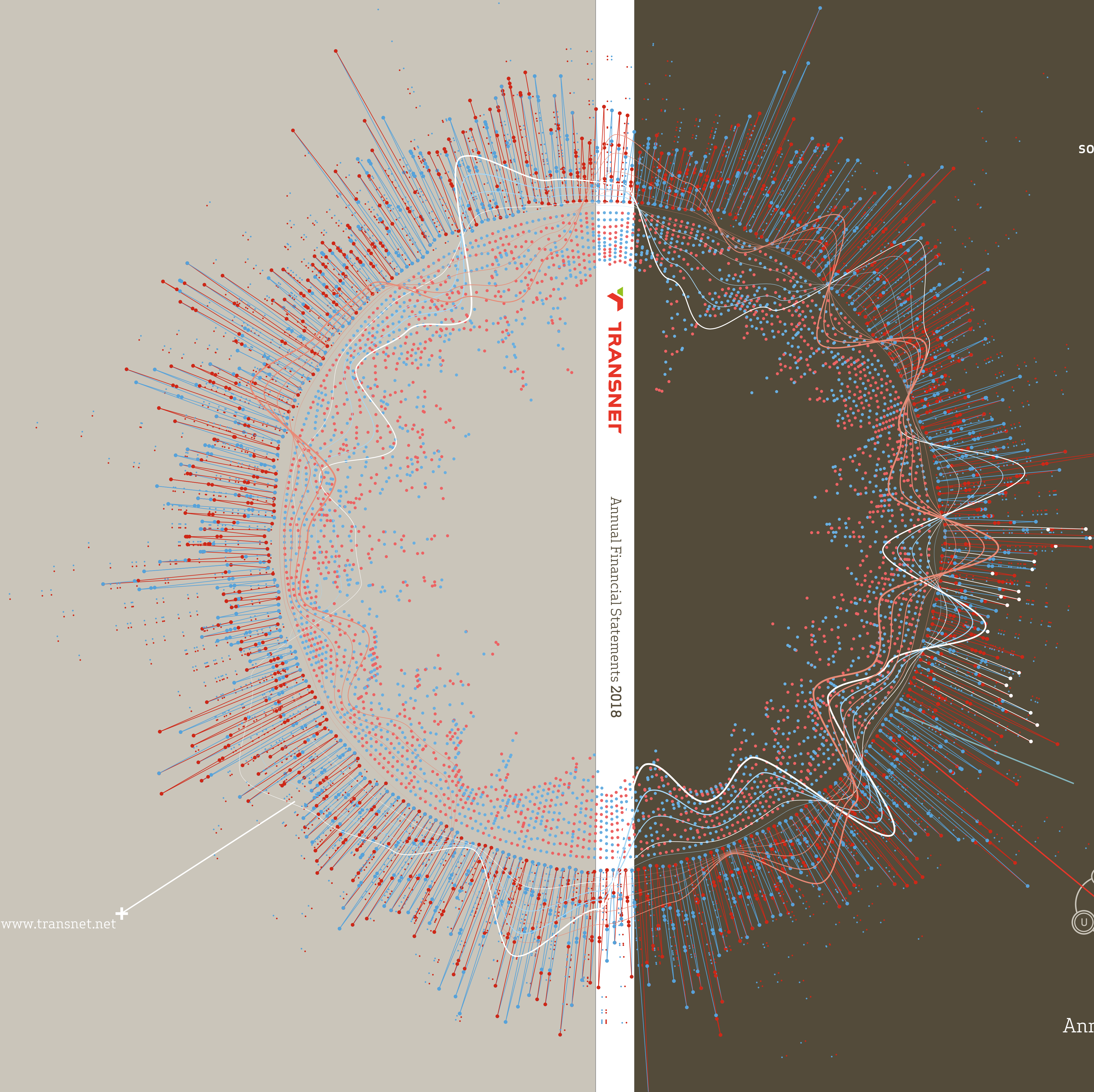

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TRANSNET

Annual Financial Statements 2018

TRANSNET

solutions delivered

Annual Financial Statements 2018

Contents

Reporting formats

Available in print format and full HTML report

Available online in PDF format

Integrated Report 2018

Integrated Report 2018 | Annual Financial Statements 2018 | Sustainability Outcomes Report 2018 | Operating Division reports 2018

The 2018 Integrated Report is the Company's primary report to all stakeholders.

The 2018 Annual Financial Statements include reports of the directors and independent auditors.

The 2018 Sustainability Outcomes Report documents Transnet's performance on the nine SDOs in greater detail.

Forward-looking information

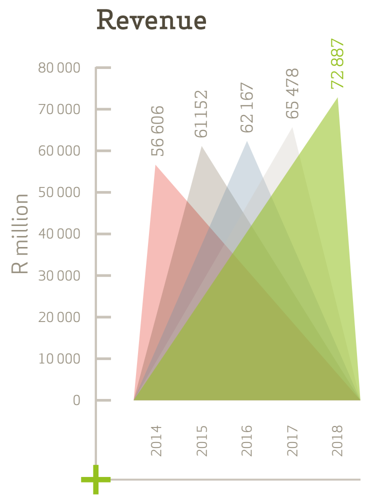
All references to forward-looking information and targets in the 2018 reports are extracted from the 2018 Transnet Corporate Plan and approved by the Board of Directors.

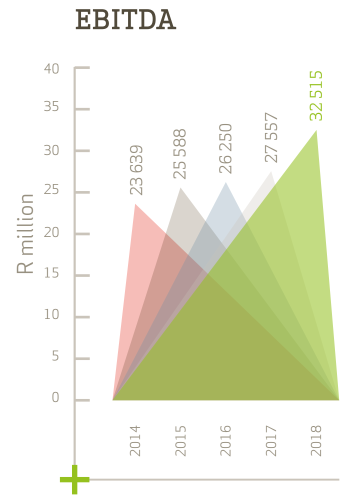
Feedback on this report

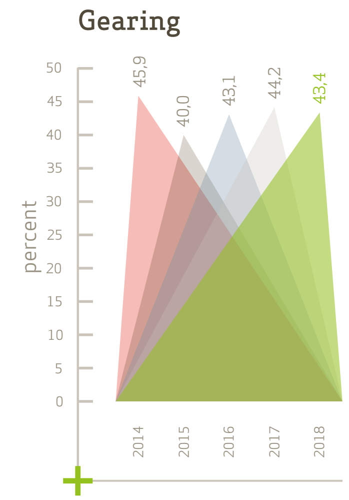
We welcome feedback on our 2018 Integrated Report. Please provide written feedback to Kilford Gondo at Kilford.Gondo@transnet.net.

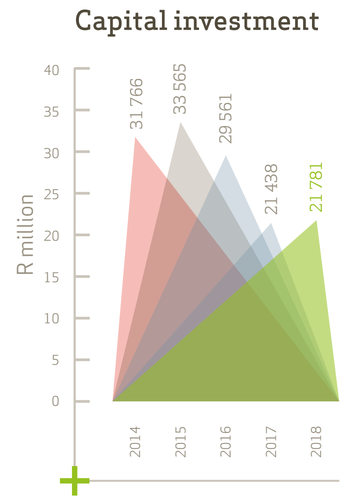
Performance highlights

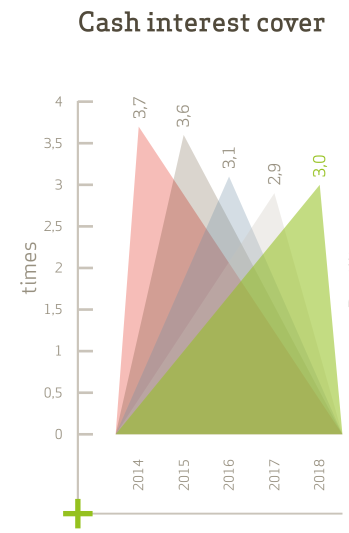
- Revenue increased by 11,3% to R72,9 billion for the year, driven by a 4,3% increase in railed export coal volumes; a 6,5% increase in railed automotive and container volumes and a 6,1% increase in port container volumes.
- Operating expenses increased by 6,5% to R40,4 billion, which represents a R3,1 billion saving against planned costs.
- EBITDA increased by 18,0% to R32,5 billion, with the EBITDA margin increasing from 42,1% to 44,6%.
- Gearing of 43,4% and cash interest cover at 3,0 times are both comfortably within loan covenant requirements.
- Cash generated from operations increased by 12,6% to R34,9 billion.
- Capital investment of R21,8 billion brought expenditure over the past six years to R165,6 billion.
- B-BBEE spend amounted to R25,8 billion or 86,9% of total measured procurement spend per DTI codes.
- 2,9% of labour costs was spent on training, focusing on artisans, engineers and engineering technicians.
- The Company recorded a DIFR ratio of 0,73 – the seventh consecutive year that a ratio below 0,75 has been achieved with the global benchmark being 1,0.

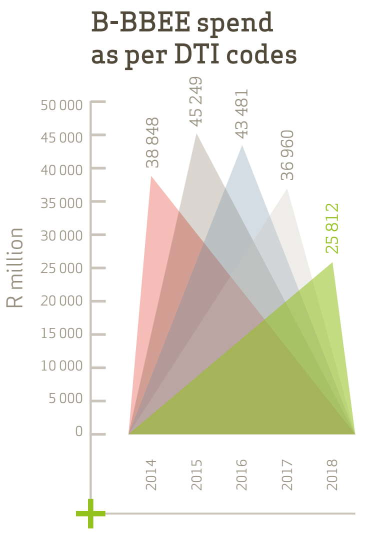












Approval of the annual financial statements

for the year ended 31 March 2018

Directors' responsibilities

The Board of Directors (Board) is required by the Companies Act, No 71 of 2008 of South Africa (Companies Act) and the Public Finance Management Act, No 1 of 1999 (PFMA) to prepare annual financial statements which fairly present the state of affairs of Transnet SOC Ltd (Transnet or the Company) and its subsidiaries (the Group) as at the end of the financial year, as well as the profit or loss and cash flows of the Company and the Group for the financial year then ended.

In preparing these annual financial statements, the directors are required to:

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

The Board is responsible for the maintenance of adequate accounting records, maintenance of appropriate systems of internal control, as well as the preparation and integrity of the annual financial statements and related information.

Directors' statements

The Board approving these annual financial statements was appointed on 23 May 2018. Accordingly, to enable this newly appointed Board to discharge the abovementioned responsibilities, the Audit Committee has made enquiry of management, the internal auditors as well as external auditors on a range of matters. These include but are not limited to:

- The system of internal control that provides assurance that assets are safeguarded, and that liabilities and working capital are efficiently managed;
- The extent of policies, procedures, structures and approval frameworks that provide direction, accountability and division of responsibilities, including self-monitoring mechanisms;
- The controls in operation throughout the Group that focus on critical risk areas identified by management;
- Monitoring mechanisms in place and actions taken to correct deficiencies as they are identified;
- The role and independence of Transnet's internal audit function (audit and forensic); and
- The scope and audit coverage of internal audit based on its risk assessment of each function or aspect of the business.

The internal audit activities undertaken during the year are in accordance with the internal audit plan approved by the former Audit Committee. Going forward, the internal audit plan will be reviewed by the newly appointed Audit Committee, amended where necessary and approved.

Transnet internal audit has executed the internal audit plan during the year and has provided assurance to the Board as to the state of the internal controls of the Company. Their assessment of the internal controls of the Company is included in the Audit Committee report.

Based on the information and explanations given by management, the internal audit function and discussions held with the independent external auditors, the Audit Committee is of the opinion that:

- There have been lapses in financial discipline;
- Overall corporate governance of the Company is inadequate and requires improvement;
- There are ineffective supply chain management-related controls which have resulted in significant irregular expenditure in terms of the PFMA as highlighted on pages 15 and 16 of the report of the directors and detailed in Annexure E to the annual financial statements on pages 116 to 120; and
- With the exception of the supply chain management-related controls, the systems of internal control are appropriate for the effective operation of the Company.

The Audit Committee has engaged management and internal assurance providers to provide a comprehensive control improvement plan to avoid the recurrence of the instances of non-compliance identified in the current year.

In preparing the Company and Group annual financial statements, the Company and the Group have complied with International Financial Reporting Standards (IFRS) and the Companies Act. As noted above, except as set out in the report of the directors on pages 15 and 16, the Group has complied with the reporting requirements of the PFMA.

The Group has used appropriate accounting policies supported by reasonable and prudent judgements and estimates. Judgements and estimates made in the application of IFRS, that have a significant impact on the annual financial statements, are disclosed in the notes to the annual financial statements and have been evaluated by the Audit Committee at both a Company and Group level.

Accordingly, the Audit Committee recommended their approval to the Board.

The Board has made an assessment of the going-concern ability of the Group. The Board and management have engaged bilateral and syndicated loan lenders to discuss the implication of the qualified audit report and the impact thereof on the going-concern. Furthermore, the Board reviewed the Group's performance for the year ended 31 March 2018 and the cash flow forecast for the 15 months ending 30 June 2019.

Based on the above, the Board is satisfied that the Group has access to adequate resources and facilities to be able to continue its operations for the foreseeable future. Accordingly, the Board is satisfied that Transnet is a going concern and has continued to adopt the going-concern basis in preparing the annual financial statements.

The external auditors, SizweNtsalubaGobodo, are responsible for independently auditing and reporting on the annual financial statements in conformity with International Standards on Auditing (ISA). Their qualified audit report on the annual financial statements, prepared in terms of the Public Audit Act of South 0=Africa, No 25 of 2004, appears on pages 4 to 11.

The Board is of the opinion that the Company and the Group have complied with applicable laws and regulations except as disclosed in the report of the directors as set out on pages 15 and 16.

The Board is of the opinion that these annual financial statements fairly present the financial position of the Company and the Group as at 31 March 2018, and the results of their operations and cash flow information for the year then ended.

The annual financial statements have been prepared under the supervision of the Group Chief Executive.

P.S. Molefe

PS Molefe
Chairperson

S.I. Gama

SI Gama
Group Chief Executive

M.S. Mahomedy

MS Mahomedy
Acting Chief Financial Officer

2 August 2018
Johannesburg

Group Company Secretary certificate

for the year ended 31 March 2018

I hereby certify that in terms of section 88(2)(e) of the Companies Act, the Company has filed with the Companies and Intellectual Property Commission (CIPC) all such returns and notices for the year ended 31 March 2018, as required in terms of this Act, and that all such returns are true, correct and up to date. However, the Company has been unable to file some CIPC-related forms on time due to administrative delays.

N E Khumalo

NE Khumalo
Group Company Secretary

2 August 2018
Johannesburg

Independent auditor's report to Parliament on Transnet SOC Ltd

for the year ended 31 March 2018

Report on the consolidated and separate financial statements

Qualified opinion

We have audited the consolidated and separate financial statements of Transnet SOC Ltd and its subsidiaries (The Group) set out on pages 34 to 127 , which comprise the consolidated and separate statement of financial position as at 31 March 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and 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 qualified opinion

Irregular expenditure

We were unable to obtain sufficient appropriate audit evidence that irregular expenditure, as disclosed in Annexure E to the consolidated and separate financial statements, is complete and accurate, primarily due to the lack of implementation and monitoring of existing controls to identify and report on irregular expenditure. We were unable to confirm the completeness of irregular expenditure by alternative means. Consequently, we were unable to determine whether any adjustment was necessary to irregular expenditure stated at R8,1 billion in Annexure E to the annual financial statements.

Context for the opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of the financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (parts A and B).

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the 'Material uncertainty related to going concern' section, we have determined the matters described below to be the key audit matters to be communicated in our report.

The following key audit matters relate to the consolidated and separate annual financial statements:

Key audit matters	How our audit addressed the key audit matter
Revaluation of rail infrastructure assets	
Rail infrastructure assets are carried at revalued amounts. Formal revaluations are performed every three years by independent experts applying internationally acceptable and appropriately benchmarked valuation techniques. Appropriate indices are applied in the intervening period to ensure that the assets are carried at fair value at the reporting date. The revaluation is limited to the lower of the fair value determined per the revaluation method or index and discounted future cash flows.	We obtained audit evidence as to management's assumptions used in the Discounted Cash Flow (DCF) model, and identified the most significant assumptions as: • Terminal growth rate; and • Discount rate (WACC). As indicated in Annexure F of the annual financial statements, the Group's DCF model is the most sensitive to these assumptions.

Key audit matters	How our audit addressed the key audit matter
Revaluation of rail infrastructure assets	
During the current financial year, rail infrastructure assets were not formally valued by an external valuator. The previous formal valuation was prepared by Transnet valuators in 2015 and was based on the assessment of the condition of the rail network, assessment of the remaining useful life and the estimation of the new equivalent asset price attributable to the railway infrastructure assets only. This valuation, however, has to be measured against the DCF (value in use) calculation performed by management for the rail infrastructure assets in order to comply with IAS 36. Management has prepared a DCF model in order to assess the fair value of the TFR business in use. This value represents the future cash flows of the TFR business, discounted at the prevailing after tax WACC of 11,89% (2017: 11,88%). This resulted in a revaluation surplus attributable to railway infrastructure assets amounting to R44 billion (2017: R36 billion). The total upward revaluation adjustment for the 2018 financial year amounts to R8 billion compared to a devaluation of R7 billion in the prior year. Refer to note 9 of the annual financial statements for further details. This area was significant to our audit due to the materiality of the carrying amount of rail infrastructure assets to which the revaluation adjustment has been allocated. There are significant management judgements and assumptions involved in performing the revaluation test.	We utilised our valuations expertise to assess the integrity of the DCF model. For the key inputs to the model, we critically assessed their reasonableness pertaining to the following: • We assessed the mathematical accuracy of the DCF model, and agreed the critical inputs of the model to the 2017/18 Corporate Plan that was approved by the Board. • We assessed the reasonableness of the projected volumes to be railed, expected future tariff increases, the current capacity of the rail infrastructure network, projected future sustainable capital expenditure to maintain the current capacity and the terminal growth rate to achieve the rail network capacity; • Management assumed a real discount rate of 11,89%. We independently calculated the discount rate, taking into account independently obtained data to ensure that the rate is within an acceptable range; and • We assessed and evaluated management's basis for the assumptions used. In respect of the budgeting process, we compared the current year actual results with the 2018/19 Corporate Plan. This was done to assess that the 2018 actual results were within reasonable ranges compared to the latest estimates included in the 2018/19 Corporate Plan.
Locomotive capital work-in-progress	
The locomotive capital work-in-progress (CWIP) costs and balances are stated at cost and comprise a significant component of the total CWIP balance at year end. Refer to note 9 and Annexure B of the annual financial statements for further details. The Group capitalises costs which include expenditure that is directly attributable to the acquisition or construction of the asset including, where applicable, cost of materials, direct labour, an appropriate allocation of overheads, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, capitalised borrowing costs and adjustments in respect of hedge accounting. The locomotive CWIP costs and balance at year-end are accrued for at an estimated value that is in line with the stage of completion method of the construction milestones of building the locomotives. This area was significant to our audit due to the materiality of the carrying amount of the locomotive CWIP balances to which the additional accrual adjustments have been allocated, as well as the significant judgement involved in assessing whether the criteria for capitalisation of the cost accrued at year-end have been met.	We obtained audit evidence to assess whether the costs capitalised to CWIP, the required capitalisation criteria and that the stage of completion of the assets at year end are in line with the stage of completion criteria as follows: • We verified that classification of the items included in the CWIP are appropriate and that the initial recognition criteria as per IAS 16 were met. • We engaged the services of a professional engineer during the prior year to assess the reasonability of the stage of completion of the assets, taking into account contractually agreed construction milestones and the overall reasonability of the CWIP accruals recorded. • We ensured that the significant assumptions used as part of the accrual methodology applied in respect of the measurement of the stage of completion remained unchanged from the prior year and that it was consistently applied to all locomotive CWIP. • We verified the stage of completion of the locomotives to supplier status reports and the contractual construction milestones. • We assessed the mathematical accuracy of the accrual calculations and agreed the inputs to year-end status reports, locomotive agreements and actual construction milestones achieved.

Independent auditor's report to Parliament on Transnet SOC Ltd

for the year ended 31 March 2018

Key audit matters	How our audit addressed the key audit matter
Fair value of investment property at National Ports Authority	
Investment property (IP) of National Ports Authority comprises a significant portion of the total consolidated IP, of Transnet at 31 March 2018. Refer to note 10 of the annual financial statements for further details. Subsequent to initial recognition, IPs are carried at fair value. During the year under review, 100% of the IP portfolio was valued by an internal professional valuer employed by Transnet Property. In determining the fair value of the IP, the valuer used a normalised income method of valuation. An independent valuer was engaged by external audit in order to independently verify the reasonableness of the fair value of IP. The independent valuer used a DCF method which requires significant judgement to be applied. Management opted to also appoint their own independent expert. The properties in the IP portfolio of National Ports Authority were subsequently valued by both the external valuators by means of desktop valuations on an open-market basis. The purpose of this exercise was to determine the appropriateness of capitalisation rates applied by the professional valuer employed by Transnet. The valuation of investment properties is extremely sensitive to changes in key inputs to the models which include discount rates, exit capitalisation rates and estimated rental rates. Given the significant judgement that is required as part of the determination of the fair value of the IP, and the work effort from the audit team, this was considered as a key audit matter. This area was significant to our audit due to the materiality of the carrying amount of IP to which the fair value adjustment has been allocated. There are significant management judgements and assumptions involved in performing the fair value testing.	We obtained audit evidence as to management's assumptions used in the valuation model, and identified the most significant assumption as the capitalisation rates. As indicated in Annexure F of the annual financial statements, the Group's IP model is the most sensitive to this assumption. We utilised our valuations expertise to assess the integrity of the valuation model and to verify observable inputs in management's calculation to actual lease contracts and title deeds relating to: • Overall square meterage; • Square meterage occupied by the lessee; • Use of actual and market-related rentals; and • Reasonableness and accuracy of the apportionment between owner-occupied property and those leased to external parties. We assessed and evaluated management's basis for the assumptions used. We performed the following procedures to comply with ISA 620 requirements: • Assessing the competence, capabilities and objectivity of the professional valuer employed by Transnet as well as the independent external valuators employed by SizweNtsalubaGobodo Inc. and Transnet by understanding the scope of their engagement and evaluating their qualifications. • Obtaining an understanding of and assessing the valuation models used by the valuators to determine the fair value of the IP and evaluating whether the valuation models are consistent with the applicable accounting requirements and industry norms. • Obtaining the valuations prepared by the valuators and challenging the key inputs (assumptions) and judgements applied, in particular, the exit capitalisation rates, discount rates and estimated rental rates based on our knowledge of the property market and through comparison to market data and entity-specific information; • Performing a sensitivity analysis on the key inputs used by the valuators in their valuation models; and • Assessing whether the presentation and disclosure in respect of the IP in the financial statements are in accordance with the applicable financial reporting framework.

Material uncertainty related to going concern

Without modifying our opinion, we draw attention to note 38 of the consolidated and separate financial statements, which indicates that certain loans and facilities available to the Group include covenants which may potentially be breached as a result of the qualified audit opinion. The Group relies significantly on its funders and therefore if the funders were to call up loans and facilities as a result of such breach, the impact on the Group's access to sufficient resources and facilities for the Group to meet its obligations in the ordinary course of business could be jeopardised. As a result hereof, a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Emphasis of matter

We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Restatement of corresponding figures

As disclosed in note 36 to the consolidated and separate financial statements, the corresponding figures for 31 March 2017 have been restated as a result of an error in the financial statements of the Group at, and for the year ended, 31 March 2018.

The accounting authority's responsibility for the consolidated and separate annual financial statements

The Board of Directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless there is an intention either to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility for the consolidated and separate annual financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate annual financial statements.

As part of an audit in accordance with the ISA, we exercise professional judgement and maintain professional scepticism throughout our audit of the consolidated and separate annual financial statements, and the procedures performed on reported performance information for the selected objectives and on the compliance with respect to the selected subject matters.

We also:
- Identify and assess the risks of material misstatement of the consolidated and separate annual 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 our 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 entity's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going-concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report;
- Evaluate the overall presentation, structure and content of the consolidated and separate annual financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the entity to express an opinion on the consolidated and separate annual financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with the relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to those charged with governance, we 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. We describe these matters in our

Independent auditor's report to Parliament on Transnet SOC Ltd

for the year ended 31 March 2018

auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

Report on other and regulatory requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified reportable irregularities in terms of the Auditing Profession Act. We have reported such matters to the Independent Regulatory Board for Auditors. The matters pertaining to the reportable irregularities have been described in note 37 to the financial statements.

Report on the audit of the annual performance report

Introduction and scope

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, we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. We performed procedures to identify findings, but not to gather evidence to express assurance.

Our procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. We have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. Our 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, our findings do not extend to these matters.

We 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 as presented in the report of the directors of Transnet SOC Ltd and set out on pages 21 to 27 of the annual report for the year ended 31 March 2018:

- Annexure A: Financial sustainability
- Annexure B: Capacity creation
- Annexure C: Operational excellence
- Annexure D: Socio-economic development outcomes
- Annexure E: Industrialisation

We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We 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.

The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Operational excellence – Annexure C of the Shareholder's Compact

Reliability of reported performance information

Volume growth indicator (Eskom coal)

The reported achievement in the annual performance report did not agree with the supporting evidence provided for the indicator listed below:

Indicator description	Reported achievement	Audited achievement
Eskom coal (mt)	12,34	11,68

Various indicators

We were unable to obtain sufficient appropriate audit evidence for the reported achievements. This was due to limitations placed on the scope of our work as valid documents that enable reliable reporting were not adequately kept. As a result, we were unable to confirm the reported achievement by alternative means. Consequently, we were unable to determine whether any adjustments were required to the achievement of the following indicators as reported in the annual performance report:

Indicator description	Reported achievement
Container moves per ship working hour (CTCT)	45
Train turnaround time (CTCT)	1,1
Train turnaround time (NCT)	3,9

Various indicators

The systems and processes to enable reliable reporting of the achievement against the indicator were not adequately designed and implemented. As a result, we were unable to obtain sufficient audit evidence for the variances and the reported achievement of the indicators listed below. We were unable to confirm the reasons for the variances and the reported achievements by alternative means. Consequently, we were unable to determine whether any adjustments were required to the achievement of the following indicators as reported in the annual performance report:

Indicator description	Reported achievement
Average anchorage waiting time DCT Pier 1	42
Average anchorage waiting time DCT Pier 2	79
Average anchorage waiting time CTCT	34
Average anchorage waiting time NCT	42
Average ship turnaround time DCT Pier 1	69
Average ship turnaround time DCT Pier 2	72
Average ship turnaround time CTCT	32
Average ship turnaround time NCT	38

Socio-economic development outcomes – Annexure D of the Shareholder's Compact

Usefulness of reported performance information

The planned targets for the indicators listed below were not specific in clearly identifying the nature and required level of performance and measurability and did not specify the period or deadline of delivery.

Indicator description	Reported achievement
Headcount trained (%)	65
Sector-specific (number of trainees)	1 996

Industrialisation – Annexure E of the Shareholder's Compact

Usefulness and reliability of reported performance information

Supplier development indicators

We were unable to obtain sufficient appropriate audit evidence to support the reported achievement of targets as noted below. This was due to a lack of technical indicator descriptions and proper performance management systems and processes and standard operating procedures or documented systems descriptions that predetermined how the achievement would be measured, monitored and reported. We were unable to confirm the reported achievement of the indicators by alternative means. Consequently, we were unable to determine whether any adjustments were required to the reported achievements in the annual performance report.

	Reported achievement	
Indicator description	Cumulative spend %	Actual spend 2017/18 %
Skills development (SD)	7,62	12,38
SD value	46,07	12,75
Technology transfer/ intellectual property	1,24	0,93
Investment in plant	7,61	14,99

Reliability of reported performance information

Research and development spend indicator (Engineering)

The achievement for research and development spend reported in the directors' report was R147 million. However, the supporting evidence did not agree with reported achievement and it was impracticable to determine the value of the misstatement.

We did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Annexure A: Financial sustainability
- Annexure B: Capacity creation

Other matters

We would like to draw attention to the following matters with regard to performance information:

Achievement of planned targets

Refer to the information on the achievement of planned targets for the year as presented in the report of the directors of Transnet SOC Ltd and set out on pages 21 to 27 of the annual report for the year ended 31 March 2018. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives in this report.

Adjustment of material misstatements

We identified material misstatements in the annual performance report that was submitted for auditing. These material misstatements were on the reported performance information of Annexure C: Operational excellence and Annexure D: Socio-economic development outcomes. As management subsequently corrected only certain of the misstatements, we 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

In accordance with the PAA and the general notice issued in terms thereof, we have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements, performance and annual report

The annual financial statements were submitted for auditing, within two months from the end of the financial year, including the reported performance information as presented in the report of the directors and the PFMA disclosure note as required by section 55(2)(b)(i) and (ii) of the PFMA, however, these draft annual financial statements were not approved by the accounting authority. Hence, full and proper records of the financial affairs of the public entity required by section 55(1)(a) of the PFMA were not submitted for auditing as required by section 55(1)(c)(i) of the PFMA.

Procurement and contract management

Quotations and competitive bidding

Goods, works or services were not always procured through a procurement process which is fair, equitable, transparent and competitive as required by section 51(1)(a)(iii) of the PFMA. Similar non-compliance was also reported in the prior year.

Independent auditor's report to Parliament on Transnet SOC Ltd

for the year ended 31 March 2018

Construction contracts

Construction contracts were awarded to contractors that did not always qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.

Local procurement

Bid documentation for procurement of commodities designated for local content and production did not always meet the stipulated minimum threshold for local production and content as required by the preferential procurement regulations.

Preferential procurement

Certain contracts and quotations were awarded to bidders that:

- Were based on functionality criteria that were not stipulated in the original invitation for bidding and quotations, as required by the 2017 Preferential Procurement Regulations 5(6) and (7);
- Did not score the highest points in the evaluation process, as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act (PPPFA) and Preferential Procurement Regulations; and
- Were based on preference points that were not calculated in accordance with the requirements of the PPPFA and its regulations.

Expenditure management

Irregular expenditure

Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the qualified opinion, the full extent of the irregular expenditure could not be quantified. Irregular expenditure disclosed in Annexure E of the annual financial statements related to procurement within Transnet was done without following the Group's Procurement Policy Manual as required by section 51(1)(a)(iii) of the PFMA.

Fruitless and wasteful expenditure

Effective steps were not always taken to prevent fruitless and wasteful expenditure amounting to R23,5 million (2017: R22 million), and is in contravention of section 51(1) (b)(ii) of the PFMA.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the Audit Committee's report and the Company Secretary's certificate as required by the Companies Act, which we obtained prior to the date of this report. The other information does not include the consolidated and separate 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.

Our opinion on the financial statements and findings on the reported performance information and compliance with legislation does not cover the other information, and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Internal controls deficiencies

We considered internal controls relevant to our audit of the consolidated and separate financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal controls deficiencies that resulted in the basis for the qualified opinion, the findings on performance information and the findings on material non-compliance with legislation included in this report.

Leadership

The public entity's accounting authority did not always provide effective leadership based on good governance, and protecting and enhancing the best interests of the entity as they did not always exercise oversight responsibility regarding the prevention, identification and reporting of irregular expenditure, performance and compliance with related internal controls.

Management did not always establish and communicate policies and procedures that are aligned with recent laws and regulations to enable and support the understanding and execution of internal controls objectives, processes and responsibilities in these affected areas.

Those charged with governance did not always develop and monitor the implementation of action plans to address internal controls deficiencies relating to the audit of the Shareholder's Compact, which resulted in repeat findings being identified.

The accounting authority did not always implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. Resources within procurement were not always trained on updates in legislation pertaining to the supply chain management environment.

Financial and performance management

Management did not always implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support transactions relating to the reporting of irregular expenditure, procurement and contract management and performance reporting. They did not always review and monitor compliance with updated applicable legislation.

Management did not implement adequate controls over daily and monthly processing and reconciling of transactions, which resulted in the material adjustment and a completeness qualification of irregular expenditure on the annual financial statements and the adjustment of material misstatements in the performance report.

Governance

The accounting authority did not implement appropriate risk management activities to ensure that risk assessments are conducted and that adequate risk strategies are developed and monitored to address specific risks relating to the identification and reporting of irregular expenditure, performance reporting and compliance specifically pertaining to the supply chain management environment.

Those charged with governance did not always ensure that the Audit Committee promoted the evaluation and the monitoring of responses to risks and provided oversight on the effectiveness of the internal controls environment, specifically relating to the identification and reporting of irregular expenditure, performance reporting and compliance with legislation pertaining to the supply chain management environment, therefore not promoting accountability and service delivery.

Those charged with governance did not always ensure that adequate resources were allocated to identify internal control deficiencies and recommend corrective actions.

Other reports

Investigations in progress and completed

During the financial year under review, Transnet SOC Ltd initiated investigations into alleged irregularities or potential fraud. At the reporting date, certain investigations are still ongoing. The material findings that were identified relating to those investigations completed during the year are as follows:

Transnet Property Eastern Region

A senior official approved lease agreements with lessors without following formal lease application processes that contravened the formal property lease-out policy in four separate instances. These instances were in contravention of section 56 read with section 57(a) to (d) of the PFMA, which requires that an official of a public entity must take effective and appropriate steps to prevent any undercollection of revenue due within the official's area of responsibility The senior official's failure to ensure compliance with Transnet's internal policy represents a material breach of fiduciary duty and is in contravention of sections 76(2)(a)(i) and 76(3)(b) and (c) of the Companies Act as this official did not exercise the powers and perform the functions of a prescribed officer to act in the best interests of the Company; and with the degree of care, skill and diligence that may be reasonably expected of a prescribed officer.

1 064 locomotive contracts

During the year, the Group instituted investigations into alleged procurement-related irregularities on the acquisition of the 1 064 locomotives. A draft investigation report, which was issued subsequent to year-end, is currently being assessed by management and the Board of Directors to identify any possible non-compliance and to determine any further actions to be taken. At the time of preparation of this report, the assessment of the investigation report was under way and there were no reporting responsibilities from an audit point of view.

Agreed-upon procedures engagement

An agreed-upon procedures engagement was performed on the National Treasury consolidation template. The report covered the period from 1 April 2017 to 31 March 2018.

Auditor's tenure

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Inc. have been the auditors of Transnet SOC Ltd for six years.

SizweNtsalubaGobodo Inc.
Per: Alex Philippou CA(SA)
Director
Registered Auditor

20 Morris Street East
Woodmead

10 August 2018
Johannesburg

Audit Committee report

for the year ended 31 March 2018

Mandate

The Audit Committee presents this report in terms of the requirements of the Public Finance Management Act (PFMA), section 94(7)(f) of the Companies Act and in accordance with the King Code of Governance Principles for South Africa for the financial year ended 31 March 2018.

The role of the committee is defined in the Audit Committee mandate, which is approved by the Board. It covers, among others, its statutory duties and assistance to the Board with the oversight of financial and non-financial reporting and disclosure, the internal control system, risk management, internal and external audit functions and combined assurance, including information technology governance.

The Audit Committee presenting this report was appointed after the reporting period date on 1 June 2018 and is made up of the following non-executive directors: RJ Ganda (Chairperson), LL von Zeuner, G Ramphaka and AP Ramabulana.

In order to discharge the abovementioned responsibilities, the committee has relied extensively on representations made by management, the internal auditors and independent external auditors.

Execution of statutory duties

In the conduct of its duties the committee has, inter alia, reviewed the following functions:

Oversight of financial and non-financial reporting and disclosure

The committee considered the annual financial statements for fair presentation with the relevant requirements of the PFMA, Companies Act and International Financial Reporting Standards (IFRS) for adequacy, reliability and accuracy of financial and non-financial information provided by management, risks that may impact the integrity of the report, disclosure of sustainability information in the report to ensure that it is reliable and does not conflict with the financial information and the expertise, resources and experience of the finance function.

Going-concern assumption

The committee concurs with the Board of Directors and management that the adoption of the going-concern assumption in the preparation of the annual financial statements is appropriate. In performing their going-concern assessment, members of the committee along with management have engaged bilateral and syndicated loan lenders to discuss the implication of the qualified audit report and the impact thereof on the going-concern basis adopted.

Furthermore, the committee also considered the robustness of budgets and business results, cash flow projections for the 15 months ending 30 June 2019, cost-saving opportunities, the cost of capital projects and related optimisation opportunities, the funding plan and loan covenants in their assessment.

Shareholder Compact performance

The committee reviewed the performance information presented. A number of material findings on usefulness and reliability were reported. Management is developing plans to address these findings to ensure that they are sustainably addressed.

Internal control, risk management and compliance with legal and regulatory provisions

The committee considered the effectiveness of internal control systems and governance processes, reviewed legal matters that could have a material impact on the Company, the Company's risks and mitigation plans, and the effectiveness of the entity's compliance with legal and regulatory requirements.

Internal control assessment

Based on the information and explanations given by management, the internal audit function and discussions held with the independent external auditors, the Audit Committee is of the opinion that:

- There have been lapses in financial discipline;
- Overall corporate governance of the Company is inadequate and requires improvement; and
- There are ineffective supply chain-related controls which have resulted in significant irregular expenditure in terms of the PFMA as highlighted on pages 15 and 16 of the report of the directors and detailed in Annexure E to the annual financial statements on pages 116 to 120.

The Audit Committee has engaged management and internal assurance providers to provide a comprehensive control improvement plan to avoid the recurrence of the instances of non-compliance identified in the current year.

Transnet Internal Audit has assessed the overall design of internal controls, governance and risk management processes as 'adequate', while the effectiveness of the internal controls, governance and risk management processes is assessed as 'requires improvement'.

Reportable irregularities

The committee considered the alleged reportable irregularities and engaged management and internal assurance providers to establish a comprehensive control improvement plan to avoid a recurrence of such instances. Refer to note 37 of the annual financial statements.

Internal audit

The former committee considered the internal audit charter, annual audit plan, alignment of the audit plan with Company risks, the independence and the effectiveness of the function, internal audit reports, management action plans and the coordination with external auditors.

The former committee further reviewed external audit's decision not to place any reliance on the work performed by two out of the three Transnet Internal Audit consortium partners. Their decision was based on their assessment on the consortium partner's objectivity and was in no way based on issues/errors with work previously performed. The former committee accepted the exit of those two firms from the consortium.

External audit

The former committee considered the appointment of the external auditors in terms of the Companies Act and other applicable requirements, external audit plan, the audit budget, the audit fee and terms of engagement of the external auditors.

The current committee reviewed the independence and objectivity of the external auditors, and the accounting, sustainability and auditing concerns identified by the external auditors, including reportable irregularities.

Audit Committee composition and meeting attendance

The Audit Committee comprises independent non-executive directors who are duly elected by the Shareholder Representative at the annual general meeting in line with legislative requirements. A total of five meetings were held during the year under review and all quorum requirements were accordingly met. The meetings and attendance records of the former committee are reflected in the table below.

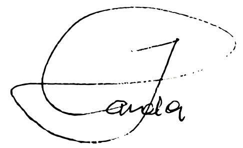
Name of member	Date of appointment	24 May 2017 Scheduled meeting	24 August 2017 Scheduled meeting	19 October 2017 Scheduled meeting	13 February 2018 Scheduled meeting	7 March 2018 Special meeting	19 March 2018 Special meeting
Mr SM Radebe (Chairperson)[2, 5]	21 December 2017	♦	♦	♦	✓	✓	✓
Mr BG Stagman[1] (Chairperson)	11 December 2014	✓	✓	✓	❖	❖	❖
Ms AC Kinley[2, 3]	21 December 2017	♦	♦	♦	✓	✓	✓
Mr GJ Mahlalela[4]	11 December 2014	✓	✓	✓	✓	Apology	Apology
Ms PEB Mathekga[5]	11 December 2014	✓	✓	✓	✓	✓	✓

✓ Attended.
♦ Had not attended, as was not yet a member of the Audit Committee.
❖ Restired as a Board member.
1 Retired from the Board during December 2017.
2 Appointed during the year.
3 Resigned from the Board during May 2018.
4 Passed away during March 2018.
5 Removed from the Board in May 2018.

The Group Chief Executive, the Chief Financial Officer, the Chief Audit Executive and other key executive management are required to attend all meetings of the Audit Committee. In addition, the representatives from the office of the Auditor-General of South Africa and the external auditors have a standing invitation to attend all committee meetings. The internal auditors, the external auditors and management are afforded individual closed sessions with the Audit Committee.

Recommendation of the annual financial statements

The committee has evaluated the financial statements of Transnet SOC Ltd for the year ended 31 March 2018 and, based on the information provided to it, considers that they comply, in all material respects, with the requirements of the Companies Act, the PFMA and IFRS.



RJ Ganda
Chairperson of the Transnet Audit Committee

2 August 2018
Johannesburg

Report of the directors
for the year ended 31 March 2018

Introduction

The directors submit their report, together with the Company and Group annual financial statements, for the year ended 31 March 2018.

Board of Directors

In his state of the nation address in February 2018, President Cyril Ramaphosa emphasised the need for enhanced governance at state-owned companies (SOCs) as well as the repositioning to better serve the South African economy. Effectively managed, high-performing and well-governed institutions play a crucial role as an extension of the capacity of the state.

The President outlined the key steps to address the challenges at SOCs, which include:
- Rebuilding and strengthening governance;
- Rooting out corruption;
- Restoring their financial standing; and
- Ensuring that SOCs fulfil their economic and developmental mandates.

Accordingly, on 23 May 2018, the Minister of Public Enterprises appointed a new Board of Director's at Transnet and tasked it with:
- Undertaking its duties diligently, with due regard to fiduciary responsibilities;
- Instilling an ethical culture and ensuring that governance, accountability and transparency are restored;
- Maintaining the necessary independence from management for effective oversight, while simultaneously gaining knowledge of the business activities at the Company;
- Investigating any allegations of corruption and ensuring that where there is evidence of malfeasance, to act decisively to hold the relevant parties to account and recover any funds that were misappropriated;
- Ensuring that the executive management teams lead the institution with integrity;
- Confirming that adequate controls and oversight for supply chain processes are in place and that conflicts of interest are managed;
- Rebuilding the credibility and confidence in our SOCs with key stakeholders; and
- Repositioning SOCs as assets that serve South Africa and improve the well-being of all its citizens.

A separate, unabridged version of the governance report is also available online at www.transnet.net.

The remuneration and fees paid to directors are set out in Annexure H to the annual financial statements.

Nature of business

Transnet is a public company, wholly owned by the Government of South Africa, and is the custodian of the country's rail, ports and pipelines. Transnet is responsible for enabling the competitiveness, growth and development of the South African economy by delivering reliable freight transport and handling services that satisfy customer demand.

As the custodian of ports, rail and pipelines, Transnet has a responsibility to ensure the optimal development of the national freight system. Furthermore, as a responsible corporate citizen and key implementing agent of the developmental state, Transnet conducts its activities in order to optimise developmental outcomes, such as job creation, skills development, economic transformation, regional integration, industrial capability building and energy efficiency.

Performance for the reporting period

Transnet continues to perform above expectations in a slow-recovering economy. Significant highlights include the following:
- Revenue increased by 11,3% to R72,9 billion for the year, driven by a 4,3% increase in railed export coal volumes; a 6,5% increase in railed automotive and container volumes; and a 6,1% increase in port container volumes.
- Operating expenses increased by 6,5% to R40,4 billion, which represents a R3,1 billion saving against planned costs.
- EBITDA increased by 18,0% to R32,5 billion, with the EBITDA margin increasing from 42,1% to 44,6%.
- Gearing of 43,4%. This level is below the Group's target range of <50,0%, and is comfortably within the triggers in loan covenants, reflecting the available capacity to continue with its investment strategy.
- Cash interest cover at 3,0 times reflects Transnet's strong cash-generating capability and is comfortably above the triggers in loan covenants.
- Capital investment of R21,8 billion brought expenditure over the past six years to R165,6 billion, with a further R163,7 billion expected to be invested over the next five years, subject to review and approval.

In addition to the unfavourable macroeconomic conditions, the Company's operational environment was exposed to a number of major operational disruptions emanating from, among others, the massive storm in Durban that took place in October 2017, causing significant damage to equipment and leading to the suspension of operations, which impacted the operational efficiencies of the Company at the busiest port in the country.

Accordingly the Company achieved 57% of the total number of KPIs contained in the Shareholder's Compact for the period ending 31 March 2018.

Our key challenges

During the year, the Company encountered a significant number of allegations in the media of corruption, maladministration and mismanagement, particularly relating to supply chain processes, which have overshadowed the Company's commendable financial performance.

As disheartened as many Transnet employees feel at this time, given the extent and pervasive nature of the media reports, management and colleagues must remain strong and grounded.

The Board cannot ignore the seriousness of the allegations and, accordingly, since the appointment of the Board the following steps have been taken:
- Engaged with certain forensic specialists to review the draft reports prepared relating to 1 064 locomotives;
- Formulated the key governance sub-committees of the Board;
- Dissolved the 'Acquisitions and Disposals' sub-committee, as the Board should not be directly involved in procurement processes;
- Established a Finance and Investment Committee;
- Commenced interactions with key state institutions charged with investigating 'state capture' reports; and
- Reviewed the progress of the investigations instituted by management relating to payments made to companies identified in various media reports.

Once these investigations are concluded, and to the extent to be found in contravention of the PFMA and/or other legislative requirements, the reporting obligations in terms of sections 51 and 55 of the PFMA will be considered.

Contracts for the purchase of 1 064 locomotives

It has been widely reported in the media that the contracts to purchase 1 064 locomotives are the subject of certain corrupt activity and mismanagement in the supply chain processes. These activities have resulted in associated procurement costs increasing from approximately R38,0 billion to R54,5 billion. To date, the cumulative expenditure on the contracts amounts to R30,1 billion.

The media allegations prompted the previous Board to initiate forensic investigations by Werksmans Attorneys and MNS Attorneys.

The current Board received detailed presentations on both the preliminary reports of Werksmans Attorneys and MNS Attorneys on their investigations of the procurement of the 1 064 locomotives.

Both firms' preliminary reports recommended a range of actions including:
- Disciplinary action to be taken against executives involved in the 1 064 locomotive transaction; and
- Criminally charging former Transnet executives and recovering funds.

The Board of directors has established a special committee comprising the chairpersons of the various Board committees to advise the Board on the implementation of recommendations from the abovementioned externally sourced investigative reports.

As at the reporting date, Transnet awaits the finalised report from the aforementioned investigative processes.

Compliance and legislation

The Company is required to comply with a variety of legislation and every effort is made to ensure adherence.

Transnet's procurement processes have not complied with certain aspects of the PFMA, National Treasury Instruction Notes and CIDB regulations. This has resulted in irregular expenditure as disclosed in the annual financial statements.

Based on enquiry of management and the external auditors, except for the above and to the best knowledge and belief of the directors, the Company has complied in all material respects with all other legislation and regulations applicable during the reporting period.

Public Finance Management Act (PFMA) compliance

The independent auditors qualified Transnet's annual financial statements as they were unable to obtain sufficient appropriate audit evidence that irregular expenditure reported in Annexure E to the annual financial statements is complete and accurate. This is primarily due to the lack of implementation of existing controls and monitoring to identify and report on irregular expenditure. In addition, they were unable to confirm the completeness of irregular expenditure by alternative means. Consequently, the auditors were unable to determine whether any adjustment was necessary to the irregular expenditure reported at R8,1 billion in Annexure E to the annual financial statements.

The Board noted the findings regarding the irregular expenditure.

All of the findings relate to a deterioration of key supply chain controls. The expenditure identified as irregular is due to non-compliance with the Company's Procurement Procedure Manual (PPM), PPPFA or CIDB regulations, and non-adherence to the DOA, PFMA and National Treasury regulations.

While the Company received the contracted goods and services from the expenditure that is classified as irregular, it is clear that the detection and prevention controls in this area are not achieving the desired level of compliance. The Board, together with management, is developing a comprehensive corrective action plan to prevent the recurrence. The corrective actions will focus on developing additional controls to prevent irregular expenditure while ensuring completeness of irregular expenditure recorded on occurrence. These corrective actions will cover both financial and business controls. Enhancements will also be made to the Transnet Integrated Assurance Model with a focus on first and second lines of defence.

Report of the directors

for the year ended 31 March 2018

PFMA reporting

Category of reportable items	% of total procurement spend	Number of reportable items	2018 R million	2017 R million
Fruitless and wasteful expenditure – current year	0,01	27	**4,8**	7,0
Fruitless and wasteful expenditure – prior years	0,05	15	**18,7**	14,9
Total fruitless and wasteful expenditure[1]	0,06	42	**23,5**	21,9
Losses through criminal conduct – current year	0,15	44	**58,3**	43,1
Losses through criminal conduct – prior years	—	3	**0,8**	—
Total losses through criminal conduct[1]	0,15	47	**59,1**	43,1
Total irregular expenditure – current year[1]	8,86	75	**3 427,4**[2]	142,4
Total irregular expenditure – prior years[1]	12,13	52	**4 695,7**[2]	550,3
Less: Irregular expenditure condoned	—	(2)	**(0,2)**	(293,3)[3]
Less: Amounts recoverable (not condoned)	—	—	**—**	(158,6)[4]
Less: Amounts not recoverable (not condoned)	—	—	**—**	240,8
Irregular expenditure awaiting condonation[1]	20,99	125	**8 122,9**[2]	—
Expenditure still under investigation to determine whether or not it should be classified as irregular[1]	1,31	1	**507,3**	32,8

1 *Refer to Annexure E to the annual financial statements for detailed disclosure.*
2 *Irregular expenditure represents expenditure from which the Company derived value, but is classified as irregular due to non-compliance with procedures or policies.*
3 *Was condoned subsequent to the 31 March 2017 reporting period.*
4 *Investigations and disciplinary process still in progress.*

The Shareholder Representative has determined that the materiality limit for reporting in terms of sections 55(2)(b)(i), (ii) and (iii) of the PFMA is R25 million per transaction. In terms of this materiality framework, there are 26 reportable items exceeding R25 million which have been individually disclosed as irregular expenditure for the financial year. More detailed disclosure relating to these items, together with corrective action, is set out in Annexure E to the annual financial statements.

Incidents of non-compliance with internal policies and/or provisions of the PFMA have resulted in 44 finalised disciplinary cases and the lodging of 1 022 criminal cases with SAPS. The bulk of the criminal cases relate to the theft of cable and other assets from the rail infrastructure network.

Reportable irregularities

In respect of the alleged reportable irregularities:

- One is not a reportable irregularity;
- Seven of the reportable irregularities are no longer taking place; and
- Five of the reportable irregularities are continuing and Transnet is currently preparing condonation requests to regularise the contracts, which will be submitted to National Treasury for approval.

The Transnet Board, together with management, are implementing corrective action to urgently address the recurrence of instances of non-compliance which will include:

- Enhancements and improvements to the current controls of prevention and detection;
- Enhancements and improvements to the integrated assurance model to improve prevention and detection of non-compliance; and
- A review of all transactions post the 31 March 2018 year-end.

Going concern

The Board reviewed the Group's performance for the year and considered the robustness of budgets and business results, cash flow projections for the 15 months ending 30 June 2019, cost-saving opportunities, the cost of capital projects and related optimisation opportunities, the funding plan and loan covenants.

The directors have also assessed the going-concern ability of the Group as a result of the qualified audit opinion.

Bilateral and syndicated loans amounting to R15,8 billion have a clause relating to a qualified audit opinion as an event of default. The qualification of Transnet's Annual Financial Statements is an event of default under these financing agreements.

On declaration of the qualification, the bilateral and syndicated loan lenders have a right to accelerate their loans which then become due and payable.

The Board and management have engaged these lenders to share the nature of the qualification, root causes, remedial actions and timelines for remediation. The engagements took place in a positive environment, gaining confidence from the lenders that the partnership with Transnet remains strong, against the backdrop of the strong financial position and cash flow generating capability of Transnet.

To date, half of the lenders granted waivers and/or reserved rights to immediate acceleration to allow Transnet the opportunity to implement remedial actions to improve the control environment around the prevention and detection of irregular expenditure. Transnet is confident that an agreement will be reached with all affected lenders to the satisfaction of all parties.

Furthermore, a funding strategy has been developed to ensure that the Company is able to successfully fund its capital investment plan without breaching the set financial parameters. Taking into consideration the difficult economic conditions that continue to prevail, Transnet will continue to aggressively pursue specific available project funding areas that are within the parameters of its funding strategy and continue to optimise capital expenditure spend.

Further, the Board does not expect the actions by both rating agencies against Transnet and the sovereign to negatively impact the ability of the Company to access the debt capital markets as both rating agencies have assigned a stable outlook for the Company. Transnet has managed to maintain an investment grade stand-alone credit profile amid is a series of rating downgrades.

Funding

As at 31 March 2018, the Company's total borrowings amounted to R122,6 billion (2017: R124,8 billion), a decrease of R2,2 billion compared to the prior year.

The gearing ratio at 43,4% remains well below the threshold of 50% prescribed in the Shareholder's Compact. The cash interest cover ratio at 3,0 times is above the Shareholder's Compact target. With the subdued business environment, Transnet will be taking a more conservative approach in the management of its financial position.

The Group utilised commercial paper, domestic bonds, bank loans, development finance institutions (DFIs) and export credit agencies backed funding to raise R10,2 billion funding for the year without any Government guarantees (excluding call loans and including commercial paper on a net basis).

The funding requirement for the next 15 months to 30 June 2019 is R18,0 billion. Sufficient facilities are available to Transnet to manage liquidity risk (see "Possible sources of funding" table).

Issuer rating	Moody's	S&P
Foreign currency rating	Baa3/stable outlook	BB/stable outlook
Local currency rating	Baa3/P-3/stable outlook	BB+/stable outlook
NSR – long and short term	Aa1.za/Aa3.za/P-1.za/stable outlook	zaAA+/zaA-1+
BCA/SACP	baa3/stable outlook	bbb-

Possible sources of funding	R billion
Cash on hand at 31 March 2018	4,4
DFIs	4,8
GMTN	11,9
DMTN	5,3
Committed facilities	2,0
Total	28,4

Credit ratings

Transnet has two officially recognised rating agencies: Standard & Poor's (S&P) and Moody's Investors Service (Moody's). Transnet's credit rating as at 31 March 2018 is depicted in the table below.

Moody's

On 27 March 2018, Transnet's ratings outlook was changed to stable after being placed under review for downgrade on 29 November 2017, following a similar action taken on the sovereign. The sovereign's outlook was informed by the view that the weakening of South Africa's institutions will reverse under a more transparent and predictable policy framework.

The stable outlook assigned to Transnet is informed by the Company's ability to maintain positive revenue growth (at least at the same level of the South African GDP growth) and its demonstration of operational efficiencies. The outlook further assumes a track record of executing on its capital investment strategy while adjusting to changes in the macroeconomic environment with a view to managing within its stated financial policies.

S&P

On 24 November 2017, S&P lowered Transnet's foreign currency rating to BB from BB+ and the local currency to BB+ from BBB- both with a stable outlook. This followed a similar action on the sovereign as Transnet is viewed to be closely linked to the Government and the likelihood of receiving extraordinary support when needed is therefore assessed as extremely high. The long- and short-term national scale rating was also lowered to zaAA+ and zaA-1+, respectively. The stand-alone credit profile of Transnet was also revised downwards to bbb- as the Company's operating and financial prospects are expected to decline under South Africa's weaker economic forecast. S&P notes that if the economic forecast of the sovereign is revised downwards, Transnet's credit metrics will also come under pressure as the Company's performance is strongly linked to the economic conditions in South Africa.

Report of the directors
for the year ended 31 March 2018

Passenger Rail Agency of South Africa (Prasa)

Prasa owed Transnet R1,3 billion at 31 March 2018 (2017: R1,2 billion), and services provided during the year amounted to R1,2 billion.

Given the long-term nature of the amounts outstanding, the settlement of these amounts has been escalated to the Departments of Transport and Public Enterprises, as well as National Treasury, for resolution. Transnet and Prasa ensure that their records reconcile on a monthly basis and have no material disputes. In addition, Transnet and Prasa have agreed to the netting-off of amounts due to each other once the Ministerial intervention has been concluded.

Transnet remains committed to working with Prasa in providing passenger rail services in South Africa.

Accounting policies

The accounting policies applied in the preparation of the annual financial statements for the year ended 31 March 2018 are in accordance with IFRS and are consistent with those applied in the prior year.

Judgements made by management in the application of IFRS that have a significant impact on the annual financial statements are disclosed in the accompanying notes to the annual financial statements.

Share capital

There has been no change in the authorised or issued share capital of the Company during the year. The issued share capital of the Company is 12 660 986 310 ordinary shares of R1 each. Further details pertaining to the Company's share capital are contained in note 21 to the annual financial statements.

Dividend

Distributions to the Shareholder are governed in detail in Paragraph 28 of the Company's Memorandum of Incorporation in line with the requirements of section 46 of the Companies Act.

The key considerations in determining a declaration of dividend are:

- Approval by the Shareholder after Transnet's Board resolution for a distribution;
- The Corporate Plan and strategic objectives, including investments and expenditures, in fulfilling the Company's Shareholder mandate; and
- The Company reasonably satisfying the solvency and liquidity test immediately after completing the proposed distribution.

A dividend is declared to the Shareholder when:

- Available cash resources cannot be effectively utilised;
- Retaining available cash resources does not create Shareholder value and it can be paid without negatively impacting key financial parameters (current and future gearing and cash interest cover), loan covenants and credit ratings; and
- Sources and uses of future cash flow requirements have been satisfied.

Accordingly, the Company has assessed the following factors in arriving at the decision not to declare a dividend – in line with the above:

- Based on the 2019 Corporate Plan, Transnet will be in a net borrowing position for the next five years;
- The Company has an intensive capital investment programme;
- The funding of strategic priorities in the Corporate Plan, including, but not limited to, supplier development (SD), enterprise development (ED) and social investments;
- Transnet's current investment grade credit ratings and limited headroom to absorb cash flow at risk; and
- The cumulative impact of a dividend distribution on Transnet's solvency and liquidity ratios in relation to trade-offs against the funding of capital investment as a net borrower.

The declaration of dividends is reviewed annually, subject to the approval of the Shareholder Representative at the annual general meeting.

Divisions, subsidiaries and equity-accounted investees

A detailed list of subsidiaries and equity-accounted investees is contained in Annexure D to the annual financial statements.

Revaluation of property, plant and equipment

The Group assesses the revaluation of its rail infrastructure, port infrastructure and pipeline networks in line with its accounting policy, which requires an independent valuation every three years, as well as index valuations in the intervening years. During the year, rail infrastructure assets were revalued based on the depreciated optimised replacement cost method, limited to the discounted cash flows generated by the assets to ensure they are not measured at amounts in excess of their recoverable amount. Index valuations were performed on port infrastructure, as well as port operating and pipeline assets.

Rail infrastructure

The carrying value of rail infrastructure was revalued by R7,8 billion (2017: R6,8 billion devaluation).

Port facilities

The carrying value of port infrastructure was revalued by R3,5 billion (2017: R7,4 billion) and port operating assets were devalued by R253 million (2017: R217 million).

Pipeline networks

The carrying value of pipeline networks was revalued by R664 million (2017: R347 million).

Capital expenditure and commitments

The Company continued to execute its infrastructure investment programme, spending R21,8 billion for the year (2017: R21,4 billion), representing a 1,6% increase on prior year. The capital investment for the year comprises R5,4 billion invested in the expansion of infrastructure and equipment and R16,4 billion invested to maintain capacity in the rail and ports divisions.

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

Post-retirement benefit obligations

Benefit funds

The Group provides various post-retirement benefits to its active and retired employees, including post-retirement medical pension. The post-retirement medical benefit obligation is approximately R609 million (2017: R673 million).

The two defined benefit funds, namely the Transnet sub-fund of the Transport Pension Fund (TTPF) and the Transnet Second Defined Benefit Fund (TSDBF) are fully funded with actuarial surpluses of R3,6 billion (2017: R4,3 billion) and R3,6 billion (2017: R3,6 billion) respectively. Transnet has not recognised any portion of the surplus on these funds, as the fund rules presently do not allow for the distribution of a surplus.

The total value of ad hoc bonuses paid to beneficiaries by the TTPF (since December 2011) and TSDBF (since November 2007) amounts to R282 million and R3,0 billion respectively. In addition, ad hoc bonuses paid to beneficiaries by the TTPF and TSDBF in April 2018 amounted to R21 million and R152 million respectively. These payments continue to supplement the current statutory increase of the beneficiaries of the TTPF and TSDBF.

SATS pensioners' post-retirement medical benefit obligations

Transnet is committed to identifying a sustainable long-term solution for the provision of medical scheme benefits to SATS pensioners and their dependants.

Events subsequent to the reporting date

No material events have occurred between the date of these financial statements and the date of approval, except for the appointment of the new Board of Directors that is detailed in the corporate information, the knowledge of which would affect the ability of the users of the financial statements to make proper evaluations and decisions.

Rate-regulated activities

The tariffs of two Operating Divisions, namely Transnet Pipelines (Pipelines) and Transnet National Ports Authority (National Ports Authority) are regulated by the National Energy Regulator of South Africa (Nersa) and the Ports Regulator of South Africa (Ports Regulator) respectively.

The Company operates within a policy context determined by the Department of Public Enterprises (DPE) and the Department of Transport (DoT) respectively. In addition, the Company pays the railway safety permit fees levied by the Rail Safety Regulator.

With approximately 22,2% of Transnet's revenue and 31,7% of EBITDA impacted by economic regulation, it is critical that relationships with regulators are managed proactively and strategically as their decisions could have a significant impact on operating results, capital investment decisions and investor confidence.

Transnet engaged with the Ports Regulator and port users on the review of the multi-year tariff methodology in accordance with the National Ports Act, No 12 of 2005 (Ports Act) to afford Transnet the ability to deliver on its strategy and maintain financial sustainability. The Ports Regulator published the revised multi-year tariff methodology for the 2019 to 2021 tariff periods on 31 March 2017.

Nersa published the amendment to the guidelines for monitoring and approving piped-gas transmission and storage tariffs (guidelines) for public comment on 8 February 2017. The key reason for the review was to ensure harmonisation of regulatory methodologies for the three regulated industries, and to ensure coherence and consistency across piped gas, petroleum pipelines and electricity.

Transnet Pipelines

On 15 March 2018, Nersa made a determination on Pipelines' petroleum pipeline tariffs for the 2020 financial year, granting an effective tariff increase of 19%. The impact on the petrol price will be an increase of 6,57 cents per litre.

Nersa decided to smooth the tariff increase to ensure a stable and predictable price path by utilising the clawback mechanism.

Transnet National Ports Authority

On 1 March 2018, the Ports Regulator published its Record of Decision granting the National Ports Authority an average tariff increase of 2,5%.

Based on the Ports Regulator's own research, which raised significant concerns about specific anomalies regarding tariff imbalances evident in the tariff book, as well as the cost levels facing other users and the impact that the recent depreciation of the Rand has on costs, the Ports Regulator decided to approve the following specific changes applicable to the tariffs as set out in the tariff book:

- Marine services and related tariffs are to increase by 8,5%;
- Coal export cargo dues are to increase by 8,5%;
- Container cargo dues are to increase by 0%;
- All RoRo tariffs are to increase by 0%;
- All other cargo dues are to increase by 5,4%; and
- All break-bulk cargo dues are to be capped at R100/ton.

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Freight Rail

Transnet is engaging with the DPE and the DoT on the Revised White Paper on the National Transport Policy, Single Economic Regulation Bill, 2018, and Railway Safety Bill, 2017.

Transnet will continue to engage the DoT through existing protocol to contextualise its views and proposals prior to submission of the abovementioned draft policies and Bills to Cabinet for approval.

Judicial proceedings

The annual financial statements include a best estimate of expected settlement costs for judicial proceedings involving Transnet, as either defendant or plaintiff, where the outcome can be assessed with reasonable certainty. These estimates take into account the legal opinions obtained for the Group. Contingent liabilities of the Group are disclosed in note 31 to the annual financial statements.

Transnet pensioners' class action

Following the certification of the pensioners' class action proceedings on 31 July 2014, Transnet was served with a summons on 11 June 2015 issued out of the Pretoria High Court.

In terms of the summons, the plaintiffs are members of the Transport Pension Fund (TPF) and the TSDBF respectively, and they represent all members of their respective funds who have not opted out of the class action.

The plaintiffs seek the following relief:
- An annual increase of not less than 70% of the rate of inflation in the pensions of all members of the TPF and TSDBF, with effect from 2003, plus interest;
- An order that Transnet pay to the TPF and TSDBF an amount of R17,18 billion to address the actuarial deficit at the commencement date (1 April 1990), plus interest calculated from 1 April 1990; and
- An order that Transnet pay to the TPF an amount of R309 million plus interest, being the amount apportioned to Transnet from the surplus in 2001.

Transnet filed legal arguments (exceptions) showing that the particulars of claim are defective and that the plaintiffs should remove or amend their particulars. These were heard on 4 and 5 April 2016.

Judgment on the exceptions upheld three of Transnet's exceptions and gave the plaintiffs 14 days within which to amend their particulars of claim. The plaintiffs instead lodged an application for leave to appeal in respect of the judgment, followed by a petition to the Supreme Court of Appeal (SCA), then an application to the President of the SCA and finally an application in the Constitutional Court.

Judgment was delivered by the Constitutional Court on 25 April 2018, effectively dismissing all exceptions against the particulars of claim. Accordingly, the plaintiffs' particulars of claim did not have to be amended, and Transnet filed its plea, as required, within 20 days from the date of judgment.

Transnet remains confident, based on legal advice, that it will successfully defend the class action and will demonstrate to the High Court that:
- Historical pension increases have not been less than what the relevant laws provide;
- The historical actuarial funding deficit of R17,2 billion was never a debt due by Transnet, and the funds are both currently in surplus; and
- The allegation that the surplus apportionment in 2001 was an unlawful donation is factually and legally incorrect. The amount was determined by an independent actuary, in accordance with resolutions taken by the fund's trustees and allocated to Transnet on the understanding that Transnet would utilise the surplus for the benefit of the beneficiaries of the TSDBF and TPF (also the plaintiffs), which has been done through certain ex gratia payments amounting to R523 million made by Transnet SOC Ltd.

In addition to the factual allegations being incorrect, the legal basis for a number of the allegations is flawed.

Shareholder's Compact – performance criteria

The Shareholder's Compact KPIs, that the Board and the Shareholder Representative agree on, serve as the performance monitoring framework for the Company. Performance against the Shareholder's Compact 2018 targets is outlined as follows as required by section 55(2)(a) of the PFMA. The performance information has been subjected to audit review, and the auditors have reported their findings in their audit report.

Overall, the Company achieved 57% of the total number of KPIs contained in the Shareholder's Compact for the period ending 31 March 2018.

The material findings by the auditors in respect of the usefulness and reliability of the selected objectives are as follows:

Annexure C

- **Usefulness – Volume growth indicator (Eskom coal)**
  - The reported achievement did not agree with the supporting evidence provided to the auditors.
- **Reliability – Various operational indicators**
  - The auditors were unable to obtain sufficient appropriate audit evidence for the reported achievements. This was due to valid documentation not being kept. Consequently, they were unable to determine whether any adjustments were required to the achievement of certain indicators as reported in Annexure C.

Annexure D

- **Usefulness – Headcount and sector-specific trainees**
  - The planned targets for the indicators listed below were not specific in clearly identifying the nature and required level of performance and measurability, and did not specify the period or deadline of delivery.

Annexure E

- **Usefulness – Supplier development indicators**
  - External audit was unable to obtain sufficient appropriate audit evidence to support the reported achievement of targets. This was due to a lack of technical indicator descriptions and proper performance management systems, processes and standard operating procedures or documented systems descriptions that predetermined how the achievement would be measured, monitored and reported.
  - Furthermore, they were unable to confirm the reported achievement of the indicators by alternative means and were unable to determine whether any adjustments were required to the reported achievements in the annual performance report.
- **Reliability – Research and development spend indicator (Engineering)**
  - The achievement for research and development spend reported is R147 million. However, the supporting evidence did not agree with reported achievement and it was impracticable to determine the value of the misstatement.

The Company is developing plans to address these findings to ensure no recurrence going forward. The Company has also implemented several initiatives to address issues raised by the auditors in the 2017 audit report. These included reviewing the 2018 KPI dictionary to ensure that it accurately reflected what is being measured by the Company.

Annexure A: Financial sustainability

Key performance measure	Key performance indicator	Unit of measurement	2018 target	2018 actual
Financial sustainability	EBITDA margin	%	≥41,5	**44,6**
	Cash interest cover (CIC) rolling	times	≥2,5	**3,0**
	Gearing	%	≤50	**43,4**
	Return on total average assets (ROTA) rail (excluding developmental projects)	%	≥5,2	**7,6**
	ROTA ports (excluding developmental projects)	%	≥12,4	**15,3**
	Average tariff increase (containers)	%	≤6,4	**5,4**
	Average tariff increase (automotive)	%	≤6,4	**7,1**

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Annexure B: Capacity creation

Project	Key performance indicator	Q	2018 milestone target	2018 milestone actuals
			Infrastructure projects in execution	
1. Multi-Product Pipeline (MPP) phase 1	Completion of the project execution milestone	1	All punch lists completed	• TM1 and TM2: All category 1 and 2 punch items completed • Overall milestone completed in quarter 2
		1	Procurement of an accumulator tank and Sapref R tank construction contractor	• The procurement of a contractor for the construction of Sapref Refinery tanks was delayed; the process will be initiated in the first quarter of the new financial year • The procurement of a contractor for the construction of accumulator tanks is delayed due to internal governance processes being followed
		2	Mechanical completion of the coastal terminal (tightlining) and inland terminal	• Coastal terminal (TM1) Early ATO schedule met successfully (full operation, inclusive of the mechanical completion milestone); milestone achieved in quarter 2 • Inland terminal (TM2) Mechanical completion achieved in quarter 3; all valves at TM2 installed according to schedule
		3	All replacement valves delivered to the terminals; pipeline work closeout	• All replacement valves required for completion have been successfully delivered, with the last critical valves delivered in quarter 2 • Physical pipeline work has been closed out; minor snags in the process of being completed
		4	Ability to operate both the coastal terminal (tightlining) and inland terminal – multi-product operation at 1 080 m^3/h	• Both the coastal and inland terminals have multi-product capability operating at 1 080 m^3/h
2. Manganese Rail phase 1	Completion of the project execution milestone	1	Final supplier development (SD) key date achieved (consultant)	• All SD targets for the project are met
		2	Completion of Modderrivier loop	• Modderrivier loop completed
		2	Completion of Modderrivier – Heuningneskloof upline	• Modderrivier – Heuningneskloof upline completed
		3	Completion of rerailing Graspan Belmont .	• Construction completed and handed over for operations
		3	Completion of Perdevlei-De Aar loop	• Construction completed and handed over for operations
		3	Completion of the southern section of Orange River-De Aar	• Construction completed and handed over for operations
		4	Completion of northern section of Kimberley-Orange River	• Rail line from the northern section of Kimberley to Orange River completed and handed over for operations
		4	Completion of Witput-Oranje	• Rail line from Witput to Oranje completed and handed over for operations
		4	Construction project complete	• The construction project for the Manganese Rail phase 1, based on the original scope, has been completed

Project	Key performance indicator	Q	2018 milestone target	2018 milestone actuals
3. Coal 81 mtpa	Completion of the project execution milestone	1	Completion of electrical overlaps in Vryheid East yard	• Electrical overlaps in Vryheid East yard completed
		1	Completion of Dumbe substation	• Dumbe substation completed
		2	Completion of Woestalleen new direct current (DC) substation	• Woestalleen DC substation completed
		2	Completion of Sheepmoor new traction substation	• Sheepmoor build traction substation completed
		2	Completion of Vryheid East yard	• Vryheid East yard milestone completed
		2	Completion of Vryheid substation	• Vryheid substation milestone completed
		3	Completion of Mahulumbe – rehabilitation of borrow pits	• Construction completed and handed over for operations
		3	Completion of 80% of Saaiwater consolidation yard	• 80% of the Saaiwater consolidation yard complete
		4	Completion of Halfgewonnen North to Midpoint feeder wire	• The installation of the feeder wire has been completed, however, completion of the snag list is outstanding
		4	Completion of Bosmanskop new DC substation	• The substation structure has been completed and handed over for operations
		4	Completion of Rietvleirus to Ermelo substation feeder wire	• The installation of the feeder wire has been completed, however, the snag list completion is outstanding
		4	Completion of Saaiwater consolidation yard	• The construction of the Saaiwater consolidation yard has been completed, and site handed over for operations
		4	Completion of Broodsnyersplaas–Gelukplaas feeder wire	• The installation of the feeder wire was initiated, but has not been completed
4. DCT Berth deepening	Completion of the project execution milestone	1	Marine package issued to market	• Marine package issued to market in time
		2	Marine tender adjudication commenced	• Marine tender adjudication commenced
		3	Marine tender adjudication progress	• Tender adjudication process completed
		3	Issue tender to market – temporary facilities	• Temporary facilities tender issued to market
		4	Completion of electrical overlaps in Vryheid East – commence tender evaluation and acquisition report for the marine package and temporary facilities	• The tender evaluation report for the marine package and the temporary facilities completed

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Annexure B: Capacity creation continued

Project	Key performance indicator	Q	2018 milestone target	2018 milestone actuals
5. Reconstruction of sheet pile quay walls at Maydon Wharf	Completion of the project execution milestone	1	Completion of Berths 3 and 4 piling	• Piling on both Berths 3 and 4 completed
			Berth 12 – deepening and scour commence	• Deepening and scour work at Berth 12 commenced on time
		2	Completion of Berths 3 and 4 stormwater infrastructure	• Berths 3 and 4 stormwater infrastructure completed
			Berth 12 – deepening and scour progress	• Berth 12 – deepening and scour completed
		3	Berths 3 and 4 cope construction and backfill	• Berths 3 and 4 cope construction and backfill completed
			Berth 12 handover to client	• Berth 12 deepened and handed over to client in quarter 4
		4	Completion of Berths 3 and 4 dredging and scour	• Dredging and scour placing and levelling completed for Berth 3 (block 7 – 9) and Berth 4 (block 10 – 12)
Infrastructure projects in planning				
6. Manganese Rail phase 2	Completion of the project execution milestone	1	Develop execution strategy for FEL2/3 inclusive of FEL4 considerations for optimised scope	• FEL 2/3 execution strategy was completed in quarter 2
		2 & 3	Conduct specialist studies for optimised engineering scope (topography site and cadastral surveys, environment baseline, GI, EA, social impact study, land acquisition, level crossings, and stakeholder engagement)	• Topography survey awarded • Scope still being defined for crossing loops and yards, therefore other specialist studies can only commence once the various footprints are frozen
			Conduct FEL2/3 engineering design for optimised scope	• Engineering team fully mobilised for FEL2 validation. FEL2 engineering is under way, with a FEL2 gate review planned for quarter 1 in the new financial year
		4	Independent technical review and gate review of FEL3 – optimised scope	• The capital-optimised scope ORS (owner's requirement specification), operational design/model and operational readiness plan are routing for approval • Gate review not completed
			Finalise revised scope of FEL3	• FEL3 activities can only commence once the peer review has been finalised

Project	Key performance indicator	Q	2018 milestone target	2018 milestone actuals
7. Manganese Port	Completion of the engineering milestone	1	Develop execution strategy for FEL2/3 inclusive of FEL4 considerations for optimised scope	• FEL 2/3 execution strategy was completed in quarter 2
		2 & 3	Conduct specialist studies for optimised engineering scope (topography, site and cadastral surveys, environment baseline, GI, EA, social impact study, land acquisition, level crossings, stakeholder engagement)	• Topography survey completed • Geotech bid documents prepared; other studies will be undertaken with specialised external service provider design team
			Conduct FEL2/3 engineering design for optimised scope	• Internal engineering design initiated; specialised design bid documents and preparations under way
		4	Independent technical review and gate review of FEL3 – optimised scope	• The gap analysis report for the Manganese Port project is completed; preparations for works information for the new optimised scope is also complete
			First tranche payment to CDC for port terminal land as per fifth supplementary agreement	• The final approval of the memorandum authorising the first tranche payment was not finalised in time, thus the payment was not processed in time
			Finalise revised scope FEL3	• Scope finalised and approved by steering committee
Rolling stock projects				
8. 1 064 projects	Capital expenditure spend on 1 064 locomotives projects (R million cumulative)		7 000	• 7 252 (number of locomotives accepted into operations for 2018 – 205)
Operation Phakisa projects				
9. Off-shore supply base (OSSB) facility	Completion of the planning milestone	1	Operator attends to suspensive conditions and commences initial operational services	• Milestones not achieved • National Ports Authority is about to sign an agreement with an OSSB operator
		2	Operator attends to suspensive conditions and ramps up operational services	
		3	OSSB operational at the committed service mix and service levels	
		4	OSSB facility fully operational	

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Annexure C: Operational excellence

Key performance area	Key performance indicator		Unit of measure	2018 target	2018 actual
Business growth	Volume growth	Freight Rail total volumes	million tons	≥228,0	**226,3**
		General freight	million tons	≥91,0	**90,8**
		General freight	NTK	≥51 936	**55 602**
		Eskom coal	million tons	≥15,10	**12,34**
		Natcor – containers	TEUs	≥380 000	**436 911**
		Capecor – containers	TEUs	≥47 500	**64 493**
		Intermodal (automotive)	units	≥202 857	**209 528**
		Pipelines volumes	billion litres	≥17 564	**16 345**
	External revenue	Engineering cross-border sales	R million	≥1 250	**253,6**
		Cross-border volumes	million tons	≥9,17	**9,27**
Operational efficiency and productivity	Rail efficiency	General freight	GTK/routekm	≥5,80	**5,15**
		Natcor	GTK/routekm	≥11,10	**9,8**
		Capecor	GTK/routekm	≥6,20	**5,97**
		Southcor	GTK/routekm	≥5,75	**5,75**
	Efficiency	Locomotives	NTK/locomotives in active fleet	≥3 450 000	**3 513 815**
		Wagons	NTK/wagons in active fleet	≥76 350	**86 268**
Operational efficiency and productivity	Container moves per ship working hour	DCT Pier 1	number	≥50	**46**
		DCT Pier 2		≥64	**53**
		CTCT		≥56	**45**
		NCT		≥66	**50**
	Train turnaround time	DCT Pier 1	hours	≤4,0	**2,4**
		DCT Pier 2		≤4,0	**2,2**
		CTCT		≤4,0	**1,1**
		NCT		≤4,0	**3,9**
	Average anchorage waiting time	DCT Pier 1	hours	≤28	**42**
		DCT Pier 2		≤36	**79**
		CTCT		≤28	**34**
		NCT		≤28	**42**
	Average ship turnaround time	DCT Pier 1	hours	≤55	**69**
		DCT Pier 2		≤53	**72**
		CTCT		≤27	**32**
		NCT		≤28	**38**
	Market share growth	GFB	RAMS % NTK	≥31	**31**
		Intermodal (containers and vehicles)	RAMS % NTK	≥15	**24**
	Maritime connectivity		index	≥37,1	**37,4**

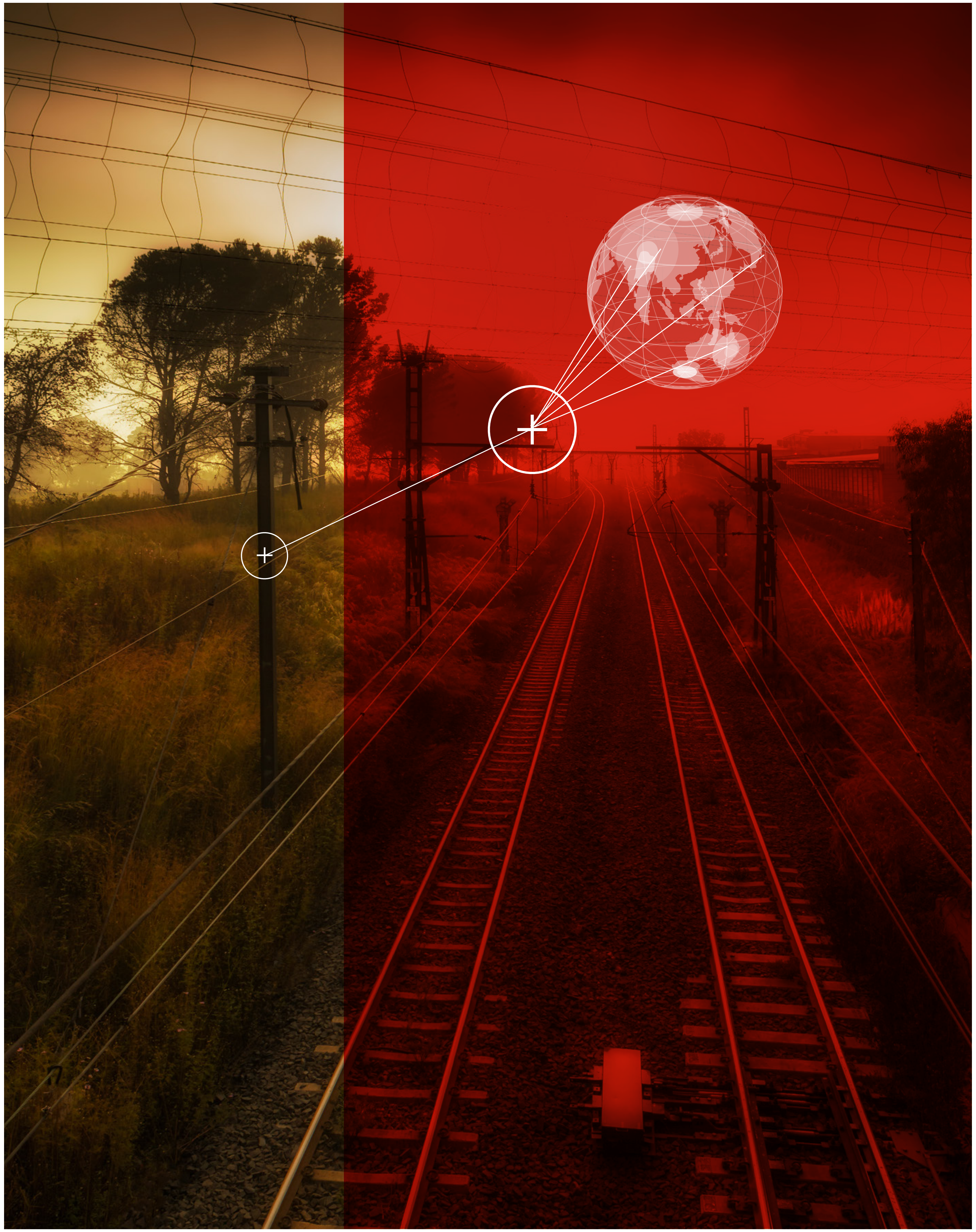
Annexure D: Socio-economic development outcomes

Key performance area	Key performance indicator	Unit of measure	2018 target	2018 actual
Skills development	Artisan trainees	number of trainees	≥160	**202**
	Engineering trainees		≥80	**100**
	Technician trainees		≥160	**201**
	Sector-specific		≥764	**1 516**
	Headcount trained	%	≥26	**65**
Health and safety	DIFR (all operating divisions)	total ratio	≤0,75	**0,73**
Integration (regional, continent and global)	Number of cross-border transactions concluded	number	≥5	**5**
Community development	CSI spend	R million	≥225	**219**
Environmental stewardship	Group weighted energy efficiency (electricity and fuel) year-on-year improvement (%)	%	≥0,83	**0,82**
	Carbon emission intensity ($kgCO_2$/ton) reduction year-on-year improvement	%	≥0,85	**2,66**
Investment leveraged	Number of branch lines transactions concluded	concluded transactions	≥2	**3**
	Number of public service provider transactions concluded	concluded transactions	≥3	**—**

Annexure E: Industrialisation

Key performance area	Key performance indicator	Unit of measure	2018 target	2018 actual
Industrial capability building	Research and development spend (Engineering)	R million	≥216	**147**
	Skills development	% of SD value*	≥4	**7,62 (Actual spend for 2018 is 12,39%)**
	Local spend	% of total spend	≥75	**82,16**
	SD value	% of contract value subject to SD*	≥39	**46,07 (Actual spend for 2018 is 12,75%)**
	Technology transfer/intellectual property	% of SD value*	≥1,25	**1,24 (Actual spend for 2018 is 0,93%)**
	Investment in plant	% of SD value*	≥5	**7,61 (Actual spend for 2018 is 14,99%)**
Transformation	Black women-owned	% of TMPS	≥5	**31,44**
	Black-owned		≥15	**41,9**
	Black youth-owned		≥2	**0,76**
	Qualifying Small Enterprises		≥5	**9,06**
	Exempted Micro Enterprises		≥7	**8,32**
	People living with disabilities		≥0,125	**0,08**
	B-BBEE		≥70	**86,88**

** Unit of measure is a cumulative obligation since inception of the Competitive Supplier Development Programme.*



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Remuneration report

Introduction

The remuneration report provides an overview of the Transnet remuneration philosophy and strategic intent. It also aims to provide detail of specific reward interventions that occurred during the 2018 reporting period.

Terminology

For the purposes of this report:
- The term executives refers to members of the Transnet Group Leadership Team (GLT) and the Operating Divisions' leadership teams (grade levels A and B);
- Management refers to the rest of the management employees (grade levels C to F);
- Bargaining unit employees refers to all employees whose conditions of employment are negotiated. This term includes first-line managers, specialists and technicians (grade level G refers to first-line managers, specialists and technicians, and grade levels H to L to the rest of the bargaining unit employees); and
- Junior employees refer specifically to bargaining unit employees on the grade levels below the first-line managers, specialists and technicians.

Remuneration philosophy

Transnet is on the brink of a technological revolution that will fundamentally alter the way we live, work and relate to one another. The 4th Industrial Revolution is characterised by a fusion of technologies that are poised to disrupt almost all industries and transform systems of production, management and governance. The Transnet 4.0 Strategy is focused on repositioning Transnet for competitiveness in the fast-changing, technology-driven context of the 4th Industrial Revolution.

The human resources strategy, inclusive of the reward strategy, is designed to facilitate and support the achievement of the strategic objectives of the Transnet 4.0 Strategy, as well as the strategic thrusts of being agile, admired, digital and united.

The Transnet remuneration philosophy and framework, as approved by the Remuneration, Social and Ethics Committee of the Board from time to time, form an integrated part of the key deliverables of the human resources strategy and therefore the reward strategies remain focused on entrenching a performance-driven culture.

Any reward-related concern raised by the Shareholder will be brought to the attention of the Board which will consider the issue and endeavour to mitigate the risk (if applicable).

The total reward approach within Transnet is integrated into its people management processes (such as transformation, performance management, recognition, learning and development and talent management) and forms an integral part of the Transnet Employee Value Proposition.

The objective of the Transnet remuneration philosophy is to:
- Align remuneration strategy and practices with Transnet's mandate, vision and business strategy;
- Ensure an integrated approach for remuneration management across Transnet that effectively attracts, motivates, engages and retains the talent required to achieve Transnet's business objectives; and specifically to:
  - Contain remuneration-related costs;
  - Support a high-performing organisation through the recognition and reward of superior performance;
  - Accommodate flexibility and responsiveness to changing business requirements;
  - Achieve optimal return on expenditure;
  - Adhere to legal, statutory, ethical and best practice standards;
  - Ensure the long-term sustainability of the business;
  - Comply with corporate governance and citizenship; and
  - Comply with employment and tax legislation.
- Endeavour to ensure that remuneration and incentive policies and practices are concise, void of complexity and easily understandable.

The remuneration philosophy for Transnet is approved by the Remuneration, Social and Ethics Committee of the Board and will be available on the Transnet intranet. The Transnet Delegation of Authority Framework governs all approvals in terms of remuneration across Transnet.

The remuneration philosophy for Transnet takes into account the different hierarchical levels informed by complexity, decision-making and judgement.

Transnet has clustered these hierarchical levels into three respective categories of employees, summarised as follows:
- Executive and management levels;
- First-line managers, specialists and technicians (grade level G) form part of the bargaining unit; and
- Junior employees (grade levels H to L) form part of the bargaining unit.

The different reward elements are discussed in detail in the following paragraphs:

Guaranteed pay

Transnet remains committed to fair remuneration practices that support the business objectives and create a culture and environment for superior performance and facilitate employee development and retention of critical and key skills.

In general, Transnet strives to align guaranteed remuneration with the market median. The determination of individual remuneration levels is, however, strictly controlled across the business and subject to directives in this regard and also informed by the various collective agreements.

Report of the directors

for the year ended 31 March 2018

In determining the annual mandate for guaranteed pay increases, various factors impacting the guaranteed pay are considered.

These factors include:

- The national economic and business outlook;
- External market predictions and history of market movements and increases granted;
- National and internal staff turnover rates;
- External parity (market benchmarks) based on market median;
- Internal parity; and
- Affordability.

Annual salary increases are approved by the Remuneration, Social and Ethics Committee of the Board.

Annual increases for management levels are informed by individual performance ratings.

Increases occur once annually or in the event of a promotion. Transnet does not support interim/ad hoc salary increases.

Transnet concluded a three-year wage agreement with the recognised labour unions, which expires at the end of the 2017/18 reporting period. The three-year wage agreement provided labour stability during the period and allows the opportunity for employees to focus on the achievement of the Transnet strategic objectives.

The graph below depicts the increases differentiated between executive management and bargaining unit compared to CPI for the past three years.

Benefits

It is compulsory for all permanent employees to join the Transnet Retirement Fund, which provides for retirement funding, risk cover and a death benefit.

The total contribution to the Transnet Retirement Fund is 19,5%, consisting of an employer contribution of 12,0%, which covers the risk and death benefit portion, and an employee contribution of 7,5%.

Permanent bargaining unit employees, who opt to become a principal member of one of the Transnet recognised medical schemes, are eligible to receive a medical subsidy.

Permanent bargaining unit employees receive a guaranteed amount as a housing allowance.

The housing allowance, as well as the medical subsidy, increases on an annual basis as per the wage agreement.

Individual performance management

Transnet has an overall performance framework which is aligned with the Statement of Strategic Intent and the Shareholder's Compact. The framework is annually translated into a Transnet scorecard, the scorecard of the Group Chief Executive and then cascaded to all managers.

The balanced scorecard performance management methodology is well entrenched across the business and is utilised for the management category as well as for first-line managers, specialists and technicians.

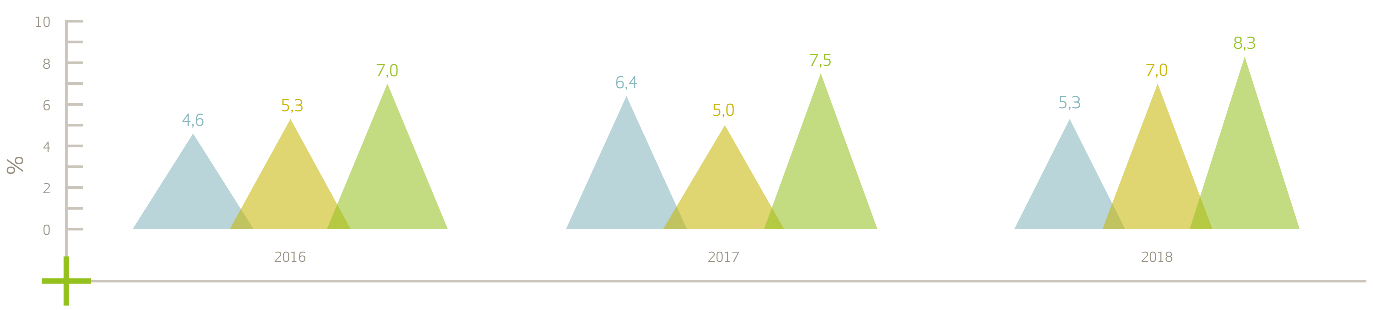
On an annual basis, the individual performance ratings of managers are ratified to ensure alignment of individual performance with the overall Transnet and Operating Division-specific performance.

Performance in terms of the corporate as well as individual scorecards forms the basis for the determination of short-term incentive payments and annual increases.

During the reporting period, Transnet has also successfully implemented individual performance management for junior employees. The performance management is based on business and team performance objectives and measurements, as well as an individual component focusing on behavioural factors within the employee's control, such as attendance, discipline and safety. This approach ensures that employees have clear visibility of their contribution to business drivers within the value chain.

The performance management score is utilised to inform the annual salary progression payment and the individual component of the performance score impact on the value of the short-term incentive payment. This ground-breaking intervention is in line with Transnet's drive to create a high-performance culture.

Annual increase vs CPI



Performance management for the GLT

Transnet remains focused on achieving a high-performance culture and uses the balanced scorecard methodology and framework as part of the Group's strategic management process and integrates this with performance management.

Each GLT member has an individual scorecard with objectives and measures which are derived from the overall Transnet performance scorecard as translated from the Transnet Performance Framework. The performance objectives of each GLT member are aligned with the business strategy. The achievement of set performance objectives and targets reward them for their contribution to the success of Transnet.

The members of the GLT are subject to rigorous quarterly performance assessments to track progress and to timeously address any deviations from the plan.

The graph below depicts the performance ratings of the members of the GLT over the past two financial periods compared to the overall performance rating of the Company.

Remuneration for the GLT

Leadership plays a critical part in achieving the Company's mission of delivering outstanding sustainable value to stakeholders. The goal for every employee at Transnet is to develop a challenging career with opportunities for growth, competitive rewards and a balance between work and home life.

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

The main principles underpinning Transnet's approach to senior and executive management are:

- Utilisation of talent management as a strategic business driver to build individual capability in response to organisational capability needs;
- A differentiated approach for key talent to ensure high-quality people in high-leverage/mission-critical positions;
- Leadership development;
- Redeployment opportunities in line with succession plans are critical for development and retention;
- Individual growth and career path development;
- Equitable remuneration; and
- Reward for superior performance.

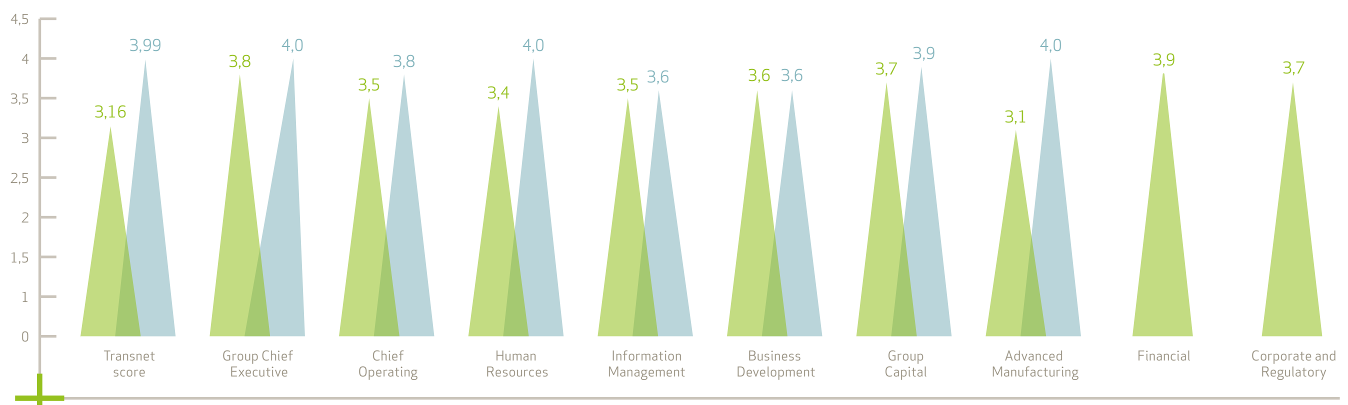
Transnet is committed to encouraging diversity in the workplace and in society and practises equal opportunity in all hiring and promotions, and will help to expand employment opportunities within South Africa. Transnet is further committed to the creation, facilitation and development of an organisation that supports the equality of all South Africans.

The issue of the wage gap is not unique to SOCs or even South Africa, but is an international discussion point. Transnet is concerned about the wage gap. However, the bigger challenge Transnet faces is to expand skills, organise work more productively and increase volumes. If Transnet is able to address this challenge, it will have a direct impact on the growth of the economy to ensure employment opportunities across the country.

Transnet continuously strives to become an employer of choice and regards its employees as the most valued asset of the business. The aim is to pay fairly for responsibility exercised and results achieved.

Annual guaranteed pay increases for the members of the Transnet executive teams are informed by market movement. Transnet annually conducts an executive remuneration benchmark exercise to compare the remuneration of the executive teams with the external market.

Performance ratings for GLT



Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

Report of the directors
for the year ended 31 March 2018

Transnet utilises the *Deloitte SA Guide to Executive Remuneration and Reward*, a national remuneration survey published annually by Deloitte Consulting.

Up to the current reporting period, it was the intent to reach the market median, i.e. the 50th percentile of the market. Transnet, however, strives to pay its members of the GLT at the 75th percentile of the market. To achieve this objective, special interventions by the Remuneration, Social and Ethics Committee will have to be applied in order to reach the 75th percentile within the next two years.

The graph below depicts the actual guaranteed remuneration of the GLT against a 75th percentile of the market; the current remuneration of the leadership ranges between 63% and 90% of the 75th percentile.

For further details on the guaranteed pay for the Transnet GLT for the reporting period, refer to Annexure H.

Variable pay

Variable pay is informed by Transnet's financial performance. The incentive pool funds all incentive payments, i.e. the short-term incentive payments as well as long-term incentive conditional awards.

The following conditions regulate incentive provisions:
- Year-on-year improvement in actual EBITDA achievement;
- The Group not breaching key debt covenant ratios;
- The Group not being placed in financial distress; and
- The payment of the incentive bonus does not result in a net loss after tax for the reporting period.

Transnet's financial results for the period ended 31 March 2018 reflect exceptional performance despite the challenges faced during the year, such as the South Coast storms experienced during October 2017 and the local and foreign currency ratings downgrade to sub-investment levels by the credit rating agencies.

EBITDA generated at the end of the reporting period increased from R28,6 billion to R35,0 billion, an increase of 22,4% (excluding incentive provision).

Based on the ground rules of the scheme, the calculated value of the bonus pool for the reporting period equates to R3 589 million.

An incentive provision exceeding R2 512 million will result in a breach of the cash interest cover requirement of ≥3,0 times, which is a condition of the foreign borrowing limit approved by National Treasury during February 2018. Management has, therefore, limited the incentive provision to R2 512 million (70% of the calculated pool) in order not to breach any of the requirements.

EBITDA increased by 18,0% to R32,5 billion (after providing for the proposed incentive bonus), with a resultant increase in the EBITDA margin to 44,6% compared to 42,1% in the previous year.

All conditions for the payment of the incentive bonus have been met at the end of the reporting period. The incentive pool funds both the short- and long-term incentive schemes.

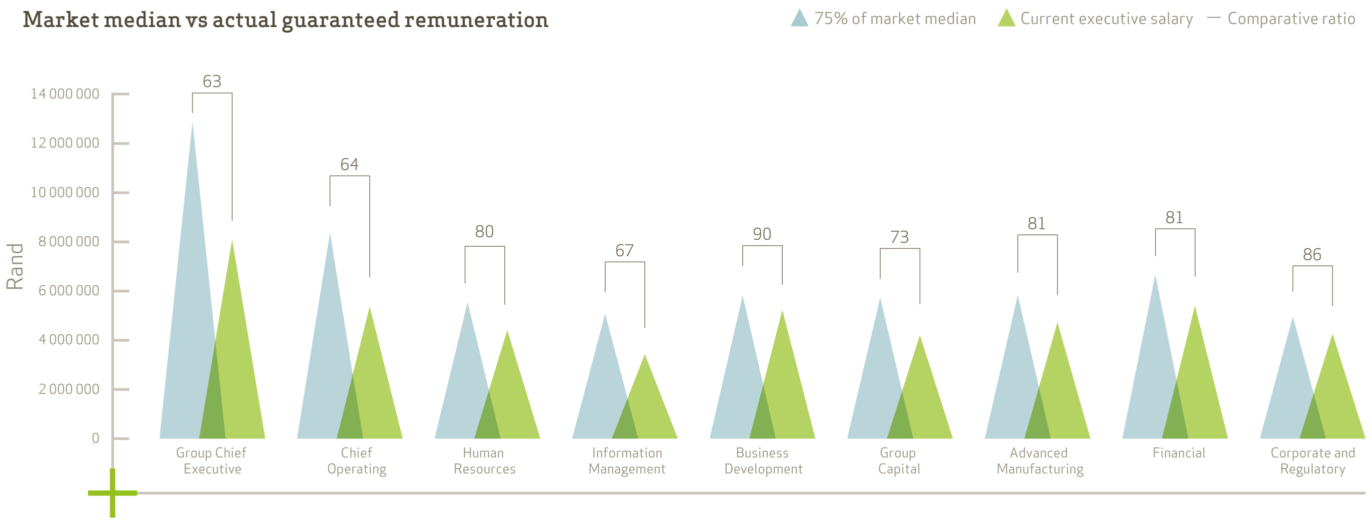
Short-term incentive scheme

The Transnet short-term incentive scheme is well entrenched and designed with the specific objective to drive the achievement of stretch business targets and to reward employees for this effort. In addition, the design of the scheme focuses on integration of the total business and increased customer service.

Annual incentive payments relate to performance achieved against annual objectives consistent with long-term value for the Shareholder. Individual and corporate performance targets, both financial and sustainability-related, are tailored to the needs of the business and reviewed regularly to ensure they remain appropriate.

Transnet shares the Company performance with labour at the

Market median vs actual guaranteed remuneration



Note: Chief Financial Officer and Chief Corporate and Regulatory Officer resigned.

strategic leadership forum, as well as the Transnet employees at large who have a legitimate expectation for a bonus payment based on the approved rules of the scheme and the Company achievements for the reporting period.

The bonus pool is distributed based on the results from measures related to the Operating Division productivity and safety achievements as derived from the Shareholder's Compact and Corporate Plan, as well as the employee's individual performance score.

Transnet has a robust individual performance management system and the balanced scorecard methodology is well established for the management cadre. Transnet also has a ratification process to ensure that individual performance scores are aligned with the overall Operating Division and Transnet performance.

The performance system is based on a five-point rating scale. Employees with an individual performance score of below 2 are not eligible to receive an incentive payment.

Long-term incentive scheme

Transnet has implemented a long-term incentive scheme to sustain the achievement of the Transnet strategy, to retain key talent who ensure the success of the strategy, to continuously encourage stretch performance and to reward performance above target.

The long-term incentive conditional award to eligible participants is banked over a three-year period to ensure sustained business performance and retention of key talent over the banking period. Participation in the scheme is informed by level of seniority, i.e. grade level in the organisation, individual performance as well as results from the talent management framework. Following the completion of the three-year banking period, the vesting payment is also subject to individual performance- and talent-rating criteria. The banked long-term incentive amounts accrue interest over the three-year banking period.

The long-term incentive scheme has specific clauses dealing with Company performance over the banking period and to this effect a group modifier has been introduced. The measure of return on total average assets (ROTA) (excluding capital work in progress) is used as the Group long-term incentive modifier.

The 2015 conditional award in respect of the Transnet long-term incentive scheme vested at the end of the reporting period. The value of the long-term incentive payment is impacted by the level of achievement of specific Company and individual performance objectives.

The members of the Transnet GLT were eligible for payment in respect of the long-term incentive scheme based on the ground rules of the scheme.

Remuneration structure for non-executive directors

Non-executive directors are appointed by the Shareholder Representative for a three-year term. Transnet's Memorandum of Incorporation, however, requires that the non-executive directors be submitted for re-election for each of the three years at the Company's annual general meeting.

Among the issues considered by the Shareholder Representative prior to re-election is the individual non-executive director's performance.

The Shareholder Representative approves, in advance, the fees payable to non-executive directors. The non-executive directors are paid an annual retainer as well as an additional retainer fee for committee membership; they are not paid for attendance of meetings.

Fees paid to non-executive directors are differentiated based on their appointments to the various committees of the Board.

For further details on the actual remuneration for the Transnet non-executive directors for the reporting period, refer to Annexure H.

Remuneration, Social and Ethics Committee of the Transnet Board

The Transnet Board has established the Remuneration, Social and Ethics Committee to assist in discharging its responsibilities. The mandate outlining the authority delegated to it by the Board includes the purpose of the Remuneration, Social and Ethics Committee, composition, reporting responsibilities, terms of reference and the right of any member to seek and be provided with independent advice, at the Company's expense, if such member considers that necessary for the effective execution of his/her fiduciary duties to the Company.

The committee has an independents role, operating as an overseer and a maker of recommendations to the Board for its consideration and final approval. In addition, the committee has the role to ensure that remuneration and incentive policies and strategies are aligned with the Shareholder's Compact, as well as organisational and individual performance.

The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

Accounting policies

for the year ended 31 March 2018

Transnet SOC Ltd (the Company) is a company domiciled in South Africa.

The consolidated financial statements for the year ended 31 March 2018 comprise the Company and its subsidiaries (the Group) and the Group's interest in associates and joint ventures.

The consolidated financial statements were authorised for issue by the Board of Directors on 2 August 2018.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and applicable legislation.

Critical judgements and estimates

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

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

Judgements, estimates and assumptions that have a significant effect on the financial statements are disclosed in the relevant notes to the annual financial statements.

Summary of significant accounting policies

Basis of preparation

The consolidated financial statements are presented in South African Rand, which is also the Company's functional currency, rounded to the nearest million. The financial statements are prepared on the going-concern basis using the historical cost convention, except for certain financial instruments, investment property and assets held-for-sale, which are stated at fair value, and certain classes of property, plant and equipment which are measured at revalued amounts.

Except as otherwise disclosed, these accounting policies are consistent with those applied in previous years and are consistently applied throughout the Group.

Basis of consolidation

Subsidiaries

Subsidiaries (including structured entities) are entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The consolidated financial statements include the results of subsidiaries from the effective date of acquisition to the effective date of disposal.

The Group applies the acquisition method to account for business combinations. The cost of acquisition for a subsidiary is the fair value of the assets transferred, the liabilities incurred to the previous owners and equity interests issued by the Group. Acquisition-related costs are expensed as incurred.

Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence that the asset transferred is impairment.

Investments in equity-accounted investees

Associates

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

Joint ventures

A joint venture is a contractual arrangement whereby the Group and another party undertake an economic activity that is subject to joint control, i.e. where decisions about the relevant activities require the unanimous consent of the parties sharing control and the parties to the joint venture have rights to the net assets of the arrangement.

Investments in equity-accounted investees are accounted for under the equity method in the consolidated financial statements. The investments are measured at cost, including goodwill, plus the Group's share of post-acquisition reserves less any accumulated impairment losses.

Unrealised profits and losses on transactions with equity-accounted investees are eliminated to the extent of the Group's interest in the equity-accounted investees, except to the extent that unrealised losses provide evidence that the asset transferred is impaired.

Separate financial statements

In the Company's separate financial statements, investments in subsidiaries and equity-accounted investees are measured at cost less any accumulated impairment losses.

Revenue

Revenue is recognised at the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities, net of rebates, returns, discounts and value-added tax.

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

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

Rail freight

Revenue from rail freight and related services is recognised when the service is rendered by reference to the stage of completion as freight moves from the point of origin to destination or in accordance with agreed contractual terms.

Engineering contracts

Revenue arising from engineering contracts, including manufacturing and maintenance services, is recognised when the outcome of the contract can be measured reliably by reference to the stage of completion of the contract. Revenue includes the initial contract amount plus variations in contract work, claims and incentive payments receivable less penalties incurred to the extent that it is probable that they will result in revenue and can be measured reliably.

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

Ports

The Group provides the following services at various commercial ports:

Infrastructure and maritime services

Revenue comprises port dues, light dues, vessel traffic services, berthing services, towage and pilotage, and similar services related to the provision of port infrastructure and facilities to customers at ports.

Cargo handling

Revenue comprises handling of cargo, storage and other services related to the handling and processing of cargo through port terminals.

Revenue is recognised in the period in which the service is rendered or by reference to the stage of completion assessed on the basis of actual service provided as a proportion of the total service to be provided.

Pipelines

Revenue from the transportation of petroleum and gas products is recognised at the point of delivery in the period in which the service is rendered, based on the contractual terms and the related volumes transported. Revenue from the storage and handling of petroleum products is recognised when services are rendered over the period of the contract.

Revenue clawback adjustment

Two of the Group's Operating Divisions, namely Transnet National Ports Authority and Transnet Pipelines, are regulated by the Ports Regulator of South Africa and National Energy Regulator of South Africa (Nersa) respectively. Both regulators apply the required revenue approach and the clawback mechanism in setting allowable revenue and tariffs.

The recognition of revenue reflects the economic impact of the regulators' decisions regarding future revenue and tariffs through the clawback mechanism.

The Group adjusts its revenue to reflect the under- or overrecovery of revenue in the current period that is expected to be recovered or clawed back by the regulator in determining the allowed revenue and tariffs for future periods. The Group recognises an asset or a liability for the difference between the revenue received or receivable and the allowed revenue set by the regulator in the current and prior periods, less allowable expenditure incurred in generating the revenue. The asset or liability is subsequently released as an adjustment to revenue in the periods in which the regulator claws back the amounts through tariff adjustments. The adjustment to revenue is not discounted.

The net effect of over- and underrecovery is disclosed as other liabilities in the statement of financial position.

Rental income

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

Dividend income

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

Government grants

Government grants are recognised at fair value when there is reasonable assurance that the grant will be received and all relevant conditions will be complied with.

Where the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Accounting policies
for the year ended 31 March 2018

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

Finance income

Finance or interest income is recognised on an accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest method, amortisation of discounts on bonds and foreign exchange gains or losses, less amounts capitalised to qualifying assets.

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

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

Foreign currency

Foreign currency transactions

Transactions in currencies other than the Company's functional currency are defined as foreign currency transactions. Transactions in foreign currencies are translated into Rand at exchange rates ruling on transaction date or at the average rate of exchange for transactions that occur regularly throughout the year.

Monetary assets and liabilities denominated in foreign currencies are translated into Rand at the rate of exchange ruling at the reporting date. Non-monetary items measured at historical cost in a foreign currency are translated at the exchange rates ruling at the original transaction date, while those items measured at fair value are translated at the exchange rate ruling when the fair value was determined.

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

- Exchange differences relating to assets under construction which are included in the cost of those assets to the extent they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on hedges of foreign currency risk – see below under "Derivative instruments and hedge accounting"; and
- Exchange differences on monetary items receivable from or payable to a foreign operating entity for which settlement is neither planned nor likely to occur, which form part of the net investment in the foreign operation and are initially recognised in the foreign currency translation reserve and subsequently recognised in profit or loss on disposal of the investment.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of related hedges, where hedge accounting is applied, are recognised in equity. Upon disposal, the translation differences are recognised in profit or loss as part of the gain or loss on disposal.

Income tax

Income tax on profit or loss for the period comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case the tax is also recognised in equity.

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognised if it arises from the initial recognition of goodwill, the initial recognition of assets and liabilities, other than in a business combination, which affect neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries, associates and joint ventures to the extent that it is probable they will not reverse in the foreseeable future.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that it will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets and liabilities, by applying tax rates that have been enacted or substantively enacted at the reporting date.

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

Property, plant and equipment

Recognition and measurement

Property, plant and equipment is initially recognised at cost, and subsequently stated at cost or revalued amount less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition or construction of an asset including, where applicable, cost of materials, direct labour, an appropriate allocation of overheads, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, capitalised borrowing costs and adjustments in respect of hedge accounting.

Where components of an item of property, plant and equipment have a cost that is significant in relation to the total cost of the item and have different useful lives, they are accounted for as separate components of property, plant and equipment.

Spare parts, and standby and servicing equipment are classified as property, plant and equipment if they are expected to be used during more than one period. Otherwise, they are classified as inventory.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of the item when it is probable that the future economic benefits will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is partially derecognised, subject to conditional assessment. All other repairs and maintenance costs are recognised as expenses when incurred.

Costs of major repairs and overhauls of property, plant and equipment are recognised as separate components of the asset if the recognition criteria are met.

Assets measured under the revaluation model

Rail infrastructure, pipeline networks, port infrastructure and port operating assets are measured at revalued amounts. Formal revaluations are performed every three years by independent experts applying internationally acceptable and appropriately benchmarked valuation techniques. Appropriate indices are applied in the intervening period to ensure that the assets are measured at fair value at the reporting date. The revaluation is limited to the lower of the fair value determined per the revaluation method or index and discounted future cash flows.

Revaluation surpluses are recognised in the revaluation reserve in equity, except to the extent that they reverse a revaluation decrease for the same asset previously recognised in profit or loss, in which case the surplus is credited to profit or loss. A revaluation decrease in the carrying amount of an asset is recognised as an impairment loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of the same asset.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is adjusted in a manner consistent with the revaluation of the carrying amount of the asset.

Depreciation

Depreciation is recognised through profit or loss on a straight-line basis over the estimated useful life, or the lease term if shorter, of each asset or component of an item of property, plant and equipment. Land and assets under construction are not depreciated.

Major repairs and overhauls are depreciated over the remaining useful life of the related asset or to the date of the next major repair or overhaul, if shorter. Depreciation commences when the asset is available for use. Assets are depreciated over the following periods:

Asset class	Years
Buildings and structures	10 – 50
Buildings and structure components	5 – 25
Permanent way and works	3 – 95
Rail infrastructure	3 – 95
Aircraft, including components	8 – 15
Pipelines, including network components	6 – 75
Port infrastructure	12 – 100
Floating craft, including components	5 – 40
Port operating equipment, including components	3 – 40
Rolling stock	30 – 60
Rolling stock components	25 – 60
Containers	10 – 20
Vehicles	3 – 15
Machinery, equipment and furniture	3 – 50

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

Derecognition

Items of property, plant and equipment are derecognised when they are either disposed of or when no future economic benefits are expected to flow from their use or disposal. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is calculated as the difference between the sales proceeds (if any) and the carrying amount of the asset, and is recognised in profit or loss.

On disposal or retirement of a revalued asset, the revaluation surplus previously included in the revaluation reserve is transferred to retained earnings.

Investment properties

Recognition and measurement

Investment properties are properties held to earn rentals and/or for capital appreciation, including properties under construction for such purposes, and are initially measured at cost. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value are recognised in profit or loss in the period in which they arise.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any difference between the carrying amount of the item immediately prior to transfer and its fair value is treated as a revaluation in accordance with the accounting policy on revaluation of property, plant and equipment.

Accounting policies
for the year ended 31 March 2018

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

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes (owner-occupied). If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the different portions separately as investment property or property, plant and equipment. If the portions are not separable, the entire property is only classified as investment property if an insignificant portion is owner-occupied; otherwise the entire property is classified as property, plant and equipment.

Derecognition

Investment properties are derecognised when they are either disposed of or permanently withdrawn from use and no future economic benefits are expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset on retirement or disposal is recognised in profit or loss.

Intangible assets

Software and licences

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

The cost of licences is amortised in profit or loss on a straight-line basis over the licence period. Costs of maintaining computer software programs are recognised as an expense as incurred.

Research and development

Expenditure on research to gain new technical knowledge and understanding is recognised as an expense when incurred.

Development expenditure on the production of new or substantially improved products or processes is recognised as an asset if the costs can be measured reliably, the products or processes are technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the product or process.

Cost includes expenditure on materials, direct labour and an allocated portion of project overheads. Development costs that do not meet the recognition criteria are recognised in profit or loss as incurred.

Amortisation

Intangible assets not yet available for use are not amortised and are measured at cost less accumulated impairment losses.

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

Asset class	Years
Software	5
Licences	licence period

Servitudes

Servitudes arising from a binding agreement are recognised as either a separate intangible asset or as part of the related item of property, plant and equipment – depending on whether the intangible or tangible asset is considered the more significant element of the combined asset.

Derecognition

Intangible assets are derecognised when they are either disposed of or when no future economic benefits are expected from their use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount of the asset on derecognition is recognised in profit or loss.

Impairment of non-financial assets

The Group's tangible and intangible assets, other than investment property, non-current assets held-for-sale, inventories and deferred tax assets are assessed for indicators of impairment at each reporting date. Indicators of impairment include factors such as a change in the use of the asset, technological obsolescence, physical damage, change in market conditions – including interest rates, change in the legal environment and other factors affecting the economic performance of the asset. If such indicators exist, the recoverable amount of the asset is estimated. Intangible assets not yet available for use are tested for impairment annually and whenever there are indicators of impairment.

Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The Group considers its operating divisions as separate cash-generating units.

If the recoverable amount of an asset or cash-generating unit is less than its carrying amount, the carrying amount is reduced to the recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the asset is measured at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of the balance in the revaluation reserve relating to the same asset. Impairment losses recognised in respect of a cash-generating unit are allocated to reduce the carrying amount of the assets in the cash-generating unit on a prorata basis.

Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs of disposal and its value-in-use. Fair value less costs of disposal is the current market value of the asset less any costs relating to the realisation of the asset.

In assessing the value-in-use, the expected future cash flows from the asset are discounted to their net present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flows have not been adjusted.

Reversal of impairment

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

Financial instruments

Recognition

A financial asset or financial liability is recognised when the Group becomes party to the contractual provisions of the instrument. The Group applies trade date accounting for 'regular way' purchases and sales of financial assets.

Classification

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets held-for-trading, financial assets specifically designated into this category on initial recognition and derivative instruments.

Loans and receivables

Loans and receivables comprise trade and other receivables, and cash and cash equivalents.

Held-to-maturity financial assets

Held-to-maturity financial assets include long-term loans and advances and investments with fixed and determinable payments and maturity, including repurchase agreements, that the Group has the positive intention and ability to hold to maturity, other than assets included in the other categories above.

Measurement

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

The fair value of financial instruments is based on quoted market prices, if available, or valuation techniques, such as the discounted cash flow model, that reflect the specific economic circumstances of the instrument which the market would consider is assessing its fair value.

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

Financial assets

At fair value through profit or loss

After initial recognition, financial assets classified at fair value through profit or loss are measured at fair value. Gains or losses which represent fair value adjustments as a result of the mark-to-market of the instruments, including interest and gains or losses on derecognition, are recognised in profit or loss in the fair value adjustments line.

Loans and receivables and held-to-maturity financial assets

Assets classified under these two categories are subsequently measured at cost or amortised cost using the effective interest method, less impairment losses. Amortised cost is calculated taking into account transaction costs and any discount or premium on acquisition or settlement. Gains or losses which include interest, impairment losses and gains or losses on derecognition are recognised in profit or loss.

- **Trade and other receivables**
  Trade and other receivables which generally have 30- to 90-day credit terms are measured at amortised cost.

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

For the purposes of the statement of cash flows, cash and cash equivalents include bank overdrafts.

Financial liabilities

After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest method.

- **Trade payables and accruals**
  Liabilities arising from trade payables and accruals which are settled within normal credit terms are measured at amortised cost.

Financial liabilities at fair value through profit or loss

Gains or losses which represent fair value adjustments as a result of the mark-to-market of the instruments, including interest, and gains or losses on derecognition are recognised in profit or loss in the fair value adjustments line.

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for the year ended 31 March 2018

Financial liabilities at amortised cost

Gains or losses which represent interest expense, the amortisation of discounts or premiums, as well as any gains or losses on derecognition are recognised in profit or loss as finance costs.

Impairment of financial assets

An assessment is made at each reporting date of whether there is objective evidence that a financial asset or group of financial assets may be impaired. Objective evidence of impairment includes such factors as significant financial difficulty experienced by the debtor, breach of contract by the debtor, concessions granted to the debtor to restructure payment terms, and bankruptcy or financial reorganisation of the debtor. Evidence of impairment for a group of receivables includes the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

If evidence of impairment exists, the recoverable amount of the asset (or group of assets) is determined and an impairment loss is recognised as follows:

- Financial assets held at cost or amortised cost – the carrying amount of the asset is reduced through an allowance account to its estimated recoverable amount – being the present value of estimated future cash flows discounted at the original effective interest rate. Assets that are assessed not to be individually impaired are assessed for impairment on a collective basis.
- If, subsequently, the Group is satisfied that no recovery is possible, the amount is written off directly against the allowance account.

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

Derivative instruments and hedge accounting

The Group uses derivative financial instruments to hedge its financial risk exposure arising from operational, financing and investment activities.

In accordance with the Group's Financial Risk Management Framework, the Group does not trade in derivative financial instruments for speculative purposes.

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

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

Fair value hedges

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

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges is initially recognised in the cash flow hedging reserve in equity. The ineffective portion of the gain or loss is recognised immediately in profit or loss.

The amounts initially recognised in equity are reclassified to profit or loss in the period(s) in which the hedged item affects profit or loss and are included on the same line as the hedged item. If the hedged forecast transaction results in the recognition of a non-financial asset or liability, the gains or losses previously accumulated in equity are included in the initial cost of the asset or liability.

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

Derecognition

Financial assets, or a portion thereof, are derecognised when the Group's rights to the cash flows expire, when the Group transfers substantially all the risks and rewards related to the financial asset or when the Group loses control of the financial asset. On derecognition, the difference between the carrying amount of the financial asset and the proceeds receivable is recognised in profit or loss together with any fair value adjustment previously reported in equity.

Financial liabilities, or a portion thereof, are derecognised when the obligations specified in the contract are discharged, cancelled or expire. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and the settlement amount paid is recognised in profit or loss.

Offset

Financial assets and liabilities are offset and the net amount presented when the Group has a current legal enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Share capital

Issued share capital is stated at the amount of the proceeds received less directly attributable costs of issue.

Inventories

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

Cost is determined as follows:

- Raw materials and consumable stores are stated at weighted average cost; and
- Manufactured goods and work-in-progress are stated at the weighted average cost of raw material, direct labour and an allocated portion of overheads.

A provision for obsolescence is raised to write down inventory to net realisable value based on a physical count and inspection of inventory items which is performed at least annually and takes into account the age, condition and usage rates of the inventory.

The cost of inventories used during the period and changes in the provision for obsolescence are recognised in profit or loss.

Non-current assets held-for-sale

Non-current assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Immediately before classification as held-for-sale, the measurement of the assets is brought up to date in accordance with applicable IFRS. On initial classification as held-for-sale, non-current assets are recognised at the lower of their carrying amount and fair value less costs to sell.

Impairment losses on initial or subsequent write-down to fair value less costs to sell and gains on subsequent remeasurement are recognised in profit or loss. A gain on subsequent increase in fair value less costs to sell may not exceed the cumulative impairment losses previously recognised on the asset.

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

Where assets classified as held-for-sale are not disposed of within the one-year requirement of the standard, and management believes that the delay was caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the assets, such assets will continue to be classified as held-for-sale.

Employee benefits

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

Defined contribution fund

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

Defined benefit funds

The benefit costs and obligations under the defined benefit funds are determined separately for each fund using the projected unit credit method.

The service cost and net interest on the net defined benefit liability or asset are recognised in profit or loss. Where the benefits of a plan are amended or curtailed, the change in the present value of the net defined benefit obligation relating to past service by the employees is recognised in profit or loss in the period of the amendment.

Remeasurements of the net defined benefit liability or asset, comprising actuarial gains and losses, the effect of changes in the asset ceiling, where applicable, and the return on the plan assets, other than interest, are recognised in other comprehensive income in the period in which they arise.

The post-retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation less the fair value of any plan assets. An asset resulting from this calculation is recognised only to the extent of any economic benefits available to the Group in the form of refunds or reductions in the future contributions.

Post-retirement medical benefits

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

Short-term and long-term benefits

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

The Group's obligation in respect of long-term service benefits, other than pension plans and post-retirement medical benefits,

Accounting policies
for the year ended 31 March 2018

is recognised in profit or loss in the period in which the employee renders the related service.

Termination benefits

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

Leases

Leases of property, plant and equipment, where the Group assumes or retains substantially all the risks and rewards incidental to ownership, are classified as finance leases. All other leases are classified as operating leases.

Group as a lessee

Finance leases

Assets obtained under finance leases and the related liabilities are recognised on commencement of the lease term at the lower of the fair value of the asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

The interest element of the finance lease payment is recognised in profit or loss or capitalised to qualifying assets over the lease period if the relevant criteria are met. Contingent rentals are charged as expenses in the period in which they are incurred. Property, plant and equipment, acquired under a finance lease, is depreciated over the shorter of the asset's useful life and the lease term on a basis consistent with similar owned property, plant and equipment.

Operating leases

Payments made under operating leases, net of any incentives received from the lessor, including contracts with fixed escalation clauses, are recognised in profit or loss on a straight-line basis over the period of the lease.

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

Group as a lessor

Operating leases

Assets leased to third parties under operating leases are included in property, plant and equipment or investment property. Rental income, net of any incentives given to the lessee, is recognised in profit or loss on a straight-line basis over the lease term.

Provisions

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

The provision is recognised at the best estimate of the consideration required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where the effect of time value of money is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount in subsequent financial periods is recognised as an expense in profit or loss under finance costs.

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

Decommissioning liabilities

A provision for the dismantling and removal of an item of property, plant and equipment and restoring the site is recognised when the Group has a present obligation, legal or constructive, to decommission the asset and restore the site on which the asset is located and a reliable estimate can be made of the amount of the obligation.

The initial estimate of costs to decommission an asset, the obligation for which arises as a result of either having acquired or constructed the asset or as a consequence of having used the asset in the current and/or prior periods for purposes other than to produce inventories, is capitalised as part of the cost of the asset. Where the obligation arises as a result of having used the asset to produce inventories, the decommissioning costs are recognised as part of the cost of the inventory.

Environmental liabilities

In accordance with the Group's environmental policy and applicable legislation, a provision for environmental rehabilitation in respect of clean-up costs is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities

Contingent liabilities are not recognised in the financial statements, but are disclosed in the notes to the financial statements unless the probability of occurrence is remote.

Segment information disclosure

For management purposes, the Group is organised into five Operating Divisions, based on products and services, which form the basis for reporting segment information in accordance with IFRS 8 *Operating Segments*. The operating segments are identified based on internal reports that the GLT reviews regularly in allocating resources to segments and in assessing their performance. All the Group's major operations are located in the Republic of South Africa.

Transfer prices between operating segments are on an arm's-length basis, similar to transactions with third parties. Intersegment revenues are eliminated upon consolidation and reflected in the 'elimination of intersegment transactions' column of the segment report.

Irregular, fruitless and wasteful expenditure

Irregular expenditure is defined as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. When confirmed, irregular expenditure is disclosed in the notes to the financial statements, at the amount equal to the value of the irregular expenditure incurred unless it is impracticable to determine the value thereof. Where such impracticality exists, the reasons therefore are provided in the notes. Irregular expenditure is removed from the notes when it is either (a) condoned by the National Treasury or the relevant authority; (b) it is transferred to receivables for recovery; or (c) it is not condoned and is irrecoverable. A receivable related to irregular expenditure is only recognised in the financial statements when it is virtually certain that the payment will be received and the amount can be measured reliably.

Fruitless and wasteful expenditure is defined as expenditure which was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is recognised as expenditure in profit or loss in the period in which it is identified, and disclosed in the notes to the annual financial statements. The expenditure is classified in accordance with the nature of the expense. Fruitless and wasteful expenditure is removed from the notes to the financial statements when it is resolved or transferred to receivables for recovery. A receivable is only recognised in the financial statements when it is virtually certain that the payment will be received and the amount can be measured reliably.

Income statements

for the year ended 31 March 2018

Company 2017 R million	Company 2018 R million		Notes	Group 2018 R million	Group 2017 R million
65 440	72 887	Revenue	1	72 887	65 478
(37 883)	(40 232)	Net operating expenses excluding depreciation, derecognition and amortisation	2	(40 372)	(37 921)
27 557	32 655	**Profit from operations before depreciation, derecognition, amortisation and items listed below**		32 515	27 557
(13 471)	(13 686)	Depreciation, derecognition and amortisation	3	(13 686)	(13 471)
14 086	18 969	**Profit from operations before the items listed below**	4.1	18 829	14 086
(2 532)	(1 442)	Impairment of assets	4.2	(1 442)	(2 538)
1	9	Dividends received	4.3	—	—
(243)	(268)	Post-retirement benefit obligation expense	4.4	(268)	(243)
1 576	410	Fair value adjustments	5	410	1 576
		Share of profit from equity-accounted investees	13	9	20
12 888	17 678	**Profit from operations before net finance costs**		17 538	12 901
(9 051)	(10 211)	Finance costs	6	(10 211)	(9 045)
399	285	Finance income	7	302	409
4 236	7 752	**Profit before tax**		7 629	4 265
(1 496)	(2 771)	Income tax expense	8	(2 778)	(1 500)
2 740	4 981	**Profit for the year**		4 851	2 765

Statements of comprehensive income

for the year ended 31 March 2018

Company 2017 Restated* R million	Company 2018 R million		Notes	Group 2018 R million	Group 2017 Restated* R million
2 740	4 981	**Profit for the year**		4 851	2 765
		Other comprehensive income/(loss)			
669	8 442	Net items that will not be reclassified subsequently to profit or loss		8 442	669
869	11 707	Items that will not be reclassified subsequently to profit or loss		11 707	869
762	11 678	– Gains on revaluations		11 678	762
107	29	– Actuarial gains on post-retirement benefit obligations		29	107
(200)	(3 265)	Tax relating to components that will not be reclassified subsequently to profit or loss	8.1	(3 265)	(200)
(2 078)	(1 065)	Net items that may be reclassified subsequently to profit or loss		(1 065)	(2 078)
(2 887)	(1 471)	Items that may be reclassified subsequently to profit or loss		(1 471)	(2 887)
—	—	– Exchange differences on translation of foreign operations		—	—
(2 887)	(1 471)	– Losses on cash flow hedges		(1 471)	(2 887)
809	406	Tax relating to components that may be reclassified subsequently to profit or loss	8.1	406	809
(1 409)	7 377	**Other comprehensive income/(loss) for the year, net of tax**		7 377	(1 409)
1 331	12 358	**Total comprehensive income for the year**		12 228	1 356

* *Refer to note 36 for the restatements to prior year results.*

Disclosure of components of other comprehensive income for the year ended 31 March 2018

Company 2017 Restated* R million	Company 2018 R million		Notes	Group 2018 R million	Group 2017 Restated* R million
		Items that will not be reclassified subsequently to profit or loss			
591	**8 421**	**Net gains on revaluation reserve**		**8 421**	591
762	**11 678**	Gains on revaluations		**11 678**	762
347	**664**	– Gain on revaluation of pipeline networks	22	**664**	347
7 226	**3 279**	– Gain on revaluation of port facilities	22	**3 279**	7 226
(6 842)	**7 838**	– Gain/(loss) on revaluation of rail infrastructure	22	**7 838**	(6 842)
11	**(112)**	– Decommissioning restoration liability adjustment	22	**(112)**	11
6	**—**	– Net gain on revalsuation of land, buildings and structures	22	**—**	6
14	**9**	– Gain on revaluation of other investments	22	**9**	14
(171)	**(3 257)**	Tax effect of revalued items	8.1	**(3 257)**	(171)
78	**21**	**Net actuarial gains on post-retirement benefit obligations**		**21**	78
107	**29**	Actuarial gains on post-retirement benefit obligations	22	**29**	107
10	**14**	– Actuarial gain on the Transport Pension Fund: Transnet Sub-fund	32.1.2	**14**	10
(5)	**(4)**	– Actuarial loss on the Transnet Top Management Pensions	32.1.4	**(4)**	(5)
24	**5**	– Actuarial gain on the Transnet Workmen's Compensation Act pensioners	32.1.4	**5**	24
4	**(1)**	– Actuarial (loss)/gain on the Transnet SATS pensioners' medical benefits	32.2.1	**(1)**	4
74	**15**	– Actuarial gain on the Transnet employees' medical benefits	32.2.2	**15**	74
(29)	**(8)**	Tax effect of net actuarial gains	8.1	**(8)**	(29)
		Items that may be reclassified subsequently to profit or loss			
(2 078)	**(1 065)**	**Net loss on cash flow hedging reserve**		**(1 065)**	(2 078)
(2 887)	**(1 471)**	– Losses on cash flow hedges	22	**(1 471)**	(2 887)
809	**406**	– Tax effect of cash flow hedge losses	8.1	**406**	809
—	**—**	**Net movement on foreign currency translation reserve**	22	**—**	—
(1 409)	**7 377**	**Other comprehensive income/(loss) for the year**		**7 377**	(1 409)

*Refer to note 36 for the restatements to prior year results.

Statements of financial position as at 31 March 2018

Company 2016 R million	Company 2017 Restated* R million	Company 2018 R million		Notes	Group 2018 R million	Group 2017 Restated* R million	Group 2016 R million
			Assets				
			Non-current assets				
302 463	313 431	**335 488**	Property, plant and equipment	9	**335 488**	313 431	302 463
10 105	10 333	**11 225**	Investment properties	10	**11 225**	10 333	10 105
1 489	1 404	**1 158**	Intangible assets	11	**1 158**	1 404	1 489
3	3	**—**	Investments in subsidiaries	12			
9	8	**8**	Investments in equity-accounted investees	13	**155**	155	137
13 076	8 206	**2 807**	Derivative financial assets	14	**2 807**	8 206	13 076
21	20	**19**	Long-term loans and advances	15	**19**	20	21
901	1 450	**1 764**	Other investments and long-term financial assets	16.1	**1 481**	1 601	901
328 067	334 855	**352 469**			**352 333**	335 150	328 192
			Current assets				
3 594	3 354	**3 282**	Inventories	17	**3 282**	3 354	3 594
8 533	7 762	**9 082**	Trade and other receivables	18	**9 088**	7 768	8 535
324	3	**49**	Derivative financial assets	14	**49**	3	324
1 641	332	**561**	Other short-term investments	16.2	**561**	332	1 641
13 793	6 418	**4 087**	Cash and cash equivalents	19	**4 380**	6 422	13 943
27 885	17 869	**17 061**			**17 360**	17 879	28 037
164	110	**130**	Assets classified as held-for-sale	20	**130**	110	164
28 049	17 979	**17 191**			**17 490**	17 989	28 201
356 116	352 834	**369 660**	**Total assets**		**369 823**	353 139	356 393
			Equity and liabilities				
			Capital and reserves				
12 661	12 661	**12 661**	Issued capital	21	**12 661**	12 661	12 661
130 393	131 724	**144 082**	Reserves	22	**144 213**	131 985	130 629
143 054	144 385	**156 743**	**Attributable to the equity holder**		**156 874**	144 646	143 290
			Non-current liabilities				
2 646	2 624	**2 854**	Employee benefits	23	**2 854**	2 624	2 646
117 466	111 024	**93 591**	Long-term borrowings	24	**93 593**	111 026	117 468
—	1 938	**2 430**	Derivative financial liabilities	14	**2 430**	1 938	—
1 886	1 944	**2 258**	Long-term provisions	25	**2 258**	1 944	1 886
44 389	45 276	**50 913**	Deferred tax liabilities	26	**50 911**	45 274	44 387
4 867	6 148	**5 990**	Other non-current liabilities	16.3	**5 990**	6 148	4 867
171 254	168 954	**158 036**			**158 036**	168 954	171 254
			Current liabilities				
20 178	21 629	**21 255**	Trade payables and accruals	28	**21 280**	21 673	20 220
17 049	13 754	**28 957**	Short-term borrowings	29	**28 957**	13 754	17 049
14	14	**7**	Current tax liability		**14**	14	13
247	46	**25**	Derivative financial liabilities	14	**25**	46	247
932	914	**1 059**	Short-term provisions	25	**1 059**	914	932
3 388	3 138	**3 578**	Other current liabilities	16.4	**3 578**	3 138	3 388
41 808	39 495	**54 881**			**54 913**	39 539	41 849
356 116	352 834	**369 660**	**Total equity and liabilities**		**369 823**	353 139	356 393

*Refer to note 36 for the restatements to prior year results.

Statements of changes in equity

for the year ended 31 March 2018

	Issued capital R million	Revaluation reserve R million	Actuarial gains and losses R million	Cash flow hedging reserve R miliion	Other R million	Retained earnings R million	Total R million
Company							
Opening balances as at 1 April 2016	12 661	76 815	2 275	2 211	250	48 842	143 054
Profit for the year	—	—	—	—	—	2 740	2 740
Restated other comprehensive (loss)/income for the year (net of tax)	—	591	78	(2 078)	—	—	(1 409)
- Other comprehensive (loss)/income for the year (net of tax), as previously reported	—	(492)	78	(2 078)	—	—	(2 492)
- Correction of prior year error (net of tax)	—	1 083	—	—	—	—	1 083
Transfer to retained earnings (net of tax)	—	(180)	—	—	—	180	—
Restated balances at 31 March 2017	12 661	77 226	2 353	133	250	51 762	144 385
Profit for the year	—	—	—	—	—	4 981	4 981
Other comprehensive income/(loss) for the year (net of tax)	—	8 421	21	(1 065)	—	—	7 377
Transfer to retained earnings (net of tax)	—	(49)	—	—	—	49	—
Balances at 31 March 2018	12 661	85 598	2 374	(932)	250	56 792	156 743
Group							
Opening balances as at 1 April 2016	12 661	76 815	2 275	2 211	249	49 079	143 290
Profit for the year	—	—	—	—	—	2 765	2 765
Restated other comprehensive (loss)/income for the year (net of tax)	—	591	78	(2 078)	—	—	(1 409)
- Other comprehensive (loss)/income for the year (net of tax), as previously reported	—	(492)	78	(2 078)	—	—	(2 492)
- Correction of prior year error (net of tax)	—	1 083	—	—	—	—	1 083
Transfer to retained earnings (net of tax)	—	(180)	—	—	—	180	—
Restated balances at 31 March 2017	12 661	77 226	2 353	133	249	52 024	144 646
Profit for the year	—	—	—	—	—	4 851	4 851
Other comprehensive income/(loss) for the year (net of tax)	—	8 421	21	(1 065)	—	—	7 377
Transfer to retained earnings (net of tax)	—	(49)	—	—	—	49	—
Balances at 31 March 2018	12 661	85 598	2 374	(932)	249	56 924	156 874

Statements of cash flows

for the year ended 31 March 2018

Company				Group	
2017 R million	**2018 R million**		Notes	**2018 R million**	2017 R million
25 098	**23 094**	**Cash flows from operating activities**		**22 958**	25 104
31 017	**35 049**	Cash generated from operations	34.1	**34 915**	31 018
1 749	**(2 142)**	Changes in working capital	34.2	**(2 161)**	1 747
32 766	**32 907**	**Cash generated from operations after working capital changes**		**32 754**	32 765
(7 622)	**(8 930)**	Finance costs	34.3	**(8 930)**	(7 622)
347	**244**	Finance income	34.4	**261**	357
—	**—**	Tax paid	34.5	**—**	(3)
(192)	**(180)**	Settlement of post-retirement benefit obligations		**(180)**	(192)
(201)	**(947)**	Derivatives settled		**(947)**	(201)
(24 537)	**(25 316)**	**Cash flows utilised in investing activities**		**(24 891)**	(24 689)
(15 670)	**(17 220)**	**Investment to maintain operations**		**(16 795)**	(15 822)
(16 190)	**(16 427)**	Replacements to property, plant and equipment		**(16 427)**	(16 190)
(16)	**(116)**	Acquisition of investment property		**(116)**	(16)
(43)	**(85)**	Acquisition of intangible assets		**(85)**	(43)
(286)	**(191)**	Borrowing costs capitalised		**(191)**	(286)
49	**93**	Proceeds on the disposal of property, plant and equipment		**93**	49
1	**—**	Proceeds on the disposal of investment property		**—**	1
1	**9**	Dividend income		**—**	—
2	**(1)**	(Increase)/decrease in long-term loans and advances		**(1)**	2
812	**(502)**	(Increase)/decrease in other investments		**(68)**	661
(8 867)	**(8 096)**	**Investment to expand operations**		**(8 096)**	(8 867)
(5 248)	**(5 354)**	Expansions – property, plant and equipment		**(5 354)**	(5 248)
(3 619)	**(2 742)**	Borrowing costs capitalised		**(2 742)**	(3 619)
(7 936)	**(109)**	**Cash flows utilised in financing activities**		**(109)**	(7 936)
17 009	**40 920**	Borrowings raised		**40 920**	17 009
(24 945)	**(41 029)**	Borrowings repaid		**(41 029)**	(24 945)
(7 375)	**(2 331)**	Net decrease in cash and cash equivalents		**(2 042)**	(7 521)
13 793	**6 418**	Cash and cash equivalents at the beginning of the year		**6 422**	13 943
6 418	**4 087**	**Total cash and cash equivalents at the end of the year**	34.6	**4 380**	6 422

Segment information

for the year ended 31 March 2018

	Freight Rail R million	Engineering R million	National Ports Authority R million	Port Terminals R million	Pipelines R million	Total for reportable segments R million	All other segments and other adjustments[1] R million	Elimination of inter-segment transactions R million	Total R million
For the year ended 31 March 2018									
External revenue[2]	42 709	2 467	10 113	12 386	4 484	72 159	728	—	72 887
Internal revenue	1 000	8 783	1 586	7	4	11 380	1 596	(12 976)	—
Total revenue	43 709	11 250	11 699	12 393	4 488	83 539	2 324	(12 976)	72 887
Energy costs	(4 991)	(231)	(509)	(617)	(264)	(6 612)	(169)	—	(6 781)
Maintenance costs	(2 135)	(223)	(410)	(379)	(98)	(3 245)	32	1 496	(1 717)
Material costs	(500)	(4 398)	(83)	(481)	(305)	(5 767)	(109)	4 737	(1 139)
Personnel costs[6]	(12 573)	(5 809)	(2 551)	(4 412)	(427)	(25 772)	(2 481)	4 762	(23 491)
Other costs	(3 037)	(728)	(950)	(2 332)	(202)	(7 249)	(1 976)	1 981	(7 244)
Earnings before interest, tax, depreciation, derecognition and amortisation (EBITDA)	20 473	(139)	7 196	4 172	3 192	34 894	(2 379)	—	32 515
Depreciation, derecognition and amortisation	(8 402)	(447)	(1 941)	(1 705)	(1 026)	(13 521)	(407)	242	(13 686)
Impairment of assets	(749)	(48)	(84)	(249)	(18)	(1 148)	(294)	—	(1 442)
Share of profit from equity-accounted investees	—	—	—	—	—	—	9	—	9
Fair value adjustments and post-retirement benefit obligation expense	73	(4)	531	—	(2)	598	(456)	—	142
Finance costs	(5 550)	(1 116)	(1 908)	(269)	(245)	(9 088)	(13 407)	12 284	(10 211)
Finance income	16	—	21	17	12	66	12 520	(12 284)	302
Profit before tax	5 861	(1 754)	3 815	1 966	1 913	11 801	(4 414)	242	7 629
Total assets[4]	192 964	20 245	94 359	17 853	43 873	369 294	17 459	(17 060)	369 693
Total liabilities	123 823	18 713	43 872	6 573	23 375	216 356	8 113	(11 520)	212 949
Capital expenditure[3]	17 598	275	1 054	1 365	1 544	21 836	(55)	—	21 781
Cash generated from operations after working capital changes	20 703	(3 978)	8 308	4 463	3 423	32 919	(165)	n/a	32 754
EBITDA margin (%)	46,8	(1,2)	61,5	33,7	71,1	41,8	n/a	n/a	44,6
Number of employees	26 694	10 838	4 161	7 096	639	49 428	1 896	n/a	51 324
For the year ended 31 March 2017									
External revenue[2]	38 696	1 622	8 943	11 143	4 352	64 756	722	—	65 478
Internal revenue	418	7 758	1 436	7	3	9 622	3 294	(12 916)	—
Total revenue	39 114	9 380	10 379	11 150	4 355	74 378	4 016	(12 916)	65 478
Energy costs	(4 599)	(213)	(467)	(522)	(255)	(6 056)	(190)	—	(6 246)
Maintenance costs	(2 473)	(203)	(344)	(332)	(100)	(3 452)	(43)	1 726	(1 769)
Material costs	(596)	(3 584)	(76)	(419)	(8)	(4 683)	(179)	4 479	(383)
Personnel costs	(11 497)	(5 053)	(2 248)	(3 924)	(394)	(23 116)	(2 445)	4 740	(20 821)
Other costs	(2 686)	(784)	(877)	(2 159)	(221)	(6 727)	(3 946)	1 971	(8 702)
EBITDA	17 263	(457)	6 367	3 794	3 377	30 344	(2 787)	—	27 557
Depreciation, derecognition and amortisation	(8 728)	(437)	(1 821)	(1 481)	(883)	(13 350)	(363)	242	(13 471)
Impairment of assets	(1 329)	—	(17)	(683)	(63)	(2 092)	(446)	—	(2 538)
Share of profit from equity-accounted investees	—	—	—	—	—	—	20	—	20
Fair value adjustments and post-retirement benefit obligation expense	31	2	141	(1)	(3)	170	1 163	—	1 333
Finance costs	(5 729)	(715)	(1 741)	(423)	359	(8 249)	(13 396)	12 600	(9 045)
Finance income	17	—	5	27	17	66	12 943	(12 600)	409
Profit before tax	1 525	(1 607)	2 934	1 233	2 804	6 889	(2 866)	242	4 265
Total assets[4,5]	175 865	17 083	90 747	18 341	41 619	343 655	23 092	(13 718)	353 029
Total liabilities[5]	116 105	14 415	45 533	8 277	22 856	207 186	9 525	(8 218)	208 493
Capital expenditure[3]	15 746	945	2 020	1 208	1 706	21 625	(187)	—	21 438
Cash generated from operations after working capital changes	19 202	(753)	7 277	3 854	3 403	32 983	(218)	n/a	32 765
EBITDA margin (%)	44,1	(4,9)	61,3	34,0	77,5	40,8	n/a	n/a	42,1
Number of employees	27 679	11 731	4 160	7 087	642	51 299	2 362	n/a	53 661

[1] *Other adjustments include the Corporate Centre functions.*

[2] *Revenue from segments below the quantitative thresholds are attributable to two operating segments of Transnet. Those segments include Transnet Property, which manages internal and external leases of commercial and residential property, and Transnet Group Capital.*

[3] *Excludes capitalised borrowing costs; includes capitalised finance leases and capitalised decommissioning liabilities.*

[4] *Excludes assets and liabilities held-for-sale.*

[5] *Restated.*

[6] *Including voluntary severance package costs of R315,3 million.*

Notes to the annual financial statements

for the year ended 31 March 2018

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		1. Revenue		
62 881	69 243	Rendering of services	69 243	62 919
1 853	1 966	Rental income	1 966	1 853
5	5	Finance income from lending activities	5	5
1 610	1 838	Construction contracts (refer note 27)	1 838	1 610
66 349	73 052		73 052	66 387
(909)	(165)	Revenue clawback adjustment	(165)	(909)
65 440	72 887		72 887	65 478
		Refer to the segment information for the split of revenue streams.		
		2. Net operating expenses excluding depreciation, derecognition and amortisation		
273	272	Accommodation and refreshments	272	273
1 142	1 289	Electronic data costs	1 289	1 142
6 246	6 781	Energy costs	6 781	6 246
514	474	Health and sanitation	474	514
214	186	Insurance	186	214
1 769	1 719	Maintenance costs	1 719	1 769
1 796	1 089	Managerial and technical consulting fees (refer note 4.1)	1 089	1 796
383	1 139	Material costs	1 139	383
1 650	1 455	Operating leases (refer note 4.1)	1 455	1 650
20 821	23 491	Personnel costs[1]	23 491	20 821
65	52	Printing and stationery	52	65
(34)	(1)	Profit on disposal of property, plant and equipment (refer note 4.1)	(1)	(34)
—	1	Loss on disposal of intangible assets (refer note 4.1)	1	—
2	6	Loss on disposal of investment property (refer note 4.1)	6	2
119	107	Promotions and advertising	107	119
1 097	1 171	Security	1 171	1 097
213	163	Telecommunications	163	213
65	73	Transport	73	65
60	63	Research and development costs (refer note 4.1)	63	60
1 488	702	Other costs	842	1 526
37 883	40 232		40 372	37 921

[1] *Includes voluntary severance package costs of R315,3 million.*

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		3. Depreciation, derecognition and amortisation		
		Depreciation and derecognition (refer Annexure B)		
7 718	7 437	Depreciation and derecognition – Owned assets at historical cost	7 437	7 718
7	10	Aircraft	10	7
181	200	Floating craft	200	181
844	964	Land, buildings and structures	964	844
1 014	874	Machinery, equipment and furniture	874	1 014
13	18	Permanent way and works	18	13
5 626	5 318	Rolling stock and containers	5 318	5 626
33	53	Vehicles	53	33
5 169	5 590	Depreciation and derecognition – Revalued owned assets	5 590	5 169
2 097	2 155	Rail infrastructure	2 155	2 097
834	975	Pipeline networks	975	834
2 238	2 460	Port facilities	2 460	2 238
226	276	Depreciation and derecognition – Leased assets at historical cost	276	226
195	239	Vehicles	239	195
28	37	Machinery, equipment and furniture	37	28
3	—	Permanent way and works	—	3
13 113	13 303		13 303	13 113
		Amortisation of intangible assets (refer note 11)		
358	383	Software and licences	383	358
13 471	13 686	Total depreciation and amortisation	13 686	13 471
		4.1 Profit from operations before impairment of assets, dividends received, post-retirement benefit obligation expense, fair value adjustments and income from associates and joint ventures is stated after taking into account the following amounts:		
		Auditors' remuneration		
		Group auditors		
59	59	Audit fees – current year	59	59
23	23	Audit fees – prior year	23	23
11	15	Fees for audit-related and other services	15	11
3	4	Expenses	4	3
96	101		101	96
1 796	1 089	**Managerial and technical consulting fees**	1 089	1 796

Notes to the annual financial statements

for the year ended 31 March 2018

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		4.1 Profit from operations before impairment of assets, dividends received, post-retirement benefit obligation expense, fair value adjustments and income from associates and joint ventures continued is stated after taking into account the following amounts:		
		Operating lease charges		
207	185	Land, buildings and structures	185	207
545	482	Vehicles	482	545
17	62	Rolling stock	62	17
881	726	Other	726	881
1 650	1 455		1 455	1 650
(34)	(1)	**Profit on disposal of property, plant and equipment**	(1)	(34)
—	1	**Loss on disposal of intangible assets**	1	—
2	6	**Loss on disposal of investment property**	6	2
60	63	**Research and development costs**	63	60
		Directors' and executives' emoluments (full details are disclosed in Annexure H)		
20	22	Executive directors	22	20
6	6	Non-executive directors	6	6
47	54	Senior executives	54	47
73	82		82	73
		4.2 Impairment of assets		
1 835	760	Property, plant and equipment (refer Annexure B)	760	1 835
—	1	Intangible assets (refer note 11)	1	—
(6)	—	Associates and subsidiaries	—	—
(1)	2	Long-term loans and advances (refer note 15)	2	(1)
704	679	Trade and other receivables	679	704
2 532	1 442		1 442	2 538
		4.3 Dividends received		
1	9	Dividends from equity-accounted investee	—	—
		4.4 Post-retirement benefit obligation expense		
21	20	Transport Pension Fund: Transnet Sub-fund	20	21
—	—	Transnet Second Defined Benefit Fund	—	—
5	5	Transnet Top Management Pension	5	5
47	44	Transnet Workmen's Compensation Act pensioners	44	47
42	36	Transnet SATS pensioners' post-retirement medical benefits	36	42
34	29	Transnet employees' post-retirement medical benefits	29	34
94	134	Other post-retirement and medical benefits (refer note 23)	134	94
243	268		268	243

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		5. Fair value adjustments		
1 277	(379)	Derivative fair value adjustments (refer note 14)	(379)	1 277
182	697	Fair value adjustment of investment property (refer note 10)	697	182
117	92	Fair value adjustments on firm commitments	92	117
1 576	410		410	1 576
		6. Finance costs		
(53)	(176)	Net foreign exchange gain on translation	(176)	(59)
146	202	Interest factor on clawback and other	202	146
48	28	Discounts on bonds amortised	28	48
71	74	Finance lease obligation	74	71
12 744	13 016	Financial liabilities at amortised cost	13 016	12 744
12 956	13 144	**Gross finance costs**	13 144	12 950
(3 905)	(2 933)	Borrowing costs capitalised*	(2 933)	(3 905)
9 051	10 211		10 211	9 045
		** The weighted average capitalisation rate on funds borrowed generally is 11,79% per annum (2017: 11,84% per annum).*		
		7. Finance income		
303	211	Bank deposits	228	313
44	33	Loans and receivables	33	44
52	41	Held-to-maturity investments	41	52
399	285		302	409
		8. Income tax expense		
		South African normal tax		
—	(7)	– Current year	—	4
		Deferred tax (refer note 26)		
1 496	2 778	– Current year	2 778	1 496
1 496	2 771		2 778	1 500
%	%	**Reconciliation of tax rate**	%	%
28,00	28,00	Standard rate – South African normal tax	28,00	28,00
7,32	7,75	Adjustment for differences	8,41	7,17
6,53	2,95	Expenses not included for tax purposes	2,95	6,38
—	—	Capital gains tax inclusion rate adjustment	—	—
—	(0,03)	Exempt local dividends	—	—
0,79	4,83	Adjustment to deferred tax charge	5,46	0,79
—	—	Release on prescription of tax return	—	—
35,32	35,75	**Effective rate of tax**	36,41	35,17

Notes to the annual financial statements

for the year ended 31 March 2018

Company 2017 Restated* R million	Company 2018 R million		Group 2018 R million	Group 2017 Restated* R million
		8. Income tax expense continued		
		8.1 Tax recognised in other comprehensive income		
		Arising on the tax effects of items recognised in comprehensive income:		
(99)	(166)	Gain on revaluation of pipeline networks and decommissioning restoration liability	(166)	(99)
(1 983)	(894)	Gain on revaluation of port facilities and decommissioning restoration liability	(894)	(1 983)
1 916	(2 195)	(Gain)/loss on revaluation of rail infrastructure	(2 195)	1 916
(2)	—	Gain on revaluation of land, buildings and structures	—	(2)
(3)	(2)	Gain on revaluation of investments to market value (Rumo Ltd)	(2)	(3)
809	406	Cash flow hedge gain	406	809
(29)	(8)	Actuarial gain on post-retirement benefit obligations	(8)	(29)
609	(2 859)	**Total tax recognised in other comprehensive income**	(2 859)	609
		9. Property, plant and equipment (refer Annexure B)		
		Property, plant and equipment is stated at historical cost except for pipeline networks, port facilities and rail infrastructure, which are stated at revalued amounts.		
313 431	335 488	**Net carrying value**	335 488	313 431
449 177	485 145	Gross carrying value	485 145	449 177
(135 746)	(149 657)	Accumulated depreciation and impairment	(149 657)	(135 746)
		Comprising:		
		Historical cost		
198 757	199 486	**Gross carrying value**	199 486	198 757
175	177	– Aircraft	177	175
4 284	4 897	– Floating craft	4 897	4 284
28 363	29 685	– Land, buildings and structures	29 685	28 363
12 351	12 517	– Machinery, equipment and furniture	12 517	12 351
930	997	– Permanent way and works	997	930
101 079	117 286	– Rolling stock and containers	117 286	101 079
2 139	2 272	– Vehicles	2 272	2 139
49 436	31 655	– Capital work-in-progress	31 655	49 436
(48 669)	(55 586)	**Accumulated depreciation**	(55 586)	(48 669)
(146)	(156)	– Aircraft	(156)	(146)
(989)	(1 189)	– Floating craft	(1 189)	(989)
(7 448)	(8 415)	– Land, buildings and structures	(8 415)	(7 448)
(6 378)	(7 184)	– Machinery, equipment and furniture	(7 184)	(6 378)
(133)	(152)	– Permanent way and works	(152)	(133)
(32 569)	(37 246)	– Rolling stock and containers	(37 246)	(32 569)
(1 006)	(1 244)	– Vehicles	(1 244)	(1 006)

* *Refer to note 36 for the restatements to prior year results.*

Company 2017 Restated* R million	Company 2018 R million		Group 2018 R million	Group 2017 Restated* R million
		9. Property, plant and equipment (refer Annexure B) continued		
(3 050)	(3 541)	**Accumulated impairment**	(3 541)	(3 050)
(36)	(38)	– Land, buildings and structures	(38)	(36)
(208)	(192)	– Machinery, equipment and furniture	(192)	(208)
(1 766)	(2 273)	– Rolling stock and containers	(2 273)	(1 766)
(33)	(33)	– Vehicles	(33)	(33)
(1 007)	(1 005)	– Capital work-in-progress	(1 005)	(1 007)
147 038	140 359	**Net carrying value of property, plant and equipment stated at historical cost**	140 359	147 038
		Revaluation		
250 420	285 659	**Gross carrying value**	285 659	250 420
37 932	52 102	– Pipeline networks	52 102	37 932
126 819	132 356	– Port facilities	132 356	126 819
85 669	101 201	– Rail infrastructure	101 201	85 669
(82 472)	(88 796)	**Accumulated depreciation**	(88 796)	(82 472)
(15 893)	(14 626)	– Pipeline networks	(14 626)	(15 893)
(47 867)	(50 989)	– Port facilities	(50 989)	(47 867)
(18 712)	(23 181)	– Rail infrastructure	(23 181)	(18 712)
(1 555)	(1 734)	**Accumulated impairment**	(1 734)	(1 555)
(384)	(382)	– Pipeline networks	(382)	(384)
(1 144)	(1 322)	– Port facilities	(1 322)	(1 144)
(27)	(30)	– Rail infrastructure	(30)	(27)
166 393	195 129	**Net carrying value of property, plant and equipment stated at revalued amounts**	195 129	166 393
313 431	335 488	**Total net carrying value**	335 488	313 431

Land, buildings and structures

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

During the year, the Group transferred R113 million (2017: R33 million) to investment properties from property, plant and equipment. The fair values of these properties are deemed cost for subsequent accounting in accordance with IAS 40 *Investment Property*.

Assets under lease

Included in property, plant and equipment are assets under lease with a carrying value of R631 million (2017: R723 million).

* *Refer to note 36 for the restatements to prior year results.*

Notes to the annual financial statements

for the year ended 31 March 2018

Company 2017 Restated* R million	Company 2018 R million		Group 2018 R million	Group 2017 Restated* R million
		9. Property, plant and equipment (refer Annexure B) continued		
		Pipeline networks A full valuation was performed during the year by Arthur D. Little Inc., an independent firm of professional valuers, on the basis of the modern equivalent net asset value. The full valuation resulted in a net increase of R664 million (2017: R347 million) to the carrying value of the Group's pipeline networks, which has been adjusted accordingly.		
		Fair value hierarchy		
—	—	Level 1 – quoted prices in active markets	—	—
—	—	Level 2 – significant observable inputs	—	—
21 655	37 094	Level 3 – significant unobservable inputs*	37 094	21 655
21 655	37 094		37 094	21 655
17 732	32 822	The historical cost carrying values of these assets amount to	32 822	17 732
		Port facilities The Group's policy is to perform a revaluation of its port operating assets and infrastructure every three years and apply appropriate valuation indices in the intervening years. In the current year, valuation indices were applied to port infrastructure and resulted in an increase to the carrying value of R3 532 million (2017: R7 443 million). An index valuation applied to port operating assets resulted in a decrease of R253 million (2017: R217 million decrease).		
		The fair value of port infrastructure assets based on the discounted cash flow method is sensitive to changes in the discount rate and terminal growth rates. The rates applied in the valuation at 31 March 2018 was 10,84% (see Annexure F). For example, a 0,1% change in the discount rate would result in a fair value change of R1,5 billion. Similarly, a 0,1% change in the terminal growth rate would result in the fair value changing by R1,2 billion.		
		Fair value hierarchy		
—	—	Level 1 – quoted prices in active markets	—	—
—	—	Level 2 – significant observable inputs	—	—
77 808	80 045	Level 3 – significant unobservable inputs*	80 045	77 808
77 808	80 045		80 045	77 808
22 170	22 414	The historical carrying values of these assets amount to	22 414	22 170
		** Refer to Annexure F for more detail regarding the measurement of level 3 fair values.*		

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		9. Property, plant and equipment (refer Annexure B) continued		
		Rail infrastructure During the year, the rail infrastructure assets revaluation amount was reviewed in line with the revised discounted cash flow. The result of the review was an increase in the revaluation reserve by R7 838 million (2017: 6 842 million decrease) due to an increase in projected future cash flows predominantly as a result of higher volumes achieved during the year, coupled with slightly higher EBITDA margins.		
		The estimated replacement cost of rail infrastructure assets based on the depreciated optimised replacement cost method is in the range of R271 billion to R343 billion. However, in accordance with Group accounting policy, the revaluation was limited to the present value of discounted future cash flows amounting to R181 billion. The discounted cash flows valuation is sensitive to changes in key inputs, such as the discount rate, terminal growth rate and operating cash flows. For example, a 0,1% increase/(decrease) in the terminal growth rate would change the asset value by R994 million and R963 million respectively, where the same change in the discount rate will change the asset value by R2,9 billion and R2,8 billion respectively.		
		Fair value hierarchy		
—	—	Level 1 – quoted prices in active markets	—	—
—	—	Level 2 – significant observable inputs	—	—
66 930	77 990	Level 3 – significant unobservable inputs*	77 990	66 930
66 930	77 990		77 990	66 930
33 945	35 304	The historical carrying values of these assets amount to	35 304	33 945
		** Refer to Annexure F for more detail regarding the measurement of level 3 fair values.*		

Residual values

During the year, management conducted its annual assessment of residual values on existing assets. The exercise resulted in a change in the residual values of the rolling stock and railway component of the permanent way assets. The residual values are based on actual income recovered in the past financial year, which is influenced by the scrap steel market prices. The current reporting period impact is a R70 million increase in depreciation (2017: R90 million).

Useful lives

The useful lives for all assets were reviewed in line with estimated usage by Transnet Freight Rail. The review was done with the assistance of asset owners and specialists. The results of the assessment were a net increase of approximately R140 million (2017: R2,1 billion decrease) in the depreciation expense due to a general decrease in the useful lives, especially rolling stock locomotives, and the realignment of depreciating land assets.

Fully depreciated assets in use

Fully depreciated assets still in use are considered to be an insignificant portion of the total asset base of the Company and Group.

Management's estimation of the asset's useful life bears resemblance to the asset's economic life and the useful life of the asset (not changed or restated) where:

- Assets were found to be a in a better condition than expected compared to when initial and subsequent estimations were made to determine its useful life and therefore are expected to be used for a longer period of time; or
- Management has assessed, at least annually, its useful life and decided that those initial estimations were reflective of the asset's useful life, but the asset will continue to be used, as it is still fit for usage in its intended manner.

The net carrying value of property, plant and equipment, stated at historical cost, includes fully depreciated assets with a gross carrying value of R2,2 billion (R1,9 billion).

Notes to the annual financial statements

for the year ended 31 March 2018

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		10. Investment properties[1]		
10 105	10 333	Fair value at the beginning of the year	10 333	10 105
33	113	Transferred from property, plant and equipment (refer Annexure B)	113	33
182	697	Recognised in profit or loss (refer note 5)	697	182
(3)	(6)	Disposals	(6)	(3)
16	116	Additions	116	16
—	(28)	Transferred to assets classified as held-for-sale (refer Annexure C)	(28)	—
10 333	11 225	Fair value at the end of the year	11 225	10 333
		Fair value hierarchy		
—	—	Level 1 – quoted prices in active markets	—	—
—	—	Level 2 – significant observable inputs	—	—
10 333	11 225	Level 3 – significant unobservable inputs[2]	11 225	10 333
10 333	11 225		11 225	10 333

[1] *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.*

[2] *Refer to Annexure F for more detail regarding the measurement of level 3 fair value.*

The fair value of the Group's investment properties at 31 March 2018 was arrived at on the basis of valuations carried out at that date by Transnet Property valuers.

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

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

The more critical assumptions made were as follows:
- Future cash flows were based on the after-tax market-related rentals per investment property.
- The capitalisation rate used to discount cash flows for the purposes of determining present value was the market-related return rate adjusted to reflect the appropriate risk profile of each individual property.
- Capitalisation rates ranged between 9,0% and 16,0% for the various properties.

The gross property rental income earned by the Group from its investment properties, which are leased out under operating leases, amounted to R1 966 million (2017: R1 853 million).

Direct operating expenses arising on the investment properties during the year amounted to R714 million (2017: R731 million).

No material direct expenses (including repairs and maintenance) arising on investment property, that did not generate rental income during the year, were incurred.

The fair value of investment property is based on the capitalised income method and is sensitive to changes in the capitalisation rate. The average national rates applied in the valuation at 31 March 2018 was 11,0%. For example, a decrease in the capitalisation rate of 0,5% in the capitalisation rate would result in an increase in the fair value of R151 million and an increase of 0,5% would result in a decrease in the fair value of R138 million.

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		11. Intangible assets		
1 404	1 158	**Intangible assets**	1 158	1 404
2 993	3 108	Cost	3 108	2 993
(1 589)	(1 950)	Accumulated amortisation	(1 950)	(1 589)
		Comprising:		
		Finite life intangible assets		
1 404	1 158	Software and licences: Carrying value	1 158	1 404
2 993	3 108	**Cost**	3 108	2 993
2 794	2 993	Balance at the beginning of the year	2 993	2 794
43	85	Additions	85	43
(74)	(24)	Disposals	(24)	(74)
230	54	Transfers from property, plant and equipment (refer Annexure B)	54	230
(1 589)	(1 950)	**Accumulated amortisation and impairment**	(1 950)	(1 589)
(1 305)	(1 589)	Balance at the beginning of the year	(1 589)	(1 305)
74	23	Disposals	23	74
(358)	(383)	Amortisation (refer note 3)	(383)	(358)
—	(1)	Impairment (refer note 4.2)	(1)	—
1 404	1 158		1 158	1 404
		Software and licences are assessed as having a finite life and are amortised on a straight-line basis over a period of three to five years.		
		12. Investments in subsidiaries (refer Annexure D)		
3	—	Shares at carrying value		
392	—	Amounts owing by subsidiaries		
395	—			
(392)	—	Allowance for impairment		
3	—			
		13. Investments in equity-accounted investees (refer Annexure D)		
8	8		155	155
9	8	Balance at the beginning of the year	155	137
—	1	Acquisitions/advances	1	—
—	—	Share of profit	9	20
—	—	Dividends received	(9)	(1)
(1)	(1)	Repayment of loans	(1)	(1)
8	8	Directors' valuation of unlisted investments in equity-accounted investees	155	155

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for the year ended 31 March 2018

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		14. Derivative financial assets and liabilities		
		Both the Company and the Group use approved financial instruments, in particular forward exchange contracts, cross-currency swaps and interest rate swaps, to hedge the financial risks associated with underlying business activities. All derivative financial instruments have been measured at fair value with the resulting gain or loss taken to the statement of comprehensive income.		
8 209	**2 856**	**Derivative financial assets**	**2 856**	8 209
13 400	**8 209**	Opening balance	**8 209**	13 400
(4 782)	**(5 658)**	Fair value adjustments	**(5 658)**	(4 782)
(409)	**305**	Derivatives raised and settled	**305**	(409)
1 984	**2 455**	**Derivative financial liabilities**	**2 455**	1 984
247	**1 984**	Opening balance	**1 984**	247
2 347	**1 113**	Fair value adjustments	**1 113**	2 347
(610)	**(642)**	Derivatives raised and settled	**(642)**	(610)
(7 129)	**(6 771)**	**Net fair value adjustments**	**(6 771)**	(7 129)
1 277	**(379)**	Derivative fair value adjustments (refer note 5)	**(379)**	1 277
(1 746)	**(1 781)**	Finance costs	**(1 781)**	(1 746)
(6 660)	**(4 611)**	Recognised in other comprehensive income (refer note 22)	**(4 611)**	(6 660)
		Comprise the following financial instruments:		
8 206	**2 807**	**Non-current assets**	**2 807**	8 206
8 205	**2 807**	Cross-currency swaps and options	**2 807**	8 205
1	**—**	Interest rate swaps and options	**—**	1
3	**49**	**Current assets**	**49**	3
3	**12**	Forward exchange contracts	**12**	3
—	**37**	Cross-currency swaps and options	**37**	—
1 938	**2 430**	**Non-current liabilities**	**2 430**	1 938
3	**58**	Forward exchange contracts	**58**	3
1 935	**2 372**	Interest rate swaps and options	**2 372**	1 935
46	**25**	**Current liabilities**	**25**	46
46	**25**	Forward exchange contracts	**25**	46
—	**—**	Interest rate swaps and options	**—**	—

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		14. Derivative financial assets and liabilities continued		
		Fair value hedges of firm commitments		
		The Group entered into fair value hedges of the foreign exchange risk on firm commitments of the Group to import items of property, plant and equipment. The Group settles the contract price of these items by making predetermined progress payments (in foreign currency) to the relevant suppliers as specified milestones are achieved.		
		At 31 March 2018, the Group held a series of forward exchange contracts as hedging instruments for this purpose. These hedges were assessed to be effective. The ineffective portion of the hedge has been recorded in profit or loss.		
		The fair values of these forward exchange contracts held as hedging instruments at 31 March 2018 are as follows:		
(43)	**(67)**	Currency brought forward – United States Dollar loss	**(67)**	(43)
(3)	**(4)**	Currency brought forward – Euro loss	**(4)**	(3)
		The net fair value gain/(loss) recognised in profit or loss on these fair value hedges during the year was nil (2017: nil). This net fair value adjustment comprised a loss of R91 million (2017: R121 million) with respect to foreign exchange risk on the firm commitments, and a gain of R91 million (2017: R121 million) on the forward exchange contracts.		
		The nominal values of these forward exchange contracts at 31 March 2018 are as follows:		
		Currency brought forward – Rand equivalent		
330	**660**	United States Dollar	**660**	330
37	**244**	Euro	**244**	37
million	**million**		**million**	million
		Currency brought forward – foreign currency		
23	**49**	United States Dollar	**49**	23
3	**16**	Euro	**16**	3

Cash flow hedges

Interest rate swaps

On 31 March 2018, the Group was party to interest rate swap contracts, which are designated as cash flow hedges of the interest rate risks associated with Rand-denominated borrowings detailed in the table below:

Issuer	R million	Hedge interest rate payable	Hedge interest rate receivable	Maturity date
Nedbank	1 500	11,83 fixed	3-month JIBAR + 2,6%	2 Dec 2030
Nedbank	3 000	11,83 fixed	3-month JIBAR + 2,7%	2 Dec 2030
Nedbank	7 500	12,27 fixed	3-month JIBAR + 2,7%	2 Dec 2030
Investec	6 992	12,07 fixed	6-month JIBAR + 2,0%	22 Feb 2028
Liberty Group Limited (Libfin)	1 604	11,15 fixed	3-month JIBAR + 1,75%	19 July 2032
Old Mutual Specialised Finance (R425 million) and Old Mutual Life Assurance Company of South Africa (R575 million) (AfDB)	1 000	11,15 fixed	6-month JIBAR + 2,05%	31 Mar 2033
Standard Bank/Out of the Blue	1 000	11,15 fixed	6-month JIBAR + 1,65%	21 Aug 2024

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for the year ended 31 March 2018

14. Derivative financial assets and liabilities continued

Cash flow hedges continued

Cross-currency interest rate swaps

On 31 March 2018, the Group was party to cross-currency interest rate swap contracts which are designated as cash flow hedges of the foreign exchange rate and interest rate risks associated with foreign currency-denominated borrowings detailed in the table below:

Issuer	Amount	Hedge interest rate payable	Hedge interest rate receivable
American Family Life Assurance Company of Columbus (AFLAC), Japan branch	JPY15 billion	12,22% fixed (ZAR)	2,70% fixed (JPY)
African Development Bank (AfDB)	USD41 million	8,69% fixed (ZAR)	6-month LIBOR + 1,75% (USD)
TNUS 22 GMTN US Dollar bond			
Tranche 1	USD500 million	8,98% fixed (ZAR)	4% fixed (USD)
Tranche 2	USD500 million	8,935% fixed (ZAR)	4% fixed (USD)
Export Development Canada (EDC)	USD20 million	7,47% fixed (ZAR)	6-month LIBOR + 1,75% (USD)
Bank of Tokyo Mitsubishi (BTMU)			
Loan 1	USD94 million	8,942% fixed (ZAR)	6-month LIBOR + 1,25% (USD)
Loan 2	USD62 million	8,97% fixed (ZAR)	3-month LIBOR + 1,25% (USD)
KFW Ipex Bank	EUR12 million	9,635% fixed (ZAR)	6-month EURIBOR + 1,3% (EUR)
China Development Bank (CDB)			
Loan 1	USD337 million	3-month JIBAR + 4,35%	3-month LIBOR + 2,57% (USD)
Loan 2	USD16 million	3-month JIBAR + 4,33%	3-month LIBOR + 2,57% (USD)
Loan 3	USD15 million	3-month JIBAR + 4,365%	3-month LIBOR + 2,57% (USD)
Loan 4	USD8 million	3-month JIBAR + 4,360%	3-month LIBOR + 2,57% (USD)
Loan 5	USD22 million	3-month JIBAR + 4,31%	3-month LIBOR + 2,57% (USD)
Loan 6	USD21 million	3-month JIBAR + 4,30%	3-month LIBOR + 2,57% (USD)
Loan 7	USD22 million	3-month JIBAR + 4,295%	3-month LIBOR + 2,57% (USD)
Loan 8	USD19 million	3-month JIBAR + 4,17%	3-month LIBOR + 2,57% (USD)
Loan 9	USD18 million	3-month JIBAR + 4,25%	3-month LIBOR + 2,57% (USD)
Loan 10	USD31 million	3-month JIBAR + 4,07%	3-month LIBOR + 2,57% (USD)
Loan 11	USD9 million	3-month JIBAR + 4,01%	3-month LIBOR + 2,57% (USD)
Loan 12	USD23 million	3-month JIBAR + 3,97%	3-month LIBOR + 2,57% (USD)
Loan 13	USD14 million	3-month JIBAR + 4,01%	3-month LIBOR + 2,57% (USD)
Loan 14	USD29 million	3-month JIBAR + 3,84%	3-month LIBOR + 2,57% (USD)
Loan 15	USD12 million	3-month JIBAR + 3,84%	3-month LIBOR + 2,57% (USD)
Loan 16	USD15 million	3-month JIBAR + 3,96%	3-month LIBOR + 2,57% (USD)
Loan 17	USD7 million	3-month JIBAR + 3,99%	3-month LIBOR + 2,57% (USD)
Loan 18	USD21 million	3-month JIBAR + 4,00%	3-month LIBOR + 2,57% (USD)
Loan 19	USD10 million	3-month JIBAR + 3,94%	3-month LIBOR + 2,57% (USD)
Loan 20	USD25 million	3-month JIBAR + 3,88%	3-month LIBOR + 2,57% (USD)
Loan 21	USD15 million	3-month JIBAR + 3,89%	3-month LIBOR + 2,57% (USD)
Loan 22	USD20 million	3-month JIBAR + 3,89%	3-month LIBOR + 2,57% (USD)
Loan 23	USD20 million	3-month JIBAR + 3,88%	3-month LIBOR + 2,57% (USD)
Loan 24	USD20 million	3-month JIBAR + 3,91%	3-month LIBOR + 2,57% (USD)
Loan 25	USD19 million	3-month JIBAR + 3,86%	3-month LIBOR + 2,57% (USD)
Loan 26	USD15 million	3-month JIBAR + 3,94%	3-month LIBOR + 2,57% (USD)
Loan 27	USD7 million	3-month JIBAR + 3,87%	3-month LIBOR + 2,57% (USD)
Loan 28	USD19 million	3-month JIBAR + 3,82%	3-month LIBOR + 2,57% (USD)
Loan 29	USD32 million	3-month JIBAR + 3,775%	3-month LIBOR + 2,57% (USD)
Loan 30	USD35 million	3-month JIBAR + 3,78%	3-month LIBOR + 2,57% (USD)
Loan 31	USD16 million	3-month JIBAR + 3,79%	3-month LIBOR + 2,57% (USD)
Loan 32	USD6 million	3-month JIBAR + 3,80%	3-month LIBOR + 2,57% (USD)
Loan 33	USD11 million	3-month JIBAR + 3,78%	3-month LIBOR + 2,57% (USD)

14. Derivative financial assets and liabilities continued

The terms of the cross-currency interest rate swaps closely match those of the foreign currency-denominated borrowings they hedge and were assessed as highly effective hedges. The amount of ineffectiveness recognised in profit or loss for the year with respect to these hedges was a R271 million gain (2017: R159 million gain). The amount recycled to profit or loss to offset the hedged risks was R3 140 million credit (2017: R6 998 million), included in finance costs.

The cash flows are projected to occur:

- Semi-annually in May and November until November 2019 on the AFLAC hedge;
- Semi-annually in February and August until August 2018 on the AfDB hedge;
- Semi-annually in May and November until November 2018 on the EDC hedge;
- Semi-annually in July and January until July 2022 on both tranches of the TNUS22 bond hedge;
- Semi-annually in March and September until March 2019 on the KFW Ipex Bank hedge;
- Quarterly until May 2019 on the BTMU hedge; and
- Quarterly until June 2030 on the CDB hedge.

Company			Group	
2017 R million	2018 R million		2018 R million	2017 R million
		The fair values of the cross-currency interest rate swaps at 31 March 2018 are as follows:		
546	369	AFLAC	369	546
724	173	AfDB	173	724
(91)	(1 682)	CDB	(1 682)	(91)
173	52	EDC	52	173
6 046	3 747	TNUS22	3 747	6 046
(6)	(13)	KfW Ipex	(13)	(6)
813	198	BTMU	198	813
		The nominal amounts of the cross-currency interest rate swaps at 31 March 2018 are as follows:		
22 548	23 650	South African Rand	23 650	22 548
15 000	15 000	Japanese Yen	15 000	15 000
2 085	2 127	United States Dollar	2 127	2 085
31	12	Euro	12	31
		Credit contingent default swaps (CCDS)		
		In the prior year the Group entered into CCDS transactions that could result in the non-payment by one party to the other on the occurrence of a credit event caused by Transnet defaulting on its loan or bond obligations. The credit events that must occur are bankruptcy, failure to pay, obligation acceleration, repudiation or moratorium or restructuring of any obligation relating to Transnet loans or bonds that the CCDS relate to. The CCDS is a level 3 fair value instrument and will not only be a function of the ZAR/USD exchange rates, applicable interest rates and swap spreads, but will also be a function of the creditworthiness of Transnet. The USD/ZAR quanto applied to calculate the fair market value of the CCDS are not market observable data. The nominal amounts of the cross-currency swaps affected are USD nil (2017: USD398 million) and ZAR nil (2017: ZAR4 953 million). The fair values of the cross-currency swaps affected are nil (2017: R236 million). The CCDS were closed out in February 2018.		
		Day-one loss		
680	1 212	Loss at the beginning of the year	1 212	680
635	—	Day-one loss recognised	—	635
(103)	(104)	Amortised to profit or loss	(104)	(103)
1 212	1 108	Loss at the end of the year	1 108	1 212
		The unamortised day-one loss is included within the long-term financial assets.		

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Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		15. Long-term loans and advances		
20	19		19	20
21	20	Balance at the beginning of the year	20	21
(2)	1	Repayments	1	(2)
1	(2)	Reversal of impairment (refer note 4.2)	(2)	1
		Comprising:		
18	17	**Employee housing and other loans**	17	18
19	18	Balance at the beginning of the year	18	19
(2)	1	Repayments	1	(2)
1	(2)	Reversal of impairment	(2)	1
2	2	**Other loans and advances**	2	2
2	2	Balance at the beginning of the year	2	2
20	19		19	20
		16. Other investments, long-term financial assets and other liabilities		
1 450	1 764	Other financial assets	1 481	1 601
1 450	1 764	**16.1 Total long-term investments and long-term financial assets**	1 481	1 601
332	561	Short-term portion of other investments including investments under resale agreement	561	332
332	561	**16.2 Total short-term investments**	561	332
3 635	3 583	Security of supply petroleum levy	3 583	3 635
38	24	Other	24	38
3 673	3 607		3 607	3 673
2 041	2 338	**Deferred income – National Ports Authority**	2 338	2 041
3 749	4 822	Balance at the beginning of the year	4 822	3 749
(627)	(554)	Unwinding of prior year clawback	(554)	(627)
1 554	1 057	Additional clawback recognised	1 057	1 554
146	202	Interest factor on clawback	202	146
4 822	5 527		5 527	4 822
(2 781)	(3 189)	*Less:* Short-term portion classified as current liabilities	(3 189)	(2 781)
434	45	**Deferred income – Pipelines**	45	434
790	772	Balance at the beginning of the year	772	790
(553)	(338)	Unwinding of prior year clawback	(338)	(553)
535	—	Additional clawback recognised	—	535
772	434		434	772
(357)	(389)	*Less:* Short-term portion classified as current liabilities	(389)	(357)
19	—	*Add:* Short-term portion classified as current assets	—	19
6 148	5 990	**16.3 Total other non-current liabilities**	5 990	6 148
3 138	3 578	**16.4 Total other current liabilities**	3 578	3 138

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		17. Inventories		
		At weighted average cost		
2 077	2 491	Maintenance material	2 491	2 077
204	249	Consumables	249	204
310	37	Finished goods	37	310
223	157	Work-in-progress[1]	157	223
(255)	(269)	Provision for stock obsolescence[2]	(269)	(255)
2 559	2 665		2 665	2 559
		At net realisable value		
826	638	Maintenance material	638	826
31	29	Consumables	29	31
(62)	(50)	Provision for stock obsolescence	(50)	(62)
795	617		617	795
3 354	3 282		3 282	3 354

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

[2] *The increase in the provision for stock obsolescence is due to slow-moving items assessed at the end of the reporting period. No items of inventory have been pledged as security at 31 March 2018 (2017: nil).*

The cost of inventories used during the period and changes in the provision for obsolescence are recognised in operating expenses (refer note 2 – material costs).

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		18. Trade and other receivables		
5 087	5 786	Trade receivables – net of allowances for credit losses[3]	5 787	5 090
598	647	Amounts due from customers under construction contracts (refer note 27)	647	598
75	36	Retention debtors (refer note 27)	36	75
2 001	2 612	Prepayments and other amounts receivable	2 617	2 004
1	1	Short-term portion of loans and advances	1	1
7 762	9 082		9 088	7 768

[3] *Trade receivables include an amount of R2,5 billion (2017: R4,0 billion) relating to receivables which were discounted under a full recourse arrangement with a financial institution and did not meet the derecognition criteria in IAS 39. The corresponding liability is included in 'Trade payables and accruals' (refer note 28).*

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Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		18. Trade and other receivables continued		
		Risk profile of allowances for credit losses (refer Annexure A)		
		Low risk		
(651)	(1 044)	Opening balance	(1 044)	(649)
(476)	(161)	Recognised	(159)	(476)
83	2	Utilised	2	81
(1 044)	(1 203)	Closing balance	(1 201)	(1 044)
		Medium risk		
(330)	(305)	Opening balance	(305)	(330)
(112)	(401)	Recognised	(401)	(112)
81	177	Utilised	177	81
56	—	Transfer	—	56
(305)	(529)	Closing balance	(529)	(305)
		High risk		
(611)	(577)	Opening balance	(595)	(629)
(108)	(326)	Recognised	(326)	(108)
198	348	Utilised	348	198
(56)	—	Transfer	—	(56)
(577)	(573)	Closing balance	(573)	(595)
		Total provisions		
(1 592)	(1 926)	Opening balance	(1 944)	(1 608)
(696)	(888)	Recognised	(886)	(696)
362	527	Utilised	527	360
(1 926)	(2 287)	Closing balance	(2 303)	(1 944)
		19. Cash and cash equivalents		
6 418	4 087	Cash and cash equivalents[4]	4 380	6 422
6 418	4 087		4 380	6 422

[4] Included in cash and cash equivalents are restricted benevolent accounts amounting to nil (2017: R2,9 million).
Included in Group cash and cash equivalents are restricted Transnet Pipelines Rehabilitation Trust accounts amounting to R293 million (2017: nil).

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		20. Assets classified as held-for-sale (refer Annexure C)		
		Non-current assets classified as held-for-sale		
77	60	Property, plant and equipment	60	77
9	37	Investment properties	37	9
24	33	Other investments	33	24
110	130		130	110
		21. Issued capital		
		Authorised		
30 000	30 000	30 000 000 000 ordinary par value shares of R1 each	30 000	30 000
		Issued		
12 661	12 661	12 660 986 310 ordinary par value shares of R1 each (2017: 12 660 986 310).	12 661	12 661

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

Capital management

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

Based on the significant capital investment plan of the Company, as well as its revenue-generating ability, the target debt to equity ratio will remain below the 50% limit that forms part of the Shareholder's Compact with the Shareholder Representative (2018: actual 43,4%).

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

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for the year ended 31 March 2018

22. Reserves

Company 2017 Restated* R million	Company 2018 R million		Group 2018 R million	Group 2017 Restated* R million
77 226	85 598	**Revaluation reserve**	85 598	77 226
6 413	6 965	Revaluation of pipeline networks	6 965	6 413
6 055	6 413	Balance at the beginning of the year	6 413	6 055
347	664	Revaluation during the year	664	347
11	(112)	Decommissioning restoration liability adjustment	(112)	11
63 116	66 350	Revaluation of port facilities	66 350	63 116
56 084	63 116	Balance at the beginning of the year	63 116	56 084
7 226	3 279	Revaluation during the year	3 279	7 226
(194)	(45)	Transfer to retained earnings	(45)	(194)
36 315	44 153	Revaluation of rail infrastructure	44 153	36 315
43 157	36 315	Balance at the beginning of the year	36 315	43 157
(6 842)	7 838	Revaluation during the year	7 838	(6 842)
1 312	1 308	Revaluation of land, buildings and structures	1 308	1 312
1 306	1 312	Balance at the beginning of the year	1 312	1 306
6	—	Fair value movement during the year	—	6
—	(4)	Transfer to retained earnings	(4)	—
14	23	Rumo Ltd – revaluation of investment to market value	23	14
—	14	Balance at the beginning of the year	14	—
14	9	Fair value movement during the year	9	14
(29 944)	(33 201)	Deferred tax impact of items relating to revaluation reserves	(33 201)	(29 944)
2 353	2 374	**Actuarial gains on post-retirement benefit obligations**	2 374	2 353
3 275	3 304	Gross actuarial gains on post-retirement benefit obligations	3 304	3 275
3 168	3 275	Balance at the beginning of the year	3 275	3 168
107	29	Gains arising during the year	29	107
(922)	(930)	Deferred tax impact of actuarial gains	(930)	(922)

Refer to note 36 for the restatements to prior year results.

22. Reserves continued

Company 2017 Restated* R million	Company 2018 R million		Group 2018 R million	Group 2017 Restated* R million
133	(932)	**Cash flow hedging reserve**	(932)	133
171	(1 300)	Gross cash flow hedging reserve	(1 300)	171
3 058	171	Balance at the beginning of the year	171	3 058
(6 660)	(4 611)	Losses arising during the year	(4 611)	(6 660)
3 773	3 140	Transfer to foreign exchange differences	3 140	3 773
(38)	368	Deferred tax impact of items relating to cash flow hedging reserve	368	(38)
250	250	**Other reserves**	249	249
250	250	Share of pension fund surplus (retained for application against pensioners)	249	249
51 762	56 792	**Retained earnings**	56 924	52 024
48 842	51 762	Balance at the beginning of the year	52 024	49 079
180	49	Transfers into retained earnings (net of tax)	49	180
2 740	4 981	Profit for the year attributable to the equity holder	4 851	2 765
131 724	144 082		144 213	131 985

23. Employee benefits

Company 2017 Restated* R million	Company 2018 R million		Group 2018 R million	Group 2017 Restated* R million
1 207	1 132	**Post-retirement benefit obligations**	1 132	1 207
1 357	1 207	Balance at the beginning of the year	1 207	1 357
149	134	Recognised in profit or loss	134	149
(192)	(180)	Settlements during the year	(180)	(192)
(107)	(29)	Actuarial gains	(29)	(107)
		Comprising:		
—	—	Transport Pension Fund: Transnet Sub-fund (refer note 32.1.2)	—	—
—	—	Transnet Second Defined Benefit Fund (refer note 32.1.3)	—	—
65	65	Transnet Top Management Pensions (refer note 32.1.4)	65	65
469	458	Transnet Workmen's Compensation Act pensioners (refer note 32.1.4)	458	469
445	392	Transnet SATS pensioners' post-retirement medical benefits (refer note 32.2.1)	392	445
228	217	Transnet employees' post-retirement medical benefits (refer note 32.2.2)	217	228
1 207	1 132		1 132	1 207

Refer to note 36 for the restatements to prior year results.

Notes to the annual financial statements

for the year ended 31 March 2018

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		23. Employee benefits continued		
		Various assumptions have been applied by management and actuaries in the calculation of post-retirement benefit obligations. The assumptions and their sensitivities are disclosed in note 32.		
—	—	**Other post-retirement and medical benefits**	—	—
148	70	Balance at the beginning of the year	70	148
94	134	Recognised in profit or loss	134	94
(172)	(103)	Utilised during the year	(103)	(172)
70	101		101	70
(70)	(101)	*Less:* Short-term portion classified as current liabilities	(101)	(70)
1 200	1 334	**Leave pay**	1 334	1 200
2 120	2 233	Balance at the beginning of the year	2 233	2 120
541	390	Accruals recognised during the year	390	541
(428)	(292)	Utilised during the year	(292)	(428)
2 233	2 331		2 331	2 233
(1 033)	(997)	*Less:* Short-term portion classified as current liabilities	(997)	(1 033)
217	388	**Incentive bonuses**	388	217
813	1 322	Balance at the beginning of the year	1 322	813
1 063	2 549	Accruals recognised during the year	2 549	1 063
(554)	(1 495)	Utilised during the year	(1 495)	(554)
1 322	2 376		2 376	1 322
(1 105)	(1 988)	*Less:* Short-term portion classified as current liabilities	(1 988)	(1 105)
2 624	2 854	Total employee benefits	2 854	2 624

Other post-retirement and medical benefits
Included in total employee benefits is an amount of R194 million (2017: R97 million) relating to an ex gratia payment to disadvantaged SATS pensioners.

Leave pay
Relates to accrual for unutilised leave at year-end. The leave is expected to be taken over the next two financial years and is calculated based on employee total cost to Company.

Incentive bonuses
Accrual for incentive bonuses in terms of the incentive bonus scheme.

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		24. Long-term borrowings (refer Annexure A)		
111 024	93 591		93 593	111 026
117 466	111 024	Total long-term borrowings at the beginning of the year	111 026	117 468
10 424	10 746	Recognised in the reporting period	10 746	10 424
(2 779)	(3 012)	Foreign exchange differences	(3 012)	(2 779)
(8)	(10)	Amortisation of discount	(10)	(8)
(14 079)	(25 157)	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings (refer note 29)	(25 157)	(14 079)
		Unsecured liabilities		
87 025	83 050	**Rand-denominated**	83 050	87 025
52 446	46 501	Bonds at nominal value	46 501	52 446
(683)	(646)	Unamortised discounts	(646)	(683)
51 763	45 855	Bonds at carrying value[1]	45 855	51 763
35 262	37 195	Other unsecured liabilities[2]	37 195	35 262
23 052	16 719	**Foreign currency-denominated**[3]	16 719	23 052
13 404	11 855	Bonds at nominal value	11 855	13 404
(84)	(65)	Unamortised discounts	(65)	(84)
13 320	11 790	Bonds at carrying value	11 790	13 320
9 732	4 929	Other unsecured liabilities	4 929	9 732
15 026	18 979	**Secured loans**[4] **and capitalised finance leases**[5]	18 981	15 028
6 681	8 476	Rand-denominated	8 476	6 681
8 345	10 503	Foreign currency-denominated[6]	10 505	8 347
125 103	118 748	**Total long-term borrowings**	118 750	125 105
(14 079)	(25 157)	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings (refer note 29)	(25 157)	(14 079)
111 024	93 591		93 593	111 026

[1] Rand-denominated secured Euror and bonds bear interest between 10,0% and 13,5% and are repayable in 2028 and 2029 (refer Annexure A).
The Rand-denominated unsecured and non-guaranteed bonds are redeemable between 14 April 2020 and 9 October 2040, and bear interest at a rate between 8,9% and 13,5%.

[2] Rand-denominated unsecured domestic loans are repayable over periods between 15 March 2019 and 1 February 2036, and bear interest at rates ranging between 7,583% and 15,79%.

[3] Foreign currency bonds are denominated in United States Dollar, redeemable on 26 July 2022, and bear interest at a rate of 4,0%.
Foreign currency unsecured loans are denominated in Japanese Yen, Euro and United States Dollar, repayable between 25 March 2019 and 15 November 2019, and bear interest at rates between 1,379% and 3,3875%.

[4] Rand-denominated secured loans are repayable over periods between 20 December 2021 and 17 September 2029, and bear interest at rates ranging between 7,715% and 10,37% with floating rates linked to JIBAR.

[5] Rand-denominated capitalised finance lease liabilities bear interest at rates ranging between 7,25% and 16,93% with all rates fixed. These liabilities are repayable over periods between the 2019 and 2027 financial years.

[6] Foreign currency secured loans are denominated in United States Dollar, bear interest at rates ranging between 4,118% and 4,715%, and are repayable on 12 June 2030.

Notes to the annual financial statements

for the year ended 31 March 2018

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		25. Provisions		
1 944	2 258	Comprising:	2 258	1 944
1 886	1 944	Total provisions at the beginning of the year	1 944	1 886
988	1 565	Provisions recognised during the year and unwinding of discounts	1 565	988
(948)	(1 106)	Provisions utilised	(1 106)	(948)
18	(145)	(Increase)/decrease in short-term provisions classified as current liabilities	(145)	18
355	420	**Third-party claims**	420	355
357	355	Balance at the beginning of the year	355	357
784	858	Provisions recognised during the year	858	784
(786)	(793)	Utilised during the year	(793)	(786)
72	112	**Customer claims**	112	72
39	72	Balance at the beginning of the year	72	39
33	49	Provisions recognised during the year	49	33
—	(9)	Utilised during the year	(9)	—
2 098	2 407	**Decommissioning and environmental liabilities**	2 407	2 098
2 048	2 098	Balance at the beginning of the year	2 098	2 048
119	397	Provisions recognised during the year and unwinding of discounts	397	119
(69)	(88)	Utilised during the year	(88)	(69)
24	24	**Restructuring**	24	24
24	24	Balance at the beginning of the year	24	24
309	354	**Other**	354	309
350	309	Balance at the beginning of the year	309	350
52	261	Provisions recognised during the year	261	52
(93)	(216)	Utilised during the year	(216)	(93)
2 858	3 317	**Total provisions**	3 317	2 858
914	1 059	*Less:* Short-term provisions classified as current liabilities	1 059	914
354	420	Third-party claims	420	354
72	112	Customer claims	112	72
178	173	Decommissioning and environmental liabilities	173	178
310	354	Other	354	310
1 944	2 258	Long-term provisions	2 258	1 944

25. Provisions continued

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

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

Third-party claims

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

Customer claims

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

Decommissioning and environmental liabilities

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

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

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

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

Restructuring

Provision for restructuring costs in terms of strategic plans that do not include any termination benefits payable to employees.

Notes to the annual financial statements

for the year ended 31 March 2018

Company 2017 Restated* R million	Company 2018 R million		Group 2018 R million	Group 2017 Restated* R million
		26. Deferred tax liabilities		
45 276	50 913	Comprising:	50 911	45 274
44 389	45 276	Opening balance	45 274	44 387
1 496	2 778	Recognised in profit or loss (refer note 8)	2 778	1 496
(609)	2 859	Raised in other comprehensive income	2 859	(609)
		Analysis of major categories of temporary differences		
12 613	14 325	**Deferred tax assets**	14 327	12 615
937	922	Provisions	922	937
1 500	1 765	Employee benefits	1 765	1 500
3 014	3 057	Revenue received in advance and deferred income	3 057	3 014
254	198	Capitalised lease liability	198	254
414	500	Allowance for credit losses	500	414
—	353	Cross-currency swaps	353	—
6 354	7 496	Estimated tax loss	7 496	6 354
140	34	Other	36	142
57 889	65 238	**Deferred tax liabilities**	65 238	57 889
172	180	Deferred expenditure	180	172
57 387	64 851	Property, plant and equipment	64 851	57 387
260	207	Future expenditure allowance	207	260
70	—	Cross-currency swaps	—	70
45 276	50 913	Net deferred tax liability	50 911	45 274

Refer to note 36 for the restatements to prior year results.

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		27. Construction contracts		
		Contracts in progress at the statement of financial position date		
2 132	2 445	Construction costs incurred plus recognised profits less losses to date	2 445	2 132
(1 536)	(1 802)	Less: Progress billings	(1 802)	(1 536)
596	643		643	596
		Recognised and included in the income statement		
1 610	1 838	Contract revenue (refer note 1)	1 838	1 610
		Statements of financial position		
598	647	Amounts due from customers under construction contracts (refer note 18)	647	598
75	36	Retention debtors (note 18)	36	75
		Contract revenue is recognised when the completed stage has been signed off as proof of quality satisfaction by the external customer.		
		28. Trade payables and accruals		
2 274	2 557	**Trade payables**	2 559	2 279
17 147	15 612	**Accruals**	15 635	17 186
12 286	10 523	Accrued expenditure	10 545	12 324
60	129	Deposits received	129	60
2 172	2 527	Accrued interest	2 527	2 172
761	819	Personnel costs	819	761
1 288	1 010	Revenue received in advance	1 010	1 288
14	18	SARS – withholding tax	18	14
566	586	SARS – value-added tax	587	567
2 208	3 086	**Employee benefits**	3 086	2 208
70	101	Other post-retirement and medical benefits (refer note 23)	101	70
1 033	997	Leave pay (refer note 23)	997	1 033
1 105	1 988	Incentive bonuses (refer note 23)	1 988	1 105
21 629	21 255		21 280	21 673
		29. Short-term borrowings		
14 079	25 157	Current portion of long-term interest-bearing borrowings (refer note 24)	25 157	14 079
(1 519)	—	Current portion of long-term interest-bearing borrowings repaid	—	(1 519)
1 194	3 800	Other short-term borrowings	3 800	1 194
13 754	28 957		28 957	13 754

Other short-term borrowings relate to the market-making portfolio and comprise the Group's position on bonds and other financial instruments, net of related repayments.

The short-term borrowings bear interest at rates between 1,379% and 11,75%, are repayable between April 2018 and March 2019, and are not guaranteed.

Notes to the annual financial statements

for the year ended 31 March 2018

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		30. Commitments		
		30.1 Capital commitments*		
1	85	Contracted for in US Dollars	85	1
34	1	Contracted for in Euros	1	34
43 522	36 515	Contracted for in SA Rands	36 515	43 522
—	1	Contracted for in various other currencies	1	—
43 557	36 602	Total capital commitments contracted for	36 602	43 557
185 605	127 136	Authorised by the directors but not yet contracted for	127 136	185 605
229 162	163 738		163 738	229 162
		Total capital commitments are expected to be incurred as follows:		
24 375	25 645	Within one year	25 645	24 375
138 884	138 093	After one year, but not more than five years	138 093	138 884
65 903	—	After five years, but not more than seven years	—	65 903
229 162	163 738		163 738	229 162
		These capital commitments will be financed utilising net cash flow from operations, debt capital markets, project finance and the use of operating leases.		
		* *Excludes capitalised borrowing costs of R11 614 million (2017: R17 613 million).*		
		30.2 Operating lease commitments		
		Future minimum rentals under non-cancellable leases are as follows:		
		Land, buildings and structures		
148	173	Within one year	173	148
312	368	After one year, but not more than five years	368	312
124	122	More than five years	122	124
584	663		663	584
		Aircraft, machinery, equipment, furniture and motor vehicles		
134	109	Within one year	109	134
387	229	After one year, but not more than five years	229	387
1	—	More than five years	—	1
522	338		338	522
		Security and maintenance contracts		
8	—	Within one year	—	8
8	—		—	8
		Other		
17	—	Within one year	—	17
48	—	After one year, but not more than five years	—	48
65	—		—	65

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		30. Commitments continued		
		30.3 Finance lease commitments		
		The finance leases relate to the Kimberley – De Aar transmission line, vehicles and computer equipment. These finance leases have a lease term ranging between three and 25 years. The interest rates vary from 7,25% to 16,93%.		
		Included in property, plant and equipment are assets under lease with a carrying value of R631 million (2017: R723 million).		
		Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments, are as follows:		
		Machinery, computer equipment and vehicles		
553	251	Within one year	251	553
564	442	After one year, but not more than five years	442	564
64	52	More than five years	52	64
1 181	745	Total minimum lease payments	745	1 181
(74)	(39)	Amount representing finance charges	(39)	(74)
1 107	706	Present value of minimum lease payments	706	1 107
		Included in the financial statements as:		
522	232	– Current borrowings	232	522
585	474	– Non-current borrowings	474	585
1 107	706		706	1 107
		30.4 Lease rentals receivable		
		Future minimum rentals under operating leases are as follows:		
		Property		
1 133	2 228	Within one year	2 228	1 133
6 648	9 577	After one year, but not more than five years	9 577	6 648
12 945	16 307	More than five years	16 307	12 945
20 726	28 112		28 112	20 726
		The lease rentals relate mainly to land and buildings. These are mainly short-term rentals with an escalation varying from 7,0% to 14,0%.		
		31. Contingent liabilities and guarantees		
870	2 036	Various contingent liabilities where no material losses are expected to materialise*	2 036	870
15	56	Various contingent assets where the inflow of economic benefits is probable, but not virtually certain	56	15

* *The owners and underwriters of a plaintiff issued summons against Transnet for loss of a vessel and damages arising from alleged breaches of legal and statutory duties imposed upon Transnet, as well as alleged breaches of legal duties owed by Transnet to the plaintiff in the circumstances. The summons relates to the loss of the vessel and cargo. Transnet continues to defend all claims.*
Two plaintiffs have sought from the High Court a declaration that the agreement incorporating the so-called 'Neutrality Principle' remains valid and binding upon Transnet, notwithstanding the advent of the National Regulator and the Petroleum Pipelines Act. In the event that such agreement is declared to remain so valid, monetary compensation is claimed.

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32. Post-retirement benefit obligations

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

32.1 Pension benefits

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

32.1.1 Transnet Retirement Fund

The fund is structured as a defined contribution fund and all employees of the Group are eligible members of the fund. There were 59 999 members at 31 March 2018 (2017: 62 647). Actuarial valuations are performed regularly to determine the financial position of the fund. The last actuarial valuation was performed as at 31 March 2017 and the actuaries were satisfied with the status of the member's credit account as at that date. The total contributions for the year constitute member contributions of R1 272 million (2017: R1 154 million) and employer contributions of R1 254 million (2017: R1 137 million).

32.1.2 Transport Pension Fund: Transnet Sub-fund

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

Members of the fund are entitled to minimum benefits as per the Pension Funds Second Amendment Act, 2001, as set out in section 14A of the Act. This minimum benefit is defined in section 14B (2)(a) of the Act as the fair value equivalent of the present value of the member's accrued deferred pension calculated at a prescribed rate of discount.

The Transnet Pension Fund Amendment Act, No 6 of 2007 changed the name of the fund with effect from 11 November 2005 to the Transport Pension Fund. The Act restructured the Transport Pension Fund (formerly the Transnet Pension Fund) into a multi-employer pension fund. From the date the Act came into operation, all existing members, pensioners, dependant pensioners, liabilities, assets, rights and obligations of the Transport Pension Fund were attributed to three sub-funds, with Transnet as the principal employer for one of the sub-funds. In terms of the amendments to the Act, a sub-fund in the name of South African Airways (Pty) Ltd was also established as at 1 April 2006, with South African Airways (Pty) Ltd as the principal employer of that sub-fund, and a further sub-fund in the name of the South African Rail Commuter Corporation Ltd (now Passenger Rail Agency of South Africa) was established with effect from 1 May 2006, with the South African Rail Commuter Corporation Ltd as the principal employer of that sub-fund.

All active members and pensioner members belonging to the South African Airways (Pty) Ltd and the South African Rail Commuter Corporation Ltd were assigned to the new sub-funds. The Transport Pension Fund therefore comprises three independent and separate sub-funds, each with their own principal employer. An employer's liability to the Transport Pension Fund is limited to those attributable to its members, pensioners and dependant pensioners assigned to its sub-fund.

There were 4 485 members and pensioners at 31 March 2018 (2017: 4 601). The fund gives members the option to transfer to the Transnet Retirement Fund twice a year. Altogether, two members opted to transfer to the Transnet Retirement Fund in the current year (2017: 15). The effect of this transfer is noted in the reconciliations below.

For purposes of this valuation, the duration of the defined benefit obligation is approximated, based on the current membership profile, to be seven years.

32. Post-retirement benefit obligations continued

32.1.2 Transport Pension Fund: Transnet Sub-fund continued

	Group	
	2018 R million	**2017 R million**
An actuarial valuation was performed as at 31 March 2018 based on the projected unit credit method. The principal actuarial assumptions used are as follows:		
Discount rate (%)	**8,37**	9,43
Inflation rate (%)	**6,10**	6,89
Salary increase rate (%)	**7,10**	7,89
Pension increase allowance (%)	**2,00**	2,00
The results of the actuarial valuation are as follows:		
Benefit liability		
Present value of obligation	**(2 837)**	(2 733)
Fair value of plan assets	**6 422**	7 058
Surplus	**3 585**	4 325
Unrecognised asset	**(3 585)**	(4 325)
Net asset/(liability) recognised in the statement of financial position	**—**	—
The liability recognised for this fund relating to the Company amounts to nil (2017: nil).		
The surplus was not recognised as the rules of the fund do not provide for the surpluses to be distributed.		
Net expense recognised in profit or loss		
Service cost	**(20)**	(21)
Net interest income	**408**	346
	388	325
Less: Interest on asset limit	**(408)**	(346)
	(20)	(21)
Actual return on plan assets	**(324)**	860
Total measurements recognised in other comprehensive income for the year	**14**	10
— net actuarial gain	**(1 134)**	316
— interest on asset limit	**408**	346
— asset not recognised	**740**	(652)
Movements in the net asset/(liability) recognised in the statement of financial position		
Opening net asset	**4 325**	3 673
Profit or loss as above	**(20)**	(21)
Remeasurements — actuarial gain	**(1 134)**	316
— interest on asset limit	**408**	346
Contributions paid by employer	**6**	11
Closing net asset	**3 585**	4 325
Asset not recognised	**(3 585)**	(4 325)
Net asset/(liability) recognised in the statement of financial position	**—**	—

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	Group 2018 R million	Group 2017 R million
32. Post-retirement benefit obligations continued		
32.1.2 Transport Pension Fund: Transnet Sub-fund continued		
Reconciliation of movement in benefit liability		
Opening benefit liability	**(2 733)**	(2 858)
Service cost	**(20)**	(21)
Contributions by members	**(4)**	(4)
Interest cost	**(246)**	(258)
Actuarial (loss)/gain	**(157)**	60
— change in economic assumptions	**(193)**	22
— experience adjustments	**85**	90
— bonus award to pensioners	**(49)**	(52)
Benefits paid	**323**	347
Expenses	**—**	1
	(2 837)	(2 733)
Transfer to the retirement fund	**—**	—
Closing benefit liability	**(2 837)**	(2 733)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	**7 058**	6 531
Interest income	**654**	604
Actuarial (loss)/gain	**(977)**	256
Contributions by employer and members	**10**	15
Benefits paid	**(323)**	(347)
Expenses	**—**	(1)
	6 422	7 058
Transfer to the retirement fund	**—**	—
Closing fair value of plan assets	**6 422**	7 058

The estimated contributions by both employer and members for the year beginning 1 April 2018 amount to R10 million (2017: R15 million).

	Group 2018 R million	Group 2017 R million
Sensitivity analysis		
Closing benefit liability based on changes in the discounts rate:		
7,37% (2017: 8,43%)	**(3 039)**	2 927
9,37% (2017: 10,43%)	**(2 647)**	2 550
Closing benefit liability based on changes in the inflation rate:		
5,10% (2017: 5,89%)	**(2 809)**	2 706
7,10% (2017: 7,89%)	**(2 866)**	2 760
The major categories of plan assets as a % of total plan assets are:		
Equity – local and international (%)	**56**	57
Property (%)	**5**	7
Bonds (%)	**38**	33
Cash (%)	**1**	3
Total (%)	**100**	100

32. Post-retirement benefit obligations continued

32.1.3 Transnet Second Defined Benefit Fund

The fund was established on 1 November 2000 for the benefit of existing retired members and qualifying beneficiaries. The fund includes the spouses of black pensioners who retired from Transnet between 16 December 1974 and 1 April 1986. There were 15 517 members at 31 March 2018 (2017: 17 085). This excludes widows and children of pensioners. The all-inclusive membership is 49 942 at 31 March 2018 (2017: 52 925). The entire obligation relates to Transnet SOC Ltd.

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

	Group 2018 R million	Group 2017 R million
Discount rate (%)	**7,84**	8,57
Pension increase allowance (%)	**2,00**	2,00

The results of the actuarial valuation are as follows:

	Group 2018 R million	Group 2017 R million
Benefit liability		
Present value of obligation	**(11 165)**	(11 602)
Fair value of plan assets	**14 808**	15 203
Surplus	**3 643**	3 601
Unrecognised asset	**(3 643)**	(3 601)
Net asset/(liability) recognised in the statement of financial position	**—**	—

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

	Group 2018 R million	Group 2017 R million
Net expense recognised in profit or loss		
Service cost	**—**	—
Net interest income	**309**	301
	309	301
Less: Interest on asset limit	**(309)**	(301)
	—	—
Actual return on plan assets	**1 534**	2 055
Total measurements recognised in other comprehensive income for the year	**—**	—
— net actuarial (loss)/gain	**(267)**	42
— interest on asset limit	**309**	301
— net asset not recognised	**(42)**	(343)
Movements in the net asset/(liability) recognised in the statement of financial position		
Opening net asset	**3 601**	3 258
Profit or loss as above	**—**	—
Remeasurements — actuarial (loss)/gain	**(267)**	42
— interest on asset limit	**309**	301
Closing net asset	**3 643**	3 601
Asset not recognised	**(3 643)**	(3 601)
Net asset/(liability) recognised in the statement of financial position	**—**	—

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32. Post-retirement benefit obligations continued

32.1.3 Transnet Second Defined Benefit Fund continued

	Group 2018 R million	Group 2017 R million
Reconciliation of movement in benefit liability		
Opening benefit liability	**(11 602)**	(11 918)
Interest cost	**(928)**	(1 025)
Actuarial loss	**(563)**	(687)
— change in economic assumptions	**(473)**	(448)
— experience adjustments	**229**	111
— bonus award to pensioners	**(319)**	(350)
Benefits paid	**1 928**	2 028
Closing benefit liability	**(11 165)**	(11 602)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	**15 203**	15 176
Interest income	**1 237**	1 326
Actuarial gain	**296**	729
Benefits paid	**(1 928)**	(2 028)
Closing fair value of plan assets	**14 808**	15 203
The estimated contributions by both employer and members for the year beginning 1 April 2018 amount to nil (2017: nil).		
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
6,84% (2017: 7,57%)	**(11 834)**	12 286
8,84% (2017: 9,57%)	**(10 550)**	10 975
The major categories of plan assets as a % of total plan assets are:		
Equity (%)	**29**	27
Property (%)	**1**	1
Bonds (%)	**47**	36
Derivatives (%)	**7**	0
Cash (%)	**16**	36
Total (%)	**100**	100

32. Post-retirement benefit obligations continued

32.1.4 Top Management Pensions and Workmen's Compensation Act pensioners

The Top Management Pensions are additional benefits to top up pensions received to eliminate the effects of any early retirement and resignation penalties applied under the Group's existing pension fund schemes to management appointed prior to 1 April 1999. There were 363 members at 31 March 2018 (2017: 379). The entire obligation relates to Transnet SOC Ltd. For purposes of this valuation, the duration of the defined benefit obligation is approximated, based on the current membership profile, to be 5,3 years.

The Workmen's Compensation Pension Fund Act benefit relates to the pension benefits that the Company pays to current and former employees who were disabled while in service prior to the corporatisation of Transnet in 1990. There were 983 members at 31 March 2018 (2017: 1 052). For purposes of this valuation, the duration of the defined benefit obligation is approximated based on the current membership profile to be 8,6 years.

Actuarial valuations for both benefits were performed to determine the present value of the obligations based on the projected unit credit method. There are no plan assets held to fund these obligations.

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

	Group 2018 R million	Group 2017 R million
Top Management Pensions		
The principal assumptions in determining the benefits are as follows:		
Discount rate (%)	**7,84**	8,57
Pension increase allowance (%)	**2,00**	2,00
Benefit liability		
Present value of obligations	**(65)**	(65)
Liability recognised in the statement of financial position	**(65)**	(65)
Net expense recognised in profit or loss		
Interest cost	**(5)**	(5)
	(5)	(5)
Actuarial loss recognised in other comprehensive income for the year	**(4)**	(5)
Reconciliation of movement in benefit liability		
Opening benefit liability	**(65)**	(64)
Expense as above	**(5)**	(5)
Actuarial loss	**(4)**	(5)
– change in economic assumptions	**(2)**	(3)
– experience adjustments	**(2)**	(2)
Benefits paid	**9**	9
Benefit liability at year end	**(65)**	(65)
The estimated contributions (based on current year contribution) for the year beginning 1 April 2018 amount to R9 million (2017: R9 million).		
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
6,84% (2017: 7,57%)	**(68)**	69
8,84% (2017: 9,57%)	**(61)**	62

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for the year ended 31 March 2018

	Group 2018 R million	Group 2017 R million
32. Post-retirement benefit obligations continued		
32.1.4 Top Management Pensions and Workmen's Compensation Act pensioners continued		
Workmen's Compensation Act pensioners' fund		
The principal assumptions in determining the benefits are as follows:		
Discount rate (%)	8,88	9,64
Pension increase (%)	6,52	7,12
Inflation rate (%)	6,52	7,12
Benefit liability		
Present value of obligations	(458)	(469)
Liability recognised in the statement of financial position	(458)	(469)
Net expense recognised in profit or loss		
Interest cost	(44)	(47)
	(44)	(47)
Actuarial gain recognised in other comprehensive income for the year	5	24
Reconciliation of movement in benefit liability		
Opening benefit liability	(469)	(493)
Interest cost	(44)	(47)
Actuarial gain	5	24
– change in economic assumptions	(3)	14
– experience adjustments	8	10
Benefits paid	50	47
Benefit liability at year-end	(458)	(469)
The estimated contributions (based on current year contribution) for the year beginning 1 April 2018 amount to R50 million (2017: R47 million).		
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
7,88% (2017: 8,64%)	(501)	513
9,88% (2017: 10,64%)	(421)	431
Closing benefit liability based on changes in the inflation rate:		
5,52% (2017: 6,12%)	(420)	430
7,52% (2017: 8,12%)	(501)	513

32.1.5 HIV/Aids benefits

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

32. Post-retirement benefit obligations continued

32.2 Post-retirement medical benefits

SATS pensioners' post-retirement medical benefits

The SATS pensioners are the retired employees of the former South African Transport Services (SATS) and their dependants. The liability is in respect of pensioners and their dependants who have elected to belong to the Transnet in-house medical scheme, Transmed, whose membership is voluntary. Transnet subsidises the medical contribution costs at a flat contribution of R800 per principal member per month.

Transnet employees' post-retirement medical benefits

This includes the current and past employees of Transnet who are members of Transnet accredited medical schemes, namely Transnet's in-house medical aid, Transmed Medical Fund, Bestmed, Bonitas, Discovery Health and Sizwe. Membership is voluntary.

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

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

For purposes of this valuation, the duration of the post-retirement medical defined benefit obligation is approximated, based on the current membership profile, to be six years.

Analysis of benefit expense

The following summarises the components of the net benefit expense recognised in both the statement of comprehensive income and statement of financial position as at 31 March 2018 for both SATS pensioners and Transnet employees. The projected unit credit method has been used for the purposes of determining the actuarial valuation for both the funds:

	Group 2018 R million	Group 2017 R million
32.2.1 SATS pensioners		
Discount rate (%)	8,21	8,89
Benefit liability		
Present value of obligations	(392)	(445)
Liability recognised in the statement of financial position	(392)	(445)
Net expense recognised in profit or loss		
Interest cost	(36)	(42)
	(36)	(42)
Actuarial (loss)/gain recognised in other comprehensive income for the year	(1)	4
Reconciliation of movement in benefit liability		
Opening benefit liability	(445)	(507)
Interest cost	(36)	(42)
Company contributions	90	100
Actuarial (loss)/gain	(1)	4
– change in economic assumptions	(11)	(17)
– experience adjustments	10	21
Closing benefit liability	(392)	(445)
The estimated contributions (based on current year contribution) for the year beginning 1 April 2018 amount to R90 million (2017: R100 million).		
The medical inflation has no impact on the aggregate current service cost and interest cost, and the benefit liability. However, the assumed discount rate has an impact. The sensitivity of the obligation to a change in the assumed discount rate of 8,21% (2017: 8,89%) on the present value of the obligation is as follows:		
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
7,21% (2017: 7,89%)	(410)	465
9,21% (2017: 9,89%)	(375)	427

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32. Post-retirement benefit obligations continued

32.2.2 Transnet employees

	Group 2018 R million	Group 2017 R million
Discount rate (%)	**8,21**	8,89
Benefit liability		
Present value of obligations	**(217)**	(228)
Liability recognised in the statement of financial position	**(217)**	(228)
Net expense recognised in profit or loss		
Service cost	**(9)**	(8)
Interest cost	**(20)**	(26)
	(29)	(34)
Actuarial gain recognised in other comprehensive income for the year	**15**	74
Reconciliation of movement in benefit liability		
Opening benefit liability	**(228)**	(293)
Expense as above	**(29)**	(34)
Member and Company contributions	**25**	25
Actuarial gain	**15**	74
– change in economic assumptions	**(10)**	(5)
– experience adjustments	**25**	79
Closing benefit liability	**(217)**	(228)

The estimated contributions (based on current year contribution) for the year beginning 1 April 2018 amount to R25 million (2017: R25 million).

Transnet subsidises members at a flat contribution of R213 per month per member family. The medical inflation has no impact on the aggregate current service cost and interest cost, and the benefit liability. However, the assumed discount rate has an impact. The sensitivity of the obligation to a change in the assumed discount rate of 8,21% (2017: 8,89%) on the present value of the obligation is as follows:

	Group 2018 R million	Group 2017 R million
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
7,21% (2017: 7,89%)	**(232)**	(243)
9,21% (2017: 9,89%)	**(204)**	(215)

Exposure to risks

The risks faced by Transnet as a result of the post-employment pension obligations assets can be summarised as follows:

- **Inflation:** The risk that future CPI inflation is higher than expected.
- **Longevity:** The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected.
- **Open-ended, long-term liability:** The risk that the liability may be volatile in the future and uncertain.
- **Change in legislation:** The risk that changes to legislation, including tax laws with respect to the post-employment benefits, may increase the liability for the Group.
- **Investment risk:** The plan assets held by the Transport Pension Fund: Transnet Sub-fund and the Transnet Second Defined Benefit Fund are primarily invested in equities and bonds. This exposes the funds to a slight concentration of market risk. In addition, if the plan assets are not adequate or suitable to fund the liabilities of the funds (and the nature thereof), Transnet will be required to fund the deficit, thereby exposing it to investment return risk.

33. Related-party transactions

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

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

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

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

Transactions with related entities

Services rendered to related parties comprise principally transportation services. Services purchased from related parties comprised of principally energy, telecommunications, information technology and property-related services.

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

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		Services rendered		
1 039	**878**	Major public enterprises	**878**	1 039
1 385	**1 403**	Other public enterprises	**1 403**	1 385
950	**1 076**	National Government business enterprises	**1 076**	950
20	**20**	Associates	**20**	20
9	**10**	Subsidiaries	**—**	—
3 403	**3 387**		**3 377**	3 394
		Services received		
2 843	**2 937**	Major public enterprises	**2 937**	2 843
577	**565**	Other public enterprises	**565**	577
485	**451**	National Government business enterprises	**451**	485
3 905	**3 953**		**3 953**	3 905
		Amount due (to)/from		
227	**402**	Major public enterprises	**402**	227
94	**177**	Other public enterprises	**177**	94
(2 121)	**(1 888)**	National Government business enterprises	**(1 888)**	(2 121)
(1 800)	**(1 309)**		**(1 309)**	(1 800)

During the year, the Group raised R416 million (2017: R354 million raised) in relation to provisions and write-offs of credit losses on related parties, and at the reporting date the Group had a provision of R1 278 million (2017: R862 million) against debtors pertaining to related parties.

During the prior year, the Group entered into interest rate swaps with a related pension fund (see note 14).

Transactions with key management personnel

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

Details of key management compensation are set out in Annexure H.

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

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Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		34. Cash flow information		
		34.1 Cash generated from operations		
4 236	7 752	Profit before tax	7 629	4 265
8 910	10 157	Finance costs (refer note 34.3)	10 157	8 910
(399)	(285)	Finance income (refer note 34.4)	(302)	(409)
(1)	(9)	Dividend income	—	—
18 271	17 434	Elimination of non-cash items	17 431	18 252
13 471	13 686	– Depreciation, amortisation and derecognition (refer note 3)	13 686	13 471
277	439	– Increase in employee benefits	439	277
(6)	—	– (Reversal of impairment)/impairment of loss-making subsidiaries and associates (refer note 4.2)	—	—
703	681	– Impairment of trade and other receivables, and loans and advances (refer note 4.2)	681	703
1 835	760	– Impairment of property, plant and equipment (refer note 4.2)	760	1 835
—	1	– Impairment of intangible assets (refer note 4.2)	1	—
1 082	629	– Movement in provisions	629	1 082
—	—	– Share of profit from equity-accounted investees (refer note 13)	(9)	(20)
4 242	5 300	– Fair value adjustments on derivatives	5 300	4 242
(3 133)	(3 374)	– Unrealised foreign exchange losses	(3 374)	(3 133)
(34)	(1)	– Profit on sale of property, plant and equipment (refer note 2)	(1)	(34)
—	1	– Loss on disposal of intangible assets (refer note 2)	1	—
2	6	– Loss on sale of investment property (refer note 2)	6	2
48	28	– Discount on bonds amortised (refer note 6)	28	48
9	2	– Provision for inventory obsolescence	2	9
(42)	13	– Release of firm commitments and foreign exchange adjustments (refer Annexure B)	13	(42)
(4)	(41)	– Decommissioning liability (refer Annexure B)	(41)	(4)
(182)	(697)	– Fair value adjustment of investment property (refer note 5)	(697)	(182)
3	1	– Other non-cash items	7	(2)
31 017	35 049		34 915	31 018
		34.2 Changes in working capital		
231	231	Decrease in inventories	231	231
67	(1 999)	(Increase)/decrease in trade and other receivables	(1 999)	63
1 451	(374)	(Decrease)/increase in trade and other payables	(393)	1 453
1 749	(2 142)		(2 161)	1 747
		34.3 Finance costs		
9 051	10 211	Finance costs	10 211	9 045
53	176	Net foreign exchange gain on translation	176	59
(146)	(202)	Interest factor on clawback	(202)	(146)
(48)	(28)	Discounts on bonds amortised	(28)	(48)
8 910	10 157		10 157	8 910
(1 288)	(1 227)	Deferred interest	(1 227)	(1 288)
7 622	8 930		8 930	7 622

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		34. Cash flow information continued		
		34.4 Finance income		
399	285	Finance income	302	409
(52)	(41)	Held-to-maturity investments	(41)	(52)
347	244		261	357
		34.5 Tax paid		
(14)	(14)	Balance at the beginning of the year	(14)	(13)
—	7	Tax as in profit or loss	—	(4)
14	7	Balance at the end of the year	14	14
—	—		—	(3)
		34.6 Cash and cash equivalents		
6 418	4 087	Total cash and cash equivalents at the end of the year	4 380	6 422
		35. Headline earnings		
2 740	4 981	Profit for the year attributable to equity holder	4 851	2 765
(34)	(1)	Profit on disposal of property, plant and equipment (refer note 2)	(1)	(34)
—	1	Loss on disposal of intangible assets (refer note 2)	1	—
2	6	Loss on sale of investment property (refer note 2)	6	2
(182)	(697)	Fair value adjustments of investment property (refer note 5)	(697)	(182)
1 835	760	Impairment of property, plant and equipment (refer note 4.2)	760	1 835
—	1	Impairment of intangible assets (refer note 4.2)	1	—
(6)	—	Reversal of impairment of associates and subsidiaries (refer note 4.2)	—	—
4 355	5 051	**Headline earnings before tax effects**	4 921	4 386
		Tax effects		
10	—	Profit on disposal of property, plant and equipment	—	10
—	—	Loss on disposal of intangible assets	—	—
(1)	(2)	Loss on sale of investment property	(2)	(1)
34	156	Fair value adjustments on investment properties	156	34
(514)	(213)	Impairment of property, plant and equipment	(213)	(514)
2	—	Reversal of impairment of associates and subsidiaries	—	—
3 886	4 992	**Headline earnings**	4 862	3 915

36. Restatements

Prior year error

Revaluation of property, plant and equipment (port infrastructure)

The Group's policy is to perform a revaluation of its port infrastructure assets every three years and apply appropriate valuation indices in the intervening years. The carrying values of these assets are adjusted accordingly, but limited to the lower of the revaluation outcome and present value of future discounted cash flows. When future discounted cash flows apply, capital work-in progress relating to port infrastructure is taken into consideration when determining the revaluation adjustment. Unlike in prior years, the 31 March 2017 independent valuation expert's revaluation outcome was lower than the future discounted cash flows value. Therefore, at 31 March 2017, capital work-in-progress should not have formed part of determining the carrying values adjustment for port infrastructure. The impact of the inclusion of capital work-in-progress is limited to the 31 March 2017 financial year.

Restatements

Revaluation of property, plant and equipment (port infrastructure)

The inclusion of capital work-in-progress, as detailed above, resulted in a R1,5 billion understatement of property, plant and equipment as at 31 March 2017 and a corresponding understatement of revaluation reserves of R1,1 billion, net of deferred tax at 28% amounting to R421 million, as detailed further below.

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Company 2017 R million		Group 2017 R million
	36. Restatements	
	The restatements had the following impact on the financial statements:	
	Statement of financial position	
	Non-current assets	
311 927	Property, plant and equipment as previously reported	311 927
1 504	Adjustment to property, plant and equipment	1 504
313 431	Restated property, plant and equipment	313 431
143 302	Equity attributable to the equity holder as previously reported	143 563
1 083	Net effect of restatements	1 083
1 504	Adjustment to revaluation reserves	1 504
(421)	Deferred tax adjustment on revaluations	(421)
144 385	Restated equity attributable to the equity holder	144 646
	Non-current liabilities	
44 855	Deferred tax liabilities as previously reported	44 853
421	Adjustment to deferred tax liabilities	421
45 276	Restated deferred tax liabilities	45 274

37. Reportable irregularities

The Company's external auditors reported 13 irregularities in terms of section 45(1) of the Auditing Profession Act, No 26 of 2005, to the Independent Regulatory Board for Auditors.

Four irregularities relate to senior officials who approved and entered into lease agreements without following a procurement process for the letting of properties in contravention of the Company's Lease-Out Policy and Procurement Procedure Manual (PPM) [4 irregularities].

The above instances were in contravention of section 56 read with section 57 (a) to (d) of the PFMA, which requires that an official of a public entity must take effective and appropriate steps to prevent any undercollection of revenue due within the official's area of responsibility. The senior officials' failure to ensure compliance with Transnet's internal policy represents a material breach of fiduciary duty and is in contravention of section 76(2)(a)(i) and 76(3)(b) and (c) of the Companies Act, No 71 of 2008, as the officials did not exercise the powers and perform the functions of a prescribed officer to act in the best interests of the Company; and with the degree of care, skill and diligence that may reasonably be expected of the prescribed officers.

Senior officials are preparing condonation requests to regularise three of the continuing reportable irregularities which will be submitted to National Treasury for approval.

In the fourth instance the process to legally evict all illegal tenants is under way and the occupants are billed damages in lieu of illegal occupation. All allegations of fraud or theft have been dealt with and disciplinary action taken against the responsible officials.

Nine irregularities relate to senior officials who:

1. Approved the confinement procurement for three service providers in contravention of the Company's PPM [3 irregularities];
2. Approved a procurement contract with a service provider, and material payments were made to the service provider without a signed contract that resulted in non-compliance with the PFMA [1 irregularity];
3. Approved two procurement contracts with service providers that appointed subcontractors, and payments were approved without a valid agreement resulting in non-compliance with the PPM [2 irregularities];
4. Awarded a contract, and subsequently the extension of the contract, for the acquisition of services from a service provider without following the proper procurement procedures in contravention of the Company's PPM and section 217 of the Constitution [1 irregularity];
5. Irregularly awarded a contract to three service providers that passed the evaluation criteria based on adjusted SD criteria done after the closing date of the bid in contravention of the Company's PPM [1 irregularity]; and
6. Approved a two-year extension to a contract entered into with a service provider for an initial four years when total expenditure incurred at the time exceeded the originally approved estimated total cost; additionally, material payments were made to a subcontractor without a signed contract in contravention of the Company's PPM [1 irregularity].

37. Reportable irregularities continued

These senior officials did not ensure that the appointment of service providers were fair, equitable, transparent, competitive and cost effective as required by section 51(1)(a)(iii) of the PFMA as delegated to them in terms of section 56 and 57(d) of the PFMA – an official in a public entity must comply with the provisions of the PFMA to the extent applicable to those officials, including any delegations and instructions. The appointment of these service providers by senior officials did not meet the requirements of the PPM and the payments that were made resulted in irregular expenditure. This is in contravention of section 57(c) of the PFMA which requires that an official of a public entity must take effective and appropriate steps to prevent irregular expenditure within the official's area of responsibility. The senior officials therefore contravened section 76(3)(b) and (c) of the Companies Act as they did not exercise the powers and perform the functions of prescribed officers in the best interest of the Company; and with the degree of care, skill and diligence that may reasonably be expected of a prescribed officer.

There was reason to believe that the instances of non-compliance, noted above, constituted unlawful acts or omissions committed that represented material breaches of fiduciary duty on the part of the senior officials.

Six of the reportable irregularities are awaiting condonation and the related contracts have been terminated and/or have expired (items 2 to 6).

Senior officials are preparing a condonation request to regularise the one continuing reportable irregularity (item 1) which will be submitted to National Treasury for approval.

One remaining reportable irregularity (item 6) is under investigation and the outcome will be reported in the 31 March 2019 reporting period.

The following steps have been taken to ensure that these irregularities do not recur:

- Where suppliers have entered into a partnership, Transnet will, prior to making an award, ensure that a contract between those parties is submitted and verified.
- Management has clearly articulated what constitutes an emergency and has notified all employees; training for applicable management is being conducted to ensure key principles are understood.
- Where an unsolicited bid is submitted, Transnet will issue a request for quotations or proposals.
- Management has implemented a process to regulate the management of information as well as to promote information security.
- A Group-wide directive regarding cessions, setting out the detailed requirements of approving and implementing cessions, including the cession agreements that must be in place, will be issued.
- With the issuing of the National Treasury instruction note 3 of 2016/2017 'Preventing and Combating abuse in the supply chain system', clear direction is provided in the approval processes for deviations from normal bidding processes. The instruction note in section 8 clearly indicates what the Accounting Authority may approve in terms of 'sole source' and emergencies as well as setting out the approval process for 'single source' events by National Treasury. This instruction note has been implemented in Transnet since its effective date.
- A Group-wide directive regarding 'sole source' transactions will be issued, providing clarity on what would constitute sufficient evidence to support 'sole source' and confirming that 'desktop exercises' are not sufficient evidence. The directive will further indicate that where there is any doubt regarding 'sole source' that the 'single source' route of approval via National Treasury must be followed.
- A communique has been distributed to all staff to avoid entering into revenue-generating contracts which would otherwise trigger a procurement event.
- Transnet will not vary any evaluation criteria after the closing date of the tender, and will ensure continued adherence with the evaluation criteria and methodology that would have been predetermined prior to the issuing of a tender.
- Prior to the approval of strategies and the issuing of tenders, Transnet will ensure that a Cross-functional Sourcing Team, comprising representatives from all relevant stakeholders is established to assist with ensuring all relevant considerations on the evaluation criteria, risks, financial implications and the possibility of securing value-adding commitments, i.e. SD and improved service levels, etc. have been adequately addressed prior to issuing a tender.
- Directives issued will be incorporated in the next revision of the PPM.

38. Going concern

Bilateral and syndicated loans amounting to R15,8 billion have a clause relating to a qualified audit opinion as an event of default. The qualification of Transnet's annual financial statements is an event of default under these financing agreements.

On declaration of the qualification, the bilateral and syndicated loan lenders have a right to accelerate their loans which then become due and payable.

The Board and management have engaged these lenders to share the nature of the qualification, root causes, remedial actions and timelines for remediation. The engagements took place in a positive environment, gaining confidence from the lenders that the partnership with Transnet remains strong, against the backdrop of the strong financial position and cash flow generating capability of Transnet.

To date, half of the lenders granted waivers and/or reserved rights to immediate acceleration to allow Transnet the opportunity to implement remedial actions to improve the control environment around the prevention and detection of irregular expenditure. Transnet is confident that an agreement will be reached with all affected lenders to the satisfaction of all parties.

Annexure A
for the year ended 31 March 2018

Introduction

The Group has a centralised Treasury function which performs a supporting role to the Transnet Operating Divisions and is tasked with the following three main objectives, namely:
- Ensuring that the Group is cost effectively and timeously funded in support of the Group's Market Demand Strategy (MDS), which is mainly executed by the Operating Divisions;
- Managing both financial and operational risks; and
- Lowering the overall cost of doing business and adding value to the overall business of Transnet.

All of these objectives should be performed in a professional and ethical manner in line with Transnet's Governance Framework.

Policies

The financial risk management policies are contained in a Board-approved Financial Risk Management Framework (FRMF). The objective of the FRMF is to provide clear guidelines for effective risk management by ensuring that:
- Risks are independently identified, assessed, quantified, mitigated and monitored regularly;
- Mitigating hedging strategies are developed and implemented;
- The effectiveness of hedging strategies are monitored monthly; and
- Risk exposures are performance measured and formally reported to the appropriate authorities.

The FRMF is approved by the Board of Directors on an annual basis and is aligned with the Group enterprise-wide risk management framework (ERM), the Treasury regulations, PFMA, King IV Code and the Protocol on Corporate Governance, Charter of Best Practice of the Association of Corporate Treasurers of South Africa and other applicable legislation and regulations.

Apart from the requirements of the FRMF, Treasury must operate within the limits contained in the Transnet Delegation of Authority (DOA) Framework as approved by the Board of Directors.

Risk philosophy

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

Risk profile and risk management

Financial risk assessment and analysis are disclosed on a monthly basis to the Group Treasurer, the Chief Financial Officer, the Transnet Finance Team and the Transnet GLT. The GLT is responsible for reporting financial risk exposures to the Transnet Board of Directors at scheduled Board meetings.

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

Counterparty risk

Counterparty risk exposures arise mainly as a result of the investment of operational cash on hand, surplus cash due to prefunding strategies, positive fair market values of derivative hedging instruments and guarantees issued by counterparties to mitigate financial risks in supply agreements. The Group's main objectives of its counterparty risk policies are:
- To mitigate counterparty risk exposures;
- To diversify counterparty risk exposures;
- To set limits for the different types of counterparty risk exposures; and
- To ensure that financial transactions are done with approved high-credit-quality counterparties.

The counterparty risk policy of the Group is fully aligned with the requirements of the Treasury Regulations as referred to in the PFMA:
- Selection of counterparties through credit risk analysis;
- Establishment of investment limits per institution;
- Establishment of investment limits per investment instrument;
- Monitoring of investments against limits;
- Reassessment of investment policies on a regular basis;
- Reassessment of counterparty credit risk based on credit ratings; and
- Assessment of investment instruments based on liquidity requirements.

The Group's exposures to counterparty risks in respect of all Treasury-related transactions are confined to credible counterparties and are managed within Board-approved credit limits. Limits are reviewed and approved by the Board Audit Committee on an annual basis. Trade receivables are presented net of impairments. It is Treasury's policy to perform ongoing credit evaluations of the financial position of its counterparties. Guarantees are issued under specific powers granted in terms of section 66 of the PFMA and in accordance with a Board-approved DOA Framework.

Investments and hedging transactions are only allowed with international counterparties that are local authorised dealers with a minimum international long-term issuer default credit rating of A- (Fitch Ratings) or A- (Standard and Poor's) or A3 (Moody's) and domestic counterparties with a minimum national long-term credit rating of A- (zaf) (Fitch Ratings) or A- (Standard and Poor's) or A3 (Moody's) and approved by the Board Audit Committee as an approved counterparty. In addition to this, the counterparty must have a minimum short-term credit rating of F-1 (Fitch Ratings) or P-1 (Moody's) or A-1 (Standard and Poor's) to qualify for cash type of investments. No more than 40% of overall cash available may be invested with counterparties in the A rating category and is limited to 33% per investment type per counterparty. Money market funds are utilised as the major investment vehicle for surplus cash due to its diversified risk profile and enhanced return.

Market risk

This will be discussed under the following headings: Foreign currency risk, Commodity risk, Interest rate risk and Other price risk.

Foreign currency risk

Foreign currency risk arises mainly as a result of the Group's MDS and operational expenditure programmes, where goods are imported from foreign countries and are exposed to currency fluctuations, as well as the raising of funding in a foreign currency. Transnet's main objectives of its foreign currency risk policies are:
- To mitigate foreign currency risk exposures;
- To bring certainty about future Rand cash flows where foreign currency is involved; and
- To insulate the Group's statement of comprehensive income against exchange rate fluctuations.

Transnet's policy only allows unhedged foreign currency risk exposures limited to 0,5% of annual operational budget and 1% of annual capital expenditure budget. All foreign currency risk exposures are hedged within the guidelines of the Board-approved FRMF and DOA as soon as the supplier and funding agreements are signed. It is the Group's preference to enter into Rand-based supplier and funding agreements, if this can be achieved at an acceptable cost, with no foreign currency risk recourse to Transnet. If this approach is not cost effective, Transnet will then hedge on its own financial position. No pooling of hedging across different exposure types is allowed and hedging is done per project exposure.

The foreign currency position is monitored on a monthly basis by obtaining the net foreign currency position from business units. Foreign currency risk exposures are fully hedged until maturity with approved hedging instruments after taking the taxation, financial risk, accounting, operational and system implications into consideration. Hedge accounting is applied to all structures greater than USD5 million to minimise volatility in the statement of comprehensive income, and the performance is monitored monthly by the hedge accounting committee, which is a subcommittee of the finance team, to ensure proper implementation and adherence to guidelines.

Commodity risk

Commodity risk refers to the impact of changes in pricing of commodities due to changes in underlying commodity prices, such as Brent crude oil, steel, iron ore and others, on Transnet's business. Only fuel risk exposures are actively monitored by Treasury on a regular basis and are hedged in terms of the Board-approved FRMF and DOA. Major customer agreements in respect of the General Freight Business (GFB) of the Group are structured in such a way that tariffs can be adjusted to compensate for changes in fuel prices (Brent and exchange rates), steel prices and electricity and do provide some natural risk offset. Only the unhedged portion on fuel will be considered for hedging purposes in terms of approved policies. The Board-approved FRMF requires the utilisation of vanilla-type hedging instruments that are highly liquid with a maximum tenor of 18 months, and the underlying used in a hedging strategy must have a very high correlation with the actual product consumed. The purpose of fuel hedging is to protect the Group's annual approved fuel budget. Where practically possible from a cost perspective, the Operating Divisions' preference is to enter into fixed Rand contracts with suppliers as a risk mitigation against fluctuation of commodity prices over the tenors of the contracts.

Annexure A

for the year ended 31 March 2018

Interest rate risk

This refers to the potential variability in Transnet's financial condition owing to changes in interest rate levels. The Group's borrowing programme, investments in interest-bearing instruments and derivative financial instruments create an exposure to this risk. The Group's main objectives in managing interest rate risk are as follows:

- Manage the ratio of floating rate exposures versus fixed rate exposures;
- Maintain or reduce the weighted average cost of debt (WACD) gap to prevailing market rates;
- Take advantage of interest rate cycles;
- Support the business strategy insofar as interest rates are concerned;
- Minimise the negative impact of adverse interest rate movements on the Group's net income, cash flows and external finance cost budget within an acceptable risk profile;
- Minimise the market-making cost of the Group's repo facilities granted to the external market-making panel under the domestic medium-term note (DMTN) programme;
- Manage the basis risk exposure where interest rate risk is netted between investments and borrowings; and
- Manage the duration of the debt portfolio (including derivatives) to try and achieve alignment with the duration of the average payback periods of assets.

The Group measures interest rate risk by calculating the impact of fair value movements on derivatives and floating rate loans, and running cash flow at risk scenarios and extreme sensitivities to determine the impact against the annually approved external finance cost budget in respect of existing liabilities and new funding requirements per financial year. All foreign currency interest rate risk exposures are hedged to Rand as soon as agreements are concluded. The Group's Treasury is allowed to manage the fixed/floating interest rate risk exposure within Board-approved ranges.

Other price risk

The only other market risk that Transnet is exposed to is equity price risk. Although Transnet does not trade in equities, it has an equity investment in Brazil, which is listed on the Brazilian Stock Exchange. This is a very small portion of the overall risk exposure of Transnet.

Liquidity risk

Liquidity risk exposures arise mainly as a result of the Group's seven-year MDS and operational expenditure programme, as well as the redemption of loans and daily operational cash requirements. The Group has established a liquidity risk management policy to:

- Manage the contractual maturity gap between assets and liabilities;
- Manage current and projected cash flows;
- Maintain an adequate level of cash holdings;
- Diversify funding sources and have funding programmes available to reduce reliance on particular sources to support effective liquidity risk management;
- Spread the maturity of debt issues to reduce refinancing risk;
- Prefund major capital redemptions to mitigate liquidity risk; and
- Extend the debt portfolio to match the underlying assets, where needed.

During the past financial year, Transnet used the DMTN programme, Development Finance Institutional funding and Export Credit Agency guaranteed funding for its MDS and operational expenditure programmes to mitigate liquidity risk. Total bonds and commercial paper issued under the DMTN programme amounted to R2,1 billion, total development finance institutions funding was R3,5 billion, while total export credit agency supported funding was R2,8 billion, R30,0 billion of call loans were executed of which R25,2 billion has been repaid.

The DMTN programme size is R80 billion, of which an amount of R41,53 billion is still available. The global medium-term note (GMTN) programme size is USD6 billion of which an amount of USD4,5 billion is available. No issues were done on the GMTN programme during the 2018 financial year.

Certain thresholds, which are a combination of available cash, committed and uncommitted bank facilities, minimum cash liquidity buffer and the prefunding of major loan redemptions, are minimum requirements of the approved policy to further ensure effective liquidity risk management. Capital market investments are only allowed if there is a requirement to ringfence cash for longer periods on a specific project, or as a result of a condition stipulated by a Regulator. The intention is always to keep the investment until maturity to avoid any capital losses.

Transnet also produces a 'seven-year cash flow projection' as part of the annual MDS strategy update. These provide Treasury with a good estimate of the Group's future funding requirements per financial year.

Additional thresholds have been included in the past financial year to enhance liquidity risk management across the Group.

Bonds at carrying and nominal values

Transnet issues bonds listed on the Johannesburg Stock Exchange (JSE), Luxembourg Stock Exchange and the London Stock Exchange. The following bonds were in issue at 31 March 2018 for the Company and the Group:

				2018		2017	
	Bond	Redemption date	Coupon rate %	Carrying value R million	Nominal value R million	Carrying value R million	Nominal value R million
Domestic Rand bonds	TN17	14 Nov 17	9,25	—	—	6 962	7 000
	TN20	17 Sept 20	10,50	7 124	7 000	7 167	7 000
	TN21U	13 May 21	9,50	975	1 000	—	—
	TN23	6 Nov 23	10,80	7 225	7 000	7 254	7 000
	TN25	19 Aug 25	9,50	7 024	7 000	7 026	7 000
	TN27	14 Nov 27	8,90	6 475	7 000	6 444	7 000
	TN30	9 Oct 30	10,50	3 347	3 371	3 314	3 336
	TNF40	9 Oct 40	10,75	3 123	3 130	3 106	3 110
	TNF18 FRN	22 Aug 18	8,43	1 500	1 500	1 500	1 500
	TNF20U FRN	14 Apr 20	8,9	1 000	1 000	1 000	1 000
Total domestic Rand bonds				**37 793**	**38 001**	43 773	43 946
Foreign Rand bonds	TNZA21	13 May 21	9,50	5 000	5 000	5 000	5 000
	Euro 2028[1]	18 Apr 28	13,50	1 961	2 000	1 960	2 000
	Euro 2029[1]	30 Mar 29	10,00	1 101	1 500	1 088	1 500
Total foreign Rand bonds				**8 062**	**8 500**	8 048	8 500
USD bonds	TNUS22	26 Jul 22	4,00	11 790	11 855	13 320	13 404
Total foreign currency bonds				**11 790**	**11 855**	13 320	13 404
Total bonds in issue at year-end				**57 645**	**58 356**	65 141	65 850

[1] *These bonds are guaranteed by the Government of the Republic of South Africa, and the Company paid R1,2 million in guarantee fees (2017: R1,2 million). The amounts in the above table are all in respect of bonds held at amortised cost.*

Annexure A

for the year ended 31 March 2018

Concentration of liquidity risk

The sources of funding are tabled below. Altogether 48% of the borrowings are widely held (2017: 54%):

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
3 361	**4 357**	ABSA Bank Ltd	**4 357**	3 361
4 520	**4 183**	African Development Bank	**4 183**	4 520
1 806	**1 671**	American Family Life Assurance Co. (AFLAC)	**1 671**	1 806
3 000	**3 000**	Bank of China	**3 000**	3 000
8 259	**10 503**	China Development Bank	**10 503**	8 259
5 780	**5 481**	Export Development Canada	**5 481**	5 780
1 500	**1 386**	FutureGrowth Asset Management (Pty) Ltd	**1 386**	1 500
1 153	**1 009**	French Development Bank	**1 009**	1 153
2 750	**5 253**	GFB 2015 (RF) Proprietary Limited (US Exim)	**5 253**	2 750
1 748	**1 748**	Export Development Canada/Investec Bank Ltd	**1 748**	1 748
2 760	**2 760**	KfW Development Bank	**2 760**	2 760
358	**181**	KFWIPEX_Bank GmbH/RMB/China Construction Bank	**181**	358
1 507	**1 410**	Libfin	**1 410**	1 507
4 394	**5 488**	Nedbank Ltd	**5 488**	4 394
1 450	**1 451**	Old Mutual Life Assurance Company (SA) Ltd	**1 451**	1 450
1 050	**1 051**	Old Mutual Specialised Finance (Pty) Ltd	**1 051**	1 050
2 721	**3 137**	RMB – Division of FirstRand Bank Ltd	**3 137**	2 721
	114	Sanlam Investment Management (Pty) Ltd	**114**	
1 500	**1 300**	Standard Bank Corporate Investment Bank	**1 300**	1 500
293	**204**	Standard Bank London	**204**	293
	127	State Bank of India	**127**	
1 649	**486**	Sumitomo Mitsui Banking Corporation	**486**	1 649
3 770	**1 725**	The Bank of Tokyo Mitsubishi Ltd	**1 725**	3 770
66 509	**58 622**	Various holders of Transnet bonds and commercial paper, widely held, and traded*	**58 622**	66 509
2 940	**5 901**	Other	**5 903**	2 942
124 778	**122 548**		**122 550**	124 780

** Includes bonds held at amortised cost R57 645 million, commercial paper R778 million and repo liabilities R199 million (2017: includes bonds held at amortised cost R65 141 million, commercial paper R1 301 million and repo liabilities R67 million).*

Funding plan

Over the next seven years Transnet will raise R81,7 billion from the market, which is 50% of Transnet's R163,7 billion capital investment plan.

	Target 2019 R million	Projections 2020 R million	2021 R million	2022 R million	2023 R million	Total R million
Loan redemptions	**(7 976)**	(6 279)	(13 149)	(11 099)	(16 988)	(55 491)
Total funding requirement	**(14 834)**	(12 739)	(18 544)	(18 173)	(17 415)	(81 705)

The following schedule depicts the probable sources of funding to be used by Transnet over the next five financial years, which will be driven by the Group's business strategy, liquidity, investor/lender appetite, as well as pricing:

	2019 R million	2020 R million	2021 R million	2022 R million	2023 R million
Commercial paper	**2 055**	3 000	2 500	2 700	3 000
Domestic bonds	**2 000**	2 000	5 000	5 300	5 500
DFIs/ECAs/GMTN	**3 779**	3 000	8 000	6 173	5 415
Bank loans/other	**7 000**	4 739	3 044	4 000	3 500
Total funding	**14 834**	12 739	18 544	18 173	17 415

Contractual maturity analysis

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements, as at 31 March 2018 for the Company and the Group:

	Carrying value 2018 R million	Contractual cash flows 2018 R million	0 to 12 months R million	1 to 2 years R million	2 to 3 years R million	3 to 4 years R million	4 to 5 years R million	More than 5 years R million
Non-derivative financial liabilities								
Bonds (Company and Group)	(57 645)	(96 697)	(6 042)	(5 013)	(12 581)	(9 906)	(15 062)	(48 093)
Secured bank loans (Company)	(18 226)	(25 951)	(1 965)	(2 746)	(3 147)	(3 035)	(2 339)	(12 709)
Secured bank loans (Group)	(18 228)	(25 953)	(1 967)	(2 748)	(3 149)	(3 037)	(2 341)	(12 711)
Unsecured bank loans (Company and Group)	(35 969)	(57 668)	(7 908)	(7 105)	(5 627)	(5 355)	(4 930)	(26 743)
Commercial paper (Company and Group)	(778)	(778)	(778)	—	—	—	—	—
Other short-term borrowings (Company and Group)	(9 930)	(12 506)	(4 469)	(1 288)	(857)	(857)	(5 035)	—
Total borrowings (Company)	(122 548)	(193 600)	(21 162)	(16 152)	(22 212)	(19 153)	(27 366)	(87 545)
Total borrowings (Group)	(122 550)	(193 602)	(21 164)	(16 154)	(22 214)	(19 155)	(27 368)	(87 547)
Trade payables and accruals (Company)[1]	(16 747)	(16 747)	(16 747)	—	—	—	—	—
Trade payables and accruals (Group)[1]	(16 770)	(16 770)	(16 770)	—	—	—	—	—
Derivative financial liabilities (Company and Group)								
Interest rate swaps	(2 372)	(3 020)	(637)	(557)	(504)	(401)	(299)	(622)
Forward exchange contracts used for hedging	(83)	(109)	(67)	(42)	—	—	—	—
Outflow	(994)	(1 025)	(811)	(214)	—	—	—	—
Inflow	911	916	744	172	—	—	—	—
Other forward exchange contracts	—	—	—	—	—	—	—	—
Outflow	(11)	(11)	(10)	(1)	—	—	—	—
Inflow	11	11	10	1	—	—	—	—
Total derivative financial liabilities	(2 455)	(3 129)	(704)	(599)	(504)	(401)	(299)	(622)

[1] Trade payables and accruals, excluding employee and VAT-related accruals.

Annexure A

for the year ended 31 March 2018

Contractual maturity analysis continued

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements, as at 31 March 2017 for the Company and the Group:

	Carrying value 2017 R million	Contractual cash flows 2017 R million	0 to 12 months R million	1 to 2 years R million	2 to 3 years R million	3 to 4 years R million	4 to 5 years R million	More than 5 years R million
Non-derivative financial liabilities								
Bonds (Company and Group)	(65 141)	(109 697)	(11 896)	(6 550)	(4 988)	(12 551)	(8 922)	(64 790)
Secured bank loans (Company)	(14 114)	(20 187)	(1 177)	(1 576)	(2 158)	(2 371)	(2 302)	(10 603)
Secured bank loans (Group)	(14 116)	(20 189)	(1 179)	(1 576)	(2 158)	(2 371)	(2 302)	(10 603)
Unsecured bank loans (Company and Group)	(41 214)	(66 305)	(7 440)	(8 653)	(7 327)	(5 695)	(5 432)	(31 758)
Commercial paper (Company and Group)	(1 301)	(1 301)	(1 301)	—	—	—	—	—
Other short-term borrowings (Company and Group)	(3 008)	(4 944)	187	578	(677)	(244)	(244)	(4 544)
Total borrowings (Company)	(124 778)	(202 434)	(21 627)	(16 201)	(15 150)	(20 861)	(16 900)	(111 695)
Total borrowings (Group)	(124 780)	(202 436)	(21 629)	(16 201)	(15 150)	(20 861)	(16 900)	(111 695)
Trade payables and accruals (Company)[1]	(18 080)	(18 080)	(18 080)	—	—	—	—	—
Trade payables and accruals (Group)[1]	(18 123)	(18 123)	(18 123)	—	—	—	—	—
Derivative financial liabilities (Company and Group)								
Interest rate swaps	(1 935)	(3 057)	(569)	(527)	(503)	(410)	(303)	(745)
Forward exchange contracts used for hedging	(48)	(54)	(54)	—	—	—	—	—
Outflow	(444)	(450)	(449)	(1)	—	—	—	—
Inflow	396	396	395	1	—	—	—	—
Other forward exchange contracts	(1)	(1)	(1)	—	—	—	—	—
Outflow	(15)	(15)	(15)	—	—	—	—	—
Inflow	14	14	14	—	—	—	—	—
Total derivative financial liabilities	(1 984)	(3 112)	(624)	(527)	(503)	(410)	(303)	(745)

[1] *Trade payables and accruals, excluding employee and tax-related accruals.*

Credit risk

Maximum exposure and analysis of exposures to credit risk

The following maximum exposures to credit risk existed at year end in respect of financial assets:

	2018				2017			
	Carrying value R million	Neither past due nor impaired R million	Past due but not impaired R million	Impaired R million	Carrying value R million	Neither past due nor impaired R million	Past due but not impaired R million	Impaired R million
Company								
Trade receivables								
– Low risk	3 266	3 117	149	(1 203)	3 448	3 249	199	(1 044)
– Medium risk	2 208	1 088	1 120	(529)	1 044	685	359	(305)
– High risk	995	532	463	(555)	1 268	534	734	(577)
	6 469	4 737	1 732	(2 287)	5 760	4 468	1 292	(1 926)
Other amounts receivable[1]	2 123	1 881	305	(58)	1 422	1 371	51	(45)
Investments – current	561	561	—	—	531	531	—	—
Long- and short-term loans and advances[2]	20	20	—	—	21	21	—	—
Loans to subsidiaries and associates	2	2	—	(400)	2	2	—	(400)
Guarantees issued	—	—	—	—	—	—	—	—
Investment and price risk	2 691	—	—	—	12 196	—	—	—
Group								
Trade receivables								
– Low risk	3 267	3 077	190	(1 201)	3 451	3 211	240	(1 044)
– Medium risk	2 208	1 088	1 120	(529)	1 044	685	359	(305)
– High risk	995	532	463	(573)	1 268	534	734	(595)
	6 470	4 697	1 773	(2 303)	5 763	4 430	1 333	(1 944)
Other amounts receivable[1]	2 128	1 823	305	(58)	1 425	1 374	51	(45)
Investments – current	561	561	—	—	531	531	—	—
Long- and short-term loans and advances[2]	20	20	—	—	21	21	—	—
Guarantees issued	—	—	—	—	—	—	—	—
Investment and price risk	2 691	—	—	—	12 196	—	—	—

[1] *Reconciliation to note 18*

Other amounts receivable	*R19 million (2017: R20 million)*	
Prepayments	*R1 million (2017: R1 million)*	
Prepayments and other amounts receivables	Company	Group
[2] *Long-term loans and advances (Company and Group)*	*R2 123 million (2017: R1 422 million)*	*R2 128 million (2017: R1 425 million)*
Short-term loans and advances (Company and Group)	*R489 million (2017: R579 million)*	*R489 million (2017: R579 million)*
	R2 612 million (2017: R2 001 million)	*R2 617 million (2017: R2 004 million)*

Low risk: No guarantee is required from the customer.

Medium risk: 50% to 75% guarantee required from the customer.

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

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

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

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

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

Credit enhancements in the form of title deeds and pension fund cessions for loans and advances, and deposits and guarantees in respect of amounts included in trade and other receivables, and loans and advances are held by the Group. The Group took possession of R6 million collateral during the current financial year (2017: nil).

Annexure A

for the year ended 31 March 2018

The following represents the ageing of the carrying value of financial assets past due but not impaired at 31 March 2018 for the Company and Group:

	1 – 30 days past due				31 – 60 days past due				More than 60 days past due			
	Total	Low risk	Medium risk	High risk	Total	Low risk	Medium risk	High risk	Total	Low risk	Medium risk	High risk
2018												
Trade receivables	304	52	110	142	287	46	110	131	1 183	91	901	191
Other receivables	72	72	—	—	13	13	—	—	220	220	—	—
2017												
Trade receivables	445	40	118	287	183	25	90	68	705	175	151	379
Other receivables	51	51	—	—	—	—	—	—	—	—	—	—

Guarantees and deposits to the value of R495 million were held as collateral (2017: R138 million).

The following financial assets have been specifically impaired for the Company and Group at year-end:

Trade receivables	2018 R million	2017 R million
Company		
Low risk	233	419
Medium risk	182	407
High risk	43	590
Group		
Low risk	234	420
Medium risk	182	407
High risk	43	590

Financial assets have been impaired based on the age of the debt and the inability to recover these specified assets. Guarantees and deposits amounting to R380 million (2017: R569 million) were held with respect to these. Payment terms were renegotiated with certain counterparties in respect of trade receivables during the year.

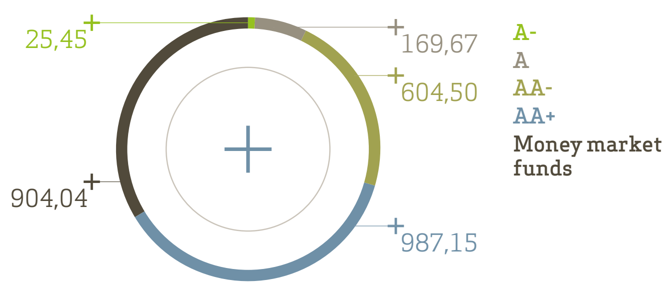
Concentration of credit risk

The Company and Group's 12 most significant customers (South African industrial enterprises) comprise 43% of the trade receivables carrying amount at 31 March 2018 (2017: 67%).

The following charts and graphs reflect the distribution of credit risk, expressed in terms of long-term credit ratings, excluding guarantees and trade receivables. The exposures below include cash investments (call, fixed deposits and money market funds), price risk exposures and operational bank balances.

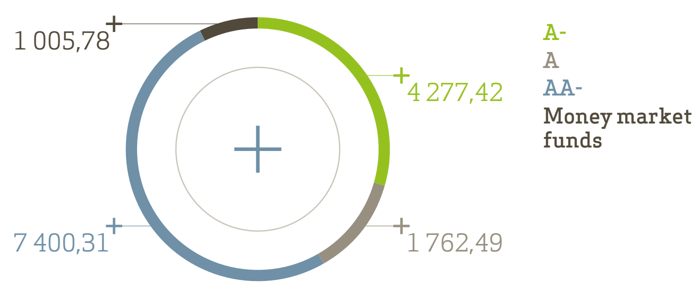
Transnet risk per long-term rating – 2018

R million

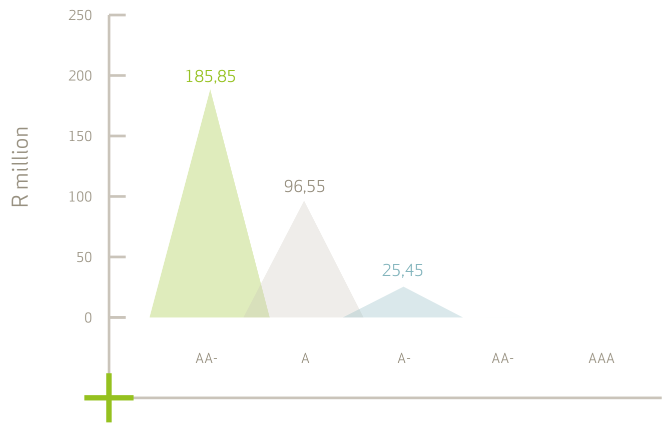


Transnet risk per long-term rating – 2017

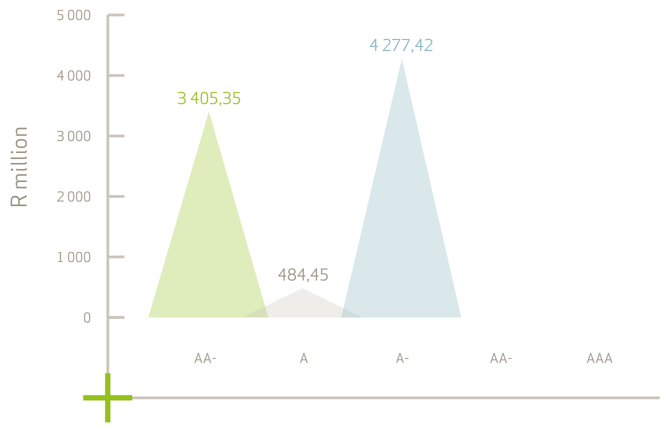
R million



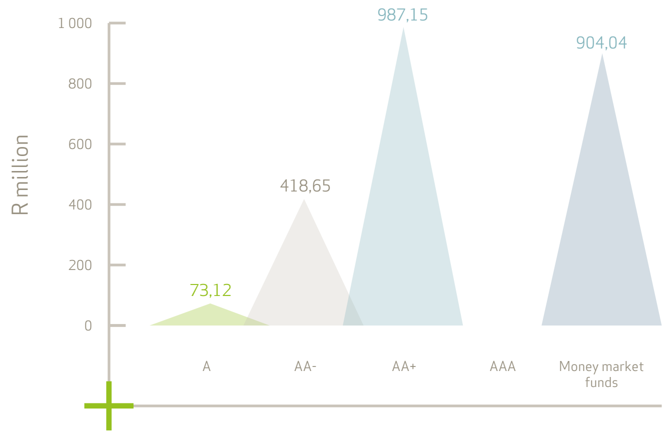
Transnet risk (derivatives) per long-term rating – 2018



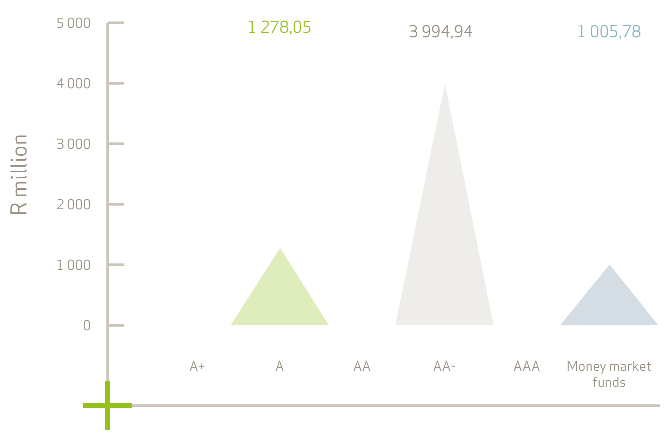
Transnet risk (derivatives) per long-term rating – 2017



Transnet risk (investments) per long-term rating – 2018



Transnet risk (investments) per long-term rating – 2017



Annexure A

for the year ended 31 March 2018

Market risk

Foreign currency risk

The Company and Group's net long (short) foreign currency risk exposures as at 31 March 2017 are reflected below (expressed in notional amounts):

	2018					2017				
	USD US$/m	JPY ¥/m	EUR €/m	AUD AU$/m	Other currencies exposure in USD US$/m	USD US$/m	JPY ¥/m	EUR €/m	AUD AU$/m	Other currencies exposure in USD US$/m
Foreign currency bonds	(1 000)	—	—	—	—	(1 000)	—	—	—	—
Unsecured bank loans	(1 128)	(15 000)	(12)	—	—	(1 085)	(15 000)	(25)	—	—
Brazil equity investment	3	—	—	—	—	2	—	—	—	—
Gross financial position exposure	(2 125)	(15 000)	(12)	—	—	(2 083)	(15 000)	(25)	—	—
Exposures for future expenditure	(52)	—	(16)	—	—	(23)	—	(3)	—	—
Gross foreign currency exposure	(2 177)	(15 000)	(28)	—	—	(2 106)	(15 000)	(28)	—	—
Forward exchange contracts	50	—	16	—	—	23	—	3	—	—
Cross-currency swaps	2 128	15 000	12	—	—	2 085	15 000	25	—	—
Contingent credit default swaps	—	—	—	—	—	(398)	—	—	—	—
Net uncovered exposure	1	—	—	—	—	(396)	—	—	—	—

Sensitivity analysis

The table below shows the impact on profit and loss (non-hedge-accounted transactions) of a stronger and weaker Rand for the Company and Group, as a result of fair value movements of cross-currency interest rate swaps and forward exchange contracts:

	2018				2017			
Currency	Currency exposure in millions of currency	Fair value R million	Impact of Rand strength-ening R million	Impact of Rand weakening R million	Currency exposure in millions of currency	Fair value R million	Impact of Rand strength-ening R million	Impact of Rand weakening R million
EUR	(4)	(0,05)	(0,9)	0,9	(0,2)	(0,1)	(0,6)	0,6
USD	(0,7)	(0,06)	(0,1)	0,1	(0,3)	(0,3)	(0,4)	0,4
Totals		(0,11)	(1,0)	1,0		(0,4)	(1,0)	1,0

Hedge accounting is applied to 99% of currency hedges where structures are designated either as fair value hedges or cash flow hedges as detailed in note 14. The sensitivity analysis above includes the impact of fair value movements on derivatives that are part of effective hedge accounting, hence the analysis is on the net balance, after the offsetting effect of the hedged item and hedging instruments. The sensitivity analysis was calculated using a 95% confidence interval over a 90-day horizon, and assumes all other variables remain unchanged. Basis swap adjustments have been added to the curves when doing the sensitivities to ensure that a more accurate market value is reflected, taking into account market liquidity.

Value at risk (fx)

The value at risk (VaR) for direct committed capital and operational exposures and the Brazilian equity investment is R2 million (2017: R0,3 million). VaR calculates the maximum pre-taxation loss expected (or worst-case scenario) on a position held, over a 90-day horizon given a 95% confidence level, and is used on a limited basis at Transnet. The VaR methodology is a statistically defined, probability-based approach that takes into account, inter alia, market volatilities relative to a position held. The Group uses historical simulation and the model assumes that historical patterns will repeat into the future and does not take extreme market conditions into account.

Foreign exchange rates

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

	2018	2017
US Dollar	11,8553	13,4038
Japanese Yen	0,1114	0,1204
Euro	14,5713	14,3380
Australian Dollar	9,0989	10,2485

Interest rate risk

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

Company			Group	
2017 R million	2018 R million		2018 R million	2017 R million
(104 403)	(97 803)	Fixed-rate liabilities	(97 806)	(104 405)
(20 375)	(24 745)	Floating-rate liabilities	(24 744)	(20 375)
(124 778)	(122 548)	**Total**[1]	(122 550)	(124 780)

[1] *These values include the repo liability of R199 million (2017: R67 million), which has a maturity term of one week.*

The exposure to floating interest rates on foreign financial liabilities before swaps is R13 259 million (2017: R14 571 million) for the Company and Group, but 21% of the floating foreign currency has been switched to fixed interest rates. The Board approved a targeted range of fixed interest rates that may be managed to enable management to utilise interest rate yields.

Sensitivity analysis

The sensitivity analysis below reflects the interest rate impact on the finance cost budget for the 2018 financial year in respect of existing liabilities and new funding requirements:

	2019					2018				
Impact	Shift +100bp R million	Shift -200bp R million	Shift +250bp R million	Shift -500bp R million	Shift +500bp R million	Shift +100bp R million	Shift -200bp R million	Shift +250bp R million	Shift -500bp R million	Shift +500bp R million
Finance cost impact (increase)/decrease (Company and Group)	(554)	285	(973)	1 123	(1 672)	716	1 545	302	2 373	389

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

Annexure A

for the year ended 31 March 2018

Price risk

The Group has an exposure to equity price risk on the Brazilian Stock Exchange. At year-end, the quoted value of the Group's investment in Brazil was R33 million (2017: R24 million). Management believes that the foreign exchange exposure on this investment is significantly greater than that of equity price risk and as such the sensitivity for this investment has been included in the foreign currency risk net position and VaR calculations.

Commodity price risk (fuel)

The table below shows the cash flow at risk scenarios against the approved fuel budget for the 2019 financial year at various levels of Brent crude and USD/ZAR ($/R) exchange rates as at 31 March 2018 (excluding energy levies). Amounts are in R million:

	Performance to budget				
31 March 2018	**$/R9,88**	**$/R10,00**	**$/R11,67**	**$/R13,47**	**$/R16,00**
Brent @ $50	685	677	567	450	285
Brent @ $60	556	546	415	274	76
Brent @ $70	421	410	255	90	(143)
Brent @ $75	362	350	186	10	(238)
Brent @ $80	298	285	110	(78)	(342)

The table below shows the cash flow at risk scenarios against the approved budget for the 2018 financial year at various levels of Brent crude and USD/ZAR ($/R) exchange rates as at 31 March 2017 (excluding energy levies). Amounts are in R million:

	Performance to budget				
31 March 2017	$/R9,72	$/R12,00	$/R12,44	$/R15,17	$/R18,00
Brent @ $26	593	495	477	360	239
Brent @ $30	478	354	330	181	26
Brent @ $41	335	177	146	(42)	(239)
Brent @ $56	213	26	(10)	(233)	(464)
Brent @ $60	77	(141)	(184)	(445)	(716)

Classification, fair values and analysis of financial instruments

Categories of financial instruments:

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		Financial assets		
14 532	**13 749**	Loans and receivables (including bank and cash, trade and other receivables)	**14 048**	14 542
		Fair value through profit or loss		
8 209	**2 856**	– Derivatives held for risk management	**2 856**	8 209
		Financial liabilities		
142 858	**139 295**	Liabilities measured at amortised cost (including trade payables and accruals*)	**139 320**	142 903
		Fair value through profit or loss		
1 984	**2 455**	– Derivatives held-for-hedging	**2 455**	1 984

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

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

Company 2017 Fair value R million	Company 2017 Carrying value R million	Company 2018 Fair value R million	Company 2018 Carrying value R million		Group 2018 Fair value R million	Group 2018 Carrying value R million	Group 2017 Fair value R million	Group 2017 Carrying value R million
121 794	123 671	**122 653**	**121 842**	Borrowings	**122 655**	**121 844**	121 796	123 673
644	1 107	**566**	**706**	Finance lease obligations	**566**	**706**	644	1 107

Fair values of financial instruments

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree of market observability of the inputs of the fair value:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category of instrument consists mainly of derivatives concluded for risk management purposes.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
2018				
Financial assets at FVTPL*				
Derivative financial assets used for hedging (Company and Group)	**—**	**2 856**	**—**	**2 856**
Financial liabilities at FVTPL*				
Derivative financial liabilities used for hedging (Company and Group)	**—**	**2 455**	**—**	**2 455**
2017				
Financial assets at FVTPL*				
Derivative financial assets used for hedging (Company and Group)	—	8 056	153	8 209
Financial liabilities at FVTPL*				
Derivative financial liabilities used for hedging (Company and Group)	—	1 984	—	1 984

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

Annexure A

for the year ended 31 March 2018

Measurement of fair values

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

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

[1] *Fair values include market observable credit valuation adjustments (CVAs).*
[2] *An additional credit event is applicable in an event of default by Transnet, whereby both the credit default swap and cross-currency swap will settle at a zero market value should such an event occur. Five cross-currency swaps were effected, of which the total fair value was nil (2017: R183 million). This CCDS position was however closed out during the financial year at a loss of R125 million in order to minimise future volatility in profit or loss since the position was unhedged. A strong Rand (R11,54) presented opportunity to close out the transaction. Refer to note 14.*
[3] *Fair values include market observable debit valuation adjustments (DVAs).*
[4] *Other financial liabilities include borrowings and finance lease obligations.*

Transfers between levels 1 and 2

There were no transfers in either direction between levels 1 and 2 in both the current financial year and in 2017.

Level 3 fair values

There were neither level 3 inputs nor transfers in either direction in both the current and prior reporting period, except for the significant unobservable input relating to the quanta on the CCDS in the prior reporting period.

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

	Company Net gain/(loss) R million	Group Net gain/(loss) R million
2018		
Liabilities measured at amortised cost[1] (refer note 6)	**13 044**	**13 044**
Loans and receivables and held-to-maturity investments (refer note 7)	**285**	**302**
Liabilities and assets held-for-trading[2] (refer note 5)	**(379)**	**(379)**
2017		
Liabilities measured at amortised cost[1] (refer note 6)	12 792	12 792
Loans and receivables and held-to-maturity investments (refer note 7)	399	409
Liabilities and assets held-for-trading[2] (refer note 5)	1 277	1 277

[1] *The net loss on financial liabilities measured at amortised cost consists mainly of interest expense after offsetting against effective cash flow hedges.*
[2] *The net (loss)/gain on Company and Group financial assets and financial liabilities held-for-trading is a R379 million loss (2017: R1 277 million gain). These are held for hedging purposes.*

Transnet's credit rating

Transnet is officially rated by Standard and Poor's (S&P) and Moody's Investors Service (Moody's). The credit ratings of the Company for the year ended 31 March 2018 are reflected below:

Rating category	Moody's	Standard & Poor's
Foreign currency rating	Baa3/stable outlook	BB/stable outlook
Local currency rating	Baa3/P-3/stable outlook	BB+/stable outlook
NSR – long and short term	Aa1.za/Aa3.za/P-1.za/	zaAA+/zaA-1+
BCA/SACP	baa3	bbb-

Moody's Investors Service

On 27 March 2018, Transnet's ratings outlook was changed to stable after being placed under review for downgrade on 29 November 2017, following a similar action taken on the sovereign. The sovereign's outlook was informed by the view that the weakening of South Africa's institutions will reverse under a more transparent and predictable policy framework.

The stable outlook assigned to Transnet is informed by the Company's ability to maintain positive revenue growth at least at the same level of the South African GDP growth and its demonstration of operational efficiencies. The outlook further assumes a track record of executing on its capital investment strategy while adjusting to changes in the macroeconomic environment with a view to managing within its stated financial policies.

Standard and Poor's (S&P)

On 24 November 2017, S&P lowered Transnet's foreign currency rating to BB from BB+ and the local currency to BB+ from BBB-, both with a stable outlook. This followed a similar action on the sovereign as Transnet is viewed to be closely linked to the government and the likelihood of receiving extraordinary support when needed, assessed as extremely high. The long- and short-term NSR was also lowered to zaAA+ and zaA-1+ respectively. The SACP of Transnet was also revised downwards to bbb- as the Company's operating and financial prospects is expected to decline under South Africa's weaker economic forecast. S&P notes that if the economic forecast of the sovereign is revised downwards, Transnet's credit metrics will also come under pressure as the Company's performance is strongly linked to the economic conditions in South Africa.

Annexure B

for the year ended 31 March 2018

Property, plant and equipment reconciliation

	Aircraft R million	Floating craft R million	Land, buildings and structures R million	Machinery equipment and furniture R million	Permanent way and works R million	Pipeline networks R million	Port facilities R million	Rail infra-structure R million	Rolling stock and containers R million	Vehicles R million	Capital work-in-progress R million	**31 March 2018 Total R million**	31 March 2017 Total R million
Group and Company													
Balance at the beginning of the year													
Historical cost and revaluation	175	4 284	28 363	12 351	930	37 932	126 819	85 669	101 079	2 139	49 436	**449 177**	427 127
Accumulated depreciation	(146)	(989)	(7 448)	(6 378)	(133)	(15 893)	(47 867)	(18 712)	(32 569)	(1 006)	—	**(131 141)**	(121 714)
Accumulated impairment	—	—	(36)	(208)	—	(384)	(1 144)	(27)	(1 766)	(33)	(1 007)	**(4 605)**	(2 950)
Opening net carrying value at 1 April	29	3 295	20 879	5 765	797	21 655	77 808	66 930	66 744	1 100	48 429	**313 431**	302 463
Current year movements													
Replacements	2	25	22	90	33	—	111	1 590	3 470	2	11 082	**16 427**	16 190
Expansions	—	—	41	8	—	—	2	—	67	161	5 075	**5 354**	5 248
Decommissioning liability	—	—	—	—	—	42	(1)	—	—	—	—	**41**	4
Disposals	—	—	3	1	(1)	(3)	(2)	(1)	(30)	—	(55)	**(88)**	(9)
Depreciation	(10)	(200)	(964)	(911)	(18)	(975)	(2 460)	(2 106)	(5 062)	(292)	—	**(12 998)**	(12 080)
Derecognition	—	—	—	—	—	—	—	(49)	(256)	—	—	**(305)**	(1 033)
Revaluation	—		—	—	—	664	3 279	7 838	—	—	—	**11 781**	737
Impairment – historical cost and revaluation	—	—	(4)	(19)	—	2	(177)	(4)	(557)	(3)	2	**(760)**	(1 835)
Transferred (to)/from intangibles assets	—	—	—	(69)	—	—	—	—	—	—	15	**(54)**	(230)
Transfers from/(to) non-current assets classified as held-for-sale	—	—	(9)	(1)	—	—	18	12	(7)	—	—	**13**	62
Transfer to investment property	—	—	—	—	—	—	—	—	—	—	(113)	**(113)**	(33)
Foreign exchange differences	—	—	—	—	—	—	8	—	53	—	(47)	**14**	(32)
Borrowing costs capitalised	—	2	9	—	—	—	9	—	—	—	2 913	**2 933**	3 905
Release of firm commitment	—	—	—	—	—	(13)	—	—	—	—	(14)	**(27)**	74
Transfer to inventory	—	—	—	—	—	—	—	—	(161)	—	—	**(161)**	—
Transfer from capital work-in-progress to assets	—	586	1 255	277	34	15 722	1 450	3 780	13 506	27	(36 637)	**—**	—
	(8)	413	353	(624)	48	15 439	2 237	11 060	11 023	(105)	(17 779)	**22 057**	10 968
Closing carrying value[1]	21	3 708	21 232	5 141	845	37 094	80 045	77 990	77 767	995	30 650	**335 488**	313 431
Made up as follows:													
Historical cost and revaluation	177	4 897	29 685	12 517	997	52 102	132 356	101 201	117 286	2 272	31 655	**485 145**	449 177
Accumulated depreciation	(156)	(1 189)	(8 415)	(7 184)	(152)	(14 626)	(50 989)	(23 181)	(37 246)	(1 244)	—	**(144 382)**	(131 141)
Accumulated impairment	—	—	(38)	(192)	—	(382)	(1 322)	(30)	(2 273)	(33)	(1 005)	**(5 275)**	(4 605)
Closing carrying value at 31 March	21	3 708	21 232	5 141	845	37 094	80 045	77 990	77 767	995	30 650	**335 488**	313 431

[1] *Included in property, plant and equipment are assets under lease with a carrying value of R631 million (2017: R723 million).*

Annexure C

for the year ended 31 March 2018

Assets classified as held-for-sale

	Notes	Company 2018 R million	Group 2018 R million
Non-current assets classified as held-for-sale			
Property, plant and equipment	A	60	60
Investment properties	B	37	37
Other investments	C	33	33
		130	130

Notes to assets classified as held-for-sale

Company 2017 R million	Company 2018 R million		Group 2018 R million	Group 2017 R million
		A. Property, plant and equipment		
145	77	Net carrying value at the beginning of the year	77	145
(6)	(4)	Disposals	(4)	(6)
(62)	(13)	Transferred (to)/from continuing operations (refer Annexure B)	(13)	(62)
77	60		60	77
		B. Investment properties		
9	9	Fair value at the beginning of the year	9	9
—	—	Disposals	—	—
—	28	Transferred from continuing operations	28	—
9	37		37	9
		C. Other investments		
10	24	Balance at the beginning of the year	24	10
14	9	Fair value movement during the year	9	14
24	33		33	24

Annexure D

for the year ended 31 March 2018

Subsidiaries

	Effective holding 2018 %	Effective holding 2017 %	Voting power held 2018 %	Shares at cost 2018 R million	Shares at cost 2017 R million	Interest of holding company net profit/(loss) 2018 R million	Interest of holding company net profit/(loss) 2017 R million	Interest of holding company indebtedness 2018 R million	Interest of holding company indebtedness 2017 R million	Accumulated impairment and losses 2018 R million	Accumulated impairment and losses 2017 R million
Subsidiaries held by Transnet											
Local subsidiaries											
Environmental responsibility											
Transnet Pipelines Rehabilitation Trust	**100**	—	**100**	**—**	—	**7**	—	**—**	—	**—**	—
Social responsibility											
Transnet Foundation Trust[1]	**100**	100	**100**	**—**	—	**—**	—	**—**	—	**—**	—
International business activities											
Transnet International Holdings SOC Ltd[2]	**100**	—	**100**	**—**	—	**—**	—	**—**	—	**—**	—
Foreign subsidiaries											
Transport logistics											
African Joint Air Services Ltd (Uganda)[3]	**57**	57	**57**	**—**	—	**—**	6	**—**	392	**—**	392
				—	—	**7**	6	**—**	392	**—**	392

[1] *In dissolution.*

[2] *Not trading.*

[3] *Dormant.*

Equity-accounted investees[1]

	Principal activity	Effective holding 2018 %	Effective holding 2017 %	Shares at cost 2018 R million	Shares at cost 2017 R million	Interest of holding company indebtedness 2018 R million	Interest of holding company indebtedness 2017 R million	Accumulated impairment and losses 2018 R million	Accumulated impairment and losses 2017 R million	Share of post-acquisition reserves 2018 R million	Share of post-acquisition reserves 2017 R million	Total 2018 R million	Total 2017 R million
Associates													
Commercial Cold Storage (Ports) (Pty) Ltd	Storage and bondage	**30**	30	**—**	—	**1**	1	**—**	—	**10**	23	**11**	24
Comazar (Pty) Ltd[2]	Transport logistics	**32**	32	**13**	13	**8**	8	**21**	21	**—**	—	**—**	—
Experience Delivery Company (Pty) Ltd	Managing agent	**11**	11	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
RainProp (Pty) Ltd	Property development and management	**20**	20	**—**	—	**1**	1	**—**	—	**116**	106	**117**	107
Joint ventures													
Gabarone Container Terminal	Container terminal	**36**	36	**6**	6	**—**	—	**—**	—	**21**	18	**27**	24
				19	19	**10**	10	**21**	21	**147**	147	**155**	155

[1] *Incorporated in the Republic of South Africa, unless stated otherwise.*

[2] *Dormant.*

Summarised financial information of equity-accounted investees

	Commercial Cold Storage (Ports) (Pty) Ltd R million	RainProp (Pty) Ltd R million	Gabarone Container Terminal R million
Financial position			
Total assets	74	1 189	97
Total liabilities	9	527	2
Results of operations			
Revenue	27	52	21
Net profit	7	14	4

Annexure E

for the year ended 31 March 2018

Sections 51 and 55 of the PFMA impose certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; losses through criminal conduct; and the collection of all revenue.

To comply with the PFMA's obligations, the Board has a materiality framework, which was approved by the Shareholder Representative, subject to certain conditions.

Details of irregular expenditure, fruitless and wasteful expenditure, losses through criminal conduct and non-collection of revenue are presented in the tables that follow.

The following information relates to both Company and Group.

Irregular expenditure	2018 R million	2017 R million
Opening balance – brought forward from prior year	549,6	—
Less: Amounts condoned by National Treasury – relating to tax clearance certificates – prior year	(229,8)	—
Less: Amounts condoned by Group Chief Executive – relating to irregular expenditure – prior year	(293,3)	—
Less: Amounts not recoverable (not condoned) – relating to prior year	(26,5)	—
Irregular expenditure identified in the current year	8 123,1	692,7
Add: Irregular expenditure – current year spend	3 427,4	142,4
Add: Irregular expenditure – prior year spend	4 695,7	550,3
Add: Irregular expenditure relating to tax clearance certificates – prior year	—	229,8
Less: Amounts condoned	(0,2)	—
Less: Amounts recoverable (not condoned)	—	(158,6)
Less: Amounts not recoverable (not condoned)	—	(214,3)
Irregular expenditure awaiting condonation	8 122,9	549,6
Irregular expenditure under investigation	507,3	32,8

Irregular expenditure identified in current year

Details of irregular expenditure – current year

Incident	Disciplinary steps taken/(criminal proceedings)	2018 R million
PPM tender/bid process not followed	5/(0)	1 929,8
Non-compliance with National Treasury requirements	0/(0)	797,8
Expired contract	1/(0)	323,5
Non-compliance with PPPFA	0/(0)	212,7
PPM contract management process not followed	3/(0)	79,1
Non-compliance with CIDB requirements	1/(0)	75,8
Non-adherence to DOA	0/(0)	0,1
Other	2/(0)	8,6
	12/(0)	3 427,4

Details of irregular expenditure identified in the current year relating to the prior year

Incident	Disciplinary steps taken/(criminal proceedings)	2018 R million
PPM tender/bid process not followed	0/(0)	2 282,5
Non-compliance with National Treasury requirements	0/(0)	880,8
Expired contract	7/(0)	794,3
Non-compliance with PPPFA	0/(0)	445,3
PPM contract management process not followed	2/(0)	152,5
Non-compliance with CIDB requirements	0/(0)	91,1
Non-adherence to DOA	2/(1)	48,2
Other	1/(0)	1,0
	12/(1)	4 695,7

Details of irregular expenditure condoned

Incident	Condoned by (condoning authority)	2018 R million
PPM tender/bid process not followed	Group Chief Executive	0,2

Details of irregular expenditure recoverable (not condoned)

Incident	2018 R million
None	—

Details of irregular expenditure not recoverable (not condoned)

Incident	2018 R million
None	—
Analysis of expenditure awaiting condonation per classification	
Current year	3 427,2
Prior years	4 695,7
	8 122,9

The expenditure identified as irregular (R8,1 billion) is due to non-compliance with the Company's Procurement Procedure Manual (PPM), PPPFA or Construction Industry Development Board (CIDB) regulations, and non-adherance to the DOA, PFMA and National Treasury regulations. While the Company received the contracted goods and services from the expenditure that is classified as irregular, it is clear that the detection and prevention controls in this area are not achieving the desired level of compliance. The Board, together with management, is implementing corrective action to urgently address the recurrence of instances of non-compliance.

The corrective actions will focus on both ensuring completeness of irregular expenditure as well as developing additional controls to prevent irregular expenditure from recurring. These corrective actions will cover financial and procurement controls. Enhancements will be made to the Transnet Integrated Assurance Model across all four lines of defence, as detailed below.

The following procurement and financial steps will be taken to ensure that these irregularities do not recur and that the reporting is complete:

- Transactions post the 31 March 2018 year-end will be reviewed to ensure that all compliance requirements have been met to ensure completeness of irregular expenditure;
- Enhancements and improvements to the current controls to prevent irregular expenditure post procurement award. Directive to be issued to ensure that payments are made against valid contracts;
- Enhancements and improvements to the Transnet integrated assurance model to improve prevention of irregular expenditure. The proposed enhancements entail the following:
  - First line of defence: Implementation of additional management controls to identify and provide oversight of risk indicators. Revision of internal controls to ensure latest legislative changes have been incorporated, and to design and implement automated preventative and detective controls with the implementation of an enabled procurement system;
  - Second line of defence: Development of additional 'red flag' indicators which will require further governance review and close out before approval. Implementation of a peer review model within procurement, with set peer review procedures. Enhanced compliance audit process and work plan;
  - Third line of defence: Revision of the levels at which the high-value tender (HVT) process will be engaged. Inclusion of current procurement control frameworks into the finance internal audit work plan. Revision of the HVT and internal control audit procedures to ensure all compliance aspects are audited; and
  - Fourth line of defence: The Board has done away with the Acquisitions and Disposals Committee as the Board believes that the directors should not be involved in the acquisition process. The Board will be setting up an oversight mechanism around procurement, its processes and controls. The oversight will also be applied to improve governance, compliance and controls within Transnet.
- Further to this, Transnet procurement will be issuing various directives to address the root causes of the irregular expenditure incurred. These directives cover: cession agreements, single source and sole source, emergencies, payment of subcontractors, engagements with suppliers, contract amendments and deviations; and
- Directives issued will be incorporated in the next revision of the PPM.

The consequence management related to the transgressions that resulted in the expenditure being categorised as irregular, includes the finalisation of 24 disciplinary cases and the lodging of one criminal case with the SAPS.

Annexure E
for the year ended 31 March 2018

The Shareholder Representative has determined that the materiality limit for reporting in terms of sections 55(2)(b)(i), (ii) and (iii) of the PFMA is R25 million per transaction. In terms of this materiality framework, there are 26 reportable items exceeding R25 million, which have been individually disclosed as irregular expenditure for the financial year. These items, which are summarised in the table below, account for R7,5 billion of the total R8,1 billion irregular expenditure. The remaining balance of R0,6 billion consist of 101 reportable items, bringing the total reportable items for the reporting period to 127 items.

Incident	Number of reportable items	R million
Following an open tender process, the award of three contracts for the supply of rails, turnouts and welding services after having excluded the stipulated supplier development requirement in the evaluation of the tenders. The contracts expired on 2 May 2018.	3	2 518
Non-compliance with instruction note 3 of 2016/17 from National Treasury for various contract variations across all Operating Divisions.	1	1 679
Non-compliance to local content requirements due to auditors not certifying as required by National Treasury with respect to two contracts for steel wheels at Engineering.	1	944
The continued use of leased vehicles after the expiry of the Group-wide transversal master fleet lease contract. A new service provider was appointed in June 2018 and it is expected to take up to 12 months to complete the transfer to the new service provider.	1	850
The leasing of identified property for use by Freight Rail (R327 million), Port Terminals (R64 million), National Ports Authority (R34 million) and Group Capital (R45 million) without approaching the open market via a competitive procurement process.	4	470
The continued use of a haulage service provider at Freight Rail after the contract had expired. The contract was terminated in December 2017.	1	219
Non-compliance with PPM and DOA on three contracts for consulting services at Corporate Centre.	3	198
The invitation and award on the CIDB i-tender platform not done by Freight Rail in respect of two tenders (the supply steel rails for R93 million and construction services for R28 million).	2	121
Not following the competitive bidding process for the acquisition of two helicopters by National Ports Authority.	1	109
Non-compliance with PPPFA in respect of construction materials purchased as changes to the evaluation criteria at the evaluation stage was not allowed at Freight Rail.	1	94
Non-compliance with tax clearance certificate requirements for foreign vendors at Engineering.	1	69
Non-compliance with PPM emergency procurement procedures for transport services at Freight Rail.	1	63
The formal contract extension process was not followed for security services at Properties (R25 million) and for transport services at Engineering (R35 million).	2	60
Non-compliance with PPPFA and local content requirements with respect to acquisition of compressors at Engineering for R27 million and rail supplies at Freight Rail for R32 million.	2	59
General non-compliance with supply chain and procurement processes at Transnet Foundation. Issue has been resolved through transfer of the procurement function to Freight Rail/Corporate Centre.	1	48
Non-compliance with PPM process on contract for tight-lining at the TM1 Terminals at the Port of Durban by Group Capital.	1	26
	26	7 527

In addition to the disciplinary action and the lodging of criminal cases, management is implementing corrective action, not limited to the following:
- Review and revision of the PPM to ensure greater clarity and eliminate the possibility of ambiguous interpretation;
- Ongoing PPM training;
- Improved use of technology to, for example, ensure system-driven checks to disallow the processing of purchase orders and/or invoices on expired contracts;
- Appointment of Transversal Contract Champions at each Operating Division to manage the use of services sourced through Group-wide transversal contracts;
- Enforce adherence to SAP CLM alerts which ensures proper planning to issue tenders timeously;
- Supply chain personnel to be retrained on CIDB requirements; and
- Reinforce the use of procurement checklists to ensure compliance with mandatory/legislated requirements.

Details of irregular expenditure under investigation	2018 R million	2017 R million
PPM tender/bid process not followed	507,3	32,8

The Shareholder Representative has determined that the materiality limit for reporting in terms of sections 55(2)(b)(i), (ii) and (iii) of the PFMA is R25 million per transaction. In terms of this materiality framework, there is one reportable item exceeding R25 million, which has been reported as irregular expenditure under investigation for the financial year. This item relates to non-compliance with the PPM process on the procurement of hardware for R507,3 million at Transnet Corporate Centre. This item is currently under review by management.

At the 2017 reporting date, there was one reportable item exceeding R25 million, reported as irregular expenditure under investigation relating to Transnet Property where an official offered a lessee a lease contract at a reduced rental without having the proper delegation of authority or following a proper procurement process. Investigations have been concluded and this item has been reported as irregular expenditure in the 2018 reporting period. The responsible official has been given a final written warning.

Contracts under investigation

During the current financial year, there were numerous media allegations relating to certain procurement events at Transnet, including state capture. Accordingly, management has instituted an investigation into the payments made to the companies identified in various media reports. Furthermore, these media allegations led the previous Board to initiate forensic investigations by Werksmans Attorneys and MNS Attorneys into the acquisition of 1 064 locomotives.

The current Board received detailed presentations on both the preliminary reports of the attorneys.

Both firms' preliminary reports called for:
- Disciplinary action to be taken against executives involved in the 1 064 locomotive transaction; and
- Criminally charging former Transnet executives and recovering the funds.

The Board has established a special committee comprising the chairpersons of the various Board committees to advise the Board on the implementation of recommendations from the abovementioned externally sourced investigative reports.

In addition, the Board will seek independent legal advice on the implementation of civil, criminal and disciplinary matters.

To the extent that any of the expenditure is found to be in contravention of the provisions of the PFMA, it will be reported and appropriately classified in the annual financial statements for the year ended 31 March 2019.

Fruitless and wasteful expenditure		2018 R million	2017 R million
Fruitless and wasteful expenditure – current year		5,1	7,0
Fruitless and wasteful expenditure – prior year		18,7	14,9
Less: Amounts recovered		(0,3)	(0,03)
Amounts written off		23,5	21,9
Details of fruitless and wasteful expenditure			
Current year			
Incidents	Disciplinary steps taken/(criminal proceedings)		
Settlements	1/(0)	2,3	
Poor management oversight	2/(0)	1,2	
Excessive data usage	0/(0)	0,8	
Other	6/(4)	0,5	
Overpayment	1/(0)	—	
	10/(4)	4,8	

Annexure E

for the year ended 31 March 2018

Fruitless and wasteful expenditure		2018 R million	2017 R million
Identified in the current year relating to the prior year			
Incident	Disciplinary steps taken/(criminal proceedings)		
Overpayment	0/(0)	16,9	
Poor management oversight	1/(0)	1,2	
Other	5/(0)	0,4	
Excessive data usage	0/(0)	0,2	
	6/(0)	18,7	

The consequence management related to the transgressions that resulted in the expenditure being categorised as fruitless and wasteful includes the finalisation of 16 disciplinary cases and the lodging of four criminal cases with the SAPS.

The Shareholder Representative has determined that the materiality limit for reporting in terms of sections 55(2)(b)(i), (ii) and (iii) of the PFMA is R25 million per transaction. In terms of this materiality framework, there are no reportable items exceeding R25 million which have been reported as fruitless and wasteful expenditure for the financial year.

Losses through criminal conduct		2018 R million	2017 R million
Losses through criminal conduct – current year		61,3	49,4
Losses through criminal conduct – prior year		1,6	—
Less: Amounts recovered		(3,8)	(6,3)
		59,1	43,1
Details of losses through criminal conduct			
Current year			
Incident	Disciplinary steps taken/(criminal proceedings)		
Cable theft	0/(515)	21,6	
General theft and damage of assets (mostly Freight Rail building and rail)	0/(243)	20,6	
Theft of signals, perway and equipment	0/(135)	12,9	
Motor vehicle theft, hijackings and armed robbery	0/(10)	2,3	
Other	3/(113)	0,9	
		58,3	
Identified in the current year relating to the prior year			
Incident	Disciplinary steps taken/(criminal proceedings)		
Collusion and fraud	1/(1)	0,8	

The consequence management related to losses through criminal conduct includes the finalisation of four disciplinary cases and the lodging of 1 017 criminal cases with the SAPS. As can be seen from the tables above, the majority of the criminal cases relate to the theft of cable and other assets from the rail infrastructure network.

The Shareholder Representative has determined that the materiality limit for reporting in terms of sections 55(2)(b)(i), (ii) and (iii) of the PFMA is R25 million per transaction. In terms of this materiality framework, there are no reportable items exceeding R25 million which have been reported as losses through criminal conduct for the financial year.

Non-collection of revenue	2018 R million	2017 R million
Losses through non-collection of revenue	—	—

Annexure F

for the year ended 31 March 2018

Measurement of level 3 fair values

The table below shows the valuation techniques and significant unobservable inputs applied in measuring level 3 fair values for assets at 31 March 2018:

Asset group	Valuation technique	Significant unobservable inputs	Range (weighted average)
Pipeline networks	Modern equivalent asset value	• Physical condition • Remaining useful life	△ △
	Discounted cash flow	• Discount rate (%)	12,75
Port facilities	Depreciated replacement cost	• Physical condition • Remaining useful life	△ △
	Depreciated optimised replacement cost[1]	• Physical condition • Remaining useful life • Residual value • Availability • Design capacity • Indices – Marine index[2] – Dredging index[2]	△ △ △ △ △ 110,06 108,20
	Discounted cash flow	• Discount rate (%) • Terminal growth rate (%)	11,90 6,65
Rail infrastructure	Depreciated optimised replacement cost[1]	• Physical condition • Remaining useful life • Residual value • Availability • Design capacity	△ △ △ △ △
	Discounted cash flow	• Discount rate (%) • Terminal growth rate (%)	11,89 5,61
Investment property	Yield methodology	• Capitalisation rate (%)	9 – 18

△ *Range or weighted average not applicable.*

1 *The depreciated optimised replacement cost method values assets at the amount it would cost to replace the asset with a technologically modern equivalent new asset with similar service potential (i.e. capacity, functionality and remaining useful life), taking into account the age and physical condition of the asset and allowing for any differences in the quantity and quality of output and in operating costs.*

2 *Base year = 2016.*

Annexure G

for the year ended 31 March 2018

Financial reporting standards and interpretations issued but not yet effective

The following new or revised International Financial Reporting Standards (IFRS), amendments and interpretations, which are applicable to the Group were not yet effective for the year ended 31 March 2018 and were not applied in preparing these financial statements:

Standard or interpretation	Detail	Effective date
IAS 12 (amendment)	**Income Taxes** The amendment, which is part of the 2015 to 2017 annual improvements cycle, provides clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises. The amendment shall be applied to dividends recognised on or after the beginning of the earliest comparative period and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2019
IAS 19 (amendment)	**Employee Benefits** *Plan amendment, curtailment or settlement* The amendments require an entity to use the updated assumptions from a remeasurement of the net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendment will be applied prospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2019
IAS 23 (amendment)	**Borrowing Costs** The amendment, which is part of the 2015 to 2017 annual improvements cycle, provides clarification that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. The amendment will be applied prospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2019
IAS 28 (amendments)	**Investments in Associates and Joint Ventures** *2014 – 2016 Annual improvements cycle* The amendment provides clarification that a venture capital organisation or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.	Annual periods beginning on or after 1 January 2018
	Long-term interest in associates and joint ventures The amendment provides clarification that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments will be applied retrospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2019
IAS 40 (amendment)	**Investment Property** The amendments clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendment will be applied retrospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2018

Standard or interpretation	Detail	Effective date
IFRS 3 (amendment)	**Business Combinations** The amendment, which is part of the 2015 to 2017 annual improvements cycle, provides clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business. The amendment will be applied prospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2019
IFRS 9 (new)	**Financial Instruments** The standard requires financial assets to be measured either at amortised cost or fair value depending on the business model under which they are held and the cash flow characteristics of the instrument. The standard also contains new hedge accounting requirements aimed at better aligning the accounting treatment with the risk management strategy. In addition, the standard replaces the incurred loss impairment model in IAS 39 with an expected loss model. It will no longer be necessary for a credit event to have occurred before credit losses are recognised. The new standard will be applied retrospectively and could have a material impact on the Group's financial statements. The Group is currently quantifying the potential impact of the new standard on the Group.	Annual periods beginning on or after 1 January 2018
IFRS 10 and IAS 28 (amendment)	**Consolidated Financial Statements and Investments in Associates and Joint Ventures** *Sales or contributions of assets between an investor and its associate or joint venture* The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture by requiring (a) full recognition of gains and losses arising on the sale or contribution of assets that constitute a business, and (b) partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture. The revised standard will be applied prospectively and will not have a material impact on the Group's financial statements.	Effective date to be determined
IFRS 11 (amendment)	**Joint Arrangements** The amendment, which is part of the 2015 to 2017 annual improvements cycle, provides clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. The amendment will be applied prospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2019
IFRS 15 (new)	**Revenue from Contracts with Customers** The IFRS replaces IAS 18 *Revenue* and provides a single, principles-based five-step model to be applied to all contracts with customers. The steps involve identifying the contract, identifying the performance obligations under the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognising revenue when the entity satisfies a performance obligation. The new standard could have a material impact on the Group's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. The Group is in the process of quantifying the potential impact of the new standard on the Group.	Annual periods beginning on or after 1 January 2018

Annexure G

for the year ended 31 March 2018

Standard or interpretation	Detail	Effective date
IFRS 16 (new)	**Leases** The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance leases. The new standard could have a material impact on the Group's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. Early adoption is permitted. The Group is in the process of quantifying the potential impact of the new standard on the Group.	Annual periods beginning on or after 1 January 2019
IFRIC 22 (new)	**Foreign Currency Transactions and Advance Consideration** The interpretation clarifies the date of a transaction for the purpose of determining the exchange rate used on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. The date of transaction shall be the date of initial recognition of the non-monetary (prepayment) asset or non-monetary liability. The amendment may be applied prospectively or retrospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2018
IFRIC 23 (new)	**Uncertainty over Income Tax Treatments** The interpretation specifies how an entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments under IAS 12. The requirements are applied by recognising the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted if an entity can do so without using hindsight. The interpretation will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2019

Annexure H

for the year ended 31 March 2018

The table below depicts the guaranteed pay of the Transnet GLT for the reporting period:

Guaranteed pay of Transnet GLT

GLT member	Salary R 000	Post-retirement benefit fund contributions R 000	Other contributions R 000	Other payments R 000	**Total 2018 R 000**	Total 2017 R 000
SI Gama[1]	7 328	778	2	—	**8 108**	7 448
GJ Pita[1, 3]	4 950	454	2	—	**5 406**	5 015
MM Buthelezi	4 980	419	2	—	**5 401**	4 369
GJE de Beer	4 751	505	2	—	**5 258**	3 267
EAN Sishi	4 027	392	2	170	**4 591**	4 005
DC Moephuli[2]	2 289	194	1	—	**2 484**	3 877
KV Reddy	3 806	404	2	—	**4 212**	3 419
MMA Mosidi	3 212	229	2	—	**3 443**	2 653
T Jiyane	4 325	421	2	—	**4 748**	4 424
N Silinga[4, 5]	1 290	108	1	—	**1 399**	392
M Gregg-Macdonald[4]	—	—	—	—	**—**	451
KC Phihlela[4]	—	—	—	—	**—**	492
KXT Socikwa[4]	—	—	—	—	**—**	559
R Vallihu[4]	—	—	—	—	**—**	572
S Chetty[4]	—	—	—	—	**—**	368
RE Lepule[4]	—	—	—	—	**—**	451
MA Sukati[4]	—	—	—	—	**—**	423
ZE Lebelo[4]	—	—	—	—	**—**	367
LMH Msagala[4]	—	—	—	—	**—**	380
R Nair[4]	—	—	—	—	**—**	577
Total	40 958	3 904	18	170	**45 050**	43 509

[1] *Group executives who are members of the Board of Directors.*
[2] *Resigned during the year.*
[3] *Resigned after the end of the reporting period. Mr M Mahomedy was thereafter appointed as Acting Chief Financial Officer.*
[4] *Previous members of the Executive Committee, but no longer members of the GLT (previously Executive Committee).*
[5] *Acted as a GLT member from 1 November 2017 to 31 March 2018.*

Annexure H

for the year ended 31 March 2018

The table below reflects the short- and long-term incentive payments for the Transnet GLT for the reporting period:

GLT member	LTI 2018 R 000	LTI 2017 R 000	STI 2018 R 000	STI 2017 R 000
SI Gama[1]	**1 881**	3 185	**5 661**	1 571
GJ Pita[1, 3]	**896**	1 304	**—**	1 120
MM Buthelezi	**980**	1 607	**3 658**	1 015
GJE de Beer	**—**	—	**3 452**	670
EAN Sishi	**1 145**	1 911	**3 086**	861
DC Moephuli[2]	**—**	1 855	**—**	820
KV Reddy	**716**	1 116	**2 766**	801
MMA Mosidi	**—**	—	**2 261**	538
T Jiyane	**607**	986	**2 723**	898
N Silinga[4, 5]	**395**	123	**838**	87
M Gregg-Macdonald[4]	**—**	258	**—**	90
KC Phihlela[4]	**—**	293	**—**	94
KXT Socikwa[4]	**—**	333	**—**	107
R Vallihu[4]	**—**	316	**—**	124
S Chetty[4]	**—**	184	**—**	—
RE Lepule[4]	**—**	233	**—**	86
MA Sukati[4]	**—**	164	**—**	96
ZE Lebelo[4]	**—**	126	**—**	76
R Nair[4]	**—**	137	**—**	121
Total	**6 620**	14 131	**24 445**	9 175

[1] Group executives who are members of the Board of Directors.
[2] Resigned during the year.
[3] Resigned after the end of the reporting period. Mr M Mahomedy was thereafter appointed as Acting Chief Financial Officer.
[4] Previous members of the Executive Committee, but no longer members of the GLT (previously Executive Committee).
[5] Acted as a GLT member from 1 November 2017 to 31 March 2018.

The table below depicts the actual remuneration for the Transnet non-executive directors for the reporting period:

Name of Board member	Fees R 000	Other payments R 000	Total 2018 R 000	Total 2017 R 000
LC Mabaso (Chairperson)[2, 4]	1 348	2	**1 350**	1 280
Y Forbes[2, 4]	656	—	**656**	624
PEB Mathekga[6]	550	—	**550**	518
GJ Mahlalela[5]	642	—	**642**	518
ZA Nagdee[6]	581	—	**581**	518
VM Nkonyane[2]	642	—	**642**	605
S Shane[1, 3, 4]	197	—	**197**	732
BG Stagman[1]	625	—	**625**	605
PG Williams[5]	—	—	**—**	605
AC Kinley[2]	160	—	**160**	—
SM Radebe[6]	192	—	**192**	—
Total	5 593	2	**5 595**	6 005

[1] Resigned during the year.
[2] Resigned after the end of the reporting period.
[3] Directors' fees paid to Integrated Capital Management (Pty) Ltd (ICM).
[4] Trustee's fees included.
[5] Deceased.
[6] Romoved from the Board in May 2018.

The following non-executive directors were appointed after the end of the reporting period: Dr PS Molefe (Chairperson), UN Fikelepi, RJ Ganda, Prof EC Kieswetter, DC Matshoga, LL von Zeuner, ME Letlape, Adv O Motaung, G Ramphaka, AP Ramabulana, V McMenamin and Dr FS Mufamadi.

Abbreviations and acronyms

AfDB	African Development Bank
AFLAC	African Development Bank
Aids	Acquired immune deficiency syndrome
B-BBEE	Broad-Based Black Economic Empowerment
bp	Basis point
CCDS	Credit contingent default swap
CIDB	Construction Industry Development Board
CLM	Contract lifecycle management
CPI	Consumer price index
CSI	Corporate social investment
CTCT	Cape Town Container Terminal
CVA	Credit valuation adjustment
DCF	Discounted Cash Flows
DCT	Durban Container Terminal
DFI	Development Finance Institution
DIFR	Disabling injury frequency rate
DMTN	Domestic Medium-Term Note
DOA	Delegation of Authority
DoT	Department of Transport
DVA	Debit valuation adjustments
EBITDA	Earnings before interest, taxation, depreciation and amortisation
ECA	Export Credit Agency
FRMF	Financial Risk Management Framework
FVTPL	Fair value through profit or loss
GDP	Gross domestic product
GFB	General Freight Business
GLT	Group Leadership Team
GMTN	Global medium-term note
HIV	Human immunodeficiency virus
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
JPY	Japanese Yen
King III	King III Report on Governance for South Africa, 2009
KPI	Key performance indicator
MDS	Market Demand Strategy
mt	million tons
NCT	Ngqura Container Terminal
Nersa	National Energy Regulator of South Africa
NSR	National scale rating
PAA	Public Audit Act of South Africa, No 25 of 2004
PFMA	Public Finance Management Act, No 1 of 1999
Ports Act	National Ports Act, No 12 of 2005
PPM	Procurement Procedure Manual
PPPFA	Preferential Procurement Policy Framework Act
Prasa	Passenger Rail Agency of South Africa
RAMS	Rail addressable market share
ROTA	Return on total average assets
S&P	Standard and Poor's
SACP	Stand-alone credit profile
SAPS	South African Police Service
SARS	South African Revenue Service
SCA	Supreme Court of Appeal
SCM	Supply Chain Management
SD	Supplier development
SOC	State-owned company
TEU	Twenty-foot equivalent unit
TMPS	Total measured procurement spend
TSDBF	Transnet Second Defined Benefit Fund
TTPF	Transport Pension Fund: Transnet Sub-fund
USD	US Dollar
WACD	Weighted average cost of debt
ZAR	South African Rand

Glossary of terms

Asset turnover (times)

Revenue divided by total assets (total assets excluding capital work-in-progress).

Cash interest cover (times)

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

Debt (for gearing calculation)

Long-term borrowings, short-term borrowings, employee benefits, derivative financial liabilities plus overdraft less other short-term investments, less derivative financial assets and less cash and cash equivalents.

EBITDA

Profit/(loss) from operations before depreciation, derecognition, amortisation, impairment of assets, dividend received, post-retirement benefit obligation (costs)/income, fair value adjustments, income/(loss) from associates and net finance costs.

EBITDA margin

EBITDA expressed as a percentage of revenue.

Equity

Issued capital and reserves.

Gearing

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

Headline earnings

As defined in Circular 2/2015, issued by the South African Institute of Chartered Accountants, all items of a capital nature are separated from earnings (by headline earnings).

Operating profit

Profit/(loss) from operations after depreciation, derecognition and amortisation but before impairment of assets, dividends received, post-retirement benefit obligation (expense)/income, fair value adjustments, income/(loss) from associates and net finance costs.

Operating profit margin

Operating profit expressed as a percentage of revenue.

Return on total average assets

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

Total assets

Non-current and current assets.

Total average assets

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

Total debt

Non-current and current liabilities.

Corporate information

Transnet SOC Ltd

Incorporated in the Republic of South Africa.
Registration number 1990/000900/30.

47th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
2001

Executive directors

Mr SI Gama (Group Chief Executive)
Mr MS Mahomedy (Acting Chief Financial Officer)

Mr GJ Pita resigned in April 2018.

Mr MS Mahomedy was appointed in May 2018.

Independent non-executive directors

Dr PS Molefe (Chairperson), Ms UN Fikelepi, Ms RJ Ganda, Prof EC Kieswetter, Ms DC Matshoga, Mr LL von Zeuner, Ms ME Letlape, Adv OM Motaung, Ms G Ramphaka, Mr AP Ramabulana, Ms V McMenamin, Dr FS Mufamadi were appointed in May 2018.

Mr SD Shane resigned in June 2017 and Mr BG Stagman resigned in December 2017.

Ms AC Kinley and Mr SM Radebe were appointed to the Board in December 2017.

Mr GJ Mahlalela passed away in March 2018.

Ms LC Mabaso, Ms Y Forbes, Mr VM Nkonyane and Ms AC Kinley resigned in May 2018.

Mr PEB Mathekga, Mr ZA Nagdee and Mr SM Radebe were removed in May 2018.

Group Company Secretary

NE Khumalo
47th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
2001

PO Box 72501
Parkview
2122
South Africa

Auditors

SizweNtsalubaGobodo Inc.
20 Morris Street East
Woodmead
Johannesburg
2191

The internal audit function has been outsourced to SekelaXabiso (Pty) Ltd.

SekelaXabiso (Pty) Ltd
1st Floor, Building 22B
The Woodlands Office Park
20 Woodlands Drive
Woodmead
Johannesburg

KPMG Services (Pty) Ltd left the internal audit function during the reporting period.

Nkonki Inc. left the internal audit function after the reporting period.