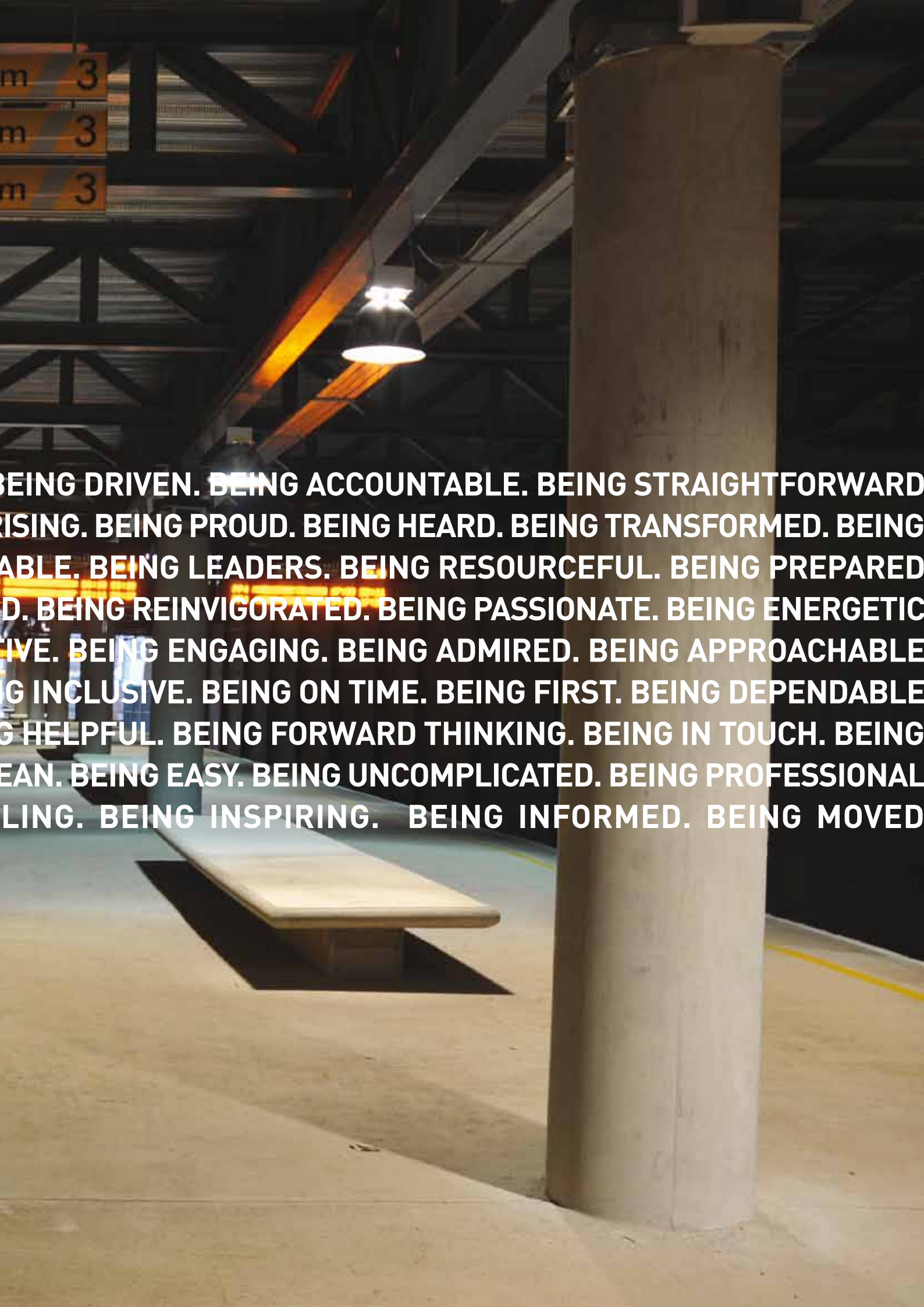
PRASA Annual Report

2009/10

prasa

PASSENGER RAIL AGENCY
OF SOUTH AFRICA


BEING DRIVEN. BEING ACCOUNTABLE. BEING STRAIGHTFORWARD
RISING. BEING PROUD. BEING HEARD. BEING TRANSFORMED. BEING
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G HELPFUL. BEING FORWARD THINKING. BEING IN TOUCH. BEING
EAN. BEING EASY. BEING UNCOMPLICATED. BEING PROFESSIONAL
LING. BEING INSPIRING. BEING INFORMED. BEING MOVED

Rhodesfield Station, Gauteng.

Dr S Ndebele
Honourable Minister of Transport
National Treasury
Parliament

Dear Honourable Minister

SUBJECT: FINANCIAL YEAR ENDED 31 MARCH 2010

We have a pleasure in submitting, for your information and presentation to Parliament, the Passenger Rail Agency of South Africa Annual Report for the period of 1 April 2009 to 31 March 2010.

The report has been prepared in accordance with South African Generally Accepted Accounting Practice (SA GAAP), the Public Finance Management Act, 1999 (Act No 1 of 1999) and other relevant Treasury regulations.

Yours sincerely

Sfiso Buthelezi
Chairman

Tshepo Lucky Montana
Group Chief Executive Officer

prasa
PASSENGER RAIL AGENCY OF SOUTH AFRICA

Nasrec Station, Gauteng.

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Be moved

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PASSENGER RAIL AGENCY OF SOUTH AFRICA

06 INTRODUCTION

BEING FOCUSED

The transformation of the South African Rail Commuter Corporation (SARCC) into the new Passenger Rail Agency of South Africa began in December 2004 when Cabinet approved the consolidation of passenger rail entities, in a bid to provide better mobility and accessibility to transport, in the pursuit of a better life for all.
PRASA is the umbrella organisation for a variety of organisations that service the South African public in terms of commuter rail, inter-city rail and luxury rail services, as well as long distance bus public transport services.

These organisations are Metrorail which services commuter rail, Shosholoza Meyl, including the Premier Classe luxury train travel offering, which services long distance rail, Autopax which hosts the long distance bus transport services offered by **Translux** and **City-to-City** and **Intersite Property Management** which is the organisation responsible for the development of station and property infrastructure.

In fact, PRASA transports more than 645 million passengers per annum across Metrorail (95%), Shosholoza Meyl (2,5%) and Autopax (2,5%) via 468 stations in cities and throughout the country.

Nasrec Station, Gauteng

PRASA exists to ensure that South Africans are moved - from city to city, from suburb to suburb, from home to work and back again.

In the years to come post the 2010 FIFA World Cup™, PRASA will continue to invest billions in infrastructure improvements, all designed to ensure PRASA does what it's determined to do: Move South Africa.

And that is exactly what PRASA has been doing.

08 MANDATE OF PRASA: OBJECTIVE

PRASA's primary objective is:

- To ensure that, at the request of the Department of Transport, rail commuter services are provided within, to and from the Republic of South Africa in the interest of the public; and
- To provide, in consultation with the Department of Transport, long haul passenger rail and bus services within, to and from the Republic in terms of the principles set out in section 4 of the National Land Transport Transition Act, 2000 (Act No 22 of 2000).

The new Moses Mabhida Station and entrance to the Moses Mabhida Stadium, KwaZulu-Natal

R70 000 000

MANDATE OF PRASA: MISSION

TO BE AN INNOVATIVE, EMPOWERED AND MODERN, INTER-MODAL TRANSPORT SOLUTION PROVIDER.

PRASA's mission is to provide sustainable transport solutions through service excellence, innovation and modal integration.
This mission reflects four key intentions:

Service excellence
Superior performance that is safe, reliable and affordable; that makes a lasting impression, and builds brand loyalty - both internally (employees) and externally (customers) - that adds benefit to the passenger.

Sustainability
A focus on sustainable development in business that considers not just the financial 'bottom line' of prosperity and profit, but also environmental quality and social equity.

Mobility solutions
Reframing the basis of business delivery, favouring innovation, integration and partnerships.

Integration
Safe, seamless and dignified travel experiences across all modes of public transport.

MANDATE OF PRASA: VISION

TO BE MOVED. FROM CITY TO CITY. FROM SUBURB TO SUBURB. WITH WORLD-CLASS SERVICE.

The vision of PRASA is to provide enhanced mobility as the gateway to accessible socio-economic opportunities and a shared future. Two fundamental principles underpin the vision:

Accessibility
PRASA should facilitate access or be a gateway to a better quality of life through enabling individuals and communities to access socio-economic opportunities.

Mobility
PRASA should connect individuals and communities through an integrated network of mobility routes.

MANDATE OF PRASA: VALUES

TO BE ACCOUNTABLE, FAIR, OPEN AND VALUED

The values that have guided PRASA and which will continue to underpin the performance ethos of the organisation are derived from and rest on the fundamental and progressive human values of the Constitution of the Republic of South Africa. They are:

- Fairness and Integrity
- Service Excellence
- Performance Driven
- Safety
- Communication
- Teamwork

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Some of the 570 new buses acquired for Translux and City to City.

R1,4 billion

MANDATE OF PRASA: STRATEGIC ROLE

Created by Government to advance its agenda for the transformation of the public transport system into a vibrant, efficient one, PRASA's strategic role may be defined as follows:

PRASA introduces a unique offering into the public transport environment with its vision to provide integrated transport solutions due to its control of commuter rail, inter-city, long distance rail and road-based long distance services, supported by transit-orientated station and terminal developments. Modal integration lies at the heart of the Department of Transport's public transport strategy.

PRASA is positioned to build on the synergies that Metrorail, Shosholoza Meyl and Autopax bring to the delivery of public transport services. It also retains the option of reinforcing these with feeder distribution services, where appropriate and beneficial, for wider integrated public transport solutions that increase mobility and accessibility to all the people of South Africa. No other existing providers of public transport services have this potential.

Secondly, PRASA is the first and only Government-owned vehicle in the area of public transport. Government will continue to subsidise and/or regulate public transport operators, while many municipal entities have had their roles reduced. With the restructuring of the former South Africa Transport Services, Government lacked leverage to directly influence public transport service provision and relied on other providers to drive its own public transport goals. With the creation of PRASA, Government is in a far better position to drive the new public transport strategy.

PRASA is expected to play a major role in the development of social and economic infrastructure. The organisation will partner with transport and rail authorities to plan and deliver on rail and other transport infrastructure.

PRASA's primary responsibility is to effectively develop and manage rail and related transport infrastructure and to provide efficient rail and road-based passenger transport services. This is supported by the focused management of a property portfolio that is being developed to enhance passengers' travelling experience. This is being achieved through the transformation of key station properties into transit-orientated development precincts that can generate sustainable income streams.

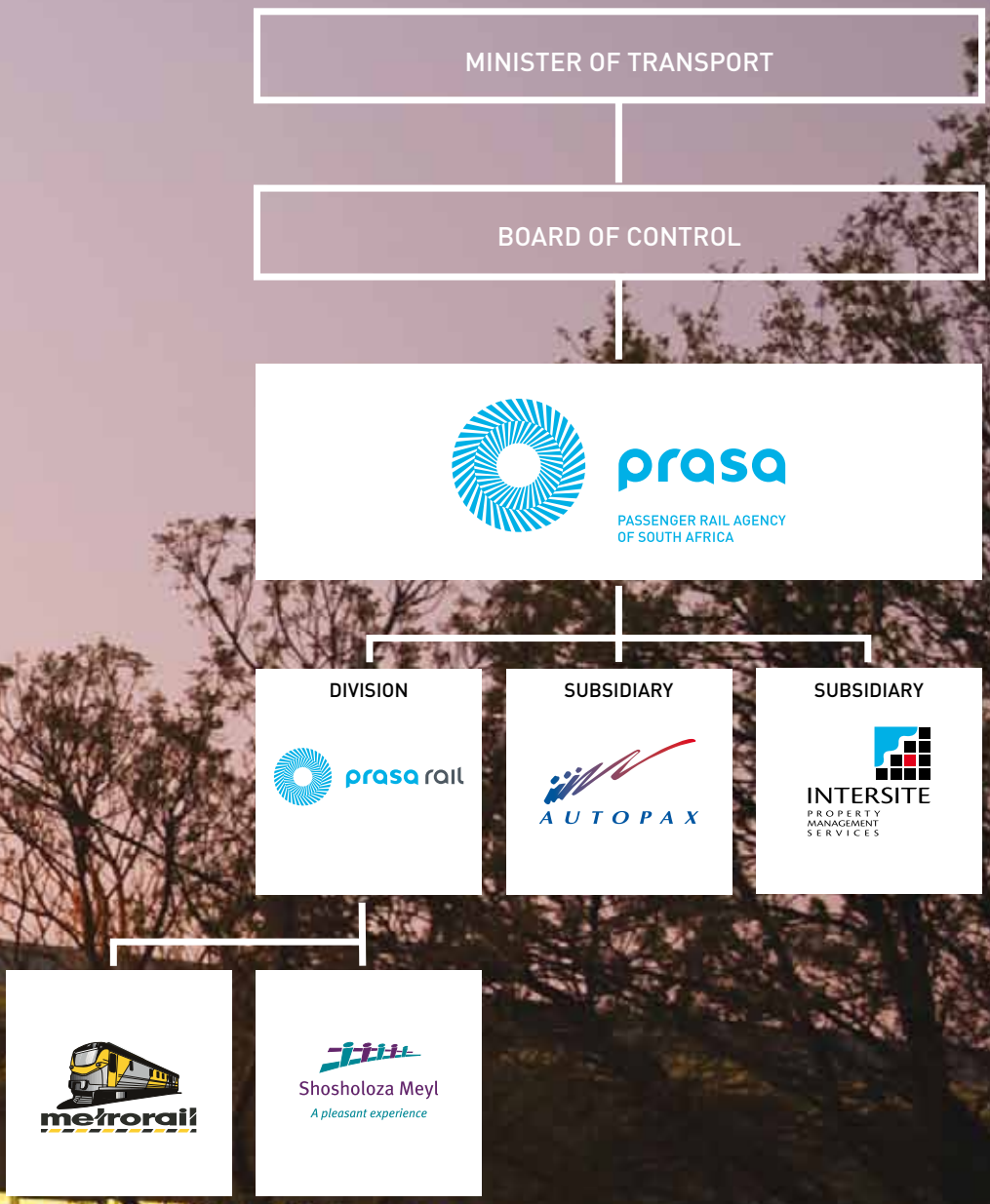
Right: Progress on the new Nasrec station, Soccer City, Gauteng

R263 000 000

Rhodesfield Station, Gauteng.
This station is one of three stations
that intersect with the
Gautrain rapid rail system

R105 000 000

15 LEGAL OPERATING STRUCTURE 15



"It was an enormous honour to transport Presidents, Prime Ministers, Ministers and other dignitaries and provide them with great service, all without a hitch."

South Africa has just concluded the successful hosting of the 2010 FIFA World Cup™ tournament, the first in Africa. Sceptics about the country's ability to host the event have been forced to admit that, indeed, South Africa has outdone itself in the way in which it delivered this spectacle. PRASA takes pride in the fact that, as the official National Supporter of this historic event, it was at the heart of its successful hosting, doing what it does best, moving soccer fans to and from the stadia and fan parks. It did this without sacrificing the quality of service given as part of its daily responsibility of transporting more than 2,2 million people.

The commitment to transporting domestic and international fans to the stadia and fan parks required delivering a reliable train and bus service that was safe and secure. It was a very ambitious commitment considering the challenges of old rolling stock, obsolete infrastructure and signalling. (It is worth noting that 86% of the signalling installations across PRASA have exceeded their design life.)

PRASA committed to the provision of an efficient transport service during the event despite the knowledge that most of its rolling stock (coaches) are over 35 years old. It took up the challenge, keen to be a part of making history in Africa.

Ahead of the 2010 FIFA World Cup™, PRASA invested R7 billion in the refurbishment of 2 000 coaches, 780 of which were dedicated to the event. R1,4 billion was invested in the acquisition of 570 new buses for Autopax, most of which were chartered by FIFA. The buses transporting the 32 participating teams were supplied by PRASA.

The Group built and upgraded 50 stations throughout the country, including Doornfontein, Cape Town, Orlando, Khayelitsha, Nasrec and Moses Mabhida, to mention but a few. The safety and security of its customers was and continues to be non-negotiable. To achieve this noble objective, more than 4 000 railway police and around 2 000 security personnel were deployed in trains and stations.

It is with great pride that I report, on behalf of the Board and the Company, that PRASA delivered a most reliable, safe and efficient transport service during the 2010 FIFA World Cup™. More than 1, 4 million football enthusiasts were transported to the stadia and fan parks over a period of one month, prompting ecstatic feedback such as this from a Durban fan who said: "***Trains are a best kept secret. I will continue using them after the World Cup!***"

Train travel proved very popular even amongst international fans, in particular the Dutch, British, Germans, Americans, Brazilians and Mexicans.

"The commitment to transporting domestic and international fans to the stadia and fan parks required delivering a reliable train and bus service that was safe and secure. It was a very ambitious commitment considering the challenges of old rolling stock, obsolete infrastructure and signalling."

"It is this positive attitude and commitment to mutual success that will see PRASA rise to even greater heights as it carries out its mandate to be a mass mover of South African people."

The finest moment came when the Presidency decided to use the Premier Classe train to transport guests to the final at Soccer City. It was an enormous honour to transport Presidents, Prime Ministers, Ministers and other dignitaries and provide them with great service, all without a hitch. Indeed, it was a vote of confidence in PRASA from the highest office in the land and something to remember each day as PRASA challenges itself to continue raising standards going forward.

The success during the 2010 FIFA World Cup™ proves that PRASA can deliver sterling services to the multitudes that use its trains and buses. It will continue to strive to be a company that prioritises service excellence. It is committed to making trains a preferred mode of transport.

However, the Group is aware of the difficult path it must still traverse if it is to reach that goal. It continues to face challenges like high electricity and energy costs, rising materials cost and the dearth of certain critical skills amongst people, like engineering, and the various trades like drivers and traffic control officers.

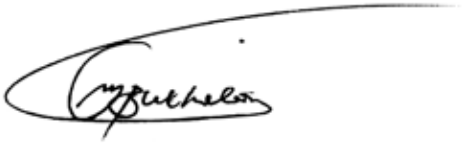
One of the primary mandates is to create more jobs while preserving existing ones. The Group managed to achieve this during the past year under very difficult conditions. It will continue to strive to protect jobs while many industries shed them.

The Minister of Transport tasked PRASA with the delivery of a high speed rail link between Johannesburg and Durban. It is currently in the research stage, assessing the feasibility of this critical linkage between two of the country's most important cities. There is no doubt that such a major project will require innovation and close co-operation between the Company and the private sector, especially to deal with the challenge of funding. The vision is also to introduce high speed rail between Johannesburg and Polokwane, as well as Johannesburg andCape Town in the medium- to long term.

The maturity showed by both PRASA's Management and the leadership of SATAWU and UTATU gives hope that everyone is more than equal to rise to any challenge. The strike that threatened the contribution to the 2010 FIFA World Cup™ was amicably resolved and all parties worked together to ensure the colourful and successful staging of the event. It is this positive attitude and commitment to mutual success that will see PRASA rise to even greater heights as it carries out its mandate to be a mass mover of South Africa's people. Everyone's contribution is needed; no one can afford to slack.

On behalf of the Board, I wish to thank the Minister of Transport, Dr Sibusiso Ndebele, as well as the Department's officials for the political leadership provided during the year under review. I also thank Group Chief Executive Officer, Lucky Montana, for having led by example as he encouraged both Management and employees to continue to serve the people of South Africa. Indeed, we remain indebted to the management team and employees as they carry out the mandate given to PRASA by the people of South Africa: that of transporting them with care and dignity.

The 2010 FIFA World Cup™ has come and gone, but the legacy it leaves behind as far as public rail and road transport is concerned will ensure that PRASA's customers, the commuters, receive a much improved service. It is an honour to humbly commit to the continuous improvement of this critical service to this country and its people.



Sfiso Buthelezi
Chairman

"PRASA spent a total of R1.5 billion to finance the funding shortfall in operational and capital expenditure. PRASA spent over R988 million on opex and over R565 million in capex from its reserves."

DIFFICULT ECONOMIC CONDITIONS

2009/10 was the year in which the severe impact of the global economic downturn was felt most harshly. The Minister of Finance in his budget speech in February 2010 said of the difficult global economic environment: *'in the past year, the world economy has gone through its deepest recession in over 70 years. Brought on by a crisis in the financial sector in developed countries, an estimated 34 million people lost their jobs. Domestically, after five years of strong growth, during which about two million jobs were created, our economy shrank by an estimated 1.8 per cent last year. Mining output fell by about 7 per cent, manufacturing by over 12 per cent. Consumption and private investment contracted. About 900 000 people lost their jobs"*.

PRASA was not spared from the global and domestic economic downturn, and took serious strain during 2009, as the extent and depth of the economic downturn became evident in declining levels of patronage and revenues. Our core customer base of Metrorail and Shosholoza Meyl was hit hard by the difficult economic conditions and the resultant job losses.

"According to Labour Force Survey figures, 16.7% of all employed people in South Africa earn less than R500 a month, 34.3% earn under a R1000 a month and a total of 60% of all workers earn less than R2 500 a month. Many of these workers are sole income earners in their households", COSATU 10th Congress Secretariat Political Report.

In these tough economic conditions, PRASA had to carry huge increases in energy, insurance and security costs following the transfer of additional locomotives to PRASA. The transfer of Autopax and Shosholoza Meyl contributed to increases in personnel costs for the Group.

The increase in traction energy for commuter rail operations 33%, which, resulted in the PRASA energy bill increasing by almost R100 million. However, PRASA still had to manage the risks associated with the funding Shortfall of R1 billion for the year under review.

Key Highlights

PRASA had achieved most of its strategic objectives in the last three years, including the successful preparation and delivery of transport services for the 2010 FIFA World Cup™. The 2009/10 Financial Year was a momentous year for PRASA and witnessed significant achievements by an Agency publicly launched 18 months ago. In this short period, PRASA has demonstrated its ability and capacity to deliver on its mandate and key transport infrastructure.

Indeed, the difficult economic and operational environment as well as the funding shortfall did not deter PRASA from its core mission of laying the basis to serve its customers better, continuing with its infrastructure investment programme in preparation for the 2010 FIFA World Cup™, and working on long-term strategic and capital plans for modernization and creation of an Integrated Rail and Transport Network.

Financial Year 2009/10 was significant in many respects, it represented the conclusion of the stabilization phase of PRASA's Turn-Around Strategy for the period 1 April 2007 to 31 March 2010. This paved the way for a new significant strategic focus in the life of PRASA. During the past three years, PRASA, formerly the South African Rail Commuter Corporation (SARCC), was mandated by the Minister of Transport to undertake the following three strategic tasks:

1. Arrest the decline and possible collapse of commuter rail services;
2. Consolidate Passenger Rail Entities into a single public entity; and
3. Prepare Rail for the 2010 FIFA World Cup™.

"Among the key highlights was that the value of fixed assets increased by 37% from R11.6 billion in 2008/09 to over R15.9 billion in 2009/10. This increase signifies the transfer of additional assets into PRASA, and most importantly, the result of the investment programme in infrastructure and rolling stock undertaken over the past 3 years".

I am pleased to report that the year ended 31 March 2010 witnessed PRASA well on its way to achieving all three strategic tasks of the stabilization phase. A significant milestone of this period was the transfer of both the long-distance rail entity (Shosholoza Meyl) and the bus operator (Autopax – Translux & City to City brands) from Transnet into the newly established PRASA. From a strategy point of view, the consolidation has presented many possibilities and opportunities to PRASA, including the extension of PRASA's transport network, increased revenue, potential to deliver more integrated transport services as well as the potential to exploit its large asset base.

"The 2009 Confederations cup laid a firm foundation for the significant role that PRASA played and in no small measure contributed to the very success of the 2010 FIFA World Cup™".

The successful conclusion of the consolidation, coinciding with the extremely difficult economic environment, brought to the fore many challenges and risks to PRASA. One of the significant challenges was dealing with the legacy issues of the passenger rail entities, significant amongst these being the need to modernize, in partnership with Labour, the costly 'overtime based' Conditions of Service , which resulted in personnel costs as a percentage of total operating costs being on the increase but accompanied by declining train service performance.

The year ended 31 March 2010 was also characterized by the demanding task of managing the "nuts and bolts" of integrating the PRASA businesses i.e. new structures, systems, practices, operating platforms, changing the cultures and instilling a new sense of urgency regarding service excellence, risk management, budget management and cost containment. The full extent of the kind of work needed to change the old cultures and infuse new and modern ways of work was fully revealed during this period.

"Revenue increased by 34% from R4.2 billion in 2008/09 to R5.6 billion in 2009/10. Fare income from the newly acquired Autopax and Shosholoza Meyl contributed to the increases in revenues".

Among the key highlights was that the value of fixed assets increased by 37% from R11.6 billion in 2008/09 to over R15.9 billion in 2009/10. This increase signifies the transfer of additional assets into PRASA, and most importantly, the result of the investment programme in infrastructure and rolling stock undertaken over the past 3 years.

To use a railway metaphor, the year ended 31 March 2010 witnessed PRASA's key Capital projects being implemented at 'full steam'. Indeed all critical capital projects were completed by the end of the financial year. The upgrades of rolling stock and stations and the resultant recapitalization, continue to play a significant role in increasing the value of fixed assets.

Revenue increased by 34% from R4.2 billion in 2008/09 to R5.6 billion in 2009/10. Fare income from the newly acquired Autopax and Shosholoza Meyl contributed to the increases in revenues.

Passenger trips remained largely constant, reflecting the difficult economic conditions, and showed signs of decline towards the end of the 2009/10 Financial Year.

In addition, PRASA was able to deliver on the following key commitments:

- Delivery of 505 (95% of the target) upgraded coaches through the Accelerated Rolling Stock Investment Programme and achieving its target of 2000 upgraded coaches by 31 March 2010.
- Completed key 2010 FIFA World Cup™ related infrastructure, with major new stations such as Moses Mabhida in Durban, Century City in Cape Town and Rhodesfield in Johannesburg delivered on time for the World Cup;
- Major Station upgrades were underway at stations such as Cape Town, Doornfontein, NASREC, Loftus, Rissik, Durban and Orlando to mention but a few.
- The National Station Improvement Programme has been executed at a phenomenal pace, with 111 stations completed by the end of the financial year under review.

FROM THE 2009 FIFA CONFEDARATIONS CUP TO A SUCCESSFUL 2010 FIFA WORLD CUP™

The 2010 FIFA World Cup™ in South Africa infact started with the 2009 FIFA Confederations Cup held in the four cities of Tshwane, Johannesburg, Bloemfontein and Rustenburg. PRASA completed the required facilities on time and effectively putting its 2010 Operational Plans to the test during the tournament. We gained invaluable experiences during the Confederations Cup, and this allowed us to refine our operational plans for the 2010 FIFA World Cup™.

Participation in the Confederations Cup exposed the absolute strength of the Rail Mode as an Unrivalled Mass Mover. This achievement earned PRASA praise from the Minister and Deputy Minister of Transport during the Transport Budget Vote. *"An assessment of transport in the Confederations Cup would be incomplete without noting one of the most positive but largely unsung successes, the critical role that our Passenger Rail Agency (PRASA) was able to play. PRASA was able to attract not just its traditional Metrorail customers but also higher income non-traditional customers. PRASA ran rail services from Johannesburg to Rustenburg, and from Johannesburg to Bloemfontein (in the latter case transporting 3 000 fans to the South Africa and Spain match). These were on routes that have not been used in a long while. All went without a hitch"*, Mr. Jeremy Cronin, Deputy Minister of Transport.

"During the 2010 FIFA World Cup™, passenger rail transported 1. 4 million passengers to stadia and fan parks during the tournament and provided 420 buses to transport the FIFA family, their guests and the local organising committee".

The 2009 Confederations cup laid a firm foundation for the significant role that PRASA played and in no small measure contributed to the very success of the 2010 FIFA World Cup™. During the 2010 FIFA World Cup™, passenger rail transported 1. 4 million passengers to stadia and fan parks during the tournament and provided 420 buses to transport the FIFA family, the LOC and their guests.

This campaign was a resounding success for PRASA and the plans and strategies well tested during the 2009 Confederations Cup.

2009/10 Funding Shortfall

A funding shortfall of R1 billion earlier in the year under review was identified. A submission for additional funding was discussed and presented to the Department of Transport and National Treasury for the 2009/10 Financial Year. The funding shortfall has put PRASA in a difficult position. If not addressed urgently, it will put PRASA in a weak financial position with the potential to undermine the ability of the entity to finance its future capacity expansion programme. This is a major concern to the Board and Executive Management of PRASA, with appropriate strategies already put in place to reverse this negative position and place PRASA on a trajectory where it will become a commercially-viable and number one public transport operator.

The following were the Major Items which defined the funding shortfall for the year under review:

- Depreciation, a non-cash book entry, remains a major expense item in the PRASA Income Statement. PRASA receives a capital grant subsidy which in line with Generally Accepted Accounting Principles (GAAP) is released to the income statement to match the depreciation expense charged against the income statement on individual assets as per the predetermined asset useful life.

  During the past two years PRASA appropriated its reserve funds to construct and acquire capital assets to meet the demands of the 2010 FIFA World Cup™ and as part of its accelerated recapitalisation efforts during the stabilizing phase of its long-term strategy aimed at improving passenger rail services. The utilisation of reserves created from internally generated funds from previous years meant that a large part of the depreciation expense could not be matched with subsidized capital funding.

  The depreciation expenses amounting to over R738 million for the 2008/09 financial year and R1 036 million in 2009/10 was charged against the income statement of which R250 million in the current year is unfunded.

- The funding shortfall for Shosholoza Meyl, which was transferred from Transnet into PRASA on 1 April 2009 was R558 million. The business exceeded its fare revenue targets but these were not adequate to off-set the funding shortfall.

  Two Due-Diligence exercises were undertaken to determine the viability of Shosholoza Meyl prior to its transfer. The reports showed that the operations of Shosholoza Meyl would require R1.4.bn per annum. However, Government only allocated R500 million, which has since been reduced to R450million for the 2010/11 financial year, and no allocation beyond 2011. The funding shortfall for the operations of Shosholoza Meyl had to be met by PRASA, which also assumed huge liabilities related to pension, medical and payroll.

  It is evident from the information from the trial balance exercise conducted by a professional accounting firm on behalf of PRASA and the Year-End Audit by the Auditor-General that PRASA inherited from Transnet a business that was poorly-managed, neglected and whose financial management systems and internal controls were non-existent and certainly did not meet acceptable record keeping principles. PRASA inherited a business that was run down resulting in poor performance and ridiculously poor levels of reliability for the long-distance services. The on-time performance of the long-distance business has remained below 35%, with Transnet contributing over 80% to the delays. Shosholoza Meyl has been unable to respond and meet customer expectations. It remains a mystery how Shosholoza Meyl numbers were in previous years

consolidated into the Transnet Freight Rail and Transnet Financial Statements without the Auditors qualifying those Financials.

PRASA made a submission highlighting the risk that Shosholoza Meyl operations will be compromised if adequate funding is not secured. This has left PRASA with no other option moving forward but to consolidate Shosholoza Meyl with commuter rail operations under a single PRASA Rail Division and review long-distance passenger services.

- Increases of 32% in electricity tariffs per annum amounting to over R100 million.
- An allocation of R210 million from the Public Transport Infrastructure and Systems Grant (PTIS) did not materialize, even though PRASA had already committed the funds for station and infrastructure upgrade projects.
- A fare increase of 10% amounting to R134 million was not approved, making it impossible for Metrorail Regions to meet their budgets. This was the sixth (6) successive year without any fare increase for Metrorail.

PRASA'S FINANCIAL POSITION

Government funding for PRASA has increased substantially since 2007. Over the last 5 years, capital funding grew on average by 52.7%, with increases of 64.7% from 2006/07 to 2007/08, 39% from 2007/08 to 2008/09, 72.6% from 2008/09 to 2009/10 and 37% from 2009/10 to 2010/11. Since 2001 when the former SARCC started receiving subsidies from Government, a total amount of R13, 8 billion has been received. PRASA spend R14.4 billion to ensure the success of the 2010 FIFA World Cup™.

However, there has always been a funding shortfall in both operational and capital funding to passenger railways, and PRASA was compelled to dig deeper into its own reserves to cover the shortfall. In total, PRASA spent a total of R1.5 billion to finance the funding shortfall in operational and capital expenditure. PRASA spent over R988 million on opex and over R565 million in capex from its reserves.

Over these years, PRASA has depleted its reserves resulting in a weak balance sheet and faced cash-flow challenges. As part of efforts to arrest the decline in its financial position, Management embarked on an extensive cost-containment plan during 2009. This was aimed at reducing operational costs, introducing operational efficiencies and cutting down on wasteful expenditure. Among the key measures implemented by the Board and Executive Management was the re-negotiation of prices for key contracts, reduction in the number of coaches to be refurbished, rescheduling payments with suppliers for improved cash position of the business, delayed implementation of key projects, reduced overtime and a moratorium on employment of new staff. The cost-containment and cost optimization efforts continue to be implemented and monitored, and these interventions are expected to deliver savings within the next 12 months.

In its current financial position, PRASA will be unable to undertake the critical tasks of modernizing South African passenger railways and new capacity to meet projected passenger demand for 2030. PRASA therefore will need to move with speed to strengthen its financial position, so that it is in a better position to leverage against its large asset base. Improving PRASA's financial position would be critical to the ability of the business to finance its capacity expansion and modernization drive. The most immediate challenge for PRASA is therefore to recapitalize its business and rebuild its reserves, restructure its balance sheet and unlock value out of its asset base.

The cash-flow projections for the next 3 years comprising of fare income, rental income, lease income, advertising as well as Government subsidies and grants were subjected to detailed analysis by the Office of the Auditor-General. The auditors had confirmed that based on the above, PRASA remains a going-concern. The Board and Management are convinced that the cash-flow projections are realistic and attainable, and it is highly unlikely that Government would adopt a transport policy that brings to an end the subsidization of public passenger transport in the near future, whilst poor communities continue to live far from places of work and need affordable transport to access job and economic opportunities, leisure as well as social services.

PRASA NEW STRATEGY

The Board has approved a new Strategy for PRASA for the next five years. The strategic goal is to transform PRASA into becoming a commercially-viable entity. PRASA is being positioned to be the number one public transport operator in high-volume passenger corridors in South Africa by 2015. To achieve this, PRASA will need to radically change its business model by changing the nature of its operations, reviewing its funding model and undertake a major technology upgrade.

Government and PRASA do recognize that unless its financial position improves significantly over the next three years, PRASA will not be able to fulfill its mandate to deliver high-quality transport services to the commuting public. To this end, PRASA is implementing a turnaround plan to ensure that the financial position of the Group is strengthened during this period.

The Strategy seeks to recapitalize PRASA within the next 12 months through an unprecedented programme of asset restructuring. This will ensure, among others that PRASA strengthens its balance sheet and generates the necessary cash resources to finance priority, income-generating, strategic projects. To this end, PRASA has already embarked on a Balance Sheet Restructuring exercise, which will allow the Agency to re-value key commercial assets and find the most appropriate home in its subsidiary, Intersite Property Management (IPM). This exercise will enable PRASA to find a suitable Strategic Equity Partner (SEP) for Intersite with the view to raise much-needed cash to finance its business, operations and expansion. Strengthening the Balance Sheet and improving the financial position of the Group will be the single-most important focus of the Board and Management team in the period ahead.

There are other key pillars to the new PRASA Strategy. Part of the strategy will ensure that PRASA grows its revenues base through increased fare, rental income, leasing and advertising income.

The non-financial pillars of the strategy relate to engendering a culture of performance. Improving performance through an effective performance management and suitable incentive scheme is vital for PRASA to raise its level of service. A key element of this is modernization of conditions of service to ensure efficiency and meet customer expectations. PRASA, together with Transnet, boast strong railway traditions which must continue to be promoted moving forward. It remains the commitment of PRASA to continue to invest in all its employees and their well-being through the employee wellness programme, workplace improvement programme, skills and leadership development as well as recognition of talent.

PRASA is on course to realize the gains from implementing its Key Operational Efficiency Project within its rail operations. This will unlock efficiency gains and ensure effective capacity utilization and deployment of resources.

The modernization of the asset base through the Fleet Renewal Programme and Signaling and Telecommunications as well as Network Extension Projects will continue to play a major role in the coming five (5) years. These modernization initiatives are already underway and will go a long way in ensuring that PRASA adequately meets long-term passenger demands. We are extremely delighted with the drive on the part of the Minister and Department of Transport to work with PRASA in ensuring that modernization is undertaken through massive investment in new, modern trains as well as new rail technologies with the proposed high-speed railways for Johannesburg – Durban and Moloto Rail Corridors. These investments are vital in restoring public confidence in public passenger transport and ensuring that South Africa boasts a modern, integrated transport network in the next 12 years.

Among the socio-economic benefits of these massive investments in rail passenger transport will be the revitalization of the Rail Engineering Industry and related industries. The strategic implementation of the Industrial Policy Action Plan in the acquisition of this rail equipment will be critical to job creation, enhancement of technical and engineering skills and Broad-Based Black Economic Empowerment. The potential benefits for South Africa are immense.

CONCLUSION

PRASA remains committed to providing high-quality services despite the inherited challenges and backlogs of old infrastructure and technology, as part of delivering on the Government's vision of providing reliable and decent public transport services. The spirit of teamwork and commitment within PRASA was clearly demonstrated during the successful hosting of the 2009 Confederations Cup and 2010 FIFA World Cup™. It was encouraging to see employees dancing and celebrating the spirit of the tournament while doing their work with pride. We are involved as PRASA in an exciting project that will contribute to the South Africa of our dreams – affordable, accessible and reliable transport that will facilitate greater access to opportunities for all South Africans. We are constructing a public transport system that all South Africans – black and white, young and old, rural and urban will be proud of. The same spirit shown during the period for the stabilization of commuter rail and during the 2010 FIFA World Cup™ should be prevalent as the PRASA Family delivers decent and quality services to the nation in the period ahead.

I wish to congratulate the entire PRASA Family and our stakeholders for all the hard work and continued commitment to move South Africans. "Be Moved!" is not only about the physical movement of people but rather a call to South Africans to be emotionally and spiritually moved by the transformation currently underway in public passenger transport – "Be Moved!"

Tshepo Lucky Montana
Group Chief Executive Officer

STRATEGIC OBJECTIVE

1 Service excellence

Service excellence in the provision of integrated best practice public transport solutions that are affordable, reliable, predictable and operationally safe.

1.1 Metrorail

Measure	Target	Actual	Variance	Analysis and comment:
→ On-time performance arrivals				
A Corridors	90%	86,3%	-3,7% below target	Train arrivals in morning peak are low with an improvement in afternoon peak and highest performance in off-peak periods. Lowest performance was recorded in Gauteng with 83,7%. Highest performance in Western Cape and Eastern Cape at 89,8%.
B Corridors	90%	88%	-2% below target	Lowest performance recorded in KwaZulu-Natal at 82,4% and highest performance in Western Cape at 89,7%.
C Corridors	89%	86,9%	-2,1% below target	Lowest performance in Gauteng at 85,6% and highest performance in KwaZulu-Natal at 90,7%
→ Trains cancelled				
A Corridors	1,4%	2,89%	1,49% above target	Highest cancellations in Gauteng region at 5,4% for the year. The cancellations were also negatively impacted by two major strike actions during the year in August 2009 and end January 2010. Lowest cancellations in Eastern Cape at 1,13% of trains cancelled.
B Corridors	1%	1,64%	0,64% above target	Highest cancellations in KwaZulu-Natal at 4,1% of B Corridor trains cancelled and lowest in Western Cape with 2,3% of trains cancelled on B corridors.
C Corridors	0,9%	1,96%	1,06% above target	Highest cancellations in Gauteng with 4,1% of C corridor trains cancelled and lowest performance in Western Cape with 1,98% of C Corridor trains cancelled.
→ Safety				
Reduced accidents per million train kilometre	10% reduction	14% reduction	5% reduction on target	69% of the 35 accidents occurred in yards.
Reduction in fatalities per million passenger trips	10% reduction	14% increase	25% increase on target	Most fatalities occurred in the Gauteng region (48%), followed by Western Cape (29%).
Reduction in injuries per million passenger trips	10% reduction	17% reduction	7,6% reduction on target	Most injuries (55%) occurred in Gauteng followed by Western Cape (26%)
Reduced Crime Index (Serious crime incidents per 100 000 passenger trips)	0,380	0,427	12% increase on target	Less than 20% of the serious crime incidents were logged against passengers and third parties.

1.2 Shosholoza Meyl

Measure	Target	Actual	Variance	Analysis and comment
→ On-time performance				
Arrivals	60%	31%	48% below target	The major contributor to delays remains Transnet Freight Rail with more than 50% of delays. Shosholoza Meyl operations contribute between 20 and 25% of delays.
Departures	95%	87%	8% below target	The below targeted performance is mainly as a result of poor management of embarking and disembarking passengers.
→ Safety				
Reduced accidents per million train kilometre	25% reduction to 0,56	No increase at 0,75	34% above target	A total of 5 accidents excluding level crossing accidents occurred during the year. One serious accident occurred on 7 December 2009 at Frederikstad with one fatality and more than 100 injuries. This impacted safety performance negatively.
Reduction in fatalities per million passenger trips	To remain at 0	1,04 – 100% increase	100% above 2008/09 performance	Total of 2 fatalities as result of Shosholoza Meyl operations occurred during the year.
Reduction in injuries per million passenger trips	10% reduction to 17	182% increase to 66,7	192% above target	The measure was negatively impacted by the serious accident of 7 December 2009.
Reduced Crime Index (Serious crime incidents per 10 000 passengers)	5% reduction	53% reduction	50,5% positive variance	Reliable information on crime incidents was only available from October 2009. The crime index was reduced by 53% from October 2009 to March 2010.

1.3 Autopax

Measure	Target	Actual	Variance	Analysis and comment
→ On-time performance				
Departures	85%	74%	13% below target	Below target performance was as a result of the old bus fleet as well as depot problems. The downward trend from the beginning of 2009/10 was turned around during the latter part of the year as a result of focus on depot and fleet management.
Buses cancelled	0%	0%	-	
→ Safety				
Reduced accidents per million coach kilometre	5% reduction	90% increase	100% above target	A total of 34 accidents occurred during the year versus 19 during 2008/09.
Reduction in fatalities per million passenger trips	5% reduction	49% reduction	47% improvement	A total of 3 fatalities occurred during the year.
Reduction in injuries per million passenger trips	5% reduction	24% reduction	20% improvement	A total of 62 injuries occurred during the year.

2 Asset utilisation

Ensuring productive investment in and use of assets and the property portfolio through the application of total life-cycle management practices, processes and procedures to all assets

2.1 Fleet investment

Measure	Target	Actual	Variance	Analysis and comment
New train sets	0	0	-	PRASA intends to replace the fleet. The programme is subject to acceptance of the business case by Government, the entire replacement strategy and balance sheet restructuring project.
General Overhaul (GO) and Upgraded Coaches: Accelerated Rolling Stock Programme	Metrorail: 531 Shosholoza Meyl: 30	505 0	-5% -100%	The delivery of coaches on the Accelerated Rolling Stock programme was 95% or 505 coaches delivered at the end of March 2010 against a revised target of 531 for 2009/10. 26 coaches were not completed. Four coaches were not completed as they had to be diverted to the upgrade programme as result of asbestos removal (2), burnt high tension system(1) and a bent underframe (1). A tender was called for the refurbishment of around 30 coaches for Shosholoza Meyl. The tender is awaiting approval and was deferred to 2009/10.

2.2 Preventative maintenance - fleet

Measure	Target	Actual	Variance	Analysis and comment:
Fleet Maintenance as % of operational cost	Metrorail: 10% Shosholoza Meyl: 17,5% Autopax: 16,2%	6,4% 32,2% 20,3%	-3,6% points 14,7% points 4,1% points	Fleet maintenance in Metrorail was based on costs of rolling stock material and rolling stock maintenance contracts as well as rolling stock component maintenance. All of the cost elements were higher than budget but offset by higher total expenditure. On Shosholoza Meyl side fleet maintenance cost exceeded budget by 97%. For Autopax, maintenance cost higher due to the ageing fleet. The new fleet will positively impact this measure going forward.
Reliability – Faults per 100 000 train kilometre • Metrorail: Rolling stock faults • Shosholoza Meyl: Locomotive and coach faults	108 71	110 NA	2% variance -	Most rolling stock failures are as result of electronic systems and traction motors. The impact of unstable electrical currents from OHTE and substations in the network are being assessed to address electronic system errors.

2.3 Infrastructure investment

Measure	Target	Actual	Variance	Analysis and comment
No of signal projects completed	2	1	50%	Project PR1623 - Replace train detection equipment for signalling between Lebaleng and Halte2 on the Mabopane line was completed and signed off April 2010. Project WT1150 – Improvement of signal reliability through burying of surface cables - is still in progress largely due to occupations not granted and expected completion was June 2010.
No of perway projects completed	2	2		Project WT1139 – Platform Alignment and Clearances on Wits region completed Project PR1363 – New drainage at Wintersnest on Mabopane Line completed.

2.3 *Infrastructure investment*

Measure	Target	Actual	Variance	Analysis and comment
No of bridge projects completed	2	0	100%	Two projects for four footbridges at Skansdam and Anglers on the Wits region have been delayed.
No of telecommunication projects completed	7	3	57% variance	The trunk radio project WT1277 for Wits and Durban has been completed. However after implementation, the regions have requested for enhancements to the radios that will be done in 2010/11. The ICS projects (4) have been experiencing delays and only part of the projects has been completed. Projects CA1534 and DN1538 had been completed. Projects CA1534 and PR1276 (Trunk radios) are due for completion in April 2010 and June 2010 respectively as result of availability of motor coaches. ICS projects PR1537 and WT1538 were delayed to October 2010 as result of ICS priorities.
No of electrical projects completed	3	2	33% variance	Projects CA1425/1: Substation refurbishments in Cape Region Phase 1 completed. Project DN1467: Replacement of foundations, structures and small part steelwork between Umlazi – Reunion in KwaZulu-Natal was completed.
New lines or extensions completed	1	1		The Khayelitsha extension has been opened for limited operations.
Station improvements completed	Intersite:116	111	-4% (1% on 110)	As a result of the cost-containment programme by Group, Intersite had to contain the programme to 110 stations after the revised target of 116 was approved by the Board of Control.
New or upgraded stations completed	Intersite: 3	4	33% positive	Station upgrades for Rossburgh, Isipingo, Reunion and Duffs Road have been completed.
No of transit oriented developments initiated	Intersite: 4	4		Four Master Plans have been completed for Cape Town Station, Mabopane Station, Park Station and Pretoria Station.

2.4 *Preventative maintenance – Metrorail infrastructure*

Measure	Target	Actual	Variance	Analysis and comment
Infrastructure maintenance as % of operational cost	17%	16,2%	-0,8% points	Overall Metrorail infrastructure cost inclusive of labour, material, maintenance contracts, vehicles and other costs was 1% below budget for the year. Material cost exceeded the budget by 30% and maintenance contracts increased by 22% on budget. This was however offset by savings on personnel (-4%) and other costs (-30%). Labour accounts for 52% of maintenance followed by other costs of 23%, maintenance contracts 16% and material 8%. Other costs are made up of rental (40%), health and risk (35%) and communication (19%) costs.
Reliability – Mean time between failures - signals	24 minutes	25,4 minutes	6% improvement	Signal failure rate is the highest in the Gauteng region with average MTBF 35 minutes.

3 Service quality and passenger growth

Sustaining dependable and superior customer service benefit that achieves a high customer satisfaction.

Measure	Target	Actual	Variance	Analysis and comment
Increased patronage				
General patronage	Metrorail: 7% Shosholoza Meyl: 1% Autopax: 4%	-1,9% -23% -4%	-8,3% -24% -8%	Patronage shows the impact of the economic downturn especially in the case of the long distance passenger travel where travel choices are more discretionary.
Customer service index				
Metrorail: A Corridors	75%	71,25%	3,75%	The customer surveys were done at the end of September 2009. The ratings were the first for the new units, Shosholoza Meyl and Autopax.
Metrorail: B Corridors	75%	71,25%	3,75%	
Metrorail: C Corridors	75%	71,25%	3,75%	
Shosholoza Meyl	75%	80,9%	5,9% above	
Autopax	75%	82,3%	7,3% above	
Special needs passengers training	All Senior Management	38 employees trained	Not achieved	In total 61 people, mostly protection officers in the Western Cape region, were trained from 2008/09

4 Financial effectiveness

Ensuring funding availability and deployment to achieve the required results and outcomes through the productive and efficient use of all resources

Measure	Target	Actual	Variance	Analysis and comment
Fare revenue increase	Metrorail: 7% Shosholoza Meyl: 1% Autopax: 4%	-0,1% 4% -5,5%	7,1% below 3% above 9,5% below	The Metrorail budget incorporated a 7% fare increase with effect from 1 September 2010 that was not realised. Shosholoza Meyl, with differentiated pricing for peak periods, attained the revenue budget. Autopax was negatively impacted with lower than budgeted fare income (excluding contract and other income) especially during February 2010, partially as a result of a strike by bus drivers.
Expenditure management	5% variance	+8,5%	3,5% above	Major areas of overspend are personnel cost, rental, insurance claims, energy and security.
Capital (project) expenditure management	5% variance	+19,1%	14,1% above	The amount is inclusive of 2010 FIFA World Cup™ capital projects that was the main reason for the overspend
Subsidy benefit				
Subsidy per passenger km	Metrorail: R0,12	R0,124	3% above target	The decline in patronage as well as over expenditure negatively impacted the subsidy benefit.
Income growth from leases / rentals	12%	13,4%	1,4% above	Lease / rental income growth for the Group increased by R29,7m.
Rental space optimisation - additional space created	4000m^2	7999m^2	100% improvement	Space gain was recorded at Park Station (2900m^2); Pretoria (1015m^2) and Durban (4084m^2)

5 Governance and compliance

Ensuring controlled conformance to statutory requirements by entrenching corporate governance accountability within PRASA.

Measure	Target	Actual	Variance	Analysis and comment
Audit findings	Unqualified Audit with 75% reduction of AG findings including repeat findings	Unqualified Audit with no reduction in overall findings	Not achieved	The report contains three matters of emphasis, one matter of non-adherence to PFMA and Treasury regulations and four matters of internal control.
Integrated management system	ERP Phase 1 implemented	ERP Phase 1 implemented		The SAP ERP Phase 1 was implemented 1 April 2010. The initial implementation date was postponed to reduce risk of the 2009/10 financial year across two systems.
	ISO 9001 PAS 55	Not completed		As a result of transformation that the organisation has been undergoing, these projects have not been completed.

6 Strategic sourcing

Strategic Sourcing through an effective and efficient supply chain management strategy and promotion of broad-based black economic empowerment and industrial policy objectives.

Measure	Target	Actual	Variance	Analysis and comment
% spending to BBBEE	60% at Level 4 BBBEE	77,2%	17,2% above target	Performance of the various areas of the business are as follow: PRASA Corporate: 69,1% Shosholoza Meyl: 69,7% Autopax: 47,4% Metrorail: 90,7% Intersite: 81,2%

7 Learning and growth

Ensuring that the appropriate knowledge and skills are acquired and maintained to sustain change and improvement for the betterment of the organisation through developing human capital processes to build human capital capabilities.

Measure	Target	Actual	Variance	Analysis and comment
No of learnerships	350	1239	254% above target	1239 learnerships are in progress, have been completed or started for 2009/10. A total of 616 learnerships have been completed for the year and 613 are in progress. Most of the 2009/10 learnerships were for security.
Employee direct training expenses as % of personnel cost	2,4%	1,2%	1,2% below	The target was adjusted to reflect the budget of direct training spend as % of budgeted personnel cost. Personnel cost increased for the year whilst training saw underspend. The percentages per business are as follows: PRASA Corporate: 9.5% Shosholoza Meyl: 0.0% Autopax: 4,3% Metrorail: 1.4% Intersite: 2.1%
Staff turnover (exits of permanent staff)	<4%	4,2%	0,2% above	The staff turnover for permanent staff is mainly due to retirements (42%), resignations (33%) and deaths (20%) PRASA Corporate: 2,5% Shosholoza Meyl: 4,2% Autopax: 5,95% Intersite: 7,1% Metrorail: 4,1%

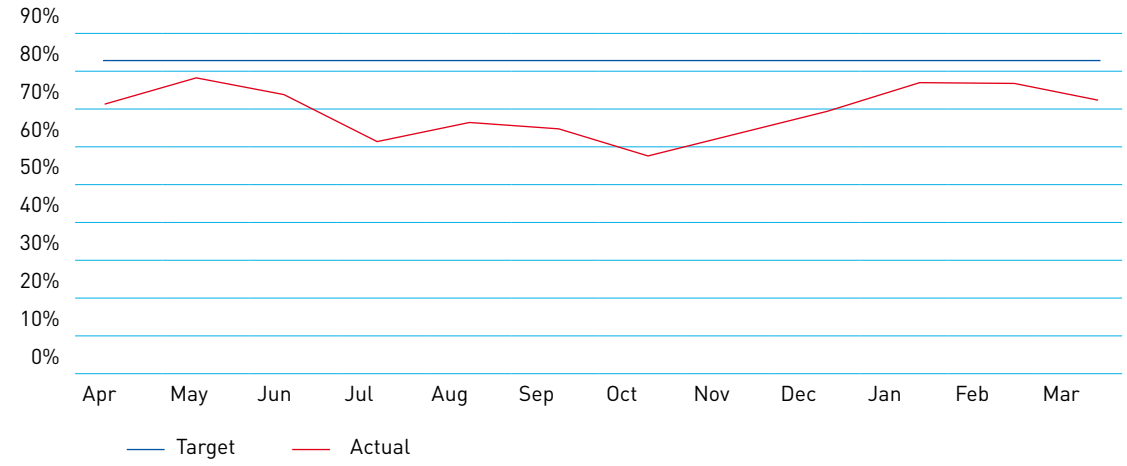
R7 000 000 000

Investment in new trains

8 Service excellence performance detail

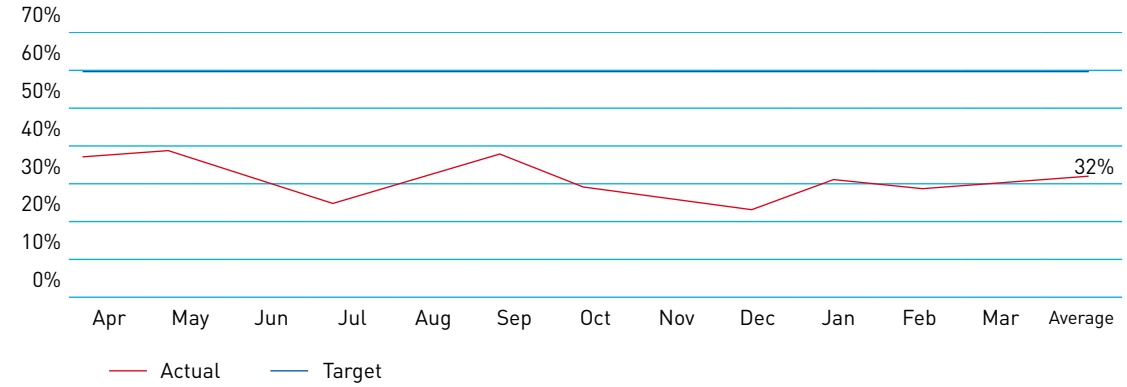
8.1 Autopax

Punctuality of services

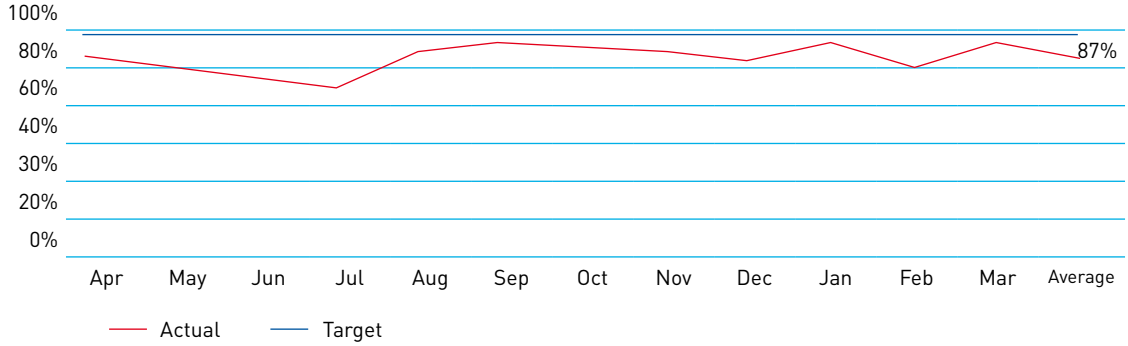


8.2 Shosholoza Meyl

Shosholoza Meyl: Train arrivals on time: 2009/10

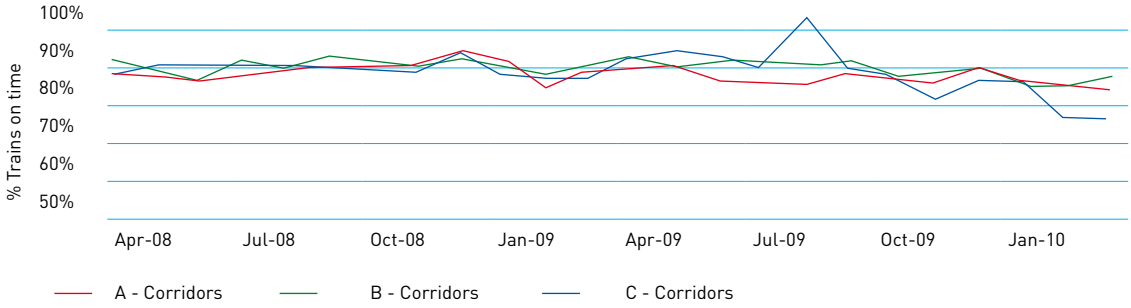


Shosholoza Meyl: Train departures on time: 2009/10

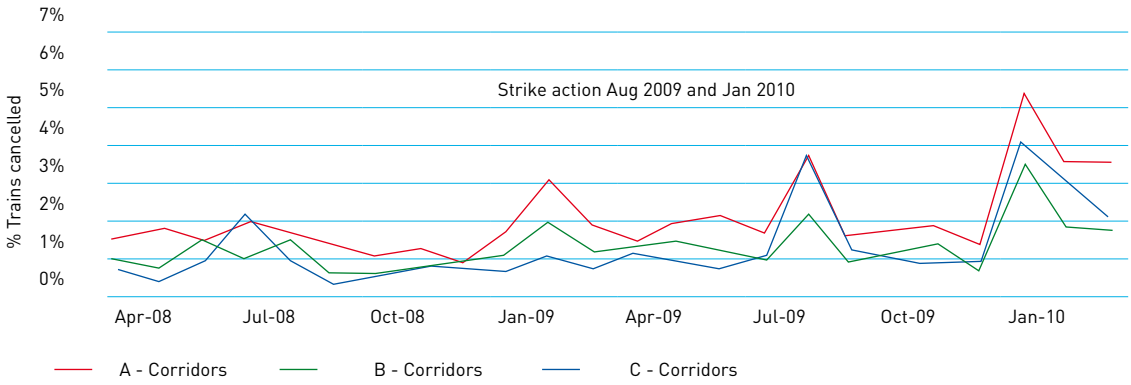


8.3 Metrorail

Metrorail: Train punctuality

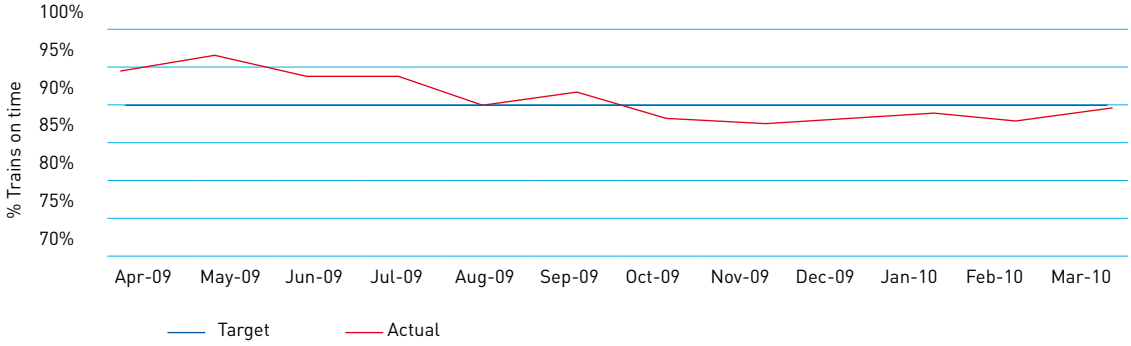


Metrorail: Train predictability (cancellations)

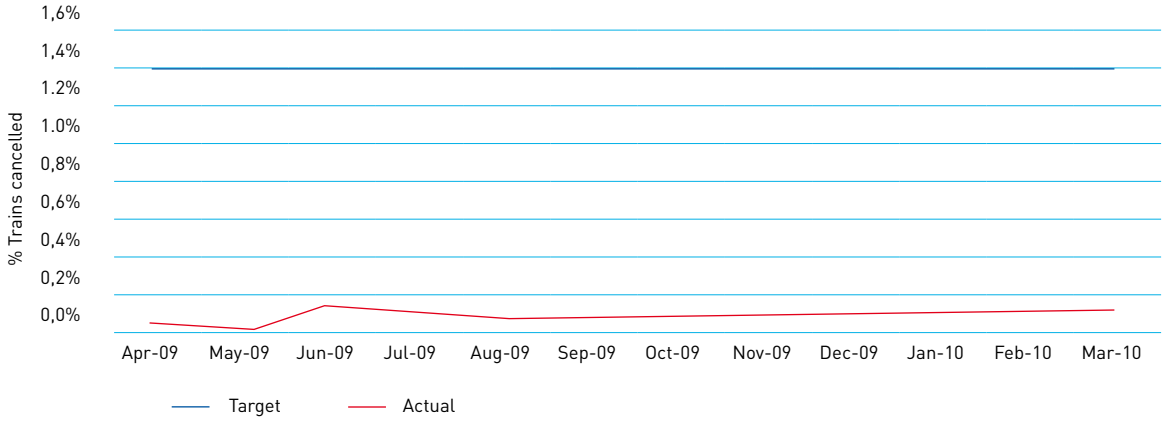


8.3.1 Eastern Cape

Eastern Cape: Train punctuality

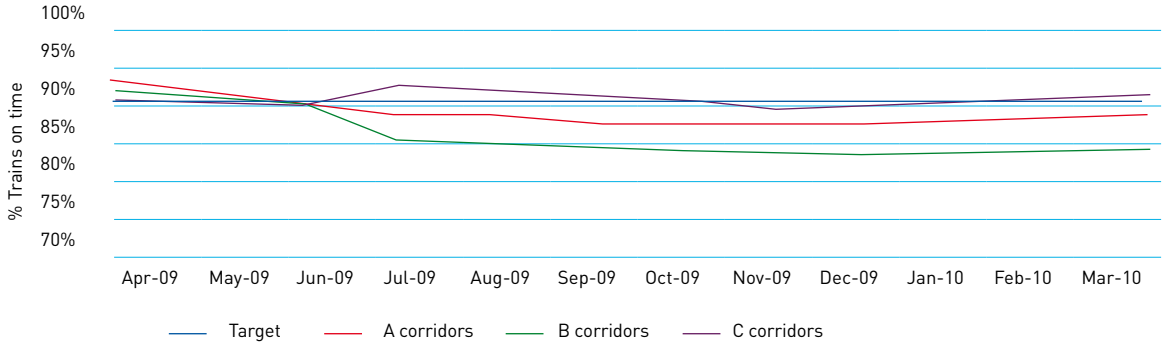


Eastern Cape: Train predictability

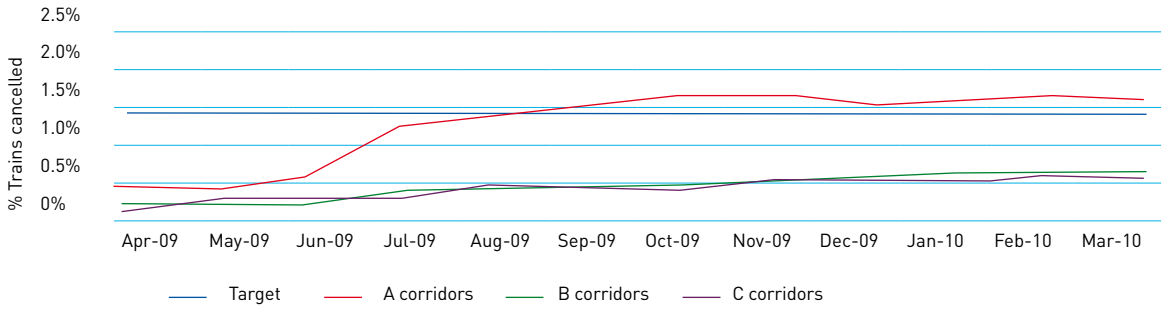


8.3.2 KwaZulu-Natal

KwaZulu-Natal: Train punctuality

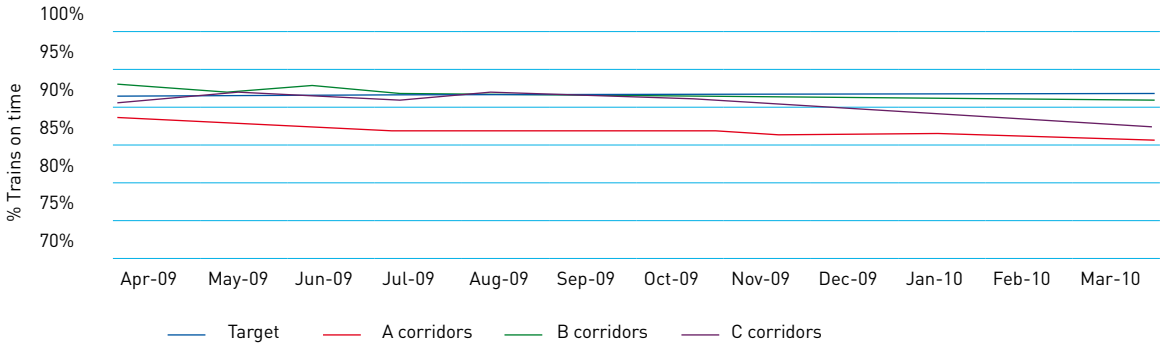


KwaZulu-Natal: Train predictability

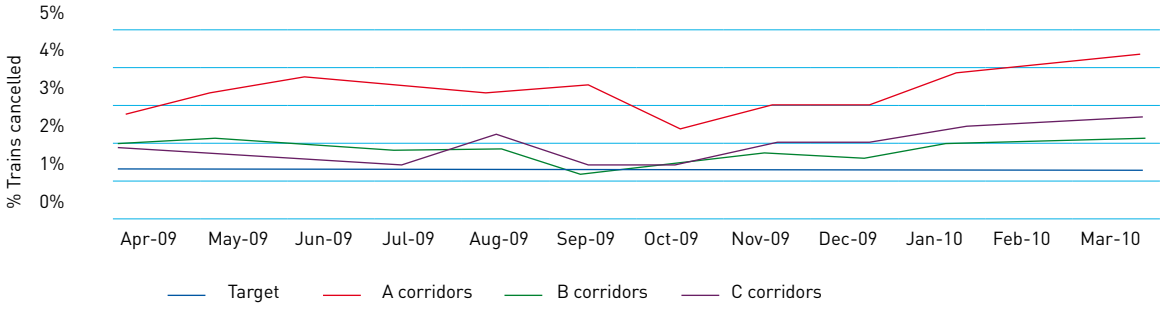


8.3.3 Gauteng

Gauteng: Train punctuality

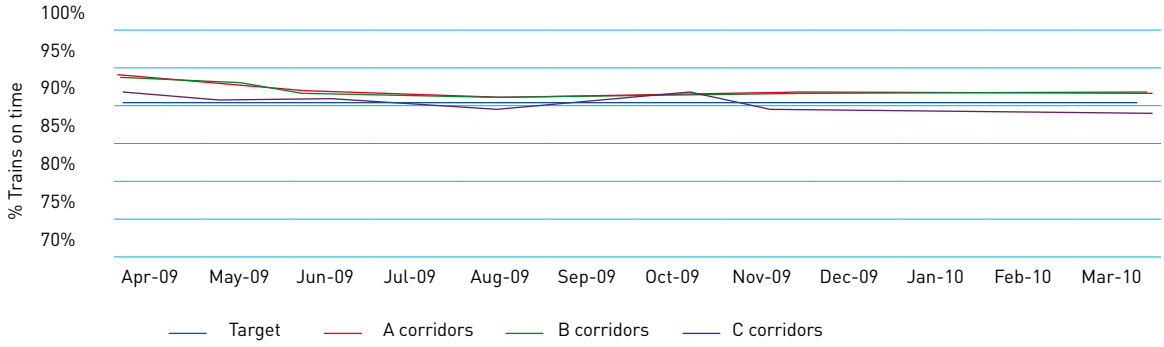


Gauteng: Train predictability

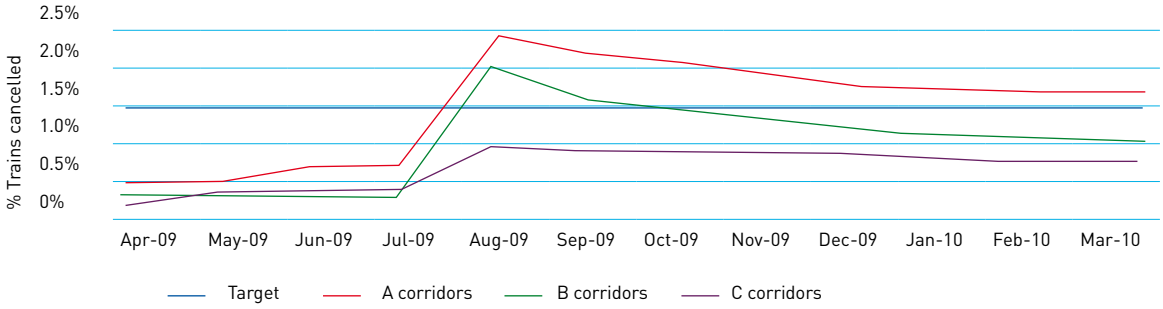


8.3.4 Western Cape

Western Cape: Train punctuality



Western Cape: Train predictability



B

R70 000 000

Orlando Station, Soweto, Gauteng.

BOARD OF CONTROL RESPONSIBILITY STATEMENT

From the left:
Mr Jan David de Villiers
Mr. Bernard Boshielo
Mr Tumi Mohube
Ms Membrey Serobe
Mr Sfiso Buthelezi
Mr Pule Moiloa
Mr Tshepo Lucky Montana
Ms Zanele Bridgette Gasa
Mr Vusi Twala
Mr. Mahesh Fakir
Ms Lulu Letlape
Ms Hlonela Lupuwana

The Board of Control of the Passenger Rail Agency of South Africa is responsible for the preparation and fair presentation of the consolidated financial statements of the Group, comprising the statements of financial position as at 31 March 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended. It is also responsible for the notes to the consolidated financial statements, which included a summary of significant accounting policies and other explanatory notes and the Board of Control's Report, in accordance with South African Statement of Generally Accepted Accounting Practice and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999) the Legal Succession to the South African Transport Services Act, 1989 (Act No 9 of 1989).

R77 000 000

Doornfontein Station, Gauteng.

The Board of Control's responsibilities include:

- Designing, implementing and maintaining internal control relevant to the preparation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- Selecting and applying appropriate accounting policies;
- Making accounting estimates that are reasonable in the circumstances;
- Maintaining an effective system of risk management.

The Board of Control has made an assessment of the Group and the Company's ability to continue as a going concern and there is no reason to believe the businesses will not be going concerns in the year ahead.

The Auditor is responsible for reporting on whether the Group consolidated financial statement and the Company's financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of Group consolidated financial statement and the Company financial statements

The Group consolidated financial statements and Company financial statements of the Passenger Rail Agency of South Africa, as identified above, were approved by the Board of Control and signed on its behalf by

Tshepo Lucky Montana
Group Chief Executive Officer

Sfiso Buthelezi
Chairman

Date: 30 August 2010

AUDIT COMMITTEE'S RESPONSIBILITY

The Audit and Risk Management Committee reports that it has complied with its responsibilities, in terms of section 38(1) (a) of the Public Finance Management Act, 1999 (Act No 1 of1999) and Treasury Regulation 27.1. The Audit Committee also reports that it has adopted formal terms of reference as its Audit Committee Charter and has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein. All weaknesses in the internal controls reported by internal and external auditors to the Audit Committee were considered for their significance and potential for financial losses and, based on these reports, the Audit Committee is of the opinion that whilst there are some control issues that have been reported and are receiving attention, generally the effectiveness of the internal controls of the Group is adequate.

Orlando Station, Soweto, Gauteng.

EVALUATION OF FINANCIAL STATEMENTS

The Audit and Risk Management Committee has:

- reviewed and discussed with the external auditors and Executive Management the audited annual financial statements to be included in the Annual Report;
- reviewed the external audit management letter and management response;
- reviewed changes in accounting policies and practices; and
- reviewed significant adjustments resulting from the audit.

The Audit and Risk Management Committee concurs with and accepts the conclusions of the Executive Management of the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Executive Management.

Vusi Twala
Chairman: Audit and Risk Management Committee

Date: 30 August 2010

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Report of the Auditor-General to Parliament on the Consolidated Financial Statements and Financial Statements of the Passenger Rail Agency of South Africa for the year ended
31 March 2010.

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

Introduction

I have audited the accompanying consolidated financial statements and financial statements of the Passenger Rail Agency of South Africa (PRASA), which comprise the consolidated and separate statements of financial position as at 31 March 2010, and the consolidated and separate statements of financial performance, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 57 to 91.

Accounting authority's responsibility for the consolidated financial statements

The accounting authority is responsible for the preparation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and in the manner required by the Public Finance Management Act of South Africa, 1999 (Act No 1 of 1999) (PFMA) and the Legal Succession to the South African Transport Services Act of South Africa, 1989 (Act No 9 of 1989) (Legal Succession Act) and the Companies Act of South Africa, 1973 (Act No 61 of 1973) (Companies Act). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa, 2004 (Act No 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit so as to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of the Passenger Rail Agency of South Africa as at 31 March 2010, and its consolidated and separate financial performance and cash flows for the year then ended in accordance with SA Statements of GAAP and in the manner required by the PFMA, the Legal Succession Act and the Companies Act.

Emphasis of matters

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

Going Concern

I draw attention to the Board of Control's report in the financial statements which indicates that the Group incurred a loss of R1 269 million (2009: R1 053 million) and the entity incurred a loss of R1 090 million (2009: R1 068 million) for the year ended 31 March 2010. At that date the Group's current liabilities exceeded its current assets by R2 722 million (2009: R1 143 million) and the entity's current liabilities exceeded its current assets by R2 658 million (2009: R1 358 million). The Board of Control's report describes the steps taken by the Directors in these circumstances. The Board of Control's report also indicates that, in the event that the operations of the Group fail to achieve the forecast cash flows, there will be a material uncertainty that may cast doubt on the ability of the Company and its subsidiaries to continue as going concerns.

Fruitless and Wasteful Expenditure

As disclosed in note 31 to the financial statements, fruitless and wasteful expenditure to the amount of R3,7 million (2009: R2,0 million) was incurred due to interest charged by creditors on overdue accounts.

Contingent liabilities

As disclosed in note 36 to the financial statements, the Group has contingent liabilities amounting to R329 million (2009: R93 million). These include amounts relating to the Shosholoza Meyl division of R147 million (2009: Rnil) charged by Transnet Ltd, which the entity is disputing.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the PAA and *General notice 1570 of 2009,* issued in *Government Gazette No 32758 of 27 November 2009,* I include below my findings on the report on predetermined objectives, compliance with the PFMA and financial management (internal control).

Findings

Predetermined objectives

No matters to report.

Compliance with laws and regulations

PFMA and Treasury Regulations of 2005

Non-adherence

Contrary to the requirements of section 76(4)(c) of the PFMA and Treasury Regulation 16, the Wits region of the Metrorail division and the Shosholoza Meyl division of PRASA failed to comply with supply chain management regulations as payments in excess of R500 000

were made where no tender process was followed and/or no contract entered into. There were also instances where three quotes for purchases between R10 000 and R500 000 were not obtained. The personnel involved in these transactions have been dismissed or suspended pending the completion of an internal investigation.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the PFMA and Companies Act, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

Leadership

Oversight responsibility over reporting

Management of the Shosholoza Meyl division of PRASA did not exercise oversight responsibility over reporting, maintenance of adequate accounting records and implementation and compliance with internal controls. Management also did not implement appropriate actions to mitigate risks identified.

Adequacy and competence of personnel responsible for reporting

The level of skills and experience possessed and demonstrated by the finance resources transferred from Transnet Ltd to the Shosholoza Meyl division of PRASA during the year under review were not appropriate to achieve the tasks at hand. PRASA management identified this shortcoming and is in the process of addressing it.

Financial and performance management

Availability of expected information

Significant delays were experienced in obtaining supporting documentation and management explanations relating to the audit of the Shosholoza Meyl division of PRASA.

Corporate governance

Risk identification and management

PRASA did not implement adequate internal controls at the Wits region of the Metrorail division and the Shosholoza Meyl division to ensure that procurement policies are adhered to. This resulted in the non-compliance with procurement policies and the PFMA as reported under compliance with laws and regulations above.

Auditor-General

Pretoria
31 August 2010

THE DIRECTORS HAVE PLEASURE IN SUBMITTING AND PRESENTING THE PASSENGER RAIL AGENCY OF SOUTH AFRICA (PRASA) ANNUAL REPORT FOR THE YEAR 1 APRIL 2009 TO 31 MARCH 2010.

DIRECTORS' REPORT

Directors' responsibilities

Annual financial statements

This report and the annual financial statements have been prepared in compliance with the requirements of the Public Finance Management, 1999 (Act No 1 of 1999), as amended (PFMA).

There are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable. The Directors are not aware, as at the date of this statement, of any circumstances, which would render any particulars included in the financial report to be misleading or inaccurate.

Nature of business

The Passenger Rail Agency of South Africa is an agency of the Department of Transport responsible for the provision of Commuter rail services and long haul passenger rail and bus services. Through its wholly-owned subsidiary, Intersite Property Management Services (Intersite), new stations are built, upgraded, managed and maintained.

Going concern

The Group incurred a net loss of R1 269 million (2009: R 1 053 million) and the Company incurred a net loss of R1 090 million for the year ended 31 March 2010.(2009: R1 068 million). At that date, the Group's current liabilities exceeded its current assets by R2 722 million (2009: R1 143 million) and the Company's current liabilities exceeded its current assets by R2 658 million (2009: R1 358 million).

The Board has considered the ability of the Company and its subsidiaries to continue as a going concern and based on reasonable and supportable assumptions, have concluded that the forecast cash flows will allow the entity and its subsidiaries to meet their obligations during the normal course of business for the foreseeable future. Accordingly the consolidated financial statements are prepared on the going concern basis.

Black Economic Empowerment (BEE)

BEE ranks as a priority and is fully integrated into all areas of the Group, and will continue to play a meaningful role in stimulating economic growth in South Africa. In line with the Broad-Based Black Economic Empowerment Act, 2003 (Act No 53 of 2003), as well as the Supply Chain Management Policy, the Group has set specific targets for procurement from black enterprises. Various committees have been instituted with representation from all divisions, including senior management, to ensure that the process remains transparent and fair at all times. The Group is fully committed to use the resources at its disposal to further BEE advancement.

Code of Ethics

A formal Code of Conduct and Ethics requires all employees to act with utmost dignity and respect, whilst making rail a success. This Code seeks to promote good working relations, conflicts of interest and, most importantly, regulate behaviour of employees whilst performing their duties for PRASA as well as ensuring that the Group's integrity and credibility is protected.

Environment

The Group is aware of the necessity of maintaining the highest standard of environmental care and complies with all regulations in this regard. A department responsible for compliance to environmental regulations has been established.

Financial position and results

Capital expenditure

Total capital investment to the value of R5 billion (2009: R3,8 billion) was made during the year under review. These funds were expended mainly towards the upgrading and maintenance of the rolling stock, infrastructure upgrades and station developments.

Operational funds

The Corporation received an operational subsidy of R3 185,8 million for the year (2009: R2 549,6 million).

Operational results

Total Group income amounted to R2 448,9 million, compared to R1 661,1 million in the prior year. Fare revenue for ticket sales for twelve months has been included in the results. Group operating expenditure increased by 29,1%.

State compensation

During the year, an amount of R3 185,8 million (2009: R3 049,6 million which includes R500 million received in respect of the operating of Shosholoza Meyl by Transnet Ltd) was received from Government towards the financing of operations. This reflects an increase of 4,5% on the previous year (2009: increase of 24,2%). The capital expenditure subsidy received amounted to R4 099,8 million (2009:R2 577,7 million).

Subsidiaries

The Corporation's interest in its subsidiaries is summarised as follows:

Name	Percentage shareholding	Issued capital	Amounts owing by subsidiaries to Company	Attributable share of net profit/(loss)
Intersite Property Management Services (Pty) Ltd				
Ordinary shares 2010	100%	R2	R124,0 million	(R72,4 million)
2009	100%	R2	R173,3 million	R14,2 million
Autopax Passenger Services (Pty) Ltd				
Ordinary shares 2010	100%	R20 461 500	R71,3 million	(R106,3 million)
2009	-	-	-	-

Human Resources

People strategy

The Group's goal is to be the most admired employer in the transport industry in its geographical footprint. This will be achieved through:

- Building and revitalising organisation-wide capability for change;
- Investment in the acquisition, retention and development of talent;
- Continued improvement and simplification of management processes and systems; and
- Fostering a people-centric, high performance culture.

What the Group values as an organisation:

- Service excellence;
- Safety;
- Fairness and integrity;
- Teamwork;
- Performance driven; and
- Communication.

Key strategic themes were adopted with the primary focus being to support the human capital of the organisation by engendering a high performance culture, managing talent and finalising the Change Management Programme during the year under review.

Engendering a high performance culture

For the enhancement of performance, sessions with the Executive team have been arranged to broaden the understanding of effective leadership, create a feedback loop on their leadership competency, style and personal leader challenges. Further, to develop a personal action plan, coaches will help guide more effective leadership behaviour.

Talent management and leadership development

One of the Group's core capabilities is developing service excellence. It has consistently strived to deliver good service over a sustained period and continues to invest in the development of talent.

Just as business performance is reviewed and service measured, the same discipline is brought to reviewing organisational talent. Key positions have been identified and the pipeline available to fill them is being tracked. The Group Executive annually commits time to this review process.

The people development, promotion, external and internal recruitment initiatives are aligned to talent management.

Organisational culture and change

The first phase of the Corporation's Change Management Programme is underway. The programme seeks to change behaviour, foster a people-centric, high performance culture and entrench organisational values.

Wellness programmes

The PRASA Employer brand is being built as a caring employer by providing benchmarked wellness programmes and ensuring work-life balance through the following programmes: Management Medicals - 79% of managers were tested, VCT – 52% of employees were tested, 38% of employees were tested for Breast Cancer, eye tests were done on 85% of employees, and employees identified as being overweight were placed on a Weight Loss Programme.

Business consolidation projects

The Corporation made significant progress in aligning benefits to ensure standardisation across the organisation following the acquisition of Shosholoza Meyl.

Consultations and negotiations on the new conditions of service are underway and are planned to be fully implemented in 2011.

Conditions of service and wage negotiations

Whilst this matter falls outside the year under review, it is proper to disclose in the current report of 2009/10 the wage negotiations with regards to the strike action embarked upon by members of SATAWU and UTATU.

PRASA has implemented an increment on pensionable salaries of 10% across the board backdated to 1 April 2010 for all junior employees employed in its Corporate Office and its Rail division, comprising Metrorail and Shosholoza Meyl.

On 20 May 2010, UTATU accepted the offer of 10% across the board and signed the Wage Agreement. SATAWU signed the Wage and Substantive Agreement on 1 June 2010 after management committed itself to adjust salaries of the lowest paid employees in Shosholoza Meyl and Metrorail. Management and Labour embarked on road shows for the purposes of explaining the 10% wage offer.

On 28 May 2010, PRASA committed itself to adjust salaries in order to address salary disparities of the lowest paid employees as follows:

- Employees in Shosholoza Meyl earning less than R60 000 per annum will be paid an additional increase of 2,5% on their pensionable salaries with effect from 1 April 2010.
- Employees in Metrorail earning less than R70 000 per annum will be paid an additional 2% on their pensionable salaries with effect from 1 April 2010.

Parties agreed to introduce a Rotational Shift System on 1 July 2010 in the Rail Operations Environment to ensure increased operating hours and improved services to the commuting public. The proposed Rotational Shift System will be implemented in all the operational grades.

With reference to the National Strike resulting from the wage negotiations, the total number of employees who participated in the strike was 6 866, within the PRASA Corporate Office and PRASA Rail division.

Impact of the strike

Total days	84 945
Total amount	26 977 529

Corporate governance

The Board of Control embraces the Code of Corporate Practice and Conduct as set out in the King Report and ensures that the Corporation complies with the Code. The need to operate the Group's activities in an open and accountable manner, with the highest level of integrity, is recognised.

The Board is accountable to the shareholder, the Department of Transport. The role of the Board is to set the strategic direction of the Corporation oversee its implementation and establish clear performance targets. The Board is governed by a Code of Conduct.

The current Board, appointed in October 2006 and two members appointed on 1 October 2008, had served on the Board of Control for the year under review.

The names of the Directors are set out below. The Board meets on a regular basis and recognises its responsibility in terms of the PFMA and corporate governance and regularly reports material matters to the Minister of Transport.

Risk management

The Corporation has always sought a comprehensive view to risk management in order to address risk inherent to strategy, operations, finance, compliance and safeguarding the resulting organisational impact.

During the year under review, risk management assessment at organisational, divisional and departmental level was carried out and extended to Intersite and Autopax, the Group's subsidiaries. The assessment was conducted taking into account the consolidation of SARCC, Shosholoza Meyl and Autopax into PRASA.

This holistic approach provides the assurance that, to the best of the Group's capabilities, it is identifying, assessing and mitigating risks that could materially impact on its performance in achieving the stated objectives.

Risk management approach

During the year under review the Board is pleased to report that the consolidation process of the passenger entity has now been completed. However, the consolidation process made it difficult to revise the plan whilst Shosholoza Meyl and Autopax had not been transferred. The plan will be reviewed and, moving forward, the review will be done annually. The implementation of the various components will be reviewed on a quarterly basis. The Group will also perform specific fraud and corruption detection reviews in the following areas on a regular basis: (This will include conducting presentations to managers and staff to ensure that they have a more detailed understanding of the fraud and corruption risks associated with these areas, thus also enhancing the prospect of detecting irregularities earlier.)

Enterprise Risk Management Policy Framework

PRASA adopted and aligned its Enterprise Risk Management Policy Framework with the National Treasury Public Sector Risk Management Guidelines. The framework was developed in response to the requirements of the PFMA for institutions to implement and maintain effective, efficient and transparent systems of risk management and control. The PRASA framework will be aligned with the King III Report on Corporate Governance and will be implemented throughout the business during the current year.

ARM Committee

The Audit and Risk Management (ARM) Committee monitors the enterprise (strategic level) risks. The Safety, Health and Environmental Committee monitors operational risks. A standard process for the identification, evaluation and assessment of risks, development and implementation of risk control plans and monitoring of the efficacy of these plans is in place to ensure that risks are kept as low as reasonably practicable. This process is aligned with section 6(b) of the Treasury Guideline, quoted here for ease of reference: "the Institution has and maintains an effective process to identify the risks inherent in the chosen objectives" and 6(c) "the Institution is able to manage such risks effectively, economically and efficiently". A Chief Risk Officer will also be appointed in the new financial year.

Strategic risk identification

Strategic risk identification preceded the finalisation of strategic choices made by the Board to ensure that potential risk issues were factored into the decision making process for selecting the strategic options. The operational identification of risks is an embedded process followed by various committees from depot level to divisions/

subsidiary level and the Group. A formal committee is in place under the Nominated Manager in terms of the National Railway Safety Regulator Act, 2002 (Act No 16 of 2002) to ensure that the prescribed minimum standards to conduct railway safety risk assessments in terms of SANS 3000-1 are followed and risk controls put in place to ensure operating safety. The efficacy of railway operational risk controls are also monitored and audited independently by the Railway Safety Regulator of South Africa.

Board of Control

The affairs of the Corporation are managed by the Board of Control, which includes members from National Treasury and the Department of Transport. The Minister of Transport appoints Board members, including the Chairman.

The following Directors and members served on the Board of Control:

Board of Control (BOC)				
Title	Name	Position	Appointed	Retained
Mr	SN Buthelezi	Chairman	1 October 2006	•
Mr	VO Twala	Non-executive	1 October 2006	•
Mr	P Moiloa	Non-executive	1 October 2006	•
Mr	B Boshielo	Non-executive	1 October 2006	•
Mr	B Gasa	Non-executive	1 October 2006	•
Ms	MM Serobe	Non-executive	1 October 2006	•
Ms	L Letlape	Non-executive	18 September 2008	•
Ms	H Lupuwana	Non-executive	18 September 2008	•
Mr	JD de Villiers	Department of Transport	1 October 2009	•
Mr	M Fakir	National Treasury	1 October 2006	•
Mr	TL Montana	Chief Executive Officer (ex officio)	1 July 2006	•

Directors' emoluments

Please see note 27 to the Annual Financial Statements.

Internal audit

PRASA has its own internal audit function, which is staffed by three employees and assisted in discharging its duties by Manase Consortium. They perform internal audit functions based on the audit plan as well as on the level of risk associated with the various activities of the Corporation, as agreed with the Audit and Risk Management Committee.

Internal controls

Internal controls and systems are now designed to provide adequate assurance of the integrity and reliability of the annual financial statements, to safeguard and maintain accountability of its assets and to minimise the risk of fraud.

Board committees

The Board has five committees, which assist in achieving good corporate governance, allow for detailed consideration of major issues, provide advice on sensitive matters to the Board and examine matters that may be referred to it by the Board. Each Committee adopted a charter which is reviewed annually.

- **Audit and Risk Management (ARM) Committee**

Title	Name	Position
Mr	VO Twala	Chairman
Ms	MM Serobe	Member
Ms	L Letlape	Member
Mr	R Moyo	Co-opted

The Audit and Risk Committee supports the Board in discharging its corporate governance responsibilities in relation to:

- Accounting policies;
- Finance reporting;
- Internal control;
- Business ethics and fraud prevention policies;
- Risk management; and
- Ensuring integrity of internal audit function.

This Committee further monitors and approves the application of the Group's financial resources and determines the level of the budget required to deliver the Business Plan objectives.

The Audit Committee comprises three independent Non-executive members. The Chairman, Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and External auditors attend meetings.

- **Human Resources and Remuneration (HR) Committee**

Title	Name	Position
Ms	B Gasa	Chairman
Mr	B Boshielo	Member
Ms	L Letlape	Member
Ms	H Lupuwana	Member

The HR Committee supports the Board in discharging its responsibilities relating to:

- Direct authority for, or consideration and recommendation to the Corporation of, matters relating to inter alia general staff policies, remuneration (Executive and Directors' fees), bonuses, service contracts and retirement funds;
- Staff wellbeing and sound corporate culture; and
- The promotion of an efficient and effective workforce.

- **Finance, Capital and Procurement (FCP) Committee**

Title	Name	Position
Mr	B Boshielo	Chairman
Ms	B Gasa	Member
Mr	P Moiloa	Member
Mr	M Fakir	Member

The FCP Committee supports the Board in discharging its responsibilities relating to:

- Monitoring the implementation of procurement policies and processes;

- Successful negotiation of price reduction in prices charged;
- Fostering black economic empowerment (BEE) and small, medium and micro enterprises (SMMEs);
- Adjudication of all capital investments projects and tenders over R50 million; and
- Ensuring adherence to the principles contained in the framework for supply chain management issued by National Treasury.

- **Safety, Health and Environmental (SHE) Committee**

Title	Name	Position
Ms	MM Serobe	Chairman
Mr	P Moiloa	Member
Mr	VO Twala	Member

The SHE Committee supports the Board in discharging its responsibilities for the safety of commuters, employees and others who work and use the network and for environmental protection. In discharging its responsibilities, the Committee:

- Ensures that the Corporation has effective safety and environmental policies, systems and programmes to meet all legislative responsibilities and to develop and sustain a safety and environment culture.
- The SHE Committee has the responsibility to ensure that the commuter rail environment is safe, healthy and clean to both employees and the users of the system.

- **Governance and Performance (Governance) Committee**

Title	Name	Position
Mr	SN Buthelezi	Chairman
Mr	B Boshielo	Member
Ms	B Gasa	Member
Ms	MM Serobe	Member
Mr	VO Twala	Member
Mr	P Moiloa	Member

- The objective of the Governance Committee is to ensure that PRASA is governed in a way that is efficient, responsible, transparent, and accountable to the shareholder and the taxpayer.
- The PFMA further imposes fiduciary duties to the Board, including a duty of care and skill in managing the financial affairs of the Corporation.
- The Board is also obliged to maintain effective and transparent systems of internal controls, including internal audit.
- To ensure that institutional arrangement within the Group is well understood and unambiguous for the effective discharge of the Corporation's mandate as contained in the Legal Succession to the South African Transport Services Act, 1989 (Act No 9 of 1989), read with the PFMA.
- To oversee and ensure performance of the Corporation in line with the approved Business Plan and Performance Agreement between the Corporation and the Executive Authority.
- Monitoring compliance to information technology governance.

Attendance of meetings

P – Present A – Absent

Board of Control meetings

Board of Control	21 May 2009	30 July 2009	17 September 2009 (AGM)	30 November 2009	25 February 2010	21 May 2010	Comments
Mr SN Buthelezi	P	P	P	P	P	P	
Mr VO Twala	P	P	P	P	P	P	
Mr P Moiloa	P	P	P	P	P	A	
Ms MM Serobe	A	P	P	P	P	A	
Ms B Gasa	P	P	A	P	A	A	
Mr B Boshielo	P	P	A	P	P	P	
Ms L Letlape	A	P	P	P	P	P	
Ms H Lupuwana	P	P	P	A	P	A	
Mr JD de Villiers	-	P	P	P	P	A	Appointed 1 October 2009
Mr M Fakir	A	P	P	P	A	P	
Mr TL Montana	P	P	P	P	P	P	

Audit and Risk Management Committee meetings

Names	16 April 2009	23 July 2009	18 November 2009	23 February 2010	11 May 2010	Comments
Mr M VO Twala	P	P	P	P	P	
Ms MM Serobe	P	P	P	A	A	
Ms L Letlape	-	P	A	P	P	
Mr R Moyo	-	-	-	P	P	Co-opted January 2010
Mr TL Montana	P	P	P	P	-	

Human Resources and Remuneration Committee meetings

Names	1 April 2009	23 July 2009	23 November 2009	18 February 2010	6 May 2010	Comments
Ms B Gasa	P	P	P	P	P	
Mr B Boshielo	P	P	P	P	P	
Ms L Letlape	P	P	A	P	A	
Ms H Lupuwana	-	A	P	A	P	
Mr K Pillay	P	-	-	-	-	Resigned as of 1 May 2009
Mr TL Montana	P	P	P	P	A	

Finance, Capital and Procurement Committee meetings

Names	7 May 2009	26 November 2009	18 February 2010	6 May 2010
Mr B Boshielo	P	P	P	P
Ms B Gasa	P	P	P	P
Mr P Moiloa	P	P	P	A
Mr M Fakir	P	P	A	P
Mr TL Montana	P	P	P	A

Safety, Health and Environmental Committee meetings

Names	20 May 2009	18 November 2009	18 February 2010
Ms MM Serobe	P	P	P
Mr VO Twala	P	P	P
Mr P Moiloa	P	P	P
Mr TL Montana	P	P	P

Governance and Performance (Governance) Committee meetings

Names	14 May 2009	26 November 2009	14 April 2010	29 April 2010
Mr SN Buthelezi	P	A	P	P
Ms B Gasa	P	P	P	P
Mr VO Twala	P	P	A	P
Mr B Boshielo	A	P	A	A
Mr P Moiloa	P	A	P	P
Ms MM Serobe	A	P	P	P
Mr TL Montana	P	P	P	P

Corporate Details

Company Secretary

Tumi Mohube served as the Company Secretary throughout the year.

Registered Address
30 Wolmarans Street
Umjantshi House
Braamfontein
Johannesburg

Postal Address
Private Bag X101
Braamfontein
2017

Bankers
Amalgamated Banks of South Africa – ABSA
Investec Bank
Rand Merchant Bank
Standard Bank

Website
www.prasa.com

Nasrec Station, Gauteng.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2010

Company				Group	
2009 R'000	2010 R'000	Notes		2010 R'000	2009 R'000
		ASSETS			
11 772 796	**15 226 266**	**Non-current assets**		**15 990 035**	**11 607 424**
11 540 014	14 890 535	Property, plant and equipment	4	15 849 712	11 548 057
13 437	26 583	Intangible assets	5	26 583	13 437
38 917	104 142	Investment property	6	104 142	38 917
6 918	9 472	Defined benefit plan assets	17	9 472	6 918
-	-	Deferred taxation asset	32.3	126	95
173 510	195 534	Investment in subsidiary	7	-	-
1 572 333	**701 996**	**Current assets**		**844 585**	**1 813 814**
419 030	219 314	Trade and other receivables	8	259 575	517 872
6 383	2 212	Other financial assets	9	2 212	6 383
129 652	157 701	Inventories	10	163 450	129 652
1 017 268	322 769	Cash and cash equivalents	11	419 348	1 159 907
13 345 129	**15 928 262**	**Total assets**		**16 834 620**	**13 421 238**
		EQUITY AND LIABILITIES			
1 673 662	**940 070**	**Total equity attributable to equity holders of the Company**		**832 627**	**1 722 783**
4 248 258	4 248 258	Share capital	12	4 248 258	4 248 258
(2 574 596)	(3 308 188)	Accumulated loss		(3 415 631)	(2 525 475)
8 741 173	**11 628 268**	**Non-current liabilities**		**12 435 566**	**8 741 173**
44 348	16 191	Loans and borrowings	13.2	822 710	44 348
49 593	36 570	Discounted lease agreements	14	36 570	49 593
182 278	203 842	Provision for claims	15	203 842	182 278
51 086	63 973	Employee benefit obligations	16	64 752	51 086
8 413 868	11 307 692	Capital subsidy and grants	18	11 307 692	8 413 868
2 930 294	**3 359 924**	**Current liabilities**		**3 566 427**	**2 957 282**
2 232 509	2 253 929	Trade and other payables	19	2 318 811	2 248 108
247 585	218 700	Provisions for employee benefits	20	238 483	258 974
10 359	11 014	Short-term portion of discounted lease agreements	14	11 014	10 359
-	-	Short-term portion of loan buses	13.2	121 838	-
89 263	95 925	Short-term portion of provision for claims	15	95 925	89 263
350 578	780 356	Short-term portion of capital subsidy and grants	18	780 356	350 578
13 345 129	**15 928 262**	**Total equity and liabilities**		**16 834 620**	**13 421 238**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010

Company				Group	
2009 R'000	2010 R'000	Notes		2010 R'000	2009 R'000
4 111 900	**5 188 032**	**Revenue**		**5 634 748**	**4 210 707**
221 547	251 212	Operating leases rental income	21	251 212	221 547
1 340 749	1 750 977	Fare revenue	22	2 159 086	1 340 749
2 549 604	3 185 843	Government subsidy	23	3 185 843	2 549 604
-	-	Management fee	24	38 607	98 807
484 150	869 603	Other income		877 966	484 696
432 193	776 246	Capital subsidy and grants amortised	18	776 246	432 193
51 957	93 357	Sundry income	28	101 720	52 503
(5 088 234)	(6 072 511)	Operating expenses	26	(6 681 825)	(5 175 613)
(733 978)	(1 017 384)	Depreciation and amortisation	4, 5 & 6	(1 035 511)	(737 682)
(32 606)	(56 827)	Loss on disposal of assets	25	(56 827)	(32 534)
(3 114)	(12 778)	Impairment losses recognised/(reversed)		(12 778)	(3 114)
17 949	24 557	Fair value adjustments on derivative		24 557	17 949
(2 270)	(1 559)	Actuarial loss		(1 559)	(2 270)
(1 246 203)	**(1 078 867)**	**Loss before investment income and finance cost**		**(1 251 229)**	**(1 237 861)**
(31 150)	(47 596)	Finance cost	29	(64 777)	(31 150)
209 746	36 069	Finance income	30	46 844	222 349
(1 067 607)	**(1 090 394)**	**Loss before taxation**		**(1 269 162)**	**(1 046 662)**
-	-	Taxation	32	31	(6 727)
(1 067 607)	**(1 090 394)**	**Loss and total comprehensive income for the year**		**(1 269 131)**	**(1 053 389)**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2010

Company			Group	
2009 R'000	2010 R'000	Notes	2010 R'000	2009 R'000
		ORDINARY SHARE CAPITAL		
4 248 258	4 248 258	Balance at the beginning of the year	4 248 258	4 248 258
-	-	Movements during the year	-	-
4 248 258	**4 248 258**	**Balance at the end of the year**	**4 248 258**	**4 248 258**
		ACCUMULATED LOSS		
(1 506 989)	(2 574 596)	Balance at the beginning of the year	(2 525 475)	(1 472 086)
		Total comprehensive income		
(1 067 607)	(1 090 394)	Loss for the year	(1 269 131)	(1 053 389)
		Transactions with owners		
-	356 802	Transfer of Shosholoza Meyl	356 802	-
-	-	Investment in Autopax	22 173	-
(2 574 596)	**(3 308 188)**	**Balance at the end of the year**	**(3 415 631)**	**(2 525 475)**
1 673 662	**940 070**	**Total equity attributable to equity holders of the Company**	**832 627**	**1 722 783**

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2010

Company				Group	
2009 R'000	2010 R'000	Notes		2010 R'000	2009 R'000
		Cash flow from operating activities			
(890 280)	(789 645)	Operating cash flows before working capital changes		(943 880)	(878 306)
1 102 901	138 515	Changes in working capital		231 501	1 034 655
212 621	**(651 130)**	**Cash (utilised in)/generated from operations**	**34**	**(712 379)**	**156 349**
(31 150)	(47 596)	Finance cost		(64 777)	(31 150)
-	-	Taxation paid		-	(7 028)
181 471	**(698 726)**	**Net cash (used in)/from operating activities**		**(777 156)**	**118 171**
		Cash flow from investing activities			
209 746	36 069	Investment income - interest received		46 844	222 349
(3 764 399)	(4 082 398)	Acquisition of property, plant and equipment		(5 012 379)	(3 767 659)
7 138	4 078	Proceeds on sale of property, plant and equipment		5 228	7 210
-	(15 342)	Acquisition of intangible asset		(15 342)	-
-	619	Cash acquired from subsidiaries and divisions	35	664	-
(3 547 515)	**(4 056 974)**	**Net cash used in investing activities**		**(4 974 985)**	**(3 538 100)**
		Cash flow from financing activities			
(2 836)	(3 600)	Increase in/(repayment of) other financial liabilities		924 757	(2 836)
(10 359)	(13 023)	Repayment of discounted lease agreements		(13 023)	(10 359)
2 577 686	4 099 848	Proceeds on capital subsidy and grants received	18	4 099 848	2 577 686
(104 399)	(22 024)	Increase in loans to subsidiaries		-	-
2 460 092	**4 061 201**	**Net cash from financing activities**		**5 011 582**	**2 564 491**
(905 952)	(694 499)	Net decrease in cash and cash equivalents		(740 559)	(855 438)
1 923 220	1 017 268	Cash and cash equivalents at the beginning of the year		1 159 907	2 015 345
1 017 268	**322 769**	**Cash and cash equivalents at the end of the year**	**11**	**419 348**	**1 159 907**

1 **Reporting entity**

The Passenger Rail Agency of South Africa (PRASA) is governed by the Legal Succession to the South African Transport Services Act, 1989 (Act No 9 of 1989). The consolidated financial statements of the Group for the year ended 31 March 2010 comprise the Company and its subsidiaries (together referred to as "the Group").

2 **Basis of preparation**

2.1 **Statement of compliance**

The consolidated financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP), the Public Finance Management Act, 1999 (Act No 1 of 1999) and specific regulations issued by National Treasury.

2.2 **Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities (including derivative instruments–see note 13) measured at fair value through profit or loss.

2.3 **Functional and presentation currency**

The consolidated financial statements are presented in South African Rand, which is the Company's functional currency. All financial information presented in Rand has been rounded to the nearest thousand.

2.4 **Use of estimates and judgments**

The preparation of financial statements in conformity with SA GAAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These judgments and estimates are reviewed annually by management. Revisions and accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The following significant areas of judgments and sources of estimation uncertainty were used during the financial year:

- Uncertainties that result from the assessment of useful lives and residual values on property, plant and equipment. (Note 4)
- Uncertainties that result from the fair value measurement on financial assets using valuation techniques.
- Inherent to these techniques are certain uncertainties like time of cash flows and interest rates used for discounting.
- The nature of the judgments and estimation uncertainties related to provisions.
- Key assumptions, judgments and/or estimates used with regards to impairment of property, plant and equipment.

3 **Accounting policies**

3.1 **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all Group entities.

3.2 Basis of consolidation

3.2.1 Subsidiaries

Subsidiaries are those entities over whose financial and operating policies the Group has the power to exercise control, so as to obtain benefits from their activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

The consolidated financial statements incorporate the assets, liabilities and results of the operations of the Group and its subsidiary.

Results of subsidiaries are included from the date control commences to the date control ceases. Inter-company transactions have been eliminated on consolidation.

The investments in subsidiaries in separate financial statements is carried at cost less impairment losses.

3.2.2 Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for at date of acquisition without restating comparatives. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The excess or shortfall of the net of the acquisition date amounts of the identifiable assets acquired, the liabilities assumed and the consideration transferred, measured in accordance with SA GAAP, is recognised in equity.

3.3 Property, plant and equipment

3.3.1 Recognition and measurement of owned assets

An item of property, plant and equipment is recognised as an asset:

- when PRASA has full control over it; and
- it is probable that future economic benefits will flow to PRASA; and
- the asset has a cost, or other determined value which can be measured reliably.

Property, plant and equipment is initially measured at cost, including all directly attributable costs necessary to bring the asset to its required working condition for its intended use. Subsequently property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The amount capitalised, as part of the assets' cost, is the contractual amount, discounted to the date of initial recognition.

Property, plant and equipment ceases to be recognised when it is disposed of or permanently withdrawn from use or when no future economic benefits are expected from its use or disposal.

Gains and losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and carrying amount of the assets and are recognised as income or expenses in profit or loss.

The depreciation method used reflects the pattern in which the assets' future economic benefits are expected to be consumed by the Group.

3.3.2 **Subsequent costs**

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

3.3.3 **Depreciation**

The useful life of an asset is reviewed annually, and if expectations differ from previous estimates, the changes shall be accounted for as a change in accounting estimate in accordance with IAS 8 (AC103)– Accounting policies, changes in accounting estimates and errors.

Depreciation on all property, plant and equipment commences when the items are available for use. Depreciation is recognised on a straight-line basis to write off the cost of assets to their residual values over the following estimated useful lives. Land is not depreciated as it is deemed to have an indefinite life.

Asset class	*Useful life*
• Facilities	• 5-50 years
• Rolling stock	
– Undercarriages	– 33 years
– Components	– 12 years
• Infrastructure	• 2-110 years
• Moveable assets and workshop equipment	• 3 -10 years
• Buses	• 6 years

Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Assets under construction represent work in progress and are transferred to the appropriate category of assets on receipt of completion certificates, when the asset is available for use. Depreciation commences on the date of transfer.

3.4 **Intangible assets**

Intangible assets are initially measured at cost. Cost includes any directly attributable cost of preparing the asset for its intended use.

After initial recognition, intangible assets are carried at their cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development costs of intellectual property or copyrights are recognised as an asset when the following conditions are met:

- Technical and commercial feasibility of the product;
- When the Group demonstrates the intention to complete the intangible asset and use or sell it;
- When the Group demonstrates the ability to use or sell the intangible asset (intellectual property);
- There are sufficient resources to complete the project and to use the asset;

- The Group can demonstrate how the projects will generate future economic benefits; and
- The cost can be measured reliably.

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use or disposal.

3.4.1 **Subsequent costs**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3.4.2 **Amortisation**

Intangible assets with a finite useful life are amortised over that useful life of the product. Amortisation commences when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The useful life of an intangible asset is reviewed annually, and if expectations differ from previous estimates, the changes shall be accounted for as a change in accounting estimates. The estimated useful lives are as follows:

Asset class	*Useful life*
• Copyright	• 25 years
• Software	• 10 years

3.5 **Investment property**

3.5.1 **Recognition and measurement of investment property**.

An item of investment property is recognised as an asset:

- when PRASA has full control over it;
- it is probable that future economic benefits will flow to PRASA; and
- the asset has a cost, or other determined value which can be measured reliably.

Investment property is initially measured at cost, including all directly attributable costs necessary to bring the asset to its required working condition for its intended use. Subsequently investment property is measured at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of investment property have different useful lives, they are accounted for as separate items (major components) of investment property.

The amount capitalised, as part of the asset's cost, is the contractual amount, discounted to the date of initial recognition.

Investment property ceases to be recognised when it is disposed of or permanently withdrawn from use or when no future economic benefits are expected from its use or disposal.

Gains and losses arising from the retirement or disposal of investment property are determined as the difference between the net disposal proceeds and carrying amount of the assets and are recognised in profit or loss.

The depreciation method used reflects the pattern in which the assets' future economic benefits are expected to be consumed by the Group.

3.5.2 **Subsequent costs**

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

3.5.3 **Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

The useful life of an asset is reviewed annually, and if expectations differ from previous estimates, the changes shall be accounted for as a change in accounting estimate in accordance with IAS 8 (AC103)– Accounting policies, changes in accounting estimates and errors.

All investment property other than land are depreciated when ready for use on the straight-line basis to write off the cost of assets to their residual values over the following estimated useful lives

Asset class	*Useful life*
• Investment property	• 50 years

Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

3.6 **Impairment**

3.6.1 **Financial assets**

A financial asset not carried at fair value to profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise or indications that a debtor will enter bankruptcy.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that show similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

3.6.2 **Non-financial assets**

The carrying amounts of the Group's non-financial assets other than inventory and deferred taxation assets are reviewed at each reporting date to determine whether there is any indication of impairment.

If there is any indication that an asset may be impaired, its recoverable amount is estimated.

The recoverable amount of the asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-taxation discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in profit or loss whenever the carrying amount of asset exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there is an indication that the impairment loss may no longer exist and the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount.

The increased carrying amount shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. The reversal is recognised in profit or loss.

3.7 **Inventories**

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventories are held as spare parts for maintenance or non-operational additions on rolling stock and adjustments to net realisable value are recognised by raising an appropriate provision for obsolete and damaged items. Cost is determined on the weighted average method.

3.8 **Provisions**

Provisions are made for unavoidable liabilities of which the amount can be estimated, but the settlement is uncertain. These provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The carrying amount of each provision is reviewed at reporting date and adjusted, if necessary, to reflect the best estimate of the consideration required to settle the present obligation as at that date. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-taxation rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect risks for which future cash flow estimates have been adjusted. The unwinding of discount is recognised in finance cost.

A provision is reversed to the extent that it is no longer probable that a future outflow of economic benefits will be required to settle the obligation.

3.9 **Revenue recognition**

Revenue is recognised when it is probable that future economic benefits will flow to the Group and these benefits can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

3.9.1 **Services**

Revenue from the rendering of passenger services is recognised in the statement of comprehensive income in the period the service is rendered. It comprises of ticket sales to train or bus commuters for passenger and long distance journeys rendered during the period.

3.9.2 **Operating lease income**

Revenue from property management activities is recognised as income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit from the leased asset is diminished.

Recoveries of operating costs (for example, rates and taxes, water and electricity) are recognised as income, as the costs are charged to lessees and are also included in Revenue. (Refer 3.15)

3.10 **Finance income**

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

3.11 **Government grants and subsidy**

Government grants relating to capital expenditure are recognised as deferred income when they are received, when the Group will comply with the applicable conditions.

Where grants and subsidies relate to the purchase of property, plant and equipment they are classified as non-current liabilities and are released to profit or loss on a straight-line basis over the average period of the useful life of the assets

Grants relating to operational expenditure are recognised in profit and loss as the expenditure is incurred.

3.12 **Expenses**

3.12.1 **Financing costs**

Financing costs comprise interest payable on borrowings calculated using the effective interest method and unwinding of discount (refer note 3.8).

The interest expense component of finance lease payments is recognised in profit or loss using the effective interest method.

3.12.2 **Borrowing costs**

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

3.12.3 **Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

3.13 **Income taxation**

Income taxation expense comprises current and deferred taxation.

3.13.1 **Current taxation**

PRASA is exempt from the payment of any taxation, transfer duty, stamp duty or levy that would have been payable (excluding customs and excise, VAT and RSC levy), in terms of section 31(4) of the Legal Succession to the South African Transport Services Act, 1989 (Act No 9 of 1989).

Intersite Property Management Services, a subsidiary of PRASA, is a taxable Group, therefore subject to the Income Tax Act. Income taxation

is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current taxation is the expected taxation payable on the taxable income of the year, using taxation rates enacted or substantively enacted at the reporting date, and any adjustment to taxation payable in respect of previous years.

3.13.2 **Deferred taxation**

Deferred taxation is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is measured at the taxation rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred taxation is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred taxation assets and liabilities are offset if there is a legally enforceable right to offset current taxation liabilities and assets, and they relate to income taxes levied by the same taxation authority on the same taxable Group, or on different taxation entities, but they intend to settle current taxation liabilities and assets on a net basis or their taxation assets and liabilities will be realised simultaneously.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, and reviewed annually to assess probability of recovery.

3.14 **Employee benefits**

3.14.1 **Short-term employee benefits**

The cost of all short-term employee benefits is recognised in profit or loss during the period in which the employee renders the related service. The accrual for employee entitlements to salaries, performance bonuses and annual leave represent the amounts for which the Group has a present obligation to pay as a result of the employee's services provided. The accruals have been calculated at undiscounted amounts based on expected salary levels.

3.14.2 **Defined benefit plans**

The Group operates a defined benefit plan with regards to pension benefits upon retirement of employees, the assets of which are held in separate trustee-administered funds. Another defined benefit plan for medical scheme benefits for employees and pensioners exists under administration of the Transmed Medical Scheme. The pension benefit plan's assets are administered by Metropolitan Health Group (Pty) Ltd and professional independent actuaries actuarially value these funds.

The benefit cost and obligations under the defined benefit fund are determined using the projected unit credit method. The benefit costs are recognised in profit or loss. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and any unrecognised past-service cost and the

fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension fund liability.

Past service cost is recognised immediately to the extent that the benefits have already vested, and are otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation less the fair value of the plan assets; less unrecognised past service cost. Any resulting asset is limited to the present value of available refunds and reductions in future contributions to plan.

3.14.3 **Defined contribution plan**

Under the defined contribution structures, fixed contributions payable by the Group and members are accumulated to provide retirement benefits through a provident fund. The Group has no legal or constructive obligation to pay any further contributions than these fixed contributions. Contributions to any defined contribution plan are expensed as incurred.

3.15 **Operating leases**

The Group, as lessor, enters into a variety of operating lease agreements with third parties in order to maximise the inflow of economic benefits from Government assets. Leases where a significant portion of the risks and rewards of ownership are retained by the Group are classified as operating leases.

Leases where the lessor retains the risk and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are recognised as income on a straight-line basis over the term of the lease.

3.16 **Financial instruments**

Financial instruments are contracts that give rise to both a financial asset of one entity and a financial liability of another entity. They include cash at bank, receivables, investments, payables, derivative financial instruments and financial guarantees.

3.16.1 **Fair value**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on Group-specific inputs.

3.16.2 **Recognition and measurement of financial instruments**

Financial assets or financial liabilities not at fair value through profit and loss are initially measured at fair value plus, for those financial assets and liabilities not measured at fair value to profit or loss, transaction cost directly attributable to the acquisition or issue of the financial instrument, when the Group becomes a party to the contractual arrangements. The subsequent measurement of financial instruments is dealt with below.

The Group derecognises a financial instrument when and only when:

- the contractual rights or obligations to the cash flows from the financial instrument expire; or
- it transfers the financial instrument.

3.16.2.1 **Derivative instruments**

Derivative financial instruments consisting of interest rate swaps are initially measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. Derivatives are classified as financial assets or liabilities at fair value through profit or loss.

3.16.2.2 **Trade and other receivables**

Trade and other receivables originated by the Group are stated at amortised cost using the effective interest method less impairment.

3.16.2.3 **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. For the purposes of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined. Cash and cash equivalents are subsequently measured at amortised cost, using the effective interest method, less any impairment losses.

3.16.2.4 **Trade and other payables**

Trade and other payables are measured at amortised cost using the effective interest method.

3.16.2.5 **Interest-bearing borrowings**

Interest-bearing borrowings (discounted lease agreements) are, subsequent to initial recognition, measured using the effective interest method.

3.17 **Deferred income**

Deferred income represents rental received in advance in respect of certain lease agreements and is recognised as income over the period of each lease agreement on a straight-line basis.

3.18 **Income received in advance**

Income on ticket sales for the rendering of passenger services in a future period is recognised as revenue received in advance at year-end.

3.19 **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any taxation effects.

3.20 **Related parties**

Related party transactions are shown at arm's length in accordance with AC 126 and SAICA Circular on related party disclosures for State-owned entities. Related parties are classified in terms of those listed in the Public Finance Management Act, 1999 (Act No 1 of 1999) in schedules 1 (Constitutional Institutions), 2 (Major Public entities) and 3 (Other Public entities).

	Land	Facilities	Rolling stock	Infrastructure assets	Movables and workshop	Buses	Assets under construction	TOTAL
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
4 Property, plant and equipment								
Group								
Carrying amount at 1 April 2008	1 114 211	1 420 703	3 494 036	982 463	70 779	-	1 477 036	8 559 228
Cost	1 114 211	2 142 339	5 489 985	2 045 985	135 908	-	1 477 036	12 405 464
Accumulated depreciation	-	(713 517)	(1 901 047)	(1 063 522)	(65 129)	-	-	(3 743 215)
Accumulated impairment losses	-	(8 119)	(94 902)	-	-	-	-	(103 021)
Additions	-	-	-	-	-	-	3 767 659	3 767 659
Capitalisations	1 086	325 914	2 635 322	193 625	72 293	-	(3 228 240)	-
Impairment loss recognised	-	(240)	(2 874)	-	-	-	-	(3 114)
Disposals/derecognitions	(1 060)	(5 553)	(22 837)	(9 912)	(384)	-	-	(39 746)
Depreciation	-	(81 918)	(537 637)	(87 813)	(28 602)	-	-	(735 970)
Carrying amount at 31 March 2009	**1 114 237**	**1 658 906**	**5 566 010**	**1 078 363**	**114 086**	**-**	**2 016 455**	**11 548 057**
Cost	1 114 237	2 456 711	7 873 688	2 214 786	203 053	-	2 016 455	15 878 930
Accumulated depreciation	-	(789 446)	(2 218 919)	(1 136 423)	(88 967)	-	-	(4 233 755)
Accumulated impairment losses	-	(8 359)	(88 759)	-	-	-	-	(97 118)
Assets acquired through common control	51 821	21 157	347 482	-	6 272	35 917	-	462 649
Additions	-	-	-	-	-		5 012 379	5 012 379
Capitalisations	4 842	771 136	1 989 116	294 382	56 961	924 015	(4 040 452)	-
Transfer to investment property	(66 225)							(66 225)
Impairment loss recognised	-	(270)	(12 508)	-	-	-	-	(12 778)
Disposals/derecognitions	392	(7 581)	(51 554)	(682)	(1 480)	(1 150)	-	(62 055)
Depreciation	-	(82 197)	(789 988)	(102 849)	(43 677)	(13 604)	-	(1 032 315)
Carrying amount at 31 March 2010	**1 105 067**	**2 361 151**	**7 048 558**	**1 269 214**	**132 162**	**945 178**	**2 988 382**	**15 849 712**
Cost	1 105 067	3 238 340	9 957 269	2 505 863	276 639	1 094 661	2 988 382	21 166 221
Accumulated depreciation	-	(868 886)	(2 814 130)	(1 236 649)	(144 477)	(149 483)	-	(5 213 625)
Accumulated impairment losses	-	(8 303)	(94 581)	-	-	-	-	(102 884)
Company								
Carrying amount at 31 March 2008	1 114 211	1 420 703	3 494 036	982 463	62 292	-	1 477 036	8 550 741
Cost	1 114 211	2 142 339	5 489 985	2 045 985	117 685	-	1 477 036	12 387 241
Accumulated depreciation	-	(713 517)	(1 901 047)	(1 063 522)	(55 393)	-	-	(3 733 479)
Accumulated impairment losses	-	(8 119)	(94 902)	-	-	-	-	(103 021)
Additions	-	-	-	-	-	-	3 764 399	3 764 399
Capitalisations	1 086	325 914	2 635 322	193 625	69 033	-	(3 224 980)	-
Impairment loss recognised	-	(240)	(2 874)	-	-	-	-	(3 114)
Disposals/derecognitions	(1 060)	(5 553)	(22 837)	(9 912)	(384)	-	-	(39 746)
Depreciation	-	(81 918)	(537 637)	(87 813)	(24 898)	-	-	(732 266)
Carrying amount at 31 March 2009	**1 114 237**	**1 658 906**	**5 566 010**	**1 078 363**	**106 043**	**-**	**2 016 455 -**	**11 540 014**
Cost	1 114 237	2 456 711	7 873 688	2 214 786	184 830	-	2 016 455	15 860 707
Accumulated depreciation	-	(789 446)	(2 218 919)	(1 136 423)	(78 787)	-	-	(4 223 575)
Accumulated impairment losses	-	(8 359)	(88 759)	-	-	-	-	(97 118)
Assets acquired through common control	51 821	20 516	347 482	-	2 400	-	-	422 219
Additions	-	-	-	-	-	-	4 082 398	4 082 398
Capitalisations	4 842	771 136	1 989 116	294 382	50 995	-	(3 110 471)	-
Transfer to investment property	(66 225)							(66 225)
Impairment loss recognised	-	(270)	(12 508)	-	-	-	-	(12 778)
Disposals/derecognitions	392	(7 581)	(51 554)	(682)	(1 480)	-	-	(60 905)
Depreciation	-	(81 882)	(789 988)	(102 849)	(39 469)	-	-	(1 014 188)
Carrying amount at 31 March 2010	**1 105 067**	**2 360 825**	**7 048 558**	**1 269 214**	**118 489**	**-**	**2 988 382**	**14 890 535**
Cost	1 105 067	3 235 589	9 957 269	2 505 863	234 152	-	2 988 382	20 026 322
Accumulated depreciation	-	(866 461)	(2 814 130)	(1 236 649)	(115 663)	-	-	(5 032 903)
Accumulated impairment losses	-	(8 303)	(94 581)	-	-	-	-	(102 884)

Included in the above are land and buildings leased to third parties under operating leases, where the Group is the lessor. These assets have not been separately classified as investment property as the majority of these assets are owner-occupied by the Group. The secondary objective of the Group is to generate income from the exploitation of assets transferred to the Group by the Minister, as described in Section 23 of the Legal Succession to the Transport Services Act, 1989 (Act No 9 of 1989). Only limited ascertainable market values can be placed on these assets as they are part of station buildings which are mainly used to provide rail commuter services at the request of the Department of Transport.

Impairment losses are recognised. Impairment losses are written back when coaches are upgraded and previous impairment losses are no longer valid.

During the year the Group recognised impairment losses to facilities of R270 thousand (2009: R240 thousand) and rolling stock of R12,508 million (2009: R2,874 million) as a result of damaged and/or non-operational assets. The assets are carried at book value and are impaired to Rnil on an individual basis.

Company 2009 R'000	Company 2010 R'000			Group 2010 R'000	Group 2009 R'000
		5	**Intangible assets**		
			Copyright		
14 171	14 171		Cost	14 171	14 171
(24)	(734)		Amortisation	(734)	(24)
14 147	13 437		Carrying amount at the beginning of the year	13 437	14 147
(710)	(710)		Amortisation	(710)	(710)
13 437	**12 727**		**Carrying amount at the end of the year**	**12 727**	**13 437**
14 171	14 171		Cost	14 171	14 171
(734)	(1 444)		Accumulated amortisation	(1 444)	(734)
			Copyright includes the product- and tool design of the 10M4 Series 2 rolling stock model. The remaining useful life is 18 years.		
			Software		
-	15 342		Additions	15 342	-
-	(1 486)		Amortisation	(1 486)	-
-	**13 856**		**Carrying amount at the end of the year**	**13 856**	**-**
			Software comprises customised GIS and stock control software. The remaining useful life is nine years.		
13 437	**26 583**			**26 583**	**13 437**
		6	**Investment property**		
			Land and facilities		
50 000	50 000		Cost	50 000	50 000
-	66 225		Additions	66 225	-
(10 083)	(11 083)		Accumulated depreciation	(11 083)	(10 083)
39 917	105 142		Carrying amount at the beginning of the year	105 142	39 917
(1 000)	(1 000)		Depreciation	(1 000)	(1 000)
38 917	**104 142**		**Carrying amount at the end of the year**	**104 142**	**38 917**
50 000	116 225		Cost	116 225	50 000
(11 083)	(12 083)		Accumulated depreciation	(12 083)	(11 083)
			Investment property consists of the Africon building which is financed under an interest rate swap agreement (see note 13). This building is rented out to a third party. A non-cancellable lease of 15 years is in place ending on 13 July 2010. Municipal value determined at R12 million for Africon building and R720 million for Umgeni property.		
		7	**Investment in subsidiaries**		
			The Company's subsidiaries are:		
		7.1	**Intersite Property Management Services (Pty) Ltd**		
235	235		Unlisted shares at cost		
173 275	123 965		Loans owing by the subsidiary		
173 510	**124 200**		**Net investment in subsidiary**		
			The subsidiary was a subsidiary throughout the year. The loan is interest free, unsecured, payable on demand, subordinated in favour of the subsidiary's other creditors. The Company's interest in the aggregate after taxation (loss)/profit by the subsidiary amounted to a loss of R72,4 million. (2009: Profit of R14,2 million).		
			Ownership (%)	100	100
			Voting power (%)	100	100
			Country of incorporation: South Africa		
			Principal activity: Property management		
			Authorised and issued share capital		
			2 Ordinary shares of R1 each issued at a premium of R235 461	235	235
			Directors' valuation R235 463 (2009: R 235 463)		
			There were no movements in shares during the year.		

Company 2009 R'000	Company 2010 R'000			Group 2010 R'000	Group 2009 R'000
		7.2	**Autopax Passenger Services (Pty) Ltd**		
-	-*		Unlisted shares at cost		
-	71 334		Loans owing by the subsidiary		
-	**71 334**		**Net investment in subsidiary**		
			* = nominal amount		
			On 1 April 2009 the Group obtained control of Autopax Passenger Services (Pty) Ltd, a long distance inter-city transportation of passengers in Southern Africa in luxury and semi-luxury coach vehicles, by acquiring 100% of the shares and voting interests in the company for R1.		
			Ownership (%)	100	-
			Voting power (%)	100	-
			Country of incorporation: South Africa		
			Principal activity: Passenger bus services		
			Authorised and issued share capital		
			20 461 500 ordinary shares of R1 each	20 462	-
			Directors' valuation R20 461 500		
173 510	**195 534**				
			Related party transactions with subsidiaries		
			During the year, the Company entered into transactions with its wholly-owned subsidiary, Intersite Property Management Services (Pty) Ltd. Services. Related party transactions are entered into at rates stipulated in the management contract.		
			The final purchase of Autopax took place effective 1 April 2009 by way of a purchase of the total shareholders interest from Transnet Ltd. All transactions entered into are based at arm's length in accordance with rental contracts and other agreements.		
			Related party transactions are summarised as follows:		
			Intersite Property Management Services (Pty) Ltd		
(73 926)	(80 017)		Management fee paid to subsidiary in respect of property portfolio management.	-	-
			Autopax Passenger Services (Pty) Ltd		
-	4 624		Rental of property	-	-
-	(32 135)		Rental of buses	-	-
-	**(27 511)**			**-**	**-**
		8	**Trade and other receivables**		
114 187	127 312		Trade receivables	151 130	212 929
26 984	36 507		Prepayments	43 219	27 075
-	-		South African Revenue Service (taxation)	-	95
18 698	-		Debtors for leasehold improvements	-	18 698
31 395	42 908		Rental income receivable	42 908	31 395
210 000	-		Department of Transport	-	210 000
17 766	12 587		Other receivables	22 318	17 680
419 030	**219 314**			**259 575**	**517 872**
			Receivables are shown net of impairment losses amounting to R16,8 million (2009: R16,3 million) recognised in the current year. For the credit risk analysis, see note 39.		
			Allowance for impairment		
			The Group's trade receivables are stated after allowances for doubtful debts based on management's assessment of the creditworthiness. An analysis of the allowance is as follows:		
(6 515)	(16 290)		Balance at the beginning of the year	(16 290)	(6 515)
(9 775)	(582)		Charged to profit or loss	(582)	(9 775)
(16 290)	**(16 872)**		**Balance at the end of the year**	**(16 872)**	**(16 290)**

Company 2009 R'000	Company 2010 R'000			Group 2010 R'000	Group 2009 R'000
		9	**Other financial assets**		
6 383	**2 212**		**Africon rebate**	**2 212**	**6 383**
			An interest rate swap agreement was entered into between First National Bank of Southern Africa Ltd (FNB) and Intersite Property Management Services (Pty) Ltd (Intersite) (as an agent for the Company) with a rebate to Intersite, which is assumed to be the present value of the fixed payment. The rebate amounts may vary depending on variations between actual experience over the term of the agreement and that was assumed in arriving at the estimate payment. All rights were ceded to the Company by Intersite.		
		10	**Inventories**		
84 204	112 101		Maintenance stock	117 850	84 204
44 757	44 792		Stock for capital projects	44 792	44 757
691	808		Consumable materials	808	691
129 652	**157 701**			**163 450**	**129 652**
		11	**Cash and cash equivalents**		
678 482	282 232		Bank balances	378 811	821 121
338 786	40 537		Call deposits	40 537	338 786
1 017 268	**322 769**			**419 348**	**1 159 907**
			Included in call deposits is an amount of R9,8 million which is held as guarantee for Crowie Projects (Pty) Ltd on the Bridge City project.		
		12	**Share capital**		
			Authorised		
4 248 258	**4 248 258**		4 248 258 440 ordinary shares of R1 each	**4 248 258**	**4 248 258**
			Issued and fully paid		
4 248 258	**4 248 258**		4 248 258 440 ordinary shares of R1 each	**4 248 258**	**4 248 258**
			There were no movements in the share capital of the Company (2009: none).		
			The shares are 100% owned by Government.		
		13	**Loans and borrowings**		
		13.1	**Interest rate swap agreement**		
25 133	10 224		Interest rate swap D. F Finance (Pty) Ltd	10 224	25 133
19 215	5 967		Interest rate swap First National Bank	5 967	19 215
44 348	**16 191**			**16 191**	**44 348**
			Fixed payment legs are stated at quarterly payments of interest amounting to 19,3%, accrued over each quarter. The final payment is on 13 July 2010. Alexander Forbes valued the agreement with the perfect fit swap curve as provided by BESA, as at the end of the year to determine the forward rate in each year, and discounted the payments with the appropriate yield form the swap yield curve. The projected floating payments and the fixed payments were both discounted using the perfect fit swap curve. The assumptions used are that each leg consists of interest payments for the relevant swap period, with no exchange of notionals at any point. In addition, there is no accounting for credit risk to either party to the agreement in the discounting of the expected cash flows. The same procedure was followed in respect of the previous year.		
22 592	31 268		Interest paid on this agreement during the year	31 268	22 592

Company 2009 R'000	Company 2010 R'000			Group 2010 R'000	Group 2009 R'000
		13.2	**Loan buses**		
-	-		Mercedes-Benz Financial Services S.A. (Pty) Ltd	928 357	-
-	-		Less: short-term portion	(121 838)	-
-	**-**			**806 519**	**-**
			Autopax acquired 570 buses in preparation for increased transport requirements during the 2010 FIFA World Cup™ tournament. The acquisition was financed in terms of instalment agreements, governed by a master loan agreement dated 10 February 2010. The Government, acting through the Minister of Transport with the concurrence of the Minister of Finance, has issued a guarantee for the due and punctual fulfilment of Autopax's payment obligations up to the maximum total guarantee amount of R1,216 billion. The guarantee is valid for six years from the date of signature (16 April 2010) and reduces by any reduction in the amount of capital outstanding (see note 40). Interest is payable at an interest rate of JIBAR plus 285 basis points compounded quarterly, or an effective equivalent rate compounded monthly. The repayment term is six years, with the first payment made on 15 March 2010.		
-	-		Interest payable on this agreement during the year	17 181	-
44 348	**16 191**			**822 710**	**44 348**
		14	**Discounted lease agreements**		
59 952	47 584		Total long-term liability	47 584	59 952
(10 359)	(11 014)		Less: short-term portion	(11 014)	(10 359)
49 593	**36 570**			**36 570**	**49 593**
			The long-term liability from Infrastructure Finance Corporation Ltd (INCA) consists of loans, which arose as a result of discounting future operating lease receivables from lessees in order to obtain funds to effect improvements to the Group's properties, mainly its station properties, which have been capitalised to property, plant and equipment. For a description of the Group's significant leasing arrangements, see note 19. Interest is charged in respect of these loans at fixed rates, which were market-related at the time the loans were negotiated. Repayments of the loans are made based on operating lease rentals received from the lessee. These amounts received by the Group and equivalent amounts are then paid to INCA over the periods of the loans in order to service capital and interest repayments. The Group has not provided physical security in respect of these loans, as lessees are considered to be of a certain credit rating such that they are not likely to default on lease payments. However, the Group remains liable to make scheduled payments to INCA regardless of whether lessees make payments to it or not. The table below provides further information regarding significant loans. These entities previously owned by Transnet Ltd now fall in the Group, which impacts negatively on the Group's cash flow.		
8 565	7 346		Interest paid on these agreements during the year.	7 346	8 565
			Total receivables under lease agreements and on-payable to INCA:		

First monthly payment	Last monthly payment	Lessee in underlying lease agreement		Interest rate p.a.
01 Nov 2000	01 Oct 2010	Autopax Passenger Services (Pty) Ltd	6 327	16,25%
31 Jan 2004	31 Dec 2013	Shosholoza Meyl - Cape Town	29 835	11,85%
31 Aug 2002	31 Jul 2012	Shosholoza Meyl - Durban and Pretoria	21 994	14,78%
31 Jan 2004	31 Dec 2013	Shosholoza Meyl - Germiston	24 673	11,85%
28 Feb 2003	31 Jan 2013	Shosholoza Meyl - Johannesburg	46 383	14,78%
28 Feb 2003	31 Jan 2013	Shosholoza Meyl - Johannesburg additional	4 033	15,11%
31 Mar 2003	31 Jan 2013	Shosholoza Meyl - Johannesburg, Durban and Pretoria additional	27 945	12,60%

Company 2009 R'000	Company 2010 R'000		Group 2010 R'000	Group 2009 R'000
		15 Provision for claims		
		The amount shown comprises the gross provision in respect of certain claims brought against the Group by commuters in respect of accidents, which occurred in the current and previous years. It is not expected that the outcome will give rise to significant claims over and above the amounts provided, as the claims have already been registered with the assessors.		
225 606	271 541	Balance at the beginning of the year	271 541	225 606
100 629	72 178	Provisions made during the year	72 178	100 629
(54 694)	(43 952)	Provisions settled during the year	(43 952)	(54 694)
271 541	**299 767**	**Balance at the end of the year**	**299 767**	**271 541**
(89 263)	(95 925)	Less: short-term portion	(95 925)	(89 263)
182 278	**203 842**	**Long-term portion**	**203 842**	**182 278**
		In terms of South African law (delictual liability), minors injured in an accident have up to the age of 21 years to claim for injuries sustained. Statistics over the past 15 years indicate that no significant amount, other than expected, has been claimed for these incidences.		
		16 Post-retirement medical aid defined benefit plan		
		Employees of the Company participate in Transmed medical scheme, administered by Metropolitan Health Group (Pty) Ltd, which is unfunded.		
		The terms of the post-employment medical scheme are summarised below:		
		• Employees of the Company are eligible for a subsidy if they join Transmed Medical Fund before retirement.		
		• The Company subsidises each employee for a fixed amount of R213 per month in retirement. The amount is fixed irrespective of the number of dependents on the medical scheme and will not increase in future.		
		• If a member eligible for a retirement subsidy dies in service, their dependants are eligible for a subsidy of medical scheme contributions as described above, provided they remain on Transmed Medical Fund.		
		The actuarial projection method used to valuate the fund is the projected unit credit method.		
		Movement in the present value of the unfunded obligation:		
44 508	51 086	Accrued liability at the beginning of the year	51 086	44 508
-	7 297	Acquisition of division - Shosholoza Meyl	7 297	-
-	-	Acquisition of subsidiary - Autopax	779	-
(2 000)	(2 188)	Benefits paid	(2 188)	(2 000)
8 578	7 778	Expenses recognised in profit or loss	7 778	8 578
4 040	4 494	- Interest cost	4 494	4 040
2 268	1 725	- Current service cost	1 725	2 268
2 270	1 559	- Actuarial loss	1 559	2 270
51 086	**63 973**	**Accrued liability at the end of the year**	**64 752**	**51 086**
		Principal actuarial assumptions at the reporting date:		
9%	9%	Discount rate per annum	9%	9%
60%	60%	Discontinued membership at retirement (non-members)	60%	60%
63	63	Expected retirement age in years	63	63
		Sensitivity results		
		The contributions are fixed at R213 per month. Therefore the obligation is not sensitive to changes in medical cost trends.		

Company 2009 R'000	Company 2010 R'000		Group 2010 R'000	Group 2009 R'000
		17 Defined benefit plan - retirement fund		
		The Company operates a defined benefit fund administered by Metropolitan Retirement Fund Administrators. The asset of the funds are held separate from those of the Company. The fund is actuarially valued by Alexander Forbes Consultants and Actuaries, an independent company.		
		A member with at least ten years of Pensionable Service is entitled to the following benefits on attaining the minimum retirement age:		
		• An annual pension equal to: (Average pensionable salary) x (pensionable service) x (accrual factor of 1)		
		• Plus a gratuity equal to: (1/3) x (1) x (gratuity factor)		
		A member with less than ten years of pensionable service is entitled to gratuity equal to twice the member's own contribution without interest on attaining the age limit.		
		The rules do not permit late retirement after the attainment of the age limit.		
615 174	747 505	Fair value of plan assets	747 505	615 174
(456 652)	(508 958)	Total present value of obligations	(508 958)	(456 652)
158 522	**238 547**	**Surplus**	**238 547**	**158 522**
(151 604)	(229 075)	Less: amount not recognised as a result of IAS 19.58	(229 075)	(151 604)
6 918	**9 472**	**Net defined benefit plan assets**	**9 472**	**6 918**
		Movement in the fair value of plan assets		
833 627	615 174	Fair value of plan assets at the beginning of the year	615 174	833 627
76 680	59 299	Expected return	59 299	76 680
4 294	3 614	Contributions received	3 614	4 294
(24 710)	26 218	Transfer to retirement fund	26 218	(24 710)
(52 570)	(42 915)	Benefits paid	(42 915)	(52 570)
(222 147)	86 115	Actuarial (loss) /gain	86 115	(222 147)
615 174	**747 505**	**Fair value of plan assets at the end of the year**	**747 505**	**615 174**
		The fair value of plan assets consist of:		
(57 888)	38 422	Cash	38 422	(57 888)
276 214	384 965	Equity	384 965	276 214
191 319	149 725	Bonds	149 725	191 319
71 729	3 962	Property and Other	3 962	71 729
133 800	170 431	International	170 431	133 800
615 174	**747 505**	**Fair value of plan assets at the end of the year**	**747 505**	**615 174**
		Movement in the present value of defined benefit obligations		
(528 090)	(456 652)	Present value of defined benefit obligations at the beginning of the year	(456 652)	(528 090)
(42 255)	(37 180)	Interest cost	(37 180)	(42 255)
(4 458)	(3 768)	Past and current service cost	(3 768)	(4 458)
(1 778)	(1 407)	Member contributions	(1 407)	(1 778)
28 063	-	Settlement	-	28 063
52 570	16 191	Benefits paid	16 191	52 570
39 296	(26 142)	Actuarial (loss) /gain	(26 142)	39 296
(456 652)	**(508 958)**	**Present value of defined benefit obligation at the end of the year**	**(508 958)**	**(456 652)**
		Expenses recognised in profit or loss		
(4 458)	(3 768)	Current service cost	(3 768)	(4 458)
(42 255)	(37 180)	Interest cost	(37 180)	(42 255)
76 680	59 299	Expected return	59 299	76 680
(182 851)	59 973	Actuarial gain/loss	59 973	(182 851)
127 001	(68 863)	IAS 19.58 adjustment	(68 863)	127 001
(25 883)	**9 461**		**9 461**	**(25 883)**
		These expenses are recognised in operating expenses.		
		The principal actuarial assumptions used were as follows:		
8,24%	8,89%	Discount rate	8,89%	8,24%
4,59%	5,24%	Inflation rate	5,24%	4,59%
5,59%	6,24%	Salary increase rate	6,24%	5,59%
3,44%	3,93%	Pension increase allowance	3,93%	3,44%
9,78%	10,04%	Expected rate of return on plan assets	10,04%	9,78%

Company				Group	
2009	2010			2010	2009
R'000	R'000			R'000	R'000
		18	**Capital subsidy and grants**		
6 618 953	8 764 446		Balance at the beginning of the year	8 764 446	6 618 953
2 577 686	4 099 848		Capital subsidy and grants received during the year	4 099 848	2 577 686
9 196 639	12 864 294			12 864 294	9 196 639
(432 193)	(776 246)		Less: amortised	(776 246)	(432 193)
8 764 446	**12 088 048**		**Total**	**12 088 048**	**8 764 446**
(350 578)	(780 356)		Less: short-term portion	(780 356)	(350 578)
8 413 868	**11 307 692**		**Long-term portion**	**11 307 692**	**8 413 868**
			Capital subsidies are amortised over the useful life of the asset.		
			Capital subsidies receivable in future years:		
			2011: R4 813,3 million		
			2012: R5 566,8 million		
			2013: R6 021,1 million		
			PTI Fund 2011: R797 million		
		19	**Trade and other payables**		
1 702 608	2 222 025		Trade payables	2 281 111	1 718 207
500 000	-		Transnet Ltd	-	500 000
29 901	31 904		Income received in advance	37 700	29 901
2 232 509	**2 253 929**			**2 318 811**	**2 248 108**
		20	**Employee benefit obligations**		
			Employee leave provision		
88 072	148 948		Balance at the beginning of the year	151 049	90 871
114 127	118 709		Increases in liability	128 684	114 632
(53 251)	(48 957)		Utilised during the year	(50 567)	(54 454)
148 948	**218 700**		**Balance at the end of the year**	**229 166**	**151 049**
			Performance bonus and salary parity		
164 498	98 637		Total	107 925	170 757
48 318	-		Increases in liability	7 033	57 563
(114 179)	(98 637)		Utilised during the year	(105 641)	(120 395)
98 637	**-**		**Balance at the end of the year**	**9 317**	**107 925**
			A liability for employee benefits in the form of performance measurements is recognised. The liability is calculated in terms of the rules of the remuneration scheme.		
247 585	**218 700**			**238 483**	**258 974**
		21	**Operating leases rental income**		
		21.1	**Where the Group is the lessor**		
221 547	**251 212**		**Rental income received**	**251 212**	**221 547**
			The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
61 079	51 125		Not later than one year	51 125	61 079
83 785	51 275		Later than one year and not later than five years	51 275	83 785
1 100	-		Later than five years	-	1 100
145 964	**102 400**			**102 400**	**145 964**

Company 2009 R'000	Company 2010 R'000		Group 2010 R'000	Group 2009 R'000
		21.1.1 Description of the Group as lessor's significant leasing arrangements		
		21.1.1.1 Short-term commercial and residential operating leases		
		The Group has entered into a number of short-term commercial and residential operating leases in respect of certain land and buildings with third parties, in order to maximise the inflow of economic benefits from Government assets. The average term of these leases is between three and five years, and do not provide for any purchase options. In some older lease agreements, lessees have renewal options for a short-term period if they have complied with all terms and conditions of the original lease, and on renewal, lease rentals are subjected to escalation. Newer lease agreements have no renewal options but have rights of first refusal should the Group decide to continue leasing the properties on expiry of the lease. Lease agreements generally contain a clause that they may be cancelled at the option of the lessor after giving sufficient notice to the lessee, should the lease arrangements conflict with commuter services to be provided.		
		21.1.1.2 Commercial operating leases with improvements to premises		
		The Company entered into operating lease agreements with the following subsidiary and division:		
		Autopax Passenger Services (Pty) Ltd		
		Shosholoza Meyl - Cape Town		
		Shosholoza Meyl - Durban and Pretoria		
		Shosholoza Meyl - Germiston		
		Shosholoza Meyl - Johannesburg		
		Shosholoza Meyl - Johannesburg additional		
		Shosholoza Meyl - Johannesburg, Durban and Pretoria additional		
		To effect improvements to the property, PRASA had to obtain financing from external sources. PRASA discounted cash flows from the lease agreements with Infrastructure Finance Group Ltd (INCA) in order to obtain funds to pay for the improvements. These amounts have been recognised as a long-term liability (refer to note 14). In terms of the agreements, PRASA is obliged to effect certain improvements to the premises, which have been capitalised and depreciated in the same manner as other similar properties.		
		21.1.1.3 Development operating leases		
		The Group has entered into a number of operating leases with third parties for the lease of land. In terms of the agreements, the lessee is obliged to effect leasehold improvements on the premises, which remains the property of the lessor, without compensation to the lessee, on termination of the lease. Lease rentals charged for the land are market-related, determined with reference to independent valuations of the properties, and no incentive is given to lessees in view of the leasehold improvements which they are obliged to effect. The terms of the leases are generally between 20 and 50 years. However, there are three instances where the lease terms are 83, 84 and 91 years. The leases between 20 and 50 years have rental reviews renegotiated every five years with the majority of the leases incorporating turnover clauses.		
		These leasehold improvements are effected and financed by lessees, who have exclusive rights of use of the buildings for the period of the lease. As a result, these buildings are not classified as assets of the Group as defined and therefore have not been capitalised. However, these assets will be capitalised on expiry of the lease. These assets are bonded by lessees' financiers who have the first option of occupation in the event of breach of contract.		
		For additional information, see property, plant and equipment (note 4).		

Company 2009 R'000	Company 2010 R'000			Group 2010 R'000	Group 2009 R'000
		21.2	**Where the Group is the lessee**		
145 242	**239 386**		**Operating lease expenses** (see note 26)	**330 481**	**123 776**
			The future minimum lease payments payable under non-cancellable operating leases are as follows:		
43 743	42 789		Not later than one year	49 221	45 951
46 344	41 629		Later than one year and not later than five years	45 082	48 852
4 376	1 201		Later than five years	1 201	4 376
94 463	**85 619**			**95 504**	**99 179**
		21.2.1	**Description of the Group as lessee's significant leasing arrangements**		
			The Company entered into an operating lease in respect of its office premises on 1 December 2006 for a period of five years at an escalation of 8% per year.		
			Intersite Property Management Services (Pty) Ltd, a subsidiary, entered into an operating lease for its office premises commencing on 1 May 2006 and terminating on 30 April 2011. The agreement does not provide for any renewal or purchase options. Base lease rentals of approximately R103 738 are payable on a monthly basis, subject to escalation of 8% per annum, calculated on a compounded basis on the anniversary of the commencement date of the agreement.		
		22	**Fare revenue**		
1 340 749	**1 750 977**			**2 159 086**	**1 340 749**
			Fare revenue comprises ticket sales to train and bus commuters for passenger and long distance journeys.		
		23	**Government subsidy**		
2 549 604	**3 185 843**			**3 185 843**	**2 549 604**
			The Government subsidy, which is received annually to finance the operational deficit is not guaranteed. However, the following Medium Term Expenditure Framework allocations have been allocated in respect of future years:		
			2011: R3 154,9 million		
			2012: R3 343,7 million		
			2013: R3 565,8 million		
		24	**Management fee**		
-	-		Management fee on property management services rendered to other public entities	**38 607**	**98 807**
		25	**Loss on disposal of assets**		
22 836	50 613		Loss on disposal of rolling stock	50 613	22 836
9 770	6 214		Loss on disposal of other assets	6 214	9 698
32 606	**56 827**			**56 827**	**32 534**
		26	**Operating expenditure**		
6 759	8 291		Audit fee - external	7 560	7 042
13 664	15 406		Audit fee - internal	15 406	13 664
156 203	106 307		Claims	106 419	156 203
79 109	80 972		Communications	86 945	79 109
2 253 930	2 640 105		Employee benefits (see note 27)	2 878 676	2 333 116
438 535	376 788		Energy expenses	468 083	438 535
60 756	71 337		Insurance premiums	74 989	60 756
666 813	748 541		Maintenance expenditure	829 257	666 811
66 896	75 166		Marketing and publications	78 533	66 896
196 270	193 172		Material expenses	207 577	196 270
145 242	239 386		Operating lease expenses (see note 21.2)	330 481	123 776
173 155	233 577		Professional fees	240 643	174 824
336 107	233 194		Property portfolio expenses	153 177	262 181
381 211	441 540		Security	446 025	381 211
31 597	25 802		Travel expenses	26 730	31 597
81 987	582 927		Other expenditure	731 324	183 622
5 088 234	**6 072 511**			**6 681 825**	**5 175 613**

						Company		Group	
	Directors' fees	Salary	Retirement fund contributions	Other contributions	Performance incentive bonus	2010	2009	2010	2009
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
27 Personnel cost and Directors' emoluments									
Defined contribution and benefit plans expense						**207 241**	132 253	**216 576**	136 697
Unemployment Insurance Fund						**13 680**	12 431	**13 680**	12 835
Unwinding of interest on post-retirement medical aid benefits						**4 494**	4 040	**4 494**	4 040
Salaries and personnel cost						**2 379 143**	2 083 613	**2 591 623**	2 147 341
Executive Directors	**-**	**7 217**	**82**	**1 360**	**-**	**4 080**	**3 176**	**8 659**	**3 321**
Mr TL Montana (Group CEO)	-	3 920	-	160	-	4 080	3 176	4 080	3 176
Mr S Zamxaka (Autopax)	-	1 102	82	798	-	-	-	1 982	-
Mr C Molepo (Intersite)	-	2 195	-	402	-	-	-	2 597	145
Non-executive Directors	**4 899**	**-**	**-**	**58**	**-**	**2 869**	**2 324**	**4 957**	**4 241**
Mr SN Buthelezi (Chairman)	714	-	-	-	-	714	461	714	461
Mr B Boshielo	313	-	-	-	-	313	247	313	247
Ms B Gasa	341	-	-	-	-	341	241	341	241
Ms L Letlape	275	-	-	-	-	275	107	275	107
Ms H Lupuwana	200	-	-	-	-	200	64	200	64
Ms T Mgoduso	-	-	-	-	-	-	14	-	14
Mr P Moiloa	301	-	-	-	-	301	209	301	209
Mr Z Nomvete	-	-	-	-	-	-	300	-	300
Ms MM Serobe	353	-	-	-	-	353	237	353	237
Ms N Tshombe	-	-	-	-	-	-	127	-	127
Mr VO Twala	372	-	-	-	-	372	317	372	317
Autopax (subsidiary)									
Mr BB Kupe	137	-	-	2	-	-	-	139	-
Mr TC Luvhani	145	-	-	3	-	-	-	148	-
Ms MG Mokoka	137	-	-	2	-	-	-	139	-
Mr VO Twala	445	-	-	40	-	-	-	485	-
Intersite (subsidiary)									
Ms J Boggenpoel	41	-	-	-	-	-	-	41	-
Ms B Haywood	199	-	-	2	-	-	-	201	206
Mr DA Kganare	-	-	-	-	-	-	-	-	682
Mr C Luvhani	-	-	-	-	-	-	-	-	238
Mr T Maraga-Tshivhase	-	-	-	-	-	-	-	-	176
Mr J Mazwi	-	-	-	-	-	-	-	-	176
Mr L Mohapeloa	-	-	-	-	-	-	-	-	206
Mr P Moiloa	223	-	-	2	-	-	-	225	-
Mr TL Montana	41	-	-	-	-	-	-	41	-
Mr L Mothiba	164	-	-	2	-	-	-	166	-
Mr R Moyo	180	-	-	2	-	-	-	182	233
Mr M Mtungwa	95	-	-	1	-	-	-	96	-
Mr L Zide	223	-	-	2	-	-	-	225	-

						Company		Group	
	Directors' fees	Salary	Retirement fund contributions	Other contributions	Performance incentive bonus	2010	2009	2010	2009
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Other key management	**-**	**29 352**	**2 449**	**6 067**	**819**	**28 598**	**16 093**	**38 687**	**24 641**
Ms HE Choonara	-	-	-	-	-	-	2 013	-	2 013
Mr F Gastin	-	1 094	93	405	-	1 592	-	1 592	-
Mr T Holele	-	451	36	149	-	636	-	636	-
Ms S Mabaso-Koyana	-	1 163	95	428	-	1 686	-	1 686	-
Mr C Mbatha	-	-	-	-	-	-	1 147	-	1 147
Mr K Mantsane	-	969	-	449	-	1 418	-	1 418	-
Ms P Munthali	-	1 130	67	206	-	1 403	-	1 403	-
Mrs T Ngubane	-	1 273	177	315	-	1 765	1 746	1 765	1 746
Mr E Ngutshane	-	-	-	-	-	-	1 810	-	1 810
Mr M Ramutloa	-	1 567	207	109	-	1 883	-	1 883	-
Mr I Sichula	-	-	-	-	-	-	2 069	-	2 069
Mr S Sithole	-	-	-	-	-	-	1 568	-	1 568
Mr L Zide	-	958	89	353	-	1 400	1 931	1 400	1 931
Metrorail									
Mr D Dube	-	885	115	63	-	1 063	-	1 063	-
Mr D Kekana	-	1 068	70	182	-	1 320	1 917	1 320	1 917
Ms A Mokgobo	-	978	138	156	-	1 272	-	1 272	-
Mr R Moses	-	988	66	176	-	1 230	-	1 230	-
Mr D Mthimkulu	-	968	101	78	-	1 147	-	1 147	-
Mr S Mtwa	-	949	77	353	-	1 379	1 892	1 379	1 892
Mr S Ngubeni	-	1 103	60	175	-	1 338	-	1 338	-
Ms N Sangweni	-	1 178	93	405	-	1 676	-	1 676	-
Mr T Vermuelen	-	992	89	70	-	1 151	-	1 151	-
Ms C Williams	-	1 196	91	318	-	1 605	-	1 605	-
Ms T Xhakaza	-	1 385	62	181	-	1 628	-	1 628	-
Shosholoza Meyl									
Mr T Kgaboesele	-	1 053	82	871	-	2 006	-	2 006	-
Autopax (subsidiary)									
Mr MI Bopape	-	197	17	2	-	-	-	216	-
Mr CJ Brand	-	955	88	39	305	-	-	1 387	-
Mr J Matheko	-	648	65	82	224	-	-	1 019	-
Mr LIJ van Rensburg	-	917	84	27	290	-	-	1 318	-
Intersite (subsidiary)									
Mr J Buys	-	-	-	-	-	-	-	-	1 590
Mr T Chamane	-	548	-	104	-	-	-	652	-
Mr P Gombert	-	-	-	-	-	-	-	-	1 354
Ms T Mahlati	-	1 446	227	-	-	-	-	1 673	1 891
Ms N Mandindi	-	-	-	-	-	-	-	-	2 105
Ms M Mthwecu	-	254	-	51	-	-	-	305	-
Mr M Pillay	-	-	-	-	-	-	-	-	1 608
Mr A Rhoda	-	1 446	-	227	-	-	-	1 673	-
Mr I Scott	-	313	-	81	-	-	-	394	-
Mr M Swartz	-	1 280	160	12	-	-	-	1 452	-
	4 899	**36 569**	**2 531**	**7 485**	**819**	**2 640 105**	**2 253 930**	**2 878 676**	**2 333 116**

Company				Group	
2009	**2010**			**2010**	**2009**
R'000	**R'000**			**R'000**	**R'000**
		28	**Sundry income**		
3 997	45 169		Insurance recovered	45 169	3 997
207	4 810		Profit on sale of material	4 810	207
47 753	43 378		Other	51 741	48 299
51 957	**93 357**			**101 720**	**52 503**
		29	**Finance cost**		
(22 592)	(31 268)		Interest paid on long-term liability (see note 13)	(31 268)	(22 592)
(8 558)	(16 328)		Interest other	(33 509)	(8 558)
(31 150)	**(47 596)**			**(64 777)**	**(31 150)**
		30	**Finance income**		
209 746	**36 069**		**Interest received from banking institutions, on bank balances and call accounts**	**46 844**	**222 349**
		31	**Fruitless and wasteful expenditure**		
1 961	**3 723**		Interest on late payments of municipal and other accounts	**3 723**	**1 961**
		32	**Taxation**		
		32.1	**South African normal taxation**		
-	-		Current taxation	-	(6 871)
-	-		Under provision in prior years	-	(158)
-	-		Deferred taxation	31	302
-	**-**			**31**	**(6 727)**
		32.2	**Reconciliation of rate of taxation**		
-	-		Effective rate	0,00%	0,19%
			Adjusted for:		
-	-		Under provision previous year	0,00%	0,55%
-	-		Non taxable income and expenditure	28,00%	27,26%
-	**-**		**South African normal taxation rate**	**28,00%**	**28,00%**
		32.3	**Deferred taxation**		
			Deferred taxation asset comprises:		
-	-		Balance at the beginning of the year	(95)	206
-	-		Movement during the year	(31)	(301)
-	-		- Lease payments	-	(8)
-	-		- Depreciation	(31)	(318)
-	-		- Prepaid expenses	-	25
-	**-**		**Deferred taxation asset at the end of the year**	**(126)**	**(95)**

Company 2009 R'000	Company 2010 R'000			Group 2010 R'000	Group 2009 R'000
		33	**Capital commitments**		
3 600 456	1 967 456		Commitments for future years in respect of contracts entered into	2 297 934	3 613 934
(2 304 125)	(1 854 125)		Less: short-term commitments	(1 840 647)	(2 290 647)
1 296 331	**113 331**		**Long-term commitments**	**457 287**	**1 323 287**
			The capital expenditure will be funded through capital subsidies from the Department of Transport.		
		34	**Reconciliation of net loss before taxation to cash generated from/ (utilised in) operations**		
(890 280)	**(789 645)**		**Operating cash flows before working capital changes**	**(943 880)**	**(878 306)**
(1 067 607)	(1 090 394)		Net loss before taxation	(1 269 162)	(1 046 662)
			Adjusted for:		
733 978	1 017 384		Depreciation and amortisation	1 035 511	737 682
32 606	56 827		Loss on disposal of property, plant and equipment	56 827	32 534
3 114	12 778		Impairment of property, plant and equipment	12 778	3 114
9 775	-		Impairment of trade and other receivables	-	9 775
(17 949)	(24 557)		Fair value adjustments on other financial liabilities	(24 557)	(17 949)
6 578	5 590		Fair value adjustments on post-retirement benefit fund	5 590	6 578
4 040	4 494		Unwinding of interest on post-retirement medical aid benefits	4 494	4 040
20 014	(2 554)		Repayment on defined benefit assets	(2 554)	20 014
(432 193)	(776 246)		Amortisation on capital subsidy and grants received	(776 246)	(432 193)
27 110	43 102		Finance cost	60 283	27 110
(209 746)	(36 069)		Income from investments	(46 844)	(222 349)
1 102 901	**138 515**		**Changes in working capital**	**231 501**	**1 034 655**
(146 257)	202 142		Decrease/(increase) in trade and other receivables	268 025	(217 926)
3 476	4 171		Decrease/(increase) in other financial assets	4 171	3 476
(25 379)	(28 049)		Increase in inventories	(27 125)	(25 379)
1 227 567	(18 626)		Increase/(decrease) in trade and other payables	7 905	1 228 659
2 544	655		Increase in discounted lease agreements	655	2 544
29 970	28 226		Increase in provision for claims	21 897	29 970
10 980	(50 004)		(Decrease)/increase in provisions	(44 027)	13 311
212 621	**(651 130)**		**Cash (utilised in)/generated from operations**	**(712 379)**	**156 349**
		35	**Cash flow effect of investment in divisions and subsidiaries**		
			Shosholoza Meyl		
-	422 219		Assets taken over	422 219	-
-	2 426		Trade and other receivables	2 426	-
-	(7 297)		Post-retirement obligations	(7 297)	-
-	(9 992)		Long-term provisions	(9 992)	-
-	(40 046)		Trade and other payables	(40 046)	-
-	(11 127)		Short-term provisions	(11 127)	-
-	619		Cash	619	-
-	-*		Consideration	-*	-
-	**356 802**		**Transfer of division**	**356 802**	**-**
			Autopax		
-	-		Assets taken over	40 430	-
-	-		Inventories	6 673	-
-	-		Trade and other receivables	7 302	-
-	-		Cash and cash equivalents	45	-
-	-		Long-term provision	(821)	-
-	-		Employee benefits	(3 196)	-
-	-		Trade and other payables	(22 752)	-
-	-		Short-term provision	(5 508)	-
-	-		Consideration	-*	-
-	**-**		**Transfer of subsidiary**	**22 173**	**-**
-	**356 802**		**Transfer of division and subsidiary**	**378 975**	**-**
			* = nominal amount		

Company				Group	
2009 R'000	2010 R'000			2010 R'000	2009 R'000
		36	**Contingent liabilities**		
		36.1	Claim lodged by customer for damages including the legal costs caused by loss of support and maintenance that arose due to death of plaintiff's husband at a stampede at Park Station.		
-	-		Damages for loss of support	-	350
		36.2	Johannesburg Water (Pty) Ltd issued summons for recovery of outstanding water and sewerage charges at Braamfontein Station of approximately R29 million in the High Court of South Africa. The claim is being disputed as it is based on unsubstantiated meter readings and a notice of exception was filed, in respect of the discrepancies and lack of calculations contained in the summons. The court proceedings are ongoing. A settlement offer has been made. An outcome is expected after the reporting date.		
29 466	-		Total value of summons	-	29 466
(15 000)	-		Less: Accrual based on estimated use	-	(15 000)
14 466	-		Municipal charges at Braamfontein Station	-	14 466
			Payment for R15 million was made in full settlement.		
53 487	128 608	36.3	Various insurance claims for personal injuries as well as legal and other matters which may result in a possible loss in future.	128 608	53 487
-	-	36.4	Afrilec subcontractor lodging a claim without contractual grounds. Matter is held over pending notification from Plaintiff. Possibility of dismissal is being investigated.	-	114
-	-	36.5	Sanral issued claim for recovery of interest on municipal account due to late settlement. Claim was refuted and substantially reduced. Final settlement proposal pending.	-	367
192	192	36.6	Quees Building contractors summons for services rendered.	192	192
5 000	5 000	36.7	A Ndungala issued summons for injury to dignity.	5 000	5 000
8 451	8 451	36.8	YMU for alleged services rendered.	8 451	8 451
375	-	36.9	Labour disputes.	-	375
5 500	-	36.10	PRASA vs Hlanganani Rail, breach of contract, (alleged unlawful termination of contract).	-	5 500
4 500	-	36.11	PRASA vs Rail & Road Assessing Services, for alleged services rendered.	-	4 500
-	37 050	36.12	Interest payable to Transnet disputed.	37 050	-
	2 300	36.13	Lenkwane Cleaning Services for breach of contract.	2 300	
-	147 095	36.14	Amounts charged to Shosholoza Meyl by Transnet disputed.	147 095	-

Company 2009 R'000	Company 2010 R'000		Group 2010 R'000	Group 2009 R'000
		37 Other related party transactions		
		The Group is a Schedule 3B Public Entity in terms of the Public Finance Management Act, 1999 (Act No 1 of 1999). 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 used the database maintained by the National Treasury to identify related parties. A list of all related parties is available on the National Treasury website at www.treasury.gov.za or at the Company's registered office.		
		The Company has a related party relationship with its subsidiaries, Autopax and Intersite, as well as with its Directors and Senior Executives (key management). Refer note 27 for related party transactions with key management.		
		All transactions with the above related parties are concluded on an arm's length basis.		
		Transactions with related entities		
		Services rendered to related parties comprise principally transportation (rail and road) services. Services purchased from related parties comprised principally energy, telecommunications, information technology, transportation (aviation) and property related services.		
		The following is a summary of transactions with related parties during the year and balances due at year-end:		
		Services rendered to related parties		
2 723	570	National Public entities	622	2 774
168 934	132 604	Major Public entities	139 713	168 977
-	-	Other Public entities	-	1
-	423	National Government Business Enterprises	423	81 659
	-	Subsidiaries	112 271	
171 657	**133 597**		**253 029**	**253 411**
		Services received from related parties		
309 595	199 826	National Public entities	232 911	310 052
2 192 043	2 546 715	Major Public entities	2 554 565	2 193 436
850	-	Other Public entities	-	850
17	31 754	National Government Business Enterprises	114	17
	-	Subsidiaries	188 359	
2 502 505	**2 778 295**		**2 975 949**	**2 504 355**
		Amounts due from/(to) related parties		
(6 539)	(61 223)	National Public entities	(62 030)	(6 245)
(243 757)	(518 060)	Major Public entities	(518 306)	(243 760)
(110)	-	Other Public entities	-	61
564	374	National Government Business Enterprises	374	105 068
	-	Subsidiaries	(126 816)	
(249 842)	**(578 909)**		**(706 778)**	**(144 876)**
		38 Taking over of business units and subsidiary		
		An agreement of sale between the Company and Transnet Ltd was signed during May 2009, resulting in the taking over of the business unit Shosholoza Meyl as a division of the Company and Autopax (Pty) Ltd as a wholly-owned subsidiary. See note 35 for detail of assets and liabilities acquired.		

Company 2009 R'000	Company 2010 R'000			Group 2010 R'000	Group 2009 R'000
		39	**Risk disclosure**		
		39.1	**Financial risk management**		
		39.1.1	**Credit risk management**		
			Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy parties.		
			The Group performs ITC checks on tenants before contracts are entered into. Tenants are required to pay deposits, provide guarantees or sureties based on their risk profile.		
			Financial assets, which potentially subject the Group to credit risk, consists principally of cash and cash equivalents, loans and receivables and trade and other receivables.		
			The Group's cash and cash equivalents are placed with high credit quality financial institutions.		
			Concentrations of credit risk with respect to trade receivables are limited either because debtors are other Government entities or due to the Group's large number of tenants under operating lease agreements. Where relevant, the Group has policies in place to ensure that transactions only take place with customers with an appropriate credit history.		
		39.1.2	**Maximum exposure to credit risk**		
			The Group's exposure to credit risk with regards to loans and receivables are limited due to collateral held (See note 39.1.3).		
			The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking into account the value of any collateral obtained:		
114 187	219 314		Trade receivables	151 130	212 929
31 395	42 908		Rental income receivables	42 908	31 395
17 766	12 587		Other receivables	22 318	17 680
163 348	274 809			216 356	262 004
(7 093)	(6 832)		Less amounts off-set in terms of IAS 32 (Tenant deposits)	(6 832)	(7 093)
(16 290)	(16 872)		Less impairment losses	(16 872)	(16 290)
139 965	**251 105**			**192 652**	**238 621**
			Tenant receivables comprise of hawkers, residential and commercial tenants in the following percentages:		
1%	1%		Hawkers	1%	1%
6%	6%		Residential	6%	6%
93%	93%		Commercial	93%	93%
100%	**100%**			**100%**	**100%**
			Commercial tenants are deemed to be low risk compared to residential tenants, therefore minimising exposure to credit risk.		
			There has been no significant change during the financial year, or since the end of the financial year, to the Group's exposure to credit risk. The approach to the measurement has remained constant for the current and prior year in line with the objectives, policies and procedures for managing this risk.		
		39.1.3	**Collateral**		
			For all tenant receivables collateral is held in the form of tenant deposits, guarantees or sureties based on the risk profile of the respective tenant. See note 39.2.1 for carrying amounts of these deposits.		

Company 2009 R'000	Company 2010 R'000			Group 2010 R'000	Group 2009 R'000
		39.1.4	**Financial assets that are neither past due nor impaired**		
			The following represents information on the credit quality of trade receivables that are neither past due nor impaired:		
			The Group trade receivables are tenants who have entered into rental contracts. All tenants prepay amounts. Therefore, if a tenant has not paid, the amount is past due.		
			All the other trade receivable that are neither past due nor impaired relate to Government entities and therefore there is no risk of default.		
		39.1.5	**Aged analysis of financial assets that are past due but not impaired**		
			Trade receivables		
7 317	7 107		1 to 30 days past due	7 107	7 317
762	712		31 to 60 days past due	712	762
1 466	566		61 to 90 days past due	566	1 466
59 096	48 641		91 to 120 days and over past due	48 641	157 838
68 641	**57 026**		**Total**	**57 026**	**167 383**
			Tenant trade receivables		
3 487	3 407		1 to 30 days past due	3 407	3 487
5 327	5 287		31 to 60 days past due	5 287	5 327
12 935	12 366		61 to 90 days past due	12 366	12 935
9 473	9 083		91 to 120 days and over past due	9 083	9 473
31 222	**30 143**		**Total**	**30 143**	**31 222**
			All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and an allowance of R16,8 million (2009: R16,3 million) has been recorded accordingly. 80% of impaired receivables are commercial tenants where companies have been liquidated and/or have been handed over for default judgments to attorneys.		

Company				Group	
2009	2010			2010	2009
R'000	R'000			R'000	R'000
		39.2	**Liquidity risk management**		
			Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.		
			The Group maintains sufficient cash resources and receives substantial cash allocations from Government on a monthly basis, in order to act as an agent for Government in the provision of rail commuter services. The Group manages liquidity risk through an ongoing review of future commitments and credit facilities.		
			The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses of risking damage to the Group's reputation.		
			The Group receives a guaranteed subsidy from National Treasury through the Medium Term Expenditure Framework allocation process to meet all current and future obligations.		
			The following table details the Group's remaining contractual maturity for its financial liabilities. The table have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both estimated interest and principal cash flows.		
		39.2.1	**Maturity analysis**		
			Non-derivative financial liabilities		
			Trade payables		
1 196 019	994 051		1 to 6 months	1 060 261	1 211 614
-	340 030		7 to 12 months	340 030	-
-	-		more than 12 months	-	-
1 196 019	**1 334 081**		**Carrying amount**	**1 400 291**	**1 211 614**
			Tenant deposits		
709			1 to 6 months		709
1 419			7 to 12 months		1 419
4 965			more than 12 months		4 965
7 093	**-**		**Carrying amount**	**-**	**7 093**
			Interest-bearing borrowings (INCAS)		
4 822	4 822		1 to 6 months	4 822	4 822
5 537	5 537		7 to 12 months	5 537	5 537
49 593	49 593		more than 12 months	49 593	49 593
59 952	**59 952**		**Carrying amount**	**59 952**	**59 952**
			Derivative financial liabilities		
			Other financial liabilities		
12 641	16 191		1 to 6 months	124 995	12 641
13 463	-		7 to 12 months	108 804	13 463
27 086	-		more than 12 months	710 749	27 086
53 190	**16 191**		**Carrying amount**	**944 548**	**53 190**

Company				Group	
2009	2010			2010	2009
R'000	R'000			R'000	R'000
		39.3	**Market risk disclosures**		
		39.3.1	**Interest rate risk**		
			Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.		
			The Group's income and operating cash flows are substantially independent of changes in market interest rates.		
			The Group is not exposed to interest rate risk through the INCA loans and the interest rate swaps. The Inca loans are at fixed interest rate over a fixed term and not revalued at year-end. Therefore, a change in interest rate would not affect profit or loss.		
			The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at year-end in respect of the interest rates swaps.		
			The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of the reasonably possible change in interest rates.		
			A positive number below indicates an increase in net surplus.		
			A negative number below indicates a decrease in net surplus. As the Group does not have any instruments that affect net assets directly, the disclosure only indicates the effect of the change in interest rates on net surplus.		
			There were no changes in the methods and assumptions used in preparing the sensitivity analysis from one year to the next.		
2%	2%		Increase in interest rate - yield curve	2%	2%
614	48		Effect on profit or loss	48	614
(2%)	(2%)		Decrease in interest rate - yield curve	(2%)	(2%)
(637)	(49)		Effect on profit or loss	(49)	(637)
			Effect of interest rates on financial instruments:		
			Fixed-rate instruments		
67 767	47 584		Interest-bearing borrowings (INCAS)	47 584	59 952
76 254	16 191		Other financial liabilities	944 548	53 190
		39.4	**Capital management**		
			The Group's capital consists of share capital; and no changes were made to the Group's approach to capital management during the year.		
			Neither the Group nor its subsidiaries are subject to externally imposed capital requirements.		
		39.5	**Categories of financial instruments**		
			Loans and receivables		
419 030	219 314		Trade and other receivables	259 575	517 872
1 017 268	322 769		Cash and cash equivalents	419 348	1 159 907
1 436 298	**542 083**		**Carrying amount**	**678 923**	**1 677 779**
			Financial assets at fair value through profit and loss		
6 383	2 212		Other financial assets	2 212	6 383
6 383	**2 212**		**Carrying amount**	**2 212**	**6 383**
			Financial liabilities at fair value through profit and loss		
44 348	16 191		Other financial liabilities	944 548	44 348
44 348	**16 191**		**Carrying amount**	**944 548**	**44 348**
			Financial liabilities at amortised cost		
2 232 509	2 253 929		Accounts payable	2 318 811	2 248 108
49 593	36 570		Discounted lease arrangements	36 570	49 593
10 359	11 014		Short-term portion of discounted lease agreements	11 014	10 359
2 292 461	**2 301 513**		**Carrying amount**	**2 366 395**	**2 308 060**

40 Subsequent event

Subsequent to the year end, Autopax received a capital grant of R797 million which was utilised to settle part of the loan due to Mercedes-Benz Financial Services S.A. (Pty) Ltd, (see note 13.2).

41 Standards and interpretations

At the date of authorisation of the annual financial statements for the year ended 31 March 2010, the following standards and interpretations were in issue but not yet effective:

Standard/interpretation		
IFRS 3 (AC 140)	Business Combinations	Annual periods commencing on or after 1 July 2009
IAS 27 (AC 132) amendment	Consolidated and Separate Financial Statements	Annual periods commencing on or after 1 July 2009
IAS 39 (AC 133) amendment	Eligible hedged items	Annual periods commencing on or after 1 July 2009
IFRS 1 (AC 138)	First Time Adoption of International Financial Reporting Standards	Annual periods commencing on or after 1 July 2009
IFRS 5 (AC 142) amendment	Improvements to IFRSs (SA GAAP) 2008 - IFRS 5 (AC 142) Non-current Assets Held for Sale and Discontinued Operations	Annual periods commencing on or after 1 July 2009
IFRIC 17 (AC 450)	Distributions of Non-cash Assets to Owners	Annual periods commencing on or after 1 July 2009
Various	Improvements to IFRSs (SA GAAP) 2009: IFRS 2 (AC 139) Share-based Payment; IAS 38 (AC 129) Intangible Assets - Additional consequential amendments arising from revised IFRS 3 (AC 140); IFRIC 9 (AC 442) Reassessment of Embedded Derivatives; IFRIC 16 (AC449) Hedges of a Net Investment in a Foreign Operation	Annual periods commencing on or after 1 July 2009
Various	Improvements to IFRSs (SA GAAP) 2009 (excluding IFRS 2 (AC 139) Share-based Payment; IAS 38 (AC 129) Intangible Assets - Additional consequential amendments arising from revised IFRS 3 (AC 140);IFRIC 9 (AC 442) Reassessment of Embedded Derivatives; IFRIC 16 (AC 449) Hedges of a Net Investment in a Foreign Operation)	Annual periods commencing on or after 1 January 2010
IFRS 1 (AC 138) amendment	Additional Exemptions for First-time Adopters	Annual periods commencing on or after 1 January 2010
IFRS 2 (AC 139) amendment	Group Cash-settled Share-based Payment Transactions (withdrawal of IFRIC 8 (AC 441) and IFRIC 11 (AC444))	Annual periods commencing on or after 1 January 2010
IAS 32 (AC 125) amendment	Classification of Rights Issues	Annual periods commencing on or after 1 February 2010
IFRIC 19 (AC 452)	Extinguishing Financial Liabilities with Equity Instruments	Annual periods commencing on or after 1 July 2010
IFRS 1 amendment	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	Annual periods commencing on or after 1 July 2010
Revised IAS 24 (AC 126)	Related Party Disclosures	Annual periods commencing on or after 1 January 2011
IFRIC 14 (AC 447) amendment	Prepayments of a Minimum Funding Requirement	Annual periods commencing on or after 1 January 2011
IFRS 9 (AC 146)	Financial Instruments	Annual periods commencing on or after 1 January 2013

There are 15 individual amendments to 12 standards - Improvements to International Financial Reporting Standards 2009: effective for periods commencing on or after 1 January 2010, or for periods commencing on or after 1 July 2009.

Management anticipates that the adoption of the above standards in future periods will have no material impact on the annual financial statements of the Group, other than requiring additional disclosure.

2009 FIFA Confederations Cup and 2010 FIFA World Cup™ football tickets and hospitality suites

PRASA made a substantial investment in upgrading its infrastructure ahead of the tournament and in supporting the movement of supporters during the tournament. PRASA became a National Supporter of the 2010 FIFA World Cup™ in order to be openly associated with FIFA and maximise the intended outcome of the above investment during the tournament.

As National Supporter, PRASA entered into two contracts. The first contract entered into with FIFA in June 2009 was to deliver services to the value of R80 million. The second was the Service Level Agreement signed with MATCH Hospitality for the provision of bus services by Autopax to the value of R174 million. PRASA has already been paid an amount totalling R26 million in terms of the latter agreement and further payments were expected by 31 August 2010.

In addition, PRASA invested in hospitality during the tournament in order to entertain and interact with various stakeholders from the political, business, Government and civic spheres, who in some instances do not ordinarily interact directly with PRASA in a relaxed atmosphere.

The 2009 FIFA Confederations Cup was a dry run for the 2010 FIFA World Cup™ and it was critical for PRASA, as directed by Government, to develop and test its operational plan for the 2010 FIFA World Cup™.

Accordingly, PRASA does not regard the expenditure, detailed below, as fruitless and wasteful expenditure.

Nasrec Station, Gauteng.

2010 FIFA World Cup™ Expenditure			FIFA Confederations Cup 2009 Expenditure		
	Quantity	**R'000**		**Quantity**	**R'000**
Tickets acquired	5 280	13 438	**Tickets acquired**	38 772	7 863
Distribution of tickets			**Distribution of tickets**		
Clients/Stakeholders suite tickets	850		Clients/Stakeholders Suite tickets	72	
Accounting Authority			Accounting Authority		
Executive and Non-executive	740		Executive and Non-executive	600	
Accounting Officer			Accounting Officer		
Senior Management	86		Senior Management		
Other employees	1 050		Other employees	12 440	
Family members of officials			Family members of officials		
Other Government entities	96		Other Government entities		
Audit Committee members	28		Audit Committee members		
Other			Other		
Shosholoza Meyl packages	1 820		Tshwane business express	200	
Promo Schools	140		Promo Commuters / Stakeholders	25 460	
Promo Commuters/Stakeholder	350				
Employees involved in operation	120				
Please specify					
Total	**5 280**	**13 438**	**Total**	**38 772**	**7 863**
Travel cost					
Clients/Stakeholders					
Accounting Authority					
Executive, Non-executive and Senior Manager operational travel		193			
Accounting Officer					
Senior Management					
Other employees					
Family members of officials					
Other Government entities					
Audit Committee members					
Other					
Operational Travel					
Total		**193**			**-**

2010 FIFA World Cup™ Expenditure			FIFA Confederations Cup 2009 Expenditure		
	Quantity	R'000		Quantity	R'000
Purchase of other promotional apparel					
Specify the nature of the purchase (e.g. t-shirts, caps etc)					
RSA Caps scarfs and beenies	150	31			
PRASA Makarapa Helmet	500	72			
Please specify					
Please specify					
	650	103			-
Total		**13 734**			**7 863**

Tickets acquired after year-end		
Distribution of tickets acquired after year-end		
Clients/Stakeholders		
Accounting Authority		
Executive		
Non-executive		
Accounting Officer		
Senior Management		
Other employees		
Family members of officials		
Other Government entities		
Audit Committee members		
Other		
Employees involved in 2010 Operation	120	59
Total	**120**	**59**

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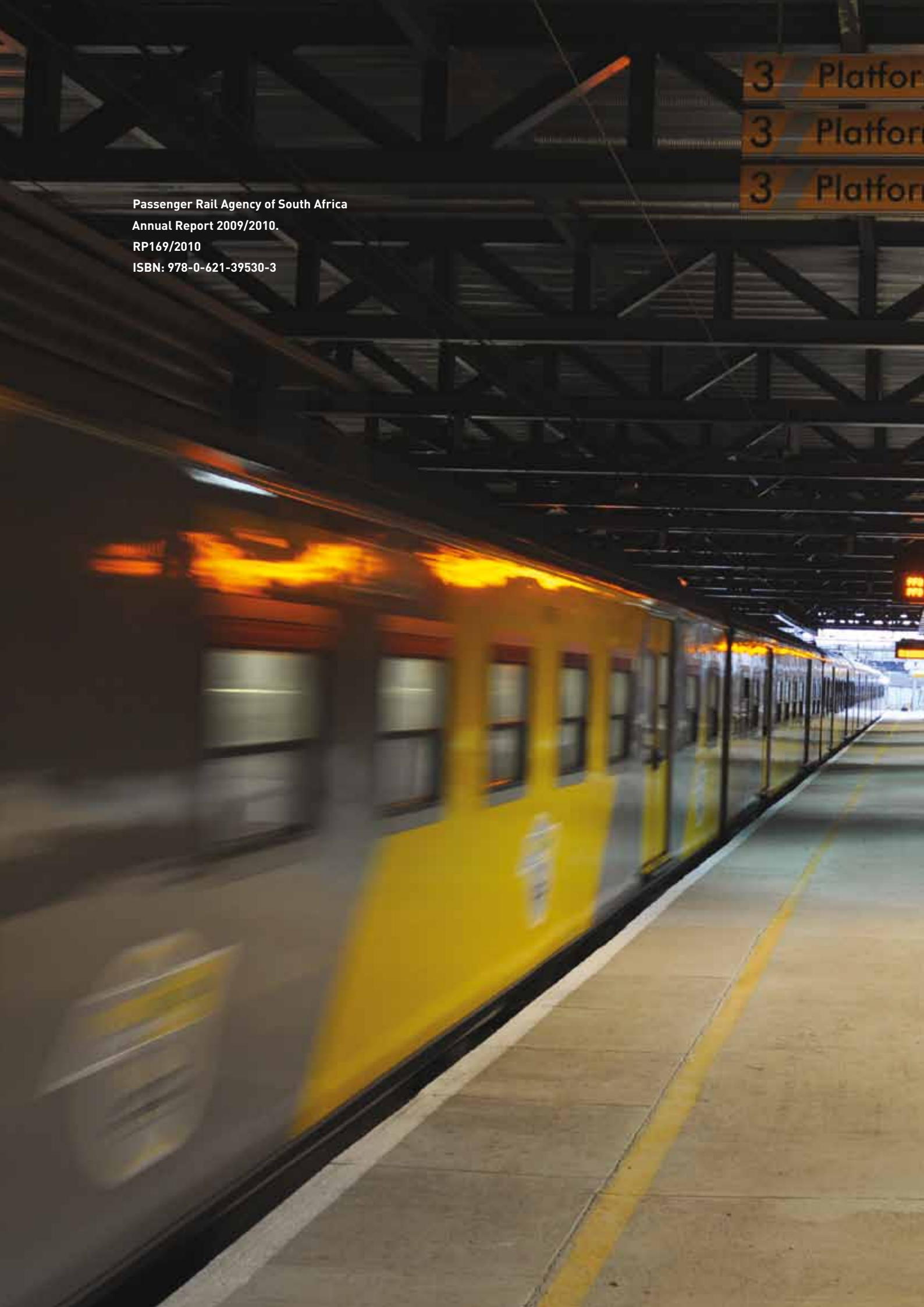
R1 500 000 000

Investment in signalling


Platforms 01 - 02


lesfield Station
STOP



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