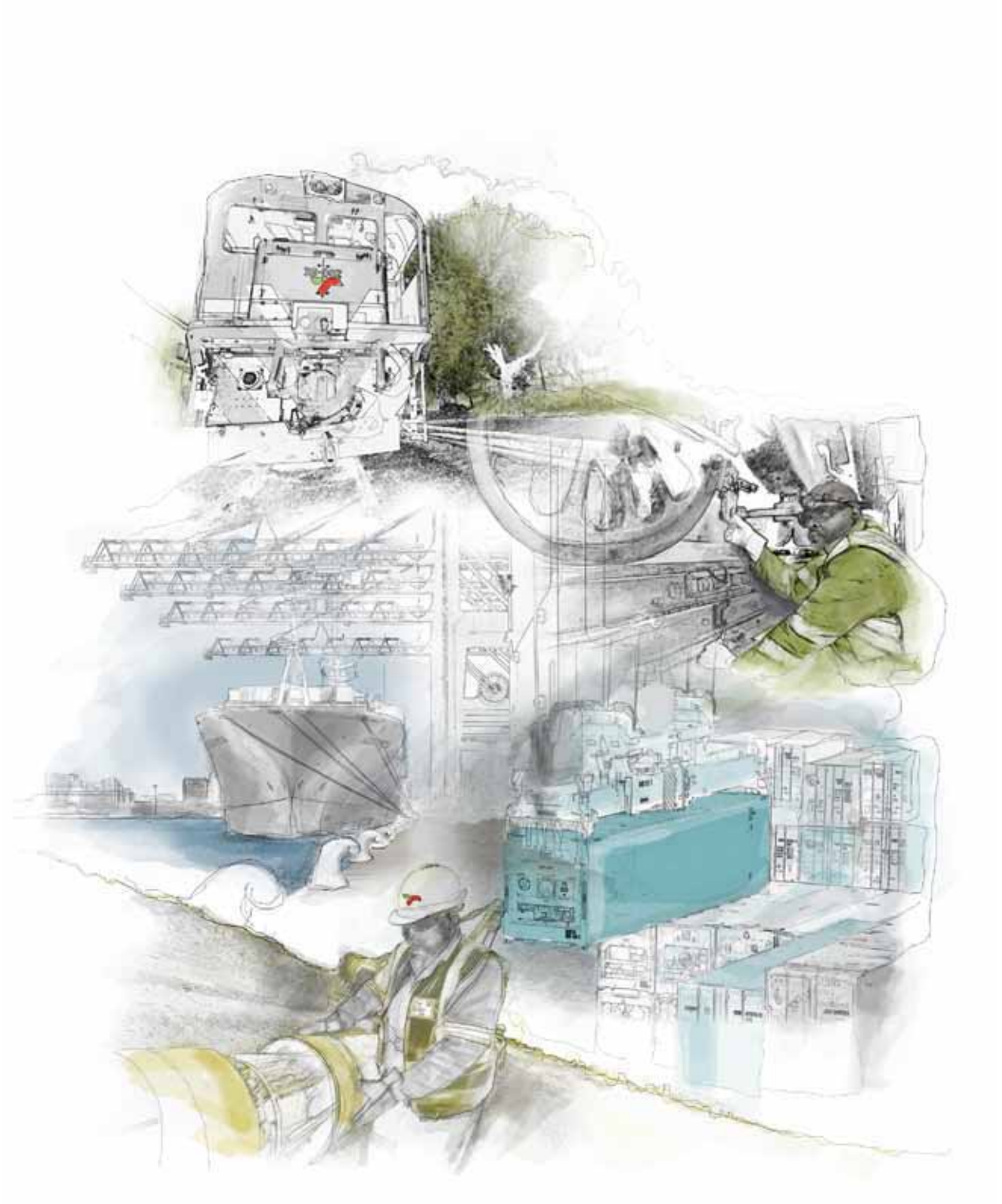
TRANSNET

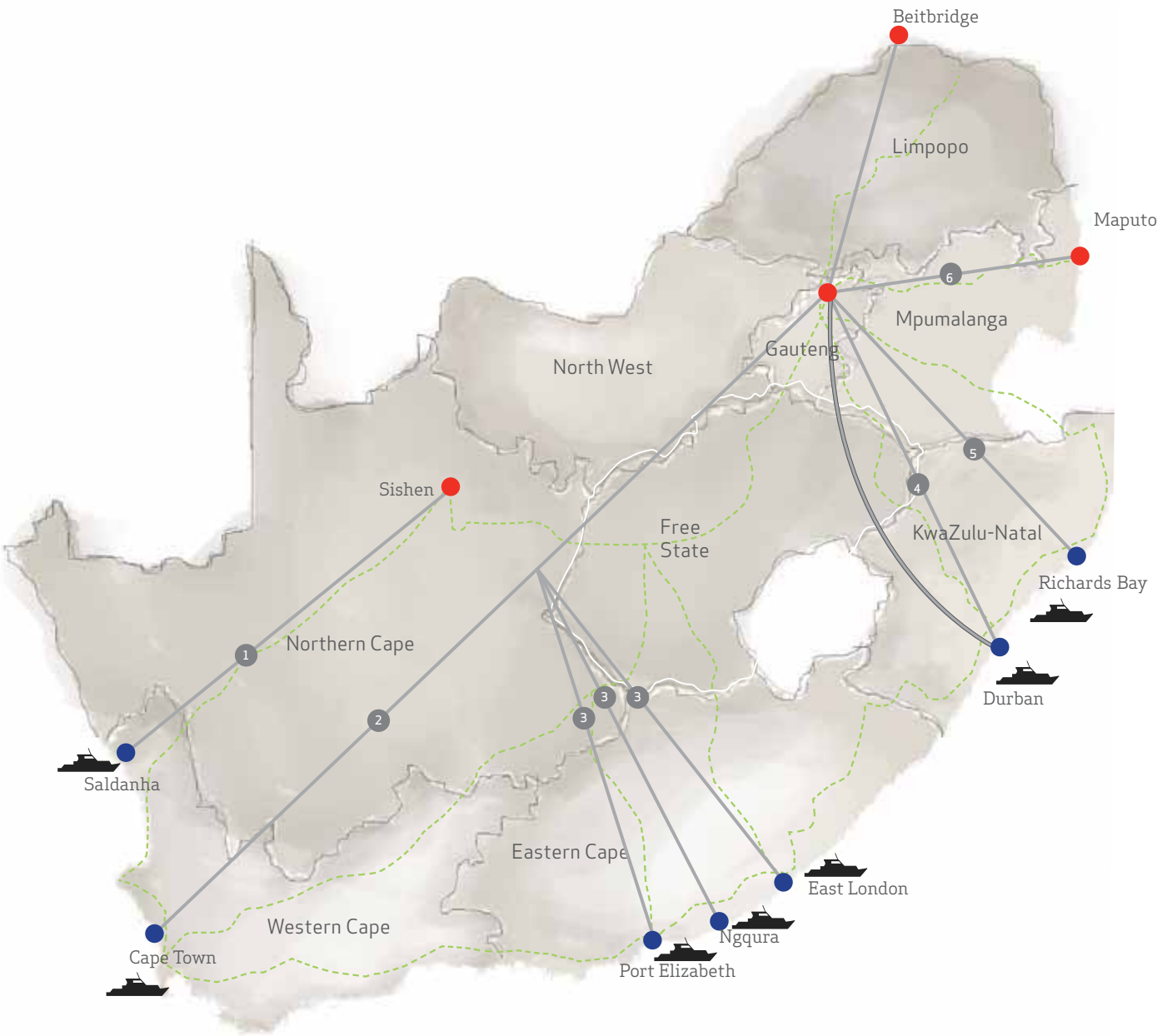
delivering on our commitment ***to you***



quantum leap

Annual Report 2010

Transnet's reach



	Corridor	Primary commodities transported
1	Sishen to Saldanha	Export iron ore
2	Capecor	General freight
3	Southcor	Automotives, manganese and general freight
4	Natcor	General freight such as steel, domestic coal, containers, liquid bulk, refined, synthetics, crude, avtur and gas
5	R. Baycor	Export coal, magnetite and chrome
6	Maputo Corridor	General freight

Rail

Ports and Terminals

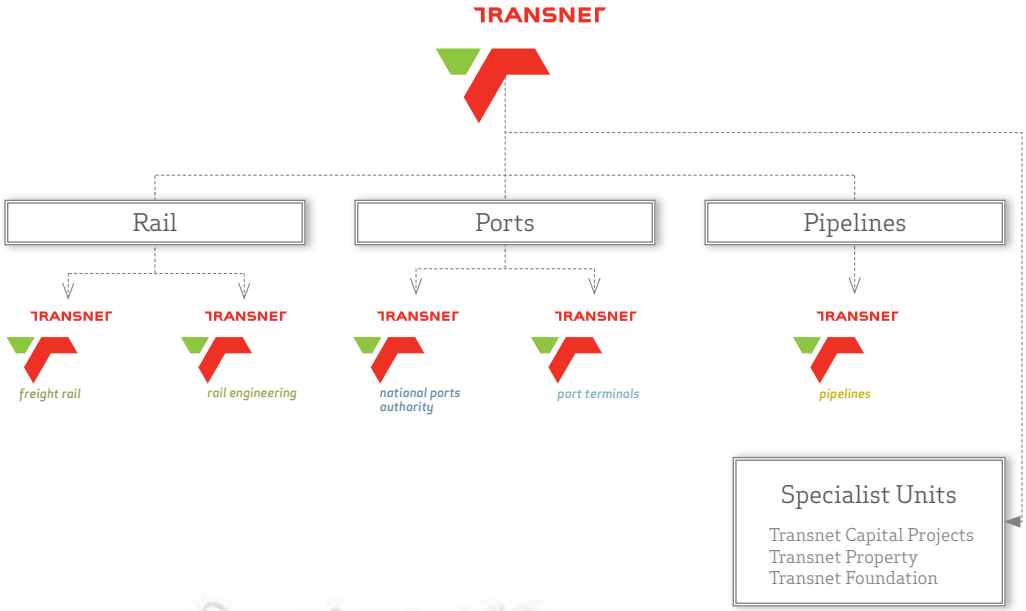
Pipelines

GRI 2.1

Transnet Limited (Transnet or the Company) is a focused freight transport Company, delivering **integrated, efficient, safe, reliable and cost-effective services** to promote economic growth in South Africa.

Transnet's key role is to assist in **lowering the cost** of doing business in South Africa. This is to be achieved by **increasing the Company's market share of freight on rail,** improving productivity and profitability and by providing appropriate capacity to customers, ahead of demand.

In order to achieve the above mission and vision statements, the Company is structured as follows:



Transnet supports the 2010 FIFA World Cup™

About this report

The following icons are used in the annual report to depict the various sections.

OS Overview

ES Executive statements

CG Corporate governance

SR Sustainability report

OR Operational review

FS Annual financial statements

GRI The numbers in the text refer to the sections in the GRI index

GRI 2.2, 3.1 – 3.7, 3.13, 4.12

This annual report (the report) covers Transnet's governance, financial, social responsibility, environmental, broader economic and overall sustainability performance for the year ended 31 March 2010. It provides an account of the Company's progress to date and offers a forward-looking perspective in terms of future plans and value generating strategies.

The report includes comparative information on Transnet's performance in prior years, with information disclosed in past annual reports being restated where appropriate.

The report not only reflects performance information for the 2010 financial year, but also contains future targets based on the Company's strategy, commercial prospects, policies and procedures, as well as social development priorities. It must be noted that there are possible variations between previously stated objectives and present targets given that a range of variables could impact future business activities and may alter targets. Where possible, reasons for variations are provided.

The consolidated performance information in the report covers all Transnet's Operating divisions and Specialist Units. In addition, detailed operational reports are presented for Transnet Freight Rail (Freight Rail), Transnet Rail Engineering (Rail Engineering), Transnet National Ports Authority (National Ports Authority), Transnet Port Terminals (Port Terminals) and Transnet Pipelines (Pipelines). Disclosures on sustainability issues are integrated throughout the report, with the sustainability section on pages 96 to 133 serving as a central point from where to access consolidated sustainability information, material to Transnet stakeholders.

Accountability owners for key functional areas within Transnet ensure data accuracy through rigorous high level reviews at all stages of data collection and processing.

Transnet's reporting continues to be influenced by the Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines* in determining relevant content and performance metrics. It further complies with the integrated reporting requirements of the King III Report on Governance for South Africa – 2009 (King III Report) and aims to provide a broad range of stakeholders with a transparent, balanced and holistic view of the Company's performance.

To address the requirements of the Company's diverse stakeholders, the report follows the format applied in previous years by providing three 'sustainability access points':

1. A Sustainability Report which provides an overview of the Company's performance as well as challenges in terms of the seven sustainability principles of the Transnet Value Measurement Framework (TVMF).
2. Operational Reports which present Operating division-specific information pertaining to operational performance and essential sustainability information.
3. The GRI content index included in the Contents alongside which indicates the page numbers for relevant economic, social and environmental disclosures.

'Sustainability principle buttons' have again been used in the Sustainability Report to facilitate quick access to information on the Company's integrated performance management. To further enhance readability, a list of abbreviations and acronyms is provided in the General information section. Corporate contact details are provided on the inside back cover.

**More detail on the GRI Guidelines is available on www.globalreporting.org*

Contents

Achievement against our Shareholder's expectations

The Transnet mandate and strategic objectives of the Company over the medium-term are set out in the Shareholder Compact between Transnet and the Department of Public Enterprises (Shareholder Representative).

To ensure alignment of Shareholder expectations and the strategic intent of the Company, key performance indicators (KPIs) have been identified for the Company and for each Operating division. These KPIs have helped ensure focus on the priority value drivers in the key areas of the business. The Board and Group Executive Committee monitors the performance against the KPIs to ensure that the strategic objectives of the Company are achieved.

Despite the challenging economic environment, Transnet has exceeded most of its targets as set out in the 2010 Shareholder Compact while continuing to establish a strong platform for future growth. Details regarding all the KPIs are contained in the Report of the Directors. The strategic objectives are set out below.

F S

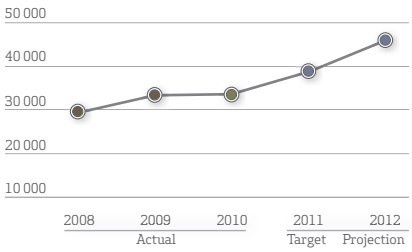
	Key performance indicators (KPIs)
Volume and revenue growth • Grow rail volumes in key General freight business sectors and export lines; and • Actively and vigorously contribute towards the reduction of overall cost of doing business in South Africa.	**Volume growth** (%) 2010 Target: ≥(5,0) 2010 Actual: (0,6)# 2011 Target: 10,3#
Capital and financial efficiency • Transnet must maintain a strong financial position by maintaining gearing at appropriate levels and the cash interest cover ratio; and • Earn an appropriate return on investments to ensure the sustainability of the Company.	**Gearing** (%) / **Cash interest cover** (times) 2010 Target: ≤ 44 / ≥ 3,4 2010 Actual: 38,5 / 4,5 2011 Target: 45,3 / 3,2
Operational efficiency (across Operating divisions) • Improve operational efficiencies in line with industry standards; and • Achieve net operating margin improvements in Operating divisions by sustainable cost reductions and containment.	**Operational efficiency** 2010 Actual: 5 KPIs achieved 9 KPIs not achieved 2011 Target: 8,4% improvement
Infrastructure investments • Make appropriate investments in ports, rail and pipelines to enable growth, ensuring that the returns on investments are greater than Transnet's weighted average cost of capital. • Create appropriate capacity ahead of demand.	**Capital investments** (R billion)* 2010 Target: R19,7 2010 Actual: R18,4 2011 Target: R22,8
Developmental objectives • Contribute towards ASGI-SA through the core Operating divisions and leveraging the economic benefits from associated activities, such as the Competitive Supplier Development Programme (CSDP); and • Skills development and black economic empowerment (BBBEE).	**Training spend** (% of personnel costs) 2010 Target: 3,0 2010 Actual: 3,0 2011 Target: 3,4
Safety, health and environment • Increase focus on significantly improving health and safety standards in line with leading practice; and • Ensuring compliance with environmental laws to proactively reduce environmental impacts.	**Group DIFR** (weighted average) 2010 Target: ≤ 0,87 2010 Actual: 0,72 2011 Target: 0,85

 # Weighted average across Operating divisions.
** Excludes capitalised borrowing costs, includes finance leases and capitalised decommissioning liabilities.*

2010 Performance highlights

GRI 2.8

Revenue (R million)

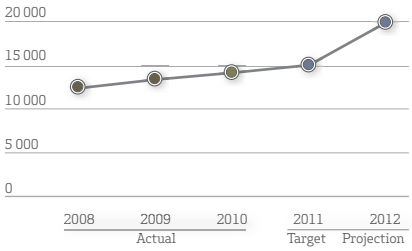


2010 vs 2009 ↑ 6,0%

R35,6 billion

- Volumes on the iron ore export line increased by 21,5% to 44,7mt.
- Export coal volumes decreased marginally by 0,2% to 61,8mt.
- Marine container volumes decreased by 4,5%, but well ahead of the target.
- Containers on rail increased by 5,7% during the current year.
- The revenue increase has been achieved despite the impact of the global economic and local recessionary environment and its direct impact on demand for commodities and container volumes.

EBITDA from continuing operations (R million)

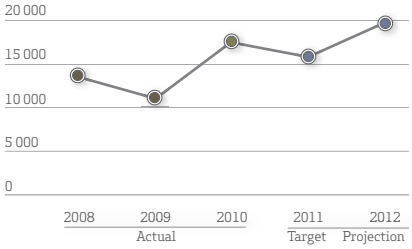


2010 vs 2009 ↑ 9,2%

R14,4 billion

- An aggressive cost-cutting campaign implemented at the onset of the economic crisis resulted in approximately R1,9 billion of costs being saved compared to planned expenditure.
- Net operating costs increased by only 4,0% to R21,2 billion.
- This achievement enabled the Company to prevent any forced retrenchments during the year.

Cash generated from operations after working capital changes (R million)

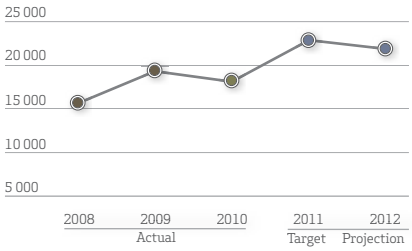


2010 vs 2009 ↑ 61,9%

R17,6 billion

- Cash generated from operations amounted to R16,4 billion, an increase of 21,7% evidencing the ability of the Group to generate strong predictable and sustainable cash flows.
- Significant focus on working capital management has resulted in an inflow of R1,1 billion compared to an outflow of R2,6 billion in the prior year.

Capital investments (R million)

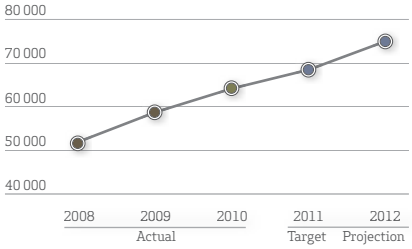


2010 vs 2009 ↓ 4,4%

R18,4 billion

- The decrease in capital investments compared to the prior year is a result of the global economic crisis experienced during the year.
- Capital investments were reprioritised according to the business requirements, revised volume forecasts and cash flow forecasts.
- This was required to ensure that the Company remained within the set financial metrics, whilst maintaining sufficient capacity to meet the projected market demand.

Shareholder's equity (R million)



2010 vs 2009 ↑ 10,5%

R64,5 billion

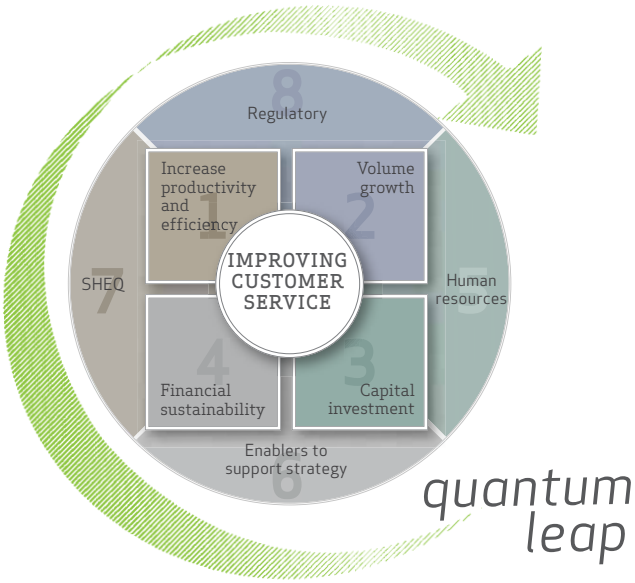
- Shareholder equity continued to grow steadily reflecting the strength of the Company's financial position.

GRI 1.1

The successful turnaround of the Company laid the foundation for the Growth Strategy adopted in 2008. Achieving the targeted growth in volumes has been impacted by the global economic crisis – given the high correlation between commodity volumes and containers handled by Transnet and global economic growth. Despite the impact of the global economic crisis the outcome of the Growth Strategy is evident in the performance of the Company during the year. While operational performance has improved in many areas of the Company, the **rate of improvement has not met our expectations**. Progress has been slow and at best incremental.

During the year the Board approved a strategic shift from the Growth Strategy. This shift constitutes a number of focus areas and initiatives to be implemented in the medium-term, and will enhance Transnet's ability to deliver on its mandate and position the Company to support the long-term competitiveness of the South African economy.

The strategy going forward will be on realising a **Quantum Leap** improvement in **customer service** by improving **operational efficiency** in all areas of the business together with **volume growth** while maintaining the **financial stability** of the Company.



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

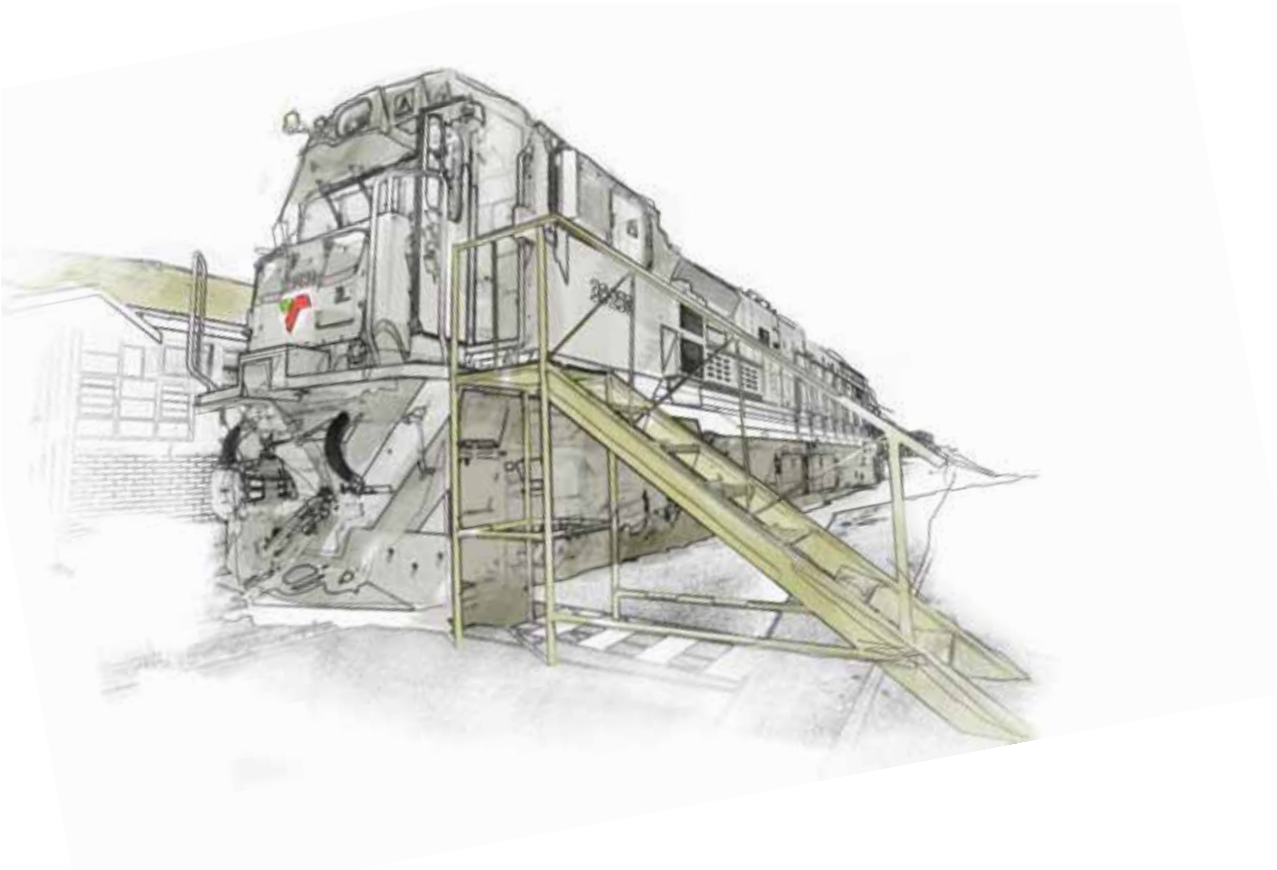
GRI 1.1

This is embodied in the Quantum Leap Strategy as set out below:

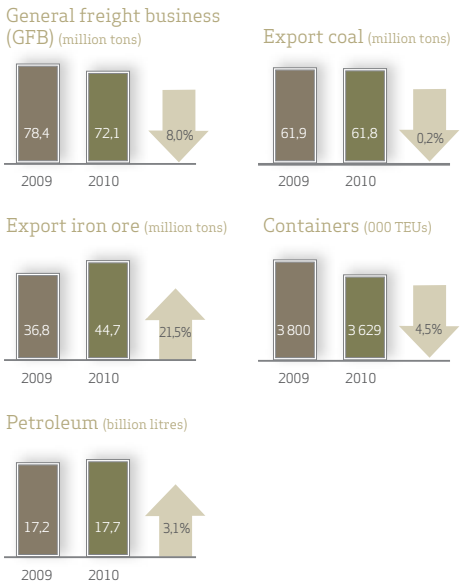
- Harnessing **volume growth** opportunities;
- Achieving substantial improvement in **customer service**;
- Increasing **productivity** and operating **efficiencies**;
- Implementing effective **cost-control** and reducing the cost base;
- Continuous **improvement** in **safety** and environmental compliance;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

The overarching theme for 2011 is a Quantum Leap improvement in customer service, volume growth and operational efficiency. The Quantum Leap initiatives aims to change the trajectory of performance improvement to a significantly higher level.

This will be achieved by enhancing operational efficiencies across the Company which will result in an improvement in the reliability and predictability of services while maintaining the financial sustainability for the Company.



Reengineering, integration, productivity and efficiency

KEY FOCUS AREA	PERFORMANCE
Volume growth in targeted commodities	
Operational efficiency improvements	

Rail

OR

Natcor Port/Rail interface improved cycle times from 24 hours to 18 hours.

Export coal record volumes of 1,5mt per week achieved in the final quarter of the year, despite poor performance during the year.

Export iron ore line tempos reached record levels.

A reduction in cycle times on the manganese export line from eight days to five days.

An improvement in the cycle times for magnetite exports from an average of 240 hours to 150 hours.

Ports

OR

Poor container handling performance (GCH) in the container sector.

Improved planning/integration with rail.

Improved loading rates at Saldanha iron ore Terminal as a result of dual loading - volume increase of 21,5%.

Pipelines

OR

Growth in petroleum volumes despite economic downturn and constrained pipeline capacity.

Successful implementation of bridging plan to ensure security of supply.

SIGNIFICANT RISKS	MITIGATING ACTIONS
GRI 1.2	
• Lower than anticipated volumes and revenue. • Inefficient asset performance and maintenance risk resulting in a negative impact on productivity. • High input costs including: fuel, electricity, steel pricing and steel supply risk. • Supply chain inefficiencies resulting in customer dissatisfaction – e.g. use of road transport vs rail and competing ports. • Not providing adequate infrastructure capacity which will negatively impact current and future revenue streams.	• Implementing cross-divisional business development initiatives aimed at retaining existing customers, attracting new customers and opening up new market opportunities. • Integrated planning and investment along the key freight and logistics corridors as well as targeting improvements in operational efficiency and productivity. • Coordinated strategic initiatives focusing on the increase of export and domestic coal, magnetite, iron ore and container's on rail market share. • Group-level strategic sourcing. • Standardising contract terms and conditions with customers across divisions and assembling a centralised pricing team and key accounts function.

Capital optimisation and financial management

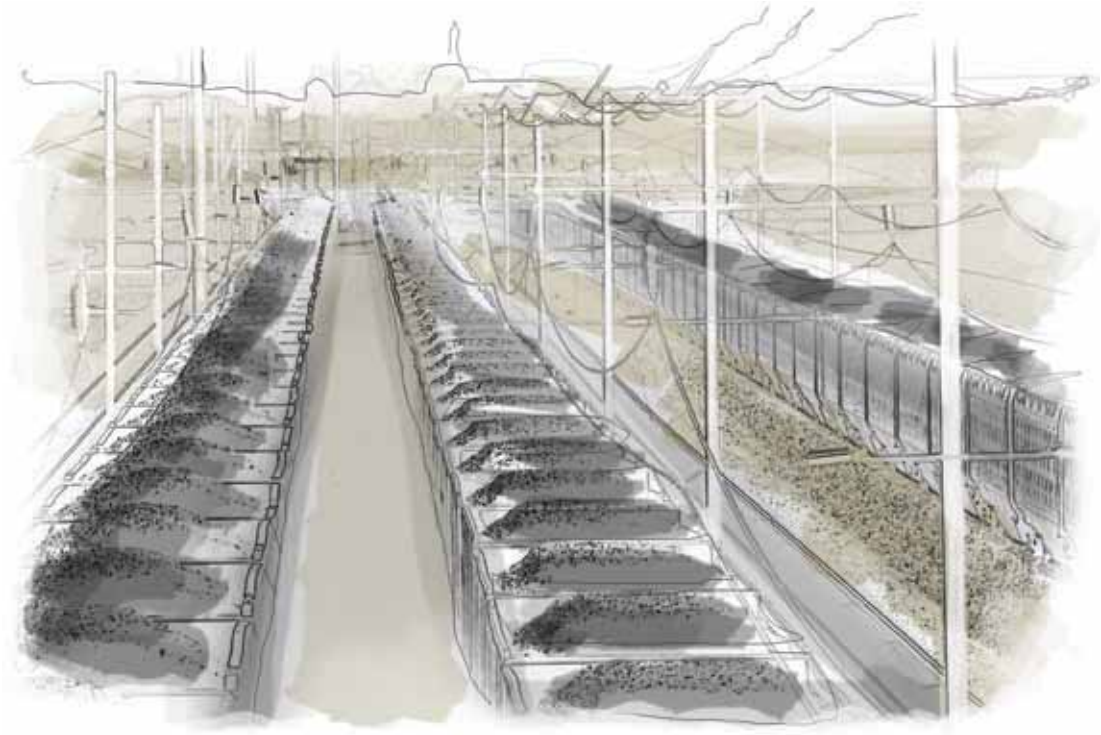
KEY FOCUS AREA	PERFORMANCE
Focus capital investments on value creation	Capital investment of **R18,4 billion**. OR **R8,7 billion** spent on maintaining capacity. **R9,7 billion** spent on expanding capacity. **Completed** the following key projects which will result in significant **additional capacity** being created. • Deepening and widening of Durban harbour entrance channel which will enable larger ships to call at the port. • Cape Town Container Terminal capacity expansion. • Port of Ngqura commenced operations in October 2009. • Locomotive fleet renewal – 50 "like-new" locomotives assembled by Rail Engineering delivered. • **New Multi-Product Pipeline (NMPP)** construction made significant progress –despite uncertain tariff regime impacting funding of the project.
Implement funding plan and ensure cost-effective procurement of capital	Funding raised for the year amounted to **R20 billion** including a pre-funding buffer of approximately R6 billion. ES FS The Company concluded **four international funding agreements** during the year: • A 10-year, fixed rate loan agreement with Finnvera, an export credit agency in Finland; • A 12-year, floating rate loan agreement with the Japan Bank for International Co-operation; • A 10-year, fixed rate loan agreement with the American Family Life Assurance Company; and • A 15-year, fixed rate loan agreement with the Agence Francaise de Developpement Agency (AFD). Successfully launched its inaugural **US$2 billion** Global Medium Term Note Programme (GMTN). Strong standalone foreign currency credit rating of **A3/BBB+**. Borrowings raised **without Government** guarantees. The **gearing ratio** increased to **38,5%** as expected. Improvement in cash interest cover to **4,5** times.

SIGNIFICANT RISKS	MITIGATING ACTIONS
• Capital projects not delivered on time and above budgeted cost. • Regulatory changes (especially economic regulation) result in uncertainties that adversely impacts on expected cash flows. • Commodity and credit risk – possible over-reliance on certain major customers or suppliers. • Funding, liquidity risk and high cost of capital. • Market related risks, including general business conditions, high input costs, currency volatility, and inflation.	• Integrated capital investment planning. • Aggressive project portfolio management to defer and reprioritise the capital investment plan. • Alternate funding sources: Possible investment funding from private sector participation (PSP). • Constant engagement with the relevant policy departments of Government and economic regulators on the drafting of the regulatory regime that provides for an appropriate return on invested capital for strategic and essential infrastructure, necessary for the growth and competitiveness of the South African economy. • Adhering to the principles of the approved Financial Risk Management Framework (FRMF) policy. • Diversification of domestic and international funding sources and investor base. • Reducing the weighted average cost of debt and extending the duration of the debt portfolio. • Proactive working capital management and maintaining adequate cash on hand and banking facilities to meet commitments. • Maintaining investment grade credit rating. • Hedging of foreign currency exposures and management of financial risks.

Safety, risk and environment

KEY FOCUS AREA	PERFORMANCE
Safety, risk, environment and effective governance	**29,3%** reduction in cost of safety incidents. SR
	Reduction in number of Freight Rail mainline derailments compared to the previous year by **207**.
	Decrease in the number of employee and public **fatalities**. ES SR
	DIFR improved to **0,72**.
	±23 000 employees participated in the Culture Charter scoring. SR
	800 safety culture champions were trained to assist with the Golden Safety Actions Programme.
	Successfully **integrated** sustainability reporting. SR
	Effective fraud risk management plan – **Tip-offs Anonymous** Hotline – 2008 allegations reported via Hotline. CG
	Entrenched **Code of Ethics**.
	Implemented the guidelines of **King III**.
	Proactive environmental management. SR
	DEA issued a **"pre-directive"** for manganese container terminal at the Port of PE-**Plans** developed to **address** issues raised and shared with DEA. ES

SIGNIFICANT RISKS	MITIGATING ACTIONS
• Non-compliance with safety standards and standard operating procedures (SOPs). • Environmental risks. • Health and safety risks – including HIV/Aids, injury and fatalities. • System risks, including failed internal systems and controls and ICT risks. • Derailments, collisions as well as employee and public fatalities.	• Oversight of health and safety related risks by the Board. • Partnering with Transnet's recognised labour unions on safety related issues. • Encourage responsible organisational behaviour, especially a strong safety focus. • Strengthening Safety Committees to ensure a coordinated focus on safety across the Company. • Establishing a Group-wide sustainability management and reporting platform – specific focus on safety and environmental issues. • Embed ERM practices across the Company. • Continue with the implementation of initiatives to address environmental management challenges (regulatory compliance, waste contamination and asbestos). • Finalise and implement the climate change strategy.



KEY FOCUS AREA

PERFORMANCE

Human capital

377 engineering bursars in tertiary education. SR

284 technician bursars in respect of work integrated practical learning.

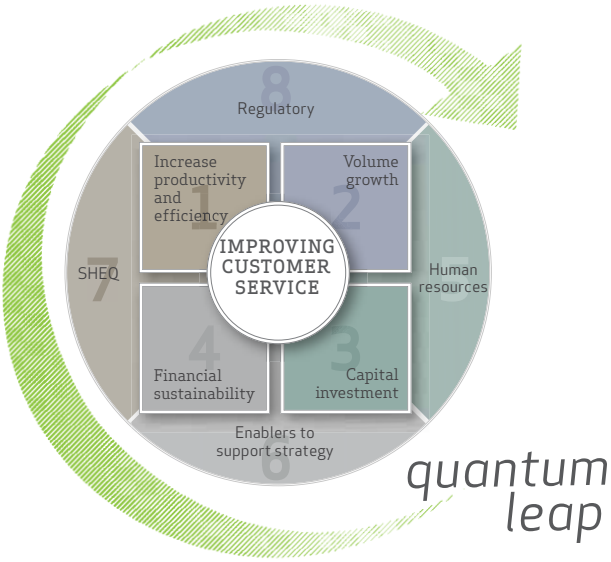
4 212 managers had development training through our flagship Navigator programme.

186 talent forums have been conducted.

>85% of management employees have been plotted on the talent matrix.

3% of personnel cost invested in training and development. SR

SIGNIFICANT RISKS	MITIGATING ACTIONS
• Human resource capability to deliver the Quantum Leap Strategy including an over-reliance on key personnel. • Scarcity of critical skills, resulting from high skills turnover, leading to poor operational performance. • Adverse impacts of changes in labour legislation and labour union relations resulting in labour instability and strike action. • Employee culture risks resulting in low morale and lack of cohesion. • Lack of effective change management capability (includes willingness and skill). • Escalating labour costs not in line with operational performance.	• Embedding the "Masihambe – living the Culture Charter" within the Company to promote employee pride and cohesion among employees and a safety focus. • Rolling out Group-wide talent management and leadership development processes and programmes eg the Transnet "Navigator" leadership programme. • Ensuring targeted investment in leadership, technical and management development programmes. • Competency-based reward model and performance management system. • Closely aligning with Government's Joint Initiative on Priority Skills (JIPSA) and ASGI-SA initiatives to develop skills nationally. • Maintaining constructive dialogue with Transnet's recognised labour unions on labour issues including restructuring issues and remuneration negotiations. • Roll-out of a single job grade structure and evaluation system across the Company.



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

Increase productivity and efficiency*

Reduce wagon cycle/turnaround times by **>20%**.

Reduce deviation from schedule by **>25%** (**departures/arrivals**).

Improve **locomotive efficiencies** by **>30%** (GTK/loco/month).

Improve container handling efficiency from 22 to 28 with stretch target of 30 GCH.

Reduce shipping delays and ship turnaround time (Durban) and increase volumes per ship turnaround time (STAT) hour by **>20%**.

Security of **petroleum supply** and reduce production interruptions by **>20%**.

Customer relationship management and effective contract management.

Improve **cross-Operating division integration** (operational planning and execution).

Improve **interface management** between **customer, rail and port,** and vice versa.

Corridor expansion projects.

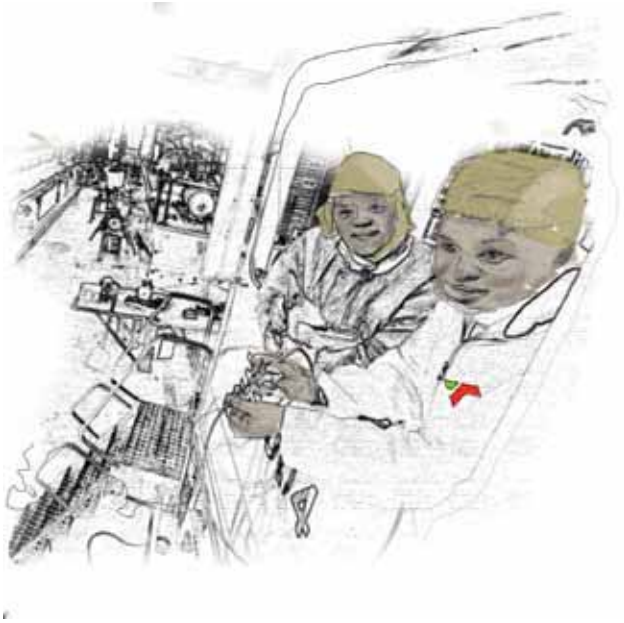
** Improvements/reductions – average improvement for all relevant KPIs from 2010 to 2015.*

targets for 2011

Improved **customer service** delivery.

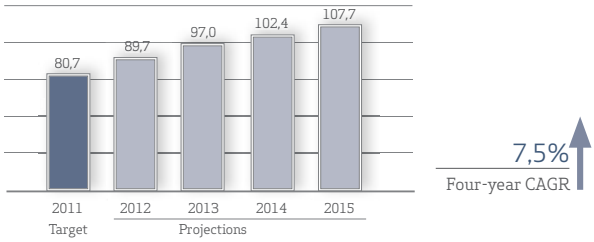
Average **8,4%** increase in operational efficiency and productivity.

Cumulative **20%** improvement over three years.

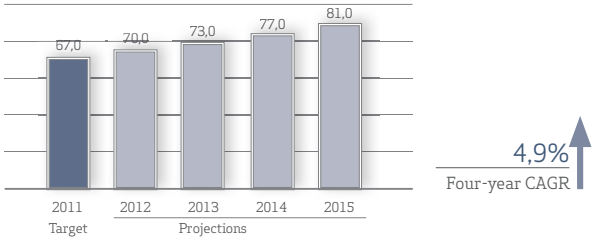


Volume growth

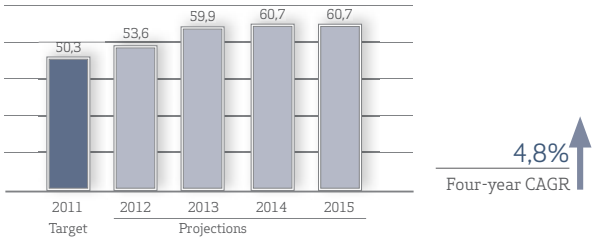
General freight (million tons)



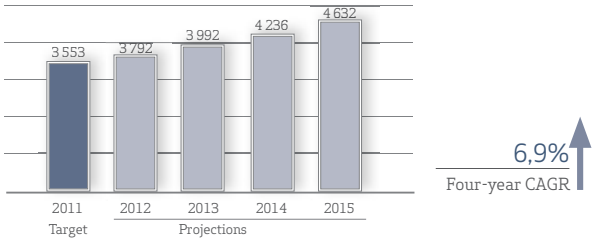
Export coal (million tons)



Export iron ore (million tons)



Maritime containers ('000 TEUs)



Overall weighted average **volume growth** of **10,3%** has been set as a target for 2011 in an economy that will grow by approximately 2,7%. OR

Targeted volume growth areas include:

- **15%** growth for **General freight** – domestic coal, containers on rail, manganese and other export commodities.
- **Export coal** growth by **8,9%**.
- **10,8%** increase in **export iron ore** volumes.
- **Ports** volumes will reflect **moderate** growth as imports and exports are more closely correlated to GDP growth.

Long-term contracts with customers and take or pay contracts **support** the **growth** in volumes. ES

Detailed **customer interaction** has resulted in demand forecasts that underpin volume forecasts. ES

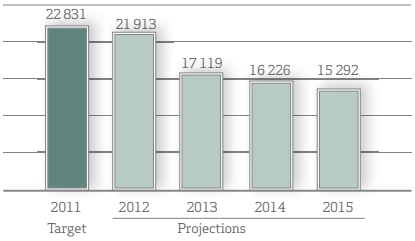
The **volume growth** is also supported by the five-year **investment plan** and the operational efficiencies that are part of the **Quantum Leap Strategy**. OR

Objective to **move freight from road to rail**.

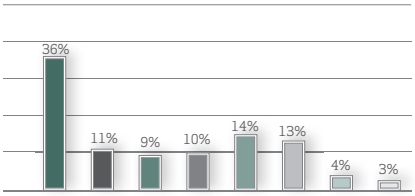
Capital investments#

Five-year capital investment (R93,4 billion)

(R million)



Five-year capital investment by commodity



- General freight (R33,5 billion)
- Export coal (R10,1 billion)
- Export iron ore (R8,6 billion)
- Maritime containers (R9,2 billion)
- Pipelines liquid bulk (R12,5 billion)
- Other* (R13,7 billion)
- Bulk ports (R3,4 billion)
- Break-bulk ports (R2,4 billion)

** Other includes investments that support commodities that may span across sectors including the above, eg tugs and dredgers support all commodities transported.*

Capacity creation – within five years

Equipment	Existing fleet	Additions
Locomotives	1 978	554
Wagons	72 643	7 231
Cranes	95	19

	Existing capacity	Future capacity
GFB	81mt	110mt
Export coal	71mt	81mt
Export iron ore	47mt	60,7mt
Containers	4,56 m TEUs	6,26 m TEUs
Pipeline (NMPP)	4,4bℓ	8,7 bℓ

 # Excludes capitalised borrowing costs.
million tons (mt)
billion litres (bℓ)

targets for 2011 – 2015

Transnet has formulated a **National Infrastructure Plan** (NIP) – 30 year infrastructure capacity plan.

General freight business (GFB) volume increase is supported by an investment plan of **R33,5 billion** which includes additional locomotives, wagons and upgrade to the infrastructure. OR

Studies are currently under way to increase the capacity for **export coal** to 81mt. **R10,1 billion** has been included in the five-year investment plan to support the growth of this commodity. OR

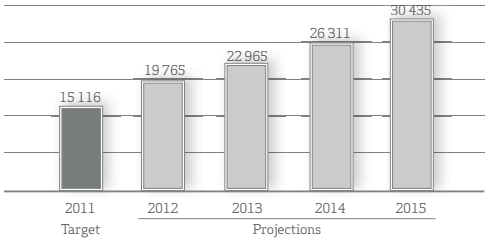
Growth of 60,7mt for **export iron ore** is aligned with customer contracts in place. Capital investment of **R8,6 billion** is included in the investment plan. Growth beyond 60,7mt is being investigated. OR

Container volume growth will remain moderate over the next year, however long-term projections indicate staggered growth of between 6% and 9% which is in line with international trends. **R9,2 billion** will be spent to support future growth. OR

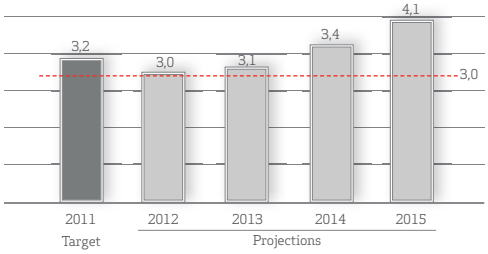
Transnet will continue to implement the **CSDP** to contribute towards the competitiveness of the domestic supply chain and procurement environment.

Financial sustainability – Targets

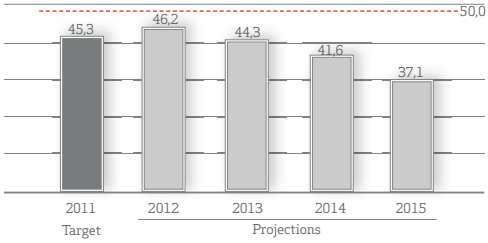
EBITDA (R million)



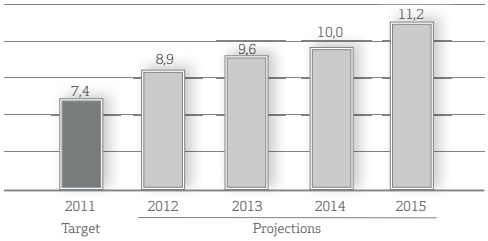
Cash interest cover (times)



Gearing (%)



Return on total assets (%)



---- *Board and Shareholder set limit*

targets for 2011

Revenue growth of **13,8%**.

Increase in EBITDA to **R15,1 billion**.

Improve cost efficiency and cost-effective procurement.

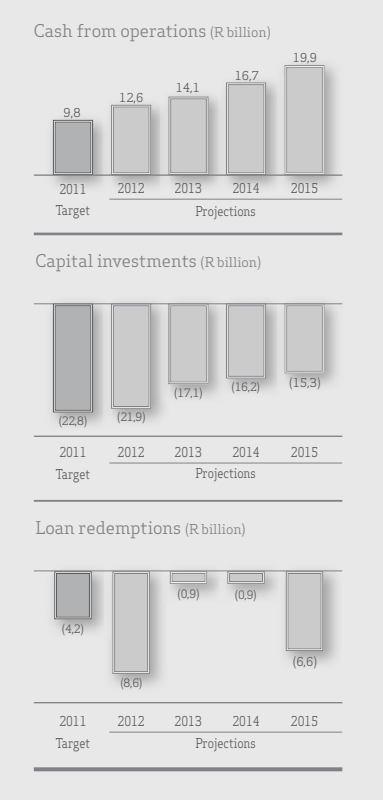
Working capital management to meet set targets.

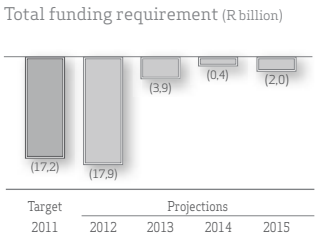
Optimise inventory levels.

Strong financial metrics.

- Return on assets **≥7,4%**
- Gearing **≤46,5%**
- Cash interest cover **≥3,2** times

Financial sustainability – Funding





Three years = R39,0 billion.
Five years = R41,4 billion (including loan redemptions).

Key features of the funding strategy

Mitigate market risk. E S

Reduce weighted average cost of debt.

Diversify investor base and sources of funding.

Continue with the **pre-funding strategy**.

Raise **R17,2 billion** cost effectively. E S

Probable sources of funding

	Total R million
Commercial paper	2 209
Domestic bonds	4 000
Development finance institutions	5 000
Bank loans	2 000
International bonds	4 000
Total	**17 209**

Human resources

- Employment equity >70% of total workforce.
- Increase female representavity to 25% of the workforce.
- Training and skills development (+20% Artisans, +13% Technicians) over five years.
- Reshaping the workforce.
- Award engineering bursaries (±60 per annum).

Safety, Health, Environment and Quality

- Finalise outstanding environmental assessments and implement environmental rehabilitation plans.
- Compliance and safety audits.
- Climate change strategy.

Regulatory

- Ports Act amendments.
- ICM Act amendments.
- Constructive engagement to obtain agreement on interpretation of port and pipeline directives.
- Achieve a fair return on invested capital as provided by Petroleum Pipelines Act, Section 28(3).

targets for 2011

Skills development between **3% to 4%** of personnel cost.

Continue to develop **engineering and technical skills**.

Improvement in DIFR.

33% reduction in cost of safety incidences. ES

Reduction in number of **fatalities**. ES

Establish greater policy **certainty**.

Drive to get **consistency and predictability** in regulations and policy together with a fair return on invested capital.

2011 Quantum Leap highlights

10,3% The targeted weighted volume growth compared with the prior year.

10,8% Expected increase in revenues compared to the prior year.

R15,1 billion The targeted EBITDA.

R22,8 billion The total amount budgeted for capital investments.

Improved return on average total assets (excluding capital work in progress).

8,4% The required average improvement in operational efficiency and productivity.

33% reduction in cost of safety incidences. SR

Environmental compliance and climate change strategy. SR

Board of Directors

[1]Prof GK Everingham
(Acting Chairman)
(Non-executive)

Year of birth 1949.
Appointed to Board 27 August 2004.

Qualifications
BCom (UPE); BCom (Hons) (University of Cape Town), MAS (Illinois) and CA(SA).

Area of expertise
Financial.

Other directorships and trusteeships
Council of Diocesan College (Bishops School) (Chairman);
Investment Committee of the Anglican Church of SA Pension Fund (Chairman);
Sycom Property Trust (Chairman);
Advisory Board, Element Asset Management;
Board of Governors, Pathcare Group;
Sycom Property Fund Managers (Pty) Ltd;
GK Everingham Investments (Pty) Ltd; and
ZK Matthews Trust.

[2]Mr CF Wells
(Acting Group Chief Executive)

Year of birth 1949.
Appointed to Board 24 January 2005.

Qualifications
BCom (University of Cape Town) and CA(SA).

Area of expertise
Financial/Business.

Other directorships and trusteeships
Sethani Ltd (Section 21 Company); and
Transpoint Properties (Pty) Ltd.

[3]Mr A Singh
(Acting Chief Financial Officer)

Year of birth 1973.
Appointed to Board 6 March 2009.

Qualifications
BAcc (University of KwaZulu-Natal) and CA(SA).

Area of expertise
Financial

Other directorships and trusteeships
Comazar (Pty) Ltd;
Crosskeys Security Services (Pty) Ltd;
Owner-Driver Management (Pty) Ltd;
Protekon (Pty) Ltd;
Freight Logistics International;
Transhold Properties (Pty) Ltd; and
Transnet Retirement Fund.

[4]Ms NBP Gcaba
(Non-executive)

Year of birth 1970.
Appointed to Board 27 August 2004.

Qualifications
BJuris (Fort Hare University); and
LLB (University of Natal).

Area of expertise
Legal.

Trusteeships
Transnet Retirement Fund Property Trust;
Transnet Second Defined Benefit Fund; and
Partnership – Spoor & Fisher Attorneys.

[5]Dr ND Haste OBE
(Non-executive)

Year of birth 1944
Appointed to Board 23 May 2006.

Qualifications
Fellow Royal Academy of Engineering;
Fellow Institution of Civil Engineers;
Fellow Institution of Highways & Transportation;
Member of the American Society of Civil Engineers; and
Member – Chartered Institute of Management.

Honours: OBE for Services to Civil Engineering;
Honorary Doctorate of Engineering: University of West of England;
Honorary Doctor of Science: University of Salford;
Gold Medal of Institution of Civil Engineers; and
Institution of Highways and Transportation Supreme Award.

Area of expertise
Engineering and delivery of major capital projects.

[6]Mr MJ Hankinson
(Non-executive)

Year of birth 1949.
Appointed to Board 25 July 2008.

Qualifications
BCom (University of KwaZulu-Natal) and CA(SA).

Area of expertise
Financial/Business.

Other directorships
Brandcorp Holdings (Pty) Ltd (Chairman);
The Spar Group Ltd (Chairman);
Apollo Tyres Ltd;
Illovo Sugar Ltd;
Main Street 63 (Pty) Ltd;
Sovereign Food Investments Ltd; and
Grindrod Limited.

[7]Mr PG Joubert
(Non-executive)

Year of birth 1933.
Appointed to Board 27 August 2004.

Qualifications
BA (Rhodes); DPWM (Rhodes) and AMP (Harvard).

Area of expertise
Business.

Other directorships
BDFM Publishers (Pty) Ltd;
Cycad Financial Holdings (Pty) Ltd;
Ndlophu Share Block (Pty) Ltd;
Sandvik (Pty) Ltd;
Sandvik Mining and Construction Delmas (Pty) Ltd;
Sandvik Mining and Construction RSA (Pty) Ltd;
South African Brain Research Institute;
South African Institute of Race Relations; and
Telkom SA Limited.

[8]Ms NNA Matyumza
(Non-executive)

Year of birth 1963.
Appointed to Board 27 August 2004.

Qualifications
BCom (University of Transkei);
BCompt (Hons) (University of Transkei);
LLB (University of Natal) and CA(SA).

Area of expertise
Financial.

Other directorships
Born Free Investments 42 (Pty) Ltd;
Camden Bay Investments (Pty) Ltd;
Hulamin Ltd;
Cadiz Ltd;
COASAD Southern Africa (Pty) Ltd;
KZN Growth Fund Manager (Pty) Ltd;
Khula Enterprise Finance Ltd; and
Wilson Bayly Holmes-Ovcon Ltd.

[9]Mr MP Moyo
(Non-executive)

Year of birth 1962.
Appointed to Board 25 July 2008.

Qualifications
AMP; BCompt (Unisa); BCompt (Hons) (Unisa); Higher Diploma in Tax Law; CA(SA) and CA (Zimbabwe).

Area of expertise
Financial/Business.

Other directorships
Vodacom Group Ltd (Chairman);
Amabubesi Financial Services Group (Pty) Ltd;
Amabubesi Financial Services Holdings (Pty) Ltd;
Amabubesi Capital (Pty) Ltd;
Amabubesi Capital Technologies (Pty) Ltd;
Amabubesi Consulting Services (Pty) Ltd;
Amabubesi Health Care (Pty) Ltd;
Amabubesi Health Services (Pty) Ltd;
Amabubesi Investments (Pty) Ltd;
Amabubesi Property Holdings (Pty) Ltd;
Bulawayo Electrical Supplies (Pty) Ltd;
Clorpique 149 (Pty) Ltd;
Corridor Infrastructure Development Holdings;
Dartingo Trading 161 (Pty) Ltd;
Lexshell 713 Investments (Pty) Ltd;
Liberty Group Ltd;
Liberty Holdings Ltd;
Mtha-We-Mpumalelo Investments;
Pinnacle Technology Holdings Ltd;
Plexus Fundamental Funds (Pty) Ltd;
RZT Zelpy 4972 (Pty) Ltd;
STS Trust;
Utafutaji Trading 36 (Pty) Ltd; and
Worldwide Capital Ltd.

[10]Ms NR Ntshingila
(Non-executive)

Year of birth 1963.
Appointed to Board 23 May 2006.

Qualifications
BA (University of Swaziland); MBA (Morgan State University, Maryland, USA) and Diploma in Advertising (AAA School of Advertising).

Area of expertise
Marketing.

Other directorships
Golden Dividend 456 (Pty) Ltd;
Kantar South Africa (Pty) Ltd;
Ntinta Investment;
Ogilvy South Africa (Chief Executive Officer);
Pamodzi Investment Holdings (Pty) Ltd; and
PWC CSI Board.

[11]Ms KC Ramon
(Non-executive)

Year of birth 1967.
Appointed to Board 27 August 2004.

Qualifications
BCompt (Unisa); BCompt (Hons) (Unisa); Graduate of Senior Executive Programme (Harvard Business School in conjunction with Wits Business School) and CA(SA).

Area of expertise
Financial/Business.

Other directorships
Sasol Ltd (Chief Financial Officer) and several subsidiaries;
Melalani Investments (Pty) Ltd; and
Melalani Women Investments (Pty) Ltd.

1 2 3 4 5 6 7

[1]Ms ANC Ceba
(Group Company Secretary).

Qualifications
BProc, LLB (University of KwaZulu-Natal).

Other directorships
Premier Soccer League (PSL) – Alternate Chairman of the Disciplinary Committee and member of the PSL Audit and Risk Committee.

[2]Mr A Singh
(Acting Chief Financial Officer).

Year joined Transnet 2003.

Qualifications
BAcc (University of KwaZulu-Natal); CA(SA).

Area of expertise
Financial.

Other directorships and trusteeships
Comazar (Pty) Ltd; Crosskeys Security Services (Pty) Ltd; Owner-Driver Management (Pty) Ltd; Protekon (Pty) Ltd; Freight Logistics International; Transhold Properties (Pty) Ltd and Transnet Retirement Fund.

[3]Mr VD Kahla
(Group Executive – Office of the Group Chief Executive).

Year joined Transnet 2004.

Qualifications
BA and LLB (Rhodes).

Area of expertise
Legal, regulatory, strategy and corporate affairs.

Other directorships and trusteeships
Transnet Retirement Fund Board of Trustees – Chairman; Transpoint Properties (Pty) Ltd – Chairman; Council of St John's College, Houghton –Chairman; Audit and Enterprise Risk Committee, University of SA – Chairman and Audit Committee of South African Revenue Service – Member.

[4]Mr R Vallihu
(Chief Executive: Transnet Rail Engineering).

Year joined Transnet 1995.

Qualifications
BSc (Hons) (Loughborough University of Technology), UK and MBA (University of Southern Queensland, Australia).

Area of expertise
Strategy and technical.

[5]Mr CA Möller
(Chief Executive: Transnet Pipelines).

Year joined Transnet 1975.

Qualifications
Civil Engineering (BSc, BEng) (Stellenbosch).

Area of expertise
Engineering and pipeline operations.

[6]Mr T Morwe
(Acting Chief Executive: Transnet Freight Rail).

Year joined Transnet 1997.

Qualifications
BA Economics (Howard University); Advanced Programme for Chief Executive Officers (National University of Singapore) and Executive Programme in Logistics: Transportation Management (The Chartered Institute of Logistics and Transport, Singapore).

Area of expertise
Transport and logistics.

Other directorships
KwaZulu-Natal Trade and Investment; Commercial Cold Storage (Pty) Ltd and Bulk Connections (previously Durban Coal Terminal).

[7]Ms M Moses
(Group Executive: Transnet Capital Projects).

Year joined Transnet 2005.

Qualifications
BA (University of Witwatersrand); and Management Advancement Programme (Wits Business School).

Area of expertise
Business.

Other directorships and trusteeships
Public Investment Corporation; Government Employees Pension Fund and Thusanang Trust.

Legend

- Representative on Transnet Freight Rail Executive Committee
- Representative on Transnet Rail Engineering Executive Committee
- Representative on Transnet National Ports Authority Executive Committee
- Representative on Transnet Port Terminals Executive Committee
- Representative on Transnet Pipelines Executive Committee

[8]Ms V Dunjwa
(Chief Risk Officer).

Year joined Transnet 1998.

Qualifications
MSc (Engineering) (University of Witwatersrand); Graduate Diploma Civil Engineering (University of Witwatersrand); BA (Chemistry), (College of Saint Rose, Albany, New York) and Certificate, Executive Women Development Programme (GIBS).

Area of expertise
Enterprise risk management.

[9]Mr CF Wells
(Acting Group Chief Executive).

Year joined Transnet 2005.

Qualifications
BCom (University of Cape Town); CA(SA).

Area of expertise
Financial and business.

Other directorships and trusteeships
Sethani Ltd (Section 21 Company) and Transpoint Properties (Pty) Ltd.

[10]Mr P Maharaj
(Group Executive – Human Resources).

Year joined Transnet 2004.

Qualifications
BAcc (University of South Africa).

Area of expertise
Human resources financial and strategy.

Other directorships
Southern African Airline Holdings (Pty) Ltd;
HSA Management Systems (Pty) Ltd and Viamax Logistics (Pty) Ltd.

[11]Mr VK Oates
(Chief Audit Executive – Transnet Internal Audit).

Appointed to the Group Executive Committee 11 December 2009.

Qualifications
BCom. (Honours) (University of KwaZulu-Natal); CA(SA).

Area of expertise
Business, financial, auditing and risk management.

Other directorships
Ernst & Young.

[12]Mr KC Phihlela
(Chief Executive:
Transnet National Ports Authority).

Year joined Transnet 2003.

Qualifications
Engineering, MBA, Executive development (Northwestern University).

Area of expertise
Engineering and operations.

Other directorships
Marine Data Systems (Pty) Ltd;
B2B Africa (Pty) Ltd and
Tru-South Group.

[13]Mr KXT Socikwa
(Acting Chief Executive:
Transnet Port Terminals).

Year joined Transnet 1995.

Qualifications
BCom and LLB (Rhodes).

Area of expertise
Legal and commercial.

Other directorships
Investec Bank Ltd;
RAM Hand-to-Hand Couriers;
The Brand Union SA (Pty) Ltd and
Southern Palace Investments.

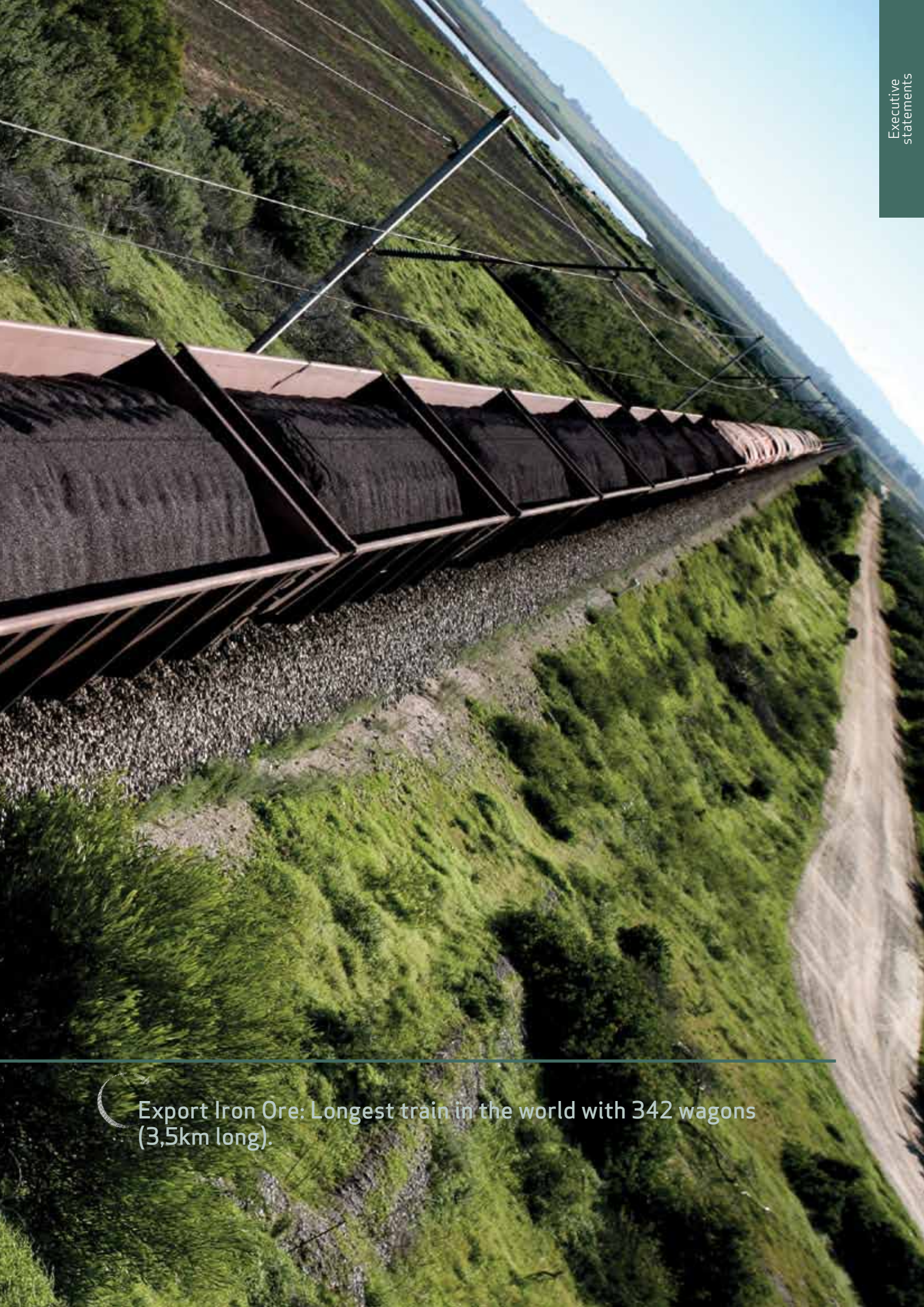
[14]Mr M Gregg-Macdonald
(Acting Group Executive:
Commercial and Freight Corridors).

Year joined Transnet 2001.

Qualifications
BCompt (Hons) (University of South Africa); CA(SA).

Area of expertise
Manufacturing, construction and cellular communication industries.

Executive statements



Export Iron Ore: Longest train in the world with 342 wagons (3,5km long).

GRI 1.1, EC8

Prof GK Everingham
Acting Chairman

The economic outlook at the beginning of the year was characterised by significant economic uncertainty. Fortunately, the worst fears of the global economic crisis did not materialise and by the third quarter of 2009, the economic recovery had become more evident and continues to gain momentum.

The economic outlook is decidedly more positive than it was six months ago, although still characterised by high levels of uncertainty. Importantly, however, commercial sentiment and confidence have turned positive and the future outlook holds much potential for constructive growth.

Transnet's commitment to the continued implementation of its Growth Strategy, initiated during 2008, has enabled the Company to sustain a strong financial performance during the most challenging crisis in recent economic history. During this time, job losses were avoided, skills development was accelerated and significant amounts were invested to maintain existing port, rail and pipeline infrastructure capacity.

During the year, Transnet achieved significant milestones, including the completion and commissioning of the greenfields deep-water Port of Ngqura outside Port Elizabeth; taking delivery of and deploying new and "like-new" locomotives as well as significant port equipment; and completing the reengineering of the Port of Durban, Africa's busiest port. These accomplishments relied on record levels of spending on our Shareholder's public policy goals. This included Broad-Based Black Economic Empowerment (BBBEE), with the proportion of BBBEE spend in Transnet rising to 65,4% or R13,5 billion of the total procurement spend. Furthermore, the Company made considerable progress in the localisation of the imported component of its capital investment programme. As a result of measures taken to address the severe downturn in the business environment, such as cost-containment, operating efficiency improvements and the acceleration in training and skills development, Transnet has emerged from the recession in a strong position and is poised to harness and the benefit from the emerging upswing in the economy.

Economic review

Global economic activity is estimated to have contracted by 1,8% in 2009 following a 3% growth in 2008. The contribution to global growth by emerging economies of 2,1% was countered by the 3,2% contraction observed in high-income countries. Additionally, whilst the average price of oil declined by 36%, and non-oil commodities by 19%, world trade volumes declined by 12,3% in 2009, the first decline since 1982. However, these statistics, albeit bleak, mask the economic recovery that is under way, as well as the reversal of widespread commercial uncertainty and low levels of confidence characterising the recent past.

Prices for many minerals and energy commodities strengthened considerably over the course of 2009, following sharp declines between mid-2008 and early 2009. The bolstering of commodity prices was further supported by the overall improved outlook for world economic growth; strong import demand from China; and the production cuts in late 2008 and early 2009. The weakening of the US dollar against other major international floating currencies also raised the prices of most minerals and energy commodities denominated in US dollars. Furthermore, continued demand from China has been a major driver behind increasing minerals and energy commodity prices. Thus, increased consumption of mineral resources in China has more than offset falling import demand in many economies in the Organisation for Economic Co-operation and Development (OECD) as a result of increased commodity prices. Transnet benefited from these conditions, with demand for key commodity exports remaining strong for most of the year.

Global container volumes are estimated to have declined by 10% for 2009, the first reduction since containerisation went global in the 1970s. However, a volume recovery is under way. Recent volume data has proved stronger than initial projections, with year-on-year growth now being reported from the vast majority of trades. The European Liner Affairs Association (ELAA) recently released figures showing January 2010 container trade on the peak-leg of the Asia-Europe trade having increased by 10,6% year-on-year and throughput at Chinese ports, in January 2010, rising to 19% year-on-year, up from 17% growth in December 2009.

Container volumes through South African ports performed better than expected, following a year-on-year decline that was limited to 4,5%. The better than expected performance was due to an increase in transshipment volumes, resulting from shipping lines reconfiguring their routes to counter the challenges of lower demand and rapid increases in shipping capacity; and using South Africa as a transshipment hub, albeit a minor one at this stage.

The South African economy contracted by 1,8% in 2009, with the manufacturing and mining sectors reflecting the steepest declines at 10,7% and 7,2% respectively. Quarter-on-quarter economic growth turned positive in the third quarter of 2009 and strengthened significantly over the final quarter of the year, with widespread growth across the various sectors of the economy. In spite of a late volume surge in the second half of the year, export volumes contracted by 22,5% year-on-year. Both import and export volumes rose in the fourth quarter of 2009, consistent with the recovery in domestic expenditure and world trade.

Poor conditions in the domestic economy impacted Transnet negatively across most segments of the General freight business (GFB) with total general freight volumes declining by 8% year-on-year. General freight performance was, however, better than expected as a result of the increased focus on a limited number of strategic commodities on key freight corridors. The volumes of commodities transported, which included manganese, magnetite, ferrochrome and intermodal containers, were higher than the target.

Under these circumstances, Transnet's financial and operating performance over the period can be regarded as solid and satisfactory, testifying to the high calibre executive leadership of the Company.

Achievements for the year

The positive outcomes of the Growth Strategy are evident in the performance of the Company during the review period. Apart from having to respond to the effects of the global economic crisis, Transnet faced the challenge of having to handle disruptions caused by a potentially divisive set of individuals and inter-related disciplinary actions that had to be instituted against a number of Senior Executives in Freight Rail. Matters were further complicated by an uncertain regulatory environment resulting from inconsistent decisions taken by the pipeline and ports regulators. Despite these challenges, and given the competent leadership of the Executive and Board-level support, the Company emerged from these challenges both united and stronger.

The Company has recorded a year of positive achievements, for which the Board is appreciative. These achievements include:

- An effective, timely and credible leadership response to the onset of the global economic recession;
- A 6% increase in revenue despite the R1 billion negative impact of the pipeline regulator's tariff decision;
- A 9,2% improvement in profitability, offset by higher depreciation, amortisation and finance costs, has resulted in a lower profit before and after taxation;
- A 33,9% improvement in safety performance, most notably the 38,5% reduction in employee fatalities;
- Another year of robust capital infrastructure investment – over R18,4 billion – without weakening the financial strength of the Company or compromising the key financial metrics;
- Discernible operating efficiency and productivity improvements;
- The forging of inventive partnerships with original equipment manufacturers (OEMs) to localise the supply of the imported component of the capital programme;
- The successful implementation of the funding strategy during the year, enabling Transnet to achieve various milestones, including the listing of the historic US$2 billion GMTN and the conclusion of a string of funding agreements with international investors and export credit agencies;
- The progressive rollout of the Company's human capital strategy;
- Protection of employment in Transnet; and
- Continued investment in training, skills development and deserving social causes.

Cost containment and capital expenditure

The financial strength of the Company was enhanced during the review period through the implementation of a range of measures, particularly the move to contain variable costs without negatively impacting employment. The efficient and effective rollout of the capital investment programme continues to be our single biggest success story. The investment programme, which was reprioritised as part of the response to the global economic crisis, has improved the performance of Transnet. By successfully delivering on its progressive investment programme during the year, Transnet provided appropriate capacity ahead of demand and helped to reduce the cost of doing business in South Africa, in line with the Company's strategic mandate.

Operational efficiency

The combined effect of deploying new assets and management's continued focus on operating efficiency and productivity improvements, as exemplified by the Quantum Leap Strategy, are directed at achieving significant operational efficiencies, which have been either incremental or sporadic. It is absolutely crucial that we leverage off the massive capital investments we have made in the last few years to ensure quality of service to our customers. The Quantum Leap Strategy is core to attaining the targets of the Shareholder Compact.

The ongoing efficiency and productivity improvements have been evident in the volume performances of many parts of the business, except for the Export coal line. Particularly noteworthy has been the achievement of the weekly tempo of 1mt in the Export iron ore line in December 2009. Although the coal line's performance has been sluggish, a credible management turnaround plan, which includes the deployment of specialist teams, is in place to revive this strategically significant business. Initial indications of this were evident in the last quarter of the review period when a three-year high, weekly tempo of 1,5mt, was achieved on the line.

Funding

Also gratifying is the success of the funding strategy, which reflects investor confidence in the Company. The successful establishment of the GMTN programme, which will enable Transnet to launch international bonds in the US and EU markets, is the highlight of this strategy. Transnet succeeded in raising R20 billion cost-effectively from a range of sources in uncertain markets in terms of its funding strategy. For further details refer to the Group Chief Financial Officer's review.

Safety

SR

Further highlights for the year include the marked turnaround in the safety record of the Company compared to the prior year. All operational safety indicators, including employee and public fatalities, the disabling injury frequency rate and costs associated with safety related incidents, are moving in the right direction. This achievement, including a 38,5% reduction in employee fatalities and a 29,3% decrease in the cost of losses, evidences management's increased focus and determination in maintaining a safe and healthy workplace for all employees. Nevertheless, we deeply regret the eight fatalities that occurred during the year. Our condolences are extended to the families of the deceased who have suffered this tragic loss. We are committed to work unrelentingly to achieve our target of zero fatalities.

Environment

SR

The Board of Directors (Board) supports the focus on improving the Company's environmental compliance record. The audit commissioned by management in all areas of operations is a step in the right direction. Also encouraging are the proactive remedial measures undertaken as part of the comprehensive plan to address concerns from environmental authorities and community members about the possible negative impacts of an oil leak in the Tank Farm in Port Elizabeth. It is noteworthy that, although independent research has not identified any demonstrable ill-effects on the health of employees, residents or the environment, no efforts will be spared in ensuring that Transnet operates in safe and environmentally sustainable facilities. Transnet is respectful of the rights of the communities surrounding the Port Elizabeth harbour. The Company is considering plans and the feasibility of relocating its operations elsewhere in future, and is committed that this move will be carried out responsibly and in an orderly manner so as to safeguard the interests of its customers. That said, it is concerning that approvals for environmental impact studies continue to be delayed, thereby impeding the implementation of such a large investment programme.

Corporate social investment (CSI)

SR

Transnet has maintained its CSI expenditure at approximately R85 million through the Transnet Foundation during the financial year, a respectable level in light of the severe economic downturn. This investment represents Transnet's commitment to the well-being of the communities where it operates (Refer to the Group Chief Executive's Report and Sustainability Report for further details).

Economic regulation

Of increasing concern to the Board are the adverse impacts of the Regulators' unpredictable decision-making on the business. Transnet accepts the importance of economic and safety-related regulations to ensure fair and equitable business practices and acknowledges that the new Regulators require time to assess the regulatory environment in order to design appropriate frameworks. However, the Board is perturbed about the continued lack of clarity of the regulatory framework in relation to Pipelines and National Ports Authority, two of the Operating divisions that are subject to economic regulation. The Board looks forward to a closer collaborative working relationship with the Regulators and will support the Executive's efforts to secure appropriate regulatory reforms in the coming year.

Our continued commitment to good corporate governance

The Company remains committed to improving its corporate governance structures and practices. Adherence to global leading practice in this area is not only imperative, but is also in the best interest of the country and Transnet. To this effect, the Company has worked towards aligning its processes and procedures in preparation for full compliance with the implementation of the King Code of Corporate Governance (King III), as well as the Companies Act No 71of 2008. The new King III is already in effect and Transnet is broadly compliant with its principles. Still, Transnet remains concerned about certain provisions of King III arising mainly from Transnet being State-owned and having only one Shareholder. These provisions pertain, for instance to the method of remunerating independent and non-executive Directors of the Company. Transnet has commissioned an independent remuneration survey to guide the Company on leading practice in this field (also refer to the Corporate Governance and Report of the Directors).

Transnet's continued success as a commercial entity depends on its commitment to the highest standards of corporate governance and corporate ethics. This commitment requires that the Company handles alleged governance breaches decisively and swiftly, irrespective of the levels of seniority of the individuals implicated. It is against this backdrop that the Board has supported management's disciplining and suspension of Senior Executives of the Company. It is regrettable that this stance, especially the Board's commitment to due process, has attracted considerable unsubstantiated allegations against the Company. On two occasions the Company and the Board were obliged to defend their actions in court and on both occasions were found to have acted appropriately.

Human capital implementation

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Over the years, Transnet has intensified its focus on the improved wellbeing and productivity of its people. The capital investment programme would not deliver its intended outcomes if the Company failed to recognise the crucial importance of its people in achieving commercial success. During the global recession, many organisations embarked on large-scale retrenchment programmes both locally and abroad. Transnet, whilst experiencing the effects of the economic crunch, managed to avoid job losses during this period. This was achieved as a result of the collective effort of the entire workforce to grow volumes and to cut down on costs. Whilst economic challenges remain, the Company's attempts to maximise productivity and contain costs must continue so as to build a sustainable organisation.

Transnet's commitment to the development of skills, both within Transnet and in the broader economic environment, has continued to yield positive results. The Company will continue to grow its skills base to foster a sustainable pool of qualified people in both technical and commercial fields. In the past, specific emphasis was placed on developing and training engineers, technicians and artisans, and the Company will continue to allocate related bursaries to its operational communities. This broad commitment to education and skills training, along with moving the South African economy through Transnet's rail, pipeline and port network, is the Company's contribution to the development of the country and its people.

Market outlook

In the short term, the economic recovery in emerging and developing countries is expected to be the major stimulus to world economic growth. The expansion in OECD economies is assumed to be relatively subdued with high unemployment trends continuing in 2010. Emerging and developing economies are further ahead on the road to recovery, led by China, India and other emerging economies in Asia. Over the past 12 months, emerging and developing economies have withstood the financial turmoil much better than previously expected.

Although the world economic recovery is gaining momentum, there are numerous constraints that could delay a major recovery in 2010. In particular, consumption and investment in OECD countries are expected to strengthen only gradually, held back by persistent unemployment and high excess capacity. This will be the case particularly in the United States and some European countries, such as the United Kingdom. In the United States, for example, consumers are unlikely to increase spending in the short term, given an unemployment rate of more than 10% in late 2009.

Commodity prices were surprisingly buoyant in 2009, and are expected to increase further in 2010 as world activity expands after the global crisis. The demand side is likely to be the main source of upward pressure, as global activity expands at a faster pace.

Commodity prices are expected to remain high by historical standards. The three key defining trends of today's global economy remain urbanisation, industrialisation and globalisation. Moving people from the countryside to the cities will continue to push up raw material requirements. According to the United Nations population division, urbanisation trends in China, India and Africa will continue to increase over the next decade, suggesting increased requirements for energy and metals in the years ahead.

Given the unexpected growth of steel production in China, the iron ore market is likely to be in a position of under-supply in 2010 and 2011, leading to at least another two years of price increases. South African producers are well positioned on the industry cost curve and depressed bulk shipping rates will provide further competitiveness. South Africa provides an important strategic alternative to the three iron ore majors and thus the outlook for continued growth in iron ore exports remains encouraging.

Emerging market demand for coal is recovering, led by China and India. In the first 10 months of 2009, China imported 98mt of coal, up from 36mt in the prior year. A third of South Africa's thermal coal exports are going to India, with this trade offsetting weaknesses in the European market.

The container shipping market will continue to struggle during 2010 with further deep losses forecast during the first half of the year. The sector is forecast to return to profit only in 2011. Volumes, however, have started to recover strongly and it is estimated that the global container trade will grow by 7,5% to 134 million twenty-foot equivalents (TEUs) in 2010, according to Clarkson Research. This forecast is much more upbeat than a February 2010 estimate of 5,5%.

Transnet Strategy

Transnet has adopted the Quantum Leap Strategy to enhance customer service and improve operational efficiency. The primary focus for the 2011 year is to achieve a significant growth in revenue and volumes; improvement in customer service by enhancing operational efficiencies; ensuring reliability of services, improved productivity and optimum safety and environmental compliance; and achieving further cost reductions.

Despite steady gains in key areas of the business over the past six years, Transnet's operational performance has generally fallen short of world-class levels. This lethargy in performance has impeded the successful realisation of the Growth Strategy, as first envisaged five years ago. Therefore, the Quantum Leap initiatives aim to change the trajectory of performance improvements to a significantly higher level. Amongst others, it calls for:

- Volume growth greater than 10% in the short term and an annual growth rate that exceeds GDP by more than 3% over the next five years;
- A 20% improvement in operational efficiencies over the next three years in all areas of the business, aligned to international benchmarks;
- An increase in the return on assets from 6% to 8% in the short term; and
- Regular and thorough environmental compliance reviews and proactive action at all places of business.

Capital investment will also increase in the short to medium term. Transnet plans to invest R93,4 billion over the next five years and will seek to leverage additional investment opportunities through private sector partnerships. A recent study conducted by the Department of Public Enterprises (DPE) found that Transnet's 2010 plan to invest approximately R80 billion in infrastructure over five years would create over 550 000 employment opportunities and contribute R113 billion to South Africa's GDP. The expected impact is likely to be more significant given the subsequent expansion of the five-year capital investment plan; Transnet's increasing localisation capability; and additional support for the CSDP through the implementation of the Industrial Policy Action Plan.

Closer integration of the regional freight system remains a priority for Transnet. There is growth potential in the African transport and freight logistics market which will be enhanced by the increasing foreign direct investment in infrastructure and a policy environment geared towards regional integration. Transnet will explore several areas of potential operational integration going forward, including:

- Driving the establishment of the regional short-sea shipping market and the establishment of a transshipment hub at the Port of Ngqura. Of specific importance will be the establishment of partnerships with regional ports. In this regard initiatives with the Port of Luanda have started;
- Enhancing the capacity and efficiency of the Maputo corridor and deepening cooperation with the Port of Maputo; and
- Improving the efficiency of cross-border rail services and growing volumes on existing southern African rail corridors.

To meet future requirements for competitiveness, the orientation of the freight transport system will have to shift away from a focus on the performance of the individual transport modes and towards a focus on the performance of end-to-end industry supply chains. This is in line with leading industry practice and is one of Transnet's key strategic thrusts. An integrated business model is fundamental to the realisation of the above objectives and a key element of Transnet's strategy.

The successful execution of the strategy will result in a revenue cumulative average growth rate of more than 13% per annum over the next five years and a cumulative average growth rate in top-line profits of approximately 19% over the next five years.

Industrial action at Transnet

In May 2010, some of our unionised employees elected to join a call by their leaders to embark on a protected strike over a demand for wage increases that are three times the rate of inflation. Whilst the Board supports the right of all workers to withdraw their labour in a bid to advance their legitimate demands, the Board takes a dim view on workers who do so through violence, intimidation and vandalism, and with total disregard for the rights of other workers.

The Board wishes to express its gratitude and praise to management for the responsible manner in which it handled the strike. We are grateful to the thousands of employees who came to work during the strike.

Finally, we call for more responsible leadership from the unions' leadership; one which will place the long-term interests of employees ahead of short-term goals. The concession which the company made by way of ex gratia payments to settle the strike was far less than the amount sacrificed by workers in terms of lost wages.

Appreciation

The Board wishes to express its gratitude to all 45 564 Transnet employees for their individual contributions to the ongoing success of the Company. The Board is again, however, deeply saddened by the loss of eight employees who passed away in service during the year and offers its sincere condolences to their families.

We thank all our stakeholders, especially customers, clients and investors for their patience and support during the year and especially their understanding during the strike.

I wish to express immense thanks to the Executives who stepped into acting roles at short notice, and for lengthy periods. Their successful running of the Company and the vision of creating a long-term economic growth and prosperity are commendable. Through team work, readiness to change, long hours of work and commitment, the Executive saw the Company through the worst downturn in its history. Mr Chris Wells deserves to be specifically commended for his unwavering integrity and his firm commitment to achieving the highest levels of professionalism and quality performance in all areas of the business.

As indicated in the 2009 annual report, the Executive proposed a zero-percentage increase for the Company's entire management cadre for six-months as part of a series of proactive steps taken in response to the global recession. Increases in remuneration for management were only implemented during the second half of the financial year when the economic recovery became evident and started gaining momentum. The Board commends the act of sacrifice shown by management in this regard. It contributed in no small measure to Transnet's ability to avert job cuts, a fairly typical response to the global economic crises by many companies.

During the year, there were several changes to the Board's composition. Mr Fred Phaswana, the founding Chairman of the 'new' Transnet, retired. On the Board's behalf, I pay tribute to five years of his wise counsel, principled leadership and perceptive guidance. I am honoured to have stepped into his shoes, albeit in an acting capacity. Two other colleagues, Dr Iraj Abedian and Mr Bulelani Ngcuka retired from the main Board; although Mr Ngcuka agreed to continue his association with Transnet by chairing the Transnet Foundation Advisory Board, the Company's vehicle for corporate social investment. The contributions of these individuals to the main Board have been invaluable. They leave Transnet with a rich legacy which includes probing questions, commercial discernment and a commitment to a difficult but vital turnaround of our Company.

As a result of the three departures, the remaining Board members had to accept additional responsibilities in various committees, a task they readily embraced. For this, along with their openness and willingness to tackle a range of difficult issues emerging during the year, I am grateful. I look forward to the strengthening of the Board in the near future.

I wish to convey the Board's gratitude to Ms Zola Stephen for years of diligent service to the Board as the Company's Secretary. I wish her well in her new role as Executive: Risk, Legal and Compliance at Transnet National Ports Authority. A warm welcome goes to her successor, Ms Ayanda Ceba.

The Board is grateful for the ongoing support, interest and ready accessibility of Ms Barbara Hogan MP, the Minister of Public Enterprises, and her deputy, Mr Enoch Godongwana MP, as well as the department of Public Enterprises Director-General, Ms Portia Molefe and her successor, albeit briefly, Advocate Sandra Coetzee. The Department's officials have offered invaluable assistance through their understanding and support of Transnet's role in the economy and the role of the Board in maintaining a robust and sustainable business.

Finally, our gratitude goes to the Chairperson of the Parliamentary Portfolio Committee on Public Enterprises, Ms Vytjie Mentor, and her colleagues for their keen interest in Transnet's business.

Prof GK Everingham
Acting Chairman

9 June 2010

GRI 1.1, EC8

Chris Wells
Acting Group Chief Executive

Transnet Limited is a 100% State-owned Enterprise (SOE) incorporated under the Companies Act, operating a network of rail freight, ports and pipeline assets across the nine provinces of South Africa. The Company is self-funding and led by an independent Board of Directors. Each year, the Board negotiates and agrees a range of performance targets with the Department of Public Enterprises (DPE) through a Shareholder Compact, setting out its strategic intention and objectives to fulfil the Shareholder's mandate. These targets include: volume and revenue growth, capital and financial efficiency, operational efficiency, infrastructure investments, developmental goals, and safety, health and environment. In effect, the Chief Executive's review serves as a report card of performance achieved against these targets.

Following a year of many challenges, characterised by unprecedented global economic uncertainty, the Company has emerged much stronger, meeting most of the targets agreed with its Shareholder.

The results for the year ended 31 March 2010 reflect a new and energised company, that is profitable, growth-oriented, well-managed, investment focused, supports the State's developmental objectives of Broad-Based Black Economic Empowerment (BBBEE), skills and enterprise development and responsive corporate social responsibility. The following achievements during the year support these value-driven attributes:

- Growing earnings before interest, taxation, depreciation and amortisation (EBITDA) by 9,2% to R14,4 billion;
- Growing revenue by 6% to R35,6 billion within a constrained market;
- Keeping the increase in operating costs to 4% at R21,2 billion;
- Maintaining a gearing ratio of 38,5%, which is well within the target of 50% and improving the Company's cash interest cover to 4,5 times, enabling significant scope to fund its investment programme without weakening its ability to repay and service its debts;
- Raised significant funding, all on the back of its strong standalone credit rating without Government support or guarantees;
- Investing R18,4 billion during the year in infrastructure replacement and capacity expansion, bringing this investment total in the last five years to R71,8 billion;
- Promoting BBBEE by spending more than 65% or R13,5 billion of the Company's total procurement spend on BBBEE companies;
- Enabling the localisation of procurement by working closely with original equipment manufacturers (OEMs);
- Becoming increasingly customer-centric and showing operational excellence in many areas of the business;
- Increasing volumes of targeted commodities;
- Improving the Company's safety record by decreasing the employee fatality rate by 38,5%, by improving workplace safety (as measures through the disabling injury frequency rate) by 34% to 0,72 and cutting cost of losses by 29,3%;
- Investing in the well-being of employees – past and present – and their communities, despite the recessionary conditions. This year, again, Transnet provided R40 million in *ex gratia* bonus payments to its most disadvantaged pensioners and funded the Transnet Foundation to the tune of R116 million; and
- Protecting employment and retaining the size of Transnet's workforce when many companies responded to the effects of the global recession by, amongst others, shedding jobs.

Stated differently, the outcomes unveiled in this report will show a Company that is: delivering commendable results in difficult times; increasingly focusing on operational efficiency and productivity improvements; building infrastructure capacity for the future; caring for its employees, their families, pensioners and communities; as well as developing imaginative solutions and forging partnerships to deliver appropriate freight transport services whilst investing in future infrastructure capacity.

Users of the report will receive an outline of the challenges and opportunities inherent in the business to enable them to make informed decisions about the Company and its prospects.

Operating context

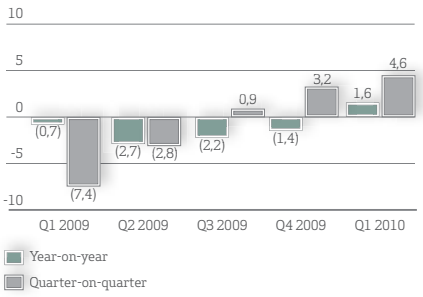
Despite the challenging economic environment, Transnet managed to exceed most of its targets as set out in the 2010 Shareholder Compact, while continuing to establish a strong platform for future growth. Transnet proceeded to roll out its five-year capital investment plan and more than R18,4 billion in capital investment was made during the year, bringing the total investment over the past five years to R71,8 billion. This in itself stimulated the South African economy and created thousands of jobs in the construction and related support services sectors. According to results of a soon-to-be published study commissioned by the DPE, Transnet's investment programme has the potential of creating more than 550 000 jobs and bolstering the GDP considerably.

This performance was made possible by the successful turnaround of the Company which had laid the foundation for the current Quantum Leap strategy.

However, the targeted growth in volumes could not be achieved due to the onset of the global economic crisis in the third quarter of 2008. The high correlation between commodities transported by Transnet and global demand meant that volumes have been directly impacted by the economic downturn, which developed into a full-scale recession in 2009.

Container and vehicle volumes moving through the ports declined by 4,5% and 24% respectively during the year. This performance was better than global trends, with the World Bank having forecast a 14,4% contraction in global trade between 2008 and 2009. Growth, aided by Government stimulus packages, is returning to the global economy. Therefore, the outlook for the next 12 months is more positive than that of the previous financial year, with a forecasted 4,3% growth in global trade volumes, albeit off a substantially lower base, and GDP growth of more than 3% for South Africa.

South African GDP growth* (%)



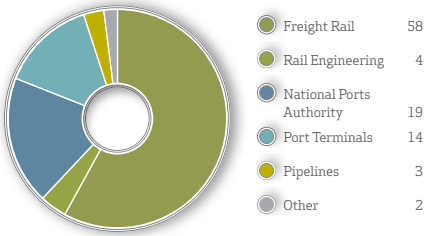
**Source: StatSA – annualised percentage change in seasonally adjusted real GDP.*

The lower volumes, which put pressure on revenues in 2010, necessitated proactive measures, including the implementation of a dynamic management framework to reprioritise capital projects and stringent cost reduction measures to safeguard profitability, bolster the Company's cash generation and protect the financial strength of the Company in the short term.

The poor economic conditions, which saw many South African companies collectively shedding almost one million jobs, were worsened by the growing uncertainty of the regulatory environment and its impact on future tariff increases. Two of Transnet's five operating divisions are affected by regulatory decisions regarding, amongst others, tariffs: namely, Transnet National Ports Authority (National Ports Authority) and Transnet Pipelines (Pipelines). The present regulatory dispensation, especially insofar as it relates to the determination of the tariffs charged by these two entities, is still unpredictable and inconsistent, and persistent changes have made planning for optimal funding solutions increasingly difficult. As late as the last quarter of the review period, the National Energy Regulator of South Africa (Nersa) – by far the most established of the two regulatory authorities – continued to effect changes to its tariffing methodology. Also, the impact of Nersa's decision in 2010 to cut pipeline tariffs by 10,4% resulted in approximately R1 billion loss of revenue compared to budget and is perceived by Transnet to have been caused by persistent inconsistencies in the application of the law.

Financial results review

Contribution per Operating division to external revenue – 2010 (%)

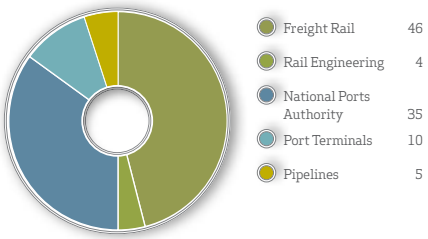


Revenue for the year increased by 6% to R35,6 billion (2009: R33,6 billion), despite the negative impact of the global economic downturn on container, commodity and freight volumes handled and transported by Transnet. Port revenues were adversely impacted by the economic decline, resulting in container volumes decreasing by 4,5%, compared to the previous year. Furthermore, economic regulation also had a negative impact on revenue growth, as pipeline tariffs were decreased by Nersa.

Revenue was generally impacted by lower volumes caused by the economic downturn. Specifically, revenue was impacted negatively by an 8% decrease in general freight business (GFB) volumes compared to the previous year. This setback was slightly offset by a 5,7% gain in market share for containers on rail. The disappointing performance of the export coal line, which began in 2005, continued, with volumes virtually unchanged at 61,8mt, due mainly to operational challenges at Transnet Freight Rail. There was a 4,5% drop in container volumes. The export iron ore line increased volumes to record levels of 44,7mt in line with customer commitments. This represents a 21,5% improvement on prior year's performance or a cumulative increase of 41% since 2005.

To maintain financial stability in the uncertain economic environment, the Company had to be agile and proactive in its response, with the business reinforcing the critical importance of operational efficiencies and optimum cash flow management. A robust cost-cutting campaign was implemented at the onset of the economic crisis, which resulted in a reduction of approximately R1,9 billion in costs, compared to planned expenditure, notwithstanding high increases in input costs such as electricity and fuel. Consequently, net operating costs increased by only 4% to R21,2 billion (2009: R20,4 billion) reflecting significant gains in operational efficiency. This achievement enabled the Company to avoid any retrenchments during the year – a key part of our dynamic management process.

Contribution per Operating division to EBITDA – 2010 (%)



EBITDA increased by 9,2% to R14,4 billion (2009: R13,2 billion) resulting in a marginal improvement in the EBITDA margin to 40,5% (2009: 39,3%). Depreciation and amortisation of assets for the year increased by 27,4% to R6,1 billion (2009: R4,8 billion). This increase was due to the significant ramp-up in capital investments over the last five years, amounting to approximately R71,8 billion; as well as the revaluation of port infrastructure facilities and pipeline network assets. The significant increases in depreciation charges which exceed the rate of EBITDA growth from the respective assets are to be expected after a period of intensive capital investment. This is because infrastructure investments typically provide capacity for several years into the future and only when this capacity is progressively used, do appropriate profits materialise. As a result, profit from operations after depreciation and amortisation decreased by 1,2% to R8,3 billion, from R8,4 billion in the preceding year.

In line with our expectations, finance costs increased by 35% to R3 billion (2009: R2,2 billion) as a result of implementing the borrowing programme to fund the increase in capital expenditure. Capitalised borrowing costs amounted to R1,5 billion (2009: R764 million) and will continue to increase with the execution of the capital expenditure programme. Finance income increased to R578 million during the year. This is attributable to the increase in cash balances that formed part of the Group's pre-funding strategy in response to the increased liquidity risk in global markets.

The taxation charge for the financial year was R1,7 billion (2009: R1,7 billion), comprising a current taxation charge of R799 million (2009: R739 million) and deferred taxation charge of R923 million (2009: R935 million). The effective taxation rate for the Group is above the corporate taxation rate of 28%, at 36% (2009: 24,9%), primarily as a result of items not being deductible for tax purposes.

Profit for the year from continuing operations came in at R3,2 billion (2009: R5 billion).

Operational highlights

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Overview

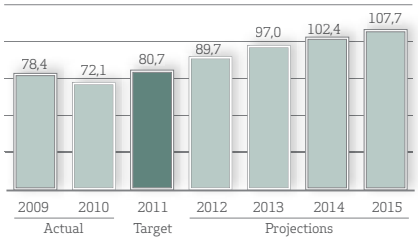
This section, which must be read jointly with the division-specific reports in this book, is a review of the Company's operational performance in detail, its achievements, challenges, strategic initiatives that were deployed during the year and those that are planned for the future. The volume growth reflected by the Operating divisions must be viewed in the context of a contracted world economy starting to recover from a major recession.

Significant productivity improvements were realised for key commodities on the four priority corridors: namely, Richards Bay Corridor, Natal Corridor (Natcor), Cape Corridor and the Sishen-Saldanha Corridor, underscoring the effectiveness of the corridor strategy in improving customer service through better operational interface management, improved monitoring of corridor performance, managing operational risk, identifying improvement opportunities and managing strategic projects for targeted commodity flows on these corridors.

Key achievements for the year include:

- Cycle time was reduced on the Export Coal Line from 71 hours to 69 hours by year-end, with a record weekly tempo of 1,5mt being achieved three times over in the last quarter.
- A magnetite breakthrough project was launched, which yielded a 34% reduction in cycle times and 132% improvement in volumes against budget for magnetite railings.
- Additional capacity was created through efficiency improvements for the transport of rock phosphate where the average number of trains per week increased from nine to 11, with a cycle time reduction from 240 hours to 125 hours.
- A reduction in cycle time was achieved on the manganese export line, decreasing from eight to five days. This allowed manganese rail and port export volumes to exceed budget by 38% and 28% respectively.
- The improved port-rail interface initiative between Kingsrest, Durban Container Terminal and Pier 1 Container Terminal resulted in a reduction in cycle times on the corridor.
- A new record was achieved when a total of 24 446 TEUs were handled at the City Deep terminal in November 2009. Container market share in the Natcor increased from 23% to 30% by financial year-end with a record 351 812 TEUs container volumes railed on this corridor.
- The average delivery tempo on the Iron Ore Corridor increased by 16% during the year. After starting the year at a delivery tempo of 830kt per week, the first weekly rail tonnage to exceed 900kt per week was achieved in July 2009 with the 1-million tons per week level being exceeded in December 2009. This was achieved by successfully introducing power 342 wagon trains (3,5km long), which are now the longest production trains in the world. In the Port of Saldanha, dual loading was successfully tested and introduced into operations resulting in a new export record of more than 4,3mt in a month.
- A ferrochrome operational efficiency improvement initiative was launched in the last quarter of the financial year and this produced a 49% improvement in volume throughput without additional resources.
- With the capital investment plans in place, Transnet will increase its locomotive and wagon fleet by 15% and 10% over the next three years and five years respectively. This is to create additional capacity for the iron-ore (up to 61mt), the coal (up to 81mt) and the GFB lines (up to 110mt).
- In the past train derailments have been far too high which has consequently crippled productivity. In 2009/10, a target of one-third reduction was set and I am pleased to report that a 29% overall reduction in derailments was achieved. To embed continuous improvement, a target of a further one-third reduction in derailments has been set.

General freight (million tons)



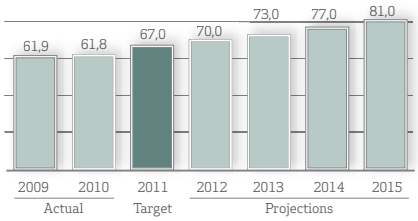
Rail operations – Transnet Freight Rail (Freight Rail) and Transnet Rail Engineering (Rail Engineering)

Freight Rail's General freight business (GFB): GFB accounts for some 62% of Freight Rail's revenues and comprises all freight save for export iron ore and export coal, was the worst impacted by the recession. However, volumes are slowly recovering to prior years' levels as demand for commodities in the mineral and mining sectors returns. GFB railed 72,1mt, which was 6% above planned volumes but 8% below the previous year. However, some of the more strategic commodities within the GFB, such as manganese, continued to grow as more capacity was created, exceeding budget by 38% for the year. Containers on rail were 5,7% above the volumes transported in 2009, which is a considerable achievement indicating increasing market share when considering that maritime containers contracted by approximately 4,5% during the year. Magnetite volumes also grew strongly and exceeded previous year's levels by 25% to 2,7mt. Going forward, our aspiration is to increase volumes of this commodity to 5,7mt in 2015. The performance of general freight coal, mainly for the domestic market, was disappointing at 8,5% below previous year's levels. The rail transport of domestic coal is a major opportunity and will be a priority for the coming year.

Locomotive efficiency (measured through average gross ton kilometre per locomotive per month) exceeded targeted levels by 1,3% for the year, whilst wagon efficiency (measured by wagon turnaround time) was 11% below the target set for the year. Operational plans are in place to remove bottlenecks in the utilisation of wagons and these will positively impact wagon turnaround times.

During the year, the Company took delivery of, and deployed, all the 50 "class 39 locomotives". These were deployed in revenue generating operations in Freight Rail's GFB. We expect that the combination of new equipment, improved customer service, focus on operational efficiency and reduction in copper theft, will enable GFB volume targets to be met. Further, it is very pleasing to be able to report all 100 class 43 locomotives for the GFB, which are on order from General Electric, are planned for delivery during 2012. The development of these locomotives will enable a quantum leap improvement in volumes and customer service levels in the GFB.

Export coal (million tons)



Freight Rail's Export coal business: Export coal's performance was static at 61,8mt for the year (2009: 61,9mt) and 10% below planned volumes due to several factors, including Freight Rail's rolling stock availability, infrastructure failures, customer cancellations as there was no product at the mines and delays due to the commissioning of the RBCT infrastructure upgrades during the year, as well as an increasing number of cable theft incidents. This disappointing performance, with a decline in volumes railed since 2005, is very concerning. Action has however been taken to reverse the declining trend.

Throughput improved towards the end of the year following a concerted effort to address the shortcomings. Consequently, the export line performed at 16,4mt for the last quarter of the financial year, the best quarterly performance in three years. The improvement was further confirmed by the performance in the last week of the financial year when a new all-time weekly throughput record of 1,52mt was achieved. Thanks to the implementation of the improvement initiatives, the fourth quarter volumes on this line were 6% better than prior year's performance.

We are positive that the business can maintain improved performance as the problems have now been diagnosed and the required actions taken. The performance will be monitored and Transnet will continue to work closely with the industry to optimise the line's performance.

Accordingly, Transnet is targeting to deliver 65mt, or a 6% increase on current year's performance in the coming year.

The current capacity of the line is approximately 70mt and we are determined to grow volumes to this level urgently. In addition, Transnet has included in its five-year plans a growth in the coal line to 81mt. This growth, which will require some R16 billion in investment, is dependent on the coal mines signing "take or pay" contracts with us. Transnet and the industry, supported by independent expert input, are working together to confirm the business case for this expansion.

The expansion plan addresses the optimisation of the channel resources to world benchmark standards as well as capacity expansion through capital expenditure. The plan has been shared with all the relevant stakeholders and unanimously adopted.

In addition to capital investment, operational improvements are being implemented throughout the channel. Coal mines will need to invest to increase their combined production capacity, from approximately 65mt to 81mt; and loading facilities will also

need to be improved. Several processes within RBCT, including the receiving, stacking and loading processes, will need to be ramped up to progress from current performance levels to sustained 81mt operational levels. A high level of co-operation will be required from all industry stakeholders to achieve the South African coal export supply chain objective of 81mt by 2015. A collaborative effort between Transnet Freight Rail and RBCT is required to reduce wagon cycle times and to increase train lengths to 200 wagons.

Whilst Transnet's balance sheet can finance the expansion to 81mt, further expansion, that is, beyond 81mt, may require private sector participation. Also see the section dealing with Private Sector Participation in this Review.

It is pleasing to see the positive effect being yielded by the deployment of new rolling stock on this strategically significant business. Six of the 110 dual voltage "class 19E" locomotives are currently being utilised in operations on the coal line. The remaining units are planned for delivery between 2011 and 2013. These enhancements not only increase capacity, but they will also have a major impact on improving the productivity of the line. In addition, about 592 new wagons were deployed in the coal line during the year.

Freight Rail's Export iron ore line: The performance of the Sishen-Saldanha Corridor, which is the dedicated channel for exporting iron ore from Sishen in the Northern Cape via the Port of Saldanha, is continuing to perform at world-class levels. In 2008 the longest train in the world ran on the line, resulting in improved productivity. During the current year, two more milestones were recorded: firstly, in December 2009, the channel exceeded the weekly 1-million ton mark; and secondly, the corridor overcame a string of challenges by exceeding the previous year's volumes by 21% when it handled 44,7mt in the year. Operational efficiency improvements are also evident throughout the supply chain with a significant reduction in wagon cycle time from 95,1 hours down to 85 hours. The channel is a good example of what is possible with appropriate planning, cross-divisional integration, collaboration with customers and dedicated operational teams.

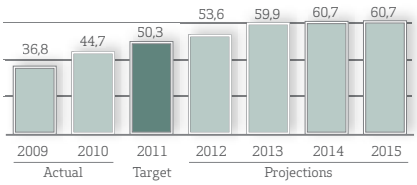
Three of the 44 "class 15E" locomotives have been delivered and the balance is planned for delivery over the next two years and during the year, 300 new wagons were deployed in the line. This meaningful increase in new rolling stock will enable contracted volumes to be achieved with improved productivity.

A total of 179 locomotives and 3 032 wagons were refurbished for TFR during the year.

Rail Engineering: Fulfils an integral support role to Freight Rail as a rail maintenance division which also refurbishes rolling stock and builds coaches. Its role includes ensuring locomotive and wagon availability for Freight Rail. Overall availability of rolling stock improved by an average 2% to 89,1% for locomotive availability (2009: 88,4%) and 94% for wagon availability. Locomotive reliability improved by 14% to 26 faults per million kilometres travelled compared to the prior year. Wagon reliability was excellent at 0,47 faults per million kilometres travelled.

An exciting development in TRE was the completion of the 50 "Class E" locomotives at the Koedoespoort works. TRE was subcontracted by the original equipment manufacturer to effect assembly and certain engineering works on these locomotives as part of a long-term strategy to build capacity and expertise internally.

Export iron ore (million tons)

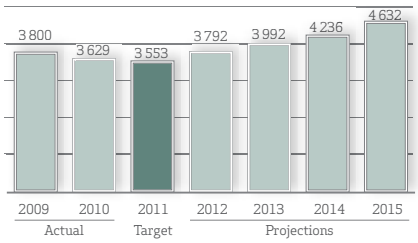


Port infrastructure and terminal operations – Transnet National Ports Authority (National Ports Authority) and Transnet Port Terminals (Port Terminals)

Although global container volumes were 10% below the previous year, total maritime container volumes handled by Transnet exceeded budget by 8% for the year at 3,6 million TEUs and declined by 4,75% compared to the previous year. The improvement is mainly due to increased transhipment volumes with shipping lines carrying more transhipment containers to reduce unit costs in the context of reduced import and export container volumes.

Particularly concerning are the unacceptably poor levels of productivity and efficiency at Transnet's container terminals as evidenced by the fact that container handling efficiencies did not reach targeted gross crane moves per hour (GCH). Although this did not constrain volume throughput, management deployed interventions to enhance terminals' efficiencies during the year. To ensure significant turnaround in efficiency and productivity, a senior team has been deployed to resolve performance issues. To date, there have been incremental improvements. For instance, during the recent three-week wage increase strike, some shifts at the Durban Container Terminal achieved record GCH levels. Until then, and during a greater part of the financial year, GCH averaged 22,

Maritime containers ('000 TEUs)



which is totally unacceptable when compared to the world-class standard of over 30 GCH. We will not rest until we have turned around the efficiency and productivity levels of all our container terminals – whatever it takes! Ramping up productivity is at the core of Transnet's Quantum Leap Strategy, which is expanded on in the next section.

However, it is pleasing to note that a 6.5% increase in terminal efficiency was achieved during the year through the implementation of dual loading at the Port of Saldanha. An average of 6 341 tons was loaded per hour compared to the previous year's average of 5 954 tons per hour. The impact of dual loading would have been greater had it not been for the negative impact of a distressed vessel occupying a berth during the last five months of the financial year. This vessel finally left the port in March 2010.

During the year, iron ore and manganese export volumes increased by 35% and 18% respectively. These levels were offset by container and automotive volumes which declined by 4,5% and 24% respectively as a result of the global economic recession.

A significant milestone achieved during the year was the completion and commissioning of the R4 billion widening and deepening of the Durban Harbour entrance channel in February 2010 – ahead of schedule and under budget. The entrance was widened to 240 metres and dredged to a depth of -18 metres chart datum to enable the safe navigation of larger vessels. This development now makes it possible for vessels as large as 9 200 TEUs to enter the harbour. Previously, only smaller ships, with a capacity of about 2 000 TEUs, could do so. Accordingly, this has advanced our strategic goal of positioning Durban to grow and become a port of choice for major shipping lines.

Also, the two-berth Ngqura Container Terminal, the country's latest greenfields deep-water port, commenced operations in October 2009 and had handled 78 400 TEUs up to 31 March 2010. The terminal, which is targeting transhipment trade, boasts some of the world's state-of-the art equipment. Also see details of new equipment delivered in the year in the capital investment section of this Review.

The refurbishment of the Port Elizabeth manganese terminal is substantially complete, restoring capacity from a constrained 2,8mt to 4,2mt.

Another significant milestone was achieved on the Cape Corridor with the completion and handing over of Berth 601 at the Cape Town Container Terminal.

Over the next five years, plans are in place to increase container capacity from 4,56 million TEUs to 6,26 million TEUs. We anticipate that 20% of our crane fleet will be new in five years. Also read the section on new and future projects in the Capital Investment Section of this Review.

Transnet Pipelines (Pipelines)

Pipelines transports approximately 75% of the market demand for refined petroleum products in the magisterial districts that are linked to its depots and all the crude oil requirements for the inland Natref refinery.

Against a backdrop of a slowing economy and a constrained pipeline, petroleum volumes transported by Pipelines for the year exceeded previous year's levels by 3% to 17,8 billion litres. This was achieved by improving operational efficiency, the use of drag reducing agents to improve product flow and the successful and sustainable implementation of the Bridging Plan. The Bridging Plan is a multi-stakeholder initiative to ensure security of supply in a constrained system until the New Multi-Product Pipeline (NMPP) is commissioned. Unfortunately, the volume increase only partially compensated for the 10,4% tariff decrease imposed by Nersa. However, continued interaction with the regulators is being pursued in this dynamic environment to facilitate regulatory reform and to ensure alignment and cooperation amongst all stakeholders so that the business is sustainable.

Pipelines has made great strides in the areas of safety, environment and security, with all areas achieving year-on-year improvements. The disabling injury frequency rate, a measure of workplace safety, improved from 1,44 to 0,54 is significant, enabling the achievement of a five-star NOSA rating in the future.

The NMPP project has progressed despite the regulatory uncertainty that impacts tariffs, as Transnet is aware of the strategic importance of the project to the South African economy. The 16-inch pipeline sections of the project will be commissioned during the 2011 financial year while the 24-inch pipeline will be available for use in 2012. The project is expected to be completed by the end of 2012 and, once fully commissioned, it is expected to double the available pipeline capacity (to 8,7 billion litres) from the coast to the inland. This will reduce the need for road transport and ensure security of supply of petroleum products to the inland market safely and cost-effectively. The project's schedule and cost were revised during the year and communicated to all relevant stakeholders. The revised cost is R15,5 billion.

Way forward

To meet the future transport demand of the country, improved efficiencies are required in all areas of the business, as reflected in the Quantum Leap targets set for 2011 and incorporated in the approved 2011 Transnet Corporate Plan. The overarching objective remains to significantly improve our service to customers, which will enable us to grow the business substantially over the next five years.

The next section will elaborate on the areas of strategic focus.

Transnet's Strategy – from turnaround to Quantum Leap Strategy

Since 2004, Transnet has been implementing its four-point turnaround strategy. In essence, this strategy, the fruits of which are still evident, transformed an industrial conglomerate into a focused freight transport and logistics business. It also significantly strengthened the governance, financial position, the value and cash-generating ability of the business. In the process, Transnet, which also began an aggressive investment programme, won respect and admiration for the way it was managed. But growth has remained elusive, and the performance of the assets continued to lag behind world-class benchmark standards. Unsurprisingly, customers were impatient with the lack of growth.

Therefore, during the financial year, we decided to change the strategic focus of the business: we adopted a Quantum Leap change as our new strategic compass. The Quantum Leap is an expression of our collective frustration at the slow, incremental pace of volume and revenue growth, and weak safety, productivity and efficiency improvements. By adopting the Quantum Leap as our corporate strategy, we have sought to refocus the business on what matters the most: namely, the provision of services to customers which show consistent and sustainable trends towards a world class level.

The new strategic focus areas will enhance Transnet's ability to use its assets safely, efficiently and productively to position the Company to enable customers to be competitive in their markets and to assist the South African economy to grow strongly and provide much needed jobs.

The emphasis going forward will be on realising a Quantum Leap improvement in efficiencies in all areas of the business. A concerted drive is under way to grow volumes and improve customer service in identified areas: namely, domestic coal, containers on rail, export coal, iron ore and manganese. Financial sustainability and the creation of capacity ahead of demand will continue to be key criteria in all business planning and execution.

The updated five-year capital investment plan of R93,4 billion has been directed towards the key areas of growth and to enable major improvements in operating efficiencies, safety and productivity. Approximately 42% of the investment will be allocated towards creating capacity to support the much stronger planned volume growth over the next three years, which is approximately 25% higher cumulatively compared to the previous five-year plan. The strategic projects embarked on in previous years are proceeding according to plan, with major projects such as the widening and deepening of the Durban Harbour entrance channel as well as the Ngqura Container Terminal being completed during the year. The NMPP from Durban to Gauteng will now be completed by December 2012.

Quantum Leap Strategy objectives – looking ahead

While operational performance has improved in many areas of the business, the rate of improvement has fallen short of expectations. Progress has been slow and at best incremental, which has frustrated our ambitions. The Quantum Leap strategic focus aims to change the trajectory of performance improvement to a significantly higher level. This initiative envisages:

- Volume growth of 10,3% in the short term and an annual growth rate that exceeds GDP by more than 3% over the next five years through major improvements in customer service delivery and the creation of capacity ahead of demand;
- A 20% improvement in operational efficiencies in all areas of the business in the short term (next three years) and the alignment of operational indicators with international benchmarks;
- An increase in the return on assets from 6% to 8% over the short term and a five-year target of greater than 10%;
- At least a 30% reduction in the cost of losses and safety related incidents in the 2011 financial year and a reduction in the Company's disabling injury frequency rate (DIFR) to 0,85 (on a new weighted average basis);
- The limitation of the total cost of risk to less than 2% of revenue over the next five years;
- Regular environmental compliance reviews and proactive action at all places of business as well as the implementation of proactive compliance audits and environmental management programmes;
- Concerted efforts to ensuring certainty and stability on regulated tariffs that may negatively impact future cash flows and ensuring returns in excess of the Company's weighted average cost of capital (WACC).

Numerous performance indicators have been identified for 2011 as part of the Quantum Leap improvement required, and these have been included in the Shareholder Compact.

The overall targeted improvement in operational efficiencies is 8,4% during 2011, which forms the basis for the overall targeted improvement of 20% over the next three years.

The main imperative is to improve the efficiency in rail and port services. For example, over the next five years, Transnet Freight Rail plans to reduce the average wagon cycle/turnaround time by 20% and deviations from scheduled train departures and arrival times by nearly 25%; while improving locomotive efficiency by more than 30% on average across Freight Rail's business lines.

In the ports the focus will be on cargo handling efficiency (gross crane moves/hour), with an improvement target of up to 36% being set over the next five years. Similarly, ship turnaround times will be one of the key performance indicators for Transnet National Ports Authority where, amongst others, a 20% improvement is being targeted for the container sector in the Port of Durban.

The targeted improvement in efficiencies will create additional capacity in all areas of the business and improve customer service as well as alleviate the pressure on the capital investment programme. These efficiency targets were incorporated in the strategic performance objectives (SPOs) of Transnet's executive, management team and were also linked to the operational employees incentive scheme.

We are monitoring these targets as part of the Company's enterprise-wide performance management process. Progress is being reported and maintained on a weekly and monthly basis as part of the dynamic management reporting process.

Overall volume growth of more than 10% has been set as a target in an economy that will grow by approximately 2,7% in 2011, which reflects the robust approach to growing the business. Areas that have been earmarked for growth include the GFB, specifically domestic coal and containers on rail, and all export commodities. This is ambitious, but attainable given the relatively low base of volumes resulting from the economic downturn. The ports will, however, reflect a more moderate growth at approximately 5%, as imports and exports are more closely correlated with GDP growth. The export of commodities such as coal, iron ore and manganese, as well as the growth in the container business will, however, contribute to an increase in volumes in excess of the GDP growth rate.

Transnet delivers

Strategy implementation

Strategic management of the balance sheet

The programme of disposing of non-core assets and investments continued during the year. As indicated before, most of the non-core assets, which caused significant volatility in Transnet's earnings and diverted management's attention in the past, were completed a year ago. During the current year, the most significant disposal was Transnet's 41% stake in arivia.kom, the technology service provider jointly owned with the power utility, Eskom – to T-Systems. Transnet's share of the purchase amounted to R174 million. The share disposal also included the conclusion of a five-year outsource agreement for Transnet's Information Communication and Technology requirements.

A process initiated to dispose of Transnet's 100% shareholding in the Blue Train, our luxury hotel-on-wheels passenger service, was terminated when agreement could not be reached with the preferred bidder. After the reporting period, Transnet was approached by the Passenger Rail Agency of South Africa (Prasa) with a proposal to buy the Blue Train. This transaction will achieve the twin objectives of having Transnet focus only on freight and consolidating all passenger services of the country under one public utility company to enable better planning, resource deployment and, efficient quality service to the South African public.

Given the deterioration of real estate market conditions resulting from the global recession, the Company deferred the planned sale of the Carlton Centre – the site of our head office in downtown Johannesburg – to later in the five-year Corporate Plan. The iconic property, including the office park and the retail centre together, with the two historic hotels, remains on our list of non-core assets earmarked for disposal. During the year, we sold 19 (2009: 195) commercial non-core properties in transactions worth R55,6 million (2009: R119 million) and raised R56,1 million (2009: R120,8 million) from the sale of 84 (2009: 214) residential properties. The carrying value of the non-core property portfolio housed in Transnet Property amounts to R2,7 billion.

We also completed the transfer of Shosholoza Meyl, hitherto our long-distance passenger rail service, as well as Autopax (Pty) Ltd, the bus company, to Prasa. Both entities were sold in the prior year.

During the year, we initiated the disposal process for the Outeniqua Choo-Tjoe in the open market. Unfortunately, none of the bids met the requirements of the Request for Proposal and they also required significant financial contributions from Transnet. Transnet also approached local and provincial governments in the Western Cape to take over the business and promote tourism in the province. Regrettably, this option also came to naught. Consequently, Transnet has no alternative but to close down the Outeniqua Choo-Tjoe service subject to PFMA approval.

The Company provides various post-retirement benefits to its active and retired employees, including pension, post-retirement medical and other benefits. Both the Transnet Second Defined Benefit Fund (TSDBF) and Transnet Pension Fund (TPF) – Transnet Sub-Fund are in financially sound positions due to the asset liability matching strategy implemented by Transnet and the trustees.

Also, at year-end, these funds were fully funded with actuarial surpluses of R3,2 billion (2009: R2,8 billion) and R1,7 billion (2009: R701 million) respectively.

This financial strength, which enabled the funds to survive the financial market crisis, is mainly as a result of Transnet working with the respective boards to reposition the fund's investments. Readers are also directed to the "Letter to Society" in this Review.

On the corporatisation of Transnet in 1990, the Government placed the liability for the South African Transport Services (SATS) post-retirement medical entitlements with Transnet until an appropriate solution could be implemented. As a responsible entity, Transnet has carried this responsibility for two decades. We are now at an advanced stage in finalising a solution for these pensioners which we trust will be both beneficial and sustainable.

A year ago, we introduced the Dynamic Planning and Management Framework to increase the agility of the Company's response to the rapidly deteriorating economic environment. This framework, which tracks the performance of the business on a weekly basis and forecasts revenues, costs and cash flows through to year-end, has become an indispensable asset to the Company. Apart from being a powerful management tool to assist in safeguarding the financial strength of the business, it has also increased the transparency of our operational performance and improved accountability. Following the end of the May 2010 strike, the Company revised its weekly dynamic management reporting process to capture and track the trends of the recovery effort, which has been deployed to help clear backlogs that were caused by the strike.

Risk governance

Effective risk management is integral to the attainment of Transnet's business objectives and thus remains a key focus area for the Company. The Company has continued to consolidate and embed its enterprise risk management (ERM) framework across all levels of the organisation.

Against the backdrop of the world economic crisis that equally affected the volume and revenue growth of Transnet, there was a need to ensure vigilant risk management and organisational agility at both strategic and operational levels. A number of risks associated with this crisis impacted the Company's operations, and gave rise to further focus on regulatory compliance, health, safety, environmental compliance, organisational reputation, business processes, and the credit environment.

The Board, via its Risk Committee, continued to demonstrate its support and commitment to the ERM framework and process by maintaining a strong and visible oversight role.

Through regular site visits to strategic company operations, the Board satisfied itself that the risk management approach and processes, designed and implemented by the Company, mitigated risks. Further, the Company is satisfied that the necessary proactive and preventive steps have been taken to foster a culture of risk management at all levels of the organisation.

The effectiveness of risk management within Transnet is also being recognised and benchmarked by other companies that are either contemplating the benefits of ERM or are at the early stages of implementing their ERM processes.

Insurers have been encouraged by Transnet's established ERM framework, resulting in increased numbers of insurers willing to underwrite Transnet's risks. Transnet selectively engaged with "A" rated insurers during the 2010/11 insurance renewal process which commenced in October 2009. During this process, Transnet found itself in the enviable position of being "oversubscribed" on its insurance programme. As a result Transnet was better positioned to negotiate comprehensive insurance cover at competitive rates.

In keeping with ERM Standard No. 3, which recommends assurance of the risk management process by auditors who are independent of line management, Transnet Internal Audit (TIA) conducted numerous risk related audits. The Risk and Control Framework assessment by TIA confirmed a greater than 7% improvement in the area of risk identification and assessment across the business. Further, a planned audit was performed on an individual ERM control environment and rated this as "requiring improvement", providing a sound platform to achieving a "satisfactory" rating in the year.

During the year, ERM policies and standards were updated to achieve best practice levels to address emerging risks and regulatory requirements. Accordingly, the Company embarked on a process to implement the guidelines of the King Report on Corporate Governance for South Africa, 2009 (King III).

The compliance function continues to be an integral part of risk management and its main objective remains to ensure that management and the business adhere to applicable regulatory requirements.

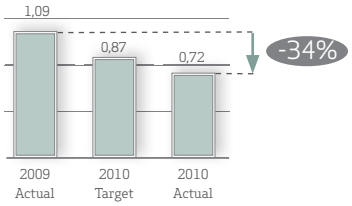
Throughout the year, management has ensured that it constantly had a view of its top 10 risks, and kept a vigilant eye on mitigation strategies. The group's top 10 risks are an aggregate of each of the operating division's risks where detailed attention and oversight is given to appropriate management of the risks. Each of the risks and their mitigation strategies is discussed in greater detail in the report. By way of illustration, most Operating divisions have been impacted by "revenue and volume growth". The mitigation strategies, specific to the Operating divisions as well as clearly defined timeframes, are discussed in the sections dealing with Operating divisions.

An overview of the Group's top 10 risks for the year is listed below.

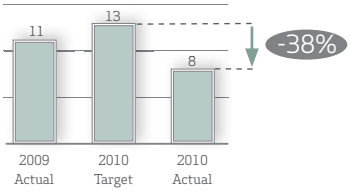
1. Revenue and volume growth
2. Non-delivery of capital projects on time and within budgets and affordability
3. Economic regulation (Ports and Pipelines)
4. Non-compliance with safety and standard operating procedures (SOPs)
5. Environmental risks
6. Funding and liquidity risk
7. High input costs, such as energy (electricity and fuel), steel, pricing and supply
8. Asset performance and maintenance regime
9. Human resources capability to deliver on growth strategy
10. Commodity and concentration risks

Action and mitigation plans are monitored by the appropriate governance structures.

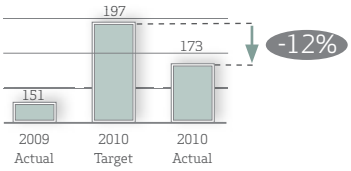
Disabling injury frequency rate (DIFR)



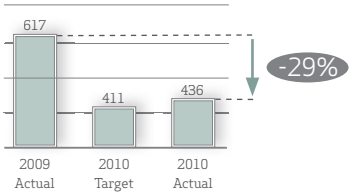
Employee fatalities (Number)



Public fatalities (Number)



Cost of losses (R million)



Safety, security, health, environment and governance

The Company measures the success of its operational environment by its growth, its customer service levels, the safety of its workforce and the condition of its operating assets. As Transnet remains committed to a safe and healthy working environment, a key focus of our strategy has been to invest in improving the effectiveness of our assets. Unfortunately, Transnet's otherwise commendable track record has often been marred by poor safety performance. The number of fatalities – both of members of the public and employees – as well as derailments and equipment failures has been unacceptably high. Of equal concern has been the financial impact arising from the losses associated with each incident.

Management is committed to achieving a measurable turnaround of the Company's safety record. Apart from agreeing and instituting a company-wide drive to reduce incidents and costs associated with losses by a third each year, we built safety performance into the performance contracts of all managers. Importantly, we also implemented detailed and realistic improvement plans to drive the achievement of our objectives. I am pleased to report that all these efforts have yielded positive results.

During the year the Company's rolling disabling injury frequency rate (DIFR), an internationally accepted measure of workplace safety, improved by 33,9% to 0,72 compared to 1,09 for the same period in the previous financial year. The marked improvement is testimony to the efficacy of our safety initiative and commitment from all employees.

With all divisions actively embracing the maxim of "one fatality is one too many" there were no fatalities between November 2009 and the end of the financial year. Sadly, there were eight employee fatalities during the year under review, compared to 13 fatalities in the previous year. Public fatalities also decreased by 12,2% to 173 for the year, which excludes suicides and crime-related fatalities.

Our condolences go to all the families of our late colleagues. In December 2009 the Company gave a once-off ex gratia payment to all the families who had lost loved ones to a work-related accident during the year.

Transnet's commitment to improved safety and mitigation initiatives ensured commendable progress during the year. The milestones achieved are reflected in the graphs alongside.

Transnet continues to challenge itself in the context of the Quantum Leap strategy to achieve a marked improvement in both safety incidents and the associated cost of risk. Management has been tasked with reducing safety incidents and the associated cost of loss by 33% again this coming year. In view of management's commitment to increase volumes by an average of 10%, this target is ambitious, but attainable.

There are numerous risks pertaining to safety, health and the environment that may both impede the Company's progress towards its 2011 objectives and impact on our stakeholders. However, as with the past financial year, these risks are being scrutinised, managed and tracked at the highest levels within the organisation. This is evidenced by the commitment of our Board, which has been performing on-site visits at several locations, including a visit to the Port of Port Elizabeth where it specifically considered the port's environmental risks. What is evident when analysing the risks across safety, health and the environment is that the mitigation and resolution of these risks predominantly require commitment and collaboration by multiple stakeholders including our employees, customers, the public and regulators.

An outline of the issues that have characterised Transnet's operational environment during the year follows below:

Environmental issues

Transnet is committed to being an exemplar corporate citizen in the field of environmental compliance in South Africa and the rest of the continent. To this effect, the Company has prioritised adherence to all applicable environmental standards and laws. Amongst others, this has required proactive steps to be taken to improve compliance. During the year, we also commissioned and implemented regular environmental compliance audits across all our operations.

This exercise resulted in the identification of concerns in some of our operations.

The environmental issues at the Port of Port Elizabeth and Port of Richards Bay needed action. We have, however, progressed well in identifying the root causes and areas requiring improvement. In addition, we have begun to address misconceptions in the media or perceptions of numerous stakeholders. In particular, we have addressed the interest groups who have been most vocal in demanding that Transnet vacates both the Manganese Terminal and the Tank Farm. Whilst we have taken the strategic decision to move both of these facilities, the move will be completed in a measured and responsible way.

It is important to mention that there is no factual evidence of the correlation between potential health hazards identified at the port and adverse impacts of manganese. None of Transnet's employees at the terminal have ever been diagnosed with any illness related to contact with manganese. In addition, Transnet National Ports Authority, which maintains a register of complaints from the public and other stakeholders, has no record of any such complaints.

Transnet assures all its clients that it will honour all leases it has with them. It is also our intention to retain the properties for port-related activities.

During the year, an oil leak was identified and brought to the attention of the oil industry. The industry took steps to ensure the leak is dealt with to protect sea life, and that no further leak to the sea occurs. Also, Transnet has made available alternative land to the oil industry for possible relocation of the Tank Farm. We understand that this possibility is being assessed by the industry. Key to the decision will be the establishment of the planned petroleum refinery in the region. Until then, Transnet, via National Ports Authority, will continue to rigorously enforce its landlord obligations by requiring that the oil industry adheres to the highest safety and environmental standards as provided for in lease agreements with National Ports Authority.

Transnet complied with the requirements of both a Pre-Directive of 12 May 2009 and Amended Pre-Directive of 22 February 2010 from the Department of Environmental Affairs ("DEA"). Further, the Company also complied with subsequent requests from the DEA for submission of supporting documentation and reports in respect of the Port of Port Elizabeth. However, to our disappointment, on 1 June 2010, Transnet received a Directive.

The Directive requested proof of what had already been discussed and approved by the DEA or what had and/or was being implemented at the port. In our view the steps taken by the authority to request the documents by way of a Directive were necessary to achieve the objectives of the Environment Conservation Act, 1989. Transnet has demonstrated compliance, transparency and a wholly co-operative approach to these issues.

Transnet is of the view that it had taken reasonable measures to address activities which might pose a serious risk to the environment and, consequently, there was no reason to issue the Directive. Transnet is of the opinion that it had been, and indeed is still, continuing to execute its duty of care as required by the environmental legislation.

That said, we have formally advised the DEA that we will be appealing the decision to issue the Directive. However, in the spirit of co-operation, which Transnet has always shown to the DEA, all the information as requested in the Directive was submitted as per the DEA's timelines.

Security

The theft of copper cable is another significant impediment to running a reliable and predictable freight railway. It is particularly concerning that cable theft is increasing significantly each year. This also affects other key and large corporates including Eskom and Telkom. At present, Transnet experiences approximately 1 kilometre of cable theft, which equates to a ton of copper each day. It is very worrying that there are few arrests made and this blatant criminal activity, which is a blight in the economy, continues unchecked. Accordingly, we are determined to break this stranglehold that the thieves have on our business. We have adopted and introduced a multi-disciplinary approach to tackle this crime head-on. Important in this drive is for the Department of Mineral Resources, to classify copper as a "precious metal". This step will require those dealing with copper cable to be registered and to keep appropriate records and, accordingly, will assist effective policing. Transnet has invited both Telkom and Eskom, which both face similar problems, to join in the fight against this scourge.

Reputation risk

Transnet has recognised that its reputation and image is an integral part of the Company's intangible asset base. Transnet's reputation is essential to the Company's continued success in competing effectively for cost-effective capital in the world's debt capital markets.

In South Africa, Transnet operates in an environment where the credibility of SOEs is permanently in doubt thanks to the contagion effect occasioned by troubled SOEs. Also, during the year, the Company's reputation was subjected to a sustained vicious and malicious campaign, conducted mainly in the media. The anti-Transnet campaign was triggered by a clamp down on misgovernance undertaken by the Company. These factors, and the need to distinguish Transnet's credible performance from that of struggling SOEs, have made it necessary to elevate, to priority levels, the proactive management of the Company's reputation.

Consequently, the Company formulated a stakeholder engagement plan as part of its strategy to effectively manage its reputation. A critical component of the strategy is a plan to identify, and agree ways of engaging the various, stakeholders whose behaviour is vital to the continued success of Transnet. The overall objective of the strategy is to ensure that Transnet, as an SOE, strives to be trusted, admired and respected by all its stakeholders and that it remains committed to open, transparent dialogue and engagement with the identified stakeholders to ensure mutually beneficial relationships. As a Company, Transnet aspires to be known and experienced as an SOE that:

- builds;
- delivers;
- innovates; and
- cares.

At present, reputation risk is inherent in all of the Company's top 10 risks. However, it has been agreed that henceforth this will be treated as an emerging risk to be considered, assessed and ranked as a separate risk amongst the top 10 risks.

Governance

To ensure that quality leadership was put in place, the following executive changes were made: Mr Tau Morwe, the Chief Executive of Transnet Port Terminals was appointed as acting Chief Executive at Freight Rail. Mr Karl Socikwa, Group Executive: Commercial was appointed acting Chief Executive at Port Terminals.

To reduce duplication and streamline the customer interface, the Company's commercial and corridor structures were consolidated under a single executive, Mr Mark Gregg-Macdonald.

Management's prime focus will remain on business growth through the efficient delivery of integrated solutions for an agreed set of strategic commodities to the Company's corporate customers. In keeping with our Quantum Leap thrust, we redefined the mandate of the Company's Operations Committee to be solely focused on customer service, efficiency and productivity improvement plans in the business.

Funding strategy

E S

Transnet has a robust, structured and well articulated funding strategy. Key imperatives for the strategy include: raising cost-effective funding ahead of demand; diversifying Transnet's funding sources, both in the domestic and international markets; and minimising market risk, foreign exchange risk and interest rate risk.

Given the increasingly volatile and uncertain credit markets during the year, the Company developed and implemented a pre-funding strategy. Stated differently, at any given point, Transnet will always 'pre-fund' or maintain a funding buffer of between R3 billion and R6 billion to mitigate the possible impact of the global liquidity risks caused by the recent economic crisis.

Because of the uncertain and volatile market conditions, Transnet elected to commence funding in the latter part of 2009 to avoid the pressure of funding in an area of possible liquidity shortage, which appeared imminent. It also initiated and utilised numerous funding platforms outside the norm to diversify and create additional avenues for funding both in the local and international arena.

The funding requirement for the year was R20 billion, including maturing debt. This was driven primarily by the need to fund the capital investment plan. During the year, Transnet raised the required R20 billion including pre-funding. Funding initiatives undertaken during the fiscal year under review are set out in the Chief Financial Officer's Review.

Transnet established its US$2 billion Global Medium Term Note (GMTN) programme, enabling the Company to issue bonds in the euro, dollar and pound sterling markets. Post-balance sheet, an international investor roadshow was conducted in Europe (UK and Germany) and the United States. This was in keeping with our strategy to diversify funding sources. However, due to the effect of the euro zone debt crisis on the credit markets, the Company deferred the issuance of any bonds to a later stage when markets have calmed down.

In addition, Transnet started negotiations with the African Development Bank (AfDB) for a substantial loan facility. Discussions are at an advanced stage, and a due diligence was conducted by the AfDB during the year.

Transnet has successfully created capacity by establishing and increasing available credit lines for ongoing funding and risk management. Further, the Company negotiated favourable credit terms in a market where lenders have tightened their credit terms.

In future, the commercial paper programme and long-term bonds, which are part of our R30 billion Domestic Medium Term Note (DMTN) programme, will continue to be the main sources of funding, although of course, in keeping with our strategy to diversify sources of cost-effective funding, we will also increasingly tap new sources such as the export credit agency, development finance institutions and international bonds under our GMTN programme. As in the past, Transnet will be responsible and strategic in the way it rolls out its funding strategy.

Also, critically important will be the continuation of Transnet's current self-funding method: that is borrowing on the strength of its financial position without reliance on Government subsidies or guarantees. A key part of this plan will be to vigilantly monitor adherence to the key financial metrics, such as cash interest cover, and maintaining and improving Transnet's positive standalone investment-grade credit rating.

Capital investment programme

One of the key failings of the past has been poor long-term planning of infrastructure investment and development. As a key driver and an enabler of the country's freight transport and logistics system, Transnet, in partnership with the University of Stellenbosch, has developed a Freight Demand Model. This tool is designed to make accurate assessments of freight demand for 65 different market segments over the long term. The model, which uses macro-economic indicators and takes into account the expected performance of the region's economy, is updated regularly, and forms the basis of Transnet Infrastructure Plan. The plan is used as a framework for infrastructure capacity planning and creation.

The plan was approved by the Government and at its request, Transnet embarked on an extensive stakeholder engagement programme to promote the understanding of the Company's Infrastructure Plan. More than 850 stakeholders attended the sessions.

Feedback received on the plan was consolidated and reported back to the DPE. This is significant in that there is now a holistic plan which encompasses the country's port, rail and pipeline infrastructure growth strategy that is supported by the State.

The infrastructure plan, which is a 30-year long-range planning framework, is then distilled into Transnet's five-year investment plan. Each year, the capital expenditure programme is revised as part of Transnet's robust planning and budgeting cycle.

The effective and efficient rollout of the massive infrastructure investment programme has been one of the success stories of the new Transnet. Although the programme began as a 'catch-up' exercise to address the chronic infrastructure backlog in the midst of one of South Africa's longest periods of expansion, it has over time evolved into a key building block for the economy and, lately, part of the country's most effective stimulus measures to sustain economic recovery. Also noteworthy is the programme's job creation potential and the benefit of shoring up GDP growth.

The capital investment expenditure for the year amounted to R18,4 billion (2009: R19,3 billion) (excluding borrowing costs). The 4,4% decrease in capital expenditure compared to the previous year is deliberate: whilst the Company kept its five-year programme, with key projects proceeding as planned, less critical projects were rescheduled in response to the economic downturn, especially those not immediately required by customers. Capital investments were reprioritised according to business requirements, revised volume forecasts and cash flow forecasts. This step became necessary to ensure that the Company remained within the set financial metrics, whilst maintaining sufficient capacity to meet the projected market demand. Importantly, these changes to the capital programme were carried out in consultation with Transnet's clients, which means that all key projects – that is, those that were required by clients and those that were of strategic significance to the country, such as the NMPP – were continued and kept in the plan.

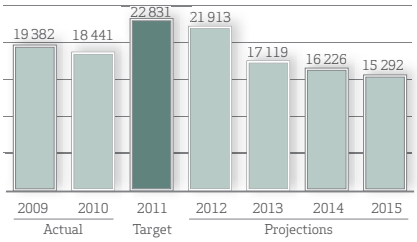
In keeping with Transnet's commitment to invest in infrastructure and to creating capacity ahead of demand, the Company invested R8,7 billion on sustaining and upgrading existing infrastructure and R9,7 billion on expansion.

The following key projects were amongst those completed during the year:

- The R4 billion Durban Harbour entrance channel widening and deepening project was completed and commissioned in February 2010, slightly ahead of schedule and under budget. The entrance was widened to 240 metres and dredged to a depth of -18 metres chart datum to enable safe navigation of new generation vessels such as the 9 200 TEU vessels or, as happened in early March, the reception of large cruise liners;
- The R7,9 billion two-berth Ngqura Container Terminal, the country's deep-water port, commenced operations in October 2009 and had handled 78 400 TEUs up to 31 March 2010. The terminal, which is targeting transhipment trade, boasts some of the world's state-of-the art equipment (see the box); and
- The refurbishment of Port Elizabeth Manganese Terminal is substantially complete, restoring capacity from a constrained 2,8mt to 4,2mt.

Five-year capital investment

(R93,4 billion) (R million)



In the previous report, we reported how the locomotive fleet acquisition programme had been beset by manufacturers' difficulties. All these issues have now been fully resolved. And so have the internal governance challenges. Accordingly, we are satisfied that all the painful lessons have been incorporated into the new and improved governance mechanisms.

During the year, Transnet awarded a R2,3 billion contract to acquire 100 diesel locomotives for Freight Rail's GFB to General Electric South Africa Technologies (Gesat), a local empowered subsidiary of GE, the US OEM. The first 10 locomotives will be manufactured in the US, whilst the rest will be made in South Africa, using Transnet Rail Engineering as the assembly and engineering base. The first delivery batch of these locomotives is due in 2011 and it is anticipated that they will significantly improve customer service. The tender and the resultant contract are the first to be executed under the revamped locomotive acquisition processes.

The rollout of the capital investment programme has had a transformative effect on the South African economy. Not only has it stimulated the economy during the first recession in 17 years, but it has also significantly modernised port and terminal operations – developments to be really proud of! The box highlights major asset deliveries that took place during the year.

The table below highlights major asset deliveries that took place during the year.

Major asset acquisitions and refurbishments

Asset type	Quantity
Acquisitions	
Locomotives	**59**
19E Dual Voltage locomotives for the Coal Line	6
Class 15E locomotives for the Ore Line	3
Class 39 diesel locomotives for General freight business (GFB)	50
Wagons	**1 194**
New wagons for the Coal Line	592
Wagons for the Ore Line	300
Wagons for Manganese exports (GFB)	302
Refurbishments	
Locomotives	**179**
Overhauls	117
Restoration of damaged locomotives	62
Wagons	**3 032***
**Heavy refurbishment programme of which 60% of the wagons were upgraded to a larger capacity.*	
Infrastructure: Replacements	
Rail	471km
Railway sleepers	280 000
Port Infrastructure	
Tugs for the Port of Ngqura	2
Pilot boats for the Port of Durban	2
Helicopter for the Port of Durban	1
Bulk liquid berth at Richards Bay	1
Cargo handling equipment	
Rubber tyred gantry cranes for CTCT	16
Ship to shore cranes for CTCT	6
Haulers across all terminals	59
Rail Mounted Gantry Cranes for Pier 1	2
Rubber tyred gantry cranes for Ngqura Container Terminal	18
Rail Mounted Gantry Cranes for Ngqura Container Terminal	4
Ship to Shore Cranes Ngqura Container Terminal	6
Operator Training simulators at Ngqura and CTCT	2

Investment outlook

Looking ahead, the overall capital investment plan for the next five years will increase to R93,4 billion of which R34,2 billion will be spent on expanding capacity and R59,2 billion will be spent on maintaining existing infrastructure and equipment. Approximately 26% is expected to be invested in projects relating to Transnet Port Terminals and Transnet National Ports Authority; 59% in Transnet Freight Rail and Transnet Rail Engineering; and the bulk of the 15% will go to Transnet Pipelines. Please also see details of future projects in the Capital Investment Report in this report.

Future major projects

Coal: One of the major projects in the five-year plan is the expansion of the coal export line from the 62mt transported in 2009/10 up to 81mt in 2014/15. This increase is based on the requirements of the existing clients and their projected future export needs. The capacity increase will require the upgrade of existing rolling stock, rail and yard expansions, electrical power upgrades as well as an additional 110 new locomotives. The latest cost of this project is approximately R16 billion. In addition, feasibility studies are under way to determine whether there is a sound business case to increase capacity beyond 81mt. Also, studies are under way to assess the transport needs from the mining of the coal fields in the Waterberg region in Mpumalanga which is largely dependent on rail infrastructure upgrades to enable exports. Preliminary demand requirements will require substantial investments in the rail as well as in the ports. The viability of this expansion is in the process of being assessed together with the most effective way to create the capacity and the link to existing rail infrastructure.

Iron ore and manganese exports: Transnet is currently involved in feasibility studies together with the iron ore and manganese exporters to determine the economic viability of significant future expansion. Under review for iron ore is the expansion from the existing contracted volumes of 60mt to over 80mt. Manganese is currently exported from the terminal at the Port of Port Elizabeth which has a maximum potential of about 5,5mt per annum. The manganese exporters believe that capacity in excess of 14mt per annum is required. As indicated elsewhere in this Review, Transnet, accordingly, has made the strategic decision to relocate the terminal and is currently evaluating two options: first, Ngqura; and second Saldanha. Both the iron ore and manganese exporters strongly favour the expansion of the corridor through to Saldanha as it will be a dedicated bulk ore export channel that can be driven to world-class productivity standards.

Containers: The projected growth in the transport and handling of containers indicates that almost six times more additional capacity will be required over the next 30 years. A project team is currently developing a comprehensive container strategy for Transnet which addresses the corridor requirements (including port capacity) as well as the inland terminals. At this stage, it is clear that substantial capacity is required and that available land must be secured for future expansion. In view of this, Transnet has started with a process to procure Salisbury Island in Durban. This will create additional capacity of approximately 600 000 TEUs after further development investments. A further strategic initiative under way is considering the purchase of the Durban International Airport site, which has recently been vacated by the Airports Company of South Africa, for back of port activities and a possible future dig-out port.

GFB: Based on the Quantum Leap growth targets set, it is also envisaged that the GFB of Freight Rail will require substantial investments to increase volumes from the current 72mt to 110mt over the next five years. A major focus will be to bring containers to rail and to increase domestic coal volumes. This will also require considerable investments in rolling stock and perway together with Quantum Leap efficiency improvements.

Due to their magnitude and long payback periods, it is highly unlikely that these investments can be financed solely on the strength of the Transnet balance sheet. Therefore, private sector participation will have to play an increasing role in future capacity creation. Initiatives are already under way to develop the framework and governance processes for the private sector participation.

Broad-based black economic empowerment (BBBEE)

SR

Although Transnet has consistently partnered with, and supported, BBBEE-compliant partners and suppliers, the Company itself has lagged behind in this area, particularly given it had no clear BBBEE strategy. This anomalous situation was rectified during the course of the financial year under review. Transnet acknowledged the value of a clearly defined BBBEE strategy to achieve sustainable and inclusive economic development, social stability and labour absorbing economic growth.

Transnet commenced the formulation of a broad-based black economic empowerment strategy (BBBEE strategy) based on those black economic empowerment principles outlined in the BBBEE Act to provide the organisation with an integrated framework. In addition, the BBBEE strategy acknowledges other black economic empowerment obligations applicable to all, or some, of Transnet's activities and operations. These include:

- The specific BBBEE targets set annually for Transnet by Transnet's shareholder Minister, the Minister of Public Enterprises;
- The specific BBBEE targets set for the Transnet National Ports Authority in the Regulations made by the Minister of Transport in November 2007 in terms of the National Ports Act, 2005 (Act No. 12 of 2005); and,
- The Transport Sector Charters published by the Department of Trade and Industry (the DTI) in terms of section 12 of the BBBEE Act, which are applicable to the performance of some of the Transnet National Ports Authority statutory functions.

During the year, a verification agency commenced the verification of Transnet's BBBEE rating for the purposes of issuing a verification certificate. This certificate will confirm the Company's rating and contribution to the BBBEE initiatives and legislation. Once approved in accordance with the Company's governance process, the BBBEE strategy will be implemented across all operating divisions.

The lack of a BBBEE certificate has not stopped Transnet from fulfilling its BBBEE obligations. Transnet's spend on BBBEE has increased significantly over the past three years from R6,9 billion in 2007/08 to R13,5 billion for 2009/10, which now accounts for 65,35% of total procurement spend (37%: 2007, 41%: 2008, 59%: 2009). Year-on-year, this represents a 17% improvement on prior year's numbers or a cumulative ramp-up of 43% over the last five years. We are really proud of this achievement and record.

Competitive Supplier Development Programme (CSDP) – advancing local competitiveness

The implementation of the procurement strategy and, in particular, the localisation of procurement, is facilitated through Transnet's CSDP, in response to the Government's National Industrial Policy Framework. The CSDP aims to stimulate the local procurement environment by encouraging Original Equipment Manufacturers (OEMs) to develop downstream suppliers, thereby indirectly developing a competitive local supplier base. Transnet is working with all relevant stakeholders to develop local suppliers and maximise localisation opportunities.

During the year, Transnet established a Supplier Development Centre of Excellence focused on both the CSDP and enterprise development.

The groundwork has been done towards achieving the successful implementation of the CSDP. The Company has developed internal CSDP policies and procedures and continues to be a pioneer in this field.

Transnet has secured two major contracts with EMD and General Electric (GE) which could yield a total investment of R1 billion for local enterprises.

In addition, the localisation transaction on locomotive parts will roll out the CSDP plan over the next five years, with various second and third tier suppliers. These contracts will target the localisation of skills, create maintenance and repair capabilities along with capabilities for component manufacture, upgrade and sub-system manufacturing.

The contract for the building of the 100 locomotives was awarded to General Electric and signed on 17 December 2009. GE, which had partnered with a local BEE partner, Mineworkers Investment Company, developed a CSDP plan consisting of three main initiatives, namely: training for maintenance development through Lean Six Sigma and the development of Candidate Engineers; localisation of the manufacture and procurement of various components and parts; as well as a licence agreement with Rail Engineering for the overhaul and modernisation of GE locomotives. The details of this plan are under negotiation. The licence agreement will allow Rail Engineering and GE to enter into a technology partnership for locomotive overhauls and modernisations, with GE as prime contractor and Rail Engineering as subcontractor.

The current CSDP plan with EMD was finalised in November 2009. The EMD CSDP plan has three aims: first, it provides for Rail Engineering to become part of EMD's Global Supply Chain for rebuilt traction motors and diesel engines; second, it accredits Rail Engineering's maintenance facilities for EMD locomotive maintenance; and third, it localises the supply of at least 10% of the value and quantity of the parts listed in the spare parts agreement. EMD is already actively supporting Rail Engineering in acquiring new work in Africa. Such deals will be handled on a partnership basis in terms of which Rail Engineering will do the work, but commit to purchase the parts from EMD. The execution of the EMD CSDP plan is well under way. Tooling has already been provided and EMD management has been on the floor since 1 January 2010, guiding, training and advising employees to achieve the desired outcomes.

The refurbishment of 50 locomotives, which is now complete, has also applied the CSDP principles. This resulted in the creation of 70 new jobs, significant transfer of skills and the improvement of factory processes to world-class standards.

Transnet has developed a locomotive fleet plan, which is aimed at reducing the average age of the locomotive fleet from 30 years to below 20 years. To achieve this, Transnet aims to purchase between 75 and 100 locomotives per annum over a prolonged period. By smoothing the acquisition cycle, Transnet will better enable local development by providing a stable pattern of demand. Transnet is also developing a fleet plan for cranes and is investigating CSDP opportunities through this plan.

Investing in our people

Living the Charter

Transnet's Culture Charter was developed in 2008 and sets out the desired behaviours that all Transnet employees are required to uphold and commit to. The initial focus of the charter was on implementing key workplace-based programmes that would help embed and entrench the new culture. The second annual scoring of the charter was concluded during the year, with close to 23 000 employees participating in the process. The results strongly indicated that the values of 'dignity' and 'respect' should be a prime focus throughout the business and that these values should be embedded into the fabric of our organisation.

One of the key initiatives to drive the desired culture is to enhance leadership capabilities and behaviours. We, therefore, implemented the Leadership Charter 360° review process for the Extended Executive Committee, which consists of the Company's Executive Committee, corporate centre general managers and all the executive committees of the Operating divisions. This is a top-down process that will be cascaded to the rest of the organisation so as to set the tone for modelling the desired behaviours to transform the culture.

Although the charter scoring indicated that safety is top of mind for our employees, general behaviour within the Company does not reflect a safe working environment. Consequently, Transnet embarked on the development of a Safety Culture Programme to entrench a culture of safety. The programme promotes a safety mindset and aims to reduce the number of unsafe acts in the work environment. The programme provides a vehicle through which to build a compact amongst all staff around "Golden Safety Actions" that would set the benchmark for safe behaviours. Also see more details in the Sustainability section of this Report.

Skills, talent and leadership development

Transnet continues to focus on, and commit to, the development of its human capital in creating a workplace where its people can excel. This is fundamental in advancing Transnet's goal to achieve its Quantum Leap creating an improvement in customer service, volume growth and being an employer of choice.

During an extremely challenging economic period, we demonstrated our commitment to the development of our employees in that we spent more on training than the industry norm of 2,8% of payroll. In addition, we optimised our artisan development capability by initiating a number of initiatives including successfully registering in-house trade test centres and increasing delivery capacity. Currently, Transnet has more than 1 000 apprentices in training which creates a pool which can be tapped by other companies in South Africa.

Our continued commitment to maintain a talent management culture in Transnet has been realised by managing talent plotting for management which will, in turn, inform our succession pools. During the year, Transnet successfully filled more than 40% of management vacancies from identified internal talent pools.

At a strategic level, we also increased our engineering and technician skills pool by sponsoring 377 engineering bursars and 284 technician bursars. We have continued with our engagements with the national skills agenda through the relevant structures and platforms via our membership of the Transport Education Training Authority (TETA) and the Technical Skills Business Partnership (an initiative of the National Business Initiative started during the Joint Initiative for the Priority Skills Acquisition).

Human resources transformation

Transnet has made significant progress in standardising policies across all our Operating divisions. To ensure uniform application of policies and procedures, we embarked on the development of a single system solution. We have also started an organisation-wide clean-up of employee data to ensure that we can produce reports which are more reliable and easy to generate. A staggered "go live" will commence in July 2010 and final implementation will be completed in March 2011.

The first phase toward the establishment of HR Shared Services was completed and the operating model detailing phase will commence in September 2010, which will enable the implementation during 2012.

Transnet cares – a letter to society

SR

Transnet invests more than R245 million annually in social causes in communities within which it operates. The Company's disbursements, which are mainly channelled through the Foundation, are wide-ranging and diverse. They include arts and culture; education; sports; and provision of primary healthcare to South Africans in the most rural parts of our country. During the year, as much as R116 million was invested in such noble causes through the Foundation.

Since 1994, Transnet has annually been providing annual dental, eye and psychological care to approximately 45 000 patients through a special-purpose train which serves as a mobile clinic. The Phelophepa train is manned by 19 permanent staff, assisted by 37 student volunteers on a fortnightly rotational basis.

In-service training on the train has become a much sought-after opportunity for medical students from South Africa and abroad. The train, which has won a string of international awards including a United Nations Public Service Award, is also a symbol of a proud partnership between Transnet and pharmaceutical companies as well as other donors and the communities it serves.

We estimate that the train has benefited 18 million South Africans since inception, many of whom do not have alternative access to these medical services. On an annual basis, it touches the lives of as many as 230 000 people who receive healthcare, medical training and jobs during its many stops.

Phelophepa's success has led to a growing demand for its services. Transnet has therefore set aside an additional R80 million this coming year to build a second train, modelled on the first one. As from next year, we estimate that a similar number of patients – if not more – will visit the second train to receive affordable healthcare. The train's stops to these needy communities will be much more regular as well. This gives us a warm feeling that we are making a positive contribution to the lives of people.

The amount invested by Transnet in social causes through the Foundation alone will increase to R179,4 million in 2011.

In addition, Transnet has been supportive of the efforts undertaken by Government and organised business to tackle crime head-on and to enable job creation in South Africa. These initiatives include Business Against Crime, the Business Trust, the Government and the National Business Initiative.

During the year, Transnet completed the organisational reshape of the Foundation. This entailed the scrapping of the independent trust structure, which had become cumbersome and largely ineffective. It has been replaced with an effective Advisory Board to the Foundation. All the Foundation's ex-trustees are continuing to offer their expertise and experience as members of the Advisory Board of the Foundation.

Amongst the lowlights of the year was our decision to discontinue our involvement in the School of Excellence, a joint initiative with the SA Football Association, the country's football controlling body. Transnet has been a founding member of the Transnet-Safa School of Excellence since the academy's inception in 1994. Since then, the Company has fulfilled its obligations mainly, but not limited to, financial contribution towards the partnership with the football authorities.

Over the years, we have witnessed the school mould the football careers of gifted young lads who have gone on to ply their trade in top national and international teams. This has been a great source of pride for Transnet.

However, for years now, Transnet has tried, in vain, to ensure that the partnership is both functional and works in the interests of the learners. To this effect, Transnet has invested considerable sums of money and energy to ensuring that the academy remains a place of excellence which is conducive for the learners and players to nurture their academic and soccer talents.

Regrettably, Transnet concluded that its efforts and good intentions alone are insufficient conditions for reviving the fortunes of the school. Further, we felt that our continued involvement in the academy was not only a reputational risk for the Company, but also that it was not in the interests of the learners. Academic results, which were once amongst the best in the country, have progressively deteriorated to around 38% matric pass rate last year. And, accordingly, the Company decided to withdraw from the partnership.

However, in the interests of the learners, the Company's exit will be phased in such a way that it will not adversely affect this year's academic programme. Also, in the interest of the learners' future, the Company proceeded with its maintenance initiative to improve living and learning conditions at the institution. To facilitate a smooth transition, Transnet offered to make available both the Elandsfontein land and facility, where the academy is situated, to the Transnet-Safa Trust, the governance authority of the school.

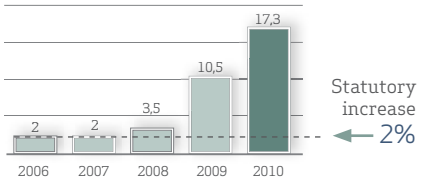
It was a bittersweet moment for Transnet to witness Steven Pienaar, the product of the School of Excellence, represent South Africa in the opening match of the FIFA 2010 Soccer World Cup at Soccer City, Soweto, on 11 June 2010 knowing the role that the academy had played in their success.

In future, Transnet, through the Foundation, will provide support to needy rural and farm school sports. The primary target group of the portfolio is the disadvantaged rural youth aged between 12 and 20 years in KwaZulu-Natal, the Free State and Limpopo.

We have been encouraged by the excellent results (92% pass rate out of 367 Grade 12 learners who sat the November 2009 exam) of our Sharp Minds! Get Ahead in Life programme, an initiative which offers remedial education in Maths, Science and English to select learners and educators in four provinces (also see the Sustainability report).

During the year, Transnet also contributed considerably to improving the well-being of its past employees and their dependants who are members of the Company's various pension funds. In the last three years, the Company has worked with trustees of these independent funds to restructure and position them for the benefit of members and their families. As a result of this initiative, the funds, which were once plagued by financial difficulties, are all now in a financially stronger position and have, in the past three years, paid bonuses to members and their dependants, especially those who receive low pensions because of historical reasons. Significantly, the proactive measures have protected funds' members from the credit crunch which swept the world last year.

Increase in pensions including bonuses (%)



Transnet has once again set aside R40 million for an *ex gratia* payment to certain of its TSDBF pensioners. The payment will be mainly to those pensioners with long service (as these individuals are unlikely to have significant alternative retirement funding income), pensioners who were previously disadvantaged by the rules of the fund and those individuals who receive relatively low pensions despite long service. This bonus, which will be paid out to 14 000 of the 78 000 TSDBF members, brings the total spent by Transnet on bonus payments to R265 million over the past three years. The TSDBF paid a 7% bonus last November and an 8,33% bonus in February 2010 over and above the statutory increase of 2% per annum that members are entitled to. In total, this means TSDBF members received an effective 17,33% increase in pensions during the year.

External challenges – regulation and public policy

Economic regulation

Before specifically reviewing each of Transnet's regulated divisions, as chief executive, it is important that I make the following points clear: Transnet understands and accepts the importance of economic regulation. What the Company wants and deserves are: first and foremost, regulatory certainty that leads to stability in the tariff determination; second, the consistent and fair application of this methodology; third, that immediate attention be given to the glaring gaps that have separated Transnet and the regulators; and fourth and lastly, that the regulators must ensure that all regulated entities are entitled to make a fair return on invested capital and/or that the returns they make are proportionate to the risks assumed by the licensed entity and that they are allowed to recover their costs.

Unfortunately, in its present form, the policy and economic regulation framework is not designed to facilitate the optimal development of the freight transport network owned and operated by Transnet; nor is it framed to incentivise the large-scale port, rail and pipeline investments ahead of demand that Transnet is having to undertake.

Without this, Transnet's ability to raise affordable capital and to enter into sustainable partnerships with the private sector is being severely constrained, to the detriment of South Africa's growth.

It is against this background that Transnet has co-operated fully with the regulators and welcomes the mooted review of the economic regulatory landscape in South Africa.

In the case of Transnet Pipelines, for example, the NMPP has been impacted by increased regulatory uncertainty. Since the publication of the regulations made under the Petroleum Pipelines Act on 4 April 2008, Nersa has frequently changed the tariff methodology (there have been four versions in less than two years). Several aspects of the methodology still remain unclear and will have to be urgently addressed to obtain certainty for future cash flows.

The National Environmental Management: Integrated Coastal Management Act, 2008 (ICM Act) poses an additional critical risk for Transnet. The unintended effect of this Act would be the appropriation of port property below the high water mark from Transnet, affecting approximately R31 billion of asset value. However, dialogue with the DPE and DEA resulted in a staggered commencement proclamation that will enable the Company to engage Government on proposed amendments to the ICM Act to limit adverse impacts on Transnet's operations.

Ports regulation

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

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

The Ports Regulator's record of decision – issued on 18 March 2010, two weeks before the implementation of such tariffs – leaves Transnet National Ports Authority with high levels of uncertainty about the economic regulation methodology to be applied henceforth, which may impact on the extent and nature of Transnet's capital investment programme.

Pipelines regulation

Nersa appears to have certain questionable and erroneous aspects in its latest methodology. Discussions are however continuing with Nersa to obtain clarity on aspects of the cost of capital and the regulatory asset base in Nersa's application of its methodology.

Pipelines submitted its 2011 tariff application requesting a revenue increase of 51,3%, based on Transnet's interpretation of the tariff methodology and assessment of the application of economic regulation principles in jurisdictions with established economic regulation, which differed in certain instances from Nersa's interpretation. The requested increase was largely due to new assets being commissioned in the 2011 financial year as well as the differences in approach regarding the determination of the equity returns for the business.

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

The prevailing uncertainty around tariff cash flows and changing parameters negatively impacts investment decisions. It is in South Africa's interest that Nersa establishes some regulatory certainty as soon as possible as present circumstances are having a detrimental impact on Transnet's ability to find an appropriate funding model for the pipeline. The uncertainty is also impacting negatively on the Company's financial metrics, especially the cash interest cover.

In his budget speech, the Minister of Finance, Pravin Gordhan MP, announced that the Government had approved a petroleum levy on consumers of 7,5 cents per litre on both diesel and petrol to help fund the additional capacity that was requested by Government to ensure security of supply to the inland market in the long term. The petroleum levy will be paid by the Government to Transnet over a three-year period at R1,5 billion per annum, commencing in the 2011 financial year. The levy is for the security of supply component of the NMPP – that is, a provision for building a bigger pipeline at the request of the Department of Energy (previously Department of Minerals and Energy).

Put differently, the petroleum levy replaces the tariff that would have been charged on the security of supply component of the total pipeline investment. Therefore, it is not additional income. Without the petroleum levy, the future tariffs (adjusted for the time value of money) would have been increased by an aggregate amount equal to the petroleum levy.

Post-balance sheet, a request was made by Transnet's shareholder that Pipelines ought to be corporatised as a condition of the security of supply levy to Transnet. It is envisaged that Pipelines will, if such corporatisation proceeds, be a wholly owned subsidiary of Transnet.

Rail regulation

During the year, the Department of Transport (DoT), the policy-making department, issued discussion documents on options for rail economic regulation (RER), and began talks with stakeholders, including Transnet, organised labour and business. The discussion documents raise various options for vertical separation or integration of the rail network; the introduction of multiple operators on parts of the network; and the role of a rail economic regulator to control access and pricing. Given the levels of capital investment being made by Transnet in rail infrastructure and rolling stock, Transnet will continuously engage with the DoT process to establish policy certainty that will facilitate long-term investments and optimal utilisation of the rail network.

The licence to operate the container terminal at the Port of Ngqura

Following the implementation of the National Ports Act, Transnet is considered to hold licences, allowing the Company to operate various terminals and facilities in each of the ports. However, this excludes the container terminal at the new Port of Ngqura. This is despite the massive investment the Company has made over the years in developing and equipping the terminal. After receiving advice from senior counsel, National Ports Authority, which is deemed to be the Authority in terms of the Act, decided to enter into an interim agreement with Port Terminals, allowing the latter to operate the container terminal at the Port of Ngqura. This agreement will be in place until a suitable international terminal operator is found to partner Port Terminals in operating the terminal.

Transnet innovates

Opportunity outlook

Private Sector Participation (PSP)

The Board has approved a framework for the involvement of the private sector in the development of ports, rail and pipeline infrastructure and for expanding freight operating capacity in South Africa in the years ahead. The Private Sector Participation (PSP) Framework stems from the recognition that Transnet will not be able to fund, from its own balance sheet, all the investments in port, rail and pipelines that are needed for South Africa's required economic growth and to improve the country's international competitiveness. PSP models will, therefore, be pursued in the following instances:

- When the required investments are core to Transnet's strategy, but the quantum of investment would be unaffordable for Transnet alone to fund. Examples include the expansion of the Export Coal Line beyond 81mt and the Iron Ore Line beyond 80mt;
- Where specialised assets can be owned by private parties and operated by Transnet; and
- When business opportunities within ports, rail and pipelines are non-core to Transnet's network strategy.

Each PSP initiative will be aligned with Transnet's strategic objectives and will be structured in a holistic manner, specifically avoiding a fragmented approach to South Africa's freight transportation network. Opportunities will be sought to target capacity and performance bottlenecks and to lower transportation costs through optimal private-public collaboration. Transnet is mindful of the current challenging economic environment, where private sector liquidity and risk appetite are constrained. The Company is, therefore, aware of the need for precision and predictability in PSP project planning.

As is practice the world over, a senior executive has been appointed in the Office of the Chief Executive to pursue PSP opportunities in a programmatic fashion. Opportunities that will be explored in 2010/11 are set out below, based on the specified criteria:

	Complementary to Transnet strategy	Mega project private finance initiatives	Joint venture in core operations
Criteria	• Non-core but fundamental in complementing Transnet's strategic objectives. • Scope to improve productivity and drive efficiencies. • Benefit from increased competition.	• Mega investment required to provide a step change in capacity. • Unaffordable to Transnet alone. • High risk investments due to long payback periods. • Concentration risk. • No guarantee on volumes.	• Benefit of private sector expertise and technology. • Value in strategic partnerships. • Increased volumes and revenue. • Reduced cost of doing business in South Africa.
Probable projects	• Branch lines. • Inland terminals. • Multi-Purpose port terminals. • Short-sea shipping. • Customer-owned wagons. • Ship repair. • Passenger port terminals.	• Coal line expansion. • Iron ore line expansion. • Manganese expansion. • Core intermodal network expansion. • New container terminals.	• Transhipment hub port terminals. • Integrated logistics services. • Inland terminals. • New bulk port terminals (where unaffordable). • New container terminals (where unaffordable). • Customer wagons.

Branch lines

In April 2009, the Board approved an implementation plan to concession the 7 300 kilometres of classified branch lines (both closed and active branch lines) to private operators. This plan was completed following approval in 2008 from the Minister of Public Enterprises, in terms of the Public Finance Management Act, 1999, for Transnet to involve the private sector in branch line operations. Consultations on the branch lines strategy then commenced with the Department of Transport, National Treasury and, importantly, organised labour, enabling implementation of the approved branch lines concessioning plan to begin in 2011. Once the feasibility studies have been completed for each concession opportunity, concessions will be offered in phases through competitive bids.

The branch lines railway infrastructure assets will be retained within Transnet but provision will be made in the concession agreements for the branch lines to be transferred to another Government entity should Government decide to establish a separate branch lines public entity. Private parties will be offered the opportunity to maintain and operate the lines or clusters of lines in terms of the concession agreements. Insofar as Government is able to provide subsidies to branch line operators for the capital costs of rehabilitating or maintaining the lines, such subsidies will be provided to the concessionaires through administrative mechanisms managed by Government. Where required, and subject to available capacity, Transnet will provide rolling stock on lease to private operators.

Access arrangements will be structured per concession to enable concessionaires to move cargo from the branch lines onto the Freight Rail core network, taking account of safety and operational requirements. Agreement terms will be based on transparent access pricing formulae specified per concession agreement.

Post-balance sheet, a market testing exercise was conducted to establish the nature and extent of the market's interest in participating in these concession opportunities: in terms of this, interested parties were invited to register their non-binding interest to operate these branch lines. This Registration of Interest phase, which was conducted in June 2010, will be followed by a detailed Expression of Interest phase and, thereafter, by a competitive bidding phase in which a formal and binding Request for Proposals will be issued. It was envisaged that all these steps will be undertaken during the course of 2010 and the entire process will be completed by the first half of 2011. More information on these opportunities is available on: www.transnet.net\branchlines.aspx

During the year, Transnet appointed a senior executive, supported by a small specialist team, to implement this imaginative initiative. Further, transaction and independent legal advisers were appointed to assist with the implementation of this plan.

Africa strategy

According to a recent World Bank publication, Africa's share of world exports has dropped by nearly two-thirds in three decades from 2,9% in 1976 to 0,9% in 2006. The weak regional transport network has been a significant contributory factor to the sub-Saharan region's poor trade performance.

There is growth potential in the African transport and logistics market which will be enhanced by the increasing foreign direct investment (FDI) in infrastructure and a policy environment geared towards regional integration.

Although Transnet intends to increase its footprint in the region, the opportunities in the short to medium term are limited due to several constraints, particularly the unavailability of skills and financial resources. A number of areas have, however, been identified for exploration going forward. These include:

- Driving the establishment of the regional short-sea shipping market and the establishment of a transhipment hub at the Port of Ngqura. Of specific importance will be the establishment of partnerships with regional ports. In this regard, initiatives with the Port of Luanda have started;
- Enhancing the capacity and efficiency of the Maputo corridor and deepening co-operation with the Port of Maputo; and
- Improving the efficiency of cross-border rail services and growing volumes on existing SADC rail corridors.

Domestic intermodal

The need for wider employment of intermodal freight solutions has long been understood. However, the process has been frustrated by fragmented actions by the main system players; a historical underinvestment in rail, which compromised the predictability and reliability of the rail service; and the absence of a clear strategy to develop and implement intermodal solutions.

Growing congestion, driver shortages, security concerns and a steadily increasing fuel price have seen the local industry warm up to intermodal solutions. A focused effort to grow container volumes has yielded success, with Transnet's market share of inland rail containers increasing by more than 90% over the past 24 months.

A continued focus on the domestic intermodal sector will see Transnet's market share grow significantly on the main transport corridors. Growth initiatives will include investment in rolling stock and inland container terminals; improved technology solutions; and partnerships with private sector operators to ensure that Transnet can provide customers with integrated door-to-door transport solutions.

Industrial action at Transnet

On 20 May 2010, some of Transnet's bargaining sector employees embarked on protected strike action for three weeks. The strike, turned violent, caused damage of more than R50 million to Transnet's assets and clients were severely inconvenienced. However, following the implementation of rigorous contingency plans and the commitment of employees, the Company was able to move key commodities, including jet fuel and FIFA World Cup-related cargo, during this period. The strike has set back some of our Quantum Leap plans. But intense and detailed recovery plans have been formulated to clear backlogs and ensure a speedy return to normality for our operations.

The strike was completely unnecessary and damaging to all. When the talks started, the management team sensed a "strike mood" amongst unions. This was confirmed when our bold proposal of an 11,2% wage increase – more than double the rate of inflation – was rejected, resulting in a strike being called. The fact that employees returned to work on the same offer is the most heart-breaking part of it all. The aftermath is that employees and their families suffered severe financial strain.

Even more concerning is the fact that employees were misled during the strike: first, about the real meaning of the Transnet offer; and second, they were fed incorrect information. For example, it was claimed that our unionised employees had settled for a 7% wage increase for the year to end 31 March 2010, when management awarded itself a 14% increase. Whilst it is true that the bargaining sector were awarded a 7% increase for the year, all management was given an average 5% increase. This was implemented only during the second half of the year giving them an effective 2,5% increase for the full year. Therefore, the 14% increase is a malicious misrepresentation of facts. Crucially, executive remuneration is determined by the Remuneration Committee of the Board which is made up exclusively of non-executive directors.

Conclusion

In spite of an overall environment of lower economic growth, major opportunities exist to grow the business in the short term particularly in the areas of regional transhipments, containers on rail, coal, iron ore, manganese, magnetite, and domestic intermodal transportation. The successful execution of the growth strategy will result in a revenue growth of 13,8% per annum over the next five years and an increase in EBITDA of 19% per annum over the same period, while investment in the port, rail and pipeline network over the next five years will total R93,4 billion.

Funding to be raised over the period amounts to R41,4 billion, including the redemption of existing loans, with R38,9 billion being redeemed over the first three years. A detailed funding plan has been developed identifying the appropriate sources available (also see the CFO's Review in this report).

Transnet's strategy requires focus on a wide range of areas. However, of primary importance is a quantum leap in customer service, operating efficiencies and productivity, safety and environmental compliance.

Transnet has set challenging targets for key operational performance indicators, such as wagon and locomotive utilisation, shipping delays and terminal operations. From a service delivery perspective, timekeeping measures for rail departures and arrivals have also been elevated to a key focus area. Cost containment remains of paramount importance and, accordingly, sustainable cost containment initiatives have been incorporated into the 2011 business plans for all the operating divisions.

Safety and environmental compliance remain key focus areas for the Company. Transnet will ensure that standard operating procedures (SOPs) are in place, accessible, understood by employees, and appropriately updated in order to achieve a quantum leap in safety performance. Consequently, non-compliance with these SOPs will be dealt with severely and immediately. Transnet will continue to perform regular environmental compliance reviews and take proactive action at all places of business.

Transnet will partner with the private sector to accelerate the pace of infrastructure investment and to expand the benefits of private sector capital, knowledge, expertise, systems and technologies. Private sector partnerships will also expand the range of services offered by Transnet to customers.

Appreciation

It has been a year of great challenges for Transnet, the country and the global economy. As acting Group Chief Executive, I am deeply honoured to have been afforded the opportunity to play a modest role in steering this fine and important institution through the choppy waters of the past year. I could not have done it alone. I was fortunate enough to have the dedicated support of many colleagues. Let me start off by again extending our deepest condolences to the families of the eight colleagues who lost their lives on duty during the course of the year. I am painfully aware that the progress on safety we record in this Review is cold comfort to them. We will continue to work to achieve our target of zero fatalities in our workplaces.

I am deeply indebted to the counsel; support and guidance that have received from acting Chairman, Prof Geoff Everingham. In this extremely challenging year it was comforting to have the opportunity to discuss and review issues and receive encouragement from Prof Everingham. I also want to pay tribute to Mr Fred Phaswana, who retired as Transnet chairman at the last AGM, and who, together with Ms Maria Ramos, the former Transnet chief executive, has been an inspiration over a number of years. My colleagues on the Board as well as the Group Executive Committee have been pillars of strength.

Transnet is only a success because of the ongoing commitment of its entire workforce and the support and leadership of organised labour recognised by the Company. A special welcome goes to newly appointed employees who have joined our organisation.

The Shareholder's support is an important artery in the business and the continued support of Ms Barbara Hogan, MP, the Minister of Public Enterprises, and her Deputy, Mr Enoch Godongwana, MP, has been vital. So too has been the guidance from senior DPE officials, especially Ms Portia Molefe, the former Director-General who left during the financial year; her successor Advocate Sandra Coetzee, the former acting Director-General; and Dr Andrew Shaw, the current acting Director-General.

Many thanks go to our investors, bankers and financiers and, of course, our loyal customers. Finally, Transnet enthusiastically endorses Parliament's oversight role exercised through the Portfolio Committee on Public Enterprises. I really trust that we will be able to achieve the same degree of constructive exchange characterised by mutual respect with the current committee as we have experienced in the past with predecessor committees.

Chris Wells
Acting Group Chief Executive

9 June 2010

Anoj Singh
Acting Chief Financial Officer

Transnet's financial strategy is informed by its strategic intent and has proven flexible enough to withstand the impacts of the economic instability over the past 18 months. This has enabled the Company to achieve its strategic objectives whilst maintaining a sound financial position.

The financial strategy, which is core to enabling the Quantum Leap Strategy, encompasses the following key components: capital allocation and portfolio management; cost reduction and optimisation; the maintenance of financial metrics to an acceptable level, specifically the cash interest cover ratio and gearing; the management of working capital; the execution of the funding programme; and the maintenance of the Company's investment grade credit rating.

The major operational and financial performance indicators of the business are monitored through dynamic planning processes on a weekly basis. The impact of these indicators on the financial strategy are evaluated and appropriate corrective actions are taken.

During the year, the uncertain economic environment negatively impacted major revenue drivers. Consequently, the Company had to amend its cost structure and reprioritise its capital investment plan to ensure financial stability.

I am very pleased to report that the combination of a clear financial strategy, advanced planning, reliable monitoring and reporting mechanisms together with quick and decisive actions has enabled the Company to build on its strong financial position of the past, whilst creating a strong financial platform to enable the Quantum Leap Strategy.

Group operating performance – continuing operations GRI 1.1

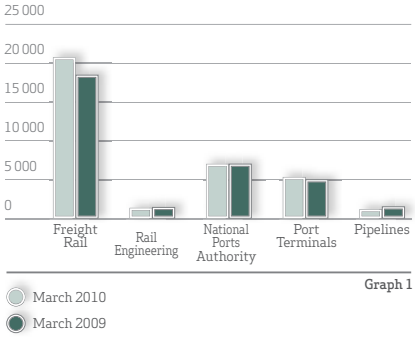
Revenue for the current year increased by 6,0% to R35,6 billion (2009: R33,6 billion). Volumes on the iron ore export line increased by 21,5% to 44,7mt (2009: 36,8mt) which was in line with contractual commitments to customers. This represents an increase of 41,0% since 2005 which was achieved as a result of the significant capital investment; operational efficiency improvements as well as the implementation of dual loading cranes at the ports. Export coal volumes decreased marginally by 0,2% to 61,8mt (2009: 61,9mt), mainly due to operational challenges experienced by Freight Rail, as well as the delays experienced in the commissioning of the Richards Bay Coal Terminal expansion project. A detailed plan has been developed to address the Freight Rail issues and the benefits are already evident with a record volume of 1,5mt per week being achieved in the final quarter of the year. Export coal tariffs were increased in line with contractual commitments to customers to achieve a fair return on invested capital. General freight tons decreased to 72,1mt (2009: 78,4mt) when compared to the prior year. However, significantly, the market share for containers on rail increased by 5,7% during the year.

Port revenues were negatively impacted by the decrease in container volumes of 4,5% when compared to the prior year. These were offset by higher bulk export volumes such as iron ore and manganese, which increased by 35% and 18% respectively.

Pipeline revenues were negatively impacted by the 10,4% decrease in tariffs imposed by Nersa. The uncertain economic regulatory environment has resulted in Pipelines' revenues not increasing in real terms since 2007 as depicted below. These tariff increases are not sustainable over the long term and consequently continuous interaction with the Regulator is taking place to ensure the certainty of tariff increases and cash flows. (Refer graph 2).

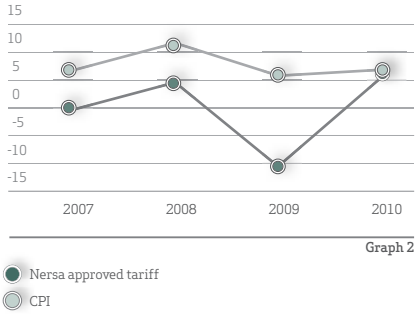
The Group achieved the revenue increase despite the impact of the global economic downturn and local recessionary environment which impacted on demand for commodities and container traffic. The graph below depicts the impact of the recession on revenues for the first half of the financial year. The resumption of positive economic growth locally and internationally contributed to the revenue growth in the second half of the financial year. (Refer graph 3).

Revenue by operating division (R million)



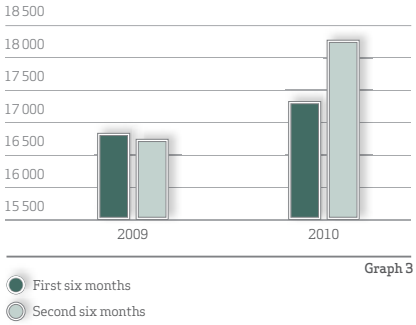
Graph 1

Nersa approved tariffs vs CPI (%)



Graph 2

Revenue six-monthly comparison (R million)



Graph 3

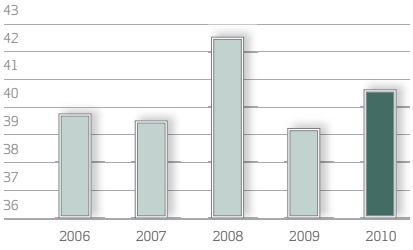
Operating costs by major category

2010

2009

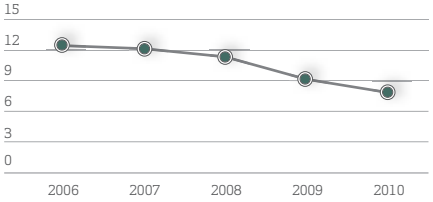
	2010	2009
Energy costs	14%	15%
Maintenance	2%	1%
Managerial and technical consulting fees	3%	5%
Material costs	8%	9%
Operating leases	6%	6%
Personnel costs	53%	51%
Security	3%	3%
Telecommunications and electronic data costs	3%	3%
Other	8%	7%

EBITDA margin (%)



Return on average total assets

(excluding CWIP) (%)



Operating costs

The uncertain economic environment required the Company to be dynamically managed with the business focusing on operational efficiencies and cash flow management to maintain financial stability. A robust cost-cutting exercise implemented at the onset of the economic crisis resulted in a reduction of approximately R1,9 billion of costs compared to planned expenditure, notwithstanding high increases in input costs such as electricity and fuel. Consequently, net operating costs increased by only 4,0% to R21,2 billion (2009: R20,4 billion) reflecting significant operational efficiency gains.

The graph below depicts the sensitivity to price changes on the major operating expense.

Sensitivity analysis of major operating costs

Accordingly, earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 9,2% to R14,4 billion (2009: R13,2 billion) resulting in an improvement in the EBITDA margin to 40,5% (2009: 39,3%). It is anticipated that margins will be maintained over the medium term.

Depreciation and amortisation of assets for the year increased in line with expectations by 27,4% to R6,1 billion (2009: R4,8 billion). This increase is due to the significant ramp up in capital investments over the last five years, amounting to approximately R71,8 billion, as well as the revaluation of port infrastructure and pipeline network assets. This trend is expected to continue with the execution of the capital expenditure programme.

As a result, profit from operations after depreciation and amortisation decreased by 1,2% to R8,3 billion (2009: R8,4 billion).

Post-retirement benefit obligation costs are actuarially assessed every six months in accordance with IAS 19, and adjusted accordingly. The lower cost of R180 million (2009: R436 million) in the current year is due to a provision of R500 million that was raised in the prior year for restructuring of the SATS pensioners' post-retirement medical subsidy.

Impairment of assets amounted to R778 million (2009: R324 million). This impairment charge arose primarily from the impairment of feasibility costs previously capitalised of R401 million and impairments of trade and other receivables amounting to R145 million.

Net fair value losses of R18 million (2009: R941 million gains) were recorded during the year. These relate primarily to the 'mark to market' of derivative financial instruments amounting to R382 million (2009: R423 million) which the Group holds to hedge financial risks emanating from the capital investment programme. To the extent that the hedges meet the effectiveness criteria as detailed in IAS 39, the 'mark to market' of these derivative instruments is recorded in the statement of financial position. Consequently, the Company does not expect these losses to recur as all hedges are expected to be highly effective. Fair value gains from investment property revaluations of R276 million (2009: R1,4 billion) offset these losses. The decrease compared to the prior year is due to the lease commercialisation process undertaken in terms of the National Ports Act which increased rentals in the prior year.

Accordingly, profit from operations before net finance costs of R7,3 billion (2009: R8,7 billion) reflected a decrease of 15,4% when compared to the prior year.

The return on total average assets has decreased as expected as the capital investment programme accelerated over the last five years. Returns are expected to exceed 10% over the medium term, with volume growth, operational efficiencies and productivity improvements forming part of the Quantum Leap Strategy going forward.

Finance costs increased by 35,0% to R3,0 billion (2009: R2,2 billion) as a result of the execution of the borrowing programme to fund the increase in capital expenditure. Capitalised borrowing costs amounted to R1,5 billion (2009: R764 million) and will continue to increase with the execution of the capital expenditure programme. Finance income increased to R578 million during the year and is attributable to the increase in cash balances which formed part of the Group's pre-funding strategy in response to the increased liquidity risk in global markets.

The taxation charge for the year amounted to R1,7 billion (2009: R1,7 billion), comprising a current taxation charge of R799 million (2009: R739 million) and deferred taxation charge of R923 million (2009: R935 million). The effective taxation rate for the Group at 36,0% (2009: 24,9%) is above the corporate taxation rate of 28%, mainly as a result of items not deductible for taxation purposes.

Profit for the year from continuing operations amounted to R3,2 billion (2009: R5,0 billion).

Group operating performance – discontinued operations

Businesses and investments that meet the criteria set out in IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations (IFRS 5), are classified as "non-current assets held-for-sale" and are reported as discontinued operations. Net losses of R516 million recorded in the prior year arose from South African Express Airways (Pty) Limited, Autopax Passenger Services (Pty) Limited, Shosholoza Meyl and Luxrail. All these businesses with the exception of Luxrail were disposed of in the prior year. The current year losses are mainly made up of Luxrail losses of R35 million and credit notes of R107 million passed to Shosholoza Meyl during the year.

Group financial position

Revaluation of property, plant and equipment

The accounting policies of the Company require port infrastructure and pipeline network assets to be carried at revalued amounts. A full revaluation of port infrastructure and the pipeline network is conducted every three years with an index revaluation being performed in the intervening years. During the current year, an index valuation was applied to both the pipeline networks and the port infrastructure.

The carrying value of the pipeline networks, as determined by independent experts using the modern equivalent asset methodology, was increased by R167 million (2009: R636 million).

Based on the applicable valuation methodology, the carrying value of port infrastructure required a revaluation of R3,5 billion (2009: R3,5 billion) which was recorded in accordance with IAS 16: Property, Plant and Equipment.

Deferred taxation

The revaluation of property, plant and equipment recorded in other comprehensive income as well as the temporary differences arising from the execution of the capital investment programme are the primary reasons for the deferred taxation liability increasing to R11,4 billion (2009: R8,6 billion).

Post-retirement benefit obligations

The Group provides various post-retirement benefits to its active and retired employees, including pension, post-retirement medical and other benefits. The two defined benefit funds, namely the Transnet Second Defined Benefit Fund (TSDBF) and the Transport Pension Fund (TPF) – Transnet Sub-Fund, are fully funded with actuarial surpluses of R3,2 billion (2009: R2,8 billion) and R1,7 billion (2009: R701 million) respectively.

Transnet has not recognised any portion of the surplus on these funds as the present fund rules at present do not allow for the distribution of a surplus. The post-retirement medical benefit obligation is approximately R1,6 billion (2009: R1,9 billion) which is fully provided for.

In addition, Transnet has made a provision of R40 million for an *ex gratia* bonus payment to TSDBF pensioners. This brings the total amount spent by Transnet on bonus payments to R370 million in the past four years. The payment will be made mainly to those pensioners with relatively low pensions and long service, as these individuals are unlikely to have significant alternative retirement funding income as well as pensioners that were previously disadvantaged by the rules of the fund.

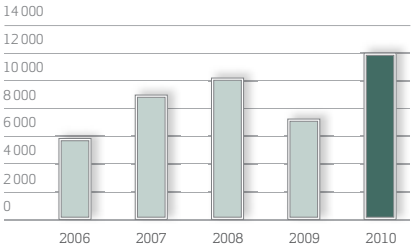
Contingencies and commitments

There have been no material movements in contingencies and commitments since 31 March 2009. The Company reached an out of court settlement with Umthunzi Telecoms Consortium (Pty) Limited following their initial claim of R2,2 billion which was subsequently revised down to R616 million. The final settlement amount was a small fraction of the amount claimed.

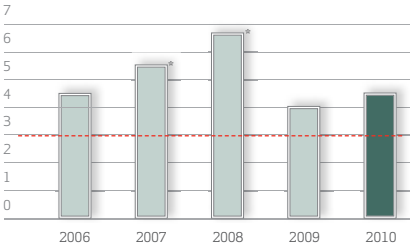
Guarantees

As sole Shareholder in Transnet Limited, the South African Government, has guaranteed some of the Group's borrowings amounting to R11,1 billion (2009: R11,7 billion). No new Government guarantees have been issued since 31 March 2004.

Cash flow from operating activities (R million)



Cash interest cover (times)



----Board and Shareholder set limit.
*High due to disposal of non-core assets.

Cash flows

Cash generated from operations amounted to R16,4 billion (2009: R13,5 billion), an increase of 21,7% when compared to the prior year, evidencing the ability of the Group to generate strong, predicatable, sustainable cash flows. Significant focus on the management of working capital resulted in an inflow of R1,1 billion enabling cash generated from operations after working capital changes to increase by 61,9% to R17,6 billion (2009: R10,9 billion).

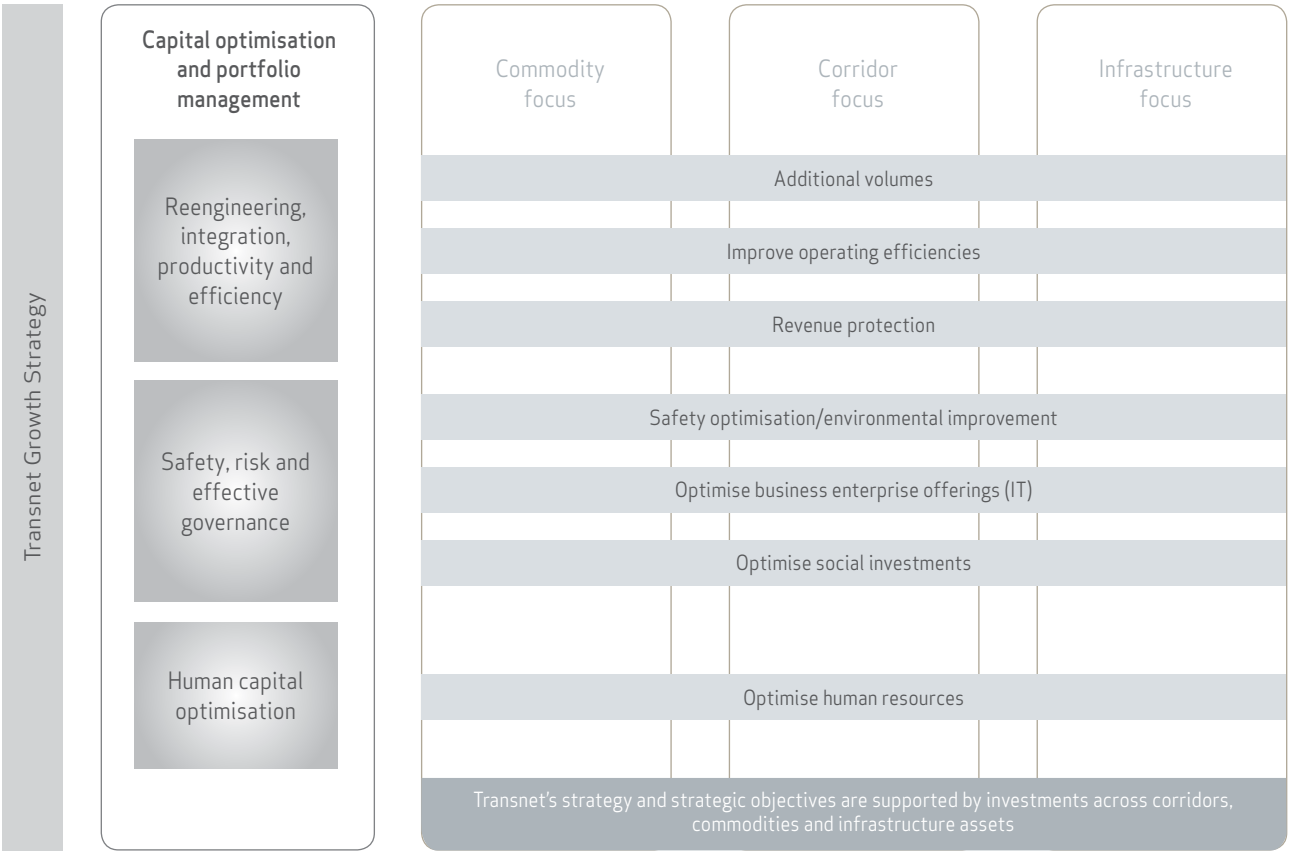
The cash interest cover ratio at 4,5 times (2009: 4,0 times) remains strong and significantly above the required minimum level of 3,0 times.

Transnet will continue to exercise robust cash management by combining appropriate strategic sourcing strategies; effective demand management; inventory control; effective management of payment terms to suppliers and the strict monitoring of payments from customers. In addition, cash flow forecasting and monitoring, together with appropriate investment strategies will mitigate any negative cost of carry.

Capital investments

Capital optimisation and portfolio management

Transnet's capital investment policies and procedures ensure both the robustness of the capital projects it undertakes and the achievement of a fair rate of return. Projects selected for investment meet the Group's set investment criteria and reflect the Company's developmental and sustainability objectives. Transnet's value-driven capital investment approach is outlined below:



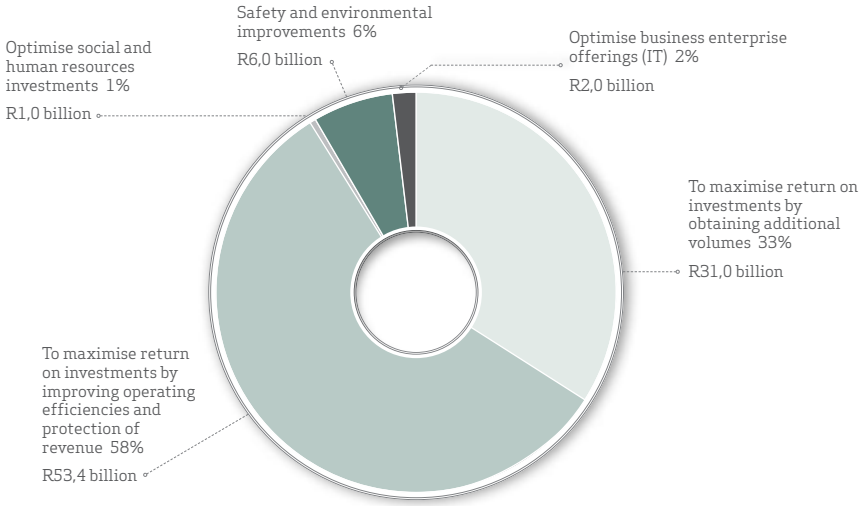
- The capital portfolio management framework (CPMF) determines the appropriate balance of projects that will create the optimal capital portfolio required to achieve the Company's strategic objectives. The CPMF methodologies encompass financial evaluation criteria such as the Net Present Value (NPV) and the Internal Rate of Return (IRR), thereby ensuring firstly, that these projects maximise shareholder value and secondly, that the Company's financial metrics are protected.
- The weighted average cost of capital (WACC) and hurdle rates policy derives hurdle rates to be used for project evaluation. The policy also defines the methodology in calculating the WACC and indicates the risk premium to be allocated to a specific project, depending on whether a project is classified as a 'greenfields' or 'brownfields' project.
  - 'Greenfields' projects are usually associated with higher business risks and consequently a higher return requirement.
  - 'Brownfield' projects are projects relating to the expansion of existing operations and the replacement of existing capacity, with lower levels of business risks.
- Other factors considered in the CPMF include improved operational efficiencies, additional volumes, revenue protection, safety optimisation, and social and environmental considerations.

Transnet has numerous other mechanisms to minimise the risks associated with capital projects and to ensure that projects achieve their strategic and financial objectives:

- Entering into "take or pay" contracts with certain customers to ensure that invested capital is recovered.
- Outsourcing the management of mega and major projects to Transnet Capital Projects.
- Sourcing international and local expertise to assist in the rollout of major capital projects.
- Obtaining forward cover on all capital projects where there are foreign currency exposures.
- Performing a semi-annual review and post-implementation review to ensure that major projects meet their initial objectives. This also provides management with the opportunity to take proactive corrective steps to address negative deviations.

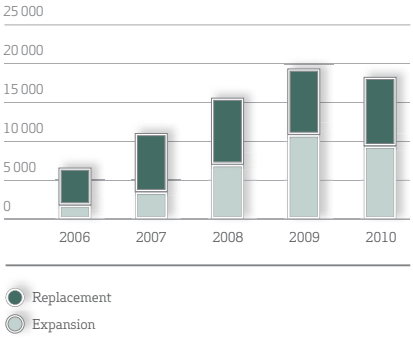
The approval of capital projects follows a robust process. Accordingly appropriate governance structures with delegated levels of authority have been established. Projects are closely monitored in the execution phase and progress against the approved estimated total cost is reported to all the relevant governance structures, including the Board and the Shareholder.

The graph below depicts the capital investment plan for each strategic objective, applying the CPMF. It also reflects that 91% of the capital expenditure programme will ensure revenue growth or revenue protection going forward.

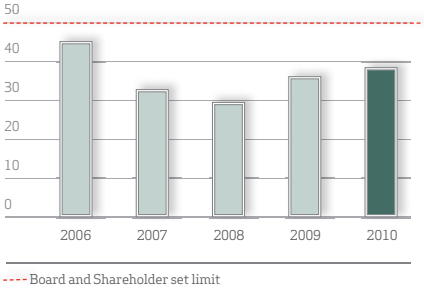


Historic capital investments

(R million)



Gearing (%)



Five-year investment plan

The capital investment plan for the next five years amounts to R93,4 billion of which R34,2 billion will be spent on expanding capacity and R59,2 billion will be spent on maintaining existing infrastructure and equipment. Approximately 59% is expected to be invested in projects relating to Freight Rail and Rail Engineering, 26% in National Ports Authority and Port Terminals and 15% in Pipelines and other projects.

The capital expenditure programme is updated annually as part of Transnet's robust planning and budgeting cycle. The Company is committed to investing in infrastructure to provide capacity ahead of demand, provided that such investment is commercially viable.

Accordingly, Transnet will increase its locomotive and wagon fleet by 15% and 10% respectively over the next three to five years, thereby creating additional capacity for export iron ore up to 61mt, coal export up to 81mt and general freight up to 110mt. Container capacity will also be increased from 4,56 million TEUs to 6,26 million TEUs whilst the completion of the NMPP will increase the pipeline capacity from 4,4 billion litres to 8,7 billion litres.

The Company's infrastructure maintenance plan is aimed at improving operational efficiencies by 20% over the next three years.

Funding

Activities for the year

A well defined funding strategy has enabled the Group to successfully increase its borrowings by R29 billion over the last five years on the strength of Transnet's financial position without any Government guarantees.

The strong standalone foreign currency credit rating of Transnet of A3/BBB+ will enable the Group to successfully fund the capital investment programme. Transnet's funding requirements over the next three years amounts to R38,9 billion. It is estimated that the funding requirement for the next year will be to R17,2 billion, including the refinancing of commercial paper.

Funding raised for the year amounted to R20 billion including a pre-funding buffer of approximately R6 billion. The Company adopted a strategy of pre-funding its cash flow requirements due to the increase in liquidity risk caused by the global economic crisis.

The commercial paper programme and long-term bonds continued to be a significant source of funding with an amount of R13,5 billion being raised in the domestic markets. The club loan facility concluded in the prior year allowed the Group to raise an amount of R2,5 billion.

A key element of the funding strategy is to access export credit agencies (ECA) as their support enables a lower cost of borrowing. The Company concluded four international funding agreements during the year as detailed below:

- A 10-year, fixed rate loan agreement with Finnvera, an export credit agency in Finland (R680 million drawdown);
- A 12-year, floating rate loan agreement with the Japan Bank for International Co-operation (R1,9 billion drawdown);
- A 10-year, fixed rate loan agreement with the American Family Life Assurance Company (R1,2 billion drawdown); and
- A 15-year, fixed rate loan agreement with the Agence Francaise de Developpement (AFD) (€200 million).

Borrowings of R9,3 billion were repaid during the year, relating mainly to commercial paper and domestic unsecured floating rate loans which matured.

The gearing ratio increased to 38,5% (2009: 36,2%), as expected due to the funding of the capital expenditure programme, but remains below the Group's target range of 50%. This demonstrates the significant capacity to raise additional funding for future capital expenditure. It is expected that the gearing ratio will not exceed the targeted ratio in the medium term.

The Company successfully launched its inaugural US$2 billion GMTN which was established on the United Kingdom Listing Authority on 26 January 2010. This facility will enable the Company to further diversify its investor base and allow it to access the international debt capital markets thereby reducing its dependency on the domestic markets.

The main sources of funding for the year ahead consist of existing undrawn facilities on the above loans, a drawdown under the GMTN programme, export credit agency facilities, as well as commercial paper and domestic bonds.

The Company has adequate cash on hand of R7,9 billion (March 2009: R5,9 billion) and committed banking facilities of R3,5 billion to meet its current commitments.

Funding strategy

Transnet will continue to fund its requirements cost-effectively and to diversify its funding sources both in the domestic and international markets. The Company will, furthermore, minimise market risk, as well as foreign exchange and interest rate risk by implementing proactive measures. The funding plan will focus on:

- Using commercial paper for short-term funding needs;
- Using export credit agency supported funding for imported equipment;
- Tapping into existing domestic bonds;
- Introducing new bonds in the domestic market;
- Issuing in the international capital markets;
- Utilising development funding;
- Considering project finance for appropriate projects.

Medium-term funding requirements

Given that Transnet will invest R93,4 billion over the next five years, the related funding requirements for this period amount to R41,4 billion with R38,9 billion required over the next three years.

The funding strategy will ensure that the Company is able to successfully fund its capital investment plan cost-effectively without breaching the set financial metrics. As demonstrated in the recent past, Transnet has the ability and capacity to raise the required funding and we are confident that the Company will continue to successfully meet its funding requirements.

	Target	Projections				Total
	2011	2012	2013	2014	2015	Five year
	R million	R million	R million	R million	R million	R million
Cash flows from operating activities	11 476	14 316	15 613	17 647	20 936	79 988
Capital investments	(22 831)	(21 913)	(17 119)	(16 226)	(15 292)	(93 381)
Capitalised borrowing costs	(1 703)	(1 961)	(1 156)	(553)	(608)	(5 981)
Other investing activities	31	276	(360)	(420)	(460)	(933)
Cash surplus/(shortfall)	(13 027)	(9 282)	(3 022)	448	4 576	(20 307)
Loan redemptions	(4 182)	(8 569)	(860)	(883)	(6 593)	(21 087)
Funding requirement	(17 209)	(17 851)	(3 882)	(435)	(2 017)	(41 394)

The funding schedule below depicts the probable sources of funding that will be utilised during the next financial year. These sources will be influenced by market conditions, investor appetite and pricing.

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

Financial risk management

The Group's financial risk management policies are contained in a Board approved financial risk management framework (FRMF) and are updated and approved by the Board on an annual basis. The FRMF is implemented in the Company through an approved delegation of authority framework that stipulates the detailed mandates within which all funding and hedging activities can be executed.

The main focus of the FRMF is to ensure that all financial risks that emanate as a result of the Company's operational and funding activities, are mitigated and managed within the ambit of this policy, thereby protecting the financial stability and sustainability of the Company. The financial risks should be read in conjunction with annexure A, as set out in the annual financial statements.

Risks to the funding plan

The following risks pertain to the funding plan and mitigating strategies to minimise these risks are in line with the FRMF.

Risks	Mitigating strategies	Actions during the year
Breach of gearing and cash interest cover ratio target.	• The weekly dynamic planning process to monitor revenue, volumes and costs will ensure that EBITDA targets are maintained and corrective actions are taken to maintain within targets.	• Gearing ratio of 38,5% maintained well below the target of 50%. • Achieved a cash interest cover ratio of 4,5 times which is above the target of 3 times.
Cash flow estimates being significantly different from actual results.	• Implementing a regular cash flow forecasting process. • The Group Executive Committee regularly reviews the Capital Investment Plan and takes corrective action in the event of anomalies. • The weekly dynamic planning process monitors revenue and performance forecasts.	• In response to a reduction in planned revenue resulting from the economic crisis and economic regulation the Company achieved: – A cost-reduction of R1,9 billion compared to planned operating expenditure. – A cost-reduction of R3,6 billion compared to planned capital expenditure.
Liquidity pressure in the market and insufficient investor appetite.	• Establishing and utilising both local and offshore borrowing programmes to diversify sources of funding. • Utilising committed short-term bank facilities and a commercial paper programme for bridging finance purposes. • Maintaining an appropriate cash buffer for daily cash requirements.	• In response to the increased liquidity risk brought on by the economic crisis the Company implemented a pre-funding strategy. • This strategy ensured a pre-funding buffer of R5 billion – R7 billion was available at all times to mitigate any liquidity risk.
Delays in capital project implementation and cost escalations.	• Reviewing major projects forecast monthly in line with the cash management policy. • Working closely with project teams from initiation of key projects through to final sign-off, implementation and monitoring.	• NMPP construction delays experienced during the year resulted in non-compliance with the licence conditions. • NMPP estimated total project costs have also increased to R15,5 billion compared to previous estimates.
Exchange rate movements.	• Encouraging rand contracting. • Hedging currency exposure at agreement signing stage. • Procuring rand funding wherever possible.	• Purchased locomotives from General Electric with a fixed ZAR price. Contract value of R2,3 billion. • Hedge accounting in terms of IAS 39 implemented to manage income statement volatility due to marking to market of the derivative instruments utilised. • Successfully concluded all ECA funding in ZAR.
Commodity price movements.	• Monitoring commodity price movements monthly and where appropriate implementing a hedging programme on any significant fuel exposures not covered.	• Managed diesel fuel exposure by only utilising natural risk offset as contained in major customer agreements to compensate Transnet for changes in fuel prices.
Rising interest rates.	• Monitoring interest rate movements and where appropriate using derivative instruments to hedge imminent exposure. • Balancing the fixed/floating mix of the loan book to create a natural hedging mechanism. • Swopping foreign interest rate risk to ZAR interest rate risk when foreign funding is done.	• Achieved a weighted average cost of debt of 10,35% compared to 11,24% of the prior year. • All foreign borrowings swapped into ZAR with fixed interest rates. • Fixed/floating ratio maintained within Board approved range for the full year.

Integrated supply chain management (ISCM)

GRI EC1

The objective of ISCM is to deliver value for money through the procurement of the right goods and services in the most timely, cost-effective, fair, transparent, equitable and competitive manner. During the year, the difficult economic conditions made it increasingly important to procure goods and services in the most efficient, effective and cost-effective manner to ensure that Transnet meets its strategic objectives.

Accordingly, the Company performed a rigorous review of its operating costs and capital expenditure structures. Savings of R1,5 billion were targeted and savings of R2,7 billion were ultimately achieved in terms of operating costs. These savings were offset by higher than budgeted personnel costs, electricity and security costs resulting in a net saving of R1,9 billion.

A savings target of R1 billion was set for capital expenditure, and a saving of R3,6 billion was achieved through value reengineering and the reprioritisation of capital expenditure.

Information, communication and technology (ICT)

GRI EC1

Transnet ICT's objective is to ensure strategic alignment of multiple business needs through technology enablement and the provision of automated business solutions. ICT provides a coherent technology platform to support Transnet's strategy and focuses on:

- Providing a seamless and reliable ICT service across Transnet;
- Aligning regulatory requirements for compliance and IT governance as stipulated in King III;
- Offering reliable technology capabilities to drive end-to-end service provisioning and effective decision-making; and
- Promoting innovation by improving the functioning of ICT, whilst simultaneously considering methods to transform the business through efficiencies derived from technological advancement.

In the past year, the following ICT enablement projects were concluded:

- An electronic enterprise risk management process has been implemented, enabling risk management to be performed across Transnet through a central enterprise risk management solution;
- A contract lifecycle management solution was implemented to standardise and manage revenue and procurement contracts across the Group, with immediate benefits being derived through improved controls and standard contracting processes;
- A project management system was rolled out across the Group to ensure that capital spend is well managed in a systemic environment; and
- The network, outsourced to Neotel, has been stabilised following the transition and transformation phase of the sale of Transtel. Service levels and reliability have improved to acceptable levels.

Shared services

GRI EC1

The Transnet Shared Services Centre will support the Quantum Leap Strategy by providing efficient, professional and value-adding support services to the operating divisions through continuous improvements, thereby increasing operational efficiencies of routine transactions.

During the year, the following important milestones were achieved:

- The HR Shared Services programme was initiated as a pilot and a high level design phase was completed in December 2009;
- Work commenced to transform the SAP support service and Transnet Content Bureau to function as shared services offerings;
- A shared services feasibility study, relating primarily to finance, procurement and ICT, is nearing completion. The outcome of this study will shape the shared services platform of the Company in future; and
- A high-level assessment of other support functions was conducted to determine suitability for shared services.

Internal control environment

The Board and management recognise that a strong control environment is essential to manage risks, improve performance, enhance governance, encourage stakeholder confidence and to strengthen the reputation of the organisation. Transnet's control framework encompasses a broad range of operational components and business functions, including:

- Enterprise risk management;
- Enterprise performance management;
- Information communication and technology;
- Regulatory compliance;
- Internal controls (both financial and operational);
- Fraud prevention, detection and investigation; and
- Internal audit.

Values and ethics form the keystone of an effective control environment and significant emphasis continues to be placed in this area. In addition, management has strengthened the financial controls over the last four years, resulting in sustained improvement in this area. Through the development of standard control frameworks for each major financial process, control objectives have been defined and supporting controls introduced across the Group. This was supplemented with control awareness training, the introduction of controls self-assessments (CSAs) and regular monitoring and reporting of performance against agreed targets. The higher maturity level within the core financial processes is directly attributable to the improved control consciousness of the organisation.

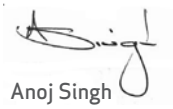
The focus areas for the next year will be continuous controls monitoring (CCM); further enhancement of capital expenditure controls; and strengthening of tender controls across the organisation. The inclusion of operational controls in the internal audit plan has resulted in an improvement in the areas reviewed. Additional improvement is required to enhance the internal control environment and to achieve the desired level of maturity. Management will, therefore, place greater emphasis on this area in the years ahead to achieve sustainable organisational performance.

Internal audit is regarded as a strategic function within the organisation and a critical component in ensuring sound corporate governance. This function's critical role in driving improvements in the overall control environment is duly acknowledged.

Refer to the Group Audit Committee report for further details.

Prospects

The economy continues to show slow signs of recovery. Consequently, demand for commodities has strengthened. Accordingly, continued volume growth for the year ending 31 March 2011 is expected.



Anoj Singh
Acting Chief Financial Officer

9 June 2010

Consolidated value added statement

As at 31 March 2010

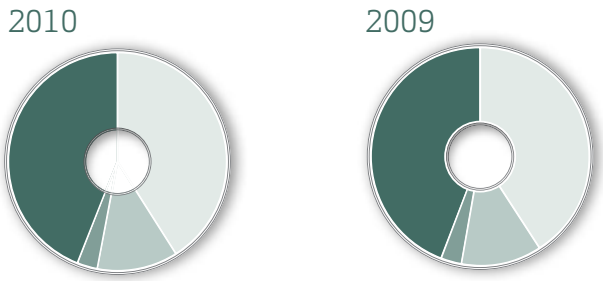
Value added is defined as the value created by the activities of a business and its employees. For Transnet, this is determined as revenue less the cost of materials and services. The value added statement reports on the calculation of the value added and its application among the stakeholders of Transnet.

	% change versus 2009	2010 R million	Value apportioned 2010 %	2009 R million	Value apportioned 2009 %
Revenue	6,0	35 610		33 592	
Cost of materials and services		(9 892)		(10 062)	
Net operating expenses excluding depreciation, derecognition and amortisation		(21 201)		(20 392)	
Excluding: Personnel costs		11 309		10 330	
Value added by operations	9,3	25 718	98	23 530	95
Other income	(56,2)	565	2	1 290	5
– Investment and other income		578		267	
– Income/(loss) from associates		5		82	
– Fair value adjustments		(18)		941	
Value added/created	5,9	26 283	100	24 820	100
Applied as follows:					
Employees	6,7	11 489	44	10 766	43
– Personnel costs		11 309		10 330	
– Post-retirement benefit obligation costs		180		436	
Providers of capital#	35,0	3 014	11	2 233	9
– Lending institutions		3 014		2 233	
Government*	5,7	804	3	761	3
– South African normal taxation		799		739	
– Capital gains taxation (CGT)		–		15	
– Foreign taxation		5		7	
Re-invested to maintain and expand operations	(0,8)	10 976	42	11 060	45
– Depreciation, amortisation and impairment		6 867		5 103	
– Deferred taxation		918		913	
– Net profit		3 191		5 044	
Value apportioned	5,9	26 283	100	24 820	100

* *In addition to value apportioned to Government the following were paid to the South African Revenue Services (SARS):*
- *PAYE R2 028 million (2009: R2 135 million);*
- *SDL R110 million (2009: R109 million);*
- *UIF R137 milliion (2009: R140 million); and*
- *VAT R1 851 million (2009: R707 million).*

\# *Borrowing costs amounting to R1 482 million (2009: R764 million) were capitalised.*

Percentage value created



	2010	2009
Employees	44	43
Providers of capital	11	9
Government	3	3
Re-invested to maintain and expand operations	42	45

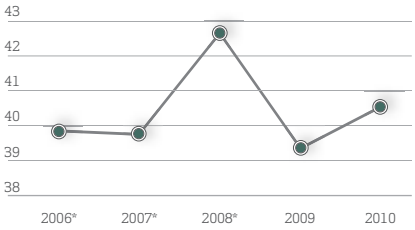
Consolidated five-year review

For the year ended 31 March 2010

EBITDA and Headline earnings

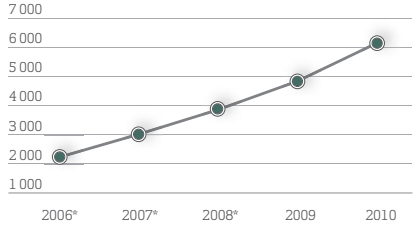
(R million)

EBITDA margin (%)



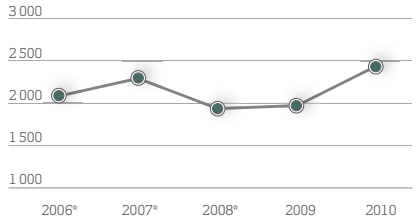
Depreciation and amortisation

(R million)

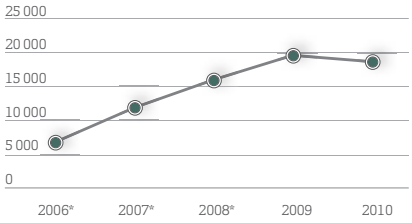


Operating profit margin (%)

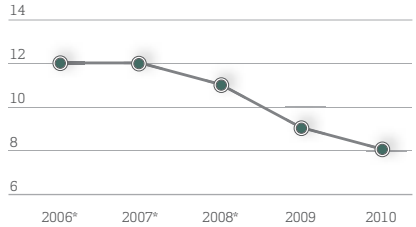
Net finance costs (R million)



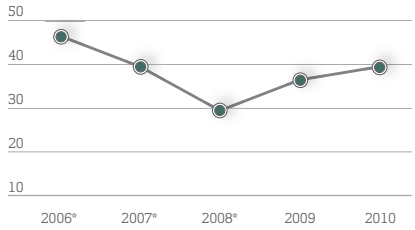
Capital investments (R million)



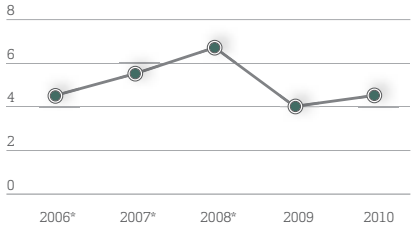
Return on average total assets (excluding CWIP) (%)



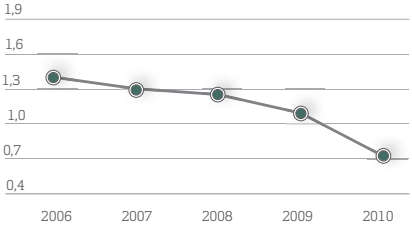
Gearing ratio (%)



Cash interest cover (times)



Disabling injury frequency rate (DIFR) (rate)



** Restated.*
† CAGR – Compound annual growth rate.

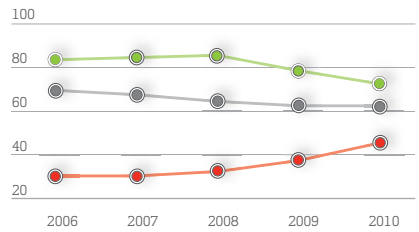
Consolidated five-year review

For the year ended 31 March 2010

	2010 31 March R million	2009 31 March R million	2008 31 March* R million	2007 31 March* R million	2006 31 March* R million
Income Statements					
Continuing operations					
Revenue	**35 610**	33 592	30 091	26 899	26 034
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**14 409**	13 200	12 810	10 667	10 373
Depreciation and amortisation	**(6 089)**	(4 779)	(3 798)	(2 952)	(2 163)
Operating profit	**8 320**	8 421	9 012	7 715	8 210
Impairment of assets	**(778)**	(324)	(153)	(232)	(124)
Fair value adjustments	**(18)**	941	1 416	2 462	815
Post-retirement benefit obligation (costs)/income	**(180)**	(436)	686	(218)	(72)
Income/(loss) from associates and joint ventures and dividends received	**5**	82	63	38	118
Net finance costs	**(2 436)**	(1 966)	(1 931)	(2 287)	(2 077)
Profit before taxation	**4 913**	6 718	9 093	7 478	6 870
Taxation	**(1 722)**	(1 674)	(2 642)	(1 742)	(2 042)
Profit for the year	**3 191**	5 044	6 451	5 736	4 828
Statements of financial position					
Non-current assets	**120 845**	103 417	84 220	58 289	50 455
Current assets	**18 040**	15 117	14 466	19 069	28 202
Total assets	**138 885**	118 534	98 686	77 358	78 657
Equity	**64 456**	58 334	50 961	36 818	29 511
Non-current liabilities	**59 011**	43 198	28 208	23 528	22 515
Current liabilities	**15 418**	17 002	19 517	17 012	26 631
Total liabilities	**74 429**	60 200	47 725	40 540	49 146
Equity and liabilities	**138 885**	118 534	98 686	77 358	78 657
Capital investments**	**18 441**	19 382	15 780	11 674	6 601
Statements of cash flows					
Cash flows from operating activities	**12 092**	7 400	10 287	8 903	5 865
Cash flows utilised in investing activities	**(20 408)**	(19 084)	(8 250)	(10 307)	(2 479)
Cash flows from/(utilised in) financing activities	**10 355**	11 587	9	3 669	(4 001)
Net increase/(decrease) in cash and cash equivalents	**2 039**	(97)	2 046	2 265	(615)
Cash generated from operations	**16 426**	13 948	13 159	13 540	11 244

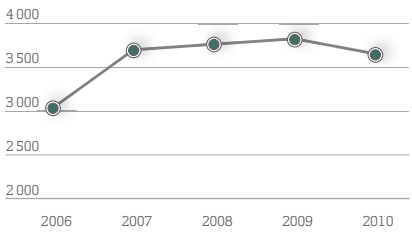
** Restated.*
*** Excluding capitalised borrowing costs, including capitalised finance leases and capitalised decommissioning liabilities.*

Freigth Rail volumes (million tons)



General freight business
Export coal
Export iron ore

Maritime containers (000 TEUs)



Corporate governance

State of the art… modern facilities at the Port of Ngqura improve container handling from 22 to 28 with stretch target of 30 GCH.

Introduction

Transnet is committed to the highest standards of corporate governance, including those advocated in the King Report on Governance for South Africa, 2009 (King III), effective 1 March 2010. The Company already has mature processes which are in full compliance with the requirements of King III insofar as is feasible for a State-owned Enterprise (SOE) with a single Shareholder and which is subject to the principles of the PMFA where it prevails over the Companies Act, 2008. More details regarding the Company's compliance to King III are set out later in this report. Sustainability, a key requirement of King III, is included as a core requirement of the Company's corporate governance processes. Transnet continues to successfully integrate sustainability reporting into its annual report as in the prior years. The Company's focus is on the application of the letter and spirit of sound corporate governance principles.

The Company has, as its sole Shareholder, the Government of the Republic of South Africa, with the Shareholder Representative being the Minister of Public Enterprises. As a public entity, it is subjected to the provisions of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). The PFMA requires the Company, as in the past, to conclude a Shareholder Compact with the Shareholder Representative. The Shareholder Compact contains Shareholder expectations in the form of predetermined objectives and key performance indicators and ensures alignment between the Board and the Shareholder Representative. Progress in respect of the performance indicators is continuously reviewed by the Board and is reported to the Shareholder Representative quarterly. In addition, this information is audited annually and reported in the annual financial statements of the Company.

Performance information in respect of the year ended 31 March 2010, as required by section 55(2)(a) of the PFMA, is set out in the Report of the Directors.

Statement of compliance

The Board is of the opinion that, it is substantially compliant, in all material respects with the principles of the King II Report for the year under review. Further, the Board has embarked on a process to ensure that the principles of King III are integrated into the Company's and, as part of this, has requested the approval of the Shareholder Representative to amend certain aspects of the Company's constitutive documents.

The amendments that are being proposed to the Shareholder Representative in respect of the Articles of Association relate to the appointment of the Group Chief Executive and the process to remove a Board member from the Board in the interest of sound corporate governance.

Code of Ethics

GRI 4.8

The Company has a strong culture of entrenched values, which forms the basis of the expected behaviour of its employees towards its stakeholders. These values are reflected in the approved and published Code of Ethics (Code). All management employment contracts make references to this Code.

The Code is reviewed and updated annually, and commits the Board, Senior Executives, Management and employees to the highest standards of behaviour when engaging with both internal and external stakeholders. In instances where an employee breaches the Code, the necessary disciplinary action is instituted in terms of the Company's Disciplinary Code and Procedure. The Group Company Secretariat has distributed a Transnet Handbook on the Code and other governance policies to all employees to create awareness of and to entrench the Company's values.

Breach of governance procedures

During the year, the Company suspended Mr S Gama, the Transnet Freight Rail Chief Executive, and instituted disciplinary proceedings against him following allegations of serious governance breaches on two procurement contracts. The allegations, which were independently investigated, followed anonymous tip-offs. At all times, Mr Gama was treated fairly and afforded ample opportunity to make representations.

On 5 June 2010, the independent chairman of the disciplinary hearing found Mr Gama guilty of the charges brought against him including one of an irretrievable breakdown in his relationship with Transnet. At the time of finalising this report, the process was still unfolding. In the final stage of the proceedings, the chairman was to be requested, after hearing further submissions from the parties, to recommend an appropriate sanction.

It is important that Transnet continues to act consistently and appropriately against any breaches of its policies, values and procedures to inspire confidence in its operations amongst its suppliers and the public at large.

Transnet's Culture Charter: "Living the Charter"

The Culture Charter (the Charter), developed in 2008, after a year-long process of employee mobilisation and engagement, sets out those behaviours that all Transnet employees are required to uphold and commit to, for Transnet to realise its strategic objectives. As the Company faced the impact of the global economic recession, it has become increasingly important to mobilise and align its workforce around the Transnet values contained in the Charter and to encourage employees to embrace the principles of productivity, efficiency, customer service and safety.

The second annual scoring of the Charter has been concluded with approximately 23 000 employees participating in the process. The results strongly indicate that treating each other with "dignity and respect" should be a focus area to ensure that this value is embedded into the fabric of the Company.

Although the Charter scoring results indicate that safety is top of mind for our employees, we still have difficulty in effectively translating this behaviour into the creation of a safe working environment characterised by the strictest adherence to the Company's operating procedures. Consequently, we have embarked on developing and implementing a Safety Culture Programme to entrench a culture of safety by promoting a safety mindset and focusing on reducing the number of unsafe acts in the work environment. The aim of this programme is to build a compact amongst all staff around the "Golden safety actions" that would set the benchmark for safe behaviours.

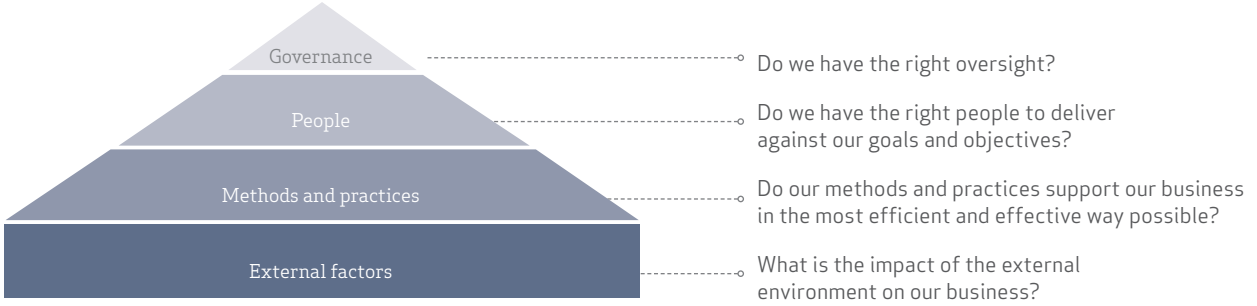
For further details on the Culture Charter please refer to the Sustainability report.

Results of control environment review by Transnet Internal Audit

GRI 4.10

The Board recognises that a strong control environment is essential for the management of risk, improvement of performance, enhancement of governance and the strengthening of the reputation of the Company. The control framework maturity assessment™ (CFMA) was introduced to measure the strength of the overall control environment – across 15 sub-components in relation to governance, people, methods and practices, expressed as a maturity level (eg "basic", "evolving", "established", "advanced" or "leading").

The key components of the framework are depicted below:



1. **Governance** – Establishing effective oversight across the organisation, functional activities and business processes;
2. **People** – Having the right people to deliver against the goals and objectives of the Company; and
3. **Methods and practices** – Building methods and practices (systems and processes) to support efficient and effective ways of doing business.

An initial assessment was conducted in 2008 to determine the current and desired maturity state of the Company. A follow-up assessment is conducted annually to track progress. Results from the CFMA assessments in the last two years indicate that the overall maturity level has improved to an "established" level.

Fraud Risk Management Plan

As required by section 29.1.1 of the Treasury Regulations prescribed under the PFMA, Transnet developed a Fraud Risk Management Plan, to manage the fraud risk exposure.

Ongoing awareness around the Tip-Offs Anonymous Hotline forms an integral part of Transnet's anti-fraud and anti-corruption efforts contained within its Fraud Risk Management Plan. The relationship between the Tip-Offs Anonymous Hotline and Fraud Risk Management initiatives is symbiotic, in that fraud risk management initiatives can directly influence or be influenced by the Tip-Offs Anonymous Hotline.

The table below provides a high level overview of allegations received over the last three financial years:

	2008	2009	2010	Total
Total allegations	**697**	**817**	**700**	**2 214**
Founded allegations*	110	156	136	402
Unfounded allegations**	587	647	386	1 620
In progress	-	14	178	192
Total disciplinary cases	**67**	**190**	**76**	**333**
- Acquitted	1	4	1	6
- Dismissed	19	11	10	40
- Final warning	32	25	41	98
- Resigned	7	15	-	22
- Verbal warning	2	87	10	99
- In progress	6	48	14	68
Hotline allegations	**636**	**741**	**631**	**2008**

**Relates to allegations that have been investigated and have been substantiated which would lead to a disciplinary process.*
***Relates to allegations that have been investigated and have been unsubstantiated.*

The increase in the total number of allegations between 2008 and 2009 can be attributed to the implementation of fraud awareness initiatives, which included increased awareness around the whistle-blower mechanism. During the financial year ended 31 March 2010, an education campaign relating to not utilising the whistle-blower mechanism for the reporting of grievance related matters, together with a more explicit approach of dealing with hotline calls by Tip-Offs Anonymous, resulted in a decrease in the total number of allegations, more specifically human resource related allegations, for the period.

Through the initiatives undertaken as part of the Fraud Risk Management Plan, Transnet will continue to focus on its zero tolerance for fraud dishonesty and unethical acts and, in so doing minimise the opportunity for employees and third parties to commit fraud and similar acts.

The Fraud Risk Management Plan for 2010/11 has been approved and the implementation thereof has commenced throughout the Company. The successful implementation of the various initiatives within the Fraud Risk Management Plan will ultimately assist Transnet in positioning itself as a leading organisation within the fraud risk management arena.

Conflicts of interest

GRI 4.6

All non-executive Directors and Management are required to disclose their shareholding in external companies and their interest in contracts. They are also required to disclose directorships in external companies and whether any potential conflicts of interest may exist. The Group Company Secretary maintains the Declarations of Interest and Related Party Disclosures' Registers. In addition, the non-executive Directors and Management are required to declare all interests at the meetings they attend. The Related Party Disclosures' Register of both the Board and the Group Executive Committee is circulated at the first Board and Group Executive Committee meetings of the financial year and as and when there has been an amendment to the Register. Directors who have a conflict of interest on any matter to be discussed at the meeting are required to inform the Group Company Secretary prior to the meeting and the member is recused when the item is being discussed.

In addition, the Company requires all employees to sign confidentiality and declaration of interest forms when adjudicating on major procurement contracts – for example – locomotive contracts.

Governance structure

GRI 4.1 – 4.3

Board of Directors

The Board's primary mandate is to ensure the sustainable and successful continuation of business activities by providing strategic direction to Executive management. Non-executive Directors are appointed to the Board by the Shareholder Representative on, generally, a three-year term which is confirmed annually at the annual general meeting (AGM). The Chairman of the Board engages continuously with the Shareholder Representative, as the final arbiter, on Board succession plans.

Board composition

The Company's Articles of Association provide that there shall not be less than 10 and not more than 18 Directors, of whom not less than eight shall be non-executive Directors and two Executive Directors. The Board comprises of 11 Directors of whom the majority totalling nine are non-executive, which includes the Acting Chairman with the remaining two serving in an executive capacity.

These non-executive Directors are all independent and have diverse skills, experience and backgrounds and are, in general, free from any business relationship that could generally, hamper their objectivity or judgement on the business and activities of the Company. All the non-executive Directors have unrestricted access to information, documents, records and property of the Company in fulfilling their responsibilities as non-executive Directors. In support of gender diversity and requirements of the Broad-Based Black Economic Empowerment Act, 2003, the composition of the Board has a 36,4% representation of women.

The majority of the non-executive Directors' term of office was extended by the Shareholder Representative at the 2009 AGM of the Company. For the period under review, Professor Geoff Everingham, an independent non-executive Director, was appointed by the Shareholder Minister as the Acting Chairman of the Board on 11 August 2009.

The following three non-executive Directors retired at the AGM on 11 August 2009:

- Mr FTM Phaswana;
- Dr I Abedian; and
- Mr BT Ngcuka.

The above non-executive Directors were not replaced by the Shareholder Representative at the AGM. Consequently, following a resolution of the Board, the following changes have been made to the Board Committees to accommodate the retirement of the three non-executive Directors on 11 August 2009:

- The Acting Chairman of the Board, Professor Everingham, was appointed Chairman (Acting) of the Corporate Governance and Nominations Committee;
- Ms Ramon was appointed Chairman (Acting) of the Group Audit Committee and an interim member of the Group Board Risk Committee;
- Ms Matyumza was appointed interim member of the Group Audit Committee; and
- Mr Hankinson was appointed interim member of the Corporate Governance and Nominations Committee.

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

The Board, through its Corporate Governance and Nominations Committee, was engaged with the succession planning for filling the vacancy of the Group Chief Executive. This process was finalised in June 2009, and a recommendation was forwarded to the Shareholder Minister for approval, as required by the Company's Articles of Association. Whilst the Company has been in the position of operating with many officers in an acting capacity, there has been no adverse impact on the Company.

The non-executive Directors contribute a variety of skills, business acumen, independent judgement and experience on various issues, including strategy, performance and general leadership, whilst the Executive Directors provide an operational understanding of the Company. The Board therefore remains satisfied that there is an appropriate combination of knowledge, skills and attributes to deliver on its mandate.

Board induction and information

In addition to the initial formal induction programme held when a new non-executive Director is appointed, in order to familiarise such Director with the Company's business environment, risk management processes and procedures, strategy governance framework, sustainability issues and fiduciary duties as contained in, amongst others, in the PFMA and the Companies Act (Act No 61 of 1973), the Board takes the view that all the non-executive Directors must be continuously educated in respect of the activities of the Company.

Ongoing training occurs when the Board and Committee meetings are convened at various operations around the country, to provide non-executive Directors with an opportunity to interact more actively with various parts of the business. On 31 July 2009 and 30 September 2009, the Group Risk Committee performed site visits at the Port of Saldanha and the Durban Container Terminal and Pier 1, respectively.

As a result of strategic issues dealt with by the Board during the year, including the NMPP cost review and environmental management issues, visits were undertaken to the NMPP construction site, the Port of Port Elizabeth and the Port of Ngqura in April 2010.

Transnet has maintained the practice of submitting focused and concise management reports to the Board as pre-reading material to Board meetings. Further, the practice by the Acting Group Chief Executive of circulating a management letter to the Board to keep non-executive Directors abreast of developments in the Company in the months when there are no scheduled Board meetings has continued.

Board leadership

The Board continues to work as a collective in executing its responsibilities and has continued to constructively engage with the Acting Group Chief Executive, the Group Executive Committee and other members of Executive management.

The Acting Chairman and Acting Group Chief Executive work effectively together, with the Acting Chairman providing appropriate direction and guidance to the Acting Group Chief Executive (as and when required) whilst remaining independent.

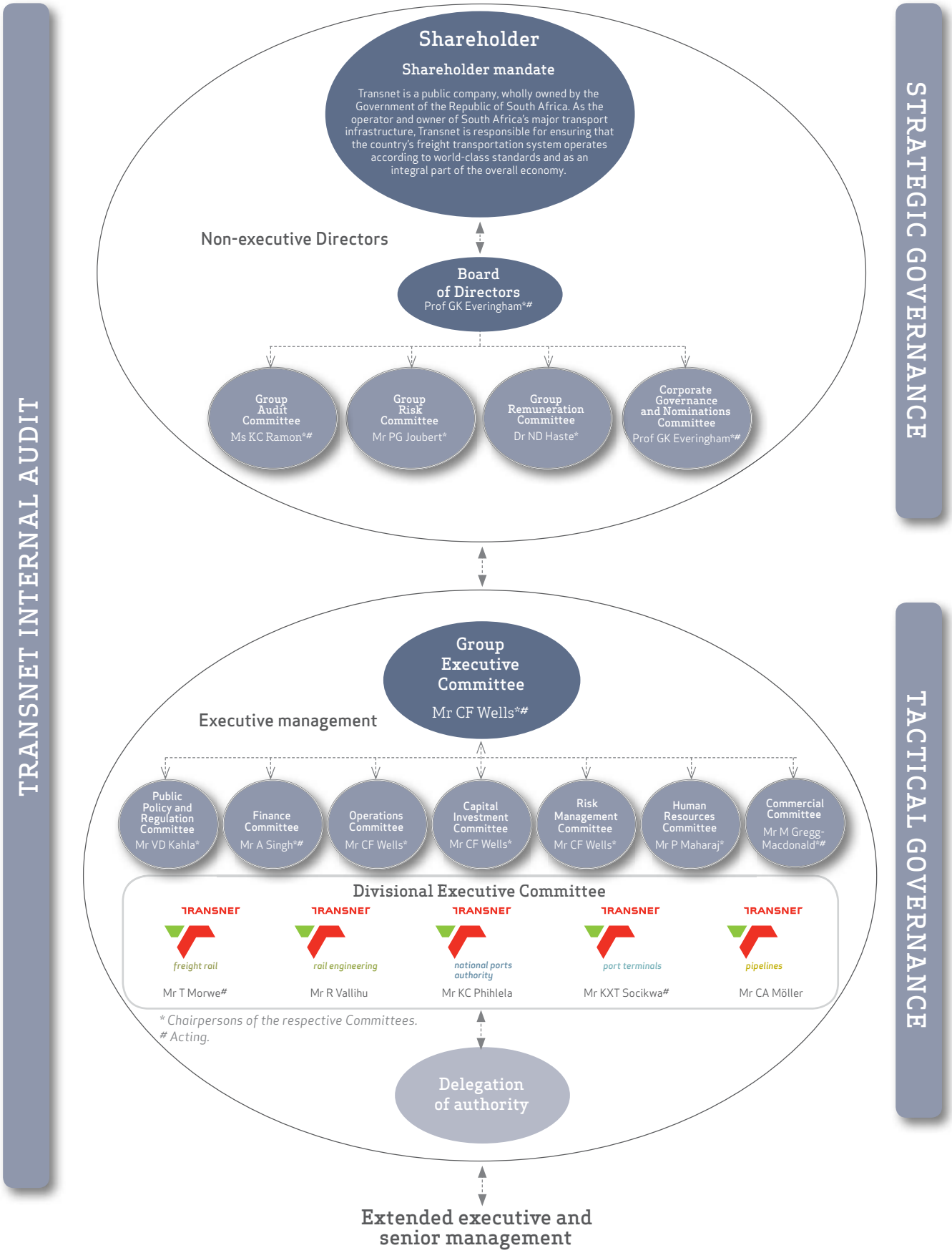
From time to time the non-executive Directors convene to discuss matters affecting the Executive management. In these instances, a 'closed session' is held. The Board is satisfied that the Acting Chairman provides balanced feedback to the Acting Group Chief Executive subsequent to the Board's closed sessions and performance evaluation discussions.

Board evaluation

The Board is of the view that an evaluation of its performance and effectiveness ensures continuous improvement. The Board evaluation encompasses an evaluation of the Board, its Committees, the Acting Chairman, individual Directors, the Acting Group Chief Executive, the Group Company Secretary and overall risk management.

The Board evaluation report 2009 was presented to the Board's Corporate Governance and Nominations Committee and to the Board on 10 September and 13 October 2009, respectively. While there was general agreement with the findings, there were some differences of opinion, notably in respect of the monitoring of environmental issues impacting on the Company. Many of the points raised in the Board evaluation report are being dealt with internally, such as executive succession, through the talent management process that is in place. Further, on 27 November 2009 the Board developed an action plan which highlighted the key areas to be strengthened during the year ahead.

Governance structure



Some of the key areas from the action plan include the following:

- The urgent need to amend the Articles of Association to be consistent with the recommendations of King III as it relates to the appointment of the Group Chief Executive – which requires that such appointment be a responsibility of the Board;
- The Group Chief Executive will continue to share with the Corporate Governance and Nominations Committee and the Board the Company's programme for identifying, developing and retaining talent from which to draw the future leadership of the Company;
- The Board should define a clear and regular process of communicating with the Shareholder Minister and broader Government structures (over and above the annual workshop, AGM, sharing of the financial results);
- Mandating the Group Audit Committee to develop an IT governance and risk management framework and consequently enhance reporting to the Board; and
- Improving the Board's awareness of environmental exposures impacting the Company through the submission of an environmental management report, and securing the Board's inputs on enhancing environmental management disclosures.

In implementing the proposed action plan, the following has occurred:

- The Company has already addressed correspondence to the Shareholder Representative with regard to the proposed amendments to the Articles of Association;
- The Corporate Governance and Nominations Committee in November 2010, will receive an update from the Acting Group Chief Executive regarding talent management and succession planning;
- The Group Company Secretariat has arranged Board training on IT Governance in August 2010 as part of enhancing the Board's IT governance knowledge; and
- Environmental matters have received significant focus during the year, reporting to the Board has improved and additional disclosure has been made in the annual financial statements.

The evaluation process, which has been in place for a number of years, assists the Board with focusing its attention on material issues.

The Board evaluation report, together with action plans to address identified areas of development, are submitted to the Shareholder Representative annually.

Remuneration

GRI 4.5

Remuneration for non-executive Directors is approved in advance by the Shareholder Representative and confirmed at the AGM. The remuneration of the Directors is set out in the Report of the Directors.

Remuneration is based on independent remuneration advice provided to the Group Remuneration Committee. Transnet is currently benchmarking the remuneration of its non-executive Directors and is engaging with remuneration survey companies for information on the remuneration practices for non-executive Directors of organisations of a similar size and complexity.

The annual remuneration recommendations for both the executive and non-executive Directors are considered by the Group Remuneration Committee. Equally, the Group Remuneration Committee considers the performance measures and benefits when assessing remuneration.

Group Company Secretarial function

The Group Company Secretary is responsible for developing systems and processes which enable the Board to discharge its functions efficiently and effectively. The function is responsible for advising the Board on corporate governance issues, inclusive of the requirements of the Companies Act and relevant governance legislation, setting the annual plan for the Board in conjunction with the Chairman, as well as keeping the Board updated on new relevant legislation. All Directors have access to the services and advice of the Group Company Secretary.

Matters reserved for Board decision

While, through a detailed documented delegations process, the management of the Company is delegated to the Group Chief Executive by the Board, the following matters, amongst others, are expressly reserved for decision-making by the Board.

Financial

- Approval of the strategy, business plans, annual budgets, the borrowing strategy and any subsequent material changes in strategic direction;
- Approval of annual financial statements and interim reports, as well as the declaration of dividends;
- Approval of any significant changes in accounting policies or practices;
- Recommendation for the Shareholder's approval of the acquisition or disposal of a significant shareholding in a company; and
- Recommendation for the Shareholder's approval of the acquisition or disposal of a significant asset.

Statutory and administrative

- Recommending amendments to the Memorandum and Articles of Association of the Company to the Shareholder;
- Entering into a compact with the Shareholder;
- Appointment, removal or replacement of the external auditor of the Company;
- Approval of the rules and amendments thereto in respect of the defined benefit pension funds, having a material effect on the actuarial liabilities of those funds; and
- Appointment and removal of the Group Company Secretary.

Regulatory

- Approval of terms and conditions of the Company's rights issues, public offers, capital issues or issues of convertible securities including shares or convertible securities issued for acquisitions;
- Approval of an authority to issue prospectuses, placing documents, listing particulars, rights offers or takeover or merger documents; and
- Recommending to the Shareholder the approval of any ordinary or special resolutions in respect of the Company.

Human resources

- Appointment of, terms of reference and changes in the composition of, the Corporate Governance and Nominations Committee, the Group Audit Committee, the Group Risk Committee, the Group Remuneration Committee and such other Committees as the Board may appoint from time to time;
- Any changes in directors' fees and benefits as recommended by the Group Remuneration Committee and approved by the Shareholder; and
- Approval of any share or other incentive scheme, the rules applicable to any such scheme and any amendment to such rules as recommended by the Group Remuneration Committee, for submission to the Shareholder, if applicable.

Key activities of the Board

Apart from carrying out the functions designated to the Board as Board Reserved Matters, the functions of the Board in the 2010 financial year included amongst others, the following:

- Approval of the annual Corporate Plan and Budget for the 2011 financial year;
- Approval of the Shareholder Compact for 2011 financial year;
- Approval of Transnet's borrowing strategy and plan;
- Approval of the Global Medium Term Note programme;
- Approval of the Implementation Plan for the Rail Secondary Network (Branch lines) strategy;
- Approval of the Fleet Plan for locomotives;
- Approval of the increase in costs for the NMPP;
- Approval of the Reputation Management Strategy;
- Approval of the Sale of Autopax Passenger Services (Pty) Limited to the Passenger Rail Agency of South Africa;
- Approval of the Manganese Transnet Services Agreement;
- Approval of the Tank Farm Strategy; and
- Approval of various issues relating to post-retirement benefit obligations.

In setting the Company's strategic direction, the Board approved a number of key focus areas to be addressed in the 2011 financial year and over the next five years. The overarching theme for the 2011 Corporate Plan is a Quantum Leap improvement in customer service, volume growth and the provision of infrastructural capacity.

The Board's annual agenda included themes that the Board used for in-depth analysis of specific areas of the business, particularly the ports and rail operational areas. These included the review of the container growth strategy and the proposals and recommendations to deal with Policy and Economic Regulation and the risks associated therewith, as well as human capital management.

Schedule of attendance at Board of Directors' meetings from 1 April 2009 to 31 March 2010

	Date										
Director	23/4	2/06	18/6	28/07	24/08	10/09	21/09	13/10	26/10	27/11	12/02
Mr FTM Phaswana (Chairman)*#	✓	✓	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Prof GK Everingham (Acting Chairman)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr I Abedian*#	✓	✓	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ms NBP Gcaba	A	✓	✓	✓	A	✓	✓	A	✓	✓	✓
Dr ND Haste	✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
Mr MJ Hankinson	✓	✓	✓	A	✓	✓	✓	A	✓	✓	✓
Mr PG Joubert*	✓	✓	✓	✓	✓	✓	A	✓	✓	✓	✓
Ms NNA Matyumza*	✓	✓	✓	✓	A	✓	✓	✓	✓	✓	✓
Mr MP Moyo	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr BT Ngcuka#	✓	✓	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ms NR Ntshingila	✓	✓	✓	✓	✓	✓	✓	✓	✓	A	✓
Ms KC Ramon	✓	✓	✓	✓	A	A	A	A	✓	A	†
Mr A Singh	n/a	n/a	✓	✓	✓	✓	✓	✓	✓	A	✓
Mr CF Wells	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

✓ *Present*
A *Apology*
* *Member of the Board Ad Hoc Committee on Regulation*
\# *Retired during the year*
n/a *Not applicable*
Grey shade *Special meetings were convened to discuss the succession planning for the position of the Group Chief Executive and the matters relating to the alleged irregular expenditure and the disciplinary process of the Chief Executive of Freight Rail.*
† *Maternity leave*

Board committees

Consistent with King II and corporate governance best practice, the Board has established Committees to assist it in discharging its responsibilities. Each Committee has a mandate outlining the authority delegated to it by the Board. With the introduction of the King III Guidelines, the Board and its Committees had to review their mandates to ensure that the newly introduced responsibilities and obligations are adequately addressed. The mandate of each Committee sets out, amongst others, the purpose, composition, reporting responsibilities, terms of reference and the right of any member to seek and be provided with independent advice at the Company's expense if such member considers that necessary for the effective execution of his/her fiduciary duties to the Company.

The Group Company Secretary continues to provide secretarial services to the Board and all its Committees. The Board and its Committees are chaired by independent non-executive Directors. The majority of the members of the Committees are non-executive Directors.

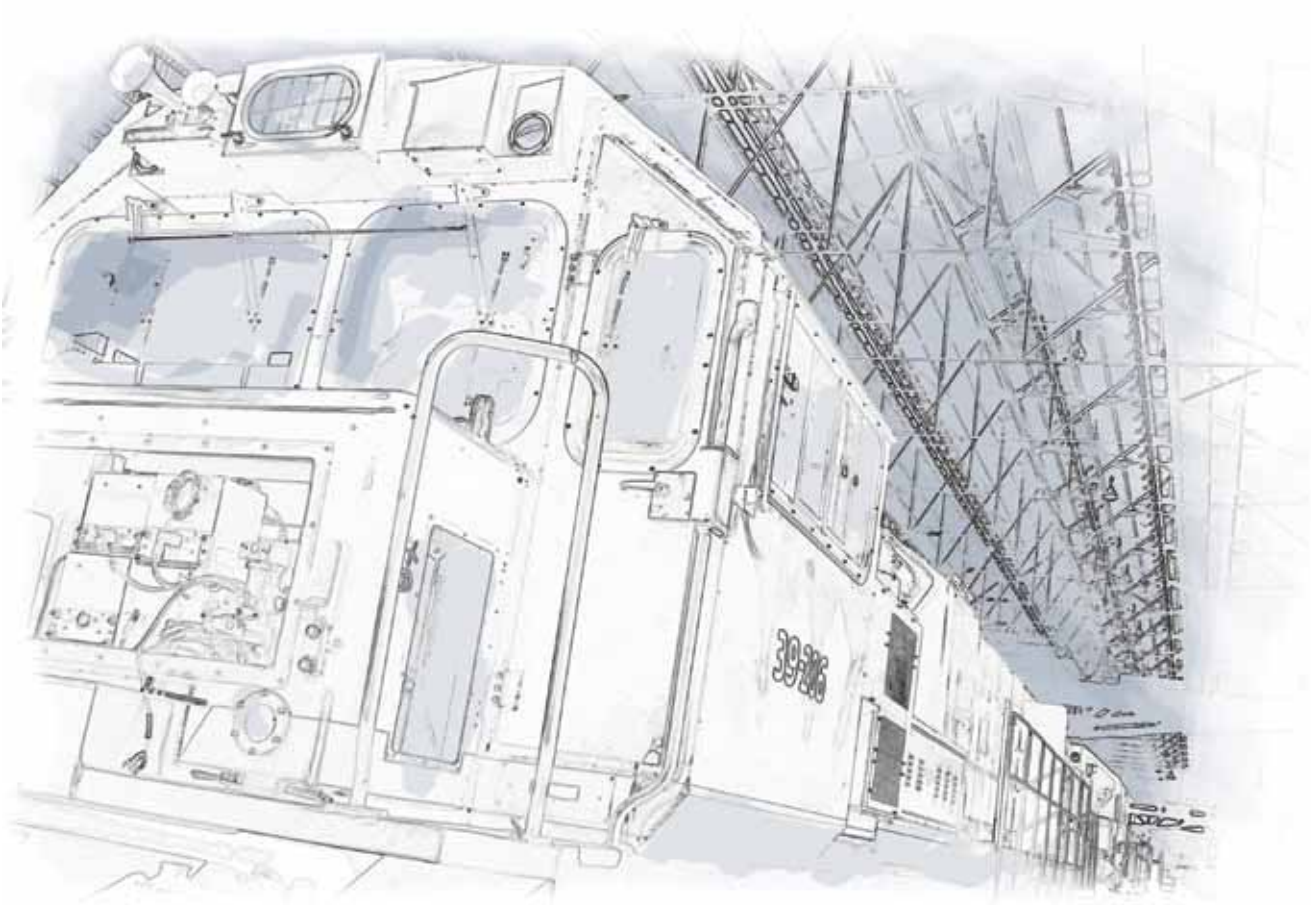
Minutes of the Committee meetings are available to all Directors and are included in the Board meeting documents. The Chairpersons of the Committees furnish reports on the activities of their Committees at each Board meeting. Executives considered relevant for the effective execution of the mandates of such Committees attend the Committee meetings by invitation.

The Board has established the following Committees to assist it in carrying out its role and responsibilities:

- Corporate Governance and Nominations Committee;
- Group Audit Committee;
- Group Remuneration Committee; and
- Group Risk Committee.

A meeting of the Ad Hoc Committee on Public Policy and Regulation is convened by the Acting Chairman of the Board as and when the need arises to deal with the current economic regulatory challenges confronting Transnet.

Further, to promote the principles of sound corporate governance, Professor Everingham stepped down from his role as the Chairman of the Group Audit Committee pursuant to his appointment as Acting Chairman of the Board.



Corporate Governance and Nominations Committee

Functions and mandate

The Corporate Governance and Nominations Committee sets the criteria for the nomination of Directors to be recommended to the Shareholder Representative for appointment to the Board. It also identifies, evaluates and recommends nominees to the Board, Board Committees and subsidiary Boards.

The Corporate Governance and Nominations Committee ensures the existence of corporate governance best practice by, amongst others:

- Reviewing and recommending any changes to Board membership and members of the Group Executive Committee;
- Ensuring that an independent annual assessment of the performance of the Board is concluded and reviewing the effectiveness of all Board committees;
- Reviewing periodically the format and content of the Board and committee mandates and ensuring that appropriate Board and committee structures are in place;
- Appointing members of audit subcommittees of the Operating divisions/Specialist Units after each AGM in terms of the mandate of the divisional Audit subcommittees; and
- Providing strategic oversight of the sustainability performance of the Company.

In carrying out its succession planning responsibilities, particularly in respect of the selection of a Group Chief Executive, this committee extends an invitation to the Chairpersons of other Board committees who are not members of the Corporate Governance and Nominations Committee.

Key activities

Apart from carrying out the functions designated to it, the functions of the Committee in 2010 included amongst others, the following:

- Succession planning for the position of the Group Chief Executive;
- Recommended changes to Board Committee membership after the AGM;
- Commissioned the appointment of an independent service provider to conduct an annual assessment of the performance of the Board;
- Reviewed the Board and Committee mandates to be aligned to the King III requirements;
- Reviewed the Company's Articles of Association to be aligned to the King III requirements; and
- Recommended the approval of the Shareholder Compact for the 2011 financial year.

Members

The members of the Corporate Governance and Nominations Committee are:

Mr FTM Phaswana (retired on 11 August 2009); Prof GK Everingham (Acting Chairman as from 24 August 2009); Ms NBP Gcaba; Ms NNA Matyumza; Mr BT Ngcuka (retired 11 August 2009); Mr MJ Hankinson (interim member as from 24 August 2009) and Mr CF Wells (member as from 12 November 2009).

Schedule of attendance at Corporate Governance and Nominations Committee meetings

	Date					
Director	7/4	23/4	2/6	10/9	12/11	11/2
Mr FTM Phaswana (Chairman)#	✓	✓	✓	n/a	n/a	n/a
Prof GK Everingham (Acting Chairman)	✓	✓	✓	✓	✓	✓
Ms NBP Gcaba	✓	A	✓	✓	✓	✓
Mr MJ Hankinson	n/a	n/a	n/a	✓	✓	✓
Mr BT Ngcuka#	A	✓	✓	n/a	n/a	n/a
Ms NNA Matyumza	✓	✓	✓	✓	A	✓
Mr CF Wells	n/a	n/a	n/a	n/a	✓	✓

✓ Present
A Apology
** Member of the Board Ad Hoc Committee on Regulation*
 # Retired during the year
n/a Not applicable
Grey shade Special meeting

Group Audit Committee

Functions and mandate

The Group Audit Committee mandate includes the review and approval of the Group Audit Plan with the internal and external auditors, with specific reference to the proposed audit scope and approach to Group risk activities, the effectiveness of the audit and audit fees.

All members of the Group Audit Committee are independent non-executive Directors and are financially literate. The Group Audit Committee convened five times during the 2010 financial year. The Operating divisions have audit subcommittees. Any unresolved matters are escalated to the Group Chief Financial Officer for resolution.

The external and internal auditors have unrestricted access to the Group Audit Committee which ensures that their independence cannot be compromised and they are invited to all Group Audit Committee meetings. The Group Audit Committee holds closed sessions with the auditors where they can raise any issues which are not appropriate to raise in the presence of management.

Key activities

The Group Audit Committee performed a number of activities during the current year. Please refer to the Group Audit Committee Report for further details.

Members

The members of the Group Audit Committee are:

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

Schedule of attendance at Group Audit Committee meetings

Director	Date				
	20/4	10/6	20/10	12/11	10/2
Prof GK Everingham (Chairman)**	✓	✓	n/a	n/a	n/a
Dr I Abedian#	✓	✓	n/a	n/a	n/a
Mr MP Moyo (Acting Chairman) ^^	✓	✓	✓	✓	✓
Mr PG Joubert	✓	✓	✓	✓	✓
Ms KC Ramon (Acting Chairman) †	✓	✓	✓	✓	†
Ms NNA Matyumza**	n/a	n/a	✓	A	✓

✓ *Present*
A *Apology*
Retired during the year
n/a *Not applicable*
† *Acting Chairman till going on maternity leave (24 August 2009 to 05 February 2010)*
** *Resigned as Chairman of the Committee during the year*
^^ *Acting Chairman from 10 February 2010 till 19 April 2010*

Group Remuneration Committee

Functions and mandate

All members of the Group Remuneration Committee are non-executive Directors.

The Group Remuneration Committee considers and approves policy frameworks and practice standards in respect of remuneration and:

- Determines, in line with the fee structure approved by the Shareholder Representative, the remuneration of the Chairman of the Board, which includes a mechanism for the assessment of the Chairman's performance;
- Advises the Board of the recommendations it should make to the Shareholder Representative in respect of the remuneration of non-executive Directors, including the members of Board committees;
- Reviews the Group Chief Executive's assessment of performance and approves the remuneration of non-executive Directors and the Executive management of the Company, giving consideration to both the short-term and long-term components of remuneration;
- Approves the compulsory employee benefits applicable to all levels and categories of employees in the Company, notably retirement funding and healthcare benefits;
- Is advised of remuneration policies and practices applied below Executive management level as deemed appropriate by the Group Chief Executive;
- Reviews the Chairman's assessment of the performance of the Group Chief Executive and approves the remuneration of the Group Chief Executive;
- Reviews the performance measures to be used for purposes of annual incentive bonuses for all employees and approves the criteria for participation in, and the terms applicable to such scheme;
- Approves recommendations for awards in terms of long-term incentive plans;
- Approves general principles relating to terms and conditions of employment contracts and any material changes thereto, including the terms of contracts of employment of key employees of the Company who perform functions in subsidiaries; and
- Recommends a remuneration philosophy for disclosure in the annual financial statements, for approval by the Board.

Key activities

Apart from carrying out the functions designated to it, the functions of the Committee in the 2010 financial year included, amongst others, the following:

- Approved the revised wage mandates for bargaining unit and package category employees;
- Approved the technical skills strategy;
- Approved the re-shaping of the workforce and cascading of the reward model to Bargaining Unit employees;
- Approved the Short-term Incentive and Long-term Incentive Payment;
- Approved the revised rules for the Long-term Incentive Scheme;
- Approved the rules for the Short-term Incentive Plan 2009: Management Category Employees (Job Levels A – F and First Line Managers, Specialists and Technicians: Job Level G);
- Approved the rules for Short-term Incentive Plan: Bargaining unit Employees (Excluding G Level);
- Approved the Transnet Technician career path; and
- Approved the wage mandate for the 2010/11 financial year.

Members

The members of the Group Remuneration Committee are:

Dr ND Haste (Chairman); Ms NBP Gcaba (Deputy Chairperson); Dr I Abedian (retired 11 August 2009); Mr PG Joubert and Ms NR Ntshingila.

Schedule of attendance at Group Remuneration Committee meetings

Director	Date				
	3/4	17/6	7/7	14/10	10/2
Dr ND Haste (Chairman)	✓	✓	✓	✓	✓
Ms NBP Gcaba (Deputy Chairman)	✓	✓	✓	A	✓
Dr I Abedian#	✓	A	✓	n/a	n/a
Mr PG Joubert	✓	✓	✓	✓	✓
Ms NR Ntshingila	✓	✓	✓	✓	✓

✓ *Present*
A *Apology*
Retired during the year
n/a *Not applicable*
Grey shade *Special meeting*

Group Risk Committee

Functions and mandate

Risk management is the responsibility of the Board. The Board has delegated the responsibility for providing assurance on the integrity, quality and reliability of the Group's risk management to the Group Risk Committee.

As part of carrying out its responsibilities, the Group Risk Committee holds its meetings at various operating sites to review the major risks facing the operations as well as the progress achieved in embedding the enterprise risk management culture in the organisation. The Company's "Top 10" risks and their treatment are reviewed at each meeting of the Group Risk Committee.

The functions of the Group Risk Committee include, amongst others, ensuring that risk definitions and contributing factors, together with risk policies, are formally reviewed on an annual basis, taking into account that risk, in its widest sense, includes market risk, operational risk and commercial risk, which in turn covers detailed combined risks.

Key activities

Apart from carrying out the functions designated to it, the functions of the committee in the 2010 financial year included, amongst others, the following:

- Approved the Risk Management Plan for the 2011 financial year;
- Recommended the approval of the Reputational Management Strategy to the Board;
- Reviewed the Sustainability Report plan;
- Reviewed the human resources risks – skill shortage, training and development; and
- Approved the Group Risk Committee Annual Work Plan for the 2011 financial year.

Members

The members of the Group Risk Committee are:

Mr PG Joubert (Chairman); Dr I Abedian (retired 11 August 2009); Ms NNA Matyumza; Prof GK Everingham; Mr MJ Hankinson; Ms KC Ramon (interim member as from 24 August 2009) and Mr CF Wells (member as from 12 November 2009).

Schedule of attendance at Group Risk Committee meetings

Director	Date				
	8/4	31/7	30/9	23/11	10/2
Mr PG Joubert (Chairman)	✓	✓	✓	✓	✓
Dr I Abedian#	✓	✓	n/a	n/a	n/a
Prof GK Everingham	✓	✓	✓	✓	✓
Ms NNA Matyumza	✓	✓	✓	✓	✓
Mr MJ Hankinson	✓	A	✓	✓	✓
Ms KC Ramon	n/a	n/a	✓	A	A
Mr C F Wells	n/a	n/a	n/a	✓	✓

✓ *Present*
A *Apology*
Retired during the year
n/a *Not applicable*

Group Executive Committee

Functions and mandate	The Group Executive Committee has established the following subcommittees: • Policy and Regulation Committee; • Finance Committee; • Operations Committee; • Capital Investment Committee; • Risk Management Committee; • Human Resources Committee; and • Commercial Committee. The Group Executive Committee assists the Group Chief Executive in the execution of the function delegated to him by the Board (with the power to sub-delegate by the Board which includes, amongst others, the following: • The authority to take any action necessary to manage the Company and fulfil its responsibilities to the Board; • Provide strategic and operational direction to the business to ensure the successful implementation of the Company's strategy; • Provide oversight on operational and financial risk management; and • Review the Group Executive Committee Sub-committees decisions and approve such matters referred from such committees or alternatively recommend the decision to the Board.
Key activities	Apart from implementing the mandate designated to it, the more significant functions of the Committee in the 2010 financial year included, amongst others, the following: • Reviewed and approved all the Group Executive Committee mandates; • Recommended for approval, to the Board, the Sale of Autopax Passenger Services (Pty) Limited and Shosholoza Meyl to the Passenger Rail Agency of South Africa; • Recommended to the Group Remuneration Committee, the approval of the wage mandate; • Recommended to the Board, the approval of the Manganese Transnet Services Agreement; • Recommended to the Board, the approval of the reputation management strategy; • Recommended to the Board Risk Committee, the approval of the wagon strategy and master fleet management plan; • Recommended for approval, the Tank Farm Strategy; • Recommended to the Board, the approval of the 2010/11 Corporate Plan and Budgets; • Recommended to the Board, the approval of the Company's targets in respect of the Broad-Based Black Economic Empowerment Act; • Recommended to the Board, the approval of the Transnet's borrowing strategy and plan; • Recommended to the Board, the approval of the GMTN programme; • Recommended to the Board, the approval of the implementation plan for the Rail Secondary Network (Branch lines) strategy; • Recommended to the Board, the approval of the annual financial statements and interim reports; • Recommended to the Board, the approval of the various issues relating to post-retirement benefit obligations; • Approved the travel and subsistence policy; • Approved the gifts policy; • Approved the declaration of interests policy; • Approved the electronic communications policy; • Approved the Transnet National Ports Authority 2010/11 tariff application; • Approved the Transnet Pipelines 2010/11 tariff application; • Approved the restructuring of Transnet Rail Heritage preservation programme; • Approved the Code of Ethics policy; • Approved the Talent forum report; • Approved the restructuring proposal for arivia.kom; • Approved the Golden safety rules; • Approved the South African Transport Services medical obligation; • Approved the Leadership development plan; • Approved the reward allocation and performance management framework and guidelines; • Approved the draft employment equity plan – April 2010 to March 2013; and • Approved the human resources delegation of authority.
Members	Transnet's Group Executive Committee is chaired by the Group Chief Executive (Acting). The members consist of the Acting Chief Financial Officer, Chief Operating Officer (position vacant), Group Executive: Human Resources, Group Executive: Office of the Group Chief Executive, Chief Risk Officer, Acting Group Executive: Commercial and Freight Corridors, Group Executive: Transnet Capital Projects, Operating divisions Chief Executive Officers and the Chief Audit Executive.

Schedule of attendance at Group Executive Committee meetings

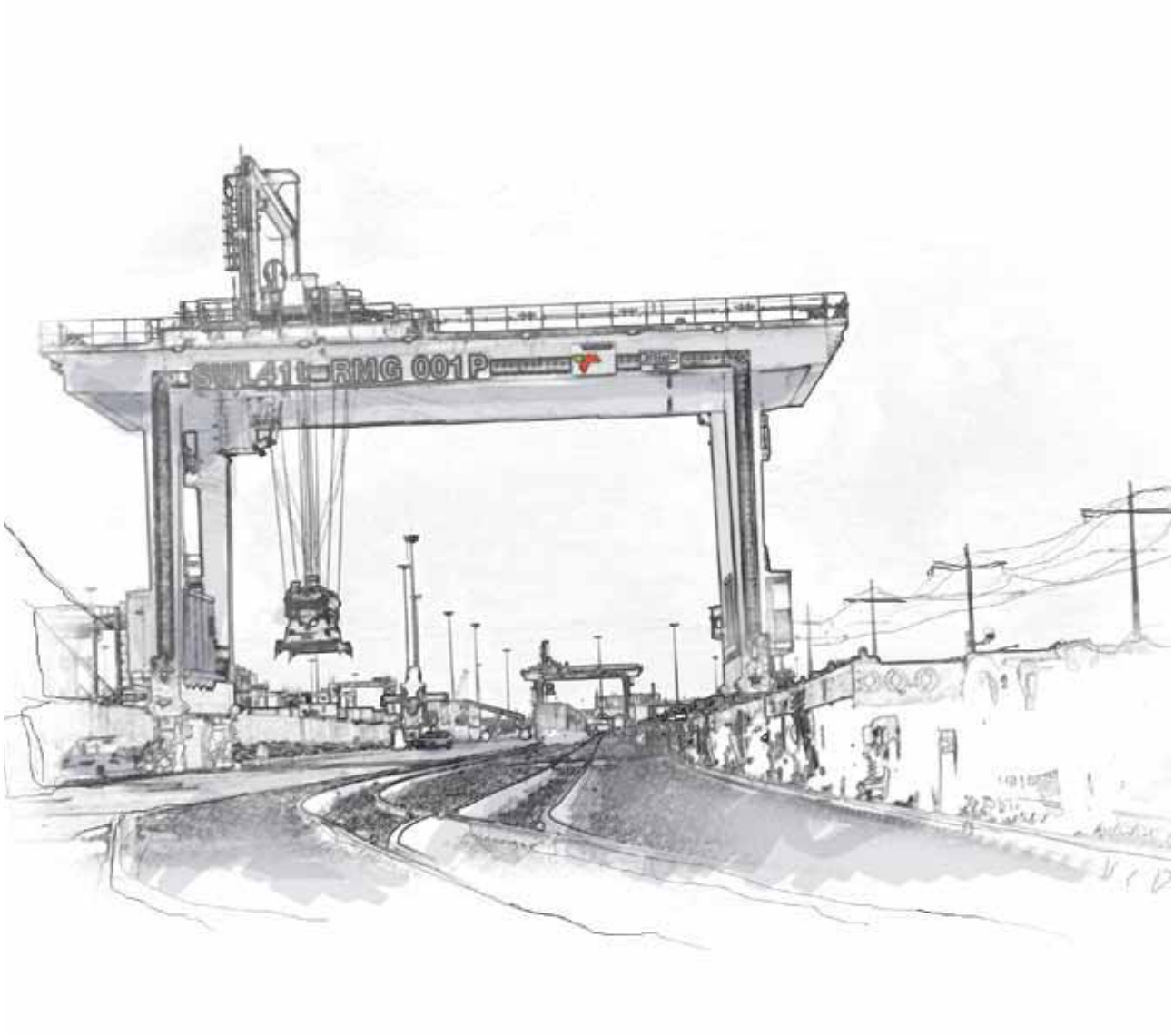
Member	Date																
	14/5	16/4	22/5	28/5	8/6	30/6	17/7	28/7	19/8	26/8	2/9	23/9	19/10	18/11	11/12	29/1	26/2
Mr CF Wells	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr L van Niekerk#	✓	✓	✓	✓	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mr P Maharaj	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	A	✓
Mr VD Kahla	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	A	✓
Ms V Dunjwa	✓	✓	✓	✓	✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓	✓	✓
Ms M Moses	✓	A	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr S Gama	✓	✓	✓	✓	✓	✓	✓	✓	A	A	■	■	■	■	■	■	■
Mr R Vallihu	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	A	✓
Mr T Morwe	✓	✓	✓	✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓	✓	✓	✓
Mr K Phihlela	✓	✓	A	✓	✓	✓	✓	✓	✓	✓	✓	A	✓	✓	A	✓	A
Mr CA Möller	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr K Socikwa	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr A Singh	✓	✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr M Gregg-Macdonald*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	✓	✓	✓
Mr V Oates*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	✓	✓	✓

✓	*Present*
A	*Apology*
*	*Appointed during the year*
#	*Resigned during the year*
n/a	*Not applicable*
Grey shade	*Special meeting*
■	*Mr S Gama was suspended during the year, awaiting the outcome of a disciplinary hearing*

King Report on Governance for South Africa 2009, (King III) and Companies Act 2008

Transnet, listed as a Schedule 2, major public entity in the PFMA, undertook a maturity and compliance self-assessment against the requirements of the King III and the yet to be implemented Companies Act 2008, No 71 of 2008 (the Act).

The Transnet maturity model was used as a basis to assess the organisations governance maturity and identify areas requiring improvement. In conducting the maturity self assessment, the different aspects addressed by the regulatory requirements of King III, the Act and the PFMA, were used for assessment purposes. The maturity self-assessment indicated a 'desired state' which has subsequently been adopted in leading governance organisations. With attention having been given to the effective implementation of the PFMA over the past years, the assessment revealed full compliance with many of the King III principles, insofar as these are compatible with the Act and PMFA, and take account of the fact that the Company has a single Shareholder and that 'advanced' maturity had been attained, when assessed against the requirements of the PFMA. Certain amendments to the Company's Articles of Association have been proposed to the Shareholder in respect to two matters that are not fully consistent with King III principles.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Sustainability report

The Sharp Minds! Programme aims to contribute towards the development of scarce skills in the country.

INTEGRATED SUSTAINABILITY MANAGEMENT AND REPORTING

Transnet produces an integrated annual report on its governance, financial, social responsibility, environmental, broader economic and overall sustainability performance, as set out in the Transnet Value Measurement Framework (TVMF) alongside. Accordingly this sustainability section should be read in that context, the purpose of which is to provide guidance to Transnet's stakeholders on where, in the annual report, relevant sustainability information on the Company's performance can be accessed.

Transnet sustainability platform

The Transnet sustainability platform serves as a 'community of practice' hub, which encompasses the leadership of all functional areas within the Company. With Transnet's commitment to integrating accountability for all material issues into the daily business, the sustainability platform identified seven sustainability principles as depicted below, selected to cover the interests of Transnet's diverse stakeholders, as the core of the TVMF as depicted alongside. The enterprise-wide integration of the principles strengthens the Company's ability to deliver on its Quantum Leap Strategy, recognise long-term risks and develop mitigating actions as well as new business solutions.

The following status icons are used consistently in the Sustainability report to indicate progress made during the year.

Status	First steps taken	Well under way	Advanced stage	Fully implemented	Ongoing
Legend					

The Transnet Value Measurement Framework

GRI 4.12

For Transnet, sustainability is synonymous with long-term value creation for all stakeholders. The management of material sustainability issues is, therefore, increasingly integrated into business decision-making. The TVMF depicted below sets the platform for this integration. The TVMF aims to strengthen the accountability chain; encourage stakeholder trust; and measure Transnet-specific sustainability performance across the Company. It is consistent with the integrated reporting requirements of the King III Report and recognises the GRI Guidelines as providing a global benchmark. It also takes into account the unique South African business landscape. Transnet's key focus in the year ahead is, therefore, to further align the TVMF with the Quantum Leap Strategy and embed integrated sustainability management and reporting throughout the Company.

The Transnet Value Measurement Framework (TVMF)

Principles	Focus areas	Integration throughout report
Engaging our stakeholders for mutual benefit	Stakeholder engagement and reputation management	ES SR
Assuring sound accountability and governance	Corporate governance and ethical conduct	OS ES CG
	Executive management and corporate strategy	OS ES
	Enterprise-wide risk management	OS ES CG SR
	Integrated sustainability management and reporting	ES SR
Managing our environment responsibly	Environmental management and compliance	OS ES CG SR
	Material environmental risks	OS ES SR
	Environmental performance	SR OR
	Carbon management and climate change strategy	OS ES SR
Achieving returns greater than the cost of capital	Financial sustainability and volume growth	OS ES FS
	Commercial and Freight Corridor Management with a focus on operational efficiency, productivity improvement and customer service	OS ES SR OR
	Operating division performance	OS ES OR
	Strategic supply management, BBBEE and CSDP	OS ES SR OR
Developing and maintaining world-class infrastructure	Infrastructure provision ahead of demand in the context of affordability and the National Infrastructure Plan	OS ES OR
	Asset performance and maintenance	OS ES OR
	Information and communication technology	OS ES SR
Creating a workplace where our people can excel	Change, transformation and culture	OS ES SR OR
	People management	OS ES SR OR
	Employee relations	OS ES SR OR
	Employee wellness and HIV/Aids	OS ES SR OR
Caring for the communities in which we operate	Corporate social investment	OS ES SR

Determining materiality

GRI 4.11

Sustainability is about understanding and managing areas material to future performance.

Transnet determines 'materiality' by considering its overall Quantum Leap Strategy and is further guided by, amongst others, the following:

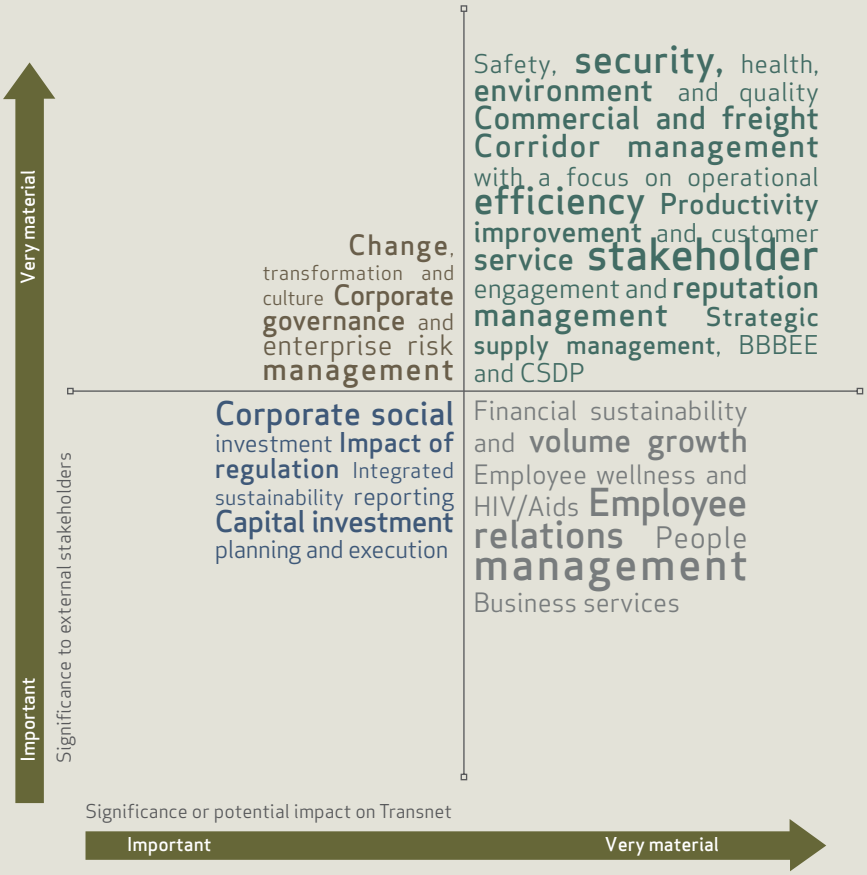
- The Shareholder's Compact;
- Transnet's 2011 Quantum Leap initiatives;
- Transnet enterprise risk assessments;
- Integrated sustainability performance and reporting benchmarking;
- Stakeholder engagement;
- The GRI guidelines; and
- The King III report.

Transnet materiality matrix

The issues mapped in the four quadrants of the matrix below reflect the degree of importance for Transnet's internal and external stakeholders.

Example:

- Safety is equally very important for Transnet's external and internal stakeholders.
- While financial sustainability and volume growth are important to Transnet's external stakeholders, it is significantly more important to the Company.



further reading

TVMF

Stakeholder engagement
and reputation management ES SR

ENGAGING OUR STAKEHOLDERS FOR MUTUAL BENEFIT

Shareholder perspective

"Communication on performance, targets, and commitments is the key to building trust. In my own experience, this inclusive approach is the way to create sustained business success and steady, long-term growth in shareowner value."

Professor Mervyn E King

STAKEHOLDER ENGAGEMENT AND REPUTATION MANAGEMENT

Stakeholder engagement at the heart of sustainability management

Stakeholder engagement is central to Transnet's sustainability, risk and reputation management. It helps the Company identify potential reputational risks and areas of reputational advantage. As an integral part of the Company's intangible asset base, Transnet's reputation is core to the Company's sustainable success.

A vision for building trust

Transnet strives to be a trusted and respected partner to all stakeholders. The Company is committed to transparent stakeholder engagement to ensure mutually beneficial relationships.

In an ever changing global business environment, where stakeholder trust is increasingly linked to sound governance, market share, retention of talent and access to funding, Transnet strives to be a trusted and respected partner to all stakeholders. The Company is committed to transparent stakeholder engagement to ensure mutually beneficial relationships.

Key stakeholders GRI 4.14 – 4.17	Shareholder and other State-owned enterprises	Regulators and other Governmental agencies	Customers
Interface with Transnet	The Shareholder, the South African Government, as represented by the Department of Public Enterprises, requires that Transnet complies with sound principles of corporate governance and implements vigilant risk management and controls. Compliance with the PFMA, adherence to Treasury Regulations and the Companies Act, as amended, form a core part of the Shareholder relationship. This necessitates implementing sound corporate governance principles throughout the Company.	Compliance with all applicable laws, rules and standards and adherence to the requirements of regulators and supervisors are central to Transnet's broader corporate governance and enterprise risk management.	Continued growth of the Company's market is inextricably linked to the needs and expectations of its customers. To them improved service delivery will be the key measure of the success of the Quantum Leap Strategy.
Transnet's response to their needs	Interaction that makes the relationship with the Shareholder structured, focused and mutually enriching include: • Shareholder's Compact engagements • Quarterly and annual reports • Annual Corporate Plans • DPE's CEOs, Chairmen and CFO forums • Annual general meetings • Board engagement with Shareholder Minister and Deputy Minister	Transnet seeks to maintain a constructive and transparent working relationship with all regulators and supervisors through, amongst others: • Meetings with policy departments and Ministers • Periodic reports and returns to Regulatory Authorities • Periodic submissions to relevant Parliamentary Portfolio Committees	Engaging customers to better understand their unique needs takes various forms, which include: • CEO roadshows • Customer satisfaction feedback/reports • Fact sheets, pamphlets and newsletters

Strategically committed to build, deliver, innovate and care

Realising the importance of reputation to its success, Transnet has formulated a detailed stakeholder engagement plan as part of its strategy to effectively manage and safeguard its reputation. The strategy is designed to ensure that reputation management is appropriately prioritised and that all internal governance structures of the Company act, at all times, in a manner that enhances the reputation of the Company. A critical component of the strategy is a plan to identify and define ways of engaging the various stakeholders whose behaviour is vital to the continued success of Transnet.

Preliminary research has been conducted to assess the views and perceptions that economically active members of the population hold of Transnet. This survey has formed the basis of the reputation management strategy to date. Going forward, a detailed analysis will be commissioned to determine the expectations of each of Transnet's key stakeholders, including key customers. This analysis will inform Transnet's future stakeholder engagement plans with the view to achieving mutually beneficial outcomes.

The Transnet stakeholder engagement strategy

Pillars	Purpose
Inform	• Be the authoritative source of freight systems data • Show innovation
Celebrate	• Celebrate successes and innovations • Recognise all achievers (employees, customers, suppliers, Government)
Listen	• Provide genuine platforms for feedback
Influence	• Be an educator • Engage policy debate

Suppliers	Employees and labour unions	The public, financiers and media	Communities
To suppliers, long-term growth opportunities created by the CSDP, BBBEE, governance, ethical conduct, reputation and contract management are of key importance.	Transnet's employees and organised labour need to be assured of the sound governance, reputation, ethical transformation and management of the Company.	The South African public, Transnet's financiers, bond holders, credit rating agencies and the media are particularly focused on the Company's ability to deliver on its commitments as set out in its Quantum Leap Strategy.	The business has an impact on the communities where it operates. Transnet strives to demonstrate to communities that the Company values principles of accountability and cares for vulnerable communities.
Transnet communicates with them on these issues through: • Transnet Acquisition Council • BEE forums • Publications • Site visits • Stakeholder engagement meetings	Value-adding communication tools used in the Company's daily interaction with its people and their representatives include: • Strategic Leadership Forum (SLF) • Internet/Intranet • Memoranda from the GCE	Transnet interacts with these stakeholders through: • Press conferences • One-on-one interviews • Roadshows • Media breakfasts • Corporate identity manual	Transnet seeks engagement opportunities with impacted communities through: • Partnerships • Awareness campaigns • Corporate social investment initiatives

further reading

TVMF

Corporate governance and ethical conduct	OS ES CG
Executive management and corporate strategy	OS ES
Enterprise-wide risk management	OS ES CG
SHEQ management	SR
Security management	SR
Integrated sustainability management and reporting	ES SR

ASSURING SOUND ACCOUNTABILITY AND GOVERNANCE

SHEQ MANAGEMENT

Commitment at the helm

Management of risks relating to safety, health, environment and quality (SHEQ) remained a key focus area and business imperative during the year. As Transnet strived to achieve productivity and operational efficiency improvements, the Company had to be mindful of the safety of its workforce.

During the year, SHEQ performance was measured against industry recognised indicators, namely, cost of loss, disabling injury frequency rate (DIFR), disabling injury incidents and SHEQ performance audit ratings, which demonstrates the safety culture and ethics within the Company. Performance against these indicators highlights areas that require further focus and determines the resources required to achieve the set targets.

The SHEQ performance system measured by NOSA continues to show gradual improvement in certain areas of the Company. The management of the Environmental and Quality Management Systems, in accordance with ISO standards, is critical and a number of systems have been successfully implemented to assist in achieving international benchmark standards.

Transnet continued to build upon and roll out safety programmes, which sought to deal with the root causes of safety incidents and take cognisance of previous experiences. Although significant strides were made with regard to adherence to standard operating procedures (SOPs), this area continues to present a challenge to the Company. Transnet's safety culture programme is focused on behaviour-based interventions for improving and sustaining safety performance. The embedding of the safety culture will support all safety initiatives going forward.

Transnet is saddened by the eight employee fatalities (2009: 13) suffered during the year. Although this represents a 38,5% decrease compared to those reported in the previous financial year, this is still eight fatalities too many. Boards of Inquiry (BOIs) have been convened for each of the fatalities and emerging trends have been identified. The emerging trends indicate a shift from operational-related incidents to motor vehicle incidents. There were five motor vehicle related incidents, two electrocutions and one falling from a height incident. Of the five motor vehicle incidents, four occurred outside Transnet's operational areas. It is still a concern that some of these fatalities arise from the non-adherence to SOPs, which is a major contributor to the root causes of these incidents. To ensure this trend is curbed, management focus is given to, amongst other initiatives, the reviewing and updating of SOPs, training and retraining of affected employees, monitoring the implementation of BOI recommendations and checking the effectiveness of relevant controls.

Overall, there has been notable improvement in this area and the improvements made in SHEQ management are illustrated below.

SHEQ scorecard

Cost of loss	DIFR (GRI LA7)	701 disabling injury incidents (GRI LA7)	SHEQ performance audit
R435,7 million against a target of R411,4 million	0,72 against a target of 0,87		84%* against a target of 88%
↓ 29% versus 2009	↓ 34% versus 2009	↓ 12% versus 2009	↓ 4,0% versus 2009
2011 target R360 million	2011 target 0,71		2011 target 90%*

8 employee fatalities (GRI LA7)	173 public fatalities (GRI LA7)
↓ 38,5% versus 2009	↓ 12% versus 2009

Based on four Operating divisions.

Safety

We said we will	
Establish the SLF Safety Task Team to strengthen safety monitoring and to provide strategic direction. Transnet remains a committed partner to the Company's recognised trade unions on safety related issues. This commitment is expressed through Transnet's representation on forums such as the SLF and incident investigation teams.	
Initiate a comprehensive 'safety maturity evaluation', which informs Transnet's safety management practices. Early indications are that there is a notable reduction in the number of operational incidents and the related costs.	
Strengthen discipline and consequence management through behaviour-based interventions and a review of SOPs.	
Design a comprehensive safety culture programme to promote a safety mindset and to reduce unsafe acts within the Company.	
Implement additional multimedia safety communication mechanisms to enable safety awareness. This includes, amongst others, Chief Executive dialogue sessions (Izimbizos), safety days, newsletters, workshops, 'green area' talks, 'rail crossing awareness' sessions, evacuation drills and safety alerts.	
Host an annual Safety Awards event which encourages a high level of safety competence within the Company. The event recognises achievements related to safety performance in the previous year and helps to ensure the continuous improvement of fire fighting, first aid, occupational health and safety performance in Transnet for the benefit of the Company and its employees. It recognises, motivates and rewards the deserving collective and individual efforts of employees. The event enables Transnet to measure the skills and preparedness of the first line of defence in the event of any emergency. The Operating divisions and Specialist Units are also recognised and rewarded for exceptional ratings achieved through the independent NOSA audit in various safety categories, and for ISO certification by accreditation bodies.	

We plan to
Ensure that SOPs are in place, accessible and understood by employees, and appropriately updated to achieve the required Quantum Leap in safety performance.
Address non-compliance with SOPs, mandates and guidelines through appropriate disciplinary action.
Implement the Transnet Occurrence Management System (TOMS) to capture, analyse and manage safety incidents and trends.
Continue with safety training for new employees and schedule safety training roll out.
Recruit skilled personnel in safety critical areas.
Engage contractors in safety programmes to improve contractor safety performance.

Health and hygiene	
We said we will	
Embed occupational health risk assessment, monitor, control, implement and evaluate throughout the Company.	
Intensify focus on the proactive management of noise-induced hearing loss, the rehabilitation of asbestos* contaminated sites, the prevention of silicosis and control of exposure to dangerous goods.	
We plan to	
Increase occupational hygiene surveys in all operational areas to identify all noise zones.	
Roll out focused noise induced hearing loss reduction programmes.	
Monitor noise levels to ensure compliance with applicable SANS standards.	

SHEQ awards 2010

GRI 2.10

Capital Projects

- Rehabilitation Maintenance Emergency (RME) KZN Ports project achieved four million hours without disabling injuries in a space of 12 months.
- Port of Ngqura project has achieved 2,5 million hours without disabling injuries in a space of 12 months.

Freight Rail

- Bellville Container and Automotive achieved eight consecutive years without disabling injuries.
- Upington National Train Crew achieved six consecutive years without disabling injuries.

Rail Engineering

- Van Dyks Drift Wagon Maintenance retained its NOSCAR rating for the 11th consecutive year.
- Bloemfontein School of Engineering awarded 5-Star Grading.
- Salt River School of Engineering awarded 5-Star Grading.
- Salt River Rolling Stock Equipment-business (RSE) awarded 5-Star Grading.
- Swartkops Locomotive Maintenance awarded 5-Star Grading.
- Salt River School of Engineering achieved 11 consecutive years without disabling injuries.
- City Deep Auxiliary Container achieved eight consecutive years without disabling injuries.
- Bloemfontein Centre achieved 1,75 million hours without disabling injuries.
- Sentrarand Locomotives achieved one million hours without disabling injuries.

National Ports Authority

- Port of Port Elizabeth has achieved and retained its ISO 14001 accreditation.
- Port of Port Elizabeth has achieved and retained its ISO 9001 accreditation.
- Port of Port Elizabeth has achieved and retained its ISO 18001 accreditation.
- Port of Cape Town Track Works has achieved nine consecutive years without disabling injuries.

Port Terminals

- 15 terminals have retained their ISO 14001 accreditation.
- 15 terminals have achieved and retained their ISO 9001 certification.
- 15 terminals have achieved and retained their NOSA certification.

Pipelines

- 17 sites were audited by NOSA of which five received a 5-Star rating, which resulted in Transnet Pipelines retaining its overall 4-Star platinum rating.

SHEQ best practice implementation progress

	NOSA	ISO 14001	OHSAS 18001	ISO 9001
Freight Rail	100% (All three regions have implemented SANS 3000 based on NOSA principles)	The development of ISO 14001 has recently commenced with completion planned for December 2010	Not initiated due to the development of an Integrated Management System which will incorporate OHSAS 8001	40% (eight operational areas and seven container depots have implemented ISO 9001 and 75% of these have been certified)
Rail Engineering	100% (All six main business centres have been re-certified NOSA compliant)	100% (All six main business centres have implemented ISO 14001 and certification audits are in progress)	100% (All six main business centres have implemented OHSAS 18001 and certification audits are in progress)	100% (All six main business centres have implemented ISO 9001)
National Ports Authority	Migrated to OHSAS 18001	63% (five of the eight ports have implemented ISO 14001)	63% (five of the eight ports have implemented OHSAS 18001)	88% (seven of the eight ports have implemented ISO 9001)
Port Terminals	100% (All 15 terminals have been re-certified NOSA compliant)	100% (All 15 terminals have been re-certified ISO 14001 compliant)	The implementation of OHSAS 18001 has progressed to 50% in all 15 terminals.	100% (All 15 terminals have been re-certified ISO 9001 compliant)
Pipelines	95% (19 of the 20 depots have been certified NOSA compliant)	System fully developed however not yet implemented.	Not commenced (Pending maturity of NOSA system)	100% (All 20 depots have implemented ISO 9001 system)
Capital Projects	NOSA not applicable in a project environment	Commenced with the development of an Integrated Management System that complies with ISO 14001	Commenced with the development of an Integrated Management System that complies with OHSAS 18001	The development of ISO 9001 has recently commenced with readiness for certification by March 2011

Transnet's seven Golden safety actions

I will not perform unsafe work and put myself and others in danger.

I take responsibility for myself and my team, and I don't blame others

If I don't understand and if I have a problem, I speak up and say so.

No matter what my level, I contribute to improving safety

I know the standard operating procedures and safety rules, follow them and don't take shortcuts

I always prepare, check and report unsafe acts and conditions

I rest well and work safely

Security

We said we will	
Implement the Transnet Security Management (TSM) strategy by developing operational frameworks within all the Operating divisions.	
Develop the Transnet Security Standards.	
Build in-house capacity by focusing on security structures and manpower.	
Develop and implement the Transnet Security Code of Conduct (TSCoC), providing a solid foundation for human rights awareness and training.	
Introduce security service providers to the TSCoC, guiding them in all aspects of behaviour, approach and attitude when dealing with others.	
Implement a security information management and communication support system, which includes training, awareness campaigns and technology.	
Increase talent management, leadership and skills development through the roll-out of training interventions, leadership evaluation and exposure of management teams to industry forums.	

We plan to
Monitor and review compliance with the National Key Points Act and the security related standards across the Company.
Develop site-specific, depot-specific and port-specific security plans.
Ensure that all new projects and developments meet the minimum criteria as set out in the approved standards.
Roll out a security project plan to source service and product providers as preferred suppliers to Transnet.
Include the aspect of human rights as part of the monthly evaluation criteria conducted on external service providers.
Review amendments made to the Private Security Industry Regulatory Authority (PSIRA) Code of Conduct, to inform security best practice.
Measure identified risks, threats and vulnerabilities against actions and strategies to ensure continuous improvement.
Ensure that each Operating division has an updated annual training and development plan for all security personnel.

SECURITY MANAGEMENT

Following the approval of the Integrated Security Strategy for Transnet, security operational frameworks, to roll out the strategy, have been developed by all Operating divisions. Transnet is actively involved in various security strategic alliances which have yielded positive results. Transnet is an active member of, amongst others, the National Rail Crime Combating Forum, Ports of Entry Police, Government Sector Security Council, South African Police Advisory Services and the National Security Managers Forum.

During the year, Transnet initiated the implementation of the following Transnet Security Standards;

- Minimum Information Security Standards;
- National Key Points Standards; and
- Minimum Physical Security Standards at the Operating divisions.

The assessment of material security risks, threats and vulnerabilities to inform suitable interventions and determine required capabilities of service providers is ongoing.

Increased international demand for copper has seen an alarming escalation of copper related theft worldwide. This phenomenon is also prevalent in South Africa and impacts directly on businesses' ability to achieve their objectives. Transnet was also targeted, and an analysis of the security incidents indicates that theft of copper cable is on the increase. This represents a 40% increase in incidents involving theft of copper cable year-on-year. Accordingly, the consequential rand value loss of copper cable theft far exceeds the direct cost of loss for Transnet. Transnet will embark on strategic information driven security operations to augment existing efforts that are predominately reactive in nature. Collaboration between key stakeholders such as Eskom, Telkom, Passenger Rail Agency of South Africa (PRASA), and the South African Police Force (SAPF) is ongoing.

Security scorecard

4 469 security incidents	Total rand value loss of **R58,9** million
↑ **27%** versus 2009	↑ **53%** versus 2009

further reading

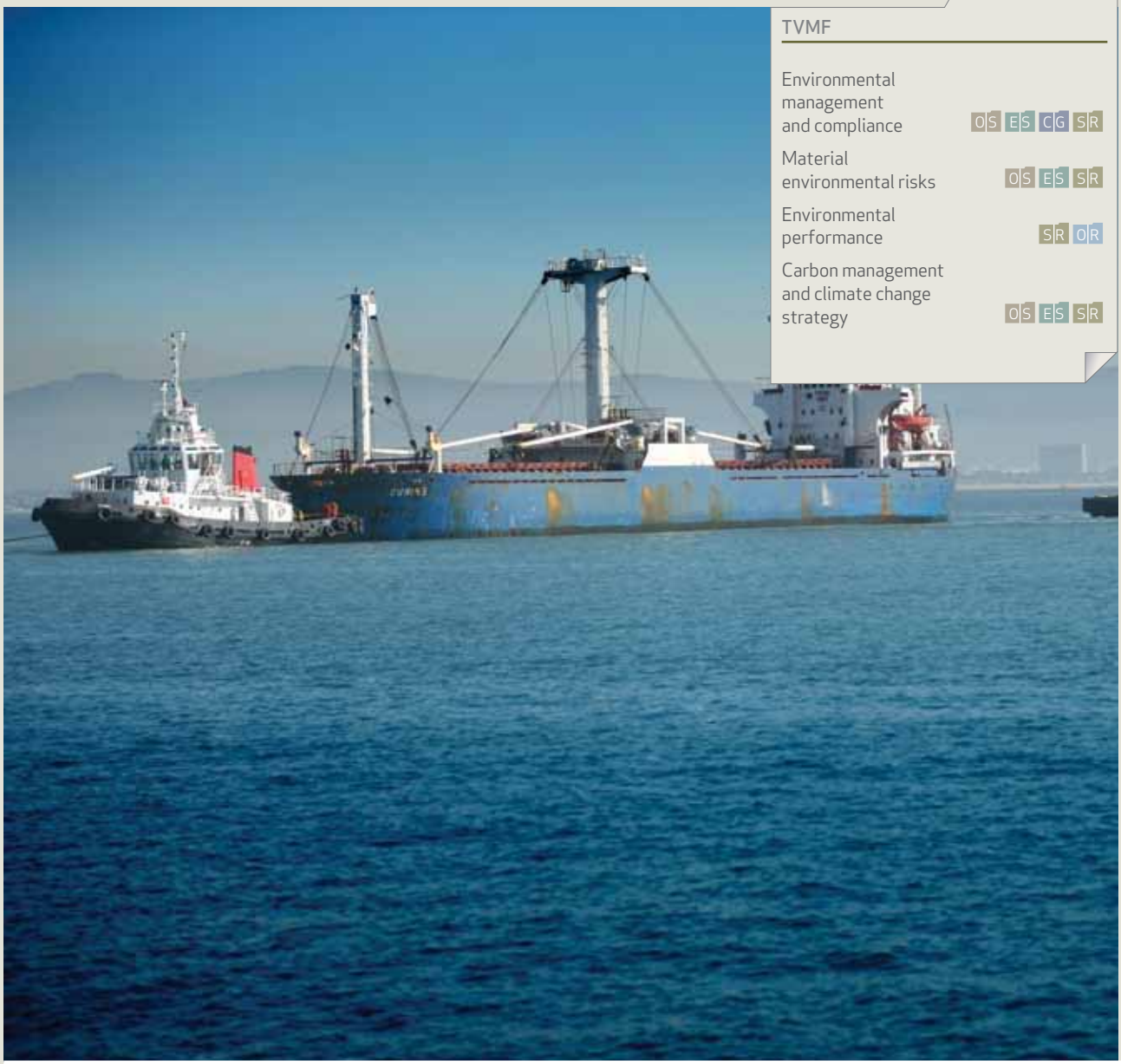
TVMF

Environmental management and compliance OS ES CG SR

Material environmental risks OS ES SR

Environmental performance SR OR

Carbon management and climate change strategy OS ES SR



MANAGING OUR ENVIRONMENT RESPONSIBLY

Environmental management and resource conservation

We said we will	
Elevate and address environmental concerns through Transnet's governance structures.	●
Standardise reporting on various environmental indicators, including operational incidents.	◐
Support a precautionary approach to environmental challenges.	◐
Undertake initiatives to promote greater environmental responsibility.	◔
Encourage the development and diffusion of environmentally friendly technologies.	◔
Enable Group-wide compliance with the environmental legislation, through the role out of Transnet Group Compliance's National Environment Management Act (NEMA) project.	◕
Optimise the CURA risk management system and refine the Transnet Occurrence Management System (TOMS).	◐
Pursue best practice in waste management.	◔

We plan to

Prioritise the following focus areas, over the next three years to enable Transnet to address all environmental issues, as well as to assist Transnet in becoming an exemplar company in responsible environmental custodianship:

Strategy and governance

- Entrench an environmental culture within the Company
- Strengthen the Transnet Environmental Forum

People

- Establish resource requirements for environmental management at operational level and fill all vacancies
- Allocate more bursaries in the environmental management and related study areas
- Raise awareness and conduct training for senior management in related study areas
- Align Transnet's Corporate Social Investment (CSI) projects to areas in which the Company operates, with specific focus on environmental projects.

Methods and practices

- Develop a specific policy and framework for environmental management in Transnet and ensure consistent application.
- Improve housekeeping and maintenance across Transnet to ensure environmental responsibility, reduce business costs and review inefficient plant infrastructure design.

ENVIRONMENTAL MANAGEMENT AND COMPLIANCE

Environmental scorecard

Fuel consumption	GRI EN3 Electricity consumption	GRI EN8 Water consumption*
254,3mℓ	3 138 969 MWh	11 128mℓ
↑ 5% versus 2009	↓ 9% versus 2009	Incremental baseline

**Water consumption statistics does not include Port Terminals and Pipelines.*

A call for accountability

With the ever-increasing awareness of environmental changes, issues and rights, Transnet has been focusing its attention on understanding the extent of the impact by its operations on the environment and the surrounding communities. Programmes have been developed to ensure alignment with legislative requirements. The Company is also significantly investing to ensure minimal environmental exposure and extensive remediation. The Company has identified approximately nine legislative environmental requirements impacting its operations. This process has highlighted non-compliance with environmental legislation, as one of the Company's top ten risks, potentially resulting in fines, penalties, damage to the environment and potential adverse publicity as well as reputational damage.

In ensuring the continued and sufficient focus on environmental risk management, the Company identified its top five strategic priorities for the year ahead, which have been included in the Shareholder Compact and the strategic performance objectives for all Group Executive Committee members and management scorecards. Specific focus is placed on general 'housekeeping' in operations, maintenance regimes and compliance with environmental legislation.

As the key strategic priorities are directed at ensuring environmentally compliant operations, the Company has committed itself to a Quantum Leap improvement by, amongst others, executing its "Duty of Care" in terms of section 28 of the National Environmental Management Act No. 107 of 1998. Transnet aims to be an exemplar company in terms of environmental compliance.

Knowing where we are

During the year, Transnet continued to elevate environmental compliance concerns by prioritising reporting of environmental risks through the Operating division Risk Committees, Risk Management Committee and the Group Risk Committee, where it is a standing agenda item with both Executive management and the Board. Greater emphasis was also placed on fostering mutually beneficial relations with various affected and impacted environmental stakeholders, including, amongst others, regulators, interest groups and communities.

Transnet's commitment to a proactive and precautionary approach to environmental challenges was further strengthened during the year, by commencing with a Company-wide climate change study on Transnet's impact on climate change and the possible future impact on the Company, as discussed in detail on page 110.

The Company continued to manage environmental concerns through the identification of key environmental risks and the implementation of the CURA risk management system across the Operating divisions.

Asbestos rehabilitation

In keeping with Transnet's philosophy of being an environmentally responsible corporate citizen, the Company undertook an extensive analysis of asbestos contaminated areas across all operations. A rehabilitation programme has been implemented, with phase one focusing on the clean-up of contaminated operational areas such as depots, yards and mainlines. Phase two will focus on risk assessments and the phasing out of asbestos-containing materials used on buildings. Asbestos risk assessments were conducted throughout the country, the results of which informed a comprehensive Asbestos Rehabilitation Plan to be rolled out in the year ahead.

The Company has appointed an accredited service provider to address phase one of the project. Transnet Property has commenced with the process of identifying a service provider for the asbestos clean-up on properties under its control.

Material environmental risks

Specialist unit/ Operating division	Nature of environmental risk/ incident	Regulatory requirement impacted	Actions taken
Capital Projects	Commencement of listed activity without environmental authorisation.	National Environmental Management Act No. 107 of 1998, section 24F.	Section 24G application submitted to the Minister of Water and Environmental Affairs.
National Ports Authority	Pre-directive notices for oil pollution at the Dom Pedro quay in the Port of Port Elizabeth	National Environmental Management Act No. 107 of 1998	Further oil contamination is contained by a boom at the quay. Recovered product has been analysed to determine the source. Both old and new product was found. The oil industry has been placed on terms to clean up the oil pollution. The oil industry is currently conducting an environmental impact assessment to build a wall to contain any further pollution into the sea. Air quality, ground water and surface water are being consistently monitored and reports are submitted to the DEA. The Berm rehabilitation plan has been approved by the DEA and consultants have been appointed to manage this process. Transnet is committed to relocating the Port Elizabeth Manganese Terminal and the Port Elizabeth Tank Farm. Feasibility studies are under way to determine the future location of the manganese export facility for South Africa. In the interim, the Manganese Terminal has been resurfaced and sprayers have been installed to reduce dust levels. Active monitoring of dust levels is ongoing. An internal task team has been constituted, which reports to two Group Executives who have been tasked to oversee the implementation of the clean-up of all environmental challenges in the Port of Port Elizabeth. A plan has been implemented to clean up the Humewood Rail Station. A Memorandum of Understanding has been entered into with the Nelson Mandela Bay Municipality to discuss future planning, safety and environmental issues.
Port Terminals	Pre-directive notices for potential pollution and contamination at Port Elizabeth Manganese Terminal	National Environmental Management Act No. 107 of 1998 and National Environmental Management: Waste Act No. 59 of 2008	As covered above in respect of National Ports Authority.
Freight Rail Rail Engineering National Ports Authority Transnet Property	Asbestos contamination	Environmental Management Act, Asbestos Regulations Occupational Health and Safety Act No. 85 of 1993	Developed comprehensive plans to treat the contaminated sites. Asbestos risk assessments are performed when new contamination is suspected or detected. Contaminated sites are rehabilitated and restored according to the action plan. Funds have been provided for asbestos clean-up.

As is evident from the table above, Transnet faced several challenges over the past reporting year in relation to pollution and waste management.

A comprehensive environmental risk and exposure assessment is being carried out across the Company, to determine potential pollution and contamination. This includes developing and implementing plans to treat all risks and exposures and monitoring progress through the various governance structures.

The Company will prioritise awareness and training on the implementation of the National Environmental Management: Waste Act during the 2010/11 financial year. During the year, Waste Management Plans were developed and will be implemented, in the year ahead, to ensure that all waste streams are properly managed.

Carbon management and climate change strategy

GRI EC2

Introduction

Transnet is developing an integrated climate change strategy to cover all its operations. The purpose of the strategy is to manage Transnet's exposure to climate change-related risks. The strategy will also address Transnet's responsibilities, both as a corporate citizen and as a State-owned enterprise (SOE), in assisting South Africa to meet its international commitments to reduce carbon emissions and to adapt to climate change. More specifically, the objectives of the project are to:

- Reduce Transnet's regulatory risk.
- Inform Transnet's participation in the climate change policy debate.
- Identify constraints to Transnet's Quantum Leap Strategy.
- Facilitate an integrated approach in developing a Group-wide strategy and implementation plan.
- Reduce the cost of doing business for Transnet and its customers.
- Identify and develop opportunities for generating energy savings and carbon credits.
- Identify potential trade barriers in the context of global trade.
- Identify areas for further research and innovation.

To identify Transnet's carbon footprint and define a climate change strategy, the Company is being assisted by an external specialist consulting company. The following phases have been identified:

Phase 1	Phase 2	Phase 3
1A: Identify the overall climate change context for Transnet by April 2010.	2A: Determine Transnet's carbon footprint by September 2010.	3A: Implement a climate change strategy for Transnet by March 2011.
1B: Perform a climate change risk and vulnerability assessment by April 2010.	2B: Develop a Carbon Management Plan for Transnet by November 2010.	3B: Recommend further research and innovation by April 2011.
	2C: Explore opportunities and link to the National Infrastructure Plan and Transnet's Capital Expansion Plan by December 2010.	

International policy context

In order to assess Transnet's position on climate change, some key international developments in climate change policy were considered.

The international context is relevant to Transnet's climate change strategy for numerous reasons, including the following:

- International climate policy is indicative of possible future trends in South Africa.
- Regulation in developed countries is increasingly geared towards the reporting of sustainability related information, including the amount of embedded carbon emissions within products. This will be particularly relevant to Transnet should the Company wish to enter into these markets in future. Even if Transnet does not enter directly into these markets, the Company forms a critical part of the embedded emissions of many South African products destined for these export markets through the provision of logistics services. Transnet may, therefore, be required to make relevant information available to its own customers who operate in these overseas markets.

It is also noted that developing countries, such as Brazil, Russia, India and China (BRIC) are likely to account for the largest portion of the future increase in global greenhouse gas emissions. These countries are under significant pressure to address the economic aspirations of their populations whilst developing sustainable low carbon economies. These developing countries represent both potential allies in the international climate change negotiation process and potential future markets for South African exports and expanded South-South trade. However, they also represent competition in terms of access to international finance for climate change mitigation (i.e. CDM financing) and in providing low-carbon services and products to the developed nations.

National climate policy context

In terms of climate change policy nationally, South Africa is in the process of formulating long-term policy, which will establish a framework for action by the country and industry for several decades going forward. A significant recent development included the Long-Term Mitigation Scenario (LTMS) study which identified a suite of mitigation options for the country based on the best available scientific information. The study formed the basis for much of the regulations that are currently being evaluated.

Although not related to climate change policy, another significant occurrence during the year was the national energy crisis which occurred due to a shortage of generating capacity. An immediate solution to meeting capacity requirements included a mandatory 10% reduction in energy consumption for large consumers (over 25GWh per annum). Both the shortage of generating capacity and the ensuing reduction in energy consumption have resulted in a genuine sense of urgency with respect to handling climate change in South Africa. In December 2009, South Africa announced its national emission reduction target, which is based upon the LTMS analysis. South Africa has specifically committed to undertake mitigation actions which will result in a deviation below the projected 'business as usual' emissions trajectory of around 34% by 2020 and 42% by 2025.

As one of South Africa's largest SOEs, Transnet will be expected to help achieve the emissions trajectory target. Some of the outcomes of the LTMS have been disputed, along with some of the underlying assumptions. It nevertheless draws attention to the following critical points:

- South Africa is far from reaching its targeted reduction in emissions.
- The implementation of significant economic incentives, such as carbon taxes and cap-and-trade, are both inevitable and necessary in the short term for South Africa to reach the country's national target.

- Significant economic incentives, major innovations and behavioural changes will also be required to reach the national target, particularly in the field of carbon capture and storage. This is particularly relevant, given Eskom's coal station build programme and the recent cancellation of the nuclear power programme for the foreseeable future.

Preliminary assessment of Transnet's footprint

To obtain a better understanding of Transnet's carbon footprint, a preliminary analysis, based on several assumptions, was undertaken.

In terms of Transnet's footprint, the following results were demonstrated:

- The transport sector currently contributes 9% to the overall greenhouse gas (GHG) inventory for South Africa. In terms of the preliminary calculation of the GHG inventory for Transnet's carbon footprint, the Company accounts for approximately 12% of the Transport sector's emissions in South Africa. Emissions from road transport represent the most significant contribution to the Transport sector.
- In total, it has been estimated that Transnet contributes 1% to the total GHG inventory for South Africa.
- Transnet's emissions are primarily energy-based; including fuel and electricity consumption, and the most significant portion is contributed by the consumption of purchased grid electricity. This contributes 86% of Transnet's carbon emissions. The remaining 14% is from fuel use.
- Freight Rail is the largest contributor to Transnet's emissions footprint at 81%.
- Transnet's carbon footprint places it in the same league as many of the large mining companies in South Africa.

Key challenges facing Transnet

Constrained energy supply will pose physical constraints in terms of expanding electricity usage. These considerations will directly impact the climate change strategy for the business and must be integrated in the strategy. Simultaneously, Government has provided Transnet with a mandate to significantly expand its infrastructure.

The fundamental challenge for Transnet will, therefore, remain in balancing expansion; managing security of energy supply and reducing the overall carbon footprint for the Company in the long term. Carbon taxes on fossil fuels, capital goods and other climate change regulations will directly impact on Transnet, primarily by increasing its operational costs and the costs of carbon intensive capital goods.

Preliminary carbon taxes are in place and are expected to extend to additional capital products. The transport sector has been identified as one of the fastest growing sectors and has, therefore, been earmarked as a key sector for 'mitigation opportunities'. Therefore, ambitious and mandatory national emission reduction targets will be developed for this sector.

Policy developments are likely to favour rail freight as opposed to road freight due to the lower carbon emissions of rail transport under various circumstances. This may present opportunities for Transnet to expand market share in the freight sector. Harnessing new freight opportunities offers Transnet the potential to contribute meaningfully towards the reduction of the national carbon footprint while growing its own service delivery footprint. Consequently, Transnet may need to consider alternative models for setting its own emission reduction targets, including for instance, focusing on the intensity of emissions, as opposed to total carbon emissions alone.

Transnet can play a key role in assisting South Africa to reach the national target through:

- Using its influence in policy debate by, for instance, identifying and lobbying for policies that assist both Transnet and other companies to achieve meaningful carbon emission reductions;
- Demonstrating leadership in addressing its own emissions;
- Playing a facilitative role in transforming the broader transport sector into a low carbon sector;
- Integrating carbon emission reduction considerations into its capital expenditure programme, for instance by implementing widespread energy efficiency measures and by reporting on required carbon footprints of contractors; and
- Supporting the development and deployment of key technologies in South Africa.

Presently, Transnet's international customers face only limited barriers in a few select markets as a result of climate change regulation. However, these barriers are likely to increase, both in the number of countries where they occur (starting in the EU) and in the severity of economic penalties incurred due to the ineffectual management of carbon emissions.

Transnet is anticipating substantial pressure from both domestic and international customers to provide carbon emissions data for the logistics component of the embedded carbon emission in the products handled by the Company. As Transnet is responsible for a major portion of the country's infrastructure, a structured framework will be required for assessing the vulnerability of this infrastructure, in terms of the physical impacts of climate change as well as the funding and implementation of adaptations.

Stakeholder perspective

Transnet reported in the 2007 Sustainability Report about the dust problem in the Port of Saldanha and the programme set up to monitor this on an ongoing basis. Transnet also reported how the community was unhappy about the impact of the dust on their houses.

The following is an excerpt from the minutes of the last Environmental Monitoring Committee (EMC) meeting held on 18 February 2010:

"M Rothenburg stated that Transnet had done an excellent job and that people could not be forced to complete the (compensation) forms (e.g. those who felt it was too much effort). He indicated that the majority of people were however satisfied and had started repainting their houses. He indicated that people had also been asked to proactively prevent dust running down their walls. On behalf of the Blouwaterbaai Homeowners Association, M Rothenburg stated that they were grateful to Transnet and commended Transnet on how efficiently the compensation for the repainting of the houses was undertaken, once the process was under way.

The Chairman noted that he was pleased to hear that the community was happy with the repainting of the houses. He added that the EMC were therefore ending on a positive note, i.e. the dust levels are improving and the affected residents had been compensated for repainting their houses".

Reality story

Rodent control in the Port of Ngqura

Renée de Klerk is a Mott MacDonald employee, and as part of the HMG team is the Project Environmental Manager for Transnet Capital Projects at the Port of Ngqura in the Eastern Cape. After winning the Mott MacDonald Sapling Environmentalist of the Year Award in 2008 Renée has gone on to win the Oak Award in Bristol in the United Kingdom, this year for her work on the Port of Ngqura Urban Raptor Project and her continuing professional excellence in improving the environmental and sustainable performance of the port. The following is an outline of the work Renée has been undertaking.

The requirement for rodent control and monitoring at the Port of Ngqura arises from specific conditions imposed on National Ports Authority by the National Department of Environmental Affairs and Tourism in the Record of Decision (ROD) for the construction and operation of the Port of Ngqura and the ROD for the proposed port extensions.

The need for rodent control and monitoring is twofold. Rodents (mainly exotic species) are plague carriers affecting human health and are considered to be predators posing a direct threat to the existence of various endangered bird species inside the port and on the nearby Jahleel Island. Transnet previously implemented a Rodent Control Management Plan which required the use of rodenticides and was officially approved by the Endangered Wildlife Trust – Poison Working Group. Poison bait stations were strategically placed around the port for the control of rodents.

In 2008 a Rock Kestrel (presumed to be resident at the port) was found in a high mast light on the container terminal, and appeared to be injured. The bird was taken to Wildline, a local conservation organisation, where it later died. An autopsy revealed typical rodenticide poisoning symptoms. The port has been poison free since 2007 and was not directly responsible for the secondary poisoning of the bird.

The Coega Industrial Development Zone and Port of Ngqura have many naturally occurring raptors, including some Red Data species that provide natural control of rodents. When rodenticides are used, birds of prey are directly affected. Worldwide poison has long ceased to be an efficient method of rodent control. Secondary poisoning kills hundreds of predators while pest rodent populations, immune to rodenticides thrive unchecked.

Due to the sensitivity of the environment in which the port is constructed and operates, Transnet decided to implement a poison-free system for monitoring and controlling rodents inside the port. The presence of predators and raptors such as falcons and owls in and around the port is a major deterrent for birds and rodents. Providing suitable nesting and roosting sites and eliminating poison usage in the immediate area would encourage birds of prey to nest and set up territories. The high mast lights inside the port and along the port boundary fence provide excellent hunting posts. The aim of poison-free control is to encourage and protect naturally occurring mammalian, reptilian and raptor predators. These species are susceptible to secondary rodenticide poisoning from feeding on rodents that have fed on rodenticides.

The proposed rodent control programme was presented to the Coega EMC at a quarterly meeting in May 2008. The EMC (represented by relevant authorities, various community representatives and non-Government organisations) was established as a requirement of the Environmental Authorisations for the construction and operation of the Port of Ngqura and is considered an important stakeholder in the development of the port and surrounding Coega Industrial Development Zone. The programme was formally accepted and supported by the EMC.

In addition to acceptance by the EMC, the implementation of a poison-free rodent control programme requires a formal amendment to an already approved rodent control plan. The revised plan was submitted as part of the Port Operational Environmental Management Plan to the National Department of Environmental Affairs for approval and communicated to the National Department of Health. The plan was approved by both authorities in October 2008.

Transnet appointed the Urban Raptor Project to implement a poison-free rodent monitoring and control system at the port using live-trapping and other non-poisonous methods and the reintroduction of indigenous/endemic birds of prey to naturally control rodent numbers. Limited numbers of these raptors are left in the area due to previous and ongoing use (in some areas) of rodenticides.

For the programme to function effectively areas directly surrounding the port would have to be declared poison free. The Coega Development Corporation was consulted and an agreement reached that poison-free programmes would be implemented by them and enforced on their tenants as far as reasonably possible.

The port has been divided into monitoring units which include both disturbed and undisturbed areas. Rodent activity monitors are set up in various areas to determine the presence of rodents and include critical areas such as the eastern breakwater. Only non-poisonous rodent bait is placed in the monitors to attract rodents.

When rodent activity is detected live traps are set, the species trapped are identified and photographed. The capture rate and distribution of species are determined and recorded.

All indigenous and endemic rodent species are released back into the areas where they were trapped. These species are not deemed to be a threat to human health or the existence of endangered bird species.

When exotic rodents are trapped they are removed off site and measurements taken. Intensive live-trapping and other non-poisonous methods are then implemented to control the exotic rodents in these areas.

A raptor hack station was prepared for the hacking back/or staged release of endemic birds of prey back into the port area. T-perches and raptor nest boxes have been strategically placed in areas where rodent populations are high and/or where rodent activity will be expected with ongoing port operation. Since the start of the programme in September 2008, nine Spotted Eagle Owls, three Rock Kestrels and one Peregrine Falcon have been released inside the port. Identification rings were placed around the legs of all the birds and reflective strips placed around the rings of the owls for easy identification at night during monitoring.

The programme has been implemented for over 14 months and has identified that:

- *No exotic rodents are present inside the port;*
- *Five different indigenous rodent species occur in the areas monitored including at least one endangered species;*
- *Most indigenous species do not carry fleas and are therefore not a threat to human health;*
- *The disturbance of vegetation due to construction of the port lead to an over-population of some species;*
- *Rodent species inside the port over populate in the absence of natural occurring predators; and*
- *The use of poison inside the port would have wiped out both indigenous rodent and other mammal species.*

Subsequent monitoring after release of the birds of prey has found that the Owls and Rock Kestrels are resident inside the port. Rodent population numbers in areas previously overpopulated have decreased to a natural state. The collection and analysis of raptor pellets found at hunting posts clearly indicate the effectiveness of birds of prey in the natural control of rodent populations.

further reading

TVMF

Financial sustainability and volume growth OS ES OR FS

Commercial and Freight Corridor Management with a focus on operational efficiency, productivity improvement and customer service OS ES SR OR

Operating division performance OS ES OR

Strategic supply management BBBEE and CSDP OS ES SR OR

ACHIEVING RETURNS GREATER THAN THE COSTS OF CAPITAL

Commercial and Freight Corridor Management	
We said we will	
Implement strategic and executive relationships and engagements for the key corporate accounts.	
Develop, implement and track integrated corporate account plans for customers who export iron ore, coal or manganese.	
Develop and implement reporting systems.	
Finalise Auto 2020 and Coal 2020 (long term) volume growth strategies.	
Roll out the Manganese Channel Expansion Programme aimed at expanding capacity and ascertaining customer demand.	
Implement a new contracting dispensation with corporate customers by developing a base integrated contract template, a recordal policy for the contract standardisation process and a commercial contract database.	
Roll out an integrated pricing system for rail and port terminal services in accordance with the principle of a single Transnet pricing methodology.	
Further entrench the merger between Freight Corridors and Group Commercial through identifying synergies and outputs.	
Collaborate with the DPE, DTI and DOT on the National Corridor Performance Measurement Project.	
Prioritise the provision of Commercial and Corridor Management Information Systems.	
We plan to	
Extend the development and implementation of the 2020 strategies for the remaining priority commodities.	
Review of funding options for long-term expansion.	
Manage the contractual aspects of the take or pay contracts.	
Oversee and manage capacity allocations in respect of export manganese, export coal and export iron ore.	
Develop a campaign to communicate Transnet's brand evolution and roll out strategic and relevant communication strategies through various communication channels.	
Ensure compliance with the Competition Act.	
Maintain the financial models that support long-term contracts.	
Implement an integrated Transnet Container Strategy.	

COMMERCIAL AND FREIGHT CORRIDOR MANAGEMENT WITH AN OPERATIONAL EFFICIENCY, PRODUCTIVITY IMPROVEMENT AND CUSTOMER SERVICE FOCUS

Sustainable commercial and freight corridor management is essential to Transnet achieving world-class standards with regards to operational efficiency and productivity.

Commercial and Freight Corridor Management

Freight Corridors

The corridor concept was established to focus on strategic commodity flows across the corridors, identify operational inefficiencies and implement interventions to improve performance. Strategic projects on export coal, magnetite, ferrochrome, and containers were initiated by the Corridor Operations Committees (COPCOs) resulting in increased volumes and improved performance. During the year, the Corridor teams continued to drive the integration of volume growth and capacity creation plans. Numerous joint projects have been undertaken with industry to explore expansion opportunities.

Integrating Group Commercial and Freight Corridor structures

Group Commercial and Freight Corridors were integrated to eradicate duplication, improve customer responsiveness and streamline customer interfaces. The expected outcome is volume growth in strategic commodities through the efficient delivery of integrated solutions. Various industry forums (Iron Ore, Manganese, Coal, Container, Fuel, etc.) were established to monitor the performance of key flows, focusing on on-time performance to improve customer service.

The Commercial team has embarked on developing and implementing a Customer Relationship Management solution, providing business process integration as well as an integrated approach to corporate account management and relationship management. The renewed focus on customer service has yielded a cohesive marketing strategy and plan.

This new structure positions Transnet to achieve sustainable higher levels of customer service and volume growth.

Operational efficiency and productivity

Scorecard

The following achievements and volume performances were recorded during the year:

Export coal volumes

Efficiency improvements resulted in record weekly throughput of **1,5**mt being achieved twice in the last quarter

Total cycle time improved from 71 hours to **69** hours by year-end

572 jumbo wagons were added to the fleet during the year

A study to expand channel export capacity to **81**mt was completed and implementation of the findings has commenced

Export magnetite

The implementation of an operational improvement project in August 2009 resulted in a **40%** improvement in volume throughput and a **34%** reduction in cycle time

Export manganese volumes

In response to the increased demand for export manganese, a project to increase throughput to **14 trains** per week to the Port of Port Elizabeth was initiated and is on track

Export ferrochrome

An operational efficiency improvement initiative launched in the last quarter of the financial year produced a **44%** improvement in volume throughput

Export iron ore volumes

Volume throughput for the year (44,7mt) is a **21,4%** increase on prior year with a number of new operational throughput records being achieved eg. rail throughput of more than one million tons in a week was achieved for the first time

The channel is presently in an expansion phase increasing capacity to 60,7mt. A study is being conducted to identify options to expand beyond **60,7**mt

Growing rail market share for containers

A sales stimulation initiative was launched to capture growth opportunities in this sector. Market share grew from 23% to **30%** on the Natal corridor

Railed container volumes on the Natal corridor, at **351 812** TEUs, is a new volume record. This assisted Transnet's inland City Deep container depot to also achieve a new volume record

Customer relationship management and customer satisfaction

We said we will

Develop and implement a Transnet-wide Customer Relationship Management (CRM) solution to support and enable the Company's Quantum Leap Strategy by providing business process integration, cross-divisional collaboration and an integrated approach to corporate account management, reporting and relationship management.	
Establish a centralised market intelligence platform at Freight Rail's "Knowledge Centre", providing updated market research and commodity information for customer contracting and engagement.	

We plan to

Conduct targeted customer surveys to measure key customer satisfaction in terms of a customer satisfaction index with the view to improving service levels in terms of gaps identified.

Stakeholder perspective

"What an absolute pleasure to receive this report and to have achieved 21 magnetite trains for a week. This is the culmination of a lot of hard work from all parties involved and I would like to take this opportunity to thank you and your team on a sterling performance. A very special thanks need to be extended to the team at the Phalaborwa station who has really put shoulder to the wheel during the last few weeks and ensured that we have wagons when we need it – Dankie julle Phallies outjies, julle is great!

I really look forward to a sustained performance at this level and beyond – keep up the good work.

Tienie Ellis
Logistics Superintendent
Palabora Mining Company Ltd
A Member of Rio Tinto

Stakeholder perspective

"Well done on the 100% rail run for the last two weeks! As they say one or two swallows does not make a summer, but it is surely a sign of the changing times! Well done to the team and we are looking forward to more of these!"

André Joubert
Executive Ferrous Operations
African Rainbow Minerals Limited

Strategic supply management (SSM)

We said we will	
Create Centres of Excellence (COE) for strategic sourcing, governance, supplier development, logistics and warehousing, as well as a knowledge portal. Set up steering committees for each COE and provide regular feedback to the Institute of Supply Management Council.	◔
Review and simplify procurement procedures.	●
Develop a business-critical activity (BCA) framework.	◑
Launch Wave 2" of the "Learning in Action" programme, an accelerated learning programme aimed at achieving "Membership of the Chartered Institute of Purchasing and Supply (MCIPS)" qualification (Honours degree in Procurement), bringing the total number of students to 29, of which nine qualified in April 2009.	◑
Develop a Group-wide Scrap Metal Directive, along with a scrap metal strategy and virtual scrap metal team to manage the disposal of scrap materials.	◑
Develop the Competitive Supplier Development Programme.	●

We plan to
Finalise charters for each COE, following set strategic objectives and providing regular feedback to the COE Steering Committee.
Drive optimisation of commodities and suppliers through the use of leading practice strategies to standardise commodities in order to consolidate buying power for these commodities.
Embark on a process that will achieve structural and operational optimisation through clearly defined, standardised roles and responsibilities across Operating divisions as well as creating uniform governance structures and processes.
Develop and implement an overall supply chain strategy that will reduce duplication in corporate functions as well as ensure Group-wide coherence.
Continue to identify critical business activities and performance enablers to ensure efficiency, effectiveness and economy of execution of specific supply chain and procurement levers.
Strive for control excellence in all areas and continue to audit the critical controls implemented.
Focus on skills development, train-the-trainer programmes and building capacity by providing training on key areas of procurement procedures, policies and governance.
Implement the CSDP throughout the Company.

STRATEGIC SUPPLY MANAGEMENT, BBBEE AND CSDP

Transnet's procurement strategy aims to deliver value for money through the procurement of the right goods and services in the most timely, cost-effective, transparent, equitable and competitive manner as required by the Public Finance Management Act (PFMA) and the Constitution of the Republic of South Africa.

Over the past 18 months Transnet has placed significant focus on procuring goods and services from local companies supporting Broad-Based Black Economic Empowerment (BBBEE) entities whilst at the same time ensuring that these goods and services are procured in the most efficient and cost-effective manner. Transnet has also worked collaboratively with local suppliers in developing and improving their effectiveness and competitiveness in relation to the world market.

Transnet's Competitive Supplier Development Programme (CSDP) was developed in compliance with the Department of Public Enterprises' CSDP initiative. The CSDP policy seeks to leverage off procurement from SOEs in order to develop a local supplier base. Transnet is working with all relevant stakeholders, particularly original equipment manufacturers (OEMs) to develop local suppliers and maximise localisation opportunities.

Since the introduction of this programme Transnet has concluded contracts with multinationals to purchase, amongst others, locomotives and locomotive components. These contracts contain a significant localisation element which focuses on maintenance and repair capabilities along with component manufacture and upgrade capabilities.

Underpinning Transnet's procurement processes are various Acts and policies that all suppliers transacting with Transnet must understand and comply with. Transnet's Supplier Code of Conduct, available on the Company website, sets out the Company's expectations regarding the conduct of its suppliers. This includes the prohibition of bribes and other corrupt practices as well as conflict of interests.

BBBEE scorecard

BEE procurement		
R13,5 billion accounting for **66%** of total procurement spend against a target of 65%	**273** Chartered Institute of Purchasing and Supply (CIPS) memberships, compared to 242 in the previous year ↑	**150** students studying towards the CIPS certification programme compared to 145 in the previous year ↑

BO* procurement	EME* procurement	QSE* procurement	BWO* procurement
R3,2 billion accounting for **16%** of total procurement spend against a target of 9%	**R1,9** billion accounting for **9%** of total procurement spend against a target of 5%	**R2,7** billion accounting for **13%** of total procurement spend against a target of 5%	**R0,8** billion accounting for **4%** of total procurement spend against a target of 6%
12% 2011 target	**5%** 2011 target	**5%** 2011 target	**6%** 2011 target

**BO Procurement from black-owned enterprises (50% black shareholders).*
**EME Procurement from exempted micro-enterprises (turnover up to of R5 million).*
**QSE Procurement from qualifying small enterprises (turnover of R5 million to R35 million).*
**BWO Procurement from black women-owned enterprises.*

Optimising inventory and rationalising warehousing

Freight Rail commenced an inventory optimisation and warehouse rationalisation project two years ago which is now fully implemented. Consequently, the Operating division reduced its warehouses and its redundant stock. Besides improving on efficiency and having the correct stock in warehouses, cash liquidity has also improved. Freight Rail conducted a study on its routes for infrastructure logistics and is planning on using a third party logistics (3PL) provider going forward.

Rail Engineering designed an internal optimisation programme. In addition to achieving savings on stock holding, the Operating division standardised its master data to improve on the classification process and to eliminate duplicate material numbers. It further identified excess stock and obsolete stock, contributing towards improving cash liquidity. The Operating division has now centralised to focus on its core business and will use a 3PL provider to manage its distribution, which will improve both efficiency and savings.

Capital Projects is currently utilising a 3PL provider to distribute its goods to site. Although the items, vehicle requirements and destinations could be different for each Operating division, there are also synergies. Transnet will, therefore, aim to coordinate the inventory optimisation and warehouse rationalisation across the business.

TVMF

Infrastructure provision ahead of demand in the context of affordability and the National Infrastructure Plan OS ES OR

Asset performance and maintenance OS ES OR

Information and communication technology OS ES SR

DEVELOPING AND MAINTAINING WORLD-CLASS INFRASTRUCTURE

Information and communication technology	
We said we will	
Restructure and reshape the Transnet Business Intelligence (TBI) programme as being a strategic solutions provider to focus on delivering business-enabled technology solutions for customer integration.	
Drive the evolution of TBI into an Enterprise Programme Management Office (PMO) utilising CoE principles which will facilitate the execution of all common strategic projects and optimise the management of required investments as well as their expected returns.	
Provide a clear roadmap to ensure that ICT, across the Company, is driven against an operating model that supports the Quantum Leap Strategy, embedding the concepts of shared services and CoEs.	
Consolidate the SAP Support CoE and incorporate at least two more operating divisions, i.e. Port Terminals and Rail Engineering.	
Drive value from outsourced relationships. Drive the transition and transformation process to improve service levels and reliability with T-systems and Neotel and ensure that a stable foundation is embedded.	
Ensure inteconnectivity across all Operating divisions and extend to business partners and customers, incorporating the value of service oriented architecture and virtualisation into the sustainability outlook of the Company's infrastructure.	
Identify and coordinate the integration of applications and sources of information in a manner that is rapid and concise, with a constant improvement in data quality.	
We plan to	
Deliver end-to-end value chain technological capabilities to drive effective decision-making and operational excellence across the business.	
Introduce new technologies to allow for agility in ICT enterprise structures and to support the achievement of Transnet's business strategy.	
Embed risk management in the high value areas, together with King III sustainability compliance.	
Deliver customer-centric services to enhance the user experience by providing end-to-end capabilities across Transnet in a way that benefits the entire logistics and supply chain community.	
Constantly drive the benefits of embracing technology and the information era in a manner that promotes efficiency in Transnet's operations by implementing technology in a measured manner.	

INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

Transnet ICT's approved five-year strategy focuses on harnessing the ICT skills across Transnet to produce technology solutions that meets the Company's strategic objectives. This will be achieved by:

- stabilising the infrastructure base that has been built over previous years;
- implementing a balanced governance framework that encourages cooperation between Operating divisions to optimise the ICT spend for the Company;
- providing interconnectivity between Operating divisions and third parties that allows:
  - the easy retrieval of information for planning and management; and
  - implementing strategic solutions for the customer focused organisation, both internally and externally
- establishing CoEs with cross-functional teams, comprising divisional and Corporate Centre representatives to deliver value through improved efficiencies and collective thought leadership.

During the year, focus had been on optimising the Architecture CoE to ensure that Group-wide standards and new technologies are implemented in a consistent manner and followed the correct governance process for approval. A clear and agreed roadmap to ensure that one CoE exists across the Company for an enterprise architecture that is led from the Corporate Centre.

The emphasis is on promoting a strategic solution that "moves" Transnet from a related business to a cohesive freight transport company in the areas of supply chain management, customer management, integrated planning, asset management, human capital and shared services.

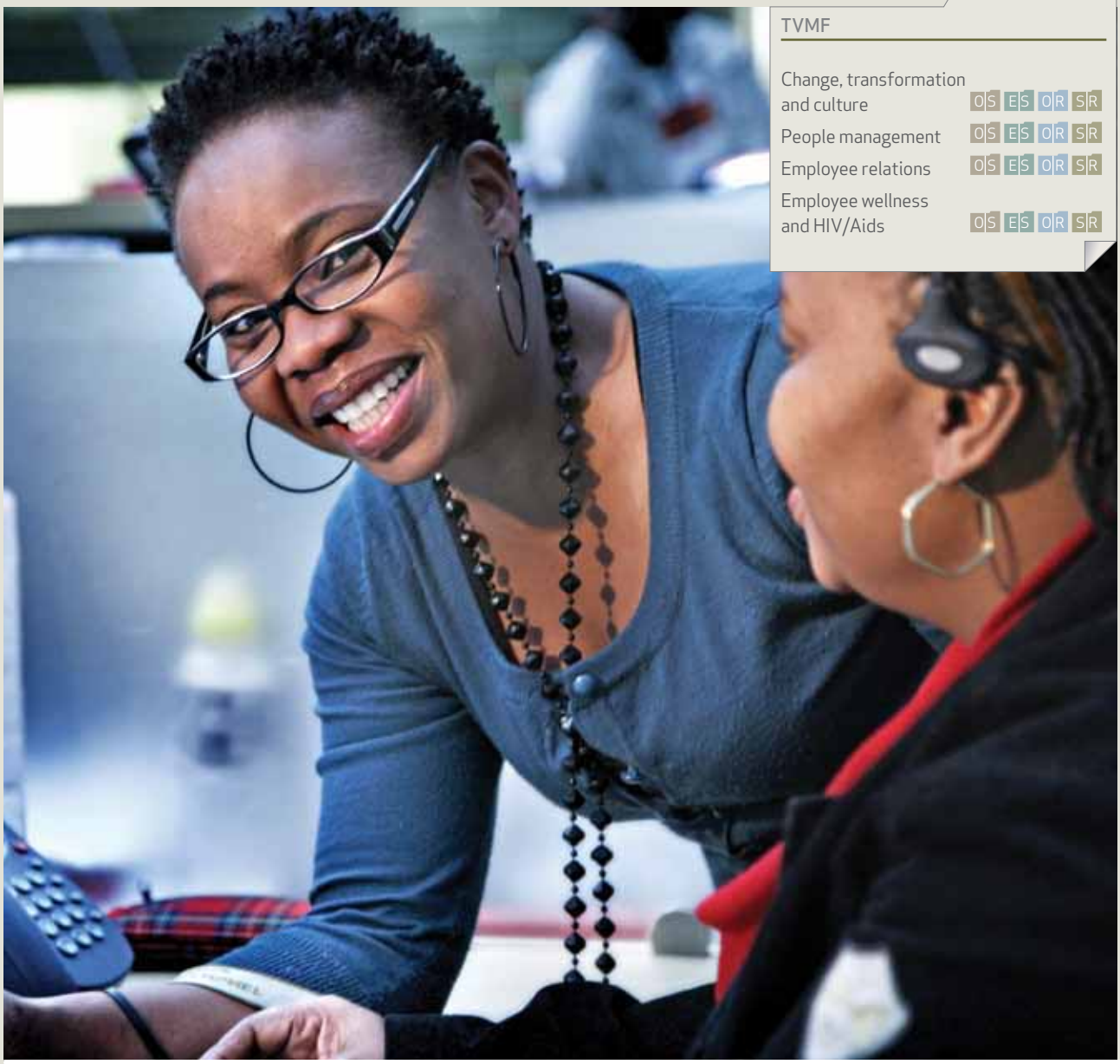
Assurance mechanisms are continuously strengthened through the development and implementation of a regulatory 'universe', which includes legislation to protect personal information.

The emphasis on interconnectivity, collaboration and information sharing between stakeholders in the freight transport value chain both internally and externally will form the fundamental thrust of the future of ICT, in the Company, to provide end-to-end visibility. The required Quantum Leap in performance will be significantly enhanced by Operating divisions acting in concert for the collective goals to ensure that ICT delivers timeously and with measurable value add.

further reading

TVMF

Change, transformation and culture OS ES OR SR
People management OS ES OR SR
Employee relations OS ES OR SR
Employee wellness and HIV/Aids OS ES OR SR



CREATING A WORKPLACE WHERE OUR PEOPLE CAN EXCEL

Change management and mobilisation

We said we will	
Establish a national change management implementation structure, and Operating division structure to support "Go-Live" timelines.	
Continue with leadership alignment and engagement to strengthen the change management process.	
Engage with relevant stakeholders on the change management implementation approach.	

We plan to
Prepare the Company from a change management perspective for implementation of the HCM Programme with "Go-Live" commencing across the Group in a staggered roll-out sequence from 1 July 2010 onwards.
Conduct change readiness assessments with relevant stakeholders to determine the type of change interventions required to ensure successful implementation.

Employment equity

We said we will	
Develop Transnet Employment Equity (EE) plan: April 2010 – March 2013, incorporating annual targets.	
Include gender and disability strategies in the Transnet EE plan for April 2010 – March 2013.	
Embed the use of new target setting and monitoring tools to track progress of EE processes.	
Conduct a research project to determine the status of people with disabilities and of women in Transnet, the findings of which will inform the EE strategies and interventions for these groups.	

We plan to
Implement the strategies as outlined in the Transnet EE plan.
Communicate the Transnet EE Plan across the business.
Integrate and align EE interventions with culture interventions.

CHANGE, TRANSFORMATION AND CULTURE

Change management and mobilisation

The change management function focuses on the development of appropriate interventions and strategies, as well as building and enhancing organisational capability to enable successful execution and implementation of key human resource programmes.

During the year emphasis was on developing a change management strategy and communication plans to enable the successful execution of the next phase of SAP HCM (Human Capital Management) and shared services programmes.

Employment equity (EE)

Although transformation and employment equity continues to pose a challenge, particularly due to the highly operational work environment, steady progress has been made to improve the representation of designated employees.

EE scorecard

Total employees	Black management as a % of all management	Female management as a % of all management	Employees with physical disabilities as a % of total employees
45 564	60%	25%	1%
↓ 7% versus 2009	↑ 2% versus 2009	↑ 3% versus 2009	→ as previous year

The reduction in the total number of employees is attributable to:
- *A moratorium on external recruitment as part of the overall cost containment strategy; and*
- *The transfer of employees following the disposal of Shosholoza Meyl to Prasa.*

The development of human capital is fundamental in advancing Transnet's goal to become an employer of choice. The Company's people philosophy is to build an organisation of talented, competent and inspired employees who not only support the Quantum Leap Strategy, but also subscribe to its organisational values.

The implementation of the human resources strategy remains focused on performance management and reward, capacity building, talent management, leadership development, culture change, employee relations and human resource enablement through human resource systems and processes.

Employment equity targets 2013

Occupational level	Black employees	Female employees	PWDs*
Top management	75,0%	38,0%	1,5%
Senior management	65,0%	30,0%	
Professional	65,0%	30,0%	
Skilled technical	65,0%	30,0%	
Semi-skilled	87,3%*	22,5%	
Unskilled	87,3%*	15,0%	
Total	75,0%	25,0%	

**People with disabilities.*

GRI 2.8, LA1, LA13

Employment equity 2010

	Indian (1)		African (2)		Coloured (3)		Black (1+2+3)		White (4)		Total (5)		Total (6)
Employees	F	M	F	M	F	M	F	M	F	M	F	M	F+M
Transnet consolidated													
Management	124	367	616	1 021	116	290	856	1 678	215	1 497	1 071	3 175	4 246
Non-managerial	222	1 033	5 363	21 131	778	3 215	6 363	25 379	1 134	8 442	7 497	33 821	41 318
Total - 2010	**346**	**1 400**	**5 979**	**22 152**	**894**	**3 505**	**7 219**	**27 057**	**1 349**	**9 939**	**8 568**	**36 996**	**45 564**
%	1%	3%	13%	49%	2%	8%	16%	59%	3%	22%	19%	81%	100%
Management	131	405	850	1 672	126	355	1 107	2 432	235	2 368	1 342	4 800	6 142
Non-managerial	211	1 048	5 225	21 872	813	3 390	6 249	26 310	1 225	8 852	7 474	35 162	42 636
Total - 2009	342	1 453	6 075	23 544	939	3 745	7 356	28 742	1 460	11 220	8 816	39 962	48 778
%	1%	3%	12%	48%	2%	8%	15%	59%	3%	23%	18%	82%	100%

Transnet culture

Transnet aims to project itself as a company that is reliable, trustworthy, responsive and safe, with employees who are committed, safety-conscious, accountable, ethical, disciplined, and results-orientated.

Cultural principles, as exemplified in the Culture Charter Programme, continue to be embedded throughout the Company. Whilst more work is required to align human resources to the needs of the Company, particularly the skills sets to sustain the future strategy, considerable progress has already been made.

Culture Charter scorecard

Safety mindset	Good communication	Dignity and respect	Empowered
2,56	2,21	2,18	2,08
↓ 0,06 versus 2009	↓ 0,05 versus 2009	↓ 0,06 versus 2009	↓ 0,03 versus 2009

More than 23 000 employees scored the Culture Charter in the annual scoring process conducted during September 2009.	Business focused	Reward good work	Deliver
	2,49	2,08	2,39
	↓ 0,07 versus 2009	↓ 0,1 versus 2009	↓ 0,08 versus 2009

The charter is scored on a three-point scale. Overall the scores for all seven behaviours were slightly lower when compared to the previous year. Safety mindset continues to score high, and although dignity and respect did not score the lowest, employees have indicated that Transnet should prioritise this specific behaviour for improvement.

Transnet employees have identified the following behaviours to underpin these values:

- A safety mindset;
- Good communication;
- Respect and dignity;
- Being empowered to perform in their jobs;
- Business focus;
- Recognition and reward for good work; and
- Delivering on our promises.

Transnet culture

We said we will	
Conduct the Leadership Charter (LC) 360° review rating at extended Executive Committee level.	●
Implement the First Line Management Engagement Programme (FLMEP) at Saldanha, Bloemfontein, Durban and Richards Bay.	●
Implement the LC at the next level of management.	◔

We plan to
Integrate and align the results of the LC with the talent and performance management processes.
Incorporate the LC into HR processes such as recruitment and selection as well as capacity building.
Incorporate a revised FLMEP as part of the safety culture programme, specifically targeting the 13 sites at which the Level 1 programme will be implemented.
Increase awareness and visibility of the Culture Charter through effective communication.
Continue to roll out the employee engagement programme aimed at promoting and marketing the Culture Charter behaviours to all employees. The programme will be based on the outcomes of the scoring results and will align with the safety culture programme.
Continue to engage Operating division leadership on the scoring results and address priority areas. Monitor implementation of priority interventions.
Conduct annual Culture Charter scoring during September 2010.
Continue to engage Operating division champions through 'activation workshops' and a communication programme. Champion networks will be utilised to assist employees in understanding and mobilising the safety culture programme in terms of the "golden safety actions", the annual scoring of the charter, as well as the implementation of any additional Living the Charter programmes that have been identified as key interventions.

Stakeholder perspective

"I think that the safety culture programme is superb! The workers are far more aware of safety. They are putting a lot more attention into safety and are generally acting in a safer way within the workplace."

Chris Coetzee
Track Inspector
Freight Rail – Bellville

Stakeholder perspective

"I think that the safety culture programme is good, and it works! Our employees have been participating in the safety related competitions and meetings. Our safety reps are all really excited about safety and everyone wants to work safe."

Piet Babers
Yard master
Freight Rail – Bellville

Capacity building and skills development

We said we will	
Implement and institutionalise a governance framework for capacity building by establishing capacity building forums, standardising policies and developing BBBEE reporting frameworks across the business.	◑
Institutionalise the BBBEE reporting framework by consolidated tracking and reporting of workplace skills plans and annual training reports.	◑
Implement processes and procedures for the DPE 'executive dashboard' which serves to report on skills development.	◑
Establish a technical skills pipeline for engineers, technicians and artisans.	◑
Optimise training centre capacity in line with operational training needs.	◕
Introduce the Accelerated Artisan Development Programme (Four trades)	◕

We plan to
Design and develop capacity building policies for the Young Professionals Development Programme to enable the payment of professional fees and structure short courses.
Refine skills reporting on the DPE dashboard and extend reporting to other operational skills pipelines.
Confirm the long-term planning of operational skills for Transnet.
Continue to develop engineering skills in line with the technical skills strategy.
Continue optimised service delivery in the "Schools of Excellence".
Increase registration of trade test officers as well as the number of trades on which Transnet can conduct trade tests.
Expand the Accelerated Artisan Development Programme to other trades within Transnet.

Talent management and leadership

We said we will	
Design and implement an Executive Leadership Development Programme (ELDP) framework for the Extended Executive Committee and senior management.	◑
Roll out Transnet's talent management strategy to all management levels.	●
Plot talent management on a talent matrix at all levels to inform succession planning.	◕
Roll out the Navigator Leadership Development Programme (NLDP).	◕

We plan to
Continue with the roll-out of the ELDP and NLDP.
Continue to develop succession pools for all levels of employees and conduct talent review forums to support the further development of strategies to retain top talent.

PEOPLE MANAGEMENT

Capacity building and skills development

Transnet's capacity building programmes support the Company's human resource development aspirations by focusing on the creation of an integrated platform to enhance sustainable people development. Transnet's approach to skills development entails the creation of an integrated value chain from secondary educational institutions, through tertiary educational institutions and Transnet Schools of Excellence and into the workplace.

Skills development scorecard

Training spend	Training as a % of total personnel costs		
R389 million	3%		
	↓ 0,2% versus 2009	2011 target 3,4%	Industry average 2,8%

Bursar pool 2010

12 learners on the Training Outside Public Practice (TOPP) programme	Registered 6 artisan trade-test centres and 37 trade test officers	1 100 artisan apprentices and 284 technicians in the engineering skills pipeline
30 learners supported on the Thuthuka programme*	24 graduates on the Graduate in Training (GIT) programme**	377 engineers in the engineering skills pipeline

**A programme aimed at placing African and Coloured students at selected accredited universities.*
***Commercial and social science graduates that receive workplace exposure through a structured two-year programme.*

Talent management and leadership

Transnet strives to have the right people with the right skills in the right job at the right time. The 'war for talent' across organisations, however, continues and with companies today operating under unprecedented conditions of competition and turbulence, it is increasingly difficult to attract and retain talented employees. To facilitate growth, Transnet will continue to differentiate its approach in attracting, managing, developing and retaining talent.

Transnet's leadership development programme aims to raise the level of leadership competence and performance excellence in the Company. The Navigator Leadership Development Programme focuses on core leadership competence designed around behaviour change and is informed by the Transnet leadership competency framework.

Talent management scorecard

Increased the number of delegates that attended the Navigator programme (Phase 1 and 2) from 3 389 to 4 212	Employee turnover rate 8,4% compared to an average of 8,3% last year

Performance and reward

Transnet's performance and reward system focuses on the development and implementation of a system that supports the Quantum Leap Strategy, drives a high performance culture, and dovetails with reward, capacity building and talent management initiatives.

The integrated reward system (financial and non-financial) that supports the Quantum Leap Strategy, is competitive, rewards desired behaviours and performance, and retains talent.

During the year, Transnet completed the implementation of the new reward dispensation for scarce and critical skills employee categories in the bargaining unit, including first-line managers, specialists, technicians, artisans, train drivers and TCOs 2.1 – 3.2.

A new grade structure for all management employees was implemented, resulting in a single grade and pay structure for all management employees across Transnet.

The Company has successfully rolled out the revised incentive scheme for bargaining unit employees, consisting of an annual on-target bonus component to achieve performance targets as well as a quarterly gain-share bonus component, which is payable when approved targets are exceeded. The process of integrating behaviour assessment instruments with performance management by conducting 360^0 reviews is ongoing.

Performance reward

We said we will	
Implement the long-term incentive scheme for Group Executive Committee and Extended Executive Committee members as well as certain grade level C employees.	●
Ensure that all organisation management data for Transnet is 'cleansed' and ready for migration to the new SAP HCM on the specified go-live dates.	◐
Finalise the Leadership Behaviour Charter and communicate to all employees.	◕
Conduct performance management training and draft individual strategic performance objectives (SPO) ratings for all first-line managers, specialists and technicians (FSTs).	◕

We plan to
Extend the new competency-based reward dispensation to all bargaining unit employees.
Implement a single grade structure for all bargaining unit employees whilst extending the new reward dispensation to the rest of the bargaining unit employees.
Refine the gain share scheme for bargaining unit employees to ensure that primary value drivers are aligned with key performance indicators as per the Shareholder's Compact.
Define and implement Group modifiers for the long-term incentive scheme as per the objectives in the Shareholder's Compact.
Institutionalise a 'culture of behaviour' assessment.
Align the annual salary adjustments of FSTs with their individual SPO rating.

Human resources enablement

Transnet Human Resources embarked on a Group-wide HCM solution with the objective to implement a single human resources system for Transnet. Process analysis was conducted to determine the extent of the differences in the design, configuration, processes, controls and level of implementation on current systems utilised in the different Operating divisions.

The outcome of the solution analysis project led to the approval to proceed with a detailed design project to standardise and consolidate SAP – HCM processes and solutions across Transnet. The envisioned end state is a new human resources service organisation, enabled by a single human resources and payroll solution for Transnet.

Parallel to the HCM systems project, Transnet decided to conduct a human resources shared services analysis project as part of the overall transformation of the Company's human resources environment. The objective of the analysis is to evaluate the viability of implementing a human resources shared services model for Transnet.

Human resources management

We said we will	
Design, build, test and implement a robust HCM system in two phases that involves roll-out of payroll, personnel administration, organisation management, time management, performance management, talent management and recruitment modules of the system solution.	◐
Embark on a design project to standardise and consolidate the HCM processes and systems across all the Operating divisions.	◕

We plan to
Implement the standardised processes as part of the HCM roll-out plan and further strengthen standardisation and consolidation via the shared service design.
Monitor deviation from standards via the Change Control Board (CAB).

Employee relations

We said we will	
Implement the Transnet Recognition Agreement (TRA) by establishing streamlined consultation structures; reducing the number of national and divisional full-time shop stewards; and implementing the agency shop agreement.	
Consult on, approve and implement 12 new Group-wide policies, including the racism policy and the incapacity management policy for bargaining unit employees.	
Finalise, ratify and implement the grievance procedure for bargaining unit employees.	
Commence negotiations on a new Transnet-wide disciplinary code and procedure for bargaining unit employees.	
Consult trade unions on the implementation of Government policy in respect of the concessioning of Ship Repair Services in National Ports Authority and branch lines in Freight Rail.	
Enable meaningful two-way transparent interaction and strategic engagement on business challenges through the SLF.	
Develop and implement a tracking tool that allows for trend analysis and promotes consistency in the application of sanctions.	
Implement the reward model for artisans, train movement personnel and FSTs.	

We plan to
Align shop steward numbers to the TRA calculation and provide training to new shop stewards.
Continue to monitor the management of time-off for shop stewards.
Assess and improve the effectiveness of consultative structures.
Coordinate the implementation of the racism policy.
Continue to consult trade unions on new policies.
Continue building positive and productive relationships with unions and employees by ensuring adherence to policies and agreements and limiting the number of disputes lodged.
Implement a standardised sanction code as well as the SAP ER component that captures and tracks disciplinary cases.
Finalise negotiations with trade unions and support the implementation of the competency-based reward strategy for bargaining unit employees in line with initiatives to reshape the workforce.

EMPLOYEE RELATIONS

Transnet's workforce reflects a relatively high level of unionisation and, in the pursuit of progressive labour relations policies and practices, the weak first-line management capacity requires further strengthening.

Employee relations scorecard

GRI LA7	GRI LA4	
1 398 man-days lost due to industrial action*	**84%** junior unionised employees (including fixed term contractors) **45%** Utatu **39%** Satawu	Disciplinary action **11%** of workforce
↑ **186,4%** versus 2009	**86%** (excluding fixed term contractors) versus 2009	↑ **4,0%** versus 2009

**All the man-days lost were due to unprotected strike action.*

EMPLOYEE WELLNESS AND HIV/AIDS

Transnet recognises that employee wellness is an intangible business asset and an investment in business success. Transnet hopes to create a working environment and culture which encourages employees to shape their behaviour and attitudes to embrace the personal importance of being safe, healthy, well and productive at work. Transnet's approach to employee wellness is to embed ongoing and existing initiatives and interventions in these areas to impact positively on the workforce.

Absenteeism management

The increase in the number of days lost due to absenteeism and a parallel increase in salaries have been the main contributors to the R15,4 million direct increase in the absenteeism cost.

Overall the number of recorded absent days has started to stabilise, however, the monetary impact is always difficult to manage as it is linked to salary scales for different job levels. The focus on improving and standardising incapacity management processes will proactively facilitate access by employees to appropriate and relevant wellness interventions.

Absenteeism management scorecard

R139,7 million direct absenteeism cost*	GRI LA7 Absenteeism rate (percentage days) **1,98%**
↑ **12%** versus 2009	→ **As previous year**

**Attributed to the increase in the number of days lost due to absenteeism and a parallel increase in salaries.*

Absenteeism management programme

We said we will	
Draft new service requirements to ensure that incapacity management is integrated as a functional component in managing absenteeism in Transnet.	●
Appoint a new service provider for the Transnet Absenteeism and Incapacity Management Programme (TAIMP) to manage absenteeism and incapacity across the business.	●
Introduce an electronic management system to record absenteeism data as part of the outsourced TAIMP solution.	◐
Initiate a project to streamline and standardise disability management and "injury on duty" processes.	◔

We plan to
Implement TAIMP through the roll-out of training and re-training of line managers, awareness interventions, as well as embedding it into the well established communication plan of the Employee Assistance Programme (EAP) function.
Ensure full integration and optimal utilisation of SAP once the SAP HCM development has been finalised.
Refine and standardise documentation across all Operating divisions and integrate the new processes as part of TAIMP.

Lifestyle and HIV/Aids management programmes

The increase in disease management expenditure is realistic when compared to the price increases of medication and administrative costs during 2009/10. The targeted figures for 2010/11 are based on a 10% increase.

The Company recorded an increase of 7,4% in registrations for the Transmed HIV/Aids Programme compared to 2008/09. At the same time, there was a decrease of 6% recorded in the number of registrations for the Transnet Lifestyle Management Programme. The 6% decrease is mainly attributed to the fact that medically uninsured employees have joined medical aid schemes during the course of the year. This is noticeable in the increase of 7% in the number of employees who registered through the Transmed HIV/Aids Programme. The 7% increase in the number of enrolments in the Transmed Programme is an indication that participation in formal healthcare support structures, such as VCT access and 'wellness days', has begun to improve during the year.

Lifestyle and HIV/Aids scorecard

R1,2 million spend on disease management		**109** employees enrolled in the lifestyle management programme	**1 289** employees registered on the Transmed HIV/Aids Programme	GRI LA8 A total of **1 398** employees enrolled in the lifestyle programmes
↑ **5%** versus 2009	2011 target R1,22 million	↓ **4%** versus 2009	↑ **9%** versus 2009	↑ **8%** versus 2009

HIV/Aids Management Programme

We said we will	
Incorporate HIV/Aids communication and awareness into the EAP communication plan.	●
Integrate voluntary counselling and testing (VCT) as one of the Wellness Day service delivery items.	◐
Engage stakeholders, including trade unions in a process to establish more on-site facilities aimed at broadening accessibility to VCT and increase enrolment in the Transnet Disease Management Programme (TDMP).	◔

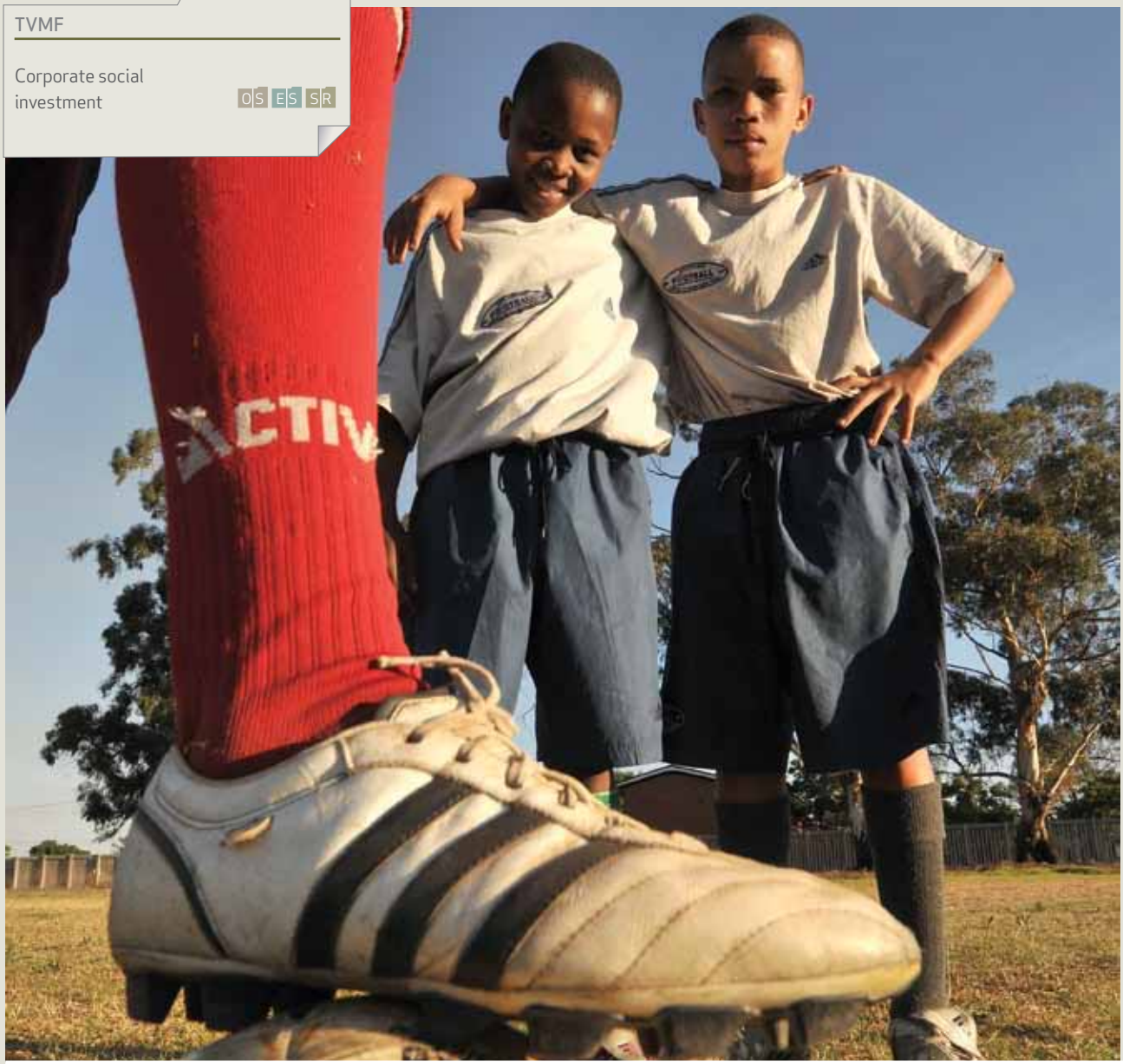
We plan to
Place stronger focus on enrolment initiatives and ensure that employees are aware of the services provided by the TDMP.
Expand the use of HIV/Aids specific promotional material such as posters, invitations, newsletters and information articles.
Initiate a process whereby the VCT service provider records, monitors and reports the VCT uptake rate for each Operating division.

further reading

TVMF

Corporate social investment

OS ES SR



CARING FOR THE COMMUNITIES IN WHICH WE OPERATE

CORPORATE SOCIAL INVESTMENT

GRI SO1

The Transnet Foundation (the Foundation) champions Transnet's CSI through sustainable, integrated socio-economic programmes. The Foundation's strategic objectives are twofold: firstly, to position Transnet as a socially responsible company; and secondly, to contribute towards socio-economic growth and development in South Africa.

The Foundation's objectives are aligned with Transnet's Quantum Leap Strategy to:

- deliver CSI projects through the efficient use of resources so that Transnet's projects have a positive impact on their beneficiaries;
- ensure that CSI projects are publicly associated with Transnet and contribute towards the social and economic upliftment of vulnerable people and communities in South Africa;
- enable Transnet's sustainability reporting through CSI programmes that adhere to the trends of the CSI environment and have a business fit with Transnet's strategic objectives; and
- conduct CSI activities in a manner that is consistent with sound corporate governance and Transnet's commitment to remain a responsible corporate citizen.

A collective effort

CSI in South Africa has become an important element of the country's developmental agenda. It has moved from ad hoc philanthropic gestures to strategic business considerations and corporate players in this space are aware of the enormous social needs that cannot be addressed by the Government alone.

Transnet considers CSI an integral part of doing business in South Africa. Government, through a host of regulatory obligations, has shaped corporate thinking with regard to CSI. CSI is firmly under the spotlight and its role in the communities is becoming increasingly important. State-owned and public enterprises are obliged to include a social benefit component in their business activities.

Rooted in sound governance

Principles of good corporate governance are applied across the Foundation's portfolios. Prior to CSI project implementation, the Foundation enters into service level agreements (SLAs) with project beneficiaries and other participants to agree on deliverables and standards. Progress is monitored regularly and impact assessment studies are conducted at intervals to determine project success and the developmental impact. Extensive policies and procedures are in place to guide the activities of the Foundation.

The Transnet Foundation Advisory Board and the responsible Group Executive appropriately guide and direct the activities of the Foundation by overseeing annual key performance indicators (KPIs) and targets, as well as monitoring progress against set targets on a continuous basis.

Strategic CSI

For all CSI programmes, the Foundation identifies a strategic fit between the socio-economic needs of the receiving communities and the Company's business, prioritising five flagship portfolios, which contribute towards economic growth of the targeted communities:

1. **The Transnet Phelophepa Primary Health Care Train** (Phelophepa) is a mobile clinic which provides affordable, accessible primary healthcare services to disadvantaged rural communities of South Africa.
2. **The Sharp Minds! Get Ahead in Life Educational Programme** (Sharp Minds! Programme) fits into Transnet's overall human capital strategy and aims to contribute towards the development of scarce skills in the country. Sharp Minds! is a programme that offers remedial education in Maths, Science and English to select learners and educators in four provinces.
3. **Transnet's sport development** portfolio identifies talent and develops excellence in sport amongst targeted rural youth groups in South Africa.
4. The arts and culture portfolio invests in the arts in a manner that will enable the creative arts to grow as an industry and artists to become economically sustainable.
5. **The Containerised Assistance Programme** provides containerised safety and security infrastructure to communities burdened with high crime rates.

The Foundation's sponsorship and donations activity recognises the role played by community-based and non-profit organisations in uplifting the socio-economic conditions of the communities. Once-off funding is granted to deserving projects in the areas of health, education, sport, containerised assistance and arts and culture. Generic requests outside the focus areas are also considered if the organisation demonstrates sound corporate governance and good business principles.

HEALTH

Scorecard		
51 052 patients registered	**191 663** learners reached	**27 665** prescriptions issued
	103 191 pharmaceutical items dispensed	

Committed to the long haul

Transnet has, during the past 15 years, used its infrastructure, network and skills to build a business case for the delivery of primary healthcare to outlying communities. Since its inception, the Transnet Phelophepa Health Care Train has been run on parallel lines of business and philanthropy, whilst upholding the highest commitment to quality healthcare and dignity to patients.

Phelophepa is powered by uncompromising clinical integrity, driven by principles of financial management and control, and guided by the highest standards of corporate governance.

Miracles on the move

Dubbed the "miracle train", Phelophepa travels into the rural heartland of South Africa for 36 weeks of the year. It delivers much needed healthcare services to areas where there is often only one doctor for every 5 000 people and where healthcare services are either non-existent or vastly inadequate. During the year, 245 000 patients benefited from Phelophepa's services.

Mentorship in motion

As a teaching train, Phelophepa is also contributing towards the development of producing highly experienced professionals in nursing, psychology, optometry, dentistry, pharmacology, and catering. Participating training institutions confirm that the impact of their students' exposure can best be measured by their newly gained confidence and enhanced skills. During the year, students from the Netherlands, Denmark and United Kingdom participated in the Dental Clinic.

All services offered on Phelophepa are constantly analysed in a structured manner. During the year, the sustainability and lasting effects of the counselling interventions through the Psychology Clinic were carefully evaluated and the focus was adjusted to ensure that the manner in which knowledge and skills is imparted does indeed empower individuals to uplift themselves and sustain these interventions. A more creative, in-depth and client-centred approach was followed, involving more feedback and mutual sharing. The number of individuals attending these interventions was significantly decreased with a view to improving the quality of individual counselling sessions.

A real community asset

Phelophepa's success hinges on the collaboration of regional training institutions, non-governmental organisations (NGOs), local municipalities, clinics, medical professionals, environmental inspectors, the SAPF, food supply stores and traditional leaders. These collaborative efforts enable, Phelophepa clinics and staff to reach between 4 000 – 7 000 individuals at each station and facilitates the management of all logistics including the removal of medical waste, the availability of water, the availability of ablution facilities, and bus transport services for patients to and from Phelophepa.

The Foundation provides informative guidelines and procedures for the effective management of Phelophepa healthcare services, including project management skills which are shared with partners and implemented to achieve the Foundation's CSI requirements. Once Phelophepa departs, the partnerships remain in place to benefit the various communities.

Each week approximately 90 local volunteers (3 240 volunteers per annum), as selected by the local coordinating committee, benefit from skills training programmes in the various clinics and departments.

Inter-sectoral collaborative efforts between communities visiting Phelophepa render additional services, including:

- HIV tests and counselling from the Aids Health Care Foundation;
- Guidance and education from tuberculosis coordinators; and
- Registration for grants, identity documents or birth certificates arranged by the South African Social Security Agency and the Department of Home Affairs respectively.

Addressing the needs

Health Clinic	The goal of the Health Clinic is to treat not only the various acute and chronic ailments that beset their patients, particularly in the rural communities, but to ensure that patients understand the causes and debilitating impacts of these ailments on their lives.
Eye Clinic	The objective of the Eye Clinic is to address, correct and treat the various ocular (binocular) anomalies and irritations of patients in a focused and comprehensively understood manner, with the highest professional standards possible under mobile conditions.
Dental Clinic	The Dental Clinic aims to provide the best possible extractive and restorative dental treatment to patients.
Edu Clinic	The Edu Clinic is an enterprising initiative which provides primary healthcare education to community groups.
Psychology Clinic	This rapidly expanding service empowers individuals as well as groups with self-knowledge to positively advance their own, their families' and their communities' best interest.

Maximising mileage

The building and refurbishment of Phelophepa II will proceed in the 2010/11 financial year and will be ready to take to the rails in January 2012.

2010 awards

GRI 2.10

- Santa Barbara International Film Festival. Nomination of Phelophepa documentary; and
- Los Angeles Women's International Film Festival.

Stakeholder perspective

"The professional experience gained on Phelophepa was a unique and highly enriching learning experience. Working and reaching out to the community was self-rewarding and I felt that the pharmacy profession plays a major role in the provision of healthcare in South Africa. I was able to apply my clinical, pharmacological and pharmaceutical knowledge to optimise drug therapy whilst keeping in mind the challenges faced by the patients in the community, especially the disadvantaged groups of the population. I was able to apply the theory I have learnt during my BPharm degree and I felt that my communication and patient counselling skills improved greatly. The Phelophepa experience was an eye-opener for me and it gave me a taste of what working in Africa is. I realised that it is important to adapt to African culture and take into consideration the attitude and cultural beliefs of patients, for instance, the role that traditional healers play in people's lives cannot be ignored and it is important to adapt to and respect the beliefs of patients, whilst counselling them about their allopathic (non-traditional) drug regimen."

Henusha Devi Jhundoo
Pharmacy student
Rhodes University

EDUCATION

Scorecard		
92% pass rate out of 367 Grade 12 learners	**103** distinctions in Mathematics, Science and English	**81** distinctions in other learning areas
	20 Sharp Minds! learners received bursaries from Transnet for engineering studies	**160** educators benefited from Science and Maths workshops

Stakeholder perspective

"In my small world, I thought educational opportunities are only accessible to people in urban and formal settlements. Today, I am standing tall and my future looks bright. I am appreciative of the Sharp Minds! opportunity but I still ask myself why me?"

Nondumiso Buthelezi
Sharp Minds! learner from Mtubatuba in KwaZulu-Natal

Unleashing sharp minds

The Sharp Minds! Programme facilitates an integrated and improved quality of education in Maths, Science and English for 400 learners and imparts knowledge and skills to 160 educators. During the year, the programme operated in Maluti A Phofung in the Free State, Moretele in North West, Sekhukhune in Limpopo and Mtubatuba in KwaZulu-Natal. In the year ahead, the programme will be extended to Durban South in KwaZulu-Natal and Saldanha in the Western Cape.

The critical pillars of the programme include learner development, which involves attendance of Saturday lessons; educational clinics; educator development; the improvement of infrastructure at science centres, computer laboratories and classrooms. The science centres and computer laboratories are made available to all schools in the districts during the week.

A holistic development imperative

Objectives of the programme include the following:

- Enhancing the performance of Sharp Minds! learners in Maths and Science (incorporating Technology) to provide a pool from which the country can draw skilled human resources in the fields of Science, Engineering and Technology.
- Ensuring holistic development of the learners by offering a life skills programme.
- Tracking the performance of 400 Sharp Minds! learners in a two-year cycle to ensure continuous improvement of the Sharp Minds! Programme.
- Building the capacity of educators in targeted communities by developing sound curriculum knowledge amongst educators, thereby improving teaching and learning in Maths and Science (incorporating Technology) and assisting them to work towards an accredited qualification. The Educator Development Programme introduces educators to different approaches that emphasise outcome based teaching methodologies.

Working hand in hand

With the Sharp Minds! Programme being focused on stakeholder inclusion, human resources such as site project managers, tutors, facilitators, transport service providers and caterers are sourced from local communities.

Parents, district officials, principals and Maths and Science educators all provide support to the programme. Quarterly meetings are held with these stakeholders to report on learner progress as well as challenges encountered and to determine appropriate interventions.

During the year, 160 educators benefited from class visits, class observations and workshops conducted by Sharp Minds! tutors. Thirty workshops were conducted for Maths and Science educators respectively. Educator attendance increased to 85% in the year and educators expressed more confidence in embracing Maths and Science learning outcomes as a result of the workshops conducted by Sharp Minds! tutors.

SPORT

Sharing a strong sense of national pride

The Foundation's investment in sport development, as represented by the Rural and Farm Schools' Development Programme and the South African Football Association (SAFA) Transnet Soccer School of Excellence, demonstrates that sport can be used as a tool to alleviate social problems such as poverty and ill-discipline among the youth. The primary target group of the portfolio is the disadvantaged rural youth aged between 12 and 20 years.

Building rural and farm school resilience

The Rural and Farm Schools Sport Development Programme operates in the poorest rural areas of the Free State in Thabo Mofutsanyana, Richards Bay in KwaZulu-Natal and Sekhukhune in Limpopo. The Foundation collaborates with the Department of Education in identifying 20 schools in each region based on set criteria. Decisions on the relevant sporting codes are guided by the principles of mass participation, cost-effectiveness, code conventionality, gender equity and accessibility.

The roll-out approach currently employed is capacity building, learner development, talent selection and accelerated talent refinement and placement. The objectives of the roll-out plan and the project's strategic objectives are achieved through the following deliverables:

- Education and training of coaches and officials;
- Implementation of the code;
- Establishment of age and gender specific leagues;
- Organisation of regional and national tournaments; and
- Implementation of code-specific 'exceptional talent' academies.

More than 15 000 learners across three regions participate in the project at local school level; 3 000 at regional level; and 1 000 at national level. In 2009 the following learner numbers were identified and drafted:

- Three for the SAFA Transnet School of Excellence;
- Four for the South African Women's National Football Team; and
- Four for the Rosina Sedibane Sport School in Gauteng Province.

The educators trained as coaches were accredited by the following federations:

- Netball South Africa: 30 coaches;
- South Africa Football Association: 30 coaches; and
- Athletics South Africa: 30 coaches.

Changing with the times

Transnet is planning to withdraw from the partnership with SAFA to focus its sports portfolio on the rural and farm-schools programme. The Company will, however, continue supporting SAFA and the school's governing Trust by making the Elandsfontein land and facility – where the academy is situated – available for future use.

Stakeholder perspective

"The School of Excellence gave me so many opportunities and so I want to help others who are there. I go there as often as I can to help students with football or school work. I still have a huge sense of belonging when it comes to my school".

Boitumelo Mofikoe
former student from SAFA/Transnet School of Excellence, now studying towards an honour's degree in Financial Accounting at Wits University

ARTS AND CULTURE

Staging local talent

The Arts and Culture Portfolio recognises that the arts are not confined to entertainment or hobbies. For South Africa's many arts practitioners, it is a career and their sole source of income. This view is shared by arts institutions that have adopted the cultural industry's own growth strategy, aimed at creating a sustainable economic environment for the arts.

The Arts and Culture Portfolio invests in arts and culture activities in a manner that contributes to the cultural industry's own growth strategy, thereby enabling the creative arts to grow as an industry and artists to be economically sustainable.

The portfolio's core responsibilities include:

- The Craft Access Programme, which provides a suitable environment and infrastructure for crafters to showcase their crafts for income.
- The Theatre Trucks Programme, which provides access to arts by taking theatre to the people in remote areas.
- The Choral Music Programme, which showcases Transnet's choral music talent and has, until the end of the year, sponsored the Nation Building Massed Choir Festival.

Stakeholder perspective

"I was nine years old when my mom heard me singing in the kitchen. She suggested that I join the church choir and from that moment on I knew that I always wanted to sing. Transnet Internal Choirs presents an excellent opportunity for me to do what I love most. I love performing for an audience and I have a different personality when I'm on stage."

Yolanda Phiri
Transnet train driver and a member of the Transnet Choir in Nelspruit

Scorecard

Direct beneficiation to the crafters from sales over a ten-day period amounted to **R253 000.** This excludes the income that they generated through commissions as a result of their presence at the Village Green Fair.

The true festive spirit of entrepreneurship

Transnet Foundation invests in the National Arts Festival in Grahamstown as the sole sponsor of the Village Green Fair. The Village Green Fair creates an economic market for 150 trading stalls, which represents at least 400 different crafters from across the country. The National Arts Festival offers a captive audience for the craft sector, which constitutes many disadvantaged crafters with innovative products, but with no or limited market trade.

The Transnet Craft Access Programme provides support and practical business experience to 15 historically disadvantaged crafters by affording them access to the Village Green Fair. This enables them to gain hands-on experience of diverse market audiences, their different tastes and requirements as well as harness promotional channels for their craft products.

The programme, which runs over three years, provides extensive practical assistance to the 15 crafters, which ranges from transport and accommodation, to networking and product pricing. The level of assistance is reduced over the three-year period, and in the fourth year, crafters have to return to the Village Green Fair without any assistance from Transnet. Ultimately crafters gain much needed experience in craft quality management, product promotion, pricing, and networking. They are also able to harness future business opportunities flowing from the Village Green Fair.

Fast tracking theatre

Transnet's Theatre Trucks initiative aims to bring quality theatre art performances to outlying rural communities by modifying trucks into mobile performance stages. The project also brings economic opportunities to many theatre performers who can now reach new rural audiences that may not have been easily accessible in the past.

Free public concerts are held at the National Arts Festival using the Theatre Trucks, thereby ensuring that all communities of the host town, Grahamstown, have access to the arts festival. During the year, several public concerts were hosted in partnership with the Performing Arts Centre of the Free State. This created an opportunity for many disadvantaged artists from the Free State to showcase their talents at a prestigious festival.

Transnet partners with five theatres across the country to sustain the Theatre Trucks initiative, ensuring that audiences in outlying rural areas can be reached in the most cost-effective way. The Theatre Trucks initiative offers participating theatres access to a well-structured outreach programme through which they can extend their theatre productions to rural communities.

Ultimately, the Theatre Trucks initiative offers rural communities easy access to theatre infrastructure and exposes more people to the performing arts, where they may previously have had no access. It also enables theatres and the performers themselves to access new audiences.

In tune with the best in the world

The Transnet Internal Choirs Competition, which has been part of the Arts and Culture portfolio for 11 years, is an important morale booster for the Company's employees. The competition is a celebration of Transnet's own choral music talent where the participating choirs come from Transnet's Operating divisions. The national competition is a culmination of talent which emerged from workshops on voice training followed by regional competitions. During the year, the regional competitions were followed by a prestigious event at Mosaiek Lifestyle Auditorium in Fairland, Johannesburg, attended by approximately 2 500 people comprising Transnet colleagues, their families and external stakeholders.

CONTAINERISED ASSISTANCE

Opening doors to community safety and security

The Containerised Assistance portfolio's main focus is on infrastructure development particularly in areas critically impacted by crime or where security services are lacking. Retired containers are refurbished and donated to communities where they are used as satellite police stations for the SAPF. The portfolio also works with other Transnet Operating divisions to provide containerised assistance for the establishment of multi-purpose centres and educational facilities.

During the year, the portfolio established the Mambuka satellite police station in the Richards Bay region. The satellite police station will not only benefit the Mambuka community but will also provide security to Transnet's rail and pipeline businesses within the Natal Corridor.

Holistic economic development

Security and safety enables holistic economic development. The containerised assistance programme is a catalyst, not only for community safety, but also for small business development. Whilst the portfolio's focus was on safety and security during the year, the projects undertaken have had a direct impact on education, health and social development as they facilitate a safe and secure environment in which these sectors can flourish.

Not all plain sailing

The success and sustainability of the programme is dependent on strong community partnerships and SAPF collaboration. The long chain of command between the various tiers of Government often prolongs decision-making, resulting in delays in executing critical tasks. A shortage of adequate resources has resulted in fewer satellite police stations being built in the past year than anticipated.

On outreach and impact

The feasibility study conducted by the SAPF and the 2001 SA Statistics Census suggest that approximately 24 000 residents will benefit from the establishment of Mambuka satellite police station. Prior to the development of the satellite police station, the safety and security needs of the Mambuka community were addressed by the overburdened Ntambanana SAPF police station, which is approximately 30 kilometres away. The reporting of crime was burdensome for Mambuka residents as they had to utilise two modes of transport to reach the Ntambanana SAPF police station.

Once the police station is operational, the community will benefit directly in terms of temporary and permanent jobs, the development of small businesses and safety. In total 27 direct and 30 indirect jobs have been created for builders, artisans, policemen and contractors.

SPONSORSHIP AND DONATIONS

Granted – it's all about governance

Community-based and non-profit organisations play a crucial role in uplifting impoverished communities. Transnet's Sponsorship and Donations portfolio recognises this important role by considering external requests for funding from various non-profit organisations nationally. The portfolio focuses on health, education, arts and culture, sport, containerised assistance and generic requests.

The portfolio considers projects that will contribute to economic growth and poverty alleviation. The applicants are required to demonstrate good corporate governance, and should comply with good business practices.

Strategic giving

The Sponsorship and Donations portfolio aims to:

- Financially sustain organisations involved in socio-economic upliftment programmes;
- Position Transnet as a caring company; and
- Empower disadvantaged beneficiaries.

On outreach and impact

Transnet has a national footprint and, in granting sponsorship and donations, the portfolio strives to consider requests from non-profit organisations across South Africa.

Stakeholder perspective

"The response has been amazing, with the public amazed at the new working environment donated by Transnet. Our staff are in seventh heaven!"

Colonel de Klerk
Superintendent
Dundee Police Station

Operational review

Increase productivity and efficiency:

- Improve customer service delivery;
- Average 8,4% increase in operational efficiency and productivity;
- Cumulative 20% improvement over three years;
- Reduce wagon cycle/turnaround times by >20%;
- Reduce shipping delays and ship turnaround time (Durban) and increase volumes per stat hour >20%.

GRI 2.8

National Infrastructure Plan (NIP): A framework for capacity planning and creation

Transnet is the key driver and enabler of South Africa's transport logistics infrastructure and is the primary contributor in planning for South Africa's future freight transport infrastructure capacity requirements. These plans are continuously updated to account for changes in market demand and incorporated into the National Infrastructure Plan. This plan has been forwarded to the Shareholder Representative and subsequently approved by Parliament.

The principal objective of the NIP is to provide Transnet with a 30-year framework for the planning and development of its port, rail and pipeline infrastructure, to ensure that adequate infrastructure capacity is created ahead of demand. Furthermore, the NIP:

- Enables Transnet to plan in advance for the medium to long-term capacity requirements to determine the nature and extent of infrastructure capital investments.
- Communicates Transnet's long-term development plans to key stakeholders to ensure alignment in overall infrastructure planning in South Africa.
- Highlights environmental and sustainable development issues to be considered and incorporated in the capital planning processes.

Stakeholders are continuously engaged to ensure the support and approval of the proposed developments and the sustainability of Transnet's investment plans and projects. During 2009, Transnet held 18 NIP Stakeholder engagement workshops in all the major centres reaching more than 800 stakeholders, including national, provincial and local government, business and industry representative associations.

Transnet uses a Freight Demand Model (the model) developed jointly with the University of Stellenbosch to make accurate assessments of freight demand for 65 different market segments, which are allocated to 356 magisterial districts. The model is based on macroeconomic indicators and takes into account the expected performance of the Southern African economy in the context of its major trading partners.

Based on the model, overall freight handled in South Africa is forecast to grow from the 2009 estimate of 855mt to 2 026mt over a 30-year period; rail-friendly bulk cargoes will grow to approximately 500mt. General freight on rail is expected to grow by an average of 3,4% annually over the next 25 years resulting in an increase in Transnet's rail market share.

Transnet's volume demand projections have been updated to reflect the latest economic decline in the various commodity sectors impacting on the Company. These parameters have not had any significant impact on the long-term investment plans, but show potential deferment in the rollout of the infrastructure capacity to later years.

The timing of Transnet's capacity expansion is therefore linked to the macro-economic environment and prevailing economic conditions, affordability and the commercial principle of ensuring that returns on investment are commensurate with the risks associated with the investment.

Furthermore planning and implementation will be done in a manner that stimulates economic growth and in a socially and environmentally exemplary manner, maintaining Transnet's position as a responsible corporate entity. The medium-term infrastructure capacity requirements are translated into Transnet's five-year capital investment plan.

Creating sufficient infrastructure capacity ahead of demand

The Group's capital investment portfolio consists of a five-year rolling Capital Investment Plan that aims at maintaining and creating sufficient capacity ahead of demand to meet the requirements of the transport logistics market in support of growing the South African economy.

Introduction to Transnet's five-year rolling capital investment plan

As a State-owned entity, Transnet will continue to play its role to create capacity ahead of demand in the context of affordability and ensuring that a fair return on invested capital is achieved. The recent economic downturn necessitated that the Company reprioritise investment projects to remain within the Company's set financial metrics, which included amongst others; gearing and cash interest cover. Transnet's investment in infrastructure over the past five years to 31 March 2010 amounted to approximately R71,8 billion.

The graph below depicts the historical capital investment since 2006 as well as the investment spending for 2010.

The Board together with management has adopted and will continue to apply a prudent approach in managing the key financial metrics of the Company. Accordingly, these metrics will continue to impact on the extent and timing of the capital investments without negatively impacting the capacity creation to meet projected demand as reflected in the National Infrastructure Plan, consequently the Company will pursue alternative sources of funding and private sector participation (PSP) will play an important role in Transnet's future capital investment drive.

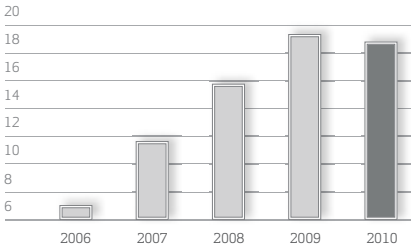
The previous five-year capital investment plan (2010 to 2014) of R80,5 billion has been increased with the latest investment requirements and amounts to R93,4 billion. Approximately R5,6 billion in the next five years has been earmarked as PSP funding, which together with the R93,4 billlion, is deemed sufficient to meet the projected capacity demands over the period without breaching Transnet's financial metrics.

Capital investments: 2010 financial year

At the beginning of the 2010 financial year there was significant uncertainty as to the magnitude and timing of the economic recession and specifically the performance of the commodity and container markets which have a direct impact on the activities and revenues of Transnet and related short to medium-term capacity requirements.

Proactive steps were taken to minimise these risks and to ensure the financial stability of the Company through very difficult and uncertain times. One of these measures was to reprioritise the capital investments according to the business requirements and volume forecasts at that stage, which led to the deferment of certain projects to later years in the plan. Value engineering and renegotiation of capital contracts were undertaken to ensure an optimal capital investment plan. Cash flows were also reviewed with the objective to optimise the flows over the five-year period and to remain within the set financial metrics, whilst maintaining sufficient capacity to meet the projected market demand and contractual commitments. These initiatives contributed to Transnet reducing its planned capital expenditure for 2010 from a target of R21,9 billion to R18,4 billion without negatively impacting service delivery.

2006 – 2010 capital investment spend (R billion)



Cumulative investment of R71,8 billion over the last five years

Projects or assets commissioned during the year

Significant progress has been made in the roll out of the investment plan to create additional capacity on the export iron ore line and export coal line including:

- The delivery of six of the 110 dual voltage 19E locomotives;
- 592 wagons for the export coal line;
- The delivery of three of the class 44 15E locomotives;
- 300 wagons for the export iron ore line; and
- Port Terminal investments in the export iron ore corridor.

In addition Freight Rail has upgraded and refurbished its existing fleet and infrastructure to improve reliability and availability. Major achievements include:

- 117 locomotives were overhauled during the year and a further 117 units were upgraded;
- 62 damaged locomotives were restored to service;
- 3 032 wagons underwent a heavy refurbishment programme of which 60% were upgraded to a higher carrying capacity;
- Approximately 190km of track including ballast and rail turnouts were replaced during the year;
- Freight Rail accepted delivery of all 50 EMD class 39 locomotives for General freight; and
- 302 new wagons for General freight.

Major port investment achievements include:

- Commissioning of the Durban Deepening and Widening of the entrance channel;
- The operationalising of the Port of Ngqura; and
- The Port's fleet was bolstered by the delivery of 2 tug boats, 2 pilot boats and a helicopter.

Update on mega projects: Progress to date

Over the past years, Transnet embarked on a number of mega projects and the roll out of these projects is managed by Transnet Capital Projects on behalf of the Operating divisions. The table below represents an overview of the actual spending on these projects for the 2010 financial year and the overall progress to date:

Mega project	Future capacity†	Estimated total cost (R million)	2010 Actual spending (R million)	Actual spending since inception to 31 March 2010 (R million)	Five-year planned spending (R million)
Coal line expansion: lines, loops, wagons, replating, etc* (Rail)	81mt	3 839	453	2 189	1 029
Ore line Phase 1A and B (Ports)	47mt	2 549	194	2 229	163
Ore line Phase 1A and B (Rail)	47mt	6 974	906	4 185	2 312
Ore line Phase 1C (Ports)	60mt	567	283	343	137
Ore line Phase 1C (Rail)	60mt	3 722	452	461	2 610
Cape Town Container Terminal expansion	0,9 million TEUs	4 375	868	2 278	2 649
Ngqura Container Terminal	0,8 million TEUs	7 888	1 198	4 326	1 032
Durban Harbour entrance channel widening and deepening	9 200 TEU vessels	3 360	781	2 770	566
Durban Container Terminal reengineering	2,9 million TEUs	1 863	500	1 245	452
New Multi-Product Pipeline##	8,7 billion litres/a	15 499	2 698	5 976	9 179

This represents the future capacity for the Durban to Johannesburg pipeline.
† Represents capacity when project is complete.

The progress made in rolling out the above projects, is set out below.

Coal line expansion: Facilitates expansion up to 81mt*

Expansion to rail, facilities and power infrastructure work is progressing well and is approximately 60% complete. Major milestones for 2011 are the completion of the five new crossovers between Welgedag and Ogies, and the Lenjane formation rehabilitation project. Completion of the Ermelo third balloon, the Bethal loop lengthening and the Richards Bay Container Terminal (RBCT) departures bypass line projects are planned for the 2012 financial year.

* *Forms one component of the investment in the coal line during the five-year capital investment plan to expand and maintain capacity up to 81mt. Indications are that the rail capital cost for the proposed expansion and maintenance of the coal line capacity up to 81mt could be approximately R15,4 billion for the five-year period.*

Ore line – all phases up to 60mt

To improve efficiency and accommodate increasing tonnage on the iron ore line, the 19 existing passing loops were extended by an additional 1,5km to accommodate longer trains. In 2009, the longest trains in the world consisting of 342 wagons became operational on the Sishen-Saldanha Ore Line.

Progress on the ore line continued during the year with both the odd and even loops becoming operational. The locomotive workshop at Saldanha was completed, 1 414 wagons, three out of 44 class 15E locomotives and the distributed power (to enable the running of 342 wagon trains) were brought into service.

Reengineering of the Port of Saldanha had to be undertaken to cater for the increase in capacity. The two tipper cars, responsible for transporting minerals from the conveyor belts into the discharge chute, have been redesigned and rebuilt, which has improved ship loading rates by 30%. The tipplers responsible for discharging ore from the wagons onto conveyor belts were also revamped and restored which improved productivity. Two wagons or 200 tons of iron ore can now be tipped every 90 seconds and up to 195 000 tons can now be loaded onto ships within 24 hours of calling at the port.

Progress by the end of March 2011 on the individual phases is anticipated as follows:

- Phase 1A/1B – (87% complete);
- Postmasburg – (75% complete); and
- Power Upgrade – (93% complete).

Cape Town Container Terminal

Approximately 75% of the project has been completed by 31 March 2010. The work completed is as follows:

Quay refurbishment and berth deepening works:

The first phase of berth 602 was handed over in April 2010, and 305 metre long vessels are now being berthed on a regular basis. Dredging of the basin is 95% complete, with a dredge depth of approximately -15,3m chart datum (CD), in comparison to the required -15,5m CD to accommodate larger vessels.

Reconfiguration work:

Delivery of the second of 16 Rubber-tyred Gantry Cranes (RTGs) will take place before December 2010. The revised coastal berth stack area contract is progressing, with the first section expected to be handed over in August 2010. In addition, a section of the Long Quay was handed over after reconfiguration for RTG operations in May 2010.

Ngqura Container Terminal

The Port of Ngqura became operational in October 2009 and a number of vessels have called at the port. The first phase of the project has created capacity for 800 000 TEUs per annum and will be able to accommodate up to 1 600 refrigerated containers for a vessel.

The Terminal has handled 78 423 TEUs since commencing operations. The volumes were mainly for transshipments which is aligned to Transnet's strategy of developing the Port of Ngqura as a transshipment hub.

Durban Harbour entrance channel widening and deepening

A significant achievement on the Durban Harbour entrance widening project was its completion a month ahead of schedule. The new wider (240m) and deeper (-18m CD) entrance channel was officially handed over to National Ports Authority in March 2010. The completed project will contribute towards ensuring that the Port of Durban is able to meet client's future needs by being able to safely accept the next generation of larger vessels to call at the Port – 9 200 TEU container vessel. This will ensure Transnet's enhanced capability of becoming a global market player.

The Durban Harbour is currently using a temporary sand bypass system until a permanent bypass system has been built. This system is scheduled to be replaced within the next five years.

Durban Container Terminal (DCT) reengineering

The DCT reengineering project is progressing well. To date nine out of 28 new facilities have been completed and are operational. This includes the multi-level staff parking. The new entrance facility as well as the work along berth 203 to 205 is complete. The handing over of the top tier of the Y-site area took place in May 2010.

New Multi-Product Pipeline (NMPP)

During the 2010 financial year, Transnet increased the ETC on the NMPP from R12,6 billion to R15,5 billion. The increase in the ETC was as a result of:

- Delays in securing terminal sites;
- Increases in steel costs and pipeline construction costs and indirect costs; and
- Additional costs including backup power generation, NKP compliance and fibre optic cabling.

Transnet has communicated this increase to the relevant stakeholders.

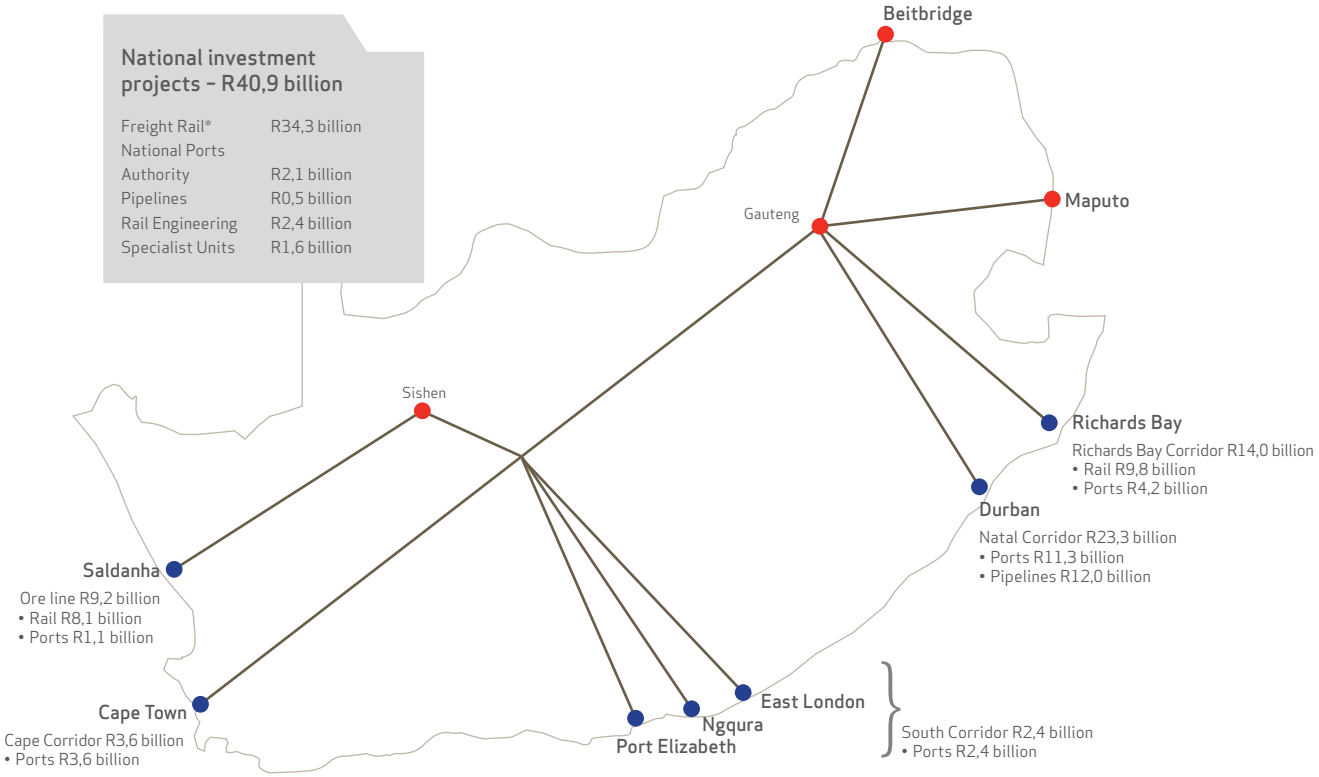
A major achievement of the NMPP project is the successful use of Horizontal Directional Drilling (HDD), the largest drilling machine in Southern Africa. The HDD machine was used to drill through distances up to 1,1km at a depth of 50m at the deepest point. This machine was used to drill under the busy Gauteng highways without causing any disturbances.

Natalspruit (near Heidelberg) is home to one of Gauteng's most significant wetlands. The 16" pipeline, traversing Natalspruit had to be laid in order to minimise the environmental impact. The method statement took a year to develop and this assisted in yielding the positive result in that the pipe pull-through was achieved without any damage caused to the wetland. This is an extremely significant achievement for the Company ie. balancing engineering excellence with strict environmental requirements.

The inland sections of the project will be brought into operation in the 2011 year. Construction of the 24" trunk line has commenced and is due for completion at the end of December 2012. Transnet Pipelines have plans in place to ensure that the security of supply requirements are met at all times.

Five-year capital investment plan

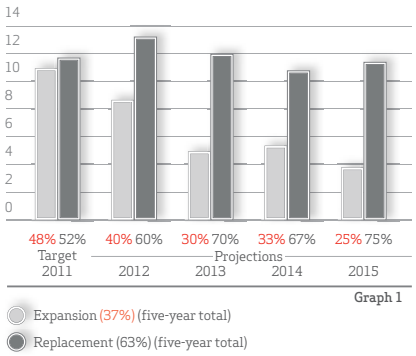
Five-year capital investment by corridor: Geographical view



** For classification purposes, Freight Rail head office and General freight investments (wagons, infrastructure and locomotives) have all been categorised as national investments.*

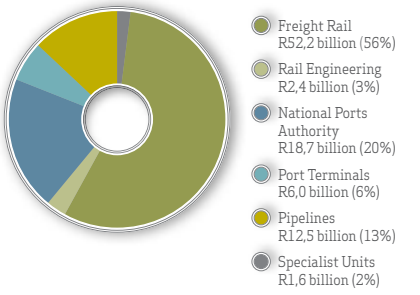
The graph below (Graph 1) reflects the spending in respect of projects to expand capacity in the system as well as to replace existing assets (also creating additional capacity due to progressed technology), for upgrades and efficiency improvements.

Total five-year capital investment: expansion versus replacement (R billion)



Graph 1

Total five-year capital investment by Operating division*



Graph 2

* *Excluding the capitalisation of borrowing costs and possible investement funding from PSPs.*

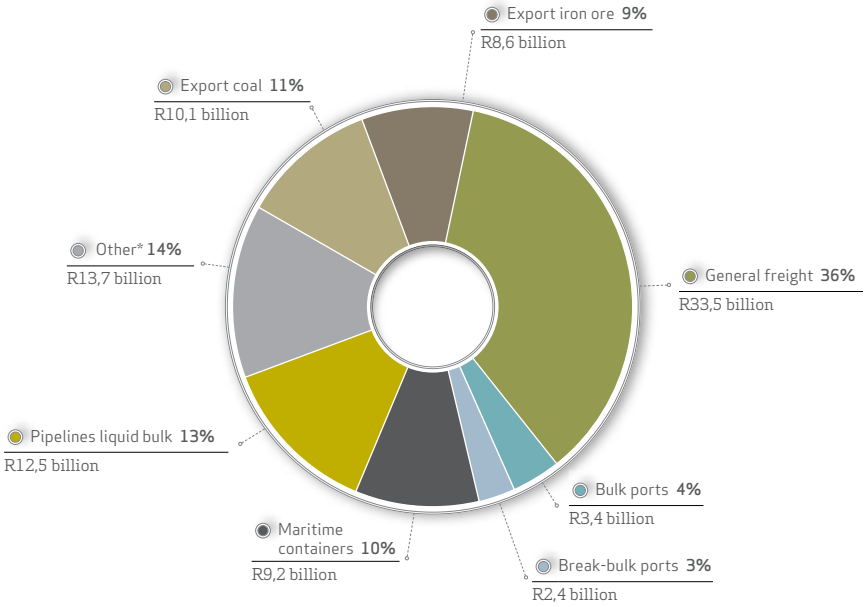
Five-year capital investment by asset class

The table below represents the planned investments in the various major asset classes of the Company.

Five-year capital investment split per major asset		
Rail R million	**Ports R million**	**Pipelines and Specialist Units R million**
Land, buildings and infrastructure 17 814	Land, buildings and infrastructure 5 326	Pipeline networks 11 470
Machinery and equipment 2 998	Machinery and equipment 1 224	Buildings and structures 346
Locomotives 15 066	Port facilities 15 144	Machinery and equipment 2 295
Wagons 18 698	Floating craft 3 000	
Total 54 576	**Total 24 694**	**Total 14 111**

Five-year capital investment by major commodity/sector

The major investment is in General freight (36%) which is driven by planned volume increases and the resultant capacity requirements as well as focusing on the maritime container, export coal and export iron ore sectors as depicted in the graph below:



** Other includes investments that support commodities that may span across sectors including the above, eg tugs and dredgers support all commodities transported.*

Capital investment plan by Operating division

The following provides an overview of the investment in Rail, Port and Pipeline infrastructure.

Freight Rail

Freight Rail accounts for 58% of Group revenue and 34% of the total Group asset base. Freight Rail currently operates its business via three primary segments being the coal line, ore line and General freight. The five-year investment plan for each business segment is depicted below:

Segment	Target 2011 R million	Projections 2012 R million	2013 R million	2014 R million	2015 R million	Total five years R million
General freight	6 224	7 144	7 343	6 392	6 432	33 535
Export iron ore	3 888	2 078	726	691	719	8 102
Export coal	2 829	2 567	1 460	1 490	1 426	9 772
Reprioritisation and special funding arrangements	(1 498)	(371)	422	1 526	(79)	-
Head office	169	149	168	167	120	773
Total	11 612	11 567	10 119	10 266	8 618	52 182

Excluding the capitalisation of borrowing costs.

Capital expenditure currently included in the five-year investment plan for the coal export line in Freight Rail amounts to R9,8 billion for the proposed expansion to 81mt. Management together with the industry are currently in the process of defining the extent, timing, quantum and related operating model to achieve 81mt capacity. Latest indications are that the capital cost for this proposed Freight Rail expansion could be approximately R15,4 billion. Such an investment would need to be financed through appropriate tariffs in future years. These revised tariffs have not been included in the financial projections as this must still be negotiated with the industry. Alternative funding options will be considered as more clarity is obtained and this could include PSPs not only on the coal line but also on other suitable investment projects in the Company to ensure that funds will be available when required.

Rail Engineering

Rail Engineering provides rolling stock, engineering and maintenance services to Freight Rail and other rail operators. Rail Engineering comprises of eight businesses namely locomotive, coach, wagon, rotating machines, rolling stock equipment, wheel, auxiliary equipment and the foundry.

The five-year investment plan for Rail Engineering is shown below and is mainly to replace equipment required for rolling stock maintenance as well as additional equipment to improve service delivery.

Segment	Target 2011 R million	Projections 2012 R million	2013 R million	2014 R million	2015 R million	Total five years R million
Total	550	491	438	505	410	2 394

Excluding the capitalisation of borrowing costs.

National Ports Authority

National Ports Authority is responsible for eight commercial ports in South Africa with the Port of Ngqura being the latest addition to its portfolio. The major commodities handled at the ports are classified into broad categories based on the cargo handled, namely containers, bulk, break-bulk, liquid bulk and automotives.

Segment	Target 2011 R million	Projections 2012 R million	2013 R million	2014 R million	2015 R million	Total five years R million
Containers	1417	1 019	1 338	1 178	1 613	6 565
Bulk	73	23	4	5	-	105
Break-bulk	131	243	289	402	902	1 967
Liquid bulk	501	360	127	131	200	1 319
Other investments*	1 279	1 688	2 440	2 055	1 284	8 746
Total	3 401	3 333	4 198	3 771	3 999	18 702

**Certain investments included under "Other Investments" will also service the container, bulk, liquid bulk and break-bulk sectors.*
Excluding the capitalisation of borrowing costs.

Port Terminals

Port Terminals currently operates 16 commercial terminals at the various ports in South Africa. Port Terminals' major investment categories are as follows:

Segment	Target 2011 R million	Projections 2012 R million	2013 R million	2014 R million	2015 R million	Total five years R million
Containers	653	642	592	452	284	2 623
Bulk	587	778	524	447	491	2 827
Break-bulk	72	211	61	62	41	447
Other investments	37	37	10	5	6	95
Total	1 349	1 668	1 187	966	822	5 992

Excluding the capitalisation of borrowing costs.

Pipelines

Pipelines operates a pipeline network and have a main line running from Durban to Johannesburg (DJP). The New Multi-Product Pipeline NMPP is a trunk line from Durban to Jameson Park in Gauteng. It is one of the largest projects in Transnet and will be in full operation by the end of 2012.

The total cost of the NMPP is approximately R15,5 billion and the five-year investment plan for Pipelines is shown below:

	Target 2011 R million	Projections 2012 R million	2013 R million	2014 R million	2015 R million	Total five years R million
Total	5 421	4 541	918	449	1 160	12 489

Excluding the capitalisation of borrowing costs.

Specialist Units

The investment in the Specialist Units represents approximately 1,7% of the total investment over the five years and includes a variety of projects (upgrading of various buildings in the property portfolio including the Carlton Centre, IT equipment and licences, as well as the building of the new Phelopepha II train).

Investment in other strategic areas

The Operating division and Specialist Unit investment portfolios have been stratified according to the objectives of the Quantum Leap Strategy as follows:

Safety, health and environment

Transnet remains committed to safety, health and the environment. The investment of R6 billion or 6% of the capital investment plan bears testimony to this and includes:

- Safety of navigation at the ports;
- Rehabilitation and prevention of environmental incidents;
- Pipeline security systems;
- The countrywide yard safety automation, to prevent derailments in the rail yards; and
- The commencement of the upgrading of rolling stock to specified standards to reduce the risk of safety incidents.

Human capital

Human capital development is a cornerstone of the Company and accordingly investments of R742 million is planned over the next five years. This must be viewed together with the R2,5 billion five-year operational budget included in the plan, which amongst others will be spent on a functional, technical, tertiary and bursary sponsorship training. Capital investment in human capital development projects includes upgrading training centres and staff facilities.

Technology and systems

The installation of new technology and systems that will generate timely and accurate information coupled with the safeguarding of assets, will contribute in enhancing operational efficiencies:

Approximately R1,9 billion is planned to be invested over the next five years, which addresses inter alia the following areas:

- Software and licences for information systems;
- On-board computers for electric locomotives;
- New processes and technologies; and
- Vehicle identification system for General freight wagons.

Corporate social investments

The Foundation champions the social responsibility of Transnet through sustainable, integrated socio-economic programmes, thereby promoting economic growth in South Africa and enhancing the profile and reputation of Transnet as a responsible corporate citizen. Corporate social investment projects over the next five years amounts to approximately R253 million which include the following:

- Construction of the new Phelophepa II health train: Focusing on delivering affordable, accessible, mobile healthcare services to Transnet's geographical corridors.
- Informal settlements: Walling, bridges and subways, which provides access to safely cross railway lines.

Investment requirements not included in the five-year plan

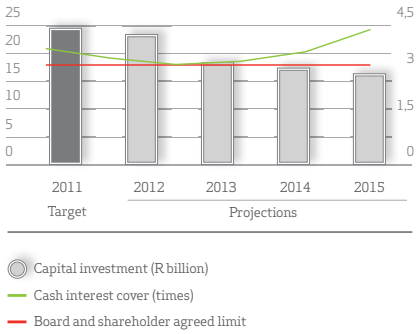
The existing five-year plan does not include the significant investment required for major further expansions in respect of the iron ore line above 60mt as well as the full expansion on the coal line up to 90mt. These expansions as well as other projects, such as the development of Waterberg (coal), Manganese expansion to 5,5mt, City Deep expansion, Richards Bay Terminals, Ngqura Container Terminal Phase 2, as well as additional container capacity in Durban, will necessitate alternative funding models and private sector participation as they will be beyond Transnet's affordability. A framework has been developed as set out in the Group Chief Executive's review on page 60, to assist in identifying suitable and lucrative opportunities for private sector participation.

Affordability of investments

As indicated in the graph alongside, the capital investments remain within the targeted cash interest cover range of Transnet over the five-year period and are also well within the 50% gearing limit set by the Board. The cash interest cover headroom in the 2013 financial year is however marginal and accordingly this will be carefully managed to ensure that the set limits are not breached.

Due to the large investment requirements, innovative plans will be developed to ensure that the Company is able to successfully fund its capital investment plan without breaching the set financial metrics lost effectively.

Cash interest cover vs capital investment



Medium-term funding requirements

The funding requirements for the five years amount to R41,4 billion of which R20,3 billion will be increased borrowings and R21,1 billion will be for the refinancing of existing debt.

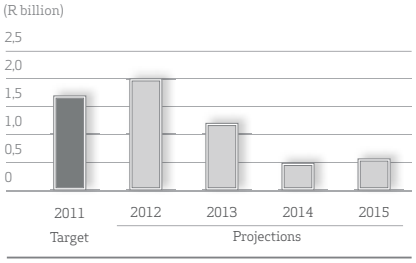
Refer to Chief Financial Officer's review on page 71 for further details.

Capitalisation of borrowing costs

In terms of IAS 23: Borrowing Costs, Transnet capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset, until such time that the asset is substantially ready for its intended use. In terms of the Company's accounting policy, a qualifying asset is one that takes six months or longer to be ready for its intended use.

Based on the accounting policy the borrowing costs to be capitalised over the next five years are set out alongside.

Capitalised borrowing costs



Investment plan challenges and risks

The planned investments will be reviewed on a continuous basis, taking cognisance of changes in capacity demand and operational requirements. This will however not impact the long-term plans as set out in the NIP but mainly focus on the deferment or spreading to later years to align available capacity to demand.

The main challenges going forward will be to roll out the capital investment plan on time and on target. Therefore the focus will be on efficient project management and cost control over the life of the projects. New projects included in the five-year plan will only commence once their robust business cases are approved by the relevant governance structures within the Company.

The major risks over the period will be the high cost of material as well as the impact of the exchange rate on imported components. Furthermore, unavoidable changes to the scope of projects and related costs due to technical, legal and environmental requirements which could not be assessed during the feasibility phase of the projects will pose further risks. Delays in obtaining the necessary EIA approvals as well as other external approvals will continue to remain as challenges to control during the execution of the projects.

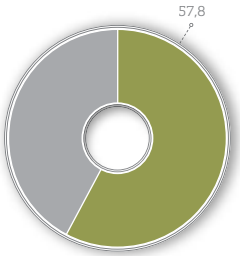
Transnet Freight Rail

"Transnet Freight Rail (Freight Rail) is focused on transporting bulk and containerised freight along its approximately 20 500 kilometre rail network, of which 1 500 kilometres comprises heavy haul export lines. During the year under review, Freight Rail transported approximately 179 million tons (mt) of freight for export and domestic customers. Its main business is the coal export line, the iron ore export line and the General freight business which encompasses mainly manufacturing, mining, agricultural and containerised products."

Performance at a glance

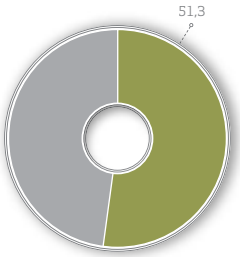
External revenue (%)

R20 599 million
57,8% of Group external revenue



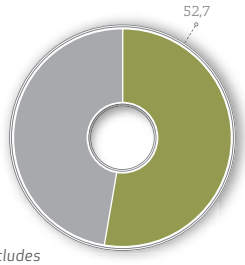
EBITDA** (%)

R7 394 million
51,3% of Group EBITDA



Capital investments* (%)

R9 726 million
52,7% of Group capital investments



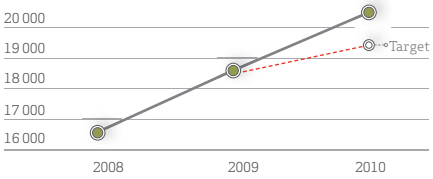
* *Excludes capitalised borrowing costs and includes capitalised finance leases.*

Number of employees:

22 571 permanent
296 contractual

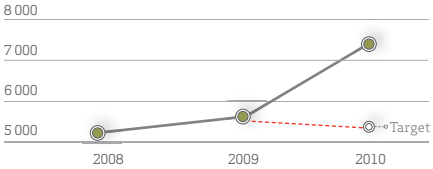
Financial highlights

Total revenue (R million)



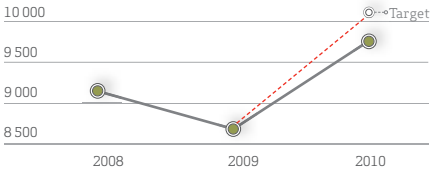
2010 vs 2009	2010 vs target
↑ 11,5 %	↑ 7,7 %

EBITDA (R million)



2010 vs 2009	2010 vs target
↑ 30,3 %	↑ 37,9 %

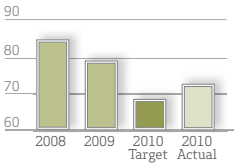
Capital investments (R million)



2010 vs 2009	2010 vs target
↑ 13,2 %	↓ 3,3 %

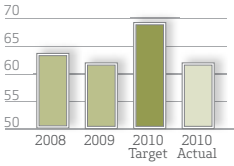
Key volumes

GFB (mt)



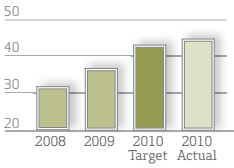
2010 vs 2009	2010 vs target
↓ 8,0%	↑ 6,0%

Export Coal (mt)



2010 vs 2009	2010 vs target
↓ 0,2%	↓ 10,4%

Export Iron Ore (mt)



2010 vs 2009	2010 vs target
↑ 21,5%	↑ 4,0%

2010 Performance

Financial

- Revenue up 11,5% on prior year.
  - Export coal revenue up 29,8%.
  - Export iron ore revenue up 27,4%.
  - General freight revenue up 0,4%.
- Operating costs up 3,2% on prior year.
  - Energy savings of 9,7%.
  - Maintenance costs up 0,8%.
  - Personnel costs up 6,6%.
  - Other costs inflation linked.

Operational

- General freight volumes recovered in the second half of the year.
- Containers on rail increased 5,7% on prior year.
- Export coal volumes decreased by 0,2% compared to prior year.
- Export iron ore volumes up 21,5%.

Human resources

- Employment equity target of 76% achieved during the year.
- 351 employees received customised "transport and logistics" training at the School of Rail.
- 1600 operational and technical supervisors trained in basic management and supervisory skills.

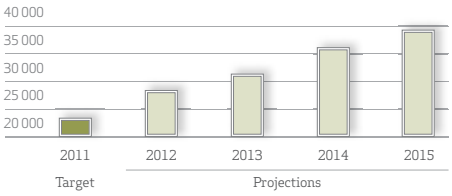
Safety

- Disabling Injury Frequency Rate (DIFR) decreased from 1,30 to 0,94.
- 17% reduction in the number of safety related incidents.

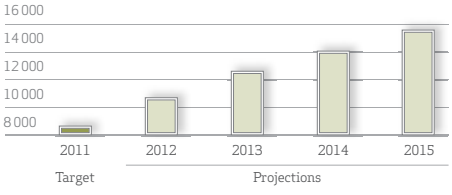
Looking ahead

Highlights

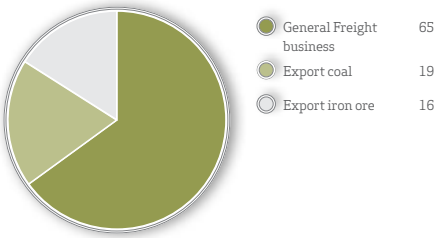
Revenue (R million)



EBITDA (R million)

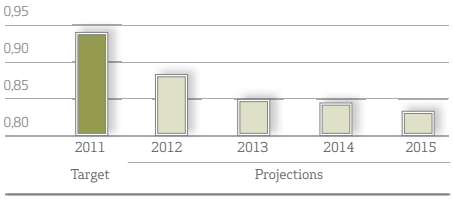


Five-year capital investment by commodity (%)



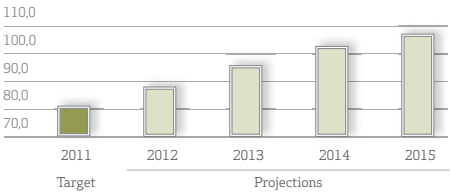
Total investment is R52,8 billion

DIFR (Disabling injury frequency rate)

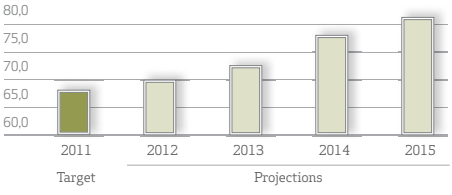


Key volumes

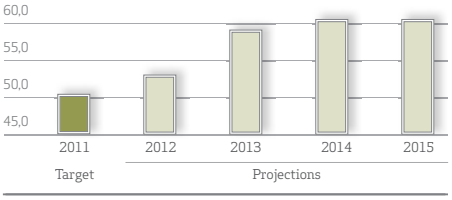
GFB (mt)



Export coal (mt)



Export iron ore (mt)



Strategy

- Growth will be targeted in specific flows of bulk mineral and mining commodities and containers on rail.
- Customer service, operational efficiency and productivity improvements are targeted in all areas of the business, together with high safety standards. A revised operating strategy will also be implemented.
- Capital requirements will be prioritised in line with commodity flows and affordability.
- Maintenance priorities and plans will be guided by the rolling stock fleet plans and the requirements of the operations strategy.
- Leadership and supervisory training will be intensified as well as employee skills development.
- Operational training programmes, compliance to standard operating procedures and improved disciplinary standards will be implemented.

Key risks

- Inability to transport planned volumes as a result of operational failures caused by both internal (locomotive reliability, management response, etc) and external factors (cable theft and vandalism) leading to a reduction in operating effectiveness and operating income.
- Lack of competent, willing and empowered workforce leading to poor organisational performance.
- Non-compliance with safety and standard operating procedures (unsafe operations) leading to business interruptions and poor customer service.
- Lack of appropriate contract lifecycle management resulting in over expenditure on contracts and increasing operational costs.
- The negative impact of railway operations on the environment leading to environmental degradation, as well as the impact of the environment on railway operations.
- The pressures in the industrial relations landscape resulting in strike action as employee unions seek improved conditions for employees above levels of inflation.

The presence of these risks could impact negatively on the achievement of the key strategic objectives of the Operating division. However, focus areas and initiatives of the Quantum Leap Strategy will assist in mitigating these risks.

2011 Quantum Leap intiatives

- Ongoing volume growth and improved operating efficiencies on both the export coal and export iron ore lines.
- Targeting growth in specific flows of bulk mineral and mining commodities and containers on rail which will in turn enable the achievement of revenue targets required to fund capital investment.
- Achieving targeted Quantum Leap operational efficiency improvements to enable improved customer service.
- Stringent cost management including savings being realised from improved efficiencies leading to a reduction in cost of doing business.
- Ongoing reviews and prioritisation of capital investment programmes and carrying out appropriate maintenance to ensure availability of correct types of rolling stock and infrastructure to provide capacity for volume growth.

Overview of business operations

Negative growth was projected for most market sectors served by Freight Rail during the 2010 financial year due to the anticipated lower levels of production by customers, which was triggered by the global economic downturn. It was anticipated that customers that export mining commodities and import containerised products would be the most negatively impacted due to the high correlation between economic growth and volumes transported. The uncertainty of the prevailing business climate, the duration of the downturn and the speed of its recovery compelled Freight Rail to implement initiatives during the year to mitigate potential volume and revenue losses and their consequent impact on the business.

These mitigating initiatives prioritised the following:

- Identifying volume and revenue opportunities in areas that had been less severely impacted by the economic downturn, such as grain, timber and domestic coal;
- Reprioritising and deferring capital projects to better manage cash outflows and key financial ratios;
- Controlling costs and implementing cost-saving initiatives. This included the 'staging' of underutilised wagons and locomotives to reduce maintenance costs during the period of anticipated low transportation demand;
- Implementation of various initiatives with the objective of achieving improvements in operational efficiency and asset utilisation;
- Implementing a revised safety strategy and approach that targeted a reduction in the number of incidents and a 33% reduction in the cost of losses resulting from incidents; and
- Developing leadership, first-line management and supervisory skills to improve performance through accountability and performance management.

The focused efforts on these priority initiatives, combined with a gradual economic recovery in certain business sectors, has resulted in improved performance when compared to the prior year.

Regulatory environment

The regulatory environment impacting Freight Rail comprises policy reform as well as safety and future economic regulation. Freight Rail's strategy takes into account the ongoing regulatory changes.

Rail economic regulation

The Department of Transport (DoT) is planning to establish a Transitional Rail Regulation Capacity (TRRC) whilst discussions between Government and stakeholders continue on the design, function and timing of the introduction of the Rail Economic Regulator (RER). The TRRC will conduct an examination of the issues which may require regulatory intervention and will recommend appropriate interventions as required.

The uncertainty around the application of future potential economic regulation, including the methodology of funding new infrastructure, remains a challenge.

Transport policy

The DoT has recently informed all transport stakeholders of its intent to amend legislation in respect of lowering the permissible axle mass limit for freight-carrying road vehicles from 9 000kg to 8 000kg. The DoT has requested feedback from all stakeholders before the regulatory intention is converted into law.

The main purpose for the new limit is to prevent further damage to the secondary road network, as well as to revitalise the branch-line rail network. The DoTs intention could impact the freight demand for rail going forward. Presently Transnet is conducting analysis to determine the likely impact of the new limit on several key areas. These areas are:

- The type of commodities that could potentially be shifted to rail as a result of the lowering of the axle mass limits, as not all commodities impacted would necessarily be moved by rail;
- The impact of additional volumes on the current branch-line process that is underway;
- The future rolling stock requirements needed to meet these additional volumes; and
- The cost of maintenance and additional capacity required (if any) of the rail infrastructure.

National Railway Safety Regulator

The National Railway Safety Regulator Act (Act No 16 of 2002) (NRSR Act) provides for the establishment of a Railway Safety Regulator (RSR). The RSR was established in 2004 to oversee safety in the railway transport industry and to monitor regulatory compliance. The RSR has the following regulatory oversight roles

- Overseeing safety in the railway transport industry;
- Promoting the use of rail as a mode of transportation through improved safety performance in railways;
- Developing any regulations that are required in terms of administering the NRSR Act;
- Monitoring and ensuring compliance with the NRSR Act; and
- Giving effect to the objects of the Act.

Key performance indicators

		2009 Actual	2010 Target	2010 Actual	2011 Target
Volume					
GFB	mt	78,4	68,0	**72,1**	80,7
	mt.km	41 871	33 590	**39 434**	42 598
GFB containers – % market share (a)	%	27	31	**31**	33
Export Coal Line	mt	61,9	69,0	**61,8**	67,0
	mt.km	35 517	39 845	**37 812**	40 937
Export Iron Ore Line	mt	36,8	43,0	**44,7**	50,3
	mt.km	32 144	37 380	**38 865**	43 712
Operational efficiency					
GFB					
Locomotive efficiency (b)	GTK 000'/locomotive/month	4 722	4 059	**4 111**	5 337
Wagon turnaround time	days	13,8	12,6	**14,0**	12,0
Export Coal					
Locomotive efficiency	GTK 000'/locomotive/month	14 728	14 729	**14 173**	16 238
Wagon turnaround time	hours	70,9	61,1	**68,9**	65,0
Export Iron Ore					
Locomotive efficiency	GTK 000'/locomotive/month	46 736,0	(ns)	**38 310,1**	44 808,0
Wagon turnaround time	hours	95,1	72,0	**85,0**	80,0
Financial					
EBITDA margin	%	30,4	27,7	**35,5**	34,4
Return on average total assets (excluding CWIP)	%	7,9	4,3	**8,9**	8,0
Infrastructure					
Capital investments (c)	R million	8 593	10 063	**9 726**	11 612
Risk safety and compliance					
DIFR	rate	1,30	1,08	**0,94**	0,94
Human capital					
Training spend/personnel costs	%	2,5	3,0	**2,0**	2,7
Employment equity	%	75	76	**76**	77

(a) Rail containers expressed as a percentage of railable maritime import and export containers.
(b) B-fleet locomotives and shunting locomotives included. The target for 2011 excludes the B-fleet and shunting locomotives.
(c) Excluding capitalisation of borrowing costs and including capitalised finance leases.
(ns) not set

Volumes and operational efficiency

General Freight Business

General freight tonnage and ton kilometre performance, when compared to the prior year, reflects the severe impact of the economic recession on the business, particularly during the first half of the financial year. Fortunately, enhanced throughput in various General freight sectors, such as manganese, magnetite, chrome, steel, containers and rock phosphate in the second half of the financial year, as demand for commodities started to recover coupled with significant operational efficiency improvements, reduced the severity of the impact on volumes.

- Containers on Rail
  - The 5,7% growth in containers on rail reflects the success of the container Growth Strategy to shift traffic from road to rail. This performance is as a result of several factors; the operational focus on interfacing directly with the shipping lines; running container trains on time and avoiding cancellations, to reduce the number of containers not being delivered to the ports on time. In addition, the improvement in the Natcor port-rail interface between Kingsrest, Durban Container Terminal and Pier 1 Container Terminal has resulted in a reduction in throughput times on the corridor from 24 hours to 18 hours. A new record of 24 446 TEUs were handled at the City Deep terminal in November 2009. Container market share on the Natcor increased from 23% to 30% by March 2010 with a record 351 812 TEUs transported by rail;
- Manganese
  - A reduction in cycle times on the manganese export line from eight days to five days. This allowed manganese rail and port export volumes to exceed planned volumes by 38% and 28% respectively.
- Magnetite
  - The launch of a magnetite breakthrough project which yielded a 34% reduction in the turnaround times and 40% improvement in volumes for magnetite exports.
- Rock Phosphate
  - The creation of additional capacity through efficiency improvements for the transport of rock phosphate where the average number of trains per week increased from 9 to 11 with a cycle time reduction from 240 hours to 125 hours.

However, the reduced levels of General freight tonnages, combined with changes in the types of commodities offered for transport, an increase in less-than-trainload business and a decrease in block-load mining commodities, prevented the achievement of planned operational efficiency improvements, resulting in sub-optimal utilisation of wagons as reflected in the deterioration of wagon turnaround time to 14 days compared to 13,8 days during the previous year.

Unfortunately, Freight Rail continued to suffer from numerous rolling stock and infrastructure related problems, including those caused by cable theft, which contributed significantly to planned volumes not transported.

Cable theft incidents resulted in the theft of 230 kilometres of cable. The direct replacement cost to Freight Rail exceeds R42 million per year. The consequential losses as a result of the knock-on effect run into many more millions of Rands. These knock-on effects include train cancellations, poor service delivery, reduced productivity and loss of business to competitors.

Export Coal Line

Export coal volumes were marginally lower when compared to the prior year due to numerous factors. These included the interruptions resulting from the commissioning of the Richards Bay Coal Terminal (RBCT) expansion to 91mt as well as other Freight Rail operational and infrastructural disruptions on the line as a result of an increase in the number of cable theft incidents. The improvement in the economic climate, as well as a focus in the form of an operational efficiency project, significantly improved the performance in the last quarter of the 2010 financial year resulting in the highest quarterly volumes in three years.

The implementation of the 'efficiency breakthrough project' resulted in improvements in wagon turnaround time from 70,9 hours to 68,9 hours. Locomotive efficiencies and utilisation are expected to reflect considerable improvement in the year ahead as the new 19E locomotives are delivered and commissioned into service.

Export Iron Ore Line

On the iron ore line, the capital expenditure and substantial operational efficiency improvements were implemented in collaboration with customers to ramp up to contracted volumes, primarily the operation of 342 wagon long trains. Superior performance was evidenced in successive weekly record throughput tonnages during the year, resulting in year on year growth in both tonnages transported and ton kilometres executed.

There was a major improvement in the wagon turnaround time from 95,1 hours in 2009 to 85,0 hours in 2010. This is due to the introduction of 342 wagon trains which was made possible by using distributed power (the locomotives are distributed at the front and after each 114 wagons throughout the length of the train rather than simply positioning all locomotives at the front of the train). New 15E locomotives with greater tractive power are on order and will be commissioned during the 2011 financial year which will improve operational efficiencies further. In the meantime, less powerful diesel locomotives are being deployed on the line which has a negative impact on locomotive efficiency and related energy costs.

Financial Performance

	Year ended 31 March 2010 R million	Year ended 31 March 2009 R million	% change
Salient features			
Revenue	20 825	18 683	11,5
– General Freight	11 903	11 852	0,4
– Export coal	5 624	4 332	29,8
– Export iron ore	2 216	1 740	27,4
– Other	1 082	759	42,6
Operating expenses	(13 431)	(13 010)	3,2
– Energy costs	(2 198)	(2 434)	(9,7)
– Maintenance	(2 532)	(2 513)	0,8
– Material costs	(386)	(453)	(14,8)
– Personnel costs	(6 214)	(5 830)	6,6
– Other	(2 101)	(1 780)	18,0
Profit from operations before depreciation, amortisation and items listed below (EBITDA)	7 394	5 673	30,3
Depreciation and amortisation	(3 910)	(3 036)	28,8
Profit from operations before the items listed below	3 484	2 637	32,1
Impairment of assets and fair value adjustments	(382)	(620)	(38,4)
Dividend received and income from associates	–	23	(100)
Net finance costs	(1 186)	(1 799)	(34,1)
Profit before taxation	1 916	241	695,0
Total assets (excluding CWIP)	41 568	36 689	13,3
Profitability measures			
EBITDA margin* (%)	35,5	30,4	16,8
Operating margin** (%)	16,7	14,1	18,4
Return on average total assets (excluding WIP)*** (%)	8,9	7,9	12,7
Asset turnover (excluding CWIP)**** (times)	0,53	0,56	(5,4)
Capital investments^	9 726	8 593	13,2
Capitalised maintenance expenditure	3 941	3 984	(1,1)
Employees			
Number of permanent employees	22 571	24 177	(6,6)
Revenue per employee	0,92	0,77	19,5

* *Profit/loss from operations before depreciation and amortisation (EBITDA) expressed as a percentage of revenue.*

** *Profit/loss from operations before profit on sale of interest in businesses, impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligations, net finance costs and taxation expressed as a percentage of revenue.*

*** *Profit/loss from operations before profit on sale of interest in businesses, impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligations, net finance costs and taxation expressed as a percentage of total average assets less capital work in progress.*

**** *Revenue divided by total average assets less capital work in progress.*

^ *Actual capital expenditure (replacement + expansion + intangibles) excluding capitalised borrowing costs and including capitalised finance leases.*

Revenue

General freight external revenue accounts for 57,2% of Freight Rails revenue, the Export coal line accounted for 27,0%; the Export ore line for 10,6% and other revenue for 5,2%.

Revenue for the year was 11,5% higher when compared to the prior year.

The marginal increase in General freight revenue can be attributed to changes in overall commodity mix transported (more high revenue per unit commodities than low revenue per unit commodities). This was offset by a substantial decrease in tonnages for General freight attributable to the economic downturn which started in the last quarter of the prior year.

Coal export tariffs increased due to the calculation of the tariff that enables Freight Rail to achieve a fair return on its substantial, current and historic, capital investment.

The 27,4% increase in Export iron ore line revenue is mainly due to an increase in tonnages railed as a result of the implementation of the 342 wagon train.

There was also a 42,6% increase in other revenue as a result of haulage and access fees charged to PRASA as well as the Export coal tempo reconciliations, in respect of take-or-pay agreements.

Operating expenses

Operating expenses amounted to R13,4 billion which increased by only 3,2% compared to the prior year. Operating expense increases were contained to below inflation due to the following factors:

- R486 million decrease in fuel costs resulting from lower fuel prices due to a more favourable exchange rate and lower average oil price;
- R48 million decrease in maintenance and material costs attributable to cost saving initiatives;
- Favourable contracted price negotiations with major suppliers;
- Containment of contractor and consultancy expenditure;
- Overall improved cost awareness; and
- Delayed implementation of management and executive salary increases.

The impact of these initiatives was offset by higher inflationary increases for bargaining unit personnel and other operating costs as well as a significant increase in electricity tariffs.

Profitability

As a result of the above, Freight Rail recorded an EBITDA of R7,4 billion, an increase of 30,3% compared to the prior year as well as an improvement in the EBITDA margin to 35,5%. Freight Rail's Return on Total Average Assets increased to 8,9% compared to 7,9% in the prior year.

Profitability is expected to improve as the Quantum Leap initiatives are implemented over the medium term.

Infrastructure investments

The total capital investment for the 2010 financial year was R9,7 billion, excluding capitalised borrowing costs and including capitalised finance leases, comprising sustaining capital of R7,1 billion and expansion capital of R2,6 billion. The prevailing economic circumstances necessitated reprioritisation, re-scoping and deferral of various capital projects. The alignment of capital investment to business conditions also resulted in additional capital being made available to restore specific additional wagons to service and to meet future volume growth targets. The capital investment for the 2010 financial year per business segment is as follows:

Business segment	2010 R million
General freight	7 273
Export coal	1 072
Export iron ore	1 381
Capitalised borrowing costs	568
Total	**10 294**

Of the total capital expenditure, 73% was spent on sustaining revenue streams and 27% contributed to expansionary activities. The sustaining capital can be further sub-divided into capitalised maintenance. The capitalised maintenance of R3,9 billion accounted for 38% of the total capital spend.

	Infrastructure R million	Locomotives R million	Wagons R million	Borrowing costs R million	Total R million
Sustaining	2 072	2 921	2 092	481	7 566
Expansion	1 543	532	566	87	2 728
Total	**3 615**	**3 453**	**2 658**	**568**	**10 294**

Expansionary activities

Expansionary activities are primarily directed to the iron ore and coal export lines. The infrastructure expansion of the iron ore line to 47mt capacity is now completed and the next phase of the expansion to 60mt is currently underway. The 44 new Class 15E locomotives are currently being tested for commissioning during 2011 and 300 new wagons were delivered during the year.

The Coal export line infrastructure expansion was limited to yard improvements whilst the first six of 110 new Class 19E locomotives were commissioned and deployed to operations. A total of 592 new wagons were delivered and introduced into service.

Infrastructure expansion in the General freight business was limited to the Ngqura container terminal yard. A total of 302 new wagons were introduced into service to increase manganese export capability. The 50 'Like new' diesel locomotives were also commissioned during the year.

Sustaining activities

Infrastructure sustaining activities included the replacement of 471 kilometres of individual rail and 280 000 sleepers, which translates into approximately 190 kilometres of track together with associated ballast and rail turnouts.

A total of:

- 117 locomotives underwent an overhaul programme and a further 117 locomotives were subjected to an upgrade programme;
- 33 damaged diesel locomotives and 29 damaged electrical locomotives were restored to service; and
- 3 032 wagons underwent a heavy refurbishment programme of which approximately 60% were upgraded to a higher carrying capacity.

Risk, safety and compliance

A safety strategy approach resulted in positive improvements.

- The DIFR has been reduced from 1,30 in the 2009 financial year to 0,94 in the 2010 financial year. The decrease is due to greater safety awareness and a reduction in the severity of cases; and
- A 17% reduction in the number of incidents and 35% reduction in cost of losses.

Human capital

The employment equity target of 76% was achieved by giving preference to the recruitment of black, female and disabled job applicants. This was done by filling positions with suitably qualified candidates using the broad guideline of 70% black, 30% white and 15% – 20% female candidates. This guideline, however, was not applied to positions where there is a critical scarcity of skills and where specific expertise or professional competencies were required.

Strategic initiatives and key focus areas – Quantum Leap initiatives

The global economy recovered earlier and more rapidly than anticipated. The increasing demand for commodities translates into positive volume projections going forward. This requires Freight Rail to significantly ramp up capacity to meet demand and therefore significant capital investment and maintenance is required. However, more importantly, a Quantum Leap in operational efficiency is needed, as opposed to incremental improvements achieved in the past.

To achieve this turnaround in growth and operational business performance, the primary focus in the year ahead will be on the full spectrum of operations, including capacity planning; rolling stock resource management and deployment; review of operational structures; and the development of operational skills.

Freight Rail is committed to improving efficiency and service to meet customer requirements. The following initiatives will be implemented to achieve the strategic objectives:

Volume growth in targeted commodities

The following targeted volume growth initiatives are planned for the year ahead:

- Major flows and specific growth commodities will be managed to achieve targeted volume growth, incorporating plans for improved processes and operational efficiencies. These include:
  - Export coal and export iron ore;
  - Containers on rail;
  - Capacity creation for manganese;
  - Cement flows optimisation;
  - Magnetite optimisation;
  - Maputo corridor coal flow optimisation to TCM (Terminal de Carvao De Matola L.da)
  - Eskom Majuba coal optimisation;
  - Sentrarand Yard optimisation; and
  - Jet Fuel Optimisation.
- Freight Rail will contract with customers, together with Group Commercial, for specific growth commodities such as manganese, magnetite and domestic coal;
- Flow optimisation projects are being implemented to achieve volume growth.

Operational efficiency improvements

Activities that will result in the improvement of capacity and customer service delivery, as well as sustainable cost reductions include:

- Implementing a new operations plan which entails service design as well as resource allocation and prioritised execution per flow where feasible, with processes being followed to identify blockages to train-plan adherence and corrective action;
- Redeploying and managing locomotives, including the increased utilisation of diesel locomotives on specific routes to improve throughput times through preventing the need for traction changes caused by the different electrification profiles (3 000 volt DC and 25 000 AC) of the network;
- Redeploying and managing wagons and return legs;
- Amendments to train crew rostering methods that increase the practice of crew 'booking off" at the end of shifts, the aim being to utilise and deploy crew more efficiently and to ensure compliance with working condition agreements;
- Implementing the network and yard optimisation project;
- Refining and implementing the 'Less-than-train-load' operating plan, which includes the consolidation of smaller consignments and train loads at hubs for improved utilisation of assets and enhanced efficiency, an operational approach that may also be applied to the movement of freight on branch-lines, where consignments are often smaller train loads; and
- Enhancing current performance metrics and accountability models.

Maintenance of assets in line with the operating plan

Initiatives are in place to ensure optimal asset maintenance. Maintenance plans will adhere to production schedules for locomotives and wagons and incorporate sound principles of quality assurance and control in cooperation with Rail Engineering. Additionally, Freight Rail will apply an ethos of planned preventative infrastructure maintenance and the shutdown philosophy to key corridors. Initiatives will also be implemented to address security challenges such as cable theft. These include increased business intelligence; alternative security approaches; and close liaison with the South African Police Force (SAPF) and other Government departments.

Capital optimisation

Capital optimisation initiatives will include the following:

- The capital programme will be prioritised and optimised as part of the budgeting processes, thereby ensuring that investments are made in accordance with business needs and hurdle rates greater than the weighted average cost of capital; and
- Bi-annual financial and performance reviews will be performed for selected projects;
- Implementation of key projects for investment in wagons, locomotives and infrastructure according to the capital investment plan.

Cost-reduction

In addition to cost savings from improved operational efficiencies, the following cost-management initiatives will also be implemented:

- Stringent quarterly performance reviews;
- Ongoing regional cost/internal control steering committees;
- A continuation of the mainline network and yard optimisation project, which incorporates the Centracor and Pretoria complexes;
- Improved focus on the material reverse logistics process and use of second-hand infrastructure material;
- Ongoing reviews of the rubber wheel vehicle fleet;
- Identification of further opportunities within the areas of travel and accommodation;
- Detailed reviews of corporate overhead costs;
- Disposal of non-core and surplus assets; and
- Analysis of the key components of security costs.

Skills acquisition and development to meet business requirements

Freight Rail will implement initiatives to create the required skills base and to utilise available skills optimally. These initiatives will include:

- The cascading of reward models to the rest of the bargaining unit employees;
- The multi-functional utilisation of staff; and
- The extension of performance management for bargaining unit employees.

Reduce environmental risks

Freight Rail will introduce the following mitigating activities to reduce environmental risk:

- Projects will be implemented to eliminate pollution and spillage, such as the diesel traction fuelling project, which is aimed at refurbishing diesel refuelling depots and, and the hydrocarbon pollution and chemical spillages management projects;
- Environmental occupational guidelines will be implemented for lessees of Freight Rail property to manage their own activities;
- The asbestos rehabilitation management programme will be implemented to address contamination to infrastructure caused by the historical legacy of transporting asbestos, as well as addressing asbestos usage in building materials where necessary; and
- An environmental and climate change strategy will be developed to leverage the inherent environmental sensitivity of rail transport.

Reduction in safety incidents

A series of initiatives will be implemented as part of Freight Rail's long-term safety strategy. Initiatives will be focused on 14 identified 'hotspot' areas and will encompass the following:

- The appointment of level crossing traffic officers at selected hotspot level crossings;
- Reduction of excess overtime worked by train crews (fatigue reduction);
- Establishment of a Rail Inspectorate;
- Increased random drug testing;
- Decentralisation of train simulators for practical training within the different geographical areas of responsibility; and
- Regular inspections on private sidings and joint planning with customers to reduce incidents.

Exploring opportunities in Africa

Freight Rail will entrench existing joint operational planning and execution initiatives with over-border railways. This collaborative process will identify joint growth opportunities and harness economies of scale in over-border planning and execution.

Improve customer satisfaction

Freight Rail will link customer ratings of daily service delivery requirements on identified flows to employee performance throughout the service chain to encompass even the lowest operating level. In addition, important customer service areas will be identified and initiatives will be introduced to address key areas of performance, such as reducing the average delay in departures and arrivals through improved planning and timeous resource allocations.

Key risks and mitigating actions

The key risks associated with the achievement of strategic objectives as well as related mitigating actions are outlined below:

Key risks	Mitigating actions
Inability to move planned volumes as a result of operational failures leading to a reduction in operating effectiveness and revenue.	For the current year, a number of initiatives were embarked upon to address this risk. These included operational efficiency improvement initiatives targeting the optimisation of asset performance, resource allocation, service design and planning as well as initiatives targeting the minimisation of the impact of unplanned incidents, including safety incidents. Going forward, emphasis will be placed on ensuring effective resource distribution and management, network optimisation as well as the sound execution of resumption and recovery plans.
Lack of competent, willing and empowered workforce leading to poor organisational performance.	In addressing the value of the Transnet Culture Charter on creating an empowered workforce, increased focus has been placed on uplifting the skills of supervisors and operational employees. Special attention is being given to performance management and optimal utilisation of available skills. This includes devising talent management initiatives to enhance employees' skills levels to ultimately improve on Freight Rail's overall performance. Labour productivity will also be addressed by cascading the reward model to the rest of the bargaining unit and implementing 'outcome based modular learning' for artisans..
Non-compliance with safety and standard operating procedures (unsafe operations) leading to business interruptions and poor customer service.	Various safety initiatives embarked upon during the year yielded a reduction in the cost of retained losses as well as a reduction in the number of safety incidents. Most safety initiatives are long-term in nature and will be dealt with as part of a long-term safety improvement strategy.
Lack of appropriate contract lifecycle management resulting in over expenditure on contracts and increasing operational costs.	Project Lifecycle processes are applied to all capital projects and an Interim Contract Lifecycle Management (ICLM) process has been implemented to improve governance around contract processes. Future initiatives around this include strengthening risk management processes of contracts.
The negative impact of railway operations on the environment leading to environmental degradation, as well as the impact of the environment on railway operations.	Freight Rail has initiated a climate change study to develop strategies for managing its carbon footprint to address the impacts of climate change on operations as well as the operational impact on the environment. In addition, the business has embarked on a national asbestos and hydrocarbon clean-up programme to promote greater environmental responsibility.
The pressure in the industrial relations landscape resulting in strike actions as employee unions seek improved conditions for employees above levels of inflation.	Ensure employee productivity is improved to offset above inflationary increases. Develop contingency plans to ensure business interruption is minimised and seek innovative ways of employee reward linked to output.

Capital investment plan

	2010 Actual R million	Five-year planned spending* R million
Top 10 projects		
Capitalisation of wagon maintenance and refurbishments	1 681	9 740
Capitalisation of locomotive maintenance and refurbishments	1 998	8 195
Capitalisation of Infrastructure maintenance	1 269	7 653
Ore line: Capacity Expansion 47mt to 60mt	452	2 610
100 "Quick" delivery Diesels	232	2 142
Coal line: New 110 dual voltage locomotives	481	2 036
Ore line: Capacity Expansion (29mt to 41mt) 44 New 15E Locomotives	520	1 738
Ore line: Capacity Expansion 41mt to 47mt	375	526
Ngqura: Container Development: Infrastructure	268	331
Purchase of 50 upgraded EMD diesel electric locos	287	-
Other projects	2 163	17 211
Total excluding capitalised borrowing costs	9 726	52 182
Capitalised borrowing costs	568	668
Total including capitalised borrowing costs	10 294	52 850

**From 2011 to 2015.*

Planned capital projects are positioned to address volume demand and to improve operational efficiencies and service delivery.

Freight Rail has continued to make significant capital investments in infrastructure and rolling stock to sustain the business, following more than two decades of under-investment. This programme of intense capital investment will continue over the next five-years, and has been re-prioritised in accordance with current business needs, economic prospects and volume growth expectations for key corridors. This will help to contain capital expenditure and to ensure long-term sustainability of the country's railway network.

Significant expansion programmes are in place for the export coal and export iron ore lines as well as for General freight. The refurbishment of containers and general purpose wagons will improve resource availability required for the projected growth in bulk commodities and containerised traffic. It is imperative that capital programmes are accompanied by significant improvements in operational execution to ensure appropriate returns, efficiencies and greater asset utilisation.

Investment in rolling stock is guided by the recently approved strategies pertaining to the locomotive and wagon fleets. Provision has been made in the Capital Plan for maintaining identified branch-lines as part of the holding strategy in preparation for this business to be migrated to Government and for branch-lines and clusters to be concessioned.

Capital projects have been identified for reprioritisation and rescheduling of cash flows in accordance with Group affordability and funding capability, resulting in a five-year capital investment plan of R52,2 billion (excluding borrowing costs). Ongoing programme prioritisation of capital and investigation of private sector partnerships will be undertaken in view of the significant financial impact the investments will exert on Freight Rail.

Prospects: Quantum Leap impact

The 2011 financial year is expected to result in an improvement in Freight Rail's performance and specifically customer service. This will be achieved by growing of export coal volumes as well as key General freight commodities. Performance will be further improved through improved safety performance.

The development of a revised business model and operations plan will pave the way for strategic choices to be made that could impact the way the railway is operated and managed. This will not only impact the 'less-than-train-load' business and branch-lines, but will also facilitate changes in processes, operational controls and discipline. Accountability will be realised through revised management structures and an increasing level of partnership with the private sector.

The objective of the new operations plan is to improve both customer service delivery and asset utilisation through a Quantum Leap in efficiency improvements. The operations plan encompasses the full spectrum of operations, including the operations philosophy, capacity planning, rolling stock resource management and deployment, review of operational structures and the development of operations and technical skills. This will ultimately result in the provision of a reliable and competitive railway service capable of building customer confidence and growing Freight Rail's market share.

Going forward, Freight Rail will also give more attention to revitalising the strategic plan, strategic direction and the business model to better position the business amidst its strategic challenges.

Sustainability performance

SHEQ scorecard

Cost of loss	DIFR (GRI LA7)	439 (GRI LA7)	SHEQ performance audit
R363,7 million against a target of R370,6 million	0,94 against a target of 1,08	disabling injury incidents	71% against a target of 88%
↓ 35% versus 2009	↓ 28% versus 2009	↑ 2% versus 2009	
2011 target R300,5 million	2011 target 0,94%		2011 target 76%

5 employee fatalities (GRI LA7)	170 public fatalities
↓ 38% versus 2009	↓ 11% versus 2009

Security scorecard

3 388 security incidents	Total value of direct loss R50,3 million
↑ 23% versus 2009	↑ 130% versus 2009

Environmental scorecard

Fuel consumption	Electricity consumption (GRI EN3)	Water consumption (GRI EN8)
195,1 mℓ	2 358 169 MWh	1 770 mℓ
↑ 13% versus 2009	↓ 17% versus 2009	Incremental baseline

BBBEE scorecard

BEE procurement R3,7 billion accounting for 71% of total procurement spend against a target of 65%

BO* procurement	EME* procurement	QSE* procurement	BWO* procurement
R1,2 billion accounting for 22% of total procurement spend against a target of 9%	R0,5 billion accounting for 10% of total procurement spend against a target of 5%	R0,8 billion accounting for 15% of total procurement spend against a target of 5%	R0,3 billion accounting for 6% of total procurement spend against a target of 6%
2011 target 12%	2011 target 5%	2011 target 5%	2011 target 6%

**BO Procurement from black owned enterprises (50% black shareholders)*
**EME Procurement from exempted micro enterprises (turnover up to of R5 million)*
**QSE Procurement from qualifying small enterprises (turnover of R5 million to R35 million)*
**BWO Procurement from black women owned enterprises*

Employee equity scorecard

Total employees	Black management as a % of all management	Female management as a % of all management	Employees with physical disabilities as a % of total employees
GRI 2.8 22 571	60%	24%	1%
↓ 7% versus 2009	↑ 3% versus 2009	↑ 6% versus 2009	↓ 0,1% versus 2009

Skills development scorecard

Training spend	Training as a % of total personnel costs		
R98 million	2%		
↓ 29% versus 2009	↓ 0,8% versus 2009	2011 target 2,7%	Industry average 2,8%

Employee relations scorecard

GRI LA7	GRI LA7	
0 man-days lost due to industrial action*	91% junior unionised employees (including fixed term contractors)	Disciplinary action 13% of workforce
→ As previous year	85% versus 2009 (excluding fixed term contractors)	↑ 4% versus 2009

All the man-days lost is due to unprotected strike action.

Absenteeism management scorecard

	GRI LA7
R53,4 million direct absenteeism cost*	Absenteeism rate (percentage days) 1,7%
↑ 23% versus 2009	↑ 0,1% versus 2009

Attributed to the increase in the number of days lost due to absenteeism and a parallel increase in salaries.

Lifestyle and HIV/Aids management scorecard

				GRI LA7
R0,1 million spend on disease management		26 employees enrolled in the lifestyle management programme	569 employees registered on the Transmed HIV/Aids Programme	A total of 595 employees enrolled in the lifestyle programmes
↑ 5% versus 2009	2011 target R0,16 million	↓ 4% versus 2009	↓ 6% versus 2009	↑ 6% versus 2009

Transnet Rail Engineering

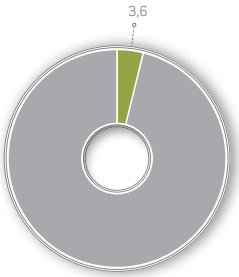
Transnet Rail Engineering (Rail Engineering) consists of eight product focused businesses which provide services ranging from running maintenance to refurbishment, conversion upgrade and manufacture of rolling stock. Whilst this division is largely focused on supporting Freight Rail, it also supplies domestic and export markets.

Performance at a glance

External revenue (%)

R1 280 million
3,6% of Group external revenue

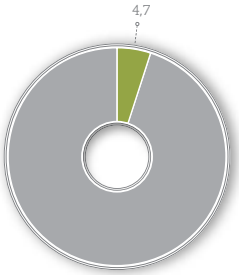
Internal revenue of **R6 935** is up 1,6% on prior year



EBITDA** (%)

R670 million
4,6% of Group EBITDA

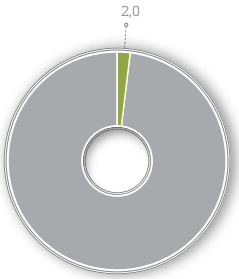
** *Excludes intercompany transactions*



Capital investments* (%)

R376 million
2,0% of Group capital investments

* *Excludes capitalised borrowing costs.*

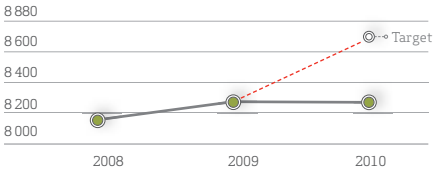


Number of employees:

12 677 permanent
363 contractual

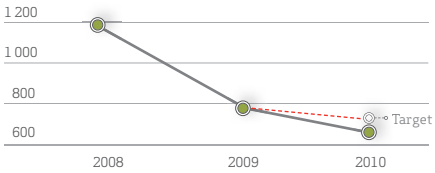
Financial highlights

Total revenue (R million)



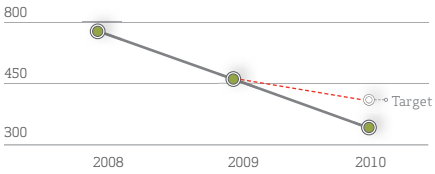
2010 vs 2009	2010 vs target
↓ 0,2%	↓ 5,6%

EBITDA (R million)



2010 vs 2009	2010 vs target
↓ 12,3%	↓ 7,7%

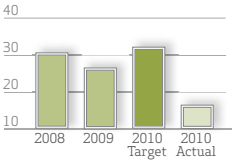
Capital investments (R million)



2010 vs 2009	2010 vs target
↓ 33,8%	↓ 22,8%

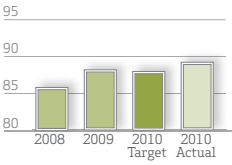
Operating efficiency

GFB locomotive reliability*



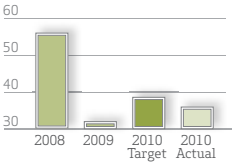
2010 vs 2009	2010 vs target
↑ 39,2%	↑ 50,0%

GFB locomotive availability (%)



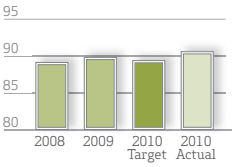
2010 vs 2009	2010 vs target
↑ 1,1%	↑ 1,5%

Coal locomotive reliability*



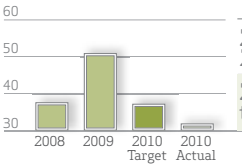
2010 vs 2009	2010 vs target
↓ 12,1%	↑ 7,5%

Coal locomotive availability (%) (million)*



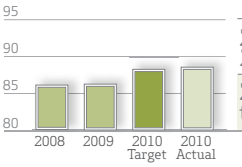
2010 vs 2009	2010 vs target
↑ 0,9%	↑ 1,3%

Iron ore locomotive reliability*



2010 vs 2009	2010 vs target
↑ 38,2%	↑ 15,7%

Iron ore locomotive availability (%)



2010 vs 2009	2010 vs target
↑ 2,7%	↑ 0,2%

** Faults per million km*

2010 Performance

Financial

- Total revenue at R8,2 billion.
- External revenue decreased due to reduced demand for passenger coaches.
- Internal revenue to Freight Rail increased by 1,6%.

Operational

- Weighted average availability and reliability of locomotive fleet improved by 0,8% and 14,4% respectively.
- Inventory holding reduced by R700 million.
- Awards received for 2009 "best service provider" and "best skills development" organisation at Africa Rail 2009 exhibition.
- Manufacture of 50 new diesel locomotives completed.
- Lean Six Sigma programme implemented to improve efficiency and profitability.

Human resources

- School of Engineering campuses accredited as Trade Tests centres.
- 15 employees in training as "black belt" lean manufacturing and change management specialists.
- Gain share scheme revised to meet business requirements.

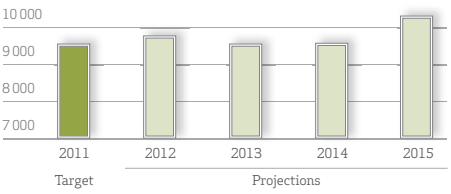
Safety

- Disabling Injury Frequency Rate (DIFR) decreased from 1,15 to 0,81.
- Obtained re-issue of rail operations permit from Rail Safety Regulator.
- Effected business continuity management simulation exercise at all plants.

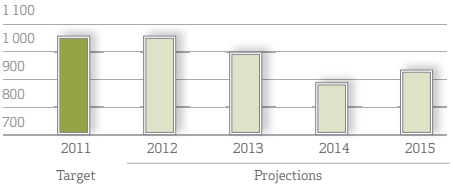
Looking ahead

Highlights

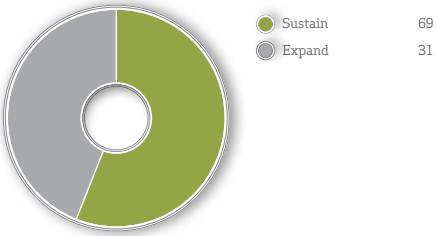
Revenue (R million)



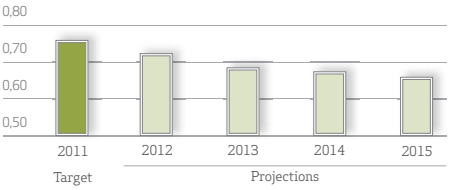
EBITDA (R million)



Five-year capital investments (%)

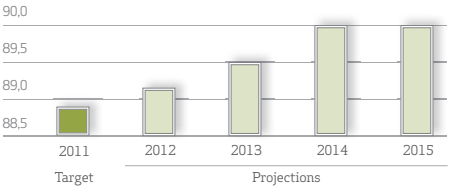


DIFR (Disabling injury frequency rate)

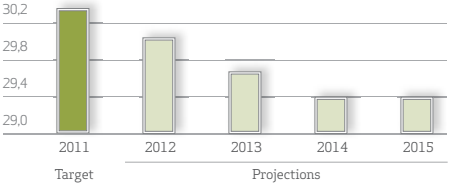


Operating efficiency

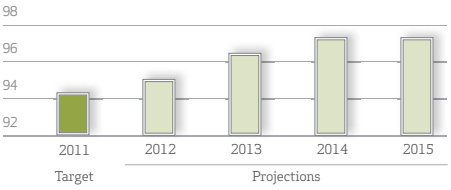
Weighted loco availability – total fleet (active %)



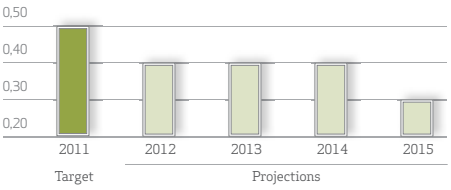
Weighted loco reliability – total fleet (faults per million km)



Weighted wagon availability – total fleet (active %)



Weighted wagon reliability – total fleet (faults per million km)



Strategy

Focusing on increasing availability and reliability of Freight Rail's rolling stock.

- Improving rolling stock through:
  - Application of world-class maintenance practices;
  - Technology upgrades;
  - Application of standard operating procedures;
  - Development of new rolling stock products and services;
  - Building a lean workforce with a strong focus on leadership capabilities; and
  - Training, development and retention of staff.
- Growing external volumes in the SADC market;
- Expanding capacity for building 100 new diesel locomotives;
- Expanding use of Lean Six Sigma to substantially improve the efficiency of operations; and
- Increasing market share with the Competitive Supplier Development Programme (CSDP).

Key risks

- Reduction in availability and reliability of rolling stock as a result of delays to call in schedules, backlogs, inadequate maintenance and shortages of critical components;
- Increased costs and high networking capital;
- Reduction in volumes resulting from decreased capital investments by key clients in the coach market;
- Inadequate compliance with safety and environmental standards and procedures; and
- Critical skills shortage and retention.

The presence of these risks could impact negatively on the achievement of the key strategic objectives of the Operating division. However, focus areas and initiatives of the Quantum Leap Strategy will assist in mitigating these risks.

2011 Quantum Leap initiatives

- Volume growth support for Freight Rail in coal, iron ore and General freight through increased rolling stock availability and reliability as well as increasing marketing and sales initiatives to grow external revenues;
- Financial value creation through operating cost and net working capital reduction;
- Operational efficiency where targeted savings will be secured through the Lean Six Sigma programme;
- Safety Health Environment and Quality (SHEQ) initiatives aimed at improved safety, environmental compliance and customer satisfaction through higher product and service quality; and
- Skills development to meet business requirements with the emphasis on leadership training, talent management, student bursary scheme, graduate technician and graduate engineering programmes.

Overview of business operations

Rail Engineering is the major player in the South African locomotive, wagon and coach maintenance, refurbishment, repair, conversion, upgrade and new build markets and the main supplier to Freight Rail. This position has been achieved through the leveraging of core competencies and strategically positioned factories and maintenance facilities alongside the key transport corridors.

Over the past four decades, the Southern African locomotive fleet has largely been built by domestic firms in conjunction with overseas original equipment manufacturers (OEMs) but fluctuations in demand have caused consolidation in the industry. Rail Engineering however remains as the main builder of diesel locomotives while one other supplier retains most of the build market for electric locomotives. Over the past two decades, Rail Engineering has also retained the largest share of the mainline wagon manufacturing market.

The year has seen a falling in passenger coach demand which has led to internal consolidation of resources but simultaneous increasing demand for wagons from Freight Rail has helped to mitigate this impact.

Due to its competitive advantage, extensive network of strategically positioned facilities, high capacity for production and maintenance as well is its successful track record, the Division is confident that it will remain the major regional provider of rolling stock services.

Rail Engineering's maintenance, upgrade, engineering and support services for rolling stock focus on:

- Locomotives: electric (AC and DC) and diesel;
- Wagons: various commodities, such as coal, iron ore, fuel and general freight;
- Coaches: mainline, luxury and suburban passenger coaches; and
- Associated components: containers, wheel sets, traction motors, vehicle parts, engines and tarpaulins.

These products and services are provided to:

- Freight Rail fleets: wagons and locomotives;
- PRASA fleets: suburban, mainline and luxury passenger coaches;
- Intermodal and harbour/terminal equipment; and
- Other regional and export railway markets.

Rail Engineering operates from:

- Six plants situated at Salt River, Uitenhage, Bloemfontein, Durban, Germiston and Koedoespoort; and
- 132 maintenance sites nationally.

Regulatory environment

The legislative environment impacting on Rail Engineering's operations encompasses amongst others, the following Acts:

- Occupational Health and Safety Act.
- National Environmental Management Act.
- National Railway Safety Regulator Act.
- Basic Conditions of Employment Act.

Key performance indicators

		2009 Actual	2010 Target	2010 Actual	2011 Target
Operational efficiency					
GFB (active fleet)					
Locomotive availability	%	88,3	88,0	**89,3**	88,5
Locomotive reliability	Faults per million km	26	32	**16**	29
Wagon availability	%	89,9	93,0	**93,7**	94,0
Wagon reliability	Faults per million km	0,85	1,00	**0,88**	0,80
Coal line (active fleet)					
Locomotive availability	%	89,6	89,2	**90,4**	90,0
Locomotive reliability	Faults per million km	32,20	39,0	**36,11**	31,00
Wagon availability	%	95,4	97,0	**97,0**	97,0
Wagon reliability	Faults per million km	0,12	0,20	**0,14**	0,20
Iron ore line (active fleet)					
Locomotive availability	%	86,1	88,2	**88,4**	88,5
Locomotive reliability	Faults per million km	50,50	37,00	**31,22**	35,00
Wagon availability	%	95,4	96,0	**97,8**	97,0
Wagon reliability	Faults per million km	0,04	0,2	**0,02**	0,15
Total fleet – weighted average (active fleet)					
Locomotive availability	%	88,4	88,2	**89,1**	88,8
Locomotive reliability	Faults per million km	30,36	30,67	**26,0**	30,30
Wagon availability	%	90,7	93,5	**94,0**	94,6
Wagon reliability	Faults per million km	0,47	0,52	**0,47**	0,50
Financial					
EBITDA margin	%	9,3	8,3	**8,2**	11,3
Return on average total assets (excluding CWIP)	%	12,0	9,9	**8,5**	13,1
Infrastructure					
Capital investments (a)	R millions	568	487	**376**	550
Risk safety and compliance					
DIFR	rate	1,15	1,00	**0,81**	0,76
Human capital					
Training spend/personnel costs	%	3,3	3,0	**4,2**	3,0
Employment equity	%	72	78	**74**	78

(a) Excluding capitalisation of borrowing costs.

Operational efficiency

Rolling stock performance

The availability and reliability of both the locomotive and wagon fleets improved in line with the strategy to perform better than the world benchmarks.

General freight business

The availability and reliability of the locomotive fleet was better than target although certain challenges had to be overcome on the Natcor due to:

- The high failure rate of main processor units and driver display units caused by overheating in the tunnels.
- Increased pantograph hook-ups.

The failure rate of these items is high on the Natcor due to the topography of the line as well as the relative high work rate of the locomotives on the line. Modifications to resolve this will be implemented by October 2010.

Reliability and availability of the general freight wagon fleet improved, whilst the emphasis has been placed on increasing the critical flow wagon types for the next financial year.

Coal line

The Coal line locomotive reliability was negatively impacted by obsolescence of a certain gear lubricant during the latter part of 2009. This was compounded by problems with vibration and excessive gear wear. A special programme was launched to address the problem and the investigation into a suitable alternative lubricant is continuing and is expected to be resolved by December 2010. The new class 19E locomotives, currently being built, will also reduce the pressure on the existing coal line locomotives.

Coal line wagon reliability and availability targets were achieved in spite of a large part of the fleet comprising old technology wagons. The build of 800 new CCR wagons have been approved for the coal line which will replace a significant number of old technology wagons.

Ore line

The diesel locomotive fleet is susceptible to failure due to its age and exceptionally high work rate. In spite of this the performance targets were met. The inflow of the new class 15E locomotives will further improve the overall composition of the fleet.

The exceptional performance of the Ore line wagon fleet was sustained, both in terms of availability and reliability. The fleet reliability is currently better than the world benchmark for heavy haul operations.

Financial performance

	Year ended 31 March 2010 R million	Year ended 31 March 2009 R million	% change
Salient features			
Revenue	8 215	8 228	(0,2)
– Internal	6 935	6 823	1,6
– External	1 280	1 405)	(8,9)
Operating expenses	(7 545)	(7 464)	1,1
– Energy costs	(117)	(108)	8,3
– Maintenance	(149)	(181)	(17,7)
– Material costs	(3 311)	(3 276)	1,1
– Personnel costs	(3 507)	(3 370)	4,1
– Other	(461)	(529)	(12,9)
Profit from operations before depreciation, amortisation and items listed below (EBITDA)	670	764	(12,3)
Depreciation and amortisation	(173)	(128)	35,2
Profit from operations before the items listed below	497	636	(21,9)
Impairments and fair value adjustments	(119)	(24)	395,8
Net finance costs	(257)	(308)	(16,6)
Profit before taxation	121	304	(60,2)
Total assets (excluding CWIP)	6 018	5 737	4,9
Profitability measures			
EBITDA margin* (%)	8,2	9,3	(11,8)
Operating margin** (%)	6,0	7,7	(22,1)
Return on average total assets (excluding WIP)*** (%)	8,5	12,0	(29,2)
Asset turnover (excluding CWIP)**** (times)	1,40	1,56	(10,3)
Capital investments^	376	568	(33,8)
Employees			
Number of employees	12 677	13 622	(6,9)
Revenue per employee	0,65	0,60	8,3

* *Profit/loss from operations before depreciation and amortisation (EBITDA) expressed as a percentage of revenue.*
** *Profit/loss from operations before profit on sale of interest in businesses, impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligations, net finance costs and taxation expressed as a percentage of revenue.*
*** *Profit/loss from operations before profit on sale of interest in businesses, impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligations, net finance costs and taxation expressed as a percentage of total average assets less capital work in progress.*
**** *Revenue divided by average total assets less capital work in progress.*
^ *Actual capital expenditure (replacement + expansion + intangibles) excluding capitalised borrowing costs for the period.*

Revenue

Total revenue for the year amounts to R8,2 billion. External revenue decreased by 8,9% when compared to the prior year mainly as a result of a decrease in demand from its main external customer, PRASA. Internal revenue increased by 1,6% to R6,9 billion in line with Freight Rail's latest fleet requirements.

Operating expenses

Operating expense increased by only 1,1% compared to the prior year. This increase in operating expense is a consequence of an increase in personnel costs of 4,1%, energy costs of 8,3% and material costs of 1,1%, offset by focused cost reduction initiatives during the year.

Profitability

Rail Engineering's EBITDA decreased by 12,3% and operating profit decreased by 21,9% when compared to the prior year. This is primarily attributable to the reduced revenues as well as higher depreciation due to the increased capital investment over the past years. Consequently, operating margin decreased from 7,7% to 6,0%.

Infrastructure investments

Capital spending for the year amounted to R376 million compared to R568 million in the prior year (excluding capitalised borrowing costs).

The investment was made to achieve the following objectives:

- Increase capacity of the Wagon Business due to anticipated higher demand;
- Improve reliability and availability of rolling stock fleet; and
- Enhancing assets technologically to make Rail Engineering world class.

Risk, safety and compliance

A safety strategy approach resulted in positive improvements.

- The safety strategy resulted in positive improvements as evidenced in the reduction in DIFR from 1,15 to 0,81 over the past year.
- The decrease is due to a concentrated effort to embed greater safety awareness and training in all areas of the business.

Human capital

Rail Engineering achieved the following during the current financial year:

- The School of Engineering campuses were accredited as Trade Test centres;
- Rail Engineering identified and began training 15 employees as potential 'black belt' candidates in lean manufacturing and disruptive change management. They have already started implementing lean projects that will lead to operational savings;
- Artisans with relevant skills were trained and certified to maintain the new 15E ore line and 19E coal line electric locomotives; and
- The gain share scheme for bargaining unit employees was successfully revised to meet business requirements.

Strategic initiatives and key focus areas – Quantum Leap initiatives

Rail Engineering has introduced a robust set of initiatives to support the Quantum Leap initiatives. These include:

- Increasing availability and reliability of rolling stock, specifically for export coal, export iron ore and the General freight business through:
  - Applying standard operating procedures;
  - Developing new rolling stock products and services;
  - Building a lean workforce with a strong focus on leadership capabilities; staff training, development and retaining skills;
  - Capital investment in plant and machinery to maintain depot and factory capacity and introduce new and more effective technologies.
- Planned technology upgrades to Freight Rail's locomotive and wagon fleets to improve capacity and efficiency;
- Growing volumes through the marketing of its capabilities in the SADC region;
- Adopting Lean Six Sigma to substantially improve the efficiency of operations;
- Developing a competitive supplier base with localisation and revenue potential through the CSDP initiative;
- Introducing cost-reduction initiatives; and
- Effectively managing working capital.

In the rolling stock industry, with its bespoke engineering for locomotives, wagons and passenger coaches, Rail Engineering has established the capacity and capability to design, construct and deliver the products and services needed for modern railway operations, either directly or in conjunction with technology partners such as OEMs.

Customer focus is at the heart of many of the strategies and has lead to the introduction of mobile units that extend the service to any location in the vast network of Southern African track. This, combined with new unit production; refurbishing; recovery and wreck repair; conversions; and maintenance planning raises the 'total service solution' to a new level.

Compliance within the regulatory framework of its operations, coupled with numerous sustainability initiatives, is paving the way towards achieving the ever higher targets which are being set.

Key risks and mitigating actions

The key risks associated with the achievement of strategic objectives as well as related mitigating actions are outlined below:

Key risks	Mitigating actions
Reduction in availability and reliability of rolling stock: Failure to fully sustain availability of rolling stock as a result of delays from customers to call-in schedules, backlogs, inadequate maintenance and shortages of critical components.	• Instituting closer coordination with Freight Rail to ensure that the call-in schedules are adhered to. • Improving on the quality management system with traceability and non-conformance reporting. • Introducing outcomes based modular learning (OBML) to enhance maintenance skills. • Facilitating rolling stock upgrades and modification projects to improve performance of the rolling stock.
Increased input costs and high networking capital: Increased costs and high net working capital resulting from high material costs and adverse exchange rates. High networking capital as a result of non-payment by main external customers.	• Ensuring that all forex-related contracts are covered. • Identifying and analysing operational costs where savings can be achieved or controlled. • Investigating possible controls to curtail cost increases. • Introducing a moratorium on filling positions externally. • Implementing continuous improvement strategies with suppliers • Initiating ways to improve demand management with key customers and suppliers. • Reducing debtors days by managing credit risk and actively following up long outstanding debt. • Reducing inventory by focusing on material requirements planning.
Loss of volumes: Reduction in volumes resulting from decreased capital investments by the main coach clients.	• Introducing a bilateral Executive Committee between Rail Engineering and PRASA. • Leasing of rolling stock to African markets so as to create new markets for products. • Marketing of capability to SADC region to expand regional market potential. • Introducing monthly review meetings with the main customer to minimise volume depletion. • Tendering of work to other railways to increase the potential of new business.
Inadequate compliance with safety, and environmental standards, procedures and legislation: Not complying fully with safety standards and procedures due to a lack of awareness/training and/or negligence which may lead to incidents/accidents, loss of life and/or loss of operating licence.	• Introducing SHE Committee meetings awareness days and competitions. • Performing regular internal and annual external audits as well as ad hoc management audits during site visits. • Ensuring monthly reporting of incidents to all governance structures. Facilitating Occupational Safety and Health Act (OSHACT) training. • In the short-term, acquiring the services of environmental consultants to deal with current challenges and in the long-term reinforcing skills by employing environmental management expertise.
Critical skills shortage and retention: Scarcity of skills resulting from high skills turnover leading to poor business performance and low staff morale.	• Identifying and developing internal potential skills for semi-skilled workers. • Implementing needs analysis/skills audit process aligned to operations. • Recruiting and developing skills locally ie remote areas.

Capital investment plan

Rail Engineering is committed to the modernising and expansion of its asset base in unison with the needs of its customers and the demand of higher technology.

	2010 Actual R million	Five-year planned spending* R million
Diesel Centre of Excellence Equipment	20	-
A Prep Newcastle	16	2
A Prep Wentworth	15	-
Lifting Shop Polokwane	9	12
A Prep City Deep	4	24
Coal Line 81mt expansion	-	180
DBN RM consolidation	-	50
160T safe working load Richards Bay	-	45
160T safe working load Wentworth	-	45
Maintenance facility for Phalaborwa	-	20
Other investments related to:	312	2 016
– Additional volumes	57	369
– Operating efficiencies and revenue protection	153	985
– Safety	69	342
– Business Enterprise Offerings	11	176
– Human Resources	22	144
Total excluding capitalised borrowing costs	376	2 394
Capitalised borrowing costs	16	125
Total including capitalised borrowing costs	392	2 519

** From 2011 to 2015.*

Prospects: Quantum Leap impact

Internally, Rail Engineering's most important business imperative is in contributing to the success of Transnet's strategy by supporting Freight Rail's volume growth, especially on targeted commodity flows by further increasing availability and reliability of the locomotive and wagon fleets. This will be achieved by numerous initiatives relating to efficiency, capacity, capability and technology upgrades.

Externally, sales to various railway markets are being developed for diesel locomotives, specific commodity freight wagons and rolling stock equipment such as wheel sets, traction motors, engines, parts and components.

Accordingly, Rail Engineering's business projections for the period to 2012 indicate an increase in activities and revenues and an accompanying increase in profitability, particularly in 2011 and 2012.

This increase in revenue is largely attributable to an increase in the internal demand for products and services offered by the Wagon and Locomotive Businesses in support of commodity flows for Freight Rail. For Rail Engineering's Coach Business, it is anticipated that there will be a decrease in revenue. Management is considering different options for this business which include inter alia, to increase revenues through diversification into new markets or to restructure to align resources with market demand.

The strategic initiatives for product development, efficiency improvements and cost-reduction are expected to successfully support Rail Engineering's business operations and market presence.

Through its comprehensive set of rolling stock products and services, Rail Engineering aims to remain the supplier of choice for successful railway operations.


LEAN
SIXSIGMA
Continuous improvement in traction

Sustainability performance

SHEQ scorecard

Cost of loss	DIFR (GRI LA7)	121 disabling injury incidents (GRI LA7)	SHEQ performance audit
R6,0 million against a target of R8,1 million	0,81 against a target of 1,00		83,66% against a target of 85,3%
↓ 51% versus 2009	↓ 30% versus 2009	↓ 32% versus 2009	→ As previous year
2011 target R5 million	2011 target 0,76		2011 target 85%

2 employee fatalities (GRI LA7)	0 public fatalities (GRI LA7)
↑ 100% versus 2009	→ As previous year

Security scorecard

181 security incidents	Total rand value loss of R4,1 million
↑ 262% versus 2009	↓ 70% versus 2009

Environmental scorecard

Fuel consumption	Electricity consumption (GRI EN3)	Water consumption (GRI EN8)
0,4 mℓ	54 320 MWh	2 156 mℓ
↑ 103% versus 2009	↓ 23% versus 2009	Incremental baseline

BBBEE scorecard

BEE procurement R2,5 billion accounting for 73% of total procurement spend against a target of 65%

BO* procurement	EME* procurement	QSE* procurement	BWO* procurement
R0,7 billion accounting for 20% of total procurement spend against a target of 9%	R0,6 billion accounting for 18% of total procurement spend against a target of 5%	R0,8 billion accounting for 25% of total procurement spend against a target of 5%	R0,2 billion accounting for 7% of total procurement spend against a target of 6%
2011 target 12%	2011 target 5%	2011 target 5%	2011 target 6%

**BO Procurement from black owned enterprises (50% black shareholders)*
**EME Procurement from exempted micro enterprises (turnover up to R5 million)*
**QSE Procurement from qualifying small enterprises (turnover of R5 million to R35 million)*
**BWO Procurement from black women owned enterprises*

Employee equity scorecard

GRI 2.8 Total employees	Black management as a % of all management	Female management as a % of all management	Employees with physical disabilities as a % of total employees
12 677	60%	22%	1%
↑ 7% versus 2009	↑ 3% versus 2009	↑ 0,2% versus 2009	→ As previous year

Skills development scorecard

Training spend	Training as a % of total personnel costs		
R138 million	4%		
↑ 26% versus 2009	↑ 0,9% versus 2009	2011 target 3,0%	Industry average 2,8%

Employee relations scorecard

GRI LA7	GRI LA7	
666 man-days lost due to industrial action*	91% junior unionised employees (including fixed term contractors)	Disciplinary action 7% of workforce
↑ 38% versus 2009	88% versus 2009 (excluding fixed term contractors)	↑ 3% versus 2009

All man-days lost was due to unprotected strike action.

Absenteeism management scorecard

	GRI LA7
R43,2 million direct absenteeism cost*	Absenteeism rate (percentage days) 2,1%
↑ 1% versus 2009	↓ 0,2% versus 2009

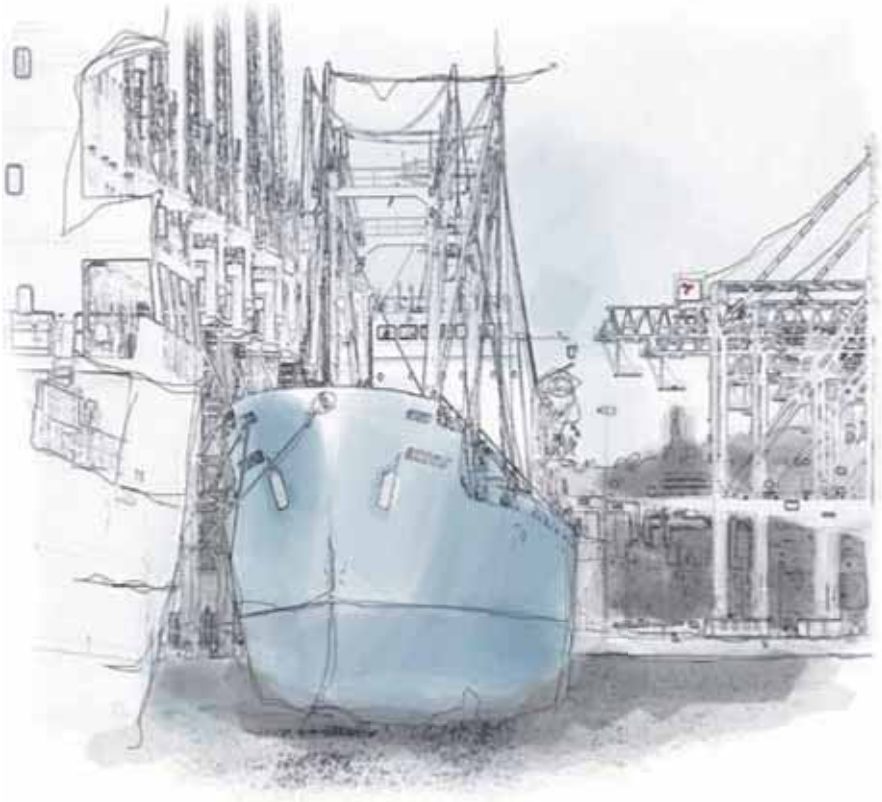
Attributed to the increase in the number of days lost due to absenteeism and a parallel increase in salaries.

Lifestyle and HIV/Aids management scorecard

				GRI LA7
R0,2 million spend on disease management		33 employees enrolled in the lifestyle management programme	376 employees registered on the Transmed HIV/Aids Programme	A total of 409 employees enrolled in lifestyle programmes
↑ 5% versus 2009	2011 target R0,18 million	↓ 6% versus 2009	↑ 11% versus 2009	↑ 9% versus 2009

Transnet National Ports Authority

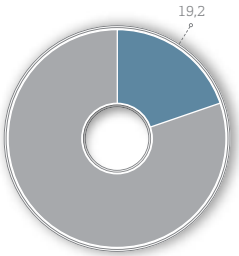
Transnet National Ports Authority (National Ports Authority) is responsible for the safe, efficient and effective economic functioning of the national ports system, which it manages in a landlord capacity. The National Ports Authority is also a provider of port infrastructure and marine services at all commercial ports in South Africa.



Performance at a glance

External revenue (%)

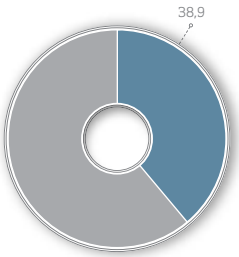
R6 839 million
19,2% of Group external revenue



EBITDA** (%)

R5 573 million
38,9% of Group EBITDA

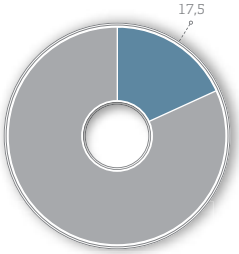
** *Excludes intercompany transactions*



Capital investments* (%)

R3 231 million
17,5% of Group capital investments

* *Excludes capitalised borrowing costs.*

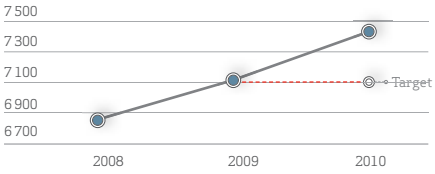


Number of employees

3 139 permanent
273 contractual

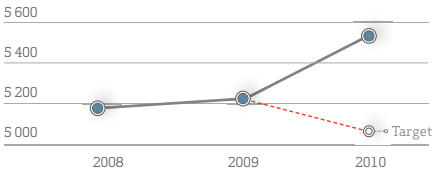
Financial highlights

Total revenue (R million)



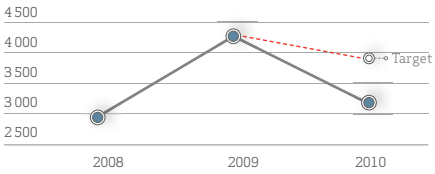
2010 vs 2009	2010 vs target
↑ 4,9%	↑ 5,0%

EBITDA (R million)



2010 vs 2009	2010 vs target
↑ 6,1%	↑ 10,3%

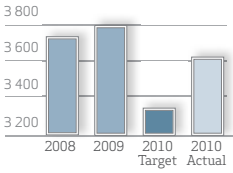
Capital investments (R million)



2010 vs 2009	2010 vs target
↓ 23,7%	↓ 18,7%

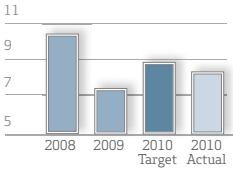
Key volumes

Containers ('000 TEUs)



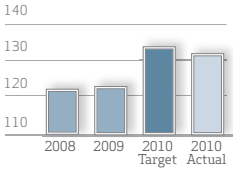
2010 vs 2009	2010 vs target
↓ 4,5%	↑ 8,3%

Break-bulk (mt)



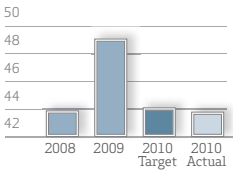
2010 vs 2009	2010 vs target
↑ 12,0%	↓ 5.2%

Dry bulk (mt)



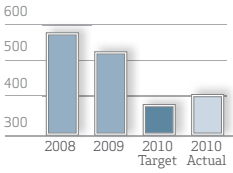
2010 vs 2009	2010 vs target
↑ 7,4%	↓ 1,6%

Liquid bulk (mt)



2010 vs 2009	2010 vs target
↓ 10,7%	↓ 0,7%

Automotive ('000 TEUs)



2010 vs 2009	2010 vs target
↓ 24,0%	↑ 5,8%

2010 Performance

Financial

- Revenue at R7,5 billion represents a 4,9% increase on the prior year.
- Net cargo dues decreased by 1,1%.
- Marine related revenue increased by 11,6%.
- Real estate revenue grew to R1,2 billion which includes the conclusion of new leases and the commercialisation of existing leases.

Operational

- Dry bulk export volumes for iron ore up 35%.
- Manganese export volumes up 18%.
- Break Bulk volumes up 12%.
- Automotive units down 24%.
- Container volume down 4,5%.
- Introduction of quadruple shifts for pilots at the Port of Durban.

Human resources

- Implementation of "time and attendance" systems at the Port of Cape Town.
- Succession planning resulted in mentorship contracts for key employees.
- Continued training in critical skills areas of the business.

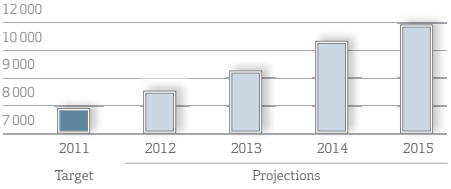
Safety

- Disabling Injury Frequency Rate (DIFR) marginally up from 1,22 to 1,24.
- Environmental awareness programmes rolled out.
- Business continuity management successfully implemented.
- Climate Change risk assessments completed.

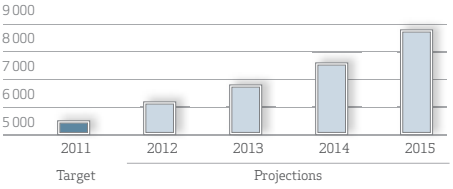
Looking ahead

Highlights

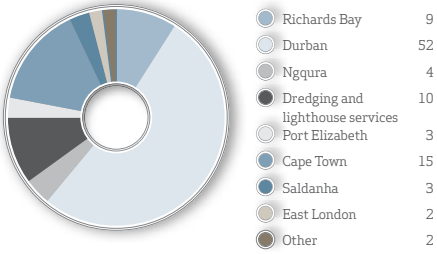
Revenue (R million)



EBITDA (R million)

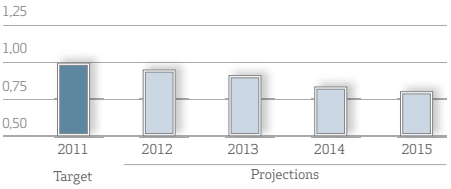


Five-year capital investments by port (%)



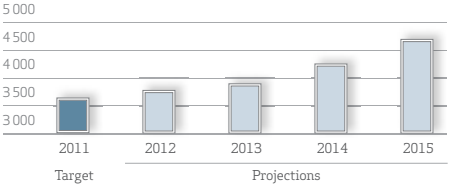
Total investment planned – R18,7 billion.

DIFR (Disabling injury frequency rate)

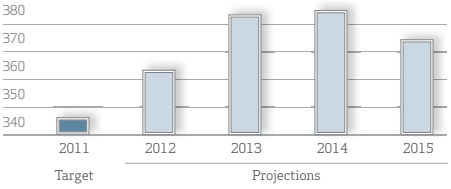


Key volumes

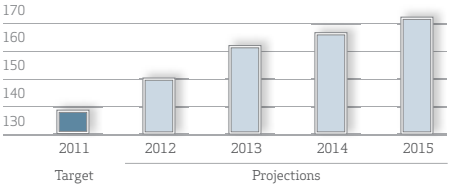
Containers ('000 TEUs)



Automotives ('000 units)

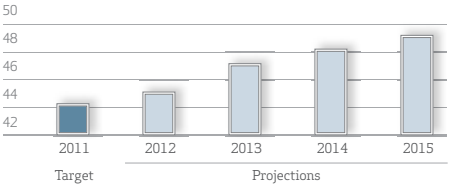


Dry bulk* (mt)



**Major commodities in this segment mainly comprises coal, iron ore and manganese.*

Liquid bulk (million kilolitres)



Strategy

Strategic interventions that will be of focus in the year ahead:

- Growth will be targeted in specific flows of bulk, mineral and mining products;
- Improved marine operational efficiencies;
- Integrated commercial management and increased market collaboration to enhance revenue and volume growth;
- Integrated and disciplined project management, capacity planning and improved asset maintenance;
- Improved real estate management and terminal operations oversight;
- Improved safety levels and compliance to environmental and other applicable legislation;
- Talent management and succession planning of critical resources; and
- Cost management and robust financial controls.

Key risks

The key risks associated with the achievement of the 2011 strategic objectives and meeting the financial targets include:

- Realisation of anticipated volume and revenue growth;
- Economic regulatory uncertainty;
- Capital projects not completed on time and within budget to meet customer demand;
- Ineffective property lease management;
- Lack of exercising an oversight role on Terminals, marine operations and port users resulting in inefficiencies;
- Sub-optimal asset maintenance;
- Security breaches and non-compliance with environmental legislation; and
- Inability to attract and retain critical skills.

The presence of these risks could impact negatively on the achievement of the key strategic objectives of the Operating division. However, focus areas and initiatives of the Quantum Leap Strategy will assist in mitigating these risks.

2011 Quantum Leap initiatives

- Operational efficiency improvements to improve volume throughput to set targets;
- Maintenance of assets in line with operating model;
- Focused training to create marine services resource capacity;
- Capital optimisation and to obtain a fair return on invested capital; and
- To reduce environmental risks, safety incidents and cost of loss.

Overview of business operations

National Ports Authority, is the landlord port authority responsible for the safe, efficient and effective economic functioning of the national ports system which it manages, controls and administers on behalf of the Government of South Africa.

National Ports Authority operates within the port industry, providing its services to its target market comprising port users, which include terminal operators, shipping lines, ship agents, cargo owners and the clearing and forwarding industry. It owns and manages the eight ports within South Africa namely: Saldanha Bay, Cape Town, Mossel Bay, East London, Port Elizabeth, Durban, Richards Bay and Port of Ngqura (which commenced operating on 10 October 2009). The business is divided into two service segments: the provision of port infrastructure and maritime services. Maritime services include dredging, navigation aids, ship repair and marine operations.

Port infrastructure operates in five segments; containers, dry bulk, liquid bulk, break-bulk and automotive. The major commodities handled at the ports are coal, iron ore, containers, automotives, steel, fruit, ferrochrome, petroleum products and manganese.

Growth in the port industry is fundamentally influenced by global demand and economic growth. It is anticipated that container volumes will achieve levels experienced in the 2008 financial year only by the third quarter of the 2012 financial year.

In view of evolving developments in the port industry, National Ports Authority seeks to continue enhancing its role in facilitating trade, in influencing growth through the provision of port infrastructure capacity and aligning its core activities to changing market dynamics.

Regulatory environment

National Ports Authority is regulated by national and international laws, regulations and applicable Acts critical to the ports and maritime environment. These are captured in the National Ports Authority Regulatory Universe. The Acts listed below have a significant impact on the National Ports Authority and Transnet.

National Ports Act

The National Ports Act (Act No. 12 of 2005) (Ports Act) was gazetted in August 2005 and became effective on 26 November 2006. National Ports Authority is required to have its tariffs approved by the Ports Regulator and may have its decisions overturned by the Ports Regulator. National Ports Authority is, therefore, a regulator of port services whilst being regulated by the Ports Regulator.

The Ports Act (Section 11) prescribes the core functions of National Ports Authority:

- To plan, provide, maintain and improve port infrastructure;
- To provide or arrange marine-related services;
- To ensure the provision of port services, including the management of port activities and the port regulatory function at all South African ports; and
- To provide aids to navigation to assist the navigation of vessels within port limits and along the coast.

The Ports Act created a dual role for National Ports Authority: As Regulator, National Ports Authority must, amongst others, control port services through licensing or entering into agreements with operators. As regulated, National Ports Authority must have its tariffs approved by the Ports Regulator and may have its decisions overturned by the Ports Regulator.

The Ports Regulator published the Directives in terms of Section 30(3) of the Ports Act, in Government Gazette 32480, No. 826 of 6 August 2009. In adherence to the directives, Transnet submitted its tariff application to the Ports Regulator. A tariff increase of 4,42% was awarded in January 2010 which is significantly below the tariff application of 10,62% per annum over a three year period on a smoothed basis.

National Environmental Management: Integrated Coastal Management Act

The objective of the Integrated Coastal Management Act is to promote the conservation of the coastal environment; maintain the natural attributes of coastal landscapes and seascapes; and to ensure that development and the use of natural resources within the coastal zone is socially and economically justifiable and ecologically sustainable. It further governs the following:

- Defining rights and duties in relation to coastal areas;
- Determining the responsibilities of organs of the State in relation to the seashore and other coastal areas;
- Prohibiting incineration at sea;
- Controlling dumping at sea, pollution in the coastal zone, the inappropriate development of the coastal environment and other adverse impacts on the coastal environment; and
- Giving effect to South Africa's international obligations in relation to coastal matters.

The Department of Water and Environmental Affairs (DEA) prepared a Presidential Proclamation to bring the Integrated Coastal Management Act, 2008 (Act No. 24 of 2008) (ICM Act) into operation on 1 November 2009. The unintended effect would have been the appropriation of port property below the high water mark from Transnet, impacting approximately R31 billion of asset value. Following interventions by Transnet and the Department of Public Enterprises (DPE), the Proclamation notice was amended to exclude certain sections of the ICM Act from coming into effect. The exclusion of these sections removes the risk relating to the appropriation of the sea and the sea-shore in the ports from Transnet in the short- term.

The amended Proclamation, which commenced on 1 December 2009, is an interim measure bringing about a staggered implementation of the ICM Act. Negotiations with DEA will now commence to formulate proposed amendments to the ICM Act, which can be presented to Parliament to ensure that Transnet's assets are secure in the long term, and that National Ports Authority is able to fulfil its port authority functions.

Port of Ngqura licence

Pursuant to the Ports Act, Transnet is deemed to hold licences required to operate the terminals and facilities in each of its ports, with the exception of the container terminal at the Port of Ngqura. Guided by Senior Counsel, the National Ports Authority, which is deemed to be the Authority in terms of the Ports Act, decided to enter into an interim agreement with Port Terminals, whereby Port Terminals would be authorised to operate the container terminal at the Port of Ngqura on an interim basis. Refer to the Report of the Directors on page 237 for further details.

Environmental Management

Environmental management remained a key focus area for National Ports Authority in line with the Group's identified priorities for the year.

In May 2009 and February 2010, Transnet received a "pre-directive" and an "amended pre-directive", respectively, under Section 28(4) of the National Environmental Management Act, 1998 (NEMA) (as amended) and Section 31A of the Environmental Conservation Act, 1989 (ECA) regarding the Port of Port Elizabeth Manganese Terminal and the Tank Farm. The "pre-directives" required that Transnet make representations as to why the Department of Environmental Affairs (DEA) should not issue a directive under Section 31A of the ECA and Section 28(4) of the NEMA that would require Transnet to take certain proposed actions that would relate to, amongst others, waste management, groundwater monitoring, dust mitigation, and vegetation management. Transnet submitted the required representations to the DEA, explaining that Transnet has already implemented the actions proposed in the amended directive. As of 31 March, 2010 Transnet had not received a response from the DEA.

Processes are under way to address pollution and contamination challenges in the identified areas of the Port of Port Elizabeth. These are mainly historic, pertaining to manganese and oil pollution. National Ports Authority and the affected tenants are working to find sustainable solutions to the environmental challenges faced at this Port. An independent consultant was appointed to conduct an assessment at the Tank Farm and advise on the appropriate rehabilitation of the area. This work continues and an application for an Environmental Impact Assessment was submitted to DEA as part of the curent assessment.

Key performance indicators

		2009 Actual	2010 Target	2010 Actual	2011 Target
Volumes					
Containers	000 TEUs	3 799,7	3 352,0	**3 628,9**	3 553,0
Break-bulk	mt	7,5	8,9	**8,4**	9,2
Liquid bulk	mℓ	49,1	44.1	**43,8**	44,3
Dry bulk	mt	122,8	134,0	**132,0**	139,5
Automotive	units	527 383	379 229	**401 064**	346 879
Operational efficiency					
Shipping delays (average hours if ship is delayed)					
Shipping delays – Tugs (All ports)	hours	2,0	2,5	**nr**	2,3
Shipping delays – Pilots (All ports)	hours	1,9	2,0	**nr**	2,2
Shipping delays – Berthing staff (All ports)	hours	2,4	1,5	**nr**	2,5
Shipping delays – Tugs (All ports excluding the Port of Durban)	hours	nr	≤ 2,1	**2,2**	ns
Shipping delays – Berthing (All ports excluding the Port of Durban)	hours	nr	≤ 2,1	**2,15**	ns
Shipping delays – Total (Port of Durban) (a)	hours	nr	≤ 5,7	**3,4**	ns
TEUs per STAT hour					
TEUs per STAT hour – DBN	TEUs/STAT Hour	47	42	**27**	28
TEUs per STAT hour – CPT	TEUs/STAT Hour	38	26	**16**	16
TEUs per STAT hour – PE	TEUs/STAT Hour	22	36	**36**	33
Tons per STAT hour					
Tons per STAT hour – Coal (Richards Bay)	Tons/STAT Hour	1 685	1 632	**1 125**	1 632
Tons per STAT hour– Iron ore (Saldanha)	Tons/STAT Hour	1 906	2 130	**2 615**	2 839
Financial					
EBITDA margin	%	73,9	71,1	**74,7**	70,8
Return on average total assets (excl CWIP)	%	12,9	10,4	**11,6**	9,7
Infrastructure					
Capital investments (b)	R millions	4 237	3 974	**3 231**	3 401
Risk safety and compliance					
DIFR	rate	1,22	1,00	**1,24**	1,00
Human capital					
Training spend/personnel costs	%	6,8	3,4	**4,8**	4,9
Employment equity	%	74	69	**74**	75

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

Volumes

Containers

Container volumes declined by 4,5% from the previous financial year. The impact of the global economic recession, which resulted in lower consumer spending and contributed to the negative growth in volumes. The strengthening of the South African rand against the US dollar also negatively impacted container exports. It is anticipated that the global economic recovery, under pinned by government stimulus packages and the 2010 FIFA Soccer World Cup campaign, will result in growing container import and export volumes.

Break-bulk

Volumes increased by 12% from 7,5mt to 8,4mt during the year. The growth is attributable to increased volumes of steel products and ferro alloys, which constitutes over 38% of the total break-bulk segment. The export of steel increased in order to meet international demand. During the year, wood-pulp export volumes increased through Durban as a result of increased demand from Chinese markets.

Liquid bulk

Liquid bulk volumes handled during the year reflected a decrease of 10,8% compared to the prior year. The negative deviation is largely due to decreased export demand as a result of the fluctuations in the crude oil prices experienced during the year.

Dry bulk

Total dry bulk volumes reflected a growth of 7,5% compared to the prior year. The growth during the year is largely due to higher export volumes for iron ore and manganese. Dry bulk export volumes for iron ore reflected a growth of 35% due to the ramp-up in volumes as part of the iron ore expansion project through the Port of Saldanha. In addition, increased efficiencies at the iron ore terminal resulted in increased loading rates, which contributed to positive performance. Manganese reflected a growth of 18%. This increase was due to the recent recovery in the global economy which resulted in increased demand for steel production.

Coal exports on the other hand, which are the major contributor to total bulk volumes, faced challenges in the first half of the financial year. The improvement in the economic climate in the second half of the financial year resulted in volumes improving over this period.

Automotive

The performance of the South African automotive industry which constitutes only 1% of the global industry was impacted negatively by the global economic recession during the year. The sharp decline in consumer and business spending as well as the stricter lending criteria by major South African banking institutions caused a decline in domestic automotive sales volumes, adversely impacting vehicle import volumes. These factors contributed to the lower volumes handled during the year, which resulted in a 24% decline in volumes compared to the previous year.

On the positive side, in preparation for the 2010 FIFA Soccer World Cup, car rental company's increased their imports of vehicles. Renewed confidence in international financial markets in recent months, together with new export programmes by South African manufacturers, is indicative of positive growth.

Operational efficiency

Shipping delays

Numerous port resourcing challenges resulted in an increase in shipping delays compared to the prior year. These included restrictions of pilot licences at certain ports, which in turn lead to pilotage delays and limited tug resource capacity. In addition, the Ports of Durban and Richards Bay experienced human resource shortages in key positions, such as marine engineers. With the acquisition of new marine craft, a focused drive to fill critical vacancies and the planned roll-out of the quadruple shift system, National Ports Authority expects improvements in this area.

TEUs per Ship Turnaround Time (STAT) Hour

This key performance indicator measures the average number of TEU's handled for a ship turnaround hour calculated from the time a vessel passes the breakwater on its inward voyage until it clears the breakwater on its outward voyage.

Port of Durban

TEUs per STAT Hour for Durban did not reach targeted levels and are well below the 2009 financial year levels, mainly due to operator efficiencies being below planned levels.

Port of Cape Town

The Port of Cape Town was impacted by the deepening of the container terminal berths. Weather delays further negatively impacted performance.

Port of Port Elizabeth

The Port of Port Elizabeth maintained satisfactory productivity levels, resulting in it exceeding the TEU per STAT hour target set.

Tons per Ship Turnaround Time per Hour

This key performance indicators measures the average number of tons handled for a ship turnaround hour calculated from the time that a vessel passes the breakwater on its inward voyage until it clears the breakwater on its outward voyage.

Port of Richards Bay (Export Coal)

The change in demand owing to the global economic downturn resulted in smaller size vessels frequenting the Port of Richards Bay (lower economies of scale) thereby increasing the ship turnaround time and impacting productivity.

Port of Saldanha Bay (Export Iron Ore)

The increase tons per STAT hour is attributed to the dual loading approach followed by Transnet Port Terminals during the year which reduced turnaround time increasing productivity to 2 615 tons per STAT hour from 1 906 tons per STAT hour in the previous year.

Financial performance

	Year ended 31 March 2010 R million	Year ended 31 March 2009 R million	% change
Salient features			
Revenue	7 461	7 110	4,9
– Containers	2 989	3 002	(0,4)
– Break-bulk	212	180	17,8
– Dry bulk	604	542	11,4
– Liquid bulk	487	455	7,0
– Automotive	331	502	(34,1)
– Other	2 838	2 429	16,8
Operating expenses	(1 888)	(1 859)	1,6
– Energy costs	(163)	(151)	7,9
– Maintenance	(179)	(195)	(8,2)
– Material costs	(56)	(62)	(9,7)
– Personnel costs	(1 140)	(1 033)	10,4
– Other	(350)	(418)	(16,3)
Profit from operations before depreciation, amortisation and items listed below (EBITDA)	5 573	5 251	6,1
Depreciation and amortisation	(788)	(649)	21,4
Profit from operations before the items listed below	4 785	4 602	4,0
Impairments and fair value adjustments	33	1 075	(96,9)
Net finance costs	(1 324)	(1 165)	13,7
Profit before taxation	3 494	4 512	(22,6)
Total assets (excluding CWIP)	45 015	37 810	19,1
Profitability measures			
EBITDA margin* (%)	74,7	73,9	1,1
Operating margin** (%)	64,1	64,7	(0,9)
Return on average total assets (excluding WIP)*** (%)	11,6	12,9	(10,1)
Asset turnover (excluding CWIP)**** (times)	0,18	0,20	(10,0)
Capital investments^	3 231	4 237	(23,7)
Employees			
Number of permanent employees	3 139	3 254	(3,5)
Revenue per employee	2,38	2,19	8,7

* *Profit/loss from operations before depreciation and amortisation (EBITDA) expressed as a percentage of revenue.*
** *Profit/loss from operations before profit on sale of interest in businesses, impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligations, net finance costs and taxation expressed as a percentage of revenue.*
*** *Profit/loss from operations before profit on sale of interest in businesses, impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligations, net finance costs and taxation expressed as a percentage of total average assets less capital work in progress.*
**** *Revenue divided by average total assets less capital work in progress.*
^ *Actual capital expenditure (replacement + expansion + intangibles) excluding borrowing costs for the period.*

Revenue

Revenue at R7,5 billion represents a 4,9% increase on the prior year. Cargo dues decreased compared to the prior year by 1,1% as a result of a weighted volume decrease of 5,2%, offset by an average tariff increase of 6,2%. The lower volumes can be attributed to lower container and automotive imports and exports, whilst dry bulk and break-bulk exports reflected increased volumes compared to the prior year. Marine related revenue increased by 11,6%, which includes a tariff increase of 8,1% and 3,5% activity increase mainly linked to increased vessel sizes. Real estate income for the year grew by 24% due to new leases having been concluded and the commercialisation of existing leases.

Operating expenses

Operating costs increased marginally by 1,6% compared to the prior year due to the implementation of cost-saving initiatives. The savings in material and maintenance costs were partially offset by increases in electricity costs as a result of the increase in electricity tariffs.

Profitability

National Ports Authority recorded an EBITDA of R5,6 billion, an increase of 6,1% compared to the prior year. The EBITDA margin increased to 74,7% as a result of the efficiency and cost-saving initiatives. However, the return on average total assets decreased to 11,6%, due to the increase in the capital investment programme.

Infrastructure investments

The R3,2 billion spend during the year is lower than the prior year and lower than the 2010 target. This is primarily due to the revising of the capital plan as a result of declining volumes brought about by the economic downturn.

During the year the following projects were commissioned:

- **Durban – Deepening and Widening of the Entrance Channel.**
  The objective of the project was to improve current availability and accommodate larger vessels safely. Spending during 2010 was R781 million with a total project cost of R3,4 billion.
- **Reengineering of the Durban Container Terminal (DCT).**
  This project will increase the capacity of DCT from the existing capacity of 1,98 million TEUs per annum to 2,3 million TEUs. Spending during 2010 was R185 million with a total project cost of R785 million.
- **Point Car Terminal in the Port of Durban.**
  The project entailed surfacing to be done in the Point area to cater for the expected ramp up of car imports and exports. Spending during 2010 was R64 million with a total project cost of R164 million.
- **Liquid bulk Terminal at Richards Bay.**
  The construction of an additional Bulk Liquid berth will increase the capacity of the existing berth from 1,1mt to 2,8mt. Spending during 2010 was R130 million with a total project cost of R343 million.
- **Port of Ngqura.**
  This project involved the provision for a four berth container terminal by constructing basic infrastructure for an additional 2 container berths, infrastructure for a small craft basin, tug, buildings and associated landside infrastructure. The additional 2 berths would increase a total container capacity to two million TEUs for this deepwater port. Spending during 2010 was R659 million with a total project cost of R3,8 billion.

The following marine craft were delivered during the year:

- 2 Tug boats for the Port of Ngqura;
- 2 Pilot boats for the Port of Durban; and
- A helicopter for the Port of Durban.

Risk, safety and compliance

A safety strategy approach resulted in positive improvements.

DIFR – The year-to-date of 1,24 against a target of 1,00.

- A higher number of incidents were experienced in Marine Services, more specifically within the pilotage service offering.

Cost of losses:

- Cost of losses amounted to R8,2 million against the target of R7,4 million.

Major reasons for cost of loss were as a result of storm damage, claims in respect of fire at the Port of Cape Town and five claims relating to the theft of copper cables at the Port of Richards Bay.

Human capital

National Ports Authority reaffirmed its commitment to quality service and continuous improvement during the year and worked towards retaining its ISO certification. The year's successes and highlights include the following:

- An investment in the Marine Global Best Practice "train a trainer" programme has contributed to capacity building and skills transfer within the marine employees across all ports;
- Revised Human Resources policies were successfully implemented;
- A strong focus on succession planning, resulted in mentorship contracts for key employees;
- Training delivery continued to be structured and focused in the critical skills areas;
- Time and attendance system was successfully implemented at Head Office and the Port of Cape Town; and
- The Transnet Culture Charter was successfully implemented and employees have shown their commitment to its principles through active participation.

Strategic initiatives and key focus areas – Quantum Leap initiatives

The following key initiatives seek to support the Quantum Leap Strategy within the critical focus areas of the business:

Volume growth in targeted commodities

- Increased participation in forums with the iron ore, manganese and the automotive supply chains to establish industry needs and collective responses to issues.

Operational efficiency improvements

- Introduction of quadruple shift systems at all ports;
- Enhanced marine fleet, which is included in the five year capital investment plan;
- Monitoring and management of marine service issues;
- Continuation of Train the Trainers and in-house simulator training at the School of Ports; and
- Reorganisation of real estate configuration aligned with PDFPs to ensure optimal utilisation and lease revenue growth.

Maintenance of assets in line with the operating model

- Implement revised asset maintenance procedures;
- Secure sufficient funding to address the current maintenance workload; and
- Ensure compliance with approved maintenance procedures.

Capital optimisation

- Review of existing assets to maximise useful lifecycles;
- Prioritisation of the Capital Plan as part of annual budgeting processes to ensure that priority projects are being implemented first utilising the available capital resources;
- Approval of National Ports Authority annual tariff adjustments; and
- Economic regulations risk (refer to key risks on page 237).

To reduce environmental risks, safety incidents and cost of loss

Key environmental initiatives include:

- Environment Management System (EMS) implementation;
- Annual internal EMS audits and legal compliance audits for all ports;
- Contaminated land assessment (desktop);
- National guidelines development and implementation; and
- Asbestos cleanup.

Key risks and mitigating actions

The key risks associated with the achievement of the strategic objectives as well as related mitigating actions are outlined below:

Key risks	Mitigating actions
Declining cargo volumes as a result of the economic downturn and competition from competing ports, resulting in National Ports Authority not achieving cargo volume growth and revenue targets	It remains extremely difficult to mitigate the impact of the volatile and uncertain economic environment and the resultant decline in cargo volumes. National Ports Authority will build stronger customer relationships to protect current cargo volumes through the ports. The focus will be to implement customer relationship management, integrated with key accounts management. Cross-divisional corridor strategies aim to attract new cargo and grow volumes, whilst National Ports Authority will also embark on identifying new business opportunities. Port users expect ports to be efficient, with quick vessel turnaround and adequate port infrastructure. National Ports Authority will continue its focus on setting targets for cargo-handling and marine services and monitoring the efficiency of port services. PortsOnline, the electronic portal that allows port users to submit documentation and request marine services, will further assist in a more efficient exchange of information with the ports. National Ports Authority has also set the target to increase real estate revenue through the commercialisation of priority leases and the introduction of market related rentals.
Regulatory non-compliance with the provisions of the Ports Act, resulting in complaints and appeals against National Ports Authority decisions impacting the Ports Regulators approval of National Ports Authority's annual tariff adjustments.	The establishment of the Ports Regulator has created a regulatory environment within which port users can lodge complaints or appeals with the Regulator opposing National Ports Authority's decisions. To create a stable environment within which it will execute its functions as contained in the Ports Act, National Ports Authority has prepared guidelines for agreements, licences and permits, which have been approved as Transnet policy, and drafted port rules approved by the Minister of Transport. The Division is in the process of providing a framework for the conversion of deemed licences, held by existing port service providers. The guidelines, port rules and deemed licence framework create a stable operating environment within the ports, which will assist in minimising complaints and appeals to the Regulator. National Ports Authority is also in the process of developing guidelines to enable it to respond to complaints and appeals, should they occur. National Ports Authority has also designed the necessary processes and structures for annual submissions of tariff adjustments to the Ports Regulator.
Failure to provide port infrastructure capacity ahead of demand, as a result of capital projects not executed on time and inadequate long-term port planning, which impacts negatively on current and future revenue streams.	In order to sustain and increase port infrastructure capacity, the focus is on executing capital projects on time, establishing an operational projects office to monitor capital project execution, adhering to port infrastructure maintenance schedules and delivering an operational Port of Ngqura. These activities will create port infrastructure capacity and ensure that infrastructure assets are well maintained. Port planning ensures that port development framework plans are updated annually, which informs future required capacity and capital needed. This is complemented by the development of the National Ports Plan and the Land Use Plan for ports. This information about future infrastructure development and land use in the ports, serves as input on an annual basis to update the five-year capital investment plan.
Ineffective property lease management	Reorganisation of real estate to be aligned with the Port Development Framework Plan thereby ensuring optimal utilisation of land. This would further assist in identifying value added services, complementing the commercialisation of the leases initiative.
Health and safety incidents which may lead to physical injury of stakeholders and National Ports Authority employees.	Operating within a safe, secure and risk-averse port system will be realised by ensuring that the ports achieve safety accreditation (ISO 18000) and environmental accreditation (ISO 14001). Standards will be introduced for movement of dangerous goods through the ports. To enhance port security, National Ports Authority will introduce a port permit system, as well as CCTV security systems and access controls at the ports. A security policy will also be implemented at the ports. Furthermore, National Ports Authority will implement waste management plans at all the ports, a marine water quality monitoring programme and will also perform a climate change assessment to determine the Division's carbon footprint.

Capital investment plan

The planned spending for the next five years per Port is reflected below, with the Port of Durban, Cape Town, Richards Bay and Dredging Services earmarked for most of the investment.

	2010 Actual R million	Five-year planned spending R million
Richards Bay	298	1 714
Durban	1 272	9 748
East London	12	445
Ngqura	725	790
Port Elizabeth	19	535
Mossel Bay	6	12
Cape Town	498	2 747
Saldanha Bay	51	646
Dredging Services	268	1 494
Lighthouse Services	12	384
Other projects	70	187
Total excluding capitalised borrowing costs	3 231	18 702
Capitalised borrowing costs	261	1 713
Total including capitalised borrowing costs	3 492	20 415

53% of the total five-year programme of R18,7 billion is planned to be spent on expansion projects while the remaining 47% will be spent on projects to maintain current capacity and revenue streams. The major expansion projects include the expansion of Cape Town Container Terminal, deepening of container berths 101 to 103 in Durban, operationalisation of Ngqura for containers, acquisition of Salisbury Island, as well as acquisition of new trailing suction hopper dredgers for Dredging Services. Major projects to maintain current capacity include the reconstruction of sheet pile quay walls in Durban, the reconstruction of various Island View berths for the Liquid bulk industry, as well as the replacement of marine craft e.g. tugs and pilot boats at various ports.

Prospects: Quantum Leap impact

The Quantum Leap initiatives are focused on the following:

Marine services and dredging, with oversight and measurement of service levels: Marine services will be monitored against approved targets for all categories including pilotage, tugs and berthing staff. A 10% improvement target has been set with respect to delays relating to pilotage, tugs and berthing staff services. Other efforts will centre around marine fleet enhancement and training and development of marine staff. The latest acquisition of a new dredger will also firm up improvements in dredging capacity and ensure ports are dredged to full capacity at all times.

Terminal operations oversight: National Ports Authority has undertaken to finalise terminal operations agreement with key operators with the aim of ensuring terminal productivity targets that are aligned with the Quantum Leap Strategy are achieved. Routine engagements through terminal interface meetings will be implemented to assist with the interrogation of productivity performance issues and the identification of collaborative efforts in improving operational performance.

Asset maintenance and replacement relating to port infrastructure and maritime fleet: The key focus will be the implementation of the approved maintenance and replacement programme to ensure ports assets are optimally maintained and asset conditions are improved, thereby ensuring an extended useful life is achieved for assets. Further to this, the execution of the asset replacement programme will help in ensuring asset performance is not compromised.

Prioritise implementation of the capital investment programme: The fundamental priority will be to ensure disciplined execution of the targeted capital investment programme, which is set at R3,4 billion (excluding borrowing costs) for the 2011 financial year. All efforts in this area will be undertaken in collaboration with Transnet Capital Projects.

Improve port safety performance and environmental compliance: Underpinning the activities of the Division is the adoption of the "safety first" philosophy at all Ports including the divisional head office. In this regard improved safety targets have been approved and set for the 2011 financial year, namely DIFR at 1% and cost of losses at R6,8 million. With regards to the environment, the key focus will be on the implementation of environmental management systems and oversight activities to ensure that all tenants comply with environmental management plans.

Sustainability performance

SHEQ scorecard

Cost of loss	DIFR (GRI LA7)	51 disabling injury incidents (GRI LA7)	
R8,2 million against a target of R7,4 million	1,24 against a target of 1,00		
↑ 26% versus 2009	↑ 2% versus 2009	↑ 4% versus 2009	
2011 target R6,8 million	2011 target 1,00		

0 employee fatalities (GRI LA7)	2 public fatalities (GRI LA7)
↑ 100% versus 2009	↑ 33% versus 2009

Security scorecard

495 security incidents	Total rand value loss of R0,3 million
↑ 73% versus 2009	↑ 24% versus 2009

Environmental scorecard

Fuel consumption	Electricity consumption (GRI EN3)	Water consumption (GRI EN8)
0,5mℓ	254 857 MWh	5 006mℓ
↓ 12% versus 2009	↑ 47% versus 2009	Incremental baseline

BBBEE scorecard

BEE procurement R1,9 billion accounting for 62% of total procurement spend against a target of 65%

BO* procurement	EME* procurement	QSE* procurement	BWO* procurement
R0,6 billion accounting for 19% of total procurement spend against a target of 9%	R0,1 billion accounting for 4% of total procurement spend against a target of 5%	R0,2 billion accounting for 5% of total procurement spend against a target of 5%	R0,1 billion accounting for 4% of total procurement spend against a target of 6%
2011 target 12%	2011 target 5%	2011 target 5%	2011 target 6%

**BO Procurement from black owned enterprises (50% black shareholders)*
**EME Procurement from exempted micro enterprises (turnover up to of R5 million)*
**QSE Procurement from qualifying small enterprises (turnover of R5 million to R35 million)*
**BWO Procurement from black women owned enterprises*

Employee equity scorecard

GRI 2.8 Total employees	Black management as a % of all management	Female management as a % of all management	Employees with physical disabilities as a % of total employees
3 139	59%	28%	0,4%
↓ 4% versus 2009	↓ 1% versus 2009	↑ 0,4% versus 2009	↑ 0,4% versus 2009

Skills development scorecard

Training spend	Training as a % of total personnel costs		
R48 million	5%		
↓ 27% versus 2009	↓ 2,1% versus 2009	2011 target 4,9%	Industry average 2,8%

Employee relations scorecard

GRI LA7	GRI LA7	
0 man-days lost due to industrial action*	93% junior unionised employees (including fixed term contractors)	Disciplinary action 10% of workforce
→ As previous year	81% versus 2009 (excluding fixed term contractors)	↑ 3% versus 2009

*All the man-days lost is due to unprotected strike action.

Absenteeism management scorecard

	GRI LA7
R15,1 million direct absenteeism cost*	Absenteeism rate (percentage days) 2,6%
↑ 21% versus 2009	↑ 0,3% versus 2009

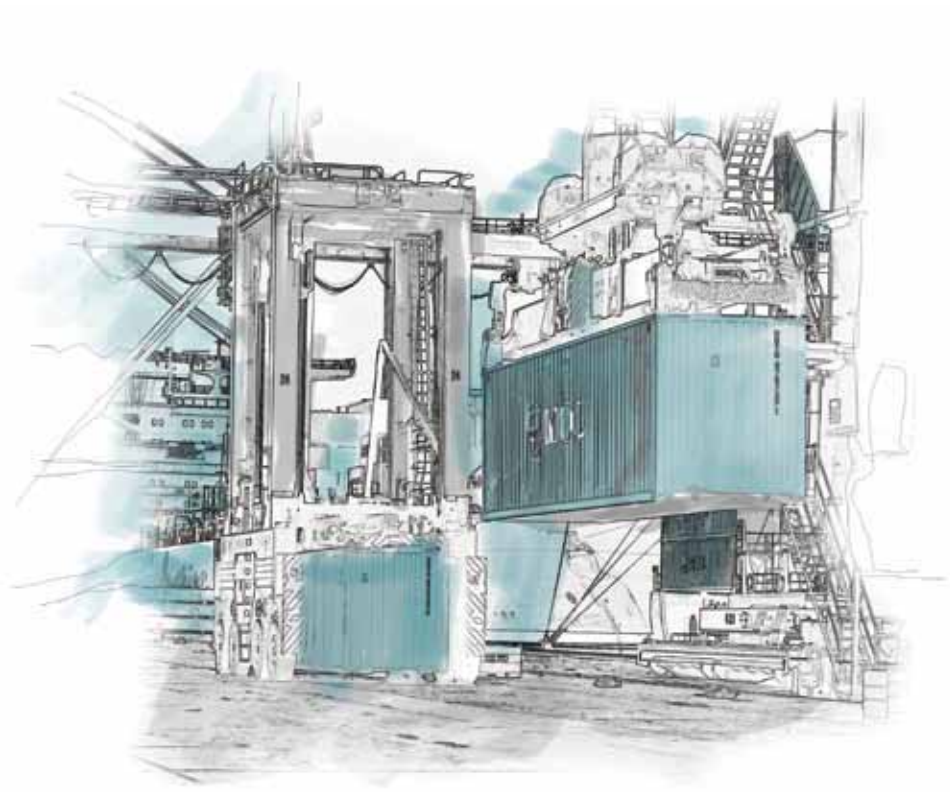
*Attributed to the increase in the number of days lost due to absenteeism and a parallel increase in salaries.

Lifestyle and HIV/Aids management scorecard

				GRI LA7
R0,1 million spend on disease management		16 employees enrolled in the lifestyle management programme	92 employees registered on the Transmed HIV/Aids Programme	A total of 108 employees enrolled in the lifestyle programmes
↑ 5% versus 2009	2011 target R0,08 million	→ As previously stated	↓ 5% versus 2009	↓ 4% versus 2009

Transnet Port Terminals

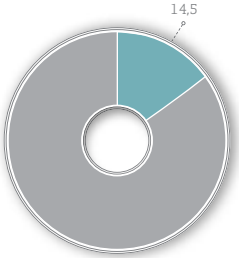
Transnet Port Terminals (Port Terminals) manages 16 cargo terminal operations situated across seven South African ports. It provides cargo handling services for the container, bulk, automotive and break-bulk sectors.



Performance at a glance

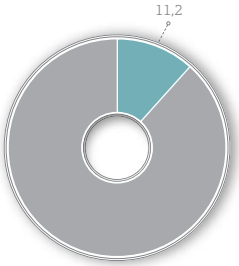
External revenue (%)

R5 154 million
14,5% of Group external revenue



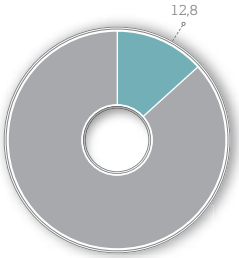
EBITDA (%)

R1 621 million
11,2% of Group EBITDA



Capital investments* (%)

R2 368 million
12,8% of Group capital investments



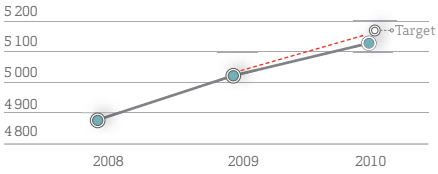
* *Excludes capitalised borrowing costs.*

Number of employees:

5 313 permanent
251 contractual

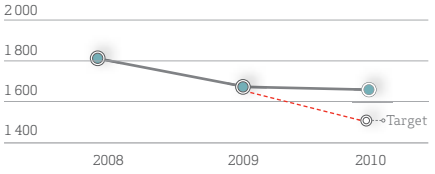
Financial highlights

Total revenue (R million)



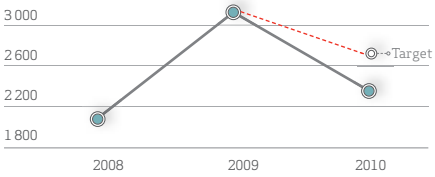
2010 vs 2009	2010 vs target
↑ 2,4 %	↓ 0,2 %

EBITDA (R million)



2010 vs 2009	2010 vs target
↓ 4,0 %	↑ 11,1 %

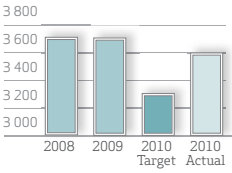
Capital investments (R million)



2010 vs 2009	2010 vs target
↓ 24,7 %	↓ 13,7 %

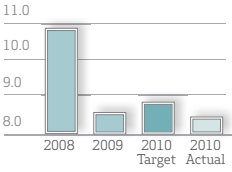
Key volumes

Containers



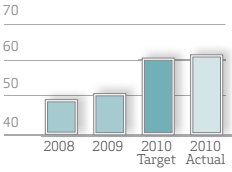
2010 vs 2009	2010 vs target
↓ 2,9%	↑ 8,7%

Break-bulk (mt)



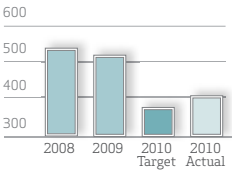
2010 vs 2009	2010 vs target
↓ 1,2%	↓ 4,5%

Bulk (mt)



2010 vs 2009	2010 vs target
↑ 22,8%	↑ 1,6%

Automotive ('000 units)



2010 vs 2009	2010 vs target
↓ 22,5%	↑ 6,6%

2010 Performance

Financial

- Revenue increased by 2,4% to R5,2 billion.
- Container and bulk sector contributed 57,4% and 25,7% to revenue respectively.
- All other sectors experienced a decrease in revenue as a result of the economic downturn in the first half of the 2010 financial year.

Operational

- 46,1mt of iron ore at an average loading rate of 6 341 tons per hour handled at Saldanha.
- 3,4mt of manganese exported through the Port of Port Elizabeth, which was 21% higher than planned.
- Container handling increased as a result of transshipments.
- The new Ngqura Container Terminal came into operation in October 2009.

Human resources

- Spent 3% of personnel cost on skills development.
- A number of bursaries for tertiary education were granted that are relevant to business requirements.

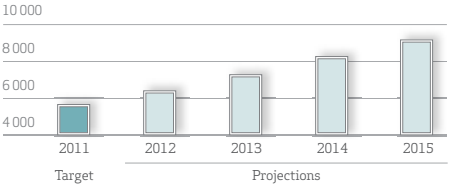
Safety

- DIFR of 0,71 is a 16,5% improvement on the prior year of 0,85.

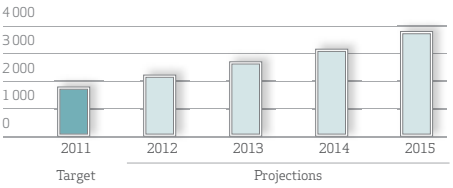
Looking ahead

Highlights

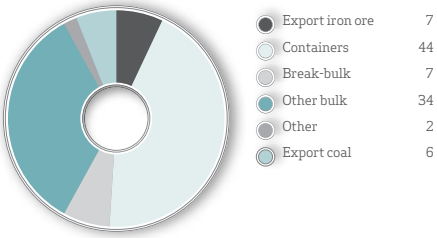
Revenue (R million)



EBITDA (R million)

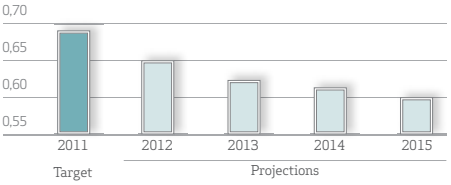


Five-year capital investment by commodity (%)



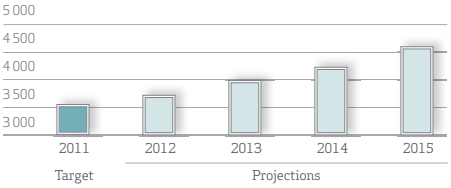
Total investment is R6,0 billion.

DIFR (Disabling injury frequency rate)

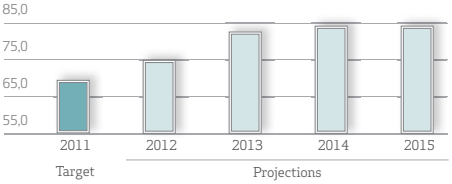


Key volumes

Containers ('000 TEUs)

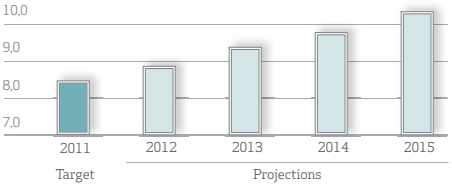


Bulk* (mt)



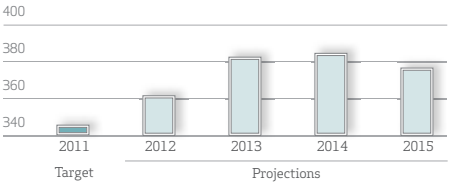
**Major commodities in this segment mainly comprises iron ore, magnetite, coal, anthracite and manganese.*

Break-bulk* (mt)



**Major commodities in this segment mainly comprises steel, ferro chrome, granite and fruit*

Automotive ('000 units)



Strategy

Port Terminals' strategic objectives include the following:

- Grow revenue by harnessing new business opportunities, strategic partnerships and pursuing corridor optimisation strategies;
- Quantum Leap initiatives to improve safety, operational efficiency, productivity, reliability and environmental sustainability;
- Improving customer relationships and exceeding customer expectations;
- Create capacity ahead of demand;
- Grow market position by ensuring Port Terminals is recognised as an efficient, safe, reliable and cost competitive operator;
- Sustainable cost-containment; and
- Improving the skills base through an intensive training programme.

Key risks

- Lower customer volumes mainly as a result of the slow recovery in economic activities
- Obtaining employee commitment towards delivering on Quantum Leap Strategy;
- Equipment performance and availability are not meeting required productivity levels;
- Non-compliance with all safety policies, procedures and environmental legislation leading to the potential loss of operating license as well as penalties, financial loss and reputation damage; and
- Changes in the regulatory and policy environment having an adverse impact on Port Terminals' commercial activities and future business model.
- Not obtaining required return on capital investments due to declining and uncertain volumes.

The presence of these risks could impact negatively on the achievement of the key strategic objectives of the Operating division. However, focus areas and initiatives of the Quantum Leap Strategy will assist in mitigating these risks.

2011 Quantum Leap initiatives

Volume growth in key commodities:

- Grow magnetite, coal and manganese volumes;
- Increase transshipment volumes through Ngqura;

Operational efficiency improvements;

- Improve moves per gross crane hour at ports;
- Reduce environmental risks and safety incidents;
- Improve customer satisfaction; and
- Skills development to meet business requirements.
- Capital optimisation to ensure improvement in productivity.

Overview of business operations

Port Terminals provides cargo handling services to a wide spectrum of customers including shipping lines, freight forwarders and cargo owners. Operations are divided into major market sectors, namely container, bulk, break-bulk and automotive.

Port Terminals manages 16 cargo terminal facilities across seven South African ports with a staff complement of 5 313. Operations are structured in the following major business segments:

Containers

- Durban Container Terminal;
- Durban Pier 1 Container Terminal;
- Port Elizabeth Container Terminal;
- Ngqura Container Terminal; and
- Cape Town Container Terminal.

Container volumes are expected to increase by 1,2 million TEUs from 2010 to 2015.

Current capacity expansion programmes are in progress at the Durban, Ngqura and Cape Town Container Terminals, which will increase the current capacity of 4,3 million TEUs to 5,7 million TEUs by 2015 based on a simulated productivity level of 28 moves per gross crane hour (GCH).

Bulk (iron ore, manganese, other bulk)

- Saldanha Iron Ore Terminal;
- Port Elizabeth Manganese Terminal;
- Richards Bay Dry Bulk Terminal (DBT);
- Richards Bay Multi-Purpose Terminals (MPT);
- Durban – Agriport; and
- East London Bulk Terminal.

Bulk volumes are expected to increase by 23mt from 2010 to 2015. The expansion at Saldanha will increase the quayside capacity from 48mt to 60,7mt within the next three years. The expansion at Saldanha and Port Elizabeth Bulk Terminals as well as the refurbishment and replacement programmes at Richards Bay will ensure that sufficient capacity will exist to accommodate this increase in volumes.

A feasibility study is under way to find a suitable location for the creation of capacity of 12mt in respect of manganese.

Richards Bay is increasing the stacking capacity for general exports within the next three years.

Break-bulk and automotives

- Durban Maydon Wharf Terminal;
- Durban Car and Point Multi-Purpose Terminals;
- East London Car and Combi Terminals;
- Port Elizabeth Car and Multi-Purpose Terminals;
- Cape Town Multi-Purpose Terminal; and
- Saldanha Multi-Purpose Terminal (mainly steel products).

Following a decrease over the last two years, the volumes for break-bulk commodities are expected to remain constant in the 2011 financial year.

Automotive volumes are expected to decline by 14% in the 2011 financial year, however this is anticipated to stabilise over the next three to four years. Actual volumes for 2010 were higher than expected.

Business environment

Despite the global recession, Port Terminals' volumes exceeded expectations, especially in the container and bulk sectors. The increase in container volumes is primarily due to the increase in transshipment volumes resulting from a redirection of container traffic from West African ports. The increase in bulk volumes is primarily attributable to the increase in iron ore which are driven by the high demand in China, as well as manganese exports.

Automotive volumes showed a steady increase in the last quarter of the financial year, the majority of which is attributable to imports of vehicles in anticipation of the demand for car rentals during the 2010 FIFA Soccer World Cup.

Difficult economic conditions and slow growth has resulted in a focus on supply chain efficiencies, cost reduction and improved service quality. In response to this challenging environment, Port Terminals has intensified its focus on the following areas:

- Container growth will be harnessed through a Container Hub strategy to develop regional and global transshipment volumes. The hub strategy will focus on port pair development (pairing with regional and international ports to stimulate fluidity of traffic and reduce waiting time for vessels coming from the Far East) and increasing transshipment volumes, which includes an integrated port and rail service offering;
- Targeted strategies have been initiated to grow volumes in resource commodities, especially iron ore, manganese, magnetite, coal as well as agricultural commodities;
- Declining automotive and break-bulk volumes have led to a strategy that consolidates break-bulk and automotive facilities to improve performance, resource utilisation and supply chain efficiencies;
- There is a renewed focus on total quality improvement through optimal utilisation of equipment and human resources as well as improving customer service delivery; and
- Environmental programmes have been introduced, including programmes to monitor and manage energy utilisation.

Regulatory environment

The port operations in South Africa are handled by both private sector and public sector operators. Port Terminals is the dominant operator in the container and automotive sectors.

The legislative environment impacting on Port Terminals' operations encompasses the National Ports Act and its enabling legislation.

The National Ports Act empowers the Ports Regulator with the responsibility for economic regulation; promoting equity of access to ports; monitoring the activities of the National Ports Authority; approving the National Ports Authority's tariffs; and dealing with complaints. Port Terminals is engaging with the National Ports Authority to obtain licences for terminal facilities as required by the National Ports Act.

Port Terminals is currently assessing the impact of the implementation of the National Ports Act on present and future operations.

Port of Ngqura licence

Pursuant to the Ports Act, Transnet is deemed to hold licences required to operate the terminals and facilities in each of its ports, with the exception of the container terminal at the Port of Ngqura. Guided by Senior Counsel, the National Ports Authority, which is deemed to be the Authority in terms of the Ports Act, decided to enter into an interim agreement with Port Terminals, whereby Port Terminals would be authorised to operate the container terminal at the Port of Ngqura on an interim basis. Refer to the Report of Directors on page 237 for further details.

Key performance indicators

		2009 Actual	2010 Target	2010 Actual	2011 Target
Volumes					
Containers	000 TEUs	3 710	3 315	**3 604**	3 551
Break-bulk	mt	8,6	8,9	**8,5**	8,5
Bulk	mt	50,5	61,0	**62,0**	69,5
Automotive	000 units	521 475	379 169	**404 187**	346 879
Operational efficiency					
Moves per crane hour					
Moves per crane hour – DCT	No.	23	26	**22**	26
Moves per crane hour – Pier 1	No.	24	26	**21**	26
Moves per crane hour – CTCT	No.	21	26	**22**	24
Moves per crane hour – PE	No.	22	26	**23**	26
Moves per crane hour – Ngqura	No.	Not operational	15	**21**	26
Moves per ship working hour					
Moves per ship working hour – DCT	No.	58	(ns)	**47**	56
Moves per ship working hour – Pier 1	No.	47	(ns)	**33**	48
Moves per ship working hour – CTCT	No.	36	(ns)	**37**	44
Moves per ship working hour – PE	No.	29	(ns)	**34**	40
Moves per ship working hour – Ngqura	No.	Not operational	(ns)	**48**	60
Tons per hour					
Tons loaded per hour – Saldanha IOT	Tons	5 954	6 000	**6 341**	7 116
Tons loaded per hour – Richards Bay DBT	Tons	651	700	**592**	700
Tons unloaded per hour – Richards Bay DBT	Tons	427	550	**401**	500
Financial					
EBITDA margin (%)	%	33,5	28,3	**31,4**	31,9
Return on average total assets (excluding CWIP) (%)	%	11,1	5,5	**9,4**	11,5
Infrastructure					
Capital investments (a)	R millions	3 144	2 743	**2 368**	1 349
Risk safety and compliance					
DIFR	rate	0,85	0,80	**0,71**	0,69
Human capital					
Training spend/personnel costs	%	3,0	3,0	**3,1**	3,4
Employment equity	%	79	70	**79**	70

(a) Excluding capitalisation of borrowing costs.
(ns) Not set.

Volumes

Containers

Although container volumes are below the prior year, they exceeded the target by 8,7% due to an increase in transshipment volumes, which was 53% higher than planned volumes. Increased transshipment volumes were attracted mainly due to the redirection of container traffic from West African ports due to congestion at these ports.

The new Ngqura Container Terminal came into operation in October 2009. It was anticipated that the terminal would handle 50 000 TEUs for the financial year but it handled 78 423 TEUs mainly due to volumes being re-directed from the Port of Port Elizabeth and the Port of Cape Town.

Ngqura Container Terminal exceeded expectations by achieving average productivity levels of 21 moves per gross crane hour (GCH) against a start-up target of 15 GCH.

Bulk

At the Port of Saldanha 46,1mt of iron ore were handled at an average loading rate of 6 341 tons per hour, exceeding the annual planned volume by 2,9mt.

At the Port of Port Elizabeth 3,4mt of manganese was exported, which was 21% higher than planned volumes.

Break-bulk

Break-bulk volumes were 4,5% below planned levels mainly due to a reduction in steel exports that was impacted by a decrease in global demand. Other major metal commodities, such as ferro alloys and ferro manganese, have also been adversly impacted by lower global demand.

Automotives

Automotive volumes have exceeded target by 5,8%, mainly due to the increase in rental imports for the 2010 FIFA Soccer World Cup as well as the import of new models into South Africa.

Operational efficiency

Container Handling (Moves per Gross Crane Hour (GCH) and moves per Ship Working Hour (SWH)

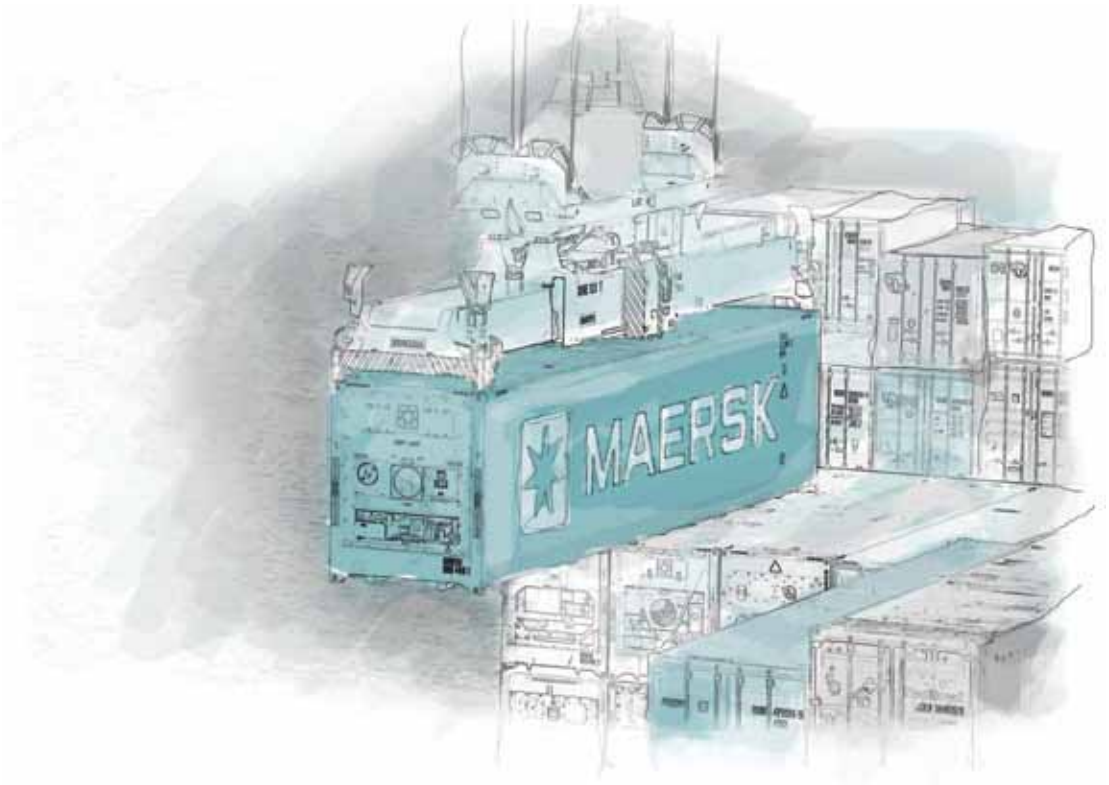
During the year, operational performance in the container sector was adversely impacted by low employee morale, construction activities in both the Durban and Cape Town Container Terminals and adverse weather conditions. A productivity improvement steering committee was established at the Durban Container Terminal in September 2009 with the intention of fast-tracking the implementation of initiatives to improve container productivity. These initiatives have also been rolled out to the Pier 1 and Cape Town Container Terminals. A key initiative is the implementation of sustainable maintenance practices in respect of quayside and landside equipment.

Iron Ore Handling

Saldanha Iron Ore Terminal (IOT) exceeded productivity targets consistently throughout the year due to the introduction of dual loading (two shiploaders per vessel) and staggered loading (simultaneous loading of two vessels). In addition, plant reliability has improved due to an increased focus on maintenance. Loading rates for IOT would have been much higher had it not been for a vessel that was stranded on one of its berths for a period of five months, which prevented dual/staggered loading in respect of larger iron ore vessels.

Other Bulk Handling

Export and import rates at Richards Bay Dry Bulk Terminal were below targets, primarily due to the poor state of the plant and equipment at this terminal. Extensive refurbishment of the plant and critical equipment has already commenced. Furthermore, a reengineering programme, which focuses on productivity improvements, has been launched at Richards Bay to address the current state and utilisation of the plant.



Financial performance

	Year ended 31 March 2010 R million	Year ended 31 March 2009 R million	% change
Salient features			
Revenue	5 156	5 037	2,4
– Containers	2 959	2 914	1,5
– Bulk	1 325	1 068	24,1
– Break-bulk	623	682	(8,7)
– Automotive	249	373	(33,2)
Operating expenses	(3 535)	(3 349)	5,6
– Energy costs	(206)	(215)	(4,2)
– Maintenance	(190)	(144)	31,9
– Material costs	(203)	(203)	(0,0)
– Personnel costs	(1 797)	(1 706)	5,3
– Other	(1 139)	(1 081)	5,4
Profit from operations before depreciation, amortisation and items listed below (EBITDA)	1 621	1 688	(4,0)
Depreciation and amortisation	(800)	(632)	26,6
Profit from operations before the items listed below	821	1 056	(22,3)
Fair value adjustments and impairments	(165)	(7)	>100
Dividend received and income from associates	8	–	–
Net finance costs	(351)	(299)	17,4
Profit before taxation	313	750	(58,3)
Total assets (excluding CWIP)	10 332	7 086	45,8
Profitability measures			
EBITDA margin* (%)	31,4	33,5	(6,3)
Operating margin** (%)	15,9	21,0	(24,3)
Return on average total assets (excluding WIP)*** (%)	9,4	11,1	(15,3)
Asset turnover (excluding CWIP)**** (times)	0,59	0,77	(23,4)
Capital investment^	2 368	3 144	(24,7)
Employees			
Number of employees	5 313	5 569	(4,6)
Revenue per employee	0,97	0,90	7,8

* *Profit/loss from operations before depreciation and amortisation (EBITDA) expressed as a percentage of revenue.*
** *Profit/loss from operations before profit on sale of interest in businesses, impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligations, net finance costs and taxation expressed as a percentage of revenue.*
*** *Profit/loss from operations before profit on sale of interest in businesses, impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligations, net finance costs and taxation expressed as a percentage of total average assets less capital work in progress.*
**** *Revenue divided by average total assets less capital work in progress.*
^ *Actual capital expenditure (replacement + expansion + intangibles) excluding borrowing costs for the period.*

Revenue

Revenue for the year increased by 2,4% to R5,2 billion compared to the prior year. The marginal increase in revenue for the year was as a result of improved commercial agreements and increase in demand for iron ore and manganese exports. Volumes, with the exception of the bulk sector, either decreased or remained consistent compared to the prior year.

Container volumes decreased by 2,9% from the prior year compared to the average increase of 7% in the preceding five years. This is primarily due to the recent global economic slowdown and relatively slow recovery. The increase in volumes compared to target is mainly attributable to an increase in transshipments, which attract approximately 50% of the full export/import tariff. This has resulted in an adverse mix variance in respect of container revenue.

Bulk volumes increased by 22,8% for the second consecutive year, driven by iron ore exports, which increased by approximately 35%.

Break-bulk volumes declined by 1,2% compared to the prior year due to a reduction in steel exports, which have been impacted by the global slump in demand. Other major metal commodities, such as ferro alloys and ferro manganese, have also been adversely impacted by lower global demand, particularly in the Far East and Europe.

Automotive volumes declined by 22,5% mainly due to the decrease in demand as a result of the global economic downturn.

Operating expenses

Operating expenses increased by 5,6% to R3,5 billion. Input costs have increased but have been partially offset by savings related to lower volumes and the implementation of cost-saving initiatives. Maintenance and material cost savings were in line with the target to improve efficiencies and safety meaures at all terminals. Personnel costs are 5,3% higher than prior year following the costs reduction initiatives targeting overtime and a reduction in headcount by only filling critical vacancies. Other operating costs increased by 5,4% mainly due to increases in land rentals as a result of the expansion in the container sector.

Fair value adjustments and impairments for the 2010 financial year amounted to R165 million, primarily due to the impairment of the stock yard cranes in Saldanha and Richards Bay Multi-Purpose Terminals, a bulk handling crane and shiploader in Richards Bay Dry Bulk Terminal and feasibility study costs.

Profitability

EBITDA decreased by 4,0% to R1,6 billion compared to the prior year and consequently the EBITDA margin decreased to 31,4% from 33,5%. Port Terminals' return on average total assets decreased to 9,4% from 11,1% mainly as a result of the capital investments made during the year and the deterioration in profitability.

Infrastructure investments

Port Terminals have invested approximately R10,1 billion in the last five years, primarily in the area of expansion of container and bulk capacity. Approximately R1,16 billion has been spent by Port Terminals on the development of the new Container Terminal in Ngqura, which is expected to develop into a hub for transshipment volumes in the future. The expansion of the Iron Ore Terminal in Saldanha has enabled Port Terminals to achieve record export volumes of 46,1mt for the 2010 financial year, operating at an average loading rate of 6 341 tons per hour (exceeding the target of 6 000 ton per hour).

Capital spending for the 2010 financial year amounted to R2,4 billion compared to R3,1 billion in the prior year. Significant areas of expenditure included the following:

- Durban Container Terminal reengineering project – R315 million;
- Cape Town Container Terminal capacity expansion– R401 million;
- Iron Ore Terminal expansion Phase 1 C in Saldanha – R283 million;
- The refurbishment of the manganese export facility in Port Elizabeth – R224 million;
- Ngqura Container Terminal – R271 million; and
- The refurbishment of the Dry Bulk Terminal in Richards Bay – R182 million.

Risk, safety and compliance

Risk Management

Port Terminals continues to embed the Enterprise-wide Risk Management Framework across the business. This framework provides discipline and structure for risk management within the business and aims to improve the performance by monitoring key risk indicators and managing risk treatment plans.

Safety and DIFR

The twelve month rolling DIFR (Disabling Injury Frequency Rate) is a proportional representation of the occurrence of lost-time incidents over a twelve month period. Port Terminals achieved 0,71 against a target of 0,80. This achievement was an improvement from a score of 0,85 during the 2009 financial year.

A total of 46 disabling incidents were reported in the 2010 financial year compared to 65 disabling incidents in the prior year. The downward DIFR trend is a direct result of heightened safety awareness, increased leadership visibility, learning from previous incidents, increased staff training, introduction of personal protective equipment, senior management walk-abouts and more extensive reporting and monitoring.

Compliance

A key focus area for the year was environmental compliance, with key issues emanating at the Port Elizabeth Manganese Terminal and Richards Bay Terminal. Robust action plans are in the process of being implemented to address the issues raised. The key focus areas for the 2011 financial year are safety and environmental compliance, which is in line with the Quantum Leap Strategy.

Human capital

	2009	2010	Change %
Number of employees	5 569	**5 313**	(4,6)
Revenue per employee (R million)	0,90	**0,97**	7,8
Overtime (R million)	251,9	**251,3**	(0,2)
Training (R million)	47,7	**49,9**	4,6

Strategic initiatives and key focus areas – Quantum Leap initiatives

Port Terminals is geared towards a significant improvement of existing productivity and efficiency levels by focusing on a number of key areas. One of the most important areas of improvement is that of operational efficiency, particularly in respect of container moves per hour and bulk loading rates at Richards Bay.

The increased operational efficiencies will be complemented by an intensive proactive maintenance programme and capital investment plan to ensure equipment reliability and create the necessary capacity to accommodate the expected increase in volumes. Key focus areas also include safety, skills acquisition and development and general improvement in service delivery to clients.

Port Terminals' key focus areas and strategic initiatives are outlined below:

Volume growth in targeted commodities

Grow magnetite, coal and manganese by:

- Increasing stack capacities; and
- Engaging with shipping lines to improve vessel scheduling.

Establish port pairs to increase transshipment volumes through Ngqura.

- Engage at a Government and Port Authority level to establish a suitable environment for port pairs; and
- Engage with shipping lines to develop short-sea shipping capability.

Operational efficiency improvements

A challenging target of 26 moves per gross crane hour in the 2011 financial year has been set and 30 moves per gross crane hour by the 2015 financial year. This will be achieved by:

- Negotiating stow plans with customers to increase usage of three cranes per vessel on key berths;
- Deploying mentors to improve operating and planning skills;
- Integrating Durban Container Terminal and Pier 1 rail operations;
- Rolling out of operation centres for planning; and
- Rolling out of auto gates and offsite document centres.

Optimise the use of capital so as to ensure productivity targets are achieved.

- Review of existing assets to maximise useful lifecycles; and
- Improve productivity levels to create intended capacity without further injection of capital.

Skills acquisition and development to meet business requirements.

- Technical skills programme; and
- Functional skills programmes to train and mentor operators are planned.

To reduce environmental risks and safety incidents to levels that will ensure no productivity is lost due to non-compliance.

- Maintain ISO 9001 and ISO 14001 accreditation;
- Implement OHSAS 18001;
- Monitoring the compliance of safety by third parties;
- Monitoring and response programme for air and dust pollution at Richards Bay, Saldanha and Port Elizabeth; and
- Implement Department of Environmental Affairs (DEA) findings at the ports.

Improve customer satisfaction.

- Productivity improvement programmes to improve GCH at container terminals and loading rates at bulk terminals.

Key risks and mitigating actions

The key risks associated with the achievement of strategic objectives as well as related mitigating actions are outlined below:

Key risks	Mitigating actions
Diminishing volumes, mainly in the container (imports and exports) and automotive sectors as a result of the current economic climate	• Achieve performance levels that exceed international benchmarks with regard to operational performance, capacity utilisation and creation; • Engage key customers in contractual relationships that span longer than one year; • Below CPI tariff increase in the automotive sector; and • Develop an option for a Transnet integrated tariff and end-to-end supply chain logistical solution from Gauteng to Durban and Port Elizabeth.
Employees not geared towards delivering on Quantum Leap Strategy	• Sector productivity improvement programme; • Labour/Management engagement programme; and • Implementation of Total Quality Management and continuous improvement programmes for critical sectors of our business.
Not obtaining a fair return on capital investments due to tariff restraints and declining and uncertain cargo volumes	• Revised capital investment plans to reduce cash outflows, thereby improving gearing and cash interest cover; • Improve productivity levels to create intended capacity without further injection of capital; and • Undertaking a review of assets to maximise useful lifecycles.
Changes in the regulatory and policy environment having an adverse impact on Port Terminals' commercial activities and future business model.	• Ongoing dialogue with regulatory authorities to pre-empt and mitigate adverse impacts of tariff adjustments; • Fast track conversion of terminal operators' deemed licences through engagement with National Ports Authority; • Implement HUB Strategy in alignment with economic review of Port Operations; and • Private Sector participation as a strategic priority.
Equipment performance and availability not meeting productivity requirements	• Implementation of Asset Care strategy to address issues in the following areas: – Inadequate preventative maintenance; – Training, development and recruitment of technical resources; – Organisational structure to improve accountability; – Procurement of Critical Spares; • Implementing equipment refurbishment and replacement programme at Bulk Terminals; • Performing technical audits to identify maintenance shortfalls; and • Full implementation of BCM Tracc maintenance methodology.
Non-compliance with safety and environmental legislation, policies and procedures, impacting Port Terminals operating licence, incurring of fines and penalties and reputational damage	• Embedding of a safety minimum controls framework; • Roll out of the Safety Culture Charter initiative; • Implementation of Port Terminals Safety Improvement Plan; and • Implementation of various initiatives to reduce soil contamination and air pollution with a special focus on bulk terminals.

Capital investment plan

	2010 Actual R million	Five-year planned spending R million
Major investments		
Ngqura Container Terminal	271	163
Cape Town Container Terminal	401	700
Pier 1 Container Terminal	21	207
Durban Container Terminal reengineering	315	167
Refurbishment of equipment at Richards Bay	182	291
Sustaining of assets at Richards Bay	-	306
Replacement of quayside equipment at Richards Bay Dry Bulk Terminal	-	774
STS crane replacement at Durban Container Terminal	-	50
Port Phase 1 B expansion Saldanha	102	26
Port and Rail phase 1 C expansion Saldanha	283	137
Open storage area at Richards Bay Dry Bulk Terminals	-	255
Replace 40 Straddle Carriers at Durban Container Terminal	-	390
Replace two cranes at Port Elizabeth	-	275
Conveyor belt replacements at Saldanha Iron Ore Terminal	-	159
Upgrade fire system at Richards Bay	-	139
Other	793	1 953
Total excluding capitalised borrowing costs	2 368	5 992
Capitalised borrowing costs	185	504
Total including capitalised borrowing costs	2 553	6 496

Port Terminals will spend R6,0 billion (excluding capitalised borrowing costs) over the next five years on capital investments. The capital investment plan has been prioritised to achieve the objectives highlighted in its key strategic focus areas. This will result in the majority of the capital (R3,8 billion: 63%) being invested in maintaining the existing operations and the remainder (R2,2 billion: 37%) being utilised to expand capacity to achieve the growth initiatives.

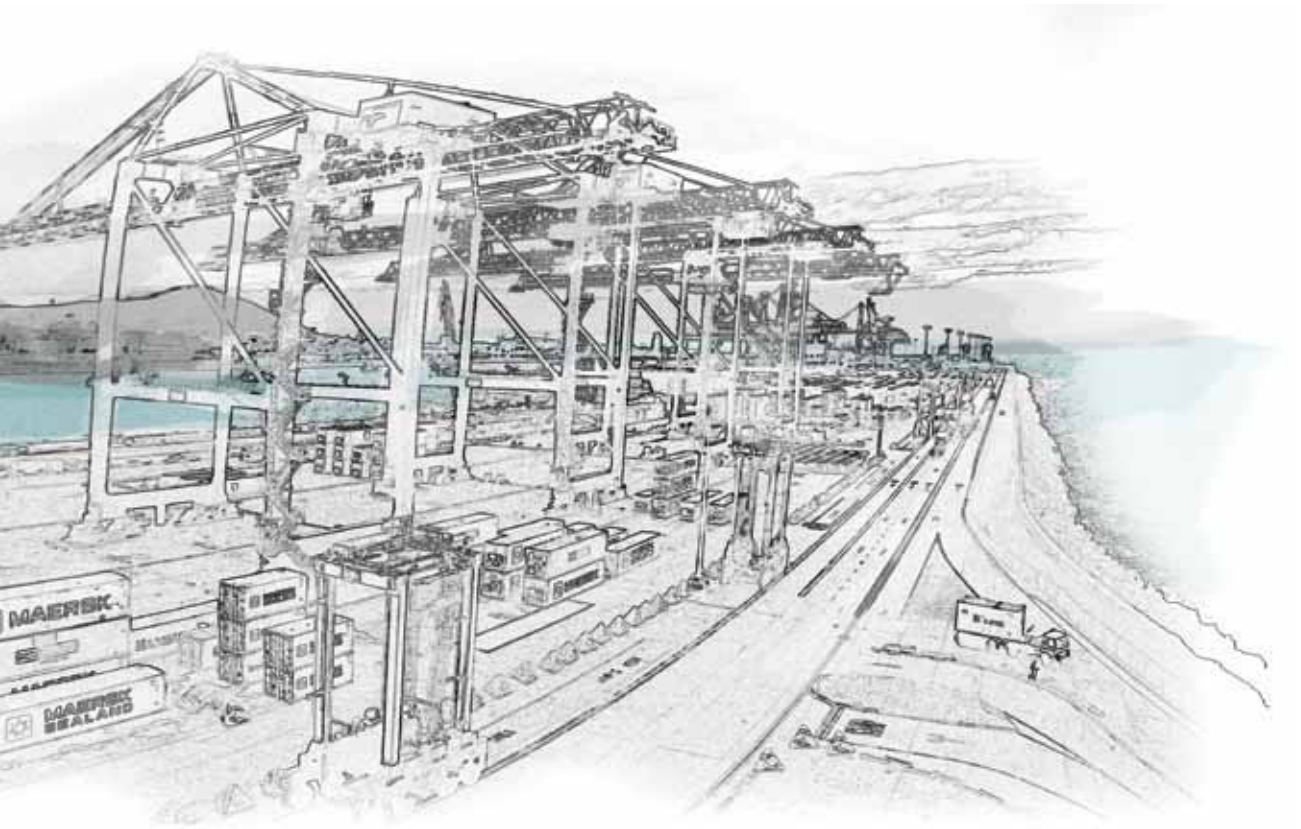
The focus for the next five years is to maintain existing operations, primarily through the refurbishment of the Richards Bay Dry bulk facility, which is currently in an aged condition. The refurbishment programme will improve the reliability of the plant and improve customer service levels and overall productivity levels. Container terminal capacity will be increased significantly over the next three years to accommodate the expected 30% increase in volumes by 2015. Additional stack capacity is being created in Richards Bay to accommodate increased magnetite and coal volumes and the Saldanha Iron Ore Terminal will be expanded even further to a capacity of 60,7mt.

Prospects: Quantum Leap impact

Port Terminals is faced with operational challenges, as well as the impact caused by the recent economic downturn, which has had an adverse impact on volumes. The changing regulatory environment, including the emergence of the National Ports Act has necessitated that Port Terminals assess the impact of the Act on its operations. These challenges have forced Port Terminals to refocus the business and reprioritise its initiatives. Port Terminals aims to position itself strategically alongside international terminal operators (ITOs) and to benchmark its performance in terms of leading operational standards by:

- Targeting sustainable Quantum Leap improvements in productivity and efficiency with specific focus on moves per gross crane hour (GCH) at all ports;
- Effecting deep and long-term improvements in customer relationships with the goal of exceeding customer expectations;
- Improving the skills base through an intensive training programme;
- Recruiting and retaining relevant skills in the planning, operations and technical areas which are critical for improved productivity;
- Targeting sustainable cost containment; and
- Growing container and iron ore volumes by an average growth rate of 6,4% and 6% respectively from current levels by 2015.

Port Terminals is expected to improve its operational efficiencies significantly, particularly with respect to container handling and bulk loading rates. Port Terminals has a robust volume forecast for the next five years and achievement thereof is supported by the Quantum Leap initiatives in all areas of the business. Port Terminals will also explore ways to continuously reduce the cost of doing business in South Africa by engaging other Operating divisions and optimising corridor utilisation.



Sustainability performance

SHEQ scorecard

Cost of loss	DIFR (GRI LA7)	46 disabling injury incidents (GRI LA7)	SHEQ performance audit
R50,4 million against a target of R19,5 million	0,71 against a target of 0,80%		89,4% against a target of 88,7%
↑ 72% versus 2009	↓ 16% versus 2009	↓ 31% versus 2009	↑ 1,9% versus 2009
2011 target R41,6 million	2011 target 0,69		2011 target 90%

0 employee fatalities (GRI LA7)	1 public fatalities (GRI LA7)
→ As previous year	↓ 67% versus 2009

Security scorecard

313 security incidents	Total rand value loss of R1,2 million
↓ 1% versus 2009	↓ 35% versus 2009

Environmental scorecard

Fuel consumption	Electricity consumption (GRI EN3)	Water consumption (GRI EN8)
15,1 mℓ	227 720 MWh	Not available
↓ 1% versus 2009	↑ 168% versus 2009	

BBBEE scorecard

BEE procurement R1,7 billion accounting for 54% of total procurement spend against a target of 65%

BO* procurement	EME* procurement	QSE* procurement	BWO* procurement
R0,4 billion accounting for 12% of total procurement spend against a target of 9%	R0,2 billion accounting for 5% of total procurement spend against a target of 5%	R0,4 billion accounting for 14% of total procurement spend against a target of 5%	R0,1 billion accounting for 2% of total procurement spend against a target of 6%
2011 target 12%	2011 target 5%	2011 target 5%	2011 target 6%

**BO Procurement from black owned enterprises (50% black shareholders)*
**EME Procurement from exempted micro enterprises (turnover up to R5 million)*
**QSE Procurement from qualifying small enterprises (turnover of R5 million to R35 million)*
**BWO Procurement from black women owned enterprises*

Employee equity scorecard

GRI 2.8 Total employees	Black management as a % of all management	Female management as a % of all management	Employees with physical disabilities as a % of total employees
5 313	73%	33%	1%
↓ 5% versus 2009	↑ 5% versus 2009	↑ 3% versus 2009	↑ 0,1% versus 2009

Skills development scorecard

Training spend	Training as a % of total personnel costs		
R43 million	3%		
↓ 10% versus 2009	↓ 0,3% versus 2009	2011 target 3,4%	Industry average 2,8%

Employee relations scorecard

GRI LA7	GRI LA7	
77 man-days lost due to industrial action*	91% junior unionised employees (including fixed term contractors)	Disciplinary action 19% of workforce
↑ 1 819% versus 2009	82% versus 2009 (excluding fixed term contractors)	↑ 6% versus 2009

All man-days lost was due to unprotected strike action.

Absenteeism management scorecard

	GRI LA7
R25,1 million direct absenteeism cost*	Absenteeism rate (percentage days) 2,9%
↑ 10% versus 2009	↓ 0,1% versus 2009

Attributed to the increase in the number of days lost due to absenteeism and a parallel increase in salaries.

Lifestyle and HIV/Aids management scorecard

				GRI LA7
R0,1 million spend on disease management		31 employees enrolled in the lifestyle management programme	186 employees registered on the Transmed HIV/Aids Programme	A total of 217 employees enrolled in lifestyle programmes
↑ 5% versus 2009	2011 target R0,13 million	→ as previous year	↑ 11% versus 2009	↑ 10% versus 2009

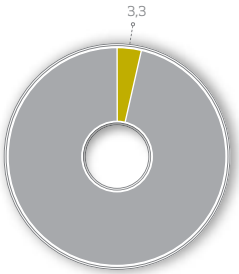
Transnet Pipelines

Transnet Pipelines (Pipelines) transports a range of petroleum products and gas through 3 000 kilometres of underground pipelines traversing five provinces, thereby ensuring the supply of petroleum products in the country, especially Gauteng. Pipelines is gearing itself for the commissioning of the New Multi-Product Pipeline (24-inch trunk line)during 2012.

Performance at a glance

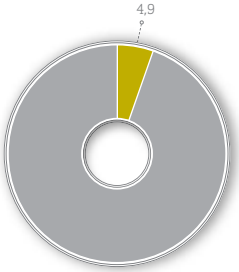
External revenue (%)

R1 170 million
3,3% of Group external revenue



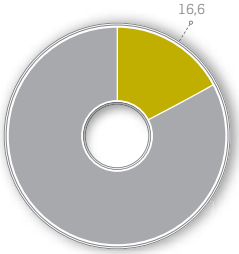
EBITDA (%)

R703 million
4,9% of Group EBITDA



Capital investments* (%)

R3 067 million
16,6% of Group capital investments

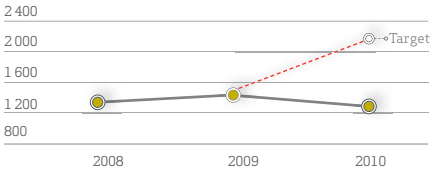


Number of employees:

499 permanent
52 contractual

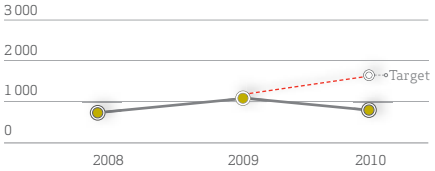
Financial highlights

Total revenue (R million)



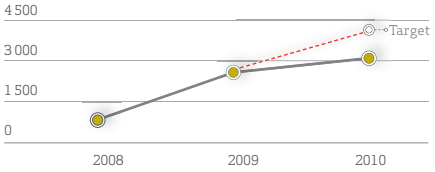
2010 vs 2009	2010 vs target
↓ 20,0%	↓ 47,2%

EBITDA (R million)



2010 vs 2009	2010 vs target
↓ 32,9%	↓ 59,2%

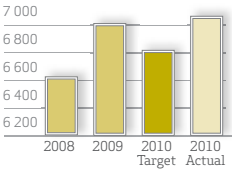
Capital investments (R million)



2010 vs 2009	2010 vs target
↑ 10,6%	↓ 29,6%

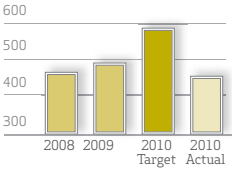
Key volumes

Petroleum ('000 mℓ.km)



2010 vs 2009	2010 vs target
↑ 4,5%	↑ 7,8%

Gas (million m³)



2010 vs 2009	2010 vs target
↓ 7,8%	↓ 22,9%

2010 Performance

Financial

- Reduction in tariff of 10,4% resulted in a revenue shortfall of approximately R1 billion compared to target.
- The decrease in tariff was partially mitigated by volume growth of 3% within a constrained pipeline.

Operational

- Volumes transported increased 3% from 17,22 billion litres to 17,75 billion litres.
- Volume growth on a mℓ.km basis increased 4,5% due to greater volumes over longer distances.
- Gas volumes down as a result of the economic slowdown.

Human resources

- Absenteeism rate decreased by 0,2% to 0,8% in the current year.
- Training spend was 4% of total personnel costs.

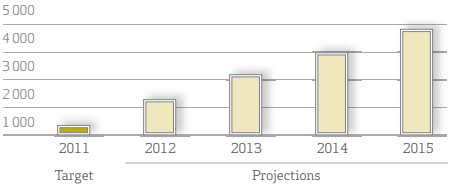
Safety

- Disabling Injury Frequency Rate (DIFR) decreased from 1,44 to 0,54.
- Reduction in the number of safety incidents from 143 to 109.
- Reduction in the number of disabling incidents from 13 in the prior year to four in the current year.

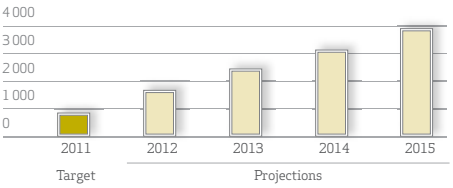
Looking ahead

Highlights

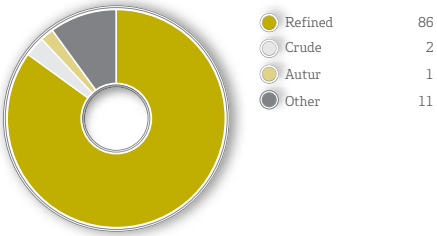
Revenue (R million)



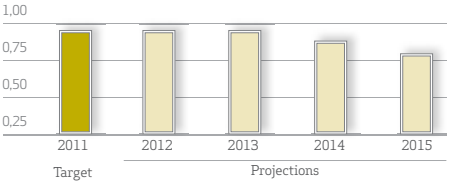
EBITDA (R million)



Five-year capital investment by commodity (%)

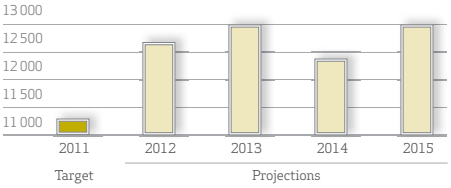


DIFR (Disabling injury frequency rate)

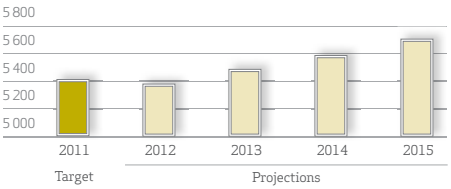


Key volumes

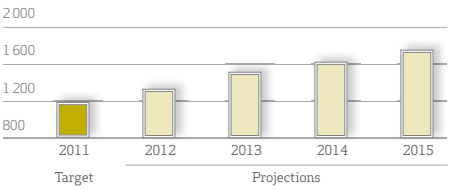
Refined and Synthetics (mℓ)



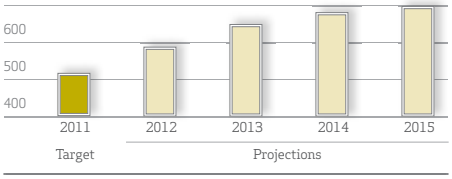
Crude (mℓ)



Avtur (mℓ)



Gas (million m³)



Strategy

Pipelines' strategic initiatives focus on the following:

- Investment in additional capacity through the roll out and implementation of the NMPP project which will ensure that Pipelines employs the latest technologies and designs to execute its strategic role in the South African economy.
- Ensuring its role in the logistical fuel chain is fulfilled to ensure that the inland market (Gauteng) fuel requirements are met, especially during the NMPP construction phase. This will be done by the execution of the Pipelines Bridging Plan which consists of four key initiatives; operational improvements, use of drag reducing agents, transporting diesel or petrol in the crude pipeline and cooperation with Transnet Freight Rail, especially with the transportation of jet fuel to OR Tambo International Airport (ORTIA).
- The revised implementation plan for the NMPP necessitates the use of both the NMPP and the Durban to Johannesburg Pipeline (DJP) for the 2012 and 2013 years to meet market demands.
- Staff up to 700 employees by 2013 to ensure that the transition into the new business environment with the NMPP is successful.
- Continued interactions with Regulatory Authorities in this dynamic environment to facilitate regulatory reform and to ensure alignment and cooperation amongst all stakeholders. It will be imperative to ensure that the tariff methodology is stabilised so that funding of strategic projects can continue with relative certainty and stability.

Key risks

- Security of Supply: Pipelines will focus on mitigating all risks associated with the security of supply of products to the inland market area, especially during the peak demand for fuel during the FIFA Soccer World Cup 2010. This will be done by close interaction with all role players and the successful implementation of all the Bridging Plan initiatives.
- Equipment failure: The risks associated with potential asset failure will be managed through the strategic maintenance plan which has a specific focus on the ageing DJP to allow for its extended use until the full NMPP is commissioned.
- Effective human resource management: Retention of skills and recruitment of personnel to meet the challenges of the New Multi-Product Pipeline (NMPP) business environment will be managed through a human resource sustainability plan and programme.

The presence of these risks could impact negatively on the achievement of the key strategic objectives of the Operating division. However, focus areas and initiatives of the Quantum Leap Strategy will assist in mitigating these risks.

2011 Quantum Leap initiatives

- Pipelines will fulfil its role in the logistical fuel supply chain to ensure the security of supply to the inland market is met and that no stock-outs occur. The execution of the Bridging Plan and close working relations with Freight Rail on the supply of aviation fuel to ORTIA will receive priority, especially during the 2010 FIFA Soccer World Cup.
- Limited volume growth is envisaged for the year ahead, but significant growth will be realised firstly when the DJP and the NMPP are used together and thereafter once the full NMPP is operational in the 2014 financial year.
- Pipelines will focus on improving operational efficiencies and the reduction of incidents relating to security, safety and the environment.

Overview of business operations

During the year, Pipelines continued to fulfil its role in the logistical fuel supply chain in providing a secure supply of liquid fuels to the inland market. To this effect Pipelines has optimally managed capacity in its 3 000 kilometres of petroleum and gas pipeline infrastructure which traverses five provinces.

Regulatory environment

Pipelines is regulated by the National Energy Regulator of South Africa (Nersa). The following Acts govern Pipelines in terms of the construction, operation and maintenance of petroleum and gas pipelines:

- Petroleum Pipelines Act, 2003 (Act No 60 of 2003);
- Gas Act, 2001 (Act No 48 of 2001); and
- National Energy Regulator Act, 2004 (Act No 40 of 2004).

Pipelines has received operating licences for all current petroleum and gas pipelines, storage and a construction licence for the NMPP. An application has been submitted to Nersa for an amendment to the conditions of its operating licence to include the 16" sections of the NMPP once they come into operation.

One of the major concerns is the current outcome of the application of the Nersa tariff methodology, which negatively impacts the ability of Pipelines to service its debt and earn a return commensurate with the risk associated with the business. Furthermore, the uncoordinated development of pipelines in South Africa will have a serious impact on the viability of existing pipelines. South Africa needs infrastructure investments that respond to the unique challenges confronting the country and region.

As a result of Nersa disallowing a recovery of costs associated with borrowings during the period of construction of the NMPP, as well as other factors, Pipelines' revenues were negatively impacted by approximately R1 billion in the 2010 financial year. Applying this ruling on major investments over the next two years, will result in a significant cash shortfall and have an adverse effect on Transnet's financial metrics.

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

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

Reconciliation between Transnet's application and the Nersa decision

The regulator approved an increase of 11,86% increase in allowable revenue for the 2010/11 financial year compared to the 51,3% increase that was applied for.

Description	R million	%
Transnet application	**1 656**	**51,30**
Claw-back	(134)	(12,20)
Return on asset difference	(215)	(19,64)
Taxation difference	(83)	(7,60)
NERSA decision post claw back	**1 224**	**11,86**

Details of the reconciling differences are as follows:

Claw-back

	Reasons provided by Nersa	R million
16" lines	16" pipelines were included in the 2009/10 application but were however not completed by December 2009 as initially planned.	36
CSI costs	Only corporate social investment costs that benefit tariff paying customers of the pipeline are permitted.	28
Taxation	Nersa indicated that taxation claimed in 2009 was based on a notional taxation basis. Therefore claw-back is not permitted.	61
Other	Time value of money, deferred taxation, expenses.	9
Total		**134**

Transnet's applications was based on sound technical and widely accepted regulatory principles.

Return on asset difference

This amount is directly attributed to the differences in the application of the capital asset pricing model (CAPM) in the calculation of the cost of equity to that calculated by Nersa. The specific areas of contention relate to beta and the risk free rate.

- Nersa uses a post taxation risk free rate in the determination of the cost of equity. Transnet is of the view that this is not aligned to CAPM principles.
- Transnet is of the view that that Nersa did not follow sound practice in its estimation of Transnet's beta and it may be susceptible to errors.

Taxation

This is the resultant impact of the reduction in revenue per the return on asset difference discussed above.

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

Key performance indicators

		2009 Actual	2010 Target	2010 Actual	2011 Target
Volumes					
Refined and synthetics	mℓ	10 768	10 996	**11 480**	11 304
Crude	mℓ	5 172	5 100	**5 108**	5 410
Avtur	mℓ	1 276	1 074	**1 163**	1 214
Gas	million m³	494	590	**455**	520
Operational efficiency					
Bridging plan initiatives					
Capacity utilisation – Refined (DJP)	%	104	96	**101**	100
Capacity utilisation – Crude	%	77	73	**83**	83
Capacity utilisation – Avtur (operational)	%	87	86	**87**	88
Capacity utilisation – Gas (contractual)	%	94	111	**86**	98
Production					
Production interruptions – internal and external causes (b)	hours	755	726	**907**	280
Financial					
EBITDA margin (%)	%	71,6	77,8	**60,0**	60,8
Return on average total assets (excluding CWIP) (%)	%	15,5	26,1	**7,0**	23,9
Infrastructure					
Capital investments (a)	R millions	2 772	4 356	**3 067**	5 421
Safety					
DIFR	rate	1,44	1,30	**0,54**	0,95
Human capital					
Training spend/personnel costs	%	7,2	5,0	**5,2**	7,0
Employment equity	%	74	73	**76**	75
Customer focus					
Resolution of customer complaints within 30 days	%	94	86	**99**	88
"Off spec" volumes – excluding crude and gas	%	0,6	0,6	**0,6**	0.5
Inter-mixture stock level	mℓ	n/a	5,5	**5,2**	<5,5

(a) Excluding capitalisation of borrowing costs and including decommissioning liabilities.
(b) The 2011 target for production interruptions represents only internal causes under the control of Pipelines.
n/a Not applicable.

Volumes

Total volumes transported amounted to 17,75 billion litres, compared to the previous year of 17,22 billion litres. This increase of 3% in a constrained system can be attributed to the use of drag reducing agents; the optimal transportation of product in the system (diesel and petrol in the crude oil pipeline); and other operational improvements. The volume growth in the system on a mℓ.km basis increased by 4,5% as a result of transporting more volumes over longer distances.

Refined and synthetics

Refined and synthetics volumes transported in million litres increased by 6,6% compared to the prior year as a result of the above mentioned initiatives.

Crude

Crude volumes decreased by 1,2% compared to the prior year as a result of the Natref production problems as well as the shutdown that started in March 2010. The capacity in the crude oil pipeline was however used to transport refined products.

Avtur

Avtur pipeline volumes decreased by 8,9% compared to the prior year as a result of the Bridging Plan initiative to transfer coastal Avtur volumes to Transnet Freight Rail.

Gas

Gas volumes were lower than expected during the year and are predominantly attributable to the slowdown of the economy, which affected the industries using this resource. This was, however, not reflected in the revenue due to the take-or-pay nature of the contract.

Operational efficiency

Capacity utilisation

The DJP was optimally utilised for the period under review as is evidenced by the consistent capacity utilisation of 83 mℓ/week. This was achieved as a result of the use of drag reducing agents. Further, Pipelines ensured the optimal use of the pipeline system by transporting diesel and petrol in the crude line especially during periods of inland refinery production problems. The increased volumes transported ex-coast further contributed to the efficient utilisation of the system as evidenced by the 4,5% mℓ.km increase year-on-year.

Production interruptions

Although product interruptions proved to be a significant challenge for the year, these were linked to the production problems at the inland refineries as well as equipment failure and power supply problems.

Customer focus

Good client relations has resulted in speedy resolutions of issues raised and is also evident in the result of the annual customer satisfaction index measure of 86,6%.

Financial performance

	Year ended 31 March 2010 R million	Year ended 31 March 2009 R million	% change
Salient features			
Revenue	1 171	1 463	(20,0)
–Refined and synthetics	667	728	(8,4)
– Aviation fuel	35	54	(35,2)
– Crude	324	412	(21,4)
– Gas	114	105	8,6
– Other~	31	164	(81,1)
Operating expenses	(468)	(415)	12,8
– Energy costs	(140)	(107)	30,8
– Maintenance	(35)	(29)	20,7
– Material costs	(13)	(12)	8,3
– Personnel costs	(202)	(186)	8,6
– Other	(78)	(81)	(3,7)
Profit from operations before depreciation, amortisation and items listed below (EBITDA)	703	1 048	(32,9)
Depreciation and amortisation	(343)	(268)	28,0
Profit from operations before the items listed below	360	780	53,8
Impairments and fair value adjustments	(136)	(24)	>100
Net finance costs	(97)	(166)	(41,6)
Profit before taxation	127	590	(78,5)
Total assets (excluding CWIP)	4 954	5 337	(7,2)
Profitability measures			
EBITDA margin* (%)	60,0	71,6	(16,2)
Operating margin** (%)	30,7	53,3	(42,4)
Return on average total assets (excluding WIP)*** (%)	7,0	15,5	(54,8)
Asset turnover (excluding CWIP)**** (times)	0,23	0,29	20,7
Capital investments^	3 067	2 772	10,6
Employees			
Number of employees	499	477	4,6
Revenue per employee	2,35	3,07	(23,5)

~ *Includes product reconciliation adjustment in the prior year.*
* *Profit/loss from operations before depreciation and amortisation (EBITDA) expressed as a percentage of revenue.*
** *Profit/loss from operations before profit of sale on interest in businesses, impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligations, net finance costs and taxation expressed as a percentage of revenue.*
*** *Profit/loss from operations before profit on sale of interest in businesses, impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligations, net finance costs and taxation expressed as a percentage of total average assets less capital work in progress.*
**** *Revenue divided by average total assets less capital work in progress.*
^ *Actual capital expenditure (replacement + expansion + intangibles) excluding capitalised borrowing costs and capitalised decommissioning liabilities for the period.*

Revenue

Revenue for the year has decrease by 20%. The decrease in revenue of R292 million is mainly due to the following:

- The impact of the average 10,4% decrease in tariffs set by Nersa has been partially offset by a 3,0% growth in petroleum volumes; and
- The claw-back of R148 million which was based on the application of the Nersa Petroleum Pipelines Tariff methodology.

Operating expenses

Operating expenses increased by 12,8% to R468 million when compared to the prior year. The increase was predominantly attributable to:

- Energy cost increases as a result of the 34% increase in electricity tariffs;
- Focused maintenance on the ageing pipeline network.

Profitability

Pipelines recorded an EBITDA of R703 million, a decrease of 32,9% compared to the prior year. The EBITDA margin decreased from 71,6% to 60,0% primarily as a result of the reduction in tariffs and the provision for claw-back for the first time.

Infrastructure investments

The NMPP project has progressed despite the regulatory uncertainty that impacts tariffs, with project funding being derived from borrowings that rely on the strength of Transnet's credit rating, which ensures construction can continue. Pipelines' investment in the 2010 financial year related mainly to the execution of the NMPP project to secure fuel supply to the inland market, constituting 89% of the year's spend amounting to R2,7 billion. The construction of the inland sections of the pipeline is almost complete and will be commissioned in the 2011 financial year.

Risk, safety and compliance

All the key focus areas on safety, environment and security showed an improvement. Safety incidents decreased from 143 to 109 incidents; security incidents improved from 87 to 60 incidents; and environmental incidents decreased from 49 to 42 mainly as a result of enhanced focus on safety and environmental initiatives.

This enhanced focus resulted in a reduction in the number of disabling incidents during the year from 13 in the prior year to four in the current year. This reduction is reflected in the DIFR, which improved to 0,54 from a planned target of 1,30.

Human capital

The filling of vacancies progressed well and the total number of employees in Pipelines increased from 477 in the prior year to 499 (permanent) in the current year. Pipelines plans to increase employee numbers to 630 at the end of the 2011 financial year.

The absenteeism rate decreased from 1,0% in the prior year to 0,8% in 2010.

Training for the year focused on statutory training and represents 4% of personnel costs compared to a target of 5%.

Strategic initiatives and key focus areas – Quantum leap initiatives

As Pipelines is not in a position to increase volumes significantly until the commissioning of the NMPP, the optimal use of the network through the Bridging Plan initiatives will focus on sustaining overall volumes transported during the year. Focus will remain on the optimal use of the pipeline system and operational efficiencies.

- Continuation of supply during the 2010 FIFA Soccer World Cup period;
- Pipelines' long-term focus is on investment in additional capacity through the implementation of the NMPP project;
- Continue to perform its role in the logistical chain to ensure that fuel requirements for the inland market are met, especially during the NMPP construction phase;
- Continued interaction with all Regulatory Authorities; and
- Improve productivities and efficiencies in order to optimise EBITDA

Key risks and mitigating actions

The key risks associated with the achievement of strategic objectives as well as related mitigating actions are outlined below:

Key risks	Mitigating actions
Extended usage of the DJP	The risks associated with the extended use of the ageing and capacity constrained DJP will be partially mitigated by performing an integrity assessment of the DJP and operating the pipeline at a lower flow rate and pressure once the NMPP trunkline is available for use.
Security of supply	Pipelines will focus on mitigating risks associated with the security of supply of products to the inland market area, especially during the peak demand of fuel during the 2010 FIFA Soccer World Cup. This will be achieved by close interaction with all roleplayers and the successful implementation of all the Bridging Plan initiatives.
Equipment failure	The risks associated with potential asset failure will be managed through the strategic maintenance plan which has a specific focus on the ageing DJP to allow for its extended use until the NMPP is commissioned.
Effective human resource management	Retention of skills and recruitment of personnel to meet the challenges of the NMPP business environment will be managed through a human resource sustainability plan and programme.

Capital investment plan

	2010 Actual R million	Five-year planned spending R million
Planned capital investment		
New Multi-Product Pipeline (NMPP)	2 698	9 179
Security Upgrade Project (NKP Phase 1 and 2)	-	895
Tele-mechanical Projects	305	684
Replacement of the DJP Northern Lines	-	740
Crude standby power supply	-	200
Growing the unregulated business	-	100
Other	64	692
Total excluding capitalised borrowing costs and capitalised decommissioning liabilities	3 067	12 490
Capitalised borrowing costs	452	2 971
Total including capitalised borrowing costs	3 519	15 461

Capital investment in Pipelines is primarily focused on the successful achievement of Bridging Plan initiatives, the NMPP and the completion of the associated depot tele-mechanical upgrade projects. The Division will focus on sustainable projects and not on new business in the year ahead due to affordability challenges resulting from the current Nersa tariff methodology, with the exception of the NMPP and the National Key Points (NKP) security requirements. The execution of the NMPP project by Transnet Capital Projects will be a priority for the year ahead. This will include bringing the 16" inland sections of pipelines into operation in the coming year and having the trunkline available in the 2012 financial year. The final forecast cost to complete the project has been approved at R15,5 billion and the revised date for completion of the project is December 2012.

Prospects: Quantum Leap impact

With the completion of the NMPP 24" trunkline, Pipelines will have the ability to transport 8,76 billion litres per annum which is more than double the existing capacity. This will result in a decrease in the volumes presently transported by road and also improve security of supply to the inland market.

Sustainability performance

SHEQ scorecard

Cost of loss	DIFR (GRI LA7)	4 (GRI LA7)	SHEQ performance audit
R0,2 million against a target of R1,2 million	0,54 against a target of 1,30	disabling injury incidents	89,36% against a target of 91,5%
↓ 89% versus 2009	↓ 63% versus 2009	↓ 60% versus 2009	↓ 1% versus 2009
2011 target R0,2 million	2011 target 0,95		2011 target 91,5%**

0 employee fatalities (GRI LA7)	0 public fatalities (GRI LA7)
→ As previous year	→ As previous year

Security scorecard

27 security incidents improvements	Total rand value loss of R0,5 million
↑ 31% versus 2009	↑ 894% versus 2009

Environmental scorecard

Fuel consumption	Electricity consumption (GRI EN3)	Water consumption (GRI EN8)
0,2mℓ	160 208Mwh	Not available
↓ 21% versus 2009	↓ 24% versus 2009	Incremental baseline

BBBEE scorecard

BEE procurement R1,8 billion accounting for 69% of total procurement spend against a target of 65%

BO* procurement	EME* procurement	QSE* procurement	BWO* procurement
R0,005 billion accounting for 0,2% of total procurement spend against a target of 9%	R0,03 billion accounting for 1% of total procurement spend against a target of 5%	R0,1 billion accounting for 6% of total procurement spend against a target of 5%	R0,005 billion accounting for 0,2% of total procurement spend against a target of 6%
2011 target 12%	2011 target 5%	2011 target 5%	2011 target 6%

**BO Procurement from black owned enterprises (50% black shareholders)*
**EME Procurement from exempted micro enterprises (turnover up to R5 million)*
**QSE Procurement from qualifying small enterprises (turnover of R5 million to R35 million)*
**BWO Procurement from black women owned enterprises*

Employee equity scorecard

GRI 2.8 Total employees	Black management as a % of all management	Female management as a % of all management	Employees with physical disabilities as a % of total employees
499	57%	20%	1%
↑ 5% versus 2009	↓ 15% versus 2009	↓ 7% versus 2009	→ as previous year

Skills development scorecard

Training spend	Training as a % of total personnel costs		
R7 million	4%		
↓ 37% versus 2009	↓ 2,8% versus 2009	2011 target 7,0%	Industry average 2,8%

Employee relations scorecard

GRI LA7	GRI LA7	
0 man-days lost due to industrial action*	92% junior unionised employees (including fixed-term contractors)	Disciplinary action 6% of workforce
→ As previous year	75% versus 2009 (excluding fixed term contractors)	↑ 2,0% versus 2009

*All man-days lost are due to unprotected strike action.

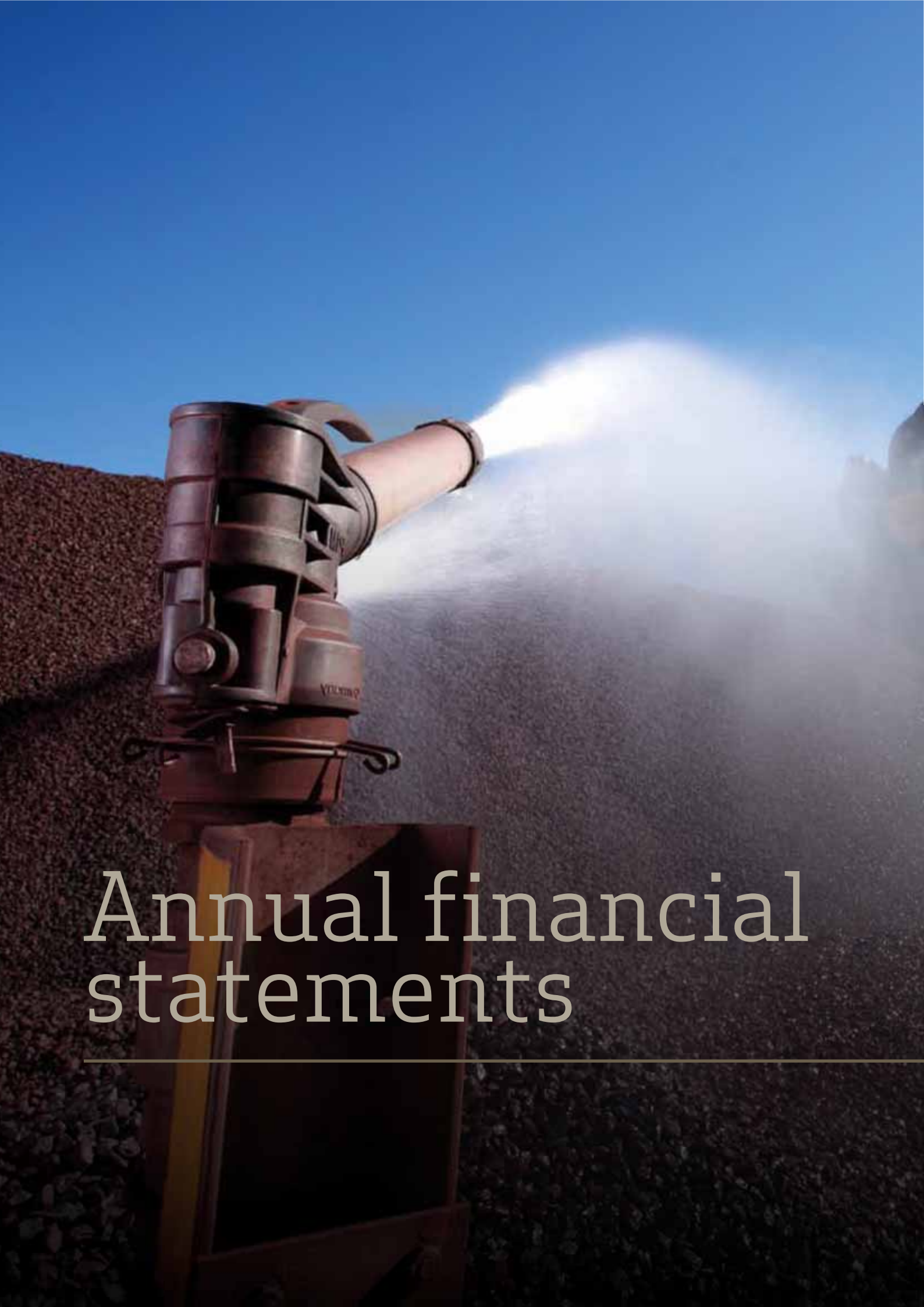
Absenteeism management scorecard

	GRI LA7
R0,9 million direct absenteeism cost*	Absenteeism rate (percentage days) 0,8%
↓ 28% versus 2009	↓ 0,2% versus 2009

*Attributed to the increase in the number of days lost due to absenteeism and a parallel increase in salaries.

Lifestyle and HIV/Aids management scorecard

				GRI LA7
R0,02 million spend on disease management		1 employee enrolled in the lifestyle management programme	25 employees registered on the Transmed HIV/Aids Programme	A total of 26 employees enrolled in lifestyle programmes
↑ 5% versus 2009	2011 target R0,02 million	→ As previous year	↓ 4% versus 2009	↓ 4% versus 2009



Annual financial statements

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

Group Audit Committee report

for the year ended 31 March 2010

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

Composition of the Audit Committee

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

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

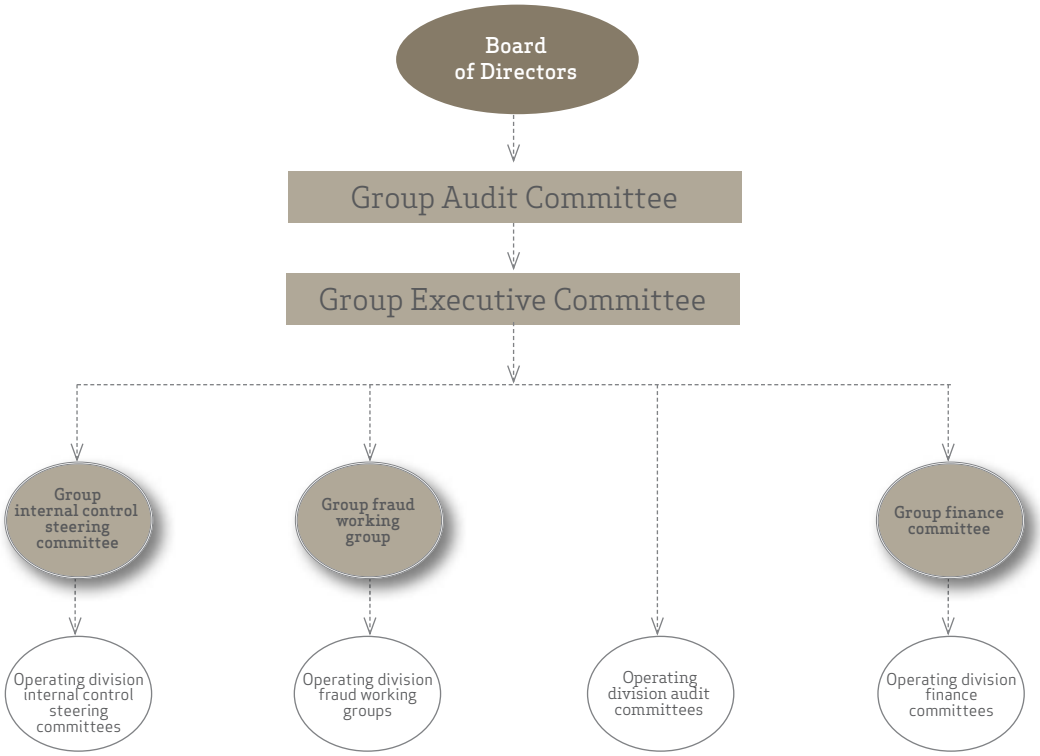
The credentials of the members are detailed in the Overview section of this annual report.

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

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

Audit Committee Governance structure

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



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

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

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

External audit

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

Internal audit

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

General

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

King III recommendations

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

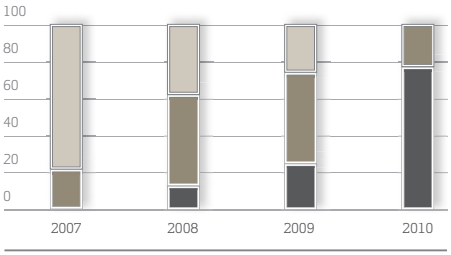
Assessment of the financial function and competence of the Acting Chief Financial Officer

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

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

Internal control environment

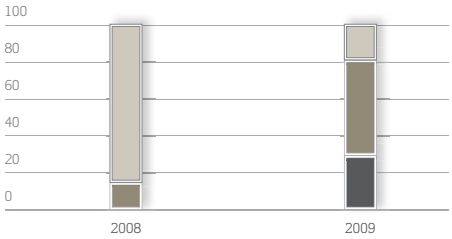
Financial process ratings (%)



Graph 1

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

Operational process ratings (%)



Graph 2

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

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

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

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

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

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

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

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

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

Annual financial statements

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

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

KC Ramon
Acting Chairman

9 June 2010
Johannesburg

Approval of the annual financial statements

for the year ended 31 March 2010

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

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

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

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

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

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

Prof GK Everingham
Acting Chairman

9 June 2010
Johannesburg

CF Wells
Acting Group Chief Executive

9 June 2010
Johannesburg

Group Company Secretary certificate

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

ANC Ceba
Company Secretary

9 June 2010
Johannesburg

Independent auditors' report to the Minister of Public Enterprises

for the year ended 31 March 2010

Report on the financial statements

Introduction

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

Accounting authority's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

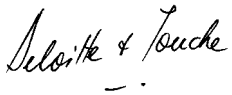
Report on other legal and regulatory requirements

Compliance with the Public Finance Management Act

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

Compliance with laws and regulations

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



Deloitte & Touche
Registered Auditors

Per Trushar Kalan
Partner

9 June 2010

Deloitte Place
The Woodlands
20 Woodlands Drive
Woodmead
2199

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

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

Introduction

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

Ownership and Shareholder's expectations

GRI 2.6

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

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

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

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

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

Board of Directors and Succession

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

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

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

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

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

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

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

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

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

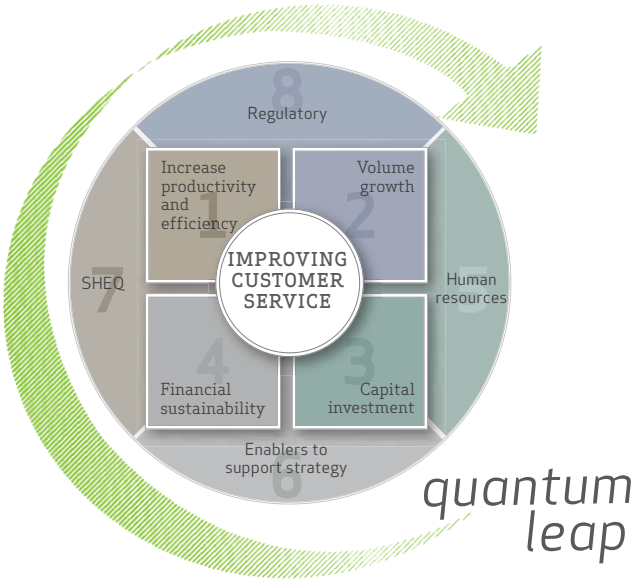
Strategy overview

GRI 1.1

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

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

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



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

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

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

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

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

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

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

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

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

Share capital

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

Divisions, subsidiaries and associate companies

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

Accounting policies

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

Critical judgements and estimations made in applying the accounting policies

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

Summary of financial performance

GRI 2.6

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

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

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

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

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

Port infrastructure

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

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

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

Pipeline networks

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

Capital expenditure and commitments

GRI 2.8

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

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

Dividends

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

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

Borrowings

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

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

Post-retirement benefit obligations

GRI EC3

SATS Pensioners' post-retirement medical benefit obligations

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

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

Safety, health and environment

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

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

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

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

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

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

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

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

Compliance with legislation

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

PFMA – Compliance

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

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

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

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

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

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

Reportable irregularity in terms of the Auditing Profession Act

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

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

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

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

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

Proposed amendments to the Articles of Association

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

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

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

Shareholder Compact – performance criteria

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

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

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

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

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

c. Capital expenditure excludes capitalised borrowing costs.

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

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

f. All ports excluding the Port of Durban.

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

Economic regulation and regulatory reform

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

Transnet Pipelines

Petroleum levy

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

Tariffs

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

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

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

Petroleum pipeline licence

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

Transnet National Ports Authority

The potential corporatisation of National Ports Authority

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

National Environmental Management: Integrated Coastal Management Act of 2008

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

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

Tariffs

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

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

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

Port of Ngqura licence

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

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

Freight Rail

SR

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

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

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

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

Reputation management

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

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

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

Judicial proceedings

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

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

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

Events after the reporting period date

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

Corporatisation of Transnet Pipelines

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

Strike action

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

Going concern

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

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

Executive remuneration – guaranteed

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

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

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

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

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

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

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

Executive salary adjustments

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

Executive remuneration – guaranteed

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

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

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

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

Executive remuneration – non-guaranteed

Transnet Short-Term Incentive Scheme

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

The following principles apply to the STI:

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

Management employees (grade levels A – F)

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

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

Junior employees

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

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

Generation of bonus pool

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

Transnet Long-Term Incentive Scheme

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

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

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

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

Incentive payments

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

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

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

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

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

Non-executive Directors remuneration

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

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

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

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

Registration details

GRI 2.4

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

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

Company Secretary

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

Auditors

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

Deloitte Place
The Woodlands
20 Woodlands Drive
Woodmead
Johannesburg.

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

Transnet is a company domiciled in South Africa.

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

Statement of compliance

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

Critical judgements and estimates made in applying the accounting policies

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

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

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

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

Revaluations of property, plant and equipment

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

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

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

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

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

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

Investment properties

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

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

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

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

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

Decommissioning liabilities

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

Environmental liabilities

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

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

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

Post-retirement benefit obligations

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

Residual values and useful lives

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

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

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

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

Impairments – Cash-generating units

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

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

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

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

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

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

Inventory provisions

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

Fair values and financial instruments

Basis for determining fair values

Bonds

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

Other non-derivative assets and liabilities

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

Derivatives

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

Other financial instruments

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

Legal claims

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

Significant accounting policies

Basis of preparation

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

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

Change in accounting policy

New and amended standards adopted by the Group

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

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

Basis of consolidation

Subsidiaries

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

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

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

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

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

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

Associates (equity accounted investees)

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

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

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

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

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

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

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

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

Joint ventures (equity accounted investees)

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

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

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

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

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

Foreign currency

Functional and presentation currencies

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

Foreign currency transactions

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

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

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

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

Financial statements of foreign entities

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

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

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

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

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

Revenue

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

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

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

Transportation and other related services

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

Rental income

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

Construction contracts

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

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

Dividend income

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

Finance income

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

Government grants

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

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

Transactions giving rise to adjustments to revenue/purchases

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

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

Property, plant and equipment

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

Recognition and measurement

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

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

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

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

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

Subsequent costs

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

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

Depreciation

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

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

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

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

Investment properties

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

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

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

Intangible assets and goodwill

Software and licences

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

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

Research and development

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

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

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

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

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

Subsequent expenditure

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

Amortisation and impairment

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

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

Software – 5 years
Licences – term of the licence

Goodwill

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

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

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

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

Negative goodwill

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

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

Impairment of non-financial assets

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

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

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

Calculation of recoverable amount

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

Reversals of impairment

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

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

Borrowing costs

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

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

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

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

Net financing costs

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

Taxation

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

Current taxation

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

Deferred taxation

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

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

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

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

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

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

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

Land

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

Asset in respect of which no taxation allowances are granted

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

Asset (other than land) carried at cost

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

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

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

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

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

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

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

Secondary taxation on companies (STC)

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

Financial instruments

Recognition

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

Classification

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

Held-to-maturity financial assets

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

Measurement

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

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

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

Investments; including subsidiaries, jointly controlled entities and associates

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

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

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

Derivative instruments and hedge accounting

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

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

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

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

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

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

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

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

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

Details on hedged accounting are disclosed in note 14.

Long-term loans and advances

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

Trade and other receivables

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

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

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

Cash and cash equivalents

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

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

Financial liabilities

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

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

Interest-bearing borrowings

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

Financial liabilities designated as at fair value through profit or loss

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

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

Trade payables and accruals

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

Impairment of financial assets

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

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

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

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

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

Offset

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

Financial liabilities and equity

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

Equity instruments

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

Gains and losses on financial instruments

Net gains or net losses on:

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

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

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

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

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

Derecognition

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

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

Inventories

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

Cost is determined as follows:

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

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

Construction contracts

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

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

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

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

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

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

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

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

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

Share capital

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

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

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

Employee benefits

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

Defined contribution fund

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

Defined benefit funds

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

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

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

Post-retirement medical benefits

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

Short- and long-term benefits

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

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

Termination benefits

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

Leases

Group as a lessee

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

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

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

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

Group as a lessor

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

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

Sale and leaseback

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

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

Determining whether an arrangement contains a lease

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

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

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

Provisions

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

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

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

Warranties

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

Restructuring

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

Environmental rehabilitation and environmental obligations

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

Decommissioning liabilities

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

Onerous contracts

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

Other provisions

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

Contingent liabilities

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

Financial guarantees

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

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

Legal claims

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

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

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

Segment disclosure

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

Accounting policies relating to discontinued operations

Critical judgements and estimation made in applying the accounting policies

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

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

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

Significant accounting policies

Basis of preparation

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

Income statements

for the year ended 31 March 2010

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

Statements of comprehensive income

for the year ended 31 March 2010

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

Disclosure of components of other comprehensive income

for the year ended 31 March 2010

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

Statements of financial position

at 31 March 2010

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

Statements of changes in equity

for the year ended 31 March 2010

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

Statements of cash flows

for the year ended 31 March 2010

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

Segment information

for the year ended 31 March 2010

Continuing operations#

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

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

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

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

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

Excludes assets and liabilities held-for-sale.

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

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

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

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

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

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

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

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

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

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

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

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

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

Land, buildings and structures

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

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

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

Rolling stock

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

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

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

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		9. Property, plant and equipment (refer annexure B) (continued)		
		Pipeline networks		
		The Group's policy is to perform a revaluation of its pipeline networks every three years and apply appropriate valuation indices in the intervening years. An external revaluation was performed in the current year, by Arthur D Little Inc., an independent firm of professional valuers on the basis of the modern equivalent net asset value. The current year's revaluation resulted in a net increase of R167 million (2009: R636 million) to the carrying value of the Group's pipeline networks, which has been adjusted accordingly.		
2 267	**2 041**	The historic carrying values of these assets amount to	**2 041**	2 267
		Port facilities		
		The Group's policy is to perform a revaluation of its port operating assets and infrastructure every three years and apply appropriate valuation indices in the intervening years. In the current year, the revaluation resulted in an increase of R3 446 million (2009: R3 148 million) for port infrastructure and an increase of R22 million (2009: R374 million) for port operating assets.		
		The estimated replacement cost of port infrastructure assets that are subject to revaluation amount to R45,5 billion (2009: R40,2 billion) as determined by independent valuation experts, however the revaluation was limited to the present value of future discounted cash flows, amounting to R35,3 billion (2009: R28,2 billion).		
11 345	**17 735**	The historic carrying values of these assets amount to	**17 735**	11 345
		Included in Port facilities are encumbered assets of R1 492 million (2009: R1 179 million) as security for the repayment of the finance arrangement of these assets.		
		Useful lives and residual values		
		In terms of IAS 16: Property, Plant and Equipment the useful lives and residual values of property, plant and equipment must be reviewed at each reporting date. The useful lives are estimated by management based on historic analysis, benchmarking and other available information. The residual values are based on the assessment of useful lives and other available information.		

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

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

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

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

The more critical assumptions made were:

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

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

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

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

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

14. Derivative financial assets and liabilities

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

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

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		14. Derivative financial assets and liabilities (continued)		
		Fair value hedges of firm commitments		
		The Group entered into fair value hedges of the foreign exchange risk on firm commitments of the Group to import items of equipment (ie locomotives and equipment). The Group is settling the contract price of these items by making predetermined progress payments (in foreign currency) to the relevant suppliers as specified milestones are achieved.		
		At 31 March 2010, the Group held a series of forward exchange contracts as hedging instruments for this purpose. These hedges were assessed to be effective. The ineffective portion of the hedge has been recorded in profit and loss.		
		The fair values of these forward exchange contracts held as hedging instruments at 31 March 2010 are as follows:		
367	(52)	Currency brought forward – Japanese yen – (loss)/gain	(52)	367
–	(4)	Currency brought forward – United States dollar – loss	(4)	–
(3)	(158)	Currency bought forward – Euro – loss	(158)	(3)
		The net fair value gain recognised in profit and loss on these fair value hedges during the year was R0,4 million (2009: R22 million). This net fair value gain comprised a gain of R692 million (2009: R201 million) with respect to foreign exchange risk on the firm commitments, and a loss of R691,6 million (2009: R179 million) on the forward exchange contracts.		
		The nominal values of these forward exchange contracts at 31 March 2010 are as follows:		
		Currency bought forward – Rand equivalent		
2 407	3 494	Japanese yen	3 494	2 407
–	143	United States dollar	143	–
987	757	Euro	757	987
3 394	4 394		4 394	3 394

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

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

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

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

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

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

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

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

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

Capital management

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

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

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

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

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

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

The assumptions and their sensitivities are disclosed in note 32.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		26. Deferred taxation liabilities		
8 548	11 304	*Comprising*	11 364	8 589
6 660	8 548	Opening balance	8 589	6 695
945	918	Income statement charge (refer note 8)	918	1 024
-	762	Transfer from current taxation (refer note 8)	762	-
943	1 076	Raised in other comprehensive income	1 095	949
8 548	11 304	Total deferred taxation liability	11 364	8 668
-	-	Transferred to liabilities directly associated with assets classified as held-for-sale	-	(79)
		Analysis of major categories of temporary differences		
3 294	3 541	**Deferred taxation assets**	3 512	3 294
1 351	1 551	Provisions	1 551	1 351
650	566	Post-retirement benefit obligation	566	650
46	117	Income received in advance	117	46
1 247	1 278	Capitalised lease liability	1 278	1 247
-	29	Other	-	-
11 842	14 845	**Deferred taxation liabilities**	14 876	11 883
194	74	Deferred expenditure	74	194
11 429	14 713	Property, plant and equipment	14 713	11 429
19	24	Future expenditure allowance	24	19
80	34	Allowance for doubtful debts	34	80
120	-	Other	31	161
8 548	11 304	**Net deferred taxation liability**	11 364	8 589
		No deferred taxation asset has been raised in respect of secondary taxation on companies credits available as they are unlikely to be utilised given the capital requirements of the Company and the change in regime from secondary taxation on companies to a withholding taxation on dividends, from which the Company is exempt.		
		27. Construction contracts		
		Contracts in progress at the financial position date:		
303	1 306	Construction costs incurred plus recognised profits less losses to date	1 306	303
(7)	(929)	*Less:* Progress billings	(929)	(7)
296	377		377	296
		Recognised and included in the financial statements:		
		Income statements		
1 270	945	Contract revenue (refer note 2)	945	1 270
		Statements of financial position		
240	384	Amounts due from customers under construction contracts (note 18)	384	240
33	16	Retention debtors (note 18)	16	33
		Contract revenue for coaches is recognised when the completed stage has been signed off as proof of quality satisfaction by the external customer.		

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

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

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

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

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

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		30. Commitments (continued)		
		30.2 Operating lease commitments (continued)		
		Machinery, equipment, furniture and motor vehicles		
327	408	Within one year	408	327
544	611	After one year, but not more than five years	611	544
11	7	More than five years	7	11
882	1 026		1 026	882
		Security and maintenance contracts		
77	113	Within one year	113	77
77	55	After one year, but not more than five years	55	77
154	168		168	154
		Other		
20	19	Within one year	28	20
11	14	After one year, but not more than five years	14	11
31	33		42	31
		30.3 Finance lease commitments		
		Finance leases relate to the Kimberley De Aar transmission line, MTN Coal Line Network, computer equipment and camera security equipment. These finance leases have a lease term ranging between three to 17 years. The interest rates vary from 11,25% to 16,93%.		
		Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:		
		Machinery, equipment and furniture		
8	28	Within one year	28	8
9	46	After one year, but not more than five years	46	9
64	80	More than five years	80	64
81	154	Total minimum lease payments	154	81
(8)	(17)	Amount representing finance charges	(17)	(8)
73	137	Present value of minimum lease payments	137	73

Company 2009 R million	Company 2010 R million		Group 2010 R million	Group 2009 R million
		30. Commitments (continued)		
		30.3 Finance lease commitments (continued)		
		Included in the financial statements as:		
7	24	– Current borrowings	24	7
66	113	– Non-current borrowings	113	66
73	137		137	73
		30.4 Lease rentals receivable		
		Future minimum rentals under operating leases are as follows:		
		Property		
739	1 159	Within one year	1 159	739
1 957	3 222	After one year, but not more than five years	3 222	1 957
2 736	3 479	More than five years	3 479	2 736
5 432	7 860		7 860	5 432
		Other		
90	90	Within one year	114	114
360	360	After one year, but not more than five years	360	360
720	630	More than five years	630	720
1 170	1 080		1 104	1 194
		31. Contingent liabilities and guarantees		
		Continuing operations		
–	–	**Asbestos roofs and asbestos cladding** Transnet owns buildings with asbestos roofs and asbestos cladding. In terms of the Asbestos Regulations of 2001, Transnet is responsible for taking reasonable steps to determine the location of asbestos in the workplace for the purposes of managing the potential risk associated with such materials. The assessment for the potential risk of exposure and the cost of removal is a complex scientific process which requires the expertise of an environmental specialist. In certain cases the asbestos cladding is of low friability i.e dust fibre released is negligible/non-existent and therefore maintenance and inspection of the contamination is the preferred rehabilitation option, until the roofs and cladding is removed and replaced.	–	–
–	–	**Sub-surface fuel contamination** Transnet uses rail tank cars to transport and store diesel fuel, in large quantities, for the running of its locomotives. Equipment failures and spillages occur frequently with consequent environmental damage. Transnet needs to perform work in terms of the clean up and rehabilitation of the contaminated soil; as well as the refurbishment of the infrastructure, particularly at locomotive staging areas, fuelling and decanting points, and locomotive maintenance facilities. In the absence of an extensive physical assessment of the identified sites where environmental contamination could have occurred it is not possible to accurately determine the cost for environmental rehabilitation as there could be contamination not visible from the surface.	–	–

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

32. Post-retirement benefit obligations

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

32.1 Pension benefits

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

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

32.1.1 Transnet Retirement Fund

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

32. Post-retirement benefit obligations (continued)

32.1. Pension benefits (continued)

32.1.2 Transport Pension Fund: Transnet Sub-Fund

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

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

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

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

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

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

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

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

	Group	
	2010 R million	2009 R million
32. Post-retirement benefit obligations (continued)		
32.1 Pension benefits (continued)		
32.1.2 Transport Pension Fund: Transnet Sub-Fund (continued)		
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	3 658	4 924
Expected return	337	499
Actuarial gain/(loss)	897	(1 176)
Contributions by employer and members	33	44
Benefits paid	(277)	(323)
	4 648	3 968
Transfer to the Retirement Fund	(146)	(310)
Closing fair value of plan assets	4 502	3 658

Summary of actuarial valuation results for past periods:

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

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

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

	Group	
	2010 R million	2009 R million

32. Post-retirement benefit obligations (continued)

32.1 Pension benefits (continued)

32.1.3 Transnet Second Defined Benefit Fund

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

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

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

The results of the actuarial valuation are as follows:

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

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

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

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

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

	Group	
	2010 R million	2009 R million
32. Post-retirement benefit obligations (continued)		
32.1. Pension benefits (continued)		
32.1.3 Transnet Second Defined Benefit Fund		
Reconciliation of movement in benefit liability		
Opening benefit liability	(17 550)	(17 194)
Transfer from Black Widows Pension Fund	–	(59)
Interest cost	(1 396)	(1 512)
Actuarial gain	256	(1 126)
Benefits paid	2 221	2 341
Closing benefit liability	(16 469)	(17 550)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	20 316	19 966
Transfer from Black Widows Pension Fund	–	76
Expected return	1 400	1 703
Actuarial gain	184	912
Benefits paid	(2 221)	(2 341)
Closing fair value of plan assets	19 679	20 316

Summary of actuarial valuation results for past periods:

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

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

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

	Group	
	2010 R million	2009 R million

32. Post-retirement benefit obligations (continued)

32.1. Pension benefits (continued)

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

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

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

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

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

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

Summary of actuarial valuation results for past periods:

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

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

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

Summary of actuarial valuation results for past periods:

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

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

32. Post-retirement benefit obligations (continued)

32.1 Pension benefits (continued)

32.1.5 HIV/Aids benefits

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

32.2 Post-retirement medical benefits

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

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

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

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

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

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

	Group	
	2010 R million	2009 R million
32. Post-retirement benefit obligations (continued)		
32.2. Post-retirement medical benefits (continued)		
32.2.1 SATS pensioners		
The cumulative actuarial losses recognised in equity	(87)	(199)
Reconciliation of movement in benefit liability		
Opening benefit liability	(1 240)	(1 223)
Interest cost	(101)	(108)
Company contributions	203	208
Actuarial gain/(loss)	112	(117)
Closing benefit liability	(1 026)	(1 240)
The medical inflation has no impact on the aggregate current service cost and interest cost and the benefit liability. However, the assumed discount rate has an impact. The sensitivity of the obligation to a change in the assumed discount rate of 8,89% on the present value of the obligation is as follows:		
Closing benefit liability based on changes in discount rate:		
7,89% (2009: 7,44%)	1 079	(1 304)
9,89% (2009: 9,44%)	979	(1 181)

Summary of actuarial valuation results for past periods:

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

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

	2010 R million	2009 R million
32.2.2 Transnet employees		
Closing benefit liability based on changes in discount rate (%)	8,89	8,44
Benefit liability		
Present value of obligations	(562)	(632)
Liability recognised in the statement of financial position	(562)	(632)
The liability recognised for this fund relating to the Company amounts to R562 million (2009: R632 million).		
Charge to the income statement		
Current service cost	(11)	(11)
Interest cost	(52)	(53)
	(63)	(64)
The charge to the income statement relating to the Company amounts to R63 million (2009: R64 million)		
Actuarial gain/(loss) recognised in other comprehensive income	88	(20)

	Group	
	2010 R million	2009 R million

32. Post-retirement benefit obligations (continued)

32.2. Post-retirement medical benefits (continued)

32.2.2 Transnet employees (continued)

The actuarial gain/(loss) recognised in other comprehensive income relating to the Company amounts to R88 million (2009: R20 million).		
The cumulative actuarial gain recognised in equity	253	165
Reconciliation of movement in benefit liability		
Opening benefit liability	(632)	(592)
Expense as above	(63)	(64)
Member and Company contributions	45	44
Actuarial gain/(loss)	88	(20)
Closing benefit liability	(562)	(632)

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

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

Summary of actuarial valuation results for past periods:

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

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

33. Related party transactions

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

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

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

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

Transactions with related entities

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

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

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

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

Transactions with key management personnel

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

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

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

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

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

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

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

Annexure A – Financial risk management

for the year ended 31 March 2010

Introduction

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

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

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

Policies

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

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

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

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

Risk philosophy

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

Risk profile and risk management

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

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

Liquidity risk

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

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

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

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

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

Counterparty risk

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

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

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

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

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

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

Market risk

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

Foreign currency risk

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

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

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

Commodity risk

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

Interest rate risk

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

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

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

Other price risk

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

Liquidity risk

Bonds at carrying and nominal values

Domestic rand bonds

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

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

Eurorand bonds

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

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

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

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

Concentration of liquidity risk

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

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

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

Funding plan

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

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

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

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

Contractual maturity analysis

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

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

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

Credit risk

Maximum exposure and analysis of exposures to credit risk

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

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

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

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

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

Low risk: *No guarantee is required from the customer.*

Medium risk: *50% – 75% guarantee required by the customer.*

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

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

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

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

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

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

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

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

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

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

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

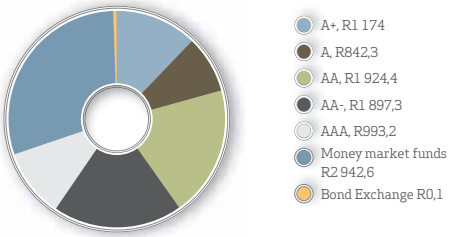
Financial assets have been impaired based on the age of the debt and the inability to recover these specified assets. Guarantees and deposits amounting to R42,7 million (2009: R119 million) are held with respect to these. Payment terms were renegotiated with certain counterparties in respect of trade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

Concentration of credit risk

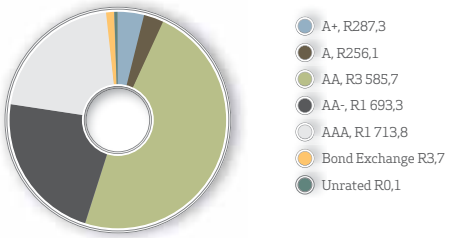
The Group's and Company's 12 most significant customers (South African industrial enterprises) comprise 38% of the trade receivables carrying amount at 31 March 2010 (2009: 46%).

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

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



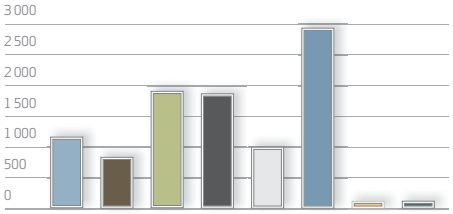
Risk per long-term rating – 2009 (R million)



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

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

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



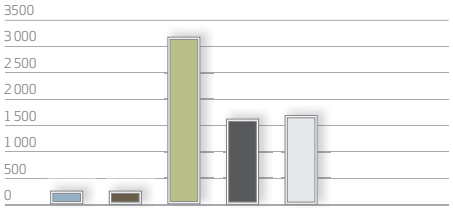
Investments

Derivatives

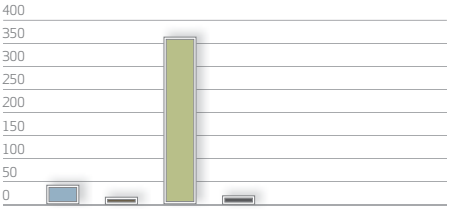
A+	R1 174
A	R842,3
AA	R1 924,4
AA-	R1 897,3
AAA	R993,2
Money market funds	R2 942,6
Bond Exchange	R0,1

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

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



Investments



Derivatives

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

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

Market risk

Foreign currency risk

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

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

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

Sensitivity analysis

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

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

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

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

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

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

Value at risk (fx)

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

Foreign exchange rates

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

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

Interest rate risk

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

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

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

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

Sensitivity analysis

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

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

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

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

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

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

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

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

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

Other price risk

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

Commodity price risk

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

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

Analysis, classification and fair values of financial instruments

Categories of financial instruments

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

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

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

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

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

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

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

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

Basis for determining fair values

Bonds

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

Other non-derivative assets and liabilities

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

Derivatives

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

Other financial instruments

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

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

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

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

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

Property, plant and equipment reconciliation

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

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

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

Property, plant and equipment reconciliation

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

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

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

Disposal groups classified as held-for-sale

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

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

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

Notes to disposal groups classified as held-for-sale

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

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

Subsidiaries

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

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

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

Associates and joint ventures

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

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

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

New standards and interpretations issued but not yet effective

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

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

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

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

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

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

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

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

Abbreviations and acronyms

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

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

Glossary of terms

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

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

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

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

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

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

Equity
Issued capital, reserves and minority interests.

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

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

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

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

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

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

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

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

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

Total debt
Current and non-current liabilities

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

Notes

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