in investment income and are now separately presented. Refer to note 26.

Interest income from non-financial assets previously included in investment income is now included in other income while interest income from financial assets remain as investment or finance income. Refer to note 25.

Other receivables

Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Notes to the Annual Financial Statements

2. Changes in accounting policy (continued)

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the entity to recognise a loss allowance for expected credit losses on financial assets subsequently measured at amortised cost. In particular, IFRS 9 requires the entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the entity is required to measure the loss allowance for that financial instrument at an amount equal to 12 months' expected credit losses. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables in certain circumstances.

As at 1 April 2018, management reviewed and assessed the entity's existing financial assets and amounts due from customers for impairment using reasonable and supportable information that was available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at 1 April 2018.

The entity applied the IFRS 9 simplified approach to measure the expected credit losses, which uses the lifetime expected loss allowance for trade receivables. This resulted in an increase in the loss allowance on 1 April 2018 of R3.854bn for trade receivables. The loss allowance increased by R109m to R10.3bn during the current period to 31 March 2019. In 2018, additional impairment was calculated in terms of IAS 39 paragraph 63 which has fallen away with the introduction of IFRS 9. An increase in impairment due to IFRS 9 has been restated in the current year. Refer to note 9 for the reconciliation of the impairment loss.

Classification and measurement of financial liabilities

One of the changes introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of financial liabilities designated as at fair value through profit or loss attributable to changes in the credit risk of the issuer.

The application of IFRS 9 has had no other significant impact on the classification and measurement of the entity's financial liabilities.

Application of IFRS 15 Revenue from contracts with customers

In the current year, the entity has applied IFRS 15 Revenue from Contracts with Customers (as revised in April 2016) and the related consequential amendments to other IFRS's. IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programme, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 introduces a five-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the entity financial statements are described below. Refer to the revenue accounting policy for additional details.

The entity has applied IFRS 15 with an initial date of application of 1 April 2018 in accordance with the cumulative effect method (modified retrospective approach IFRS 15.C3(b)). The entity did not have contracts with customers that were not complete at the end of the prior year or at 1 April 2018. The entity also did not have contract modifications that occurred before the date of initial application. Thus the comparative information has not been restated.

The entity has applied IFRS 15 without using the practical expedients for completed contracts and contract modifications in IFRS 15. The main changes are explained below:

Accounting for toll income

Notes to the Annual Financial Statements

2. Changes in accounting policy (continued)

Toll income meets the five-step approach and therefore qualifies to be recognised as revenue from contracts with customers as per IFRS 15. Toll income is recognised at a point in time (refer to note 1.2 for significant judgments). The adoption of IFRS 15 has resulted in e-toll revenue of R1.841bn to be disregarded as it could not meet the new probability criteria. As a result e-toll revenue has decreased by 63% from R1.866bn recognised in 2018.

In assessing the probability criteria, the new standards requires consideration of the road users intention and ability to pay the transaction price when it is due. This was not a requirement in IAS 18. IAS 18 did not provide sufficient guidance on assessing the probability. Management made its own judgments.

The time value of money effect on revenue from GFIP/e-tolls was reviewed and management decided that there is no significant financing component (IFRS 15 para 63) and thus the corresponding trade receivables will also not be discounted and no interest will be charged.

Revenue will be disaggregated the same way (non-toll, conventional toll and GFIP/e-toll revenue) as in the prior year, however there will be enhancements in the presentation and disclosure. The major impact is on the impairment (expected credit losses). Refer to impact on IFRS 9.

Contract assets and contract liabilities

Contract liabilities in relation to amounts received in advance from road users were previously included in trade and other payables of R146m at 31 March 2018. Contract liabilities are separately disclosed in the notes on trade and other payables.

The entity does not have contract assets.

Impact on profit or loss for the year ended 31 March 2019

There was no effect of the changes in accounting policy on the annual financial statements for the year ended 31 March 2018.

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Amendments to IAS 40: Transfers of Investment Property

The amendment deals specifically with circumstances under which property must be transferred to or from investment property. The amendment now requires that a change in use of property only occurs when the property first meets, or ceases to meet, the definition of investment property and that there is evidence of a change in use. The amendment specifies that a change in management's intentions for use of the property, does not, in isolation, provide evidence of a change in use.

The effective date of the amendment is for years beginning on or after 1 January 2018.

The company expects to adopt the amendment for the first time in the 2019 annual financial statements.

The entity currently does not have any transfers to or from investment property therefore there is no impact relating to this amendment.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licences and royalties.

The effective date of the amendment is for years beginning on or after 1 January 2018.

The company has adopted the amendment for the first time in the 2019 annual financial statements.

The impact of the amendment is not material.

IFRS 9: Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, financial instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal, are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.

The effective date of the standard is for years beginning on or after 1 January 2018.

The entity has adopted the standard for the first time in the 2019 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programme; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 1 January 2018.

The company has adopted the standard for the first time in the 2019 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

3.2 Standards and interpretations not yet effective

The entity has chosen not to adopt the following standards and interpretations early. They have been published and are mandatory for the entity's accounting periods beginning on or after 1 April 2019 or later periods:

Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment specifies that when determining the weighted average borrowing rate for purposes of capitalising borrowing costs, the calculation excludes borrowings which have been made specifically for the purposes of obtaining a qualifying asset, but only until substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

The effective date of the amendment is for years beginning on or after 1 January 2019.

IFRS 16 Leases

IFRS 16: Leases is a new standard which replaces IAS 17: Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the entity are as follows:

Entity as lessee:

- IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
- The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.
- Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

Entity as lessor:

- The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The effective date of the standard is for years beginning on or after 1 January 2019.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The entity expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the company's annual financial statements. The entity does not have significant leases where the entity is a lessee.

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published, not yet effective and will not have material impact on the entity's financial statements:

Insurance contracts (IFRS 17) was issued in May 2017 and its effective for annual reporting periods beginning on or after 1 January 2021. The standard replaces IFRS 4 on insurance contracts. SANRAL does not issue insurance contracts, therefore the standard does not have an impact on the entity's financial statements.

Interpretations 23 uncertainty over income tax treatments was issued June 2017 and effective for annual reporting periods beginning on or after 1 January 2019. The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities. SANRAL is exempt from income tax therefore the interpretation is not applicable and will not have an impact on the entity's financial statements.

The following forthcoming amendments are effective for annual reporting beginning on or after 1 January 2019 will not have any material impact on the entity's financial statements.

- Amendments to IFRS 9 - Prepayment features with negative compensation.
- Amendments to IAS 19 - Plan amendment, curtailment or settlement.
- Amendment to IAS 1 and 8 - Disclosure initiative (definition of material).

Notes to the Annual Financial Statements

4. Property, plant and equipment under concession

	2019			2018		
	Cost/valuation R'000	Accumulated depreciation R'000	Carrying amount R'000	Cost/valuation R'000	Accumulated depreciation R'000	Carrying amount R'000
Buildings	1,002,960	(194,198)	808,762	967,228	(174,796)	792,432
Road structures	9,662,892	(1,135,643)	8,527,249	7,820,713	(882,783)	6,937,930
Equipment	400,900	(143,565)	257,335	507,279	(269,096)	238,183
Property, plant and equipment under construction	1,884,364	-	1,884,364	2,230,796	-	2,230,796
Road network	47,755,209	(9,804,383)	37,950,826	45,932,530	(9,107,579)	36,824,951
Total	**60,706,325**	**(11,277,789)**	**49,428,536**	**57,458,546**	**(10,434,254)**	**47,024,292**

Notes to the Annual Financial Statements

4. Property, plant and equipment under concession (continued)

Reconciliation of property, plant and equipment under concession - 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Revaluations R'000	Depreciation R'000	Total R'000
Buildings	792,432	573	-	35,160	-	(19,403)	808,762
Road structures	6,937,930	86,271	(463)	74,676	1,441,333	(12,498)	8,527,249
Equipment	238,183	23,320	-	20,830	-	(24,998)	257,335
Property, plant and equipment under construction	2,230,796	735,706	-	(1,082,138)	-	-	1,884,364
Road network	36,824,951	70,585	(589)	951,472	483,522	(379,115)	37,950,826
	47,024,292	**916,455**	**(1,052)**	**-**	**1,924,855**	**(436,014)**	**49,428,536**

Reconciliation of property, plant and equipment under concession - 2018 restated

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Revaluations R'000	Depreciation R'000	Total R'000
Buildings	812,095	-	(317)	-	-	(19,346)	792,432
Road structures	6,455,392	21,528	-	-	473,155	(12,145)	6,937,930
Equipment	226,642	8,451	(16)	28,636	-	(25,530)	238,183
Property, plant and equipment under construction	2,075,646	988,945	-	(833,795)	-	-	2,230,796
Road network	33,946,281	64,054	(33,517)	805,159	2,406,068	(363,094)	36,824,951
	43,516,056	**1,082,978**	**(33,850)**	**-**	**2,879,223**	**(420,115)**	**47,024,292**

Notes to the Annual Financial Statements

4. Property, plant and equipment under concession (continued)

Pledged as security

There is no property, plant and equipment (PPE) under concession pledged as security for liabilities.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

Revaluation of road network and structures

Road network and structures are valued at depreciated replacement cost based on the estimated present cost of reconstructing an existing assets by the most appropriate current method of construction, reduced by factors for the age and condition of the asset. The estimated present material unit costs are assumed to be uniform across the country. The material unit rates were determined using bottom-up approach from basic principles by independent estimator, Mr D Zagaretos, a qualified civil engineer with 52 years of experience, the last 23 years of which he has specialising in contract price estimations for the construction industry.

The depreciated replacement cost methodology, where replacement cost is based on that of modern equivalent asset, as utilised by SANRAL, is in direct alignment with the recommendations contained in International Infrastructure Management Manual (IIMM) for specialised assets which are rarely, if ever, sold on the open market. This manual is used internationally in Australia, New Zealand, United Kingdom, Canada, South Africa and other countries. The 2019 replacement cost is calculated using unit rates obtained from the independent estimator.

The depreciation of the asset is then calculated using straight-line depreciation for the roadbed portion and condition-based depreciation for the pavement layers and structures. Pavement condition data is collected using survey vehicles equipped with lasers and 2D/3D cameras enabling the determination of various pavement condition indicators for each 10m of the road network on a two-year basis. The bridges are inspected by certified independent inspectors on a five-year basis. The last full inspection was done in 2017 financial year.

The actual condition is then used to determine the depreciation rate that should be applied to the pavement layers for each 1km of road and to the structures.

Factors impacting on the value of SANRAL roads:

a. Percentage network change: In 1998, SANRAL had just less than 7 000km of roads in its asset portfolio. The incorporation of roads from provinces has increased this over the period, bringing the total to 22 214km at March 2019. This expansion has had a significant impact on the value of assets.

b. Percentage CPA change: In determining replacement cost, the cost of construction is driven by various input costs such as the cost of bitumen (crude oil), diesel for construction plant operations, cement, steel and aggregate. Stats SA publishes the Construction Price Adjustment (CPA) factor, which all construction contracts are linked to, on a monthly basis.

c. Percentage good condition: Any reseal, overlay, or strengthening work performed on the assets impacts on the condition of the asset, the remaining life of the asset and thus the condition-based depreciation of the asset.

d. Percentage with > 5000 vehicles per day: The volume and composition of traffic (light/heavy vehicles) which a road carries determine the standard to which the road must be built or maintained. This means that a road carrying 200 000 vehicles a day, will require additional lanes per direction and more pavement layers using higher quality materials than a road carrying less than 500 vehicles a day. This impacts on the replacement cost of the 1km section of road.

e. The topography: The flat, rolling or mountainous nature of the area has an impact on the size and extent of cuttings and fills and thus on the replacement cost of the 1km section of road.

f. The climate: An arid, moderate or wet climate has a variable impact on the number of pavement layers, the quality of the material within layers; thus replacement cost of the 1 km section of road.

g. Similarly any **cross sectional changes** (paved shoulders, additional lanes or climbing lanes) will increase the replacement cost of the 1km section of road.

All the above factors and associated changes are considered within the SANRAL ITIS Asset Value Calculation procedure that is performed for each 1km section of road and structure on an annual basis.

Notes to the Annual Financial Statements

4. Property, plant and equipment under concession (continued)

Management reviewed the valuations of the road network and structures at 31 March 2019 based on the decrease or increase in material unit rates, the unique nature of the assets and detailed data on conditions of the roads and structures required of the road network, structures and material unit costs. SANRAL performed the revaluation on the road network and structures using technical information supplied by industrial experts.

The carrying amounts of property, plant and equipment under concession, if all accounted for under the cost model, would have been:

	2019 R '000	2018 R '000
Road structures	626,525	478,539
Road network	5,884,315	5,241,962
	6,510,840	**5,720,501**

5. Property, plant and equipment

	2019			2018		
	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying amount R'000	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying amount R'000
Land	21,735,605	-	21,735,605	20,065,593	-	20,065,593
Buildings	2,317,975	(354,327)	1,963,648	2,189,414	(310,174)	1,879,240
Equipment, vehicles and furniture	2,067,400	(1,152,783)	914,617	2,064,785	(1,021,225)	1,043,560
Road network	344,197,788	(105,193,065)	239,004,723	326,443,259	(98,064,034)	228,379,225
Property, plant and equipment under construction	16,272,315	-	16,272,315	16,289,827	-	16,289,827
Road structures	83,854,990	(12,663,528)	71,191,462	67,608,250	(9,349,237)	58,259,013
Total	**470,446,073**	**(119,363,703)**	**351,082,370**	**434,661,128**	**(108,744,670)**	**325,916,458**

Notes to the Annual Financial Statements

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance R'000	Additions/ reclassified R'000	Disposals/ write-offs R'000	Transfers R'000	Revaluations R'000	Borrowing costs capitalised R'000	Depreciation R'000	Total R'000
Land	20,065,593	187,659	-	-	1,482,353	-	-	21,735,605
Buildings	1,879,240	133,091	(7,668)	2,940	-	-	(43,955)	1,963,648
Equipment, vehicles and furniture	1,043,560	11,690	(76,042)	167,345	-	-	(231,936)	914,617
Road network	228,379,225	-	(619)	4,770,610	8,509,615	3,669	(2,657,777)	239,004,723
Property, plant and equipment under construction	16,289,827	6,216,337	-	(6,212,606)	-	(21,243)	-	16,272,315
Road structures	58,259,013	-	-	1,271,711	11,810,212	17,574	(167,048)	71,191,462
	325,916,458	**6,548,777**	**(84,329)**	**-**	**21,802,180**	**-**	**(3,100,716)**	**351,082,370**

Reconciliation of property, plant and equipment - 2018 restated

	Opening balance R'000	Additions/ reclassified R'000	Disposals/ write-offs R'000	Transfers R'000	Revaluations R'000	Borrowing costs capitalised R'000	Depreciation R'000	Total R'000
Land	20,213,288	83,701	-	-	(231,396)	-	-	20,065,593
Buildings	1,926,615	165	(1,107)	(4,298)	-	-	(42,135)	1,879,240
Equipment, vehicles and furniture	762,200	121,898	(1,076)	168,762	-	-	(8,224)	1,043,560
Road network	207,954,103	89,612	(9,385)	5,124,027	17,726,243	162,405	(2,667,780)	228,379,225
Property, plant and equipment under construction	13,652,775	8,537,520	-	(5,738,063)	-	(162,405)	-	16,289,827
Road structures	55,508,026	-	(7)	449,572	2,442,231	-	(140,809)	58,259,013
	300,017,007	**8,832,896**	**(11,575)**	**-**	**19,937,078**	**-**	**(2,858,948)**	**325,916,458**

Notes to the Annual Financial Statements

5. Property, plant and equipment (continued)

Property, plant and equipment encumbered as security:

No property, plant and equipment is pledged as security for liabilities.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

Property, plant and equipment under construction

Property, plant and equipment under construction refers to capital expenditure on roads such as strengthening, improvements, new roads building and highway monitoring equipment. An impairment assessment was performed and there was no indication of impairment on assets under construction.

Land identification process

In terms of the identification process, which was initiated on 1 April 1998, SANRAL has identified 34 024 (2018: 32 737) properties falling within road reserves and 2 085 (2018: 2 232) investment properties which fall outside of the road reserve. The values are shown in the financial statements. For investment property values refer to note 6.

Changes in estimates

The entity reassesses the useful lives and residual values of items of entity at the end of each reporting period, in line with the accounting policy and IAS 16 Property, plant and equipment. These assessments are based on historic analysis, benchmarking, and the latest available and reliable information.

Refer to note 39 on change in accounting estimates.

Borrowing costs capitalised

	2019 R '000	2018 R '000
Borrowing costs capitalised to qualifying assets	21,243	162,405
Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation	9.36 %	9.43 %

The carrying amount of property, plant and equipment, if all accounted for under the cost model, would have been:

Land	1,158,010	970,351
Road network	53,774,885	51,660,347
Road structures	8,131,220	7,008,984
	63,064,115	**59,639,682**

Notes to the Annual Financial Statements

5. Property, plant and equipment (continued)

Revaluations

The company's land, road network and road structures are stated at revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed annually.

The fair value measurements as of 31 March 2019 were performed by Messrs Botha and Rudd, independent valuers not related to the company. Messrs Botha and Rudd are members of the Institute of Valuers and they have the appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations.

Revaluation of land

The land component of the road reserve was valued in terms of the depreciated replacement cost. The replacement cost of land is determined based on recent selling prices of vacant land with comparable location and, where applicable, adjusted in respect of engineering services' status and development rights on the road reserves. The valuation of land at 31 March 2019 was determined by using prior year values adjusted by CPA factor.

Revaluation of road network and structures

Road network and structures are valued at depreciated replacement cost based on the estimated present cost of constructing existing assets by the most appropriate current method of construction, reduced by factors for the age and condition of the asset. The estimated present material unit costs are assumed to be uniform across the country. The prior year unit rate was adjusted by Construction Price Adjustment (CPA) factor to determine the 2019 revalued amount at year end.

The depreciated replacement cost methodology, where replacement cost is based on that of a modern equivalent asset, as utilised by SANRAL, is in direct alignment with the recommendations contained within International Infrastructure Management Manual (IIMM) for specialised assets which are rarely, if ever, sold on the open market. This manual is used internationally in Australia, New Zealand, United Kingdom, Canada, South Africa, and other countries. The replacement cost is calculated using unit rates adjusted by CPA factor for 2019.

The depreciation of the asset is then calculated using straight-line depreciation for the roadbed portion and condition-based depreciation for the pavement layers and structures. Pavement condition data is collected using survey vehicles equipped with lasers and 2D/3D cameras enabling the determination of various pavement condition indicators for each 10m of the road network on a two-year basis. The bridges are inspected by certified independent inspectors on a five-year basis.

The actual condition is then used to determine the depreciation rate that should be applied to the pavement layers for each 1km of road and to the structures.

For factors impacting on the valuation of SANRAL's road network refer to assessment and assumptions under note 4.

6. Investment property

	2019			2018		
	Valuation R'000	Accumulated depreciation R'000	Carrying amount R'000	Valuation R'000	Accumulated depreciation R'000	Carrying amount R'000
Investment property	1,776,215	-	1,776,215	1,810,430	-	1,810,430

Notes to the Annual Financial Statements

6. Investment property (continued)

Reconciliation of investment property - 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Classified as held for sale R'000	Held for sale property reclassified from prior year R'000	Net fair value adjustments R'000	Total R'000
Investment property	1,810,430	118,506	(14,121)	(20,971)	870	(118,499)	1,776,215

Reconciliation of investment property - 2018

	Opening balance R'000	Classified as held for sale R'000	Held for sale property reclassified from prior year R'000	Net fair value adjustments R'000	Total R'000
Investment property	1,796,370	(1,414)	15,955	(481)	1,810,430

	2019 R '000	2018 R '000
Details of investment property		
Improved property	328,648	229,720
Vacant property	1,447,567	1,580,710
	1,776,215	**1,810,430**

Notes to the Annual Financial Statements

6. Investment property (continued)

Details of valuation

The investment properties are stated at fair value. Valuations were done by an independent valuer, Massel Property Valuers, during the financial year ending 31 March 2019 and 2018. The valuer holds a recognised and relevant professional qualification and has adequate experience in the industry and type of the investment property being valued. Valuation of investment property is done on an annual basis. The fair value of investment property was determined using the widely accepted "comparable sales method", taking into consideration the size, shape, accessibility and existing rights of the property. No investment property was reclassified to owner-occupied properties in the current reporting period.

For investment property, where there was a lack of comparable market data, the valuation was based on across the fence (strip valuation).The properties are assumed to have value that is consistent with the value of typical adjacent/adjoining piece of land, as if vacant, without modification of shape, size and access.

Amounts recognised in profit and loss for the year

	2019 R '000	2018 R '000
Rental income from investment property	49,985	48,667
Direct operating expenses from rental generating property	(1,912)	(2,206)
Direct operating expenses from non-rental generating property	(11,828)	(8,273)
	36,245	**38,188**

Notes to the Annual Financial Statements

7. Intangible assets

	2019			2018		
	Cost/ valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost/ valuation R'000	Accumulated amortisation R'000	Carrying value R'000
Computer software	222,993	(99,970)	123,023	236,848	(93,037)	143,811
Wayleave agreements	71,750	(24,006)	47,744	62,400	(20,181)	42,219
Total	**294,743**	**(123,976)**	**170,767**	**299,248**	**(113,218)**	**186,030**

Reconciliation of intangible assets - 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Amortisation R'000	Total R'000
Computer software	143,811	402	(8,129)	(13,061)	123,023
Wayleave agreements	42,219	9,350	-	(3,825)	47,744
	186,030	**9,752**	**(8,129)**	**(16,886)**	**170,767**

Reconciliation of intangible assets - 2018 restated

	Opening balance R'000	Additions R'000	Disposals R'000	Amortisation R'000	Impairment loss R'000	Total R'000
Computer software	173,771	879	(2)	(16,119)	(14,718)	143,811
Wayleave agreements	41,926	4,693	-	(4,400)	-	42,219
	215,697	**5,572**	**(2)**	**(20,519)**	**(14,718)**	**186,030**

Pledged as security

None of the entity's intangible assets are pledged as security for liabilities.

Impairment assessment

An annual assessment was done, however there was no condition that indicates that intangible assets have been impaired.

Assets reclassified to intangibles

	2019 R '000	2018 R '000
Carrying amount - Computer equipment reclassified to software	-	138,742

There were no reclassifications of intangible assets in the reporting period. The reclassification in the comparatives relates to the computer software that was classified as computer equipment. This reclassification was appropriately corrected on 31 March 2018.

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000
8. Financial assets		
At fair value through profit or loss		
Capital market bonds These bonds yielded interest rates of between 6.93% and 9.62% as at 31 March 2019 (31 March 2018: 6.93% to 8.94%). Capital market bonds are held to manage liquidity and to reduce the cost of borrowing.	109,470	42,800

Apart from trade and other receivables, the entity has two major categories of financial assets; financial assets at fair value through profit or loss (market-making investments) and other financial assets/receivables at amortised cost (capped insurance) previously classified as loans and receivables in prior years. Detailed information on these is provided in the notes herein rather than on the face of the statement of financial position.

SANRAL has opted, at initial recognition, to irrevocably designate the capital market bonds at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch. This is consistent with the prior year classification, presentation and disclosure. These assets, together with the market-making liabilities measured at fair value through profit or loss, are managed as a portfolio for performance and risk management purposes. To overcome any mismatch which may occur in the statement of profit or loss, both assets and liabilities have been designated and subsequently measured at fair value through profit or loss. Refer also note 14.

For the terms and conditions and maximum credit exposure of market making assets refer to note 41.

Other receivable at amortised cost		
Capped insurance receivable SANRAL has a long-term insurance agreement with Centriq Insurance Company Ltd which is reviewed annually. SANRAL made an upfront deposit, and all claims up to the balance of the deposit are recovered from the funds deposited. The agreement provides for the repayment of the balance of the deposit at the end of the agreement period. These funds earned interest at the three-month Jibar-based deposit rate of 7% (31 March 2018: 7%).	429,432	402,562
	538,902	**445,362**
Non-current assets		
Receivables at amortised cost	429,432	402,562
Current assets		
At fair value through profit or loss	109,470	42,800
	538,902	**445,362**

The entity has not reclassified any financial assets from amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000
9. Trade and other receivables		
Financial instruments:		
Trade receivables	10,963,698	10,840,403
Bad debts written off	(46,897)	(17,566)
Trade receivables at amortised cost	10,916,801	10,822,837
Sundry and other debtors	248,553	60,272
Operating lease receivables	245	-
Other receivables due from related parties	185,336	178,310
Accrued interest	81,738	81,698
Other receivables due from third party funding	35,009	11,932
Impairment losses - toll and other receivables	(10,317,878)	(6,354,304)
	1,149,804	**4,800,745**

Categorisation of trade and other receivables

Trade and other receivables comprise mainly toll debtors. R10.043bn (2018: R6.056bn) of the impairment losses relates to the impairment of e-toll debtors. Trade and other receivables are measured as follows in accordance with IFRS 9 Financial Instruments:

At amortised cost	1,149,804	4,800,745

The entity did not have contract assets and contract costs incurred specifically for obtaining contracts with customers.

Exposure to credit risk

Trade receivables inherently expose the entity to credit risk, being the risk that the entity will incur financial loss if customers fail to make payments as they fall due.

Trade receivables arise largely from e-toll debtors in the Gauteng province. The customer base for e-toll is large resulting in a significant credit risk from these trade receivables. Management assesses and monitors the credit risk internally.

A loss allowance is assessed and recognised for all trade receivables in accordance with IFRS 9 on financial assets and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery.

The estimation techniques explained have been applied for the first time in the current financial period, as a result of the adoption of IFRS 9. Trade receivables were previously impaired only when there was objective evidence that the asset was impaired.

Notes to the Annual Financial Statements

9. Trade and other receivables (continued)

Provision matrix

Expected credit loss rate: Toll debtors	Amounts outstanding R'000	Default rate	Expected credit loss R'000
0 - 30 days (current)	21,444	95 %	20,372
31 - 60 days	11,100	96 %	10,656
61 - 90 days	10,233	96 %	9,824
91 - 365 days	92,609	100 %	92,609
>365 days	9,910,409	100 %	9,910,409
	10,045,795		**10,043,870**

The default rates per ageing category have been determined based on the average three-month historical collection rates at reporting date and have been adjusted by the expected debt collection in subsequent months after year end.

The historical default loss rates were then applied to the outstanding amount to obtain expected expected loss.

Expected credit loss rate: Property debtors	Amounts outstanding R'000	Default rate	Expected credit loss R'000
0 - 30 days (current)	271	- %	-
31 - 60 days	168	- %	-
61 - 90 days	45	- %	-
91 - 365 days	1,352	7.25 %	98
>365 days	684	100.00 %	684
	2,520		**782**

Property debtors between 0 - 90 days were assessed and the default rate was found to be zero. Of the R1.352m in the 91 - 365 days category, R1.254m has not been impaired as the payment is held by attorneys pending the transfer of the title deed on the sale of property.

Forward-looking information (toll)

Even though the issuing of summons have been temporarily stopped, as announced to the public on 27 March 2019, and the final decision on the future of e-tolling has not been taken at national level, there has been no significant impact on the overall collection rate in subsequent month compared to prior periods. Management has assumed that registered and paying road users will continue to comply and take advantage of the applicable discounts.

Sundry debtors

Sundry debtors over 90 days have also been impaired at 100%. The default rate for debtors less than 90 days is zero.

The loss allowance is determined by grouping trade receivables as follows:

Notes to the Annual Financial Statements

9. Trade and other receivables (continued)

Figures in R'000s	2019 Estimated gross carrying amount at default	2019 Loss allowance (Lifetime expected credit loss)	2018 Estimated gross carrying amount at default	2018 Impairment loss
Toll debtors				
Less than 30 days past due	939,348	(20,372)	736,156	-
31 - 60 days past due	11,100	(10,656)	152,352	(5,544)
61 - 90 days past due	10,233	(9,824)	149,560	(3,172)
More than 90 days	10,003,017	(10,003,017)	9,802,335	(6,047,353)
	10,963,698	**(10,043,869)**	**10,840,403**	**(6,056,069)**
Property debtors				
Less than 30 days past due	271	-	1,666	-
31 - 60 days past due	168	-	2,190	-
61 - 90 days past due	45	-	61	-
91 - 120 days past due	35	(35)	61	(57)
More than 120 days past due	2,001	(747)	769	(769)
	2,520	**(782)**	**4,747**	**(826)**
Sundry debtors				
Less than 30 days past due	107,262	-	13,385	-
31 - 60 days past due	282	-	44,835	-
61 - 90 days past due	125	-	121	-
91 - 120 days past due	18	(18)	-	-
More than 120 days past due	273,886	(273,886)	303,620	(297,964)
	381,573	**(273,904)**	**361,961**	**(297,964)**
Total	**11,347,791**	**(10,318,555)**	**11,207,111**	**(6,354,859)**

A simplified approach is used to assess impairment. The default is when the debt is 90 days.

The entity does not adjust the transaction price/debtors' balance for time value of money (significant financing component) as it does not defer payment terms to a period exceeding 12 months. Any amounts older than 90 days are permanently impaired and subsequent amount received will be recognised as other income.

Reconciliation of loss allowances

The following table shows the movement in the loss allowance (lifetime expected credit losses) for trade and other receivables:

	2019 R '000	2018 R '000
Opening balance in accordance with IAS 39 Financial Instruments: Recognition and Measurement	(6,354,304)	(6,354,304)
Adjustments upon application of IFRS 9 on 1 April 2018	(3,854,340)	-
Opening balance in accordance with IFRS 9 (2018: IAS 39)	**(10,208,644)**	**(6,354,304)**
Provision raised on new trade and other receivables less 365 days	(109,234)	-
Closing balance	**(10,317,878)**	**(6,354,304)**

Trade and other receivables to the extent of R46.90m (2018: R17.56m) have been written off and are not subject to enforcement activity.

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

9. Trade and other receivables (continued)

Credit risk disclosures for comparatives under IAS 39

The following sections provide comparative information for trade and other receivables which have not been restated. The information is provided in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterpart default rates.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 90 days past due were considered and assessed for impairment. At 31 March 2018, R798,414,000 were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

31 days past due	751,207
60 days past due	199,377
90 days past due	182

Past due but not impaired	**Toll R'000**	**Property R'000**	**Sundry R'000**	**Total R'000**
31 days past due	736,156	1,666	13,385	751,207
60 days past due	-	2,190	44,835	47,025
90 days past due	-	61	121	182
	736,156	**3,917**	**58,341**	**798,414**

Trade and other receivables impaired

As of 31 March 2018, trade and other receivables of R10,408,403,000 were assessed for impaired and provided for.

The amount of the provision was R6,354,304,000 as of 31 March 2018 .

The ageing of these receivables before impairment was as follows:

Toll debt between 31 - 90 days	301,912
Toll debt over 90 days	9,802,335
Property debt over 90 days	830
Sundry debtors over 90 days	303,620

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade and other receivables mentioned above. The entity does not hold any collateral as security.

Fair value of trade and other receivables

The fair value of trade and other receivables approximates their carrying amounts.

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000
10. Assets classified as held for sale		
Assets		
Non-current assets held for sale		
Investment property	34,460	30,940
Reconciliation		
Opening balance	30,940	74,226
Investment property sold during the year	(15,416)	(14,373)
Additions to investment property held for sale	20,971	1,414
Fair value adjustments	(1,165)	(14,372)
Reclassified property - no longer held for sale	(870)	(15,955)
	34,460	**30,940**

Investment property held for sale comprises excess land which was acquired initially for future road construction and its carrying amount will be recovered principally through sale rather than continuing use. Vacant land, previously held for sale, to the value of R1.69m was donated to a government entity in furtherance of the housing programme.

Reclassification of held for sale (HFS) properties

These relate to those assets that no longer meet the IFRS 5 requirements to be held for sale. In the current year HFS properties were reclassified as it was no longer probable that the sale will take place. There is no further effect caused by this reclassification. Comparative figures are not required to be restated in terms of IFRS 5.

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	8	9
Bank balances	64,205	54,860
Short-term financial instruments	8,675,898	7,591,719
Bank balances in credit	(3)	(12)
	8,740,108	**7,646,576**

The effective interest rates on bank balances and money market funds were between 5.04% and 7.91% (31 March 2018: 4.86% and 7.99%), and the deposits have an average maturity of 28.4 days (31 March 2018: 36.2 days).

Credit quality of cash at bank, excluding cash on hand

All cash deposits are held with financial institutions which have a credit rating of A1 and above.

Credit rating		
A1 and above	8,740,108	7,646,576

Restricted cash

The cash and cash equivalents disclosed above and in the statement of cash flows include R1.61m (31 March 2018: R1.50m), for tenant deposits, which are held in a trust account by Hornby Smyly Glavovic Trust . These deposits are subject to terms and conditions in lease contracts and are therefore not available for general use by SANRAL.

Cash and cash equivalents held by the entity that are not available for use by the entity	1,608	1,503

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000
12. Share capital		
Authorised		
4 000 ordinary shares of R1 each	4	4
Issued		
4 000 ordinary shares of R1 each	4	4
Share premium (4 000 ordinary shares issued at a premium of R272 760 per share)	1,091,040	1,091,040
	1,091,044	**1,091,044**

Shares are held by the Government of South Africa represented by the Minister of Transport.

13. Revaluation reserve

Revaluation reserves are not distributable.

The revaluation reserve relates to the revaluation of the following components of property, plant and equipment:

Land	20,583,969	19,101,617
Road network	288,261,852	266,017,170
	308,845,821	**285,118,787**

A breakdown of the revaluation movement for the period affecting the statement of profit or loss and other comprehensive income is reflected below:

Increase (decrease) in revaluation amount for land	1,482,352	(231,396)
Increase (decrease) in revaluation amount for road network assets	22,244,681	23,047,697
	23,727,033	**22,816,301**
Accumulated loss	(16,125,715)	(14,697,183)

14. Financial liabilities at fair value through profit or loss

At fair value through profit (loss)		
Capital market loan (long-term)	4,305,292	4,462,992
Capital market loan (short term)	242,474	219,206
Market-making liability (non-SANRAL bonds)	-	59,437
	4,547,766	**4,741,635**

Designated at fair value through profit or loss

The long term SANRAL capital market loan was designated as at fair value through profit or loss in prior periods. This option was not revoked with the adoption of IFRS 9 on 1 April 2018. The designation of financial liabilities at fair value through profit or loss (FVTPL) is based on the entity managing the performance of capital market-making financial instruments, both financial assets and financial liabilities, as a portfolio of financial instruments. Changes in the fair value of financial assets and liabilities in this portfolio are subject to the same risk and an accounting mismatch will be eliminated or significantly reduced by the designation to FVTPL and the gains/losses from the financial liabilities are taken to profit or loss. A mismatch would arise if the effects of the credit risk on SANRAL's liabilities at fair value were taken to other comprehensive income and the effects of credit risk on market-making financial assets were taken to profit or loss.

The effects of changes in the credit risk of financial liabilities held as capital market loans measured at fair value though profit or loss and held-for-trading is calculated in line with IFRS 9 guidance. The cumulative increase (decrease) in the credit risk at 31 March 2019 is R37m. The effects of credit risk for both market making financial assets and liabilities held-for-trading are recognised in profit or loss to ensure no mismatch effect on profit or loss rather than other comprehensive income (OCI).

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

14. Financial liabilities at fair value through profit or loss (continued)

The amounts the entity is contractually required to pay on its financial liabilities measured at fair value through profit or loss are the nominal amount of the bond. These amounts, to the extent known at the reporting date, are referenced in note 41.

Split between non-current and current portions

Non-current liabilities	4,305,292	4,462,992
Current liabilities	242,474	278,643
	4,547,766	**4,741,635**

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000
15. Financial liabilities at amortised cost		
Measured at amortised cost		
Call bonds SANRAL had issued call bonds under its R6bn guarantee to meet its short-term financing requirements. The call bonds were repaid during the current financial year.	-	212,000
Capital market loan (long-term)	37,223,319	40,410,366
Capital market loan (short-term)	3,535,134	2,404,820
CPI-linked loan (short-term) The CPI-linked loan was repaid during the current year. This loan was guaranteed by the government for an amount equal to the original loan amount.	-	78,308
EIB loan (long-term)	986,522	1,020,389
EIB loan (short-term) SANRAL has entered into a loan facility agreement with the European Investment Bank (EIB). The loan was drawn in two tranches of R572 784 000 and R573 918 000 respectively during the 2011 financial year. The tranches bear interest at a fixed rate of 8.315% and 9.227% respectively. The loan is repayable over 20 years in semi-annual installments. Repayments are made in South African Rands and commenced in the 2015 financial year. This loan, including interest accrued, is guaranteed by the government under the R31.91bn guarantee.	33,867	31,083
ECA supported loan (long-term)	-	14,467
ECA supported loan (short-term) SANRAL has entered into a loan facility with ABSA bank amounting to R523 102 562 for the purchase of goods or services to support the open road tolling system of GFIP. The first tranche of R182 184 245 was drawn during the 2012 financial year. The tranche bears interest at a rate of three-month Jibar plus 1.75%. The loan is repayable over 10 years commencing in June 2012. The loan is supported by the Republic of Austria through Oesterreichische Kontrollbank Aktiengesellschaft, an export credit agency (ECA). The loan may be declared due and payable in the event of SANRAL's Moody's rating falling below investment grade Baa3. It also provides for a period of negotiation in such event to amend the finance documents. The lender has chosen not to act on the breach.	14,466	52,310
Repurchase agreements	-	5,768
Promissory notes (short-term) SANRAL has issued promissory notes under its R6bn guarantee to meet its short-term financing requirements. The promissory notes, which are repayable on one-year maturity, yield an interest rate linked to Jibar which was 8.80% at 31 March 2019 (8.50% at 31 March 2018).	1,110,582	1,138,031
	42,903,890	**45,367,542**
Split between non-current and current portions		
Non-current liabilities	38,209,841	41,445,222
Current liabilities	4,694,049	3,922,320
	42,903,890	**45,367,542**

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

15. Financial liabilities at amortised cost (continued)

Capital market loans

In September 2017 the South African Government issued an updated and reworded guarantee of R31.91bn for borrowings by SANRAL, of which the payment obligations are limited to a maximum nominal value of R31.91bn. SANRAL has issued an aggregate nominal of R23.26bn as at 31 March 2019 (31 March 2018: R23.22bn) under a guaranteed Domestic Medium-Term Note (DMTN) programme (HWAY bonds). The redemption amount of capital market loans, including interest accrued, issued under the R31.91bn guarantee at 31 March 2019 was R31.30bn (31 March 2018: R30.67bn). The funds raised through these borrowings can only be used for toll operations.

On 16 November 1999, the South African Government issued guarantees for borrowings (SZ bonds) by SANRAL up to a nominal value of R6bn. SANRAL has issued bonds with a nominal value of R5.24bn as at 31 March 2019 (31 March 2018: R5.27bn) under this guarantee. The funds raised through these borrowings can only be used for toll operations.

The government also approved an unguaranteed borrowing capacity of up to a nominal value of R15bn. SANRAL issued bonds with a nominal value of R7.76bn as at 31 March 2019 (31 March 2018: R10.15bn) under the non-guaranteed DMTN programme (NRA bonds). The funds raised through these borrowings can only be used for toll operations.

Refer to note 33, Changes in liabilities arising from financing activities, for details of the movement in the borrowings during the reporting period and note 41, Financial instruments and financial risk management, for the fair value of borrowings.

Interest and charges on financial liabilities measured at amortised cost are recognised as finance costs.

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

16. Employee benefits

Defined benefit plan

The entitlement of these benefits is dependent upon the employee remaining in service until retirement age and completing a minimum service period, and is subject to periodic review. SANRAL recognises the estimated liability on an accrued basis over the working life of the eligible employees. During 2014, SANRAL extended its post-retirement medical aid benefits to all its employees.The entitlement is based on the employee remaining in the employment of the organisation for a period of 15 years' uninterrupted service until retirement. An additional 50 employees joined during the 2019 financial year and 15 exited. The accrued liability of R50.89m is a provision for the period ending 31 March 2019 (2018: R49.20m).

The valuation of the obligation was performed by Poneso Consulting as at 31 March 2019 using the projected unit method. The next valuation of the employer's liability will be in March 2020. No plan assets are recognised, therefore the value of the unfunded liability is equal to the accrued liability.

Post-retirement healthcare benefits

Present value of the defined benefit obligation	(50,891)	(49,200)
Movement in liability for obligation:		
Accrued liability at beginning of year	49,200	42,724
Benefits paid out	(1,321)	(1,023)
Interest cost	4,290	3,738
Service cost	3,360	3,651
Actuarial gain/(loss)	(4,638)	110
	50,891	**49,200**
Non-current liabilities	(49,014)	(48,038)
Current liabilities	(1,877)	(1,162)
	(50,891)	**(49,200)**
Net expense recognised in profit or loss		
Current service cost	3,360	3,651
Interest cost	4,290	3,738
	7,650	**7,389**

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

16. Employee benefits (continued)

Key assumptions used

Assumptions used on last valuation on 31 March 2019.

Average retirement age	65	65
Members discontinued at retirement	- %	- %
Discount rates used	9.43 %	8.82 %
Healthcare cost inflation	6.93 %	7.28 %

Historical information	**2019 R'000**	**2018 R'000**	**2017 R'000**	**2016 R'000**	**2015 R'000**
Accrued liability at year end	50,891	49,200	42,724	36,924	32,450

Sensitivity analysis

The results are based on a number of assumptions. In order to illustrate the sensitivity of the results to certain key assumptions, we set out below how the results would vary if these assumptions are changed. These scenarios may also be of use in illustrating the possible effect of changes in policy on the liability.

The assumption which tends to have the greatest effect on the results is the rate of health care cost inflation relative to the discount rate of 9.43%. Even relatively small changes to this assumption have a relatively large impact on the liabilities. We have used a real discount rate of 2.34% (2018: 1.44%) per annum for this valuation.

The following table shows the sensitivity results. The liability at valuation date was recalculated to show the effect of:

- A 1% increase and decrease in the assumed rate of health care cost
- A 1% increase and decrease in the discount rate
- A 50% decrease in withdrawal rates
- A one-year reduction in the post-retirement mortality.

Sensitivity analysis on the Accrued liability

Assumption	**Change**	**In-Service costs R'000**	**Continuation R'000**	**Total R'000**	**% change**
Central assumptions		35,176	15,716	50,892	- %
Medical inflation	1% increase	42,840	17,158	59,998	18 %
	1% decrease	29,144	14,451	43,594	(14)%
Discount rate	1% increase	29,214	14,488	43,702	(14)%
	1% decrease	42,875	17,136	60,011	18 %
Post-retirement mortality	1 yr decrease	36,203	16,264	52,467	3 %
Average retirement age	1 yr decrease	37,243	15,716	52,959	4 %
Withdrawal	50% decrease	36,871	15,716	52,587	3 %

The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of a 68-year-old person. This is an additional year younger than assumed for the standard basis.

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

16. Employee benefits (continued)

Defined contribution plan

Provident and pension fund

The Alexander Forbes Retirement Fund: South African National Roads Agency Limited Provident Fund (the fund) is a defined contribution plan and is registered in terms of the Pension Funds Act 24 of 1956, as amended. Contributions comprise 20.5% of pensionable emoluments. SANRAL contributes 20.5% of which administration and insurance costs amount to 3.59%. The Fund is administered by Alexander Forbes and 414 of the 415 permanent employees (2018: 383 of the 396) are currently members of the Fund. One employee (2018: one) is a member of the Government Employees' Pension Fund. Contributions to the Government Employees' Pension Fund comprise 20.5% of pensionable emoluments of which members pay 7.5% and SANRAL contributes 13%. Contributions are recognised in profit or loss when the contributions are made.

Pension costs	46	42
Provident costs	46,376	39,922

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

17. Deferred income

Deferred income consists of deferred government grants and advances from concession contracts.

SANRAL is awarded government grants. These grants relate to the capital and operational expenses on non-toll national routes. The portion spent on capital expenses is being amortised over the useful lives of the underlying assets. Grants for land, which is not depreciated, are treated as income when received. The unutilised portion of the grant at year end is also deferred until utilised.

SANRAL receives prepayments on concession contracts. These payments are deferred over the life of the concession contract. Refer to note 43 for details of the concession arrangements.

Non-current liabilities	49,942,069	46,429,543
Current liabilities	6,542,993	4,723,320
	56,485,062	**51,152,863**

Concession contracts

N3 toll concession

Non-current		
Balance brought forward	505,023	552,742
Amount transferred to current	(47,719)	(47,719)
Balance at end of period	**457,304**	**505,023**
Current		
Balance brought forward	47,719	47,719
Amount realised in profit or loss	(47,719)	(47,719)
Amount transferred from non-current	47,719	47,719
Balance at end of period	47,719	47,719
Total balance for N3 toll concession	**505,023**	**552,742**

The amount realised in profit or loss is calculated as the total amount received from the N3 concessionaire divided by the remaining concession contractual period. This results in a realisation of R47.719m per annum.

TRAC N4

Non-current		
Balance brought forward	93,628	104,204
Amount transferred to current	(10,576)	(10,576)
Balance at end of period	**83,052**	**93,628**
Current		
Balance brought forward	10,576	10,576
Amount realised in profit or loss	(10,576)	(10,576)
Amount transferred from non-current	10,576	10,576
Balance at end of period	10,576	10,576
Total balance for TRAC N4	**93,628**	**104,204**

Bakwena concession

Non-current		
Balance brought forward	21,785	21,785

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

17. Deferred income (continued)

This amount represents a contingency fund in terms of the concession agreement, with its main purpose being to defray expenditure that will need to be incurred to maintain certain infrastructure. Income is recognised when the expenditure is incurred.

Non-toll projects

Non-current		
Balance brought forward	45,809,109	41,242,256
Capital portion of government grants received	5,745,458	6,360,912
Increase (decrease) as a result of a decrease / increase in asset base	(252,639)	(124,702)
Amount transferred to current	(1,921,997)	(1,669,357)
Balance at end of period	**49,379,931**	**45,809,109**
Current		
Balance brought forward	1,669,358	1,544,655
Increase as a result in increase of asset base	252,639	124,703
Amount realised in profit or loss	(1,921,997)	(1,669,357)
Amount transferred from non-current	1,921,997	1,669,357
Balance at end of period	**1,921,997**	**1,669,358**
Unutilised government grant surplus (current)		
Balance brought forward	2,995,667	3,123,608
Amounts deferred (utilised)	1,567,034	(127,941)
Balance at end of period	4,562,701	2,995,667
Total balance for government non-toll grants	**55,864,629**	**50,474,134**

Notes to the Annual Financial Statements

18. Provision for rehabilitation costs

Reconciliation of provision for rehabilitation costs - 2019

	Opening balance R'000	Utilised during the year R'000	Total R'000
Provision for rehabilitation costs	3,477	(735)	2,742

Reconciliation of provision for rehabilitation costs - 2018

	Opening balance R'000	Additions R'000	Total R'000
Provision for rehabilitation costs	3,296	181	3,477

Section 41(1) of the Mineral and Petroleum Resources Development Act of 2002 requires an applicant for a prospecting right, mining right or mining permit to make the prescribed financial provision for the rehabilitation and management of negative environmental impacts.

SANRAL, as a holder of mining permits, is ultimately responsible for the restoration of borrow pits. A provision is therefore raised each year for the obligation to rectify environmental damage caused during construction and maintenance of the national roads through the use of borrow pits.

The contractual rehabilitation costs per project were utilised to determine the most accurate cost of restoring borrow pits to their original condition. This was calculated by engineers and project managers as a reasonable indication of the market-related price of restoration. Rehabilitation of the borrow pits is performed on an ongoing basis throughout the project life, therefore the contractual cost was straight-lined over the remaining period of the project.

Rehabilitation costs pertaining to capital projects were capitalised at year end whereas maintenance projects were expensed immediately.

The impact of discounting was regarded as immaterial for this disclosure purpose.

19. Provision for overload control

Provision for overload control - 2019	**Opening balance R'000**	**Additions (Utilised) during the year R'000**	**Total R'000**
Provision for overload control	323,068	(1,702)	321,366

Provision for overload control - 2018	**Opening balance R'000**	**Additions (Utilised) during the year R'000**	**Total R'000**
Provision for overload control	339,787	(16,719)	323,068

The provision of R321m (31 March 2018: R323m) relates to claims from concessionaires for damage to pavement as a result of overloading. The effect of discounting was considered as immaterial.

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

20. Deferred exchange consideration

Opening balance	8,641,527	8,106,787
Increase as a result of increase in asset base (additions)	916,454	1,082,978
Exchange consideration realised to profit or loss	(633,594)	(548,238)
	8,924,387	**8,641,527**
Non-current portion	8,290,793	8,093,289
Current portion	633,594	548,238
	8,924,387	**8,641,527**

The entity does not have a contractual obligation to the concessionaires. It controls the assets, which are subject to the concession agreement. The concessionaires have the right to use the assets for the concession period. The right granted to the concessionaires reflects income (exchange consideration) received in advance of performance.

This is because SANRAL is receiving an inflow of resources, in the form of assets, without having delivered on its portion of the exchange consideration – the provision of access to such assets, which will occur over the remainder of the period of the concession agreement. The liability is realised to profit or loss over the remaining concession contract period. The expected realisation for the following financial years is recognised as a current liability.

21. Trade and other payables

Financial instruments:		
Trade payables	1,077,681	1,176,024
Accrued interest on financial instruments	995,442	1,087,192
Non-financial instruments:		
Contract liabilities	312,556	145,763
Accrued leave pay	12,591	13,556
VAT	3,212,495	3,364,644
Operating lease payables	-	86
	5,610,765	**5,787,265**

Exposure to interest rate risk

Refer to note 41, Financial instruments and financial risk management, for details of interest rate risk management for trade and other payables.

Fair value of trade and other payables

The fair value of trade and other payables approximates their carrying amounts.

22. Contract liabilities

Reconciliation of contract liabilities

Opening balance	145,763	-
Utilised during the year	(145,763)	-
Payments received in advance of delivery of performance obligations	312,556	145,763
	312,556	**145,763**

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

23. Third-party funding

Balance brought forward	281,607	365,699
Interest	57	74
Reclassified to debtors in current year	23,077	-
Contributions received during the current year	18,761	221,253
Expenditure incurred during the current year	(60,358)	(305,419)
	263,144	**281,607**

These are funds received from third parties (SANRAL is the implementing agent) mainly for the development of specific roads that do not form part of the declared national road infrastructure.

This balance is supported by cash held in call accounts (refer to note 11). All interest received on cash balances is capitalised for the benefit of the third party or SANRAL, depending on the specific agreement. The funds are repayable as per the agreement. The effective interest rate on the cash held was 6.4% per annum at 31 March 2019 (31 March 2018: 6.6% per annum).

24. Revenue

Revenue from contracts with customers		
Toll revenue	4,243,493	5,194,034
Revenue other than from contracts with customers		
Non-toll government grant	6,978,602	9,017,849
GFIP government grant	5,439,183	2,073,122
	12,417,785	**11,090,971**
	16,661,278	**16,285,005**

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

24. Revenue (continued)

Disaggregation of revenue from contracts with customers

The entity disaggregates revenue from contracts with customers as follows:

Toll revenue		
GFIP/e-toll revenue	687,709	1,866,911
Conventional toll plaza revenue	3,555,784	3,327,124
	4,243,493	**5,194,035**
Timing of revenue recognition		
At a point in time		
Toll revenue	(4,243,493)	(5,194,035)

For the period ending 31 March 2019, toll revenue amounted to R4.24bn (31 March 2018: R5.19bn). Of this revenue, R688m (31 March 2018: R1.87bn) relates to the Gauteng Freeway Improvement Project (GFIP) while conventional toll revenue amounted to R3.56bn (31 March 2018: R3.33bn).

SANRAL adopted IFRS 15 on 1 April 2019 and opted for the modified approach without restating the comparative figures. The comparative amount of GFIP/e-toll revenue after considering IFRS 15 would have been R690m (2019: R687m) had a full retrospective approach was chosen.

Revenue from external customers come from toll fees charged on toll road users. There were no incremental costs (contract assets) and unsatisfied performance obligations relating to contracts with customers (toll revenue). All possible discounts and exemptions were excluded from revenue.

The toll revenue disclosed above is the consideration amount which the entity expects to receive from customers (road users). The entity has determined the amount that is highly probable to meet the requirements of "what the entity expects to receive from customers at the time of recognition" considering the intention and ability of customers. On conventional tolls, all amounts charged per the latest gazette is the transaction price recognised as revenue and tested for credit losses at the end of the reporting period. The probability test applied above does not include the customers' credit risk at this stage, as that is considered when testing for impairment in terms of IFRS 9. Refer to note 2 and 9.

Toll fees reconciliation		
Toll fees charged during the year	7,045,349	7,147,769
Less fees that do not meet the recognition criteria (alternative tariff discount)	(2,801,856)	(1,953,734)
	4,243,493	**5,194,035**

The probability of alternative tariff revenue being realised is remote as no international references, in terms of size, exist from which SANRAL can predict payment patterns in the post-prosecution period. The announcement of 60% discount for outstanding debt was made in the 2015/16 financial year and it is still applicable in the current financial year. Because of these uncertainties, SANRAL has not recognised the alternative tariff as revenue in the annual financial statements as there is no reliable measure for the amount and the timing of receipts is unknown.

Non-toll government grant		
Total government grant received	18,624,158	15,944,823
Less GFIP grant portion (toll)	(6,255,061)	(2,363,359)
Non-toll government grant received	12,369,097	13,581,464
Less: Capital portion of grants received	(5,745,458)	(6,360,912)
Add/(Less): Surplus government grants deferred	(1,567,034)	127,941
Realised portion of previously deferred government grant	1,921,997	1,669,357
	6,978,602	**9,017,850**

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

24. Revenue (continued)

There was no capital portion of government grants received relating to strengthening and maintenance of coal haulage roads for 2019 (2018: R770m).

25. Other income

Concession income	86,268	87,957
Realised portion of concession contract revenue (N3 Toll Concession)	47,719	47,719
Other interest	2,172	-
Interest on staff loans and cashbook interest	3,584	-
Realised portion of concession contract revenue (TRAC N4)	10,577	10,577
Rental income on investment property	50,207	48,667
Sundry revenue	109,374	316,084
Realised portion of previously deferred exchange consideration from toll	633,594	548,238
	943,495	**1,059,242**

26. Other gains (losses)

Fair value gains (losses)		
Financial assets/ liabilities at fair value through profit or loss	19,930	-
Financial liabilities at fair value through profit or loss	120,221	-
	140,151	**-**

27. Operating expenses

Operating profit (loss) for the year is stated after charging (crediting) the following, amongst others:

Advertising	158,090	151,582
Amortisation on intangible assets	16,885	20,519
Auditors' remuneration	43,141	36,191
Bad debts	46,897	17,566
Bank charges	40,441	20,025
Depreciation on concession assets	436,013	420,116
Depreciation on property, plant and equipment	3,100,716	2,858,948
Director and management emoluments	30,555	31,062
Employee costs	353,654	312,308
Impairment on intangible assets	-	14,718
Impairment on trade and other receivables (expected credit losses)	109,276	2,508,593
Loss on sale of assets	91,681	29,968
Other administration costs	754,450	805,648
Repairs and maintenance	6,275,867	6,984,086
Straight-lining of leases	12,411	12,259
Technical and computer services	354,841	263,075
	11,824,918	**14,486,664**

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

28. Net finance charges

Finance income		
Interest income on financial assets held for cash management purposes	699,833	-
Interest income on financial assets at fair value through profit or loss	12,773	9,746
Net change in fair value of financial ssets at fair value through profit or loss	-	8,486
Interest on bank deposits	-	615,203
Interest on repurchase agreements	-	87,608
Short-term interest	-	17,259
Other interest income	-	2,832
Interest on trade receivables and other	-	356,785
Interest income on financial ssets at amortised cost	27,936	-
Total finance income	**740,542**	**1,097,919**
Finance costs		
Interest on financial liabilities measured at amortised cost	(3,854,318)	(3,868,165)
Interest on financial liabilities at fair value through profit or loss	(407,985)	(443,516)
Interest on market making financial liabilities at fair value through profit or loss	(22,724)	-
Borrowing costs capitalised	48,491	162,405
Net change in fair value on financial liabilities at fair value through profit or loss	-	(207,465)
Total finance costs	**(4,236,536)**	**(4,356,741)**
Net finance income (costs)	**(3,495,994)**	**(3,258,822)**

The capitalisation rate used to determine the amount of finance costs/borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year. The rate was 9.36% (31 March 2018: 9.43%).

29. Taxation

SANRAL was exempted from taxation in the Government Gazette of 22 December 2003 in terms of S10(1)(t)(iii) of Income Tax Act, 1962. This exemption was backdated to the inception of the entity, therefore no provision has been made for income tax.

30. Cash receipts from customers

Revenue per statement of comprehensive income	16,661,278	16,285,005
Movements in trade receivables	(336,210)	(1,714,072)
Other income	943,495	1,059,655
Deferred exchange consideration realised	(633,594)	(548,238)
Deferred income (non-cash)	(413,259)	(1,855,592)
	16,221,710	**13,226,758**
Net debt reconciliation		
Cash and cash equivalents	8,740,108	7,646,576
Short-term financial assets	109,470	42,800
Less financial liabilities - repayable within one year, including any overdraft	(4,936,523)	(4,200,963)
Less financial liabilities - repayable after one year	(42,515,133)	(45,908,214)
	(38,602,078)	**(42,419,801)**

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000
31. Cash paid to suppliers and employees		
Expenses per statement of comprehensive income	11,824,918	14,486,664
Movement in trade payables	1,184,735	93,091
Depreciation on PPE under concession	(436,013)	(420,116)
Depreciation on property, plant and equipment	(3,100,716)	(2,858,948)
Amortisation on intangible assets	(16,885)	(20,519)
Loss on sale of assets	(91,681)	(29,968)
Impairment loss on debtors	(109,276)	(2,508,593)
Impairment on intangible assets	-	(14,718)
Bad debts	(46,897)	(17,566)
Movement in provision for overload control	(1,702)	16,719
Movement in retirement benefit asset and liability	(1,321)	(6,476)
Lease liability movement	(331)	80
Movement in provision for rehabilitation costs	735	(181)
	9,205,566	**8,719,469**
32. Cash generated from operations		
Profit before taxation	2,421,168	(418,470)
Adjustments for:		
Depreciation - PPE under concession	436,013	420,116
Depreciation - PPE	3,100,716	2,858,948
Amortisation of intangible assets	16,885	20,519
(Profit)/Loss on sale of assets	91,681	29,968
Impairment loss on debtors	109,276	2,508,593
Investment revenue	(740,542)	(1,097,919)
Finance costs	4,236,536	4,356,741
Fair value gains	(137,307)	-
Impairment on intangible assets	-	14,718
Movements in operating lease assets and accruals	331	(80)
Movements in retirement benefit assets and liabilities	1,321	6,476
Movements in provisions - rehabilitation cost expenses	(735)	181
Bad debts	46,897	17,566
Deferred exchange consideration	(633,594)	(548,238)
Deferred income - non-cash	(413,259)	(1,855,592)
Movement in provision for overload control	1,702	(16,719)
Fair value adjustment on investment property and non-current assets held for sale	-	17,231
Changes in working capital:		
Trade and other receivables	(336,210)	(1,714,072)
Trade and other payables	(1,184,735)	(93,091)
	7,016,144	**4,506,876**

Notes to the Annual Financial Statements

33. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities - 2019

	Opening balance R'000	Fair value changes R'000	Reclassified R'000	Loan discount changes R'000	Total non-cash movements R'000	Cash flows R'000	Closing balance R'000
Financial liabilities	50,109,177	(140,151)	-	414,493	274,342	(2,931,863)	47,451,656
Third-party funding	281,607	-	23,077	-	23,077	(41,540)	263,144
Total liabilities from financing activities	**50,390,784**	**(140,151)**	**23,077**	**414,493**	**297,419**	**(2,973,403)**	**47,714,800**

Reconciliation of liabilities arising from financing activities - 2018

	Opening balance R'000	Fair value changes R'000	Loan discount changes R'000	Total non-cash movements R'000	Cash flows R'000	Closing balance R'000
Financial liabilities	48,754,687	198,979	351,284	550,263	804,227	50,109,177
Third-party funding	365,699	-	-	-	(84,092)	281,607
Total liabilities from financing activities	**49,120,386**	**198,979**	**351,284**	**550,263**	**720,135**	**50,390,784**

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

34. Capital portion of government grant and deferred income

N3 Toll Concession contract realised in the statement of comprehensive income	(47,719)	(47,719)
N4 TRAC concession realised in the statement of comprehensive income	(10,577)	(10,577)
Government grant (Non-toll) charged to statement of comprehensive income	(1,921,997)	(1,669,357)
Government grant (Non-toll) realised to statement of comprehensive income	1,567,034	(127,941)
Total income realised	(413,259)	(1,855,594)
Movement in deferred income	6,158,717	8,216,506
	5,745,458	**6,360,912**
Summary of capital portion of government grant received		
Capital portion of government grant - non-toll	5,745,458	6,360,912

35. Commitments

Estimated capital expenditure

Already contracted for but not provided for		
• Contracts for capital expenditure authorised - toll	1,701,403	3,608,092
• Contracts for capital expenditure authorised - non-toll	10,346,989	12,372,901

The capital expenditure will be financed from government grants, toll income and financial instruments issued to the private sector and is expected to be incurred as follows:

Within one year - Toll	667,869	1,400,073
Two years and beyond - Toll	1,033,534	2,208,019
	1,701,403	**3,608,092**
Within one year - Non-toll	4,726,961	6,239,258
Two years and beyond - Non-toll	5,620,028	6,133,643
	10,346,989	**12,372,901**
Operating leases – as lessee (expense)		
Minimum lease payments due		
- Within one year	9,697	10,655
- In second to fifth year inclusive	5,720	5,486
	15,417	**16,141**

Electronic toll collection company (ETC) leases kiosks under operating leases and pays the lessor on behalf of SANRAL. The operating lease rental includes a charge for rental, parking, fixed services and storage space. The lease contracts make provision for escalations annually, and renewal options if SANRAL wants to renew the lease at the end of the lease term. The minimum lease payments exclude variable costs and municipal rates and taxes.

Notes to the Annual Financial Statements

36. Contingent liabilities

In terms of section 61 of the South African National Roads Agency Limited and National Roads Act, 1998, legal proceedings instituted against the then South African Roads Board with the cause of action arising before the incorporation date of SANRAL must be instituted against the Minister of Transport as respondent. Due to the nature of these claims and the fact that judgments in these cases could be to the detriment of SANRAL, it was agreed (at the time of establishing SANRAL) that, although the actions be instituted against the Minister, SANRAL will bear the costs and be actively involved in defending such action.

Claims against SANRAL due to the Municipality Property Rates Act

Individual municipalities have discretionary powers to levy rates on public service infrastructure (PSI), including national roads, in terms of the Municipal Property Rates Act, No 6 of 2004. Not all municipalities have chosen to exercise this statutory power and some have not yet implemented the Act. The property rates used, as well as the valuation amount of SANRAL's infrastructure, have not been determined by the municipalities. In order to arrive at an estimate of the potential rates liability nationally, actual rates levied by some municipalities were applied to the entire declared national road network, arriving at an estimated figure of R19.96m (31 March 2018: R114.3m).

Maputo development corridor - overload

The concessionaire has claimed that the Mozambican government has not complied with the N4 Maputo Development Concession requirements. This contingent liability for SANRAL is due to the joint and severable liability under the concession agreement. The estimated overload damage values are based on the full concession period and are thus a combination of actual historic overload data and projected future overload up to the end of concession period. Although agreed to in principle, the detailed inputs into SANRAL overload software utilised to derive the above values still need to be formally singed off between the parties. The quantification of estimated damage caused by overloaded vehicles is a technical exercise. The value of the claim is at R62.72m (31 March 2018: R27.7m) at year end.

Non-adjustments of toll tariffs by the Mozambican government

In terms of the N4/Maputo development corridor contract, the independent engineer shall determine the tariff adjustments within 14 days of being called upon to do so in writing by the concessionaire. This has not been done and has resulted in a revenue shortfall. At 31 March 2019 the estimated value was R1.58m (31 March 2018: R55m). In the event that the Mozambican government fails to compensate the concessionaire according to the determined claim amount, the South African government, through SANRAL, will become liable for compensating the concessionaire in terms of the “mutually and severally liable” clauses in the concession agreement.

Udumo Trading Pty Ltd claim against SANRAL

Udumo Trading constructed pedestrian and cyclist facilities on the N12. SANRAL and Udumo Trading did not agree on the final payment certificate amount due to Udumo Trading therefore Udumo is suing SANRAL for R3.3m (31 March 2018: R3.3m). SANRAL is awaiting the outcome of the court case.

Notes to the Annual Financial Statements

	2019 R '000	2018 R '000

37. Related parties

Relationships	
Holding company	Department of Transport
Shareholder with significant influence	The principal shareholder of SANRAL is the Minister of Transport being part of national government
Members of key management	Key management personnel are defined as executive and non-executive management of SANRAL. Key management personnel compensation is detailed in note 38.

Related-party relationships exist between SANRAL, its directors, key management personnel and parties within the national sphere of government.

SANRAL is a Schedule 3A public entity in terms of the PFMA. It therefore has a number of related parties, including other state-owned entities, government departments and all other entities within the national sphere of government. SANRAL used the database maintained by National Treasury to identify related parties in line with IAS 24 (Amended). Transactions with parties identified as related parties were concluded on an arm's length basis.

Having considered the potential for transactions to be impacted by related-party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions require disclosure as related-party transactions.

Related party balances

	2019 R '000	2018 R '000
Period end balances arising from services provided to related parties		
National Department of Transport	148,779	145,684
Road Accident Fund	34,395	32,368
Road Traffic Management Corporation	2,137	258
Amounts included in trade receivable (trade payable) regarding related parties		
Total receivables arising from services provided to related parties*	185,336	178,310
Transactions with related parties		
Government grants received for funding structure		
National Department of Transport	18,624,158	15,944,823
Other services provided to related parties		
National Department of Transport	3,095	36,912
Road Traffic Management Corporation	1,879	258
Non-executive director	25	-
Road Accident Fund	2,027	1,978
Services provided by related parties		
Airports Company South Africa	(13)	(3)

Directors and related party transactions

All directors and officers of SANRAL have confirmed that they had no interest in any contract of significance with SANRAL which could have resulted in a conflict of interest during the current year.

*Included in the current year total receivables arising from services provided to related parties is an amount of R24 925 that relates to an overpayment erroneously made to a non-executive director (Ms L. Madlala), this amount was subsequently recovered.

For related-party transactions paid to directors please refer to note 38.

Notes to the Annual Financial Statements

38. Directors' and prescribed officers' emoluments

Executive

31 March 2019

	Salary R'000	Performance bonus R'000	Total R'000
Mr S Macozoma (Chief Executive Officer)	3,600	1,223	4,823

31 March 2018

	Salary R'000	Performance bonus R'000	Total R'000
Mr S Macozoma (Chief Executive Officer)	3,600	616	4,216

Non-executive

31 March 2019

	Directors' fees R'000	Total R'000
Previous board members	-	-
Ms A Halstead (Public official)	-	-
Mr C Hlabisa (Public official)	-	-
Ms Z Kganyago (Independent)	187	187
Dr A Lawless (Independent)	199	199
Mr M Matete (Independent)	361	361
Ms D Mashile-Nkosi (Independent)	37	37
Mr R Morar (Chairperson)	430	430
Current board members	-	-
Mr RF Haswell (Independent)	536	536
Ms L Madlala (Independent)	536	536
Mr TP Matosa (Independent)	561	561
Mr TB Mhambi (Chairperson)	1,048	1,048
Ms N Mpobane (Independent)	87	87
	3,982	**3,982**

31 March 2018

	Directors' fees R'000	Total R'000
Ms A Halstead (Public official)	-	-
Mr C Hlabisa (Public official)	-	-
Ms Z Kganyago (Independent)	697	697
Dr A Lawless (Independent)	685	685
Mr M Matete (Independent)	1,110	1,110
Ms D Mashile-Nkosi (Independent)	508	508
Mr R Morar (Chairperson)	1,116	1,116
	-	-
	4,116	**4,116**

Notes to the Annual Financial Statements

38. Directors' and prescribed officers' emoluments (continued)

Executive members

31 March 2019

	Salary R'000	Performance payments and long service awards R'000	Other benefits* R'000	Pension contributions R'000	Total R'000
Executives	-	-	-	-	-
H Harper (Corporate Services Executive)	1,437	422	68	295	2,222
L Kannemeyer (Engineering Executive)	2,044	618	206	441	3,309
I Mulder (CFO)	2,378	759	79	429	3,645
	5,859	**1,799**	**353**	**1,165**	**9,176**
Regional managers					
DM Nkabinde (Eastern Region)	1,588	282	79	327	2,276
MS Peterson (Southern region)	1,867	619	12	369	2,867
R Cable (Western Region)	1,580	380	86	327	2,373
P Hlahla (Northern Region)	1,626	262	71	296	2,255
	6,661	**1,543**	**248**	**1,319**	**9,771**
Prescribed officers					
A Mathew (Company Secretary)	1,444	500	41	291	2,276

31 March 2018

	Salary R'000	Performance payments and long service awards R'000	Other benefits* R'000	Pension contributions R'000	Total R'000
Executives	-	-	-	-	-
H Harper (Corporate Services Executive)	1,325	472	63	272	2,132
L Kannemeyer (Engineering Executive)	1,452	542	166	317	2,477
I Mulder (CFO)	2,204	825	72	397	3,498
JJ Smit (Engineering Executive)	466	761	-	-	1,227
	5,447	**2,600**	**301**	**986**	**9,334**
Regional managers					
L Sewnarain (Eastern Region)	1,442	633	78	263	2,416
MS Peterson (Southern Region)	1,716	678	12	339	2,745
JC van der Walt (Western Region)	1,667	687	47	336	2,737
WS van der Merwe (Northern Region - Acting)	1,465	510	100	404	2,479
	6,290	**2,508**	**237**	**1,342**	**10,377**
Prescribed officers					
A Mathew (Company Secretary)	1,308	494	38	264	2,104

* Other benefits comprise of travel allowance and medical benefits.

Notes to the Annual Financial Statements

38. Directors' and prescribed officers' emoluments (continued)

The Chief Audit Executive (CAE) has not been disclosed in the current year as a prescribed officer (2018: R661 000). The CAE position reports to the audit and risk committee and is an independent oversight function that does not make management decisions thus does not meet the definition of a key management personnel in terms of IAS 24. Aside from the disclosure impact, there is no other impact on the financial statements.

39. Change in estimate

Property, plant and equipment

The useful life of equipment, furniture and vehicles was initially estimated at between three to 30 years. In the current period management has revised their initial estimates. The useful life was revised during the annual assessment of useful lives as it was noted that these assets are still in good condition and will be used longer than their initial estimates. The effect of this revision has decreased the depreciation charges for the current period as follows:

It is impracticable to estimate the effect of the change in accounting estimates for future periods.

	Depreciation - initial estimates R'000	Depreciation - revised estimates R'000	Effect of revision increase/ (decrease) R'000
Equipment	1,883	1,114	(769)
Vehicles	1	-	-
Furniture	514	310	(204)
	2,398	**1,424**	**(973)**

The revised depreciation in vehicles is R830 and could not be reflected above due to the rounding (R'000) applied to the financial statements. The effect of the revision to the vehicles is a decrease to depreciation of R611 which also could not be reflected.

Intangible assets

The useful life of software was initially estimated to be 10 years. In the current period management have revised their estimate to a range of 10 - 15 years. The effect of this revision has increased the amortisation for the current period by R961,000.

It is impracticable to estimate the effect of the change in accounting estimates for future periods.

	Amortisation - initial estimate R'000	Amortisation - revised estimate R'000	Effect of revision increase/ (decrease) R'000
Software	-	961	961

Notes to the Annual Financial Statements

40. Prior period errors

A. Incorrect depreciation and accumulated depreciation in prior periods

The accumulated depreciation was incorrect due to the following:

(i) During the review and assessment of useful lives and conditions of assets, management noted that some assets in the categories of buildings under concession, equipment, vehicles and furniture, buildings and software were fully depreciated in the prior years but were still in use (R0/R1 assets). An assessment of the useful lives was performed and it was found that the assets still had economic value to the entity.

(ii) N4 Magalies assets (equipment, vehicles and furniture and buildings) were impaired in the 2017 financial year as the carrying amount exceeded the fair value (value in use). The assets were automatically depreciated by the system even though they had been impaired to a zero book value. The impairment loss was recognised in a separate account.

(iii) The accumulated depreciation on road structures was incorrectly reversed in the prior years. An investigation was made which found that accumulated depreciation initially recognised on road structures was correct and should be reinstated.

(iv) During the current year's reviews, it was discovered that depreciation on some assets affecting road structures, road network, buildings under concession and buildings was not correctly calculated during the depreciation re-run process resulting in an understatement of accumulated depreciation.

The net effect of the above is as follows:

Restatement of opening balances at 1 April 2017 (R'000)	
Decrease in accumulated depreciation - buildings - PPE under concession	5
Decrease in accumulated depreciation - equipment, vehicles and furniture	56 107
Decrease in accumulated depreciation - buildings	163
Decrease in accumulated amortisation - software	22
Decrease in accumulated loss	(56 297)
Restatement of opening balances at 1 April 2018 (R'000)	
Increase in accumulated depreciation - road structures	(165 373)
Increase in accumulated depreciation - road network	(15 080)
Decrease in accumulated depreciation - buildings - PPE under concession	1
Decrease in accumulated depreciation - road network - PPE under concession	291
Decrease in accumulated depreciation - equipment, vehicles and furniture	33 984
Decrease in accumulated depreciation - buildings	750
Decrease in accumulated depreciation - software	11
Increase in Non-distributable reserve - revaluation of fixed assets	(55)
Increase in accumulated loss	145 472

B. Incorrect classification of asset class in prior periods

Assets were incorrectly classified with reference to SANRAL asset categories due to:

(i) Costs of assets that had been incorrectly recognised in the current period. These assets should have been included in the opening balances of the current year.

Notes to the Annual Financial Statements

40. Prior period errors (continued)

(ii) Assets not capitalised in the prior period.

(iii) Freeway management systems vehicles were recognised as work in progress in the prior years. The cost of the vehicles and accumulated depreciation has been corrected.

(iv) An additional cost to buildings was recognised as equipment in the prior year. The cost of the building and accumulated depreciation has been corrected.

(v) During the current financial year it was identified that equipment, furniture and software were recognised as buildings in the prior year. The costs of equipment, furniture and software and accumulated depreciation/amortisation have been corrected.

(vi) During the current financial year it was identified that equipment acquired and available for use in the prior period was recognised as work in progress. The cost of equipment and accumulated depreciation has been corrected.

(vii) During the current year it was noted that costs to completed projects were not recognised in the 2018 financial year resulting in the revaluation adjustment being incorrectly calculated.

Restatement of opening balances at 1 April 2017 (R'000)	
Increase in road network	24 952
Increase in equipment, vehicles and furniture	168 973
Decrease in buildings	(5 053)
Increase in software	905
Decrease in PPE under construction	(189 778)
Increase in accumulated depreciation - road network	(1 071)
Increase in accumulated depreciation - equipment, vehicles and furniture	(87 166)
Decrease in accumulated depreciation - buildings	122
Increase in accumulated amortisation - software	(23)
Increase in accumulated loss	88 138
Restatement of opening balances at 1 April 2018 (R'000)	
Decrease in road network	(38 350)
Decrease in PPE under construction	(2 119)
Decrease in accumulated depreciation - road network	107 589
Decrease in accumulated depreciation - road structures	167 400
Increase in accumulated depreciation - equipment, vehicles and furniture	(13 505)
Increase in accumulated depreciation - buildings	(1)
Increase in accumulated amortisation - software	(91)
Increase in non-distributable reserve - revaluation of fixed assets	(234 584)
Increase in accumulated loss	13 661

Notes to the Annual Financial Statements

40. Prior period errors (continued)

C. Assets incorrectly written off in prior periods

A building was derecognised in the prior periods however it was still available for use. An assessment of the useful life was performed and it was found that the asset still had economic value.

Restatement of opening balances at 1 April 2017 (R'000)

Increase in buildings	944
Increase in accumulated depreciation - buildings	(359)
Decrease in accumulated loss	(585)

Restatement of opening balances at 1 April 2018 (R'000)

Increase in accumulated depreciation - buildings	(19)
Increase in accumulated loss	19

D. Debtors payments not recognised in prior year

2018 restatement of closing balance (R'000)

Some debtors payments were incorrectly recorded as sundry income and some received in prior year was not recognised in correct period resulting in overstatement of debtors. As result impairment was also overstated. The net effect is as follows:

Decrease in debtors balance	(290)
Increase in accumulated loss	290

E. VAT input apportionment

Input VAT was not claimed on advertising, internal audit fees and external audit fees. The input tax was claimed in the current financial year using the VAT apportionment calculation between toll and non-toll activities. The impact of the error noted on the prior year balance is as follows:

Restatement of opening balances at 1 April 2018 (R'000)

Increase in VAT input	10 341
Decrease in accumulated loss	(10 341)

F. Duplication of invoice

An invoice for land expropriation was raised in the prior period but the payment was rejected by the bank due to incorrect banking details. Another invoice was raised and paid with the correct banking details resulting in a duplication of the vendors and expenses. The impact of the error noted on the prior year balance is as follows:

Restatement of opening balances at 1 April 2018 (R'000)

Decrease in payables	114
Decrease in accumulated loss	(114)

G. Insurance receivable

The insurance investment was understated by contingent claims amounting to R30m in the 2018 financial year.

Notes to the Annual Financial Statements

40. Prior period errors (continued)

Restatement of opening balances at 1 April 2018 (R'000)

Increase in investment	30 000
Decrease in accumulated loss	(30 000)

H. Understatement of land revaluation

The revaluation of land was understated by an amount of R136m in prior year due to the exclusion of the owner occupied land from the total revalued land. This resulted in the following:

Restatement of opening balances at 1 April 2018 (R'000)

Increase in land	136 105
Increase in revaluation reserve	(136 105)

41. Financial instruments and risk management

Capital risk management

The entity's objective when managing capital (which includes share capital, borrowings, working capital and cash and cash equivalents) is to maintain a flexible capital structure that reduces the cost of capital to an acceptable level of risk and to safeguard the entity's ability to continue as a going concern while taking advantage of strategic opportunities in order to maximise stakeholder returns sustainably.

The capital structure of the entity consists of debt, which includes the borrowings disclosed in notes 14 and 15, cash and cash equivalents disclosed in note 11, and equity as disclosed in the statement of financial position.

Shares are held by the Minister of Transport, and new share issues are authorised by the Minister of Transport.

The capital structure and gearing ratio of the entity at the reporting date was as follows:

		2019 R '000	2018 R '000
Financial liabilities	14&15	47,451,656	50,109,177
Trade and other payables	21	5,610,764	5,787,270
Total debt		**53,062,420**	**55,896,447**
Cash and cash equivalents	11	(8,740,108)	(7,646,576)
Net borrowings		**44,322,312**	**48,249,871**
Equity		293,811,150	271,512,648
Gearing ratio		15 %	18 %

Notes to the Annual Financial Statements

41. Financial instruments and risk management (continued)

Financial risk management

Overview

The company is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (currency risk, interest rate risk and price risk).

The Board has overall responsibility for the establishment and oversight of the entity's risk management framework. The Board has established the audit and risk committee, which is responsible for developing and monitoring the entity's risk management policies. The committee reports quarterly to the Board on its activities.

The entity's risk management policies are established to identify and analyse the risks faced by the entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the entity's activities.

The entity's audit and risk committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the entity. The audit and risk committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit and risk committee.

Credit risk

Credit risk is the risk of financial loss to the entity if a customer or counterpart to a financial instrument fails to meet its contractual obligations.

The entity is exposed to credit risk on trade and other receivables, lease receivables, cash and cash equivalents and repurchase agreements in publicly traded bonds.

Credit exposure to any counterpart is managed by setting transaction exposure limits, as authorised by the Asset and Liability Committee. The credit qualities of counterparts are also reviewed on a continuous basis. Ongoing credit evaluations are performed on the financial condition of receivable counterparts. Trade receivables are presented net of the allowance for impairment.

The company is exposed to credit-related losses in the event of non-performance by counterparties with capital market financial assets as well as a price risk in the event of the downgrading of their credit rating. Financial assets are held with counterparties who have a national scale short-term credit rating of A1 and above and/or a long-term credit rating of A and above. The entity continually monitors its positions and the credit ratings of its counterparties, and limits the extent to which it enters into contracts with any one party. These ratings do not relate to trade receivables.

Credit risk exposure arising on cash and cash equivalents is managed by the entity through dealing with well-established financial institutions with high credit ratings.

Trade receivables do not contain a significant financing component, the loss allowance is determined as the lifetime expected credit losses using the simplified approach.

The maximum exposure to credit risk is presented in the table below:

	2019 R '000	2018 R '000
Capital market bonds	109,470	42,800
Insurance receivable	429,432	402,562
Trade and other receivables	1,149,804	4,800,745
Cash and cash equivalents	8,740,108	7,646,576
	10,428,814	**12,892,683**

Notes to the Annual Financial Statements

41. Financial instruments and risk management (continued)

	Carrying amount R'000	AAA R'000	AA+ R'000	AA R'000	AA- R'000	A+ / A R'000
Bank balances	64,205	-	64,205	-	-	-
Money market deposits	8,183,283	-	3,758,283	4,425,000	-	-
Repurchase agreements	492,615	13,330	294,957	47,193	76,434	60,702
Market-making financial assets	109,470	109,470	-	-	-	-
	8,849,573	**122,800**	**4,117,445**	**4,472,193**	**76,434**	**60,702**

The carrying amount of financial assets represents the maximum credit exposure. For the fair values of the financial instruments refer to the fair values analysis in note 42.

Collateral is held against repurchase investments in the form of government or corporate bonds approved by the Assets and Liabilities Committee. Repurchase and bond investments are held by counterparties with a minimum of an A-rating.

Determination of any significant increase in credit risk:

In line with IFRS9 paragraph 5.5, credit risk on all financial assets at amortised cost is considered to be insignificant where the counterpart or a financial instrument has an investment grade rating and the rating shows no indication of deterioration since the last reporting date. Financial assets at fair value through profit or loss do not include a loss allowance. The fair value is therefore equal to the gross carrying amount.

Cash and cash equivalents, insurance receivable and repurchase agreements are held in banks deposits, money market funds and issuers which are A-rated and above. Except for the insurance receivable, the financial instruments are held to meet operational and financial obligations over the short-term of three months or less. The risk of default on these instruments is therefore considered to be low. Consequently no expected credit loss allowance is made.

Liquidity risk

The entity is exposed to liquidity risk, which is the risk that the entity will encounter difficulties in meeting its obligations as they become due.

The entity manages liquidity risk through the compilation and monitoring of cash flow forecasts, as well as ensuring that a satisfactory level of cash and cash equivalents is maintained.

There have been no significant changes in the liquidity risk management policies and processes since the prior reporting period.

The table below analyses the company's financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

The following are the contractual maturities of financial liabilities:
The table below contains only cash flows relating to financial instruments. The cash flows are undiscounted contractual amounts. It does not include future cash flows expected in the normal course of business.

Inflation-linked bonds included in capital market loans are reported at their carrying amounts at the reporting date.

Notes to the Annual Financial Statements

41. Financial instruments and risk management (continued)

2019

	Less than 1 year R'000	1 to 5 years R'000	5 to 10 years R'000	Over 10 years R'000	Total R'000	Carrying amount R'000
Financial liabilities						
Capital market loans at amortised cost (funding portfolio)	6,240,118	31,886,910	10,985,152	8,026,794	57,138,974	40,758,453
Capital market loan - fair value through profit or loss (funding portfolio)	425,459	2,691,854	3,069,551	1,188,059	7,374,923	4,305,292
Capital market loan - held for trading (market-making portfolio)	24,997	132,751	118,424	130,929	407,101	242,474
EIB loan	122,633	613,163	613,163	520,151	1,869,110	1,020,389
ECA-supported loan*	14,817	-	-	-	14,817	14,466
Promissory notes	1,110,582	-	-	-	1,110,582	1,110,582
Repurchase agreements	-	-	-	-	-	-
Callable loans	-	-	-	-	-	-
Market-making liability	-	-	-	-	-	-
Third-party funding	263,144	-	-	-	263,144	263,144
Trade and other payables	5,610,765	-	-	-	5,610,765	5,610,765
	13,812,515	**35,324,678**	**14,786,290**	**9,865,933**	**73,789,416**	**53,325,565**

*The ECA supported loan is a domestic loan, guaranteed by the Republic of Austria through Oesterreichische Kontrollbank Aktiengesellschaft, an export credit agency.

2018

	Less than 1 year R'000	1 to 5 years R'000	5 to 10 years R'000	Over 10 years R'000	Total R'000	Carrying amount R'000
Financial liabilities						
Capital-market loans at amortised cost	4,991,544	20,172,768	23,053,535	8,616,309	56,834,156	42,815,186
Capital-market at fair value through profit or loss	427,451	2,476,665	2,906,079	1,255,380	7,065,575	4,462,992
Capital-market loan (market-making portfolio)	22,172	94,510	99,924	99,924	316,530	219,206
CPI-linked loan	79,370	-	-	-	79,370	78,308
EIB loan	122,633	490,531	613,163	613,163	1,839,490	1,051,472
ECA-supported loan	56,507	14,821	-	-	71,328	66,777
Promissory notes	1,230,548	-	-	-	1,230,548	1,138,031
Repurchase agreements	6,186	-	-	-	6,186	5,768
Callable loans	226,734	-	-	-	226,734	212,000
Market-making liability	59,437	-	-	-	59,437	59,437
Third-party funding	281,607	-	-	-	281,607	281,607
Trade and other payables	5,787,265	-	-	-	5,787,265	5,787,265
	13,291,454	**23,249,295**	**26,672,701**	**10,584,776**	**73,798,226**	**56,178,049**

Notes to the Annual Financial Statements

41. Financial instruments and risk management (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The company is exposed to the following market risks on: price risk and interest rate risk. Financial instruments affected by market risk include capital market loans held at fair value, CPI-linked loans, ECA supported loans, call and money market instruments, and call bonds. The company is exposed to price risk on its market-making assets and liabilities.

The company manages this price risk exposure through its treasury function which is responsible for the monitoring and management of the price risks in terms of guidelines set out in the Treasury Policy and Control Framework approved by the Board. The treasury function is also responsible for identifying opportunities for the natural set-off of market risks and the management of the resultant net exposures in the most cost effective manner through the operation of a market making portfolio. Price risk is accepted by the Board on the company's liabilities in its funding portfolio and at fair value through profit or loss, as these liabilities fund long-term capital expenditure. Price risk before maturity is therefore unrealised.

Financial liabilities at fair value through profit or loss transferred from the market-making portfolio to the funding portfolio are classified and measured as financial liabilities at fair value through profit or loss and are therefore all carried at fair value. The fair value movements on these financial liabilities will not be realised as these bonds form part of the funding portfolio at fair value and will therefore be held to maturity date.

Notes to the Annual Financial Statements

41. Financial instruments and risk management (continued)

Interest rate profile

The interest rate profile of interest bearing financial instruments at the end of the reporting period was as follows:

		Carrying amount	
		2019 R'000	2018 R'000
Variable rate instruments:			
Financial assets			
Bank and cash	11	64,205	54,860
Call deposits		4,494,000	2,190,000
Money-market instruments		1,589,283	1,767,178
Market-making financial assets		109,470	42,800
		6,256,958	**4,054,838**
Financial liabilities			
CPI-linked loan		-	(78,308)
Capital market loans at fair value		(4,547,765)	(4,682,198)
ECA-supported loan		(14,466)	(66,777)
Callable bonds		-	(212,000)
Repurchase agreements		-	(5,768)
Promissory notes		(1,110,582)	(1,138,031)
		(5,672,813)	**(6,183,082)**
Net variable rate financial instruments		**584,145**	**(2,128,244)**
Fixed rate instruments:			
Financial assets			
Fixed deposits		2,100,000	3,000,000
Repurchase agreements		492,615	611,694
Insurance receivable		429,432	402,562
		3,022,047	**4,014,256**
Financial liabilities			
Capital market loans at amortised cost		(40,758,453)	(42,815,186)
EIB loan		(1,020,389)	(1,051,472)
Repurchase agreements		-	(5,768)
		(41,778,842)	**(43,872,426)**
Net fixed rate financial instruments		**(38,756,795)**	**(39,858,170)**
Variable rate financial assets as a percentage of total interest bearing financial assets		67.43 %	50.25 %
Fixed rate financial assets as a percentage of total interest bearing financial assets		32.57 %	49.75 %
Variable rate financial liabilities as a percentage of total interest bearing financial liabilities		11.95 %	12.35 %
Fixed rate financial liabilities as a percentage of total interest bearing financial liabilities		88.05 %	87.65 %

Notes to the Annual Financial Statements

41. Financial instruments and risk management (continued)

Price risk

Price risk sensitivity analysis

An increase of 100 basis points (2018: 100 basis points) in interest rates at the reporting date would decrease profit by the amounts shown below. A decrease of 100 basis points would increase profit by the same amount. The analysis assumes that all other variables remain constant. Variable rate instruments are capital market bonds and loans held in the funding portfolio, market-making portfolio held-for-trading and variable rate money market instruments.

	2019 R'000	2019 R'000	2018 R'000	2018 R'000
Increase or decrease in rate	Increase	Decrease	Increase	Decrease
Impact on profit or loss:				
100 basis points increase	-	(207,480)	-	(243,700)
100 basis points decrease	207,480	-	243,700	-
	207,480	**(207,480)**	**243,700**	**(243,700)**

Market-making portfolio

The company classifies certain of its bonds as financial liabilities at fair value through profit or loss (held-for-trading). Included in the portfolio are market-making assets, consisting of government bonds with maturities similar to the SANRAL bonds at fair value through profit or loss. Liquidity in the market-making portfolio is managed by financial instruments having similar maturities and the value of the financial liabilities and financial assets being closely matched.

Terms of market-making financial assets

Refer to note 8 for further terms and conditions for market-making financial assets.

Non-SANRAL bonds

Figures in R'000	Coupon rate	Date of maturity	31 March 2019 Nominal amount	31 March 2019 Carrying amount	31 March 2018 Nominal amount	31 March 2018 Carrying amount
R186 (2026)	10.50%	21 Dec 2026	25,750	28,472	34,750	40,149
R204 (2018)	8.00%	21 Dec 2018	-	-	1,230	1,240
R207 (2020)	7.25%	15 Jan 2020	1,400	1,406	1,400	1,411
R209 (2036)	6.25%	31 Mar 2036	109,500	79,592	-	-
			136,650	**109,470**	**37,380**	**42,800**

Terms of market-making liability (non-SANRAL) bonds

Refer to note 14 for terms and conditions of market-making liabilities.

Figures in R'000	Coupon rate	Date of maturity	31March 2019 Nominal value	31 March 2019 Carrying value	31 March 2018 Nominal value	31 March 2018 Carrying value
R209 (2036)	6.25 %	31 Mar 2036	-	-	76,500	59,437

Notes to the Annual Financial Statements

41. Financial instruments and risk management (continued)

Funding portfolio at amortised cost and at fair value

Terms and conditions of outstanding loans are reflected in the table that follows. For further terms and conditions refer to note 15.

Funding portfolio at amortised cost

Figures in R'000	Coupon rate	Date of maturity	31 March 2019 Nominal amount	31 March 2019 Carrying amount	31 March 2018 Nominal amount	31 March 2018 Carrying amount
Guaranteed bonds			-	-	-	-
SZ25	9.00%	30 Sep 2025	2,432,784	2,456,222	2,432,784	2,458,963
HWAY20	9.75%	31 Jul 2020	5,781,300	5,809,319	5,781,300	5,828,800
HWAY23	5.50% + CPI	07 Dec 2023	2,917,353	8,793,214	2,917,353	8,614,638
HWAY24	5.50% + CPI	07 Dec 2024	1,499,000	4,685,914	1,499,000	4,594,793
HWAY33	2.25% + CPI	28 Feb 2033	1,401,000	1,608,302	1,401,000	1,536,429
HWAY34	9.25%	31 Jul 2034	4,065,800	3,978,017	4,065,800	3,975,651
HWAY35	9.25%	31 Jul 2035	1,556,000	1,522,643	1,544,000	1,511,413
HWF08	8.79%	15 Jul 2019	1,000,000	999,653	1,000,000	997,806
HWF09	8.79%	19 Sep 2019	1,838,000	1,836,183	1,838,000	1,832,087
HWF10U	8.90%	30 Sep 2019	700,000	699,297	700,000	698,055
Unguaranteed bonds			-	-	-	-
NRA18	12.25%	30 Nov 2018	-	-	2,385,623	2,404,820
NRA22	12.25%	31 Oct 2022	2,623,000	2,729,736	2,623,000	2,753,322
NRA23	5.00% + CPI	31 May 2023	889,750	1,628,964	889,750	1,577,771
NRA28	12.25%	30 Nov 2028	3,676,769	4,010,989	3,676,769	4,030,640
			30,380,756	**40,758,453**	**32,754,379**	**42,815,188**

Funding portfolio at fair value through profit or loss (note 14)

Figures in R'000	Coupon rate	Date of maturity	31 March 2019 Nominal amount	31 March 2019 Carrying amount	31 March 2018 Nominal amount	31 March 2018 Carrying amount
Guaranteed bonds			-	-	-	-
SZ25	9.00%	30 Sep 2025	1,610,095	1,563,047	1,610,095	1,609,221
HWAY20	9.75%	31 Jul 2020	951,863	982,780	951,863	990,000
HWAY34	9.25%	31 Jul 2034	716,403	641,559	728,403	690,919
HWAY35	9.25%	31 Jul 2035	561,000	500,717	561,000	533,214
Unguaranteed bonds			-	-	-	-
NRA22	12.25%	31 Oct 2022	18,488	20,517	22,688	25,670
NRA28	12.25%	30 Nov 2028	549,549	596,672	552,549	613,968
			4,407,398	**4,305,292**	**4,426,598**	**4,462,992**

Market-making liabilities at fair value through profit or loss (note 14)

Figures in R'000	Coupon rate	Date of maturity	31 March 2019 Nominal amount	31 March 2019 Carrying amount	31 March 2018 Nominal amount	31 March 2018 Carrying amount
Guaranteed bonds			-	-	-	-
HWAY20	9.75%	31 Jul 2020	13,455	13,892	12,455	12,954
HWAY34	9.25%	31 Jul 2034	15,000	13,433	-	-
HWAY35	9.25%	31 Jul 2035	241,051	215,149	216,051	205,351
Unguaranteed bonds			-	-	-	-
NRA18 (matured)	12.25%	30 Nov 2018	-	-	877	901
NRA28	12.25%	30 Nov 2028	-	-	-	-
			269,506	**242,474**	**229,383**	**219,206**

Notes to the Annual Financial Statements

41. Financial instruments and risk management (continued)

The difference in carrying amount of designated liabilities at fair value through profit or loss and held-for-trading and the amount contractually required to pay at maturity is disclosed in the tables above. The contractual amount required to pay at maturity is the nominal amount.

The entity is exposed to financial risks arising from changes in market prices. The entity has not entered into derivative contracts to manage the risk of a decline in market prices. The entity reviews its outlook for market prices regularly in considering the need for active financial risk management.

Financial liabilities at amortised cost (note 15)

Figures in R'000	Coupon rate	Date of maturity	31 March 2019 Nominal amount	31 March 2019 Carrying amount	31 March 2018 Nominal amount	31 March 2018 Carrying amount
Guaranteed financial liabilities			-	-	-	-
CPI-linked loan	3.91%	31 Oct 2018	-	-	78,308	78,308
EIB loan - Tranche 1	8.32%	15 Jun 2034	510,928	510,928	526,696	526,696
EIB loan - Tranche 2	9.23%	15 Mar 2034	509,461	509,461	524,776	524,776
ECA-supported loan	8.90%	15 Mar 2022	14,466	14,466	66,777	66,777
Promissory note PN01	8.50%	06 Feb 2019	-	-	510,000	475,558
Promissory note PN02	8.50%	21 Feb 2019	-	-	550,000	511,191
Promissory note PN03	8.50%	28 Mar 2019	-	-	164,000	151,282
Promissory note PN04	8.80%	06 Feb 2020	556,000	517,219	-	-
Promissory note PN05	8.80%	21 Feb 2020	640,000	593,363	-	-
Callable bonds	Variable	Callable	-	-	212,000	212,000
Unguaranteed financial liabilities			-	-	-	-
Repurchase agreements	7.25%	07 Apr 2019	-	-	5,768	5,768
			2,230,855	**2,145,437**	**2,638,325**	**2,552,356**

Property debtors

The maximum exposure to credit risk relating to the rental receivables at the reporting date by geographic region was:

	2019 R '000	2018 R '000
Northern Region	532	2,370
Eastern Region	1,834	1,871
Western Region	154	146
	2,520	**4,387**

Toll debtors

The maximum exposure to credit risk relating to the toll receivables at the reporting date by geographic region was:

	2019 R '000	2018 R '000
Northern Region	10,963,698	10,840,403

Notes to the Annual Financial Statements

41. Financial instruments and risk management (continued)

Sundry debtors

The maximum exposure to credit risk relating to the sundry debtors at the reporting date by geographic region was:

	2019 R '000	2018 R '000
Head office	160,153	166,434
Northern Region	38,262	52,945
Southern Region	154,655	111,885
Eastern Region	23,018	22,870
Western Region	5,485	7,827
	381,573	**361,961**

Impairment loss

The movements in the allowance for impairment during the year was as follows:

Property debtors		
Opening balance	827	555
Impairment loss recognised	(30)	318
Bad debt written off	(15)	(46)
	782	**827**
Toll debtors		
Opening balance	6,056,070	3,613,427
Impact of IFRS 9 adoption on 1 April 2018	3,854,340	2,442,643
Impairment loss recognised during the year	133,459	-
	10,043,869	**6,056,070**
Sundry debtors		
Opening balance	297,964	232,012
Impairment loss recognised	(24,060)	65,952
	273,904	**297,964**

Security relating to rental receivable

Securities held against rental receivables comprise deposits. The estimate of the fair value of the securities held is1.61m (2018: R1 50m) which is equivalent to its nominal amount.

Notes to the Annual Financial Statements

		2019 R '000	2018 R '000

42. Fair value information

Fair value hierarchy

The table below analyses financial assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the entity can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Levels of fair value measurements

Level 1

Recurring fair value measurements

	Note(s)		
Assets			
Financial assets at fair value through profit (loss)	8		
Market-making assets		109,470	42,800
Cash and cash equivalents	11		
Cash and cash equivalents		8,740,108	7,646,576
Liabilities	Note(s)		
Financial liabilities at fair value through profit (loss)	14		
Market-making liabilities - Non-SANRAL bonds		-	59,437
Capital market loans		4,547,765	4,682,198
Total financial liabilities at fair value through profit (loss)		**4,547,765**	**4,741,635**
Financial liabilities at amortised cost	15		
Repurchase agreements		-	5,901
Capital market loans		39,159,054	42,860,392
Total financial liabilities at amortised cost		**39,159,054**	**42,866,293**

Level 2

Recurring fair value measurements

Assets

Liabilities

Other			
EIB loan		949,250	1,015,850
CPI-linked loan		-	80,335
ECA loan		14,460	66,603
Promissory notes		1,110,582	1,140,387
Total other		**2,074,292**	**2,303,175**

Notes to the Annual Financial Statements

	Note(s)	2019 R '000	2018 R '000
42. Fair value information (continued)			
Level 3			
Recurring fair value measurements			
Assets			
Property, plant and equipment under concession	4		
Road structures		8,527,249	6,937,930
Road network		37,950,826	36,824,951
Total PPE under concession		**46,478,075**	**43,762,881**
Investment property	6		
Investment property		1,776,215	1,810,430
Property, plant and equipment	5		
Land		21,735,605	20,065,593
Road network		239,004,723	228,379,225
Road structures		71,191,462	58,257,013
Total property, plant and equipment		**331,931,790**	**306,701,831**
Trade and other receivables			
Trade and other receivables		1,149,804	4,800,745
Liabilities			
Trade and other payables			
Trade and other payables		5,610,766	5,787,265
Third-party funding		263,144	281,607
Total trade and other payables		**5,873,910**	**6,068,872**
Non-recurring fair value measurements			
Assets held for sale and disposal groups in accordance with IFRS 5			
Investment property		34,460	30,940
Total		**34,460**	**30,940**

Properties which are currently classified as non-current assets held for sale have been recognised at fair value.

Notes to the Annual Financial Statements

42. Fair value information (continued)

Reconciliation of assets and liabilities measured at level 3

	Note(s)	Opening balance R'000	Gains (losses) in profit (loss) R'000	Gains (losses) in OCI R'000	Purchases/ transfers R'000	Sales/asset write off R'000	Classified as held for sale R'000	Depreciation/ impairment R'000	Bad debts written off R'000	Net receipts/ (payments) R'000	Closing balance R'000
2019											
Assets											
Property, plant and equipment under concession	4										
Road structures		6,937,930	-	1,441,333	160,947	(463)	-	(12,498)	-	-	8,527,249
Road network		36,824,951	-	483,522	1,022,057	(589)	-	(379,115)	-	-	37,950,826
Total PPE under concession		**43,762,881**	**-**	**1,924,855**	**1,183,004**	**(1,052)**	**-**	**(391,613)**	**-**	**-**	**46,478,075**
Investment property	6										
Investment property		1,810,430	(117,631)	-	118,509	(14,122)	(20,971)	-	-	-	1,776,215
Non-current assets held for sale		30,940	-	-	(2,035)	(15,416)	20,971	-	-	-	34,460
Total investment property		**1,841,370**	**(117,631)**	**-**	**116,474**	**(29,538)**	**-**	**-**	**-**	**-**	**1,810,675**
Property, plant and equipment	5										
Land		20,065,593	-	1,482,353	187,659	-	-	-	-	-	21,735,605
Road network		228,379,225	-	8,509,615	4,774,279	(619)	-	(2,657,777)	-	-	239,004,723
Road structures		58,259,013	-	11,810,212	1,289,285	-	-	(167,048)	-	-	71,191,462
Total property, plant and equipment		**306,703,831**	**-**	**21,802,180**	**6,251,223**	**(619)**	**-**	**(2,824,825)**	**-**	**-**	**331,931,790**

Notes to the Annual Financial Statements

Note(s)	Opening balance R'000	Gains/losses in profit or loss R'000	Gains/losses in OCI R'000	Purchases R'000	Sales/ Asset Write off R'000	Held for sale assets R'000	Depreciation/ Impairment R'000	Bad Debts R'000	Payments R'000	Closing balance R'000
42. Fair value information (continued)										
Trade and other receivables										
Trade and other receivables	4,800,745	-	-	-	5,186,988	-	(3,963,616)	(46,897)	(4,827,416)	1,149,804
Trade and other payables										
Trade and other payables	5,787,265	-	-	9,029,062	-	-	-	-	(9,205,561)	5,610,766
Provision for overload control	323,068	-	-	(1,702)	-	-	-	-	-	321,366
Third-party funding	281,607	-	-	(18,463)	-	-	-	-	-	263,144
Total trade and other payables	**6,391,940**	**-**	**-**	**9,008,897**	**-**	**-**	**-**	**-**	**(9,205,561)**	**6,195,276**
Total	**363,500,767**	**(117,631)**	**23,727,035**	**16,559,598**	**5,155,779**	**-**	**(7,180,054)**	**(46,897)**	**(14,032,977)**	**387,565,620**

Notes to the Annual Financial Statements

	Note(s)	Opening balance R'000	Gains/losses in profit or loss R'000	Gains/losses in OCI R'000	Purchases R'000	Sales/ Asset Write off R'000	Held for sale assets R'000	Depreciation/ Impairment R'000	Bad Debts R'000	Payments R'000	Closing balance R'000
42. Fair value information (continued)											
2018											
Assets											
Property, plant and equipment including under concession	4&5										
Land		20,213,288	-	(231,396)	83,701	-	-	-	-	-	20,065,593
Road network and structures		303,863,802	-	23,047,697	6,673,448	-	-	(3,183,828)	-	-	330,401,119
Total property, plant and equipment		**324,077,090**	**-**	**22,816,301**	**6,757,149**	**-**	**-**	**(3,183,828)**	**-**	**-**	**350,466,712**
Investment property	6										
Investment property		1,796,370	(481)	-	15,955	-	(1,414)	-	-	-	1,810,430
Non-current assets held for sale		74,226	(14,372)	-	(15,955)	(14,373)	1,414	-	-	-	30,940
Total investment property		**1,870,596**	**(14,853)**	**-**	**-**	**(14,373)**	**-**	**-**	**-**	**-**	**1,841,370**
Trade and other receivables											
Trade and other receivables		5,331,424	-	-	-	1,995,921	-	(2,508,988)	(17,612)	-	4,800,745

Notes to the Annual Financial Statements

	Note(s)	Opening balance R'000	Gains/losses in profit or loss R'000	Gains/losses in OCI R'000	Purchases R'000	Sales/ Asset Write off R'000	Held for sale assets R'000	Depreciation/ Impairment R'000	Bad Debts R'000	Payments R'000	Closing balance R'000
42. Fair value information (continued)											
Trade and other payables											
Trade and other payables		4,803,541	-	-	983,724	-	-	-	-	-	5,787,265
Third-partying funding		365,699	-	-	(305,419)	221,327	-	-	-	-	281,607
Provision for overload control		339,787	-	-	(16,719)	-	-	-	-	-	323,068
Total trade and other payables		**5,509,027**	**-**	**-**	**661,586**	**221,327**	**-**	**-**	**-**	**-**	**6,391,940**
Total		**336,788,137**	**(14,853)**	**22,816,301**	**7,418,735**	**2,202,875**	**-**	**(5,692,816)**	**(17,612)**	**-**	**363,500,767**

* Gains and losses recognised in profit or loss are included in other income in the Statement of comprehensive income, except for gains and losses on financial assets and liabilities which have been included in fair value adjustments.

Gains and losses recognised in other comprehensive income are included in gains and losses on property revaluation.

** This column refers to the amount of total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses for assets and liabilities held at the end of the reporting period.

Notes to the Annual Financial Statements

42. Fair value information (continued)

Valuation techniques used to derive level 2 fair values

CPI-linked loan

Valuation technique

The CPI-linked loan is an inflation-linked amortising loan where the future monthly real payments are predetermined. These real payments are adjusted for inflation each month. The final payment was in October 2018.

The nearest comparable inflation-linked guaranteed debt SANRAL is the HWAY23 bond.

The last valuation was performed on 31 March 2018 and the the HWAY23 yield was 2.88%. The loan, given the outstanding CPI adjustment payment which would equalise the IRR to 8.99%, was R80 335 000.

Significant observable inputs

HWAY23 bond

Sensitivity

At 31 March 2018, a change of 20 basis points in IRR changes the value of the loan by 0.01% or R5 000.

EIB loan

Valuation technique

The EIB loan is an amortising loan in two tranches, each tranche payable semi-annually. The tranches are not synchronised, resulting in quarterly payments. Final payment will be on 30 June 2034. The rate is fixed.

The nearest SANRAL bond is the HWAY34 with a yield of 10.65% on 31 March 2019 (31 March 2018: 9.89%). This equates to an IRR of 10.93% on 31 March 2019 (31 March 2018: 10.13%).).

The loan, given all the outstanding payments to give an IRR of 10.93%, is equal to R949m as at 31 March 2019 (2018: R1.016m at IRR of 10.13%).

Significant observable inputs

HWAY34 bond

Sensitivity

A change of 20 basis points in IRR changes the value of the loan by 1.08%, or R10 250 000 (2018: 1.10%, or R11 150 000)

ECA-supported loan

Valuation technique

The ECA-supported loan is non-guaranteed and amortising with quarterly payments. Because the total facility was never drawn down and capital repayments are based on the total facility, resulting in a rapid repayment of the loan. The interest rate on this loan is linked to three-month Jibar.

Spreads on non-guaranteed SANRAL debt have widened significantly over the last two years. Spreads vary from 180 points for short-dated bonds to 275 points for longer-dated bonds. A spread of 250 points for this loan was assumed. The BEASSA curve as at 31 March 2019 was used and 250 basis points (2018: 250 points) was added to the total. The outstanding payments were discounted using the rates derived as described above, resulting in a loan amount of R14.5m (2018: R66.6m).

Significant observable inputs

BEASSA yield curve

Notes to the Annual Financial Statements

42. Fair value information (continued)

Sensitivity

A change of 20 basis points in the spread changes the value of the loan by 0.05% or R7 215 (2018: 0.14% or R90 416).

Promissory Notes

Valuation technique

The promissory notes are 12-month guaranteed discounted notes. The notes were issued at 8.80%, which was 12-month Jibar rate plus 55 basis points.

The notes were valued at 8.80%. This equals to an IRR value of R1 110m at 31 March 2019.

At 31 March 2018 the promissory notes were issued at 1-year Jibar plus 50 basis points. The Reserve Bank cut the repo rate by 25 basis points on 28 March 2018. The notes were therefore valued at 8.25%. This equals to an IRR value of R1 140m at 31 March 2018.

Significant observable inputs

BEASSA yield curve

Sensitivity

A change of 20 basis points in the spread changes the value of the loan by 0.16% or R1 804 532 (31 March 2018: 0.17% or R1 891 371).

Information about valuation techniques and inputs used to derive level 3 fair values

Investment property

Investment property is determined by applying a direct market comparison of selling prices achieved in respect of comparable prices.

The key unobservable inputs are selling prices of comparable properties. Subjective adjustments by the valuer to account for differences between the subject property and comparable properties sold in terms of location, physical features, current and future land use as well as prevalent market conditions at dates of sale.

Sensitivity

In the 2017 financial year the SANRAL investment property (IP) policy was amended only to consider properties >R10 000 in value outside of the declared road reserve and those properties with a valid lease income, taking into consideration other factors such as topography, shape, legal status and ecological issues as rejection criteria. Such investment properties decreased by 6.63% from 2 232 in 2018 to 2 084 in 2019.

Land

The valuation technique adopted for land is based on the “across the fence” method using comparable sales (strip valuation).

Significant unobservable inputs were adjustments to development rights, engineering services or crop improvements.

Sensitivity

The carriageway length of the road network increased from 24 662km to 24 705km (+0.17%) from the 2018 to the 2019 financial year. As a result, the total land area increased by 307,9ha (0,29%). The average strip value increased from R518 412 to R522 110 (0,7%) due to changes in economic activities and updated sales information that became available. For the 2019 financial year the market value of the road reserve/land increased by R1 351bn (6,7%) which is in line with long-term property value growth.

Notes to the Annual Financial Statements

42. Fair value information (continued)

Trade and other receivables and trade and other payables

Trade and other receivables and payables are accounted for in terms of IFRS 9.

Significant unobservable inputs

Weighted average overdraft rate for consumers.

Sensitivity

No discounting was be done on trade debtors after the lifetime expected credit losses calculation. There is no financing component on trade and receivables. The carrying amounts equates the fair value of trade payables and trade receivables.

Road network and structures

The depreciated replacement cost approach is used.

The key unobservable inputs are the replacement costs.

Sensitivity

The following factors impact the annual change in the gross replacement cost and depreciated replacement cost of SANRAL roads:

Change in network length: The incorporation of the remainder of strategic and primary road network from provinces during a year, as well as the upgrading of roads from single carriageway to four-lane road or dual carriageway, impacts on the value of assets, as asset value is calculated for every carriageway-km of road as at 31 March of each year. The carriageway length increased from 24 662km to 24 705 (0.17%) in 2019.

Change in unit rates: Change in standard unit rates from one year to another are influenced by exchange rate fluctuations, crude oil prices (impacts bitumen and diesel prices), steel prices, cement prices, equipment prices, labour costs, market conditions (supply and demand that determines mark-up of contractors). The unit rates increased by 7.80% in 2019 (2018: 5.96%).

Change in condition: Since the depreciation of the pavement layer component and the structures component are directly related to condition of the asset, deterioration in condition (due to traffic and climate) will result in a decrease in depreciated replacement cost. The opposite also applies if the condition of asset improved due to maintenance actions. As can be appreciated, for each carriageway-km as used in asset valuation, the condition will be changing based on numerous local climate, traffic and maintenance impacts. The length of network in good condition increased by 10.50% to 15 304km.

Maintenance: Any reseal, overlay, or strengthening work performed on the assets impacts on the condition of the asset, the remaining life of the asset and thus the condition-based depreciation of each carriageway-km of road is affected.

Change in traffic: Since the depreciated replacement cost (DRC) method is based on replacing an existing asset with a modern equivalent asset (MEA) in today's prices, based on the traffic expected over the next 25 years, the impact of change in traffic is obvious. If the road design class is close to a transition interface, then a small increase in traffic over year, can result in a change in the MEA required (more layers and/or higher quality materials), with associated cost increases for specific road assets. The opposite applies if the traffic decreases. SANRAL has over 1 000 traffic monitoring stations on the network. On some sections traffic increases and on others it decreases from one year to another. The length on network with more than 5 000 vehicles per day decreased by 1.2% to 8 864km. This is mainly related to impact of higher fuel on long distance travel.

Change in dimensions: Since the DRC method is based on replacing current road width with the MEA, any change in road width or structure area from one year to the other, due to maintenance actions, addition of paved shoulders, addition of lanes and addition of climbing lanes, will increase the replacement cost of each carriageway-km of road affected. The average cross section of network remain unchanged at 11.88m.

Notes to the Annual Financial Statements

42. Fair value information (continued)

Fair value analysis

Set out below is a comparison by class of the carrying amounts and fair value of the entity's financial instruments that are carried in the financial statements.

Financial assets	Carrying amount 31 March 2019 R'000	Carrying amount 31 March 2018 R'000	Fair value 31 March 2019 R'000	Fair value 31 March 2018 R'000
Capital market bonds	109,470	42,800	109,470	42,800
Trade and other receivables	1,149,804	4,800,745	1,149,804	4,800,745
Cash and cash equivalents	8,740,108	7,646,576	8,740,108	7,646,576
	9,999,382	**12,490,121**	**9,999,382**	**12,490,121**

Financial liabilities	Carrying amount 31 March 2019 R'000	Carrying amount 31 March 2018 R'000	Fair value 31 March 2019 R'000	Fair value 31 March 2018 R'000
Capital market loan at amortised cost	40,758,453	42,815,186	39,159,054	42,860,392
Capital market loan at fair value	4,547,765	4,682,198	4,547,765	4,682,198
CPI-linked loan	-	78,308	-	80,335
EIB loan	1,020,389	1,051,472	949,250	1,015,850
ECA-supported loan	14,466	66,777	14,460	66,603
Promissory notes	1,110,582	1,138,031	1,110,582	1,140,387
Repurchase agreements	-	5,768	-	5,901
Callable loans	-	212,000	-	212,000
Market-making liabilities (non-SANRAL bonds)	-	59,437	-	59,437
Trade and other payables	5,610,766	5,787,267	5,610,766	5,787,267
	53,062,421	**55,896,444**	**51,391,877**	**55,910,370**

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of listed bonds is based on quoted prices at the reporting date. The fair value of other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

43. Public private partnerships - toll collection service concession arrangements

Description of the arrangements

SANRAL contracted partners in the private sector (concession contracts) as an alternative means for long-term financing, operating, maintaining and improving national road network infrastructure, with cost being recovered through toll charges levied. Currently there are three concessions, N3 Toll Concession RF Pty Ltd (N3TC), N1/N4 Bakwena Platinum Corridor Concessionaire (Bakwena) and N4 Trans African Concessions (TRAC). Under these contracts, each concessionaire is responsible for the design, financing, construction, maintaining and operating its contracted/specified portion of the road network.

Bakwena is responsible for the toll road between Pretoria and Bela-Bela on the N1 highway and between Pretoria and Botswana border post on N4 west for a period of 30 years ending August 2031. Bakwena is also contracted for the Trans-Kalahari Highway between Walvis bay and Maputo. N3TC is responsible for the toll route from Cedara to Heidelberg on N3 highway for a period of 30 years ending November 2029. TRAC is a cross-border concessionaire responsible for the toll road from Solomon Mahlangu Road in Pretoria to Maputo in Mozambique on the N4 highway east for a period of 30 years ending February 2028.

Notes to the Annual Financial Statements

43. Public private partnerships - toll collection service concession arrangements (continued)

The TRAC concession contract was extended from the Gauteng-Mpumalanga border to the Tshwane metropolitan border. An amount of R251m was received on 28 February 2005 and is being amortised over the remaining life of the concession.

Significant terms of the arrangements

For the N3 toll route, SANRAL received an upfront payment of R1.380bn and an additional payment of R52m during the 2008 financial year. The concessions are for a specified period of 30 years. For the N1/N4 route no payment was received from the concessionaire. Significant terms that may affect the amount, timing or certainty of future cash flows are summarised below.

The concessionaires on the N3 and N4 Maputo toll roads are also required to pay SANRAL a highway usage fee (HUF) in certain circumstances (section 2.5 of the concession contract and annexure 15 to the concession contract). The HUF is a mechanism for limiting the return on the project which can be distributed by the concessionaire to its shareholders. On the N4 Platinum a revenue share mechanism is achieving the same objective.

SANRAL does not guarantee the minimum third-party revenue that the concessionaire will collect. SANRAL is not required to compensate the concessionaire if the traffic on the highway is less than expected.

The nature and extent of the arrangement

Right of use of specified assets

The costs of acquiring the site were borne by SANRAL. Once the site has been delivered to the concessionaire, the property is “under the care, custody and control of the concessionaire” and the concessionaire bears the risks associated with the property (section 15.5 of the concession contract).

The concession contract specifically states that the concessionaire has “no title to, ownership interest in, or liens or leasehold rights or any other rights” in the site and title to the site remains with SANRAL. SANRAL is required to ensure that the concessionaire has access to and the right of use in respect of the site and equipment (as necessary for it to perform its obligations in terms of the contract) throughout the concession period.

Should the concessionaire discover any “fossils, coins, articles of value or antiquity, and structures and other remains or things of geological or archaeological interest or burial sites” on the site during the concession period, these will be the property of SANRAL. SANRAL has ownership of the road and related facilities (for example toll plaza buildings) throughout the concession period.

Obligations to deliver or rights to receive specified assets at the end of the concession period

The ownership of any drawings, data, books, reports, documents, software, any other information owned by the concessionaire or any of the subcontractors for the purpose of the project is required to be transferred to SANRAL at the end of the concession period. Furthermore, the concessionaire is required to hand over the highway and its rights or interest in the developments to SANRAL, free of charge. These assets are required to be free from any liens, claims, encumbrances and liabilities and are required to be in a specified condition with a specified remaining useful life.

Obligations to provide or rights to expect provision of services

The concession contract requires the concessionaire to operate and perform routine maintenance work on the road network to ensure proper operation and maintenance of the highway.

The contracts also require concessionaires to acquire or build items of property, plant and equipment:

- Initial construction works relating to the highway and associated facilities (as specified in the concession contract and including, for example repairs and replacements relating to specified sections of the highway and the construction/repair of toll plazas).
- Additional construction works relating to the road and related facilities (that is, required construction work other than the initial construction works).
- Upgrade works according to the provisions in the contract.

Renewal and termination options

The concession rights will terminate if either SANRAL or the concessionaire terminates the concession contract.

Notes to the Annual Financial Statements

43. Public private partnerships - toll collection service concession arrangements (continued)

SANRAL has the right to terminate the concession contract in any of the following circumstances:

- There is court action for the dissolution and/or liquidation of the concessionaire.
- The concessionaire receives a court order to be placed under judicial management or to commence liquidation procedures.
- The concessionaire fails to complete the initial construction works within three years of commencement of the concession contract.
- The concessionaire ceases to operate and maintain the highway.
- All (or substantially all) of the concessionaire's indebtedness becomes due and payable as a result of default by the concessionaire.
- The concessionaire fails to report a material related-party transaction (as required by the concession contract).
- The concessionaire commits a material breach of the provisions of the concession contract.

If any of the abovementioned is not remedied by the concessionaire within a specific period, then SANRAL has the right to appoint a substitute entity in the place of the concessionaire.

The concessionaire has the right to terminate the concession contract in any of the following circumstances:

- SANRAL commits a material breach of the provisions of the concession contract.
- There is a material impairment of the concession rights as a result of the concessionaire being nationalised or expropriated or the project land/highway being compulsorily acquired from the concessionaire by the state.
- Certain material adverse governmental action takes place.

Other rights and obligations

The concessionaire is only permitted to raise debt (from lenders) as specified in the concession contract. SANRAL is required to approve any additional indebtedness of the concessionaire. SANRAL would take over the concessionaire's indebtedness in the event of concessor default.

Classification

SANRAL recognises no revenue from services provided to the public for these concessions, except where HUF's are payable to SANRAL by the concessionaire according to the service concession agreement.

SANRAL recognises no operational costs related to the operations of the public infrastructure under concession.

SANRAL recognises no obligations to restore infrastructure to a specified level of serviceability.

SANRAL recognises the upfront payment received from operators over the period of the concession arrangement.

Notes to the Annual Financial Statements

44. Segment information

Figures in R'000	31 March 2019			31 March 2018		
	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Revenue	4,243,493	6,978,602	11,222,095	5,194,145	9,017,849	14,211,994
GFIP grant	5,439,183	-	5,439,183	2,073,122	-	2,073,122
Other income	812,276	131,219	943,495	807,001	252,241	1,059,242
Other expenses*	(2,898,286)	(5,373,018)	(8,271,304)	(4,718,146)	(6,454,328)	(11,172,474)
Net fair value gains	140,151	-	140,151	-	-	-
EBITDA	7,736,817	1,736,803	9,473,620	3,356,122	2,815,762	6,171,884
Depreciation on PPE	(1,272,372)	(1,828,344)	(3,100,716)	(1,180,128)	(1,678,820)	(2,858,948)
Depreciation on PPE under consession	(436,013)	-	(436,013)	(420,116)	-	(420,116)
Impairment of assets	-	-	-	-	(14,718)	(14,718)
Amortisation	(15,393)	(1,492)	(16,885)	(16,629)	(3,890)	(20,519)
Fair value adjustments	-	(2,844)	(2,844)	-	(17,231)	(17,231)
Profit before finance income and costs	6,013,039	(95,877)	5,917,162	1,739,249	1,101,103	2,840,352
Finance income	740,542	-	740,542	1,095,493	2,426	1,097,919
Finance costs	(4,236,536)	-	(4,236,536)	(4,356,741)	-	(4,356,741)
Segment profit (loss)	**2,517,045**	**(95,877)**	**2,421,168**	**(1,521,999)**	**1,103,529**	**(418,470)**

* Excluding depreciation, amortisation and asset impairment

Material items of income and expense disclosed in accordance with IAS 1:

Figures in R'000	31 March 2019			31 March 2018		
	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Fees for services, other expenditure and lease payments	(294,143)	(835,146)	(1,129,289)	(355,757)	(904,482)	(1,260,239)
Repairs and maintenance	(2,290,235)	(3,985,632)	(6,275,867)	(2,064,554)	(4,919,532)	(6,984,086)
	(2,584,378)	**(4,820,778)**	**(7,405,156)**	**(2,420,311)**	**(5,824,014)**	**(8,244,325)**

Material non-cash items (other than depreciation and amortisation)

Figures in R'000	31 March 2019			31 March 2018		
	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Change in fair value of investment property	-	(2,844)	(2,844)	-	(17,231)	(17,231)
Exchange consideration from toll concessionaires	633,594	-	633,594	548,238	-	548,238
Revaluation of road network and structures assets	1,924,855	20,319,827	22,244,682	2,879,223	20,168,535	23,047,758
Revaluation of land	746,928	735,425	1,482,353	(3,732,918)	3,365,417	(367,501)
	3,305,377	**21,052,408**	**24,357,785**	**(305,457)**	**23,516,721**	**23,211,264**

Notes to the Annual Financial Statements

44. Segment information (continued)

Statement of Financial Position reportable segment assets

Non-current assets

	31 March 2019			31 March 2018		
Figures in R'000	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Investments	116,646	312,786	429,432	89,777	312,786	402,563
Property, plant and equipment and Intangible assets	143,719,580	256,962,093	400,681,673	136,260,456	236,866,324	373,126,780
Investment property	1,113,946	662,269	1,776,215	1,117,466	692,963	1,810,429
	144,950,172	257,937,148	402,887,320	137,467,699	237,872,073	375,339,772
Current assets	9,525,754	473,628	9,999,382	12,456,634	33,487	12,490,121
Non-current assets held for sale	34,460	-	34,460	30,940	-	30,940
	154,510,386	**258,410,776**	**412,921,162**	**149,955,273**	**237,905,560**	**387,860,833**

Statement of Financial Position reportable segment liabilities

Non-current liabilities

	31 March 2019			31 March 2018		
Figures in R'000	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Deferred income*	1,630,125	54,854,937	56,485,062	5,594,460	45,558,403	51,152,863
Deferred exchange consideration*	8,924,387	-	8,924,387	8,641,527	-	8,641,527
Other non-current liabilities**	42,494,806	72,083	42,566,889	45,935,684	24,045	45,959,729
	53,049,318	54,927,020	107,976,338	60,171,671	45,582,448	105,754,119
Other current liabilities	10,263,258	870,418	11,133,676	10,320,996	273,069	10,594,065
	63,312,576	**55,797,438**	**119,110,014**	**70,492,667**	**45,855,517**	**116,348,184**

* Non-current and current portion included.

** Excluding deferred income and deferred exchange consideration.

Capital expenditure

	31 March 2019			31 March 2018		
Figures in R'000	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Additions to PPE	1,013,832	5,534,945	6,548,777	2,153,830	6,679,066	8,832,896
Borrowing costs capitalised	21,243	-	21,243	162,405	-	162,405
Additions to intangible assets	618	9,134	9,752	1,628	3,065	4,693
	1,035,693	**5,544,079**	**6,579,772**	**2,317,863**	**6,682,131**	**8,999,994**

Notes to the Annual Financial Statements

44. Segment information (continued)

Figures in R'000	31 March 2019			31 March 2018		
	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Capital expenditure - PPE under concession	916,455	-	916,455	1,082,978	-	1,082,978
Capitalisation of rehabilitation costs for burrow pits	20,326	(23,068)	(2,742)	20,568	(24,045)	(3,477)
	936,781	**(23,068)**	**913,713**	**1,103,546**	**(24,045)**	**1,079,501**

Amendments to internal reporting organisation

No changes were made to the structure of SANRAL's internal organisational and operational structure (from segment reporting perspective) that could have caused the composition of its reportable segments to change.

Entity-wide disclosures

SANRAL's operations are situated within South Africa. All revenues from external customers, as well as non-current assets, are attributable to SANRAL's South African domicile. The income, expense, assets and liabilities reported in the segments above have been measured in the same way as reported in the primary financial statements of the entity and to decision makers/ management. As such, IFRS (accrual basis) was used as the basis of accounting framework.

There is no other systematic method followed to allocated transactions and balances. Transactions are recorded to the segment they belong when incurred. No customers were identified as major for segment reporting purposes. Refer to financial statements and the related disclosure notes for the restatement of comparative figures.

Notes to the Annual Financial Statements

45. Irregular, fruitless and wasteful expenditure

	2019 R '000	2018 R '000
Supply chain policy not adhered to		
Opening balance	10 467 812	10 134 205
Add: Irregular expenditure - current year	419 185	333 607
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
Irregular expenditure awaiting condonation	-	-
Irregular expenditure awaiting condonation	**10 886 997**	**10 467 812**
Analysis of irregular expenditure awaiting condonation per age classification		
Current year	419 185	333 607
Prior year	10 467 812	10 134 205
	10 886 997	**10 467 812**
Details of current year irregular expenditure		
Awarding of preference points to bidders without original or certified B-BBEE certificates	43 119	62 470
Procurement model for routine road maintenance projects	-	1 157
Invalid tax clearance certificates	5 325	2 940
Contracts not advertised for at least five working days	36 466	228 662
Non-compliance with subcontracting requirements	1 706	-
Conflict of interest	-	7 943
Bid not evaluated for preference points	-	8 949
Parcelling or splitting of bids	34 278	11 169
Expenditure not approved by duly delegated authority	282 651	506
Amount paid exceeds contract amount	4 785	9 811
Deviations approved by AA (invalid deviations on competitive bidding not followed)	20	-
Bids not advertised on CIDB per Regualtion 24	7 973	-
Unfair discrimination against bidders	2 862	-
	419 185	**333 607**

31 March 2019

The following is a summary of the irregular expenditure incurred during the reporting period. Of the R419.19m disclosed above, R303.1m (72%) relates to irregular contract identified in the current year. A loss control function to determine the causes of irregular expenditure and make recommendations is in place; its investigations is in progress. As at 31 March 2019, there were no fraudulent and criminal acts found against employees and no material losses recoverable from employees or perpetrators. A register for irregular expenditure with detailed descriptions as required by National Treasury is available on request. The following is the summary of matters that resulted in irregular expenditure disclosed above:

Awarding of preference points to tenders without original or certified Broad-based Black Economic Empowerment (B-BBEE) certificates

Bidders were appointed and contracted without an original or certified copy of B-BBEE certificates in the 2015 and 2016 financial years. This resulted in expenditure in the current period of R43.1m as their contracts are still in progress. A disciplinary process was followed in the previous financial years, however the contracts were still running for the period ended 31 March 2019 hence the increase in irregular expenditure.

Invalid tax clearance certificate

The original tax certificate of a service provider was misplaced for R69 000 relates to prior years' contracts and for R357 000; projects were awarded based on certified copies of tax clearance certificates rather than original documents. Another contract was awarded for R4.90m to a bidder whose was not tax compliant. These were identified in current year.

Notes to the Annual Financial Statements

45. Irregular, fruitless and wasteful expenditure (continued)

Contracts not advertised for at least five working days

The tender notices of winning bidders were not placed on the CIDB i-tender website for at least five working days and in other instances proof of advertisements could not be provided or found. The value of these amounted to R36.47m in the current period.

Bids not advertised on CIDB per regulation 24

An advert for tenders was not placed on the CIDB website as required by CIDB Regulation 24. This pertained to the following project X.005-010-2015/1S-SS5, resulting in R7.97m incurred on this project.

Splitting of bids (uncompetitive process followed)

Project X.002-046-2015/1, with a value of R34.27m was unbundled into two contracts. The intended transformation requirements were not met as both contracts were awarded to one contractor. If the project had formed one contract, the CIDB requirement would have been a level 8 and the successful contractor in this case would not have been able to tender and bigger contractors would have competed.

Expenditure not approved by duly delegated authority

The legal department incurred an additional expenditure of R534 800 more than approved contract on external service providers. These additional cost was not authorised by delegated authority and/or National Treasury.

A project (N.002-250-2009/2D2) was extended without obtaining the approval of the delegated authority. The expenditure amounts to R3.57m.

In 2018, the purchase of a building for administrative purposes was approved by the Assets and Liabilities Committee, a sub-committee of the Board for R179.16m. The Charter of this committee indicates certain delegations but does not specifically list acquiring property for administrative purposes. Even though the Charter indicates that these Delegations are not limited to those listed, the minutes were confirmed by the Board subsequently. Neither the PFMA nor the SANRAL Act defines the delegations from the Board to its subcommittees and therefore this could not be regarded as non-compliance with laws and regulations, ie irregular expenditure. In SANRAL's view the transgression is limited to internal control deficiency as far as the clarity in the Charter is concerned. However, the auditors has viewed this as only the Board could have approved the transaction and therefore this is regarded as irregular expenditure. Value for money was achieved in that the valuation performed by the independent valuer has confirmed the purchase value. Due to the property being earmarked for future expansion of the Atterbury Interchange, SANRAL had first right of refusal to purchase the property. As the property is used for administrative purpose, a competitive procurement process should have been followed for acquiring the property. Therefore the purchase was regarded as a deviation that was not approved in line with the procurement prescripts.

Additional expenditure of R99.38m on project R.056-067-2014/1 was not approved as per SANRAL's delegation of authority and National Treasury prescripts.

Non-compliance with subcontracting requirements

Irregular expenditure amounting to R1.71m for the contract awarded to a joint venture (JV) (SAPR N0010401/1) was incurred. 50% of the JV contract was subcontracted to a partner of the JV.

Deviation from competitive bidding

Training services were procured from a one supplier without obtaining three quotations because it was believed to be a sole supplier. Auditors found that there were other service providers in the market for the provision of a tendering and estimating course. Management did not provide sufficient motivation as to why the selected supplier was a sole provider. The cost of the services was R20 000, therefore deemed irregular.

Amount paid exceeds approved contract amounts

Total expenditure paid on information technology support agreements exceeded the approved amounts. The contracts were signed in 2006/07. The initial approvals did not incorporate increased costs in terms of CPI. This resulted in irregular expenditure of R2.07m for the amount above the approved memorandum.

Notes to the Annual Financial Statements

45. Irregular, fruitless and wasteful expenditure (continued)

The actual expenditure incurred under the Meropa contract as at 31 March 2019 was R98.71m, which is R2.71m more than the approved contract value.

Unfair discrimination against bidders

There was possible unfair discrimination in the process of awarding a consulting engineering tender. Expenditure of R1.39m was incurred in this regard.

There was an unfair advantage granted to the winning bidder as the bidder was not disqualified for failing to submit the mandatory documents. Expenditure of R1.47m was incurred in this regard.

Extended contracts

An amount of R13m which was disclosed as irregular in 2018 for contracts that were extended without National Treasury's approval for extensions exceeding the variation order thresholds in terms or the applicable practice note. This amount has been confirmed that its not irregular.

31 March 2018

The following are the matters that resulted in irregular expenditure disclosed above:

Awarding of preference points to tenders without original or certified Broad-based Black Economic Empowerment (B-BBEE) certificates

Bidders were appointed and contracted without an original or certified copy of B-BBEE certificates in the 2015 and 2016 financial years. This resulted in expenditure in this financial year of R62.5m as the contracts are still in progress. A disciplinary process was followed in the previous financial years, however the contracts were still running in 2018 hence the increase in irregular expenditure.

Procurement model for routine road maintenance projects

The disclosed amount of R1.157m relates to the RRM contracts awarded using the University of Pretoria statistical method in prior years. Since the 2014 financial year SANRAL has awarded RRM contracts based on the lowest bidder. This was disclosed in prior years. As part of SANRAL's strategy to develop small contractors as per government's aims and objectives, SANRAL used a procurement model that would ensure that the prices tendered protect and develop Small Micro and Medium Enterprises (SMMEs). The model aimed to appoint an implementing/management contractor who would sub-contract 80% of routine maintenance work to qualifying SMMEs, 90% of which were B-BBEE companies.

Invalid tax clearance certificates

The amount of R2.9m disclosed in this current year relates to prior years' irregular contracts. Five projects to the value of R3.40m were awarded with invalid tax clearance certificates.Only original tax clearance certificates are permissible for bidding purposes.

Contracts not advertised for at least five working days

The tender notices of winning bidders were not placed on the CIDB i-tender website for at least five working days and in other instances proof of advertisements could not be provided or found. The value of these amounted to R228.6m in the current year.

Extended contracts

An amount of R13m disclosed relates to prior years' irregular contracts where contracts were extended without National Treasury's approval for extensions exceeding the variation order thresholds in terms or the applicable practice note. This amount has been confirmed that its not irregular.

Conflict of interest

A conflict of interest was identified in the 2015/16 financial year by a member of the evaluation committee not declaring an interest, resulting in irregular expenditure of R7.9m in current year. Disciplinary action was instituted against the employee who was dismissed.

Notes to the Annual Financial Statements

45. Irregular, fruitless and wasteful expenditure (continued)

Bidders not evaluated for preference points

Bidders who had negative scores were excluded from evaluation for preferential points. This resulted in scores for evaluation of bidders being incorrectly calculated, leading to payments to the value of R8.9m being regarded as irregular.

Splitting of bids (uncompetitive process followed)

Project X.002-046-2015/1, valued at R11.47m, was unbundled into two contracts. The intended transformation requirements were not met as both were awarded to one contractor. If the project had been advertised as one contract then the CIDB requirement would have been a level 8 and the successful contractor would not have been able to tender, while bigger contractors would have.

Expenditure not approved by duly delegated authority

Management deviated from normal procurement processes. A sole supplier sourcing should have been approved by a delegated official who is MBAC in terms of the delegation of authority of 15 August 2017 and not the regional manager, who approved this instance. This resulted in irregular expenditure of R506 000.

Amount paid exceeds approved contract amounts

Total expenditure paid on information technology support agreements exceeded the approved amounts. The contracts were signed in 2006/07. The initial approvals did not incorporate increased costs in terms of CPI. This resulted in irregular expenditure of R9.811m for the amount above the approved memorandum.

Fruitless and wasteful expenditure

The opening balance is R15.1m incurred in the 2017 financial year. This has not yet been condoned as at 31 March 2019.

The 2019 expenditure relates to additional expenditure on project R.056-067-2014/1 Tau pele (Southern region) which was not approved on time as per SANRAL's delegation of authority and National Treasury Instruction note 3 of 2016/17. The entity applied for extension from national Treasury however the response was delayed. This lead to a payment of interest of R2.677m on overdue invoices. The expenditure not approved as per instruction note 3 of 2016/17 was identified as irregular.

	2019 R '000	2018 R '000
Fruitless and wasteful expenditure		
Opening balance	15,092	15,092
Interest charged as result of non-payment of invoice within due dates	2,677	-
	17,769	**15,092**

46. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Assets

SANRAL’s total assets of R413bn are significant contributors to facilitating the movement of goods and services in the South African economy. Government has given no indication that any part of SANRAL’s assets would be sold off or privatised. These, together with government being the sole shareholder, and any liquidation of the company being a requirement by Act of Parliament, make the liquidation of the entity's assets highly unlikely.

SANRAL’s current assets do not cover its current liabilities at 31 March 2019. Current assets of R9.999bn include cash and cash equivalents of R8.74bn. Current liabilities of R18.31bn include financial liabilities of R4.94bn and trade payables of R5.61bn. The shortfall of R8.32bn will require short-term funding from either government grants or further borrowings. Past experience has shown that government will assist the entity to meet its obligations when necessary.

Notes to the Annual Financial Statements

46. Going concern (continued)

Liquidity

SANRAL receives an annual grant from the fiscus to fund the non-toll road portfolio. During the year under review the allocation was R 18.6bn, of which R6.3bn was allocated to toll. This amount covers operational and capital expenditure on non-toll roads which comprise 87% of SANRAL's road network. In the next financial year, 2019/20, Budget Vote 35 allocation is expected to increase by 14% to R 21.2bn. The 2020/21 allocation is expected to further increase to R21.8bn.

The toll road portfolio income for the year under review amounted to R4.24bn. Of this amount, Gauteng Freeway Improvement Project (GFIP) toll income amounted to R687m. In addition, R505m was received by way of an annual grant from government, which increases each year. The shortfall in toll income has, of necessity, required ongoing support from government. This support has included grants (inclusive of VAT) of R5.75bn during the 2011/12 financial year, R1.9bn during the 2017/18 year, and R5.75bn unearmarked allocation during the 2018/19 year. Government has indicated its preparedness to provide further support for the GFIP while a political solution is found. SANRAL has therefore included a budgetary allocation (inclusive of VAT) of R 2.53bn, during each of the financial years 2019/20, 2020/21 and 2021/22 respectively. While this is yet to be approved by the Minister of Finance, it has been approved by the Minister of Transport in the SANRAL Approved Performance Plan for 2019/20 as well as in the Transport budget tabled in Parliament in July 2019. This budgetary allocation will provide significant additional liquidity.

SANRAL has continued to meet its repayment obligations. During the year under review the NRA018 unguaranteed bond of R2.4bn matured. The promissory notes under the R6bn guarantee, PN01, PN02 and PN03 amounting to R1.22bn were successfully refinanced in the PN04 and PN05 amounting to R1.20bn. These notes are planned to be rolled over in February 2020 when they mature, most likely with the same investors.

Any positive developments to resolve the e-toll impasse should enable SANRAL to once again start borrowing using its non-guaranteed DMTN. Occasional enquiries indicate there is potential appetite for non-guaranteed paper once the e-toll collection rate improves.

To date, government has issued guarantees totaling R37.91bn, being the R31.91bn and R6bn guarantees. The R1.04bn guarantee that related to the amortising the N1 loan has since been fully redeemed. Under the abovementioned guarantees, R24.30bn and R5.2bn have been utilised respectively as at 31 March 2019.

As a result of the budgeted un-earmarking of R2.53bn per annum over the MTEF period, the current funding requirements forecast that these guarantee limits will only be breached after March 2021.

Additional considerations

Even though a significant portion of SANRAL's debt is guaranteed by government, government has elected on several occasions to avert a default by providing funding to SANRAL, pending the outcome of the e-toll decision by the Presidency. It is therefore fair to assume that government will continue to do so in the foreseeable future.

Furthermore, SANRAL may not be placed under judicial management or in liquidation except by an act of Parliament (section 10 of the South African National Roads Agency and National Roads Act). This is an implied guarantee from the government.

The Board of Directors therefore supports management's assessment that SANRAL will remain a going concern in the foreseeable future. The Board of SANRAL is fully aware of the liquidity risk it faces in the short-term and is actively engaging with government to resolve the matter.

Notes to the Annual Financial Statements

47. Events after the reporting period

The Asset and Liability Committee passed a resolution on 27 May 2019 requiring management to raise funds as follows:

- Raise R4bn from private placements – which has been achieved by issuing R3.65bn 3-year notes and R350m HWAY35 notes. Additionally a commercial bank has committed to buy 3-year paper to the value of R1bn and also provide a facility of R750m.
- Pursue a guarantee from the Multilateral Investment Guarantee Agency (MIGA), a division of World Bank, to support a loan for R7bn of which up to R4bn can be used for refinancing. A tender will be issued in September 2019 to determine the lender.
- Conclude a loan with the New Development Bank (NDB) for R7bn for new capital projects on existing toll routes.
- Apply to the Minister of Transport, with concurrence of the Minister of Finance, to increase both the borrowing and guarantee limits.

Cash flow forecasts at 19 July 2019 including the abovementioned R4bn financing and the additional budgetary allocation of R2.53 (inclusive of VAT) project that additional funding will be required by July 2020. This means that the HWF09 and HWF10U amounting to R2.5bn maturing in September 2019 will be paid from available cash. However, in July 2020, SANRAL will need to mature the R6.75bn guaranteed HWAY20 bond. With the likelihood of the R1.20bn PN04 and PN05 refinancing under the R6bn guarantee, as well as the Absa facilities of R1.75bn, SANRAL will need R1bn of new financing in the next financial year. Given the appetite of investors for SANRAL's guaranteed bonds, this amount is likely to be financed.

The activities detailed above and the current successes of private placements show that investors are eager to fund SANRAL and that the R1bn required for the redemption of the HWAY20 can be placed in the local market.

In conclusion, SANRAL will be able to pay all its debts when they become due by 31 July 2020.

Abbreviations and Acronyms

AGSA	Auditor-General of South Africa
ALCo	Assets and Liabilities Committee
ARC	Audit and Risk Committee
ASANRA	Association of Southern African Roads Agencies
AVE	Advertising value equivalency
Bakwena	N1-N4 Bakwena Platinum Corridor Concessionaire Pty Ltd
BBBEE	Broad-based black economic empowerment
BEE	Black economic empowerment
bn	billion
CDP	Community development project
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CCTV	Closed circuit television cameras
CIDB	Construction Industry Development Board
CIPC	Companies and Intellectual Property Commission
COTO	Committee of Transport Officials
CPD	Continuing professional development
CPI	Consumer price index
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa
DEA	Department of Environmental Affairs
DOT	Department of Transport
ECSA	Engineering Council of South Africa
EE	Employment Equity
EEI	Expenditure Efficiency Index
EIA	Environmental impact assessment
EME	Emerging micro-enterprise
EMP	Environmental management plan
ETC	Electronic Toll Collection Ltd
EWT	Endangered Wildlife Trust
FMS	Freeway management system
GDP	Gross domestic product
GFIP	Gauteng Freeway Improvement Project
GTS	Green Transport Strategy for South Africa: 2018 - 2050
HSRC	Human Sciences Research Council
IAS	International Accounting Standard
ICT	Information communication technology
IDP	Integrated development plan
IFRS	International Financial Reporting Standards
km	kilometres
KPI	Key performance indicator
m	million
MoU	Memorandum of understanding
N3TC	N3 Toll Concessions (RF) Proprietary Limited
NDB	New Development Bank

NMT	Non-motorised transport
NMU	Nelson Mandela University
NT	National Treasury
OCI	Overall condition index
OHS	Occupational health and safety
ORS	On-road services
PFMA	Public Finance Management Act
PIARC	World Road Association
PPE	Property, plant and equipment
PPP	Public-private partnerships
PPPFA	Preferential Procurement Policy Framework Act
PSII	Public Sector Investment Index
PT	Public transport
QSE	Qualifying small enterprise
RIMS	Road incident management system
RRM	Routine Road Maintenance
RSE	Road Safety Education
SABPP	South African Board of People Practices
SADC	Southern African Development Community
SAHRA	South African Heritage Resource Agency
SANBI	South African National Biodiversity Institute
SANRAL	South African National Roads Agency SOC Limited
SARDS	South African Road Design System
SCM	Supply chain management
SETC	Social, Ethics and Transformation Committee
SIMC	Strategy Implementation Monitoring Committee
SIP	Strategic Integrated Project
SMME	Small, medium and micro-enterprise
SOC	State-owned company
SOE	State-owned enterprise
STEM	Science, technology, engineering and mathematics
STIS	Short-term incentive scheme
SU	Stellenbosch University
TE	Targeted Enterprise
TEA	Technical Excellence Academy
TIH	Technical Innovation Hub
TMC	Traffic management centre
TRAC	Trans African Concessions Pty Ltd
UCT	University of Cape Town
UFS	University of the Free State
UP	University of Pretoria
VAT	Value Added Tax
VMS	Variable message signs
WAN	Wide area network

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