

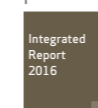




NAVIGATING OUR 2016 REPORTS



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Operating Divisions reports



Annual Results Presentation



Full results announcement



Short-form results announcement

The 2016 Integrated Report is the Company's primary report to all stakeholders.

The 2016 Annual Financial Statements include reports of the directors and independent auditors.

The 2016 Sustainability Report documents Transnet's sustainability performance in greater detail.

CONTENTS

STATUTORY INFORMATION

Performance highlights	2
Approval of the annual financial statements	3
Group company secretary certificate	4
Independent auditor's report	5

AUDIT COMMITTEE REPORT 8

REPORT OF THE DIRECTORS 12



ANNUAL FINANCIAL STATEMENTS

Accounting policies	34
Income statements	44
Statements of comprehensive income	45
Disclosure of components of other comprehensive income	46
Statements of financial position	47
Statements of changes in equity	48
Statements of cash flows	49
Segmental report	50
Notes to the annual financial statements	52
Annexure A	92
Annexure B	108
Annexure C	110
Annexure D	112
Annexure E	116
Annexure F	118
Annexure G	119

ABBREVIATIONS AND ACRONYMS 123

GLOSSARY OF TERMS 124

CORPORATE INFORMATION 125



Forward-looking information

All references to forward-looking information and targets in the 2016 reports are extracted from the 2016 Transnet Corporate Plan approved by the Board of Directors.

Transnet's Integrated Report 2016, Annual Financial Statements 2016 and Sustainability Report 2016 are available in PDF on www.transnet.net and via this QR code on mobile devices.

Feedback on the reports is encouraged.





PERFORMANCE HIGHLIGHTS



Revenue increased by 1,7% to R62,2 billion for the year, driven by a 4,2% increase in rail containers and automotive volumes as a result of concerted efforts to shift rail-friendly cargo from road to rail, as well as a 1,4% growth in petroleum volumes.



Net operating expenses were contained to R35,9 billion, an increase of only 1,0%, well below inflation. Aggressive management of costs resulted in a R6,6 billion saving in planned costs.



EBITDA grew by 2,6% to R26,3 billion, 4,3 times SA GDP growth of 0,6% for the financial year.



Gearing at 43,1% and cash interest cover at 3,1 times.



The Company maintained an investment grade credit rating, confirming its solid standalone credit profile.



Capital investment of R29,6 billion, bringing the spend during the MDS period to R124 billion, with expected spend of between R340 billion and R380 billion over the next 10 years.



Continued focus on operational improvements resulted in the Group operational efficiency increasing by 15,9%.

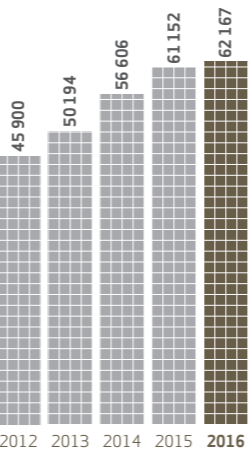


B-BBEE spend of R43,5 billion or 100,6% of total measured procurement spend for the year, per DTI codes.

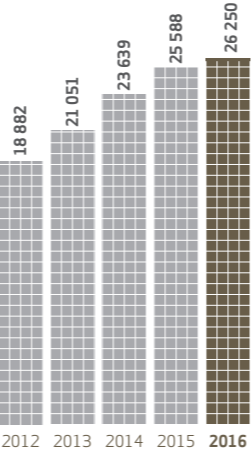


This is the fifth consecutive year that the Company recorded a DIFR ratio below 0,75 and the global benchmark of 1, due to continued focus and investment in safety.

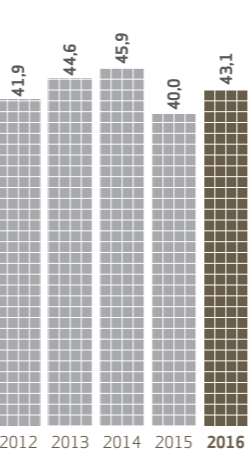
Revenue (R million)



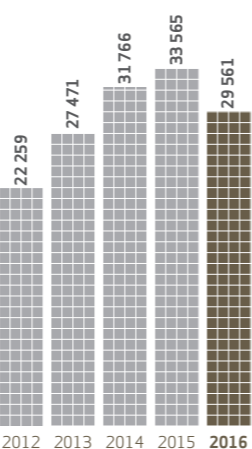
EBITDA (R million)



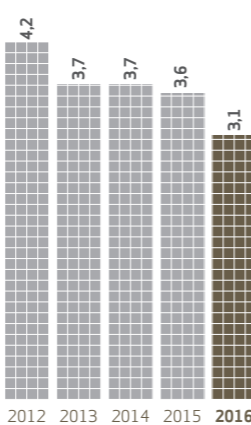
Gearing (%)



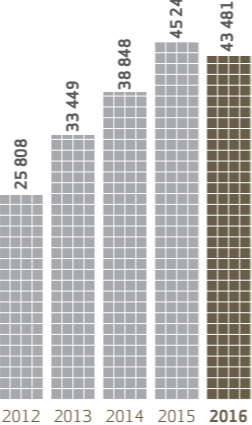
Capital investment (R million)



Cash interest cover (times)



B-BBEE spend as per DTI codes (R million)



APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

DIRECTORS' RESPONSIBILITIES

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

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

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

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

DIRECTORS' STATEMENTS

The Audit Committee has evaluated the Company and Group annual financial statements and has recommended their approval to the Board of Directors. In preparing the Company and Group annual financial statements, the Company and the Group have complied with International Financial Reporting Standards (IFRS) and the Companies Act. In addition, the Group has complied with the reporting requirements of the PFMA, except as set out in the Report of the Directors on pages 16 to 17.

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

The Board of Directors has every reason to believe that the Company and Group have adequate resources and facilities in place to be able to continue in operation for the foreseeable future. Therefore, the Board of Directors is satisfied that Transnet is a going concern and has continued to adopt the going-concern basis in preparing the annual financial statements.

The external auditors, SizweNtsalubaGobodo, are responsible for independently auditing and reporting on the annual financial statements in conformity with International Standards on Auditing. Their unmodified audit report on the annual financial statements, prepared in terms of the Public Audit Act of South Africa, Act No 25 of 2004 (PAA), appears on pages 5 to 7.

The internal audit activities are in accordance with the pre-approved internal audit plan. The internal audit plan is reviewed and approved by the Audit Committee annually. Transnet internal audit (TIA) has executed the internal audit plan during the year and has provided assurance to the Board of Directors as to the state of the internal controls of the Company. Their assessment of the internal controls of the Company is included in the Audit Committee Report. The Audit Committee has reviewed the effectiveness of the Company's internal controls and considers the systems appropriate for the effective operation of the Company.

The Board of Directors is of the opinion that the Company and the Group have complied with applicable laws and regulations except as disclosed in the Report of the Directors as set out on pages 16 to 17.

The Board of Directors is of the opinion that these annual financial statements fairly present the financial position of the Company and the Group as at 31 March 2016, and the results of their operations and cash flow information for the year then ended.

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

Linda Mabaso
Chairperson

Siyabonga Gama
Group Chief Executive

Garry Pita
Group Chief Financial Officer

30 May 2016
Johannesburg



**GROUP COMPANY
SECRETARY CERTIFICATE**

for the year ended 31 March 2016

I hereby certify that in terms of section 88(2)(e) of the Companies Act, the Company has filed with the Companies and Intellectual Property Commission all such returns and notices for the year ended 31 March 2016, as required in terms of this Act, and that all such returns are true, correct and up to date.

ANC Ceba

Group Company Secretary

30 May 2016

Johannesburg

**INDEPENDENT AUDITOR’S REPORT
TO PARLIAMENT ON TRANSNET SOC LTD**

for the year ended 31 March 2016

**REPORT ON THE CONSOLIDATED AND
SEPARATE ANNUAL FINANCIAL STATEMENTS**

Introduction

We have audited the consolidated and separate annual financial statements of Transnet SOC Ltd and its subsidiaries as set out on pages 34 to 122, which comprise the consolidated and separate statements of financial position as at 31 March 2016, the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

**The accounting authority’s responsibility for
the consolidated annual financial statements**

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

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated and separate annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate annual financial statements are free from material misstatement.

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

and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate annual financial statements.

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

Opinion

In our opinion, the consolidated and separate annual financial statements present fairly, in all material respects, the financial position of Transnet SOC Ltd and its subsidiaries as at 31 March 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the PFMA and the Companies Act.

Other matter

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

**Other reports as required by the
Companies Act**

As part of our audit of the consolidated and separate annual financial statements for the year ended 31 March 2016, we have read the Report of the Directors and the Audit Committee Report for the purpose of identifying whether there are material inconsistencies between these reports and the audited annual financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between the reports and the audited annual financial statements. However, we have not audited these reports and accordingly we do not express an opinion on these reports.

**REPORT ON OTHER LEGAL AND
REGULATORY REQUIREMENTS**

In accordance with the Public Audit Act of South Africa, Act No 25 of 2004 and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual report, compliance with legislation and internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.



Independent Auditor’s Report
to Parliament on Transnet SOC Ltd
for the year ended 31 March 2016

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information of the following selected objectives in the Shareholder’s Compact – Performance Criteria (Performance Information) presented in the Report of the Directors of Transnet SOC Ltd as set out on pages 20 to 27 of the annual report for the year ended 31 March 2016:

- Annexure A: Financial sustainability
- Annexure B: Capacity creation
- Annexure C: Operational excellence
- Annexure D: Sustainable development outcomes
- Annexure E: Market segment competitiveness

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury’s annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time-bound and relevant, as required by the National Treasury’s Framework for managing programme performance information (FMPPI).

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

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

Capacity creation – Annexure B of the Shareholder’s Compact

Usefulness of reported performance information

Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 75% of the performance indicators in this annexure were not well defined.

Performance targets should be specific in clearly identifying the nature and required level of performance and should be measurable as required by the FMPPI. A total of 50% of the targets in this annexure were not specific and measurable.

Reliability of reported performance information

The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance

information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This is due to the fact that proper indicator definitions were not used to predetermine the evidence and method of calculation for actual achievements.

Market segment – Annexure E of the Shareholder’s Compact

Usefulness of reported performance information

Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 100% of the performance indicators in this annexure were not well defined.

Performance targets should be specific in clearly identifying the nature and required level of performance and should be measurable as required by the FMPPI. A total of 33% of the targets in this annexure were not specific and measurable.

Treasury Regulation 30.1.3(g) requires the Shareholder’s Compact to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 33% of the reported targets in this annexure were not consistent with those in the approved Shareholder’s Compact.

Reliability of reported performance information

The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This is due to the fact that proper indicator definitions were not used to predetermine the evidence and method of calculation for actual achievements.

Additional matter

We draw attention to the following matter below:

Achievement of planned targets

Refer the information in the Shareholder’s Compact – Performance Criteria (Performance Information) in the

Report of the Directors of Transnet SOC Ltd as set out on pages 20 to 27 of the annual financial statements for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported under the *Capacity Creation – Annexure B of the of the Shareholder’s Compact and Market Segment – Annexure E of the of the Shareholder’s Compact* paragraphs in this report.

Compliance with legislation

We performed procedures to obtain evidence that the entity had complied with legislation regarding financial matters, financial management and other related matters. Our material findings on compliance with specific matters in key legislation as set out in the general notice issued in terms of the PAA are as follows:

Strategic planning and performance management

Effective, efficient and transparent systems of risk management and internal controls with respect to performance information and management was not maintained as required by section 51(1)(a)(i) of the PFMA.

Expenditure management

As disclosed in Annexure E of the annual financial statements, effective steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA in respect of the items detailed in that annexure.

Procurement and contract management

As disclosed in Annexure E of the annual financial statements, contracts were awarded to suppliers whose tax matters had not been declared by the South African Revenue Service to be in order as required by the Preferential Procurement Regulation 14.

Internal control

We considered internal control relevant to our audit of the annual financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and compliance with legislation included in this report.

Leadership

The public entity’s executive management did not exercise adequate oversight responsibility regarding compliance with applicable laws and regulations which resulted in instances of irregular and fruitless and wasteful expenditure.

Financial and performance management

The matters identified and reported under the compliance with laws and regulations section above have risen due to non-adherence with operational policies in the expenditure, predetermined objectives, procurement and contract management processes. The controls over these areas have continually been improved since these matters occurred.

OTHER REPORTS

We draw attention to the following engagements that could potentially impact the entity’s financial, performance and compliance related matters. Our opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations in progress and completed

During the financial year under review Transnet SOC Ltd initiated investigations into alleged irregularities or fraud. No material findings were identified relating to those investigations completed during the year. At the reporting date, certain investigations are still ongoing.

Agreed-upon procedure engagements

An agreed upon procedures engagement was performed on the National Treasury Public Entity Consolidation Template. The report covered the period from 1 April 2015 to 31 March 2016.

SizweNtsalubaGobodo Inc.

Per Collins Mashishi CA (SA)

Director

Registered Auditor

20 Morris Street East

Woodmead

Johannesburg

6 June 2016



AUDIT COMMITTEE REPORT

for the year ended 31 March 2016

The Audit Committee is pleased to present the report for the financial year ended 31 March 2016. This report is prepared in accordance with the legislative, regulatory prescriptions and recommendations contained in the PFMA, section 27 of the Treasury Regulations and the King Report on Corporate Governance for South Africa and its Code of Governance Principles. In discharging the mandatory duties, the Audit Committee conformed to the PFMA, section 94(7) of the Companies Act and Transnet’s Memorandum of Incorporation (Moi).

The terms of reference are set out in the Audit Committee mandate, which is approved by the Board of Directors and is continuously reviewed and updated for changes in legislation, business circumstances and corporate governance practices. The Audit Committee confirms that it has complied with its statutory obligations and discharged its duties in accordance with the mandate.

The role of the Audit Committee is defined in its mandate and cover, among others, the following key aspects:

- To assist the Board of Directors in discharging its duties relating to the safeguarding of assets and the evaluation of internal control frameworks within Transnet;
- To review and assess the integrity and effectiveness of the accounting, financial, compliance and other control systems;

- To consider the internal and external audit processes and the accounting principles and policies;
- To strengthen the independence of the internal and external audit functions to ensure their effectiveness;
- To ensure effective communication between the internal auditors, the external auditors, the Board of Directors, management and regulators;
- To ensure compliance with and adherence to applicable legal, regulatory and accounting requirements through an independent review;
- To contribute to a climate of discipline and control which will reduce the opportunity for fraud; and
- To assist the Board of Directors in discharging its duties as pertains to Information and Communication Technology (ICT) governance.

COMPOSITION AND MEETINGS OF THE AUDIT COMMITTEE

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

Name of member	Date of appointment	18 May 2015	25 May 2015	13 August 2015	20 October 2015	3 February 2016
Mr BG Stagman* (Chairperson)	11 December 2014	✓	✓	✓	✓	✓
Mr GJ Mahlalela*	11 December 2014	✓	✓	✓	✓	✓
Ms PEB Mathekga	11 December 2014	✓	✓	✓	✓	✓
Mr PG Williams*	11 December 2014	✓	✓	✓	✓	✓

✓ Attended.

* Member of the Risk Committee.

Mr BG Stagman was re-elected as the Transnet Audit Committee Chairperson at the AGM held on 26 June 2015. The qualifications and experience of the members are detailed in the abridged governance and assurance section in the 2016 Integrated Report. Three Audit Committee members, including the Chairperson, have been appointed as members of the Risk Committee to ensure alignment between these functions.

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

SUMMARY OF THE MAIN ACTIVITIES UNDERTAKEN BY THE AUDIT COMMITTEE DURING THE YEAR

In line with the PFMA, the Companies Act and the King Report, the Audit Committee executed the following activities during the year:

External audit

- Reviewed and approved the Group external audit plan, with specific reference to the terms of engagement thereof, the proposed audit scope and approach and the audit fee.
- Considered with management the quality and effectiveness of the external audit process, areas of special concern, the procedures being developed to monitor and contain risks in those areas, and the audit approach for those areas.
- Approved the guidelines for using the external auditors for non-audit work, pre-approve all the agreements for non-audit services, annually assess the work done to ensure that the independence of the external auditors is retained and ensure full disclosure of these services in the Integrated Report.
- Reviewed, with management, reports and letters received from the external auditors concerning deviations from, and weaknesses in, accounting and operational controls, and ensure that management takes prompt action and that issues are satisfactorily resolved.
- Monitored the relationship between the external auditors and management.
- Met with external auditors without management being present.
- Reviewed significant differences of opinion between the external auditors and management on the application of IFRS and any other applicable accounting standard.
- Noted the independence of the external auditors.
- Considered and approved any significant changes proposed in accounting policy, the external audit fee and budgeted audit fee.
- Reviewed significant differences of opinion between the external auditors and management on the application of the framework for performance information as issued by the National Treasury.
- Ensured that there is a process in place for the Committee to be informed of reportable irregularities identified and reported by the external auditor.
- Advised the Board of Directors of potential risks in irregular and fruitless and wasteful expenditure emanating from procurement practices.

Internal audit

- Provided oversight, evaluated and approved the following Transnet internal audit planning documentation:
 - The rolling three-year strategic risk-based internal audit plan;
 - The internal audit operational plan for the first year of the rolling plan; and
 - Any other audit plans including the scope of each audit in the annual internal audit plan.
- Reviewed and approved the internal audit mandate, which formally defines the purpose, authority and responsibility of the internal audit function.
- Assessed the performance of the Chief Audit Executive and internal audit function.
- Ensured that the Chief Audit Executive reports functionally to the Audit Committee and has appropriate standing within Transnet.
- Evaluated the independence of the internal audit function and ensured that the function is adequately resourced.
- Ensured that internal audit reports at all of the Committee’s meetings.
- Met with the internal auditors without management being present.
- Approved the quality assurance improvement plan and quarterly reviewed the progress reports.
- Reviewed written reports furnished quarterly and annually by Transnet internal audit detailing the adequacy and overall effectiveness of the internal control system, the scope and depth of audit coverage and audit recommendations.
- Obtained assurance from management that internal audit findings are addressed.
- Reviewed significant differences of opinion between management and the internal audit function.
- Obtained comfort with regards to coordination of efforts between external audit and the Transnet internal audit function.
- Reviewed forensic investigation reports and obtained commitment from management on the implementation of appropriate corrective actions.

Risk management

- Reviewed Transnet Risk reports and considered their impact on the Company.
- Provided oversight on financial reporting risks, internal financial controls, fraud and information technology risks, as they relate to financial reporting.
- Considered whether there were any matters arising from the review of internal controls and the reports of internal and external auditors which required the attention of the Risk Committee.



Audit Committee Report

for the year ended 31 March 2016

Compliance

- Reviewed and approved the Group Compliance plan, which includes compliance risks.
- Considered reports by executive management on measures implemented to ensure adherence with applicable compliance laws, rules and standards.
- Reviewed compliance audit reports.
- Reviewed and monitored Transnet’s compliance with all applicable legislation and regulations, including without limitation, the Companies Act, PFMA, Treasury Regulations and the Income Tax Act No 58 of 1962 (Income Tax Act), as amended.

Ethics

- Reviewed the process for handling anonymous calls from the fraud hotline.
- Reviewed internal audit reports on ethics management.
- Considered Transnet’s systems to monitor compliance with and enforcement of the Code of Ethics.

Other matters

- Reviewed reports from management regarding Transnet’s ability to continue as a going concern and recommended to the Board of Directors that Transnet continues to adopt the going-concern basis in preparing the annual financial statements.
- Provided assistance to the Board of Directors in discharging its duties relating to Transnet’s system of internal controls, risk management, compliance and ICT governance.

- Reviewed management’s reports on items of fruitless, wasteful and irregular expenditure, as well as losses through criminal conduct in terms of the PFMA.
- Reviewed and recommended the Transnet Treasury Financial Risk Management Framework, including Treasury Activities and the Risk Management Strategies to the Board of Directors for approval.
- Reviewed the materiality framework.
- Reviewed and recommended the Annual Borrowing Plan to the Board of Directors for approval.
- Reviewed and recommended the Financial and Funding Plan for 2016.
- Reviewed and proposed changes to the Delegation of Authority Framework.

ANNUAL EVALUATION BY THE AUDIT COMMITTEE

As required by the Companies Act, PFMA and the King Report, the Audit Committee has performed an annual assessment and evaluation of Transnet’s system of internal controls. The results are presented below.

Assessment of the internal control environment

Based on the engagement with external and internal auditors, together with the review of their reports, the Audit Committee’s overall assessment of Transnet’s internal control environment is presented in the table below:

The Audit Committee is of the view that the system of internal controls at Transnet is appropriate in terms of:

- Meeting the strategic objectives of Transnet;
- Evaluating and mitigating the key risks facing Transnet;
- Ensuring compliance with applicable laws and regulations;
- Ensuring that Transnet’s assets are safeguarded; and
- Ensuring that transactions undertaken are correctly recorded in Transnet’s accounting records.

The Audit Committee’s opinion is that there were no material breakdowns in internal controls, including operational controls, financial controls and maintenance of effective control systems during the 2016 financial year.

Assessment of the finance function and competence of the Group Chief Financial Officer

The Audit Committee is satisfied with:

- The expertise and adequacy of the resources within the finance function of Transnet;
- The experience of the senior members of management responsible for the finance function; and
- The expertise and experience of the Group Chief Financial Officer is appropriate to meet the responsibilities commensurate with the position.

RECOMMENDATION OF THE ANNUAL FINANCIAL STATEMENTS

The Audit Committee has evaluated the annual financial statements for the year ended 31 March 2016 and is of the view that they comply, in all material respects, with the requirements of the PFMA and in the manner required by the Companies Act. The Audit Committee is further satisfied that the annual financial statements have been prepared in accordance with IFRS and that the adoption of the going-concern basis is appropriate.

The Audit Committee is of the opinion that the annual financial statements fairly present the financial position of Transnet as at 31 March 2016, and the results of their operations and cash flow information for the year then ended and has therefore recommended the adoption of these annual financial statements by the Board of Directors.

Mr BG Stagman
Chairperson of the Transnet Audit Committee

30 May 2016
Johannesburg

2016				
Risk and control component	Key financial processes		Key operational processes	
	Adequacy	Effectiveness	Adequacy	Effectiveness
Governance	Adequate	Satisfactory	Adequate	Requires improvement
People	Adequate	Satisfactory	Adequate	Requires improvement
Methods and practices	Adequate	Satisfactory	Adequate	Requires improvement
Overall assessment	Adequate	Satisfactory	Adequate	Requires improvement
2015				
Risk and control component	Key financial processes		Key operational processes	
	Adequacy	Effectiveness	Adequacy	Effectiveness
Governance	Satisfactory	Satisfactory	Satisfactory	Requires improvement
People	Satisfactory	Satisfactory	Satisfactory	Requires improvement
Methods and practices	Satisfactory	Satisfactory	Satisfactory	Requires improvement
Overall assessment	Satisfactory	Satisfactory	Satisfactory	Requires improvement



REPORT OF THE DIRECTORS

for the year ended 31 March 2016

INTRODUCTION

The Board of Directors has pleasure in submitting its report together with the Company and Group annual financial statements for the year ended 31 March 2016.

NATURE OF BUSINESS

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

As the custodian of ports, rail and pipelines, Transnet has a responsibility to ensure the optimal development of the national freight system. Furthermore, as a responsible corporate citizen and key implementing agent of the developmental state, Transnet conducts its activities

in order to optimise developmental outcomes, such as job creation, skills development, economic transformation, regional integration, industrial capability building and energy efficiency.

BOARD OF DIRECTORS

The composition of the Board of Directors at 31 March 2016, summary curricula vitae of each director, key activities and decisions of the Board and its committees and performance evaluation are set out in the 'Abridged governance' section of the Integrated Report.

The remuneration and fees paid to directors are set out on pages 29 to 33 of this report.

STRATEGIC OVERVIEW AND OUTLOOK

The strategic overview and outlook for future performance are set out in the Integrated Report.

PERFORMANCE FOR THE YEAR

	March 2016	March 2015	% change
Revenue (R million)	62 167	61 152	1,7
EBITDA (R million)	26 250	25 588	2,6
EBITDA margin (%)	42,2	41,8	0,4
Equity attributable to the equity holder (R million)	143 290	142 328	0,7
Gearing (%)	43,1	40,0	3,1
Capital investment	29 561	33 565	(11,9)
Cash generated from operations after working capital changes (R million)	28 155	30 607	(8,0)
Cash interest cover (times)	3,1	3,6	(13,9)

Detailed commentary on the performance for the year is contained in the Integrated Report on pages 51 to 55.

ACCOUNTING POLICIES

The accounting policies applied in the preparation of the annual financial statements for the year ended 31 March 2016 are in accordance with IFRS and are consistent with those applied in the prior year.

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

SHARE CAPITAL

There has been no change in the authorised or issued share capital of the Company during the year. The issued share capital of the Company is 12 660 986 310 ordinary

shares of R1 each. Further details pertaining to the Company's share capital are contained in note 21 to the annual financial statements.

DIVIDEND

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

The key considerations in determining a declaration of dividends are:

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

Dividends are declared to the Shareholder:

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

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

- Based on the 2017 Corporate Plan, agreed upon between Transnet and the Shareholder, Transnet will be in a net borrowing position for the next six years;
- The Company has an intensive capital investment programme given its Market Demand Strategy (MDS);
- The funding of strategic priorities in the 2017 Corporate Plan, including but not limited to: supplier development, enterprise development and social investments;
- Transnet's current investment grade credit ratings and limited headroom to absorb cash flow at risk before sub-investment grade metrics apply; and
- The cumulative impact of dividend distribution on Transnet's solvency and liquidity ratios in relation to trade-offs against the funding of capital investment versus dividends as a net borrower.

The declaration of dividends is reviewed annually, subject to the approval by the Shareholder Representative in the AGM.

DIVISIONS, SUBSIDIARIES AND ASSOCIATE COMPANIES

With effect from 30 November 2015 Spoornet do Brasil Ltda (SdbL) ceased all activities, and was dissolved and terminated effective 1 December 2015. A detailed list of subsidiaries and associate companies are contained in annexure D to the annual financial statements.

REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

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

Rail infrastructure

The carrying value of rail infrastructure was devalued by R6 648 million (2015: R49,8 billion revaluation).

Port facilities

The carrying value of port infrastructure was revalued by R4 109 million (2015: R4 442 million) and port operating assets were revalued by R569 million (2015: R177 million).

Pipeline networks

The carrying value of pipeline networks was revalued by R808 million (2015: R843 million).

CAPITAL EXPENDITURE AND COMMITMENTS

The Group's capital investment for the year ended 31 March 2016 amounted to R29,6 billion (excluding intangible assets and capitalised borrowing costs). This represents a 11,9% decrease from the prior year investment of R33,6 billion, mainly as a result of optimisation of the capital expenditure programme in response to the global economic slowdown. R11,1 billion of the capital expenditure was invested in the expansion of infrastructure and equipment, while R18,5 billion was invested to maintain capacity in the rail and ports divisions.

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

FUNDING

As at 31 March 2016, the Company's total borrowings amounted to R134,5 billion (2015: R110,4 billion), an increase of R24,1 billion compared to the prior year.

The gearing ratio at 43,1% remains well below the threshold of 50% prescribed in the Shareholder's Compact. The cash interest cover ratio at 3,1 times is above the Shareholder's Compact target. With the subdued business environment, Transnet will be taking a more conservative approach in the management of its financial position.

The Group utilised commercial paper, TN25, TN30 and TN40 bonds, and bilateral long dated loans from a mixture of Development Finance Institutions (DFIs), asset management institutions, life insurers and banking institutions to satisfy the R27,8 billion funding requirement for the year without any Government guarantees.

The funding requirement for the next 15 months to 30 June 2017 is R13,0 billion, including the cash buffer of R1 billion. Sufficient facilities are available to Transnet (detailed below) to manage liquidity risk.



Report of the directors
for the year ended 31 March 2016

Potential sources of funding	R billion
Cash on hand at 31 March 2016 ¹	13,9
DFIs	14,8
GMTN	5,0
DMTN	6,0
ECAs	4,9
Committed facilities	5,9
Total	50,5

¹ Includes restricted benevolent accounts amounting to R155 million.

Credit rating

Transnet is officially rated by two credit rating agencies, namely Standard and Poor's (S&P) and Moody's. During the year under review, both credit rating agencies downgraded the sovereign rating of South Africa. As a state-owned company, Transnet's credit rating was affected hence Moody's changed the issuer credit rating to Baa2 from Baa1 in line with the sovereign rating and

the rating outlook to negative from stable. S&P changed the rating outlook to negative from stable following a similar action on the sovereign. The standalone credit profile remained unchanged at BBB+. Moody's rating is two notches above sub-investment grade, while S&P is one notch above sub-investment grade. Transnet's credit rating is depicted below:

Issuer rating	Moody's	Standard and Poor's
Foreign currency	Baa2/Negative outlook	BBB-/Negative outlook
Local currency	Baa2/Negative outlook	BBB+/Negative outlook
National rating	A1.za/A2.za	zaAAA+/zaA-1

POST-RETIREMENT BENEFIT OBLIGATIONS

Benefit funds

The Group provides various post-retirement benefits to its active and retired employees, including pension, post-retirement medical and other benefits. The two defined benefit funds, namely the Transnet sub-fund of the Transport Pension Fund (TTPF) and the Transnet Second Defined Benefit Fund (TSDBF) are fully funded with actuarial surpluses of R3,7 billion (2015: R3,1 billion) and R3,3 billion (2015: R3,5 billion) respectively. Transnet has not recognised any portion of the surplus on these funds, as the fund rules at present do not allow for the distribution of a surplus.

The Board of Trustees of the TTPF and TSDBF approved the payment of ad hoc bonuses to their beneficiaries, during the year, amounting to R20 million and R145 million respectively. In addition, further ad hoc bonus payments amounting to R24 million for TTPF beneficiaries, and R174 million for TSDBF beneficiaries, were approved in May 2016 and were paid in June 2016.

The total value of ad hoc bonuses paid by the TTPF (since December 2011) and TSDBF (since November 2007) to their beneficiaries amounts to R214 million and R2,7 billion respectively. These payments continue to supplement the current statutory increase of the beneficiaries of the TTPF and TSDBF to provide pensioners with increases above CPI.

Following the certification of the pensioners' class action proceedings on 11 June 2015, Transnet was served with a summons issued out of the Pretoria High Court. According to the summons, the pensioners seek an order directing Transnet and the funds to increase the pensions of all the members of the funds by an annual rate of not less than 70% of the rate of inflation with effect from 2002; as well as an order that Transnet pays to the funds a legacy debt of R17,5 billion, plus interest from 1 April 1990. Lastly, an order is also sought that Transnet pay a sum of R309,1 million to the TTPF as repayment of an amount allegedly donated by the TTPF to Transnet from a members' surplus in 2001.

Transnet and the Funds filed 'exceptions' to the summons (legal technical arguments demonstrating that the particulars of claim are defective and should be dismissed). The exceptions were heard in April 2016. On 18 May 2016, judgment on the exceptions was delivered, wherein the court upheld three of Transnet's exceptions and gave the plaintiffs 14 days within which to amend their Particulars of Claim, to enable Transnet and the two pension funds to file their respective pleas.

Transnet's senior counsel has advised that even if the exceptions were unsuccessful, the action against Transnet is likely to fail on the merits.

The post-retirement medical benefit obligation is approximately R800 million (2015: R1,0 billion).

South African Transport Services (SATS) pensioners' post-retirement medical benefit obligations

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

The post-retirement medical benefit obligation is approximately R800 million as at 31 March 2016 (2015: R1 billion).

PASSENGER RAIL AGENCY OF SOUTH AFRICA (PRASA)

Prasa owed Transnet R1,1 billion at 31 March 2015 and services provided during the year amounted to R968 million. The amount outstanding at 31 March 2016 was R768 million.

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

EVENTS SUBSEQUENT TO THE STATEMENT OF FINANCIAL POSITION DATE

No material events have occurred between the date of these financial statements and the date of approval, the knowledge of which would affect the ability of the users of the financial statements to make proper evaluations and decisions.

GOING CONCERN

The directors are confident that the going-concern assumption is appropriate in the preparation of the Group financial statements for the year ended 31 March 2016.

While difficult economic conditions persist, the directors and management continuously review the operational and financial risks of the Group and ensure that appropriate initiatives, strategies and controls are in place to mitigate the risks and their impact on business.

In order to meet long-term market demand in the tough economic environment, Transnet will continue to invest for long-term growth through short-term economic cycles. To this end, a funding strategy has been developed to ensure that the Group is able to successfully fund its capital investment plans without breaching the financial obligations. Transnet has adequate committed credit facilities from lenders to fund its operations and meet its financial obligations in the normal course of business for the foreseeable future.

Further, the directors do not expect the rating actions by both rating agencies against Transnet and the sovereign to negatively impact the ability of the Company to access the debt capital market, as both rating agencies have maintained the Company's standalone investment grade credit rating.

JUDICIAL PROCEEDINGS

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

Transnet Pensioners' class action

On 31 July 2014 Plaintiffs obtained an order from the Pretoria High Court certifying a class action against Transnet, the TTPF and the TSDBF. Plaintiffs are, respectively, members of the TTPF and the TSDBF, and they represent all members of their respective funds who have not opted out of the class action.

Plaintiffs seek the following relief:

- An annual increase of not less than 70% of the rate of inflation in the pensions of all members of the TTPF and TSDBF, with effect from 2002, plus interest;
- An order that Transnet pay to the TTPF and TSDBF the 'legacy debt' of R17,18 billion plus interest calculated from 1 April 1990; and
- An order that Transnet pay to the TTPF an amount of R309 million plus interest, allegedly 'donated' by the TTPF to Transnet from a members' surplus in 2001.



Report of the directors
for the year ended 31 March 2016

Summons was issued by the Registrar of the Pretoria High Court on 5 June 2015 and served on Transnet on 11 June 2015. Transnet and the funds have filed exceptions (legal technical arguments showing that the particulars of claim are defective and should be dismissed) to the summons. The exceptions were heard on 4 and 5 April 2016.

On 18 May 2016 judgment on the exceptions was delivered, wherein the court upheld three of Transnet’s exceptions and gave the plaintiffs 14 days within which to amend their particulars of claim, to enable Transnet and the two pension funds to file their respective pleas.

Transnet remains confident, based on legal advice, that it will be able to successfully defend the class action.

COMPLIANCE AND LEGISLATION

To the best knowledge and belief of the directors, the Company has, during the year, complied, in all material respects, with all legislation and regulations applicable to it, except as noted below.

PFMA compliance

Transnet has implemented and maintained sound governance structures and processes in compliance with the provisions of the PFMA. PFMA compliance is one of the key business issues that the Company manages and monitors. This monitoring function is achieved through the following:

- An approved PFMA policy and guideline;
- An automated reporting process on the Cura system;
- An accreditation process on the delegation of authority, procurement and PFMA policy and procedures;
- Intensified PFMA training and awareness programme;
- Data analytics to detect/prevent potential PFMA violations;
- Integrated systems and processes; and

- A materiality framework that has been established at Group-level with the support of the Shareholder Representative and cascaded throughout the Company.

Sections 51 and 55 of the PFMA impose certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; losses through criminal conduct and the collection of all revenue. To comply with the PFMA’s obligations, the Board has a materiality framework, which was approved by the Shareholder Representative, subject to certain conditions.

The Shareholder Representative has determined that the materiality limit for reporting in terms of sections 55(2)(b)(i), (ii) and (iii) of the PFMA is R25 million per transaction.

In terms of this materiality framework, the following two items, albeit still under investigation, are reported as irregular expenditure:

Irregular expenditure

Tax compliance certificates of foreign suppliers without tax clearance certificates.

The PPPFA regulations require that tenders may only be awarded to a person whose tax matters have been declared to be in order by the South African Revenue Services (SARS).

Two contracts amounting to R101,8 million and R76 million respectively have been awarded to foreign suppliers. All awards made are assessed at the time of conclusion of the contract, and where the facts endorse that the foreign supplier is not chargeable with any tax leviable under the Income Tax Act, it is accepted that no confirmation of the taxpayer’s tax compliance status can be provided by SARS. Clarity is being sought as SARS is not in a position to confirm the foreign suppliers tax compliance status.

PFMA reporting in 2016²

Category of reportable items	% ¹	R million	Number of reportable items	Number of finalised disciplinarys/ criminal cases
Fruitless and wasteful expenditure	0,01	3,9	26 ³	35/3
Losses through criminal conduct	0,13	60,3	43 ³	12/1029
Total irregular expenditure	0,05	25,1	14	10/0
Less: Irregular expenditure condoned	(0,01)	(4,5)	(1)	0/0
Remaining irregular expenditure	0,04	20,6	13 ³	10/0
Irregular expenditure under investigation ⁴	0,50	229,8	22 ³	0/0

¹ Reportable items expressed as a % of total expenditure of R46,1 billion, which is net operating expenditure less personnel costs plus capital expenditure.
² Refer to annexure E for further disclosure.
³ Represents cumulative reportable items of the same nature.
⁴ This relates to expenditure under investigation regarding the confirmation of the tax compliance status for foreign suppliers – the PPPFA regulations require that tenders may only be awarded to a person whose tax matters have been declared to be in order by the South African Revenue Service (SARS). SARS is only able to provide a taxpayer with confirmation of the taxpayer’s tax compliance status as compliant if the taxpayer is registered for tax in South Africa. 22 contracts awarded to foreign suppliers, amounting to R229,8 million, have been identified where SARS is not in a position to confirm the foreign supplier’s tax compliance status. Clarity is being sought on the reporting of these contracts.

The above table also reflects the number of finalised disciplinary cases instituted against employees for non-compliance with the PFMA. However, it must also be noted that there are numerous other cases that are still pending finalisation, and are tracked and will be reported in the annual financial statements for the year ending 31 March 2017.

Incidents with nil values are not included in the reportable numbers, however, the related South African Police Services cases and disciplinary actions are included.

Altogether 1 032 criminal cases have been lodged with South African Police Service and the bulk relates mainly to losses through criminal conduct.

PFMA reporting in 2015²

Category of reportable items	% ¹	R million	Number of reportable items	Number of finalised disciplinarys/ criminal cases
Fruitless and wasteful expenditure	0,04	23,0	27 ³	24/7
Losses through criminal conduct	1,02	519,3	26 ³	11/600
Total irregular expenditure	0,06	32,2	31	15/1

¹ Reportable items expressed as a % of total expenditure of R50,8 billion, which is net operating expenditure less personnel costs plus capital expenditure.
² Refer to annexure E for further disclosure.
³ Represents cumulative reportable items of the same nature.

608 criminal cases have been lodged with South African Police Services and the bulk relates mainly to losses through criminal conduct.



Report of the directors

for the year ended 31 March 2016

ECONOMIC REGULATION AND REGULATORY REFORM

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

With approximately 21,7% of Transnet's revenue and 37,8% of its EBITDA impacted by economic regulation, it is critical that relationships with regulators are managed proactively and strategically as their decisions could have a significant impact on our operating results, capital investment decisions and investor confidence.

Significant progress has been made between Transnet and the Ports Regulator following recent engagements on the regulatory framework. In the coming months emphasis will be placed on finalising the pricing strategy in accordance with the National Ports Act, No 12 of 2005 (Ports Act) and afford Transnet the ability to deliver on its strategy and maintain financial sustainability.

The potential for making decisions in determining and setting tariffs that may negatively impact on future sustainability of the Company remains a key risk for Transnet, given the capacity constraints faced by economic regulators, and limited recourse by the regulated entities in the absence of an appeal mechanism. Credible appeal mechanisms need to be put in place and attention needs to be paid to monitoring the performance and decisions of regulators in line with international best practice and benchmarks.

Pipelines

Petroleum levy and corporatisation of Transnet Pipelines

One of the conditions of the levy was that Transnet provide the Department of Energy (DoE) with explicit details on the progress in respect of the corporatisation of Pipelines in line with the directive of the Shareholder Representative. Transnet presented to the Department of Public Enterprises (DPE) a brief overview of the key issues that will arise with the corporatisation of Pipelines and highlighted areas for further investigation. On 5 February 2013, the former Chairperson of the Transnet Board wrote to the Shareholder Representative, requesting him to reconsider the corporatisation of Pipelines and rescind the previous decision as per the letter of 30 April 2010.

On 24 May 2013, the Shareholder Representative responded to Transnet stating that he had written to the Ministers of Finance and Energy recommending that the condition for Pipelines to be corporatised be waived at this

point in time. The Shareholder Representative, however, pointed out that there may be a government imperative which needs to be fulfilled and would necessitate the need for the corporatisation of Pipelines in the future. Should this be the case, it may be necessary to resuscitate the issue of corporatisation. Transnet awaits the response from the Ministers of Finance and Energy through the office of the Shareholder Representative.

The potential corporatisation of Pipelines poses significant risks to Transnet, as it could have a material adverse impact both financially and strategically, and could constitute an event of default under some of Transnet's funding agreements.

Tariffs

On 1 February 2016, Pipelines refiled its 2017 tariff application, with a request for an allowable revenue increase of 26%. On 29 March 2016, Nersa approved an 18,56% tariff increase which translates to an increase of 23,03% in allowable revenue for the 2017 financial year.

National Ports Authority

The potential corporatisation of National Ports Authority

The Ports Act provides for the corporatisation of the National Ports Authority. On 17 June 2008, the Government, through the President of the Republic of South Africa, informed Transnet in writing that it would not initiate the corporatisation process and that appropriate amendments to the Ports Act will be considered.

On 28 September 2012, at a National Ports Consultative Committee (NPCC) meeting held in Cape Town between port stakeholders and the National Ports Authority, the issue of the National Ports Authority corporatisation was tabled. The consensus of the NPCC members, representing the DPE, Department of Transport (DoT), Department of Trade and Industry (DTI), port users and the Ports Regulator, was that changes to section 3(2) of the Ports Act and other relevant sections of the Ports Act be effected.

On 10 January 2013 correspondence was sent to the Shareholder Representative as a recommendation to take the process of legislative review forward in the least cumbersome way possible. To this end, Transnet recommended a one worded amendment to the Ports Act which would have the effect of giving the Shareholder Representative the discretion to corporatise instead of the current obligatory provision in section 3(2) which mandates the Shareholder Representative to corporatise without any discretion in this regard. This can be done by substituting the word 'must' with the word 'may' in section 3(2) of the Ports Act.

Transnet awaits the finalisation of this amendment. Transnet is currently conducting a comprehensive review of all aspects of the Ports Act, to be presented to the DPE for discussions with the DoT. The engagements between Transnet and the DPE are aimed at ensuring that the appropriate amendments to the Ports Act are effected.

The potential corporatisation of the National Ports Authority poses significant risks to Transnet, as it could have a material adverse impact, both financially and strategically, and could constitute an event of default under some of Transnet's funding agreements.

Tariffs

On 31 July 2015, the National Ports Authority submitted its 2017 tariff application to the Ports Regulator, requesting an average tariff adjustment of 5,90% for 2017, and indicative tariff adjustments of 12,74% for 2018 and 7,63% for 2019. The average tariff adjustment over the three-year period is approximately 8,76%, which is in line with that communicated to stakeholders at the launch of the MDS that tariff adjustments would be within the CPI+3% range.

On 29 February 2016, the Ports Regulator declined National Ports Authority's proposed average 5,9% tariff increase, and awarded an average tariff increase of 0%, for the 2017 tariff year. In its Record of Decision, the Ports Regulator states:

- All cargo dues shall remain at 2016 levels;
- Full container export tariffs will decrease by 10%;
- Automotive volume discounts on cargo dues will be equalised for all users at 60% irrespective of volumes;
- Maize will receive a 50% discount on cargo dues; capped at 5 million tons for the 2017 tariff year; and
- Marine services and related tariffs are to increase by 3,0%.

This determination results in a 0,4% decrease in allowed revenue in 2017.

The National Environmental Management: Integrated Coastal Management (ICM) Act No 24 of 2008, Amendment Bill

The ICM Act contains a number of sections detrimental to Transnet, the most important of which were withheld from coming into effect in order to prevent Transnet losing ownership of port assets. The amendment Bill issued by the Department of Environment Affairs (DEA) in December 2011 for comment failed to address these concerns and Transnet continued its engagement with the DPE throughout 2012, attempting to find a solution.

On 7 November 2012, Cabinet approved another version of the Bill (the Bill 2013) for submission to Parliament in 2013. On 21 December 2012, DEA published an explanation summary of the bill 2013 in which it claimed to have addressed Transnet's concerns. Transnet was advised by senior counsel that the current version of the bill may still result in Transnet losing ownership of its assets in the sea, seashore and seabed within ports. Further, the loss of ownership of those assets could trigger a default event or be considered to be a material adverse event in respect of Transnet's existing loan covenants.

The Shareholder Representative was informed of Transnet's revised submissions to the Portfolio Committee on Environmental Affairs and the Company made a request for the DPE's support in Transnet's Parliamentary engagements on this issue.

The current wording of section 6(4) only protects Transnet's ownership of port infrastructure constructed prior to the Act coming into effect and does not protect Transnet's ownership of new infrastructure. On 13 March 2014, the Group Chief Executive wrote to the DEA expressing Transnet's concern with the present wording of section 6(4) and suggesting that it be amended to expressly preserve Transnet's ownership of channels and basins, as well as port infrastructure and installations to be constructed in the future. The letter also requested the Minister of Environmental Affairs to furnish Transnet with a written exemption which states that Transnet is, from the date of coming into operation of section 11, exempt from the provisions of section 11 in relation to its ownership of installations and infrastructure within ports, including channels and basins, whether constructed before or after section 11 comes into operation. Section 11 stipulates that "ownership of coastal public property vests in the citizens of the Republic and coastal public property must be held in trust by the State on behalf of the citizens of the Republic".

On 8 May 2015 the Minister of Environmental Affairs exempted Transnet from the application of section 11, read with section 6(4), of the ICM Act to the extent that it applies to port infrastructure. The exemption is subject to certain specified conditions and is valid from the date of commencement of section 11 of the ICM Act.

Port of Ngqura Container Licence

On 9 November 2011, the Cabinet directed the National Ports Authority to licence Transnet Port Terminals (Port Terminals) to operate the Port of Ngqura for a limited period of three years. This is subject to the National Ports Authority beginning a competitive process for the licensing of the Port of Ngqura in accordance with



Report of the directors
for the year ended 31 March 2016

section 56 of the Ports Act. The three-year period commenced upon the receipt of the instruction from the Minister of Transport to National Ports Authority dated 27 January 2012.

On 12 September 2012, Port Terminals presented its proposal to the Policy and Regulation Committee and was requested to further evaluate the risks and strengthen their proposal prior for submission to the Transnet Exco for approval. On 3 October 2012, the Minister of Transport informed the Shareholder Representative of the amendment to the directive dated 27 January 2012 to permit the National Ports Authority to issue four (berths) licences instead of the two (berths) as was directed in the previous directive.

This directive in terms of section 79 of the Ports Act allowed the National Ports Authority to issue a licence to Port Terminals to operate the four berths at the container terminal at the Port of Ngqura for a period of three years, which the National Ports Authority did. The National Ports Authority then embarked on a section 56 process as per the directive from the Minister of Transport.

A subsequent directive was received from the Minister of Transport to suspend the section 56 process for Ngqura Container Terminal, and the National Ports Authority complied immediately. A letter was sent to the Minister of Transport requesting clarity on the way forward. The Minister of Transport responded requesting copies of all relevant documentation, which were provided by the National Ports Authority. On 26 June 2015, the DoT addressed a letter to the National Ports Authority requesting the National Ports Authority's opinion on the matter and also any conditions that should be attached on the application, such as terminal performance indicators and targets. The National Ports Authority responded to the letter by supporting the granting of the section 79 license to Port Terminals by the Minister of Transport for Port Terminals to continue to operate the Ngqura Container Terminal.

The Minister of Transport subsequently issued the section 79 directive in favour of Port Terminals to continue operating the Ngqura Container Terminal permanently per letter dated 17 September 2015.

The Terminal Operator Agreement for the Container Terminal at the Port of Ngqura, which will govern the relationship between the National Ports Authority and Port Terminals has been finalised and signed. The National Ports Authority has also issued the necessary authorisations to Port Terminals pursuant to and in terms of the section 79 Ministerial Directive, in order for Port Terminals to continue to operate the Container Terminal.

Freight Rail

The Department of Transport (DoT) Draft Green Paper on Rail Reform was issued to various stakeholders for comment in April 2012. Transnet, supported by the DPE, presented its position to the DoT and engagements are ongoing to ensure alignment before the Draft Green Paper is submitted to Cabinet.

The DPE hosted numerous workshops with the DoT and Transnet Freight Rail (Freight Rail) for information sharing and alignment. During these meetings, the DoT acknowledged the value of the MDS and that the proposed rail policy should not undermine the MDS's objectives, rather, that it should support or enhance the MDS, and the rail policy needs to be explicit about short, medium and long-term interventions over a period of 30 to 40 years. The DoT also acknowledged that the policy does not provide sufficient details, and is not explicit in other areas and that more analysis needs to be done in consultation with the DPE, Freight Rail and National Treasury.

On 12 August 2015, Cabinet approved the release of the National Rail Policy Green Paper (Green Paper) for public comment. The Minister of Transport launched the Green Paper for public comment on 22 September 2015. On 20 November 2015, Transnet provided comments on the Green Paper.

A follow up engagement session between the DoT, DPE and Transnet took place on 29 February 2016, to discuss Transnet's formal response to the Green Paper. The session was useful in that it was able to highlight key areas which require further refinement with a view to achieve concrete alignment among others, standard gauge prior to White Paper policy process stage.

SHAREHOLDER'S COMPACT - PERFORMANCE CRITERIA

The Shareholder's Compact key performance indicators (KPI's) that the Board and the Shareholder Representative revise annually, serve as the performance monitoring framework for the Company. Performance against the Shareholder's Compact 2016 targets is outlined below as required by section 55(2) (a) of the PFMA. The performance information has been subjected to audit review and the Company's auditors have reported their findings in their audit report.

Despite the steep fall in commodity prices, stagnant global and domestic economic growth and a significant decline in customer demand, the Company achieved strong aggregate volume performance of 90,3%, albeit lower than the prior year's 98,4%. Key commodity

performance reflects as follows compared to prior year: general freight business 84,0mt (-7%), export coal 72,1mt (-6%), export iron ore 58,0mt (-3%) and port containers 4,4 million TEUs (-4%). Pipeline petroleum products and port vehicles partially offset the volume shortfalls, achieving 1% and 5% above prior year levels. The revenue impact of relatively lower volume performance was compounded by the lower than expected rand per ton price realisation. The Company maintained its focus on integrated operational efficiency management to ensure optimal response to available customer demand, realising a 15,9% year-on-year efficiency improvement.

Altogether 58% of all Shareholder's Compact targets (i.e. Annexures A-E) were fully met. The performance gap is mainly attributed to the following KPI categories not meeting target:

- 11 of 14 freight commodities missed volume targets;
- 9 of 20 capital projects did not achieve planned completion rates; and
- 4 of 7 financial ratios were negatively impacted by non-achievement of the former KPI categories.

KPI by KPI analysis, resulting in the 58% achievement, is used to identify and mitigate against internal and external constraints affecting each KPI. However, it is also important to complement this with impact assessment on strategic objectives. In the case of volumes, aggregate volume performance at 90,3% is much higher than the assessment based on a simple count of individual KPIs meeting target. Deferment of capital project financial resources due to

reduced earnings and consequent affordability imperatives contributed substantially to low achievement on completion of capital projects in the short-term. The short-term outlook for commodity prices and resultant improvement in affordability continues to be uncertain. Deferred projects will be considered for future implementation, subject to improved economic conditions and in pursuit of the MDS capacity creation objective within the current Medium-Term Strategic Framework (MTSF) period.

A total of 75% of the performance indicators in Annexure B were not well defined, 50% of which were not specific and 50% of which were not measurable. All three KPIs in Annexure E were not well defined, while 33% were not specific and 33% were not measurable. In addition, 33% of the reported targets were not consistent with those in the approved Shareholder's Compact. This was mainly because proper indicator definitions were not used to predetermine the evidence and method of calculation for actual achievements.

To improve on the quality of performance indicators and targets in line with the requirements of the National Treasury Framework on management of programme information, Transnet carried out an analysis of 2016 financial year KPIs and consulted with the Shareholder Representative, the DPE, to ensure that these requirements are embedded into joint formulation of future KPIs and provided a KPI dictionary to complement the interpretation and assessment of the 2016 Shareholder's Compact KPIs.

Annexure A: Financial sustainability

Key performance area	Key performance indicator	Unit of measure	2016 Compact target	2016 actual
Financial sustainability	EBITDA (excluding clawback)	R billion	≥ 29,7	26,3
	Cash interest cover (CIC)	times	≥ 3,0	3,1
	Gearing	%	≤ 50,0	43,1
	Revenue per employee (excluding clawback)	R million	≥ 1,15	1,1
	Return on average total assets (ROTA) rail (Freight Rail and Engineering aggregate)	%	≥ 9,8	3,0
	ROTA port operations (Port Terminals)	%	≥ 9,6	7,7
	Average tariff increase (Port Terminals containers)	%	≤ 9,0	8,9



Report of the directors

for the year ended 31 March 2016

Annexure B: Capacity creation

Project	Date of completion (financial year)	Estimated total % completion 2016 Compact target	2016 Actual
1. New Multi-Product Pipeline Phase 1	2017	94%	96%
2. Acquisition of wagons for MDS	Annual	100%	100%
3. Manganese expansion to 16mt (excluding rolling stock)	2021	11%	13%
4. Coal line expansion to 81mt	2019	53%	79%
5. 359 class 22E locomotives	2018	25% - 88 locomotives accepted.	15% - 0 locomotives accepted.
6. 240 class 23E locomotives	2018	3% - 6 locomotives accepted.	0% - 0 locomotives accepted.
7. 232 class 45 diesel locomotives	2019	9% - 20 locomotives accepted.	0% - 0 locomotives accepted.
8. 233 class 44 diesel locomotives	2018	15% - 34 locomotives accepted.	6% - 14 locomotives accepted.
9. 100 class 19E coal locomotives	2016	100% - 100 locomotives accepted.	100%
10. Waterberg expansion to 27mt - stage 2-5	2017	20%	FEL 4 @ 0%.
11. Expansion of the ore line (expansion only)	2022	FEL 3 @ 80%.	FEL 2.
12. Coal export line expansion to 97mtpa	Beyond 2022	FEL 2 @ 100%.	FEL 1.
13. Swaziland rail link	2019	FEL 4 @ 10%.	FEL 3 @ 100%.
14. Deepening of Durban Container Terminal (DCT) berths	2021	FEL 4 @ 1%.	FEL 4 @ 0%.
15. Ship repair interventions across all ports (26 projects at Durban, East London, Port Elizabeth, MSB, Cape Town and Saldanha) ¹	2022	R326 million	R272 million
16. Export iron ore line capitalisation of infrastructure and rolling stock maintenance	2016	100%	100%
17. Export coal line capitalisation of infrastructure and rolling stock maintenance	2016	100%	100%
18. General freight business capitalisation of infrastructure and rolling stock maintenance	2016	100%	100%
19. General freight business wagon upgrade	2016	100%	100%
20. Reconstruction of sheet pile quay walls at Maydon Wharf	2017	87%	58 %

¹ Subject to additional funding being secured from the relevant agencies (funding to be sourced in collaboration with the DPE).

Annexure C: Operational excellence

Key performance area	Key performance indicator		Unit of measure	2016 Compact target	2016 actual
Volume growth	Transnet Freight Rail total volumes		mt	≥ 242,38	214,21
	Bulk	Export coal	mt	≥ 77	72,09
		Export iron ore	mt	≥ 62	58,04
		Eskom coal	mt	≥ 12,50	14,59
		Export manganese (DBN)	mt	≥ 1,23	0,61
		Export manganese (PE)	mt	≥ 5,7	5,73
		Domestic coal	mt	≥ 9,06	6,45
	Intermediate manufacturing	Agriculture	mt	≥ 3,35	2,58
		Iron and steel	mt	≥ 0,78	0,38
		Cement	mt	≥ 7,76	6,97
		Bulk liquids	mt	≥ 1,96	1,41
		Automotive	units	≥ 256 449	238 439
	Transnet Port Terminals volumes (containers)		TEU's ('000)	≥ 4 801	4 366
	Transnet Pipelines volumes		billion litres	≥ 17,13	17,43
	Customer satisfaction survey		%	≥ 25	26
Methodology for the port's cost of logistics		Finalised and formally submitted to DPE	September 2015	The methodology has been developed and submitted to DPE on 30 September 2015.	



Report of the directors
for the year ended 31 March 2016

Annexure C: Operational excellence continued

Key performance area	Key performance indicator		Unit of measure	2016 Compact target	2016 actual
Operational efficiency and productivity	Density	Natalcor	Tonkm/ Routekm	≥ 8,7	6,1
		Sentracor		≥ 6,3	5,0
		Capecor		≥ 4,6	3,5
		Southcor		≥ 2,9	3,3
	Average anchorage waiting time (containers)	Durban	Hours	≤ 40	33
		Cape Town		≤ 34	23
		Port Elizabeth		≤ 33	16
		Ngqura		≤ 45	20
		Richards Bay		≤ 60	42
	Average ship turnaround time (containers)	Durban	Hours	≤ 55	46
		Cape Town		≤ 29	24
		Port Elizabeth		≤ 28	17
		Port of East London		≥ 55	74
		Richards Bay		≤ 90	67
		Ngqura		≥ 43	23
	Average ship turnaround time (dry bulk)	Coal (RBCT)	Hours	≤ 46	41
Iron ore (Saldanha)		≤ 50		47	
Manganese (PE)		≤ 78		69	
Container moves per ship working hour	DCT – Pier 1	Moves	≥ 46	53	
	DCT – Pier 2 (prime berths 108, 203 and 204)		≥ 64	63	
	CTCT		≥ 55	53	
	Ngqura		≥ 56	66	
Lean six sigma impact on business efficiency		Value add per employee (R'000)	≥ 490	426	
NMPP and DJP actual usage: capacity at the time (M€/week)		Ratio	≥ 115:152	110:152	

Annexure C: Operational excellence continued

Key performance area	Key performance indicator		Unit of measure	2016 Compact target	2016 actual
Service reliability	On-time departure (GFB)		Average deviation from scheduled times (minutes)	≤ 202	(38,06)
	On-time arrival (GFB)		Average deviation from scheduled times (minutes)	≤ 241	86,90
	Train turnaround time	DCT – Pier 1	Hours	≤ 4	2,9
		DCT – Pier 2		≤ 4	2,6
		CTCT		≤ 4	1,1
		Saldanha		≤ 109	108,0
		Richards Bay		≤ 11	8,3
		Port Elizabeth		≤ 12	9,3
	Truck turnaround time (in terminal)	DCT – Pier 1	Minutes	≤ 35	37
		DCT – Pier 2		≤ 35	40
		CTCT		≤ 35	18
		Ngqura		≤ 35	32
		Richards Bay		≤ 35	23
	Train cancellations due to traction	GFB	%	≤ 6	1,7
		Export coal		≤ 6	2,8
		Export iron ore		≤ 6	0,3



Report of the directors

for the year ended 31 March 2016

Annexure D: Sustainable development outcomes

Key performance area	Key performance indicator	Unit of measure	2016 Compact target	2016 actual
Skills development	Skills development	% of contract value subject to SD	≥ 3	7
	Artisan trainees	number of trainees	≥ 665	102
	Engineering trainees		≥ 155	155
	Technician trainees		≥ 200	232
	Sector specific		≥ 2 000	1 830
	Training spend	% of personnel cost	≥ 3,4	3,6
Health and safety	DIFR (all Operating Divisions)	total ratio	≥ 0,75	0,69
Industrial capability building	Research and development spend (Transnet Engineering)	R million	≥ 150	207
	Local content	% of total spend	≥ 75	78
	SD value	% of contract value subject to SD	≥ 37	47
	Technology transfer/IP	% of SD value	≥ 1	6
	Investment in plant	% of SD value	≥ 5	13
Investment leveraged	PSP framework for ports and rail developed within the context of the 2014 – 2019 MTSF	PSP framework finalised and formally submitted to DPE.	March 2016	Not completed.
	Model on the concession of branch lines <ul style="list-style-type: none"> To test the market response to the proposed Transnet Concession model by seeking to appoint a Concessionaire; and In response to the market reaction, afford the market an opportunity to propose an alternate Concession Model. 	Report on the outcome of the market testing exercise.	March 2016	Not completed.
	Transnet to deliver a comprehensive plan on operation Phakisa initiatives 2, 7 and 8.	Plan finalised and executed according to milestones.	March 2016	Not completed.
Regional integration	Total cross-border rail volumes	mt	≥ 12,31	6,43
	Africa sales revenue	R million	≥ 1 540	302,7

Annexure D: Sustainable development outcomes continued

Key performance area	Key performance indicator	Unit of measure	2016 Compact target	2016 actual
Transformation	Black women owned	% of TMPS	≥ 3	9,8
	Black owned	% of TMPS	≥ 12	30,1
	Black youth owned	% of TMPS	≥ 0,5	1,7
	QSE	% of TMPS	≥ 12	7,0
	EME	% of TMPS	≥ 12	5,4
	People living with disability	% of TMPS	≥ 0,125	0,11
	B-BBEE	% of TMPS	≥ 65	100,6
Community development	Total corporate social investment (CSI) spend	R million	≥ 313	248,4
Environmental stewardship	Group weighted energy efficiency (electricity and fuel) year-on-year improvement	%	≥ 1,09	1,09
	Carbon emission intensity (kgCO ₂ /ton) reduction year-on-year improvement	%	≥ 1,1	5,61

SD Supplier development.
QSE Qualifying small enterprise (annual turnover R5 million – R35 million).
EME Exempted micro enterprise (annual turnover of <R5 million).
TMPS Total measurable procurement spend.

Annexure E: Market segment competitiveness

Key performance area	Key performance indicator	Unit of measure	2016 Compact target	2016 actual
Market segment competitiveness	Appropriate KPIs developed for container, coal and automotive segments ^(a)	To be determined.	KPIs developed.	December 2015
	Domestic Intermodal Strategy ^(b)	Strategy finalised and formally submitted to DPE.	June 2015	June 2015
	Pipeline Strategy	Strategy finalised and formally submitted to DPE.	Sept 2015	Sept 2015

Notes:
(a) The methodology for developing KPIs for container, coal, automotive segments was accepted by the DPE at the meeting held on 13 October 2015. The DPE agreed that Transnet only needed to develop KPIs for the container and automotive segments. A follow up session on market segment competitiveness KPIs was held on 2 November 2015. It was agreed in principle that the % increase in Freight Rail volumes relative to RAMS could be used as measures for both containers and automotive segments. In addition, a maritime connectivity index was also proposed for the container segment. Transnet proposed initial targets for both these segments which will be tabled as indicators for the 2017 Shareholder's Compact.
(b) A strategic approach to domestic intermodal and a framework for discussion was developed and formally submitted to the DPE by 30 June 2015; and was discussed at a meeting held on 2 November 2015. The approaches were accepted by the DPE with minor refinements.



Report of the directors

for the year ended 31 March 2016

REMUNERATION

The remuneration report provides an overview of the Transnet remuneration and also provides detail of specific reward interventions regarding philosophy and strategic intent applied during the 2016 reporting period.

Terminology

For the purposes of this report:

- The term ‘executives’ refers to members of the Transnet Group Executive Committee and the Operating Divisional Executive Committees (grade levels A and B);
- ‘Management’ refers to the balance of the management employees (grade levels C to F);
- ‘Bargaining unit employees’ refers to all employees whose conditions of employment are negotiated. This term includes first-line managers, specialists and technicians (grade level G refers to first-line managers, specialists and technicians and grade levels H to L to the rest of the bargaining unit employees); and
- ‘Junior employees’ refer to bargaining unit employees on the grade levels below the first-line managers, specialists and technicians.

Remuneration, Social and Ethics Committee of the Transnet Board

Consistent with the King III report and general corporate governance best practice, the Board established the Remuneration, Social and Ethics Committee to assist in discharging its responsibilities. The Committee has an independent role, operating as an overseer and a maker of recommendations to the Board for its consideration and final approval. The Committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

Remuneration philosophy and strategy

Transnet is poised to become one of the world’s largest freight logistics groups, and currently forms the largest and most crucial part of the freight logistics chain, delivering goods to all South Africans. Transnet’s vision and mission is to be a focused freight transport company, delivering integrated, efficient, safe, reliable and cost-effective services to promote economic growth in South Africa. Transnet aims to achieve this goal through the MDS by increasing market share, improving productivity and profitability; and by providing appropriate capacity to customers ahead of demand.

The human resources strategy, inclusive of the reward strategy, is designed to facilitate the achievement of the strategic objectives of the MDS. The Transnet remuneration philosophy and framework form an integrated part of the key deliverables of the human resources strategy and, therefore, the reward strategies remain focused on entrenching a performance-driven culture.

The objective of the reward philosophy is to provide a framework for a fair and transparent reward dispensation that:

- Supports the objectives of the business strategy;
- Ensures the long-term sustainability of the business;
- Ensures that all employees are paid a fair and competitive salary;
- Aims to attract and retain valued employees; and
- Ensures that employees are rewarded and recognised for high performance.

The remuneration philosophy takes into account the different hierarchical levels informed by complexity, decision-making and judgement. Transnet has clustered these hierarchical levels into three respective categories of employees, summarised as follows:

- Executive and management levels;
- First-line managers, specialists and technicians (grade level G) form part of the bargaining unit; and
- Junior employees (grade levels H to L) form part of the bargaining unit.

The objective of the Transnet remuneration strategy is to:

- Provide an integrated approach for remuneration management across Transnet that effectively attracts, motivates, engages and retains the talent required to achieve Transnet’s business objectives;
- Align remuneration practices with Transnet’s business strategy, thereby ensuring that the remuneration practices support the business objectives; and
- Inform remuneration decisions that will be made across Transnet to ensure:
 - Remuneration-related cost is contained;
 - Performance is recognised and rewarded;
 - Performance improvement is incentivised;
 - Changing business requirements can be accommodated;
 - Optimal return on expenditure is achieved;
 - Legal, ethical and best practice standards are adhered to;
 - The business remains sustainable over the long-term;
 - The business complies with corporate governance and citizenship; and
 - The business complies with employment and taxation legislation.

The different reward elements are discussed in detail in the paragraphs below.

Guaranteed pay

Transnet remains committed to fair remuneration practices that support the business objectives and create a culture and environment for superior performance while facilitating employee development, and the retention of critical and

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

Annual salary increases are informed by an approved mandate obtained from the Remuneration, Social and Ethics Committee. Annual increases for management levels are informed by individual performance ratings. Increases occur once annually, or in the event of a promotion. Transnet does not support interim/adhoc salary increases.

Transnet concluded a historical three-year wage agreement with the recognised labour unions during the 2016 financial year. The three-year wage agreement will provide labour stability for the duration of the agreement and allow Transnet to focus on achieving its strategic objectives.

It is compulsory for all permanent employees to join the Transnet Retirement Fund, which provides for retirement funding, risk cover and a death benefit. Bargaining unit employees, who opt to become principal members of one of the Transnet recognised medical schemes, are eligible to receive a medical subsidy

Variable pay

Transnet has implemented a short- and a long-term incentive scheme. The short-term incentive scheme is applicable to all employees and is governed by detailed ground rules, improved annually by the Remuneration, Social and Ethics Committee. The long-term incentive scheme is applicable to executive and selected senior managers. The objective of the incentive schemes is to encourage stretch performance and rewards performance above target. Individual strategic objectives of management employees are derived from – and aligned with – key performance indicators as stated in the Shareholder’s Compact.

The short-term and long-term incentive schemes are described in more detail below:

Short-term incentive (STI) scheme

The design of the STI scheme aims to drive the achievement of stretch business targets and to reward employees for this effort.

The bonus pool, funding the payment of the annual STI, is generated by the achievement of the Transnet’s EBITDA target. The pool is modified by a productivity measure relating to the key performance indicators as per the Shareholder’s Compact, as well as the achievement of safety targets. The non-achievement of productivity and safety targets can reduce the bonus pool by up to 50%.

Employees on management levels qualify for an annual short-term incentive payment, provided that the business objectives are achieved. Eligibility percentages are differentiated based on the grade level of the manager. Management has a higher component of at-risk pay (variable pay), which is dependent on the achievement of set business objectives. Individual bonus percentages are further modified with individual performance assessment ratings.

In addition to the annual component of the STI scheme, a gain share incentive scheme was implemented for bargaining unit employees. The objective of the gain share is to enhance line-of-sight between targets and actual performance, as well as to ensure internal parity. This provided that the majority of bargaining unit employees could potentially earn:

- An annual on-target bonus component, aimed at achieving performance targets with an on-target eligibility of 10% for junior employees, and 12% for first-line managers, specialists and technicians; plus
- A quarterly gain-share bonus component, which becomes accessible by exceeding the quarterly EBITDA and relevant secondary measure targets. Employees have the opportunity to gain up to a maximum of 16% per annum when super stretch business targets are exceeded (120% of EBITDA).

The combined annual and gain share components of the STI scheme allows bargaining unit employees to earn up to a maximum of 26% of annual pensionable salary for junior employees and 28% of annual cost-to-company package for first-line managers, specialists and technicians.

Long-term incentive (LTI) scheme

Transnet has implemented a LTI scheme, which aims to sustain the achievement of the Transnet strategy and to retain key talent to ensure the success of the growth strategy.

The LTI is designed on a three-year rolling basis to ensure sustained business performance and retention over the three-year banking period. Participation in the scheme is informed by level of seniority in the organisation, as well as individual performance and results from the talent management framework. Following the completion of the three-year banking period, the vesting payment is also subject to individual performance and talent rating criteria.

The LTI scheme has specific clauses dealing with Company performance over the banking period, and to this effect, a Group modifier - i.e. the return on total average assets (ROTA) is applied.



Report of the directors
for the year ended 31 March 2016

Individual performance management

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

The annual Company objectives as per the Shareholder's Compact are translated into a corporate scorecard and then cascaded to all managers across Transnet. Performance in terms of the corporate, as well as individual scorecards, forms the basis for the determination of short-term incentive payments and annual increases. Individual performance management is in the process of being rolled out to employees in the bargaining unit.

Remuneration for Group Executive Committee members

The guaranteed remuneration of the members of the Transnet Group Executive Committee was adjusted with an average of 5%, allocated based on individual performance rating and market comparison, effective 1 April 2015.

In addition to the annual increases for the Group Executive members, a remuneration adjustment was effected for specific Group Executive members whose remuneration was substantially below the comparable market.

Executive remuneration – variable

The members of the Group Executive Committee qualify for an annual STI, provided that the strategic objectives, as agreed with the Shareholder Representative, have been achieved.

Individual bonus percentages are further modified with individual performance assessment ratings. The eligibility percentages linked to specific business performance achievement is indicated in the table below:

Employment category	Grade level	Qualifying percentage		
		Threshold	On-target	Maximum
Group Executive Committee	A	25%	50%	100%
Extended Executive Committee	B	20%	40%	80%

The table below depicts the guaranteed pay of the Transnet Group Executive for the 2016 financial year.

Guaranteed pay of Group Executive Committee members

Executive Committee member	Salary R'000	Post-retirement benefit fund contributions R'000	Other payments R'000	Total 2016 R'000	Total 2015 R'000
Mr B Molefe ¹	347	18	1 096	1 461	6 678
Mr SI Gama ²	6 900	347	2	7 249	5 059
Mr M Gregg-Macdonald	3 083	304	2	3 389	3 172
Mr CA Möller ³	-	-	-	-	1 764
Mr T Morwe ⁴	297	21	2 486	2 804	3 996
Mr KC Phihlela	3 488	233	2	3 723	3 635
Mr A Singh ⁵	1 399	136	719	2 254	4 396
Mr KXT Socikwa	3 896	355	2	4 253	4 235
Mr R Vallihu	4 012	316	2	4 330	4 114
Ms DC Moephuli ⁶	2 890	301	2	3 193	3 005
Ms S Chetty	2 443	217	2	2 662	2 370
Ms NJ Mabandla ³	-	-	-	-	1 383
Ms R Lepule	3 047	304	2	3 353	3 094
Ms EAN Sishi	3 009	297	2	3 308	3 225
Ms MA Sukati	2 873	245	2	3 120	2 915
Ms MA Matooane ⁷	1 444	154	299	1 897	2 644
Mr ZE Lebelo	2 517	201	2	2 720	1 658
Mr LMH Msagala	2 631	256	2	2 889	1 809
Mr N Silinga	2 612	232	2	2 846	1 619
Mr GJ Pita ⁸	2 880	190	-	3 070	-
Mr T Jiyane	3 408	373	2	3 783	-
Mr R Nair ⁹	3 779	171	-	3 950	-
Total	56 955	4 671	4 628	66 254	60 771

¹ Group Executive who was a member of the Board of Directors. Seconded as Chief Executive Officer of Eskom SOC Ltd with effect from 20 April 2015, resigned from the Company with effect from 30 September 2015.

² Group Executive and member of the Board of Directors. Appointed as Acting Group Chief Executive of the Company effective from 20 April 2015, and permanently with effect from 13 April 2016. Salary includes an acting allowance.

³ Resigned from the Company in the prior year.

⁴ Resigned during the year.

⁵ Group Executive who was a member of the Board of Directors. Seconded as Financial Director of Eskom SOC Ltd with effect from 1 August 2015, resigned from the Company with effect from 30 September 2015.

⁶ Appointed as Acting Group Executive: Enterprise Information Management Services with effect from 1 November 2015. Salary includes an acting allowance.

⁷ Resigned from the Company with effect from 30 September 2015.

⁸ Group Executive and member of the Board of Directors. Appointed as Acting Group Chief Financial Officer of the Company effective from 1 August 2015, and permanently with effect from 1 February 2016. Salary includes an acting allowance.

⁹ Appointed as Acting Chief Executive: Transnet Freight Rail with effect from 20 April 2015.

Short-Term and Long-Term Incentive payments

The STI payment for the 2016 financial year was based on the achievement of the annual EBITDA target, as well as the productivity and safety modifiers at Group and Operating Division levels.

The 2013 conditional award in respect of the LTI Scheme vested at the end of the 2016 financial year. The value of the LTI payment is impacted by the level of achievement

of specific Company and individual performance objectives.

The members of the Group Executive Committee were eligible for payment in respect of the LTI scheme based on the ground rules of the scheme. The payment of these vested amounts took place at the end of April 2016.



Report of the directors

for the year ended 31 March 2016

	LTI 2016 R'000	LTI 2015 R'000	STI 2016 R'000	STI 2015 R'000
Executive Committee member				
Mr B Molefe ¹	6 285	6 835	-	1 551
Mr SI Gama ²	884	5 194	402	1 153
Mr M Gregg-Macdonald	577	3 103	261	745
Mr CA Möller ³	-	2 953	-	309
Mr T Morwe ⁴	-	3 769	-	901
Mr KC Phihlela	650	3 410	283	835
Mr A Singh ⁵	4 235	4 505	-	1 021
Mr KXT Socikwa	704	4 158	312	976
Mr R Vallihu	684	4 040	329	874
Ms DC Moephuli ⁶	431	2 141	230	636
Ms S Chetty	355	1 567	205	735
Ms NJ Mabandla ³	-	-	-	-
Ms R Lepule	309	-	246	710
Ms EAN Sishi	540	-	246	702
Ms MA Sukati	-	-	251	708
Ms MA Matooane ⁷	-	-	-	572
Mr ZE Lebelo	128	-	210	567
Mr LMH Msagala	312	1 709	212	644
Mr N Silinga	285	636	227	581
Mr GJ Pita ⁸	369	-	221	-
Mr T Jiyane	273	-	298	-
Mr R Nair ⁹	-	-	147	-
Total	17 021	44 020	4 080	14 220

¹ Group Executive who was a member of the Board of Directors. Seconded as Chief Executive Officer of Eskom SOC Ltd with effect from 20 April 2015, resigned from the Company with effect from 30 September 2015.

² Group Executive and member of the Board of Directors. Appointed as Acting Group Chief Executive of the Company effective from 20 April 2015, and permanently with effect from 13 April 2016. Salary includes an acting allowance.

³ Resigned from the Company in the prior year.

⁴ Resigned during the year (LTI amount for 2016 includes prorated payment of conditional awards as per the Ground Rules of the LTI scheme).

⁵ Group Executive who was a member of the Board of Directors. Seconded as Financial Director of Eskom SOC Ltd with effect from 1 August 2015, resigned from the Company with effect from 30 September 2015.

⁶ Appointed as Acting Group Executive: Enterprise Information Management Services with effect from 1 November 2015. Salary includes an acting allowance.

⁷ Resigned from the Company with effect from 30 September 2015.

⁸ Group Executive and member of the Board of Directors. Appointed as Acting Group Chief Financial Officer of the Company effective from 1 August 2015, and permanently with effect from 01 February 2016. Salary includes an acting allowance.

⁹ Appointed as Acting Chief Executive: Transnet Freight Rail with effect from 20 April 2015.

Remuneration structure for independent non-executive directors

Independent non-executive directors are appointed by the Shareholder Representative for a three-year term, renewable annually at the AGM. The independent non-executive directors are submitted for re-election for each of the three years at the Company's AGM. Among the issues considered by the Shareholder Representative prior to re-election is the individual independent non-executive director's performance.

The Shareholder Representative approves, in advance, the fees payable to independent non-executive directors. The independent non-executive directors are paid an annual retainer as well as an additional retainer fee for committee membership.

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

The table below depicts the actual remuneration for the Transnet independent non-executive directors for the financial year.

	Board fees R 000	Other payments R 000	Total 2016 R 000	Total 2015 R 000
Independent non-executive directors				
LC Mabaso (Chairperson)	1 101	2	1 103	338
ME Mkwana ¹ (Chairperson)	-	-	-	761
NR Njeke ²	-	-	-	274
Y Forbes [*]	496	-	496	691
MA Fanucchi ²	-	-	-	370
HD Gazendam ²	-	-	-	702
IB Skosana ² *	-	-	-	432
N Moola ³	207	-	207	493
IB Sharma ²	-	-	-	434
ZE Tshabalala ²	-	-	-	456
DLJ Tshepe ²	-	-	-	493
NP Mnxasana ²	-	-	-	370
PEB Mathekga	496	-	496	123
GJ Mahlalela	496	-	496	123
ZA Nagdee	496	-	496	123
VM Nkonyane	579	-	579	144
MR Seleke ⁴ *	421	-	421	144
SD Shane ⁵ *	660	-	660	144
BG Stagman	579	-	579	144
PG Williams	516	-	516	123
Total	6 047	2	6 049	6 882

¹ Retired during prior year.

² Resigned during prior year.

³ Resigned as a director of the Company effective from 25 August 2015.

⁴ Resigned as a director of the Company effective from 27 November 2015.

⁵ Director's fees paid to Integrated Capital Management (Pty) Ltd.

* Received fees totalling R642 000 for being Transnet nominated trustees of the pension funds, bringing the total non-executive directors' emoluments to R6 691 000.

* Director's fees paid to Kapela Investments.



ACCOUNTING POLICIES

for the year ended 31 March 2016

Transnet is a company domiciled in South Africa.

The consolidated financial statements for the year ended 31 March 2016 comprise the Company and its subsidiaries (the Group) and the Group's interest in associates and joint ventures.

The consolidated financial statements were authorised for issue by the Board of Directors on 30 May 2016.

STATEMENT OF COMPLIANCE

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

CRITICAL JUDGEMENTS AND ESTIMATES

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries (including structured entities) are entities over which the Group has control. The Group controls an

entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The consolidated financial statements include the results of subsidiaries from the effective date of acquisition to the effective date of disposal.

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

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

Investments in associates and joint ventures

Associates

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

Joint ventures

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

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

Unrealised profits and losses on transactions with associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture, except to the extent that unrealised losses provide evidence that the asset transferred is impaired.

Separate financial statements

In the Company's separate financial statements, investments in subsidiaries, associates and joint ventures are carried at cost less any accumulated impairment losses.

REVENUE

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

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

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

Rail freight

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

Engineering contracts

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

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

Ports

The Group provides the following services at various commercial ports:

Infrastructure and maritime services

Revenue comprises port dues, light dues, vessel traffic services, berthing services, towage and pilotage and

similar services related to the provision of port infrastructure and facilities to customers at ports.

Cargo handling

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

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

Pipelines

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

Revenue clawback adjustment

Two of the Group's operating divisions, namely Transnet National Ports Authority and Transnet Pipelines are regulated by the Ports Regulator of South Africa and National Energy Regulator of South Africa respectively. Both regulators apply the required revenue approach and the claw back mechanism in setting allowable revenue and tariffs.

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

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

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

Rental income

Revenue from the rental of property is recognised on a straight-line basis over the lease term in accordance with



Accounting Policies

for the year ended 31 March 2016

the substance of the relevant agreements. Lease incentives granted are recognised as an integral part of the total rental income.

Dividend income

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

Government grants

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

Where the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset on a straight-line basis.

FINANCE INCOME

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

FINANCE COSTS

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

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

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

FOREIGN CURRENCY

Foreign currency transactions

Transactions in currencies other than the Company's functional currency are defined as foreign currency transactions. Transactions in foreign currencies are translated into rand at exchange rates ruling on

transaction date or at the average rate of exchange for transactions that occur regularly throughout the year.

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

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

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

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

TAXATION

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

Current taxation

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

Deferred taxation

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognised if it arises

from the initial recognition of goodwill, the initial recognition of assets and liabilities, other than in a business combination, which affect neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries, associates and joint ventures to the extent that it is probable they will not reverse in the foreseeable future.

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or revalued amount less accumulated depreciation and any accumulated impairment losses.

Recognition and measurement

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

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

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

Subsequent costs

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

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

Assets carried under the revaluation model

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

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

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

Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful life, or the lease term if shorter, of each asset or component of an item of property, plant and equipment. Land and assets under construction are not depreciated. Major repairs and overhauls are depreciated over the remaining useful life of the related asset or to the date of the next major repair or overhaul, if shorter. Depreciation commences when the asset is available for use. Assets are depreciated over the following periods:



Accounting Policies
for the year ended 31 March 2016

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

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

Derecognition

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

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

INVESTMENT PROPERTIES

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

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

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

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

Derecognition

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

INTANGIBLE ASSETS

Software and licences

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

Costs of maintaining computer software programmes are recognised as an expense as incurred. Costs to acquire licences are capitalised and amortised on a straight-line basis over the licence period.

Research and development

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

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

Cost includes expenditure on materials, direct labour and an allocated portion of project overheads. Development costs that do not meet the above criteria are expensed as incurred and may not be recognised as an asset in a subsequent period.

Amortisation

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

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

Asset class	Years
Software	5
Licences	licence period

Servitudes

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

Derecognition

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group’s tangible and intangible assets, other than investment property, non-current assets held-for-sale, inventories and deferred taxation assets are assessed for indicators of impairment at each reporting date. If such indicators exist, the recoverable amount of the asset is estimated. Intangible assets not yet available for use are tested for impairment annually and whenever there are indicators of impairment.

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

If the recoverable amount of an asset or cash-generating unit is less than its carrying amount, the carrying amount is reduced to the recoverable amount. An impairment

loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of the balance in the revaluation reserve relating to the same asset. Impairment losses recognised in respect of a cash-generating unit are allocated to reduce the carrying amount of the assets in the cash-generating unit on a pro-rata basis.

Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs of disposal and its value-in-use. Fair value less costs of disposal is the current market value of the asset less any costs relating to the realisation of the asset. In assessing the value-in-use, the expected future cash flows from the asset are discounted to their net present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flows have not been adjusted.

Reversal of impairment

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

FINANCIAL INSTRUMENTS

Recognition

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

Classification

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

Financial assets at fair value through profit or loss

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



Accounting Policies

for the year ended 31 March 2016

Loans and receivables

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

Held-to-maturity financial assets

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

Measurement

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

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

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

Financial assets

At fair value through profit or loss

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

Loans and receivables and held-to-maturity financial assets

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

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

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

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

Financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities at amortised cost

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

Impairment of financial assets

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

- If evidence of impairment exists, the recoverable amount of the asset (or group of assets) is determined and an impairment loss is recognised as follows:
- Financial assets held at cost or amortised cost – the carrying amount of the asset is reduced through an

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

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

Derivative instruments and hedge accounting

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

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

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

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

Fair value hedges

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

Cash flow hedges

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

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

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

Derecognition

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

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

Offset

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

Share capital

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



Accounting Policies

for the year ended 31 March 2016

INVENTORIES

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

Cost is determined as follows:

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

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

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

NON-CURRENT ASSETS HELD-FOR-SALE

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

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

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

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

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

EMPLOYEE BENEFITS

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

Defined contribution fund

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

Defined benefit funds

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

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

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

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

Post-retirement medical benefits

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

Short-term and long-term benefits

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

The Group's obligation in respect of long-term service benefits, other than pension plans and post-retirement medical benefits is recognised in profit or loss in the period in which the employee renders the related service.

Termination benefits

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

LEASES

Group as a lessee

Leases of property, plant and equipment, where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leased assets and the related liabilities are recognised at the commencement of the lease term at the lower of the fair value of the asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

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

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, including contracts with fixed escalation clauses, are recognised in profit or loss on a straight-line basis over the period of the lease.

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

Group as a lessor

Assets leased to third parties under operating leases are included under property, plant and equipment or

investment property. Rental income, net of any incentives given to the lessee, is recognised in profit or loss on a straight-line basis over the lease term.

PROVISIONS

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

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

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

Decommissioning liabilities

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

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

Environmental liabilities

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



INCOME STATEMENTS

for the year ended 31 March 2016

Company		Notes	Group	
2015 R million	2016 R million		2016 R million	2015 R million
61 114	62 138	1	62 167	61 152
(35 546)	(35 875)	2	(35 917)	(35 564)
25 568	26 263		26 250	25 588
(10 951)	(15 275)	3	(15 275)	(10 951)
14 617	10 988		10 975	14 637
(964)	(1 531)	4.1	(1 524)	(964)
1	2	4.2	-	-
(162)	(346)	4.3	(346)	(162)
136	(590)	4.4	(590)	136
-	-	5	26	9
13 628	8 523		8 541	13 656
(6 287)	(7 473)	6	(7 481)	(6 287)
212	398	7	408	221
7 553	1 448		1 468	7 590
(2 279)	(1 075)	8	(1 075)	(2 288)
5 274	373		393	5 302

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2016

Company		Notes	Group	
2015 R million	2016 R million		2016 R million	2015 R million
5 274	373		393	5 302
39 745	(448)		(448)	39 745
55 205	(613)		(613)	55 205
55 175	(780)		(780)	55 175
30	167		167	30
(15 460)	165	8.1	165	(15 460)
170	1 015		1 017	168
236	1 403		1 405	234
-	-		2	(2)
236	1 403		1 403	236
(66)	(388)	8.1	(388)	(66)
39 915	567		569	39 913
45 189	940		962	45 215



DISCLOSURE OF COMPONENTS OF OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2016

Company		Notes	Group	
2015 R million	2016 R million		2016 R million	2015 R million
39 723	(569)		(569)	39 723
55 175	(780)		(780)	55 175
843	808		808	843
4 619	4 678		4 678	4 619
49 805	(6 648)		(6 648)	49 805
(60)	29		29	(60)
9	386		386	9
(41)	(33)		(33)	(41)
(15 452)	211		211	(15 452)
22	121		121	22
30	167		167	30
14	-		-	14
(1)	5		5	(1)
(82)	4		4	(82)
(11)	56		56	(11)
110	102		102	110
(8)	(46)		(46)	(8)
170	1 015		1 015	170
236	1 403		1 403	236
(66)	(388)		(388)	(66)
-	-		2	(2)
39 915	567		569	39 913

STATEMENTS OF FINANCIAL POSITION

as at 31 March 2016

Company		Notes	Group	
2015 R million	2016 R million		2016 R million	2015 R million
287 166	302 463		302 463	287 166
9 074	10 105		10 105	9 074
1 273	1 489		1 489	1 273
3	3			
9	9		137	113
7 622	13 076		13 076	7 622
24	21		21	24
669	901		901	669
305 840	328 067		328 192	305 941
3 343	3 594		3 594	3 343
8 328	8 533		8 535	8 332
3 770	324		324	3 770
708	1 641		1 641	708
6 121	13 793		13 943	6 264
22 270	27 885		28 037	22 417
81	164		164	81
22 351	28 049		28 201	22 498
328 191	356 116		356 393	328 439
12 661	12 661		12 661	12 661
129 453	130 393		130 629	129 667
142 114	143 054		143 290	142 328
2 771	2 646		2 646	2 771
93 076	117 466		117 468	93 078
25	-		-	25
1 937	1 886		1 886	1 937
43 087	44 389		44 387	43 087
4 955	4 867		4 867	4 955
145 851	171 254		171 254	145 853
18 780	20 178		20 220	18 808
17 299	17 049		17 049	17 299
34	14		13	38
45	247		247	45
848	932		932	848
3 220	3 388		3 388	3 220
40 226	41 808		41 849	40 258
328 191	356 116		356 393	328 439



STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2016

	Issued capital R million	Revalu- ation reserve R million	Foreign currency translation reserve R million	Actuarial gains and losses R million	Cash flow hedging reserve R million	Other R million	Retained earnings R million	Total R million
Company								
Opening balances as at 1 April 2014	12 661	37 711	-	2 132	1 026	250	43 145	96 925
Total comprehensive income for the year (net of taxation)	-	39 723	-	22	170	-	5 274	45 189
Transfer to retained earnings	-	(8)	-	-	-	-	8	-
Balances at 31 March 2015	12 661	77 426	-	2 154	1 196	250	48 427	142 114
Profit for the year	-	-	-	-	-	-	373	373
Other comprehensive (loss)/income for the year	-	(569)	-	121	1 015	-	-	567
Transfer to retained earnings	-	(42)	-	-	-	-	42	-
Balances at 31 March 2016	12 661	76 815	-	2 275	2 211	250	48 842	143 054
Group								
Opening balances as at 1 April 2014	12 661	37 711	-	2 132	1 026	249	43 334	97 113
Total comprehensive income for the year (net of taxation)	-	39 723	(2)	22	170	-	5 302	45 215
Transfer to retained earnings	-	(8)	-	-	-	-	8	-
Balances at 31 March 2015	12 661	77 426	(2)	2 154	1 196	249	48 644	142 328
Profit for the year	-	-	-	-	-	-	393	393
Other comprehensive (loss)/income for the year	-	(569)	2	121	1 015	-	-	569
Transfer to retained earnings	-	(42)	-	-	-	-	42	-
Balances at 31 March 2016	12 661	76 815	-	2 275	2 211	249	49 079	143 290

STATEMENTS OF CASH FLOWS

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million	Notes	2016 R million	2015 R million
23 647	28 563	Cash flows from operating activities	28 572	23 666
27 261	27 757	Cash generated from operations	27 747	27 280
3 326	392	Changes in working capital	408	3 327
30 587	28 149	Cash generated from operations after working capital changes	28 155	30 607
(6 128)	(6 002)	Finance costs	(6 002)	(6 128)
196	351	Finance income	361	205
101	(16)	Taxation (paid)/refunded	(23)	91
(220)	(208)	Settlement of post-retirement benefit obligations	(208)	(220)
(889)	6 289	Derivatives settled and raised	6 289	(889)
(36 714)	(34 326)	Cash flows utilised in investing activities	(34 328)	(36 715)
(19 867)	(19 973)	<i>Investment to maintain operations</i>	(19 975)	(19 868)
(19 049)	(18 487)	Replacements to property, plant and equipment	(18 487)	(19 049)
-	(10)	Additions to investment property	(10)	-
(392)	(276)	Additions to intangible assets	(276)	(392)
(154)	(227)	Borrowing costs capitalised	(227)	(154)
298	79	Proceeds on the disposal of property, plant and equipment	79	298
-	57	Proceeds on the disposal of investment property	57	-
1	2	Dividend income	-	-
7	7	Net receipts of long-term loans and advances	7	7
(578)	(1 118)	Net increase in other investments	(1 118)	(578)
(16 847)	(14 353)	<i>Investment to expand operations</i>	(14 353)	(16 847)
(14 516)	(11 074)	Expansions - property, plant and equipment	(11 074)	(14 516)
(2 331)	(3 279)	Borrowing costs capitalised	(3 279)	(2 331)
15 680	13 435	Cash flows from financing activities	13 435	15 680
34 113	40 905	Borrowings raised	40 905	34 113
(18 433)	(27 470)	Borrowings repaid	(27 470)	(18 433)
2 613	7 672	Net increase in cash and cash equivalents	7 679	2 631
3 508	6 121	Cash and cash equivalents at the beginning of the year	6 264	3 633
6 121	13 793	Total cash and cash equivalents at the end of the year	13 943	6 264



SEGMENTAL REPORT

for the year ended 31 March 2016

	Freight Rail R million	Engineering R million	National Ports Authority R million	Port Terminals R million	Pipelines R million	Total for reportable segments R million	All other segments and other adjustments ² R million	Elimination of intersegment transactions R million	Total R million
For the year ended 31 March 2016									
External revenue ¹	36 474	1 356	9 825	10 199	3 663	61 517	650	-	62 167
Internal revenue	478	9 378	1 319	11	5	11 191	3 429	(14 620)	-
Total revenue	36 952	10 734	11 144	10 210	3 668	72 708	4 079	(14 620)	62 167
Energy costs	(4 336)	(208)	(436)	(507)	(240)	(5 727)	(187)	-	(5 914)
Maintenance costs	(1 595)	(244)	(340)	(319)	(94)	(2 592)	(113)	1 953	(752)
Material costs	(795)	(4 506)	(76)	(411)	(15)	(5 803)	(3)	5 071	(735)
Personnel costs	(11 949)	(4 579)	(2 074)	(3 842)	(366)	(22 810)	(1 931)	5 366	(19 375)
Other costs	(2 809)	(808)	(934)	(2 096)	(327)	(6 974)	(4 397)	2 230	(9 141)
Earnings before interest, taxation, depreciation, derecognition and amortisation (EBITDA)	15 468	389	7 284	3 035	2 626	28 802	(2 552)	-	26 250
Depreciation, derecognition and amortisation	(10 874)	(334)	(1 602)	(1 675)	(751)	(15 236)	(269)	230	(15 275)
Impairment of assets	(797)	-	(47)	115	(749)	(1 478)	(46)	-	(1 524)
Dividends received and income from associates and joint ventures	-	-	-	-	-	-	26	-	26
Fair value adjustments and post-retirement benefit obligation expense	29	(15)	291	-	2	307	(1 243)	-	(936)
Finance costs	(4 174)	(474)	(1 845)	(495)	91	(6 897)	(11 201)	10 617	(7 481)
Finance income	11	11	8	16	14	60	10 965	(10 617)	408
Profit before taxation	(337)	(423)	4 089	996	1 233	5 558	(4 320)	230	1 468
Total assets ³	175 876	13 283	82 962	19 259	38 929	330 309	37 692	(11 772)	356 229
Total liabilities	112 575	9 077	45 163	9 877	22 401	199 093	20 043	(6 033)	213 103
Capital expenditure ⁴	22 619	1 002	2 938	1 126	1 550	29 235	326	-	29 561
Cash generated from operations after working capital changes	12 763	(298)	8 718	2 773	2 041	25 997	2 158	n/a	28 155
EBITDA margin (%)	41.9	3.6	65.4	29.7	71.6	39.6	n/a	n/a	42.2
Number of employees	29 092	10 969	4 349	7 370	635	52 415	2 585	n/a	55 000
For the year ended 31 March 2015									
External revenue ¹	37 410	1 718	8 489	9 706	3 241	60 564	588	-	61 152
Internal revenue	348	10 652	1 229	6	5	12 240	3 245	(15 485)	-
Total revenue	37 758	12 370	9 718	9 712	3 246	72 804	3 833	(15 485)	61 152
Energy costs	(4 813)	(216)	(440)	(526)	(217)	(6 212)	(162)	-	(6 374)
Maintenance costs	(1 173)	(227)	(260)	(301)	(83)	(2 044)	(61)	1 991	(114)
Material costs	(963)	(5 744)	(76)	(407)	(11)	(7 201)	(24)	5 210	(2 015)
Personnel costs	(11 567)	(4 613)	(1 909)	(3 523)	(351)	(21 963)	(1 847)	5 513	(18 297)
Other costs	(3 001)	(825)	(719)	(1 989)	(280)	(6 814)	(4 242)	2 292	(8 764)
Earnings before interest, taxation, depreciation, derecognition and amortisation (EBITDA)	16 241	745	6 314	2 966	2 304	28 570	(2 503)	(479)	25 588
Depreciation, derecognition and amortisation	(6 951)	(268)	(1 447)	(1 615)	(642)	(10 923)	(240)	212	(10 951)
Impairment of assets	(460)	-	(45)	(58)	(94)	(657)	(307)	-	(964)
Dividends received and income from associates and joint ventures	-	-	-	-	-	-	9	-	9
Fair value adjustments and post-retirement benefit obligation expense	(76)	(33)	233	(43)	(12)	69	(95)	-	(26)
Finance costs	(2 826)	(338)	(1 781)	(522)	138	(5 329)	(9 080)	8 122	(6 287)
Finance income	15	(5)	(4)	8	10	24	8 319	(8 122)	221
Profit before taxation	5 943	101	3 270	736	1 704	11 754	(3 897)	(267)	7 590
Total assets ³	168 238	11 861	78 325	18 993	36 346	313 763	28 093	(13 498)	328 358
Total liabilities	89 354	7 111	42 811	10 358	21 071	170 705	23 075	(7 669)	186 111
Capital expenditure ⁴	25 173	1 026	2 874	1 237	2 793	33 103	941	(479)	33 565
Cash generated from operations after working capital changes	13 583	1 845	5 981	2 236	2 645	26 290	4 317	n/a	30 607
EBITDA margin (%)	43.0	6.0	65.0	30.5	71.0	39.2	n/a	n/a	41.8
Number of employees	29 445	11 719	4 189	7 061	630	53 044	2 462	n/a	55 506

¹ Revenue from segments below the quantitative thresholds are attributable to two operating segments of Transnet. Those segments include Transnet Property that manages internal and external leases of commercial and residential property and Transnet Capital Projects.

² Other adjustments include the Corporate Centre functions.

³ Excludes assets held-for-sale.

⁴ Excludes capitalised borrowing costs and intangible assets, includes capitalised finance leases and capitalised decommissioning liabilities.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
1. REVENUE				
59 682	59 555	Rendering of services	59 584	59 720
1 555	1 766	Rental income	1 766	1 555
6	4	Finance income from lending activities	4	6
836	876	Construction contracts (refer note 27)	876	836
62 079	62 201		62 230	62 117
(965)	(63)	Revenue claw back adjustment	(63)	(965)
61 114	62 138		62 167	61 152
Refer to the Segmental Report for the split of revenue streams.				
2. NET OPERATING EXPENSES EXCLUDING DEPRECIATION, DERECOGNITION AND AMORTISATION				
308	357	Accommodation and refreshments	357	308
1 099	1 275	Electronic data costs	1 275	1 099
6 374	5 914	Energy costs	5 914	6 374
439	478	Health and sanitation	478	439
240	254	Insurance	254	240
114	752	Maintenance costs	752	114
1 970	1 918	Managerial and technical consulting fees (refer note 4.1)	1 918	1 970
2 015	735	Material costs	735	2 015
2 482	2 352	Operating leases (refer note 4.1)	2 352	2 482
18 297	19 375	Personnel costs	19 375	18 297
117	88	Printing and stationery	88	117
(156)	(51)	Profit on disposal of property, plant and equipment (refer note 4.1)	(51)	(156)
-	3	Loss on disposal of intangible assets (refer note 4.1)	3	-
-	(49)	Profit on disposal of investment property (refer note 4.1)	(49)	-
193	157	Promotions and advertising	157	193
926	1 065	Security	1 065	926
301	240	Telecommunications	240	301
82	88	Transport	88	82
83	96	Research and development costs (refer note 4.1)	96	83
662	828	Other costs	870	680
35 546	35 875		35 917	35 564

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
3. DEPRECIATION, DERECOGNITION AND AMORTISATION				
Depreciation and derecognition (refer annexure B)				
<i>Depreciation and derecognition – Owned assets at historic cost</i>				
7 802	9 778		9 778	7 802
11	10	Aircraft	10	11
111	122	Floating craft	122	111
859	838	Land, buildings and structures	838	859
736	812	Machinery, equipment and furniture	812	736
944	15	Permanent way and works	15	944
5 067	7 884	Rolling stock and containers	7 884	5 067
74	97	Vehicles	97	74
2 760	5 095	<i>Depreciation and derecognition – Owned assets revalued portion</i>	5 095	2 760
612	709	Pipeline networks	709	612
2 148	2 305	Port facilities	2 305	2 148
-	2 081	Rail infrastructure	2 081	-
198	168	<i>Depreciation and derecognition – Leased assets at historic cost</i>	168	198
-	129	Vehicles	129	-
28	36	Machinery, equipment and furniture	36	28
3	3	Rail infrastructure	3	3
167	-	Rolling stock and containers	-	167
10 760	15 041		15 041	10 760
Amortisation of intangible assets (refer note 11)				
191	234	Software and licenses	234	191
10 951	15 275	Total depreciation and amortisation	15 275	10 951
4.1 Profit from operations before impairment of assets, dividends received, post-retirement benefit obligation expense, fair value adjustments and income from associates and joint ventures				
is stated after taking into account the following amounts:				
Auditors' remuneration				
<i>Group auditors</i>				
59	59	Audit fees – current year	59	59
33	25	Audit fees – prior year	25	33
14	12	Fees for audit-related and other services	12	14
2	2	Expenses	2	2
108	98		98	108
1 970	1 918	Managerial and technical consulting fees	1 918	1 970



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		4.1 Profit from operations before impairment of assets, dividends received, post-retirement benefit obligation expense, fair value adjustments and income from associates and joint ventures continued		
		is stated after taking into account the following amounts:		
		Operating lease charges		
1 162	1 369	Land, buildings and structures	1 369	1 162
889	808	Vehicles	808	889
66	70	Rolling stock	70	66
365	105	Other	105	365
2 482	2 352		2 352	2 482
(156)	(51)	Profit on disposal of property, plant and equipment	(51)	(156)
-	3	Loss on disposal of intangible assets	3	-
-	(49)	Profit on disposal of investment property	(49)	-
83	96	Research and development costs	96	83
		Directors' and executives' emoluments (full details are disclosed in the Report of the directors)		
25	26	Executive directors	26	25
7	7	Non-executive directors	7	7
94	61	Senior executives	61	94
126	94		94	126
		4.2 Impairment of assets		
442	1 058	Property, plant and equipment (refer annexure B)	1 058	442
-	1	Intangible assets (refer note 11)	1	-
-	7	Associates and subsidiaries	-	-
(2)	(4)	Long-term loans and advances (refer note 15)	(4)	(2)
524	469	Trade and other receivables	469	524
964	1 531		1 524	964
		4.3 Dividends received		
1	2	Dividends from associate	-	-
		4.4 Post-retirement benefit obligation expense		
25	15	Transport Pension Fund: Transnet Sub-fund	15	25
6	5	Transnet Top Management Pension	5	6
36	41	Transnet Workmen's Compensation Act pensioners	41	36
47	47	Transnet SATS Pensioners' post-retirement medical benefits	47	47
51	41	Transnet employees' post-retirement medical benefits	41	51
(3)	197	Other post-retirement and medical benefits (refer note 23)	197	(3)
162	346		346	162

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		5. FAIR VALUE ADJUSTMENTS		
(137)	(908)	Derivative fair value adjustments (refer note 14)	(908)	(137)
315	439	Fair value adjustment of investment property (refer note 10)	439	315
(42)	(121)	Fair value adjustments on firm commitments	(121)	(42)
136	(590)		(590)	136
		6. FINANCE COSTS		
(2)	(39)	Net foreign exchange gain on translation	(31)	(2)
126	171	Interest factor on claw back and other	171	126
35	39	Discount on bonds amortised	39	35
16	64	Finance lease obligation	64	16
8 597	10 744	Interest cost – financial liabilities at amortised cost	10 744	8 597
8 772	10 979	Gross finance costs	10 987	8 772
(2 485)	(3 506)	Borrowing costs capitalised*	(3 506)	(2 485)
6 287	7 473		7 481	6 287
		* The weighted average capitalisation rate on funds borrowed generally is 9,45% per annum (2015: 9,2% per annum).		
		7. FINANCE INCOME		
169	309	Interest received – bank deposits	319	178
27	42	Interest received – loans and receivables	42	27
16	47	Interest received – held-to-maturity	47	16
212	398		408	221
		8. TAXATION		
		South African normal taxation		
(73)	(4)	– Current year	(2)	(64)
2 352	1 079	Deferred taxation (refer note 26)	1 077	2 352
2 279	1 075	– Current year	1 075	2 288
		Reconciliation of taxation rate		
%	%	Standard rate – South African normal taxation	%	%
28,00	28,00	Adjustment for differences	28,00	28,00
2,17	46,24		45,23	2,14
1,45	27,63	Expenses not included for taxation purposes	26,59	1,45
-	17,47	Capital gains taxation inclusion rate adjustment	17,47	-
(0,01)	(0,05)	Exempt local dividends	-	-
1,69	1,44	Adjustment to deferred taxation charge	1,42	1,65
(0,96)	(0,25)	Release on prescription of taxation return	(0,25)	(0,96)
30,17	74,24	Effective rate of taxation	73,23	30,14



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		8. TAXATION		
		8.1 Taxation recognised in other comprehensive income		
		Arising on the taxation effects of items recognised in comprehensive income:		
(225)	(232)	Gain on revaluation of pipeline networks and decommissioning restoration liability	(232)	(225)
(1 294)	(1 283)	Gain on revaluation of port facilities and decommissioning liability	(1 283)	(1 294)
(13 945)	1 861	Loss/(gain) on revaluation of rail infrastructure	1 861	(13 945)
(1)	(141)	Gain on revaluation of land, buildings and structures	(141)	(1)
13	6	Loss on revaluation of investments to market value (ALL Group Ltd)	6	13
(66)	(388)	Cash flow hedge gain	(388)	(66)
(8)	(46)	Actuarial gain on post-retirement benefit obligations	(46)	(8)
(15 526)	(223)	Total taxation recognised in other comprehensive income	(223)	(15 526)
		9. PROPERTY, PLANT AND EQUIPMENT (REFER ANNEXURE B)		
		Property, plant and equipment is stated at historical cost except for pipeline networks, port facilities and rail infrastructure, which are stated at revalued amounts.		
287 166	302 463	Net book value	302 463	287 166
398 250	427 127	Gross carrying value	427 127	398 250
(111 084)	(124 664)	Accumulated depreciation and impairment	(124 664)	(111 084)
		<i>Comprising:</i>		
		Historical cost		
163 058	183 061	Gross carrying value	183 061	163 058
171	176	- Aircraft	176	171
2 462	3 476	- Floating craft	3 476	2 462
25 919	27 042	- Land, buildings and structures	27 042	25 919
9 253	10 846	- Machinery, equipment and furniture	10 846	9 253
766	905	- Permanent way and works	905	766
76 378	89 646	- Rolling stock and containers	89 646	76 378
1 057	2 147	- Vehicles	2 147	1 057
47 052	48 823	- Capital work in progress	48 823	47 052
(36 457)	(43 211)	Accumulated depreciation	(43 211)	(36 457)
(131)	(141)	- Aircraft	(141)	(131)
(690)	(811)	- Floating craft	(811)	(690)
(5 910)	(6 688)	- Land, buildings and structures	(6 688)	(5 910)
(5 013)	(5 715)	- Machinery, equipment and furniture	(5 715)	(5 013)
(101)	(117)	- Permanent way and works	(117)	(101)
(23 974)	(28 884)	- Rolling stock and containers	(28 884)	(23 974)
(638)	(855)	- Vehicles	(855)	(638)

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
(1 276)	(1 995)	9. PROPERTY, PLANT AND EQUIPMENT (REFER ANNEXURE B) continued		
		Accumulated impairment	(1 995)	(1 276)
(1)	-	- Floating craft	-	(1)
(168)	(22)	- Land, buildings and structures	(22)	(168)
(205)	(238)	- Machinery, equipment and furniture	(238)	(205)
(1)	-	- Permanent way and works	-	(1)
(648)	(807)	- Rolling stock and containers	(807)	(648)
(39)	(46)	- Vehicles	(46)	(39)
(214)	(882)	- Capital work in progress	(882)	(214)
125 325	137 855	Net book value of property, plant and equipment stated at historic cost	137 855	125 325
235 192	244 066	Revaluation	244 066	235 192
32 063	37 147	Gross carrying value	37 147	32 063
108 808	117 175	- Pipeline networks	117 175	108 808
94 321	89 744	- Port facilities	89 744	94 321
(72 268)	(78 503)	- Rail infrastructure	(78 503)	(72 268)
(12 884)	(14 659)	Accumulated depreciation	(14 659)	(12 884)
(40 348)	(44 755)	- Pipeline networks	(44 755)	(40 348)
(19 036)	(19 089)	- Port facilities	(19 089)	(19 036)
(1 083)	(955)	- Rail infrastructure	(955)	(1 083)
(290)	(379)	Accumulated impairment	(379)	(290)
(750)	(529)	- Pipeline networks	(529)	(750)
(43)	(47)	- Port facilities	(47)	(43)
		- Rail infrastructure		
161 841	164 608	Net book value of property, plant and equipment stated at revalued amounts	164 608	161 841
287 166	302 463	Total net book value	302 463	287 166
639	-	Land, buildings and structures		
		A register of land, buildings and structures is available for inspection at the Company.		
		During the year, the Group transferred R591 million (2015: R194 million) to investment properties from property, plant and equipment. The fair values of these properties are deemed as cost for subsequent accounting in accordance with International Accounting Standard (IAS) 16.		
		Rolling stock		
		Included in rolling stock assets are capitalised leased assets with a carrying value of		
		These assets were part of a sale and lease back arrangement giving rise to a finance lease entered into in 1997. The present value of the lease commitments has been settled in full.		
			-	639



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		9. PROPERTY, PLANT AND EQUIPMENT (REFER ANNEXURE B) continued		
		Pipeline networks		
		An external index valuation was performed during the year by Arthur D. Little Inc., an independent firm of professional valuers, on the basis of the modern equivalent net asset value. The index valuation resulted in a net increase of R808 million (2015: R843 million) to the carrying value of the Group's pipeline networks, which has been adjusted accordingly.		
		Fair value hierarchy		
-	-	Level 1 – quoted prices in active markets	-	-
-	-	Level 2 – significant observable inputs	-	-
18 889	22 109	Level 3 – significant unobservable inputs*	22 109	18 889
18 889	22 109		22 109	18 889
15 418	18 217	The historic cost carrying values of these assets amount to	18 217	15 418
		Port facilities		
		The Group's policy is to perform a revaluation of its port operating assets and infrastructure every three years and apply appropriate valuation indices in the intervening years. In the current year, index valuations were applied to port infrastructure and resulted in an increase of R4 109 million (2015: R4 442 million). An index valuation applied to port operating assets resulted in an increase of R569 million (2015: R177 million).		
		Fair value hierarchy		
-	-	Level 1 – quoted prices in active markets	-	-
-	-	Level 2 – significant observable inputs	-	-
67 710	71 891	Level 3 – significant unobservable inputs*	71 891	67 710
67 710	71 891		71 891	67 710
21 659	22 284	The historic carrying values of these assets amount to	22 284	21 659
		Rail infrastructure		
		During the year, the rail infrastructure assets revaluation amount was reviewed in line with the revised discounted cash flow. The result of the review was a reduction in the revaluation reserve by R6 648 million (2015: R49,8 billion revaluation increase) due to a decrease in projected future cash flows mainly affected by low revenue due to low marked demand.		
		Fair value hierarchy		
-	-	Level 1 – quoted prices in active markets	-	-
-	-	Level 2 – significant observable inputs	-	-
75 242	70 608	Level 3 – significant unobservable inputs*	70 608	75 242
75 242	70 608		70 608	75 242
25 437	29 654	The historic carrying values of these assets amount to	29 654	25 437
		* Refer to annexure F for more detail regarding the measurement of level 3 fair values.		

9. PROPERTY, PLANT AND EQUIPMENT (refer annexure B) continued

Useful lives and residual values

In terms of IAS 16 Property, Plant and Equipment, the useful lives and residual values of property, plant and equipment must be reviewed at each reporting date. The useful lives are estimated by management based on historic analysis, benchmarking and other available information. The residual values are based on the estimated recoverable amount from disposal of the asset at the end of its economic life.

Residual values

During the year, management conducted their annual assessment of residual values on existing assets. The exercise resulted in a change in the residual values of the rolling stock and railway component of the permanent way assets. The residual values are based on actual income recovered in the past financial year which are influenced by the scrap steel market prices. The impact on the annual depreciation expense in the year is very immaterial (2015: R36,4 million decrease).

Useful lives

Rolling stock – locomotives

The locomotive useful lives were re-assessed in relation to the locomotive phase out plan over the next 20 years based on expected deliveries of the new locomotives. The exercise resulted in no changes to the useful lives of the locomotive fleet. The locomotives which were identified to be parked earlier than the plan were impaired and the income statement impairment expense has been increased by R196 million (2015: R nil).

Rolling stock – wagons

The wagons useful lives were re-assessed in relation to demand planning and conditions assessment performed by the fleet owners on the whole population of the wagons. The review took into account the excess wagons due to decreased demand in the market. The result was no changes to the useful lives of the wagons in the year (2015: decrease in useful life, increase in depreciation of R48 million).

Rolling stock – componentisation

During the year, the accounting policy for rolling stock has been changed to componentisation. The implementation of the policy resulted in slight changes in the depreciation expense which decreased by R19 million.

Rail infrastructure

During the year, the useful lives of rail infrastructure assets were reassessed after the assets were revalued in the prior year. The impact of the useful lives assessment resulted in the depreciation expense decreasing by approximately R600 million.

The above adjustments were accounted for prospectively.



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
8 572	9 074	10. INVESTMENT PROPERTIES	9 074	8 572
		Fair value at the beginning of the year		
194	591	Transferred from property, plant and equipment (refer annexure B)	591	194
315	439	Recognised in income statement (refer note 5)	439	315
-	10	Additions	10	-
(7)	(9)	Transferred to assets classified as held-for-sale (refer annexure C)	(9)	(7)
9 074	10 105	Fair value at the end of the year	10 105	9 074
		Fair value hierarchy		
-	-	Level 1 – quoted prices in active markets	-	-
-	-	Level 2 – significant observable inputs	-	-
9 074	10 105	Level 3 – significant unobservable inputs*	10 105	9 074
9 074	10 105		10 105	9 074
<p>* Refer to annexure F for more detail regarding the measurement of level 3 fair values.</p> <p>The fair value of the Group's investment properties at 31 March 2016 was arrived at on the basis of valuations carried out at that date by Transnet Property Valuers.</p> <p>The valuations, which conform to the Property Valuers Profession Act, No 47 of 2000, were arrived at by capitalising the first year's normalised net operating income at a market-derived capitalisation rate.</p> <p>Various assumptions were made in order to derive the net present value of the future cash flows. These assumptions were arrived at after wide consultation with subject matter experts.</p> <p>The more critical assumptions made were:</p> <ul style="list-style-type: none"> Future cash flows were based on the after taxation market related rentals per investment property; The capitalisation rate used to discount cash flows for the purposes of determining present value was the market related return rate adjusted to reflect the appropriate risk profile of each individual property; and Capitalisation rates ranged between 9,0% and 20,0% for the various properties. <p>The gross property rental income earned by the Group from its investment properties, which are leased out under gross operating leases, amounted to R1 766 million (2015: R1 555 million).</p> <p>Direct operating expenses arising on the investment properties during the year amounted to R597 million (2015: R452 million).</p> <p>No material direct expenses (including repairs and maintenance) arising on investment property, that did not generate rental income during the year, were incurred.</p>				

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
1 273	1 489	11. INTANGIBLE ASSETS	1 489	1 273
		Intangible assets		
2 512	2 794	Cost	2 794	2 512
(1 239)	(1 305)	Accumulated amortisation	(1 305)	(1 239)
		<i>Comprising:</i>		
		Finite life intangible assets		
1 273	1 489	Software and licences: carrying value	1 489	1 273
2 512	2 794	Cost	2 794	2 512
2 184	2 512	Balance at the beginning of the year	2 512	2 184
392	276	Additions	276	392
3	1	Borrowing costs capitalised	1	3
(164)	(172)	Disposals	(172)	(164)
97	177	Transfers from property, plant and equipment (refer annexure B)	177	97
(1 239)	(1 305)	Accumulated amortisation and impairment	(1 305)	(1 239)
(1 212)	(1 239)	Balance at the beginning of the year	(1 239)	(1 212)
164	169	Disposals	169	164
(191)	(234)	Amortisation (refer note 3)	(234)	(191)
-	(1)	Impairment (refer note 4.2)	(1)	-
1 273	1 489		1 489	1 273
		Software and licences are assessed as having a finite life and are amortised on a straight-line basis over a period of three to five years.		
		12. INVESTMENTS IN SUBSIDIARIES (REFER ANNEXURE D)		
3	3	Shares at carrying value	-	-
391	398	Amounts owing by subsidiaries	-	-
394	401		-	-
(391)	(398)	Provision for impairment and losses	-	-
3	3		-	-
		13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (REFER ANNEXURE D)		
9	9		137	113
9	9	Balance at the beginning of the year	113	105
-	-	Equity-accounted earnings	26	9
-	-	Dividends received	(2)	(1)
9	9	Directors' valuation of unlisted investments in associates and joint ventures	137	113
-	-	Income from associates and joint ventures	26	9



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES		
		Both the Company and the Group use approved financial instruments, in particular forward exchange contracts, cross-currency swaps and interest rate swaps, to hedge the financial risks associated with underlying business activities. All derivative financial instruments have been measured at fair value with the resulting gain or loss taken to the statement of comprehensive income.		
11 392	13 400	Derivative financial assets	13 400	11 392
7 404	11 392	Opening balance	11 392	7 404
3 160	8 243	Fair value adjustments	8 243	3 160
828	(6 235)	Derivatives raised and settled	(6 235)	828
70	247	Derivative financial liabilities	247	70
83	70	Opening balance	70	83
48	123	Fair value adjustments	123	48
(61)	54	Derivatives raised and settled	54	(61)
3 112	8 120	Net fair value adjustments	8 120	3 112
(137)	(908)	Derivative fair value adjustments (refer note 5)	(908)	(137)
(2 321)	(1 300)	Finance costs	(1 300)	(2 321)
5 570	10 328	Recognised in other comprehensive income (refer note 22)	10 328	5 570
		<i>Comprise the following financial instruments:</i>		
7 622	13 076	Non-current assets	13 076	7 622
7 622	13 587	Cross-currency swaps and options	13 587	7 622
-	(511)	Interest rate swaps and options	(511)	-
3 770	324	Current assets	324	3 770
13	34	Forward exchange contracts	34	13
3 757	-	Cross-currency swaps and options	-	3 757
-	290	Interest rate swaps and options	290	-
25	-	Non-current liabilities	-	25
25	-	Forward exchange contracts	-	25
45	247	Current liabilities	247	45
45	56	Forward exchange contracts	56	45
-	191	Interest rate swaps and options	191	-

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES continued		
		Fair value hedges of firm commitments		
		The Group entered into fair value hedges of the foreign exchange risk on firm commitments of the Group to import items of property, plant and equipment. The Group settles the contract price of these items by making predetermined progress payments (in foreign currency) to the relevant suppliers as specified milestones are achieved.		
		At 31 March 2016, the Group held a series of forward exchange contracts as hedging instruments for this purpose. These hedges were assessed to be effective. The ineffective portion of the hedge has been recorded in profit and loss.		
		The fair values of these forward exchange contracts held as hedging instruments at 31 March 2016 are as follows:		
8	(3)	Currency bought forward - United States dollar (loss)/profit	(3)	8
(65)	(19)	Currency bought forward - Euro loss	(19)	(65)
		The net fair value gain/(loss) recognised in profit and loss on these fair value hedges during the year was R nil (2015: R nil). This net fair value adjustment comprised a loss of R121 million (2015: R42 million) with respect to foreign exchange risk on the firm commitments, and a gain of R121 million (2015: R42 million) on the forward exchange contracts.		
		The nominal values of these forward exchange contracts at 31 March 2016 are as follows:		
		Currency bought forward - rand equivalent		
478	393	United States dollar	393	478
308	135	Euro	135	308
		Currency bought forward - foreign currency		
41	26	United States dollar	26	41
19	7	Euro	7	19



Notes to the annual financial statements

for the year ended 31 March 2016

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES continued

Cash flow hedges

Cross currency interest rate swaps

On 31 March 2016, the Group was party to cross-currency interest rate swap contracts which are designated as cash flow hedges of the foreign exchange rate and interest rate risks associated with foreign currency denominated borrowings detailed in the table below:

Issuer	Amount	Hedge interest rate payable	Hedge interest rate receivable
Japan Bank for International Cooperation (JBIC)			
Loan 1	JPY11,5 billion	11,46% fixed (ZAR)	LIBOR + 1,48% (JPY)
Loan 2	JPY2,9 billion	9,91% fixed (ZAR)	LIBOR + 1,48% (JPY)
American Family Life Assurance Company of Columbus (AFLAC), Japan branch	JPY15 billion	12,22% fixed (ZAR)	2,70% fixed (JPY)
African Development Bank (AfDB)	USD205 million	8,69% fixed (ZAR)	LIBOR + 1,75% (USD)
Export Development Canada (EDC)	USD60 million	7,47% fixed (ZAR)	LIBOR + 1,75% (USD)
TNUS 22 GMTN US dollar bond			
Tranche 1	USD500 million	8,98% fixed (ZAR)	4% fixed (USD)
Tranche 2	USD500 million	8,935% fixed (ZAR)	4% fixed (USD)
KFW Ipx Bank	EUR43 million	9,635% fixed (ZAR)	6 month Euribor + 1,3% (EUR)
Bank of Tokyo Mitsubishi (BTMU)			
Loan 1	USD244 million	8,942% fixed (ZAR)	LIBOR + 1,25% (USD)
Loan 2	USD162 million	8,97% fixed (ZAR)	LIBOR + 1,25% (USD)
China Development Bank (CDB)			
Loan 1	USD337 million	3-month ZAR JIBAR + 4,35%	3-month LIBOR + 2,57% (USD)
Loan 2	USD16 million	3-month ZAR JIBAR + 4,33%	3-month LIBOR + 2,57% (USD)
Loan 3	USD15 million	3-month ZAR JIBAR + 4,365%	3-month LIBOR + 2,57% (USD)
Loan 4	USD8 million	3-month ZAR JIBAR + 4,36%	3-month LIBOR + 2,57% (USD)
Loan 5	USD22 million	3-month ZAR JIBAR + 4,31%	3-month LIBOR + 2,57% (USD)
Loan 6	USD21 million	3-month ZAR JIBAR + 4,30%	3-month LIBOR + 2,57% (USD)
Loan 7	USD22 million	3-month ZAR JIBAR + 4,295%	3-month LIBOR + 2,57% (USD)
Loan 8	USD19 million	3-month ZAR JIBAR + 4,17%	3-month LIBOR + 2,57% (USD)

The terms of the cross-currency interest rate swaps closely match those of the foreign currency-denominated borrowings they hedge and were assessed as highly effective hedges. The amount of ineffectiveness recognised in profit and loss for the year with respect to these hedges was a R15 million gain (2015: R54 million loss, the 2015 amount was largely due to the inclusion of credit risk in the measurement of the swaps for the first-time).

The amount recycled to profit and loss to offset the hedged risks was R8 925 million credit (2015: R5 334 million credit), included in finance costs.

The cash flows are projected to occur:

- Semi-annually in February and August until February 2021 on the JBIC hedge;
- Semi-annually in May and November until November 2019 on the AFLAC hedge;
- Semi-annually in February and August until August 2018 on the AfDB hedge;
- Semi-annually in May and November until November 2018 on the EDC hedge;
- Semi-annually in July and January until July 2022 on the both tranches of the TNUS22 bond hedge;
- Semi-annually in March and September until March 2019 on the KFW-Ipx Bank hedge;
- Quarterly until May 2019 on the BTMU hedge; and
- Quarterly until June 2030 on the CDB hedge.

Company			Group	
2015	2016		2016	2015
R million	R million		R million	R million
		14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES continued		
		The fair values of the cross-currency swaps at 31 March 2016 are as follows:		
260	674	JBIC	674	260
201	739	AFLAC	739	201
1 280	1 360	AfDB	1 360	1 280
-	873	CDB	873	-
242	317	EDC	317	242
3 626	-	TNUS16	-	3 626
5 144	7 952	TNUS22	7 952	5 144
(87)	81	Euro	81	(87)
713	1 591	BTMU	1 591	713
		The nominal amounts of the cross-currency swaps at 31 March 2016 are as follows:		
25 261	23 426	South African rand	23 426	25 261
32 556	29 630	Japanese yen	29 630	32 556
2 617	2 132	United States dollar	2 132	2 617
50	43	Euro	43	50
		Credit contingent default swaps (CCDS)		
		The Group has entered into CCDS transactions that could result in the non-payment by one party to the other on the occurrence of a credit event caused by Transnet defaulting on its loan or bond obligations. The credit events that must occur are bankruptcy, failure to pay, obligation acceleration, repudiation or moratorium or restructuring of any obligation relating to Transnet loans or bonds that the CCDS relate to. The CCDS is a level 3 fair value instrument and will not only be a function of the ZAR/USD exchange rates, applicable interest rates and swap spreads, but will also be a function of the credit worthiness of Transnet. The USD/ZAR quanta applied to calculate the fair market value of the CCDS are not market observable data. The nominal amounts of the cross-currency swaps affected are USD398 million and ZAR4 953 million. The fair values of the cross-currency swaps affected is R1 299 million.		
	54	Day-one loss	54	
	649	Loss at the beginning of the year	649	
	(23)	Day-one loss recognised	(23)	
		Amortised to profit and loss		
	680	Loss at the end of the year	680	
		The unamortised day-one loss is included within the long-term financial assets.		



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
24	21	15. LONG-TERM LOANS AND ADVANCES	21	24
29	24	Balance at the beginning of the year	24	29
(7)	(7)	Repayments	(7)	(7)
2	4	Reversal of impairment (refer note 4.2)	4	2
22	19	<i>Comprising:</i>	19	22
		Employee housing and other loans		
27	22	Balance at the beginning of the year	22	27
(7)	(7)	Repayments	(7)	(7)
2	4	Reversal of impairment	4	2
2	2	Other loans and advances	2	2
2	2	Balance at the beginning of the year	2	2
24	21		21	24
669	901	16. OTHER INVESTMENTS, LONG-TERM FINANCIAL ASSETS AND OTHER LIABILITIES	901	669
669	901	Other financial assets	901	669
669	901	Total long-term investments and long-term financial assets	901	669
708	1 641	Short-term portion of other investments including investments under resale agreement	1 641	708
708	1 641	Total short-term investments	1 641	708
3 741	3 688	Security of supply petroleum levy	3 688	3 741
28	28	Other	28	28
3 769	3 716		3 716	3 769
807	914	Deferred income: National Ports Authority	914	807
2 934	3 811	Balance at the beginning of the year	3 811	2 934
102	(708)	Unwinding of prior year claw back	(708)	102
649	572	Additional claw back raised	572	649
126	74	Interest factor on claw back	74	126
3 811	3 749		3 749	3 811
(3 004)	(2 835)	Less: Short-term portion classified as current liabilities	(2 835)	(3 004)
379	237	Deferred income: Pipelines	237	379
377	591	Balance at the beginning of the year	591	377
(334)	(216)	Unwinding of prior year claw back	(216)	(334)
548	415	Additional claw back raised	415	548
591	790		790	591
(216)	(553)	Less: Short-term portion classified as current liabilities	(553)	(216)
4	-	Add: Long-term portion classified as non-current asset	-	4
4 955	4 867	Total other non-current liabilities	4 867	4 955
3 220	3 388	Total other current liabilities	3 388	3 220

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		17. INVENTORIES		
2 081	2 207	At weighted average cost	2 207	2 081
171	172	Maintenance material	172	171
285	342	Consumables	342	285
111	135	Finished goods	135	111
(179)	(244)	Work-in-progress ¹	135	111
		Provision for stock obsolescence ²	(244)	(179)
2 469	2 612		2 612	2 469
883	1 012	At net realisable value	1 012	883
39	34	Maintenance material	34	39
(48)	(64)	Consumables	(64)	(48)
874	982	Provision for stock obsolescence ²	982	874
3 343	3 594	Total inventories	3 594	3 343
		¹ Included in work-in-progress are costs for construction contracts in progress.		
		² The increase in the provision for stock obsolescence is due to slow-moving items assessed at the end of the year. No items of inventory have been pledged as security as at 31 March 2016 (2015: R nil).		
		The cost of inventories used during the period and changes in the provision for obsolescence are recognised in operating expenses (refer note 2 – material costs).		
6 299	5 798	18. TRADE AND OTHER RECEIVABLES	5 800	6 300
427	568	Trade receivables – net of allowances for credit losses	568	427
57	59	Amounts due from customers under construction contracts (refer note 27)	59	57
1 543	2 104	Retention debtors (refer note 27)	2 104	1 546
2	4	Prepayments and other amounts receivable	4	2
8 328	8 533	Short-term portion of loans and advances	8 535	8 332



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		18. TRADE AND OTHER RECEIVABLES continued		
		Risk profile of allowances for credit losses (Refer annexure A)		
		<i>Low risk</i>		
(965)	(699)	Opening balance	(699)	(965)
(153)	(128)	Raised	(128)	(153)
419	120	Utilised	122	419
-	56	Transfer	56	-
(699)	(651)	Closing balance	(649)	(699)
		<i>Medium risk</i>		
(29)	(161)	Opening balance	(161)	(29)
(135)	(116)	Raised	(116)	(135)
3	3	Utilised	3	3
-	(56)	Transfer	(56)	-
(161)	(330)	Closing balance	(330)	(161)
		<i>High risk</i>		
(385)	(377)	Opening balance	(395)	(403)
(19)	(244)	Raised	(244)	(19)
27	10	Utilised	10	27
(377)	(611)	Closing balance	(629)	(395)
		<i>Total provisions</i>		
(1 379)	(1 237)	Opening balance	(1 255)	(1 397)
(307)	(488)	Raised	(488)	(307)
449	133	Utilised	135	449
(1 237)	(1 592)	Closing balance	(1 608)	(1 255)
		19. CASH AND CASH EQUIVALENTS		
6 121	13 793	Cash and cash equivalents*	13 943	6 264
6 121	13 793		13 943	6 264
		* Included in cash and cash equivalents are restricted benevolent accounts amounting to R155 million (2015: R146 million).		
		20. ASSETS CLASSIFIED AS HELD-FOR-SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD-FOR-SALE (REFER ANNEXURE C)		
		Non-current assets classified as held-for-sale		
30	145	Property, plant and equipment	145	30
8	9	Investment properties	9	8
43	10	Other investments	10	43
81	164		164	81

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		21. ISSUED CAPITAL		
30 000	30 000	Authorised 30 000 000 000 ordinary par value shares of R1 each	30 000	30 000
12 661	12 661	Issued 12 660 986 310 ordinary par value shares of R1 each (2015: 12 660 986 310).	12 661	12 661
		The unissued share capital is under the control of the South African Government, the sole shareholder of the Company.		
		Capital management The Board's policy is to maintain a strong capital base to maintain investor, creditor and market confidence to support future growth of the business. Capital efficiency is measured in terms of returns on equity and the asset base, as well as the gearing ratio, which is monitored by the Board. The capital structure of the Group consists of equity attributable to the equity holder, the South African Government, comprising issued capital, non-distributable reserves and retained earnings as disclosed in notes 21 and 22. Other than loan covenants, Transnet SOC Ltd is not subject to any other externally imposed capital requirements. Based on the significant capital investment plan of the Company, as well as its revenue generating ability, the target debt to equity ratio will remain below the 50% limit that forms part of the Shareholder's Compact with the Shareholder Representative (2016: actual 43,1%). There were no changes to the capital management approach during the year.		
77 426	76 815	22. RESERVES	76 815	77 426
5 218	6 055	Revaluation reserve	6 055	5 218
4 435	5 218	Revaluation of pipeline networks	5 218	4 435
843	808	Balance at the beginning of the year	808	843
(60)	29	Revaluation during the year	29	(60)
51 448	56 084	Decommissioning restoration liability adjustment	56 084	51 448
46 831	51 448	Revaluation of port facilities	51 448	46 831
4 619	4 678	Balance at the beginning of the year	4 678	4 619
(2)	(42)	Revaluation during the year	(42)	(2)
49 805	43 157	Transfer to retained earnings	43 157	49 805
-	49 805	Revaluation of rail infrastructure	49 805	-
49 805	(6 648)	Balance at the beginning of the year (Devaluation)/revaluation during the year	(6 648)	49 805



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		22. RESERVES continued		
920	1 306	<i>Revaluation of land, buildings and structures</i>	1 306	920
917	920	Balance at the beginning of the year	920	917
9	386	Fair value movement during the year	386	9
(6)	-	Transfer to retained earnings	-	(6)
33	-	<i>ALL Group Ltd (refer Annexure D) - revaluation of investment to market value</i>	-	33
74	33	Balance at the beginning of the year	33	74
(41)	(33)	Fair value movement during the current year	(33)	(41)
(29 998)	(29 787)	<i>Deferred taxation impact of items relating to revaluation reserves</i>	(29 787)	(29 998)
2 154	2 275	<i>Actuarial gains on post-retirement benefit obligations</i>	2 275	2 154
3 001	3 168	<i>Gross actuarial gains on post-retirement benefit obligations</i>	3 168	3 001
2 971	3 001	Balance at the beginning of the year	3 001	2 971
30	167	Gains arising during the year	167	30
(847)	(893)	Deferred taxation impact of net actuarial gains	(893)	(847)
-	-	<i>Foreign currency translation reserve</i>	-	(2)
-	-	Balance at the beginning of the year	(2)	-
-	-	Gains/(losses) arising during the year	2	(2)
1 196	2 211	<i>Cash flow hedging reserve</i>	2 211	1 196
1 655	3 058	<i>Gross cash flow hedging reserve</i>	3 058	1 655
1 419	1 655	Balance at the beginning of the year	1 655	1 419
5 570	10 328	Gains arising during the year	10 328	5 570
(5 334)	(8 925)	Transfer to foreign exchange differences	(8 925)	(5 334)
(459)	(847)	<i>Deferred taxation impact of items relating to cash flow hedging reserve</i>	(847)	(459)
250	250	<i>Other reserves</i>	249	249
250	250	Share of pension fund surplus (retained for application against pensioners)	249	249
48 427	48 842	<i>Retained earnings</i>	49 079	48 644
43 145	48 427	Balance at the beginning of the year	48 644	43 334
8	42	Transfers into retained earnings	42	8
5 274	373	Profit for the year attributable to the equity holder	393	5 302
129 453	130 393		130 629	129 667

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
1 583	1 357	23. EMPLOYEE BENEFITS		
1 668	1 583	<i>Post-retirement benefit obligations</i>	1 357	1 583
165	149	Balance at the beginning of the year	1 583	1 668
(220)	(208)	Income statement charge	149	165
(30)	(167)	Settlements during the year	(208)	(220)
		Actuarial gains	(167)	(30)
-	-	<i>Comprising:</i>		
-	-	Transport Pension Fund: Transnet Sub-fund (refer note 32.1.2)	-	-
-	-	Transnet Second Defined Benefit Fund (refer note 32.1.3)	-	-
73	64	Transnet Top Management Pension (refer note 32.1.4)	64	73
508	493	Transnet Workmen's Compensation Act pensioners (refer note 32.1.4)	493	508
623	507	Transnet SATS Pensioners' post-retirement medical benefits (refer note 32.2.1)	507	623
379	293	Transnet employees post-retirement medical benefits (refer note 32.2.2)	293	379
1 583	1 357		1 357	1 583
-	-	Various assumptions have been applied by management and actuaries in the calculation of post-retirement benefit obligations.		
-	-	The assumptions and their sensitivities are disclosed in note 32.		
173	-	<i>Other post-retirement and medical benefits</i>	-	-
(3)	197	Balance at the beginning of the year	-	173
(170)	(49)	Income statement movement	197	(3)
-	148	Utilised during the year	(49)	(170)
-	(148)		148	-
861	1 014	<i>Less: Short-term portion classified as current liabilities</i>	(148)	-
1 950	2 082	<i>Leave pay</i>	1 014	861
784	585	Balance at the beginning of the year	2 082	1 950
(652)	(547)	Accruals made during the year	585	784
2 082	2 120	Utilised during the year	(547)	(652)
(1 221)	(1 106)		2 120	2 082
327	275	<i>Less: Short-term portion classified as current liabilities</i>	(1 106)	(1 221)
1 856	1 512	<i>Incentive bonus</i>	275	327
1 049	465	Balance at the beginning of the year	1 512	1 856
(1 393)	(1 164)	Accruals made during the year	465	1 049
1 512	813	Utilised during the year	(1 164)	(1 393)
(1 185)	(538)		813	1 512
2 771	2 646	<i>Less: Short-term portion classified as current liabilities</i>	(538)	(1 185)
		Total employee benefits	2 646	2 771



Notes to the annual financial statements
for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		23. EMPLOYEE BENEFITS continued		
		Other post-retirement and medical benefits		
		Included in total employee benefits is an amount of R148 million (2015: R nil) relating to an ex gratia payment to disadvantaged SATS pensioners.		
		Leave pay		
		Relates to the accrual for unutilised leave at year-end. The leave is expected to be taken over the next two financial years and is calculated based on employee total cost to Company.		
		Incentive bonus		
		Accrual for incentive bonus in terms of the incentive bonus scheme.		
		24. LONG-TERM BORROWINGS (REFER ANNEXURE A)		
93 076	117 466		117 468	93 078
82 993	93 076	Total long-term borrowings at the beginning of the year	93 078	82 995
19 423	27 602	Raised	27 602	19 423
3 748	5 911	Foreign exchange movement	5 911	3 748
35	28	Amortisation of discount	28	35
(13 123)	(9 151)	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings (refer note 29)	(9 151)	(13 123)
66 760	86 731	Unsecured liabilities	86 731	66 760
		Rand denominated		
49 982	54 713	Bonds at nominal value	54 713	49 982
(483)	(596)	Unamortised discounts	(596)	(483)
49 499	54 117	Bonds at carrying value ^(a)	54 117	49 499
17 261	32 614	Other unsecured liabilities ^(a)	32 614	17 261

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		24. LONG-TERM BORROWINGS (REFER ANNEXURE A) continued		
35 183	28 828	Foreign currency denominated^(b)	28 828	35 183
21 031	14 691	Bonds at nominal value	14 691	21 031
(115)	(121)	Unamortised discounts	(121)	(115)
20 916	14 570	Bonds at carrying value	14 570	20 916
14 267	14 258	Other unsecured liabilities	14 258	14 267
4 256	11 058	Secured loans and capitalised finance leases^(f)	11 060	4 258
4 256	4 694	Rand denominated ^(d)	4 694	4 256
-	6 364	Foreign currency denominated ^(e)	6 366	2
106 199	126 617	Total long-term borrowings	126 619	106 201
(13 123)	(9 151)	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings (refer note 29)	(9 151)	(13 123)
93 076	117 466		117 468	93 078
^(a) Rand denominated Eurorand bonds bear interest between 10,0% and 13,5% and are repayable in 2028 and 2029 (refer annexure A). The rand denominated unsecured and non-guaranteed bonds are redeemable between 10 June 2016 and 9 October 2040 and bear interest at a rate between 8,12% and 10,8%. Foreign rand denominated bonds bear interest at 9,5% and are repayable on 13 May 2021 (refer annexure A). ^(b) Foreign currency bonds are denominated in United States Dollar, are redeemable on 26 July 2022, and bears interest at a rate of 4,0%. Foreign currency unsecured loans are denominated in Japanese Yen, Euro and United States Dollar, bears interest at rates between 1,167% and 2,61575%, and are repayable between 1 August 2018 and 20 February 2021. ^(c) Rand denominated unsecured domestic loans bear interest at rates ranging between 7,433% and 11,8%. These liabilities are repayable over periods between 15 March 2019 and 19 July 2032. ^(d) Rand denominated secured loans bear interest at rates ranging between 7,19% and 9,483% with floating rates linked to JIBAR. These liabilities are repayable over periods between 20 December 2021 and 15 September 2023. ^(e) Foreign currency secured loans are denominated in United States Dollar, bears interest at 3,202% and are repayable on 12 June 2030. ^(f) Rand denominated capitalised finance lease liabilities bear interest at rates ranging between 7,25% and 16,93% with all rates fixed. These liabilities are repayable over periods between 2016 and 2027.				



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
1 937	1 886	25. PROVISIONS		
		<i>Comprising</i>	1 886	1 937
1 890	1 937	Total provisions at the beginning of the year	1 937	1 890
1 289	2 213	Provisions made during the year and unwinding of discounts	2 213	1 289
(1 210)	(2 180)	Provisions utilised	(2 180)	(1 210)
(32)	(84)	Increase in short-term provisions classified as current liabilities	(84)	(32)
359	357	Third-party claims	357	359
340	359	Balance at the beginning of the year	359	340
235	805	Provisions made during the year	805	235
(216)	(807)	Utilised during the year	(807)	(216)
34	39	Customer claims	39	34
33	34	Balance at the beginning of the year	34	33
1	5	Provisions made during the year	5	1
2 076	2 048	Decommissioning and environmental liabilities	2 048	2 076
2 026	2 076	Balance at the beginning of the year	2 076	2 026
170	128	Provisions made during the year and unwinding of discounts	128	170
(120)	(156)	Utilised during the year	(156)	(120)
24	24	Restructuring	24	24
24	24	Balance at the beginning of the year	24	24
292	350	Other	350	292
283	292	Balance at the beginning of the year	292	283
883	1 275	Provisions made during the year	1 275	883
(874)	(1 217)	Utilised during the year	(1 217)	(874)
2 785	2 818	Total provisions	2 818	2 785
848	932	<i>Less: Short-term provisions classified as current liabilities</i>	932	848
359	356	Third-party claims	356	359
34	39	Customer claims	39	34
163	187	Decommissioning and environmental liabilities	187	163
292	350	Other	350	292
1 937	1 886	Long-term provisions	1 886	1 937

25. PROVISIONS continued

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

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

Third-party claims

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

Customer claims

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

Decommissioning and environmental liabilities

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

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

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

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

Restructuring

Provision for restructuring costs in terms of strategic plans.



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
43 087	44 389	26. DEFERRED TAXATION LIABILITIES	44 387	43 087
		<i>Comprising:</i>		
25 209	43 087	Opening balance	43 087	25 209
2 352	1 079	Income statement charge (refer note 8)	1 077	2 352
15 526	223	Raised in other comprehensive income	223	15 526
8 133	10 384	<i>Analysis of major categories of temporary differences</i>	10 386	8 133
		Deferred taxation assets		
892	1 022	Provisions	1 022	892
1 523	1 241	Employee benefit obligations	1 241	1 523
2 694	2 876	Revenue received in advance and deferred income	2 876	2 694
701	586	Capitalised lease liability	586	701
266	346	Doubtful debts	346	266
2 002	4 190	Estimated taxation loss	4 190	2 002
55	123	Other	125	55
51 220	54 773	Deferred taxation liabilities	54 773	51 220
149	161	Deferred expenditure	161	149
50 403	53 777	Property, plant and equipment	53 777	50 403
207	323	Future expenditure allowance	323	207
461	512	Cross-currency swaps	512	461
43 087	44 389	Net deferred taxation liability	44 387	43 087
		No deferred taxation asset has been raised in respect of secondary taxation on companies' credits available as they are unlikely to be utilised given the capital requirements of the Company and the change in regime from secondary taxation on companies to a withholding taxation on dividends, from which the Company is exempt.		
		27. CONSTRUCTION CONTRACTS		
		Contracts in progress at the statements of financial position date:		
1 199	1 384	Construction costs incurred plus recognised profits less losses to date	1 384	1 199
(778)	(818)	Less: progress billings	(818)	(778)
421	566		566	421
		<i>Recognised and included in the financial statements:</i>		
		Income statements		
836	876	Contract revenue (refer note 1)	876	836
		Statements of financial position		
427	568	Amounts due from customers under construction contracts (refer note 18)	568	427
57	59	Retention debtors (note 18)	59	57
		Contract revenue is recognised when the completed stage has been signed off as proof of quality satisfaction by the external customer.		

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
3 572	3 186	28. TRADE PAYABLES AND ACCRUALS	3 190	3 576
15 208	16 992	Trade payables	17 030	15 232
8 601	9 810	Accruals		
82	88	Accrued expenditure	9 848	8 625
1 787	2 523	Deposits received	88	82
967	753	Accrued interest	2 523	1 787
		Personnel costs	753	967
		Public creditors		
991	1 518	Revenue received in advance	1 518	991
-	148	Other post-retirement and medical benefits (refer note 23)	148	-
1 221	1 106	Leave pay (refer note 23)	1 106	1 221
1 185	538	Incentive bonus (refer note 23)	538	1 185
374	508	SARS - value added taxation (VAT)	508	374
18 780	20 178		20 220	18 808
		29. SHORT-TERM BORROWINGS		
13 123	9 151	Current portion of long-term interest-bearing borrowings* (refer note 24)	9 151	13 123
4 176	7 898	Other short-term borrowings	7 898	4 176
17 299	17 049		17 049	17 299
		* Includes amortisation of discount of R11 million (2015: R nil).		
		Other short-term borrowings relate to the market-making portfolio and comprises the Group's position on bonds and other financial instruments.		
		The short-term borrowings bear interest at rates between 1,167% and 11,8%, is repayable between April 2016 and March 2017 and are not guaranteed.		
		30. COMMITMENTS		
		30.1 Capital commitments*		
26	12	Contracted for in US dollars	12	26
21	9	Contracted for in euros	9	21
68 391	67 990	Contracted for in SA rands	67 990	68 391
14	2	Contracted for in various other currencies	2	14
68 452	68 013	Total capital commitments contracted for	68 013	68 452
268 149	209 827	Authorised by the directors but not yet contracted for	209 827	268 149
336 601	277 840		277 840	336 601
		Total capital commitments are expected to be incurred as follows:		
33 592	22 828	Within one year	22 828	33 592
205 815	163 409	After one year, but not more than five years	163 409	205 815
97 194	91 603	After five years, but not more than seven years	91 603	97 194
336 601	277 840		277 840	336 601
		These capital commitments will be financed utilising net cash flow from operations, debt capital markets, through project finance and the use of operating leases.		
		* Excludes capitalised borrowing costs of R15 582 million (2015: R18 371 million).		



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		30. COMMITMENTS continued		
		30.2 Operating lease commitments		
		Future minimum rentals under non-cancellable leases are as follows:		
		Land, buildings and structures		
143	100	Within one year	100	143
489	234	After one year, but not more than five years	234	489
244	155	More than five years	155	244
876	489		489	876
		Aircraft, machinery, equipment, furniture and motor vehicles		
117	115	Within one year	115	117
180	103	After one year, but not more than five years	103	180
5	-	More than five years	-	5
302	218		218	302
		Security and maintenance contracts		
62	8	Within one year	8	62
17	-	After one year, but not more than five years	-	17
79	8		8	79
		Other		
66	13	Within one year	13	66
5	20	After one year, but not more than five years	20	5
21	-	More than five years	-	21
92	33		33	92

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		30. COMMITMENTS continued		
		30.3 Finance lease commitments		
		The finance leases relate to the Kimberley – De Aar transmission line, vehicles and computer equipment. These finance leases have a lease term ranging between three to 25 years. The interest rates vary from 7,25% to 16,93%.		
		Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:		
		Machinery, equipment, furniture and vehicles		
40	247	Within one year	247	40
69	707	After one year, but not more than five years	707	69
86	121	More than five years	121	86
195	1 075	Total minimum lease payments	1 075	195
(88)	(182)	Amount representing finance charges	(182)	(88)
107	893	Present value of minimum lease payments	893	107
		Included in the financial statements as:		
27	193	- Current borrowings	193	27
80	700	- Non-current borrowings	700	80
107	893		893	107
		30.4 Lease rentals receivable		
		Future minimum rentals under operating leases are as follows:		
		Property		
1 996	1 366	Within one year	1 366	1 996
5 973	7 719	After one year, but not more than five years	7 719	5 973
7 855	19 227	More than five years	19 227	7 855
15 824	28 312		28 312	15 824
		Other		
24	-	Within one year	-	24
24	-		-	24
		The lease rentals relate mainly to land and buildings. These are mainly short-term rentals with an escalation varying from 8,0% to 10,0%.		
		31. CONTINGENT LIABILITIES AND GUARANTEES		
369	359	Various contingent liabilities where no material losses are expected to materialise*	359	369
14	18	Various contingent assets where the inflow of economic benefits is probable, but not virtually certain	18	14

* During the 2014 financial year a vessel ran aground while exiting the Port of Richards Bay, as a result of which it was extensively damaged. The owners of the vessel have now issued summons against Transnet claiming damages for loss of the vessel on the grounds that Transnet had a legal duty to safeguard the vessel while under pilotage. Transnet believes that it has a good defence to the claim by invoking, inter alia, the provisions of the relevant legislation. Investigations on the circumstances leading to the incident are still in progress.



Notes to the annual financial statements

for the year ended 31 March 2016

32. POST-RETIREMENT BENEFIT OBLIGATIONS

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

32.1 Pension benefits

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

32.1.1 Transnet Retirement Fund

The fund is structured as a defined contribution fund and all employees of the Group are eligible members of the fund. There were 63 776 members at 31 March 2016 (2015: 55 496). Actuarial valuations are performed annually to determine the financial position of the fund. The last actuarial valuation was performed as at 31 March 2015 and the actuaries were satisfied with the status of the member's credit account as at that date. The total contributions to this fund constitute member contributions of R1 090 million (2015: R997 million) and employer contributions of R1 075 million (2015: R983 million).

32.1.2 Transport Pension Fund: Transnet Sub-fund

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

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

The Transnet Pension Fund Amendment Act, promulgated in 2007, changed the name of the fund with effect from 11 November 2005 to the Transport Pension Fund. The Act restructured the Transport Pension Fund (formerly the Transnet Pension Fund) into a multi-employer pension fund. From the date the Act came into operation, all existing members, pensioners, dependant pensioners, liabilities, assets, rights and obligations, of the Transport Pension Fund, were attributed to three sub-funds, with Transnet as the principal employer for one of the sub-funds. In terms of the amendments to the Act, a sub-fund in the name of South African Airways (Pty) Ltd was also established as at 1 April 2006, with South African Airways (Pty) Limited as the principal employer of that sub-fund, and a further sub-fund in the name of the South African Rail Commuter Corporation Ltd (now Passenger Rail Agency of South Africa) was established with effect from 1 May 2006, with the South African Rail Commuter Corporation Ltd as the principal employer of that sub-fund.

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

There were 4 737 members and pensioners at 31 March 2016 (2015: 4 866). The fund gives members the option to transfer to the Transnet Retirement Fund twice a year. Altogether, 15 members opted to transfer to the Transnet Retirement Fund in the current year (2015: 37). The effect of this transfer is noted in the reconciliations that follow.

	Group	
	2016 R million	2015 R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS continued		
32.1.2 Transport Pension Fund: Transnet Sub-fund continued		
An actuarial valuation was performed as at 31 March 2016 based on the projected unit credit method. The principal actuarial assumptions used are as follows:		
Discount rate	9,41%	8,47%
Inflation rate	7,40%	6,59%
Salary increase rate	8,40%	7,59%
Pension increase allowance	2,00%	2,00%
The results of the actuarial valuation are as follows:		
Present value of obligation	(2 858)	(3 051)
Fair value of plan assets	6 531	6 132
Surplus	3 673	3 081
Unrecognised asset	(3 673)	(3 081)
Net asset/(liability) recognised in the statement of financial position	-	-
The liability recognised for this fund relating to the Company amounts to R nil (2015: R nil).		
The surplus was not recognised as the rules of the fund do not provide for the surpluses to be distributed.		
Net expense recognised in profit or loss		
Service cost	(15)	(23)
Net interest income	261	196
	246	173
Less: Interest on asset limit	(261)	(198)
	(15)	(25)
Actual return on plan assets	806	1 110
Total remeasurements recognised in other comprehensive income for the year	-	14
- net actuarial gain	331	605
- interest on asset limit	261	198
- asset not recognised	(592)	(789)
Movements in the net asset/(liability) recognised in the statement of financial position		
Opening net asset	3 081	2 292
Loss as above	(15)	(25)
Remeasurements		
- actuarial gain	331	605
- interest on asset limit	261	198
Contributions paid by employer	15	11
Closing net asset	3 673	3 081
Asset not recognised	(3 673)	(3 081)
Net asset/(liability) recognised in the statement of financial position	-	-



Notes to the annual financial statements

for the year ended 31 March 2016

	Group	
	2016 R million	2015 R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS continued		
32.1.2 Transport Pension Fund: Transnet Sub-fund continued		
Reconciliation of movement in benefit liability		
Opening benefit liability	(3 051)	(3 072)
Service cost	(15)	(23)
Contributions by members	(6)	(7)
Interest cost	(249)	(255)
Actuarial gain/(loss)	35	(54)
– change in economic assumptions	174	(39)
– experience adjustments	(99)	23
– bonus award to pensioners	(40)	(38)
Benefits paid	382	314
Expenses	1	2
	(2 903)	(3 095)
Transfer to the retirement fund	45	44
Closing benefit liability	(2 858)	(3 051)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	6 132	5 364
Interest income	510	451
Actuarial gain	296	659
Contributions by employer and members	21	18
Benefits paid	(382)	(314)
Expenses	(1)	(2)
	6 576	6 176
Transfer to the retirement fund	(45)	(44)
Closing fair value of plan assets	6 531	6 132
The estimated contributions by both employer and members for the year beginning 1 April 2016 amount to R21 million (2015: R18 million).		
Sensitivity analysis		
Closing benefit liability based on changes in the discount rate:		
8,41% (2015: 7,47%)	3 073	3 335
10,41% (2015: 9,47%)	2 655	2 807
Closing benefit liability based on changes in the inflation rate:		
6,40% (2015: 5,59%)	2 824	2 999
8,40% (2015: 7,59%)	2 895	3 106
The major categories of plan assets as a % of total plan assets are:		
Equity – local and international	60%	67%
Property	8%	-
Bonds	31%	33%
Cash	1%	-
Total	100%	100%

	Group	
	2016 R million	2015 R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS continued		
32.1.3 Transnet Second Defined Benefit Fund		
The fund was established on 1 November 2000 for the benefit of existing retired members and qualifying beneficiaries. The fund includes the spouses of black pensioners who retired from Transnet between 16 December 1974 and 1 April 1986. There were 18 825 members at 31 March 2016 (2015: 20 723). This excludes widows and children of pensioners. The all-inclusive membership is 56 267 at 31 March 2016 (2015: 59 320). The entire obligation relates to Transnet SOC Ltd.		
The actuarial valuation was based on the projected unit credit method. The principal actuarial assumptions used are as follows:		
Discount rate	9,23%	8,09%
Pension increase allowance	2,00%	2,00%
The results of the actuarial valuation are as follows:		
Present value of obligation	(11 918)	(13 611)
Fair value of plan assets	15 176	17 085
Surplus	3 258	3 474
Unrecognised asset	(3 258)	(3 474)
Net asset/(liability) recognised in the statement of financial position	-	-
The surplus was not recognised as the rules of the fund do not provide for the surpluses to be distributed.		
Net expense recognised in profit or loss		
Service cost	-	-
Net interest income	281	195
	281	195
Less: Interest on asset limit	(281)	(195)
	-	-
Actual return on plan assets	123	1 962
Total remeasurements recognised in other comprehensive income for the year	-	-
– net actuarial (loss)/gain	(497)	713
– interest on asset limit	281	195
– net asset not recognised	216	(908)
Movements in the net asset/(liability) recognised in the statement of financial position		
Opening net asset	3 474	2 566
Remeasurements		
– actuarial (loss)/gain	(497)	713
– interest on asset limit	281	195
Closing net asset	3 258	3 474
Asset not recognised	(3 258)	(3 474)
Net asset/(liability) recognised in the statement of financial position	-	-



Notes to the annual financial statements

for the year ended 31 March 2016

	Group	
	2016 R million	2015 R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS continued		
32.1.3 Transnet Second Defined Benefit Fund continued		
Reconciliation of movement in benefit liability		
Opening benefit liability	(13 611)	(14 470)
Interest cost	(1 035)	(1 025)
Actuarial gain/(loss)	696	(29)
- change in economic assumptions	770	222
- experience adjustments	216	50
- bonus award to pensioners	(290)	(301)
Benefits paid	2 032	1 913
Closing benefit liability	(11 918)	(13 611)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	17 085	17 036
Interest income	1 316	1 220
Actuarial (loss)/gain	(1 193)	742
Benefits paid	(2 032)	(1 913)
Closing fair value of plan assets	15 176	17 085
The estimated contributions by both employer and members for the year beginning 1 April 2016 amount to R nil (2015: R nil).		
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
8,23% (2015: 7,09%)	12 604	14 427
10,23% (2015: 9,09%)	11 302	12 876
The major categories of plan assets as a % of total plan assets are:		
Equity	36%	27%
Property	2%	1%
Bonds	40%	67%
Derivatives	14%	-
Cash	8%	5%
Total	100%	100%
32.1.4 Top Management Pension and Workmen's Compensation Act pensioners		
The Top Management Pension is additional benefits to top up pensions received to eliminate the effects of any early retirement and resignation penalties applied under the Group's existing pension fund schemes to management appointed prior to 1 April 1999. There were 381 members at 31 March 2016 (2015: 383). The entire obligation relates to Transnet SOC Ltd.		
The Workmen's Compensation Pension Fund Act benefit relates to the pension benefits that the Company pays to current and former employees who were disabled while in service prior to the corporatisation of Transnet in 1990. There were 1 119 members at 31 March 2016 (2015: 1 178).		
Actuarial valuations for both benefits were performed to determine the present value of the obligations based on the projected unit credit method. There are no plan assets held to fund these obligations.		

	Group	
	2016 R million	2015 R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS continued		
32.1.4 Top Management Pensions and Workmen's Compensation Act pensioners continued		
The following summarises the components of expense and liability recognised in the financial statements together with the assumptions adopted.		
Top Management Pension		
The principal assumptions in determining the benefits are as follows:		
Discount rate	9,18%	7,72%
Pension increase allowance	2,00%	2,00%
Benefit liability		
Present value of obligations	(64)	(73)
Liability recognised in the statement of financial position	(64)	(73)
Net expense recognised in profit or loss		
Interest cost	(5)	(6)
	(5)	(6)
Actuarial gain recognised in other comprehensive income for the year	5	(1)
Reconciliation of movement in benefit liability		
Opening benefit liability	(73)	(76)
Expense as above	(5)	(6)
Actuarial gain/(loss)	5	(1)
- change in economic assumptions	4	(4)
- experience adjustments	1	3
Benefits paid	9	10
Closing benefit liability	(64)	(73)
The estimated contribution (based on current year contribution) for the year beginning 1 April 2016 amounts to R9 million (2015: R9 million).		
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
8,18% (2015: 6,72%)	68	77
10,18% (2015: 8,72%)	61	68
Workmen's Compensation Act pensioners fund		
The principal assumptions in determining the benefits are as follows:		
Discount rate	9,78%	8,33%
Pension increase	7,77%	6,47%
Inflation rate	7,77%	6,47%
Benefit liability		
Present value of obligations	(493)	(508)
Liability recognised in the statement of financial position	(493)	(508)
Net expense recognised in profit or loss		
Interest cost	(41)	(36)
	(41)	(36)



Notes to the annual financial statements

for the year ended 31 March 2016

		Group	
		2016 R million	2015 R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS	continued		
32.1.4 Top Management Pension and Workmen's Compensation Act pensioners	continued		
Remeasurements recognised in other comprehensive income for the year		4	(82)
Reconciliation of movement in benefit liability			
Opening benefit liability		(508)	(440)
Interest cost		(41)	(36)
Actuarial gain/(loss)		4	(82)
- change in economic assumptions		17	(17)
- experience adjustments		(13)	(65)
Benefits paid		52	50
Closing benefit liability		(493)	(508)
The estimated contributions (based on current year contribution) for the year beginning 1 April 2016 amounts to R52 million (2015: R50 million).			
Sensitivity analysis			
<i>Closing benefit liability based on changes in discount rate:</i>			
8,78% (2015: 7,33%)		541	560
10,78% (2015: 9,33%)		452	463
<i>Closing benefit liability based on changes in the inflation rate:</i>			
6,77% (2015: 5,47%)		451	462
8,77% (2015: 7,47%)		541	561
32.1.5 HIV/Aids benefits			
Transnet Group offers certain assistance to employees diagnosed with Aids. The related data is not sufficient to actuarially value any liability the Group may have in this regard.			
32.2 Post-retirement medical benefits			
SATS Pensioners' post-retirement medical benefits			
The SATS pensioners are the retired employees of the former South African Transport Services (SATS) and their dependants. The liability is in respect of pensioners and their dependants who have elected to belong to the Transnet in-house medical scheme, Transmed, whose membership is voluntary. Transnet subsidises the medical contribution costs at a flat contribution of R800 per principal member per month.			
Transnet employees post-retirement medical benefits			
This includes the current and past employees of Transnet who are members of Transnet accredited medical schemes, namely Transnet's in-house medical aid, Transmed Medical Fund, Bestmed, Bonitas, Discovery Health and Sizwe. Membership is voluntary.			
Transnet subsidises members at a flat contribution of R213 per month per member family.			
To enable the Company to fully provide for such post-retirement medical liabilities, since April 2000, actuarial valuations are obtained annually. There are no assets held to fund the obligation.			
Analysis of benefit expense			
The following summarises the components of the net benefit expense recognised in both the statement of comprehensive income and statement of financial position as at 31 March 2016 for both SATS pensioners and Transnet employees. The projected unit credit method has been used for the purposes of determining the actuarial valuation for both funds.			

		Group	
		2016 R million	2015 R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS	continued		
32.2.1 SATS pensioners			
Discount rate		9,18%	7,92%
Benefit liability			
Present value of obligations		(507)	(623)
Liability recognised in the statement of financial position		(507)	(623)
Net expense recognised in profit or loss			
Interest cost		(47)	(47)
		(47)	(47)
Actuarial gain/(loss) recognised in other comprehensive income for the year		56	(11)
Reconciliation of movement in benefit liability			
Opening benefit liability		(623)	(689)
Interest cost		(47)	(47)
Company contributions		107	124
Actuarial gain/(loss)		56	(11)
- change in economic assumptions		35	(15)
- experience adjustments		21	4
Closing benefit liability		(507)	(623)
The estimated contribution (based on current year contribution) for the year beginning 1 April 2016 is R107 million (2015: R124 million).			
The medical inflation has no impact on the aggregate current service cost and interest cost and the benefit liability. However, the assumed discount rate has an impact. The sensitivity of the obligation to a change in the assumed discount rate of 9,18% (2015: 7,92%) on the present value of the obligation is as follows:			
Sensitivity analysis			
<i>Closing benefit liability based on changes in discount rate:</i>			
8,18% (2015: 6,92%)		530	653
10,18% (2015: 8,92%)		486	594



Notes to the annual financial statements

for the year ended 31 March 2016

	Group	
	2016 R million	2015 R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS continued		
32.2.2 Transnet employees		
Discount rate	9,18%	7,92%
Benefit liability		
Present value of obligations	(293)	(379)
Liability recognised in the statement of financial position	(293)	(379)
Net expense recognised in profit or loss		
Service cost	(13)	(14)
Interest cost	(28)	(37)
	(41)	(51)
Actuarial gain recognised in other comprehensive income for the year	102	110
Reconciliation of movement in benefit liability		
Opening benefit liability	(379)	(463)
Expense as above	(41)	(51)
Member and Company contributions	25	25
Actuarial gain	102	110
- change in economic assumptions	65	(28)
- experience adjustments	37	138
Closing benefit liability	(293)	(379)
The estimated contribution (based on current year contribution) for the year beginning 1 April 2016 is R25 million (2015: R25 million).		
Transnet subsidises members at a flat contribution of R213 per month per member family. The medical inflation has no impact on the aggregate current service cost and interest cost and the benefit liability. However, the assumed discount rate has an impact. The sensitivity of the obligation to a change in the assumed discount rate of 9,18% (2015: 7,92%) on the present value of the obligation is as follows:		
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
8,18% (2015: 6,92%)	(311)	(409)
10,18% (2015: 8,92%)	(276)	(351)
Exposure to risks		
The risks faced by Transnet as a result of the post-employment pension obligations can be summarised as follows:		
<ul style="list-style-type: none"> ▪ Inflation: The risk that future CPI inflation is higher than expected; ▪ Longevity: The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected; ▪ Open-ended, long-term liability: The risk that the liability may be volatile in the future and uncertain; ▪ Change in legislation: The risk that changes to legislation, including taxation laws with respect to the post-employment benefits may increase the liability for the Group; and ▪ Investment risk: The plan assets held by the Transport Pension Fund: Transnet Sub-fund and the Transnet Second Defined Benefit Fund are primarily invested in equities and bonds. This exposes the funds to a slight concentration of market risk. In addition, if the plan assets are not adequate or suitable to fund the liabilities of the funds (and the nature thereof), Transnet will be required to fund the deficit, thereby exposing it to investment return risk. 		

33. RELATED PARTY TRANSACTIONS

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

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

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

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

Transactions with related entities

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

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

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		Services rendered		
1 650	898	Major public enterprises	898	1 650
404	1 298	Other public enterprises	1 298	404
978	833	National Government business enterprises	833	978
27	29	Associates	29	27
-	8	Subsidiaries	-	-
3 059	3 066		3 058	3 059
		Services received		
2 411	2 559	Major public enterprises	2 559	2 411
323	402	Other public enterprises	402	323
880	483	National Government business enterprises	483	880
3 614	3 444		3 444	3 614
		Amount due (to)/from		
391	438	Major public enterprises	438	391
95	207	Other public enterprises	207	95
(2 200)	(2 053)	National Government business enterprises	(2 053)	(2 200)
1	1	Associates	1	1
(1 713)	(1 407)		(1 407)	(1 713)

During the year the Group raised R23 million (2015: R319 million) in relation to provisions and write-offs of bad debts on related parties and at year-end the Group had a provision of R508 million (2015: R485 million) against debtors pertaining to related parties.

Transactions with key management personnel

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

Details of key management compensation are set out in the Report of directors of the annual financial statements.

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



Notes to the annual financial statements

for the year ended 31 March 2016

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		34. CASH FLOW INFORMATION		
		34.1 Cash generated from operations		
7 553	1 448	Profit before taxation	1 468	7 590
6 128	7 302	Finance costs (refer note 34.3)	7 302	6 128
(212)	(398)	Finance income (refer note 34.4)	(408)	(221)
(1)	(2)	Dividend income	-	-
13 793	19 407	Elimination of non-cash items	19 385	13 783
10 951	15 275	- Depreciation, amortisation and derecognition (refer note 3)	15 275	10 951
53	250	- Increase in provision for employee benefits	250	53
-	7	- Impairment of loss-making subsidiaries and associates (refer note 4.2)	-	-
522	465	- Impairment of trade and other receivables and loans and advances (refer note 4.2)	465	522
442	1 058	- Impairment of property, plant and equipment (refer note 4.2)	1 058	442
-	1	- Impairment of intangible assets (refer note 4.2)	1	-
1 018	142	- Movement in provisions	142	1 018
-	-	- Income from associates and joint ventures (refer note 13)	(26)	(9)
(2 876)	(6 717)	- Fair value adjustments on derivatives	(6 717)	(2 876)
4 215	9 367	- Unrealised foreign exchange losses	9 367	4 215
(156)	(51)	- Profit on sale of property, plant and equipment (refer note 2)	(51)	(156)
-	3	- Loss on disposal of intangible assets (refer note 2)	3	-
-	(49)	- Profit on sale of investment property (refer note 2)	(49)	-
35	39	- Discount on bonds amortised (refer note 6)	39	35
(60)	81	- Provision for inventory obsolescence	81	(60)
(38)	(71)	- Forex adjustment and release of firm commitments	(71)	(38)
-	54	- Decommissioning liability adjustment (refer annexure B)	54	-
(315)	(439)	- Fair value adjustment of investment property (refer note 5)	(439)	(315)
2	(8)	- Other non-cash items	3	1
27 261	27 757		27 747	27 280
		34.2 Changes in working capital		
(42)	(332)	Increase in inventories	(332)	(42)
(1 083)	(674)	Increase in trade and other receivables	(672)	(1 082)
4 451	1 398	Increase in trade and other payables	1 412	4 451
3 326	392		408	3 327
		34.3 Finance costs		
6 287	7 473	Finance costs	7 481	6 287
2	39	Net foreign exchange gain on translation	31	2
(126)	(171)	Interest factor on claw back	(171)	(126)
(35)	(39)	Discounts on bonds amortised	(39)	(35)
6 128	7 302		7 302	6 128
-	(1 300)	Deferred interest	(1 300)	-
6 128	6 002		6 002	6 128

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		34. CASH FLOW INFORMATION continued		
		34.4 Finance income		
212	398	Finance income	408	221
(16)	(47)	Interest received - held-to-maturity	(47)	(16)
196	351		361	205
		34.5 Taxation (paid)/refunded		
(6)	(34)	Balance at the beginning of the year	(38)	(11)
73	4	Taxation as per income statements	2	64
34	14	Balance at the end of the year	13	38
101	(16)		(23)	91
		34.6 Cash and cash equivalents		
6 121	13 793	Total cash and cash equivalents at the end of the year	13 943	6 264
		35. HEADLINE EARNINGS		
5 274	373	Profit for the year attributable to equity holder	393	5 302
(156)	(51)	Profit on disposal of property, plant and equipment (refer note 2)	(51)	(156)
-	3	Loss on disposal of intangible assets (refer note 2)	3	-
-	(49)	Profit on sale of investment property (refer note 2)	(49)	-
(315)	(439)	Fair value adjustments on investment properties (refer note 5)	(439)	(315)
442	1 058	Impairment of property, plant and equipment (refer note 4.2)	1 058	442
-	1	Impairment of intangible assets (refer note 4.2)	1	-
-	7	Impairment of subsidiaries (refer note 4.2)	-	-
5 245	903	Headline earnings before taxation effects	916	5 273
		Taxation effects		
44	14	Profit on disposal of property, plant and equipment	14	44
-	(1)	Loss on disposal of intangible assets	(1)	-
-	14	Profit on sale of investment property	14	-
59	82	Fair value adjustments on investment properties	82	59
(124)	(296)	Impairment of property, plant and equipment	(296)	(124)
-	(2)	Impairment of subsidiaries	-	-
5 224	714	Headline earnings	729	5 252



ANNEXURE A
for the year ended 31 March 2016

INTRODUCTION

The Group has a centralised Treasury function which performs a supporting role to the Transnet Operating divisions and is tasked with the following three main objectives, namely:

- Ensuring that the Group is cost-effectively and timeously funded in support of the Group's MDS, which are mainly executed by the Operating divisions;
- Manage both financial and operational risks; and
- Lower the overall cost of doing business and add value to the overall business of Transnet.

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

Policies

The Financial Risk Management policies are contained in a Board approved Financial Risk Management Framework (FRMF). The objective of the FRMF is to provide clear guidelines to effective risk management by ensuring that:

- Risks are independently identified, assessed, quantified, mitigated and monitored regularly;
- Mitigating hedging strategies are developed and implemented;
- The effectiveness of hedging strategies are monitored monthly; and
- Risk exposures are performance measured and formally reported to appropriate authorities.

The FRMF is approved by the Board on an annual basis and is aligned with the Group Enterprise-Wide Risk Management Framework (ERM), the Treasury Regulations, PFMA, King III Code and the Protocol on Corporate Governance, Charter of Best Practice of the Association of Corporate Treasurers of South Africa (ACTSA) and other applicable legislation and regulations.

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

RISK PHILOSOPHY

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

RISK PROFILE AND RISK MANAGEMENT

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

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

Liquidity risk

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

- To manage the contractual maturity gap between assets and liabilities;
- To manage current and projected cash flows;
- To maintain an adequate level of cash holdings;

- To diversify funding sources and have funding programmes available to reduce reliance on particular sources to support effective liquidity risk management;
- To spread the maturity of debt issues to reduce refinancing risk;
- To do pre-funding of major capital redemptions to mitigate liquidity risk; and
- Where needed, extend the debt portfolio to match the underlying assets.

During the past financial year, Transnet used the Domestic Medium Term Note (DMTN) programme (The total value of the DMTN programme is R55 billion. Total bonds and commercial paper issued under the DMTN programme was R4,6 billion and R3,5 billion respectively); to mitigate liquidity risk exposure. The total value of the Global Medium Term Note (GMTN) programme is USD6 billion and has not been utilised during the financial year. The total funding raised from Development Finance Institutions was R8,3 billion and R19,1 billion from syndicated and bank loans.

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

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

Additional thresholds have been included in the past financial year to ensure committed facilities are diversified across different markets, as well as inclusion of important liquidity risk ratios from a rating agency perspective.

Counterparty risk

Counterparty risk exposures arises mainly as a result of the investment of operational cash on hand, surplus cash due to pre-funding strategies, positive fair market values of derivative hedging instruments and guarantees issued by counterparties to mitigate financial risks in supply agreements. The Group's main objectives of its counterparty risk policies are:

- To mitigate counterparty risk exposures;
- To diversify counterparty risk exposures;
- To set limits for the different types of counterparty risk exposures; and
- To ensure that financial transactions are done with approved high credit quality counterparties.

The counterparty risk policy of the Group is fully aligned with the requirements of the Treasury Regulations as referred to in the PFMA:

- Selection of counterparties through credit risk analysis;
- Establishment of investment limits per institution;
- Establishment of investment limits per investment instrument;
- Monitoring of investments against limits;
- Reassessment of investment policies on a regular basis;
- Reassessment of counterparty credit risk based on credit ratings; and
- Assessment of investment instruments based on liquidity requirements.

Financial assets that potentially subject the Group to concentrations of credit risk consist primarily of operational cash balances, call investments, short-term deposits, money market fund investments and positive fair market values of derivatives and trade receivables. The Group's exposures to counterparty risks in respect of all Treasury related transactions are confined to credible counterparties and are managed within Board approved credit limits. Limits are reviewed and approved by the Board Audit Committee on an annual basis. Trade receivables are presented net of impairments. It is Treasury's policy to perform ongoing credit evaluations of the financial position of its counterparties. Guarantees are issued under specific powers granted in terms of section 66 of the PFMA, and in accordance with a Board approved DOA Framework.

Investments and hedging transactions are only allowed with international counterparties that are local authorised dealers with a minimum international long-term issuer default credit rating of A- (Fitch Ratings) or A- (Standard and Poor's) or



Annexure A
for the year ended 31 March 2016

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

Market risk

This will be discussed under the following headings: foreign currency, commodity, interest rate and other price risk.

Foreign currency risk

Foreign currency risk arises mainly as a result of the Group's MDS and operational expenditure programmes, where goods are imported from foreign countries and are exposed to currency fluctuations as well as the raising of funding in a foreign currency. Transnet's main objectives of its foreign currency risk policies are:

- To mitigate foreign currency risk exposures;
- To bring certainty about future Rand cash flows; and
- To insulate the Group's statement of comprehensive income against exchange rate fluctuations.

Transnet's policy only allows unhedged foreign currency risk exposures limited to 0,5% of annual operational budget and 1% of annual capital expenditure budget. All foreign currency risk exposures are hedged within the guidelines of the Board approved FRMF and DOA as soon as the supplier and funding agreements are signed. It is the Group's preference to enter into Rand based supplier and funding agreements, if this can be achieved at an acceptable cost, with no FX risk recourse to Transnet. If this approach is not cost-effective, Transnet will then hedge on its own financial position. No pooling of hedging across different exposure types is allowed and hedging is done per project exposure. The foreign currency position is monitored on a monthly basis, by obtaining the net foreign currency position in all the major currencies i.e. US dollar (USD), euro, pound sterling (GBP) and Japanese yen (JPY) and other foreign currencies. Foreign currency risk exposures are fully hedged until maturity with vanilla hedging instruments after careful consideration and analysis of the taxation, financial risk, accounting, operational and system implications. Hedge accounting is applied to all major structures to minimise volatility in the statement of comprehensive income and the performance is monitored monthly by the Hedge Accounting Committee, which is a sub-committee of the Group Finance Committee to ensure proper implementation and adherence to guidelines.

Commodity risk

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

Interest rate risk

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

- Manage the ratio of floating rate exposures versus fixed rate exposures;
- Reduce the weighted average cost of debt (WACD) to ensure the gap to prevailing market rates is reduced;
- Take advantage of interest rate cycles;

- Support the business strategy in so far as interest rates are concerned;
- Minimise the negative impact of adverse interest rate movements on the Group's net income, cash flows and external finance cost budget within an acceptable risk profile;
- Minimise the market-making cost of the Group's repo facilities granted to the external market-making panel under the DMTN programme;
- Manage the basis risk exposure where interest rate risk is netted between investments and borrowings; and
- Manage the duration of the debt portfolio (including derivatives) to try and achieve alignment with the duration of the average payback periods of assets.

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

Other price risk

The only other market risk the Company and Group is exposed to, is equity price risk. Equity price risk is the risk of fair value changes in future cash flows of a financial instrument as a result of changes in the underlying share price. Transnet does not trade in equities and the only exposure of this nature at report date was an equity investment in Brazil which is listed on the Brazilian Stock Exchange.

Liquidity risk

Bonds at carrying and nominal values:

Transnet issues domestic bonds listed on the Johannesburg Securities Exchange (JSE), Luxembourg Stock Exchange and the London Stock Exchange (LSE). The following bonds were in issue at 31 March 2016 for the Company and the Group.

				2016		2015	
		Redemption date	Coupon rate %	Carrying value R million	Nominal value R million	Carrying value R million	Nominal value R million
Domestic rand bonds	TN17	14 Nov 17	9,25	6 906	7 000	6 858	7 000
	TN20	17 Sept 20	10,50	7 206	7 000	7 243	7 000
	TN23	6 Nov 23	10,80	7 279	7 000	7 307	7 000
	TN25	19 Aug 25	9,50	6 620	6 555	5 573	5 437
	TN27	14 Nov 27	8,90	6 416	7 000	6 392	7 000
	TNF30	9 Oct 30	10,50	2 951	2 959	1 051	1 021
	TNF40	9 Oct 40	10,75	2 920	2 913	1 267	1 238
	TNF16 FRN	10 Jun 16	8,12	3 286	3 286	3 286	3 286
	TNF18 FRN	22 Aug 18	8,29	1 500	1 500	1 500	1 500
	TNF20U FRN	14 Apr 20	8,41	1 000	1 000	1 000	1 000
Total domestic rand bonds				46 084	46 213	41 477	41 482
Foreign rand bonds	TNZA21	13 May 21	9,50	5 000	5 000	5 000	5 000
	Euro 13,5% 2028 ¹	18 Apr 28	13,50	1 958	2 000	1 957	2 000
	Euro 10% 2029 ¹	30 Mar 29	10,00	1 075	1 500	1 065	1 500
Total foreign rand bonds				8 033	8 500	8 022	8 500
USD bonds	TNUS16	10 Feb 16	4,50	-	-	9 096	9 107
USD bonds	TNUS22	26 July 22	4,00	14 570	14 691	12 037	12 142
Total foreign currency bonds				14 570	14 691	21 133	21 249
Total bonds in issue at year-end				68 687	69 404	70 632	71 231

⁽¹⁾ These bonds are guaranteed by the Government of the Republic of South Africa and the Company paid R1,2 million in guarantee fees (2015: R1,2 million). The amounts in the above table are all in respect of bonds held at amortised cost.



Annexure A
for the year ended 31 March 2016

Concentration of liquidity risk

The sources of funding are tabled below. Altogether 53% of the borrowings are widely held (2015: 67%):

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
604	3 482	ABSA Bank Ltd	3 482	604
2 196	1 858	African Development Bank	1 858	2 196
1 519	1 959	American Family Life Assurance Co. (AFLAC)	1 959	1 519
-	3 000	Bank of China	3 000	-
-	6 364	China Development Bank	6 364	-
971	881	Export Development Canada	881	971
-	1 500	FutureGrowth Asset Management (Pty) Ltd	1 500	-
1 441	1 297	French Development Bank	1 297	1 441
6 992	6 992	Investec Bank Ltd	6 992	6 992
-	6 066	JPMorgan Chase Bank	6 066	-
-	2 760	KfW Development Bank	2 760	-
644	621	KFWIPEX Bank GmbH/RMB/China Construction Bank	621	644
1 701	1 604	Libfin	1 604	1 701
2 125	4 749	Nedbank Ltd	4 749	2 125
-	1 450	Old Mutual Life Assurance Company (SA) Ltd	1 450	-
-	1 050	Old Mutual Specialized Finance (Pty) Ltd	1 050	-
4 004	3 376	RMB/Division of FirstRand Bank Ltd	3 376	4 004
1 900	1 700	Standard Bank Corporate Investment Bank	1 700	1 900
441	372	Standard Bank London	372	441
3 485	3 012	Sumitomo Mitsui Banking Corporation	3 012	3 485
7 849	7 879	The Bank of Tokyo Mitsubishi Ltd.	7 879	7 849
		Various holders of Transnet bonds and commercial paper, widely held, and traded*		
74 397	70 880		70 880	74 397
106	1 663	Other	1 665	108
110 375	134 515		134 517	110 377

* Includes bonds held at amortised cost R68 687 million, commercial paper R2 100 million and repo liabilities R92 million (2015: Includes bonds held at amortised cost R70 632 million, commercial paper R3 644 million and repo liabilities R121 million).

Funding plan

Over the next seven years Transnet will raise R97,4 billion from the market which is just above a third of Transnet's R277,8 billion capital investment plan.

	Target		Projections					Total
	2017 R million	2018 R million	2019 R million	2020 R million	2021 R million	2022 R million	2023 R million	
Loan redemptions	(9 458)	(11 629)	(6 878)	(4 638)	(11 595)	(8 259)	(15 160)	(67 617)
Total funding requirement	(7 718)	(17 094)	(11 128)	(13 093)	(18 552)	(18 141)	(11 673)	(97 399)

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

	2017 R million	2018 R million	2019 R million	2020 R million
Commercial paper	1 000	1 100	1 000	1 100
Domestic bonds	2 100	6 000	5 000	5 000
DFIs/ECA's/GMTN	3 500	8 000	3 100	5 000
Bank loans/other	1 100	2 000	2 000	2 000
Total funding	7 700	17 100	11 100	13 100

Contractual maturity analysis

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements as at 31 March 2016, for the Company and the Group:

	Carrying value 2016 R million	Contractual cash flows 2016 R million	0 to 12 months R million	1 to 2 years R million	2 to 3 years R million	3 to 4 years R million	4 to 5 years R million	More than 5 years R million
Non-derivative financial liabilities								
Bonds (Company and Group)	(68 687)	(118 326)	(7 544)	(12 764)	(6 556)	(4 984)	(12 537)	(73 941)
Secured bank loans Company	(10 036)	(14 075)	(262)	(1 069)	(1 084)	(1 416)	(1 719)	(8 525)
Secured bank loans Group	(10 038)	(14 077)	(264)	(1 069)	(1 084)	(1 416)	(1 719)	(8 525)
Unsecured bank loans (Company and Group)	(51 937)	(78 299)	(13 644)	(8 934)	(9 318)	(7 849)	(5 860)	(32 694)
Commercial paper (Company and Group)	(2 100)	(2 100)	(2 100)	-	-	-	-	-
Other short-term borrowings (Company and Group)	(1 755)	(1 755)	(1 755)	-	-	-	-	-
Total borrowings Company	(134 515)	(214 555)	(25 305)	(22 767)	(16 958)	(14 249)	(20 116)	(115 160)
Total borrowings Group	(134 517)	(214 557)	(25 307)	(22 767)	(16 958)	(14 249)	(20 116)	(115 160)
Trade payables and accruals Company ¹	(20 178)	(20 178)	(20 178)	-	-	-	-	-
Trade payables and accruals Group ¹	(20 220)	(20 220)	(20 220)	-	-	-	-	-
Derivative financial liabilities (Company and Group)								
Interest rate swaps	(480)	(567)	(212)	(158)	(84)	(53)	(23)	(37)
Forward exchange contracts used for hedging	(14)	(16)	(14)	(2)	-	-	-	-
Outflow	(340)	(343)	(331)	(12)	-	-	-	-
Inflow	326	327	317	10	-	-	-	-
Other forward exchange contracts	(26)	(25)	(25)	-	-	-	-	-
Outflow	(495)	(496)	(496)	-	-	-	-	-
Inflow	469	471	471	-	-	-	-	-
Total derivative financial liabilities	(520)	(608)	(251)	(160)	(84)	(53)	(23)	(37)

¹ Trade payables and accruals exclude employee benefits and VAT related accruals.



Annexure A
for the year ended 31 March 2016

Contractual maturity analysis continued

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements as at 31 March 2015 for the Company and the Group:

	Carrying value 2015 R million	Contractual cash flows 2015 R million	0 to 12 months R million	1 to 2 years R million	2 to 3 years R million	3 to 4 years R million	4 to 5 years R million	More than 5 years R million
Non-derivative financial liabilities								
Bonds (Company and Group)	(70 632)	(117 060)	(14 850)	(8 448)	(12 114)	(5 904)	(4 342)	(71 402)
Secured bank loans								
Company	(4 143)	(5 608)	(796)	(793)	(791)	(778)	(767)	(1 683)
Secured bank loans Group	(4 145)	(5 610)	(796)	(795)	(791)	(778)	(767)	(1 683)
Unsecured bank loans								
(Company and Group)	(31 729)	(42 569)	(5 424)	(6 253)	(6 166)	(6 432)	(5 032)	(13262)
Commercial paper								
(Company and Group)	(3 644)	(3 754)	(3 754)	-	-	-	-	-
Other short-term borrowings (Company and Group)	(227)	(227)	(227)	-	-	-	-	-
Total borrowings Company	(110 375)	(169 218)	(25 051)	(15 494)	(19 071)	(13 114)	(10 141)	(86 347)
Total borrowings Group	(110 377)	(169 220)	(25 051)	(15 496)	(19 071)	(13 114)	(10 141)	(86 347)
Trade payables and accruals Company ²	(15 033)	(15 033)	(15 033)	-	-	-	-	-
Trade payables and accruals Group ²	(15 061)	(15 061)	(15 061)	-	-	-	-	-
Derivative financial liabilities (Company and Group)								
Cross-currency swaps ¹	-	-	-	-	-	-	-	-
Forward exchange contracts used for hedging	(45)	(64)	(40)	(20)	(4)	-	-	-
Outflow	(614)	(633)	(537)	(84)	(12)	-	-	-
Inflow	569	569	497	64	8	-	-	-
Other forward exchange contracts	(12)	(4)	(4)	-	-	-	-	-
Outflow	(220)	(220)	(155)	(64)	(1)	-	-	-
Inflow	208	216	151	64	1	-	-	-
Total derivative financial liabilities	(57)	(68)	(44)	(20)	(4)	-	-	-

¹ Cross-currency swaps are all in the money.

² Trade payables and accruals exclude employee benefits and VAT related accruals.

Credit risk

Maximum exposure and analysis of exposures to credit risk

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

	2016				2015			
	Carrying value R million	Neither past due nor impaired R million	Past due but not impaired R million	Impaired R million	Carrying value R million	Neither past due nor impaired R million	Past due but not impaired R million	Impaired R million
Company								
Trade receivables								
- Low risk	4 161	3 990	171	(651)	4 337	4 207	130	(699)
- Medium risk	1 089	744	345	(330)	1 417	1 225	192	(161)
- High risk	1 175	345	830	(611)	1 029	482	547	(377)
	6 425	5 079	1 346	(1 592)	6 783	5 914	869	(1 237)
Other amounts receivable ²	1 556	1 025	531	(45)	1 109	689	420	(26)
Investments - current	1 641	1 641	-	-	708	708	-	-
Long and short-term loans and advances ¹	25	25	-	-	26	26	-	-
Loans to subsidiaries and associates	3	3	-	(406)	3	3	-	(399)
Guarantees issued	-	-	-	-	157	-	-	-
Investment and price risk ³	29 818	-	-	-	19 841	-	-	-
Group								
Trade receivables								
- Low risk	4 163	3 951	212	(649)	4 338	4 167	171	(699)
- Medium risk	1 089	743	346	(330)	1 417	1 225	192	(161)
- High risk	1 175	345	830	(629)	1 029	482	547	(395)
	6 427	5 039	1 388	(1 608)	6 784	5 874	910	(1 255)
Other amounts receivable ²	1 556	1 025	531	(45)	1 112	692	420	(26)
Investments - current	1 641	1 641	-	-	708	708	-	-
Long and short-term loans and advances ¹	25	25	-	-	26	26	-	-
Guarantees issued	-	-	-	-	157	-	-	-
Investment and price risk ³	29 818	-	-	-	19 841	-	-	-

¹ Long-term loans and advances (Company and Group) R21 million (2015: R24 million).
Short-term loans and advances (Company and Group) R4 million (2015: R2 million).

² Reconciliation to note 18	Company	Group
Other amounts receivable	R1 556 million (2015: R1 109 million).	R1 556 million (2015: R1 112 million).
Prepayments	R548 million (2015: R434 million).	R548 million (2015: R434 million).
Prepayments and other amounts receivable	R2 104 million (2015: R1 543 million).	R2 104 million (2015: R1 546 million).

³ Investment risk includes call and fixed deposits as well as money market funds. The high investment exposure for 2015 and 2016 is the result of pre-funding done to minimise liquidity risk to fund the capital expenditure programme.

Low risk: No guarantee is required from the customer.

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

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

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

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

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

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

Credit enhancements in the form of title deeds and pension fund cessions for loans and advances and deposits and guarantees in respect of amounts included in trade and other receivables and loans and advances, are held by the Group. The Group took possession of some collateral during the current financial year amounting to R1,0 million (2015: R1,4 million).



Annexure A
for the year ended 31 March 2016

The following represents the ageing of the carrying value of financial assets past due but not impaired at 31 March 2016 for the Group:

	Past due	1 - 30 days			Past due	31 - 60 days			Past due	Greater than 60 days		
		Low risk	Medium risk	High risk		Low risk	Medium risk	High risk		Low risk	Medium risk	High risk
2016												
Trade receivables	305	38	111	156	169	2	70	97	914	172	165	577
Other receivables	400	400	-	-	22	22	-	-	109	109	-	-
2015												
Trade receivables	241	44	94	103	126	22	25	79	543	106	73	364
Other receivables	357	357	-	-	41	41	-	-	22	22	-	-

Guarantees and deposits to the value of R45 million were held as collateral (2015: R495 million).

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

	2016 R million	2015 R million
Trade receivables		
Company		
Low risk	383	246
Medium risk	136	204
High risk	334	51
Group		
Low risk	384	247
Medium risk	137	204
High risk	334	51

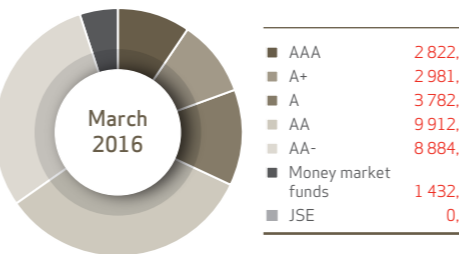
Financial assets have been impaired based on the age of the debt and the inability to recover these specified assets. Guarantees and deposits amounting to R415 million (2015: R252 million) were held with respect to these. Payment terms were renegotiated with certain counterparties in respect of trade receivables during the year.

Concentration of credit risk

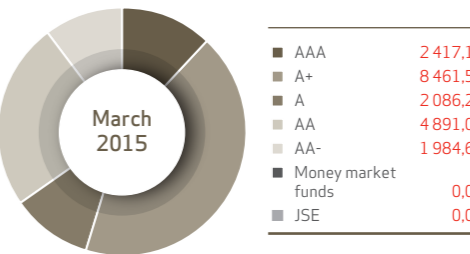
The Company's and Group's 12 most significant customers (South African industrial enterprises) comprise 48% of the trade receivables carrying amount at 31 March 2016 (2015: 53%).

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

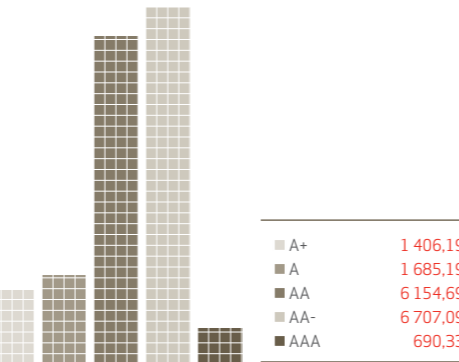
Transnet risk per long-term rating (R million)



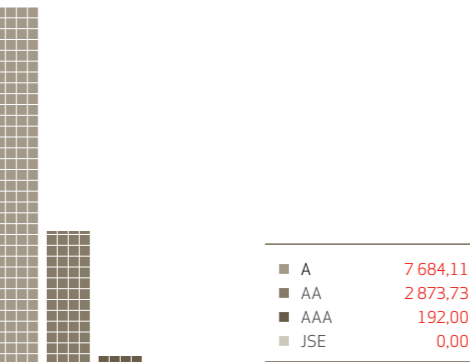
Transnet risk per long-term rating (R million)



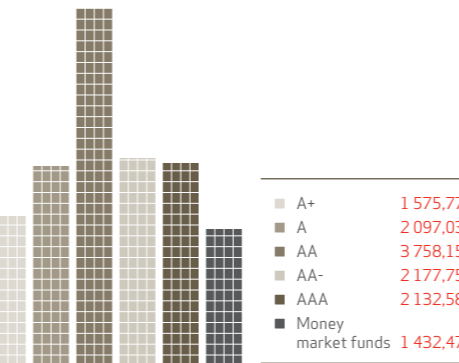
Transnet risk (derivatives) per long-term rating - 2016 (R million)



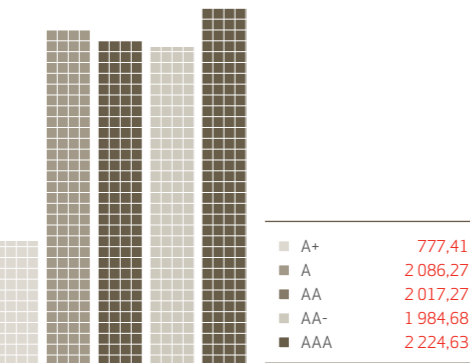
Transnet risk (derivatives) per long-term rating - 2015 (R million)



Transnet risk (investments) per long-term rating - 2016 (R million)



Transnet risk (investments) per long-term rating - 2015 (R million)





Annexure A
for the year ended 31 March 2016

Market risk

Foreign currency risk

The Company's and Group's net long (short) foreign currency risk exposures as at 31 March 2016 are reflected below (expressed in notional amounts).

	2016					2015				
	USD US\$/m	JPY ¥/m	EUR €/m	AUD AUS\$/m	Other currencies exposure in USD US\$/m	USD US\$/m	JPY ¥/m	EUR €/m	AUD AUS\$/m	Other currencies exposure in USD US\$/m
Foreign currency bonds	(1 000)	-	-	-	-	(1 750)	-	-	-	-
Unsecured bank loans	(1 132)	(29 630)	(43)	-	-	(867)	(32 556)	(50)	-	-
Brazil equity investment	-	-	-	-	-	4	-	-	-	-
Gross financial position exposure	(2 132)	(29 630)	(43)	-	-	(2 613)	(32 556)	(50)	-	-
Exposures for future expenditure	(26)	-	(7)	-	-	(39)	-	(15)	-	-
Gross foreign currency exposure	(2 158)	(29 630)	(50)	-	-	(2 652)	(32 556)	(65)	-	(1)
Forward exchange contracts	26	-	7	-	-	39	-	15	-	1
Cross-currency swaps	2 132	29 630	43	-	-	2 617	32 556	50	-	-
Contingent credit default swaps	(398)	-	-	-	-	-	-	-	-	-
Net uncovered exposure	(398)	-	-	-	-	4	-	-	-	-

Sensitivity analysis

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

	2016				2015			
	Currency exposure in millions of currency	Fair value R million	Impact of Rand strengthening R million	Impact of Rand weakening R million	Currency exposure in millions of currency	Fair value R million	Impact of Rand strengthening R million	Impact of Rand weakening R million
Currency								
EUR	(9)	(22)	(25)	25	(18)	(11)	(15)	15
USD	(19)	(1)	(48)	48	(2)	-	(2)	2
Totals		(23)	(73)	73		(11)	(17)	17

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

Value at risk (fx)

The value at risk (VaR) for direct committed capital and operational exposures and the Brazilian equity investment is R0,5 million (2015: R4 million). VaR calculates the maximum pre-taxation loss expected (or worst case scenario) on a position held, over a 90-day horizon given a 95% confidence level and is used on a limited basis at Transnet. The VaR methodology is a statistically defined, probability-based approach that takes into account, inter alia, market volatilities relative to a position held. The Group uses historical simulation and the model assumes that historical patterns will repeat into the future and does not take extreme market conditions into account.

Foreign exchange rates

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

	2016	2015
US dollar	15,5344	12,1422
Japanese yen	0,1378	0,1012
Euro	17,3768	13,0261
Australian dollar	11,7013	9,2499

Interest rate risk

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

Company		Group	
2015 R million	2016 R million	2016 R million	2015 R million
(81 583)	(102 321)	(102 323)	(81 585)
(27 968)	(32 194)	(32 194)	(27 968)
(109 551)	(134 515)	(134 517)	(109 553)

¹ These values include the repo liability of R92 million (2015: R121 million), which have a maturity term of one week.

The exposure to floating interest rates on foreign financial liabilities before swaps is R18 757 million (2015: R12 662 million) for the Company and Group, but 66% of the floating foreign currency has been switched to fixed rates. The Board approved a targeted range of fixed interest rates that may be managed to enable management to utilise interest rate yields.

Sensitivity analysis

The sensitivity analysis below reflects the interest rate impact on the finance cost budget for the 2017 financial year in respect of existing liabilities and new funding requirements.

Impact	2017					2016				
	Shift +100bp R million	Shift -200bp R million	Shift +250bp R million	Shift -500bp R million	Shift +500bp R million	Shift +100bp R million	Shift -200bp R million	Shift +250bp R million	Shift -500bp R million	Shift +500bp R million
Finance cost impact (increase)/decrease (Company and Group)	716	1 545	302	2 373	(389)	(421)	491	(877)	1 403	(1 637)

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



Annexure A
for the year ended 31 March 2016

Price risk

The Group has an exposure to equity price risk on the Brazilian Stock Exchange. At year-end, the quoted value of the Group's investment in Brazil was R10 million (2015: R43 million). Management believes that the foreign exchange exposure on this investment is significantly greater than that of equity price risk and as such the sensitivity for this investment has been included in the foreign currency risk net position and VaR calculations.

Commodity price risk (fuel)

The table below shows the cash flow at risk scenarios against the approved fuel budget for the 2017 financial year at various levels of Brent crude and USD/ZAR (\$/R) exchange rates as at 31 March 2016 (excluding energy levies): Amounts are in R million.

Performance to budget					
31 March 2016	\$/R12,99	\$/R14,00	\$/R15,33	\$/R18,08	\$/R20,00
Brent @ \$26	510	468	405	313	242
Brent @ \$30	437	389	317	211	129
Brent @ \$41	210	145	54	(27)	(88)
Brent @ \$56	(24)	(75)	(152)	(266)	(353)
Brent @ \$60	(73)	(127)	(210)	(333)	(427)

The table below shows the cash flow at risk scenarios against the approved budget for the 2016 financial year at various levels of Brent crude and USD/ZAR (\$/R) exchange rates as at 31 March 2015 (excluding energy levies). Amounts are in R million.

Performance to budget					
31 March 2015	\$/R10,54	\$/R11,00	\$/R11,85	\$/R12,50	\$/R13,16
Brent @ \$43	804	767	699	647	594
Brent @ \$50	676	633	555	495	434
Brent @ \$55	574	528	441	375	308
Brent @ \$67	345	288	183	103	21
Brent @ \$75	191	128	10	(79)	(171)

Classification, fair values and analysis of financial instruments

Categories of financial instruments:

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
15 181	23 988	Financial assets Loans and receivables (including bank and cash, trade and other receivables)	24 140	15 328
11 392	13 400	Fair value through profit and loss - Derivatives held-for-hedging	13 400	11 392
125 302	150 747	Financial liabilities Liabilities measured at amortised cost (including trade and other payables)	150 791	125 332
70	247	Fair value through profit and loss - Derivatives held-for-hedging	247	70
106	893	- Finance lease liabilities	893	106

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

Company				Group			
2015 Fair value R million	Carrying value R million	2016 Fair value R million	Carrying value R million		2016 Fair value R million	Carrying value R million	2015 Fair value R million
99 316	110 269	130 966	133 622	Borrowings	130 968	133 624	99 318
69	106	685	893	Finance lease obligations	685	893	69
							106

Fair values of financial instruments

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

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

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
2016				
Financial assets at FVTPL*				
Derivative financial assets used for hedging (Company and Group)	-	13 807	(407)	13 400
Financial liabilities at FVTPL*				
Derivative financial liabilities used for hedging (Company and Group)	-	247	-	247
2015				
Financial assets at FVTPL*				
Derivative financial assets used for hedging (Company and Group)	-	11 392	-	11 392
Financial liabilities at FVTPL*				
Derivative financial liabilities used for hedging (Company and Group)	-	70	-	70

* FVTPL - Fair value through profit and loss.



Annexure A
for the year ended 31 March 2016

Measurement of fair values

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

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

¹ Fair values include market observable credit valuation adjustments (CVA).
² An additional credit event is applicable in an event of default by Transnet whereby both the credit default swap and cross currency swap will settle at a zero market value should such an event occur. Five cross-currency swaps are affected of which the total fair value is R1 299 million.
³ Fair values include market observable debit valuation adjustments (DVA).
⁴ Other financial liabilities include borrowings and finance lease obligations.

Transfers between level 1 and 2

There were no transfers in either direction between level 1 and 2 in both the current financial year and in 2015.

Level 3 fair values

Reconciliation and transfers out of level 3: There were neither level 3 inputs nor transfers in either direction in both the current financial year and in 2015.

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

	Company	Group
	Net gain/(loss) R million	Net gain/(loss) R million
2016		
Liabilities measured at amortised cost ¹ (refer note 6)	(10 783)	(10 783)
Loans and receivables and held to maturity investments (refer note 7)	398	408
Liabilities held-for-trading ² (refer note 5)	(908)	(908)
2015		
Liabilities measured at amortised cost ¹ (refer note 6)	(8 632)	(8 632)
Loans and receivables and held-to-maturity investments (refer note 7)	212	221
Liabilities held-for-trading ² (refer note 5)	(137)	(137)

¹ The net loss on financial liabilities measured at amortised cost consists mainly of interest expense after offsetting against effective cash flow hedges.
² The net (loss)/gain on Company and Group financial assets and financial liabilities held for trading is a R908 million loss (2015: R137 million loss). These are held for hedging purposes.

Transnet's credit rating

Transnet is officially rated by Standard and Poor's (S&P) and Moody's Investors Service (Moody's). The Company maintained its investment grade rating for the year ended 31 March 2016 as follows:

Rating category	Standard & Poor's	Moody's
Foreign currency	BBB-	Baa2
Local currency	BBB+	Baa2
National rating	zaAAA+/zaA-1	A1.za/A2.za
Rating outlook	Negative	Negative

On 5 June 2015, Moody's downgraded the issuer rating of Transnet by one notch to Baa2/stable outlook from Baa1/negative outlook. The main reason sighted for the downgrade is the stagnant economic conditions in South Africa of which Moody's is of the view that it will not adequately support the MDS investment, as well as the projected volume growth.

On 10 December 2015, Standard and Poor's changed the outlook on Transnet to negative from stable following a similar action on the sovereign rating.

On 17 December 2015, Moody's also changed the outlook on Transnet to negative from stable following a similar action on the sovereign rating.

On 11 March 2016, Moody's placed Transnet ratings under review for possible downgrade following a similar action on the sovereign ratings. If downgraded, Transnet will be on Baa3, which is the last investment grade rating i.e. one notch above sub-investment grade.

In May 2016, Moody's affirmed Transnet's Baa2 credit rating with a negative outlook in line with the sovereign debt outlook.

Both rating agencies apply the GRE/I (Government related entity/issuer) criteria in rating Transnet as the likelihood of extraordinary support from the government, if needed, is considered to be extremely high.



ANNEXURE B

for the year ended 31 March 2016

PROPERTY, PLANT AND EQUIPMENT RECONCILIATION

	Aircraft R million	Floating craft R million	Land, buildings and structures R million	Machinery equipment and furniture R million	Permanent way and works R million	Pipeline networks R million	Port facilities R million	Rail infra- structure R million	Rolling stock and containers R million	Vehicles R million	Capital work-in- progress R million	31 March 2016 Total R million	31 March 2015 Total R million
Company and Group													
Balance at the beginning of the year													
Historical cost and revaluation	171	2 462	25 919	9 253	766	32 063	108 808	94 321	76 378	1 057	47 052	398 250	295 979
Accumulated depreciation	(131)	(690)	(5 910)	(5 013)	(101)	(12 884)	(40 348)	(19 036)	(23 974)	(638)	-	(108 725)	(86 499)
Accumulated impairment	-	(1)	(168)	(205)	(1)	(290)	(750)	(43)	(648)	(39)	(214)	(2 359)	(2 158)
Opening net carrying value at 1 April	40	1 771	19 841	4 035	664	18 889	67 710	75 242	51 756	380	46 838	287 166	207 322
Current year movements													
Replacements	5	182	-	79	14	-	11	150	-	31	18 015	18 487	19 049
Expansions	-	-	-	98	-	-	21	-	19	874	10 062	11 074	14 516
Decommissioning liability adjustment	-	-	-	-	-	(54)	-	-	-	-	-	(54)	-
Disposals	-	-	(5)	-	-	-	(7)	-	(7)	(1)	(3)	(23)	(136)
Depreciation	(10)	(122)	(838)	(808)	(15)	(709)	(2 305)	(1 986)	(7 077)	(226)	-	(14 096)	(10 340)
Derecognition	-	-	-	(40)	-	-	-	(98)	(807)	-	-	(945)	(420)
Revaluation/(devaluation)	-	-	386	-	-	808	4 678	(6 648)	-	-	-	(776)	55 276
Impairment- historical cost and revaluation	-	-	(5)	(34)	-	(89)	221	(3)	(472)	(8)	(668)	(1 058)	(442)
Transferred to intangibles assets	-	-	-	(14)	-	-	-	-	-	-	(163)	(177)	(97)
Transfers (to)/from non-current assets classified as held-for-sale	-	-	(1)	(2)	-	-	(11)	-	(106)	-	-	(120)	112
Transfer to investment property	-	-	(506)	-	-	-	-	-	-	-	(85)	(591)	(194)
Forex adjustment	-	-	-	-	-	-	-	-	93	-	18	111	(12)
Borrowing costs capitalised	-	67	14	5	8	-	-	-	-	-	3 411	3 505	2 482
Release of firm commitment	-	-	-	(1)	-	-	-	-	-	-	(39)	(40)	50
Transfer from capital work-in-progress to assets	-	767	1 446	1 575	117	3 264	1 573	3 951	16 556	196	(29 445)	-	-
	(5)	894	491	858	124	3 220	4 181	(4 634)	8 199	866	1 103	15 297	79 844
Closing carrying value	35	2 665	20 332	4 893	788	22 109	71 891	70 608	59 955	1 246	47 941	302 463	287 166
Made up as follows:													
Historical cost and revaluation	176	3 476	27 042	10 846	905	37 147	117 175	89 744	89 646	2 147	48 823	427 127	398 250
Accumulated depreciation	(141)	(811)	(6 688)	(5 715)	(117)	(14 659)	(44 755)	(19 089)	(28 884)	(855)	-	(121 714)	(108 725)
Accumulated impairment	-	-	(22)	(238)	-	(379)	(529)	(47)	(807)	(46)	(882)	(2 950)	(2 359)
Closing carrying value at 31 March	35	2 665	20 332	4 893	788	22 109	71 891	70 608	59 955	1 246	47 941	302 463	287 166



ANNEXURE C

for the year ended 31 March 2016

		Company	Group
	Notes	2016 R million	2016 R million
Assets classified as held-for-sale			
Property, plant and equipment	a	145	145
Investment properties	b	9	9
Other investments	c	10	10
		164	164

Company			Group	
2015 R million	2016 R million		2016 R million	2015 R million
		a. Property, plant and equipment		
148	30	Net carrying value at the beginning of the year	30	148
(6)	(5)	Disposals	(5)	(6)
(112)	120	Transferred (to)/from continuing operations (refer annexure B)	120	(112)
30	145		145	30
		b. Investment properties		
6	8	Fair value at the beginning of the year	8	6
(5)	(8)	Disposals	(8)	(5)
7	9	Transferred from continuing operations (refer note 10)	9	7
8	9		9	8
		c. Other investments		
84	43	Balance at the beginning of the year	43	84
(41)	(33)	Fair value movement during the year	(33)	(41)
43	10		10	43



ANNEXURE D

for the year ended 31 March 2016

SUBSIDIARIES

	Effective holding		Voting		Shares at cost		Interest of holding		Interest of holding		Accumulated	
	2016	2015	power held		2016	2015	2016	2015	2016	2015	2016	2015
	%	%	%		R million	R million	R million	R million	R million	R million	R million	R million
Subsidiaries held by Transnet												
Local subsidiaries												
Transport logistics												
Viaren (Pty) Ltd ¹	100	100	100		-	-	-	-	-	-	-	-
Property holdings												
Transhold Properties (Pty) Ltd ²	100	100	100		-	-	-	-	-	-	-	-
Insurance captive cells												
Guardrisk Insurance Company Ltd	100	100	100		3	3	5	21	-	-	-	-
Social responsibility												
Transnet Foundation Trust ³	100	100	100		-	-	-	-	-	-	-	-
Foreign subsidiaries												
Transport logistics												
African Joint Air Services Ltd (Uganda) ²	57	57	57		-	-	(7)	-	398	391	398	391
Spoornet do Brasil Ltda (Brazil) ⁴	-	100	-		-	-	(10)	1	-	-	-	-
					3	3	(12)	22	398	391	398	391

¹ In liquidation.

² In the process of deregistration.

³ In dissolution.

⁴ Dissolved during the year.



Annexure D
for the year ended 31 March 2016

ASSOCIATES AND JOINT VENTURES¹

		Effective holding		Shares at cost		Interest of holding company indebtedness		Accumulated impairment and losses		Share of post-acquisition reserves		Total	
	Principal activity	2016 %	2015 %	2016 R million	2015 R million	2016 R million	2015 R million	2016 R million	2015 R million	2016 R million	2015 R million	2016 R million	2015 R million
Associates													
Commercial Cold Storage (Ports) (Pty) Ltd	Storage and bondage	30	30	-	-	1	1	-	-	19	16	20	17
Comazar (Pty) Ltd ²	Transport logistics	32	32	13	13	8	8	21	21	-	-	-	-
Experience Delivery Company (Pty) Ltd	Managing agent	11	11	-	-	-	-	-	-	-	-	-	-
RainProp (Pty) Ltd	Property development and management	20	20	-	-	2	2	-	-	93	72	95	74
Joint ventures													
Gabarone Container Terminal	Container terminal	36	36	6	6	-	-	-	-	16	16	22	22
				19	19	11	11	21	21	128	104	137	113

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

² Dormant.

SUMMARISED FINANCIAL INFORMATION OF SIGNIFICANT ASSOCIATES

	Commercial Cold Storage (Ports) (Pty) Ltd R million	Gabarone Container Terminal R million	RainProp (Pty) Ltd R million
Financial position			
Total assets	81	78	1 098
Total liabilities	16	2	564
Results of operations			
Revenue	35	19	190
Net profit	11	2	90



ANNEXURE E

for the year ended 31 March 2016

DISCLOSURE OF IRREGULAR EXPENDITURE, FRUITLESS AND WASTEFUL EXPENDITURE, LOSSES THROUGH CRIMINAL CONDUCT AND LOSSES THROUGH NON-COLLECTION OF REVENUE

The following information relates to both Company and Group.

	2016 R million	2015 R million
Irregular expenditure¹		
Opening balance	-	-
Add: Irregular expenditure – current year	25,1	32,2
Less: Amounts condoned	4,5	-
	20,6	32,2
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	20,6	32,2
Irregular expenditure awaiting condonation	-	-
Irregular expenditure under investigation²	229,8	-
Total	229,8	-
	2016 R million	
Details of irregular expenditure		
Incident	Disciplinary steps taken/(criminal proceedings)	
Contract costs exceeded	5/(0)	7,5
Contracts expired	0/(0)	7,9
Procurement and capital expenditure procedures not adhered to	5/(0)	9,7
		25,1
Details of irregular expenditure condoned		
Incident	Condoned by (condoning authority)	
Procurement and capital expenditure procedures not adhered to	Group Chief Executive	4,5
		4,5
Details of irregular expenditure recoverable (not condoned)		
Incident		
None		-
Details of irregular expenditure not recoverable (not condoned)		
Incident		
Contract costs exceeded		7,5
Contracts expired		7,9
Procurement and capital expenditure procedures not adhered to		5,2
		20,6
Details of irregular expenditure under investigation²		
Incident		
Tax compliance status for foreign suppliers		229,8

	2016 R million	2015 R million
Fruitless and wasteful expenditure¹		
Fruitless and wasteful expenditure	3,9	23,3
Less: Amounts recovered	(0,01)	(0,3)
	3,9	23,0
	2016 R million	
Details of fruitless and wasteful expenditure		
Incident	Disciplinary steps taken/(criminal proceedings)	
Overpayments	2/(0)	2,2
Redundant stock	0/(0)	0,7
Cancellation fees	4/(0)	0,5
Other	29/(3)	0,5
		3,9
	2016 R million	2015 R million
Losses through criminal conduct		
Losses through criminal conduct	62,7	519,3
Less: Amounts recovered	(2,4)	-
	60,3	519,3
	2016 R million	
Details of losses through criminal conduct		
Incident	Disciplinary steps taken/(criminal proceedings)	
Theft of cables and copper	1/(702)	19,6
General theft and damage of assets (mostly Freight Rail building and rail)	0/(25)	16,5
Theft of signals, perway and equipment	1/(138)	5,1
Fraud and corruption	3/(2)	14,7
Other	7/(162)	4,4
		60,3
	2016 R million	2015 R million
Losses through non-collection of revenue	-	-
Less: Amounts recovered	-	-
	-	-
	2016 R million	
Details of non-collection of revenue		
Incident	Disciplinary steps taken/(criminal proceedings)	
None	0/(0)	-
		-

¹ The Shareholder Representative has determined the materiality limit for reporting in terms of section 55(2)(b)(i), (ii), and (iii) of the PFMA at R25 million per transaction. Refer to the Report of the Directors for reporting in terms of the materiality framework.

² This relates to expenditure under investigation regarding the confirmation of the tax compliance status for foreign suppliers – the PPPFA regulations require that tenders may only be awarded to a person whose tax matters have been declared to be in order by the South African Revenue Service (SARS). SARS is only able to provide a taxpayer with confirmation of the taxpayer's tax compliance status as compliant if the taxpayer is registered for tax in South Africa. Altogether 22 contracts awarded to foreign suppliers, amounting to R229,8 million, have been identified where SARS is not in a position to confirm the foreign suppliers' tax compliance status. Clarity is being sought on the reporting of these contracts.



ANNEXURE F

for the year ended 31 March 2016

MEASUREMENT OF LEVEL 3 FAIR VALUES

The table below shows the valuation techniques and significant unobservable inputs applied in measuring level 3 fair values for assets at 31 March 2016.

Asset group	Valuation technique	Significant unobservable inputs	Range (weighted average)
Pipeline networks	Modern equivalent asset value	<div>Physical condition</div> <div>Remaining useful life</div>	<div>△</div> <div>△</div>
	Discounted cash flow	<div>Discount rate</div>	<div>11,41%</div>
Port facilities	Depreciated replacement cost	<div>Composite PPI¹</div> <div>- local input</div> <div>- imported equipment</div>	<div>123,5</div> <div>137,4</div>
	Depreciated optimised replacement cost	<div>Physical condition</div> <div>Remaining useful life</div> <div>Residual value</div> <div>Availability</div> <div>Design capacity</div> <div>Indices - Marine index³</div> <div>- Dredging index³</div>	<div>△</div> <div>△</div> <div>△</div> <div>△</div> <div>△</div> <div>133,16</div> <div>133,32</div>
	Discounted cash flow	<div>Discount rate</div> <div>Terminal growth rate</div>	<div>11,72%</div> <div>2,37%</div>
	Discounted cash flow	<div>Discount rate</div> <div>Terminal growth rate</div>	<div>11,80%</div> <div>5,54%</div>
Rail infrastructure	Depreciated optimised replacement cost ²	<div>Physical condition</div> <div>Remaining useful life</div> <div>Residual value</div> <div>Availability</div> <div>Design capacity</div>	<div>△</div> <div>△</div> <div>△</div> <div>△</div> <div>△</div>
	Discounted cash flow	<div>Discount rate</div> <div>Terminal growth rate</div>	<div>11,80%</div> <div>5,54%</div>
Investment property	Yield methodology	<div>Capitalisation rate</div>	<div>9% - 20% (14,5%)</div>

¹ Base year = 2000.

² The depreciated optimised replacement cost method values assets at the amount it would cost to replace the asset with a technologically modern equivalent new asset with similar service potential (i.e. capacity, functionality and remaining useful life), taking into account the age and physical condition of the asset and allowing for any differences in the quantity and quality of output and in operating costs.

³ Base year = 2011.

△Range or weighted average not applicable.

ANNEXURE G

for the year ended 31 March 2016

FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following new or revised international financial reporting standards, amendments and interpretations of those standards which are applicable to the Group are not yet effective for the year ended 31 March 2016 and were not applied in preparing these financial statements:

Standard or interpretation	Detail	Effective date
IAS 1 (amendment)	<p>Presentation of Financial Statements</p> <p>Materiality, disaggregation and subtotals</p> <p>The amendment clarifies that an entity should not aggregate or disaggregate information in a manner that obscures useful information, for example, by aggregating items that have different characteristics or disclosing a large amount of immaterial detail. It further clarifies that it may be necessary to disaggregate some of the line items specified in IAS 1 where it is relevant to an understanding of the entity's financial position or performance.</p> <p>The revised standard will be applied retrospectively and will not have a material impact on the Group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.
IAS 7 (amendment)	<p>Statement of Cash Flows</p> <p>The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, namely (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.</p> <p>The amendments will be applied prospectively and will not have a material impact on the Group's financial statements.</p>	Annual periods beginning on or after 1 January 2017.
IAS 12 (amendment)	<p>Income Taxes</p> <p>The amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements and at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. It further clarifies that, (i) the carrying amount of an asset does not limit the estimation of probable future taxable profits; (ii) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and (iii) an entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</p> <p>The amendments will be applied retrospectively, however, an entity may recognise the change in the opening retained earnings of the earliest comparative period presented. The amendment will not have a material impact on the Group's financial statements.</p>	Annual periods beginning on or after 1 January 2017.
IAS 16 and IAS 38 (amendments)	<p>Property, Plant and Equipment and Intangible Assets</p> <p>Acceptable method of depreciation and amortisation</p> <p>The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate, while the amendment to IAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances.</p> <p>The amendments will be applied retrospectively and will not have a material impact on the Group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.



Annexure G

for the year ended 31 March 2016

Standard or interpretation	Detail	Effective date
IAS 19 (amendment)	<p>Employee Benefits</p> <p>The amendment clarifies that in determining discount rates for post-employment benefit plans, emphasis is placed on the currency that the liabilities are denominated in and not the country where they arise.</p> <p>The amendments will be applied retrospectively and will not have a material impact on the Group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.
IAS 27 (amendment)	<p>Separate Financial Statements</p> <p>The amendment allows entities to account for investments in subsidiaries, joint ventures and associates in their separate financial statements at cost, in accordance with IFRS 9, or using the equity method.</p> <p>The revised standard will be applied retrospectively and will not have a material impact on the Group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.
IAS 34 (amendment)	<p>Interim Financial Reporting</p> <p>The amendments clarify the meaning of disclosure of information elsewhere in the interim financial report and require the inclusion of a cross-reference from the interim financial statements to the location of this information.</p> <p>The revised standard will be applied retrospectively and will not have a material impact on the Group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.
IFRS 5 (amendment)	<p>Non-Current Assets Held-For-Sale</p> <p>The amendment clarifies that when an asset is reclassified from 'held-for-sale' to 'held-for-distribution' or vice versa this does not result in a change to a plan of sale. It further expands on guidance that a change to a plan of sale should be applied to an asset that ceases to be held-for-sale but is not reclassified as held-for-distribution.</p> <p>The revised standard will be applied prospectively and will not have a material impact on the Group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.
IFRS 7 (amendment)	<p>Financial Instruments: Disclosure</p> <p>Servicing contracts</p> <p>The amendment requires disclosure of all types of continuing involvement in transferred assets. It further provides guidance on what 'continuing involvement' means.</p> <p>Interim financial statements</p> <p>The amendment clarifies that disclosure of offsetting financial assets and financial liabilities is not required for all interim periods except where required by IAS 34.</p> <p>The revised standard will be applied retrospectively and will not have a material impact on the Group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.

Standard or interpretation	Detail	Effective date
IFRS 9 (new)	<p>Financial Instruments</p> <p>The standard requires financial assets to be measured either at amortised cost or fair value depending on the business model under which they are held and the cash flow characteristics of the instrument.</p> <p>The standard contains new hedge accounting requirements aimed at better aligning the accounting treatment with the risk management strategy. In addition, the standard replaces the incurred loss impairment model in IAS 39 with an expected loss model. It will no longer be necessary for a credit event to have occurred before credit losses are recognised.</p> <p>The new standard will be applied retrospectively and could have a material impact on the Group's financial statements. The Group has not yet quantified the potential impact of the new standard on the Group.</p>	Annual periods beginning on or after 1 January 2018.
IFRS 10, IFRS 12 and IAS 28 (amendments)	<p>Consolidated Financial Statements and Investments in Associates</p> <p>Applying the consolidation exemption</p> <p>The amendment clarifies that the exemption from preparing consolidated financial statements is available to intermediate parent entities which are subsidiaries of investment entities.</p> <p>Subsidiaries which act as an extension of an investment entity</p> <p>The amendment clarifies that an investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities.</p> <p>Equity accounting for investments in associates and joint ventures</p> <p>The amendment allows entities which are not investment entities, but have an interest in an associate or joint venture which is an investment entity, a policy choice when applying the equity method of accounting. The entities may choose to retain the fair value measurement applied by the investment entities or to perform a consolidation at the level of the investment entities.</p> <p>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</p> <p>The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture by requiring (a) full recognition of gains and losses arising on the sale or contribution of assets that constitute a business; and (b) partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investor's interests in that associate or joint venture.</p> <p>The revised standard will be applied prospectively and will not have a material impact on the Group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.
IFRS 11 (amendment)	<p>Joint Arrangements</p> <p>The amendment requires an investor to apply the principles of business combination accounting when it acquires an initial or additional interest in a joint operation that constitutes a 'business'.</p> <p>The revised standard will be applied retrospectively and will not have a material impact on the Group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.



Annexure G
for the year ended 31 March 2016

Standard or interpretation	Detail	Effective date
IFRS 15 (new)	<p>Revenue From Contracts with Customers</p> <p>The IFRS replaces IAS 18 Revenue and provides a single, principles based five-step model to be applied to all contracts with customers. The steps involve identifying the contract, identifying the performance obligations under the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognising revenue when the entity satisfies a performance obligation.</p> <p>The new standard could have a material impact on the Group's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. Early adoption is permitted. The Group has not yet quantified the potential impact of the new standard on the Group.</p>	Annual periods beginning on or after 1 January 2018.
IFRS 16 (new)	<p>Leases</p> <p>The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance leases.</p> <p>The new standard could have a material impact on the Group's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. Early adoption is permitted. The Group has not yet quantified the potential impact of the new standard on the Group.</p>	Annual periods beginning on or after 1 January 2019.
The financial reporting standards, amendments or interpretations listed below are currently not applicable to the Group and will have no impact on the Group's financial statements:		
Standard or interpretation	Title	Effective date
IFRS 14 (new)	<p>Regulatory deferral accounts</p> <p>The standard is an interim solution for rate-regulated entities that have not yet adopted IFRS. It specifies the financial reporting requirements for 'regulatory deferral account balances' that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.</p>	Annual periods beginning on or after 1 January 2016.

ABBREVIATIONS
AND ACRONYMS

\$/R	USD/ZAR	IFRIC	International Financial Reporting Interpretations Committee
ACTSA	Association of the Corporate Treasurer of South Africa	IFRS	International Financial Reporting Standards
AfDB	African Development Bank	JBIC	Japan Bank for International Cooperation
HIV/Aids	Acquired immune deficiency syndrome	JPY	Japanese Yen
AUS	Australian Dollar	King III	King III Report on Governance for South Africa – 2009
bp	basis point	KPI	key performance indicator
B-BBEE	Broad-based black economic empowerment	LTi	long-term incentive scheme
CGT	capital gains taxation	MDS	Market Demand Strategy
CSDP	competitive supplier development programme	ml/km	million litres per kilometre
CCDS	credit contingent default swap	mt	million tons
CIC	cash interest cover	MTFS	Medium-term Strategic Framework
CSI	Corporate Social Investment	Nersa	National Energy Regulator of South Africa
CPI	consumer price index	NPAT	net profit after taxation
CVA	credit default adjustment	NPCC	National Ports Consultative Committee
DCT	Durban Container Terminal	OEM	original equipment manufacturer
DEA	Department of Environmental Affairs	PFMA	Public Finance Management Act
DIFR	disabling injury frequency rate	Ports Act	National Ports Act, No 12 of 2005
DMTN	Domestic Medium-Term Note	PPPFA	Preferential Procurement Policy Framework Act
DOA	Delegation of Authority	Prasa	Passenger Rail Agency of South Africa
DoE	Department of Energy	PSP	private sector participation
DoT	Department of Transport	RBCT	Richards Bay Container Terminal
DPE	Department of Public Enterprises	ROTA	return on total average assets
DTI	Department of Trade and Industry	S&P	Standard and Poor's
DVA	debit default adjustment	SAPS	South African Police Service
EBITDA	earnings before interest, taxation, depreciation and amortisation	SARS	South African Revenue Service
ECA	Export Credit Agency	SD	Supplier Development
FMPI	Framework for Managing Programme Performance Information	SMMEs	small, medium and micro enterprises
FRMF	Financial Risk Management Framework	SOC	State-owned Company
FVTPL	fair value through profit and loss	STAT	ship turnaround time
GBP	Pound Sterling	STI	short-term incentive scheme
GCH	gross crane moves per hour	STS	ship-to-shore
GDP	gross domestic product	TEU	twenty-foot equivalent unit
GFB	general freight business	TMPS	total measured procurement spend
GMTN	Global Medium-Term Note	TSDBF	Transnet Second Defined Benefit Fund
GRC	Governance, risk and compliance	TTPF	Transport Pension Fund: Transnet Sub-fund
IAS	International Accounting Standards	TVCC	Transnet value chain co-ordinator
IASB	International Accounting Standards Board	USA	United States of America
ICM Act	Integrated Coastal Management Act, No 24 of 2008	USD	US Dollar
ICT	information and consumer technology	WACC	weighted average cost of capital
		WACD	weighted average cost of debt
		ZAR	South African Rand



GLOSSARY
OF TERMS

Asset turnover (times)

Revenue divided by total assets (total assets excluding capital work-in-progress).

Cash interest cover (times)

Cash generated from operations after working capital changes, divided by net finance costs (net finance costs include finance costs, finance income and capitalised borrowing costs from the cash flow statement).

Debt (for gearing calculation)

Long-term borrowings, short-term borrowings, employee benefits, derivative financial liabilities plus overdraft less other short-term investments, less derivative financial assets and less cash and cash equivalents.

EBITDA

Profit/(loss) from operations before depreciation, amortisation, impairment of assets, dividend received, post-retirement benefit obligation (costs)/income, fair value adjustments, income/(loss) from associates and net finance costs.

EBITDA margin

EBITDA expressed as a percentage of revenue.

Equity

Issued capital and reserves.

Gearing

Debt expressed as a percentage of the sum of debt and Shareholder's equity.

Headline earnings

As defined in Circular 2/2013, issued by the South African Institute of Chartered Accountants, all items of a capital nature are separated from earnings (by headline earnings).

Operating profit

Profit/(loss) from operations after depreciation and amortisation but before impairment of assets, dividends received, post-retirement benefit obligation (costs)/income, fair value adjustments, income/(loss) from associates and net finance costs.

Operating profit margin

Operating profit expressed as a percentage of revenue.

Return on total average assets

Operating profit expressed as a percentage of total average assets (total average assets exclude capital work-in-progress).

Total assets

Non-current and current assets.

Total average assets

Total assets, where 'average' is equal to the total assets at the beginning of the reporting year plus total assets at the end of the reporting year, divided by two.

Total debt

Non-current and current liabilities.

CORPORATE
INFORMATION

Transnet SOC Ltd

47th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
2001

Incorporated in the Republic of South Africa.
Registration number 1990/000900/30.

Executive directors

SI Gama (Group Chief Executive).
GJ Pita (Group Chief Financial Officer).

Independent non-executive directors

LC Mabaso (Chairperson), Y Forbes, GJ Mahlalela,
PEB Mathekga, ZA Nagdee, VM Nkonyane, SD Shane,
BG Stagman, PG Williams.

N Moola resigned from the Board of Directors with
effect from 25 August 2015.

Messrs B Molefe and A Singh resigned from the
Company with effect from 30 September 2015.

MR Seleke resigned from the Board of Directors
with effect from 27 November 2015.

Group Company Secretary

Ms ANC Ceba

47th Floor, Carlton Centre
150 Commissioner Street
Johannesburg
2001

PO Box 72501
Parkview
2122
South Africa

Auditors

SizweNtsalubaGobodo Inc.
20 Morris Street East
Woodmead
Johannesburg
2191

The internal audit function has been outsourced to
SekelaXabiso (Pty) Ltd, Nkonki Inc and KPMG Services
(Pty) Ltd.

SekelaXabiso (Pty) Ltd
1st Floor, Building 22B
The Woodlands Office Park
20 Woodlands Drive
Woodmead
Johannesburg

Nkonki Inc
3 Simba Road
Sunninghill
Johannesburg

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