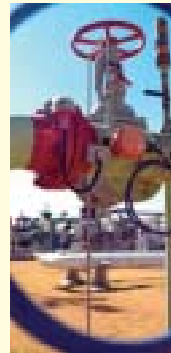
delivering on our commitments

06



Annual Report 2006

TRANSNET

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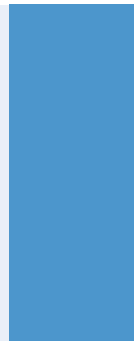
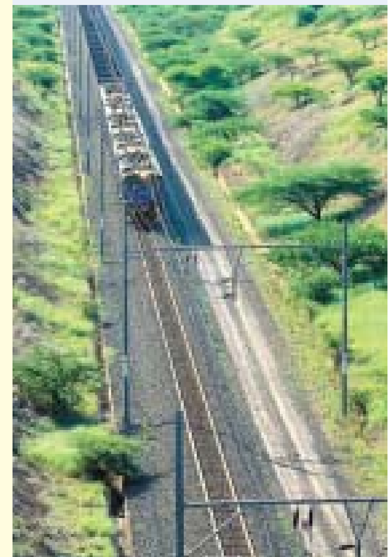
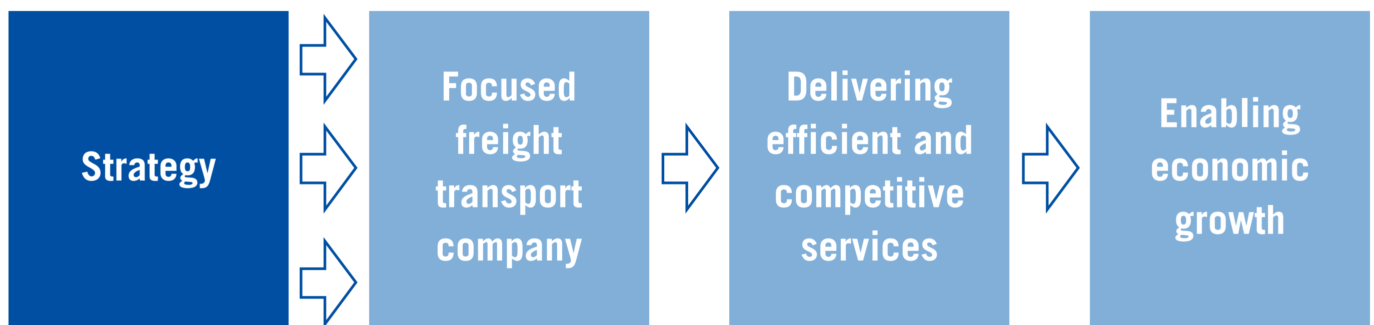


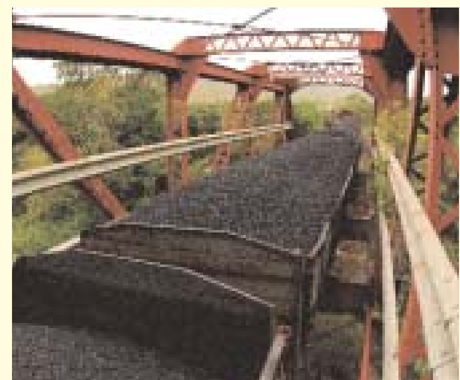


STRATEGIC INTENT



Transnet is a diversified transport and logistics group wholly owned by the South African Government. With over 65 000 employees and assets in excess of R77 billion, the Group seeks to provide integrated, seamless transport solutions for its customers in the bulk and manufacturing sectors as part of the drive to increase the competitiveness of the South African economy.

Transnet is currently transforming into a focused company comprising its port, rail and pipeline businesses. The refocus is designed to ensure that Transnet delivers a reliable service to all its customers, an acceptable rate of return to its shareholder and is a choice and sustainable employer.



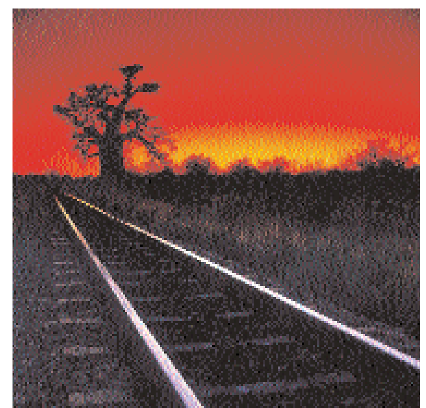
Moving forward...

A year of significant progress

(in R million)	Year ended 31 March 2006		% change
• Revenue – continuing operations*	26 346	▲	7
• Profit from operations before impairment of assets, fair value adjustments and net finance costs – continuing operations	8 478	▲	57
• Operating profit margin – continuing operations	32%	▲	*47
• Equity attributable to the shareholder	27 593	▲	31
• Gearing – continuing operations	47%	▲	24
• Cash flows generated from operations	11 233	▲	**28

** Excluding notional revenue on embedded derivatives.*

*** Excluding R1,7 billion decrease in SAA's operational cash flow.*



COMPANY STRUCTURE

Continuing businesses

Operating divisions

Other businesses

- Esselen Park
- Protekon
- Transnet Housing*
- South African Express Airways (Pty) Ltd*
- Propnet**

** Earmarked for disposal.*
*** Non-core properties earmarked for disposal.*

Businesses classified as discontinued

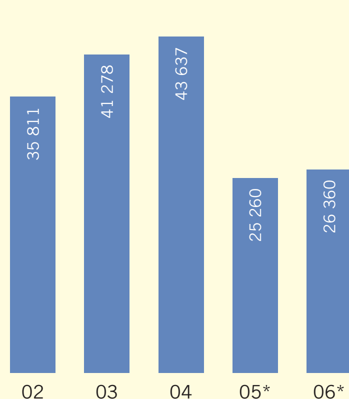
- South African Airways (Pty) Ltd
- freightdynamics
- Autopax Passenger Services (Pty) Ltd
- Metrorail
- V&A Waterfront Holdings (Pty) Ltd
- Viamax (Pty) Ltd
- Apron Services (Pty) Ltd (Equity Aviation)
- VAE Perway (Pty) Ltd
- Transtel (telecommunication assets)

CONSOLIDATED SALIENT FEATURES

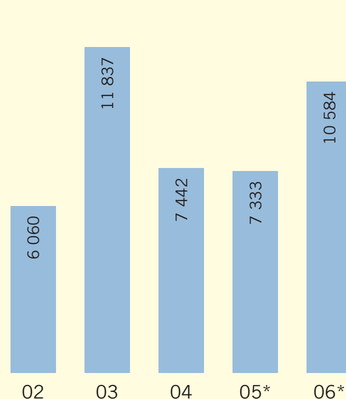
for the year ended 31 March 2006

	31 March 2006* R million	31 March 2005* Restated R million	% change
Turnover – continuing operations	**26 360**	25 260	4,4
EBITDA – continuing operations	**10 584**	7 333	44,3
Operating profit – continuing operations	**8 478**	5 414	56,6
Net profit for the year – continuing operations	**4 456**	5 810**	(23,3)**
Number of ordinary shares issued (millions)	**14 710**	14 710	–
Total assets	**77 333**	77 051	0,4
Total debt	**49 627**	55 945	(11,3)
Capital and reserves (including minorities)	**27 706**	21 106	31,3
Cash flows generated from operations	**11 233**	10 089	28†
Capital expenditure (excluding intangibles)	**6 601**	5 641	17,0
EBITDA margin – continuing operations (%)	**40,2**	29,0	38,6
Operating profit margin – continuing operations (%)	**32,2**	21,4	50,5

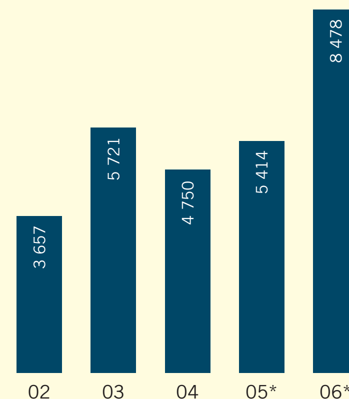
Turnover
R million



EBITDA
R million



Operating profit
R million



* *Continuing operations in accordance with IFRS. All other years are reflected on a SA GAAP basis. For the full effect of conversion to IFRS, refer to note 36 of the annual financial statements.*

** *Includes the reversal of the provision for embedded derivatives in the amount of R3,6 billion.*

† *Excluding R1,7 billion decrease in SAA's operational cash flow.*

Refer glossary of terms on page 170.

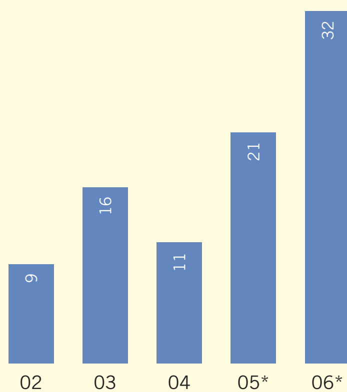
CONSOLIDATED PERFORMANCE INDICATORS

for the year ended 31 March 2006

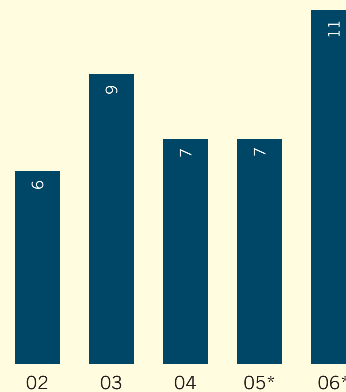
	31 March 2006*	31 March 2005* Restated	31 March 2004	31 March 2003	31 March 2002
PROFITABILITY MEASURES					
Operating profit margin (%)	**32**	21	11	16‡	9
Return on average total assets (%)	**11**	7	7	9‡	6
SOLVENCY RATIOS					
Gearing ratio (%)	**47**	62	83	65	52
Total debt to total capital employed (%)	**47**	73	86	74	71
Interest cover (times)	**3,5**	2,4	0,1	1,9	0,3
CASH FLOW MEASURES					
Operating cash flow to total debt (%)	**30**	18	12	17	11

‡ *Excluding R2,8 billion relating to the sale of MTN Group Ltd shares and the sale of Fleetcall.*

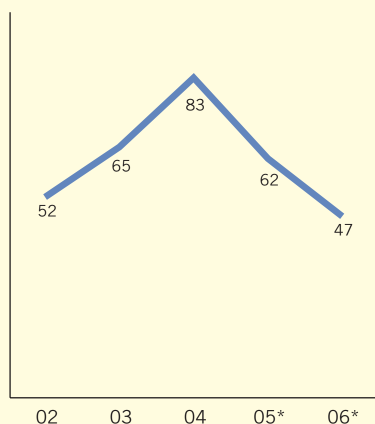
Operating margin (%)



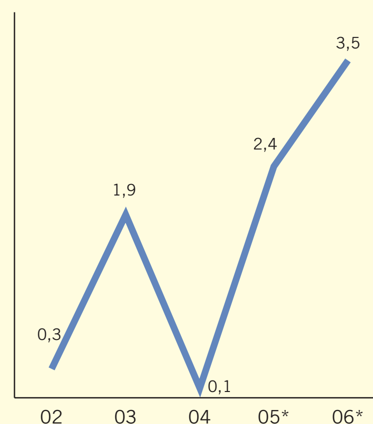
Return on average total assets (%)



Gearing (%)

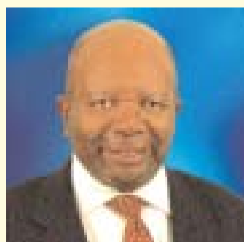


Interest cover (times)



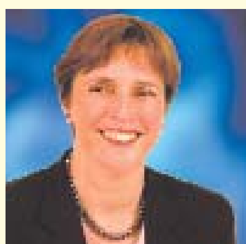
BOARD OF DIRECTORS
as at 31 March 2006

Non-executive chairman



Mr FTM Phaswana (61)
Chairman

Executive director

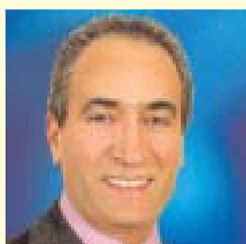


Ms M Ramos (47)
Group Chief Executive

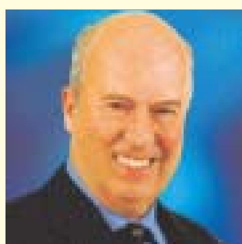
Executive director

Mr CF Wells (56)
Chief Financial Officer

Non-executive directors



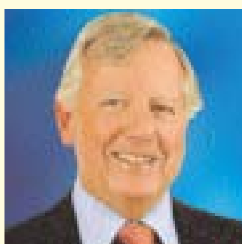
Dr I Abedian (50)



Prof GK Everingham (56)

Ms NBP Gcaba (35)

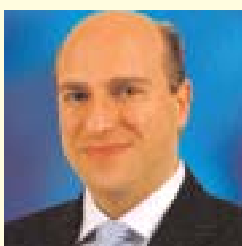
Dr SE Jonah KBE (56)



Mr PG Joubert (73)

Ms NNA Matyumza (43)

Mr BT Ngcuka (52)



Mr S Nicolaou (41)

Ms KC Ramon (39)

Mr FTM Phaswana (61)
MA (SA), BCom (Hons) RAU

Other directorships
Anglo American Plc
Chairman: Anglo American Corporation of South Africa Ltd
Naspers Ltd
Chairman: Ethos Private Equity Ltd
Cape Mental Health Society
Chairman: Cape Town Graduate School of Business, Board of Advisors
Chairman: South African Institute of International Affairs
Patron: Trauma Centre

Ms M Ramos (47)
Institute of Bankers Diploma (CAIB) (Institute of Bankers), BCom (Hons) (Economics) (Wits), MSc degree in Economics (University of London)

Group Chief Executive

Other directorships
South African Airways (Pty) Ltd
Sanlam Ltd

Mr CF Wells (56)
BCom (University of Cape Town), CA(SA)

Chief Financial Officer

Other directorships and trusteeships
Chairman: Transnet Pension Fund

Dr I Abedian (50)
BA (Hons) (Economics) University of Cape Town, MA (Economics) (University of Cape Town), PhD in Economics (Simon Fraser University in Canada)

Founder and Chief Executive: Pan African Capital Holdings (Pty) Ltd

Other directorships and trusteeships
AFReC (Pty) Ltd
Chairman: PBS (Pty) Ltd
Munich Reinsurance Company of Africa Ltd
Chairman: DBSA (Credit Committee)
National Business Initiative
Transnet Second Defined Benefit Fund

Prof GK Everingham (56)
BCom (UPE), BCom (Hons) (UCT), MAS (Illinois), CA(SA)

Professor of Accounting at UCT

Other directorships
V&A Waterfront Holdings (Pty) Ltd

Ms NBP Gcaba (35)
BJuris (University of Fort Hare), LLB (University of Natal)

Partner at Spoor & Fisher Attorneys

Other directorships and trusteeships
Transnet Retirement Fund Property Trust

Dr SE Jonah KBE (56)
ACSM, MSc, DIC, DSc (hc) D Phil (Lc)

President: AngloGold Ashanti Ltd

Other directorships and trusteeships
AngloGold Ashanti Ltd
Anglo American Corporation of South Africa Ltd
Anglo Platinum Ltd
African Regional Advisory Board of the London Business School
Transnet Second Defined Benefit Fund

Mr PG Joubert (73)
BA (Rhodes), DPWM (Rhodes), AMP (Harvard)

Director of Companies

Other directorships and trusteeships
Chairman: BDFM Publishers (Pty) Ltd
Hudaco Industries Ltd
Chairman: Munich Reinsurance Company of Africa Ltd
Chairman: Sandvik (Pty) Ltd
South African Airways (Pty) Ltd
Chairman: Protekon (Pty) Ltd
Transnet Second Defined Benefit Fund
South African Brain Research Institute

Ms NNA Matyumza (43)
BCom (University of Transkei), BCompt (Hons) (University of Transkei), LLB (University of Natal)

General Manager: Eastern Region, Eskom Distribution

Other directorships
Born Free Investment (Pty) Ltd

Mr BT Ngcuka (52)
BProc (University of Fort Hare), LLB (University of South Africa), MA (International Relations) (Webster University, Geneva, Switzerland)

Businessman

Other directorships and trusteeships
Chairman: Amabubesi Investments
STRB Attorneys
Chairman: V&A Waterfront Holdings (Pty) Ltd
The PA Group Ltd
Chairman: City Couriers
Growthpoint Properties
Mutual & Federal (Pty) Ltd
Chairman: Basil Read Holdings Ltd
Chairman: Transnet Foundation Trust

Mr S Nicolaou (41)
Bachelor of Pharmacy (University of Witwatersrand), International Trade (Institute of International Trade of SA)

Group Senior Executive: Strategic Trade, Aspen Pharmacare Holdings Ltd

Other directorships and trusteeships
Aspen Pharmacare International (Pty) Ltd
Garec Pharmaceuticals (Pty) Ltd
Chairman: South African Express Airways (Pty) Ltd
Merck Mzisi Foundation

Ms KC Ramon (39)
CA(SA), Senior Executive Programme graduate (Harvard Business School in conjunction with Wits Business School)

Chief Executive Officer: Johnnic Holdings Ltd

Other directorships
Johnnic Communications Ltd
Autopax Passenger Services (Pty) Ltd

EXECUTIVE COMMITTEE

as at 31 March 2006

The Executive Committee takes **responsibility** for the **execution** of the **strategy**.

Standing left to right

Mr P Maharaj (Group Executive: Strategy and Transformation)
Mr K Phihlela (Chief Executive Officer: National Ports Authority)
Mr C Wells (Chief Financial Officer)
Mr T Morwe (Chief Executive Officer: South African Port Operations)
Mr L van Niekerk (Chief Operating Officer)
Mr V Kahla (Group Executive: Legal and Risk)
Mr C Möller (Chief Executive Officer: Petronet)
Mr R Vallihu (Chief Executive Officer: Transwerk)

Seated

Mr S Gama (Chief Executive Officer: Spoornet)
Ms M Ramos (Group Chief Executive)
Ms BS Tshabalala (Treasurer)

CHAIRMAN'S STATEMENT

Economic outlook

South Africa's economic outlook remains positive, despite the depreciation of the rand and the increase in interest rates during the first half of 2006. Building on a stable macroeconomic foundation and six years of uninterrupted growth, economic expansion is expected to continue over the medium term, providing tangible opportunities to reach Government's target of halving unemployment and poverty by 2014.

In economic terms 2005 was a remarkable year during which the economy grew at a rate of nearly 5%. The positive economic situation was reflected in a booming equities market. In spite of the strong rand, the export sector posted a strong showing, helped along by high commodity prices and a benign global economic environment. Performances by the coal, iron ore and automotive sectors were particularly robust.

South Africa's export performance is expected to improve as commodity prices remain strong and the competitiveness of a broader range of manufactured exports increases, assisted by a weaker rand. Despite the softer currency and higher interest rates, domestic demand should remain strong, if more subdued, with improved export volumes and a gradual narrowing of the current account deficit. Accordingly, inflation, which is likely to increase in the short term, should remain in the 3% to 6% target range in the medium term.

This forecast of broad-based growth directly affects the range of sectors in which Transnet's core businesses operate.

Sustained high crude oil prices represent a significant threat to the local and global economy. While oil prices at current levels have largely been factored into prices, there is no question that this will continue to place inflationary pressure on the domestic economy, with a resulting negative impact on Transnet's business.

Transformation

In line with the four-point turnaround strategy announced in August 2004, we have now completed the first full year of Transnet's transformation.

Considerable progress has been achieved. We are on track to dispose of non-core businesses by December 2006. Metrorail was sold to Government in May 2006. South African Airways was sold to the Department of Public Enterprises, effective 31 March 2006, subject to certain suspensive conditions.

Management's achievements on the transformation front include the following:

- Risk management and corporate governance processes and structures have been strengthened;
- The head office restructuring process has been completed, and key managerial positions have been filled; and
- An operational efficiency improvement programme has been launched, focusing on improved delivery and adding value for our customers.

Fred Phaswana *Chairman*

> **"Considerable progress** has been **achieved.** We are **on track . . ."**

The executive will remain focused on recruiting and developing the human capital required to transform Transnet into a high-performance organisation in accordance with the Board-approved human resources strategy.

In addition to developing our human capital, Transnet is planning large-scale investments in equipment and infrastructure that will support the efficiency of the business over the long term – and underpin South Africa's economic growth.

Turning Transnet around is a long-term project that will require the sustained effort and energy of the executive team, and the support of all employees. By definition, this must be an inclusive process. In this regard, we particularly endorse the establishment of the Strategic Leadership Forum under the leadership of Group Chief Executive Maria Ramos. The forum brings together the executive team and the leadership of organised labour, and provides an opportunity to improve the level and quality of engagement on implementing the Board-approved strategy. Ongoing communication and understanding between labour and management will be a key component in achieving our turnaround objectives to the benefit of the entire Group.

Results of turnaround strategy

The benefits of the turnaround strategy are already visible. This was reflected in the interim results published in December 2005, in which all our core divisions registered an improved performance on the same period a year earlier. Our year-end results, published here, have followed a similar trend, with operating profit rising by 57% to R8,5 billion and the balance sheet significantly strengthened.

On the strength of this continuing and robust business performance we are confident that the turnaround strategy provides the foundation for a long-term, sustainable and profitable growth path.

With financial stability achieved, the executive can now focus on strengthening Transnet's operational efficiency gains and the progressive implementation of our strategy, which should translate into a more reliable service for our customers and a better safety performance in our operations.

Corporate governance

Transnet is firmly committed to implementing the recommendations of the King II Code of Corporate Governance, and compliance with the Companies Act and the Public Finance Management Act. We have adopted the Code as the benchmark against which our corporate practices are measured, monitored and continuously improved.

Integral to this process is the proactive management of risk to ensure that the Company is sustainable, and that we play a meaningful role in the South African economy. To this end, Transnet commits substantial management and other resources to the development and improvement of risk and control procedures.

I am pleased to report that the separation of responsibilities by all role players – the executive, the shareholder and the Board – has continued to characterise our work in the last year. Similarly, I am satisfied that my colleagues on the Board are achieving the necessary balance between direction and compliance-related tasks.

For some time, the Board has been seized with the task of rethinking executive remuneration. During the year we achieved much progress in this regard. We have sought to modernise the reward system to achieve an appropriate balance between attracting and retaining talented executive leadership, while maintaining an acceptable public service ethos. Consequently, the Board, through its Remuneration Committee, sanctioned two reviews during the year.

The result of this exercise is reflected in the adjustments made to executive remuneration. Though we still have some way to go, we are satisfied that the adjusted levels have brought our reward system closer to those of executives in businesses of comparable complexity, profile and size.

Anticipating that the disposal of non-core assets will be accelerated, the Board has adopted a policy designed to avoid conflicts of interest. The policy precludes directors, executives, managers, advisers and anyone with specialist knowledge of the business and those companies earmarked for sale from bidding for any of the assets being disposed of.

As directors, we have also agreed to a cooling-off period of 18 months after departure from the Board.

This policy is both unprecedented and exemplary in corporate South Africa. I am pleased that the directors – most of whom are active business people – have agreed to put the interests of the country first.

Broad-based black economic empowerment

It is universally accepted that higher levels of growth and investment are needed if South Africa is to sharply reduce unemployment and poverty. However, such growth must be broad-based and shared throughout society. To help bridge the divide between the formal and informal economies, particular emphasis must be placed on black economic empowerment (BEE) and the participation of women and youth in the economy. In this regard Transnet, as a state-owned enterprise making large-scale capital investments over the next few years, plays a pivotal role.

Management has been hard at work aligning the Group's internal processes with Government's BEE policy, particularly in relation to procurement and provision of services to Transnet. During the year Transnet has achieved 42% BEE procurement across the Group, and we expect to surpass this level during the coming financial year.

Transnet will work closely with our shareholder to ensure not only the successful planning and rollout of the capital investment programme, but also that its implementation advances other public policy goals, including BEE and promotion of local industries.

Transnet will work to ensure that the disposal of non-core businesses, which will be conducted through a transparent bidding process, accelerates meaningful participation of previously disadvantaged groups in accordance with the BEE codes of good practice.

During the year, Government issued a new set of BEE codes covering compliance by public institutions. As one such institution, Transnet welcomes the new codes, which go a long way towards creating public policy stability and fostering additional confidence among investors.

In this regard, Transnet has made a comprehensive submission on the BEE codes to the Department of Trade and Industry. In our view, the success of the codes will rest on their simplicity, alignment with other legislative and policy instruments (including skills development, preferential procurement and employment equity), clarity of purpose and consistency of application. We also hope that the codes are sufficiently flexible so that the authorities are able to grant speedy relief in cases where the policy instruments have unintended consequences.

Prospects

In the year ahead our focus will remain on implementing the turnaround strategy. The disposal of non-core assets should be completed, all passenger transport businesses should have exited the Transnet stable, the capital investment programme will be well underway and the efficiency improvement programme will have begun to deliver its intended benefits.

Accordingly, the management team will shift its focus to preparing strategies that will take Transnet into the future. This will include articulating Transnet's role in South Africa's freight and logistics value chain clearly, working to reduce the cost of doing business and defining the role that the Company will play on the rest of the African continent.

Transnet needs to respond to some of the legislative imperatives contained in the National Freight Logistic Strategy and the National Ports Act. We must also address certain business imperatives, including the projected growth in the containerisation of freight, and client demand for improved operational efficiency and service flexibility.

Above all, we need to leverage our unique advantage as the custodian of South Africa's major port, rail, and pipeline infrastructure to create an efficient transport platform that will act as a catalyst for economic growth.

I am confident that Transnet will make significant progress in the implementation of its strategy over the coming year.

Appreciation

Our transformation journey is underway. As evidenced by the dispute with labour during the year, transformation will not be easy, regardless of the nobility of its purpose. However, the Board is pleased with the responsible and enlightened way that management handled the dispute with the unions, and would like to express its appreciation to Transnet staff for their role in minimising the negative effects of the strike on both the business and the economy at large.

A collaborative working relationship with all our stakeholders – our 65 000 employees, labour unions, Government, suppliers, financiers and management – is required if transformation is to succeed. To this end, the Board wishes to express its gratitude to all our staff and management for the commitment, loyalty and the tenacity they have demonstrated, sometimes under very trying circumstances.

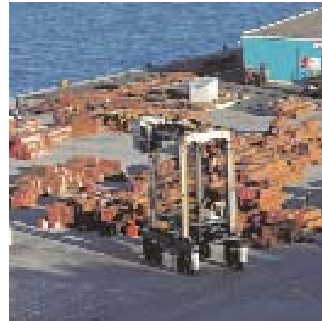
We would like to commend the Group Chief Executive Maria Ramos and her executive committee for their commitment and energy to doing what is best for the Company and its contribution to the country. The organisational transformation of a company of Transnet's magnitude is a mammoth task, and we are heartened that our Group Chief Executive's great work is being noticed by her peers, who voted her as the Sunday Times Business Times Leader of the Year in 2005, the first woman and the first public sector leader to win the award. On behalf of the Board let me thank and congratulate her for agreeing to extend her contract – when it expires in October 2006 – for another two years. She has our full support.

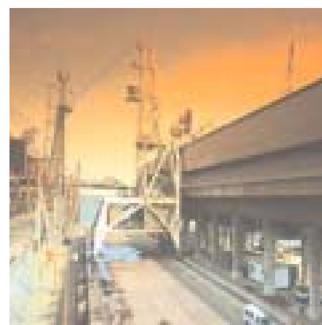
During the course of the financial year we had one resignation from the Board – that of Moira Moses, who left in September 2005 to take up a management position within Transnet's head office. Let me take this opportunity to extend the Board's gratitude to Ms Moses. Her contribution to this Board was valuable and we wish her success in her new role.

On the Board's behalf, we are pleased to welcome Ms Nunu Ntshingila and Dr Norman Haste, OBE to the Board of Transnet.

They join us at a crucial time in Transnet's history. This is part of the ongoing process of building the highly skilled and diverse team required to take Transnet forward in its transformation to become a freight transport company.

I would like to express my gratitude to the pair for accepting the challenge of joining this excellent institution. Between them, they bring a wealth of experience and talent in Board direction and executive management that will undoubtedly further deepen the skills of the Board and ultimately help Transnet Ltd fulfil its mandate of reducing the transport-related costs of doing business in our country.





Ms Ntshingila, who serves on various boards including chairing the V&A Waterfront (Pty) Ltd, and is a director on the board of the V&A Waterfront Holdings, is Chief Executive Officer of Ogilvy in South Africa. She was educated in Swaziland and has an MBA from Morgan State University in Maryland, USA.

Dr Haste OBE, an accomplished civil engineer, is a graduate of the University of Salford. He is a fellow of a number of professional institutions including the Royal Academy of Engineering, the Institution of Civil Engineers and the Institution of Highways and Transportation as well as a member of both the American Society of Civil Engineers and the Institute of Management.

I also want to thank my colleagues on the Board for their wise counsel and active contribution to the success of the transformation project. Their commitment in serving on the governance structures of the Board not only ensures compliance with corporate governance requirements, but also enhances the quality of decisions taken. I have no doubt that their collective wealth of knowledge and experience will have an enormous impact on the future of this Company.

We appreciate the visible support that Minister Alec Erwin, MP, and the Department of Public Enterprises have shown for our transformation programme.

In closing, I would like to thank Transnet's customers and clients for their continued confidence, support and understanding during this transformation process. Transnet's goal is to improve our business and service offerings so that we can deliver on our commitments to you without fail.

Fred Phaswana
Chairman

30 June 2006

GROUP CHIEF EXECUTIVE'S REVIEW

Maria Ramos *Group Chief Executive*

> **"The turnaround is continuing to bear the desired fruit ..."**

INTRODUCTION

In 2005, Transnet Ltd achieved measurable progress toward the goal of becoming an efficient and focused publicly owned freight company – one that delivers acceptable returns to its shareholder and provides reliable services to its clients.

At the beginning of the financial year Transnet remained an unwieldy conglomerate. A year later, it has become an increasingly focused, agile and customer-oriented company.

Of course, transforming a large, complex organisation such as Transnet is by definition a long-term process, not an event. We have made considerable progress in implementing our strategy. I am pleased to report that the latest results – for the year ending 31 March 2006 – confirm the strength of the foundation laid in the preceding year. All the core businesses have continued their solid profit trend while implementing their strategies in line with the four-point turnaround strategy.

BACKGROUND

The results show that the implementation of our strategy has had a far deeper impact than we had originally envisioned for this stage of the process. Both the form and the behaviour of the organisation have changed dramatically.

In a year, we have put together two complex transactions – that is, the sales of SAA and Metrorail to the Department of Public Enterprises (DPE) and the Department of Transport respectively – resulting in a leaner, more focused organisation. We sold the urban fibre telecommunication assets of Transtel to the Second Network Operator. Approximately 82 million shares in MTN Group Ltd (MTN), primarily owned by the M-Cell Trust on behalf of the Transnet Second Defined Benefit Fund, were sold at about R60 per share. We are on course to dispose of more assets that we have deemed non-core by December 2006.

At its most basic level, the change is more discernable in the way we report: given the progress made in focusing Transnet into being a custodian of freight rail, pipelines and ports, we are able to measure our performance in terms of continuing versus discontinued businesses concepts. Also, focusing our energies on our customer needs and plans is paying off. Not only are we able, for the first time, to deliver on most of our commitments, but in certain instances we have, in fact, exceeded our customers' expectations.

In recognition of improved efficiencies at our ports, arising out of a closer working relationship with shipping lines, the surcharge of $100 per container was scrapped during the year, thereby removing a further R100 million cost to our economy.

In fulfilment of our mandate to reduce the cost of doing business, we were able to rely on freight volume increases – instead of tariff increases – to grow our revenues. We kept tariff increases across our core business units below the rate of inflation, ensuring that income growth was fuelled by moving more freight.

However, the best evidence of the turnaround lies in the numbers. The financial highlights of the year include the following:

- Revenue from continuing operations increased by 7% to R26,3 billion and reflects approximately 3% volume growth in aggregate;
- Capital expenditure amounted to R6,6 billion, an increase of about R1 billion on the previous year. This amount included part payment for 110 locomotives for Spoornet – the first acquisition of locomotives in many years;
- Operating expenses excluding impairments and fair value adjustments decreased by 10% to R17,9 billion, reflecting both productivity improvements and a significant reduction (R421 million) in post-retirement benefit costs;
- Operating margins increased to 32% (2005: 21%) and all core operating divisions increased margins, enabling operating profit to increase by 57% to R8,5 billion;
- Transnet's capital base grew 31% to R27,6 billion, mainly as a result of the net profit after taxation and the net actuarial gains recognised directly in reserves. This provides a solid equity base for the funding of the capital investment programme;
- Cash generated from operations increased by 28% to R11,2 billion (after adjusting for the cash flows from SAA in order to provide a better comparison) and reflects Transnet's strong cash generating ability; and

- As a consequence of the increased capital base, the strong cash flow and the disclosure of the borrowings in assets held-for-sale separately, gearing improved to 47% (2005: 62%).

Whilst all the key performance indicators showed pleasing improvement on last year and demonstrate that the turnaround is continuing to bear the desired fruit, accelerating the rollout of our capital expenditure programme is an area needing urgent focus and this is well underway.

Our success to date is based on a clear mandate, a supportive and responsible shareholder, a focused and diligent Board of Directors, a simple strategy and a competent executive team committed to driving the implementation of this strategy purposefully.

This year also marks Transnet's progress in breaking a long-term legacy of false starts, and the year in which we began the march towards building "one company, one team, one vision".

This report aims to provide a forthright assessment of Transnet's progress measured against our principal goals as defined in our Corporate Plan.

Strategic overview

The pillars of our corporate strategy, as reported last year, remain unchanged. Transnet's turnaround strategy rests on:

- Redirecting the business;
- Restructuring the balance sheet;
- Improving risk management and adherence to high standards of corporate governance; and
- Revitalising our human capital.

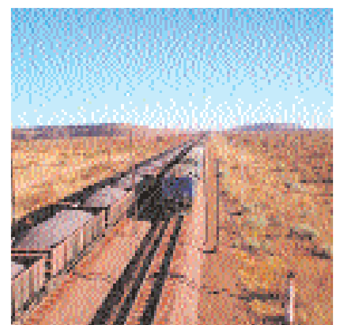
These elements form our road map for transforming Transnet. We intend playing a major role in enabling our economy to grow at 6%, in line with Government's vision as enshrined in the Accelerated and Shared Growth Initiative of SA (ASGISA).

All those assets or businesses that do not support the strategy of building a world-class freight transport company are being sold, either to Government or the private sector.

Transnet's core or continuing businesses are:

- Spoornet, our freight rail division;
- National Ports Authority (NPA), which fulfils the landlord function for South Africa's port system;
- South African Port Operations (SAPO), which operates the nation's leading ports;
- Petronet, the fuel and gas pipeline business; and
- Transwerk, the rolling stock maintenance division.

Our social investment arm, the Transnet Foundation, will continue to be the channel for investment in the disadvantaged communities in which we operate. Its exact role and function is being redefined with its trustees, to achieve better alignment with our vision.



Strategy implementation

With the strategic direction confirmed, this year was characterised by implementation of the Board-approved strategy.

Below we review each component of the strategy.

Redirecting the business

We have initiated a far-reaching business reengineering programme to build Transnet's core business units into efficient, profitable and customer-oriented entities as envisaged in the four-point turnaround strategy. The key elements of this project focus on unlocking synergies and improving interfaces between rail and ports, and growing Transnet's market share and profitability.

The programme – Vulindlela – will continue over several years. Vulindlela consolidates all of our internal reengineering and efficiency improvement initiatives, and is expected to contribute significantly to the bottom-line over the next three years. It is designed to boost the sustainability of our strategic initiatives.

We have established a Vulindlela Programme Office in the Corporate Centre to coordinate the reengineering process. After a rigorous search, we appointed an international consultancy with a track record in the field of business transformation, to provide strategic support to this process, in partnership with a respected local black economic empowerment firm. A Vulindlela Steering Committee has been established to ensure accountability and high standards of governance, as well as grant a platform for peer review.

Vulindlela is initially focusing on:

- The optimisation of Spoornet's iron ore line, the general freight business and the coal line;
- Improving maintenance practices and culture;
- Containing costs, simplifying processes and improving service delivery;
- Upgraded procurement processes;
- Improving safety; and
- Attention to Spoornet's National Operating Centre, which is focusing on the scheduling of trains.

Not surprisingly, most of these initiatives are concentrated in Spoornet. Turning around the freight rail division is the key to Transnet's future. However, reengineering is necessary – and is underway – in all business units.

Whilst these projects will run for several years, significant benefits are already evident. For example, the reengineering team has been able to improve delivery times on the coal line by more than 10% since September 2005 with the introduction of a new scheduled operating system. The maintenance team working on this programme has decreased outage time on the main line from 64,4 to 21,6 hours.

Numerous customers, such as coal mining companies, have welcomed the launch of the programme and, more importantly, they have started feeling its positive effects. On more than one occasion, they have run out of freight to be transported as a result of improved efficiency levels.

Another example where our activities will pay dividends in the long-term, is in procurement, where reengineering efforts are focused on achieving economies of scale, setting policy and coordinating procurement practices throughout the business. Negotiating with top suppliers and leveraging economies of scale will achieve substantial savings for Transnet, and we are already beginning to see the benefits of this.

A number of additional opportunities to increase the volume of coal transported exist and are being pursued – including the purchase of 110 new locomotives, the upgrading of sections of the line, improved safety and planning significant future investment.

Vulindlela is integral to Transnet's focus on reducing the cost of doing business in South Africa through improved efficiency, capacity building and enabling appropriate freight to be railed instead of using road transport.

Reengineering operations is also key to our ability to make major infrastructure investments over the next five years. Such investment is required in anticipation of the strong economic growth that is expected to continue over the medium term.

The cost of transport and logistics is one of the most serious constraints to more rapid and broad-based economic growth. Government's large-scale infrastructure spending plans – and ASGISA, which aims to reduce constraints to more rapid levels of growth – confirm the importance of improving and upgrading South Africa's logistics system.

Transnet plans an accelerated investment in economic infrastructure, committing R64,5 billion over the next five years to a capital expenditure programme. This programme will address the significant investment backlog and lay the foundation in port, rail and pipeline capacity for future growth over the medium term.

Spending such large amounts in a short space of time is notoriously hard to do in an efficient manner – particularly in a country that faces capacity constraints. Nor has Transnet ever carried out such a demanding investment programme in such a short space of time. To ensure effective management and better coordination of this plan, we have set up a central capital projects team within the Corporate Centre. This team oversees all capital projects above R300 million.

Centralising the major capital projects – seven are underway – is designed to free up divisional managers to concentrate on managing their units, preventing cost and schedule overruns, and ensuring skills and technology transfers as a result of pairing experienced project professionals with less experienced ones.

In addition to internal governance mechanisms – such as regular reports to the Group Executive Committee and its constituent structures, and to our Board – we give regular updates to the shareholder on our capital investment programme.

Building on the R6,6 billion capital expenditure this year, the major capital expenditure projects over the next five years include:

Spoornet (R31,5 billion)

- Iron ore corridor expansion (rail and Saldanha infrastructure);
- Richards Bay coal line and infrastructure expansion;
- Refurbishment/maintenance programme; and
- General freight fleet renewal and upgrade programmes.

Transwerk (R2,6 billion)

- Upgrade of equipment and facilities.

NPA (R18,6 billion)

- Completion of the Port of Ngqura;
- Container terminal expansion – Cape Town and Durban; and
- Durban port entrance channel project to enable growth and servicing of larger ships.

SAPO (R6,3 billion)

- Container terminals expansion – Durban, Cape Town and Ngqura;
- Multi-purpose terminal expansion – Durban;
- Iron ore terminal expansion; and
- Richards Bay dry bulk terminal.

Petronet (R4,9 billion)

- New multi-product pipeline;
- Upgrade of the gas pipeline; and
- Terminalling and logistics.

Having agreed on the core business units of a future Transnet, we completed the restructuring of the head office to provide strategic direction to the rest of the Company. We have redefined the role of the Corporate Centre, agreed on its structure, determined an appropriate size for it and identified the necessary skills profile.

Restructuring any organisation is a difficult task, and ours was no different. It has required a lot of care, assiduous planning and meticulous implementation to ensure that those affected are treated with dignity, compassion and sensitivity. We have accomplished this task, in part due to the active cooperation of all involved.

The same rethink of the Corporate Centre functions, albeit on a smaller scale, will need to cascade throughout our business units. The new Corporate Centre, together with the executive teams in the divisions, is driving the formulation of policies to underpin and embed a new culture, new values and new ethos.

Restructuring the balance sheet

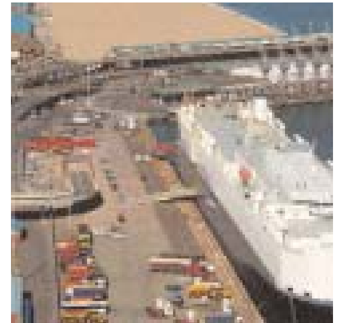
During the year Transnet took significant steps to reshape its balance sheet to strengthen it for further growth and the capital investment programme.

Transnet is a state-owned enterprise but receives no state funding. Minister of Public Enterprises Alec Erwin MP describes our role as follows: "The state-owned enterprise has a corporate form substantially the same as those in the private sector and is subject to the disciplines of the capital markets, as it has to use these markets as a source of finance for its operations. The difference is that its shareholder, and a decisive shareholder, is the state."

This definition is a good starting point in our efforts to build a stronger balance sheet. A healthy balance sheet is an integral part of our investment strategy; and, as mentioned earlier in this report, our gearing improved considerably to 47% from the prior year's 62%, further strengthening our balance sheet.

Transnet's future lies in owning and running ports, freight rail and pipeline businesses. Accordingly, all businesses that do not fall within this scope are being sold, either to Government or the private sector.

Unfortunately, the process of disposal of the non-core entities caused concern among labour unions. A dispute declared in August 2005 – in protest to the perceived unilateral action by management and over the timing of the disposals – led to two months of industrial action by the unions during the last quarter of the financial year.



Fortunately, this eight-month dispute, which lingered like a dark cloud over our efforts to make Transnet an efficient and focused freight transport company, is now behind us. Thanks to the resilience of our contingency plans, commitment by our staff and cooperation with our clients and customers, disruptions to the economy were kept to a minimum. The strike's cost to Transnet was less than R40 million, far lower than many had predicted.

The disposal process is now back on track (see also the section of this review on Stakeholder Relations) and the remaining disposals are expected to take place within our projected deadlines.

All the non-core businesses that have met the requirements of IFRS 5 are recognised as discontinued operations in this Annual Report. SAA, the largest of these businesses, was sold to Government with effect from 31 March 2006, subject to the fulfilment of certain suspensive conditions. The sale price was at fair value of R2 billion, effected by means of a share buy-back.

Operational responsibility and the risk and rewards for Metrorail, the passenger rail operator, was transferred on 26 December 2005 to the South African Rail Commuter Corporation (SARCC) for a price consideration of R1, paving the way for the transfer agreement of the assets and liabilities, which was effected on 1 May 2006. The transfer is among the first significant steps to integrate planning and operation of the public transportation system in South Africa. The benefits to the commuter public as a result of this consolidation are expected to be significant over time. All workers are transferring in terms of section 197 of the Labour Relations Act, meaning that their conditions of service are, on the whole, no less favourable than they were when Transnet was the employer.

The next phase of this consolidation will be the transfer of Shosholoza Meyl, the long-distance passenger rail service, to the SARCC.

We have appointed transaction advisers for the following businesses due for disposal:

- Trade sale/initial public offering: our 26% of V&A Waterfront Holdings (Pty) Ltd. The sale process has been publicly launched;
- Open market business sale: freightdynamics, Viamax (Pty) Ltd and the Blue Train. The sale process in respect of freightdynamics and Viamax (Pty) Ltd has been launched;
- Sale of shares in terms of existing shareholders' agreement for VAE Perway (Pty) Ltd and Apron Services (Pty) Ltd (Equity Aviation);
- Autopax Passenger Services (Pty) Ltd. The strategy around this disposal is under review; and
- Sale to the Second Network Operator of Transtel's full service network was finalised post year-end for R259 million.

In addition the assets of Transnet Housing, our housing division, are non-core and therefore will be disposed of. The granting of loans to certain employees will, however, continue, albeit in a new structure. The disposal of these assets has been on hold whilst the accounting and system weaknesses in the division were addressed – this has now been done.

Transnet has a significant property portfolio. This is made up of a range of asset classes including residential, commercial, vacant land and strategic properties. A process to identify what is core and strategic is currently underway and non-core properties will be sold.

In line with our turnaround strategy, we continued to pursue opportunities to unwind the "C" preference share held by Newshelf 697 (Pty) Ltd (an entity controlled by Transnet). The "C" class preference share's value moves in concert with the share price of MTN. Due to the volatility in the underlying MTN share price, the impact it has on our results and the fact that it is a significant investment (fair value R3,8 billion) in a non-core asset, we will continue to look for opportunities to exit this investment at fair value.

During the year, some 82 million shares in MTN – mainly owned by the M-Cell Trust (for the benefit of the Transnet Second Defined Benefit Fund) with a minor stake held directly by Transnet – were disposed of at about R60 per share through an accelerated book-build. This enabled the fund to exit this significant equity stake and to re-invest the proceeds into cash and bonds, a more appropriate asset allocation.

Transnet realised a total profit of R404 million from the sale of the MTN shares. During the year, the M-Cell Trust distributed R84 million in interest and dividend receipts to Transnet as the vested income beneficiary.

Improving risk management and corporate governance

In terms of risk management and corporate governance, Transnet is mainly guided by the King II Code of Corporate Governance, the Companies Act and the Public Finance Management Act. The latter enlarges the compliance canvas for executive managers of public entities such as Transnet beyond the requirements of the Companies Act.

This year was one of consolidation in this area: having established the requisite governance structures, we set out to deepen the frameworks.

The mandates and composition of the Executive Committee and the committees that support its work – Capital Investment, Asset and Liability Management, Risk Management and Operations – have remained largely unchanged.

The Executive Committee (see the photograph on page 8) includes the four Group Executives – Legal and Risk, Strategy and Transformation, the Chief Financial Officer and the Chief Operating Officer – and the CEOs of the following core business units: Spoornet, SAPO, NPA, Petronet and Transwerk.

This has ensured both continuity and efficiency. To enrich the work of these committees, other senior colleagues are included as attendees and invitees.

The Enterprise Risk Management Framework adopted by the Board aligns the Group's risk appetite with its corporate strategy. For an enterprise like ours, this has meant a considerable degree of groundwork to put in place processes and procedures as part of building a culture of risk management.

While this vital area is ultimately the responsibility of the Board, it is delegated to the Executive Committee for implementation. Two committees support this process: Group Risk Management and Group Asset and Liability Management. As a result, we have a much better analysis of Transnet's risk profile.

During the year, we outsourced our internal audit function to Ernst & Young. I am pleased to report that this process has gone smoothly. Even at this early stage, we are deriving significant benefits from the professionalism, capacity and technology of this arrangement.

To enhance the control environment, much emphasis has been placed on rolling out the anti-fraud plan and the code of ethics throughout the business. These have been publicised to ensure compliance by employees and suppliers.

As part of the disposals process, conflict of interest rules have been put in place. Generally, these rules preclude members of the Board, executives and staff from participation in the purchase of these assets.

The effort to build a culture of infrastructure maintenance is expected to yield long-term results. However, to ensure that the right priority is immediately given to safety, both the Board and the Executive Committee have given prominence to the implementation of the safety plans as well as to a detailed monitoring of all major incidents. All incidents are investigated and reported on with urgency and action plans are implemented under the leadership of senior management.

The results contained in this Annual Report are the first to be prepared in terms of International Financial Reporting Standards (IFRS). Adoption of IFRS is not compulsory for public sector companies like Transnet. However, in line with our desire to adopt best practice and build a world-class company, albeit one that is wholly state-owned, we elected to adopt these standards. This massive undertaking was successfully implemented within the planned time frames and the impact thereof is fully reported in the annual financial statements contained in this Annual Report.

The shareholder's compact between DPE and Transnet has been approved by the Board and was submitted some time ago to the DPE. The compact, an annual document setting out certain governance procedures as well as key performance indicators for the business, has yet to be approved by the shareholder.

Similarly, we have finalised the revision of our Articles of Association, and this awaits shareholder approval.

Revitalising our human capital

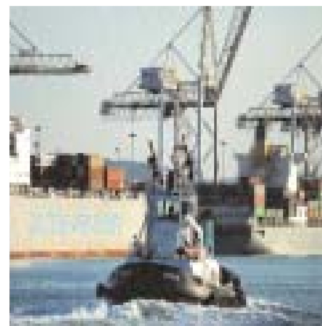
Developing our human capital is integral to the success of Transnet's turnaround strategy.

As we have begun to tackle the challenges facing the business, the extent of the skills crisis facing Transnet has become more apparent. Just as equipment and infrastructure maintenance and upgrades had been neglected in years gone by, so had human capital. At one time Transnet had thousands of employees on skills development programmes. In 2005, there were a mere 846 apprenticeships and 1 000 external learnerships.

The impact of this neglect reverberates throughout the economy. Transnet's business is changing dramatically and will require a different set of skills – those that match and support its focus on delivery of its mandate with a sense of urgency.

The skills crisis is one of the systemic risks facing the business. This manifests itself in a skills mismatch: while there are many young professionally qualified graduates looking for jobs, there are not enough qualified and experienced professionals to mentor them at the workplace.

In response, we have developed a human capital strategy, approved by the Board, which seeks to address the challenges facing Transnet today and well into the future.



The strategy addresses the following areas:

- Capacity building;
- Leadership and culture change;
- Human resources systems and processes;
- Talent management;
- Change and transformation;
- Performance management and incentives; and
- Employee relations.

The strategy is being progressively rolled out and seeks to achieve the following short-term objectives:

- Embed a performance-driven culture aligned with Vulindlela;
- Identify, develop and retain critical skills across the Company; and
- Ensure sound labour relations.

The long-term goal is to develop human capital that will sustain the business well into the future, while deepening and widening the skills pool.

During the next year there will be a dual focus: firstly, identifying critical positions and acquiring the relevant skills; and secondly, implementing a talent attraction, development and retention strategy (including a strategy for accelerated development of critical skills).

To this end, we have designed a new incentive scheme to attract, motivate and retain talent within our organisation.

The Transnet Academy will be launched to further the skills development process. It is envisaged that the Academy will see the skills of experienced professionals due for retirement being used to mentor the younger ones. Such imaginative twinnings are already being

pioneered elsewhere in the business. As indicated last year, we have already begun forging "smart partnerships" with leading professional and tertiary education institutions.

In addition to revitalising Transnet's human capital, we have made a commitment to Government to contribute towards the attainment of the goals of ASGISA, particularly in relation to skills development.

Finally, we have invested considerable energy in efforts to improve labour relations and make the collective bargaining process more efficient. We believe that we have now redefined the partnership with labour.

Divisional highlights

The detailed review of operations is given in the separate operational reports that are published in this Annual Report. A brief summary of some key issues is given below.

Spoornet

While progress, albeit slow, is evident at Spoornet, this business is by far the most challenging. Its performance is way behind where it ought to be. And the scale of the challenge of turning it around is enormous. As we progressively roll out the implementation of our strategy, the bulk of our resources – time, management and capital investment – will be focused on strengthening that business. As mentioned in this review, Vulindlela's initial focus is on Spoornet and almost half of our R64,5 billion capital investment will be made in this division.

The business recorded the following operational highlights during the year:

- Revenue increased by 4% to R14,4 billion and operating profit increased to R1,7 billion, after capitalising R681 million maintenance expenditure in terms of IFRS. In comparable terms, however, Spoornet showed a meaningful improvement in operating profit for the year;
- A major focus was placed on addressing the unreliability of rolling stock. All major maintenance programmes are being incorporated into Transwerk, which will be responsible for rolling stock availability and reliability in future. This will create additional efficiency and accountability;
- An additional maintenance budget of R1,6 billion for the coming year to start addressing backlogs in maintenance for locomotives, wagons and rail infrastructure was approved. This is in addition to the demanding capital programme for the coming year that amounts to about R5,6 billion;
- The Vulindlela initiative associated with the coal line operations has freed up capacity, resulting in the attainment of record daily volumes. However, certain factors such as rail breaks, problems with the supply of locomotive and wagon wheel sets, and late summer rains causing reduced mining outputs, negatively affected performance;
- The focus on the iron ore line has resulted in record daily volumes being delivered to the port of Saldanha;
- Spoornet awarded a contract for the purchase of 110 dual voltage electric locomotives. When delivered, these locomotives will be used on the coal line and represent Spoornet's first new locomotives in 16 years and this will boost productivity significantly; and
- R3,8 billion was spent on capital projects during the year.

Spoornet continues to operate Shosholoza Meyl and the luxury hotel-on-wheels, Blue Train. These are not core operations. As we hasten the pace of disposing of the non-core businesses – including these two valuable assets – this will free Spoornet's management to enable it to concentrate on the all-important task of reengineering the business into a safe, profitable and a reliable freight rail service.

The National Ports Authority (NPA)

This was another year in which the NPA performed exceedingly well. Highlights include:

- Turnover increased by 11% to R5,5 billion, reflecting volume increases;
- Operating profit increased by 18% to R3,8 billion;
- All ports were accredited as being ISPS (International Standard Port Facility Security) code compliant;
- The NPA Portal, 'Ports Online' was piloted as part of NPA's drive to improve customer service efficiency;
- Phase 1 of the construction of the Port of Ngqura was completed;
- Land was reclaimed at the Point in Durban; and
- The NPA achieved all key performance indicators during the year with the exception of its gross capital expenditure targets. Reasons for this included environmental impact assessment delays and project scope revisions.

South Africa Port Operations (SAPO)

SAPO had a solid year and the highlights include:

- Turnover increased by 9% (after adjusting for R151 million positive impact of an embedded derivative on the prior year's turnover), reflecting strong volume growth;
- Operating profit improved by 4%;
- A second container terminal is under construction in Durban at Pier 1 and is expected to be fully operational in 2007;
- Three new super post-Panamax gantry cranes were commissioned in the Durban container terminal and a further 14 cranes are on order for SAPO's container terminals;
- The average moves per gross crane hour in the container sector increased by 10%;
- Both the bulk and break-bulk terminals in Saldanha have been certified as ISO14001 compliant; and

- A record 28,8 million tons was exported through the Saldanha iron ore terminal and there was strong growth in containers and automotive volumes.

Petronet

This mature business produced excellent results despite a low growth in turnover.

- Turnover increased by 4% to a new record level of R1,1 billion;
- Cost-containment initiatives enabled a 31% increase in operating profit to R597 million;
- In January 2006, Petronet successfully complied with the “clean fuels” requirements;
- Petronet achieved a NOSA rating of 85%, an improvement of 5% year-on-year; and
- There were no major spillages.

Transwerk

This units plays a pivotal role in enabling the turnaround of Spoornet through its provision of rolling stock maintenance and build services.

- Turnover increased by 28% to R3,8 billion;
- Operating profit increased by 46% to R671 million;
- Transwerk launched its 10M5 motor and trailer coaches, as well as the associated production lines;
- Transwerk completed the class 39 prototype, its most recent diesel locomotive modernisation product, with the highest power and tractive force in the diesel fleet; and
- Transwerk achieved the output of 7 213 refurbished, upgraded and new wagons, 316 locomotives, 550 coaches, 2 113 traction motors and 62 830 wheel pairs.

Letter to society

Stakeholder relations

Our shareholders are effectively South Africa’s 44 million citizens. We are accountable to them through the Department of Public Enterprises. Apart from regular interactions with the department and the ministry through my office and that of the Chairman, we have an institutionalised dialogue with the Minister and his officials via the CEO, Chairman and CFO Forums. This indispensable dialogue makes our relationship with the shareholder structured, focused and mutually enriching.

We regularly report to Parliament. Transnet holds parliamentary briefings – the most important of which is the September/October briefing on our Annual Report to the Parliamentary Portfolio Committee on Public Enterprises. In addition, we answer MPs’ queries and assist with site visits.

During the year, we also undertook road shows to brief bondholders, financiers, credit rating agencies and other stakeholders about progress made in implementing our strategy, especially with regards to the complex separation of SAA from Transnet.

Transnet is also beginning to see the benefits of closer interaction with our clients and customers. This is evident in the increasingly positive feedback they give to our transformation project and the efficiency improvement programmes across the business.

Perhaps Transnet’s greatest investment this year was in our relationship with our employees and labour unions. We believe organised labour is an integral component of a well-managed and a progressive economy like ours. While we naturally will always have different perspectives, labour and management ultimately need to work together.

During the year, we spent a considerable amount of time and management resources in building consensus on the implementation of our strategy with labour, especially concerning the contentious disposal of non-core assets. The subsequent labour dispute underscored the importance of this investment in a sound working relationship based on mutual trust and respect.

The resolution of the dispute, and the groundbreaking agreement we reached, offer the possibility to begin a long-term mutually beneficial working relationship with unions. Crucially, we have agreed that restructuring is vital to ensuring that Transnet contributes to economic growth by, among other things, reducing the cost of doing business, investing in infrastructure, investing in employee training and improving productivity.

Our engagement with labour has been inefficient in the past. We have now agreed to establish the Strategic Leadership Forum, which brings together Transnet’s Executive Committee and the leadership of the unions in a streamlined fashion. It is neither a decision-making nor a negotiating

forum. Also, it will not replace the existing forums of engagement with unions – both at Company-wide level and at operating divisional level. Rather, it will promote engagement on strategic issues in a way that helps all parties contribute to our collective success. It meets four times a year.

This has redefined our partnership with labour.

Broad-based black economic empowerment (BEE)

Transnet has taken a serious hold of our procurement process to ensure that we leverage the billions of rands that we spend each year on products and services. A number of poor practices and inefficiencies in the past necessitated significant improvements.

As a response, we have had to overhaul our procurement systems to make them ethical, efficient and transparent. We have replaced outdated procurement systems with modern supply chain management. In addition, we have replaced tender boards with the Transnet Acquisition Council. We have also started renegotiating contracts with some of our key suppliers to ensure we maximise our leverage and extract better value.

Even at this early stage, we are already beginning to see some of the benefits of the new approach, although we will only reap the full rewards during the next year.

Broad-based BEE, which is a business imperative, is obviously at the core of our procurement processes and policies, and we are seeing a significant increase in the amount of work that is being awarded to truly black-owned businesses. During the year, our core divisions awarded R7,7 billion's worth of tenders, of which 42% went to BEE companies. Of the total, R83,7 million of the tenders were awarded to companies owned by women. Businesses deemed to be small, micro and medium in size won 48% of the tenders awarded.

The BEE environment continues to need regulation, however, and we welcome the publication of additional Codes of Good Practice on Broad-based BEE. This is a significant step in the transformation of our economy and in ensuring maximum participation by all South Africans in the economy. Like many noble public policy interventions, broad-based BEE has been subject to abuse, and we would like to see the instruments for dealing with unintended consequences – such as fronting – significantly strengthened. Fronting is fraud; it should be criminalised, with severe penalties.

As we move to dispose of the many non-core assets, we will use the Act as a guide for evaluating the BEE status of bidders – and penalise opportunists who abuse the policy.

Similarly, as we roll out our R64,5 billion capital expenditure programme, we will ensure that this investment promotes meaningful BEE and the growth of local industries.

But this will not be done at the expense of quality or cost-effectiveness. We will not compromise the efficient and effective delivery of our investment programme by cutting corners. And we will certainly not support opportunistic alliances that do not advance meaningful empowerment, and the transfer of skills and technology. Transnet has already burned its fingers. The cost of this has been significant delays in the commissioning of key projects.

Corporate social investment

The Transnet Foundation continued to be the main channel of our further involvement in the communities that we operate in. This has been supported by the industry-specific social investment initiatives undertaken by our various divisions and the Corporate Centre to support needy causes.

This coming year will see more effort being expended in achieving the following goals:

- Harmonising our corporate social investment activities; and
- Clarifying the work of the Foundation in light of our changed mandate.

This process of rethinking our corporate social investment (CSI) strategy is well advanced. In terms of this the Foundation will be the channel of philanthropic expenditure by Transnet, replacing uncoordinated CSI activities by the Group and its units, while the business units will concentrate on strategic social investments.

In both instances, more rigour is expected to be exercised in the selection of activities worthy of support by Transnet. This review is expected to be completed during the next year.

During the year, the Foundation spent R50 million on CSI. We are proud of the continued success and positive difference being made by Phelophepa, our pioneering health train, which operates in South Africa's rural areas.

Prospects

This coming year will see the continuing rollout of our four-point turnaround strategy. We expect to significantly speed up the sale of our non-core portfolio, the implementation of Vulindlela and the rollout of our capital investment programme. These initiatives are expected to add significant benefits to Transnet over the medium term.

Appreciation

This year was not an easy one. Many relationships were tested. However, I am pleased to report that our collective commitment to Transnet and to South Africa saw us through this challenging period.

This would not have been possible without the unflagging support of many people. I cannot mention them all here, but the contributions of a few need to be highlighted.

On behalf of the executive, let me thank our Chairman, Fred Phaswana, for his own and the Board's ongoing support for our transformation. Their wise counsel is indispensable to us and remains a source of strength.

I would also like to extend my gratitude to Minister Alec Erwin, MP, for his own personal support and that of his department for Transnet. His keen interest in our business encourages us to keep improving the quality of our work.

Let me also take this opportunity to thank Mr Yunis Carrim, MP, the Chairman of the Portfolio Committee on Public Enterprises, and the members of the Committee, for their continued support.

We are in business because of our clients. Their understanding during the industrial action was remarkable, and we are truly grateful. The same thanks go to our bankers and financiers.

Above all, we could never have accomplished a fraction of what we did without the commitment, courage and loyalty of all our 65 000 employees, and we offer 65 000 thanks to them and their families.

Finally, let me thank my own personal family, and my extended Transnet family, which is the rest of the executive. I am glad to have them on my side.

Conclusion

Transforming an institution as big as Transnet was never going to be an easy task, nor was it ever going to be an event. It is an arduous and lengthy process that requires commitment from all concerned. The past two years have shown what is possible with hard work, loyalty and commitment. More and better results are achievable.

Our clients deserve a reliable and an efficient service to be able to fulfil their commitments and take advantage of growth opportunities. Our employees need us to be both a sustainable business and an employer of choice – they deserve opportunities for career advancement and growth commensurate with their dedication and ability. Our shareholder deserves an appropriate economic return. We aim to deliver on our commitments to all our stakeholders.

Maria Ramos
Group Chief Executive

30 June 2006

CHIEF FINANCIAL OFFICER'S REPORT

Chris Wells *Chief Financial Officer*

Profit from operations **increased by R3,1 billion** and **cash flow** from operations **by 28%.**

Group accounting policies and conversion to IFRS

The Transnet Board of Directors elected to adopt International Financial Reporting Standards (IFRS) with effect from 1 April 2005.

Basis of preparation

The annual financial statements have been prepared in accordance with IFRS (with the date of transition to IFRS for the Group being 1 April 2004), the Companies Act 1973 (as amended), the Public Finance Management Act 1999 (as amended) and the Public Audit Act 2004. The results are presented in terms of IFRS statements and interpretations that are effective for the year ended 31 March 2006.

The change in accounting policies and the elections made by the Group as allowed by IFRS 1 *First Time Adoption of International Financial Reporting Standards* are set out in note 36 to the annual financial statements.

Impact of IFRS on the annual financial statements

In terms of IFRS 1, the Group has restated its opening reserves at 1 April 2004, the consolidated balance sheets as at 31 March 2005 and the consolidated income statements for the periods then ended. There have been no adjustments to the cash flows previously reported as a result of the adoption of IFRS.

The most significant impact on the balance sheet from the adoption of IFRS is the deemed cost election made by management in terms of IFRS 1, which has resulted in an increase in property, plant and equipment (PPE) of R4,2 billion at the date of transition with a corresponding increase, after deduction of deferred taxation thereon, in reserves.

The full financial effects of the conversion to IFRS are set out in note 36 to the annual financial statements.

Restatements of the annual financial statements

Retrospective adjustments to the financial statements for the year ended 31 March 2005 were made for the following:

Operating leases

Revenues and expenditures under operating leases with fixed escalation clauses are now recognised on a straight-line basis in line with Circular 7/2005 issued by the South African Institute of Chartered Accountants. The Group previously accounted for operating lease income and expenditure on a cash basis.

Deferred taxation

An adjustment for the taxation effects of items recorded directly in equity (namely revaluations of PPE and actuarial reserves) was required, which resulted in a transfer from revaluation and actuarial reserves to accumulated profit of R1,8 billion.

Post-retirement benefit obligations

During the current financial year, certain differences were identified in the actuarial valuations of the Transnet Pension Fund and the Transnet Second Defined Benefit Fund as at 31 March 2005.

Impairment of loans to subsidiaries

Certain loans to subsidiaries were not impaired in the prior year.

Leave pay and pilots parity adjustment

The leave pay provision has been adjusted to record obligations related to all types of leave entitlements. A pay-parity adjustment was recorded in terms of contractual obligations between SAA and its pilots.

Receivables recognised

Net income and balance sheet adjustments pertaining to cut-off prior to 31 March 2005 were made.

Impairment of pipeline assets

Pipeline assets not in active use have been impaired.

The financial effects of the above restatements on the annual financial statements are set out in note 36.

Group operating performance – continuing operations

Group revenue for the year has increased by R1,6 billion to R26,3 billion[1], an increase of 7% compared to the prior year. As price increases were restricted in aggregate to less than inflation, the revenue increase reflects volume growth in all core divisions.

Operating expenses excluding impairment of assets and fair value adjustments decreased by 9,9% to R17,9 billion which reflects the Group's drive on cost-reduction and efficiency. A major business reengineering programme is underway at the core businesses, which is focused on improved customer service, productivity improvements and capacity building. This programme is expected to deliver significant benefits progressively over the next three years.

As a consequence of the above, the Group's operating margins have increased to 32,2%, resulting in a 56,6% increase in profit from operations before impairment of assets, fair value adjustments and net finance costs to R8,5 billion (2005: R5,4 billion). The turnaround evidenced in the prior year has gained momentum in the current year, with all divisions improving operating margins.

Included in operating profit is the profit on the realisation of the Group's investment in MTN Group Ltd, amounting to R404 million. Operating profit was further positively impacted on by the post-retirement benefit cost for the Group being R421 million lower than the prior year. This decrease is due to the interest cost on the Transnet Second Defined Benefit Fund being significantly lower than the prior year.

The fair value adjustments in the prior year of R4,4 billion related primarily to the reversal of embedded derivatives, resulting from the renegotiating of a contract enabling cash flows to be denominated in rand terms.

In the current year the fair value adjustments derive mainly from an investment in a "C" class preference share held via Newshelf 697 (Pty) Ltd. The value of this preference share moves in concert with movements in the MTN Group Ltd share price in terms of a gain share redemption formula. The unrealised surplus on the fair valuation of this share for the year amounted to R500 million.

Finance costs increased by R383 million to R2,7 billion, mainly as a result of a full year's interest of R6 billion on the T018 bonds issued in November 2004.

Interest cover (excluding fair value adjustments) increased to 3,5 times (2005: 2,4 times), reflecting the significantly improved profitability.

The taxation charge for the year amounted to R2 billion (2005: R1,6 billion), comprising a current taxation charge of R1,8 billion and a deferred taxation charge of R165 million. The effective taxation rate for the Group is 30,9% (2005: 21,6%) for the year, which exceeds the corporate taxation rate of 29% due to certain costs not being deductible for taxation purposes.

1 *Before notional revenue on embedded derivatives – refer note 2 to the annual financial statements.*

Group net profit from continuing operations for the period increased by R2,6 billion (after adjusting for fair value adjustments) to R4 billion.

Commentary on key business unit performance

Spoornet

Turnover, excluding fair value adjustments, increased by 4% to R14,4 billion. Volumes railed were impacted negatively by derailments and capacity constraints. Operating costs decreased by 2.4% compared to the prior period, enabling margins (excluding the impact of fair value adjustments) to be improved.

The conversion to IFRS has resulted in maintenance of PPE, which was previously expensed, being capitalised and depreciated over the useful life thereof. The impact of this change was a net amount of R681 million (2005: R26 million), which was capitalised to PPE.

The reengineering programme mentioned above will have a major positive impact on Spoornet's operations over the next three years.

Spoornet embarked on a five-year programme to both upgrade its ageing rolling stock and infrastructure and to increase capacity. A contract to acquire 110 locomotives was signed during the year and a deposit of R325 million was paid thereon. In addition, Spoornet exited from its operations in Zambia.

National Ports Authority

Turnover increased by 11% to R5,5 billion compared to the prior year. Cargo revenue from bulk and break-bulk imports increased due to the favourable economic environment. The conversion to IFRS has resulted in a net charge of R49 million (2005: R39 million) to the current period income statement, mainly from increased depreciation charges on PPE.

South African Port Operations

Turnover increased to R3,6 billion, an increase of 9% excluding the effects of fair value adjustments on turnover. This increase was mainly driven by an increase in volumes handled by the various terminals. Operating costs have been well managed, enabling margins to improve. The conversion to IFRS has resulted in a net charge of R30 million (2005: R30 million) to the current period income statement, mainly from increased depreciation charges on PPE.

Petronet

Turnover increased by 4% to R1,1 billion (2005: R1 billion) driven by volume increases. Cost increases were well controlled, resulting in a 31% increase in operating profit to R597 million. Included in the results is a net charge of R57 million (2005: R54 million) that relates to the conversion to IFRS, mainly from increased depreciation charges for the period.

GROUP OPERATING PERFORMANCE – DISCONTINUED OPERATIONS

During the year, the following businesses were classified as non-current assets held-for-sale and reported as discontinued operations, having met the criteria as set out in IFRS 5 *Non-current Assets Held-for-sale and Discontinued Operations*:

- South African Airways (Pty) Ltd;
- Autopax Passenger Services (Pty) Ltd;
- Viamax (Pty) Ltd;
- freightdynamics;
- V&A Waterfront Holdings (Pty) Ltd;
- Apron Services (Pty) Ltd (Equity Aviation)
- VAE Perway (Pty) Ltd; and
- Freight Dynamics Guard Risk.

These entities reported revenue of R22,2 billion (2005: R20,7 billion) and a net loss of R34 million (2005: profit of R754 million). The financial effects of the above classification have been disclosed in note 1 and annexure C to the annual financial statements.

The Metrorail division was sold with risks and rewards passing to the acquirer on 26 December 2005. The financial results of this division up to 26 December 2006 have also been disclosed in discontinued operations.

The most significant business of the Group that has been classified as a discontinued operation is South African Airways (Pty) Ltd and its performance for the year is detailed below.

South African Airways (SAA)

Revenue increased by 12,5% to R19,6 billion and was negatively impacted by the employee strike and lower passenger yields. Revenue includes an amount of R1 billion (2005: R401 million) relating to the release of prescribed ticket sales to income, and fuel levies amounting to R2,2 billion (2005: R1,2 billion).

Operating expenses excluding impairment of assets and fair value adjustments, increased by 17,7% to R19,3 billion, mainly as a result of the increase in fuel prices which showed an effective increase of 51,5% over the prior year. The fuel levies mentioned above were not sufficient to cover the increased energy costs. Lease costs increased by 22,9% to R1,9 billion (2005: R1,5 billion). Operating profit for the year amounted to R345 million (2005: R870 million).

GROUP FINANCIAL POSITION

Deferred taxation

A deferred taxation liability of R924 million (2005: R58 million) was recognised. This liability arose mainly as a result of temporary differences arising from the post-retirement benefit obligations and the increased asset base as a result of the adoption of IFRS.

Borrowings

Total interest-bearing borrowings decreased to R26,6 billion (including R4,8 billion – liabilities directly associated with assets classified as held-for-sale). This decrease resulted mainly from the repayment of the T017 bonds out of cash flow.

The gearing for the Group, excluding liabilities directly associated with assets classified as held-for-sale, is 47% (2005: 62%) and reflects a substantial improvement over the prior year. This improvement stems from increased cash flows and net actuarial gains recognised directly in equity.

In the course of the Group's operations it is exposed to liquidity, credit, foreign exchange, commodity, interest rate and price risks with respect to its borrowings. A detailed analysis of all the Group's borrowings and related exposures is contained in annexure A to the annual financial statements.

The Group has adequate cash on hand and banking facilities to meet its commitments. At the end of the financial year the Group had unused borrowing facilities of R34 billion, of which R5,3 billion is available immediately as short-term loans.

Post-retirement benefit obligations

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

The unfunded status of the Transnet Second Defined Benefit Fund amounted to R1,6 billion, a decrease of R2,7 billion compared to the prior year. A further R101 million is included in liabilities directly associated with assets classified as held-for-sale. The decrease in the liability is attributable to the growth of the fund assets in the current year as a result of the good performance of the equity market. Further information regarding the post-retirement benefits is included in notes 24 and 32 to the annual financial statements.

Various alternatives are being reviewed for the funding of the deficit in the Transnet Second Defined Benefit Fund over an appropriate timeframe.

GROUP CASH FLOWS

Cash flows from operating activities increased by R5,3 billion to R5,9 billion. The increase has resulted from increased payments with respect to finance charges of R479 million and taxation payments of R1,9 billion when compared to the prior year, when derivatives of R7,1 billion were settled. Cash generated from operations increased by R1,1 billion compared to the prior year, despite a R1,7 billion decrease in SAA's operational cash flow, resulting in an adjusted increase of 28%. This reflects the Group's ability to generate strong cash flows.

In line with the Group's capital investment plan, an amount of R4,9 billion was spent to maintain operations and R1,7 billion was spent on expanding operations.

Capital expenditure in this year showed a growth of R2,5 billion when compared to the prior year (excluding SAA, for comparative purposes).

The net effect of discontinued operations on cash flows amounted to R183 million total cash outflow. These effects are included in the cash flow statement.

Capital expenditure

Capital expenditure plans for the continuing businesses over the next five-year period amount to R65,6 billion and relate mainly to upgrade and expansion of rail and port facilities. Further information regarding capital commitments is contained in note 30 of the annual financial statements.

Capital commitments will be financed by the cash from operations, together with borrowings.

Guarantees

The Group has issued guarantees to third parties amounting to R4 billion, the most significant of which relates to promissory notes amounting to R2 billion relating to the Newshelf 697 structure.

The sole shareholder in Transnet Ltd, namely the South African Government, has guaranteed the borrowings of the Group to the extent of R19 billion (2005: R21 billion).

Assets pledged in support of secured loans and capitalised finance leases amount to R1 billion (2005: R879 million).

Treasury risk management

During the previous financial year Transnet established a Risk Management Committee and an Asset and Liability Management Committee. These committees meet on a monthly basis and their primary focus is the efficient management of financial risks relating to the Group's operations including: interest rate risk, counterparty risk, commodity risks, liquidity risk, price risk and foreign exchange risk.

During the year, the Group's policies with respect to the hedging of foreign currency exposures and the management of financial risk were reviewed, and will continue to be enhanced to ensure risks are identified and managed in a structured and controlled manner.

Post-balance sheet events

The following significant matters arose between 31 March 2006 and 30 June 2006:

Disposal of SAA

A share-sale agreement was concluded on 13 June 2006 with the Department of Public Enterprises for the sale of all Transnet's shares in SAA, with effect from 31 March 2006 but subject to the fulfilment of certain suspensive conditions. The sale price of R2 billion was based on an independent valuation and the transaction will be effected by way of a share buy-back. Accordingly, there will be no net cash flow effects.

Metrorail business sale agreement

A business sale agreement was concluded between Transnet and the South African Rail Commuter Corporation for the sale of Metrorail, effective 1 May 2006, with the selling price being R1. The effective date of disposal was established as 26 December 2005 as this was the date on which risks and rewards of ownership transferred.

Restructuring agreement

Transnet reached agreement with its labour unions with respect to the manner in which non-core entities will be disposed of.

Sale of V&A Waterfront Holdings (Pty) Ltd, Viamax (Pty) Ltd and freightdynamics

Transnet launched the sale of its investments in these businesses.

Second Network Operator

Transnet formally accepted an offer from the Second Network Operator for telecommunication assets that will be sold. The selling price of the assets was set at R259 million and will be settled by an issue of shares in the Second Network Operator.

Previously reported post-balance sheet events included the following:

Unwinding of the MTN Structure

Transnet has an investment in a "C" class preference share (included in current derivative financial assets) via Newshelf 697 (Pty) Ltd. The value of this preference share moves in concert with movements in the MTN Group Ltd share price in terms of a gain share redemption formula. As reported previously, Transnet had reached agreement to unwind the MTN structure, subject to certain suspensive conditions. These conditions were not met and the agreement therefore lapsed.

The Group is now involved in reviewing opportunities for the disposal of this investment.

SAA – compulsorily convertible subordinated loan (CCSL) agreement

Transnet in the past advanced an amount of R4 billion by way of a CCSL to cover SAA's technical insolvency. During the current financial year, based on SAA's improved financial position, the Boards of SAA and Transnet agreed to convert R2,4 billion of the loan to ordinary shares and R1,6 billion was repaid to Transnet.

However, pursuant to a section 258 enquiry into the affairs of SAA commissioned by the Minister of Trade and Industry, it was established that there were governance irregularities in the appointment of trustees, causing their resolutions on the issuance of shares in 2004 and 2005 to be invalid.

All details relating to the above enquiry and the effect thereof on the financial statements are contained in the directors' report set out on page 68 of the Annual Report.

Chris Wells
Chief Financial Officer

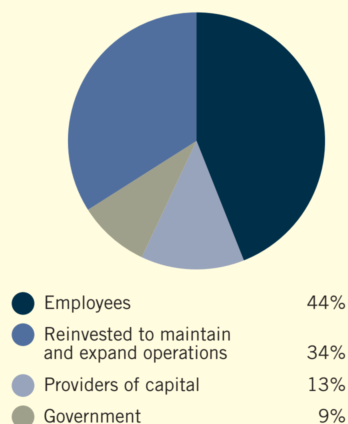
30 June 2006

CONSOLIDATED VALUE ADDED STATEMENT

for the year ended 31 March 2006

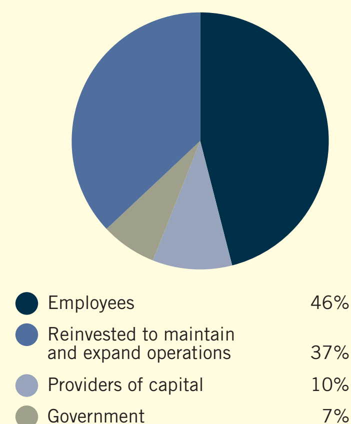
	2006* R million	2006* %	2005* Restated R million	2005* %
Revenue	26 360		25 260	
Cost of materials and services	(6 985)		(8 054)	
Net operating expenses excluding impairment of assets and fair value adjustments	(17 882)		(19 846)	
Excluding: – Depreciation	2 021		1 776	
– Amortisation	52		81	
– Post-retirement benefit costs	1 054		1 415	
– Salaries, wages and other benefits	7 770		8 520	
Value added by operations	19 375	96	17 206	79
Income from investments	737	4	4 666	21
– Investment and other income	262		167	
– Income from associates	33		62	
– Fair value adjustments	442		4 437	
Value added/created	20 112	100	21 872	100
Applied as follows:				
Employees	8 824	44	9 935	46
– Salaries, wages and other benefits	7 770		8 520	
– Post-retirement benefit costs	1 054		1 415	
Providers of capital	2 657	13	2 274	10
– Net finance costs	2 657		2 274	
Government	1 813	9	1 562	7
– South African normal taxation	1 806		1 577	
– Secondary taxation on companies	–		(15)	
– Foreign taxation	7		–	
Reinvested to maintain and expand operations	6 818	34	8 101	37
– Depreciation, amortisation and impairment	2 197		2 271	
– Deferred taxation	165		20	
– Net profit	4 456		5 810	
Value apportioned	20 112	100	21 872	100

Value apportioned 2006



Employees	44%
Reinvested to maintain and expand operations	34%
Providers of capital	13%
Government	9%

Value apportioned 2005

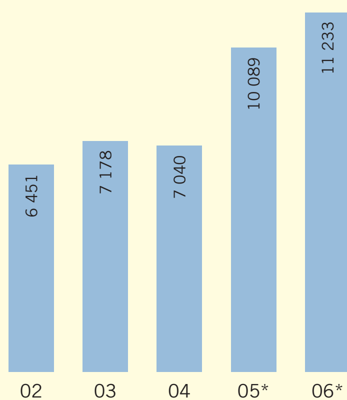


Employees	46%
Reinvested to maintain and expand operations	37%
Providers of capital	10%
Government	7%

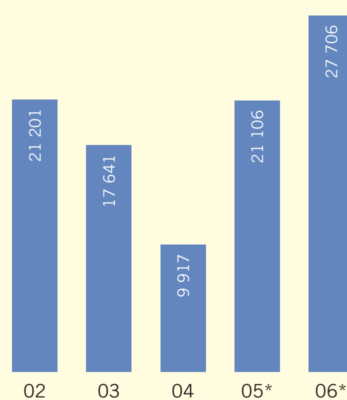
CONSOLIDATED FIVE-YEAR REVIEW

	March 2006* R million	March 2005* Restated R million	March 2004 R million	March 2003 R million	March 2002 R million
INCOME STATEMENT AND CASH FLOW					
Turnover	**26 360**	25 260	43 637	41 278	35 811
Operating profit	**8 478**	5 414	4 750	6 552‡	3 657
Net finance costs and fair value adjustments	**(1 953)**	2 330	6 740	9 711	(416)
Depreciation and amortisation	**2 073**	1 857	2 600	2 258	2 113
Impairment of assets	**(124)**	(414)	4 221	493	448
Profit/(loss) before taxation	**6 401**	7 330	(6 211)	(625)	3 915
Taxation	**(1 978)**	(1 582)	204	16	466
Minority interest in (loss)/income	**32**	(21)	9	(220)	12
Net profit/(loss) for the year	**4 456**	5 810	(6 332)	(421)	3 437
EBITDA	**10 584**	7 333	7 442	11 837	6 060
Cash generated from operations	**11 233**	10 089	7 040	7 178	6 451
BALANCE SHEET					
Equity	**27 706**	21 106	9 917	17 641	21 201
Non-current liabilities	**22 996**	30 717	32 217	32 669	29 695
Current liabilities	**26 631**	25 228	30 566	18 456	21 390
Total liabilities	**49 627**	55 945	62 783	51 125	51 085
Equity and liabilities	**77 333**	**77 051**	**72 700**	**68 766**	**72 286**
Non-current assets	**49 131**	59 442	57 156	54 883	43 702
Current assets	**28 202**	17 609	15 544	13 883	28 584
Total assets	**77 333**	**77 051**	**72 700**	**68 766**	**72 286**

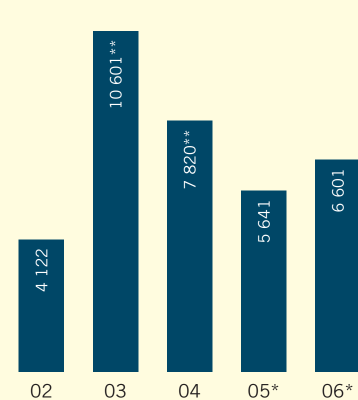
Cash generated from operations
R million



Net assets employed
R million



Capital expenditure
R million



* *Continuing operations in accordance with IFRS. All other years are reflected on a SA GAAP basis. For the full effect of conversion to IFRS, refer to note 36 of the annual financial statements.*

** *Includes significant investment in renewal of South African Airways (Pty) Ltd aircraft fleet.*

‡ *Excluding R2,8 billion relating to the sale of MTN Group Ltd shares and the sale of Fleetcall.*

Refer glossary of terms on page 170.

CORPORATE GOVERNANCE

The Transnet Board of Directors ("the Board") provides strategic direction to the Company taking into account, amongst others, the need to foster sound corporate governance and a vigilant risk management process.

A number of initiatives were undertaken by the Board and the Company during the year to ensure the implementation of Transnet's four-point turnaround strategy's commitments on corporate governance and risk management. These include proposing to the sole member and shareholder of Transnet, the Government as represented by the Minister of Public Enterprises:

- A shareholder's compact;
- Revised Articles of Association;
- Developing an integrated risk management focus;
- Ensuring an independent assessment of the Board's performance;
- Promoting the principle of a Learning Board; and
- Implementing a Code of Business Ethics.

As indicated on page 31, in advancement of sustainability, the Company launched the Transnet Sustainability Platform project. Through this project, we have laid the foundation for ensuring that the Company's policy formulation, strategic planning and, in general, the conduct of its business, embraces the challenge of a holistic and integrated approach to the management of social, environmental and economic impacts of our organisational activities. As we indicated in the 2005 Annual Report, ours is a commitment to move from mere sustainability conformance to sustainable performance.

Governance structure

Transnet Ltd is a public company incorporated in South Africa in accordance with the provisions of the Legal Succession to the South African Transport Services Act, 9 of 1989. As such, it is subject to the provisions of the Companies Act, 61 of 1973. As a Schedule 2 public entity, it is subject to the provisions of the Public Finance Management Act, 1 of 1999, and the Public Audit Act, 25 of 2004. It is wholly owned by the Government of the Republic of South Africa.

Transnet has a unitary Board structure with separate and distinct roles and responsibilities for the non-executive Chairman and the Group Chief Executive. The directors are appointed by the shareholder for a three-year term. However, in respect of each year of such term, the directors have to be submitted for re-election at the Company's Annual General Meeting.

The Company's Articles of Association confer the general powers of the directors. The Board executes its powers in accordance with the provisions of the Board Mandate.

Board accountability and delegated functions

Overall accountability and responsibility for the control and strategic direction of the Company resides with the Board. To facilitate the effective discharge of such responsibility, directors have unrestricted access to all Company information, records, and documents. Further, the mandates of the Board and its committees entitle directors the right to take independent advice at the Company's expense. Also, as part of the promotion of a Learning Board, provision is made for a director to attend such training and development programme as would better equip him or her to discharge his or her responsibilities to the Company.

With the exception of matters delineated as "Board Reserved Matters", the Board has delegated responsibility to operate and manage the Company to the Group Chief Executive with the power to sub-delegate.

The Group Chief Executive is assisted in the day-to-day management of the Company by members of the Group Executive Committee ("Group Exco") and other managers of the Company. The Group Exco has, in turn, the following committees: the Group Risk Management Committee, the Asset and Liability Management Committee, the Group Operations Committee and the Group Capital Investment Committee.

The performance of the Group Chief Executive is assessed, through a process facilitated by the Company's Chairman in consultation with the Chairmen of the Group Audit Committee and the Group Remuneration Committee.

The committees of the Board also operate in terms of formal mandates that are reviewed annually by the Corporate Governance and Nominations Committee.

During the year, a formal assessment of the performance of the Board, facilitated by independent advisors, was undertaken.

Directors

The Board comprised of 13 directors until the resignation from the Board, on 6 September 2005, of Ms Moira Moses, who accepted an executive position in the Company. The Group Chief Executive and the Chief Financial Officer of the Company are the only executive directors on the Board.

The non-executive directors may, in the main, be regarded as independent directors.

The shareholder has, post year-end, appointed Ms Nunu Ntshingila and Dr Norman Haste, OBE as non-executive directors.

A summary curriculum vitae of each director appears on page 7.

Board meetings

The corporate calendar for the Board is approved annually in advance, taking into account the Board programme for the year.

The Board meets, at a minimum, six times a year, inclusive of two strategy sessions. The first strategy session takes place in February, where the Board discusses and approves strategy, corporate business plans and budgets for the year. The second session takes place in August to review progress made towards achieving the agreed targets and projects undertaken by the Company.

Schedule of attendance at Board meetings

Director	1 Apr 2005	30 Jun 2005	4 Aug 2005	13 Sep 2005	7 Oct 2005	2 Dec 2005	24 Feb 2006
Mr FTM Phaswana (Chairman)	M	M	M	M	M	M	M
Ms M Ramos	M	M	M	M	M	M	M
Dr I Abedian	A	M	A	M	M	M	M
Prof GK Everingham	M	M	M	M	M	A	M
Ms NBP Gcaba	M	M	M	A	M	M	M
Dr SE Jonah, KBE	M	M	A	M	A	M	M
Mr PG Joubert	M	M	M	A	M	M	M
Ms NNA Matyumza	M	M	A	M	M	A	M
Mrs MA Moses	M	M	M	M	*	*	*
Mr BT Ngcuka	M	M	M	M	M	A	M
Mr S Nicolaou	M	M	M	M	M	A	M
Mrs KC Ramon	M	M	M	M	M	M	M
Mr CF Wells	M	M	M	M	M	M	M

M *Present*
A *Apologies*
* *Not a member*

Board committees

In order to ensure effective corporate governance, give attention to providing support to the executives and exercise appropriate oversight, the Board has three committees in place. These are the Audit, Remuneration and Corporate Governance and Nominations Committees.

Certain of the functions of the Board are delegated to these committees. The terms of reference of the committees are contained in the committees' mandates.

These mandates set out the committees' powers, functions, responsibilities, reporting mechanisms and authority to act. The Board, however, remains accountable.

The members of the Committees are all non-executive directors and, in respect of the Audit Committee, they possess the requisite financial skills.

Schedule of attendance at Group Audit Committee meetings of the Board

Director	21 Jun 2005	30 Jun 2005	16 Sep 2005	11 Nov 2005	9 Feb 2006
Prof GK Everingham (Chairman)	M	M	M	M	M
Dr I Abedian	M	M	M	M	M
Mr PG Joubert	M	M	M	M	M
Ms NNA Matyumza	A	M	M	M	A
Mr S Nicolaou	M	M	M	M	M
Ms KC Ramon	M	M	M	M	M

M *Present*
A *Apologies*

Schedule of attendance at Group Remuneration Committee meetings of the Board

Director	7 Jun 2005	11 Aug 2005	31 Oct 2005
Dr SE Jonah, KBE (Chairman)	M	A	M
Dr I Abedian	M	M	M
Mr PG Joubert	M	M	M
Ms MA Moses	M	M	*

M *Present*
A *Apologies*
* *Not a member*

Schedule of attendance at Corporate Governance and Nominations Committee meetings of the Board

Director	19 Jul 2005	22 Sep 2005	25 Jan 2006
Mr FTM Phaswana (Chairman)	M	M	M
Prof GK Everingham	A	M	A
Ms NBP Gcaba	M	M	M
Mr BT Ngcuka	M	A	M

M *Present*
A *Apologies*

Ethics

As indicated above, the Company has an overarching ethics policy, the Code of Ethics, to act as the standard for individual and collective behaviours in ensuring that it sets the benchmark in its business dealings.

This Code of Ethics provides principles and values that must guide directors, employees and all other stakeholders in conducting the business of the Company.

The Code has been communicated to all employees and other relevant stakeholders of the Company. The Company provides training to facilitate awareness of the ethics initiatives and compliance programmes designed to cultivate and strengthen an ethics culture within Transnet.

Enterprise risk

As part of implementing the four-point turnaround strategy, an integrated and holistic approach to risk management, Enterprise Risk Management (ERM), is being embedded in the Company's processes, everyday activities and employee behaviour.

ERM enables management to effectively deal with associated risk and opportunity and enhances capacity to build stakeholder value.

The Board is responsible for the total process of risk management. The Audit Committee currently has responsibility for governance oversight of risk management in the Group. Management is accountable to the Board for designing, implementing and monitoring the process of

risk management. A Group Risk Management Committee chaired by the Group Chief Executive is charged with this responsibility.

The Board has adopted an ERM Framework for the implementation of ERM in the Company. The ERM framework takes cognisance of the requirements of King II, the Public Finance Management Act, and other regulatory requirements.

A key consideration in designing and rolling out the ERM process has been to ensure that risk management becomes an integral part of managing the business, with line and operational managers taking full responsibility for risk, controls, and improvement plans under their control.

With this in mind, major reportable risks, with status of action plans, are reported to, and reviewed by, the Group and Divisional Executive and Risk Committees.

The internal audit methodology is fully aligned with the risk management process. Both the internal and external auditors are key contributors in providing independent assurance regarding the effectiveness of controls in place to mitigate risks.

Compliance

During the year, a Group Compliance function was established with the mission to assist the Board and management to fulfil their responsibility to conduct all business activities in compliance with applicable laws and regulatory requirements.

To deal with the ever increasing list of Acts, regulations and supervisory requirements impacting on our services and products, the Company has decided to implement effective policies, procedures and controls to achieve compliance.

Group Company Secretary

The Group Company Secretary is fully empowered by the Board to carry out her responsibilities.

Going concern

In accordance with the requirements of the Companies Act, the Board considers the going concern concept in deliberations on the Company's annual financial statements. The directors' approval of the annual financial statements, including the going concern declaration, is set out on page 66.

Communication with the shareholder

The Company is grateful for the constructive relationship it has with its shareholder representative, the Minister of Public Enterprises. There are structures for promoting sound communication with the shareholder, including the SOE Chairman and Chief Executive Officers' Forum, chaired by the Minister of Public Enterprises.

Remuneration

The Board is committed to appropriate reward for executive performance. The Group Remuneration Committee has approved an appropriate performance management tool for the Company and utilises the services of independent remuneration specialists to benchmark executive and director remuneration.

SUSTAINABILITY REPORT

Introducing the Transnet Sustainability Platform

Following the first step towards sustainability reporting, taken in the 2005 Annual Report, the Transnet Sustainability Platform was launched in October 2005 in the belief that managing sustainability issues in an accountable way, and reporting on our performance in a transparent way, would contribute to superior economic value in the long term.

The aim of the platform is to integrate sustainability (environmental, social and broader economic), strategy, accounting, reporting and assurance into the existing management and annual reporting processes enterprise-wide. We acknowledge that the launch of the Sustainability Platform is the beginning of a journey towards maturity of our sustainability issue management and is inextricably linked to our business objectives.

We live up to the global challenge

In recent years, increasing numbers of organisations have recognised that there is a powerful business case to manage the social, environmental and broader economic impacts of their organisations' activities, moving from mere conformance to a high performance culture.

This move is fuelled by the increasing awareness amongst business leaders that a more holistic and integrated approach to organisational management is needed to assure long-term sustainability.

Organisations globally are now beginning to integrate social, environmental and broader economic issues into their leadership, strategy, governance and risk management. We are committed to play our part to collectively live up to the global challenge.

Triple Bottom Line*	Five Capitals Model*	Transnet Sustainability Platform principles		Transnet sustainability principal issues	Our key stakeholder groups
		1. Assuring sound accountability and governance	2. Engaging our stakeholders for mutual benefit	Board governance Executive management Strategy and transformation Ethics Enterprise risk Compliance Business intelligence Sustainability platform Communication and reporting Stakeholder engagement	Our shareholder
Economic	Financial capital value	3. Creating value through returns greater than the cost of capital		Financial management Marketplace and customer management Operations management Supply management and BEE	Our customers Our suppliers
	Physical capital value	4. Developing world-class infrastructure		Capital investment Engineering technology provision maintenance replacement Information and communication technology	
Social	Human capital value	5. Creating a workplace where our people can excel		People management Change and transformation management Leadership development and culture Capacity building Talent management Employee relations Performance management and reward HR systems and measure Employee safety Employee wellness and HIV/Aids	Our employees
	Social capital value	6. Caring for the communities where we operate		Corporate social investment Community impact and public health and safety	Our communities and society
Environmental	Natural capital value	7. Conserving the environment around us		Environmental management Environmental performance	Our environment

Our holistic approach to risk and opportunity

At Transnet we acknowledge that managing our sustainability principal issues towards greater performance can open up an array of opportunities. In fact, our road to sustainability is rooted in a holistic approach to risk and opportunity management.

Central to developing our performance-focused approach to sustainability is the recognition that some of our risk, when well managed, also presents great opportunities. It is for this reason that our enterprise risk management approach is value focused.

Our sustainability principles and their associated principal issue areas are carefully selected to focus on those areas which pose potential material risks, but at the same time, when well managed, provide us with value-creating opportunities.

We believe the most important building blocks for creating a sustainable business lie within our sustainability principles:

Principle 1: Assuring sound accountability and governance

In recent years, governance has come to mean more than merely complying with legislation. Globally, governance is now extended to include the overall accountability and sustainability management within the organisation. For us, this means Board commitment; having a clear sense of purpose and values; knowing our risks and managing those; taking into account the interests of a broad set of stakeholders, including, but not limited to our shareholder; and actively integrating sustainability management into the core strategy of our organisation.

Our holistic approach to Board disclosure

Board governance
Board of Directors
Chairman of the Board's statement
Board direction and composition
Giving an overview of the responsibilities and fiduciary duties of the Board of Directors, as regulated by the PFMA

Executive management
Executive Committee
Group Chief Executive's review

Defining our purpose and highlighting our challenges in managing the Transnet Group in a proper and lawful way

Strategy and transformation
Turnaround strategy
Employment equity
BEE and preferential procurement
Formalising our goal to transform Transnet into a focused freight transport company

Ethics
Sharing our values by which we create value for our stakeholders

Enterprise risk
Implementing our risk management framework aimed at assuring value for our stakeholders

Compliance
Acknowledging the legal and regulatory framework governing our actions

Business intelligence
Designing robust business processes for collecting and analysing business information

Sustainability platform
Introducing a holistic approach designed to integrate sustainability issues into the way we operate

Communication and reporting
Communicating our performance in a clear and transparent way (refer www.transnet.co.za)

Stakeholder engagement
Building positive relationships with stakeholders and developing an understanding of our mutual needs

Governance disclosure relating to the above framework is addressed in the Chairman's statement, Group Chief Executive's review and the corporate governance report that form part of the 2006 Transnet Annual Report.

Principle 2: Engaging our stakeholders for mutual benefit

We will be transparent, inclusive and accountable

We recognise that our activities do not exist in a vacuum and that a wide range of stakeholders will both affect and be affected by them. We embrace the range of interests of our various stakeholder groups, while continually seeking to maintain and enhance environmental, social and economic value mutually beneficial to our stakeholders and Transnet.

In our quest to meet our shareholder and stakeholder expectations efficiently and to utilise resources responsibly, we commit to create, manage, measure, monitor and communicate value on a balanced set of Group-wide principal issue areas identified during the year.

We are committed to listening to our stakeholders

Following on our commitment to build a stakeholder-centric sustainability platform, our first step was to conduct a baseline review to inform our sustainability strategy. During the pilot phase of the project we focused on the fast evolving sustainability reporting landscape, our legislative and regulatory framework and our own state of sustainability. Not only did we commission extensive desk research, but also focused strongly on action research involving a broad set of internal stakeholders. In the process we committed to creating value, mutually beneficial to us and our stakeholders, through transparency, integrity, efficiency and competitiveness.

While the research phase provided us with the opportunity to map our stakeholders and the issues material to them, it also guided our way forward on engaging with our diverse set of stakeholders.

Innovation drives our journey from conformance to performance

The outcome of this research phase was the release of a Strategic Direction Stakeholder Consultation Draft that sets out the leadership commitment and broad roadmap for integrating sustainability management at all levels in Transnet.

Our sustainability innovation is based on a model for sustainability learning and innovation aligned with global standards and guidelines such as the AccountAbility AA1000 Series; the Global Reporting Initiative (GRI G3) Sustainability Reporting Guidelines; the Sigma Guidelines; the JSE SRI Guidelines; the King Report II on Corporate Governance (2002) and the ISO Standards.

Towards measuring what matters

To successfully create value, mutually beneficial to us and our stakeholders, divisional sustainability steering committees were established. These steering committees comprise key decision makers and experts that would take the lead within their divisions on co-designing the platform with the emphasis on a community of practice, moving issue management from conformance to high performance, through a process of learning, innovation and implementation.

The focus of our sustainability platform during the next reporting cycle will be on the development of meaningful business metrics, data collection and verification systems. We commit to accounting for our actions and omissions, report on our performance against predetermined targets and implement internal and external monitoring to give assurance on the data and the management systems supporting it.

Principle 3: Creating value through returns greater than cost of capital

Achieving competitive business results through the provision of customer-focused freight solutions is the driving force of sustainability at Transnet.

Financial management

One of the key focus areas of our turnaround is the restructuring of our balance sheet. This will ensure attractive returns to our shareholder, which we believe is an important value measurement. This Annual Report, and the information contained herein summarises our effort to realise this objective.

Marketplace and customer management

Continued growth of our market is inextricably linked with our understanding of the needs and expectations of our customers. We have therefore set ourselves the objective to grow our market share through providing customer-focused freight solutions. During the year our operating divisions continued to engage with key customers to understand their business better, in order to continually improve our service delivery.

Operations management

At Transnet we realised that for our turnaround to be successful, we needed to translate strategy into action. During the year we followed through on delivering on our commitments by rolling out a rigorous change management process aimed at creating Group-wide operational value to cement our sustainability principles.

Vulindlela, our reengineering programme initiated as part of Transnet's four-point turnaround strategy, was fully deployed to drive Transnet towards an efficient and integrated bulk-transportation company which has a direct impact on the sustainable economic growth of South Africa.

Vulindlela is not an initiative run in isolation – it is a collective effort throughout Transnet, implemented to support the sustained economic growth of the country. The stakeholders impacted by Vulindlela cannot be secluded, all employees will reap the rewards of working for a world-class operation, the greater public will benefit from an improved economy and the shareholder will gain a return on the benefits achieved.

Supply management and broad-based BEE

During the year our supply management function, which had not been operating effectively, was redesigned. Focus was given to:

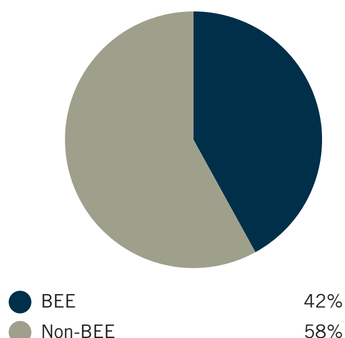
- The development of a similar structure across all the business units with a view to implementing a shared-services approach;
- Simplifying and standardising the processes and the way in which the system enables these processes; and
- Ensuring that our people have the right skills, training and attitude to deliver superior service.

Shape-up for data integrity

In March 2006, we launched a project focused on the improvement of data integrity (accurate and complete catalogue and vendor masters) and the embedding of a control framework (governance and risk management measures) within the procurement and payment processes. This will ensure that we are able to maximise the use of contracts with appropriate suppliers which will, in turn, ensure that we achieve our broad-based BEE and SMME (small, medium and micro-enterprises) development commitments.

During the year Transnet core divisions spent R7,7 billion on procurement, of which 42% went to broad-based BEE.

Broad-based BEE procurement



PRINCIPLE 4: DEVELOPING WORLD-CLASS INFRASTRUCTURE

Developing world-class infrastructure in our rail, ports and pipeline businesses is a prerequisite for high-performance service delivery. To Transnet this meant actively revisiting our provision, replacement, maintenance and technology strategies and creating a renewed focus on capital development projects.

Enabled through engineering

In recent years there has been an escalating international demand for iron ore, coal and other raw materials. South Africa is blessed with these and other commodities that are in high demand, such as manganese and chrome. The export of commodities is currently restrained by limitations in rail and port handling capacity and, as a result, Transnet is under great pressure to expand and enhance these facilities.

The provision, replacement and maintenance of world-class technology have therefore never been more relevant to our future sustainability than at present. In order to assure sustainability we are committed to increase our rail, port and pipeline capacity and infrastructure on strategic corridors within South Africa in our quest to meet existing and future demand for freight transport and logistics.

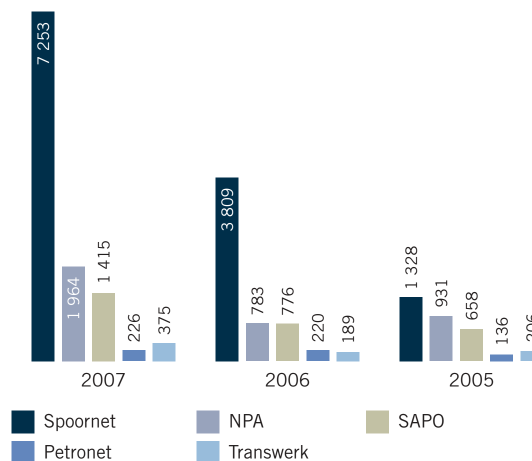
Capital investment

To ensure that the business and investment challenges are effectively addressed, a five-year capital investment programme of R64,5 billion has been approved by the Board. The programme focuses on the replacement of ageing assets, efficiency improvements and on the creation of additional capacity to meet future demand. Approximately 52% of the planned spending will be on the rail operations and 39% in the ports. A new pipeline between Durban and Johannesburg also forms part (8%) of this programme. All these projects are evaluated for strategic fit and financial viability to ensure appropriate returns are achieved on the investment. Transnet pays diligent attention to the important environmental issues associated with major infrastructural works.

As the roll-out of the investment is of strategic importance, a central capital investment office was established at the Corporate Centre. Professional project managers have been appointed to work together with South African and international engineering, procurement and construction management engineers, to act as managing contractors for the seven major capital projects in the organisation. This arrangement provides access to state-of-the-art project information, reporting and analysis systems which will cascade down to the business unit projects. The transfer of skills and training of staff also forms an integral part of the implementation of the projects, which is essential to the successful roll out of the five-year capital investment plan.

Transnet will benefit from the establishment of the central Capital Projects team, a team committed to delivering projects which are within budget, on schedule, and fit for purpose.

Capital investment
R million



Information and communication technology

Transnet has embarked on a programme to reengineer its systems and technology enablers as part of the broader three-year business reengineering programme for the Group.

The Transnet Business Intelligence (TBI) project is focused on adding value to Transnet through providing both accurate, relevant and timely information and also enhancing the control environment. In line with its mandate, the TBI project developed the main project objectives during the year and started implementation. The implementation is geared at achieving improved control, efficiency and effectiveness in the business processes, more effective utilisation of SAP software functionality as well as delivering operational KPIs, including non-financial data and financial data.

PRINCIPLE 5: CREATING A WORKPLACE WHERE OUR PEOPLE CAN EXCEL

Creating a work environment where our people can excel is fundamental to Transnet's turnaround strategy to ensure our objective of becoming an efficient freight transport company. In our 2005 Annual Report we committed to the roll-out of a robust new People development strategy that would align the skills and expertise of our workforce with the objectives of the Company.

People management

The Board has approved a new People management strategy that focuses on seven key themes:

Change and transformation

The scale of change under way demands intensive mobilisation of, and communication with, thousands of employees, which poses challenges in an organisation as diverse and geographically dispersed as Transnet. In the past year this has taken the form of a video on the Company's turnaround strategy, multiple written communiqués and brochures, Spoornet radio broadcasts, and road shows. A change management forum meets monthly to ensure coordination of change initiatives underpinning Transnet's many transformation projects.

Transnet is committed to employment equity and achieving the goal of full representation of previously disadvantaged individuals, women and people with disabilities in line with the Employment Equity Act, 55 of 1998. The promotion of equity and the elimination of discrimination remain a key focus.

Transnet has made significant strides over the years on this aspect, particularly at executive and senior management levels, through proactive engagement with divisional management and progressive implementation of our policies.

Leadership and culture change

Key to the institutionalisation of a new leadership culture is the new Transnet manager competency profile and the assessment instruments designed to test these competencies. All the new head office managers have been assessed and the outcomes are being used to shape individual development plans and a leadership development programme.

Skills development	**2006**
Training, bursaries and grants	**R180 million**
% of payroll costs	**2,1%**

Capacity building

The success of the Vulindlela project depends largely on Transnet's ability to address chronic national and internal skills shortages. Operating divisions' skills priorities have been identified, as has been a series of "quick win" capacity building programmes that will be implemented throughout the coming year to support the infrastructure investment programme and realignment of the core businesses. Also under way is a project to establish a Transnet Academy.

Talent management

Measures to ensure that key talent is attracted and retained as the turnaround strategy unfolds have been identified and will be implemented during the next year.

Employee relations

The focus in the past year has been on the head office restructuring and the non-core business disposal programme. The emphasis will shift now to the Vulindlela project and an employee relations strategy that emphasises dispute prevention over dispute resolution.

Performance management and incentives

A new guaranteed pay system and policy as well as a new incentive scheme have been developed and implemented at head office, and will be rolled out to the operating divisions during the next year. The same applies to a revised performance management system geared to promote the realisation of the turnaround strategy objectives.

Human resources systems and processes

The need to standardise and modernise several HR policies and practices has triggered an audit of the status quo and the development of new policies. This provided the foundation for the review and streamlining of HR processes which will guide the design of enabling SAP functionalities. The year ahead will see the design of a shared services centre, and the identification of baseline HR measures and targets.

Employee safety

The safety of our employees is of fundamental importance to our Company and our performance in this area is regarded as a key measure of our total performance.

Group Risk Management is responsible and accountable for the development and implementation of an effective and efficient Group Safety, Health, Environment and Quality (SHEQ) Risk Management focus in accordance with legislative requirements and international best practice. The management of the SHEQ risks is one of the key focus areas within the broader Enterprise Risk Management Strategy.

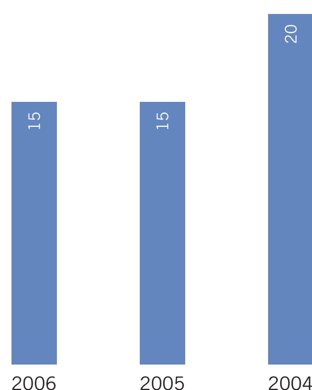
Indicator	**Actual 2006**	Target 2006	Actual 2005	Actual 2004
Cost of risk	**3,2%**	3,8%	4,0%	3,7%
DIFR	**1,4**	1,9	1,6	1,9
NOSA rating	**82%**	73%	71%	69%

Employees – core businesses	Asian (A) F	Asian (A) M	Black (B) F	Black (B) M	Coloured (C) F	Coloured (C) M	Total (A+B+C) F	Total (A+B+C) M	White F	White M	Total F	Total M	Total M+F
Management	84	281	435	826	115	220	634	1 327	206	1 879	840	3 206	4 046
Non-managerial	211	1 100	3 640	22 114	702	3 163	4 553	26 377	1 375	11 142	5 928	37 519	43 447
Total	**295**	**1 381**	**4 075**	**22 940**	**817**	**3 383**	**5 187**	**27 704**	**1 581**	**13 021**	**6 768**	**40 725**	**47 493**

F = Female M = Male

During the year priority focus was given to safety by Group Risk Management and the Group Risk Committee. Safety in Spoornet operations also received special attention as part of the Vulindlela project, where the Safety-first programme has been designed and safety scorecards have been developed and rolled out at six pilot sites.

Employee fatalities



Employee wellness and HIV/Aids

Transnet has taken a decisive and leadership role in proactively planning for the impact of HIV/Aids within the organisation, and in so doing protecting its most valuable resources – its people. The Lifestyle Management Programme is Transnet's strategic response to managing and minimising the potential impact of HIV/Aids within Transnet and its business units by focussing mainly on prevention strategies and medical management.

Prevention strategies

Prevention strategies include ongoing awareness-raising education and training, condom-dispensing as well as Knowledge, Attitudes and Practices (KAP) surveys to establish the current baseline level of knowledge with regard to HIV/Aids and sexually transmitted infections (STIs). Follow-up surveys are also conducted to assess impact of educational intervention strategies. Peer educator campaigns to assist in creating a supportive and caring environment as well as voluntary counselling and testing campaigns also form part of the prevention programme.

Medical management

In our quest to ensure that employees that are currently HIV positive remain in active, productive employment, ongoing support and counselling with regard to compliance and adherence to anti-retroviral regimens are provided. We also provide care, support and treatment in the instances of post-exposure prophylaxis specifically relating to injury on duty and post-sexual trauma, prevention of mother-to-child transmission and treatment of specific HIV-related opportunistic infections. Although access to HIV benefits has been in place for the past four years, apathy in determining HIV status and subsequent enrolment onto the disease management programme remains a shared global challenge. HIV/Aids continues to be a silent plague, fostered by denial and stigmatisation. Awareness of the virus and disease and access to information has translated into intellectualisation of the virus and disease with minimal effect on behaviour modification. Due to these factors, enrolment onto the disease management programme has been low and is currently at 569 for Transmed members and their dependants and at 241 for the Lifestyle Management Programme, which caters specifically for employees that are medically uninsured. Improvement in enrolment figures is to be achieved by setting targets with regard to active voluntary counselling and testing campaigns for the business units.

Principle 6: Caring for the communities where we operate

Corporate social investment

While we continue to focus on delivering a cost-effective transport and logistics service that is on par with world trends, we are also committed to our responsibilities as a good corporate citizen operating in South Africa. The Transnet Foundation is our response to this commitment and is focused on improving the social and economic standards of South African communities.

Transnet Foundation Strategic Developments

During the year the Transnet Foundation implemented various strategies to balance business and social imperatives. Chief among these has been the integration of Transnet's activities with Government priorities in the social development arena. In addition, the Foundation has focused on restructuring its portfolios to mirror the changing landscape of deprivation that exists within the country; focusing the corporate social investment functions within the Group; building partnerships with stakeholders; empowering partners through skills transfer and capacity development; and improving impact-assessment techniques to better reflect the difference the Transnet Foundation is making. Not only do these strategies make it easier to achieve the business/social balance required, but they also enable Transnet to meet its key deliverables of infrastructural development, human capital development and job creation.

In line with the Government's Integrated Rural Development Strategy (IRDS), most of the Foundation's socio-economic initiatives are situated in areas selected by Government for rural socio-economic development. These are the Sekhukhune District in Limpopo; Nyandeni District in the Eastern Cape; Greater Taung in the North West province; Bushbuckridge in Mpumalanga; QwaQwa in the Free State; and St Lucia in KwaZulu-Natal. The Transnet Foundation commissioned research on these nodes, the results of which support their selection by Government for intervention. This research revealed that all the nodes suffer from a general lack of infrastructure, community resources and skills. They also lack an economic driver or specific industry that could contribute towards future economic growth.

In order to effectively deal with the challenges of these communities, the Transnet Foundation has continued with its holistic developmental programme, Transnet Foundation Socio-Economic Development Initiative (TSEDI). The programme takes an integrated approach to service delivery, aligned with that of Government, seeking to identify and address the needs of the specific community. In this way, TSEDI aims to maximise benefits, impact and cost-effectiveness, thereby making sure that the right resources reach the right people.

TSEDI is focused on three key deliverables that are aligned with key social priorities for Government, namely the expanded public works programme, human capital development and job creation. These focus

areas are not isolated from one another, but rather work together to deliver holistic and sustainable socio-economic development solutions for the communities involved.

Key portfolios

Driven by grassroots changes in the area of poverty and the need for balance within Transnet, the Foundation adapted its portfolios during the year to:

Stakeholder, marketing and special events

This new portfolio's primary purpose is to raise the profile and visibility of the Transnet Foundation brand and to manage the Foundation's strategic stakeholders and partners that are recognised as being essential to the sustainability of any intervention.

Health

This portfolio will ensure the ongoing success of the Phelophepa intervention. The provision of primary health care and HIV/Aids education to 36 rural stations and more than 300 000 individuals not only has continuous health benefits but also serves as a spark to raise the intellectual capacity within communities.

Entrepreneurial development

This portfolio seeks to address one of the key deliverables of the Foundation and an important priority of Government – job creation.

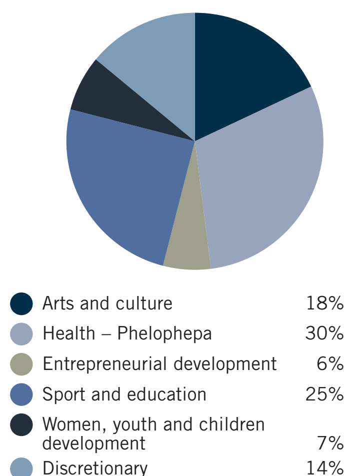
Sport and education

Previously two separate portfolios, education and sport are now combined as they have significant mutually beneficial synergies that can drive development.

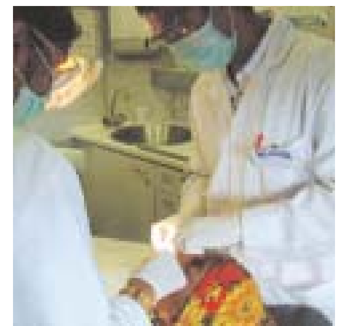
Women, youth and children

This portfolio responds to a sector that is characterised by violence, HIV/Aids and crime with particular emphasis on women exposed to endemic abuse and aggression and women infected with the HIV/Aids virus. Equally, HIV/Aids orphans and the high levels of unemployment amongst young graduates form key areas of focus in an attempt to address issues of crime and deprivation.

Transnet Foundation – Split of spend per portfolio for 2006



Arts and culture	18%
Health – Phelophepa	30%
Entrepreneurial development	6%
Sport and education	25%
Women, youth and children development	7%
Discretionary	14%

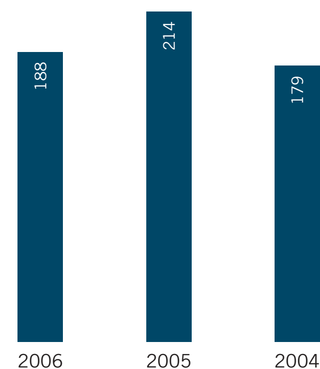


Community impact and public health and safety

Our responsibility and accountability for the impact of our operations also extend to the communities living adjacent to the areas where we operate. For this reason our SHEQ Risk Management Policy also governs the management, performance and monitoring of our community impact and public health and safety. We have an active role to play in the communities where we operate, to embed safety awareness and collectively address the South African challenge to manage the impact of the HIV/Aids pandemic.

In realising that we still have a long way to go to better our performance, especially relating to public injuries and fatalities, our renewed focus on safety during the year included strategies to manage public health and safety.

Public fatalities



Principle 7: Conserving the environment around us

Conserving the environment around us forms an integral part of our key objective to integrate SHEQ risk management into day-to-day operations to ensure business sustainability.

Environmental management

At Transnet, we believe that our environmental responsibilities and business objectives are connected. We recognise that we do have an impact on the environment and acknowledge our responsibility for managing environmental issues effectively. We are committed to transparent policies, procedures and initiatives that reinforce sustainability awareness across the organisation to reduce our environmental footprint and to safeguard our stakeholders from environmental risk.

During the year Transnet invested considerable time and resources into understanding and addressing environmental issues associated with our operations. As mentioned in the safety section on page 35, we have revisited our Group SHEQ Risk Management Policy in our quest to also encourage environmental best practice and ensure that our operations have reduced environmental impacts. Our new policy is the first step in leading the way to Group-wide compliance with all relevant environmental legislation and regulations.

It is our goal to get even closer to understanding the environmental issues associated with all our operations during the next year and to incorporate environmental management into everyday business practice. We will work to manage, measure and monitor the impact of our operations on the environment. We will strive to promote environmental care, to increase our understanding of environmental issues and to spread environmental best practices throughout our businesses.

We will also actively seek to protect resources through effective supply-chain management, technological development and our underwriting and implementation of the Best Practicable Environmental Option.

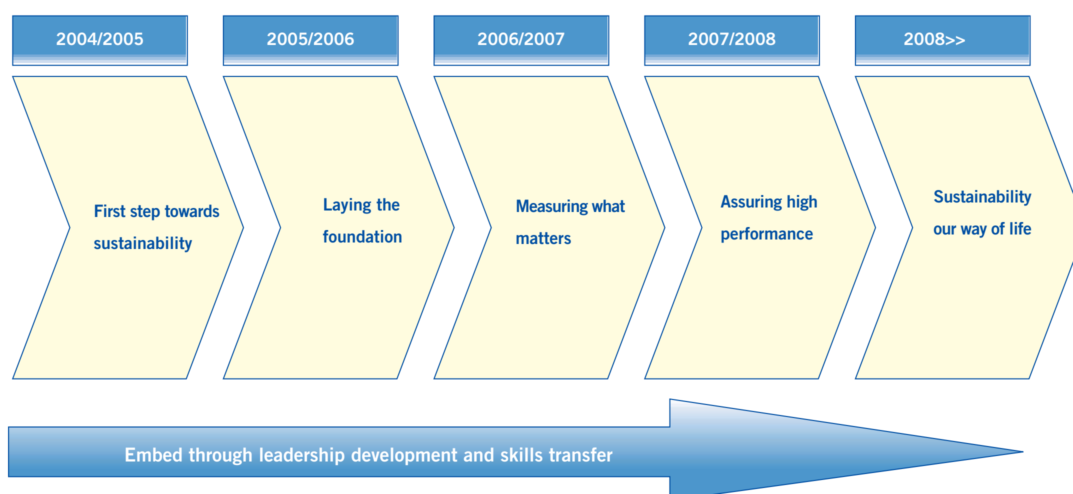
Environmental performance

We are committed to a journey towards maturity of our environmental performance, including making sustained improvements in our energy efficiency. This commitment includes the further integration of environmental considerations into our business decisions and enhancing how we manage and measure our environmental performance.

Our new SHEQ Risk Management Policy leads the way for putting processes in place to measure our performance in respect of minimising pollution and waste, conserving natural resources, responsibly delivering our services, and enhancing our broader understanding and management of the environmental aspects of our businesses. It is our intention to strengthen our environmental activity during the next year with continued focus on 'reduce, re-use and recycle'.

Our sustainability journey ahead

While Transnet leadership recognises that we have a long way to go to make sustainability a way of life, we have begun this journey by establishing our own sustainability platform, geared at driving our management of sustainability issues towards maturity, as shown in our platform's maturity model below:



Read more about our sustainability in our online Transnet Sustainability Report 2006

This executive summary presents concise information regarding Transnet's sustainability and our value-based approach to business management. It serves as a point-of-entry for users with specific information needs as it references additional background, context and data, which is available from our online report. While this executive summary provides consolidated information on the Group's performance, inclusive of our continuing businesses, more detailed information is available from the online divisional sustainability reviews. These reviews, aimed at providing a transparent view of our business performance, are prepared in accordance with the Global Reporting Initiative's (GRI) new G3 Sustainability Reporting Guidelines.*

* *You can read more on the Five Capitals Model and Triple Bottom Line on www.forumforthefuture.com and the Global Reporting Initiative's (GRI) new G3 Sustainability Reporting Guidelines are available from www.globalreporting.org.*

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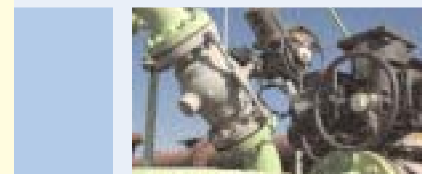
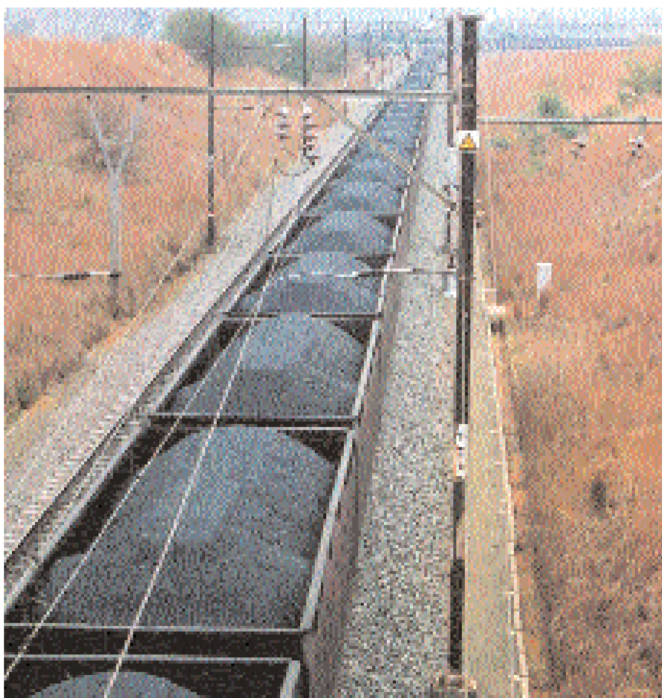




Spoornet focuses on the transportation of **bulk coal, iron ore** and **general freight** by rail.

- **Turnover up 4% to R14,4 billion**
- **Expansion of iron ore and coal lines commenced**
- **110 new locomotives purchased**

Business overview

Spoornet manages most of South Africa's rail infrastructure. With a staff complement of more than 31 000 employees, Spoornet is positioned to become a profitable and sustainable freight railway business that contributes to lowering the cost of doing business in South Africa and to a more competitive economy.

Spoornet's freight operations are composed of a general freight business, a heavy haul export coal line and a heavy haul iron ore export line. Spoornet has a 22 000 km rail network, of which about 1 500 km is heavy haul lines. The network connects the ports and hinterland of South Africa and the rail networks of the sub-Saharan region.

Spoornet continues to operate long-distance passenger transport service Shosholoza Meyl and the luxury Blue Train. Strategic consultations are under way to reposition Shosholoza Meyl outside of Spoornet, while concessioning opportunities are being sought for the Blue Train. Divestment of these assets will enable Spoornet to focus on its freight operations and infrastructure.

Strategic objectives

Spoornet's strategic objectives include:

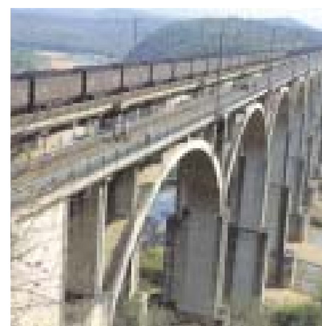
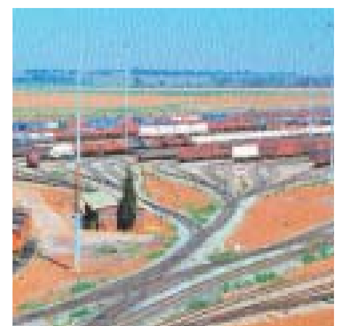
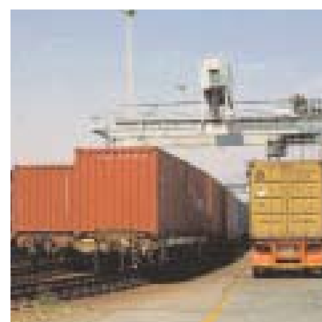
- Enhancing Spoornet's market leadership position as a safe, efficient and reputable provider of national freight transportation, and strengthening its stewardship of the rail system. Strategic imperatives in reaching this objective include:
  – Improving delivery efficiency and rail transportation reliability;
  – Providing sufficient and reliable capacity through accelerated backlog and scheduled maintenance; and
- Improving business profitability – now and in the future – through increased rail volumes and freight traffic, while reducing the associated costs. This will facilitate the broader structural transformation of the transport industry and ultimately reduce the cost of doing business in South Africa. Strategic imperatives in this regard include:
  – Divesting non-core businesses and focusing on Spoornet's core business;
  – Ensuring systematic and targeted investment in rail infrastructure in the medium to long term to improve structural efficiency;
  – Improving capacity and modernising equipment to accommodate anticipated growth in freight traffic; and
  – Achieving economies of scale and operational efficiencies by integrating Spoornet's and Transwerk's maintenance facilities.

Performance highlights and operational achievements

During the year, Spoornet's newly appointed senior management team focused on the key challenges facing the organisation. The central challenge is that historic underinvestment in human capital and physical capacity (including maintenance) has resulted in a railway that does not meet acceptable safety and reliability standards, and which does not have appropriate processes and systems in place.

Operational achievements during the year included the following:

- Addressing the reliability and availability of rolling stock. All major maintenance programmes are being incorporated into Transwerk, which will be responsible for rolling stock availability and reliability in future;
- The Transnet Board approved an additional maintenance budget of R1,6 billion for the coming year to begin addressing the maintenance backlog for locomotives, wagons and rail infrastructure. This is in addition to the R5,7 billion capital programme for the coming year, which includes the capitalisation of major maintenance in terms of International Financial Reporting Standards;
- The Vulindlela coal line programme, has freed up dynamic capacity, resulting in the attainment of record daily volumes. However, a number of factors – including broken rails, problems with the supply of locomotives and wagon wheel sets and late summer rains that reduced mining output – had a negative impact on performance;
- The focus on the iron ore line raised daily volumes at the port of Saldanha to record levels. A total of 29,6 mt were moved compared to 28,2 mt in the previous year. A target of 32,7 mt has been set for next year;
- Spoornet has rationalised many of the cross-border arrangements (including concessioning) entered into over the past decade. These contractual obligations were difficult to administer and were often agreed on onerous commercial terms and at rates that anticipated a continued weakening of the rand;
- Spoornet awarded a contract for the purchase of 110 dual voltage electric locomotives. These are Spoornet's first new locomotives in 16 years and will be used on the coal line;
- The new capital expenditure programme was initiated and R3,8 billion was expended on capital projects, which included expenditure now qualifying for capitalisation in terms of IFRS;

- Variations in energy costs, particularly the oil price, had a direct negative impact on Spoornet's operational costs. The current year budget was based on an average oil price of $45/barrel, but the closing price for the year was $58/barrel. This resulted in the average price of diesel being R5,13/litre, compared to the projected price of R4,50/litre; and
- The remuneration base grew by 2% as a result of a historic wage agreement. There was no impact of back-pay on operating costs.

Financial overview

	Year ended 31 March 2006 R million	Year ended 31 March 2005 R million	% change
Salient features			
Turnover	**14 384**	13 768*	4
Operating profit	**1 695**	767*	121
Profit/(loss) before taxation	**808**	(96)*	942
Net asset value	**9 194**	9 276	(1)
Profitability measures			
Operating margin	**11,8%**	5,6%*	111
Return on net assets	**8,8%**	(1,0%)*	980
Capital expenditure			
Total	**3 809**	1 328	187
Employees			
Number of employees	**31 398**	32 516	(3)
Turnover per employee	**0,46**	0,42	10

* *Excluding fair value adjustments arising from the reversal of embedded derivatives:*
– Turnover amounting to R403 million
– Profit before tax amounting to R3 473 million

Financial performance

Spoornet achieved a turnover of R14 384 million, an increase of 4% compared to the previous financial year.

The operating profit of R1 695 million (before fair value adjustments) is significantly higher than the R767 million reported in the previous year. This increase resulted mainly from the capitalisation of R681 million to property, plant and equipment in 2006, which was previously expensed. In 2005 the capitalisation was limited to R26 million as a consequence of the annual impairment review. The improvement in operating profit, compared to the previous year, is mainly due to volume increases on the export lines and cost-containment initiatives (despite write-offs such as the cost of exiting the Zambian operations, amounting to R170 million).

Finance charges increased from R863 million in the previous year to R930 million in the current year. The previous year's reported results included the reversal of the embedded derivative gain of R3 473 million resulting from the renegotiated iron ore transport contract. Adjusting for this, Spoornet's net profit before taxation improved significantly from a loss of R96 million last year to a profit of R808 million this year.

The total freight transported of 182 mt was marginally higher than the previous year's volumes. However, as the volume growth was achieved primarily on the export lines, as reflected in the table below, a deliberate strategy was followed to move productive rolling stock resources to the export lines.

The table below illustrates total volume growth:

	Year ended 31 March 2006	Year ended 31 March 2005
Export coal (mt)	**68,7**	66,9
Export iron ore (mt)	**29,6**	28,2
General freight (mt)	**83,8**	86,1
Total volumes (mt)	**182,1**	181,2

The frequency of derailments, coupled with other safety related incidents, as well as the poor reliability of the rolling stock and infrastructure, reduced capacity.

In the passenger segment, revenue resulting from Shosholoza Meyl was lower than the previous year's due to continued competition from alternative transport modes. No revenue growth was achieved at Luxrail.

The return on net assets increased from -1% (excluding fair value gains) last year to 8,8% in the current year. Returns should further improve as progress is made in addressing the unreliability of rolling stock and infrastructure.

Capital investment

Capital spending for the year amounted to R3 809 million, compared to R1 328 million in the previous year. The following capital projects were initiated during the year and will continue into the following year:

- Fleet renewal and modernisation;
- Expansion of iron ore line capacity; and
- Expansion of coal line capacity.

This year saw a significant increase in capital allocated to address the necessary investments in rolling stock and infrastructure compared to the previous year. These investments will improve safety, availability and reliability of rolling stock and infrastructure and will create capacity for projected volume growth. Future capital projects will also focus on the infrastructural areas of the business and are reflected in the planned capital expenditure for next year.

The capital expenditure for the next year includes:

Projects	R million
Coal line: capital required to increase capacity and to purchase 110 new dual voltage locomotives and build 400 jumbo wagons	667
Wagon fleet renewal and modernisation programme	900
Upgrade of 200 additional Class 18E1 locomotives	330
Iron ore line: capacity expansion up to 41 mtpa, upgrade of locomotives and incab signalling	899
Capitalisation of maintenance costs	2 682
Eskom Majuba power station medium term coal supply	150
Asset tracking system	111
Increase component floats for locomotives	458
Other projects with spending less than R50 million	1 056
Total	**7 253**

Spoornet has planned for the following major capital expenditure (greater than R50 million) over the next five years:

Projects	R million
Capitalised maintenance	8 124
Coal export line	7 956
Ore export line	2 743
General freight	10 827
Other projects	1 822
Total	**31 472**

Operational performance

During the year Spoornet's main operational thrust was to run a scheduled railway. Spoornet has successfully integrated all unscheduled trains into a national integrated train plan. However, improving on-time departure and arrival remains a challenge. This is being addressed through an increased focus on locomotive availability and reliability, and improved operational planning.

Spoornet prepared a five-year business plan that defines restructuring strategies. It incorporates plans for divesting non-core, non-freight businesses. A longer term strategy is also in place to facilitate volume growth. The process for the development of an integrated Rail Master Plan was also initiated during 2005 and is being finalised in conjunction with the South African Port Operations, the National Ports Authority and the Departments of Transport and Public Enterprises.

Safety, health and environment

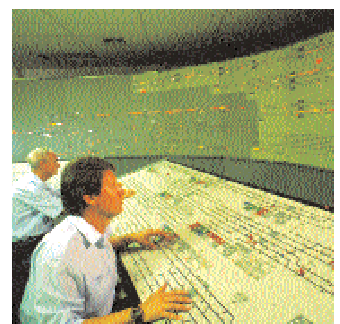
Spoornet contracted advisory firm DuPont International to assess and assist in addressing safety fundamentals. This initiative continues to focus on the safety transformation of operating systems and management of, as well as, changing cultural mindsets and behaviours, with the goal of improved safety. These initiatives are expected to result in a major improvement in Spoornet's safety performance in the next year.

In addition, Spoornet has developed strategies, systems and programmes to create integrated occupational safety, health and hygiene management practices, minimising risks and ensuring compliance. A safety, health and environmental legal register was compiled to monitor operational activities that may impact the safety and health of employees and the public, as well as the organisation's assets and the natural environment.

The past year has seen a number of safety incidents, including derailments, resulting in operational disruptions. The cost of major incidents is estimated at R400 million to date, excluding the opportunity cost of lost revenue due to reduced capacity.

Spoornet has developed and implemented a policy that commits the business to sound environmental practices. The policy promotes the minimisation of environmental pollution and supports compliance with applicable environmental legislation, regulations and standards. No environmental prohibition notices or penalty threats were issued to Spoornet during the year.

An integrated environmental management system is used in the assessment of business projects. Environmental impact assessments (EIAs) are conducted for Spoornet projects that fall within the scope of activities covered by the Environment Conservation Act, 73 of 1989. Extensive studies were completed during the year relating to the iron ore line upgrade, the coal line upgrade and various EIAs for loop lengthening and facility upgrades.



Human capital management

Employee numbers declined by 3%, mainly as a result of natural attrition.

As at 31 March 2006, black employees constituted 69% of the Spoornet staff. The focus during the year was on leadership development, change management and the enhancement of workforce skills – all essential components of Spoornet's turnaround strategy.

Management challenges

All major capital projects were on track during the year. The benefits of this should begin to reflect in the improved availability of capacity and increased reliability of rolling stock in coming years, as the backlog maintenance programme and the current capital expenditure programmes are executed. These programmes will address the challenges that Spoornet faces in the coming year, including:

- Addressing the historical underinvestment in rail infrastructure and rolling stock maintenance;
- Improving the safety record;
- Restoring customer confidence in Spoornet's service levels;
- Developing human resource capacity and restoring employee confidence, pride and productivity;
- Improving rolling stock and infrastructure reliability; and
- Achieving the industry-benchmarked key performance indicators (KPIs).

These challenges are also being addressed through the Vulindlela programme, which aims to yield significant improvements in all areas of performance over the next three years.

Prospects

The operation of a scheduled railway remains a key objective for the coming year. This should be achieved through an integrated plan addressing efficiencies in rolling stock and infrastructure, scheduling, human capital requirements and other operational factors.

Maintenance optimisation through the integration of Spoornet's and Transwerk's maintenance facilities will remain a priority.

Transnet-wide initiatives affecting Spoornet include procurement optimisation, coordinated capital expenditure implementation planning and integrated infrastructure funding planning.

Spoornet is committed to the transformation of the South African transportation industry and the effective turnaround of the freight rail business.

During the year management focused mainly on stabilising the business and improving performance through improved operational efficiency, customer service and profitability. The new strategic direction will ensure that the business increases volume and market share. This, in turn, will enable Spoornet to strengthen its position as a key player in the country's continued economic growth.

DIVISIONAL REPORT PETRONET

Petronet **pumps** and **manages** the **storage of petroleum** and **gas products** through its network of long-distance pipelines.

- **Operating profit up 31% to R597 million**
- **R4,9 billion capital spending over next 5 years**
- **Improved safety and "clean fuels" ratings**

OPERATIONAL REPORT PETRONET continued

Business overview

Petronet owns and operates South Africa's 3 000 km strategic petroleum and gas pipeline infrastructure, transversing five provinces. Its performance is integral to the health of the South African economy and, as part of Transnet, Petronet's mandate over the next five years will be aligned with Government's broader energy and transportation priorities.

Strategic objectives

Petronet's vision is to continue developing a business portfolio that enables future growth, utilising an integrated pipeline, depot and terminal system. Strategic objectives include:

- Ensuring security of critical petroleum-product energy supply to South Africa's economic heartland – Gauteng province. Strategic imperatives in reaching this objective include:
  - Providing and maintaining sufficient pipeline capacity to avoid economic constraints; and
  - Delivering orders to correct quality, in the right quantity, at the correct time and to the right place in a reliable manner.
- Reducing the cost of energy by lowering the transportation cost element in real terms, thereby also lowering the cost of doing business in South Africa.
- Creating job opportunities in the local economy by investing in the country's most important transportation corridors.
- Adhering to considerably challenging regulatory requirements. Previously self-regulated, Petronet's activities are now regulated by the Petroleum Pipelines Act, 60 of 2003, and the Gas Act, 48 of 2001.

Performance highlights and operational achievements

Petronet recorded the following operational achievements during the year:

- Turnover increased by 4% to a new record level of R1 060 million;
- A 31% increase in operating profit;
- In January 2006, Petronet successfully complied with the "clean fuels" requirements;
- Achieved a NOSA rating of 85%, an improvement of 5% on the previous year;
- Experienced no major spillages; and
- Increased operating profit resulted in an improvement in all key performance indicators (KPIs).

Financial overview

	Year ended 31 March 2006 R million	Year ended 31 March 2005 R million	% change
Salient features			
Turnover	**1 060**	1 019	4
Operating profit	**597**	457	31
Profit before taxation	**345**	197	75
Net asset value	**2 118**	2 014	5
Profitability measures			
Operating margin	**56,3%**	44,8%	26
Return on net assets	**16,3%**	9,8%	66
Capital expenditure			
Total	**220**	136	62
Employees			
Number of employees	**448**	542	(17)
Turnover per employee	**2,37**	1,88	26

Financial performance

The following factors contributed to an increase in operating profit for the year:

- Volume-throughput capacity improved as a result of removing bottlenecks in the pipeline system; and
- A strong focus on cost-containment initiatives and efficiency improvements.

Capital investment

Capital spending for the year amounted to R220 million compared to R136 million in the previous year. However, spending was below the budgeted amount due to delays in obtaining the record of decision of the environmental impact assessment process for the refractionator project and the postponement of ICT-related investments.

The capital expenditure for the next year includes:

Projects	R million
New multi-product pipeline (NMPP) and terminals	48
Intermixture Refractionator	38
Telecontrol Phase II	21
Other projects below R20 million	119
Total	**226**

Petronet has planned for the following major capital expenditure (greater than R50 million) over the next five years:

Projects	R million
New multi-product pipeline (NMPP) and terminals	4 200
Upgrade of Gas Line (Lilly II)	396
Telecontrol Phase II	80
Intermixture Refractionator and other clean fuel requirements	50
Other smaller projects	192
Total	**4 918**

Operational performance

Petronet's key distribution indicator of megalitre/km remained unchanged mainly due to the increase in volumes transported from the coast.

The change-over to the "clean fuels" specifications in January 2006 had a significant impact on Petronet's operations in late 2005 and early 2006, due to the unavailability of products as well as the unplanned shutdowns of a number of refineries. This necessitated ongoing re-planning and scheduling.

The capacity plan study, updated in 2005, indicates a physical need for additional capacity between Durban and Gauteng in early 2008. The existing refined products pipeline (DJP) is operating close to full capacity. The crude line feeding the Natref refinery is, however, only 75% utilised. Capacity planning throughout the system is a priority, and product movement in each lines is being carefully scrutinised to meet client needs and market demand.

The "de-bottlenecking" project to add 15 million litres of petroleum product per week in the section between Sasolburg and Alrode, became operational in October 2005. This has addressed the constraints in that section by 18%.

Safety, health and environment

Safety, health and environmental policies form a vital part of Petronet's risk management framework. All Petronet sites are registered National Key Points, necessitating high levels of security management in accordance with applicable legislation.

Human capital management

Petronet continued with its business transformation initiative, Project SMART, during the year. The project aims to improve efficiencies and productivity. Productivity levels improved, as evidenced by the increase in turnover and volumes transported per employee.

Greater emphasis was placed on the retention of core technical and operational skills as well as addressing gaps in the skills mix.

Petronet made good progress in meeting equity targets during the year.

Management challenges

The organisation faces the following management challenges in the coming year:

- Successful licence application with the National Energy Regulator of South Africa (NERSA);
- Successful completion of planned feasibility studies for the new multi-product pipeline;
- Capacity management in the pipeline system as a whole;
- Enhanced cost management, greater efficiencies and improve productivity;
- Completion of projects on time; and
- Achieving the industry-benchmarked key performance indicators (KPIs).

Prospects

Petronet will continue to place greater emphasis on cost structures within the business during the coming year. By optimising business operations and creating operational efficiencies, the real cost of transporting fuels – and ultimately the cost of doing business in South Africa – should be reduced.

Petronet will fulfil its mandate from Government to provide and optimally manage a strategic pipeline infrastructure and capacity to meet the oil industry's requirements. A key requirement is to increase pipeline capacity to meet growing demand. Petronet has commenced with the new multi-product pipeline, which will provide capacity to meet inland demands well into the future.

NPA provides **port infrastructure** and **marine-related services** and **manages port activities** at South Africa's major ports.

- **Turnover up 11% to R5,5 billion**
- **Operating profit up 19%**
- **Capital expenditure of R18,6 billion planned for the next five years**

Business overview

The National Ports Authority of South Africa (NPA) is the largest port authority on the continent. NPA owns and manages South Africa's ports at Richards Bay, Durban, East London, Port Elizabeth, Mossel Bay, Cape Town, Saldanha and Ngqura.

NPA plays a pivotal role in international trade by providing suitable infrastructure as a conduit for the country's imports and exports. As port landlord, NPA is responsible for:

- Developing and managing the port properties;
- Developing port strategies, advising and implementing national port policies;
- Providing and maintaining port infrastructure (i.e. breakwaters, seawalls, channels, basins, quay walls and jetties), and the sustainability of ports and their environments; and
- Coordinating marketing and promotional activities for each port.

In addition, NPA performs a control function, which includes:

- The provision of vessel traffic control and navigational aids;
- Licensing and leasing of terminals to operators;
- Monitoring the performance of port operators; and
- Ensuring the orderly, efficient and reliable transfer of cargo and passengers between sea and land.

Strategic objectives

NPA's strategic objectives include:

- Maintaining and growing a national port infrastructure by harnessing the opportunities of increased growth in international trade, while reducing the costs of port infrastructure management. Strategic imperatives in achieving this objective include:
  – Ensuring that the respective coastal regions are assured of both bulk and general cargo port handling facilities; and
  – Ensuring productivity improvements and optimum capacity planning at all ports to handle higher container volumes.
- Successfully positioning NPA as a competitive international ports management entity. Strategic imperatives in this regard include:
  – Creating capacity to meet current and future customer demand;
  – Improving efficiencies and optimising institutional processes;
  – Increasing the asset base and improving the return on managed assets;
  – Improving customer satisfaction and quality delivery; and
  – Improving port productivity through efficient port systems and processes.

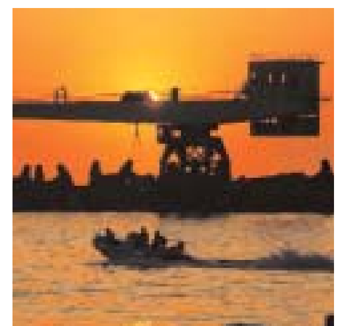
Performance highlights and operational achievements

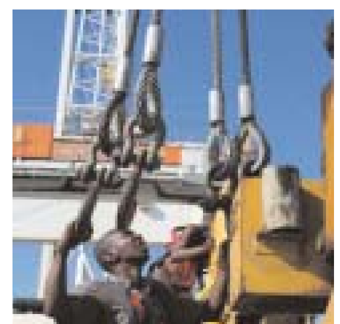
NPA recorded the following operational achievements during the year:

- Turnover increased by 11% to R5 543 million, from R4 994 million in the previous year;
- Operating profit increased by 18% to R3 798 million, from R3 211 million;
- Human Resources ISO 9001 compliance accreditation was obtained;
- All ports were accredited as being ISPS (International Standard Port Facility Security) code compliant;
- The NPA Portal, 'Ports Online' was piloted as part of NPA's drive to improve customer service;
- Phase 1 of the Ports Master Plan, which details the strategy for each port, is being finalised;
- Phase 1 of the construction of the Port of Ngqura was completed;
- Land was reclaimed at the Point in Durban; and
- NPA achieved all key performance indicators (KPIs) during the year with the exception of its gross capital expenditure targets, which was due to the need to obtain approvals from all governing bodies as well as changes in project requirements.

Financial overview

	Year ended 31 March 2006 R million	Year ended 31 March 2005 R million	% change
Salient features			
Turnover	**5 543**	4 994	11
Operating profit	**3 798**	3 211	18
Profit before taxation	**3 445**	2 659	30
Net asset value	**13 859**	12 961	7
Profitability measures			
Operating margin	**68,5%**	64,3%	7
Return on net assets	**24,9%**	20,5%	21
Capital expenditure			
Total	**783**	931	(16)
Employees			
Number of employees	**3 236**	3 419	(5)
Turnover per employee	**1,71**	1,46	17





Financial performance

NPA achieved turnover of R5 543 million, indicating an overall improvement of 11% compared to the previous financial year. This performance – attributable mainly to volume growth of 9,3% – exceeded expectations, especially considering the low tariff adjustment of 1,7% on average.

Profit before taxation increased by R786 million, or 30%, to R3 445 million. This increase is attributable mainly to cargo dues, which increased by R291 million as a result of improved activity levels. Marine services (pilotage, berthing, floating craft) increased by R67 million and property rentals increased by R36 million.

Operating costs reflected a decrease of R37 million or 2,1% compared to the previous year, resulting in an operating profit of R3 798 million before net finance cost. This reflects an improvement of R587 million or 18,3% compared to the previous financial year. The return on assets has increased from 20,5% to 24,9%. This is mainly due to improved operating results and the lower-than-anticipated investment planned for the year, which resulted in a lower asset value.

Capital investment

Capital spending for the year amounted to R783 million compared to R931 million in the previous year. The total capital expenditure for the year was R964 million below budget. This was mainly due to the slow progress of construction at the Port of Ngqura.

The capital expenditure for the next year includes:

Projects	R million
Various upgrade and expansion projects at the Port of Durban	687
Port of Ngqura: construction of the port and sectionalised surfacing	424
Richards Bay Coal Export Berth	67
Expansion of Cape Town Container Terminal	160
Security: All ports	78
Saldanha Iron Ore Terminal civil infrastructure	89
Other projects	459
Total	**1 964**

NPA has planned for the following major capital expenditure (greater than R50 million) over the next five years:

Projects	R million
Richards Bay	1 363
Durban	8 744
East London	560
Ngqura	2 493
Port Elizabeth	138
Cape Town	3 903
Saldanha Bay	387
Marine Services	29
Other projects	952
Total	**18 569**

Operational performance

Total bulk export volumes increased by 6% compared to the previous year. This increase resulted from:

- Increased coal exports resulting from higher global demand;
- The improved performance of chrome ore, titanium slag and acids due to greater demand and improved market conditions; and
- Increased world demand for iron ore – driven primarily by China.

Total bulk import volumes increased by 4% compared to the previous year, largely as a result of imported petroleum volumes. Strong economic growth and resulting demand for imported petroleum ensured greater volumes, despite the higher crude oil price. Bulk trans-shipment volumes reflected a significant increase, mainly as a result of increased trans-shipped petroleum volumes.

Total break-bulk import volumes reflected significant growth during the year. Vehicle imports continued to experience very strong growth, with all auto industry hubs – Durban, Port Elizabeth and East London – reporting higher-than-anticipated increases.

Full container imports grew 9% on the previous financial year. Increased vehicle components in containers (components used in the manufacturing of vehicles for export), showed strong growth. Economic improvements, coupled with low interest rates and increased disposable revenue, drove the increased demand for imports.

There was no growth in full container export volumes during the year. Containerised fruit exports performed below expectations as a result of a reduction in crop estimates, quality concerns and strong competition in the European market. The relative strength of the rand suppressed exports.

There was significant growth in total empty container volumes during the year due to the repositioning of empty containers as a result of high Asian demand. This trend is expected to continue into the next year. However, while high demand for empty containers contributed to the increase in total container volumes, the effect on NPA's revenue was

minimal due to substantially lower tariffs levied for empty containers compared to full containers.

Safety, health and environment

The NPA's commitment to the management of safety, health and the environment is underpinned by a Transnet-wide policy.

During the year, NPA performed within the safety, health and environment targets and was fully compliant with the Safety Act. In addition, NPA received a Transnet Safety Competition Award as well as the NOSA Platinum 5-Star grading.

NPA has a comprehensive workplace health programme in place, focusing on occupational health and primary health care. It also offers a service to help employees deal with personal and work related problems that could negatively impact their performance.

Human capital management

Employee numbers declined by 4% during the year, mainly as a result of natural attrition.

Despite the decrease in full-time employees, NPA has not only numerically achieved its employment equity plan, but has also furthered the advancement of women and disabled employees.

Leadership development, change management and the enhancement of workforce skills were key focus areas during the year, in line with the broader Transnet four-point turnaround strategy. Key challenges include high employee turnover and scarcity of maritime skills.

NPA is committed to employment equity. As at 31 March 2006, 71% of NPA staff were black. It maintained the recruiting target ratio of 73% women and 27% men.

NPA management is committed to the following resource developments in the coming year:

- Defining generic and technical competencies for all functional areas;
- Filling critical positions;
- Developing the skills required for NPA's strategic intent;
- Targeting the execution of workplace skills plans;
- Repositioning the Port Academy and implementing the focused training plan; and
- Initiating an integrated pilot training programme for the marine business.

Management challenges

NPA faces the following management challenges in the coming year:

- Complying with the National Ports Act and other applicable legislation and working closely with the Ports Regulator;
- Collaborating with internal and external stakeholders;
- Creating a port environment in which competition can thrive;
- Measuring and monitoring port operations and service providers' performance to increase port efficiency;
- Delivering capital projects on schedule;
- Developing skills and capacity, e.g. marine, engineering and information technology; and
- Achieving the industry-benchmarked key performance indicators (KPIs).

Prospects

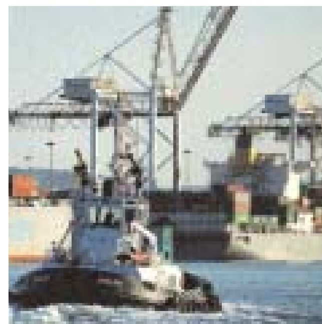
Performance in the containerised cargo market (full import and export) should grow by 7% in the next year, with empty containers growing at 10%. This projection is based on:

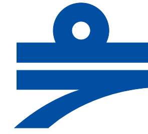
- The anticipated positive economic climate, low interest rates and a stable exchange rate;
- Growth of bulk volumes by 5%, mainly due to increased coal and iron ore exports; and
- Expected growth of at least 10% in vehicle import and export volumes.

NPA anticipates that business growth will be achieved through a consolidated focus on productivity monitoring, performance measurement and the enforcement of quality delivery to terminal operators and other service providers.

In the coming year, NPA will focus on the following initiatives to harness market opportunities:

- Finalising productivity and performance agreements with terminal operators to ensure efficiency improvements;
- Establishing a functional operation at the Port of Ngqura;
- Implementing policies and programmes geared at retaining the 5-Star NOSA rating, ISO 14001 certification and ISPS accreditation at all ports; and
- Contributing to lowering the cost of doing business by formally launching a B2B Portal (Ports Online). This will create a platform for customers to transact electronically with NPA and to gain access to cargo information flow.




SOUTH AFRICAN PORT OPERATIONS

SAPO **manages port terminal** and **cargo operations** across six South African ports.

- **Turnover up 9% to R3,6 billion**
- **Capital expenditure of R6,3 billion over next 5 years**
- **Commenced construction of second container terminal in Durban**

Business overview

South African Port Operations (SAPO) manages 15 cargo terminal operations, situated across six South African ports. As the dominant terminal operator in each of these ports, SAPO interfaces with road and rail transport to provide an efficient and reliable service to a wide spectrum of customers, including shipping lines and cargo owners.

The operations are divided into four cargo sectors: container, dry bulk, breakbulk and automotive.

Strategic objectives

SAPO's strategic objectives include:

- Maintaining its market position as South Africa's dominant terminal operator. Strategic imperatives in reaching this objective include:
  - Understanding customer requirements and translating these into consistent and personalised service offerings that exceed customer expectations;
  - Addressing competitive issues, particularly in the breakbulk sector;
  - Ensuring the organisation is recognised as an efficient and cost competitive operator; and
  - Creating capacity ahead of demand.
- Increasing the revenue base by harnessing opportunities associated with anticipated import and export growth, while reducing the costs of ports operations. Strategic imperatives in this regard include:
  - Entering into strategic partnerships to exploit new business opportunities;
  - Undertaking targeted investments to improve infrastructure to handle projected volumes;
  - Containing operating costs per unit of volume through below-CPIX inflation cost increases; and
  - Creating a performance management culture and skills base that drive the execution of the business plan.

Performance highlights and operational achievements

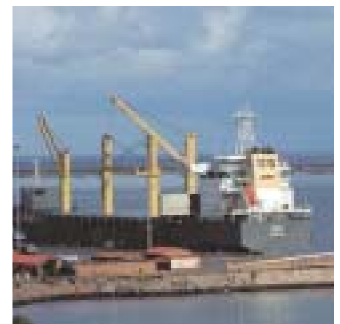
SAPO recorded the following operational achievements during the year:

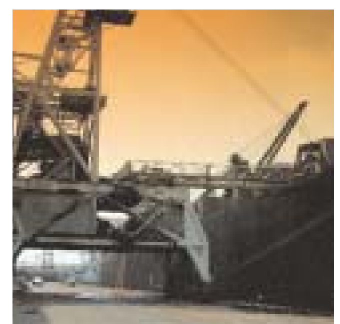
- Turnover increased by 9% (after adjusting for R151 million positive impact of an embedded derivative on the prior year's turnover);
- Operating profit improved by 4% due to continued growth and cost-containment initiatives;
- Profit before taxation improved by 6% to R892 million (after adjusting for the impact of an embedded derivative in the previous year);
- Acquired 100% of Agriport, a bulk operating terminal in Durban (previously operated as a partnership with Viamax (Pty) Ltd);
- Commenced construction of a second container terminal at Pier 1 in Durban, expected to be fully operational in 2007;
- Three new super post-Panamax gantry cranes were commissioned in the Durban Container Terminal and additional 14 cranes are on order for SAPO's container terminals;
- Increased the average moves of gross crane per hour in the container sector by 10%;
- Maintained the Durban Car Terminal's 5-Star NOSCAR rating for the third consecutive year; eight other terminals achieved a 4-Star rating;
- The average NOSA rating across SAPO has significantly increased from an average of 3,6 in the previous year to an average of 4,1;
- Achieved ISO 14001 certification for both the bulk and breakbulk terminals in Saldanha; and
- Reached a record of 28,8 million tons exported through the Saldanha iron ore terminal.

Financial overview

	Year ended 31 March 2006 R million	Year ended 31 March 2005 R million	% change
Salient features			
Turnover	**3 585**	3 281*	9
Operating profit	**911**	875*	4
Profit before taxation	**892**	841*	6
Net asset value	**3 002**	3 081	(3)
Profitability measures			
Operating margin	**25,4%**	26,7%*	(5)
Return on net assets	**29,7%**	27,3%*	9
Capital expenditure			
Total	**776**	658	18
Employees			
Number of employees	**4 853**	5 196	(7)
Turnover per employee	**0,74**	0,63	17

* *Excluding fair value adjustments arising from the reversal of embedded derivatives:*
- *Turnover amounting to R151 million*
- *Profit before tax amounting to R889 million*





Financial performance

Turnover increased by 9%, operating profit increased by 4% and profit before taxation increased by 6%. The year-on-year growth in turnover and profitability excludes the impact of the embedded derivative adjustment in the previous year.

SAPO experienced solid growth during the year and this, coupled with successful cost-containment initiatives, has resulted in improved financial performance.

SAPO has successfully implemented a number of efficiency initiatives and continues to make a positive contribution to the successful implementation of the Transnet four-point turnaround strategy.

Capital investment

Capital spending for the year amounted to R776 million compared to R658 million in the previous year.

During the year three new super post-Panamax container gantry cranes were commissioned at the Durban Container Terminal. A further order of 14 similar cranes has been placed: three for Durban, five for Durban Pier 1 and six for Cape Town. Commissioning of these cranes will commence in March 2007.

In accordance with an ongoing replacement programme, 78 new straddle carriers were ordered during the year: 26 for Cape Town, 41 for Durban and 11 for Port Elizabeth. Commissioning of this order commenced in 2005 and is expected to be completed in the second quarter of the next financial year.

The establishment of the new container terminal at Durban Pier 1 is in progress. Its current capacity is 145 000 TEUs (twenty foot equivalent unit) per annum and is expected to increase to 590 000 TEUs per annum in two years' time.

SAPO will implement a vigorous capital expenditure programme over the next five years to ensure world-class infrastructure. The successful implementation of this programme is key to the efficient handling of projected volumes.

The capital expenditure for the next year includes:

Projects	R million
Durban Container Terminal	317
New Container Terminal at Durban's Pier 1	216
Durban Multi-purpose Terminal	118
Cape Town Capacity expansion	105
Saldanha Iron Ore Terminal expansion phase 1B	131
Richards Bay: Dry Bulk Terminal refurbishment, upgrade and equipment replacement	169
Ngqura	25
Other projects	333
Total	**1 414**

SAPO has planned for the following major capital expenditure (greater than R50 million) over the next five years:

Projects	R million
Durban	1 505
Cape Town	863
Richards Bay	1 050
Saldanha	464
Port Elizabeth	478
Ngqura	1 254
Other projects	649
Total	**6 263**

Operational performance

Container sector volumes increased by 7% during the year and volumes are projected to increase by a further 8% during the next year. Maintaining this trend requires a continuous focus on productivity improvements and the creation of additional capacity. Bulk volumes have been increasing steadily, particularly as a result of the international demand for iron ore (handled through the Saldanha bulk terminal) and the incorporation of Agriport into SAPO as a wholly owned terminal.

Breakbulk volumes have declined by 5%, primarily due to competition and a general trend towards containerisation.

Volumes in the automotive sector continued to grow. A relatively strong rand and low interest rates fuelled demand for vehicle imports. The Durban car terminal has retained its 5-star NOSCAR rating for the third consecutive year. A Transnet-wide automotive strategy is being developed to coordinate investment and service delivery to this sector.

Safety, health and environment

In 2004, SAPO embarked on a five-year certification process to implement three quality management systems: the NOSA Management System, the ISO 14001 Environmental Management System and the ISO 9001 Quality System.

The OHSAS 18001 upgrade of the occupational health safety system in years four and five of the five-year implementation programme will ensure that SAPO remains in step with international safety standards and complies with legislative requirements.

A comprehensive security strategy has been implemented at all terminal operations to attain a safe and hazard-free operating environment. All terminals are ISPS (International Standard Port Facility Security) code compliant.

Human capital management

SAPO's staff complement declined by 2% during the year.

During the year there was a strong drive to fill all critical executive level positions, both at head office and at terminal level. In addition, a framework is being developed to report and track key operational positions, including drivers, technicians, millwrights and electricians.

SAPO is committed to employment equity. As at 31 March 2006, black employees constituted 77% of the SAPO staff.

Given the high turnover rate within key leadership positions, and an ageing workforce, SAPO has focused on the need for skills development and succession planning. During the year SAPO placed significant emphasis on executive development and shop floor development, as well as graduate placements, particularly in engineering and finance.

SAPO will focus on the following key resource challenges in the coming year:

- Addressing skills gaps resulting from changing technology and work methods;
- Addressing the age profile within the technical and operational skills cadres; and
- Improving the availability of specialist skills and technical competence in key areas.

Management challenges

Key management challenges facing SAPO in the next year include:

- Ensuring that productivity and efficiency meet customer requirements;
- Handling capacity constraints in the container, bulk and vehicle sectors;
- Improving the operational safety record;
- Addressing the high age profile of the workforce and the skills shortage across both management and operational levels;
- Improving risk management;
- Addressing competitive issues, particularly in the breakbulk sector; and
- Achieving the industry-benchmarked key performance indicators (KPIs).

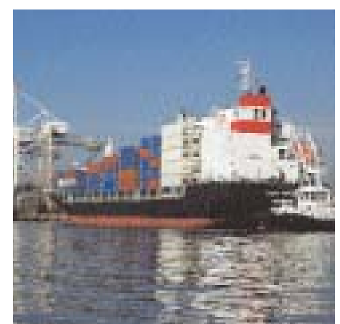
Prospects

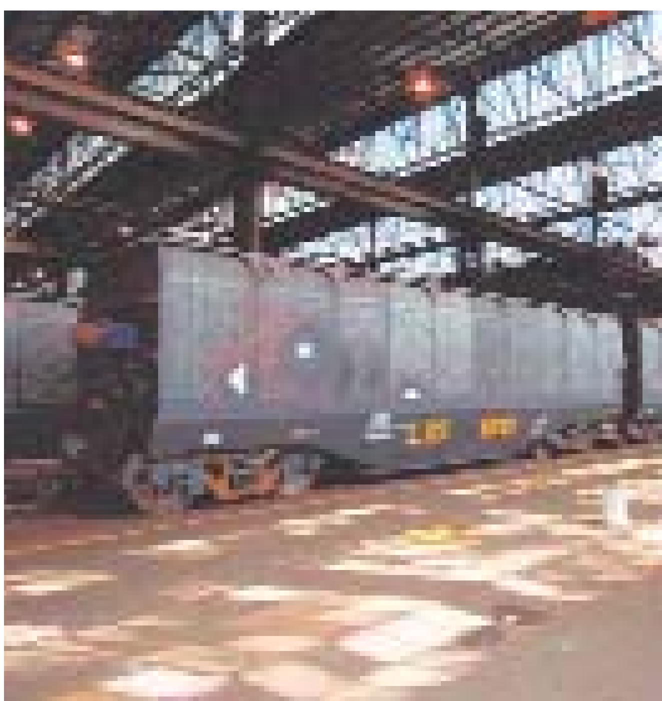
International demand for iron ore is expected to grow. SAPO's five-year capital expenditure plan provides for the expansion of the Saldanha Iron Ore Terminal to 45 million tons and the investment required to make the Port of Ngqura operational.

The expected growth in volumes should see revenue exceeding R4 billion in the coming financial year.

SAPO will continue to place greater emphasis on cost-containment, enhanced service delivery and infrastructure improvements. The successful implementation of a vigorous capital expenditure programme over the next five years will enable the efficient handling of projected volumes.

Management is confident that customer expectations will be met going forward by maintaining SAPO's market leadership, growing the revenue base and reducing ports' operation costs.





Transwerk focuses on the **refurbishment, conversion, upgrade** and **manufacturing** of rail-related rolling stock.

- **Turnover up 28% to R3,8 billion**
- **Operating profit up 46%**
- **Production volumes increased by 23%**

Business overview

Transwerk is composed of eight product-focused national businesses specialising in the maintenance, upgrade and manufacture of locomotives, wagons, coaches, rolling stock components and associated transport equipment. These businesses operate from seven factories located in South Africa's major centres.

While Transwerk markets worldwide, with product distribution in seven European countries, 11 African countries and Australia, its main focus remains serving Spoornet.

Strategic objectives

Transwerk's strategic objectives include:

- Maintaining and growing the business in accordance with its vision. Strategic imperatives in reaching this objective include:
  - Expanding capacity through increasing investment in facilities, skills and strategic alliances;
  - Building core competencies, developing employees and enabling transformation and equity;
  - Improving research and development;
  - Expanding technology in the products and services offered;
  - Maintaining sustainability and good corporate governance; and
  - Meeting all financial targets.
- To be an efficient and competitive business. Strategic imperatives in this regard include:
  - Continuously improving productivity and quality;
  - Improving customer satisfaction; and
  - Maintaining product focus.
- Reducing the cost of doing business within both Transwerk and Spoornet. Strategic imperatives to achieve that include:
  - Improving the cost-effectiveness and efficiency of rolling stock maintenance;
  - Enhancing production processes and business systems; and
  - Developing the parts and material supplier base, especially for critical items.

Performance highlights and operational achievements

The following operational achievements were recorded during the year:

- Turnover increased by 28% to R3 845 million;
- Operating profit increased by 46% to R671 million;
- Transwerk launched its 10M5 motor and trailer coaches and the associated production lines;
- Transwerk completed the class 39 prototype, its most recent diesel locomotive modernisation product, with the highest power and tractive effort in the diesel fleet;
- IBM servers were installed, doubling Transwerk's ICT processing capacity;
- Transwerk achieved output of 7 213 refurbished, upgraded and new wagons, 316 locomotives, 550 coaches, 2 113 traction motors and 62 830 wheel pairs; and
- Procurement from BEE firms increased by 12% to 31%.

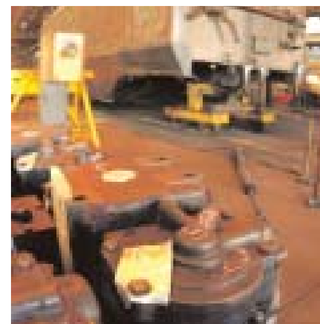
Financial overview

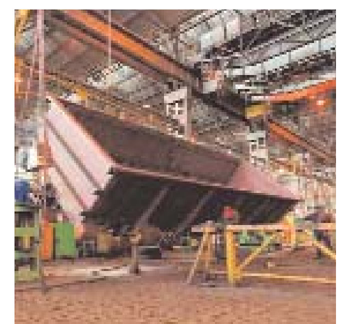
	Year ended 31 March 2006 R million	Year ended 31 March 2005 R million	% change
Salient features			
Turnover	**3 845**	2 997	28
Operating profit	**671**	459	46
Profit before taxation	**676**	476	42
Net asset value	**1 390**	1 278	9
Profitability measures			
Operating margin	**17,4%**	15,3%	14
Return on net assets	**48,6%**	37,2%	31
Capital expenditure			
Total	**189**	206	(8)
Employees			
Number of employees	**6 418**	6 538	(2)
Turnover per employee	**0,60**	0,46	30

Financial performance

Production increased by 23% compared to the previous year, resulting in a 28% increase in turnover from R2 997 million to R3 845 million.

Profit before taxation increased by 42% to R676 million. Operating profit, including miscellaneous income, increased by 46% to R671 million. Net asset value increased by 9%.





OPERATIONAL REPORT TRANSWERK continued

Capital investment

Capital spending for the year amounted to R189 million compared to R206 million in the previous year.

The capital expenditure for the next year includes:

Projects	R million
Purchase of machinery and equipment	234
Upgrade of facilities	94
Other projects	47
Total	**375**

Transwerk has planned for the following major capital expenditure (greater than R50 million) over the next five years:

Projects	R million
Purchase of machinery and equipment	1 743
Upgrade of facilities	562
Other projects	278
Total	**2 583**

Operational performance

Performance highlights for the year include:

- Continuous customer interaction to provide a complete service, thereby securing the customer base;
- Building of capacity and skills;
- Implementation of effective production control mechanisms, assisted by ICT systems, to ensure delivery as planned;
- Enhancement of operational efficiencies by allocating critical functions such as plant maintenance, logistics and safety management to the operational businesses;
- Introduction of a daily production delivery report to manage the availability of rolling stock;
- Investment in capital expenditure projects to improve production and to introduce world-class technology and equipment; and
- Implementation of non-conformance reporting (NCR) software to establish causes of failure and to introduce timely corrective measures, reducing costs and increasing reliability.

Safety, health and environment

Transwerk's safety performance improved during the year. Safety performance is regularly monitored and managed through internal systems and procedures.

All employees are trained in safety awareness, with reference to their skills and requirements. The cost of safety-improvement and environmental performance initiatives is estimated at R18 million for the year. This includes the cost of risk management staff, measuring and monitoring techniques and safety and environmental monitoring equipment.

Transwerk has not experienced any fatalities to employees or private persons since 2001. The most frequent causes of incidents result from unsafe loading and the improper placing and utilisation of equipment.

Human capital management

The number of employees within Transwerk increased by 9% during the year due to commercial growth and increased business activity.

The biggest challenge for Transwerk has been the transformation of the organisation to reflect South African demographics. It took a number of steps during the year to address this and, in line with the Employment Equity Act, 55 of 1998, Transwerk established a national employment equity council.

Satisfactory progress has been made in addressing demographic representation within Transwerk, especially at management level. Further progress is required in the technical and supervisory grades, and the advancement of women in all operations.

Transwerk is committed to employment equity. As at 31 March 2006, black employees constituted 64% of the Transwerk staff.

To strengthen its employment equity profile, Transwerk improved access to training and development programmes during the year. In line with the Transnet four-point turnaround strategy, Transwerk has developed an integrated skills development plan to ensure the availability of critical skills and to meet future skills requirements.

Transwerk's human capital policy covers all elements of labour relations. During the year a strong focus was placed on increased labour flexibility, compliance with labour legislation, enhanced line management effectiveness and improved employee performance.

In the coming year, increased emphasis will be placed on measurable outcomes of the employment equity strategy.

Management challenges

Transwerk faces the following management challenges in the coming year:

- Ensuring continuous long-term planning to meet future demand;
- Promoting adequate transformation of the workforce;
- Maintaining delivery standards in view of the negative impact of single suppliers of critical material and components on Transwerk's ability to deliver;
- Maintaining strong customer relationships and positive customer perceptions of product quality;
- Maintaining market share in the high-growth areas in view of competition from new low-cost foreign market entrants;
- Modernising infrastructure and technology;
- Complying with all statutory requirements, including corporate governance, BEE and health and safety standards; and
- Achieving the industry-benchmarked key performance indicators (KPIs).

Prospects

Transwerk has developed a business plan for each of its eight businesses. Major investment plans over the next three years will assist in the improvement of production facilities and capacity. There are also plans to expand relationships with original equipment manufacturers to increase the locomotive product portfolio and customer base. Transwerk will offer assistance to Spoornet in improving the performance of its locomotive fleet through modernisation programmes and by reducing the maintenance backlog.

In line with entrenching leadership position in the electric suburban coach market, there are potential benefits to be gained in the suburban coach product portfolio by refining the design and production processes.

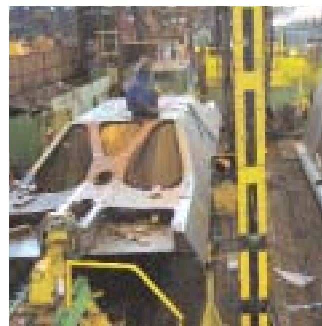
The increase in mining activity has boosted demand for bulk wagons, especially those for heavy haul iron and coal. The wagon build business plans to more than double the previous year's output and sales of new wagons. Wagon maintenance and refurbishment is set to increase output, mainly to help reduce Spoornet's wagon maintenance backlog. Sales in this portfolio are expected to increase significantly over the next three years. Negotiations are planned with railway operators in Africa for the supply of refurbished, upgraded or converted wagons and 475 wagons have already been supplied on past orders.

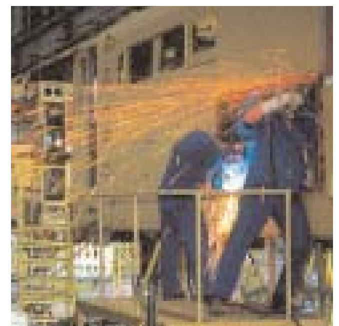
The rotating machines and rolling stock equipment businesses are extending their production systems for higher capacity and expanding their range of products and services. These businesses will continue to forge strong ties with technology partners to modernise rolling stock.

The wheels business is developing strategic partnerships with the suppliers to increase the availability of critical material items such as wheel centres, axles and bearings. Sales are expected to increase by 43% over the next three years.

The tarpaulins business plans to develop higher levels of service, particularly to Spoornet, and to secure new customers in the southern African region.

Transwerk's overarching objective is to ensure that Spoornet has reliable and available rolling stock to meet future volume growth in support of the South African economy.





SAA is **Africa's leading airline, accessing 842 destinations** in **152 countries**.

- **Turnover up 12,5% to R19,6 billion**
- **Now member of Star Alliance**
- **Capital expenditure of R1,7 billion planned**

Business overview

South African Airways (SAA) serves 842 destinations throughout the world, carrying more than 7 million passengers each year. With a staff complement of almost 12 000 employees worldwide, including 3 600 at SAA Technical, SAA is Africa's dominant airline.

SAA Technical, the technical maintenance division, is situated at the Johannesburg International Airport. As the largest maintenance facility on the continent, it performs maintenance for more than 40 major airlines.

SAA Cargo, the freight services division, facilitates global exporting and freight transportation services.

During the year, SAA became a member of the 18-member Star Alliance. The airline now offers passengers access to 842 destinations in more than 150 countries.

Strategic objectives

SAA's strategic objectives include:

- Ensuring long-term sustainability and future profitability through targeted cost-cutting initiatives.
- Establishing SAA's market leadership position on the continent as a safe, efficient, innovative and reputable provider of passenger and freight transportation services.
- Growing business opportunities for SAA Cargo and SAA Technical.

Performance highlights and operational achievements

- Overall departures in the South African market increased by more than 11% in the year. Whilst SAA lost market share to increasingly competitive low-cost carriers, passenger numbers grew by 4,5% to nearly 7,2 million. Despite the higher passenger load, passenger revenue edged up only 0,8% to R13 billion and yields declined by 3,5%, resulting in lower-than-anticipated profits.
- SAA actively and successfully sought to reduce the costs of sales and distribution during the year, resulting in a sharp increase in sales by direct channels such as the www.flysaa.com website and telephone call centres. This, however, came at a cost to yields, as the average domestic sector fare dropped by approximately 11% due to a price war with established 'no-frills' carriers.
- SAA faced a sharp rise in fuel costs, which increased by R1,7 billion to R4,9 billion. Energy now represents more than a quarter of overall operating costs. A number of initiatives aimed at reducing expenses have yielded significant results. Changes in the Group's fuel policy and fuel procurement agreements – following negotiations with suppliers – have yielded savings of R73 million.
- SAA's five-year fleet renewal programme was completed during the year, after taking delivery of two Airbus A340-600 aircraft and three Airbus A319-100 aircraft. SAA currently owns 17 aircraft and leases 56. The renewal programme, coupled with the signing of sale and leaseback agreements, reduced capital expenditure significantly and strengthened the balance sheet.
- SAA repaid Transnet Ltd R1,6 billion of the R4,0 billion compulsory convertible subordinated loan provided by the holding Company in the previous year. Transnet also agreed to convert to shares the remaining R2,4 billion of the loan.
- SAA agreed to pay the Competition Commission R100 million over two years to settle a complaint, launched more than six years ago, regarding incentive schemes to travel agents. Rather than appeal the penalty, SAA elected to focus its energies on building awareness of competition law throughout the organisation.
- The Bambanani turnaround programme, introduced in 2004, continued to yield cost-cutting achievements during the year. The programme targets to deliver approximately R1,6 billion in total savings over a three-year period. Whilst SAA did not meet its savings target of R900 million set for the year, costs were cut by more than R500 million.

Financial overview

	Year ended 31 March 2006 R million	Year ended 31 March 2005 R million	% change
Salient features			
Turnover	**19 625**	17 442	13
Operating profit	**345**	870	(60)
Profit before taxation	**75**	650	(88)
Net asset value	**1 246**	2 705	(54)
Profitability measures			
Operating margin	**1,8%**	5,0%	(64)
Return on net assets	**6,0%**	24,0%	(75)
Capital expenditure			
Total	**325**	1 963	(83)
Employees			
Number of employees	**11 524**	11 601	(0,7)
Turnover per employee	**1,7**	1,5	13,3
Operating data			
Passengers uplifted (thousands)	**7 158**	6 851	4,5
Cargo (thousand tons)	**185**	176	5,1

Financial performance

Operating profit decreased from R870 million last year to R345 million. The decline is attributable mainly to the impact of oil price increases of more than 50% and the disappointing growth in passenger revenue as a result of the increased competition from low-cost carriers in the domestic market. In the previous year, operating profit was boosted by favourable fair value movements and translation gains. During the year, SAA's operating margin decreased to 1,8% – from a restated 5,0% in the previous year – falling below the target of 9% for the year. Profit before taxation declined from R650 million to R75 million.

Operating costs increased by 17,7% during the year to approximately R19 billion, due mainly to a 51,5% increase in energy costs, from R3 257 million to R4 933 million. The monthly average oil price was US$58,43 per barrel compared to US$40,54 per barrel in the previous

year. In an effort to control fuel costs, SAA hedged 40% of its fuel uplift at an average oil price of US$62 per barrel. It recorded a net realised cash inflow from fuel hedging of R292 million during the year.

In addition, financing costs increased as international interest rates – on which the airline's leases are based – increased. In the previous year, interest earned on higher cash balances, mainly the Transnet loan, assisted in offsetting some of SAA's financing costs. Excluding energy, the rise in overall operating costs was in line with inflation, at approximately 5%. However, unit costs, measured in rand per available seat kilometre, increased by 13,9%.

SAA experienced difficult conditions in all its operating markets, except in flights to other African countries. Labour disruptions in July 2005, coupled with the loss of market share to low-cost operators, resulted in an 11% reduction in the domestic yield for revenue passengers. International business was also affected by the later-than-expected launch of flights to Washington, Zanzibar and Livingstone.

During the year, passenger revenue remained relatively static at approximately R13 billion, while revenue passenger numbers increased by 4,5%. Overall average yields declined by 3,5%. Recorded revenue was lower than anticipated, despite a 5,6% increase in capacity, while the average load factor remained constant at 70%.

The tonnage of cargo carried on SAA aircraft increased by 5,1% to 185 000. Turnover from cargo and mail rose by 7,9% to R1,6 billion, mainly as a result of strong increases in cargo revenue on international and regional routes. The average cargo flight yields on international routes decreased during the year, while flights to domestic destinations increased. Turnover from SAA's technical services increased by more than a quarter, to R470 million.

Other airline revenue increased to R3 781 million, from R1 867 million the previous year. The increase was mainly due to higher fuel levies required to cover the sharp increase in fuel costs, as well as the accelerated release of unused passenger tickets to revenue. The accelerated release amounts to an additional R600 million when compared to the prior year.

Direct sales in the domestic market increased to 50% of total sales from 32% in the previous year. Although this was at a cost to yields, SAA will continue to develop sales through its website and call centres, in line with international trends, while continuing to enhance yield management. The higher proportion of direct sales resulted in savings on distribution costs and improved cash flows.

Capital investment

Despite relatively static revenues in the year, SAA generated cash from operations of R336 million and recorded a net decrease in working capital of R1 057 million.

The fleet renewal programme was completed during the year and as a result capital expenditure was reduced from R1 964 million to R335 million. In addition, SAA introduced a new capital expenditure framework, which has assisted in curbing unnecessary spending.

The capital expenditure for the next year includes:

Projects	R million
Aircraft	456
Furniture and equipment	108
Computer equipment	200
Total	**764**

SAA has planned for the following major capital expenditure (greater than R50 million) over the next four years:

Projects	R million
Aircraft	1 356
Furniture and equipment	116
Computer equipment	273
Total	**1 745**

Operational performance

SAA's landmark admission to the Star Alliance of major international carriers was a priority during the year. It improved performance, policies and systems ahead of joining the Airline Network for Earth™, which will deliver substantial benefits in the years ahead. SAA successfully fulfilled the 53 stringent joining requirements and became the Star Alliance's 18th member in early 2006.

SAA achieved significant cost reductions across the organisation during the year. These included the successful renegotiation of burdensome contracts with suppliers, thereby locking in savings of approximately R1,3 billion over the next five years.

The Voyager frequent flyer programme has been improved and simplified. The new "book by miles" online feature now offers customers more booking options. SAA's increasingly popular www.flysaa.com website was upgraded to offer superior functionality and ease of use. As a result, the website generated more than one million passenger sales this year, an increase of 182% on the previous year. Together with SAA's other direct sales channels, more than 1,8 million passengers purchased their tickets directly from SAA, contributing to substantial distribution cost savings.

Revenue accounting systems were improved during the year, resulting in an accelerated release of tickets and waybills to revenue of R1 028 million, up from R423 million in the previous year.

The airline's service to the travel trade was improved during the year by upgrading IT platforms and replacing the existing reservations system with the new Amadeus platform. It will enable SAA to improve on

delivery by offering a consistent, professional flight booking service to the travel industry. In line with international trends and efforts to improve transparency, SAA phased out commissions to travel agents, which initially amounted to approximately 7%.

Significant product and network improvements were achieved with the delivery of five new aircraft: two long-haul A340-600s and three A319-100 twin jet short-haul aircraft. This completes SAA's fleet renewal programme, providing the airline with a modern and environmentally friendly fleet.

As part of SAA's strategy to connect Africa, it opened routes to Zanzibar in Tanzania and Livingstone in Zambia during the year, resulting in a continental airline network serving 23 destinations. Outside Africa, the network was boosted by adding flights to Washington and increasing the daily frequencies of flights between Cape Town and Frankfurt. In the domestic market, unprofitable flights were discontinued.

In March 2006 SAA made a decision to discontinue the investment in Air Tanzania Company Ltd and is treating the stake in the loss-making East African carrier as a discontinued operation.

SAA Technical procured additional business from other airlines during the year. It aims to grow its client base over the next three years to a point where the customers other than SAA will constitute half its revenues as opposed to the current 25%.

Safety, health and environment

SAA recently attained IOSA accreditation, which aligns safety practices with an internationally recognised safety and security evaluation system. IOSA is designed to assess the safety and quality of the airline's operational management and control systems.

As a member of the Star Alliance, SAA is committed to complying with the world's most stringent safety and security standards.

Human capital management

Employee numbers declined by 0,7% to 11 524.

In July 2005, SAA experienced its biggest industrial action ever, which grounded operations for almost a week. Management settled with labour unions on a 5% increase in pensionable wages, with medical and housing benefits and an additional 1% increase in non-pensionable allowances. Moreover, a three-year agreement was signed with cabin crew and ground operations staff to improve employment conditions. SAA has since improved its labour relations initiatives to ensure better communication with all staff across the organisation.

Management challenges

SAA faces the following management challenges in the coming year:

- Stepping up the cost-cutting drive to ensure long-term sustainability and profitability, particularly in view of increased competition from low-cost carriers and sharply rising oil prices;
- Enhancing operational performance and efficiencies;
- Further improving customer service and client relations;
- Managing capacity and scaling back unprofitable routes;
- Enhancing yields on domestic and international routes; and
- Ensuring sufficient working capital for the year ahead.

Prospects

In the year ahead, Transnet's stake in SAA will be transferred to the Department of Public Enterprises. It is anticipated that this process will be finalised by 31 December 2006.

Despite increased competition from low-cost operators and a volatile oil price, SAA anticipates improved financial results during the next year. Organisation-wide cost-cutting initiatives are gaining momentum while SAA's launch of its own low-cost carrier will contribute to its improved financial position. SAA will manage capacity more dynamically in the coming year, scaling back unprofitable routes and leveraging the Star Alliance network.

AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2006 as recommended by the King II Report on Corporate Governance and Regulation 27 of the Treasury Regulations.

The Audit Committee of the Transnet Board of Directors is composed of six independent non-executive directors. The committee held three scheduled meetings and two special Audit Committee meetings in the 2006 financial year.

The Audit Committee reports that it has adopted appropriate formal terms of reference as its Audit Committee charter and has regulated its affairs in compliance with this charter, and has discharged all its responsibilities as contained therein. This process is supported by the audit subcommittees which are in place for all business units and subsidiaries. These subcommittees meet in terms of a formal mandate and deal with all issues arising at the business unit or subsidiary level. These subcommittees then elevate any unresolved issues of concern to the Transnet main Audit Committee and internal and external auditors, who also elevate issues identified at the business units and subsidiaries to the Transnet main Audit Committee.

In the conduct of its duties, the Audit Committee has, inter alia, performed the following activities:

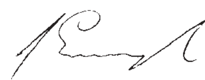
- Received and reviewed reports from both internal audit and the joint external auditors concerning the effectiveness of the Group's internal control systems;
- Reviewed the reports of both internal and joint external auditors detailing their concerns arising out of their audits and requested appropriate responses from management which will result in their concerns being addressed;
- Considered the effectiveness of internal audit and the adherence of internal audit to its annual programme;
- Approved the Group Executive Committee's initiatives to develop an enterprise-wide risk management focus for the Group;
- Reviewed and recommended for adoption by the Transnet Board such financial information that is publicly disclosed, which for the year included:
  - the annual report for the year ended 31 March 2006; and
  - the interim results for the six months ended 30 September 2005.
- Considered the independence and objectivity of the joint external auditors and ensured that the scope of their additional services provided was not such that they could be seen to have impaired their independence; and
- Made appropriate recommendations to the Board of Directors regarding the corrective actions to be taken as a consequence of audit findings.

In the opinion of the Audit Committee, the internal controls of the Group are, with the exception of certain weaknesses that were identified in South African Airways (Pty) Ltd, considered appropriate to:

- Meet the business objectives of the Group;
- Ensure the Group's assets are safeguarded; and
- Ensure that transactions undertaken are recorded in the Group's records.

Where weaknesses in specific controls have been identified, management has undertaken to implement the appropriate corrective action to mitigate the weaknesses identified.

The Audit Committee has evaluated the annual report for the year ended 31 March 2006 and considers that it complies, in all material respects, with the requirements of the Companies Act, as amended, the Public Finance Management Act, the Public Audit Act and International Financial Reporting Standards. The Audit Committee has therefore recommended the adoption of this annual report by the Board of Directors at their meeting on 30 June 2006.



Prof GK Everingham
Chairman: Transnet Audit Committee

30 June 2006

ANNUAL FINANCIAL STATEMENTS

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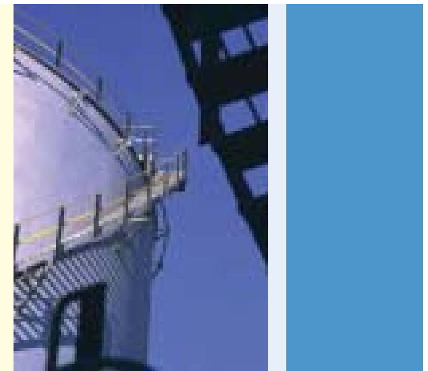
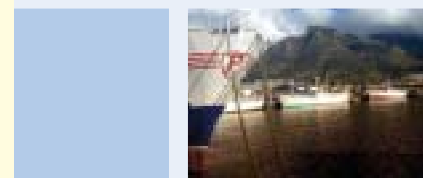
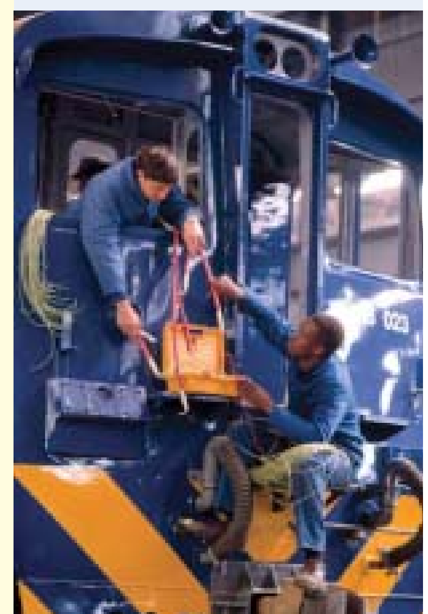






APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors are required, by the Companies Act, the Public Finance Management Act and the Public Audit Act, to prepare annual financial statements which fairly present the state of affairs of the Company and the Group as at the end of the financial year and the profit or loss of the Company and the Group for the year then ended. In preparing these annual financial statements, the directors are required to:

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

The directors of the Company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The annual financial statements have been prepared in accordance with International Financial Reporting Standards. The external auditors, Deloitte & Touche and APF Chartered Accountants Inc, are responsible for independently auditing and reporting on the financial statements in conformity with International Standards on Auditing. Their unqualified report with an emphasis of matter on the annual financial statements is prepared in terms of the Companies Act, Public Finance Management Act and Public Audit Act appears on page 67.

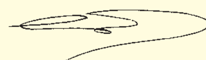
The directors have every reason to believe that the Company and Group have adequate resources in place to be able to continue in operation for the foreseeable future. Therefore the directors are satisfied that Transnet is a going concern and have continued to adopt the going concern basis in preparing the financial statements.

The Audit Committee has reviewed the effectiveness of the Group's internal controls and, with the exception of certain weaknesses that were identified in South African Airways (Pty) Ltd, considers the systems appropriate to the effective operation of its business. The Audit Committee has evaluated the Company's and Group's annual financial statements and has recommended its approval to the Board of Directors. The Audit Committee's approval is set out on page 64 of the annual report.

In preparing the Company and Group annual financial statements set out on pages 68 to 169, the Company and the Group have complied with International Financial Reporting Standards and the Companies Act in South Africa. Except for the matters set out in the directors' report on page 68, the Group has complied with the reporting requirements of the Public Finance Management Act and the Public Audit Act and has used appropriate accounting policies supported by reasonable and prudent judgements and estimates. The directors are of the opinion that these annual financial statements fairly present the financial position of the Company and the Group at 31 March 2006, and the results of their operations and cash flow information for the year then ended.

M Ramos
Group Chief Executive

30 June 2006
Johannesburg

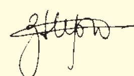


FTM Phaswana
Chairman

30 June 2006
Johannesburg

GROUP COMPANY SECRETARY CERTIFICATE

I hereby certify that in terms of section 268G(d) of the Companies Act, 61 of 1973, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies all such returns for the year ended 31 March 2006 as are required of a public company in terms of this Act, and that all such returns are true, correct and up to date.



Z Stephen
Company Secretary

30 June 2006
Johannesburg

INDEPENDENT AUDITORS' REPORT TO THE MINISTER OF PUBLIC ENTERPRISES

We have audited the annual financial statements of Transnet Ltd and the Group set out on pages 68 to 169 for the year ended 31 March 2006. These financial statements are the responsibility of Transnet's accounting authority. Our responsibility is to express an opinion on these financial statements based on our audit. The performance information is the responsibility of the accounting authority. Our responsibility is to express an opinion on whether the performance information is furnished in terms of sub-section 55(2)(a) of the Public Finance Management Act, 1 of 1999, as amended, is fair in all material respects and on a basis consistent with that of the preceding year.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of section 27 and 28 of the Public Audit Act, 25 of 2004, have been complied with.

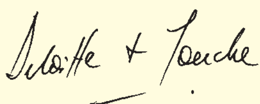
We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects the financial position of Transnet Ltd and the Group at 31 March 2006, and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 61 of 1973 in South Africa, the Public Finance Management Act, 1 of 1999, as amended, and the Public Audit Act, 25 of 2004.

In our opinion, the performance information and other criteria presented on pages 73 and 74 of the directors' report presents fairly, in all material respects, the performance indicators defined in the draft shareholder compact dated 9 February 2006 provided to us by management.

The transactions of Transnet Ltd and the Group that had come to the auditors' attention during the audit were in all material respects in accordance with the mandatory functions of Transnet Ltd, as determined by law or otherwise.

Without qualifying our audit opinion, we draw your attention to the fact that performance information as envisaged in sub-section 55(2)(a) of the Public Finance Management Act, 1 of 1999, as amended, and section 28(1)(c) of the Public Audit Act, 25 of 2004, is based on a draft shareholder compact which is approved by the Board of Directors but awaiting approval of the shareholder.



Deloitte & Touche
Registered Auditors

Per Trushar Kalan
Partner
4 July 2006

Buildings 1 and 2, Deloitte Place
The Woodlands Office Park, Woodlands Drive
Sandton

National Executive: GG Gelink *(Chief Executive)*, AE Swiegers *(Chief Operating Officer)*, GM Pinnock *(Audit)*, DL Kennedy *(Tax)*, L Geeringh *(Consulting)*, MG Crisp *(Financial Advisory)*, L Bam *(Strategy)*, CR Beukman *(Finance)*, TJ Brown *(Clients and Markets)*, SJC Sibisi *(Public Sector and Corporate Social Responsibility)*, NT Mtoba *(Chairman of the Board)*, J Rhynes *(Deputy Chairman of the Board)*

A full list of partners and directors is available on request

APF Chartered Accountants Inc.
Registered Auditors

Per Sathie Gounden
Director
4 July 2006

23rd floor, Room 2345, Carlton Centre
150 Commissioner Street
Johannesburg

Y Waja, H Qangule, S Gounden, M Naidoo, W Ngubane, C Patel, V Sekese, S Sono, S Zilwa

A full list of partners and directors is available on request

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and the audited annual financial statements of Transnet Ltd and its subsidiaries ("the Group") for the year ended 31 March 2006.

NATURE OF BUSINESS

Transnet Ltd ("the Company") is a public company incorporated in South Africa in accordance with the provisions of the Legal Succession to the South African Transport Services Act, 9 of 1989. This entity operates and controls South Africa's major transport infrastructure.

Transnet's operations currently span railways, road transport, commercial aviation, port and harbour operations and fuel pipeline networks. The Company's strategy is focused on lowering the cost of doing business in South Africa and enabling economic growth through transforming into a focused port, rail, and pipeline business.

REGISTRATION DETAILS

The Company's registration number is 1990/000900/06. The registered office is 47th Floor, Carlton Centre, 150 Commissioner Street, Johannesburg, 2001.

OWNERSHIP

Transnet Ltd is wholly-owned by the South African Government and reports to the Department of Public Enterprises.
The Minister responsible for the Group is Minister Alec Erwin, MP.

SHARE CAPITAL

There were no changes to either the authorised or issued share capital of the Company during the year ended 31 March 2006. Details of the authorised and issued share capital can be found in note 21 of the annual financial statements.

GROUP FINANCIAL PERFORMANCE

The financial performance of the Company, the Group and the business segments are contained in the Company and the Group consolidated annual financial statements.

The Group financial performance is summarised as follows:

Salient features

	31 March 2006	% change
Revenue – continuing operations*	R26 346 million	7
Profit from operations before impairment of assets, fair value adjustments and net finance costs – continuing operations	R8 478 million	57
Operating margin – continuing operations	32%	47
Equity attributable to the shareholder	R27 593 million	31
Gearing – continuing operations	47%	(24)
Cash generated from operations	R11 233 million	28**

* *Excluding notional revenue from embedded derivatives*
** *Excluding R1,7 billion decrease in SAA's operational cash flow*

DIVIDENDS

There were no dividends declared for the current or previous financial year.

GOING CONCERN

The directors confirm that they are satisfied that the Company and Group have adequate resources to continue doing business for the twelve month period from the date of this report.

For this reason they continue to adopt the going concern basis for preparing the annual financial statements.

BORROWING POWERS

In terms of the Articles of Association, the Company has borrowing powers limited to those approved by the Company in general meeting and subject to the Public Finance Management Act, 1 of 1999. This limitation shall be evidenced by means of a written certificate issued under the joint signatures of the Chairman, Group Chief Executive and the Chief Financial Officer.

In addition, the prior sanction of the Company in general meeting shall be required for the exercise of borrowing powers in excess of any limitation previously stipulated by the Company in general meeting.

CAPITAL EXPENDITURE AND COMMITMENTS

The capital commitments of the Company and the Group are set out in note 30 of the annual financial statements.

CHANGES IN ACCOUNTING POLICY

The Transnet Board of Directors elected to adopt International Financial Reporting Standards ("IFRS") with effect from 1 April 2005. The financial statements have been prepared in accordance with IFRS (with the date of transition for the Group being 1 April 2004).

In terms of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the Group has restated its opening reserves at 1 April 2004, the consolidated balance sheets as at 1 April 2004 and 31 March 2005 and the consolidated income statements for the year ended 31 March 2005. There have been no adjustments to the cash flows previously reported as a result of the adoption of IFRS.

The impact of the conversion to IFRS is contained in note 36 to the annual financial statements.

CRITICAL JUDGEMENTS AND ESTIMATION MADE IN APPLYING THE ACCOUNTING POLICIES

Critical judgements made by the Transnet Board of Directors in applying accounting policies and key sources of estimation uncertainty are detailed below:

Post-retirement benefit obligations

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 to the annual financial statements. The carrying amounts of the liabilities are disclosed in note 24.

Property, plant and equipment

- Revaluation
  - Port operating assets, pipeline networks and port infrastructure assets are carried at revalued amounts. Revaluations are carried out every five years and appropriate indices are applied in the intervening periods to ensure that the assets are carried at fair value at the balance sheet date.
  - The carrying amounts of the assets are disclosed in note 9.

- Deemed costs
  - The Group has elected to measure certain individual items of property and floating craft at fair value at the date of transition to IFRS, hence fair value is deemed to be the cost at that date.
  - The IPD/SAPOA South African Property index has been used to determine the deemed cost adjustment to these items of property and floating craft at transition date.
  - The carrying amounts of the assets are disclosed in annexure B.

- Assumptions regarding impairment calculations on assets governed by *IAS 36 Impairment of Assets*
  - Various assumptions are made regarding the discount rate applied and the estimation of future cash flows. These are as follows:
    - Weighting of debt to equity in the weighted average cost of capital (WACC) calculation;
    - A beta considered appropriate by management was used to determine the WACC;
    - A risk premium considered appropriate was used to determine the WACC;
    - Future cash flows were based on historic trends and operational requirements determined by management; and
    - Where the materialisation of cash flows was considered risky, the WACC was adjusted to reflect this.
  - The total impairment recorded is disclosed in note 4.2.

- Useful lives
  - The useful lives of property, plant and equipment are reviewed at each balance sheet date. These useful lives are estimated by management based on historic analysis and other available information.
  - The carrying amounts of the assets are disclosed in note 9.

- Residual values
  - The residual values of property, plant and equipment are reviewed at each balance sheet date. The residual values are based on the assessment of useful lives and other available information.
  - The carrying amounts of the assets are disclosed in note 9.

- Fair value assumptions – investment properties
  - Experts are used to arrive at the fair value of investment properties. Assumptions used in these valuations are in line with the Property Valuers Profession Act, 47 of 2000.
  - The carrying amounts of the assets are disclosed in note 10.

- Impairment of investments
  - Various assumptions are made in arriving at the fair value of unlisted investments. These include:
    - A real discount rate which was used in the discounted cash flow calculations;
    - No growth was built into these calculations;
    - An inflation factor considered appropriate was built into the calculations;
  - The carrying amounts of the assets are disclosed in notes 12, 13 and 16.

Accrual for frequent flyer programme

The amount of the accrual to be raised as a liability for the Voyager miles that are expected to be redeemed is determined using various assumptions concerning the future behaviour of Voyager members. Those include the following:

- The Voyager members will continue to prefer redemption of mileage in exchange for the free air ticket instead of other non-air ticket rewards such as free car hire and free wine tours.
- The Voyager members who redeem miles in exchange for the other rewards will continue to be immaterial within the next financial year.
- The Voyager rewards for free tickets are non-displacing to fare-paying passengers, and therefore the incremental costs method is appropriate in estimating the Voyager liability.
- The Voyager members accumulate miles from various sources including frequent flying using SAA and from the use of Voyager participating partners. No distinction is made at redemption point between miles earned from frequent flying and those earned from other sources.

The carrying amount of the accrual for the Voyager miles is disclosed in note 28.

Air traffic liability and revenue recognition

The air traffic liability balance represents the proceeds from tickets and airway bills sold but not yet utilised. The balance includes the value of coupons sold by South African Airways (Pty) Ltd (SAA), which will be flown and claimed in future periods by code-share and interline partners. The liability is of a short-term nature and is reflected as a current liability.

Due to system limitations affecting SAA's ability to accurately compute the forward sales liability on a ticket for ticket basis, management had in the past applied a conservative approach in accounting for tickets sold but not yet flown. Industry norms indicate a non-utilisation rate of between 0% and 3%. Management's estimates made around the expected percentage of tickets sold that will not be flown was 2% for passenger tickets and 4% for industry.

Management has revised its assumptions and judgement regarding the period over which the unlisted air tickets and airway bills are released to income from a three-year rolling period to eighteen months. In making its judgement, management has considered the following:

- The successful implementation of a new sales-based revenue accounting system that makes it possible to accurately determine what part of this liability could be taken to revenue each financial year.
- The terms and conditions of the air tickets as stipulated in the International Air Transport Association (IATA) air tickets rules. In terms of the rules, an air ticket is valid for a period of twelve months from the date of purchase. If it is not utilised within this period it expires.
- Interline settlement and rejections can, however, take longer than twelve months to be processed.

Special purpose entities

Management has applied significant judgment in determining whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

Provisions

Various assumptions are applied in arriving at the carrying value of provisions that are recognised in terms of the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This includes the provision for onerous contracts and provision for customer claims. The carrying amounts of the liabilities are disclosed in note 26.

SUBSIDIARIES AND ASSOCIATES

A detailed list of subsidiaries and associates in the Group is disclosed in annexure D to the annual financial statements.

The attributable interest of the Company in the aggregate income and losses of its subsidiaries after taxation for the year under review was as follows:

	2006 R million	2005 R million
Income	171	1 119
Losses	287	213
Net (loss)/profit	(116)	906

CORPORATE GOVERNANCE AND COMPLIANCE

The Board endorses the Code of Corporate Practice as set out in the King II Report on Corporate Governance in conjunction with the Public Finance Management Act, 1 of 1999, as amended (PFMA), the Public Audit Act, 25 of 2004, and the related Treasury Regulations.

The Group has appointed Ernst & Young as the Group internal auditors effective 1 August 2005. The Group internal auditors have prepared and the Audit Committee has approved a one and three-year strategic audit plan.

Inspection in terms of section 258 of the Companies Act, 61 of 1973, as amended ("Companies Act")

Pursuant to complaints received by the Minister of Trade and Industry ("the Minister"), on 8 October 2004, the Minister instituted an investigation into the affairs of SAA since its incorporation. In summary, the inspectors appointed were requested to report upon:

- Certain irregularities with regard to the dealings of share options and shares issued in terms of SAA's employee share schemes;
- The reasons for delays in producing annual financial statements, and not holding annual general meetings timeously; and
- Whether or not the directors and management properly discharged their duties and responsibilities.

In addition, in terms of a letter dated 12 October 2004, the Director of Commercial Investigations of the Department of Trade and Industry advised the inspectors that, although the Minister's mandate indicated specific issues that must be included in the investigation, it was also expected that the inspectors should report on any criminal offences as defined by the Companies Act which might have come to the inspectors' attention during their investigation.

The inspectors issued their report in the latter part of 2005. The main facts and conclusions from that report, which are set out below, dealt with the SAA Employee Share Trust, and the three share schemes falling under that trust:

- Transactions were entered into and conducted prior to the formal appointment of the trustees;
- As a result of the foregoing, the share transactions of the share schemes falling under the trust were invalid;
- Directors and management, as a consequence of the trustees' failure to fulfil their roles as trustees, assumed the role of Trustees and purported to make decisions on behalf of the trust, thus possibly invalidating the valuations performed and acted upon;
- The rules of the incentive scheme were purportedly amended by the trustees, to effectively allow for sales to be made at any time, although they had no mandate to do so;
- There were a number of irregularities with regard to the appointment of valuers who needed to be appointed in terms of the three share schemes falling under the trust;
- Certain valuations were not conducted timeously;
- Incorrect prices were used on occasions for purchases and sales; and
- Certain share purchase and sale transactions were carried out outside of the sale periods laid down in the rules of the three share schemes.

With respect to possible contraventions of the Companies Act, the inspectors set out a list of contraventions, as required under their terms of reference, but concluded that they did not regard any of the contraventions as being material.

In setting out their recommendations, the inspectors noted that, although they were mandated only in regard to the incentive scheme, the sales under all three schemes are invalid.

They recommended that the trust should:
- Recover monies from incentive scheme participants to whom payment was made;
- Tender to the participants the return of the shares; and
- Pay over monies collected to Transnet and SAA in settlement of their loans.

However, the inspectors concluded that, while the above is recommended, Transnet, SAA, the present trustees and all three scheme participants could endeavour to settle the claims arising from the above invalidity.

The Board and trustees of the SAA Employee Share Trust, have considered the inspectors' report and are formulating a plan to regularise the transactions of all three share schemes, in full consultation with the parties affected. At the same time, management of SAA is in the process of attending to the Companies Act contraventions and possible PFMA contraventions set out in the inspectors' report.

Recapitalisation through the issue by SAA of 6 089 291 874 shares of R1 each to Transnet Ltd and 9 403 474 shares of R1 each to certain 'E' class shareholders

During the course of the 2004 financial year, 6 089 291 874 shares were issued to Transnet and during the 2005 financial year, a further 9 403 474 shares were issued to certain class 'E' shareholders, both at a price of R1 per share. Transnet's consideration for the share issue was utilised in part to repay their previously subordinated loans of R4,1 billion, the balance being utilised to partly fund the settlement of SAA's hedge book at that time.

In order to carry out the aforementioned transactions, the Articles of Association of SAA had to be amended to allow for the possibility of the 'A', 'B', 'C' and 'D' class shareholders holding more than 95% of the issued share capital of SAA.

As a consequence of the section 258 enquiry detailed above, it was determined that the trustees were not validly appointed. Accordingly, any resolution taken by the 'E' class shareholders has become null and void. The vote to amend the Articles of Association was therefore invalid, which means that the recapitalisation did not give rise to a valid issue of shares to Transnet. Consequently, the amount previously shown as issued shares in the prior financial years, in respect of the recapitalisation, is now reflected as a holding company loan in SAA's annual financial statements.

Further, the compulsory convertible subordinated loan of R2,4 billion was not converted to equity as envisaged in the prior year due to the above.

PUBLIC FINANCE MANAGEMENT ACT ("PFMA")

Transnet Ltd has implemented governance structures and processes in compliance with the provisions of the PFMA. PFMA compliance is one of the key business issues that the Group manages and monitors. Sections 51 and 55 of the PFMA impose certain obligations on the Company. These obligations relate to the prevention, identification and reporting of all fruitless, wasteful and irregular expenditure, and the collection of all revenue.

In order to comply appropriately with these responsibilities, the Transnet Board of Directors has prepared a materiality framework which has been approved by the Minister of Public Enterprises, subject to certain conditions.

The Board reports the following contraventions which came to its attention from SAA:

PROCUREMENT SYSTEM

Section 51(1)(a)(iii) of the PFMA requires a procurement system to be fair, equitable, transparent, competitive, and cost effective. SAA has reviewed its current processes and is at present drafting a revised procurement policy and introducing a new procurement system in order to address any shortcomings.

FRUITLESS AND WASTEFUL EXPENDITURE

SAA is not aware of any material fruitless and wasteful expenditure that has occurred in the current financial year. However, in light of the potential weaknesses in the procurement system mentioned above, SAA is not confident that it is fully compliant with all the requirements of the PFMA regarding the prevention, identification and reporting of all fruitless and wasteful expenditure in terms of section 51 and 55 of the Act.

COMPLIANCE WITH LEGISLATION

Section 51(1)(h) of the PFMA requires that SAA complies with the PFMA and any other legislation applicable to the company. The contraventions detailed above evidence that SAA is currently not in total compliance with the PFMA which is, in itself, a breach of the PFMA. SAA is not aware of any areas of material non-compliance with any other legislation applicable to the company. The SAA board has commissioned an extensive exercise to obtain a complete list of all legislation which is applicable to the Company and will ensure processes are put in place to monitor such compliance in the future.

REPORTING

The Board is pleased to report that all significant contraventions that were reported in the prior year have been adequately addressed. In the current year, with the exception of SAA, significant improvement was made with respect to PFMA compliance. During the year under review, insignificant non-compliance issues in respect of the PFMA were noted. These will be reported to the Minister in due course. For reporting purposes the materiality limits set out in the framework referred to above have been used.

REQUIREMENTS IN TERMS OF THE PROTOCOL ON CORPORATE GOVERNANCE FOR STATE-OWNED ENTERPRISES

Introduction

Transnet is required to adhere to a framework on corporate governance that governs state-owned enterprises and which is outlined as follows:

Organisational structure

The Group's organisational structure is the same as the prior year except for the disposal of Metrorail and the cessation of operations of Spoornet Zambia.

SIGNIFICANT EVENTS NOTIFIED TO THE EXECUTIVE AUTHORITY

The following significant events were notified to the executive authority during the year.

Disposal of certain non-core businesses

Although the detailed plan to close or dispose of certain non-core business entities was submitted to the shareholder in the previous year, correspondence on various issues relating to the disposals continued in the year.

Further, the 2006/07 Corporate Plan comprising the Company's strategy and performance, five-year capital expenditure plan, budget for 2006/07 including projections for two additional years, borrowing plan as well as the risk and fraud prevention plans was forwarded to the Minister on 28 February 2006.

SHAREHOLDER COMPACT

In pursuance of its objective to promote good corporate governance in state-owned enterprises, the Government, as sole shareholder, and Transnet signed a Shareholder Performance Agreement ("shareholder compact") in July 2001. An updated shareholder compact dated 9 February 2006, has been approved by the Board of Directors and has been submitted to the shareholder for approval.

Performance information and other criteria as required by section 55(2)(a) of the PFMA has been outlined below in terms of the draft shareholder compact. For the purposes of the shareholder compact, "Group" is defined as composing Spoornet, National Ports Authority, South African Port Operations and Petronet.

REPORT OF THE DIRECTORS continued

	Total Group	Spoornet	NPA	SAPO	Petronet
Operating margin					
Operating margin – Actual (%)	28,5	11,8	68,7	25,4	56,4
Operating margin – Target (%)	26,1	9,7	65,7	28,1	53,5
	Achieved				
Revenue growth*					
Revenue growth – Actual (%)	6,5	4,5	11,0	9,3	3,8
Revenue growth – Target (%)	8,2	6,6	10,9	11,3	7,8
	Not achieved				
Infrastructure investment					
% of capital expenditure spent(%)	100,7	147,2†	45,3	86,7	65,1
	Achieved				
Gearing**					
Gearing – Actual (%)	47				
Gearing – Target (%)	59				
	Achieved				
Cash flow return on investment					
Actual** (%)	5,8				
Original target*** (%)	5,4				
Revised target** (%)	4,1				
	Achieved				

* *Includes price and volume growth*
** *Continuing operations*
*** *This target is based on budgets including discontinued operations*
† *Includes an amount of R681 million relating to capitalised maintenance*

Judicial proceedings
During the year under review, there were numerous judicial proceedings entered into with Transnet either as the plaintiff or the defendant. Where the outcome can be assessed with reasonable certainty, the annual financial statements include a best estimate of the expected settlement for those judicial proceedings. Where the outcome is not certain and the case could have a material impact on the Company and the Group's financial results, the details of the cases have been set out in note 31 dealing with the Company and the Group's contingent liabilities.

Protocol for communication with the shareholder
The Group continues to report to its executive authority, the Minister of Public Enterprises. All communication with the shareholder is channelled through the Chairman or Chief Executive's office.

POST-BALANCE SHEET EVENTS
The following significant matters arose between 31 March 2006 and 30 June 2006:

Disposal of South African Airways (Pty) Ltd
A share sale agreement was concluded on 13 June 2006 with the Department of Public Enterprises for the sale of Transnet's shares in SAA with effect from 31 March 2006, subject to the fulfilment of certain suspensive conditions. The sale price of R2 billion was based on an independent valuation.

Metrorail business sale agreement
A business sale agreement was concluded between Transnet and the South African Rail Commuter Corporation for the sale of Metrorail, effective on 1 May 2006, the sale price being R1. The effective date of disposal was established as 26 December 2005 as this was the date on which risks and rewards of ownership transferred.

Restructuring agreement
Transnet reached agreement with the labour unions with respect to the manner in which non-core entities will be disposed of.

Sale of V&A Waterfront Holdings (Pty) Ltd, Viamax (Pty) Ltd and freightdynamics
Transnet launched the sale of its shareholding in the above businesses.

Second Network Operator
Transnet formally accepted an offer from the Second Network Operator for telecommunication assets that will be sold. The selling price of the assets was set at R259 million and will be settled by an issue of shares in the Second Network Operator.

REMUNERATION REPORT

Group executives

Guaranteed remuneration
A component of the Group Chief Executive and Group executives' compensation is in the form of guaranteed remuneration, which is reviewed on an annual basis with the adjustments being effected from 1 April each year. Adjustments are based on the achievement of predetermined key performance areas, which are set annually and reviewed through a process of performance evaluation.

Performance incentive bonus scheme
The Group Chief Executive and Group executives participate in a performance incentive bonus scheme, in terms of which specific financial and non-financial targets are set in the balanced scorecard. These are reviewed annually and agreed upon individually before the start of the financial year or prior to the commencement of their contracts in respect of new appointees. The performance bonus is measured and calculated in terms of the above criteria. The bonuses so calculated are then reviewed and approved by the Remuneration Committee. Bonuses are only calculated and paid after the completion of the audit of the Group's financial results.

Share options
The executives of the Group do not participate in any share incentive schemes.

Service contracts

Group Chief Executive
The Group Chief Executive was initially appointed on a three-year contract which has been extended to 31 October 2008. The contractual conditions of her service include a notice period of four months.

With exception of the Chief Financial Officer and the Chief Operating Officer, the Group executives were on a three-year fixed term contract of employment and are on a notice period of three months. The Group executives, on termination of service under any circumstances (with the exception of a breach of fiduciary duties), are entitled to a termination benefit equivalent to the residual portion of the fixed-term contract.

These contracts have been renegotiated to indefinite period contracts with a total cost to company approach and no other benefits. A notice period of three months is applicable.

The following Group executive was appointed during the current financial year:

Name	Position	Date appointed
LL van Niekerk	Chief Operating Officer	1 May 2005

The following Group executives resigned during the current financial year:

Name	Position	Date resigned
BS Tshabalala	Treasurer	31 March 2006
LRR Molotsane	Group Executive – Operations	31 August 2005
B Nomvete	Group Executive – Information and Technology	30 June 2005

Executive guaranteed remuneration

Name	Months	Salary R thousand	Retirement fund contributions R thousand	Other contributions R thousand	Termination benefits paid R thousand	Other payments R thousand	Total 2006 R thousand	2005 R thousand
V Kahla		1 733	138	25	–	56	1 952	1 377
P Maharaj		1 682	134	22	–	42	1 880	1 041
LRR Molotsane*	5	859	58	–	–	18	935	1 664
B Nomvete*	3	458	23	–	4 008	12	4 501	1 313
K Phihlela		1 613	127	–	–	44	1 784	1 282
M Ramos**		3 633	336	–	–	40	4 009	2 599
CF Wells**		2 351	218	–	–	31	2 600	471
BS Tshabalala		1 135	90	–	–	37	1 262	1 261
S Gama		2 086	165	41	–	54	2 346	1 327
T Morwe		1 593	127	47	–	33	1 800	1 312
C Möller		1 331	131	44	–	38	1 544	1 279
D Mokgatle		–	–	–	–	–	–	1 843
LL van Niekerk*	11	2 549	240	–	–	35	2 824	–
Z Danana		–	–	–	–	–	–	3 255
SN Mabaso		–	–	–	–	–	–	3 614
MV Phiyega		–	–	–	–	–	–	5 322
Total		**21 023**	**1 787**	**179**	**4 008**	**440**	**27 437**	**28 960**

* *In proportion to time spent in that position.*
** *Group executives who are members of the Board of Directors.*

Performance bonus
The performance bonuses reflected below are according to the principles of the approved bonus scheme for the 2005/2006 financial year.

Name	2006 R thousand	2005 R thousand
VD Kahla	1 282	895
P Maharaj	1 244	677
LRR Molotsane*	–	1 734
B Nomvete*	–	374
K Phihlela	1 125	1 172
M Ramos	2 886	1 677
CF Wells	1 732	298
BS Tshabalala*	831	1 103
S Gama	1 109	1 291
T Morwe	1 188	1 373
C Möller	1 004	1 318
MV Phiyega	–	547
LL van Niekerk	1 905	–
Total	14 306	12 459

* *Resigned during the current financial year.*

Non-executive directors

Appointment and emoluments

Non-executive directors are appointed at the Annual General Meeting of the Company. The fees paid to non-executive directors vary based on their appointments to the various committees of the Transnet Board.

As part of non-executive directors' emoluments, the directors of the Company are each entitled to annual international concession tickets on SAA. The concession ticket benefit is valid for the directors in office and must be used during the financial year or the benefit is forfeited. The concession tickets benefit utilised in the current financial year is contained on the 'Other payments' column in the table below.

Company

Name	Fees R thousand	Other payments R thousand	Approved subsequent to year-end R thousand	Total 2006 R thousand	2005 R thousand
FTM Phaswana (Chairman)	1077	–	–	1077	508
I Abedian	94	1	356	451	56
GK Everingham	104	18	421	543	79
NBP Gcaba	74	76	301	451	39
SE Jonah KBE	61	–	389	450	31
PG Joubert	94	87	356	537	64
NNA Matyumza	74	15	301	390	48
MA Moses *	46	–	–	46	44
S Nicolaou	82	77	293	452	52
BT Ngcuka	74	64	301	439	40
KC Ramon	88	90	287	465	43
Total	**1 868**	**428**	**3 005**	**5 301**	**1 004**

* *Resigned during the current financial year.*

Subsequent to year-end, the Minister of Public Enterprises approved an increase in remuneration for the non-executive members of the Board. These amounts have been included in the above figures.

SUBSIDIARY DIRECTORS' REMUNERATION

Executive directors

Name	Salary R thousand	Retirement fund contributions R thousand	Performance incentive bonus R thousand	Other R thousand	Total 2006 R thousand	2005 R thousand
South African Airways (Pty) Ltd						
AN Viljoen *	–	–	–	–	–	4 855
O Mabandla *	–	–	–	2 050[3]	2 050	2 101
T Ramano**	2 122	210	1 500[1]	168	4 000	1 625
K Ngqula **	3 625	1 375	1 850[2]	–	6 850	2 295
SAA City Centre (Pty) Ltd						
M Stoltzing	–	–	–	–	–	914
TJ Nzima	826	63	214	126	1 229	–
SAA Technical (Pty) Ltd						
R Ramkissoon *	1 583	–	–	–	1 583	2 483
J Blake	1 012	–	439	84	1 535	927
B2B Africa (Pty) Ltd						
NN Shikwane	825	7	–	2	834	1 193
Viamax (Pty) Ltd						
N Hariparsad	959	–	–	–	959	901
Autopax Passenger Services (Pty) Ltd						
MC Bester	886	79	–	38	1 003	967
Protekon (Pty) Ltd						
CM Xaba	1 029	–	–	155	1 184	893
SA Express Airways (Pty) Ltd						
S Mzimela	357	83	741	–	1 181	1 154
FJ Oberholzer *	377	17	100	–	494	302
Airchefs (Pty) Ltd						
B Fischer *	207	–	–	44	251	1 049
V Kona *	161	16	–	43	220	963
J September	700	76	433	258	1 467	–
Total	**14 669**	**1 926**	**5 277**	**2 988**	**24 840**	**22 622**

* *In proportion to time spent in that position.*
** *Members of both Executive Directors of the Board and Executive Committee.*
1. *Relates to bonuses for the previous financial year.*
2. *Bonus paid for a six-month operational period in the previous financial year.*
3. *Relates to termination benefits.*

Non-executive directors

Name	Fees R thousand	Other R thousand	Total 2006 R thousand	2005 R thousand
South African Airways (Pty) Ltd				
AMSS Mokgabudi	–	–	–	208
AP Nkuna	310	–	310	300
MTK Moerane	360	–	360	510
R Doganis	505	–	505	530
CC Okeahalam	360	609[4]	969	400
GJ Gerwel	500	–	500	250
LM Mojela	350	–	350	150
MV Moosa	300	–	300	150
A Ngwezi	310	–	310	160
M Ramos	–	–	–	–
PG Joubert	250	–	250	–
Autopax Passenger Services (Pty) Ltd				
KC Ramon	74	–	74	36
V Jack	7	15	22	–
Protekon (Pty) Ltd				
PG Joubert	10	–	10	8
Total	**3 336**	**624**	**3 960**	**2 702**

4. *The amount is for the last two financial years and relates to services provided as Chairman of the Share Trust as well as being SAA's representative on the ATCL Board.*

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ACCOUNTING POLICIES

Transnet Ltd (the "Company") is a company domiciled in South Africa.

The consolidated financial statements for the year ended 31 March 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The financial statements were authorised for issue by the directors on 30 June 2006.

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board (IASB) and their Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These are the Group's first consolidated financial statements to be prepared in accordance with IFRS, and IFRS 1 *First Time Adoption of International Financial Reporting Standards* has been applied.

ADOPTION OF IFRS

Accounting policies

The financial information has been prepared in accordance with IFRS. The impact of adopting IFRS is disclosed below:

Effect of the first time adoption of IFRS

IFRS 1 *First Time Adoption of International Financial Reporting Standards* allows a number of exemptions on the adoption of IFRS, and the Group has elected to utilise the following transitional arrangements:

- **Business combinations:** The Group has elected not to apply the requirements of IFRS 3 *Business Combinations* retrospectively for business combinations that occurred prior to the transition date of 1 April 2004.
- **Property, plant and equipment:** The Group has elected to measure certain individual items of property and floating craft at fair value at the date of transition to IFRS, hence fair value is deemed to be cost at that date.
- **Foreign currency translation reserves:** The Group has elected to transfer all foreign currency translation reserves to distributable reserves at the transition date.

Adjustments on adoption of IFRS

Property, plant and equipment

During the year, the Group changed its accounting policies with regard to property, plant and equipment to comply with the requirements of IFRS. A summary of the impacts is as follows:

- **The reassessment of residual values in property, plant and equipment:** In calculating the depreciation charge, the Group reduced the depreciable amount of its assets in each year by their estimated residual values. In previous years, in terms of South African Statements of Generally Accepted Accounting Practice (SA GAAP), the estimated residual value was fixed on recognition of the asset and was not subject to reassessment. The Group now reassesses the residual value of its property, plant and equipment at each balance sheet date. The continuous reassessment of the residual value typically leads to a change in depreciation charges annually. Depreciation ceases when the carrying value of an asset equals its residual value.
- **Assessment of useful lives:** The Group reassessed the useful lives of all its property, plant and equipment. In instances where items of property, plant and equipment were fully depreciated, these assets have now been reinstated to reflect their appropriate carrying values.
- **Componentisation:** Where significant components of an item of property, plant and equipment have different useful lives or residual values, those components are accounted for as separate items of property, plant and equipment. Previously, all parts of an item of property, plant and equipment were depreciated at the same rate.
- **Subsequent costs:** The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing a part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense when incurred.

Inventory

Spare parts, stand-by and maintenance equipment expected to be used in more than one period have been reclassified as property, plant and equipment.

Rehabilitation and decommissioning provisions

An obligation exists to restore certain sites for the effect of the Group's operations. Previously, the provision for such costs was recorded against profit and loss. In accordance with IFRS, the costs are now capitalised to the cost of the asset. The provision for rehabilitation and decommissioning costs represents the present value of the future expected cash flows. The unwinding effect of the provision is accounted for in the income statement.

Intangible assets

Software previously held as intangible assets, but which is considered an integral part of the computer hardware, have been reclassified as property, plant and equipment.

CHANGE IN ACCOUNTING POLICY

The Group has fully adopted IFRS 5 *Non-current assets held for sale and discontinued operations,* in the current year.

The adoption of IFRS 5 has resulted in significant changes to the classification of certain categories of non-current assets and disposal groups. A disposal group is a group of assets, and liabilities associated with those assets, to be disposed of in a single transaction. In accordance with IFRS 5, non-current assets that are to be recovered by means of a sale transaction, rather than through continuing use, are classified as being held for sale. These assets are measured at the lower of their carrying amount and fair value less costs to sell and are not amortised or depreciated. The assets and liabilities included in the disposal group are disclosed separately on the face of the balance sheet. This standard has been applied prospectively in terms of the transitional requirements.

The prospective adoption of IFRS 5 had no material effect on opening accumulated profit, reserves or current year profit.

CRITICAL JUDGEMENTS AND ESTIMATION MADE IN APPLYING THE ACCOUNTING POLICIES

Critical judgements and estimation made in applying the Transnet accounting policies and key sources of estimation uncertainty are disclosed on pages 69 and 70 in the directors' report.

SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements of the Group ("financial statements") are presented in South African rands, rounded to the nearest million.

The financial statements are prepared on the historical cost basis, except for the following assets and liabilities that are stated at their fair value: unlisted investments, derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale, investment properties and non-current assets which are held for sale. Certain classes of property, plant and equipment are carried at revalued amounts.

Subsequent to the adoption of IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations* on 1 April 2005, non-current assets classified as held for sale and disposal groups are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of equity, assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed on page 69 and 70.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 April 2004 except for IFRS 5 *Non–current Assets Held-for-Sale and Discontinued Operations,* which has been adopted prospectively from 1 April 2005.

The accounting policies have been applied consistently by Group entities.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries (including special purpose entities, such as trusts) are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Typically, this will be where the Group has more than 50% of the voting power. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The consolidated financial statements include the results of the Company and its subsidiaries, from the effective dates of acquisition to the effective dates of disposal.

The purchase method of accounting in terms of IFRS 3 *Business Combinations* is applied to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured, initially, at their fair values at the acquisition date, irrespective of the extent of any minority interest. Non-current assets acquired in a business combination that are held for sale are measured in accordance with IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations* and are measured at the lower of carrying value and fair value less costs to sell. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement. The interest of the minority shareholders is stated at the minority's proportion of the fair value of the assets, liabilities and contingent liabilities recognised.

The Group has elected not to apply retrospectively the requirements of IFRS 3 *Business Combinations* for business combinations that occurred prior to the transition date of 1 April 2004. On subsequent disposal of a subsidiary, the profit or loss on disposal is the difference between the selling price and the lower of the fair value and the carrying value of net assets and liabilities disposed. On disposal, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that it is controlled by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

Associates

Associates are entities over which the Group is in a position to exercise significant influence, but not control or joint control of the financial and operating policies. Investments in associates are equity accounted in the consolidated financial statements for the period in which the Group exercises significant influence, except when the investment is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations*. In terms of IFRS 5, the investment in the associate will be recognised and measured at the lower of carrying value and fair value less costs to sell. Significant influence is presumed in instances where the Group has an equity stake greater than 20% but less than 50% in an entity. Equity accounted income represents the Group's proportionate share of the post-acquisition profits of these entities and the share of taxation thereon, net of the Group's proportionate share of inter-group profits. Losses incurred by associates (including

impairment losses where such indications exist) are brought to account in the consolidated financial statements until the investment in such associates is written down to a nominal value. Thereafter, losses are accounted for only insofar as the Group is committed to providing financial support to such associates. The carrying amount of such investments is reduced to recognise any decline in the value of the investment.

Long-term loans to associates, which in fact are part of the long-term investment, are treated as a part of the investment in the associates.

The excess of cost of the acquisition over the fair value of the associate's net assets is recorded as goodwill. Goodwill is included in the carrying value of the investment and is assessed for impairment as part of the investment. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement. Goodwill is tested for impairment, separately, on an annual basis.

The Group's interest in an associate is carried in the balance sheet at an amount that reflects its share of the cost, post-acquisition reserves, plus goodwill, less an impairment loss, if applicable.

Where the Group transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

FOREIGN CURRENCY

Functional and presentation currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are prepared in South African rands, which is the Company's functional currency and the Group's presentation currency.

Foreign currency transactions

Transactions in currencies other than the entity's functional currency are defined as foreign currency transactions. Transactions in foreign currencies are translated at exchange rates ruling on transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. In the case of aviation business units, the ruling exchange rate for translation of sales denominated in foreign currencies is the International Air Transport Association (IATA) five-day average rate applicable to the transaction month.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the exchange rates ruling at the original transaction date. Non-monetary assets and liabilities that are carried at fair value denominated in the foreign currency are translated into South African rands at the exchange rate ruling when the fair value was determined.

All gains or losses arising on translation are recognised in the income statement and are classified as finance costs.

Financial statements of foreign entities

The financial statements of foreign entities are translated into South African rands as follows:

- Monetary assets and liabilities, at rates of foreign exchange ruling at the balance sheet date.
- Non-monetary assets and liabilities, at rates of foreign exchange rates ruling at the original transaction date.
- Revenue and expenses at rates approximating the foreign exchange rates ruling at the dates of the transactions or appropriate average rates.
- Goodwill and fair value adjustments arising on acquisition, at rates of foreign exchange ruling at balance sheet date.
- Equity at historical rates.

Foreign exchange differences arising on translation are recognised as a separate component of equity. Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to the translation reserve.

On disposal, such translation differences are recognised in the income statement as part of the gain or loss on disposal.

In respect of all foreign operations, any translation differences that have arisen before 1 April 2004, the date of transition to IFRS, have been reset to zero at that date.

PROPERTY, PLANT AND EQUIPMENT

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

Recognition and measurement

Port operating assets, pipeline networks and port infrastructure assets are carried at revalued amounts. Revaluations are carried out every five years and appropriate indices are applied in the intervening periods to ensure that the assets are carried at fair value at the balance sheet date. Revaluation surpluses that arise are taken directly to the revaluation surplus in equity, except to the extent that they reverse a revaluation decrease for the same asset previously recognised as an expense, in which case the surplus is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of an asset is charged as an expense to the extent that it exceeds the balance, if any, held in the asset's revaluation surplus relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus in the revaluation reserve is transferred to retained earnings.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Assets under construction, including capital work in progress, are stated at cost, less any impairment losses where the recoverable amount of the asset is estimated to be lower than its carrying amount. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Certain items of property, plant and equipment (property and floating craft) were revalued at fair value or, where fair value could not be reliably determined, at depreciated replacement cost on or prior to 1 April 2004, the date of transition to IFRSs. These values have been adopted as deemed cost at the transition date.

Where components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and depreciated separately over their respectful useful lives.

Spare parts, stand-by and servicing equipment held by the Group are classified as property, plant and equipment if they are expected to be used in more than one period. If not, they are classified as inventory. Spare parts and servicing equipment that can be used only in connection with a specific item of property, plant or equipment are also accounted for as property, plant and equipment.

Subsequent costs

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

Exchangeable units, such as aircraft engines are classified as property, plant and equipment. Costs of major repair and overhauls of those units are capitalised as separate components.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Land and assets in the course of construction are not depreciated. All other property, plant and equipment, including capitalised leased assets, are depreciated on a straight-line basis over their estimated useful lives or the term of the lease, if shorter. Major repairs and overhauls are depreciated over the remaining useful life of the related asset or to the date of the next major repair or overhaul, whichever is shorter. Depreciation commences when the asset is available for its intended use by management. Owned assets are depreciated over the following periods:

Rate per annum	Years
Buildings and structures	10 – 50
Buildings and structures components	5 – 25
Permanent way and works	3 – 95
Aircraft including components	8 – 15
Pipelines including network components	6 – 60
Port infrastructure	12 – 50
Floating craft including components	10 – 20
Port operating equipment including components	3 – 40
Rolling stock	30 – 60
– Rolling stock components	25 – 30
Containers	10 – 20
Motor vehicles	3 – 7
Machinery, equipment and furniture	3 – 50

The useful lives, depreciation method and the residual values of assets are reviewed and adjusted annually, if appropriate. Changes resulting from this review are accounted for prospectively as changes in estimates. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer note 4.2).

INVESTMENT PROPERTIES

Investment properties are properties held to either earn rentals and/or for capital appreciation and are stated at fair value. Gains and losses arising from changes in the fair value of investment properties are recognised in the income statement. Rental income from investment properties is accounted for as described in "REVENUE" on page 95.

GOODWILL

Positive goodwill

In respect of business acquisitions that have occurred since 1 April 2004, goodwill represents the excess of the cost of the acquisition of interests in subsidiaries and associates over the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition. In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the recoverable amount recorded under SA GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 April 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 April 2004 (refer note 11).

Goodwill is stated at cost less accumulated impairment losses. Goodwill is tested annually for impairment as well as when there is an indication of impairment. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combination for the purposes of impairment testing (see "IMPAIRMENT OF ASSETS" on page 90 and 91). Impairment losses recognised are not subsequently reversed.

Goodwill arising on acquisition of an associate is included within the carrying amount of the investment in the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately on the balance sheet.

Gains and losses on the disposal of an entity include the carrying amount of goodwill attributable to the entity sold.

Negative goodwill

Negative goodwill represents the excess of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition of the Group's interests in subsidiaries, associates or jointly controlled entities.

Negative goodwill arising on an acquisition is recognised directly in the income statement, provided that the negative goodwill is supported by the re-assessment of the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the business combination.

INTANGIBLE ASSETS

Software and licences

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

Costs associated with researching or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable software products controlled by the Group, and that will probably generate economic benefits beyond one year, as well as for which the costs can be measured reliably, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Costs relating to the acquisition of licences are capitalised and amortised on a straight-line basis when available for use in the manner intended by management.

Research and development

Research costs, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are charged against operating income as incurred. Development costs, arising from the application of the research findings to a plan or design for the production of new or substantially improved products and processes, are also charged against operating income as incurred.

Development costs are, however, capitalised if all the following criteria are met:

- an asset is created that can be identified;
- the development cost of the asset can be reliably measured;
- the development is evaluated as being technically or commercially feasible;
- the Group has sufficient resources to complete development; and
- the Group can demonstrate how the development will generate future economic benefits

The expenditure capitalised includes the cost of materials, direct labour and an appropriate portion of overheads.

Capitalised development costs are stated at cost less accumulated amortisation and any accumulated impairment losses. Development costs that have finite useful lives are amortised on a straight-line basis over their useful lives. Development costs with indefinite useful lives are not amortised, but tested at each balance sheet date for impairment.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation and impairment

Intangible assets with an indefinite useful life are tested for impairment at each balance sheet date. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software — 5 years
- Licences — term of the licence

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the balance sheet when the Group has become party to the contractual provisions of the instruments.

Measurement

Financial instruments are initially recognised at fair value plus, for a financial asset or financial liability that is not carried at fair value through profit or loss, transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Financial instruments recognised on the balance sheet include:

Investments, including subsidiaries, jointly controlled entities and associates

After initial recognition, investments in the Group's market-making portfolios in both bonds and money market instruments, which are classified as held for trading, as well as those classified as available-for-sale, are measured at fair value. Fair value is the market value (listed investments) or either the market price of a substantially similar investment or the present value of expected future cash flows of the net asset base (unlisted investments). Gains or losses on investments held for trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of the Group's equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the income statement. Impairment losses on available-for-sale equity instruments that are recognised in the income statement are not subsequently reversed. The impairment losses on debt instruments classified as available-for-sale are reversed if an objective event resulted in reversal of the impairment after the impairment loss occurred.

In the Company's financial statements, investments in unlisted subsidiaries, jointly controlled entities and associates are carried at cost less a provision for impairment where the fair value of such investments cannot be reliably measured.

Other long-term investments that the Group is able to and intends to hold to maturity are subsequently measured at amortised cost using the effective interest rate method less any impairment losses recorded to reflect irrecoverable amounts. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Financial instruments classified as at fair value through profit or loss or available-for-sale investments are recognised/derecognised by the Group on the date it commits to purchase/sell the investments. Securities held-to-maturity are recognised/derecognised on the day they are transferred to/by the Group.

Derivative instruments and hedging

The Group uses derivative financial instruments, which include futures, forward exchange and currency option contracts, cross-currency and interest rate swaps and interest rate options to hedge its exposures arising from operational, financing and investment activities.

In accordance with its Treasury policy, the Group does not speculate in the trading of derivative instruments. While the Group enters into derivative financial instruments to economically hedge certain exposures, it does not apply hedge accounting. Derivatives are classified as "other derivatives held".

Subsequent to initial recognition, derivative financial instruments are measured at fair value. The fair value changes are recognised directly in the income statement.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of the forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Loans receivable

Loans receivable are measured at amortised cost, using the effective interest rate method, less any impairments recognised. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

ACCOUNTING POLICIES continued

Trade and other receivables

Trade and other receivables, which generally have 30 to 90-day terms, are recognised and carried at amortised cost using the effective interest rate method. Allowances for irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Pre-delivery payments

Pre-delivery payments paid to the manufacturers of aircraft in terms of the contractual arrangements governing the purchase of aircraft are initially recognised as part of capital work-in-progress at the cost of the consideration delivered.

In the event that a decision is taken that it is likely that the underlying aircraft will not be purchased at the expected delivery date, but will be leased under an operating lease, then the related pre-delivery payments will be remeasured to the present value of the consideration expected to be received from the ultimate lessor. This consideration will, if it is denominated in foreign currency, be translated into the measurement currency by applying the ruling exchange rate at the reporting date.

In calculating the value of the future consideration receivable, any benefit or loss that will result as a consequence of the Group having secured the aircraft at the original contractual price as against the fair value of the aircraft at the date of delivery to the lessor, which is taken into consideration in the future operating lease payments, forms part of the consideration receivable. Any loss arising on re-measurement is classified as impairment.

Once the operating lease agreement related to the aircraft has been formally concluded, the receivable amount so arising is transferred from capital work in progress to refundable deposits.

Where an aircraft is delivered under short-term bridging finance, pending the finalisation of an operating lease, the related pre-delivery payments and the final instalment paid to the manufacturer are again remeasured at the present value of the expected consideration from the lessor in the same manner as outlined above. Under these circumstances the full consideration receivable is classified under refundable deposits.

Cash and cash equivalents

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

For the purposes of the consolidated cash flow statements, cash and cash equivalents include bank overdrafts.

Financial liabilities

After initial recognition, financial liabilities other than trading liabilities and derivatives are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Financial liabilities held for trading purposes and derivative liabilities are measured at fair value and the resultant gains and losses are included in profit or loss.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Trade and other payables

Liabilities for trade and other amounts payable which are settled within normal terms are stated at amortised cost.

Included in other payables is an accrual relating to the Frequent Flyer Programme. A subsidiary of the Group manages a travel incentive programme (Voyager) whereby frequent travellers accumulate mileage credits that entitle them to free travel. The

airline accrues the estimated incremental cost of providing free travel awards. The accrued incremental cost is included in current liabilities.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of the asset is determined and an impairment loss is recognised for the difference between the recoverable amount and the carrying amount as follows:

- For financial assets held at either cost or amortised cost – the carrying amount of the asset is reduced to its discounted estimated recoverable amount (present value of estimated future cash flows, discounted at the original effective interest rate), and the resulting loss is recognised in the income statement for the period.
  Receivables with a short duration are not discounted.
- For financial assets at fair value – where a loss has been recognised directly in equity as a result of a previous downward fair value adjustment, the cumulative net loss recognised in equity is transferred to the income statement for the period.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. An impairment loss in respect of a debt instrument classified as available-for-sale is reversed through profit and loss if its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was originally recognised in profit or loss.

Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or settle on a net basis, all related financial effects are offset.

Financial liabilities and equity

Financial instruments issued by the Group are classified according to their substance and definitions of financial liabilities and equity.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the value of the proceeds received, net of direct issue costs.

Derecognition

Financial assets (or a portion thereof) are derecognised when the Group's rights to the cash flow expire or when the Group transfers substantially all the risks and rewards related to the financial asset or when the entity loses control of the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in the consolidated income statement.

Financial liabilities (or a portion thereof) are derecognised when the obligations specified in the contract are discharged, cancelled or expired. On derecognition, the difference between the carrying value of the financial liability, including related unamortised costs, and settlement amounts paid is included in the consolidated income statement.

Fair value methods and assumptions

The fair value of financial instruments traded in an active financial market is measured at the applicable quoted prices.

The fair value of financial instruments not traded in an active financial market, is determined using a variety of methods and assumptions that are based on market conditions and risks existing at balance sheet date, including independent appraisals and discounted cash flow methods.

The carrying amounts of financial assets and liabilities with a maturity of less than six months are assumed to approximate their fair value.

INVENTORIES

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

Cost is determined as follows:

- Raw materials and consumable stores are stated at weighted average cost.
- Manufactured goods and work in progress are stated at weighted average cost valued at raw material cost, plus direct labour cost, and an appropriate portion of related manufacturing overhead cost, based on normal capacity.

Write-downs to net realisable value and inventory losses are expensed in the period in which the write-downs or losses occur.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

Impairment losses on initial classification as held for sale are included in profit or loss, even when the assets have been recorded at revalued amounts. The same applies to gains and losses on subsequent remeasurement. A gain or subsequent increase in fair value less costs to sell may not exceed the cumulative impairment losses previously recognised in terms of IFRS 5 or IAS 36.

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

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify as a discontinued operation.

IMPAIRMENT OF ASSETS

The carrying amounts of the Group's tangible and intangible assets with a definite life, other than financial assets, investment property, non-current assets held for sale, inventories and deferred tax assets are reviewed at each balance sheet date to determine if there is any indication of impairment. If such an indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. For goodwill and intangible assets that have an indefinite useful life, the recoverable amount is estimated at each balance sheet date, and whenever there is an indication that the asset may be impaired.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value-in-use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs relating to the realisation of the asset. In assessing the value-in-use, the expected future cash flows from the asset are discounted to their net present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset and the business unit to which that asset belongs. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

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

LEASES

Group as a lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance lease liabilities and leased assets are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Benefits received as an incentive to enter into an operating lease are recorded on a straight-line basis over the lease term.

Group as a lessor

When assets are leased out under a finance lease, the present value of the lease payments, as well as the initial direct costs, are recognised as a lease receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessee) is recognised on a straight-line basis over the lease term.

Sale and leaseback

Where a sale and leaseback agreement is classified as a finance lease, any excess of the sale proceeds over the carrying values is deferred and recognised in the income statement over the period of the lease.

Where a sale and leaseback agreement is classified as an operating lease and the transaction took place at fair value, any excess or deficit of the sale proceeds over the carrying values of the assets sold is recognised in the income statement in the year in which it arises. If the deficit is compensated for by future lease payments at below market price, the deficit is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

SHARE CAPITAL

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of taxation, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are included in the cost of a business acquisition.

When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity. Repurchased shares are classified as treasury shares and presented as a deduction from the total equity until they are cancelled, reissued or disposed of.

Dividends are recognised as a liability in the period in which they are declared.

EMPLOYEE BENEFITS

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

Defined contribution fund

The Group's contributions to the defined contribution fund are charged to the income statement during the year to which they relate.

Defined benefit funds

The benefit costs and obligations under the defined benefit funds are determined separately for each fund using the projected unit credit method. The benefit costs are recognised in the income statement. All actuarial gains and losses are recognised in the period in which they occur outside of the income statement, in the statement of recognised income and expenditure. The policy with respect to actuarial gains and losses is in line with the amendment to IAS19 *Employee Benefits*, which the Group early adopted from 1 April 2004.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by the employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefit becomes vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognised past service cost plus the present value of available refunds and reductions in the future contributions to the plan.

Post-retirement medical benefits

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

Short- and long-term benefits

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

The Group's net obligation in respect of long-term service benefits, other than pension plans and post-retirement medical benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted.

Termination benefits

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

Share-based payment transactions

South African Airways (Pty) Ltd (SAA), a subsidiary of Transnet Ltd, operates via the South African Airways Share Incentive Scheme, three incentive schemes created for the benefit of the employees of SAA namely:

- The FDC Share Scheme (for the flight deck crew members);
- The Share Incentive Scheme (for certain management individuals in SAA only); and
- The Employee Share Ownership Programme (allowed SAA employees who were employed by SAA on 1 April 1999 and who were still in the employment of SAA on 1 March 2001 to acquire shares in SAA).

Under the schemes, the employees are entitled to acquire the subsidiary's shares at nominal or discounted prices and, subsequently, have the option to sell those shares back to the trust, either at a predetermined price or at a price based on the fair value of the share at the time of repurchase. Since the subsidiary is not listed and the employees can only realise their benefit by selling the shares to the trust, the transaction is considered as a cash-settled share-based payment.

The fair value of the amount payable to the employee is recognised as an employee expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the service period during which the employees become unconditionally entitled to payment. The fair value of the grant is measured based on a formula/model, taking into account the terms and conditions upon which the instruments were granted. The liability is remeasured at each balance sheet date until it is settled. Any changes in the fair value of the liability are recognised as an employee cost.

PROVISIONS

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation, as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Restructuring

A provision for restructuring costs is recognised when the Group has a detailed formal plan for the restructuring and the Group has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. Restructuring provisions only include those direct expenditures which are necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. Future operating costs are not provided for.

Environmental rehabilitation

In accordance with the Group's environmental policy and applicable legal requirements, a provision for environmental rehabilitation in respect of clean-up costs is recognised when it meets the recognition requirements for provisions.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Other provisions

Other provisions, for example, third-party claims, freight insurance, customer claims and leave pay provisions are recognised when they meet the recognition requirements as per IAS37 *Provisions, Contingent Liabilities and Contingent Assets.*

TAXATION

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

Current taxation

The charge for current taxation is the amount of income taxes payable in respect of the taxable profit for the current period and any adjustment to taxation payable in respect of previous years. It is calculated using taxation rates that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation

Deferred taxation is provided using a balance sheet liability method on all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation bases. The following temporary differences are not provided for: goodwill (or negative goodwill), which is not deductible for taxation purposes, the initial recognition of assets and liabilities (other than in a business combination), which affect neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities and is calculated using the taxation rates that have been enacted or substantively enacted at the balance sheet date. Deferred taxation is charged or credited in the income statement except where it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available to be utilised against the associated unused taxation losses and deductible temporary differences. Deferred taxation assets are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Deferred taxation liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and joint ventures, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that it will not reverse in the foreseeable future.

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

Secondary taxation on companies (STC)

STC is provided in respect of the expected dividend payments net of dividend assets and is recognised as a taxation charge in the year in which the dividend is declared. STC credits on dividends received are recorded as deferred taxation assets in the period that they arise limited to the reserves available for distribution.

REVENUE

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amounts of revenue can be reliably measured. Revenue is net of value added taxation.

Transportation and other related services

Revenue from transportation and other related services is recognised by reference to the stage of completion of transactions at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs, possible return of goods or where there is continuing management involvement with the goods.

Rental income

Revenue arising from the rental of property is recognised on an accrual basis in accordance with the substance of the relevant agreements. Lease incentives granted are recognised as an integral part of the total rental income.

Dividend income

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

Finance income

Finance income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all suspensive conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset on a straight-line basis.

NET FINANCING COSTS

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, foreign exchange gains and losses, and gains and losses on derivative instruments that are recognised in the income statement.

BORROWING COSTS

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. All interest income is separately disclosed as part of finance income, except for interest earned on the housing bond book, which is disclosed as part of revenue.

SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group conducts business in all aspects of transport and maritime operations, as well as related services. On the primary segment basis, the main business groupings of the Group are rail, maritime, pipeline, aviation, road and property.

On the secondary segment basis, which is the reporting format by geographic analysis, the directors consider that there is only one material geographic segment, being the Republic of South Africa. Therefore it is not considered necessary to disclose secondary segments.

INCOME STATEMENTS

for the year ended 31 March 2006

Company 2005 Restated R million	Company 2006 R million		Notes	Group 2006 R million	Group 2005 Restated R million
		Continuing operations			
24 497	25 500	Revenue	2	26 360	25 260
(19 433)	(17 691)	Net operating expenses excluding impairment of assets and fair value adjustments	3	(17 882)	(19 846)
5 064	7 809	**Profit from operations before impairment of assets, fair value adjustments and net finance costs**	4.1	8 478	5 414
(907)	(197)	Impairment of assets	4.2	(124)	(414)
3 557	(95)	Fair value adjustments	5	442	4 437
7 714	7 517	**Profit from operations before net finance costs**		8 796	9 437
(2 186)	(2 474)	Finance costs	6	(2 657)	(2 274)
374	302	Finance income	7	262	167
5 902	5 345	**Profit before taxation**		6 401	7 330
(1 445)	(1 900)	Taxation	8	(1 978)	(1 582)
4 457	3 445	**Profit after taxation**		4 423	5 748
–	–	Income from associates	13	33	62
4 457	3 445	**Profit for the year from continuing operations**		4 456	5 810
		Discontinued operations			
(15)	225	Profit/(loss) from discontinued operations, including profit on disposal of discontinued operations and impairments	1	115	754
4 442	3 670	**Net profit for the year**		4 571	6 564
4 442	3 670	Attributable to equity holder		4 539	6 585
–	–	Attributable to minority interests	23	32	(21)

BALANCE SHEETS

at 31 March 2006

Company 2005 Restated R million	Company 2006 R million		Notes	Group 2006 R million	Group 2005 Restated R million
		ASSETS			
		Non-current assets			
42 346	45 969	Property, plant and equipment	9	46 533	54 041
–	–	Investment properties	10	32	33
148	168	Intangible assets and goodwill	11	172	155
2 585	279	Investments in subsidiaries	12	–	–
792	81	Investments in associates	13	98	1 242
274	216	Derivative financial assets	14	217	308
2 720	2 022	Long-term loans and advances	15	2 019	2 717
291	1	Other investments	16	60	946
49 156	48 736			49 131	59 442
		Current assets			
1 184	1 348	Inventories	17	1 396	1 786
3 580	3 895	Trade and other receivables	18	4 149	6 913
417	88	Derivative financial assets	14	3 874	3 909
1 380	642	Other short-term investments	16	643	2 445
1 996	1 114	Cash and cash equivalents	19	1 400	2 556
–	3 336	Assets classified as held-for-sale	20	16 740	–
8 557	10 423			28 202	17 609
57 713	59 159	**Total assets**		77 333	77 051
		EQUITY AND LIABILITIES			
		Capital and reserves			
14 710	14 710	Issued capital	21	14 710	14 710
5 092	10 728	Reserves	22	12 883	6 308
19 802	25 438	**Equity attributable to the shareholder**		27 593	21 018
–	–	Minority interests	23	113	88
19 802	25 438			27 706	21 106
		Non-current liabilities			
7 113	4 348	Post-retirement benefit obligations	24	4 348	7 238
15 721	15 875	Long-term borrowings	25	16 469	21 740
515	370	Derivative financial liabilities	14	408	559
899	830	Long-term provisions	26	847	1 122
–	922	Deferred taxation liabilities	27	924	58
24 248	22 345			22 996	30 717
		Current liabilities			
4 517	4 977	Trade payables and accruals	28	5 207	12 448
5 600	3 212	Short-term borrowings	29	5 323	8 645
1 514	1 259	Current taxation liability		1 283	1 545
551	140	Derivative financial liabilities	14	153	668
1 264	1 664	Short-term provisions	26	1 699	1 672
217	32	Bank overdraft	19	34	250
–	92	Liabilities directly associated with assets classified as held for sale	20	12 932	–
13 663	11 376			26 631	25 228
57 713	59 159	**Total equity and liabilities**		77 333	77 051

STATEMENTS OF RECOGNISED INCOME AND EXPENDITURE

for the year ended 31 March 2006

Company 2005 Restated R million	Company 2006 R million		Notes	Group 2006 R million	Group 2005 Restated R million
792	190	**Net gains on revaluation reserves**		224	822
945	233	*Gains on revaluations*		267	975
66	(245)	(Net realisation of the surplus on the MTN shares in profit and loss)/gain on revaluation	22	(245)	78
623	376	Gain on revaluation of port facilities	22	376	623
256	102	Gain on revaluation of pipeline networks	22	102	256
–	–	Gain on revaluation of other investments	22	34	18
(153)	(43)	*Taxation effect of revalued items*	22	(43)	(153)
1	(1)	**Gain/(losses) on foreign currency translation**	22	36	(8)
–	–	**Losses on cash flow hedges**	22	–	(51)
38	(30)	**Net (decrease)/increase in other reserves**	22	(73)	(2)
(368)	1 777	**Net actuarial gains/(losses) on post-retirement benefit obligations**		1 774	(368)
(533)	2 502	*Actuarial gains/(losses) related to post-retirement benefit obligations*	22	2 499	(533)
(73)	22	– Actuarial gain/(loss) on the Transnet Pension Fund	32.1.2	22	(73)
(434)	2 644	– Actuarial gain/(loss) on the Transnet Second Defined Benefit Fund	32.1.3	2 644	(434)
–	(17)	– Actuarial loss on the Transnet Top Management Pensions	32.1.4	(17)	–
(20)	(26)	– Actuarial loss on the Transnet Workmen's Compensation Act Pensioners	32.1.4	(26)	(20)
13	(5)	– Actuarial (loss)/gain on the Transnet Black Widows' Pension Benefit	32.1.5	(5)	13
22	(82)	– Actuarial (loss)/gain on the Transnet SATS Pensioners medical benefits	32.2.1	(82)	22
(41)	(34)	– Actuarial loss on the Transnet Employees medical benefits	32.2.2	(37)	(41)
165	(725)	*Taxation effect of net actuarial (gains)/losses*		(725)	165
		Effects of changes in accounting policies and prior year restatements			
3 070	–	*Adjustment to opening retained income and reserves*	22	–	4 234
(371)	–	– SA GAAP adjustments	22, 36	–	(50)
3 441	–	– IFRS adjustments	22, 36	–	4 284
3 533	1 936	**Net income recognised directly in equity**		1 961	4 627
–	30	**Transfers into distributable reserves**		75	–
4 442	3 670	**Profit for the year**		4 571	6 564
7 975	5 636	**Total recognised income for the year**		6 607	11 191
7 975	5 636	Attributable to equity holder		6 575	11 212
–	–	Attributable to minority interests	23	32	(21)
7 975	5 636			6 607	11 191

CASH FLOW STATEMENTS

for the year ended 31 March 2006

Company 2005 Restated R million	Company 2006 R million		Notes	Group 2006 R million	Group 2005 Restated R million
3 875	4 997	**Cash flows from operating activities**		5 865	546
8 346	9 731	Cash generated from operations	34.1	11 233	10 089
(1 372)	(184)	Changes in working capital	34.2	(418)	180
6 974	9 547	Cash generated from operations after working capital changes		10 815	10 269
(2 031)	(2 235)	Finance costs	34.3	(2 889)	(2 410)
374	352	Finance income		418	274
(49)	(2 041)	Taxation paid	34.4	(2 106)	(239)
(285)	(362)	Settlement of post-retirement benefit obligations		(362)	(285)
(1 108)	(264)	Derivatives raised and settled		(4)	(7 052)
–	–	Dividends paid to minorities	34.5	(7)	(11)
(5 662)	(3 634)	**Cash flows from investing activities**		(2 479)	(5 001)
(3 887)	(2 212)	*Investment to maintain operations*		(970)	(2 080)
(1 569)	(4 375)	Replacements to property, plant and equipment		(4 856)	(1 963)
(16)	(65)	Additions to intangible assets		(75)	(17)
87	90	Proceeds on the disposal of property, plant and equipment		1 682	237
–	106	Net cash inflow on disposal of Metrorail	34.6	106	–
–	449	Proceeds on the sale of other investments		567	–
5	340	Dividend income		85	3
–	(190)	Acquisition of Protekon assets and liabilities	34.7	–	–
–	(78)	Settlement of net liability on disposal of the business of Spoornet Zambia		(78)	–
(1)	–	Acquisition of associates		–	(1)
(2 419)	(8)	Net loans to subsidiaries and associates		6	(8)
295	796	Net receipts of long-term loans and advances		798	298
(269)	723	Decrease in short-term investments		795	(629)
(1 775)	(1 422)	*Investment to expand operations*		(1 509)	(2 921)
(1 775)	(1 422)	Expansions – property, plant and equipment		(1 745)	(3 678)
–	–	Refunded pre-delivery payments on aircraft		236	757
2 294	(2 060)	**Cash flows from financing activities**		(4 001)	2 437
4 086	328	Net long-term borrowings (repaid)/raised		(1 237)	4 229
(1 792)	(2 388)	Net short-term loans repaid		(2 764)	(1 792)
507	(697)	Net (decrease)/increase in cash and cash equivalents		(615)	(2 018)
1 272	1 779	Cash and cash equivalents at the beginning of the year		2 306	4 324
1 779	1 082	**Total cash and cash equivalents at the end of the year**	19	1 691	2 306
1 779	1 082	**Cash and cash equivalents at the end of the year**		1 366	2 306
–	–	**Transferred to assets classified as held for sale**		325	–
		Cash flows from discontinued operations			
(72)	(100)	Cash flows from operating activities		(3)	(3 957)
(1)	(2)	Cash flows from investing activities		1 714	(542)
105	64	Cash flows from financing activities		(1 894)	4 119
32	(38)	Net (decrease)/increase in cash and cash equivalents		(183)	(380)

SEGMENTAL ANALYSIS

for the year ended 31 March 2006

Based on risk and returns the directors consider that the primary reporting format is by business segment.
The Group is organised into different business units. These business units are the basis on which the Group reports its primary segment information. The secondary reporting format is by geographic analysis and the directors consider that, with the exception of Aviation, there is only one geographic segment, being the Republic of South Africa.

	Group		Rail		Maritime	
	2006 R million	2005 Restated R million	2006 R million	2005 Restated R million	2006 R million	2005 Restated R million
External revenue	48 557	45 947	16 545	17 019	8 738	8 186
Internal revenue	–	–	3 391	2 915	2	371
Total revenue	48 557	45 947	19 936	19 934	8 740	8 557
Revenue for discontinued operations	(22 197)	(20 687)	(1 831)	(2 307)	–	–
Revenue for continuing operations	26 360	25 260	18 105	17 627	8 740	8 557
Net operating expenses for continuing operations excluding impairment of assets and fair value adjustments	(17 882)	(19 846)	(16 079)	(15 937)	(4 402)	(4 342)
Total net operating expenses	(40 083)	(39 997)	(17 912)	(18 280)	(4 402)	(4 342)
Discontinued operations	22 201	20 151	1 833	2 343	–	–
Profit/(loss) from operations before impairment of assets, fair value adjustments and net finance costs for continuing operations	8 478	5 414	2 026	1 690	4 338	4 215
(Impairments)/reversal of impairment of assets for continuing operations	(124)	(414)	(127)	–	(20)	6
Total (impairments)/reversal of impairment of assets	(77)	(331)	(127)	–	(20)	6
Discontinued operations	(47)	(83)	–	–	–	–
Fair value adjustments for continuing operations	442	4 437	42	3 024	(9)	881
Total fair value adjustments	716	4 650	43	3 026	(9)	881
Discontinued operations	(274)	(213)	(1)	(2)	–	–
Profit/(loss) from continuing operations before net finance costs	8 796	9 437	1 941	4 714	4 309	5 102
Finance costs for continuing operations	(2 657)	(2 274)	(960)	(902)	(546)	(672)
Total finance costs	(3 341)	(2 601)	(961)	(906)	(546)	(672)
Discontinued operations	684	327	1	4	–	–
Finance income for continuing operations	262	167	22	57	184	94
Total finance income	418	274	80	72	184	94
Discontinued operations	(156)	(107)	(58)	(15)	–	–
Profit/(loss) before taxation from continuing operations	6 401	7 330	1 003	3 869	3 947	4 524
Taxation	(1 978)	(1 582)	(811)	–	(1 370)	–
Total taxation	(2 053)	(1 640)	(811)	–	(1 370)	–
Discontinued operations	75	58	–	–	–	–
Profit/(loss) after taxation for continuing operations	4 423	5 748	192	3 869	2 577	4 524
Income from associates of continuing operations	33	62	–	–	–	–
Total income from associates	285	262	–	–	–	–
Discontinued operations	(252)	(200)	–	–	–	–
Net profit/(loss) from continuing operations	4 456	5 810	192	3 869	2 577	4 524
Profit/(loss) from discontinued operations, including profit on disposal of discontinued operations and impairments	115	754	56	(23)	–	–
Net profit for the period	4 571	6 564	248	3 846	2 577	4 524
Minority interests	(32)	21	–	–	–	–
Profit/(loss) for the year attributable to equity holder	4 539	6 585	248	3 846	2 577	4 524
Other information						
Operating assets	77 235	75 809	23 702	20 666	21 756	20 224
Investments in associates	98	1 242	–	–	4	10
Consolidated total assets	77 333	77 051	23 702	20 666	21 760	20 234
Operating liabilities	27 886	26 909	4 736	3 841	2 924	1 217
Capital expenditure**	6 601	5 641	4 003	1 492	1 569	1 598
Significant non-cash items						
Depreciation and amortisation	3 150	2 766	903	712	706	694

* *Other operations incorporates all other business units plus Company/Group adjustments, reclassifications and eliminations.*
** *Prior to set-off of pre-delivery payments refunded on South African Airways (Pty) Ltd aircraft amounting to R236 million.*

Pipeline		Aviation		Road		Property		Other Operations*	
2006	2005 Restated	2006	2005 Restated	2006	2005 Restated	2006	2005 Restated	2006	2005 Restated
R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
1 058	1 019	20 232	17 867	1 009	1 147	215	217	760	492
–	1	361	249	621	579	75	90	(4 450)	(4 205)
1 058	1 020	20 593	18 116	1 630	1 726	290	307	(3 690)	(3 713)
–	–	(19 625)	(17 442)	(1 604)	(1 702)	–	–	863	764
1 058	1 020	968	674	26	24	290	307	(2 827)	(2 949)
(463)	(563)	(711)	(850)	(20)	(24)	(229)	(241)	4 022	2 111
(463)	(563)	(20 038)	(17 272)	(1 428)	(1 523)	(229)	(241)	4 389	2 224
–	–	19 327	16 422	1 408	1 499	–	–	(367)	(113)
595	457	257	(176)	6	–	61	66	1 195	(838)
–	(87)	(24)	(39)	(6)	–	(5)	–	58	(294)
–	(87)	23	25	(6)	19	(5)	–	58	(294)
–	–	(47)	(64)	–	(19)	–	–	–	–
–	–	38	8	–	–	–	–	371	524
–	–	311	219	–	–	–	–	371	524
–	–	(273)	(211)	–	–	–	–	–	–
595	370	271	(207)	–	–	56	66	1 624	(608)
(298)	(288)	(101)	(113)	(1)	–	–	(11)	(751)	(288)
(298)	(288)	(782)	(541)	(48)	(96)	–	(11)	(706)	(87)
–	–	681	428	47	96	–	–	(45)	(201)
47	36	10	–	7	7	17	20	(25)	(47)
47	36	147	219	12	16	17	20	(69)	(183)
–	–	(137)	(219)	(5)	(9)	–	–	44	136
344	118	180	(320)	6	7	73	75	848	(943)
(153)	–	–	(100)	(3)	(2)	(85)	–	444	(1 480)
(153)	–	(12)	(102)	(66)	(58)	(85)	–	444	(1 480)
–	–	12	2	63	56	–	–	–	–
191	118	180	(420)	3	5	(12)	75	1 292	(2 423)
–	–	–	–	–	–	–	–	33	62
–	–	–	–	–	–	–	–	285	262
–	–	–	–	–	–	–	–	(252)	(200)
191	118	180	(420)	3	5	(12)	75	1 325	(2 361)
–	–	63	864	91	20	–	–	(95)	(107)
191	118	243	444	94	25	(12)	75	1 230	(2 468)
–	–	–	43	(32)	(22)	–	–	–	–
191	118	243	487	62	3	(12)	75	1 230	(2 468)
3 765	3 704	14 589	16 800	1 877	1 907	1 578	1 665	9 968	10 843
–	–	–	–	–	–	4	6	90	1 226
3 765	3 704	14 589	16 800	1 877	1 907	1 582	1 671	10 058	12 069
604	420	8 820	9 505	396	446	133	116	10 273	11 364
220	136	438	1 849	446	362	11	109	(86)	95
237	210	882	686	231	227	53	45	138	192

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2006

Company 2005 Restated R million	Company 2006 R million		Notes	Group 2006 R million	Group 2005 Restated R million
		1. DISCONTINUED OPERATIONS			
		The profit/(loss) from discontinued operations, including profit on disposal of discontinued operations and impairments is analysed as follows:			
(15)	76	Net (loss)/profit from discontinued operations		(34)	754
–	149	Profit on disposal of discontinued operations (refer note 3)		149	–
(15)	225			115	754
		Profit from discontinued operations			
2 855	2 378	Revenue	2	22 197	20 687
(2 888)	(2 351)	Net operating expenses excluding impairment of assets and fair value adjustments	3	(22 201)	(20 151)
(33)	27	**(Loss)/profit from operations before impairment of assets, fair value adjustments and net finance costs**	4.1	(4)	536
20	–	Reversal of impairment of assets	4.2	47	83
2	–	Fair value adjustments	5	274	213
(11)	27	**Profit from operations before net finance costs**		317	832
(4)	(1)	Finance costs	6	(684)	(327)
–	50	Finance income	7	156	107
(15)	76	**(Loss)/profit before taxation**		(211)	612
–	–	Taxation	8	(75)	(58)
(15)	76	**(Loss)/profit after taxation**		(286)	554
–	–	Income from associates	13	252	200
(15)	76	**Net (loss)/profit for the year**		(34)	754
(15)	76	Attributable to equity holder		(66)	775
–	–	Attributable to minority interests	23	32	(21)
		(For details of which entities are discontinued, refer annexure C.)			

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		2. REVENUE		
25 155	25 927	Rendering of services	46 263	43 655
508	608	Rental income	951	603
377	304	Finance income	304	377
554	14	Notional revenue on embedded derivatives	14	554
758	1 025	Other	1 025	758
27 352	27 878		48 557	45 947
(2 855)	(2 378)	Discontinued operations	(22 197)	(20 687)
24 497	25 500	Continuing operations	26 360	25 260

Other revenue is a contractual payment from the South African Government through the South African Railway Commuter Corporation (SARCC) of R1 039 million (2005: R1 312 million). This payment is applied in the operation of the commuter rail network operated by Metrorail, which was disposed of at 26 December 2005.

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		3. NET OPERATING EXPENSES EXCLUDING IMPAIRMENT OF ASSETS AND FAIR VALUE ADJUSTMENTS		
105	113	Accommodation and refreshments	784	577
70	51	Amortisation of intangible assets (refer note 4.1)	53	89
1 773	1 975	Depreciation (refer note 4.1)	3 097	2 677
(5)	(340)	Dividend income	(85)	(3)
512	439	Electronic data costs	982	1 033
2 158	2 478	Energy costs	7 801	5 711
170	162	Health and sanitation	237	229
152	154	Insurance	297	309
–	(67)	Profit on sale of interest in divisions and operations	(67)	–
–	(404)	Profit on sale of interests in other investments	(411)	–
1 985	890	Maintenance	633	1 755
283	568	Managerial and technical consulting fees (refer note 4.1)	701	419
1 497	1 540	Material costs	2 742	2 440
–	–	Navigation, landing and parking fees	1 056	957
1 156	997	Operating leases (refer note 4.1)	3 197	2 842
–	–	Passenger handling, rescheduling and airline costs	1 525	1 337
9 665	9 062	Personnel costs	12 532	13 387
1 168	775	Post-retirement benefit obligation costs	1 027	1 448
65	60	Printing and stationery	127	125
10	131	(Profit)/loss on disposal of property, plant and equipment (refer note 4.1)	(155)	(6)
78	54	Promotions and advertising	745	567
492	470	Security	565	590
–	–	Share-based payments expense	2	–
302	90	Telecommunications	133	343
8	11	Transport	184	349
677	684	Other	2 232	2 822
22 321	19 893		39 934	39 997
(2 888)	(2 351)	Discontinued operations	(22 201)	(20 151)
19 433	17 542		17 733	19 846
–	149	Profit on disposal of discontinued operations (refer note 1)	149	–
19 433	17 691	Continuing operations	17 882	19 846
		4.1 PROFIT FROM OPERATIONS BEFORE IMPAIRMENT OF ASSETS, FAIR VALUE ADJUSTMENTS AND NET FINANCE COSTS is stated after taking into account the following amounts:		
56	80	**Auditors' remuneration**	103	94
55	77	*Group auditors*	100	83
38	58	Audit fees	80	55
12	5	Underprovision prior year	5	19
4	12	Fees for other services	12	7
1	2	Expenses	3	2
1	3	*Other auditors*	3	11
–	–	Audit fees – prior year underprovision	–	11
1	3	Fees for other services	3	–
(11)	(2)	Discontinued operations	(26)	(44)
45	78	Continuing operations	77	50

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2006

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		4.1 PROFIT FROM OPERATIONS BEFORE IMPAIRMENT OF ASSETS, FAIR VALUE ADJUSTMENTS AND NET FINANCE COSTS (continued)		
70	51	**Amortisation of intangible assets (refer note 11)**	53	89
–	(23)	Development	(23)	–
70	74	Software and licences	76	89
(1)	(1)	Discontinued operations	(1)	(8)
69	50	Continuing operations	52	81
1 773	1 975	**Depreciation (refer annexure B)**	3 097	2 677
1 545	1 735	*Depreciation – Owned assets at historic cost*	2 824	2 423
–	–	Aircraft	796	616
279	209	Land, buildings and structures	260	317
263	271	Machinery, equipment and furniture	312	302
155	134	Permanent way and works	133	155
131	141	Pipeline networks	141	131
315	349	Port facilities	349	315
331	584	Rolling stock and containers	586	334
71	47	Vehicles	247	253
228	240	*Depreciation – Owned assets revalued portion*	240	228
56	73	Pipeline networks	73	56
172	167	Port facilities	167	172
–	–	*Depreciation – Leased assets*	33	26
–	–	Aircraft	33	26
(47)	(31)	Discontinued operations	(1 076)	(901)
1 726	1 944	Continuing operations	2 021	1 776
283	568	**Managerial and technical consulting fees**	701	419
(38)	(31)	Discontinued operations	(155)	(223)
245	537	Continuing operations	546	196
1 156	997	**Operating lease charges**	3 197	2 842
1	33	Aircraft	2 005	1 499
131	129	Land, buildings and structures	207	208
1 024	835	Other	985	1 135
(98)	(95)	Discontinued operations	(2 214)	(1 871)
1 058	902	Continuing operations	983	971
10	131	**(Profit)/loss on disposal of property, plant and equipment**	(155)	(6)
2	4	Discontinued operations – profit	304	14
12	135	Continuing operations – loss	149	8

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		4.1 PROFIT FROM OPERATIONS BEFORE IMPAIRMENT OF ASSETS, FAIR VALUE ADJUSTMENTS AND NET FINANCE COSTS (continued)		
65	15	**Research and development costs**	17	66
(1)	–	Discontinued operations	(2)	(3)
64	15	Continuing operations	15	63
42	47	**Directors' and executive emoluments (full details are disclosed in the directors' report)**	76	68
5	11	Executive directors	36	28
1	5	Non-executive directors	9	4
36	31	Senior executives	31	36
–	–	Discontinued operations	(25)	(22)
42	47	Continuing operations	51	46
		4.2 IMPAIRMENT OF ASSETS		
887	197	Impairment of assets	77	331
128	64	Property, plant and equipment	16	19
–	–	Intangible assets	–	115
607	234	Loss making subsidiaries and associates	141	45
152	(101)	Trade and other receivables and loans and advances	(80)	152
20	–	Discontinued operations – reversal	47	83
907	197	Continuing operations	124	414
		5. FAIR VALUE ADJUSTMENTS		
3 621	(2)	Derivative fair value adjustments	271	3 894
–	–	Revaluation of the Newshelf structure C-class preference shares (refer note 14)	500	932
(178)	(136)	Fair value adjustments to treasury bonds	(136)	(178)
116	43	Other fair value adjustments	81	2
3 559	(95)		716	4 650
(2)	–	Discontinued operations	(274)	(213)
3 557	(95)	Continuing operations	442	4 437
		Reconciliation of fair value adjustments to note 14		
3 559	(95)	Fair value adjustments per above	716	4 650
554	14	Embedded derivative recognised in revenue	14	554
178	136	Treasury bonds	136	178
(6)	(27)	Other fair value adjustments	(3)	–
4 285	28	**Fair value adjustments per note 14**	863	5 382
		6. FINANCE COSTS		
(29)	21	Net foreign exchange losses/(gains) on translation	233	3
188	219	Discounts on bonds amortised	219	188
2 031	2 235	Interest cost	2 889	2 410
2 190	2 475		3 341	2 601
(4)	(1)	Discontinued operations	(684)	(327)
2 186	2 474	Continuing operations	2 657	2 274

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		7. FINANCE INCOME		
228	76	Interest received from subsidiaries	–	–
146	276	Interest received from other investments	418	274
374	352		418	274
–	(50)	Discontinued operations	(156)	(107)
374	302	Continuing operations	262	167
		8. TAXATION		
		South African normal taxation		
1 451	1 746	– Current year	1 869	1 511
–	–	– Prior year	12	124
		Deferred taxation (refer note 27)		
12	212	– Current year	223	20
–	(58)	– Prior year	(58)	–
		Secondary taxation on companies		
–	–	– Current year	–	3
(18)	–	– Prior year	–	(18)
–	–	Foreign taxation	7	–
1 445	1 900		2 053	1 640
–	–	Discontinued operations	(75)	(58)
1 445	1 900	Continuing operations	1 978	1 582
%	%	**Reconciliation of taxation rate:**	%	%
30,00	29,00	Standard rate – South African normal taxation	29,00	30,00
(5,44)	5,11	Adjustment for differences	2,51	(9,38)
5,88	4,86	Permanent differences	3,77	9,94
(0,30)	–	Secondary taxation on companies	–	(0,18)
(11,91)	–	Deferred taxation not provided	(1,67)	(22,19)
0,89	–	Change in corporate taxation rate	–	1,57
–	–	Assessed loss utilised	–	(0,02)
–	(0,78)	Adjustment to prior year deferred taxation charge	(0,66)	–
–	–	Adjustment to prior year current taxation charge	0,19	1,50
–	1,03	Capital gains taxation adjustments	0,88	–
24,56	34,11	Effective rate of taxation	31,51	20,62
–	–	Discontinued operations	(35,55)	9,48
24,56	34,11	Continuing operations	30,90	21,58
R million	R million		R million	R million
–	–	Total estimated taxation losses	12 380	10 745
–	–	Discontinued operations	(11 905)	(10 015)
–	–	Continuing operations	475	730

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		9. PROPERTY, PLANT AND EQUIPMENT (REFER ANNEXURE B)		
42 346	45 969	**Net book value**	46 533	54 041
66 129	71 824	Gross carrying value	72 872	85 055
(23 783)	(25 855)	Accumulated depreciation and impairment	(26 339)	(31 014)
		Comprising:		
		Historical cost		
40 694	43 503	**Gross carrying value**	44 551	59 620
51	26	– Aircraft	1 045	14 883
10 367	11 005	– Land, buildings and structures	11 009	11 840
3 810	3 791	– Machinery, equipment and furniture	3 848	4 307
7 096	7 672	– Permanent way and works	7 617	7 096
10 824	13 142	– Rolling stock and containers	13 141	10 852
1 123	458	– Motor vehicles	445	2 612
7 423	7 409	– Capital work in progress	7 446	8 030
(10 827)	(11 309)	**Accumulated depreciation**	(11 780)	(14 552)
(50)	(25)	– Aircraft	(469)	(2 968)
(1 182)	(1 471)	– Land, buildings and structures	(1 472)	(1 223)
(2 553)	(2 491)	– Machinery, equipment and furniture	(2 533)	(2 845)
(1 999)	(2 096)	– Permanent way and works	(2 096)	(1 999)
(4 216)	(4 836)	– Rolling stock and containers	(4 836)	(4 237)
(827)	(390)	– Motor vehicles	(374)	(1 280)
(894)	(562)	**Accumulated impairment**	(575)	(4 400)
–	–	– Aircraft	–	(3 486)
(291)	(299)	– Land, buildings and structures	(300)	(294)
(25)	(27)	– Machinery, equipment and furniture	(39)	(36)
–	(54)	– Rolling stock and containers	(53)	–
–	–	– Motor vehicles	(1)	(6)
(578)	(182)	– Capital work-in-progress	(182)	(578)
28 973	31 632	**Net book value of property, plant and equipment stated at historical cost**	32 196	40 668
		Revaluation		
25 435	28 321	**Gross carrying value**	28 321	25 435
7 956	9 335	– Pipeline networks	9 335	7 956
17 479	18 986	– Port facilities	18 986	17 479
(11 483)	(13 390)	**Accumulated depreciation**	(13 390)	(11 483)
(4 769)	(6 094)	– Pipeline networks	(6 094)	(4 769)
(6 714)	(7 296)	– Port facilities	(7 296)	(6 714)
(579)	(594)	**Accumulated impairment**	(594)	(579)
(152)	(152)	– Pipeline networks	(152)	(152)
(427)	(442)	– Port facilities	(442)	(427)
13 373	14 337	**Net book value of property, plant and equipment stated at revalued amounts**	14 337	13 373
42 346	45 969	**Total net book value**	46 533	54 041

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		9. PROPERTY, PLANT AND EQUIPMENT (REFER ANNEXURE B) (continued)		
		Property, plant and equipment is stated at historical cost except for pipeline networks and port facilities, which are stated at revalued amounts.		
		Aircraft		
		Aircraft in use were impaired to the higher of their value in use and recoverable amount.		
–	–	Included in aircraft are capitalised leased assets with a net carrying value of	4 706	6 192
		These capitalised aircraft are encumbered as security for the repayment of lease commitments (refer notes 25 and 30.3).		
		Land, buildings and structures		
		A register of land, buildings and structures is open for inspection at the registered office of the Company.		
		Rolling stock		
		Included in rolling stock are locomotives that were leased and leased back. The locomotives are leased to a third party, refurbished and then leased to a financier who in turn leases the assets back to the Company. This has been treated as a structured loan. The loan is secured by virtue of the lease agreements and a collateral covering bond over the refurbished locomotives.		
879	1 045	The book value of the refurbished locomotives which are so encumbered amounts to	1 045	879
491	420	Included in rolling stock assets are capitalised leased assets with a carrying value of	420	491
		These assets were part of a sale and lease back arrangement giving rise to a finance lease entered into in 1997. The present value of the lease commitments has been settled in full.		
		Pipeline networks		
		The Group's policy is to perform a revaluation of its pipeline networks every five years and an internal index revaluation in the intervening years. An external revaluation was performed in the current financial year, by Arthur D. Little Inc., an independent firm of professional valuers on the basis of the modern equivalent net asset value. This revaluation resulted in a net increase of R102 million (2005: R256 million) to the carrying value of the Group's pipeline networks, which has been adjusted accordingly.		
2 111	2 135	The historic carrying values of these assets amount to	2 135	2 111
		Port facilities		
		The Group's policy is to perform a revaluation of its port facilities every five years and an internal index revaluation in the intervening years. The last external revaluation was performed in the financial year ended 31 March 2003, by Nedcor, Tirello and Arcus engineering, a consortium of professional valuers using the depreciated replacement cost and modern equivalent asset value. An internal revaluation was performed in the current year using indices relevant to the port industry. This revaluation resulted in a net increase of R383 million (2005: R623 million) to the carrying value of the Group's port facilities, which has been adjusted accordingly.		
6 087	6 964	The historic carrying values of these assets amounts to	6 964	6 087

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		10. INVESTMENT PROPERTIES		
–	–	Fair value at the beginning of the year	33	30
4	–	(Decrease)/increase in fair value during the year	(1)	7
(4)	–	Other movements	–	(4)
–	–	**Fair value at the end of the year**	32	33

The fair value of the Group's investment properties at 31 March 2006 was arrived at on the basis of valuations carried out at that date by Propnet's valuers.

The valuations, which conform to the Property Valuers Profession Act, 47 of 2000, were arrived at by capitalising the first year's normalised net operating income at a market derived capitalisation rate.

The property rental income earned by the Group from its investment properties, all of which are leased out under operating leases, amounted to R9 million (2005: R5 million).

Direct operating expenses arising on the investment properties in the period amounted to R8 million (2005: R1 million).

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		11. INTANGIBLE ASSETS AND GOODWILL		
148	168	*Intangible assets and goodwill*	172	155
456	518	Cost	614	697
(308)	(350)	Accumulated amortisation and impairment	(442)	(542)
		Comprising:		
		Finite life intangible assets		
148	168	*Software and licences: carrying value*	172	155
456	518	**Cost**	600	586
363	456	Balance at the beginning of the year	586	498
16	65	Additions	75	17
(3)	(13)	Disposals	(15)	(9)
–	(4)	Transferred to assets classified as held-for-sale	(54)	–
80	8	Transfers in from property, plant and equipment	8	80
–	6	Transfers in from subsidiaries	–	–
(308)	(350)	**Accumulated amortisation and impairment**	(428)	(431)
(216)	(308)	Balance at the beginning of the year	(431)	(322)
–	–	Impairment charge for the year	–	(4)
3	13	Disposals	15	9
(70)	(51)	Amortisation	(53)	(89)
–	3	Transferred to assets classified as held-for-sale	45	–
(25)	(4)	Transfers in from property, plant and equipment	(4)	(25)
–	(3)	Transfers in from subsidiaries	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2006

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		11. INTANGIBLE ASSETS AND GOODWILL (continued)		
		Indefinite life intangible assets		
–	–	*Goodwill: carrying value*	–	–
–	–	**Cost**	14	111
–	–	Balance at the beginning and end of the year	111	111
–	–	Transferred to assets classified as held-for-sale	(97)	–
–	–	**Accumulated impairment**	(14)	(111)
–	–	Balance at the beginning of the year	(111)	–
–	–	Impairment charge for the year	–	(111)
–	–	Transferred to assets classified as held-for-sale	97	–
–	–	*Negative goodwill*	–	–
–	–	Balance at the beginning of the year	–	(173)
–	–	Adoption of IFRS 3 *Business Combinations*	–	173
148	168		172	155

Software and licences are assessed as having a finite life and are amortised on a straight-line basis over a period of three to five years.

As of 1 April 2004, positive goodwill is no longer amortised and is tested annually for impairment (refer below).

The opening accumulated amortisation balance was set off against the gross carrying value as at 1 April 2004.

Goodwill is recognised as a result of a business combination. These intangible assets were estimated as having indefinite lives and the cost method was utilised for their measurement. Goodwill was fully impaired in the prior year, refer below.

The negative goodwill arising on the acquisition of 20% of South African Airways (Pty) Ltd was written off against the opening accumulated reserves reducing the balance as at 1 April 2004 to R nil.

Impairment of goodwill

The opening balance of goodwill acquired through business combinations was allocated to the following cash generating units for impairment testing as at 1 April 2004:

	R million
South African Express Airways (Pty) Ltd	14
Air Chefs (Pty) Ltd	12
Air Tanzania Company Ltd	85
	111

The above cash generating units have sustained accumulated losses and as a result the goodwill relating to their acquisition was impaired.

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		12. INVESTMENTS IN SUBSIDIARIES (REFER ANNEXURE D)		
2 847	2 846	Shares at cost	–	–
10 265	10 279	Net amounts owing by subsidiaries	–	–
13 112	13 125		–	–
(10 527)	(10 622)	Provision for impairment and losses	–	–
2 585	2 503		–	–
–	(2 224)	Transferred to assets classified as held-for-sale	–	–
2 585	279		–	–
		Loans to subsidiaries that have been subordinated amount to R431 million (2005: R3 188 million). In addition, the Company has issued letters of support.		
		The financial support available in terms of these letters is as follows:		
1 500	1 500	– South African Airways (Pty) Ltd*		
700	421	– South African Express Airways (Pty) Ltd		
150	–	– B2B Africa Holdings (Pty) Ltd		
109	80	– Autopax Passenger Services (Pty) Ltd		
250	–	– Marine Data Systems (Pty) Ltd		
2 709	2 001			
		* Transnet has renewed the working capital facility of R1 500 million available to South African Airways (Pty) Ltd. This letter of financial support is effective until the "closing date" as defined in the SAA sale agreement with Government. From the closing date to 31 March 2007 a "last resort" facility of R1 000 million will be made available, subject to certain specific conditions as set out in the sale agreement.		
		13. INVESTMENTS IN ASSOCIATES (REFER ANNEXURE D)		
792	81		98	1 242
838	792	Balance at the beginning of the year	1 242	1 019
–	–	Equity earnings	285	262
–	–	Dividends received	–	(2)
(2)	(6)	(Repayments)/advances of loans	(6)	8
(44)	(138)	Current year impairments	(141)	(45)
–	(567)	Transferred to assets classified as held-for-sale (refer note 20)	(1 282)	–
1 242	125	Directors' valuation of unlisted investments in associates	125	1 242
–	–	Total income from associates amounted to	285	262
–	–	Discontinued operations	252	200
–	–	Continuing operations	33	62

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated 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, interest rate swaps and jet fuel derivatives to hedge the financial risks associated with underlying business activities. All derivative financial instruments have been recorded at fair value with the resulting gain or loss taken to the income statement.		
691	304	**Derivative financial assets**	4 091	4 217
3 067	691	Opening balance	4 217	5 445
88	13	Income statement credit	786	1 272
(2 464)	(400)	Derivatives raised and settled	(732)	(2 500)
–	–	Transferred to assets classified as held-for-sale	(180)	–
1 066	510	**Derivative financial liabilities**	561	1 227
8 107	1 066	Opening balance	1 227	14 193
(4 197)	(15)	Income statement credit	(77)	(4 110)
(2 844)	(541)	Derivatives raised and settled	(589)	(8 856)
4 285	28	Net income statement credit (refer note 5)	863	5 382
		Comprise the following financial instruments		
274	216	**Non-current assets**	217	308
48	38	Forward exchange contracts	38	47
181	147	Cross-currency swaps and options	147	217
44	31	Interest rate swaps and options	31	44
1	–	Other	1	–
417	88	**Current assets**	3 874	3 909
90	18	Forward exchange contracts	18	91
304	49	Cross-currency swaps and options	62	308
23	21	Interest rate swaps and options	21	23
–	–	Jet fuel derivatives	166	199
–	–	C class preference share*	3 787	3 287
–	–	Other	–	1
–	–	Transferred to assets classified as held-for-sale	(180)	–
515	370	**Non-current liabilities**	408	559
108	89	Forward exchange contracts	127	152
343	281	Cross-currency swaps and options	281	343
9	–	Embedded derivatives	–	9
55	–	Other	–	55
551	140	**Current liabilities**	153	668
122	44	Forward exchange contracts	57	191
407	96	Cross-currency swaps and options	96	455
22	–	Embedded derivatives	–	22

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

In the 2004 financial year, Transnet recognised a liability of R4 532 million for embedded derivatives arising on two major customer contracts. The contracts were service related contracts to handle and transport iron ore products by rail. The contracts constituted hybrid contracts under IAS39, containing embedded derivatives, as the tariffs charged under the contracts were linked to the US dollar iron ore price. Transnet renegotiated the terms of one of the contracts during the 2005 financial year to a rand-based contract which resulted in the reversal of the embedded derivative in that year.

A total amount of R5 995 million consisting of the 2004 adjustment of R4 326 million and the 2005 movement of R1 669 million has been reversed to fair value adjustments in the prior year.

** Includes the Group's asset being an investment in a "C" class preference share which is owned by Newshelf 697 (Pty) Ltd in Newshelf 664 (Pty) Ltd. The share was subscribed for at a cost of R1 511 million as part of the sale process of the 309 million MTN Group Ltd shares. The value of this preference share moves in concert with movements in the MTN Group Ltd's share price in terms of a gain share redemption formula. The share has been valued by a professional valuer. The profit on fair valuation is disclosed in note 5.*

15. LONG-TERM LOANS AND ADVANCES

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
2 720	2 022		2 019	2 717
3 241	2 720	Balance at the beginning of the year	2 717	3 241
633	134	Advances	152	633
(856)	(783)	Repayments	(803)	(859)
(151)	108	Reversal of impairment/(impairment)	110	(151)
(147)	(157)	*Less*: Short-term portion transferred to trade and other receivables (refer note 18)	(157)	(147)
		Comprising:		
5	4	**Directors' and managers' loans**	3	4
9	5	Balance at the beginning of the year	4	9
1	2	Capitalised interest/advances	2	1
(5)	(3)	Repayments	(3)	(6)
2 636	2 001	**Employee housing and other loans**	2 002	2 634
3 183	2 636	Balance at the beginning of the year	2 634	3 037
441	118	Advances	120	440
(721)	(674)	Repayments	(674)	(576)
(120)	74	Reversal of impairment/(impairment)	75	(120)
(147)	(153)	*Less*: Short-term portion	(153)	(147)
79	17	**Other loans and advances**	14	79
49	79	Balance at the beginning of the year	79	195
191	14	Advances	30	192
(130)	(106)	Repayments	(126)	(277)
(31)	34	Reversal of impairment/(impairment)	35	(31)
–	(4)	*Less:* Short-term portion	(4)	–
2 720	2 022		2 019	2 717

15. LONG-TERM LOANS AND ADVANCES (continued)

Included in directors' and managers' loans are the following:

	Opening balance R'000	Capitalised interest/ advances R'000	Repaid R'000	Total 2006 R'000	Total 2005 R'000
Mr SS Ntsaluba*	873	–	(873)	–	873
Mr S Gama	–	325	–	325	–
Mr C Möller	–	369	–	369	–
Mr T Morwe	–	580	–	580	–
Ms M Ramos	421	–	(421)	–	421
Ms NV Phiyega**	1 277	–	(1 277)	–	1 277
Mr VD Kahla	–	304	–	304	–
	2 571	1 578	(2 571)	1 578	2 571

These loans are secured and bear variable interest that is linked to the prime interest rate. The current rates are 7,9% for motor vehicles and 10,0% to 11,5 % for housing loans.

Repayment terms vary between three and five years for motor vehicles and up to a maximum of 25 years for housing loans.

Housing loans are secured by first mortgage bonds over the related property and other guarantees.

** Past director*

*** Past executive*

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		16. OTHER INVESTMENTS		
290	–	Listed investments at market value	59	331
1	1	Unlisted investments	1	81
–	–	Defeasance deposit	485	534
291	1		545	946
–	–	Transferred to assets classified as held-for-sale	(485)	–
291	1	Total long-term investments	60	946
1 380	657	Short-term portion of other investments including market making positions held for trading	1 650	2 445
–	(15)	Transferred to assets classified as held-for-sale	(1 007)	–
1 380	642	Total short-term investments	643	2 445
1	1	Directors' valuation of unlisted investments	1	81

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		17. INVENTORIES		
		At weighted average cost		
177	345	Raw materials	348	183
474	121	Maintenance material	498	474
49	59	Consumables	60	227
120	97	Finished goods	97	125
820	622		1 003	1 009
		At net realisable value		
98	30	Raw materials	30	98
36	523	Maintenance material	523	416
62	101	Consumables	216	68
17	5	Finished goods	5	15
213	659		774	597
151	69	Work in progress	88	180
–	(2)	Transferred to assets classified as held-for-sale	(469)	–
1 184	1 348		1 396	1 786
		18. TRADE AND OTHER RECEIVABLES		
2 714	2 933	Trade receivables	4 824	4 313
719	926	Prepayments and other amounts receivable	2 208	2 453
147	157	Short-term portion of loans and advances (refer note 15)	157	147
–	(121)	Transferred to assets classified as held-for-sale	(3 040)	–
3 580	3 895		4 149	6 913
		19. CASH AND CASH EQUIVALENTS		
1 996	1 114	Cash and cash equivalents	1 732	2 556
–	–	Transferred to assets classified as held-for-sale	(332)	–
1 996	1 114		1 400	2 556
(217)	(32)	Bank overdrafts	(41)	(250)
–	–	Transferred to assets classified as held-for-sale	7	–
(217)	(32)		(34)	(250)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2006

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		20. ASSETS CLASSIFIED AS HELD-FOR-SALE		
		Non-current assets held-for-sale disclosed below consist of the following: – Non-current assets held-for-sale; and – The effects of the disposal groups		
		Non-current assets classified as held-for-sale		
–	160	Property, plant and equipment	160	–
–	2 224	Investments in subsidiaries	–	–
–	567	Investments in associates (note 13)	1 282	–
–	15	Other investments	15	–
–	2 966		1 457	–
		Effect of the sale of disposal groups (refer to annexure C for detail)		
		Assets classified as held-for-sale		
–	–	Autopax Passenger Services (Pty) Ltd	103	–
–	371	freightdynamics	371	–
–	–	Freight Dynamics Guard Risk	17	–
–	–	South African Airways (Pty) Ltd	13 673	–
–	–	Viamax (Pty) Ltd	1 192	–
–	(1)	Effect of intercompany eliminations	(73)	–
–	370		15 283	–
–	3 336	Total assets transferred to non-current assets classified as held-for-sale	16 740	–
		Liabilities directly associated with assets classified as held-for-sale		
–	–	Autopax Passenger Services (Pty) Ltd	(119)	–
–	(556)	freightdynamics	(556)	–
–	–	Freight Dynamics Guard Risk	(6)	–
–	–	South African Airways (Pty) Ltd	(14 888)	–
–	–	Viamax (Pty) Ltd	(599)	–
–	464	Effect of intercompany eliminations	3 236	–
–	(92)	Total liabilities transferred to liabilities directly associated with assets classified as held-for-sale	(12 932)	–
		21. ISSUED CAPITAL		
		Authorised		
30 000	30 000	30 000 000 000 ordinary par value shares of R1 each	30 000	30 000
		Issued		
14 710	14 710	14 709 986 310 ordinary par value shares of R1 each	14 710	14 710
		The unissued share capital is under the control of the South African Government, the sole shareholder of the Company.		

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		22. RESERVES		
4 504	4 694	**Revaluation reserves**	4 865	4 641
4 671	5 047	*Revaluation of port facilities*	5 047	4 671
4 048	4 671	Balance at the beginning of the year	4 671	4 048
623	383	Revaluation during the current year	383	623
–	(7)	Release of the surplus to the income statement	(7)	–
1 216	1 318	*Revaluation of pipeline networks*	1 318	1 216
960	1 216	Balance at the beginning of the year	1 216	960
256	102	Revaluation during the current year	102	256
245	–	*MTN Group Ltd – revaluation of investment to market value*	–	245
179	245	Balance at the beginning of the year	245	167
66	149	Revaluation during the current year	149	78
–	(394)	Release of the surplus on the MTN shares to the income statement	(394)	–
–	–	*ALL Group Ltd – revaluation of investment to market value*	52	18
–	–	Balance at the beginning of the year	18	–
–	–	Revaluation during the current year	34	18
–	–	*V&A Waterfront Holdings (Pty) Ltd – fair value adjustment*	119	119
(1 628)	(1 671)	*Deferred taxation impact of items relating to revaluation reserves*	(1 671)	(1 628)
1	–	**Foreign currency translation reserve**	28	(8)
–	1	Balance at the beginning of the year	(8)	–
1	(1)	Revaluation during the current year	36	(8)
296	2 073	**Net actuarial gains on post-retirement benefit obligations**	2 070	296
416	2 918	*Actuarial gains on post-retirement benefit obligations*	2 915	416
949	416	Balance at the beginning of the year	416	949
(533)	2 502	Current year movement	2 499	(533)
(120)	(845)	*Deferred taxation impact of net actuarial gains*	(845)	(120)
1 122	1 092	**Other reserves**	1 106	1 179
–	–	*Cash flow hedges*	–	–
–	–	Balance at the beginning of the year	–	51
–	–	Other movement	–	(51)
38	8	*Other transfers*	8	81
839	839	*Profit on sale of interest in South African Airways (Pty) Ltd*	853	853
245	245	*Share of pension fund surplus (retained for application against pensioners)*	245	245
(831)	2 869	**Accumulated profit/(loss)**	4 814	200
(10 277)	(831)	Balance at the beginning of the year	200	(12 452)
3 615	–	IFRS adjustments	–	4 357
(371)	–	SA GAAP adjustments	–	(50)
1 760	–	Deferred taxation impact of items recorded in equity	–	1 760
–	30	Transfers into distributable reserves	75	–
4 442	3 670	Profit for the year attributable to equity holder	4 539	6 585
5 092	10 728		12 883	6 308

22. RESERVES (continued)

Reconciliations of movement in capital and reserves

	Issued capital R million	Revaluation reserves R million	Foreign currency translation reserve R million	Actuarial gains and losses R million	Other R million	Accumulated profit/(loss) R million	Minority interests R million	Total R million
GROUP								
Balances at 1 April 2004	14 710	5 468	(85)	949	1 216	(12 452)	111	9 917
Effect of change in accounting policies	–	(174)	85	–	16	4 307	–	4 234
SA GAAP adjustments	–	–	–	–	–	(50)	–	(50)
IFRS adjustments	–	(174)	85	–	16	4 357	–	4 284
Taxation effect of items recorded in equity	–	(1 475)	–	(285)	–	1 760	–	–
Restated balances at 1 April 2004	14 710	3 819	–	664	1 232	(6 385)	111	14 151
Adjustment to minorities	–	–	–	–	–	–	9	9
Total recognised income and expenditure	–	975	(8)	(533)	(53)	6 585	(21)	6 945
Taxation effect of items recorded in equity	–	(153)	–	165	–	–	–	12
Dividends paid	–	–	–	–	–	–	(11)	(11)
Restated balances at 31 March 2005	14 710	4 641	(8)	296	1 179	200	88	21 106
Total recognised income and expenditure	–	267	36	2 499	2	4 539	32	7 375
Taxation effect of items recorded in equity	–	(43)	–	(725)	–	–	–	(768)
Dividends paid	–	–	–	–	–	–	(7)	(7)
Transfers into distributable reserves	–	–	–	–	(75)	75	–	–
Balances at 31 March 2006	14 710	4 865	28	2 070	1 106	4 814	113	27 706
COMPANY								
Balances at 1 April 2004	14 710	5 361	–	949	1 084	(10 277)	–	11 827
Effect of change in accounting policies	–	(174)	–	–	–	3 244	–	3 070
SA GAAP adjustments	–	–	–	–	–	(371)	–	(371)
IFRS adjustments	–	(174)	–	–	–	3 615	–	3 441
Taxation effect of items recorded in equity	–	(1 475)	–	(285)	–	1 760	–	–
Restated balances at 1 April 2004	14 710	3 712	–	664	1 084	(5 273)	–	14 897
Total recognised income and expenditure	–	945	1	(533)	38	4 442	–	4 893
Taxation effect of items recorded in equity	–	(153)	–	165	–	–	–	12
Restated balances at 31 March 2005	14 710	4 504	1	296	1 122	(831)	–	19 802
Total recognised income and expenditure	–	233	(1)	2 502	–	3 670	–	6 404
Taxation effect of items recorded in equity	–	(43)	–	(725)	–	–	–	(768)
Transfers into distributable reserves	–	–	–	–	(30)	30	–	–
Balances at 31 March 2006	14 710	4 694	–	2 073	1 092	2 869	–	25 438

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		23. MINORITY INTERESTS		
–	–	Balance at the beginning of the year	88	111
–	–	Transfer from/(to) the income statement	32	(21)
–	–	Dividends paid to minorities	(7)	(11)
–	–	Adjustment to minorities	–	9
–	–	Total minority interests directly associated with assets and liabilities classified as held-for-sale	113	88
		24. POST-RETIREMENT BENEFIT OBLIGATIONS		
7 113	4 348		4 348	7 238
6 369	7 113	Balance at the beginning of the year	7 238	6 430
496	99	Current year provision	72	560
–	11	Acquisition of Protekon business	–	–
(285)	(362)	Settlement during the year	(362)	(285)
533	(2 502)	Actuarial (gains)/losses	(2 499)	533
–	(11)	Transferred to liabilities directly associated with assets classified as held-for-sale	(101)	–
		Comprising		
101	–	**Transnet Pension Fund (refer note 32.1.2)**	–	132
4 315	1 628	**Transnet Second Defined Benefit Fund (refer note 32.1.3)**	1 628	4 315
99	116	**Top Management (refer note 32.1.4)**	116	99
224	247	**Workmen's Compensation Act Pensioners (refer note 32.1.4)**	247	224
(8)	(1)	**Black Widows' Pensions (refer note 32.1.5)**	(1)	(8)
–	–	**Flight Deck Crew Pension Fund (refer note 32.1.6)**	5	5
–	–	**SAA (UK) pension fund (refer note 32.1.7)**	–	10
–	–	**Flight Deck Crew Disability Benefit Fund (refer note 32.1.9)**	35	24
1 629	1 607	**SATS Pensioners' post-retirement medical benefits (refer note 32.2.1)**	1 607	1 629
753	762	**Transnet employees' post-retirement medical benefits (refer note 32.2.2)**	812	808
–	(11)	**Transferred to liabilities directly associated with assets classified as held-for-sale**	(101)	–
7 113	4 348		4 348	7 238
		25. LONG-TERM BORROWINGS (REFER ANNEXURE A)		
15 721	15 875		16 469	21 740
12 737	18 201	Total long-term borrowings at the beginning of the year	27 265	21 737
6 529	445	Raised	825	10 035
(1 195)	(2 840)	Repaid	(4 778)	(4 558)
(58)	(1)	Foreign exchange movement	5	(137)
188	219	Unamortised discount	219	188
(2 480)	(149)	Current portion repayable within one year	(2 818)	(5 525)
–	–	Transferred to liabilities directly associated with assets classified as held-for-sale	(4 249)	–

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		25. LONG-TERM BORROWINGS (REFER ANNEXURE A) (continued)		
		Unsecured liabilities		
16 552	14 553	**Rand denominated**	14 553	16 587
17 668	15 486	Bonds at nominal value	15 486	17 668
(1 160)	(941)	Unamortised discounts	(941)	(1 160)
16 508	14 545	Bonds at carrying value	14 545	16 508
44	8	Other unsecured liabilities	8	79
83	57	**Unsecured foreign currency denominated**	61	117
1 566	1 414	**Secured loans and capitalised leases**	2 642	8 675
1 121	1 224	Rand denominated	4 704	4 807
445	190	Foreign currency denominated	2 187	3 868
–	–	Transferred to liabilities directly associated with assets classified as held-for-sale	(4 249)	–
–	–	**Rand denominated promissory notes**	2 031	1 886
18 201	16 024	Total long-term borrowings	19 287	27 265
(2 480)	(149)	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings (refer note 29)	(2 818)	(5 525)
15 721	15 875		16 469	21 740

The rand denominated unsecured local bonds are redeemable between 2006 and 2014 and bear interest at a rate between 7,5% and 16,5% (refer annexure A). Rand denominated unsecured Euro bonds bear interest between 10% and 13,5% and are repayable in 2028 and 2029 (refer annexure A)

Foreign currency unsecured loans are denominated in Japanese yen and United States dollars. The yen loan bears interest at 3% and is repayable in March 2009. The unsecured United States dollar loan bears interest at 6% and has no fixed terms of repayment.

Rand denominated capitalised finance lease liabilities bear interest at rates ranging between 11,25% and 12,05% with all rates linked to prime. These liabilities are repayable over periods between 2007 and 2017.

Rand denominated domestic loans bear interest at rates ranging between 7,99% and 15,33% with all rates linked to prime. These liabilities are repayable over periods between 2011 and 2017.

Foreign currency secured loans are denominated in Japanese yen and United States dollars and bear interest between 4,33% and 10,1% and are repayable over the periods between 2010 and 2016.

Foreign currency denominated capitalised finance lease liabilities bear interest between 2% and 6% and are repayable between 2005 and 2016.

The promissory notes are zero coupon notes and bear interest at JIBAR plus 40 basis points. They are redeemable at the Company's discretion between 2006 and 2008.

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		26. PROVISIONS		
899	830	*Comprising*	847	1 122
1 021	2 163	Total provisions at the beginning of the year	2 794	1 498
1 730	1 814	Provisions made during the year	2 227	2 113
(588)	(1 466)	Provisions released/utilised	(1 982)	(817)
(1 264)	(1 664)	Short-term provisions classified as current liabilities	(1 699)	(1 672)
–	(17)	Transferred to liabilities directly associated with assets classified as held-for-sale	(493)	–
96	109	**Third party claims**	109	97
113	96	Balance at the beginning of the year	97	113
213	196	Provisions made during the year	196	216
(230)	(183)	Provisions released/utilised	(184)	(232)
3	–	**Freight insurance**	–	3
3	3	Balance at the beginning of the year	3	3
8	–	Provisions made during the year	–	8
(8)	(3)	Utilised during the year	(3)	(8)
82	36	**Customer claims**	36	87
19	82	Balance at the beginning of the year	87	19
128	13	Provisions made during the year	12	137
(65)	(59)	Utilised during the year	(63)	(69)
895	937	**Leave pay**	1 320	1 256
804	895	Balance at the beginning of the year	1 256	1 094
365	708	Provisions made during the year	977	479
(274)	(666)	Utilised during the year	(913)	(317)
83	35	**Onerous contracts**	37	125
39	83	Balance at the beginning of the year	125	39
51	(14)	Provisions made during the year	(14)	93
(7)	(34)	Utilised during the year	(74)	(7)
227	252	**Decommissioning liability and rehabilitation provision**	252	227
38	227	Balance at the beginning of the year	227	38
189	29	Provisions made during the year	30	189
–	(4)	Utilised during the year	(5)	–
274	615	**Incentive bonuses**	649	302
–	274	Balance at the beginning of the year	302	–
274	753	Provisions made during the year	787	302
–	(412)	Utilised during the year	(440)	–
492	462	**Restructuring**	471	504
1	492	Balance at the beginning of the year	504	1
492	64	Provisions made during the year	68	508
(1)	(94)	Utilised during the year	(101)	(5)

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		26. PROVISIONS (continued)		
11	65	**Other**	165	193
4	11	Balance at the beginning of the year	193	191
10	65	Provisions made during the year	171	181
(3)	(11)	Utilised during the year	(199)	(179)
–	(17)	**Transferred to liabilities directly associated with assets classified as held-for-sale**	(493)	–
2 163	2 494	Total provisions	2 546	2 794
1 264	1 664	***Less:* Short-term provisions classified as current liabilities**	1 699	1 672
94	109	Third party claims	109	95
3	–	Freight insurance	–	3
57	6	Customer claims	6	61
323	407	Leave pay	601	473
18	10	Onerous contracts	10	60
274	615	Incentive bonuses	649	302
489	459	Restructuring	459	495
6	65	Other	157	183
–	(7)	Transferred to liabilities directly associated with assets classified as held-for-sale	(292)	–
899	830	Total long-term provisions	847	1 122

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

Freight insurance
The provision for excess claims for the transportation of goods. Costs relating to the settlement of claims are expected to be paid out in the following year.

Customer claims
Provision for claims made by customers arising from non-performance on contracts or damage to goods in transit. Settlement of claims is expected in the following year.

Leave pay
This is a provision 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.

Onerous contracts
Provision for the maintenance and repairs of buildings and structures in terms of a lease agreement.

Rehabilitation provision
Provision for environmental clean-up costs in terms of legislative requirements.

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

Incentive bonuses
Provision for incentive bonuses in terms of the incentive bonus scheme.

Restructuring
Provision for restructuring costs in terms of strategic plans. The majority of this provision is expected to be settled in the next financial year.

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		27. DEFERRED TAXATION LIABILITIES		
–	922	*Comprising*	924	58
–	–	Balance at the beginning of the year	58	50
12	154	Income statement charge (refer note 8)	165	20
(12)	768	Raised in reserves	768	(12)
–	922	Total deferred taxation liability	991	58
–	–	Transferred to liabilities directly associated with assets classified as held-for-sale	(67)	–
		Analysis of major categories of temporary differences		
5 204	4 486	**– Deferred taxation assets**	8 861	8 685
3 062	2 121	Provisions	2 711	3 447
–	–	Estimated taxation loss	3 590	3 116
–	–	Forward sales liability	491	943
–	–	Fair value adjustment	–	35
39	21	Income received in advance	463	162
681	778	Capitalised lease liability	778	722
1 316	1 402	Impairment of investments**	–	–
104	122	Derivatives	136	84
–	–	Maintenance reserve payments	254	151
2	42	Other	438	25
3 605	4 006	**– Deferred taxation liabilities**	6 443	5 035
43	46	Deferred expenditure	66	86
3 460	3 881	Property, plant and equipment	6 278	4 819
19	16	Future expenditure allowance	36	47
17	–	Operating lease receivable	–	17
51	15	Undrawn funds	15	51
15	48	Doubtful debts	48	15
1 599	480	Net deferred taxation assets	2 418	3 650
(1 599)	(1 402)	Deferred taxation assets not raised*	(3 409)	(3 708)
–	–	Transferred to liabilities directly associated with assets classified as held-for-sale	67	–
–	(922)	Total deferred taxation liability	(924)	(58)
–	–	Estimated taxation losses available for off-set against future taxable income (refer note 8)	12 380	10 745

* *The subsidiaries have not raised deferred taxation assets in the current year. The probability of there being sufficient taxable profit against which the deferred tax asset can be utilised is uncertain.*

** *Deferred taxation asset calculated at the capital gains taxation rate. As the capital loss arising on the sale of SAA to the Government will not be available for set-off against capital gains realised on the sale of assets to non-Government third parties, the deferred taxation asset arising on the sale of SAA has not been recognised.*

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Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		28. TRADE PAYABLES AND ACCRUALS		
1 118	776	**Trade payables**	1 323	2 057
3 399	4 265	**Accruals**	11 304	10 391
–	–	Forward sales liability*	2 139	2 803
1 398	2 005	Accrued expenditure	6 398	5 028
20	34	Deposits received	65	5
20	28	Deferred income	63	55
–	–	Frequent flyer rewards programme	161	147
838	829	Interest	888	896
165	26	Personnel costs	67	330
641	803	Public creditors	828	718
151	161	Revenue received in advance	163	221
166	379	SARS – value added tax	532	188
–	(64)	Transferred to liabilities directly associated with assets classified as held-for-sale	(7 420)	–
4 517	4 977		5 207	12 448

** This balance represents the unrealised income from tickets sold but not yet flown. The above balance includes the value of coupons sold by SAA, which will be flown and claimed in future periods by code-share and inter-line partners. Refer to the accounting policies for details on the use of estimates.*

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		29. SHORT-TERM BORROWINGS		
2 480	149	Current portion of long-term interest-bearing borrowings (refer note 25)	2 818	5 525
3 120	3 063	Other short-term borrowings	3 063	3 120
–	–	Transferred to liabilities directly associated with assets classified as held-for-sale	(558)	–
5 600	3 212		5 323	8 645

Other short-term borrowings relate to the market making portfolio and comprise the Group's position on bonds and other financial instruments.

COMPANY 2005 Restated R million	COMPANY 2006 R million		GROUP 2006 R million	GROUP 2005 Restated R million
		30. COMMITMENTS		
		30.1 Capital commitments		
19	154	Contracted for in US dollars	160	19
–	1 150	Contracted for in Japanese yen	1 150	–
23	988	Contracted for in euros	1 007	23
11	1	Contracted for in British pounds	1	11
637	17 211	Contracted for in SA rands	17 722	1 383
–	26	Contracted for in various other currencies	26	–
690	19 530	Total capital commitments contracted for	20 066	1 436
42 447	45 711	Authorised by the directors but not yet contracted for	48 352	48 192
43 137	65 241		68 418	49 628
–	(177)	Commitments directly associated with assets classified as held-for-sale	(2 787)	–
43 137	65 064		65 631	49 628
		Total capital commitments are expected to be incurred as follows:		
5 177	11 717	Within one year	12 929	5 858
37 960	53 524	After one year, but not more than five years	55 489	43 770
43 137	65 241		68 418	49 628
–	(177)	Commitments directly associated with assets classified as held-for-sale	(2 787)	–
43 137	65 064		65 631	49 628
		These capital commitments will be financed by the net cash flow from operations, capital market borrowings, through project finance and the use of operating leases.		
		30.2 Operating lease commitments		
		Future minimum rentals under non-cancellable leases are as follows:		
		Aircraft		
–	–	Within one year	2 057	1 812
–	–	After one year, but not more than five years	7 482	6 860
–	–	More than five years	4 269	4 025
–	–		13 808	12 697
–	–	Commitments directly associated with assets classified as held-for-sale	(13 726)	–
–	–		82	12 697
		Land, buildings and structures		
62	111	Within one year	121	76
53	194	After one year, but not more than five years	221	82
108	336	More than five years	358	109
223	641		700	267
–	(9)	Commitments directly associated with assets classified as held-for-sale	(24)	–
223	632		676	267

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		30. COMMITMENTS (continued)		
		30.2 Operating lease commitments (continued)		
		Machinery, equipment, furniture and motor vehicles		
58	282	Within one year	287	93
304	540	After one year, but not more than five years	556	317
3	34	More than five years	34	3
365	856		877	413
–	(16)	Commitments directly associated with assets classified as held-for-sale	(17)	
365	840		860	413
		Security and maintenance contracts		
29	25	Within one year	26	29
14	27	After one year, but not more than five years	28	14
15	28	More than five years	29	15
58	80		83	58
		Other		
46	15	Within one year	38	46
39	7	After one year, but not more than five years	22	39
85	22		60	85
–	–	Commitments directly associated with assets classified as held-for-sale	(38)	–
85	22		22	85
		30.3 Finance lease commitments		
		The Group has leases classified as finance leases principally for aircraft.		
		Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:		
		Aircraft, machinery, equipment and furniture		
71	23	Within one year	141	357
–	10	After one year, but not more than five years	434	428
71	33	Total minimum lease payments	575	785
(5)	(4)	Amount representing finance charges	(34)	(158)
66	29	Present value of minimum lease payments	541	627
		30.4 Lease rentals receivable		
		Future minimum rentals under operating leases are as follows:		
		Property		
185	99	Within one year	105	190
255	249	After one year, but not more than five years	257	263
282	234	More than five years	244	292
722	582	Present value of minimum lease payments	606	745
		Other		
72	46	Within one year	46	72
45	73	After one year, but not more than five years	73	45
44	11	More than five years	11	44
161	130	Present value of minimum lease payments	130	161

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		31. CONTINGENT LIABILITIES AND GUARANTEES		
		Continuing operations		
		Rolling stock		
1 728	1 671	The future lease commitments in respect of rolling stock assets have been paid in full to an intermediary lessee. This amount has been deposited with an AAA-rated international institution for the redemption of the lease obligations. These obligations are guaranteed by the Company. No loss is expected to materialise in respect of this guarantee.	1 671	1 728
		Grinaker LTA and others		
–	–	The members of a joint venture between Grinaker LTA, Interbeton and Bafokeng Civil Works that was appointed by National Ports Authority, a division of Transnet, to construct a quay wall at the Durban Port brought action against Transnet for damages. The case has been to arbitration and it was resolved that National Ports Authority settles at R40 million. This amount has been provided for at year-end.	–	54
		Zaire Railway Lines (“SNCC”)		
47	–	A letter of demand was received from SNCC. SNCC is claiming for the reimbursement of an overpayment in the sum of R47,2 million made to Spoornet, a division of Transnet Ltd on a loan agreement arising from the foreign exchange rates used in translating the amounts repaid by SNCC. This matter was settled by Transnet tendering payment of R7 million in the current year.	–	47
		Other		
64	68	Various contingent liabilities estimated where no material losses are expected to materialise from these contingencies	118	122
		Discontinued operations		
		Sun Air (Pty) Ltd		
–	–	The liquidators of Sun Air (Pty) Ltd and a previous shareholder instituted legal proceedings against South African Airways (Pty) Ltd (SAA) for certain alleged conduct by SAA. The maximum liability in this respect is estimated at R275 million. The matter has been settled at R14 million in respect of the liquidators’ claim. The claim of R178 million by a person to whom the shareholder had ceded the claim, is still pending.	178	275
		Competition Commission investigations		
–	–	The Competition Commission is investigating certain aspects of SAA’s compliance with the Competition Act at various periods. Should an adverse ruling be issued against SAA, the maximum penalty that SAA could be fined is up to 10% of the preceding year’s total revenue. This matter was subsequently settled at a fine of R55 million. This amount was provided for by SAA at year-end.	–	–

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Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		31. CONTINGENT LIABILITIES AND GUARANTEES (continued) ***Discontinued operations (continued)*** **SARCC** Pursuant to an action by Metrorail requiring SARCC to pay an outstanding management fee, SARCC lodged a counter claim for R96 million. The counter claim against Transnet was dismissed. However, a facilitator was appointed to assist the parties in devising a formula to compute the penalties. Settlement has subsequently been reached and has been recorded in the business sale agreement.		
–	–		–	–
		SAA Pilots The Group has accepted liability in respect of an agreement reached with the pilots for the difference between the total cost of employment and the total amount to be paid by the pension fund. The liability is payable if pilots lose their licences on account of disability. An amount of R26 million has been provided for based on an actuarial valuation.		
–	–		–	50
		US Department of Justice – Antitrust Division inquiry SAA received a subpoena from the US Department of Justice (DoJ) – Antitrust Division to provide information and documentation in respect of a price fixing inquiry in progress within the United States. The allegation is that SAA may have been involved in price fixing in respect of its cargo operations in the US and the DoJ is investigating this allegation in respect of several other airlines globally. SAA is confident about its prospects of success in refuting the allegations and has initiated the process of engaging with the DoJ in regard to the subpoena. Price fixing is a criminal offence in the United States and if found guilty, SAA's exposure may include a penalty of up to US$10 million and possible civil claims which may arise from the matter.		
–	–		60	–
		South African Revenue Service assessments for tax years 2000 up to 2003 South African Revenue Service (SARS) raised queries on SAA's tax returns for the tax years 2000, 2001, 2002 and 2003. Subsequently an assessment was issued by SARS for these periods. SAA has objected to the assessments and is awaiting the final outcome of the objection. SAA is committed to defend all actions brought against the SAA Group.		
–	–		–	–
		Other There are numerous court cases in which SAA is a defendant. SAA's maximum exposure in this regard is estimated at R50 million.		
–	–		50	–
		SAA is also exposed to liabilities associated with changes in the regulatory framework governing travel agent agreements and the collection of taxes, fees and charges, globally. SAA can not quantify the value.		
–	–		–	–
665	547	Various guarantees issued in the normal course of business	4 016	4 264

	Group	
	2006	2005 Restated
	R million	R million

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:

32.1 Pension benefits

Transnet has three pension funds, namely the Transnet Retirement Fund; Transnet Pension Fund and Transnet Second Defined Benefit Fund. Except for the Transnet Retirement Fund, the IAS19 *Employee benefits* actuarial valuations for the funds are performed annually. The Transnet Pension Funds are governed by the Transnet Pension Fund Act.

With regard to the defined benefit funds, the expected return on plan assets has been calculated based on market expectations at the beginning of the period for returns over the entire life of the related obligation. The estimated return is determined in conjunction with actuaries and market analysts based on the underlying asset base within each fund.

32.1.1 Transnet Retirement Fund

The fund was structured as a defined contribution fund from 1 November 2000. All employees of Transnet Ltd are eligible members of the fund. There were 63 967 members at 31 March 2006 (2005: 64 803). Actuarial valuations are done at intervals not exceeding three years to determine the financial position. An actuarial valuation was performed as at 31 March 2004. The actuaries were satisfied with the status of the members' credit account then. The total contributions to this fund constitute member contributions of R548 million (2005: R498 million) and employer contributions of R862 million (2005: R793 million).

32.1.2 Transnet Pension Fund

The fund is a closed defined benefit pension fund. 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. There were 12 267 members at 31 March 2006 (2005: 12 539). An actuarial valuation was done based on the projected unit credit method. The principal actuarial assumptions used were as follows:

	2006	2005
Discount rate	7,50%	8,50%
Salary increases		
Inflation	4,00%	4,00%
Promotional	1,50%	1,50%
Expected return on plan assets	10,00%	10,75%
Pension increases	2,00%	2,00%

The results of the actuarial valuation are as follows:

	2006	2005
Benefit liability		
Present value of obligation	(6 203)	(4 950)
Fair value of plan assets	6 390	4 818
Surplus/(deficit)	187	(132)
Unrecognised asset	(187)	–
Net liability per the balance sheet	–	(132)

The liability recognised for this fund relating to the Company amounts to R Nil. (2005: R101 million).

	Group	
	2006	2005
	R million	R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
32.1.2 Transnet Pension Fund (continued)		
In the current year, the actuarial surplus was not recognised as it is not known which parties would eventually benefit from it.		
Charge to the income statement		
Expected return on assets	**525**	482
Current service cost	**(151)**	(132)
Interest cost	**(419)**	(403)
	(45)	(53)
Actual return on plan assets	**1 654**	899
Actuarial gain/(loss) recognised in statement of recognised income and expenditure	**22**	(73)
The cumulative actuarial losses recognised in equity	**(344)**	(366)
Movements in the net liability recognised in the balance sheet		
Opening net liability	**(132)**	(165)
Expense as above	**(45)**	(53)
Actuarial gains/(losses) recognised in equity	**209**	(73)
Contributions paid	**155**	159
Surplus/(deficit)	**187**	(132)
Asset not recognised	**(187)**	–
Closing net liability	**–**	(132)
Reconciliation of movement in benefit liability		
Opening benefit liability	**(4 950)**	(4 199)
Current service cost	**(151)**	(132)
Interest cost	**(419)**	(403)
Actuarial loss	**(920)**	(490)
Benefits paid	**237**	274
Closing benefit liability	**(6 203)**	(4 950)

	GROUP	
	2006 R million	2005 Restated R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
32.1.2 Transnet Pension Fund (continued)		
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	4 818	4 034
Expected return	525	482
Actuarial gains	1 129	417
Contributions by employer	87	92
Contributions by members	68	67
Benefits paid	(237)	(274)
Closing fair value of plan assets	6 390	4 818
The major category of plan assets as a percentage of total plan assets are:		
Equity	71%	67%
Property	6%	2%
Bonds	15%	19%
Cash	8%	12%
Total	100%	100%

Summary of actuarial valuation results for past periods:

	2006	2005	2004	2003	2002
Present value of defined benefit obligation	(6 203)	(4 950)	(4 199)	(4 111)	(2 983)
Fair value of plan assets	6 390	4 818	4 034	3 120	3 228
Surplus/(deficit)	187	(132)	(165)	(991)	245
Asset not recognised	(187)	–	–	–	–
Net (liability)/asset	–	(132)	(165)	(991)	245

The estimated contributions by both employer and members for the year beginning 1 April 2006 amount to R155 million (2005: R159 million).

32.1.3 Transnet Second Defined Benefit Fund

The fund was established on 1 November 2000 for the benefit of the retired members and qualifying beneficiaries. There were 42 629 members at 31 March 2006 (2005: 45 075). This excludes widows and children of pensioners. The all inclusive membership is 84 705 at 31 March 2006 (2005: 87 297). The actuarial valuation was based on the projected unit credit method. The principal actuarial assumptions used are as follows:

	2006	2005
Discount rate (%)	6,52 – 7,52	6,77 – 8,83
Expected return on assets	10,60%	11,11%
Pension increases	2,00%	2,00%

The results of the actuarial valuation are as follows:

	2006	2005
Benefit liability		
Present value of obligation	(20 887)	(20 405)
Fair value of plan assets	19 259	16 090
Liability recognised in the balance sheet	(1 628)	(4 315)

	Group	
	2006 R million	2005 Restated R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
32.1.3 Transnet Second Defined Benefit Fund (continued)		
Credit/(charge) to the income statement		
Interest cost	(1 548)	(1 984)
Expected return on plan assets	1 591	1 542
	43	(442)
Actual return on plan assets	5 490	3 428
Actuarial gain/(loss) recognised in statement of recognised income and expenditure	2 644	(434)
The cumulative actuarial gains recognised in equity	3 726	1 082
Movements in the net liability recognised in the balance sheet		
Opening net liability	(4 315)	(3 439)
Income/(expense) as above	43	(442)
Actuarial gain/(loss) recognised in equity	2 644	(434)
Closing net liability	(1 628)	(4 315)
Reconciliation of movement in benefit liability		
Opening benefit liability	(20 405)	(18 463)
Interest cost	(1 548)	(1 984)
Actuarial loss	(1 255)	(2 320)
Benefits paid	2 321	2 362
Closing benefit liability	(20 887)	(20 405)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	16 090	15 024
Expected return	1 591	1 542
Actuarial gain	3 899	1 886
Benefits paid	(2 321)	(2 362)
Closing fair value of plan assets	19 259	16 090
The major category of plan assets as a percentage of total plan assets are:		
Equity	34%	34%
Property	12%	12%
Bonds	12%	9%
Foreign equity	–	7%
MCell	–	22%
Cash and net current assets	42%	16%
Total assets at market value	100%	100%

Summary of actuarial valuation results for the past periods

	2006	2005	2004	2003	2002
Present value of defined benefit obligation	(20 887)	(20 405)	(18 463)	(18 521)	(18 992)
Fair value of plan assets	19 259	16 090	15 024	13 239	16 048
Deficit	(1 628)	(4 315)	(3 439)	(5 282)	(2 944)

	GROUP	
	2006 R million	2005 Restated R million

32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

32.1.4 Top Management Pensions and Workmen's Compensation Act pensioners

These are additional benefits to top up pensions received to eliminate the effects of any early retirement penalties applied under the Group's existing pension fund schemes to management. There were 520 members at 31 March 2006 (2005: 530).

The Workmen's Compensation Act benefit relates to the pension benefits that the Company pays to current and former employees who were disabled whilst in service prior to the corporatisation of Transnet in 1990. There were 1 925 members at 31 March 2006 (2005: 1 925).

Actuarial valuations for both benefits were performed to determine the present value of the obligations. Similar valuations were done at the previous balance sheet date. The projected unit credit method was used to value the obligations. There are no plan assets held to fund these obligations.

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

	2006 R million	2005 Restated R million
Top management benefit		
The principal assumptions in determining the benefits are as follows:		
Discount rate	7,50%	8,50%
Salaries increase		
Inflation	4,50%	4,00%
Promotional	1,50%	1,50%
Pension increase	2,00%	2,00%
Benefit liability		
Present value of obligations	(116)	(99)
Liability recognised in the balance sheet	(116)	(99)
Charge to the income statement		
Interest cost	(8)	(9)
Current service cost	(1)	–
	(9)	(9)
Actuarial loss recognised in the statement of recognised income and expenditure	(17)	–
The cumulative actuarial gains recognised in equity	1	18
Reconciliation of movement in benefit liability		
Opening benefit liability	(99)	(99)
Expense as above	(9)	(9)
Actuarial loss	(17)	–
Contributions paid	9	9
Benefit liability at year-end	(116)	(99)

Summary of actuarial valuation results for the past periods

	2006	2005	2004	2003	2002
Present value of defined benefit obligation	(116)	(99)	(99)	(123)	(93)
Deficit	(116)	(99)	(99)	(123)	(93)

The estimated contribution for the year beginning 1 April 2006 is R9 million (2005: R9 million).

	GROUP	
	2006 R million	2005 Restated R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
32.1.4 Top Management Pensions and Workmen's Compensation Act pensioners (continued)		
The principal assumptions in determining the benefits are as follows:		
Discount rate	**7,50%**	8,50%
Pension increase	**4,50%**	4,00%
Inflation rate	**4,50%**	4,00%
Benefit liability		
Present value of obligations	**(247)**	(224)
Liability recognised in the balance sheet	**(247)**	(224)
Charge to the income statement		
Interest cost	**(18)**	(19)
	(18)	(19)
Actuarial loss recognised in the statement of recognised income and expenditure	**(26)**	(20)
The cumulative actuarial (losses)/gains recognised in equity	**(19)**	7
Reconciliation of movement in benefit liability		
Opening benefit liability	**(224)**	(204)
Interest cost	**(18)**	(19)
Actuarial loss	**(26)**	(20)
Contributions paid	**21**	19
Benefit liability at year-end	**(247)**	(224)

Summary of actuarial results for the past periods

	2006	2005	2004	2003	2002
Present value of defined benefit obligation	**(247)**	(224)	(204)	(211)	(211)
Deficit	**(247)**	(224)	(204)	(211)	(211)

The estimated contribution for the year beginning 1 April 2006 is R21 million (2005: R19 million).

	Group	
	2006 R million	2005 Restated R million

32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

32.1.5 Black Widows' Pension Benefit

The benefit relates to pensions that the Group has voluntarily elected to make payable to the widows of black pensioners who retired from Transnet during the period 16 December 1974 to 1 April 1986 and who subsequently died prior to 1 November 2000 and whose spouses are currently not entitled to a spouse's pension from either the Transnet Pension Fund or the Transnet Second Defined Benefit Fund. At 31 March 2006, there were 3 240 widows in this fund.

	2006 R million	2005 Restated R million
Discount rate	7,50%	8,50%
Inflation rate	4,50%	4,00%
Expected return on assets	4,50%	5,50%
Pension increase	2,00%	2,00%
Benefit liability		
Present value of obligation	(78)	(75)
Fair value of plan assets	79	83
Asset recognised in balance sheet	1	8
Charge to the income statement		
Expected return on assets	4	5
Interest cost	(6)	(6)
	(2)	(1)
Actual return on plan assets	5	33
Actuarial (loss)/gain recognised in the statement of recognised income and expenditure	(5)	13
The cumulative actuarial gains recognised in equity	16	21
Movements in the net asset recognised in the balance sheet		
Opening net asset/(liability)	8	(9)
Expense as above	(2)	(1)
Actuarial (loss)/gain recognised in equity	(5)	13
Contribution paid	–	5
Closing net asset	1	8
Reconciliation of movement in benefit liability		
Opening benefit liability	(75)	(64)
Interest cost	(6)	(6)
Actuarial loss	(6)	(15)
Benefits paid	9	10
Closing benefit liability	(78)	(75)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	83	55
Expected return on assets	4	5
Actuarial gains	1	28
Contributions		5
Benefits paid	(9)	(10)
Closing fair value of plan assets	79	83

Summary of actuarial results for the past periods

	2006	2005	2004	2003	2002
Present value of defined benefit obligation	(78)	(75)	(64)	–	–
Fair value of plan assets	79	83	55	–	–
Surplus/(deficit)	1	8	(9)	–	–

No actuarial valuations were performed for this fund in the 2002 and 2003 financial years. Hence no comparative data for the reconciliation of the movements in the liability and fair value of the plan assets have been reported for these periods.

The estimated contribution for the year beginning 1 April 2006 is R nil (2005: R4 million).

	Group	
	2006 R million	2005 Restated R million

32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

32.1.6 Flight Deck Crew (FDC) Pension Fund

The liability relates to additional benefits to members of the flight deck crew (FDC), who are employees of SAA. These additional pension benefits are required to equate to the increases that would have been applied to the total cost of employment for the years commencing 16 March 1999 to 16 March 2000. This liability was recognised for the first time in 2003.

Benefit liability	2006 R million	2005 Restated R million
Opening benefit liability	(5)	(5)
Raised during the year	–	–
Settlement during the year	–	–
Closing benefit liability	(5)	(5)

32.1.7 SAA (UK) Pension Fund

SAA operates the SAA (UK) Pension Scheme for employees based in the United Kingdom. The scheme has defined benefit (final salary) and defined contribution (money purchase) sections. The final salary section was closed to new employees in June 1996 though members of the money purchase section at that time still had a one-off opportunity to join the final salary section on 1 July 1996 after attaining age 40. Since 1 July 2003 the only members accruing further final salary benefits have been those whose 63rd birthday falls before 1 July 2013.

Benefits for a final salary member are mainly calculated on a formula of 1/60 x final salary x years of membership of the final salary section. Final salary means the average of the last three pensionable salaries preceding retirement or date of leaving the scheme, if this is earlier. Pensionable salary is defined as basic salary less the state lower earnings limit (with a pro rata adjustment for part timers) at the beginning of each scheme year (1 July).

Benefits for a money purchase member are determined by the contributions paid into a member's pension account, the investment returns on those contributions and the cost of purchasing an annuity at retirement.

The fund had 16 active members and 21 pensioners as at 31 March 2006.

Some members have entitlements in both the final salary section and the money purchase sections.

The following only refers to the final salary section and specifically excludes all money purchase assets and liabilities including annuities purchased at retirement in respect of money purchase entitlements.

Actuarial valuation

Actuarial valuations are carried out, at intervals not exceeding three years, to determine the financial position of the final salary section. The fund was valued using the projected unit credit method in March 2006. The fund had a surplus of R3 million at that date.

The employer's pension contributions for the financial year to 31 March 2007 are expected to amount to approximately R5 million. These exclude employer's pension contributions to the money purchase section, the Group Life premiums which are paid by the employer and the administration expenses which are paid by the employer.

	Group	
	2006 R million	2005 Restated R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
32.1.7 SAA (UK) Pension Fund (continued)		
Actuarial valuation (continued)		
The principal actuarial assumptions used were as follows:		
Discount rate	4,9%	5,3%
Expected return on assets	5,9%	6,3%
Price inflation	3,0%	3,0%
Expected rate of salary increases	5,5%	5,5%
Pension increases in payment	3,0%	3,0%
Pension increases during deferment	3,0%	3,0%
The results of the actuarial valuation are as follows:		
Benefit asset/(liability)		
Present value of obligation	(55)	(58)
Fair value of plan assets	58	48
Surplus/(deficit)	3	(10)
Unrecognised assets	(3)	–
Net liability per the balance sheet	–	(10)
The asset that has arisen in the current year, has not been recognised as it is not known which party would eventually benefit from it.		
Charge to the income statement		
Interest cost	(3)	(1)
Current service cost	(1)	(1)
Exchange differences on foreign plans	6	–
Expected return on assets	7	3
	9	1
Actual return on plan assets	7	3
Actuarial gain recognised in the statement of income and expenditure	–	–
The cumulative actuarial gains recognised in equity	–	–

	GROUP	
	2006 R million	2005 Restated R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
32.1.7 SAA (UK) Pension Fund (continued)		
Movement in the net asset/(liability) recognised in the balance sheet		
Opening net liability	(10)	(12)
Expenses as per above	9	1
Actuarial gains in equity	–	–
Contribution paid	4	1
Surplus/(deficit)	3	(10)
Unrecognised asset	(3)	–
Closing net liability	–	(10)
Reconciliation of movement in benefit liability		
Opening benefit liability	(58)	(55)
Current service cost	(1)	(1)
Interest cost	(3)	(1)
Actuarial loss recognised in equity	(5)	(2)
Exchange differences on foreign plans	11	–
Benefits paid	1	1
Closing benefit liability	(55)	(58)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	48	43
Expected return on assets	7	3
Contributions by employer	4	1
Actuarial gains	5	2
Exchange difference on foreign plans	(5)	–
Benefits paid	(1)	(1)
Closing fair value of plan assets	58	48
The major categories of plan assets as a percentage of total plan assets are:		
Equity	84%	82%
Debt instruments	9%	6%
Other assets	7%	12%
	100%	100%

	Group	
	2006 R million	2005 Restated R million

32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

32.1.8 SAA (German) Pension Fund

SAA operates a retirement plan for its German-based permanent employees. The scheme is a defined benefit fund. The scheme consists of three groups which are entitled to different benefits as follows:

Group 1: Those in the employment of SAA before 1976
All employees who were members in this group have retired and the scheme has therefore been closed with effect from March 2004.

Group 2: Those in the employment of SAA from April 1976 to December 1988.

Group 3: All new employees who joined SAA after 1 January 1988.

The benefits payable to groups 2 and 3 are determined with reference to the rules of the scheme and are based on the percentage of the average salary for the last 12 months multiplied by the number of years of pensionable service plus a cash lump sum. The retirement age for all employees is 63 years.

SAA has taken an insurance policy to cover all the promised employment benefits, but retains the legal obligation to pay further contributions if the insurer does not pay all employee benefits relating to employee service in the current and prior periods.

The employer contributes 100% and the employee makes no contribution towards this retirement plan.

The contributions for the year beginning 1 April 2006 are estimated at R2 million.

Actuarial valuation

Actuarial valuations in term of the rules of the scheme are done at intervals not exceeding three years, to determine its financial position. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out in April 2006 using the projected unit credit method.

The results of the actuarial valuation showed that the scheme was fully funded.

The principal actuarial assumptions used were as follows:	2006	2005
Discount rate	5,1%	5,1%
Expected rate of salary increases	2%	2%
Future pension increases	3%	3%

The results of the actuarial valuation are as follows:	R million	R million
Benefit asset		
Present value of obligation	(122)	(126)
Insurance policy (expected payout value)	162	168
Net over-insured balance not recognised	40	42

	Group	
	2006 R million	2005 Restated R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
32.1.8 SAA (German) Pension Fund (continued)		
Charge to the income statement		
Current service costs	(2)	(2)
Interest costs	(6)	(6)
	(8)	(8)

Insurance policy (expected payout value)

The insurance policy payout values expected per category of employees determined by Prorente, the re-insurer for the German scheme are R162 million at end of March 2006 (2005: R168 million). This policy is taken out exclusively to fund the retirement benefit obligations for SAA employees in Germany when they reach the retirement age 63.

	2006 R million	2005 Restated R million
Reconciliation of movement in benefit liability		
Opening benefit liability	(126)	(122)
Current service cost	(2)	(2)
Interest cost	(6)	(6)
Exchange difference on foreign plans	8	–
Benefits paid	4	4
Closing benefit liability	(122)	(126)

32.1.9 Flight Deck Crew Disability Benefit Fund

SAA has an agreement with the flight deck crew (FDC) members who are on permanent employment to top up the disability benefits payable by the Transnet defined benefit fund. In terms of the rules of the Transnet defined contribution fund all employees are entitled to 75% of the members' pensionable salary payable when a member becomes disabled before the normal retirement age of 63. The agreement with FDC members is for SAA to pay a further 25% in addition to what the member would receive from the pension fund in the case of disability. The members or SAA make no additional contribution towards these benefits, these benefits are therefore unfunded.

The actuarial valuation for this liability was performed for the first time in March 2006. The actuarial valuation was performed using the projected unit credit method.

	2006	2005
The principal actuarial assumptions used were as follows:		
Discount rate	7,75%	8,78%
Expected rate of salary increases	6,99%	7,07%
Future pension increases	4,89%	4,97%

The results of the actuarial valuation are as follows:

	2006 R million	2005 Restated R million
Benefit liability		
Net liability per balance sheet	(35)	(24)
	(35)	(24)

The results of the actuarial valuation are as follows:

	2006 R million	2005 Restated R million
Charge to the income statement		
Current service cost	(4)	(3)
Interest cost	(7)	(2)
	(11)	(5)

	Group	
	2006 R million	2005 Restated R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
32.1.9 Flight Deck Crew Disability Benefit Fund (continued)		
Actuarial loss recognised in the statement of recognised income and expenditure	–	–
The cumulative actuarial losses recognised in equity	–	–
Reconciliation of movement in benefit liability		
Opening benefit liability	(24)	(19)
Current service cost	(4)	(3)
Interest cost	(7)	(2)
Actuarial loss	–	–
Benefit liability at year-end	(35)	(24)

This benefit liability is currently unfunded. SAA is in the process of securing insurance cover which will be solely for the funding of these benefit obligations as they become due.

32.1.10 HIV/Aids benefits

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

32.1.11 Travel benefits

SAA offers certain air-travel benefits to both current and retired employees. As a percentage of the face value of the air-ticket is normally paid in respect of the benefit (with such percentage exceeding the marginal cost of supplying the service) and as the ticket is only issued on a "stand-by" basis, with fare-paying passengers always having preference, employees or retirees may only fly if there is available space on the flight. The Company therefore does not incur any incremental costs in providing this benefit and therefore no liability is recognised.

32.2 Post-retirement medical benefits

SATS Pensioners' post-retirement medical benefits

Pensioners include retired employees and the widow(er)s of employees and the retired employees of the former South African Transport Services (SATS). The liability is in respect of pensioners who have elected to belong to the Transnet in-house medical scheme, Transmed, whose membership is voluntary.

A medical aid benefit liability was created at the corporatisation of Transnet. With effect from 1 April 2000, the liability has been actuarially valued at each balance sheet date. Actual benefits contributed on behalf of the pensioners are settled against the provision.

Transnet subsidises members at a flat contribution of R800 per month per member.

Transnet employees post-retirement medical benefits

This includes the current and past employees of Transnet who are members of Transnet's in-house medical aid, Transmed Medical Fund. Membership is voluntary.

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

To enable the Company to fully provide for such post-retirement medical liabilities, since April 2000 actuarial valuations are obtained annually. There are no assets held to fund the obligation.

Analysis of benefit expense

The following summarises the components of the net benefit expense recognised in both the income statement and balance sheet as at 31 March 2006 for both SATS pensioners and Transnet employees. The projected unit credit method has been used for the purposes of determining the actuarial valuation for both the funds.

		GROUP	
		2006 R million	2005 Restated R million
32.	**POST-RETIREMENT BENEFIT OBLIGATIONS (continued)**		
32.2.1	**SATS pensioners**		
	Discount rate	7,50%	8,50%
	Benefit liability		
	Present value of obligations	(1 607)	(1 629)
	Liability recognised in the balance sheet	(1 607)	(1 629)
	Charge to the income statement		
	Interest cost	(133)	(152)
		(133)	(152)
	Actuarial (loss)/gain recognised in statement of recognised income and expenditure	(82)	22
	The cumulative actuarial losses recognised in equity	(420)	(338)
	Reconciliation of movement in benefit liability		
	Opening benefit liability	(1 629)	(1 751)
	Interest cost	(133)	(152)
	Company contributions	237	252
	Actuarial (loss)/gain	(82)	22
	Closing benefit liability	(1 607)	(1 629)
	Transnet subsidises members at a flat contribution of R800 per month per member. The medical inflation has no impact on the aggregate current service cost and interest cost and the benefit liability. However, the assumed discount rate has an impact. The sensitivity of the obligation to a change in the assumed discount rate of 7,5% on the present value of the obligation is as follows:		
	Discount rate changes to:		
	6,5% (2005: 7,5%)	(1 714)	(1 737)
	8,5% (2005: 9,5%)	(1 515)	(1 532)

Summary of actuarial valuation results for past periods

	2006	2005	2004	2003	2002
Benefit liability	(1 607)	(1 629)	(1 751)	(1 715)	(2 914)
Deficit	(1 607)	(1 629)	(1 751)	(1 715)	(2 914)

The estimated contribution for the year beginning 1 April 2006 is R237 million (2005: R252 million).

	GROUP	
	2006 R million	2005 Restated R million
32. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
32.2.2 Transnet employees		
Discount rate	7,50%	8,50%
Benefit liability		
Present value of obligations	(812)	(808)
Liability recognised in the balance sheet	(812)	(808)
The liability recognised for this fund at a company level amounts to R762 million (2005: R753 million).		
Charge to the income statement		
Current service cost	(13)	(12)
Interest cost	(68)	(62)
	(81)	(74)
Actuarial loss recognised in the statement of recognised income and expenditure	(37)	(41)
The cumulative actuarial losses recognised in equity	(47)	(10)
Reconciliation of movement in benefit liability		
Opening benefit liability	(808)	(741)
Expense as above	(81)	(74)
Member and Company contributions	43	48
Actuarial losses	(37)	(41)
Closing benefit liability	(883)	(808)
Disposal of Metrorail	71	–
Net benefit liability	(812)	(808)
Transnet subsidises members at a flat contribution of R213 per month per member. The medical inflation has no impact on the aggregate current service cost and interest cost and the benefit liability. However, the assumed discount rate has an impact. The sensitivity of the obligation to a change in the assumed discount rate of 7,5% on the present value of the obligation is as follows:		
Discount rate changes to:		
6,5% (2005: 7,5%)	(998)	(904)
8,5% (2005: 9,5%)	(788)	(726)

Summary of actuarial valuation results for past periods

	2006	2005	2004	2003	2002
Benefit liability	(812)	(808)	(741)	(545)	(519)
Deficit	(812)	(808)	(741)	(545)	(519)

The estimated contribution for the year beginning 1 April 2006 is R43 million (2005: R48 million).

33. RELATED PARTY TRANSACTIONS

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

South African Airways (Pty) Ltd and South African Express Airways (Pty) Ltd conduct a number of transactions via intermediaries who act as agents. Services rendered by these companies to related parties are measured with reference to their frequent flyer corporate contracts. These contracts qualify for rebates on reaching a specified qualifying limit, which are similar to other third parties who participate in this frequent flyer programme. These transactions are included in the disclosure of transactions below. Transactions between related parties that are not reported in terms of these contracts are not disclosed as such.

In addition, the Company has a related party relationship with its subsidiaries (see note 12). The Group and Company have related party relationships with its associates (see note 13) and with its directors and senior executives (key management).

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

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

Transactions with related entities

Services rendered to related parties comprise principally transportation (aviation, rail and road) services. Services purchased from related parties comprised principally energy, telecommunications, information technology and property related services.

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

Company				Group		
	R million				R million	
Services rendered	Services received	Amount due from/(to)		Services rendered	Services received	Amount due from/(to)
			2006			
539	**862**	**(39)**	Major public enterprises	**692**	**1 429**	**(36)**
84	**210**	**(3)**	Other public enterprises	**270**	**564**	**(16)**
1 429	**750**	**(5 830)***	National Government business enterprises	**1 438**	**755**	**(5 830)***
66	**475**	**(41)**	Associates (refer annexure D)	**97**	**748**	**(35)**
188	**2 958**	**(142)**	Subsidiaries (refer annexure D)	**–**	**–**	**–**
			2005			
430	865	(69)	Major public enterprises	574	1 351	(72)
51	116	(76)	Other public enterprises	306	313	(14)
1 850	466	(6 065)*	National Government business enterprises	1 855	469	(6 065)*
54	485	(31)	Associates (refer annexure D)	56	775	(21)
212	2 428	(86)	Subsidiaries (refer annexure D)	–	–	–

During the year the Group expensed R16 million (2005: R12 million) in relation to bad debts on related parties and at year-end the Group had a provision of R46 million (2005: R93 million) against bad debts in relation to related parties.

Transactions with key management personnel

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

Details of key management compensation is set out in the directors report on page 75 to the financial statements.

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

** Includes R6 307 million relating to bonds issued to national Government business enterprises.*

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		34. CASH FLOW INFORMATION		
		34.1 Cash generated from operations		
5 887	5 421	Profit/(loss) before taxation	6 190	7 942
5 902	5 345	– Continuing operations	6 401	7 330
(15)	76	– Discontinued operations	(211)	612
2 031	2 235	Finance costs	2 889	2 410
(374)	(352)	Finance income	(418)	(274)
(5)	(340)	Dividend income	(85)	(3)
807	2 767	Elimination of non-cash items	2 657	14
1 843	2 026	– Depreciation and amortisation	3 150	2 766
496	99	– Increase in provision for retirement obligation	72	550
607	234	– Impairment of loss making subsidiaries and associates	141	45
–	–	– Impairment of carrying value of intangible assets	–	115
152	(101)	– Impairment of trade and other receivables and loans and advances	(80)	152
2	–	– Mark to market of foreign exchange cover in operating costs	–	(37)
128	64	– Impairment of property, plant and equipment	16	19
841	396	– Increase in short-term provisions	347	1 025
–	–	– Fair value adjustments of investments	34	(1)
117	(65)	– Movement in long-term provisions	(74)	84
(3 559)	95	– Fair value adjustments in the income statement	(716)	(4 650)
(58)	2	– Unrealised foreign exchange losses/(gains)	45	(149)
–		– Effect of changes in fair value of share appreciation rights	–	2
10	131	– (Profit)/loss on sale of property, plant and equipment	(155)	(6)
–	82	– Loss on disposal of the business of Spoornet Zambia	82	–
–	(404)	– Profit on sale of other investments	(411)	–
188	219	– Amortisation of discount on bonds	219	188
–	–	– Reversal of deferred cash flow hedges to income statement	–	(51)
(18)	–	– (Adjustment)/write down of minorities	–	9
–	–	– Effect of recognising lease costs on a straight-line basis	–	(23)
(4)	–	– Fair value adjustment of investment property	1	(7)
–	–	– Capitalisation of major inspection and overhaul of property, plant and equipment	–	(21)
62	(11)	– Other non-cash items	(14)	4
8 346	9 731		11 233	10 089

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		34. CASH FLOW INFORMATION (continued)		
(1 372)	(184)	**34.2 Changes in working capital**	(418)	180
(291)	(211)	Increase in inventories	(127)	(294)
(224)	(456)	(Increase)/decrease in receivables	(706)	652
(857)	483	Increase/(decrease) in payables	415	(178)
		34.3 Finance costs		
2 190	2 475	Total finance costs	3 341	2 601
29	(21)	Net foreign exchange (gains)/losses on translation	(233)	(3)
(188)	(219)	Discounts on bonds amortised	(219)	(188)
2 031	2 235		2 889	2 410
		34.4 Taxation paid		
		Balance at the beginning of the year		
(130)	(1 514)	– normal taxation (net)	(1 545)	(164)
		Taxation as per income statement		
(1 433)	(1 746)	– normal taxation	(1 881)	(1 620)
		Transferred to liabilities directly associated with assets held-for-sale	37	–
–	(40)	Acquired through business combination	–	–
		Balance at the end of the year		
1 514	1 259	– normal taxation (net)	1 283	1 545
(49)	(2 041)		(2 106)	(239)
		34.5 Dividends paid to minorities		
–	–	Balance at the beginning of the year	–	–
–	–	Dividend declared	–	–
–	–	Dividends paid to minorities	(7)	(11)
–	–	Balance at the end of the year	–	–
–	–		(7)	(11)
		34.6 Disposal of Metrorail		
–	(106)	Bank overdraft	(106)	–
–	48	Inventory	48	–
–	190	Accounts receivable and prepayments	190	–
–	(272)	Trade payables and provisions	(272)	–
–	(69)	Long-term provisions	(69)	–
–	60	Group loans	60	–
–	(149)	Net liability value	(149)	–
–	–	Proceeds on disposal	–	–
–	(149)	Profit on disposal of investment	(149)	–
		Net cash inflow on disposal		
–	–	Proceeds on disposal	–	–
–	106	Bank overdraft disposed of	106	–
–	106		106	–

Company 2005 Restated R million	Company 2006 R million		Group 2006 R million	Group 2005 Restated R million
		34. CASH FLOW INFORMATION (continued)		
		34.7 Acquisition of Protekon assets and liabilities		
–	(11)	Bank overdraft	–	–
–	3	Inventory	–	–
–	155	Accounts receivable and prepayments	–	–
–	23	Property, plant and equipment	–	–
–	3	Intangible assets	–	–
–	(281)	Trade and other payables	–	–
–	(45)	Provisions	–	–
–	383	Long-term borrowings	–	–
–	(11)	Employee benefits	–	–
–	(40)	Current taxation liability	–	–
–	179	Net asset value	–	–
–	179	Purchase price	–	–
–	11	Plus overdraft acquired	–	–
–	190	Net cash paid	–	–
		35. HEADLINE EARNINGS		
4 442	3 670	Profit for the year attributable to equity holder	4 539	6 585
10	131	(Profit)/loss on disposal of property, plant and equipment (refer note 4.1)	(155)	(6)
–	(67)	Profit on sale of interests in divisions (refer note 3)	(67)	–
607	234	Impairment of loss making subsidiaries and associates	141	45
128	64	Impairment of property, plant and equipment (refer note 4.2)	16	19
–	–	Impairment of intangible assets (refer note 4.2)	–	115
397	(79)	(Reversal of provision)/provision for losses on sale of discontinued operations	(79)	397
5 584	3 953	Headline earnings	4 395	7 155

36. TRANSITION TO IFRS AND OTHER RESTATEMENTS

These are the Group's and Company's first financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies have been applied in preparing the financial statements for the year ended 31 March 2006, the comparative information presented in these financial statements for the year ended 31 March 2005 and in the preparation of the opening IFRS balance sheet at 1 April 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with South African Generally Accepted Accounting Practice (SA GAAP). An explanation of how the transition from SA GAAP to IFRS has affected the Group's financial position and financial performance is set out below. The impact on cash flows was not significant.

Effect of the first time adoption of IFRS

IFRS 1 *First Time Adoption of International Financial Reporting Standards* allows a number of exemptions on adoption of IFRS, and the Group has elected to utilise the following transitional arrangements:

- **Business combinations:** The Group has elected not to retrospectively apply the requirements of IFRS 3 *Business Combinations* for business combinations that occurred prior to the transaction date 1 April 2004.
- **Property, plant and equipment:** The Group has elected to measure certain individual items of property and floating craft at fair value at the date of transition to IFRS, hence fair value is deemed to be cost at that date.
- **Foreign currency translation reserve:** The Group has elected to transfer all foreign currency translation reserves at 1 April 2004 to distributable reserves.

Adjustments on adoption of IFRS

During the period, the Group changed its accounting policies as follows to comply with the requirements of IFRS:

36. TRANSITION TO IFRS AND OTHER RESTATEMENTS (continued)

Adjustments on adoption of IFRS (continued)

a. Property, plant and equipment

The reassessment of residual values in property, plant and equipment: In calculating the depreciation charge the Group reduced the depreciable amount of its assets in each period by their estimated residual value. In previous years, in terms of SA GAAP, the estimated residual value was fixed on recognition of the asset and was not subject to reassessment. The Group now reassesses the residual value of its property, plant and equipment at each balance sheet date. The continuous reassessment of the residual value typically leads to a change in depreciation charges annually. Depreciation ceases when the carrying value of an asset equals its residual value.

Assessment of useful lives: The Group reassessed the useful lives of all its property, plant and equipment, and intangible assets. In instances where items of property, plant and equipment were fully depreciated, these assets have now been reinstated to reflect their appropriate carrying value.

Componentisation: Where significant components of an item of property, plant and equipment have different useful lives or residual values, those components are accounted for as separate items of property, plant and equipment. Previously, all parts of an item of property, plant and equipment were depreciated at the same rate.

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

Decommissioning and rehabilitation liabilities: An obligation exists to restore certain sites for the effect of the Group's operations. Previously, the provision for such costs was recorded in the income statement. In accordance with IFRS, the costs are now capitalised to the cost of the asset. The provision for rehabilitation costs represents the present value of the future expected cash flows. The unwinding effect of the provision is accounted for in the income statement.

b. Intangible assets

Software previously held as intangible assets, but which is considered an integral part of the computer hardware, has been reclassified as machinery and equipment.

c. Inventory

Spare parts, stand-by and maintenance equipment expected to be used for more than one period have been reclassified as property, plant and equipment.

Other accounting restatements

d. Impairment of pipeline assets

Pipeline assets not in active use have been impaired. A retrospective adjustment has been recorded.

e. Negative goodwill

Negative goodwill is no longer recognised on the balance sheet and is now recognised in the income statement as it arises. All negative goodwill balances have therefore been reversed with a corresponding adjustment to opening retained earnings.

f. Deferred taxation

In the prior year, the Group did not recognise the deferred taxation effects of items recorded directly in equity (namely revaluation and actuarial reserves), resulting in a portion of the previously unrecognised deferred taxation asset not being recognised in the income statement. This has been adjusted retrospectively.

g. Post-retirement benefit obligations

During the current year certain differences were identified in the actuarial valuations of the Transnet Pension Fund and the Transnet Second Defined Benefit Fund at 31 March 2005. The balance sheet and income statement at 31 March 2005 have been restated accordingly. Further, SAA, a subsidiary of Transnet Ltd, identified three new defined benefit funds which have been accounted for in the current financial year

h. Leave pay

There has been a retrospective adjustment to take into account errors in the Group's calculation of the provision for leave pay.

i. Operating leases

The manner of recognising lease payments arises as a result of a change in the interpretation of IAS 17 *Leases* by South African entities, per South African Institute of Chartered Accountants Circular 7/2005, in order to align South African practice with that applied internationally, has changed. The effect of the revised interpretation is that operating lease payments/receipts with fixed escalation clauses are recognised on a straight-line basis over the lease term, and not on a cash paid basis.

j. Impairment of loans to subsidiaries

It was identified in the current year that certain loans to subsidiaries, which should have been impaired in the prior year, were not impaired. These have been adjusted for retrospectively.

k. Receivables recognised

A net income adjustment of R160 million pertaining to cut-off in the previous financial year, was identified. The prior year figures have been restated for this error.

36. TRANSITION TO IFRS AND OTHER RESTATEMENTS (continued)
RECONCILIATION OF SA GAAP TO IFRS

Company 1 April 2004 R million	Company 31 March 2005 R million		Notes	Group 31 March 2005 R million	Group 1 April 2004 R million
		BALANCE SHEET			
		Equity attributable to shareholder			
11 827	16 569	**As previously reported: SA GAAP**		16 871	9 806
3 441	3 298	**IFRS adjustments**		4 118	4 284
3 395	3 395	Property, plant and equipment – deemed cost		4 183	4 183
37	(105)	Property, plant and equipment – change in useful life, componentisation and residual value	a	(47)	110
12	3	Adjustments to amortisation of intangible assets	b	3	12
–	–	Deferred taxation impact on IFRS adjustments		(14)	(18)
(3)	5	Other adjustments		(7)	(3)
(371)	(65)	**SA GAAP adjustments**		29	(50)
–	(147)	Property, plant and equipment – impairment	d	(147)	–
–	–	Derecognition of negative goodwill	e	–	173
–	435	Post-retirement benefit obligation restated	g	411	(17)
(100)	(113)	Leave pay provision recognised	h	(395)	(169)
(27)	(9)	Adjustments for recognising lease costs on a straight-line basis	i	(10)	(33)
(240)	(387)	Impairment of loans to subsidiaries	j	–	–
–	160	Receivables recognised	k	160	–
(4)	(4)	Other adjustments		10	(4)
14 897	19 802	**Restated equity – IFRS**		21 018	14 040
		INCOME STATEMENT			
		Net profit attributable to shareholder			
	4 583	**As previously reported: SA GAAP**		6 810	
	(86)	**IFRS adjustments**		(98)	
	(85)	Property, plant and equipment – change in useful life, componentisation and residual value	a	(101)	
	(9)	Adjustments to amortisation to intangible assets	b	(9)	
	–	Deferred taxation impact on IFRS adjustments		4	
	8	Other adjustments		8	
	(55)	**SA GAAP adjustments**		(127)	
	(82)	Property, plant and equipment – impairment	d	(82)	
	21	Post-retirement benefit obligation restated	g	14	
	(13)	Leave pay provision recognised	h	(226)	
	(147)	Impairment of loans to subsidiaries	j	–	
	160	Receivables recognised	k	160	
	(12)	Deferred taxation effect of items recorded in equity	f	(12)	
	18	Adjustments for recognising lease costs on a straight-line basis	i	23	
	–	Other adjustments		(4)	
	4 442	**Restated net profit attributable to shareholder – IFRS**		6 585	

ANNEXURE A

for the year ended 31 March 2006

INTRODUCTION

The Group has a centralised Treasury function, except for SAA which operates its own Treasury. Transnet Ltd is fully represented at the SAA Board Risk and Board Risk sub-committee meetings to protect the interests of the Group.

The centralised Treasury function manages the financial risks of the Group, which include liquidity, counterparty, foreign exchange, commodity, interest rate and price risks. All policies are reviewed on an annual basis to ensure an integrated approach. A project is under way to ensure alignment with Enterprise Wide Risk management principles.

Transnet's overall approach to financial risk management is to enter into rand-based capital and operational expenditure and income-based contracts, which will effectively mitigate the foreign currency and foreign currency interest rate risk exposures. Management strive to exclude embedded derivatives from all contracts to minimise volatility in the Group's financials statements.

RISK PROFILE

Financial risk positions are disclosed on a monthly basis to the Executive Committee (Exco) Risk Management Committee and Exco Asset and Liability Management Committee. These committees are responsible for reporting financial risk exposures to the Transnet Board of Directors.

The Group's business operations expose it to liquidity, counterparty, foreign exchange, commodity, interest rate and price risk which are discussed under the headings below.

FUNDING ACTIVITIES

Rand interest rate risk

The challenge is to manage the Group's average interest rates on fixed interest rate rand bonds in such a manner that they follow the long-term rand interest rate trend as closely as possible during the downward phase of the interest rate cycle and to keep the Group's effective interest rate below the average market during the upward phase of interest cycles.

The on balance sheet interest rate risk positions of the Group are reflected below.

TRANSNET RAND BONDS

Domestic rand bonds

Transnet Ltd issues domestic bonds listed on the Bond Exchange of South Africa. The following rand bonds, excluding market-making positions, which are separately analysed, were in issue at 31 March 2006:

Bond	Redemption date	Coupon rate %	Effective interest rate %	2006 Fair value R million	2006 Nominal value R million	2005 Fair value R million	2005 Nominal value R million
T004*	1 April 2008	7,50	14,78	4 677	4 661	4 568	4 662
T011*	1 April 2010	16,50	15,17	1 728	1 325	1 751	1 325
T017*	15 March 2006	12,00	–	–	–	2 275	2 181
T018*	15 July 2014	10,75	10,39	7 177	6 000	6 794	6 000
			A	13 582	11 986	15 388	14 168

These domestic rand bonds are for both Company and Group.

Eurorand bonds

The following Eurorand bonds were in issue at 31 March 2006:

Bond	Redemption date	Coupon rate %	Effective interest rate %	2006 Fair value R million	2006 Nominal value R million	2005 Fair value R million	2005 Nominal value R million
Euro 42	18 April 2028	13,50	13,86	3 266	2 000	3 105	2 000
Euro 42A	30 March 2029	10,00	15,09	1 897	1 500	1 792	1 500
			B	5 163	3 500	4 897	3 500
Group and Company bonds at nominal value (refer note 25).			(A & B)		15 486		17 668

OTHER RAND BORROWINGS

	2006 Fair value R million	2006 Company Nominal R million	2006 Group Nominal R million	2005 Fair value R million	2005 Company Nominal R million	2005 Group Nominal R million
Other rand denominated**	–	8	8	–	44	79
Secured rand denominated**	–	1 224	4 704	–	1 121	4 807
Promissory notes**	–	–	2 031	–	–	1 886
Other short-term borrowings – fair valued	1 889*	1 618	1 618	3 120*	2 601	2 601
Other short-term borrowings – held at nominal value	–	174*	174*	–	–	–
Commercial paper	–	1 000*	1 000*	–	–	–
Domestic rand loans	1 889	4 024	9 535	3 120	3 766	9 373
Total domestic borrowings		19 510	25 021		21 434	27 041

** Refer note 25.
* Refer note 29.

The rand secured loans are secured over aircraft and capitalised leasehold improvements.

Transnet Ltd launched a new commercial paper issue in February 2006. The issue is rated as prime -1 short-term debt rating by Moody's and is listed on the Bond Exchange of South Africa (BESA). The total approved issue amount is limited to R2 500 million and will be utilised to finance working capital requirements and for general corporate purposes.

Interest rate swaps with a notional value of R300 million (2005: R550 million) and with a positive fair value of R52 million (2005: R67 million positive) were open at 31 March 2006. During the financial year a gain of R12 million was recognised in the income statement comprising a realised gain (cash) of R27 million and an unrealised loss of R15 million. The interest rate swaps were entered into to swap part of the T004 borrowings from fixed to floating.

After accounting for the above interest rate swaps, the interest rate exposure on the long-term domestic borrowings as at 31 March 2006 was:

	Total borrowings R million	Floating exposure R million	Floating rate exposure as % of total	Fixed borrowings R million
31 March 2006				
Company	18 840	710	3,77	18 130
Group	24 349	4 987	20,48	19 362
31 March 2005				
Company	17 622	562	3,19	17 060
Group	23 229	4 579	19,71	18 650

INVESTMENTS

Investments are dealt with reputable counterparties that are rated by a recognised rating agency and approved by the Board as an approved counterparty.

	2006 Company Nominal R million	2006 Company Fair value R million	2006 Group Nominal R million	2006 Group Fair value R million	2005 Company Nominal R million	2005 Company Fair value R million	2005 Group Nominal R million	2005 Group Fair value R million
Domestic	591	657	1 202	1 269	1 169	1 380	1 170	1 381
Foreign	–	–	874	926	–	–	1 064	1 064

ANNEXURE A continued

for the year ended 31 March 2006

The fair value of the Group's investments at 31 March 2006 comprise the following:

	Domestic	Foreign	Total
Shares in listed companies	–	59	59
Unlisted shares and debentures	16	–	16
Market making bonds	642	–	642
Defeasance deposits	611	867	1 478
	1 269	926	2 195

FOREIGN CURRENCY EXPOSURES

Currency risk exposures are inherent in operational and capital expenditure programmes. Transnet always attempts/aims to mitigate these risk exposures by entering into rand financing and thereby effectively transferring the foreign currency risk exposure to the financier. If this cannot be achieved, a hedging programme needs to be approved by the Exco Asset and Liability Committee and only vanilla type of hedging products will be used.

Details of significant foreign currency exposures in respect of borrowings at 31 March 2006 are reflected below. The Group does not apply hedge accounting in respect of the hedges below.

FORWARD EXCHANGE CONTRACTS AND CURRENCY OPTIONS USED AS HEDGES

Description	Total foreign currency million	2006 Foreign currency million	2007 Foreign currency million	2008 Foreign currency million
Company and Group				
Nominal				
US dollars	38	38	–	–
Japanese yen	1 120	384	373	363
Euros	11	11	–	–

Company and Group	Total fair value R million	Fair value 2006 R million	Fair value 2007 R million	Fair value 2008 R million
Fair value				
US dollars	2	2,0	–	–
Japanese yen	(73)	(23)	(24)	(26)
Euros	0,3	0,3	–	–
	(70,7)	(20,7)	(24,0)	(26,0)

FOREIGN CURRENCY EXPOSURES AND COVER

Currency	Total borrowings million	Exposures for future expenditure million	Total exposure million	Total cover million	Investments and cash allocated million	Uncovered exposure million
Company						
US dollars	30	24	54	42	–	12
Euros	–	110	110	11	–	99
GB pound	–	–	–	–	–	–
Japanese yen	1 065	21 499	22 564	1 120	–	21 444
Total exposure in R million	**2 000***					
Group						
US dollars	346	25	371	68	16	287
Euros	–	113	113	11	11	91
GB pound	–	–	–	–	1	(1)
Japanese yen	1 065	21 499	22 564	1 120	69	21 375
Total exposure in R million	**3 826***					

** Refer to liquidity risk.*

FOREIGN CURRENCY INTEREST RATE RISK

Cross-currency interest rate swaps were utilised to hedge foreign currency interest rate risks.

The following were significant positions at 31 March 2006.

	Fair value R million 2006	Notional amount foreign currency million 2006	Fair value R million 2005	Notional amount foreign currency million 2005
Company				
Cross-currency swaps				
US dollars	(184)	30	(263)	78
Group				
Cross-currency swaps				
US dollars	(184)	30	(263)	78

The foreign currency interest rate exposures after taking the interest rate and cross currency swaps into account on 31 March 2006 are presented in the table below:

Currency	Total borrowings R million	Floating borrowings R million	Fixed borrowings R million
Company			
US dollars	190	–	190
Japanese yen	57	–	57
Total*	247	–	247
	100%	0%	100%
Group			
US dollars	2 191	1 898	293
Japanese yen	57	–	57
Total*	2 248	1 898	350
	100%	84%	16%

** Refer to liquidity risk.*

MARKET MAKING IN TRANSNET BONDS

Transnet Ltd makes a market in its own domestic bond issues, hence being the buyer and seller of last resort. Government, public corporations and corporate bonds listed on the Bond Exchange of South Africa, domestic interest rate swaps, domestic money market instruments and buy and sell back financial instruments are utilised to hedge the resulting interest rate and liquidity risks.

The resulting basis risk is computed on a rand per point per million basis expressed in terms of a weighted average T011 nominal exposure. On 31 March 2006 this exposure amounted to a net short nominal position of R1,5 million (2005: R1,6 million short).

The following positions in local market bonds were held at year-end.

	2006 Fair value R million	2005 Fair value R million
Short positions in listed bonds		
Bonds	1 420	2 016
Sell and buy back financial instruments	198	184
Short positions at all in price	1 618	2 200
less accrued interest	271	519
Short positions at clean price*	1 889	2 719
Long positions in listed bonds		
Bonds	261	461
Sell and buy back financial instruments	308	725
Long positions at all in price	569	1 186
less accrued interest	73	173
Long positions at clean price **	642	1 359

** The carrying value of the short position is R1 889 million (included in rand borrowings above).*
*** The carrying value of the long position is R642 million (included in domestic investments above).*

No collateral was held against any market making positions at reporting date.

LIQUIDITY RISK

Liquidity risk is managed to ensure that the Group is able to meet its financial obligations as they fall due on a cost-effective basis by utilising surplus cash, commercial paper and bank facilities, whilst still ensuring Transnet's ability to attract funds over the long term. Market making in Transnet bonds is undertaken to enhance the tradability and hence minimise the liquidity risk within established cost and risk parameters.

The following is a summary of long-term on balance sheet borrowings by currency and redemption.

	Total borrowings 2006 R million	Repayable during the financial year ended 31 March 2007 R million	2008 R million	2009 R million	2010 R million	2011 onwards R million
Company						
US dollars	190	40	41	43	32	34
Japanese yen	57	19	19	19	0	0
Total foreign currencies	247	59	60	62	32	34
Total SA rand	18 840	3 153	36	5 651	191	9 809
Total interest-bearing borrowings	19 087	3 212	96	5 713	223	9 843
Current portion of borrowings	(3 212)	(3 212)				
Total long-term interest-bearing borrowings	15 875	–	96	5 713	223	9 843
Redemption period as percentage of total	100%	0%	0,6%	36,0%	1%	62%
Group						
US dollars	2 191	327	306	311	272	975
Japanese yen	57	19	19	19	0	0
Total foreign currencies	2 248	346	325	330	272	975
Total SA rand	24 351	5 535	766	6 097	553	11 400
Total interest-bearing borrowings	26 599	5 881	1,091	6 427	825	12 375
Current portion of borrowings	(5 881)	(5 881)				
Total long-term interest-bearing borrowings	20 718	0	1,091	6 427	825	12 375
Redemption period as percentage of total	100%	0%	5%	31%	4%	60%

COUNTERPARTY RISK

Financial assets that potentially subject the Group to concentrations of credit risk consist primarily of cash, short-term deposits, Government and public corporations bonds listed on the Bond Exchange of South Africa and the market value of derivatives and trade receivables. The Group's exposures to credit risks in respect of all Treasury related transactions are confined to credible counterparties and are managed within Board approved credit limits. Limits are reviewed and approved by the Board on an annual basis. Trade receivables are presented net of impairments. It is the Treasury functions policy to perform ongoing credit evaluations of the financial position of its counterparties.

Below is a summary of significant exposures, all within the approved limits, as at 31 March 2006.

	2006 R million	2005 R million
Credit risk (inclusive of marginal risk)**	2 780	3 350
Bond issuer risk**	269	811
Guarantees	5 687	3 016
Trade and other receivables*	4 149	6 964
	12 885	14 141

** Refer note 18.*

****DEFINITIONS**

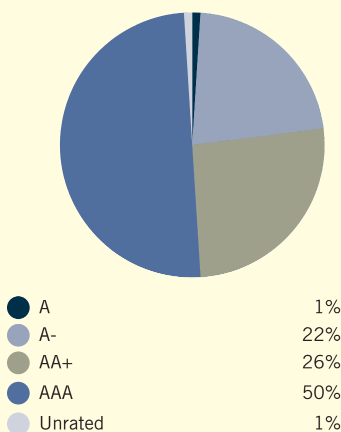
- **Credit risk**
  Credit risk is the potential loss that may arise when a counterparty cannot fulfil its commitments in respect of a financial transaction.
- **Marginal risk (price risk)**
  The risk that a counterparty is not in a position to fulfil its financial obligations according to the terms and conditions of the transaction and that the transaction has 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 according to the terms of the bond issues.

- **Trade and other receivables are presented net of impairment losses.**

The following diagrams reflect the distribution of credit risk, expressed in terms of long-term credit ratings, excluding guarantees and trade receivables. The non-rated banks are financial institutions primarily situated in Africa and Asia. These accounts are monitored on a daily basis to ensure that credit limits are not breached.

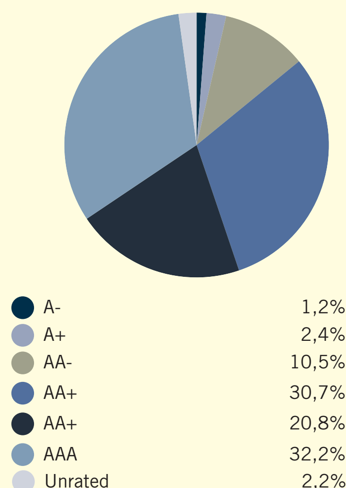
Credit risk exposure per long-term credit rating

Company



Rating	%
A	1%
A-	22%
AA+	26%
AAA	50%
Unrated	1%

Group



Rating	%
A-	1,2%
A+	2,4%
AA-	10,5%
AA+	30,7%
AA+	20,8%
AAA	32,2%
Unrated	2,2%

Rating definitions

A Long-term rating with strong capacity for timely repayment.
AA Long-term rating with very strong capacity for timely repayment.
AAA Long-term rating with exceptional strong capacity for timely repayment.

COMMODITY PRICE HEDGING

The fuel price risk of South African Airways is managed within a SAA Board approved risk management framework to ensure that the Company is not adversely affected by increases in jet fuel prices.

The strategy to manage the risk as approved by the SAA Board is to hedge up to 60% of the airline's annual rolling consumption of jet fuel.

Jet fuel prices are hedged by means of vanilla derivative financial instruments, i.e. swaps and options. The underlying commodity to the derivative financial instruments used must be highly correlated to jet fuel.

The fair market value of all derivative financial instruments in respect of the SAA jet fuel portfolio at year-end was positive by R166 million. The Transnet four-point turnaround strategy has, as its main objective, reducing the cost of doing business in the South African economy. Containing the cost of fuel is important in achieving this objective, and a fuel hedging programme at Transnet level will be launched in the first quarter of the new financial year.

FAIR VALUE

At 31 March 2006 and 2005 the carrying amounts of cash, short-term deposits, accounts receivable, accounts payable and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities. The fair values of bonds listed on the Bond Exchange of South Africa and those of derivative financial instruments have been based on market values at the reporting date. The fair values represent an approximation, but these may differ from the values that will finally be realised.

CURRENCY CONVERSION

The rates of exchange at 31 March 2006 used for conversion are:

	2006	2005
US dollar	6,3274	6,2058
GB pound	10,9708	11,6201
Japanese yen	0,0535	0,0584
Euro	7,5704	8,0654

ANNEXURE B

for the year ended 31 March 2006

PROPERTY, PLANT AND EQUIPMENT RECONCILIATION AT 31 MARCH 2006

	Aircraft R million	Land, buildings and structures R million	Machinery, equipment and furniture R million
COMPANY			
Balance at the beginning of the year			
Historical cost and revaluation	51	10 367	3 810
Accumulated depreciation	(50)	(1 182)	(2 553)
Accumulated impairment	–	(291)	(25)
Opening net carrying value at 1 April 2005	1	8 894	1 232
Current year movements			
Additions	50	188	194
Acquisition of Protekon business	–	7	15
Disposals	–	(14)	(5)
Depreciation	–	(209)	(271)
Revaluation	–	–	–
Foreign exchange adjustments	–	–	–
Impairment – historical cost and revaluation	–	(7)	(2)
Transferred to intangibles, inventories and receivables	–	–	–
Transfers	–	(1)	(1)
Transfers to non-current assets classified as held-for-sale	–	(51)	(23)
Reclassifications	(50)	216	(53)
Transfer from capital work in progress to assets	–	212	187
	–	341	41
Closing carrying value at 31 March 2006	**1**	**9 235**	**1 273**
Made up as follows:			
Historical cost and revaluation	26	11 005	3 791
Accumulated depreciation	(25)	(1 471)	(2 491)
Accumulated impairment	–	(299)	(27)
Carrying value at 31 March 2006	**1**	**9 235**	**1 273**

Permanent way and works R million	Pipeline networks R million	Port facilities R million	Rolling stock and containers R million	Vehicles R million	Capital work-in-progress R million	Total R million
7 096	7 956	17 479	10 824	1 123	7 423	66 129
(1 999)	(4 769)	(6 714)	(4 216)	(827)	–	(22 310)
–	(152)	(427)	–	–	(578)	(1 473)
5 097	3 035	10 338	6 608	296	6 845	42 346
236	167	13	275	22	4 655	5 800
–	–	–	–	1	–	23
(27)	(1)	(18)	(136)	(11)	(9)	(221)
(134)	(214)	(516)	(584)	(47)	–	(1 975)
–	102	383	–	–	–	485
–	–	(4)	–	–	–	(4)
–	–	(14)	(53)	–	12	(64)
–	–	(14)	–	–	1	(13)
–	–	–	–	(1)	–	(3)
–	–	–	–	(208)	(123)	(405)
(94)	–	(47)	(30)	1	57	–
498	–	1 127	2 172	15	(4 211)	–
479	54	910	1 644	(228)	382	3 623
5 576	**3 089**	**11 248**	**8 252**	**68**	**7 227**	**45 969**
7 672	9 335	18 986	13 142	458	7 409	71 824
(2 096)	(6 094)	(7 296)	(4 836)	(390)	–	(24 699)
–	(152)	(442)	(54)	–	(182)	(1 156)
5 576	**3 089**	**11 248**	**8 252**	**68**	**7 227**	**45 969**

ANNEXURE B continued

for the year ended 31 March 2006

PROPERTY, PLANT AND EQUIPMENT RECONCILIATION AT 31 MARCH 2006

	Aircraft R million	Land, buildings and structures R million	Machinery, equipment and furniture R million
GROUP			
Balance at the beginning of the year			
Historical cost and revaluation	14 883	11 840	4 307
Accumulated depreciation	(2 968)	(1 223)	(2 845)
Accumulated impairment	(3 486)	(294)	(36)
Opening net carrying value at 1 April 2005	8 429	10 323	1 426
Current year movements			
Additions	149	219	226
Disposals	(1 139)	(16)	(8)
Depreciation	(829)	(260)	(312)
Revaluation	–	–	–
Foreign exchange adjustments	1	(1)	–
Impairment – historical cost/revaluation	47	(8)	(1)
Transferred to intangibles, inventory and receivables	–	–	–
Transfers	42	–	1
Transfers to non-current assets classified as held-for-sale	(6 109)	(1 456)	(193)
Reclassifications	(50)	216	(53)
Transfer from capital work in progress to assets	35	220	190
	(7 853)	(1 086)	(150)
Closing carrying value at 31 March 2006	**576**	**9 237**	**1 276**
Made up as follows:			
Historical cost and revaluation	1 045	11 009	3 848
Accumulated depreciation	(469)	(1 472)	(2 533)
Accumulated impairment	–	(300)	(39)
Carrying value at 31 March 2006	**576**	**9 237**	**1 276**

Permanent way and works R million	Pipeline networks R million	Port facilities R million	Rolling stock and containers R million	Vehicles R million	Capital work-in-progress R million	Total R million
7 096	7 956	17 479	10 852	2 612	8 030	85 055
(1 999)	(4 769)	(6 714)	(4 237)	(1 280)	–	(26 035)
–	(152)	(427)	–	(6)	(578)	(4 979)
5 097	3 035	10 338	6 615	1 326	7 452	54 041
235	167	13	276	444	4 872	6 601
(82)	(1)	(18)	(137)	(117)	(9)	(1 527)
(133)	(214)	(516)	(586)	(247)	–	(3 097)
–	102	383	–	–	–	485
–	–	(4)	–	–	–	(4)
–	–	(14)	(53)	1	12	(16)
–	–	(14)	–	–	–	(14)
–	–	–	–	–	(43)	–
–	–	–	(5)	(1 353)	(820)	(9 936)
(94)	–	(47)	(30)	1	57	–
498	–	1 127	2,172	15	(4 257)	–
424	54	910	1 637	(1 256)	(188)	(7 508)
5 521	**3 089**	**11 248**	**8 252**	**70**	**7 264**	**46 533**
7 617	9 335	18 986	13 141	445	7 446	72 872
(2 096)	(6 094)	(7 296)	(4 836)	(374)	–	(25 170)
–	(152)	(442)	(53)	(1)	(182)	(1 169)
5 521	**3 089**	**11 248**	**8 252**	**70**	**7 264**	**46 533**

ANNEXURE C

for the year ended 31 March 2006

DISPOSAL GROUPS CLASSIFIED AS HELD-FOR-SALE

	COMPANY				
	Non-current assets held-for-sale R million	freight-dynamics† R million	Inter-company elimina-tions R million	Subtotal disposal groups R million	Total R million
Assets classified as held-for-sale					
Property, plant and equipment	161	245	–	245	406
Intangible assets and goodwill	–	1	–	1	1
Loans and advances	–	–	–	–	–
Derivative financial assets	–	–	–	–	–
Investments in subsidiaries	2 223	1		1	2 224
Investments in associates	567	–	–	–	567
Other investments	15	–	–	–	15
Inventories	–	2	–	2	2
Trade and other receivables	–	122	(1)	121	121
Cash and cash equivalents	–	–	–	–	–
	2 966	371	(1)	370	3 336
Liabilities directly associated with assets classified as held-for-sale					
Post-retirement benefit obligations	–	11	–	11	11
Borrowings	–	332	(332)	–	–
Deferred taxation liabilities	–	–	–	–	–
Provisions	–	17	–	17	17
Current taxation liability	–	–	–	–	–
Trade payables and accruals	–	69	(5)	64	64
Group loans	–	127	(127)	–	–
Bank overdraft	–	–	–	–	–
	–	556	(464)	92	92

** Included in the aviation segment.*
† Included in the road segment.
‡ Included in the other segment.

The above disposal groups form part of the overall restructuring plan of Transnet to dispose of its non-core entities. This process was initiated once PFMA approval in terms of section 54 was obtained. It is management's expectation that these disposal groups will be disposed of within the next 12 months. These disposal groups will be disposed of to external third parties as part of a competitive bidding process with the exception of:

- South African Airways (Pty) Ltd which will be disposed of to the Department of Public Enterprises; and
- The Transtel Full Services Network assets which have been disposed of to the Second Network Operator.

GROUP									
Non-current assets held-for-sale R million	South African Airways (Pty) Ltd* R million	Viamax (Pty) Ltd† excluding HSA R million	Autopax (Pty) Ltd† R million	Freight Dynamics Guard Risk‡ R million	Inter-company elimina-tions‡ R million	Subtotal disposal groups R million	Disposal groups R million	Non-current assets held-for-sale R million	Total R million
(1)	8 393	1 050	88	–	–	9 531	9 776	160	9 936
–	8	–	–	–	–	8	9	–	9
–	–	21	–	–	(21)	–	–	–	–
–	180	–	–	–	–	180	180	–	180
(2 223)	–	–	–	–	(1)	(1)	–	–	–
715	–	–	–	–	–	–	–	1 282	1 282
–	1 477	–	–	–	–	1 477	1 477	15	1 492
–	465	–	2	–	–	467	469	–	469
–	2 898	61	10	–	(50)	2 919	3 040	–	3 040
–	252	60	3	17	–	332	332	–	332
(1 509)	13 673	1 192	103	17	(72)	14 913	15 283	1 457	16 740
–	88	–	2	–	–	90	101	–	101
–	4 481	112	60	–	154	4 807	4 807	–	4 807
–	–	67	–	–	–	67	67	–	67
–	450	14	12	–	–	476	493	–	493
–	13	23	1	–	–	37	37	–	37
–	7 389	29	41	6	(109)	7 356	7 420	–	7 420
–	2 463	354	–	–	(2 817)	–	–	–	–
–	4	–	3	–	–	7	7	–	7
–	14 888	599	119	6	(2 772)	12 840	12 932	–	12 932

ANNEXURE D

for the year ended 31 March 2006

SUBSIDIARIES	Shares issued Million	Effective holding 2006 %	Effective holding 2005 %	Voting power held 2006 %
SUBSIDIARIES HELD BY TRANSNET				
LOCAL SUBSIDIARIES				
Transport logistics				
Viamax (Pty) Ltd ®	15	100	100	100
Marine Data Systems (Pty) Ltd †		80	80	80
Owner Driver Management (Pty) Ltd*		100	100	100
Southern African Airline Holdings (Pty) Ltd		100	100	100
South African Airways (Pty) Ltd ®	3 217	100**	100	100
Autopax Passenger Services (Pty) Ltd ®	20	100	100	100
Property holdings				
Transhold Properties (Pty) Ltd		100	100	100
Esselen Park Developments (Pty) Ltd †		100	100	100
Transite Properties (Pty) Ltd *		100	100	100
Point Waterfront (Pty) Ltd		51	51	51
Proptrade (Pty) Ltd		100	100	100
The Bay Waterfront (Pty) Ltd		100	100	100
Construction				
Protekon (Pty) Ltd †		100	100	100
IT procurement				
B2B Africa Holdings (Pty) Ltd †		100	100	100
Marketing				
Transtrade (Pty) Ltd ^	1	100	100	100
Rolling Stock and traction				
Transwerk Foundries (Pty) Ltd		100	100	100
Transwerk Rollstock (Pty) Ltd		100	100	100
Transwerk Traction (Pty) Ltd		100	100	100
Insurance captive cells				
Spoornet Guard Risk		100	100	100
Freight Dynamics Guard Risk ®		100	100	100
Social responsibility				
Transnet Foundation Trust				
FOREIGN SUBSIDIARIES				
Transport logistics				
African Joint Air Services Ltd (Uganda) †		57	57	57
Freight Logistics International (British Virgin Islands)	23	100	100	100
Translease International (Mauritius)		100	100	100
Spoornet Do Brazil (Brazil)		100	100	100
Investments in subsidiaries classified as held-for-sale				
SUBSIDIARIES HELD BY OTHER SUBSIDIARIES				
Incorporated in the Republic of South Africa, unless stated otherwise				
Held within South African Airways (Pty) Ltd				
Airchefs (Pty) Ltd ®		100	100	100
Airchefs International (Pty) Ltd ®		100	100	100
SAA City Centre (Pty) Ltd ®	2	100	100	100
SAA Technical (Pty) Ltd ®	160	100	100	100
International Aviation Personnel (Pty) Ltd ®		100	100	100
Air Tanzania Company Ltd (Tanzania) ®		49	49	>50
Held within Viamax (Pty) Ltd				
HSA Management Systems (Pty) Ltd		100	100	100
KNVL Zimbabwe (Pty) Ltd (Zimbabwe) @		–	60	–
Viamax Fleet Solutions (Pty) Ltd ®		60	60	60
Viamax Logistics (Pty) Ltd ®		100	100	100
Viamax Fleet Management (Pty) Ltd ®		100	100	100
Held within Southern African Airline Holdings (Pty) Ltd				
South African Express Airways (Pty) Ltd	57	100	100	100

** Dormant and in the process of deregistration.*
*** Transnet holds 98,2% of South African Airways (Pty) Ltd (SAA) and the other 1,8% is held by the SAA Share Incentive Trust which was consolidated for the first time in the prior year. Transnet effectively holds 100% of SAA.*
® Subsidiaries classified as held-for-sale.
 # Dormant.
† Dormant and in the process of winding up.
^ In the process of deregistration.
@ Sold.

Shares at cost		Interest of holding company net profit/(loss)		Interest of holding company indebtedness		Provision for losses	
2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million
15	15	(127)	108	465	472	–	–
–	–	–	(7)	219	219	219	217
–	–	–	–	–	–	–	–
58	58	124	(145)	401	352	459	410
2 726	2 726	(44)	966	8 226	8 516	9 231	9 231
20	20	12	(11)	60	82	58	18
–	–	1	(2)	101	97	69	64
–	–	–	–	10	10	10	10
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	(2)	6	23	18	25	25
–	–	–	–	–	–	–	–
–	–	(96)	17	–	(279)	–	–
–	–	3	(48)	126	110	126	110
–	1	–	–	–	(1)	–	–
–	–	(15)	8	99	121	42	27
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
3	3	(1)	6	–	–	–	–
1	1	(1)	2	–	–	–	–
–	–	31	–	–	–	–	–
–	–	–	1	383	382	383	382
23	23	(1)	5	166	166	–	33
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
2 846	2 847	(116)	906	10 279	10 265	10 622	10 527
(2 762)	–	160	–	(8 751)	–	(9 289)	–
84	2 847	44	906	1 528	10 265	1 333	10 527

ANNEXURE D continued

for the year ended 31 March 2006

ASSOCIATES*	Principal activity	Effective holding 2006 %	Effective holding 2005 %	Shares at cost 2006 R million	Shares at cost 2005 R million
Arivia.kom (Pty) Ltd O	IT service provider	42	32	210	210
VAE Perway (Pty) Ltd ®	Refurbishment of Perway	35	35	6	6
Commercial Cold Storage (Ports) (Pty) Ltd	Storage and bondage	30	30	–	–
Port Shepstone & Alfred County Railway Ltd	Railway operator	–	28	–	–
Comazar (Pty) Ltd	Transport logistics	32	32	13	13
V&A Waterfront Holdings (Pty) Ltd ®	Property development and management	26	26	424	424
Mossel Bay Waterfront Development (Pty) Ltd #	Property development and management	–	15	2	2
Equity Aviation Services (Pty) Ltd ®	Transport logistics	49	49	35	35
Cape Town Bulk Storage (Pty) Ltd	Port operations	50	50	1	1
Durban Coal Terminal Ltd	Port operations	–	50	–	–
Belldev Properties (Pty) Ltd	Property development and management	50	50	–	–
Railway Systems of Zambia (Zambia)	Railway operator	–	19	–	–
AllPort Logistics Terminal (Ghana)	Port operations	–	30	–	10
RainProp (Pty) Ltd	Property development and management	20	20	2	2
				693	703
ASSOCIATES HELD BY OTHER SUBSIDIARIES					
Various	Various			–	1
				693	704
Investments in associates classified as held-for-sale				(465)	–
				228	704

Summarised financial information of significant associates

	V&A Waterfront Holdings (Pty) Ltd 2006 R million	V&A Waterfront Holdings (Pty) Ltd 2005 R million	Arivia.kom (Pty) Ltd 2006 R million	Arivia.kom (Pty) Ltd 2005 R million
Financial position				
Assets	5 049	3 878	797	935
Liabilities	2 613	2 386	394	413
Results of operations				
Revenue	792	538	1 480	1 594
Profit before taxation	1 155	602	37	90
Income taxation (expense)/credit	(189)	176	(18)	(26)
Net profit for the year	966	778	19	64

* *Incorporated in the Republic of South Africa, unless stated otherwise.*
® *Associates classified as held-for-sale.*
\# *Dormant.*
O *Total impairment of R139 million (shares at cost: R136 million, post-acquisition reserves: R3 million).*

Interest of holding company indebtedness		Provision for losses		Share of post-acquisition reserves	
2006 R million	2005 R million	**2006 R million**	2005 R million	**2006 R million**	2005 R million
–	–	**139**	–	**3**	(7)
–	–	**–**	–	**17**	19
3	9	**–**	–	**16**	14
	2	**–**	–	**–**	–
2	8	**22**	22	**–**	–
8					
–	–	**–**	–	**639**	387
–	–	**2**	–	**–**	–
114	114	**12**	12	**59**	36
–	–	**–**	–	**3**	3
–	–	**–**	–	**–**	–
–	–	**–**	–	**–**	–
–	–	**–**	–	**–**	–
–	–	**–**	10	**–**	–
–	–	**–**	–	**(2)**	(2)
127	133	**175**	44	**735**	450
–	–	**–**	1	**–**	–
127	133	**175**	45	**735**	450
(114)	–	**(12)**	–	**(715)**	–
13	133	**163**	45	**20**	450

ANNEXURE E

for the year ended 31 March 2006

STANDARDS AND INTERPRETATIONS

At the date of authorisation of the financial statements, the following standards and interpretations were in issue but not yet effective:

	Standard/Interpretation	Effective date
IFRS 6**	*Exploration for and Evaluation of Mineral Resources*	Annual periods commencing on or after 1 January 2006*
IFRS 7	*Financial Instruments: Disclosures* (including amendments to IAS 1, Presentation of Financial Statements: Capital Disclosures)	Annual periods commencing on or after 1 January 2006*
IAS 39 amendment***	*Financial Instruments: Recognition and Measurement* (April 2005) – cash flow hedge accounting of forecast intragroup transactions	Annual periods commencing on or after 1 January 2006*
IAS 39 amendment	*Financial Instruments: Recognition and Measurement* (June 2005) – Fair value option	Annual periods commencing on or after 1 January 2006*
IAS 39 and IFRS 4 amendment	*Financial Instruments: Recognition and Measurement* (August 2005)	Annual periods commencing on or after 1 January 2006*
	Insurance Contracts – Financial Guarantee Contracts	Annual periods commencing on or after 1 January 2006*
IAS 21 amendment***	*The Effects of Changes in a Foreign Operation* (December 2005)	Annual periods commencing on or after 1 January 2006*
IFRIC 4	*Determining whether an Arrangement contains a Lease*	Annual periods commencing on or after 1 January 2006*
IFRIC 5**	*Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Annual periods commencing on or after 1 January 2006*
IFRIC 6**	Liabilities arising from Participating in a Specific Market – *Waste Electrical and Electronic Equipment*	Annual periods commencing on or after 1 January 2006*
IFRIC 7**	*Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*	Annual periods commencing on or after 1 January 2006*
IFRIC 8**	*Scope of IFRS 2*	Annual periods commencing on or after 1 January 2006*
IFRIC 9***	*Reassessment of embedded derivatives*	Annual periods commencing on or after 1 January 2006*

* *All standards will be adopted at their effective date (except for the effect of those standards that are not applicable to the Group).*
** *These accounting standards are not applicable to the business of the Group and will therefore have no impact on future financial statements.*
*** *While applicable, this standard/amendments to the standard will not result in a change in the current Group policies and practices.*

The directors are of the opinion that the application of the relevant standards will be as follows:

IFRS 7

The disclosures provided in respect of financial instruments in the financial statements of the period ending 31 March 2008, as well as comparative information, will be compliant with IFRS 7. The disclosure requirements of IFRS 7 require additional disclosure in respect of the following:

- Information on credit risk, (including but not limited to) disclosure of security or other credit enhancements, credit quality of assets that have been renegotiated and age analysis of past due financial assets;
- Sensitivity analysis in terms of each type of market risk and their impact on profit and loss and equity;
- Disclosure of financial assets and liabilities per category as defined in IAS 39; and
- Capital objectives and policies.

IAS 39

The amendments to IAS 39 will be adopted for the first time for the year ended 31 March 2007.

Financial guarantee contracts must be measured at fair value on initial recognition and subsequently must be measured at the higher of the amount determined in accordance with IAS 37 and the amount recognised initially (i.e. the fair value) less any cumulative amortised amounts. This is not likely to have an impact on the Group results. The directors and management have not yet assessed the impact on the Company's results.

Fair Value Option

This amendment restricts the use of voluntary and irrevocable designation of financial assets and financial liabilities as "at fair value through profit or loss". This is not likely to have an impact on the Company and Group results.

IFRIC 4

IFRIC 4 will be adopted for the first time for the financial reporting period ending 31 March 2007.

In terms of IFRIC 4, the entity is required to examine outsourcing arrangements, take-or-pay and similar contracts to identify if these arrangements contain leases that are required to be accounted for in terms of IAS 17 *Leases*. In accordance with the transitional provisions of this interpretation, the interpretation will be applied to arrangements existing as at 1 April 2005 and the 2006 figures will be restated accordingly.

A preliminary review of arrangements existing at 1 April 2005 indicated that there are several contracts that fall within the scope of IFRIC 4 and will therefore have to be accounted for in terms of IAS 17. Directors and management have not yet quantified the impact of this.

GLOSSARY OF TERMS

Current ratio
Current assets divided by current liabilities.

Debt
Interest-bearing borrowings, retirement benefit obligations, derivative financial liabilities, less short-term investments and net cash and cash equivalents.

Earnings
Profit from operations before impairment of assets, fair value adjustments and net finance costs plus other income and income from associates.

EBITDA
Earnings before taxation, depreciation, amortisation and impairment.

EBITDA margin
EBITDA expressed as a percentage of turnover.

Equity
Issued capital, reserves and minority interests.

Gearing
Debt expressed as a percentage of the sum of debt and equity.

Headline earnings
As defined in circular 7/2002 issued by the South African Institute of Chartered Accountants, separates from earnings all items of a capital nature. It is not necessarily a measure of sustainable earnings.

Interest cover
Profit or loss from operations before fair value adjustments and net finance costs, divided by net finance costs.

Net assets
Total assets less total liabilities.

Net profit/(loss)
Profit or loss after taxation and minority interests.

Operating profit
Profit or loss from operations before impairment of assets, fair value adjustments and net finance costs.

Operating profit margin
Operating profit expressed as a percentage of turnover.

Return on average total assets
Operating profit expressed as a percentage of average total assets.

Total debt
Current and non-current liabilities

Total debt-to-equity ratio
Total debt expressed as a ratio to equity.

TRANSNET

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