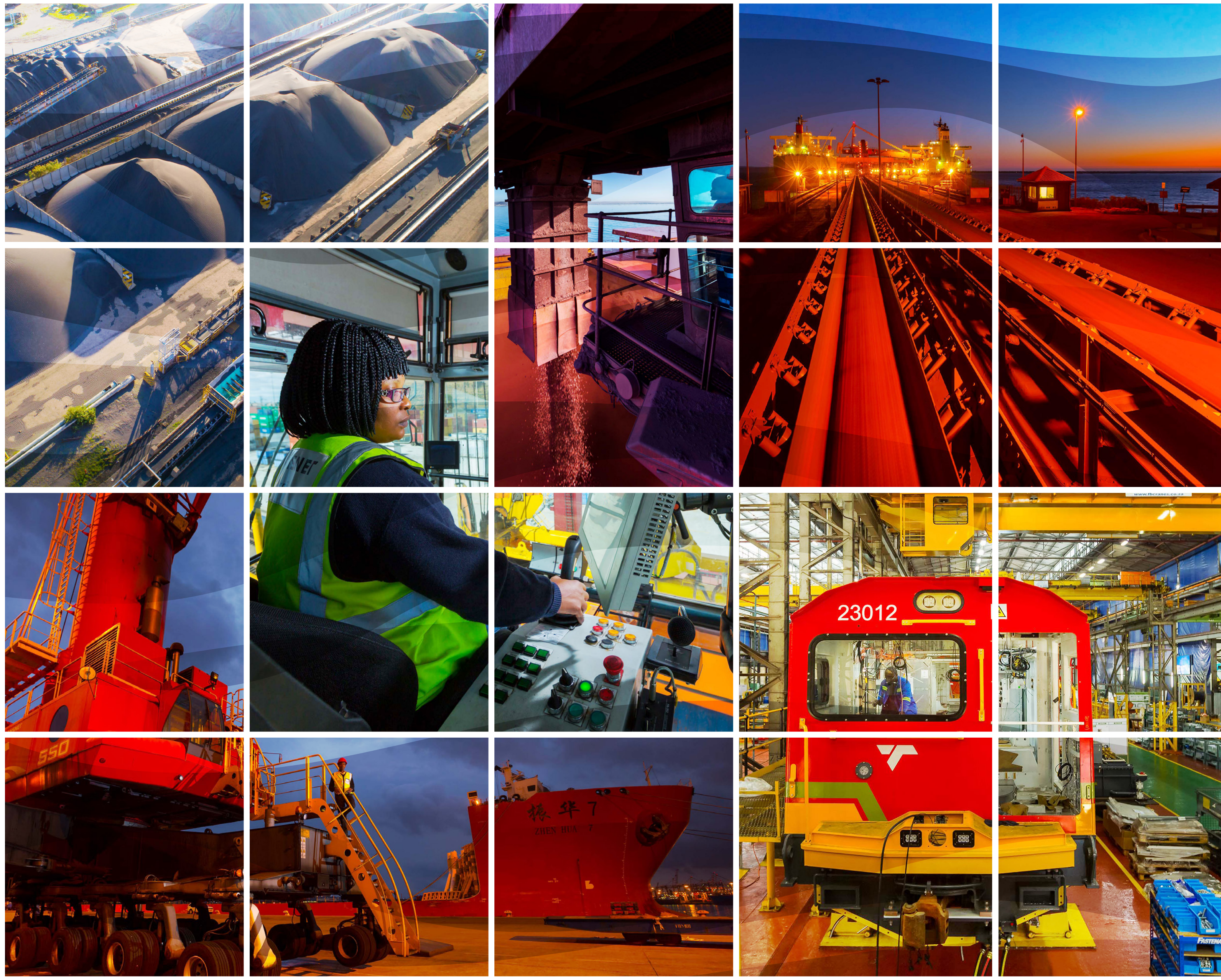
TRANSNET

ANNUAL FINANCIAL STATEMENTS 2022



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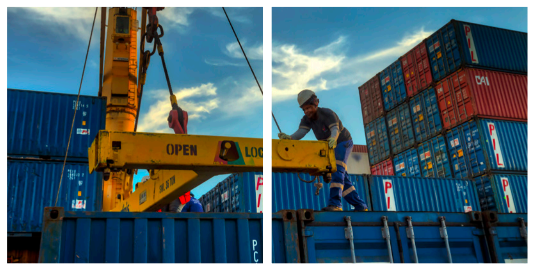

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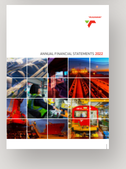
The 2022 Integrated Report is the Company's primary report to all stakeholders.



The 2022 Annual Financial Statements include reports of the directors and independent auditor

Forward-looking information

All references to forward-looking information and targets in the 2022 reports are extracted from the 2022/23 Transnet Corporate Plan and approved by the Board of Directors

Feedback on this report

We welcome feedback on our 2022 annual financial statements. Please provide written feedback to Kilford Gondo at Kilford.Gondo@transnet.net.

Performance highlights

Revenue increased by **1,8%** to **R68,5 billion**, in line with increased petroleum and container volumes due mainly to improved economic conditions.

Net operating expenses decreased by **5,9%** to **R45,0 billion**, due mainly to the impact of the third-party settlement received partially offset by the provision for voluntary severance packages.

EBITDA increased by **20,5%** to **R23,4 billion**, with the EBITDA margin increasing to **34,3%**.

Net profit for the year of **R5,0 billion** (2021: R8,7 billion loss).

Capital investment decreased by **16,8%** to **R13,2 billion** for the year.

Cash generated from operations after working capital changes increased by **18,1%** to **R29,1 billion**.

Gearing of **45,5%** and **cash interest cover*** at **2,6 times**, both within loan covenant requirements.

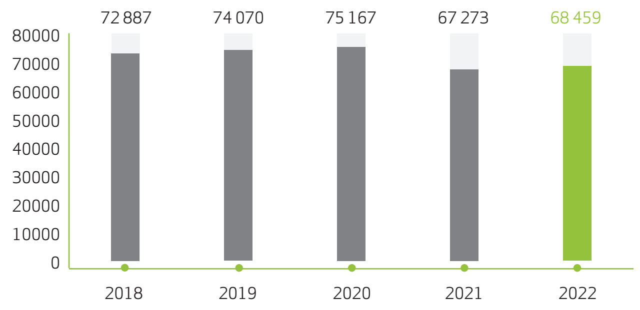
1,6% of **labour costs** spent on **training**, focusing on artisans, engineers, and engineering technicians.

LTIFR performance of **0,69%**, which is below that of the tolerance of **0,75%**.

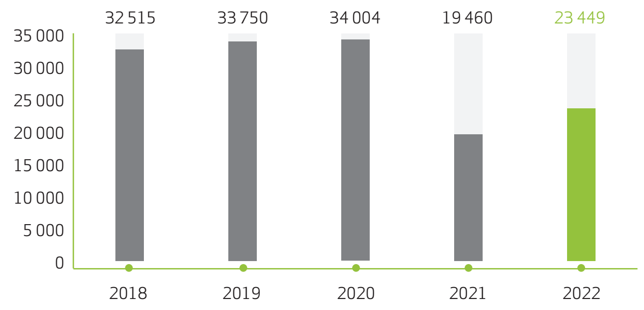
B-BBEE spend of **R29,2 billion** or **99,8%**, of total measured procurement spend, as defined by DTIC codes.

* *Including working capital changes.*

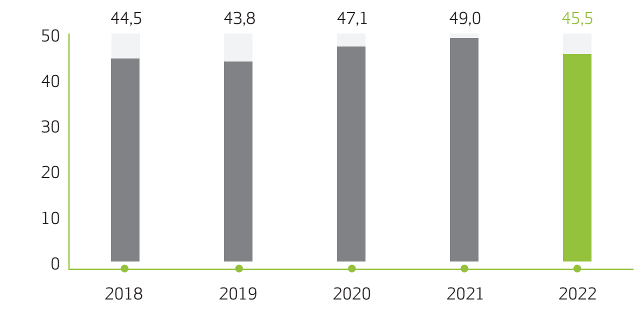
Revenue (R million)



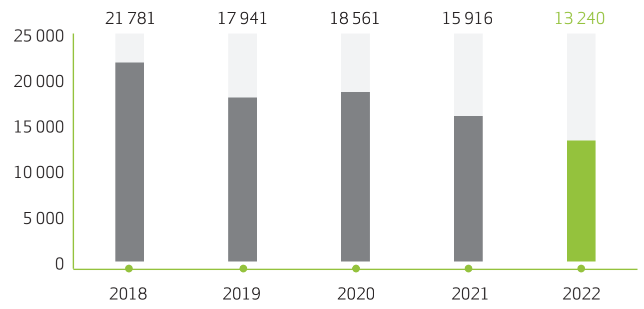
EBITDA (R million)



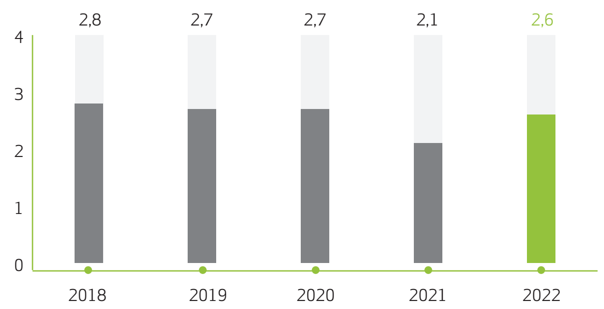
Gearing (percent)



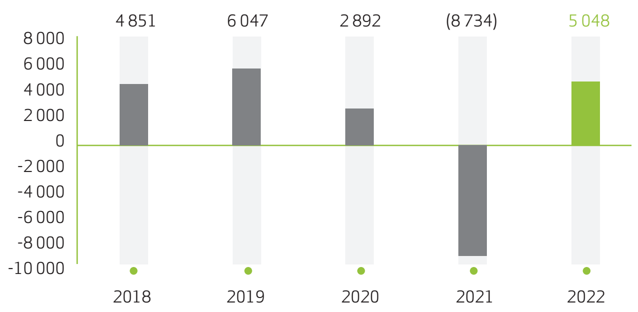
Capital investment (R million)



Cash interest cover* (times)



Net profit/(loss) for the year (R million)



* *Including working capital changes.*

Approval of the annual financial statements

for the year ended 31 March 2022

Directors' responsibilities

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

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

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

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

Directors' statements

The internal audit activities undertaken during the year are in accordance with the internal audit plan approved by the Audit Committee. Transnet internal audit has executed the internal audit plan during the year and has provided assurance to the Board as to the state of the internal controls of the Company. Their assessment of the internal controls of the Company is included in the Audit Committee report.

The Audit Committee has evaluated the Company and Group annual financial statements and has recommended their approval to the Board. 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, as set out in the report of the directors on pages 22 to 23. 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 where applicable in the accounting policies and notes to the annual financial statements.

The Board 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 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, the AGSA, are responsible for independently auditing and reporting on the annual financial statements in conformity with International Standards on Auditing (ISA). Their audit report on the annual financial statements, prepared in terms of the Public Audit Act of South Africa, No 25 of 2004, appears on pages 6 to 15.

The Board is of the opinion that the Company and the Group have complied with applicable laws and regulations except as disclosed in the report of the directors as set out on pages 22 to 23.

The Board is of the opinion that these annual financial statements fairly present the financial position of the Company and the Group as at 31 March 2022, 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.

Statement in terms of Article 3(2)(c) of the Transparency Law of 2008

Management declares that, to the best of their knowledge, the consolidated and separate annual financial statements have been prepared in accordance with IFRS and give a true and fair view of the assets, liabilities, financial position and profit or loss of Transnet. The 31 March 2022 annual financial statements and integrated report includes a fair review of the development and performance of the business and the position of Transnet, together with a description of the principal risks and uncertainties that Transnet faces.

PS Molefe
Chairperson

PPJ Derby
Group Chief Executive

NS Dlamini
Group Chief Financial Officer

25 July 2022
Johannesburg

Group Company Secretary certificate

for the year ended 31 March 2022

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 2022, as required in terms of this Act, and that all such returns are true, correct and up to date.

S Bopape
Group Company Secretary

25 July 2022
Johannesburg

Report of the auditor-general to Parliament on Transnet SOC Limited

for the year ended 31 March 2022

Report on the audit of the consolidated and separate financial statements

Opinion

I have audited the consolidated and separate financial statements of Transnet SOC Limited (Transnet) and its subsidiaries (the Group) set out on pages 28 to 122, which comprise the consolidated and separate statements of financial position as at 31 March 2022, the consolidated and separate statements of profit or loss and other comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Transnet and the Group as at 31 March 2022, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008 (Companies Act).

Basis for opinion

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

I am independent of the Group in accordance with the *International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Key audit matters

Key audit matters are those matters that, in my professional judgement, were most significant during my audit of the consolidated and separate financial statements for the current period. These matters were addressed in the context of my audit of the consolidated and separate financial statements as a whole and in forming my opinion, and I do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Valuation of investment property	
Transnet's investment property, as disclosed in note 10, is valued at R29 112 million as at 31 March 2022 (2021: R16 506 million. There was a significant movement of R9 814 million in the account balance relating to fair value adjustments recognised in the income statement, which contributed to the profit for the year of R5 048 million (Company: R5 055 million). The fair value of the Group's investment properties at 31 March 2022 was arrived at on the basis of valuations carried out by independent external property valuers. The fair value was derived by capitalising the normalised net annual income at market derived capitalisation rates, which are adjusted where appropriate, to reflect the risk profile of each individual property. The key inputs into the fair value model which are subject to significant management estimates include market rentals, market yields, vacancy rates, the credit-worthiness of tenants, as well as discount and capitalisation rates used in the discounted cash flows. Unsubstantiated assumptions and estimates could give rise to a material misstatement. Management is required to make a number of significant assumptions and judgements in determining the fair value and therefore I have identified this as a potential risk. Due to the high level of estimation and uncertainty regarding the valuation of investment properties, I have spent significant audit effort, including the time spent by senior members of the audit team, in auditing the valuation performed and the reasonableness of conclusions reached and fair value adjustments passed.	• I obtained and documented an understanding of relevant controls in relation to the valuation process. • I appointed two independent experts who discussed and challenged key inputs and assumptions with management expert/valuers and management with reference to independent market data including COVID-19 considerations. • I assessed the independent valuation experts' competence, experience, qualifications and independence. • I read the valuation reports for the properties valued by the independent external valuation experts and confirmed the valuation approach was in accordance with IFRS and suitable for use in determining the fair value for the purpose of the consolidated and separate financial statements. • I confirmed that the valuation approach used by management was appropriate for the determination of fair value in the consolidated and separate financial statements. In addition, I satisfied myself that the techniques used by the independent experts and management have been applied consistently. I agreed a sample of investment property fair values, valued by the independent valuation experts, to the underlying independent valuation experts reports. • I tested the key assumptions used in determining fair value in respect of both the independent experts' valuation and the valuation performed by management as follows: – confirmed rental income used in forecasts agreed to underlying tenant contracts for reasonability; and – assessed the reasonability of the discount and capitalisation rates used to available industry data for similar investment properties. • I assessed the reasonableness and accuracy of the apportionment between owner-occupied properties and those leased to external parties. • I assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS 13 *Fair value measurement*; and IAS 40 *Investment properties*.

Report of the auditor-general to Parliament on Transnet SOC Limited

for the year ended 31 March 2022

Key audit matter	How the matter was addressed in the audit
Revaluation – rail infrastructure	
Rail infrastructure is measured using the revaluation methods as described in note 9 to the financial statements. For the rail infrastructure, the discounted cash flow (DCF) calculations at cash generating unit (CGU) level were performed by management for these assets in order to determine the fair values of the infrastructure assets. These values represent the future cash flows of Transnet Freight Rail (TFR), discounted at the prevailing after tax weighted average cost of capital (WACC) rate. Management's estimates as related to future cash flows include significant judgements and assumptions related to: • Rail volumes and tariffs; • Inflation rate; • GDP rates; • Projection of cash flows beyond the foreseeable future; and • Estimates of operating expenditure that are based on management's corporate plans. This area was significant to my audit due to the materiality of the carrying amount of the assets to which the revaluation adjustments have been allocated. Given the magnitude of the amounts involved, an error in significant assumptions could result in a material impairment or reversal of impairment.	• I used valuations expertise to assess the integrity of the DCF models which included assessing the appropriateness of the valuation model used by management, by comparing these to industry norms and acceptable valuation methodologies. I found that this was consistent with industry norms and an acceptable valuation methodology; • I benchmarked management's significant assumptions related to economic factors such as forecasted GDP rates and inflation rates, used in the calculations against independent third-party data. Based on the work performed, I accepted management's assumptions as appropriate; • I assessed the reasonableness of the projected volumes to be railed, expected future tariff increases, the current capacity of the infrastructure networks, projected future sustainable capital expenditure to maintain the current capacity and the terminal growth rate to achieve the current network capacity; • I re-computed the discount rates, taking into account independently obtained data to ensure that the discount rates were within an acceptable range; • I assessed and evaluated management's basis for the assumptions used. For the planning process, I compared the previous years corporate plans to the actuals for the same year in order to determine the reasonableness of future projected periods. This was done to exclude the impact of COVID-19 by using a year that would indicate sustainable capital expenditure and operating expenditure; and • I evaluated the presentation and disclosures in the financial statements, including significant accounting policies.
Revaluation – pipeline network assets	
Pipeline network assets are measured using the revaluation model as described in the accounting policy. Formal revaluations are performed every three years by independent professional valuation experts and indices are applied in the intervening periods where appropriate, such that the carrying value does not differ materially from that which would be determined using fair values at the end of the reporting period. The Group applies the following valuation techniques in revaluing these assets: • Depreciated replacement cost (DRC); and • DCF. For the financial year ended 31 March 2022, the revaluation index is used. The depreciated replacement cost was used as the most appropriate point to reflect the fair value of the pipeline network assets. The matter was assessed as key due to the significant risk in relation to the significant assumptions and judgment applied.	• I obtained and documented an understanding of relevant controls in relation to the pipeline network assets. • I assessed management expert's competence, experience, qualifications. • I documented the audit approach which included the utilisation of an auditor's expert to audit the depreciated replacement cost model and the discounted cash flow model • I utilised the services of an auditor's expert to assess the reasonableness and appropriateness of the inputs of the indices used, the completeness and adequacy of the data and to confirm whether all aspects of pipeline assets had been considered. • I reviewed the approved tariff application from NERSA to assess the appropriateness of some of the inputs.

Key audit matter	How the matter was addressed in the audit
Revaluation of port facilities	
The port facilities in the ports are measured at revalued amounts in accordance with the accounting policy, which is consistent with IAS 16. A full revaluation of all port facilities is performed every 3 year cycle – the previous valuation was performed in March 2021 – for the current year under review an index revaluation was performed. The Group applies the following valuation techniques in revaluing these assets: • Depreciated optimised replacement cost (DORC); and • DCF. The DCF value was used as the most appropriate point to reflect the fair value of the port infrastructure assets. This entails assumptions using projected revenues, capital growth, volume growth factor, CPI and other variables. Due to the variables used in the model, which are complex and subjective with a high degree of judgement the revaluation of port facilities was assessed to be a key audit matter.	I performed the following procedures, especially on the significant management assumptions used in the DCF model: An auditor's expert was used to assess the reasonability of the DCF model, the assumptions used and the economic inputs into the model. • For future cash flows I evaluated all the different elements that make up the cash flows, including revenue, operating expenses and capital expenditure. An in depth understanding of the budget process was obtained and actual results for the current year was compared to the forecasts, approved budgets and corporate plans were considered. The reasonability of the volume growth and tariff increases, increases in operating expenses was assessed against economic indicators and tariff increases as communicated by the Regulator, taking into account the sustaining capital expenditure and the capacity of the port infrastructure. Furthermore, considering historic trends and future prospects within the industry. • Terminal value: The terminal growth rate was a key element assessed by the auditor's expert and was compared to market growth indicators, assessing assumptions and inputs like CPI, GDP and terminal capacity. • Discount rate (WACC): The expertise of a financial expert was obtained together with those of the treasury audit team to assess the reasonability of the WACC rate.
Property, plant and equipment – Island View (TM1) and Jameson Park (TM2) assets verification	
These assets predominantly consist of assets which were capitalised as part of the new multi-product pipeline (NMPP) project which mainly impact TM1 and TM2 terminals valued at R5 676 million and R8 380 million respectively. The assets are reported under pipeline network assets. The valuation of the assets in these terminals was performed in accordance with the DRC method by the independent expert and was subject to testing in line with other procedures on property, plant and equipment. The matter is regarded as key due to the manner in which the items were capitalised and maintained in the fixed asset register of the division i.e. the individual assets were consolidated as one line item in accordance with the categories in which they belong and not shown as individual assets, resulting in the inability to perform conventional audit procedures to obtain assurance on the existence of the assets as well as values in the financial records. In addition, asset capitalisation schedules were used to support the amounts in the fixed asset register. This required significant auditor attention in performing the audit work including the need for significant involvement of the technical team in determining a suitable approach to obtain the required assurance.	• Through integration with auditors expert within the AGSA performance audit unit, I obtained the site layout plans, technical drawings and asset capitalisation schedule supporting the fixed asset register to obtain a further detailed breakdown of the assets to assist in being able to individually identify the assets on the ground. • I conducted a site visit at the TM1 and TM2 terminals together with the civil engineer to perform the physical verification exercise and to confirm that the assets which were identified to be consolidated have been attributed to the correct categories. • I prepared an observation report highlighting the key individual observations noted at the TM1 and TM2 sites for management consideration and response, which formed a key part of us deriving a conclusion on the TM1 and TM2 assets specifically. • I assessed management's response to our observations to determine whether the response sufficiently addresses the observations noted and the possible impact on the financial records. • I provided conclusions on management responses and indicated that we would further be requesting a specific management representation letter on the TM1 and TM2 assets as well as a representation from the independent external valuers on specifically the following issues: 1. Significant parts and components have been considered in the values reflected for the asset categories. 2. The useful lives assessment has included the assessment that significant components of the assets have the same useful lives. I concluded based on the representations received as well as the responses on the observation report.

Report of the auditor-general to Parliament on Transnet SOC Limited

for the year ended 31 March 2022

Key audit matter	How the matter was addressed in the audit
Valuation of decommissioning and environmental liabilities	
Transnet's decommissioning and environmental liabilities, as disclosed in note 25, was valued at R6 095 million as at 31 March 2022 (2021: R5 890 million). The provisions are highly judgemental, as they are calculated and recognised as a provision using the best estimate of the cost to dismantle and remove the item and rehabilitate the site and may change from year to year taking into account the changes in intended use of the asset, new techniques and know-how in rehabilitating affected sites, estimated risks and uncertainties surrounding the obligation and the time value of money. The assumptions are impacted by future activities and the legislative environment in which the public entity operates. The decommissioning and environmental provisions are also affected by changes in the estimated date on which the item of property, plant and equipment will be dismantled or its removal and restoration of the site may take place. Management is required to make a number of significant assumptions and judgements in determining the fair value as noted above and therefore I have identified this as a potential risk. There is a high level of estimation and uncertainty regarding the valuation of decommissioning and environmental liabilities; as a result I have spent significant audit effort, including the time spent by senior members of the audit team, in auditing the valuation performed and the reasonableness of conclusions reached and adjustments passed.	• I obtained and documented an understanding of relevant controls in relation to the provision process. • I appointed an expert to assist in auditing the integrity of the underlying models, and discussed and challenged key inputs and assumptions with management expert/valuers and management with reference to independent data. • I assessed the independent expert's competence, experience, qualifications and independence. • I identified the cost assumptions that have the most significant impact on the provisions and tested the appropriateness of these assumptions. Also used our experts to evaluate the reasonableness of the discount rate applied to the provisions. • I verified the completeness of the data by comparing it with work performed on property plant and equipment testing specifically on assets where site restoration would be required and specific lines where hazardous material is railed. • I assessed whether decommissioning and environmental provision movements should be expensed or capitalised by understanding the reason for the change and by comparing the movement with the carrying amount of the related asset. • I confirmed that the approach used by management was appropriate to determine the provision in the consolidated and separate financial statements. • I assessed whether the disclosures in the financial statements are appropriate and in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets.*

Emphasis of matters

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

Restatement of corresponding figures

As disclosed in note 39 of the annual financial statements, the corresponding figures for 31 March 2021 were restated as a result of errors in the financial statements of the Group at, and for the year ended, 31 March 2022.

Events after the reporting period date

I draw attention to note 41 in the annual financial statements, which deals with subsequent events and the impact of the adverse weather and flooding in KwaZulu-Natal Province on Transnet's operations. Management have outlined how they plan to deal with the event in their commentary. Our opinion is not modified in respect of this matter.

Other matter

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

Exemption of Transnet from disclosing irregular, fruitless and wasteful expenditure in the annual financial statements

The annual financial statements of the prior years included details of irregular, fruitless and wasteful expenditure, as required by section 55(2)(b)(ii) and (iii) of the PFMA, and treasury regulation 28.2.1. However, commencing with the year under review, the Minister of Finance per section 92 of the PFMA granted exemption to Transnet from complying with the aforementioned sections of the PFMA for a period of three years ending 31 March 2024. The effect of this exemption is that irregular, fruitless and wasteful expenditure is no longer included as part of the annual financial statements, and is now included under the legislative compliance section on pages 120 to 125 of the integrated report of the entity. Accordingly, I do not express an opinion on this disclosure.

Responsibilities of the accounting authority for the financial statements

The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Report on the audit of the annual performance report

Introduction and scope

In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

My procedures address the usefulness and reliability of the reported performance information, which must be based on the public entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance areas presented in the public entity's annual performance report for the year ended 31 March 2022:

Key performance areas	Page in the report of directors
KPA 2 – Reduce the total cost of logistics, effect and accelerate modal shift in strategic growth segments	26
KPA 3 – Leverage private sector in the provision of both infrastructure and operations where required for strategic growth segments	26

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

I did not identify any material findings on the usefulness and reliability of the reported performance information for these key performance areas:

- KPA 2 – Reduce the total cost of logistics, effect and accelerate modal shift in strategic growth segments.
- KPA 3 – Leverage private sector in the provision of both infrastructure and operations where required for strategic growth segments.

Other matters

I draw attention to the matters below.

Achievement of planned targets

Refer to the annual performance report on pages 25 to 27 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2 – Reduce the total cost of logistics, effect and accelerate modal shift in strategic growth segments and KPA 3 – Leverage private sector in the provision of both infrastructure and operations for strategic growth segments. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

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

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

Annual financial statements, performance reports and integrated report

The annual financial statements submitted for auditing were not fully prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatements of investment property, fair value adjustment, related party transactions and commitments identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Report of the auditor-general to Parliament on Transnet SOC Limited

for the year ended 31 March 2022

Expenditure management

Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R1,1 billion as disclosed in the legislative compliance section contained in the integrated report, as required by section 51(1)(b)(ii) of the PFMA. The value disclosed in the integrated report may not reflect the full extent of the irregular expenditure incurred. The majority of the irregular expenditure was caused by non-compliance with the entity's procurement processes and the 2017 Preferential Procurement Regulations (PPR). Irregular expenditure was identified during the audit process on awards made during the period 1 April 2021 to 31 March 2022.

Procurement and contract management

I was unable to obtain sufficient appropriate audit evidence that goods, works and services were procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA) and PPR 2017.

Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of PPPFA and regulation 11 of PPR 2017. Similar non-compliance was also reported in the prior year.

I was unable to obtain sufficient appropriate audit evidence that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by regulation 5(6) and 5(7) of PPR 2017.

Some of the contracts and quotations were awarded to bidders based on pre-qualification criteria that were not stipulated or differed from those stipulated in the original invitation for bidding and quotations, in contravention of regulation 4(1) and 4(2) of PPR 2017.

I was unable to obtain sufficient appropriate audit evidence that tender requirements for contracts above R30 million included a condition for mandatory subcontracting to advance designated groups, as required by regulation 9(1) of PPR 2017.

I was unable to obtain sufficient appropriate audit evidence that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and/or 25(7A).

Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by regulation 8(2) of the PPR 2017. This non-compliance was also identified in the procurement processes for the COVID-19 personal protective equipment.

Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content in accordance with paragraph 3.4 of National Treasury Instruction Note 4 of 2015/2016. This non-compliance was identified in the procurement processes for the COVID-19 personal protective equipment.

Some of the commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by regulation 8(5) of the PPR 2017. This non-compliance was identified in the procurement processes for the COVID-19 personal protective equipment.

Consequence management

I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular, fruitless and wasteful expenditure as required by section 51(1)(e)(iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure.

Disciplinary steps were not taken against some of the officials who had incurred or permitted irregular, fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the PFMA.

Disciplinary hearings were not held for confirmed cases of financial misconduct committed by some of the officials, as required by treasury regulation 33.1.1.

Other information

The accounting authority is responsible for the other information. The other information comprises the information included in the integrated report, which includes the report of the directors, the audit committee's report and the company secretary's certificate, as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported on in this auditor's report.

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

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

If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

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

There was inadequate oversight responsibility regarding financial reporting, compliance and related internal controls to ensure that compliance requirements are met in order to prevent irregular, fruitless, and wasteful expenditure.

Record management systems were not implemented effectively to ensure that complete, relevant and accurate information is accessible and available to support reporting.

Effective systems of internal control were not implemented to ensure accurate financial information at an Operating Division (OD) level. The preparation of OD financial information in support of the financial statements preparation process was not adequately executed to ensure a comprehensive review of year-end adjustments and reconciliations; resulting in material adjustments identified and adjusted for through the audit process at an OD level.

The accounting authority and management developed action plans as part of strengthening accountability and consequence management. As the implementation of these action plans is still in progress, we identified instances of non-compliance with applicable legislation and related internal controls that resulted in the lack of effective consequence management practices.

There is a concern in relation to the quality of the performance information as material misstatements were identified during the audit process. Inconsistencies were identified between the information in the revised Shareholder's Compact and the performance report, which were mainly due to inadequate review of the performance information.

Good governance of information technology (IT) must be anchored in and aligned to best practice, such as the King IV report on Corporate Governance and COBIT (control objectives for information and related technologies) framework (as adopted by Transnet), which are critical in the delivery of IT services that are aligned to strategic initiatives of the organisation. To this effect, leadership is in the process of finalising the approval of IT governance related documentation that requires adoption by the board of directors.

As the majority of financial management controls are automated and monitoring takes place mostly on reports generated by the IT systems; good IT controls and skills are fundamental to enable robust financial and performance reporting, including in-year monitoring. The design and implementation of formal controls relating to safeguarding, access, continuity availability and management of changes to applications systems were not always adequate or implemented.

Material irregularities

In accordance with the PAA and the material irregularity regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Status of previously reported material irregularities

Contracts for the lease of heavy duty plant and equipment awarded to bidder(s) that did not score the highest points

An award of R831 123 000 was made by the public entity in December 2019 for the leasing of front-end loaders, front-end loaders with pusher attachments, articulated dump trucks, tipper trucks, mobile fuel bowsers and excavators, for a period of five years; to bidders that did not score the highest points, as required by section 2(1)(f) of the PPPFA and PPR 11(2). The awarding of the contract to more than one bidder without setting objective criteria to justify the awards is likely to result in a material financial loss as the public entity paid a higher price per item of equipment.

The accounting authority was notified of the material irregularity on 4 August 2021. The following actions have been taken to address the material irregularity:

- A forensic investigation into the material irregularity was completed on 29 March 2022. It concluded that corrective action be taken against the implicated officials that contravened the provisions of the PPPFA, but no fraud, theft or breach of fiduciary duty was identified.
- The accounting authority plans to commence with disciplinary steps against the implicated officials. The steps will include the determination whether the responsible officials are liable by law for the losses suffered by the entity.

I will follow up on the implementation of the planned actions during my next audit.

Contract amounts exceed the tendered prices for the lease of heavy duty plant and equipment

An award of R831 123 000 was made by the public entity in December 2019 for the leasing of front-end loaders, front-end loaders with pusher attachments, articulated dump trucks, tipper trucks, mobile fuel bowsers and excavators, for a period of five years. The contract amounts awarded to the bidders exceeded the amounts per the bidding documents submitted and included escalated prices even though price increase negotiations had not yet taken place.

Officials in the public entity who are responsible for the effective, efficient, economical and transparent use of financial and other resources within their area of responsibility awarded contracts at amounts in excess of the prices per the bid submission which is in contravention of section 57(b) of the PFMA. The awarding of contracts at amounts higher than the bidding price will result in a material financial loss.

Report of the auditor-general to Parliament on Transnet SOC Limited

for the year ended 31 March 2022

The accounting authority was notified of the material irregularity on 4 August 2021. The following actions have been taken to address the material irregularity:

- A forensic investigation into the material irregularity was completed on 29 March 2022. It concluded that corrective action be taken against the implicated officials that contravened the provisions of the PPPFA, but no fraud, theft or breach of fiduciary duty was identified.
- The accounting authority plans to commence with disciplinary steps against the implicated officials. The steps will include the determination whether the responsible officials are liable by law for the losses suffered by the entity.

I will follow up on the implementation of the planned actions during my next audit.

Other reports

In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Allegations of maladministration regarding supply chain management and other improper conduct highlighted in the state capture report have been brought to the attention of those charged with governance. As at the date of this report, investigations are still ongoing by various state institutions.

At the request of Transnet, limited assurance engagements were performed on compliance of the issue of commercial papers issued between 1 April 2021 and 31 March 2022 under its ZAR80 000 000 000 domestic medium-term note and commercial paper programme with the provisions of the commercial paper notice (Government Notice 2172 published in Government Gazette no. 16167 of 14 December 1994) (the notice) issued by the registrar of banks, as required by paragraph 3(5)(j) of the said notice. Two reports were issued to Transnet on 31 January 2022 and 11 July 2022 and covered the period 1 April 2021 to 31 March 2022.

At the request of Transnet, an agreed-upon procedures engagement was performed to assess the allocation of Transnet corporate overhead costs to the Operating divisions. The report covered the period 1 April 2021 to 31 March 2022 and was issued to Transnet on 20 July 2022.

At the request of Transnet, a reasonable assurance engagement was performed on the Transnet National Port Authority (TNPA) annual financial statements for the financial year ending 31 March 2022. The objective of the engagement was to report whether the financial statements present fairly, in all material respects, the financial position of TNPA as at 31 March 2022, and their financial performance and cash flows for the year then ended in accordance with IFRS and the requirements of the National Ports Act 12 of 2005. The report was issued to TNPA on 27 July 2022.

An agreed-upon procedures engagement was performed relating to an exemption granted by the Minister of Finance to Transnet which permits the disclosure of irregular, fruitless and wasteful expenditure in the integrated report. The engagement covered the period 1 April 2021 to 31 March 2022 and the report was issued to Transnet on 27 July 2022.

Auditor General

Pretoria
27 July 2022

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

for the year ended 31 March 2022

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

Financial statements

In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

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

Communication with those charged with governance

- I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
- I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.
- From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the consolidated and separate financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

Audit Committee report

for the year ended 31 March 2022

Mandate

The Audit Committee presents this report in terms of the requirements of the PFMA and the related Treasury Regulations, section 94(7)(f) of the Companies Act and in accordance with the King IV Report on Corporate Governance for South Africa 2016, for the financial year ended 31 March 2022.

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

Execution of statutory duties

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

Oversight of financial and non-financial reporting and disclosure

Considered the annual financial statements for fair presentation with the relevant requirements of the PFMA, Companies Act and IFRS for relevance, adequacy, reliability and accuracy of financial and non-financial information provided by management and risks that may impact the integrity of the report. The committee also focused on disclosure of sustainability information in the report to ensure that it is reliable and does not conflict with the financial information.

Shareholder's Compact and financial performance

Transnet performance for the 2021/22 financial year (FY) improved from the prior FY performance but was met with internal and external challenges (including availability of locomotive issues, rising security incidents, the unrest in July and an IT security breach) as it began paving the way towards pre-pandemic recovery.

The committee reviewed the performance information presented.

Transnet reported a profit of R5,0 billion for the financial year. In this regard the reader is referred to the report of the Group Chief Financial Officer in the integrated report, where detailed disclosure of the financial performance is provided including the significant investment property fair value gains recognised in the financial year.

Overall performance against the Shareholder's Compact, requires significant improvement, considering the impact of additional waves of the COVID-19 virus and operational challenges experienced during the reporting period. Accordingly, management's efforts to implement strategic objectives and improve operational efficiencies and thus reduce the cost of doing business was significantly hampered.

Management will continue to prioritise the engagement of stakeholders, ensuring transparency with regards to operational and financial performance and keeping them informed of progress with regards to the turnaround strategy of Transnet.

Irregular expenditure

In the past four financial years, Transnet has received a qualified audit opinion as a result of misstatements identified in the irregular expenditure disclosed in the Annual Financial Statements (AFS). The consequences of the qualifications have been severe for Transnet. Against this background, Transnet requested a departure from the National Treasury from disclosing in the AFS amounts as required by certain provisions of the PFMA and related instruction notes. These included irregular and fruitless and wasteful expenditure (IFWE) and non-condoned historical irregular expenditure as required by the Irregular Expenditure Framework. Transnet received an exemption from disclosing the particulars required by section 55(2)(b)(i) (ii) and (iii) of the PFMA in the AFS for a period of three years, starting from 2021/22 to 2023/24 financial years. The extent of the exemption has been limited to the disclosure of the confirmed and under assessment IFWE in the integrated report of the current and one comparative years.

The exemption was granted to allow Transnet to develop and implement internal control measures to ensure accurate and complete reporting of IFWE.

The enhancement of the PFMA remediation plan remains a key priority for the Company. The lessons learned and challenges have been clearly defined and place the organisation in a much better position to speedily implement initiatives that drive PFMA compliance across the organisation.

Management and the Board wish to emphasise that the audit exposed many shortcomings in supply chain management (SCM) and procurement in general. An enhanced effort is required to improve this aspect of the business in the 2022/23 FY.

Material irregularity

In the 2021/22 FY no material irregularities (MI) were confirmed.

The MI reported in the 2020/21 FY, relating to procurement irregularities identified in Transnet Port Terminals was subjected to a forensic investigation. This was required in order to confirm actual value of financial loss as well as any remedial actions to be taken against any employees that were involved in causing the irregularities and related financial loss. A forensic investigation was conducted by an independent firm and was concluded in February 2022. External audit assessed the outcome and have not yet concluded as the consequence management process is still in progress and will therefore be re-assessed by external audit in the next financial cycle.

State capture and investigations

Transnet continued to co-operate with the Commission and other state agencies carrying out various investigations. The legal processes are underway dealing with these matters. Transnet has also put measures in place to ensure that consequence management and remediation actions are continuously being undertaken, this includes matters handed over to the Special Investigative Unit (SIU) for further investigations. Courts have also been approached to have certain contracts linked to fraudulent activities set aside.

Updates on the consequence management taken by Transnet are included in reports sent to the National Treasury and the Department of Public Enterprise.

Internal audit

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

The committee further reviewed and assessed the maturity and impact of combined assurance processes within the organisation. Transnet internal audit is now the custodian of this initiative and to this end, the combined assurance policy and plan has been approved by the committee. Good progress has been made with operating division assurance forums as well as priority focus area assurance forums holding their inaugural sessions toward the latter part of the financial year. Combined assurance induction training an orientation of newly appointed management has commenced and remains ongoing.

Following the passing of Mr Kgomo, Ms XN Ntshingila assumed the role of acting chief audit executive. Transnet secured the appointment of a permanent chief audit executive Ms S Khan who began her tenure in March 2022. During the year, Transnet internal audit began implementation of the new internal audit operating model, focusing on proactive, transversal and continuous assurance whilst improving the capability and capacity of the entire function. The aim of the hybrid model is to have the majority of the functions housed within Transnet, with the governance and reporting division leading the transition to the new model by end of the next financial year.

The committee remains of the view that a well performing internal audit function will contribute to strong governance, general control and risk management in the organisation. The committee remains concerned that the situation at present does not reflect the progress that was expected in the current financial year. Under the leadership of Ms S Khan, efforts to improve will have to be intensified, along with an alignment with external audit to ensure reliance can be placed on internal audit work by external audit.

External audit

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

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

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

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

Internal control assessment

The overall control environment for Transnet is assessed as needs improvement to support and enable the achievement of strategic business and operational objectives, including complete and accurate reporting to internal and external stakeholders and compliance to applicable laws and regulations.

Previous years' irregularities, restructuring, new operating models and strategies as well as changes emanating from the COVID-19 related national lockdown eroded not just the financial performance of the Transnet Group, but brought to the fore significant challenges in the control environment which confirmed the unsatisfactory assessment of the control environment for the prior year.

Despite the introduction of several management initiatives including stabilising leadership; re-prioritizing corporate governance as a business imperative and strengthening of the various lines of defense, the control environment effectiveness has not substantially improved as these fixes are not quick and will require a protracted timeframe for embedding, measuring, monitoring and improving.

The 2021/22 financial year proved to be a challenging year for Transnet with significant operational impediments such as:

- Availability of locomotives;
- Security of assets from theft and vandalism;
- Cyber attack;
- July unrest that impacted operations;
- Weather conditions;
- Fire incidents; and
- Voluntary severance packages (VSPs).

The effectiveness of a system of internal controls is directly impacted by people and technology, both of which were severely constrained in the current financial year, due to the cyber-attack and VSPs. These have in part contributed to the lack of desired improvement in the control environment.

We have found that this overall condition has not improved since the prior year and operations is the significant area where enhancement is required.

Management has demonstrated continued commitment to this end, as remediation of weaknesses is ongoing, albeit not at the rate needed to reduce continued and protracted risk exposures to business. This is evidenced by the number and aging of overdue open audit findings and those linked to long-term solutions. As such the control environment remains vulnerable until such remedial actions and enhancements are implemented.

Information technology (IT) general controls

The committee monitors the effectiveness of the IT control environment and mitigating controls implemented. The committee noted the impact of the cyber attack and the improvements required to the overall business continuity and disaster recovery processes as well as the dependence on third-party outsourcing partners.

Audit Committee report

for the year ended 31 March 2022

Management has reviewed these outsourcing models, and related over-reliance in this regard, along with the management of IT and business continuity, and has begun implementing the automation and elimination of the extensive manual activities in the finance and operational environments to facilitate the change required to improve these related processes.

Going-concern assumption

The committee concurs with the view expressed by management and evaluated by external audit that the adoption of the going concern assumption in the preparation of the annual financial statements is appropriate.

In performing their going-concern assessment, members of the committee considered the robustness of budgets and the 2021/22 business results, cash flow projections, progress made on cash-preservation initiatives to mitigate against the impact of revenue shortfalls as well as the flexibility of the capital investment plan and the well-defined funding plan.

Appointment of debt officer

Ms Nonkululeko Dlamini (Chief Financial Officer) was appointed as debt officer during the prior financial year. The board of directors have considered and satisfied themselves on the competence, qualification and experience of the debt officer.

Audit Committee meetings

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

Composition and meeting attendance

Schedule of attendance at meetings from 1 April 2021 to 31 March 2022

Directors	Q1 27/05 2021	Q1 17/06 SP 2021	Q2 06/09 2021	Q3 20/10 2021	Q3 23/11 2021	Q3 09/12 2021	Q4 17/02 2022
Mr LL Von Zeuner *(Chairperson)*	✓	✓	✓	✓	✓	✓	✓
Ms ME Letlape	✓	✓	✓	✓	✓	A	A
Mr AP Ramabulana	✓	✓	✓	✓	✓	✓	✓
Ms G Ramphaka	✓	✓	✓	✓	✓	A	✓

SP Special meeting.
✓ Present.
A Apology.

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

Key focus areas of the meetings

The quarterly meetings held during the reporting period entailed the following key discussions:

- Liquidity and funding challenges and the approach to address the associated risks (including that related to the company's loan covenants);
- Debt maturity and adherence to the foreign borrowing limit;
- Gearing level and structure of the statement of financial position;
- Performance of Operating divisions and the impact on free cash flows;
- The integrated assurance plan and internal audit findings (control environment needs improvement) remain sources of concern;
- IFWE, and the implementation of the related remedial plan and consequence management application throughout the Group;
- Tax and IT activities; and
- Combined assurance implementation.

Main objectives of the committee for 2022/23

- Monitoring of financial and operational risks, including the impact of the floods in KZN;
- Revenue generation and focus on cost-savings;
- Funding approach and planning for upcoming debt redemption, including overseeing drawdowns from the GMTN programme;
- Improved liquidity and over time lower gearing levels remain a priority;
- Impact of VSP process and solution to resolve any potential gaps;
- Improvement of the internal control environment;
- Oversee along with other board committees the turnaround of SCM/procurement;
- Continuous improvement on regulatory compliance;
- Financial sustainability and delivering on environmental, social and governance (ESG) objectives;
- Implement appropriate measures to support a successful private sector participation (PSP) programme and other liquidity enhancing initiatives; and
- Remediating audit findings.

Recommendation of the annual financial statements and the integrated report

The committee has evaluated the annual financial statements of Transnet and the integrated report for the year ended 31 March 2022 and, based on the information provided to it, considers that they comply, in all material respects, with the requirements of the Companies Act, the PFMA and IFRS.

Conclusion

The committee is encouraged by the unqualified audit opinion, although there are areas that require further attention to deliver an absolute positive report given the improvements required in the overall control environment and the continued focus required in the compliance space linked to IFWE. The committee does have continued confidence in the executive committee and remains committed that the remaining challenges will be addressed accordingly with the continued implementation of the Group's growth and renewal strategy.

We would also like to thank the AGSA for its support during the audit with improvements in their processes having been noted and appreciated and have contributed to the improvements in the reporting timelines that have been realised.

L. L. von Zeuner

LL Von Zeuner
Chairperson of the Transnet Audit Committee

25 July 2022
Johannesburg

Report of the directors

for the year ended 31 March 2022

Introduction

The directors submit their report, together with the Company and Group annual financial statements, for the year ended 31 March 2022.

Nature of business

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

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

Board of directors

The composition of the Board of Directors at 31 March 2022, summary curricula vitae of the directors, key activities and decisions of the Board and its committees and performance evaluations are set out in the 'abridged governance' section of the integrated report. A separate, unabridged version of the governance report is also available online.

The remuneration and fees paid to directors are set out in note 38 of the annual financial statements.

Performance for the reporting period

Transnet performance for the 2021/22 financial year (FY) improved from the prior financial year performance but was met with internal and external challenges as it began paving the way towards pre-pandemic recovery.

In the 2022 calendar year, South Africa's real gross domestic product (GDP) grew by 4,9% following a substantial decline of 6,4% in 2021. The higher economic activity was attributable to strong commodity prices and the moderate reopening of the local economy after strict COVID-19 restriction. Despite the anticipated and slight economic improvement experienced in the 2021FY; rand depreciation, rising unemployment rate as well as the country's ongoing energy crisis continue to pose a significant threat to the South African economic growth.

Rising security incidents mainly cable theft and vandalism of rail and pipeline infrastructure, and an IT security breach and related challenges also impacted port and rail operations.

Transnet's approach for the 2021/22FY proved resilient as it recorded higher volume performance in the first two quarters of the financial year compared to the prior reporting period. This achievement translated to volume growth in the port and pipeline operations, with port containers handled of 4 131 '000 TEUs (2021: 3 916 '000 TEUs) a 5,5% increase and pipeline volumes of 15 350 million litres (2021: 13 067 million litres) an increase of 17,5%. Rail volumes did however decline due to the operational challenges experienced, relating to locomotive availability, security incidents and bad weather conditions.

Detailed commentary on the performance for the year is contained in the integrated report on pages 104 to 109.

Accounting policies

The accounting policies applied in the preparation of the annual financial statements for the year ended 31 March 2022 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 of the annual financial statements.

Dividend

Distributions to the Shareholder are governed by paragraph 28 of the Company's Memorandum of Incorporation in line with the requirements of section 46 of the Companies Act, and are made in accordance with the Company's approved dividend policy.

In determining the declaration of dividend, the Transnet Board of Directors must consider the environment in which the business operates over the current, short and medium term, taking into account the following:
- Shareholder expectations
- Future funding requirement and reinvestment opportunity
- Solvency and liquidity
- Going concern assessment
- Changes in government and regulatory policies
- Company's cash generation ability
- Economic environment

Further, dividend payment is informed by the availability of excess cash from operating activities after allowing for:
- Debt servicing (interest and principal)
- Funding a sustaining capital investment
- Financial flexibility

The Board of Directors have decided not to declare a dividend for the financial year ended 31 March 2022. The Company assessed the following factors in arriving at this decision:
- Based on the 2023 Corporate Plan, Transnet will have no excess cash in the 2022/23 financial year;
- The Company has a significant sustaining capital investment backlog and operational requirements given its strategy;
- The significant debt repayment profile in the short term;
- The funding of strategic priorities in the corporate plan, including but not limited to, enterprise development and social investments; and
- Transnet's current sub-investment grade credit rating that may increase the cost of borrowing.

The declaration of a dividend is reviewed annually and is subject to the approval of the Shareholder Representative at the annual general meeting.

Divisions, subsidiaries and associate companies

A detailed list of subsidiaries and equity-accounted investees is contained in note 37 of the annual financial statements.

Revaluation of property, plant and equipment

The Group performs revaluations of its rail infrastructure, port infrastructure and pipeline networks in accordance with its accounting policy, which requires an independent valuation every three years, as well as index or discounted cash flow valuations in the intervening years where appropriate.

At 31 March 2022, the rail infrastructure assets were revalued based on the depreciated optimised replacement cost and discounted cash flow methods. An external valuation of the pipeline network was performed by an independent firm of professional valuers on the basis of the depreciated replacement cost methodology. Port infrastructure was revalued based on the discounted cash flow method, while port operating assets were revalued based on an index valuation.

Rail infrastructure

The carrying value of rail infrastructure was revalued by R6,6 billion (2021: R1,3 billion devaluation) in line with the revenue projections in the 2023 corporate plan.

Port facilities

The carrying value of port infrastructure was revalued by R3,9 billion (2021: R10,5 billion revaluation) in line with revenue projections and port operating assets were revalued by R169,3 million (2021: R59,4 million devaluation).

Pipeline networks

The carrying value of pipeline networks was revalued by R905 million (2021: R257 million devaluation).

Fair valuation of investment property

The Group determines the fair value of its investment property on an annual basis in accordance with IAS 40 *Investment Property*. The valuation of the Group's investment properties at 31 March 2022 was performed by qualified external property valuers and was arrived at by capitalising normalised net operating income at market-derived capitalisation rates which are adjusted where appropriate, to reflect the risk profile of each individual property.

The valuation resulted in a fair value increase in investment property of R9,8 billion (2021: R770 million decrease) due mainly to the improvement in the property market since the effects of the COVID-19 pandemic on the economy in the prior year.

Capital expenditure and commitments

The Company continued to execute its infrastructure investment programme, spending R13,2 billion for the year (2021: R15,9 billion). The decrease is mainly due to the financial constraints, following the impact of COVID-19 lockdown restrictions and capital optimisation.

The capital investment for the year comprised R1,9 billion (2021: R2,2 billion) invested in the expansion of infrastructure and equipment and R11,3 billion (2021: R13,7 billion) invested to maintain capacity in the rail, pipelines and ports divisions.

Further details regarding capital commitments are contained in note 30.1 of the annual financial statements.

Prior year restatements

The prior year financial statements have been restated mainly as a result of management's assessment of CWIP balances and the fair value of investment property. These errors were accounted for as prior year adjustments to the annual financial statements in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

For further detail in this regard, please refer to note 39 of the annual financial statements.

Passenger Rail Agency of South Africa (Prasa)

Prasa owed Transnet R1,8 billion at 31 March 2022 (2021: R2,3 billion), of which R315 million (2021: R396 million) related to services provided during the year.

The Group recognised R505 million of revenue billed to Prasa in accordance with IFRS 15, including R249 million which had not been recognised in prior periods, as the collectability requirement for these invoices was met following a set-off agreement between Transnet and Prasa, which allowed Freight Rail to set-off an amount of R597 million against invoices owed to Prasa.

Going concern

In adopting the going concern assumption, the Board reviewed the Group's performance for the year and considered the robustness of budgets and business results, cash flow projections for the 15 months ending 30 June 2023, cost-saving opportunities, the cost of capital projects and related optimisation opportunities and the funding plan.

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for the year ended 31 March 2022

Funding

As at 31 March 2022, the Company's total borrowings amounted to R128,8 billion (2021: R129,1 billion).

In the period under review, the Group raised funding of R13,1 billion (2021: R12,3 billion) through the issuance of bonds and commercial paper (under the Domestic Medium-Term Note (DMTN) programme) and the execution of bilateral loans without the provision of government guarantees.

The decision to limit future capital expenditure to 80% of cash generated from operations, together with the expected cost compression through improved procurement processes, will ensure a reduction in forward-looking debt levels.

Credit ratings

Transnet has two officially recognised rating agencies: S&P Global Ratings (S&P) and Moody's Investors Service (Moody's). Transnet's credit rating at the date of issuing this report is depicted in the table below.

Issuer rating	Moody's	S&P
Corporate Family Rating/Foreign currency rating	Ba3/Ratings under review	BB-/Negative outlook
Corporate Family Rating/Local currency rating	Ba3/Ratings under review	BB-/Negative outlook
National scale rating (NSR) – long/short term	A2.za/P-1.za/Ratings under review	zaAA/zaA-1+
BCA/SACP	B2/Ratings under review	bb-/Negative outlook

Further details are provided in note 36 of the annual financial statements.

Post-retirement benefit obligations

Benefit funds

The Group provides various post-retirement benefits to its active and retired employees, including post-retirement medical pension.

The 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 R1 381 million (2021: R1 186 million) and R4 013 million (2021: R3 375 million) respectively. Transnet has not recognised any portion of the surplus on these funds, as the fund rules presently do not allow for the distribution of a surplus.

The post-retirement medical benefit obligation is approximately R368 million (2021: R456 million).

SATS pensioners' post-retirement medical benefit obligations

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

Events subsequent to the reporting period date

Impact of adverse weather and flooding in KwaZulu Natal Province on Transnet's operations

In the month of April 2022, most parts of KwaZulu-Natal experienced extreme storms and heavy rainfall which led to widespread disruptions and regrettably a loss of lives. Transnet was not spared and the immediate focus was to ensure the safety of people, and the reinstatement of operations. Notable damage to assets occurred at Transnet Freight Rail (TFR), Transnet Engineering (TE), Transnet National Ports Authority (TNPA) and Transnet Property (TP).

The estimated financial impact is under assessment and will be accounted for in the 2023 reporting period. Further details will be provided once the financial impact of the adverse weather and flooding in KwaZulu-Natal province has been finalised or determined with a greater degree of certainty.

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 disclosed in the annual financial statements.

The Company has a dedicated Compliance function to assist directors with the management of compliance obligations. Compliance utilises a risk-based methodology and approach to ensure that Transnet's high risks are treated and/or eliminated.

PFMA compliance

The Public Finance Management Act (PFMA) imposes 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.

In the past four financial years, Transnet has received a qualified audit opinion as a result of misstatements identified in the irregular expenditure disclosed in the annual financial statements (AFS). The consequences of the qualifications have been severe for Transnet. Against this background, Transnet requested a departure from the National Treasury from disclosing in the AFS amounts as required by certain provisions of the PFMA and related instruction notes. These included irregular and fruitless and wasteful expenditure (IFWE) and non-condoned historical irregular expenditure as required by the Irregular Expenditure Framework. Transnet received an exemption from disclosing the particulars required by section 55(2)(b)(i) (ii) and (iii) of the PFMA in the AFS for a period of three years, starting from 2021/22 to 2023/24 financial years. The extent of the exemption has resulted in the disclosure of the confirmed and under assessment IFWE in the integrated report of the current and one comparative year.

The exemption was granted to allow Transnet to develop and implement internal control measures to ensure accurate and complete reporting of IFWE.

Transnet has put measures in place to ensure that consequence management and remediation actions are continuously being undertaken, this includes matters handed over to the Special Investigative Unit (SIU) for further investigations. Courts have also been approached to have certain contracts linked to fraudulent activities set aside.

Updates on the consequence management taken by Transnet will be included in reports sent to the National Treasury and the Department of Public Enterprises.

The enhancement of the PFMA remediation plan remains a key priority for the Company. The lessons learned and challenges have been clearly defined and place the organisation in a much better position to speedily implement initiatives that drive PFMA compliance across the organisation.

In an effort to automate its procurement practices and in line with Transnet's digitalisation strategy, a new electronic tender submission system was launched in October 2021. The system aims to ensure that Transnet tenders are submitted via a secure e-Tender submission portal replacing manual publications.

Material irregularity

In the 2021/22 FY no material irregularities (MI) were confirmed.

The MI reported in the 2020/21 FY, relating to procurement irregularities identified in Transnet Port Terminals was subjected to a forensic investigation. This was required in order to confirm actual value of financial loss as well as any remedial actions to be taken against any employees that were involved in causing the irregularities and related financial loss. A forensic investigation was conducted by an independent firm and was concluded in February 2022. External audit assessed the outcome and have not yet concluded as the consequence management process is still in progress and will therefore be re-assessed by external audit in the next financial cycle.

Economic regulation and regulatory reform

The tariffs of two operating divisions, namely Transnet Pipelines (TPL) and Transnet National Ports Authority are regulated by the National Energy Regulator of South Africa (Nersa) and the Ports Regulator of South Africa (Ports Regulator) respectively. The railway safety permit fees are determined by the Department of Transport and are payable to the Railway Safety Regulator (RSR).

The Company operates within a policy context determined by the Department of Public Enterprises (DPE) and the Department of Transport (DoT) respectively.

With approximately 22,7% of Transnet's revenue and 47,9% of EBITDA impacted by economic regulation, it is critical that relationships with regulators are managed proactively and strategically as their decisions could have a significant impact on operating results, capital investment decisions and investor confidence.

Pipelines

On 30 September 2021, TPL submitted its 2022/23 financial year (FY) tariff application to NERSA in terms of the methodology.

On 24 February 2022 the Energy Regulator set the petroleum pipelines system tariffs that will allow Transnet to realise a 9,10% increase in allowable revenue compared to the 2021/22 FY tariff period. This translates to an 8,02% tariff increase for the Durban to Alrode route, which will result in an increase of approximately R4,18 cents c/l in the fuel price in the 2022/23 FY (from 52,20 c/l to 56,39 c/l).

Any capital expenditure incurred by TPL in furthering its business is allowable by NERSA provided that it can be proved to be prudently incurred. A prudency exercise has been completed by NERSA on the construction costs of the new multi-product pipeline (NMPP). This exercise resulted in NERSA declaring an additional R1,1 billion imprudent to the Transnet R3,17 billion imprudent amount that is included in the Regulated Asset Base (RAB). This has been factored into the 2022/23 petroleum pipelines tariff decision by NERSA.

National Ports Authority

On 16 August 2021, TNPA submitted its tariff application as prescribed by the tariff methodology. On 15 December 2021, the Ports Regulator approved TNPA's tariff increase of 4,8%, due to the consistent application of the tariff methodology.

Corporatisation and Incorporation of Transnet National Ports Authority

The creation of TNPA, as a subsidiary of Transnet SOC LTD is ongoing. Once the relevant provisions of the NPA Act are amended, as recommended, the incorporation of the TNPA SOC LTD will be in accordance with the company's Memorandum of Incorporation (MOI) and will establish a State-Owned Company as defined in the Companies Act, No 71 of 2008, incorporated in accordance with and/or governed by the NPA; the PFMA and other applicable legislation.

Freight Rail

On 30 October 2020, Transnet presented its views on the Economic Regulation of Transport (ERT Bill) to the Parliament Portfolio Committee on Transport. The Company requested harmonised Economic Regulation Methodologies for an integrated network of Rail, Ports and Pipelines to be established in the ERT Bill to enable full economic cost recovery across the network.

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Application for Transnet Single Entity Safety Permit for period 2022 to 2024

Transnet has submitted its application for the renewal of its three-yearly Railway Safety Permit, which was due to the Railway Safety Regulator (RSR) on 31 May 2022. The requirement is that such application must be submitted to the RSR 90 days before the expiry of the existing permit. Transnet's current permit expires on 31 August 2022 and includes the 2021/22 financial year-end performance results.

Railway Safety Permit Fees 2022 financial year determination

In terms of the notice, the Minister of Transport made a final determination of R114,6 million payable by Transnet on the permit fees for the 2022/23FY. The determination represents a zero percent increase from the fee charged for the 2021/22FY. It is envisaged that this will be the last determination based on the current approach followed by the DoT, as the RSR will be finalising its proposal on the revision of the methodology. It is expected that the RSR will submit its revised methodology to the DOT in the fourth quarter of the year for approval and that the new methodology will be applicable as from the 2023/24FY.

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 of the annual financial statements.

1 064 review application

On 9 March 2021, Transnet and the SIU jointly launched a substantive application in the High Court to review and set aside the locomotive supply agreements concluded with four original equipment manufacturers (OEMs): China South Rail, China North Rail, Bombardier Transport and General Electric. The relief sought against each OEM is specific but includes the set aside of the contracts, for the court to award a just and equitable remedy, which will include Transnet retaining those locomotives in its possession and receiving compensation for overpayments.

All of the OEMs have served notice of intention to defend the application. Transnet and the SIU are proceeding with the application.

Once the court processes conclude, Transnet will consider the impact of the outcomes on the fair representation of property, plant and equipment.

Investigation by the Competition Commission

On or around 7 July 2016, the Commissioner initiated two formal complaints against Transnet and its three Operating Divisions, i.e. Transnet Freight Rail, Transnet Port Terminals and Transnet National Ports Authority. In November 2021 the Competition Commission informed Transnet of an additional investigation that is being pursued against Transnet in respect of an anonymous complaint under Case Number: 2020Oct0035.

Whilst engagements are underway between Transnet and the Commission with a view to resolve all matters under investigation, it is important to note that the investigations against TFR, TPT and TNPA have been ongoing for more than six (6) years and to date there has been no referral of any of these matters by the Commission to the Competition Tribunal. With respect to TPT and TNPA, it has been two years since the Commission communicated its preliminary findings against both parties, and its readiness to refer the matters to the Competition Tribunal for adjudication.

Transnet introduced competition law compliance training for customer facing functionaries and is collaborating with the Competition Commission regarding the refinement of its curriculum.

Investigation by the Zondo Judicial Commission of Inquiry

The Judicial Commission of Inquiry into State Capture, (the Commission) released its report on Transnet on 1 February 2022. The recommendations directed at Transnet are being acted upon. The majority of the recommendations were directed to law enforcement agencies and Transnet is co-operating to the extent required with these agencies. The findings in respect of various contracts are, where possible, being pursued through civil recovery litigation with the Special Investigating Unit (the SIU).

All the individuals cited in the Commission's report for further criminal investigation are no longer employed by Transnet having resigned from Transnet or have been dismissed.

Special tribunal outcome

Transnet is working closely with the SIU in recovering losses suffered as a result of wrongdoing. Following a report from the SIU about the conduct of a previous Group Executive, Transnet dismissed the Group Executive and successfully litigated with the SIU in the SIU Special Tribunal obtaining a judgment on 31 August 2021 in terms of which the previous executive was ordered to pay back to Transnet R26,4 million for disgorgement of secret profits he earned while employed by Transnet.

Transnet and the SIU also launched proceedings in the SIU Special Tribunal for the seizure and forfeiture of funds held by CRRC E-Locomotive Supply (previously known as China South Rail, one of the OEMs contracted to deliver locomotives in terms of the 1 064 locomotive supply agreements. Transnet and the SIU obtained an ex parte order against funds of CRRC held in various South African bank accounts and a final judgement in the matter is pending.

Transnet is preparing legal papers to pursue further civil recovery in respect of parties implicated in SIU investigations and the findings of the Zondo Commission Report.

Total SA and Sasol Oil v Transnet Pipelines

Total South Africa (Pty) Limited (Total) and Sasol Oil (Pty) Limited (Sasol) initially brought separate action proceedings against Transnet for contractual damages amounting, cumulatively, to over ZAR1,8 billion. Litigation has been ongoing since 2013 by Total and 2018 by Sasol.

Transnet successfully petitioned for leave to appeal against the judgment by the South Gauteng High Court to the Constitutional Court. The appeal was heard on 16 November 2021 and judgment was reserved. On 22 June 2022, the Constitutional Court ruled that Transnet has (as from 13 September 2020) validly terminated the pipeline agreement with Total and Sasol which regulated the conveyance of crude oil from Durban to the Natref inland refinery at Sasolburg. There has been no determination of the merits of the claimed amount and that the proceedings thus far have centred primarily on the termination of the variation agreement. The matter will revert to the High Court for determination of the remaining separated issues.

Parallel to the litigation above, Transnet also lodged a complaint with regard to the 'neutrality agreement', in that it was not aligned to the Petroleum Pipelines Act. Transnet has had various engagements with Nersa regarding the complaint and Nersa is still considering same for purposes of adjudication.

Shareholder's Compact – performance criteria

The 2021/22FY revised Shareholder's Compact was approved by the Board of Directors on 25 October 2021 and by the Minister of the Department of Public Enterprises on 17 January 2022.

The Shareholder's Compact KPIs that the Board and the Shareholder Representative agree on is the performance-monitoring framework for the Company. The 2021/22 financial year performance against the Shareholder's Compact targets are outlined in the tables that follow. The performance information contained therein has been subjected to independent audit review, and the auditors have reported their findings in the independent auditor's report.

Key performance area 1: Ensure financial sustainability

Key performance indicator	Unit of measurement	2022 target	2022 actual
Operating ratio	%	≤62,5	**65,7**
Cash interest cover (CIC)	times	≥2,5	**2,6**
EBITDA margin	%	≥37,5	**34,3**
Return on invested capital (ROIC)	%	≥4,1	**4,4**
Current ratio	times	≥0,63	**0,39**
Gearing	%	≤48,4	**45,5**
Free cash flow	Percentage of cash flow before capital investment	≥18	**25,0**

Transnet Shareholder's Compact performance for the 2021/22FY is a reflection of the dynamic internal and external environments which Transnet operates in. The performance of the Shareholder's Compact was adversely affected by the compounded impact of unexpected challenges experienced in the beginning of quarter 2 as Transnet began paving the way towards pre-pandemic recovery. These challenges include amongst others; increase in security related incidents mainly cable theft and vandalism of rail and pipeline infrastructure, IT security challenges and KZN unrest which largely impacted port and rail operations.

As a result, only 17 of the 44 Shareholder Compact measures achieved their target for the financial year resulting in 39% achievement. This represents an increase from the 12% overall achievement registered in the 2020/21FY, but significantly lower than the 80% threshold required by the DPE. Despite these challenges, the following measures registered positive volume performance for the financial year; rail containers (Natcor and Capecor), port containers, port automotive and pipeline volumes. As a first in an endeavour to improve performance through private sector participation, the Transnet Board of Directors approved the private sector participation framework for implementation in the 2022/23 financial year.

To address the consistent operational challenges in the Group environment, the focus of the 2022/23FY Shareholder's Compact for Transnet will seek to address the immediate challenges by identifying and compacting on KPIs that will enable management to focus on addressing the operational and financial challenges of the organisation.

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Key performance area 2: Reduce the total cost of logistics, effect and accelerate modal shift in strategic growth segments

Key performance indicator		Unit of measurement	2022 target	2022 actual
Total rail volumes		mt	≥208,83	**173,1**
Measurement instrument for the cost of logistics as a percentage of transportable GDP finalised		Date	30 September 2021	**Target achieved**
Loss time injury frequency rate (LTIFR)		Ratio	≤0,75	**0,69**
Commercial/accounting separation of TNPA's regulatory and landlord function finalised		Date	31 March 2022	**Not achieved.** The process to amend the Ports Act was still in progress by 31 March 2022
Container segment	Rail containers (Natcor and Capecor)	TEUs	≥306 387	**309 358**
	Port containers	'000 TEUs	≥4 059	**4 131**
Automotive segment	Rail automotive units	units	229 389	**135 356**
	Port automotive units	units	535 530	**719 138**
Coal segment	Export coal	mt	≥73,2	**58,3**
	Eskom coal	mt	≥4,10	**2,51**
Chrome and magnetite segment	Chrome	mt	≥8,99	**4,84**
	Magnetite	mt	≥11,67	**8,64**
Iron ore segment and manganese segment	Export iron ore	mt	≥59	**54,6**
	Manganese	mt	≥16,27	**14,48**
Fuel segment	Rail liquid fuel	mt	≥1,4	**0,54**
	Pipeline volumes	bl	≥14,00	**15,35**

Key performance area 3: Leverage private sector in the provision of both infrastructure and operations for strategic growth segments

Key performance indicator		Unit of measurement	2022 target	2022 actual
Private sector participation framework revised and approved.		Date	30 September 2021	**Not achieved.** The framework was under development and not approved by 30 September 2021 but was subsequently revised and approved by the Board on 31 March 2022
Accounting separation of TFR operations and rail infrastructure slot allocation costs finalised.	Accounting separation of TFR operations and rail infrastructure	Date	31 March 2022	**Target achieved**
	Slot allocation costs finalised	Date	31 March 2022	**Target achieved**
Strategic segments				
Container segment	Request for information (RFI) for concession of the Durban Point Container Terminal project issued to the market	Date	30 November 2021	**Not achieved.** Consultations with the transaction advisor was still in progress as at 30 November 2021
	RFI for an international terminal operator to partner at DCT Pier 2 issued to the market	Date	30 September 2021	**Target achieved**
	RFI for concession of the Inland Container Terminal Project (City Deep) issued to market	Date	31 March 2022	**Not achieved.** Business case development was in progress as at 31 March 2022
Automotive segment	RFI for concession of the Inland Terminal (Kaalfontein) issued to the market	Date	31 March 2022	**Not achieved.** Business case development was in progress as at 31 March 2022
Coal segment	Consolidation of all coal exports through Richards Bay	Date	31 March 2022	**Not achieved.** The consolidation enablers were under development as at 31 March 2022
Iron ore segment and manganese segment	RFI for PSP transaction for the development of the Back of Port iron-ore and manganese facility in Saldanha issued to the market	Date	31 March 2022	**Not achieved.** The approach has been re-evaluated as there are concerns with the environmental impact and the RFI was still on hold as at 31 March 2022
	Feasibility study for Sishen-Saldanha rail operating lease completed	Date	31 March 2022	**Target achieved**
Completion of the preparatory phase (viability, structuring and market consultation) for the Cape Town and Richards Bay Multi-Purpose Terminals (MPT)		Date	30 September 2021	**Not achieved.** Cape Town MPT analysis has been completed and the Richards Bay MPT business case was in progress as at 30 September 2021

Key performance area 4: Integrate South Africa with the region and the rest of the world

Key performance indicator	Unit of measurement	2022 target	2022 actual
Cross-border revenue	R million	3 033	**2 707**
Financial close for the acquisition of 16% shareholding in Maputo Port Development Corporation (MPDC)	Date	31 March 2022	**Not achieved.** The preliminary due diligence, valuation, conceptual funding solution, draft business case, non-binding expression of interest and negotiation term sheet were not 100% achieved as at 31 March 2022
Maritime connectivity	Index	≥40,8	**39,1**
RFI to identify equity partner for TPT at Ngqura Container Terminal issued to the market to drive the transhipment strategy	Date	31 December 2021	**Target achieved**
Chrome and magnetite export volumes through Maputo	mt	7,11	**6,15**
Volumes on the North/South corridor	mt	0,412	**0,35**

Key performance area 5: Optimise the social and economic impact of all interventions in the achievement

Key performance indicator	Unit of measurement	2022 target	2022 actual
Number of trainees	Number	≥450	**445**
Research and development spend (R million)	Number	≥119	**98,3**
Enterprise and supplier development	% of NOPAT	≥3	**16,70**
BBBEE level	Certification level	2	**2**

Remuneration report

Details of directors' remuneration are included in note 38 of the annual financial statements. A detailed remuneration report is included in the integrated report on pages 96 to 100.

Accounting policies

for the year ended 31 March 2022

The consolidated financial statements for the year ended 31 March 2022 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 25 July 2022.

Transnet has applied *Directive 12 The Selection of an Appropriate Reporting Framework by Public Entities*; issued by the Accounting Standards Board. The directive states that *"An entity shall apply International Financial Reporting Standards (IFRS) as its reporting framework if it meets the criteria in paragraph 11. Otherwise it shall apply Standards of GRAP"*.

Paragraph 11 provides that *"In assessing whether an entity shall apply IFRS Standards, it considers whether it meets one of the following criteria:*
(a) the entity is a financial institution;
(b) the entity has ordinary shares or potential ordinary shares that are publicly traded on capital markets; or
(c) its operations are such that they are:
(i) commercial in nature; and
(ii) only an insignificant portion of the entity's funding is acquired through government grants or other forms of financial assistance from government."

Transnet satisfies the criteria in paragraph 11 as its operations are of a commercial nature which aim to provide services to generate profits, and only an insignificant portion of the entity's funding is acquired through government grants or other forms of financial assistance from government.

In addition, as an entity with publicly listed debt, Transnet is required in terms of the listing requirements of the Johannesburg Securities Exchange, London Stock Exchange and the Luxembourg Stock Exchange to prepare its financial statements under IFRS. Transnet therefore prepares its financial statements in accordance with IFRS.

Statement of compliance

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and applicable legislation.

Critical judgements and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting 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 financial statements.

Basis of preparation

The consolidated financial statements are presented in South African Rand, which is the Company's functional currency, rounded to the nearest million.

The financial statements are prepared on the going-concern basis using accrual accounting and the historical cost convention, except for certain financial instruments and investment property which are measured at fair value, non-current assets held-for-sale which are measured at the lower of carrying amount and fair value less costs-to-sell and certain classes of property, plant and equipment which are measured using the revaluation model.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services at the transaction date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes is determined on the above basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- *Level 1 inputs* are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- *Level 2 inputs* are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- *Level 3 inputs* are unobservable inputs for the asset or liability.

Except as otherwise disclosed, these accounting policies are consistent with those applied in previous years and are consistently applied across 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 equity-accounted investees

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

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

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.

A list of significant subsidiaries, associates and joint ventures is provided in note 37 of the annual financial statements.

Separate financial statements

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

Revenue

Revenue from contracts with customers

Revenue is recognised when control of promised goods or services is transferred to a customer at an amount that reflects the consideration the Group expects to receive in exchange for those goods or services. The Group accounts for contracts with customers when it has approval and commitment from both parties, each party's rights have been identified, payment terms are defined, the contract has commercial substance and collection of the consideration is probable.

For contracts that involve multiple performance obligations, the Group allocates the transaction price to each performance obligation in the contract based on relative stand-alone selling prices and recognises revenue as and when each performance obligation in the contract is satisfied. Where stand-alone selling prices are not available, the Group estimates the stand-alone selling price based on the expected cost plus margin approach.

Certain customer agreements include variable consideration in the form of take-or-pay charges, volume based rebates or discounts, penalties and additional revenue based on meeting certain performance targets which affect the transaction price. Variable consideration is recognised as revenue to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Variable consideration is recognised based on management's best estimate of the expected amount, taking into account available historical, current and forecasted information – and where applicable, following verification processes or confirmation with the customer.

Revenue is recognised net of value-added tax, and excludes any amounts collected on behalf of third parties.

Payments received from customers in advance of the Group satisfying its performance obligations are initially recognised as contract liabilities. Amounts owing to the Group for goods or services rendered but not yet invoiced are recognised in the financial statements as contract assets.

The Group applies the following practical exemption in IFRS 15:
- The Group does not adjust the consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of goods or services to a customer and payment will be one year or less.

The Group generates revenue from the following principal activities.

Freight Rail

Freight Rail generates revenue from the transportation of bulk, break-bulk and containerised freight over the Group's rail network, and from the provision of broadband electronic communication services through its fibre optic cable network.

Rail freight services are based either on the standard conditions of carriage, the rail transport agreement, and where applicable, customer-specific contracts that establish the terms and conditions for rail freight services offered by the Group. For revenue recognition purposes, an agreement for the movement of freight over rail exists when a service request is received from a customer and is accepted by the Group.

The transaction price is generally determined for each customer when the service request is received based on their requirements, except where there is a customer specific contract in place, in which case the contractual rates will apply.

Revenue from the movement of freight over rail is recognised over time over the period of the contract and is measured based on the volumes delivered to the customer. This method provides a faithful depiction of the Group's transfer of services to the customer as the performance obligation is satisfied on delivery of the consignment to the customer.

Revenue from the provision of broadband electronic communication services is recognised over time, based on the services is provided to the customer during that period.

The payment terms are 25 days from statement date – which is generally the 25th day of the month.

Accounting policies

for the year ended 31 March 2022

Engineering

Engineering generates revenue from the following services:

- Manufacture, assembly, and supply of rolling stock (new and refurbished) and related components;
- Overhaul and refurbishment of rolling stock;
- Ad-hoc maintenance of rolling stock and specialised equipment;
- Supply of spare parts; and
- Shipping.

Under the terms of the contracts with customers, the Group is restricted from redirecting the items manufactured or maintained to another customer and has an enforceable right to payment for work done.

The revenue is recognised over time as services are rendered using the cost-to-cost method based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Contract costs exclude any amounts incurred that do not contribute to the Group's progress in satisfying its performance obligations. As costs are generally incurred uniformly as the work progresses and are considered to be proportionate to the Group's performance, the cost-to-cost method provides a faithful depiction of the Group's transfer of goods and services to the customer.

The Group applies judgement in measuring variable consideration arising from contractual penalties based on historical information and the latest estimates of progress on the contract compared to targets.

A contract asset is recognised over the period in which the services are performed representing the Group's right to receive consideration for services performed to date which have not yet been invoiced. The Group invoices customers on attainment of contractual milestones. At this point, contract assets are reclassified to trade receivables. If a milestone payment exceeds the revenue recognised to date under the cost-to-cost method, the Group recognises a contract liability for the difference.

Some goods sold by Engineering include warranties which require the Group to correct defective products during the warranty period if the goods fail to comply with agreed-upon specifications. In accordance with IFRS 15, such warranties are not accounted for as separate performance obligations and no revenue is allocated to them. Instead, a provision is raised for the costs of satisfying the warranties in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The payment terms are 25 days from statement date – which is generally the 25th of the month.

National Ports Authority

National Ports Authority generates revenue from the provision of access to port infrastructure, including waterside and landside services; provision of port services which includes pilotage, berthing, craft assistance and ship repairs among others, and commission from the collection of levies from customers on behalf of the South African Maritime Safety Authority (SAMSA).

For revenue recognition purposes, an agreement for the provisions of access to port infrastructure services and port services exists when an order is received from a customer, is accepted by the Group and the vessel has called into the port.

The transaction price for access to port infrastructure services and port services is regulated, and is based on published tariffs for each service as determined by the Ports Regulator of South Africa.

Revenue in respect of access to the port infrastructure is recognised over-time at the applicable tariff based on time spent by the vessel within the port. Revenue in respect of port services is recognised over-time at the applicable tariff based on the actual activity or work performed to date on the vessel. Commission received from collection of levies on behalf of SAMSA is recognised as a percentage of the revenue collected from customers during the period.

The payment terms are 25 days from statement date – which is generally the 25th of the month.

Port Terminals

Port Terminals generates revenue from the handling and storage of cargo at various port terminals across South Africa. For revenue recognition purposes, an agreement for the handling and storage of cargo exists when an order is received from a customer and is accepted by the Group.

The transaction price in respect of containers is based on published tariffs, and for non-container cargo is based either on the base price applicable to all customers or, where applicable, on the contractual rate agreed with the customer.

Revenue is recognised over time based on actual volumes handled (loading/unloading of vessels) and actual storage time provided to the customer.

Performance based variable consideration arising from the handling of cargo is constrained due to the fact that the achievement of targets is affected by a number of factors outside the control of the Group, especially the weather. The revenue is only recognised when the work on the vessel is complete and the agreed targets have been met.

The payment terms are 25 days from statement date – which is generally the last day of the month.

Pipelines

Pipelines generates revenue from transportation of petroleum products (crude, refined and avtur) and gas products through the Group's pipeline network, handling and storage of refined products and additive dosing.

For revenue recognition purposes, the acceptance of an order placed by the customer constitutes an agreement concluded by the Group and the customer in respect of services to be rendered.

The transaction price for the transportation of petroleum and gas products, and the handling and storage of refined petroleum products is regulated, and is based on published tariffs as determined by the National Energy Regulator of South Africa. The transaction price for additive dosing of refined products is based on the contractual rate agreed with the customer.

Revenue from transportation of petroleum and gas products is recognised overtime and is measured based on the volumes delivered to the customer. This method provides a faithful depiction of the Group's transfer of services to the customer as the performance obligation is satisfied on delivery of product to the customer. Revenue from handling and storage of refined products and additive dosing is recognised over time as the Group renders services to the customer.

The payment terms are 25 days from statement date – which is generally the last day of the month.

Other revenue

Lease income

National Ports Authority, Properties and Freight Rail generate revenue from the leasing of certain investment property and property, plant and equipment. Lease income is recognised on a straight- line basis over the lease term in accordance with the substance of the relevant agreements. Lease incentives granted are recognised as an integral part of the total lease income.

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 in profit or loss 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.

Other 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.

Finance income and finance costs

The Group's finance income and finance costs comprise:

- Interest income;
- Interest expense, including amortisation of discounts and premiums on bonds;
- Foreign exchange gains and losses; and
- Net gains or losses on de-recognition of financial assets and financial liabilities carried at amortised cost.

Finance costs excludes amounts capitalised to qualifying assets (see below).

Interest income and interest expense are recognised separately in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

In calculating interest income and interest expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Borrowing costs

Borrowing costs comprise interest expense and foreign exchanges gains and losses (including hedge accounting adjustments), to the extent that they are regarded as an adjustment to the interest expense.

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

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the Group capitalises the actual borrowing costs incurred less any investment income on the temporary investment of the borrowed funds. To the extent that a qualifying asset is funded through general borrowings, the Group determines borrowing costs eligible for capitalisation by applying the weighted average cost of borrowings in the period, other than borrowings raised specifically for the purpose of obtaining qualifying assets, to the expenditures on qualifying assets.

Where a specific borrowing remains outstanding after the related asset is ready for its intended use or sale, it becomes part of the general borrowings pool for purposes of calculating the capitalisation rate on general borrowings.

Capitalisation of borrowing costs is suspended during extended periods in which the Group suspends the active development of a qualifying asset.

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

Foreign currency transactions

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

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

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for the year ended 31 March 2022

Exchange differences are recognised in profit or loss as finance costs 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 – see above under *'Borrowing costs'*;
- Exchange differences on hedges of foreign currency risk – see below under *'Derivative financial 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.

Fair value adjustments arising on acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates of foreign exchange ruling at the reporting date.

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

Tax

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that it will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The Group assesses the recoverability of its deferred tax assets annually when it prepares its Corporate Plan, taking into consideration the expectation of future taxable profits and availability of sufficient taxable temporary differences against which the deferred tax assets can be utilised.

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

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

The Group assesses its intention at the reporting date on recovering an asset or liability to the extent that this intention influences the rate of taxation to be applied in calculating deferred taxation. The Group recognises deferred taxation as follows:

Land

As land is deemed to be realised through sale, there is no deferred tax effect on the difference between the tax base and the original cost of the land. Deferred taxation is calculated on the difference between the carrying amount and the capital gains taxation (CGT) base cost at the CGT rate.

Assets in respect of which no taxation allowances are granted

No deferred taxation is raised in the case where neither the accounting nor the taxation profit is affected. Where the asset is revalued, deferred taxation is calculated based on the Group's intention. Where the intention is to sell the asset, deferred taxation is raised at the CGT rate on the difference between the CGT base cost and the revalued carrying amount. Where the intention is to use the asset, deferred taxation is raised at the usage rate on the difference between the taxation base and the revalued carrying amount.

Assets (other than land) carried at cost

Where an asset is carried under the cost model and a taxation allowance is available to be claimed against the asset, deferred taxation is calculated on the difference between the carrying amount and the taxation base at the usage rate.

Assets (other than land) carried at the revalued amount with the intention to use

As the future benefits are expected to flow from the use of the assets, deferred taxation is calculated at the usage rate on the difference between the taxation base and the revalued carrying amount.

Assets (other than land) carried at the revalued amount with the intention to sell

Where the intention is to recover the benefits of the asset through sale, deferred taxation is calculated at usage rate on the difference between the taxation base and the original cost, and at the CGT rate on the difference between the CGT base cost and the revalued carrying amount.

Assets (other than land) carried at the revalued amount with the intention to use and sell

Where the intention is to recover the benefits of the asset through both use and sale, deferred taxation is calculated to reflect this intention. Deferred taxation is calculated at the usage rate on the difference between the taxation base and the original cost, at the CGT rate on the difference between the CGT base cost and the future selling price (residual value), and at the usage rate on the difference between the future selling price and revalued carrying amount.

Investment property (other than land) carried at fair value

Deferred taxation on depreciable investment property (i.e. buildings) carried at fair value is calculated at the usage rate on the difference between the taxation base, where taxation allowances are available, and the original cost, and at the CGT rate on the difference between the CGT base cost and the fair value. Where the depreciable investment property is held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset, deferred taxation is calculated at the usage rate on the difference between the taxation base and fair value.

Property, plant and equipment

Recognition and initial measurement

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

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

Capital work-in-progress comprises expenditure incurred in the construction, manufacture or production of assets which are not yet completed and are therefore not available for use. Advance payments to original equipment manufacturers in respect of the construction, manufacture or production of these assets are included in capital work-in-progress when all conditions precedent under the contract have been met, the activities necessary to construct or prepare the asset for its intended use; including technical and administrative work, have commenced and the Group has control over the assets under construction or production. Borrowing costs are capitalised in accordance with the accounting policy on Borrowing Costs.

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. The carrying amount of components that are replaced is derecognised.

Assets measured under the revaluation model

Certain assets are carried at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by applying internationally recognised and appropriately benchmarked valuation techniques. The revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

The Group applies the valuation methods below in revaluing its assets:

Asset class	Revaluation method
Rail infrastructure	• Depreciated optimised replacement cost * • Discounted cash flows
Port infrastructure	• Depreciated optimised replacement cost * • Discounted cash flows
Port operating assets	• Depreciated replacement cost * • Discounted cash flows
Pipeline networks	• Depreciated replacement cost * • Discounted cash flows

* *Formal revaluations are performed by independent professional valuation experts on a three-year cycle. Indices are applied in the intervening periods, where appropriate.*

Management assesses the reasonableness of the fair values determined using the different methods and selects the point within the range that is most representative of the fair value of the assets in the circumstances.

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, the gross carrying amount and any accumulated depreciation at the date of revaluation are adjusted in a manner consistent with the revaluation of the carrying amount of the asset.

Accounting policies

for the year ended 31 March 2022

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life, or the lease term if shorter, of each item or component of an item of property, plant and equipment. Land (excluding land improvements) and capital work-in-progress 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. Property, plant and equipment are depreciated over the following periods:

Asset class	Years
Land improvements	5 – 30
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.

On disposal or de-recognition of a revalued asset, the revaluation surplus previously included in the revaluation reserve in respect of that asset is transferred to retained earnings.

Investment property

Recognition and measurement

Investment property is land or a building or a portion thereof held by the Group to earn rentals and/or for capital appreciation, including properties under construction for such purposes. Investment property is initially measured at cost. Subsequent to initial recognition, investment property is measured at fair value as determined at each reporting date. 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.

The Group has properties with multiple buildings on a single erf or multiple erfs called a precinct. Some buildings within the precinct may be owner occupied and others rented to third parties or vacant.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion held for use in the production or supply of goods or services or for administrative purposes (owner-occupied). If the 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.

Properties which were acquired for administrative purposes but are currently occupied by a third party tenant with a long term lease in excess of five years are classified as investment property even though there may be no plans to dispose of the assets. If the lease term is less than five years, the asset is not classified as investment property.

The Group's intention in respect of *back of port properties* is to hold them strategically for future development. Until the future strategic purpose of these properties is formalised through the relevant governance structures, they are considered to be held for capital appreciation and classified as investment property.

For valuation purposes the income method is applied, which entails the capitalisation of the normalised net annual income from the property to determine the fair value. Vacant land held for capital appreciation or future development is valued in terms of the comparison method which takes into consideration the market prices of similar recently sold properties.

Derecognition

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

Intangible assets

Software and licences

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

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

Research and development

Expenditure on research to gain new technical knowledge and understanding, including conceptual studies, pre-feasibility studies and feasibility studies that do not satisfy the requirements for capitalisation as development expenditure is recognised as an expense when incurred.

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

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

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.

Amortisation

Intangible assets not yet available for use are not amortised and are measured at cost less accumulated impairment losses. Intangible assets with a finite useful life are measured at cost less accumulated amortisation and accumulated impairment losses.

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

Asset class	Years
Software	3 – 5
Licences	Licence period

Derecognition

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

Impairment of non-financial assets

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

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

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

Trade receivables, lease receivables and debt securities are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets (except for trade receivables without a significant financing component) or financial liabilities are initially measured at fair value plus or minus, for items not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to their acquisition or issue. Trade receivables without a significant financing component are initially measured at the transaction price.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price, the Group nevertheless recognises the financial instrument at its fair value and accounts for the difference at that date as follows:

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for the year ended 31 March 2022

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a *Level 1 input*) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price, also referred to as *'day 1 profit or loss'* in profit or loss on the fair value line.
- In all other cases, the Group defers the *day 1 profit or loss* on the statement of financial position in 'other financial assets'. After initial recognition, the Group recognises the deferred *day 1 profit or loss* in profit or loss – on the fair value line – only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability. Any amounts not recognised in profit or loss before the date of maturity or de-recognition of a financial instrument are recognised in profit or loss on that date.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at either (i) amortised cost, (ii) at fair value through other comprehensive income (FVTOCI), or (iii) at fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial instruments are reclassified on the first day of the financial year following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL on initial recognition:
- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal plus interest on the principal amount outstanding.

The Group's financial assets measured at amortised cost include trade and other receivables, contract assets, repurchase agreements, commercial paper, short-term deposits and cash and cash equivalents. Cash and cash equivalents comprise cash at bank and on hand, and highly liquid instruments which are readily convertible to known amounts of cash within 90 days from date of acquisition, subject to an insignificant risk of change in value.

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

A debt investment is measured at FVTOCI if it meets both of the following conditions and is not designated at FVTPL on initial recognition:
- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal plus interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

The Group's financial assets measured at FVTOCI include investments in equity designated as such on initial application of IFRS 9 and government bonds.

All financial assets not classified as measured at amortised cost or at FVTOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level as this best reflects the way the business is managed and the information provided to management, namely the Group Exco. The Group considers the following sources of information in making the assessment:
- The stated policies and objectives of the portfolio and operation of these policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash out flows or realising cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How the managers of the assets are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. *Interest* is defined as consideration for the time value of money and for credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity and administrative costs), as well as a reasonable profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. The group also considers the following:
- Contingent events that could change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

The assessment also includes whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet this condition.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par-amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Subsequent measurement and gains and losses

Financial assets at FVTPL	Subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless they are part of an effective hedge accounting relationship (see policy on derivative financial instruments and hedge accounting).
Financial assets at amortised cost	Subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.
Debt investment at FVTOCI	Subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investment at FVTOCI	Subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities: classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or at FVTPL. A financial liability is classified as at FVTPL if it is held-for-trading, is a derivative or is designated as such on initial recognition.

The Group's financial liabilities measured at amortised cost include bonds, loans, trade and other payables and accruals.

A financial liability may be designated at FVTPL on initial recognition if: (a) the contract contains one or more embedded derivatives, (b) such designation would eliminate an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on them on different bases, or (c) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to management.

Financial liabilities at FVTPL are measured at fair value and the net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Interest expense, foreign exchanges gains and losses and gains or losses on derecognition are recognised in profit or loss as finance charges, unless they are capitalised to the cost of qualifying assets in accordance with IAS 23 *Borrowing Costs*.

Impairment of financial assets

The Group uses all available information, in assessing and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying the forward-looking approach, a distinction is made between:
- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1); and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2).

Accounting policies

for the year ended 31 March 2022

Stage 3 covers financial assets that have objective evidence of impairment at the reporting date.

Under the general approach in IFRS 9, '12-month expected credit losses' are recognised for stage 1 – except for trade and lease receivables and contract assets, where the simplified approach is applied, and 'lifetime expected credit losses' are recognised for stages 2 and 3.

The Group recognises loss allowances for expected credit losses (ECLs) on:

- Financial assets measured at amortised cost, which includes trade and lease receivables, short term deposits and bank balances;
- Contract assets (as defined in IFRS 15 *Revenue from Contracts with Customers*); and
- Debt investments measured at FVTOCI.

Trade and lease receivables and contract assets

The Group applies the simplified approach in IFRS 9 in measuring expected credit losses which uses a lifetime ECLs allowance for all trade and lease receivables and contract assets. To measure the ECLs; trade and lease receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work-in-progress and have substantially the same credit risk characteristics as the trade receivables for the same types of contracts. The Group therefore applies the same probability of default rates for trade receivables and the related contract assets.

The expected loss rates are based on the payment profiles of customers over a 5 year period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on factors affecting the ability of the customers to settle the receivables. This includes the customer's credit risk profile, including their latest credit scores, the general macro-economic conditions as well as industry sector specific conditions affecting the Group's customers.

Short-term deposits and bank balances

The Group's short-term deposits and bank balances, which are carried at amortised cost are considered to have low credit risk, and the expected credit loss allowance recognised on these assets is therefore limited to 12-months ECLs. Short term deposits and bank balances are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

If the Group considers that credit risk on a financial instrument has increased significantly since initial recognition, the expected credit losses are estimated based on the lifetime ECLs.

Significant increase in credit risk

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Event of default

The Group considers the following as constituting an event of default:

- The debtor is more than 90-days past due (60 days for Transnet Properties lease debtors); or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVTOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have detrimental impact on estimated future cash flows of the financial asset have occurred.

The evidence that a financial asset is credit-impaired includes observable data about any of the following events.

- Significant financial difficulty of the debtor or issuer;
- A breach of contract such as default;
- Restructuring of a debt, loan or advance by the Group on terms that the Group would not consider otherwise;
- It is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

Measurement and recognition of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive) – calculated either on the 12-month or lifetime expected credit losses as applicable – see above. Expected credit losses are discounted at the effective interest rate of the financial asset.

For lease receivables, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 Leases. (Refer note 36 for further details on the calculation of ECLs).

Presentation of allowance for expected credit losses

The Group recognises an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial asset through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment valuation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which: (a) substantially all the risks and rewards of ownership of the financial asset are transferred, or (b) the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Transfers of financial assets such as trade receivables under debt discounting arrangements that do not transfer substantially all the risks and rewards from the Group of the transferred assets are not de-recognised.

Write-off

The gross carrying amount of a financial asset is written-off or de-recognised (either partially or in full) when all attempts to recover the outstanding amount have failed or there is no realistic prospect of recovery; e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. The amount written-off is recognised as a reduction to the allowance for ECLs.

Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss, as a reduction to the impairment loss for the period.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when the terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss as finance charges.

Derivative financial instruments and hedge accounting

Derivative financial instruments

The Group holds derivative financial instruments to hedge foreign currency risk, interest rate risk, commodity risk and other market exposures.

Embedded derivatives in non-derivative host contracts that are not financial assets (e.g. financial liabilities) are accounted for separately when (i) they meet the definition of a derivative, (ii) their risks and characteristics are not closely related to those of the host contracts, and (iii) the host contracts are not measured at FVTPL. Derivatives embedded in hybrid contracts that are or contain financial assets are not separated. Instead, the entire hybrid contract is classified and subsequently measured as either amortised cost or FVTPL as appropriate based on the Group's policy on classification of financial assets above.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes in fair value are recognised in profit or loss, except where cash flow hedge accounting is applied.

Hedge accounting

The Group designates certain derivatives as hedging instruments to hedge: (a) exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment or a component of any such item, that is attributable to a particular risk and could affect profit or loss *(fair value hedges)*, and (b) exposure to the variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction (such as foreign exchange rates or interest rates) and could affect profit or loss *(cash flow hedges)*.

At inception of designated hedging relationships, the Group documents the economic relationship between the hedged item and the hedging instrument, including the hedge ratio, along with its risk management objective and strategy for undertaking the hedge.

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk; i.e. whether the hedging relationships meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedge relationship remains the same, the Group adjusts the hedge ratio of the hedge relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Group designates the full change in the fair value of forward contracts (i.e. including the forward element), and swap contracts (i.e. including the foreign currency basis spread) as the hedging instrument for all of its hedging relationships involving forward and swap contracts.

Fair value hedges

Changes in the fair value of derivatives that are designated as fair value hedges are recognised in profit or loss, or comprehensive income where applicable. Changes in the fair value of the hedged item that are attributable to the hedged risk adjust the carrying amount of the hedged item (if applicable) and are recognised in profit or loss.

When the hedged item in a fair value hedge is a firm commitment (or component thereof) to acquire an asset or assume a liability, the initial carrying amount of the asset or liability that results from the firm commitment is adjusted to include the cumulative change in the fair value of the hedged item that was recognised in the statement of financial position.

Accounting policies

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Any adjustment to the carrying amount of a financial instrument measured at amortised cost (or a component thereof) arising from fair value hedge accounting as described above is amortised to profit or loss, based on a recalculated effective interest rate at the date that amortisation begins.

Cash flow hedges

The effective portion of changes in the fair value of a derivative that is designated as a cash flow hedging instrument is recognised in OCI and accumulated in the cash flow hedging reserve. The effective portion of change in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item from inception of the hedge. Any ineffective portion of change in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as property, plant and equipment or inventory, the amount accumulated in the cash flow hedging reserve is included directly in the initial cost of the non-financial item when it is recognised. This is not a reclassification adjustment per IAS 1, and hence it does not affect comprehensive income.

For all other hedged forecast transactions, the amount accumulated in the cash flow hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

Discontinuation of hedge accounting

If the hedge no longer meets the qualifying criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that was previously accumulated in the cash flow hedging reserve remains in equity until, (a) for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its original recognition, or (b) for other cash flow hedges, it is reclassified to profit or loss in the same period or periods in which the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that were previously accumulated in the cash flow hedging reserve are immediately reclassified to profit or loss.

Offsetting

Assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set-off the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are not offset in profit or loss, except where offsetting reflects the substance of the underlying transaction.

Share capital

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

Inventories

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

Cost is determined as follows:

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

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

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

Non-current assets held-for-sale

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

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

Impairment losses on initial or subsequent write-down to fair value less costs to sell and gains on subsequent re-measurement 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. Assets which are measured at fair value such as Investment property and financial assets continue to be accounted for at fair value while classified as *non-current assets held-for-sale* with gains and losses recognised in accordance with IAS 40 *Investment Property* and IFRS 9 *Financial Instruments*.

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

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

Employee benefits

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

Defined contribution plans

The Transnet Retirement Fund is a defined contribution plan and all employees of the Group are eligible members of the fund. The Group's contributions to the defined contribution plan are recognised in profit or loss in the period to which they relate.

Defined benefit plans

The Group has five (5) post-retirement defined benefit plans; namely the Transport Pension Fund: Transnet Sub-fund, the Transnet Second Defined Benefit Fund, the Top Management Pensions plan, the Workmen's Compensation Act Pensioners' plan, and the Post-retirement Medical Benefits plan. The benefit costs and obligations under the defined benefit plans are determined separately for each plan using the projected unit credit method.

The service cost and 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.

Re-measurements of the defined benefit liability or plan assets, 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. A net 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.

Further details on the Group's post-retirement benefit obligations are provided in note 32 of the annual financial statements.

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. The obligation is measured taking into account the probability that payment will be required and the time value of money.

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

At inception of a new contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In assessing whether a contract conveys the right to control the use of an identified asset, the Group considers whether:

- The contract involves the use of an asset – explicitly or implicitly identified in the contract – which is physically distinct or represents substantially all the capacity of the asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset; i.e. the Group has the right to direct how and for what purpose the asset is used, or in rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has either:
  - The right to operate the asset throughout the period of use; or
  - The Group designed the asset in such a way that it predetermines how and for what purpose the asset is used.

At inception or on reassessment of a modified contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices, and the aggregate stand-alone price of the non-lease components. Non-lease components are recognised as an expense in profit or loss in the period in which they arise, except for leases of motor vehicles in which the Group is the lessee, where the Group has applied the practical expedient in IFRS 16 not to separate the non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the site on which it is located, less any lease incentives received. Right-of-use assets are included in property, plant and equipment in the same class of assets as similar owned assets.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-or-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of *property, plant and equipment* owned by the Group, if it is expected that ownership of the asset will transfer to the Group at the end of the lease. The right-of-use asset is also adjusted for impairment losses, if any, and for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the implicit rate in the lease, or if that rate cannot be readily determined, the Group's incremental borrowing rate. The incremental borrowing rate is the rate of interest that the Group would pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

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Lease payments included in the measurement of the lease liability comprise the following:
- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be paid under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments during an optional extension period if the Group is reasonably certain to exercise the extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is subsequently measured at amortised cost using the effective interest rate method.

Remeasurement of lease liability

The lease liability is remeasured by discounting the remaining lease payments using a revised discount rate if:
- There is a change in the lease term; or
- If the Group changes its assessment of whether it will exercise an option to purchase the underlying asset.

The lease liability is remeasured by discounting the remaining lease payments using the original discount rate if there is a change in:
- The Group's estimate of the amount expected to be payable under a residual value guarantee; or
- If there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, unless the change in lease payments results from a change in floating rates, in which case the Group uses a revised discount rate that reflects changes in the interest rate.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Lease modifications

Modifications to the lease are accounted for as a separate lease if they:
- Increase the scope of the lease by adding the right to use one or more underlying assets; and
- The consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that standalone price to reflect the circumstances of the particular contract.

Short-term leases and leases of low-value assets

The Group does not recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less at the commencement date, and leases of low-value assets with a value when new equal to or less than R50,000. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Variable lease expense

Variable lease expenses, which do not depend on an index or a rate, are recognised in profit or loss in the period in which the event giving rise to the expense occurs.

Derecognition

Any gain or loss arising from the partial or full termination of a lease (i.e. derecognition of the right-of-use asset and the corresponding lease liability) is recognised in profit or loss in the period in which it arises.

Presentation

The Group presents the right-of-use assets that do not meet the definition of *investment property* within *property, plant and equipment* and the lease liabilities under *long-term borrowings* and *short-term borrowings* in the statement of financial position.

Group as a lessor

At inception of a new contract, the Group assesses whether the contract is, or contains, a lease using the above criteria. If the contract is or contains a lease, the Group determines whether each lease is a finance lease or an operating lease. To classify each lease, the Group assesses whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying assets. If this is the case, the lease is classified as a finance lease, otherwise it is classified as an operating lease.

If the arrangement contains lease and non-lease components, the Group allocates the consideration in the contract to each component on the basis of their relative standalone prices.

Finance leases

For assets leased out under a finance lease, the Group derecognises the leased asset and recognises the net investment in the lease as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Operating leases

Assets leased to third parties under operating leases are included in property, plant and equipment or investment property. Lease 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 and contingencies

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

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

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

Decommissioning liabilities

The Group recognises a provision for the dismantling and removal of an item of property, plant and equipment and restoring the site 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 amount recognised as a provision is the best estimate of the cost to dismantle and remove the item and rehabilitate the site and may change from year to year taking into account the changes in intended use of the asset, new techniques and know-how in rehabilitating affected sites, estimated risks and uncertainties surrounding the obligation and the time value of money. These estimates are reviewed at least annually.

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.

The effect of subsequent changes to assumptions in estimating an obligation for which the provision was recognised as part of the cost of the asset is adjusted against the cost of the asset unless the asset is carried under the revaluation model.

For assets carried under the revaluation model, changes in the provision are accounted for as follows:
- A decrease in the decommissioning liability is recognised in other comprehensive income and increases the revaluation surplus within equity, except that it is recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in profit or loss.
- An increase in the decommissioning liability is recognised in profit or loss, except that it is recognised in other comprehensive income and reduces the revaluation surplus within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Environmental liabilities

The Group recognises a provision for environmental rehabilitation costs in accordance with its environmental policy and applicable legislation 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.

The Group's environmental obligations arise from legislation which requires the Group to rehabilitate quarries, remove waste material and remediate land contaminated by asbestos, ferromanganese, manganese, mixed soil (including chrome, sulphur and manganese), fuel, rubble and ballast.

A number of factors are considered in estimating the amount of the obligation, including:
- The nature and extent of the contamination;
- The appropriate method to remediate the contamination;
- The cost per ton/square metre/kilometre of removal and disposal of the contamination, including transportation costs where applicable;
- The cost of rehabilitation of the identified areas of contamination; and
- The costs for the removal and replacement of asbestos roof sheeting and cladding on buildings.

The provision is initially recognised as an expense in profit or loss and is reviewed at least annually. Subsequent changes to the provision are recognised prospectively in profit or loss as a change in accounting estimate.

More details on the Group's provisions are provided in note 25 of the annual financial statements.

Onerous contracts

A provision for onerous contracts is recognised when the unavoidable costs of meeting the Group's obligations under a contract exceed the economic benefits expected to be received under the contract.

The provision is measured at the present value of the lower of the expected cost of exiting the contract and the expected net cost of continuing with the contract, which is determined based on costs that relate directly to fulfilling the Group's obligation under the contract.

Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (e.g. direct labour or materials) and an allocation of other costs that relate directly to fulfilling the contract (e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Contingent liabilities

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

Contingent assets

Contingent assets are not recognised in the financial statements and are only disclosed in the notes to the financial statements where an inflow of economic benefits is probable.

Financial guarantee contracts

The Group recognises financial guarantee contracts initially at fair value. Subsequently they are measured at the higher of:
- The amount of loss allowance determined in accordance with IFRS 9 *Financial Instruments*, and
- The amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

Legal claims

Legal claims comprise third party and customer claims. A provision for legal claims is recognised when the Group has a present obligation 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 taking into account legal opinion and the risk and uncertainties surrounding the claim.

Accounting policies

for the year ended 31 March 2022

Compensation receivable

Compensation receivable from third parties such as insurance companies in respect of assets that are impaired or lost or for any other loss incurred is recognised in the profit or loss when it is virtually certain that the payment will be received and the amount can be measured reliably.

The compensation receivable is treated as a separate transaction and is not off-set against the original loss recognised in profit or loss.

Segment information disclosure

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

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

Related parties

A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Transnet is a Schedule 2 Public Entity in terms of the Public Finance Management Act (PFMA). As a state-owned entity, Transnet is controlled by the national government of South Africa. In the South African context, the government is divided into three spheres, namely the national, provincial and local spheres of government. The autonomy of the different spheres is guaranteed in terms of the Constitution of South Africa. Transnet is part of the national sphere.

In accordance with IAS 24 *Related Parties*, and guidance issued by the Department of National Treasury, all departments and public entities in the national sphere of government are related parties. This includes state departments, other state owned enterprises and public entities that are subject to control, joint control or significant influence of the national government. Entities in other spheres of government are not related parties of Transnet.

The full list of related parties is available on the National Treasury website (www.treasury.gov.za) and at the registered offices of the Company.

In addition, the Company has related-party relationships with its subsidiaries, associates and joint ventures (refer note 37), and with its key management personnel; i.e. directors and senior executives (refer note 38).

Services rendered to related parties comprise principally transportation services. Services purchased from related parties comprised principally energy, telecommunications, information technology and property-related services. Unless otherwise disclosed, all transactions with related parties are concluded on an arm's-length basis.

Detailed disclosure on related party transactions and balances is included in note 33.

Financial reporting standards and interpretations issued but not yet effective

The following new or revised International Financial Reporting Standards, amendments and interpretations, which are applicable to the Group were not yet effective for the year ended 31 March 2022 and were not applied in preparing these financial statements. Transnet will not be early adopting any of the standards below.

Standard or interpretation	Detail	Effective date
IAS 1 (amendments)	**Presentation of financial statements** Classification of liabilities Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current. The amendments clarify: • What is meant by a right to defer settlement, • That a right to defer must exist at the end of the reporting period, • That classification is unaffected by the likelihood that an entity will exercise its deferral right, and • That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.	No earlier than 1 January 2024.
	Disclosure of accounting policies The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material. The revised standard will be applied prospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2023.
IAS 8 (amendments)	**Accounting policies, changes in accounting estimates and errors** Definition of accounting estimates The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, by replacing the definition of a change in accounting estimates. Under the new definition, accounting estimates are "*monetary amounts in financial statements that are subject to measurement uncertainty*". The requirements for recognising the effect of a change in accounting estimates prospectively remain unchanged. The revised standards will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2023.
IAS 12 (amendment)	**Income tax** Deferred tax related to assets and liabilities arising from a single transaction The amendment clarifies how companies should account for deferred tax on transactions such as leases and decommissioning obligations. The amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The revised standard will be applied prospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2023.
IAS 16 (amendment)	**Property, plant and equipment** Proceeds before intended use The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. The revised standard will be applied prospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2022.

Accounting policies

for the year ended 31 March 2022

Standard or interpretation	Detail	Effective date
IAS 28 (amendment)	**Investments in associates and joint ventures** Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28) Narrow scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.	The effective date of this amendment has been deferred indefinitely until further notice.
IAS 37 (amendment)	**Provisions, contingent liabilities and contingent assets** Onerous contracts – cost of fulfilling a contract The amendments specify which costs should be included in an entity's assessment whether a contract will be loss-making. The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The revised standard will be applied prospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2022.
IFRS 3 (amendment)	**Business combinations** Reference to the conceptual framework The amendment updates a reference in IFRS 3 to the conceptual framework for financial reporting without changing the accounting requirements for business combinations. Specific requirements for transactions and events within the scope of IAS 37 or IFRIC 21 The acquirer shall apply IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events for a provision or contingent liability that would be within the scope of IAS 37. For a levy that would be within the scope of IFRIC 21, the acquirer shall apply IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The acquirer shall not recognise a contingent asset at the acquisition date. The amendments will be applied prospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2022.
IFRS 9 (amendment)	**Financial Instruments** Annual improvements to IFRS 2018 – 2020 The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendment will be applied prospectively and will not have a material impact on the Group's financial statements.	Annual periods beginning on or after 1 January 2022.
IFRS 10 (amendment)	**Consolidated financial statements; and investments in associates and joint ventures** Sale or contribution of assets between an investor and its associate or joint venture Narrow scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The revised standard will be applied prospectively and will not have a material impact on the Group's financial statements.	Effective date to be determined.

Standard or interpretation	Detail	Effective date
IFRS 16 (amendment to illustrative examples)	**Leases** Annual improvements to IFRS 2018-2020 cycle Illustrative examples to IFRS 16 Leases incentives The amendment removed the illustration of the reimbursement of leasehold improvements. In the illustrative example, the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16 was not clear enough. The amendment to IFRS 16 only regards an illustrative example (non-obligatory part of IFRS).	No effective date.

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	Detail	Effective date
IFRS 1 (amendment)	**First-time adoption of International Financial Reporting Standards** Annual improvements to IFRS 2018 – 2020 The amendment provides an extension of an optional exemption permitting a subsidiary that becomes a first-time adopter after its parent to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. A similar election is available to an associate or joint venture.	Annual periods beginning on or after 1 January 2022.
IFRS 4 (amendment)	**Insurance contracts** IFRS 9 temporary exemption The amendment to IFRS 4 enables an insurer applying the temporary exemption from IFRS 9 to apply a practical expedient to account for a change in the contractual cash flows that are required by IBOR reform by updating the effective interest rate to reflect any change arising from the reform. The effective date to this amendment was extended by two years to periods beginning on or after 1 January 2023.	Annual periods beginning on or after 1 January 2023.
IFRS 17 (new)	**Insurance contracts** IFRS 17 creates a single accounting model for all insurance contracts under IFRS. The standard requires an entity to: • Measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts; • Reflect the time value of money in estimated payments required to settle incurred claims; • Measure insurance contracts based only on the obligations created by the contracts; and • Recognise profits as an insurance service is delivered, rather than on receipt of premiums. This standard replaces IFRS 4 *Insurance Contracts*.	Annual periods beginning on or after 1 January 2023.
IAS 41 (amendment)	**Agriculture** Annual improvements to IFRS 2018 – 2020 The amendment removes the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.	Annual periods beginning on or after 1 January 2022.

Income statements

for the year ended 31 March 2022

Company Restated 2021 R million	Company 2022 R million		Notes	Group 2022 R million	Group Restated 2021 R million
67 273	**68 459**	Revenue	1	**68 459**	67 273
(47 813)	**(45 010)**	Net operating expenses excluding depreciation, derecognition and amortisation	2	**(45 010)**	(47 813)
19 460	**23 449**	**Profit from operations before depreciation, derecognition, amortisation and items listed below**		**23 449**	19 460
(13 872)	**(14 847)**	Depreciation, derecognition and amortisation	3	**(14 847)**	(13 872)
5 588	**8 602**	**Profit from operations before the items listed below**	4.1	**8 602**	5 588
(987)	**(415)**	Impairment of financial assets	4.2.1	**(415)**	(987)
(3 399)	**(2 119)**	Impairment of non-financial assets	4.2.2	**(2 119)**	(3 399)
—	**9**	Dividends received	4.3	**—**	
(202)	**(190)**	Post-retirement benefit obligation expense	4.4	**(190)**	(202)
(1 221)	**10 175**	Fair value adjustments	5	**10 175**	(1 243)
		(Loss)/income from associates and joint ventures	13	**(6)**	13
(221)	**16 062**	**Profit/(loss) from operations before net finance costs**		**16 047**	(230)
(11 296)	**(10 684)**	Finance costs	6	**(10 684)**	(11 296)
238	**112**	Finance income	7	**126**	256
(11 279)	**5 490**	**Profit/(loss) before taxation**		**5 489**	(11 270)
2 556	**(435)**	Taxation	8	**(441)**	2 536
(8 723)	**5 055**	**Profit/(loss) for the year**		**5 048**	(8 734)

Statements of comprehensive income

for the year ended 31 March 2022

Company Restated 2021 R million	Company 2022 R million		Notes	Group 2022 R million	Group Restated 2021 R million
(8 723)	**5 055**	**Profit/(loss) for the year**		**5 048**	(8 734)
		Other comprehensive income			
6 141	**10 916**	Net items that will not be reclassified subsequently to profit or loss		**10 916**	6 141
8 568	**13 715**	Items that will not be reclassified subsequently to profit or loss		**13 715**	8 568
8 618	**13 632**	– Profit on revaluation		**13 632**	8 618
(50)	**83**	– Actuarial gain/(loss) on post-retirement benefit obligations		**83**	(50)
(2 427)	**(2 799)**	Tax relating to components that will not be reclassified subsequently to profit or loss*	8.1	**(2 799)**	(2 427)
(79)	**(9)**	Net items that may be reclassified subsequently to profit or loss		**(7)**	(59)
(108)	**(2)**	Items that may be reclassified subsequently to profit or loss		**3**	(74)
(97)	**(5)**	– Loss on cash flow hedges		**(5)**	(97)
(11)	**3**	– Gain on revaluation		**8**	23
29	**(7)**	Tax relating to components that may be reclassified subsequently to profit or loss*	8.1	**(10)**	15
6 062	**10 907**	**Other comprehensive income for the year, net of tax**		**10 909**	6 082
(2 661)	**15 962**	**Total comprehensive income/(loss) for the year**		**15 957**	(2 652)

* *Includes the impact of the corporate tax rate change, from 28% to 27%, on the related opening tax balances recorded in equity.*

Disclosure of components of other comprehensive income

for the year ended 31 March 2022

Company 2021 R million	Company 2022 R million		Notes	Group 2022 R million	Group 2021 R million
		Items that will not be reclassified subsequently to profit or loss			
6 177	**10 816**	**Net gain on revaluation reserve**		**10 816**	6 177
8 618	**13 632**	Profit on revaluation		**13 632**	8 618
(257)	**905**	– Gain/(loss) on revaluation of pipeline networks	22	**905**	(257)
10 472	**4 092**	– Gain on revaluation of port facilities	22	**4 092**	10 472
(1 318)	**6 643**	– Gain/(loss) on revaluation of rail infrastructure	22	**6 643**	(1 318)
(294)	**(8)**	– Decommissioning and restoration liability adjustment	22	**(8)**	(294)
15	**2 000**	– Net gain on revaluation of land, buildings and structures	22	**2 000**	15
(2 441)	**(2 816)**	Tax effect of revalued items*	8.1	**(2 816)**	(2 441)
(36)	**100**	**Net actuarial gain/(loss) on post-retirement benefit obligations**		**100**	(36)
(50)	**83**	Actuarial gain/(loss) on post-retirement benefit obligations	22	**83**	(50)
14	**8**	– Actuarial gain on the Transport Pension Fund: Transnet Sub-fund	32.1.2	**8**	14
(7)	**(3)**	– Actuarial loss on the Transnet Top Management Pension	32.1.4	**(3)**	(7)
(13)	**15**	– Actuarial gain/(loss) on the Transnet Workmen's Compensation Act Pensioners	32.1.5	**15**	(13)
(14)	**8**	– Actuarial gain/(loss) on the Transnet SATS Pensioners medical benefits	32.2.1	**8**	(14)
(30)	**55**	– Actuarial gain/(loss) on the Transnet employees medical benefits	32.2.2	**55**	(30)
14	**17**	Taxation effect of net actuarial (gain)*/loss	8.1	**17**	14
		Items that may be reclassified subsequently to profit or loss			
(9)	**3**	**Net income/(loss) on revaluation reserve**		**5**	11
(11)	**3**			**8**	23
—	**—**	– Gain on revaluation of debt investment	22	**5**	34
(11)	**3**	– Gain/(loss) on revaluation of other investments	22	**3**	(11)
2	**—**	– Taxation effect of revalued items*	8.1	**(3)**	(12)
(70)	**(12)**	**Net loss on cash flow hedging reserve**		**(12)**	(70)
(97)	**(5)**	– Loss on cash flow hedges	22	**(5)**	(97)
27	**(7)**	– Tax effect of cash flow hedge loss*	8.1	**(7)**	27
6 062	**10 907**	**Other comprehensive income for the year**		**10 909**	6 082

* *Includes the impact of the corporate tax rate change, from 28% to 27%, on the related opening tax balances recorded in equity.*

Statements of financial position

as at 31 March 2022

Company Restated 2020 R million	Company Restated 2021 R million	Company 2022 R million		Notes	Group 2022 R million	Group Restated 2021 R million	Group Restated 2020 R million
			Assets				
			Non-current assets				
284 769	292 774	**300 738**	Property, plant and equipment	9	**300 738**	292 774	284 769
17 143	16 506	**29 112**	Investment property	10	**29 112**	16 506	17 143
961	889	**740**	Intangible assets	11	**740**	889	961
—	—	**—**	Investments in subsidiaries	12	**—**	—	—
8	8	**8**	Investments in associates and joint ventures	13	**93**	108	95
13 963	8 080	**787**	Derivative financial assets	14	**787**	8 080	13 963
—	—	**—**	Long-term loans and advances	15	**—**	—	—
1 690	1 544	**1 614**	Other investments and long-term financial assets	16.1	**1 166**	1 163	1 660
318 534	319 801	**332 999**			**332 636**	319 520	318 591
			Current assets				
2 997	3 334	**3 615**	Inventory	17	**3 615**	3 334	2 997
9 822	8 850	**7 802**	Trade and other receivables	18	**7 816**	8 850	9 825
297	634	**651**	Contract assets	27	**651**	634	297
—	—	**—**	Current tax asset		**2**	—	—
117	20	**6 494**	Derivative financial assets	14	**6 494**	20	117
578	248	**61**	Other short-term investments	16.2	**61**	248	603
4 254	770	**3 478**	Cash and cash equivalents	19	**3 936**	1 168	4 256
18 065	13 856	**22 101**			**22 575**	14 254	18 095
274	276	**307**	Assets classified as held-for-sale	20	**307**	276	274
18 339	14 132	**22 408**			**22 882**	14 530	18 369
336 873	333 933	**355 407**	**Total assets**		**355 518**	334 050	336 960
			Equity and liabilities				
			Capital and reserves				
12 661	12 661	**12 661**	Issued capital	21	**12 661**	12 661	12 661
117 688	115 027	**130 989**	Reserves	22	**131 117**	115 160	117 812
130 349	127 688	**143 650**	**Attributable to the equity holder**		**143 778**	127 821	130 473
			Non-current liabilities				
1 099	878	**776**	Employee benefits	23	**776**	878	1 099
115 821	77 626	**92 301**	Long-term borrowings	24	**92 301**	77 626	115 821
1 505	2 363	**1 458**	Derivative financial liabilities	14	**1 458**	2 363	1 505
3 654	9 597	**10 007**	Long-term provisions	25	**10 007**	9 597	3 654
41 617	41 459	**44 700**	Deferred tax liability	26	**44 680**	41 440	41 572
3 717	3 672	**3 729**	Other non-current liabilities	16.3	**3 729**	3 672	3 717
167 413	135 595	**152 971**			**152 951**	135 576	167 368
			Current liabilities				
1 386	1 817	**1 259**	Contract liabilities	27	**1 259**	1 817	1 386
19 115	16 463	**19 942**	Trade payables and accruals	28	**19 945**	16 465	19 121
17 577	51 515	**36 537**	Short-term borrowings	29	**36 537**	51 515	17 577
—	—	**—**	Current tax liability		**—**	1	2
26	64	**49**	Derivative financial liabilities	14	**49**	64	26
1 007	791	**999**	Short-term provisions	25	**999**	791	1 007
39 111	70 650	**58 786**			**58 789**	70 653	39 119
336 873	333 933	**355 407**	**Total equity and liabilities**		**355 518**	334 050	336 960

Statements of changes in equity

for the year ended 31 March 2022

	Issued capital R million	Revaluation 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							
Restated opening balances as at 1 April 2020	12 661	44 638	2 526	(501)	250	70 775	130 349
Opening balances as at 1 April 2020 as previously reported	12 661	44 605	2 526	(501)	250	71 962	131 503
CWIP impairment error correction	—	—	—	—	—	(528)	(528)
Investment property fair value error correction (net of tax)	—	33	—	—	—	(659)	(626)
Restated loss for the year	—	—	—	—	—	(8 723)	(8 723)
Loss for the year as previously reported	—	—	—	—	—	(8 375)	(8 375)
CWIP impairment error correction	—	—	—	—	—	(25)	(25)
Investment property fair value error correction (net of tax)	—	—	—	—	—	(323)	(323)
Other comprehensive income/(loss) for the year (net of tax)	—	6 168	(36)	(70)	—	—	6 062
Transfer to retained earnings	—	(32)	—	—	—	32	—
Restated balances at 31 March 2021	12 661	50 774	2 490	(571)	250	62 084	127 688
Profit for the year	**—**	**—**	**—**	**—**	**—**	**5 055**	**5 055**
Other comprehensive income/(loss) for the year (net of tax)	**—**	**10 819**	**100**	**(12)**	**—**	**—**	**10 907**
Transfer to retained earnings	**—**	**(185)**	**—**	**—**	**—**	**185**	**—**
Balances at 31 March 2022	**12 661**	**61 408**	**2 590**	**(583)**	**250**	**67 324**	**143 650**
Group							
Restated opening balances as at 1 April 2020	12 661	44 616	2 526	(501)	249	70 922	130 473
Opening balances as at 1 April 2020 as previously reported	12 661	44 583	2 526	(501)	249	72 109	131 627
CWIP impairment error correction	—	—	—	—	—	(528)	(528)
Investment property fair value error correction (net of tax)	—	33	—	—	—	(659)	(626)
Restated loss for the year	—	—	—	—	—	(8 734)	(8 734)
Loss for the year as previously reported	—	—	—	—	—	(8 386)	(8 386)
CWIP impairment error correction	—	—	—	—	—	(25)	(25)
Investment property fair value error correction (net of tax)	—	—	—	—	—	(323)	(323)
Other comprehensive income/(loss) for the year (net of tax)	—	6 188	(36)	(70)	—	—	6 082
Transfer to retained earnings	—	(32)	—	—	—	32	—
Restated balances at 31 March 2021	12 661	50 772	2 490	(571)	249	62 220	127 821
Profit for the year	**—**	**—**	**—**	**—**	**—**	**5 048**	**5 048**
Other comprehensive income/(loss) for the year (net of tax)	**—**	**10 821**	**100**	**(12)**	**—**	**—**	**10 909**
Transfer to retained earnings	**—**	**(185)**	**—**	**—**	**—**	**185**	**—**
Balances at 31 March 2022	**12 661**	**61 408**	**2 590**	**(583)**	**249**	**67 453**	**143 778**

* *Other reserves relate to the share of pension fund surplus (retained for application against pensioners).*

Statements of cash flows

for the year ended 31 March 2022

Company 2021 R million	Company 2022 R million		Notes	Group 2022 R million	Group 2021 R million
12 399	**17 532**	**Cash flows from operating activities**		**17 534**	12 419
27 296	**25 587**	Cash generated from operations	34.1	**25 601**	27 308
(2 700)	**3 470**	Changes in working capital	34.2	**3 457**	(2 701)
24 596	**29 057**	**Cash generated from operations after working capital changes**		**29 058**	24 607
(10 914)	**(9 980)**	Finance costs	34.3	**(9 980)**	(10 914)
238	**112**	Finance income	7	**126**	256
—	**—**	Tax paid	34.4	**(13)**	(9)
(143)	**(120)**	Settlement of post-retirement benefit obligations		**(120)**	(143)
(1 378)	**(1 537)**	Derivatives settled and raised		**(1 537)**	(1 378)
(16 002)	**(13 173)**	**Cash flows utilised in investing activities**		**(13 115)**	(15 626)
(12 862)	**(10 154)**	**Investment to maintain operations**		**(10 096)**	(12 486)
(12 890)	**(10 370)**	Replacements to property, plant and equipment		**(10 370)**	(12 890)
(3)	**(2)**	Acquisition of investment property		**(2)**	(3)
(72)	**(5)**	Acquisition of intangible assets		**(5)**	(72)
(90)	**(61)**	Borrowing costs capitalised		**(61)**	(90)
3	**145**	Proceeds on the disposal of property, plant and equipment		**145**	3
1	**—**	Proceeds on the disposal of intangible assets		**—**	1
—	**9**	Dividend income		**—**	—
189	**130**	Net decrease in other investments		**197**	565
(3 140)	**(3 019)**	**Investment to expand operations**		**(3 019)**	(3 140)
(2 021)	**(1 872)**	Expansions – property, plant and equipment		**(1 872)**	(2 021)
(1 119)	**(1 147)**	Borrowing costs capitalised		**(1 147)**	(1 119)
119	**(1 651)**	**Cash flows (utilised in)/from financing activities**		**(1 651)**	119
18 051	**18 411**	Borrowings raised*		**18 411**	18 051
(17 932)	**(20 062)**	Borrowings repaid**		**(20 062)**	(17 932)
(3 484)	**2 708**	Net increase/(decrease) in cash and cash equivalents		**2 768**	(3 088)
4 254	**770**	Cash and cash equivalents at the beginning of the year		**1 168**	4 256
770	**3 478**	**Total cash and cash equivalents at the end of the year**	19	**3 936**	1 168

* *Borrowings raised excludes deferred interest of R479 million (2021: R464 million), refer note 34.3 and fees relating to the raising of borrowings of R35 million (2021: R35 million).*

** *Included in borrowings repaid are repayments in respect of leases of R599 million (2021: R659 million).*

Segment information

for the year ended 31 March 2022

	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	Other segments[1] R million	Elimination of inter-segment transactions R million	Total R million
Revenue from contracts with customers	36 581	459	8 558	14 535	5 225	65 358	62	—	65 420
Coal	11 744	—	—	—	—	11 744	—	—	11 744
Iron ore and manganese	14 254	—	—	—	—	14 254	—	—	14 254
Mineral mining and chrome	4 824	—	—	—	—	4 824	—	—	4 824
Steel and cement	2 754	—	—	—	—	2 754	—	—	2 754
Agricultural and bulk liquids	1 384	—	—	—	—	1 384	—	—	1 384
Marine services	—	—	2 431	—	—	2 431	—	—	2 431
Containers	1 179	—	3 390	7 306	—	11 875	—	—	11 875
Automotive	191	—	342	979	—	1 512	—	—	1 512
Break-bulk	—	—	154	2 507	—	2 661	—	—	2 661
Bulk	—	—	2 074	3 743	—	5 817	—	—	5 817
Pipelines – oil and gas	—	—	—	—	5 200	5 200	—	—	5 200
Engineering	—	459	—	—	—	459	—	—	459
Other[2]	251	—	167	—	25	443	62	—	505
Other revenue	512	—	1 730	—	53	2 295	744	—	3 039
Lease income	512	—	1 730	—	—	2 242	744	—	2 986
Government grant	—	—	—	—	53	53	—	—	53
Total external revenue	37 093	459	10 288	14 535	5 278	67 653	806	—	68 459
Internal revenue	719	8 442	2 260	—	5	11 426	212	(11 638)	—
Total revenue	37 812	8 901	12 548	14 535	5 283	79 079	1 018	(11 638)	68 459
Energy costs	(5 876)	(190)	(645)	(855)	(279)	(7 845)	(157)	—	(8 002)
Maintenance costs	(2 692)	(155)	(360)	(445)	(124)	(3 776)	37	1 347	(2 392)
Material costs	(228)	(3 406)	(67)	(608)	(3)	(4 312)	(8)	3 517	(803)
Personnel costs	(13 651)	(5 779)	(2 841)	(5 644)	(498)	(28 413)	(2 068)	4 287	(26 194)
Other costs[3]	(4 067)	(868)	(1 121)	(2 777)	(660)	(9 493)	(613)	2 487	(7 619)
Earnings before interest, tax, depreciation, derecognition and amortisation (EBITDA)	11 298	(1 497)	7 514	4 206	3 719	25 240	(1 791)	—	23 449
Depreciation and amortisation	(8 821)	(799)	(2 603)	(1 597)	(1 127)	(14 947)	(142)	242	(14 847)
Impairment of assets	(1 796)	24	(281)	(240)	(15)	(2 308)	(226)	—	(2 534)
Dividends received and income from associates	—	—	—	—	—	—	(6)	—	(6)
Fair value adjustments and post-retirement benefit obligation expense	968	1	8 216	(2)	—	9 183	802	—	9 985
Finance costs	(4 562)	(558)	(999)	153	(413)	(6 379)	(13 339)	9 034	(10 684)
Finance income	98	9	220	121	—	448	8 712	(9 034)	126
Profit/(loss) before tax	(2 815)	(2 820)	12 067	2 641	2 164	11 237	(5 990)	242	5 489
Total assets[4]	174 770	17 939	97 276	24 175	41 551	355 711	16 077	(16 577)	355 211
Total liabilities	124 901	15 444	26 978	5 845	19 778	192 946	30 962	(12 168)	211 740
Capital expenditure[5]	10 037	99	1 185	1 548	330	13 199	41	—	13 240
Cash generated from operations after working capital changes	14 690	(2 125)	9 399	5 301	3 886	31 151	(2 093)	—	29 058
EBITDA margin (%)	29,9	(16,8)	59,9	28,9	70,4	31,9	n/a	n/a	34,3
Number of permanent employees	23 465	8 442	3 883	7 596	612	43 998	2 088	n/a	46 086

[1] *Revenue from segments below the quantitative thresholds are attributable to Transnet Property and the corporate centre function. Transnet Property manages internal and external leases of commercial and residential property and the Transnet corporate centre function performs an administration function for the Group.*

[2] *Other revenue from contracts with customers relate mainly to lighthouse related tariff income, the use of ship repair facility related income at the ports, telecommunication services provided on the rail network and passenger rail income.*

[3] *Other costs include the remaining net operating expense line items as disclosed in note 2.*

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

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

Segment information (restated)

for the year ended 31 March 2021

	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	Other segments[1] R million	Elimination of inter-segment transactions R million	Total R million
Revenue from contracts with customers	38 300	230	7 999	13 094	4 834	64 457	—	—	64 457
Coal	13 460	—	—	—	—	13 460	—	—	13 460
Iron ore and manganese	12 909	—	—	—	—	12 909	—	—	12 909
Mineral mining and chrome	5 577	—	—	—	—	5 577	—	—	5 577
Steel and cement	2 680	—	—	—	—	2 680	—	—	2 680
Agricultural and bulk liquids	1 675	—	—	—	—	1 675	—	—	1 675
Marine services	—	—	2 218	—	—	2 218	—	—	2 218
Containers	1 388	—	3 168	6 574	—	11 130	—	—	11 130
Automotive	210	—	230	635	—	1 075	—	—	1 075
Break-bulk	—	—	131	2 089	—	2 220	—	—	2 220
Bulk	—	—	1 917	3 791	—	5 708	—	—	5 708
Pipelines – oil and gas	—	—	—	—	4 801	4 801	—	—	4 801
Engineering	—	230	—	—	—	230	—	—	230
Other[2]	401	—	335	5	33	774	—	—	774
Other revenue	457	—	1 580	—	53	2 090	726	—	2 816
Lease income	457	—	1 580	—	—	2 037	726	—	2 763
Government grant	—	—	—	—	53	53	—	—	53
Total external revenue	38 757	230	9 579	13 094	4 887	66 547	726	—	67 273
Internal revenue	691	7 961	1 979	—	5	10 636	469	(11 105)	—
Total revenue	39 448	8 191	11 558	13 094	4 892	77 183	1 195	(11 105)	67 273
Energy costs	(4 839)	(224)	(549)	(672)	(237)	(6 521)	(139)	—	(6 660)
Maintenance costs	(2 435)	(181)	(294)	(386)	(141)	(3 437)	(71)	1 286	(2 222)
Material costs	(368)	(2 787)	(52)	(531)	(43)	(3 781)	(3)	3 358	(426)
Personnel costs	(13 086)	(5 618)	(2 589)	(5 266)	(468)	(27 027)	(1 277)	4 094	(24 210)
Other costs[3]	(4 417)	(855)	(1 372)	(2 608)	(6 055)	(15 307)	(1 355)	2 367	(14 295)
Earnings before interest, tax, depreciation, derecognition and amortisation (EBITDA)	14 303	(1 474)	6 702	3 631	(2 052)	21 110	(1 650)	—	19 460
Depreciation and amortisation	(8 021)	(575)	(2 246)	(1 731)	(1 294)	(13 867)	(247)	242	(13 872)
Impairment of assets	(1 899)	(783)	(314)	(774)	(118)	(3 888)	(498)	—	(4 386)
Dividends received and income from associates	—	—	—	—	—	—	13	—	13
Fair value adjustments and post-retirement benefit obligation expense	143	9	(920)	(6)	—	(774)	(671)	—	(1 445)
Finance costs	(4 685)	(614)	(1 158)	137	(527)	(6 847)	(13 480)	9 031	(11 296)
Finance income	67	50	158	79	—	354	8 933	(9 031)	256
(Loss)/profit before tax	(92)	(3 387)	2 222	1 336	(3 991)	(3 912)	(7 600)	242	(11 270)
Total assets[4]	167 416	16 671	85 181	21 053	41 318	331 639	15 821	(13 686)	333 774
Total liabilities	122 090	11 917	27 626	4 895	21 784	188 312	26 932	(9 015)	206 229
Capital expenditure[5]	11 926	222	684	2 324	499	15 655	261	—	15 916
Cash generated from operations after working capital changes	13 283	1 302	6 512	3 586	2 992	27 675	(3 068)	n/a	24 607
EBITDA margin (%)	36,3	(18,0)	58,0	27,7	(41,9)	27,4	n/a	n/a	28,9
Number of permanent employees	25 614	9 660	4 239	8 326	679	48 518	1 124	n/a	49 642

[1] *Included in other segments is revenue from segments below the quantitative thresholds that are attributable to Transnet Property and the corporate centre function. Transnet Property manages internal and external leases of commercial and residential property and the Transnet corporate centre function performs an administration function for the Group.*

[2] *Other revenue from contracts with customers relate mainly to lighthouse related tariff income, the use of ship repair facility related income at the ports, telecommunication services provided on the rail network and rail-related demurrage income.*

[3] *Other costs include the remaining net operating expense line items as disclosed in note 2.*

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

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

Notes to the annual financial statements

for the year ended 31 March 2022

1. Revenue

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
64 457	**65 420**	**Revenue from contracts with customers**	**65 420**	64 457
38 300	**36 581**	Rail freight	**36 581**	38 300
230	**459**	Engineering	**459**	230
21 093	**23 093**	Ports	**23 093**	21 093
4 834	**5 225**	Pipelines – petroleum products and gas	**5 225**	4 834
—	**62**	Other	**62**	—
2 816	**3 039**	**Other revenue**	**3 039**	2 816
2 763	**2 986**	Lease income	**2 986**	2 763
53	**53**	Government grants*	**53**	53
67 273	**68 459**	Total revenue	**68 459**	67 273
		Refer to the segment information for the disaggregation of revenue streams.		
		Performance obligations partially satisfied in previous periods		
239	**241**	Rail freight	**241**	239
		Revenue recognised in the current financial year in respect of performance obligations that were partially satisfied in previous periods relates to the following:		
		Rail freight – goods-in-transit at 31 March 2021 whose delivery was completed in the current financial year.		
		Performance obligations relating to contracts partially unsatisfied at year end		
236 200	**57 700**	Rail freight and ports	**57 700**	236 200

* *Amortisation of deferred revenue; namely the Security of Supply Petroleum Levy of 7,5 cents per litre, which the Government through the regulator allowed Transnet Pipelines to levy and collect from customers through the tariff during the fiscal years from 2010/11 to 2012/13, as the Government's contribution to the cost of the New Multi-Product Pipeline (NMPP) between Durban and Gauteng following the Government's request for the pipeline's size to be increased from 16 inches to 24 inches. The levy was accounted for as deferred revenue/Government grant in accordance with the Group Accounting policy and is recognised over the life of the pipeline of 75 years (see note 16.3).*

The Group expects revenue of R57,7 billion in future periods from performance obligations that were unsatisfied or partially unsatisfied at 31 March 2022, with respect to committed volumes to be transported over rail or processed through the ports on long-term take-or-pay contracts with customers. The amounts exclude variable consideration such as take-or-pay penalties, demurrage, volume rebates and other penalties that may be applicable in future.

Period	R million	%
31 March 2023	19 300	33
31 March 2024	9 500	17
31 March 2025	9 900	17
31 March 2026	9 300	16
31 March 2027 and beyond	9 700	17
Total	57 700**	100

** *The reduction in expected revenue from the prior year is due to the cancellation of take-or-pay contracts that are being renegotiated. IFRS 15 only requires the disclosure of contracted amounts at reporting date.*

The Group applies the practical expedient in paragraph 121 of IFRS 15 *Revenue from Contracts with Customers*, and does not disclose information about remaining performance obligations on contracts where either:
- The original contractual period is for one year or less; or
- The Group's right to consideration from a customer corresponds directly with the Group's performance completed to date.

Significant judgements

In the prior year the Group, through its Freight Rail division did not recognise R265,3 million from Prasa in accordance with IFRS 15 *Revenue from Contracts with Customers* as the collectability requirement was not met due to a history of late and non-payment by Prasa, as well as its subsequent placement under administration by the Minister of Transport on 9 December 2019. Transnet continues to engage with Prasa and the South African government to ensure recovery of all amounts owed by Prasa. In the current reporting period Transnet recognised R249 million of revenue from Prasa that related to prior years, as the collectability requirements for these invoices was met following a set-off agreement between Transnet and Prasa.

2. Net operating expenses[1] excluding depreciation, derecognition and amortisation

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
82	**158**	Accommodation and refreshments	**158**	82
1 163	**1 317**	Electronic data costs	**1 317**	1 163
6 660	**8 002**	Energy costs	**8 002**	6 660
578	**574**	Haulage costs	**574**	578
622	**605**	Health and sanitation	**605**	622
287	**300**	Insurance	**300**	287
2 223	**2 392**	Maintenance costs	**2 392**	2 223
522	**418**	Managerial and technical consulting fees	**418**	522
426	**803**	Material costs	**803**	426
1 202	**1 223**	Lease expenses (refer note 4.1)	**1 223**	1 202
24 210	**26 194**	Personnel costs	**26 194**	24 210
34	**36**	Printing and stationery	**36**	34
617	**137**	Loss on disposal of property, plant and equipment	**137**	617
62	**55**	Promotions and advertising	**55**	62
1 742	**1 738**	Security	**1 738**	1 742
172	**156**	Telecommunications	**156**	172
96	**74**	Transport	**74**	96
21	**15**	Research and development costs	**15**	21
476	**487**	Water	**487**	476
3 735	**582**	Third party claims	**582**	3 735
2 883	**(256)**	Other (income)/costs[2]	**(256)**	2 883
47 813	**45 010**		**45 010**	47 813

[1] *Includes COVID-19 related expenses of R109 million (2021: R232 million).*
[2] *Other (income)/costs is mainly made up of operating income relating to scrap income, lease recoveries, Prasa related recoveries, and insurance recoveries partially offset by environmental management expense (2022: R323 million and 2021: R2,1 billion), rates and taxes, corporate and social investment costs, and travel costs.*

Notes to the annual financial statements

for the year ended 31 March 2022

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		3. Depreciation and amortisation		
		Depreciation and derecognition (refer note 9)		
7 311	**8 100**	**Depreciation and derecognition – owned assets at historic cost**	**8 100**	7 311
58	**66**	Aircraft	**66**	58
192	**184**	Floating craft	**184**	192
295	**281**	Land and land improvements	**281**	295
801	**882**	Buildings and structures	**882**	801
431	**637**	Machinery, equipment and furniture	**637**	431
28	**24**	Permanent way and works	**24**	28
5 494	**5 993**	Rolling stock and containers	**5 993**	5 494
12	**33**	Vehicles	**33**	12
5 751	**5 940**	**Depreciation and derecognition – owned assets revalued portion**	**5 940**	5 751
1 755	**1 971**	Rail infrastructure	**1 971**	1 755
1 226	**1 065**	Pipeline networks	**1 065**	1 226
2 770	**2 904**	Port facilities	**2 904**	2 770
588	**602**	**Depreciation and derecognition – right-of-use assets at historic cost**	**602**	588
88	**44**	Buildings and structures	**44**	88
7	**5**	Machinery, equipment and furniture	**5**	7
3	**2**	Permanent way and works	**2**	3
490	**551**	Vehicles	**551**	490
13 650	**14 642**		**14 642**	13 650
		Amortisation of intangible assets (refer note 11)		
222	**205**	Software and licences	**205**	222
13 872	**14 847**	**Total depreciation, derecognition and amortisation**	**14 847**	13 872

4. Profit from operations, impairment of assets, dividends received and post-retirement benefit obligation expense

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:

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		Auditors' remuneration		
		Group auditors		
50	**32**	Audit fees – current year	**32**	50
52	**83**	Audit fees – prior year	**83**	52
4	**—**	Fees for audit-related and other services	**—**	4
1	**—**	Expenses	**—**	1
107	**115**		**115**	107

4. Profit from operations, impairment of assets, dividends received and post-retirement benefit obligation expense continued

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:

Company Restated 2021 R million	Company 2022 R million		Group 2022 R million	Group Restated 2021 R million
		Lease expenses		
68	**25**	Variable lease payments not included in the measurement of lease liabilities	**25**	68
32	**38**	Expenses relating to short-term leases	**38**	32
1 102	**1 160**	Expenses relating to leases of low-value assets	**1 160**	1 102
1 202	**1 223**		**1 223**	1 202
		Directors' and executives' emoluments (refer note 38)		
13	**14**	Executive directors	**14**	13
6	**6**	Non-executive directors	**6**	6
72	**72**	Senior executives	**72**	72
91	**92**		**92**	91
		4.2.1 Impairment of financial assets		
691	**381**	Trade receivables from contracts with customers	**381**	691
296	**34**	Other receivables	**34**	296
987	**415**		**415**	987
		4.2.2 Impairment/(reversal of impairment) of non-financial assets[1]		
3 399	**2 124**	Property, plant and equipment (refer note 9)	**2 124**	3 399
—	**(5)**	Intangible assets (refer note 11)	**(5)**	—
3 399	**2 119**		**2 119**	3 399
		** Impairment of non-financial assets mainly arose at Freight Rail from the 2022 financial year physical verification process on rolling stock and the index valuation and CWIP assessment related impairments at Port Terminals.*		
		4.3 Dividends received		
—	**9**	Dividends from associate	**—**	—
		4.4 Post-retirement benefit obligation expense		
18	**11**	Transport Pension Fund: Transnet Sub-fund	**11**	18
—	**—**	Transnet Second Defined Benefit Fund	**—**	—
5	**4**	Transnet Top Management pensions	**4**	5
41	**39**	Transnet Workmen's Compensation Act pensioners	**39**	41
27	**21**	Transnet SATS pensioners' post-retirement medical benefits	**21**	27
25	**26**	Transnet employees' post-retirement medical benefits	**26**	25
86	**89**	Other post-retirement and medical benefits (refer note 23)	**89**	86
202	**190**		**190**	202

Notes to the annual financial statements

for the year ended 31 March 2022

Company Restated 2021 R million	Company 2022 R million		Group 2022 R million	Group Restated 2021 R million
		5. Fair value adjustments		
(770)	**9 814**	Fair value adjustment of investment property (refer note 10)	**9 814**	(770)
(542)	**288**	Derivative fair value adjustments (refer note 14)	**288**	(542)
97	**48**	Fair value adjustments on firm commitments	**48**	97
(6)	**25**	Fair value adjustments on other financial assets held at FVTPL	**25**	(6)
—	**—**	Reclassification of fair value adjustments on Government bonds held at FVTOCI	**—**	(22)
(1 221)	**10 175**		**10 175**	(1 243)
		6. Finance costs		
57	**(2)**	Net foreign exchange (gain)/loss on translation	**(2)**	57
44	**57**	Discounts on bonds amortised	**57**	44
130	**192**	Interest on lease liabilities	**192**	130
158	**275**	Unwinding of discounts on provisions	**275**	158
12 116	**11 370**	Interest cost – financial liabilities at amortised cost	**11 370**	12 116
12 505	**11 892**	**Gross finance costs**	**11 892**	12 505
(1 209)	**(1 208)**	Borrowing costs capitalised	**(1 208)**	(1 209)
11 296	**10 684**		**10 684**	11 296
		** The weighted average capitalisation rate on funds borrowed generally is 9,11% per annum (2021: 9,33% per annum).*		
		7. Finance income		
81	**7**	Bank deposits	**21**	81
157	**105**	Financial assets at amortised cost	**105**	157
—	**—**	Financial assets at FVTOCI	**—**	18
238	**112**		**126**	256
		8. Tax		
		South African normal tax		
—	**—**	– Current year	**10**	8
		Deferred tax (refer note 26)		
(2 556)	**435**	– Current year	**431**	(2 544)
(2 556)	**435**		**441**	(2 536)
%	**%**	**Reconciliation of tax rate**	**%**	%
28,00	**27,00**	Standard rate – South African normal tax	**27,00**	28,00
(5,34)	**(19,08)**	Adjustment for differences	**(18,97)**	(5,50)
(4,68)	**(6,59)**	Expenses/(income) not included for tax purposes	**(6,48)**	(4,68)
0,05	**0,13**	Permanent provisions	**0,13**	0,05
(1,90)	**3,56**	Depreciation on property, plant and equipment (PPE) not subject to tax allowances	**3,56**	(1,90)
(2,40)	**(1,46)**	Impairment of PPE	**(1,46)**	(2,40)
0,04	**(9,65)**	Fair value adjustments	**(9,65)**	0,04
—	**(0,21)**	Disposal of fixed assets not subject to tax allowances	**(0,21)**	—
(0,16)	**0,58**	Capital legal, professional and other expenses	**0,69**	(0,16)
—	**0,02**	Disallowed donations	**0,02**	—
(0,30)	**0,44**	Fruitless and wasteful expenditure	**0,44**	(0,30)
(0,01)	**—**	Fines, interest and penalties	**—**	(0,01)
(0,66)	**(12,49)**	Adjustment to deferred tax charge	**(12,49)**	(0,82)
0,12	**(0,26)**	Capital gain on disposal of fixed assets	**(0,26)**	0,12
0,05	**—**	Treasury instruments	**—**	0,05
0,39	**0,84**	PPE adjustments	**0,84**	0,23
(1,24)	**—**	Leasehold improvements	**—**	(1,24)
(0,02)	**—**	FEC adjustments	**—**	(0,02)
0,02	**(0,09)**	Firm commitments	**(0,09)**	0,02
0,02	**—**	Impairment of SAX loan	**—**	0,02
—	**0,51**	Provisions not through the income statement	**0,51**	—
—	**(13,49)**	Change in corporate tax rate	**(13,49)**	—
22,66	**7,92**	**Effective rate of tax**	**8,03**	22,50

The income statement charge is comprised mainly of deferred tax. The charge arose mainly due to the increase in profit before tax for the year (2021: loss before tax), together with an increase in the fair value adjustments that are not recognised for tax purposes, offset largely by the impact of the company's calculated tax loss. The result was then further offset by the impact of the reduction of the corporate tax rate from 28% to 27% which was substantively enacted in the Minister of Finance's 2021/22 Budget Speech, resulting in a decrease in the provision of deferred tax.

Company Restated 2021 R million	Company 2022 R million		Group 2022 R million	Group Restated 2021 R million
		8. Tax continued		
		8.1 Tax recognised in other comprehensive income		
		Arising on the tax effects of items recognised in comprehensive income:		
137	**(210)**	(Gain)/loss on revaluation of pipeline networks and decommissioning restoration liability	**(210)**	137
(2 927)	**(986)**	Gain on revaluation of port facilities and decommissioning liability	**(986)**	(2 927)
369	**(1 794)**	(Gain)/loss on revaluation of rail infrastructure	**(1 794)**	369
(20)	**(568)**	Gain on revaluation of land, building and structures	**(568)**	(20)
2	**(1)**	(Gain)/loss on revaluation of investments to market value (Rumo Ltd)	**(1)**	2
—	**—**	Gain on revaluation of debt instrument	**(3)**	(14)
27	**1**	Cash flow hedge loss	**1**	27
14	**(22)**	Actuarial (gain)/loss on post-retirement benefit obligations	**(22)**	14
—	**774**	Impact of change in corporate tax rate	**774**	—
(2 398)	**(2 806)**	**Total tax recognised in other comprehensive income**	**(2 809)**	(2 412)
		9. Property, plant and equipment		
		Property, plant and equipment is stated at historical cost except for pipeline networks, port facilities and rail infrastructure, which are stated at revalued amounts.		
292 774	**300 738**	**Net book value**	**300 738**	292 774
468 214	**496 809**	Gross carrying value	**496 809**	468 214
(175 440)	**(196 071)**	Accumulated depreciation and impairment	**(196 071)**	(175 440)
		Comprising:		
		Historical cost		
231 891	**236 441**	**Gross carrying value**	**236 441**	231 891
450	**474**	– Aircraft	**474**	450
5 034	**5 036**	– Floating craft	**5 036**	5 034
7 114	**6 044**	– Land and land improvements	**6 044**	7 114
25 516	**26 115**	– Buildings and structures	**26 115**	25 516
13 014	**13 373**	– Machinery, equipment and furniture	**13 373**	13 014
1 356	**1 426**	– Permanent way and works	**1 426**	1 356
140 879	**146 173**	– Rolling stock and containers	**146 173**	140 879
3 895	**4 377**	– Vehicles	**4 377**	3 895
34 633	**33 423**	– Capital work-in-progress**	**33 423**	34 633
(72 931)	**(79 376)**	**Accumulated depreciation**	**(79 376)**	(72 931)
(270)	**(309)**	– Aircraft	**(309)**	(270)
(1 668)	**(1 852)**	– Floating craft	**(1 852)**	(1 668)
(1 529)	**(1 802)**	– Land and land improvements	**(1 802)**	(1 529)
(10 522)	**(11 141)**	– Buildings and structures	**(11 141)**	(10 522)
(9 107)	**(9 495)**	– Machinery, equipment and furniture	**(9 495)**	(9 107)
(221)	**(236)**	– Permanent way and works	**(236)**	(221)
(47 671)	**(52 536)**	– Rolling stock and containers	**(52 536)**	(47 671)
(1 943)	**(2 005)**	– Vehicles	**(2 005)**	(1 943)

*** Capital work-in-progress includes R5 478 million (2021: R5 859 million) advance payments to original equipment manufacturers (OEMs) in respect of the acquisition of 99 electric locomotives from CRRC E-loco Supply (Pty) Ltd (CRRC E-loco), 210 diesel locomotives from CRRC SA Rolling Stock Pty (Ltd) (CRRC SA) and 158 diesel locomotives from Bombardier Transportation South Africa Pty (Ltd) (BT) respectively. Total capital work-in-progress under the three contracts at 31 March 2022 was R13 026 million (2021: R14 068 million).*

Transnet has filed an application with the Gauteng High Court to have the supply agreements with the above OEMs reviewed and set aside, with just and equitable relief. The locomotive supply agreements with CRRC E-loco and CRRC SA are currently suspended pending the outcome of the court application, and capitalisation of borrowing costs on these contracts has been suspended in accordance with IAS 23 Borrowing Costs. The supply agreement with BT was not suspended and deliveries are continuing, with the delivery schedule expected to be completed in the next four years.

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9. Property, plant and equipment continued

Company Restated 2021 R million	Company 2022 R million		Group 2022 R million	Group Restated 2021 R million
(10 319)	**(11 904)**	**Accumulated impairment**	**(11 904)**	(10 319)
(4)	**(191)**	– Floating craft	**(191)**	(4)
(61)	**(80)**	– Buildings and structures	**(80)**	(61)
(235)	**(292)**	– Machinery, equipment and furniture	**(292)**	(235)
—	**—**	– Permanent way and works	**—**	—
(6 774)	**(8 365)**	– Rolling stock and containers	**(8 365)**	(6 774)
(43)	**(66)**	– Vehicles	**(66)**	(43)
(3 202)	**(2 910)**	– Capital work-in-progress	**(2 910)**	(3 202)
148 641	**145 161**	**Net book value of property, plant and equipment stated at historical cost**	**145 161**	148 641
		Revaluation		
236 323	**260 368**	**Gross carrying value**	**260 368**	236 323
58 574	**63 019**	– Pipeline networks	**63 019**	58 574
118 147	**125 171**	– Port facilities	**125 171**	118 147
59 602	**72 178**	– Rail infrastructure	**72 178**	59 602
(89 991)	**(102 365)**	**Accumulated depreciation**	**(102 365)**	(89 991)
(21 896)	**(26 233)**	– Pipeline networks	**(26 233)**	(21 896)
(49 508)	**(54 203)**	– Port facilities	**(54 203)**	(49 508)
(18 587)	**(21 929)**	– Rail infrastructure	**(21 929)**	(18 587)
(2 199)	**(2 426)**	**Accumulated impairment**	**(2 426)**	(2 199)
(198)	**(207)**	– Pipeline networks	**(207)**	(198)
(1 838)	**(1 862)**	– Port facilities	**(1 862)**	(1 838)
(163)	**(357)**	– Rail infrastructure	**(357)**	(163)
144 133	**155 577**	**Net book value of property, plant and equipment stated at revalued amounts**	**155 577**	144 133
292 774	**300 738**	**Total net book value**	**300 738**	292 774

Land, buildings and structures

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

During the year, the Group transferred R3,0 billion to (2021: R130 million to) investment property from property, plant and equipment. The fair value of property transferred from investment property is their deemed cost for subsequent accounting in accordance with IAS 16 *Property, Plant and Equipment*.

Assets under lease

Company Restated 2021 R million	Company 2022 R million		Group 2022 R million	Group Restated 2021 R million
1 585	**2 008**	Included in property, plant and equipment are assets under lease with a carrying value of	**2 008**	1 585

9. Property, plant and equipment continued

Pipeline networks

Pipeline networks were revalued at 31 March 2022 based on the depreciated replacement cost (DRC) and discounted cash flow methods.

An external index valuation was performed as at 31 March 2022 by Ernst and Young, an independent firm of professional valuers, on the basis of the depreciated replacement cost methodology.

As at 31 March 2022, the index valuation resulted in a fair value of R38,1 billion for all assets (2021: R34,3 billion based on a full valuation conducted by Ernst and Young). The discounted cash flow method resulted in a fair value of R39,1 billion at 31 March 2022 for all assets (2021: R47,0 billion). The index valuation was applied to assets in the old pipeline network and resulted in a net increase of R905 million (2021: R257 million net decrease) to the carrying value of the old pipeline assets. The new pipeline network assets remained at carrying value as per the point of range methodology.

Fair value hierarchy

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
36 480	**36 579**	Level 3 – significant unobservable inputs*	**36 579**	36 480
32 000	**31 582**	The historic cost carrying values of these assets amount to	**31 582**	32 000

Port facilities

Port infrastructure

Port infrastructure was revalued at 31 March 2022 based on the depreciated optimised replacement cost and discounted cash flow methods.

The discounted cash flow method resulted in a fair value of R61,4 billion (2021: R60,5 billion) as at 31 March 2022, which resulted in an increase of R3,9 billion (2021: R10,5 billion) to the carrying value of the port infrastructure assets. The full external revaluation based on the depreciated optimised replacement cost method was performed in the prior year by Zutari (Pty) Ltd, an independent firm of professional valuers and resulted in a fair value of R96,4 billion.

The fair value of port infrastructure assets based on the discounted cash flow method is sensitive to changes in the discount rate and terminal growth rates. The rates applied at 31 March 2022 were 11,12% and 5,66% respectively. For example, a 0,1% change in the discount rate would result in a fair value change of R0,8 billion. Similarly, a 0,1% change in the terminal growth rate would result in the fair value changing by R0,7 billion.

Port operating assets

An index valuation was applied to port operating assets and resulted in an increase of R169,3 million (2021: R59,4 million decrease) in the carrying value of the port operating assets. As at 31 March 2022, the fair value of port operating assets based on the index valuation amounts to R7,7 billion (2021: R6,4 billion).

Fair value hierarchy

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
66 801	**69 106**	Level 3 – significant unobservable inputs*	**69 106**	66 801
21 517	**22 629**	The historical carrying values of these assets amount to	**22 629**	21 517

** For more detail regarding the measurement of level 3 fair values refer to the table on page 67 in note 9.*

Notes to the annual financial statements

for the year ended 31 March 2022

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		9. Property, plant and equipment continued		
		Rail infrastructure		
		Rail infrastructure was revalued on 31 March 2022 based on the discounted cash flow method.		
		The full revaluation based on the depreciated optimised replacement cost method is performed every three years and was most recently performed at 31 March 2022, by Thelo and Duetsche Bhan consortium, an independent firm of professional valuers and resulted in a fair value of R224,8 billion. The discounted cash flow method resulted in a rail infrastructure revaluation of R6 643 million (2021: R1 318 million) at 31 March 2022.		
		The discounted cash flow valuation is sensitive to changes in key inputs, such as the discount rate, terminal growth rate and operating cash flows. For example, a 0,1% change in the terminal growth rate would change the asset value by R963 million, whereas the same change in the discount rate will change the asset value by R2,7 billion.		
		Fair value hierarchy		
40 852	**49 892**	Level 3 – significant unobservable inputs*	**49 892**	40 852
38 346	**41 865**	The historical carrying values of these assets amount to	**41 865**	38 346

* *For more detail regarding the measurement of level 3 fair values refer to the table on page 67 in note 9.*

Useful lives and residual values

In accordance with IAS 16 *Property, Plant and Equipment*, the useful lives and residual values of property, plant and equipment are 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 its annual assessment of residual values on existing assets. The exercise resulted in a change in the residual values of rail infrastructure assets and there were no changes on the rolling stock assets. The residual values were determined on average income recovered in the past financial year from scrap steel market prices international Rotterdam. The current reporting period impact is a decrease in depreciation of R49 million (2021: R35 million decrease).

Useful lives

The useful lives review was performed in line with Group accounting policy. The review done was performed by asset owners, users and specialists. The results of the assessment were a net decrease of R51 million (2021: R403 million decrease) in the depreciation expense due to a general decrease in the useful lives of rail infrastructure and general assets.

Fully depreciated assets in use

The assets that were fully depreciated as at 31 March 2022 that are still in use have a historic cost amount of R7,2 billion (2021: R5 billion) and remain in the statement of financial position. The remaining carrying amounts will be retained in the asset register until the assets are disposed.

Property, plant and equipment pledged as security for loans

Rolling stock and containers includes locomotives with a carrying value of R28 727 million (2021: R30 604 million) which are pledged as security for loans amounting to R15 216 million (2021: R17 792 million) raised to fund the acquisition of the locomotives (refer note 36).

9. Property, plant and equipment continued

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 2022.

Asset group	Valuation technique	Significant unobservable inputs	Range (weighted average)
Pipeline networks	Depreciated replacement cost (DRC)	• Replacement cost new • Physical condition assessment • Obsolescence • Remaining useful life	△ △ △ △
	Discounted cash flow	• Discount rate (%) • Terminal growth rate (%) • Valuation period (years)	13,93 4,55 10
Port infrastructure	Depreciated optimised replacement cost***	• Replacement cost new • Physical condition assessment • Obsolescence • Remaining useful life • Indices – Marine index* – Dredging index*	△ △ △ △ 110,40 116,00
	Discounted cash flow	• Discount rate (%) • Terminal growth rate (%) • Valuation period (years)	11,12 5,66 7
Port operating assets	Depreciated optimised replacement cost***	• Replacement cost new • Physical condition assessment • Obsolescence • Remaining useful life • PPI – General and special purpose machinery (142,1)** • PPI – Transport equipment (142,7)**	△ △ △ △ 111, 10 98,00
	Discounted cash flow	• Discount rate (%) • Terminal growth rate (%) • Valuation period (years)	11,52 5,03 20
Rail infrastructure	Depreciated optimised replacement cost***	• Replacement cost new • Physical condition assessment • Obsolescence • Remaining useful life	△ △ △ △
	Discounted cash flow	• Discount rate (%) • Terminal growth rate (%) • Valuation period (years)	11,11 4,54 20

* *Base year = 2019.*

** *Base year = 2021.*

*** *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, obsolescence and allowing for any differences in the quantity and quality of output and in operating costs.*

△ *Range or weighted average not applicable.*

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9. Property, plant and equipment continued

PPE reconciliation

Company and Group	Aircraft R million	Floating craft R million	Land and land improvements R million	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 2022 Total R million
Balance at the beginning of the year as previously reported													
Historical cost and revaluation	450	5 034	7 114	25 516	13 014	1 356	58 574	118 147	59 602	140 879	3 895	34 633	468 214
Accumulated depreciation	(270)	(1 668)	(1 529)	(10 522)	(9 107)	(221)	(21 896)	(49 508)	(18 587)	(47 671)	(1 943)	—	(162 922)
Accumulated impairment	—	(4)	—	(61)	(235)	—	(198)	(1 838)	(163)	(6 774)	(43)	(2 649)	(11 965)
Opening net carrying value at 1 April	180	3 362	5 585	14 933	3 672	1 135	36 480	66 801	40 852	86 434	1 909	31 984	293 327
Adjustment to opening balance	—	—	—	—	—	—	—	—	—	—	—	(553)	(553)
Restated opening net carrying value at 1 April	180	3 362	5 585	14 933	3 672	1 135	36 480	66 801	40 852	86 434	1 909	31 431	292 774
Current year movements													
Replacements	43	—	5	33	98	—	—	59	3 924	2 241	1	3 966	10 370
Expansions	—	2	35	17	15	—	—	1	—	1	—	1 801	1 872
Acquisition through lease	—	—	—	—	—	—	—	—	—	—	998	—	998
Change in decommissioning liability	—	—	(19)	—	—	—	—	—	—	—	—	—	(19)
Disposals	—	—	—	(21)	—	—	(25)	(17)	(1)	(56)	(3)	(122)	(245)
Depreciation	(66)	(184)	(281)	(926)	(642)	(26)	(1 065)	(2 904)	(1 713)	(5 400)	(581)	—	(13 788)
Derecognition	—	—	—	—	—	—	—	—	(258)	(593)	(3)	—	(854)
Revaluation/(devaluation) adjustment recognised in other comprehensive income	—	—	1 840	160	—	—	905	4 092	6 643	—	—	—	13 640
Impairment/(reversal of impairment) recognised in profit or loss	—	(187)	(7)	(12)	(70)	—	(10)	(23)	(193)	(1 889)	(23)	290	(2 124)
Transferred to intangibles assets	—	—	—	—	(46)	—	—	—	—	—	—	—	(46)
Transfers to non-current assets classified as held-for-sale	—	—	(6)	—	(25)	—	—	(15)	—	(19)	—	—	(65)
Transfer from/(to) investment property	—	—	(3 108)	348	2	—	—	—	—	—	—	(32)	(2 790)
Forex adjustment	—	—	—	—	10	—	—	—	—	—	—	—	10
Borrowing costs capitalised	—	—	—	—	—	—	—	—	—	—	—	1 208	1 208
Release of firm commitment	—	—	—	—	—	—	—	—	—	—	—	(11)	(11)
Unrealised firm commitment	—	—	—	—	—	—	—	—	—	—	—	23	23
Transfer from inventory	—	—	—	—	(3)	—	—	—	—	(80)	—	(132)	(215)
Transfer from capital work-in-progress to assets	8	—	198	362	575	81	294	1 112	638	4 633	8	(7 909)	—
	(15)	(369)	(1 343)	(39)	(86)	55	99	2 305	9 040	(1 162)	397	(918)	7 964
Closing carrying value	165	2 993	4 242	14 894	3 586	1 190	36 579	69 106	49 892	85 272	2 306	30 513	300 738
Made up as follows:													
Historical cost and revaluation	474	5 036	6 044	26 115	13 373	1 426	63 019	125 171	72 178	146 173	4 377	33 423	496 809
Accumulated depreciation and derecognition	(309)	(1 852)	(1 802)	(11 141)	(9 495)	(236)	(26 233)	(54 203)	(21 929)	(52 536)	(2 005)	—	(181 741)
Accumulated impairment	—	(191)	—	(80)	(292)	—	(207)	(1 862)	(357)	(8 365)	(66)	(2 910)	(14 330)
Closing carrying value at 31 March	165	2 993	4 242	14 894	3 586	1 190	36 579	69 106	49 892	85 272	2 306	30 513	300 738
PPE comprise owned and leased assets, as follows (at carrying value):													
- Property, plant and equipment owned	165	2 993	4 239	14 856	3 575	1 175	36 579	69 104	49 892	85 272	367	30 513	298 730
- Right-of-use assets	—	—	3	38	11	15	—	2	—	—	1 939	—	2 008
Closing carrying value at 31 March	165	2 993	4 242	14 894	3 586	1 190	36 579	69 106	49 892	85 272	2 306	30 513	300 738
Right-of-use assets													
Additions during the year	—	—	—	—	—	—	—	—	—	—	998	—	998
Depreciation expense during the year (included above)	—	—	—	(44)	(5)	(3)	—	—	—	—	(393)	—	(445)

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for the year ended 31 March 2021

9. Property, plant and equipment continued

PPE reconciliation (restated)

Company and Group	Aircraft R million	Floating craft R million	Land and land improvements R million	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 2021 Total R million
Balance at the beginning of the year as previously reported													
Historical cost and revaluation	438	5 033	6 429	25 170	12 951	1 122	56 540	100 958	57 493	135 214	3 282	32 711	437 341
Accumulated depreciation	(212)	(1 476)	(1 237)	(9 706)	(8 675)	(190)	(18 417)	(41 897)	(16 825)	(42 944)	(1 900)	—	(143 479)
Accumulated impairment	—	—	—	(41)	(197)	(1)	(359)	(1 652)	(159)	(4 484)	(32)	(1 640)	(8 565)
Opening net carrying value at 1 April	226	3 557	5 192	15 423	4 079	931	37 764	57 409	40 509	87 786	1 350	31 071	285 297
Adjustment to opening balance	—	—	—	—	—	—	—	—	—	—	—	(528)	(528)
Restated opening net carrying value at 1 April	226	3 557	5 192	15 423	4 079	931	37 764	57 409	40 509	87 786	1 350	30 543	284 769
Current year movements													
Replacements	—	—	—	2	52	—	—	7	2 475	4 377	1	5 976	12 890
Expansions	—	—	7	12	7	11	—	10	—	1	—	1 973	2 021
Acquisition through lease	—	—	—	—	—	—	—	—	—	—	1 005	—	1 005
Change in decommissioning liability	—	—	34	(107)	—	—	—	—	—	—	—	—	(73)
Disposals	—	—	(9)	(1)	(4)	(2)	—	(3)	—	(13)	—	(585)	(617)
Depreciation	(58)	(192)	(295)	(889)	(437)	(17)	(1 226)	(2 770)	(1 671)	(5 011)	(501)	—	(13 067)
Derecognition	—	—	—	—	(1)	(14)	—	—	(84)	(483)	(1)	—	(583)
Revaluation/(devaluation) adjustment recognised in other comprehensive income	—	—	3	12	—	—	(257)	10 472	(1 318)	—	—	—	8 912
Impairment/(reversal of impairment) recognised in profit or loss	—	(4)	—	(21)	(69)	—	161	(231)	(4)	(2 197)	(10)	(1 024)	(3 399)
Transferred to intangibles assets	—	—	—	—	—	—	—	—	—	—	—	(79)	(79)
Transfers to non-current assets classified as held-for-sale	—	—	—	—	(44)	—	—	37	—	(9)	—	—	(16)
Transfer from/(to) investment property	—	—	(101)	(13)	—	—	—	—	—	—	—	(16)	(130)
Forex adjustment	—	—	—	19	—	—	—	—	—	(263)	—	(10)	(254)
Borrowing costs capitalised	—	—	—	—	—	—	—	1	—	—	—	1 208	1 209
Release of firm commitment	—	—	—	—	—	—	—	—	—	—	—	21	21
Unrealised firm commitment	—	—	—	—	—	—	—	—	—	—	—	45	45
Transfer from inventory	—	—	—	—	—	—	—	—	—	99	—	21	120
Transfer from capital work-in-progress to assets	12	1	754	496	89	226	38	1 869	945	2 147	65	(6 642)	—
	(46)	(195)	393	(490)	(407)	204	(1 284)	9 392	343	(1 352)	559	888	8 005
Closing carrying value	180	3 362	5 585	14 933	3 672	1 135	36 480	66 801	40 852	86 434	1 909	31 431	292 774
Made up as follows:													
Historical cost and revaluation	450	5 034	7 114	25 516	13 014	1 356	58 574	118 147	59 602	140 879	3 895	34 633	468 214
Accumulated depreciation and derecognition	(270)	(1 668)	(1 529)	(10 522)	(9 107)	(221)	(21 896)	(49 508)	(18 587)	(47 671)	(1 943)	—	(162 922)
Accumulated impairment	—	(4)	—	(61)	(235)	—	(198)	(1 838)	(163)	(6 774)	(43)	(3 202)	(12 518)
Closing carrying value at 31 March	180	3 362	5 585	14 933	3 672	1 135	36 480	66 801	40 852	86 434	1 909	31 431	292 774
PPE comprise owned and leased assets, as follows (at carrying value):													
- Property, plant and equipment owned	180	3 362	5 582	14 906	3 654	1 117	36 480	66 799	40 852	86 434	392	31 431	291 189
- Right-of-use assets	—	—	3	27	18	18	—	2	—	—	1 517	—	1 585
Closing carrying value at 31 March	180	3 362	5 585	14 933	3 672	1 135	36 480	66 801	40 852	86 434	1 909	31 431	292 774
Right-of-use assets													
Additions during the year	—	—	—	—	—	—	—	—	—	—	1 005	—	1 005
Depreciation expense during the year (included above)	—	—	—	(88)	(7)	(3)	—	—	—	—	(490)	—	(588)

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10. Investment property

Company Restated 2021 R million	Company 2022 R million		Group 2022 R million	Group Restated 2021 R million
17 143	**16 506**	Carrying value at the beginning of the year	**16 506**	17 143
130	**2 790**	Transferred from property, plant and equipment (refer note 9)	**2 790**	130
(770)	**9 814**	Fair value adjustment recognised in profit and loss (refer note 5)	**9 814**	(770)
3	**2**	Additions	**2**	3
—	**—**	Transferred to assets classified as held-for-sale (refer note 20)	**—**	—
16 506	**29 112**	Carrying value at the end of the year*	**29 112**	16 506
		Fair value hierarchy		
17 141	**29 861**	Level 3 – significant unobservable inputs	**29 861**	17 141

* *The carrying amount of investment property at the end of the year excludes the lease smoothing adjustments of R749 million (2021: R635 million) which would previously have been included in the fair value of investment property.*

The investment property portfolio consist of commercial properties (ie office and retail) and industrial properties across South Africa. The valuation of the Group's investment properties at 31 March 2022 was carried out by independent external valuers, and conforms to the Property Valuers Profession Act, No. 47 of 2000. The fair value was derived by capitalising the normalised net annual income at market derived capitalisation rates, which are adjusted where appropriate, to reflect the risk profile of each individual property. The capitalisation rate is calculated by dividing the net annual return from rental by the purchase price or market value of a property. The significant unobservable inputs applied are the capitalisation rates which range from 8,5% – 13,0% and the net rental/m^2 which ranges from R5,00 – R25,00/m^2 for normal land and R25,00 – R150,00/m^2 for specialised land at the ports, and from R25,00 – R50,00 for improvements depending on the area and location.

The fair value of investment property is sensitive to the capitalisation rates, which is a measure of the perceived risk associated with the stability of the income stream produced by the property. The higher the capitalisation rate, the higher the perceived risk and the lower the fair value; and conversely for a lower capitalisation rate. Factors that affect the capitalisation rates include the expected return on the property, the income growth rate, lease duration, property type, location and the replacement cost of the property, among others.

The gross lease income earned by the Group from its investment properties which are leased out under operating leases amounted to R2 986 million (2021: R2 763 million). Of this amount, nil related to variable lease payments that do not depend on an index or a rate. Direct operating expenses arising on the investment properties during the year amounted to R1 305 million (2021: R1 253 million). No material direct expenses (including repairs and maintenance) arising on investment property, that did not generate rental income during the year, were incurred.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the Company.

11. Intangible assets

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
889	**740**	**Intangible assets**	**740**	889
3 883	**3 913**	Cost	**3 913**	3 883
(2 994)	**(3 173)**	Accumulated amortisation and impairment	**(3 173)**	(2 994)
		Comprising:		
		Finite life intangible assets		
889	**740**	Software and licences: carrying value*	**740**	889
3 883	**3 913**	**Cost**	**3 913**	3 883
3 778	**3 883**	Balance at the beginning of the year	**3 883**	3 778
72	**5**	Additions	**5**	72
(46)	**(24)**	Disposals	**(24)**	(46)
79	**49**	Transfers from property, plant and equipment (refer note 9)	**49**	79
(2 994)	**(3 173)**	**Accumulated amortisation and impairment**	**(3 173)**	(2 994)
(2 817)	**(2 994)**	Balance at the beginning of the year	**(2 994)**	(2 817)
45	**24**	Disposals	**24**	45
(222)	**(205)**	Amortisation (refer note 3)	**(205)**	(222)
—	**5**	Reversal of impairment (refer note 4.2.2)	**5**	—
—	**(3)**	Transfers from property, plant and equipment (refer note 9)	**(3)**	—
889	**740**		**740**	889

* *Includes capital-work-in-progress of R162 million (2021: R168 million).*

12. Investments in subsidiaries (refer note 37)

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
—	**—**	Shares at carrying value		
—	**—**	Amounts owing by subsidiaries		
—	**—**			
—	**—**	Provision for impairment and losses		
—	**—**			

13. Investments in associates and joint ventures (refer note 37)

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
8	**8**		**93**	108
8	**8**	Balance at the beginning of the year	**108**	95
—	**—**	Share of (loss)/profit	**(6)**	13
—	**—**	Dividends received	**(9)**	—
8	**8**	Directors' valuation of unlisted investments in associates and joint ventures	**93**	108
—	**—**	(Loss)/income from associates and joint ventures	**(6)**	13

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Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 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 are measured at fair value with gains or losses taken to profit or loss or other comprehensive income – where cash flow hedge accounting is applied.		
		The methods used to measure financial assets and financial liabilities carried at fair value are disclosed in note 36, together with a description of the Group's financial instrument risks, and risk management objectives and policies.		
8 100	**7 281**	**Derivative financial assets**	**7 281**	8 100
14 080	**8 100**	Opening balance	**8 100**	14 080
(6 233)	**(1 171)**	Fair value adjustments	**(1 171)**	(6 233)
253	**352**	Derivatives settled and raised	**352**	253
2 427	**1 507**	**Derivative financial liabilities**	**1 507**	2 427
1 531	**2 427**	Opening balance	**2 427**	1 531
2 021	**265**	Fair value adjustments	**265**	2 021
(1 125)	**(1 185)**	Derivatives settled and raised	**(1 185)**	(1 125)
(8 254)	**(1 436)**	**Net fair value adjustments**	**(1 436)**	(8 254)
(542)	**288**	Derivative fair value adjustments (refer note 5)*	**288**	(542)
(1 709)	**(1 663)**	Finance costs	**(1 663)**	(1 709)
(6 003)	**(61)**	Recognised in other comprehensive income (refer note 22)	**(61)**	(6 003)
		Comprise the following financial instruments:		
8 080	**787**	**Non-current assets**	**787**	8 080
13	**—**	Forward exchange contracts	**—**	13
8 067	**787**	Cross-currency swaps and options	**787**	8 067
20	**6 494**	**Current assets**	**6 494**	20
20	**30**	Forward exchange contracts	**30**	20
—	**6 464**	Cross-currency swaps and options	**6 464**	—
2 363	**1 458**	**Non-current liabilities**	**1 458**	2 363
13	**2**	Forward exchange contracts	**2**	13
2 350	**1 456**	Interest rate swaps and options	**1 456**	2 350
64	**49**	**Current liabilities**	**49**	64
64	**49**	Forward exchange contracts	**49**	64
Ratio	**Ratio**	**Hedge accounting**	**Ratio**	Ratio
1:1	**1:1**	Hedge ratio The hedged items and hedging instruments are denominated in the same currencies and have the same nominal values, resulting in a hedge ratio of 1:1 on all hedges.	**1:1**	1:1

** Comprised of hedge ineffectiveness loss of R75 million (2021: R171 million loss) from cash flow hedges, fair value losses of R48 million (2021: R97 million loss) on forward exchange contracts to which fair value hedge accounting was applied, and fair value gains on economic hedges to which hedge accounting was not applied of R411 million (2021: R274 million loss).*

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 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 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 2022, 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- fair value adjustments.		
		The fair values of these forward exchange contracts held as hedging instruments at 31 March 2022 are as follows:		
(24)	**(19)**	Currency bought forward – United States Dollar loss	**(19)**	(24)
—	**(2)**	Currency bought forward – Euro loss	**(2)**	—
(20)	**—**	Currency bought forward – Australian Dollar loss	**—**	(20)
		The net fair value adjustment recognised in profit and loss on these fair value hedges during the year was nil (2021: nil). This net fair value adjustment comprised of a gain of R48 million (2021: R97 million gain) due to foreign exchange gains on the firm commitments, and losses of R48 million (2021: R97 million loss) on the forward exchange contracts.		
		The nominal values of these forward exchange contracts at 31 March 2022 are as follows:		
		Currency bought forward – Rand equivalent		
688	**652**	United States Dollar	**652**	688
—	**52**	Euro	**52**	—
3	**—**	Australian Dollar	**—**	3
million	**million**		**million**	million
		Currency bought forward – foreign currency		
41	**41**	United States Dollar	**41**	41
—	**3**	Euro	**3**	—
0,2	**—**	Australian Dollar	**—**	0,2

Cash flow hedges

Interest rate swaps

On 31 March 2022, the Group was party to interest rate swap contracts, which are designated as cash flow hedges of the interest rate risks associated with rand-denominated borrowings detailed in the table below:

Lender	Hedge counterparty	Nominal R million	Hedge interest rate payable	Hedge interest rate receivable	Maturity date
ABSA Bank Ltd	Nedbank	991	11,83 fixed	3 month JIBAR + 2,6%	02-Dec-2030
Bank of China – JHB Branch	Nedbank	1 250	11,83 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Nedbank Ltd	Nedbank	419	11,83 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Futuregrowth Asset Management (Pty) Ltd	Nedbank	419	11,83 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Old Mutual Life Assurance Co (SA) Ltd (R238 million) and Old Mutual Specialised Finance (Pty) Ltd (R181 million)	Nedbank	419	11,83 fixed	3 month JIBAR + 2,7%	02-Dec-2030
ABSA Bank Ltd	Nedbank	991	12,27 fixed	3 month JIBAR + 2,6%	02-Dec-2030
Bank of China – JHB Branch	Nedbank	1 250	12,27 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Nedbank Ltd	Nedbank	2 093	12,27 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Old Mutual Life Assurance Co (SA) Ltd (R402 million) and Old Mutual Specialised Finance (Pty) Ltd (R298 million)	Nedbank	700	12,27 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Futuregrowth Asset Management (Pty) Ltd	Nedbank	742	12,27 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Investec Bank Ltd	TSDBF Old Mutual*	4 195	12,07 fixed	3 month JIBAR + 2,0%	22-Feb-2028
Liberty Group Ltd	TSDBF Old Mutual*	1 021	11,15 fixed	3 month JIBAR + 1,75%	19-Jul-2032
Old Mutual Life Assurance Company of South Africa (OMLACSA) (R488 million) and Old Mutual Specialised Finance (Pty) Ltd (OMSFIN) (R349 million)	TSDBF Old Mutual*	837	11,15 fixed	3 month JIBAR + 2,05%	31-Mar-2033
Standard Bank Corporate Investment Bank	TSDBF Old Mutual*	500	11,15 fixed	3 month JIBAR + 1,65%	21-Aug-2024
Total exposure		**15 827**			

** These interest-rate swap contracts were entered into with Transnet Second Defined Benefit Fund and have a carrying value of R582 million (2021: R990 million). Refer to note 32.1.3.*

The terms of the interest rate swaps closely match those of the rand-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 R22 million gain (2021: R25 million loss). The amount recycled to profit and loss to offset the hedged risks was a R986 million loss (2021: R1 032 million loss), included in finance costs.

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14. Derivative financial assets and liabilities continued

Cash flow hedges continued

Cross-currency interest rate swaps

On 31 March 2022, the Group was party to cross-currency interest rate swap contracts which are designated as cash flow hedges of the foreign exchange and interest rate risks associated with foreign currency-denominated borrowings detailed in the table below:

Lender	Hedge counterparty	Nominal USD million	Hedge interest rate payable	Hedge interest rate receivable	Maturity date
TNUS 22 GMTN US Dollar bond					
Tranche 1	JPMorgan Chase Bank – JHB Branch	500	8,98% fixed (ZAR)	4% fixed (USD)	26-Jul-2022
Tranche 2	RMB/Division of FirstRand Bank Ltd	500	8,935% fixed (ZAR)	4% fixed (USD)	26-Jul-2022
China Development Bank (CDB)					
Loan 1	JPMorgan Chase Bank – JHB Branch	259	3-month JIBAR + 4,35%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 2	JPMorgan Chase Bank – JHB Branch	12	3-month JIBAR + 4,33%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 3	JPMorgan Chase Bank – JHB Branch	12	3-month JIBAR + 4,365%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 4	JPMorgan Chase Bank – JHB Branch	6	3-month JIBAR + 4,360%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 5	JPMorgan Chase Bank – JHB Branch	17	3-month JIBAR + 4,31%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 6	JPMorgan Chase Bank – JHB Branch	16	3-month JIBAR + 4,30%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 7	JPMorgan Chase Bank – JHB Branch	17	3-month JIBAR + 4,295%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 8	JPMorgan Chase Bank – JHB Branch	14	3-month JIBAR + 4,17%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 9	JPMorgan Chase Bank – JHB Branch	14	3-month JIBAR + 4,25%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 10	JPMorgan Chase Bank – JHB Branch	24	3-month JIBAR + 4,07%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 11	JPMorgan Chase Bank – JHB Branch	7	3-month JIBAR + 4,01%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 12	JPMorgan Chase Bank – JHB Branch	17	3-month JIBAR + 3,97%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 13	JPMorgan Chase Bank – JHB Branch	11	3-month JIBAR + 4,01%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 14	JPMorgan Chase Bank – JHB Branch	23	3-month JIBAR + 3,84%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 15	JPMorgan Chase Bank – JHB Branch	9	3-month JIBAR + 3,84%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 16	JPMorgan Chase Bank – JHB Branch	11	3-month JIBAR + 3,96%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 17	JPMorgan Chase Bank – JHB Branch	6	3-month JIBAR + 3,995%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 18	JPMorgan Chase Bank – JHB Branch	16	3-month JIBAR + 4,00%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 19	JPMorgan Chase Bank – JHB Branch	8	3-month JIBAR + 3,94%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 20	JPMorgan Chase Bank – JHB Branch	19	3-month JIBAR + 3,88%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 21	JPMorgan Chase Bank – JHB Branch	12	3-month JIBAR + 3,89%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 22	JPMorgan Chase Bank – JHB Branch	16	3-month JIBAR + 3,89%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 23	JPMorgan Chase Bank – JHB Branch	16	3-month JIBAR + 3,88%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 24	JPMorgan Chase Bank – JHB Branch	15	3-month JIBAR + 3,91%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 25	JPMorgan Chase Bank – JHB Branch	15	3-month JIBAR + 3,86%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 26	JPMorgan Chase Bank – JHB Branch	11	3-month JIBAR + 3,94%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 27	JPMorgan Chase Bank – JHB Branch	5	3-month JIBAR + 3,87%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 28	JPMorgan Chase Bank – JHB Branch	14	3-month JIBAR + 3,82%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 29	JPMorgan Chase Bank – JHB Branch	24	3-month JIBAR + 3,775%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 30	JPMorgan Chase Bank – JHB Branch	26	3-month JIBAR + 3,78%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 31	JPMorgan Chase Bank – JHB Branch	12	3-month JIBAR + 3,79%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 32	JPMorgan Chase Bank – JHB Branch	4	3-month JIBAR + 3,80%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 33	JPMorgan Chase Bank – JHB Branch	8	3-month JIBAR + 3,78%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 34	JPMorgan Chase Bank – JHB Branch	17	3-month JIBAR + 3,71%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 35	JPMorgan Chase Bank – JHB Branch	4	3-month JIBAR + 3,72%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 36	JPMorgan Chase Bank – JHB Branch	16	3-month JIBAR + 3,79%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 37	JPMorgan Chase Bank – JHB Branch	15	3-month JIBAR + 3,85%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 38	JPMorgan Chase Bank – JHB Branch	8	3-month JIBAR + 3,84%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 39	JPMorgan Chase Bank – JHB Branch	7	3-month JIBAR + 3,82%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 40	JPMorgan Chase Bank – JHB Branch	36	3-month JIBAR + 3,66%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 41	JPMorgan Chase Bank – JHB Branch	10	3-month JIBAR + 3,56%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Total exposure		**1 809**			

14. Derivative financial assets and liabilities continued

The terms of the cross-currency interest rate swaps closely match those of the foreign currency-denominated borrowings they hedge and were assessed as highly effective hedges. The amount of ineffectiveness recognised in profit and loss for the year with respect to these hedges was a R97 million loss (2021: R146 million loss). The main source of hedge ineffectiveness in the hedging relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the swaps, which is not reflected in the fair value of the hedged items attributable to changes in the hedged risks. No other sources of ineffectiveness emerged from these hedging relationships.

The amount recycled to profit and loss to offset the hedged risks was a R898 million loss (2021: R5 634 million gain), included in finance costs.

The cash flows are projected to occur:

- Semi-annually in July and January until July 2022 on both tranches of the TNUS22 bond hedge; and
- Quarterly until June 2030 on the CDB hedge.

Company			Group	
2021 R million	**2022 R million**		**2022 R million**	2021 R million
		The fair values of the cross-currency interest rate swaps at 31 March 2021 are as follows:		
1 301	**834**	CDB	**834**	1 301
6 766	**6 417**	TNUS22	**6 417**	6 766
		The nominal amounts of the cross-currency interest rate swaps at 31 March 2021 are as follows:		
28 185	**26 506**	South African Rand	**26 506**	28 185
1 909	**1 811**	United States Dollar	**1 811**	1 909
		Day-one loss		
900	**796**	Loss at the beginning of the year	**796**	900
(104)	**(104)**	Amortised to profit or loss	**(104)**	(104)
796	**692**	Loss at the end of the year	**692**	796
		The unamortised day-one loss is included within the long-term financial assets.		

15. Long-term loans and advances

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
—	**—**		**—**	—
—	**—**	Carrying value at the beginning of the year	**—**	—
—	**—**	Impairment (refer note 4.2.1)	**—**	—
		Comprising:		
—	**—**	**Other loans and advances***	**—**	—
477	**464**	Gross carrying value	**464**	477
(477)	**(464)**	Impairment	**(464)**	(477)

* *Other loans and advances are measured at amortised cost, comprised of a loan to South African Express Airways SOC Ltd of which the full balance of R260 million was provided for as irrecoverable in the 2021 financial year and FNB housing loans of which the full balance of R204 million (2021: R217 million) was provided for as irrecoverable.*

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Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		16. Other investments, long-term financial assets and other liabilities		
		16.1 Long-term investments and long-term financial assets		
1 349	**1 394**	Held at amortised cost[1]	**946**	968
195	**220**	Held at FVTPL[2]	**220**	195
1 544	**1 614**		**1 166**	1 163
		16.2 Short-term investments		
248	**61**	Short-term portion of other financial assets including resale agreements	**61**	248
248	**61**		**61**	248
		16.3 Other non-current liabilities		
3 424	**3 371**	Security of supply petroleum levy	**3 371**	3 424
248	**358**	Other[3]	**358**	248
3 672	**3 729**		**3 729**	3 672

[1] *The directors estimate that the carrying amount of financial assets held at amortised cost approximate their fair value. Includes unamortised day-one loss and lease smoothing assets.*
[2] *Freight Dynamics Guardrisk insurance cell captive held for insurance purposes for Freight Rail customers.*
[3] *Other financial liabilities relate mainly to warranty provisions for the locomotive build programmes.*

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		17. Inventory		
		At weighted average cost		
2 980	**3 334**	Maintenance material	**3 334**	2 980
555	**677**	Consumables	**677**	555
118	**29**	Work-in-progress[1]	**29**	118
(319)	**(425)**	Provision for stock obsolescence[2]	**(425)**	(319)
3 334	**3 615**		**3 615**	3 334

[1] *Included in work in progress are costs for contract assets (refer note 27).*
[2] *The increase in the provision for stock obsolescence is due to slow moving items assessed at the end of the current financial year. No items of inventory have been pledged as security at 31 March 2022 (2021: nil).*

The cost of inventory used during the period of R803 million (2021: R425 million) and the increase in the provision for obsolescence of R106 million (2021: R11 million) are recognised in operating expenses (refer note 2 – material costs).

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		18. Trade and other receivables		
7 048	**6 092**	Trade receivables – net of allowances for credit losses	**6 092**	7 048
10 681	**10 626**	Trade receivables[1]	**10 626**	10 681
(3 633)	**(4 534)**	*Less:* Allowance for expected credit losses	**(4 534)**	(3 633)
1 800	**1 710**	Prepayments and other amounts receivable – net of allowances for credit losses[2]	**1 724**	1 800
2 269	**2 256**	Prepayments and other amounts receivable	**2 270**	2 269
(469)	**(546)**	*Less:* Allowance for expected credit losses	**(546)**	(469)
2	**—**	Short-term portion of loans and advances	**—**	2
8 850	**7 802**		**7 816**	8 850
		Total allowance for expected credit losses		
(3 215)	**(4 102)**	Opening balance	**(4 102)**	(3 215)
(1 566)	**(1 903)**	Raised	**(1 903)**	(1 566)
679	**925**	Utilised	**925**	679
(4 102)	**(5 080)**	Closing balance	**(5 080)**	(4 102)
(3 633)	**(4 534)**	Allowance for expected credit losses on trade receivables from contracts with customers	**(4 534)**	(3 633)
(469)	**(546)**	Allowance for expected credit losses on other receivables	**(546)**	(469)
(4 102)	**(5 080)**	Total allowance for expected credit losses	**(5 080)**	(4 102)

[1] *Trade receivables include an amount of R3,8 billion (2021: nil) relating to receivables which were discounted under a full recourse arrangement with a financial institution and did not meet the derecognition criteria in IFRS 9. The corresponding liability was included in trade payables, accruals and contract liabilities (note 28).*
[2] *Other amounts receivable consist mainly of receivables relating to other income and straight-lining of lease debtors.*

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		19. Cash and cash equivalents		
769	**3 467**	Bank balances*	**3 925**	1 167
1	**11**	Cash	**11**	1
770	**3 478**		**3 936**	1 168

* *Included in bank balances are restricted TPL Rehabilitation Trust accounts amounting to R457 million (2021: R398 million).*

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20. Assets classified as held-for-sale

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		Non-current assets classified as held-for-sale		
229	**257**	Property, plant and equipment[1]	**257**	229
216	**229**	Net carrying value at the beginning of the year	**229**	216
(3)	**(37)**	Disposals	**(37)**	(3)
16	**65**	Transferred from property, plant and equipment (refer note 9)	**65**	16
9	**9**	Investment property[2]	**9**	9
9	**9**	Fair value at the beginning of the year	**9**	9
38	**41**	Other investments[3]	**41**	38
49	**38**	Balance at the beginning of the year	**38**	49
(11)	**3**	Fair value movement during the year	**3**	(11)
276	**307**	Total assets transferred to non-current assets classified as held-for-sale	**307**	276

[1] Property, plant and equipment classified as held-for-sale mainly relate to rolling stock and containers that are damaged, obsolete or no longer in use. These assets will be disposed of through the Transnet procurement policy via the reverse logistics process and auctioneers and is expected to be disposed of by 31 March 2023.

[2] Transnet is currently disposing of property that is classified as non-core, and hence is no longer required for mainline business, and is expected to be disposed of by 31 March 2023. The fair value measurements are categorised as level 3.

[3] Equity investment in Rumo Logistica Operadora Multi-model S.A. (Rumo), a Brazilian registered Company, and is expected to be disposed of by 31 March 2023 after the related administrative processes are resolved. The investment, previously accounted for as available-for-sale, was designated as at FVTOCI on initial application of IFRS 9. The fair value measurement is categorised as level 1 – refer note 36 for more detail.

21. Issued capital

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		Authorised		
30 000	**30 000**	30 000 000 000 ordinary par value shares of R1 each	**30 000**	30 000
		Issued		
12 661	**12 661**	12 660 986 310 ordinary par value shares of R1 each	**12 661**	12 661

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

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 (2022: actual 45,5%).

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

22. Reserves

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
50 753	**61 384**	**Revaluation reserve[1]**	**61 384**	50 753
7 048	**7 804**	**Revaluation of pipeline networks**	**7 804**	7 048
7 599	**7 048**	Balance at the beginning of the year	**7 048**	7 599
(257)	**905**	Revaluation/(devaluation) during the year	**905**	(257)
—	**—**	Transfer to retained earnings	**—**	—
(294)	**(149)**	Decommissioning restoration liability adjustment	**(149)**	(294)
56 403	**60 457**	**Revaluation of port facilities**	**60 457**	56 403
45 958	**56 403**	Balance at the beginning of the year	**56 403**	45 958
10 472	**4 092**	Revaluation during the year	**4 092**	10 472
(27)	**(179)**	Transfer to retained earnings	**(179)**	(27)
—	**141**	Decommissioning restoration liability adjustment	**141**	—
4 734	**11 371**	**Revaluation of rail infrastructure**	**11 371**	4 734
6 057	**4 734**	Balance at the beginning of the year	**4 734**	6 057
(1 318)	**6 643**	Revaluation/(devaluation) during the year	**6 643**	(1 318)
(5)	**(6)**	Transfer to retained earnings	**(6)**	(5)
2 378	**4 378**	**Revaluation of land, buildings and structures**	**4 378**	2 378
2 363	**2 378**	Balance at the beginning of the year	**2 378**	2 363
15	**2 000**	Fair value movement during the year	**2 000**	15
(19 810)	**(22 626)**	**Deferred tax impact of items relating to revaluation reserves**	**(22 626)**	(19 810)
21	**24**	**Revaluation to fair value[2]**	**24**	19
28	**31**	**Equity investment (Rumo Ltd) – revaluation to market value**	**31**	28
39	**28**	Balance at the beginning of the year	**28**	39
(11)	**3**	Fair value movement during the year	**3**	(11)
—	**—**	**Debt investment – revaluation to market value**	**—**	(5)
—	**—**	Balance at the beginning of the year	**(5)**	(39)
—	**—**	Fair value movement during the year	**5**	12
—	**—**	Reclassification to profit or loss (refer note 5)	**—**	22
(7)	**(7)**	**Deferred taxation impact of items relating to revaluation reserves**	**(7)**	(4)
2 490	**2 590**	**Actuarial gains on post-retirement benefit obligations[3]**	**2 590**	2 490
3 465	**3 548**	**Gross actuarial gains on post-retirement benefit obligations**	**3 548**	3 465
3 515	**3 465**	Balance at the beginning of the year	**3 465**	3 515
(50)	**83**	Gains/(loss) arising during the year	**83**	(50)
(975)	**(958)**	**Deferred tax impact of net actuarial gains**	**(958)**	(975)

[1] The revaluation reserve relates to the revaluation of property, plant and equipment in accordance with IAS 16.

[2] Revaluation to fair value comprises the cumulative net change in the fair value of equity securities designated at FVOCI and the cumulative net change in fair value of debt securities at FVOCI until the related assets are derecognised or reclassified. This amount is reduced by the amount of estimated credit loss allowance.

[3] The actuarial gains or losses on post-retirement benefit obligations comprises re-measurements of the net defined benefit liability/(asset) which are recognised in other comprehensive income in accordance with IAS 19 Employee Benefits; including actuarial gains or losses, return on plan assets and any changes in the effect of the asset ceiling.

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Company Restated 2021 R million	Company 2022 R million		Group 2022 R million	Group Restated 2021 R million
		22. Reserves continued		
(571)	**(583)**	**Cash flow hedging reserve**[1]	**(583)**	(571)
(816)	**(821)**	**Gross cash flow hedging reserve**	**(821)**	(816)
(719)	**(816)**	Balance at the beginning of the year	**(816)**	(719)
(6 003)	**(61)**	Losses arising during the year	**(61)**	(6 003)
5 906	**56**	Transfer to foreign exchange differences	**56**	5 906
245	**238**	Deferred taxation impact of items relating to cash flow hedging reserve	**238**	245
250	**250**	**Other reserves**[2]	**249**	249
250	**250**	Share of pension fund surplus	**249**	249
62 084	**67 324**	**Retained earnings**	**67 453**	62 220
70 775	**62 084**	Balance at the beginning of the year	**62 220**	70 922
32	**185**	Transfers into retained earnings	**185**	32
(8 723)	**5 055**	Profit/(loss) for the year attributable to the equity holder	**5 048**	(8 734)
115 027	**130 989**		**131 117**	115 160

[1] The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the amounts in profit or loss or direct inclusion in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

[2] Share of pension fund surplus retained for application against pensioner related claims.

Company Restated 2021 R million	Company 2022 R million		Group 2022 R million	Group Restated 2021 R million
		23. Employee benefits		
878	**776**	**Post-retirement benefit obligations**	**776**	878
855	**878**	Balance at the beginning of the year	**878**	855
116	**101**	Income statement charge	**101**	116
(143)	**(120)**	Settlements during the year	**(120)**	(143)
50	**(83)**	Actuarial gains	**(83)**	50
		Comprising:		
—	**—**	Transport Pension Fund: Transnet Sub-fund (refer note 32.1.2)	**—**	—
—	**—**	Transnet Second Defined Benefit Fund (refer note 32.1.3)	**—**	—
54	**53**	Transnet Top Management Pension (refer note 32.1.4)	**53**	54
368	**355**	Transnet Workmen's Compensation Act pensioners (refer note 32.1.5)	**355**	368
235	**193**	Transnet SATS Pensioners' post-retirement medical benefits (refer note 32.2.1)	**193**	235
221	**175**	Transnet employees post-retirement medical benefits (refer note 32.2.2)	**175**	221
878	**776**		**776**	878

23. Employee benefits continued

Various assumptions have been applied by management and actuaries in the calculation of post-retirement benefit obligations.
The assumptions and their sensitivities are disclosed in note 32.

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
—	**—**	**Other post-retirement and medical benefits**	**—**	—
120	**65**	Balance at the beginning of the year	**65**	120
86	**89**	Income statement movement	**89**	86
(141)	**(74)**	Utilised during the year	**(74)**	(141)
65	**80**		**80**	65
(65)	**(80)**	*Less:* Short-term portion classified as current liabilities	**(80)**	(65)
—	**—**	**Leave pay**	**—**	—
2 293	**2 621**	Balance at the beginning of the year	**2 621**	2 293
1 904	**431**	Accruals recognised during the year	**431**	1 904
(1 576)	**(633)**	Utilised during the year	**(633)**	(1 576)
2 621	**2 419**		**2 419**	2 621
(2 621)	**(2 419)**	*Less:* Short-term portion classified as current liabilities	**(2 419)**	(2 621)
—	**—**	**Incentive bonuses**	**—**	—
563	**109**	Balance at the beginning of the year	**109**	563
5	**297**	Accruals recognised during the year	**297**	5
(343)	**(271)**	Utilised during the year	**(271)**	(343)
(116)	**(108)**	Reversal during the year	**(108)**	(116)
109	**27**		**27**	109
(109)	**(27)**	*Less:* Short-term portion classified as current liabilities	**(27)**	(109)
878	**776**	**Total employee benefits**	**776**	878

Other post-retirement and medical benefits
Relates to payments made for SATS pensioners medical expenses.

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

Incentive bonuses
Accrual for incentive bonuses in terms of the incentive bonus scheme and ex-gratia incentives.

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24. Long-term borrowings (refer note 36)

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
77 626	**92 301**		**92 301**	77 626
115 821	**77 626**	Total long-term borrowings at the beginning of the year	**77 626**	115 821
13 396	**9 959**	Recognised in the reporting period	**9 959**	13 396
(5 627)	**(125)**	Foreign exchange differences	**(125)**	(5 627)
58	**56**	Amortisation of discount	**56**	58
(46 022)	**4 785**	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings* (refer note 29)	**4 785**	(46 022)
		Made up as follows:		
		Unsecured liabilities		
58 224	**77 534**	**Rand-denominated**	**77 534**	58 224
39 665	**44 504**	Bonds at nominal value	**44 504**	39 665
(878)	**(894)**	Unamortised discounts	**(894)**	(878)
38 787	**43 610**	Bonds at carrying value[1]	**43 610**	38 787
19 437	**33 924**	Other unsecured liabilities[2]	**33 924**	19 437
14 735	**—**	**Foreign currency-denominated[3]**	**—**	14 735
14 762	**—**	Bonds at nominal value	**—**	14 762
(27)	**—**	Unamortised discounts	**—**	(27)
14 735	**—**	Bonds at carrying value	**—**	14 735
4 667	**14 767**	**Secured loans[4] and lease liabilities[5]**	**14 767**	4 667
4 667	**4 477**	Rand-denominated**	**4 477**	4 667
—	**10 290**	Foreign currency-denominated[6]	**10 290**	—
77 626	**92 301**	**Total long-term borrowings**	**92 301**	77 626

* *Includes the impact of loan covenant breaches relating to the Moody's downgrade during the prior financial year and the cash interest cover breach as at the 31 March 2021, which resulted in affected loans of R30,7 billion in long-term borrowings being reclassified to short-term borrowings in the prior reporting period. Transnet successfully secured waivers from all the lenders affected by the covenant breaches as reported in the prior financial year.*

** *Includes lease liabilities of R 1 575 million (2021: R1 198 million).*

1 *Rand denominated domestic bonds bear interest between 5,230% and 11,35% and are repayable over periods between the 2024 and 2041 financial years. Rand denominated Eurorand bonds bear interest between 10,0% and 13,5% and are repayable in 2028 and 2029 (refer note 36).*

2 *Rand denominated unsecured domestic loans are repayable over periods between 5 October 2023 and 1 February 2036, and bears interest at rates ranging between 5,349% and 11,8%.*

3 *Foreign currency bonds in the prior year are denominated in United States Dollar, is redeemable on 26 July 2022, and bears interest at a rate of 4,0%.*

4 *Rand denominated secured loans are repayable over periods between 15 September 2023 and 17 September 2029 and bear interest at rates ranging between 7,95% and 10,37%.*

5 *Rand denominated lease liabilities bear interest at rates ranging between 4,46% and 12,99% with all rates fixed. These liabilities are repayable over periods between 2024 and 2030 financial years.*

6 *Foreign currency secured loans are denominated in United States Dollar, bear interest at 3,37286% and are repayable on 12 June 2030.*

25. Provisions

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
9 597	**10 007**	**Comprising:**	**10 007**	9 597
3 654	**9 597**	Long-term provisions at the beginning of the year	**9 597**	3 654
9 147	**3 670**	Provisions recognised during the year and unwinding of discounts	**3 670**	9 147
(3 420)	**(3 052)**	Provisions utilised	**(3 052)**	(3 420)
216	**(208)**	Increase/(decrease) in short-term provisions classified as current liabilities	**(208)**	216
4 358	**4 803**	**Third-party claims**	**4 803**	4 358
402	**4 358**	Balance at the beginning of the year	**4 358**	402
5 127	**1 603**	Provisions recognised during the year	**1 603**	5 127
(1 171)	**(1 158)**	Utilised during the year	**(1 158)**	(1 171)
85	**93**	**Customer claims**	**93**	85
172	**85**	Balance at the beginning of the year	**85**	172
—	**446**	Provisions recognised during the year	**446**	—
(87)	**(438)**	Utilised during the year	**(438)**	(87)
2 184	**2 311**	**Decommissioning liabilities**	**2 311**	2 184
1 479	**2 184**	Balance at the beginning of the year	**2 184**	1 479
603	**28**	Provisions recognised during the year	**28**	603
141	**198**	Unwinding of discounts	**198**	141
(39)	**(99)**	Utilised during the year	**(99)**	(39)
3 706	**3 784**	**Environmental liabilities**	**3 784**	3 706
2 520	**3 706**	Balance at the beginning of the year	**3 706**	2 520
1 775	**1 251**	Provisions recognised during the year	**1 251**	1 775
17	**77**	Unwinding of discounts	**77**	17
(606)	**(1 250)**	Utilised during the year	**(1 250)**	(606)
24	**—**	**Restructuring**	**—**	24
24	**24**	Balance at the beginning of the year	**24**	24
—	**(24)**	Utilised during the year	**(24)**	—
31	**15**	**Other***	**15**	31
64	**31**	Balance at the beginning of the year	**31**	64
1 484	**67**	Provisions recognised during the year	**67**	1 484
(1 517)	**(83)**	Utilised during the year	**(83)**	(1 517)
10 388	**11 006**	**Total provisions**	**11 006**	10 388
791	**999**	*Less:* Short-term provisions classified as current liabilities	**999**	791
295	**301**	Third-party claims	**301**	295
85	**93**	Customer claims	**93**	85
381	**591**	Environmental liabilities	**591**	381
30	**14**	Other*	**14**	30
9 597	**10 007**	Long-term provisions	**10 007**	9 597

* *Other provisions include uniform and clothing, repairs and maintenance and cleaning related provisions.*

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25. Provisions continued

Third-party claims
The provision represents the best estimate of amounts required to settle known third-party legal claims, excluding customer claims. These claims are expected to be paid within one to five years of the reporting date.

Customer claims
Provision for claims made by customers arising from non-performance on contracts or damage to goods in transit. These claims are expected to be paid within 12 months of the reporting date.

Decommissioning and environmental liabilities
The decommissioning provision arises for the Group's obligation for the dismantling and removal of an asset and to restore the site on which the asset is located. The provision for environmental rehabilitation is based on the estimated rehabilitation costs for quarries and historical contamination of land caused by asbestos, ferromanganese, manganese, mixed soil (including chrome, sulphur and manganese), fuel, rubble and ballast. The provisions are determined based on risk assessments on identified areas of contamination and are expected to be settled within 1 – 68 years. The provisions were computed by discounting the future cash flows required to settle the obligation at discount rates between 5,0% and 12,2%.

Restructuring
Provision for restructuring costs in terms of strategic plans. This provision has been utilised at the reporting date.

Company			Group	
Restated 2021 R million	**2022 R million**		**2022 R million**	Restated 2021 R million
		26. Deferred tax liability		
41 459	**44 700**	Comprising:	**44 680**	41 440
41 617	**41 459**	Opening balance	**41 440**	41 572
(2 556)	**435**	Income statement charge (refer note 8)	**431**	(2 544)
2 398	**2 806**	Raised in other comprehensive income (refer note 8.1)	**2 809**	2 412
		Analysis of major categories of temporary differences		
20 388	**21 641**	**Deferred tax assets**	**21 661**	20 407
2 957	**3 028**	Provisions	**3 028**	2 957
1 264	**1 086**	Employee benefit obligations	**1 086**	1 264
1 525	**1 315**	Revenue received in advance and deferred income	**1 315**	1 525
469	**561**	Capitalised lease liability	**561**	469
1 008	**1 149**	Doubtful debts	**1 149**	1 008
222	**125**	Cross-currency swaps	**125**	222
12 838	**14 223**	Estimated tax loss	**14 223**	12 838
105	**154**	Other	**174**	124
61 847	**66 341**	**Deferred tax liabilities**	**66 341**	61 847
180	**208**	Deferred expenditure	**208**	180
61 473	**65 931**	Property, plant and equipment	**65 931**	61 473
194	**202**	Future expenditure allowance	**202**	194
41 459	**44 700**	Net deferred tax liability	**44 680**	41 440

The deferred tax liability increased from the prior year. The increase was mainly as a result of the deferred tax impact on the revaluation of property, plant and equipment which has been recorded directly in equity. This was partially offset by the impact of the reduction of the corporate tax rate from 28% to 27% which was substantively enacted in the Minister of Finance's 2021/22 Budget Speech, resulting in a decrease in the provision of deferred tax for reserves in equity (revaluation of property, plant and equipment, equity investment, post-retirement benefit obligations and cash flow hedges).

Company			Group	
2021 R million	**2022 R million**		**2022 R million**	2021 R million
		27. Contract assets and contract liabilities		
		Contract assets		
		Contracts in progress at the statement of financial position date:		
94	**37**	Engineering	**37**	94
540	**614**	Ports	**614**	540
634	**651**		**651**	634
—	**—**	*Less* allowance for expected credit losses	**—**	—
634	**651**		**651**	634
		Contract assets relate to the Group's rights to consideration in respect of: Engineering – revenue accrued in respect of work completed on engineering contracts but not yet billed at year-end, including retention debtors. Ports – revenue accrued in respect of work on cargo and vessels at the ports but not yet invoiced at year-end. Contract assets are reclassified to trade receivables when the rights become unconditional and the customer is invoiced.		
1 817	**1 259**	**Contract liabilities**	**1 259**	1 817
		Contract liabilities primarily relate to: (i) consideration received in advance from customers, including cash customers, which is recognised as revenue in future periods upon satisfaction of the related performance obligations, and (ii) accrual for shortfalls in crude oil delivered to customers in the last few days before year-end, compared to intake volumes. Contract liabilities are generally recognised in revenue within 12 months after the reporting date.		
		28. Trade payables and accruals		
2 892	**2 789**	**Trade payables**	**2 789**	2 894
13 571	**17 153**	**Accruals**	**17 156**	13 571
6 719	**11 262**	Accrued expenditure	**11 265**	6 719
198	**174**	Deposits received	**174**	198
2 086	**1 981**	Accrued interest	**1 981**	2 086
1 053	**653**	Personnel costs	**653**	1 053
65	**80**	Other post-retirement and medical benefits (refer note 23)	**80**	65
2 621	**2 419**	Leave pay (refer note 23)	**2 419**	2 621
109	**27**	Incentive bonus (refer note 23)	**27**	109
18	**15**	SARS – withholding tax	**15**	18
702	**542**	SARS – value-added tax	**542**	702
16 463	**19 942**		**19 945**	16 465

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Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		29. Short-term borrowings		
17 577	**51 515**	Total short-term borrowings at the beginning of the year	**51 515**	17 577
6 159	**9 964**	Recognised in the reporting period	**9 964**	6 159
(17 932)	**(20 062)**	Repayments in the reporting period	**(20 062)**	(17 932)
(299)	**(101)**	Foreign exchange movement	**(101)**	(299)
(12)	**6**	Amortisation of discount	**6**	(12)
46 022	**(4 785)**	Current portion of long-term interest-bearing borrowings[1] (refer note 24)	**(4 785)**	46 022
51 515	**36 537**		**36 537**	51 515

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

Short-term borrowings includes lease liabilities of R503 million (2021: R477 million) and foreign currency bonds denominated in United States Dollar of R14 628 million, is redeemable on 26 July 2022, and bears interest at a rate of 4,0%.

The short-term borrowings bear interest at rates between 9,94% and 11,8%, is repayable between April 2022 and March 2023 and are not guaranteed.

[1] *Includes the impact of loan covenant breaches relating to the Moody's downgrade during the prior financial year and the cash interest cover breach as at the 31 March 2021, which resulted in affected loans of R30,7 billion in long-term borrowings being reclassified to short-term borrowings in the prior reporting period. Transnet successfully secured waivers from all the lenders affected by the covenant breaches as reported in the prior financial year.*

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		30. Commitments		
		30.1 Capital commitments*		
89	**44**	Contracted for in US Dollars	**44**	89
122	**29**	Contracted for in Euros	**29**	122
8 630	**2 525**	Contracted for in SA Rands	**2 525**	8 630
8 841	**2 598**	Total capital commitments contracted for	**2 598**	8 841
8 841	**2 597**	Property, plant and equipment	**2 597**	8 841
—	**1**	Intangible assets	**1**	—
		Total capital commitments contracted for are expected to be incurred as follows:		
4 367	**1 935**	Within one year	**1 935**	4 367
4 474	**663**	After one year, but not more than five years	**663**	4 474
8 841	**2 598**	Total capital commitments contracted for	**2 598**	8 841

* *Capital commitments contracted for are commitments under binding contracts with third parties for the acquisition of property, plant and equipment and intangible asssets.*

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		30.2 Lease commitments		
		The Group as lessee		
		Maturity analysis of lease liabilities		
637	**673**	Less than one year	**673**	637
1 514	**1 804**	One to five years	**1 804**	1 514
88	**45**	More than five years	**45**	88
2 239	**2 522**	Total undiscounted lease liabilities	**2 522**	2 239
(564)	**(444)**	*Less:* Amount representing finance charges	**(444)**	(564)
1 675	**2 078**	Lease liabilities	**2 078**	1 675
477	**503**	Short-term lease liabilities	**503**	477
1 198	**1 575**	Long-term lease liabilities	**1 575**	1 198

Total cash payments made by the Group for leases during the financial year amounted to R599 million (2021: R659 million), including repayment of capital on lease liabilities, interest payments, variable lease payments not included in the measurement of the lease liability, as well as payments made under short-term leases and leases of low-value assets.

The Group leases land and buildings for its office space. The leases of land and buildings typically run for periods of one to ten years.

The Group leases motor vehicles and equipment, with average lease terms of one to five years. In some cases the Group has options to purchase the assets at the end of the lease term, or guarantees the residual value of leased assets at the end of the lease term. As at 31 March 2022, the Group did not expect any material payments under these options and guarantees which are not already included in the lease liability.

The Group also leases IT equipment with average contract terms of three years. The majority of these leases have been classified as leases of low-value assets. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

30. Commitments continued

30.2 Lease commitments continued

Variable lease payments

The motor vehicle leases include variable lease payments that do not depend on an index or a rate, and are excluded from the measurement of the lease liability (e.g. excess kilometres travelled, tyres, e-toll fees, traffic fines, etc). The amount of variable lease payments made during the year is disclosed in note 4.1. The Group does not expect future variable lease payments to differ significantly from the amount recognised during the financial year.

The Group as lessor

Lease income receivable

The Group leases out its investment properties, namely land and buildings, under short-term leases with an annual escalation varying from 7,0% to 14,0%. The Group has classified these leases as operating leases, as they do not transfer substantially all of the risks and rewards incidental to ownership of the leased assets.

Future minimum rentals under operating leases are as follows:

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		Property		
2 143	**1 703**	Less than one year	**1 703**	2 143
2 326	**1 737**	More than one year but less than two years	**1 737**	2 326
2 358	**1 164**	More than two years but less than three years	**1 164**	2 358
2 433	**1 004**	More than three years but less than four years	**1 004**	2 433
2 353	**798**	More than four years but less than five years	**798**	2 353
15 455	**4 782**	More than five years	**4 782**	15 455
27 068	**11 188**		**11 188**	27 068

The Group manages the risks associated with the rights it retains in the underlying leased assets. Lessees are prohibited from selling or pledging the underlying assets as security. The Group generally imposes a restriction that, unless there is a contractual right for the lessee to sublet the asset to another party, the leased asset can only be used by the lessee. Leases are either non-cancellable or may only be cancelled by mutual agreement which will normally require payment of a cancellation fee.

Lessees are required to keep leased properties in a good state of repair and return the properties in their original condition at the end of the lease, subject to normal wear and tear. The Group also requires upfront deposits from tenants, depending on their credit assessment, to help mitigate any credit risk associated with the lease.

The Group as lessor is responsible for structural repairs to leased property.

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		31. Contingent liabilities, assets and guarantees		
		Various contingent liabilities[1] where no material losses are expected to materialise:		
	5 728	Third-party claims	**5 728**	
		Various contingent assets[2] where the inflow of economic benefits is probable, but not virtually certain:		
	2 819	Insurance claims	**2 819**	
	122	Legal claims against third-parties	**122**	
	2 941		**2 941**	

[1] *Includes a claim in which the owners and underwriters of a plaintiff issued summons against Transnet for loss of a vessel and damages arising from alleged breaches of legal and statutory duties imposed upon Transnet, as well as alleged breaches of legal duties owed by Transnet to the plaintiff in the circumstances. The summons relates to the loss of the vessel and cargo. Transnet continues to defend all claims.*

[2] *Contingent assets relate mainly to various legal claims by the Group against third parties with majority of the contingent assets relating to insurance cover.*

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32. Post-retirement benefit obligations

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

32.1 Pension benefits

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

32.1.1 Transnet Retirement Fund

The fund is structured as a defined contribution fund and all employees of the Group are eligible members of the fund. There were 50 951 members at 31 March 2022 (2021: 50 884). Actuarial valuations are performed regularly to determine the financial position of the fund. The last actuarial valuation was performed as at 31 March 2021 and the actuaries were satisfied with the status of the member's credit account as at that date. The total contributions for the year constitute member contributions of R1 413 million (2021: R1 523 million) and employer contributions of R2 223 million (2021: R2 392 million).

32.1.2 Transport Pension Fund: Transnet Sub-fund

The fund is a defined benefit pension fund which has been closed to new members since 1 December 2000. Benefits are based on the final salary with a guarantee by the employer. Members are current employees of Transnet who elected to remain as members of the fund at 1 November 2000 and pensioner members who retired subsequent to that date. The pension obligation is fully funded and the plan is currently in a net asset (surplus) position. The Board of Trustees is responsible for the management of the fund, the investment strategy and administration of benefits.

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 dependent pensioners assigned to its Sub-fund.

There were 3 997 members and pensioners at 31 March 2022 (2021: 4 138). The fund gives members the option to transfer to the Transnet Retirement Fund twice a year. Altogether, no members opted to transfer to the Transnet Retirement Fund in the current year (2021: nil). The effect of the transfers is included under benefits paid in the reconciliations below.

The duration of the defined benefit obligation is estimated, based on the current membership profile, to be 6 years.

	Company and Group 2022 R million	Company and Group 2021 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 2022 based on the projected unit credit method. The principal actuarial assumptions used are as follows:		
Discount rate (%)	**10,13**	10,53
Inflation rate (%)	**6,78**	7,31
Salary increase rate (%)	**7,78**	8,31
Pension increase rate (%)	**4,75**	5,12
The results of the actuarial valuation are as follows:		
Benefit liability		
Present value of obligation	**(2 922)**	(2 998)
Fair value of plan assets	**4 303**	4 184
Surplus	**1 381**	1 186
Unrecognised asset	**(1 381)**	(1 186)
Net asset/(liability) recognised in the statement of financial position	**—**	—
The liability recognised for this fund relating to the Company amounts to nil (2021: 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	**(11)**	(18)
Net interest income	**125**	56
	114	38
Less: Interest on asset limit	**(125)**	(56)
	(11)	(18)
Actual return on plan assets	**465**	1 166
Total measurements recognised in other comprehensive income for the year	**8**	14
– net actuarial gain/(loss)	**78**	665
– interest on asset limit	**125**	56
– asset not recognised	**(195)**	(707)
Movements in the net asset/(liability) recognised in the statement of financial position		
Opening net asset	**1 186**	479
Net expense as above	**(11)**	(18)
Remeasurements – actuarial gain/(loss)	**78**	665
– interest on asset limit	**125**	56
Contributions paid by employer	**3**	4
Closing net asset	**1 381**	1 186
Asset not recognised	**(1 381)**	(1 186)
Net asset/(liability) recognised in the statement of financial position	**—**	—

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32. Post-retirement benefit obligations continued

32.1.2 Transport Pension Fund: Transnet Sub-fund continued

	Company and Group 2022 R million	2021 R million
Reconciliation of movement in benefit liability		
Opening benefit liability	**(2 998)**	(2 850)
Service cost	**(11)**	(18)
Contributions by members	**(2)**	(3)
Interest cost	**(299)**	(317)
Actuarial gain/(loss)	**36**	(127)
– change in economic assumptions	**(10)**	(191)
– experience adjustments	**46**	64
Benefits paid	**315**	276
Bonus award paid to pensioners	**37**	41
	(2 922)	(2 998)
Transfer to the retirement fund	**—**	—
Closing benefit liability	**(2 922)**	(2 998)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	**4 184**	3 329
Interest income	**424**	373
Actuarial gain/(loss)	**42**	792
Contributions by employer and members	**5**	7
Benefits paid	**(352)**	(317)
	4 303	4 184
Transfer to the retirement fund	**—**	—
Closing fair value of plan assets	**4 303**	4 184

The estimated contributions (based on current year contributions) by both employer and members for the year beginning 1 April 2022 amount to R5 million (2021: R7 million). The employers contributions are included in the budget for operating expenses.

Sensitivity analysis

	2022 R million	2021 R million
Closing benefit liability based on changes in the discount rate:		
9,13% (2021: 9,53%)	**(3 114)**	(3 198)
11,13% (2021: 11,53%)	**(2 750)**	(2 819)
Closing benefit liability based on changes in the inflation rate:		
5,78% (2021: 6,31%)	**(2 806)**	(2 968)
7,78% (2021: 8,31%)	**(3 046)**	(3 027)

One hundred percent (100%) of the expected liability cash flows (allowing for expected pension increases of 70% of CPI) are matched through the use of liquidity driven investment mandates with three different investment managers and residual swap arrangements with ABSA and Standard Bank.

The major categories of plan assets as a % of total plan assets are:

	2022	2021
Listed		
Domestic equities (%)	**9,6**	21,4
International equities (%)	**10,3**	25,5
Domestic bonds (%)	**70,9**	39,1
Commodities (%)	**—**	4,6
	90,8	90,6
Non-listed		
Domestic private equity (%)	**0,5**	0,5
Property (local) (%)	**2,2**	4,7
Derivatives (local) (%)	**3,4**	—
Cash and cash equivalents (%)	**3,1**	4,2
	9,2	9,4
Total (%)	**100,0**	100,0

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. The pension fund is a final salary defined benefit plan with a guarantee by the employer, including a spouses' death benefit of 70% of final pension. The pension obligation is fully funded, and the plan is currently in a net asset (surplus) position as disclosed below. The Board of Trustees is responsible for the management of the fund, the investment strategy and administration of benefits.

There were 9 399 members at 31 March 2022 (2021: 10 972). This excludes widows and children of pensioners. The all-inclusive membership is 37 506 at 31 March 2022 (2021: 40 875). The entire obligation relates to Transnet SOC Ltd.

The duration of the defined benefit obligation is estimated, based on the current membership profile, to be 5,4 years.

An actuarial valuation was performed at 31 March 2022 based on the projected unit credit method. The principal actuarial assumptions used are as follows:

	Company and Group 2022 R million	2021 R million
Discount rate (%)	**9,94**	9,86
Inflation rate (%)	**6,85**	7,04
Pension increase allowance (%)	**4,80**	4,93

The results of the actuarial valuation are as follows:

	2022 R million	2021 R million
Benefit liability		
Present value of obligation	**(9 835)**	(10 960)
Fair value of plan assets	**13 848**	14 335
Surplus	**4 013**	3 375
Unrecognised asset	**(4 013)**	(3 375)
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.

	2022 R million	2021 R million
Net expense recognised in profit or loss		
Service cost	**—**	—
Net interest income	**333**	202
	333	202
Less: Interest on asset limit	**(333)**	(202)
	—	—
Actual return on plan assets	**1 383**	2 993
Total measurements recognised in other comprehensive income for the year	**—**	—
– net actuarial gain/(loss)	**305**	1 270
– interest on asset limit	**333**	202
– net asset not recognised	**(638)**	(1 472)
Movements in the net asset/(liability) recognised in the statement of financial position		
Opening net asset	**3 375**	1 903
Profit or (loss) as above	**—**	—
Remeasurements – actuarial gain	**305**	1 270
– interest on asset limit	**333**	202
Closing net asset	**4 013**	3 375
Asset not recognised	**(4 013)**	(3 375)
Net asset/(liability) recognised in the statement of financial position	**—**	—

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32. Post-retirement benefit obligations continued

32.1.3 Transnet Second Defined Benefit Fund continued

	Company and Group	
	2022 R million	2021 R million
Reconciliation of movement in benefit liability		
Opening benefit liability	**(10 960)**	(11 320)
Interest cost	**(988)**	(1 128)
Actuarial gain/(loss)	**243**	(346)
– change in economic assumptions	**106**	(602)
– experience adjustments	**137**	256
Benefits paid	**1 870**	1 834
Closing benefit liability	**(9 835)**	(10 960)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	**14 335**	13 223
Interest income	**1 321**	1 330
Actuarial gain	**62**	1 616
Benefits paid	**(1 870)**	(1 834)
Closing fair value of plan assets	**13 848**	14 335

The estimated contributions (based on current year contributions) by both employer and members for the year beginning 1 April 2022 amount to nil (2021: nil). The employers contributions are included in the budget for operating expenses.

	2022 R million	2021 R million
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
8,94% (2021: 8,86%)	**(10 406)**	(11 521)
10,94% (2021: 10,86%)	**(9 324)**	(10 451)
Closing benefit liability based on changes in the inflation rate:		
5.85% (2021: 6.04%)	**(9 508)**	(10 565)
7.85% (2021: 8.04%)	**(10 185)**	(11 312)

Ninety eight (98%) of the liabilities are matched by assets, including swaps, bonds and cash. The Fund has implemented specialist liability-driven investment mandates to manage the matching assets.

	2022	2021
The major categories of plan assets as a % of total plan assets are:		
Listed		
Domestic equities (%)	**9,9**	19,2
International equities (%)	**6,3**	—
Domestic bonds (%)	**59,6**	46,7
	75,8	65,9
Non-listed		
Domestic private equity (%)	**1,9**	2,3
Derivatives (local) (%)	**3,7**	6,6
Cash and cash equivalents (%)	**18,6**	25,2
	24,2	34,1
Total (%)	**100,0**	100,0

* *During the 2017 financial year the Group entered into interest-rate swaps with Transnet Second Defined Benefit Fund. Refer to note 14.*

32. Post-retirement benefit obligations continued

32.1.4 Top Management pensions

The Top Management Pensions are additional benefits to top up pensions received in order 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. The benefits are dependent on the contractual arrangement between the individual and Transnet. The benefits are paid through the pension fund and recovered from Transnet.

There were 307 members at 31 March 2022 (2021: 317). The entire obligation relates to Transnet SOC Ltd. The duration of the defined benefit obligation is estimated, based on the current membership profile, to be 4,6 years. There are no plan assets to fund these obligations.

An actuarial valuation was performed at 31 March 2022 to determine the present value of the obligation based on the projected unit credit method.

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

	Company and Group	
	2022 R million	2021 R million
Top Management pensions		
The principal assumptions in determining the benefits are as follows:		
Discount rate (%)	**9,78**	8,19
Pension increase allowance (%)	**2,00**	2,00
Benefit liability		
Present value of obligations	**53**	54
Liability recognised in the statement of financial position	**53**	54
Net expense recognised in profit or loss		
Interest cost	**(4)**	(5)
	(4)	(5)
Actuarial loss recognised in other comprehensive income for the year	**(3)**	(7)
Reconciliation of movement in benefit liability		
Opening benefit liability	**(54)**	(51)
Expense as above	**(4)**	(5)
Actuarial loss	**(3)**	(7)
– change in economic assumptions	**4**	(6)
– experience adjustments	**(7)**	(1)
Benefits paid	**8**	9
Benefit liability at year-end	**(53)**	(54)

The estimated contributions (based on current year contributions) for the year beginning 1 April 2022 amount to R8 million (2021: R9 million) and are included in the budget for operating expenses.

	2022 R million	2021 R million
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
8,78% (2021: 7,19%)	**(56)**	(56)
10,78% (2021: 9,19%)	**(51)**	(51)

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32. Post-retirement benefit obligations continued

32.1.5 Workmen's Compensation Act pensioners fund

The Workmen's Compensation Pension Fund Act benefits are provided in accordance with the Workmen's Compensation Act and relates to the pension benefits that the Company pays to current and former employees who were disabled whilst in service prior to the corporatisation of Transnet in 1990. The benefits are paid through the pension fund and recovered from Transnet.

There were 756 members at 31 March 2022 (2021: 832). The duration of the defined benefit obligation is estimated, based on the current membership profile, to be 7,16 years. There are no plan assets to fund these obligations.

An actuarial valuation was performed at 31 March 2022 to determine the present value of the obligation based on the projected unit credit method.

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

	Company and Group	
	2022 R million	2021 R million
The principal assumptions in determining the benefits are as follows:		
Discount rate (%)	**10,50**	11,04
Pension increase (%)	**6,67**	7,08
Inflation rate (%)	**6,67**	7,08
Benefit liability		
Present value of obligations	**(355)**	(368)
Liability recognised in the statement of financial position	**(355)**	(368)
Net expense recognised in profit or loss		
Interest cost	**(39)**	(41)
	(39)	(41)
Actuarial gain/(loss) recognised in other comprehensive income for the year	**15**	(13)
Reconciliation of movement in benefit liability		
Opening benefit liability	**(368)**	(359)
Interest cost	**(39)**	(41)
Actuarial gain/(loss)	**15**	(13)
– change in economic assumptions	**(7)**	(31)
– experience adjustments	**22**	18
Benefits paid	**37**	45
Benefit liability at year-end	**(355)**	(368)
The estimated contributions (based on current year contributions) for the year beginning 1 April 2022 amount to R37 million (2021: R45 million) and are included in the budget for operating expenses.		
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
9,50% (2021: 10,04%)	**(383)**	(397)
11,50% (2021: 12,04%)	**(331)**	(343)
Closing benefit liability based on changes in the inflation rate:		
5,67% (2021: 6,08%)	**(330)**	(342)
7,67% (2021: 8,08%)	**(383)**	(398)

32.1.6 HIV/Aids benefits

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

32. Post-retirement benefit obligations continued

32.2 Post-retirement medical benefits

SATS pensioners' post-retirement medical benefits

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

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. The board of trustees of Transmed Medical Fund are responsible for the governance of the fund including monitoring the performance of all contract service providers.

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

This fund is governed by the Medical Aid Scheme Act.

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.

The duration of the post-retirement medical defined benefit obligations is estimated, based on the current membership profile, to be 5 years.

Analysis of benefit expense

The following summarises the components of the net benefit expense recognised in both the statement of comprehensive income and statement of financial position as at 31 March 2022 for both SATS pensioners and Transnet employees. The projected unit credit method has been used for the purposes of determining the actuarial valuation for both the funds.

	Company and Group	
	2022 R million	2021 R million
32.2.1 SATS pensioners		
Discount rate (%)	**10,03**	9,86
Benefit liability		
Present value of obligations	**(193)**	(235)
Liability recognised in the statement of financial position	**(193)**	(235)
Net expense recognised in profit or loss		
Interest cost	**(21)**	(27)
	(21)	(27)
Actuarial gain/(loss) recognised in other comprehensive income for the year	**8**	(14)
Reconciliation of movement in benefit liability		
Opening benefit liability	**(235)**	(258)
Interest cost	**(21)**	(27)
Company contributions	**55**	64
Actuarial gain/(loss)	**8**	(14)
– change in economic assumptions	**1**	(15)
– experience adjustments	**7**	1
Closing benefit liability	**(193)**	(235)
The estimated contributions (based on current year contributions) for the year beginning 1 April 2022 amount to R55 million (2021: R64 million) and are included in the budget for operating expenses.		
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 discount rate on the present value of the obligation is as follows:		
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
9,03% (2021: 8,86%)	**(200)**	(245)
11,03% (2021: 10,86%)	**(186)**	(226)

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	Company and Group 2022 R million	2021 R million
32. Post-retirement benefit obligations continued		
32.2.2 Transnet employees		
Discount rate (%)	**10,03**	9,86
Benefit liability		
Present value of obligations	**(175)**	(221)
Liability recognised in the statement of financial position	**(175)**	(221)
Net expense recognised in profit or loss		
Service cost	**(5)**	(4)
Interest cost	**(21)**	(21)
	(26)	(25)
Actuarial gain/(loss) recognised in other comprehensive income for the year	**55**	(30)
Reconciliation of movement in benefit liability		
Opening benefit liability	**(221)**	(187)
Expense as above	**(26)**	(25)
Company contributions	**17**	21
Actuarial gain/(loss)	**55**	(30)
– change in economic assumptions	**3**	(33)
– experience adjustments	**52**	3
Closing benefit liability	**(175)**	(221)

The estimated contributions (based on current year contributions) for the year beginning 1 April 2022 amount to R17 million (2021: R21 million) and are included in the budget for operating expenses.

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 on the present value of the obligation is as follows:

	Company and Group 2022 R million	2021 R million
Sensitivity analysis		
Closing benefit liability based on changes in discount rate:		
9,03% (2021: 8,86%)	**(193)**	(253)
11,03% (2021: 10,86%)	**(160)**	(195)

Exposure to risks

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

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

33. Related-party transactions

The Group has applied the exemption in paragraph 25 of IAS 24 *Related Parties* with respect to disclosure of related party transactions and outstanding balances by entities controlled by the government.

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 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		Services rendered		
727	**639**	Major public enterprises	**639**	727
1 369	**1 097**	Other public enterprises	**1 097**	1 369
87	**817**	National Government business enterprises*	**817**	87
23	**2**	Associates	**2**	23
22	**22**	Subsidiaries	**22**	22
2 228	**2 577**		**2 577**	2 228
		Services received		
3 288	**3 618**	Major public enterprises	**3 618**	3 288
835	**1 001**	Other public enterprises	**1 001**	835
291	**3 953**	National Government business enterprises	**3 953**	291
4 414	**8 572**		**8 572**	4 414
		Amount due (to)/from		
(3 502)	**(6 402)**	Major public enterprises	**(6 402)**	(3 502)
138	**(415)**	Other public enterprises	**(415)**	138
(998)	**(1 466)**	National Government business enterprises*	**(1 466)**	(998)
1	**—**	Associates	**—**	1
380	**381**	Subsidiaries	**—**	—
(3 981)	**(7 902)**		**(8 283)**	(4 361)

* *Included are transactions with Prasa as detailed in note 1.*

During the year the Group reversed R226 million (2021: R416 million raised) in relation to provisions and write-offs of bad debts on related parties and at year-end the Group had a provision of R1 241 million (2021: R1 278 million) against debtors pertaining to related parties.

Details of key management compensation are set out in note 38. None of key management has or had significant influence in any entity with whom the Group had significant transactions during the year.

Details of transactions relating to SARS and employee pensions are included in notes 8 and 32 respectively.

The AGSA is Transnet's independent external auditor, and has been involved in the external audit process since the 2019 financial year.

The AGSA is a government entity in the national sphere, but is not disclosed as a related party of Transnet, as it is an independent organisation in terms of the constitution.

In the 2017 financial year Transnet entered into interest rate swaps with the Transnet Second Defined Benefit Fund (a related party). Please refer to note 14 for further detail in this regard. The Transnet Second Defined Benefit Fund is disclosed in note 32.1.3.

Transnet's significant related parties include Eskom and Prasa.

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Company Restated 2021 R million	Company 2022 R million		Group 2022 R million	Group Restated 2021 R million
		34. Cash flow information		
		34.1 Cash generated from operations		
(11 279)	**5 490**	Profit/(loss) before taxation	**5 489**	(11 270)
11 037	**10 354**	Finance costs (refer note 34.3)	**10 354**	11 037
(238)	**(112)**	Finance income (refer note 7)	**(126)**	(256)
—	**(9)**	Dividend income	**—**	—
27 776	**9 864**	Elimination of non-cash items	**9 884**	27 797
13 872	**14 847**	– Depreciation, amortisation and derecognition (refer note 3)	**14 847**	13 872
(129)	**101**	– Increase/(decrease) in provision for employee benefits	**101**	(129)
987	**415**	– Impairment of trade and other receivables, and loans and advances (refer note 4.2.1)	**415**	987
3 399	**2 124**	– Impairment of property, plant and equipment (refer note 4.2.2)	**2 124**	3 399
—	**(5)**	– (Reversal of impairment)/impairment of intangible assets (refer note 4.2.2)	**(5)**	—
5 388	**667**	– Movement in provisions and other non-current liabilities	**667**	5 388
—	**—**	– (Loss)/income from associates and joint ventures (refer note 13)	**6**	(13)
8 157	**1 431**	– Fair value adjustments on derivatives	**1 431**	8 157
6	**(25)**	– Fair value adjustments on other financial assets (refer note 5)	**(25)**	6
(5 926)	**(226)**	– Unrealised foreign exchange movements	**(226)**	(5 926)
617	**137**	– Loss on disposal of property, plant and equipment (refer note 2)	**137**	617
44	**57**	– Discount on bonds amortised (refer note 6)	**57**	44
11	**106**	– Provision for inventory obsolescence	**106**	11
233	**1**	– Release of firm commitments and foreign exchange adjustments (refer note 9)	**1**	233
73	**19**	– Decommissioning liability (refer note 9)	**19**	73
770	**(9 814)**	– Fair value adjustment of investment property (refer note 5)	**(9 814)**	770
177	**(92)**	– Movement in lease smoothing and long-term receivables	**(92)**	177
35	**35**	– Fees relating to borrowings	**35**	35
104	**104**	– Amortisation of loss on derivatives	**104**	104
(42)	**(18)**	– Other non-cash items*	**(4)**	(8)
27 296	**25 587**		**25 601**	27 308
		34.2 Changes in working capital		
(468)	**(172)**	Increase in inventories	**(172)**	(468)
(352)	**616**	Decrease/(increase) in trade, other receivables and contract assets	**602**	(349)
(1 880)	**3 026**	Increase/(decrease) in trade payables, accruals and contract liabilities	**3 027**	(1 884)
(2 700)	**3 470**		**3 457**	(2 701)
		34.3 Finance costs		
11 296	**10 684**	Finance costs	**10 684**	11 296
(57)	**2**	Net foreign exchange gain/(loss) on translation	**2**	(57)
(158)	**(275)**	Unwinding of discounts on provisions	**(275)**	(158)
(44)	**(57)**	Discounts on bonds amortised	**(57)**	(44)
11 037	**10 354**		**10 354**	11 037
341	**105**	Decrease in accrued interest	**105**	341
(464)	**(479)**	Deferred interest	**(479)**	(464)
10 914	**9 980**		**9 980**	10 914

* *Other non-cash items relate to minor various non-cash transactions.*

Company Restated 2021 R million	Company 2022 R million		Group 2022 R million	Group Restated 2021 R million
		34. Cash flow information continued		
		34.4 Tax paid		
—	**—**	Balance at the beginning of the year	**(1)**	(2)
—	**—**	Tax as per income statements	**(10)**	(8)
—	**—**	Balance at the end of the year	**(2)**	1
—	**—**		**(13)**	(9)
		35. Headline earnings		
(8 723)	**5 055**	Profit/(loss) for the year attributable to equity holder	**5 048**	(8 734)
617	**137**	Loss on disposal of property, plant and equipment (refer note 2)	**137**	617
770	**(9 814)**	Fair value adjustments on investment property (refer note 5)	**(9 814)**	770
3 399	**2 119**	Impairment of non-financial assets (refer note 4.2.2)	**2 119**	3 399
(3 937)	**(2 503)**	**Headline earnings before tax effects**	**(2 510)**	(3 948)
		Tax effects		
(9)	**(37)**	Loss on disposal of property, plant and equipment	**(37)**	(9)
(172)	**2 120**	Fair value adjustments on investment property	**2 120**	(172)
(557)	**(572)**	Impairment of non-financial assets	**(572)**	(557)
(4 675)	**(992)**	**Headline earnings**	**(999)**	(4 686)

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for the year ended 31 March 2022

36. Financial risk management

Introduction

The Group has a centralised Treasury function that supports the Company in its strategic objectives by providing funding from a range of sources.

Policies

Transnet has a Board-approved Financial Risk Management Policy (FRMP) that underscores and represents the financial risk management objectives and the financial risk management philosophy of the Transnet Group:

- To prudently manage Transnet's financial risks in order to reduce the financial impact (i.e. changes in cash flows) due to financial risks materialising, thereby contributing to Transnet meeting its strategic financial objectives and remaining within Transnet's approved risk appetite and risk tolerance levels; and
- To reduce earnings volatility in order to increase certainty and predictability of future cash flows for planning purposes.

Apart from the requirements of the FRMP, Treasury operates within the confines of the Transnet Delegation of Authority (DOA) Framework, as approved by the Board of Directors.

Financial Risk Management Fundamentals

- Protect the company against undesirable market price movements, relating to financial market risks above, while allowing upside participation, as far as possible;
- Aim to limit potential fair value liabilities arising from financial instruments recorded at fair value or an actual liability (loss) when the instrument is settled;
- Constantly protect the business, by creating certainty of revenues, securing a minimum income or protecting cash flows on an ongoing basis, avoiding the need to time the markets as far as possible;
- Enter into hedging transactions solely for the purpose of hedging its exposure to financial market fluctuations and no active speculation (dealing in derivative instruments) or passive speculation (open unhedged market risks exceeding approved risk tolerance levels) is allowed. Derivatives may only be used to offset existing or known risks which the company faces;
- For a given level of financial risk exposure and the mitigation thereof, Transnet will seek to maximise the cost-benefit ratio; and
- Transnet assesses, monitors and mitigates its financial risk exposures at a Group level, e.g. takes into account natural mitigation.

Credit risk

Credit risk is the risk of financial loss to the Group, if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from trade and other receivables (including lease receivables and contract assets) as well as cash and cash equivalents, deposits with banks and financial institutions, favourable positive fair market values of derivative financial instruments, and investments in government bonds – see counterparty risk that follows.

Trade receivables, lease receivables and contract assets

The risk management committee, a sub-committee of the executive committee (Exco), has established a credit policy under which the Group conducts a thorough customer credit review as part of the contract approval process for new customers, as well as on an ongoing basis as part of the revenue and credit management process to assess the credit risk of customers and ensure that the consideration receivable under the contract is recoverable before services are rendered to a customer.

The Group's review includes an internal financial evaluation model, as well as external credit ratings where available. The model evaluates the ability of the customer to meet its financial obligations and allocates a credit risk score. Based on the credit risk score, credit limits and terms are established for each customer, which represents the maximum credit facility available, as well as whether or not the customer is required to post a bank guarantee with the Group, or pay in advance. The customer's credit risk score is reviewed and updated on an annual basis, and whenever there is significant change to a customers' financial status.

Customers are categorised into the following credit risk bands based on their credit risk scores:

A	Very low risk.
B	Low risk.
C	Medium risk.
D	High risk.
E	Very high risk.

The Group applies the simplified approach in IFRS 9 Financial Instruments to measure expected credit losses using a lifetime expected credit loss provision for trade receivables, lease receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk characteristics and aging. The contract assets, which arise from revenue recognised on contracts with customers but not yet invoiced, have similar risk characteristics to the trade receivables for similar types of contracts.

36. Financial risk management continued

For the purposes of calculating expected credit losses under IFRS 9, these credit risk bands are combined as follows:

A+B	Low risk.
C	Medium risk.
D+E	High risk.

In addition to the above, each Operating division is treated as a separate debtors' portfolio, in order to better reflect the unique economic exposure and customer behaviour of each division. The Operating divisions are:

- Transnet Freight Rail;
- Transnet Engineering;
- Transnet National Ports Authority;
- Transnet Port Terminals;
- Transnet Pipelines; and
- Transnet Property.

Stage 2 expected loss rates (i.e. for balances less than 90 days past due) are calculated based on the payment profiles of customers over the five-year period prior to the financial year-end, and the historical default rates experienced during this period for each credit risk band above, and separately for each Operating division. Stage 3 expected loss rates (i.e. for balances already in default) are estimated at 100%, due to the high likelihood of non-collection of these balances, although the Group will always continue with collection efforts and enforcement activities until there is no hope of collection.

The historical loss rates are adjusted for current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle their outstanding amounts. The Group has identified the gross domestic product (GDP) as a factor affecting its customers and accordingly adjusts the historical loss rates based on changes in the factor. For example, where the GDP decreases, it is anticipated that customers will have difficulty paying off their accounts, as a result the historical loss rate is increased to account for this factor.

Further disclosures regarding trade and other receivables are provided in note 18 and later in this note.

Counterparty risk

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

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

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

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

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

Notes to the annual financial statements

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36. Financial risk management continued

Market risk

Foreign currency risk

Foreign currency risk arises where payments need to be made in currencies that are not denominated in rand hence exposing the Company to exchange rate fluctuations. The objective is to mitigate foreign currency risk by bringing certainty to future currency payments by hedging it to the rand, thereby insulating the Group's income statement against exchange rate fluctuations.

It is the Group's preference to enter into rand-based agreements to mitigate foreign currency risks. Where this is not possible, Transnet will hedge any currency exposure as soon as the agreements become firm and ascertainable.

Business units report all open exposures on a monthly basis. Transnet's policy allows for a portion of Operating divisions' exposures to be unhedged with the limits set in the FRMF.

Hedge accounting is applied to all exposures greater than USD5 million to minimise volatility in the income statement, and the performance is monitored monthly by the hedge accounting committee, a sub-committee of the finance committee.

Commodity risk

Commodity risk refers to the variability of payments due to changes in underlying commodities such as Brent crude oil, steel and iron ore. Although Transnet is exposed to such underlying commodity price changes, only fuel exposures will be hedged subject to a maximum tenor of 18 months using vanilla type instruments that are well correlated to fuel prices.

As a mitigating measure most general freight business (GFB) revenue contracts are linked to a surcharge levy that adjusts the rail price based on changes in fuel prices, exchange rates, steel prices and electricity.

Interest rate risk

Interest rate risks arise due to fluctuations in interest rates that can impact the Group's borrowing programme, investments in interest-bearing instruments and derivative financial instruments by changing future interest payments or receipts. To this extent, Transnet aims to maintain or reduce the weighted average cost of debt (WACD) of borrowings within the fixed to floating rate ratio allowed in the FRMF, taking cognisance of interest rate cycles.

Transnet aims to enter into contracts that will result in the desired exposure to fixed or floating interest rates rather than changing the risk profile via derivative transactions. Foreign currency interest rate exposures in borrowings are hedged to the rand as soon as transactions are concluded to mitigate against foreign interest rate movements. The impact of changes are reported monthly to governance structures.

Other price risk

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

Liquidity risk

Liquidity risk impacts the ability to have the appropriate funds available to effect the payment to third parties. To mitigate and manage liquidity risk, cash flow projections, consisting of short-, medium- and long-term projections from Operating divisions, are monitored to enable Treasury to manage the funding requirement of the Group. In addition, Transnet has access to various funding sources that include the debt capital markets, direct foreign investment, export credit agencies and various short-term facilities that assist in effectively managing its working capital requirements.

The DMTN programme size is R80,0 billion, of which an amount of R36,7 billion is still available. The global medium-term note (GMTN) programme size is USD6,0 billion, of which an amount of USD5 billion is available. No issues were done on the GMTN programme during the 2022 financial year.

Various liquidity measures are in place to ensure that Transnet will be able to honour its commitments. Transnet only invests surplus cash that ensures capital preservation. 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. These will be held to maturity.

36. Financial risk management continued

Bonds at carrying and nominal values

Transnet issues bonds listed on the Johannesburg Stock Exchange (JSE), Luxembourg Stock Exchange and the London Stock Exchange.

The following bonds were in issue at 31 March 2022 for the Company and the Group:

				2022		2021	
	Bond	Redemption date	Coupon rate %	**Carrying value R million**	**Nominal value R million**	Carrying value R million	Nominal value R million
Domestic Rand bonds	TN21U	13 May 21	9,50	**—**	**—**	1 000	1 000
	TN23	6 Nov 23	10,80	**7 006**	**6 929**	7 118	7 000
	TNF25U	14 Feb 25	6,47	**2 500**	**2 500**	2 500	2 500
	TNF25	14 Feb 25	6,575	**550**	**550**	—	—
	TN25	19 Aug 25	9,50	**9 937**	**9 929**	10 011	10 000
	TNF26U	13 Aug 26	6,87	**1 930**	**1 930**	—	—
	TNF27	7 Feb 27	6,975	**316**	**316**	—	—
	TN27	14 Nov 27	8,90	**8 172**	**8 565**	7 061	7 488
	TN29	7 Feb 29	10,26	**200**	**200**	—	—
	TN30	9 Oct 30	10,50	**4 580**	**4 622**	4 484	4 527
	TNI33	28 Feb 33	5,23	**285**	**286**	—	—
	TN34	7 Feb 34	11,35	**108**	**108**	—	—
	TN40	9 Oct 40	10,75	**4 871**	**5 070**	4 485	4 650
Total domestic Rand bonds				**40 455**	**41 005**	36 659	37 165
Foreign Rand bonds	TNZA21	13 May 21	9,50	**—**	**—**	5 000	5 000
	Euro 2028[1]	18 Apr 28	13,50	**1 972**	**2 000**	1 969	2 000
	Euro 2029[1]	30 Mar 29	10,00	**1 183**	**1 500**	1 159	1 500
Total foreign Rand bonds				**3 155**	**3 500**	8 128	8 500
USD bonds	TNUS22	26 Jul 22	4,00	**14 628**	**14 636**	14 735	14 762
Total foreign currency bonds				**14 628**	**14 636**	14 735	14 762
Total bonds in issue at year-end				**58 238**	**59 141**	59 522	60 427

[1] *These bonds are guaranteed by the Government of the Republic of South Africa, and the Company paid R1,2 million in guarantee fees (2021: R1,2 million).*
The amounts in the above table are all in respect of bonds held at amortised cost.

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36. Financial risk management continued

Concentration of liquidity risk

The sources of funding are tabled below. Altogether 46% of the borrowings are widely held (2021: 47%):

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
6 243	**4 481**	ABSA Bank Ltd	**4 481**	6 243
3 086	**2 722**	African Development Bank	**2 722**	3 086
2 786	**2 500**	Bank of China	**2 500**	2 786
13 263	**11 728**	China Development Bank	**11 728**	13 263
4 000	**6 000**	Development Bank of South Africa	**6 000**	4 000
3 671	**3 146**	Export Development Canada	**3 146**	3 671
1 289	**1 160**	FutureGrowth Asset Management (Pty) Ltd	**1 160**	1 289
576	**432**	French Development Bank	**432**	576
3 743	**3 305**	GFB 2015 (RF) Proprietary Limited (US Exim)	**3 305**	3 743
2 000	**1 200**	Industrial and Commercial Bank of China	**1 200**	2 000
—	**1 000**	Industrial Development Corporation	**1 000**	—
1 224	**1 049**	Investec Bank Ltd	**1 049**	1 224
7 471	**6 650**	JP Morgan Chase Bank	**6 650**	7 471
2 366	**2 103**	KfW Development Bank	**2 103**	2 366
1 600	**1 600**	KFWIPEX_Bank GmbH	**1 600**	1 600
1 118	**1 021**	Libfin	**1 021**	1 118
4 184	**5 694**	Nedbank Ltd	**5 694**	4 184
1 303	**1 135**	Old Mutual Life Assurance Company (SA) Ltd	**1 135**	1 303
943	**821**	Old Mutual Specialised Finance (Pty) Ltd	**821**	943
2 644	**4 528**	RMB – Division of FirstRand Bank Ltd	**4 528**	2 644
106	**95**	Sanlam Investment Management (Pty) Ltd	**95**	106
2 700	**2 500**	Standard Bank Corporate Investment Bank	**2 500**	2 700
—	**2 029**	The New Development Bank	**2 029**	—
61 129	**59 861**	Various holders of Transnet bonds and commercial paper, widely held, and traded[2]	**59 861**	61 129
1 696	**2 078**	Other[3]	**2 078**	1 696
129 141	**128 838**	Total borrowings[1]	**128 838**	129 141

[1] Borrowings include loans of R15 216 million (2021: R17 792 million) in respect of the acquisition of locomotives, which are secured by a pledge of the associated locomotives with a carrying value of R28 727 million (2021: R30 604 million) – refer note 9.

Further, borrowings include loans amounting to R22 786 million (2021: R27 056 million) in respect of locomotives acquired under the 1 064 locomotive supply agreements, of which R15 033 million (2021: R17 006 million) is secured by a pledge of locomotives already delivered by the OEMs under the programme. The table below provides a breakdown of the 1 064 locomotive supply agreements.

	CRRC E-loco	CRRC SA	BT*	WABTEC South Africa Technologies (Pty) Ltd
Locomotives contracted	359	232	240	233
Delivered to date	260	22	82	233
Outstanding deliveries	99	210	158	—

** Locomotives not pledged as security for associated loans.*

Transnet has filed an application with the Gauteng High Court to have all four 1 064 locomotive supply agreements reviewed and set aside, with just and equitable relief. The locomotive supply agreements with CRRC E-loco and CRRC SA are currently suspended pending the outcome of the court application, while the contract with BT is not suspended. Should the agreements be set aside by the courts, unsecured loans amounting to R5 249 million (2021: R7 264 million) would become payable, and would be subject to negotiations between Transnet and the banks.

[2] Includes bonds held at amortised cost of R58 238 million, commercial paper of R1 623 million and repo liabilities of R0,05 million. (2021: includes bonds held at amortised cost of R59 522 million, commercial paper of R1 581 million and repo liabilities of R26 million).

[3] Includes lease liabilities of R2 078 million (2021: R1 675 million).

36. Financial risk management continued

Funding plan

Over the next five years Transnet intends to raise R46,9 billion (R67,3 billion after new projected redemptions) from the market, which is 47,4% of Transnet's R98,9 billion capital expenditure.

	Budget 2022/23 R million	Projections 2023/24 R million	2024/25 R million	2025/26 R million	2026/27 R million	Five-year plan R million
Net cash flows from operations	**27 266**	17 457	20 879	24 528	26 927	117 057
Capital investment	**(18 023)**	(15 143)	(20 602)	(23 715)	(21 446)	(98 929)
Loan redemptions	**(19 159)**	(13 188)	(8 623)	(16 063)	(7 993)	(65 026)
	(9 916)	(10 874)	(8 346)	(15 250)	(2 512)	(46 898)
New debt capital redemptions	**(3 050)**	(400)	(4 931)	(5 365)	(6 620)	(20 366)
Funding mandate	**(12 966)**	(11 274)	(13 277)	(20 615)	(9 132)	(67 264)

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 2022 for the Company and the Group:

	Carrying value 2022 R million	Contractual cash flows 2022 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)	(58 238)	(88 693)	(19 312)	(11 180)	(6 920)	(12 894)	(4 645)	(33 742)
Secured bank loans (Company and Group)	(15 216)	(19 378)	(2 862)	(2 799)	(2 596)	(2 438)	(2 307)	(6 376)
Unsecured bank loans (Company and Group)	(37 006)	(56 478)	(9 637)	(6 743)	(6 605)	(6 221)	(6 068)	(21 204)
Commercial paper (Company and Group)	(1 623)	(1 713)	(1 713)	—	—	—	—	—
Other borrowings (Company and Group)	(16 755)	(18 856)	(12 197)	(2 329)	(840)	(788)	(732)	(1 970)
Total borrowings (Company and Group)	(128 838)	(185 118)	(45 721)	(23 051)	(16 961)	(22 341)	(13 752)	(63 292)
Trade payables, accruals and contract liabilities (Company)[1]	(20 564)	(20 564)	(20 564)	—	—	—	—	—
Trade payables, accruals and contract liabilities (Group)[1]	(20 567)	(20 567)	(20 567)	—	—	—	—	—
Derivative financial liabilities (Company and Group)								
Interest rate swaps	(1 456)	(1 626)	(599)	(468)	(262)	(161)	(93)	(43)
Forward exchange contracts used for hedging	(49)	(60)	(60)	—	—	—	—	—
Outflow	(668)	(680)	(680)	—	—	—	—	—
Inflow	619	620	620	—	—	—	—	—
Other forward exchange contracts	(2)	(2)	(2)	—	—	—	—	—
Outflow	(27)	(27)	(27)	—	—	—	—	—
Inflow	25	25	25	—	—	—	—	—
Total derivative financial liabilities	(1 507)	(1 688)	(661)	(468)	(262)	(161)	(93)	(43)

[1] Trade payables and accruals, excluding post-retirement employee benefits and tax related accruals.

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36. Financial risk management continued

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 2021, for the Company and the Group:

	Carrying value 2021 R million	Contractual cash flows 2021 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)	(59 522)	(91 689)	(10 801)	(18 998)	(10 823)	(5 897)	(12 537)	(32 633)
Secured bank loans (Company and Group)	(17 869)	(22 384)	(3 367)	(2 714)	(2 597)	(2 501)	(2 428)	(8 777)
Unsecured bank loans (Company and Group)	(33 781)	(51 530)	(6 247)	(5 985)	(6 248)	(6 126)	(5 662)	(21 262)
Commercial paper (Company and Group)	(1 581)	(1 647)	(1 647)	—	—	—	—	—
Other borrowings (Company and Group)	(16 388)	(19 428)	(7 235)	(6 821)	(913)	(879)	(844)	(2 736)
Total borrowings (Company and Group)	(129 141)	(186 678)	(29 297)	(34 518)	(20 581)	(15 403)	(21 471)	(65 408)
Trade payables, accruals and contract liabilities (Company)[1]	(17 495)	(17 495)	(17 495)	—	—	—	—	—
Trade payables, accruals and contract liabilities (Group)[1]	(17 497)	(17 497)	(17 497)	—	—	—	—	—
Derivative financial liabilities (Company and Group)								
Interest rate swaps	(2 350)	(2 524)	(968)	(752)	(481)	(273)	(119)	69
Forward exchange contracts used for hedging	(64)	(114)	(80)	(34)	—	—	—	—
Outflow	(1 015)	(1 126)	(823)	(303)	—	—	—	—
Inflow	951	1 012	743	269	—	—	—	—
Other forward exchange contracts	(13)	(13)	(13)	—	—	—	—	—
Outflow	(69)	(69)	(69)	—	—	—	—	—
Inflow	56	56	56	—	—	—	—	—
Total derivative financial liabilities	(2 427)	(2 651)	(1 061)	(786)	(481)	(273)	(119)	69

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

36. Financial risk management continued

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:

	2022 Gross carrying value R million	2022 Expected credit losses R million	2022 Expected loss rate %	2022 Net carrying value R million	2021 Gross carrying value R million	2021 Expected credit losses R million	2021 Expected loss rate %	2021 Net carrying value R million
Company								
Trade receivables and contract assets								
– Low risk	6 994	(2 053)	29	4 941	7 766	(2 029)	26	5 737
– Medium risk	2 095	(1 035)	49	1 060	1 439	(313)	22	1 126
– High risk	2 188	(1 446)	66	742	2 110	(1 291)	61	819
	11 277	(4 534)	40	6 743	11 315	(3 633)	32	7 682
Other amounts receivable[1]	1 626	(546)	34	1 080	1 675	(469)	28	1 206
Investments – current	61	—	—	61	248	—	—	248
Long- and short-term loans and advances[2]	—	—	—	—	2	—	—	2
Investment and price risk	4 406	—	—	4 406	1 408	—	—	1 408
Group								
Trade receivables and contract assets								
– Low risk	6 994	(2 053)	29	4 941	7 766	(2 029)	26	5 737
– Medium risk	2 095	(1 035)	49	1 060	1 439	(313)	22	1 126
– High risk	2 188	(1 446)	66	742	2 110	(1 291)	61	819
	11 277	(4 534)	40	6 743	11 315	(3 633)	32	7 682
Other amounts receivable[1]	1 640	(546)	33	1 094	1 675	(469)	28	1 206
Investments – current*	61	—	—	61	248	—	—	248
Long- and short-term loans and advances[2]	—	—	—	—	2	—	—	2
Investment and price risk	4 406	—	—	4 406	1 408	—	—	1 408

[1] ***Reconciliation to note 18***

Prepayments and other amounts receivable	*Company*	*Group*
Other amounts receivable	*R1 080 million (2021: R1 206 million)*	*R1 094 million (2021: R1 206 million)*
Prepayments	*R630 million (2021: R594 million)*	*R630 million (2021: R594 million)*
	R1 710 million (2021: R1 800 million)	*R1 724 million (2021: R1 800 million)*

[2] *Long-term loans and advances (Company and Group) R0 million (2021: R0 million)*
Short-term loans and advances (Company and Group) R0 million (2021: R2 million)

Low risk: No guarantee is required from the customer.

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

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

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

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

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

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

Credit enhancements in the form of title deeds and pension fund cessions for loans and advances, and deposits, bank and holding company guarantees in respect of amounts included in trade and other receivables are held by the Group.

* *Includes restricted short-term investment held the TPL Rehabilitation Trust in the prior year.*

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36. Financial risk management continued

Guarantees and deposits to the value of R2,1 billion were held as collateral in respect of trade and other receivables (2021: R2,3 billion).

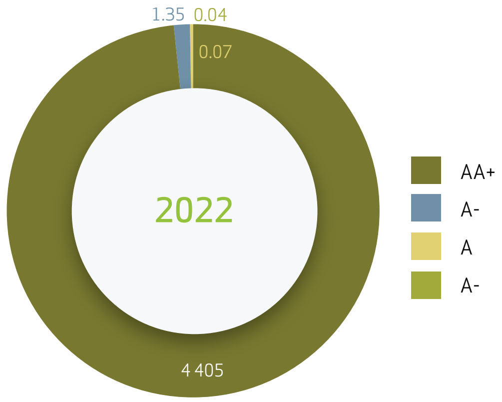
Trade receivables to the value of R23,1 million (2021: R0,5 million) were written off in the current year and remain subject to enforcement activity by the Group.

Concentration of credit risk

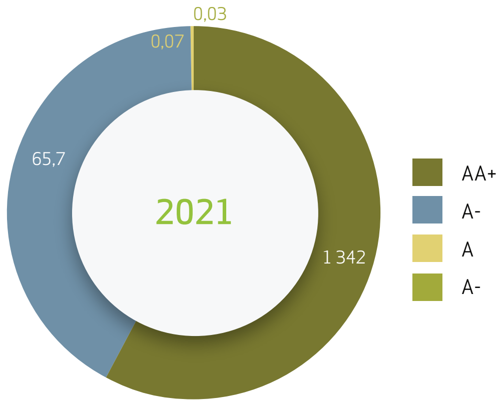
The Group determines concentration of credit risk from trade receivables based on the size of individual customer balances and by industry sector. The Company's and Group's 12 most significant customers comprise 34% of the trade receivables at 31 March 2022 (2021: 28%).

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

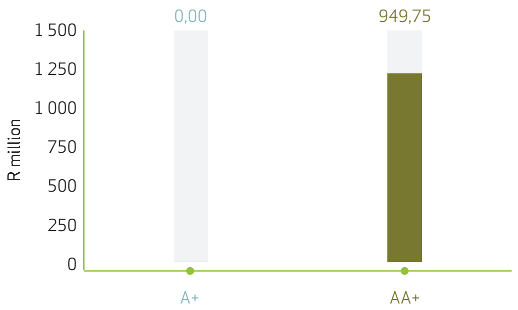
Risk per long-term rating (R million)



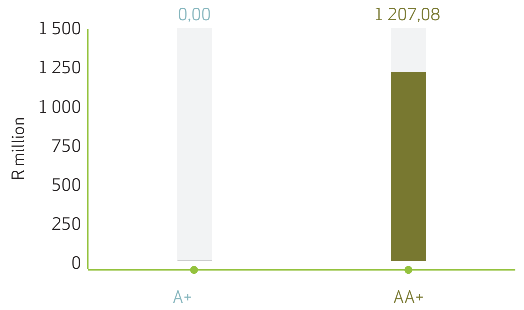
Risk per long-term rating (R million)



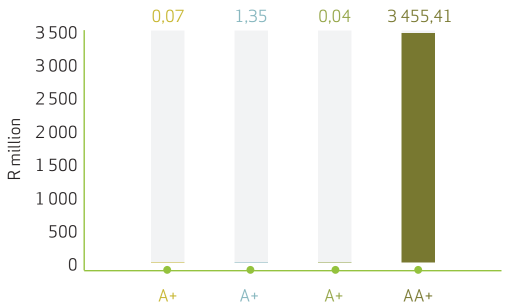
Risk (derivatives) per long-term rating 2022



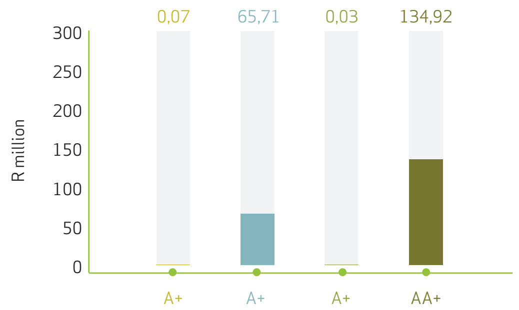
Risk (derivatives) per long-term rating 2021



Risk (investments) per long-term rating 2022



Risk (investments) per long-term rating 2021



36. Financial risk management continued

Market risk

Foreign currency risk

The Company's and Group's net long/(short) foreign currency risk exposures as at 31 March 2022 are reflected below (expressed in notional amounts):

	2022			2021		
	USD US$/m	**JPY ¥/m**	**EUR €/m**	USD US$/m	JPY ¥/m	EUR €/m
Foreign currency bonds	**(1 000)**	**—**	**—**	(1 000)	—	—
Secured bank loans	**(811)**	**—**	**—**	(909)	—	—
Brazil equity investment	**2**	**—**	**—**	2	—	—
Gross financial position exposure	**(1 809)**	**—**	**—**	(1 907)	—	—
Exposures for future expenditure	**(41)**	**(3)**	**—**	(43)	—	—
Gross foreign currency exposure	**(1 850)**	**(3)**	**—**	(1 950)	—	—
Forward exchange contracts	**41**	**3**	**—**	41	—	—
Cross-currency swaps	**1 811**	**—**	**—**	1 909	—	—
Net uncovered exposure	**2**	**—**	**—**	—	—	—

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:

	2022				2021			
Currency	**Currency exposure in millions of currency**	**Fair value R million**	**Impact of Rand strength-ening R million**	**Impact of Rand weakening R million**	Currency exposure in millions of currency	Fair value R million	Impact of Rand strength-ening R million	Impact of Rand weakening R million
EUR	**1**	**(2)**	**1,4**	**(1,4)**	(18)	5	(5)	5
USD	**0,4**	**(0,1)**	**0,2**	**(0,2)**	59	1	14	(14)
Totals		**(2,1)**	**1,6**	**(1,6)**		6	9	(9)

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 28 working 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 R3 million (2021: R1 million). VaR calculates the maximum pre-taxation loss expected (or worst-case scenario) on a position held, over a 90 working 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.

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36. Financial risk management continued

Foreign exchange rates

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

	2022	2021
US Dollar	**14,6360**	14,76175
Japanese Yen	**0,1204**	0,13346
Euro	**16,2196**	17,34506

Interest rate risk

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

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
(99 947)	(94 795)	Fixed-rate liabilities	**(94 795)**	(99 947)
(29 194)	(34 043)	Floating-rate liabilities	**(34 043)**	(29 194)
(129 141)	(128 838)	Total[1]	**(128 838)**	(129 141)

[1] *These values include the repo repo liability of R0,05 million (2021: R26 million), which have a maturity term of one week.*

The exposure to floating interest rates on foreign financial liabilities is R11 728 million (2021: R13 263 million) for the Company and Group. No floating rate foreign liabilities were swapped 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 2022 financial year in respect of existing liabilities and new funding requirements for Company and Group.

Impact	2022 Shift +100bp R million	2022 Shift -200bp R million	2022 Shift +250bp R million	2022 Shift -500bp R million	2022 Shift +500bp R million	2021 Shift +100bp R million	2021 Shift -200bp R million	2021 Shift +250bp R million	2021 Shift -500bp R million	2021 Shift +500bp R million
Finance cost impact (increase)/decrease	**(463)**	**928**	**(1 158)**	**2 318**	**(2 317)**	(342)	684	(855)	1 710	(1 710)

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.

Transnet is exposed to Interest Rate Benchmark Reform with respect to LIBOR on loans received from China Development Bank which had a carrying amount of R11 728 million at 31 March 2022 (2021: R13 170 million), and the corresponding hedges – refer note 14. Transnet is in contact with the counterparties, however at this stage no alternative benchmark rate has been suggested.

Transnet expects the impact of the benchmark reform to be limited to changes in the cash flows under the loans and corresponding hedges, valuation of derivatives, application of hedge accounting and the impact on the accounting systems. Transnet has set-up a transition project with the assistance of external experts to address the potential issues that may arise from the reform. This process is expected to be concluded by 31 March 2023. All new transactions entered into going forward will be based on the new benchmark rates applicable to the currency.

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 R41 million (2021: R38 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 flows at risk scenarios against the approved fuel budget for the 2023 financial year at various levels of Brent crude and USD/ZAR ($/R) exchange rates as at 31 March 2022 (excluding energy levies for Company and Group). Amounts are in R million:

31 March 2022	Performance to budget $/R 8,20	$/R 13,20	$/R 15,34	$/R 17,48	$/R 22,48
BRT @ $48	**1,158**	**850**	**718**	**587**	**279**
BRT @ $69	**929**	**482**	**—**	**100**	**(347)**
BRT @ $91	**701**	**114**	**(136)**	**(387)**	**(974)**
BRT @ $110	**498**	**(213)**	**(516)**	**(820)**	**(1,530)**
BRT @ $120	**392**	**(383)**	**(714)**	**(1,045)**	**(1,820)**

36. Financial risk management continued

The table below shows the cash flow at risk scenarios against the approved fuel budget for the 2022 financial year at various levels of Brent crude and USD/ZAR ($/R) exchange rates as at 31 March 2021 (excluding energy levies) for Company and Group. Amounts are in R million:

31 March 2021	Performance to budget $/R 7,61	$/R 12,61	$/R 14,76	$/R 16,91	$/R 21,91
BRT @ $41	1 030	737	612	486	193
BRT @ $51	920	556	399	242	(123)
BRT @ $64	779	321	—	(72)	(530)
BRT @ $76	637	87	(150)	(386)	(937)
BRT @ $86	528	(95)	(362)	(630)	(1 253)

Classification, fair values and analysis of financial instruments

Categories of financial instruments:

Company 2021 R million	Company 2022 R million		Group 2022 R million	Group 2021 R million
		Financial assets at amortised cost		
10 502	**11 992**	– Trade receivables and contract assets (including bank and cash) *	**12 464**	10 900
		Fair value through profit or loss		
8 100	**7 281**	– Derivatives held for risk management	**7 281**	8 100
195	**220**	– Other financial assets	**220**	195
		Fair value through other comprehensive income		
38	**41**	– Equity investment (Rumo)	**41**	38
		Financial liabilities at amortised cost		
146 636	**149 402**	– Liabilities measured at amortised cost (including trade payables, accruals and contract liabilities)**	**149 405**	146 638
		Fair value through profit or loss		
2 427	**1 507**	– Derivatives held-for-hedging	**1 507**	2 427

* *Includes short-term investments and restricted cash held by the TPL Rehabilitation Trust.*
** *Trade payables, accruals and contract liabilities, excluding post-retirement employee benefit and tax related accruals.*

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 2021 Fair value R million	Company 2021 Carrying value R million	Company 2022 Fair value R million	Company 2022 Carrying value R million		Group 2022 Fair value R million	Group 2022 Carrying value R million	Group 2021 Fair value R million	Group 2021 Carrying value R million
133 403	127 466	**134 085**	**126 760**	Borrowings	**134 085**	**126 760**	133 403	127 466
1 460	1 675	**1 848**	**2 078**	Lease liabilities	**1 848**	**2 078**	1 460	1 675

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36. Financial risk management continued

Fair values of financial instruments

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

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

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
2022				
Financial assets at FVTPL*				
Derivative financial assets (Company and Group)	—	7 281	—	7281
Other financial assets (Company and Group)***	—	—	220	220
Financial assets at FVTOCI*				
Equity investment (Rumo) (Company and Group)	41	—	—	41
Financial liabilities at FVTPL*				
Derivative financial liabilities (Company and Group)	—	1 507	—	1 507
2021				
Financial assets at FVTPL*				
Derivative financial assets (Company and Group)	—	8 100	—	8 100
Other financial assets (Company and Group)***	—	—	195	195
Financial assets at FVTOCI**				
Equity investment (Rumo) (Company and Group)	38	—	—	38
Financial liabilities at FVTPL*				
Derivative financial liabilities (Company and Group)	—	2 427	—	2 427

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

	2022	2021
*** Opening balance (R million)	195	201
Fair value adjustment (R million)	25	(6)
Closing balance (R million)	220	195

** *FVTOCI – Fair value through other comprehensive income.*

\# *Restricted debt investment held by the TPL Rehabilitation Trust.*

Measurement of fair values

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

Financial instruments measured at fair value	Valuation technique	Significant unobservable inputs	Interrelationship between significant unobservable inputs and fair value measurement
Cross-currency and interest rate swaps and forward exchange contracts used for hedging[1]	Discounted cash flow method using market yield curves to project and discount cash flows. The Monte Carlo simulation model is used, incorporating market inputs that were observable, probabilities of default, recovery rates and expected future exposures per counterparty.	Not applicable	Not applicable
Issued bonds	Bonds were priced at fair values using quoted market prices.	Not applicable	Not applicable
Other financial assets[2]	Net asset value	Not applicable	Not applicable
Other financial liabilities[3]	Loans were valued using risk-free yield curves adjusted for credit risk of counterparties.	Not applicable	Not applicable

[1] *Fair values include market observable credit valuation adjustments (CVAs) and debit value adjustments (DVAs).*
[2] *Guardrisk insurance cell.*
[3] *Other financial liabilities include borrowings and finance lease obligations.*

Transfers between levels 1 and 2

There were no transfers in either direction between levels 1 and 2 in both the current and prior reporting period.

36. Financial risk management continued

Level 3 fair values

There were no transfers into or out of level 3 in both the current and prior reporting period.

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

	Company Net gain/(loss) R million	Group Net gain/(loss) R million
2022		
Liabilities measured at amortised cost[1] (refer note 6)	(11 617)	(11 617)
Financial assets at amortised cost (refer note 7)	112	126
Financial assets and liabilities held at fair value through profit or loss[2] (refer note 5)	313	313
Equity and debt investments held at fair value through other comprehensive income	3	8
2021		
Liabilities measured at amortised cost[1] (refer note 6)	(12 347)	(12 347)
Financial assets at amortised cost (refer note 7)	238	238
Financial assets and liabilities held at fair value through profit or loss[2] (refer note 5)	(548)	(548)
Equity and debt investments held at fair value through other comprehensive income	(11)	23

[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 gain/(loss) on Company and Group financial assets and financial liabilities held-for-trading is a R288 million gain (2021: R542 million loss).*

Transnet's credit rating

Transnet has two officially recognised rating agencies: Moody's and S&P. Transnet's credit rating is depicted in the table below:

Rating category	Moody's	S&P
Corporate Family Rating/Foreign currency rating	Ba3/Ratings under review	BB-/Negative outlook
Corporate Family Rating/Local currency rating	Ba3/Ratings under review	BB-/Negative outlook
National scale rating (NSR) – long/short term	A2.za/P-1.za/Ratings under review	zaAA/zaA-1+
BCA/SACP	B2/Ratings under review	bb-/Negative outlook

On 3 November 2021 Moody's revised Transnet's Corporate Family Ratings (long-term local and foreign currency) lower to Ba3 from Ba2, the Baseline Credit Assessment (BCA) to b1 from ba3 and the National Scale Rating (NSR) to A2.za from Aa2.za. All other short-term ratings were affirmed. The outlook remains negative.

The downgrade impacted 10 loans, with a total outstanding capital balance of R30,2 billon as at September 2021. All the covenant waivers, where relevant, were obtained before the release of the half year results in December 2021.

On 8 June 2022 Moody's placed Transnet's corporate family ratings (long-term local and foreign currency) of Ba3, the National Scale Rating (NSR) senior unsecured MTN programme of A2.za and NSR short-term rating of P-1.za under review. The BCA was lowered to b2 from b1, due to concerns about Transnet's exposure to weak liquidity management and high refinancing risk.

The downgrade in the BCA affected 2 (two) loans of R6 billion relating to a single lender. The waiver discussions were held and completed on 23 June 2022 with the lender confirming that they would not exercise their rights relating to the associated loan covenant breach.

On 26 November 2021, S&P placed Transnet's current ratings on credit watch negative citing that liquidity is more strained than a year ago. The credit watch negative was extended by three months on 23 February 2022 after which it will conduct another review and take the appropriate rating action. S&P acknowledged the positive progress made by Transnet on the matters raised when the company was placed under credit watch negative in November 2021, particularly the completion of the waiver process, the funding raised since the beginning of the 2022 calendar year and the progress with the refinancing of the TNUS22 bond maturity. The current action from S&P does not have any impact on the loan covenants.

On 25 July 2022, S&P removed Transnet from credit watch negative, citing Transnet's improved liquidity position.

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37. Details of investments in subsidiaries and associates

Subsidiaries[1]	Effective holding 2022 %	Effective holding 2021 %	Voting power held 2022 %	Shares at cost 2022 R million	Shares at cost 2021 R million	Interest of holding company net profit/(loss) 2022 R million	Interest of holding company net profit/(loss) 2021 R million	Interest of holding company indebtedness 2022 R million	Interest of holding company indebtedness 2021 R million	Accumulated impairment and losses 2022 R million	Accumulated impairment and losses 2021 R million
Environmental responsibility											
Transnet Pipelines Rehabilitation Trust[2]	**100**	100	**100**	**—**	—	**72***	8*	**—**	—	**—**	—
International business activities											
Transnet International Holdings SOC Ltd (TIH)[3]	**100**	100	**100**	**—**	—	**—**	—	**—**	—	**—**	—

** Includes contributions from Transnet Pipelines of R64 million (2021: R21 million).*
[1] Incorporated in the Republic of South Africa, unless stated otherwise.
[2] During the prior reporting year, the National Energy Regulator of South Africa (Nersa) approved the use of a financial security alternative to the Transnet Pipelines Rehabilitation Trust (the Trust) resulting in the trustees passing a resolution to terminate the Trust. The Trust was in the process of dissolution at 31 March 2022 and was finally dissolved on 6 May 2022. All the assets and liabilities of the trust were subsequently transferred to Transnet Pipelines.
[3] Dormant.

Equity-accounted investees[1]	Principal activity	Effective holding 2022 %	Effective holding 2021 %	Shares at cost 2022 R million	Shares at cost 2021 R million	Interest of holding company indebtedness 2022 R million	Interest of holding company indebtedness 2021 R million	Accumulated impairment and losses 2022 R million	Accumulated impairment and losses 2021 R million	Share of post-acquisition reserves 2022 R million	Share of post-acquisition reserves 2021 R million	Total 2022 R million	Total 2021 R million
Associates													
Commercial Cold Storage (Ports) (Pty) Ltd	Storage and bondage	**30**	30	**—**	—	**1**	1	**—**	—	**31**	26	**32**	27
Comazar (Pty) Ltd[2]	Transport logistics	**32**	32	**13**	13	**8**	8	**21**	21	**—**	—	**—**	—
RainProp (Pty) Ltd	Property development and management	**20**	20	**—**	—	**1**	1	**—**	—	**35**	43	**36**	44
Joint ventures													
Gaborone Container Terminal[3]	Container terminal	**36**	36	**6**	6	**—**	—	**—**	—	**19**	31	**25**	37
Cytobix (Pty) Ltd (Godisa supplier development fund)	Supplier development	**50**	50	**—**	—	**55**	55	**55**	55	**—**	—	**—**	—
				19	19	**65**	65	**76**	76	**85**	100	**93**	108

[1] Incorporated in the Republic of South Africa, unless stated otherwise.
[2] Dormant.
[3] Incorporated in Botswana.

Summarised financial information of significant equity-accounted investees

	Commercial Cold Storage (Ports) (Pty) Ltd R million	Gaborone Container Terminal R million	RainProp (Pty) Ltd R million
Financial position			
Total assets	**111**	**91**	**835**
Total liabilities	**9**	**5**	**254**
Results of operations			
Revenue	**58**	**19**	**233**
Net profit	**14**	**(3)**	**68**

Notes to the annual financial statements

for the year ended 31 March 2022

38. Group executive committee and director emoluments

The table below depicts the guaranteed pay of the Transnet Exco for the reporting year:

Guaranteed Pay of Transnet Group Executive team

Exco member	Salary R 000	Retirement benefit fund contributions R 000	UIF contributions R 000	Other payments* R 000	**Total 2022 R 000**	Total 2021 R 000
KV Reddy[10]	—	—	—	—	**—**	2 238
Xoliswa Mpongoshe[4]	—	—	—	—	**—**	317
T Majoka[7, 10]	—	—	—	—	**—**	480
PPJ Derby[1]	7 784	714	2	—	**8 500**	8 500
M Phillips[7, 8]	3 919	279	2	—	**4 200**	4 623
K Phihlela[7]	—	—	—	—	**—**	2 400
S Khathi[7]	—	—	—	—	**—**	1 442
MD Gregg-Macdonald[2, 3, 9]	—	—	—	—	**—**	11 397
K Ngema[6, 7, 8]	2 315	208	1	2 432	**4 956**	4 757
P Munyai[8]	3 828	297	2	—	**4 127**	3 382
BL Kgomo[8, 12]	1 021	98	1	194	**1 314**	3 250
V Nemukula[8]	3 570	328	2	—	**3 900**	3 900
N Dlamini[1, 8]	5 798	—	2	—	**5 800**	3 375
A Shaw[8]	4 608	490	2	—	**5 100**	3 824
S Coetzee[8]	5 398	—	2	—	**5 400**	4 950
B Kani[8]	3 803	295	2	—	**4 100**	3 759
S Mzimela[8]	6 098	—	2	—	**6 100**	6 100
R Mills[8]	3 935	383	2	—	**4 320**	3 960
V Dube[6, 8]	2 319	150	1	5 028	**7 498**	4 037
M Silinga[8]	5 375	523	2	—	**5 900**	2 950
K Phahlamohlaka[8]	4 267	331	2	—	**4 600**	2 683
L Sesoko[7, 10]	—	—	—	—	**—**	1 330
X Ntshingila[5, 7]	1 106	118	1	1 090	**2 315**	821
T Siyaya[5, 6, 7]	1 479	115	2	1 424	**3 020**	643
IK Matsheka[11]	2 225	173	1	—	**2 399**	—
S Khan[11]	328	30	—	—	**358**	—
DJ Mdaki[5,11]	1 556	151	1	513	**2 221**	—
Total	70 732	4 683	32	10 681	**86 128**	85 118

** Included in trade payables, accruals and contract liabilities (refer note 28).*
1 Group executives who are members of the Board of directors.
2 Group executives who were members of the Board of directors.
3 Includes settlement in respect of service termination.
4 Member of Exco for 1 month of the financial year.
5 Acted as Exco member during the financial year.
6 Includes voluntary severance package benefit.
7 Acted as Exco member in the prior financial year.
8 Appointed as Exco member during the previous financial year.
9 Acted as Group Chief Financial Officer from 1 April to 30 June 2020, and appointed as Group Treasurer from 1 July to 19 October 2020.
10 Left Exco during the prior financial year.
11 Appointed as Exco member during the financial year.
12 Mr BL Kgomo passed away in July 2021.

38. Group executive committee and director emoluments continued

The table below reflects the short- and long-term incentive payments for the Transnet Exco for the reporting year:

Exco member	**Long-term incentive* 2022 R 000**	Long-term incentive* 2021 R 000	**Short-term incentive* 2022 R 000**	Ex Gratia incentive* 2021 R 000
KV Reddy[10]	**—**	—	**—**	—
Xoliswa Mpongoshe[4]	**—**	—	**—**	—
T Majoka[7, 10]	**—**	—	**—**	—
PPJ Derby[1]	**—**	—	**—**	—
M Phillips[7, 8]	**—**	—	**—**	—
K Phihlela[7]	**—**	—	**—**	—
S Khathi[7]	**—**	—	**—**	—
MD Gregg-Macdonald[2, 3, 9]	**—**	—	**—**	—
K Ngema[6, 7, 8]	**—**	—	**—**	—
P Munyai[8]	**—**	—	**—**	—
BL Kgomo[8, 12]	**—**	—	**—**	—
V Nemukula[8]	**—**	—	**—**	—
N Dlamini[1, 8]	**—**	—	**—**	—
A Shaw[8]	**—**	—	**—**	—
S Coetzee[8]	**—**	—	**—**	—
B Kani[8]	**—**	—	**—**	—
S Mzimela[8]	**—**	—	**—**	—
R Mills[8]	**—**	—	**—**	—
V Dube[6, 8]	**—**	—	**—**	—
M Silinga[8]	**—**	—	**—**	—
K Phahlamohlaka[8]	**—**	—	**—**	—
L Sesoko[7, 10]	**—**	—	**—**	—
X Ntshingila[5, 7]	**—**	—	**—**	—
T Siyaya[5, 6, 7]	**—**	—	**—**	—
IK Matsheka[11]	**—**	—	**—**	—
S Khan[11]	**—**	—	**—**	—
DJ Mdaki[5,11]	**—**	—	**—**	—
Total	**—**	—	**—**	—

** Included in trade payables, accruals and contract liabilities (refer note 28).*
1 Group executives who are members of the Board of directors.
2 Group executives who were members of the Board of directors.
3 Includes settlement in respect of service termination.
4 Member of Exco for 1 month of the financial year.
5 Acted as Exco member during the financial year.
6 Includes voluntary severance package benefit.
7 Acted as Exco member in the prior financial year.
8 Appointed as Exco member during the previous financial year.
9 Acted as Group Chief Financial Officer from 1 April to 30 June 2020, and appointed as Group Treasurer from 1 July to 19 October 2020.
10 Left Exco during the prior financial year.
11 Appointed as Exco member during the financial year.
12 Mr BL Kgomo passed away in July 2021.

Notes to the annual financial statements

for the year ended 31 March 2022

38. Group executive committee and director emoluments continued

The table below depicts the actual remuneration for the Transnet non-executive directors for the reporting year:

Board member	Fees R 000	Other payments R 000	**Total 2022 R 000**	Total 2021 R 000
P Molefe (Chairperson)	1 329	—	**1 329**	1 278
LL Von Zeuner	917	—	**917**	840
DC Matshoga	599	—	**599**	575
UN Fikelepi	699	—	**699**	671
GT Ramphaka	699	—	**699**	671
OM Motaung[1]	—	—	**—**	287
FS Mufamadi	699	—	**699**	671
AP Ramabulana	599	—	**599**	575
ME Letlape	798	—	**798**	834
Total	6 339	—	**6 339**	6 402

[1] *Advocate OM Motaung passed away in September 2020.*

39. Restatements

The following restatements to the prior year financial results were made as follows:

Investment property fair value error correction
In the current year, the Group performed an external valuation of investment property and in assessing the change in fair value for certain port related properties, identified an error relating to the prior period fair value of these properties, which resulted in a decrease in fair value of R416 million for the financial year ended 31 March 2021, and an additional R807 million decrease in fair value in previous financial periods, with a corresponding decrease in investment property, as detailed below.

Property plant and equipment capital work in progress (CWIP) impairment error correction
In the current year, the Group performed an assessment of CWIP balances to ensure the amounts are recoverable. Based on the assessment, management concluded there was evidence available in the prior year that certain amounts included in CWIP should have been impaired by R25 million for the financial year ended 31 March 2021, with an additional R528 million impairment relating to previous financial periods and a corresponding decrease in the CWIP balance, as detailed below.

Company 2020 R million	Company 2021 R million		Group 2021 R million	Group 2020 R million
		The restatement had the following impact on the financial statements		
		Income statements		
	(8 375)	Loss for the year as previously reported	(8 386)	
	(441)	Net effect of restatements	(441)	
	(416)	Investment property fair value error correction	(416)	
	(25)	Property plant and equipment CWIP impairment error correction	(25)	
	93	Tax effect of restatements	93	
	(8 723)	Restated net loss attributable to the equity holder	(8 734)	
		Statements of comprehensive income		
	(348)	Increase in loss for the year	(348)	

39. Restatements continued

Company 2020 R million	Company 2021 R million		Group 2021 R million	Group 2020 R million
		Statements of financial position		
131 503	129 190	**Equity attributable to the shareholder as previously reported**	129 323	131 627
(1 335)	(1 776)	Net effect of restatements	(1 776)	(1 335)
(807)	(1 223)	Investment property fair value error correction	(1 223)	(807)
(528)	(553)	Property plant and equipment CWIP impairment error correction	(553)	(528)
181	274	Tax effect of restatements	274	181
130 349	127 688	Restated equity attributable to the shareholder	127 821	130 473
284 769	292 774	**Property, plant and equipment**	292 774	284 769
285 297	293 327	As previously reported	293 327	285 297
(528)	(553)	Effect of restatement relating to CWIP impairment error correction	(553)	(528)
17 143	16 506	**Investment property**	16 506	17 143
17 950	17 729	As previously reported	17 729	17 950
(807)	(1 223)	Effect of restatement relating to fair value error correction	(1 223)	(807)

40. Going concern

The consolidated financial statements are prepared on the going-concern basis. In undertaking the going concern assessment for the foreseeable future, the directors have considered and evaluated the following:

- Financial performance and projections;
- Current economic factors;
- Funding considerations;
- Solvency and liquidity considerations;
- Economic regulation risks;
- Current litigation matters;
- Contingent liabilities and post balance sheet events; and
- Counter party risk.

The key features of this assessment are summarised as follows:

Financial performance
Transnet performance for the 2021/22 financial year (FY) improved from the prior financial year performance but was met with unexpected internal and external challenges as it began paving the way towards pre-pandemic recovery. These challenges placed great strain on operations while negatively impacting performance; rising security incidents mainly cable theft and vandalism of rail and pipeline infrastructure, and an IT security breach and related challenges which largely impacted port and rail operations. In spite of these challenges, the business reported improvements in revenue (+1,8%) and EBITDA (+20,5%) from the prior financial year, with gearing improving to 45,5% and the cash interest cover also improving to 2,6 times, with both ratios achieving loan covenant requirements.

Projections
The 2022/23 Corporate Plan depicts an improvement in financial performance as the economic environment returns to pre-pandemic conditions supported by the end of the National State of Disaster. Financial performance is projected to stabilise in 2023/24 FY and accelerate from 2024/25 FY, warranted by the volume recovery and growth with the resultant revenue improvement. The budget is premised on zero and driver-based principles.

The capital investment plan is anticipated to increase the asset base over the Corporate Planning period by R98,9 billion. A net increase in assets is projected at R26,0 billion after depreciation and amortisation coupled with the sale of wagons and other assets in the formation of PSPs. The return on invested capital is anticipated to grow to 6,4% from the 2021/22 FY to the 2026/27 FY. To preserve liquidity, new expansion projects on the horizon will be funded from alternative funding sources and through segment partnering strategies.

Notes to the annual financial statements

for the year ended 31 March 2022

40. Going concern continued

Funding considerations
Transnet expects continued access to debt capital markets, primarily through the Domestic Medium-Term Note (DMTN) programme, and bilateral long-term loans to satisfy its funding requirements. Transnet will continue to utilise the lead arranger on the DMTN programme to assist the company in executing drawdowns under the programme. A lead arranger has also been appointed for the GMTN programme and preparations for a drawdown under the programme are ongoing depending on market conditions. Transnet also concluded negotiations with an international commercial bank for a syndicated loan facility in June 2022. Furthermore, Transnet concluded a bridge-to-bond facility based on the GMTN programme in July 2022.

All the required waivers from affected lenders relating to the loan covenant breaches reported in the prior financial year have been received, with all matters appropriately closed. The Moody's BCA downgrade loan covenant breach was appropriately resolved in June 2022.

Litigation, contingent liabilities and post balance sheet events
The directors evaluated all significant matters, including ongoing legal proceedings and contingent liabilities with any developments during the post-reporting period and assessed their impact on the liquidity and solvency of the Group. The Group does not expect a negative impact on its funding ability.

Conclusion
After performing the assessment and considering all associated risks, the directors believe that there are currently no material uncertainties relating to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern and thus the directors believe that Transnet will be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern assumption in preparing the financial statements of Transnet SOC Ltd.

41. Events after the reporting period date

Impact of adverse weather and flooding in KwaZulu Natal Province on Transnet's operations
In the month of April 2022, most parts of KwaZulu-Natal experienced extreme storms and heavy rainfall which led to widespread disruptions and regrettably a loss of lives. Transnet was not spared and the immediate focus was to ensure the safety of people, and the reinstatement of operations. Notable damage to assets occurred at Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority and Transnet Property.

The estimated financial impact is under assessment and will be accounted for in the 2023 reporting period. Further details will be provided once the financial impact of the adverse weather and flooding in KwaZulu-Natal province has been finalised or determined with a greater degree of certainty.

Abbreviations and acronyms

AFLAC	American Family Life Assurance Co.
AGSA	Auditor-General of South Africa
Aids	Acquired immune deficiency syndrome
B-BBEE	Broad-Based Black Economic Empowerment
bp	Basis point
BTMU	Bank of Tokyo-Mitshibishi UFJ, Ltd (Japan)
CGT	Capital gains tax
CGU	Cash generating unit
CIC	Cash interest cover
CIDB	Construction Industry Development Board
CIPC	Companies and Intellectual Property Commission
CPI	Consumer price index
CTCT	Cape Town Container Terminal
CVA	Credit valuation adjustment
DCF	Discounted cash flows
DCT	Durban Container Terminal
DIFR	Disabling injury frequency rate
DMTN	Domestic medium-term note
DOA	Delegation of authority
DoT	Department of Transport
DPE	Department of Public Enterprises
DVA	Debit valuation adjustments
EBITDA	Earnings before interest, tax, depreciation and amortisation
Exco	Executive committee
FRMF	Financial risk management framework
FVTPL	Fair value through profit or loss
FVTOCI	Fair value through other comprehensive income
GDP	Gross domestic product
GFB	General freight business
GMTN	Global medium-term note
GRAP	Generally recognised accounting practice
GTK	Gross tonnage kilometer
HIV	Human immunodeficiency virus
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
JIBAR	Johannesburg Interbank Average Rate
JMoA	Joint memorandum of agreement
JPY	Japanese Yen
KPI	Key performance indicator
LIBOR	London Interbank Offered Rate
NCT	Ngqura Container Terminal
Nersa	National Energy Regulator of South Africa
NMPP	New multi product pipeline
NSR	National scale rating
PAA	Public Audit Act of South Africa, No 25 of 2004
PFMA	Public Finance Management Act, No 1 of 1999
Ports Act	National Ports Act, No 12 of 2005
PPM	Procurement Procedure Manual
PPE	Property, plant and equipment
PPPFA	Preferential Procurement Policy Framework Act
Prasa	Passenger Rail Agency of South Africa
RFI	Request for information
RSR	Railway Safety Regulator
Rumo	Rumo Logistica Operadora Multi-model S.A.
S&P	S&P Global Ratings
SACP	Stand-alone credit profile
SAMSA	South African Maritime Safety Authority
SAPS	South African Police Service
SARS	South African Revenue Service
SATS	South African Transport Services
SD	Supplier development
SOC	State-owned company
SP	Special meeting
TEU	Twenty-foot equivalent unit
TMPS	Total measured procurement spend
TN	Transnet bond
TNZA	Transnet Rand bond
TNFU	Transnet floating rate unlisted bond
TSDBF	Transnet Second Defined Benefit Fund
TTPF	Transport Pension Fund: Transnet Sub-fund
USD	US Dollar
WACC	Weighted average cost of capital
WACD	Weighted average cost of debt
ZAR	South African Rand

Glossary of terms

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

Debt (for gearing calculation)
Long-term borrowings, short-term borrowings, employee benefits, derivative financial liabilities plus overdraft less other short-term investments, less derivative financial assets and less cash and cash equivalents.

EBITDA
Profit/(loss) from operations before depreciation, derecognition, amortisation, impairment of assets, dividend received, post-retirement benefit obligation (expense)/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 (as define above) expressed as a percentage of the sum of debt and equity (as defined above).

Headline earnings
As defined in Circular 2/2015, issued by the South African Institute of Chartered Accountants, all items of a capital nature are separated from earnings (by headline earnings).

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

Operating profit margin
Operating profit expressed as a percentage of revenue.

Return on total average assets
Operating profit expressed as a percentage of total average assets, as defined below (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

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Ms NS Dlamini
(Group Chief Financial Officer)

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Ms UN Fikelepi
Ms ME Letlape
Ms DC Matshoga
Mr AP Ramabulana
Ms GT Ramphaka
Mr LL von Zeuner
Prof FS Mufamadi

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