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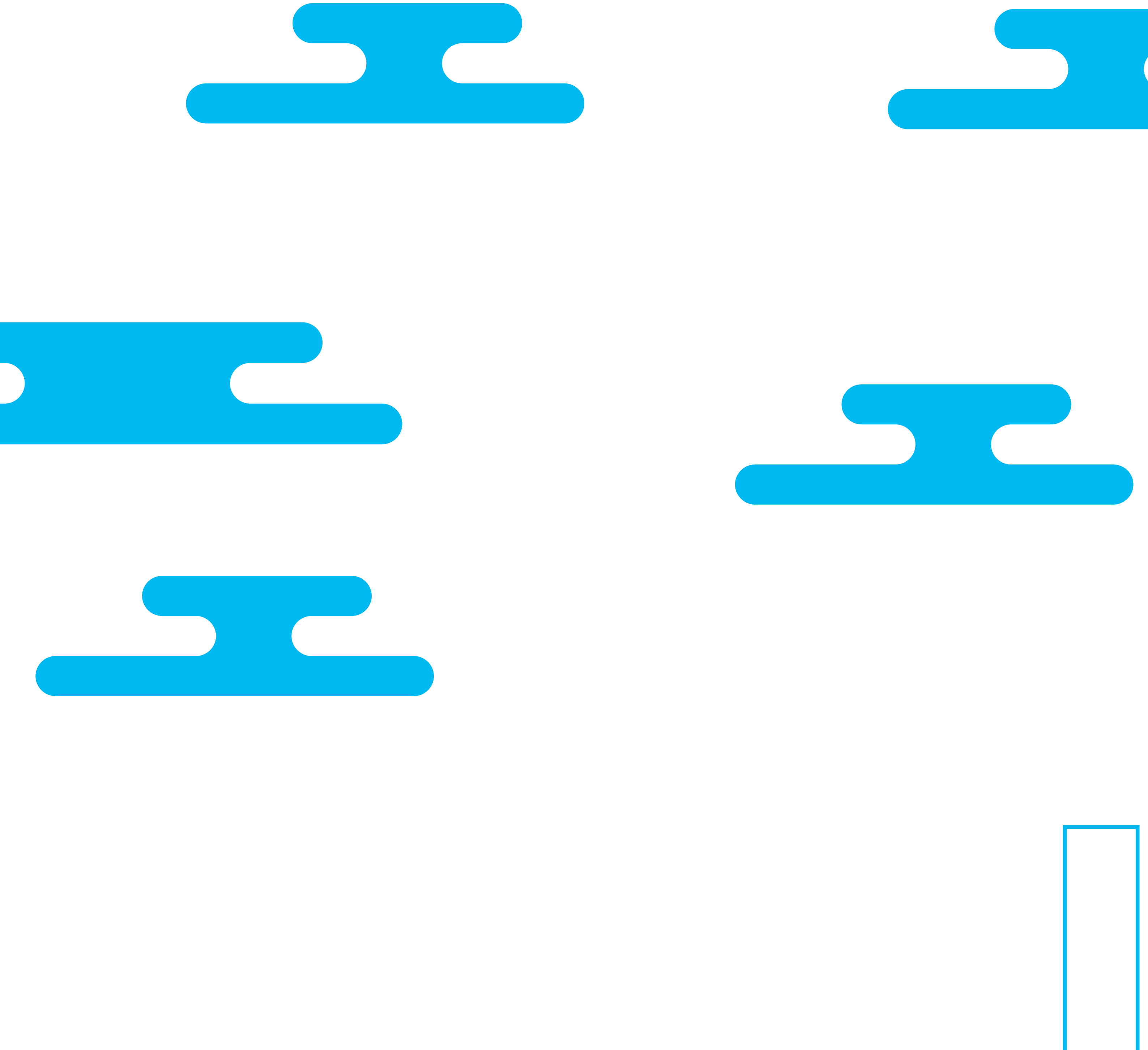
prasa

PASSENGER RAIL AGENCY
OF SOUTH AFRICA

PASSENGER RAIL AGENCY OF SOUTH AFRICA

Annual Report and Financial Statements 2017/18

For the year end 31 March 2017



Dr B.E Nzimande
Honourable Minister of Transport
Parliament

Dear Honourable Minister

SUBJECT: FINANCIAL YEAR ENDED 31 MARCH 2018

We are pleased to submit, for your information, and presentation to Parliament, the Passenger Rail Agency of South Africa Annual Report for the period 1 April 2017 to 31 March 2018.

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

Ms Khanyisile Kweyama
Chairperson

Mr Sibusiso Sithole
Group CEO


prasa
STATUS
metrorail
The people's train

Contents

For the latest financial information, refer to our page at **www.prasa.com/annual report** or scan the QR code to be taken there directly.

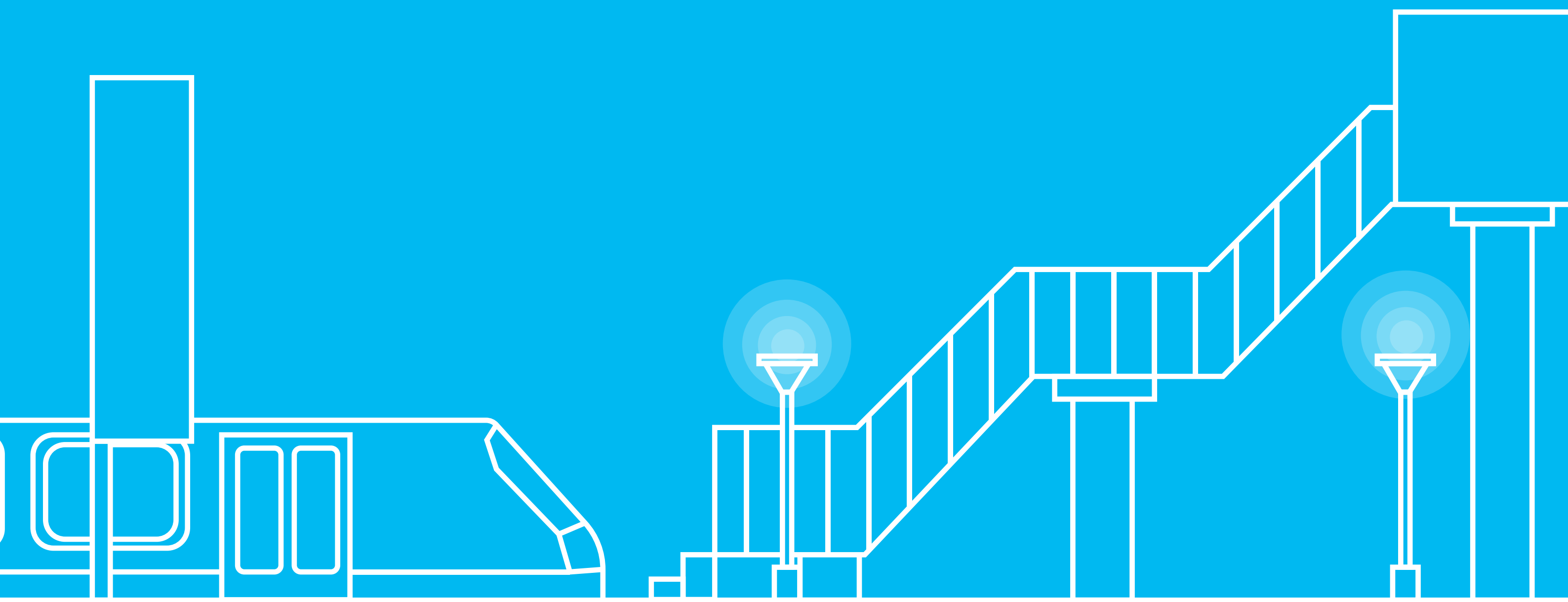
STRATEGIC OVERVIEW

VISION

To be the backbone of public transport.

MISSION

To provide safe, reliable, affordable and clean passenger rail and bus services.

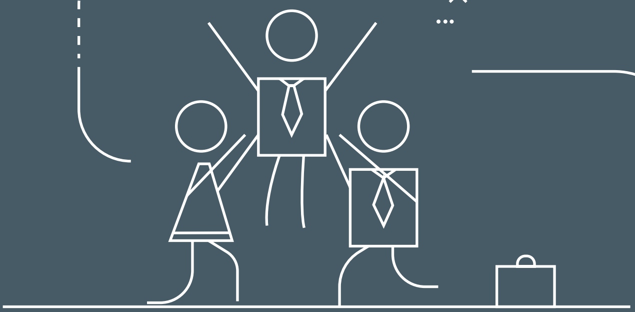


The TIES that bind us

OUR VALUES

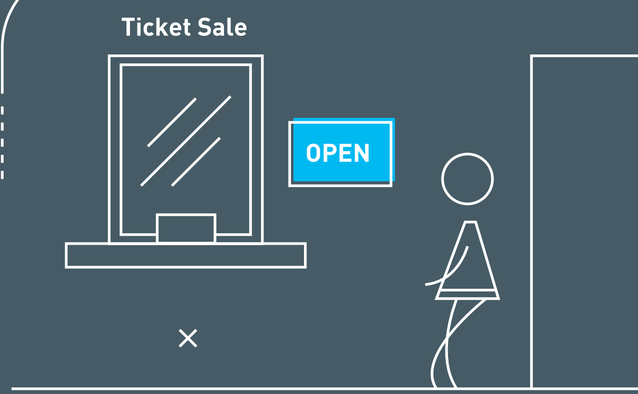
Teamwork

Working together with our customers to achieve a common goal and recognising each other's strengths and contribution.



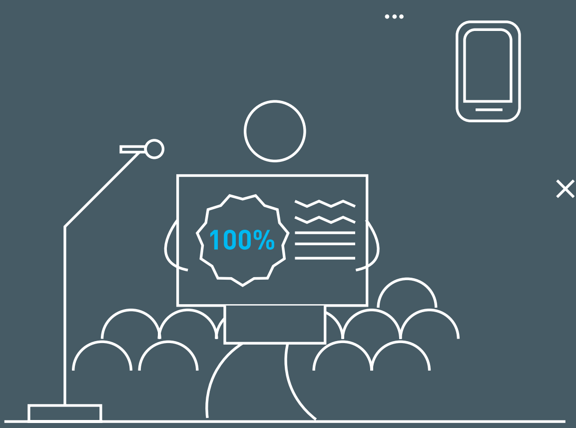
Integrity

Treating our customers and our colleagues the same as we would like to be treated.



Excellence

Provide the kind of services that meet and exceed customers expectations.



Safety

Ensuring our customers and colleagues enjoy their journey and arrive safely and refreshed

5 PRINCIPLES that underpin the PRASA Vision and Mission

1

Service Excellence
A deep commitment to superior performance that is safe, reliable and affordable, provide a dignified travel experience that makes a lasting impression, and builds brand loyalty – both internally (employees) and externally (customers) – that adds benefit to the passenger.

2

Accessibility
PRASA shall provide quality rail, bus and property management services that enable individuals and communities to access socio- economic opportunities and contribute to a better quality of life of the people as a whole

3

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

4

Modal Integration
Reframing the basis of business delivery, favouring innovation, seam-less integration and partnerships.

5

Mobility
PRASA shall contribute to sustainable public transport solutions through providing high-quality passenger services founded on an integrated network of mobility.

STRATEGIC OVERVIEW (Continued)

STRATEGIC OUTCOME ORIENTATED GOALS

PRASA has outlined its strategic outcome oriented goals which provide a road map for PRASA's individual rail, bus/coach and real estate businesses that are designed to improve the service provided to the travelling public. The strategic goals also seek to ensure that PRASA's rail operations strive to offer reliable, safe and secured service to the commuters.

The attainment of PRASA's strategic goals is highly dependent on the organisation's ability to sustain the current business operations, change and grow the business whilst striving for customer service excellence, which is dependent on the achievement of the following:

1. Growing the revenue base and containing the cost of doing business
2. Addressing operational efficiencies and improving service delivery
3. PRASA's non-operational and strategic assets
4. Skills development necessary for the rolling out of PRASA's modernisation program
5. Revenue generation through a robust real estate strategy
6. Securing future business through introducing new services and expanding the current network
7. Developing a viable Funding Model and redefining PRASA's Operating Model

The pursuance of the organisation's strategic goals is aligned with PRASA's National Strategic Plan that focuses on a prioritised list of rail services and network expansion interventions that seek to:

- Provide more capacity to accommodate forecast growth.
- Transform the rail product on many corridors.
- Seek to make better use of the network, and
- Propose corridor extensions to new or growing settlements

A LEGISLATIVE MANDATE

PRASA's main responsibility is to deliver commuter rail services in the Metropolitan areas of South Africa.

The launch of the Passenger Rail Agency of South Africa (PRASA), in March 2009 brought forth a new era in passenger transport that saw the former South African Rail Commuter Corporation (SARCC) transformed into PRASA. Metrorail, Shosholoza Meyl, Autopax (the subsidiary company operating Translux and City to City bus services), as well as Intersite Property Management Services (formerly under SARCC and Transnet) became part of PRASA. This consolidation of entities followed a decision of the Cabinet of 1 December 2004, was done to offer integrated passenger services that prioritise customer needs, provide better mobility and accessibility to masses of the South African population in need of safe and affordable transport.

PRASA, as the implementation arm of the National Department of Transport, the sole shareholder, is primarily focused on the mandate contained in the Legal Succession Act of South African Transport Services ("SATS) Act of 1989 as amended in November 2008, as well as the National Land Transport Act (NLTA) of 2000. In support of the NLTA, the development of the National Rail Act is currently underway.

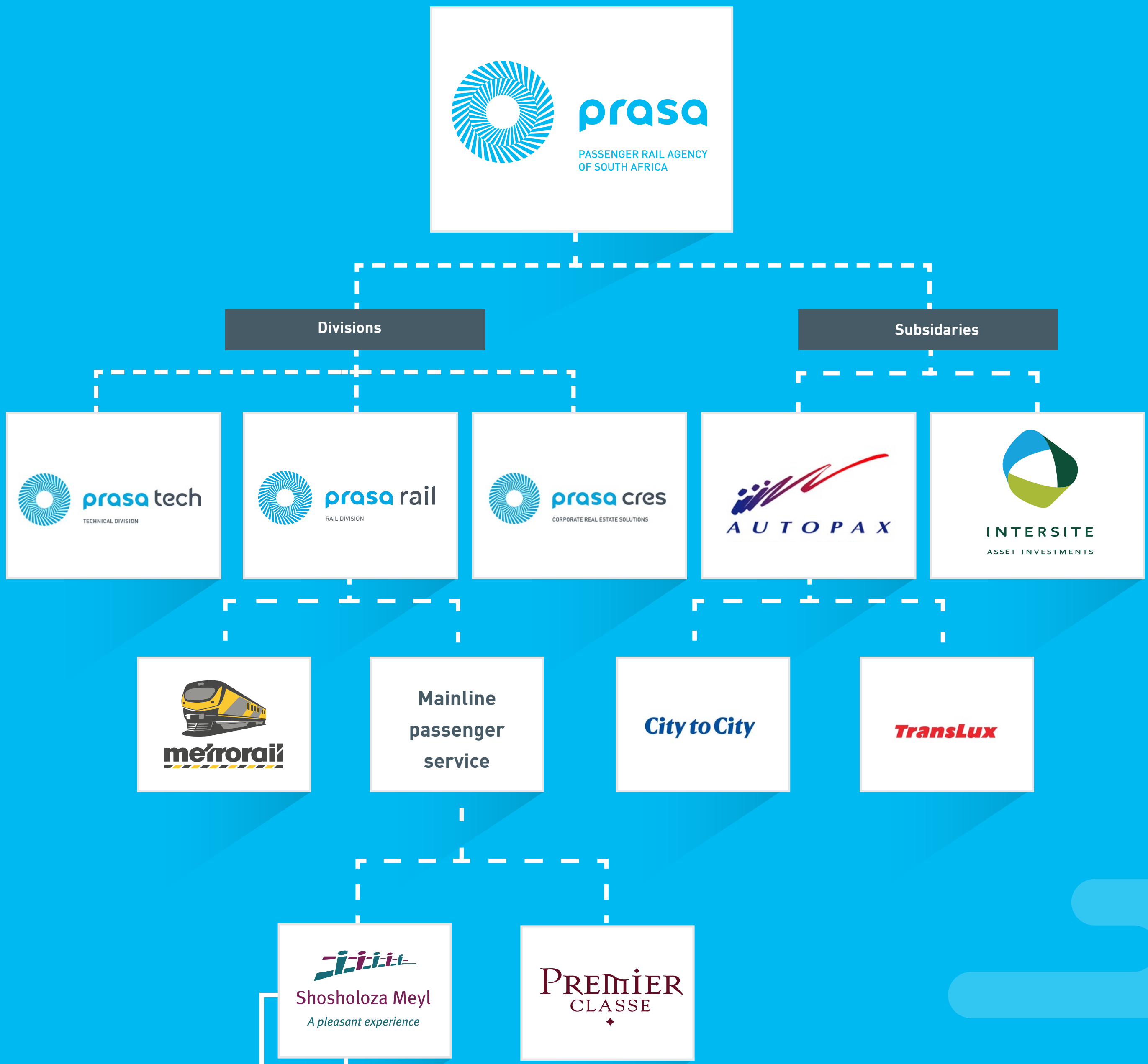
As a wholly owned Government public entity, reporting to the Minister of Transport, PRASA's main responsibility is to deliver commuter rail services in the Metropolitan areas of South Africa, long-distance (inter-city) rail and bus services within, to and from the borders of the Republic of South Africa. This mandate is implemented in consultation with and under the guidance of the Minister of Transport.

The focus of the organisation is to ensure that, in the medium to long term, PRASA remains a leader in passenger transport solutions and that, as a modern public entity, it continues to deliver high quality passenger services in a safe and secure environment which is underpinned by its commitment to delivering Public Value.

As a public entity, Government initiatives remain a strategic driver for PRASA and are manifested through legislation, government policies and strategies such as:

- White Paper on National Transport Policy.
- Draft White Paper on National Rail Policy.
- National Land Transport Strategic Framework.
- Integrated Transport Plans.
- National Development Plan.
- Public Finance Management Act.

LEGAL OPERATING STRUCTURE



A FOREWORD BY THE CHAIRPERSON

Ms Khanyisile Kweyama
Chairperson PRASA Board of Control

As the Board of Control we have been entrusted by the Minister of Transport and the people of South Africa to ensure that PRASA focuses on delivering on both the primary and secondary mandate. This responsibility must guarantee high quality passenger service that is provided in a safe and secure environment, underpinned by our commitment to deliver public value to the poorest of the poor.

During our tenure, as a Board, we are committed to refocus the organisation on its core objective, that of providing a reliable, available, predictable, and safe passenger service , that is affordable. We are also cognisant of the importance of the exploitation of PRASA assets aimed at an increasing patronage to our facilities and train stations and the generation of additional revenue to support the primary mandate.

However, as a Board, we are not naive to the challenges facing the organisation today. We have inherited an organisation that is almost broken and is fraught with a myriad of issues and challenges ranging from its failure to deliver on its primary mandate, investigations arising out of allegations of maladministration and corruption, poor internal controls and the slow rollout of the capital programme meant to transform passenger rail travel.

We have made a commitment as a Board to #LeavePrasaBetterThanTheWayWeFoundIt. This is a commitment we will fulfil without fear or favour. Our commitment to fix what is broken and to improve on what is working also has to be informed by our acknowledgment that there is an employee cadre that is working hard in serving the poorest of the poor and are performing to the best of their ability despite an atmosphere that is full of uncertainty.

It is very clear from the performance situation as highlighted below that fixing this business before its near total collapse is the first priority of this Board. The performance below shows a business that is bleeding, an organisation that is broken and demands immediate intervention:

A Declining Commuter Service:

1. Commuter services are at its lowest performance levels of all time. On-time train performance is currently at 68,3% of trains operated and 13% of trains scheduled are canceled with the average delay of over 30 minutes being experienced by commuters.
2. Metrorail transported 543 million paying passenger trips in 2013/14 and by 2017/18 this number has declined to 269 million paying passenger trips. This corresponds to the decline in customer satisfaction from 67% to 52% by end of 2017/18. This is as result of the decline of the service levels.

FOREWORD BY THE CHAIRPERSON (Continued)

3. The unavailability and unreliability of rolling stock and infrastructure, which are key enablers to regular, reliable and on-time train services, can no longer guarantee that rail is the backbone of public transport.
4. The availability of train sets (rolling stock) has decreased from 288 sets in 2013/14 to 200 by the end of 2017/18 and is currently at 174 sets (with only 50% correctly configured with 12-coaches). This decline happened despite the general overhaul program and repair interventions that amounted to billions of rand.
5. Currently Metrorail transports less than 700 000 passengers trips per week day, while the system is capable of transporting 2,5 – 3 million passengers daily once the service capacity has been restored.

A Declining Passenger Service:

Long Distance Passenger Service (MLPS) has been declining to below acceptable levels as per the following :

1. Operational and financial performance of Mainline Passenger Services has been declining since 2009 to levels that are beyond acceptable.
2. Both trains run and passenger patronage have dropped drastically at a rate indicative of a service that has totally collapsed.
3. The two MLPS service brands, Shosholoza Meyl and Premier Classe need to be well positioned to play a big role in moving passengers between cities.
4. Passengers have dropped from 2.8 million in 2009/10 to 465 647 in 2017/18, whilst trains run have dropped from 6 604 in 2009/10 to 1 777 in 2017/18.
5. The long distance passenger rail service has shown an average decline in fare revenue of 8% per annum over the last five years.

Bus Operations (Autopax):

1. Whereas Autopax has a total fleet of 517 buses, during the third quarter of 2017/18, it only operated with 90 buses.
2. Whilst this improved to 190 buses by the end of the 2017/18 financial year, this has not improved the level of performance where the service is supposed to be operated because most of its fleet is defective.
3. The lack of availability of the fleet has contributed mainly to the drastic reduction in revenue collected.
4. Whilst the total fleet is over 8 years old, 40 percent of the total fleet has reached over 800 thousand kilometers.
5. The financial position of Autopax, as a going concern, is a matter that has to be addressed

Financial Position: The Group has for a number of years experienced cash flow problems and is currently experiencing a severe cash crisis. The accumulated funding shortfall by 2017/18 financial year, stood at R5.2 billion.

The above is an untenable situation which demands drastic measures and immediate intervention. To this effect the Board, together with Management, have developed a Rescue Plan, appropriately called, Get On Track.

The Get On Track Rescue Plan is presented against a background of a sustained decline in business performance, both operational and financial, which is at its lowest level in 5 years.

The Get on Track focuses on 10-targetted interventions that will seek to deliver on the following:

- Arresting the current decline in business performance.
- Organisational stability and proper governance.
- Fixing a misaligned and fragmented organisational structure.
- Driving efficiencies and effectiveness to improve service delivery.
- Fast tracking our modernisation programme to improve passenger rail travel experience.

The filling of critical vacancies is crucial if we are to succeed in turning around the organisation. Progress has been made in this regard and our commitment as a Board is to ensure that we capacitate the organisation with skilled professionals that have a track record of superior performance. A vigorous recruitment process is already underway and should be completed in the next few months.

To fix this business the Board and the Executive has no option but to begin to mobilize the entire staff of PRASA around a set of collective values, beliefs and principles if we are to drive shared vision in pursuit of a common objective.

However, PRASA will not be fixed if we do not get rid of its rogue elements that have continued to strip the finances of the organisation through corrupt practices, maladministration as reported in the Public Protector's Derailed Report, the findings of the Werkmans Report, that of National Treasury and the Auditor General. The Board will soon begin to institute disciplinary and criminal procedures against those found to have been involved in serious infringements.

Those employees, who continue to selfishly and tirelessly render superior performance, will join our chorus as this Board which is #LeavePrasaBetterThanTheWayWeFoundIt.

However, managing change and building a strong organisational culture will also require that we rid ourselves of the behaviour that does not contribute to a PRASA we all want. This will mean that PRASA continues to improve on that which has worked, whilst we also learn and grow. We must then rely on each other to understand and have an appreciation of the country's national and public service agenda that strives on selflessness in advancing the interest of the country's democratic dispensation.

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FOREWORD BY THE CHAIRPERSON (Continued)

As a Board we demand an employee cadre whose characteristics display a:

- Commitment to a developmental public service oriented culture.
- Commitment to superior customer service.
- Performance excellence and accountability.
- An employee cadre that puts safety of customers first.
- Professionalism and ethical conduct.
- Honesty and integrity.
- Transparency and adherence to governance control.

Achieving the above will guarantee a PRASA We All Want.

Central to the public service agenda is the National Development Plan – a key Government imperative that articulates a vision of a South Africa we all want. This Plan and other government policies and supportive legislation puts public transport solutions at the center of delivering of public value and public good.

The PRASA strategy must always be enformed by key government imperatives which address the following:

- Public transport solutions that respond to the needs of travelers.
- The provision of reliable, safe and affordable transport.
- Improving accessibility and connectivity to marginalized and rural communities.
- A public transport solution that supports economic growth and spatial development.
- Localisation and Industrialisation.

PRASA, as a State Owned Entity, is cognisant of the role it must play and is playing in ensuring that it responds to the State's developmental agenda. South Africa's aspiration to be a Developmental State demands of SOE's to be completely aligned to this narrative. Therefore, PRASA is aware of its role, as an SOE to address economic, social, and service delivery challenges facing the country. To this effect, its own transformation agenda has to address the challenges that are disproportionately borne by the majority of the population

PRASA's corporate strategy is aligned with the government's policy statements and the pronouncement that SOE's contribute to the development of the continent and in particular the region, through SADC. Furthermore, the Board will ensure that PRASA contributes to the country's aspiration of playing a prominent role in advancing government policies that advances the African Union's Agenda 63 as well as those articulated in the 2030 Agenda for Sustainable Goals.

Ms. Khanyisile Kweyama
Chairperson
PRASA Board of Control

STATEMENT BY THE PRASA ACTING GROUP CEO

Mr Sibusiso Sithole
Group CEO

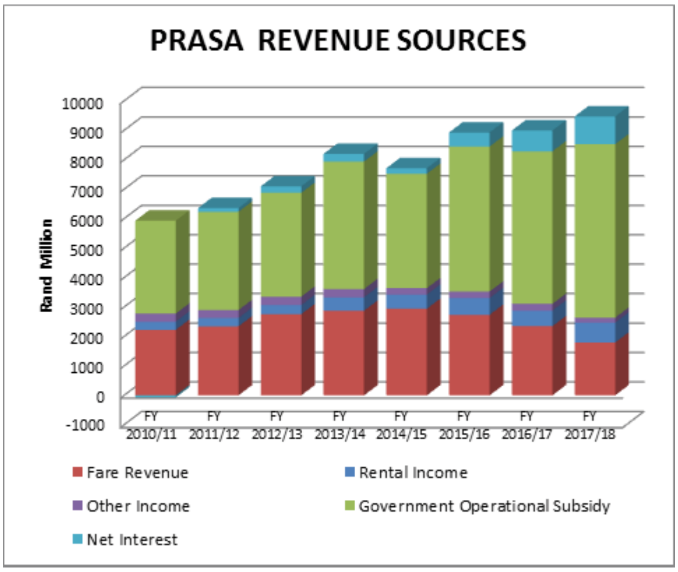
AN UNENVIABLE SERVICE DELIVERY AND FINANCIAL POSITION

The Group has for a number of years experienced cash flow problems and is currently experiencing a severe cash crisis. There are three main areas which are the reasons for the decline in financial performance. The first is the personnel costs, which have seen the number of employees rise from about 12 000 to 17 000 over the last number of years without any corresponding increase in service levels and revenue.

The second is that the operating funding model sees the operational subsidy increase by inflation whilst the actual cost of running rail excluding personnel costs, increases well above inflation, leading to a funding deficit which cannot be recovered . This contributes to a downward spiral in the ability of PRASA to provide the required service. The third reason is that the ambitious capital program, is not matched by adequate provision for which maintenance and other costs being incurred under operational expenditure. These additional costs are not funded through an additional allocation of the operational subsidy, leading to a further decline in the financial performance.

Declining revenues: Consolidated revenue for the Group declined by 14% year-on-year. Operating rental income increased by 27% from R531 million in 2017 to R675 million, fare revenue declined from R2.3 billion to R1.8 billion during the same period, a 24% decline.

The graph below shows that PRASA has not been consistent in its performance. Except for the 2013/14 and 2014/15 financial years where PRASA showed a steady growth in revenues, for the past 3 years fare revenue has been declining at a rate of 19% whereas rental income has been growing at 9% during the same period.



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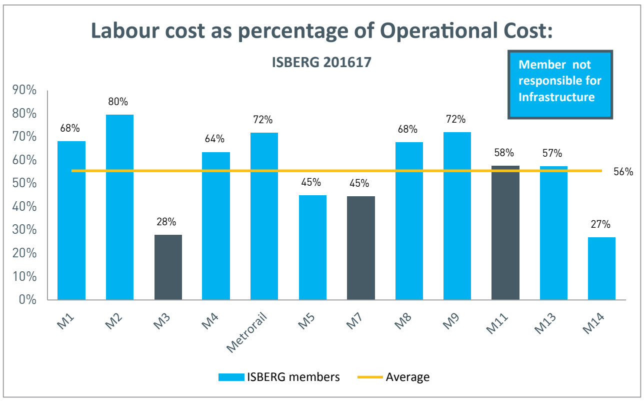
STATEMENT BY THE PRASA ACTING GROUP CEO (Continued)

The graph above also shows that PRASA is surviving on government operational subsidy and finance income, which has been growing steadily. However, the chart below also shows the major cost drivers where personnel costs consume 52% of the group's operating costs. Although the costs of personnel are high, comparisons for Metrorail show that this is not out of sync with other operators of suburban rail systems in the world, as shown in the graph below.

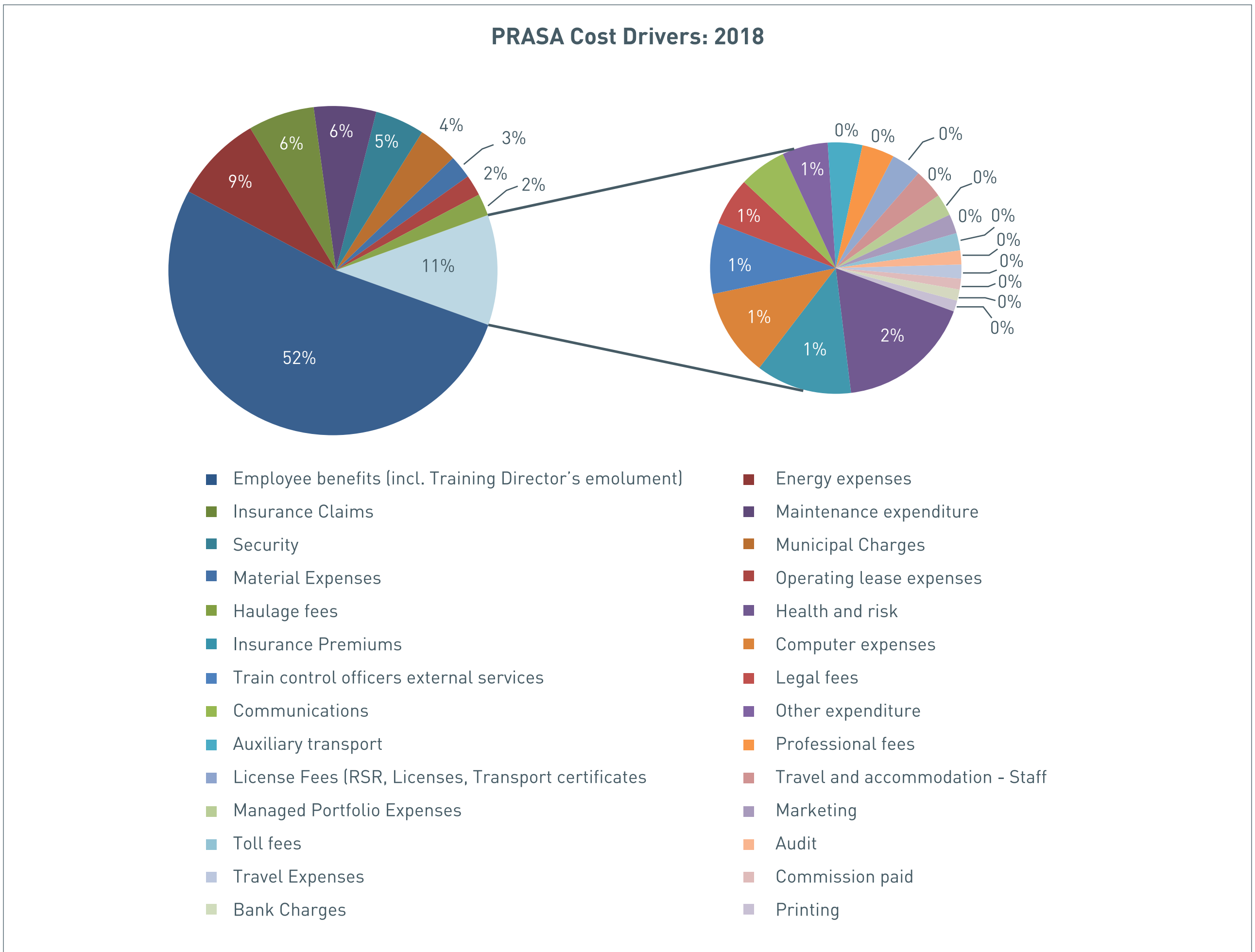


The reality is that the cost of personnel leaves very little funding to be allocated to the vital maintenance and other costs required to run a successful rail service, leading to the decrease in availability, reliability of train services and consequently passengers and revenue. PRASA has managed to survive from a cash flow perspective through an ever increasing creditor's book, in particular Transnet, and interest earned off the unspent capital allocation.

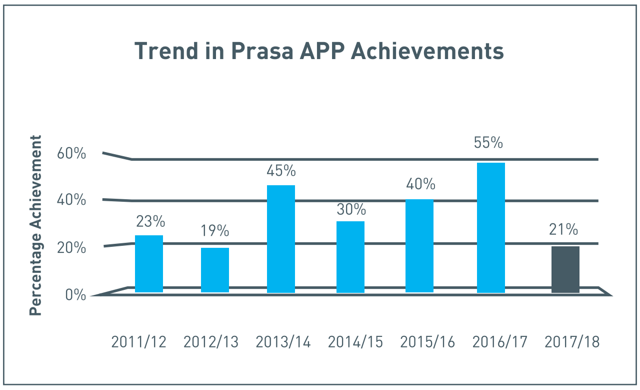
For quite some time now PRASA has sought to address the following but no progress has been made in this regard:

- The development of a suitable funding model that takes into account the real cost of doing business and supports the operating model.
- Revenue protection and cash management strategy that prevent revenue leakages.
- A vibrant secondary mandate business strategy aimed at supporting the primary mandate of PRASA.

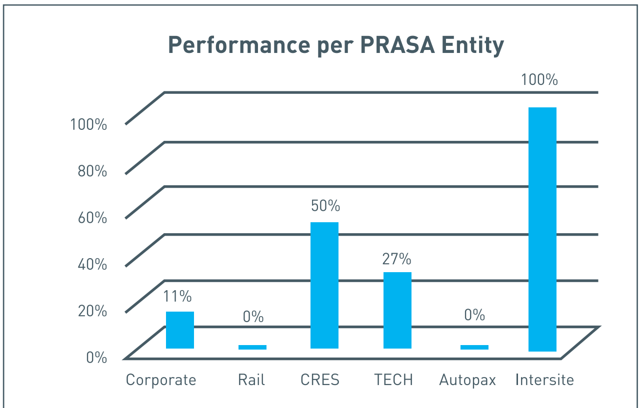
Declining overall performance: The Group's performance against pre-determined objectives was 21%. This is indicative of an organisation that is struggling to meet its performance objectives, which has a direct impact on service delivery, as indicated below:

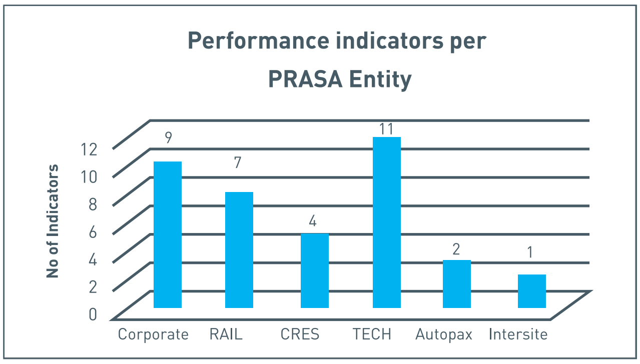


STATEMENT BY THE PRASA ACTING GROUP CEO (Continued)



Comparatively, the 2016/17 financial year still remains the only period where PRASA achieved more than 55% of its pre-determined objectives, but has achieved a 38.2% average performance over the last 5 years.





PRASA CRES has, over the years, continued to record better than average performance against its objectives, followed by PRASA TECH who respectively achieved 50% and 27% of its objectives.

Both the rail and bus operations have struggled to perform at the level required in terms of their mandates.

Rail Operations: Commuter and passenger rail services are at their lowest performance levels of all time. Just five years ago customer satisfaction was averaging just under 70% but exactly five years later it has dropped drastically to 52 percent. At the end of 2017/18 financial year Metrorail was running 200 train sets (at 50% correct configuration) against the required 256 train sets (3 072 coaches) at full configuration On-time Performance was at 68.3% of trains operated and train cancellations were at 13% of trains scheduled severely constraining available capacity for passengers especially in peak periods.

The unavailability and unreliability of rolling stock and infrastructure, which are the key enablers to regular, reliable and on-time train services, can no longer guarantee that rail as the backbone of public transport. The availability of train sets has decreased consistently over the past 5 years.

Reliable and predictable commuter services, with sufficient capacity, are dependent on having train sets (rolling stock) in the correct 12 set train configuration on a daily basis. Furthermore, the availability and reliability of the infrastructure enable the trains to move safely through the network with minimised failures, has not been at its optimum level. The unreliability of rolling stock and infrastructure result in more than 13% of trains being cancelled and more than 30% of trains being delayed on a daily basis, with the average duration of a delay over 30 minutes being experienced by commuters.

74% of all cancellations are contributed to by rolling stock and 11% by infrastructure. In terms of delays, infrastructure (mainly signaling) contributes 49% and rolling stock 19%.

With nearly half of the total fleet out of service for either maintenance or due to vandalism, train burnings and accidents, it is clear that Metrorail will continue to lose passengers, especially in the peak periods where the full fleet is required.

Currently Metrorail transports just over 800 000 passengers trips per week day, while the system is capable of transporting 2,5 – 3 million passengers daily once the service capacity has been restored. This number currently fluctuates depending on the rolling stock availability and the reliability of operational infrastructure condition; which had been deteriorating over a number of years due to the well-documented fact of the aging assets exacerbated by low levels of maintenance.

Bus Operations: Whereas Autopax has a total fleet of 517 buses, during the third quarter of 2017/18, it only operated with 90 buses. Whilst this improved to 190 buses by the end of the 2017/18 financial year, this has not improved the level of performance where the service is supposed to be operated because most of its fleet is defective. The lack of availability of the fleet has contributed mainly to the drastic reduction in revenue collected.

A STATEMENT BY THE PRASA ACTING GROUP CEO (Continued)

Whilst the total fleet is over eight (8) years old, forty (40%) percent of the total fleet has reached over eight hundred (800) thousand kilometres. The age of the fleet and high kilometres travelled contribute largely to very high maintenance costs.

Vehicles off the Road (VoR) require major repairs; an intervention Autopax is not able to carry out because of its financial situation. With external creditors almost reaching R200 million, Autopax is facing an avalanche of legal challenges whilst maintenance service providers are refusing to carry out any major repair work because of the mounting debts.

A decrease in fleet availability means Autopax is struggling to meet its daily operational requirements as per the schedule. With more than half of the total fleet being parked at the depot or with various service providers due to either mechanical breakdowns or accidents, it is clear that Autopax will continue to lose passengers. A reduction in fleet availability has direct detrimental effect on revenue, passengers and customer satisfaction.

Governance and Leadership Instability: Compounding the negative performance of the business has been the sustained leadership instability which has seen seven Group CEO's, including four Boards at the helm of the organisation. This instability has negatively impacted on the organisation's ability to take and implement the necessary and crucial decisions to fulfil its mandate.

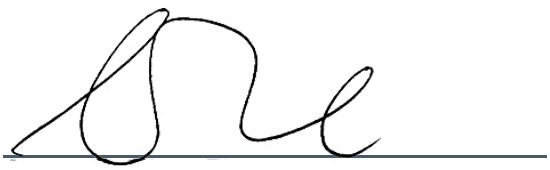
The lack of adherence to governance has resulted in a weak internal control environment with little or no consequence management. PRASA is therefore not complying with the required policies and relevant legislation. Significant findings on irregular, fruitless and wasteful expenditures, as well as repeat findings, shows an organisation that is failing to adhere to good corporate governance.

The below-than-acceptable performance requires special interventions and a rescue plan that will ensure that, in the next financial year PRASA, focuses on the following:

- Arresting the current decline in business performance.
- Focusing on reliability, availability, predictability of the service that is safe and secure and improves customer service satisfaction.
- Fixing a misaligned and fragmented organisational structure and drive efficiencies and effectiveness in the deployment of resources.
- Bringing organisational stability and strict governance.
- Fast tracking our modernisation programme to improve passenger rail travel experience.

The above will require a committed employee cadre that lives the PRASA values; that of service excellence, fairness and integrity, teamwork, performance driven, safety conscious, and strives on two-way communication.

Management team, organised labour and with the support of Board and the Shareholder, will embark on a rescue plan that will ensure that we position rail as the backbone of public transport, supported by the secondary mandate through the exploitation of non-operating assets to generate additional revenue.



Sibusiso Sithole
Group CEO

STRATEGY EXECUTION

A FOCUS ON IMPROVING PASSENGER EXPERIENCE AND SERVICE

In executing its strategy PRASA has embarked on a systematic and sustained programme aimed at improving passenger travel experience through improved service performance. At the heart of this strategy is a focus on redressing some of the legacy programs arising out of decades of under investment in public transport infrastructure and services, which has impacted heavily on its ability to deliver on its mandate.

The service improvement strategy is informed by 3 phases which, in the main focus on, (i) stabilizing passenger rail service, both commuter and long-distance, whilst addressing some of the historical legacies of years of under-investment in passenger rail infrastructure, (ii) ensuring that rail remains the backbone of public transport and ultimately a mode of choice through the recapitalisation of operating assets, rolling stock fleet renewal, infrastructure and technology upgrade, and restructuring of the property portfolio, and (iii) the execution of PRASA's growth and expansion ambitions through network expansion and the introduction of new services.

PRASA embarks on the modernisation programme, focusing on the deployment of new rail infrastructure and services,

PRASA is cognisant of the fact that one phase does not naturally or sequentially follow one after the other because the organisation is facing triple challenges of running the business, changing the business and growing it at the same time. Whilst PRASA embarks on the modernisation programme, focusing on the deployment of new rail infrastructure and services, the organisation still has to contend with running the current operations and improving the customer service experience. To run the current business effectively and efficiently requires a commitment to delivering quality services with increased frequencies, safe operations, and ensuring personal safety of passengers, as well as a significantly increase in patronage on PRASA's rail and bus systems.

Unfortunately, PRASA has not yet entered a stage where customer expectations are satisfactorily met and the organisation is said to be delivering reliable and predictable safe passenger services. In fact, the business performance has deteriorated to unacceptable levels.

Delivering on the mandate is a non-negotiable and is underpinned by management's commitment to 'fixing the business' through the delivery of an efficient service and unparalleled performance. Strict performance management, monitoring and evaluation will ensure delivery against pre-determined objectives as well as delivery on the mandate.

MODERNISATION: A GAME CHANGER TO TRANSFORMING PASSENGER RAIL TRAVEL

PRASA is cognisant of the fact that the modernisation programme is a game changer if it has to assume a leadership role in public transport services. Through the investment of R173 billion over the next 10 years aimed at transforming passenger rail infrastructure and services, modernisation becomes a catalyst to achieve this and to re-position rail as the backbone of public transport.

Central to PRASA's modernisation is the rolling stock fleet renewal programme, a key pillar to transformation passenger rail into a world class metro service underpinned by:

- Modern, safe and reliable trains for metro line services.
- Faster and more reliable trains with increased capacity.
- Improved overall safety of the trains.
- Improved overall service to passengers.

Furthermore, PRASA's significant capital investment programme to improve rail infrastructure, such as (i) signaling, (ii) 120km/h perway programme, and (iii) station and depots modernization is central to a modern rail system. The modernisation programme will transform passenger rail infrastructure and services thus ensuring that rail becomes the backbone of public transportation and is the preferred mass public transport carrier, fully integrated with other modes of transport.

Despite its modernisation programme, PRASA is cognisant of the fact that whilst it embarks on the modernisation programme, focusing on the deployment of new rail infrastructure and services, the organisation still has to contend with running the current operations and improving the customer service experience.

PLANNING FOR GROWTH: NETWORK EXPANSION AND CORRIDOR DENSIFICATION

PRASA's planning for growth and expansion of the rail network is done in collaboration with the various Cities Planning Authorities. It takes into account the transport requirement, the spatial and human settlement plans of the Cities, culminating in the future plans for rail being included in the Integrated Transport Plans of the Cities. The rate of urbanisation and the demand for land for human settlements require Cities to pursue sustainable transport solutions. Rail, having the advantage of higher capacity, more efficient and less harmful to the environment is therefore considered as the backbone and mode of choice for Cities today and in the future.

In this regard, PRASA together with the Cities have identified potential future corridors around the country. Some require implementation in the short term whereas others in the medium to longer term. These rail reserves however have to be protected to ensure the realization of these opportunities in the future. PRASA's current and future network expansions are included in the National Strategic Plan and Integrated Transport Plans of the Cities as a result of the collaborative and integrated transport planning approach between the Cities and PRASA.

PRASA's Strategic Network Planning unit, tasked with rail network planning and future expansions, contributes to this integrated approach to public transport planning. Through this unit, PRASA participates at various structures and committees at local, provincial, and national government levels to ensure integrated transport planning that is informed by the various transport, spatial development and other related policies and legislation. At local government level, PRASA participates at Intermodal Planning Committees, Land Transport Advisory Boards, and Rail Steering Committees. These and other structures inform the PRASA strategy in developing, improving and extending rail passenger network in South Africa which must be informed by spatial planning.

Notwithstanding the above, the shortcomings related to the planning function is recognized and attributable to the lack of resources (budget and vacancies) including appropriate planning software and tools. Addressing these challenges in the short term will enable the Planning unit to be more effective and ensure more informed decision making going forward.

Corridor expansion and extensions to new and/or growing settlements and the transformation of the rail product provide new opportunities for PRASA's real estate commercialisation and property development strategy. The development and establishment of new economic hubs at flagship (existing and new) stations and new human settlements forms part of PRASA's commercialisation strategy and its ambition to create destination stations. Through co-investing with third-party developers at stations and precincts PRASA will help to grow passenger demand and increase income generated to support the funding required by PRASA in executing its first primary mandate.

Furthermore, investment in delivering the secondary mandate can help create new patronage from enhanced facilities on or around stations that help to make them a destination of choice for passengers and to build demand volumes.

The commercialisation and property development strategy is driven through Corporate Real Estate (CRES) and subsidiary Intersite Assets Investments. Whilst this is not dealt with extensively in this Get On Track Plan, it forms part of the PRASA's business growth strategy and is articulated in detail in the corporate strategy and plan.

A DELIVERING ON THE MANDATE

PRASA RAIL

PRASA Rail, as the passenger rail operating division of the Group, is the true custodian of the mandate to deliver commuter rail services in the Metropolitan areas of South Africa, long-distance (inter-city) rail services within, to and from the borders of the Republic of South Africa.

As a mass public transport carrier, PRASA Rail is entrusted with the responsibility of ensuring that the organisation:

- Deploys a safe, predictable, reliable rail commuter and passenger services.
- Provides quality rail network and services.
- Positions passenger rail services as the backbone of public transport and a mode of choice.
- Gears itself for the deployment of a train system of the future.

Unfortunately, rail performance has declined drastically in the last few years. Commuter services are at its lowest performance levels of all time. On-time train performance is currently at 68,3% of trains operated and 13% of trains scheduled are canceled with the average delay of over 30 minutes being experienced by commuters. Metrorail transported 543 million paying passenger trips in 2013/14 and by 2017/18 this number has declined to 269 million paying passenger trips. This corresponds to the decline in customer satisfaction from 67% to 52% by end of 2017/18.

The unavailability and unreliability of rolling stock and infrastructure, which are key enablers to regular, reliable and on-time train services, can no longer guarantee that rail is the backbone of public transport. The availability of train sets (rolling stock) has decreased from 288 sets in 2013/14 to 200 by the end of 2017/18 and is currently at 174 sets (with only 50% correctly configured with 12-coaches). This decline happened despite the general overhaul program and repair interventions that amounted to billions of rand.

A rescue plan has been developed which focuses on two areas: curbing further decline in passenger patronage whilst endeavouring to recover lost customers. Its execution is premised on the successful implementation of the Engineering Unit's rescue plan that addresses the improvement of availability and reliability of both rolling stock and infrastructure.

Turnaround Action plan by Rail Operations has, it's focus, the following:

- Increase train availability and train performance in peaks to 88% on time.
- Reduce the number trains cancelled to less than 6% in peak periods.
- Improve the customer experience focusing on end-to-end passenger journey.
- Reduction in crime related incidents involving passengers.
- Reduction in the number of passenger injuries and fatalities by reducing overcrowding.

Stabilising the passenger rail system requires drastic interventions. Rail Operations has identified key interventions that will stabilize service performance levels and offer customers a more predictable and reliable service, including improved communication to customers on status of services and improvements over the turn-around period.

The availability of train sets (rolling stock) has decreased from 288 sets in 2013/14 to 200 by the end of 2017/18

The Rescue Plan by Rail Operations has, it's focus, the following:

- Review the functions, operating model and delegation of authority of the Regions
- Rapid rolling stock recovery programe to the following train sets requirements:
  - Western Cape 88 train sets
  - Gauteng 123 train sets
  - KZN 57 train sets
  - Eastern Cape 9 Locomotives
- Restore the service across the Regions to desired service levels:
  - Western Cape Restore the central line.
  - Gauteng Reduce speed restrictions and manual authorisations.
  - KZN Restore railway line and embankment infrastructure from washaways.

Accelerate procurement of critical spares, rail components and tamping machines

Redesign service to demand.

Implement operational safety measures.

AUTOPAX

Autopax's main objective and main business is to carry out the primary mandate of PRASA, in consultation with the Department of Transport, for long haul passenger bus services within, to and from the Republic in terms of the principles set out in section 4 of the National Land Transport Transition Act, 2000 (Act no 22 of 2000)Autopax's therefore provides for long distance inter-city, charter and cross border transportation of passengers in Southern Africa, in luxury, semi-luxury and intercity coach vehicles.

Autopax bus operations competes in all of the inter-city routes with 249 routes covered by its brands Translux and Intercity. However, the company's negative financial situation has forced Autopax to review its current routes and its schedule with a view of prioritising profitable and reviewing its services on non-profitable routes. This process has culminated to future routes to be serviced being reduced from 249 to 199. This is part of Autopax's attempt to minimize its declining financial outlook and ensure the company is in a position to realize a minimum of 75% seat utilisation on each service off-peak and 95% seat utilisation during peak. All identified non-pro table routes will be terminated with immediate effect. The company will also implement measures to effectively combat pilferage in the company at all level of operations.

As Autopax is currently struggling to meet its daily operational requirements, as more than half of the total fleet is parked at the depot or with various service providers due to either mechanical breakdowns or accidents, its status as a going concern has remained a prominent key feature in it the company's long-term strategy.

Key strategic interventions and policy considerations are proposed for possible implementation in the next financial year including timeframes and conditions precedent to achieve the proposed that this restructuring of Autopax.

Autopax is now focused on turning around the business and has instituted measures and interventions to ensure the following:

- Increase in Fleet availability.
- Route and Fleet optimisation.
- Increase Revenue and Passenger Numbers.
- Improve Internal Controls – Reduce the use of Manual Systems and Cash Handling.
- Improve operational efficiencies and customer satisfaction.

The above will only start bearing fruit during the 2018/19 financialy year and will allow Autopax to regaining lost market share

PRASA CRES

CRES is a property management Division of PRASA, responsible for managing PRASA's property portfolio which is made up of operational (stations, depots and office buildings) and non-operational (residential and land) properties. The mandate is twofold and focuses on improving the condition of properties in order to provide quality public transport facilities whilst growing the portfolio value through commercialisation.

At the core of CRES delivery, is ensuring that the condition of the portfolio facilities is improved and continuously maintained to support PRASA business operations first whilst generating income through the exploitation of the portfolio stock.

The portfolio currently has a wide variety of stock which can be broadly categorised into the following:

- Railway Station Buildings.
- Workplace Facilities.
- Vacant Land.
- Commercial Facilities.
- Residential Facilities.

The delivery of CRES mandate contributes to the following:

1. Contribute to a positive commuter and passenger travel experience.
2. Rail System Performance.
3. Modernise the Rail system.
4. increase the patronage of the public transport mandate by bringing communities to stations.
5. Exploit PRASA's Assets and Increase income from Real Estate and other assets.

PRASA TECH

PRASA Technical's main focus is improving rail system performance through ensuring infrastructure reliability and availability, as well as improving rolling stock capacity and availability. The division's key focus area is ensuring that rail delivers on its mandate and improves the travel experience of commuter and passengers.

With a 36.4% under performance reported in 2017/18, the rail system performance is a key focus for the division. Reducing speed restrictions and perway failures in order to cut train delays and improve travel times is a key performance outcome for the division. Reducing signal and electrical faults in order to improve infrastructure reliability, safety and the capacity of the infrastructure ensures that more trains can be run with minimum hindrances.

Through infrastructure maintenance and improvements, the division has set as its targets the following:

- Increase infrastructure reliability & performance by reducing signaling & telecoms faults by 15%.
- Reduce train delays and cancellations by reducing electrical overhead traction equipment & substation faults by 25%.
- Reduce train delays and cancellations by reducing perway faults by 15%.
- Reducing speed restrictions by 56%.

PRASA Technical core services

- Strategic Infrastructure.
- Electrical (OHTE & Substations).
- Perway, Bridges and Structures.
- Stations upgrades.
- Platform rectification.
- General Overhaul and Refurbishment of current fleet of Metrorail and MLPS.
- Engineering Services – Maintenance of Infrastructure and Current fleet of Metrorail and MLPS.
- Maintenance Depot upgrade / renovation.

As part of the turnaround focus to improve rail system performance the division will focus on maintenance practices and program that will ensure sustainability of the asset performance in the short term, that will be supported by a sound asset management system that includes an effective reliability engineering function. Benchmarking of maintenance best practices against similar international operators will be conducted as part of improving the performance and effectiveness of this division in supporting the Rail division.

INTERSITE ASSET INVESTMENTS

Intersite's mandate is the implementation of PRASA's secondary mandate, which is to generate income from the exploitation of the assets of PRASA.

Intersite's objective is to harvest property and commercial income generating opportunities for PRASA through a range of innovative and entrepreneurial solutions. The property opportunities are focused on developments around Stations, Station precincts and vacant land, while the commercial opportunities are focused on cost savings and income generation around Telecoms, ICT and Energy across the rail infrastructure portfolio.

The mandate will be realized through:

- The facilitation of investment by strategic partners;
- Develop the properties and assets;
- Drive commercialization of select and approved PRASA assets, including
- Facilitating private sector investment in PRASA assets; and
- Undertake project services related to transport projects.

The competitive advantage that Intersite has is PRASA's large captive commuter base along with the rail and property infrastructure.

Intersite in pursuance of its Real Estate Mandate is entering a stage where its investment initiatives are coming to fruition.

To illustrate the impact that Intersite is making, it is important to note that there are two commercial developments which will commence the construction process within the next 12 months to invest approximately R 1 billion on PRASA properties with private investors.

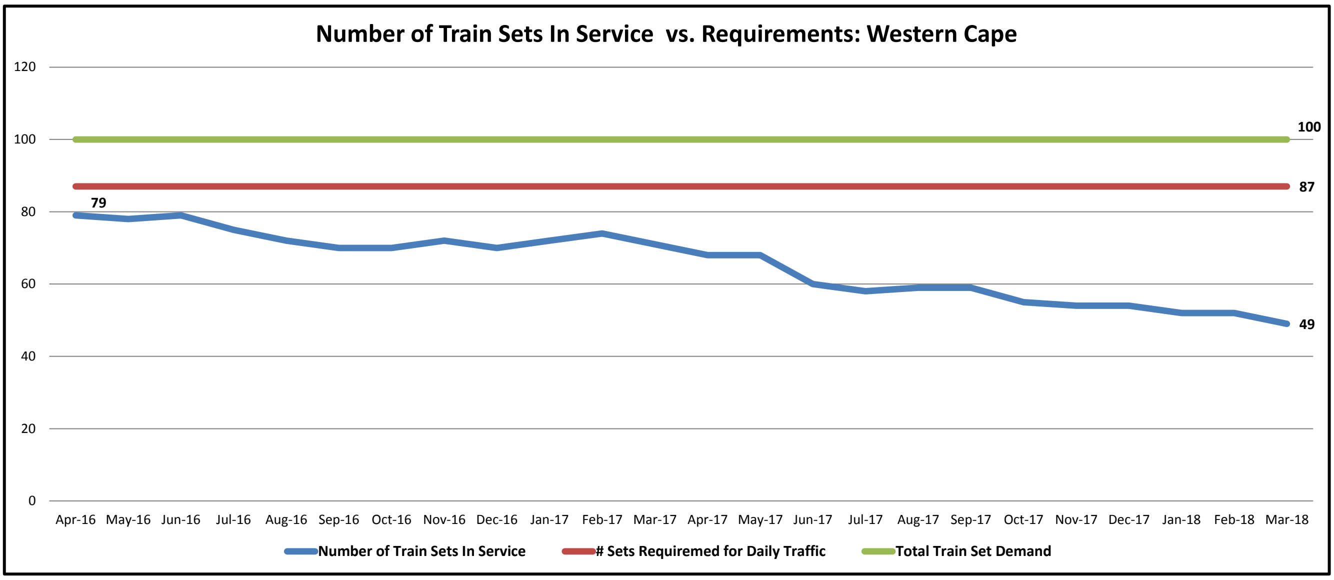
A pipeline of real estate development projects are being aggressively pursued, with it being projected that a further four developments will be implemented in the first year of the next MTEF cycle. Key amongst those are social housing developments aligned to the corridor densification strategy with social and economic benefits to the commuters whilst also increasing rail patronage.

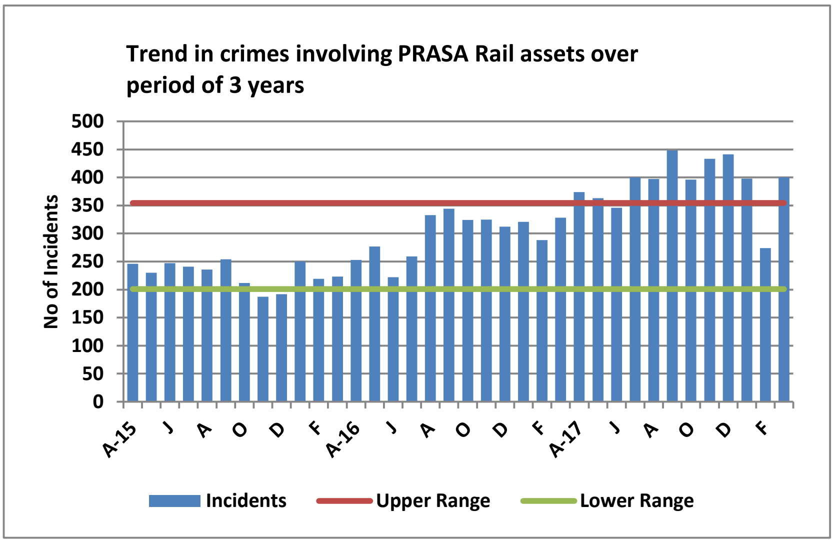
B PERFORMANCE REPORT

1. PRASA Annual Performance Report:

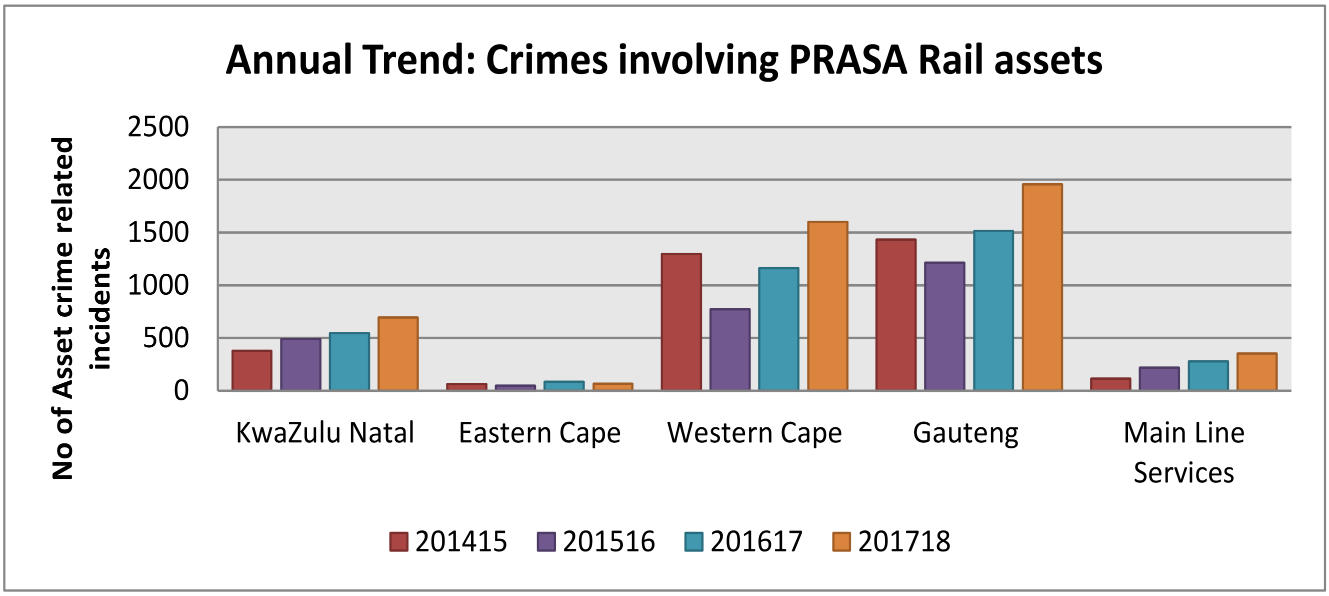
The performance for 2017/18 showed a marked decline on previous financial years and is a reflection of an organisation in crisis. PRASA have had three Board changes in 2017/18 with no Board between May and October 2017. The continuation of the investigations highlighted by the Public Protector report, Werksmans as well as National Treasury investigations, still to be completed, resulted in a number of contracts being put on hold, suspended or in litigation. Such projects had in the main a major impact on the Capital Programme of PRASA.

An unprecedented increase in security related incidents severely impacted on the availability of train sets, especially in the Western Cape where train sets were destroyed as the result of being set alight and rendered unserviceable as the result of a continuing scourge of component theft and vandalism, which hampered the provision of train services. In addition floods in Kwa Zulu Natal resulted in the closure of train services during October 2017. The combined impact of crime and train accidents in Gauteng as well the serious Mainline Passenger Services level crossing accident which resulted in 24 fatalities near Kroonstad in the beginning of 2018 resulted in a loss of commuter and passenger confidence.





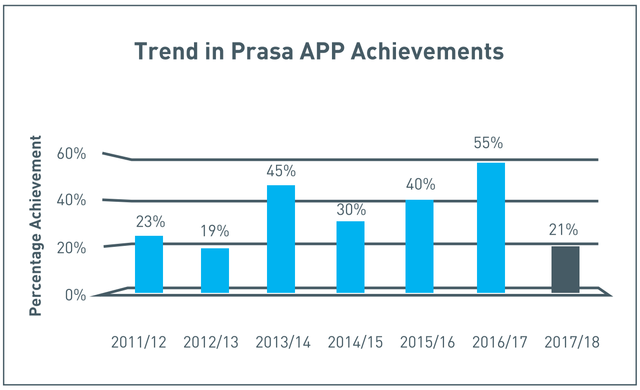
PERFORMANCE REPORT (Continued)

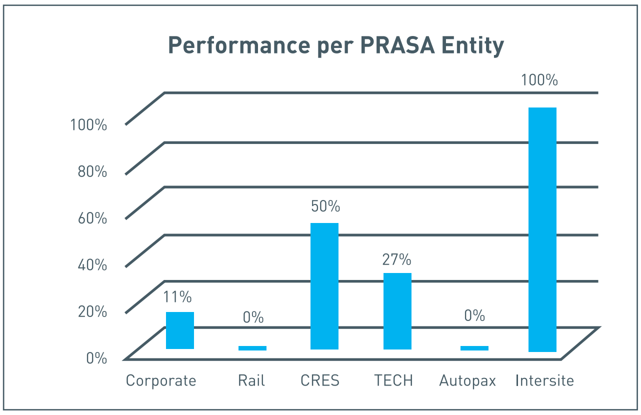


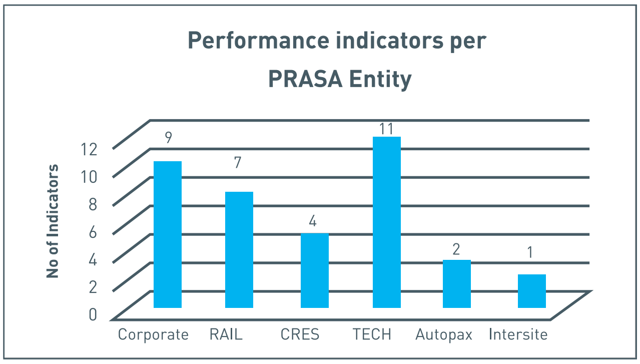
Short term actions implemented to address the challenges in operations include actions to :

- Stabilise and prevent the further decline in rolling stock availability for Metrorail operations through improved security focused on component/cable theft and vandalism of coaches and motor coaches and improve rolling stock reliability supported by PRASA Technical in improving infrastructure reliability;
- Continue with the roll—out of the re-signaling programme to address the obsolescence of equipment.
- Re-prioritise and accelerate the fencing programme in the hotspots where members of the public cross railway lines in unauthorised places leading to fatalities/serious injuries as well as in areas where it is needed to protect key assets, stations, depots and staging yards.
- Streamline the procurement and governance processes to facilitate contracts in the space of rolling stock components (rotary machines), infrastructure spares (e.g. rails), specific maintenance materials, on track machines for maintenance of electrical and perway as well as for capital projects.

The trend in performance of PRASA is reflected below:







2. STRATEGIC GOAL 1: DELIVER ON THE MANDATE OF PUBLIC TRANSPORT THROUGH PROVIDING SAFE, RELIABLE, CLEAN, AFFORDABLE AND SUSTAINABLE SERVICES RESULTING IN CUSTOMER SATISFACTION OF MORE THAN 80% IN FIVE YEARS.

2.1 Objective 1: Improve the Customer Experience focusing on:

a) Commuter and passenger safety
b) Customer satisfaction increase to 80% by 2019/20
c) End-to-end passenger journey

<table>
<tr><th>Focus Area</th><th>Performance Indicator</th><th>2016/17 Performance</th><th>2017/18 Target</th><th>Actual</th><th>Variance</th></tr>
<tr><td>Customer Services</td><td>Customer Satisfaction Rating per annual survey</td><td>59.49%</td><td>69%-75%</td><td>56.14%</td><td>-12.86%</td></tr>
<tr><td></td><td colspan="5">Only the Metrorail and Autopax customer satisfaction surveys were performed. The overall score is based on the index scores from the two entities. Metrorail excluded the KZN Customer Satisfaction Survey due to the storm / floods which occurred in the region with serious damage to the infrastructure. The MLPS survey was not conducted due to the accident that occurred in Free State (Kroonstad) that impacted the normality of the services.

The Customer Satisfaction Rating reflects the performance of the products of especially Metrorail and Autopax. The actions to address improving customer satisfaction depend on the improved product as is addressed under strategic objective 2.</td></tr>
<tr><td>Operational Safety</td><td>Rail Passenger Injuries and Fatalities per million passengers</td><td>5.4</td><td>3.3 - 4.3</td><td>7.60</td><td>76.74%</td></tr>
<tr><td></td><td colspan="5">The Elandsfontein Collision, Geldenhuis Collision and Geneva Level Crossing (MLPS) are major contributors to the high number of injuries and fatalities. Train/Platform interchange injuries and fatalities are due to overcrowding, commuter behaviour, changes in in-service platform arrangements, platform heights and shortage of rolling stock. Passengers traveling between coaches and forcing doors open sometimes fall victim to injuries when boarding a train in motion and jump from the train before it stops at a station.

Actions that PRASA is undertaking to address safety of passengers are:
1. Deployment of Platform Marshalls and Safety Patrollers in high incident areas.
2. Safety Campaigns.
3. Rolling Stock Refurbishment programme to increase availability.
4. Improved operational scheduling and communication to commuters.
5. Implementation of the New Rolling Stock.
6. Platform Alignment programme.</td></tr>
</table>

PERFORMANCE REPORT (Continued)

<table>
<tr><th>Focus Area</th><th>Performance Indicator</th><th>2016/17 Performance</th><th>2017/18 Target</th><th>Actual</th><th>Variance</th></tr>
<tr><td rowspan="2"></td><td>Rail Public Injuries and Fatalities per million passengers</td><td>1.85</td><td>1.4 - 1.6</td><td>2.33 ●</td><td>45.63%</td></tr>
<tr><td colspan="5">Non adherence to road traffic signs at level crossings, illegal crossings / trespassing in the operational tunnel are the root causes for the high number of public injuries and fatalities.

Actions that PRASA is undertaking to address safety of public are:
1. Elimination of high risk level crossings in the long term.
2. Joint Safety Campaigns with the SAPS, RSR, TFR and local municipalities.
3. Fencing Programme with a specific focus on hotspots.
4. Special operations to apprehend perpetrators as deterrent.</td></tr>
<tr><td>Security</td><td>Schedule 1 crime incidents involving passengers</td><td>564</td><td>438-570</td><td>592 ●</td><td>3.86%</td></tr>
<tr><td></td><td colspan="5">Robbery accounted for the majority of the incidents, followed by assault with intent to cause grievous bodily harm. The majority of incidents have been reported in the Western Cape. Although Schedule 1 occurrences as measured is only intended to measure the safety and security performance to protect passengers one needs to escalate the increase in attacks on train crews and technical staff which has a severe and negative impact on the services and escalation in security cost. There is however a noticeable increase in protest actions that impacts negatively on the ability of the organisation to address safety and protection of passengers as well as employees and assets. An improvement in the trend was noticeable as from Quarter 4 in Western Cape following specific interventions.
Implementation of the Security turn-around plan priorities to address the security performance:
1. Focus on identified hot spots.
2. Security Turnaround structure to be approved for the implementation for accelerated turn-around plan.
3. Real time monitoring in staging yards regarding Rolling Stock vandalism to curb the increase in vandalism.
4. Noticeable increase in arrests and must be followed through with prosecutions and convictions.
5. Escalate vandalism to National SAPS level to seek priority assistance.
6. Joint actions with Rapid Rail Police.</td></tr>
</table>

2.2 Strategic Objective 2: Improve Rail System Performance by

a) Increase in fare revenue by R3,1bn over the 2018-2020 MTEF

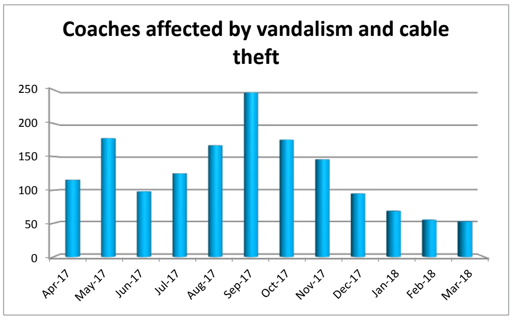
b) Increase of train performance in peaks to on time performance of 88%

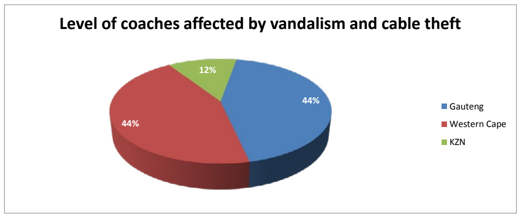
c) Reduce the number of trains cancelled to less than 6% in peak periods

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
Engineering Turnaround	Commuter coaches in service		3 319 – 3 681 by year-end	2 407 by year-end 🔴	-27.48%

Non-availability of mission critical, maintenance specific component floats and material to due lack of long term Rotating Machines and Wheel refurbishing contracts.

Coach cable theft and malicious damage to coaches (trains set alight) lost in 2017/18 financial year are contributing negatively to coach availability and full train set configuration.





The actions of the team to address the availability of rolling stock:

1. An interim solution for rotary machines is in place and the tender for rotary machines will serve in Quarter 1 of 2018/19.
2. Extended interim National Treasury deviation for refurbishment of Rotating Machines was obtained.
3. GO Service providers to assist with Ad hoc repairs to coaches that were vandalised due to cable theft.
4. In January 2017 a comprehensive 12 month Coach recovery action plan was initiated with weekly meetings monitoring progress and corrective actions. This has exceeded the target of coaches recovery plan. 861 coaches were recovered, translating into 71 train sets against a target of 66 train sets. More coaches, 1519 for 2017/18, are being lost to vandalism (theft, arson etc.) than what is recovered.
5. The security plan was reviewed and actions implemented to control crime in the identified hotspots.

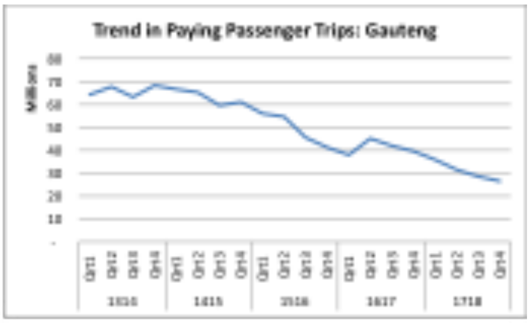
PERFORMANCE REPORT (Continued)

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
	Metrorail Commuter fleet mean time between failure (MTBF) improved		4.8 - 5.2 days between failures by year-end	3.56 days between failures by year-end	-25.83%
	The main contributing factors impacting on reliability is the high incidence of control equipment, voltage switch gear and rotating machine failures. The PRASA Tech Acting CEO reported unusual failure rates of equipment and components from suppliers indicating a need for a thorough investigation of this phenomenon. Actions been implemented by the organisation are: 1. Re-introduction of sub system program work commenced internally in depots. 2. Enforcement of quality requirements for rotating machine refurbishment. 3. Quality interventions with General Overhaul contractors and subcontractors of critical sub-systems. 4. Quality assurance department staffing requirement revisit.				
	Infrastructure mean time between failure (MTBF) improved				
	Perway (MTBF)		30-40 hours by year-end	42.4 hours by year-end	6.00%
	Attention focused on problematic areas assisted in improving performance. The appointment of the On Track Machines contractor and acquisition of replacement Road Rail Vehicles as part of maintenance interventions in 2018/19 will assist in sustaining performance.				
	Electrical (MTBF)		33-40 hours by year-end	29.9 hours by year-end	-9.39%
	A number of substations are not functioning in Gauteng namely Eerste Fabrieke bulk power supply (40MVA) substation to Pretoria central, traction grid off line due to an Eskom equipment fault; Katlehong was hit by lightning in January 2018; Oakmoor substation is off line due to a faulty transformer; Tembisa substation was damaged by a switching routine from Eskom and is under emergency procurement consideration for restoration; Lawley and Witpoortjie substations is off line due to Eskom supply challenges and Verwoerdburg's traction transformer is out of commission pending a commercial decision on its refurbishment or procurement for a replacement transformer. A number of these (Eerste Fabrieke and Verwoerdburg) is outstanding for 30 months and more. In addition some feeder cables burnt at Kaalfontein. The situation of these substations compromise stability and availability of other substations within the traction grid in Gauteng the biggest region. A review of the current SLA with Eskom on security of supply and expediting repair works to be done in 2018/19. In addition, procurement and refurbishment of substation critical components to be conducted via the Capital Investment Programme.				
	Signals (MTBF)		4.6 - 4.8 hours by year-end	1.9 hours by year-end	-57.79%
	The main contribution to the low performance on signals is from the Gauteng region. Equipment has reached its end of useful life cycle hence its reliability is being impacted adversely. There are no components for replacement to improve the condition by means of maintenance due to obsolescence hence there is high frequency of failures. The re-signalling project is expected to restore the system integrity. A decision to procure spares separately has been made as they are not provided for in the current re-signalling contract.				

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
	Kilometer of speed restrictions on network reduced		61 - 89 km by year-end	149 km by year-end ●	144.26%
	A number of speed restriction areas in Western Cape between Clovelly and Kalk Bay; Nyanga and Phillippi and Ysterplaat and Mutual, were uplifted where no rail defects, during the ultrasonic measurements, were found. The procurement of on track machine services and rails to address the reduction of kilometres on the network under speed restrictions failed late in the process. The intention was to utilise Transnet suppliers. To reduce the kilometres on the network under speed restriction the procurement of On Track machine services and rails will be concluded in 2018/19. An MOU with Transnet for the supply of technical assistance to be finalised in 2018/19.				
	General Overhaul of Metrorail coaches completed	461	349-422 by year-end	409 by year-end ●	0.00%
	The liaison with contractors to monitor stage progress and interrogate advanced corrective actions assisted in exceeding the target.				
	General Overhaul of Mainline Passenger Services (MLPS) completed	81	61 - 72 by year-end	56 by year-end ●	-8.20%
	The capital funds allocated made provision for around 50 coaches. A Capital Adjustment Motivation was approved in September 2017 after which the contractors could start planning for the additional workload. The works on 4 power cars could not be completed as PRASA decided to review the specifications on the diesel generator, a further coach once stripped required more work due to rust repairs needed on the sub-structure than anticipated and another 4 coaches (kitchen and dining cars) could not be completed due to long lead times on the equipment to be fitted on-board.				
Operational Turnaround	Metrorail Trains on time as % of trains scheduled	71.08%	85 - 87% by year-end	63.90% by year-end ●	-21.10%
	13.51% of scheduled trains were cancelled during the year and 26.16% of trains operated were delayed. 97 safety related incidents occurred for the year. Due to attacks on staff and assets Western Cape and Gauteng suspended services and this increased the number of cancellations. Rolling stock was responsible for 37.33 % of delays and cancellations with signals 24.78% and security 10.33%. There were a number of wash-aways due to severe storms in KZN (May and October 2017) and Gauteng. Service delivery and community unrest impacted on services as communities blockaded railway lines. There were a high number of high tension explosions leading to train fires. Pantograph hook-ups also had a big impact on train services. Vandalism of train sets and infrastructure equipment caused major delays due to a shortage of sets and authorisation of trains in the affected sections. A total of 294 sets were required for service with only 223 sets supplied. 59.01% of all trains were operated with a short set configuration.				

PERFORMANCE
REPORT (Continued)

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
	The operations are accelerating stablilisation plans within the turn-around strategy, with improved security efforts to curb vandalism; improve rolling stock reliability and filling of critical vacancies. Management of abnormal operating conditions to reduce the number of authorisations is being undertaken. A process has commenced to sign a Social Compact with stakeholders and communities following the vandalism of the new trains on the Pienaarspoort corridor. A new approach for modernisation and operational readiness will be proposed to ensure alignment of modernisation projects with operational needs to ensure community ownership of new trains and optimise scheduling of trains.				
	Metrorail Paying passengers trips	372.02 million	379 - 438 million by year-end	269.46** million by year-end ●	-28.90%
	** An estimate for the period August 2017 to March 2018 for Gauteng and September 2017 – March 2018 for Western Cape using fare revenue banked and income per trip for 1st part of the year. All regions experienced a decline on 2017/18 in numbers of paying passenger trips. The overall decline in paying passengers was 27%. The decline per region is 40% in Western Cape, 26% in Gauteng, 5% in KZN and 14% in Eastern Cape				



The decline shows a strong statistical correlation with train cancellations and decline in rolling stock availability. Eastern Cape experience a shortage of locomotives leased from Transnet resulting in poor train services. In addition the shortage of protection services played a role in the protection of assets from theft and vandalism that impact train performance as well as the manning of platform ends to prevent fare evasion. The ticketing system collapsed in Gauteng in December 2017 with emergency procurement instituted to bring the sales side online, the system also did not provide for summary information from August and September 2017 for Gauteng and Western Cape respectively. Shortage of ticketing machines is also experienced in Western Cape and Eastern Cape. Various accidents and derailments in Gauteng resulted in train cancellations over extended periods.

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
	A number of lines had to be closed during the year namely: **Western Cape:** • Central Line closed from 10 – 13 December 2017 due to unsafe working conditions as result of vandalism (23 Track boxes), theft and safety of employees and passengers. The line was partially restored after 13 December 2017 and full service again in January 2018. • Simons Town - Fishhoek line due to sand on tracks in November 2017. **Gauteng:** • Johannesburg - Vereeniging - Johannesburg line via Midway from 11 - 25 July 2017 due to vandalism and community protest. • Nigel Line due to cable theft in March 2018 for a week with services replaced with buses. • Leralla line was closed in December 2017 for construction of a footbridge and fencing by the city. **KZN:** • Umbogotwini – Isipingo, due to severe flood damage between May and July 2017. • The whole region was closed to the severe floods 10 to 15 October 2018 and services restored after 3 weeks. The South Coast line were the worst affected and passengers had to use alternative transport. The PRASA Rail stabilisation and recovery plan as contained in the 2018/19 Corporate plan is to address the failures of 2017/18. The plan focuses on the recovery of the product (train services) through the recovery of rolling stock availability and reliability, recovery of the infrastructure to ensure improved availability and reliability and comprehensive security plans to improve the prevention of theft and vandalism of assets. Once the product improves, actions to recover fare revenue through fare evasion actions can be re-instituted. Currently commuters in a number of corridors e.g. Kaalfontein – Germiston refuse to pay due to the poor service.				
	Mainline Passenger Services Passengers transported	0.565 million	0.590 - 0.770 million by year-end	0.466 million by year-end ●	-21.04%
	Patronage was short of the target for the year due to the shortage and reliability of locomotives. Shortage of personnel at some stations and network challenges due to poor Transnet/PRASA interface as well as lack of investment (new technology) in MLPS contributes to the decline in service performance and patronage. Despite the leasing of external locomotives to sustain capacity during the High Peak Period, 28% less passengers were transported in December 2017 than in December 2016. Various shut downs by Transnet Freight Rail affected service continuity and a steady decline have been experienced during the year due to the lack of confidence in the regularity of services. The increase in the number of trains ran and a corresponding improvement in the service quality will increase patronage going forward other actions are: With the expected supply of new locos from the tender that's currently in progress together with the turn-around initiatives it is expected that trains scheduled for the service would be operated and increase the potential of meeting planned targets for revenue and patronage. Ensure investments to modernise the business incrementally and ensure permanent solution for the locomotive availability and reliability for the MLPS business. Improve Interface management with Transnet on the service level agreement and re-negotiate the interface agreement to ensure business sustainability				
	Autopax Long Distance Passengers transported	2.25 million	2.61 - 2.91 million by year-end	1.898 million by year-end ●	-27.26%

PERFORMANCE REPORT (Continued)

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
	The number of busses operated during this period and the fares implemented did not cover the number of services budgeted and was less than the budgeted price. Autopax have reviewed ticket prices to be aligned with the budget and breakeven point per service. The number of busses released from the "Vehicle Off the Road" list covers 95% of the budgeted services which will have a positive impact on revenue and passenger numbers going forward				
Station Improvements	National Station Improvement Projects (NSIP) completed	45	40 - 50 projects by year-end	17 projects by year-end ●	-57.50%
	The negative variance is mainly as a result of delays at Procurement Phase - where the Division Divisional Tender Procurement Committee has been dissolved by the Acting CPO in Quarter 3, the Group Bid Specification Committee has also not convened regularly as well as delays and non-approval Bid Evaluation Committees in Corporate office. There have also been delays as a result of approval from Transnet Freight Rail for site access. Special attention is been placed on the full procurement process with re-establishing Procurement committees and a review of the delegations of authority to enable an improvement of the procurement right from requirement to final approval.				
Workplace Improve-ments	Workplace Improvement Projects (WPIP) completed	20	18 - 22 projects by year-end	13 projects by year-end ●	-27.78%
	The negative variance is mainly as a result of delays at Procurement Phase - where the Division Divisional Tender Procurement Committee has been dissolved by the Acting CPO in Quarter 3, the Group Bid Specification Committee has also not convened regularly as well as delays and non-approval Bid Evaluation Committees in Corporate office. There have also been delays as a result of approval from Transnet Freight Rail for site access. Special attention is being placed on the full procurement process with re-establishing Procurement committees and a review of the delegations of authority to enable an improvement of the procurement right from requirement to final approval.				
Financial Turnaround	Fare Revenue : Metrorail, MLPS & Autopax increased	R2.347bn or R389 million less than 201516	Increase of R455m by year-end on 2016/17	Decline of R550.937 m by year-end on 2016/17 ●	-221.09%

<table>
<tr><th>Focus Area</th><th>Performance Indicator</th><th>2016/17 Performance</th><th>2017/18 Target</th><th>Actual</th><th>Variance</th></tr>
<tr><td></td><td colspan="5"> Metrorail: Fare revenue for the year deviates substantially below budget. The Metrorail ticketing system failed in the second quarter in Gauteng and Western Cape and these regions could not record ticket sales accurately. Service disruptions in all regions affected passenger numbers and revenue while customer services experience reluctance from commuters to buy tickets due to the general poor service experience. Train cancellations - High levels of cancellation of trains nationally continues because of rolling stock failures, signal and electrical faults and a shortage of Train Operations staff. The regions cancelled 86 345(13.51%) of scheduled trains during the year, with Western Cape having cancelled the highest number of trains at 47 362 (24,14%). Fencing - Lack of fencing in most of the key stations result in high fare evasion e.g. Western Cape Central and North corridors. The budget was based on the assumption that stations will be fenced in order to secure revenue. Stations that are still not fenced impact on the achievement of revenue targets due to persistent leakage of revenue. Fare increase – A fare increase that was anticipated to be implemented from 01 April 2017, has not been implemented due to continued service decline and contributed to the shortfall against budget. Shortage of personnel – Revenue collection is still a challenge due to insufficient personnel to close all the access points to the platforms and man the double shift where required. Shortage of personnel contributes to fare evasion and ineffectiveness in collection of fare revenue. There is also loss of productivity due to absenteeism. </td></tr>
<tr><td></td><td colspan="5"> Actions focus on additional ticketing equipment to be made available to Eastern Cape. Expedite the fencing project to close major stations to curb fare evasion and to this end the procurement process for 34 fencing projects has been initiated. All regions to restore services in terms of accelerated turn-around plans to ensure additional service capacity and instill discipline in paying for tickets with additional ticket verification actions. MLPS: A steady decline has been experienced after the High Peak Period Period due to the lack of confidence in the regularity of services. The lack of reliable locomotives and TRANSNET network performance dependency are the main contributors to poor service and lack of confidence in the services by passengers. In order to address service delivery and reliability, the locomotives upgrade program needs to be accelerated. Furthermore capital investment in the MLPS business has to be made to improve efficiencies in technology upgrades. Autopax: Bus operations continued to experience a decline in fare revenue due to the shortage of busses. On average, 190 busses are required to operate all scheduled services. For the year under review an overage of 100 busses were operated. A number of services were closed on the system, to prevent sales that needed to be refunded at a later stage. This had a negative impact on revenue. The entity missed out the peak periods for bus travel for both Easter and December Peak period and this aggravated the problem. More busses have now been released from the Vehicle Off the Road (VOR) list and prices and schedules reviewed. A positive impact is expected from these actions going forward. </td></tr>
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PERFORMANCE
REPORT (Continued)

2.3 Strategic Objective 3: Realign support functions to achieve an efficient Rail business through integration of

a) Divisions, departments and subsidiaries
b) Long-distance transport services
c) Reducing expenses by R4,787bn over the 2018-2020 MTEF

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
HCM Turnaround	Productivity: Revenue (excl. subsidy) per employee		R246 425 – R263 223 by year-end	R165 259.02 by year-end	-32.89%
	Revenue of PRASA is 30% below budgeted numbers for the financial year. Furthermore anticipated savings through reduction in personnel costs did not materialise. Personnel costs reduced 5,5% when compared to 2016/17. Revenue plans are addressed in the objective of Improving the rail system.				
Financial Turnaround	Actual Operational Expenditure	R9.947bn	<=R9.81bn by year-end	R10.47bn by year-end	6.72%
	Savings projected in the Corporate Plan were not realised in the current year, leaving a budget shortfall of R1.928bn before depreciation, amortisation and net finance income. Expenditure has savings of R907million or 8% when compared to budgeted expense. The Group recorded savings in most expenditure items when compared to budget with the exception of overtime, insurance claims and premiums which recorded material negative variances due to high rate of vacancies in Infrastructure, Rolling Stock and Operations and an increase in insurance related to incidents respectively.				

2.4 Strategic objective 4: modernise the rail system through the R173 billion (over ten years) investment programme focusing on:

a) Rolling Stock fleet renewal programme
b) Infrastructure upgrades
c) Corridor Modernisation

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
Rolling Stock Renewal	Train sets provisionally accepted as per contract agreement	11 train sets provisionally accepted	6-7 sets by year-end	7 sets by year-end	0.00%
	All trains for year provisionally accepted by end Quarter 2.				
Re-signalling	Central Traffic Centre (CTC) buildings completed		Bellville Central Traffic Centre building completed by year-end	Bellville Central Traffic Centre 83% complete by year-end	-17.00%
	A splice joint failure in the steel roof girder occurred on 13 September 2017, which led to the suspension of all internal building works until 6 December 2017 after which remedial works commenced as recommended by the Independent Structural Engineer. Most of remedial work has subsequently been done and the balance of work resumed. Planned completion has moved to end of July 2018. The first phase for Western Cape was commissioned with control from Windermere Central Traffic Control.				

B PERFORMANCE REPORT (Continued)

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
Re-signalling	Signal Interlockings completed as per contract(s)	7 Interlockings commissioned	32-48 signal interlocking commissions completed by year-end	13 signal interlocking commissions completed by year-end ●	-59.38%
	Lower performance figures were unavoidable due to safety related issues in Western Cape that need to be resolved before final commissioning can take place. In addition delays are experienced due to theft and vandalism issues and community unrest problems. Ten stations were commissioned in Western Cape from 29 March - 2 April 2018 that will only be reflected in new year. Project teams are investigating possible further measures against theft and vandalism of signalling equipment. Meetings are held with local authority and community liaison structures to address delays at implementation sites.				
Deployment Corridors	Completion of deployment corridors in preparation for roll-out of new Fleet	Off-peak service from Feb.2017 between Rissik and Pretoria stations	Pretoria to Saulsville completed by year-end	Pretoria to Saulsville not completed by year-end.●	-100%
	Pretoria – Saulsville implementation can only happen in the new financial year. PRASA is working with the Rail Safety Regulator to finalise the morning service for Pretoria - Pienaarspoort which will lead to full operation and the progression to other corridors. However, projects to complete and enable the efficient, effective and safe rail operation e.g. platform rectification are not yet in progress. A new approach to business readiness with a structure to support all regions and incorporating lessons learnt from the Pretoria - Pienaarspoort corridor implementation to be concluded early in 2018/19.				
Depot Modernisation	Depot modernisation projects commencing, in construction and complete.	Alternative Test Facility completed and handed over to GIBELA	Maintenance Facility at Wolmerton completed for 20 new trains and construction of Braamfontein depot phase 1 commenced by year-end	Maintenance facility at Wolmerton for 20 new trains is 98% complete. Braamfontein depot phase 1 not commenced by year-end. ●	-100%
	There was a delay in the testing and commissioning of the lifting jacks by the contractor in Wolmerton. A letter was issued to the contractor stating PRASA's intention to claim penalties for late completion. The commissioning date of the remaining equipment is set for the first quarter of 2018/19. On Braamfontein depot, the upgrade contractor was not appointed in 2017/18 as per the plan due to procurement process difficulties. A turnkey approach as per original scope is being considered. Late completion of the project is anticipated. This will have a negative impact on the roll-out of the new fleet.				

PERFORMANCE
REPORT (Continued)

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
Capital Budget	Capital budget spend	R7.232bn	R13.72bn by year-end	R 6.11bn by year-end	-55.47%
	A number of projects did not achieve any spending. These related to ICT projects (Enterprise Resource Planning (ERP) and Automatic Ticketing System), Protection Services projects, Motherwell and Blue Downs extensions. Overall the SCM processes delayed the spending of the allocated budget. Contracts under review, on hold, seeking condonement or cancellations also contributed to the underspending. These are for example: Station Modernisation, new locomotives (Cancelled) and Integrated Stations Access Management System (ISAMS) (Legal review) Delayed implementation of some modernisation projects such as Braamfontein depot in the main and detailed planning on the other 4 identified depots. i.e. Salt River Depot, Durban Yard and Springfield Depot and signalling in KZN and Western Cape. Special attention has been placed on the full procurement process with re-establishing Procurement committees and a review of the delegations of authority to enable an improvement of the procurement right from requirement to final approval.				

2.5 Strategic objective 5: expand prasa rail networks and services through

a) Regional / provincial corridor expansions
b) Introduction of new services

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
Motherwell	Motherwell Development		Submit EIA application by year-end	The EIA application was submitted to Department of Environmental Affairs on 28 March 2018.	0.00%
	The indicator was achieved. EIA : Environmental Impact Assessment				

3. STRATEGIC GOAL 2: EXPLOIT PRASA'S ASSETS THAT INCREASE THE PATRONAGE OF THE PUBLIC TRANSPORT MANDATE BY BRINGING COMMUNITIES TO STATIONS AND INCREASING THE VALUE FROM OTHER ASSETS TO R1,071 BILLION BY 2020.

3.1 Strategic Objective 6: Exploiting assets to generate additional revenue through:

a) Real Estate

b) Other assets

Focus Area	Performance Indicator	2016/17 Performance	2017/18 Target	Actual	Variance
Financial Turnaround	Income from Real Estate and other assets (Incl. Intercompany)	R561.146 million	R788m by year-end	R674.68 m by year-end.	-14.38%
	Anticipated new revenue and recoveries could not be realised as a decision to move PRASA Corporate office from PRASA House to Umjantshi Building in Braamfontein has been delayed. Autopax's low performance has also negatively affected budgeted rental revenue particularly for Park Station. The revenue performance however reflects a 6% (R32.5 million) increase in operating revenue when compared to the same period 2016/17 as a result of new tenant sign up, annual escalations and turnover rental.				
Station Modernisation	Station Modernisation projects completed	1 station completed (Duff's Road)	2 stations completed by year-end	0 stations completed by year-end	-100%
	Two stations were targeted for completion namely Philippi station (Western Cape) and Oakmoor station (Gauteng). On Phillipi station the project is 98% complete and payment of invoices for work done to date cannot be processed as the contract expired due to an incorrect decision to refer the 'extension of time without costs' to National Treasury for consideration. Activities on-site have been reduced by the contractor due to non-payment with possible litigation for the delays and non-payment. On Oakmoor station, a re-instatement proposal has been submitted by PRASA Technical and the Legal Department , after attempts to address contractors difficulties by the ACPO did not materialise.				
Commercia-lisation	National Station Upgrade Projects (NSUP) completed	16	12 - 18 projects by year-end	12 projects by year-end	0.00%
	The lower end of the range targeted was achieved				
	Gross Lettable Area (GLA) created	6 761m^2	4 500 – 5 500m^2 by year-end	7176 m^2 created by year-end	30.47%
	1800 m2 created for the Anchor tenant and 4 383 m2 created for other Retail & Commercial space at Mabopane station. 993m^2 created for a Health facility at Park Station.				
Property development	Property Construction with private developers commenced	No construction commenced	1 - 2 Station developments commenced (Umgeni & Berea Road) by year-end	0 station development commenced by year-end	-100%
	Development of the land parcel at Umgeni Business Park commenced in October 2017. The target incorrectly referred to a station development. Intersite works with Third Parties on precincts and other PRASA land parcels.				

THE BOARD OF CONTROL RESPONSIBILITY STATEMENT

The Board of Control of the Passenger Rail Agency of South Africa provides effective leadership in the best interest of PRASA. The Board is responsible for the strategic direction and control of the company. For the year under review the Board has placed reliance on Management and internal for the accurate preparation and fair presentation of the consolidated financial statements of the Group, comprising the statements of financial position as at 31 March 2018 and the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, as well as the notes to the consolidated financial statements, which includes a summary of significant accounting policies and other explanatory notes and the Board of Control's Report, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Public Finance Management Act, 1999, (Act No1 of 1999) and the Legal Succession to the South African Transport Services Act.

The control by the Board is exercised by way of a governance framework which includes setting the corporate strategy with Executive Management, approving major investments decisions detailed reporting to the Shareholder and effective delegation to Executive Management.

The Entity and the group reported a loss of R1.5 billion and R928 million respectively in the current financial year

The Board's responsibilities include:

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

The Board has made an assessment of the Group and the Company's ability to continue as a going concern. There is some uncertainty on the ability of PRASA to continue as a going concern. The Entity and the group reported a loss of R1.5 billion and R928 million respectively in the current financial year which is an increase of 189% and 68% respectively from the previous financial year loss. Although all ratios are positive indicators of solvency and liquidity, the majority of the cash resources are earmarked for capital projects and not available for operational expenditure. The disparity between the allocation of capital and operational subsidy must be addressed, as the current allocation to operations does not allow for proper maintenance and operations on the infrastructure investments that are made.

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

Approval of Group consolidated financial statements and Company financial statements.

The Group consolidated financial statements and Company financial statements of the Passenger Rail Agency of South Africa, have been approved by the Board of Control as required by the PFMA

Khanyisile Kweyama
Chairperson of the PRASA Board of Control

C THE BOARD OF CONTROL

* 5 Boards appointed during this period

Boards	Date of appointment	Comments
Board 1: Chair-Dr Popo Molefe	1 August 2014	Terminated 8 March 2017
Ms Z Manase		Terminated 8 March 2017
C. Manyungwana		Terminated 8 March 2017
T. Phitsane		Terminated 8 March 2017
X. George		Terminated 8 March 2017
W. Steenkamp		Terminated 8 March 2017
M. Matlala		Terminated 8 March 2017
Board 2: Chair- Nazir Ali	**1 March 2017**	**Terminated 10 April 2017**
RL Mkwanazi	1 March 2017	Terminated 10 April 2017
TR Rikhotso	1 March 2017	Terminated 10 April 2017
N Scheepers	1 March 2017	Terminated 10 April 2017
C Moleho	1 March 2017	Terminated 10 April 2017
MF Baleni	1 March 2017	Terminated 10 April 2017
Board 1: Chair-Dr Popo Molefe	**Re-appointed 10 April 2017**	**Term ended 31 July 2017**
Ms Z Manase	Re-appointed 10 April 2017	Resigned 13 April 2017
C. Manyungwana	Re-appointed 10 April 2017	Resigned 13 April 2017
T. Phitsane	Re-appointed 10 April 2017	Resigned 13 April 2017
X. George	Re-appointed 10 April 2017	Active
W. Steenkamp	Re-appointed 10 April 2017	Term ended 31 July 2017
M. Matlala	Re-appointed 10 April 2017	Term ended 31 July 2017
Board 3: Chair-Adv. Nana Makhubele	**19 October 2017**	**Terminated 16 March 2018**
G. Maluleke	19 October 2017	Terminated 16 March 2018
X. George	19 October 2017	Terminated 16 March 2018
N Skeepers	19 October 2017	Terminated 16 March 2018
MC Reddy	19 October 2017	Terminated 16 March 2018
J. Maluleke	19 October 2017	Terminated 16 March 2018
Board 4: Chair: Mr Xolile George	**30 March 2018**	**Terminated 12 April 2018**
Pieters	30 March 2018	Terminated 12 April 2018
MC Reddy	30 March 2018	Terminated 12 April 2018
N Skeepers	30 March 2018	Terminated 12 April 2018
G. Maluleke	30 March 2018	Terminated 12 April 2018
J. Maluleke	30 March 2018	Terminated 12 April 2018

DIRECTOR'S REPORT

ANNUAL FINANCIAL STATEMENTS:

This report and the annual financial statements have been prepared in compliance with the requirements of the Public Finance Management, 1999 (Act No 1 of 1999), as amended ("PFMA"). As advised by Managament, the Board of Control is aware, as at the date of this statement, of any circumstances, which would render any particulars included in the financial report to be misleading or inaccurate.

Nature of business
The Passenger Rail Agency of South Africa (PRASA) is an Agency of the Department of Transport responsible for the provision of commuter rail services and long haul passenger rail and bus services. Through its facilities and real estate management division, PRASA Corporate Real Estate Solutions (PRASA CRES), stations, buildings and land are managed, maintained and upgraded. Intersite, a wholly-owned subsidiary of PRASA, is responsible for leveraging non-operational and non-strategic assets of PRASA. Intersite is responsible therefore for the secondary mandate of PRASA, which is to generate income from the exploitation of assets transferred to PRASA by the Minister of Transport.

Going concern
PRASA has prepared its financial statements on a going-concern basis, confirming that the entity will be able to meet its financial obligations and finance future operations through a combination of Government funding and revenue income generated from operations. The realisation of assets and settlement of liabilities and commitments will occur in the ordinary course of business.

FINANCIAL POSITION AND RESULTS:

Capital expenditure
Total capital subsidy to the value of R9.4 billion (2017: R13.8 billion) was received during the year under review. The funds were expended mainly towards the upgrading and maintenance of the rolling stock, infrastructure upgrades and station developments.

Operational funds
PRASA received an operational subsidy of R5.9 billion for the year (2017: R5.2 billion).

Operational results
Total Group income amounted to R2.6 billion, (exclusive of government subsidy) compared to R3.1 billion in the prior year. Fare revenue for ticket sales for twelve months has been included in the results. Group operating expenditure decreased by 1%. (2017: increased by 15%)

CORPORATE GOVERNANCE

The Board adheres to the principles of good corporate governance as espoused in the PFMA and King III Report and Protocol on Corporate Governance in the Public Sector. This entails the provision of an oversight on the Management of the assets of PRASA diligently and in a fair and transparent manner. Reporting to the Shareholder was strengthened by a Corporate Plan and Shareholders Agreement which ensured that the targets, measures and outputs are clearly articulated to enhance the Board's accountability. The Board in discharging its obligations and to effectively fulfil its fiduciary duties is supported by the following Committees:

- Audit and Risk Committee
- Finance, Capital Investment and Procurement Committee
- Human Capital & Remuneration Committee
- Safety, Health Environment and Quality Assurance Committee
- Governance and Performance Committee

The Board as the Accounting Authority has delegated the day-to-day management to the Executive Committee under the leadership of the Group Chief Executive Officer.

MANAGEMENT OF RISK

Risk Management is an integral part of the organisation's objectives. It is the responsibility of the Board Of Control (BOC) to ensure that there is an effective and efficient risk management in the organisation and that its methodologies and techniques outlined below are embedded within strategy setting, planning and business process to safeguard performance and sustainability.

Risks are managed through the following oversight and governance structure: SHEQ and Security risks have separate structures that monitor and manage risk processes. Key consideration, for the past Financial Year, has been the management of the SHEQ and security risks by the Board of Control (BOC) and the SHEQ committee. The rigours of risk management processes are being embedded in the safety and security environment across the Group.

CONFLICT OF INTREST MANAGEMENT

All Directors and Executives are required to disclose any conflict or potential conflict of interest that they may have regarding any matter relating to the activities of PRASA and/or any matter discussed at Board, Board Committees and at the Executive Management meetings.

The Group Company Secretary maintains a Conflict of interest and Related Party Disclosures register of the all Directors and for PRASA at large.

The declaration of interest is a standard item on the agenda of all meetings of the Board and Board Committees and Executive Management Committee meetings. The Directors are also required to sign a declaration form at every meeting of the Board and Board Committees.

Protocol for Communication with Shareholder
The Executive Authority of PRASA is the Minister of Transport who represents the Shareholder. The Board as the Accounting Authority of the Corporation reports to the Minister of Transport. Communication with the Shareholder is channelled primarily through the office of the Chairman. Regular reporting was undertaken in terms of the Shareholders Compact.

Performance against Goals
PRASA's 3 year Corporate Plan defines objectives that are directly linked to PRASA's mandate as defined in the Legal Succession Act. These objectives are used to measure the performance of PRASA as they appear on pages 33 to 45 of this report.

Post Balance Sheet Events
There were significant circumstances that affected the financial position of the Group that have risen between the date of the balance sheet and the production date of this report. Refer to note 40 of the annual financial statements.

Broad-Based Black Economic Empowerment ("B-BBEE")
B-BBEE ranks as a priority and is fully integrated into all areas of the Group, and will continue to play a meaningful role in stimulating economic growth in South Africa. In line with the Broad-Based Black Economic Empowerment Act, 2003 (Act No 53 of 2003), as well as the Supply Chain Management Policy, various committees have been instituted with representation from all divisions, including senior management, to ensure that the process remains transparent and fair at all times. The Group is fully committed to use the resources.

In order to strengthen and enhance spending for black owned companies PRASA is reviewing the SCM policy to ensure that economic advancement and enterprise development through projects and the implementation of the PPPFA is adhered to for designated groups (Women, people living with disabilities, youth and Military Veterans).

DIRECTOR'S REPORT (Continued)

At the beginning of the 2017/18 an Interim Board was appointed by Minister of Transport, Ms Dipuo Peters, on 13 March 2017, following the dissolution of the Board chaired by Popo Molefe, on 8 March 2017.

The Court set aside the decision of the Minister dissolution of the Board and the appointment of the Interim of Board, resulting in the re-instatment of the Board that was dissolved by the Minister.

Following the re-instatement of the Board, three Board members resigned and this had an impact on the Board not having a qourum. The then Minister of Transport (Minister Maswanganyi) directed the Board not to transact on any business of PRASA whilst the Board is inqourate.The remainder of Board continued until the expiry of their term of office on 31 July 2018.

Significant changes to the constitution of the PRASA Board of control (Since 8 March 2017)

Boards	Date of appointment	Comments
Board 1: Chair-Dr Popo Molefe	1 August 2014	Terminated 8 March 2017
Board 2: Chair- Nazir Ali	1 March 2017	Terminated 10 April 2017
Board 1: Chair-Dr Popo Molefe	Re-appointed 10 April 2017	Term ended 31 July 2017
PMFA Appointment of Mr Lindikaya Zide (PMFASection 49 (2) (b)	1 August 2017	Term Ended 18 October 2017
Board 3: Chair-Adv. Nana Makhubele	19 October 2017	Terminated 16 March 2018
Board: Chair: Mr Xolile George	30 March 2018	Terminated 12 April 2018
Board 4: Chair-Khanyisile Kweyama	12 April 2018	Current Board appointed for 12 months

Constitution of the current Board of Control (Appointed 12 April 2018)

Committee	Chairperson	No. of members	Name of members
Board Of Control	Ms K Kweyama	8	Ms K Kweyama, Ms D Tshepe, Mr L Wessie, Mr N Alli, Ms J Schreiner, Mr X George, Ms M Matlala, Mr C Letsoalo(Resigned), Mr S Ntsaluba, Dr N Sishi, Mr P Setai, Mr S Sithole (Appointed Interim GCEO – 1 June 2018), Mr L Zide (Appointed Acting GCEO (27 February 2017 to 7 December 2017 and again 1 April 2018 to 31 May 2018)
Governance and Performance	Ms K Kweyama	5	Ms K Kweyama, Mr L Wessie, Ms J Schreiner, Ms M Matlala, Mr S Ntsaluba, Ms L Letlape – Autopax Chairperson, Mr B Mdebuka – Intersite Chairperson
Audit, Risk Committee (ARC)	Mr S Ntsaluba	4	Mr S Ntsaluba, Mr L Wessie, Ms D Tshepe, Mr N Alli
Finance , Capital, Investment and Procurement (FCIP)	Mr K Wessie	4	Mr L Wessie, Mr N Alli, Ms D Tshepe, Ms J Schreiner
Human Capital and Remuneration (HC and Rem)	Ms M Matlala	4	Ms M Matlala, Ms D Tshepe, Ms K Kweyama, Ms J Schreiner, Mr X George
Safety, Health, Environment and Quality (SHEQ)	Ms J Schreiner	5	Ms J Schreiner, Ms M Matlala, Mr N Alli, Mr L Wessie, Mr S Ntsaluba, Mr X George

C THE ACCOUNTING AUTHORITY

THE RESPONSIBILITY OF THE BOARD

The Board of Control is the custodian of corporate governance within PRASA.

The PRASA Board of Control must ensure that PRASA effectively carries out its mandate as set out in the Legal Succession Act and PFMA by collectively directing the PRASA's affairs, whilst meeting the appropriate interests of the Executive Authority and relevant stakeholders. To oversee and ensure the performance of PRASA in line with the approved Business Plan and Performance Agreement between PRASA and the Executive Authority. The PFMA further imposes fiduciary duties to the Board, including a duty of care and skill in managing the financial affairs of the Corporation.

The Board is also obliged to maintain effective and transparent systems of internal controls, including internal audit. Monitoring compliance to IT Governance.

The Board makes collective decisions about issues that will determine PRASA's credibility and continued ability to adapt to the changes in the regulatory environment.

It is a primary responsibility of PRASA Board of Control to ensure that PRASA complies with the obligations imposed by various laws and regulations that are applicable to PRASA and that management of regulatory compliance is the responsibility of the Board.

The Board must provide leadership to PRASA, set its direction and pace, and develop its culture and ethos.

Board Members have a duty to PRASA. They have ultimate responsibility for PRASA's performance and are not mandated delegates or servants of any of its stakeholders.

The board must decide whether a member that has declared a conflict of interests should remain in a meeting or be recused.

The Board and all individual Board members must ensure that the principles set out in the Code of Corporate Practices and Conduct (King II Report) as well as the Board Code of Conduct in Annexure A hereto are observed in all the activities of the Board.

The directors are entitled to seek independent professional advice concerning the affairs of PRASA and have access to any information they may require in discharging their duties.

THE ACCOUNTING AUTHORITY (Continued)

Constitution of the Board of Control for 2017/18 Financial Year

Committee	Chairperson	No. of members	Name of members
Board Of Control	Dr P Molefe	10	Dr P Molefe, Ms Z Manase, Ms N Kheswa, Ms M Matlala, Mr W Steenkamp, Mr T Phitsane, Mr C Manyungwana, Mr X George, Ms C Roskruge-Cele, Mr L McMillian,
Governance and Performance	Dr P Molefe	5	Dr P Molefe, Ms Z Manase, Ms N Kheswa, Mr W Steenkamp, Ms M Matlala
Audit, Risk Committee (ARC)	Ms Z Manase	5	Ms Z Manase, Ms N Kheswa, Mr W Steenkamp, Mr L McMillian
Finance , Capital, Investment and Procurement (FCIP)	Ms M Matlala	5	Ms M Matlala, Ms C Roskruge-Cele, Mr C Manyungwana, Mr T Phitsane , X. George
Human Capital and Remuneration (HC and Rem)	Ms N Kheswa	6	Ms N Kheswa, Mr X George, Ms C Cele, Mr L McMillian, Mr T Phitsane, Mr W Steenkamp, Ms N Mxenge(resigned 14 August 2015)
Safety, Health, Environment and Quality (SHEQ)	Mr W Steenkamp	5	Mr W Steenkamp, Ms M Matlala, Ms Z Manase, Mr X George, Mr C Manyungwana

Board of Control and Board Committee Attendannce of meetings for the year April 2017 to March 2018

Name of Director	BoC Number of meetings = 9	ARM Number of meetings = 7	HC and Rem Number of meetings = 4	FCIP Number of meetings = 6	SHEQ Number of meetings = 2	Governance	Status
Dr P. Molefe	9					1	Retired
Ms Z Manase	9	7			0	1	Resigned 13/04/17
M. Matlala	9			6	2	1	Retired
W. Steenkamp	9	7	4		2	1	Retired
C. Manyungwana	8			4	1		Resigned 13/04/17
X. George	5		1	2	0		Active
T. Phitsane	8		2	4			Resigned 13/04/17
N. Khena (Acting GCEO			4	2	1	1	Retired

Board of Control and Board Committee Attendannce of meetings for the year April 2017 to March 2018 (1st March 2017 to 10 April 2017)

Name of Director	BoC	Status
Mr. Nazir Alli	1	Retired
Mr. Ronny Mkhwanazi	1	Retired
Mr. Frans Baleni	1	Retired
Mr. Tiyani Rikhotso	1	Retired
Dr. Natalie Skeepers	1	Retired
Ms. Constance Maleho	1	Retired

Non executive director remuneration 2017/18

Name	Remuneration R'000	Other allowance R'000	Other reimbursements R'000	Total R'000
Dr P Molefe	R400	-	-	R400
Ms Z Manase	R110	-	-	R110
Ms M Matlala	R172	-	-	R172
Mr W Steenkamp	R193	-	-	R193
Mr X George	R348	-	-	R348
Mr T Phitsane	R43	-	-	R43
Mr RL Mkwanazi	R34	-	-	R34
Mr TR Rikhotso	R38	-	-	R38
Ms Scheepers	R244	-	-	R244
Adv N Makhubela	R534	-	-	R534
Prof J Maluleka	R219	-	-	R219
Ms C Reddy	R228	-	-	R228
Mr MF Baleni	R36	-	-	R36

BOARD COMMITTEES

Audit and Risk Committee:
The Audit and Risk Committee supports the Board in discharging its Corporate Governance responsibilities in relation to:

- Review of disclosures in the Annual Report;
- Financial reporting;
- Internal control;
- Business ethics and Fraud prevention policies;
- Risk Management;
- Ensuring integrity and effectiveness of internal audit function.

THE ACCOUNTING AUTHORITY (Continued)

Amongst others, the Audit and Risk Committee is responsible for considering and recommending to the board the approval of the external audit strategy and fees.

The Audit and Risk Committee further monitors and approves the application of our financial resources, determines the level of the budget required to deliver the Business Plan objectives. The Audit and Risk Committee comprises of five independent non-executive members. The Group Chief Executive Officer, The Group Chief Financial Officer, Head of Internal Audit and External Auditors attend meetings by invitation.

Human Resources and Remuneration Committee:
The Human Capital & Remuneration Committee supports the Board in discharging its responsibilities relating to:

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

Finance, Capital Investment and Procurement Committee:
The FCIP Committee supports the Board in discharging its responsibilities relating to:

Monitoring the implementation of procurement policies and processes;
- Successful negotiation of price reduction in prices charged;
- Fostering Broad Based Black Economic Empowerment (B- BBEE) and supporting small, medium and micro enterprises (SMMEs);
- Adjudication of all capital investments projects and tenders; and
- Ensuring adherence to the principles contained in the framework for supply chain management issued by National Treasury.

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

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

Governance and Performance Committee:
The objective of the Governance Committee is to ensure that PRASA is governed in a way that is efficient, responsible, transparent, and accountable to the shareholder and the taxpayer.

C AUDIT AND RISK COMMITTEE REPORT

The Entity is pleased to present it's report for the financial year ended 31 March 2018

AUDIT AND RISK COMMITTEE RESPONSABLITY STATEMENT

The Entity reports that it has adopted appropriate formal terms of reference in line with the Board Charter and has discharged its responsibilities accordingly in terms of section 51 (1) a (ii) of the PFMA and 27.1.8 of the Treasury Regulations. The Audit and Risk Committee has regulated its affairs in accordance with the adopted terms of reference and has discharged its responsibilities contained therein.

The Audit and Risk Committee supports the Board in discharging its Corporate Governance responsibilities in relation to:

- Review of disclosures in the Annual Report.
- Financial reporting.
- Internal control.
- Business ethics and Fraud prevention policies.
- Risk Management.
- Ensuring integrity and effectiveness of internal audit function.

Amongst others, the Audit and Risk Committee is responsible for approving the external audit strategy and fees.

The Audit and Risk Committee further monitors and approves the application of our financial resources. The Audit and Risk Committee comprises of five independent non-executive members. The Group Chief Executive Officer, The Group Chief Financial Officer, Head of Internal Audit and External Auditors attend meetings by invitation.

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AUDIT AND RISK COMMITTEE MEMBERS AND ATTENDANCE.

As per its terms of reference, the committee is required to meet at least 4 times a year. During the year under review, the Committee was constituted as set out below and had met 7 times:

Names	26.04 .2016	23.05 .2016	08.07 .2016	27.07 .2016	15.09 .2016	12.12 .2016	26.01 .2017	Comments
Z. Manase	P	P	P	P	P	P	P	
N. Kheswa	A	A	P					Resigned 11 July 2016
L. McMillian	P	P	A	P	P			Resigned 1 Nov 2016
W. Steenkamp	P	P	P	P	P	P	P	

The current Audit and Risk Committee consists of the members listed hereunder, who were appointed into the PRASA Board of Control after the end of the year under review.

The newly constituted Audit and Risk Committee, which has considered the report for the year ending 31 March 2017 was appointed after the year end and met twice as set out below:

AUDIT AND RISK COMMITTEE REPORT (Continued)

Name	Number of meeting = 2	Appointment date into the Committee
S Ntsaluba (Chairperson)	2	3 May 2018
L Wessie	2	3 May 2018
N Alli	2	3 May 2018
D Tshepe	2	3 May 2018

Internal audit

Internal audit renders an independent and objective review and advisory service to:

- provide assurance to the Board of Control that PRASA's financial and operational controls designed to manage the organization's risks and achieve the entity's objectives are operating in an efficient, effective and ethical manner, and
- Assist management in improving the entity's system of internal controls, governance and business performance.

Roles and Responsibilities of internal audit

Internal audit's roles and responsibilities are guided by the approved charter taking into consideration PRASA's objectives to achieve compliance with applicable legislative requirements in the conduct of its business. In addition to the execution of the 2017/2018 plan, the unit was able to use its limited internal resources to cover aspects of Probity and Pre-award of tender reviews for engagements. In conduct of its activities, internal audit plays an active role in:

- developing and maintaining a culture of accountability and integrity;
- facilitating the integration of risk management into day-to-day business activities and processes; and
- Promoting a culture of cost-consciousness, self-assessment and adherence to high ethical standards.

Amongst its functions in the year 2017/2018, Internal Audit's annual plan focused on key areas of Finance, Rail Operations, Human Capital, ICT, Performance Information and Supply Chain Management. In addition to the execution of the 2017/2018 plan, the unit was able to stretch its limited internal resources to cover aspects of Probity and Pre-award reviews for tenders. Internal Audit will continue to assist management to review the adequacy and effectiveness of controls in identified high risk areas, including the procurement environment. Internal Audit's focus at the procurement environment is aimed at giving management reasonable assurance that procurement is conducted in a manner that results in fair, equitable, transparent and competitive processes in line with applicable legislation.

The effectiveness of internal control

In line with the PFMA and the King Report on Corporate Governance for South Africa 2009 and the King Code of Governance Principles (collectively King III), Internal Audit provides the Audit and Risk Committee, and Management with recommendations relating to the implementation of appropriate and effective internal controls.

This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the internal auditors, the audit report on the annual financial statement and the management report of the Auditor-General South Africa, there were matters reported that indicate material deficiencies in the system of internal control or deviation therefrom. In reviewing the abovementioned reports including the financial statements for the year under review the Audit and Risk committee noted with concern the regress of the control environment, these included:

- Repeat Audit findings on both AGSA and Internal Audit Reports including inability of management to implement recommendations.
- Lack of consequence management.
- Lack of document management.
- The increase in irregular expenditure.

EVALUATION OF FINANCIAL STATEMENTS

The Audit and Risk Committee has evaluated the annual financial statements of PRASA for the year ended 31st March 2018 and; to the best of the Committees knowledge, the Committee believes that the annual financial statements have been prepared and do comply, in all material respects, with the requirements of the Public Finance Management Act.

The Committee has:

- considered and reviewed the audited Annual Financial Statements to be included in the Annual Report together with the Auditor-General South Africa and the former Acting Group Chief Executive Officer and the Interim Group Chief Executive Officer.
- considered the Auditor-General South Africa's Management Report and Management's response thereto.
- reviewed PRASA's compliance with legal and regulatory provisions.
- reviewed the significant adjustments resulting from the audit, and;
- considered and reviewed the Performance Information Report to be included in the Annual Report.
- noted the qualified audit opinion by the Auditor General and remains committed to assisting Management in discharging their duties in terms of the PFMA.

These annual financial statements were considered by the Audit and Risk Committee at their meeting of the 12th of June 2018 and recommended the same for approval by the Board of Control.

AUDITOR-GENERAL SOUTH AFRICA

The Entity met with the Auditor-General South Africa and concurs with and accepts the Auditor-General of South Africa's report on the Annual Financial Statements, and are of the opinion that the audited Annual Financial Statements should be accepted and read together with the report of the Auditor-General South Africa.

Mr Sango Ntsaluba
Chairperson of the Audit and Risk Committee

HUMAN CAPITAL MANAGEMENT

The PRASA Human Capital Management strategy is guided by a principle that the effectiveness of an organisation depends on its ability to anticipate and adapt to change. The growing demand to change the business and run it simultaneously requires that people management issues such as talent and performance management, as well as competence management and skills development, must be at the forefront of PRASA strategic deliverables.

The foundation of the Human Capital Management (HCM) Strategy is that people management begins with the alignment of HCM objectives to business objectives. The HCM strategy thus responds to strategic imperatives articulated in the PRASA corporate plan as dictated by both the primary and the secondary mandate.

HCM PRIORITIES FOR THE YEAR UNDER REVIEW

Cognizance of the need for the organisation to efficiently and effectively run the current operations, whilst preparing for changing the business, Human Capital Management identified the following as strategic priorities for the business:

- Evaluating alternative operating delivery models to determine the case for
- efficiencies and/or operational improvements.
- A stronger policy focus in readiness for modernisation changes affecting the organisation.
- Engaging in workforce planning and preparing for future workforce requirements.
- Exploring opportunities for cost containment and how a more commercial ethos can be developed within operations.
- Fair and equitable Pay and Grading structures and Reward processes

WORKFORCE PLANNING FRAMEWORK

Workforce planning is informed and driven by PRASA's talent management strategy

and framework that predicts and plans for current and future resources and skills that will be required to deliver on the mandate. It is also aimed at developing capability and competency for existing and new employees to perform critical tasks as well as those skills needed for future business including managers, specialist or business critical roles as part of global succession planning. This strategy is aimed at closing the gap between existing talent and what is required to successfully respond to current and emerging business challenges.

To achieve the above PRASA will:

- Consider staffing levels, workforces skills, workforce demographics and employment trends within the organisation.
- Identify workforce skills to meet projected needs, staffing patterns and anticipated programs and workload changes.
- Compare supply and demand analysis to determine the future gaps (shortages)and surpluses (excesses) in the number of staff and needed skills.
- Develop recruitment and succession plan, including employee development and retraining.
- Identify and establish a talent pool of people with leadership/specialist potential early on in their careers.
- Develop talent management & succession planning as core businesscompetencies.

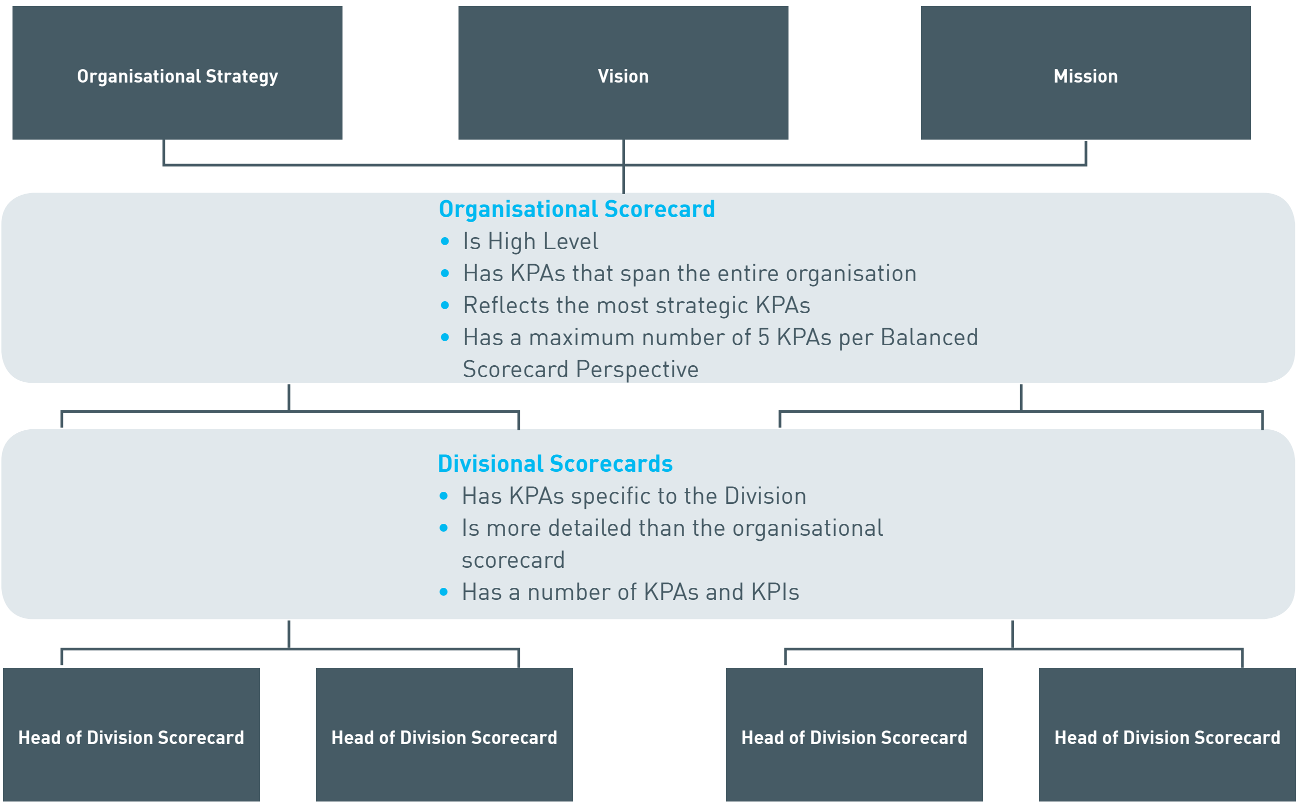
EMPLOYEE PERFORMANCE MANAGEMENT FRAMEWORK

PRASA's Performance Management Framework has been developed to be a management tool that will contribute to the process of ensuring continuous improvement, through:

- Translating our strategy into actionable plans to drive our business.
- Setting objectives that establish focus and reinforce strategy execution.
- Assigning accountability and responsibility for achieving these objectives to individuals and teams within our business.

It is a way of managing performance to achieve excellence in every aspect of PRASA's business and to reward employees in return. For an effective performance management environment, Human Capital has developed a performance framework that is focused on delivering on the mandate and also ensuring alignment of day-to-day deliverables with medium-to-long term business objectives.

The Performance Management framework, depicted below, recognises excellent performance and provide effective feedback, objective setting whilst establishing a clear link between team and individual responsibilities that serve to deliver on organisational goals and business objectives:



EMPLOYEE WELLNESS PROGRAMMES

PRASA's Employee Wellness Programme recognizes that short-term personal and psychological related problems may adversely affect an employee's wellbeing and ability to function on the job.

The Employee Wellness Programme has two distinct phases that are critical to address in both implementation and in costing there of which the first level is the reactive counselling service that is delivered in response to a particular problem or identified problem by the employee. Referral may be voluntary (self-referral) or may be part of a formal referral.

The second level is project based and addresses projects like Modernisation that affect some of our employees.

Preventative programmes have been introduced to support employees with factors such as emotional/mental health conditions, substance use or abuse, psychosocial problems amongst others, and all of these do affect business performance by reducing productivity and increasing both planned and unplanned absences.

POLICY DEVELOPMENT

During the reporting period, the Human Capital and Remuneration Committee or reviewed the following policies:

- Employee Relations Policy.
- Employee Wellness Policy.
- Employment Equity Policy.
- Talent Management Policy.
- Termination of Employment Policy.
- Total Reward Policy.
- Social Media Policy.

HIGHLIGHT ACHIEVEMENTS

- The development and approval of the Human Capital Strategy.
- Training of Change Agents for Business Readiness and Modernisation.
- Establishment of The Bargaining Forum.

CHALLENGES FACED BY THE PUBLIC ENTITY

- Budgetary constraints to effect some of the HR strategies.
- Changes in leadership.
- Organisational instability and uncertainty as a result of leadership changes.

FUTURE HR PLANS /GOALS

Given the challenge of operating the business of today whilst shifting gears for the business of tomorrow and in a business with revenue growth and cost containment challenges, HCM future plans and goals on delivering quantifiable measurable value
will be driven through finding critical answers to the following:

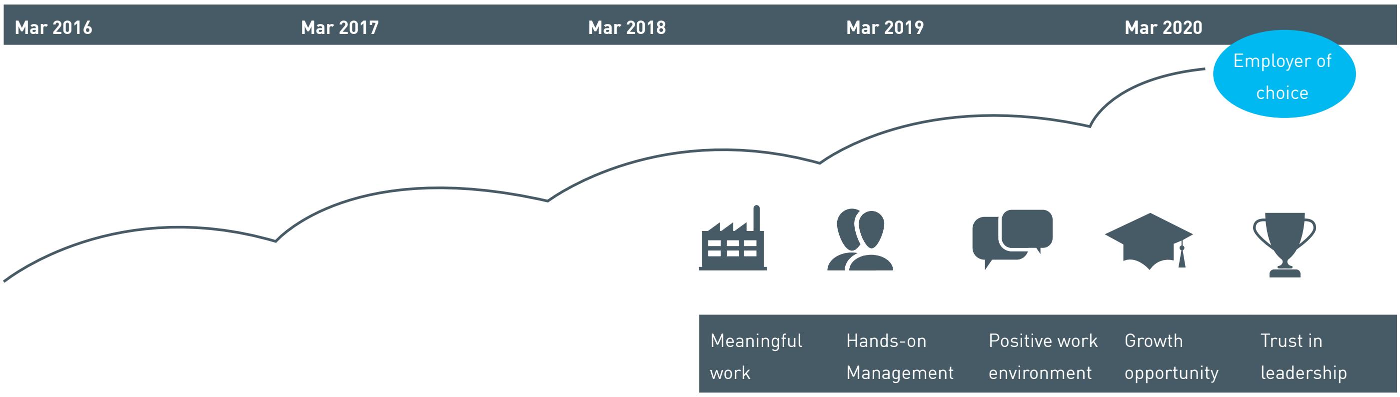
- What does the business do to drive performance?
- How can HCM demonstrate a quantifiable return on investment for Human
- Capital initiatives?
- Which HCM initiatives can be directly targeted at building organisation

capability for the current business and for the future business in ways that deliver bottomline impact, either increasing the organisation's revenue or reducing costs?
- What is the appropriate Operating Model and Organisational Structure that will deliver in the most efficient and effect manner a mandate that guarantees high
- quality passenger service on a sustainable basis?

In light of the above, Group Human Capital Management has developed a HCM roadmap to articulate the HCM journey in creating business value and addressing the organisation's most pressing strategic challenges.

The journey culminates at a point where PRASA is positioned as an Employer of Choice. The roadmap is detailed for Year 1 - 3 with an indication of the achievements that should be in place by year 4 and 5. The roadmap and overall strategy will be refreshed every year. This five year plan identifies our key priorities and intentions:

HUMAN CAPITAL MANAGEMENT (Continued)



- Revision and approval of Group HCM strategy
- Revision of HCM policies
- Standardised HCM practices operational across PRASA
- Roll out of standardised holistic HCM scorecard
- Understand 5 year workforce requirements
- Develop operating model and align organisation structures
- Develop PRASA EVP
- Develop Talent Management Strategy
- Create Future Skills Development Programe
- Train change champions and change agents for Modernisation
- Ensure roll out of integrated Employee Wellness programe aligned to Human Factor Management

- Leadership mobilised for strategic change
- Develop and socialise PRASA Competency Model
- Conduct skills audit and understand capability and capacity gaps
- Leadership curriculum in place from Executive down to supervisory levels
- Socialise and roll out Future Skills Development Program
- Refined Performance Management rolled out across all levels
- Vacancy management in line with Workforce, Succession & EE plan
- EVP and Talent Management Forums operational
- Develop pay bands aligned to the job grades
- Effective Bargaining Forum in place

- New HCM organisation and Service delivery model in place
- Talent review outcomes informing career movements and succession planning
- Impact of performance management experienced organisation wide
- Workforce planning process and output fully integrated into all key business strategies and decisions
- Adopted a culture and integrated wellness
- Gaining efficiencies through automated HRIS

- Advanced HCM practices embedded across the organisation

- Widely recognised as the employer of choice for key workforce segments

D HUMAN CAPITAL MANAGEMENT (Continued)

Personnel Cost by programme

Programme	Total Expenditure for the entity (R'000)	Personnel Expenditure (R'000)	Personnel exp. as a % of total exp. (R'000)	No. of employees March 2016	Average personnel cost per employee (R'000)
PRASA CORP	1 649 437	330 186	20,02%	8	41273
METRORAIL	5 974 529	4 049 928	67,79%	0	-
INTERSITE	30 945	26 460	85,51%	190	139
AUTOPAX	833 323	365 310	43,84%	657	556
SHOSHOLOZA	876 876	417 072	47,56%	5088	82
PRASA CRES	971 361	251 514	25,89%	9759	26
PRASA TECHNICAL	11 249	3 326	29,57%	371	9
GRAND TOTAL	**10 347 720**	**5 443 796**	**52,61%**	**16073**	**339**

Personnel Cost by Salary Band

Programme	Personnel rewards (R'000)	No. of employees	Personnel Expenditure (R'000)	
The Board	7 992 344	0,15%	8	999 043
Top Management	0	0,00%	0	0
Senior Management	394 344 381	7,24%	190	2 075 497
Professional qualified	498 311 590	9,15%	657	758 465
Skilled	2 275 209 154	41,79%	5088	447 172
Semi-Skilled	2 214 100 462	40,67%	9759	226 878
Unskilled	53 837 835	0,99%	371	145 115
GRAND TOTAL	**5 443 795 766**	**100,00%**	**16073**	**338 692**

Performance Rewards

Programme	Personnel rewards (R'000)	No. of employees
Top Management	0	0
Senior Management	0	0
Professional qualified	0	0
Skilled	1 566 583	532
Semi-Skilled	391 646	133
Unskilled	0	0
GRAND TOTAL	**1 958 229**	**665**

HUMAN CAPITAL MANAGEMENT (Continued)

Training Costs

Directorate/ Business Unit	Personnel Expenditure (R'000)	Training Expenditure (R'000)	Training Expenditure as a % of Personnel Cost.	No. of employees trained	Avg. training cost per employee (R'000)
PRASACORP	330 186	6 792	2,06%	222	31
METRORAIL	4 049 928	19 344	0,48%	3928	5
INTERSITE	26 460	47	0,18%	7	7
AUTOPAX	365 310	178	0,05%	341	1
SHOSHOLOZA	417 072	3 553	0,85%	332	11
PRASA CRES	251 514	2 049	0,81%	321	6
PRASA TECHNICAL	3 326	2 069	62,20%	60	34
GRAND TOTAL	**5 443 796**	**34 033**	**0,63%**	**5 211**	**7**

Explanations:
The budgetary constraints and cost containment measures regulated by the National Treasury necessitated that the organisation focused on its recruitment and appointment of personnel. Further more the organisation in optimising the structure considered it prudent that it will fill only critical vacancies, supported by the appropriate approval.

Currently the Human Capital Management (HCM) department is reviewing various existing policies including but not limited to Recruitment, Remuneration and Performance management policy, which looks at the movement of existing employees, through the internal recruitment and selection process and try where possible to match the suitable internal candidates to the job.

Employment changes
Changes in the employee profile are insignificant; however on the core critical skills, this is where the organisation's retention and attraction of skills is low. There has been a number of terminations and high retirement rate for seasoned skilled and semi-skilled workers who have long service in the Rail industry.

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HUMAN CAPITAL MANAGEMENT (Continued)

Personnel Cost by Salary Band

Salary Band	Employment at beginning of period 31 March 2017	Appointments (01 April 2017_31 March 2018)	Terminations (01 April 2017 _ 31 March 2018)	Employment at end of the period end of 31 March 2018
The Board	12	6	10	8
Top Management	0	0	0	0
Senior Management	199	10	19	190
Professional qualified	677	9	29	657
Skilled	5 389	295	596	5 088
Semi-skilled	9 481	870	592	9 759
Unskilled	361	10	0	371
GRAND TOTAL	16 119	1200	1246	16073

Reasons for staff leaving

Reason	Number	% of total no. of staff leaving
Deceased	104	8,35%
Dismissal	168	13,48%
Resignation	231	18,54%
Retirement	233	18,70%
Ill Health	0	0,00%
Expiry of contrarct of employment	486	39,00%
Absconded	24	1,93%
GRAND TOTAL	1 246	100,00%

The total turnover for the year is 2.4%. Employees voluntarily terminating the employee service, lack of direction, retirement and expiry of contracts are some of the reasons why employees are leaving the organisation, and obviously better pay and growth opportunities offered by other Companies.

There is a high volume of employee dismissals, involving various contributing factors, which can be minimised and taken care of by adherence to business processes and continuous improvement of each function's internal controls.

HUMAN CAPITAL MANAGEMENT (Continued)

Equity Target and Employment Equity Status

LEVELS	MALE							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	0	1	0	0	0	0	0	0
Senior Management	73	101	13	3	31	11	67	13
Professional qualified	234	259	35	34	36	20	46	74
Skilled	1598	1925	398	419	297	101	403	785
Semi-skilled	3049	3874	998	403	658	37	436	129
Unskilled	221	83	34	18	11	0	26	0
GRAND TOTAL	5175	6242	1478	877	1033	169	978	1001

Notes: These targets exclude Foreign Nationals and FTCW

LEVELS	FEMALE							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	0	0	0	0	0	0	0	0
Senior Management	18	44	6	3	4	1	6	4
Professional qualified	210	207	53	16	31	11	57	14
Skilled	1497	1398	442	211	261	30	493	72
Semi-skilled	2998	2991	1108	296	683	17	352	39
Unskilled	67	0	24	9	17	0	13	0
GRAND TOTAL	4790	4723	1633	535	996	59	921	129

Notes: These targets exclude Foreign Nationals and FTCW

Levels	Disabled Staff			
	Male		Female	
	Current	Target	Current	Target
Top Management	0	0	0	0
Senior Management	1	3	0	5
Professional qualified	5	10	3	15
Skilled	18	25	7	18
Semi-skilled	17	30	7	25
Unskilled	0	0	0	0
GRAND TOTAL	**41**	**68**	**17**	**63**

The major variances between target and current are informed by the following

- Current vacant positions
- Anticipation of growing the business, to accommodate the PRASA of tomorrow
- Project based positions that will eventually be phased out on completion of projects.
- The need to achieve the national disability target of 2%

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HUMAN CAPITAL MANAGEMENT (Continued)

Categories	BARRIERS		AFFIRMATIVE ACTION MEASURES		TIME-FRAME FOR IMPLEMENTION OF AA MEASURES	
	YES	NO	YES	NO	START DATE	END DATE
Recruitment procedures	X		X		01/10/2016	30/10/2019
Advertising positions	X		X		01/10/2016	30/10/2019
Selection criteria		X		X		
Appointments		X		X		
Job classification and grading	X		X		01/10/2016	30/10/2019
Remuneration and benefits	X		X		01/10/2016	30/10/2019
Terms & conditions of employment	X		X		01/10/2016	30/10/2019
Job assignments		X		X		
Work environment and facilities	X		X		01/10/2016	30/10/2019
Training and development	X		X		01/10/2016	30/10/2019
Performance and evaluation	X		X		01/10/2016	30/10/2019
Promotions	X		X		01/10/2016	30/10/2019
Transfers		X		X		
Succession & experience planning	X		X		01/10/2016	30/10/2019
Disciplinary measures	X		X		01/10/2016	30/10/2019
Dismissals		X		X		
Retention of designated groups	X		X		01/10/2016	30/10/2019
Corporate culture	X		X		01/10/2016	30/10/2019
Reasonable accommodation	X		X		01/10/2016	30/10/2019
HIV&AIDS prevention and wellness programmes	X		X		01/10/2016	30/10/2019
Assigned senior manager(s) to manage EE implementation		X		X		
Budget allocation in support of employment equity goals	X		X		01/10/2016	30/10/2019
Time off for employment equity consultative committee to meet		X		X		

HUMAN CAPITAL MANAGEMENT (Continued)

Labour Relations: Misconduct and disciplinary action

ENTITY	Nature of disciplinary Action	Number
PRASA Corporate	Verbal Warning	
	Written Warning	
	Final Written warning	
	Dismissal	4
		4
Metrorail	Verbal Warning	
	Written Warning	
	Final Written warning	
	Dismissal	100
Shosholoza	Verbal Warning	
	Written Warning	
	Final Written warning	
	Dismissal	5
PRASA Rail		**100**
Intersite Asset Investment	Verbal Warning	
	Written Warning	
	Final Written warning	
	Dismissal	
Autopax	Verbal Warning	
	Written Warning	
	Final Written warning	
	Dismissal	53
		53
PRASA CRES	Verbal Warning	
	Written Warning	
	Final Written warning	
	Dismissal	6
		6
PRASA Technical	Verbal Warning	
	Written Warning	
	Final Written warning	
	Dismissal	

Report of the auditor-general to Parliament on the Passenger Rail Agency of South Africa

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Passenger Rail Agency of South Africa (PRASA) and its subsidiaries (the group) set out on pages 78 to 145, which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of PRASA and its subsidiaries as at 31 March 2018, and the group's financial performance and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA

Basis for qualified opinion

Irregular and fruitless and wasteful expenditure

3. Section 55(2)(b)(i) of the PFMA requires the entity to disclose in a note to the separate and consolidated financial statements particulars of all irregular and fruitless and wasteful expenditure that has occurred during the financial year. The PRASA group did not have an adequate system for identifying and disclosing all irregular and fruitless and wasteful expenditure and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all such expenditure had been properly recorded in notes 41 and 40 to the separate and consolidated financial statements. Consequently, I was unable to determine the full extent of the adjustment necessary to the balance of irregular expenditure stated at R23,4 billion (2017: R19,6 billion) for the entity and R24,2 billion (2017: R20,3 billion) for the group in note 41, and the fruitless and wasteful expenditure incurred as a result of payments made where the value derived could not be justified as stated at R1 billion (2017: R988 million) for the entity and R1 billion (2017: R992,2 million) for the group in note 40.

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for property, plant and equipment (PPE) (facilities and leasehold improvements, network, moveables and workshop and assets under construction) in accordance with the requirements of IAS 16, Property, plant and equipment. This was due to the inadequate status of the accounting records, including the fixed asset register and the non-submission of information in support of these assets. Some assets in the stated classes of PPE were not recorded in the

asset register, while some assets were recorded but their existence could not be verified. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to PPE stated at R40,3 billion and R40,5 billion for the entity and the group respectively, in note 4 to the financial statements and operating expenses stated at R9,7 billion and R10,4 billion for the entity and the group, respectively.

Fare revenue

5. The fare revenue system that serves as the entry point for ticket sales was not fully operational since August 2017 when the contract with the system service provider expired. As a result, reconciliations from this system to the financial reporting system could not be performed and there was no alternate method to confirm the amounts. As at the date of this auditor's report, management has still not resolved this matter. I was unable to confirm or verify by alternative means fare revenue of R1,2 billion included in the statement of comprehensive income. As a result, I was unable to determine whether any adjustments were necessary to fare revenue, and the related elements in the statement of financial position, statement of changes in equity and statement of cash flows for both the entity and the group.

Trade and other receivables

7. The entity has not considered and assessed for indicators of impairment its other receivables stated at R1 billion in note 10 to the financial statements as required by IAS 39, Financial instruments – Recognition and measurement. Included in the balance is an amount of R838,8 million that is past due and there is objective evidence that the balance should be impaired. Consequently, trade and other receivables are overstated and impairment losses recognised are understated by R838,8 million. Additionally, there was an impact on the comprehensive loss for the period and on the accumulated loss in the consolidated and separate financial statements.

Context for the opinion

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

9. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Material uncertainty relating to going concern

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

12. As disclosed in note 42 to the financial statements, the entity and the group incurred a net loss of R829 million and R924 million, respectively, during the year ended 31 March 2018. While the

group's current assets exceeded current liabilities by R7 billion, the majority of cash reserves are committed for capital expenditure. As stated in note 42, these events or conditions, along with other matters set forth in note 42, indicate that uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern.

Emphasis of matters

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

Significant uncertainty relating to litigation matters

14. As disclosed in notes 5 and 36 to the financial statements, the entity was an applicant in a lawsuit related to the purchase of locomotives. The ultimate outcome of this matter could not be determined at the time of this report, as the court judgement is currently under appeal.

Material prepayment for capital assets

15. As disclosed in note 5 to the financial statements, material prepayments for capital expenditure include prepayments of R1,9 billion relating to the purchase of new locomotives and R8,5 billion for the new rolling stock (fleet renewal programme).

Material capital commitments

16. Included in note 33 to the financial statements is R66,6 billion relating to a commitment for the purchase of rolling stock (fleet renewal programme).

Other matter

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

Instability in the public entity

18. Section 24 of the Legal Succession to the South African Transport Services Act, 1989 (Act No. 9 of 1989) (Legal Succession Act) prescribes the membership of the board of control of PRASA. Since the resignation of the representative from the National Treasury in November 2016, the board of control did not comply with the requirements of the Legal Succession Act and was not appropriately constituted until an appointment was made on 5 February 2018.

Responsibilities of the accounting authority for the financial statements

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

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

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

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

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

Report on the audit of the annual performance report

Introduction and scope

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

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

25. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the entity for the year ended 31 March 2018.

Objectives	Pages in the annual performance report
Objective 1: Improve the customer experience	30 - 31
Objective 2: Improve rail system performance	32 - 38
Objective 4: Modernise the Rail System through the R173 billion (over ten years) investment programme	39
Objective 6: Exploiting assets to generate additional revenue through: a. Real estate b. Other assets	42

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

27. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

Objective 1: Improve the customer experience

Indicator: Rail passenger injuries and fatalities per million passengers

28. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 7.59. This was due to the fare revenue system that records the ticket sales that is used to determine passenger trip numbers not being fully operational during the year. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 7.59 as reported in the annual performance report.

Indicator: Rail public injuries and fatalities per million passengers

29. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 2.32. This was due to the fare revenue system that records the ticket sales that is used to determine passenger trip numbers not being fully operational during the year. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 2.32 as reported in the annual performance report.

Objective 2: Improve rail system performance

Indicator: Kilometer of speed restrictions on network reduced

30. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 149 kilometres. The technical indicator definition included the sum of the distance measured

in kilometres; however, the reported distance was the sum of the speed restrictions for the last month in each quarter, and did not include the accumulation of all kilometres restricted for the period under review for all prescribed regions. Furthermore, sufficient appropriate audit evidence was not available to verify the kilometres restricted per section. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 149 kilometres as reported in the annual performance report.

Indicator: Metrorail paying passengers trips

31. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 269,46 million. This was due to the fare revenue system that records the ticket sales that is used to determine passenger trip numbers not being fully operational during the year. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 269,46 million as reported in the annual performance report.

32. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Objective 4: Modernise the Rail System through the R173 billion (over ten years) investment programme
- Objective 6: Exploiting assets to generate additional revenue through a. real estate and b. other assets

Other matters

33. I draw attention to the matters below.

Achievement of planned targets

34. Refer to the annual performance report on pages 28 to 42 for information on the achievement of planned targets for the year and explanations provided for the underachievement of a number of targets. This information should be considered in the context of the findings on the usefulness and reliability of the reported performance information in paragraph 27 to 31 of this report.

Adjustment of material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Objective 1: Improve the customer experience, Objective 2: Improve rail system performance, Objective 4: Modernise the Rail System through the R173 billion (over ten years) investment programme and Objective 6: Exploiting assets to generate additional revenue through a. real estate and b. other assets. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

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

37. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

38. Financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 55(1)(c)(i) of the PFMA. Although a submission was made, the submission was incomplete.

39. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Strategic planning

40. An annual shareholders' compact was not concluded in consultation with the executive authority, as required by treasury regulation 29.2.1. The key performance measures and indicators included in the shareholders' compact compiled by the accounting authority were not agreed between the accounting authority and the executive authority, as required by treasury regulation 29.2.2. As a result of there being no approved shareholders' compact, the corporate plan did not include approved objectives and outcomes, as required by treasury regulation 29.1.1(a).

Expenditure management

41. Effective and appropriate steps were not taken to prevent irregular and fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. As reported in the basis for the qualified opinion, the value disclosed in notes 41 and 40 to the financial statements does not reflect the full extent of irregular and fruitless and wasteful expenditure incurred. The majority of the irregular and fruitless and wasteful expenditure disclosed in the financial statements was caused by non-compliance with supply chain management related legislation, policies as well as payments made where the value derived could not be justified.

Revenue management

42. Effective and appropriate steps were not taken to collect all revenue due, as required by section 51(1)(b)(i) of the PFMA

Procurement and contract management

43. Sufficient appropriate audit evidence could not be obtained that some contracts and quotations were awarded in accordance with the legislative requirements, as information was not provided due to inadequate record-keeping processes. For bids awarded, there was insufficient evidence that the bids of the winning suppliers were received before the stipulated closing date and time. These matters had an impact on a fair, equitable, transparent and competitive procurement process, as required by section 51(1)(a)(iii) of the PFMA.

44. Some goods, works or services were not procured through a procurement process that is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA and section 217 of the Constitution of the Republic of South Africa. Similar non-compliance was also reported in the prior year. This included instances where:

    - supply chain management processes were not followed when procuring services from suppliers
    - contracts were awarded to suppliers based on deviations that were not recorded and approved by the delegated authority
    - contracts were issued in excess of the contract period stipulated in PRASA's supply chain management policy
    - some deviations from the supply chain management policy were approved by the delegated officials even though it was not impractical to follow the process stipulated by the policy
    - goods and services were procured through a quotation process instead of a tender process.

45. The preference point system was not applied in some of the procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No.5 of 2000) (PPPFA). Similar non-compliance was also reported in the prior year.

46. Some contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the PPPFA and its regulations. Similar non-compliance was also reported in the prior year.

47. Some contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and its regulations. Similar non-compliance was also reported in the prior year.

48. Some construction contracts were awarded to contractors that did not qualify for the contract in accordance with Construction Industry Development Board regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.

49. Bid documentation for some procurement of commodities designated for local content and production did not meet the stipulated minimum threshold for local production and content as required by preferential procurement regulation 8(2) of 2017.

50. Some of the commodities designated for local content and production were procured from suppliers who did not submit a declaration on local production and content, as required by the 2017 preferential procurement regulations.

51. Some of the commodities designated for local content and production were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by preferential procurement regulation 8(5) of 2017.

Consequence management

52. Disciplinary steps were not taken against officials who had incurred irregular and fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the PFMA. This was due to not all instances of such expenditure previously reported being investigated. Where financial misconduct was confirmed in those instances that were investigated, disciplinary steps were not taken against the officials who had incurred and/or permitted irregular expenditure, as required by section 51(1)(e)(iii) of the PFMA and treasury regulation 33.1.1.

53. Allegations of fraud, forgery or uttering a forged document that exceeded R100 000 were not reported to the South African Police Service, as required by section 34(1) of the Prevention and Combating of Corrupt Activities Act of South Africa, 2004 (Act No.12 of 2004) (Precca).

Other information

54. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

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

56. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

57. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

58. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

59. Instability in various key positions within the entity, including the board of control, negatively contributed to the ongoing decline in the financial management, performance reporting and compliance monitoring processes and the overall collapse of the internal controls within the entity as a result of inadequate and ineffective oversight. This further impacted the operations and functioning of key governance structures.

60. Consequence management was not implemented in accordance with the approved disciplinary processes by senior management, and corrective action was not monitored by the accounting authority, resulting in poor performance and repeat transgressions.

61. There was a slow response by senior management to reviewing and updating the information technology strategic documents and governing policies and procedures to address the previously reported deficiencies. The inadequate controls within the information technology environment over network access and security management contributed to the collapse in the internal control environment.

Financial and performance management

62. The financial statements contained a significant number of material misstatements. This was mainly due to a lack of financial discipline of staff involved in financial reporting, an inadequate financial statement closing process resulting in material adjustments being processed late in the audit process, and a slow response by senior management in addressing previously reported deficiencies to ensure credible financial statements were compiled.

63. The documents supporting the financial statements were not in all instances properly filed and easily retrievable due to an inadequate document management system. Despite this matter being raised repeatedly during previous audit cycles, it has remained unaddressed and has worsened. The significant delays with the submission of information had a negative impact on the audit process.

Other reports

64. I draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the entity’s financial statements, reported performance information and compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

65. The accounting authority commissioned a forensic investigation by an independent firm into procurement matters, including those previously reported on by the Auditor-General of South Africa during the 2014-15 audit, and the Public Protector. The investigation was completed and the final report issued on 31 July 2017.

66. The Public Protector issued her report on allegations of financial mismanagement and tender irregularities between 2010 and 2012 in August 2015. As some matters regarding these allegations were not finalised when the report was issued, the investigation into the remaining matters is still ongoing.

67. Based on the outcome of the Public Protector's August 2015 report, the National Treasury instituted a forensic investigation in accordance with the remedial action recommended by the Public Protector. This investigation is still in progress and draft reports have been issued. The outcome of these investigations may also have an impact on PRASA's subsidiaries.

68. The Directorate for Priority Crime Investigation is currently investigating cases reported by PRASA in terms of Precca. The investigation has been ongoing since 2016. The outcome of this investigation may also have an impact on PRASA's subsidiaries.

Auditor-General

Pretoria

21 September 2018

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:
   - identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority
   - conclude on the appropriateness of the use of the going concern basis of accounting by the board of directors, which constitutes the accounting authority in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of PRASA and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the entity to cease continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
   - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

F

PASSENGER RAIL AGENCY OF SOUTH AFRICA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2018

Entity 2017 R'000	Entity 2018 R'000		Notes	Group 2018 R'000	Group 2017 R'000
		ASSETS			
53 120 076	57 250 804	**Non-current assets**		57 501 636	**53 454 373**
36 515 681	40 270 689	Property, plant and equipment	4	40 521 425	36 849 825
10 442 341	10 244 946	Prepayment for capital expenditure	5	10 244 946	10 442 341
392 862	390 936	Intangible assets	6	391 032	393 015
3 872 565	4 348 143	Investment property	7	4 348 143	3 872 565
1 893 800	1 996 090	Operating lease receivable	8	1 996 090	1 893 800
2 827	-	Defined benefit plan assets	18	-	2 827
-	-	Investment/loan in/to subsidiaries	9	-	-
13 412 778	**16 028 516**	**Current assets**		**16 115 680**	**13 506 536**
506 355	1 502 688	Trade and other receivables	10	1 524 371	556 568
438 553	476 725	Inventories	11	501 991	453 898
153 529	214 590	Prepayment for capital expenditure	5	214 590	153 529
12 314 341	13 834 513	Cash and cash equivalents	12	13 874 728	12 342 541
66 532 854	**73 279 320**	**Total assets**		**73 617 316**	**66 960 909**
		EQUITY AND LIABILITIES			
14 362	**(815 733)**	**Total equity attributable to equity holders of the Entity**		**(840 609)**	**84 265**
4 248 258	4 248 258	Share capital	13	4 248 258	4 248 258
(4 233 896)	(5 063 991)	Accumulated loss		(5 088 867)	(4 163 993)
56 631 334	**65 351 384**	**Non-current liabilities**		**65 391 452**	**56 688 767**
703 658	817 252	Provision for claims	15	817 252	703 658
1 229 445	1 291 324	Operating lease deferred income	16	1 291 324	1 229 445
9 443	8 972	Employee benefit obligations	17	9 229	9 820
54 688 788	63 233 835	Capital subsidy and grants	19	63 273 646	54 745 844
9 887 158	**8 743 669**	**Current liabilities**		**9 066 473**	**10 187 877**
294 580	450 789	Provision for claims		450 789	294 580
1 152	1 087	Employee benefit obligations		1 118	1 198
3 840 685	2 466 518	Capital subsidy and grants		2 512 352	3 912 098
5 750 741	5 825 276	Trade and other payables		6 102 215	5 980 001
66 532 854	**73 279 320**	**Total equity and liabilities**		**73 617 316**	**66 960 909**

PASSENGER RAIL AGENCY OF SOUTH AFRICA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

Entity				Group	
2017 R'000	2018 R'000		Notes	2018 R'000	2017 R'000
2 241 470	**1 974 906**	**Revenue**		**2 468 703**	**2 877 710**
561 146	702 782	Operating lease rental income	21,1	674 678	531 101
1 680 324	1 272 124	Fare revenue	22	1 794 025	2 346 609
5 081 666	5 876 596	Operational subsidy	23	5 889 910	5 180 454
3 323 463	**2 356 321**	**Other income**		**2 409 671**	**3 433 088**
3 140 275	2 197 309	Capital subsidy and grants amortised		2 240 133	3 204 511
183 188	159 012	Sundry income		169 538	228 577
(9 718 287)	(9 694 550)	Operating expenses	27	(10 471 523)	(10 581 588)
(2 227 726)	(2 179 805)	Depreciation and amortisation	25	(2 252 966)	(2 357 894)
(167 693)	(93 326)	De-recognition of assets	24	(93 326)	(187 081)
(1 009 216)	(234 244)	Impairment losses recognised	4, 9	(41 547)	(219 523)
220 730	213 060	Fair valuation of investment properties	7	213 060	220 730
(1 895)	(1 960)	Actuarial gain/(loss)	26	(1 837)	(1 855)
(2 257 488)	**(1 783 002)**	**Loss before investment income and finance cost**		**(1 879 855)**	**(1 635 959)**
(9 731)	(12 012)	Finance cost	30	(12 538)	(12 540)
718 388	964 919	Finance income	31	967 519	720 986
(1 548 831)	**(830 095)**	**Loss before taxation**		**(924 874)**	**(927 513)**
-	-	Taxation	32	-	-
(1 548 831)	**(830 095)**	**Total comprehensive loss for the year**		**(924 874)**	**(927 513)**

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PASSENGER RAIL AGENCY OF SOUTH AFRICA

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2018

Entity				Group	
2017	2018			2018	2017
R'000	R'000		Notes	R'000	R'000
		ORDINARY SHARE CAPITAL			
4 248 258	4 248 258	Balance at the beginning of the year	13	4 248 258	4 248 258
4 248 258	**4 248 258**	**Balance at the end of the year**		**4 248 258**	**4 248 258**
		ACCUMULATED LOSS			
(2 685 065)	(4 233 896)	Balance at the beginning of the year		(4 163 993)	(3 236 480)
(1 548 831)	(830 095)	Loss for the year		(924 874)	(927 513)
(4 233 896)	**(5 063 991)**	**Balance at the end of the year**		**(5 088 867)**	**(4 163 993)**
14 362	**(815 733)**	**Total equity attributable to equity holders of the Entity**		**(840 609)**	**84 265**

PASSENGER RAIL AGENCY OF SOUTH AFRICA

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2018

Entity				Group	
2017 R'000	2018 R'000		Notes	2018 R'000	2017 R'000
		Cash flow from operating activities			
(2 114 155)	(1 699 493)	Operating cash flows before working capital changes	34,1	(1 959 733)	(2 198 670)
(939 263)	(3 258 554)	Changes in working capital	34,1	(3 191 410)	(931 715)
(3 053 418)	**(4 958 047)**	**Cash utilised from operations**		**(5 151 143)**	**(3 130 385)**
718 388	964 919	Finance income	31	967 519	720 986
(8 724)	(11 116)	Finance cost	30	(11 606)	(11 520)
(2 343 754)	**(4 004 244)**	**Net cash used from operating activities**		**(4 195 230)**	**(2 420 919)**
		Cash flow from investing activities			
(3 948 527)	(3 297 864)	Acquisition of property, plant and equipment	34,2	(3 297 988)	(3 949 988)
(908 731)	(17 195)	Prepayment for capital expenditure	5	(17 195)	(908 731)
(25 873)	(63 073)	Acquisition of intangible asset	6	(63 072)	(25 874)
(281 336)	(262 517)	Acquisition of investment property	7	(262 517)	(281 336)
(70 789)	(203 124)	Increase in loans to subsidiaries	9	-	-
(5 235 256)	**(3 843 773)**	**Net cash used in investing activities**		**(3 640 772)**	**(5 165 929)**
		Cash flow from financing activities			
-	-	Repayment of loans and borrowings	14	-	(1 490)
13 814 060	9 368 189	Capital subsidy and grants received	19	9 368 189	13 814 060
13 814 060	**9 368 189**	**Net cash flow from financing activities**		**9 368 189**	**13 812 570**
6 235 050	1 520 173	Net increase in cash and cash equivalents		1 532 188	6 225 722
6 079 291	12 314 341	Cash and cash equivalents at the beginning of the year		12 342 541	6 116 819
12 314 341	**13 834 513**	**Cash and cash equivalents at the end of the year**	**12**	**13 874 728**	**12 342 541**

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PASSENGER RAIL AGENCY OF SOUTH AFRICA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

1 Corporate information

The Passenger Rail Agency of South Africa (PRASA) is governed by the Legal Succession to the South African Transport Services Act No 9 of 1989 as amended by Act No 38 of 2008. The consolidated financial statements of the Group for the year ended 31 March 2018 comprise of the Entity and its subsidiaries (together referred to as "the Group").

2 Accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain assets and liabilities which are measured at fair value as set out in the accounting policies below. The financial statements are prepared on the going concern basis. PRASA performs a public function in the public interest in relation to the provision of rail transportation to the South African public. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. A going concern analysis conducted indicates that the forecasted cash flow analysis will be sufficient to cover the current expenditure trends pertaining to the 2017/18 period.

2.1.1 Basis of consolidation

The financial statements of the subsidiaries are prepared for the same reporting period as PRASA. The accounting framework and basis of preparation for Intersite is the same but Autopax comply with IFRS. There are no significant difference that had to be accounted for.

2.2 Statement of compliance

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

2.2.1 Financial viability

Current assets exceed current liabilities by R7.05 billion. Should the short term portion of deferred income of R2.5 billion be excluded as part of current liabilities as it is not a true liability which involves a contractual agreement to deliver cash or another financial asset, the current assets then exceed current liabilities by R9.6 billion. PRASA will be able to deliver on its mandate in delivering commuter and passenger services over the next twelve months.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgments

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets, liabilities, revenue, expenditure and disclosure items that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The resulting estimates may differ from the actual results. The estimates and underlying assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and any future periods affected. The use of inaccurate assumptions in calculations for any of these estimates could result in a significant impact on financial results in future periods.

Estimates and assumptions

Information about critical judgements in applying accounting policies that have the most significant effect on the consolidated financial statements are included in the following notes.

- Note 8: Operating lease receivable
- Note 16: Operating lease deferred income

The estimates and assumptions about critical judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are included in the following notes:

- Note 4: Property, plant and equipment
- Note 7: Investment properties
- Note 15: Provision for claims
- Note 17: Employee Benefit Obligations
- Note 18: Defined Benefit Plan Assets

2.4.1 Gain on fair valuation of investment property

During the year under review a gain of R213 million (2017: R221 million) was realised through the statement of comprehensive income due to the fair valuation on investment property. (Refer Note 7). The value of investment properties has been determined using the comparable sales method as well as capitalisation of net income method. These methods are deemed appropriate for valuing both vacant and leased properties.

3 Basis of consolidation

3.1 Subsidiaries

Subsidiaries are those entities over which the Group has the power to exercise control, so as to obtain benefits from their activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The consolidated financial statements incorporate the assets, liabilities and results of the operations of the Group and its subsidiaries. Results of subsidiaries are included from the acquisition date until the disposal date. Inter-company transactions, balances and unrealised gains and losses are eliminated on consolidation. The investment in subsidiaries in the Entity's separate financial statements is carried at cost less impairment losses.

3.2 Property, plant and equipment

3.2.1 Recognition and measurement of owned assets

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

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

Property, plant and equipment is initially measured at cost, including all directly attributable costs necessary to bring the asset to its required working condition for its intended use. Subsequently property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment in value. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Property, plant and equipment cease to be recognised when it is disposed of or permanently withdrawn from use or when no future economic benefits are expected from its use or disposal. Gains and losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and carrying amount of the assets and are recognised as income or expenses in the statement of comprehensive income. The depreciation method used reflects the pattern in which the assets' future economic benefits are expected to be consumed by the Group.

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

3.2.2 Subsequent costs

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

3.2.3 Prepayments

Payment made up front to a supplier prior to and during construction of the asset is capitalised as a prepayment under long-term assets. The amount for assets expected to be delivered in the new financial year will be classified to current assets. Once construction of the asset is complete and delivered to PRASA, and meets the organisations quality standards, the prepayment is de-recognised and transferred to property, plant and equipment.

3.2.4 Depreciation

Property, plant and equipment are depreciated using the straight line method over their useful lives taking into account residual values, where appropriate. The remaining useful lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing remaining useful lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as expected future market conditions, the remaining life of the asset and projected disposal values. Depreciation on all property, plant and equipment commences from the month the items are available for use. Depreciation is recognised on a straight-line basis to write off the cost of assets to their residual values over the following estimated useful lives. Land is not depreciated as it is deemed to have an indefinite life. Depreciation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. The depreciation charge for each period is recognised in the statement of comprehensive income.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimates. During the year under review the estimate of the useful lives of buses was not changed (2016: changed from 8 years to 10 years). This represents a change in estimate and therefor no adjustments were required for prior year figures. The estimated useful lives of items of property, plant and equipment are as follows:

Asset class	Useful life
• Facilities and leasehold improvements	3 to 50 years
• Rolling stock	
- Undercarriages	33 to 40 years
- Components	10 to 40 years
• Network assets	5 to 149 years
• Moveable assets and workshop equipment	3 to 10 years
• Buses and vehicles	3 to 10 years

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

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

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

3.3 Intangible assets

3.3.1 Recognition and measurement of owned assets

Intangible assets are initially measured at cost. Cost includes its purchase price, including import duties, non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use. An intangible asset is recognised if, and only if, it is probable that the expected future economic benefits that are attributable to the intangible asset will flow to the Group and the cost of the intangible asset can be measured reliably. Internally generated goodwill is not recognised as an asset. Expenditure on an intangible item that was initially recognised as an expense is not recognised as part of the cost of an intangible asset at a later date. After initial recognition, intangible assets are carried at their cost less any accumulated amortisation and any accumulated impairment losses. Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense when it is incurred. Gains and losses arising from the retirement or disposal of intangible assets are determined as the difference between the net disposal proceeds and carrying amount of the assets and are recognised as income or expenses in the statement of comprehensive income.

Development costs of intellectual property or copyrights are recognised as an asset if, and only if, the Group can demonstrate all of the following:

- technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- how the intangible asset will generate future economic benefits; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

3.3.2 Subsequent costs

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

3.3.3 Amortisation

Intangible assets are amortised using the straight line method. Amortisation commences when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. The amortisation charge for each period is recognised in statement of comprehensive income.

The useful life and amortisation method of intangible assets are reviewed at each reporting date and adjusted if appropriate. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimates. The estimated useful lives are as follows:

Asset class	Useful life
• Copyright	20 years
• Software	1 to 10 years

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

3.4 Investment property

3.4.1 Recognition and measurement of investment property

Investment properties (properties that are not owner occupied) are property held to earn rentals or for capital appreciation or both. An investment property is recognised if, and only if, it is probable that the expected future economic benefits that are attributable to the investment property will flow to the Group and the cost of the investment property can be measured reliably. Investment properties are measured initially at cost. The cost of a purchased investment property comprises its purchase price, any directly attributable expenditure and transaction costs. After initial recognition, investment properties are measured at fair value which reflects the market condition at balance sheet date. Fair value is based on valuation performed by appointed independent registered valuer(s) taking into account factors such as the property growth and market in the surrounding area. The fair value of the investment properties reflects the market conditions at the balance sheet date. Fair value is determined without any deduction for transaction costs that may occur on sale or other disposal. A gain or loss arising from a change in fair value of investment property is recognised in the statement of comprehensive income for the period in which it arises.

3.4.2 Disposal of investment property

On disposal of an investment property, or when it is permanently withdrawn from use and future economic benefits are no longer expected from the property concerned, it will be derecognised. The difference between the net disposal proceeds and the carrying value is recognised as a gain or loss in the statement of comprehensive income in the period of the retirement or disposal. Compensation from third parties for investment property that was impaired, lost or given up is recognised in the statement of comprehensive income when the compensation becomes receivable.

3.4.3 Transfers

ransfer to or from investment property will be made when there is a change in use of the property. The commencement of owner-occupation of an investment property would result in a transfer of the investment property to Property, Plant and Equipment. Similarly, the end of owner-occupation of a property would result in a transfer from Property, Plant and Equipment to Investment Properties. Transfer from investment property which is carried at fair value to self-occupied property, the fair value of the property at the date of change in use would be treated as deemed cost of the property for subsequent accounting purposes. For a transfer from property, plant and equipment to an investment property it will be carried at fair value. The accounting policy on property, plant and equipment is applied up to the date of change in use. Any resulting change in the carrying amount of the property is recognised in the statement of comprehensive income.

3.4.4 Subsequent costs

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

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

3.5 Impairment of assets

3.5.1 Non-financial assets

The carrying amounts of the Group's non-financial assets other than inventory are reviewed at each reporting date to determine whether there is any indication that an asset may be impaired. In assessing whether there is any indication that an asset may be impaired, the Group considers both internal and external sources of information. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount of the asset is the higher of its fair value less costs to sell and its value in use. The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset. If there is no binding sale agreement but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. Costs of disposal, other than those that have been recognised as liabilities, are deducted in determining fair value less costs to sell. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-taxation discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised immediately in the statement of comprehensive income if the carrying amount of an asset exceeds its recoverable amount. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life. A previously recognised impairment loss is reversed if there is an indication that the impairment loss may no longer exist and the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount. The increased carrying amount shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. The reversal is recognised in the statement of comprehensive income. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

3.6 Inventories

Inventories are assets held for sale in the ordinary course of business, assets in the process of production for such sale or assets in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs of inventories are measured using the weighted average cost formula. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal on any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3.7 Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made on the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect risks for which future cash flow estimates have been adjusted. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the Group settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement may not exceed the amount of the provision. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as finance costs. A provision is reversed to the extent that it is no longer probable that a future outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

3.8 Revenue recognition

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

3.8.1 Fare revenue

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

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

3.8.2 Operating lease income

Revenue from property management activities is recognised as income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which the usage from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. Recoveries of operating costs (for example, rates and taxes, water and electricity) are recognised as income, as the costs are charged to lessees and are also included in Revenue (refer note 3.16).

3.9 Finance income

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

3.9.1 Government grants and subsidy.

Government grants are recognised in the statement of comprehensive income on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Where grants and subsidies relate to the purchase of property, plant and equipment they are classified as non-current liabilities and are recognised on a systematic basis, as income over the periods necessary to match them with the costs for which they are intended to compensate. Other government grants that are receivable as compensation for expenses or losses incurred or for the purpose of giving immediate financial support to the entity with no future related costs are recognised in the statement of comprehensive income in the period in which they become receivable. Grants received for acquisition of non-depreciable assets will be released to comprehensive income statement on impairment or disposal of the asset. Subsidy received from Government for bus commuter services rendered is kilometre based, per contractual arrangement to operate commuter passenger services on specific routes per defined timetables. Revenue from Government subsidy is recognised when the service that it relates to has been rendered.

3.10 Financing costs

Financing costs comprise interest payable on borrowings and trade payables calculated using the effective interest method and unwinding of discount. The interest expense component of finance lease payments is recognised in statement of comprehensive income using the effective interest method. All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

3.11 Leases

The determination of whether an arrangement, is or contains a lease is based on the substance of the arrangement and requires an assessment of whether:

- the fulfilment of the arrangement is dependent on the use of the specific asset or assets; and
- the arrangement contains a right to use the asset(s)

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The Group considers the substance of a transaction rather than the form of the lease contract. Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the user's benefit. Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of the specific asset or assets; and
- the arrangement contains a right to use the asset(s)

At inception or on reassessment of the arrangement, the Group separate payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at the amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate. Lease assets are depreciated in terms of the accounting policy on property, plant and equipment stated above. Capitalised leased assets are depreciated over the shorter of the estimated useful life and the term of the lease.

Leases whereby private parties lease land from PRASA and then construct assets at their own cost for commercial purposes, are shown as operating lease income. After the arrangement period, the land and any infrastructure constructed thereon revert back to PRASA. PRASA recognises the land as investment property as risks and rewards of ownership remain with PRASA. The residual amount of the infrastructure is recognised as a receivable and the deferred income are recognised as part of lease income in statement of comprehensive income over the period of the lease agreement.

3.12 Income taxation

Income taxation expense comprises current and deferred taxation.

3.12.1 Current taxation

PRASA Group is exempt from the payment of any taxation, transfer duty, stamp duty or levy that would have been payable (excluding customs and excise, and VAT), in terms of section 31(4) of the Legal Succession to the South African Transport Services Act No 9 of 1989, as amended by Act No 38 of 2008.

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

3.13 Employee benefits

3.13.1 Short-term employee benefits

The cost of all short-term employee benefits is recognised in statement of comprehensive income during the period in which the employee renders the related service, unless another policy requires or permits the inclusion of the benefits in the cost of an asset. The accruals for employee entitlements to salaries, performance bonuses and annual leave represent the amounts for which the Group has a present obligation to pay as a result of the employee's services provided after deducting any amounts already paid. The accruals have been calculated at undiscounted amounts based on expected salary levels. If the amount already paid exceeds the undiscounted amount of the benefits, the Group recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

The Group recognises the expected cost of short-term employee benefits in the form of compensated absences as follows:

- in the case of accumulating compensated absences, when the employees render services that increase their entitlement to future compensated absences; and
- in the case of non-accumulating compensated absences, when the absences occur.

The Group measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

The Group recognises the expected cost of any bonus payments when, and only when:

- there is a present legal or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

3.13.2 Defined benefit plans

The Group operates a defined benefit plan with regards to pension benefits upon retirement of employees, the assets of which are held in separate trustee funds administered by Metropolitan Health Group (Pty) Ltd. Another defined benefit plan for medical scheme benefits for employees and pensioners exists under administration of the Transmed Medical Scheme. These funds are valued by professional independent actuaries. The benefit cost and obligations under the defined benefit fund are determined using the projected unit credit method on an annual basis. The benefit costs are recognised in the statement of comprehensive income. Any actuarial gains or losses are recognised in the statement of comprehensive income in the period in which they arise. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and any unrecognised past-service cost and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension fund liability. Past service cost is recognised immediately to the extent that the benefits have already vested, and are otherwise amortised on a straight-line basis over the average period until the amended benefits become vested. The amount recognised in the statement of financial position represents the present value of the defined benefit obligation less the fair value of the plan assets; less unrecognised past service cost. Any resulting asset is limited to the present value of available refunds and reductions in future contributions to the plan.

3.13.3 Defined contribution plan

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

3.14 Operating leases

The Group, as lessor, enters into a variety of operating lease agreements with third parties in order to maximise the inflow of economic benefits from Group assets. Leases where a significant portion of the risks and rewards of ownership are retained by the Group are classified as operating leases. Payments received under operating leases are recognised as income on a straight-line basis over the term of the lease.

3.15 Financial instruments

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

3.15.1 Fair value

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

3.15.2 Recognition and measurement of financial instruments

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

For the purpose of measuring financial assets after initial recognition, financial assets are classified as loans and receivables.

A financial asset not carried at fair value through statement of comprehensive income is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise or indications that a debtor will enter bankruptcy. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that show similar credit risk characteristics. All impairment losses are recognised in statement of comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in statement of comprehensive income. After initial recognition, the Group measures all financial liabilities at amortised cost using the effective interest method. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in statement of comprehensive income.

The Group derecognises a financial instrument when and only when:

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

3.15.2.1 Trade and other receivables

Trade and other receivables are recognised initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition trade and other receivables are stated at amortised cost using the effective interest method less impairment losses. Trade debtors are assessed for creditworthiness and impairments are some on an individual basis.

3.15.2.2 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. For the purposes of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined.

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

3.15.2.3 Trade and other payables

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

3.16 Deferred income

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

3.17 Events after the reporting date

Evidence received after the end of the reporting date which provide additional information of conditions existing at the end of the reporting period, other than those relating to Government grants including non-monetary grants at fair value, are adjusted for in the financial statements at the end of the reporting date. Evidence received after the end of the reporting period which provide additional information of conditions existing at the end of the reporting date but relate to Government grants, including non-monetary grants at fair value, are not adjusted for at the end of the reporting date unless, there is reasonable assurance that all the conditions attaching to them have been fully complied with, or there is reasonable assurance that the grants will be received. Non adjusting events are disclosed in the notes to the annual financial statement if the event is of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions.

3.18 Income received in advance

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

3.19 Share capital

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

3.20 Irregular or fruitless and wasteful expenditure

3.20.1 Irregular expenditure

Irregular expenditure means expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including (a) this Act; or (b) the State Tender Board Act, 1968 (Act 86 of 1968), or (c) any provincial legislation providing for procurement procedures in that provincial government. The amount recorded is equal to the value of the irregular expenditure incurred unless it is impracticable to determine the value thereof. Where such impracticality exists, the reasons therefore is provided in the notes. Irregular expenditure is removed from the notes when it is either (a) condoned by the National Treasury or the relevant authority; (b) it is transferred to receivables for recovery; or (c) it is not condoned and is irrecoverable. A receivable related to irregular expenditure is measured at the amount that is expected to be recovered and is de-recognised when the receivable is settled or subsequently written off as irrecoverable.

3.20.2 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. When confirmed, fruitless and wastefull expenditure is recorded in the notes to the financial statements.

3.21 Capital commitments

Capital commitments are disclosed in respect of agreements with external parties that will result in future obligations to make outflow of resources. Such agreement may be in the form of purchase orders, notice to proceed with service delivery, other contractual documentations and for amounts which the Board's approval has been obtained but not yet contracted for.

3.22 Related parties

A related party is a person or entity that is related to the Group. Related party transactions are shown at arm's length in accordance with the statements of GAAP as issued by the Accounting Standards Board (ASB) and the SAICA Circular on related party disclosures for State-owned entities. Related parties are classified in terms of those listed in the Public Finance Management Act, 1999 (Act No 1 of 1999) in schedules 1 (Constitutional Institutions), 2 (Major Public entities) and 3 (Other Public entities). Key management as well as close family members of key management has been disclosed.

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

	Land	Facilities & Leasehold improvements
	R'000	R'000
4 Property, plant and equipment		
Group		
Carrying amount at 1 April 2016	**1 142 599**	**7 111 208**
Cost	1 142 599	9 202 861
Accumulated depreciation	-	(2 084 572)
Accumulated impairment losses	-	(7 081)
Additions	-	-
Capitalisations	-	494 249
Transfer from prepayment	-	11 416
Transfer to investment property	(547)	-
Impairment loss recognised	-	(158 864)
De-recognition on disposal of assets	-	(2 165)
Depreciation charge for the year	-	(454 795)
Carrying amount at 31 March 2017	1 142 052	7 001 049
Cost	1 142 052	9 543 055
Accumulated depreciation	-	(2 534 538)
Accumulated impairment losses	-	(7 468)
Additions		-
Capitalisations	4 030	554 363
Transfer from prepayment	-	-
Transfer to investment property	-	-
Impairment loss recognised	-	-
De-recognition on disposal of assets	(174)	(749)
Depreciation charge for the year	-	(391 142)
Carrying amount at 31 March 2018	**1 145 908**	**7 163 521**
Cost	1 145 908	10 075 546
Accumulated depreciation	-	(2 904 666)
Accumulated impairment losses	-	(7 359)

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Rolling Stock	Network Assets	Moveables & Workshop	Buses & Vehicles	Assets under construction	Total
R'000	R'000	R'000	R'000		R'000
8 267 979	**2 980 163**	**324 989**	**610 434**	**12 166 175**	**32 603 548**
17 590 768	5 182 016	784 798	1 697 605	12 166 175	47 766 822
(8 403 946)	(2 201 853)	(459 764)	(1 087 171)	-	(14 237 305)
(918 843)	-	(45)	-	-	(925 969)
-	-	-	-	6 678 924	6 678 924
3 983 109	200 917	100 027	15 123	(4 793 424)	-
278 063	-	-	-	-	289 479
-	-	-	-	-	(547)
(23 318)	-	-	(37 341)	-	(219 523)
(143 361)	(8 488)	(490)	(32 013)	-	(186 517)
(1 413 049)	(223 989)	(50 115)	(173 591)	-	(2 315 539)
10 949 423	**2 948 603**	**374 411**	**382 612**	**14 051 675**	**36 849 825**
21 387 822	5 375 863	884 284	1 615 426	14 051 675	54 000 177
(9 506 194)	(2 427 260)	(509 828)	(1 195 473)	-	(16 173 293)
(932 205)	-	(45)	(37 341)	-	(977 059)
-	-	-	-	5 840 855	5 840 855
3 082 474	581 041	45 499	79 012	(4 346 419)	-
153 529	-	-	-	-	153 529
-	-	-	-	-	-
(31 119)	-	-	(10 428)	-	(41 547)
(89 530)	(2 147)	(77)	(649)	-	(93 326)
(1 418 823)	(188 296)	(89 124)	(100 526)	-	(2 187 911)
12 645 954	**3 339 201**	**330 709**	**350 021**	**15 546 111**	**40 521 425**
23 998 881	5 984 388	938 494	1 690 903	15 546 111	59 380 231
(10 411 636)	(2 645 187)	(598 130)	(1 293 113)	-	(17 852 732)
(941 291)	-	(9 655)	(47 769)	-	(1 006 074)

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

	Land	Facilities & Leasehold improvements
	R'000	R'000
Entity		
Carrying amount at 1 April 2016	**1 142 199**	**7 109 808**
Cost	1 142 199	9 198 036
Accumulated depreciation	-	(2 081 147)
Accumulated impairment losses	-	(7 081)
Additions	-	-
Capitalisations	-	494 209
Transfer from prepayment	-	11 416
Transfer to investment property	(547)	-
Impairment loss recognised	-	(158 864)
De-recognition on disposal of assets	-	(2 165)
Depreciation charge for the year	-	(454 681)
Carrying amount at 31 March 2017	**1 141 652**	**6 999 723**
Cost	1 141 652	9 538 190
Accumulated depreciation	-	(2 530 999)
Accumulated impairment losses	-	(7 468)
Additions		-
Capitalisations	4 029	554 364
Transfer from prepayment	-	-
Transfer to investment property	-	-
Impairment loss recognised	-	-
De-recognition on disposal of assets	(174)	(749)
Depreciation charge for the year	-	(391 023)
Carrying amount at 31 March 2018	**1 145 507**	**7 162 315**
Cost	1 145 507	10 070 681
Accumulated depreciation	-	(2 901 007)
Accumulated impairment losses	-	(7 359)

Assets are impaired when they are damaged. Assets are derecognised when components or assets are replaced. None of the assets are pledged as security for liabilities. Register of properties is available for inspection if so required.

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Rolling Stock	Network Assets	Moveables & Workshop	Buses & Vehicles	Assets under construction	Total
R'000	R'000	R'000	R'000		R'000
8 267 979	**2 980 163**	**316 793**	**101 718**	**12 165 368**	**32 084 029**
17 590 768	5 182 016	762 547	499 546	12 165 368	46 540 480
(8 403 946)	(2 201 853)	(445 754)	(397 828)	-	(13 530 527)
(918 843)	-	-	-	-	(925 924)
-	-	-	-	6 677 463	6 677 463
3 983 110	200 917	98 536	15 185	(4 791 956)	-
278 063	-	-	-	-	289 479
-	-	-	-	-	(547)
(23 319)	-	-	-	-	(182 183)
(143 361)	(8 488)	(374)	(12 741)	-	(167 129)
(1 413 049)	(223 989)	(48 089)	(45 623)	-	(2 185 431)
10 949 423	**2 948 603**	**366 866**	**58 539**	**14 050 875**	**36 515 681**
21 387 822	5 375 863	862 453	464 868	14 050 875	52 821 723
(9 506 194)	(2 427 260)	(495 587)	(406 329)	-	(15 366 369)
(932 205)	-	-	-	-	(939 673)
-	-	-	-	5 840 731	5 840 731
3 082 475	581 041	45 310	78 953	(4 346 172)	-
153 529	-	-	-	-	153 529
-	-	-	-	-	-
(31 120)	-	-	-	-	(31 120)
(89 530)	(2 147)	(77)	(649)	-	(93 326)
(1 418 823)	(188 296)	(87 222)	(29 442)	-	(2 114 806)
12 645 954	**3 339 201**	**324 877**	**107 401**	**15 545 434**	**40 270 689**
23 998 881	5 984 388	916 451	540 345	15 545 434	58 201 687
(10 411 636)	(2 645 187)	(581 964)	(432 944)	-	(16 972 738)
(941 291)	-	(9 610)	-	-	(958 260)

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity			Group	
2017 R'000	2018 R'000		2018 R'000	2017 R'000
		5 Prepayment for capital expenditure		
		Locomotives		
1 938 521	1 938 521	Balance at the beginning of the year	1 938 521	1 938 521
-	-	Payments made during the year	-	-
-	-	Transferred to Property Plant and Equipment	-	-
1 938 521	**1 938 521**	**Prepayment on locomotives**	**1 938 521**	**1 938 521**
		PRASA entered into a contractual agreement with Swifambo Rail Leasing (SRL), on 25 March 2013, to construct and supply new locomotives from Vossloh Spain which were to be utilised for Mainline Passenger Services. The expenditure would be incurred for a period of 5 years. Risk and rewards of ownership would pass to PRASA upon delivery of the locomotives, and after PRASA satisfied itself that all quality parameters are met. 13 locomotives were delivered to PRASA during the 2014/15 and 2015/16 financial years. No locomotives were delivered during the 2016/17 financial year as during a forensic investigation it became apparent that the contract between SRL and PRASA never came into existence as conditions precedent were not timely fulfilled. Furthermore the investigation revealed irregularities including unlawfulness. The court has now ruled in favour of PRASA to set aside the contract. Subsequently Swifambo has taken the matter on appeal.		
		Rolling stock		
8 026 681	8 657 349	Balance at the beginning of the year	8 657 349	8 026 681
908 731	-	Payments made during the year	-	908 731
(278 063)	(153 529)	Transferred to Property Plant and Equipment	(153 529)	(278 063)
8 657 349	8 503 820	**Total rolling stock**	8 503 820	8 657 349
153 529	197 395	**Less: Short-term portion**	197 395	153 529
8 503 820	**8 306 425**	**Long-term portion rolling stock**	**8 306 425**	**8 503 820**

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000		Group 2018 R'000	Group 2017 R'000
		On the 14th of October 2013, PRASA entered into an agreement with the Gibela Rail Transport Consortium (Gibela) for the design, supply and manufacture of 600 new trains. The financial agreement was approved and gazetted by the Minister of Finance on the 16th of April 2014. The contractual terms of the Agreement stipulate that the risks and rewards of ownership will pass to PRASA upon delivery of the rolling stock, and after PRASA satisfies itself that all quality parameters are met. 9 trains were delivered during the 2017/18 financial year. The short term portion is the amortisation of the advance payment for delivery of 9 trains in accordance with amended payment schedule.		
11 416		**Test facility depot** PRASA made advance payments calculated at 10% of the contract value to suppliers for the construction of the Test Facility Depot for the new trains. Consequently, PRASA holds guarantees issued by the suppliers' bankers and financial institutions, which amounts to the value of the advance payments.	-	11 416
(11 416)	-	Transferred to Property Plant and Equipment	-	(11 416)
-	-	**Less: Short-term portion**	-	-
-	-	**Long-term portion test facility**	-	-
		Connection fee payment		
-	17 195	Prepayment of R17 million is for the upfront payment on a connection fee made to Eskom at Crossmore Station. The project has been completed, however a power feed to the substation now needs to be constructed as the substation does not have an electricity supply. The scope of work includes the dismantling of the existing old steelwork from the Eskom yards, the construction of new foundations and steel structure placements. Construction is anticipated to commence in March 2018.	17 195	-
-	-	Transferred to Property Plant and Equipment	-	-
-	17 195		17 195	
-	17 195	**Less: Short-term portion**	17 195	-
-	-	**Long-term portion test facility**	-	-
10 442 341	**10 244 946**	**Prepayment for capital expenditure**	**10 244 946**	**10 442 341**

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000		Group 2018 R'000	Group 2017 R'000
		6 Intangible assets		
		Copyright		
14 171	14 171	Cost	14 171	14 171
(5 686)	(6 393)	Accumulated Amortisation	(6 393)	(5 686)
8 485	7 778	Carrying amount at the beginning of the year	7 778	8 485
(707)	(707)	Amortisation	(707)	(707)
7 778	**7 071**	**Carrying amount at the end of the year**	**7 071**	**7 778**
14 171	14 171	Cost	14 171	14 171
(6 393)	(7 100)	Accumulated Amortisation	(7 100)	(6 393)
		Copyright comprises the product and tool design of the 10M4 Series 2 rolling stock model. None of the items have restricted titles or are pledged as security for liabilities		
		Software		
565 434	590 763	Cost	596 506	571 177
(164 635)	(205 679)	Accumulated Amortisation	(211 269)	(170 166)
400 799	385 084	Carrying amount at the beginning of the year	385 237	401 011
25 873	63 073	Additions	63 072	25 874
(41 588)	(64 292)	Amortisation	(64 348)	(41 648)
385 084	**383 865**	**Carrying amount at the end of the year**	**383 961**	**385 237**
590 763	653 836	Cost	659 578	596 506
(205 679)	(269 971)	Accumulated amortisation	(275 617)	(211 269)
		Software comprises customised Geographic Information Systems and Enterprise Resource Planning software.		
392 862	**390 936**	**Intangible assets**	**391 032**	**393 015**

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000		Group 2018 R'000	Group 2017 R'000
		7 Investment property		
3 370 516	3 872 565	Fair valued amount at the beginning of the year restated	3 872 565	3 370 516
281 336	262 517	Additions	262 517	281 336
547	-	Transfer from property plant and equipment	-	547
(564)	-	De-recognition of investment property	-	(564)
-	-	Investment property receivable in future	-	-
220 730	213 060	Fair valuation	213 060	220 730
3 872 565	**4 348 143**	**Carrying amount at the end of the year**	**4 348 143**	**3 872 565**
1 548 259	1 624 511	Original cost	1 624 511	1 548 259
2 014 871	2 227 931	Fair valuation	2 227 931	2 014 871
309 435	495 701	Work in Progress	495 701	309 435

Investment property consists of commercial properties within South Africa, most of which are situated in KwaZulu-Natal, Western Cape and Gauteng.

A: Development leases

Property is rented out to third parties under development leases of 50 years or less. Some vacant land is currently held for future development and capital appreciation.

The fair market valuation of the land was professionally determined by an independent valuer, Knight Frank (2017: Knight Frank Valuers). Comparable sales method as well as capitalisation of net income method was used.

B: Commercial Properties

The properties comprise commercial areas rented out to third parties under operating leases ranging from 1 month to 10 years.

The fair market valuation of the station properties was professionally determined by an independent valuer, Knight Frank (2017: Knight Frank Valuers). Comparable sales method as well as capitalisation of net income method was used.

Valuers are members of the Institute of Valuers, and have appropriate qualifications and experience in the valuation of properties in the relevant locations.

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000			Group 2018 R'000	Group 2017 R'000
1 893 800	**1 996 090**	**8**	**Operating lease receivable**	**1 996 090**	**1 893 800**
			PRASA entered into development leases with private parties. These arrangements entail the construction of infrastructure on PRASA's land at their own cost for use by these parties over the lease period. The private party has the right of use of the PRASA land through the development lease. At the end of the lease period, the right to the use of the land and the infrastructure reverts to PRASA.		
			The risks and rewards associated with owning the land do not pass to the lessee at any stage of this arrangement. The land is recognised as Investment property - Refer Note 7 - as the land is used for commercial purposes.		
			The residual interest relating to the infrastructure constructed by the private party is measured at the net present value of the estimated gross residual value of the infrastructure at the end of the lease and is recognised as a receivable.		
		9	**Investment in subsidiaries**		
			The Entity's subsidiaries are:		
		9.1	**Intersite Asset Investments (SOC) Ltd "Intersite"**		
88 212	-		Unlisted shares at cost	-	-
(88 212)	-		Impairment on investment in subsidiaries	-	-
-	-		Net investment in subsidiary		
			Intersite was a subsidiary throughout the year. The holding entity's interest in the aggregate profit of the subsidiary amounted to R6.69 million (2017: Profit R6.7 million). Investment and loan has been impaired to RNil.		
100	100		**Ownership** (%)		
100	100		**Voting power** (%)		
			Country of incorporation: South Africa		

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000		Group 2018 R'000	Group 2017 R'000
		Principal activity: Property and asset investment solutions to Group through a range of innovative and entrepreneurial solutions.		
		Authorised share capital		
		4 000 ordinary shares of R1 each		
		Issued share capital		
88 212	-	375 ordinary shares of R1 each	-	-
		9.2 Autopax Passenger Services (SOC) Ltd "Autopax"		
581 402	-	Unlisted shares at cost	-	-
(581 402)	-	Impairment on investment in subsidiaries	-	-
-	-		-	-
86 630	-	Opening balance	-	-
70 789	203 124	Loans granted and expenses paid	-	-
(157 419)	(203 124)	Impairment of loan in subsidiaries	-	-
-	-	Loan owing by the subsidiary	-	-
-	**-**	**Net investment in subsidiary**		
		The interest in the loss of the subsidiary amounted to R304.6 million. (2017: Loss R212.5 million). Investment and loan has been impaired to RNil.		
100	100	**Ownership** (%)		
100	100	**Voting power** (%)		
		Country of incorporation: South Africa		
		Principal activity: Passenger bus services		
		Authorised share capital		
		800 000 000 ordinary shares of R1 each		
		Issued share capital		
601 864	601 864	601 863 850 ordinary shares of R1 each (2017: R601 863 850)		
-	**-**	**Total net investments in subsidiaries**	**-**	**-**
		9.3 Related party transactions with subsidiaries		

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity			Group	
2017 R'000	2018 R'000		2018 R'000	2017 R'000
		During the year, the Entity entered into transactions with its wholly-owned subsidiaries, Intersite and Autopax. All transactions with the above are concluded on an arm's length basis.		
		Related party transactions are summarised as follows:		
		Intersite		
(41 234)	(37 707)	Professional services rendered to PRASA Corporate	-	-
(41 234)	**(37 707)**	**Services rendered by subsidiary**	**-**	**-**
(16 585)	(38 461)	Net amounts owed to subsidiary mainly for the retainer		
(16 585)	**(38 461)**	**Amounts owed to subsidiary**	**-**	**-**
		Autopax		
37 277	22 748	Rental of property from PRASA CRES and bus billing	-	-
5 359	5 355	Rental of buses from PRASA Corporate	-	-
(108 579)	(26 241)	Auxiliary transport mainly to PRASA Rail	-	-
(65 943)	**1 862**	**Services rendered by subsidiary**	**-**	**-**
42 519	100 368	Amounts owed by subsidiary mainly for rentals	-	-
42 519	100 368	Amounts owed by subsidiary	-	-
		10 Trade and other receivables		
147 884	158 485	Trade receivables	171 459	183 006
115 228	187 018	Tenant debtors	187 018	115 228
49 644	915 258	Other receivables	912 281	56 128
312 756	**1 260 761**		**1 270 758**	**354 362**
14 413	63 424	Prepayments	73 940	23 020
179 186	178 503	Straight lining of operating leases	179 673	179 186
506 355	**1 502 688**	**Short-term portion of trade and other receivables**	**1 524 371**	**556 568**

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000			Group 2018 R'000	Group 2017 R'000
			Receivables are shown net of impairment losses amounting to R122.0 million (2017: R98.2 million). Included in trade receivables are train control services rendered, traction recovery and electricity charges to Transnet. The prepayment amount consists of advance payments for insurance premiums, licence fees and municipal rates prepayments in Kwazulu-Natal.		
			Allowance for impairment		
			The Group's trade receivables are stated after allowances for doubtful debts based on management's assessment of the creditworthiness of the respective debtors. An analysis of the allowance is as follows:		
(86 250)	(95 862)		Balance at the beginning of the year	(98 188)	(90 207)
(9 612)	(24 321)		Charged to statement of comprehensive income	(23 417)	(7 981)
(95 862)	**(120 183)**		**Balance at the end of the year**	**(121 605)**	**(98 188)**
		11	**Inventories**		
438 553	476 725		Inventories	501 991	453 898
438 553	**476 725**		**Total inventories**	**501 991**	**453 898**
			None of the inventory is pledged as security for liabilities. During the year R271 million worth of material was recognised in the income statement.		
		12	**Cash and cash equivalents**		
264 295	268 354		Bank balances	305 068	283 598
12 015 002	13 527 981		Call deposits	13 531 483	12 023 899
12 279 297	**13 796 335**			**13 836 551**	**12 307 497**
35 044	38 177		Tenant deposits held in Trust	38 177	35 044
12 314 341	**13 834 513**		**Total cash and cash equivalents**	**13 874 728**	**12 342 541**
			Tenant deposits are held in a Trust account with ABSA bank. Interest earned on these deposits amounts to R5.8m and is included in the tenant deposit held in Trust. Call deposits earn interest at an average rate of 5.75% (2017: 7.76%) per annum.		

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity				Group	
2017 R'000	2018 R'000			2018 R'000	2017 R'000
		13	**Share capital**		
			Authorised		
4 248 258	4 248 258		4 248 258 440 ordinary shares of R1 each	4 248 258	4 248 258
			Issued and fully paid		
4 248 258	4 248 258		4 248 258 440 ordinary shares of R1 each	4 248 258	4 248 258
			There were no movements in the share capital of the Entity (2017: None).		
			The shares are 100% (2017: 100%) owned by Government.		
		14	**Loans and borrowings**		
-	-		Opening balance	-	1 518
-	-		Interest correction on this agreement during the year	-	(28)
-	-		Repayment of loans and borrowings	-	(1 490)
			Total Loans and borrowings	**-**	**-**
-	-		Less: short-term portion	-	-
-	**-**		**Long-term portion of loans and borrowings**	**-**	**-**
			Autopax acquired 570 buses. The acquisition was financed in terms of instalment agreements, governed by a master loan agreement dated 10 February 2010. The Government issued a guarantee for the due and punctual fulfilment of Autopax's payment obligations up to the maximum total guarantee amount of R1 216 million. The guarantee was valid for 6 years from the date of signature (16 April 2010) and reduced by any reduction in the amount of capital outstanding. The outstanding balance of the guarantee on 31 March 2018 is RNil (2017: RNil). Interest was fixed at 9.45% per annum compounded monthly. The repayment term was 6 years. The first payment commenced on 15 March 2010.		

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000		Group 2018 R'000	Group 2017 R'000
		15 Provision for claims		
		The amount shown comprises the gross provision in respect of certain claims brought against the Group by commuters in respect of accidents which occurred in the current and previous financial years. It is not expected that the outcome will give rise to significant claims over and above the amounts provided for.		
746 182	998 238	Balance at the beginning of the year	998 238	746 182
472 261	624 708	Provisions made during the year	624 708	472 261
(220 205)	(354 905)	Repayment on insurance claims	(354 905)	(220 205)
998 238	**1 268 041**	**Balance at the end of the year**	**1 268 041**	**998 238**
(294 580)	(450 789)	Less: short-term portion	(450 789)	(294 580)
703 658	**817 252**	**Long-term portion provision for claims**	**817 252**	**703 658**

The Chain Ladder method was applied in calculating the development factors for PRASA liability losses as at 31 March 2018. Ultimately these factors will be used to estimate the level of reserves required. The Chain Ladder method is a calculation approach used to estimate outstanding claims (Incurred But Not Reported (IBNR)) and future claim payments as required), whereby the weighted average of past claim development is projected into the future with adjustments to development patterns where applicable. The projection is based on the ratios of cumulative past claims, paid and incurred, for successive years of development. The method can be applied to past claims data with either explicit or implicit allowance for claims inflation. Based on the stability in the average claim values, the implicit adjustment was retained. The actuarial valuation was done by AON (2017: AON), an independent Company.

A discount rate of 7.90% (2017: 7.90%) was used to discount future estimated payments. Each year was discounted to represent today's value. In addition to adjustments to the incurred claim patterns as derived from prior years' reporting patterns, the discounting model attempts to allow for further uncertainties in the timing of claim payments for up to 17 years in the future. The derived development and settlement factors were applied to these outstanding losses to project a future settlement pattern, and then based on the total settlement pattern, a discounting cash flow model was developed.

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity			Group	
2017 R'000	2018 R'000		2018 R'000	2017 R'000
		16 Operating lease deferred income		
1 229 445	1 291 324	Deferred income	1 291 324	1 229 445
		Less: short term portion		
1 229 445	**1 291 324**	**Balance at the end of the year**	**1 291 324**	**1 229 445**
		Amortisation of the obligation by third parties to transfer developed infrastructure at the end of the lease period to PRASA - Refer Note 8.		
		17 Employee benefit obligations		
		Employees of the Group participate in Transmed Medical Scheme administered by Metropolitan Health Group (Pty) Ltd.		
		The terms of the post-retirement medical scheme are summarised below:		
		The Entity subsidises some employees for a fixed amount of R213 per month in retirement. The amount is fixed irrespective of the number of dependents on the medical scheme and will not increase in future. Employees of the entity retiring from 1 April 2012 onwards are not eligible for the post retirement medical aid subsidy.		
		The actuarial projection method used to value the fund is the Projected Unit Credit method. The valuation was done by Old Mutual Corporate Consultants (2017: Alexander Forbes).		
		Movement in the present value of the unfunded obligation:		
11 772	10 595	Accrued liability at the beginning of the year	11 018	12 247
(1 318)	(1 198)	Benefits paid	(1 246)	(1 371)
141	662	Expenses recognised in statement of comprehensive income	575	142
1 007	896	- Interest cost	932	1 048
(866)	(234)	- Actuarial (gain)/loss	(357)	(906)
10 595	**10 059**	**Accrued liability at the end of the year**	**10 347**	**11 018**
1 152	1 087	Less: short-term portion	1 118	1 198
9 443	**8 972**	**Long-term liability at the end of the year**	**9 229**	**9 820**

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000		Group 2018 R'000	Group 2017 R'000
		Principal actuarial assumptions at the reporting date:		
9,00%	8,10%	Discount rate per annum	8,10%	9,00%
PA(90) ultimate rated down 2 years + 1.0% p.a. from 2006	In accordance with PA90, adjusted for Old Mutual's experience and mortality improve-ments	Post retirement mortality assumption	In accordance with PA90, adjusted for Old Mutual's experience and mortality improve-ments	PA(90) ultimate rated down 2 years + 1.0% p.a. from 2006
	No explicit assumption was made about additional mortality or health care costs due to AIDS		No explicit assumption was made about additional mortality or health care costs due to AIDS	
		Sensitivity results		
		Should the discount rate decrease by 1% the accrued liability will be R9.7 million; should the discount rate increase by 1% the accrued liability will be R11.1 million for the Group.		
		The post retirement medical plan exposes the Group to actuarial risks, such as longevity risk, interest rate risk and market (investment) risks.		
		18 Defined benefit plan assets		
		The Group operates a defined benefit fund administered by Metropolitan Retirement Fund Administrators. The assets of the funds are held separate from those of the Group. The fund was actuarially valued by Old Mutual Corporate Consultants, an independent company (2017: Alexander Forbes).		

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity			Group	
2017 R'000	2018 R'000		2018 R'000	2017 R'000
		A member with at least 10 years pensionable service is entitled to the following benefits on attaining the minimum retirement age: • An annual pension equal to: (Average pensionable salary) x (pensionable service) x (accrual factor of 1) • Plus a gratuity equal to: (1/3) x (1) x (gratuity factor) A member with less than 10 years of pensionable service is entitled to gratuity equal to twice the member's own contribution without interest, on attaining the age limit. The rules do not permit late retirement after the attainment of the age limit.		
1 442 026	1 256 970	Fair value of plan assets	1 256 970	1 442 026
(566 396)	(629 886)	Total present value of obligations	(629 886)	(566 396)
875 630	**627 084**	**Surplus**	**627 084**	**875 630**
(872 803)	(627 084)	Less: amount not recognised	(627 084)	(872 803)
2 827	**-**	**Net defined benefit plan assets**	**-**	**2 827**
		The asset is subjected to a maximum value of the present value of any economic benefits available in the form of refunds from plan or reductions in future contributions to the plan.		
		Movement in the fair value of plan assets		
1 335 474	1 442 026	Fair value of plan assets at the beginning of the year	1 442 026	1 335 474
-	(185 353)	Opening balance adjustment	(185 353)	-
121 023	127 400	Interest income on assets	127 400	121 023
865	438	Member contribution	438	865
940	761	Company contribution	761	940
(414)	(440)	Administration cost	(440)	(414)
(58 454)	(55 304)	Benefits paid	(55 304)	(58 454)
42 592	(72 558)	Net return on assets	(72 558)	42 592
1 442 026	**1 256 970**	**Fair value of plan assets at the end of the year**	**1 256 970**	**1 442 026**

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000		Group 2018 R'000	Group 2017 R'000
		The fair value of plan assets consist of:		
240 530	209 663	Cash	209 663	240 530
449 191	391 546	Equity	391 546	449 191
315 371	274 899	Bonds	274 899	315 371
95 606	83 337	Property	83 337	95 606
341 328	297 525	International	297 525	341 328
-	-	Other	-	-
1 442 026	**1 256 970**	**Fair value of plan assets at the end of the year**	**1 256 970**	**1 442 026**
		Movement in the present value of defined benefit obligations		
(585 895)	(566 396)	Present value of defined benefit obligations at the beginning of the year	(566 396)	(585 895)
(51 753)	(48 620)	Interest cost	(48 620)	(51 753)
(1 774)	(1 367)	Past and current service cost	(1 367)	(1 774)
(865)	(438)	Member contributions	(438)	(865)
414	440	Administration cost	440	414
58 454	55 304	Benefits paid	55 304	58 454
15 023	(68 809)	Actuarial loss	(68 809)	15 023
(566 396)	**(629 886)**	**Present value of defined benefit obligation at the end of the year**	**(629 886)**	**(566 396)**
		Expenses recognised instatement of comprehensive income		
(1 774)	(1 367)	Past and current service costs	(1 367)	(1 774)
415	(27)	Net interest on net defined benefit asset	(27)	415
(2 761)	(2 194)	Actuarial gain	(2 194)	(2 761)
(4 120)	**(3 588)**	**Expenses recognised in statement of comprehensive income**	**(3 588)**	**(4 120)**
		These expenses are recognised in operating expenses.		
		The principal actuarial assumptions used were as follows:		
9,00%	8,10%	Discount rate	8,10%	9,00%
6,20%	5,60%	Inflation rate	5,60%	6,20%
7,20%	6,60%	Salary increase rate	6,60%	7,20%

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000			Group 2018 R'000	Group 2017 R'000
4,65%	4,20%		Pension increase allowance	4,20%	4,65%
			The defined benefit obligation exposes the Group to actuarial risks, such as longevity risk, interest rate risk and market (investment) risks.		
		19	**Capital subsidy and grants**		
47 855 688	58 529 473		Balance at the beginning of the year	58 657 942	48 048 393
13 814 060	9 368 189		Capital subsidy and grants received during the year	9 368 189	13 814 060
(3 140 275)	(2 197 309)		Less: amortised	(2 240 133)	(3 204 511)
58 529 473	**65 700 353**		**Total**	**65 785 998**	**58 657 942**
(3 840 685)	(2 466 518)		Less: short-term portion	(2 512 352)	(3 912 098)
54 688 788	**63 233 835**		**Long-term portion**	**63 273 646**	**54 745 844**
			Capital subsidies are recognised as deferred income and amortised over the useful life of the assets.		
			Capital subsidies receivable in future years:		
			2019: R 12 653.09 million		
			2020: R 13 948.57 million		
			2021: R 14 715.38 million		
		20	**Trade and other payables**		
799 650	907 380		Trade payables	1 032 222	865 027
1 654 897	1 824 727	**	Accruals on operational expenditure	1 956 214	1 790 676
2 728 936	2 542 867		Accruals for property, plant and equipment acquired	2 542 867	2 728 936
133 025	148 498		Retention	148 498	133 025
5 316 508	**5 423 472**			**5 679 801**	**5 517 664**
343 997	354 294		Leave pay accrual	371 026	365 353
33 156	35 147		Tenant deposits	35 147	33 156
57 080	12 363		Income received in advance	16 244	63 828
5 750 741	**5 825 276**		**Trade and other payables**	**6 102 215**	**5 980 001**

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity				Group	
2017 R'000	2018 R'000			2018 R'000	2017 R'000
		**	Included in accruals for operational expenditure is a claim of R160 million (2017: R635 million) against PRASA for unfair dismissal of employees. On 13 February 2013 PRASA terminated employment of 700 members of The National Transport Movement ("NTM") on allegations that they participated in the burning of train coaches during their strike. The decision was upheld by the Labour Court. The NTM appealed the matter with the Labour Appeal Court. On 21 November 2017 PRASA lost the case and was ordered to reinstate the employees retrospectively to the date if dismissal.		
		21	**Operating leases**		
561 146	**702 782**	**21,1**	**Operating lease rental income**	**674 678**	**531 101**
			The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
265 907	256 038		Not later than one year	256 038	265 907
606 779	608 054		Later than one year and not later than five years	608 054	606 779
808 508	746 067		Later than five years	746 067	808 508
1 681 194	**1 610 159**			**1 610 159**	**1 681 194**

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity			Group	
2017 R'000	2018 R'000		2018 R'000	2017 R'000

21.1.1 Description of the Group as lessor's significant leasing arrangements

21.1.1.1 Short-term commercial and residential operating leases

The Group has entered into a number of short-term commercial and residential operating leases in respect of certain land and buildings with third parties, in order to maximise the inflow of economic benefits from our assets. The average term of these leases is between 3 and 5 years, and no purchase options are provided for. In some older lease agreements, lessees have renewal options for a short-term period if they have complied with all terms and conditions of the original lease, and on renewal, lease rentals are subjected to escalation. Newer lease agreements have no renewal options but have rights of first refusal should the Group decide to continue leasing the properties on expiry of the lease. Lease agreements generally contain a clause that they may be cancelled at the option of the lessor after giving sufficient notice to the lessee, should the lease arrangements conflict with commuter services.

21.1.1.2 Leasehold improvements operating leases

The Group has entered into a number of operating leases with third parties for the lease of land. In terms of the agreements, the lessee is obliged to effect leasehold improvements on the premises, which remains the property of the lessor, without compensation to the lessee, on termination of the lease. Lease rentals charged for the land are market-related, determined with reference to independent valuations of the properties, and no incentive is given to lessees in view of the leasehold improvements which they are obliged to effect. The terms of the leases are generally between 20 and 50 years. The leases have rental reviews renegotiated every 5 years with the majority of the leases incorporating turnover clauses.

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity				Group	
2017 R'000	2018 R'000			2018 R'000	2017 R'000
			These leasehold improvements are effected and financed by lessees, who have exclusive rights of use of the buildings for the period of the lease. As a result, these buildings are not classified as assets of the Group as defined and therefore have not been capitalised. However, these assets will be capitalised on expiry of the lease. These assets are bonded by lessees' financiers who have the first option of occupation in the event of breach of contract.		
149 791	**173 070**	**21,2**	**Operating lease expenses**	**221 234**	**241 733**
			The future minimum lease payments payable under non-cancellable operating leases are as follows:		
947	947		Not later than one year	3 986	5 998
4 734	4 734		Later than one year and not later than five years	7 496	8 368
10 020	10 020		Later than five years	10 020	10 020
15 701	**15 701**		**Future minimum lease payments**	**21 502**	**24 386**
			Operating lease expenditure not shown under non-cancellable leases comprises lease expenses paid to Transnet on a month to month basis for cost of infrastructure rentals as well as locomotives on an ad hoc basis.		
			Leases for subsidiaries consist of office buildings and motor vehicle rentals.		
			PRASA entered into a development lease agreement with Ekurhuleni Municipality on 1 December 2014 for land on which the Gibela factory will be constructed. The lease is for a period of 20 years. The first 2 years of the rental will be at zero value. The next 36 months thereafter will be for an amount of R78.9 thousand per month. After year 5, the lease will be reviewed and agreed upon for the next 5 years until year 10. Thereafter the rentals and annual escalation rates will be reviewed every 5 years based on market values.		
1 680 324	**1 272 124**	**22**	**Fare revenue**	**1 794 025**	**2 346 609**
			Fare revenue comprises ticket sales to train and bus commuters for passenger and long distance journeys.		

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity					Group	
2017 R'000	2018 R'000				2018 R'000	2017 R'000
5 081 666	**5 876 596**	**23**	**Operational subsidy**		**5 889 910**	**5 180 454**
			The operational subsidy is received annually to fund our operations. The following Medium Term Expenditure Framework allocations have been made in respect of future years:			
			2019: R 6 125.88 million			
			2020: R 6 430.10 million			
			2021: R 6 753.23 million			
			Subsidy received to operate commuter bus services on specific routes is per contractual agreement per defined timetables and based on kilometres.			
		24	**De-recognition on disposal of assets**			
143 361	89 530		De-recognition on rolling stock items		89 530	143 361
23 768	3 796		De-recognition of components on other assets		3 796	43 156
167 129	93 326		De-recognition on disposal of assets	4	93 326	186 517
564	-		De-recognition on investment property	7	-	564
167 693	**93 326**		**De-recognition on disposal of assets**		**93 326**	**187 081**
			Assets are de-recognised when components are replaced or when assets are de-recognised due to damage.			
		25	**Depreciation and amortisation on assets**			
(2 185 431)	(2 114 806)		Depreciation on property, plant and equipment	4	(2 187 911)	(2 315 539)
(42 295)	(64 999)		Amortisation on intangible assets	6	(65 055)	(42 355)
(2 227 726)	**(2 179 805)**		**Depreciation and amortisation on assets**		**(2 252 966)**	**(2 357 894)**
		26	**Actuarial gain**			
866	234		Employee benefit obligations		357	906
(2 761)	(2 194)		Defined benefit plan assets		(2 194)	(2 761)
(1 895)	**(1 960)**				**(1 837)**	**(1 855)**

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000				Group 2018 R'000	Group 2017 R'000
		27	**Operating expenses**			
17 139	19 617		Audit fee - external audit		21 507	19 451
6 129	1 611		Audit fee - internal audit		1 611	6 129
108 025	76 915		Auxiliary transport		50 675	(547)
15 008	12 457		Bank charges		14 409	17 188
4 222	1 231		Commission paid		16 598	24 341
69 409	66 293		Communications		69 314	72 538
154 421	127 182		Computer expenses		128 104	155 109
3 852	2 599		Directors' emoluments	28	6 020	7 833
5 356 922	5 049 427		Employee benefits		5 437 776	5 752 144
814 811	742 617		Energy expenses		915 263	1 045 591
208 115	219 303		Haulage fees		219 303	208 115
191 088	195 791		Health and risk		205 480	206 964
485 466	646 165		Insurance claims		647 516	486 454
120 645	124 818		Insurance premiums		137 782	125 208
56 051	72 203		Legal fees		72 492	56 205
46	45		License and transport certificate fees		17 371	17 528
271 222	584 862		Maintenance expenditure		645 009	355 005
5 507	3 978		Management fees on external services		3 978	5 507
30 547	30 147		Managed Portfolio Expenses		30 147	30 547
9 284	29 757		Marketing		29 863	11 179
291 688	238 546		Material expenses		270 858	331 364
418 442	390 093		Municipal charges		390 585	421 160
7 636	9 908		On board services-Cost of trading stock		9 908	7 636
149 791	173 070		Operating lease expenses	21,2	221 234	241 733
16 119	12 392		Printing		13 372	16 850
182 279	79 993		Professional fees		47 432	149 999
26 464	27 873		RSR rail safety license fees		27 873	26 464
490 247	521 161		Security		533 209	516 605
-	-		Toll fees		25 292	32 938
12 241	33 807		Training		34 033	13 368
106 260	107 092		Train control officers cost - external service		107 092	106 260
37 785	21 514		Travel expenses		21 901	38 924
26 338	27 305		Travel and accommodation - Staff		43 995	45 871
25 088	44 778		Other expenditure		54 522	29 926
9 718 287	**9 694 550**				**10 471 523**	**10 581 588**

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

	Directors' fees R'000	Salary R'000	Retirement contri-butions R'000	Other R'000	Bonus R'000	Entity 2018 R'000	Entity 2017 R'000	Group 2018 R'000	Group 2017 R'000
28 Personnel cost and directors' emoluments									
Defined contribution and benefit plans expense						521 536	488 854	550 582	515 327
Unemployment Insurance Fund						28 854	25 077	30 931	27 375
Unwinding of interest on post-retirement medical aid benefits						(111)	1 007	(116)	1 048
Salaries and personnel cost						4 453 665	4 791 254	4 805 890	5 150 434
Executive directors	**-**	**4 616**	**365**	**-**	**-**	**4 981**	**4 024**	**4 981**	**4 024**
Mr L Zide (AGCEO)[1]	-	1 967	214	-	-	2 181	-	2 181	-
Mr L Molepo (AGCEO[2]	-	2 649	151	-	-	2 800	-	2 800	-
Mr C Letsoalo (AGCEO)	-	-	-	-	-	-	4 024	-	4 024
Non-executive directors	**6 020**	**-**	**-**	**-**	**-**	**2 599**	**3 852**	**6 020**	**7 833**
Dr P Molefe (Chairperson)[3]	400	-	-	-	-	400	1 029	400	1 029
Ms Z Manase[4]	110	-	-	-	-	110	483	110	483
Ms C Cele	-	-	-	-	-	-	281	-	281
Mr X George[5]	348	-	-	-	-	348	398	348	398
Ms N Kheswa	-	-	-	-	-	-	152	-	152
Ms M Matlala[3]	172	-	-	-	-	172	435	172	435
Mr T Phitsane[4]	43	-	-	-	-	43	435	43	435
Mr W Steenkamp[3]	193	-	-	-	-	193	490	193	490
Mr RC Mkwanazi[3]	34	-	-	-	-	34	35	34	35
Adv N Makhubela (Chairperson)[6]	534	-	-	-	-	534	-	534	-
Prof J Maluleke[6]	219	-	-	-	-	219	-	219	-
Ms C Reddy[6]	228	-	-	-	-	228	-	228	-
Mr TR Rikhotso[3]	38	-	-	-	-	38	39	38	39
Ms N Scheepers[7]	244	-	-	-	-	244	39	244	39
Mr MF Baleni[3]	36	-	-	-	-	36	36	36	36
Autopax (subsidiary)		-	-	-	-	-	-	-	-
Ms L Letlape	393	-	-	-	-	-	-	393	421
Ms B Haywood	67	-	-	-	-	-	-	67	262
Mr TC Luvhani	59	-	-	-	-	-	-	59	345
Ms MG Mokoka	348	-	-	-	-	-	-	348	718
Mr K Pillay	62	-	-	-	-	-	-	62	297
Mr P Moiloa	324	-	-	-	-	-	-	324	-

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

						Entity		Group	
	Directors' fees R'000	Salary R'000	Retirement contri-butions R'000	Other R'000	Bonus R'000	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Mr BL Boshielo	324	-	-	-	-	-	-	324	-
Intersite (subsidiary)									
Mr M Mdebuka (Chairperson)	385	-	-	-	-	-	-	385	385
Mr BL Boshielo	-	-	-	-	-	-	-	-	214
Mr BZ Mabusela	343	-	-	-	-	-	-	343	343
Ms N Mashinini	343	-	-	-	-	-	-	343	343
Ms NS Mxenge	391	-	-	-	-	-	-	391	391
Ms M Mokoka	382	-			-	-	-	382	-
Mr P Moiloa	-	-	-	-	-	-	-	-	214
Ms LR Hlapolosa	-	-	-	-	-	-	-	-	48
Other key management	**-**	**42 802**	**2 710**	**112**	**-**	**40 613**	**46 706**	**45 624**	**53 936**
Ms HM Manyatsa (GCFO)	-	-		-	-	-	2 837	-	2 837
Ms Y Page (AGCFO) [8]	-	2 448	351	-	-	2 799	1 025	2 799	1 025
Mr BB Kupe (ACEO Autopax)[9]	-	1 028	-	-	-	-	-	1 028	3 059
Mr R Mahlabana (ACEO Autopax)[10]	-	1 180	-	-	-	-	-	1 180	-
Mr N Khena (AGCEO)[11]	-	2 671	153	-	-	2 824	1 689	2 824	1 689
Mr N Molepo(ACEO Intersite)	-	2 500	303	-	-	-	331	2 803	4 076
Mr P Gombert	-	-	-	-	-	-	-	-	426
Mr EM Mofi	-	-	-	-	-	-	2 927	-	2 927
Ms P Ngubane	-	2 921	141	-	-	3 062	2 973	3 062	2 973
Mr BD Kekana[12]	-	683	37	-	-	720	2 949	720	2 949
Mr L Zide[1]	-	875	107	-	-	982	3 214	982	3 214
Mr AR Zaman	-	2 613	-	-	-	2 613	2 692	2 613	2 692
Mr P Malele[8]	-	1 438	-	-	-	1 438	369	1 438	369
Mr T Holele	-	2 787	-	9	-	2 796	2 641	2 796	2 641
Mr B Khumalo	-	-	-	-	-	-	975	-	975
Mr M Matakata[4]	-	53	-	-	-	53	805	53	805
Mr E Makhura	-	1 564	-	79		1 643	1 005	1 643	1 005
Mr Z Mayaba	-	2 610	149	-	-	2 759	2 692	2 759	2 692
Mr C Mbatha	-	2 241	391	15	-	2 647	2 493	2 647	2 493

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

						Entity		Group	
	Directors' fees R'000	Salary R'000	Retirement contri-butions R'000	Other R'000	Bonus R'000	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Ms P Munthali	-	3 466	-	-	-	3 466	3 115	3 466	3 115
Ms M Ngoye	-	2 744	478	-	-	3 222	3 042	3 222	3 042
Mr P Sebola	-	2 914	167	9	-	3 090	3 005	3 090	3 005
Dr S Sithole	-	3 328	-	-	-	3 328	3 140	3 328	3 140
TM Mohube	-	2 738	433	-	-	3 171	2 787	3 171	2 787
	6 020	47 418	3 075	112	-	5 052 026	5 360 774	5 443 796	5 759 977

1 From April to December 2017	**2** Till March 2018	**3** Till July 2017	**4** Till April 2017	**5** Till July 2017 and From October 2017	**6** From October 2017
7 Till April 2017 and From October 2017	**8** Till March 2018	**9** Till June 2017	**10** From July 2017 to January 2018	11 From February 2018	**12** Till June 2017

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity				Group	
2017 R'000	**2018 R'000**			**2018 R'000**	**2017 R'000**
		29 Sundry income			
87 898	73 087	Insurance recovered		74 432	105 790
10 200	8 995	On board sales		8 995	10 200
3 317	2 542	Hire of trains/buses		5 626	25 791
19 053	11 472	TETA recoveries		12 122	19 559
36 684	36 832	Train control officers		36 832	36 684
-	-	Development facilitation fee		3 829	2 849
26 036	26 084	Other		27 702	27 704
183 188	**159 012**			**169 538**	**228 577**
		30 Finance cost			
-	-	Interest on long-term loan	14	-	28
(1 007)	(896)	Interest on post retirement benefits	17	(932)	(1 048)
(8 724)	(11 116)	Interest on creditors		(11 606)	(11 520)
(9 731)	(12 012)			(12 538)	(12 540)
		31 Finance income			
718 388	964 919	Interest received from banking institutions, on bank balances and call accounts.		967 519	720 986
		Call deposits earn interest at an average rate of 6.25 % (2017: 6.25%) per annum.			
		32 Taxation			
		PRASA is exempt from taxation in accordance with Legal Succession to Transport Services Act no 9 of 1989, as amended by Act 38 of 2008.			
		33 Capital commitments			
66 252 092	66 622 997	New rolling stock		66 622 997	66 252 092
3 733 991	4 138 514	Signals and telecommunications		4 138 514	3 733 991
3 172 020	4 092 386	Other capital programmes		4 092 386	3 172 020
73 158 103	**74 853 897**			**74 853 897**	**73 158 103**

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000				Group 2018 R'000	Group 2017 R'000
		34	**Reconciliation of net loss before taxation to cash utilised in operations**			
(2 114 155)	**(1 699 493)**	**34,1**	**Operating cash flows before working capital changes**		**(1 959 733)**	**(2 198 670)**
(1 548 831)	(830 095)		Net loss before taxation		(924 874)	(927 513)
			Adjusted for:			
2 185 431	2 114 806		Depreciation of property plant and equipment	4	2 187 911	2 315 539
42 295	64 999		Amortisation intangible assets	7	65 055	42 355
167 693	93 326		Loss on de-recognition of property, plant and equipment and investment property	24	93 326	187 081
1 009 216	234 244		Impairment of property, plant, equipment and investment in subsidiary	4	41 547	219 523
9 612	24 321		Impairment of trade and other receivables	10	23 417	7 981
1 895	1 960		Actuarial (gain)/loss on employee benefit obligations and assets	17	1 837	1 855
(220 730)	(213 060)		Fair value adjustments on investment properties	7	(213 060)	(220 730)
1 007	896		Unwinding of interest on post-retirement medical aid benefits	17	932	1 048
-	-		Interest on long-term loan	14	-	(28)
419	633		Defined benefit assets		633	419
(3 140 275)	(2 197 309)		Amortisation on capital subsidy and grants received	19	(2 240 133)	(3 204 511)
227 672	(102 290)		Operating lease receivable		(102 290)	227 672
(139 895)	61 879		Operating lease deferred income		61 879	(139 895)
8 724	11 116		Finance cost	30	11 606	11 520
(718 388)	(964 919)		Finance income	31	(967 519)	(720 986)
(939 263)	**(3 258 554)**		**Changes in working capital**		**(3 191 410)**	**(931 715)**
58 659	(1 020 654)		(Increase)/decrease in trade and other receivables		(991 219)	(103 569)
(1 318)	(1 198)		Benefits paid on post retirement medical aid benefit		(1 246)	(1 371)
252 056	269 803		Increase in provision for insurance claims		269 803	252 056
(155 859)	(38 172)		Increase in inventories		(48 093)	(156 507)
(1 092 801)	(2 468 333)		Decrease in trade and other payables		(2 420 655)	(922 324)
(3 053 418)	**(4 958 047)**		**Cash utilised in operations**		**(5 151 143)**	**(3 130 385)**

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000				Group 2018 R'000	Group 2017 R'000
		34,2	**Acquisition of property, plant and equipment reconciliation**			
(6 677 463)	(5 840 731)		Acquisition of property, plant and equipment	4	(5 840 855)	(6 678 924)
2 728 936	2 542 867		Accruals not part of cash flows		2 542 867	2 728 936
(3 948 527)	**(3 297 864)**		**Acquisition of property, plant and equipment**		**(3 297 988)**	**(3 949 988)**
		35	**Contingent liabilities**			
21 623	21 623	35.1	Prodigy Business Services		21 623	21 623
35 908	35 908	35.2	Bagale Consulting claiming for alleged failure to pay for services rendered during 2010.		35 908	35 908
36 381	13 865	35.3	Labour disputes, including mass dismissal dispute by National Transport Movement.		13 865	36 381
3 460	3 460	354	Rail & Road Assessing Services, for alleged failure to pay for services rendered. Application was launched for dismissal of action.		3 460	3 460
2 280	2 280	35.5	Lenkwane Cleaning Services for alleged breach of contract.		2 280	2 280
40 589	-	35.6	Proconse Consulting Engineers for alleged failure to pay for services rendered.		-	40 589
115 000	55 000	35.7	Various insurance claims for personal injuries as well as legal and other matters which may result in a possible loss in future.		55 000	115 000
146 461	146 461	35.8	Bombardier Africa Alliance - Delay claims allegedly occasioned by a change request and a NUMSA strike.		146 461	146 461
173	173	35.9	Algee Medics and Fire for alleged failure to pay for services rendered.		173	173
4 200	4 200	35.10	Tiro Projects - Claim for alleged failure to pay for professional services rendered.		4 200	4 200
150	150	35.11	Alleged unlawful arrest of ME Mlungisi.		150	150
8 552	8 552	35.12	National Force Security for alleged unlawful cancellation of security contract.		8 552	8 552
100	-	35.13	Transportation and Traffic Technology Africa for alleged failure to pay for professional services rendered.		-	100
6 774	6 774	35.14	Madisha & Associates - Claim for alleged breach of contract.		6 774	6 774

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity				Group	
2017 R'000	2018 R'000			2018 R'000	2017 R'000
20 000	20 000	35,15	Baran Projects SA - Claim for alleged failure to pay for goods sold and delivered.	20 000	20 000
478	-	35,16	Koor Dindar Moti Quantity Services - Claim for alleged failure to pay for services rendered / work performed.	-	478
940	940	35,17	The New Age - Claim for alleged failure to pay for goods sold and delivered.	940	940
10 324	10 324	35,18	Sbahle Safety consultants for alleged failure to pay for services rendered.	10 324	10 324
344	-	35,19	Be My Guest Trading for alleged failure to pay for services rendered.	-	344
929	929	35,20	Rasakanya Builders CC - Claim for alleged failure to pay for cleaning services rendered.	929	929
10 000	10 000	35,21	Business Pledge - Claim for alleged failure to pay in terms of an agreement.	10 000	10 000
843	843	35,22	Phumelela Fleet Operations (Pty) Ltd - Claim for alleged failure to pay services rendered, viz Vehicle Management Tracking System.	843	843
2 109	2 109	35,23	Enterprise Technology Solutions (Pty) Ltd - Declaratory order setting aside cancellation of rental and loan of certain equipment agreement.	2 109	2 109
21 626	21 626	35,24	Siyaya Rail Solutions - Claim for alleged failure to pay for professional services rendered.	21 626	21 626
6 781	-	35,25	Daveglen 371 (Pty) Ltd t/a Security International - Claim in respect of Statutory increases determined by the Security Industry.	-	6 781
56 593	56 593	35,26	Siyaya db Consulting Engineers - Claim for alleged failure to pay for services rendered.	56 593	56 593
-	-	35,27	EE Meishwine vs Autopax, claiming for loss of support.	6 997	6 997
7 500	7 500	35,28	Madisha & Associates CC - alleged early termination of contract.	7 500	7 500
66	66	35,29	Raamba Engineering Enterprises CC and JRACCE (PTY) LTD - subcontractor work	66	66
385	385	35,30	DBI - change in scope and budget.	385	385
12 687	-	35,31	MMQS-MACE (PTY) LTD - claim for work done	-	12 687

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity				Group	
2017 R'000	2018 R'000			2018 R'000	2017 R'000
1 983	-	35,32	OTIS (PTY) LTD - variation on contract.	-	1 983
13 760	13 760	35,33	VISION AFRICA as part of MMQS-MACE (PTY) LTD - alleged work done.	13 760	13 760
286	286	35,34	Pro-Serve Consulting - alleged work done	286	286
4 362	-	35,35	Kamo Architects - alleged services rendered	-	4 362
5 423	-	35,36	Kamo Construction - alleged services rendered	-	5 423
238 946	238 946	35,37	Siyangena interest	238 946	238 946
-	-	35,38	APM - Claim for alleged loss of business	68 763	-
15 164	-	35,39	Lebepe Quantity Surveyors - alleged services rendered	-	15 164
1 200		35,40	Brouwers Property Development cc - penalties		1 200
-	6 884	35,41	David Underwood/Sharpline Graphics - claim for breach of contract	6 884	-
-	1 995	35,42	Mtiya Dynamics - alleged services rendered	1 995	-
-	7	35,43	Tshepo Nkwana - unlawful deduction from pension fund payout	7	-
-	140	35,44	DC Worst Composite (PTY) LTD vs Tecuvert & PRASA - alleged services rendered	139	-
-	143	35,45	DC Worst Composite (PTY) LTD vs Baraka Eng & PRASA - alleged services rendered	143	-
-	291	35,46	DC Worst Composite (PTY)LTD vs Ecoan Eng & PRASA - alleged services rendered	291	-
-	6 218	35,47	Sebenza Shipping and Forwarding - alleged services rendered	6 218	-
-	233	35,48	Fabor Engineering Products (PTY) LTD - alleged services rendered	233	-
-	43 341	35,49	Nkambule and Associates - alleged services rendered	43 341	-
-	2 903	35,50	Superway Constructions vs PRASA - alleged services rendered	2 903	-
-	3 043	35,51	Theeunissen J vs PRASA & others claim for injuries/unlawful arrest	3 043	-
-	1 164	35,52	Phaahlana Mahlako Investments - alleged services rendered	1 164	-
-	208	35,53	Boyisa Trading Enterprise - alleged services rendered	208	-

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity				Group	
2017 R'000	2018 R'000			2018 R'000	2017 R'000
-	1 444	35,54	Pholile Hoyo - unpaid acting allowance and difference in salary	1 444	-
-	1 895	35,55	Makhosazana Mngomezulu	1 895	-
-	1 896	35,56	Mkhuseli Michael Matakata and others	1 896	-
-	1 977	35,57	United National Transport Movement	1 977	-
-	5 000	35,58	Bombardier Africa Alliance - omission for Master and Slave Clocks and VolP Telephone Contract Value Adjustments	5 000	-
-	4 000	35,59	Bombardier Africa Alliance - claim for late submission of BBBEEE and Localisation Reports	4 000	-
-	82	35,60	Bombardier Africa Alliance - claim for alleged late payment of BAA invoices	82	-
-	78 794	35,61	Bombardier Africa Alliance - payment of Prolongation and other costs in respect of employer and municipality alleged delay events	78 794	-
-	59 254	35,62	SA Fence and Gate	59 254	-
854 380	**903 665**		**Total contingent liabilities**	**979 425**	**861 377**

The matters listed in the note are matters in respect of which the counterparty mentioned has commenced legal proceedings either in court or through alternative dispute resolution, for example, arbitration proceedings. There is uncertainty relating to the amount and the timing of the outflow, a final determination in this regard will be made by the presiding officer of the court or the arbitral forum as the case may be. In the event that PRASA is successful in its defence on any of the matters listed in this note, PRASA may be reimbursed for part of the legal costs it incurred in defending the matter in question.

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity				Group	
2017 R'000	2018 R'000			2018 R'000	2017 R'000
		36	**Contingent asset**		
			The matters below are under litigation and have been recognised as contingent assets. Their existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of PRASA. R2.6 billion is for Swifambo Rail Leasing for the contract of buying of locomotives where court rules that contract must be set aside.		
711 687	711 687	***	Claims for monies paid on contract where conditions were not met	711 687	711 687
10 064	10 131		Claims against supplier for non performance on contract	10 131	10 064
90 298	90 298		Non-payment of professional services rendered to Government departments, and other third parties	90 298	90 298
28 941	28 941		Monies paid to Mazwe Financial Services micro-lender in respect of loans to employees	28 941	28 941
32 775	32 775		Claims against employees for being absent from work, employed on basis of misrepresentation and for services not rendered	32 775	32 775
14 740	14 740		Claim against insurer of company for non-performance and delivery on a capital contract	14 740	14 740
888 505	**888 572**			**888 572**	**888 505**

*** On 03 July 2017, the Local Division of the Gauteng High court ruled in favour of PRASA to set aside an agreement in the amount of R3.5 billion with Swifambo Rail Leasing for the sale and purchase locomotives dated 25 March 2013. PRASA had paid Swifambo an amount of R2.6 billion which the court ruled that it must be paid back to PRASA. R1.9billion is accounted for under prepaid expenditure. The matter has been taken on appeal.

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000		Group 2018 R'000	Group 2017 R'000
		37 Other related party transactions		
		The Group is a Schedule 3B Public Entity in terms of the Public Finance Management Act, 1999 (Act No 1 of 1999). It therefore has a significant number of related parties, including other State-owned entities, Government departments and all other entities within the national sphere of Government. The Group used the database maintained by National Treasury to identify related parties. A list of all related parties is available on the National Treasury website at www.treasury.gov.za. Transactions with related parties are concluded on an arm's length basis.		
		The Entity has a related party relationship with its subsidiaries Autopax and Intersite, as well as with its directors and senior executives (key management). Refer note 8 for related party transactions with subsidiaries and note 27 for related party transactions with key management.		
		Transactions with related entities		
		Services rendered to related parties comprise principally transportation (rail and road) services. Services purchased from related parties comprised principally energy, telecommunications, information technology, transportation and property related services.		
		The following is a summary of transactions with related parties during the year and balances due at year-end:		
		Services rendered to related parties		
122 460	94 087	Major Public entities	106 775	187 049
122 460	**94 087**		**106 775**	**187 049**
		Services received from related parties		
1 603 941	1 846 386	Major Public entities	1 852 472	1 608 577
594 268	801 307	Other Public entities	863 510	643 939
2 198 209	**2 647 693**		**2 715 981**	**2 252 516**

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000		Group 2018 R'000	Group 2017 R'000
		Net amounts due to related parties		
(753 012)	(658 875)	Major Public entities	(660 747)	(754 660)
(5 453)	(11 126)	Other Public entities	(20 403)	(6 108)
(758 465)	(670 001)		(681 150)	(760 768)

Majority of transactions with Major Public entities are with Transnet and Eskom.

Majority of Other Public entities transactions are with South African Revenue Services.

38 Risk disclosure

38.1 Financial risk management

38.1.1 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy parties. The Group performs ITC checks on tenants before contracts are entered into. Tenants are required to pay deposits, provide guarantees or sureties based on their risk profile.

Financial assets, which potentially subject the Group to credit risk, consist principally of cash and cash equivalents, loans and receivables and trade and other receivables. The Group's cash and cash equivalents are placed with high credit quality financial institutions.

Concentrations of credit risk with respect to trade receivables are due to leases with Government entities or tenants under operating lease agreements. Where relevant, the Group has policies in place to ensure that transactions only take place with customers with an appropriate credit history.

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity				Group	
2017 R'000	**2018 R'000**			**2018 R'000**	**2017 R'000**
		PRASA has entered into a contractual agreement with Swifambo for the acquisition of locomotives. Advance payments were made towards the said acquisition. PRASA has applied to the court to have the transaction set aside. PRASA is exposed to credit risk should Swifambo fail to reimburse the amount paid.			
		38.1.1.1 Maximum exposure to credit risk			
		The Group's exposure to credit risk with regards to loans and receivables are limited due to collateral held, except for R1.9biilion prepaid to Swifambo of which a court case has started.			
		The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk:			
10 595 870	10 459 536	Prepayment for capital expenditure	**5**	10 459 536	10 595 870
312 756	1 260 761	Trade and other receivables	**10**	1 270 758	354 362
12 279 297	13 796 335	Cash and cash equivalents	**12**	13 836 551	12 307 497
23 187 923	**25 516 632**			**25 566 845**	**23 257 729**
		Tenant receivables comprise of hawkers, residential and commercial tenants in the following percentages:			
1,5%	1,5%	Hawkers		1,5%	1,5%
8,9%	8,9%	Residential		8,9%	8,9%
89,6%	89,6%	Commercial		89,6%	89,6%
100,0%	**100,0%**			**100,0%**	**100,0%**
		Commercial tenants are deemed to be low risk compared to residential tenants. However, during the last few years we have been negatively impacted due to poor economic conditions in the property market.			
		38.1.1.2 Collateral			
		For all tenant receivables collateral is held in the form of tenant deposits, guarantees or sureties based on the risk profile of the respective tenant.			

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity			Group	
2017 R'000	**2018 R'000**		**2018 R'000**	**2017 R'000**
		38.1.1.3 Financial assets that are past due but not impaired		
		The tenant trade receivables are tenants who have entered into rental contracts. All tenants prepay amounts. Therefore, if a tenant has not paid, the amount is past due. The following represents information on the credit quality of trade receivables that are past due but not impaired:		
		38.1.1.4 Aged analysis of financial assets that are past due but not impaired		
		Trade receivables		
8 013	15 029	30 days past due	16 566	11 948
912	7 968	31 to 60 days past due	8 403	2 948
203 208	275 549	61 to 90 days and over past due	306 346	203 208
212 133	**298 546**	**Total**	**331 315**	**218 104**
		Tenant trade receivables		
23 553	76 536	1 to 30 days past due	76 536	23 553
20 908	15 374	31 to 60 days past due	15 374	20 908
95 504	268 718	61 to 90 days and over past due	268 718	95 504
139 965	**360 628**	**Total**	**360 628**	**139 965**
		All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and an allowance of R122.0 million (2016: R98.1 million) has been recorded accordingly.		

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity				Group	
2017 R'000	2018 R'000			2018 R'000	2017 R'000
		38,2 Liquidity risk management			
		Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group is on continuing engagements with our Shareholder and National Treasury. The Group maintains sufficient cash resources to fund its capital program via cash allocations from Government on a monthly basis, in order to act as an agent for Government in the provision of rail commuter services. The Group also manages liquidity risk through an on-going review of future commitments.			
		The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or reputational damage.			
		The Group receives a guaranteed subsidy from National Treasury through the Medium Term Expenditure Framework allocation process to fund all current and future obligations.			
		The below maturity analysis details the Group's remaining contractual maturity for its financial liabilities. The below analysis has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The analysis includes both estimated interest and principal cash flows.			
		38.2.1 Maturity analysis			
		Non-derivative financial liabilities			
		Trade payables			
5 183 484	5 274 974	1 to 6 months		5 531 303	5 384 640
133 025	148 498	7 to 12 months		148 498	133 025
5 316 508	**5 423 472**	**Carrying amount**	**20**	**5 679 801**	**5 517 664**

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity			Group	
2017 R'000	2018 R'000		2018 R'000	2017 R'000

38,3 Market risk disclosures

38.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's income and operating cash flows are substantially independent of changes in market interest rates. However, the value of post employment assets and obligations will be affected when there are fluctuations in market interest rates.

Employee benefit obligations sensitivity analysis

The results of the valuation are sensitive to the assumptions used. The valuation are based on a number of assumptions. The value of the liability could turn out to be overstated or understated, depending on the extent to which actual experience differs from the assumptions adopted. Refer to note 17.

38.3.2 Foreign exchange currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This would arise mainly as a result of import capital and operational expenditure programmes where goods are imported from, and services provided in foreign countries and thus are exposed to currency fluctuations.

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000			Group 2018 R'000	Group 2017 R'000
		On the 25th of March 2013, PRASA entered into a contractual agreement valued at R3.5 billion with Swifambo Rail Leasing (SRL), which includes its technical partners Vossloh Spain and Vossloh Germany, to construct 88 new locomotives for Mainline Passenger Services. SRL submitted to PRASA a price based on EURO, at the Rand/Euro exchange rate of R10.18 (the "Set Rate"). The contractual agreement stipulates that the risk for the fluctuations of the Rand against the EURO shall be shared by the parties. SRL shall be responsible for the cost and the risk of fluctuation of the Rand to the Euro above the Set Rate up to R10.40. PRASA shall be responsible for the cost and the risk of the fluctuation of the Rand to the Euro above R10.40.			
		On the 14th of October 2013, PRASA entered into an agreement with Gibela for the design, supply and manufacture of 600 new trains. In this programme PRASA is not exposed to foreign currency risk as Gibela is responsible for addressing the risk through financial methods such as hedging, at no cost to PRASA.			
		38.3.3 Capital management			
		The Group's capital consists of share capital. Capital and operational subsidies are received through the Medium Term Expenditure Framework. Capital subsidy is accounted for in terms of IAS 20 'Accounting for Government grants and disclosure of Government assistance'.			
		38,4 Categories of financial instruments			
		Loans and receivables			
312 756	1 260 761	Trade and other receivables	38.1.1.1	1 270 758	354 362
12 314 341	13 834 513	Cash and cash equivalents	12	13 874 728	12 342 541
12 627 097	**15 095 274**	**Carrying amount**		**15 145 486**	**12 696 903**
		Financial liabilities at amortised cost			
5 316 508	5 423 472	Trade payables	38.2.1	5 679 801	5 517 664
5 316 508	**5 423 472**	**Carrying amount**		**5 679 801**	**5 517 664**

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity				Group	
2017 R'000	2018 R'000			2018 R'000	2017 R'000
			Due to nature of financial instruments the carrying amount approximates the fair value amount.		
		39	Events after reporting date		
			08 May 2018: Maraisburg, Gauteng - Two coaches were burnt as a result of connector cables that were tampered with resulting in electrical fault igniting the fire. Estimated cost R4.5m. There were no reported injuries or fatalities.		
			22 May 2018: Retreat Station, Cape Town - Two coaches were burnt. Arson caused by suspected commuters. Estimated cost R5.1m. There were no reported injuries or fatalities.		
			30 May 2018: Ottery Southfield, Cape Town - Two coaches were burnt. Arson caused by suspected commuters. Estimated cost R7.5m. There was one reported injury and one fatality.		
			18 June 2018: Steenberg, Western Cape - Two coaches were burnt. Estimated cost R9.8m. There were no reported injuries or fatalities.		
			24 June 2018: Phillipi, Western Cape - Train set alight by protesting commuters. Two motor coaches and two plain trailers burnt. Estimated cost R15.1m. There were no reported injuries or fatalities.		
			30 June 2018: Bosman, Gauteng - Train set was torched and plain trailer was totally burnt. Estimated cost R3m. There were no reported injuries or fatalities.		

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity			Group	
2017 R'000	2018 R'000		2018 R'000	2017 R'000
		PRASA has not paid any increases since April 2015 to date for private security service providers. The current PRASA contracts under paragraph 17.2.3. states "An increase not exceeding the percentage increase in CPIX or 7% in the contract value, which ever is the least, may be negotiated on the remaining contract amount, after the completion of the first twelve months, if the statutory increase exceeds 7%." The total potential cost for the negotiations of outstanding increases are calculated at R91m. 07 July 2018: Westgate/Crown, Gauteng - One motor coach and trailer were torched. Estimated cost R9.8m. There were no reported injuries or fatalities. 21 July 2018: Cape Town, Western Cape - Two motor coaches and four plain trailers were completely burnt and one plain trailer was partially damaged. Estimated cost R21m. There were no reported injuries or fatalities. 28 July 2018: Cape Town Station, Cape Town - four coaches were burnt. Estimated cost R5.5m. There were no reported injuries or fatalities.		

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity			Group	
2017 R'000	2018 R'000		2018 R'000	2017 R'000

26 April 2018 and 6 July 2018, Cape Town, Western cape - The arbitration for 166 contract workers was held at the Cape Town offices of the CCMA. The applicants had been in PRASA's employ on a series of fixed term contracts of employment and no further contracts were issued on commencement of the provisio of Section 198A, 198B, 198C and 198D of the Labour Relations Act 66 of 1995 as amended. The commissioner ruled that PRASA must immediately take the necessary steps to ensure that by 30 August 2018 each applicant has completed the necessary forms to become a member of the provident fund and to ensure that these documents are properly processed. Furthermore each applicant must be paid a bonus when PRASA pays bonuses. The total for each applicant is to be divided by three and three equal payments are to be made to each applicant; the first by 31 July 2018, the second by 31 August 2018 and the third by 30 September 2018. Should any installment not be paid by the date ordered, the full outstanding balance shall become due and payable without any notice having to be given to PRASA. The total to be paid to all applicants amounts to R35 455 140.00.

21 August 2018: Koeberg Road, Western Cape - three coaches were burnt. The cost of the damage is not yet known. There were no reported injuries or fatalities.

04 September 2018: Booysens, Gauteng - two trains collided and two coaches were damaged. The cost of the damage is not yet known. There were 112 reported injuries and no fatalities.

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000			Group 2018 R'000	Group 2017 R'000
		40	Fruitless and wasteful expenditure		
158 458	**-**		Cost incurred on designs not in use	-	158 458
5 456	**-**		Non compliance with HCM policies	-	5 456
8 724	**20 133**		Interest and penalties on late payments of creditors accounts	28 911	11 521
8 063	**-**		Process not followed on dismissal of Employee	5 798	8 063
679	**-**		Salary paid to former Executive	-	679
-	**16 478**		Expenditure on abandoned projects	16 478	-
-	506		Non VAT vendors paid amounts inclusive of VAT	506	-
-	887		Assets acquired but not in use	887	-
-	314		Supplier paid in excess of the amount of the lowest bidder	314	-
-	562		Cancellation of non refundable bookings	562	-
-	2 314		Legal costs incurred due to an inappropriate attempt to settle out of court with supplier	2 314	-
-	-		Remuneration error in respect of board member	10	-
1	-		Other	-	627
181 381	**41 194**		**Total for year**	**55 781**	**184 804**
806 696	**988 077**		**Opening balance**	**992 263**	**807 459**
715 419	715 419	**	Locomotives received from Swifambo Rail Leasing	715 419	715 419
16 914	25 638		Interest and penalties on late payments of creditors accounts	28 845	17 324
74 363	247 020		Other	247 999	74 716
988 077	**1 029 272**		**Closing balance**	**1 048 044**	**992 263**

** The matter is currently in court.

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity 2017 R'000	Entity 2018 R'000		Group 2018 R'000	Group 2017 R'000
		41 Irregular expenditure		
747	-	No evidence could be provided to prove that a due process was followed in prior to appointing the supplier.	-	747
61 217	35 323	Feasibility study and testing of the market was not conducted prior to the consideration of supplier projects unsolicited proposal.	35 323	61 217
-		Approval for confinement not in compliance with the PRASA SCM policy and PPPFA.		14 449
3 070 012	1 909 157	Competitive bidding method not followed for the appointment of the supplier, contravening the SCM Policy.	1 925 604	3 079 854
31 598	15 819	Criteria used in the evaluation are different from those stated in the RFP.	15 819	31 598
1 157	1 178	Emergency not ratified as per the requirements of the SCM Policy.	1 178	1 157
32	756	Non compliance with the Treasury Regulation on cost containment.	756	32
170 692	14 110	Non compliance with CIDB regulations.	14 110	170 692
16 306	5 472	Unfair advantage granted to the winning bidder.	5 472	16 306
12 055	102 058	Contract extensions more than allowed by PRASA SCM Policy and in some cases extended more than once without competitive bidding process.	144 919	27 328
4 679	-	Overspending on a contract prior to obtaining approval from delegated official.	6 304	62 836
465	28 829	Payment made to supplier without a contract.	57 000	937
1 129 136	1 582 699	Procurement not in line with PRASA SCM Policy and PPPFA.	1 627 048	1 254 594
8 422	38 435	Purchase of goods and services through splitting of quotes instead of a tendering process.	38 435	8 422
1 365	-	The bid documents of winning bidder were accepted after the time for submission of bids had elapsed.	-	1 365
155	416	The suspension policy was not followed and suspension paid to employee in excess of 30 days.	416	155

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Entity			Group	
2017 R'000	2018 R'000		2018 R'000	2017 R'000
1 598	-	Non compliance with HCM policies with regards to overtime.	-	1 611
34 018	8 187	Non compliance with HCM policies with regards to recruitment.	8 187	34 018
1 674	2 968	Three quotations not obtained for the procurement as prescribed by the SCM Policy.	7 939	1 674
219 806	45 594	Non-compliance with the PRASA Remuneration Policy	50 615	219 806
4 765 134	3 791 001	Total before condonement	3 939 126	4 988 798
14 824 051	19 587 165	Opening balance	20 309 470	15 322 692
(2 020)	-	Less: amount recovered	-	(2 020)
19 587 165	**23 378 166**	**Total**	**24 248 596**	**20 309 470**
		216 cases have been under investigation by National Treasury. A draft report was issued. This may lead to a possible additional amount of irregular expenditure. Management is in the process of going through the report and to determine if all documents were provided for investigation. Thereafter it will be possible to determine if these costs are irregular or not. Management will then also determine what steps need to be taken on regularising the expenditure and to take action with regards to consequence management. Some employees as implicated in some cases are not in the employ of PRASA any more. Non-compliance to regulations and processes forms a significant part of the irregular expenditure. 41 cases with criminal intent are currently under investigation by the Hawks, no report or indication of when these matters will be finalised could be obtained by management.		

Entity			Group	
2017 R'000	2018 R'000		2018 R'000	2017 R'000

42 Going concern uncertainty

There is some uncertainty on the ability of PRASA to continue as a going concern. The group reported a loss of R924 million in the current financial year which is a decrease of 0% from the previous financial year loss. Although all ratios are positive indicators of solvency and liquidity, the majority of the cash resources are earmarked for capital projects and not available for operational expenditure. The disparity between the allocation of capital and operational subsidy must be addressed, as the current allocation to operations does not allow for proper maintenance and operations on the infrastructure investments that are made.

43 Standards and interpretations issued but not yet effective

The Accounting Standards Board agreed that, as an interim measure, Government Business Enterprises that applied Statements of Generally Accepted Accounting Practice (GAAP), should continue to apply Statements of GAAP (as at 1 April 2012). Directive 12 include criteria to be assessed by management to determine whether IFRS or GRAP should be applied. Management assessed Directive 12 and concluded that from 1 April 2018 PRASA will apply GRAP as the new accounting reporting framework. Management performed the following assessment to ascertain the impact of transition to GRAP on the financial statements:

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Standard or Interpretation	Detail	Impact	Effective date
GRAP 11: Construction contracts	"The standard requires an entity to recognise an expected deficit on a contract immediately when it becomes probable that contract costs will exceed total contract revenue (only for contracts that it had intent to fully recover costs from parties) PRASA does not enter into construction constructs	None	Annual periods beginning on or after 01 Arpil 2018
GRAP 21: Impairment of non-cash generating assets	The standard requires that value in use be determined using depreciated replacement cost, service units approach or restoration cost. PRASA does not have non-cash generating assets	None	Annual periods beginning on or after 01 Arpil 2018
GRAP 23: revenue from non-exchange transactions	Assess whether there are other non-exchange receipt of resources during the year that are subject to conditions or restrictions. If conditions exist, recognise revenue to the extent that a liability does not exist (i.e. conditions fulfilled. If no conditions exist, recognise revenue.	High	Annual periods beginning on or after 01 Arpil 2018
GRAP 24: Financial instruments	"The standard requires a comparison of budget amounts and the actual amounts arising from the execution of the budget to be included in the financial statements. It requires disclosure of explanation of material differences. The new standard will be applied prospectively and could have a material impact on the Group's financial statements.	High	Annual periods beginning on or after 01 Arpil 2018
GRAP 25: Employee benefits	**The recognition of actuarial gains and losses:** The standard requires actuarial gains and losses to be recognised in full in surplus or deficit in the year that they occur. Unrecognised actuarial gains and losses will need to be recognised in full in surplus or deficit. **The recognition of past service costs:** GRAP requires that past service costs must be recognised in full in the year that they arise. The value of the obligations will need to be recalculated and any adjustment processed. **The discount rate used to measure the defined benefit liability:** GRAP refers to yields on government bonds. The new standard will be applied prospectively and could have a material impact on the Group's financial statements.	Low	Annual periods beginning on or after 01 Arpil 2018

PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Standard or Interpretation	Detail	Impact	Effective date
GRAP 103: Heritage Assets	The standard requires that heritage assets should be recognised when it is probable that economic benefits or service potential will flow to the entity and the cost or fair value can be measured reliably. When a heritage asset cannot be measured reliably on initial recognition, an entity discloses information about those assets in the notes to the financial statements. Heritage assets are subsequently measured at cost less impairment, or using a revaluation model (i.e. fair value less impairment). PRASA does not have heritage assets.	None	Annual periods beginning on or after 01 Arpil 2018
GRAP 104: Financial instruments	The standard classifies financial instruments as financial instruments at fair value including financial assets/ liabilities designated at fair value, financial instruments at amortised cost; and financial instruments at cost. The new standard will be applied retrospectively and will not have a material impact on the Group's financial statements.	Medium	Annual periods beginning on or after 01 Arpil 2018
GRAP 105: Transfer of functions	The standard sets out the principles for the acquirer and transferor in a transfer of functions between entities under common control. Assets and liabilities acquired, by the receiving entity, through a transfer of functions are measured at initial recognition at the carrying value that they were transferred. The difference between the carrying value of the assets and liabilities transferred and any consideration paid for the assets and liabilities transferred is recognised in accumulated surplus or deficit. The carrying value at which the assets and liabilities are initially recognised is therefore the deemed cost thereof. There were no assets and liabilities acquired through a transfer of functions.	None	Annual periods beginning on or after 01 Arpil 2018

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PASSENGER RAIL AGENCY OF SOUTH AFRICA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (Continued)

Standard or Interpretation	Detail	Impact	Effective date
Guideline on accounting for Public Private Partnerships	The Accounting Standards Board issued a guide for use by a grantor (public party) in a PPP agreement on how to account and report on assets, liabilities, revenue and expenditure. The ASB has adopted the control approach in accounting for PPPs and this is consistent with the IFRS/ GAAP approach that was adopted when determining the accounting treatment by the private party. PRASA does not enter into Public Private Partnerships.	None	Annual periods beginning on or after 01 Arpil 2018
GRAP 107: Mergers	The standard deals with transactions that result in the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified PRASA does not enter into mergers.	None	Annual periods beginning on or after 01 Arpil 2018

Entity			Group	
2017 R'000	2018 R'000		2018 R'000	2017 R'000

The following standards are either consistent with Statements of Generally Accepted Accounting Practice (GAAP) or will not have significant impact on the annual financial statements:

Standard or Interpretation	Impact	Effective date
GRAP 1: Presentation of Financial Statements	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 2: Cash flow Statements	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 3: Accounting policies, Changes in Accounting Estimates and errors	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 6: Consolidated and Separate Financial Statements	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 9: Revenue from Exchange Transactions	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 12: Inventories	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 13: Leases	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 14: Events after the reporting date	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 16: Investment Property	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 17: Property Plant and Equipment	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 19: Provisions, contingent liabilities and contingent assets	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 20: Related Party disclosures	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 26: Impairment of Cash-generating assets	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 34: Separate Financial Statements	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 35: Consolidated Financial Statements	Low	Annual periods beginning on or after 01 Arpil 2018
GRAP 102: Intangible assets	Low	Annual periods beginning on or after 01 Arpil 2018

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